

# ACHIEVING

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## TOGETHER

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## MANAGEMENT REPORT

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

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2015 WAS THE YEAR  
FOR ACHIEVING OUR  
TARGETS SET IN 2011.

IN FACT, WE HAVE  
EXCEEDED THEM.

WHETHER IT'S IN OUR  
FIRST FIVE YEARS, OR IN  
THE FUTURE, OUR SUCCESS  
COMES DOWN TO THIS:

WORKING TOGETHER,  
WE ACHIEVE.

AN EXCEPTIONAL JOURNEY

# ACHIEVING STRONG RESULTS

Our ambition is to try to be not just a major player but the world's leading airline group and in our first five years we've established strong foundations for the future.

We've exceeded our initial targets and are absolutely convinced that this is only the start. The best is yet to come and new stretching targets have been set for 2016 - 2020.

**IAG**

SHARES BEGIN  
TRADING

24 JANUARY  
2011



... EPS / €0.27



## TRANSFORMING

**2012**

- bmi integrated into British Airways
- Iberia Transformation Plan approved
- Synergies target raised from €500 million to €560 million

## CREATING

**2011**

- IAG is formed through the merger of British Airways and Iberia
- Strategy and targets for operating profit and synergies announced
- Launched Avios reward currency

EPS / €(0.23)



**Diluted earnings per share before exceptional items**

STRENGTHENING

**2013**

- Vueling acquisition completed
- IAG Cargo created
- Iberia's new brand launched
- Synergies target raised from €560 million to €650 million

EPS / €0.21



EPS / €0.40

ADVANCING

**2014**

- Iberia *Plan de Futuro* launched
- Global Business Services (GBS) established a centre in Krakow, Poland
- IAG 2016-2020 targets presented



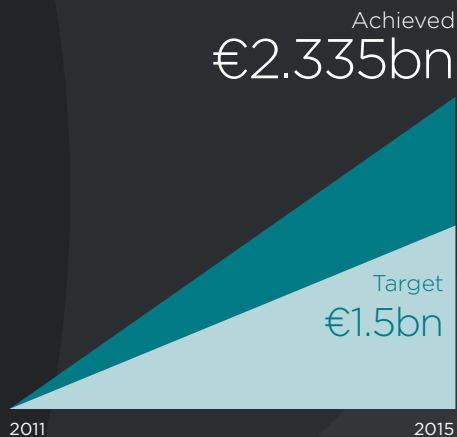
DEC 2015  
EPS  
€0.71

ACHIEVING

**2015**

- Five year targets set in 2011, achieved
- Aer Lingus acquisition completed
- Avios created as an independent operating unit
- Dividend paid

**OPERATING PROFIT**



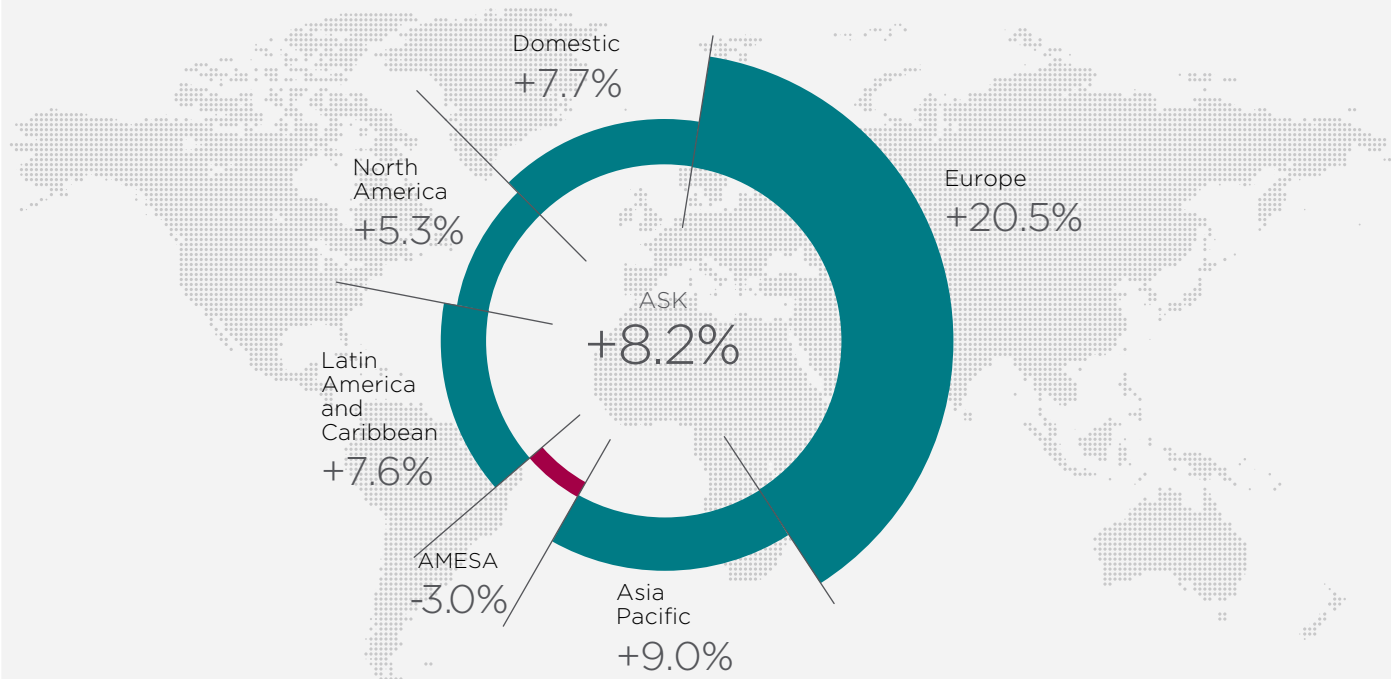
**SYNERGIES**



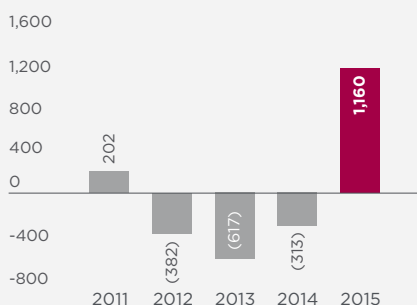
## 2015 HIGHLIGHTS

# DELIVERING VALUE TO OUR SHAREHOLDERS

### Available Seat Kilometres (ASKs)



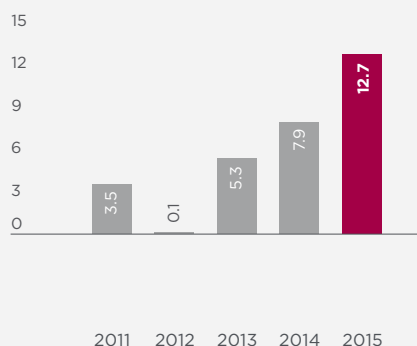
### EQUITY FREE CASH FLOW (€m)



#### Definition

We measure Equity Free Cash flow as EBITDA less cash tax, cash interest and capital expenditure.

### RoIC (%)



#### Definition

Return on invested capital is defined as operating profit before exceptional items adjusted for lease and inflation divided by invested capital. See Glossary.

### TOTAL DIVIDEND PER SHARE<sup>1</sup>

€0.20

<sup>1</sup> Includes recommended final dividend of 10 € cents per share

# ACHIEVING GROWTH TOGETHER



The strategic report that follows contains a fair and balanced analysis, consistent with the size and complexity of the business in accordance with the expectations of the regulations of the Companies Act of 2006.

## STRATEGIC REPORT

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# A CREDIBLE AND CONFIDENT CASE FOR FUTURE GROWTH



**Antonio Vázquez**  
Chairman

“It is a great pleasure to welcome you to International Airline Group’s fifth Annual Report which covers a period of huge achievement for the Company and looks confidently ahead to further significant success in the future.”

2015 was a year of really significant achievement for IAG and I’m delighted to have this chance to reflect on all the progress we’ve made since the Company was established five years ago.

Our achievements in that time have been significant. As you recall, we set a target to achieve an operating profit of €1.5 billion in 2015 when we laid out our initial plans for the Company. Thus to report operating profits, excluding Aer Lingus, of €2.3 billion on Group revenues of €22.9 billion for the year is a stunning result. All the more so when you think of the significant progress since the €485 million combined profit that British Airways and Iberia recorded when we first formed IAG.

And that achievement is mirrored across a whole range of other measures. We realised some €856 million of annual synergies from across the business, more than double our 2011 target of €400 million. This year we carried almost 95 million passengers on our four airlines, twice the number we were carrying five years ago, and our total fleet has grown from 348 to 529 aircraft.

This is a formidable growth record, and, on the strength of it, we were able to upgrade our targets for the five years to 2020 very considerably at our Capital Markets day in November. The ambitious new goals for earnings growth, operating profit margin, equity free-cash flow and return on invested capital underline our confidence that we can continue growing strongly and profitably in the years ahead.

But commercial aviation is a complicated business and the history of our industry has been a bumpy one. So perhaps one of the most pleasing aspects of our performance to date is that we now have the sort of financial ratios that would apply to a “normal” company, operating in a far less complex sector. This has never been the case for an airline company before and we are very pleased with that situation.

## Overcoming challenges

Our performance is even more striking when you remember where we started. In 2011, British Airways was just emerging from major financial surgery to mend the injuries inflicted by the global financial crisis. Iberia was in intensive care and in a fight for its very survival.

So it was vital that the Management Team laid out a very clear vision of what we needed to do to build the IAG of today. It’s a plan we’ve followed with real determination, with the Board, the Management Team, and everyone throughout the business working cohesively to bring that vision to life.

In the process, we have completed a depth of transformation at both British Airways and Iberia that is without precedent, certainly in Europe. Indeed, you have to look at some of the Chapter 11 restructurings of US airlines to find anything comparable. That is something we can be truly proud of.

## Industry context

As we execute our future growth strategy the outlook for the industry remains positive. Despite some obvious global economic challenges, not least in the short term, the International Air Transport Association (IATA) is, nevertheless, forecasting that global passenger numbers will double to around 7 billion by 2034, with an average annual growth rate of 3.8 per cent.

In addition, the industry is in much better shape and taking a much more rational approach to managing investment, remunerating investors and controlling capacity, as we’ve seen in the recent period of sharply falling oil prices. That mirrors our own very disciplined approach. It is, and will remain, the right way forward.



It was always IAG's stated ambition to lead the process of consolidation in our industry and our unique business model has allowed us to acquire and integrate bmi, Vueling and Aer Lingus with relative ease. Progress on consolidation is slower than we would like, due to foreign investment controls and regulation, making it all the more important to pursue other forms of co-operation for the benefit of our customers. That's why we are so pleased to have signed a far-reaching joint business agreement between Iberia, British Airways, and LATAM.

Under this revenue sharing agreement, which is awaiting regulatory approval from the appropriate competition authorities in South America, the airlines will be able to offer customers greater choice, a range of frequent flyer benefits and much better links, including serving 100 destinations in South America and 87 in Europe.

### Corporate governance

Governance structures at IAG were inevitably complex at the outset. But progressively we have sought to simplify our structures so we have the flexibility to manage this fast-moving business on a day-to-day basis, while still remaining compliant with the more exigent governance and transparency requirements. I'm satisfied that we've handled the process very well.

We continue to adapt our processes. In 2015 we made changes to meet new governance codes in both Spain and the UK. We now comply with most of the recommendations in these codes and explain our position carefully where we take a slightly different approach.

Over the years we've refreshed the board regularly to strengthen our capabilities. We have a superb Board at IAG, with a diverse group of talented people who have a wealth of international business and public policy experience. The Board and particularly the Nominations Committee continue focusing in succession planning of the Board so as to ensure we have the right balance of skills, experience and capabilities that IAG could require at every given moment.

Significant changes are underway in the leadership of our airlines. Careful succession planning remains a constant focus for the IAG Board and Management Committee and it's a significant milestone to see Alex Cruz move from Vueling to lead British Airways following Keith Williams' retirement. Javier Sánchez-Prieto, previously CFO of Iberia, will become CEO of Vueling. We're also delighted to see Steve Gunning become the British Airways CFO and be replaced by Andrew Crawley from British Airways as the CEO of IAG Cargo. These moves are evidence of the fantastic inventory of talent we have within the business.

### Sustainability

We continue to look constantly for ways to improve our environmental performance. In 2015 we consolidated our sustainability activities at a Group level and also set challenging new 2020 targets for noise and CO<sub>2</sub> reduction. We will use all the tools at our disposal – modern aircraft, efficient technology and sustainable fuels – to improve our footprint.

We also work collaboratively with other airlines and governments to ensure our industry makes a meaningful contribution to tackling climate change. We've taken a lead role here, for instance pushing for the industry to adopt a target to halve CO<sub>2</sub> emissions by 2050.

2016 is a critical year in achieving those goals. October's International Civil Aviation Organisation assembly could see the adoption of a new global agreement on emissions trading for our industry, something we strongly support. We need a truly global deal and I believe we are closer to that today than ever before.

All of our airlines continue to operate successful corporate responsibility programmes in their home markets and in locations they fly to, another important part of our sustainability agenda.

### Dividend and outlook

I'm glad to end this letter by focusing on another crucial ambition we have always had as a company and were able to meet in 2015 – our desire to reward shareholders for their tremendous support of IAG over the years.

We were really delighted to confirm our dividend payments during the year and we've made it absolutely clear that we intend to pursue a sustainable dividend policy for the long term.

I think the investor community understands very well where we are as a company, where we are going and are increasingly confident that we will deliver on our targets and our promises. It's very good to have that level of transparency in our relationship with them.

I want to thank all our other stakeholders for their support as well. In particular I pay tribute to people right across the business who have worked so hard to get IAG to where it is today. They, above all, give me huge confidence that we can achieve even greater things in the years ahead.

**Antonio Vázquez**  
Chairman

## QUESTIONS & ANSWERS

# WITH CHIEF EXECUTIVE OFFICER WILLIE WALSH

As IAG completes its fifth year in business and sets out ambitious new targets for 2020, Chief Executive Officer Willie Walsh tackles some of the main questions on the minds of IAG stakeholders.

### Q What lessons have you learnt from your achievements of the last five years?

We've had five very successful years and, when I look back, I'm really pleased with the tremendous progress we've made. We set ourselves very ambitious targets back in 2011 and people questioned if we'd be able to achieve them. But not only have we met those targets, we've exceeded them comfortably. I think that shows that, with a clear vision, determination, strong leadership and strong management, you can achieve very good results in this industry and I'm really pleased IAG has led the field in proving that.

 See page 35 for more on our financial performance

### Q Can you sustain and significantly improve your financial performance?

Without question IAG can sustain and improve this financial performance – the best is yet to come! That's the clear message we gave to investors during our Capital Markets Day in November, 2015. We are confident we can do better because we have created a business that is structurally more efficient founded on a sustainably lower cost base. We'll build on that efficiency to grow our business in a profitable way, taking advantage of all the opportunities in front of us. But we'll also make sure we protect ourselves from any external challenges we come across. So, yes, we will definitely do better in future – even though we've done exceptionally well so far.

 See page 20 for more on our future growth targets



### Q What are the risks to IAG's profitability in terms of suppliers, taxes and airport charges?

Every industry faces risks from external suppliers and the airline sector is no exception. I've highlighted unjustifiable increases in airport charges as the main issue we need to focus on and the industry is actually coming together on this. We've created a new association, Airlines for Europe, to defend ourselves against what we see as quasi-monopoly practices by the airports. And I'll just give you one example – proposals to build a third runway at Heathrow.

There's an £18 billion price tag on the expansion plans. But when you consider that building the third runway itself would only cost £180 million – just 1 per cent of that £18 billion bill – you've got to ask yourself why is so much money being spent? It's prohibitive. And if it translates into a huge increase in charges at Heathrow, we will object to it. We will not pay a bill that will inevitably translate into huge increases in charges – charges that our customers and shareholders will ultimately incur.

 See page 47 for more on our market risks



## Q What is the impact of low fuel prices and how has this affected your capacity discipline?

We saw a significant fall in the oil price in 2015 but some of that benefit has been offset by the strengthening of the US dollar. As we pay for our fuel in dollars, we've not seen the full advantage of the fall in prices.

But I'm pleased to see that the industry is responding in a rational manner to this volatile situation. And I think that suggests, in the first place, that airlines do not expect the oil price to remain as low as it is now for long. More importantly, I think it reflects an industry that has learned from its past mistakes. Capacity discipline is broadly the same today as it was when the oil price was at \$100 a barrel, as opposed to \$34 or \$35 today and I would expect that to continue. So, in the short term, lower prices should provide some cost benefits. But, longer term, we'd expect the oil price to increase again.

 See pages 10 - 19 for more on our operations

## Q What does Aer Lingus bring to the Group?

Aer Lingus is a fantastic addition to IAG. It's a very efficient, well-run airline and it's operating in an environment where it has very strong growth opportunities. It's got an excellent network on transatlantic routes, which is one of the key areas we've always said IAG would focus on. And people often forget that it's not just the Irish market itself that is exciting for Aer Lingus. When you consider that there are 40 to 50 million Americans with Irish roots or connections, you're selling a very strong brand into a US market that's much bigger than people imagine. And that's why we're focusing so hard on the transatlantic business and so pleased to welcome Aer Lingus into the group.

 See pages 22 - 27 for more information on our operating companies

## Q What were the environmental achievements in 2015?

Our environmental performance continued to improve in 2015 and we've set ourselves challenging new targets for the future. On CO<sub>2</sub> emissions, for instance, we are achieving 95.4 grammes of CO<sub>2</sub> per passenger km in 2015, down from 101.2 in 2012. Now we've committed to reducing this to 87.3 grammes by 2020 - a tough but important challenge.

We've also made some important changes in how we manage performance, consolidating all our activities on the environmental front within IAG to create greater focus and to learn from each other on areas such as noise reduction. But we also did some very smart things in 2015. We're retrofitting our Airbus A320 aircraft with "sharklets" that will improve performance. We continue to invest in new, lighter equipment on board the aircraft - new seating and new carts, for example. These small changes make a big difference because anything we can do to reduce the weight of the aircraft significantly improves fuel efficiency and environmental performance.

But there's a bigger picture here. We're committed to taking a lead role in improving the environmental performance of the industry as a whole, not just the performance of our individual airlines.

 See pages 28 - 34 for more information on our environmental performance and goals

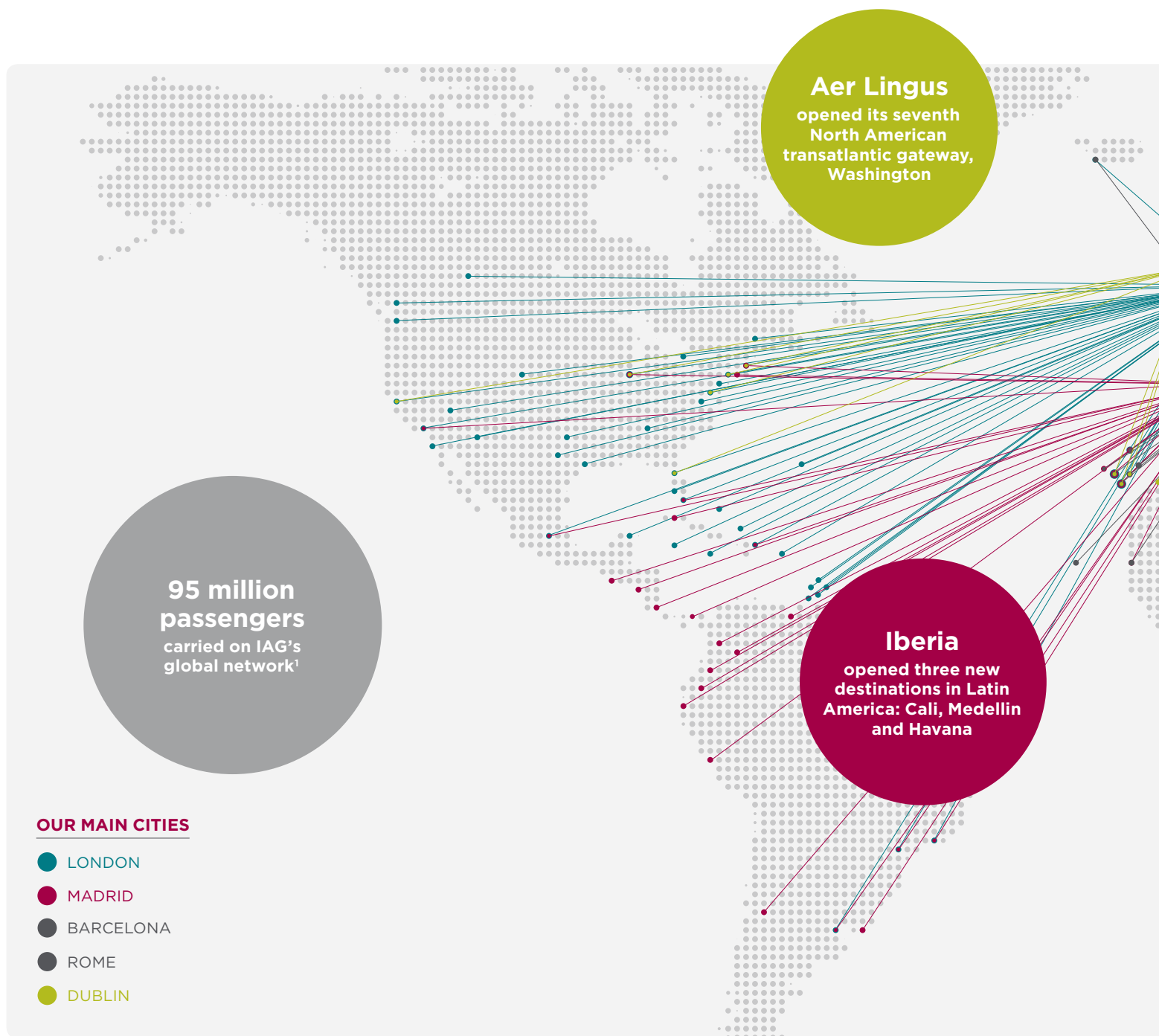


 Watch the full interview on our website [www.iairgroup.com](http://www.iairgroup.com)

## OUR NETWORK

# MEETING CUSTOMER NEEDS THROUGH OUR GLOBAL FOOTPRINT

IAG combines the leading airlines in the UK, Spain and Ireland. The airlines' customers benefit from a larger combined network for both passenger and cargo.



<sup>1</sup> Includes Aer Lingus passengers from January 1, 2015.

**Key strategic aims**

- 1 Leadership in IAG's main cities
- 2 Leadership across the Atlantic
- 3 Stronger Europe-to-Asia position in critical markets
- 4 Grow share of Europe-to-Africa routes
- 5 Stronger intra-Europe profitability
- 6 Competitive cost positions across our business

 See pages 18 - 19 for more about our strategic objectives





## IAG PLATFORM FOR GROWTH

# TRANSFORMING THROUGH ONGOING GROUP INITIATIVES

In 2015 the Group completed the merger synergy programme, its actual benefits considerably exceeding the original merger targets. The Group has positioned itself to embed these savings and further revenue generation into its day-to-day activities. The IAG platform will continue to deliver transformational benefits.

### The merger synergy programme has been a success

The synergy programme has leveraged internal capabilities, best practices and economies of scale across the operating companies, achieving significant savings for the Group. In 2015 net benefits were more than double the initial target set in 2011, reaching €802 million for the year.

Many of the initial savings came from predictable economies of scale but as we progressed into the programme we found additional ways to extract value from the business.

The revenue work stream has been a real success, offering a wider choice of trip combinations and code-shares to customers while benefiting from an increase in revenue generation and from an integrated sales team.

Other areas of success include:

- simplification of the IT structure and implementation of a new selling solution for IAG Cargo;
- improvement of competitiveness of maintenance services, while preserving high quality;
- establishment of a Group procurement function, covering all categories of supplier expenditure, with actions targeted on agreeing optimal specification of goods and services; and
- the launch of Avios as the Group's new single loyalty reward currency.

### Planning for growth: The IAG platform

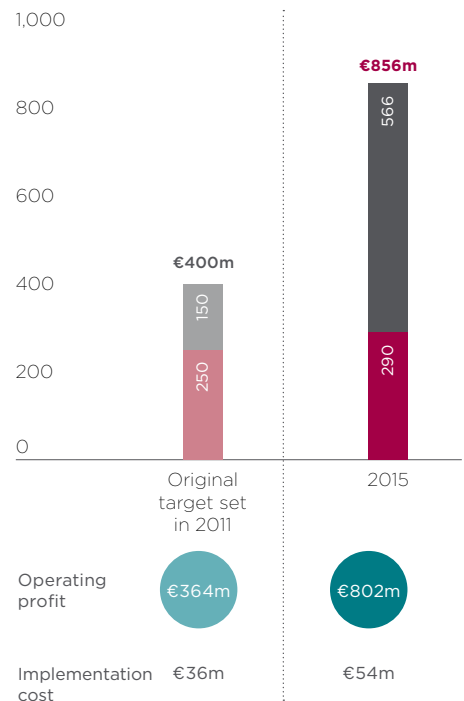
In 2011 IAG's objective was to establish a scalable platform to deliver IT, procurement and back office support functions in such a way that new and existing airlines would be able to quickly and seamlessly plug into these services.

The concept has evolved into the creation of the IAG platform. Teams across the group have worked to centralise and harmonise services, exploiting strengths and transforming the way the Group operates. IAG is expanding into new Group initiatives that will strengthen and maximise value across the Group portfolio.

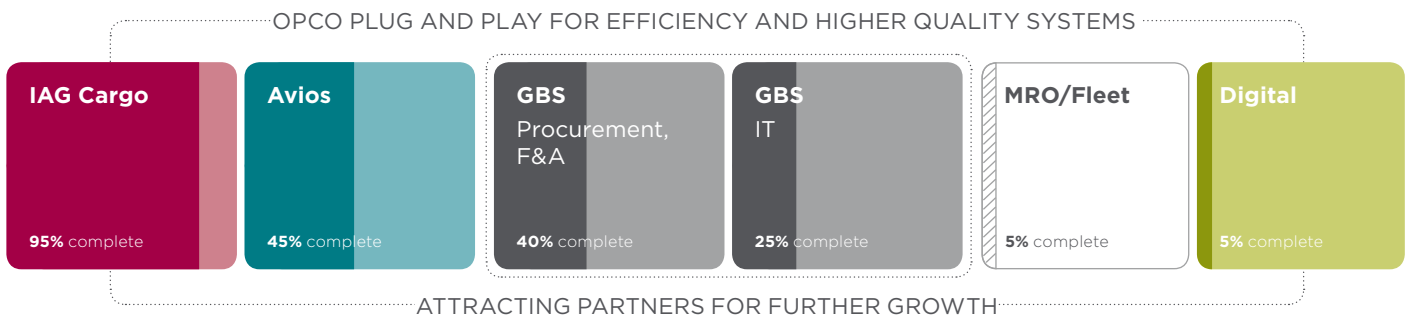
The chart below shows the components of the IAG platform and how these services are established to deliver benefits for the airlines. This global integrated platform is about leveraging economies of scale, driving better service, cost effectiveness and higher returns on investment, but also allowing the operating companies to focus on their brands, customers and operations.

### SYNERGY PROGRAMME COMPLETE

Targets exceeded



### IAG PLATFORM PROGRESS



**Global Business Services (GBS)**

The GBS model aims to deliver back-office services at lower costs, embedding modern working practices in the Group and delivering a higher quality of service. GBS Group Finance Services, Group Procurement and Group IT are working together to unleash incremental value that could not be done with individual functions in the operating companies. Significant progress has been made in the implementation of the Global Business Services that will eventually progress beyond shared service models.

Key achievements in 2015:

- GBS offices fully operational in Krakow, Poland;
- alignment of finance and procurement functions;
- implementation of a single consolidated treasury management system;

- launch of IT transformation programme; and
- first significant IT outsourcing contract agreed

Post transformation, GBS aims to deliver around 30 per cent saving in people costs across the global finance community.

The procurement and finance transformation is underway and will expand to all operating companies. GBS Group IT will continue to deliver an IT platform scalable for future growth.

**Fleet:** The teams have continued to work on the fleet harmonisation in three areas: cabin configuration, avionics and emergency equipment. The model has been extended to all new fleet. The goals of the programme remain to lower operation costs through lean and flexible capital expenditure. The teams have also developed a group connectivity strategy and are evaluating options for the shorthaul fleet.

**Digital**

The IAG Digital Transformation team was set up in January 2015 to drive business model transformation across IAG and embrace its digital potential. The team is designed to think big, act small and scale quickly. IAG is developing a connectivity strategy by exploring learnings from trials that have been in progress since 2010. IAG is setting aggressive targets: 90 per cent of the longhaul fleet will be fitted by early 2019 and the first in service “air to ground” shorthaul aircraft is planned for 2017. The team is in its initial stages and collaborating with digital experts in Israel and on the West coast to identify potential opportunities for the Group.

**Maintenance, repair and overhaul (MRO)**

A small team led by Luis Gallego has been created in 2015 to undertake a strategic assessment of maintenance activities across the Group.

OUR BRANDS



one of the world's leading global premium carriers.



low-cost and premium service



leading airline between Europe and Latin America



loyalty solutions



the best product in the Irish airline market to customers at a competitive price



one of the world's leading international air freight carriers



See pages 22 – 27 for more about our operating companies

# CREATING FIRM FOUNDATIONS FOR FUTURE PROFITABLE GROWTH



“Last year IAG comfortably exceeded its original 2015 targets and committed to new goals that will stretch our performance further in the next five years. I'm very confident we have the right structure and the determination to sustain our record of profitable growth.”

**Willie Walsh**  
Chief Executive Officer

Since the creation of IAG, 2015 was always an important milestone for the business and, five years on, I'm very pleased with the progress we've made.

To be able to achieve a record financial performance, secure continued growth in our existing airlines, complete the acquisition of Aer Lingus, and introduce dividend payments to shareholders is a great achievement. But we're clear we can do a great deal more.

That's always been our position. When we unveiled ambitious five-year targets for IAG in 2011, many investors were sceptical that we could achieve them. So it was particularly pleasing that we not only met, but comfortably exceeded those targets in 2015.

Above all it's been really satisfying to prove a basic conviction that, with clear vision, strong leadership and a constant

determination to beat our targets, we can achieve sustainable profitable growth in the long term.

## Highlights of the year

We had many successes last year, not least achieving a record operating profit of €2.335 billion, far outstripping our initial €1.5 billion target for 2015.

We've done a great job securing synergies confirming our original belief that together we would be a stronger business, capable of building a formidable growth platform. Net annual savings after our first five years amounted to €856 million, more than double our initial €400 million target.

We also continued to demonstrate the strength of our unique business model, a structure that is now the envy of many of our competitors. To be able to operate four independent airline brands – British Airways, Iberia, Vueling, and now Aer Lingus – and see them all improve their performance despite confronting different markets, opportunities and challenges, is a fantastic achievement.

Our Cargo operation has been successfully re-organised and continues to perform well despite structural changes in the sector and a growing imbalance between capacity and demand. Our Avios loyalty business goes from strength to strength and is now set for new growth in the year ahead as it expands its customer and supplier base.

We're also making good progress in centralising parts of the business where we can achieve real efficiencies. Our Global Business Services (GBS) is

handling routine transactional activities in Krakow, Poland, as a case in point. But we're looking for other areas where we can combine resources for the benefit of our airlines, such as IT, digital solutions and maintenance, all of which look promising.

## Challenges and opportunities

Last year was not without its challenges. 2015 was a year of extreme and unprecedented volatility in both the oil and currency markets.

The oil price declined from a peak of around \$100 a barrel in 2014 to recent lows of around \$30. However, sharp rises in the value of the US dollar – the currency we use to buy our fuel – meant that we realised less benefit than many expected and with volatility likely to remain, we continue to hedge our fuel purchases to manage that uncertainty.

The aviation industry has responded well to this situation. Traditionally it would have reacted to falling prices by flooding the market with new capacity. This time airlines have maintained their discipline and stuck to their fleet replacement plans, as we have. That indicates a general belief that oil prices will rise again and reflects an industry that has learned from past mistakes.

We saw both threats and opportunities during the year. Some markets suffered and in response, we temporarily reduced capacity, demonstrating our ability to quickly mitigate unexpected risks. Similarly, where opportunities emerged, we used our increased flexibility to boost capacity.

## New targets for growth

To retain the confidence of IAG shareholders and investors we need to demonstrate we can continue to grow while still covering our cost of capital, year in and year out.

We believe we can and at our Capital Markets Day in November 2015, we unveiled even more ambitious targets covering the five years to 2020.

We're now working to a new 15 per cent target for return on invested capital. Meeting that will be testing, but we are not afraid of the challenge. We are targeting an operating profit margin of between 12 and 15 per cent and average growth in earnings per share of more than 12 per cent per annum.



Capital spending will continue as we improve our business, expand our network, replace aircraft and provide better services for customers. But the same unwavering discipline will apply. We will only spend money where it's clear we can make a return.

I'm convinced 2016 will be a better year for IAG than 2015. I'm equally sure we can sustain that performance.

**Succession planning**

2016 will see some significant changes in the leadership of IAG and it's great to have succession plans in place which reward talented people within the business. Keith Williams retires as Executive Chairman of British Airways after a fantastic career at the airline. It's been a huge pleasure to work with Keith and I can't over-emphasise the contribution he has made, not least to the creation of IAG.

He will be replaced by Alex Cruz, who moves from the role of Vueling Chairman and Chief Executive Officer. Alex has spearheaded Vueling's phenomenal success in recent years and as part of the IAG management committee he knows the strengths of British Airways and the challenges that lie ahead. He will be a different leader to Keith, but equally successful, I am sure. I am pleased to announce Javier Sánchez-Prieto as CEO of Vueling, previously CFO of Iberia.

Steve Gunning becomes Chief Financial Officer at British Airways, having successfully led the IAG Cargo business, while Andrew Crawley will move from his commercial role in British Airways to take over running the Cargo operation.

**Our airlines**

While it's been a successful year for all of the IAG airlines, all four remain firmly focused on future profitable growth driven by the stretching targets we've set for them.

An undoubted highlight of the year was the acquisition of Aer Lingus. We've been impressed with what it has achieved under the leadership of Chief Executive Officer Stephen Kavanagh, and the development of its transatlantic network, from its Dublin hub.

Leadership in the transatlantic market has always been a key goal, and Aer Lingus will bolster that ambition and

offer a strong dollar revenue base. People look at Ireland as a relatively small market, but Aer Lingus is a great brand with a very strong point of sale in North America. Also Ireland is increasingly attracting investment from US multinationals, particularly in the pharmaceuticals, IT and digital sectors. Dublin is fed by a very good shorthaul network and enjoys pre-flight US customs and border clearance benefits that play really well with customers. The airline is a natural fit with IAG and a very welcome addition to the Group.

With a more efficient cost base, British Airways continues to make good financial progress, but cost efficiency will remain a priority. It is investing wisely in new products, winning rising customer satisfaction scores and has been voted the number one UK Superbrand for the last two years.

Capacity constraints at Heathrow obviously put some limits on network growth, but we continue to launch new routes including San Jose, California, and Tehran.

**MANAGEMENT TEAM**

IAG Management Committee led by Willie Walsh is responsible for the overall direction and strategy of the Group, the delivery of synergies and co-ordination of central functions.

Not pictured Executive Directors: **Willie Walsh** Chief Executive Officer; **Enrique Dupuy de Lôme**, Chief Financial Officer. See page 58 for our Board of Directors.



**Stephen Kavanagh**  
Chief Executive Officer of Aer Lingus



**Keith Williams**  
Executive Chairman of British Airways



**Luis Gallego Martin**  
Chairman and Chief Executive Officer of Iberia



**Alex Cruz**  
Chairman and Chief Executive Officer of Vueling



**Steve Gunning**  
Chief Executive Officer of IAG Cargo



**Robert Boyle**  
Director of Strategy



**Ignacio de Torres Zabala**  
Director of Global Services



**Julia Simpson**  
Chief of Staff



**Chris Haynes**  
General Counsel

 For a full biography of each member please visit [iaigroup.com/govmanage](http://iaigroup.com/govmanage)

## CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

I can't praise the people at Iberia enough for the fantastic turnaround they have achieved under the airline's *Plan de Futuro* – a true example of real transformation. Under Luis Gallego's leadership, every aspect of the airline has been changed – from operational standards, to brand strength, customer satisfaction, culture and, of course, the financial performance and cost base of its network.

This has given us the confidence to accelerate investment. Having scaled back the network to mend Iberia's finances, we are now reclaiming territory that was ours, particularly in South America. We're growing into new markets too with the launch in 2016 of non-stop services to Tokyo and – subject to the granting of slots and permissions – to Shanghai, a fantastic first for Iberia.

Vueling is now established as a significant premium brand in Europe's low-cost sector and performed strongly despite some tough operational issues in 2015. It continues to focus hard on what it does best – controlling costs and growing profitably. It is not afraid to test new markets – capitalising on its successes, but prepared to move on if it is the right call. It's this approach that has seen it build on its strong presence in Barcelona and expand its network, notably in Italy and France.

### Acquisition strategy

One of the key strengths of our business model is that we can add new airlines to the Group relatively easily as we can dedicate resources from IAG on acquisitions, without distracting any of our existing airlines. That's a unique strength, certainly in Europe.

We continue to review further potential acquisitions, but will only make acquisitions that are right for the business.

While regulation and foreign ownership controls mean opportunities remain relatively scarce, joint ventures are an important subset of the consolidation process. We were delighted to reach a joint business agreement between British Airways, Iberia and LATAM. Although subject to final regulatory approval, it will allow us to offer customers much greater connectivity between South America and Europe and many other important benefits.

### Tackling risks

Like any industry, airlines constantly face risks, but I think we've proved that we are good at anticipating threats and responding quickly.

Airport charges are one particular risk where we face quasi-monopoly activity by airport operators. We've come together as an industry on this, and other, issues forming a new association called Airlines for Europe.

The proposed development of a third runway at Heathrow illustrates the issue well. The Davies Commission has estimated the cost of the project would be a prohibitive £18 billion, an extraordinary sum, when you consider the cost of building the actual runway would be just £180 million – or 1 per cent of the total bill.

### Environmental performance

We continue to take a lead role in improving the environmental performance of our industry. 2015 saw us centralise our global environmental activities within IAG to create more focus and to make it easier to share ideas. We also set tough new targets for CO<sub>2</sub> emissions. Introducing new, more efficient aircraft to our fleet makes a big difference but we're also increasing the efficiency of our existing fleet in smart ways, for instance retrofitting our Airbus A320s with "sharklets" and using lighter equipment inside aircraft.

We've been critical of the UK government's short-sighted failure to support the development of aviation bio-fuels, one of the reasons our waste-to-liquid joint venture with Solena ended during the year. Biofuels are critical to unlocking the long-term sustainability of our industry and we continue to talk to alternative suppliers.

More immediately, 2016 is a critical year for the industry with governments coming together at the International Civil Aviation Organisation's assembly in Montreal in October to agree a new global emissions trading scheme for the industry. We have long advocated such a system. We now need to make real progress.

### Looking ahead

It's been a momentous five years for IAG and I look back on our achievements with great pride. But I hope it's clear that we are in no way resting on our laurels. We are firmly focused on the future.

As our new targets for profitable growth indicate, we're determined to build on the strong foundations we have created – a determination I know is shared across the entire Group.

Thanks to our achievements to date and the tremendous hard work, skill and dedication of people throughout the business, I'm very confident we can do just that.

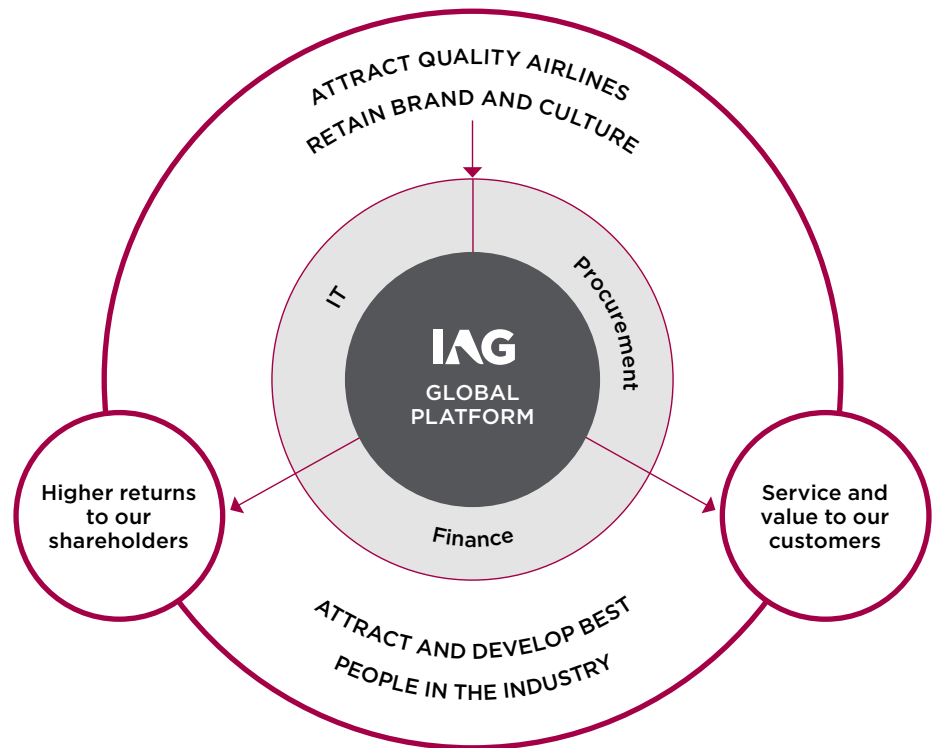


**Willie Walsh**  
Chief Executive Officer

## BUSINESS MODEL AND STRATEGY

## MAXIMISING VALUE ACROSS THE GROUP PORTFOLIO

IAG's performance is driven by its unique structure which supports each operating company in delivering returns, while leading strategy and driving Group synergies. This approach enables the Group to be responsive to the needs of individual markets and customers while capturing the value of group scale.



### Agile operating companies

IAG is able to anticipate and respond rapidly to changing dynamics by giving the individual airlines the independence to manage their different challenges. While IAG oversees and sets individual airlines financial targets, local management retains profit accountability and is responsible for the delivery of the plan. Individual airlines are also responsible for adapting its customer proposition to the local markets they operate in. Retaining individual airlines' brands has proven to be a very effective model to maintain customer loyalty in each of the markets IAG operates in.

### Integrated platform

Although IAG's operating companies have the autonomy to adapt to the needs of individual markets, IAG continues to develop an integrated

platform where individual airlines can benefit from Group efficiencies and share in best practices. The "plug & play" platform provides scalable systems to drive more ambitious cost savings programmes, further revenue improvement opportunities and improved service delivery. Cost synergies have transitioned to a higher level of ambition through the creation of IAG's back office platform, Global Business Services (GBS). The centrally managed platform is embedding modern working practices to deliver higher quality and more efficient service to IAG airlines in IT, Procurement and Finance functions.

The integrated platform also provides new revenue opportunities by driving customer loyalty across a portfolio of brands through IAG's shared global

reward currency, Avios. Similarly, IAG Cargo is creating new cargo revenue opportunities by offering an integrated product portfolio to key cargo forwarders.

### Consolidation and strategic partnerships

IAG continues to play a key role in the consolidation of the airline industry and continuously evaluates possible acquisitions and strategic partnership to further enhance the Group's portfolio. The parent company's structure has been designed to assess and facilitate new acquisitions without distracting the individual airlines' management that will remain focused on delivering the financial plan.



See page 20 for how we are achieving our goals

## OUR STRATEGY

# SIX CORE STRATEGIC OBJECTIVES

1

### LEADERSHIP IN IAG'S MAIN CITIES

#### **We do this by**

Providing the broadest choice of destinations to our customers in our five main cities: London, Barcelona, Madrid, Dublin and Rome.

#### **Our performance in 2015**

The acquisition of Aer Lingus in 2015 has resulted in Dublin becoming IAG's fifth main city with continued expansion of the network footprint and improved routing options. Aer Lingus, together with its regional franchise added seven new destinations throughout 2015 and now operates to a total of 77 destinations from Dublin. IAG has continued to invest in Rome by increasing based aircraft from four to nine and adding 20 new routes reaching a total of 58 destinations served from Rome in 2015. IAG has also strengthened its leadership position in Barcelona, London and Madrid through continued capacity growth and network expansion adding 21, 17 and 10 destinations respectively.

IAG has also continued to improve its customer proposition in main cities, delivering improved operational performance, increasing personalisation capabilities and upgrading service recovery programmes.

2

### LEADERSHIP ACROSS THE ATLANTIC

#### **We do this by**

Providing the most comprehensive frequency and network proposition in collaboration with our **one**world partners American Airlines and LATAM Airlines Group.

#### **Our performance in 2015**

Demand in 2015 was significantly impacted by currency volatility and economic uncertainty in Latin America mainly driven by the disappointing economic performance of Brazil. The US Dollar appreciated 8.8 percent against the euro while the Brazilian real plunged to historic lows against the US dollar.

The addition of Aer Lingus to the group has further strengthened IAG's leadership across the Atlantic providing opportunities to leverage Dublin's advantageous geographical position for serving connecting flows between Europe and North America. Aer Lingus increased transatlantic capacity by 15 percent in 2015 and added Washington as the seventh North American destination served by the airline. British Airways continued to strengthen key markets by deploying the Airbus A380 in Miami, San Francisco and Washington. Iberia also strengthened its position across the Atlantic leveraging new aircraft and continued cost reductions to launch three new routes to Cali, Medellin and Havana, providing an overall increase of eight percent in total capacity.

3

### STRONGER EUROPE- TO-ASIA POSITION IN CRITICAL MARKETS

#### **We do this by**

Increasing our direct network footprint, improving our product offering and leveraging our partners' network reach.

#### **Our performance in 2015**

IAG has continued to strengthen its presence in Asia. Group capacity to the region increased by 3 per cent in 2015 and Kuala Lumpur was reintroduced as a destination directly serviced by British Airways. IAG enhanced the customer proposition through further leveraging our partnerships in the region that ultimately provide customers with a greater network footprint and service options throughout Asia. British Airways continued to invest through deployment of new aircraft as well as developing a more tailored service offering to Asian customers. Airbus A380 and Boeing 787 deployment in the region almost doubled from one in eight departures in 2014 to a quarter of IAG's operations in 2015. British Airways also announced that it will open two new cabin crew bases in Shanghai and Beijing to offer Chinese customers the language skills and cultural experience they are accustomed to. Finally, China Southern joined IAG's cargo Partner Plus Programme, enabling IAG Cargo customers to book confirmed space on China Southern's Asian network.



See pages 20 - 21 for more about our key performance indicators

4

## GROW SHARE OF EUROPE-TO-AFRICA ROUTES

### **We do this by**

Leveraging shorthaul growth opportunities and strengthening our presence in core established markets.

### **Our performance in 2015**

2015 has been another year of high volatility in the region. Geopolitical issues coupled with a decline in commodity prices have negatively impacted the Europe-to-Africa market. IAG has been proactive in managing its regional exposure and has adapted capacity to address market volatility in order to manage our RoIC performance. British Airways adjusted its network, ceasing operations to Entebbe while at the same time increasing capacity to South Africa. Vueling continued to benefit from Barcelona's geographical position, launching new narrow body services to Sub-Saharan Africa (Ghana and Cape Verde) while also reducing capacity in Senegal and Gambia. Looking ahead, Iberia will be returning to South Africa after a three year absence through the relaunch of Johannesburg services.

5

## STRONGER INTRA-EUROPE PROFITABILITY

### **We do this by**

Optimising our legacy shorthaul networks, maximising commercial collaboration between our business units and expanding our low cost carrier footprint.

### **Our performance in 2015**

IAG's growth in Europe has primarily been driven by the strongest RoIC performing shorthaul entities within the Group, Vueling and Iberia Express. The Barcelona based carrier reached the significant milestone of operating 100 shorthaul aircraft in 2015, a landmark that has been achieved by only two other European low cost carriers. Iberia continued to execute its Transformation Plan, driving improved European performance, while British Airways strengthened its position by increasing the seat density of its shorthaul fleet. Commercial collaboration across the group saw improved utilisation of key assets including Avios, BA Holidays, intra-group codeshares and combined marketing efforts which have enabled IAG to grow both capacity and profitability in key markets.

6

## COMPETITIVE COST POSITIONS ACROSS OUR BUSINESSES

### **We do this by**

Leveraging our scale, integrating best practices and driving simplification and harmonisation across the Group.

### **Our performance in 2015**



2015 saw the completion of the Iberia-British Airways merger synergy programme, delivering cost improvements of €290 million through a combination of common fleet specification and outsourcing of transactional activities, as well as IT standardisation and joint procurement. Beyond our synergy programme, IAG will continue to enhance its integrated platforms of GBS and maintenance, providing IAG airlines with a greater ability to deliver cost reductions while at the same time improving overall system quality. Achieving our cost savings programmes is key in order to achieve our shareholder return targets. IAG has also extended its fleet harmonisation programme to include the Airbus A330 and Airbus A350 aircraft families with Airbus A330 specific savings estimated at €3 million per aircraft. The harmonisation programme will not only increase our capital efficiency but also provide the flexibility to shift capital between operating companies.


## KEY PERFORMANCE INDICATORS

# STRETCHING OUR TARGETS TO MORE AMBITIOUS GOALS

We have defined the Group's key performance indicators in terms of long-term goals to reach our strategic objectives.

 See page 18 - 19 for more about strategy

 See page 76 - 97 for more about remuneration. KPIs linked to remuneration of executive directors are marked with the symbol 

 The KPI "Total shareholder return" is described in the remuneration report on pages 76 - 97 together with its performance. The performance of the other KPIs is discussed in the financial overview on pages 35 - 46

### Financial metrics

IAG established long-term planning objectives for the Group with the aim to deliver sustainable cash returns to its shareholders. These objectives are summarised in four categories that are interrelated.

- **Improving profitability** – Measured through operating profit, operating margins and return on invested capital;
- **Growing efficiently** – Balancing earnings per share growth and capacity increase with a focus on progressing in our strategic markets;
- **Managing cash flow and strong balance sheet** – Maintaining appropriate equity free cash flow levels, generating strong EBITDAR, keeping capital discipline and improving our gearing to achieve investment grade zone; and
- **Increasing value creation for our shareholders** – Sustaining ordinary dividend payment with potential to improve the payout ratio.

IAG reviewed its long-term planning objectives as part of the Group's Business Plan<sup>1</sup> process and defined goals for the next five years<sup>1</sup> for each of the objectives. Through this year's business planning cycle we have identified further benefits from internal initiatives together with tailwinds from the fuel price. As a result, we have announced an upgrade to our long-term goals for the period 2016-2020.

Each objective is measured by a set of financial key performance indicators and metrics. Following the completion of the business plan review process, IAG sets stretching financial targets annually for each operating company to support the delivery of the Group's long-term goals.

The Group's performance against the KPIs is measured on a regular basis by IAG's Management Committee and their remuneration reward is linked to the achievement of the targets and long-term planning goals.

Operating companies also use specific metrics to measure their operating performance.

### Non-financial metrics

Although not key performance indicators, the Group measures non-financial metrics, such as the diversity of our people and the impact that our airlines have on the environment. Read more about our non-financial performance in our Sustainability Report on pages 28 - 34.

In addition, the operating companies review non-financial measures, such as airline punctuality and customer satisfaction, which are linked to variable remuneration and used to incentivise their employees. These measures are reviewed regularly by the management teams of each of the airlines, and by exception, by the IAG Management Committee.

## IAG OBJECTIVES AND LONG-TERM GOALS

Objective	Goals <sup>2</sup> 2016-2020	Objective	Goals <sup>2</sup> 2016-2020	
<b>Profitability</b>	RoIC (real terms) targeting sustainable 15%	<b>Balance sheet &amp; cash flow</b>	Gearing: Investment grade zone	
	Operating margin 12% - 15%		EBITDAR: c€5.6bn average per annum	
<b>Average growth</b>	ASK 3%-4% per annum		Capex: targeting less than €2.5bn per annum	
	Average EPS growth 12%+ per annum		Equity FCF €1.5bn - €2.5bn per annum	
<b>Value creation for our shareholders</b>			<b>Sustainable ordinary dividend</b>	
			<b>TSR</b>	

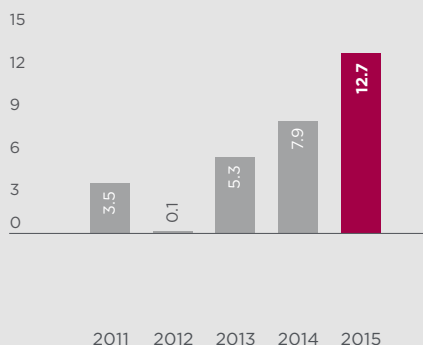
1 The Business Plan is based on a number of assumptions relevant to our industry, including economic growth in our strategic markets, fuel price and foreign exchange rates. The goals and targets of the Group are therefore subject to risk. For a list of the risks to our business, see page 47.

2 The long-term goals are before Aer Lingus integration.

3 In 2015 Aer Lingus results were excluded for incentive plan purposes.



### RoIC (%)<sup>®</sup>



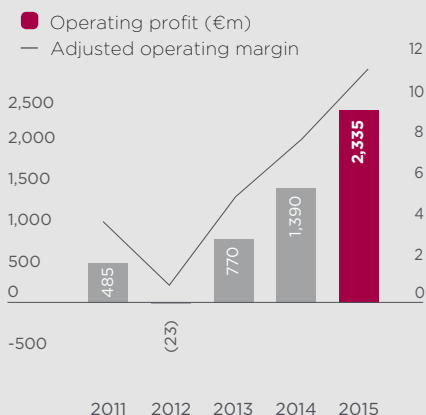
#### Why do we use this KPI ?

We use 12-months rolling RoIC<sup>1</sup> as a profitability KPI 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<sup>1</sup> in their business together with their ability to fund growth and to pay dividends.

#### Definition

Return on invested capital is defined as operating profit before exceptional items adjusted for lease and inflation divided by invested capital<sup>2</sup>. See Glossary.

### OPERATING PROFIT (€m)<sup>®</sup>



#### Why do we use this KPI ?

We measure improvement in the financial performance of each operating company through the operating profit. It is also a key component of the Group's remuneration policy.

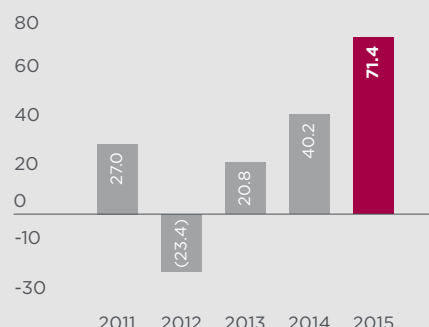
We use the operating margin ratio to measure the efficiency of our business which links with our strategic objective to reach a competitive cost position and to optimise revenues through market leadership.

#### Definition

Operating profit is the Group operating result before exceptional items.

Adjusted operating margin is defined as operating profit/(loss) adjusted for lease before exceptional items as a percentage of total revenue. See glossary.

### EPS (€ cents)<sup>®</sup>



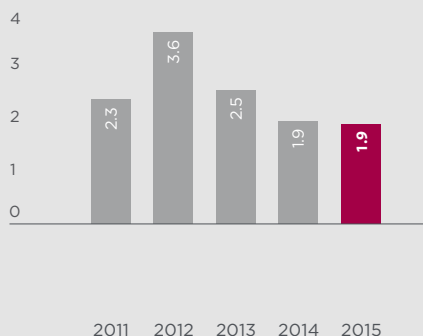
#### Why do we use this KPI ?

Earnings per share reflects the profitability of our business and the core elements of value creation for our shareholders. Growing earnings indicates that the Group is on the right path to create value for its shareholders.

#### Definition

Adjusted earnings per share is defined as profit before exceptional items, after tax adjusted for earnings attributable to equity holders and interest on convertible bonds, divided by the number of outstanding shares adjusted for dilutive impact.

### ADJUSTED NET DEBT TO EBITDAR



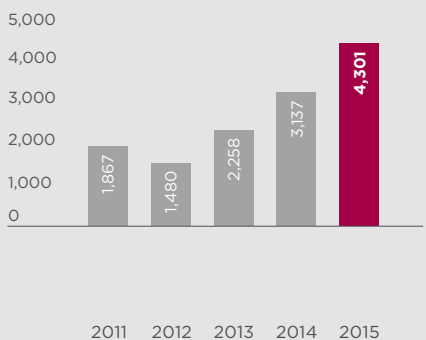
#### Why do we use this KPI ?

We use this KPI to monitor our capital and to assess financial headroom through the same lens as financial institutions.

#### Definition

Adjusted Net Debt to EBITDAR is calculated as long-term borrowings, less cash and cash equivalents and other current interest-bearing deposits plus capitalised operating aircraft lease costs divided by EBITDAR. In 2013 and in 2015 the full year EBITDAR of Vueling and Aer Lingus, respectively, were included in the metric.

### EBITDAR (€m)



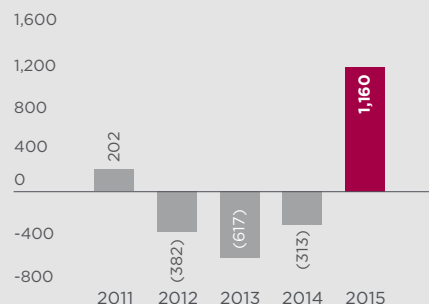
#### Why do we use this KPI ?

EBITDAR is an indicator of the profitability of the business and of the core cash flows generated by our business model. The measure is not impacted by the financing structure of our aircraft.

#### Definition

EBITDAR is calculated as operating profit before exceptional items, depreciation, amortisation and rental charges.

### EQUITY FREE CASH FLOW (€m)



#### Why do we use this KPI ?

Equity free cash flow is a key indicator of the financial management of the business. It reflects the cash generated by the business that is available to fund dividends to our shareholders, to improve leverage and to undertake inorganic growth opportunities.

#### Definition

We measure Equity Free Cash flow as EBITDA before exceptional items less cash tax, cash interest and capital expenditure.

<sup>1</sup> In the calculation, the asset inflation is estimated at 1.5 per cent to allow for inflation and efficiencies of new fleet. Pre-delivery payments and intangible assets are excluded from the RoIC calculation. We use value of the assets at period end. Through this year's business plan process, we have refined the definition of the RoIC. It had a 0.5 points impact on the 2014 reported result. Prior year information has not been restated.

<sup>2</sup> In 2015, the full year results of Aer Lingus were included in the calculation.

# DELIVERING ON THE INVESTMENT



“Aer Lingus joins IAG as a strong, profitable airline with a resilient business model and a competitive cost base.”

**Stephen Kavanagh**  
Chief Executive Officer of Aer Lingus

### Strong foundations

2015 saw us post a strong operating profit result, while keeping the discipline on the operating expenditure excluding fuel per available seat kilometre on a constant currency basis (-1 per cent yoy). We believe the business is now well positioned to combine efficient growth with appropriate investment to deliver on our RoIC targets;

- exploiting the potential of the Dublin gateway on the Europe-to-North America corridor; driving improvements in our home market through increased load factors, retail and enabling technology;
- continuing investment in product and brand to maintain our “value carrier” market position; and
- accelerating the delivery of our pre-integration unit cost reduction targets.

### Passenger experience

We remain committed to delivering choice and quality service to our customers at a competitive price. In 2015 we initiated our “Good to Great” programme, which incorporates consistent service standards across the customer journey, training 1,600 frontline staff. This was supported by significant

investment in hard product enhancements. We introduced a new lie-flat business class seat on our expanded Airbus A330 fleet and upgraded our lounges in Dublin and North America. We modernised the Aer Lingus brand to support our positioning as the smart choice for consumers in our markets. Our new website went live in the fourth quarter and we released our new mobile application in early 2016 with improved functionality and experiential content. The results so far have been very encouraging – we carried more passengers in 2015 than ever before.

### Dublin transatlantic gateway

Our transatlantic network sustained the momentum of recent years throughout 2015. We successfully filled our additional seat capacity growth of 14 per cent without compromising yield growth while maintaining the ratio of point to point and network traffic flows. In 2016 we will add Los Angeles, Newark and Hartford to the network and bring to ten the number of North American gateways that we serve directly. This growth will further strengthen IAG’s leadership in the North Atlantic market.

### Robust home market

As demand conditions in Ireland began to improve towards the end of 2014 we set ambitious targets for seat factor growth across our shorthaul network. In 2015 we added 2.6 points to seat factor. Our offering is synonymous with central airports, schedule quality and hospitable service. We are intensifying our efforts to preserve our differentiation while closing the cost gap with our main competition. We will continue to improve shorthaul performance through targeted load factor growth, retail success and aggressive cost management.

### Group synergies

Already we have commenced a number of exciting initiatives as we look to harness the potential benefit to Aer Lingus and IAG presented by Group platforms. They will continue to develop throughout 2016 and be complemented by further initiatives as integration deepens. Our newly launched frequent flyer programme, Aer Club, will plug into the global Avios network and transform the way we manage loyalty.

We will bring a whole new set of customers to Aer Lingus with expanded market reach; whether through codeshare partnerships or broader alliances. Group Global Business Services will provide us with economies of scale across a range of key support areas that until now we could only aspire to. Joint procurement is already delivering value. Two Airbus A330s resourcing our 2016 expansion have been procured at a rate Aer Lingus could not have achieved on a stand-alone basis.

### Conclusion

In 2016 Aer Lingus will celebrate its 80th anniversary. It will be a year of opportunity for Aer Lingus: the opportunity to extract the benefits delivered by IAG ownership, the opportunity to deliver and contribute to Group RoIC targets; and the opportunity to compete for the resources necessary to continue to successfully grow Aer Lingus.

## PERFORMANCE

€ million	2015 <sup>1</sup>	Higher/lower <sup>2</sup>
Revenue	<b>1,718</b>	+10.4%
EBITDAR	<b>284</b>	+29.7%
Operating profit	<b>124</b>	+72.2%
Adjusted operating profit margin	<b>8.9%</b>	+2.9pts
RoIC	<b>12.0%</b>	+4.4pts

<sup>1</sup> Relates to full year to December 31, 2015 under aligned Group accounting policies.

<sup>2</sup> Variance against full year to December 31, 2014 under aligned Group accounting policies, excluding certain non-recurring items.



## BRITISH AIRWAYS

CONTINUED GROWTH  
IN VALUE CREATION

“2015 was marked by further progress in financial and operational performance towards our targets and putting in place the framework for increased targets to 2020.”

**Keith Williams**

Executive Chairman of British Airways

**Overview**

The new 2020 plan will build on the positive sentiment already achieved by continuing to invest in the areas we know our customers value the most whilst continuing financial and operational discipline and improvement. There is no better person than Alex Cruz as incoming Chairman and Chief Executive to implement the new plan.

We saw an increase in the number of customers willing to recommend British Airways (as measured by NPS), reflecting the positive impact of shorthaul cabin refurbishments and new aircraft on longhaul routes, and saw improvements in punctuality despite this being a difficult year for airlines as a result of air traffic control strikes across Europe. The airline's customer service scores held steady, despite a significant increase in the number of customers.

British Airways' business plan targets an operating margin of between 12 and 15 per cent. Key to achieving this are:

- maintaining our leading position across the North Atlantic;
- building sustainable, profitable shorthaul model and hold London market share;

- raising customer satisfaction with £6.7 billion investment in new product;
- target 1 per cent per annum reduction in non-fuel unit costs;
- further development of our alliance relationships; and
- running a safe, secure and reliable airline.

**Maintain our leading position across the North Atlantic**

The North Atlantic is a fairly mature air travel market for British Airways, but it continues to be a significant one, and, British Airways forecasts continued growth over the business plan period. The key change in the market place in recent years has been Delta taking effective ownership of Virgin Atlantic. The two airlines have coordinated schedule, upgraded product and are actively seeking to take corporate market share from British Airways and our partner American Airlines.

The Atlantic Joint Business (AJB) is responding robustly to the challenge with a commitment to strengthening key markets supplemented by the launch of new destinations.

**Build a sustainable shorthaul model**

British Airways believes it is important to keep market share in its key market to maintain relevance with consumers. Gatwick returned to profitability and is now growing. The focus of improvement is now Heathrow. Commercial developments including growing leisure routes in the peak summer and improvements to ba.com and mobile to increase sales conversion of flight and non-flight products.

A competitive cost base is essential to a sustainable shorthaul model. British Airways will reduce unit costs by further densifying the cabins and up-gauging aircraft. There will be renewed focus on airport and engineering costs.

**Raise customer satisfaction**

British Airways is investing significantly in the customer over the next five years with a target of improving the Customer NPS. In 2015 the refurbishment of the shorthaul cabins was completed and, between 2016 and 2020, 41 brand new longhaul and 31 shorthaul aircraft will be taken on which will be quieter, more comfortable and with the latest In Flight Entertainment (IFE) systems. In addition, 18 Boeing 747s and 46 Boeing 777s will be refurbished with new IFE. By 2020, 99 per cent of the longhaul fleet will be new or refurbished.

**Reduced non-fuel unit costs**

Through the growth outlined above the company will seek more favourable unit costs with key suppliers including hub airports, European handling agreements, parts pool agreements, maintenance providers, and catering. In addition, the company will review opportunities for further synergies within IAG on core functions and use of technology to reduce overheads.

**AJB development**

The British Airways and American Airlines on-board product will be upgraded in 2016 and investment on the ground will continue.

A number of sales and marketing initiatives have been launched to further enhance the offering to customers including the launch of a new joint business loyalty programme for small and medium enterprises customers.

**Run a safe, secure and reliable airline**

Safety and security performance will focus on the two key drivers of engineering our safety risks and developing a proactive safety culture. British Airways was again more reliable than key competitors in 2015 with more on-time departures from London than EasyJet or Ryanair according to Civil Aviation Authority (CAA) data.

**PERFORMANCE**

£ million	2015 <sup>1</sup>	Higher/lower
Revenue	<b>11,598</b>	-1.0%
EBITDAR	<b>2,252</b>	+19.4%
Operating profit	<b>1,375</b>	+41.0%
Adjusted operating profit margin	<b>12.2%</b>	+3.7pts
RoIC	<b>13.2%</b>	+4.1pts

<sup>1</sup> Includes allocation of Avios results.

# HALFWAY THROUGH OUR TRANSFORMATION



“At Iberia, we are halfway through our Plan de Futuro and confident we will achieve our targets.”

**Luis Gallego**

Chairman and Chief Executive Officer of Iberia

**Background**

In 2014 Iberia put into action *Plan de Futuro*. The plan is allowing Iberia to radically transform the company towards a profitable and sustainable future.

In 2015 we can proudly announce we have successfully flown half of our journey, improving results significantly, through a more competitive cost base and our continuous commercial improvement.

**Cost optimisation**

In terms of labour, we continue with the optimisation plan of our workforce, while in parallel simplifying processes and structure. We have already reduced our employee cost over total ASK (CASK) by almost 25 per cent since 2012 and expect this reduction to reach 35 per cent by 2018.

In 2015 we also had a strong focus on supplier cost optimisation, through the steady implementation of *Plan de Futuro* measures on operating costs and overheads. In addition; the initial benefits of the implementation of IAG projects led by IAG’s Global Business Services further contributed to our finance and IT cost saving objectives.

**Commercial and client focus**

The commercial plan that we launched

two years ago allowed us to continue closing the unit revenue gap with our competitors, placing the airline in a strong position to minimise the potential impact of a slowdown in Latin America.

Also we continued investing strongly to improve our new longhaul product, with a new in-flight experience in our business and economy classes. By the end of 2016, we will have 100 per cent of new product in longhaul, as we complete retrofitting of Airbus A340-600 and substitute the Airbus A340-300 with the Airbus A330-200.

Client satisfaction was further enhanced by our operational excellence, which allowed Iberia to be the second most punctual airline in the world, up from third last year<sup>1</sup>. Iberia Express was ranked the most punctual low cost airline across the globe for the record second year in a row<sup>1</sup>.

**Profitable growth**

The new cost base of the *Plan de Futuro* allowed us to recover the majority of the longhaul routes withdrawn during the restructuring. In 2015, Iberia returned to Havana and announced the re-opening of Johannesburg and San Juan de Puerto Rico. Furthermore, we strengthened our network with new destinations such as Cali and Medellin, additional frequencies to Panama, Chile and Mexico, and further European routes such as Budapest, Manchester and Florence.

This growth meant that, after 11 years without hiring pilots, Iberia announced the entry of up to 200 new pilots, joining under the new productivity and compensation conditions set out in the 2014 labour agreements.

**More efficient fleet**

In 2015, Iberia marked a new step in the renewal and optimisation of its fleet. At the end of the year Iberia took delivery

of the first of 13 Airbus A330-200s, phasing out the Airbus A340-300 fleet and reducing fuel burn by 15 per cent with 40 per cent lower maintenance costs. The airline confirmed eight options for Airbus A350-900 to join its fleet from 2018 onwards.

Iberia also placed its first order for the new Airbus A320-NEOs joining its portfolio with a harmonised layout, common to all IAG airlines that will bring significant savings on purchase price and maintenance costs.

**Profitable complementary businesses: Handling and Maintenance, Repair and Other services (MRO)**

The improvements derived from the *Plan de Futuro* allowed Iberia airport services to compete in the auction process for Spanish airports handling licences, winning 17 out of the 20 licences, including the recovery of Barcelona airport. This success will allow Iberia to maintain its position as market leader for the next seven years.

The implementation of *Plan de Futuro* productivity and cost optimisation measures have allowed to increase the competitiveness of our MRO unit.

**The Iberia of the future**

2015 results show a strong financial improvement, with an operating profit of €247 million (2014: €50 million), confirming that we are on the right path towards a future of flexible growth and sustainable profitability

Iberia remains confident in our *Plan de Futuro* and of achieving the Group’s financial targets:

- 8-14 per cent operating margin
- 15 per cent return on invested capital
- 7 per cent growth in our key markets leveraging our new cost base while keeping a close eye on flexibility

PERFORMANCE		
€ million	2015 <sup>2</sup>	Higher/lower
Revenue	<b>4,764</b>	+13.5%
EBITDAR	<b>720</b>	+43.4%
Operating profit	<b>247</b>	+394.0%
Adjusted operating profit margin	<b>7.0%</b>	+3.5pts
RoIC	<b>10.0%</b>	+5.8pts

<sup>1</sup> According to Flightstats Global Airlines ranking.  
<sup>2</sup> Includes allocation of Avios results.

VUELING

# FLEXIBILITY AND HARMONISATION ENSURES PROFITABLE GROWTH



“Vueling has increased capacity by 14 per cent in 2015 with more than 350 routes, 23 bases, 155 destinations and 25 million passengers and continues to see profitable opportunities for growth in 2016.”

**Alex Cruz**

Chairman and Chief Executive Officer of Vueling

In 2015 the flexibility and harmonisation of the Vueling fleet, ensured profitable growth and saw a strengthening of Vueling’s culture of innovation.

**The Vueling fleet**

Vueling has tripled its fleet since 2009, with 104 aircraft in 2015. Flexibility, gauge and harmonisation are the three main axes for the Vueling fleet to achieve cost savings and improve customer perception:

- **Flexibility:** Fleet flexibility is based on obtaining lease extensions supplemented by short term leases, used aircraft from the market and balancing the mix of fleet. Managing seasonality and adapting to market conditions have always been among Vueling’s strengths.
- **Gauge:** In 2015, Vueling introduced five Airbus A321 aircraft with 220 seats, which led to unit cost improvement as well as a greater commercial flexibility. Vueling expects to have ten Airbus A321 in the fleet by the end of 2016.

- **Harmonisation:** Vueling is part of the IAG fleet harmonisation project, adopting the same features such as the introduction of light seats. Moreover, the airline continues working on the premium services with more legroom, cabin dividers, power outlets and mood lighting.

**Profitable growth**

Vueling’s profitable growth is based mainly on three factors:

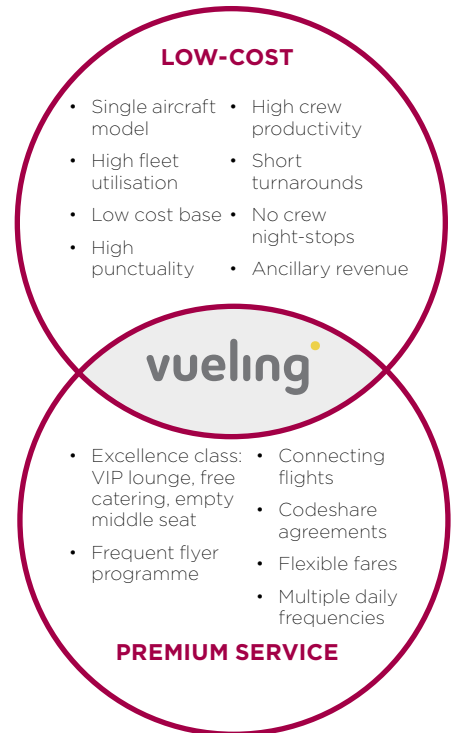
- **Market leadership in key airports:**
  - Barcelona continues to grow as Europe’s largest shorthaul airport;
  - Rome-Fiumicino consolidates its domestic and international hub; and
  - International routes from Paris-Orly continue to increase.
- **Focus on international markets:** with 60 per cent of passengers originating from outside Spain in 2015.
- **Cost discipline:** Vueling has developed a sustainable model based on cost discipline which helps the airline to become the one with lowest unit costs of any premium-low-cost company. The 2015 Vueling cost saving drivers were:
  - **Fuel efficiency:** The next harmonisation of the new Airbus A320 and Airbus A321 including lighter seats and the introduction of more efficient aircraft (Airbus A320-NEO), will further reduce fuel costs.
  - **Employees:** Local crew recruitment in international bases optimises crew productivity, as well as further enhancing cost savings via selected outsourcing.
  - **Suppliers:** Continued the implementation of the ongoing annual saving programme of costs to offset inflationary increases, as

well as, joint tender processes with IAG, are contributing to improve efficiency.

Despite the weaker euro, the favourable fuel price scenario has benefited Vueling’s costs with a fuel unit cost decrease of around 4 per cent.

**Innovating culture**

Vueling is characterised by its track record of continuous innovation. In the last few years, the airline has developed mobile services making the mobile app the first tool for the customer full flight self-management. Other innovation concepts related with airports services include auto check-in, on-board services such as Wi-Fi and power outlets are currently being developed. In 2015 there were 15 aircraft with power outlets on-board.



**PERFORMANCE**

€ million	2015	Higher/lower
Revenue	<b>1,962</b>	+13.7%
EBITDAR	<b>386</b>	+18.4%
Operating profit	<b>160</b>	+13.5%
Adjusted operating profit margin	<b>11.7%</b>	+0.2pts
RoIC	<b>13.7%</b>	-1.2pts

# FOCUSED ON CUSTOMER ENGAGEMENT



“With multiple ways to earn rewards through a growing alliance of leading brands Avios offers unmatched travel rewards and benefits leading to extraordinary experiences for our customers.”

**Gavin Halliday**

Chief Executive Officer of Avios

Avios represents a profitable, dynamic and scalable tool for IAG. Avios has increased its active customer base by 18 per cent in 2015 and continues to see growth opportunities in 2016 and beyond. Avios is favourably positioned to perform well based upon its core loyalty capabilities, cost model and portfolio of current and potential partners.

In January 2015 the Avios loyalty reward business was carved out to create an independent operating unit of IAG. Through greater independence, IAG's wholly owned customer loyalty currency provider is on a trajectory to deliver even better results, with a new commercial model and legal structure whereby Avios has formalised relationships with British Airways and Iberia and partnerships outside IAG, including Flybe and Meridiana.

**Customer proposition**

During the year, Avios offered customers access to greater redemption flight availability by successfully managing the realignment of collection and redemption propositions across the IAG frequent flyer programmes, whilst minimising and managing risks with currency partners and ensuring no degradation in revenue.

Avios continued to expand its reach into new markets and geographies by concluding partnership agreements with Kulula and Aer Lingus that will see those airlines adopt the Avios currency. These agreements complement the strong foundation within IAG airlines, increasing Avios future growth and evidencing its scalability and partner interest in the Avios currency model. Additionally, Avios also successfully renegotiated multi-year contracts with key financial partners, establishing a solid platform for future growth.

Throughout 2015, additional and enhanced redemption products were deployed, including the broadening of the hotel content, inventory and price options, expansion of the international ferry and car hire portfolio and the introduction of new online shopping platforms. Improved upgrade products and Pay with Avios (offering discounts on commercial published tickets) on a wider range of flights were also instated. The implementation of peak and off peak reward flight prices, lowering off peak longhaul flights by 35 per cent, was a further step towards enhancing the customer proposition.

Avios launched the 'Do More' with Avios campaign, focussing on driving satisfaction and currency utility with existing collectors. 'Do More', based on the Avios brand essence of 'Time Well Spent', was another step towards aligning Avios to the emotional, rather than functional, benefits of travel.

Avios has successfully brought together 'Do More' across all customer channels including social media, specifically Twitter feeds to connect 'real time' with customers to demonstrate the value of the Avios currency. It was through this and other initiatives in 2015 that Avios was able to increase its active customer numbers so markedly.

In November 2015, Avios formally took responsibility for the servicing of English speaking British Airways Executive Club applicant tier card holders, establishing its contact centre capabilities as a Group centre of excellence, driving synergies and expertise by increased focus on selling and servicing redemption products.

**Innovation and engagement**

Avios pursued an ambitious innovation agenda in 2015, creating a dedicated digital innovation directorate. The establishment of an innovation lab has created an environment to deliver new currency applications and prototypes. Avios has delivered Europe's first loyalty app for the Apple watch and rebuilt and relaunched both its mobile apps, going through an accelerated process from first designs to launch inside three months. These continue to have functionality added.

The Avios culture embraces engagement and promotes the potential of the virtual currency to stimulate innovation. Avios ran its first hackathons which generated over 200 ideas from employees about how to develop improved customer experiences. Avios built a stand-alone payment portal prototype to allow partners to integrate Avios payments more easily, and also piloted a social media sales widget. Collectively, these tools increase the utility of the Avios digital platform in order to make reward and redemption of the currency easier and quicker for customers and partners.



## IAG CARGO

## RESILIENT PERFORMANCE IN CHALLENGING MARKET CONDITIONS



“Our strategy has undoubtedly been put to the test this year and, most importantly, it has proven its worth.”

**Steve Gunning**

Chief Executive Officer of IAG Cargo

The airfreight industry experienced a challenging year, with excess capacity and reduced demand leading to significant price and yield pressures. The year began with an unexpected boost from the US West Coast port strike, which in turn led to a sharp rise in demand that forced traditionally sea going freight onto aircraft. However, while this provided air freight with a welcome boost through to spring 2015, the increase in demand was temporary. In the second quarter, challenging market conditions returned, again putting air carriers under pressure.

In 2014, IAG Cargo designed and launched a strategy specifically built for unpredictable trading conditions often caused by uncontrollable external factors. IAG Cargo has termed this a ‘new normal’, whereby overcapacity and aggressive competition have become expected day-to-day challenges. In light of this, 2015 has seen IAG Cargo continue to deliver its strategy of differentiation via premium products, cost efficiency and volume variability, and flexible regional strategies and partnerships, all of which tackle the regionally unique trading conditions that exist across 350 destinations served.

**Premium product growth and cost efficiency**

IAG Cargo has continued to set its own path in an industry subject to excess capacity and market fluctuations, initiating several industry defining firsts. Underpinning IAG Cargo’s initiatives in 2015 has been our relentless focus on the growth of premium products. A strong network, customer proposition and product portfolio have enabled growth in our premium product mix to 20 per cent this year. A primary driver of this is our pharmaceutical product, Constant Climate. This grew by 44 per cent, in volume terms and, following a Good Distribution Practice (GDP) certification award, is now regarded as an industry leading product. IAG Cargo now serves 110 pharma approved destinations. Prioritise, our express product, also grew by 32 per cent in 2015. This was driven by several company-wide initiatives, such as an increase in premium warehouse capacity and substantial growth from express intact and small business. IAG Cargo also optimised its schedule to open up 2,000 new same-day connections through its London and Madrid hubs. This shortening of transit times further strengthened the express proposition offered.

We continue to focus on unit cost control through suppliers’ renegotiations and productivity improvements.

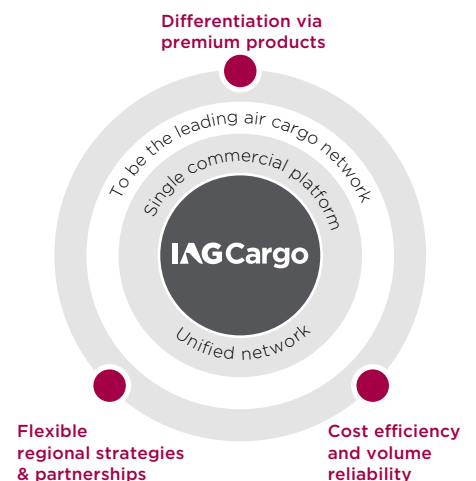
**Flexible regional strategies and partnerships**

Through focusing on strategic partnerships and the utilisation of the carrier’s substantial belly hold network, IAG Cargo has continued to commit to sensible capacity management throughout 2015. Extending and expanding its capacity sharing agreement with Qatar Airways, as well as introducing new freighter capacity arrangements with Finnair cargo, has meant that IAG Cargo is able to expand its network and provide additional freighter services to its customers in a cost effective way. This stems from establishing sensible partnership deals. The Partner Plus programme grew to seven members this year, with the addition of Finnair, China Southern and Aer Lingus. Partner Plus allows IAG cargo to expand its network, without having to invest in new infrastructure

which in turn enables us to fill spare capacity on the aircraft. Utilisation of capacity across the network was also supported by the recently launched revenue management system, Optima. This has been a critical tool in setting price more effectively, enabling the delivery of optimal returns.

IAG Cargo expanded its global network in 2015. By launching several important destinations: Kuala Lumpur, Cali, Medellin and Havana. The company has provided its customers with new options for shipping goods into key markets. In addition, new aircraft joined the fleet this year. The Boeing 787 fleet provides customers with larger, temperature controlled holds that are well suited to the increasing volumes of sensitive cargo being sent by air.

Despite what has been a difficult 2015 for the industry, we have delivered a stable and resilient performance, while growing our bottom line contribution. IAG Cargo’s model is now firmly established and, with the integration of Aer Lingus Cargo well underway, the unified sales team, revenue management system and network will bring further benefits to customers. Therefore we remain confident that the right strategy is in place for 2016.



# ESTABLISHING NEW AMBITIONS



“In 2015, we established a new Group sustainability function in IAG, set ambitious goals on noise and carbon efficiency and developed a programme to deliver these targets by 2020.”

At IAG we have a focus on sustainability as we recognise its importance in enabling the growth of our business but we also firmly believe that as a responsible company this is the right way to do business. Demonstrating this ethos, this year we set ourselves the ambition of becoming the world's leading airline group on sustainability.

The Group will continue to focus on efficiency through investing in modern aircraft and technology, and supporting delivery of new sustainable fuels and operational procedures to reduce aircraft emissions and noise. We will also continue to work collaboratively with the rest of the industry and with governments to ensure our sector has a sustainable future.

2016 will be a significant year for the aviation industry as we prepare to agree a global-market based measure for carbon dioxide emissions at the International Civil Aviation Organisation (ICAO) General Assembly in September 2016. This agreement is pivotal in enabling the industry to meet its target of carbon neutral growth from 2020 and setting the course towards the further target of halving industry CO<sub>2</sub> emissions by 2050.

IAG has been an important player in the international work to develop a global-market based measure and will continue to actively support this activity during 2016 and beyond to ensure aviation plays its full part in addressing global climate change.

**Antonio Vázquez**  
Chairman

## **IAG's contribution to society and economic prosperity**

As one of the largest airline groups in the world, IAG contributes to global economic prosperity by connecting people, places, communities, and cultures. The connectivity that airlines provide, which cannot be met by alternative means of transport, contributes to increased productivity and prosperity by encouraging investment, innovation and efficiency.

In 2015 IAG transported over 95 million customers (including Aer Lingus passengers since January 1, 2015) and delivered 5,293 million tonnes of cargo kilometres. Total revenue was €22,858 million and the Group employed 60,862 people (average manpower equivalent).

## **IAG sustainability**

In 2015, we established an IAG sustainability function led by the Group Head of Sustainability with the following primary responsibilities:

- to develop and implement a Group sustainability policy and strategy;
- to establish Group and operating company targets to improve sustainability performance; and
- to develop Group and individual operating company sustainability programmes to deliver our targets.

Progress has already been made in these areas with a new Group Sustainability Policy established and our Pathway 2020 strategy defining the main areas of focus for the Group.

While the individual airlines within the Group will continue to drive their own sustainability programmes, this new function at IAG defines Group ambition and will drive further performance improvement and consistency across the Group, delivering both environmental and financial benefits.

The new Group sustainability governance structure is shown in the chart to the right.

The Group Head of Sustainability reports directly to the Chief of Staff and, twice per year, provides reports to the IAG Management Committee, and also to the IAG Audit and Compliance Committee.

Sustainability programmes within the individual airlines are maintained under the control of each airline and their boards. The Group sustainability team works closely with the relevant leaders in each of the operating companies to ensure delivery of initiatives contributing to the Group sustainability targets.

The IAG risk management process (see page 47 of this report) provides both assessment and action on risks in the area of sustainability, such as climate change regulation, noise and labour relations.

**Stakeholder engagement**

On sustainability, we actively engage with industry partners and associations, policy makers, shareholders, the investment community and governments to influence policy and drive action to support our Group sustainability objectives.

IAG also actively participates in the industry delegation on the ICAO work programme for a global climate deal and will positively engage in the next phase of this process, concluding at the ICAO General Assembly in September 2016.

In the UK we work closely with Sustainable Aviation (SA), an industry coalition working towards cleaner, quieter and smarter aviation. Since 2005 we've worked through SA with other airlines, manufacturers, airports and the air traffic control authority to deliver a common, credible voice for aviation sustainability.

2015 marked the tenth anniversary of SA and the conclusion of our two year tenure as Chair of the SA Council. Showcase outputs from SA include the UK-wide continuous descent campaign which delivered over 45,000 additional continuous descents in the first year to August 2015, saving both noise and emissions, and the industry-leading Carbon, Noise and Alternative Fuels roadmaps which describe how the industry can deliver improved sustainability performance to 2050.

We continue to chair two of SA's working groups on Sustainable Fuels and Operational Improvements and have extended the scope of our membership from British Airways to IAG.

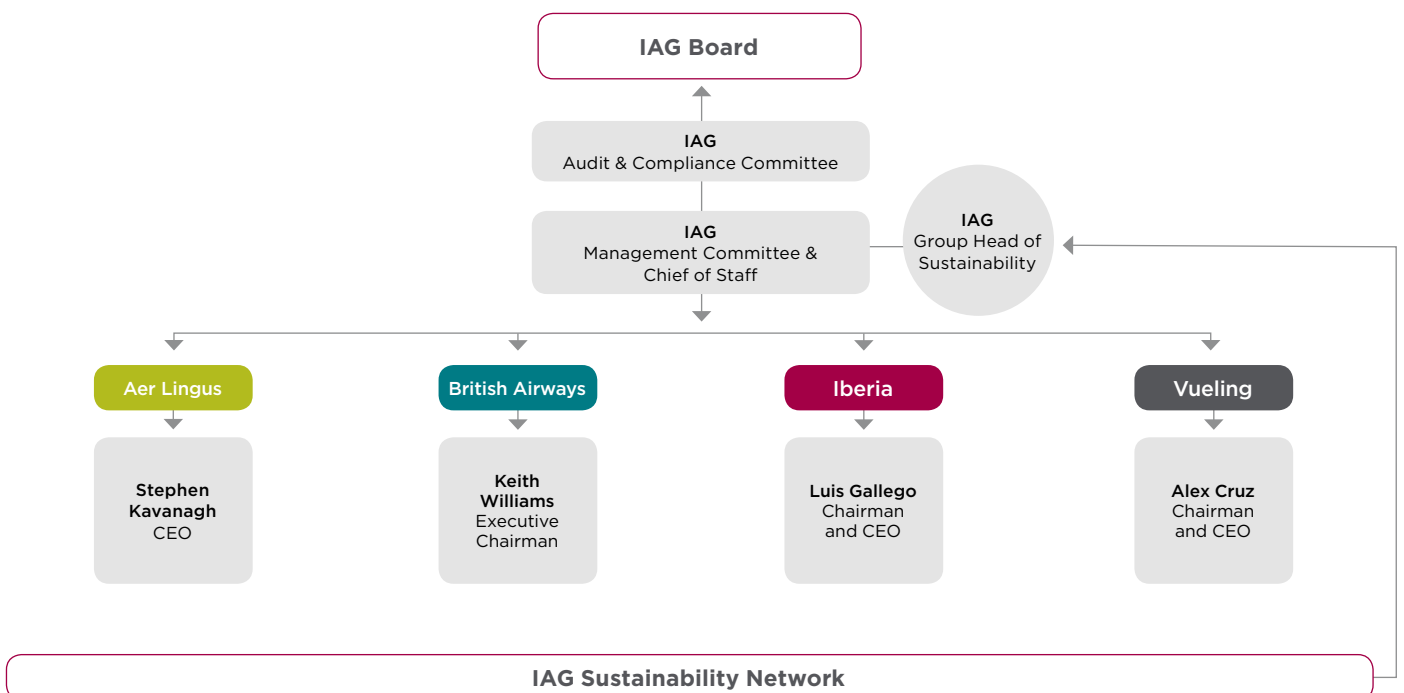
Inspired by the progress of Sustainable Aviation in the UK, we have begun talks with partners in Spain to establish a similar group to improve our sustainability performance there.

**Climate change**

IAG is determined that the Group and our industry contribute to global climate change goals, including the United Nations target to avoid more than two degrees rise in global temperatures due to climate change, as agreed at the November 2015 Paris Climate Change Summit. Our contribution to this global goal will be delivered by playing our part in delivering the industry target of carbon neutral growth from 2020 and the further target of halving aviation's net CO<sub>2</sub> emissions by 2050.

The Group demonstrates good performance on fuel efficiency with 95.4 grammes of carbon dioxide per passenger kilometre in 2015.

**SUSTAINABILITY MANAGEMENT STRUCTURE**



## SUSTAINABILITY CONTINUED

We have set a group target to further improve our carbon efficiency to 87.3 grammes of CO<sub>2</sub> per passenger kilometre by 2020, representing a 9 per cent improvement on performance. During 2016, we will be looking to improve this target through identifying additional fuel operating efficiencies.

In addition, significant progress has been made towards the development of sustainable low carbon fuels and a global economic measure to enable further cost-effective emissions reductions. The Group is at the forefront of efforts to ensure the success of these key elements of our sustainability strategy.

The Group advocates carbon pricing through global carbon markets as the most cost effective mechanism to tackle aviation's emissions. In collaboration with industry partners, IAG is contributing to development of an intergovernmental global market-based measure to cap net CO<sub>2</sub> emissions from 2020. ICAO members are working towards agreement of a simple and equitable design of the mechanism, as previously mentioned, at the autumn 2016 ICAO General Assembly.

IAG airlines comply with the EU Emissions Trading System (ETS) that currently applies to intra-European flights. The EU ETS will be reviewed at the end of 2016 following the outcome of the ICAO General Assembly.

Our customers have a strong interest in the climate change activities at our airlines and we actively engage them by taking steps to mitigate our emissions.

For example, British Airways' Carbon Fund channels customer donations from flight bookings at ba.com to projects that invest in renewable energy and energy efficiency. It is one way the airline is working with customers to tackle climate change and have positive social impacts in the UK. So far the Carbon Fund has supported 14 renewable energy projects, exceeding €1.3 million in community benefits through projects such as solar panels, efficient lighting and installation of biomass boilers for schools, communities and leisure centres.

### Vueling Green Book

In 2015 Vueling launched the Green Book to be distributed to all Vueling pilots, which highlights practical steps to improve fuel management and efficiency.

The Green Book is just part of a wider training programme to promote fuel efficiency among Vueling pilots. Over half of Vueling pilots have now attended face-to-face fuel efficiency training which provides an opportunity to ask questions and share ideas for further improvements. Just a year after first adopting the Green Book and the new training programme, results are already manifesting in the improvement of operating efficiency and reduced carbon emissions.

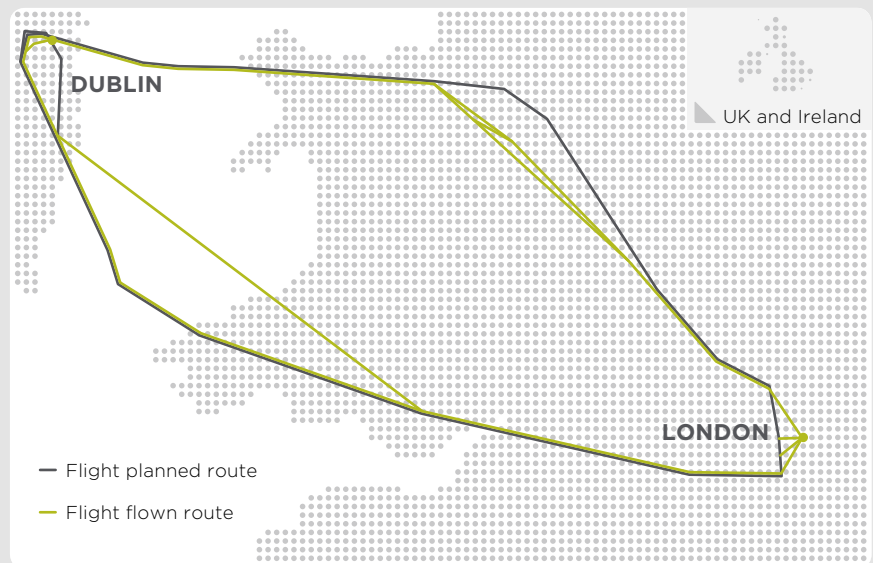
In 2015, Vueling added 19 aircraft to its fleet, reducing average fleet age by 3.3 per cent. In addition average weight per aircraft was reduced by over 100 kilograms, contributing to further fuel savings. 35 per cent of Vueling's fleet is fitted with sharklets, which improve fuel efficiency by up to 4 per cent during the cruise phase of flight.

### Aer Lingus Fuel Management System

Aer Lingus have developed a new fuel management system designed to improve data collection, analysis, validation and management of one of the airlines biggest costs: fuel. In 2015, this system has already delivered further significant benefits for Aer Lingus and has helped the Fuel Management Committee track the success of their initiatives. For example:

- 121 tonnes of fuel saved during 2015 by flying a shorter route between Dublin and London Heathrow;
- 356 tonnes of fuel saved by reducing the use of reverse thrust which also has a noise benefit; and
- 48 tonnes of fuel saved by reducing extra fuel carried.

The Fuel Efficiency Network shares with the other airlines the success of the Aer Lingus Fuel Management System.





### Fuel efficiency

Carbon efficiency and other environmental performance attributes were important factors in selecting the 23 new aircraft that entered the IAG fleet during 2015, including 5 Boeing 787-900s, 2 Airbus A380s, 5 Airbus A321s and 11 Airbus A320s. These aircraft are significantly cleaner and quieter than the aircraft they replace.

In 2015 IAG's combined carbon efficiency, expressed in grams of carbon dioxide per passenger kilometre (gCO<sub>2</sub>/pkm), was 95.4 gCO<sub>2</sub>/pkm. This represents a 2.2 per cent improvement over 2014, and was largely driven by fleet renewal.

IAG continues to improve coordination across the Group on operational fuel saving initiatives through a dedicated team of pilots and experts. In November 2015 we formed the IAG Fuel Efficiency Network bringing together the experts in each airline to share best practice in fuel efficiency with a target in 2016 to save an additional 200,000 tonnes of CO<sub>2</sub>.

### IAG aircraft fleet

IAG's fuel efficiency, carbon and noise performance is largely driven by new, more efficient aircraft replacing older aircraft in the fleet. The table below shows the significant acquisition of new aircraft by IAG over the next five years.

### Sustainable low carbon fuels

IAG remains committed to the development of sustainable fuels that provide measurable greenhouse gas emission reductions.

The Group supports a range of projects with the IAG Fuel Procurement team working collaboratively with the Group's airlines. During 2015, there has been progress on a number of projects and on our work with governments to introduce more supportive policies for sustainable aviation fuels.

In 2014 we reported on British Airways' GreenSky project to construct an advanced fuels facility converting waste to sustainable jet fuel. During 2015, the project was delayed following the withdrawal of a key partner but British Airways is actively working to establish a partnership with a new technology supplier and we remain optimistic that this pathway offers a viable future for sustainable aviation fuels in the UK.

British Airways also continued to work with the UK Government and took part in the Transport Energy Taskforce on future biofuel policy resulting in a recommendation for aviation fuels to be included in the Government's Renewable Transport Fuels Obligation.

Iberia has continued to participate in the Spanish Government's collaborative programme *Bioqueroseno* to support the development of a sustainable fuels industry for aviation. During 2015 the

*Bioqueroseno* programme, along with the EU Initiative Towards Sustainable Kerosene for Aviation (ITAKA), made further progress in developing sustainable camelina plantations, taking Spain a step closer to production of biojet fuel.

### Supporting climate research

Iberia continues to support the international atmospheric research project IAGOS (In-service Aircraft for a Global Observing System), by carrying atmospheric monitoring instruments on board one of its Airbus A340 aircraft. In 2015 the aircraft collected data during 334 flights, helping scientists achieve better weather prediction and informing future climate prediction models.

### Noise

IAG is actively pursuing a range of ways to reduce the noise impact of our operations on communities around airports.

In 2015 the noise performance of IAG fleet continued to improve as we invested in new, quieter aircraft. 99 per cent of IAG aircraft fleet now meet the ICAO Chapter 4 technology standard for noise, an increase of 0.3 per cent from 2014. Investment in over 168 new aircraft over the next five years will continue to improve our noise performance, which will deliver a 10 per cent reduction in our noise per flight by 2020. During 2016, we will be looking to improve this target through developing additional noise efficient flying procedures.

### Aircraft fleet - current and forecast

	2015	2014	Future deliveries	Options
Airbus A320 family	335	271	121	128
Airbus A330	16	8	14	7
Airbus A340	24	24	-	-
Airbus A350	-	-	43	57
Airbus A380	10	8	2	7
Boeing 747	40	43	-	-
Boeing 767	12	14	-	-
Boeing 777	58	58	-	-
Boeing 787	13	8	29	18
Other	21	25	2	15
<b>Total fleet</b>	<b>529</b>	<b>459</b>	<b>211</b>	<b>232</b>

## SUSTAINABILITY CONTINUED

These procedures will include continuous descent approaches, delayed landing gear extension, optimised approach, flap settings slightly steeper and two segment approaches. British Airways also led a series of flight trials during 2015 to test quieter operational techniques.

### Air quality

The air quality performance of IAG fleet has continued to improve as part of our fleet renewal. In 2015, Group compliance with the ICAO Committee on Aviation Environmental Protection (CAEP4) standard for oxides of nitrogen (NOx) was 93 per cent, up 1.3 per cent from 2014, and 65 per cent of our fleet meet the more stringent CAEP6 NOx standard, up 3.3 per cent from 2014.

Operational practices such as reduced auxiliary power unit (APU) run times while aircraft are on stand, and reduced engine taxiing, are also helping reduce the impact of our aircraft on local air quality.

### Waste and recycling

IAG airlines are continuing to pursue a range of initiatives to reduce waste and increase recycling. Examples of British Airways initiatives including on-board segregation of plastic bottles and aluminium cans for recycling and working with a service partner and the airport to segregate EU, origin aircraft waste on arrival to London Heathrow. This has allowed significantly more material to be recycled whilst meeting strict regulations for the control of international catering waste.

Vueling is continuing to work with the non-profit organisation Nutrition without Borders, to reduce food waste by retrieving some products from crew meals for redistribution in community kitchens.

### Responsible procurement

IAG remains committed to procuring goods and services from suppliers who can demonstrate ethical principles in the way they conduct their business in relation to quality, safety, environmental responsibility and human rights.

### British Airways noise trials

In 2015, British Airways collaborated with industry partners Airbus, Heathrow Airport and NATS, the UK air traffic control agency, on a 'Fly Quiet Programme' to explore opportunities for quieter flight operations.

- The initial trials involved the first use of Airbus' 'optimised noise departures' on four British Airways Airbus A380 flights from London Heathrow. The aircraft's advanced technology was used to tailor the climb profile to minimise noise over densely populated areas. The noise benefit for the low noise departure was 5 A-weighted decibels (dBA) over a selected location.
- A second trial involved ten flights demonstrating the viability of steeper segmented approaches on British Airways Boeing 777 aircraft. These aircraft started their final approach descending at 4.5 degrees and intercepted the standard 3.0 degrees glideslope at 5 nautical miles (nm) from touchdown. Noise benefits are approximately 3 dBA at the start of the approach with aircraft approximately 1,500 feet higher than on a standard 3.0 approach at around 14 miles to touchdown. The trials were successful and this procedure offers an exciting opportunity with potential to deliver noticeable noise reduction on flights during the night period.
- A third trial involved testing 3.2 degrees slightly steeper approaches. Initially a small number of British Airways Airbus A380 tested this procedure and subsequently a larger scale trial was led by Heathrow Airport involving a wider range of aircraft types. Noise benefits are 1 – 2dBA for aircraft flying this profile, with aircraft circa 200 feet higher than a normal approach when 11.5 nm from touchdown. At the end of December 2015, IAG aircraft had completed circa 1,500 of the 1,700 trial 3.2 degrees approaches flown at Heathrow.

In 2015 IAG completed health, safety and environment supplier audits and worked with suppliers on mitigating actions with a focus on safety leadership, training and local programmes. Vueling also launched a new Supplier Portal, a platform enabling closer management and more transparency in supplier relationships.

### Safety

Safety across the IAG Group is managed independently by each airline through the establishment of a safety board structure with each Accountable Manager ensuring the delivery of a safe and compliant operation.

While each airline is accountable under EASA Operations for their safe operation, an IAG Safety Committee meets regularly and is chaired by the IAG Chief Executive Officer and attended by senior representatives from British Airways, Iberia, Vueling and Aer Lingus.

The purpose of the IAG Safety Committee is to compare safety and compliance performance across the airlines, to learn from safety events and share best practice. The current focus is on the delivery of common standards for ground handling operations.

In 2015 Vueling successfully passed the audit to renew its IOSA certification standard, fulfilling the highest quality and safety standards in the aviation industry.

### Human trafficking

British Airways is providing guidance to flight crew and cabin crew to support the UK Border Agency initiative to reduce human trafficking. Awareness of this issue is now part of the normal cabin crew training. This is in addition to general cabin observation for unusual behaviour on board which is standard procedure across the Group's airlines.

**Diversity**

The IAG Board monitors and reports on diversity at all levels across the Group. In particular, diversity has been a key consideration in planning the long-term composition of the Board itself. The Board diversity policy is described on the Company’s website, where the gender diversity figures are also disclosed and are shown in the graphs below:

As well as encouraging diversity in our workforce IAG is also improving our services to make air transport more accessible for everyone. At Vueling, for example, a new booking process allows passengers with reduced mobility to check in on-line, automatically assign a seat and, if needed, request additional assistance during their travel. They have also updated their guide for passengers with special needs and published a guide for families travelling with children to help make the travel experience easier. At Barcelona and Rome airports dedicated check-in counters for passengers with special needs and those travelling with children have also been created. IAG supports equal pay and will capture data to report this in the future.

**Society and community**

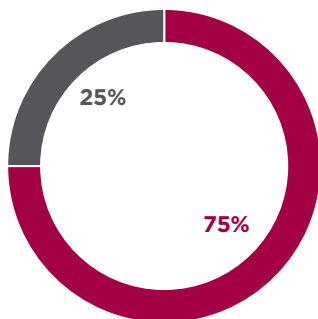
IAG actively contributes to the development and support of local communities, including flight destinations and areas where the Group works. IAG aims to be a responsible neighbour, and limit the impact of its operations on these communities. The generosity of our employees and passengers continues to make a significant positive contribution to communities around the world. In 2015 for example:

- Iberia renewed its collaboration with Unicef to support the ‘100 per cent vaccinated’ campaign, raising over €500,000 from passenger donations.
- Iberia’s Envera group continued to integrate parents of disabled children into the workplace and supported the charity ‘Mano a Mano’ in distributing medicines, clothing, food and equipment such as computers to disadvantaged parts of the world.
- Vueling passengers donated €95,000 to the Sant Joan de Déu children’s hospital in Barcelona and €145,000 for Bambino Gesù children’s hospital in Rome.

- Vueling donated €10,000 to Unicef to assist children affected by Nepal’s earthquake, started a fundraising campaign with Save the Children for child refugees in Europe and continued to support the non-profit organisation Make-a-Wish.
- Aer Lingus continue to support the Unicef Change for Good programme, raising over €900,000 per year through on-board donations and employee fundraising activities.
- British Airways contributed €9 million in donations to the charities it supports, the payroll giving scheme raised €809,000 for employee chosen charities and staff volunteering supported a range of good causes with 1,810 colleagues donating 14,828 hours in the community.
- British Airways London Heathrow Community Learning Centre hosted 8,781 students and 218 students participated in British Airways work experience programme.
- Flying Start, British Airways corporate charity partnership with Comic Relief celebrated its 5 year relationship by reaching its fundraising target, raising over €15.6 million since June 2012 to support Comic Relief’s work both in the UK and overseas.

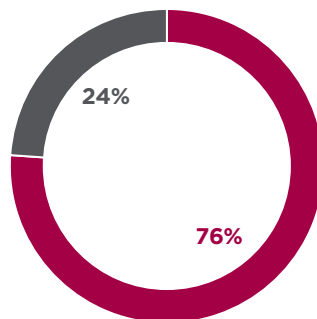
**GENDER DIVERSITY**

**Board**



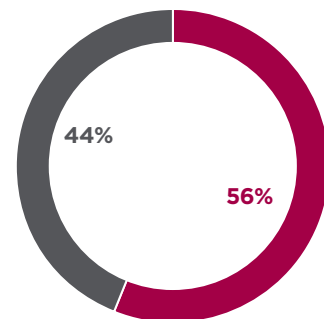
● Male - 9  
● Female - 3

**Senior management**



● Male - 163  
● Female - 51

**Group**



● Male - 34,260  
● Female - 26,602

## SUSTAINABILITY CONTINUED

### Sustainability indicators

Indicator	Units	2015 <sup>10</sup>	2014	2013	2012	Year over year (2015-2014)
Total energy consumption from jet fuel, gas and electricity	Megawatt hours	<b>101,051,244</b>	96,712,371	91,062,826	89,350,479	4.5%
Greenhouse gas (GHG) emissions <sup>1 2 3 4</sup>						
Direct (Scope 1)	Tonnes CO <sub>2</sub> e	<b>26,335,726</b>	25,219,827	23,664,495	23,249,641	4.4%
Indirect (Scope 2)	Tonnes CO <sub>2</sub> e	<b>115,304</b>	113,833	118,036	132,610	1.3%
Other indirect (Scope 3)	Tonnes CO <sub>2</sub> e	<b>5,419,599</b>	5,179,537	4,871,126	n/a	4.6%
GHG emissions intensity (grammes of carbon dioxide per passenger kilometre) <sup>1 2 4</sup>						
CO <sub>2</sub> emissions intensity for flight operations only	gCO <sub>2</sub> /pkm	<b>96</b>	98.2	100.4	101.2	(2.2%)
Percentage of aircraft fleet that meet ICAO Chapter 4 technology standard for noise <sup>5 6</sup>	Percentage	<b>99.0%</b>	98.7%	93.1%	90.9%	0.3pts
Percentage of aircraft fleet that meet ICAO CAEP 4 technology standard for Oxides of Nitrogen (NO <sub>x</sub> ) emissions <sup>5 6</sup>	Percentage	<b>93.0%</b>	91.7%	89.7%	87.5%	1.3pts
Percentage of aircraft fleet that meet ICAO CAEP 6 technology standard for Oxides of Nitrogen (NO <sub>x</sub> ) emissions <sup>5 6</sup>	Percentage	<b>65.0%</b>	61.7%	56.1%	48.0%	3.3pts
Water consumption at main sites	Cubic metres	<b>543,028<sup>11</sup></b>	501,219	n/a	n/a	8.3%
Waste produced at main sites excluding suppliers <sup>7</sup>	Tonnes	<b>10,546</b>	9,932	n/a	n/a	6.2%
Average age of aircraft fleet	Years	<b>10.8</b>	10.5	11.1	11.8	2.9%
Average manpower equivalent	Number	<b>60,892</b>	59,484	60,089	59,574	2.4%
Number of new permanent hires in calendar year	Number	<b>5,216</b>	3,670	2,647	4,389	42.1%
Average hours of training per year, per employee	Hours	<b>36.1</b>	37.3	35.6	35.0	(3.2%)
Monetary value of significant fines for non-compliances with laws and regulations <sup>8</sup>	Euros	<b>468,576</b>	392,359	n/a	n/a	19.4%
Total customer and colleague direct and in-kind donations to charity <sup>9</sup>	Euros	<b>11,457,171</b>	13,515,678	15,058,811	20,139,797	(15.2%)

#### Notes

- GHG indicators represent the most accurate figures available at date of publication. The IAG Investor CDP report available later in the year will contain the finalised data.
- IAG has reported all GHG emissions sources required under the 2006 Companies Act (Strategic and Directors' Reports) Regulations 2013. IAG uses the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (revised edition), applying an operational control boundary.
- The GHG emissions are split into Scope 1 (direct, burning jet fuel and natural gas), Scope 2 (indirect, electricity), and Scope 3 (indirect, upstream fossil fuel production).
- The emissions data was calculated by applying the UK Government's GHG conversion factors for Company Reporting (2012 to 2015).
- The International Civil Aviation Organization's Committee on Aviation Environmental Protection (CAEP) establishes international standards for aircraft noise and engine emissions. Oxides of Nitrogen (NO<sub>x</sub>) emissions are relevant to local air quality around airports. The ICAO CAEP 4 and 6 NO<sub>x</sub> standards were applicable for engines first manufactured after December 31, 2003 and December 31, 2007 respectively. The ICAO CAEP Chapter 4 technology standard for aircraft noise is applicable for new aircraft certified on or after January 1, 2006.
- Noise and NO<sub>x</sub> indicators include the combined performance of all airlines in the Group. Historic values have been revised in line with this and therefore are different to those shown in previous reports.
- Waste figures cover all airlines in the Group but for Vueling include paper waste only. British Airways data is for British Airways only Grundon contract at Heathrow and Gatwick and includes dry and liquid waste but does not include contractor waste such as catering.
- Figures referring to monetary fines relate to British Airways, Iberia, Vueling and Aer Lingus. The fines incurred by British Airways in 2015 were: (1) a fine for failing to have 24/7 Brazilian Portuguese language speaking call centre (from 2012) resulting in fine c. USD 30,000. The fines incurred by Iberia were: (1) USA treasury settlement for FAA (Fine 2014EA700185 FAA), USD 30,000. (2) Tax charge €59,797. (3) Tax charge €46,327. (4) Tax charge €21,384. (5) Adjustments for fuel €111,547. (6) Tax charge €20,905. (7) Tax charge €30,001 for Iberia.com sales. (8) Adjustments €32,600 for deposit return to Spanish tour operator. (9) Tax charge €22,788 for deposit return to Spanish tour operator. (10) Treasury fine €22,788 for deposit return to Spanish tour operator. (11) Local payment €47,200 with settlement 201502040033 Colombia (National Treasure Aerocivil), punishment UEAC. Vueling and Aer Lingus incurred no fines over value USD 20,000.
- Figures referring to charity donations for 2013 and 2012 relate to British Airways and Iberia only. 2014 includes Vueling and 2015 also includes Aer Lingus from acquisition date. Figures converted into euros based on 2015 conversion rate pounds to euros of 1.3711.
- All figures for IAG 2015 include Aer Lingus from acquisition date.
- Water data includes Vueling, Iberia and Aer Lingus for 2015, with British Airways 2014 water data as placeholder until 2015 data is available later in the year as part of CDP report.

## FINANCIAL OVERVIEW

## IMPROVING OUR TARGETS SIGNIFICANTLY



“We are pleased with the success of our synergies programme exceeding €800 million in 2015. The Group has begun to benefit from the new IAG platform including Avios reorganisation, through IAG GBS savings, and new developments in digital and MRO.”

2015 has been a positive year for IAG and we have been able to improve our targets significantly in the context of the industry and general economic environment.

Our operating result for the Group was €2,300 million (excluding Aer Lingus) reaching the high end of our expected range, with all three airlines beating their performance from last year. Behind this strong performance we have to mention efficient management of our passenger unit revenues on a significant capacity growth, and accelerating unit cost reductions, both in non-fuel and in fuel cost lines. These achievements have generated margin and RoIC increases in British Airways, Iberia and Vueling. The successful completion and integration of Aer Lingus has also exceeded our expectations.

Our capacity growth has been allocated mostly to Iberia and Vueling on their strategic market opportunities and cost advantages, while British Airways focus has been kept on product and market leadership together with cost savings.

The key to our success has been from our continuous efforts in cost control, with significant progress in productivity and supplier cost reductions across the Group.

This has driven the significant improvement in equity free cash flow versus last year, getting us closer to the expected average for the next five year period of an EBITDAR increase of circa €1.2 billion, lower capital expenditure from a slower pace of new fleet deliveries, a strong focus on investment rationalisation and cash preservation.

The Group cash position has improved, even after completion of the Aer Lingus acquisition and an initial dividend payment. Our gearing ratio, expressed in adjusted net debt divided by EBITDAR remained at 1.9 times, reflecting our strong cash generation, financial strength and our ability to consider new business opportunities in the future.

Finally, 2015 has also been a success in terms of our earnings per share. Our fully diluted earnings per share before exceptional items increased by 77.6 per cent and we paid our maiden dividend this year.

**Enrique Dupuy de Lôme Chávarri**  
Chief Financial Officer

**IAG period highlights on results:**

- Operating profit for the year to December 31, 2015 of €2,300 million excluding Aer Lingus and before exceptional items (2014: operating profit of €1,390 million), up 65 per cent, including Aer Lingus €2,335 million
- Revenue for the year up 13.3 per cent to €22,858 million and passenger unit revenue for the year down 3.5 per cent at constant currency
- Fuel unit costs for the year before exceptional items down 6.3 per cent, down 17.2 per cent at constant currency
- Non-fuel unit costs for the year before exceptional items up 4.3 per cent, down 3.9 per cent at constant currency
- Cash of €5,856 million at December 31, 2015 was up €912 million on 2014 year end, including €772 million from Aer Lingus
- Adjusted gearing up 3 points to 54 per cent and adjusted net debt to EBITDAR remained constant at 1.9 times including Aer Lingus

 See pages 36 – 37 for more about our economic landscape

 See pages 38 – 46 for the financial review

 See pages 47 – 54 for risk management and principal risk factors



# ONGOING DEVELOPMENTS IMPACT OUR INDUSTRY

## Summary

Global GDP growth came in below expectations in 2015 at 3.1 per cent, 0.3 percentage points lower than in 2014, and 0.4 percentage points below International Monetary Fund (IMF) forecasts issued in January 2015. The IMF expects the rate of GDP growth to increase in 2016, forecasting GDP growth of 3.4 per cent, representing a slight pick-up from advanced economies, but a decline in emerging and developing economies.

## UK

Whilst the UK economy continued to recover at a strong pace relative to other G7 economies in 2015, it lost momentum through the year. The economy grew 2.5 in the first quarter down to 1.9 per cent growth in the last quarter. Unemployment continued to fall in 2015 ending at 5.2 per cent compared to 5.7 per cent in 2014, representing the lowest level for eight years. UK consumer confidence also continued to improve in 2015. The GfK UK Consumer Confidence Index remained positive in every month of 2015, with the index at +2 in December 2015, compared to -4 in December 2014 and -13 in December 2013. Inflation fell short of the Bank of England's 2 per cent target, with CPI expanding only 0.2 per cent in 2015. There continued to be much debate around the timing of interest rate increases by the Bank of England during the year, but the official bank rate remained unchanged in 2015. The Organisation of Economic Co-operation and Development (OECD) and the IMF currently forecast UK Real GDP growth of around 2.3 per cent in 2016 compared to 2.2 per cent in 2015.

## Eurozone

Economic growth in the Eurozone picked up in 2015, with the economy growing 1.3 per cent in the first quarter, 1.6 per cent in the second quarter and third quarter and 1.5 per cent in the last quarter. However, as in 2014 and 2013, there continued to be a divergence in performance between different member states. Spain was one of the fastest growing countries in the Eurozone in 2015, with the economy strengthening through the year and reporting a +3.5 per cent rise in real GDP in the fourth

quarter of 2015. In contrast, real GDP in France rose only +1.3 per cent in the fourth quarter. As had been widely expected, the European Central Bank (ECB) expanded its Quantitative Easing programme at the beginning of 2015, with the programme continuing into 2016. The inflation rate for the Eurozone turned positive in the second quarter, but the level of inflation growth remained low, increasing +0.2 per cent in December 2015, with ECB President Mario Draghi reiterating the ECB's commitment to raising inflation as quickly as possible. The unemployment rate continued to fall, reaching a four year low by the end of 2015 of 10.4 per cent.

## US

The solid economic recovery in the US continued in 2015, although there was a reduction in momentum as the year progressed. The US economy grew 2.9 in the first quarter, 2.7 per cent in the second quarter, 2.1 per cent in the third quarter and 1.8 per cent in the last quarter. Although consumer confidence fell slightly in 2015, based on the University of Michigan Consumer Sentiment Index, this decline happened in the second half of 2015. The labour market continued to strengthen with the unemployment rate dropping to 5.0 per cent at the end of 2015, from 5.6 per cent last year. Whilst the rate of inflation growth remained muted throughout 2015, the US Federal Reserve increased interest rates 0.25 percentage points in December 2015, the first rise since 2006.

## Latin America

Latin America experienced another difficult year in 2015, with real GDP contracting 0.3 per cent compared to growth of 1.3 per cent in 2014. Growth was once again weakest in South America with a reduction in real GDP of 1.5 per cent compared to growth of 0.7 per cent in 2014. Venezuela remained in

recession, with real GDP reducing 10.0 per cent in 2015 compared to a reduction of 4.0 per cent in 2014. Brazil, Latin America's largest economy, and Ecuador also slipped into recession this year, with real GDP reducing 3.8 per cent in Brazil and 0.6 per cent in Ecuador. In addition, the rate of growth, compared with 2014, declined in every country in South America with the exception of Chile and Peru. Uncertainty continues to undermine economic recovery, with falling commodity prices, emerging market slowdown, currency depreciation and political turbulence. Economies in Central America, such as Mexico, remained more robust, with real GDP increasing 3.9 per cent, compared to growth of 4.1 per cent in 2014.

## Industry outlook Trading conditions

IATA is forecasting industry operating margins of 8.2 per cent in 2016, building on operating margins of 7.7 per cent in 2015. IATA forecast industry seat capacity to increase 4.0 per cent compared to 3.7 per cent in 2015, with ASKs increasing ahead of this by 7.1 per cent compared to 5.5 per cent in 2015. Passenger load factor is expected to slip slightly to 80.4 per cent from 80.6 per cent in 2015, with return fares per passenger to decline 7.9 per cent in 2016, lower than the 13.8 per cent decline in 2015.

As was the case in 2015 and 2014, IATA forecast North America to generate the highest net post-tax profit margin in 2016, of 9.5 per cent, the same as 2015.

As in the past three years, IATA forecast Africa to generate the lowest net post-tax margin in 2016 at -0.5 per cent although an improvement from 2015. Africa is the only region IATA forecast to be loss making in 2016, with losses due to regional conflict and competitive challenges.

## GDP GROWTH

	Eurozone		US		Latin America	
	2016	2015	2016	2015	2016	2015
OECD	1.8%	1.5%	2.5%	2.4%	n/a	n/a
IMF	1.6%	1.5%	2.8%	2.6%	0.8%	(0.8%)

In contrast to Africa, IATA expects airlines in Latin America to generate a profit in 2016, recovering from the losses in 2015. For Europe, IATA forecast net post-tax margins of 4.3 per cent in 2016, better than the 3.5 per cent in 2015. While IATA expects, Asia Pacific net tax margins of 3.2 per cent, up 0.3 points from last year.

### Changes in the industry

Positive changes to the industry continue, with many companies, including IAG, undertaking multi-year programmes aimed at reducing their operating costs to sustainable levels for the medium and long-term.

IAG paid its maiden dividend and updated its long-term planning goals for 2016-2020. These included a Return on Invested Capital (real terms) targeting sustainable 15 per cent compared to +12 per cent previously; an operating profit margin range of 12 to 15 per cent compared to 10 to 14 per cent; and average earnings per share growth of +12 per cent per annum compared to +10 per cent.

IAG completed the acquisition of Irish airline Aer Lingus, which joined the Group in August 2015. Iberia made significant progress towards the goals set as part of their *Plan de Futuro* restructuring programme launched in 2014. British Airways made further progress towards its goals, and Vueling continued to expand across Europe, announcing the launch of a new base at Paris Charles de Gaulle airport opening in 2016.

### Regulatory controls

The airline industry remains among the most heavily regulated in the world. In 2015 there have been significant developments impacting the industry.

### Air Passenger Duty (APD)

The UK government continues to impose APD on airlines, the heaviest tax of its kind in the world, which cost the industry as a whole some £3.2 billion in the financial year to March 2015. Previously announced changes to APD were implemented during the year for passengers on longhaul services to destinations in the Far East, South

America, Caribbean and Southern Africa. APD was also removed for children under 12 years old from May 2015 and this will be extended to children under 16 years old from May 2016.

Following last year's recommendation by the Smith Commission to devolve APD at Scottish airports, the Scottish Government is currently consulting on the structure and level of the tax with a view to possibly reducing tax. IAG considers that piecemeal reductions could simply serve to distort competition between UK airports and will therefore continue to argue for the complete abolition of APD across the UK.

### Visa policy

During the year, the UK Government responded to the arguments put by IAG and many airlines to improve the visa regime for visitors to the UK. Specifically, improvements were announced for Chinese visitors that will be implemented in early 2016, including the introduction of a two year visit visa at the same cost as the existing six month visa and trials of a ten year visa similar to that offered by the US to visitors from China. This could improve the UK's competitive position in terms of attracting high spending visitors from China. IAG will press for similar improvements for visitors from other key markets.

### European Union's emissions trading scheme (EU ETS)

In 2012, the European Union (EU) launched an emissions trading scheme. Following international opposition, the EU reduced the coverage of the scheme to flights within the EU to allow time for the development of a global market-based approach by the International Civil Aviation Organisation (ICAO).

The ICAO General Assembly in October 2013 agreed to develop a global market-based measure by 2016. As a result of this progress at ICAO, the EU introduced a regulation to continue with intra-EU scope of the ETS until 2016. This reduced scope will be reviewed after the ICAO General Assembly in October 2016 when a decision will be made about its future scope.

### UK aviation policy

The Airports Commission set up by the previous coalition Government delivered its report on UK airport capacity during the year, recommending a new 3,500 metre runway to the north west of Heathrow. The Government was expected to announce its decision on this recommendation in December 2015, but has delayed doing so until summer 2016 at the earliest. Given the uncertainty we remain sceptical about the Government's commitment to make a final decision in favour of a new airport capacity.

IAG believes that Heathrow is the correct location for new runway capacity but has challenged the excessive costs of the proposals put forward by Heathrow's operator (HAL), arguing that any new capacity must be delivered cost effectively. We will continue to pursue this objective vigorously over the coming year.

### European aviation policy

The European Commission launched its "Aviation Strategy" on December 7, 2015, its objective is to ensure that the European aviation sector remains competitive and takes full advantage of the benefits of the fast-changing and developing global economy. Legislative initiatives in the strategy include a request to negotiate comprehensive EU-level air transport ("Open Skies") agreements with a number of countries, the completion of the Single European Sky project and an update of the EU's aviation safety rules. In the coming year IAG will continue its engagement with the EU Institutions to ensure its interests are taken into account as the various initiatives are developed.

# FINANCIAL REVIEW

## IATA market growths

The air traffic industry performed well benefiting from lower fuel unit costs and reasonable demand growth, despite some softening in the global economic environment. Overall, North America and Europe were the strongest markets, while Africa was impacted by lower fuel prices and Latin America was impacted by weaker currencies in areas such as Brazil and Argentina.

The market growth trend for the industry in 2015 was strong, with a passenger load factor improvement of 0.5 points on a capacity increase of 5.9 per cent. Volumes increased on additional capacity in all regions with passenger load factor improvements except the Middle East which saw a significant increase in market capacity.

Year to December 31, 2015	Capacity ASKs	Passenger load factor	Higher/ (lower)
Europe	3.8%	82.6	1.0 pts
North America	3.1%	81.8	0.1 pts
Latin America	9.2%	80.1	0.1 pts
Africa	1.5%	68.5	1.0 pts
Middle East	13.2%	76.4	(1.7) pts
Asia Pacific	6.4%	78.2	1.3 pts
<b>Total market</b>	<b>5.9%</b>	<b>79.7</b>	<b>0.5 pts</b>

Source: IATA Air Passenger Market analysis

- New destinations, shorthaul seat densification and larger aircraft at British Airways.

IAG Passenger load factor was 81.4 per cent which was higher than the IATA average of 79.7 per cent and one point higher than last year.

Year to December 31, 2015	ASKs higher/ (lower)	Passenger load factor	Higher/ (lower)
Domestic	7.7%	78.2	0.9 pts
Europe	20.5%	79.1	1.0 pts
North America	5.3%	84.0	0.9 pts
Latin America and Caribbean	7.6%	83.1	1.7 pts
Africa, Middle East and South Asia	(3.0%)	78.6	0.7 pts
Asia Pacific	9.0%	83.2	1.1 pts
<b>Total network</b>	<b>8.2%</b>	<b>81.4</b>	<b>1.0 pts</b>

## Market segments

While the **Domestic and European** markets were very competitive our passenger load factors improved in both regions, but remain still lower than the European average reported by IATA, influenced by the higher dependency of our shorthaul fleet on connectivity and stronger seasonality of our networks.

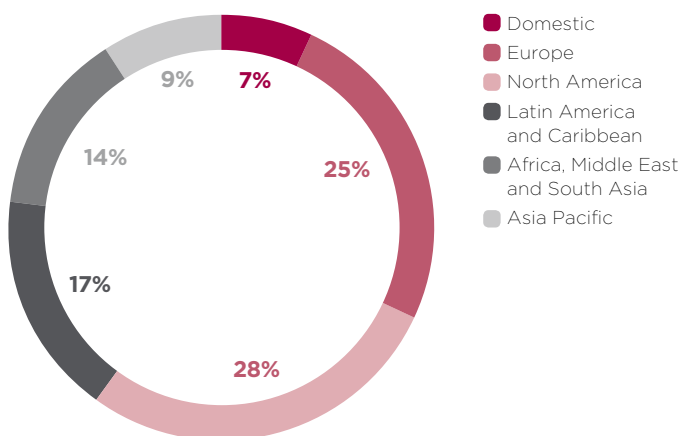
**North America** continues to represent the largest part of the IAG network and with the highest passenger load factor. Excluding Aer Lingus, capacity was flat year over year, with a slight decrease at British Airways impacted by the introduction of new fleet such as the Boeing 787 and Airbus A380, offsetting an increase at Iberia from additional capacity to Miami, New York and Los Angeles. IAG passenger load factor for North America improved 0.9 points, ahead of the year over year increase reported by IATA.

**Latin America and Caribbean** capacity increase reflects additional frequencies to Mexico by both British Airways and Iberia. Iberia has three additional destinations: Cali, Medellin and Havana. Passenger load factor in this region increased and was three points ahead of the industry average.

**Africa, Middle East and South Asia** decrease is driven by reductions in North and West Africa due to weaker demand resulting from falling fuel prices, political unrest and Ebola. Flying was ceased to Entebbe by British Airways, and reduced in Senegal and Gambia by Vueling. Additional capacity was deployed to South Africa and new services launched to Ghana and Cape Verde. Passenger load factor improved 0.7 points.

In **Asia Pacific**, the capacity increase is driven by the full year impact of up gauging last year to Hong Kong with the Airbus A380, Hyderabad and Chennai. In 2015, a direct flight to Kuala Lumpur was added and the Singapore and Haneda routes were expanded. Passenger load factors increased to 83.2, the second highest region on the IAG network.

## IAG NETWORK



## IAG capacity

In 2015, IAG increased capacity, measured in available seat kilometres (ASKs) by 8.2 per cent or 5.0 per cent excluding Aer Lingus. With the exception of Africa, Middle East and South Asia, IAG capacity was increased across all regions, reflecting:

- Acquisition of Aer Lingus on August 18;
- Continued expansion at Vueling;
- Restoration of routes as part of Iberia's *Plan de Futuro*; and



## Acquisitions

The 2015 performance includes Aer Lingus from August 18, 2015. Since the acquisition date, Aer Lingus contributed 3.2 points of the Group's 8.2 point capacity increase, €622 million (3 per cent) in revenues and €35 million (1.5 per cent) before exceptional items in operating profit. The following review includes these results, the comparative period excludes Aer Lingus.

## Revenue

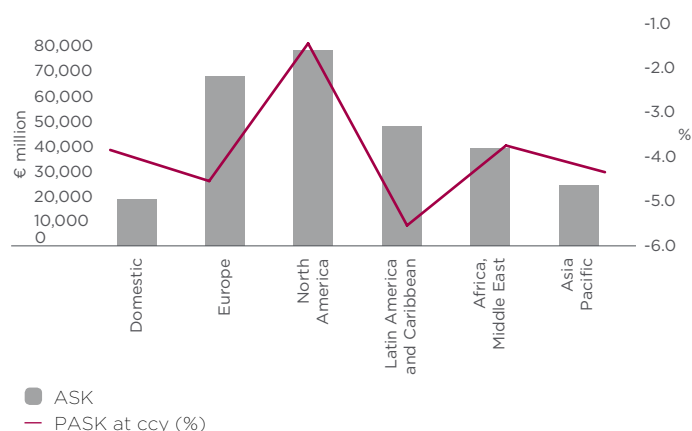
### Passenger revenue

Passenger revenue for the Group rose 14.2 per cent for the year on a capacity increase of 8.2 per cent, benefiting from the stronger pound sterling and US dollar.

At constant currency ('ccy') and excluding Aer Lingus, passenger unit revenue decreased 3.7 per cent. This decrease in passenger unit revenues was from lower yields (passenger revenue/revenue passenger kilometre) partially offset by a 1.0 point improvement in load factors.

The passenger unit revenue reduction follows a pattern of industry growth in a falling fuel cost environment, allowing the airlines to increase margins despite lowering fares.

At ccy, passenger yields were down at British Airways and Iberia with pressure on fares from lower fuel prices particularly on oil related routes. Lower yields were also noted from economic uncertainty and weakening of currencies throughout Latin America, Africa and the Middle East. At the same time revenue performance still remained strongest in our main key market, North Atlantic. At Vueling yield pressure was less prominent, down 1.5 per cent, reflecting its relative strength in its domestic market. Aer Lingus yield improved since acquisition with a strong performance across the North Atlantic. Together, the Group carried 88 million passengers, an increase of 11 million from 2014, with passenger load factor improvement across all four carriers.



## Cargo revenue

The airfreight industry experienced another challenging year with capacity exceeding demand. IAG Cargo continued its focus on strategic partnerships, with an increase in its capacity share agreement with Qatar Airways and a new agreement with Finnair cargo. Cargo volume measured in tonne kilometres (CTK) decreased 2.9 per cent with a reduction in yield of 3.9 per cent at ccy. Despite a decrease in CTKs, IAG Cargo grew its volumes in Constant Climate and Prioritise premium products improving its net contribution to the Group.

## Other revenue

Other revenue includes the BA Holidays programme, third party maintenance and third party handling. Excluding currency, other revenue improved 2.5 per cent, primarily from an increase in activity at BA Holidays partially offset by a decrease in third party activity.

Revenue	2015	Higher/(lower)	
		Year over year	Per ASK at ccy
Passenger revenue	<b>20,350</b>	14.2%	<b>(3.5%)</b>
Cargo revenue	<b>1,024</b>	3.2%	
Other revenue	<b>1,484</b>	9.7%	
<b>Total revenue</b>	<b>22,858</b>	13.3%	<b>(4.1%)</b>

## FINANCIAL REVIEW CONTINUED

### Expenditure before exceptional items

#### Employee costs

Following sterling and dollar strength, employee costs rose 13.4 per cent. At ccy, and on a unit basis employee costs are down 3.5 per cent. The Group employed an average of 60,862 people (measured in average manpower equivalent 'MPE'), an increase of 2.3 per cent versus last year. Excluding Aer Lingus, average MPEs are down 0.6 per cent on 5 per cent ASK growth. Increases were primarily from Vueling growth offset by headcount reductions flowing through from Iberia's Mediation Agreement. Employee unit costs improved at Iberia from the reduction in employees in addition to growth. British Airways employee unit costs increase slightly from salary awards and pension costs. Vueling also sees higher unit costs with the crew collective agreement and the impacts associated with opening international bases, increasing allowances and overnight costs. Productivity increased 5.8 per cent for the Group, with improvements at each airline.

€ million	2015	Higher/(lower)	
		Year over year	Per ASK at ccy
Employee costs	<b>4,905</b>	13.4%	<b>3.5%</b>

	2015	Higher/(lower)	
		Year over year	Per ASK at ccy
Productivity	<b>4,481</b>	5.8%	
Average manpower equivalent	<b>60,862</b>	2.3%	

#### Fuel, oil and emissions costs

Total fuel costs for the year increased by 1.6 per cent. At ccy, and on a unit basis fuel costs are down 17.2 per cent from lower fuel prices net of hedging, and from improved unit consumption. The foreign exchange impact on fuel costs, net of hedging was adverse c. 12 percentage points for the Group, against the pound sterling and the euro. Fuel unit costs were reduced 6.3 per cent in euro terms. Consumption improved c. 2 percentage points with new generation aircraft and improved operational procedures.

€ million	2015	Higher/(lower)	
		Year over year	Per ASK at ccy
Fuel, oil costs and emissions charges	<b>6,082</b>	1.6%	<b>17.2%</b>

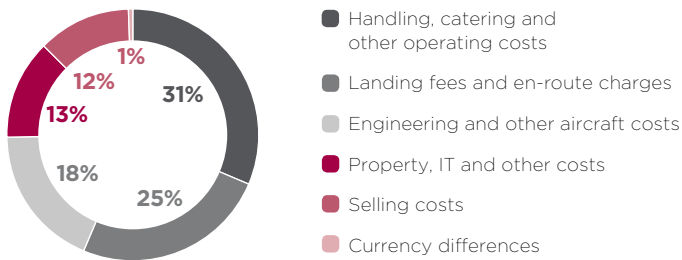
#### Supplier costs

Total supplier costs for the year rose by 12.6 per cent. At ccy and on a unit basis, supplier costs were reduced by 4.5 per cent. The supplier unit cost improvement reflects the strong airline cost performance and continued benefits from the Group initiatives, including GBS procurement, synergies and maintenance.

€ million	2015	Higher/(lower)	
		Year over year	Per ASK at ccy
Supplier costs:			<b>4.5%</b>
Handling, catering and other operating costs	<b>2,371</b>	14.9%	
Landing fees and en-route charges	<b>1,882</b>	21.0%	
Engineering and other aircraft costs	<b>1,395</b>	9.3%	
Property, IT and other costs	<b>965</b>	4.1%	
Selling costs	<b>912</b>	6.2%	
Currency differences	<b>45</b>		

**By supplier cost category**

Handling, catering and other operating costs rose 5.6 per cent at ccy reflecting additional BA Holiday activity (c. 3 points), higher number of passengers carried and inflationary price increases. These factors were partially offset by an improvement in operations year over year, which reduced costs related to disruption.



Landing fees and en-route charges were higher by 15.2 per cent at ccy. Excluding Aer Lingus<sup>1</sup>, the increase was 7.3 per cent, due to additional flying hours, with sectors flown up and a marginal average inflationary price rise.

Engineering and other aircraft costs were down 3.7 per cent excluding currency impacts. During the year a €35 million credit was recognised with the renegotiation of engine manufacturer contracts; by contrast, in the prior year, a €28 million provision for the obsolescence of spare parts was recorded (c. 5 point year over year improvement). The underlying movement reflects more aircraft and higher flying hours, partially offset by less third party maintenance.

Property, IT and other costs are down 4.4 per cent excluding currency due to cost improvements including IT initiatives and one-time benefits.

Selling costs decreased 2.3 per cent excluding currency. Additional costs were incurred related to higher passenger numbers and from initiatives in new markets, offset by lower commissions paid and improvements in supplier contract terms.

**Ownership costs**

The Group's ownership costs were up 12.5 per cent, with 9 points of adverse currency. During the year the Group reviewed the useful lives and residual values of its fleet, realigning by aircraft type and to each airline's retirement plan. The principal impact was accelerated depreciation of Iberia's owned Airbus A340-300 fleet, extending the useful lives of British Airways Boeing 777 fleet and adjustments to the Airbus A320 fleet, with a total net credit of €36 million. The underlying rise in ownership costs reflects new replacement aircraft and an increase in total fleet.

**Ownership costs**

€ million	2015	Higher/(lower)	
		Year over year	Per ASK at ccy
Ownership costs	1,966	12.5%	4.3%

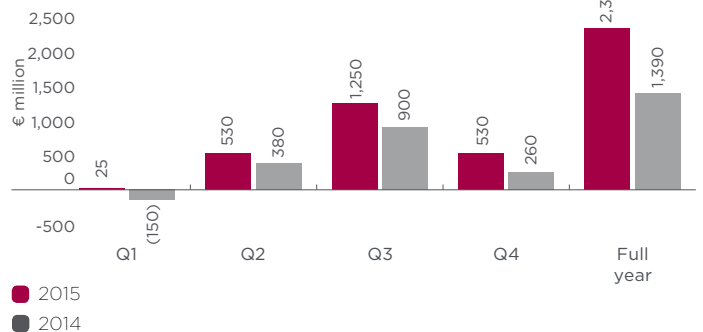
**Number of fleet**

	2015	Higher/(lower)	
		Year over year	
Shorthaul	351	20.6%	
Longhaul	178	6.0%	
	529	15.3%	

**Operating profit**

The Group's operating profit, before exceptional items, for the year was €2,335 million, a €945 million improvement from last year. This increase reflects the Group's drive towards achieving a competitive cost base with improved productivity and non-fuel cost savings. The macro economic environment was challenging, impacting passenger unit revenues but improving total unit costs and generating a net currency benefit. Our adjusted operating margin improved by 3.4 points to 11.2 per cent.

**OPERATING PROFIT**

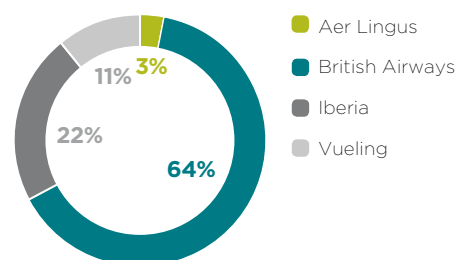


<sup>1</sup> The impact of Aer Lingus was significant on Landing fees and en-route charges from its shorter stage length, with proportionally higher block hours and sectors than the Group's.

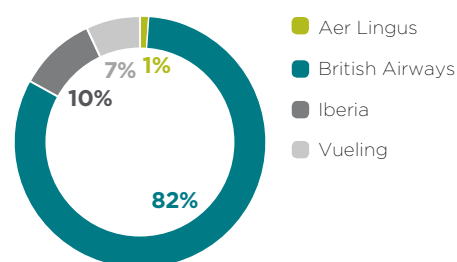
## FINANCIAL REVIEW CONTINUED

### Financial performance by Brand

#### CAPACITY



#### OPERATING PROFIT



	British Airways £ million		Aer Lingus € million	
	2015	Higher/ (lower)	2015	Higher/ (lower)
ASKs	174,274	2.0%	21,476	5.4%
Seat factor (per cent)	81.5	0.5pts	81.6	2.6pts
Passenger revenue	10,279	(1.7%)	1,628	11.3%
Cargo revenue	547	(8.5%)	53	12.8%
Other revenue	772	15.4%	37	(19.6%)
<b>Total revenue</b>	<b>11,598</b>	<b>(1.0%)</b>	<b>1,718</b>	<b>10.4%</b>
Fuel, oil costs and emissions charges	3,030	(13.8%)	388	4.0%
Employee costs	2,516	2.2%	331	2.8%
Supplier costs	3,800	(1.5%)	715	11.4%
<b>EBITDAR</b>	<b>2,252</b>	<b>19.4%</b>	<b>284</b>	<b>29.7%</b>
Ownership costs	877	(3.7%)	160	8.8%
<b>Operating profit before exceptional items</b>	<b>1,375</b>	<b>41.0%</b>	<b>124</b>	<b>72.2%</b>
<i>Adjusted operating margin</i>	<i>12.2%</i>	<i>3.7pts</i>	<i>8.9%</i>	<i>2.9pts</i>
Passenger yield (£ pence or € cents/RPK)	7.24	(4.1%)	9.29	2.2%
Unit passenger revenue (£ pence or € cents/ASK)	5.90	(3.6%)	7.58	5.6%
<b>Total unit revenue (£ pence or € cents/ASK)</b>	<b>6.66</b>	<b>(2.9%)</b>	<b>8.00</b>	<b>4.8%</b>
Fuel unit cost (£ pence or € cents/ASK)	1.74	(15.5%)	1.81	(1.1%)
Non-fuel unit costs (£ pence or € cents/ASK)	4.13	(2.4%)	5.62	3.1%
<b>Total unit cost (£ pence or € cents/ASK)</b>	<b>5.87</b>	<b>(6.7%)</b>	<b>7.42</b>	<b>1.9%</b>

#### British Airways

British Airways operating profit was £1,375 million, a £400 million improvement over prior year on capacity increase of 2.0 per cent. Progress in the year was based on non-fuel unit cost improvements and from fuel benefits partially offset by weaker yields including on oil related routes.

In pound sterling terms, approximately half of the passenger revenue weakness was offset through non-fuel unit cost savings. Non-fuel unit cost savings were achieved in supplier contract terms, including maintenance and through IT initiatives. British Airways' adjusted operating margin improved 3.7 points to 12.2 per cent.

#### Aer Lingus

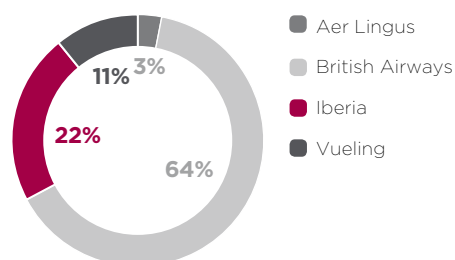
For the full year, Aer Lingus operating profit was €124 million. Excluding exceptional items\*, an improvement of €72 million over last year. Capacity was increased 5.4 per cent, primarily in the longhaul.

In euro terms and influenced by a strong US dollar, Aer Lingus increased its unit revenues by 4.8 per cent with both yield and seat factor improvements. The strong dollar was also partially responsible for a lower fuel unit cost saving and for the 3.1 per cent increase in non-fuel unit costs. Efficiencies were achieved, particularly in employee unit costs.

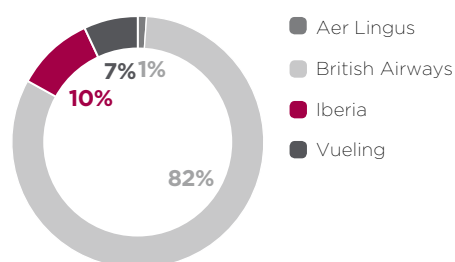
Overall Aer Lingus improved its adjusted operating margin by 2.9 points to 8.9 per cent.

\* Aer Lingus 2014 comparative results exclude the cost of pension settlement which is considered exceptional in nature.

## CAPACITY



## OPERATING PROFIT



	Iberia € million		Vueling € million	
	2015	Higher/ (lower)	2015	Higher/ (lower)
ASKs	59,872	10.2%	30,476	14.2%
Seat factor (per cent)	81.1	2.5pts	81.3	0.9pts
Passenger revenue	3,561	12.1%	1,962	13.7%
Cargo revenue	253	0.0%	-	-
Other revenue	950	13.5%	-	-
<b>Total revenue</b>	<b>4,764</b>	<b>11.6%</b>	<b>1,962</b>	<b>13.7%</b>
Fuel, oil costs and emissions charges	1,249	8.0%	533	9.2%
Employee costs	1,021	(1.4%)	189	21.2%
Supplier costs	1,774	12.6%	854	13.1%
<b>EBITDAR</b>	<b>720</b>	<b>43.4%</b>	<b>386</b>	<b>18.4%</b>
Ownership costs	473	4.6%	226	22.2%
<b>Operating profit before exceptional items</b>	<b>247</b>	<b>394.0%</b>	<b>160</b>	<b>13.5%</b>
<i>Adjusted operating margin</i>	<i>7.0%</i>	<i>3.5pts</i>	<i>11.7%</i>	<i>0.2pts</i>
Passenger yield (€ cents/RPK)	7.33	(1.6%)	7.92	(1.5%)
Unit passenger revenue (€ cents/ASK)	5.95	1.7%	6.44	(0.3%)
<b>Total unit revenue (€ cents/ASK)</b>	<b>7.96</b>	<b>1.3%</b>	<b>6.44</b>	<b>(0.3%)</b>
Fuel unit cost (€ cents/ASK)	2.09	(1.9%)	1.75	(4.4%)
Non-fuel unit costs (€ cents/ASK)	5.46	(3.2%)	4.16	1.2%
<b>Total unit cost (€ cents/ASK)</b>	<b>7.55</b>	<b>(2.7%)</b>	<b>5.91</b>	<b>(0.5%)</b>

## Iberia

Iberia's operating profit was €247 million, up €197 million versus last year, achieving an adjusted operating margin of 7.0 per cent. Iberia made significant progress on its *Plan de Futuro*, improving its cost base and recovering routes previously withdrawn. Capacity for the year was up 10.2 per cent, with a flat unit revenue performance in euro terms, driven by currency benefits from a weak euro and improvements in seat factor. On the cost side, non-fuel unit costs improve with substantial employee cost savings from lower MPEs and through supplier initiatives, including finance and IT.

The turnaround of Iberia is leading to a profitable and efficient new airline capable of growing in its strategic markets and starting to achieve positive returns for the Group with a positive profit after tax of €155 million\*.

## Vueling

Vueling's operating profit was €160 million with an adjusted operating margin of 11.7 per cent, up 0.2 points versus last year. Vueling continued to expand its network increasing capacity by 14.2 per cent while maintaining unit revenues broadly flat, a strong revenue performance. Non-fuel unit costs were adverse, impacted by the crew collective agreement signed in 2014, allowances attributed to the opening of new bases and additional aircraft. Supplier unit costs improved and 2015 also saw further progress on fleet flexibility and harmonisation.

Vueling continues to be the low cost carrier growth tool for the Group, expanding its network at a higher rate and increasing its presence in the intra-European point to point traffic in areas such as Rome and Paris. Even with this ambitious growth Vueling achieved one of the highest RoICs of the Group.

\* Excludes intragroup dividends received and profit on the sale of the Iberia plus (to Avios).

## FINANCIAL REVIEW CONTINUED

### Exchange impact before exceptional items

Exchange rate movements are calculated by retranslating current year results as though they had been generated at prior year exchange rates. The reported results are impacted by translation currency from converting results from currencies other than euro to the Group's reporting currency of euro. From a transaction perspective, the Group performance is impacted by the fluctuation of exchange rates, primarily pound sterling, euro and US dollar. The Group exchange rates used and the estimated impact of translation and transaction exchange rates on operating profit before exceptional items are set out as follows. At constant currency, the Group's operating profit before exceptional items would have been €2,246 million, €89 million lower than the reported result.

The Group hedges its transaction exposures but not any potential impact from translation.

€ million	Higher/ (lower)
<b>Reported revenue</b>	
Translation impact	1,652
Transaction impact	265
<b>Total exchange impact on revenue</b>	<b>1,917</b>
<b>Reported operating expenditure</b>	
Translation impact	(1,441)
Transaction impact	(387)
<b>Total exchange impact on operating expenditures</b>	<b>(1,828)</b>
<b>Reported operating profit</b>	
Translation impact	211
Transaction impact	(122)
<b>Total exchange impact on operating profit</b>	<b>89</b>

	2015	Higher/ (lower)
<b>Translation</b>		
£ to €	<b>1.37</b>	7.9%
<b>Transaction</b>		
£ to €	<b>1.37</b>	10.5%
€ to \$	<b>1.12</b>	(16.4%)
£ to \$	<b>1.54</b>	(6.7%)

### Exceptional items

For a full list of exceptional items, refer to note 5 of the Financial statements. Below is a summary of the significant exceptional items recorded.

In 2015, net exceptional charges at the operating profit level were €17 million (2014: €361 million). The exceptional charges included in Property, IT and other relate to the Aer Lingus acquisition costs of €33 million and a legal settlement at British Airways from the 2006 cargo cartel claim. The exceptional credit in Fuel, oil and emissions reflects the impact of recording Aer Lingus fuel cost at the hedged price in the pre-exceptional column, rather than at spot price as in the reported column.

In 2014, exceptional charges were recognised relating to the restructuring provision of €260 million, a currency charge of €180 million, impairment reversal of €79 million, gain on sale of €83 million and deferred tax credit of €413 million.

### Non-operating costs

Net non-operating costs after exceptional items were €517 million, up from €201 million last year. The increase is due to:

- €120 million additional losses partially unrealised on derivative instruments not qualifying for hedge accounting; and
- €75 million incremental net financing costs, including the debt raised for the acquisition of Aer Lingus and from the translation of sterling financing costs.

### Taxation

The great majority of the Group's activities are taxed in the countries of effective management of the main airline operations (UK, Spain or Ireland, with corporation tax rates during 2015 of 20.25 per cent, 28 per cent and 12.5 per cent respectively). The Group's effective tax rate for the year is 20 per cent (2014: 22 per cent).

Although the Group continues to offset prior year tax losses and other tax assets against its current year taxable profit, in 2015 the Group paid corporation taxes of €245 million (2014: €118 million). This represents 13.6 per cent (2014: 14.3 per cent) of the Group's accounting profit before tax.

### Profit after tax and Earnings per share (EPS)

Profit after tax before exceptional items was €1,539 million, up 77.3 per cent. The increase reflects a strong operating profit performance. Diluted earnings per share before exceptional items is one of our key performance indicators and increased by 77.6 per cent.

### Dividends

The Board is proposing a final dividend to shareholders of 10 euro cents per share, which brings the full year dividend to 20 euro cents per share. The final dividend will be paid, subject to shareholder approval, on July 4, 2016 to shareholders on the register on July 1, 2016.

### Liquidity and capital resources

The Group's equity free cash flow improvement in 2015 was in part due to the increase in EBITDA from stronger operating results and secondly from lower capital expenditure ('CAPEX') spend.

In 2014, the Group's CAPEX reflected a significant level of investment, in excess of a typical year and the Group's target of less than €2.5 billion. This was due primarily to the timing of aircraft delivery payments. In 2015, the Group took delivery of nine new aircraft, two Airbus A380s, five Boeing 787-900s, one Airbus A320 and one Embraer E-190.

The use of cash in working capital reflects higher prepayments including fuel, a reduction in payables primarily from lower fuel prices, and a seasonality impact from the timing of the addition of Aer Lingus.

Pension and restructuring payments increased from the Iberia restructuring plan and from foreign exchange.

The acquisition of Aer Lingus net of its cash and deposits was a cash outflow of €438 million. In contrast, in 2014 funds were received from the sale of Amadeus.

Financing and refinancing are discussed in the following section.

Adequate cash levels are maintained by each operating company. The cash balance increased by €912 million versus last year.

€ million	2015	2014
<b>EBITDAR before exceptional</b>	<b>4,301</b>	3,137
Aircraft lease costs ('rentals')	(659)	(551)
<b>EBITDA</b>	<b>3,642</b>	2,586
Interest	(197)	(159)
Tax	(245)	(118)
Capex	(2,040)	(2,622)
<b>Equity free cash flow</b>	<b>1,160</b>	(313)
Movement in working capital and other non-cash	(658)	(150)
Pension and restructuring	(588)	(457)
Acquisition of subsidiary (net of cash and deposits) / divestment of investment	(438)	589
Dividend paid	(163)	-
Net financing and refinancing	1,067	1,000
Other investing movements	366	455
Other financing movements	(184)	(43)
<b>Cash in flow</b>	<b>562</b>	1,081
Opening cash, cash equivalents and interest bearing deposits	4,944	3,633
Net foreign exchange differences	350	230
<b>Cash and cash equivalents and other interest-bearing deposits</b>	<b>5,856</b>	4,944

€ million	2015	2014
British Airways	2,806	3,206
Iberia	832	870
Aer Lingus	772	-
Vueling	633	651
IAG and other Group companies	813	217
<b>Cash and cash equivalents and interest-bearing deposits</b>	<b>5,856</b>	4,944



## FINANCIAL REVIEW CONTINUED

### Net debt and adjusted net debt

€ million	2015	2014	Higher/ (lower)
Debt	(6,617)	(5,122)	(1,495)
Cash and cash equivalents and interest bearing deposits	4,944	3,633	1,311
<b>Net debt at January 1</b>	<b>(1,673)</b>	<b>(1,489)</b>	<b>(184)</b>
<b>Increase in cash net of exchange</b>	<b>-</b>	<b>1,311</b>	<b>(1,311)</b>
Net cash outflow from repayments of debt and lease financing	1,026	1,009	17
New borrowings and finance leases	(905)	(2,009)	1,104
<b>Increase in net debt from regular financing</b>	<b>121</b>	<b>(1,000)</b>	<b>1,121</b>
Debt acquired	(406)	-	(406)
Cash and cash equivalents and interest bearing deposits acquired	913	-	913
<b>Net debt through Business combination</b>	<b>507</b>	<b>-</b>	<b>507</b>
<b>Financing raised for acquisition</b>	<b>(1,087)</b>	<b>-</b>	<b>(1,087)</b>
Exchange and other non-cash movements	(642)	(495)	(147)
<b>Net debt at December 31</b>	<b>(2,774)</b>	<b>(1,673)</b>	<b>(1,101)</b>
Capitalised aircraft lease costs	(5,736)	(4,408)	(1,328)
<b>Adjusted net debt at December 31</b>	<b>(8,510)</b>	<b>(6,081)</b>	<b>(2,429)</b>

### Capital risk management

IAG's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to maintain an optimal capital structure in order to optimise the cost of capital and to provide future returns to shareholders. The Group monitors capital using adjusted gearing and adjusted net debt to EBITDAR.

Cash net of exchange was flat versus last year including the payment of an interim dividend and partial financing of the Group's acquisition of Aer Lingus. Regular net refinancing was broadly balanced with a slight decrease in debt of €121 million.

The Group's regular net debt reduced by €507 million from the addition of Aer Lingus, reflecting its strong cash position and its mix of operating versus financing leases.

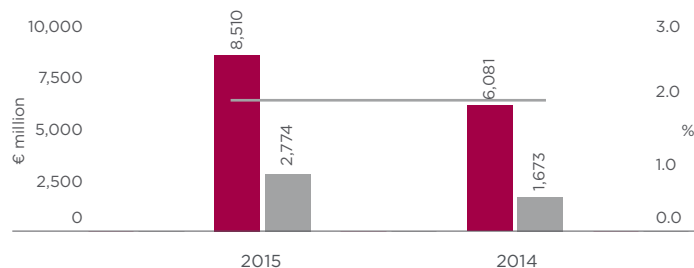
IAG launched two tranches of convertible bonds totalling €1 billion to finance the Aer Lingus acquisition, of which €118 million is recognised as equity.

Capitalised aircraft lease costs rose from the addition of Aer Lingus and from an increase in leased aircraft at British Airways.

Adjusted net debt rose to €8,510 million, however financial headroom improved as adjusted net debt to EBITDAR remained flat at 1.9 times.

The Group generated sufficient equity free cash flow in 2015 to support the recommendation of an interim and final cash dividend of €407 million for its shareholders with equity free cash coverage of 2.8 times.

### ADJUSTED NET DEBT TO EBITDAR



- Adjusted net debt
- Net debt
- Adjusted net debt to EBITDAR

### Capital commitments and off balance sheet arrangements

Capital expenditure authorised and contracted for amounted to €16,091 million (2014: €11,604 million) for the Group. The majority of this is in US dollars and includes commitments until 2022 for 118 aircraft from the Airbus A320 family, 29 Boeing 787s, 43 Airbus A350s, 14 Airbus A330s and 2 Airbus A380s.

IAG does not have any other off-balance sheet financing arrangements.

## RISK MANAGEMENT AND PRINCIPAL RISK FACTORS

The Board has overall responsibility for ensuring that IAG has appropriate risk management and internal controls in place and that they continue to work effectively.

There is a comprehensive risk management process and methodology ensuring a robust assessment of the principal risks facing the Group. This process is led by the Management Committee and supported by Head of Group Audit and Risk Management. Best practices are shared across the Group.

Throughout the Group, risk owners are responsible for identifying risks within their area of responsibility, quantifying the risk and managing the risk including putting in place appropriate response plans. They are supported by risk management professionals who maintain risk maps for each airline. The risk maps plot each critical risk on an impact and probability scale. For each critical risk, mitigating actions are documented and are actively managed. Risk maps are reviewed by each airlines' management committee who consider the accuracy and completeness of the map, significant movements in risk and any changes required to the response plans addressing those risks. Aer Lingus' existing risk management process is being integrated into the Group framework and Aer Lingus risks were considered in the Management Committee's December 2015 risk update.

At the Group level, material risks from the airlines, together with Group wide risks, are maintained in a Group risk map. The IAG Management Committee reviewed the Group risk map twice during the year in advance of reviews by the Audit and Compliance Committee of the Board in accordance with the September 2014 UK Corporate Governance Code and the 2015 Spanish Unified Good Governance Code of Listed Companies recommendations. The IAG Board discussed risk at a number of meetings including a review of the Group's risk appetite; Chief Executive Officer updates; regular discussions around strategy and the Business Plan.

During 2015 the Board adopted 19 risk appetite statements following the 2014 UK Corporate Governance Code's guidance on risk management. These statements inform the business, either qualitatively or quantitatively, on the Board's appetite for certain risks. Each risk appetite statement formalised how performance is monitored either on a Group wide basis or within major projects.

The highly regulated and commercially competitive environment, together with the businesses' operational complexity, exposes the Group to a number of significant risks. We remain focused on mitigating these risks at all levels in the business although many remain outside our control; for example, changes in government regulation, adverse weather, pandemics, fuel prices and foreign exchange.

Risks are grouped into four categories: strategic; business and operational; financial; and compliance and regulatory risks. Guidance is provided below on the principal risks that may threaten the Group's business model, future performance, solvency and liquidity. Where there are particular circumstances that mean that the risk is more likely to materialise, those circumstances are described below. The list is not intended to be exhaustive.

## RISK MANAGEMENT AND PRINCIPAL RISK FACTORS CONTINUED

### Strategic risks

Open competition and markets are in the long-term best interests of the airline industry and we have a high appetite for continued deregulation and consolidation. We seek to minimise the risk that government intervention or the regulation of monopoly suppliers disadvantages us. In general the Group's strategic risk was stable during the year, as the economy in Spain recovered and competitor capacity growth was broadly rational. The table on page 49 includes digital disruption as a new strategic risk, the Group will continue to invest in exploiting digital technology and monitor competitor activity closely.

### Business and operational risks

The safety and security of our customers is a fundamental value to us. The Group balances the resources we devote to building resilience into operations and the impact of disruption on customers. In 2015 British Airways commenced the

implementation of its new customer management systems that provide airport check in and aircraft boarding functionality. The plan has been designed to build up operational experience of the new system before it is implemented in high volume stations. It was implemented in 33 stations in 2015 and 2016 will see a gradual roll out to all international stations followed by Gatwick and Heathrow.

Cyber risk has been separately identified as a principal risk this year, the Management Committee has led the response to cyber risk through monthly reviews and initiatives to ensure that there are consistently robust defences and incident response plans throughout the Group.

### Financial risks

IAG balances the relatively high business and operational risks inherent in our business through adopting a low appetite for financial risk. This

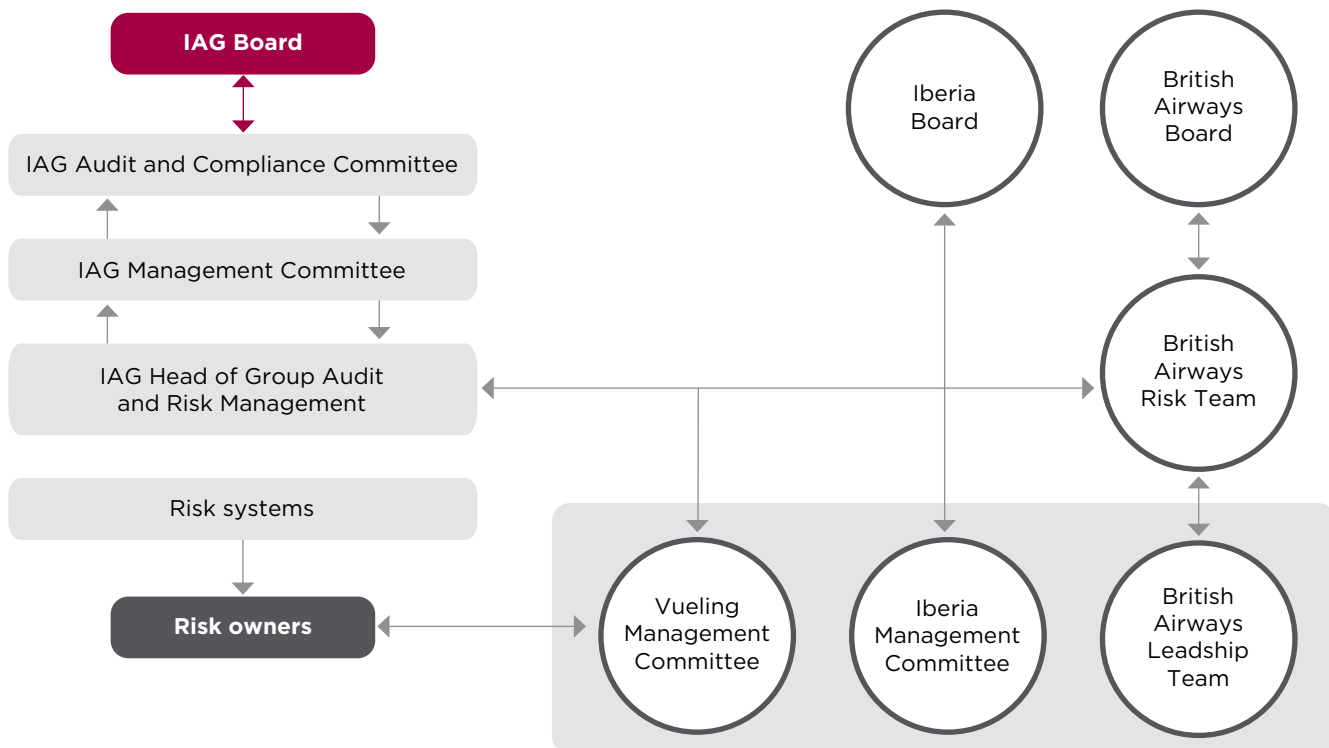
conservative approach involves maintaining high cash balances and substantial committed financing facilities. Policies around fuel price and currency risk explicitly consider our appetite for fluctuations in cash and profitability resulting from market movements. However, we are also careful to understand our hedging positions compared to our competitors to ensure that we are not commercially disadvantaged by being over-hedged in a favourable market.

In 2015 financial risks generally decreased as falling fuel prices reduced our short US dollar exposure and the financing market for both aircraft and corporate transactions continued to be favourable.

### Compliance and regulatory

The Group has no tolerance for breaches of legal and regulatory requirements in the markets in which IAG operates.

## RISK MANAGEMENT FRAMEWORK



Risk	Potential impact	Management and mitigation
<b>Strategic</b>		
Competition	The markets in which we operate are highly competitive. The Group faces direct competition on our routes, as well as from indirect flights, charter services and other modes of transport. Competitor capacity growth in excess of demand growth could materially impact our margins. Some competitors have cost structures that are lower than ours or have other competitive advantages such as government support or benefitting from insolvency protection. In addition the low cost model continues to be extended into longhaul by our competitors.	<p>The IAG Management Committee devotes one weekly meeting per month to strategic issues. The Board dedicates two days per year to Group strategy. The Group strategy team supports the Management Committee by identifying where resources can be devoted to exploit profitable opportunities. Airline revenue management departments and systems optimise market share and yield through pricing and inventory management activity.</p> <p>The Group's strong global market positioning, leadership in strategic markets, alliances, joint businesses, cost competitiveness and diverse customer base continue to address this risk. The Group is continually reviewing its product offerings and responds through initiatives, such as investing in Wi-Fi across 90 per cent of the longhaul fleet by early 2019.</p>
Digital disruption	Competitors, or new entrants to the travel market, may use digital technology to disrupt the business.	The Group's unrelenting focus on the customer, together with our own exploitation of digital technology, reduces the impact digital disruptors can have. In 2015 the Group established a digital team focusing on innovation.
Consolidation and deregulation	Although the airline industry is competitive, we believe that the customer would benefit from further consolidation. Failing airlines can be rescued by government support delaying the opportunity for more efficient airlines to capture market share and expand. Mergers and acquisitions amongst competitors have the potential to adversely affect our market position and revenue.	<p>The Group maintains rigorous cost control and targeted product investment to remain competitive.</p> <p>The Group has the flexibility to react to market opportunities arising from weakened competitors. Vueling and Iberia Express give us additional flexibility in this regard as it can deploy capacity at short notice across Europe.</p>
	Joint business arrangements such as the agreements with American Airlines and JAL include delivery risks such as realising planned synergies and agreeing the deployment of additional capacity within the joint business. Any failure of a joint business or a joint business partner could adversely impact our business.	The Management Committee regularly reviews the commercial performance of joint business agreements and the status of negotiations between the parties.
	<p>Failure of a franchise partner will reduce traffic feed into our hubs or major outstations.</p> <p>The airline industry is dependent on alliances and IAG is no exception to this.</p>	<p>The Management Committee regularly reviews our franchisee performance and risks.</p> <p>Maintaining a leading presence in <b>oneworld</b> and ensuring the alliance attracts and retains the right members are key to safeguarding the network.</p>

## RISK MANAGEMENT AND PRINCIPAL RISK FACTORS CONTINUED

Risk	Potential impact	Management and mitigation
<b>Strategic continued</b>		
Government intervention	Some of the markets in which the Group operates remain regulated by governments, in some instances controlling capacity and/or restricting market entry. Relaxation of such restrictions, whilst creating growth opportunities for the Group, may have a negative short-term impact on our margins.	The Group's government affairs department monitors government initiatives, represents our point of view and forecasts likely changes to laws and regulations.
	Regulation of the airline industry covers many of our activities including route flying rights, airport landing rights, departure taxes, security and environmental controls. Excessive taxes or increases in regulation may impact on our operational and financial performance.	The Group's ability to comply with and influence changes to regulations is key to maintaining operational and financial performance. We continue to discuss the negative effect the imposition of APD has on the UK economy with the UK Government.
Airports	IAG is dependent on and may be affected by infrastructure decisions or changes in policy by governments, regulators or other entities outside the Group's control. London Heathrow has no spare runway capacity and has operated on the same two main runways since it opened over 60 years ago. As a result, British Airways is vulnerable to short-term operational disruption.	The Group continues to promote the timely conclusion of the UK Government's deliberations on additional runway capacity at London Gatwick and London Heathrow airports. We advocate development at a reasonable cost which should be borne by the users of the new capacity.  IAG's airlines participate in the slot trading market at Heathrow airport; acquiring slots at reasonable prices when available.
	IAG is also dependent on the oil industry making sufficient investment in fuel supply infrastructure. Peak consumption at London Heathrow and London Gatwick airports is nearing the capacity of the pipe and rail infrastructure serving these airports. In addition, storage capacity at London Heathrow is lower than at other international airports, increasing the risk of any disruption to supply impacting our operations.	British Airways enters into long-term contracts with fuel suppliers to secure fuel supply at a reasonable cost.  Short-term fuel shortages are addressed by contingency plans.
	IAG is also dependent on the performance of suppliers of airport services such as airport operators, border control and caterers.	These risks are mitigated by active supplier management and contingency plans.

Risk	Potential impact	Management and mitigation
<b>Business and operational</b>		
Brand reputation	The Group's brands have significant commercial value. Erosion of the brands, through either a single event or a series of events, may adversely impact our leadership position with customers and ultimately affect our future revenue and profitability.	The Group allocates substantial resources to safety, operational integrity and new aircraft to maintain its market position. Our 2016 - 2020 Business Plan sees an annual Capital Expenditure of less than €2.5 billion of which around 80 per cent is directed towards improving, growing and replacing the aircraft fleet.
Economic conditions	<p>IAG's revenue is highly sensitive to economic conditions in the markets in which we operate. Deterioration in either a domestic or the global economy may have a material impact on our financial position.</p> <p>Economic conditions in the Group's main markets were good in 2015 as their economies have adjusted to an extended period of low inflation. The UK (36 per cent of Group revenue) and the USA (15 per cent of Group Revenue) have remained stable. Economic conditions in Spain (15 per cent of Group Revenue); have continued to improve with growth of around 3.5 per cent in 2015.</p> <p>There is more uncertainty as we move into 2016 with the combination of low commodity prices and reduced China growth impacting African and South American economies.</p> <p>The UK Brexit vote is likely to be accompanied by the risk of some short term economic uncertainty within the UK; that risk may extend into the longer term should there be a vote to exit. We have undertaken a risk assessment to ensure that we can operate effectively should this scenario occur. At this stage, we don't believe it will have a significant impact on our business.</p>	<p>The Board and the Management Committee review the financial outlook and business performance of the Group through the financial planning process and regular reforecasts. These reviews are used to drive the Group's financial performance through the management of capacity and the deployment of that capacity in geographic markets, together with cost control, including management of capital expenditure and the reduction of operational and financial leverage.</p> <p>External economic outlook, fuel prices, and exchange rates are carefully considered when developing strategy and plans and are regularly reviewed by the Management Committee and Board as part of the monitoring of financial and business performance.</p>
Employee relations	The Group has a large unionised workforce represented by a number of different trade unions. Collective bargaining takes place on a regular basis and breakdowns in the bargaining process disrupt operations and adversely affect business performance.	Human resource departments within the airlines engage in collective bargaining with the many trade unions representing our staff.
Failure of a critical IT system	<p>IAG is dependent on IT systems for most of our principal business processes. The failure of a key system may cause significant disruption to our operation and/or lost revenue.</p> <p>In 2015 the British Airways Travel Programme commenced implementation of its new customer management system that provides passenger check-in and aircraft boarding functionality. As such it is a critical operational system. In 2016, the system will be implemented in complex and high volume stations, including Gatwick and Heathrow.</p>	<p>System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.</p> <p>The programme has a strong risk management work stream designed to minimise, but not eliminate, the risk of disruption during implementation. The roll out plan is designed to build up operational experience of the system before it is implemented in higher volume stations.</p> <p>The programme is subject to regular internal audits. The Audit and Compliance Committee's review of the programme is set out in their report on page 69.</p>



## RISK MANAGEMENT AND PRINCIPAL RISK FACTORS CONTINUED

Risk	Potential impact	Management and mitigation
<b>Business and operational continued</b>		
Cyber attack	Financial loss, disruption or damage to brand reputation arising from an attack on our systems by criminals, terrorists or foreign governments.	<p>A Group Cyber Security Governance Board reviews the Group IT security strategy, cyber risk initiatives and considers advice from industry experts. The IAG Management Committee reviews cyber risk on a monthly basis and supports Group wide initiatives to enhance defences and response plans.</p> <p>Whilst ensuring that we are up to date with industry standards and address identified weaknesses, the fast moving nature of this risk means that we will always retain some vulnerability.</p>
Pandemic	If there is a significant outbreak of infectious disease such as swine flu, staff absence will increase which may seriously impact the operation. Leisure customers may cancel trips and key corporate clients may discourage travel, significantly impacting sales.	Management has business continuity plans to mitigate this risk to the extent feasible.
Landing fees and security charges	<p>Airport, transit and landing fees and security charges represent a significant operating cost to the airlines and have an impact on operations. Whilst certain airport and security charges are passed on to passengers by way of surcharges, others are not.</p> <p>There can be no assurance that such costs will not increase or that the Group will not incur new costs in the UK, Spain or elsewhere.</p>	The Group engages in regulatory reviews of supplier pricing, such as the UK Civil Aviation Authority's quinquennial review of charges at Heathrow and Gatwick airports.
Safety/security incident	The safety and security of our customers and employees are fundamental values for the Group. Failure to prevent or respond effectively to a major safety or security incident may adversely impact our brand, operations and financial performance.	The corresponding safety committees of each of the airlines of the Group, satisfy themselves that they have appropriate resources and procedures which include compliance with Air Operator Certificate requirements. Their incident centres respond in a structured way in the event of a safety or security incident.
Event causing significant network disruption	Several possible events may cause a significant network disruption. Example scenarios include a major failure of the public transport system; the complete or partial loss of the use of terminals; adverse weather conditions such as snow, fog or volcanic ash; widespread or coordinated air traffic control industrial action; war; civil unrest or terrorism. Such a disruption may result in lost revenue and additional cost.	Management has robust business continuity plans to mitigate these risks to the extent feasible.

Risk	Potential impact	Management and mitigation
<b>Financial</b>		
Debt funding	The Group has substantial debt that will need to be repaid or refinanced. The Group's ability to finance ongoing operations, committed aircraft orders and future fleet growth plans is vulnerable to various factors including financial market conditions and financial institutions' appetite for secured aircraft financing.	<p>The IAG Management Committee regularly reviews the Group's financial position and financing strategy.</p> <p>The Group has multiple sources of debt financing and has continued to diversify the debt financing within each operating company. In 2015 Iberia raised unsecured debt from the capital markets through the commencement of a Medium Term Note programme and Vueling raised debt through the export credit agency markets. IAG itself confirmed its access to the debt capital markets by launching its second convertible bond issue.</p> <p>The Group's high cash balances and committed financing facilities mitigate the risk of short-term interruptions to the aircraft financing market.</p>
Financial risk	We used approximately 8.3 million tonnes of jet fuel in 2015. Volatility in the price of oil and petroleum products can have a material impact on our operating results.	This price risk is partially hedged through the purchase of oil derivatives in forward markets which can generate a profit or a loss. The objective of the hedging programme is to increase the predictability of cash flows and profitability whilst maintaining alignment with our competitors. The Group regularly reviews its fuel and currency positions. The results of these reviews are discussed with management and the appropriate action taken.
	The Group is exposed to currency risk on revenue, purchases and borrowings in foreign currencies.	The Group seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency and actively managing the surplus or shortfall through treasury hedging operations. The approach to financial risk management is set out in note 26 to the financial statements.
	The Group is exposed to currency devaluation of cash held in currencies other than the airlines' local currencies of euro and sterling. This risk is minimised by holding cash in euro and sterling wherever possible but exchange controls in some markets will from time to time delay conversion and repatriation of funds. British Airways experienced delays in the repatriation of funds from Nigeria during the second half of 2015 and at the year end held balances of €72 million equivalent in Nigerian Naira.	When there are delays in the repatriation of cash coupled with the risk of devaluation, risk is mitigated by the review of commercial policy for the route. This may involve capacity reductions and rebalancing the point of sale away from the local market towards the airline's home market and renegotiating supplier contracts to allow payment in local currencies.

## RISK MANAGEMENT AND PRINCIPAL RISK FACTORS CONTINUED

Risk	Potential impact	Management and mitigation
<b>Financial continued</b>		
Financial risk continued	Interest rate risk arises on floating rate debt and floating rate leases which are typically linked to London Interbank Offered Rates (LIBOR). This exposure is partially offset by the reinvestment of cash deposits which are all of less than one year in tenor.  The Group is exposed to non-performance of financial contracts by counterparties, for activities such as money market deposits, fuel and currency hedging. Failure of financial counterparties may result in financial losses.	The impact of rising interest rates is mitigated through structuring selected new debt and lease deals at fixed rate throughout their term. The approach to interest rate risk management and proportions of fixed and floating debt is set out in note 26 to the Financial statements.  The approach to financial counterparty credit risk management and the Group's exposure by geography is set out in note 26 to the Financial statements.
Tax	The Group is exposed to systemic tax risks arising from either changes to tax legislation or a challenge by tax authorities on interpretation of tax legislation. There is a reputational risk that the Group's tax affairs are questioned by the media.	The Group seeks to comply with the law, act with integrity in all tax matters and maintain an open relationship with regulators. The Group complies with the tax policy approved by the IAG Board during the year. Tax risk is managed by the IAG tax department and reviewed by Management Committee.
<b>Compliance and regulatory</b>		
Governance	The governance structure the Group put in place at the time of the merger had a number of complex features, including nationality structures to protect British Airways' and Iberia's routes and operating licences and merger assurances to preserve the specific interests of those companies.	The governance structure continued to work well in 2015. From January 21, 2016, the merger assurances expired.
Non-compliance with competition, bribery and corruption law	The Group is exposed to the risk of individual employees' or groups of employees' unethical behaviour resulting in reputational damage, fines or losses to the Group.	The Group has comprehensive policies designed to ensure compliance, together with mandatory training programmes in place to educate employees in these matters.

### Viability statement

The directors have assessed the viability of the Group over a five year period to December 2020. The assessment takes account of the Group's current position and the potential impact of the Group's principal risks. Based on this assessment, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to December 2020.

In making this statement the directors have considered severe but plausible scenarios in which combinations of principal risks materialise together. The effectiveness of mitigating management actions has also been considered. Each scenario considered the impact on liquidity, solvency and the ability of to raise financing over the period to December 2020.

The directors have determined that the five year period to December 2020 is an appropriate period over which to provide its viability statement. In making this assessment, the directors have taken account of the planning horizon of the five year Group business plan and the Group's financial targets. In selecting the five year horizon for the viability statement, it is recognised that such future assessments are subject to a level of uncertainty that increases with time and, as a result, future outcomes cannot be guaranteed or predicted with certainty.

# ACHIEVING FLEXIBILITY TOGETHER



In compliance with the Financial Reporting Council's UK Corporate Governance Code, the company has prepared the Corporate Governance Report that follows.

## CORPORATE GOVERNANCE

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## CHAIRMAN'S INTRODUCTION TO CORPORATE GOVERNANCE



“As this report testifies, the last five years have been a momentous time for International Airlines Group and all its operating companies and, as you’d expect, that has meant significant changes in our corporate governance structure and the profile of the Board.”

**Antonio Vázquez**  
Chairman

Throughout this period our approach to governance and the composition and function of the Board have evolved considerably. Above all we have tried to create the right internal governance structure to support our dynamic and highly successful business model, led by a holding company and formed of independent airlines with their own brands and operations.

The Group was born as the product of a merger of two companies, with structures inevitably complex due to airline-specific regulations and the particular circumstances of both companies. Since then, the Group has grown to include two new airlines and has evolved as a distinct entity to those originally merged companies. Our job as a Board has been to look progressively at ways to adapt to this new born entity and to its strategy and culture, simplifying the initial structures so that we have the flexibility that this dynamic business needs. I’m pleased to report that this work has been largely very successful.

Proof of that fact came during the year with the successful acquisition and integration of Aer Lingus, our fourth operating airline alongside British Airways, Iberia and Vueling.

The relative ease with which this transaction was handled, not only underlined the power of our business model, but showed that our governance structures have matured considerably and that we really have achieved that desired level of management flexibility, balanced by effective Board oversight, within the Group.

There is always room for improvement, of course, and we continue to look for ways to refine and improve our structures. But I’m delighted that our latest internal review of performance – in which I spoke, at length, to each member of the Board – produced the most positive feedback we have had since IAG’s incorporation. This exercise is a very useful way to assess our achievements and a great tool for planning necessary future developments.

A major highlight of the year was the first dividend payment to our shareholders, a very satisfying achievement for the Group. The fact that we have been able to deliver on this promise on schedule again illustrates well how our governance structures are supporting the strategy and performance of the Group.

### **Succession planning**

As we indicated last year, the Board’s Nominations Committee is continuing to work on succession planning – a task which is obviously of huge importance to the Group as it develops and grows.

This work is happening at two levels. From a Board perspective, our task is to ensure that we have the right balance of directors, with a blend of appropriate experience, skills and profile. We must also ensure that timely plans are in place to recruit new members to the Board, either in the normal process of refreshment or in emergency situations.



But the Board also plays a key role in supporting the Management Committee in its plans for succession within its own ranks and within our operating companies. A key objective is to put schemes in place that will reward talented people within the business, giving them opportunities to progress and build on their skills. This work is led by our Group Chief Executive, fully supported by the Board.

In 2015, this was a particular priority as we contemplated significant changes in the leadership of our operating companies and we are particularly pleased with how this process went. The changes will see Vueling's Chairman and CEO, Alex Cruz, take over the leadership of British Airways on the retirement of Keith Williams. Steve Gunning moves into the CFO role at British Airways, while Drew Crawley moves the other way to succeed Steve as CEO of our Cargo business.

Although we are always willing to recruit people with the right skills from outside the business, these moves clearly illustrate the wealth of talent we have within the Group and that our structures offer us the chance to create continuity even at times of great change.

#### Board changes

The Board has, as I've said, been gradually refreshed in recent years and I am indeed fortunate to have the support of such a superb group of colleagues. There were no new additions to the Board in 2015. However, Jose Pedro Pérez-Llorca did not stand for re-election at our shareholder's meeting in June, meaning that the number of directors on the Board has gone down from 13 to 12. We feel this is an appropriate number for our Board given the current circumstances and the characteristics of the Group.

There were, however, several changes in the make-up of our committees. In June, Sir Martin Broughton took over the Chairmanship of the Nominations Committee from me in accordance with changes in Spanish governance requirements. In September, the Board approved the appointment of Dame Marjorie Scardino as Chairwoman of the Remunerations Committee, where she succeeds Baroness Kingsmill in that role.

#### New corporate governance requirements

Although we have tried to streamline our governance structures in recent years, it remains vital that we comply with changing governance requirements, and set out our reasons carefully if we ever choose to take a slightly different approach. We continued to do this in 2015.

As a company listed on both the Spanish and the London stock exchanges, IAG must meet Spanish and UK listing requirements and take into consideration governance standards in both countries. Two new sets of governance requirements have come into force in the last 18 months - the new Spanish Good Governance Code for Listed Companies, which was published in February 2015, and a new UK Corporate Governance Code unveiled in October 2014. We have amended the Board regulations during 2015 to adapt to these new standards and approved several Group policies as recommended by the Spanish Code in January 2016.

We're pleased our remuneration policy was approved on a binding vote for the first time in 2015. We continue to ensure that we meet both the Spanish and UK requirements in this area and do all we can to adequately address any concerns our shareholders may have. Similarly the Audit and Compliance Committee has put a special focus on the Group's enterprise risk management system during 2015 to make sure we comply with governance standards in both Spain and the UK.

One other significant change during the year was the adoption of a new Group policy on sustainability, which will now be supervised by the Audit and Compliance Committee. The IAG Management Team is committed to developing common Group practices and standards so that we can more effectively share best practice, on such issues as noise and CO<sub>2</sub> reduction, between our operating airlines. We already take a lead role in improving the environmental performance of our industry. But these changes will, I am convinced, make our approach, internally and externally, all the more coherent.

#### Looking ahead

My fellow Board directors and I regularly meet with shareholders and investors, not only at formal events like our AGM and Capital Markets Day, but also through regular road shows and more informal meetings.

Since the early days of IAG I have seen our relationship with the investment community grow stronger and stronger. Back in 2011, some investors doubted we could fulfil our ambitious plans for the business, but their perception of the business has now become very positive.

They understand the unique strength of our business model - they've watched it in action. They've seen us not just meet our targets for the business, but exceed them. And they've seen us deliver on our promises, not least our determination to introduce dividend payments and our firm commitments to create a sustainable dividend policy for the long term. I think we have won the confidence of investors and we will fight very hard to keep it in the years ahead.

I am extremely proud of what we've achieved in our first five years as a combined group. But I share with all my colleagues within IAG a confidence that greater success lies ahead.

#### Antonio Vázquez

Chairman

# BOARD OF DIRECTORS



**1 Antonio Vázquez**  
Chairman

**First appointed:**

May 2010. Re-elected June 2015

**Key areas of prior experience:**

consumer, sales/marketing, finance, governance

**Current external appointments:**

Member, Advisory Board of Telefónica América Latina. Member, Advisory Board of the Franklin Institute. Member, Advisory Board of Loyola University.

**Previous relevant experience:**

Chairman, Iberia 2009-2013. Chairman and CEO, Altadis Group 2005-2008. Chairman, Logista 2005-2008. Non-Executive Director, Iberia 2005-2007. Chief Operating Officer and other various positions, Cigar Division of Altadis Group 1993-2005. Various positions at Osborne 1978-1983 and Domecq 1983-1993.

**2 Sir Martin Broughton**  
Deputy Chairman

**First appointed:**

May 2010. Re-elected June 2015

**Key areas of prior experience:**

consumer, finance, governance

**Current external appointments:**

Chairman, Sports Investment Partners.

**Previous relevant experience:**

Chairman, British Airways 2004-2013 and Director since 2000. President, Confederation of British Industry 2007-2009. Chairman, Liverpool FC 2010. Chairman, British Horseracing Board 2004-2007. Chairman, British American Tobacco 1997-2004 following its demerger from BAT Industries, previously Chief Executive Officer, BAT Industries 1993-1997 and member of the Board since 1988. Other executive positions at British American Tobacco 1971-1993.



**3 Willie Walsh**  
Chief Executive Officer

**First appointed:**

May 2010. Re-elected June 2015

**Key areas of prior experience:**

airline industry

**Current external appointments:**

Chairman of the Ireland State Debt Agency.

**Previous relevant experience:**

Chief Executive Officer, British Airways 2005-2011. Chief Executive Officer, Aer Lingus 2001-2005. Chief Operating Officer, Aer Lingus 2000-2001. Chief Executive Officer, Futura (Aer Lingus' Spanish Charter airline) 1998-2000. Joined Aer Lingus as cadet pilot in 1979.

**4 César Alierta**  
Non-Executive Director

**First appointed:**

September 2010. Re-elected June 2015

**Key areas of prior experience:**

finance, telecommunications, consumer

**Current external appointments:**

Chairman and Chief Executive Officer, Telefónica Group. Non-Executive Director, China Unicom. Member, Columbia Business School Board of Overseers.

**Previous relevant experience:**

Member of the Board, Telecom Italia 2007-2013. Non-Executive Director, Telefónica 1997-2000. Executive Chairman, Altadis Group 1996-2000. Member of the Board, Madrid Stock Exchange 1991-1996. Chairman, Spanish Financial Analysts' Association 1991-1996. Chairman and founder, Beta Capital 1985-1996.

**5 Patrick Cescau**  
Non-Executive Director

**First appointed:**

September 2010. Re-elected June 2015

**Key areas of prior experience:**

consumer, finance, sales/marketing, governance

**Current external appointments:**

Non-Executive Chairman, InterContinental Hotel Group. Trustee, Leverhulme Trust. Temasek European Advisory Panel. Patron, St Jude India Children's Charity.



**6 Enrique Dupuy de Lôme**  
Chief Financial Officer

**First appointed:**

September 2013. Re-elected June 2015

**Key areas of prior experience:**

finance, airline industry

**Current external appointments:**

Chairman, Iberia Cards.

**Previous relevant experience:**

Chief Financial Officer, Iberia 1990-2011. Head of finance and deputy director of financial resources, Instituto Nacional de Industria (INI) and Teneo financial group, 1985-1989. Head of subsidiaries at Enadimsa (INI Group), 1982-1985. Chairman IATA finance committee.

**7 Baroness Kingsmill CBE**  
Non-Executive Director

**First appointed:**

September 2010. Re-elected June 2015

**Key areas of prior experience:**

government, legal and regulatory affairs

**Current external appointments:**

Chairman, Iberia Cards.

**Previous relevant experience:**

Chief Financial Officer, Iberia 1990-2011. Head of finance and deputy director of financial resources, Instituto Nacional de Industria (INI) and Teneo financial group, 1985-1989. Head of subsidiaries at Enadimsa (INI Group), 1982-1985. Chairman IATA finance committee.

**7 Baroness Kingsmill CBE**  
Non-Executive Director

**First appointed:**

September 2010. Re-elected June 2015

**Key areas of prior experience:**

government, legal and regulatory affairs

**Current external appointments:**

Non-Executive Director, EON Supervisory Board. Non-Executive Director, Telecom Italia. Member of the International Advisory Board, IESE Business School. Member of the House of Lords since 2006.

**Previous relevant experience:**

Vice Chair and Senior Independent Director, APR Energy 2010-2015. Non-Executive Director, British Airways 2004-2011. Deputy Chairman, Competition Commission 1997-2003. Chairman, Department of Trade and Industry's Accounting for People task force 2003.

**Committee Membership Key****(A)** Audit and Compliance Committee**(N)** Nominations Committee**(S)** Safety Committee**(R)** Remuneration Committee**8 James Lawrence**  
Non-Executive Director**First appointed:**

September 2010. Re-elected June 2015

**Key areas of prior experience:**

finance, consumer, corporate governance

**Current external appointments:**

Chairman, Great North Star LLC. Non-Executive Director, Smurfit Kappa Group. Non-Executive Director and Chairman of the Audit Committee, Avnet Inc.

**Previous relevant experience:**

Chairman, Rothschild North America 2012-2015. CEO, Rothschild North America and Co-Head of Global Investment Banking 2010-2012. Non-Executive Director, British Airways 2006-2011. Executive Director and Chief Financial Officer, Unilever 2007-2010. Vice Chairman, Chief Financial Officer and Head of International, General Mills 1998-2007. Executive Vice President and Chief Financial Officer, Northwest Airlines 1996-1998. Executive Vice President and other executive positions, Pepsi-Cola 1992-1996. Chairman and Co-Founder, LEK Consulting 1983-1992. Partner, Bain &amp; Company 1977-1983.

**9 María Fernanda Mejía**  
Non-Executive Director**First appointed:**

February 2014. Re-elected June 2015

**Key areas of prior experience:**

consumer, customer development, strategic planning, supply chain, innovation and marketing communications

**Current external appointments:**

Senior Vice President and President of Kellogg Latin America, Corporate Officer and member of Kellogg's Global Leadership Team. Board Member of the Council of the Americas.

**Previous relevant experience:**

Vice-President and General Manager Global Personal Care and Corporate Fragrance Development Colgate-Palmolive Co. 2010-2011, Vice-President Marketing and Innovation Europe/South Pacific Division Colgate-Palmolive Co. 2005-2010, President and CEO Spain and Spain Holding Company 2003-2005, General Manager Hong Kong and Director, Greater China Management team 2002-2003, Marketing Director Venezuela 2000-2002, Marketing Director Ecuador 1998-2000.

**10 Kieran Poynter**  
Non-Executive Director**First appointed:**

September 2010. Re-elected June 2015

**Key areas of prior experience:**

professional services, finance services

**Current external appointments:**

Chairman, F&amp;C Asset Management PLC. Non-Executive Director and Chairman of the Remuneration Committee, British American Tobacco PLC.

**Previous relevant experience:**

Chairman, Nomura International plc 2009-2015. Member, Advisory Committee for the Chancellor of the Exchequer on the competitiveness of the UK financial services sector 2009-2010. Member, President's committee of the Confederation of British Industry 2000-2008. Chairman and Senior Partner, PricewaterhouseCoopers 2000-2008. Managing Partner, PricewaterhouseCoopers 1998-2000 and other executive positions at PricewaterhouseCoopers 1982-1998.

**11 Dame Marjorie Scardino**  
Non-Executive Director**First appointed:**

December 2013. Re-elected June 2015

**Key areas of prior experience:**

commercial management, government affairs, communications, digital and media, legal services

**Current external appointments:**

Non-Executive Director, Twitter, Inc. Member, Board of Pure Tech Health Inc. Member, charitable boards including The MacArthur Foundation (Chairman), London School of Hygiene and Tropical Medicine (Chairman), and The Carter Center. Member, Board of the Royal College of Art. Member of the Visiting Committee for the MIT Media Lab. Member, Board of Bridge International Academies (HQ - Kenya).

**Previous relevant experience:**

Chief Executive Officer, Pearson plc 1997-2012. Chief Executive Officer, The Economist Group from 1993-1996. President, The Economist Group US 1985-1993. Lawyer practising in the US 1975-1985.

**12 Alberto Terol**  
Non-Executive Director**First appointed:**

June 2013. Re-elected June 2015

**Key areas of prior experience:**

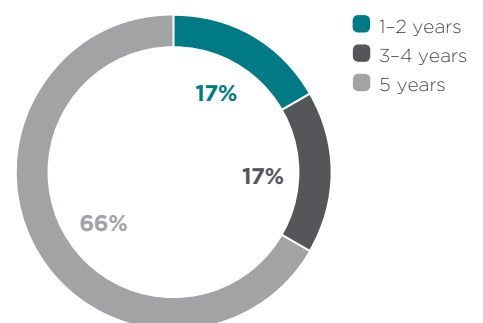
finance, professional services, information technology, hospitality industry

**Current external appointments:**

Non-Executive Director, Indra. Non-Executive Director, OHL. Non-Executive Director and Chairman of the Audit Committee, Aktua. Non-Executive Director, Broseta. International Senior Advisor Centerbridge. Executive Chairman of various family owned companies.

**Previous relevant experience:**

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 &amp; Legal Deloitte 2007-2009. Member, Global Management Committee Deloitte 2003-2007. Managing Partner, Latin America Deloitte 2003-2007. Managing Partner, Integration Andersen Deloitte 2002-2003, Managing Partner, Europe Arthur Andersen 2001-2002. Managing Partner, Global Tax &amp; Legal Arthur Andersen 1997 2001. Managing Partner, Garrigues 1997-2000.

**DIRECTORS' TENURE**

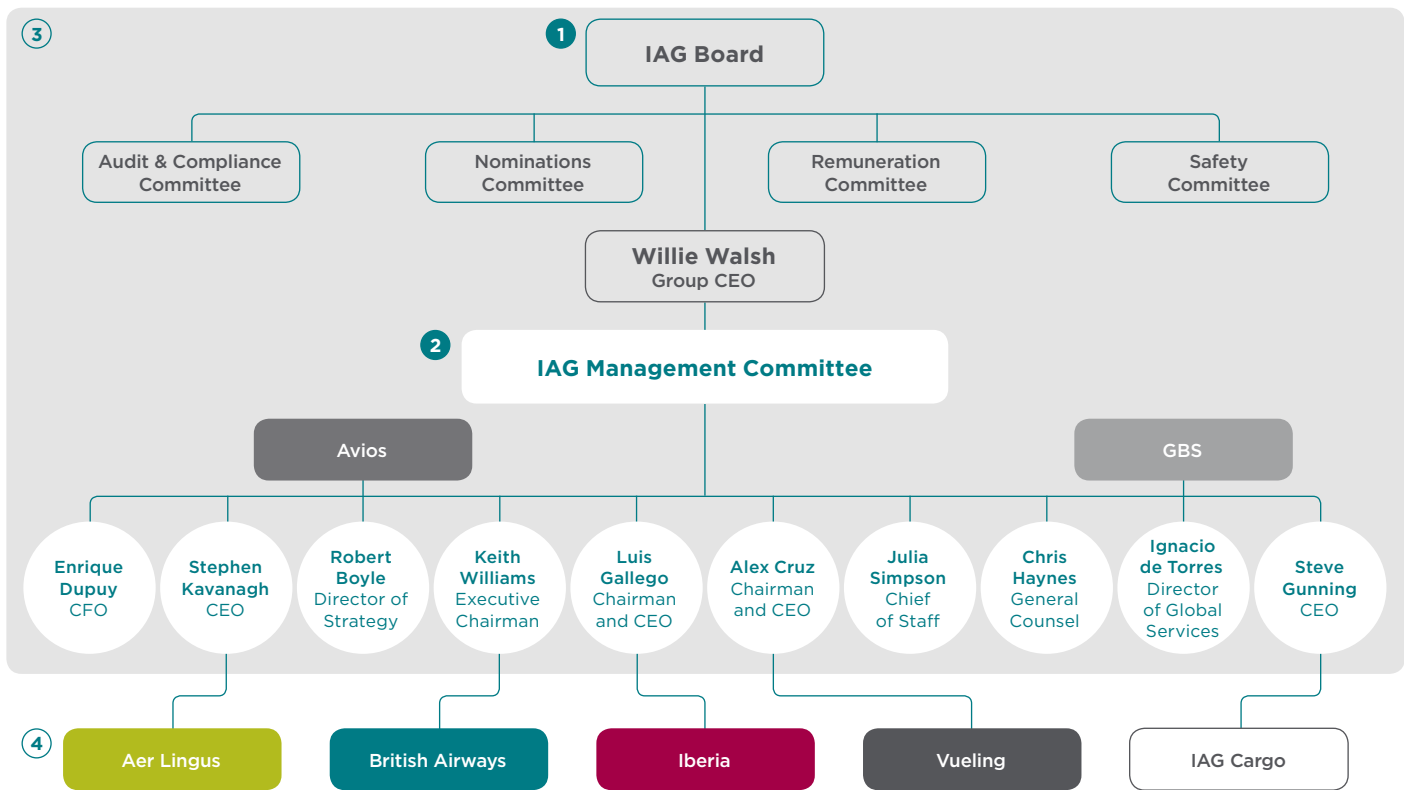
# CORPORATE GOVERNANCE

## Group governance structure and the role of the Board

IAG is the parent of different operating companies who have their own brands and operations. The Board of IAG sets the Group's strategic aims, ensures that the necessary financial and other resources are in place for the Group to meet its objectives and reviews management performance. The Board sets the Group's values and standards and ensures that its obligations to its shareholders and others are understood and met.

The IAG Management Committee is responsible for the day-to-day management of the Group, including capturing cost and revenue synergies, and the development of Group long-term strategy. Headed by IAG's Chief Executive, it includes the Company's leadership team and the top executives of the four Group airlines and cargo business. This structure facilitates the planning and execution of the Group's strategy and the extraction of synergies, and allows the coordination as well as the exchange of experience and knowledge within the Group.

## GROUP GOVERNANCE



### 1. Board

- Sets Group's strategy
- Ensures necessary resources to meet objectives
- Sets Group's values
- Ensures dialogue with shareholders

### 2. Management Committee

- Day-to-day management of the Group
- Capturing cost and revenue synergies
- Development of Group long term strategy

### 3. Group

- Corporate functions
- Joint business plan
- Synergies delivery

### 4. Operating Companies

- Management of the business
- Implementation of joint business plan
- Implementation of synergy plan

From a business perspective, IAG centralises the Group corporate functions and management, being responsible for the joint business plan and synergies delivery. IAG is integrated by several operating companies, each of them responsible for the management of their respective businesses and accountable for the implementation of the joint business and synergy plan. Each of these companies has its own board of directors and its own executive committee, led by the top executive of each company.

The IAG Board currently comprises ten non-executive directors and two executive directors, IAG's Chief Executive and Chief Financial Officer. The Board has four advisory committees to assist it with certain of its functions: Audit and Compliance, Nominations, Remuneration and Safety. The role and responsibilities of each of these committees are set out in the Board Regulations, available on IAG's website.

The Board Regulations (article 3.4) contain a schedule of matters exclusively reserved for Board decision. In particular the Board has retained for itself:

- the annual budget, management objectives and business plan;
- the investment and financing policy; the risk management and control policy, including the Group's risk appetite;
- the corporate social responsibility policy;
- the periodic monitoring of the internal information and the information control systems; and
- the approval of investment and divestment decisions greater than €20 million, including significant contracts and capital commitments.

### **The Chairman and the Chief Executive**

The Board is led by the Chairman. The Chairman sets the agenda for Board discussions to promote an effective and constructive debate and to support a sound decision-making process. He ensures that directors receive accurate, timely and clear information, in particular about the Company's performance, its strategy, challenges and opportunities.

The Chairman is responsible for ensuring that there is an effective communication with shareholders and that the directors and the executives of the Company understand and address the concerns of investors. The Chairman provides support and advice to the Chief Executive, recognising his executive responsibility for managing the Group.

The Chief Executive is responsible and accountable to the Board for the management and profitable operation of the Company. The division of responsibilities between the Chairman and the Chief Executive is set out in the Board Regulations.

### **The Senior Independent Director**

The role of the Senior Independent Director is to provide a sounding board for the Chairman, to serve as intermediary for the other directors when necessary and to be available to shareholders, should they have any concerns they cannot resolve through the normal channels. His responsibilities also include leading the evaluation of the Chairman's performance annually.

### **Non-executive directors**

The non-executive directors provide a strong, independent element on the Board. They are well placed to constructively challenge and support management, contributing a broad range of experience and expertise. All non-executive directors have access to the Board Secretary and the Group General Counsel for any further information they require. If any of the non-executive directors has any concerns about the running of the Group, they discuss these concerns with one of the executive directors, the Group General Counsel or the Chairman. If their concerns cannot be resolved in this way, then they are recorded in the Board minutes. No such concerns arose during the reporting period.

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.

In 2015 the Board received specific briefings on key business developments, such as digital and Wi-Fi connectivity, competition law, airline ownership and control regulations and changes to the UK and the Spanish corporate governance codes. In addition to this, the July Board meeting was held at Waterside, British Airways' head office, and the occasion was used to have a special session for non-executive directors to give them the opportunity to spend time with employees from the British Airways operation, as well as to meet and discuss business issues with the British Airways leadership team.



## CORPORATE GOVERNANCE CONTINUED

New directors receive a tailored induction programme, including one-to-one meetings with management both at IAG level and throughout the Group offering them a complete overview of the Group businesses, and also the opportunity to visit the Group's key sites. The induction also covers governance and directors' duties according to both the Spanish and the UK frameworks.

During the reporting period, the Chairman and the non-executive directors met twice without the executives present. The Chairman met each non-executive director individually to discuss their contribution to the Board and the Senior Independent Director met with the other non-executive directors to discuss the performance of the Chairman.

### Corporate Governance Code Compliance

As a company incorporated and listed in Spain, IAG is subject to applicable Spanish legislation and to the Spanish corporate governance framework. At the same time, as it has a listing on the London Stock Exchange, IAG 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 as amended from time to time (a copy of which is available from [www.frc.org.uk](http://www.frc.org.uk)).

This Corporate Governance section (the UK Corporate Governance Report) includes an explanation regarding the Company's application of the main principles of the UK Corporate Governance Code. In addition, the Company prepares an Annual Corporate Governance Report according to Spanish

legal requirements which includes information regarding compliance with the Spanish Good Governance Code of Listed Companies. This report is included on pages 163 to 222.

The Company considers that during the year it has complied with all the provisions of the UK 2014 Corporate Governance Code but for the following matter: The service contract for Antonio Vázquez does not comply with the recommendation that notice periods should be set at one year or less so as to limit any payment on exit. The terms of Antonio Vázquez's service contract as Executive Chairman of Iberia were considered at the time of the merger between British Airways and Iberia, and it was determined that an entitlement to lump-sum retirement benefits in excess of one year's salary should be carried over into his IAG service contract. It was thought necessary to continue the Iberia benefits in order to retain this key director and, as such, complying with the UK Corporate Governance Code's principle of only offering a remuneration package sufficient to retain this director. Details can be found in the Directors' Remuneration Report.

The Company complies with the provisions of the Spanish Good Governance Code of Listed Companies, with the exceptions described in the Spanish Annual Corporate Governance Report.

The Company believes that, notwithstanding the above exception, it has a robust governance structure. The Company's UK Corporate Governance Report is available on the Company's website.

### Board and committee meetings

The Board physically met nine times during the reporting period. The Board also held its annual two-day strategy meeting in September 2015.

Meetings attended by each director of the Board and the different committees during the reporting period are shown in the table below:

Director	Board meetings	Audit and Compliance Committee meetings	Nominations Committee meetings	Remuneration Committee meetings	Safety Committee meetings
<b>Total in the period</b>	9	7	5	4	2
Antonio Vázquez	9	-	5	-	2
Sir Martin Broughton	9	-	5	-	2
Willie Walsh	9	-	-	-	2
César Alierta	4	-	4	-	-
Patrick Cescau	9	7	-	-	-
Enrique Dupuy de Lôme Chávarri	9	-	-	-	-
Baroness Kingsmill	8	-	4	3	-
James Lawrence	9	7	-	-	-
María Fernanda Mejía	9	-	-	4	-
José Pedro Pérez-Llorca <sup>1</sup>	3	-	-	-	-
Kieran Poynter	8	7	-	-	2
Dame Marjorie Scardino	8	-	-	4	-
Alberto Terol	9	7	-	4	-

<sup>1</sup> José Pedro Pérez-Llorca left the Board on June 18, 2015.

### Board and committee evaluation

The Board and committees' performance evaluation was conducted internally in 2015. The last external evaluation was completed in 2013. The review took the format of a self-assessment survey designed to test directors' opinions and views on a number of matters including: the role and organisation of the Board, Board composition, organisation of meetings, quality of Board debate, knowledge and experience, relationship with management, and progress made against the 2015 action plan.

The Board Secretary prepared a report on the performance evaluation of the Board and each of the committees. The Board report was considered by the Nominations Committee; with each of the committees' reports and the results of the questionnaires being considered by the different committees and discussed at the Board meeting held in January 2016. The review concluded that the Board had effectively fulfilled its responsibilities during 2015, and the general progress made was unanimously recognised by the Board.

The Chairman also met with each director individually to provide feedback on their performance. He also discussed the functioning of the Board as a whole and the contribution expected of each director. The Board evaluation also included an assessment of performance against the objectives agreed for 2015. Progress made on Board and executive succession planning and talent development was recognised, as well as the actions agreed to improve Board effectiveness.

The Board action plan for 2016 includes:

- refining the Board's priorities ensuring that directors continue to develop their understanding of both strategic and commercial matters;
- continued improvement of the Board's time management and its information processes;
- bringing external knowledge to the Boardroom by inviting experts on different subjects of interest; and
- refining the induction process for new directors together with committee members.

### Board diversity

IAG adopted a Board Diversity Policy in September 2012, which was updated in June 2014. IAG's Diversity Policy aimed to promote diversity in the Board composition and established the Board's aspirational goal of achieving 25 per cent female representation on the Board by 2015. This target was met by the Company ahead of this time frame.

Following the new Spanish corporate governance code recommendation, the Board has recently approved a Directors Selection and Diversity Policy which supersedes the former Board Diversity Policy. The objective of this new policy is to ensure that the appointments of directors are based on a prior analysis of the Board's needs and favours a diversity of knowledge, experience and gender. This policy incorporates the former diversity principles while regulating the process for appointing directors. Under this policy, director appointments are evaluated against the existing balance of skills, knowledge and experience on the Board, and directors are asked to be mindful of diversity, inclusiveness and meritocracy considerations when examining nominations to the Board.

The Directors Selection and Diversity Policy establishes a new female representation objective of 33 per cent for 2020 following the recommendation included in the final Davies Report published in the UK. IAG's Directors Selection and Diversity policy is published on IAG's website.

The Board continues to recognise the value of diversity as a tool to enrich its discussions and decision-making process. The Nominations Committee supports the Board in the consideration of diversity in relation to Board composition and succession planning taking into consideration the conclusions drawn from the annual review of the Board's performance. The Board, through its Nominations Committee, regularly reviews the percentage of women that sit on the Board and on the IAG Management Committee, as well as the number of women in the Group's workforce worldwide. This information is included on page 33 of this report. The Board and IAG Management Committee continue to focus on this important area.

## CORPORATE GOVERNANCE CONTINUED

### Directors' conflicts of interests

Directors must disclose to the Board any situation of direct or indirect conflict that they may have with the interests of the Company. In the event of conflict, the affected directors must abstain from participating in the transaction referred to by the conflict. The definition of conflict of interests is set out in the Board Regulations on the Company's website.

### 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.

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

The Annual General Meeting held on June 18, 2015 authorised the Board, with the express power of substitution, for a term ending at the 2016 Annual General Meeting (or, if earlier, 15 months from June 18, 2015), to:

- (i) increase the share capital pursuant to the provisions of Article 297.1.b) of the Spanish Companies Law, by:
    - (a) up to 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 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); and
    - (b) up to a further one-sixth of the aggregate nominal amount of the Company's issued share capital as at the date of passing such resolution in connection with an offer by way of rights issue (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).
  - (ii) issue securities (including warrants) convertible into and/or exchangeable for shares of the Company, up to a maximum limit of one billion 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:
    - (a) 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); and
    - (b) a further one-sixth of the aggregate nominal amount of the Company's issued share capital as at the date of passing such resolution in connection with an offer by way of rights issue (such amount to be reduced by the amount that the share capital has been increased by the Board under the relevant authorisation).
  - (iii) 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 for the purposes of allotting shares or convertible or exchangeable securities subject to an aggregate maximum nominal amount of the 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 June 18, 2015.
  - (iv) 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 June 18, 2015, 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:
      - (i) 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
      - (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase 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.

Under the above-mentioned authority, the Company, up to December 31, 2015, purchased 18,692,036 shares with a nominal value of 0.50 euros each. All the shares purchased will be used to satisfy awards under the IAG Share Plans. For further details see note 29 to the financial statements. The Securities Code of Conduct of the Company contains the treasury stock transactions code of the Company. This can be accessed on the Company's website.

### Capital structure and shareholder rights

As of December 31, 2015, the share capital of the Company amounted to 1,020,039,261.50 euros (2014: 1,020,039,261.50

euros), divided into 2,040,078,523 shares (2014: 2,040,078,523 shares) of the same class and series and with a nominal value of 0.50 euros each, fully subscribed and paid.

As of December 31, 2015 the Company owned 14,684,018 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.

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 five 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, 2015 the equivalent of 18.4 million shares was held in ADR form (2014: 23.3 million IAG shares).

The significant shareholders of the Company at December 31, 2015 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)	-	203,863,316	Qatar Airways Luxembourg, S.à.r.l.	203,863,316	9.993%
Standard Life Investment (Holdings) Ltd	60,639,188	61,942,109	Standard Life Investments Limited and Ignis Investment Services Limited	122,581,297	6.008%
Europacific Growth Fund	107,329,400	-	-	107,329,400	5.261%
Capital Research and Management Company	-	102,997,951	Collective investment institutions managed by Capital Research and Management Company	102,997,951	5.049%
Legal & General Investment Management Limited	54,407,837	11,611,554	Legal & General (Unit Trust Managers) Limited	66,019,391	3.236%
BlackRock Inc	-	61,696,340	Funds and accounts managed by investors controlled by BlackRock Inc.	61,696,340	3.024%
Lansdowne Partners International Limited	-	36,869,133	Funds and accounts managed by Lansdowne Partners (UK) LLP	36,869,133	1.807%
Invesco Limited	-	22,064,264	Mutual benefit societies and pension funds managed by Invesco Limited and its subsidiaries	22,064,264	1.082%

### 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 IAG 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-EU shareholders provided that such maximum may not be lower than 40 per cent of the Company's share capital.

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-EU 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-EU person.

### Relations with shareholders

The Board is committed to maintaining an open dialogue with shareholders and recognises the importance of that relationship in the governance process. The Chairman is responsible for ensuring that an effective communication with shareholders takes place and that directors and executives understand and address investors' concerns.

In this respect, the Board approved in January 2016 a policy regarding communication and contacts with shareholders, institutional investors and proxy advisors, following the 2015 Spanish Good Governance Code recommendation. This policy is available on the Company's website.

IAG has a comprehensive investor relations programme which aims to help existing and potential investors understand the Group and its business. Regular shareholder meetings were held with executive directors, the Chairman of the Board and the investor relations team during 2015. During March 2015, IAG's Chairman consulted with major institutional shareholders on a range of topics. In addition to this, the former Chair of the Remuneration Committee, Baroness Kingsmill, along with IAG's Group Head of Investor Relations met with many of our largest shareholders to discuss remuneration matters.

Shareholder feedback is provided to the Board to ensure that directors understand the objectives and views of major investors. During 2015, the Group Head of Investor Relations reported to the Board on three different occasions, providing the Board with a regular update on shareholders views.

The Group's medium to long term plans and targets were discussed in detail in a full day of presentations by the senior management team at the annual Capital Markets day that took place on November 6, 2015. Seven of the 10 non-executive directors of the Company attended this meeting, giving major shareholders and investors the opportunity to discuss corporate governance matters with members of the Board. The event was broadcast live via webcast. The presentations are available in full on the Company's website, along with the accompanying transcript.

Both institutional and private shareholders may contact the Company through a dedicated website, via email and directly by telephone.

### 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 British Airways exchange and interest rate hedging contracts allow for early termination if after a change of control of the Company British Airways' credit worthiness was materially weaker.

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.

### Merger assurances

As part of the merger entered into by the Company, British Airways and Iberia in 2011, certain assurances were given to protect the specific interests of British Airways and Iberia and their respective stakeholders (Assurances) (page 127 of the Registration Document available on the IAG website). The observance and enforcement of those Assurances was carried out via the mechanisms that were put in place for this purpose and that are described on pages 129 and 130 of the Registration Document. Any disputes relating to the Assurances are determined by an Assurance Committee. No matters were referred to the Assurance Committee during 2015. The Assurances automatically terminated on the fifth anniversary of the merger effective date (January 21, 2016).

### Post balance sheet events

No material adjusting post balance sheet events occurred after December 31, 2015.



## CORPORATE GOVERNANCE CONTINUED

### Board of Directors

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, 2015 the Board composition was:

Name of Board Member	Position	Category <sup>1</sup>
Antonio Vázquez	Chairman	Other external <sup>2</sup>
Sir Martin Broughton	Deputy Chairman	Independent non-executive
Willie Walsh	Chief Executive Officer	Executive
César Alierta	Director	Independent non-executive
Patrick Cescau	Director	Independent non-executive
Enrique Dupuy de Lôme	Chief Financial Officer	Executive
Baroness Kingsmill	Director	Independent non-executive
James Lawrence	Director	Independent non-executive
María Fernanda Mejía	Director	Independent non-executive
Kieran Poynter	Director	Independent non-executive
Dame Marjorie Scardino	Director	Independent non-executive
Alberto Terol	Director	Independent non-executive

<sup>1</sup> In accordance with the definitions set forth in the Spanish Companies Act.

<sup>2</sup> Antonio Vázquez was, until the execution of the merger between British Airways and Iberia, the Executive Chairman of Iberia. Pursuant to the Spanish Companies Act, Antonio Vázquez will be considered, as from January 21, 2016, as an independent non-executive director given that five years have elapsed since he stepped down from such executive position.

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.

### Internal control

The directors are responsible for maintaining, and for reviewing the effectiveness of the Company's system of internal control including internal financial control. This is designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorised use or disposition and the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. This process is in accordance with the Financial Reporting Council's Guidance to Directors and the CNMV's Internal Control over Financial Reporting (ICFR). These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Company has in place internal control and risk management systems in relation to the Company's financial reporting process and the Group's process for the preparation of consolidated financial statements.

A risk-based audit plan for the Group was approved by the Audit and Compliance Committee. The Audit and Compliance Committee considered control matters raised by management and both the internal and external auditors and reported its findings to the Board. The CNMV standard requires the disclosure of material weaknesses in ICFR: no such weaknesses were identified during the year under review or up until the date of approval of this report.

# REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE



## COMMITTEE MEMBERS

	COMMITTEE MEMBER SINCE
• James Lawrence (Chair)	27 September 2010
• Patrick Cescau	27 September 2010
• Kieran Poynter	27 September 2010
• Alberto Terol	02 August 2013

## Dear Shareholder

The Audit and Compliance Committee is responding to the increasingly challenging corporate governance environment. We recognise our role is more important than ever in reviewing the effectiveness of internal controls and providing assurance on risk management.

Both the Spanish and the UK regulators introduced new Corporate Governance guidance in 2015. The Audit and Compliance Committee has overseen the successful implementation of this guidance, ensuring that recommendations are adopted in a way that makes a positive contribution to the business. In response to the new Spanish code the Committee has expanded its remit to include Sustainability. We are already working closely with the IAG Head of Sustainability to ensure that the new Group policy and pathway develop the good practices already existing within the airlines.

Each year we assess the performance of the Committee through a questionnaire and careful consideration of the results. The Committee is working well and I am happy with the way we are constructively challenging the Management Team across a broad and relevant agenda.

## James Lawrence

Audit and Compliance Committee Chairman

## The Audit and Compliance Committee

The composition, competencies and operating rules of the Audit and Compliance Committee are regulated by article 29 of the Board Regulations. A copy of these Regulations can be found on IAG's website.

## Meetings

The Committee met seven times during 2015. Each year the Committee also holds closed meetings and meets privately with both the external and internal auditors as appropriate.

In addition to the Secretary and Deputy Secretary, regular attendees at Committee meetings included the Chairman, the Chief Executive Officer, the Chief Financial Officer, the Head of Group Audit and Risk Management and the Head of Group Reporting together with representatives from the external auditors.

## The Committee's responsibilities

The Committee's principal responsibilities and activities during the year were:

- review of financial statements and announcements relating to the financial performance and governance of the Group;
- review of the effectiveness of the internal control system, provide assurance on the risk management process and review the principal risks facing the Group;

- review and agreement of the internal audit programme, resourcing, effectiveness and resolution of issues raised; and
- recommending the appointment of external auditors and reviewing their effectiveness, fees, terms of reference and independence.

During the year, the Committee performed an evaluation of its performance and concluded it is operating effectively. The Committee updated its terms of reference to reflect the new requirements of the 2015 Spanish Corporate Governance Code including the Committee's responsibility for the selection process for the external auditor, the internal auditor reporting functionally to the Chair of the Audit Committee and a new oversight role with respect to Sustainability.

## Other items reviewed

### Viability statement

In its July 2015 meeting, the Committee reviewed management's proposed approach to the viability statement required for the year ended 2015 under the 2014 UK Corporate Governance code. The Committee focused on the risks that should be combined to generate severe but plausible downturn scenarios, how those risks might interact, how solvency is assessed and the period over which viability is considered. The February 2016 Committee reviewed the detailed analysis which adopted a five year time horizon, reflecting the Group's Business plan period.

## REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE CONTINUED

### Anti-bribery, sanctions and competition law compliance

The Committee reviewed developments in the anti-bribery compliance programme including the establishment of a Group wide Know Your Counterparty due diligence programme which has initially focused on general sales agents employed by the airlines in foreign jurisdictions. A sanctions compliance risk map was reviewed together with the results of targeted sanctions compliance initiatives. The Committee endorsed the Head of Compliance's plans to develop a Group-wide sanctions policy and training in higher risk areas. The Head of Competition Law reported to the Committee on compliance initiatives during the year, training attendance and priorities for 2016.

### Litigation

The Committee received regular litigation status reports from the General Counsel including the status of the remaining civil claims against British Airways following the 2010 European Commission decision on alleged cartel activity with respect to air cargo prices. The decision was partially annulled as against British Airways following an appeal to the general court of the European Union and British Airways was advised that the fine would be refunded in full. It is not yet clear what the European Commission's next steps will be.

With respect to the civil claims the Committee agreed with management's view that, given the status of proceedings and the recent General Court decision, it is not possible at this stage to predict the outcome of the proceedings and no financial provision should be made for the civil claims.

### Sustainability

The Committee reviewed the new Group-wide Sustainability policy that replaced existing policies in the individual airlines. We also reviewed the sustainability strategy and targets in key areas such as carbon footprint and noise performance.

### Nigeria cash

Delays were experienced in the conversion and repatriation of British Airways' cash from Nigeria in the second half of 2015. This resulted in a balance of €72 million equivalent at year end. The Committee reviewed British Airways' commercial responses which balanced limiting the growth in cash balances against maintaining a presence in the market.

### Accounting issues

Throughout the year, the Committee considers the implications of new accounting standards, reviews complex accounting transactions, and considers the key estimates and judgements used in the preparation of the Group financial statements. In 2015, these included the life and residual value of the fleet, the provisional Aer Lingus purchase price allocation, the revenue deferral relating to unredeemed Avios and employee benefit obligations.

The life and residual value of fleets are determined on an airline-by-airline basis as the fleet plan will see different retirement ages in each airline. Residual values are driven by the age of the aircraft on retirement from the fleet and the expected demand for the aircraft or its component parts. British Airways revised its

estimates for its Boeing 777-200 fleet and its Airbus A320 family fleet. Iberia accelerated depreciation on its Airbus A340-300 fleet and also amended its Airbus A320 fleet family. The Committee reviewed the economic rationale and customer proposition impact of the changes and satisfied itself that the new expected lives and accompanying reduced residual values were appropriate management estimates. The 2015 impact of life extensions, together with changes to the residual values of specific aircraft nearing retirement, was a net credit of €36 million.

The Committee reviewed the valuation methodologies employed in the provisional Aer Lingus purchase price allocation together with EY's interim report on their audit. The Committee is satisfied that good progress has been made and the provisional purchase price allocation fairly reflects the work carried out to date. The purchase price allocation will be completed by August 2016.

In 2015 management finalised its implementation of a new data analytics tool that provides insight into customers' acquisition and use of Avios. The data analytics tool is also used to validate the accounting estimate of "breakage", the proportion of Avios issued that will never be redeemed. The new results obtained supported management's existing accounting estimates.

The December 2015 Committee reviewed the accounting for British Airways and Aer Lingus pension schemes together with Iberia collective redundancy schemes. This review included consideration of Aer Lingus' participation in the Irish Airlines Superannuation schemes and treatment as defined contribution under IAS 19. Treatment as defined contribution is considered to be appropriate as there is no obligation, legal or constructive, for Aer Lingus to change its contributions to the scheme.

The Committee also reviewed and agreed with management's decision to include maintenance contracts as a key accounting estimate and judgement. Contract terms are becoming more complex, covering multiple elements and can span several years.

### British Airways Travel Programme

The Travel Programme incorporates a new customer check-in and aircraft boarding system together with new IT integration technology. As such it is a critical programme presenting risks to customer service as the systems are rolled out through 2015 and 2016. The Committee requested two updates from the accountable IT and operations directors together with the lead of the programme's risk management work stream. The reviews focused on the governance structure of the programme; key risks around implementation; and how Internal Audit recommendations relating to programme resourcing, contingency planning, testing and go / no go criteria were being addressed.

### Cyber Security

The Group Head of IT and the Group IT Security Manager attended the Committee to discuss the fast developing cyber risk landscape. The Committee reviewed IAG's response which included developing and implementing a Cyber Security Strategy. The Committee also focused on actions arising from an Internal Audit review and a Management Committee led tactical initiative to ensure consistent cyber security responses across the Group.

### Treasury risk management

The Committee continued to review the Group's fuel and foreign exchange hedging positions on a quarterly basis, ensuring that the approved hedging profile was being adhered to and continued to be appropriate.

### Tax risk

Following the establishment of a new Group tax policy in 2014, the Committee carried out a review of tax risks and governance. Looking forward, tax risk has been incorporated into the new Enterprise Risk Management Policy and will be reported to the Committee on a six monthly basis.

### Internal Control over Financial Reporting

2015 saw Internal Control over Financial Reporting (ICFR) moving into a maintenance phase having been implemented in 2013 and 2014. ICFR, which is a Spanish Corporate Governance requirement, is a thorough analysis of risks in financial reporting, the documentation of accounting processes, and testing of internal controls. In 2015 no material weaknesses were identified. A full description of ICFR is set out in Section F of the Spanish Corporate Governance Report on page 200.

The Committee considers whether the Annual Report and Accounts are fair, balanced and understandable. This review is supported by a process whereby all sections of the Annual Report and Accounts are allocated to senior managers and members of the Management Committee who attest that the sections are fair, balanced and understandable. The Committee also reviews disclosure throughout the year through receiving a quarterly report from the IAG Disclosure Committee outlining all the matters they discuss.

### Enterprise risk management

The Committee reviewed the effectiveness of the Group's Enterprise Risk Management systems, ensuring that they met the new recommendations of the 2015 Spanish Good Governance Code and the UK Financial Reporting Council's new guidance on risk management. Whilst concluding positively, the Committee endorsed management's plan to centralise Enterprise Risk Management resources at the Group level and implement a Group-wide system whereby risk owners attested to the proper management of principal risks.

### External audit

The Group's external auditors, EY, will be appointed as auditors of Aer Lingus for 2016 in line with the Committee's policy of having one auditor for the Group. The Committee works closely with EY, with their partners attending all seven meetings during the year. The Committee reviewed the engagement letter, fees and the audit plan which included EY's assessment of risk areas within the financial statements. This risk assessment highlighted revenue recognition, the Aer Lingus Business combination and employee benefit schemes, as such the EY analysis was consistent with the areas reviewed by the Committee under Accounting issues. Audit results were reviewed during three meetings; for the half year, for the findings from interim audits, and for the year-end matters.

In assessing the effectiveness and independence of the external auditors, the Committee considered relevant professional and regulatory requirements and the relationship with the auditors as a whole. The Committee monitored the auditors' compliance with relevant regulatory, ethical and professional guidance on the rotation of partners, and assessed their qualifications, expertise, resources and the effectiveness of the audit process, including a report from the external auditor on its own internal quality procedures. The assessment included a detailed questionnaire completed by key directors, managers and a sample of accounting staff throughout the Group. The questionnaire results demonstrated that EY's overall performance was good and that they are providing an effective external audit across the Group. Having reviewed EY's performance during 2015, the Committee concluded that EY were independent and that it was in the Group's and shareholders' interests not to tender the audit in 2016 and recommends their re-appointment.

The Group audit was last tendered on the incorporation of the IAG in 2010. The Company intends to comply with the UK Corporate Governance Code requirement to tender the external audit at least every ten years and the transition arrangements that would require the audit to be tendered for the year 2021 at the latest. Subject to its implementation in the UK, the new EU Regulation regarding the statutory audit of public interest entities will require us to change auditors in 2021. EY rotate the Partners on the engagement in line with their own independence standards, 2015 will be the last year that Rafael Paez Martinez opines on the IAG financial statements and we look forward to working with Hildur Eir Jonsdottir in 2016.

Non-audit services provided by the external auditors are subject to a Board approved policy that prohibits certain categories of work and controls the overall level of expenditure. The Committee reviews the nature and volume of projects undertaken by the external auditors on a quarterly basis and the Committee Chairman pre-approves projects over €100,000 or of an unusual nature. The overall volume of work is addressed by a target maximum of €1.3 million with an additional allowance of up to €1 million for large projects where EY are uniquely placed to carry out the work. Spend in 2015 was below the target maximum at €872,000 with an additional €557,000 relating to the acquisition of Aer Lingus and the completion of EY projects in place at Aer Lingus at the time of acquisition. 45 per cent of the €872,000 spend related to recurring work on the audit of accounts required by our Joint Business arrangements. Details of the fees paid to the external auditors during the year can be found in note 7 to the financial statements.

### Whistleblowing

The Committee reviewed procedures whereby staff across the Group can raise confidential concerns regarding accounting, internal control, auditing and other matters. Third-party providers are used to provide whistleblowing channels so that all staff across the Group can report concerns to senior management in their company. The Committee also reviewed the volume and nature of cases reported and noted that there were no significant financial or compliance issues raised.

# REPORT OF THE NOMINATIONS COMMITTEE



<u>COMMITTEE MEMBERS</u>	<u>COMMITTEE MEMBER SINCE</u>
• Sir Martin Broughton (Chair)	19 December 2013
• Antonio Vázquez	19 December 2013
• Baroness Kingsmill	27 September 2010
• César Alierta	27 September 2010

### Dear Shareholder

I am delighted to present the Nominations Committee's Report for 2015.

Succession planning and the succession pipeline remained a key agenda item for the Committee this year. Building on the comprehensive exercise carried out last year, the Committee continued working on succession planning for the Board; ensuring that the Board has the right balance of diverse skills and experience; and that refreshment and emergency plans are also in place. As far as executive succession is concerned, we have closely monitored the initiatives designed to develop internal talent and also ensured that emergency succession proposals are in place. We were pleased to see a greater focus on values and culture in recruitment, talent assessments and the succession planning work.

The Committee reviewed this year the change in the chair of the Remuneration Committee, with Dame Marjorie Scardino succeeding Baroness Kingsmill in this role. I have to say that Marjorie and Denise managed an exemplary handover. Mentioning this Committee, which has a 75 per cent female representation, it gives me the opportunity to comment on the new Directors Selection and Diversity Policy, approved by the Committee in January 2016, which establishes a new 33 per cent commitment for our Board in line with Lord Davies' recommendations.

Ahead of our AGM, the independence, effectiveness and commitment of each of the non-executive directors were reviewed and discussed with them privately by the Chairman of our Board, and former Chairman of this Committee. The results were shared with the Nominations Committee and formed the basis of our proposals for the re-election of directors.

And finally, the Committee has considered the important changes made to key positions in our operating companies' leadership teams. I cannot finish my report without mentioning the retirement of Keith Williams from the Group, for whom we have a profound professional and personal respect. As announced at our Capital Markets Day, he is being replaced by Alex Cruz, currently Chairman and Chief Executive of Vueling, evidencing the value of our succession planning exercise and the quality of our internal talent.

### Sir Martin Broughton

Nominations Committee Chairman

### The Nominations Committee

The composition, competencies and operating rules of the Nominations Committee are regulated by article 30 of the Board Regulations. A copy of these Regulations can be found on the Company's website. These Regulations state that the Nominations Committee shall be made up of no less than three and no more than five non-executive directors appointed by the Board, with the dedication, capacity and experience necessary to carry out its function. A majority of the members of the Nominations Committee must be independent directors. Currently, all members are non-executive directors and three of them are considered independent.

The Nominations Committee's responsibilities are contained in the Board Regulations. These can be summarised as:

- evaluating the competencies, knowledge and experience necessary on the Board of Directors and reviewing the criteria for the composition of the Board and the selection of candidates;
- submitting the appointment of Directors to the Board for approval, and reporting on the proposed designations of the members of the Board committees and their chairmen;
- succession planning for Board members making proposals to the Board so that such succession occurs in a planned and orderly manner;
- establishing guidelines for the appointment, recruitment, career, promotion and dismissal of senior executives;
- reporting to the Board on the appointment and removal of senior executives;
- ensuring that non-executive directors receive appropriate induction programmes;
- establishing a target for female representation on the Board which should be pursued by the Company's Directors Selection and Diversity Policy; and
- submitting to the Board a report on the annual evaluation of the Board performance.

### Meetings

During 2015 the Nominations Committee met five times. Directors' attendance at these meetings is shown on page 62.

### The Committee's activities during the year

The Committee dealt with the following significant issues during 2015:

- Board succession planning;
- succession planning for the Group Chief Executive, the IAG Management Committee and leadership teams of the Group operating companies;
- performance evaluation of the Chairman and the Chief Executive;
- annual review of the category of each director;
- assessment of directors re-election;
- review of investors' feedback from the 2015 Shareholders' Meeting;
- review of appointments to the Group subsidiary boards;
- 2015 Spanish Good Governance Code for Listed Companies;
- refresher programmes for non-executive directors; and
- annual performance evaluation planning for the Board and for the Committee.

### Succession planning

Building on the exercise accomplished in 2014, the Nominations Committee continues to review and refresh non-executive director succession planning. During 2015, the Committee considered the adequacy of succession arrangements at Board level. The Committee reviewed the skills matrix, the likely pattern of Board retirements over the coming years, as well as the chairmanship and membership of each committee, considering possible successor candidates for the different positions within the Board and its committees.

The Committee also considered the adequacy of succession arrangements for executive directors, and for key executive positions at IAG and at the operating companies. The Group Chief Executive led the necessary arrangements for succession planning of the top 50 leadership positions across the Group, including the IAG Management Committee, the operating companies' leadership teams and other key executive positions at IAG. For each position, 'ready now successors' and 'other potential successors' have been identified from within the business, ensuring that the majority of positions have at least two possible internal successors. For certain positions it is recognised that the most suitable successors will be external appointments. During the year, a number of internal candidates were successfully promoted into top 50 leadership positions in addition to some external appointments.

In developing the management succession plan, work has been undertaken to identify the critical leadership capabilities that are required amongst the top leaders of the Group and these are being used to help assess potential successors. Other vital considerations throughout the succession planning process include the diversity mix across the leadership group and the length of time spent in each role. The Committee recognises the importance of developing internal talent at IAG, particularly with regard to succession planning for certain key senior positions.



## REPORT OF THE NOMINATIONS COMMITTEE CONTINUED

### Board and committee changes

During the year the Committee reviewed the composition and balance of the Board's committees and recommended changes to the Board for approval. As a result, on June 18, the Committee endorsed the appointment of Sir Martin Broughton to replace Antonio Vázquez as Chairman of the Nominations Committee. In addition, on the Committee's recommendation, the Board approved the appointment of Dame Marjorie Scardino as Chair of the Remuneration Committee, succeeding Baroness Kingsmill who remained a committee member.

In addition to this, José Pedro Pérez-Llorca did not stand for re-election at the Shareholders' Meeting in June 2015. The Board expressed its gratitude for his service during more than 14 years to IAG and Iberia. No new directors were appointed to the Board during the year.

### Annual evaluation of performance

The Committee reviews Directors' performance and independence as part of the Committee's assessment of their eligibility for re-election. The performance, commitment, ability and availability of each of the non-executive directors have been reviewed and discussed with them privately by the Chairman. The results were shared with the Nominations Committee and the Committee recommended each director standing for re-election at the 2015 Shareholders' Meeting be re-elected.

The Committee's performance was evaluated internally for the second year following the external evaluation process carried out in 2013. This year, in accordance with the new Spanish Good Governance Code for Listed Companies, the Nominations Committee also led the Board evaluation process as detailed on page 63 of this Corporate Governance Report.

The Committee was found to be operating effectively. Committee members are satisfied with the progress made in the work of this Committee in its five years of existence, particularly in relation to succession planning. As objectives for 2016, the Committee considers strengthening succession planning for the top leadership positions in IAG and its operating companies, as well as the improvement in the induction programme for new directors and Committee members.

### Board diversity

IAG approved a Diversity Policy in September 2012, which was reviewed and updated in June 2014. All appointments to the Board are based upon merit and suitability of the candidate to the particular role being filled, having regard to the benefits of diversity on the Board, including gender.

As set out in the Board's Diversity Policy, IAG achieved the 2015 target of 25 per cent female representation on the Board. It is the Committee's intention to continue to focus on this important area during 2016 taking into consideration the recommendations of the final report of the Women on Boards Davies review published in October 2015 in the United Kingdom.

As mentioned before, the Nominations Committee reviewed a new Directors Selection and Diversity Policy which was submitted for Board approval on January 28, 2016. This policy is available on the Company's website.

This new policy sets a different target for female representation on IAG's Board of 33 per cent by 2020 in line with Lord Davies' recommendation. It is the Nominations Committee's intention to reconcile the achievement of this objective while preserving the general diversity and merit based appointment principles established in IAG's policy.

Further details on diversity, can be found on page 63 of this corporate governance section and page 33 in the sustainability section of the annual report.

## REPORT OF THE SAFETY COMMITTEE



### COMMITTEE MEMBERS

	COMMITTEE MEMBER SINCE
• Willie Walsh (Chair)	19 October 2010
• Antonio Vázquez	19 October 2010
• Sir Martin Broughton	19 October 2010
• Kieran Poynter	19 October 2010

### Dear Shareholder

The Safety Committee has continued with its regular activities during 2015.

As a tool of support and coordination within the Group, the Safety Committee has continued monitoring all matters relating to the operational safety of IAG's airline companies, as well as to the systems and resources dedicated to safety activities across the Group.

Taking into consideration that IAG is the parent company of a group of airlines, the work of this Committee, beyond the oversight of safety matters, is focused on standards within the Group. In this sense, I am very satisfied with the progress made to date. We are already seeing the benefits of the comparison, the cooperation and the exchange of experience and good practices between our airline companies.

We have welcomed this year the addition of Aer Lingus to our Group. Its Corporate Safety & Risk Manager attended our December Safety Committee meeting and will start reporting to the Safety Committee as all other Group airlines do, benefiting and contributing to this common undertaking.

### Willie Walsh

Safety Committee Chairman

### The Safety Committee

Composition, competencies and operating rules of the Committee are regulated by article 32 of the Board Regulations. The Committee shall be made up of no fewer than three and no more than five Directors appointed by the IAG Board, with the dedication, capacity and experience necessary to carry out their function.

In addition to Committee members, senior managers with responsibility for safety matters are invited to attend and to report at the Committee meetings as and when necessary. During 2015, the British Airways Director of Safety and Security, representatives of the Iberia and Vueling safety teams and the Aer Lingus Corporate Safety & Risk Manager attended Safety Committee meetings.

### The Committee's responsibilities

Responsibility for safety matters belongs to the Group's airlines. IAG, through its Safety Committee, will have an overall view of each airline's safety performance and of any important issues that may affect the industry. The Safety Committee also has visibility on the Group's airlines resources and procedures. Responsibility for performing detailed and technical assessments remains with each Group airline, overseen by their respective safety committees.

The Committee's duties include:

- 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 the safety activities and resources of IAG and its airline companies; to inform the Board as appropriate (recognising that responsibility for resources and safety matters falls to each Group airline);
- to follow up on any safety-related matters as determined by the Board; and
- to carry out any other safety-related functions assigned by the Board.

The Safety Committee reports any relevant information and a summary of its activity to the IAG Board, and follows up on any safety-related measures as determined by the IAG Board.

### The Committee's activities during the year

During 2015, the Committee held two meetings, attended by all four Committee members. The key topics discussed included the relevant safety events which occurred during the relevant period, regulatory developments and initiatives from industry associations, along with the regular safety review reports of British Airways, Iberia and Vueling.

# REPORT OF THE REMUNERATION COMMITTEE



## COMMITTEE MEMBERS

### COMMITTEE MEMBER SINCE

- |                                  |                   |
|----------------------------------|-------------------|
| • Dame Marjorie Scardino (Chair) | 19 December 2013  |
| • Baroness Kingsmill             | 27 September 2010 |
| • María Fernanda Mejía           | 30 October 2014   |
| • Alberto Terol                  | 19 December 2013  |

## Dear Shareholder

As Chairman of the Remuneration Committee from September 2015, and on behalf of the Board, I am pleased to present the Remuneration Report for 2015.

## Overall strategy and link to remuneration

IAG's strategy is to become the leading international airline group in an increasingly consolidated industry, creating value and delivering higher returns for our shareholders through leadership in core markets and the realisation of cost and revenue synergy opportunities across the group of airlines and aviation related businesses.

The strategy is executed and sustained by consistent improvement in financial performance and in return on investment, in each part of the Group. This requires overseeing transformation programmes through use of the IAG "platform" at each of our airlines, while leveraging cost and revenue opportunities across the Group.

IAG's executive remuneration framework aims to underpin those business objectives and the financial targets attached to them:

- The Company's long-term incentive plan, known as the *performance share plan* (PSP), has earnings per share (EPS) adjusted for exceptional items as its main financial measure, in order to provide a direct link to our strategy; total shareholder return (TSR) to ensure alignment with our shareholders and, added in 2015, a return on invested capital (RoIC) measure to emphasise the increased focus on how we use our capital.
- The *annual incentive plan* focuses on improvement in financial performance, and therefore the primary measure in the plan is operating profit before exceptional items at the Group level.

The remuneration policy is designed to deliver total remuneration that is competitive and with increased emphasis on "pay for performance". The Committee will continue to ensure that executive remuneration is aligned with the business strategy and is confident that the overall reward framework for 2015, 2016 and beyond is in the best interests of shareholders.

## Overall summary of 2015 (and the performance period 2013 to 2015)

The *performance share plan* which vests during 2016 had a three-year performance period (2013 to 2015). Performance targets for the two measures (adjusted EPS and TSR) were set at the beginning of 2013.

At that time, the Company reported an adjusted EPS of negative 23.4 euro cents for 2012, and the share price during 2012 had varied between 136p and 190p. Very ambitious goals were set, with stretch targets for 2015 adjusted EPS of 52 euro cents, and TSR of 8 per cent per annum outperformance of an industry index.

Over the last three years, the Company has produced an extraordinary performance. All our airlines transformed their profitability (led by the Iberia turnaround programme), leading to 2015 adjusted EPS reaching 71.4 euro cents, an increase in the share price by the end of 2015 to 611p (more than trebling in three years, and creating an extra value to shareholders of over £9 billion), and TSR outperforming the index by 35 per cent per annum. This is a great success story. As a result, the *performance share plan* awarded to executives in 2013 will pay out in 2015 at its maximum level, with both adjusted EPS and TSR having significantly exceeded the stretch target.

The financial targets for the 2015 *annual incentive plan* set at the beginning of the year were very demanding (the on-target level was increased by 68 per cent), but continued improvement of our performance, with profitability €200 million above the incentive plan on-target level, means that the two-thirds portion of the scheme linked to financial performance will pay out 70 per cent of the maximum opportunity (the final third portion being focused on individual objectives).

## Decisions during 2015

Last year's report showed that the Committee had approved several actions to strengthen the alignment between executives and shareholders (which included adding a return metric and an additional holding period to the performance share plan, expanding the shareholding guidelines, and strengthening the malus and clawback provisions). In the last 12 months, the Committee has overseen the implementation of these major decisions.

Major decisions that the Committee has taken during 2015 include:

- approving the implementation plan for the malus and clawback provisions in the Company's incentive plans;
- 2016 reward strategy, including increasing the shareholding requirement of executive directors (other than the CEO of IAG) to 200 per cent of basic salary; and

- remuneration arrangements for the Aer Lingus acquisition, including the arrangements for the CEO of Aer Lingus, and the review of the Company's incentive target ranges to take into account Aer Lingus' contribution to the Group.

### Working with shareholders

Our former Chair of this Committee, Baroness Kingsmill, along with Group Head of Investor Relations, Andrew Barker, has met many of our largest shareholders over the last year. They have very much valued your comments and support, as well as your suggestions, for our remuneration policy. We noted your support for the 2014 Remuneration Report and the Remuneration Policy submitted for shareholders' consideration at our annual Shareholders' Meeting. We did note, however, the abstentions registered on the policy vote, which seem to be based on certain concerns raised by investors, mainly around how much flexibility the Company had allowed itself in some areas of the remuneration package. Particular areas of concern were the potential maximum package that could be offered to new executive directors, and the potential maximum face value award that could be offered in the PSP. We believe that we have now addressed these issues. You will note that at the beginning of the Policy Section, we state that in terms of application of the policy, we will not deviate at all from our standard practice.

### IAG's regulatory framework

As a Spanish incorporated company, IAG is subject to Spanish corporate law. The Spanish legal regime regarding directors' remuneration was modified in late 2014 by Law 31/2014, amending the Companies Act to improve corporate governance, and establishing a legal framework substantially parallel to that of the UK as far as directors' remuneration disclosure and approval requirements are concerned.

It is the Company's intention once again to comply voluntarily with all reporting aspects of the UK legislation of 2013 and to follow best practice UK standards, for the benefit of our UK shareholder base. Therefore, the Company has prepared a Directors' Remuneration Report in accordance with UK legislation (the UK DRR). Additionally, the Company has prepared a Spanish Directors' Remuneration Report (the Spanish DRR) bearing in mind that our annual Shareholders' Meeting is subject to Spanish corporate law. We have ensured that the Spanish DRR and the UK DRR are totally consistent. The Spanish DRR, prepared in accordance with Spanish legislation, is available on the Company's website.

At last year's annual Shareholders' Meeting, the remuneration policy was submitted for a binding vote, and passed. As the policy is intended to be long term (three years), it will not be submitted for a vote at the Company's next annual Shareholders' Meeting. There have been a few minor adjustments to how the policy will be applied in practice (listed below at the beginning of the policy section), all of which are to the advantage of shareholders, but no changes to the policy will be proposed this year. There will be, as usual, a vote on the remuneration implementation report at the Company's next annual Shareholders' Meeting, and this will be advisory.

The Remuneration Committee has balanced carefully how the Company pays its people and how the Company is building up value for its shareholders. We welcome any suggestions or questions about our conclusions.

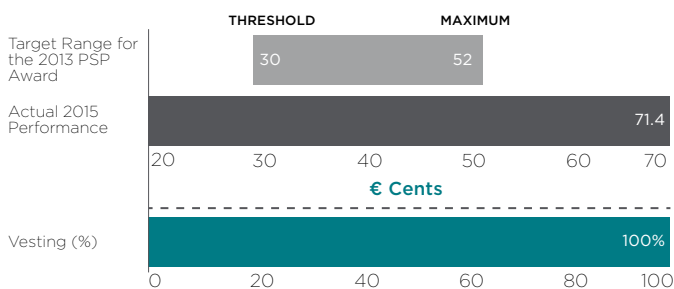
### Dame Marjorie Scardino

Chairman of the Remuneration Committee

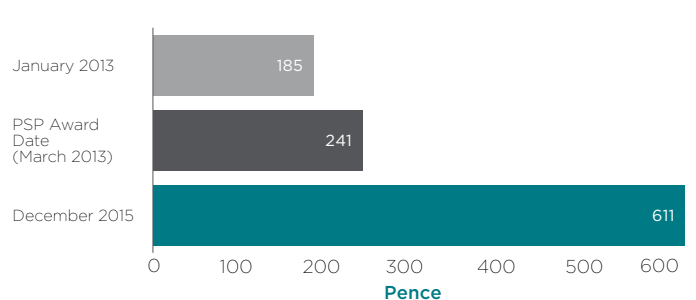
## AT A GLANCE

Implementation of remuneration policy in 2015

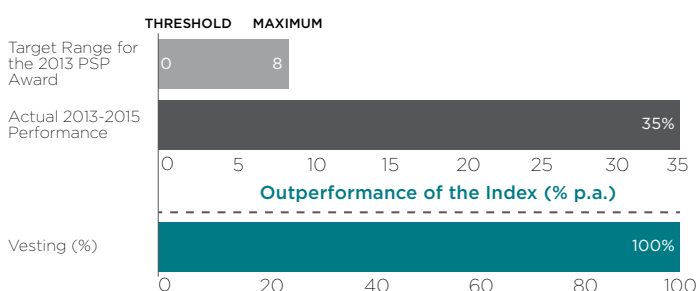
### Adjusted Earnings per Share



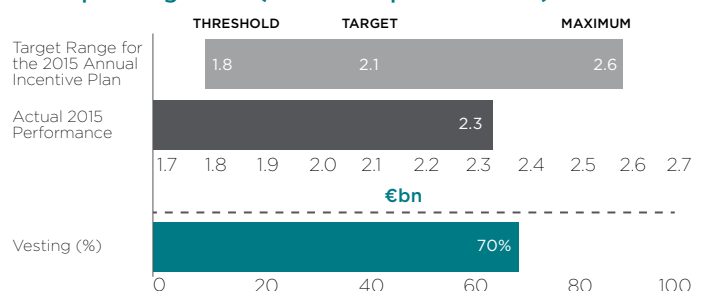
### Share Price



### Total Shareholder Return



### IAG Operating Profit (before exceptional items)



### Introduction

In addition to the Remuneration Committee Chair's statement, this Directors' Remuneration Report contains two different sections:

- The first section, the Directors' Remuneration Policy, contains details of the components of the remuneration packages of the Company's directors and how they are linked to the business strategy (this section has no changes from last year). No changes to the policy will be proposed this year.
- The second section, the Annual Remuneration Report, covers the information on Directors' remuneration paid in the reported year.

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

This Report has been prepared in accordance with the UK Listing Rules, and, although there is no requirement for a Spanish company to do so, the requirements of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) (amendment) Regulations 2013.

The Company's policy on directors' remuneration was approved by shareholders at the annual Shareholders' Meeting on June 18, 2015. No changes to the policy will be proposed this year. However, mindful of shareholders' views, certain aspects of how the policy operates in practice have been discussed by the Remuneration Committee and subsequently approved by the Board with effect from January 1, 2016. These adjustments to the application of policy are listed below at the beginning of the Remuneration Policy section.

### 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, competitive, and take into account each individual's performance of their role in the Company's work.

The Company's primary comparator group is the FTSE 26 to 100 (excluding financial services), with a secondary reference to Ibx-35 and global airline companies where appropriate. 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 policy as shown on the following pages is unchanged from last year, as approved by shareholders at the 2015 annual Shareholders' Meeting. However, listed below is how the policy will be applied in practice in respect of certain remuneration elements. Also, notes to clarify adjustments to the practical application of the policy have been added to the Policy section, in italics.

Face value awards for performance share plan awards will not exceed 200 per cent of salary for the CEO of IAG, and not exceed 150 per cent of salary for other executive directors.

Executive directors below the CEO of IAG (currently, this is just the CFO of IAG) had their shareholding requirement increased to 200 per cent of basic salary, with effect from January 1, 2016.

The maximum value of variable remuneration offered at recruitment will be no more than that awarded to current directors. Therefore, for a new CEO of IAG there will be a 200 per cent maximum opportunity in the annual incentive plan and a 200 per cent maximum face value award for the performance share plan. For any new executive director other than a new CEO of IAG, the figures will be maxima of 150 per cent and 150 per cent respectively. These figures exclude any buy-out amounts.

The table below summarises the main elements of remuneration packages for the executive directors:

Purpose and link to strategy	Operation of element of policy	Maximum opportunity	Performance metrics
<p><b>Base salary</b></p> <p>To attract and retain talent to help achieve our strategic objectives</p>	<p>Takes account of role, skills and contribution.</p> <p>The positioning of base salaries is set with reference to market positioning (primarily the FTSE 26 to 100 excluding financial services), as well as the individual's skills and contribution.</p> <p>Basic salaries are reviewed annually, to take effect on January 1 each year.</p>	<p>Although there is no formal maximum, basic salaries are reviewed annually by the Remuneration Committee by taking 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 whole group of companies.</p>	<p>Individual and business performance are considered in reviewing and setting base salary.</p>
<p><b>Annual incentive award</b></p> <p>Incentivises annual corporate financial performance and the delivery of role specific objectives</p>	<p>The Board, on a recommendation from the Committee, sets the financial targets that apply to the annual incentive award (two-thirds of the annual incentive) 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). For the one-third portion based on personal objectives, the Remuneration Committee, on the proposal of the Chairman, will consider the Chief Executive Officer performance against his role-specific objectives; and the Remuneration Committee, on the proposal of the Chief Executive Officer, will consider the Chief Financial Officer performance against his role-specific objectives. Both performance evaluations will be submitted to the Board for final approval.</p> <p>The Board, on a recommendation from the 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.</p> <p>Malus and clawback provisions apply – see below.</p>	<p>The maximum opportunity in the incentive plan is 200 per cent of salary. 50 per cent of this will be awarded for on-target performance, and there will be no payment at all until financial and personal performance have reached the threshold level of the target range.</p>	<p>Two-thirds of the annual incentive is subject to a financial measure (e.g. IAG operating profit), and one-third is based on role specific objectives.</p>
<p><b>Incentive Award Deferral Plan (IADP)</b></p> <p>Aligns the interest of executives and shareholders and provides a retention tool</p>	<p>The IADP operates over 50 per cent of the annual incentive award. It is designed to align the interests of executives with shareholders by providing a proportion of the annual incentive in deferred shares.</p> <p>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. This is covered in the section below on exit payment policy.</p> <p>On vesting, executives will receive the benefit of any dividends paid over the deferred period. In line with the rules of the IADP and IAG's philosophy to encourage and facilitate employee shareholding, participants may elect to self-fund any tax due rather than sell a portion of their share award to meet tax liabilities. Malus provision applies – see below.</p>	<p>Half of any annual incentive plan pay-out is deferred into shares.</p>	<p>No other performance conditions apply because it is based on performance already delivered.</p>



## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

Purpose and link to strategy	Operation of element of policy	Maximum opportunity	Performance metrics
<p><b>Performance Share Plan (PSP)</b></p> <p>Incentivises long-term shareholder value creation. Drives and rewards delivery of sustained TSR and financial performance</p>	<p>The PSP is a discretionary plan targeted at key senior executives and managers of the Group who directly influence shareholder value. The PSP consists of an award of the Company's shares which vests subject to the achievement of pre-defined performance conditions which are designed to reflect the creation of long term value within the business.</p> <p>These performance conditions are measured over a performance period of at least three financial years. No payment is required from individuals when the shares are awarded or when they vest.</p> <p>The Board, after considering the recommendation of 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.</p> <p>On vesting, in line with the rules of the PSP and IAG's philosophy to encourage and facilitate employee shareholding, participants may elect to self-fund any tax due rather than sell a portion of their share award to meet tax liabilities.</p> <p>Following the performance period, there is an additional holding period of two years.</p> <p>Malus and clawback provisions apply – see below.</p>	<p>The face value of awards will not normally exceed 200 per cent of salary in respect of any financial year of the Company (with the Board having the discretion to award up to 300 per cent of salary in exceptional circumstances). <i>Note: this discretion will not be used.</i></p> <p>At the threshold level of the performance target range, either 10 per cent or 25 per cent will vest depending on which performance measure is being tested.</p>	<p>Any PSP award made will be measured over at least three years.</p> <p>Each year, the Board, following the advice of the 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 who are subject to external influences impacting share price similar to those of the Group.</p> <p>One or more measures will provide a strong measure of the underlying financial performance of the business.</p>
<p><b>Taxable Benefits</b></p> <p>Ensures total package is competitive</p>	<p>Life insurance, personal travel and where applicable, a company car, fuel, occasional chauffeur services, and private health insurance.</p> <p>Where appropriate, benefits may include relocation and international assignment costs.</p>	<p>Although there is no formal maximum, the Company determines benefits policy by taking into account company affordability, and with reference to the external market.</p>	
<p><b>Pension</b></p> <p>Provides post-retirement remuneration and ensures total package is competitive</p>	<p>The Company operates a defined contribution scheme as a percentage of salary.</p> <p>Executives can opt instead to receive a salary supplement in lieu of a pension.</p> <p>The Chief Executive Officer of IAG and the Chief Financial Officer of IAG are eligible for membership of the pension scheme.</p>	<p>The level of employer contribution is 25 per cent of basic salary.</p>	

### Shareholding Requirements

In order to increase alignment with shareholders, executives are required to build up a minimum personal shareholding equal to a set percentage of base salary. The CEO of IAG is required to build up and maintain a shareholding of 250 per cent of basic salary, and other executive directors are required to build up and maintain a shareholding of 150 per cent of basic salary (*note: with effect from January 1, 2016, executive directors other than the CEO of IAG are required to build up and maintain a shareholding of 200 per cent of basic salary*).

Executives will be required to retain the entire 100 per cent of shares (net of tax) which vest from share plans until their respective shareholding requirement is attained.

## Malus and Clawback Provisions

The Board, following the advice of the Committee, has authority under the malus provisions of the Performance Share Plan and the Incentive Award Deferral Plan to reduce or cancel awards before they vest, and authority under the clawback provisions of the Performance Share Plan to recover payments during the additional holding period, if special circumstances exist. These special circumstances include fraud; material breach of any law, regulation or code of practice; misstatement of results; misconduct; failure of risk management; or any other circumstances in which the Board considers it to be in the interests of shareholders for the award to lapse or be adjusted.

For the PSP, clawback provisions apply during the two years' additional holding period. For the IADP, there will be three years from the date of award in which shares can be withheld, i.e. the entire period from the date of the award until vesting. For the cash element of the annual incentive plan, clawback provisions apply for three years from the date of payment. The proportion of an award to be withheld or recovered will be at the discretion of the Board, upon consideration of the Committee, taking into account all relevant matters.

## Non-Executive Directors

The table below summarises the main elements of remuneration for non-executive directors:

Purpose and link to strategy	Operation of element of policy	Maximum opportunity
<p><b>Basic Fees</b></p> <p>Fees are set to take into account the level of responsibility, experience, abilities and dedication required.</p>	<p>Fees are set with reference to market positioning (primarily the IBEX 35 and the FTSE 26 to 100, excluding financial services).</p> <p>To acknowledge certain key roles at Board level, fees are set separately for the Non-Executive Chairman, and the Non-Executive Deputy Chairman. There is also an additional fee paid to any non-executive director for holding a Committee Chairmanship.</p> <p>There is no additional fee for Committee membership.</p> <p>Non-executive director fees will take into account external market conditions to ensure it is possible to attract and retain the necessary talent. There is no specific review date set, but it is the Company's intention to review fees from time to time. There has been no change to fee levels since IAG came into existence in 2011.</p>	<p>The maximum annual aggregate gross remuneration (including annual basic fees and benefits, including travel benefits) payable to directors shall not exceed €3,500,000 as approved by the Shareholders' Meeting on October 19, 2010, in accordance with article 37.3 of the Company's Bylaws.</p>
<p><b>Taxable Benefits</b></p>	<p>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 in accordance with the applicable travel scheme.</p> <p>As foreseen under article 37.8 of the Company's Bylaws this benefit may also be provided to non-executive directors after they have vacated office in accordance with the applicable travel scheme.</p>	<p>The maximum total annual gross amount of the personal travel benefit is €500,000 for all non-executive directors taken together (including any former non-executive director who may enjoy this benefit at any given time).</p>

## Remuneration Policy below Director Level

IAG employees at all levels participate in the discretionary Annual Incentive Plan. Both the size of award and weighting of performance conditions vary by level, with some business unit specific measures incorporated where relevant. The financial targets are the aggregate of the financial targets of the Group's companies, ensuring alignment between the Group's head office and the Group's companies.

All senior managers across the Group participate in the IADP (currently 50 per cent of any annual incentive payment deferred in IAG shares for three years) and certain selected senior managers in the PSP in line with the executive directors. Employees below senior manager level do not participate in either.

The same performance conditions and weightings apply to all participants of the PSP. The size of award varies by performance and level in the business.

Managers at the airlines in the Group participate in their own airline short-term incentive plans. These all have performance measures specific to their airline, and are typically financial, operational, and customer service measures. Most companies within the Group have profit share schemes, designed to give employees below manager level an opportunity to share in the success of their company within the Group.

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

### Notes on the above forward-looking policy tables

Notwithstanding the forward-looking policy detailed herein, and always in compliance with applicable law, the Company will make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) where the terms of the payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Board, the payment was not in consideration for the individual becoming a director of the Company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted which may include different performance measures to those outlined in the forward-looking policy table above.

### Remuneration scenarios

A significant portion of the Company's total remuneration package is variable, with emphasis placed on longer-term reward to align closely executive directors' and senior managers' interests with shareholder interests. The charts below show, for 2016 and for each executive director, the minimum remuneration receivable, the remuneration receivable if the director performs in line with the Company's expectations, and the maximum remuneration receivable. Share price variation during the performance period is not taken into consideration in these scenarios.

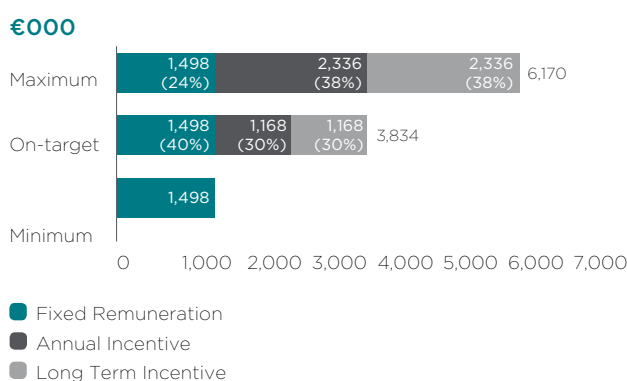
#### Chief Executive Officer of IAG

Fixed remuneration is basic salary (2016 level of €1,168,000), plus taxable benefits (2015 actual of €37,000) plus pension related benefits (2015 actual of €293,000).

The annual incentive amount is zero at the minimum remuneration level, €1,168,000 at the on-target level (50 per cent of the maximum opportunity of 200 per cent of salary), and €2,336,000 at maximum (200 per cent of salary).

The long-term incentive amount is zero at the minimum remuneration level, €1,168,000 at the on-target level (50 per cent of the face value award of 200 per cent of salary) and €2,336,000 at maximum (200 per cent of salary).

All amounts are actually paid in sterling, and are shown here in euro at the €:£ exchange rate of 1.3742



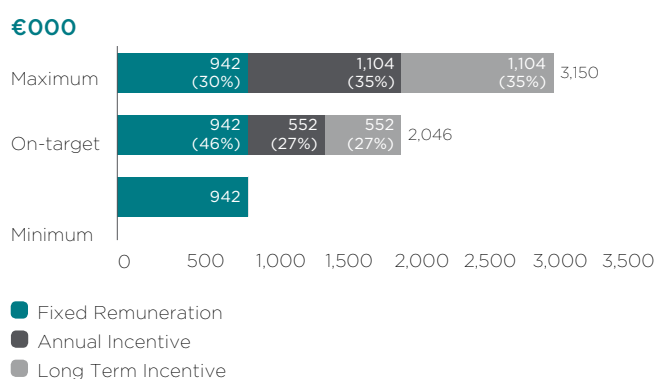
#### Chief Financial Officer of IAG

Fixed remuneration is basic salary (2016 level of €736,000), plus taxable benefits (2015 actual of €26,000) plus pension related benefits (2015 actual of €180,000).

The annual incentive amount is zero at the minimum remuneration level, €552,000 at the on-target level (50 per cent of the maximum opportunity of 150 per cent of salary), and €1,104,000 at maximum (150 per cent of salary).

The long-term incentive amount is zero at the minimum remuneration level, €552,000 at the on-target level (50 per cent of the face value award of 150 per cent of salary) and €1,104,000 at maximum (150 per cent of salary).

All amounts are actually paid in sterling, and are shown here in euro at the €:£ exchange rate of 1.3742



## 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
Willie Walsh	January 21, 2011	12 months
Enrique Dupuy de Lôme	January 21, 2011	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 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. 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 and Deputy 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 (1) 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
Antonio Vázquez	May 25, 2010	June 18, 2015
Sir Martin Broughton	May 25, 2010	June 18, 2015
César Alierta	September 27, 2010	June 18, 2015
Patrick Cescau	September 27, 2010	June 18, 2015
Baroness Kingsmill	September 27, 2010	June 18, 2015
James Lawrence	September 27, 2010	June 18, 2015
Kieran Poynter	September 27, 2010	June 18, 2015
Alberto Terol	June 20, 2013	June 18, 2015
Dame Marjorie Scardino	December 19, 2013	June 18, 2015
María Fernanda Mejía	February 27, 2014	June 18, 2015

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

### External Non-Executive Directorship

The Company's consent is required before an executive can accept an external non-executive appointment and permission is only given in appropriate circumstances.

### Approach to recruitment remuneration

The remuneration for new executive directors will be in line with the policy for current executive directors as far as possible, as expressed in the policy table earlier in this report.

On appointment, new executive directors will have their basic salary set by taking into account the external market, their peers, and their level of experience. New executive directors will participate in the annual and long-term incentives on the same basis as existing directors.

The Board, after considering the recommendation of the Remuneration Committee, retains the discretion to deviate from the stated remuneration policy as necessary to ensure the hiring of candidates of the appropriate calibre with due regard to the best interests of shareholders. For example, to facilitate recruitment, the Board, after considering the recommendation of the Committee, may make one-off awards to "buy out" variable pay or contractual rights forfeited on leaving a previous employer. Generally, such buy-out awards will be made on a comparable basis to those forfeited giving due regard to all relevant factors (including value, performance targets, the likelihood of those targets being met and vesting periods). In such circumstances, shareholders will be provided with full details and rationale in the next published remuneration report.

Excluding the value of any potential buy-out, the maximum value of variable remuneration offered at recruitment to any new executive director will be 500 per cent of base salary, in line with the stated policy. *Note: the maximum value of variable remuneration will be no more than that awarded to current directors.*

In the case of an internal promotion to executive director, the Company will continue to honour any commitments made before promotion. Other than that, the remuneration arrangements on recruitment will be as above.

Non-executive directors will be recruited in line with the Company's remuneration policy principles outlined before.

### Consideration of employment conditions elsewhere in the Group

The pay of employees across all companies in IAG is taken into account when determining the level of any increase in the annual salary review of directors. This takes place each year at the January Committee meeting.

When determining the PSP awards for executive directors, the Committee takes note of the eligibility criteria and the potential size of awards for executives below director level in all companies within IAG.

At the operating company level, the company consults with employee representative bodies, including trade unions and works councils. This will include consultation on company strategy, the competitive environment, and employee terms and conditions. In addition, some of the operating companies run employee opinion surveys in order to take into consideration employee views on a variety of subjects, including leadership, management, and pay and benefits.

### Consideration of shareholder views

The Committee discusses at its October meeting each year the issues and outcomes from the annual Shareholders' Meeting held in June, and determines any appropriate action required as a result.

The Company consults regularly with its major investors on all matters relating to executive remuneration. The Company will engage in an extensive investor consultation exercise whenever there are any significant changes to remuneration policy.

## Annual Remuneration Report

### The Remuneration Committee

The Committee's composition, competencies and operating rules are regulated by article 31 of the IAG Board Regulations. A copy of these Regulations is available on the Company's website.

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

According to article 31 of the Board Regulations the Remuneration Committee shall be made up of no less than three and no more than five non-executive directors appointed by the Board, with the dedication, capacity and experience necessary to carry out their function. A majority of the members of the Remuneration Committee shall be Independent directors. Baroness Kingsmill was Chair of the Committee until September 24, 2015. Dame Marjorie Scardino was appointed as Chair of the Committee from that date by the Board upon a recommendation of the Nominations Committee. For the reporting period all members were considered Independent non-executive directors of the Company and none of the members has any personal financial interest, other than as a shareholder, in the matters to be decided.

### The Committee's activities during the year

In 2015, the Committee met four times and discussed, amongst others, the following matters:

Meeting	Agenda items discussed
January	Review of IAG Executive Committee members' basic salaries Implementation arrangements for the strengthened malus and clawback provisions
February	2014 annual incentive plan payments to IAG Executive Committee members Vesting outcome of the Performance Share Plan 2012 award Final review of 2014 Directors' Remuneration Report
April	Preparation for the 2015 annual Shareholders' Meeting
October	Spain and UK executive remuneration market update, including new Spanish corporate governance code recommendations Remuneration strategy for 2016 First update on the 2015 Directors' Remuneration Report Remuneration arrangements arising as a result of the Aer Lingus acquisition

### Advisers to the Committee

The Committee appointed Towers Watson as its external advisers in 2014, following a tender process. Towers Watson report directly to the Committee. The fees paid to Towers Watson for advice provided to the Remuneration Committee were €57,716 for 2015. Towers Watson is a signatory to the voluntary UK Code of Conduct for executive remuneration consultants. Towers Watson also provide other services to the Company in terms of the valuation of awards under the PSP for accounting purposes.

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



## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

### Single total figure of remuneration for each director

Subject to full audit

#### Non-Executive Directors

Director (€'000)	Fees	Taxable benefits	Total for year to December 31, 2015	Fees	Taxable benefits	Total for year to December 31, 2014
Antonio Vázquez <sup>1</sup>	484	19	503	484	19	503
Sir Martin Broughton	350	56	406	350	44	394
César Alierta	120	-	120	120	-	120
Patrick Cescau	120	34	154	120	20	140
Baroness Kingsmill	135	25	160	140	22	162
James Lawrence	140	37	177	123	23	146
María Fernanda Mejía	120	8	128	100	4	104
José Pedro Pérez-Llorca <sup>2</sup>	60	6	66	120	3	123
Kieran Poynter	120	29	149	137	14	151
Dame Marjorie Scardino	125	72	197	120	38	158
Alberto Terol	120	26	146	120	29	149
<b>Total (€'000)</b>	<b>1,894</b>	<b>312</b>	<b>2,206</b>	<b>1,934</b>	<b>216</b>	<b>2,150</b>

1 Antonio Vázquez took a voluntary 25 per cent reduction in his fee, effective December 1, 2012.

2 José Pedro Pérez-Llorca was no longer a director from June 18, 2015.

#### 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.

#### Taxable benefits

Taxable benefits including personal travel.

For the year to December 31, 2015, €:£ exchange rate applied is 1.3742

For the year to December 31, 2014, €:£ exchange rate applied is 1.2356

#### Executive Directors

The table below sets out the single total figure and breakdown for each executive director. An explanation of how the figures are calculated follows the table. The remuneration for each executive director reflects the performance of the Company and the contribution each individual has made to the ongoing success of the Company.

#### 2015

Director ('000)	Base salary	Taxable benefits	Pension related benefits	Annual incentive award	Long-term incentive vesting	Total for year to December 31 2015
<b>Executive Directors</b>						
Willie Walsh (GBP) <sup>1</sup>	850	27	213	1,360	4,005	6,455
Willie Walsh (euro)	1,168	37	293	1,869	5,504	8,871
Enrique Dupuy de Lôme (GBP) <sup>1</sup>	525	19	131	483	1,456	2,614
Enrique Dupuy de Lôme (euro)	721	26	180	664	2,001	3,592
<b>Total (€'000)</b>	<b>1,889</b>	<b>63</b>	<b>473</b>	<b>2,533</b>	<b>7,505</b>	<b>12,463</b>

**2014**

Director ('000)	Base salary	Taxable benefits	Pension related benefits	Annual incentive award	Long-term incentive vesting	Total for year to December 31, 2014
<b>Executive Directors</b>						
Willie Walsh (GBP) <sup>1</sup>	850	26	212	1,662	3,640	6,390
Willie Walsh (euro)	1,050	32	262	2,054	4,498	7,896
Enrique Dupuy de Lôme (GBP) <sup>1</sup>	515	22	129	553	1,324	2,543
Enrique Dupuy de Lôme (euro)	636	27	159	683	1,636	3,141
<b>Total (€'000)</b>	<b>1,686</b>	<b>59</b>	<b>421</b>	<b>2,737</b>	<b>6,134</b>	<b>11,037</b>

<sup>1</sup> Willie Walsh and Enrique Dupuy de Lôme remuneration is paid in sterling and expressed in euro for information purposes only.

**Additional explanations in respect of the single total figure table for 2015**

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.

**Taxable benefits**

Taxable benefits including personal travel and, where applicable, a company car, fuel, occasional chauffeur services and private health insurance.

**Pension related benefits**

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

**Annual incentive plan**

Annual incentive award for the period ended December 31, 2015 (accrued at December 31, 2015, but cash payments (50 per cent of the award) not paid until March 2016). The outcomes of the performance conditions which determined the award are described in the next section. Half of the annual incentive award is deferred into shares for three years (Incentive Award Deferral Plan (IADP)). For the 2015 annual incentive plan, these will vest in March 2019.

**Long-term incentive vesting**

This relates to the IAG PSP 2013 award based on performance measured to December 31, 2015, although the shares vested will not be delivered until March 2016. For the purposes of this table, the award has been valued using the average share price in the three months to December 31, 2015 of 585.0 pence. 59 per cent of the value of awards vesting under the 2013 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 below.

For the year to December 31, 2015, €:£ exchange rate applied is 1.3742

For the year to December 31, 2014, €:£ exchange rate applied is 1.2356

**Life Insurance**

The Company provides life insurance for all executive directors. For the year to December 31, 2015 the Company paid contributions of €28,230 (2014: €15,648).

**Variable pay outcomes****Subject to audit****2015 Annual Incentive Plan**

At the beginning of 2015, the Board, upon a recommendation by the Committee, set IAG operating profit as the financial target to be applied to the two-thirds of the Annual Incentive Plan for that year. Operating profit was considered to be the most appropriate financial measure in aligning shareholder interests with the Company and individual performance. For the one-third portion based on role-specific objectives, the Remuneration Committee, on the proposal of the Chairman, considered the Chief Executive Officer's performance against his objectives; and the Remuneration Committee, on the proposal of the Chief Executive Officer, considered the Chief Financial Officer's performance against his objectives. Both performance evaluations were submitted to the Board for final approval on February 25, 2016.

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), and for the Chief Financial Officer of IAG 120 per cent of salary (60 per cent of salary for on-target performance).

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

The outcomes of the performance conditions were as follows:

Measure		Chief Executive Officer of IAG	Chief Financial Officer of IAG
<b>IAG Operating Profit (before exceptional items)</b> <b>(67 per cent)</b>	Payout	€1,090,199 £793,333	€404,246 £294,168
	per cent of maximum awarded	70 per cent Please see below for details of the performance target ranges	70 per cent Please see below for details of the performance target ranges
<b>Role-specific objectives (33 per cent)</b>	Outcomes versus targets	€778,713 £566,667 Please see below for details of the extent of the achievement of objectives.	€259,872 £189,108 Please see below for details of the extent of the achievement of objectives.
	per cent of maximum awarded	100 per cent	90 per cent
<b>Details of any discretion exercised</b>			
<b>Overall outcome</b>		€1,868,912 £1,360,000	€664,118 £483,276

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). IAG operating profit (before exceptional items) for 2015 (two-thirds of the annual incentive) has resulted in 70 per cent of the maximum paying out for this element of the incentive (2014: 97 per cent). This is between the on-target level and the stretch target level of the target range. The target range for 2015 was as follows: the threshold level at which payments would begin was €1,800 million, the on-target level at which 50 per cent of the maximum would pay out was €2,100 million, and the stretch target level at which the maximum would pay out was €2,600 million. There was a straight line sliding scale between the threshold level and the on-target level, and between the on-target level and the stretch target level. The figure used for IAG operating profit for 2015 excludes Aer Lingus' contribution to the Company.

### Performance against role-specific objectives: Chief Executive Officer of IAG

The Chief Executive Officer of IAG's main objective is to manage the successful implementation of the Group's strategy. His specific achievements in 2015 against his objectives were:

- the delivery of the business plan
- ensuring a sustained improvement in financial performance;
- improvements in return on investment at each operating company;
- successful supervision of the transformation programmes at the airlines in the Group; and
- leading the successful acquisition of Aer Lingus.

The Chief Executive Officer of IAG has continued to supervise the synergy programme, and synergy outperformance has continued - the 2015 delivery plan has been exceeded by €120 million. The merger synergy programme, initiated in 2011 at the outset of the Group, is now complete, with the target exceeded. He has overseen the creation of the 'IAG Platform', which will produce the "next generation synergies", and significant progress has been made on these. As a result of all these achievements, the Company was able to announce to its investors in November 2015 a considerable upgrade to our long-term return and equity cash flow objectives. At the same time, the Company announced its first dividend, with an aim of generating much more cash for shareholders.

### Performance against role-specific objectives: Chief Financial Officer of IAG

The Chief Financial Officer of IAG's role-specific objectives for 2015 were:

- to ensure the achievement of cost savings targets;
- to monitor and challenge operating companies' financial performance;
- the delivery of the financial elements of the synergies objectives;
- the development of the business plan;
- ensuring the effectiveness of the Enterprise Risk Management system; and
- managing the efficient financing for the acquisition of Aer Lingus.

During 2015, he has ensured a rigorous cost focus in all operating company activity, and ensured that growth has been disciplined and on improved margins. The improvement in return on invested capital has exceeded the business plan. Continued progress in efficiency programmes at all operating companies have beaten synergy targets. The Enterprise Risk Management system has allowed timely and effective Management Committee interventions on principal risks. Aer Lingus acquisition bridge financing and the November 2015 convertible bond issue were both executed at efficient rates.

### IAG PSP Award 2013

The IAG PSP award granted on March 6, 2013 was tested at the end of the performance period which began on January 1, 2013 and ended on December 31, 2015. The awards were equivalent to 200 per cent of salary for the Chief Executive Officer of IAG and 120 per cent of salary for the Chief Financial Officer of IAG.

50 per cent of the award was subject to achievement of the Company's adjusted EPS targets and 50 per cent subject to a TSR performance condition measured against an index. 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 2013)
<b>TSR performance compared to the TSR performance of the MSCI European Transportation (large and mid-cap) index (50 per cent)</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)	Performance exceeded index by 35 per cent p.a.	100 per cent
<b>Adjusted Earnings per Share (EPS) (50 per cent)</b>	2015 EPS of 30 €cents (10 per cent of award vests)	2015 EPS of 52 €cents (100 per cent of award vests)	71.4 €cents	100 per cent
<b>Details of any discretion exercised</b>				
<b>Overall outcome</b>				100 per cent

### IAG PSP Award 2012

The IAG PSP award granted on August 3, 2012 was tested at the end of the performance period which began on January 1, 2012 and ended on December 31, 2014. The awards were equivalent to 200 per cent of salary for the Chief Executive Officer of IAG and 120 per cent of salary for the Chief Financial Officer of IAG.

50 per cent of the award was subject to achievement of the Company's adjusted EPS targets and 50 per cent subject to a TSR performance condition measured against an index. 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 2012)
<b>TSR performance compared to the TSR performance of the MSCI European Transportation (large and mid-cap) index (50 per cent)</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)	Performance exceeded index by 20 per cent p.a.	100 per cent
<b>Adjusted Earnings per Share (EPS) (50 per cent)</b>	2014 EPS of 20 €cents (10 per cent of award vests)	2014 EPS of 50 €cents (100 per cent of award vests)	2014 EPS 40.2 €cents	70.6 per cent
<b>Details of any discretion exercised</b>				
<b>Overall outcome</b>				85.3 per cent

### Scheme interests awarded during the financial year

#### Subject to Audit

The IAG Performance Share Plan (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 May 28, 2015. 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. This comparison therefore provides a good reference point for management outperformance and value creation.

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

The Committee believes that EPS performance provides a strong measure of the underlying financial performance of the business. Return on Invested Capital (RoIC) is a financial measure that quantifies how well a company generates cash flow relative to the capital it has invested in its business. The Committee believes that it also provides a strong measure of the underlying financial performance of the business. It is one of the main areas that the Company wishes to focus on improving for the long-term.

### PSP 2015 – 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 – 200 per cent	Other executive directors – 120 per cent	
Grant price	£5.50		
Performance period	January 1, 2015 to December 31, 2017		
Performance conditions	EPS performance targets	RoIC performance targets	TSR performance compared to the TSR performance of the MSCI European Transportation (large and mid-cap) index
Weighting	One-third	One-third	One-third
Threshold	2017 EPS of 70 €cents 10 per cent vests	2017 RoIC of 12 per cent 10 per cent vests	IAG's TSR performance equal to the index 25 per cent vests
Target	2017 EPS between 70 €cents and 100 €cents (straight line vesting between threshold and maximum)	2017 RoIC between 12 per cent and 15 per cent (straight line vesting between threshold and maximum)	IAG's TSR performance between index return and 8 per cent p.a. outperformance (straight line vesting between threshold and maximum)
Maximum	2017 EPS of 100 €cents 100 per cent vests	2017 RoIC of 15 per cent 100 per cent vests	IAG's TSR performance exceeds index by 8 per cent p.a. 100 per cent vests
Holding period	Additional period of two years after the performance period		

EPS measure is adjusted for exceptional items. The Board, after considering the recommendation of the Remuneration Committee, retains the discretion to review and, if appropriate, revise the 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.

### Total pension entitlements

#### Subject to Audit

The Company operates a defined contribution scheme in which the executive directors are entitled to receive a contribution of 25 per cent of base salary. Executives may opt to receive a salary supplement in lieu of such contributions.

Willie Walsh is a member of the Company's pension scheme and the Company paid contributions during the reporting period of £39,950 (2014: £42,460), plus cash in lieu of contributions of £172,550 (2014: £170,037).

Enrique Dupuy de Lôme is no longer a member of the Company's pension scheme, and the Company therefore did not pay any contributions during the reporting period (2014: £12,359, when he was a member of the Company's pension scheme for part of the year). He received cash in lieu of contributions of £131,325 (2014: £116,392).

### Payments for loss of office

No executive directors have left office during 2015. There were no payments made to non-executive directors after they left office during 2015.

### Payments to past directors

Rafael Sánchez-Lozano stood down from the Board of Directors on March 27, 2013. During the reporting period he received 20,616 deferred shares in August 2015 from the 2012 IADP award (relating to performance in the 2011 Annual Incentive Plan).

José Pedro Pérez-Llorca received travel benefits worth €404 during 2015 after he had left the Company.

### Statement of Voting

The table below shows the consultative vote on the 2014 annual Directors' Remuneration Report and the binding vote on the directors' remuneration policy at the 2015 annual Shareholders' Meeting:

	Number of votes cast	For	Against	Abstentions
2014 Annual Directors' Remuneration Report	1,313,200,803	1,242,765,311 (94.637 per cent)	14,857,525 (1.131 per cent)	54,710,853 (4.166 per cent)
Directors' Remuneration Policy	1,313,200,803	973,503,807 (74.132 per cent)	49,560,764 (3.774 per cent)	289,280,495 (22.029 per cent)

### Statement of Directors' Shareholding and Share Interests

#### Subject to Audit

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 250 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 the entire 100 per cent of 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 well above the shareholding requirement. There has been a significant improvement in shareholding for the executive directors over the past two years, as a result of PSP awards vesting, and deferred shares awards from annual incentive plans.

Shares which count towards the guideline include shares already held by the executive, vested and exercised shares, vested and unexercised shares, and unvested deferred annual incentive shares. The table below summarises current executive directors' interests as of December 31, 2015:

Executive Director	Shareholding requirement	Shares owned	Shares already vested from performance share plans	Shares already vested from deferred annual incentive plans	Unvested shares from deferred annual incentive plans	Total qualifying shareholding
Willie Walsh	250 per cent of salary	22,000	1,094,465	126,754	159,246	1,402,465 (712 per cent of salary)
Enrique Dupuy de Lôme	200 per cent of salary	100	282,017	19,752	79,697	381,566 (332 per cent of salary)

### 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 no executive director held a directorship from which they retained a fee.

Willie Walsh is a non-executive director of the Irish National Treasury Management Agency, for which he has declined a fee.



## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

### Non-Executive Directors

Non-executive directors are paid a flat fee each year. The Non-Executive Chairman's fee is €645,000, voluntarily reduced by 25 per cent to €483,750 with effect from December 1, 2012 until further notice. The Non-Executive Deputy Chairman has a fee of €350,000. Other non-executive directors have a fee of €120,000. The additional fee for holding a Committee Chairmanship is €20,000.

In relation to the Chairman, as set out in the British Airways/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.

### Directors' interests in shares

Subject to audit

	Total shares and voting rights	Percentage of capital
Antonio Vázquez	512,291	0.025
Sir Martin Broughton	174,910	0.009
Willie Walsh	1,243,219	0.061
César Alierta	1,000,000	0.049
Patrick Cescau	0	0.000
Enrique Dupuy de Lôme	301,869	0.015
Baroness Kingsmill	2,000	0.000
James Lawrence <sup>1</sup>	326,500	0.016
María Fernanda Mejía	100	0.000
Kieran Poynter	0	0.000
Dame Marjorie Scardino	100	0.000
Alberto Terol	9,200	0.000
<b>Total</b>	<b>3,570,189</b>	<b>0.175</b>

<sup>1</sup> Held as IAG ADRs (one IAG ADR equals five IAG shares).

There have been no changes to the shareholdings set out above between December 31, 2015 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 18, 2015 the Company was given authority to allocate up to 67,500,000 shares (3.31 per cent of the share capital) in 2015, 2016, 2017 and 2018. Of this a maximum of 7,650,000 shares could be allocated to executive directors under all IAG share plans for awards made during 2015, 2016, 2017 and 2018. At December 31, 2015, 2.40 per cent of the share capital had been allocated under the IAG share plans.

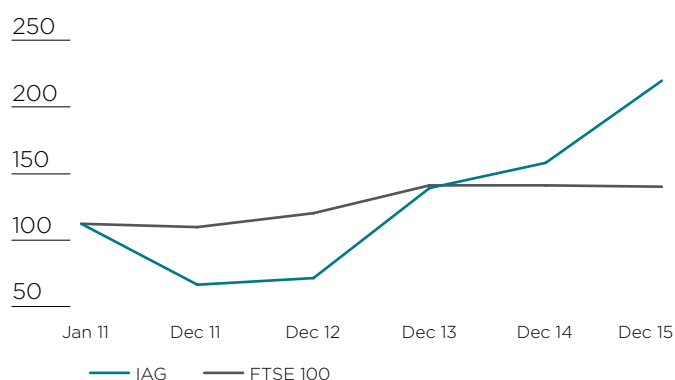
The highest and lowest closing prices of the Company's shares during the period and the share price at December 31, 2015 were:

At December 31 2015	611p
Highest in the period	617p
Lowest in the period	465p

### Company performance graph and Chief Executive Officer of IAG 'single figure' table

The chart shows the value by December 31 2015 of a hypothetical £100 invested 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:

	2011	2012	2013	2014	2015
CEO of IAG – 'total single figure' of remuneration	£1,550,000	£1,083,000	£4,971,000	£6,390,000	£6,455,000
Annual incentive	The above 'total single figure' includes £302,000 annual incentive (18 per cent of maximum).	No annual incentive payment.	Includes annual incentive payment of £1,299,375 (78.75 per cent of maximum).	Includes annual incentive payment of £1,662,222 (97.78 per cent of maximum).	Includes annual incentive payment of £1,360,000 (80.00 per cent of maximum).
Long-term incentive	The above 'total single figure' includes £251,594 value of long-term incentives vesting (35 per cent of maximum).	Zero vesting of long-term incentives.	The above 'total single figure' includes £2,593,569 value of long-term incentives vesting (100 per cent of maximum).	The above 'total single figure' includes £3,640,135 value of long-term incentives vesting (85 per cent of maximum).	The above 'total single figure' includes £4,005,185 value of long-term incentives vesting (100 per cent of maximum).
Notes	The above 'total single figure' includes 20 days of remuneration (in January 2011) paid by British Airways.	Whilst the performance of the CEO of IAG would in the opinion of the Board have justified the payment of the annual incentive, after considering the financial performance of the Group, the Board decided to exercise its discretion to withhold the payment of the annual incentive.	70 per cent of the value of awards vesting under the 2011 PSP was the result of share price appreciation, reflecting the significant increase in shareholder value created over the period.	61 per cent of the value of awards vesting under the 2012 PSP was the result of share price appreciation, reflecting the significant increase in shareholder value created over the period.	59 per cent of the value of awards vesting under the 2013 PSP was the result of share price appreciation, reflecting the significant increase in shareholder value created over the period.

Single total figure of remuneration includes basic salary, taxable benefits, pension related benefits, annual incentive award, and long-term incentive vesting.

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

### Percentage change in remuneration of the Chief Executive Officer of IAG compared to employees

The table below shows how the remuneration of the Chief Executive Officer of IAG has changed for 2015 compared to 2014. 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, comprising around 40,000 employees in total. 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 40,000 UK employees in the Group are employed by BA, 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.

	Chief Executive Officer of IAG	UK employees
Basic salary	No basic salary increase for 2015.	Basic salary awards in 2015 at UK companies in the Group averaged around 2 per cent.
Annual incentive	Decrease from £1,662,222 in March 2015 (covering the 2014 performance period) to £1,360,000 in March 2016 (covering the 2015 performance period). This represents a 18 per cent decrease.	Changes in overall annual incentive payments for 2015 vs. 2014 varied considerably around the Group, depending on the incentive design, financial performance, and non-financial performance at each individual company.
Taxable benefits	No change in benefits policy. Actual payments increased to £27,000 in 2015 from £26,000 in 2014.	No change in benefits policy. Overall costs 2015 vs. 2014 increased very slightly in line with inflation.

### Relative importance of spend on pay

The table below shows, for 2015 and 2014, total remuneration costs, operating profit, and dividends for the Company.

	2015	2014
Total employee costs, IAG	<b>€4,905,000,000</b>	€4,325,000,000
Total remuneration, directors (including non-executive directors)	<b>€14,669,000</b>	€13,187,000
IAG Operating Profit (before exceptional items)	<b>€2,300,000,000</b>	€1,390,000,000
Dividend declared	<b>€203,000,000</b>	-
Dividend proposed	<b>€204,000,000</b>	-

The figure used for IAG operating profit for 2015 excludes Aer Lingus' contribution to the Company.

### Implementation of remuneration policy for 2016

#### Basic Salary

Basic salaries for executive directors are reviewed from January 1 each year. After careful consideration of Company affordability, the worth of each executive, retention risks, and the size of pay increases generally across the Group for 2016 (which varied across the Group from 2 per cent to 3 per cent), the Board, following the recommendation of the Remuneration Committee, approved the following:

Executive Director	Basic salary review
Chief Executive Officer of IAG	£850,000 (€1,168,000) (no increase from 2015).
Chief Financial Officer of IAG	£535,800 (€736,000) (in UK sterling terms, an increase of 2.0% from 2015).

The Remuneration Committee agreed to offer the Chief Executive Officer a salary increase in line with that applied to other executives, however it was respectfully declined by him.

#### 2016 annual incentive plan

The Board, after considering the recommendation of the Committee, has approved a stretching target range for IAG operating profit for 2016 at the threshold, on-target and maximum levels. At threshold, there will be a zero pay-out, 50 per cent of the maximum will pay out at the on-target level, and 100 per cent of the maximum will only pay out once the stretch target has been achieved. There will be a straight line sliding scale between threshold and on-target, and on-target and the stretch target. For commercial reasons, the target range will not be disclosed until after the end of the performance year. It will be disclosed in next year's Remuneration Report.

For 2016, the maximum award for the Chief Executive Officer of IAG will be 200 per cent of salary and for the Chief Financial Officer of IAG 150 per cent of salary.

### 2016 Performance Share Plan award

The Board, on the Committee's recommendation, has approved a PSP award for 2016, with a performance period of January 1, 2016 to December 31, 2018.

For 2016, the face value of awards for the Chief Executive Officer will be 200 per cent of salary and for the Chief Financial Officer 150 per cent of salary.

The Board has approved the use of three performance conditions, each with a one-third weighting. These are the same three performance conditions that were used in 2015 (each had a one-third weighting in 2015).

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. The target range is identical to 2015, and is outlined earlier in this report.

The second performance condition is based on adjusted EPS. This condition is considered appropriate because it provides a strong measure of the underlying financial performance of the business. The Board and the Committee have agreed that the earnings per share (EPS) target range for the 2016 PSP award should be increased. This reflects the continued improvement in the financial performance of the Group, and ensures that the target remains appropriately stretching. The adjusted EPS measure will be as follows:

Weighting	One-third
Threshold	2018 adjusted EPS of 105 €cents 10 per cent vests
Target (straight line vesting between threshold and maximum)	2018 adjusted EPS between 105 €cents and 145 €cents
Maximum	2018 adjusted EPS of 145 €cents 100 per cent vests

The third performance condition is Return on Invested Capital (RoIC). This is a financial measure that quantifies how well a company generates cash flow relative to the capital it has invested in its business, and is considered an appropriate measure because it also provides a strong measure of the underlying financial performance of the business. The RoIC measure will be as follows:

Weighting	One-third
Threshold	2018 RoIC of 12 per cent 10 per cent vests
Target (straight line vesting between threshold and maximum)	2018 RoIC between 12 per cent and 15 per cent
Maximum	2018 RoIC of 15 per cent 100 per cent vests

There will be an additional holding period of two years. This means that executives will be required to retain the shares for a minimum of two years following the end of the performance period. This is to strengthen the alignment between executives and shareholders.

### Taxable benefits and pension related benefits

Taxable benefits and pension related benefits (as a percentage of basic salary) remain unchanged for 2016.

### Non-Executive Director Fees

Non-executive director fees remain unchanged for 2016. The fees have remained unchanged since 2011.

## REPORT OF THE REMUNERATION COMMITTEE CONTINUED

### Supplementary Information

#### Directors' conditional awards

The following directors held conditional awards over ordinary shares of the Company granted under the IAG PSP.

Director	Plan	Date of award	Number of awards at January 1, 2015	Awards vested during the year	Awards lapsed during the year	Awards made during the year	Number of awards at December 31, 2015
<b>Executive Directors</b>							
Willie Walsh	IAG PSP	August 3, 2012	1,024,844	874,191	150,653	-	-
	IAG PSP	March 6, 2013	684,647	-	-	-	684,647
	IAG PSP	March 6, 2014	379,310	-	-	-	379,310
<b>Total</b>			<b>2,088,801</b>	<b>874,191</b>	<b>150,653</b>	<b>-</b>	<b>1,063,957</b>
<b>Non-Executive Directors</b>							
Enrique Dupuy de Lôme	IAG PSP	August 3, 2012	372,670	317,887	54,783	-	-
	IAG PSP	March 6, 2013	248,963	-	-	-	248,963
	IAG PSP	March 6, 2014	137,931	-	-	-	137,931
<b>Total</b>			<b>759,564</b>	<b>317,887</b>	<b>54,783</b>	<b>-</b>	<b>386,894</b>

The performance conditions for the 2013 PSP award above were tested by the Remuneration Committee, and reported to the Board, in their meetings held in February 2016. The performance conditions for the 2014 PSP award above will be tested to determine the level of vesting. For this award, 50 per cent of the award is subject to TSR performance measured against an index, and 50 per cent is subject to adjusted EPS performance. The performance conditions will be measured over a single three year performance period.

The award granted on August 3, 2012 was tested at the end of the performance period, and as a result 85.3 per cent of the award vested, as detailed earlier in this report in the section on Variable Pay Outcomes.

The values attributed to the Company's ordinary shares in accordance with the plan rules on the dates of the PSP awards were as follows: 2014: 435 pence; 2013: 241 pence; and 2012: 161 pence.

#### Directors' share options

The following directors held nil-cost options over ordinary shares of the Company granted under the IAG PSP.

Director	Date of grant	Number of options at January 1, 2015	Exercise price	Options exercised during the year	Options lapsed during the year	Options granted during the year	Exercisable from	Expiry date	Number of options at December 31, 2015
<b>Executive Directors</b>									
Willie Walsh	May 28, 2015	-	-	-	-	309,091	January 1, 2020	December 31, 2024	309,091
<b>Total</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>309,091</b>			<b>309,091</b>
<b>Non-Executive Directors</b>									
Enrique Dupuy de Lôme	May 28, 2015	-	-	-	-	112,364	January 1, 2020	December 31, 2024	112,364
<b>Total</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>112,364</b>			<b>112,364</b>

The performance conditions for the 2015 PSP award above will be tested to determine the level of vesting. For this award, one-third of the award is subject to TSR performance measured against an index, one-third is subject to adjusted Earnings per Share (EPS) performance, and one-third is subject to Return on Invested Capital (RoIC) performance. The performance conditions will be measured over a single three year performance period. For the 2015 PSP award, 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 2015 PSP award was 550 pence.

### Incentive Award Deferral Plan

The following directors held conditional awards over ordinary shares of the Company granted under the IAG IADP (awarded as a result of IAG performance for the periods that ended December 31, 2012; December 31, 2013 and December 31, 2014).

Director	Relates to incentive award earned in respect of performance	Date of award	Number of awards at January 1, 2015	Awards released during the year	Date of vesting	Awards lapsing during the year	Awards made during the year	Number of awards at December 31, 2015
<b>Executive Directors</b>								
Willie Walsh	2011	August 3, 2012	93,773	93,773	August 3, 2015	-	-	-
	2013	March 6, 2014	149,353	-	March 6, 2017	-	-	149,353
	2014	May 28, 2015	-	-	March 8, 2018	-	151,111	151,111
<b>Total</b>			<b>243,126</b>	<b>93,773</b>		<b>-</b>	<b>151,111</b>	<b>300,464</b>
Enrique Dupuy de Lôme	2011	August 3, 2012	37,267	37,267	August 3, 2015	-	-	-
	2012	March 6, 2013	62,241	-	March 6, 2016	-	-	62,241
	2013	March 6, 2014	50,862	-	March 6, 2017	-	-	50,862
	2014	May 28, 2015	-	-	March 8, 2018	-	50,252	50,252
<b>Total</b>			<b>150,370</b>	<b>37,267</b>		<b>-</b>	<b>50,252</b>	<b>163,355</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.

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2015 IADP award was 550 pence (2014: 435 pence; 2013: 241 pence; 2012: 161 pence).

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2012 IADP award was 161 pence. The share price on the date of the vesting of this award (August 3, 2015) was 551 pence. The money value of the shares received was the share price on the date of the vesting multiplied by the number of shares in respect of the award vested, as shown in the table above.



# FINANCIAL STATEMENTS

The Group's consolidated statements which follow have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union. This section also includes the Report of Spanish Corporate Governance filed with the Comisión Nacional del Mercado de Valores to comply with the statutory requirements for companies listed on the Spanish market.



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### **Statement of Directors' Responsibilities**

### **Independent Auditors' Report**

## CONSOLIDATED INCOME STATEMENT

€ million	Year to December 31						
	Note	Before exceptional items 2015	Exceptional items	Total 2015	Before exceptional items 2014	Exceptional items	Total 2014
Passenger revenue		20,350		20,350	17,825		17,825
Cargo revenue		1,024		1,024	992		992
Other revenue		1,484		1,484	1,353		1,353
<b>Total revenue</b>	4	<b>22,858</b>		<b>22,858</b>	20,170		20,170
Employee costs	8	4,905		4,905	4,325	260	4,585
Fuel, oil costs and emissions charges		6,082	(51)	6,031	5,987		5,987
Handling, catering and other operating costs		2,371		2,371	2,063		2,063
Landing fees and en-route charges		1,882		1,882	1,555		1,555
Engineering and other aircraft costs		1,395		1,395	1,276		1,276
Property, IT and other costs		965	68	1,033	927		927
Selling costs		912		912	859		859
Depreciation, amortisation and impairment	6	1,307		1,307	1,196	(79)	1,117
Aircraft operating lease costs	6	659		659	551		551
Currency differences		45		45	41	180	221
Total expenditure on operations		20,523	17	20,540	18,780	361	19,141
<b>Operating profit</b>	4	<b>2,335</b>	<b>(17)</b>	<b>2,318</b>	1,390	(361)	1,029
Finance costs	9	(294)		(294)	(237)		(237)
Finance income	9	42		42	32		32
Net currency retranslation charges		(56)		(56)	(27)		(27)
Losses on derivatives not qualifying for hedge accounting		(170)		(170)	(49)		(49)
Net gain related to available-for-sale financial assets	18	5		5	10	83	93
Share of profits in investments accounted for using the equity method	17	6		6	2		2
Loss on sale of property, plant and equipment and investments		(38)		(38)	(11)		(11)
Net financing charge relating to pensions	9	(12)		(12)	(4)		(4)
<b>Profit before tax</b>		<b>1,818</b>	<b>(17)</b>	<b>1,801</b>	1,106	(278)	828
Tax	10	(279)	(6)	(285)	(238)	413	175
<b>Profit after tax for the year</b>		<b>1,539</b>	<b>(23)</b>	<b>1,516</b>	868	135	1,003
<b>Attributable to:</b>							
Equity holders of the parent		1,518		1,495	847		982
Non-controlling interest		21		21	21		21
		1,539		1,516	868		1,003
<b>Basic earnings per share (€ cents)</b>	11	<b>74.6</b>		<b>73.5</b>	41.6		48.2
<b>Diluted earnings per share (€ cents)</b>	11	<b>71.4</b>		<b>70.4</b>	40.2		46.4

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

€ million	Year to December 31		
	Note	2015	2014
<i>Items that may be reclassified subsequently to net profit</i>			
Cash flow hedges:			
Fair value movements in equity	31	<b>(1,104)</b>	(1,235)
Reclassified and reported in net profit	31	<b>1,290</b>	357
Available-for-sale financial assets:			
Fair value movements in equity	31	<b>(9)</b>	29
Reclassified and reported in net profit	31	<b>(5)</b>	(359)
Currency translation differences	31	<b>181</b>	168
<i>Items that will not be reclassified to net profit</i>			
Remeasurements of post-employment benefit obligations	31	<b>156</b>	(394)
Total other comprehensive income for the year, net of tax		<b>509</b>	(1,434)
Profit after tax for the year		<b>1,516</b>	1,003
<b>Total comprehensive income for the year</b>		<b>2,025</b>	(431)
Total comprehensive income is attributable to:			
Equity holders of the parent		<b>2,004</b>	(452)
Non-controlling interest	31	<b>21</b>	21
		<b>2,025</b>	(431)

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

## CONSOLIDATED BALANCE SHEET

€ million	Note	December 31 2015	December 31 2014
<b>Non-current assets</b>			
Property, plant and equipment	13	13,672	11,784
Intangible assets	16	3,246	2,438
Investments accounted for using the equity method	17	41	27
Available-for-sale financial assets	18	74	84
Employee benefit assets	32	957	855
Derivative financial instruments	27	62	80
Deferred tax assets	10	723	769
Other non-current assets	19	365	188
		<b>19,140</b>	16,225
<b>Current assets</b>			
Non-current assets held for sale	15	5	18
Inventories		520	424
Trade receivables	19	1,196	1,252
Other current assets	19	1,235	602
Current tax receivable		79	9
Derivative financial instruments	27	198	178
Other current interest-bearing deposits	20	2,947	3,416
Cash and cash equivalents	20	2,909	1,528
		<b>9,089</b>	7,427
<b>Total assets</b>		<b>28,229</b>	23,652
<b>Shareholders' equity</b>			
Issued share capital	28	1,020	1,020
Share premium	28	5,867	5,867
Treasury shares	29	(113)	(6)
Other reserves	31	(1,548)	(3,396)
<b>Total shareholders' equity</b>		<b>5,226</b>	3,485
Non-controlling interest	31	308	308
<b>Total equity</b>		<b>5,534</b>	3,793
<b>Non-current liabilities</b>			
Interest-bearing long-term borrowings	23	7,498	5,904
Employee benefit obligations	32	858	1,324
Deferred tax liability	10	419	278
Provisions for liabilities and charges	25	2,049	1,967
Derivative financial instruments	27	282	359
Other long-term liabilities	22	223	226
		<b>11,329</b>	10,058
<b>Current liabilities</b>			
Current portion of long-term borrowings	23	1,132	713
Trade and other payables	21	3,803	3,281
Deferred revenue on ticket sales		4,374	3,933
Derivative financial instruments	27	1,328	1,313
Current tax payable		124	57
Provisions for liabilities and charges	25	605	504
		<b>11,366</b>	9,801
<b>Total liabilities</b>		<b>22,695</b>	19,859
<b>Total equity and liabilities</b>		<b>28,229</b>	23,652

# CONSOLIDATED CASH FLOW STATEMENT

€ million	Year to December 31		
	Note	2015	2014
<b>Cash flows from operating activities</b>			
Operating profit		2,318	1,029
Depreciation, amortisation and impairment		1,307	1,117
Movement in working capital and other non-cash movements		(627)	205
Payments related to restructuring (net of provision)		(154)	212
Employer contributions to pension schemes	32	(699)	(612)
Pension scheme service costs	32	265	203
Interest paid		(197)	(159)
Taxation		(245)	(118)
<b>Net cash flows from operating activities from continuing operations</b>		<b>1,968</b>	<b>1,877</b>
Net cash flows used in operating activities from discontinued operations		-	(15)
<b>Net cash flows from operating activities</b>		<b>1,968</b>	<b>1,862</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment and intangible assets		(2,040)	(2,622)
Sale of property, plant and equipment and intangible assets		273	404
Net proceeds from sale of investments		6	589
Acquisition of subsidiary (net of cash acquired)		(1,146)	-
Interest received		48	37
Decrease/(increase) in other current interest-bearing deposits		1,436	(1,352)
Dividends received		9	2
Other investing movements		30	12
<b>Net cash flows from investing activities</b>		<b>(1,384)</b>	<b>(2,930)</b>
<b>Cash flows from financing activities</b>			
Net proceeds from long-term borrowings		2,757	2,009
Net proceeds from equity portion of convertible bond issued		101	-
Repayment of borrowings		(954)	(223)
Repayment of finance leases		(837)	(786)
Acquisition of treasury shares		(163)	(23)
Distributions made to holders of perpetual securities and other		(21)	(20)
Dividend paid		(163)	-
<b>Net cash flows from financing activities</b>		<b>720</b>	<b>957</b>
Net increase/(decrease) in cash and cash equivalents		1,304	(111)
Net foreign exchange differences		77	98
Cash and cash equivalents at 1 January		1,528	1,541
<b>Cash and cash equivalents at year end</b>	20	<b>2,909</b>	<b>1,528</b>
<b>Interest-bearing deposits maturing after more than three months</b>	20	<b>2,947</b>	<b>3,416</b>
<b>Cash, cash equivalents and other interest-bearing deposits</b>	20	<b>5,856</b>	<b>4,944</b>

At December 31, 2015 Aer Lingus held €49 million of restricted cash within interest-bearing deposits maturing after more than three months relating to the pension escrow.

At December 31, 2015 British Airways held €72 million equivalent of restricted cash in Nigeria.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year to December 31, 2015

€ million	Issued share capital	Share premium	Treasury shares (note 29)	Other reserves	Retained earnings	Total shareholders' equity	Non-controlling interest (note 31)	Total equity
January 1, 2015	1,020	5,867	(6)	(3,162)	(234)	<b>3,485</b>	308	<b>3,793</b>
Profit for the year	-	-	-	-	1,495	<b>1,495</b>	21	<b>1,516</b>
Other comprehensive income for the year:								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	-	-	-	14	-	<b>14</b>	-	<b>14</b>
Fuel and oil costs	-	-	-	1,474	-	<b>1,474</b>	-	<b>1,474</b>
Currency differences	-	-	-	(202)	-	<b>(202)</b>	-	<b>(202)</b>
Investments	-	-	-	4	-	<b>4</b>	-	<b>4</b>
Net change in fair value of cash flow hedges	-	-	-	(1,104)	-	<b>(1,104)</b>	-	<b>(1,104)</b>
Available-for-sale assets reclassified and reported in net profit	-	-	-	(5)	-	<b>(5)</b>	-	<b>(5)</b>
Net change in fair value of available-for-sale financial assets	-	-	-	(9)	-	<b>(9)</b>	-	<b>(9)</b>
Currency translation differences	-	-	-	181	-	<b>181</b>	-	<b>181</b>
Remeasurements of post-employment benefit obligations	-	-	-	-	156	<b>156</b>	-	<b>156</b>
Cost of share-based payments	-	-	-	-	45	<b>45</b>	-	<b>45</b>
Vesting of share-based payment schemes	-	-	56	-	(99)	<b>(43)</b>	-	<b>(43)</b>
Equity portion of convertible bond issued	-	-	-	101	-	<b>101</b>	-	<b>101</b>
Acquisition of treasury shares	-	-	(163)	-	-	<b>(163)</b>	-	<b>(163)</b>
Dividend	-	-	-	-	(203)	<b>(203)</b>	-	<b>(203)</b>
Dividend of a subsidiary	-	-	-	-	-	-	(1)	<b>(1)</b>
Distributions made to holders of perpetual securities	-	-	-	-	-	-	(20)	<b>(20)</b>
<b>December 31, 2015</b>	<b>1,020</b>	<b>5,867</b>	<b>(113)</b>	<b>(2,708)</b>	<b>1,160</b>	<b>5,226</b>	<b>308</b>	<b>5,534</b>



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year to December 31, 2014

€ million	Issued share capital	Share premium	Treasury shares (note 29)	Other reserves	Retained earnings	Total shareholders' equity	Non-controlling interest (note 31)	Total equity
January 1, 2014	1,020	5,867	(42)	(2,122)	(814)	3,909	307	4,216
Profit for the year	-	-	-	-	982	982	21	1,003
Other comprehensive income for the year:								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	-	-	-	5	-	5	-	5
Fuel and oil costs	-	-	-	47	-	47	-	47
Currency differences	-	-	-	34	-	34	-	34
Investments	-	-	-	271	-	271	-	271
Net change in fair value of cash flow hedges	-	-	-	(1,235)	-	(1,235)	-	(1,235)
Available-for-sale assets reclassified and reported in net profit	-	-	-	(359)	-	(359)	-	(359)
Net change in fair value of available-for-sale financial assets	-	-	-	29	-	29	-	29
Currency translation differences	-	-	-	168	-	168	-	168
Remeasurements of post-employment benefit obligations	-	-	-	-	(394)	(394)	-	(394)
Cost of share-based payments	-	-	-	-	38	38	-	38
Vesting of share-based payment schemes	-	-	59	-	(46)	13	-	13
Acquisition of treasury shares	-	-	(23)	-	-	(23)	-	(23)
Distributions made to holders of perpetual securities	-	-	-	-	-	-	(20)	(20)
December 31, 2014	1,020	5,867	(6)	(3,162)	(234)	3,485	308	3,793

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1 Background and general information

International Consolidated Airlines Group S.A. (hereinafter 'International Airlines Group', 'IAG' or the 'Group') is a leading European airline group, formed to hold the interests of airline and ancillary operations. IAG is a Spanish company registered in Madrid and was incorporated on April 8, 2010. On January 21, 2011 British Airways Plc and Iberia Líneas Aéreas de España S.A. Operadora (hereinafter 'British Airways' and 'Iberia' respectively) completed a merger transaction becoming the first two airlines of the Group. Vueling Airlines S.A. ('Vueling') was acquired on April 26, 2013, and Aer Lingus Group Plc ('Aer Lingus') on August 18, 2015.

IAG shares are traded on the London Stock Exchange's main market for listed securities and also on the stock exchanges of Madrid, Barcelona, Bilbao and Valencia (the 'Spanish Stock Exchanges'), through the Spanish Stock Exchanges Interconnection System (Mercado Continuo Español).

## 2 Summary of significant accounting policies

### Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union (IFRSs as endorsed by the EU). The consolidated financial statements are presented in euros, rounded to the nearest million unless otherwise stated. These financial statements have been prepared on a historical cost convention except for certain financial assets and liabilities, including derivative financial instruments and available-for-sale financial assets that are measured at fair value. The carrying value of recognised assets and liabilities that are subject to fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged. The financial statements for the prior year include reclassifications that were made to conform to the current year presentation. The amendments have no material impact on the financial statements.

The Group's financial statements for the year to December 31, 2015 were authorised for issue, and approved by the Board of Directors on February 25, 2016.

The Directors have considered the business activities as set out on pages 10 to 19, the Group's principal risks and uncertainties as set out on pages 47 to 54, and the Group's financial position, including cash flows, liquidity position and available committed facilities. The Directors consider that the Group has adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements.

### Consolidation

The Group financial statements include the financial statements of the Company and its subsidiaries, each made up to December 31, together with the attributable share of results and reserves of associates, adjusted where appropriate to conform to the Group's accounting policies.

Subsidiaries are consolidated from the date of their acquisition, which is the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group applies the acquisition method to account for business combinations. The consideration paid is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries that are not held by the Group and are presented separately within equity in the consolidated Balance sheet. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the Income statement.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed.

All intra-group account balances, including intra-group profits, are eliminated in preparing the consolidated financial statements.

### Segmental reporting

Operating segments are reported in a manner consistent with how resource allocation decisions are made by the chief operating decision-maker. The chief operating decision-maker, who is responsible for resource allocation and assessing performance of the operating segments, has been identified as the IAG Management Committee.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 2 Summary of significant accounting policies continued

#### Foreign currency translation

##### a Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the functional currency, being the currency of the primary economic environment in which the entity operates. The Group's consolidated financial statements are presented in euros, which is the Group's presentation currency.

##### b Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency using the rate of exchange prevailing on the date of the transaction. Monetary foreign currency balances are translated into the functional currency at the rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income statement, except where hedge accounting is applied.

##### c Group companies

The net assets of foreign operations are translated into euros at the rate of exchange ruling at the balance sheet date. Profits and losses of such operations are translated into euros at average rates of exchange during the year. The resulting exchange differences are taken directly to a separate component of equity until all or part of the interest is sold, when the relevant portion of the cumulative exchange difference is recognised in the Income statement.

#### Property, plant and equipment

Property, plant and equipment is held at cost. The Group has a policy of not revaluing property, plant and equipment. Depreciation is calculated to write off the cost less the estimated residual value on a straight-line basis, over the economic life of the asset. Residual values, where applicable, are reviewed annually against prevailing market values for equivalently aged assets and depreciation rates adjusted accordingly on a prospective basis.

##### a Capitalisation of interest on progress payments

Interest attributed to progress payments, and related exchange movements on foreign currency amounts, made on account of aircraft and other qualifying assets under construction are capitalised and added to the cost of the asset concerned.

All other borrowing costs are recognised in the Income statement in the year in which they are incurred.

##### b Fleet

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits. Fleet assets owned or held on finance leases are depreciated at rates calculated to write down the cost to the estimated residual value at the end of their planned operational lives on a straight-line basis.

Cabin interior modifications, including those required for brand changes and relaunches, are depreciated over the lower of five years and the remaining life of the aircraft.

Aircraft and engine spares acquired on the introduction or expansion of a fleet, as well as rotatable spares purchased separately, are carried as property, plant and equipment and generally depreciate in line with the fleet to which they relate.

Major overhaul expenditure, including replacement spares and labour costs, is capitalised and amortised over the average expected life between major overhauls. All other replacement spares and other costs relating to maintenance of fleet assets (including maintenance provided under 'pay-as-you-go' contracts) are charged to the Income statement on consumption or as incurred respectively.

##### c Other property, plant and equipment

Provision is made for the depreciation of all property, plant and equipment. Property, with the exception of freehold land, is depreciated over its expected useful life over periods not exceeding 50 years, or in the case of leasehold properties, over the duration of the lease if shorter, on a straight-line basis. Equipment is depreciated over periods ranging from 4 to 20 years.

##### d Leased assets

Where assets are financed through finance leases, under which substantially all the risks and rewards of ownership are transferred to the Group, the assets are treated as if they had been purchased outright. The amount included in the cost of property, plant and equipment represents the aggregate of the capital elements payable during the lease term. The corresponding obligation, reduced by the appropriate proportion of lease payments made, is included in borrowings.

The amount included in the cost of property, plant and equipment is depreciated on the basis described in the preceding paragraphs on fleet and the interest element of lease payments made is included as an interest expense in the Income statement.

Total minimum payments, measured at inception, under all other lease arrangements, known as operating leases, are charged to the Income statement in equal annual amounts over the period of the lease. In respect of aircraft, certain operating lease arrangements allow the Group to terminate the leases after a limited initial period, without further material financial obligations. In certain cases the Group is entitled to extend the initial lease period on predetermined terms; such leases are described as extendable operating leases.

### Intangible assets

#### a Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration paid over the net fair value of the identifiable assets and liabilities of the acquiree. Where the net fair value of the identifiable assets and liabilities of the acquiree is in excess of the consideration paid, a gain on bargain purchase is recognised immediately in the Income statement.

For the purposes of assessing impairment, goodwill is grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Goodwill is tested for impairment annually and whenever indicators exist that the carrying value may not be recoverable.

#### b Brands

Brands arising on the acquisition of subsidiaries are initially recognised at fair value at the acquisition date. Long established brands that are expected to be used indefinitely are not amortised but assessed annually for impairment.

#### c Customer loyalty programmes

Customer loyalty programmes arising on the acquisition of subsidiaries are initially recognised at fair value at the acquisition date. A customer loyalty programme with an expected useful life is amortised over the expected remaining useful life. Customer loyalty programmes with an indefinite life are not amortised but assessed annually for impairment.

#### d Landing rights

Landing rights acquired in a business combination are recognised at fair value at the acquisition date. Landing rights acquired from other airlines are capitalised at cost.

Capitalised landing rights based outside the EU are amortised on a straight-line basis over a period not exceeding 20 years. Capitalised landing rights based within the EU are not amortised, as regulations provide that these landing rights are perpetual.

#### e Contract based-intangibles

Contract based intangibles acquired in a business combination are recognised initially at fair value at the acquisition date and amortised over the remaining life of the contract.

#### f Software

The cost to purchase or develop computer software that is separable from an item of related hardware is capitalised separately and amortised on a straight-line basis over a period not exceeding five years.

#### g Emissions allowances

Purchased emissions allowances are recognised at cost. Emissions allowances are not revalued or amortised but are tested for impairment whenever indicators exist that the carrying value may not be recoverable.

### Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the value by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value-in use. Non-financial assets other than goodwill that were subject to an impairment are reviewed for possible reversal of the impairment at each reporting date.

#### a Property, plant and equipment

The carrying value is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable and the cumulative impairment losses are shown as a reduction in the carrying value of property, plant and equipment.

#### b Intangible assets

Intangible assets are held at cost and are either amortised on a straight-line basis over their economic life, or they are deemed to have an indefinite economic life and are not amortised. Indefinite life intangible assets are tested annually for impairment or more frequently if events or changes in circumstances indicate the carrying value may not be recoverable.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 2 Summary of significant accounting policies continued

#### Investments in associates and joint ventures

An associate is an undertaking in which the Group has a long-term equity interest and over which it has the power to exercise significant influence. Where the Group cannot exercise control over an entity in which it has a shareholding greater than 51 per cent, the equity interest is treated as an associated undertaking.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group has assessed the nature of its joint arrangement and determined it to be a joint venture.

Investments in associates and joint ventures are accounted for using the equity method, and initially recognised at cost. The Group's interest in the net assets of associates and joint ventures is included in Investments accounted for using the equity method in the Balance sheet and its interest in their results is included in the Income statement, below operating result. The attributable results of those companies acquired or disposed of during the year are included for the periods of ownership.

#### Financial instruments

##### a Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets not classified as loans and receivables and include listed and unlisted investments, excluding interests in associates. After initial recognition, available-for-sale financial assets are measured at fair value, with changes in fair value recognised in Other comprehensive income until the investment is sold or becomes impaired, at which time the cumulative gain or loss previously reported in equity is recognised in the Income statement.

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques. Where fair value cannot be reliably estimated, assets are carried at cost.

##### b Trade and other receivables

Trade and other receivables are stated at cost less allowances made for doubtful receivables, which approximates fair value given the short dated nature of these assets. A provision for impairment of trade receivables (allowance for doubtful receivables) is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. Loans to third parties are initially measured at the fair value of the consideration given plus any directly attributable transaction costs, and measured thereafter at amortised cost.

##### c Other current interest-bearing deposits

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

##### d Derivative financial instruments and hedging activities

Derivative financial instruments, comprising interest rate swap agreements, foreign exchange derivatives and fuel hedging derivatives (including options, swaps and futures) are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss arising from revaluation depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged (as detailed below under cash flow hedges). The gains or losses related to derivatives not used as effective hedging instruments are recognised in the Income statement.

Exchange gains and losses on monetary investments are taken to the Income statement unless the item has been designated and is assessed as an effective hedging instrument. Exchange gains and losses on non-monetary investments are reflected in equity until the investment is sold when the cumulative amount recognised in equity is recognised in the Income statement.

Long-term borrowings are recorded at amortised cost, including leases which contain interest rate swaps that are closely related to the underlying financing and as such are not accounted for as an embedded derivative.

##### e Cash flow hedges

Changes in the fair value of derivative financial instruments are reported through operating income or financing according to the nature of the instrument, unless the derivative financial instrument has been designated as a hedge of a highly probable expected future cash flow. Gains and losses on derivative financial instruments designated as cash flow hedges and assessed as effective for the year, are recorded in equity. Gains and losses recorded in equity are reflected in the Income statement when either the hedged cash flow impacts income or the hedged item is no longer expected to occur.

Certain loan repayment instalments denominated in US dollars, euro and Japanese yen are designated as cash flow hedges of highly probable future foreign currency revenues. Exchange differences arising from the translation of these loan repayment instalments are recorded in equity and subsequently reflected in the Income statement when either the future revenue impacts income or its occurrence is no longer expected to occur.

## f Convertible debt

Convertible bonds are classified as compound instruments, consisting of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt, and is subsequently recorded at an amortised cost basis using the effective interest method until extinguished on conversion or maturity of the bonds, and is recognised within Interest-bearing borrowings. The difference between the proceeds of issue of the convertible bond and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in Equity portion of convertible bond in Other reserves and is not subsequently remeasured.

Issue costs are apportioned between the liability and equity components of the convertible bonds where appropriate based on their relative carrying values at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the effective interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this value and the interest paid is added to the carrying amount of the liability.

## Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events that have occurred since the initial recognition of the asset have had a negative impact on the estimated future cash flows of that asset. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative gain or loss previously reported in Other comprehensive income is included in the Income statement.

An impairment loss in respect of a financial asset carried at amortised cost is calculated as the difference between its carrying value and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

## Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it has been settled, sold, cancelled or has expired.

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

## Employee benefit plans

### a Pension obligations

The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years. The benefit is discounted to determine its present value, and the fair value of any plan assets are deducted. The discount rate is the yield at the balance sheet date on AA-rated corporate bonds of the appropriate currency that have durations approximating those of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the net obligation calculation results in an asset for the Group, the recognition of an asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan ('the asset ceiling'). The fair value of the plan assets is based on market price information and, in the case of quoted securities, is the published bid price.

Current service costs are recognised within operating expenses in the year in which they arise. Past service costs are recognised at the earlier of the plan amendment or curtailment occurring, and when the Group recognises the related restructuring costs or termination benefits. The net interest is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest and other expenses related to the defined benefit plans are recognised in the Income statement. Remeasurements, comprising actuarial gains and losses, the effect of the asset ceiling (excluding interest) and the return on plan assets (excluding interest), are recognised immediately in Other comprehensive income. Remeasurements are not reclassified to the Income statement in subsequent periods.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 2 Summary of significant accounting policies continued

#### b Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Other employee benefits are recognised when there is deemed to be a present obligation.

#### Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries or associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the Income statement.

#### Non-current assets held for sale

Non-current assets are classified as held for sale when their carrying value is to be recovered principally through sale as opposed to continuing use. The sale must be considered to be highly probable and to be achieved within 12 months. Held for sale assets are carried at the lower of carrying value and fair value less costs to sell. Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

#### Inventories

Inventories, including aircraft expendables, are valued at the lower of cost and net realisable value. Such cost is determined by the weighted average cost method. Inventories include mainly aircraft spare parts, repairable aircraft engine parts and fuel.

#### Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits with any qualifying financial institution repayable on demand or maturing within three months of the date of acquisition and which are subject to an insignificant risk of change in value.

#### Treasury shares

Shares in the Company purchased and held directly by the Company are classified as Treasury shares, and shown as deductions from Shareholders' equity at cost. Shares in the Company held by the British Airways Plc Employee Share Ownership Trust are classified as Investments in own shares, and shown as deductions from Shareholders' equity at cost.

Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from the sale and the original cost being taken to reserves. No gain or loss is recognised in the Income statement on the purchase, sale, issue or cancellation of equity shares.

#### Share-based payments

The Group operates a number of equity-settled, share-based payment plans, under which the Group awards equity instruments of the Group for services rendered by employees. The fair value of the share-based payment plans is measured at the date of grant using an appropriate valuation model. The resulting cost, as adjusted for the expected and actual level of vesting of the plan, is charged to the Income statement over the period in which the options vest. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, of the number of equity instruments that will ultimately vest. The movement in the cumulative expense since the previous balance sheet date is recognised in the Income statement with a corresponding entry in equity.

### Dividends

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

### Provisions

Provisions are made when a future obligation exists for a present liability in respect of a past event and where the amount of the obligation can be reliably estimated.

Employee leaving indemnities and other employee provisions are recorded for flight crew who, meeting certain conditions, have the option of being placed on reserve or of taking early retirement. The Group is obligated to remunerate these employees until they reach the statutory retirement age. The calculation is performed by independent actuaries using the projected unit credit method.

Other employee related provisions are recognised for direct expenditures of business reorganisation (restructuring provisions) where plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken at the balance sheet date.

If the effect is material, expected future cash flows are discounted using a rate that reflects, where appropriate, the risks specific to the provision. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

### Revenue recognition

Passenger and cargo revenue is recognised when the transportation service has been provided. Passenger tickets net of discounts are recorded as current liabilities as deferred revenue on ticket sales until the customer has flown. Unused tickets are recognised as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and statistical analysis of historical trends.

Other revenue including maintenance, handling, hotel and holiday and commissions is recognised at the time the service is provided in accordance with the invoice or contract.

### Customer loyalty programmes

The Group operates five loyalty programmes: Executive Club, Iberia Plus, Avios, Punto and Gold Circle Club. The principal customer loyalty programmes award travellers Avios points to redeem for various rewards primarily redemption travel, including flights, hotels and car hire. In accordance with IFRIC 13 'Customer loyalty programmes', the fair value attributed to the awarded Avios points is deferred as a liability and recognised as revenue on redemption of the points and provision of service to the participants to whom the Avios points are issued.

In addition, Avios points are sold to commercial partners to use in loyalty activity. The fair value of the Avios points sold is deferred and recognised as revenue on redemption of the Avios points by the participants to whom the Avios points are issued. The cost of the redemption of the Avios points is recognised when the Avios points are redeemed.

The Group estimates the fair value of Avios points by reference to the fair value of the awards for which they could be redeemed and is reduced to take into account the proportion of award credits that are not expected to be redeemed based on the results of statistical modelling. The fair value of the Avios point reflects the fair value of the range of available awards.

### Exceptional items

Exceptional items are those that in management's view need to be separately disclosed by virtue of their size or incidence. The exceptional items recorded in the Income statement include items such as significant restructuring; the impact of business combination transactions that do not contribute to the ongoing results of the Group; and the impact of the sale, disposal or impairment of an investment in a business.

Business combination transactions include cash items such as the costs incurred to effect the transaction and non-cash items such as accounting gains or losses recognised through the Income statement, such as bargain purchase gains and step acquisition losses.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 2 Summary of significant accounting policies continued

#### Critical accounting estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results in the future may differ from estimates upon which financial information has been prepared. These underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if these are also affected. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as follows.

#### a Employee benefit obligations, employee leaving indemnities, other employee related provisions and restructuring

The cost of employee benefit obligations, employee leaving indemnities and other employee related provisions is determined using actuarial valuations. Actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future inflation rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such estimates are subject to significant uncertainty. The assumptions relating to these schemes are disclosed in notes 32 and 25. The Group exercises its judgement in determining the assumptions to be adopted, in discussion with its independent external actuaries.

Restructuring provisions are estimates of future obligations. The Group exercises judgement in determining the expected direct expenditures of reorganisation based on plans which are sufficiently detailed and advanced.

#### b Revenue recognition

Passenger revenue is recognised when the transportation is provided. Ticket sales that are not expected to be used for transportation ('unused tickets') are recognised as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and historical trends.

In respect of customer loyalty programmes the fair value attributed to awarded points is deferred as a liability and is recognised as revenue on redemption of the points and provision of service to the participants to whom the points are issued. The fair value of the award credits is estimated by reference to the fair value of the awards for which the points could be redeemed and is reduced to take into account the proportion of award credits that are not expected to be redeemed by customers. The Group exercises its judgement in determining the assumptions to be adopted in respect of the number of points not expected to be redeemed through the use of statistical modelling and historical trends and in determining the mix and fair value of the award credits.

#### c Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The Group recognises deferred income tax assets only to the extent that it is probable that the taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised. Management consider the operating performance in the current year and the future projections of performance laid out in the approved business plan in order to assess the probability of recoverability. The Business plan relies on the use of assumptions, estimates and judgements in respect of future performance and economics.

#### d Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and intangible assets with indefinite economic lives are tested for impairment annually and at other times when such indicators exist. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as disclosed in note 16.

Other non-financial assets are tested for impairment annually or when there are indicators that the carrying amounts may not be recoverable.

#### e Residual values and useful lives of assets

The Group exercises judgement to determine useful lives and residual values of property and plant and equipment. The assets are depreciated to their residual values over their estimated useful lives. At the beginning of the year, the Group revised its estimates for certain fleet. As a result of this review, changes in estimated useful lives and residual values were applied prospectively from January 1, 2015.

#### f Foreign currency - transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency using the rate of exchange prevailing on the date of the transaction. Monetary foreign currency balances are translated into the functional currency at the rates ruling at the balance sheet date.

Where more than one exchange rate for a particular currency exists, judgement is required in order to determine which rate should be used based on entity specific facts and circumstances. Consideration is given to the Group's intention and ability to use specific mechanisms and whether that use is probable. Where exchangeability is lacking across mechanisms the published legally available rate that best reflects the economics of the Group's activities is considered.

#### g Lease classification

A lease is classified as a finance lease when substantially all the risks and rewards of ownership are transferred to the Group. In determining the appropriate classification, the substance of the transaction rather than the form is considered. Factors considered include but are not limited to the following: whether the lease transfers ownership of the asset to the lessee by the end of the lease term; the lessee has the option to purchase the asset at the price that is sufficiently lower than the fair value on exercise date; the lease term is for the major part of the economic life of the asset; and the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

#### h Maintenance provision

The Group has a number of maintenance contracts with service providers to repair or replace engine parts. These agreements are complex and the Group exercises judgement in determining the assumptions used to match the consumption of replacement spares and other costs associated with fleet maintenance with the appropriate income statement charge.

### Changes in accounting policy and disclosures

#### a New and amended standards adopted by the Group

The Group has adopted the following interpretation for the first time in the year to December 31, 2015:

IFRIC 21 'Levies'; effective for periods beginning on or after June 17, 2014. IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. The application of this amendment had no impact on the Group's net profit or net assets.

Other amendments resulting from improvements to IFRSs or to standards did not have any impact on the accounting policies, financial position or performance of the Group.

#### b New standards, amendments and interpretations not yet effective

The IASB and IFRIC issued the following standards, amendments and interpretations with an effective date after the year end of these financial statements which management believe could impact the Group in future periods. Unless otherwise stated, the Group plans to adopt the following standards, interpretations and amendments:

IFRS 15 'Revenue from contracts with customers' (not yet endorsed by the EU); effective for periods beginning on or after January 1, 2018. The standard establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. This is a converged standard on revenue recognition which replaces IAS 18 'Revenue', IAS 11 'Construction contracts' and related interpretations. The Group is currently assessing the impact of the new standard.

IFRS 9 'Financial instruments' (not yet endorsed by the EU); effective for periods beginning on or after January 1, 2018. The standard removes the multiple classification and measurement models for financial assets required by IAS 39 and introduces a model that has only two classification categories: amortised cost and fair value. Classification is driven by the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The accounting and presentation for financial liabilities and for derecognising financial instruments is relocated from IAS 39 without any significant changes. IFRS 9 (2010) introduces additional changes relating to financial liabilities. IFRS 9 adds new requirements to address the impairment of financial assets and hedge accounting. The Group is currently assessing the impact of the new standard.

IFRS 16 'Leases' (not yet endorsed by the EU); effective for periods beginning on or after January 1 2019. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The new standard eliminates the classification of leases as either operating leases or finance leases and instead introduces a single lessee accounting model. Applying this model, lessees are required to recognise a lease liability reflecting the obligation to make future lease payments and a 'right-of-use' asset for virtually all lease contracts. IFRS 16 includes an optional exemption for certain short-term leases and leases of low-value assets. The Group is currently assessing the impact of the new standard.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 2 Summary of significant accounting policies continued

IAS 19 (Amendment) 'Employee benefits'; effective for periods beginning on or after February 1, 2015 in the European Union. The amendment applies to contributions from employees or third parties to defined benefit plans and clarifies the treatment of such contributions. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example employee contributions that are calculated according to a fixed percentage of salary. Entities with plans that require contributions that vary with service will be required to recognise the benefit of those contributions over employee's working lives. It is anticipated that the application of this amendment will have no significant impact on the Group's net profit or net assets.

There are no other standards, amendments or interpretations in issue but not yet adopted that the Directors anticipate will have a material effect on the reported income, net assets or disclosures of the Group.

The Group has not early adopted any standard, amendment or interpretation that has been issued but is not yet effective.

### 3 Business combination

On August 18, 2015, the Group acquired 540,310,400 shares, representing 100 per cent of the issued ordinary share capital of Aer Lingus Group for €2.55 per share, comprising a cash payment of €2.50 per share and payment of a cash dividend by Aer Lingus of €0.05 per share (payable on May 29, 2015 to Aer Lingus shareholders on the register of members on May 1, 2015).

The acquisition will provide substantial benefits through an enhanced network, particularly to North America, using Dublin as a natural gateway hub for transatlantic routes.

Transaction costs related to the acquisition of Aer Lingus totalling €33 million were recognised within Property, IT and other costs in the Income statement for the year to December 31, 2015.

From August 18, 2015 Aer Lingus' contribution to the consolidated Group results was revenue of €622 million, and an operating profit of €32 million after exceptional items. Had Aer Lingus been consolidated from January 1, 2015, the Group would have reported total revenue of €23,955 million and an operating profit after exceptional items of €2,410 million for the year to December 31, 2015. At December 31, 2015 the fair value of the assets and liabilities acquired were provisional, pending the finalisation of the property, plant and equipment and landing rights valuation exercise.

The provisional fair values of the assets and liabilities arising from the acquisition are as follows:

€ million	Fair value
Property, plant and equipment	721
Intangible assets	
Brand	110
Landing rights <sup>1</sup>	172
Other	40
Other non-current assets	164
Cash and cash equivalents	205
Other current interest-bearing deposits	708
Trade receivables <sup>2</sup>	54
Other current assets	66
Interest-bearing borrowings	(406)
Trade and other payables	(604)
Provision for liabilities and charges	(158)
Employee benefit obligations	(9)
Deferred tax liability	(35)
Net identifiable assets acquired	1,028

<sup>1</sup> For indefinite lived landing rights, see note 16.

<sup>2</sup> The gross contractual amount for trade receivables is €55 million, 98 per cent which is expected to be collected.

The goodwill is recognised as follows:

€ million	
Cash consideration <sup>1</sup>	1,351
Provisional fair value of identifiable net assets	1,028
Provisional goodwill	323

<sup>1</sup> There is no deferred or contingent consideration.

None of the goodwill recognised is expected to be deductible for tax purposes.

#### 4 Segment information

##### a Business segments

British Airways, Iberia, Vueling and Aer Lingus are managed as individual operating companies. Each airline operates its network operations as a single business unit. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments, and has been identified as the IAG Management Committee. The IAG Management Committee makes resource allocation decisions based on network profitability, primarily by reference to the passenger markets in which the companies operate. The objective in making resource allocation decisions is to optimise consolidated financial results. Therefore, based on the way the Group treats its businesses, and the manner in which resource allocation decisions are made, the Group has four (2014: three) reportable operating segments for financial reporting purposes, reported as British Airways, Iberia, Vueling and Aer Lingus. Other Group companies include head office companies.

For the year to December 31, 2015

€ million	2015					Total
	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies	
<b>Revenue</b>						
External revenue	15,862	4,412	1,962	622	-	<b>22,858</b>
Inter-segment revenue	53	352	-	-	145	<b>550</b>
<b>Segment revenue</b>	<b>15,915</b>	<b>4,764</b>	<b>1,962</b>	<b>622</b>	<b>145</b>	<b>23,408</b>
Depreciation, amortisation and impairment	(1,053)	(206)	(13)	(27)	(8)	<b>(1,307)</b>
<b>Operating profit/(loss) before exceptional items</b>	<b>1,914</b>	<b>247</b>	<b>160</b>	<b>35</b>	<b>(21)</b>	<b>2,335</b>
Exceptional items (note 5)	(35)	-	-	(3)	21	<b>(17)</b>
<b>Operating profit after exceptional items</b>	<b>1,879</b>	<b>247</b>	<b>160</b>	<b>32</b>	<b>-</b>	<b>2,318</b>
Net non-operating costs						<b>(517)</b>
<b>Profit before tax</b>						<b>1,801</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 4 Segment information continued

#### a Business segments

For the year to December 31, 2014

€ million	2014				Total
	British Airways	Iberia	Vueling	Other Group companies	
Revenue					
External revenue	14,456	3,989	1,725	-	20,170
Inter-segment revenue	37	279	-	107	423
Segment revenue	14,493	4,268	1,725	107	20,593
Depreciation, amortisation and impairment	(1,027)	(76)	(11)	(3)	(1,117)
Operating profit/(loss) before exceptional items	1,215	50	141	(16)	1,390
Exceptional items (note 5)	-	(361)	-	-	(361)
Operating profit/(loss) after exceptional items	1,215	(311)	141	(16)	1,029
Net non-operating costs					(201)
Profit before tax					828

#### b Geographical analysis

##### Revenue by area of original sale

€ million	2015	2014
UK	<b>8,256</b>	6,931
Spain	<b>3,462</b>	3,203
USA	<b>3,447</b>	2,893
Rest of world	<b>7,693</b>	7,143
	<b>22,858</b>	20,170

##### Assets by area

December 31, 2015

€ million	Property, plant and equipment	Intangible assets
UK	<b>11,112</b>	<b>1,346</b>
Spain	<b>1,798</b>	<b>1,852</b>
USA	<b>26</b>	<b>14</b>
Rest of world	<b>736</b>	<b>34</b>
	<b>13,672</b>	<b>3,246</b>

December 31, 2014

€ million	Property, plant and equipment	Intangible assets
UK	10,131	1,184
Spain	1,624	1,218
USA	24	12
Rest of world	5	24
	11,784	2,438

## 5 Exceptional items

€ million	2015	2014
Business combination costs <sup>1</sup>	33	-
Pre-acquisition cash flow hedge impact <sup>2</sup>	(51)	-
Litigation provision <sup>3</sup>	35	-
Foreign currency loss <sup>4</sup>	-	180
Restructuring costs – employee <sup>5</sup>	-	260
Reversal of Iberia brand impairment <sup>6</sup>	-	(79)
<b>Recognised in expenditure on operations</b>	<b>17</b>	<b>361</b>
Gain on sale of investment <sup>7</sup>	-	(83)
<b>Total exceptional charge before tax</b>	<b>17</b>	<b>278</b>
Tax on exceptional items	6	(144)
Net deferred tax credit <sup>8</sup>	-	(269)
<b>Total exceptional charge/(credit) after tax</b>	<b>23</b>	<b>(135)</b>

### 1 Business combination costs

Transaction expenses of €33 million were recognised in relation to the Aer Lingus Business combination in the year to December 31, 2015 (note 3).

### 2 Derivatives and financial instruments

On August 18, 2015, Aer Lingus had a portfolio of cash flow hedges related to fuel with a net mark-to-market charge of €99 million recorded within Other reserves on the Balance sheet. As these cash flow hedge positions unwind, Aer Lingus will recycle the impact from Other reserves.

The Group does not recognise the pre-acquisition cash flow hedge net position within Other reserves on the Balance sheet, resulting in fuel costs being gross of the pre-acquisition cash flow hedge positions. For the year to December 31, 2015 this has resulted in a decrease in reported fuel expense of €51 million and a related €6 million tax charge.

### 3 Litigation provision

The litigation provision represents the continuation of the civil claims brought against British Airways in 2006. This provision represents a settled case against British Airways in the cargo claim, for a total of €35 million. The final amount required to pay the remaining claims detailed in note 33 is subject to significant uncertainty.

*In the year to December 31, 2014:*

### 4 Foreign currency loss

Since December 2012 repatriation of funds from Venezuela has been limited. Throughout 2013, Iberia recognised net sales at 6.3 bolívars (CADIVI) to the US dollar. The unrepatriated cash at the end of 2013 was €184 million.

From February to October 2014, Iberia recognised net sales at 11 bolívars to the US dollar (SICAD I) since this was the official rate at which Iberia was authorised by the Venezuelan government to repatriate cash. In the third quarter of 2014, Iberia received funds for February to June 2014 at SICAD I and given the ongoing negotiations, the €184 million of unrepatriated funds from 2013 and January 2014 were also revalued to SICAD I. An exceptional charge of €82 million was recognised.

Iberia was unable to repatriate any further funds earned prior to February 2014 or subsequent to June 2014. Given this and combined with the lack of liquidity in Venezuela, the decrease in the Brent barrel price and a government recognised inflation rate of 65 per cent, Iberia determined that SICAD I could no longer be considered available in practice, for the repatriation of the funds. The next alternative rate available at December 31, 2014 was the SICAD II rate of 50 bolívars (Bs.) to the US dollar which Iberia considered to better reflect the economic reality. This rate was applied since November 2014. All remaining funds, which approximately amount to Bs 1.7 billion were revalued to SICAD II resulting in an additional exceptional charge of €98 million. The cash balance at December 31, 2014 was €18 million. A related tax credit of €54 million was recognised.

### 5 Restructuring costs

In the year to December 31, 2014, a restructuring expense of €260 million was recognised in relation to the Iberia Transformation Plan and the agreement on collective redundancies for pilots and ground staff. A related tax credit of €78 million was recognised.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 5 Exceptional items continued

#### 6 Reversal of Iberia Brand impairment

In 2014, the partial impairment made in 2012 of the Iberia Brand of €79 million was reversed. This followed the approval of the five year Business plan including capacity growth and Iberia's return to profitability, which supported the reversal of the Brand impairment (note 16). A related tax charge of €24 million was recognised.

#### 7 Gain on sale of investment

During the third quarter of 2014, Iberia entered into an agreement to settle its hedging transaction over its ownership interest in Amadeus IT Holding S.A. The derivative transaction comprised a collar arrangement on Iberia's Amadeus shareholding of 33,562,331 ordinary shares.

The settlement commenced in August 2014 and occurred in equal instalments over a 100 trading day period. At December 31, 2014 Iberia had settled 99 per cent of the transaction and the resulting €83 million gain was recognised in the Net credit related to available-for-sale financial assets line. A related €36 million tax credit was recognised.

#### 8 Net deferred tax credit

In 2014, the Group recognised a €306 million deferred tax asset relating to losses incurred by Iberia from 2013 and 2012. Recognition is based on Management's expectation of the recoverability of these losses against future profits. Recoverability was based on the improved operating performance in the prior year and from the projections included within the Business plan.

During 2014, the Spanish government enacted a number of changes as part of the Spanish Tax Reform, including the phased reduction of corporation tax rate from 30 per cent to 25 per cent and a change in loss utilisation rules. This was the first tax rate change since 2008. A related tax charge of €37 million was also recognised.

### 6 Expenses by nature

#### Operating profit is arrived at after charging

Depreciation, amortisation and impairment of non-current assets:

€ million	2015	2014
Owned assets	<b>834</b>	810
Finance leased aircraft	<b>346</b>	277
Other leasehold interests	<b>47</b>	57
Impairment charge on property, plant and equipment	<b>5</b>	8
Amortisation of intangible assets	<b>75</b>	44
Impairment reversal on intangible assets	<b>-</b>	(79)
	<b>1,307</b>	1,117

Operating lease costs:

€ million	2015	2014
Minimum lease rentals	<b>659</b>	551
- aircraft		
- property and equipment	<b>195</b>	187
Sub-lease rentals received	<b>(46)</b>	(54)
	<b>808</b>	684

Cost of inventories:

€ million	2015	2014
Cost of inventories recognised as an expense, mainly fuel	<b>4,899</b>	5,377

## 7 Auditors' remuneration

The fees for audit and non-audit services provided by the auditor of the Group's consolidated financial statements and of certain individual financial statements of the consolidated companies, Ernst & Young S.L., and by companies belonging to Ernst & Young's network, as well as fees for services billed to Aer Lingus by PricewaterhouseCoopers LLP ('PwC') and by companies belonging to PwC's network, were as follows:

€'000	2015		2014	
	Ernst & Young	Other auditor	Ernst & Young	Other auditor
Fees payable for the audit of the Group and individual accounts	3,552	40	2,806	-
Fees payable for other services:				
Audit of the Group's subsidiaries pursuant to legislation	571	388	535	-
Other services pursuant to legislation	389	4	349	-
Other services relating to taxation	57	-	269	-
Other assurance services	552	-	359	-
Services relating to information technology	34	-	30	-
Services relating to corporate finance transactions <sup>1</sup>	610	-	-	-
All other services	85	-	-	-
	<b>5,850</b>	<b>432</b>	4,348	-

<sup>1</sup> This mainly included services in relation to the Aer Lingus acquisition.

The audit fees payable are approved by the Audit and Compliance Committee and have been reviewed in the context of other companies for cost effectiveness. A description of the work of the Audit and Compliance Committee is set out in the Report of the Audit and Compliance Committee on page 69 and includes an explanation of how objectivity and independence is safeguarded when non-audit services are provided.

## 8 Employee costs and numbers

### a Employee costs

€ million	2015	2014
Wages and salaries	3,277	3,194
Social security costs	485	447
Costs related to pension scheme benefits	372	285
Cost of share-based payments	35	29
Other employee costs <sup>1</sup>	736	630
	<b>4,905</b>	4,585

<sup>1</sup> Other employee costs include allowances and accommodation for crew.

The average number of employees during the year was as follows:

	2015		2014	
	Average number of employees	Percentage of women	Average number of employees	Percentage of women
Senior executives	214	24%	219	23%
Ground employees:				
Managerial	2,385	41%	2,379	40%
Non-managerial	32,835	36%	32,527	36%
Technical crew:				
Managerial	5,906	10%	5,694	10%
Non-managerial	19,522	67%	18,665	67%
	<b>60,862</b>		59,484	

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 8 Employee costs and numbers continued

#### b Directors' remuneration

€ million	2015	2014
Board of Directors' remuneration	15	13
Management Committee remuneration	22	18

There were three female Directors at December 31, 2015 (2014: three).

The Report of the Remuneration Committee discloses further details of Directors' remuneration.

The Group provides life insurance for the Executive Directors of the Board, and for the year to December 31, 2015 the Group's obligation was €28,000 (2014: €16,000). At December 31, 2015 none of the Executive Directors were members of defined benefit pension schemes.

In relation to Article 229 of the Spanish Companies Act, all IAG Directors have confirmed that they have no conflict with the Company's interests.

### 9 Finance costs and income

#### a Finance costs

€ million	2015	2014
Interest expense on:		
Bank borrowings	(23)	(26)
Finance leases	(138)	(111)
Provisions: unwinding of discount	(21)	(39)
Other borrowings	(115)	(74)
Capitalised interest on progress payments	2	2
Change in fair value of cross currency swaps	1	(5)
Currency charges on financial fixed assets	-	16
	(294)	(237)

#### b Finance income

€ million	2015	2014
Interest on other interest-bearing deposits	42	32

#### c Net financing charge relating to pensions

€ million	2015	2014
Net financing charge relating to pensions	(12)	(4)

**10 Tax****a Tax on profit on ordinary activities**

Tax charge/(credit) in the Income statement

€ million	2015	2014
<b>Current tax</b>		
Tax on profits	<b>337</b>	228
Adjustments in respect of prior years	<b>5</b>	19
Total current tax charge	<b>342</b>	247
<b>Deferred tax arising on the differences between the accounting and tax treatment of:</b>		
Property, plant and equipment	<b>10</b>	(7)
Employee leaving indemnities and other employee related provisions	<b>13</b>	(14)
Tax losses utilised	<b>42</b>	47
Employee benefit plans	<b>(2)</b>	(49)
Tax credits	<b>1</b>	(27)
Foreign exchange	<b>(20)</b>	(2)
Fuel derivative losses	<b>(12)</b>	(10)
Unremitted earnings of associate companies	<b>3</b>	-
Deferred revenue in relation to customer loyalty programmes	<b>16</b>	(12)
Adjustments in respect of prior years	<b>(32)</b>	(36)
Effect of tax rate changes	<b>(84)</b>	41
Other items	<b>8</b>	-
Advance corporation tax	-	99
Available-for-sale financial assets	-	(146)
Previously unrecognised tax assets	-	(306)
Total deferred tax credit	<b>(57)</b>	(422)
<b>Total tax charge/(credit) in the Income statement</b>	<b>285</b>	(175)



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 10 Tax continued

Tax charged/(credited) directly to Other comprehensive income and Statement of changes in equity

€ million	2015	2014
<b>Current tax relating to items charged directly to Other comprehensive income</b>		
Employee benefit plans	(76)	(79)
<b>Deferred tax relating to items charged directly to Other comprehensive income</b>		
Cash flow hedges	53	(237)
Employee benefit plans	128	(111)
Adjustments in respect of prior years	(1)	-
Available-for-sale financial assets	-	(163)
Effect of tax rate changes	-	46
	<b>180</b>	<b>(465)</b>
<b>Current tax relating to items charged directly to Statement of changes in equity</b>		
Share-based payment schemes	(14)	(8)
<b>Deferred tax relating to items charged directly to Statement of changes in equity</b>		
Share-based payments schemes	4	(6)
<b>Total tax charge/(credit) relating to items included in Other comprehensive income and equity</b>	<b>94</b>	<b>(558)</b>

In 2015 the effect of tax rate changes on items that will not be reclassified to the Income statement was nil (2014: €7 million charge), and the effect on items that may be reclassified to the Income statement was nil (2014: €39 million charge).

#### b Reconciliation of the total tax charge/(credit)

The tax charge/(credit) is calculated at the domestic rates applicable to profits or losses in the main countries of operation. The tax charge (2014: credit) on the profit for the year to December 31, 2015 and 2014 is lower than the notional tax charge.

The differences are explained below:

€ million	2015	2014
Accounting profit before tax	<b>1,801</b>	828
Tax calculated at 28 per cent in Spain (2014: 30 per cent) and 20.25 per cent in the UK (2014: 21.5 per cent) and 12.5 per cent in Ireland	<b>381</b>	162
Effects of:		
Non-deductible expenses – transaction related	<b>11</b>	-
Non-deductible expenses – recurring items	<b>6</b>	-
Employee benefit plan accounting	<b>(8)</b>	(5)
Euro preferred securities accounted for as non-controlling interests	<b>(4)</b>	(5)
Tax on unremitted earnings	<b>3</b>	-
Current year tax assets not recognised	<b>3</b>	9
Adjustments in respect of prior years	<b>(27)</b>	(17)
Effect of tax rate changes	<b>(84)</b>	42
Other items	<b>4</b>	8
Disposal and write down of investments	-	(2)
Investment credit	-	(61)
Previously unrecognised tax assets	-	(306)
<b>Tax charge/(credit) in the Income statement</b>	<b>285</b>	<b>(175)</b>

**c Net deferred tax asset**

The net deferred tax asset included in the Balance sheet is as follows:

€ million	2015	2014
Difference between the accounting and tax treatment of:		
Property, plant and equipment	<b>(1,201)</b>	(1,126)
Employee leaving indemnities and other employee related provisions	<b>472</b>	492
Tax losses carried forward	<b>410</b>	396
Fair value losses recognised on cash flow hedges	<b>298</b>	330
Employee benefit plans	<b>168</b>	248
Tax assets in relation to tax credits and deductions	<b>78</b>	89
Share-based payments schemes	<b>22</b>	22
Foreign exchange	<b>8</b>	(16)
Deferred revenue in relation to customer loyalty programmes	<b>1</b>	17
Other items	<b>48</b>	39
<b>Net deferred tax asset</b>	<b>304</b>	491

## Movement in provision

€ million	2015	2014
Net deferred tax asset/(liability) at the beginning of the year	<b>491</b>	(383)
Acquired through Business combination	<b>(35)</b>	-
Deferred tax (charge)/credit relating to Income statement	<b>(59)</b>	427
Deferred tax (charge)/credit taken to Statement of other comprehensive income	<b>(180)</b>	511
Deferred tax (charge)/credit taken to Statement of changes in equity	<b>(4)</b>	6
Adjustments in respect of prior years	<b>33</b>	36
Effects of tax rate changes	<b>84</b>	(87)
Exchange movements	<b>(26)</b>	(19)
<b>Net deferred tax asset at the end of the year</b>	<b>304</b>	491

**d Other taxes**

The Group also contributed tax and related revenues through payment of transaction and payroll related taxes and charges. A breakdown of these other taxes paid during 2015 is as follows:

€ million	2015	2014
Payroll related taxes	<b>455</b>	423
UK Air Passenger Duty	<b>923</b>	813
Other ticket taxes and charges	<b>1,583</b>	1,290
	<b>2,961</b>	2,526

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 10 Tax continued

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

##### Unrecognised temporary differences - losses

€ million	2015	2014
Spanish corporate income tax losses	35	27
UK capital losses arising before the change in ownership of the UK Group in 2011	101	127
UK capital losses arising after the change in ownership of the Group in 2011	10	9
UK capital losses arising on properties that were eligible for Industrial Buildings Allowances	350	324
Corporate income tax losses outside of the countries of main operation	154	147

##### Unrecognised temporary differences - investment in subsidiaries and associates

No deferred tax liability has been recognised in respect of €795 million (2014: €75 million) of temporary differences relating to subsidiaries and associates. The Group either controls the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future or no tax consequences would arise from their reversal.

##### Tax rate changes

Reductions in the UK corporation tax rate were substantively enacted in the year. The main rate of corporation tax was reduced from 20 per cent to 19 per cent effective from April 1, 2017 and from 19 per cent to 18 per cent effective from April 1, 2020. The deferred tax on temporary differences and tax losses as at December 31, 2015 was calculated at the rate applicable to the year in which the temporary differences and tax losses are expected to reverse.

### 11 Earnings per share

€ million	2015	2014
Earnings attributable to equity holders of the parent for basic earnings	1,495	982
Interest expense on convertible bonds	25	21
Diluted earnings attributable to equity holders of the parent and diluted earnings per share	1,520	1,003
	Number '000	Number '000
Weighted average number of ordinary shares in issue	2,034,197	2,036,121
Assumed conversion on €390 million convertible bond	91,758	91,758
Assumed conversion on two tranches of €500 million convertible bonds	9,722	-
Dilutive employee share schemes outstanding	24,260	33,883
Weighted average number of ordinary shares in issue for diluted earnings per share	2,159,937	2,161,762
	2015	2014
Basic earnings per share (€ cents)	73.5	48.2
Diluted earnings per share (€ cents)	70.4	46.4

### 12 Dividends

€ million	2015	2014
<b>Cash dividends on ordinary shares declared</b>		
Interim dividend of 10 € cents per share	(203)	-
<b>Proposed cash dividends</b>		
Final dividend of 10 € cents per share	(204)	-

The proposed dividend would consist of 5 € cents per share from net profit for the year to December 31, 2015 and 5 € cents per share from share premium.

Proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability at December 31, 2015.

**13 Property, plant and equipment**

€ million	Fleet	Property	Equipment	Total
<b>Cost</b>				
Balance at January 1, 2014	17,673	2,085	1,344	21,102
Additions	2,316	57	126	2,499
Disposals	(888)	(3)	(22)	(913)
Exchange movements	1,125	120	67	1,312
Balance at December 31, 2014	20,226	2,259	1,515	24,000
Additions	1,774	51	112	<b>1,937</b>
Acquired through Business combination	693	16	12	<b>721</b>
Disposals	(1,180)	(3)	(56)	<b>(1,239)</b>
Reclassifications	(184)	3	(22)	<b>(203)</b>
Exchange movements	1,488	155	90	<b>1,733</b>
<b>December 31, 2015</b>	<b>22,817</b>	<b>2,481</b>	<b>1,651</b>	<b>26,949</b>
<b>Depreciation and impairment</b>				
Balance at January 1, 2014	9,158	867	849	10,874
Charge for the year	984	77	83	1,144
Impairment charge recognised during the year <sup>1</sup>	8	-	-	8
Disposals	(492)	(2)	(15)	(509)
Exchange movements	594	57	48	699
Balance at December 31, 2014	10,252	999	965	12,216
Charge for the year	1,066	70	91	<b>1,227</b>
Disposals	(954)	(3)	(34)	<b>(991)</b>
Reclassifications	(99)	2	(10)	<b>(107)</b>
Exchange movements	793	75	64	<b>932</b>
<b>December 31, 2015</b>	<b>11,058</b>	<b>1,143</b>	<b>1,076</b>	<b>13,277</b>
<b>Net book values</b>				
<b>December 31, 2015</b>	<b>11,759</b>	<b>1,338</b>	<b>575</b>	<b>13,672</b>
December 31, 2014	9,974	1,260	550	11,784
<b>Analysis at December 31, 2015</b>				
Owned	4,726	1,289	460	<b>6,475</b>
Finance leased	6,364	16	33	<b>6,413</b>
Progress payments	669	33	82	<b>784</b>
<b>Property, plant and equipment</b>	<b>11,759</b>	<b>1,338</b>	<b>575</b>	<b>13,672</b>
<b>Analysis at December 31, 2014</b>				
Owned	4,290	1,173	411	5,874
Finance leased	5,398	5	32	5,435
Progress payments	286	82	107	475
Property, plant and equipment	9,974	1,260	550	11,784

<sup>1</sup> The 2014 impairment charge of €8 million relates to one Airbus A340 aircraft written down to its net realisable value.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 13 Property, plant and equipment continued

The net book value of property comprises:

€ million	2015	2014
Freehold	561	542
Long leasehold improvements	387	359
Short leasehold improvements <sup>1</sup>	390	359
<b>Property</b>	<b>1,338</b>	<b>1,260</b>

<sup>1</sup> Short leasehold improvements relate to leasehold interests with duration of less than 50 years.

At December 31, 2015, bank and other loans of the Group are secured on fleet assets with a cost of €1,466 million (2014: €1,169 million) and letters of credit of €278 million in favour of the British Airways Pension Trustees are secured on certain aircraft (2014: €292 million).

### 14 Capital expenditure commitments

Capital expenditure authorised and contracted but not provided for in the accounts amounts to €16,091 million (December 31, 2014: €11,604 million). The majority of capital expenditure commitments are denominated in US dollars, and as such are subject to changes in exchange rates.

The outstanding commitments include €15,971 million for the acquisition of 100 Airbus A320s (from 2016 to 2022), 18 Airbus A321s (from 2016 to 2019), 14 Airbus A330s (from 2016 to 2018), 43 Airbus A350s (from 2018 to 2021), 2 Airbus A380s (in 2016) and 29 Boeing 787s (from 2016 to 2021).

### 15 Non-current assets held for sale

The non-current assets held for sale of €5 million represent three Boeing 737-400 airframes and nine Boeing 737-400 engines that have been stood down from use and are being marketed for sale. These are held at cost less accumulated depreciation and impairment. Total impairment charges recognised in the Income statement relating to these assets during the year was €5 million (2014: nil). These are presented within the British Airways operating segment and will exit the business within 12 months of December 31, 2015.

Assets held for sale with a net book value of €17 million were disposed of during the year to December 31, 2015, of which €11 million related to the sale of the remaining 0.075 per cent investment in Amadeus (which represented one settlement day outstanding) and resulted in a gain of €1 million, and €6 million related to the sale of five Boeing 737 engines, resulting in a loss of €4 million.

At December 31, 2014 the non-current assets held for sale of €18 million represented one settlement day outstanding for the remaining investment of 0.075 per cent in Amadeus (€11 million) and six Boeing 737 engines (€7 million). These were presented within the Iberia and British Airways segments respectively.

**16 Intangible assets and impairment review****a Intangible assets**

€ million	Goodwill	Brand	Customer loyalty programmes	Landing rights <sup>1</sup>	Other <sup>2</sup>	Total
<b>Cost</b>						
Balance at January 1, 2014	325	341	253	1,387	583	2,889
Additions	-	-	-	1	137	138
Exchange movements	3	-	-	54	29	86
Balance at December 31, 2014	328	341	253	1,442	749	3,113
Additions	-	-	-	-	168	<b>168</b>
Additions due to Business combination	323	110	-	172	40	<b>645</b>
Disposals	-	-	-	-	(114)	<b>(114)</b>
Reclassifications	-	-	-	-	20	<b>20</b>
Exchange movements	5	-	-	70	42	<b>117</b>
<b>December 31, 2015</b>	<b>656</b>	<b>451</b>	<b>253</b>	<b>1,684</b>	<b>905</b>	<b>3,949</b>
<b>Amortisation and impairment</b>						
Balance at January 1, 2014	249	79	-	72	293	693
Charge for the year	-	-	-	1	43	44
Impairment reversal	-	(79)	-	-	-	(79)
Exchange movements	-	-	-	4	13	17
Balance at December 31, 2014	249	-	-	77	349	675
Charge for the year	-	-	-	3	72	<b>75</b>
Disposals	-	-	-	-	(78)	<b>(78)</b>
Reclassifications	-	-	-	-	8	<b>8</b>
Exchange movements	-	-	-	6	17	<b>23</b>
<b>December 31, 2015</b>	<b>249</b>	<b>-</b>	<b>-</b>	<b>86</b>	<b>368</b>	<b>703</b>
<b>Net book values</b>						
<b>December 31, 2015</b>	<b>407</b>	<b>451</b>	<b>253</b>	<b>1,598</b>	<b>537</b>	<b>3,246</b>
December 31, 2014	79	341	253	1,365	400	2,438

1 The net book value includes non-EU based landing rights of €123 million (2014: €13 million) that have a definite life, of which €110 million were acquired through Business combination.

2 Other intangible assets consist primarily of software with a net book value of €487 million (2014: €353 million), and also include purchased emissions allowances.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 16 Intangible assets and impairment review continued

#### b Impairment review

The carrying amounts of intangible assets with indefinite life and goodwill allocated to cash generating units (CGUs) of the Group are:

€ million	Goodwill	Landing rights	Brand	Customer loyalty programmes	Total
<b>2015</b>					
<b>Iberia</b>					
January 1, 2015	-	423	306	253	<b>982</b>
Transfer to Avios	-	-	-	(253)	<b>(253)</b>
December 31, 2015	-	423	306	-	<b>729</b>
<b>British Airways</b>					
January 1, 2015	51	840	-	-	<b>891</b>
Exchange movements	5	61	-	-	<b>66</b>
December 31, 2015	56	901	-	-	<b>957</b>
<b>Vueling</b>					
January 1 and December 31, 2015	28	89	35	-	<b>152</b>
<b>Aer Lingus</b>					
January 1, 2015	-	-	-	-	<b>-</b>
Additions due to Business combination	323	62	110	-	<b>495</b>
December 31, 2015	323	62	110	-	<b>495</b>
<b>Avios</b>					
January 1, 2015	-	-	-	-	<b>-</b>
Transfer from Iberia	-	-	-	253	<b>253</b>
December 31, 2015	-	-	-	253	<b>253</b>
<b>December 31, 2015</b>	<b>407</b>	<b>1,475</b>	<b>451</b>	<b>253</b>	<b>2,586</b>



€ million	Goodwill	Landing rights	Brand	Customer loyalty programmes	Total
<b>2014</b>					
<b>Iberia</b>					
January 1, 2014	-	423	227	253	903
Impairment losses reversed	-	-	79	-	79
December 31, 2014	-	423	306	253	982
<b>British Airways</b>					
January 1, 2014	48	789	-	-	837
Additions	-	1	-	-	1
Exchange movements	3	50	-	-	53
December 31, 2014	51	840	-	-	891
<b>Vueling</b>					
January 1 and December 31, 2014	28	89	35	-	152
December 31, 2014	79	1,352	341	253	2,025

During the year to December 31, 2015 the Group acquired Aer Lingus, which has been identified as a CGU consistent with the other airlines in the Group. For the year to December 31, 2015 the Group did not conduct an impairment review for the Aer Lingus CGU as the fair value allocations were completed on a provisional basis (note 3). In the absence of any indicators of impairment, it is not considered necessary to carry out an impairment review at December 31, 2015 as goodwill and other intangible assets with indefinite life have been allocated on a provisional basis.

#### Basis for calculating recoverable amount

The recoverable amounts of CGUs have been measured based on their value-in-use.

Value-in-use is calculated using a discounted cash flow model, with the royalty methodology used for brands. Cash flow projections are based on the Business plan approved by the Board covering a five year period. Cash flows extrapolated beyond the five year period are projected to increase based on long-term growth rates. Cash flow projections are discounted using the CGU's pre-tax discount rate.

Annually the Group prepares and approves five year business plans. Business plans were approved in the fourth quarter of the year. The business plan cash flows used in the value-in-use calculations reflect all restructuring of the business that has been approved by the Board and which can be executed by Management under existing agreements.

#### Key assumptions

For each of the airline CGUs the key assumptions used in the value-in-use calculations are as follows:

Per cent	2015		
	British Airways	Iberia	Vueling
Lease adjusted operating margin	12-15	8-14	12-15
Average ASK growth per annum	2-3	7	10
Long-term growth rate	2.5	2.0	2.0
Pre-tax discount rate	8.6	9.7	10.3
2014			
Per cent	British Airways	Iberia	Vueling
Long-term growth rate	2.5	2.2	2.2
Pre-tax discount rate	10.0	10.2	12.5

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 16 Intangible assets and impairment review continued

Lease adjusted operating margin is the average annual operating result, adjusted for aircraft operating lease costs, as a percentage of revenue over the five year Business plan to 2020. It is presented as a percentage point range and is based on past performance, Management's expectation of the market development and incorporating risks into the cash flow estimates.

ASK growth is the average annual increase over the Business plan, based on past performance and Management's expectation of the market.

The long-term growth rate is calculated for each CGU based on the forecasted weighted average exposure in each primary market using gross domestic product (GDP) (*source: Oxford Economics/Haver Analytics*). This is amended from time-to-time to reflect specific market risk.

Pre-tax discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and underlying risks of its primary market. The discount rate calculation is based on the circumstances of the airline industry, the Group and its CGU. It is derived from the weighted average cost of capital (WACC). The WACC takes into consideration both debt and equity available to airlines. The cost of equity is derived from the expected return on investment by airline investors and the cost of debt is broadly based on the Group's interest-bearing borrowings. CGU specific risk is incorporated by applying individual beta factors which are evaluated annually based on available market data. The pre-tax discount rate reflects the timing of future tax flows. The change in discount rate for 2015 reflects a reduction in risk free rates and lower financing costs.

The impairment test of the Avios CGU was based on a value-in-use calculation with a long-term growth rate assumption of 2.4 per cent and a pre-tax discount rate of 9.1 per cent.

#### Summary of results

In 2015, Management reviewed the recoverable amount of each of its CGUs with the exception of Aer Lingus and concluded the recoverable amounts exceeded the carrying values. As a result, no further tests of brands, customer loyalty programmes or landing rights were performed.

The impairment test of the Iberia brand was reassessed in 2014, given the excess of the Iberia CGU recoverable amount over its carrying value. The reassessment included determining the Iberia brand recoverable amount using the royalty methodology, with a royalty rate of 0.60 per cent. Using this methodology, the recoverable amount of the Iberia CGU was €6,400 million. Individually and in combination, the value-in-use tests of the Iberia CGU and of the Iberia brand supported the reversal of the original €79 million impairment. In 2014, this was recorded as an exceptional credit within Depreciation, amortisation and impairment in the Income Statement.

#### Sensitivities

Additional sensitivities have been considered at the overall CGU level.

No reasonable possible change in the key assumptions for any of the Group's CGUs would cause the carrying amounts to exceed the recoverable amounts.

### 17 Investments

#### a Investments in subsidiaries

The Group's principal subsidiaries at December 31, 2015 are listed in the Group investments section.

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly do not differ from the proportion of ordinary shares held. There have been no significant changes in ownership interests of subsidiaries during the year.

The total non-controlling interest at December 31, 2015 is €308 million which largely comprises €300 million of 6.75 per cent fixed coupon euro perpetual preferred securities issued by British Airways Finance (Jersey) L.P. (note 31).

British Airways Employee Benefit Trustee (Jersey) Limited, a wholly-owned subsidiary of British Airways, governs the British Airways Plc Employee Share Ownership Trust (the Trust). The Trust is not a legal subsidiary of IAG; however, it is consolidated within the Group results.

**b Investments in associates and joint ventures**

The share of the assets, liabilities, revenue and profit of the Group's associates, which are included in the Group's financial statements, are as follows:

€ million	2015	2014
Total assets	<b>100</b>	79
Total liabilities	<b>(64)</b>	(53)
Revenue	<b>75</b>	96
Profit for the year	<b>6</b>	2

The detail of the movement in Investment in associates is shown as follows:

€ million	2015	2014
At beginning of year	<b>27</b>	25
Share of retained profits	<b>6</b>	2
Acquired through Business combination	<b>17</b>	-
Disposals	<b>(1)</b>	-
Exchange movements	<b>1</b>	2
Dividends received	<b>(9)</b>	(2)
	<b>41</b>	27

During the year the Group acquired a 33.33 per cent equity interest in the share capital of Propius Holdings Limited through the Business combination. At December 31, 2015 there are no restrictions on the ability of associates or joint ventures to transfer funds to the parent and there are no related contingent liabilities.

At December 31, 2015 the investment in Handling Guinea Ecuatorial, S.A. exceeded 50 per cent ownership by the Group (51 per cent) and is treated as an associate as the local partner controls its activities. The Group disposed of its investment in Iber-América Aerospace, LLC (65.33 per cent) during the year.

**18 Available-for-sale financial assets**

In 2014, Iberia entered into an agreement to settle its hedging transaction over its ownership interest in Amadeus and sell its entire shareholding. The derivative transaction comprised a collar arrangement on Iberia's Amadeus shareholding of 33,562,331 ordinary shares.

The settlement of the derivative contract commenced in August 2014 and the Group's shareholding in Amadeus has been sold in equal instalments over a 100 trading day period. At December 31, 2014 Iberia had settled 99 per cent of the transaction and the resulting €83 million gain was recognised in the Net gain related to available-for-sale financial assets line. The remaining 0.075 per cent investment in Amadeus was settled in January 2015.

Available-for-sale financial assets include the following:

€ million	2015	2014
<b>Listed securities</b>		
Comair Limited	<b>9</b>	19
<b>Unlisted securities</b>	<b>65</b>	65
	<b>74</b>	84

The net gain relating to available-for-sale financial assets was €5 million (2014: net gain of €93 million which related mainly to the Amadeus settlement transaction).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 19 Trade receivables and other assets

€ million	2015	2014
<b>Amounts falling due within one year</b>		
Trade receivables	1,280	1,349
Provision for doubtful receivables	(84)	(97)
Net trade receivables	1,196	1,252
Prepayments and accrued income	925	441
Other non-trade debtors	310	161
	<b>2,431</b>	1,854
<b>Amounts falling due after one year</b>		
Prepayments and accrued income	173	119
Other interest-bearing deposits (greater than one year)	104	-
Other non-trade debtors	88	69
	<b>365</b>	188

Movements in the provision for doubtful trade receivables were as follows:

€ million	2015	2014
At beginning of year	97	89
Provision for doubtful receivables	8	47
Unused amounts reversed	(3)	(21)
Receivables written off during the year	(20)	(18)
Exchange movements	2	-
	<b>84</b>	97

The ageing analysis of net trade receivables is as follows:

€ million	2015	2014
Neither past due date nor impaired	986	939
< 30 days	117	205
30 - 60 days	77	69
> 60 days	16	39
Net trade receivables	<b>1,196</b>	1,252

Trade receivables are generally non-interest-bearing and on 30 day terms (2014: 30 day terms).

### 20 Cash, cash equivalents and other current interest-bearing deposits

€ million	2015	2014
Cash at bank and in hand	2,230	1,223
Short-term deposits falling due within three months	679	305
Cash and cash equivalents	2,909	1,528
Other current interest-bearing deposits maturing after three months	2,947	3,416
Cash, cash equivalents and other interest bearing deposits	<b>5,856</b>	4,944

Cash at bank is primarily held in AAA money market funds and bank deposits. Short-term deposits are made for periods up to three months depending on the cash requirements of the Group and earn interest based on the floating deposit rates.

At December 31, 2015 the Group had no outstanding bank overdrafts (2014: nil).

Other current interest-bearing deposits are made for periods in excess of three months with maturity typically within 12 months and earn interest based on the market rates available at the time the deposit was made.

At December 31, 2015 Aer Lingus held €49 million of restricted cash within interest-bearing deposits maturing after more than three months relating to the pension escrow.

At December 31, 2015 British Airways held €72 million equivalent of restricted cash in Nigeria.

In 2014 the Group had unrepatriated funds recognised by Venezuela's Central Bank which related to sales made in Venezuela from 2013 and 2014. A charge of €180 million against the balance was recorded in 2014 (note 5).

## 21 Trade and other payables

€ million	2015	2014
Trade creditors	<b>2,043</b>	1,869
Other creditors	<b>1,031</b>	927
Other taxation and social security	<b>186</b>	129
Accruals and deferred income	<b>543</b>	356
	<b>3,803</b>	3,281

## Average payment days to suppliers – Spanish Group companies

Days	2015
Average days for payment to suppliers	<b>17</b>
Ratio of transactions paid	<b>17</b>
Ratio of transactions outstanding for payment	<b>18</b>

€'000	2015
Total payments made	<b>4,220,000</b>
Total payments outstanding	<b>81,000</b>

## 22 Other long-term liabilities

€ million	2015	2014
Non-current trade creditors	<b>5</b>	2
Accruals and deferred income	<b>218</b>	224
	<b>223</b>	226

## 23 Long-term borrowings

### a Current

€ million	2015	2014
Bank and other loans	<b>576</b>	164
Finance leases	<b>556</b>	549
	<b>1,132</b>	713

### b Non-current

€ million	2015	2014
Bank and other loans	<b>2,176</b>	1,069
Finance leases	<b>5,322</b>	4,835
	<b>7,498</b>	5,904

Bank and other loans are repayable up to the year 2027. Bank and other loans of the Group amounting to €813 million (2014: €541 million) are secured on aircraft. Finance leases are all secured on aircraft or property, plant and equipment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 23 Long-term borrowings continued

#### c Bank and other loans

Bank and other loans comprise the following:

€ million	2015	2014
€500 million fixed rate 0.25 per cent convertible bond 2020 <sup>1</sup>	<b>454</b>	–
€500 million fixed rate 0.625 per cent convertible bond 2022 <sup>2</sup>	<b>431</b>	–
€390 million fixed rate 1.75 per cent convertible bond 2018 <sup>3</sup>	<b>350</b>	335
£250 million fixed rate 8.75 per cent unsecured Eurobonds 2016 <sup>4</sup>	<b>343</b>	316
Floating rate euro mortgage loans secured on specific aircraft <sup>5</sup>	<b>328</b>	60
Floating rate euro syndicate loan secured on investments <sup>6</sup>	<b>192</b>	–
Fixed rate US dollar mortgage loans secured on specific aircraft <sup>7</sup>	<b>174</b>	173
Fixed rate pound sterling mortgage loans secured on specific aircraft <sup>8</sup>	<b>102</b>	116
Fixed rate Chinese yuan mortgage loans secured on aircraft <sup>9</sup>	<b>102</b>	–
€147 million fixed rate unsecured bond <sup>10</sup>	<b>147</b>	–
Floating rate pound sterling mortgage loans secured on specific aircraft <sup>11</sup>	<b>55</b>	125
Floating rate US dollar mortgage loans secured on specific aircraft <sup>12</sup>	<b>52</b>	67
Fixed rate unsecured euro loans with the Spanish State (Department of Industry) <sup>13</sup>	<b>15</b>	20
European Investment Bank pound sterling loans secured on certain property <sup>14</sup>	<b>7</b>	10
Floating rate unsecured euro loan <sup>15</sup>	<b>–</b>	11
	<b>2,752</b>	1,233
Less: current instalments due on bank loans	<b>(576)</b>	(164)
	<b>2,176</b>	1,069

1 €500 million fixed rate 0.25 per cent senior unsecured bond convertible into ordinary shares of IAG issued by the Group in November 2015, raising net proceeds of €494 million and due in 2020. The conversion price was set at a premium of 62.5 per cent on the Group's share price on the date of issuance. The Group holds an option to redeem the convertible bond at its principal amount, together with accrued interest, no earlier than two years prior to the final maturity date. The equity portion of the convertible bond issue of €39 million is included in Other reserves (note 31). The bonds contain dividend protection, and a total of 36,208,923 options related to the bond were outstanding from settlement and at December 31, 2015.

2 €500 million fixed rate 0.625 per cent senior unsecured bond convertible into ordinary shares of IAG issued by the Group in November 2015, raising net proceeds of €494 million and due in 2022. The conversion price was set at a premium of 62.5 per cent on the Group's share price on the date of issuance. The Group holds an option to redeem the convertible bond at its principal amount, together with accrued interest, no earlier than two years prior to the final maturity date. The equity portion of the convertible bond issue of €62 million is included in Other reserves (note 31). The bonds contain dividend protection, and a total of 36,208,923 options related to the bond were outstanding from settlement and at December 31, 2015.

3 €390 million fixed rate 1.75 per cent convertible bond issued by the Group, in May 2013, raising net proceeds of €386 million, convertible into ordinary shares at the option of the holder before or upon maturity in May 2018. The conversion price was set at a premium of 35 per cent on the Group's share price on the date of issuance. The Group holds an option to redeem the convertible bond at its principal amount, together with accrued interest, upon fulfilment of certain pre-determined criteria. The equity portion of the convertible bond issue of €72 million is included in Other reserves (note 31). A total of 91,758,228 options were outstanding from issuance and at December 31, 2015.

4 £250 million fixed rate 8.75 per cent unsecured Eurobonds 2016 are repayable in one instalment in August 2016.

5 Floating rate euro mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.43 per cent and 1.50 per cent. The loans are repayable between 2024 and 2027.

6 Floating rate euro syndicate loan secured on specific investment assets of the Group and bears interest of 1.375 per cent above 6 month EURIBOR. The loan is repayable in 2020.

7 Fixed rate US dollar mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 3.81 per cent and 4.76 per cent. The loans are repayable between 2021 and 2026.

8 Fixed rate pound sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 6.14 per cent and 6.3 per cent. The loans are repayable between 2016 and 2018.

9 Fixed rate Chinese yuan mortgage loans are secured on specific aircraft assets of the Group and bears interest of 5.20 per cent. The loans are repayable in 2022.

10 Total of €147 million fixed rate unsecured bonds between 2.5 to 3.75 per cent coupon repayable between 2018 and 2025.

11 Floating rate pound sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 1.10 per cent and 1.27 per cent. The loans are repayable between 2016 and 2019.

12 Floating rate US dollar mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 1.31 per cent and 2.99 per cent. The loans are repayable between 2016 and 2017.

13 Fixed rate unsecured euro loans with the Spanish State (Department of Industry) bear an interest of between nil and 5.68 per cent and are repayable between 2016 and 2026.

14 European Investment Bank pound sterling loan is secured on certain property assets of the Group and bears interest of 0.71 per cent. The loan is repayable in 2017.

15 Floating rate unsecured euro loan had interest of 0.0225 per cent above EURIBOR; it was repaid in 2015.

**d Total loans and finance leases**

Million	2015	2014
<b>Loans</b>		
Bank:		
US dollar	\$246	\$295
Euro	€536	€90
Pound sterling	£119	£198
Chinese yuan	CNY 716	CNY -
	<b>€1,027</b>	<b>€581</b>
Fixed rate bonds:		
Euro	€1,381	€335
Pound sterling	£250	£249
	<b>€1,725</b>	<b>€652</b>
<b>Finance leases</b>		
US dollar	\$3,464	\$3,772
Euro	€1,458	€1,084
Japanese yen	¥44,599	¥37,105
Pound sterling	£656	£771
	<b>€5,878</b>	<b>€5,384</b>
	<b>€8,630</b>	<b>€6,617</b>

**e Obligations under finance leases**

The Group uses finance leases principally to acquire aircraft. These leases have both renewal options and purchase options, at the option of the Group. Future minimum lease payments under finance leases are as follows:

€ million	2015	2014
Future minimum payments due:		
Within one year	692	676
After more than one year but within five years	3,084	2,463
In five years or more	2,769	3,100
	<b>6,545</b>	<b>6,239</b>
Less: Finance charges	(667)	(855)
Present value of minimum lease payments	<b>5,878</b>	<b>5,384</b>
The present value of minimum lease payments is analysed as follows:		
Within one year	556	549
After more than one year but within five years	2,723	2,079
In five years or more	2,599	2,756
	<b>5,878</b>	<b>5,384</b>

The Group is no longer subject to financial covenants on the finance lease of one Airbus A340-600.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 24 Operating lease commitments

The Group has entered into commercial leases on certain properties, equipment and aircraft. These leases have durations ranging from less than one year for aircraft to 130 years for ground leases. Certain leases contain options for renewal.

The aggregate payments, for which there are commitments under operating leases, fall due as follows:

€ million	2015			2014		
	Fleet	Property, plant and equipment	Total	Fleet	Property, plant and equipment	Total
Within one year	778	179	957	712	171	883
Between one and five years	2,184	384	2,568	1,580	325	1,905
Over five years	1,206	2,456	3,662	934	2,027	2,961
	<b>4,168</b>	<b>3,019</b>	<b>7,187</b>	<b>3,226</b>	<b>2,523</b>	<b>5,749</b>

### Sub-leasing

Subleases entered into by the Group relate to surplus rental properties and aircraft assets held under non-cancellable leases to third parties. These leases have remaining terms of one to 22 years and the assets are surplus to the Group's requirements. Future minimum rentals receivable under non-cancellable operating leases are as follows:

€ million	2015			2014		
	Fleet	Property, plant and equipment	Total	Fleet	Property, plant and equipment	Total
Within one year	1	8	9	2	12	14
Between one and five years	-	5	5	-	6	6
Over five years	-	2	2	-	2	2
	<b>1</b>	<b>15</b>	<b>16</b>	<b>2</b>	<b>20</b>	<b>22</b>

The Group is no longer subject to financial covenants on the operating leases of three Airbus A340-600s.

### 25 Provisions for liabilities and charges

€ million	Restoration and handback provisions	Restructuring	Employee leaving indemnities and other employee related provisions	Legal claims provisions	Other provisions	Total
Net book value January 1, 2015	771	895	552	135	118	<b>2,471</b>
Provisions recorded during the year	286	93	25	147	56	<b>607</b>
Acquired through Business combination	73	7	67	8	3	<b>158</b>
Utilised during the year	(182)	(237)	(24)	(36)	(77)	<b>(556)</b>
Release of unused amounts	(30)	(22)	(51)	(19)	(23)	<b>(145)</b>
Unwinding of discount	4	5	10	1	1	<b>21</b>
Exchange differences	91	3	-	(1)	5	<b>98</b>
<b>Net book value December 31, 2015</b>	<b>1,013</b>	<b>744</b>	<b>579</b>	<b>235</b>	<b>83</b>	<b>2,654</b>
Analysis:						
Current	174	198	69	118	46	605
Non-current	839	546	510	117	37	2,049
	<b>1,013</b>	<b>744</b>	<b>579</b>	<b>235</b>	<b>83</b>	<b>2,654</b>

### Restoration and handback provisions

The provision for restoration and handback costs is maintained to meet the contractual return conditions on aircraft held under operating leases. The provision also included an amount relating to leased land and buildings where restoration costs are contractually required at the end of the lease. Where such costs arise as a result of capital expenditure on the leased asset, the restoration costs are capitalised. The provision is a long term provision, typically covering the aircraft lease term.

### Restructuring

The Group recognises a provision for targeted voluntary severance schemes previously announced. Part of this provision relates to a collective redundancy programme, which provides for payments to affected employees until they reach the statutory retirement age. The amount provided for has been determined by an actuarial valuation made by independent actuaries, and was based on the same assumptions as those made to determine the provisions for obligations to flight crew below, with the exception of the discount rate, which in this case was 0.47 per cent. The payments related to this provision will continue over ten years.

In 2014 the Group recognised an additional provision in relation to the restructuring plans at Iberia (note 5). The payments related to this provision will continue over nine years.

### Employee leaving indemnities and other employee related provisions

This provision includes employees leaving indemnities relating to staff under various contractual arrangements.

The Group recognises a provision relating to flight crew who meet certain conditions and therefore have the option of being placed on reserve and retaining their employment relationship until reaching the statutory retirement age, or taking early retirement. The Group is required to remunerate these employees until they reach the statutory retirement age, and an initial provision was recognised based on an actuarial valuation. The provision was reviewed at December 31, 2015 with the use of independent actuaries using the projected unit credit method, based on a discount rate of 2.08 per cent and a 2 per cent annual increase in the Consumer Price Index (CPI). This is mainly a long-term provision.

### Legal claims provisions

This provision primarily relates to multi-party claims from groups or employees on a number of matters related to its operations, including claims for additional holiday pay and for age discrimination. Also included are provisions related to investigations by a number of competition authorities in connection with alleged anti-competitive concerning the Group's passenger and cargo businesses and provisions related to tax assessment. The final amount required to pay the remaining claims and fines is subject to uncertainty.

Following an appeal to the General Court of the European Union, the 2010 European Commission decision on alleged cartel activity was partially annulled and British Airways was advised that the €104 million fine would be refunded in full. The refund was received in February 2016. It is not yet clear what the European Commission's next steps will be. At December 31, 2015, the Group recognised an asset included in Other current assets and an equal provision, as it is not possible to predict the outcome of the proceedings.

During the year the Group has recognised a litigation provision of €35 million, which was subsequently paid (note 5).

### Other provisions

Other provisions includes:

- Amounts for passengers whose flights were significantly delayed and are entitled to receive compensation. This provision is largely a current provision and is expected to have amounts both utilised and provided for each year. This provision has been reassessed based on the historic level of claims;
- A provision for the Emissions Trading Scheme is also included that represents the excess of CO<sub>2</sub> emitted on flights within the EU in excess of the EU Emission Allowances granted; and
- A provision related to unfavourable fleet contracts.

## 26 Financial risk management objectives and policies

The Group is exposed to a variety of financial risks: market risk (including fuel price risk, foreign currency risk and interest rate risk), counterparty risk, liquidity risk and capital risk. The Group's Financial Risk Management programme focuses on the unpredictability of financial markets and defines the amount of risk that the Group is prepared to retain.

Financial Risk is managed in two tiers under the oversight of the Group treasury department. The first tier comprises fuel price fluctuations, euro-US dollar volatility and sterling-US dollar volatility which represent the largest financial risks facing the Group. The Board approves the level of risk retention. The IAG Management Committee approves the hedging levels and the degree of flexibility in applying the levels that are delegated to the Group Treasury Committee. The Group Treasury Committee meets monthly and includes representatives from Group treasury, British Airways, Iberia, Vueling and Aer Lingus. The Committee approves a mandate for British Airways, Iberia, Vueling and Aer Lingus treasury teams to place hedging cover in the market for their respective companies, the mandate includes the instruments to be used. Second tier risks such as interest rate movements, emissions and minor currency pairs are managed separately by British Airways, Iberia, Vueling and Aer Lingus under authority delegated by their Boards to their treasury departments.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 26 Financial risk management objectives and policies continued

#### a Fuel price risk

The Group is exposed to fuel price risk. The Group's fuel price risk management strategy aims to provide the Group with protection against sudden and significant increases in oil prices while ensuring that the Group is not competitively disadvantaged in the event of a substantial fall in the price of fuel. The current Group strategy, as approved by the IAG Management Committee, is to hedge:

- between 60 per cent and 100 per cent of fuel consumption for the next quarter;
- an average of 45 per cent between quarters two and five (with an average flexibility of plus 15 per cent/minus 10 per cent);
- up to 30 per cent between quarters six and eight; and
- flexibility to hedge up to 20 per cent in quarters nine to twelve.

The Group Treasury Committee provides a quarterly report on the hedging position to the IAG Management Committee and the Audit and Compliance Committee. The Board reviews the strategy, including the risk retained, once a year.

Within the strategy, the Financial Risk Management programme allows for the use of a number of derivatives available on over-the-counter (OTC) markets with approved counterparties.

The following table demonstrates the sensitivity of financial instruments to a reasonable possible change in fuel prices, with all other variables held constant, on the result before tax and equity:

2015			2014		
Increase/(decrease) in fuel price per cent	Effect on result before tax € million	Effect on equity € million	Increase/(decrease) in fuel price per cent	Effect on result before tax € million	Effect on equity € million
30	70	656	30	(8)	972
(30)	(49)	(731)	(30)	9	(989)

#### b Foreign currency risk

The Group presents its consolidated financial statements in euros, has functional entities in euro and sterling, and conducts business in a number of different countries. Consequently the Group is exposed to currency risk on revenue, purchases and borrowings that are denominated in a currency other than the functional currency of the entity. The currencies, in which these transactions are primarily denominated are euro, US dollar, pound sterling and Japanese yen. The Group generates a surplus in most currencies in which it does business. The US dollar is an exception as capital expenditure, debt repayments and fuel purchases denominated in US dollars typically create a deficit.

The Group has a number of strategies to hedge foreign currency risks. The operational US dollar short position is subject to the same governance structure as the fuel hedging strategy set out above. The current Group strategy, as approved by the IAG Management Committee, is to hedge between 60 and 80 per cent of the first year's US dollar short position; between 40 and 60 per cent of the second year's exposure and up to 30 per cent of the third year's exposure. The Group Treasury Committee targets to operate within plus or minus 20 per cent of the policy in years one and two and provides a quarterly report on the hedging position to the IAG Management Committee and Audit and Compliance Committee. The Board reviews the strategy, including the risk retained, once a year. Foreign exchange swaps and options are used to implement the strategy.

Operational cash flows in minor currency pairs are hedged by British Airways, Iberia, Vueling and Aer Lingus under the control of their Boards.

Aircraft operating leases denominated in US dollars are either treated as part of the operational US dollar short position or are subject to separate cross currency swaps, individually approved by the IAG Management Committee, for the life of the lease.

Iberia's balance sheet assets and liabilities in US dollars are hedged through a rolling programme of swaps that eliminate the profit and loss volatility arising from revaluation of these items into euros. British Airways utilises its US dollar, euro and Japanese yen debt repayments as a hedge of future US dollar, euro and yen revenues. Vueling's and Aer Lingus's position in US dollars is managed using derivative financial instruments.

The following table demonstrates the sensitivity of financial instruments to a reasonable possible change in the exchange rates, with all other variables held constant, on result before tax and equity:

	Strengthening/ (weakening) in US dollar rate per cent	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in pound sterling rate per cent	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in Japanese yen rate per cent	Effect on result before tax € million	Effect on equity € million
<b>2015</b>	<b>10</b>	<b>(2)</b>	<b>(72)</b>	<b>10</b>	<b>(43)</b>	<b>170</b>	<b>10</b>	<b>-</b>	<b>(32)</b>
	<b>(10)</b>	<b>2</b>	<b>117</b>	<b>(10)</b>	<b>43</b>	<b>(179)</b>	<b>(10)</b>	<b>-</b>	<b>32</b>
2014	10	(1)	(136)	10	(1)	152	10	(2)	(24)
	(10)	-	115	(10)	1	(161)	(10)	2	24

### c Interest rate risk

The Group is exposed to changes in interest rates on floating rate debt and on cash deposits.

Interest rate risk on floating rate debt is managed through interest rate swaps, floating to fixed cross currency swaps and interest rate collars. After taking into account the impact of these derivatives, 79 per cent of the Group's borrowings were at fixed rates and 21 per cent were at floating rates.

All cash deposits are on tenors less than one year. The interest rate is predominantly fixed for the tenor of the deposit.

The following table demonstrates the sensitivity of financial instruments to a reasonable possible change in the interest rates, on result before tax and equity:

	Strengthening/ (weakening) in US interest rate Basis points	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in euro interest rate Basis points	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in sterling interest rate Basis points	Effect on result before tax € million	Effect on equity € million
<b>2015</b>	<b>50</b>	<b>(3)</b>	<b>1</b>	<b>50</b>	<b>(6)</b>	<b>-</b>	<b>50</b>	<b>8</b>	<b>-</b>
	<b>(50)</b>	<b>3</b>	<b>(1)</b>	<b>(50)</b>	<b>6</b>	<b>-</b>	<b>(50)</b>	<b>(8)</b>	<b>-</b>
2014	50	(2)	(1)	50	(5)	(5)	50	1	1
	(50)	2	1	(50)	5	5	(50)	(1)	(1)

### d Counterparty risk

The Group is exposed to counterparty risk to the extent of non-performance by its counterparties in respect of financial assets receivable. The Group has policies and procedures in place to minimise the risk by placing credit limits on each counterparty. These policies and procedures are coordinated through the Group Treasury Committee. The Committee also reviews the application of the policies and procedures by British Airways, Iberia, Vueling and Aer Lingus. The Group monitors counterparty credit limits and defaults of counterparties, incorporating this information into credit risk controls. Treasury activities include placing money market deposits, fuel hedging and foreign currency transactions, which could lead to a concentration of different credit risks with the same counterparty. This risk is managed by allocation of exposure limits for the counterparty to British Airways, Iberia, Vueling and Aer Lingus. Exposures at the activity level are monitored on a daily basis and the overall exposure limit for the counterparty is reviewed at least monthly in the light of available market information such as credit ratings. Sovereign risk is also monitored, country concentration and sovereign credit ratings are reviewed at every hedging committee meeting.

Each operating company invests surplus cash in interest-bearing accounts, time deposits, money market deposits, and marketable securities, choosing instruments with appropriate maturities or liquidity to provide sufficient headroom. At the reporting date the operating companies held money market funds and other liquid assets that are expected to readily generate cash inflows for managing liquidity risk.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 26 Financial risk management objectives and policies continued

The financial assets recognised in the financial statements, net of impairment losses, represent the Group's maximum exposure to credit risk, without taking account of any guarantees in place or other credit enhancements. The Group does not hold any collateral to mitigate the exposure, but only transacts with counterparties of sufficient credit rating to reasonably assure the recoverability of financial assets. Counterparty risks arising from acting as guarantor are disclosed in note 33.

At December 31, 2015 the Group's credit risk position, allocated by region, in respect of treasury managed cash and derivatives was as follows:

Region	Marked-to-market of treasury controlled financial instruments allocated by geography
United Kingdom	20%
Spain	4%
Ireland	7%
Rest of Eurozone	38%
Rest of world	31%

#### e Liquidity risk

Liquidity risk management includes maintaining sufficient cash and interest-bearing deposits, the availability of funding from an adequate amount of credit facilities and the ability to close out market positions. Due to the volatile nature of the underlying business, Group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

At December 31, 2015 the Group had undrawn overdraft facilities of €14 million (2014: €13 million). The Group held undrawn uncommitted money market lines of €34 million at December 31, 2015 (2014: €32 million). The Group had the following undrawn general and committed aircraft financing facilities:

Million	2015	
	Currency	€ equivalent
Euro facility expiring between February and November 2016	<b>€137</b>	<b>137</b>
US dollar facility expiring between September and December 2016	<b>\$1,247</b>	<b>1,146</b>
US dollar facility expiring December 2021	<b>\$1,164</b>	<b>1,069</b>
US dollar facility expiring June 2022	<b>\$1,750</b>	<b>1,608</b>

Million	2014	
	Currency	€ equivalent
Euro facility expiring between January and November 2015	€335	335
US dollar facility expiring between January and October 2015	\$805	655
Renminbi facility expiring November 2015	RMB 750	99
Euro facility expiring January 2016	€3	3
US dollar facility expiring between September and October 2016	\$1,153	937
US dollar facility expiring December 2021	\$1,164	946

The following table analyses the Group's financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period at December 31 to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest.

€ million	Within 6 months	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	Total 2015
Interest-bearing loans and borrowings:						
Finance lease obligations	(315)	(371)	(803)	(2,263)	(2,765)	<b>(6,517)</b>
Fixed rate borrowings	(53)	(449)	(89)	(1,109)	(737)	<b>(2,437)</b>
Floating rate borrowings	(62)	(73)	(81)	(251)	(207)	<b>(674)</b>
Trade and other payables	(3,442)	-	(10)	-	-	<b>(3,452)</b>
Derivative financial instruments:						
Aircraft lease hedges (asset)	1	1	10	-	-	<b>12</b>
Forward currency contracts (asset)	97	86	38	11	-	<b>232</b>
Fuel derivatives (asset)	2	1	-	-	-	<b>3</b>
Currency options (asset)	11	3	4	2	-	<b>20</b>
Aircraft lease hedges (liability)	(1)	(1)	(3)	-	-	<b>(5)</b>
Forward currency contracts (liability)	(6)	-	(2)	(2)	-	<b>(10)</b>
Fuel derivatives (liability)	(858)	(465)	(232)	(42)	-	<b>(1,597)</b>
Currency options (liability)	(2)	(1)	(1)	(1)	-	<b>(5)</b>
Hedge of available-for-sale asset	1	-	-	-	-	<b>1</b>
<b>December 31, 2015</b>	<b>(4,627)</b>	<b>(1,269)</b>	<b>(1,169)</b>	<b>(3,655)</b>	<b>(3,709)</b>	<b>(14,429)</b>
€ million	Within 6 months	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	Total 2014
Interest-bearing loans and borrowings:						
Finance lease obligations	(320)	(356)	(574)	(1,889)	(3,100)	(6,239)
Fixed rate borrowings	(41)	(53)	(441)	(532)	(77)	(1,144)
Floating rate borrowings	(48)	(69)	(79)	(43)	(42)	(281)
Trade and other payables	(3,017)	-	-	-	-	(3,017)
Derivative financial instruments:						
Aircraft lease hedges (asset)	7	7	11	5	-	30
Forward currency contracts (asset)	78	61	51	2	-	192
Fuel derivatives (asset)	-	-	-	-	-	-
Currency options (asset)	14	10	4	-	-	28
Aircraft lease hedges (liability)	(1)	(1)	-	-	-	(2)
Cross currency swaps (liability)	-	-	(1)	-	-	(1)
Forward currency contracts (liability)	(1)	-	-	-	-	(1)
Fuel derivatives (liability)	(806)	(518)	(332)	-	-	(1,656)
Currency options (liability)	-	-	-	-	-	-
Hedge of available-for-sale asset	(5)	-	-	-	-	(5)
December 31, 2014	(4,140)	(919)	(1,361)	(2,457)	(3,219)	(12,096)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 26 Financial risk management objectives and policies continued

#### f Offsetting financial assets and liabilities

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

The Group enters into derivative transactions under master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding are aggregated into a single net amount that is payable by one party to the other. In certain circumstances, for example, when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single amount is payable in settlement of all transactions.

December 31, 2015

€ million	Gross value of financial instruments	Financial instruments that are offset under netting agreements	Net amounts of financial instruments in the balance sheet	Related amounts not set off in the balance sheet	Net amount
<b>Financial assets</b>					
Derivative financial assets	279	(19)	260	(5)	<b>255</b>
<b>Financial liabilities</b>					
Derivative financial liabilities	1,629	(19)	1,610	(5)	<b>1,605</b>

December 31, 2014

€ million	Gross value of financial instruments	Financial instruments that are offset under netting agreements	Net amounts of financial instruments in the balance sheet	Related amounts not set off in the balance sheet	Net amount
<b>Financial assets</b>					
Derivative financial assets	263	(5)	258	-	258
<b>Financial liabilities</b>					
Derivative financial liabilities	1,677	(5)	1,672	-	1,672

#### g Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern to maintain an optimal capital structure, in order to reduce the cost of capital and to provide returns to shareholders.

The Group monitors capital on the basis of the adjusted net debt to EBITDAR. Net debt comprises the current and non-current portions of long-term borrowings, less cash and cash equivalents and other current interest-bearing deposits.

As at December 31, 2015, adjusted net debt increased to €8,510 million from €6,081 million at December 31, 2014.



**27 Financial instruments****a Financial assets and liabilities by category**

The detail of the Group's financial instruments at December 31, 2015 and December 31, 2014 by nature and classification for measurement purposes is as follows:

December 31, 2015

€ million	Financial assets			Non-financial assets	Total carrying amount by balance sheet item
	Loans and receivables	Derivatives used for hedging	Available-for-sale		
<b>Non-current assets</b>					
Available-for-sale financial assets	-	-	74	-	<b>74</b>
Derivative financial instruments	-	62	-	-	<b>62</b>
Other non-current assets	345	-	-	20	<b>365</b>
<b>Current assets</b>					
Trade receivables	1,196	-	-	-	<b>1,196</b>
Other current assets	545	-	-	690	<b>1,235</b>
Non-current assets held for sale	-	-	-	5	<b>5</b>
Derivative financial instruments	-	198	-	-	<b>198</b>
Other current interest-bearing deposits	2,947	-	-	-	<b>2,947</b>
Cash and cash equivalents	2,909	-	-	-	<b>2,909</b>
<b>Financial liabilities</b>					
€ million	Financial liabilities			Non-financial liabilities	Total carrying amount by balance sheet item
	Loans and payables	Derivatives used for hedging			
<b>Non-current liabilities</b>					
Interest-bearing long-term borrowings		7,498	-	-	<b>7,498</b>
Derivative financial instruments		-	282	-	<b>282</b>
Other long-term liabilities		10	-	213	<b>223</b>
<b>Current liabilities</b>					
Current portion of long-term borrowings		1,132	-	-	<b>1,132</b>
Trade and other payables		3,442	-	361	<b>3,803</b>
Derivative financial instruments		-	1,328	-	<b>1,328</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 27 Financial instruments continued

December 31, 2014

€ million	Financial assets			Non-financial assets	Total carrying amount by balance sheet item
	Loans and receivables	Derivatives used for hedging	Available-for-sale		
<b>Non-current assets</b>					
Available-for-sale financial assets	-	-	84	-	84
Derivative financial instruments	-	80	-	-	80
Other non-current assets	167	-	-	21	188
<b>Current assets</b>					
Trade receivables	1,252	-	-	-	1,252
Other current assets	244	-	-	358	602
Non-current assets held for sale	-	-	11	7	18
Derivative financial instruments	-	178	-	-	178
Other current interest-bearing deposits	3,416	-	-	-	3,416
Cash and cash equivalents	1,528	-	-	-	1,528
€ million	Financial liabilities			Non-financial liabilities	Total carrying amount by balance sheet item
	Loans and payables	Derivatives used for hedging			
<b>Non-current liabilities</b>					
Interest-bearing long-term borrowings		5,904	-	-	5,904
Derivative financial instruments		-	359	-	359
Other long-term liabilities		7	-	219	226
<b>Current liabilities</b>					
Current portion of long-term borrowings		713	-	-	713
Trade and other payables		3,017	-	264	3,281
Derivative financial instruments		-	1,313	-	1,313

## b Fair value of financial assets and financial liabilities

The Group's financial instruments are disclosed in hierarchy levels based on the nature of the inputs used in determining the fair values as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis;

Level 2: Inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. The fair value of financial instruments that are not traded in an active market is determined by valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates; and

Level 3: Inputs for the asset or liability that are not based on observable market data.

The fair value of cash and cash equivalents, other current interest-bearing deposits, trade receivables, other current assets, and trade and other payables approximate their carrying value largely due to the short-term maturities of those instruments.

The following methods and assumptions were used by the Group in estimating its fair value disclosures for financial instruments:

Instruments included in Level 1 comprise listed asset investments classified as available-for-sale and interest-bearing borrowings which are stated at market value at the balance sheet date.

Instruments included in Level 2 include derivatives and interest-bearing borrowings.

Forward currency transactions and over-the-counter fuel derivatives are entered into with various counterparties, principally financial institutions with investment grade ratings. These are measured at the market value of instruments with similar terms and conditions at the balance sheet date using forward pricing models. Counterparty and own credit risk is deemed to be not significant.

At December 31, 2014 Level 2 also included a hedge of the available-for-sale asset which took the form of an equity collar. The valuation of this collar was based on a Black Scholes valuation model using share price spot rate, strike price, stock volatility and the euro interest rate curve.

The fair values of the Group's interest-bearing borrowings including leases are determined by discounting the remaining contractual cash flows at the relevant market interest rates at the balance sheet date.

All resulting fair value estimates are included in Level 2 except for certain other investments which are classified as Level 3.

The carrying amounts and fair values of the Group's financial assets and liabilities at December 31, 2015 are set out below:

€ million	Fair value				Carrying value
	Level 1	Level 2	Level 3	Total	Total
<b>Financial assets</b>					
Available-for-sale financial assets	9	-	65	74	<b>74</b>
Aircraft lease hedges <sup>1</sup>	-	12	-	12	<b>12</b>
Forward currency contracts <sup>1</sup>	-	231	-	231	<b>231</b>
Fuel derivatives <sup>1</sup>	-	3	-	3	<b>3</b>
Currency option contracts <sup>1</sup>	-	14	-	14	<b>14</b>
<b>Financial liabilities</b>					
Interest-bearing loans and borrowings:					
Finance lease obligations	-	6,117	-	6,117	<b>5,878</b>
Fixed rate borrowings	2,102	496	-	2,598	<b>2,117</b>
Floating rate borrowings	-	635	-	635	<b>635</b>
Aircraft lease hedges <sup>2</sup>	-	5	-	5	<b>5</b>
Forward currency contracts <sup>2</sup>	-	10	-	10	<b>10</b>
Fuel derivatives <sup>2</sup>	-	1,595	-	1,595	<b>1,595</b>

1 Current portion of derivative financial assets is €198 million.

2 Current portion of derivative financial liabilities is €1,328 million.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 27 Financial instruments continued

The carrying amounts and fair values of the Group's financial assets and liabilities at December 31, 2014 are set out below:

€ million	Fair value			Total	Carrying value
	Level 1	Level 2	Level 3		Total
<b>Financial assets</b>					
Available-for-sale financial assets	19	-	65	84	84
Aircraft lease hedges <sup>1</sup>	-	38	-	38	38
Forward currency contracts <sup>1</sup>	-	191	-	191	191
Fuel derivatives <sup>1</sup>	-	-	-	-	-
Currency option contracts <sup>1</sup>	-	29	-	29	29
<b>Financial liabilities</b>					
Interest-bearing loans and borrowings:					
Finance lease obligations	-	5,681	-	5,681	5,384
Fixed rate borrowings	881	313	-	1,194	960
Floating rate borrowings	11	262	-	273	273
Aircraft lease hedges <sup>2</sup>	-	10	-	10	10
Cross currency swaps <sup>2</sup>	-	1	-	1	1
Forward currency contracts <sup>2</sup>	-	1	-	1	1
Fuel derivatives <sup>2</sup>	-	1,654	-	1,654	1,654
Hedge of available-for-sale asset <sup>2</sup>	-	5	-	5	5
Currency options contracts <sup>2</sup>	-	1	-	1	1

1 Current portion of derivative financial assets is €178 million.

2 Current portion of derivative financial liabilities is €1,313 million.

There have been no transfers between levels of fair value hierarchy during the year.

Out of the financial instruments listed in the previous table, only the interest-bearing borrowings are not measured at fair value on a recurring basis.

#### c Level 3 financial assets reconciliation

The following table summarises key movements in Level 3 financial assets:

€ million	December 31, 2015	December 31, 2014
Opening balance for the year	65	22
Gains recognised in the Income statement <sup>1</sup>	-	1
Gains recognised in Other comprehensive income <sup>2</sup>	-	48
Settlements	(5)	(7)
Exchange movements	5	1
<b>Closing balance for the year</b>	<b>65</b>	<b>65</b>

1 Included in Net credit relating to available-for-sale financial assets in the consolidated Income statement.

2 Included in Available-for-sale financial assets - Fair value movements in equity in the consolidated Statement of other comprehensive income.

The fair value of Level 3 financial assets cannot be measured reliably; as such these assets are stated at historic cost less accumulated impairment losses with the exception of the Group's investment in The Airline Group Limited. This unlisted investment had previously been valued at nil, since the fair value could not be reasonably calculated. During the year to December 31, 2014 other shareholders disposed of a combined holding of 49.9 per cent providing a market reference from which to determine a fair value. The revaluation resulted in a gain of €48 million recognised in Other comprehensive income. The investment remains classified as a Level 3 financial asset due to the valuation criteria applied not being observable, with the resultant fair value uplift in the prior year being non-recurring in nature.

**d Hedges****i Cash flow hedges**

Hedge accounting is applied on the following cash flow hedges.

At December 31, 2015 the Group had five principal risk management activities that were designated as hedges of future forecast transactions. These were:

- A proportion of future revenue receipts in foreign currency and future debt repayments in foreign currency, hedging future foreign exchange risk;
- Future jet fuel purchases by forward crude, gas oil and jet kerosene derivative contracts hedging future fuel price risk;
- Future aircraft operating lease cash outflows, hedging future foreign currency and interest rate risk with cross currency swaps;
- Certain revenue receipts, hedging future foreign exchange risk with foreign exchange contracts; and
- Certain foreign currency operational payments, hedging future foreign exchange risk with forward currency contracts.

To the extent that the hedges were assessed as highly effective, a summary of the amounts included in equity, the notional principal amounts and the years to which the related cash flows are expected to occur are summarised below:

December 31, 2015

Financial instruments designated as hedging instruments € million	Cash flows hedged					Total December 31, 2015
	Within 6 months	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	
Debt repayments to hedge future revenue	7	14	33	26	(10)	<b>70</b>
Forward contracts to hedge future payments	(92)	(86)	(36)	(9)	(3)	<b>(226)</b>
Hedges of future fuel purchases	780	530	206	32	-	<b>1,548</b>
Hedges of future aircraft operating leases	1	-	(7)	-	-	<b>(6)</b>
Currency options to hedge future payments	(8)	(1)	(2)	(1)	-	<b>(12)</b>
	688	457	194	48	(13)	<b>1,374</b>
Related deferred tax credit						<b>(298)</b>
<b>Total amount included within equity</b>						<b>1,076</b>

December 31, 2015

Million	Notional principal amounts (in local currency)
To hedge future currency revenues in euros	<b>€160</b>
To hedge future currency revenues in pound sterling	<b>£76</b>
To hedge future currency revenues in US dollars	<b>\$54</b>
To hedge future operating payments in US dollars	<b>\$3,770</b>
Hedges of future fuel purchases	<b>\$4,710</b>
Cross Currency swaps:	
- Floating to fixed (euro)	<b>€260</b>
- Fixed to fixed (euro)	<b>€126</b>
Debt repayments to hedge future revenue:	
- US dollars	<b>\$3,061</b>
- Euro	<b>€1,498</b>
- Japanese yen	<b>¥41,698</b>
- Chinese yuan	<b>CNY 716</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 27 Financial instruments continued

December 31, 2014

Financial instruments designated as hedging instruments € million	Cash flows hedged					Total December 31, 2014
	Within 6 months	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	
Debt repayments to hedge future revenue	15	7	15	49	(45)	41
Forward contracts to hedge future payments	(87)	(71)	(62)	(6)	-	(226)
Hedges of future fuel purchases	751	605	369	-	-	1,725
Hedges of future aircraft operating leases	1	1	(1)	(1)	-	-
Currency options to hedge future payments	(12)	(6)	(4)	-	-	(22)
Available-for-sale asset hedge <sup>1</sup>	5	-	-	-	-	5
	673	536	317	42	(45)	1,523
Related deferred tax credit						(330)
Total amount included within equity						1,193

December 31, 2014

Million	Notional principal amounts (in local currency)
To hedge future currency revenues against US dollars	\$730
To hedge future operating payments in US dollars	\$2,928
To hedge future operating payments in euros	€325
Hedges of future fuel purchases	\$4,799
Hedges of future share price volatility on available-for-sale assets	€11
Cross currency swaps:	
- Floating to fixed (euro)	€360
- Fixed to fixed (euro)	€204
Debt repayments to hedge future revenue:	
- US dollars	\$3,307
- Euro	€1,130
- Japanese yen	¥34,335

<sup>1</sup> At December 31, 2014 the Group had an investment representing 0.075 per cent of the share capital of Amadeus (note 18). On August 7, 2012 the Group entered into a derivative transaction with Nomura International Plc (Nomura) on its entire ownership interest in Amadeus. The transaction took the form of a 'collar' with two 'European' options. During 2014 Iberia entered into an agreement to settle the hedging transaction in equal instalments over a 100 trading day period. At December 31, 2014 Iberia had settled 99 per cent of the transaction.

At December 31, 2014 the notional principal amount of the cash flow hedge was €11 million. The change in the fair value of the cash flow hedge of €432 million decrease was accounted for as €43 million decrease directly in equity, net of deferred tax; €387 million release from equity, net of deferred tax to the Income statement (as a result of the partial settlement); and the time value credit of €2 million recognised in the Income statement.

The ineffective portion recognised in the Income statement during the year on cash flow hedges was a loss of €70 million (2014: loss of €51 million).

#### ii. Fair value hedges

The Group has no significant fair value hedges at December 31, 2015 and 2014.

#### iii. Net investments in foreign operations

The Group has no such hedges at December 31, 2015 and 2014.

## 28 Share capital and share premium

Allotted, called up and fully paid	Number of shares 000s	Ordinary share capital € million	Share premium € million
January 1, 2015: Ordinary shares of €0.50 each	2,040,079	1,020	5,867
<b>December 31, 2015</b>	<b>2,040,079</b>	<b>1,020</b>	<b>5,867</b>

## 29 Treasury shares

The treasury shares balance consists of shares held directly by the Group. During the year to December 31, 2015, the Group purchased directly 21.2 million shares at a weighted average share price of €7.70 per share totalling €163 million, which are held as Treasury shares. 7.7 million shares were issued to employees during the year as a result of vesting of employee share schemes. At December 31, 2015 the Group held 14.7 million shares, which represented 0.72 per cent of the Issued share capital of the Company.

## 30 Share-based payments

The Group operates share-based payment schemes as part of the total remuneration package provided to employees. These schemes comprise both share option schemes where employees acquire shares at an option price and share award plans whereby shares are issued to employees at no cost, subject to the achievement by the Group of specified performance targets.

### a Share Option Plan

The British Airways Share Option Plan 1999 (SOP) granted options to qualifying employees based on performance at an option price which was not less than the market price of the share at the date of the grant (or the nominal value if shares are to be subscribed and this value is greater than the market value). The options are subject to a three year vesting period with the exception of grants made during the year to March 31, 2005, when there was a single re-test after a further year which measured performance of British Airways over the four year period from the date of grant. Upon vesting, options may be exercised at any time until the 10th anniversary of the date of grant. No further grants of options under the SOP have been made since 2005. At December 31, 2015 there are no awards outstanding.

### b Deferred Share Plan

The British Airways Deferred Share Plan 2005 (DSP) was granted to qualifying employees based on performance and service tests. It will be awarded when an incentive award is triggered subject to the employee remaining in employment with the Group for three years after the grant date. The relevant population received a percentage of their incentive award in cash and the remaining percentage in shares through the DSP. The maximum deferral is 50 per cent.

### c IAG Performance Share Plan

In 2011 the Group introduced the IAG Performance Share Plan, granted to senior executives and managers of the Group who are most directly involved in shaping and delivering business success over the medium to long term. For 2011 to 2014, a conditional award of shares is subject to the achievement of a variety of performance conditions, which will vest after three years subject to the employee remaining employed by the Group. From 2015, the award was made as nil-cost options, and also had a two-year additional holding period after the end of the performance period, before vesting takes place. The awards made between 2012 and 2014 will vest based 50 per cent on achievement of IAG's TSR performance targets relative to the MSCI European Transportation Index, and 50 per cent based on achievement of earnings per share targets. The award made in 2015 will vest based one-third on achievement of IAG's TSR performance targets relative to the MSCI European Transportation Index, one-third based on achievement of earnings per share targets, and one-third based on achievement of return on invested capital targets.

### d IAG Incentive Award Deferral Plan

In 2011 the Group introduced the IAG Incentive Award Deferral Plan (IADP), granted to qualifying employees based on performance and service tests. It will be awarded when an incentive award is triggered subject to the employee remaining in employment with the Group for three years after the grant date. The relevant population will receive 50 per cent of their incentive award up front in cash, and the remaining 50 per cent in shares after three years through the IADP.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 30 Share-based payments continued

#### e Share-based payment schemes summary

	Outstanding at January 1, 2015 '000s	Granted number '000s	Lapsed number '000s	Exercised number '000s	Outstanding at December 31, 2015 '000s	Exercisable at December 31, 2015 '000s
Share Option Plan	942	-	12	930	-	-
Performance Share Plans	27,960	5,051	3,539	11,620	17,852	42
Deferred Share Plans and Incentive Award Deferral Plans	5,649	1,918	226	933	6,408	17
	<b>34,551</b>	<b>6,969</b>	<b>3,777</b>	<b>13,483</b>	<b>24,260</b>	<b>59</b>
Weighted average exercise price of Share Option Plans (£)	<b>2.76</b>	-	<b>2.76</b>	<b>2.76</b>	-	-

A total of 930,000 (2014: 2,072,000) shares related to the Share Option Plan were exercised at a weighted average market share price of £5.50 (2014: £4.13).

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

	December 31, 2015	December 31, 2014
Weighted average fair value (£)	3.19	2.35
Expected share price volatility (per cent)	30	35
Expected comparator group volatility (per cent)	20	25
Expected comparator correlation (per cent)	60	65
Expected life of options (years)	2.40	3
Weighted average share price at date of grant (£)	5.50	4.33

Volatility was calculated with reference to the Group's weekly pound sterling share price volatility. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. The fair value of the PSP and the IAG Performance Share Plan also takes into account a market condition of total shareholder returns as compared to strategic competitors. No other features of share-based payment plans granted were incorporated into the measurement of fair value.

The Group recognised a share-based payment charge of €35 million for the year to December 31, 2015 (2014: €29 million).

**31 Other reserves and non-controlling interests**

Year to December 31, 2015

€ million	Other reserves					Total other reserves	Non-controlling interests <sup>5</sup>
	Retained earnings	Unrealised gains and losses <sup>1</sup>	Currency translation <sup>2</sup>	Equity portion of convertible bond <sup>3</sup>	Merger reserve <sup>4</sup>		
January 1, 2015	(234)	(1,086)	319	72	(2,467)	<b>(3,396)</b>	308
Profit for the year	1,495	-	-	-	-	<b>1,495</b>	21
Other comprehensive income for the year:							
Cash flow hedges reclassified and reported in net profit:							
Passenger revenue	-	14	-	-	-	<b>14</b>	-
Fuel and oil costs	-	1,474	-	-	-	<b>1,474</b>	-
Currency differences	-	(202)	-	-	-	<b>(202)</b>	-
Investments	-	4	-	-	-	<b>4</b>	-
Net change in fair value of cash flow hedges	-	(1,104)	-	-	-	<b>(1,104)</b>	-
Available-for-sale assets reclassified and reported in net profit							
Net change in fair value of available-for-sale financial assets	-	(5)	-	-	-	<b>(5)</b>	-
Currency translation differences	-	-	181	-	-	<b>181</b>	-
Remeasurements of post-employment benefit obligations	156	-	-	-	-	<b>156</b>	-
Cost of share-based payments	45	-	-	-	-	<b>45</b>	-
Vesting of share-based payment schemes	(99)	-	-	-	-	<b>(99)</b>	-
Equity portion of convertible bond issued	-	-	-	101	-	<b>101</b>	-
Dividend	(203)	-	-	-	-	<b>(203)</b>	-
Dividend of a subsidiary	-	-	-	-	-	<b>-</b>	(1)
Distributions made to holders of perpetual securities	-	-	-	-	-	<b>-</b>	(20)
<b>December 31, 2015</b>	<b>1,160</b>	<b>(914)</b>	<b>500</b>	<b>173</b>	<b>(2,467)</b>	<b>(1,548)</b>	<b>308</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 31 Other reserves and non-controlling interests continued

Year to December 31, 2014

€ million	Other reserves						
	Retained earnings	Unrealised gains and losses <sup>1</sup>	Currency translation <sup>2</sup>	Equity portion of convertible bond <sup>3</sup>	Merger reserve <sup>4</sup>	Total other reserves	Non-controlling interests <sup>5</sup>
January 1, 2014	(814)	122	151	72	(2,467)	(2,936)	307
Profit for the year	982	-	-	-	-	982	21
Other comprehensive income for the year:							
Cash flow hedges reclassified and reported in net profit:							
Passenger revenue	-	5	-	-	-	5	-
Fuel and oil costs	-	47	-	-	-	47	-
Currency differences	-	34	-	-	-	34	-
Investments	-	271	-	-	-	271	-
Net change in fair value of cash flow hedges	-	(1,235)	-	-	-	(1,235)	-
Available-for-sale assets reclassified and reported in net profit	-	(359)	-	-	-	(359)	-
Net change in fair value of available-for-sale financial assets	-	29	-	-	-	29	-
Currency translation differences	-	-	168	-	-	168	-
Remeasurements of post-employment benefit obligations	(394)	-	-	-	-	(394)	-
Cost of share-based payments	38	-	-	-	-	38	-
Vesting of share based payments	(46)	-	-	-	-	(46)	-
Distributions made to holders of perpetual securities	-	-	-	-	-	-	(20)
December 31, 2014	(234)	(1,086)	319	72	(2,467)	(3,396)	308

- The unrealised gains and losses reserve records fair value changes on available-for-sale investments and the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.
- The currency translation reserve records exchange differences arising from the translation of the financial statements of foreign subsidiaries and associates.
- The equity portion of convertible bond reserve represents the equity portion of convertible bonds issued. At December 31, 2014, this related to the €390 million fixed rate 1.75 per cent convertible bond, and at December 31, 2015 it also related to the €500 million fixed rate 0.25 per cent convertible bond and the €500 million fixed rate 0.625 per cent convertible bond (note 23).
- The merger reserve records the difference between the fair value of the shares acquired and the nominal value of the shares issued from the original merger of British Airways and Iberia.
- Non-controlling interests largely comprise €300 million of 6.75 per cent fixed coupon euro perpetual preferred securities issued by British Airways Finance (Jersey) LP. The holders of these securities have no rights against Group undertakings other than the issuing entity and, to the extent prescribed by the subordinated guarantee, British Airways Plc. In the event of a dividend paid by the Company, the coupon payment is guaranteed. The effect of the securities on the Group as a whole, taking into account the subordinate guarantee and other surrounding arrangements, is that the obligations to transfer economic benefits in connection with the securities do not go beyond those that would normally attach to preference shares issued by a UK company.

## 32 Employee benefit obligations

The Group operates a variety of post-employment benefit arrangements, covering both defined contribution and defined benefit schemes. The Group also has a scheme for flight crew who meet certain conditions and therefore have the option of being placed on reserve and retaining their employment relationship until reaching the statutory retirement age, or taking early retirement (note 25).

### Defined contribution schemes

The principal defined contribution schemes within the Group are in IAG, British Airways, Iberia and Aer Lingus.

Aer Lingus participates in the Irish Airlines Superannuation Schemes. These schemes are treated as defined contribution schemes as there is no obligation, legal or constructive to increase its contributions.

Total employer contributions to defined contribution pension plans in Spain, UK and Ireland for the year to December 31, 2015 were €108 million (2014: €82 million).

### Defined benefit schemes

The principal funded defined benefit pension schemes within the Group are the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS), both of which are in the UK and are closed to new members. APS has been closed to new members since 1984 and NAPS closed to new members in 2003.

Benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to inflationary increases in payment in line with the Annual Review Orders (ARO) issued by the British Government, which is based on the Consumer Price Index (CPI). Benefits provided under NAPS are based on final average pensionable pay reduced by an amount (the abatement) not exceeding one and a half times the Government's lower earnings limit. NAPS pension increases are also linked to the ARO and increases are capped at a maximum of five per cent in any one year. In NAPS, annual pensionable pay increases for active members are capped at RPI.

The Trustees of APS have purported to grant an additional discretionary increase above CPI inflation for the 2013/14 pensions in payment. British Airways has challenged the decision as it considers the Trustees have no power to grant such increases and it is concerned about the actuarial funding position of the scheme. British Airways is also concerned about the residual unhedged risk in the scheme, which will be increased by the addition of new unfunded benefits, to which British Airways may ultimately be exposed as the principal employer and sponsor of the scheme. British Airways is committed to an existing recovery plan, which sees deficit payments of €75 million per annum until March 2023. Legal proceedings, initiated by British Airways, are underway to determine the legitimacy of the additional discretionary increase. This discretionary increase has not been reflected in the accounting assumptions used.

APS and NAPS are governed by separate Trustee Boards. Although separate, much of the business of the two schemes is common. Most main Board and committee meetings are held in tandem although each Trustee Board reaches its decisions independently. There are three committees which are separately responsible for the governance, operation and investments of each scheme. British Airways Pension Trustees Limited holds the assets of both schemes on behalf of their respective Trustees.

Deficit payment plans are agreed with the Trustees of each scheme every three years based on the actuarial valuation (triennial valuation) rather than the IAS 19 accounting valuation. The latest deficit recovery plan was agreed on the March 31, 2012 position (note 32i). The actuarial valuations performed at March 31, 2012 are different to the valuation performed under IAS 19 'Employee benefits' at December 31, 2015 mainly due to timing differences of the measurement dates and to the scheme specific assumptions used in the actuarial valuation versus IAS guidance used in the accounting valuation assumptions, notably the discount rate to calculate the present value of the liabilities.

The defined benefit plans expose the Group to risks, such as longevity risk, interest rate risk, market (investment) risk and currency risk.

Most employees of British Airways engaged outside the UK are covered by appropriate local arrangements. British Airways provides certain additional post-retirement healthcare benefits to eligible employees in the US through the US Post-Retirement Medical Benefit plan (US PRMB) which is considered to be a defined benefit scheme.

During the year the Group acquired the Aer Lingus defined benefit pension scheme (net defined benefit liability at the acquisition date of €8 million).

Cash payments to pension schemes comprise normal employer contributions by the Group; deficit contributions based on the agreed deficit payment plan with APS and NAPS; and cash sweep payments relating to additional payments made conditional on the level of cash in British Airways. Total payments for the year to December 31, 2015 net of service costs were €434 million (2014: €409 million) being the employer contributions of €699 million (2014: €612 million) less the current service cost of €265 million (2014: €203 million) (note 32b).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 32 Employee benefit obligations continued

#### a Employee benefit schemes recognised on the Balance sheet

€ million	2015			Total
	APS	NAPS	Other <sup>1</sup>	
Scheme assets at fair value	9,916	17,997	429	<b>28,342</b>
Present value of scheme liabilities	(8,405)	(18,460)	(805)	<b>(27,670)</b>
Net pension asset/(liability)	1,511	(463)	(376)	<b>672</b>
Effect of the asset ceiling <sup>2</sup>	(561)	-	-	<b>(561)</b>
Other employee benefit obligations	-	-	(12)	<b>(12)</b>
<b>December 31, 2015</b>	<b>950</b>	<b>(463)</b>	<b>(388)</b>	<b>99</b>
Represented by:				
Employee benefit assets				<b>957</b>
Employee benefit obligations				<b>(858)</b>
				<b>99</b>

€ million	2014			Total
	APS	NAPS	Other <sup>1</sup>	
Scheme assets at fair value	9,542	16,201	424	26,167
Present value of scheme liabilities	(8,191)	(17,134)	(795)	(26,120)
Net pension asset/(liability)	1,351	(933)	(371)	47
Effect of the asset ceiling <sup>2</sup>	(502)	-	-	(502)
Other employee benefit obligations	-	-	(14)	(14)
December 31, 2014	849	(933)	(385)	(469)
Represented by				
Employee benefit assets				855
Employee benefit obligations				(1,324)
				(469)

1 The present value of scheme liabilities for the US PRMB was €62 million at December 31, 2015 (2014: €83 million).

2 APS has an accounting surplus under IAS 19, which would be available to the Group as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the trustees.

#### b Amounts recognised in the Income statement

Pension costs charged to operating result are:

€ million	2015	2014
Defined benefit plans:		
Current service cost	<b>265</b>	203
Past service cost	<b>(1)</b>	-
	<b>264</b>	203
Defined contribution plans	<b>108</b>	82
<b>Pension costs recorded as employee costs</b>	<b>372</b>	285

Pension costs charged as finance costs are:

€ million	2015	2014
Interest income on scheme assets	<b>(1,031)</b>	(1,058)
Interest expense on scheme liabilities	<b>1,024</b>	1,051
Interest expense on asset ceiling	<b>19</b>	11
<b>Net financing expense relating to pensions</b>	<b>12</b>	4

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

€ million	2015	2014
Return on plan assets excluding interest income	(462)	1,338
Remeasurement of plan liabilities from changes in financial assumptions	498	(1,837)
Remeasurement of experience gains	183	171
Remeasurement of the APS asset ceiling	-	(232)
Exchange movements	(12)	(17)
<b>Pension remeasurements</b>	<b>207</b>	<b>(577)</b>

**d Fair value of scheme assets**

A reconciliation of the opening and closing balances of the fair value of scheme assets is set out below:

€ million	2015	2014
January 1	26,167	22,481
Acquired through Business combination	13	-
Interest income	1,031	1,058
Return on plan assets excluding interest income	(462)	1,338
Employer contributions <sup>1</sup>	684	596
Employee contributions	114	106
Benefits paid	(1,276)	(944)
Exchange movements	2,071	1,532
<b>December 31</b>	<b>28,342</b>	<b>26,167</b>

<sup>1</sup> Includes employer contributions to APS of €120 million (2014: €83 million) and to NAPS of €535 million (2014: €489 million), of which deficit funding payments represented €110 million for APS (2014: €75 million) and €389 million for NAPS (2014: €229 million).

Scheme assets at December 31 comprise:

€ million	2015	2014
<b>Return seeking investments – equities</b>		
UK	2,724	2,499
Overseas	7,112	6,467
	9,836	8,966
<b>Return seeking investments – other</b>		
Private equity	882	769
Property	2,142	1,812
Alternative investments	1,224	928
	4,248	3,509
<b>Liability matching investments</b>		
UK fixed bonds	3,949	3,578
Rest of world fixed bonds	118	205
UK index-linked bonds	6,650	6,212
Rest of world index-linked bonds	124	139
	10,841	10,134
<b>Other</b>		
Cash and cash equivalents	1,174	1,336
Derivatives	(114)	(255)
Insurance contract	1,928	1,867
Longevity swap	(40)	(47)
Other	469	657
	28,342	26,167

All equities and bonds have quoted prices in active markets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 32 Employee benefit obligations continued

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

€ million	December 31, 2015		December 31, 2014	
	APS	NAPS	APS	NAPS
Return seeking investments	1,721	12,169	1,713	10,552
Liability matching investments	6,103	4,616	5,661	4,367
	<b>7,824</b>	<b>16,785</b>	7,374	14,919
Insurance contract and related longevity swap	1,862	-	1,798	-
Other	230	1,212	370	1,282
<b>Fair value of scheme assets</b>	<b>9,916</b>	<b>17,997</b>	9,542	16,201

For both APS and NAPS, the trustees have ultimate responsibility for decision making on investments matters, including the asset-liability matching strategy. The latter is a form of investing designed to match the movement in pension plan assets with the movement in the projected benefit obligation over time. The trustees' investment committee adopts an annual business plan which sets out investment objectives and work required to support achievement of these objectives. The committee also deals with the monitoring of performance and activities, including work on developing the strategic benchmark to improve the risk return profile of the scheme where possible, as well as having a trigger based dynamic governance process to be able to take advantage of opportunities as they arise. The investment committee reviews the existing investment restrictions, performance benchmarks and targets, as well as continuing to develop the de-risking and liability hedging portfolio.

The strategic benchmark for asset allocations differentiate between 'return seeking assets' and 'liability matching assets'. Given the respective maturity of each scheme, the proportion for APS and NAPS vary. At December 31, 2015, the benchmark for APS, expressed as a percentage of the assets excluding the insurance contract, was 18.7 per cent (2014: 21.2 per cent) in return seeking assets and 81.3 per cent (2014: 78.8 per cent) in liability matching investments; and for NAPS the benchmark was 68 per cent (2014: 68 per cent) in return seeking assets and 32 per cent (2014: 32 per cent) in liability matching investments. Bandwidths are set around these strategic benchmarks that allow for tactical asset allocation decisions, providing parameters for the investment committee and its investment managers to work within.

In addition to this, APS has an insurance contract with Rothesay Life which covers 24 per cent (2014: 24 per cent) of the pensioner liabilities for an agreed list of members. The insurance contract is based on future increases to pensions in line with RPI inflation and will match future obligations on that basis for that part of the scheme. The insurance contract can only be used to pay or fund employee benefits under the scheme. APS has also secured a longevity swap contract with Rothesay Life, which covers an additional 20 per cent (2014: 20 per cent) of the pensioner liabilities for the same members covered by the insurance contract above. The value of the contract is based on the difference between the value of the payments expected to be received under this contract and the pensions payable by the scheme under the contract.

The fair value of insurance policies which exactly match the amount and timing of some or all benefits payable under the scheme are deemed to be the present value of the related obligations. Longevity swaps are measured at their fair value.

Both schemes use derivative instruments for investment purposes and to manage exposures to financial risks, such as interest rate, foreign exchange and liquidity risks arising in the normal course of business. Exposure to interest rate risk is managed through the use of Inflation-Linked Swap contracts. Foreign exchange forward contracts are entered into to mitigate the risk of currency fluctuations. For NAPS, a strategy exists to provide protection against the equity market downside risk by reducing some of the upside participation.

The asset-liability matching strategy in respect of the Group's other schemes have been determined in accordance with local practice.



**e Present value of scheme liabilities**

A reconciliation of the opening and closing balances of the present value of the defined benefit obligations is set out below:

€ million	2015	2014
January 1	<b>26,120</b>	22,485
Acquired through Business combination	<b>21</b>	-
Current service cost	<b>265</b>	203
Past service cost	<b>(1)</b>	-
Interest expense	<b>1,024</b>	1,051
Remeasurements – financial assumptions	<b>(498)</b>	1,837
Remeasurements – demographic assumptions	<b>(183)</b>	(171)
Benefits paid	<b>(1,276)</b>	(944)
Employee contributions	<b>114</b>	106
Exchange movements	<b>2,084</b>	1,553
<b>December 31</b>	<b>27,670</b>	26,120

The defined benefit obligation comprises €79 million (2014: €95 million) arising from unfunded plans and €27,591 million (2014: €26,025 million) from plans that are wholly or partly funded.

**f Effect of the asset ceiling**

A reconciliation of the effect of the asset ceiling representing the IAS19 irrecoverable surplus in APS is set out below:

€ million	2015	2014
January 1	<b>502</b>	236
Interest expense	<b>19</b>	11
Remeasurements	<b>-</b>	232
Exchange movements	<b>40</b>	23
<b>December 31</b>	<b>561</b>	502

**g Actuarial assumptions**

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Per cent per annum	2015			2014		
	APS	NAPS	Other schemes	APS	NAPS	Other schemes
Discount rate	<b>3.60</b>	<b>3.85</b>	<b>2.1 – 4.4</b>	3.45	3.80	3.4 – 4.1
Rate of increase in pensionable pay <sup>1</sup>	<b>2.85</b>	<b>3.00</b>	<b>3.0 – 4.0</b>	2.85	2.95	3.5 – 4.0
Rate of increase of pensions in payment	<b>1.85</b>	<b>2.00</b>	<b>1.5 – 3.5</b>	1.85	1.95	1.5 – 3.5
RPI rate of inflation <sup>2</sup>	<b>2.85</b>	<b>3.00</b>	<b>3.0 – 3.2</b>	2.85	2.95	3.0 – 3.1
CPI rate of inflation <sup>2</sup>	<b>1.85</b>	<b>2.00</b>	<b>1.7 – 3.0</b>	1.85	1.95	2.1 – 3.0

1 Rate of increase in pensionable pay is assumed to be in line with the RPI rate of inflation.

2 The inflation rate assumptions for NAPS and APS are based on the difference between the yields on index-linked and fixed-interest long-term government bonds. The inflation assumptions are used to determine the rate of increase for pensions in payment and the rate of increase in deferred pensions where there is such an increase.

Rate of increase in healthcare costs is based on medical trend rates of 7.0 per cent grading down to 5.0 per cent over nine years (2014: 7.5 per cent to 5.0 per cent over five years).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 32 Employee benefit obligations continued

In the UK, mortality rates are calculated using the standard SAPS mortality tables produced by the CMI for APS and NAPS. The standard mortality tables were selected based on the actual recent mortality experience of members and were adjusted to allow for future mortality changes. The current longevities underlying the values of the scheme liabilities were as follows:

Mortality assumptions	2015	2014
Life expectancy at age 60 for a:		
- male currently aged 60	<b>28.3</b>	28.3
- male currently aged 40	<b>29.9</b>	29.8
- female currently aged 60	<b>29.9</b>	29.8
- female currently aged 40	<b>32.3</b>	32.3

At December 31, 2015, the weighted-average duration of the defined benefit obligation was 12 years for APS (2014: 12 years) and 19 years for NAPS years (2014: 19 years).

For the US PRMB, mortality rates were based on the RP-14 mortality tables.

#### h Sensitivity analysis

Reasonable possible changes at the reporting date to significant actuarial assumptions, holding other assumptions constant, would have affected the present value of scheme liabilities by the amounts shown:

€ million	Increase in net pension liability
Discount rate (decrease of 10 basis points)	448
Future salary growth (increase of 10 basis points)	84
Future pension growth (increase of 10 basis points)	330
Future mortality rate – one year increase in life expectancy	785

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

#### i Funding

Pension contributions for APS and NAPS were determined by actuarial valuations made at March 31, 2012 using assumptions and methodologies agreed between the Group and the Trustees of each scheme. At the date of the actuarial valuation, the actuarial deficits of APS and NAPS amounted to €932 million and €3,647 million respectively. In order to address the deficits in the schemes, the Group has also committed to the following undiscounted deficit payments:

€ million	APS	NAPS
Within 12 months	<b>75</b>	<b>206</b>
2-5 years	<b>302</b>	<b>1,091</b>
5-10 years	<b>170</b>	<b>1,935</b>
More than 10 years	-	<b>107</b>
<b>Total expected deficit payments for APS and NAPS</b>	<b>547</b>	<b>3,339</b>

The Group has determined that the minimum funding requirements set out above for APS and NAPS will not be restricted.

The present value of the contributions payable is expected to be available as a refund or a reduction in future contributions after they are paid into the plan. This determination has been made independently for each plan, subject to withholding taxes that would be payable by the Trustees.

Deficit payments in respect of local arrangements outside of the UK have been determined in accordance with local practice.

In total, the Group expects to pay €576 million in employer contributions and deficit payments to its post-retirement benefit plans in 2016. This includes expected employer contributions of €84 million to APS (of which €75 million relates to the funding shortfall) and €466 million to NAPS (of which €206 million relates to the funding shortfall). This excludes any additional deficit contributions which may be required if British Airways declares dividends in future years in excess of payments into the scheme for that year.

### 33 Contingent liabilities and guarantees

There were contingent liabilities at December 31, 2015 in respect of guarantees and indemnities entered into as part of the normal course of the Group's business. No material losses are likely to arise from such contingent liabilities and guarantees. The Group also has the following claims:

#### Cargo

The Group is party to a number of legal proceedings in the English courts relating to a decision by the European Commission in 2010 which fined British Airways and ten other airline groups for participating in a cartel in respect of air cargo prices. The decision was partially annulled as against British Airways following an appeal to the general court of the European Union and British Airways was advised that the fine would be refunded in full. It is not yet clear what the European Commission's next steps will be. The original decision has led to a large number of claimants seeking, in proceedings brought in the English courts, to recover damages from British Airways which they claim arise from the alleged cartel activity. It is not possible at this stage to predict the outcome of the proceedings, which British Airways will vigorously defend. British Airways has joined the other airlines alleged to have participated in cartel activity to these proceedings to contribute to such damages, if any are awarded.

The Group is also party to similar litigation in a number of other jurisdictions, including Germany, the Netherlands and Canada, together with a number of other airlines. At present, the outcome of the proceedings is unknown. In each case, the precise effect, if any, of the alleged cartelising activity on the claimants will need to be assessed.

We are currently unable to determine whether the Group has an existing obligation as a result of the past event.

#### Tax

The Group files income tax returns in many jurisdictions throughout the world. Various tax authorities are currently examining the Group's income tax returns. Tax returns contain matters that could be subject to differing interpretations of applicable tax laws and regulations and the resolution of tax positions through negotiations with relevant tax authorities, or through litigation, can take several years to complete. While it is difficult to predict the ultimate outcome in some cases, the Group does not anticipate that there will be any material impact on the Group's financial position or results of operations.

#### Other

The Group has certain contingent liabilities and guarantees, which at December 31, 2015 amounted to €172 million (December 31, 2014: €138 million).

The Group has contingent liabilities in respect of certain claims and litigation in the normal course of business, which if realised are not expected to have a material adverse effect on the Group's consolidated financial position, results of operations or cash flows. The Group recognises provisions for liabilities when it is more likely than not that a settlement will be required and the value of such a payment can be reliably measured.

### 34 Related party transactions

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

#### Sales and purchases of goods and services

€ million	2015	2014
<b>Sales of goods and services</b>		
Sales to associates	8	16
Sales to significant shareholders	29	-
<b>Purchases of goods and services</b>		
Purchases from associates	57	59
Purchases from significant shareholders	61	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

### 34 Related party transactions continued

€ million	2015	2014
<b>Receivables from related parties</b>		
Amounts owed by associates	3	6
Amounts owed by significant shareholders	1	-
<b>Payables to related parties</b>		
Amounts owed to associates	3	6
Amounts owed to significant shareholders	4	-

During the year to December 31, 2015 British Airways met certain costs of administering its retirement benefit plans, including the provision of support services to the Trustees. Costs borne on behalf of the retirement benefit plans amounted to €7 million (2014: €6 million) in relation to the costs of the Pension Protection Fund levy.

In 2012 the Group entered into a hedging transaction at arm's length with Nomura International plc, a related party to IAG as there is a common Non-Executive Board member. The transaction was a risk management exercise to protect the value of the 33,562,331 ordinary shares that the Group holds in Amadeus. During the third quarter of 2014, the Group entered into an agreement to settle the hedging transaction over its ownership interest in Amadeus and sell its entire holding. At December 31, 2014 the Group had settled 99 per cent of the transaction, and the remaining 1 per cent was settled in January 2015.

The Group has transactions with related parties that are conducted in the normal course of the airline business, which include the provision of airline and related services. All such transactions are carried out on an arm's length basis.

For the year to December 31, 2015, the Group has not made any provision for doubtful debts arising relating to amounts owed by related parties (2014: nil).

Further details of the main transactions between the Group, associates and significant shareholders are provided below.

#### Associates

Total sales to associates of €8 million during the year (2014: €16 million) consisted primarily of sales for airline related services to Dunwoody Airline Services (Holding) Limited (Dunwoody) of €8 million (2014: €12 million) and an amount of less than €1 million (2014: €2 million) to Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. (Medios de Pagos).

Purchases from associates totalling €57 million (2014: €59 million) mainly included €29 million of airport auxiliary services purchased from Multiservicios Aeroportuarios, S.A. (2014: €26 million), €10 million of handling services provided by Dunwoody (2014: €11 million), €8 million of services received from International Supply Management, S.L. (2014: €7 million), €7 million of maintenance services received from Serpista, S.L. (2014: €7 million) and €3 million of services received from Iber-America Aerospace, LLC (2014: nil). The comparative year included €5 million of maintenance services received from Madrid Aerospace Services, S.L.

The Group had amounts owed by associates at December 31, 2015 for airline related services rendered, that included balances with Dunwoody of €1 million (2014: €1 million), Madrid Aerospace Services, S.L. of €1 million (2014: €1 million) and Medios de Pagos of €1 million (2014: €1 million).

At December 31, 2015 amounts owed to associates consisted primarily of €1 million due to Dunwoody (2014: €1 million), €1 million to Serpista, S.A. (2014: €1 million) and an amount of less than €1 million to Multiservicios Aeroportuarios, S.A. (2014: €3 million).

### Significant shareholders

In this instance, significant shareholders are those parties who have the power to participate in the financial and operating policy decisions of the Group, as a result of their shareholdings in the Group, but who do not have control over these policies.

On January 30, 2015 Qatar Airways (Q.C.S.C.) announced that it has acquired a 9.99 per cent shareholding in IAG.

Total sales to significant shareholders of €29 million during the year (2014: nil), and total purchases of €61 million (2014: nil) related to interline services with Qatar Airways.

The Group had amounts owed to significant shareholders of €4 million (2014: nil) and owed by significant shareholders of less than €1 million at December 31, 2015 (2014: nil), both related to Qatar Airways.

At December 31, 2015 the Group had cash deposit balances with shareholders holding a participation of between 3 to 5 per cent, of €48 million (2014: €65 million).

### Board of Directors and Management Committee remuneration

Compensation received by the Group's key management personnel, which includes the Board of Directors and Management Committee, in 2015 and 2014 is as follows:

€ million	December 31, 2015	December 31, 2014
Base salary, fees and benefits		
Board of Directors' remuneration	<b>15</b>	13
Management Committee remuneration	<b>22</b>	18
	<b>37</b>	31

The Board of Directors includes remuneration for two Executive Directors (2014: two Executive Directors).

The Management Committee includes remuneration for nine members (2014: eight members).

The Company provides life insurance for all Executive Directors and the Management Committee. For the year to December 31, 2015 the Company's obligation was €72,000 (2014: €48,000).

At December 31, 2015 the transfer value of accrued pensions covered under defined benefit obligation schemes, relating to the Management Committee totalled €9 million (2014: €7 million).

No loans or credit transactions were outstanding with Directors or officers of the Group at December 31, 2015 (2014: nil).

# SPANISH CORPORATE GOVERNANCE REPORT

According to the provisions of Article 540 of the Spanish Companies Act, the Company presents the Spanish Corporate Governance Report, which provides a detailed explanation of the structure of its governance and its operation. This report has been prepared following the model established by the Comisión Nacional del Mercado de Valores for this purpose.

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# SPANISH CORPORATE GOVERNANCE REPORT

## A. OWNERSHIP STRUCTURE

### A.1 Complete the following table on the company's share capital:

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
October 7, 2013	1,020,039,261.50	2,040,078,523	2,040,078,523

Indicate whether different types of shares exist with different associated rights:

**No**

Type	Number of shares	Nominal amount	Nominal amount of voting rights	Other rights
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### A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding directors:

Name or corporate name of shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Name of direct holder	Number of voting rights	
Qatar Airways (Q.C.S.C.)	0	Qatar Airways Luxembourg S.à.r.l.	203,863,316	9.993%
Standard Life Investments (Holdings) Limited	60,639,188	Standard Life Investments Limited and Ignis Investment Services Limited	61,942,109	6.008%
Europacific Growth Fund	107,329,400	-	0	5.261%
Capital Research and Management Company	0	Collective investment institutions managed by Capital Research and Management Company	102,997,951	5.049%
BlackRock Inc.	0	Funds and accounts managed by investors controlled by BlackRock Inc.	61,696,340	3.024%
Legal & General Investment Management Limited	54,407,837	Legal & General (Unit Trust Managers) Limited	11,611,554	3.236%
Lansdowne Partners International Limited	0	Funds and accounts managed by Lansdowne Partners (UK) LLP.	36,869,133	1.807%
Invesco Limited	0	Mutual benefit societies and pension funds managed by Invesco Limited and its subsidiaries	22,064,264	1.082%

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

Indicate the most significant movements in the shareholder structure during the year:

Name or corporate name of shareholder	Date of the transaction	Description of the transaction
Causeway Capital Management, LLC	January 14, 2015	Decrease to below 3% of the share capital
Templeton Global Advisors Limited	January 19, 2015	Decrease to below 3% of the share capital
BlackRock Inc.	January 23, 2015	Decrease to below 3% of the share capital
Qatar Airways (Q.C.S.C.)	January 23, 2015	Increase to above 3% of the share capital
Qatar Airways (Q.C.S.C.)	January 27, 2015	Increase to above 5% of the share capital
BlackRock Inc.	February 27, 2015	Increase to above 3% of the share capital
BlackRock Inc.	March 20, 2015	Decrease to below 3% of the share capital
BlackRock Inc.	April 29, 2015	Increase to above 3% of the share capital
Lansdowne Developed Markets Master Fund Ltd.	September 21, 2015	Decrease to below 1% of the share capital
BlackRock Inc.	December 3, 2015	Decrease to below 3% of the share capital
BlackRock Inc.	December 4, 2015	Increase to above 3% of the share capital

### A.3 Complete the following tables on company directors holding voting rights through company shares:

Name or corporate name of director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Name of direct holder	Number of voting rights	
Antonio Vázquez	512,291	-	-	0.025%
Sir Martin Broughton	155,365	Jocelyn Broughton	19,545	0.009%
Willie Walsh	1,243,219	-	-	0.061%
César Alierta	1,000,000	-	-	0.049%
Patrick Cescau	0	-	-	0.000%
Enrique Dupuy de Lôme	301,869	-	-	0.015%
Baroness Kingsmill	2,000	-	-	0.000%
James Lawrence	326,500	-	-	0.016%
María Fernanda Mejía	100	-	-	0.000%
Kieran Poynter	0	-	-	0.000%
Dame Marjorie Scardino	100	-	-	0.000%
Alberto Terol	9,200	-	-	0.000%

% of total voting rights held by the Board of Directors: 0.175%

Complete the following tables on company's share rights held by the company's directors:

Name or corporate name of director	Number of direct rights	Indirect rights		Number of equivalent shares	% of total voting rights
		Direct holder	Number of voting rights		
Willie Walsh	1,673,512	-	-	1,673,512	0.082%
Enrique Dupuy de Lôme	662,613	-	-	662,613	0.032%



**A.4** Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:

Related-party name or corporate name	Type of relationship	Brief description
-	-	-

**A.5** Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:

Related-party name or corporate name	Type of relationship	Brief description
BlackRock Investment Management (UK) Ltd.	Commercial	Cash deposits invested as part of liquidity fund portfolio
Qatar Airways (Q.C.S.C.)	Commercial	Cargo capacity agreement, passenger codeshares and interline agreement

**A.6** Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Spanish Companies Law. Provide a brief description and list the shareholders bound by the agreement, as applicable:

**No**

Parts bound by agreement	% of share capital affected	Brief description of agreement
-	-	-

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

**No**

Shareholders involved in concerted action	% of share capital affected	Brief description of concerted action
-	-	-

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year:

**Not applicable**

**A.7** Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company in accordance with article 5 of the Securities Market Law: If so, identify:

**No**

Name or corporate name	Remarks
-	-

**A.8** Complete the following tables on the company's treasury stock:

At year-end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
14,684,018	0	0.720%

(\*) Through:

Name or corporate name of direct stake	Number of shares held directly
-	-
<b>Total</b>	<b>-</b>

Explain any significant changes during the year, pursuant to Royal Decree 1362/2007:

Explanation of significant changes	Date of notification	Total number of direct shares acquired	Total number of indirect shares acquired	% of total share capital
	07/31/2015	21,548,242	0	1.056

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

### A.9 Give details of the applicable conditions and time periods governing any resolutions of the Shareholders' Meeting to issue, buy back and/or transfer treasury stock.

The Annual Shareholders' Meeting of International Consolidated Airlines Group, S.A. ("IAG" or the "Company") held on June 18, 2015, granted authorisation to the Board of Directors for the derivative acquisition of shares of the Company in the context of the provisions of article 146 of the Spanish Companies Law, according to the applicable laws and subject to the following conditions:

- a) The acquisitions may be made directly by IAG or indirectly through its subsidiaries.
- b) The acquisitions shall be made through purchase and sale, exchange or any other transaction permitted by the law.
- c) The maximum aggregate number of shares which are authorised to be purchased is the lower of the maximum amount permitted by the law and the number as represents 10 per cent of the share capital of IAG as at the date of passing the resolution, that is, June 18, 2015.
- d) The minimum price which may be paid for a share is zero.
- e) The maximum price which may be paid for a share is the highest of:
  - i) an amount equal to 5 per cent above the average of the middle market quotations for the shares as taken from the relevant stock exchange for the five business days immediately preceding the day on which the transaction is performed; and
  - ii) 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.
- f) The authorisation is granted for a term ending at 2016 annual Shareholders' Meeting (or if earlier, 15 months from June 18, 2015).

The resolution of the Shareholders' Meeting, places expressly on record that for the purposes of provisions of article 146 of the Spanish Companies Law, the shares acquired pursuant to the 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.

### A.9 bis Estimated floating capital

Estimated floating capital	63.64
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### A.10 Give details of any restriction on the transfer of securities or voting rights. Indicate, in particular, the existence of any restrictions on the takeover of the company by means of share purchases on the market

**Yes**

#### Description of restrictions

The 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.

#### Disclosure obligations

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 equal to or over 0.25 per cent of the Company's capital, or of the voting rights corresponding thereto, 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, in accordance with article 10.1 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 operating affiliates or for any other reason in relation to the potential application of article 11 of the Bylaws (Limitation on share ownership).

In the event of the breach of these obligations by a shareholder or any other person with a confirmed or apparent interest in the Company's shares, the Board of Directors may suspend at any time the voting and other political rights of the relevant person in respect of the shares in relation to which the default has occurred and the relevant shareholder will not be entitled to exercise any voting rights or any political rights at any Shareholders' Meeting. If the shares with respect to which the aforementioned obligations have been breached represent a percentage equal to or greater than 0.25 per cent of the Company's capital, the Board of Directors may also direct that no transfer of any such shares is registered.

#### Limitations on ownership of the Company shares

In the event that the Board of Directors deems it necessary or appropriate to adopt measures to protect an operating right of the Company or of its operating 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-EU shareholders, which may not be less than 40 per cent of the Company's capital stock under any circumstances.

In the event that the Board has specified a maximum number of shares that may be held by non-EU shareholders, and identified those shares the holding of which gave rise or contributed to such a determination, 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-EU 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-EU person.

**A.11 Indicate whether the shareholders' meeting has agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Law 6/2007.**

**No**

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

**Not applicable**

**A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.**

**No**

If so, identify the various classes of shares and, for each class of shares, the rights and obligations they confer.

**Not applicable**

#### **B. SHAREHOLDERS' MEETING**

**B.1 Indicate, and as applicable, describe the difference in relation to the minimum rules established in the Spanish Companies Law (LSC) regarding the quorum required for constitution of the shareholders' meeting.**

**No**

	Quorum % other than that established in article 193 of the LSC for general cases	Quorum % other than that established in article 194 of the LSC for the special cases described in article 194
Quorum required for first call	-	-
Quorum required for second call	-	-
Description of differences		
-		

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

**B.2** Indicate and, as applicable, describe any differences in relation to the rules established in the Spanish Companies Law (LSC) regarding the system of adopting corporate resolutions:

**No**

Describe how they differ from the rules established in the LSC.

	Qualified majority other than that established in article 201.2 of the LSC for general cases described in 194.1 of the LSC	Other cases requiring a qualified majority
% set by company for adopting corporate resolutions	-	-

Describe the differences

-

**B.3** Indicate the rules governing amendments to the company's Bylaws. In particular, indicate the majorities required to amend the Bylaws and, if applicable, the rules for protecting shareholders' rights when changing the Bylaws.

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.

**B.4** Indicate the attendance figures for the shareholders' meetings held during the year corresponding to this report and for the previous year:

Date of shareholders' meeting	Attendance data				
	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Other	
June 18, 2015	0.124%	60.677%	0.003%	3.566%	64.370%
June 18, 2014	0.123%	52.873%	0.005%	2.792%	55.793%

**B.5** Indicate whether the Bylaws impose any minimum requirement on the number of shares required to attend the shareholders' meetings:

**No**

Number of shares required to attend the shareholders' meetings

-

**B.6** Section eliminated.

**B.7** Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on shareholders' meetings which must be made available to shareholders on the website.

The Company corporate governance information is available on the Company's website: [www.iairgroup.com](http://www.iairgroup.com) in the "Corporate Governance" section.

### **C. COMPANY MANAGEMENT STRUCTURE**

**C.1** Board of Directors

**C.1.1** List the maximum and minimum number of directors included in the Bylaws:

Maximum number of directors	14
Minimum number of directors	9

## C.1.2 Complete the following table with board members:

Name or corporate name of director	Representative	Category of director	Position on the board	Date of first appointment	Date of last appointment	Election procedure
Antonio Vázquez	-	Other External	Chairman	May 25, 2010	June 18, 2015	Vote at the Shareholders' Meeting
Sir Martin Broughton	-	Independent	Deputy Chairman	May 25, 2010	June 18, 2015	Vote at the Shareholders' Meeting
Willie Walsh	-	Executive	Chief Executive Officer	May 25, 2010	June 18, 2015	Vote at the Shareholders' Meeting
César Alierta	-	Independent	Director	September 27, 2010	June 18, 2015	Vote at the Shareholders' Meeting
Patrick Cescau	-	Independent	Director	September 27, 2010	June 18, 2015	Vote at the Shareholders' Meeting
Enrique Dupuy de Lôme	-	Executive	Director	September 26, 2013	June 18, 2015	Vote at the Shareholders' Meeting
Baroness Kingsmill	-	Independent	Director	September 27, 2010	June 18, 2015	Vote at the Shareholders' Meeting
James Lawrence	-	Independent	Director	September 27, 2010	June 18, 2015	Vote at the Shareholders' Meeting
María Fernanda Mejía	-	Independent	Director	February 27, 2014	June 18, 2015	Vote at the Shareholders' Meeting
Kieran Poynter	-	Independent	Director	September 27, 2010	June 18, 2015	Vote at the Shareholders' Meeting
Dame Marjorie Scardino	-	Independent	Director	December 19, 2013	June 18, 2015	Vote at the Shareholders' Meeting
Alberto Terol	-	Independent	Director	June 20, 2013	June 18, 2015	Vote at the Shareholders' Meeting

Total number of directors: 12

Indicate any board members who left the board during this information period:

Name or corporate name of director	Category of the director at the time of leaving	Leaving date
José Pedro Pérez-Llorca	Independent	06/18/2015

## C.1.3 Complete the following tables on board members and their respective categories:

**EXECUTIVE DIRECTORS**

Name or corporate name of director	Position held in the company organization chart
Willie Walsh	Chief Executive Officer
Enrique Dupuy de Lôme	Chief Financial Officer

Total number of executive directors 2  
% of the total of the board 16.67%

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

### PROPRIETARY DIRECTORS

Name or corporate name of director	Name or corporate name of significant shareholder represented or proposing appointment
-	-
Total number of proprietary directors	-
% of the total of the board	-

### EXTERNAL INDEPENDENT DIRECTORS

Individual or corporate name of director	Profile
Sir Martin Broughton	<p><u>Key areas of prior experience:</u> consumer, finance, governance.</p> <p><u>Current external appointments:</u> Chairman, Sports Investment Partners.</p> <p><u>Previous relevant experience:</u> Chairman, British Airways 2004-2013 and Director since 2000. President, Confederation of British Industry 2007-2009. Chairman, Liverpool FC 2010. Chairman, British Horseracing Board 2004-2007. Chairman, British American Tobacco 1997-2004 following its demerger from BAT Industries, previously Chief Executive Officer, BAT Industries 1993-1997 and member of the Board since 1988. Other executive positions at British American Tobacco 1971-1993.</p>
César Alierta	<p><u>Key areas of prior experience:</u> finance, telecommunications, consumer.</p> <p><u>Current external appointments:</u> Chairman and Chief Executive Officer, Telefónica Group. Non-Executive Director, China Unicom. Member, Columbia Business School Board of Overseers.</p> <p><u>Previous relevant experience:</u> Member of the Board, Telecom Italia 2007-2013. Non-Executive Director, Telefónica 1997-2000. Executive Chairman, Altadis Group 1996-2000. Member of the Board, Madrid Stock Exchange 1991-1996. Chairman, Spanish Financial Analysts' Association 1991-1996. Chairman and founder, Beta Capital 1985-1996.</p>
Patrick Cescau	<p><u>Key areas of prior experience:</u> consumer, finance, sales/marketing, governance.</p> <p><u>Current external appointments:</u> Non-Executive Chairman, InterContinental Hotel Group. Trustee, LeverHulme Trust. Member, Temasek European Advisory Panel. Patron, St Jude India Children's Charity.</p> <p><u>Previous relevant experience:</u> Senior Independent and Non-Executive Director, Tesco 2009-2015. Director, INSEAD 2009-2013. Senior Independent and Non-Executive Director, Pearson Plc 2002-2012. Group Chief Executive, Unilever 2005-2008. Chairman, Unilever PLC. Deputy Chairman, Unilever NV. Finance Director and other executive positions (including a number of Unilever major operating companies and divisions in the USA, Indonesia and Portugal), having joined the Unilever Group in 1973.</p>
Baroness Kingsmill	<p><u>Key areas of prior experience:</u> government, legal and regulatory affairs.</p> <p><u>Current external appointments:</u> Non-Executive Director, EON Supervisory Board. Non-Executive Director, Telecom Italia. Member of the International Advisory Board, IESE Business School. Member of the House of Lords since 2006.</p> <p><u>Previous relevant experience:</u> Vice Chair and Senior Independent Director, APR Energy 2010-2015. Non-Executive Director, British Airways 2004-2010. Deputy Chairman, Competition Commission 1997-2003. Chairman, Department of Trade and Industry's Accounting for People task force 2003.</p>
James Lawrence	<p><u>Key areas of prior experience:</u> finance, consumer, corporate governance.</p> <p><u>Current external appointments:</u> Chairman, Great North Star LLC. Non-Executive Director, Smurfit Kappa Group. Non-Executive Director and Chairman of the Audit Committee, Avnet Inc.</p> <p><u>Previous relevant experience:</u> Chairman, Rothschild North America 2012-2015. CEO, Rothschild North America and Co-Head of Global Investment Banking 2010-2012. Executive Director and Chief Financial Officer, Unilever 2007-2010. Non-Executive Director, British Airways 2006-2010. Vice Chairman, Chief Financial Officer and Head of International, General Mills 1998-2007. Executive Vice President and Chief Financial Officer, Northwest Airlines 1996-1998. Executive Vice President and other executive positions, Pepsi-Cola 1992-1996. Chairman and Co-Founder, LEK Consulting 1983-1992. Partner, Bain &amp; Company 1977-1983.</p>

Individual or corporate name of director	Profile
Maria Fernanda Mejia	<p><u>Key areas of prior experience:</u> consumer, customer development, strategic planning, supply chain, innovation and marketing communications.</p> <p><u>Current external appointments:</u> Senior Vice President and President of Kellogg Latin America, Corporate Officer and member of Kellogg's Global Leadership Team. Board Member of the Council of the Americas.</p> <p><u>Previous relevant experience:</u> Colgate-Palmolive Co. – Vice-President and General Manager Global Personal Care and Corporate Fragrance Development 2010-2011, Vice-President Marketing and Innovation Europe/South Pacific Division 2005-2010, President and CEO Spain and Spain Holding Company 2003-2005, General Manager Hong Kong and a Director Greater China Management team 2002-2003, Marketing Director Venezuela 2000-2002, Marketing Director Ecuador 1998-2000.</p>
Kieran Poynter	<p><u>Key areas of prior experience:</u> professional services, finance services.</p> <p><u>Current external appointments:</u> Chairman, F&amp;C Asset Management plc. Non-Executive Director and Chairman of the Remuneration Committee, British American Tobacco PLC.</p> <p><u>Previous relevant experience:</u> Chairman, Nomura International plc 2009-2015. Chairman and Senior Partner, PricewaterhouseCoopers 2000-2008. Managing Partner, PricewaterhouseCoopers 1998-2000 and other executive positions at PricewaterhouseCoopers 1982-1998. Member, Advisory Committee for the Chancellor of the Exchequer on the competitiveness of the UK financial services sector 2009-2010. Member, President's Committee of the Confederation of British Industry 2000-2008.</p>
Dame Marjorie Scardino	<p><u>Key areas of prior experience:</u> commercial management and government affairs, communications, digital and media, legal services.</p> <p><u>Current external appointments:</u> Non-Executive Director, Twitter, Inc. Member, Board of Pure Tech Health Inc., Member, charitable boards including The MacArthur Foundation; London School of Hygiene and Tropical Medicine (Chairman); and The Carter Center. Member, Board of the Royal College of Art. Member, of the Visiting Committee for the MIT Media Lab; Member, Board of Bridge International Academies (HQ-Kenya).</p> <p><u>Previous relevant experience:</u> Chief Executive Officer, Pearson PLC 1997-2012. Chief Executive Officer, The Economist Group from 1993-1996. President, The Economist Group US 1985-1993. Lawyer practising in the US 1975-1985.</p>
Alberto Terol	<p><u>Key areas of prior experience:</u> finance, professional services, information technology, hospitality industry.</p> <p><u>Current external appointments:</u> Non-Executive Director, Indra. Non-Executive Director, OHL. Non-Executive Director and Chairman of the Audit Committee, Aktua. Non-Executive Director, Broseta. International Senior Advisor, Centerbridge. Executive Chairman of various family owned companies.</p> <p><u>Previous relevant experience:</u> 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 &amp; Legal Deloitte 2007-2009. Member, Global Management Committee Deloitte 2003-2007. Managing Partner, Latin America Deloitte 2003-2007. Managing Partner, Integration Andersen Deloitte 2002-2003, Managing Partner, Europe Arthur Andersen 2001-2002. Managing Partner, Global Tax &amp; Legal Arthur Andersen 1997-2001. Managing Partner, Garrigues 1997-2000.</p>
Total number of external independent directors	9
% of the board	75%

List any external independent directors who receive from the company or group any amount or payment other than standard director remuneration or who maintain or have maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained the said relationship.

**No**

If applicable, include a justified statement from the board detailing the reasons why the said director may carry on their duties as an external independent director.

Name or corporate name of director	Description of the relationship	Justified statement
-	-	-

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

### OTHER NON-EXECUTIVE DIRECTORS

Name or corporate name of director	Committee notifying or proposing appointment
Antonio Vázquez	Nominations Committee
Total number of other non-executive directors	1
% of the total of the board	8.33%

List the reasons why these cannot be considered proprietary or external independent directors and detail their relationships with the company, its executives or shareholders.

Name or corporate name of director	Reasons	Company, executive or shareholder with whom the relationship is maintained
Antonio Vázquez	He was until the merger between British Airways and Iberia effective date (January 21, 2011) the Executive Chairman of Iberia	-

List any changes in the category of each director which have occurred during the year.

Name or corporate name of director	Date of change	Previous category	Current category
-	-	-	-

#### C.1.4 Complete the following table on the number of female directors at the end of the last four years and their category.

	Number of female directors				% of total directors of each category			
	Year t	Year t-1	Year t-2	Year t-3	Year t	Year t-1	Year t-2	Year t-3
Executive	0	0	0	0	0	0	0	0
Proprietary	0	0	0	0	0	0	0	0
External independent	3	3	2	1	33.33%	30.00%	22.22%	12.5%
Other non-executive	0	0	0	0	0	0	0	0
Total	3	3	2	1	25%	23.08%	14.29%	7.14%

#### C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female directors on the board to guarantee an even balance between men and women.

##### Explanation of measures

IAG adopted a Board Diversity policy in September 2012, which was updated in June 2014. IAG's Diversity policy aimed to promote diversity in the Board composition and established the Board's aspirational goal of achieving 25 per cent female representation on the Board by 2015. This target was met by the Company ahead of this time limit.

Following the new Spanish corporate governance code recommendation, the Board has approved on January 2016 a Directors Selection and Diversity policy which supersedes the former Board Diversity policy. The objective of this new Policy is to ensure that the appointments of directors are based on a prior analysis of the Board's needs and favour a diversity of knowledge, experience and gender. This Policy incorporates the former diversity principles while regulating the process for appointing directors. Under this Policy, director appointments are evaluated against the existing balance of skills, knowledge and experience on the Board, with directors asked to be mindful of diversity, inclusiveness and meritocracy considerations when examining nominations to the Board.

The Board recognises the value of diversity as a tool to enrich its discussions and decision-making process. Consequently, it is the Board's objective to create a board whose composition ensures a healthy diversity of opinions, perspectives, skills, experiences, backgrounds and orientations. Specifically, this will include an appropriate gender ratio, as well as including diversity in other senses, subject to the overriding principle of merit and suitability mentioned above.

This will be achieved over time, taking account of the valuable knowledge and experience of the present board members and the value of a more diverse Board.

Accordingly, the Directors Selection and Diversity Policy establishes a new female representation objective of 33 per cent for 2020 following the recommendation included in the final Davies report published in the UK.

The Board, through its Nominations Committee, regularly reviews the percentage of women that sit on the Board and on the Company's Management Committee, as well as the number of women in the Group's workforce worldwide. The IAG Board and Management Committee continue to focus on this important area.



The Nominations Committee leads the process for Board appointments. It evaluates the balance of skills, experience, independence, diversity and knowledge on the Board and, in the light of this evaluation, considers the role and capabilities required for a particular appointment. This evaluation will be made alongside succession plans for directors and takes into consideration any conclusions from the annual review of Board performance.

As further detailed in the following section, the Directors Selection and Diversity Policy states the Company's intention only to engage, so far as practicable, search firms which have signed up to the latest UK Voluntary Code of Conduct for Executive Search Firms (or its international equivalent). This is a voluntary code of conduct to address gender diversity on corporate boards and best practice for the related search processes. The code lays out steps for search firms to follow across the search process, from accepting a brief through to final induction.

When reviewing board appointments, 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.

It is the Nominations Committee's intention to reconcile the achievement of this objective while preserving the general diversity and merit based appointment principles established in IAG's policy.

IAG's Directors Selection and Diversity Policy is published on the Company's website.

**C.1.6 Explain the measures taken, if applicable, by the nomination committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors, and whether the company makes a conscious effort to search for female candidates who have the required profile.**

#### **Explanation of measures**

The Nominations Committee leads the process for Board appointments. It evaluates the balance of skills, experience, independence, diversity and knowledge in the Board and, in the light of this evaluation, considers the role and capabilities required for a particular appointment. The appointment of new directors is made in accordance with a formal, rigorous and transparent process.

An overriding principle is that all appointments to the Board will be based upon merit and suitability of the candidate to the particular role being filled. As stated in the Directors Selection and Diversity Policy, it is the Board's objective to create a board whose composition ensures a healthy diversity of opinions, perspectives, skills, experiences, backgrounds and orientations. Specifically, this includes an appropriate gender ratio, as well as including diversity in other senses, subject to the overriding principle of merit and suitability mentioned above.

In support of this Policy and, particularly, of the gender ratio objective, IAG has stated that, when conducting a search for a new board member, so far as practicable, it intends only to engage search consultants who have signed up to the UK Voluntary Code of Conduct on gender diversity for executive search firms or an international equivalent.

As previously explained, this is a voluntary code of conduct to address gender diversity on corporate boards and best practice for the related search processes, which lays out steps for search firms to follow across the search process.

According to this code, when taking a specific brief, search firms should look at overall board composition and, in the context of the board's agreed aspirational goals on gender balance and diversity more broadly, explore with the chairman if recruiting women directors is a priority on this occasion.

In addition, when presenting their longlists, search firms should try to ensure that at least 30 per cent of the candidates are women – and, if not, should explicitly justify to the client why they are convinced that there are no other qualified female options, through demonstrating the scope and rigour of their research. Search firms should seek to ensure that the shortlist is appropriately reflective of the longlist, discussing with their clients each woman on the longlist and aiming to have at least one woman whom they would 'strongly recommend' that the client should meet.

Finally, search firms who are signatories to this code should seek to broaden their own databases of potential candidates, and are encouraged to invest time into developing relationships with the pipeline of future female candidates.

This code has been signed up to by over 70 search firms, who collectively account for the vast majority of the board work in the UK. All have committed to following the code's provisions in their board search processes, irrespective of sector, company and organisation and to ensuring that all provisions of the code are embedded in their day to day practices.

**When, despite the measures taken, there are few or no female directors, explain the reasons.**

Explanation

-

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

### C.1.6.bis Explain the conclusions of the Nominations Committee with respect to verification of compliance with the director selection policy. In particular, explain how this policy promotes the objective of having female directors represent at least 30% of the total members of the Board of Directors by 2020.

The Nominations Committee regularly reviews the percentage of women that sit on the Board and on the Company's Management Committee. It also monitors the number of women within the Group's workforce worldwide. This information (and the progress made towards achieving greater diversity) is published annually in the Company's annual report.

As previously explained, IAG adopted a Board Diversity policy in September 2012, which was updated in June 2014, that established the Board's aspirational goal of achieving 25 per cent female representation on the Board by 2015. This target was met by the Company ahead of this time frame.

The Board of Directors, at its meeting held on January 28, 2016, approved a new Directors Selection and Diversity Policy which superseded the former Diversity Policy which has established a new female representation objective of 33 per cent for 2020. A detailed explanation of how this Policy promotes the achievement of this objective is included in the two preceding sections.

In addition, IAG's Directors Selection and Diversity Policy establishes the Nominations Committee's obligation to carry out an annual check on compliance with this policy and to set out its findings in the Company's annual corporate governance report.

During 2015, no new directors were appointed to the Board.

### C.1.7 Explain how shareholders with significant holdings are represented on the board.

There are no significant shareholders with representation on the Board of Directors.

### C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 3% of the share capital.

Name or corporate name of shareholder	Reason
-	-

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained.

**No**

Name or corporate name of shareholder	Explanation
-	-

### C.1.9 Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board their reasons and through which channel and, if tendered in writing, list below the reasons given by that director:

Name of director	Reasons for resignation
-	-

### C.1.10 Indicate what powers, if any, have been delegated to the chief executive officer(s).

Name or corporate name of director	Brief description
Willie Walsh	All of the powers of the Board have been permanently delegated to the IAG Chief Executive for their exercise, jointly and severally, save for those which cannot be delegated pursuant to the Bylaws, the Board Regulations or the applicable legislation.

### C.1.11 List the directors, if any, who hold office as directors or executives in other companies belonging to the listed company's group:

Individual or corporate name of director	Corporate name of entity within the Group	Position	Do they have executive functions?
Willie Walsh	Aer Lingus plc	Non-Executive Director	No

C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets, insofar as these have been disclosed to the company.

Name or corporate name of director	Name of listed company	Position
César Alierta	Telefónica, S.A.	Chairman
César Alierta	China Unicom	Non-Executive Director
Patrick Cescau	Intercontinental Hotels Group	Non-Executive Chairman
Baroness Kingsmill	Telecom Italia	Non-Executive Director
Baroness Kingsmill	E.ON	Member of the Supervisory Board
James Lawrence	Smurfit Kappa Group	Non-Executive Director
James Lawrence	Avnet Inc.	Non-Executive Director
Kieran Poynter	British American Tobacco	Non-Executive Director
Dame Marjorie Scardino	Twitter, Inc.	Non-Executive Director
Alberto Terol	Indra Sistemas, S.A.	Non-Executive Director
Alberto Terol	Obrascon Huarte Lain, S.A.	Non-Executive Director

C.1.13 Indicate and, where appropriate, explain whether the board regulations establish rules on the maximum number of company boards on which its directors may sit:

**Yes**

#### Explanation of rules

According to article 17.5 of the Board Regulations, unless otherwise authorised by the Nominations Committee, a director shall not hold more than six other directorships of which no more than four, in the case of non-executive directors, and no more than one, in the case of executive directors, can be in public listed companies. In any event, prior consent from the Nominations Committee is required before an executive director can accept any external directorship appointment.

Asset-holding or pure investment companies are excluded for the purposes of the preceding paragraph. Furthermore, companies belonging to the same group shall be considered as a single company.

C.1.14 Section eliminated.

C.1.15 List the total remuneration of the board:

Board remuneration (thousands of euros)	15,860
Amount of pension rights accumulated by directors (thousands of euros)	308
Amount of pension rights accumulated by former directors (thousands of euros)	5,173

C.1.16 List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year.

Name or corporate name	Position(s)
Keith Williams	Executive Chairman of British Airways
Luis Gallego	Executive Chairman of Iberia
Robert Boyle	Director of Strategy
Alex Cruz	Vueling Chief Executive Officer
Ignacio de Torres	Director of Global Services
Christopher Haynes	General Counsel
Julia Simpson	Chief of Staff
Steve Gunning	IAG Cargo Chief Executive Officer
Stephen Kavanagh	Aer Lingus Chief Executive Officer
Total remuneration received by senior management (thousands of euros)	21,943

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies.

Name or corporate name of director	Name or corporate name of significant shareholder	Position
-	-	-

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the board with significant shareholders and/or their group companies.

Name or corporate name of director	Name or corporate name of significant shareholder	Relationship
-	-	-

C.1.18 Indicate whether any amendments have been made to the board regulations during the year.

**Yes**

### Description of amendments

The Board Regulations were modified by the Board of Directors during the meeting held on June 18, 2015 in order to adapt their wording to the reforms introduced by Law 31/2014 amending the Spanish Companies Law to improve corporate governance and to introduce certain technical and systematic improvements.

Further amendments were introduced and approved by the Board of Directors in its meeting held on December 17, 2015, in order to adapt its wording to certain of the recommendations of the new Spanish Good Governance Code for Listed Companies published in February 2015.

The full text of the Board Regulations is published on the Company's website: [www.iairgroup.com](http://www.iairgroup.com).

C.1.19 Indicate the procedures for selection, appointing, re-electing, evaluating and removing directors. List the competent bodies, procedures and criteria used for each of these procedures.

### Appointment of directors

The Shareholders' Meeting or, if applicable, the Board of Directors itself shall be entitled to designate the members of the Board of Directors subject to the current law provisions.

Any vacancies may be covered by the Board of Directors by means of cooption, according to the applicable law, on an interim basis until the next Shareholders' Meeting is held, which shall ratify, as the case may be, the appointments or appoint the persons that are to replace any directors not ratified, or eliminate any vacant positions.

Proposals for the appointment of directors submitted by the Board to the Shareholders' Meeting for consideration, as well as decisions on appointments made by the Board of Directors using the powers of cooption legally attributed to it, shall be in respect of persons that satisfy the legal and Bylaw requirements to hold office as director, are of suitable repute and have appropriate professional skills, experience, knowledge and availability for the exercise of the functions and duties of such office.

Proposals for the appointment or renewal of directors submitted to the Shareholders' Meeting by the Board, as well as provisional appointments by means of cooption, must be approved on the proposal of the Nominations Committee in the case of independent directors and subject to a report from the Nominations Committee in all other cases.

Directors shall hold office for the period set forth in the Bylaws (one year) unless the Shareholders' Meeting resolves on their removal from office or dismissal, or they stand down from office.

### Selection of directors

In identifying suitable candidates, the Nominations Committee may use open advertising or the services of external advisers to facilitate the search, and consider candidates from a wide range of backgrounds with due regard to diversity, including gender as well as other forms of diversity. Selection will be based on merit and against objective criteria, as well as considering the candidates' ability to commit sufficient time to the role.

In accordance with the recommendation included in the Spanish Good Governance Code for Listed Companies, the Board approved in January 2016 a Directors Selection and Diversity Policy which ensures that appointments are based on a prior analysis of the Board's needs and favours a diversity of knowledge, experience and gender. In particular and as established in this policy, IAG only engages external search consultants who have signed up to the UK Voluntary Code of Conduct on gender diversity for executive search firms or an international equivalent.

### Re-election of directors

At the end of their term of office, directors may be re-elected one or more times for periods of equal duration to that established in the Bylaws.

Proposals for re-election of directors that the Board of Directors resolves to submit to the Shareholders' Meeting shall be subject to a formal preparation process, which must include a proposal made by the Nominations Committee, in the case of independent directors, and the report from the Nominations Committee in all other cases. The Nominations Committee's proposal or report shall be prepared having given 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. To this end, the directors sitting on the Nominations Committee shall be evaluated by the Nominations Committee itself, and each of them shall abstain from participating in any debate or vote that may affect them.

### Evaluation of directors

Under the Chairman's leadership, the performance of individual directors, the Board of Directors as a whole and the Board Committees is evaluated at least once a year.

During the reporting period, the Chairman met each Non-Executive Directors individually to discuss their contribution to the Board. In addition to this, the Senior Independent Director met with the other Non-Executive Directors to discuss the performance of the Chairman, and the outcome of this evaluation was reported and considered by the Nominations Committee and by the Board as a whole.

### Resignation and dismissal of directors

Directors shall cease to hold office when the term of office for which they were appointed expires and they are not re-appointed or whenever so decided by the Shareholders' Meeting.

Notwithstanding the above, a director must place his position at the disposal of the Board of Directors and, at its request, formally resign from office in the cases established in article 16.2 of the Board Regulations.

Directors who stand down before the end of their term of office, due to resignation or for any other reason, must state their reasons in a letter to be sent to all the directors. Without prejudice to the notification of such vacation of office as a price sensitive information communication, the reasons for the same must be explained in the Annual Corporate Governance Report.

The Board of Directors may only propose the removal of an independent director before the end of the mandate established in the Bylaws when it considers there is just cause, following a report by the Nominations Committee. For these purposes, just cause shall be deemed to exist when the director takes up new positions or enters into new obligations that prevent him from dedicating the necessary time to the performance of the duties inherent in his office, breaches the duties inherent in his office 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 to the shareholding structure of the Company.

#### C.1.20 Explain to what extent the annual evaluation of the board has prompted significant changes in its internal organisation and the procedures applicable to its activities:

##### Description of amendments

No external evaluation has been carried out in 2015. Nonetheless, the Board and Committees' performance evaluation was conducted internally. The review concluded that the Board had effectively fulfilled its responsibilities during 2015, and the general progress made was unanimously recognised by the Board.

Furthermore, during the reporting period, the Chairman met each non-executive director individually to discuss their contribution to the Board. In addition to this, the Senior Independent Director met with the other non-executive directors to discuss the performance of the Chairman, and the outcome of this evaluation was reported and considered by the Nominations Committee and by the Board as a whole.

Finally, the Chairman completed the performance evaluation of the Chief Executive which was then reported to the Nominations Committee and subsequently to the Remuneration Committee, and the outcome of this evaluation was reported to the Board of Directors for their review.

#### C.1.20 bis Describe the evaluation process and the areas evaluated by the board with the aid, as applicable, of an external consultant, with respect to the diversity of its composition and competencies, the functioning and composition of its committees, the performance of the board chairman and of the chief executive, and the performance and contribution of each director.

The Board and Committees' performance evaluation was conducted internally in 2015. The last external evaluation was completed in 2013. The review took the format of a self-assessment survey designed to test directors' opinions and views on a number of matters including: the role and organisation of the Board, Board composition, organisation of meetings, quality of Board debate, knowledge and experience, relationship with management, and progress made against the 2015 action plan.

The Board Secretary prepared a report on the performance evaluation of the Board and each of the Committees. The Board report was considered by the Nominations Committee; with each of the committees' reports and the results of the questionnaires being considered by the different Committees and discussed at the Board meeting held in January 2016. The

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

review concluded that the Board had effectively fulfilled its responsibilities during 2015, and the general progress made was unanimously recognised by the Board.

The Chairman also met with each director individually to provide feedback on their performance. He also discussed the functioning of the Board as a whole and the contribution expected of each director.

The Board evaluation also included an assessment of performance against the objectives agreed for 2015. Progress made on Board and executive succession planning and talent development was recognised, as well as the actions agreed to improve Board effectiveness.

**C.1.20** *ter* List any business relationships held by the consultant or any company in its group with the company or any group company.

**Not applicable**

**C.1.21** Indicate the cases in which directors must resign.

In accordance with article 16.2 of the Board Regulations, a director must place his position at the disposal of the Board of Directors and, at its request, formally resign from office in the following cases:

- a) When he ceases to hold the executive positions to which his or her appointment as director is linked, or when the reasons for which he was appointed no longer exist. In particular, in the case of nominee directors, when the shareholder(s) that proposed, requested or determined their appointment sell or transfer their holding in whole or in part, so that such holding has no longer the status of significant or is not sufficient to justify the appointment.
- b) When, due to supervening circumstances, the director is subject to any of the grounds for incompatibility or prohibition provided for in the law, the Corporate Bylaws or the Board Regulations.
- c) When he is prohibited by law from acting as a director.
- d) If requested to do so by the Board of directors as a result of a determination made in accordance with the provisions of article 11.7 of the Bylaws, to the extent that such determination arises as a result of his or her membership of the Board of Directors.
- e) 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.
- f) When his or her presence on the Board of Directors might jeopardise, for any reason, directly, indirectly or through any person related to him, the loyal and diligent exercise of his functions in accordance with the corporate interest.
- g) When his or her remaining on the Board might affect the Company's credit or reputation in the market or otherwise jeopardise its interests.

**C.1.22** Section eliminated.

**C.1.23** Are qualified majorities other than those prescribed by law required for any type of decision?

**No**

If applicable, describe the differences.

Description of differences

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**C.1.24** Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed chairman of the board:

**No**

Description of requirements

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**C.1.25** Indicate whether the chairman has the casting vote:

**No**

Matters where the Chairman has the casting vote

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C.1.26 Indicate whether the bylaws or the board regulations set an age limit for directors.

**No**

Age limit for Chairman

Age limit for Chief Executive Officers

Age limit for directors

C.1.27 Indicate whether the bylaws or the board regulations set a limited term of office for external independent directors different from the one established in the applicable law.

**No**

Maximum number of years in office

-

C.1.28 Indicate whether the bylaws or the board regulations stipulate specific rules on appointing a proxy to the board, the procedures for doing so and, in particular, the maximum number of proxy appointments a director may hold, as well as whether any limit has been established in relation to the categories of director that may be appointed as a proxy, further to the limits imposed by law. If so, give brief details.

In accordance with article 40 of the Bylaws and 10 of the Board Regulations, directors shall make every effort to attend Board meetings.

Notwithstanding the above, all directors may cast their vote through, and grant a proxy to another director, although non-executive directors may only grant a proxy to other non-executive director.

Proxies must be granted in writing, addressed to the Chairman or to the Board Secretary, and must be granted specifically for each meeting. For such purposes, a message addressed to the Chairman or the Secretary by letter, fax, telegram or e-mail shall be valid.

No director may hold more than three proxies, with the exception of the Chairman, who shall not be subject to such limit but may not represent more than half of the members of the Board of Directors.

The director granting the proxy shall endeavour, where possible, to include voting instructions in the proxy letter.

C.1.29 Indicate the number of board meetings held during the year and how many times the board has met without the Chairman's attendance. Attendance will also include proxies appointed with specific instructions.

Number of board meetings	9
Number of board meetings held without the Chairman's attendance	0

If the chairman is an executive director, indicate the number of meetings held without the presence of an executive director, in person or by proxy, and under the chairmanship of the lead director.

Number of meetings	-
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Indicate the number of meetings of the various board committees held during the year.

Number of meetings of the Executive or Delegate Committee	-
Number of meetings of the Audit and Compliance Committee	7
Number of meetings of the Nomination and Remuneration Committee	-
Number of meetings of the Nominations Committee	5
Number of meetings of the Remuneration Committee	4
Number of meetings of the Safety Committee	2

C.1.30 Indicate the number of board meetings held during the year with all members in attendance. Attendance will also include proxies appointed with specific instructions.

Number of meetings held with all directors in attendance	3
% of attendances of the total votes cast during the year	92.03%

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

**C.1.31** Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the board are certified previously:

**Yes**

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior to their approval by the board.

Name	Position
Willie Walsh	Chief Executive Officer
Enrique Dupuy de Lôme	Chief Financial Officer

**C.1.32** Explain the mechanisms, if any, established by the board to prevent the individual and consolidated financial statements it prepares from being laid before the shareholders' meeting with a qualified audit report.

In accordance with article 35.4 of the Board Regulations, the Board of Directors shall prepare the Company's financial statements so that such financial statements do not give rise to any restrictions or qualifications by the auditors. This notwithstanding, if the Board of Directors deems it appropriate to prepare the financial statements subject to restrictions or qualifications in the opinion of the auditors, it must clearly explain to shareholders the scope of such restrictions or qualifications and the reasons behind its actions.

The Audit and Compliance Committee has the duty to review the Company's annual financial statements, monitor compliance with legal requirements, the appropriate definition of the scope of consolidation and the correct application of generally accepted accounting principles, as well as reviewing significant financial reporting judgements in the Company's annual accounts.

**C.1.33** Is the secretary of the board also a director?

**No**

If the secretary is not a director, complete the following table:

Name or corporate name of the secretary	Representative
Álvaro López-Jorrín	-

**C.1.34** Section eliminated.

**C.1.35** Indicate and explain, where applicable, the specific mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

The relations of the Board of Directors with the Company's auditors shall be channelled through the Audit and Compliance Committee.

The Board of Directors shall refrain from engaging any audit firm entitled to be paid by the Company for all services rendered fees in an amount in excess of 10 per cent of such firm's total revenue for the previous year.

With regard to the external auditor, the Audit and Compliance Committee has, among others, the following powers:

- i) To submit to the Board proposals on the selection, appointment, reappointment and substitution of the auditor, assuming responsibility for the selection process and the terms of its engagement, its remuneration (ensuring its independence and quality are not compromised), the scope of its professional mandate and the revocation or renewal of its appointment.
- ii) To regularly collect information from the auditors on the audit plan and its implementation, as well as preserving their independence in the exercise of their functions. In particular, to ensure that the Company and the external auditor respect the current legislation on provision of non-audit services, the limits on the auditor's business concentration and, in general, any other rules regarding auditor independence.
- iii) To oversee compliance with the audit agreement.
- iv) To serve as a channel for communication between the Board and the auditors and to assess the results of each audit.
- v) To review the effectiveness of the external audit process.
- vi) To establish the appropriate relationships with the external auditor in order to receive information on matters which may jeopardise its independence, for its examination by the Audit and Compliance Committee, and on any other matters relating to the audit process, and, as appropriate, the authorisation of permissible non-audit services as legally established, as well as any other communications provided for in the audit legislation and standards.



- In all cases, the declaration of their independence in relation to the entity or entities directly or indirectly related thereto must be received annually from the external auditors, as well as information on the additional services of any kind provided and the corresponding fees received.
- vii) To issue on an annual basis, prior to the issue of the auditor's report, a report expressing an opinion on whether the independence of the auditor is compromised. This report must contain, in all cases, the assessment of the provision of the additional services referred to in the preceding paragraph, taken individually and as a whole, other than the statutory audit and in relation to the rules on independence or to audit regulations.
  - viii) To develop and implement a policy on the engagement of the external auditors to supply additional non-audit services pursuant to the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council.
  - ix) To ensure that the external auditor has a yearly meeting with the Board of Directors in full to inform on the work undertaken and any developments in the Company's risk and accounting positions.
  - x) In the event of the external auditor's resignation, to review any underlying circumstances.

During 2015, the Audit and Compliance Committee reviewed the work undertaken by the external auditors and assessed their independence, objectivity and performance. In doing so, it took into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services. The Audit and Compliance Committee monitored the auditors' compliance with relevant regulatory, ethical and professional guidance on the rotation of partners, and assessed its qualifications, expertise, resources and the effectiveness of the audit process, including a report from the external auditor on its own internal quality procedures. The Audit and Compliance Committee decided not to tender the audit for the Company for fiscal year 2016.

The Audit and Compliance Committee receives a quarterly report on compliance with the Group's External Auditor Services Policy, which restricts the volume and types of non-audit services that Ernst & Young can provide throughout the Group.

The Board of Directors approved in January 2016 a Policy regarding Communication and Contact with Shareholders, Institutional Investors and Proxy Advisors that regulates the relationship and channels of communication of the Company with shareholders, institutional investors and proxy advisors. This policy complies in full with market abuse regulations and provides an equitable treatment to shareholders in the same position.

In addition, the Company has a Group Standing Instruction on business integrity in order to ensure compliance with competition and anti-bribery legislation. As stated in this Instruction, IAG and its staff are bound by values of integrity and responsibility; the Company is firmly committed to maintaining the highest standards of ethics, honesty, openness and accountability.

This Instruction applies to all staff of IAG and its subsidiary companies and to suppliers and their representatives when working for IAG. A breach of these principles will be managed in accordance with the Company's established disciplinary procedures or contract engagement terms. In accordance with this policy, staff should immediately report any actual or potential breaches of the Instruction to their line managers or, if not appropriate for whatever reason, to the Chief of Staff or General Counsel. All matters will be dealt with in confidence. Timely, appropriate and thorough investigations will be carried out into all cases of actual or suspected breaches whether discovered or reported. There is also mandatory training providing specific guidance on how these policies apply to staff in their respective roles.

This Instruction also prevents the offering or making of payments or the offering or promising of gifts to dishonestly influence a decision or to induce or reward a person for improper performance of their functions or job activity.

The Company has established whistleblowing procedures so that staff can report any malpractice. In addition to this, there is a whistle blower hotline as an alternative for those employees who, for whatever reason, do not feel comfortable using internal procedures. This hotline is an independent, confidential call bureau. All calls are forwarded to the highest level of management within IAG.

Conflict of interest situations are also covered within IAG's employees' regulations, establishing appropriate reporting obligations. If employees become aware of any potential conflicts of interest, these must be disclosed to the Company as soon as possible.

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

C.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor.

**No**

Outgoing auditor	Incoming auditor
-	-

Explain any disagreements with the outgoing auditor and the reasons for the same.

**No**

Explanation of the disagreements
-

C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group.

**Yes**

	Company	Group	Total
Amount of non-audit work (in thousands euros)	30	1,399	1,429
Amount of non-audit work as a % of the total amount billed by the audit firm	3%	29%	24%

C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

**No**

Explanation of reasons
-

C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited.

	Company	Group
Number of consecutive years	6	6
Number of years audited by current audit firm/Number of years the company's financial statements have been audited (%)	100%	100%

C.1.40 Indicate and give details of any procedures through which directors may receive external advice:

**Yes**

### Procedures

In accordance with article 26 of the Board Regulations, in order to be assisted in the performance of his or her duties, any director may request the hiring of legal, accounting, technical, financial, commercial or other expert advisors, whose services shall be paid for by the Company.

The assignment must deal with specific issues of certain significance and complexity arising during the performance of the director's duties.

The request for an expert to be hired shall be channelled through the Chairman or the Company Secretary, who may subject it to the prior approval of the Board of Directors. Such approval may be denied in well-founded instances, including the following circumstances:

- Where it is not necessary for the proper performance of the duties entrusted to the directors;
- Where the cost thereof is not reasonable in light of the significance of the issues and the assets and income of the Company;

- c. Where the technical assistance sought may be adequately provided by the Company's own experts and technical personnel; or
- d. Where it may entail a risk to the confidentiality of the information that must be made available to the expert.

**C.1.41 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:**

**Yes**

**Procedures**

Calls to Board meetings always include, unless there is a justified cause, the meeting agenda (which shall indicate any items requiring a resolution or decision by the Board of Directors) and shall be accompanied, as the case may be, by the information deemed necessary. Call notices shall be sent sufficiently in advance to ensure that directors receive them no later than the seven days before the date of the meeting, except in the case of meetings deemed urgent by the Chairman (or by the Deputy Chairman, in the event of absence, illness or inability of the Chairman). This notice period shall not apply to cases in which the Board Regulations stipulate a specific call period.

In addition, in accordance with article 9 of the Board Regulations, prior to the commencement of each fiscal year, the Board of Directors shall set a schedule for its ordinary meetings. This schedule may be modified by a resolution adopted by the Board of Directors or by a decision made by the Chairman, who shall endeavour to notify the modification to the directors not less than five days in advance of the date originally set for the meeting or of the new date set in lieu thereof, if the latter date falls earlier.

Papers for Board meetings are typically distributed to the Board members in the week prior to the relevant meeting.

In this regard, the Chairman shall ensure that the directors receive accurate, appropriate and clear information, in particular about the Company's performance, its strategy, challenges and opportunities in order to enable the Board of Directors to make sound decisions and monitor correctly the Company's performance and shall lead Board of Directors discussions with a view to encouraging effective decision-making and a constructive debate on the performance of the Company, its growth strategy and commercial objectives encouraging the active participation of the directors during meetings and safeguarding their freedom of expression.

In accordance with article 25 of the Board Regulations, a director shall have the broadest powers to obtain information regarding any aspect of the Company, to examine its books, records and documents, to inspect its facilities, and to communicate with the senior managers of the Company. The exercise of such powers of information shall be channelled through the Chairman or the Company Secretary.

In addition, all Board members have access to the Board Secretary and the Group General Counsel for any further information they require. If any of the non-executive directors has any concerns about the running of the Group, they discuss these concerns with one of the executive directors, the Group General Counsel or the Chairman. If their concerns cannot be resolved in this way, then they are recorded in the Board minutes. No such concerns arose during the reporting period.

In accordance with article 28 of the Board Regulations, the Board Committees must receive appropriate and timely training, both in the form of induction programmes for new members and on an on-going basis for all members. The Board Committees shall also arrange for annual evaluations of their own performance, conducted externally at least every three years.

Papers for Committees are typically distributed to their members in the week prior to the relevant meeting.

**C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be.**

**Yes**

**Details of rules**

In accordance with article 23.2.c) of the Board Regulations, a director must disclose to the Company any judicial, administrative or other proceedings brought against the director which, because of their significance or characteristics, may seriously reflect upon the reputation of the Company and, in general, any fact or event that may be reasonably material to his or her conduct as a director of the Company. In particular, directors must inform the Company, through the Chairman, if they are charged, become subject to an order for further criminal prosecution upon indictment or if an order for the commencement of an oral trial is issued against them in a criminal proceeding for any crime, and of the occurrence of any other significant procedural milestone in such proceedings. In such case, the Board of Directors shall review the case as soon as practicable and shall adopt the decisions it deems fit, taking into account of the corporate interest.

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

In addition, in accordance with article 16.2 of the Board Regulations, a director must place his position at the disposal of the Board of Directors and, at its request, formally resign from his or her position:

- a. When the director ceases to hold the executive positions to which his appointment as director is linked, or when the reasons for which he was appointed no longer exist. In particular, in the case of nominee directors, when the shareholders that proposed, requested or determined their appointment sell or transfer their holding in whole or in part, so that such holding no longer has the status of significant or is not sufficient to justify the appointment.
- b. When, due to supervening circumstances, the director is subject to any of the grounds for incompatibility or prohibition provided for in the law, the Corporate Bylaws or these Regulations.
- c. When the director is prohibited by law from acting as a director.
- d. If requested to do so by the Board of Directors as a result of a determination having been made under article 11.7 of the Corporate Bylaws to the extent that such determination is due to the fact that such director is a member of the Board of Directors.
- e. 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.
- f. When his or her presence on the Board of Directors might jeopardise, for any reason, directly, indirectly or through any person related to him, the loyal and diligent exercise of his functions in accordance with the corporate interest.
- g. When his remaining on the Board of Directors might affect the Company's credit or reputation in the market or otherwise jeopardises its interests.

**C.1.43** Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the Spanish Companies Law.

**No**

Name of director	Criminal proceedings	Remarks
-	-	-

Indicate whether the board has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.

Decision/action taken	Justified explanation
-	-

**C.1.44** List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

The following significant agreements contain provisions entitling the counterparties to exercise termination, alteration or other similar rights, in the event of a change of control of the Company:

- the brand alliance agreement in respect of British Airways and Iberia's membership of "one world", the globally-branded airline alliance, could be terminated by a majority vote of the parties in the event of a change of control of the Company.
- the joint business agreement between British Airways, Iberia, American Airlines and Finnair and the joint business agreement between British Airways, Japan Airlines and Finnair can be terminated by the other parties to those agreements in the event of a change of control of the Company by either a third party airline, or the parent of a third party airline.
- Certain British Airways exchange and interest rate hedging contracts allow for early termination if after a change of control of the Company British Airways' credit worthiness was materially weaker.

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.

C.1.45 Identify, in aggregate form and provide detailed information on agreements between the company and its officers, executives and employees that provide indemnities, guarantee or “golden parachute” clauses for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other type of transaction.

Number of beneficiaries

12

Type of beneficiary	Description of the resolution
Executive Directors and IAG Management Committee	There are no express provisions in executive directors and senior 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 directors and senior executives 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 six months' basic salary is payable within 28 days of the date of termination of employment. A payment in respect of basic salary for the second six months period only becomes payable if, in the Company's reasonable opinion, the executive directors and senior executives have 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 directors and senior executives (including salary and benefits) referable to work done in that month.
Chairman	Antonio Vázquez has a specific agreement if his service contract is terminated for whatever reason. Additional information on this agreement has been provided in the Annual Report on the Remuneration of the Directors.

Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group.

	Board of Directors	Shareholders' Meeting
Body authorising clauses	X	
	Yes	No
Is the Shareholders' Meeting informed of such clauses?	X	

## C.2 Board committees

C.2.1 Give details of all board committees, their members and the proportion of executive, proprietary, independent and other non-executive directors on them:

### EXECUTIVE OR DELEGATE COMMITTEE

Name	Position	Type
-	-	-
-	-	-
% of executive directors		-
% of proprietary directors		-
% of external independent directors		-
% of other non-executive directors		-

Explain the functions attributed to this committee, describe the procedures and rules governing its organization and operation, and summarize the most important steps taken during the year.

-

Indicate whether the composition of the executive or delegate committee reflects the participation within the board of the different types of directors:

**No**

If not, explain the composition of the executive or delegate committee

-

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

### AUDIT COMMITTEE

Name	Position	Type
James Lawrence	Chairman	Independent
Patrick Cescau	Member	Independent
Kieran Poynter	Member	Independent
Alberto Terol	Member	Independent
% of proprietary directors		-
% of external independent directors		100%
% of other non-executive directors		-

Explain the functions attributed to this committee, describe the procedures and rules governing its organization and operation, and summarize the most important steps taken during the year.

a) Rules of organisation and operation:

The Audit and Compliance Committee shall be made up of no less than three and no more than five non-executive directors appointed by the Board, with the dedication, capacity and experience necessary to carry out their function. The members of the Audit and Compliance Committee, and particularly its Chairman, shall be appointed in light of their knowledge and experience on accounting, audit and risk management matters, and at least one of them shall have recent and relevant financial experience.

A majority of the members of the Audit and Compliance Committee shall be independent directors and one of them, at least, shall be appointed in light of his knowledge and experience on accounting or audit matters, or both.

The Board of Directors shall designate an Audit and Compliance Committee chairman from among the independent directors on the Audit and Compliance Committee who must be replaced at least every four years and may stand for re-election one year after vacating office. The Secretary or his nominee shall act as secretary to the Audit and Compliance Committee.

The Audit and Compliance Committee shall meet whenever convened by its chairman, at his own initiative, or at the request of at least two of its members and at least once every three months and, in all cases, where the Board of Directors requests the issue of reports, the presentation of proposals or the adoption of resolutions within the scope of its functions.

The Chairman of the Audit and Compliance Committee shall have the power to call committee meetings and to establish the agenda. The Audit and Compliance Committee shall be validly convened without prior call when all of its members are present and unanimously agree to hold a meeting. The call notice for ordinary meetings shall include the agenda, shall be served in writing sufficiently in advance to ensure that members receive it no later than three days before the date of the meeting and shall be authorised by the signature of the Chairman of the Audit and Compliance Committee or the Secretary or whomsoever acts as such. Extraordinary meetings may be called by telephone and the above requirements shall not apply where the Chairman of the Audit and Compliance Committee deems that the circumstances justify it.

The Audit and Compliance Committee shall be validly convened where more than half of its members are present, in person or by proxy, and decisions shall be adopted by an absolute majority of the members present, in person or by proxy.

The Audit and Compliance Committee may call any employee or officer of the Company and may even order them to appear without the presence of any other officer.

b) Functions:

The key function of the Audit and Compliance Committee is to assist the Board of Directors in oversight and control of the Group, regularly checking compliance with the legal provisions and internal regulations applicable to the IAG Group.

The main functions of the Audit and Compliance Committee include:

- A. In relation to the Shareholders' Meeting:
  - a. To report to the Shareholders' Meeting on questions raised in relation to any matters under the Committee's competence and, in particular, on the results of the statutory audit explaining how this has contributed to the integrity of the financial information and the role that the Committee has performed in this process.
- B. With regard to the external auditor:
  - a. To submit to the Board the proposals on the selection, appointment, reappointment and substitution of the auditor, assuming responsibility for the selection process, and the terms of its engagement, its remuneration (ensuring its independence and quality are not compromised), the scope of its professional mandate and the revocation or renewal of its appointment.
  - b. To regularly collect information from the auditors on the audit plan and its implementation, as well as preserving their independence in the exercise of their functions. In particular, to ensure that the Company and the external auditor respect the current legislation on provision of non-audit services, the limits on the auditor's business concentration and, in general, any other rules regarding auditor independence.
  - c. To oversee compliance with the audit agreement, ensuring that the opinion concerning the annual accounts and that the principal contents of the audit report are drafted in a clear and precise manner.
  - d. To serve as a channel for communication between the Board and the auditors, to assess the results of each audit and the response by the management team to their recommendations, and to mediate in the event of disputes between the auditors and the management team in relation to the principles and methods used in preparing the annual accounts.
  - e. To review the effectiveness of the external audit process.
  - f. To establish the appropriate relationships with the external auditor in order to receive information on matters which may jeopardise its independence, for its examination by the Committee, and on any other matters relating to the audit process, and, as appropriate, the authorisation of permissible non-audit services as legally established, as well as any other communications provided for in the audit legislation and standards. In all cases, the declaration of their independence in relation to the entity or entities directly or indirectly related thereto must be received annually from the external auditors, as well as information on the additional services of any kind provided and the corresponding fees received from these entities by the external auditors or by persons or entities related thereto pursuant to the provisions of audit legislation.
  - g. To issue on an annual basis, prior to the issue of the auditor's report, a report expressing an opinion on whether the independence of the auditor is compromised.
  - h. To develop and implement a policy on the engagement of the external auditors to supply additional non-audit services pursuant to the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council.
  - i. To ensure that the external auditor has a yearly meeting with the Board of Directors to inform on the work undertaken and any developments in the Company's risk and accounting positions.
  - j. In the event of the external auditor's resignation, to review any underlying circumstances and, in general, to oversee that the Company discloses the change of auditor as price sensitive information (relevant fact), including a statement regarding any possible discrepancies with the departing auditor and, if any exist, their content.
- C. In relation to internal control and reporting systems:
  - a. To supervise the effectiveness of the internal control of the Company, the internal auditing, and the risk management systems, including tax risks, and to discuss with the auditor any significant weaknesses in the internal control systems identified in the course of the audit.
  - b. To ensure the independence and efficiency of the internal audit function (which functionally reports to the Chairman of the Audit and Compliance Committee) to propose the selection, appointment, reappointment and removal of the head of the internal audit service; to validate the department's budget; to approve its annual work plan and focus, ensuring that its activity is focused principally on the significant risks faced by the Company; to receive periodic

- information on its activities, as well as on any incidents arising; and to check that senior management takes into account the conclusions and recommendations contained in its reports.
- c. To periodically review the internal control and risk management systems to ensure that the principal risks are adequately identified, managed and disclosed.
  - d. To monitor the functioning of the Company's risk control and management unit, accountable for: (a) ensuring that risk control and management systems are functioning correctly and, specifically, that major risks the Company faces are correctly identified, managed and quantified; (b) participating actively in the preparation of risk strategies and in key decisions about their management; and (c) ensuring that risk control and management systems are mitigating risks effectively in accordance with the policy drawn up by the Board.
  - e. To review the arrangements by which the employees of the Group may, in confidence, raise concerns about possible irregularities in matters of financial reporting or other matters. The Audit and Compliance Committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.
- D. In relation to financial information:
- a. To supervise the process for the preparation and presentation of the required financial information and report to the Board on the financial information that the Company is periodically required to disclose.
  - b. To review the Company's accounts, monitor compliance with legal requirements, the appropriate definition of the scope of consolidation and the correct application of generally accepted accounting principles. To review significant financial reporting judgements in the Company's accounts. To monitor the functioning of the internal financial control manuals and procedures adopted by the Company, to verify compliance with them and review the designation and replacement of the persons responsible for them.
  - c. To report to the Board on the steps taken by management to ensure that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.
  - d. To report to the Board of Directors on the steps taken by management to assess the viability of the Company, including whether there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due.
- E. In relation to compliance supervision:
- a. To assess the level of compliance with the Bylaws, the Board Regulations and the Internal Code of Conduct in matters relating to the securities market and, in general, with the Company's rules on governance and to make the necessary proposals for improvement, assessing regularly the effectiveness of the Company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and accommodating, as appropriate, the legitimate interests of the remaining stakeholders. In particular, the Audit and Compliance Committee shall be responsible for receiving information and, as the case may be, issuing reports on the disciplinary measures to be applied to senior executives of the Company.
  - b. To consider suggestions from the Audit and Compliance Committee Chairman, directors, senior executives or shareholders, and to report and make proposals to the Board with regard to any measures it deems appropriate in relation to the audit activity and any others assigned to it, as well as with regard to compliance with legislation on market reporting and transparency and accuracy of the same.
  - c. To oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
  - d. To review the Company's corporate social responsibility policy, ensuring that it is geared to value creation.
  - e. To monitor corporate social responsibility strategy and practices and assess compliance in this respect.
  - f. To monitor and evaluate the Company's interaction with its stakeholder groups.



- g. To evaluate all aspects of the non-financial risks the Company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.
  - h. To coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.
- F. Other responsibilities:
- a. To report on related transactions or on transactions that entail or may entail a conflict of interest, in the terms established in the Board Regulations.
  - b. To report to the Board, prior to the adoption by it of the corresponding decision, regarding the creation or acquisition of interests in special purpose entities or entities registered in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature that, due to the complexity thereof, might detract from the transparency of the Group.
  - c. To receive information on any relevant structural or corporate transactions that the Company plans to undertake, for its analysis and subsequent report to the Board of Directors on its economic conditions and accounting impact and particularly, when applicable, on the exchange ratio proposed.
- c) Steps taken during the year:  
The Committee's principal activities during the year were:
- review of financial statements and announcements relating to the financial performance and governance of the Group;
  - review of the effectiveness of the internal control system, provide assurance on the risk management process and review the principal risks facing the Group;
  - review and agreement of the internal audit programme, resourcing, effectiveness and resolution of issues raised; and
  - recommending the appointment of external auditors and reviewing their effectiveness, fees, terms of reference and independence.

State the member of the Audit Committee who has been appointed having regard to his/her knowledge or experience in accounting and/or audit matters and indicate the number of years the Committee chairman has held office.

Name of director with experience	Kieran Poynter
Number of years Committee chairman has held office	1

#### NOMINATION AND REMUNERATION COMMITTEE

Name	Position	Type
-	-	-
-	-	-
<hr/>		
% of proprietary directors		-
% of external independent directors		-
% of other non-executive directors		-

Explain the functions attributed to this committee, describe the procedures and rules governing its organization and operation, and summarize the most important steps taken during the year.

-

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

### NOMINATIONS COMMITTEE

Name	Position	Type
Sir Martin Broughton	Chairman	Independent
Antonio Vázquez	Member	Other external
Cesar Alierta	Member	Independent
Baroness Kingsmill	Member	Independent
% of proprietary directors		-
% of external independent directors		75%
% of other non-executive directors		25%

Explain the functions attributed to this committee, describe the procedures and rules governing its organization and operation, and summarize the most important steps taken during the year.

a) Rules of organisation and operation:

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

The Board of Directors shall designate a Nominations Committee Chairman from among the independent directors forming part of the Committee. The Secretary of the Board of Directors or his or her nominee shall act as Secretary to the Nominations Committee.

The Nominations Committee shall meet whenever convened by its Chairman, at his or her own initiative, or at the request of two or more of its members and at least once every year and, in all cases, where the Board requests the issue of reports, the presentation of proposals or the adoption of resolutions within the scope of its functions.

b) Functions:

The main functions of the Nominations Committee include:

- A. To evaluate the competencies, knowledge and experience necessary on the Board and report on and review the criteria to be followed for its composition and the selection of candidates, defining the necessary functions and skills and evaluating the time and dedication required to correctly perform its remit.
- B. To submit to the Board the proposed appointments of independent directors for their designation by cooption or, as the case may be, to submit the decision to the Shareholders' Meeting, as well as proposals for the re-appointment or removal of such directors by the Shareholders' Meeting.
- C. To report on the proposals of the Board for the appointment of the remaining directors for their designation by cooption or, as the case may be, to submit the decision to the Shareholders' Meeting, as well as proposals for the re-appointment or removal of such directors by the Shareholders' Meeting.
- D. To report on the proposed designation or removal from office of the Board (including the Secretary and the Deputy Secretary) and propose to the Board the members that are to form each of the Board committees and their chairmen.
- E. To put in place plans for the succession of directors, in particular, the succession of the Chairman and the Chief Executive and, as the case may be, to make proposals to the Board of Directors so that such succession occurs in a planned and orderly manner.
- F. To oversee and establish guidelines relating to the appointment, recruitment, career, promotion and dismissal of senior executives in order to ensure that the Company has the highly-skilled personnel required for its management.
- G. To report on the proposed appointment and/or removal of senior executives of the Company.
- H. To report on the proposed appointment and/or removal of members of the managing bodies of the main subsidiaries and/or investees of the Group and on the appointment of their chairmen and chief executive officers.
- I. To ensure that, on appointment, non-executive directors receive a formal letter of appointment setting out clearly what is expected from them in terms of time commitment, committee service and involvement outside Board meetings.

- J. To identify directors qualified to fill vacancies on any committee of the Board of Directors (including the Nominations Committee).
- K. To establish a target for the representation of the underrepresented gender on the Board which should be pursued by the Company's director selection policy.
- L. To submit to the Board the annual report on the evaluation of the Board as a whole.
- c) Steps taken during the year:  
The Committee's principal activities during the year were:
- Board succession planning;
  - succession planning for the Group Chief Executive, the IAG Management Committee and leadership teams of the Group operating companies;
  - performance evaluation of the Chairman and the Chief Executive;
  - annual review of the category of each director;
  - assessment of directors re-election;
  - review of investors' feedback from the 2015 Shareholders' Meeting;
  - review of appointments to the Group subsidiary boards;
  - 2015 Spanish Good Governance Code for Listed Companies;
  - refresher programmes for non-executive directors; and
  - annual performance evaluation planning for the Board and for the Committee.

#### REMUNERATION COMMITTEE

Name	Position	Type
Dame Marjorie Scardino	Chairwoman	Independent
Baroness Kingsmill	Member	Independent
María Fernanda Mejía	Member	Independent
Alberto Terol	Member	Independent
% of proprietary directors		-
% of external independent directors		100%
% of other non-executive directors		-

Explain the functions attributed to this committee, describe the procedures and rules governing its organization and operation, and summarize the most important steps taken during the year.

- a) Rules of organisation and operation
- The Remuneration Committee shall be made up of no less than three and no more than five non-executive directors appointed by the Board of Directors, with the dedication, capacity and experience necessary to carry out their function. A majority of the members of the Remuneration Committee shall be independent directors.
- The Board shall designate a Remuneration Committee Chairman from among the independent directors of the Remuneration Committee. The Chairman of the Board may not be appointed as Remuneration Committee Chairman. The Secretary of the Board or his or her nominee shall act as secretary to the Remuneration Committee.
- The Remuneration Committee shall meet whenever convened by its Chairman, at his or her own initiative, or at the request of two or more of its members and at least twice every year and, in all cases, where the Board requests the issue of reports, the presentation of proposals or the adoption of resolutions within the scope of its functions.
- b) Functions
- The main functions of the Remuneration Committee include:
- A. To propose to the Board the system and amount of the annual remuneration for directors, as well as the individual remuneration of the executive directors and the other terms of their contracts.

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

- B. To report to the Board 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 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 policy for directors and senior executives, taking into account their suitability and performance and how they reflect and support the Company strategy. When considering the remuneration policy, to review and have regard to the remuneration trends and to pay and employees conditions in the Group. And also to obtain reliable, up-to-date information about remuneration in other companies. To help fulfil its obligations, the Committee shall have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary.
- F. To monitor compliance with the Company's remuneration policy.
- G. To ensure that the disclosure requirements of the Spanish and the United Kingdom listing rules, any other applicable listing rules, the law or regulation and relevant stock exchanges are fulfilled, including the annual report on directors' remuneration.
- H. To ensure that any conflicts of interest do not jeopardise the independence of the external advice provided to the Committee.
- I. To verify the information on directors' and executives' remuneration contained in the different corporate documents, including the annual report on directors' remuneration.

c) Steps taken during the year:

The Committee's principal activities during the year were:

- Review of IAG Executive Committee members' basic salaries.
- Implementation arrangements for the strengthened malus and clawback provisions.
- 2014 annual incentive plan payments to IAG Executive Committee members.
- Vesting outcome of the Performance Share Plan 2012 award.
- Final review of 2014 Directors' Remuneration Report.
- Preparation for the 2015 Annual General Meeting.
- Spain and UK executive remuneration market update, including new Spanish Corporate Governance Code recommendations.
- Remuneration strategy for 2016.
- First update on the 2015 Directors' Remuneration Report.
- Remuneration arrangements arising as a result of the Aer Lingus acquisition.

## SAFETY COMMITTEE

Name	Position	Type
Willie Walsh	Chairman	Executive
Antonio Vázquez	Member	Other external
Sir Martin Broughton	Member	Independent
Kieran Poynter	Member	Independent
% of executive directors		25%
% of proprietary directors		-
% of external independent directors		50%
% of other non-executive directors		25%

Explain the functions attributed to this committee, describe the procedures and rules governing its organization and operation, and summarize the most important steps taken during the year.

- a) Rules of organisation and operation
- The Safety Committee shall be made up of no less than three and no more than five directors appointed by the Board, with the dedication, capacity and experience necessary to carry out its function.
- The Board shall designate a Safety Committee Chairman from among the directors of the Safety Committee. The Secretary or his or her nominee shall act as secretary to the Safety Committee.
- b) Functions
- The main functions of the Safety Committee include:
- A. To receive material safety information about the Company and all the Company subsidiaries and any franchise, codeshare or wet-lease provider used by any member of the Group;
- B. To exercise a high level overview of the safety activities and resources of the Company and all the Company subsidiaries and inform the Board as appropriate (recognising that responsibility for safety matters relating to each subsidiary falls to that subsidiary through its own resources); and
- C. To follow up on any safety related measures as determined by the Board of Directors.
- c) Steps taken during the year:
- The Committee's key topics discussed during the year were:
- the relevant safety events which occurred during the relevant period;
  - regulatory developments and initiatives from industry associations; and
  - the regular safety review reports of British Airways, Iberia and Vueling.

C.2.2 Complete the following table on the number of female directors on the various board committees at the end of the last four years.

	Number of female directors							
	Year t		Year t-1		Year t-2		Year t-3	
	Number	%	Number	%	Number	%	Number	%
Executive Committee	-	-	-	-	-	-	-	-
Audit Committee	0	0	0	0	0		0	
Nomination and Remuneration Committee	-	-	-	-	-	-	-	-
Nominations Committee	1	25	1	25	1	25	1	25
Remuneration Committee	3	75	3	75	2	66,67	1	25
Safety Committee	0	0	0	0	0	0	0	0

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

C.2.3 Section eliminated.

C.2.4 Section eliminated.

C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.

The Board committees are governed by the provisions of the Bylaws and the Board Regulations (article 29 of the Board Regulations for the Audit and Compliance Committee, article 30 for the Nominations Committee, article 31 for the Remuneration Committee and article 32 for the Safety Committee). Where no specific provision is made, the Board committees shall be governed, by analogy and where applicable, by the provisions applicable to the Board of the Company.

The above mentioned articles of Board Regulations were modified by the Board during its meeting held on June 18, 2015 in order to adapt its wording to the reforms introduced by Law 31/2014 which modifies the Spanish Companies Law to improve corporate governance and certain technical and systematic improvements.

Further amendments were introduced and approved by the Board in its meeting held on December 17, 2015, in order to adapt its wording to certain of the recommendations of the new Spanish Good Governance Code for Listed Companies published in February 2015.

The Bylaws and the Board Regulations are available on the Company's website: [www.iairgroup.com](http://www.iairgroup.com).

### **AUDIT AND COMPLIANCE COMMITTEE**

The Audit and Compliance Committee prepares an annual report on its activities, which is available on the Company's website within the Annual Report and Accounts.

### **NOMINATIONS COMMITTEE**

The Nominations Committee prepares an annual report on its activities, which is available on the Company's website within the Annual Report and Accounts.

### **REMUNERATION COMMITTEE**

The Remuneration Committee prepares an annual report on its activities, which is available on the Company's website within the Annual Report and Accounts.

### **SAFETY COMMITTEE**

The Safety Committee prepares an annual report on its activities, which is available on the Company's website within the Annual Report and Accounts.

C.2.6 Section eliminated.

## **D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS**

D.1 Explain, if applicable, the procedures for approving related-party or intragroup transactions.

### **Competent body**

In accordance with article 3.4 of the Board Regulations, the Board of Directors has the exclusive authority to approve transactions that the Company or companies in its Group entered into with directors, or shareholders that have a significant holding or that are represented by the Board of Directors or with any persons related to them.

### **Procedures for reporting on the approval related-party transactions**

The performance by the Company or the companies in the Group of any transaction with directors, with shareholders that have a shareholding equal to or greater than that legally considered significant from time to time or who have proposed the nomination of any Company directors, or with their respective related parties, shall be subject to authorisation from the Board of Directors, following a report by the Audit and Compliance Committee.

The Audit and Compliance Committee has, among other powers, the obligation to report on related transactions or on transactions that entail or may entail a conflict of interest. The Audit and Compliance Committee ensures that transactions between the Company or the companies forming part of the Group with the directors, the shareholders referred to in the preceding paragraph or their respective related persons are carried out under arm's length conditions and with due observance of the principle of equal treatment of shareholders.

Where the transactions fall within the ordinary course of business and are customary or recurring in nature, it is sufficient with the prior general authorisation of the line of operations and its general terms and conditions by the Board, following a report by the Audit and Compliance Committee.

However, no authorisation of the Board of Directors is required for those transactions that simultaneously satisfy the following three conditions: (i) that they are performed by virtue of contracts with standard conditions that are applied *en masse* to a high number of customers; (ii) that they are performed at prices or rates generally established by the party acting as supplier of the good or service in question; and (iii) that the amount does not exceed 1 per cent of the annual consolidated income of the Group.

The authorisation must be endorsed by the Shareholders' Meeting in the cases established in law and, in particular, where it concerns a 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 and Risk Management.

**D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders.**

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (in thousands of euros)
BlackRock Inc.	BlackRock Investment Management (UK) Ltd.	Commercial	Interest received	477
BlackRock Inc.	BlackRock Investment Management (UK) Ltd.	Commercial	Other	47,687
Qatar Airways (Q.C.S.C.)	Qatar Airways (Q.C.S.C.)	Commercial	Services rendered	28,881
Qatar Airways (Q.C.S.C.)	Qatar Airways (Q.C.S.C.)	Commercial	Reception of services	61,177

**D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors.**

Name or corporate name of director or senior manager	Name or corporate name of related party	Connection	Relationship	Amount (in thousands of euros)
-	-	-	-	-

**D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.**

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens.

Corporate name of the group company	Brief description of the transaction	Amount (in thousands of euros)
-	-	-

**D.5 Indicate the amount involved in other related-party transactions.**

65,665 thousand of euros.

**D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.**

The Board of Directors has the exclusive authority to consider those matters deriving from the duty of loyalty in accordance with the provisions of the law, including actual or potential conflicts of interest involving directors.

As established in article 20 of the Board Regulations, directors shall adopt the required measures to avoid becoming subject to conflicts of interest in accordance with the provisions of the law.

Directors must notify the Board, through the Chairman or the Secretary or Deputy Secretary, of any conflict of interest to which they may be subject.

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

In case of conflict, the affected director will not participate in the deliberation and voting on any such matters and shall be excluded from the number of members in attendance for the purposes of calculating the quorum and voting majorities. In particular, any director affected by proposals for appointment, reelection or dismissal shall refrain from taking part in the discussions and voting in respect of such matters.

In a conflict of interest situation, independent directors and other directors who are not affected by the potential conflict of interest need to ensure that the Company's interests prevail in such situations, provided that this does not result in any unlawful damage to any shareholder or third party affected thereby.

The Company provides information, as required by the law, on any conflict of interest to which the directors have been subject during the year.

In addition, in accordance with article 33.4 of the Board Regulations, all public requests for delegation of voting powers made in favour of any director shall disclose, where applicable, the existence of a conflict of interest, and shall provide detailed reasons for the direction in which the representative shall vote in the event that no instructions are given by the shareholder, subject always to the provisions of applicable law.

The existing procedures regarding related party transactions have been described in section D.1.

### **D.7 Is more than one group company listed in Spain?**

**No**

Identify the listed subsidiaries in Spain

Listed subsidiaries

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Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;

**No**

Business dealings between the parent and listed subsidiary, as well as between the subsidiary and other group companies

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Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies.

Mechanisms to resolve possible conflicts of interest

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## **E. RISK CONTROL AND MANAGEMENT SYSTEMS**

### **E.1 Describe the company's risk management system, including tax risks.**

The Group has an Enterprise Risk Management Policy approved by the Board on January 28, 2016. This Policy establishes a common framework within the Group to manage and control the financial and non-financial risks the Group is exposed to, establishing the risk level that is considered acceptable.

The Board of Directors has ultimate responsibility for risk management and internal control, including the determination of the nature and extent of the principal risks it is willing to take to achieve its strategic objectives.

The Audit and Compliance Committee reviews all enterprise risk management matters on behalf of the Board. This includes a six monthly IAG risk map review containing a robust assessment of the principal risks facing the Group and how these risks are managed or mitigated to reduce their incidence or their impact. The Audit and Compliance Committee also carries out deep dives on selected risks as and when requested. During such reviews the requirement for any changes to the Board's risk appetite is considered. The Audit and Compliance Committee also monitors and reviews the risk management systems, satisfying itself that they are functioning effectively and that corrective action is being taken where necessary.

Within this common framework, enterprise risk management is led by the Management Committee of IAG supported by the Aer Lingus, British Airways, Iberia and Vueling Management Committees.

#### **Enterprise risk management at British Airways and Iberia**

Both British Airways and Iberia have well established enterprise risk management systems that ensure that:

- a. Each risk is owned by a Senior Manager who is ultimately responsible for its management;



- b. A central record is kept of all risks, their owners and mitigating actions on systems in both British Airways and Iberia. The two enterprise risk management systems allow risk owners to update risk records online and central risk management teams to monitor updates;
- c. A risk map representing the likelihood and potential impact of each risk is reviewed at least every six months by the British Airways and Iberia Management Committees;
- d. There are defined procedures for updating risks and the mitigating actions in place to manage those risks; and
- e. There is active participation from both the Senior Managers managing the risks and the executive leadership teams in British Airways and Iberia.

Risks are classified by their source in:

- a. Strategic: risks arising from the competitive and regulatory environment, major projects and strategic decisions;
- b. Business and operational: risks encompassing emergencies, information technology operations, major project implementation and airline operations;
- c. Financial: risks including liquidity and financing;
- d. Compliance and regulatory: risks associated with compliance with laws and regulation; and
- e. Latent: low likelihood high impact risks such as terrorism, and fleet grounding.

#### Enterprise risk management in Aer Lingus and Vueling

Enterprise risk management in Aer Lingus was well established on its acquisition by IAG in 2015. The risk map was reviewed by the IAG Management Committee in October 2015. There are four risk classifications: stakeholder confidence, cost competitiveness, organisational agility and customer reach. Risks are assessed before mitigation, the inherent risk, and after mitigation, the residual risk. The Aer Lingus Management Committee review considers significant changes to any of the risks, new risks and the adequacy of risk mitigation. Underlying the Aer Lingus Management Committee review there are departmental risk registers allocating risks and mitigating actions to owners.

Enterprise risk management in Vueling is the responsibility of the Vueling Management Committee. A central record of risks is maintained and each risk is owned by a director. The central records contain mitigating actions and how the Vueling Management Committee receives assurance on the risk. The risk classifications are aligned to those in British Airways and Iberia as detailed above.

#### Enterprise risk management in the Company

At the Group level, material risks from the airlines, together with Group wide risks, are maintained in a Group risk map. The IAG Management Committee reviews the Group risk map twice a year in advance of reviews by the Audit and Compliance. The Board of Directors also discusses risk at a number of meetings, including a review of the Group's risk appetite and discussions around strategy and the business plan.

During 2015 the Board considered and adopted 19 risk appetite statements. These statements inform the business, either qualitatively or quantitatively, on the Board's appetite for certain risks. Each risk appetite statement defines how performance will be monitored either on a Group-wide basis or within major projects.

#### Tax risk

Tax risk is explicitly included within the Group's Enterprise Risk Management Policy. Tax risk is owned by the IAG Head of Tax and is reported to the IAG Management Committee and Audit and Compliance Committee twice a year. Tax risk is mitigated by an IAG Tax Policy which considers engagement between the tax department and the business; compliance with tax obligations; tax planning; reputation; and transparency.

#### E.2 Identify the bodies responsible for preparing and implementing the risk management system, including tax risks.

Within Iberia for the first half of 2015, the Compliance and Corporate Risk Manager reported to the Director of Risk and Security, who reported to the Corporate Director who sits on the Iberia Management Committee. Responsibility changed for the second half of 2015 and responsibility was assumed by the Manager Iberia Internal Audit who reported, for the purposes of enterprise risk management, to the Chief Financial Officer who sits on the Iberia Management Committee.

Within British Airways, the Head of Risk Management reports to the Director of People and Legal who sits on the British Airways Management Committee.

Within Aer Lingus, the Corporate Safety and Risk Manager reports to the Chief Executive Officer.

Within Vueling the enterprise risk management process is facilitated by the IAG Head of Group Audit and Risk Management and is owned by the Vueling Management Committee.

The management committees of British Airways, Iberia, Vueling and Aer Lingus review their respective risk maps. The IAG Management Committee together with the Audit and Compliance Committee review the Group risk map.

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

The Group Treasury Committee manages fuel and foreign exchange risk within the Financial Risk Management Policy approved by the Board of Directors.

The IAG Tax Department manages tax risk. The IAG Head of Risk Management and Internal Audit reports tax risk to the IAG Management Committee and the Audit and Compliance Committee.

### E.3 Indicate the main risks, including tax risks, which may prevent the company from achieving its targets.

The main risks classified by their source are listed below:

#### Strategic

- a. Competition
- b. Airline industry consolidation and deregulation
- c. Government intervention
- d. Airport infrastructure and suppliers

#### Business and operational

- a. Brand reputation
- b. Economic conditions
- c. Employee relations
- d. Failure of a critical IT system
- e. Cyber attack
- f. Pandemic
- g. Increases in landing fees and security charges
- h. Safety/security incident
- i. Event causing significant network disruption

#### Financial

- a. Future availability of debt funding
- b. Financial risk including fuel price, currency fluctuation, interest rate fluctuation and counterparty failure
- c. Changes to tax legislation or challenge from tax authorities on the interpretation of legislation

#### Compliance and regulatory

- a. Complexity of the Group governance structure
- b. Non-compliance by an individual or group of individuals with competition, anti-bribery and corruption legislations

### E.4 Identify whether the company has a risk tolerance level, including tax risks.

The Board has adopted 19 risk appetite statements. These statements inform the business, either qualitatively or quantitatively, on the Board's appetite for certain risks. Each risk appetite statement defines how performance will be monitored either on a Group wide basis or within major projects. Risk tolerance is also considered, but not necessarily quantified, in assessing the risk of new projects when presented to the Board of Directors for approval.

### E.5 Identify any risks, including tax risks, which have occurred during the year.

Risk that occurred during the fiscal year	Circumstances giving rise thereto	Performance of control systems
Currency fluctuation	The Group is exposed to currency devaluation of cash held in currencies other than the airlines' local currencies that is euro and sterling. This risk is minimised by holding cash in euro and sterling wherever possible, although exchange controls in some markets will from time to time delay conversion and repatriation of funds. This was the case of British Airways which experienced delays in the repatriation of funds from Nigeria during the second half of 2015.	The commercial policy for selling tickets in Nigeria and the capacity deployed in the market was kept under regular review at the IAG Management Committee together with the Audit and Compliance Committee during the year. At the year-end British Airways held balances of €72 million equivalent in Nigerian Naira.

**E.6 Explain the response and monitoring plans for the main risks, including tax risks, the company is exposed to.**

Main risk	Response and Monitoring Plans
Competition	<p>The IAG Management Committee devotes one weekly meeting per month to strategy issues. The Group strategy team supports the Management Committee by identifying where resources can be devoted to exploit profitable opportunities. Airline revenue management departments and systems optimise market share and yield through pricing and inventory management activity.</p> <p>Our strong global market positioning, leadership in strategic markets, alliances, joint businesses, cost competitiveness and diverse customer base continue to address this risk.</p> <p>We also continually review our product offering and respond through initiatives such as investing in Wi-fi across 90 per cent of the long-haul fleet by early 2019.</p> <p>The Group's unrelenting focus on the customer, together with our own exploitation of digital technology, reduces the space available in which competitive digital disruptors can operate.</p>
Airline industry consolidation and deregulation	<p>The Group maintains rigorous cost control and targeted product investment to remain competitive.</p> <p>The Group has the flexibility to react to market opportunities arising from weakened competitors. Vueling and Iberia Express give additional flexibility in this regard as it can deploy capacity at short notice across Europe.</p> <p>The IAG Management Committee regularly reviews the commercial performance of joint business agreements and the status of any negotiations between the parties.</p> <p>Maintaining a leading presence in oneworld and ensuring the alliance attracts and retains the right members is key to safeguarding the network.</p>
Government intervention	<p>The Group's government affairs departments monitor government initiatives, represent the point of view of the Group and forecast likely changes to laws and regulations.</p> <p>The ability of the Group to comply with and influence any changes in regulations is key to maintaining our operational and financial performance.</p> <p>IAG continues to talk to the UK Government about the negative effect the imposition of Air Passenger Duty (APD) has on the UK economy.</p>
Airport infrastructure and suppliers	<p>The Group continues to promote the timely conclusion of the UK Government deliberations on additional runway capacity at London Gatwick and London Heathrow airports.</p> <p>IAG airlines participates in the slot trading market at Heathrow airport, acquiring slots at reasonable prices when available.</p> <p>Supplier performance risk is mitigated by active supplier management and contingency plans. We enter into long-term contracts with fuel suppliers wherever this can secure fuel supply at a reasonable cost. Short-term fuel shortages are addressed by contingency plans.</p>
Brand reputation	<p>The Group allocates substantial resources to safety, operational integrity, and new aircraft to maintain its market position. Our 2016 – 2020 Business Plan sees average annual Capital Expenditure of €2.5 billion of which around 80 per cent is directed towards improving, growing and replacing the aircraft fleet.</p>
Economic conditions	<p>The IAG Board and Management Committee review the financial outlook and business performance of the Group through the financial planning process and regular reforecasts.</p> <p>These reviews are used to drive the Group's financial performance through the management of capacity and the deployment of that capacity in geographic markets, together with cost control, including management of capital expenditure and the reduction of operational and financial leverage.</p>
Employee relations	<p>Human resource departments within the airlines engage in collective bargaining with the many trade unions representing our staff.</p>
Failure of a critical IT system	<p>Within each operating company system controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.</p> <p>In 2015 British Airways commenced the implementation of its new customer management system that provides passenger check-in and aircraft loading. This is a critical operational system. 2016 will see the implementation of the system in complex and high volume stations including Gatwick and Heathrow. The project has a strong risk management workstream designed to minimise, but not eliminate, the risk of disruption during implementation.</p>

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

Main risk	Response and Monitoring Plans
Pandemic	The Company has comprehensive pandemic business continuity plans.
Increases in landing fees and security charges	The Group engages in regulatory reviews of supplier pricing.
Safety/security incident	The corresponding safety committee of each of the airlines of the Group satisfies itself that the airlines have appropriate safety resources and procedures, which include compliance with Air Operator Certificate requirements. Each airline has incident centres, which respond in a structured way in the event of a safety or security incident.
Event causing significant network disruption	Management has robust business continuity plans to mitigate these risks to the extent feasible.
Future availability of debt funding	The IAG Management Committee regularly reviews the Group's financial position and financing strategy.
Financial risk	<p>Fuel price risk is partially hedged through the purchase of oil derivatives in forward markets which can generate a profit or a loss. The IAG Management Committee regularly reviews its fuel hedging positions.</p> <p>The Group seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency and actively managing the surplus or shortfall through treasury hedging operations. The IAG Management Committee regularly reviews its currency positions.</p> <p>When there are delays in the repatriation of cash coupled with the risk of devaluation, risk is mitigated by the review of commercial policy for the route. This may involve capacity reductions and rebalancing the point of sale away from the local market towards the airline's home market and renegotiating supplier contracts to allow payment in local currencies.</p> <p>The approach to fuel and currency financial risk management was reviewed by the Audit and Compliance Committee during the year.</p>
Changes to tax legislation or challenge from tax authorities on the interpretation of legislation	The Group complies with the tax policy approved by the IAG Board and tax risk is managed by the IAG tax department and reviewed by the Audit and Compliance Committee. The approval of the Company's tax strategy is under the exclusive authority of the Board of Directors.
Complexity of the Group governance structure	<p>The governance structure the IAG Group put in place at the time of the merger had a number of complex features, including nationality structures to protect British Airways' and Iberia's routes and operating licences and merger assurances to preserve the specific interests of those companies.</p> <p>The governance structure continued to work well in 2015. From January 21, 2016, the merger assurances expired.</p>
Non-compliance by an individual or group of individuals with Competition, Anti-Bribery and Corruption Law	The Company has comprehensive policies to ensure compliance together with training schemes in place to educate staff in these matters.

### F. INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the company.

#### F.1 The entity's control environment

##### F.1.1 The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

The IAG Board Regulations determine that the IAG Board of Directors is responsible for control policy and periodic monitoring of internal information and control systems.

This control policy and monitoring is designed to produce reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorised use or disposition and the maintenance of proper accounting records and the reliability of financial information used throughout the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable but not absolute assurance against material misstatement, errors, losses or fraud.

### Board of Directors

The Board of Directors of IAG is ultimately responsible for the supervision of the existence and effectiveness of Internal Control over Financial Reporting ("ICFR"). The Board of Directors has delegated the responsibility for the development of effective controls to the Chief Executive and the supervision of the effectiveness of these controls to the Audit and Compliance Committee. The Chief Executive has issued an ICFR policy which requires the IAG Finance Committee to oversee ICFR throughout the Group and delegates responsibility to the relevant Group Operating Company Chief Financial Officers.

### Audit and Compliance Committee

The duties of the Audit and Compliance Committee are set out in section C.2.4 of this report. These duties include:

- a. Review significant reporting judgements contained in the financial statements of the Group;
- b. Monitor the functioning of the internal financial control manuals and procedures adopted by the Company, to verify compliance with them and review the designation and replacement of the persons responsible for them; and
- c. Supervise the effectiveness of the internal control of the Company, the internal auditing, as the case may be, and the risk management systems, and to discuss with the auditors or audit firms any significant weaknesses in the internal control systems detected in the course of the audit.

Audit and Compliance Committee members are appointed based on their knowledge and experience of accounting, auditing, risk management and compliance matters. They regularly receive updates on developments and regulatory changes in these areas. The Audit and Compliance Committee also receives regular updates on the Group's ICFR status.

### IAG Disclosure Committee

The IAG Disclosure Committee is chaired by the Group General Counsel and includes the Group Chief Financial Officer and the Group Head of Investor Relations. The Committee sits monthly (and on an ad-hoc basis) and supports senior management and the Audit and Compliance Committee by carrying out the following duties related to ICFR:

- a. Review matters discussed at the Management Committee and the Board of Directors to ensure that external disclosure is adequate; and
- b. Review any financial regulatory disclosures (UK Regulatory Information Services or Spanish Relevant Facts) including the monthly traffic statistics before publication.

### IAG Finance Committee

The IAG Finance Committee sits quarterly and is chaired by the IAG Chief Financial Officer and comprises the IAG Head of Group Financial Reporting and Control, and the Aer Lingus, British Airways, Iberia, Vueling, IAG Cargo, and Avios chief financial officers. The Committee supports senior management and the Audit and Compliance Committee by carrying out the following duties related to ICFR:

- a. Maintain and approve the IAG ICFR policy including delegation of ICFR process ownership to subsidiary chief financial officers and, where appropriate, to process owners;
- b. Review complex or judgemental accounting issues in the quarterly reports, emerging accounting issues, preparation for implementation of new accounting standards and issues raised by the external auditors;
- c. Own the Group Accounting Policies and approves any changes thereto; and
- d. Coordinate and monitor ICFR framework implementation and maintenance.

### British Airways Finance Committee

The British Airways Finance Committee oversees the implementation of Group accounting policies and procedures within British Airways. It also approves the accounting treatment of proposed transactions and reviews the impact of emerging business issues on the accounts. The Committee is chaired by the British Airways Chief Financial Officer and includes the Head of British Airways Central Finance, the British Airways Treasurer, the IAG Head of Audit UK, and representatives from the British Airways reporting team.

### Iberia and Vueling Finance Directorates

Finance Directorates lead ICFR implementation in Iberia as well as in Vueling. They review and check quarterly financial statements before submission to IAG; and ensure compliance with IAG accounting policies.

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

### Group Financial Reporting and Control Department

The main responsibilities of the Group Financial Reporting and Control Department, as part of the finance function, and reporting to the IAG Chief Financial Officer, include:

- a. Prepare quarterly financial statements of the Group and monthly internal management accounts;
- b. Monitor accounting standard and regulatory developments; and
- c. Propose changes in the Group accounting policy to the IAG Finance Committee.

#### F.1.2 The existence or otherwise of the following components, especially in connection with the financial reporting process:

- The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company.
- Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.
- 'Whistle-blowing' channel, for the reporting to the Audit Committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.
- Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.

The Board is responsible for designating the Company's Chief Executive from among its members, approval of the appointment or removal of individuals to or from the boards of directors of the principal subsidiaries of the Group and the appointment of their chairmen and chief executives. The Board is also responsible for decisions concerning the appointment and removal of the Company's senior executives. Significant changes to the organisation structure are reviewed and approved by the IAG Management Committee.

The authorised structure, including job descriptions defining staff responsibilities, is ultimately controlled by the Chief Executive and delegated to the chief executive officer of Aer Lingus, British Airways, Iberia, Vueling, IAG Cargo, and Avios. The authorised structure is managed by the Chief of Staff's Human Resources Department in IAG, the Chief People Officer within Aer Lingus, the Director of People and Legal within British Airways, the Director of Human Resources within Iberia and the Director of Corporate Areas within Vueling. The authorised structure of the Company, Aer Lingus, British Airways, Iberia and Vueling is updated and reviewed on an *ad hoc* basis. In British Airways, Iberia and Vueling it is published on the respective intranet of each company. In Aer Lingus it is available from the Company Secretary.

The "Way of Business" Group instruction sets out standards of conduct expected of staff and the support that will be available to the staff from the IAG Management Team in maintaining the expected level of conduct. The Group instruction also sets out IAG policy on supporting the communities in which it operates and sets out the IAG vision on Corporate Responsibility and the Environment.

The Group instruction, "Way of Business", is cascaded down into Aer Lingus, British Airways, Iberia and Vueling through local policies available on the intranet of each company. Within British Airways this is achieved through British Airways Standing Instruction 2 "Way of Business". Within Iberia and Vueling their respective General Code of Conduct sets out principles and detailed rules governing how board members, managers and employees should act. Minor breaches of the Codes of Conduct are investigated by Line Managers; more significant breaches are investigated by the Reports Committee in Aer Lingus, the Asset Protection team in British Airways, by the Legal Directorate in Iberia and the Legal Counsel in Vueling. Disciplinary action is proposed and administered by line managers in accordance with the employment policies and standards applicable to the individual. The Group Way of Business does not refer specifically to the financial reporting process and instead ICFR responsibilities and expectations are communicated through the IAG ICFR policy.

Under the IAG ICFR policy the IAG Chief Executive delegates responsibility for ICFR to the IAG Chief Financial Officer with a requirement that the chief financial officers of material subsidiaries fully support the IAG Chief Financial Officer. Chief financial officers are expected to delegate responsibility for ICFR for defined processes to named senior managers within their own organisations.

There are whistle-blowing channels available throughout the Group where concerns can be raised on a confidential basis. The Audit and Compliance Committee reviews the effectiveness of whistle-blowing channels on an annual basis. This annual review reviews the volume of reports by category; timeliness of follow-up; responsibility for follow-up and any issues raised of significance to the financial statements. The annual review is coordinated by the Head of Group Audit and Risk Management.

The Company and Iberia use a third-party provider, Ethicspoint, who receives cases online or over the phone on any matter causing concern to the staff member. Within IAG any such cases will be forwarded to the Head of Business Services and the Head of Group Audit and Risk Management for investigation. Within Iberia the whistle-blowing channel is managed by the Compliance Manager within the Legal Directorate who reports cases to a "Complaints Evaluation and Monitoring Group" which defines the response to the case. This group consists of the Head of Legal Affairs, Compliance Manager, and Labour Relations Director.

British Airways uses a third party provider, Safecall, who receives cases over the phone on any matter causing concern to the staff members. Follow up of cases is the responsibility of the British Airways Director of People and Legal who utilises a network of senior managers and directors throughout the business, including the Director of Safety and Security, to investigate the concerns.

Vueling uses a third party provider Navex Global, who intakes cases online. The whistle-blowing channel is managed by Legal Counsel and cases are analysed and investigated by Legal Counsel assisted by internal audit.

Aer Lingus uses Safecall who receives cases via phone or weblink. These are passed for investigation to the Reports Committee which is made up of the Company Secretary, Director of Legal, Director of Change and Engagement, Executive Counsel and Corporate Safety and Risk Manager.

All Company staff have an annual individual training programme that sets out their technical and professional skills training requirements. Achievement of this training plan is monitored twice a year. Within British Airways training is offered on an as needed basis and as required by law or professional standards. Within Iberia and Vueling there is an Annual Training Plan aimed at improving the performance of individuals and groups.

Basic finance and risk management training for IAG and British Airways staff is delivered through eLearning modules. IAG has also delivered classroom based lessons on airline finance basics and interpreting the IAG accounts to widen understanding beyond the finance team and train accountants joining from other industries. IAG offers finance staff sponsorship to study for Master of Business Administration qualifications and targeted technical post graduate qualifications offered by leading business schools. IAG and British Airways offer study leave, financial support and appropriate work experience to staff studying for the Institute of Chartered Accountants, in England and Wales, the Chartered Institute of Management Accountants and the Association of Chartered Certified Accountants.

Iberia often uses external providers to develop financial training related to accounting rules, auditing, internal control and risk management. Managers receive a specific course called "Basic Business Finance" whose goal is to teach financial literacy to people who have little knowledge on the subject. Job specific training requirements are considered on a case by case basis and delivered to groups or individuals, often using external providers.

Within Vueling training courses are planned on a yearly basis including all the activities that have been budgeted for the following year made available to the business units. These activities include general skills training as well as more specific technical training including financial training. Specific training is also suggested by Finance Directorate whenever regulatory or accounting changes arise which impact the financial reporting.

Within Aer Lingus financial training is provided on an ad hoc basis dependant on the requirements of the individual and department. All staff are expected to maintain their accounting technical expertise.

Company finance staff received an average of 3.5 days training in 2015. Members of the IAG Internal Audit team have received on average 1.5 days ICFR training.

## F.2 Risk assessment in financial reporting

Report at least:

### F.2.1 The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

- The process exists and is documented.
- The process covers all financial reporting objectives (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.
- A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies.
- The process addresses other types of risk (operational, technological, financial, legal, tax, reputational, environmental, etc.) insofar as they may affect the financial statements.
- Which of the company's governing bodies is responsible for overseeing the process.

The Group's Enterprise Risk Management ("ERM") process assesses the key business risks and mitigating actions facing the Group. In compiling these risks and mitigating actions a close relationship is established between the ERM teams and the finance functions. This involves the finance function feeding into the ERM process and reviewing the output of the process to ensure



## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

that the impact of emerging risks are properly captured within the Financial Statements. This review of the completeness of risks reflected in the Financial Statements is complemented by review of ERM risk maps at the British Airways, Iberia and Vueling's Management Committee and the IAG Audit and Compliance Committee. The ERM process is well developed within Aer Lingus. Each department including Finance maintains a local risk register maintained by a Risk Champion which feeds the Aer Lingus Corporate Risk Register reviewed by the Aer Lingus Board. Risks related to financial reporting are therefore assessed regularly.

The ERM process is described fully in section E of this report.

The financial risk assessment is the responsibility of the IAG Finance Committee and is updated and documented annually. The assessment provides management with a mechanism for the identification of risks and associated controls relevant to the preparation of the financial report. The risk assessment has two main elements, both of which are reviewed annually by the IAG Finance Committee:

- a. A high level assessment of key risks to the financial statements focusing on judgemental areas and those susceptible to error; and
- b. Identification of the key underlying business processes through a quantitative and qualitative risk assessment of the financial statements of material subsidiaries. The results of this process are set out in section E.3 and include all financial reporting objectives.

The scope of the consolidation is addressed in two ways. Firstly the establishment of any Special Purpose Vehicles (SPVs) is approved by the IAG Audit and Compliance Committee, who will confirm the requirement for the SPV, consider the governance system of the SPV and consider how the SPV will be accounted for. Secondly, the determination of which entities will be consolidated is considered at the IAG, Aer Lingus, British Airways, Iberia and Vueling group levels. The consolidation is recorded in a single spreadsheet at IAG but changes are determined by IAG, Aer Lingus, British Airways, Iberia and Vueling based on developments in the corporate structure during the year. IAG, Aer Lingus, British Airways and Iberia maintain consolidation hierarchies in their consolidation systems. These hierarchies are subject to access and change controls to ensure their continued integrity. Transactions or Group developments that require new group companies to be formed or acquired are considered at the IAG Finance Committee so that the hierarchies can be updated.

Fraud risk at the Company level is most significant in individual projects, generally acquisitions and disposals. This fraud risk is managed through the individual projects which are staffed with senior professionals from appropriate departments, always including finance, and third party advisors from leading law firms. As the Company, is a holding company with no commercial transactions outside individual projects, the risk of a significant fraud in the day to day transactions of the Company is reduced.

Overall responsibility for coordinating the British Airways response to fraud rests with the Head of Corporate Risk and Compliance. This response includes an Anti-Fraud Policy backed by training and limited by appropriate detective procedures. In Iberia and Vueling employees must comply with the provisions contained in all in-house regulations of the Company based on the applicable laws and, in particular, Compliance with Bribery Laws and the rules regarding Guidance for Corporate Hospitality, Gifts and Entertainment, published on their Intranets.

### F.3 Control activities

Indicate the existence of at least the following components, and specify their main characteristics:

- F.3.1 Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.**

The Company's Management Committee reviews the financial performance of the Group on a monthly basis. This review examines the previous month's performance, the forecast for the following quarter and the forecast for the full year against the finance plan and the prior year. Movements in key performance indicators such as unit revenue and unit cost statistics are analysed together with the impact of foreign exchange and fuel commodity costs. The analysis is carried out on the Group's four main operating units, Aer Lingus, British Airways, Iberia and Vueling. Consistency of these management accounts with the published quarterly Group accounts leads to a high degree of confidence in the integrity of the published accounts.

The quarterly consolidation process is managed to a pre-agreed timetable and includes reviews and sign offs at key stages in the process. Within Aer Lingus, the Financial Reporting team consolidates and approves the Aer Lingus group information. This is approved by the Aer Lingus Chief Financial Officer prior to submission to IAG. Within British Airways the Finance Business Partners, who are senior finance professionals responsible for each directorate in the business, review and approve consolidation packs listing the financial information required by the IAG consolidation. This information is then consolidated at the British Airways group level and is reviewed and approved by the British Airways Chief Financial Officer before final submission to IAG. Within Iberia the Accounting Department reviews and approves the financial information of the business units together with the business unit's responsible senior managers. This information is consolidated at the Iberia group level and reviewed and approved by the Iberia Chief Financial Officer before final submission to IAG. Within Vueling the Finance Department reviews



and approves the financial information in conjunction with the other responsible department senior managers. This information is reviewed and approved by the Vueling Chief Financial Officer prior to final submission to IAG. These reviews across IAG will ensure that all material business risks have been properly recorded in the accounts, confirm the accounting treatment of judgemental areas and ensure the proper application of new accounting standards and guidance notes.

The IAG consolidation process involves a critical review of Aer Lingus, British Airways, Iberia and Vueling group submissions. For specialist areas, such as treasury, consolidated information is reviewed by subject specialists to identify anomalies, inconsistencies with management accounting information and any inconsistent interpretation of instructions within the Group. The final accounts are reviewed by the Group Head of Reporting and Control together with the Chief Financial Officer. A peer review is also carried out by an experienced finance manager that has not been involved in the latter stages of the consolidation process.

Critical judgements, estimates, evaluations and projections are, as far as possible reviewed before the year-end close process. Where appropriate, management obtains the support of internal or external specialists to conclude on any of these matters. The critical accounting estimates and assumptions include impairment of non-financial assets, pensions and other post-retirement benefits, passenger revenue recognition, income tax, the residual value of assets and the useful life of assets.

The scope of ICFR in IAG has been based on the material subsidiaries being Aer Lingus, British Airways, Iberia, Vueling and Avios. The IAG ICFR model contains a Finance Risk & Control Matrix for the Group that includes entity level controls, IT general controls and 19 main business processes considered relevant to the preparation of the financial statements including:

- a. Cargo Sales
- b. Payroll
- c. Passenger Sales – Ticket Sales
- d. Passenger Sales – Travel
- e. Passenger Sales – Billing/Interline Billing
- f. Fixed Assets – Aircraft
- g. Fixed Assets – Ground Assets
- h. Fixed Assets – Engines and Engine Parts
- i. Fixed & Current Asset Inventory – Engineering
- j. Debtors & Invoicing
- k. Fuel
- l. Buying Goods and Services
- m. User charges
- n. Avios
- o. Treasury
- p. Financial Statement Closing Process
- q. Alliance Partner Arrangements
- r. Tax
- s. Other Revenue

The design, implementation and maintenance of appropriate systems of ICFR is primarily the responsibility of management with process ownership identified and communicated to the Company, Aer Lingus, British Airways, Iberia, Vueling, and Avios via the IAG ICFR Policy.

ICFR controls including 388 key controls have been defined across the 19 business processes and IT general controls in order to provide reasonable assurance as to the reliability of the financial information disclosed to the markets. Such controls can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud. As a result of differences in business processes across the material subsidiaries not all controls are required in all material subsidiaries.

A Risk & Control Matrix maintains a central source of the following ICFR information for each business process:

- a. Financial reporting objective and associated assertions for each business process and sub-process covering completeness, existence, accuracy, valuation, rights & obligations and presentation & disclosure;
- b. Risks affecting the reliability of financial reporting including a description of the possible event or action giving rise to the risk;
- c. Control description of the control activities designed by management and incorporated into policy, procedures or practices to mitigate the identified risk. The controls are initially classified as key and/or fraud related with the following

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

additional control characteristics identified; preventative or detective; manual or automated; the frequency of operation; and who performs the activity; and

- d. Control testing and summary of periodic audit results, including action plan to rectify identified weaknesses.

### **F.3.2 Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.**

IAG Global Business Services manage and support IT systems for the Company, British Airways and Iberia. IT systems used by Vueling and Avios Group Limited are managed by the operating companies and use of all systems is subject to the control environments of the host company.

No formal assessment or testing of Aer Lingus IT controls has taken place since the acquisition in August 2015. This exercise will take place during 2016.

The Company's IT systems are run on either British Airways, Iberia, Vueling or Avios systems and are subject to the control environments of the host company. The IAG IT General Controls matrix ("ITGC Matrix") defines the key IT General Controls (ITGC) in place across Group over IT systems that support processes related to the preparation of financial information. The ITGC Matrix is based on the following four processes:

- a. Data Centre and Operations;
- b. Access Security;
- c. System Change and Control;
- d. Disaster Recovery.

A total of 24 ITGC Matrix key controls have been defined across the four information technologies (IT) processes.

#### **British Airways IT Systems**

British Airways has established a framework of internal control for the management and administration of IT systems and processes. This framework includes the IT environment, architecture and infrastructure, and applications relevant to ICFR.

The British Airways framework includes documented baseline standards of control as well as IT policies, grouped under the following policy areas:

- a. Organisation of Information Security
- b. Policies and Controls Management
- c. Risk Management
- d. Information Asset Management
- e. Personnel Security
- f. Awareness and Training
- g. Physical and Environmental Security
- h. Security Operations
- i. Access Control
- j. Networks and Communications
- k. Systems Development
- l. Incident Management
- m. Business Continuity Management

All applications and systems used by British Airways including those related to ICFR must adhere to the baseline standards as a minimum standard of internal control.

The documented policies and baseline standards for control activity, when taken together, provide clear direction concerning expectations for internal control that are required to cover the inherent risks in the following critical IT system management areas:

- a. IT environment
  - i) The IT department organisational structure and description of responsibilities
  - ii) IT systems architecture and infrastructure
  - iii) Environmental protection against physical damage, loss, theft, or abuse of IT systems and equipment

- b. System operations
  - i) Management of back-up files
  - ii) Incident and problem management
  - iii) Management of data interfaces and exchange
  - iv) Service level management and reporting
  - v) Management of external partners and third parties
  - vi) Control of changes
  - vii) Approval and authorisation of changes
  - viii) Testing of changes
  - ix) Release management
- c. Continuity
  - i) Disaster contingency and recovery plans for IT systems
  - ii) Business resilience and contingency management arrangements
  - iii) Fault-resilient system design
- d. Physical and logical security
  - i) Information security management
  - ii) Systems access control
  - iii) Security operations management
  - iv) Physical security of data centres
- e. Information security management

An Information Security Department leads, manages and coordinates the dissemination and implementation of information security practice within British Airways. Information is protected based on its value, confidentiality, criticality to the Company, and the risk of loss or compromise.

Security measures and controls are implemented to support availability, integrity and confidentiality of information, and guard against its loss, unauthorised modification, destruction or disclosure. The degree of security protection reflects the value and sensitivity of the information, the nature of the possible threats, the vulnerability to these threats and the loss, harm, or embarrassment that could arise from them. These security measures and controls protect against misuse of British Airways' information resources, where this misuse could cause British Airways, its business partners, customers or employees loss, harm or embarrassment, or where it could lead to a criminal act such as fraud.

#### f. Secure access

Information, computer equipment, software and communications facilities are made available to those who require it in support of British Airways' business operations and access is restricted only to those authorised to do so. Resources are organised and the duties documented, to reduce the risk of unauthorised changes to information, error, theft or fraud and the operation of certain duties is separated to reduce the opportunities for single individuals to misuse data or services.

Access to infrastructure, platforms and applications is managed via clear segregation of duties and access control processes and platform, system and application owners are responsible for keeping their systems free of unauthorised and inappropriate users and access.

External connections to an application are individually identified, verified, recorded and approved by the application owner and controls are established to maintain the security of British Airways' information and information processing facilities that are: accessed, processed, communicated to, or managed by external parties.

#### Iberia IT Controls

The Iberia framework of internal control over IT systems is based on compliance with data protection law and quality certifications over key IT control activities.

##### a. Demanded by Spanish Data Protection regulation in force

Controls are built around compliance with the Organic Law 15/1999 of December 13 on the Protection of Personal Data and Royal Decree 1720/2007, of December 21, which approves the regulation implementing Organic Law 15/1999 of December 13 on the Protection of Personal Data. The most important security measures implemented as a result of this legislation are:

- i) Requirement to have personalised credentials for each user accessing the application. In particular, use of departmental or generic identifiers is forbidden;

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

- ii) Obligation to establish access profiles based on need-to-access rule. Users will only have access to data and functionality required to carry out the tasks assigned to them by the Company;
- iii) Password must be complex;
- iv) Password must expire periodically, and users must be able to change it at any time;
- v) Passwords are blocked after a number of denied login attempts;
- vi) Passwords are stored encrypted, in order to prevent viewing, and therefore the likelihood of an authorised user impersonation is minimal; and
- vii) Finally, backups and recovery tests must be performed periodically, in order to be able to recover the information in case of an incident.

### b. Demanded by Quality Certifications

ISO 9001: 2008 establishes a set of quality standards and continuous quality management, established by the International Organisation for Standardisation (ISO). These quality standards specify how a supervised company operates, its quality standards, delivery times and service levels. Iberia is ISO 9001: 2008 certified for:

- i) Development and maintenance of information systems;
- ii) Systems operation in data processing centre;
- iii) Telecommunications network management; and
- iv) Installation and maintenance of digital equipment.

In order to comply with its requirements, there are a number of controls in place at Iberia, aimed at ensuring the integrity of data:

- i) Existence of a change management process to prevent uncontrolled changes in the systems;
- ii) Existence of procedures to perform backup and recovery, in order to ensure business continuity after an incident;
- iii) Existence of notification and incident response management procedures to ensure incidents resolution in the minimum time; and
- iv) Existence of a critical incidents response protocol.

UNE-ISO/IEC 27001: 2007 (Requirements for Information Technology Security Techniques and Information Security Management Systems) specifies the requirements for establishing, implementing, maintaining and improving an information security management system. Iberia is certified in UNE-ISO/IEC 27001: 2007 for iberia.com; employee portal; and data processing centres.

In order to comply with its requirements, there are a number of controls in place at Iberia:

- i) Existence of a published security policy, specifying (among others) passwords are personal and not transferable and the regulation for the use of corporate resources by staff;
- ii) Segregation of duties and work environments;
- iii) Training sessions for staff, in order to explain the security policy and their obligations under it;
- iv) Obligation to limit users' access to minimal resources for the performance of their duties. This control is achieved by using:
  - Network segmentation
  - Installation of access control software on machines
  - Applications profiles
- v) Existence of a change management process to prevent uncontrolled changes in the systems; and
- vi) Existence of a business continuity plan to ensure service in the event of an incident.

Both UNE-ISO/IEC 27001: 2007 and ISO 9001: 2008 certifications are subject to annual review by Iberia Head of Quality within the Corporate Affairs Directorate and AENOR, the independent quality certification body.

### **Vueling IT controls**

The Vueling control model over IT systems includes the following key processes:

- a. Logical access control including procedures for adding, changing and deleting users;
- b. Restriction of privileged access rights to application support teams;
- c. Physical access control including restricting access to computer facilities to authorised individuals;

- d. Systems development and change management including segregation of development, user acceptance and production environments together with production migration procedures ensuring that testing has been completed and emergency changes have been monitored; and
- e. Operations practices including batch processing controls, incident resolution and back up.

IT disaster recovery planning requirements are currently being assessed.

The IT Department sits within the Corporate Services Directorate and includes seven managers responsible for IT delivery and business support.

#### Aer Lingus IT controls

No formal assessment or testing of Aer Lingus IT controls has taken place since acquisition in August 2015. This exercise will take place during 2016.

#### F.3.3 Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

For all outsourced processes, Service Level Agreements (SLA) are defined, agreed and signed in the contract with the vendor. As part of the Global Business Service Project British Airways, Iberia, Avios and Cargo have outsourced financial process support to Accenture. Finance staff maintain a quarterly or half yearly review of outsourced accounts and reconciliations as well as ongoing monitoring of the operational status of outsourced processes.

When the Group outsources relevant processes for the preparation of financial information to an independent expert, it ensures the professional's technical and legal competence. The Group has identified five processes outsourced to independent experts relevant to financial reporting.

- a. British Airways outsources the derivation of pension scheme accounting, the proposed accounting treatment is subject to review and challenge by an in-house qualified accountant and pension risk management expert;
- b. Iberia values the obligations to employees and restructuring plan costs by actuarial studies made by independent experts;
- c. Vueling outsources the valuation of financial instruments and the effectiveness testing of derivatives;
- d. The Group outsources the valuation of assets and liabilities as a part of business combinations;
- e. IAG outsources the calculation of the fare values of share based payment plans; and
- f. Aer Lingus outsources the valuation of pension scheme assets and liabilities.

#### F.4 Information and communication

Indicate the existence of at least the following components, and specify their main characteristics:

##### F.4.1 A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the company's operating units.

IAG accounting policies are maintained by the Group Financial Reporting and Control department.

##### F.4.2 Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

The Group Financial Reporting and Control Department issues reporting instructions at each quarter end.

These instructions establish a timetable for key closing activities such as agreeing intragroup balances, submitting the main accounting results and detailed disclosures. Assumptions to be used for accounting tests such as Weighted Average Cost of Capital and percentage sensitivities on derivative transactions are also determined centrally and included in the instructions. The format of information to be submitted and the entities expected to submit the information is determined within the consolidation system which also includes validation tests for completeness and internal consistency.

Disclosures relating to ICFR are validated by senior accounting professionals identified by the Chief Financial Officers of IAG, Aer Lingus, British Airways, Iberia, Vueling and Avios.

#### F.5 Monitoring of the system operation

Indicate the existence of at least the following components, describing their main characteristics:

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

**F.5.1** The ICFR monitoring activities undertaken by the Audit Committee and an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

The IAG Audit and Compliance Committee reviews all disclosures relating to ICFR and validates the Group's approach to complying with the CNMV's ICFR recommendations. In this respect the Audit and Compliance Committee has been careful to achieve an appropriate balance between the CNMV's ICFR recommendations and the UK Corporate Governance Code approach.

The Internal Audit Department adopts a risk based approach to planning which incorporates financial risk factors. The results of audits are discussed at the British Airways, Iberia and Vueling Boards of Directors and Management Committees and the IAG Audit and Compliance Committee. The implementation of actions to address weaknesses identified by the Internal Audit Department are tracked and follow up audits carried out whenever the overall rating of the original audit was judged to be "deficient" or "seriously deficient".

### **ICFR 2015 Scope**

As previously stated, IAG's ICFR includes the Company, British Airways, Iberia, Vueling, Avios Group Limited and, to a limited scope as a result of acquisition in the second half of 2015, Aer Lingus. In addition to Entity Level Controls and ITGC's, 19 business processes have been identified as having a major impact on financial reporting for 2015 with two in scope for the Company, 18 in scope for British Airways, 15 in scope for Iberia, five in scope for Vueling and four in scope for Aer Lingus.

Across the entities and business processes identified, the 388 key controls are broken down into 309 business process key controls and 79 key IT general controls.

Now that the ICFR implementation project is complete, from 2015 onwards all in-scope processes will be tested annually. However, due to the acquisition of Aer Lingus taking place in the second half of 2015, testing of Aer Lingus processes has been limited to four processes.

No material weaknesses were detected. A total of three significant weaknesses and 48 weaknesses were detected. Action plans were put in place with process owners to address each internal control weakness and will be tracked by Internal Audit.

**F.5.2** A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its Audit Committee or Board of Directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

The Company's external auditors attend the Audit and Compliance Committee meetings and report on significant control weaknesses identified during their work. No significant control weaknesses were identified by the external auditors in 2015.

The Head of Group Audit and Risk Management also attends the Audit and Compliance Committee meetings and submits his report directly to the Audit and Compliance Committee. The Head of Group Audit and Risk Management reports to the Chief Financial Officer, the Chairman of the Audit and Compliance Committee. The implementation of internal audit recommendations is tracked by the Audit and Compliance Committee.

### **F.6 Other relevant information**

None.

### **F.7 External auditor review**

State whether:

**F.7.1** The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The ICFR information supplied to the market has been reviewed by the external auditors, and their auditor report is at the end of this Annual Corporate Governance Report.

**G. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS**

Indicate the degree of the company's compliance with the recommendations of the Good Governance Code of Listed Companies.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

1. The Bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

**Explain**

1. IAG considers that it does not comply with this recommendation because of the restrictions included in the Bylaws of the Company in relation to the ownership of shares. This is a partial non-compliance because these restrictions derive directly from the ownership and control restrictions set out in the applicable law or in the bilateral air transport treaties signed by Spain and the United Kingdom and are not simply determined discretionarily by the Company.

2. When a dominant and subsidiary company are both listed, they should provide detailed disclosure on:
  - a) The type of activity they engage in and any business dealings between them, as well as between the listed subsidiary and other group companies;
  - b) The mechanisms in place to resolve possible conflicts of interest.

**Not applicable**

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:
  - a) Changes taking place since the previous annual general meeting.
  - b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

**Complies**

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

**Complies**

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

**Complies**

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:
  - a) Report on auditor independence.
  - b) Reviews of the operation of the audit committee and the nomination and remuneration committee.
  - c) Audit committee report on third-party transactions.
  - d) Report on corporate social responsibility policy.

**Complies**

7. The company should broadcast its general meetings live on the corporate website.

**Complies**

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

### **Complies**

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website. Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

### **Complies**

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:
- Immediately circulate the supplementary items and new proposals.
  - Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.
  - Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.
  - After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

### **Not applicable**

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

### **Not applicable**

12. The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

### **Complies**

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

### **Complies**

14. The board of directors should approve a director selection policy that:
- Is concrete and verifiable;
  - Ensures that appointment or reelection proposals are based on a prior analysis of the board's needs; and
  - Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

### **Complies**



15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

**Complies**

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

- a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.
- b) In companies with a plurality of shareholders represented on the board but not otherwise related.

**Complies**

17. Independent directors should be at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.

**Complies**

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

- a) Background and professional experience.
- b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.
- c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.
- d) Dates of their first appointment as a board member and subsequent re-elections.
- e) Shares held in the company, and any options on the same.

**Complies**

19. Following verification by the nomination committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

**Not applicable**

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

**Complies**

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the nomination committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

**Complies**

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

### **Complies**

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

### **Complies**

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

### **Complies**

25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors regulations should lay down the maximum number of company boards on which directors can serve.

### **Complies**

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

### **Complies**

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

### **Complies**

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

### **Complies**

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

### **Complies**

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

### **Complies**

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

### **Complies**

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

### **Complies**

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

**Complies**

34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

**Not applicable**

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

**Complies**

36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:
- a) The quality and efficiency of the board's operation.
  - b) The performance and membership of its committees.
  - c) The diversity of board membership and competences.
  - d) The performance of the chairman of the board of directors and the company's chief executive.
  - e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nomination committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

**Complies**

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.

**Not applicable**

38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

**Not applicable**

39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

**Complies**

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

**Complies**

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

### **Complies**

42. The audit committee should have the following functions over and above those legally assigned:
1. With respect to internal control and reporting systems:
    - a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.
    - b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.
    - c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.
  2. With regard to the external auditor:
    - a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.
    - b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.
    - c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
    - d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.
    - e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

### **Complies**

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

### **Complies**

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

### **Complies**

45. Risk control and management policy should identify at least:
- a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other offbalance-sheet risks.
  - b) The determination of the risk level the company sees as acceptable.
  - c) The measures in place to mitigate the impact of identified risk events should they occur.
  - d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and offbalance-sheet risks.

### **Complies**

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:
- a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.
  - b) Participate actively in the preparation of risk strategies and in key decisions about their management.
  - c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

**Complies**

47. Appointees to the nomination and remuneration committee – or of the nomination committee and remuneration committee, if separately constituted – should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

**Complies**

48. Large cap companies should operate separately constituted nomination and remuneration committees.

**Complies**

49. The nomination committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the nomination committee to propose candidates that it might consider suitable.

**Complies**

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:
- a) Propose to the board the standard conditions for senior officer contracts.
  - b) Monitor compliance with the remuneration policy set by the company.
  - c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.
  - d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.
  - e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

**Complies**

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

**Complies**

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations.

They should include at least the following terms:

- a) Committees should be formed exclusively by non-executive directors, with a majority of independents.
- b) They should be chaired by independent directors.
- c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.
- d) They may engage external advice, when they feel it necessary for the discharge of their functions.
- e) Meeting proceedings should be minuted and a copy made available to all board members.

**Partially complies**

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

The Board of Directors of IAG, under its powers of self-organisation, considers it appropriate to have a Safety Committee in order to exercise a high level overview of each airline's safety performance and of any important issues that may affect the industry, although responsibility for safety matters belongs to each of the Group's airlines. This Committee is governed by the same principles as all Board Committees and has a clear majority of non-executive directors.

However, the Committee's composition is not compliant with the Code's recommendation as an executive director, the Chief Executive, is a member of this Committee, being also its chairman. The Board believes this to be appropriate in the current circumstances for the following reasons:

- a) IAG is a holding, non-operational company, exercising a supervisory role within the Group.
- b) Consistent with the civil aviation regulatory framework, responsibility for safety matters remains with each operating airline.
- c) The technical nature of safety issues and the fact that each operating airline has its own particular characteristics makes it advisable that the Group's top executive leads this Committee and coordinates the reporting of the different Group airlines.

Furthermore, as a counterbalance, the remaining Committee members are senior directors of IAG, currently the Chairman of the Board, the Senior Independent Director and one of the members of the Audit and Compliance Committee.

Finally, it has to be taken into consideration that safety is a highly regulated area that is subject to strict reporting requirements to the local regulatory authorities of each airline and to regular external audit reviews.

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:
- a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
  - b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
  - c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.
  - d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.
  - e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.
  - f) Monitor and evaluate the company's interaction with its stakeholder groups.
  - g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.
  - h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

### **Complies**

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:
- a) The goals of its corporate social responsibility policy and the support instruments to be deployed.
  - b) The corporate strategy with regard to sustainability, the environment and social issues.
  - c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.
  - d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
  - e) The mechanisms for supervising non-financial risk, ethics and business conduct.
  - f) Channels for stakeholder communication, participation and dialogue.
  - g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

### **Complies**

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

**Complies**

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

**Complies**

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the director must dispose of to defray costs related to their acquisition.

**Complies**

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

- a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.
- b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.
- c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

**Partially complies**

IAG Remuneration Policy complies with this recommendation as it is designed to ensure that variable rewards reflect the professional performance of the beneficiaries and includes appropriate limits and technical safeguards. The performance measures used include a balanced mix of financial measures as well as personal performance against individual objectives. Although IAG remuneration framework promotes long-term value creation and ensures, through individual performance, compliance with IAG's mission and values, it does not include concrete non-financial criteria in the sense required by letter b) of this Recommendation 58. IAG is examining options to improve the focus on the long-term sustainability of the Company, including through the individual objectives and the introduction of more specific non-financial performance measures within its reward framework in future years.

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

**Complies**

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

**Complies**

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

**Complies**

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

### Complies

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

### Complies

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

### Complies

## H. OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.
2. You may include in this section any other information, clarification or observation related to the above sections of this report.  
  
Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.
3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable identify the Code and date of adoption. In particular, state whether the company has adhered to the Code of Good Tax Practices of July 20, 2010.

This annual corporate governance report was adopted by the company's Board of Directors at its meeting held on February 25, 2016.

List whether any directors voted against or abstained from voting on the approval of this Report.

### No

Name or corporate name of director that did not vote in favour of approving this report

Reasons (voted against, abstention, non-attendance)

Explain the reasons

## A. OWNERSHIP STRUCTURE OF THE COMPANY

### A.1 Company's share capital:

As a consequence of the conversion request in relation to the issue of convertible bonds named "€390,000,000 1.75 per cent. convertible bonds due 2018", the Company has increased its share capital on January 2016, through the issuance of 881,456 ordinary shares.

As a consequence of the foregoing, the total share capital of the Company on the date of this report is €1,020,479,989.50, divided into 2,040,959,979 ordinary shares with a nominal value of €0.50 each share.



**A.2 Further detail of the information regarding members of the Board of Directors who have rights attaching to shares of the Company follows:**

Below is a breakdown of the information included in table of section A.3

a) Directors' conditional awards

During 2015, Willie Walsh and Enrique Dupuy de Lôme held awards over ordinary shares of the Company under the Company's Performance Share Plan ("**IAG PSP**").

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the IAG PSP 2015 award was 550 pence.

Director	Plan	Date of award	Number of awards at January 1, 2015	Awards vesting during the year	Awards lapsed during the year	Awards made during the year	Number of awards at December 31, 2015
Willie Walsh	IAG PSP 2012	August 3, 2012	1,024,844	874,191	150,653	0	0
	IAG PSP 2013	March 6, 2013	684,647	0	0	0	684,647
	IAG PSP 2014	March 6, 2014	379,310	0	0	0	379,310
<b>Total</b>	-	-	<b>2,088,801</b>	<b>874,191</b>	<b>150,653</b>	<b>0</b>	<b>1,063,957</b>

Director	Plan	Date of award	Number of awards at January 1, 2015	Awards vesting during the year	Awards lapsed during the year	Awards made during the year	Number of awards at December 31, 2015
Enrique Dupuy de Lôme	IAG PSP 2012	August 3, 2012	372,670	317,887	54,783	0	0
	IAG PSP 2013	March 6, 2013	248,963	0	0	0	248,963
	IAG PSP 2014	March 6, 2014	137,931	0	0	0	137,931
<b>Total</b>	-	-	<b>759,564</b>	<b>317,887</b>	<b>54,783</b>	<b>0</b>	<b>386,894</b>

b) Share options

The following directors held nil-cost options over ordinary shares of the Company granted under the IAG PSP.

Director	Date of grant	Number of options at January 1, 2015	Exercise price	Options exercised during the year	Options lapsed during the year	Options granted during the year	Exercisable from	Expiry date	Number of options at December 31, 2015
Willie Walsh	May 28, 2015	-	-	-	-	309,091	January 1, 2020	December 31, 2024	309,091

Director	Date of grant	Number of options at January 1, 2015	Exercise price	Options exercised during the year	Options lapsed during the year	Options granted during the year	Exercisable from	Expiry date	Number of options at December 31, 2015
Enrique Dupuy de Lôme	May 28, 2015	-	-	-	-	112,364	January 1, 2020	December 31, 2024	112,364

c) Incentive Award Deferral Plan

During 2015, Willie Walsh and Enrique Dupuy de Lôme owned awards over ordinary shares of the Company granted under the IADP (Incentive Award Deferral Plan) ("**IAG IADP**").

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the IAG IADP 2015 award was 550 pence.

## SPANISH CORPORATE GOVERNANCE REPORT CONTINUED

Director	Plan	Date of award	Number of awards at January 1, 2015	Awards released during the year	Date of vesting	Awards lapsed during the year	Awards made during the year	Number of awards at December 31, 2015
Willie Walsh	IAG IADP 2012	August 3, 2012	93,773	93,773	August 3, 2015	0	0	0
	IAG IADP 2014	March 6, 2014	149,353	0	March 6, 2017	0	0	149,353
	IAG IADP 2015	May 28, 2015	0	0	March 8, 2018	0	151,111	151,111
<b>Total</b>	-	-	<b>243,126</b>	<b>93,773</b>	-	<b>0</b>	<b>151,111</b>	<b>300,464</b>

Director	Plan	Date of award	Number of awards at January 1, 2015	Awards released during the year	Date of vesting	Awards lapsed during the year	Awards made during the year	Number of awards at December 31, 2015
Enrique Dupuy de Lôme	IAG IADP 2012	August 3, 2012	37,267	37,267	August 3, 2015	0	0	0
	IAG IADP 2013	March 6, 2013	62,241	0	March 6, 2016	0	0	62,241
	IAG IADP 2014	March 6, 2014	50,862	0	March 6, 2017	0	0	50,862
	IAG IADP 2015	May 28, 2015	0	0	March 8, 2018	0	50,252	50,252
<b>Total</b>	-	-	<b>150,370</b>	<b>37,267</b>	-	<b>0</b>	<b>50,252</b>	<b>163,355</b>

For the year to December 31, 2015, the €:£ exchange rate applied is 1.3742.

### C. COMPANY MANAGEMENT STRUCTURE

C.1.3 Pursuant to Spanish Companies Law, on January 21, 2016, Mr. Antonio Vázquez has become an independent director since five years will have elapsed since his removal as Executive Chairman of Iberia prior to the merger with British Airways.

### D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.5 Indicate the amount involved in other related-party transactions.

The Group's related-party transactions included total sales to associate companies of 8,473 thousand of euros and total purchases from associate companies of 57,192 thousands of euros.

### ADDITIONAL INFORMATION AS A RESULT OF THE COMPANY ALSO BEING LISTED ON THE LONDON STOCK EXCHANGE

The Company is 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 as amended from time to time.

During the year the Company considers it has complied with all the provisions of the UK 2014 Corporate Governance Code but for the following matter: The service contract for Mr. Antonio Vázquez does not comply with the recommendation that notice periods should be set at one year or less so as to limit any payment on exit. Details can be found in the Directors' Remuneration Report.

The Company believes that, notwithstanding this exception, it has a robust governance structure.

### ADDITIONAL INFORMATION IN RELATION TO THE CODE OF GOOD TAX PRACTICES

Iberia, representing IAG, has joined the Code of Good Tax Practices approved by Spain's Forum of Big Companies.



Ernst & Young, S.L.  
Torre Picasso  
Plaza Pablo Ruiz Picasso, 1  
28020 Madrid

Tel.: 902 365 456  
Fax: 915 727 300  
ey.com

#### AGREED UPON PROCEDURES REPORT

To the Directors of International Consolidated Airlines Group, S.A.

In accordance with the request from the Board of Directors of International Consolidated Airlines Group, S.A. (hereinafter IAG) and our engagement letter dated February 1, 2016, we have performed certain procedures on the accompanying ICFR-related information of IAG, for the year 2015, which summarises the internal control procedures of IAG in relation to the annual financial information.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system as well as developing improvements to that system, and preparing and establishing the content of the accompanying ICFR-related information disclosed in section F.

It should be noted that irrespective of the quality of the design and operability of the internal control system adopted by IAG in relation to its annual financial information, it can only provide reasonable, rather than absolute assurance with respect to the objectives pursued, due to the inherent limitations to any internal control system.

In the course of our audit work on the financial statements and pursuant to the Technical Auditing Standards, the sole purpose of our assessment of IAG internal control was to enable us to establish the scope, nature, and timing of the audit procedures to be applied to the IAG financial statements. Therefore, our assessment of the internal control performed for the purposes of the audit of the financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness on the internal control over the regulated annual financial information.

For the purpose of issuing this report, we exclusively applied the specific procedures described below and indicated in the Guidelines on the Auditors' report relating to information on the Internal Control over Financial Reporting on Listed Companies, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Given that the scope of these procedures was limited and substantially less than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or its design or operating effectiveness, in relation to IAG's annual financial information for 2015 described in the accompanying ICFR. Consequently, had we applied additional procedures to those established by the Guidelines mentioned above or had we carried out an audit or a review of the internal control over the regulated annual financial reporting information, other matters might have been disclosed which would have been reported to you.

Likewise, since this special engagement does not constitute an audit of the financial statements or a review in accordance with Royal Decree 1/2011, dated July 1, enacting the revised Audit Law, we do not express an audit opinion in the terms provided for therein.

The procedures applied were as follows:

1. Read and understand the information prepared by IAG in relation to the ICFR -which is provided in the Annual Corporate Governance Report disclosure information included in the Directors' Report- and assess whether such information addresses all the required information which will follow the minimum content detailed in section F, relating to the description of the ICFR, as per the IAGC model established by CNMV Circular nº 7/2015 dated December 22, 2015.
2. Make enquiries of personnel in charge of preparing the information described in point 1 above in order to:
  - a. Obtain an understanding of the process followed in its preparation
  - b. Obtain information which will allow us to assess whether the terminology used is adapted to the definitions provided in the reference framework
  - c. Obtain information on whether the control procedures described are implemented and in use by IAG
3. Review the explanatory documentation supporting the information described in point 1 above, which should basically include that which is provided directly to those responsible for preparing the ICFR descriptive information. In this respect, the aforementioned documentation includes related reports prepared by the Internal Audit Department, senior management, and other internal and external experts providing support to the Audit and Compliance Committee.
4. Compare the information described in point 1 above with IAG's ICFR knowledge obtained as a result of performing the external audit procedures within the framework of the audit of the financial statements.
5. Read the minutes of the meetings held by the Board of Directors, Audit and Compliance Committee and other IAG committees in order to assess the consistency between the ICFR issues addressed therein and the information provided in point 1 above.
6. Obtain the representation letter related to the work performed, duly signed by the personnel in charge of preparing the information discussed in point 1 above.

As a result of the procedures applied, no inconsistencies or issues were detected that might have an impact on ICFR-related information.

This report was prepared exclusively within the framework of the requirements of the article 540 of the Consolidated Spanish Companies Law and by Circular nº 7/2015 dated December 22, 2015 of the Spanish National Securities Market Commission related to the description of the ICFR in the Annual Corporate Governance Report.

ERNST & YOUNG, S.L.

Rafael Páez Martínez

March 1, 2016

# GROUP INVESTMENTS

## Subsidiaries

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
<b>AERL Holding Limited</b> 2 World Business Centre, Newall Road, London Heathrow Airport, Hounslow, TW6 2SF		England	100%
<b>Aer Lingus 2009 DCS Trustee Limited</b> Dublin Airport, Dublin		Republic of Ireland	100%
<b>Aer Lingus Beachey Limited</b> Penthouse Suite, Analyst House, Peel Road, Isle of Man, IM1 4LZ		Isle of Man	100%
<b>Aer Lingus Group Plc*</b> Dublin Airport, Dublin	Airline operations	Republic of Ireland	100%
<b>Aer Lingus Group DAC</b> Dublin Airport, Dublin		Republic of Ireland	100%
<b>Aer Lingus Limited</b> Dublin Airport, Dublin		Republic of Ireland	100%
<b>Aer Lingus Northern Ireland Limited</b> Aer Lingus Base, Belfast City Airport, Sydenham Bypass, Belfast, BT3 9JH		Northern Ireland	100%
<b>Aer Lingus (Ireland) Limited</b> Dublin Airport, Dublin		Republic of Ireland	100%
<b>ALG Trustee Limited</b> Astral Towers, Betts Way, London Road, Crawley, West Sussex, RH10 9XY		Republic of Ireland	100%
<b>Avios Group (AGL) Limited*</b> Astral Towers, Betts Way, London Road, Crawley, West Sussex, RH10 9XY	Airline marketing	England	100%
<b>Avios South Africa Proprietary Limited</b> 34 Whitley Road, Unit B, 3rd Floor, Melrose Arch, Melrose North, Johannesburg		South Africa	100%
<b>BA and AA Holdings Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
<b>BA Call Centre India Private Limited (callBA)</b> F-42, East of Kailash, New-Delhi, 110065		India	100%
<b>BA Cityflyer Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%
<b>BA European Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
<b>BA Healthcare Trust Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
<b>BA Number One Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
<b>BA Number Two Limited</b> 13 Castle Street, St Helier, JE4 5UT		Jersey	100%
<b>Bealine Plc</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
<b>bmibaby Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
<b>Binter Finance B.V.</b> Prins Bernhardplein 200, Amsterdam, 1097 JB		Netherlands	100%
<b>BritAir Holdings Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
<b>British Airways Plc*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%
<b>British Airways (BA) Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
<b>British Airways (No 1) Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
<b>British Airways 777 Leasing Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB	Aircraft financing	England	100%
<b>British Airways Associated Companies Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB		England	100%
<b>British Airways Avionic Engineering Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB	Aircraft maintenance	England	100%
<b>British Airways Capital Limited</b> Queensway House, Hilgrove Street, St Helier, JE1 1ES		Jersey	100%
<b>British Airways E-Jets Leasing Limited*</b> Canon's Court, 22 Victoria Street, Hamilton, HM 12	Aircraft financing	Bermuda	100%
<b>British Airways Employee Benefit Trustees (Jersey) Limited</b> Queensway House, Hilgrove Street, St Helier, JE1 1ES		Jersey	100%
<b>British Airways Finance (Jersey) Limited Partnership</b> 13 Castle Street, St Helier, JE4 5UT		Jersey	100%
<b>British Airways Holdings B.V.</b> Atrium, Strawinskyalaan 3105, Amsterdam, 1077 ZX		Netherlands	100%
<b>British Airways Holdings Limited*</b> 13 Castle Street, St Helier, JE4 5UT	Holding company	Jersey	100%
<b>British Airways Holidays Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB	Package holidays	England	100%
<b>British Airways Interior Engineering Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB	Aircraft maintenance	England	100%
<b>British Airways Leasing Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB	Aircraft financing	England	100%
<b>British Airways Maintenance Cardiff Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB	Aircraft maintenance	England	100%
<b>British Airways Pension Trustees (No 2) Limited</b> Whitelocke House, 2-4 Lampton Road, Hounslow, Middlesex, TW3 1HU		England	100%
<b>British Midland Airways Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB		England	100%
<b>British Midland Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB		England	100%
<b>Cargosur, S.A.</b> Calle Martínez Villergas 49, Madrid, 28027		Spain	100%
<b>Deutsche BA Holding GmbH</b> Brienner Strasse 28, Munich, 80333		Germany	100%
<b>Diamond Insurance Company Limited</b> 1st Floor, Rose House, 51-59 Cicular Road, Douglas, IM1 1RE		Isle of Man	100%
<b>Dirnan Insurance Company Limited</b> Canon's Court, 22 Victoria Street, Hamilton, Bermuda, HM 12		Bermuda	100%
<b>Easthills Limited</b> Fourth Floor, Quest House, 125-135 Staines Road, Middlesex, TW3 3JB		England	100%
<b>Flyline Tele Sales &amp; Services GmbH</b> Hermann Koehl-Strasse 3, Bremen, 28199		Germany	100%
<b>IAG Cargo Limited*</b> Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, TW6 2JS	Air freight operations	England	100%
<b>IAG GBS Limited</b> 2 World Business Centre, Newall Road, London Heathrow Airport, Hounslow, TW6 2SF		England	100%

## GROUP INVESTMENTS CONTINUED

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
<b>IAG GBS Poland sp z.o.o.</b> ul. Armii Krajowej 28, Krakow, 30-150		Poland	100%
<b>Iberia Express, S.A.*</b> Calle Alcañiz 23, Madrid, 28006	Airline operations	Spain	100%
<b>Iberia México, S.A.*</b> Ejército Nacional 436, 9th Floor, Colonia Chapultepec-Morales, Mexico City, 11570	Storage and custody services	Mexico	100%
<b>Iberia Tecnología, S.A.*</b> Calle Martínez Villergas 49, Madrid, 28027	Aircraft maintenance	Spain	100%
<b>Iberia Líneas Aéreas de España, S.A. Operadora*</b> Calle Martínez Villergas 49, Madrid, 28027	Airline operations and maintenance	Spain	100%
<b>Illiad Inc</b> Suite 1300, 1105 N Market Street, PO Box 8985, Wilmington, Delaware, 19899		USA	100%
<b>Openskiés SASU*</b> 3 Rue le Corbusier, Rungis, 94150	Airline operations	France	100%
<b>Overseas Air Travel Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
<b>Remotereport Trading Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
<b>Santain Developments Limited</b> Dublin Airport, Dublin		Republic of Ireland	100%
<b>Shinagh Limited</b> Dublin Airport, Dublin		Republic of Ireland	100%
<b>Speedbird Insurance Company Limited*</b> Canon's Court, 22 Victoria Street, Hamilton, HM 12	Insurance	Bermuda	100%
<b>Teleflight Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
<b>The Plimsoll Line Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
<b>Veloz Holdco, S.L.</b> Pla de l'Estany 5, Parque de Negocios Mas Blau II, El Prat de Llobregat, Barcelona, 08820		Spain	100%
<b>Vueling Airlines, S.A.*</b> Pla de l'Estany 5, Parque de Negocios Mas Blau II, El Prat de Llobregat, Barcelona, 08820	Airline operations	Spain	99.48%
<b>British Mediterranean Airways Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	99%
<b>Compañía Auxiliar al Cargo Exprés, S.A.*</b> Centro de Carga Aérea, Parcela 2-5 Nave 6, Madrid, 28042	Cargo transport	Spain	75%
<b>Iberia Desarrollo Barcelona, S.L.*</b> Torre Tarragona, Planta 15, Calle Tarragona 161, Barcelona, 08014	Airport infrastructure development	Spain	75%
<b>Sociedad Auxiliar Logística Aeroportuaria, S.A.*</b> Centro de Carga Aérea, Parcela 2-5 Nave 6, Madrid, 28042	Cargo transport	Spain	75%

\* Principal subsidiaries.



Name and address	Country of Incorporation	Percentage of equity owned
<b>Associates</b>		
<b>Handling Guinea Ecuatorial S.A.</b> Malabo Bioko Norte International Airport, Apartado de Correos 92, Malabo	Equatorial Guinea	51%
<b>Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A.</b> Avenida de Vantroi y Final, Aeropuerto de Jose Martí, Ciudad de la Habana	Cuba	50%
<b>Empresa Logística de Carga Aérea, S.A.</b> Carretera de Wajay km 15, Aeropuerto de Jose Martí, Ciudad de la Habana	Cuba	50%
<b>Madrid Aerospace Services, S.L.</b> Calle Verano 9, Polígono Industrial Las Monjas, Torrejón de Ardoz, 28850, Madrid	Spain	50%
<b>Multiservicios Aeroportuarios, S.A.</b> Avenida de Manoteras 46, 2nd Floor, 28050, Madrid	Spain	49%
<b>Dunwoody Airline Services (Holdings) Limited</b> Building 70, Argosy Road, East Midlands Airport, Castle Donnington, Derby, DE74 2SA	England	40%
<b>Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A.</b> José Ortega y Gasset 22, 3rd Floor, 28006, Madrid	Spain	43.5%
<b>Serpista, S.A.</b> Cardenal Marcelo Spínola 10, 28016, Madrid	Spain	39%
<b>Grupo Air Miles España, S.A.</b> Avenida de Bruselas 20, Alcobendas, 28108, Madrid	Spain	25%

**Joint ventures**

<b>Propius Holding Limited</b> PO Box 309, Ugland House, Grand Cayman, K41-1104	Cayman Islands	33.3%
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**Available-for-sale financial assets**

The Group's principal available-for-sale financial assets are as follows:


Name and address	Country of incorporation	Percentage of equity owned	Currency	Shareholders funds (million)	Profit/(loss) before tax (million)
<b>Associates</b>					
<b>Servicios de Instrucción de Vuelo, S.L.</b> Camino de la Muñoza 2, Madrid, 28042	Spain	19.90%	Euro	39	2
<b>The Airline Group Limited</b> Brettenham House South, 5th Floor, Lancaster Place, London, WC2N 7EN	England	16.68%	Pound sterling	256	24
<b>Comair Limited</b> 1 Marignane Drive, Bonaero Park, 1619, Johannesburg	South Africa	11.50%	South African Rand	1,166	301
<b>Adquira España, S.A.</b> Plaza Cronos, 1 - 4th Floor, Madrid, 28037	Spain	10.00%	Euro	7	1

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

LIABILITY STATEMENT OF COMPANY DIRECTORS FOR THE PURPOSES ENVISAGED UNDER ARTICLE 8.1.b OF SPANISH ROYAL DECREE 1362/2007 OF 19 OCTOBER (REAL DECRETO 1362/2007).

At a meeting held on February 25, 2016, the Directors of International Consolidated Airlines Group, S.A. confirmed that to the best of their knowledge the Consolidated Financial Statements for the year to December 31, 2015 were prepared in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the European Union, and other provisions in the regulatory framework applicable to the Group, offer a true and fair view of the assets, liabilities, financial situation, cash flows and the results of International Consolidated Airlines Group, S.A. and of the companies that fall within the consolidated group taken as a whole, and the Consolidated Management Report includes an accurate analysis of the required information also in accordance with the Financial Conduct Authority's DTR 4.1 (English regulation) including an indication of important events in the year, a description of the principal risks and uncertainties and a list of material related party transactions.

February 25, 2016




Antonio Vázquez Romero  
Chairman



Martin Faulkner Broughton  
Deputy Chairman




William Matthew Walsh  
Chief Executive Officer



César Alierta Izuel



Patrick Jean Pierre Cescau



Enrique Dupuy de Lôme Chávarri



Denise Patricia Kingsmill



James Arthur Lawrence



María Fernanda Mejía Campuzano



Kieran Charles Poynter



Marjorie Morris Scardino



Alberto Terol Esteban





Ernst & Young, S.L.  
Torre Picasso  
Plaza Pablo Ruiz Picasso, 1  
28020 Madrid

Tel.: 902 365 456  
Fax: 915 727 300  
ey.com

## INDEPENDENT AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of International Consolidated Airlines Group, S.A. (the parent company) and its subsidiaries (the Group), which comprise consolidated balance sheet at December 31, 2015, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto for the year then ended.

### Directors' responsibility for the consolidated financial statements

The directors of the parent company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the consolidated equity and consolidated financial position and the consolidated results of International Consolidated Airlines Group, S.A. and its subsidiaries, in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on the accompanying consolidated financial statements based on our audit. We conducted our audit in accordance with prevailing audit regulations in Spain. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of consolidated financial statements by the directors of the parent company in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of International Consolidated Airlines Group, S.A. and its subsidiaries at December 31, 2015, and its consolidated results and consolidated cash flow for the year then ended, in accordance with IFRS, as adopted by the EU, and other provisions in the regulatory framework for financial information applicable in Spain.

### Report on other legal and regulatory requirements

The accompanying consolidated 2015 management report contains such explanations as the directors of the parent company consider appropriate concerning the situation of the Group, the evolution of its business and other matters; however, it is not an integral part of the consolidated financial statements. We have checked that the accounting information included in the aforementioned consolidated management report agrees with the 2015 consolidated financial statements. Our work as auditors is limited to verifying the consolidated management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the accounting records of International Consolidated Airlines Group, S.A. and its subsidiaries.

We have nothing to report in respect of our requirement to review, under the United Kingdom Listing Rules, the directors' statement in relation to going concern and longer-term viability and the part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

ERNST & YOUNG, S.L.

Rafael Pérez Martínez

March 1, 2016

## OPERATING AND FINANCIAL STATISTICS

Total Group operations		2015 <sup>1,2</sup>	2014 <sup>2</sup>	2013 <sup>2</sup>	2012 <sup>2</sup>	2011 <sup>3</sup>
<b>Traffic and capacity</b>						
Available seat km (ASK)	million	<b>272,702</b>	251,931	230,573	219,172	213,193
Revenue passenger km (RPK)	million	<b>221,996</b>	202,562	186,304	176,102	168,617
Cargo tonne km (CTK)	million	<b>5,293</b>	5,453	5,653	6,080	6,156
Passengers carried	'000	<b>88,333</b>	77,334	67,224	54,600	51,687
Tonnes of cargo carried	'000	<b>874</b>	897	928	1,011	1,050
Sectors		<b>660,438</b>	599,624	538,644	453,100	437,411
Block hours	hours	<b>1,867,905</b>	1,712,506	1,573,900	1,419,601	1,388,514
<b>Operations</b>						
Average manpower equivalent		<b>60,862</b>	59,484	60,089	59,574	56,791
Aircraft in service at year end		<b>529</b>	459	431	377	348
Aircraft utilisation – Longhaul (average hours per aircraft per day)	hours	<b>13.5</b>	13.5	13.3	13.6	13.6
Aircraft utilisation – Shorthaul (average hours per aircraft per day)	hours	<b>9.1</b>	8.8	8.4	8.2	8.5
Punctuality – within 15 minutes	%	<b>80.2</b>	80.9	79.2	77.2	76.6
Regularity	%	<b>99.4</b>	99.5	99.0	99.0	99.0
<b>Financial</b>						
Passenger unit revenue per ASK (PASK)	€cents	<b>7.46</b>	7.08	7.05	7.01	6.41
Passenger revenue per RPK	€cents	<b>9.17</b>	8.80	8.73	8.73	8.11
Cargo revenue per CTK	€cents	<b>19.35</b>	18.19	18.98	20.02	19.33
Total traffic revenue per ATK (RASK)	€cents	<b>65.11</b>	60.45	57.1	53.59	49.47
Average fuel price	(\$cents/ US gallon)	<b>175.86</b>	300.16	314.15	320.33	289.04
Fuel cost per ASK	€cents	<b>2.23</b>	2.38	2.58	2.78	2.38
Operating profit before depreciation, amortisation and rentals (EBITDAR)	€million	<b>4,301</b>	3,137	2,258	1,480	1,867
Total operating expenditure excluding fuel per ASK (CASK)	€cents	<b>5.3</b>	5.08	5.18	5.49	5.06
Operating margin	%	<b>10.2</b>	6.9	4.1	(0.1)	3.0
Lease adjusted operating margin	%	<b>11.2</b>	7.8	5.0	0.7	3.8
Total operating expenditure per ASK	€cents	<b>7.53</b>	7.45	7.77	8.28	7.44
Total operating expenditure per ATK	€cents	<b>62.52</b>	60.33	58.97	58.60	52.76
Dividend cover	times	<b>3.8</b>	n/a	n/a	n/a	n/a
Interest cover*	times	<b>8.2</b>	6.4	2.8	(0.2)	4.7
Net debt	€million	<b>2,774</b>	1,673	1,489	1,889	1,148
Equity*	€million	<b>7,328</b>	3,793	4,216	2,978	4,312
Adjusted gearing	%	<b>54</b>	51	50	51	44
Adjusted net debt to EBITDAR	times	<b>1.9</b>	1.9	2.5	3.6	2.3

1 Aer Lingus Group plc results have been consolidated from August 18, 2015.

2 Financial data for the full year to December 31, 2015, 2014, 2013 and 2012 is based on the consolidated results of the Group, before exceptional items.

3 The full year's data to December 31, 2011 is based on the combined results of operations of British Airways Plc and Iberia Líneas Aéreas de España S.A Operadora.

\* Restated for amendment to IAS19 'Employee benefits' accounting standard.

n/a: not available

## GLOSSARY

Adjusted aircraft operating leases	Aircraft operating lease costs multiplied by 0.67
Adjusted earnings per share	Earnings are based on results before exceptional items, after tax adjusted for earnings attributable to equity holders and interest on convertible bonds, divided by the weighted average number of ordinary shares, adjusted for the dilutive impact of the assumed conversion of the bonds and employee share schemes outstanding
Adjusted gearing	Adjusted net debt, divided by adjusted net debt and adjusted equity
Adjusted net debt	Net debt plus capitalised operating aircraft lease costs
Available seat kilometres (ASK)	The number of seats available for sale multiplied by the distance flown
Available tonne kilometres (ATK)	The number of tonnes of capacity available for the carriage of load (passenger and cargo) multiplied by the distance flown
Block hours	Hours of service for aircraft, measured from the time that the aircraft leaves the gate at the departure airport to the time that it arrives at the gate at the destination airport
Cargo revenue per CTK	Cargo revenue divided by CTK
Cargo tonne kilometres (CTK)	The number of tonnes of cargo that generate revenue (freight and mail) carried multiplied by the distance flown
Dividend cover	The number of times profit for the year covers the dividends paid and proposed
EBITDAR	Operating profit before depreciation, amortisation and rental charges
Earnings per share (EPS)	Earnings are based on results after exceptional items, after tax adjusted for earnings attributable to equity holders and interest on convertible bonds, divided by the weighted average number of ordinary shares, adjusted for the dilutive impact of the assumed conversion of the bonds and employee share schemes outstanding.
Equity free cash flow	EBITDA less cash tax, cash interest and capital expenditure
Interest cover	The number of times profit before taxation and net interest expense and interest income cover the net interest expense and interest income
Invested capital	Fleet net book value adjusted for inflation (fleet gross book value multiplied by a cost factor $((1 + \text{asset inflation})^{\text{asset age}})$ and multiplied by net depreciation rate) plus net book value of remaining tangible fixed assets plus lease rentals multiplied by 8
Lease adjusted operating margin	Operating result less aircraft operating lease cost plus adjusted aircraft operating lease costs divided by revenue
Manpower equivalent	Number of employees adjusted for part-time workers, overtime and contractors

## GLOSSARY CONTINUED

Merger effective date	January 21, 2011, the date British Airways and Iberia signed a merger agreement to create International Airlines Group
Net debt	Current and long-term interest-bearing borrowings less other current interest-bearing deposits and cash and cash equivalents
Net depreciation rate	Gross book value divided by net book value
Operating margin	Operating profit/(loss) as a percentage of total revenue
Overall load factor	RTK expressed as a percentage of ATK
Passenger load factor	RPK expressed as a percentage of ASK
Punctuality	The industry's standard, measured as the percentage of flights departing within 15 minutes of schedule
Regularity	The percentage of flights completed to flights scheduled, excluding flights cancelled for commercial reasons
Return on invested capital (RoIC)	Return on invested capital is defined as operating profit before exceptional items adjusted for lease and inflation divided by invested capital
Revenue passenger kilometres (RPK)	The number of passengers that generate revenue carried multiplied by the distance flown
Revenue passenger kilometres (RPK)	The number of passengers that generate revenue carried multiplied by the distance flown
Passenger unit revenue per ASK (PASK)	Passenger revenue divided by ASK
Passenger revenue per RPK (yield)	Passenger revenue divided by RPK
Revenue tonne kilometres (RTK)	The revenue load in tonnes multiplied by the distance flown
Sector	A one-way revenue flight
Total capital	Total equity plus net debt
Total Group revenue per ASK (RASK)	Total group revenue divided by ASK
Total operating expenditure excluding fuel per ASK	Total operating expenditure excluding fuel divided by ASK
Total operating expenditure per ASK (CASK)	Total operating expenditure divided by ASK
Total traffic revenue per ATK	Revenue from total traffic (passenger and cargo) divided by ATK

# SHAREHOLDER INFORMATION

## Registered office

International Consolidated Airlines Group, S.A  
El Caserío, Iberia Zona Industrial nº 2 (La Muñoza)  
Camino de La Muñoza, s/n, 28042 Madrid, Spain.

Madrid Commercial Registrar  
tomo 27312, folio 11, hoja M-492129  
C.I.F. A85845535

## UK Branch registered address

International Airlines Group  
2 World Business Centre  
Newall Road  
London Heathrow Airport  
Hounslow TW6 2SF, UK

Registered in England & Wales: BR014868

## Registrar

Computershare Investor Services PLC

For enquiries relating to shares held through the  
Corporate Sponsored Nominee (UK share register):

Tel: +44 370 702 0110

Email: [web.queries@computershare.co.uk](mailto:web.queries@computershare.co.uk)

Online: [www.investorcentre.co.uk/iag](http://www.investorcentre.co.uk/iag)

## IAG Investor relations team

UK: +44 20 8564 2900; or

Spain: +34 91 312 6440

Institutional investors: [investor.relations@iairgroup.com](mailto:investor.relations@iairgroup.com)

Private shareholders: [shareholder.services@iairgroup.com](mailto:shareholder.services@iairgroup.com)

## American Depository Receipt program

IAG has a Sponsored Level 1 American Depository Receipt (ADR) facility that trades on the OTC market in the US (see [www.otcm Markets.com](http://www.otcm Markets.com)). Deutsche Bank is the ADR depository bank.

For shareholder enquiries, contact:  
Deutsche Bank Trust Company Americas  
c/o American Stock Transfer & Trust Company  
Peck Slip Station  
P.O. Box 2050  
New York, NY 10272-2050, USA

Email: [DB@amstock.com](mailto:DB@amstock.com)

Toll free: +1 800 301 3517

International: +1 718 921 8137

Online: [www.adr.db.com](http://www.adr.db.com)

## Financial calendar

Financial year end: December 31, 2015

Q1 results: April 29, 2016

Half year results: July 29, 2016

Q3 results: October 28, 2016

Other key dates can be found on our website:  
[www.iagshares.com](http://www.iagshares.com)

## ShareGift

UK shareholders with a small number of shares may like to consider donating their shares to charity under ShareGift, administered by Orr Mactintosh Foundation. Details are available from the UK Registrar.

Certain statements included in this report are forward-looking and involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such forward-looking statements.

Forward-looking statements can typically be identified by the use of forward-looking terminology, such as "expects", "may", "will", "could", "should", "intends", "plans", "predicts", "envisages" or "anticipates" and include, without limitation, any projections relating to results of operations and financial conditions of International Consolidated Airlines Group S.A. and its subsidiary undertakings from time to time (the **Group**), as well as plans and objectives for future operations, expected future revenues, financing plans, expected expenditures and divestments relating to the Group and discussions of the Group's business plan. All forward-looking statements in this report are based upon information known to the Group on the date of this report. The Group undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

It is not reasonably possible to itemise all of the many factors and specific events that could cause the forward-looking statements in this report to be incorrect or that could otherwise have a material adverse effect on the future operations or results of an airline operating in the global economy. Further information on the primary risks of the business and the risk management process of the Group is set out in the risk management and risk factors section of the report.

