

# Built to **succeed**

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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:

13	Business model and strategy
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The Spanish Annual Corporate Governance Report is part of this Management Report and it is available on the Spanish Comisión Nacional del Mercado de Valores website ([www.cnmv.es](http://www.cnmv.es)).

“IAG is like no other company in the airline industry. We are uniquely structured to deliver benefits others cannot match – to the customers of our individual airlines, to our shareholders and to the talented people working right across the Group.

We consistently achieved our financial targets, while upholding our commitment to sustainable air travel and demonstrating the necessary flexibility to respond to a fast changing and highly competitive environment. In doing so, we have proved that we are a group truly **built to succeed.**”

**Willie Walsh**  
Chief Executive Officer

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## Strategic Report

### In this section

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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 2006.

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# A strong expression of our confidence in the future



2017 was a very good year for our business where once again we demonstrated our discipline, our agility and our determination to achieve our long-term goal: to build a healthy, sustainable and value-creating global airline business.

To report operating profits of €3.0 billion on total revenues of €23.0 billion, is a great achievement especially as all our airlines, which carried around 105 million passengers during the year, made a record contribution to that result. That was a tremendous highlight of the year along with the launch of LEVEL, our low-cost, longhaul airline brand.

Both demonstrate the unique strengths of our business model, a model that is being expertly put to work by our management team, closely supported by the Board within a rigorous system of corporate governance.

At our Capital Markets Day in November we explained our five-year financial goals for the business to investors and our message was well received. The targets offer, I think, a very strong expression of our confidence in the future.

We were delighted once again to honour our commitment to create sustainable value for our investors, paying back €1 billion to them through dividend payments and a share buyback programme during the year. In addition, we intend to carry out a share buyback of €500 million during the course of 2018.

I would like to thank our shareholders for their continued support.

The aviation market remains strong, with the International Air Transport Association forecasting that the global industry's net profit will rise by nearly \$4 billion to just over \$38 billion in 2018, with returns exceeding the average cost of capital for the fourth consecutive year. That is a picture that would have been unrecognisable only a few years ago, when destroying value was still the industry norm.

Some challenges lie ahead – not least uncertainty over the oil price – that could disrupt the current levels of discipline we are seeing in terms of managing capacity and costs. We certainly believe that there will be opportunities for further consolidation in our industry, both through combinations and through acquiring assets from airlines that fail. Consolidation is a major part of our *raison d'être* and we will continue to look for opportunities that make strategic and financial sense for our business.

The future of European aviation policy post-Brexit remains an area of obvious focus, with important questions to be answered on market access, ownership and safety regulation.

It remains our conviction that a comprehensive EU/UK transport agreement will be agreed. It's hard to believe that an open skies policy that benefits some 900 million travellers a year

“It is my great pleasure to welcome you to our Annual Report which describes a year of very strong performance by International Airlines Group and our continued success in building a platform for long-term profitable growth.”

in Europe, and sustains jobs and wealth, will be thrown away.

We comply with relevant ownership and control regulations and are confident that we will continue to do so, including those which are expected to apply in the UK post-Brexit. We have had, and will continue having extensive engagement with relevant regulators in order to ensure that IAG's interests are protected.

We are determined to lead our industry in tackling climate change, recognising that it is a major component in our work to create a truly sustainable business.

We were the first airline group in the world to set its own emissions targets, which we are steadily moving towards meeting. We also played an important role in securing the first global carbon offsetting scheme allowing the industry to cut emissions in half by 2050 and grow in a carbon-neutral way from 2020.

This year we become the only airline company to be included in the Carbon Disclosure Project's prestigious Climate A List of the top 5 per cent of global companies and named the most improved organisation in the UK. We are very proud of these achievements.

At the end of an eventful and very successful year I would like to say thank you to all the people across our business who have worked so hard and with such skill to build IAG into the business it is today.

We have achieved so much in the last seven years. We have so much more to do.

**Antonio Vázquez**  
Chairman

# Our highlights

Our model has grown and matured since its formation in January 2011. We have built a **unique structure** that drives **growth** and **innovation** to maximise **sustainable value creation**.

Our strategic priorities have evolved:

- 1**

Strengthening a portfolio of world-class brands and operations
- 2**

Growing global leadership positions
- 3**

Enhancing IAG's common integrated platform

 Read more in Our strategy section on pages 14 - 15

Operating profit before exceptional items (€m)

**+€480 million vly**



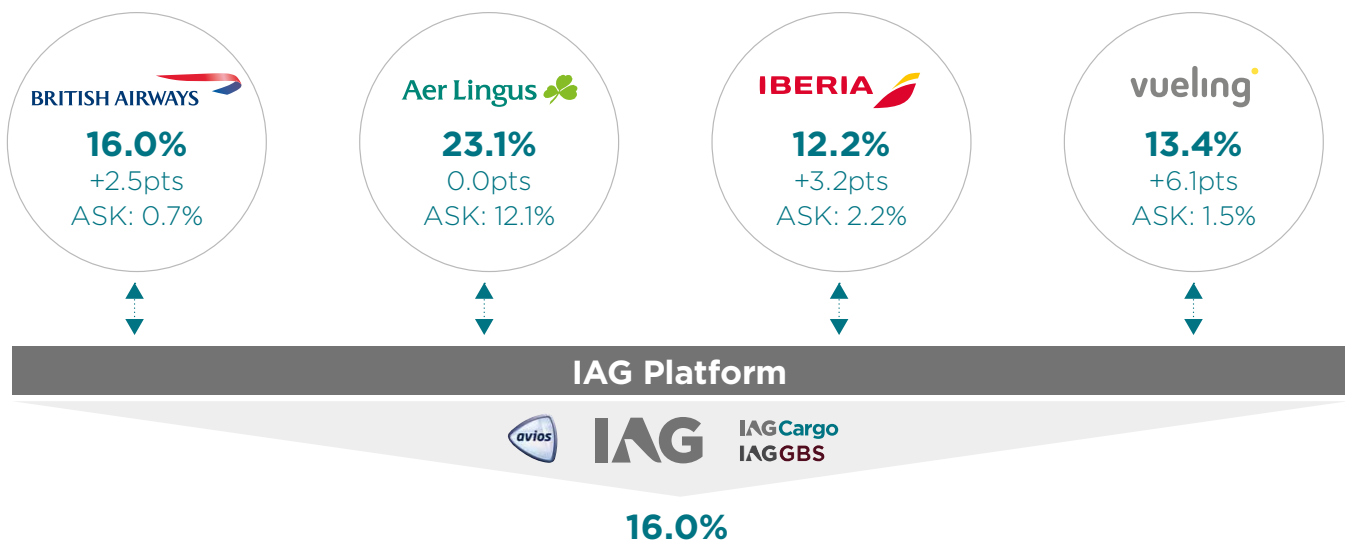
Full year dividend per share (€ cents)<sup>1</sup>

**+14.9% vly**



RoIC<sup>2</sup>

**+2.4 pts vly**



<sup>1</sup> 2017 includes recommended final dividend of 14.5 € cent per share

<sup>2</sup> Iberia results exclude the allocation of LEVEL results

## Our scale

### Passenger numbers (thousands)



### Available seat kilometres (million)



### Aircraft in service



### Cargo tonne kilometres (million)



### Average manpower equivalent



## Highlights of 2017

- All our airlines performed extremely well with their best ever individual financial results, strong operational performances and commitment to customer service. The turnaround in Vueling, following the challenges of 2016, has been particularly outstanding.
- We grew our passenger unit revenue by 1.5 per cent at constant currency.
- We established a consistent and comparable customer satisfaction measure, Net Promoter Score across the airlines, showing our commitment to deliver an unrivalled customer proposition.
- We introduced the New Distribution Capability (NDC) and we launched LEVEL, our new longhaul low-cost brand.
- We achieved the Carbon Disclosure Project A List and we were awarded the UK's Most improved company.
- We returned €1 billion to our shareholders.

## Our financial performance

### Statutory results

	2017	2016	Versus last year
Total revenue	€ 22,972m	€ 22,567m	1.8%
Operating profit after exceptional items	€ 2,727m	€ 2,484m	9.8%
Profit after tax and exceptional items	€ 2,021m	€ 1,952m	3.5%
Basic earnings per share	95.8 €c	93.0 €c	3.0%
Cash and interest-bearing deposits	€ 6,676m	€ 6,428m	3.9%
Interest-bearing long-term borrowings	€ 7,331m	€ 8,515m	(13.9%)

### Alternative performance measures

	2017	2016	Versus last year
Profit after tax before exceptional items	€ 2,243m	€ 1,990m	12.7%
Adjusted earnings per share	102.8 €c	90.2 €c	14.0%
Adjusted net debt	€ 7,759m	€ 8,159m	(4.9%)
Adjusted net debt to EBITDAR	1.5 times	1.8 times	(0.3pts)

See our KPIs on pages 16 and 17

See the Glossary on pages 179 and 180

See pages 38 - 46 for the Financial review

# With Chief Executive Officer Willie Walsh

IAG's unique business model is promoting record growth in our airlines, innovation and important improvements in customer service. Here Chief Executive Officer Willie Walsh highlights some of the reasons why.

**Willie Walsh**

Chief Executive Officer



**Q What advantages does IAG's structure give you over your peers?**

**A** We believe our structure is unique in the airline industry and gives us a huge advantage in the market.

It's a combination of having very focused operating companies, with distinct brands and very clear customer propositions, underpinned by a strong support platform that can do things much more efficiently at the centre than the individual airlines could ever do on their own.

It's that combination that makes IAG a great success.

 See pages 18 - 28 for more about our operating companies

**Q Can you give an example of where IAG's flexibility has enabled it to respond quickly to market conditions?**

**A** In 2017 we demonstrated just how flexible we are when we launched LEVEL, our new low-cost, longhaul airline brand.

We brought a proposal to the board in February, announced its launch on March 17<sup>th</sup> and started flying on June 1<sup>st</sup>.

This is unprecedented.

It could not have been done if it wasn't for the fact that we could call on expertise from across IAG's airlines and pull together an enthusiastic team with the ability to launch a completely new brand in such a short period of time.

**Q Why did you launch LEVEL and how has it performed?**

**A** The launch of LEVEL has been a fantastic success. We knew the business model worked - that combination of having a low cost base and targeting an under-served market with a great customer proposition is a winning formula.

The success we've recorded so far really has demonstrated that the timing was right, the initiative was right and that the brand is great.

It's given us great confidence to expand LEVEL and you are going to see more of that in 2018.

 See case study on next page

**Q How are you improving customer experience?**

**A** During the year we introduced a non-financial metric to ensure we had a good balance between our focus on the financial performance of the business and our focus on serving our customers.

We decided that using a Net Promoter Score - based on direct feedback from customers - was the best measure to use and it has made a big difference, changing the discussion and the debate about customer service within the business.

This measure is a very efficient way of understanding whether our customers like what we are doing. It means we are able to target our investment based on what they want and can see the immediate impact that investment is having.

It has given us a way to really home in on everything we do for our customers and we will continue using it in all our airlines in 2018 and beyond.

 See page 17 for more about Net Promoter Score

## LEVEL – IAG’s new longhaul low-cost brand

“Making longhaul travel more accessible for the current and future generation of travellers.”

### LEVEL launch

2017 was an exciting year for the Group which expanded its portfolio of world-class brands with the launch of LEVEL, IAG’s new longhaul low-cost customer proposition.

LEVEL reflects IAG’s growing confidence in the sustainable returns that can be achieved through an “unbundled” value longhaul offering which addresses a customer market previously underserved by the Group.

Following the unveiling of LEVEL in March 2017, services commenced

from Barcelona just three months later, with the deployment of two Airbus A330-200 aircraft operating to San Francisco (Oakland), Los Angeles, Punta Cana and Buenos Aires. The LEVEL flights from Barcelona are currently operated by Iberia which was able to offer a competitive cost-base from which the low-cost offering could be launched.

IAG has been delighted by the early success and the positive response to its new brand and remains confident in LEVEL’s continuing strong performance. In the first six months of operations under the LEVEL brand, it has achieved load factors exceeding 90 per cent and delivered non-fuel unit costs ahead of target enabling a positive underlying profit result ahead of expectations.



### Looking forward

The LEVEL fleet will more than double in 2018 with the addition of a further three Airbus A330-200 aircraft. LEVEL’s second base will be established in Paris with services to New York (Newark), Montreal, Guadeloupe and Martinique. From Barcelona we will add frequencies and launch a new route to Boston. LEVEL will also become an independent operating airline within the Group with its own management team.

Beyond 2018, IAG expects LEVEL to grow to a minimum of 15 aircraft by 2022, with flexibility to increase its fleet beyond this amount. Under both scenarios, the business is projected to perform in line with the Group’s sustainable Return on Invested Capital target of 15 per cent.

### Distinct brand unlocks “dual brand” strategy

During 2017, IAG undertook a focused review of its customers’ emotional and functional needs, identifying a clear view of customer and travel occasion segmentation.

This review supported IAG’s decision to create LEVEL, an airline focused solely on delivering a price sensitive leisure proposition, which in turn allowing the Group’s full-service brands to focus on their own customers’ demands and expectations.

### IAG is equipped to be a leader in low-cost longhaul

IAG’s business model has distinct features which LEVEL can exploit to develop a global leadership position in low-cost longhaul travel:

- the Group’s common integrated platform allows LEVEL to achieve “best in class” costs, either through pursuing greenfield costs or leveraging IAG’s economies of scale;
- targeted commercial co-operation with IAG and partner airlines, such as Vueling and American Airlines, and arrangements with IAG’s associated businesses, such as Avios, ensure LEVEL can deliver an unrivalled customer proposition and build connections to drive additional demand;
- the Group structure affords LEVEL the autonomy needed to execute its own business objectives, supported by expert management experienced in overseeing a portfolio of world-class operations and brands.

### Q How is IAG exploiting digital technology?

A We recognised very early on that the future of our business was going to be hugely influenced by developments in digital technology. So we brought together a small team within IAG to try to exploit technology for the benefit of customers.

We’ve done a lot of that already. Self-boarding gates at Heathrow’s Terminal 5, new automated Mototok push back vehicles on our stands, new ways of distributing our product digitally – these are just a few examples of how we are constantly looking for better ways to do the everyday things that make life easier for our customers.

This is about improving our overall performance – not just in terms of customer service, but also financially. It is going to be a priority for us as we continue to draw on the skills of our digital team and build on initiatives like our Hangar 51 project, where we are investing in tech start-ups that can help us find new ways to innovate.



See page 28 for more information on digital



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



# Our business around the world

105 million

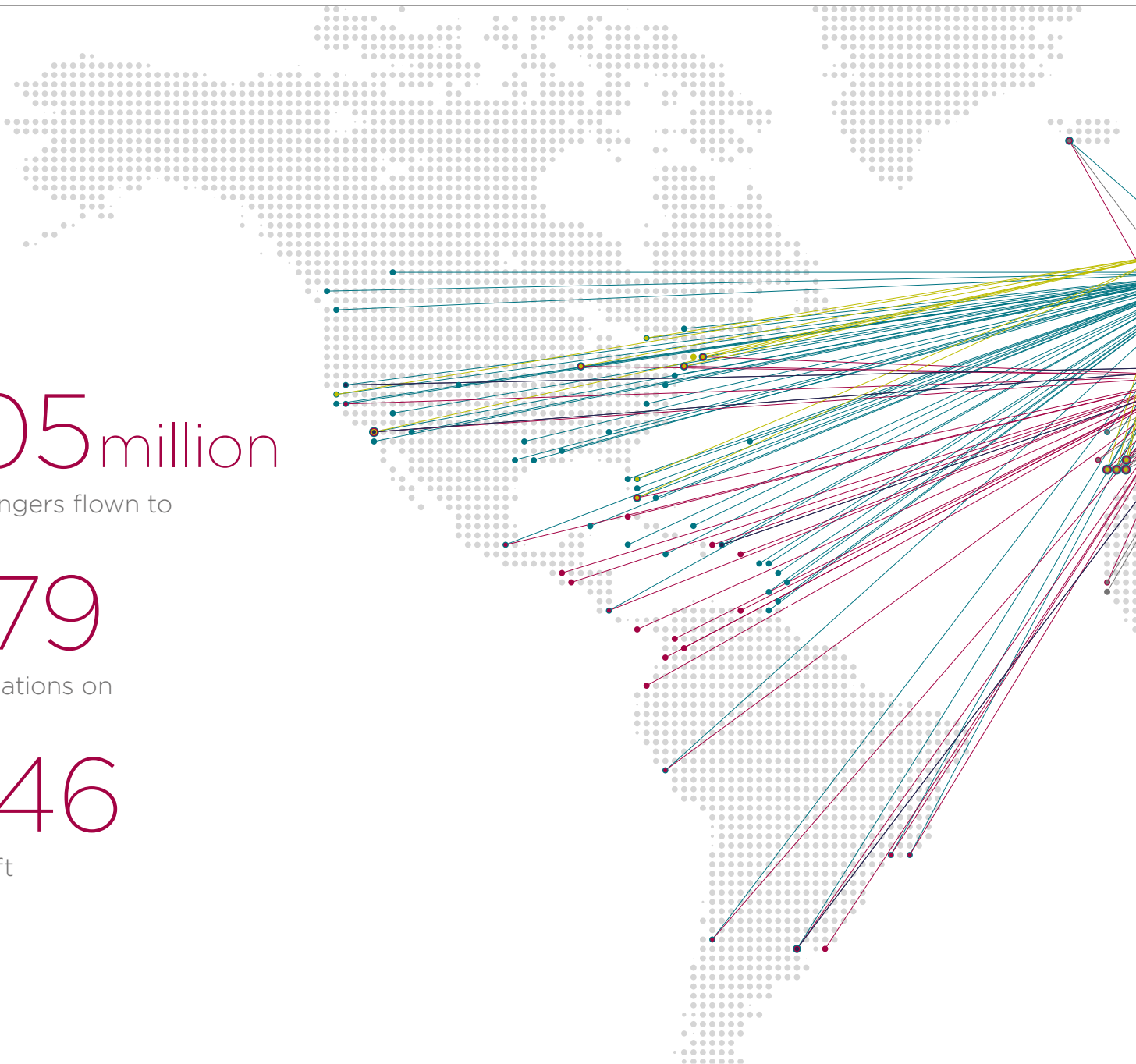
passengers flown to

279

destinations on

546

aircraft



## Our brands




 See pages 18 - 19 for more about British Airways




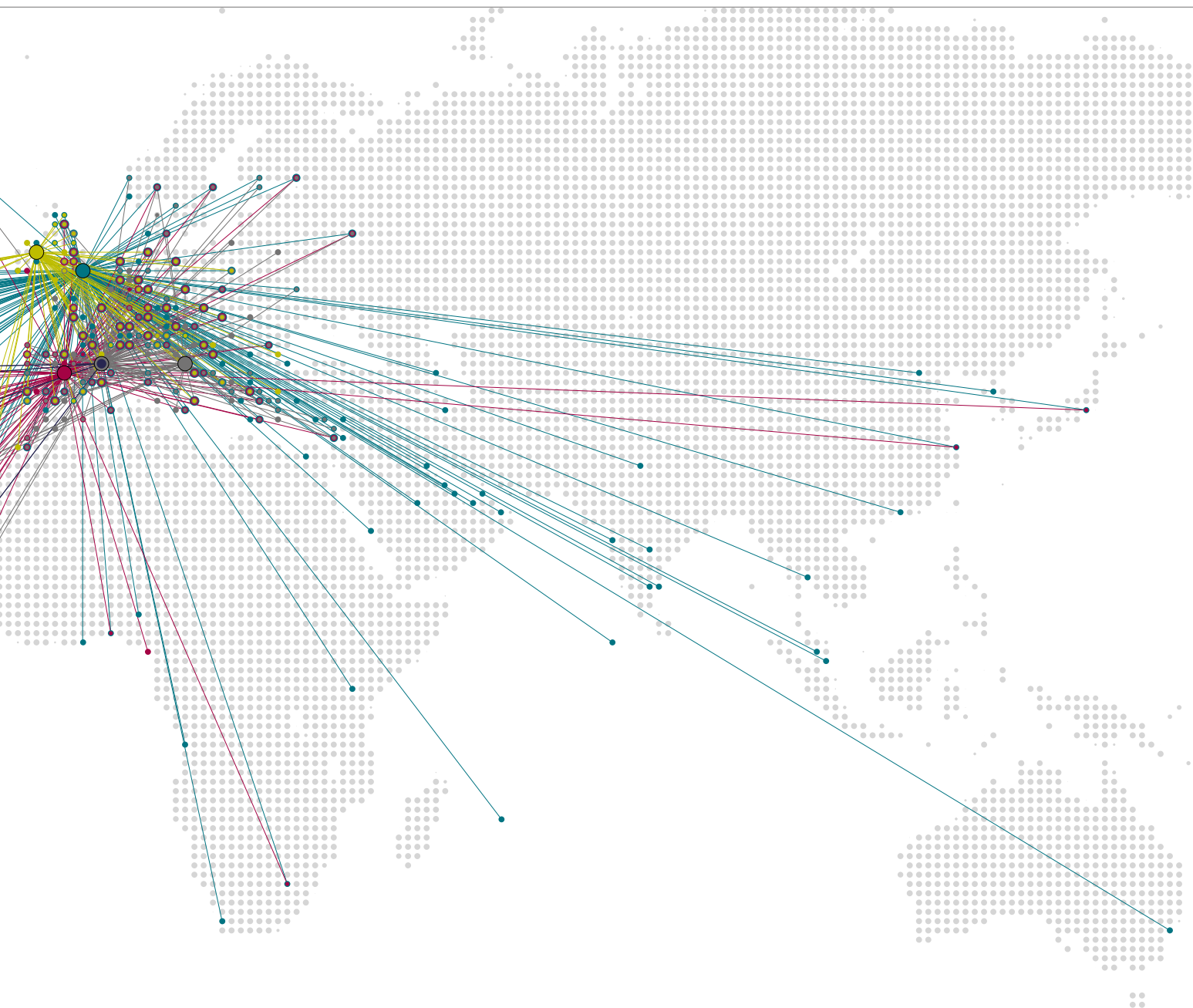
 See pages 20 - 21 for more about Iberia



 See page 22 for more about Vueling

IAG combines leading airlines in the UK, Spain and Ireland, enabling them to enhance their presence in the aviation market while retaining their individual brands and current operations. The airlines' customers benefit from a larger combined network for both passengers and cargo, and a greater ability to invest in new products and services through improved financial robustness.

 See pages 14 - 15 for more about our strategic objectives




 See page 23 for more about Aer Lingus



 See page 7 for more about LEVEL



 See page 26 for more about Avios



 See page 27 for more about IAG Cargo

# Achieving the right balance to generate long-term value



“Our overriding ambition at IAG has always been to create an airline business that can generate sustainable long-term value for all its stakeholders – a business built for success. We made great progress towards that goal in 2017, but there’s still much more we can do.”

**Willie Walsh**  
Chief Executive Officer

This time last year we promised our stakeholders that the best was yet to come and I’m really pleased to say that we were right to make that confident prediction. 2017 was a very good year for IAG and for all of its operating companies.

We went into the year convinced that we could do a lot more to improve our performance, but it’s fantastic to see just how far we’ve come. To report overall operating profits of €3.0 billion compared with €2.5 billion in 2016, is undoubtedly a very powerful financial result, built on a record performance by all of our airlines.

But what pleased me particularly during the year was to see an equally strong improvement in operational performance, continued network expansion by all our airlines and a clear and growing commitment throughout the business to customer service – something we will see much more of in 2018.

The launch of LEVEL, our new, low-cost, longhaul airline brand, also provided dramatic proof of our ability to make important strategic decisions at high speed, thanks to the unique flexibility of our business model which, in so many ways, continues to offer us a real competitive advantage.

We’ve gone into 2018 in very good shape, and as determined as we were last year to keep building on our success.

Some clear challenges lie ahead. Higher oil prices will create some headwinds, but we are now much better placed to respond to this challenge than in the past and our consistent fuel hedging programme continues to provide protection against volatility.

Elsewhere the global economic environment looks favourable with indicators pointing to growth in many of our most important markets, notably the US, Latin America, Europe and Japan. The one exception is the UK where, thanks to the uncertainty caused by Brexit, growth is forecast to be slower in the short-term, although this has had little impact on our business so far.

## Operating highlights

I was particularly pleased with the turnaround achieved by the new management team at Vueling. To recover from a difficult 2016 and achieve record financial, operational and customer service results is a truly outstanding performance and proves we were right to have confidence in the team’s plans to consolidate Vueling’s position in the European market.

Iberia’s performance was very impressive again, helped in part by a recovery in Latin American markets, particularly Brazil. But, above all, it reflects the continuing benefits of its *Plan de Futuro* restructuring programme, now in its second phase. Iberia is now the world’s most punctual network airline. But that’s just one example of the extraordinary transformation that has been achieved in every part of the business.

Aer Lingus stormed ahead in its second full year in the Group achieving strong growth in all its markets, particularly on transatlantic routes, and terrific customer scores. We always knew that the leadership team’s ambitious plans for the airline were much more likely to be realised within IAG and that’s proved right. We are not just delivering what we promised with Aer Lingus, but going well beyond. The continued expansion of its services to the US – including plans this year to fly to Philadelphia and Seattle – will give Irish travellers a level of choice that Aer Lingus could never have offered as a stand-alone airline.

British Airways’ performance continues to improve and impress. There has been a strong focus on operational efficiency and integrity, and punctuality improvements have been particularly impressive.



British Airways faced two set backs during the year. The power failure in May and adverse weather in December both caused significant disruption and were a big disappointment for customers and the airline. But it recovered well. British Airways' commitment to improve customer service, both in the air and on the ground, is backed by some very stretching targets and that push to continuously do better is clearly evident in the airline now.

Despite an ongoing imbalance of supply and demand in the global airfreight market, IAG Cargo also had a very strong year. Here our decision to target the premium end of the market and to increase efficiency through the smart use of technology is paying huge dividends.

### Measuring our investment in customers

During 2017 we introduced the Net Promoter Score (NPS) across all our airlines as an important key performance indicator. This use of a non-financial metric reflects our desire to maintain a balance between the financial performance of the business and the value we are delivering to our customers.

The scores allow us to track very accurately how customers feel about the investments we are making, for instance in catering, in-flight entertainment or new seating on our aircraft. Using NPS, we can track sentiment very clearly, spotting successes and failures. With all our airlines using the same robust system of measurement, it means we can test ideas in one carrier and then share that experience across the Group and it is changing the way, as a management team, we shape our investment plans for the future.

### LEVEL

The launch of LEVEL, offering low-cost transatlantic flights from Barcelona to destinations in the US and Latin America, was a fantastic high point for us in 2017 and demonstrated how we can take ideas from conception to realisation at unprecedented speed. That's highly unusual for an organisation of our size.

We put a proposal to the Board in February, announced its launch on March 17<sup>th</sup> and started flying on June 1<sup>st</sup>. Despite

the short lead-in time, we were able to sell an incredible number of tickets and fill the first flight we operated, with a much better response from customers than we had expected.

This was a truly cross-business initiative. We drew on expertise from across all our airlines to create a team full of passion and enthusiasm and clearly relishing the rare opportunity to launch a completely new brand.

It's early days. But the signs are that by targeting cities poorly served by affordable longhaul services and using a very competitive cost base that allows us to operate profitably, we have struck on a winning formula and we are ready to grow the operation. This year we will add a third aircraft at Barcelona and, in July, will launch a new two-aircraft base at Paris Orly, where Vueling also has a significant base. Longer term we will look at other European cities that meet our criteria for LEVEL and I am very excited about the potential of the brand.

### Consolidation

When we created IAG we said we wanted to create a platform to facilitate consolidation in the European market and we've done just that throughout our seven-year history. Opportunities for mergers or outright acquisitions remain relatively rare and, sadly, consolidation sometimes comes from airlines failing in the market.

Consolidation will continue. This is a dynamic industry. Airlines that don't perform and do not deliver sustainable results should not be supported and we've always been critical of governments that prop up failing carriers. The plain truth is that efficient carriers will step in to replace inefficient ones, and that's precisely what we have done.

The failure of Monarch last year provided us with an opportunity to acquire additional slots at Gatwick. We will use the slots initially to continue building British Airways' shorthaul network at the airport, but later there may be an opportunity to explore new longhaul destinations and some slots could be used by other airlines in the Group.

Following the collapse of Air Berlin we were disappointed not to acquire its

Austrian subsidiary, NIKI. We were very clear about the value we could ascribe to NIKI and the level of investment we were prepared to make.

### Technology and innovation

We realised early on that digital technology and innovation would have a significant impact on our business. We moved quickly to make sure we have a window on developments in this exciting world that could help us improve our efficiency and make our customers' lives easier.

A great example is the introduction of self-boarding gates at Heathrow's Terminal 5, and the introduction of biometric, face recognition boarding at Los Angeles, both of which are helping to reduce queuing for our passengers, potentially cutting boarding times in half for even our largest aircraft. Customer feedback has been excellent.

The introduction of fully automated Mototok push back vehicles on the ramp at Heathrow Terminal 5, are helping to boost efficiency and cut costs, while an affordable adaptation of a simple 3-D scanning system, devised by our Digital team, means we can now scan the size and shape of the cargo we carry and fit it more efficiently into the holds of our aircraft.

Our Hangar 51 initiative, launched in London last year, has brought us into close contact with some exciting tech start-ups eager to explore how they might apply technology in our industry. This year we launched a second round of the accelerator programme in Spain, attracting applications from more than 350 start-ups in 46 different countries – a really fantastic response.

This is a great opportunity for young companies to work closely with a big organisation like ours and for us to learn about their world, their way of working and their ideas. Seeing the output from the programme has been really fascinating for me. We invested in two companies in the first round – Esplorio and Vchain – and will invest in Volantio from round two.

**New financial targets**

At our Capital Markets Day in November we presented investors with updated financial targets for the business between now and 2022.

Many of the targets remain unchanged from the challenging goals that have driven the business so successfully over the last few years. However we did adjust upwards our goals on EBITDAR, capital spending, equity free cash flow and capacity for the next five years.

We've maintained our target for return on invested capital target at a consistent and sustainable 15%, knowing that this gives us the flexibility to invest long-term. We're clear if our target is too rigid it may stop us making investments that will later make great sense for the business.

Our industry has historically destroyed value by making returns below the cost of capital. We want to work in an industry that generates value, offering real and sustainable returns to our investors as we are now so successfully doing.

These metrics are very important for the business, and, as I've said, it's important to have the right balance between financial and non-financial measures. They drive the business forward and give a clear signal that we are determined to continue our quest for efficiency, operational performance, excellent customer service, and a very strong financial performance, all the time being focused on minimising our impact on the environment.

Our targets underpin that overall ambition and ensure we continue to do the right thing for our business and for all our stakeholders. I'm confident we are very clearly set on that course.



**Willie Walsh**  
Chief Executive Officer

**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.



**Robert Boyle**  
Director of Strategy



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



**Julia Simpson**  
Chief of Staff



**Chris Haynes**  
General Counsel



**Alex Cruz**  
Chairman and Chief Executive Officer of British Airways



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



**Javier Sanchez Prieto**  
Chief Executive Officer of Vueling



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



**Andrew Crawley**  
Chief Executive Officer of Avios



**Lynne Embleton**  
Chief Executive Officer of IAG Cargo

Executive Directors not pictured: Willie Walsh, Chief Executive Officer; Enrique Dupuy de Lôme, Chief Financial Officer.

See page 60 for our Board of Directors.

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

# A Group portfolio built to maximise value

IAG's vision is to be the world's leading airline group, maximising sustainable value creation for its shareholders and customers. Its business model makes it well-positioned to achieve this in an increasingly competitive and fast-paced environment.

At IAG we don't believe in one-size-fits-all and, through the Group structure, IAG's diverse set of airlines and associated businesses can together deliver an unrivalled customer proposition across the full spectrum of travel occasions.

The Group portfolio sits on a common integrated platform driving efficiency and simplicity while still allowing each operating company to achieve its individual performance targets and maintain its unique identity.

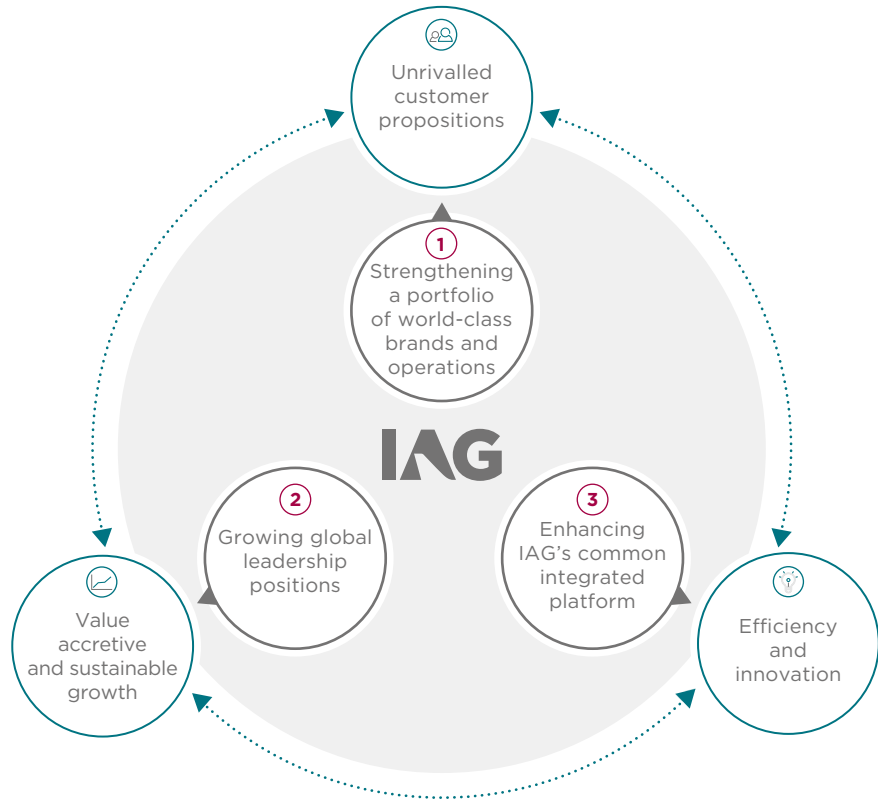
## Unique operating companies targeting specific customer needs and geographies

The Group portfolio of world-class operations and brands offers distinct customer propositions, from full service longhaul to low-cost shorthaul carriers, each focused on identifiable geographies, markets and customer segments. The Group structure enables the operating companies to enhance customer centricity in their specific segments while collectively providing strong competition to other airlines in the market. This allows IAG airlines to become leaders in their respective markets with the flexibility to adapt rapidly to changing dynamics.

The Group's governance model further supports portfolio delivery with IAG setting financial targets, directing corporate strategy and overseeing performance while keeping financial and operational accountability at the individual company level.

## Industry consolidation and leadership

IAG believes the industry is too fragmented and that airline consolidation will continue to be a critical enabler for sustainable industry improvements on both a European and a global scale.



IAG continually evaluates the market for value accretive growth opportunities to reinforce existing or develop new leadership positions, further shareholder returns and serve customer demand. IAG actively responds through acquisitions, partnerships, organic growth and network development, as demonstrated this year through the launch of LEVEL, the commencement of 38 new routes and the acquisition of slots at London Gatwick.

IAG is deliberately structured to allow consolidation and organic options associated with new operating companies to be assessed and developed without unnecessarily distracting the existing operating companies from executing their own business objectives.


## Common integrated platform

IAG continues to enhance its integrated platform which enables the Group's airlines to share best practices effectively, generate efficiencies and benefit from standardised processes. IAG's scale, strength and strategic governance deliver cost-effective and scalable systems that support simplification and drive ongoing

revenue improvement opportunities and enhanced service delivery.

Through a partnering approach with the operating companies, IAG's Global Business Services (GBS) continues to produce significant cost benefits for the business through centralised and higher quality back office functions. As a result, IAG has successfully leveraged cost and revenue opportunities and beaten its synergy targets year-on-year, helping the Group deliver consistently higher returns to its shareholders. The platform also supports additional Group revenue generation and customer loyalty through Avios, its shared global reward currency and through IAG Cargo.

The integrated platform is actively supported by IAG Digital, which works across critical business areas to identify, evaluate and implement digital disruption opportunities that better address customer needs (new services and products) and drive step changes in efficiencies.

 See pages 14 - 15 for how we are achieving our goals

# IAG's strategic priorities

As the IAG model has both grown and matured since its formation in January 2011, the Group has continued to evolve its strategic priorities which currently include:

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

### We achieve this by

- ensuring our operating companies collectively deliver an unrivalled proposition able to fulfil customers' needs across the full spectrum of travel occasions;
- using consolidation and developing organic options to differentiate the Group from its competitors and ensure customer demands are met where they are currently underserved;
- deepening customer centricity to win a disproportionate share in each customer segment.

### Our activity in 2017

Throughout 2017 IAG undertook a focused review of its customers' emotional and functional needs, identifying a clear view of customer and travel occasion segmentation to better leverage the Group portfolio and ensure each airline is centred on fulfilling the needs and capturing a disproportionate share of its respective markets. Net Promoter Score (NPS) targets to provide a consistent and comparable measure of our customers' satisfaction were also established among the airlines.

With a greater understanding of customers' needs and expectations, 2017 saw significant investment in customer product across the Group portfolio focused on strengthening current customer propositions and positioning IAG brands to be leaders in their respective market segments. This investment included commencing both shorthaul and longhaul Wi-Fi roll-out, improved catering and amenity offerings, aircraft refurbishment, the launch of premium economy on Iberia, opening of new lounges, updated apps and web-browser experiences and transformations to the customer journey at the airport including greater automation at London Heathrow Terminal 5 to reduce queuing and focused development of the Dublin hub to support Aer Lingus' market leading NPS performance and future growth opportunities.

IAG also launched its new low-cost longhaul airline brand, LEVEL, which successfully started operations from Barcelona in June 2017. LEVEL has allowed IAG to address a new customer segment by offering a price sensitive leisure focused proposition that democratises travel opportunities.

### Our priorities for 2018

IAG is committed to strengthening its customer focus to ensure its operating companies further adapt and focus their business models to reflect and meet customer expectations. Customer product improvements will be ongoing with full deployment of premium economy across Iberia, the opening of new lounges, entry into service of new generation aircraft, improved end-to-end digital experiences and the continued roll-out of Wi-Fi and seat power across the Group's fleet.

Additional LEVEL services from Paris and Barcelona will also be introduced in 2018 and LEVEL will be developed into an independent operating airline with its own management team to ensure customer focused development and growth.



## 2 Growing global leadership positions

### We achieve this by

- pursuing value accretive organic and inorganic growth options to reinforce existing or pursue new global leadership positions;
- attracting and developing the best people in the industry;
- setting the industry standard for environmental stewardship, safety and security.

### Our activity in 2017

IAG reinforced its leadership positions in its home markets of London, Madrid, Barcelona, Dublin and Rome with the addition of 38 new routes including the introduction of LEVEL longhaul routes from Barcelona. The Group continued to optimise its longhaul network and customer proposition together with its joint business partners and Iberia successfully joined IAG's Siberian joint business.

The Group was also able to strengthen its position across Europe, taking advantage of consolidation opportunities with the acquisition of slots at London Gatwick. Disappointingly IAG was unable to secure its acquisition of assets from NIKI after insolvency proceedings moved from Germany to Austria, but remains interested in pursuing organic growth in the region. Operational challenges for competitors also boosted IAG airlines' performance.

Following its successful campaigning for the industry to agree on a global deal to address carbon emissions and its initiatives to improve its own efficiency, IAG was recognised by the Carbon Disclosure Project as a global leader for its actions to combat environmental risks worldwide, working to cut emissions, mitigate climate risks and develop a low-carbon economy. The Group's safety record in 2017 was also noted with several IAG airlines listed in the top 20 safest airlines for their respective categories by AirlineRatings.com.

### Our priorities for 2018

Sustainable value accretive growth will be a priority for the Group with the launch of further new routes, aircraft up-gauging, additional frequencies and improved connections at hub airports. Longhaul expansion is focused on the Group's key markets in North and South America, but will also see growing demand being served in South East and North Asia, and opportunities for growth are also being explored in Africa.

British Airways will grow significantly at London Gatwick following the acquisition of slots, strengthening and expanding its network offering in Europe.

IAG will continue to prioritise its assessment of consolidation opportunities in Europe to further enhance its existing portfolio and shape industry consolidation where value accretive targets are identified. LEVEL's operations will also be developed and expanded during 2018.

## 3 Enhancing the common integrated platform

### We achieve this by

- reducing costs and improving efficiency by leveraging Group scale and synergy opportunities;
- engaging in Group-wide innovation and digital mindset to enhance productivity and best serve our customers;
- driving incremental value with external business-to-business services.

### Our activity in 2017

The Group renewed its focus on deepening and accelerating cost reduction programmes whilst also ensuring customer value creation. Further efficiencies and cost savings from the common platform were realised and both Aer Lingus and Vueling were fully integrated into the GBS platform. Vueling and Aer Lingus also adopted Avios as their loyalty currency through the re-launch of their respective loyalty programmes. The Group continued to harmonise the fleet with increased focus prior to the start of deliveries of the Airbus A320neos. Maintenance opportunities were pursued with simplified management structures at British Airways and Iberia and optimisation of external spend.

IAG Cargo successfully launched Zenda, a cross-border shipping product for e-commerce, and a new interactive and Wi-Fi connected in-flight experience was launched on LEVEL services. Digital innovation was promoted through the launch of New Distribution Capability (NDC) and two successful 'Hangar 51' accelerator programmes, providing investment and partnering opportunities with ambitious and driven start-ups. Automated systems were also tested and implemented effectively, such as the Mototok aircraft tugs. Mototok is a high tech electrical aircraft push back tug that uses radio remote control.

### Our priorities for 2018

In 2018 IAG will focus on moving away from order-centric airline systems to a customer-centric process by building on NDC and focusing on 'shop, order, pay'. It will focus on developing capabilities to support data customisation and data analytics, and continue investment in on-demand ancillaries, machine-driven pricing and automating the business above and below the wing.

# Focusing on sustainable returns

We delivered healthy results and we achieved our customer satisfaction target. We are building on our strengths to generate sustainable returns to our shareholders and to exceed their expectations.

Measure linked to our strategy

Unrivalled customer proposition

Value accretive and sustainable growth

Efficiency and innovation

Direct link

Indirect link

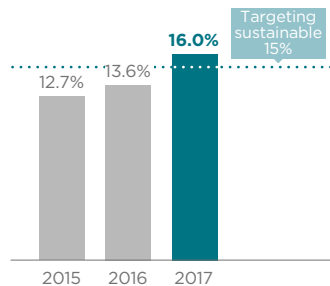
Long-term planning goals 2018-2022

Alternative performance measure

Measure linked to remuneration of Management Committee



### RoIC (%)



**Definition and purpose**

RoIC is defined as EBITDAR, less adjusted aircraft operating lease costs and less adjusted depreciation, divided by invested capital. We use 12 months rolling RoIC<sup>2</sup> to assess how well the Group generates cash flow in relation to the capital invested in the business together with its ability to fund growth and to pay dividends.

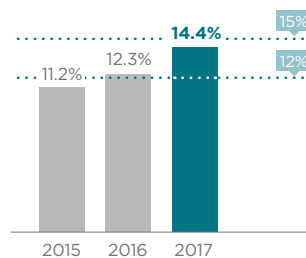
**Performance**

In 2017, RoIC increased 2.4 points to 16.0 per cent. The improvement was due to an increase in earnings. Invested capital grew 1.5 per cent from an increase in the notional capitalised value of aircraft operating leases.

The result marked a significant step in achieving a sustainable 15 per cent RoIC.



### Lease adjusted operating margin (%)



**Definition and purpose**

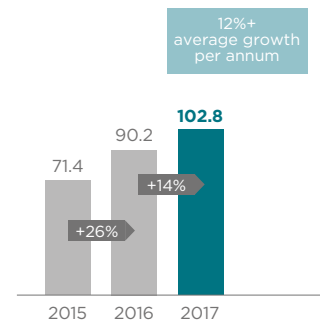
Lease adjusted operating margin is the Group operating result before exceptional items adjusted for leases as a percentage of revenue. We use this indicator to measure the efficiency and profitability of our business and improvement in the financial performance of the Group.

**Performance**

Lease adjusted operating margin improved 2.1 points to 14.4 per cent. The improvement came from revenue growth while costs increased at a slower pace benefiting from fuel tailwinds and from management cost saving initiatives. This reflects the Group's drive towards achieving a competitive and efficient cost base with improved productivity and non-fuel cost savings.



### Adjusted EPS (€ cents)



**Definition and purpose**

Adjusted earnings per share represents the diluted earnings for the year before exceptional items attributable to ordinary shareholders. This indicator 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.

**Performance**

We grew our adjusted earnings per share by 14 per cent in 2017. This is a strong performance.

Profit after tax before exceptional items was €2,243 million, up 12.7 per cent versus 2016. The increase reflects a very good operating profit performance.

The adjusted EPS measure was also improved by the share buyback programme which decreased the weighted average number of shares.

See pages 14 - 15 for more about strategy

See pages 80 - 103 for more about remuneration

See pages 38 - 46 for the financial review

See the glossary on page 179

See pages 175 - 177 for reconciliation of the measures to the closest IFRS measure

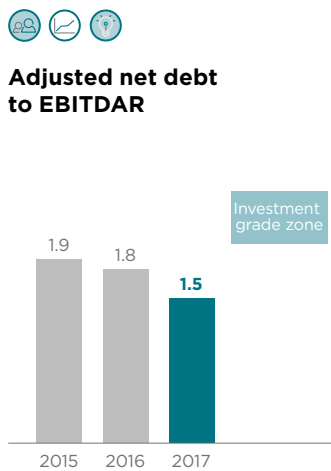
See pages 47 - 56 for non-financial performance in our Sustainability section

We use key performance indicators (KPIs) to assess and to monitor the Group's performance against our strategy and our long-term goals<sup>1</sup>. We evaluate opportunities based on the strategic objectives of the Group and using the KPIs to identify and generate sustainable value for our shareholders. Our financial metrics are before exceptional items and include lease related adjustments commonly used to analyse the airline industry.

These adjustments improve the understanding of the Group's performance and the comparability between periods.

A customer measure, Net Promoter Score (NPS), was introduced in the 2017 annual incentive plan at the Group level. We believe customer satisfaction is an important lead indicator of the Group financial performance and is now one of the Group's KPIs.

Through this year's business planning cycle, we set out our targets for the period 2018–2022. We reiterated our RoIC and lease adjusted operating margin targets in a higher growth environment. We are aiming to generate on average c.€6.5 billion EBITDAR and €2.5 billion equity free cash flow per annum over the period 2018–2022.



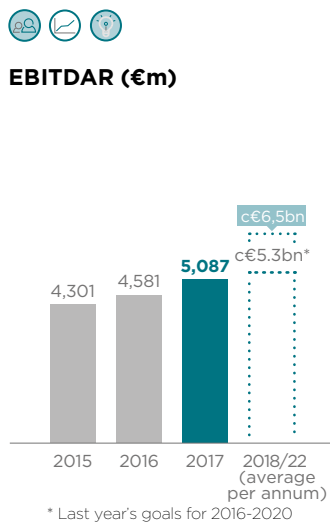
**(A) Definition and purpose**

Adjusted net debt to EBITDAR is calculated as long-term borrowings plus capitalised operating aircraft lease costs less current interest-bearing deposits and cash and cash equivalents divided by EBITDAR<sup>2</sup>. We use this measure to monitor our leverage and to assess financial headroom through the same lens as financial institutions.

**Performance**

In 2017 the Group's financial headroom rose as adjusted net debt to EBITDAR decreased to 1.5 from 1.8 in 2016 with both adjusted net debt and EBITDAR improving.

Adjusted net debt reduced by €400 million to €7,759 million from a stronger cash position and lower long-term borrowings partially offset by an increase in the notional aircraft operating lease debt.

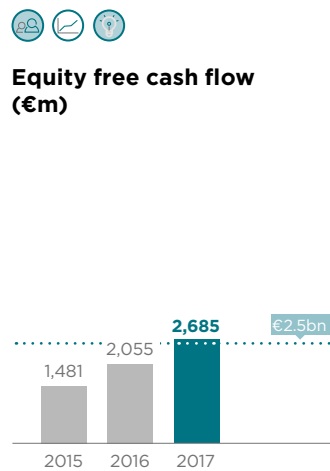


**(A) Definition and purpose**

EBITDAR is the Group operating profit before exceptional items, depreciation, amortisation and impairment and aircraft operating lease costs. It is an indicator of the profitability of the business and of the core operating cash flows generated by our business model. This measure is not impacted by the financing structure of our aircraft.

**Performance**

EBITDAR increased €506 million versus last year reflecting the Group's profitable growth as the EBITDAR margin improved circa 2 points with ASKs up 2.6 per cent and contributing to increasing our operating cash flows.



**(A) Definition and purpose**

Equity free cash flow is defined as EBITDA before exceptional items less cash tax, cash interest paid and received and cash capital expenditure net of proceeds from sale of property, plant and equipment and intangible assets. It reflects the cash generated by the business that is available to return to our shareholders, to improve leverage and to undertake inorganic growth opportunities.

**Performance**

The Group's equity free cash flow rose €630 million to €2,685 million in 2017 due to the increase in EBITDAR and EBITDA before exceptional items and slightly lower net CAPEX. The Group's equity free cash flow was above our long term planning goal reflecting a low CAPEX year with three aircraft delivered on balance sheet. The Group continues to focus on its capital discipline and flexibility.



**Definition and purpose**

NPS is a non-financial metric which measures the likelihood of a customer recommending an IAG operating carrier. Our goal is not simply customer satisfaction, but building a base of promoters. Positive customer experience and advocacy drive competitive advantage, leading to faster organic growth and lower costs.

**(R) Performance**

The IAG target has been reached in 2017. Strong punctuality performance across the Group, in addition to customer service initiatives have been key to meeting the target.

1 IAG reviewed its long-term planning objectives as part of the Group's Business Plan process and defined goals for the next five years for the Group and for each operating company. For each of the objectives, 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, refer to the Risk management and principal risk factors section.  
 2 In 2015, the full year results of Aer Lingus were included in the calculation of RoIC and adjusted net debt to EBITDAR.  
 3 The Group measure is the weighted average of NPS scores from each airline based on passengers numbers. It is calculated from April 1, 2017.

# Creating a sustainable, customer focused airline



“The next five years will see an unprecedented level of investment as we transform into a truly customer-focused company”

**Alex Cruz**

Chairman and Chief Executive Officer of British Airways

**Performance**

£ million	2017	Higher/ (lower)
Revenue	<b>12,269</b>	+7.2%
EBITDAR <sup>1</sup>	<b>2,732</b>	+13.8%
Operating profit <sup>1</sup>	<b>1,754</b>	+19.1%

<sup>1</sup> Before exceptional items.

**Key statistics**

Punctuality



Fuel efficiency gCO<sub>2</sub>/pkm



**Overview**

2017 was the first year of Plan4, our business plan to deliver our vision to be the airline of choice. We delivered another strong financial result in 2017 despite facing a number of challenges – from industrial action and a significant power outage in May causing mass disruption to our customers, to extreme weather conditions in December, terrorist attacks and an increasing fuel price.

The fundamentals of our business are strong. We are the number one carrier in London, the world’s largest international aviation market, and the number one European carrier across the North Atlantic. We have a strong brand and have begun to invest significantly in transforming the travel experience of British Airways’ customers, in whichever cabin they fly.

Operationally, despite the power failure British Airways suffered in its data centres in May that led to severe disruption to customers and flights, a small proportion of cabin crew going on strike during the year and unexpected snow disruption in December in London, in 2017 we delivered the best performance in British Airways’ recent history. Within 15-minute punctuality – a key industry measure – was the highest since 2011, we have delivered a 25 per cent reduction in short-landed baggage, and we have increased engineering reliability to 98.7 per cent. In spite of this improved operational performance, we continue to invest in our operation, and have commenced a comprehensive programme of work to enhance our operational resilience and IT infrastructure, with a number of key actions already implemented.

**British Airways targets aligned with IAG targets**

	2017	2018-2022
Lease adjusted operating margin (%)	14.9% +1.4pts	15%+
RoIC	16.0% +2.5pts	15%+
ASK growth per annum	0.7%	2-3%
Fleet	293	299

We have also started our transformation into a truly customer-focused company through improvements to the customer experience. A new First wing at London Heathrow Terminal 5 and New York JFK has opened for our customers, and we also opened new lounges at London Gatwick and Boston. In September we launched our new, restaurant-inspired dining service in our Club World cabin, which has transformed the food and drink experience. This was swiftly followed by the introduction of a new partnership with The White Company to offer the ‘best night’s sleep’ in the sky in Business Class. These improvements have already started to be rolled-out across British Airways’ longhaul network. Following the introduction of buy-on-board catering on shorthaul flights in January 2017, we continue to refine the delivery of the new Euro Traveller catering proposition to deliver a faster, more engaged and better service for our customers.

We continue to develop our longhaul network, with three new longhaul routes to commence in 2018 - Nashville from London Heathrow and summer only services to Toronto and Las Vegas from Gatwick. Our shorthaul network continues to evolve to provide increased frequencies to peak summer destinations, such as Malaga, Faro and Las Palmas. Additionally, our fleet renewal continues at pace in 2018, with five new Boeing 787 longhaul aircraft to enter service, with 10 Airbus A320neos and three Airbus A321neos to be delivered.

**Plan4 - unprecedented customer investment**

Plan4 targets a lease adjusted operating margin of 15+ per cent each year and the delivery of a sustainable RoIC of 15+ per cent through the business cycle. An unprecedented level of investment in the customer over the next five years is critical to the success of Plan4.

**Invest and innovate where customers value it most**

British Airways’ brand stands for premium experience for all customers, across all cabins. Over the next five years 70 new aircraft will enter service, which will be embodied with a superior product – high speed Wi-Fi, in-seat power, new entertainment systems, and from 2019 a new top tier Club World seat on longhaul. British Airways’ existing aircraft will also



go through a significant refurbishment programme, with new cabins and in-flight entertainment systems and the ongoing roll out of Wi-Fi and in-seat power. Consequently, by 2022 all longhaul wide-bodied aircraft will either be new or have a refurbished cabin.

The transformation of our catering proposition across all cabins has begun. This has started with the launch from September of the new Club World catering, which will be rolled out across British Airways longhaul network throughout 2018. From January 17, 2018 we launched our new World Traveller catering, providing our customers with greater quantity and quality of food, and new and better snacks. Additionally, through the use of technology, our staff will be able to provide customers with a more personalised service. All cabin crew will be given tablets in order to deliver a consistent service and empower them to provide excellent customer care.

#### Be safe, reliable and responsible

Operational reliability is critical to our continued success. British Airways was again more reliable than key competitors in 2017, with more on-time departures from London than easyJet and Ryanair, according to Civil Aviation Authority (CAA) data. Punctuality will continue to be improved with additional summer aircraft availability, the use of real-time data to provide early warning of potential delays, and through the optimisation of spare time between airports. Baggage performance, already improved by 25 per cent in 2017, will be improved further by focusing on transfer bags and British Airways' upcoming increase in bag storage capacity at London Heathrow.

Following the operational disruption in May 2017 that occurred due to a power failure at the Group's primary data centre, we commenced a comprehensive programme of work to enhance our power and IT infrastructure and resilience with a number of key actions already implemented.

#### Improve capital efficiency and have competitive costs

We are committed to reducing non-fuel unit costs on average by 1 per cent over the next five years. The restructuring programme announced in 2016 will deliver £250 million of annual benefits by 2020. As part of this, technology

is being utilised that not only makes British Airways more efficient, but also has a positive impact on the customer experience. Currently, there are 24 self-service bag drops at London Heathrow, which have accepted over 1 million bags to date, reducing average customer transaction times to around 80 seconds. A further 20 will be installed by May 2018 and more in the second half of 2018. We have installed 18 automated gates in the connections zone at Terminal 5, which has all but eradicated queues for our 20,000 customers who pass through it every day. Remote controlled Mototoks are also being used for our shorthaul operation, which has reduced pushback delays by 75 per cent on those gates. The next step is to move to a longhaul version of this technology. Our head office has become more streamlined as we have removed duplication and eliminated non-value adding processes, delivering a 23 per cent reduction in headcount as a result.

We have also addressed our pension challenges. The New Airways Pension Scheme (NAPS) is the company's largest defined benefit scheme and had a £2.8 billion funding deficit as of March 2015. During 2017 British Airways paid more than £600 million into the NAPS pension scheme. Following consultation with our colleagues and the trade unions on future pension provision, we will be implementing a new pension scheme for all UK colleagues from April 1, 2018. This will significantly reduce the risk profile of British Airways and bring our ongoing pension costs in line with market rate. Active NAPS members will also be offered a choice of transition arrangements including a cash lump sum, additional company pension contributions or additional pension benefits in NAPS prior to closure. The overall financial impact on British Airways will depend, in part, on the transition arrangements members select.

Shorthaul fleet efficiency will be driven by the up-gauging of our aircraft. The number of Airbus A319s in our fleet will reduce from 44 to 22 by 2022, being replaced by larger Airbus A320neos and Airbus A321neos. This will increase the average seat count across the shorthaul fleet which, coupled with the cost benefits the Neo brings and the new cabin configuration on existing aircraft, will lead to a 7 per cent unit cost benefit.

Up-gauging the shorthaul fleet will free up slots at Heathrow that we can convert to longhaul flying, in order to continue to expand our longhaul network. Longhaul fleet efficiency will be driven by the introduction of more new generation aircraft. By 2022 37 new generation aircraft will enter the longhaul fleet. These aircraft are approximately 30 per cent more fuel efficient than the Boeing 747s that they replace.

#### Unleash our true potential

Our people are vital to the success of British Airways and the delivery of Plan4. We have a number of people-orientated initiatives that will cultivate leaders at all levels of the organisation and develop an agile organisation with a dynamic culture. Fundamental to this has been communication and engagement with colleagues. This year alone we have explained our Plan4 strategy to over 3,500 managers and 2,500 cabin crew, and we will shortly be communicating our updated plan to all colleagues. This is just one example of how we are engaging with our colleagues in order to deliver high levels of customer service consistently across the business.

#### Digital

Digital underpins Plan4. Digital, and the use of new technology, will enable British Airways to provide our customers with a seamless, stress-free travel experience. For example, automation at the airport is enabling our front line staff to focus more on customer service. We have also launched a new and updated ba.com, which delivers a new look and feel, and is supported by improved technology, making it easier for customers to make bookings. The new site is simple and intuitive to use, meaning that in just a few clicks, customers can book a flight, check their upcoming journeys and pull up their Executive Club account. In 2018, customers can expect to see further improvements, including an updated post booking experience and new features for the Executive Club.

#### Conclusion

Our fundamentals are strong. The unprecedented levels of customer investment we will make over the next five years will enable British Airways to deliver our vision to be the airline of choice with personalised service, exceptional reliability, a digital mind-set and unique British style.

# Improved profitability and customer service



“Plan de Futuro Phase 2 is proving to be the perfect tool for growing profitably and reaching excellence”

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

## Performance

€ million	2017 <sup>1</sup>	Higher/ (lower)
Revenue	<b>4,851</b>	+5.8%
EBITDAR <sup>2</sup>	<b>835</b>	+13.1%
Operating profit <sup>2</sup>	<b>376</b>	+38.7%

1 Excludes the allocation of LEVEL results.  
2 Before exceptional items.

## Key statistics

Punctuality



Fuel efficiency gCO<sub>2</sub>/pkm



## Iberia targets aligned with IAG targets

	2017 <sup>1</sup>	2018-2022
Lease adjusted operating margin (%)	9.6% +1.7pts	10-14%
RoIC	12.2% +3.2pts	15%
ASK growth per annum	2.2%	c.8%
Fleet	98	126

1 Excludes the allocation of LEVEL results.

## Overview

This year marks four years since we launched *Plan de Futuro*, in order for Iberia to adapt to new market challenges.

During this time, we have made significant progress on all fronts: customer satisfaction, our operations and cost efficiencies, and, as a result, also financially. It could appear that Iberia has completed its transformation, but there is a lot that still needs to be done.

### 2017: the consolidation of Phase 2 of our Plan de Futuro

In 2017 Iberia celebrated its 90<sup>th</sup> anniversary, marking its place in the history of Spanish, European and global aviation as one of the oldest airlines in the world still in operation. The tool that will allow us to go on for a further 90 years is Phase 2 of *Plan de Futuro*.

Phase 2 of *Plan de Futuro* required rethinking even the most fundamental aspects of how to improve each day. While the original *Plan de Futuro* allowed us to reach our objective of returning to profitability, Phase 2 is the tool that will help us achieve excellence. The Plan is constantly evolving, with new initiatives and projects that stem from the ideas and determination of the members of our organisation.

Towards the end of 2016 we defined the first 200 projects of Phase 2 and in 2017 the execution of many of these projects allowed us to come out stronger.

These efforts are having the desired result. In relation to customer satisfaction, our Net Promoter Score has improved significantly. In 2017 we received our fourth Skytrax star, which puts us on par with the best airlines in the world, in terms of product and customer service. We have also consolidated the routes we

opened in 2016: Johannesburg, Shanghai and Tokyo, with the last two being part of our strategic plan in growing Asian markets. We have launched our Premium Economy cabin, offering our customers a superior product at an adjusted fare. We are very satisfied with its results in all possible metrics. The NPS and revenue performance of the cabin has been higher than we had anticipated. It is the confirmation that there was a latent customer segment that we have successfully attracted. We will continue retrofitting our aircraft to make it available in all our Airbus A330-300s and Airbus A340-600s.

With regards to our cost efficiency we have managed to considerably reduce our non-fuel CASK since the launch of *Plan de Futuro*, even including incremental costs derived from our Handling and Maintenance businesses. A large part of our focus on costs in Phase 2 depends on working very closely with GBS, IAG's platform to create economies of scale in IT and contracts with third party suppliers. Furthermore, we are progressing on the restructuring of our labour costs. The deal reached in 2017 with the negotiation of a new employee redundancy plan will allow us to work more efficiently while further reducing our personnel costs.

The challenge was clear: improve our operations and our cost efficiency. In 2016 we were the most punctual airline in the world and we are immensely proud to have achieved this feat again in 2017, with Iberia Express also again the most punctual low-cost airline in the world. In 2017, IAG selected Iberia to operate the LEVEL services from Barcelona, and our cost efficiency and operational excellence have contributed to LEVEL's successful launch.

In relation to our other businesses, in Handling we have consolidated our operations to work towards increasing efficiency and achieving our financial targets. In Maintenance we continue to work on transforming the business, improving profitability and redesigning all our processes, in order to excel in both our operations and customer service.

Also in 2017 we supported IAG in the launch of Hangar 51 in Spain, an essential component of our digital transformation, which is one of our main challenges for 2018. The launch of Hangar 51 has been a



real success, with more than 350 start-ups applying to enter the programme, of which we selected seven to develop products and services that will improve our revenue generation, efficiency and customer experience.

A key initiative of Phase 2 is the flexibility and improved use of capital. In 2016 we believed it was necessary to reassess our plans to grow given the context, and we successfully adapted to this change. However, in 2017 we have further increased our cost effectiveness and improved our revenues, and some of our key markets have shown a clear economic improvement.

Our people have been and still are essential in our transformation. Everything that we have achieved so far, like being the most punctual airline in the world two years in a row, earning the fourth Skytrax star, opening new routes and markets, and above all returning to profitability, would not have been possible without their commitment, their hard work, their understanding of the challenges that we have ahead of us, and their ability to adapt to the changes that the market demands. In this new phase of *Plan de Futuro*, their contribution will be crucial to continue moving forward towards positioning Iberia where we all want it to be.

In summary, 2017 has been a good year for Iberia, but, as I mentioned earlier, this is no coincidence. The drive of Phase 2 of *Plan de Futuro* has been fundamental in a context in which our markets have shown more rational and less volatile behaviour.

Within this context and thanks to our flexibility, we have revised our growth projections upwards. Our cost base allows us to compete efficiently and because of this we are convinced we can do so if the conditions are adequate. To grow and continue to improve profitability is a great challenge, but we are convinced the *Plan de Futuro* Phase 2 has provided us with the basis for success.

### 2018, growth, new aircraft and digitalisation

We have proven in 2017 that when we have an objective in mind we are very capable of reaching it. We ended 2016 with the challenge of not taking steps back, which we achieved in 2017.

However, 2018 has its own challenges: ambitious growth while maintaining the established profitability objectives, receiving the new Airbus A350-900s and Airbus A320neos in our fleet and continue to innovate for our customers and our efficiency, a task for which digitalisation will be essential.

### A return to growth is possible given the right conditions

In longhaul we will open two new routes: San Francisco, from April, and Managua, in October, which will also allow us to fly daily to Guatemala.

As well as exploring new routes we will reinforce our key markets. In 2018 we will grow in different routes in the US, Mexico, Bogota, Buenos Aires, Santiago de Chile and Rio de Janeiro.

We will also increase our Tokyo route by two weekly frequencies, supported by the joint business we have with our partners.

With our short and medium haul routes, Iberia and Iberia Express will follow the same strategy, focusing on our main markets. In 2018 we will grow in Rome, Milan and Paris with an additional daily frequency on each route and we will also improve our product to Tel Aviv, operating an Airbus A330-200. Iberia Express will launch new routes to Palermo and Mykonos, while also growing its main markets, particularly to the Canary and Balearic Islands, and European routes in which we compete with other low-cost carriers.

Growth is an important challenge but we know that we can achieve it if the market conditions are right and we continue to improve our cost efficiency. This year we must renew our collective labour agreements, which we need to be able to increase our productivity. This improvement is a prerequisite for profitable growth. Should conditions not be ideal, given our great flexibility we will be able to adapt accordingly as we have done in the past.

### New generation aircraft arrive at Iberia

We are also ready to receive two new types of aircraft in our fleet. The Airbus A350-900 and the Airbus A320neo are an important technological change. Our customers will be able to enjoy the most modern, efficient and environmentally

friendly aircraft of our fleet. The first Airbus A350 will arrive in July this year and will fly to London and New York. The Airbus A320neo will begin operating also in the summer.

In addition, as we have previously announced, our Airbus A320 will be modified to include new slim seats in the economy cabin, which will improve customer comfort by increasing available legroom, while also allowing for more seats and revenue within the same aircraft.

### Our customers continue to be our main priority

Many of the projects we have been working on for the last few years will come to fruition this year enabling Iberia to better deliver our premium focused proposition to our target customers. Digital transformation is a key driver and will affect all aspects of our company: we will become more efficient, more agile and above all will be able to better serve our customers. In particular, we are working on the following projects:

- New Distribution Capability (NDC) is a programme led by IATA to transform the way airlines retail our products to allow for product differentiation and a transparent shopping experience. NDC allows us to present our customers with improved and personalised information, radically improving their purchasing experience.
- New CRM. With the new CRM solution that we are implementing, we will understand our customers and their needs better allowing us to serve them as they want to be served on their journey from end to end.
- *Experiencia Redonda*. This project consists in a 360° training programme for all our customer-facing staff, so that our customers can also experience the cultural change at Iberia by being delivered a new, immediate, and personalised service.

The challenge we have ahead of us is not an easy one but neither has been the journey so far. At Iberia, we always welcome the challenge and, as we always say, we know that every day is the first day.

# Sustainable and profitable growth



“Vueling is ready to continue with its pan-European expansion plans and fully committed to delivering results.”

**Javier Sanchez-Prieto**  
Chief Executive Officer of Vueling

## Performance

€ million	2017	Higher/ (lower)
Revenue	<b>2,125</b>	2.9%
EBITDAR	<b>456</b>	44.8%
Operating profit	<b>188</b>	213.3%

## Key statistics

Punctuality



Fuel efficiency gCO<sub>2</sub>/pkm



## Overview

Vueling delivered on its 2017 objectives. Phase 1 of Vueling NEXT has successfully restored operational and financial performance whilst also rebuilding customer trust. Now we are evolving the design of our business model with Vueling NEXT 2.0, developing further cost transformation while still keeping our customer at the centre of our business model. We will continue focusing on modernising our product and customer experience and further evolving our operating platform to support internationalisation. Finally, the NEXT 2.0 phase will see a return to consistent and manageable capacity growth at approximately 10 per cent per annum from 2018.

## What we have done in 2017

In 2017 we have delivered on our objectives, being true to our four NEXT pillars:

1. Deliver a leading low-cost carrier customer proposition, aligning with the needs of the price sensitive consumers
2. Drive operational excellence and cost discipline
3. Develop a high-performing organisation
4. Return to sustainable and profitable growth

Operationally, we reengineered our technical specifications (for example new hand-luggage policy, improved turnaround times, queuing predictive system) to drive stronger resilience, to better manage irregularity and to increase recoverability.

In our network, we focused on better balancing depth and breadth across, and identifying growth opportunities within our core markets while also looking for selected growth opportunities outside.

We improved our customer experience by implementing a more efficient and effective

disruption management approach (enhanced EU261-related procedures) and by investing in leveraging digital and innovation to achieve a stand-out product (EVA virtual assistant, first adopter in automatic payment methods, etc.).

We continued to reshape the company's structure and to attract international talent to key roles, moving towards an organisation more oriented towards innovation, digital and data, while at the same time increasing employee engagement.

## Vueling NEXT 2.0, preparing for the future

As part of this strategy, we will continue with our cost discipline policy, launching the Costs 2.0 programme to promote further savings beyond our current cost levels. We will increase aircraft utilisation and manage seasonality to improve crew productivity and achieve an optimal use of our other resources.

We will continue developing our network by increasing the share of destinations where we hold a leadership position, and searching for new growth opportunities. We will keep driving more digitalisation and automation into our operations and our customers' journey, moving our crews towards full connectivity and our customers towards the smoothest possible experience. We will further improve the engagement of our people and keep attracting the best talent, leveraging this as a key competitive advantage.

We will deepen our efficiencies, and as we deliver on Vueling NEXT 2.0, we expect our results will continue contributing to our key IAG targets

## Conclusion

Vueling's results in 2017 demonstrate a remarkable turnaround for the company. Going forward, we will continue to place our customers at the centre of what we do, engaging them in stronger relationships and providing continuously higher levels of reliability and punctuality. These actions will be the foundation on which we will build our future growth and on which we will continue to deliver solid financial results.

## Vueling targets aligned with IAG targets

	2017	2018-2022
Lease adjusted operating margin (%)	12.7% +6.0pts	12-15%
RoIC	13.4% +6.1pts	15%
ASK growth per annum	1.5%	c.10%
Fleet	105	150



# A value model rewarding investment



“2017 has been another year of profitable growth with high levels of guest satisfaction and demonstrates the competitiveness of the Aer Lingus value model.”

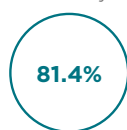
**Stephen Kavanagh**  
Chief Executive Officer of Aer Lingus

## Performance

€ million	2017	Higher/ (lower)
Revenue	<b>1,859</b>	+5.3%
EBITDAR	<b>443</b>	+11.0%
Operating profit	<b>269</b>	+15.5%

## Key statistics

Punctuality



Fuel efficiency gCO<sub>2</sub>/pkm



## Overview

Through 2017 we built on the strong foundations of our value carrier business model, a model that is demand led, simple by design; focused on cost, product and service. We have developed the growth opportunities enabled by a strong non-fuel unit cost performance and a clear focus on the needs of our guests. In a highly competitive marketplace we have successfully executed our value model strategy and delivered strong financial results as measured by operating margin and RoIC, improved our cost competitiveness through efficient and profitable growth, and rewarded the Group for its investment in our ambition.

That ambition is to be the leading value carrier across the North Atlantic, enabled by a profitable and sustainable shorthaul network. Our strategy is based on key fundamentals which include a strong guest focused brand and service, a network which offers compelling connection propositions, and a competitive and resilient cost base. We believe that Aer Lingus is delivering on our ambition and creating future opportunities for profitable, sustainable growth.

## Our guest focused ethos

Aer Lingus maintained an industry leading Net Promoter Score through 2017. We are guided by our ‘Voice of Guest’ surveys in the design and delivery of our product proposition, offering greater choice and consistent service to an increasing number of guests. Our on-time performance placed us in the top 10 airlines globally and we remain the most punctual major carrier at the Dublin hub.

Wide-body fleet growth enabled our investment in frequency and capacity and we served more than two million guests (20 per cent increase from last year) on

our North Atlantic network for the first time. Year round direct service to Miami commenced and services to Philadelphia and Seattle launched during the year.

Aer Lingus has a competitive product and strongly resonating brand which puts us at a significant advantage to other value carriers serving the United States market. We launched our ‘Saver Fare’ longhaul product during the year, a product that offers choice to those seeking seat only options and improves our cost and price relevance in the marketplace. Aer Lingus now has a consistent fare and retail model across both shorthaul and longhaul networks and we continue to build the direct digital platforms to empower and reward our guests.

## The virtuous circle

While we build and develop our guest focused ethos, Aer Lingus also believes that our cost competitiveness will create opportunities for demand led growth, which will in turn be managed to deliver cost efficiencies, thus creating a virtuous circle.

The people at Aer Lingus are central to our service delivery and cost performance, and I am pleased that a multi-year pay agreement was reached in 2017 that will reward their contribution and sustain our position into the future.

New technology aircraft will play a role in supporting the Aer Lingus growth ambition and we reached agreement for the lease of eight Airbus A321LR aircraft during the year. First deliveries are scheduled for 2019 and we are convinced that the cost efficiency and mission flexibility provided by these aircraft will create the network and service opportunities to support our strategy and leverage the geographic advantage of our Dublin hub.

## Conclusion

In 2018, Aer Lingus will continue to compete for capital and investment within IAG and will remain faithful to the strategy that has created sustainable value for all of our stakeholders; a commitment to our demand led value carrier model will see us continue to focus on cost, product and service.

Aer Lingus will progress the opportunities for profitable growth across its European and North Atlantic networks while maintaining high levels of guest satisfaction. We remain convinced that the successful execution of this strategy will deliver compelling and sustainable levels of RoIC.

## Aer Lingus targets aligned with IAG targets

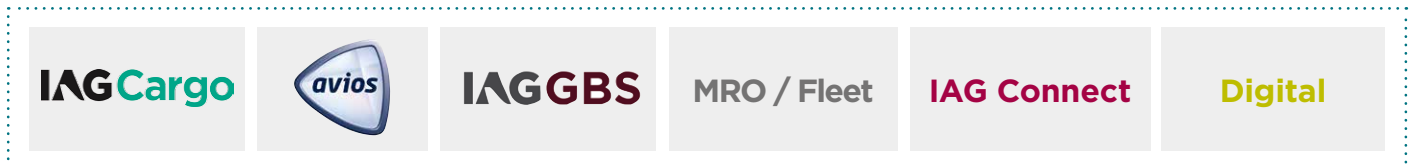
	2017	2018-2022
Lease adjusted operating margin (%)	<b>16.2%</b> +1.3pts	<b>15%+</b>
RoIC	<b>23.1%</b> +0.0pts	<b>15%+</b>
ASK growth per annum	<b>12.1%</b>	<b>c.5%</b>
Fleet <sup>1</sup>	<b>52</b>	<b>61</b>

<sup>1</sup> Includes 4 Boeing 757 on wet lease until 2019.

# Engaging in Group-wide innovation and an agile mind-set

The IAG Platform has been established. We accomplished what we said we would do: built a platform allowing us to exploit revenue and cost synergies that the operating companies could not achieve alone. Whilst we have already extracted significant value for the Group, the teams continue to develop innovative and agile initiatives.

## IAG Platform



A key element of our business model is the IAG Platform including the well-established IAG Cargo and Avios, businesses. The Platform also includes IAG GBS, which delivers IT, procurement, and finance support, and develops Group initiatives in maintenance and digital.

### Global Business Services (GBS)

Leveraging the benefits of an efficient and competitive platform whilst developing agility and innovation

#### IT

GBS Group IT achieved its target of €90 million cost savings on a like for like basis at the end of 2017, a year earlier than anticipated. The first full year of services has transformed the operating model of end user computing, service operations and networks in British Airways, Iberia, Aer Lingus, IAG Cargo and Avios.

As part of the strategy to introduce cloud-based world-class solutions, a contract has been signed for the co-location of the Group hybrid cloud platform with BT.

Group IT has introduced a new way of working through product-based teams with digital partners that will enable speed to market through an iterative and agile approach, and maximise the new hybrid cloud infrastructure.

Cybersecurity is, and will continue to be, a priority across the Group. In 2018, IT will leverage the expertise of strategic global partners to help ensure early detection of risk threats through an enhanced 24/7 Security Operations Centre. Anti-robotic website protection, penetration testing and scans for all operating companies will be supporting Payment Card Industry (PCI) compliance and General Data Protection Regulation

(GDPR) readiness. The expertise of our world-class global partners will help to deliver resilience and a scalable IT platform for the Group, enhancing our disaster recovery service. This will include the mitigation of obsolescence of the technology stack and a stable, workable plan for the migration of critical core business applications.

#### Procurement

The transformation of procurement into a centralised function was completed in 2016. In 2017, the teams finalised the integration of the requirements from Vueling, Aer Lingus and LEVEL into the Group model and continued to leverage the Group scale. Group procurement delivered more than €200 million (of non-fuel) cost savings across the Group in 2017.

Main achievements:

- the restructure of the Iberia Airbus A340 engine maintenance contract to provide more focused service requirements and a reduction in costs;
- the set-up of global framework agreements with several of our strategic IT partners to deliver application support to the Group, improving resilience;
- the delivery of programmes to provide harmonised seats in economy and premium economy cabins for the airlines, as well as delivery of business class products for Iberia and Aer Lingus. Group procurement also continues to support British Airways in its plans to replace its Club World seat.

In 2018, Group procurement will launch new tools to drive further synergies, and streamline and automate processes such as a new procurement platform and a supplier relationship management system. These will provide a common and

more automated approach to assessing our suppliers to better address Corporate Social Responsibility, resilience and legislative requirements.

#### Finance

GBS Finance continued to focus on the simplification, harmonisation and automation of processes, constantly looking for cost synergies.

Main achievements include:


- the launch of a common system platform for the Group;
- the development of a specific GBS risk control matrix, improving transparency of the service performance and reporting framework;
- the renegotiation of the delivery of services with Accenture for finance and operational procurement activities.

### IAG Connect

#### Launching .air

During 2017, the responsibility for the Group's in-flight connectivity strategy and roll-out has moved to a new subsidiary company, IAG Connect, to bring scale and efficiency to the Group's in-flight connectivity through an e-commerce platform. The Group's in-flight connectivity portal was launched in June with the start of LEVEL operations. The portal, named '.air' offers entertainment, shopping and Wi-Fi and allows customers to pair their smartphone or tablet to the seatback

 See page 26 for more information on Avios

 See page 27 for more information on IAG Cargo

 See page 28 for more information on Digital

screen to pay for on-board purchases. The .air portal started the initial roll-out on Iberia and British Airways in the fourth quarter of 2017, celebrated through a partnership with Visa. By 2019, 90 per cent of IAG's airlines' fleet will be fitted with a high quality connection. The .air portal will continue to evolve with new functionality and partnerships. It is built in a modular way, enabling the airlines to tailor the offer to suit their individual customer propositions.

### Maintenance, repair and overhaul (MRO) and Fleet

In MRO, the Group's strategy has been defined for each maintenance activity and is in execution phase to close the gap to market. Initiatives delivered to date have closed half of the gaps identified, focusing on three areas: achievement of a best in class performance, footprint reduction and optimisation of supplier spend.

### Aircraft Fleet

Number in service with Group companies

	On balance sheet fixed assets	Off balance sheet operating leases	Total December 31, 2017	Total December 31, 2016	Changes since December 31, 2016	Future deliveries	Options
Airbus A318	1	-	1	2	(1)	-	-
Airbus A319	22	42	64	65	(1)	-	-
Airbus A320	71	147	218	227	(9)	98	128
Airbus A321	28	23	51	47	4	21	-
Airbus A330-200	7	10	17	14	3	4	3
Airbus A330-300	5	10	15	14	1	-	-
Airbus A340-600	11	6	17	17	-	-	-
Airbus A350	-	-	-	-	-	43	52
Airbus A380	12	-	12	12	-	-	7
Boeing 747-400	36	-	36	37	(1)	-	-
Boeing 757-200	1	2	3	3	-	-	-
Boeing 767-300	8	-	8	8	-	-	-
Boeing 777-200	41	5	46	46	-	-	-
Boeing 777-300	9	3	12	12	-	-	-
Boeing 787-8	9	-	9	8	1	3	12
Boeing 787-9	7	9	16	16	-	2	6
Boeing 787-10	-	-	-	-	-	12	-
Embraer E170	6	-	6	6	-	-	-
Embraer E190	9	6	15	14	1	-	-
<b>Group total</b>	<b>283</b>	<b>263</b>	<b>546</b>	<b>548</b>	<b>(2)</b>	<b>183</b>	<b>208</b>

As well as those aircraft in service the Group also holds 5 aircraft (2016: 9) not in service.

# Expanding and improving our loyalty currency



“2017 saw its third consecutive year of growth, since Avios’ formation three years ago. We expect this trend to continue as we transform the business throughout 2018.”

**Andrew Crawley**  
Chief Executive Officer of Avios

Loyalty is already a key differentiator for many consumer facing companies and brands. With the threat of digital disruption in retail and financial services, loyalty will become even more important in the coming years as companies and brands look to differentiate and personalise their offering to remain relevant. We believe that Avios is well placed to take advantage of these developments as a provider of unrivalled loyalty experiences available at great value to our partners and highly aspirational to customers.

## Overview

Avios customers collectively spend over £45 billion per year on purchases that earn Avios. Customers are able to collect Avios when they fly, when they spend on their credit cards and when they shop in our retail partners or in our online eStore. They are then able to redeem Avios on IAG, Avios partner airlines, oneworld airlines, on leisure experiences or use them to discount IAG airline fares using the “Pay with Avios” product. Customers used their Avios on over 7 million flight bookings in 2017.

## Key successes in 2017

Avios is now the exclusive loyalty currency for IAG’s five brands as well as non IAG airlines, Flybe, kulula and Meridiana. Customers collect over two hundred thousand Avios a minute whilst flying to 317 destinations across the IAG airline and non IAG airline network.

Avios delivered strong growth during the year from improved airline partner revenues and growth in non-airline partners from increased credit card penetration and consumer spend levels, driving higher third party cash flows to the Group. In the UK, the business has focused on leveraging partnerships – including American Express and Lloyds Bank as well as diversifying across other sectors such as retail.

In Spain, the new partnership with Cepsa, allowing Iberia Plus customers to earn Avios on their fuel purchases, saw good adoption. In Ireland the partnership with SuperValu has allowed AerClub customers to collect Avios at over 223 grocery stores. Growth in partnerships with Banco de Chile and Chase in America has helped to drive acquisition and relevance of the currency for customers internationally. New partnerships with Trenitalia in Europe and

Banco Galicia in Argentina have helped further increase Avios’ global footprint.

Avios continues to simplify the way customers can collect on their everyday spending. The online e-store, featured on the IAG airline websites, has increased in popularity. Customers in the UK, France, Italy, Spain and Ireland can now collect Avios with over 1,000 retailers on the eStore. Card linked collection, which allows customers to register their credit cards to automatically collect in store, has made collection easier and unlocked new partnership opportunities.

The Pay with Avios product, which allows customers to use their Avios to discount commercial tickets, has grown and now accounts for 30 per cent of total Avios redeemed. In January 2017, Avios payment options were launched to enable customers to use their Avios for in-flight food and drink purchases on British Airways. In November, Pay with Avios went live for Vueling Club and Iberia Plus customers who are now able to pay for baggage and seating using Avios.

## Future

A Group loyalty strategic review was conducted during 2017 that has shown there are more opportunities to create value through Avios. 2018 will mark the start of the transformation journey for the company, which will entail:

- The creation of a centre of excellence for loyalty and the associated data analytics. This will improve customer propositions for the loyalty programmes, benefiting the airlines as well as driving Group synergies.
- Better segmented communications strategy will encourage customers to collect Avios with more partners with a particular emphasis on differentiating between frequent flyers and frequent buyers.
- Launch of a single bank will consolidate Avios balances for customers who have multiple accounts resulting in a simpler, easier customer experience and enabling greater engagement.



# Strategic focus on premium products, growth and digital



“IAG Cargo adapted to a buoyant market in the second half of the year, flexing operational and commercial plans to deliver strong cargo results for the Group.”

## Lynne Embleton

Chief Executive Officer of IAG Cargo

### Overview

2017 saw market conditions strengthen as the year progressed, culminating in strong yields and unprecedented freight volumes at the Group's London, Madrid and Dublin hubs.

The high demand was driven by the Asia Pacific and European regions, and we were able to take advantage of IAG's extensive network to flow freight from these regions to LATAM and North America.

IAG Cargo has continued to provide a vital service to the global economy, transporting pharmaceuticals, perishables, machinery, auto-parts and industrial goods worldwide. Alongside these core shipments we have also moved chocolate to North America, perfumes to New Orleans and seeds from Punta Cana to Barcelona.

While the strong 2017 performance has been welcome, we acknowledge that the underlying industry trend of capacity increases from freighter and new generation passenger fleets will likely create pressure on the supply and demand balance. It is therefore crucial that we deliver excellent customer service and adopt technology to modernise our business.

### Customer focus

Premium products have continued to be at the fore this year. Our main premium product, Prioritise, delivered revenues up 22 per cent on the previous year. Our emergency shipment product, Critical, celebrated its first anniversary in October by surpassing 3,000 shipments since launch, seeing repeat business and new bookings week on week. Building on this success, we launched Constant Climate Critical in July, extending our most urgent, time-sensitive product to the pharmaceutical sector. This has allowed emergency medical shipments to benefit from IAG Cargo's highest priority service, providing vital vaccines and lifesaving medicines with a non-off loadable status.

With the launch of FWD.Rewards in May, we introduced a loyalty programme that rewards small & medium sized freight forwarders through points that are redeemable against flights, hotels and cargo credit. This has improved our customer engagement and to date, we have more than 1,000 customers participating in the scheme.

### Investing in growth

The IAG Cargo facilities need to keep pace with demand in order to maximise the freight potential of the Group's aircraft. In 2017, continuous improvement initiatives unlocked capacity to handle more freight in our Madrid operation, and on a larger scale 2017 saw the start of construction of Premia, our new premium freight building in London.

In parallel, we have continued to embrace the Group's expanding network and develop new partnerships. IAG Cargo played its part in rapidly integrating the new airline, LEVEL, which has opened up a new longhaul, wide-body cargo gateway in Barcelona, offering routes into the Americas and creating 52 additional connections on our narrow body network.

Towards the end of the year, Air New Zealand became the eighth carrier to join IAG Cargo's Partner Plus programme. This extended our network to key destinations in Oceania, allowing us to increase our market share in a region underserved by IAG Cargo.

### Modernising the business

With the launch of our new website in 2017, we have streamlined our online booking process with the potential to save customers more than 500,000 administrative hours each year. Investing in digital is central to the Group, and in October we developed a new digital platform, Zenda, which has created an end-to-end logistics solution for cross-border e-commerce. Looking ahead, technology has a significant role to play in driving productivity, optimising assets and ensuring that IAG Cargo is easy to do business with.

### Conclusion

2017 was a busy, rewarding year for IAG Cargo, fueled by strong regional demand for air freight. We expect underlying supply/demand market conditions to be challenging in 2018 and we are adapting our business accordingly.

We have ambitious plans centred around investment in infrastructure, efficient processes, and new customer solutions. We see digital and technology as core to the transformational changes that will ensure IAG Cargo is a profitable and sustainable business, delivering high returns on investment.

# A digital approach to transforming our business

Digital moves the focus from the process to the customer experience

## Digital portfolio

During 2017, we maintained our focus on five areas. Each operating company has established its own digital team, and we have collaborated across the transformations.

### Shop Order Pay

This focus area represents the simplification of the customer journey. It will apply a single retail platform which removes IAG's multiple Passenger Services Systems (PSS). We need to serve our customers, both current and future, by offering flexibility and personalisation in an intuitive and unexpected way.

We have partnered with some of the most disruptive companies in the market to launch Group-wide proof of concepts in this area. This strategy will continue, taking us into 2018 and beyond.

### Data

The launch of Nexus, IAG's data platform, has been a significant part of our data transformation in 2017. Nexus is delivering value in many ways, such as tracking anomalies and identifying trends in revenue management, as well as optimising baggage arrival processes and predicting aircraft maintenance.

We also created the first data centre of excellence, which is driving our Group data strategy.

We are unifying and simplifying our data governance to comply with General Data Protection Regulation (GDPR).

### Marketplaces

IAG Digital played a key role in creating two new business models: Zenda and LEVEL. Zenda is a cross border e-commerce solution which fills the void between express and postal delivery, giving customers full visibility of their shipment. Zenda continues to build capability and breadth as a brand-new business model for IAG Cargo, following its launch in 2017. Zenda will expand its proposition to more IAG airlines and to more locations around the world.



**Shop Order Pay**  
New Distribution Capability (NDC)  
ONE Order Payments



**Data**  
On-demand ancillaries  
Machine driven pricing  
Autonomous business



**Marketplaces**  
LEVEL  
Zenda  
Commercial in-flight



**Automation**  
Airports  
Identity  
Artificial intelligence



**Digital mindset**  
Hangar 51  
University collaboration  
Industry change

## Digital mindset strengthens across IAG

As a new e-commerce channel, the LEVEL website was built and launched in under six months.

### Automation

Airport pushback at London Heathrow has experienced a significant change with the introduction of Mototok vehicles. British Airways is the first airline in Europe to introduce these remote-controlled vehicles into a live operation. British Airways has also transformed passenger boarding by introducing facial recognition in self-boarding gates at Heathrow. We will see this efficiency rolled out further in 2018.

Airports will see the introduction of driverless buses, tugs and tractors over the next five years. In collaboration with London Heathrow Airport and British Airways, IAG Digital has partnered with Navya to launch an innovative trial of an autonomous passenger bus. This trial has given the project and the suppliers significant data and insight which can be taken forward into trials in more congested areas across the airport.

Our concept of ONE Identity has moved forward in 2017 from strategy to implementation: we led the creation of the first task force under IATA's Passenger Experience Management Group (PEMG) to further this concept through trials that will ultimately rationalise and simplify the multiple checks that are currently performed throughout the booking,

departure and arrival experience. This will revolutionise the travel experience.

### Digital mindset

A key achievement in our Digital Mindset transformation was the launch and delivery of our second Hangar 51 programme in Spain.

Working alongside IT GBS, Iberia, Iberia Express, Vueling and our innovation partners, start-ups from around the world were invited to join. The response to the programme was fantastic, with more than 350 applications received from over 46 countries. The seven successful finalists were hosted in Madrid and Barcelona, receiving 10 weeks of advice from our team of experts from across all areas of the business. The programme focused on five key areas: data-driven business, automation, connected airline, improve customer experience and a wildcard category, for any disruptive idea that could bring value to our customers. We showcased the start-ups' achievements on Demo Day, held in January 2018.

We have continued to expand our collaboration with academic institutions such as The Alan Turing Institute and Berkeley. We have further established our thought leadership in the airline and innovation industries.

IAG Digital has established an investment strategy for IAG through Hangar 51 Ventures. Our vision is to have a diversified portfolio of investments with four preferred sharing models, including funds, acquisitions, strategic investments and start-up options.



## Leading the pack

We work closely with IATA to lead and develop industry innovations by enhancing the customer experience and simplifying internal processes for colleagues.

# Building an effective risk management culture

The Board of Directors has overall responsibility for ensuring that IAG has an appropriate risk management framework, including the determination of the nature and extent of risk it is willing to take to achieve its strategic objectives. It has oversight of the Group's operations to ensure that internal controls are in place and operate effectively. Management is responsible for the execution of the agreed plans. IAG has an Enterprise Risk Management (ERM) policy which has been reviewed and approved by the Board again in October 2017.

This policy sets the framework for 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 its best practices are shared across the Group.

Risk owners are responsible for identifying risks in their area of responsibility. All risks are assessed for likelihood and impact against the Group Business Plan and strategy. Key controls and mitigations are documented including appropriate response plans.

Every risk has appropriate Management Committee oversight.

Risk management professionals ensure that the framework is embedded across the Group. They maintain risk maps for each operating company and at the IAG Group level, and ensure consistency over the risk management process.

Risk maps are reviewed by each operating company's 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. Each operating company's management committee confirms to its operating company board as to the identification, quantification and management of risks within its operating company as a whole annually.

The management committee of each operating company escalates risks that have Group impact or require Group consideration in line with the Group ERM framework.

At the Group level, key risks from the operating companies, together with Group-wide risks, are maintained in a

Group risk map. The IAG Management Committee reviews the Group risk map twice during the year in advance of reviews by the Audit and Compliance Committee in accordance with the April 2016 UK Corporate Governance Code and the Spanish Good Governance Code for Listed Companies.

The IAG Board of Directors discussed risk at a number of meetings in addition to the risk map review, including a review of the assessment of Group performance against its risk appetite.

IAG has 19 risk appetite statements which inform the business, either qualitatively or quantitatively, on the Board's appetite for certain risks. Each risk appetite statement formalises how performance is monitored either on a Group-wide basis or within major projects. These statements were reviewed for relevance and appropriateness of tolerances at the year end and it was confirmed to the Board that the Group continued to operate within each of the risk appetite statements.

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

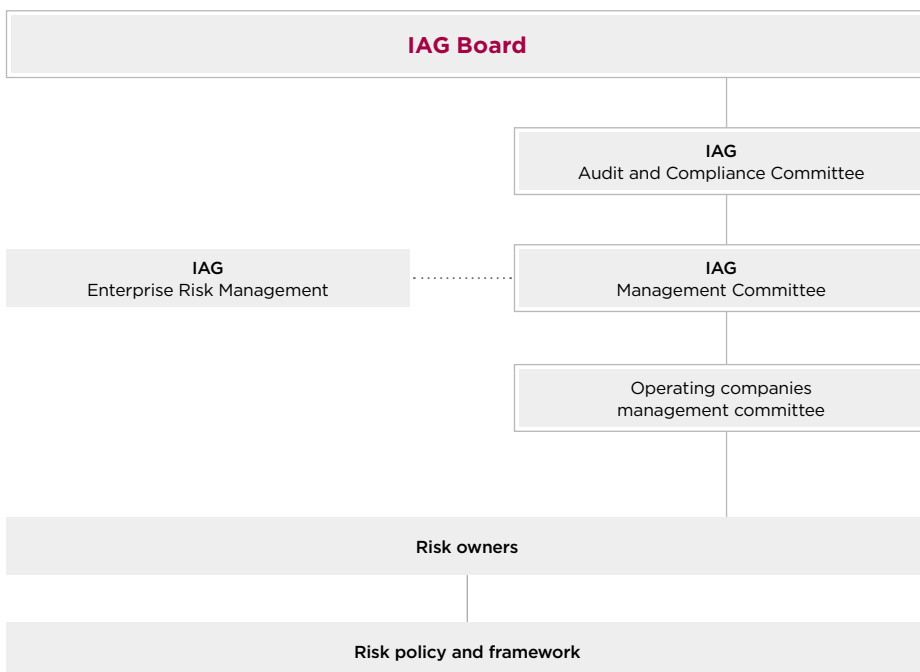
Risks are grouped into four categories: strategic, business and operational, financial, and compliance and regulatory risks.

Guidance is provided below on the key risks that may threaten the Group's business model, future performance, solvency and liquidity.

Where there are particular circumstances that mean that the risk is more likely to materialise, those circumstances are described below.

The list is not intended to be exhaustive.

## Risk management framework



## Risk management and principal risk factors continued

### Strategic risks

Open competition and markets are in the long-term best interests of the airline industry, consumers and IAG has a high appetite for continued deregulation and consolidation. The Group seeks to minimise the risk that government intervention or the regulation of monopoly suppliers can have.

In general the Group's strategic risk was stable during the year with continued competitor capacity growth being monitored and assessed within the Group.

### Business and operational risks

The safety and security of customers and employees is a fundamental value. The Group balances the resources devoted

to building resilience into operations and the impact of disruption on customers.

Cyber risk and data security continues to be a risk focus area with new regulations coming into force in 2018. The Group has led the response to defences and incident response plans for each operating company.

### Financial risks

IAG balances the relatively high business and operational risks inherent in its business through adopting a low appetite for financial risk. This conservative approach involves maintaining adequate cash balances and substantial committed financing facilities. There are clear hedging policies for fuel price and currency risk exposure which explicitly consider appetite for fluctuations in cash

and profitability resulting from market movements.

However, the Group is also careful to understand its hedging positions compared to competitors to ensure that it is not commercially disadvantaged by being over-hedged in a favourable market.

In 2017 events in the political and economic landscape continued to create uncertainty, increasing the volatility of the fuel price and foreign exchange.

### Compliance and regulatory

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

Key: Risk trend



Increase



Stable



Decrease



Strengthening a portfolio of world-class brands and operations



Growing global leadership positions



Enhancing the common integrated platform



See pages 14 - 15 for our Strategy

### Strategic

Risk	Risk context	Management and mitigation
<b>Airports and infrastructure</b>    	IAG is dependent on and may be affected by infrastructure decisions or changes in policy by governments, regulators or other entities which impact operations but are outside of the Group's control.	London Heathrow has no spare runway capacity. In October 2016, the UK government confirmed a third runway expansion proposal at Heathrow and IAG continues to promote an efficient, cost effective, ready to use and fit for purpose solution is developed.  The Group's airlines participate in the slot trading market at London Heathrow Airport; acquiring slots at reasonable prices when available. IAG announced in November that it is completing the acquisition of a new slot portfolio at London Gatwick.
	IAG is dependent on the oil industry making sufficient investment in the fuel supply infrastructure to ensure that our flight operations can be delivered as scheduled.	The Group 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 dependent on the performance of suppliers such as airport operators, border control and caterers.	Capacity issues are regularly reviewed by the IAG Management Committee and form part of the annual Business Plan.  Supplier performance risks are mitigated by active supplier management and contingency plans.
<b>Brand reputation</b>    	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 the Group's leadership position with customers and ultimately affect future revenue and profitability.	Each brand is supported by initiatives within the Group Business Plan, where capital expenditure is reviewed and approved by the Board of Directors.  The Group has undertaken a significant review of the portfolio of brands within IAG to understand customer preferences and better position its offerings.
	If the Group does not meet the expectations of its customers and does not engage effectively to maintain their emotional attachment, then the Group may face brand erosion and loss of market share.	There are multiple product investments across the Group's brands to enhance on-board product, ancillaries, lounges and customer experience. Success of these investments is measured, including a review of Net Promoter Score (NPS).  The Group allocates substantial resources to safety, operational integrity and new aircraft to maintain its market position.

## Strategic

Risk	Risk context	Management and mitigation
<p><b>Competition</b></p> <p></p> <p><b>1</b> <b>2</b></p>	<p>The markets in which the Group operates are highly competitive. The Group faces direct competition on its routes, as well as from indirect flights, charter services and other modes of transport. Competitor capacity growth in excess of demand growth could materially impact margins.</p> <p>Some competitors have lower cost structures or have other competitive advantages such as government support or benefits from insolvency protection.</p>	<p>The IAG Management Committee devotes one weekly meeting per month to strategic issues. The Board of Directors discusses strategy throughout the year and dedicates two days per year to review the Group's strategic plans.</p> <p>The Group strategy team supports the Management Committee by identifying where resources can be devoted to exploit profitable opportunities. The airlines' revenue management departments and systems optimise market share and yield through pricing and inventory management activity.</p> <p>The Group is continually reviewing its product offerings and responds through initiatives to improve the customer experience. IAG launched LEVEL in 2017, operating from Barcelona and with operations planned from Paris in 2018.</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 competition risk.</p>
<p><b>Consolidation and deregulation</b></p> <p></p> <p><b>2</b></p>	<p>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> <p>Joint business arrangements such as the agreements with American Airlines, JAL and Qatar Airways 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.</p> <p>The Group has a number of franchise partners that feed traffic into our hubs or major outstations. Any failure of a franchise partner will reduce traffic feed.</p> <p>The Group is reliant on the other members of the <b>oneworld</b> alliance to help safeguard the network.</p>	<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, such as the acquisition of a new slot portfolio at London Gatwick.</p> <p>The portfolio of brands provides flexibility in this regard as capacity can be deployed at short notice as needed.</p> <p>The IAG Management Committee regularly reviews the commercial performance of joint business agreements.</p>
<p><b>Digital disruption</b></p> <p></p> <p><b>1</b> <b>2</b> <b>3</b></p>	<p>Competitors, or new entrants to the travel market, may use digital technology and more effectively disrupt the Group's business model or technology disruptors may use tools to position themselves between our brands and our customers.</p>	<p>The Group's focus on the customer experience, together with the Group's exploitation of digital technology, reduces the impact digital disruptors can have.</p> <p>The Group continues to develop platforms such as the New Distribution Capability, changing distribution arrangements and moving from indirect to direct channels.</p> <p>The Hangar 51 programme ran for the second year creating early engagement and leverage new opportunities with start-ups and digital technology disruptors.</p>
<p><b>Government intervention</b></p> <p></p> <p><b>2</b> <b>3</b></p>	<p>Some of the markets in which the Group operates remain regulated by governments, in some instances controlling capacity and/or restricting market entry. Changes in such restrictions may have a negative impact on margins.</p> <p>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 the operational and financial performance of the Group.</p>	<p>The Group's government affairs department monitors government initiatives, represents the Group's interest and forecasts likely changes to laws and regulations.</p> <p>The Group's ability to comply with and influence changes to regulations is key to maintaining operational and financial performance. The Group continues to monitor and discuss the negative impacts of government policies such as the imposition of Air Passenger Duty (APD).</p>



## Risk management and principal risk factors continued

### Business and operational





Risk	Risk context	Management and mitigation
<p>Cyber attack and data security</p> <p>↑</p> <p>2 3</p>	<p>The Group could face financial loss, disruption or damage to brand reputation arising from an attack on the Group's systems by criminals, terrorists or foreign governments.</p> <p>If the Group does not adequately protect customer and employee data, it could breach regulation and face penalties and loss of customer trust.</p>	<p>The IAG Management Committee regularly reviews cyber risk and supports Group-wide initiatives to enhance defences and response plans.</p> <p>The Committee ensures that the Group is up to date with industry standards and addresses identified weaknesses.</p> <p>There is oversight of critical systems and suppliers to ensure that the Group understands the data it holds, that it is secure and regulations are adhered to.</p> <p>A GDPR programme is in place and actions are underway to confirm compliance with the new regulations effective May 2018.</p> <p>The fast moving nature of this risk means that the Group will always retain a level of vulnerability.</p>
<p>Event causing significant network disruption</p> <p>↑</p> <p>1 3</p>	<p>An event causing significant network disruption may result in lost revenue and additional costs if customers or employees are unable to travel.</p> <p>Example scenarios include persistent air traffic control industrial action; war; civil unrest or terrorism; major failure of the public transport system; the complete or partial loss of the use of terminals; adverse weather conditions or pandemic.</p>	<p>Management has business continuity plans to mitigate this risk to the extent feasible.</p> <p>In May, British Airways suffered a power failure to its primary data centre, which led to severe disruption to its customers and flights. Management have identified the root causes of the incident and reviewed their business operations and continuity plans to increase resilience.</p>
<p>Failure of a critical IT system</p> <p>↔</p> <p>1 3</p>	<p>IAG is dependent on IT systems for most key business processes. The failure of a critical system may cause significant disruption to the operation and lost revenue.</p> <p>Increasingly the integration within IAG's supply chain means that the Group is also dependent on the performance of suppliers' IT infrastructure, e.g. airport baggage operators.</p>	<p>System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.</p> <p>The Group will continue to identify world class partners to work with and increase resilience through migration to a hybrid cloud platform.</p>
<p>Landing fees and security charges</p> <p>↔</p> <p>2 3</p>	<p>Airport charges represent a significant operating cost to the airlines and have an impact on operations. Whilst certain airport and security charges are itemised to passengers, others are not.</p>	<p>The Group engages in regulatory reviews of supplier pricing, such as the UK Civil Aviation Authority's periodic review of charges at London Heathrow and London Gatwick airports.</p> <p>The Group is active both at an EU policy level and in consultations with airports covered by the EU Airport Charges Directive.</p> <p>In some cases, regulation provides some assurance that such costs will not increase in an uncontrolled manner.</p>
<p>People and employee relations</p> <p>↔</p> <p>1 3</p>	<p>The Group has a large unionised workforce represented by a number of different trade unions.</p> <p>Any breakdowns in the bargaining process with the unionised workforces may result in subsequent strike action which may disrupt operations and adversely affect business performance.</p>	<p>Collective bargaining takes place on a regular basis with the Group's human resources departments with a significant level of negotiation across the Group's operating companies.</p> <p>Management focuses on leveraging employee expertise and ensuring the development of talent. Succession planning is in place across all operating companies and we aim to move our best people across our businesses.</p>

## Business and operational



Risk	Risk context	Management and mitigation
<p>Political and economic conditions</p> <p>↔</p> <p>1 2</p>	<p>IAG remains sensitive to political and economic conditions in the markets globally. Deterioration in either a domestic market or the global economy may have a material impact on the Group's financial position, while foreign exchange and interest rate movements create volatility.</p>	<p>The IAG Board of Directors 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 Board of Directors and IAG Management Committee as part of the monitoring of financial and business performance.</p> <p>There is continued uncertainty in 2018 with upward pressure on fuel price and the changing political landscape.</p> <p>Following the UK's decision to leave the EU, the Group continues to evaluate potential changes to ensure that all airlines within the Group are able to operate effectively during any transition. The Group believes that a comprehensive EU/UK air transport agreement will be agreed. The Group has had extensive engagement with all relevant regulators/governments and is confident that it will comply with the EU and the UK ownership and control rules post-Brexit. IAG is a Spanish company, its airlines have long-established AOCs and substantive businesses in Ireland, France, Spain and the UK and IAG has had other structures and protections in its by-laws since it was set up in 2011. At this stage, the Group does not believe that Brexit will have a significant impact on the business in the long-term. However, as for many other industries, there will continue to be some uncertainty, particularly if an EU/UK transitional deal is not agreed. Among other things, this could have a negative impact on investor sentiment towards the European airline sector.</p>
<p>Safety/security incident</p> <p>↔</p> <p>2</p>	<p>The safety and security of our customers and employees are fundamental values for the Group. A failure to prevent or respond effectively to a major safety or security incident may adversely impact the Group's brands, operations and financial performance.</p>	<p>The corresponding safety committees of each of the airlines of the Group satisfy themselves that it has the appropriate resources and procedures which include compliance with Air Operator Certificate requirements. Incident centres respond in a structured way in the event of a safety or security incident.</p>
<h3>Financial</h3>		
<p>Debt funding</p> <p>↔</p> <p>2 3</p>	<p>The Group has substantial debt that will need to be repaid or refinanced. The Group's ability to finance ongoing operations, committed aircraft orders and future fleet growth plans is vulnerable to various factors including financial market conditions and financial institutions' appetite for secured aircraft financing.</p>	<p>The IAG Management Committee regularly reviews the Group's financial position and financing strategy.</p> <p>The Group continues to have good access to a range of financing solutions. The Group's high cash balances and committed financing facilities mitigate the risk of short-term interruptions to the aircraft financing market.</p>
<p>Financial risk</p> <p>↑</p> <p>2 3</p>	<p>Volatility in the price of oil and petroleum products can have a material impact on our operating results.</p>	<p>Fuel price risk is partially hedged through the purchase of oil derivatives in forward markets. The objective of the hedging programme is to increase the predictability of cash flows and profitability. The IAG Management Committee regularly reviews its fuel and currency positions.</p>
	<p>The Group is exposed to currency risk on revenue, purchases and borrowings in foreign currencies.</p>	<p>The Group seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching and actively managing the surplus or shortfall through treasury hedging operations.</p> <p>The approach to financial risk management is set out in note 25 to the Group financial statements.</p>
	<p>The Group is exposed to currency devaluation of cash held in currencies other than the airlines' local currencies of euro and sterling.</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.</p>



## Risk management and principal risk factors continued

### Financial

Risk	Risk context	Management and mitigation
<b>Financial risk</b> 	Interest rate risk arises on floating rate debt and floating rate leases.	The impact of rising interest rates is mitigated through structuring selected new debt and lease deals at fixed rates throughout their term. The approach to interest rate risk management and proportions of fixed and floating debt is set out in note 25 to the Group financial statements.
	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 approach to financial risk management, interest rate risk management, proportions of fixed and floating debt management and financial counterparty credit risk management and the Group's exposure by geography is set out in note 25 to the Group financial statements.
<b>Tax</b> 	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 or other representative bodies.	The Group adheres to the Tax Policy approved by the IAG Board and is committed to complying with all tax laws, to acting with integrity in all tax matters and to working openly with tax authorities. Tax risk is managed by the IAG Tax Department and is overseen by the Board through the Audit and Compliance Committee.
		

### Compliance and regulatory

<b>Group governance structure</b> 	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 route and operating licences.	The governance structure is being extended to other Group airlines.  IAG will continue to engage with the relevant regulatory bodies as appropriate regarding the Group structure.
	IAG could face a challenge to its ownership and control structure.	

<b>Non-compliance with key regulation including competition, bribery and corruption law</b> 	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 clear frameworks in place including comprehensive Group-wide policies designed to ensure compliance.  There are mandatory training programmes in place to educate employees in these matters.  Compliance professionals specialising in Competition Law and Anti-Bribery legislation support and advise our businesses.
		

### Viability statement

The directors have assessed the viability of the Group over the five years to December 2022.

The directors have determined that a five-year period is an appropriate timeframe for assessment as it is in line with the Group Business Plan strategic planning period.

The directors have evaluated the impact of severe but plausible downside scenarios on the Group Business Plan

and assessed the likely effectiveness of the mitigations that management reasonably believes would be available and effective over this period. Each scenario considered the impact on liquidity, solvency and the ability to raise financing over the period to December 2022.

The scenarios modelled considered the potential impact of a global economic downturn, fuel price shock and the impact of strikes and operational

disruption. These scenarios considered the principal risks which could have the greatest potential impact on viability in that period.

Based on this assessment, the directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2022.



# Delivering on our commitment



“The strength and uniqueness of the IAG business model allowed the Group to take full advantage of the opportunities this year.”

The Group's financial performance in 2017 has been quite strong, the macro-economic environment for the Group and the industry was better than in 2016 and demand has been improving through the year. We achieved an operating profit of €3,015 million before exceptional items, with adjusted margin of 14.4 per cent in line with our key performance metric. Net profit after tax before exceptional items was €2,243 million and adjusted earnings per share increased by 14.0 per cent, higher than our 12+ per cent average growth target.

The strength and uniqueness of the IAG business model allowed the Group to take full advantage of the opportunities this year, through the launch of LEVEL addressing the needs of an underserved market and strategic capacity increases as the economic environment improved.

In the last quarter of 2016, our revenue and yield performance showed signs of improvement. This trend continued into 2017, and from the second quarter onwards our passenger revenues measured on a unit basis and at constant currency consistently increased versus last year. Passenger revenues were strong in our main strategic markets, while IAG Cargo, MRO, BA Holidays and Avios increased as well.

Although 2017 saw our non-fuel unit cost metric increase, we remain committed to improving our cost performance. Despite cost initiatives developed during the year, our costs rose for several factors including operational disruption, variable pay awards and pensions. The Group

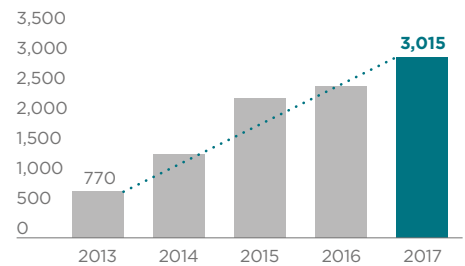
recognised the right timing to address the cost challenges of British Airways' defined benefit schemes and has launched a pension scheme consultation with all affected employees. The impact of the arrangement is expected to be known in March 2018. We also saw increases in our costs related to the implementation of our new distribution model, which will also result in higher revenues – an important change in our selling model which is bringing us closer to our customers. Over the years, the underlying trend of non-fuel unit costs has been decreasing and this will continue to be our focus in 2018.

Our plans support investment, our aim is to continue to improve operational resilience and customer experience in part through digitalisation. We continue to invest in Hangar 51 and introduced Net Promoter Score as a new performance indicator for the Group. In this first year we achieved our target with a 16.8 recommend score for the Group companies.

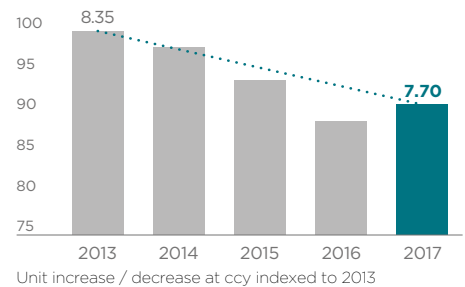
The Group's financial metrics were strong coming into 2017 and improved in the year reflecting the EBITDAR performance and a lower than average aircraft delivery schedule. We will continue to evaluate organic and inorganic growth opportunities that align to our strategic priorities. In 2017, delivering on our commitment of sustainable returns we returned in excess of €1 billion to shareholders.

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

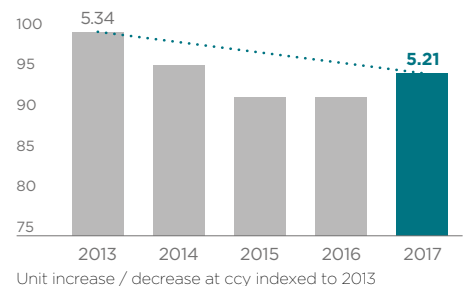
### Operating profit before exceptionals (€m)



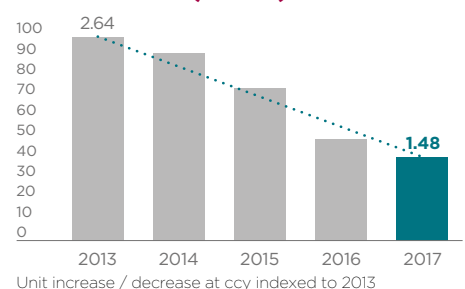
### Total unit revenue (€cents)



### Non-fuel unit costs (€cents)



### Fuel unit costs (€cents)



# Growing consumer demand in improved conditions

## Global GDP growth

<b>Actual 2017</b>	<b>+3.7%</b>
IMF forecast (January 2017)	+3.4%
Actual 2016	+3.2%

Global GDP came in ahead of expectations in 2017, in contrast to the past two years where global GDP has underperformed expectations. For 2017, the IMF highlighted stronger than expected growth in advanced economies, particularly the Eurozone, as a key driver. For 2018, the IMF expects the overall rate of growth to increase, with the same advanced economy growth supplemented by faster emerging market and developing economy growth.

## UK GDP growth

<b>Actual 2017</b>	<b>+1.7%</b>
IMF forecast (January 2017)	+1.5%
Actual 2016	+1.8%

UK GDP growth came in at +1.7 per cent, slightly down on the performance in 2016, but 0.2 percentage points better than the IMF forecast issued in January 2017. However, the rate of GDP growth decelerated during the year, with the economy growing +2.1 per cent in the first quarter, +1.9 per cent in the second quarter, +1.7 per cent in the third quarter, and +1.5 per cent in the fourth quarter. The GfK Consumer Confidence Index remained in negative territory, and progressively worsened throughout 2017, starting the year at -5 per cent in January and falling to -13 per cent in December 2017. The index has now not been in positive territory since January 2016, and is only slightly higher than July 2016 where it was -12 per cent following the UK's Referendum vote to leave the EU. In contrast, the unemployment rate fell through the year from 4.8 per cent in December 2016 to 4.3 per cent in November 2017. For 2018, both the OECD and IMF forecast a slowdown in UK GDP growth; +1.2% and +1.5% for the OECD and IMF respectively. In its forecast, the OECD stated "the growth slowdown is expected to continue through 2018, due to continuing uncertainty over the outcome of negotiations around the decision to leave the European Union and the impact of higher inflation on household purchasing power". Like last year, there continues to be a very large divergence in UK GDP growth forecasts from the various forecasting bodies with

a range for 2018 of +0.5 per cent to +2.2 per cent.

## Eurozone GDP growth

<b>Actual 2017</b>	<b>+2.4%</b>
IMF forecast (January 2017)	+1.6%
Actual 2016	+1.8%

Economic growth in the Eurozone accelerated 0.3 points to 2.1 per cent compared to 2016. Over the year, the rate of growth accelerated with +2.1 per cent in the first quarter, +2.4 per cent in the second quarter, +2.6 per cent in the third quarter, and +2.7 per cent in the fourth quarter. The pickup in 2017 growth was the opposite of the dip in GDP growth that both the OECD and IMF had forecast at the beginning of 2017. The IMF stated that "the increase in growth in 2017 mostly reflects an acceleration in exports in the context of the broader pick-up in global trade and continued strength in domestic demand growth supported by accommodative financial conditions amid diminished political risk and policy uncertainty". Most political risks for 2017 did not eventuate, and where they did, did not weigh on the Eurozone economy. The unemployment rate continued to fall, beginning the year at 9.6 per cent in December 2016 and falling to 8.7 per cent by November 2017. For 2018, the OECD forecast remains unchanged and the IMF forecast a slight dip in rate of GDP growth; +2.1 per cent and +2.2 per cent for the OECD/IMF respectively.

## US GDP growth

<b>Actual 2017</b>	<b>+2.3%</b>
IMF forecast (January 2017)	+2.3%
Actual 2016	+1.5%

The US GDP growth rate accelerated 0.6 points to +2.3 per cent in 2017, broadly in line with IMF forecasts for the year. Momentum in the US economy increased through the year, with GDP growth of +2.0 per cent in the first quarter, +2.2 per cent in the second quarter, +2.3 per cent in the third quarter, and +2.5 per cent in the fourth quarter. Consumer confidence remained high, with the University of Michigan Consumer Sentiment Index for each month remaining above the highest level in 2016. The labour market also remained strong with the unemployment rate falling slightly to 4.7 per cent by the end of 2017 compared 4.9 per cent at the end of 2016. For 2018, a broadly

stable rate of GDP growth is expected, with +2.5 per cent forecast by the IMF and +2.1 per cent by the OECD. However, current OECD forecasts were compiled before the US tax cuts were passed in December 2017, and therefore do not include an assumption of fiscal stimulus from the cuts. However, IMF forecasts were updated after the US tax cuts with the IMF forecasting an acceleration to +2.7% due to the expected impact of the US tax reform.

## Latin America GDP growth

<b>Actual 2017</b>	<b>+1.3%</b>
IMF forecast (January 2017)	+1.2%
Actual 2016	-0.9%

Latin America emerged from recession in 2017, with GDP growth versus 2016 contraction, in line with IMF forecasts. The economic divergence of previous years was less prevalent in 2017, with South America, Central America and the Caribbean all reporting positive economic growth. South America showed the biggest improvement with GDP growth of +0.6 per cent in 2017 compared to -2.6 per cent in 2016. Both Brazil and Argentina emerged from recession, Colombia reported a similar level of growth to 2017 and whilst Venezuela remained in recession, the rate of contraction was smaller in 2017 than in 2016. In growth rate terms, Argentina reported the largest improvement with GDP growth of +2.5 per cent in 2017 compared to -2.2 per cent in 2016, with Brazil reporting +0.7 per cent in 2017 compared to -3.6 per cent in 2016. For 2018, the IMF currently forecast another improvement in the rate of growth (+1.9 per cent) for Latin America, with every single country in the region with exception of Venezuela expected to report positive GDP growth - although Venezuela's GDP contraction is expected to be smaller in 2018 than in 2017.

## Industry outlook

IATA is forecasting global industry operating margins to fall slightly to +8.1 per cent in 2018 from +8.3 per cent in 2017, and +9.2 per cent in 2016. Seat capacity is forecast to increase +5.1 per cent in 2018, with ASKs up +5.7 per cent, both lower than the growth rates seen in 2017 or 2016. Passenger load factor is expected to increase slightly to 81.4 per cent compared to 81.2 per cent in 2017, and passenger yield is expected to be flat compared to 2017.

IATA expects Africa to generate the lowest margin and remains the only region with negative net post-tax margins in 2018 at -0.3 per cent. As in the past four years, IATA attributes these losses to regional conflict and the impact of low commodity prices. North American airlines are once again expected to generate the highest margins, although they are expected to be slightly below 2017. Asia Pacific is the only other region that IATA expects to report lower margins compared to 2017. For Europe, IATA forecasts net post-tax margins of +5.2 per cent, higher than +4.8 per cent in 2017, and the second highest overall region behind North America.

## Regulatory controls

The airline sector is among the most heavily regulated industries in the world and IAG continues to monitor the development of national, regional and globally-applied regulatory developments including the implementation of environmental regulations. In a key development in 2017, the European Commission confirmed that the exemption of international flights from the EU ETS will remain until 2023, in light of the planned commencement of the ICAO-led global regulatory system, CORSIA, in 2021. For further details see the section on Sustainability.

## UK's Referendum vote to leave the EU

IAG continues to believe that the UK's exit from the EU will not have a significant impact on our business and in 2017 we engaged extensively with the relevant authorities to ensure our views on post-Brexit aviation arrangements are understood and taken into account. This included dialogue with the UK, Spanish and Irish governments, as well as the European Commission and we remain optimistic about future UK-EU aviation relations. During the year there has also been good progress on post-Brexit arrangements between the UK and third-country markets currently governed by EU agreements, such as the US, where we expect current open, liberal regimes to continue seamlessly after the UK leaves the EU.

## Air Passenger Duty (APD)

The UK Government continues to impose the heaviest aviation taxes in the world on airlines and, whilst its November 2017 budget has frozen APD on economy class tickets from 2018, it further increased the burden on tickets for premium cabins. IAG will continue to oppose vigorously this ill-conceived tax on the UK's ability to trade and attract business and tourism. Meanwhile, the Scottish Government's Air Departure Tax originally planned for April 2018 that envisaged reducing tax at Scottish airports by up to 50 per cent has been delayed, with no firm date for implementation.

## UK visa policy

We believe that progress in this policy area has become more likely, given the increased emphasis by government on trade with non-EU countries post-Brexit. We believe that the introduction of a ten year visa will improve the UK's attractiveness to visitors from key markets such as China and India and will continue to make the case for this over the coming year.

## UK airports

During 2017 the UK Government conducted two consultations on its Airports Draft National Policy Statement (the Statement) which recommends a new runway should be constructed to the north west of London Heathrow, and presented new traffic forecasts supporting its proposals.

IAG believes that expansion of Heathrow represents a very positive development for its business and for the wider UK economy, but continues to challenge the excessive costs of the proposals put forward by London Heathrow's operator, HAL, and argues that costs must be kept down to current levels in real terms for the new capacity to be commercially viable.

The government's new traffic forecasts indicate that connecting traffic will increase at London Heathrow and IAG has also urged the government to ensure that operational flexibility is maintained at the airport so that hub connections, including those to vital trade routes, remain viable. IAG will continue to engage actively with policy makers and regulators to explain the benefits of hub operations, and to support an imaginative and cost effective approach to Heathrow's expansion as the Statement is put to a vote in UK Parliament in mid-2018.

## Irish National Aviation Policy

IAG broadly welcomed the publication of the Irish Government's National Policy Statement on Airport Charges Regulation which concluded that economic regulation of Dublin Airport should continue. IAG, through Aer Lingus, continues to participate actively in the Irish Government's National Civil Aviation Development Forum to ensure its views on Irish aviation regulatory matters, aviation policy and Brexit are heard at the highest levels.

## Spanish policy environment

IAG is following the political implications of the new government that will be formed in Catalonia during 2018. IAG remains confident that underlying economic conditions in Spain support future growth as evidenced by the unemployment rate decrease in Spain to the lowest rate for the last eight years and the Spanish Government's economic growth forecast in 2018, as it did the previous year. In this context IAG welcomed the decision in April 2017 by the Spanish Supreme Court not to impose restrictions on operations at Madrid Barajas.

## European aviation policy

IAG continues to engage with EU institutions and Member States to ensure its interests are taken into account in aviation policy development, working closely with Airlines for Europe. In particular, IAG continues to encourage governments to act to reduce the impact of air traffic controller strikes on consumers, to seek the reform of the out of date and ineffective regulation on airport charges and to discourage the proliferation of taxes on aviation that hamper economic growth.

## European Union Emissions Trading System (EU ETS)

Intra-European flights have been subject to the EU ETS since 2012. A global system to regulate international aviation emissions was agreed at the ICAO General Assembly in October 2016, to commence from 2021. Details of the scheme were released in December 2017 enabling airlines to comply from January 2019.

The EU made an announcement during 2017 that intra-EU scope coverage of the EU ETS will continue until 2023.

IAG is opposed to double regulation of these flights in two separate market-based mechanisms and will be supporting the implementation of CORSIA to ensure that it becomes the pre-eminent market based measure for aviation.

## Financial review

### IATA market growths

The air travel industry had another strong year, with above-trend growth. Momentum increased over the year following on from a weak six months in 2016.

Overall capacity increased 6.3 per cent and the fastest growing regions were the Middle East, Europe and Asia, with passenger load factors down in the Middle East. Europe saw the highest load factor, up 1.5 points, followed by North America, although the latter's load factor was broadly flat against last year. Overall passenger load factor improved 0.9 points to 81.4 per cent, having improved for more than five consecutive years.

### IATA market growths

Year to December 31, 2017	ASKs higher/(lower)	Passenger load factor (%)	Higher/(lower)
Europe	6.2%	83.9	1.5 pts
North America	4.1%	83.6	0.1 pts
Latin America	5.5%	81.8	1.0 pts
Africa	2.9%	70.9	2.3 pts
Middle East	6.5%	74.5	(0.2) pts
Asia Pacific	8.4%	81.0	1.3 pts
<b>Total market</b>	<b>6.3%</b>	<b>81.4</b>	<b>0.9 pts</b>

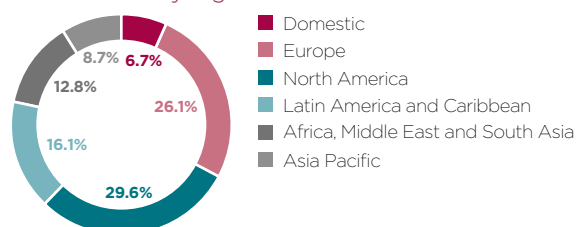
Source: IATA Air Passenger Market Analysis

### IAG capacity

In 2017, IAG increased capacity, measured in available seat kilometres (ASKs) by 2.6 per cent including the launch of LEVEL in June. Capacity was higher at all airlines and through each region except for Europe. This partially reflects new longhaul routes at British Airways, Aer Lingus and LEVEL as well as the full year impact of Iberia and Aer Lingus routes launched in 2016. Vueling increased capacity in off-peak quarters to reduce its seasonality in line with its strategy.

IAG passenger load factor was one point higher than last year and at 82.6 per cent, was 1.2 points higher than the IATA average.

### IAG Network by region



### Market segments

In IAG's **Domestic** markets capacity was higher by 5.4 per cent with increases at Vueling and Iberia. As part of its NEXT strategy, Vueling increased frequencies on existing routes and launched five new routes. Capacity in Iberia's domestic market was increased with growth in the Balearics and Canaries. This was partially offset by the introduction of the Club Europe product on British Airways domestic flights in April 2017, reducing the number of seats. Passenger load factor performance was strong, almost two points higher versus last year.

### IAG capacity

Year to December 31, 2017	ASKs higher/(lower)	Passenger load factor (%)	Higher/(lower)
Domestic	5.4%	83.2	1.9 pts
Europe	(0.2)%	82.0	2.1 pts
North America	4.2%	82.3	(0.7) pts
Latin America and Caribbean	3.2%	84.0	0.9 pts
Africa, Middle East and South Asia	4.0%	80.8	1.3 pts
Asia Pacific	1.0%	84.6	2.1 pts
<b>Total network</b>	<b>2.6%</b>	<b>82.6</b>	<b>1.0 pts</b>

The Group's **European** capacity was broadly flat year on year. Increases at Aer Lingus, including a new service to Split and additional winter flying were offset by reductions at Iberia and Vueling. Load factor rose two points, with improvements at British Airways, Vueling and Iberia.

**North America** continued to represent the largest part of the IAG network at almost 30 per cent. Capacity was increased mainly at Aer Lingus, with a new route connecting Dublin and Miami and the full year impact of the routes launched in 2016, and through the launch of LEVEL's routes to Oakland (San Francisco) and Los Angeles. British Airways also increased its capacity, with three new routes to New Orleans, Fort Lauderdale and Oakland (San Francisco), although this was partially offset by cancellations related to the adverse weather. Passenger numbers increased at a slightly slower pace than capacity, and seat factor for the region remained high at 82.3 per cent.

IAG increased its capacity to **Latin America and Caribbean** with British Airways' new route to Santiago de Chile and LEVEL's new routes to Buenos Aires and Punta Cana. Iberia increased frequencies to Mexico City and Buenos Aires during the year, although it had an overall decrease in capacity from frequency reductions on other routes including Brazil and Costa Rica. Passenger load factor in this region improved and was almost two points ahead of the industry average.

After decreases in 2016, **Africa, Middle East and South Asia** capacity was up in 2017, with British Airways' increases in the Middle East from de-tagged routes (Doha/Bahrain, Muscat/Abu Dhabi) and the full year impact of Iberia's route to Johannesburg. Passenger load factor improved 1.3 points.

In **Asia Pacific**, the capacity increase was driven by the full year impact of Iberia's routes to Shanghai and Tokyo, partially offset by a decrease in British Airways' capacity, through the discontinuation of Chengdu and gauge changes in Japan. Passenger load factors rose 2.1 points, and continued to be the highest in the IAG network.

### LEVEL launch

On March 17<sup>th</sup>, IAG launched LEVEL, a new longhaul low-cost airline brand that started its operations in June 2017 with flights from Barcelona to Los Angeles, Oakland (San Francisco), Buenos Aires and Punta Cana. LEVEL is flying two new Airbus A330 aircraft fitted with 293 economy and 21 premium economy seats. From March 2018, LEVEL will also fly between Barcelona and Boston.



In November 2017, IAG announced the opening of LEVEL's new base in Paris-Orly. Flights will begin in July 2018 and will connect the French airport with Montreal, New York, Guadeloupe and Martinique with two additional aircraft.

### Exchange impact before exceptional items

Exchange rate movements are calculated by retranslating current year results at prior year exchange rates. The reported revenues and expenditures are impacted by translation currency from converting results from currencies other than euro to the Group's reporting currency of euro, primarily British Airways and Avios. From a transaction perspective, the Group performance is impacted by the fluctuation of exchange rates, primarily exposure to the pound sterling, euro and US dollar. The Group generates a surplus in most currencies in which it does business, except the US dollar, as capital expenditure, debt repayments and fuel purchases typically create a deficit. At constant currency, the Group's operating profit before exceptional items would have been €35 million higher.

The Group hedges its economic exposure from transacting in foreign currencies. The Group does not hedge the translation impact of reporting in euros.

€ million	Higher/ (lower)
<b>Reported revenue</b>	
Translation impact	(1,057)
Transaction impact	467
<b>Total exchange impact on revenue</b>	<b>(590)</b>
<b>Reported operating expenditure</b>	
Translation impact	930
Transaction impact	(375)
<b>Total exchange impact on operating expenditures</b>	<b>555</b>
<b>Reported operating profit</b>	
Translation impact	(127)
Transaction impact	92
<b>Total exchange impact on operating profit</b>	<b>(35)</b>

The annual weighted average exchange rates from a translation and transaction perspective are set out as follows.

	2017	Higher/ (lower)
<b>Translation – Balance sheet (weighted average)</b>		
£ to €	<b>1.13</b>	(4.6%)
<b>Translation – Profit and loss (weighted average)</b>		
£ to €	<b>1.14</b>	(6.3%)
<b>Transaction (weighted average)</b>		
£ to €	<b>1.14</b>	(5.9%)
€ to \$	<b>1.14</b>	2.5%
£ to \$	<b>1.29</b>	(3.7%)

### Revenue

€ million	2017	Higher/(lower)	
		Year over year at ccy	Per ASK at ccy
Passenger revenue	<b>20,245</b>	4.1%	<b>1.5%</b>
Cargo revenue	<b>1,084</b>	8.0%	
Other revenue	<b>1,643</b>	5.6%	
<b>Total revenue</b>	<b>22,972</b>	4.4%	

#### Passenger revenue

On a reported basis, passenger revenue for the Group rose 1.6 per cent versus the prior year, with 2.5 points of adverse currency, while capacity was increased 2.6 per cent. At constant currency ('ccy'), passenger unit revenue (passenger revenue per ASK) increased 1.5 per cent with slightly higher yields (passenger revenue/revenue passenger kilometre) up 0.3 per cent and a 1 point rise in passenger load factor.

Continuing the upward trend in revenues reported at the end of 2016, passenger unit revenues improved throughout the year with increases versus last year in all quarters except quarter one. The performance was based on stronger yields and higher passenger load factors. In the Domestic market, the Group's passenger unit revenues were down due to capacity increases at Vueling aimed to reduce seasonality peaks in its schedule. Europe performed strongly for the Group with significant unit revenue improvements at Iberia and Vueling on slightly lower capacity.

Capacity growth in North America impacted the Group's year over year passenger unit revenue performance, with declines at Iberia and Aer Lingus, and the dilutive impact of the introduction of LEVEL. At British Airways, passenger unit revenues increased. North America unit revenue trends were positive during the period.

Latin America and Caribbean and Asia Pacific passenger unit revenues showed the strongest signs of recovery with increases at both British Airways and Iberia. Latin American economies such as Brazil and Argentina improved, while demand in Asia Pacific rose with lower terrorist activity in Europe.

Africa, Middle East and South Asia passenger unit revenue was broadly flat versus last year with mixed performance throughout the year and across the Group's network.

The Group carried over 104 million passengers, an increase of 4.1 per cent from 2016, with strong demand at LEVEL and passenger load factor improvement at three of the other four airlines. The Group's Net Promoter Score was 16.8 per cent, achieving our on target performance of 16.5. This was a new metric for the Group this year.



### Cargo revenue

Following a competitive trading environment in 2016, IAG Cargo adapted to an unexpectedly buoyant market in 2017 particularly in the second half of the year. Cargo revenue for the period increased by 8.0 per cent at constant currency, with volume measured in tonne kilometres (CTK) increasing by 5.6 per cent on a capacity increase of 4.8 per cent. Trading conditions were challenging in certain regions, however benefitted from a strong performance in Asia Pacific, following a weak performance in the same period last year. Yield benefitted in the final part of the year as demand on key IAG Cargo markets exceeded supply. Strategic focus continued to be on premium products, investing for growth and modernising the business.

### Other revenue

Other revenue includes activity from the BA Holidays programme, Avios revenue from points issued and from product redemptions, maintenance and handling activity. Other revenue rose 1.4 per cent, 5.6 per cent at constant currency primarily from an increase in Iberia's third party maintenance (MRO) and handling businesses. The MRO business performed more heavy maintenance in 2017 versus 2016. BA Holidays and Avios revenues also increased reflecting additional points sold to finance partners and from higher product redemptions.

Total revenue for the Group rose 1.8 per cent with increases in passenger, cargo and other revenue. At ccy, total revenue was stronger up 4.4 per cent.

### Expenditure before exceptional items

#### Employee costs

On a reported basis, employee costs for the Group were up 0.2 per cent and up 4.6 per cent at ccy. On a unit basis and at ccy, employee unit costs increased 2.0 per cent with productivity gains partially offsetting performance awards and inflation on salaries.

Employee unit costs rose at British Airways while productivity increased through efficiency improvements. The employee unit cost rise was from a higher pension charge due to lower AA bond yields, an increase in variable pay awards from achieving 2017 performance targets and inflation on wages. Vueling's employee unit costs also rose from an increase in variable pay awards and due to a significant rise in average manpower equivalents (MPEs) in line with Vueling's NEXT programme. The increase in MPEs reflects the full year impact of the shift in 2016 to strengthen its internal workforce on relatively low full year capacity growth, as it de-peaks its schedule. Aer Lingus and Iberia reported strong employee unit cost performance versus last year from efficient growth, also improving productivity.

Overall Group productivity improved 2.5 per cent with a slight increase in MPEs versus last year (up 0.1 per cent); the Group employed on average 63,422 MPEs in 2017.

#### Employee costs

€ million	Higher/(lower)		
	2017	Year over year at ccy	Per ASK at ccy
Employee costs	<b>4,740</b>	4.6%	<b>2.0%</b>

### Productivity

	Higher/(lower)	
	2017	Year over year
Productivity	<b>4,828</b>	2.5%
Average manpower equivalent	<b>63,422</b>	0.1%



See note 7 in our Financial statements for more information on our employee costs and numbers.

### Fuel, oil and emissions costs

Total fuel costs for the year decreased 5.4 per cent, at ccy and on a unit basis fuel costs are down 9.1 per cent. Fuel benefitted from lower average fuel prices net of hedging and efficiencies from the new fleet and improved operational procedures. The foreign exchange transaction impact on fuel costs net of hedging was adverse 5.9 percentage points for the Group, reflecting the stronger US dollar primarily against the pound sterling.

#### Fuel, oil and emissions costs

€ million	Higher/(lower)		
	2017	Year over year at ccy	Per ASK at ccy
Fuel, oil costs and emissions charges	<b>4,610</b>	(6.8)%	<b>(9.1)%</b>



See note 25 in our Financial statements for more information on our hedging policy.

### Supplier costs

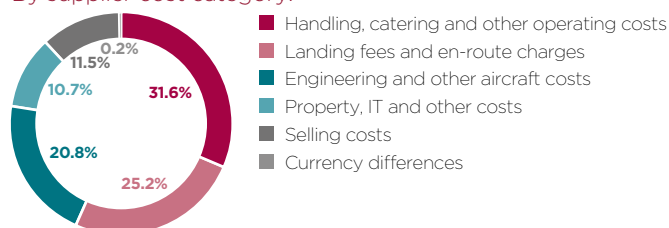
Total supplier costs for the year increased 1.8 per cent and benefitted from 4.2 points of currency exchange. At ccy and on a unit basis, supplier costs rose 3.4 per cent. In 2017, the Group's non-ASK related businesses, such as MRO, BA Holidays and Avios grew, increasing supplier costs, in particular Handling, catering and other operating costs and Engineering and other aircraft costs with a corresponding increase in Other revenue.

#### Supplier costs

€ million	Higher/(lower)		
	2017	Year over year at ccy	Per ASK at ccy
Supplier costs:			<b>3.4%</b>
Handling, catering and other operating costs	<b>2,700</b>	6.5%	
Landing fees and en-route charges	<b>2,151</b>	2.0%	
Engineering and other aircraft costs	<b>1,773</b>	6.1%	
Property, IT and other costs	<b>915</b>	9.4%	
Selling costs	<b>982</b>	11.8%	
Currency differences	<b>14</b>	-	

British Airways' airline supplier unit costs at ccy are up, impacted by compensation fees related to the operational disruption following the power outage in May 2017, higher maintenance costs from additional flying hours and price escalation on pay-as-you-go engine contracts and the new distribution model (NDM) increasing both costs (and revenues). Iberia airline supplier unit cost at ccy increased from NDM and in marketing related to its 90<sup>th</sup> anniversary campaign, provisions related to VAT litigation and net accounting impact from acquisition of four Airbus A340-600s at the end of their lease term. Vueling supplier unit costs are favourable, cycling over compensation costs related to operational disruption in 2016 including a reduction in engineering costs, from fewer wet leases. Aer Lingus had a favourable supplier unit cost performance from cost saving initiatives and efficient growth.

By supplier cost category:



**Handling, catering and other operating costs** rose 6.5 per cent excluding currency. Costs increased from higher Cargo volumes and additional product purchases at BA Holidays and redemptions at Avios with a corresponding rise in revenues. The increase also reflects higher compensation fees and baggage claims related to the operational disruption at British Airways. In addition, the Group carried 4.1 per cent more passengers during the year.

**Landing fees and en-route charges** were higher by 2.0 per cent excluding currency. Costs rose from higher activity, with flying hours up 1.6 per cent and sectors flown up 1.2 per cent, partially offset by price reductions in Europe and Africa. The Group also recognised certain elements of airport recharges as a cost (c.2pts) in the year, rather than against revenues as in prior years, following a change in contractual agreements with no net impact in margin.

**Engineering and other aircraft costs** were up 6.1 per cent excluding currency. Increases are driven by additional third party maintenance activity at Iberia (c.3.5 points) from higher flying hours and price escalation on pay-as-you-go engine contracts. These increases were partially offset by cost saving efficiencies including sub-contracted maintenance and global logistics.

**Property, IT and other costs** were up 5.2 per cent, 9.4 per cent excluding currency. The increase reflects lower capitalised IT charges reflecting the completion of internal projects, a provision related to exercising options on leased aircraft and legal settlements including a VAT audit.

**Selling costs** increased 11.8 per cent excluding currency. Costs rose c.4pts from the new distribution model, which increased both expenses and revenues while allowing the Group to bring more direct access to the customer. Selling costs were also higher from the increase in passenger bookings and from marketing initiatives including Iberia's 90<sup>th</sup> year anniversary.

## Ownership costs

The Group's ownership costs were up 4.1 per cent excluding currency. Depreciation costs were down due to the retirement of Iberia's Airbus A340-300s and from a number British Airways' longhaul Boeing aircraft being disposed of or becoming fully depreciated during the year. Aircraft operating lease costs were up due to a tax provision release which benefitted the base and from additional aircraft on operating lease (Boeing 787-9s and Airbus A330s) in the period.

### Ownership costs

€ million	2017	Higher/(lower)	
		Year over year at ccy	Per ASK at ccy
Ownership costs	2,072	4.1%	1.5%

See note 5 in our Financial statements for more on our ownership costs.

### Number of fleet

Number of aircraft in fleet	Higher/(lower)	
	2017	Year over year
Shorthaul	357	(0.6)%
Longhaul	189	-
	546	(0.4)%

See page 25 for our detailed fleet table.

## Non-fuel unit costs

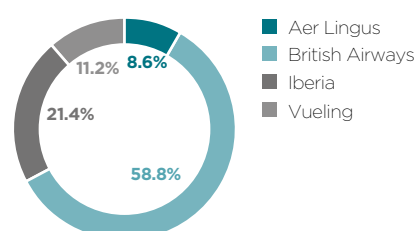
At constant currency, total non-fuel unit costs increased 2.7 per cent. Adjusted for non-airline businesses (such as MRO, handling, BA Holidays) and currency, the increase was 2.1 per cent with increases at British Airways and Iberia. Aer Lingus non-fuel unit costs were down from efficient growth and Vueling improved with a better operational performance and through cost saving initiatives.

## Operating profit

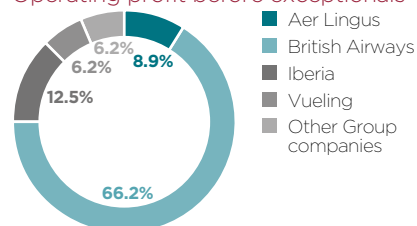
In summary, the Group's operating profit before exceptional items for the year was €3,015 million, a €480 million improvement from last year. The Group's adjusted operating margin also improved 2.1 points to 14.4 per cent. These results reflect a good revenue performance from a better macro-economic environment with improvements in our main strategic markets, in particular North America and South America. Management continued to focus on customer proposition, operational resilience and delivery of cost savings. This was partially offset by higher costs from disruption, variable pay awards and an increase in pension costs. This performance reflects the Group's drive towards achieving a competitive cost base with improved productivity and management initiatives, aligned with an improved focus in customer satisfaction, brand value and resilience of our operational model.

### Financial performance by Brand

#### Capacity



#### Operating profit before exceptionals



For the full year, **Aer Lingus** operating profit was €269 million, an improvement of €36 million over last year. Capacity was increased 12.1 per cent with the introduction of an additional Airbus A330 and the full year impact of Airbus A330s delivered during 2016 to support Aer Lingus' longhaul expansion.

Passenger revenues increased, although on a unit basis were down from lower yields due to the significant capacity growth, and competitive pressure. Aer Lingus' adjusted operating margin increased 1.3 points to 16.2 per cent.

Aer Lingus achieved significant cost savings through efficient growth with higher productivity and from cost initiatives. This included areas such as maintenance, selling and IT.

 See page 23 for more on Aer Lingus' performance and future plans.

### Financial performance by Brand

	Aer Lingus € million		British Airways £ million	
	2017	Higher/ (lower)	2017	Higher/ (lower)
ASKs (millions)	26,386	12.1%	180,070	0.7%
Seat factor (per cent)	81.1	(0.5)pts	81.8	0.6pts
Passenger revenue	1,799	5.4%	11,054	6.9%
Cargo revenue	48	6.7%	683	15.9%
Other revenue	12	(14.3%)	532	3.5%
<b>Total revenue</b>	<b>1,859</b>	<b>5.3%</b>	<b>12,269</b>	<b>7.2%</b>
Fuel, oil costs and emissions charges	316	(0.9%)	2,553	3.4%
Employee costs	345	5.3%	2,573	5.3%
Supplier costs	755	4.7%	4,411	6.8%
<b>EBITDAR</b>	<b>443</b>	<b>11.0%</b>	<b>2,732</b>	<b>13.8%</b>
Ownership costs	174	4.8%	978	5.2%
<b>Operating profit before exceptional items</b>	<b>269</b>	<b>15.5%</b>	<b>1,754</b>	<b>19.1%</b>
<i>Adjusted operating margin</i>	<i>16.2%</i>	<i>1.3pts</i>	<i>14.9%</i>	<i>1.4pts</i>
Passenger yield (€ cents or £ pence/RPK)	8.40	(5.6%)	7.50	5.3%
Passenger unit revenue (€ cents or £ pence/ASK)	6.82	(6.1%)	6.14	6.1%
<b>Total unit revenue (€ cents or £ pence/ASK)</b>	<b>7.05</b>	<b>(6.1%)</b>	<b>6.81</b>	<b>6.4%</b>
Fuel unit cost (€ cents or £ pence/ASK)	1.20	(11.5%)	1.42	2.6%
Non-fuel unit costs (€ cents or £ pence/ASK)	4.83	(6.4%)	4.42	5.4%
<b>Total unit cost (€ cents or £ pence/ASK)</b>	<b>6.03</b>	<b>(7.6%)</b>	<b>5.84</b>	<b>4.7%</b>

**British Airways** operating profit was £1,754 million, excluding exceptional items, an improvement of £281 million over the prior year on a capacity increase of 0.7 per cent. Despite a strong financial result British Airways faced some challenges in 2017 including a power failure in May causing significant customer disruption. Improving the customer experience remains a key focus for the airline.

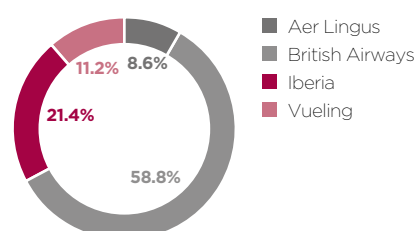
Passenger revenue rose for the year, with improvements in both yield and passenger load factors. Premium yields improved with strong business sector performance.

British Airways' non-fuel unit costs increased during the year impacted by compensation fees, NDM, airport charges and also from growth at BA Holidays and Cargo. 2017 saw the first full year of British Airways Plan4; savings were made in several areas including the head office function, engineering through outsourcing and property rationalisation.

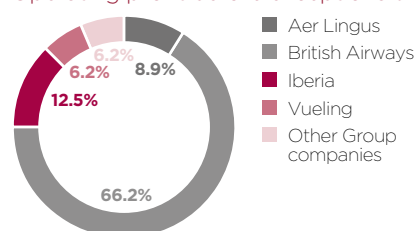
Overall, British Airways' adjusted operating margin improved 1.4 points to 14.9 per cent.

 See pages 18 - 19 for more on British Airways' performance

## Capacity




## Operating profit before exceptionals



Iberia's operating profit was €376 million, up €105 million versus last year, achieving an adjusted operating margin of 9.6 per cent. Capacity for the year was up 2.2 per cent, with an increase in passenger unit revenues and improvements across most regions.

In 2017, Iberia's MRO business also increased its external revenues by approximately €90 million, while continuing to provide services to other Group companies.

On the cost side, airline non-fuel unit costs rose from an increase in provisions including VAT litigation, the accounting impact of the acquisition of the leased Airbus A340-600s and higher selling costs partially due to NDM. Employee unit costs and productivity improved through efficiency initiatives as part of Iberia's *Plan de Futuro II*.

 See pages 20 – 21 for more on Iberia's performance

## Financial performance by Brand

	Iberia* € million		Vueling € million	
	2017	Higher/ (lower)	2017	Higher/ (lower)
ASKs (millions)	63,660	2.2%	34,378	1.5%
Seat factor (per cent)	84.1	2.1pts	84.7	1.9pts
Passenger revenue	3,581	5.5%	2,103	2.6%
Cargo revenue	254	0.4%	-	-
Other revenue	1,016	8.1%	22	37.5%
<b>Total revenue</b>	<b>4,851</b>	<b>5.8%</b>	<b>2,125</b>	<b>2.9%</b>
Fuel, oil costs and emissions charges	926	(7.7%)	428	(15.1%)
Employee costs	1,052	1.9%	233	8.9%
Supplier costs	2,038	12.4%	1,008	(2.3%)
<b>EBITDAR</b>	<b>835</b>	<b>13.1%</b>	<b>456</b>	<b>44.8%</b>
Ownership costs	459	(1.7%)	268	5.1%
<b>Operating profit before exceptional items</b>	<b>376</b>	<b>38.7%</b>	<b>188</b>	<b>213.3 %</b>
<i>Adjusted operating margin</i>	<i>9.6%</i>	<i>1.7pts</i>	<i>12.7%</i>	<i>6.0pts</i>
Passenger yield (€ cents/RPK)	6.69	0.8%	7.22	(1.2%)
Passenger unit revenue (€ cents/ASK)	5.63	3.4%	6.12	1.2%
<b>Total unit revenue (€ cents/ASK)</b>	<b>7.62</b>	<b>3.5%</b>	<b>6.18</b>	<b>1.5%</b>
Fuel unit cost (€ cents/ASK)	1.46	(9.7%)	1.25	(16.2%)
Non-fuel unit costs (€ cents/ASK)	5.57	4.8%	4.39	(0.9%)
<b>Total unit cost (€ cents/ASK)</b>	<b>7.03</b>	<b>1.4%</b>	<b>5.63</b>	<b>(4.8%)</b>

\* Iberia's results exclude LEVEL.

**Vueling's** operating profit was €188 million with an adjusted operating margin of 12.7 per cent, up 6.0 points versus last year. Through its NEXT programme Vueling has restored operational and financial performance. Capacity was up 1.5 per cent with increases in the first and fourth quarter with the aim to reduce the seasonality of its network.

Vueling's passenger unit revenue improved versus last year with lower yields but higher passenger load factors. Vueling's improvement in Europe was partially offset by decreases in domestic, impacted by growth in quarter one and four.

Vueling's non-fuel unit cost decreased with savings in supplier unit costs from lower maintenance fees and compensation costs. Employee unit costs rose from the increase in MPes as part of its NEXT programme to improve operational resilience and from variable pay awards linked to this year's results.

Vueling's performance reflects a significant turnaround from last year both operationally and financially with stronger margins and operating profit, allowing it to return to its growth strategy.

 See page 22 for more information on Vueling's performance and future plans.

### Exceptional items

For a full list of exceptional items, refer to note 4 of the Financial statements. Below is a summary of the significant exceptional items recorded.

The Group recognised an exceptional charge of €288 million during the year related to restructuring costs. In 2017, Iberia reached an agreement with employees for a collective redundancy programme, as part of their transformation plan *Plan de Futuro II* which is voluntary for both the employees and the company and aimed at improving productivity. In the year, €180 million of restructuring costs were recognised in relation to this.

British Airways' Plan4 transformation initiatives began in 2016, aimed at improving non-fuel unit cost performance, particularly through employee costs and increased productivity. During 2017, this resulted in headcount reductions throughout the business, from back office functions to engineering and sales, and resulted in a €108 million exceptional charge (2016: €144 million).

The Group also made changes to the US PRMB (Post-Retirement Medical Benefits) at British Airways during the prior year to bring the level of benefits in line with national trends in the US. These changes resulted in the recognition of a one-off gain in employee costs of €51 million.

The exceptional item in 2016 recorded 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 in the reported column.

### Non-operating costs and taxation

Net non-operating costs after exceptional items were €234 million, up from €122 million last year. The increases are non-recurring in nature and are due to a:

- €97 million negative difference in profit or loss on the sale of property plant, equipment and investments, due to the sale of an Airbus A340 by Iberia with an accounting loss of €11 million, and the prior year benefiting from a €30 million gain on the sale and lease back of 12 Airbus A319s;
  - €81 million negative swing from unrealised gains in 2016 to losses in 2017 on derivative instruments not qualifying for hedge accounting; and
  - €52 million swing in net foreign exchange on the retranslation of monetary non-current assets and liabilities.
- These increases were partially offset by a €66 million reduction in net financing costs following a reduction in net debt.

 See note 8 in our Financial statements for more on our non-operating costs.

### Taxation

The vast majority of the Group's activities are taxed in the countries of effective management of the main operations (UK, Spain or Ireland, with corporation tax rates during 2017 of 19.25 per cent, 25 per cent and 12.5 per cent respectively). The Group's effective tax rate for the year was 18.9 per cent (2016: 19.6 per cent) and the tax charge was €472 million (2016: charge €410 million).

The Group continues to offset prior year tax losses and other tax assets against its current year taxable profit, in 2017 the Group paid corporation taxes of €237 million (2016: €318 million).



See note 9 in our Financial statements for more information on our tax.

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

Profit after tax before exceptional items was €2,243 million, up 12.7 per cent. The increase reflects a very good operating profit performance. Fully diluted earnings per share before exceptional items is one of our key performance indicators and increased by 14 per cent also benefitting from the positive impact of the share buyback programme.

Profit after tax and exceptional items was €2,021 million, up 3.5 per cent.



See note 10 in our Financial statements for more information on our EPS.

### Dividends

The Board is proposing a final dividend to shareholders of 14.5 euro cents per share, which brings the full year dividend to 27.0 euro cents per share. The final dividend will be paid, on July 2, 2018, subject to shareholder approval at the Annual General Meeting to shareholders on the register on June 29, 2018.

#### Dividend policy statement

In determining the level of dividend in any year, the Board considers several factors, including:

- Earnings of the Group;
- On-going cash requirements and prospects of the Group and its operating companies;
- Levels of distributable reserves by operating company and efficiency of upstreaming options;
- Dividend coverage; and
- Its intention to distribute regular returns to its shareholders in the medium and long-term.

The Company received distributions from each of the four main airlines in 2017, although due to accumulated losses in certain companies they were not all recorded as distributable income. Distributions may trigger additional pension contributions if higher than pre-agreed thresholds, see note 31 of the Financial statements.

Notwithstanding these factors, the Company's distributable reserves position was strong, with €6.1 billion available at December 31, 2017 (2016: €6.1 billion).



## Liquidity and 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 to reduce the cost of capital and to provide sustainable returns to shareholders.

The Group monitors capital using adjusted gearing, adjusted net debt to EBITDAR and liquidity. In 2017 the Group's financial headroom rose as adjusted net debt to EBITDAR decreased to 1.5 from 1.8 in 2016 with both adjusted net debt and EBITDAR improving. Adjusted net debt reduced by €400 million to €7,759 million from a stronger cash position and lower long-term borrowings, partially offset by an increase in the notional aircraft operating lease debt. EBITDAR increased €506 million versus last year reflecting the Group's profitable growth as the EBITDAR margin improved 2 points with ASKs up 2.6 per cent. **Adjusted gearing** of 51 per cent in 2016 was within the Group's investment grade aim, and improved by an additional 6 points to 45 per cent from higher profit after tax.

The Group's **equity free cash flow (EqFCF)** rose €630 million in 2017 due to the increase in EBITDAR and EBITDA before exceptional items and lower net CAPEX. Net CAPEX is acquisition and sale of PPE and intangible assets (2017: €1,184 million; 2016: €1,301 million).

In 2017, the Group **CAPEX** included delivery of three new aircraft, one Boeing 787-8 and two Airbus A330s. This capital expenditure has been partially offset by €287 million of proceeds from the sale and leaseback of seven new aircraft (four Airbus A321 and three Airbus A330).

In comparison, in 2016 the Group **CAPEX** included delivery of 11 new aircraft, two Airbus A380s, two Boeing 787-9s, four Airbus A330s, and three aircraft from the Airbus A320 family. This capital expenditure was partially offset by €1,582 million of proceeds from the sale and leaseback of 26 new aircraft (nine Airbus A321, eight Airbus A330 and nine Boeing 787-9s). The Group also received proceeds for the sale and leaseback of 12 of its owned Airbus A319s, which were divested to reduce any residual value risk. Due to the timing of aircraft deliveries in 2017, CAPEX was low and below the planning target of an average of €2,100 million per annum.

Movements in **Working capital and other non-cash** generated €558 million in free cash flow (2016: €235 million) primarily from the Group's growth with higher sales in advance of carriage and impacted by the timing of prepayments and tax payments.

**Pension and restructuring** payments reflect payments made to the British Airways APS and NAPS plans and restructuring payments made under British Airways' Plan4 and Iberia's *Plan de Futuro II*.

In 2017, the cash **Dividend paid** reflects the 2016 final dividend and the 2017 interim dividend.

## Cash flow

€ million	2017	2016	Movement
<b>EBITDAR before exceptional items</b>	<b>5,087</b>	4,581	506
Rentals	(888)	(759)	(129)
<b>EBITDA before exceptional items</b>	<b>4,199</b>	<b>3,822</b>	<b>377</b>
Net interest	(93)	(148)	55
Taxation	(237)	(318)	81
Acquisition of PPE and intangible assets	(1,490)	(3,038)	1,548
Sale of PPE and intangible assets	306	1,737	(1,431)
<b>Equity free cash flow</b>	<b>2,685</b>	<b>2,055</b>	630
Working capital and other non-cash	558	235	323
Pensions and restructuring	(914)	(946)	32
Proceeds from long-term borrowings	178	1,317	(1,139)
Repayments of long-term borrowings	(973)	(1,130)	157
Dividend paid	(512)	(442)	(70)
Share buyback	(500)	-	(500)
Other investing	72	2	70
Other financing	(21)	(45)	24
<b>Cash inflow</b>	<b>573</b>	1,046	(473)
Opening cash and deposits	6,428	5,856	572
Net foreign exchange	(325)	(474)	149
<b>Cash and deposits</b>	<b>6,676</b>	6,428	248

€ million	2017	2016	Higher/ (lower)
British Airways	3,182	2,958	224
Iberia	1,167	1,179	(12)
Aer Lingus	1,025	855	170
Vueling	681	648	33
IAG and other Group companies	621	788	(167)
<b>Cash and deposits</b>	<b>6,676</b>	6,428	248

During the year IAG carried out a share buyback programme as part of its corporate finance strategy to return cash to shareholders while reinvesting in the business and managing leverage. The programme total was €500 million and IAG acquired 74,999,449 ordinary shares, which were subsequently cancelled.

In addition to the share buyback programme, the Group generated sufficient equity free cash flow to support the recommendation of an interim and final cash dividend of €554 million for its shareholders with cash coverage of 4.0 times. The Group returned over €1 billion to shareholders in 2017.

In February 2018, the Group also announced its intention to carry out a €500 million share buyback programme during the course of 2018.

Taking these factors into consideration, the Group's cash inflow for the year was €573 million and after net foreign exchange differences, **the increase in cash net of exchange** was €248 million. Each operating company holds adequate levels of cash with balances exceeding 20 per cent of revenues, and sufficient to meet obligations as they fall due.

#### Net debt, adjusted net debt and adjusted gearing

##### Net debt

€ million	2017	2016	Movement
Debt	<b>(8,515)</b>	(8,630)	115
Cash and cash equivalents and interest bearing deposits	<b>6,428</b>	5,856	572
<b>Net debt at January 1</b>	<b>(2,087)</b>	(2,774)	687
<b>Increase in cash net of exchange</b>	<b>248</b>	572	(324)
Net cash outflow from repayments of debt and lease financing	<b>973</b>	1,130	(157)
New borrowings and finance leases	<b>(178)</b>	(1,317)	1,139
<b>Decrease/(increase) in net debt from regular financing</b>	<b>795</b>	(187)	982
Exchange and other non-cash movements	<b>389</b>	302	87
<b>Net debt at December 31</b>	<b>(655)</b>	(2,087)	1,432
Capitalised aircraft lease costs	<b>(7,104)</b>	(6,072)	(1,032)
<b>Adjusted net debt at December 31</b>	<b>(7,759)</b>	(8,159)	400

**Net debt at December 31, 2017** was €655 million, a reduction of €1,432 million in the year from the stronger cash position.

**Net debt from regular financing** activities decreased €795 million, with new borrowings below the current year's regular debt and lease repayments. The level of 2017 and 2016 new borrowings and finance leases reflect the timing of fleet deliveries for the Group.

**Capitalised aircraft lease costs** rose during the year from the full year impact of aircraft financed through operating leases delivered in 2016 such as the Boeing 787s and Airbus A330s.

#### Off balance sheet arrangements and capital commitments

The Group has entered into commercial leases on certain property and equipment but primarily for aircraft. Contracts cover primarily a 21 year period with total payments of €7,642 million (2016: €8,314 million); see note 23 for further details on the timing. The Group's adjusted net debt metric includes an estimation for the debt related to the aircraft operating leases ('capitalised aircraft lease costs') by taking the current year's aircraft operating lease cost multiplied by 8.

Capital expenditure authorised and contracted for amounted to €12,137 million (2016: €14,022 million) for the Group. Most of this is in US dollars and includes commitments until 2023 for 113 aircraft from the Airbus A320 family, 17 Boeing 787s, 43 Airbus A350s, and 4 Airbus A330s.

Overall, the Group maintains flexibility in its fleet plans with the ability to defer, to exercise options and to negotiate different renewal terms. IAG does not have any other off-balance sheet financing arrangements.



See pages 16 – 17 for our key performance indicators.



See pages 175 – 177 for our alternative performance measures.

# Our commitment to sustainability achieves recognition



“It’s great to see our sustainability programme evolving. We’re strengthening our governance and have made important progress towards our long term goals to tackle climate change. Last year we were pleased to win recognition for our carbon disclosures.”

We have had another strong year as we continue to develop our sustainability programme.

On the operational front, our flight carbon efficiency improved by 2.6% during 2017 putting us on track to deliver our 2020 target of 87.3 grammes of CO<sub>2</sub> per passenger kilometre. During 2017 we also began implementing the Honeywell GoDirect Fuel Efficiency software, supporting further group-wide reductions in fuel use and carbon emissions. We also acquired 13 new aircraft with at least 20 per cent lower carbon emissions and 50 per cent lower noise levels than the aircraft they replace.

In September, we welcomed the UK Government’s announcement to include Sustainable Aviation Fuels within the UK incentive policy framework, something we have long advocated. It makes the UK one of the most attractive locations to develop this emerging technology.

Soon after we announced our partnership with Velocys, a leading global biofuels technology company, to construct a waste-to-fuels plant in the UK. We believe there is significant opportunity to produce sustainable alternative fuels from waste that would otherwise be destined for landfill.

In 2016 we were delighted that the global industry agreed to a common carbon offset and reduction scheme called CORSIA. For many years we have led calls for just such an agreement. In early December details of the CORSIA scheme were released enabling our airlines to begin their implementation plans. IAG will continue its support for CORSIA and we will also be helping other airlines in their preparations.

Our industry-leading work on climate change was recognised in October when we achieved the Carbon Disclosure Project (CDP) ‘A’ List for our Climate disclosures, placing us amongst the top 5 per cent of global leading companies. We were also named as the UK’s Most Improved company.

These are fantastic achievements. We believe that disclosure is an important driver of any organisation’s climate protection efforts. To strengthen our focus we are pleased to have signed up to support the Task Force on Climate Related Financial Disclosure, which matches up with and builds on the CDP framework.

During autumn 2017, we carried out a Materiality Assessment with our key stakeholders to seek their views on what

our sustainability priorities should be. The results have provided valuable insights and some of the key feedback we received is reflected in the structure and focus you’ll find in the following pages.

We are also working closely with all our businesses to ensure that we comply with the new disclosure obligations under Directive 2014/95/EU on non-financial reporting and the relevant legislation in the UK and Spain. This report has been prepared taking these new requirements into account and, as in previous years, we are presenting our non-financial information in an integrated format throughout our strategic report.

We’ve achieved a great deal on sustainability in 2017 and look forward to making further, tangible progress this year, not least with our Sustainable Aviation Fuels projects and beginning the first action to implement CORSIA in preparation for emissions monitoring from January 2019.

Above all we want to continue our efforts to be the leading airline group with regard to sustainability.

**Antonio Vázquez**  
Chairman

## Sustainability overview

### Sustainability governance

Our sustainability programmes are co-ordinated at Group level to develop and implement sustainability policy and strategy, establish targets and programmes and ensure appropriate governance and accountability across all our operating companies.

The IAG Management Committee provides the forum for review, challenge and setting strategic direction. Further oversight and direction is provided by the IAG Board and the Audit and Compliance Committee. In 2017, the IAG Group Head of Sustainability reported four times to the Management Committee, twice to the Board and once to the Audit and Compliance Committee.

### Materiality and stakeholder engagement

In autumn 2017 IAG completed an assessment of the most material sustainability issues through a materiality analysis performed according to Global Reporting Initiative Sustainability Reporting Guidelines (GRI version G4), as well as benchmarking with other materiality frameworks. We engaged a range of our principal external stakeholders including investors, corporate customers, suppliers and NGOs, with a total of 15 participants in three external workshops as well as 12 interviews with internal stakeholders. The charitable trust Business in the Community was appointed to provide objective oversight of the process; facilitating workshops, reviewing interview feedback and preparing a materiality matrix.

The sample of stakeholder opinions have been used to cross check our sustainability strategies and identify our primary sustainability issues.

Immediate actions we've taken resulting from the exercise are:

- Included additional performance measures on workforce and energy efficiency in this report.
- Created clearer read-across between our material issues, strategies, performance measures and actions –these are now reflected in our risk and opportunities table and our sustainability performance table on the following pages.

- Linked our performance on our most material sustainability issues to relevant UN Sustainable Development Goals.
- Improved our data presentation to show five year trends and indicated whether progress is positive or negative versus the planned direction.

In the medium-term we'll be focusing on improving external communications on sustainability, including on-board our aircraft, and continuing to improve the alignment on levels of commitment and performance on sustainability across our Group.

During 2018 we will be working with GRI and the International Air Transport Association (IATA), to identify material issues across the industry and develop a GRI Sectorial Guidance Handbook for airlines which will improve consistency and opportunities to benchmark our performance with other airlines.

### Carbon disclosures

IAG achieved double A with the coveted global 'A List' status in the 2017 CDP ratings. This recognition for our corporate response to climate change comes from CDP which hosts the largest registry of corporate greenhouse gas (GHG) data in the world. We were also awarded "most improved" organisation in the UK in 2017 on climate disclosure. IAG is the only airline group to make the Climate A List in 2017. A third award came with us also achieving A List status for engaging our supply chain on climate change. In 2018 we will report under the new CDP format for transportation sector disclosures.



## UN Sustainable Development Goals

In our 2016 report, we identified four priority UN Sustainable Development Goals (SDGs, numbers 5, 7, 8 and 13) which align closely with our core business strategies and our sustainability programmes. In 2017 we benchmarked our priority SDGs with those of IATA and Sustainable Aviation<sup>1</sup> and listened to our stakeholders' feedback on the desire to see clearer links between our material issues, our actions and the UN SDGs. In response, we have this year drawn links in our performance report to a wider set of 9 SDGs, listed below.



**Goal 3:**  
Good health and wellbeing



**Goal 4:**  
Quality education



**Goal 5:**  
Gender equality



**Goal 7:**  
Affordable and clean energy



**Goal 8:**  
Decent work and economic growth



**Goal 9:**  
Industry, innovation and infrastructure



**Goal 11:**  
Sustainable cities and communities



**Goal 12:**  
Responsible consumption and production



**Goal 13:**  
Climate action

<sup>1</sup> Sustainable Aviation – consortium of leading UK aviation companies.

## Sustainability risks

Sustainability risks and opportunities are assessed in line with IAG Enterprise Risk Management (ERM) methodology and are summarised in the table below. Risks have owners within IAG and our operating companies and we work with them to ensure risks and opportunities are appropriately managed. For more detail on our enterprise risk management process see the Risk management and principal risk factors section.

### Summary of key sustainability risks and management methods



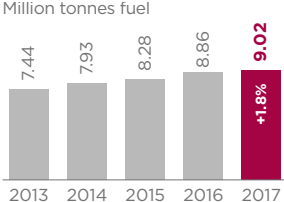
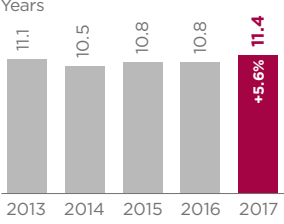
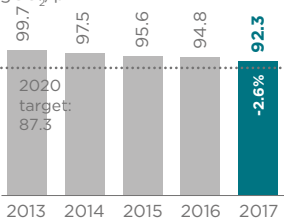
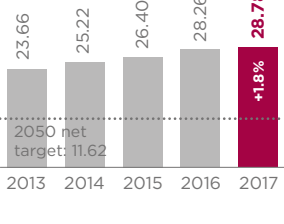
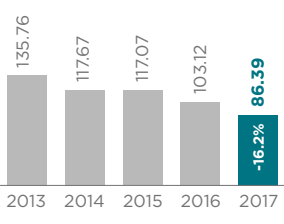
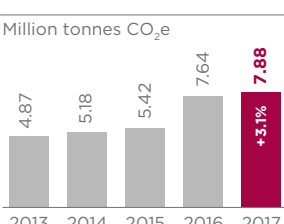
Risk or opportunity, potential impact	How we manage it
<p><b>Climate regulation – regional application risk</b></p> <p>CORSIA has been agreed internationally however the risk remains of regional regulatory duplication and/or inconsistent application of agreed Monitoring Reporting and Verification (MRV) requirements and eligible offsets which would create inequitable costs and competitive distortion.</p>	<ul style="list-style-type: none"> <li>Supporting implementation of CORSIA through IATA and ICAO and mentoring other airlines to ensure CORSIA can be adopted successfully.</li> <li>Supporting development of robust rules for CORSIA on Monitoring Reporting and Verification and emissions unit eligibility criteria.</li> <li>IAG lobbying for single tier adoption of CORSIA directly with UK and EU governments as well as through industry groups IATA, A4E<sup>2</sup> and Sustainable Aviation.</li> </ul>
<p><b>Sustainable aviation fuels – production opportunity</b></p> <p>Lack of policies have discouraged investment in innovative, first-of-kind technologies to develop sustainable aviation fuels (SAF).</p>	<ul style="list-style-type: none"> <li>Lobbying for sustainable aviation fuel inclusion in renewable fuel policies at the Global, EU, and UK levels.</li> <li>British Airways investing with partners in waste-to-fuel projects.</li> <li>Lobbying to ensure UK policy proposal converted into regulation.</li> </ul>
<p><b>Sustainable aviation fuels – regulation risk</b></p> <p>EU proposal to mandate proportion of sustainable aviation fuels would drive production but force airlines to purchase SAF at premium price compared to conventional fuels creating competitive distortion.</p>	<ul style="list-style-type: none"> <li>Lobbying to prevent mandates both directly and as part of industry organisations at EU and UK levels and supporting policy incentives that help deliver SAF at prices competitive with conventional fuels.</li> </ul>
<p><b>Environment regulation – compliance risk</b></p> <p>An inadvertent breach of compliance requirements with associated reputational damage and fines.</p>	<ul style="list-style-type: none"> <li>Adopting group-wide Environmental Management System, the IATA IEnvA programme.</li> <li>Internal governance, awareness and assigning ownership for environmental compliance obligations.</li> <li>Engaging with carbon market advisors to understand and mitigate compliance risks and identify future opportunities.</li> </ul>
<p><b>Supply chain CSR – compliance risk</b></p> <p>Potential breach of sustainability, corporate social responsibility or anti-bribery compliance by an IAG supplier or third party resulting in financial, legal, environmental, social and/or reputational risk.</p>	<ul style="list-style-type: none"> <li>Know Your Counterparty due diligence, Supplier Code of Conduct, supplier compliance audits.</li> <li>Internal governance including training and workshops to identify risks and mitigation.</li> <li>Installing new supplier management IT system, due to complete early 2018.</li> </ul>
<p><b>Operational noise restrictions and charges risk</b></p> <p>Airport operators and regulators apply operational noise restrictions and charging regimes which may restrict our ability to operate especially in the night period and/or may introduce additional cost.</p>	<ul style="list-style-type: none"> <li>Investing in new quieter aircraft.</li> <li>Continually improving operational practices including continuous descents, slightly steeper approaches, low power low drag approaches and optimised departures.</li> <li>Internal governance and training and external advocacy in UK and Spain to manage risks.</li> </ul>
<p><b>Consumer behaviour risk and opportunity</b></p> <p>Trend in ethical and sustainability concerns being a factor in consumer choices.</p>	<ul style="list-style-type: none"> <li>Set mission to be the world's leading airline group on sustainability with ambitious goals on carbon efficiency.</li> <li>Using all the tools at our disposal: modern aircraft, efficient technology, best operational practice and sustainable fuels, as well as influencing global policy and driving industry-wide action, to minimise our carbon footprint and mitigate other sustainability risks.</li> <li>Effective communication of our practices to customers and suppliers.</li> </ul>



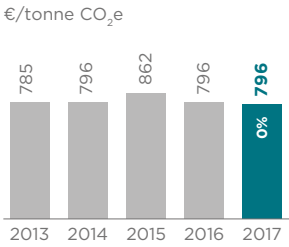


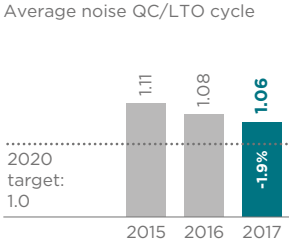
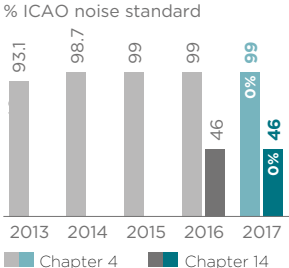


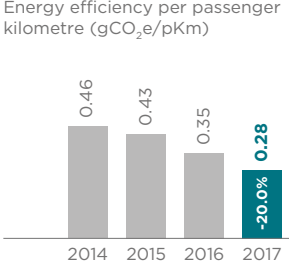

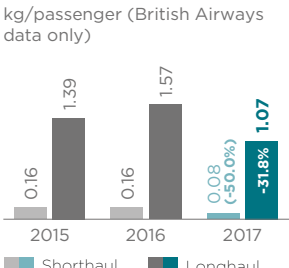
2 A4E- Airlines for Europe, European Air Transport Industry Association.




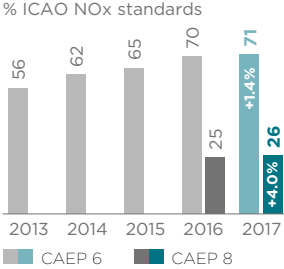


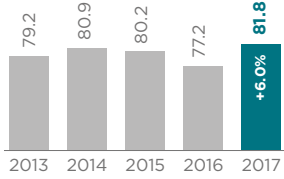



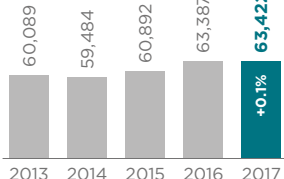
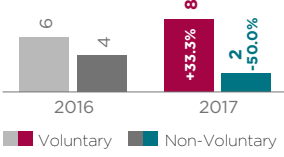
## Sustainability performance

This performance summary should be considered along with measures reported across the Strategic Report and Management Report to collectively understand our performance against our most material sustainability matters. We follow the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition) applying an operational control boundary and also indicators from GRI Sustainability Reporting Guidelines. The scope of our sustainability performance data includes all our airline and air cargo operations but currently excludes Avios and GBS functions which comprise less than one per cent of our most material aspects. Our emissions data is calculated using UK and Spanish Government GHG conversion factors for company reporting. In the charts below, the 2017 bar is colour coded: green for in-line with desired direction and red for against desired direction.

Aspect and link to SDGs	Performance indicator	Description	2017 highlights	Performance
 	Climate <b>Jet fuel</b> (Million tonnes)	As commercial aircraft remain reliant on liquid kerosene for the foreseeable future, IAG's climate change focus is on purchasing newer more fuel efficient aircraft, developing sustainable jet fuel, pursuing operational fuel efficiency and supporting CORSIA global carbon offsetting scheme.	<ul style="list-style-type: none"> <li>Our jet fuel use increased 1.8% compared to 2016 however this was a slower rate of growth than our business operations (RPK up 3.8%) reflecting an improvement in operating efficiency.</li> <li>UK Government proposes Sustainable Aviation Fuels (SAF) in policy incentives.</li> <li>British Airways announced SAF UK production partnership.</li> </ul>	Performance Million tonnes fuel 
	Average age of aircraft fleet (years)	Average age of all aircraft in our fleet calculated at the end of the reporting year and based on aircraft age from date of manufacture.  As newer aircraft are typically 15-20% more fuel efficient than the aircraft they replace, this metric is a proxy for showing the penetration and retention of new aircraft in our fleet.	<ul style="list-style-type: none"> <li>The slight increase in the average age is due to the reduced turnover of new and retired aircraft during 2017. This turnover will improve in 2018 as we increase the rate of new aircraft deliveries.</li> <li>13 new aircraft delivered</li> <li>15 aircraft retired</li> <li>Total aircraft fleet at end of December 2017: 546</li> </ul>	Years 
	Flights only CO <sub>2</sub> emissions intensity (gCO <sub>2</sub> /pkm)	Target: 10% improvement by 2020 compared to 2014. Grammes of CO <sub>2</sub> per passenger kilometre is a standard industry measure of flight efficiency. Individual airline performance is reported on the relevant pages in this report.	<ul style="list-style-type: none"> <li>IAG achieved 2.6% improvement in annual fuel efficiency, continuing to exceed industry target of 1.5%.</li> <li>This improvement is due to a combination of higher load factors, better cargo performance particularly at British Airways and Aer Lingus and an increased mix of longhaul flying at Aer Lingus.</li> </ul>	gCO <sub>2</sub> /pkm 
	Scope 1 Direct GHG emissions (Million tonnes CO <sub>2</sub> e)	Direct emissions associated with our flying. In line with industry commitments which we were instrumental in securing in 2009, we have two targets designed to address our direct CO <sub>2</sub> emissions over different timescales: <ul style="list-style-type: none"> <li>To achieve carbon neutral growth for our international aviation from 2020.</li> <li>50% net reduction in CO<sub>2</sub> emissions by 2050 versus 2005 baseline (23.24 million tonnes).</li> </ul>	<ul style="list-style-type: none"> <li>Scope 1 CO<sub>2</sub>e emissions have increased but at a lower rate than activity of the airlines.</li> <li>IAG contributed 3 million tonnes of carbon reductions through our compliance with the EU ETS, bringing our net CO<sub>2</sub> emissions down to around 25.8 million tonnes (provisional figure pending EU ETS verification).</li> </ul>	Million tonnes CO <sub>2</sub> e 
	Scope 2 Indirect GHG emissions (Thousand tonnes CO <sub>2</sub> e)	Buildings electricity. Scope 2 emissions reported here reflect national (location based) grid mix for UK, Spain and Ireland. Aer Lingus included from acquisition in August 2015.  In 2017 we improved our Scope 2 methodology by applying the most appropriate Spanish Government conversion factors for our electricity use in Spain. We have therefore updated our annual reporting and back-dated to 2013 with the new methodology to provide consistent trend information.	<ul style="list-style-type: none"> <li>Fluctuations in trend are influenced by airline acquisitions as well as the trend towards less carbon intensive electricity across Spain, the UK and Ireland.</li> <li>54% of Group electricity use in 2017 was from renewable sources, mainly wind.</li> <li>Renewable electricity use across the Group in 2017: British Airways 81%, Aer Lingus 49% and Iberia and Vueling 18.5% each.</li> <li>British Airways electricity tariff was changed to renewables in December 2017.</li> </ul>	Thousand tonnes CO <sub>2</sub> e 
	Scope 3 Other indirect GHG emissions (Million tonnes CO <sub>2</sub> e)	This includes other indirect emissions such as from supply chain, production and transport of materials, staff commuting etc. IAG actively engages with our suppliers to manage and reduce our scope 3 CO <sub>2</sub> emissions.	<ul style="list-style-type: none"> <li>The Scope 3 emissions increased by 3.2% in 2017 compared to 2016. This was mainly due to expanding the scope of our emissions calculations to achieve fuller accounting.</li> <li>2017 CDP Climate A for engaging suppliers on climate.</li> </ul>	Million tonnes CO <sub>2</sub> e 

Aspect and link to SDGs	Performance indicator	Description	2017 highlights	Performance																		
<p>Economic return versus climate impact</p>  	<p>Revenue per tonne CO<sub>2</sub>e (€/tonne CO<sub>2</sub>e for scope 1 and 2 emissions combined)</p>	<p>This metric is a long-term measure to track the connection between economic growth and climate impact of our operations. As we work with GRI during 2018 we hope to develop this as an indicator to benchmark IAG with other airlines and airline groups.</p>	<ul style="list-style-type: none"> <li>Revenue per tonne of CO<sub>2</sub> has maintained the same level during 2017 as revenue has increased at the same level as CO<sub>2</sub> emissions.</li> </ul>	<p>€/tonne CO<sub>2</sub>e</p>  <table border="1"> <tr><th>Year</th><td>2013</td><td>2014</td><td>2015</td><td>2016</td><td>2017</td></tr> <tr><th>Value</th><td>785</td><td>796</td><td>862</td><td>796</td><td>796</td></tr> <tr><th>Change</th><td></td><td></td><td></td><td></td><td>0%</td></tr> </table>	Year	2013	2014	2015	2016	2017	Value	785	796	862	796	796	Change					0%
Year	2013	2014	2015	2016	2017																	
Value	785	796	862	796	796																	
Change					0%																	
<p>Noise</p>  	<p>Average noise (Based on Quota Count and number of Landing and Take Off cycles per year)</p>	<p>This metric measures average noise per flight taking into account arrival and departure noise for each aircraft type (using UK Government Quota Count values which are a relative categorisation based on certified noise levels) and the number of flights operated in a year. Note: for a single flight a Boeing 747 score would be 6.0 whereas an Airbus A320 (current engine option) would be 1.0.</p>	<ul style="list-style-type: none"> <li>Continuous descent operations further improved with all IAG carriers now achieving over 80% compliance at London Heathrow.</li> <li>Modifications to aircraft flight planning software to improve aircraft climb and descent profiles to mitigate noise.</li> </ul>	<p>Average noise QC/LTO cycle</p>  <table border="1"> <tr><th>Year</th><td>2015</td><td>2016</td><td>2017</td></tr> <tr><th>Value</th><td>1.11</td><td>1.08</td><td>1.06</td></tr> <tr><th>Change</th><td></td><td></td><td>-1.9%</td></tr> </table> <p>2020 target: 1.0</p>	Year	2015	2016	2017	Value	1.11	1.08	1.06	Change			-1.9%						
Year	2015	2016	2017																			
Value	1.11	1.08	1.06																			
Change			-1.9%																			
	<p>Aircraft fleet noise certification (ICAO Chapter 4 and 14)</p>	<p>ICAO Chapter 4 noise certification comprises limits of a combination of lateral, approach, and flyover noise levels.</p> <p>The ICAO Chapter 4 technology standard for aircraft noise applies to new aircraft certified from January 1, 2006 and Chapter 14 applies to new aircraft certified from January 1, 2017.</p>	<ul style="list-style-type: none"> <li>All our fleet except three Airbus A321 aircraft meet ICAO Chapter 4 noise certification.</li> <li>During 2018 we expect further increase in the proportion of our fleet meeting Chapter 14 noise standard as new aircraft such as the Airbus A320neo and Airbus A350 join our fleet.</li> </ul>	<p>% ICAO noise standard</p>  <table border="1"> <tr><th>Year</th><td>2013</td><td>2014</td><td>2015</td><td>2016</td><td>2017</td></tr> <tr><th>Value</th><td>93.1</td><td>98.7</td><td>99</td><td>99</td><td>99</td></tr> <tr><th>Change</th><td></td><td></td><td></td><td></td><td>0%</td></tr> </table> <p>Legend: Chapter 4, Chapter 14</p>	Year	2013	2014	2015	2016	2017	Value	93.1	98.7	99	99	99	Change					0%
Year	2013	2014	2015	2016	2017																	
Value	93.1	98.7	99	99	99																	
Change					0%																	
<p>Energy efficiency</p>  	<p>Energy efficiency per passenger kilometre (gCO<sub>2</sub>e/pkm)</p>	<p>This is a new metric designed to monitor our energy efficiency (Scope 2) as a function of our business activity (passenger kilometres). It complements our flight only emissions intensity metric.</p>	<ul style="list-style-type: none"> <li>British Airways Paint Bay was mothballed, new energy saving lighting projects on the Heathrow Operations base and substantial closure of British Airways Component Engineering facility in Hayes have made significant contributions to energy reductions.</li> <li>Iberia relocated jobs to consolidate office space, and raised awareness among employees to regulate the air conditioning and heating thermostats.</li> <li>Against the IAG general trend general, Vueling electricity use has increased since 2014 due to new 24/7 departments, improved air conditioning and increase of 35% employees and longer opening of the canteen facilities at the headquarters.</li> </ul>	<p>Energy efficiency per passenger kilometre (gCO<sub>2</sub>e/pKm)</p>  <table border="1"> <tr><th>Year</th><td>2014</td><td>2015</td><td>2016</td><td>2017</td></tr> <tr><th>Value</th><td>0.46</td><td>0.43</td><td>0.35</td><td>0.28</td></tr> <tr><th>Change</th><td></td><td></td><td></td><td>-20.0%</td></tr> </table>	Year	2014	2015	2016	2017	Value	0.46	0.43	0.35	0.28	Change				-20.0%			
Year	2014	2015	2016	2017																		
Value	0.46	0.43	0.35	0.28																		
Change				-20.0%																		
<p>Waste</p> 	<p>Average aircraft cabin waste (kg/passenger)</p>	<p>During 2017 we have been working to establish average aircraft cabin waste baselines to enable us to begin reporting Group performance. Further work is required to enable consistent split across the group for longhaul and shorthaul operations.</p>	<ul style="list-style-type: none"> <li>British Airways had significant reductions in cabin waste in 2017 due to the introduction of the new Buy-on-Board product in shorthaul as well as changes to longhaul second service and improved catering loading.</li> <li>Iberia continue to lead EU catering waste project targeting zero cabin waste.</li> <li>Vueling began collecting data on cabin waste and reported average 0.085kg per passenger (all shorthaul).</li> </ul>	<p>kg/passenger (British Airways data only)</p>  <table border="1"> <tr><th>Year</th><td>2015</td><td>2016</td><td>2017</td></tr> <tr><th>Value</th><td>0.16</td><td>0.16</td><td>0.08</td></tr> <tr><th>Change</th><td></td><td></td><td>-50.0%</td></tr> </table> <p>Legend: Shorthaul, Longhaul</p>	Year	2015	2016	2017	Value	0.16	0.16	0.08	Change			-50.0%						
Year	2015	2016	2017																			
Value	0.16	0.16	0.08																			
Change			-50.0%																			

# Sustainability continued

Aspect and link to SDGs	Performance indicator	Description	2017 highlights	Performance
 Air quality	<b>Aircraft fleet</b> that meet ICAO CAEP standard for NOx emissions (%)	ICAO CAEP is a standard for NOx emissions from aircraft engines. The standards have become increasingly stringent and the CAEP 8 certified engines must emit less than half the NOx emitted by engines certified to the original CAEP standard. The CAEP 4 NOx standard applied to engines manufactured from 1 January 2004, CAEP 6 applied from 2008 and CAEP 8 applied from 2014.  ICAO is also developing a standard for particulate matter from aircraft engines, expected to come in to force in 2020.	<ul style="list-style-type: none"> <li>As 96% of our aircraft meet CAEP 4 NOx, we now focus on meeting the more stringent CAEP 6 and 8 standards.</li> <li>Incremental fleet renewals are driving a gradually improving trend.</li> <li>2016 figures for CAEP 6 and 8 have increased 1% due to new data on engine allocation.</li> <li>Reduced engine taxiing across our Group and limiting use of auxiliary power units is helping minimise our NOx emissions.</li> <li>British Airways deployed electric aircraft tug in Heathrow Terminal 5 and installed electric vehicle charging at their head office.</li> </ul>	% ICAO NOx standards 
  Customers	<b>Customer satisfaction</b> (average Net Promoter Score)	We are reporting average Net Promoter Score (NPS) for the first time this year. NPS is a non-financial metric which measures the likelihood of a customer recommending an IAG operating carrier. Customer satisfaction with a company's products or services is key to a company's success and long-term competitiveness (see Key performance indicators section).	<ul style="list-style-type: none"> <li>We have established consistent methodology across our Group to achieve a single blended score.</li> <li>The Voice of Customer (VoC) survey is the main tool of the customer experience programme and provides valuable feedback that helps to identify actionable insights to improve the customer proposition.</li> <li>Strong punctuality performance across the Group, in addition to customer service initiatives have supported the 2017 score.</li> </ul>	Average Net Promoter Score 
	<b>Punctuality</b> (within 15 minutes)	Punctuality is defined as the percentage of flights that depart within 15 minutes of their published departure time. The moment of departure is defined as the moment the aircraft's brakes are released in preparation for pushback. As a major driver of customer satisfaction, we strive to consistently improve our punctuality.	<ul style="list-style-type: none"> <li>British Airways has improved operating procedures across the network, achieving their highest punctuality since 2011.</li> <li>Operational improvements at Vueling have resulted in an increase in on time performance of 11.3% versus last year.</li> <li>Punctuality - within 15 minutes - across our airlines (British Airways 80%, Iberia 90%, Vueling 79.9%, Aer Lingus 81.4%).</li> </ul>	Within 15 minutes % 
   Workforce	<b>Employment</b> (Average manpower equivalent)	Manpower equivalent is the number of employees adjusted to include part-time workers, overtime and contractors. We seek workforce efficiencies to maintain a competitive cost base but recognise number of employees is a positive economic and social metric that will fluctuate with passenger demand, business growth and acquisitions.	<ul style="list-style-type: none"> <li>Participated in the pilot programme of the Workforce Disclosure Initiative (WDI).</li> <li>British Airways won Gold accreditation by Fair Train for quality work experience placements, 417 placements hosted in 2017 (350 in 2016).</li> <li>British Airways recruited 184 new apprentices (38% female) in 2017 reflecting the importance of recruiting new talent.</li> </ul>	Average manpower equivalent 
	<b>Workforce turnover</b> (% voluntary and non-voluntary)	IAG recognises the importance of retaining experience and talent in relation to the success of the business and we report turnover as a measure of the stability of our workforce. Workforce turnover is measured as the number of leavers as a percentage of the average number of Group employees in the year.	<ul style="list-style-type: none"> <li>Non-voluntary turnover decreased across the group reflecting the completion of workforce efficiency projects.</li> </ul>	% voluntary and non-voluntary 

Aspect and link to SDGs	Performance indicator	Description	2017 highlights	Performance																								
Workforce (Continued)	<b>Gender diversity</b> (% Female at Board, Senior Executives, & Group level)	IAG encourages greater gender equality at all levels in the workplace. We have published an objective to reach at least 33% women on the Board by the end of 2020. We also have an aspirational goal of reaching 33% women across our senior executive levels by 2025. During 2017 we improved our tracking of gender diversity and amended our definition of senior managers. We have therefore updated the 2016 figure to reflect this new definition (changes from 27% reported previously to 23%).	<ul style="list-style-type: none"> <li>IAG held internal roadshows to raise awareness and inspire action on gender equality and established a Sponsorship Programme matching senior women with Management Committee members.</li> <li>Iberia developed a Diversity Plan to embed diversity management in the company strategy.</li> <li>British Airways STEM work experience attracted 22% per cent females in 2017, versus 19% in 2016 and 10% in 2015; we held 'Women in Engineering' event and worked to improve diversity among pilots.</li> <li>British Airways and Avios are covered by the Gender Pay Gap reporting legislation and will report in April 2018.</li> </ul>	<p>% Women</p> <table border="1"> <caption>% Women</caption> <thead> <tr> <th>Year</th> <th>Board</th> <th>Group</th> <th>Senior Executives</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>24</td> <td>43</td> <td>17</td> </tr> <tr> <td>2014</td> <td>23</td> <td>43</td> <td>23</td> </tr> <tr> <td>2015</td> <td>25</td> <td>44</td> <td>24</td> </tr> <tr> <td>2016</td> <td>25</td> <td>44</td> <td>23</td> </tr> <tr> <td>2017</td> <td>25</td> <td>44</td> <td>24</td> </tr> </tbody> </table>	Year	Board	Group	Senior Executives	2013	24	43	17	2014	23	43	23	2015	25	44	24	2016	25	44	23	2017	25	44	24
Year	Board	Group	Senior Executives																									
2013	24	43	17																									
2014	23	43	23																									
2015	25	44	24																									
2016	25	44	23																									
2017	25	44	24																									
	<b>Age diversity</b> (%)	IAG is reporting age diversity for the first time in 2017. An age diverse workforce balances the need for experienced individuals with maintaining a plan for succession through the recruitment of new talent.	<ul style="list-style-type: none"> <li>IAG reviews age diversity in the following ranges: less than 30 years, 30-50 years, over 50 years.</li> <li>Further, we have also reported age diversity for staff in managerial and non-managerial roles.</li> </ul>	<p>% of employees per age group</p> <table border="1"> <caption>% of employees per age group</caption> <thead> <tr> <th>Age Group</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>&lt;30</td> <td>29%</td> </tr> <tr> <td>30-50</td> <td>65%</td> </tr> <tr> <td>50+</td> <td>6%</td> </tr> </tbody> </table> <p>Age diversity: &lt;30, 30-50, 50+</p> <p>Management: (light purple), (medium purple), (dark purple)</p> <p>Other Staff: (light grey), (medium grey), (dark grey)</p>	Age Group	Percentage	<30	29%	30-50	65%	50+	6%																
Age Group	Percentage																											
<30	29%																											
30-50	65%																											
50+	6%																											
	<b>Social Dialogue and Trade Unions</b> (% of employees covered by collective bargaining agreement)	Employee Relations are an extremely important factor in improving and maintaining workforce engagement. All Group employees have the right to representation through a collective bargaining agreement.	<ul style="list-style-type: none"> <li>In 2017 IAG established a European Works Council which covers all Group employees within the European Economic Area, representing over 95% of the total workforce.</li> </ul>	<p>% of employees covered by collective bargaining agreement</p> <table border="1"> <caption>% of employees covered by collective bargaining agreement</caption> <thead> <tr> <th>Year</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>2016</td> <td>88</td> </tr> <tr> <td>2017</td> <td>88</td> </tr> </tbody> </table>	Year	Percentage	2016	88	2017	88																		
Year	Percentage																											
2016	88																											
2017	88																											
	<b>Average hours of training</b> (hours per year, per employee)	Calculated by translating training data for airlines per FTE to show as training hours per Group Average Manpower Equivalent (AME)	<ul style="list-style-type: none"> <li>In 2017 our average hours of training increased significantly due to British Airways' investment in new Club World product and the introduction of the Buy on Board service. In addition, Vueling training increased with further focus on customer service.</li> </ul>	<p>Average hours training per employee per year</p> <table border="1"> <caption>Average hours training per employee per year</caption> <thead> <tr> <th>Year</th> <th>Hours</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>35.6</td> </tr> <tr> <td>2014</td> <td>37.3</td> </tr> <tr> <td>2015</td> <td>36.1</td> </tr> <tr> <td>2016</td> <td>34.9</td> </tr> <tr> <td>2017</td> <td>45.8 (31.2% increase)</td> </tr> </tbody> </table>	Year	Hours	2013	35.6	2014	37.3	2015	36.1	2016	34.9	2017	45.8 (31.2% increase)												
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2017	45.8 (31.2% increase)																											

## Future focus – our priorities for 2018 and beyond

In 2018 we look forward to making further progress with:

- Our Sustainable Aviation Fuels projects.
- Beginning the first action to implement CORSIA in preparation for emissions monitoring from January 2019.
- Using our new fuel efficiency software to identify more opportunities for fuel efficiency.
- Improving our external communications regarding sustainability initiatives.
- Driving continual improvement of our sustainability disclosures including exploring options for science based target recognition which, for aviation, requires acknowledgement of carbon offsetting as a viable, legitimate and necessary part of the pathway to decarbonisation.
- Continuing the roll-out of our environmental management system IEnVA.

## Sustainability in action

### Global aviation carbon offsetting scheme



In 2017 IAG's representatives working with IATA and ICAO helped deliver further progress with the global aviation carbon offsetting scheme CORSIA. In December 2017, the release of the document, known as the CORSIA Package, provided details of the Monitoring, Reporting and Verification requirements for

airlines and clarified how Sustainable Alternative Fuels will be credited within the scheme.

All airlines are required to prepare Emissions Monitoring Plans by September 30, 2018 and to begin emissions monitoring from January 1, 2019. As well as beginning our own preparations, we are also supporting

other airlines with theirs through an IATA "buddy" system.

We continue to comply with the EU Emissions Trading Scheme but our expectation is that CORSIA will replace the EU ETS as agreed in the 2016 ICAO General Assembly resolution, to ensure that we only pay for our CO<sub>2</sub> emissions once.

### Sustainable aviation fuel



IAG has been instrumental in driving progress on sustainable aviation fuels in CORSIA, with UK Government policy development and with partners to develop sustainable aviation fuel production facilities in the UK.

In 2017, British Airways entered a partnership with Velocys to design a series of waste plants that convert household waste into renewable jet fuel. The first plant will take hundreds of thousands of tonnes of household waste per year, otherwise destined for landfill or incineration, and convert it into sustainable fuels that provide

60% reduction in CO<sub>2</sub> compared to fossil-based jet fuel.

The UK's Department for Transport has indicated that future regulation will prioritise the production of sustainable aviation fuel beyond 2020 and intends to implement new legislation to support this during 2018. The UK government has also established a new Special Interest Group to support new research and development programmes for sustainable aviation fuels. These important policy incentives are vital for us to be able to invest in sustainable fuel production in the UK.

### Carbon fund



British Airways' carbon fund uses customer donations from flight bookings on ba.com to invest in renewable energy and energy efficiency projects to provide community benefits and mitigate climate change. The Carbon Fund supported three additional energy projects in 2017, including the largest project supported so far, providing energy efficient heating and lighting for a new community gymnastics center near London Heathrow airport. These projects bring the total completed to 24, exceeding €2 million in community benefits.

### Fuel efficiency



During 2017 we procured Honeywell GoDirect Fuel Efficiency software to help identify further fuel efficiency opportunities and enable group-wide benchmarking and reporting on aircraft fuel efficiency performance. During 2018 we will be implementing the tool across the Group and identifying priorities for future work.

Examples of fuel efficiency projects delivered during 2017 include:

- Further deployment of single engine taxiing, saving over 5000 tonnes of fuel across the Group.
- Exploiting sophisticated on board data sensors to optimise in-flight performance, for example upgrades to software on British Airways

Boeing 787 aircraft enabled more fuel efficient descents.

- Working with airport authorities and ground handling teams across our network to improve facilities and access to electrical and air conditioning ground equipment which reduces fuel burn from our aircraft auxiliary power units.
- Working with our air navigation providers and reviewing geopolitical developments to ensure we select the most fuel efficient flight paths.
- Cumulatively fuel efficiency savings across the Group in 2017 amount to over 30,000 tonnes of fuel and 95,000 tonnes of CO<sub>2</sub> emissions.

### Modern slavery



Our Group Modern Slavery Standing Instruction sets out IAG's zero tolerance approach to Modern Slavery. This Instruction applies to all persons working for us or on our behalf in any capacity. Our Modern Slavery Working Group met regularly during 2017 to monitor the Group's progress in tackling slavery and discuss any issues. The Group boards are kept informed of any major developments. Other relevant IAG Group policies include our Supplier Code of Conduct and Equal Opportunities Policy. Where IAG Group companies have their own local policies, we are reviewing these to ensure they include the appropriate clauses on Modern Slavery.



## Noise



Continuous descent operations (CDO) help reduce noise by keeping aircraft higher over the ground for longer, and save fuel. British Airways and Aer Lingus are already among the top performing airlines, regularly achieving over 90 per cent compliance. During 2017 Iberia and Vueling continued their focus on improving CDOs, bringing all our carriers to over 80 per cent CDO compliance at London Heathrow.

All our airlines monitor operational noise performance to ensure flights are operated sensitively and to identify improvements where possible. Departing flights at Heathrow are expected to fly within Noise Preferential Routes (NPRs), and British Airways performance on NPRs in 2017 was 98.5%. To further improve track-keeping, in August 2017 a new procedure to reduce the turn radius on Boeing 747 operations using the Midhurst route was presented to community groups, who welcomed the initiative. Results from operational monitoring show that Boeing 747 track adherence has significantly improved, providing noise improvements for the local community.

## Air quality



British Airways has completed the rollout of its new Mototok electric aircraft pushback tug, across Heathrow Terminal 5 short-haul operations. The equipment replaces traditional diesel tugs, allowing a single ramp agent to push an aircraft backwards from the gate remotely. Emissions-free at the point of use and charged from the airport's renewable electricity supply, the device can move planes smoothly and with precision.

The Iberia Ground Handling Equipment Renewal Plan has replaced 1,411 ground equipment vehicles during 2016 and 2017, representing 52 per cent of the ground vehicle fleet now complying with latest emissions standards. In addition, 29 per cent of Iberia's motorised ground vehicles are now electric, meeting Iberia's goals to reduce climate impacts and improve air quality.

## Waste



During 2017, Iberia continued to lead the EU project 'LIFE+ Zero Cabin Waste' which is developing best practice guidance for sustainable cabin waste management which will be shared and applied across other airports and airlines around the world. Key progress in 2017 included:

- Analysing the cabin waste in 165 Iberia flights.
- Testing different trolley designs and gathering cabin crew feedback.
- Preparing a new procedure for future cabin waste management.
- Training cabin crew and highlighting potential environmental benefits of sustainable cabin waste management.

In 2018 the project objectives are to select a new trolley design that allows segregation of recyclable and non-recyclable waste, further cabin crew training and implementing selective collection of waste on Iberia flights initially on domestic and intra-EU flights before extending to international during 2019.

IAG hosted IATA aircraft end of life workshop revealing opportunities for shorter aircraft life cycles and accelerated noise and emissions improvements due to potential for more value to be extracted from end of life aircraft. The workshop brought together industry experts to share best practice and feed into an IATA best practice guide for treatment of end of life aircraft.

IAG and British Airways began work to review the use of single-use plastics across their headquarters and Heathrow estate. During 2018 we are working to reduce the volume of plastic used, source non-plastic alternatives and improve the segregation and recovery of the plastics we use.

## Charity



British Airways Community Investment programme raised £7.2 million through direct and in-kind donations in 2017. This includes donations to Flying Start, British Airways corporate charity partnership with Comic Relief, and a £50,000 donation to victims of the Grenfell fire in London. In 2017 Iberia transported 25 tons of humanitarian aid to Africa, Europe and Latin America. Iberia also continued their collaboration with UNICEF and Amadeus on the Global Immunisation Initiative, raising €140,000 in 2017 to support the children's vaccinations. Iberia has also raised €180,000 in support of charitable projects, including raising awareness of domestic violence and childhood cancer. Vueling customers and staff raised more than €300,000 in 2017. Internationally, Vueling continues to support the Make a Wish Foundation and Save the Children. Domestically, Vueling has teamed up with Femarec to employ people with disabilities to support recycling activities. Aer Lingus staff raised €41,400 through participation in the Dublin and Berlin Marathons and an on board collection in aid of Breast Cancer Awareness. They also donated €25,000 to the Gaelic Players Association to fund a Mental Health Initiative and supported a further 33 local charities with Aer Lingus flights worth €25,000 in the form of prizes for fundraising purposes.

## Supply Chain



Since 2014 IAG has undertaken targeted Corporate Social Responsibility (CSR)/ Social audits at factory and final assembly locations used to produce IAG related products and services around the world. IAG continuously identifies supply categories where goods or services are potentially sourced in high-risk areas and requires suppliers to provide visibility of their supply chains. IAG is committed to procuring goods and services from suppliers who demonstrate ethical principles in the way they conduct their business and we are continuing to enhance our supply chain CSR strategy and engage with suppliers on standards of quality, safety, environmental responsibility and human rights.

## Occupational health and safety

We have robust governance to manage Health and Safety (H&S) within each of our businesses and at the IAG Safety Board we review aspects of H&S including accidents at work (staff and customers), statistics on days lost as a result of H&S issues and also actions placed upon us by H&S agencies.

## Ethics and Integrity

IAG and its operating companies have policies and procedures in place setting out the general guidelines that govern the conduct of directors, executives and employees of the Group when carrying out their duties in their business and professional relationships. All directors, executives and employees are expected to act with integrity and in accordance with company policies and the laws of the countries they operate in.

Various training and communications activities are carried out for employees, suppliers and intermediaries to support awareness of the principles that govern the conduct of the Group and its employees.

All IAG employees are bound by the Securities Code of Conduct and the anti-bribery policies of IAG and their respective operating companies.

The IAG Supplier Code of Conduct applies to the supply of goods or services to the Group and requires suppliers to:

- Act with honesty and integrity at all times in all our business dealings
- Provide a safe working environment where employees are treated with dignity and respect
- Seek to minimise and reduce our impact on the environment
- Provide supply chain transparency and improve supply chain standards

## Grievance Reporting

Several resources are available across the Group for employees to get advice or to report grievances or any alleged or actual wrongdoing. There are whistle-blowing channels provided by Safecall and Ethicspoint available throughout the Group, where concerns can be raised on a confidential basis. The IAG Audit and Compliance Committee reviews the effectiveness of whistle-blowing channels on an annual basis. This annual review considers 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.

## Anti-Bribery Policy and Programme

IAG and its operating companies all have an anti-bribery policy and these are made available to all employees. Training courses on anti-bribery policies and procedures are delivered throughout the year. Training requirements vary by operating company and are determined by factors such as the level and responsibilities of an employee.

The Group's anti-bribery programme (the programme) is designed to prevent, detect and respond to possible breaches of the Group's anti-bribery policies or anti-bribery laws, including offences covered by the Spanish Criminal Code. The compliance teams across the Group meet regularly to discuss the status of the programme, updates to policies and procedures, emerging trends, third-party risk-based anti-bribery due diligence activity and review the status of ongoing projects.

The compliance teams in IAG and the operating companies conduct an annual review of bribery risks across the Group. The main risks reviewed in 2017 included risks relating to:

- the use of third parties
- operational and commercial decisions involving government agencies
- gifts and hospitality

The Audit and Compliance Committee of the IAG Board receives an annual update on the programme.

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## Corporate governance

### In this section

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

# Building an expert and effective governance structure



“We have continued to refresh and strengthen the Board to make sure, as our business grows, we have the right structure and skills to both support and challenge the management team.”

**Antonio Vázquez**  
Chairman

On behalf of the Board, I am delighted to present the Corporate Governance report for 2017, a year of high achievement and growth across all parts of International Airlines Group despite some significant external challenges, particularly on the political front.

Firstly, I want to say that I am very happy with the way our corporate governance is evolving. There's always more we can do to improve our structures and procedures, of course. But I can assure you our ambition as a Board, and as a business, is to aim for best practice at all times.

The fact that we are a relatively young company – it is just seven years since British Airways and Iberia merged to form IAG – has helped. Because we are fresh and new, we have been able to establish our particular approach to governance, ensuring that we adopt, as appropriate, the latest recommendations.

In addition, being a company listed in both the Spanish and London stock exchanges also means that we have two demanding codes to comply with and that has added further rigour to our approach. My fellow Board directors and I are also very conscious of the need to achieve best practice in compliance and we strive constantly to show leadership in that regard.

We work in a complex industry, which is undoubtedly more prone to volatility and change than most. IAG's aim has always been to find a way to manage that volatility and continue to grow in a dependable and value-creating way, for the long-term. In that context the role the Board plays in supporting, guiding and challenging the management team is incredibly important. This is vital too in a year when the business is performing well, as was the case in 2017 – a year which saw all of our operating airlines achieve record results and IAG expand its portfolio of airline brands with the launch of LEVEL, our new low-cost, longhaul offering.

I believe we have a very effective approach in place that allows the Board to play a proper supervisory role and add real value to the business.

## Key areas of focus

Each year we identify key relevant issues for the Board to focus on, beyond its normal supervisory duties, and these are matched closely to developments within the Group and challenges that the business is facing.

In 2017 the key areas of focus included a review of customers and brand positioning, digital strategy (including the development of the Hangar 51 tech accelerator initiative), Brexit, climate change and our main environmental impact measures, the EU's 261 regulations on compensation for air travellers, and a review of IT and cybersecurity, as well as a number of specific strategy briefings.

In addition, our annual two-day strategy session was both thorough and fruitful, offering directors time to discuss performance, challenges and opportunities in depth and to spend valuable time with senior management.

We improved planning for Board activities during the year, giving Board members and the management team the chance to request and suggest topics for discussion. These are now included in a rolling planner and debated by the Board twice a year.

In 2017 we also staged a number of events and visits to help directors gain a richer understanding of the industry and immerse themselves in key parts of the business. These included a visit to IAG Cargo in February and to Vueling in Barcelona, where we held our May meeting. There was also a special session in July to review and debate macro-economic and industry trends.

### Refreshing and regenerating the Board

Over the course of our seven-year history we have adjusted the size of the Board – from 14 to 12 members – and regularly refreshed our, always excellent, cadre of directors.

We do this not only to comply with the rules on tenure set out in the codes with which we abide, but because we do believe that to regenerate the Board regularly, bringing in people with new skills and experience, is a very good thing in itself.

Our succession planning and recruitment approach is thorough, transparent and inclusive, allowing all members of the Board to assess and, if they choose, meet short-listed candidates. We aim always to attract people with a broad and relevant balance of experience, sector knowledge and skills.

This is important because it ensures that we have the right knowledge to engage in meaningful conversations with the management team. If we do not understand the issues, we cannot scrutinise their work or offer proper guidance.

We also look to have a balance of geographic representation, reflecting the main markets that IAG works in. Today our Board includes directors from France, Latin America, the US, Spain and the UK. We are also committed to achieving greater gender diversity by appointing highly skilled women to the Board. There are three female directors currently, but we remain committed to raising that number to four by 2020.

During the year Baroness Kingsmill stepped down from the Board after many years of fantastic service to both British Airways and IAG. I would like to offer her my sincere thanks for all she has contributed to these companies.

We were delighted to appoint Nicola Shaw as her replacement, not least because of her long experience in the transport sector and the fact that she has served on the Board of Aer Lingus, but because she brings other great insights from the worlds of public policy, regulation and the utilities. She joined us in January and on behalf of the Board I would like to offer her a very warm welcome.

### Board effectiveness

Our four Board committees – Audit and Compliance, Remuneration, Nominations and Safety – are all functioning very well and I am happy that we have the right balance of skills on these too.

We continue to review the effectiveness of the Board internally every year and commission external reviews at regular intervals to get an outside perspective. I lead the internal evaluation process supported by the Board Secretariat, talking to my colleagues individually and collectively to gather their views on the Board's effectiveness.

We had some very fruitful discussions during this process, which provided an opportunity to review our progress. We have also agreed that two issues should be at the forefront of our work in 2018 – how, as a Board, we can make a meaningful contribution to IAG strategy and executive succession planning.

### Remuneration review

In 2017 the Remuneration Committee carried out a thorough review of our remuneration policy to make sure it was in line with best practice and will present a report to our shareholders meeting this year.

We have developed proposals for executive remuneration over the next three years, and after taking soundings with our principal shareholders and the financial community, this will also be presented at the shareholders meeting and put to a binding vote.

### Outlook

These are exciting times for IAG but some significant challenges lie ahead.

I am sure that we have an extremely capable and effective Board who can help direct the Company through these challenges and help steer it on its path of sustainable growth.

I thank all of my fellow directors for the superb contribution they make.

**Antonio Vázquez**  
Chairman



## Board of Directors



**Antonio Vázquez**  
Chairman



**Key areas of experience:**  
consumer, sales/marketing,  
finance, governance

**Current external appointments:**  
Member, Advisory Board of the Franklin  
Institute. Member, Cooperation Board  
of Loyola University. Trustee, Nantik  
Lum Foundation.

**Previous relevant experience:**  
Chairman, Iberia 2012-2013. Chairman and  
CEO, Iberia 2009-2011. Chairman and CEO,  
Altadis Group 2005-2008. Chairman, Logista  
2005-2008. 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. Began his professional  
career in consultancy at Arthur Andersen & Co.



**Willie Walsh**  
Chief Executive Officer



**Key areas of experience:**  
airline industry

**Current external appointments:**  
Chairman of the National Treasury  
Management Agency of Ireland. Member of  
the IATA Board of Governors.

**Previous relevant experience:**  
Chairman, IATA Board of Governors 2016-2017.  
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.



**Patrick Cescau**  
Senior Independent Director



**Key areas of experience:**  
consumer, finance, sales/  
marketing, governance

**Current external appointments:**  
Chairman, InterContinental Hotel Group.  
Trustee, LeverHulme Trust. Member, Temasek  
European Advisory Panel. Patron, St Jude India  
Children's Charity.

**Previous relevant experience:**  
Senior Independent and Director, Tesco 2009-  
2015. Director, INSEAD 2009-2013. Senior  
Independent Director, Pearson 2002-2012.  
Group Chief Executive, Unilever 2005-2008.  
Chairman, Unilever UK. Deputy Chairman,  
Unilever The Netherlands, Food Director. Prior  
to being appointed to the Board of Unilever  
in 1999 as Group Finance Director, he was  
Chairman of a number of the company's major  
operating companies and divisions including  
the USA.



**Marc Bolland**  
Non-Executive Director



**Key areas of experience:**  
general management, commercial  
management/marketing, retail,  
hospitality industry

**Current external appointments:**  
Head of European Portfolio Operations,  
The Blackstone Group. Director, Coca-Cola  
Company. Non-Executive Director, Exor S.p.A.  
Vice President, UNICEF UK.

**Previous relevant experience:**  
Chief Executive, Marks & Spencer 2010-2016.  
Chief Executive, WM Morrison Supermarkets  
PLC 2006-2010. Director, Manpower USA  
2005-2015. Chief Operating Officer 2005-  
2006, Director 2001-2005 and other executive  
and non-executive positions, Heineken  
1986-2001.

### Committee Membership Key

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



**Enrique Dupuy de Lôme**  
Chief Financial Officer



**Key areas of experience:**  
finance, airline industry

**Current external appointments:**  
Chairman, Iberia Cards.

**Previous relevant experience:**  
CFO, 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, 2003-2005.



**James Lawrence**  
Non-Executive Director



**Key areas of experience:**  
finance, consumer, airline sector

**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. Non-Executive Director  
of AerCap Holdings N.V.

**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 CFO,  
Unilever 2007-2010. Vice Chairman, CFO and  
Head of International, General Mills 1998-2007.  
Executive Vice President and CFO, 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 & Company  
1977-1983.



**María Fernanda Mejía**  
Non-Executive Director



**Key areas of experience:**

general management, marketing and sales, supply chain, strategic planning, corporate transactions

**Current external appointments:**

Senior Vice President, The Kellogg Company. President, Kellogg Latin America. Corporate Officer and member of The Kellogg Company Executive 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 2010-2011, Vice-President Marketing and Innovation Europe/South Pacific Division, Colgate-Palmolive 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.



**Kieran Poynter**  
Non-Executive Director



**Key areas of experience:**

professional services, finance services, corporate governance, corporate transactions

**Current external appointments:**

Chairman, F&C Asset Management, Senior Independent Director and Chairman of the Audit Committee, British American Tobacco.

**Previous relevant experience:**

Chairman, Nomura International 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. UK Chairman and Senior Partner, PricewaterhouseCoopers 2000-2008. UK Managing Partner and other executive positions, PricewaterhouseCoopers 1982-2000.



**Emilio Saracho**  
Non-Executive Director



**Key areas of experience:**

corporate finance, investment banking, corporate transactions

**Current external appointments:**

Advisor, Cinven Spain. Director, Altamar Capital Partners. Director, Inditex.

**Previous relevant experience:**

Chairman, Banco Popular Español, 2017. Vice Chairman and Member Investment Banking Management Committee, JPMorgan 2015-2016. Deputy CEO 2012-2015, CEO Investment Banking for EMEA 2012-2014 and member Executive Committee 2009-2013, JP Morgan. CEO, JP Morgan Private Banking for EMEA 2006-2012. Director, Cintra 2008. Director, ONO 2008. Chairman, JP Morgan Spain & Portugal 1998-2006. Global Investment Banking Head, Santander Investment (UK) 1995-1998. Spanish Market Manager, Goldman Sachs International 1990-1995.



**Dame Marjorie Scardino**  
Non-Executive Director



**Key areas of experience:**

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

**Current external appointments:**

Senior Independent Director, Twitter, Senior Independent Director, 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 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.



**Nicola Shaw**  
Non-Executive Director



**Key areas of experience:**

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

**Current external appointments:**

Executive Director, National Grid plc. Member of the Audit and Risk Committee, English Heritage. Director for Major Projects Association.

**Previous relevant experience:**

Non-Executive Director and Chairwoman of the Audit Committee, Ellevio AB 2015-2017. CEO, HSI Ltd 2011-2016. Member of the Department for Transport's Rail Franchising Advisory Panel 2013-2016. Non-Executive Director, Aer Lingus Plc 2010-2015. Charity Trustee, Transaid 2011-2013. Director and previously Managing Director, Bus Division at FirstGroup plc 2005-2010. Director of Operations and other management positions at the Strategic Rail Authority 2002-2005. Deputy Director and Deputy Chief Economist, Office of the Rail Regulator (ORR) 1999-2002. Associate, Halcrow Fox 1997-1999. Transport specialist, The World Bank 1995-1997. Corporate planner, London Transport 1990-1993.



**Alberto Terol**  
Non-Executive Director



**Key areas of experience:**

finance, professional services, information technology, hospitality industry

**Current external appointments:**

Leading Director and Chairman of the Nominations, Remuneration and Corporate Governance Committee, Indra Sistemas, Chairman of the Supervisory Board, Servion. Director, Broseta Abogados. International Senior Advisor, Centerbridge. Independent Director, Varma. Independent Director, Schindler España. Patron of Fundación Telefonica. Executive Chairman of various family owned companies.

**Previous relevant experience:**

Director, OHL 2010-2016. Director, Aktua 2013-2016. Director, N+1 2014-2015. International Senior Advisor BNP Paribas 2011-2014. Member, Global Executive Committee Deloitte 2007-2009. Managing Partner, EMEA Deloitte 2007-2009, Managing Partner Global Tax & Legal Deloitte 2007-2009. Member, Global Management Committee Deloitte 2003-2007. Managing Partner, Latin America Deloitte 2003-2007, Integration Andersen Deloitte 2002-2003, Europe Arthur Andersen 2001-2002, Global Tax & Legal Arthur Andersen 1997-2001, Garrigues-Andersen 1997-2000.

# Corporate governance

## IAG as a Group

IAG is responsible for the Group's strategy and business plan. It centralises the Group's corporate functions, including the development of its global platform.

### Board\*

Comprises ten non-executive directors and two executive directors (IAG CEO and CFO) and is responsible for:

- the supervision of the management of the Company
- the approval of the strategy and general policies of the Company and the Group
- the determination of the policy on shareholders' remuneration
- ensuring the effectiveness of the Company's corporate governance system
- approval of any significant contractual commitment, asset acquisition or disposal or equity investment or divestment
- the definition of the Group structure
- the approval of major alliances
- the definition of the shareholders disclosure policy
- approval of the risk management and control policy, including the Group's risk appetite

### Chairman

Antonio Vázquez

- chairs the shareholders' meetings
- leads the Board's work
- sets the Board's agenda and directs its discussions and deliberations
- ensures that directors receive accurate, timely and clear information, including the Company's performance, its strategy, challenges and opportunities
- ensures that there is an effective communication with shareholders and that directors and executives understand and address the concerns of investors
- offers support and advice to the Chief Executive
- promotes the highest standards of corporate governance

### Audit and Compliance Committee

- reviews the activity and performance of the external auditor, preserving their independence
- supervises the effectiveness of the internal control of the Company, the internal audit and the risk management systems
- supervises the process for the preparation of the Group's financial results, reviewing the Company's accounts and the correct application of the accounting principles
- assess and oversees the Company's compliance system
- reviews the Company's CSR and sustainability policy

### Nominations Committee

- evaluates and makes recommendations regarding the Board and committee composition
- submits to the Board the proposed appointment of independent directors
- puts in place plans for the succession of directors, for the Chairman and the Chief Executive
- oversees and establishes guidelines relating to the appointment, recruitment, career, promotion and dismissal of senior executives
- reports on the proposed appointment of senior executives
- monitors compliance with the company's director selection and diversity policy

### CEO

Willie Walsh

- is responsible and accountable to the Board for the management and profitable operation of the Company
- leads the Company's management team
- oversees the preparation of operational and commercial plans
- develops an effective management strategy
- puts in place effective controls
- co-ordinates the activities of the Group

### Remuneration Committee

- reviews and recommends to the Board the directors and senior executive remuneration policy
- reports to the Board on incentive plans and pension arrangements
- monitors compliance with the Company's remuneration policy
- ensures compliance with disclosure requirements regarding directors' remuneration matters

### Senior Independent Director

Patrick Cescau

- provides a sounding board for the Chairman
- serves as intermediary for the other directors when necessary
- is available to shareholders, should they have any concerns they cannot resolve through the normal channels
- leads the evaluation of the Chairman's performance annually

### Safety Committee

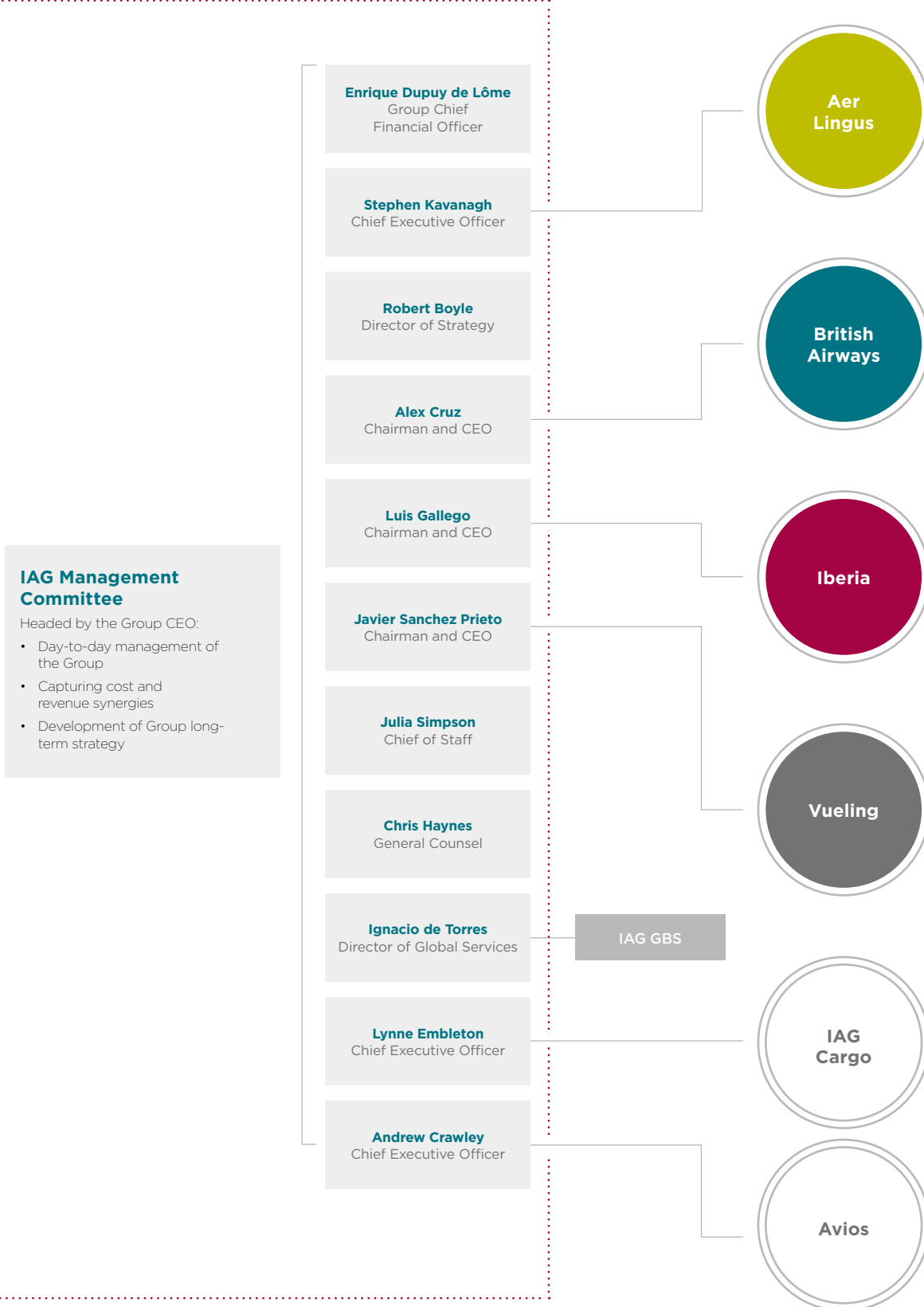
- receives material safety information about any subsidiary or franchise, codeshare or wet lease provider
- exercises a high level overview of the safety activities and resources
- follows up on any safety related measures as determined by the Board

\* List of Board's reserved matters can be found in Article 3 of the Board Regulations, available on the Company's website.

### The Group operating companies

Each operating company is responsible for the management of their respective businesses and accountable for the implementation of the joint business and synergy plan.

Each company has its own board of directors and its own executive committee, led by the top executive of each company.



**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 ("FRC") as amended from time to time. A copy of the current version of the UK Corporate Governance Code (updated and published in April 2016) is available at the website of the FRC ([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 can be found in the Corporate Governance section of the Company's website.

The Company considers that during the year it has complied with all the provisions of the UK 2016 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 believes that, notwithstanding the above exception, it has a robust governance structure.

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's Governance Reports are available on the Company's website.

The Spanish Annual Corporate Governance Report is part of the Management Report. It is available on the Spanish Comisión Nacional del Mercado de Valores website ([www.cnmv.es](http://www.cnmv.es)), where it was published together with the Company's annual financial statements.

**Board composition and diversity**

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, 2017 the Board composition was:

Name of Board Member	Position/Category	First appointed
Antonio Vázquez	Chairman	May 25, 2010
Willie Walsh	Chief Executive Officer	May 25, 2010
Patrick Cescau	Senior Independent Director	September 27, 2010
Marc Bolland	Director (independent)	June 16, 2016
Enrique Dupuy de Lôme	Chief Financial Officer	September 26, 2013
James Lawrence	Director (other external)	September 27, 2010
María Fernanda Mejía	Director (independent)	February 27, 2014
Kieran Poynter	Director (independent)	September 27, 2010
Emilio Saracho	Director (independent)	June 16, 2016
Dame Marjorie Scardino	Director (independent)	December 19, 2013
Alberto Terol	Director (independent)	June 20, 2013



In addition, the appointment of Nicola Shaw as a non-executive director, which was approved at the Shareholders' Meeting in June 2017, became effective on January 1, 2018.

The Board Secretary is Álvaro López-Jorrín, partner of the Spanish law firm J&A Garrigues, S.L.P, and the Deputy Secretary is Lucila Rodríguez.

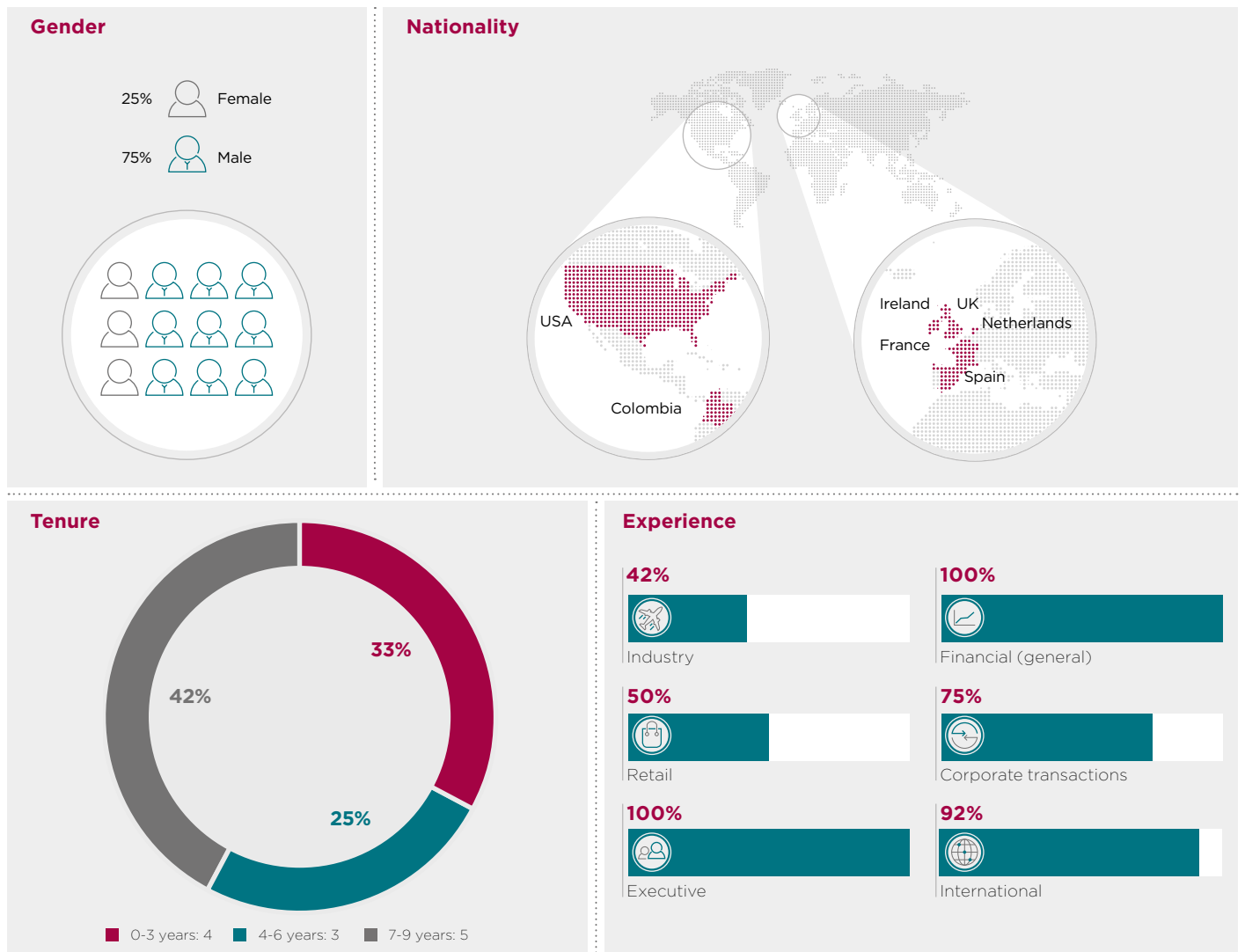
The IAG Board currently comprises ten non-executive directors and two executive directors, IAG's Chief Executive Officer and Chief Financial Officer.

The Company is attentive to the need for progressive refreshing of the Board and committee membership. Any changes to the Board and the committees are carefully considered and planned so as to minimise disruption to and maintain the continuity of the Board's and committees' work and to ensure that the appropriate balance of skills, experience and stability is preserved

in accordance with the Company's circumstances and strategy. The Board's composition is regularly refreshed, with half of the non-executive directors appointed within the last four years. The non-executive directors bring a strong, independent element to the Board, and contribute a broad range of expertise and experience, as well as a strong blend of skills. Non-executive directors are drawn from a wide range of industries and backgrounds, including the airline, retail, and travel and leisure sectors and have appropriate experience of complex organisations with global reach, having executive business experience. For further details see the Nominations Committee report on pages 76 - 78.

In terms of gender diversity, the Company currently has a 25 per cent female representation on the Board, and in terms of nationality, the IAG Board includes directors from a variety of origins and cultures as set out in the chart below.

**Board diversity\***



\* Board composition as of January 1, 2018.

In accordance with the Spanish Corporate Governance Code the Company has a Directors Selection and Diversity Policy. The objective of this 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, detailing the process for appointing directors and the Company's diversity principles. Information on compliance with this policy is included as part of the Nominations Committee Report.

The Directors Selection and Diversity Policy establishes a female representation objective of 33 per cent by the end of 2020 following the recommendation included in the final Davies Report published in 2015 in the UK. 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 53.

### Board and committee meetings

The Board met 11 times during the reporting period. The Board also held its annual two-day strategy meeting in September 2017. During the reporting period, the Chairman and the non-executive directors met on two occasions without the executives present. The Senior Independent Director discussed the Chairman's performance with all directors without the Chairman being present.

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

Director	Board <sup>1</sup>	Audit and Compliance Committee	Nominations Committee	Remuneration Committee	Safety Committee
<b>Total in the period</b>	11	8	6	5	2
Antonio Vázquez	11	-	6	-	2
Willie Walsh	11	-	-	-	2
Marc Bolland <sup>2</sup>	9	-	-	5	1
Patrick Cescau	10	8	5	-	-
Enrique Dupuy de Lôme <sup>2</sup>	10	-	-	-	-
Baroness Kingsmill <sup>3</sup>	5/5	-	2/4	2/3	-
James Lawrence <sup>4</sup>	11	3/4	-	-	-
María Fernanda Mejía <sup>2</sup>	9	7	-	4	-
Kieran Poynter	11	8	-	-	2
Emilio Saracho <sup>2</sup>	10	-	6	-	-
Dame Marjorie Scardino <sup>2</sup>	9	-	6	5	-
Alberto Terol	11	8	-	5	-

1 In addition to the nine scheduled meetings, there were two additional telephone meetings (extraordinary) that were called at short notice.

2 Marc Bolland, María Fernanda Mejía, Enrique Dupuy, Emilio Saracho and Dame Marjorie Scardino could not attend one of the two extraordinary Board meetings called during the year.

3 Baroness Kingsmill retired from the Board with effect from June 15, 2017.

4 James Lawrence resigned from the Audit and Compliance Committee on June 15, 2017.

The Board maintains a rolling plan including regular and specific upcoming issues. This plan of activities is updated before each meeting and is open to directors' suggestions as a regular item on the Board agenda twice a year. In 2017, in addition to the regular consideration of financial and operating performance, the Board received presentations on a variety of topics including strategy, shareholder and investor updates (including the presence of the Company's brokers), as well as customer and brand matters. In its October meeting the Board considered the Group risk map and reviewed the effectiveness of its risk management and internal control systems. In its December agenda the Board also included a meeting with the external auditor covering the work undertaken and the evolution of the Company's risks and accounting position.

### Board information and training

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.

In 2017 the Board received specific briefings on key developments, such as the ongoing negotiations regarding the UK's exit from the EU, climate change and environmental matters and general Corporate Social Responsibility matters, including the impact of EU Regulation 261. Furthermore, a specific industry trends briefing session was held in July with the participation of an external speaker.

In addition, two on-site sessions were organised to help non-executive directors deepen their knowledge of the Group's operations, as well as providing them with an opportunity to

meet with various management teams. This year one of the on-site sessions was devoted to IAG Cargo and was held at its offices at Heathrow and another was held in Barcelona with the Vueling team.

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. Training sessions have been included in the Board annual planner for 2018.

### Induction programme

New directors receive a comprehensive induction programme that is tailored to individual requirements. The programme includes one-to-one meetings with management, both at IAG level and throughout the Group, offering directors a complete overview of the 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. In addition to this, specific induction sessions are arranged when a Board member joins one of the committees.

## Induction programme prepared for Nicola Shaw

### Phase 1



#### November 2017

Induction pack

Key corporate documents including:

- General corporate information
- IAG Corporate Governance
- 2017 Shareholders' meeting material
- Business information
- Board of Directors historical information (access granted in January 2018)
- Administrative information

### Phase 2



#### First quarter 2018

Introduction to IAG MC and other key executives

A series of meetings with key executives:

#### Director of Strategy

- Introduction to the sector
- Business basics and strategy

#### Chief Financial Officer

- IAG finance particulars and financial targets
- Fleet acquisition model
- Hedging policy and risk map

#### CEOs of Operating Companies

- Presentation of each OpCo
- Business model
- Competitive landscape
- Strategy and current position

#### General Counsel

- Company's history / IAG dual listing
- Aviation regulation
- Litigation
- Group corporate governance
- Anti-bribery and compliance matters

#### Chief of Staff

- Communication particulars
- Regulatory and Government Affairs
- Sustainability policy

#### Director of Global Services

- Evolution from cost synergies to the GBS platform

#### CEO of Avios

- Presentation and business model
- Strategy and current situation

#### Head of Investor Relations

- Capital structure
- Main shareholders
- Main analysts' coverage

#### Board Secretary

- General Board matters
- Spanish corporate governance framework
- Directors' duties

### Phase 3



Sites and OpCos visits



**Board and committee evaluation**

Following the external evaluation carried out in 2016, an internal evaluation was facilitated in 2017. The review took the format of a self-assessment survey, including directors’ opinions on a number of topics. The Board Secretary prepared a report that was shared with the Nominations Committee, and then submitted to the Board for a more detailed discussion in January 2018, including the outcome of the different committees’ specific evaluations.

The review concluded that the Board and the committees continue to operate effectively and progress made against the 2017 action plan was unanimously acknowledged.

	Areas identified for action	Progress/achievements
<b>Strategy and business oversight</b>	Provide further context for Board strategy discussions, enhancing visibility of changing environment	An industry session was organised followed by a discussion with the Group airline’s CEOs. More contextual industry and market information has been regularly provided to directors
	Enrich non-financial information reporting to the Board	Operative information and oversight has been reinforced through regular presentations from the operating companies and through regular reporting to the Board
	Implement suggestions to further improve the effectiveness of the annual strategy session	Improvements were implemented in the 2017 two-day strategy session
<b>Risk agenda</b>	Increase coverage and visibility of risk priorities across the Board’s forward agenda	Review of the Group risk map and a direct report to the Board from the external auditor were included in the Board agenda. The Audit and Compliance Committee’s forward planner identifies future risk based presentations and coordinates reporting to the Board. Particular focus was given in 2017 to cyber and general IT risks as well as to risks related to Brexit
<b>Board performance</b>	More dynamic management of the Board planning agenda, ensuring focus on agreed priorities, including training and development	Rolling calendar with upcoming topics is regularly circulated to directors and reviewed at the May and December Board meetings
	Continue to encourage site visits and other opportunities to engage with management	Two site visits were arranged in 2017 to the IAG Cargo and Vueling teams, including some informal time spent with executives
<b>Succession planning</b>	Succession planning at both Board and executive level should remain a priority	The Nominations Committee predominantly reviewed succession planning in its May and September meetings
	Further formalise the process and reinforce the report to the whole Board	Improvements to the succession planning process were agreed and implemented
	Continue analysis of the Board skills matrix and discussions on future domain knowledge priorities	A Board succession plan and an updated skills matrix was reviewed and discussed by the Nominations Committee and shared with the Board in September 2017. Board composition was also discussed and priorities set as part of the Board evaluation exercise
	At executive level, strengthen focus on talent development	Succession plans and talent development approach for the top 50 positions was reviewed by the Nominations Committee

The Board remains committed to consolidating the improvements achieved last year and making further progress during 2018. The key actions agreed by the Board following this year’s evaluation include:

- Identified areas of focus for Board consideration during 2018.
- Create more opportunities for deeper strategic discussions.
- Strengthen contact with senior executives within the Group.
- Maintain focus on executive succession planning, including talent development programmes.

The Senior Independent Director discussed the performance of the Chairman with all the directors. Additionally, the Chairman met with each director individually to discuss their contribution to the Board, the functioning of the Board as a whole, as well as an assessment of performance against the objectives agreed for 2017.

## 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 effective communication with shareholders takes place and that directors and executives understand and address investors' concerns. The Board is briefed on a regular basis by the Group Head of Investor Relations and analysts' reports are circulated to all directors. During 2017, the Board discussed shareholder matters on three different occasions, one of which included the Company's corporate brokers.

The Board has a Shareholder Communication 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 businesses.

Regular shareholder meetings were held with executive directors, and the investor relations team during 2017. The Chairman, the Chair of the Remuneration Committee, the Senior Independent Director accompanied by the Group Head of Investor Relations, met with many of IAG's largest shareholders to discuss, amongst other matters, strategy, governance and remuneration.

The Group's medium to long-term plans and targets were discussed in detail in a full day of presentations given by the senior management teams of the Group at the annual Capital Markets day that took place in London on November 3, 2017. Non-executive directors are invited to 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.

## Other statutory information

### 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 which are available 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 15, 2017 authorised the Board, with the express power of substitution, for a term ending at the 2018 Annual General Meeting (or, if earlier, 15 months from June 15, 2017), 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 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 15, 2017.
- (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 15, 2017, 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.
- (v) reduce the share capital by means of cancelling up to 190,000,000 shares (8.9 per cent of the share capital).

The shares acquired pursuant to this authorisation may be delivered directly to the employees or directors of the Company or its subsidiaries or as a result of the exercise of option rights held thereby. For further details see note 28 to the Group financial statements.

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

### Company's share capital

During the year the following change to the share capital occurred.

	Share capital (euros)	Number of shares/voting rights
December 18, 2017	1,028,994,647	2,057,989,294

Under the above mentioned authority the Company purchased 74,999,449 shares which were cancelled on December 18, 2017 reducing the share capital in the amount of 37,499,724.50 euros.

### Capital structure and shareholder rights

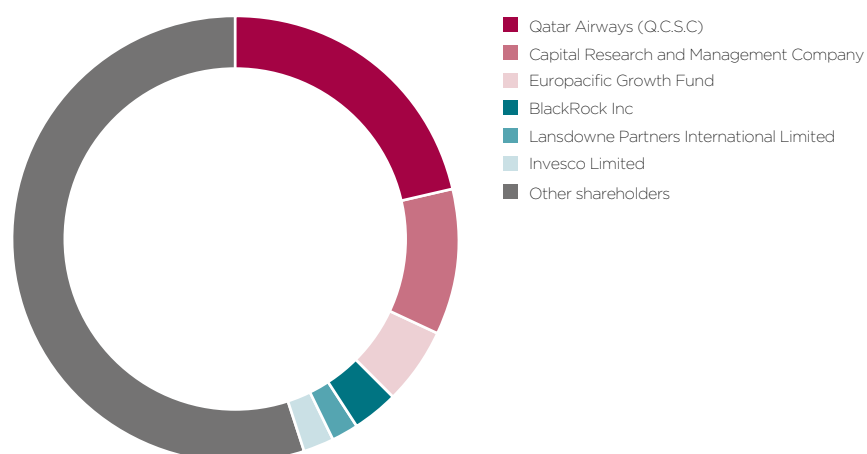
As of December 31, 2017, the share capital of the Company amounted to 1,028,994,647 euros (2016: 1,066,494,371.50 euros), divided into 2,057,989,294 shares (2016: 2,132,988,743 shares) of the same class and series and with a nominal value of 0.50 euros each, fully subscribed and paid.

As of December 31, 2017 the Company owned 9,940,991 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 two ordinary shares and each ADR holder is entitled to the financial rights attaching to such shares, although the ADR depository, Deutsche Bank, is the registered holder. As at December 31, 2017 the equivalent of 8.0 million shares was held in ADR form (2016: 5.6 million IAG shares).

The significant shareholders of the Company at December 31, 2017, calculated according to the Company's share capital as at the date of this report and excluding positions in financial instruments, were:



Name of shareholder	Number of direct shares	Number of indirect shares	Name of direct holder	Total shares	Percentage of capital
■ Qatar Airways (Q.C.S.C.)	-	426,811,047	Qatar Airways Luxembourg, S.à.r.l.	426,811,047	20.739%
■ Capital Research and Management Company	-	213,580,659	Collective investment institutions managed by Capital Research and Management Company	213,580,659	10.378%
■ Europacific Growth Fund	107,329,400	-	-	107,329,400	5.215%
■ BlackRock Inc	-	66,570,416	Funds and accounts managed by investors controlled by BlackRock Inc.	66,570,416	3.235%
■ Lansdowne Partners International Limited	-	41,828,809	Funds and accounts managed by Lansdowne Partners (UK) LLP	41,828,809	2.032%
■ Invesco Limited	-	42,364,545	Mutual benefit societies and pension funds managed by Invesco Limited and its subsidiaries	42,364,545	2.059%

### Disclosure obligations

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

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

In addition, pursuant to article 10 of the Bylaws, the Company may require any shareholder or any other person with a confirmed or apparent interest in shares of the Company to disclose to the Company in writing such information as the Company shall require relating to the beneficial ownership of or any interest in the shares in question, as lies within the knowledge of such shareholder or other person, including any information that the Company deems necessary or desirable in order to determine the nationality of the holders of said shares or other person with an interest in the Company's shares or whether it is necessary to take steps in order to protect the operating rights of the Company or its subsidiaries.

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

### Limitations on ownership of shares

In the event that the Board deems it necessary or appropriate to adopt measures to protect an operating right of the Company or of its subsidiaries, in light of the nationality of its shareholders or any persons with an interest in the Company's shares, it may adopt any of the measures provided for such purpose in article 11 of the Bylaws, including the determination of a maximum number of shares that may be held by non-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.

### 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.

### Post balance sheet events

No material adjusting post balance sheet events occurred after December 31, 2017.

### 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.



## Committee members

Date of appointment	Attendance
<b>Kieran Poynter (Chair)</b> September 27, 2010	●●●●●●●●
<b>Patrick Cescau</b> September 27, 2010	●●●●●●●●
<b>María Fernanda Mejía</b> June 16, 2016	●●●●○●●●
<b>Alberto Terol</b> August 2, 2013	●●●●●●●●

○ Absent

### Dear Shareholder

The Audit and Compliance Committee recognises its role is more important than ever in reviewing the effectiveness of internal controls and promoting strong risk management and compliance practices. The Spanish regulators released new guidance on audit committees of public interest entities in 2017 to clarify the scope of the functions and responsibilities, communicate good practices and emphasise the necessary independence of the committees. During the year the Audit and Compliance Committee concluded its performance substantially complies with the guidance and has refined its approach to management attendance at Committee meetings.

I would like to thank James Lawrence, who stood down from the Audit and Compliance Committee in June 2017. Jim was reclassified as other external director of IAG as he could no longer continue as an independent director due to his holding of office of non-executive director of AerCap Holdings N.V., a listed company that is a global operator in the aircraft lease market and a supplier of IAG.

The Committee is working well and I am satisfied that we continue to have the right mix of capabilities to constructively challenge the management team of IAG.

### Kieran Poynter

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.

### The Committee's activities during the year

The Committee met eight times during 2017. This included closed sessions as well as private meetings with both the external and internal auditors as appropriate.

### The Committee's responsibilities

The Committee's principal responsibilities:

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

In addition to the Secretary and Deputy Secretary, regular attendees at Committee meetings included the Chairman, the Head of Group Audit and representatives from the external auditors. Members of the management team including the Chief Executive Officer, the Chief Financial Officer and the Group Financial Controller were invited to attend specific agenda items as required.

During the year, the Committee performed an evaluation of its performance and concluded it is operating effectively. An external evaluation process was carried out in 2016. In addition, the Committee reviewed its compliance with the CNMV Technical Guide 3/2017 on audit committees at public-interest entities. The Committee was found to be substantially in line with the CNMV guidelines and has updated its terms of reference to reflect refinements made to the functioning of the Committee, including review of the agenda in advance of the meeting to ensure the attendees of each item are appropriate and the inclusion of a private session of the Committee members.

### Other items reviewed

#### Business, operational and financial risks

##### Treasury risk management

The Committee continued to review the Group's fuel and foreign exchange hedging positions on a quarterly basis, including that the approved hedging profile was being adhered to and continued to be appropriate to manage these risks in line with the Group risk appetite.

##### UK referendum vote to leave the European Union

The Committee monitored management's evaluation and risk assessment of the arrangements around the UK's exit from the European Union as part of the review of the principal risks and uncertainties of the Group, as well as its regular review of fuel price sensitivity and foreign exchange rate fluctuations. While there will continue to be uncertainty until agreements are reached, the Committee agrees with management's current assessment that agreements are likely to be reached which will enable the Group to continue to operate effectively during and after the transition.

##### UK pensions risk

The Committee received a report on pension risks within British Airways' main UK defined benefit pension schemes, including key sensitivities to asset prices, interest rates, inflation and life expectancy and how these are managed within the schemes. The Committee also reviewed the outcome of a review of British Airways' future pension provision, prior to the launch of a consultation with trade unions and employees.

##### British Airways power event

In May, British Airways suffered a power failure to its primary data centre, which led to severe disruption to its customers and flights. Management have identified the root causes of the incident and reviewed their business operations and continuity plans to increase resilience. The Committee received regular updates during the year following the event from the Chairman and Chief Financial Officer of British Airways as well as the IT and facilities directors. The updates focused on the status of the investigation, the root cause identification, and the immediate and longer term recovery plan.

##### Cyber security

The Committee was updated on the fast-developing cyber risk landscape, the level and benchmarking of the Group's cyber security investment and the Group's cyber security priorities for the next five years. The Committee also focused on the cyber risk insurance options available to the Group.

### Compliance and regulatory

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

The Committee reviewed the Group's anti-bribery compliance programme including organisational and policy updates and continued enhancements to the Group-wide Know Your Counterparty due diligence programme. Also reviewed were updated Competition, Anti-Bribery and Sanctions compliance risk maps, the key focus areas of 2017 and programme priorities for 2018.

#### General Data Protection Regulation (GDPR)

The Committee received regular updates on the Group's implementation of the new EU Data Privacy Regulation. The updates focused on key decisions made prior to implementation and the progress against the implementation plan. GDPR becomes enforceable in May 2018 and further Committee updates are planned in the lead up to the end of the two year transition period.

#### Sustainability

The Committee reviewed the progress made in the implementation of the sustainability strategy and the performance against targets in key areas such as carbon footprint and noise performance. This also included a review of progress relating to sustainable alternative fuels, fuel efficiency and improvements in carbon disclosure including work with the Carbon Disclosure Project and the Task Force on Climate Related Financial Disclosure.

#### 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.

### Financial reporting

#### Internal Control over Financial Reporting (ICFR)

As part of the Group's internal control framework it complies with the Spanish corporate governance requirement (ICFR), which is an analysis of risks in financial reporting, the documentation of accounting processes, and audit of internal controls. In 2017 the Committee reviewed the results and no material weaknesses were identified. A full description of the Group's ICFR is set out in Section F of the Spanish Corporate Governance Report.

#### Enterprise risk management

The Committee was updated on the principal risks of the Group. The Committee reviewed the process by which risk strategy and appetite had been determined to confirm that the statements were still relevant and appropriate. They also reviewed the performance of the Group against each of its risk appetite statements and the Committee agreed with management's assessment that the Group has operated within all 19 of the risk appetite statements.

#### Viability statement

In February 2018, the Committee reviewed the Group's viability assessment which covered a five year time horizon in line with the Group's Business Plan period. The analysis focused on the risks that should be combined to generate severe but plausible downturn scenarios. The Committee considered how solvency and headroom were determined and confirmed the period over which viability is considered. The Committee have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 2022.



## Litigation

The Committee received regular litigation status reports from the General Counsel including regarding 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 charges.

British Airways lost its appeal against the General Court decision that the original decision should be only be partially annulled as against British Airways (having been annulled in full against the other appealing airlines) (GC Judgment). British Airways appealed the partial annulment to the Court of Justice. The court has rejected British Airways' Appeal.

In parallel, the European Commission (EC) chose not to appeal the GC Judgment and instead announced the adoption of a new decision in March 2017. The new decision reissues fines against all the participating carriers, which match those contained in the original decision. British Airways has therefore again been fined €104 million. British Airways has appealed the new decision to the General Court again as have other carriers.

With respect to the civil claims, the Committee agreed with management's view that, given the status of proceedings, 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.

## Accounting matters

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 2017, these included the exceptional items for restructuring costs at British Airways and Iberia, pension transactions, changes to the presentation of the income statement and segmental reporting note.

The exceptional item for restructuring costs is a result of both British Airways and Iberia undertaking structural transformation proposals. British Airways announced their plans during 2016 continuing throughout 2017 into 2018. Iberia concluded negotiations with labour unions during 2017 and as a result the plan covering 2017 to 2019 was approved. The Committee has reviewed and agreed with management's rationale for recognising these costs and disclosing them as exceptional items by virtue of their size and incidence.

The Committee has also reviewed changes made to the income statement presentation and segmental reporting note during the year.

The Committee considers whether the Annual Report and Accounts are fair, balanced and understandable. The Committee also reviews disclosure throughout the year through receiving a half-yearly report from the IAG Disclosure Committee outlining all the matters they discuss. The Committee is satisfied that the Annual Report and Accounts are fair, balanced and understandable and has recommended their adoption by the Board.

## External audit

The Committee continues to work closely with EY, with their partners attending 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. Audit results were reviewed during the meetings; for the half year, for the findings from interim audits, early warning report for year end matters, and for the final report for 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. Having reviewed EY's performance during 2017, the Committee concluded that EY were independent and that it was in the Group's and shareholders' interests not to tender the audit in 2018 and recommends their re-appointment.

The Group audit was last tendered on the incorporation of IAG in 2010. The Company intends to comply with the Spanish Act 22/2015, on the Auditing 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. The current EY partner is Hildur Eir Jónsdóttir who has held her role since 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 all projects are either pre-approved or approved by the Committee Chairman for projects over €100,000 or of an unusual nature. The overall volume of work is addressed by a target annual maximum of €1.5 million with an additional allowance of up to €1.1 million for large projects where EY are uniquely placed to carry out the work.

Spend in 2017 was below the target maximum at €619,000 with an additional €296,000 relating to a corporate finance transaction. 78 per cent of the €619,000 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 6 to the Group financial statements.

## Report of the Nominations Committee



### Dear Shareholder

In my role as Committee Chairman, I am pleased to present the Nominations Committee's Report for 2017.

This has again been a busy year with the Committee meeting six times during 2017.

### Board composition

We continue working to ensure that the Board's composition meets the challenges of a changing business environment and the specific needs of our business.

At the 2017 Shareholders' Meeting Baroness Kingsmill stepped down from the Board. The Board and I would like to thank her for her dedication and the great contribution she has made as a Board member of IAG and British Airways.

On January 1, 2018 we welcomed Nicola Shaw as a non-executive director. Her personal and professional characteristics will make her an excellent addition, bringing knowledge and experience in the transport sector.

Succession planning continued to be a key area of focus for the Committee during the year. We revisited our Board succession plans to ensure appropriate actions are considered well ahead of the dates on which directors would be retiring in order to adequately plan for any necessary replacements.

### Executive succession planning

In addition to Board membership, the Nominations Committee has continued to consider succession plans and development of the senior executive team. A number of site visits and informal events were arranged during the year to facilitate greater contact between Board members and the IAG senior executive team.

### Committee members

Date of appointment	Attendance
<b>Antonio Vázquez (Chair)</b> December 19, 2013	●●●●●●
<b>Patrick Cescau</b> June 16, 2016	●○●●●●
<b>Emilio Saracho</b> June 16, 2016	●●●●●●
<b>Dame Marjorie Scardino</b> June 16, 2016	●●●●●●

○ Absent

In 2017, we saw the appointment of Lynne Embleton as CEO of our cargo business, following the appointment of Andrew Crawley as CEO of Avios. These internal promotions are good examples of the talent and the possibilities for career development that exists within the Group.

### Effectiveness review

The performance of the Committee was internally assessed this year as part of the annual Board effectiveness review and I am pleased to report that directors acknowledge the progress made on the actions agreed for our Committee. Our focus for 2018 will be much a continuation exercise, reinforcing the work on succession planning, talent development and corporate culture.

### Antonio Vázquez

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 excluding the Chairman of the Board, are considered independent.

### The Committee's responsibilities

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 and reviewing the criteria for the Board composition 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 adhere to the Company's Directors Selection and Diversity Policy; and
- submitting to the Board a report on the annual evaluation of the Board's performance.

### The Committee's activities during the year

During 2017 the Nominations Committee met six times. Directors' attendance at these meetings is shown on the previous page and further detailed on page 66.

The Committee dealt with the following significant issues during 2017:

- performance evaluation of the Chairman and of the Chief Executive;
- annual review of the category of each director;
- assessment of directors' re-election;
- appointment of a non-executive director;
- changes to the composition of the Board committees;
- review of investor feedback from the 2017 Shareholders' Meeting;
- Board succession planning;
- succession planning for the Group Chief Executive, the IAG Management Committee and leadership teams of the Group operating companies;
- update on diversity trends and Group diversity reporting;
- review of appointments to the Group subsidiary boards;
- induction programme for new non-executive directors; and
- annual check of compliance with the Directors Selection and Diversity Policy.

### Board appointments

One new non-executive director, Nicola Shaw, was appointed at the 2017 Shareholders Meeting to fill the vacancy left by Baroness Kingsmill who stood down as a director at that meeting. The effective date of her appointment was deferred to January 1, 2018, as she did not have the required availability before that date.

The flow chart on the next page describes the process followed for the appointment of Nicola Shaw. Spencer Stuart, which has no other connections with IAG, was engaged to carry out the search.

As recommended by the Spanish Good Governance Code, the Nominations Committee ran an annual check on compliance with its policy on directors' selection.

After this review, the Committee concluded that:

- the procedure followed was formal, rigorous and transparent;
- the proposal was based on a prior analysis of the needs of the Board. This evaluation was made alongside succession plans for directors and taking into consideration the conclusions from the annual review of Board performance;
- the Company engaged a professional and well-known search firm, Spencer Stuart, which is a signatory to the UK Voluntary Code of Conduct for Executive Search Firms;
- the proposal referred to an applicant who satisfies the legal and statutory conditions required to hold office as a director, is of suitable repute and has the appropriate knowledge, experience, skills and availability for the exercise of the functions and duties of such office; and
- gender diversity principles were followed throughout the process, while preserving the general diversity and merit based appointment principles established in the policy.

The Committees' configuration was reviewed following the 2017 Shareholders Meeting and the only change recommended to the Board and approved by it was the resignation of James Lawrence from the Audit and Compliance Committee.

### Board composition and committee changes

The independence, effectiveness and time commitment of each non-executive director is regularly reviewed. A particularly rigorous review, including their independence, was conducted in respect of those non-executive directors who were appointed in 2010. The review concluded that such directors remain independent and continue to make a valuable contribution to the Company.

In addition, the Committee considered the position of James Lawrence whose appointment as non-executive director of AerCap Holdings N.V., a global operator in the aircraft lease market, was considered to be an obstacle to his independence as a non-executive director of the Company. Both the Committee and the Board expressed satisfaction with the commitment and contribution of Mr. Lawrence as a Board member and accordingly he stood for re-election at the 2017 Shareholders' Meeting as other external director.

### The appointment of Nicola Shaw

- |   |  |   |  |
|---|--|---|--|
| <b>1</b> Search initiated in accordance with Board succession plans and specifications discussed and agreed | <b>2</b> Executive Search Firm engaged to assist with the search                               | <b>3</b> Long-list of potential candidates considered   | <b>4</b> Short-list agreed and shared with the Board       |
| <b>5</b> Interviews completed   | <b>6</b> Nominations Committee considered final candidate and made recommendation to the Board | <b>7</b> Appointment announced by the Board, and published report for submission to the Shareholders' Meeting | <b>8</b> Appointment approved by the Shareholders' Meeting |

#### Induction of directors

The induction programme for Nicola Shaw has been arranged according to her needs, taking into account her experience in the industry sector. This is described in more detail on page 67.

#### Succession planning

To ensure the Board has an appropriate mix of skills, experience, knowledge and diversity, the Committee keeps under review the tenure and qualifications of the non-executive directors, while considering the Group's circumstances and changing needs. The conclusions of this analysis forms the basis for any new non-executive director search and for any succession planning arrangements.

The Committee continues to take a keen interest in succession planning for all executive positions across the business. Short to medium-term plans have been reviewed to ensure that key roles can be filled on an interim basis as well as longer term for the Group's top 50 positions.

#### Board diversity

Diversity remains a basis for any discussion on Board and committee's composition, executive appointments, and succession planning for both Board and management. The Group is strongly supportive of the principle of diversity, of which gender is an important aspect.

Under the Directors Selection and Diversity Policy, the female representation target for the Board has been increased to 33 per cent by the end of 2020 in line with the recommendations of the final report of the Women on Boards Davies review published in the United Kingdom in 2015.

From January 1, 2018 there were again three female directors on the Board, representing 25 per cent of the Board positions with, one of them chairing one of the Board committees.

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 65 of this Corporate Governance section and on page 53 of the Sustainability section.



## Dear Shareholder

I am pleased to present the Safety Committee's Report for 2017.

As a Committee, we have continued with our regular activities, 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.

Beyond the oversight of safety matters, the work of this Committee is particularly relevant as a tool for the exchange of best practices, knowledge and experience between the airline companies within the Group. A good example of this co-operation is the yearly dangerous goods report that was presented to the Committee in July. Primarily, this report aims to promote and develop a 'best practice' approach to dangerous goods management across the Group, highlighting areas of strong performance, areas of risk and identifying where improvement is required.

The Committee has continued to support the work of the safety teams to develop common reporting metrics and methodologies, which is the basis to make further progress in the exchange of knowledge and best practices within the Group.

## Willie Walsh

Safety Committee Chairman

## The Safety Committee

The Committee composition, competencies and operating rules are regulated by article 32 of the Board Regulations. The Committee is made up of no fewer than three and no more than five directors appointed by the 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 report at Committee meetings as and when required. During 2017, the British Airways Director of Safety and Security, representatives of the Iberia and Vueling safety teams and the Aer Lingus Corporate Safety and Risk Manager attended meetings.

## Committee members

Date of appointment	Attendance
<b>Willie Walsh (Chair)</b> October 19, 2010	●●
<b>Antonio Vázquez</b> October, 19 2010	●●
<b>Marc Bolland</b> June 16, 2016	●○
<b>Kieran Poynter</b> October 19, 2010	●●

○ Absent

## The Committee's responsibilities

Responsibility for safety matters belongs to the Group's airlines. IAG, through its Safety Committee, has an overall view of each airline's safety performance and of any important issues that may affect the industry. The Committee also has visibility on the Group's airlines' resources and procedures. Responsibility for performing detailed and technical assessments remains with each 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 safety activities and resources;
- to inform the Board and 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 Committee's activities during the year

During 2017, the Committee held two meetings. Directors' attendance at these meetings is shown above and further detailed on page 66.

Key topics discussed included the relevant safety events that occurred during the relevant period, regulatory developments and initiatives from industry associations and their implementation by the Group airlines, along with the regular safety review reports of Aer Lingus, British Airways, Iberia and Vueling.



## Report of the Remuneration Committee



### Dear Shareholder,

As Chairman of the Remuneration Committee, and on behalf of the Board, I am pleased to present the Remuneration Report for 2017.

### Overall strategy and link to remuneration

IAG's aim is to become the world's leading international airline group. Its strategy to achieve that in an increasingly consolidated industry is to create value and sustainable returns through leadership in core markets and the realisation of cost and revenue synergies across our airlines and aviation related businesses.

That strategy is executed and sustained by consistent and strong financial performance and return on investment in each part of the Group. We have transformed programmes through the use of the IAG Platform at each of our airlines, while leveraging opportunities across the Group.

The central focus of the Committee for the past year has been the triennial review of the Company's Remuneration Policy. In reviewing the policy, the Committee's main objective has been ensuring remuneration retains a strong link to the strategy, because we see that as the way to best performance. The outcomes from the review are detailed on the next page.

IAG's executive remuneration framework aims to support the business objectives and the financial targets attached to them through the following two schemes:

### Committee members

Date of appointment	Attendance
<b>Dame Marjorie Scardino (Chair)</b> December 19, 2013	●●●●●
<b>Marc Bolland</b> June 16, 2016	●●●●●
<b>María Fernanda Mejía</b> October 30, 2014	●●●○●
<b>Alberto Terol</b> December 19, 2013	●●●●●

○ Absent

The Company's long-term incentive plan, known as the *performance share plan* (PSP), measures our performance by:

- earnings per share (EPS), adjusted for exceptional items, which 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 our shareholders;
- total shareholder return (TSR) to ensure alignment with our shareholders; and
- Return on Invested Capital (RoIC) to assess efficient return on the Group's asset base.

The *annual incentive plan* has its major focus on strong financial performance, and therefore the primary measure in the plan is the Group's operating profit before exceptional items. A customer measure, Net Promoter Score, was introduced for the first time at the Group level in 2017, and this will shed the necessary light on what progress we are making to please our customers.

The new policy in general is designed to deliver total remuneration that is competitive and with a strong emphasis on "pay for performance". The Committee will continue to ensure that executive remuneration is aligned with our business strategy and that the overall reward framework for 2018 and beyond is in the best interests of our shareholders.

### Summary of 2017 (and the performance period 2015 to 2017)

The PSP that was awarded in 2015 had a three-year performance period (2015 to 2017). This was the first of the Company's PSP awards to have three performance measures: Return on Invested Capital (RoIC) was added to the two existing measures of adjusted EPS and TSR. Performance targets for all three measures were set at the beginning of 2015.

At that time, the Company reported an adjusted EPS of 40.2 euro cents for 2014, and the stretch target (i.e. the level at which maximum pay-out would be achieved) under the 2015 PSP for the adjusted EPS was set at 100 euro cents. RoIC achieved a figure of 7.9 per cent in 2014, with the Company setting a long-term goal (for 2016 to 2020) of RoIC achieving 12+ per cent. The Company set 12 per cent RoIC as the threshold level at which payments would begin for this element for the 2015 PSP, with the maximum only paying out if RoIC achieved 15 per cent. For the final measure – TSR – the stretch target was set at outperforming an industry index by 8 per cent per annum.

The Company has produced strong financial performance over the last three years, leading to 2017 adjusted EPS reaching 102.8 euro cents. As a result, the 2015 PSP has an outcome of 100 per cent of its maximum for the EPS element. RoIC in 2017 reached 16.0 per cent, resulting in an outcome of 100 per cent of its maximum level for the RoIC element. The share price suffered a significant fall in 2016 following the outcome of the UK Referendum on EU membership, but has recovered substantially since then. TSR for the company has grown by 62 per cent over the three years, but has underperformed against the index that the Company measures itself against, resulting in a zero payout for the TSR element. Overall, this has resulted in the 2015 PSP award having an outcome at 67 per cent of the maximum. This is the first PSP award where there is also an additional two year holding period. This applies until the end of 2019.

The financial target for the 2017 annual incentive plan set at the beginning of the year was for an IAG operating profit before exceptional items of €2.67bn. Strong financial performance during this year has led to IAG operating profit exceeding the stretch target and therefore paying out at the maximum level for the two-thirds portion linked to financial performance. The result for Net Promoter Score was slightly above the on-target level – most airlines had customer performance above their target.

### Decisions during 2017

The current Remuneration Policy has been in place for the last three years, having been approved at the 2015 annual Shareholders' Meeting. The Committee has undertaken a thorough review of the policy and its implementation for 2018 onwards, to ensure it is appropriate in the light of the feedback already received from shareholders and proxy advisers, as well as considering best practices and market trends. After this review, we have concluded that the core elements of our current remuneration policy remain fit for purpose, and we are not proposing substantial changes to the policy. However, we did find that there were some

changes and clarifications that we believe are appropriate. The main changes we are proposing are:

- *Performance measures.* In the annual bonus, we are proposing that the weighting of financial measures (currently IAG operating profit) will be at least 60 per cent and no more than 80 per cent to provide more flexibility than previously when a fixed 66.7 per cent was subject to financial measures. The weighting on role-specific objectives will not exceed 25 per cent (currently 33.3 per cent) and any remaining portion of the bonus will be linked to measurable non-financial measures (e.g. Net Promoter Score).
- *Pension.* Pension contributions for new externally recruited executive directors will be reduced from 25 per cent to 15 per cent of basic salary. This aligns with what is offered to new, externally recruited senior managers.
- *Long-term incentive opportunity.* In line with shareholder feedback previously received, we plan to remove from the policy the additional headroom incorporated into the PSP for exceptional circumstances, which was set at a 300 per cent limit. The maximum PSP opportunity will be capped at 200 per cent of salary, in line with the current opportunity for the CEO of IAG.
- *Shareholding requirements.* Shareholding requirement will be increased to 350 per cent of salary (from 250 per cent of salary) for the CEO of IAG to ensure substantial alignment with shareholders. Shareholding requirement will remain at 200 per cent for other executive directors.

### Working with shareholders

We have met with many of the largest shareholders over the past year, and we appreciate their constructive comments about remuneration in general and our consideration about changes in our current policy. They were in our minds as we were reviewing what was considered best practice, and we were very pleased with the support for our final Remuneration Policy changes. Our overall intention has been to ensure that we would have a strong alignment to our strategy because we think that is the way to creation of long-term, sustainable shareholder value.

In line with legal requirements, our remuneration policy will be put forward to a binding shareholder vote at the 2018 annual Shareholders' Meeting. As a Committee, we welcome your suggestions and are happy to continue to engage constructively with our major shareholders and other representative bodies during 2018.

Approved by the Board and signed on its behalf by

### Dame Marjorie Scardino

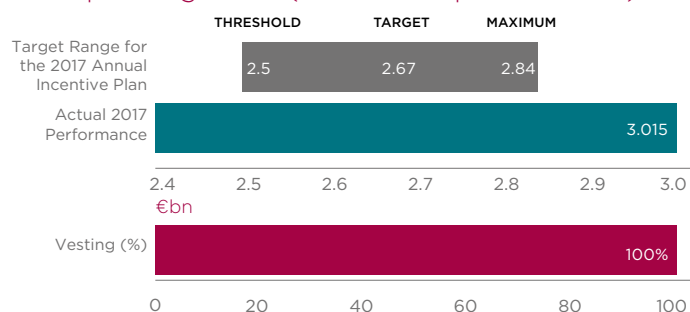
Chairman of the Remuneration Committee

**AT A GLANCE**

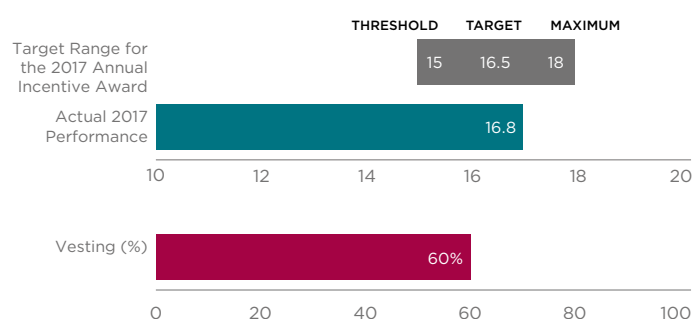
**Implementation of remuneration policy in 2017**

The following two charts show Company performance for the two corporate measures in the 2017 annual incentive plan. The strong financial performance and good customer performance has resulted in 100 per cent and 60 per cent vesting:

**IG Operating Profit (before exceptional items)**

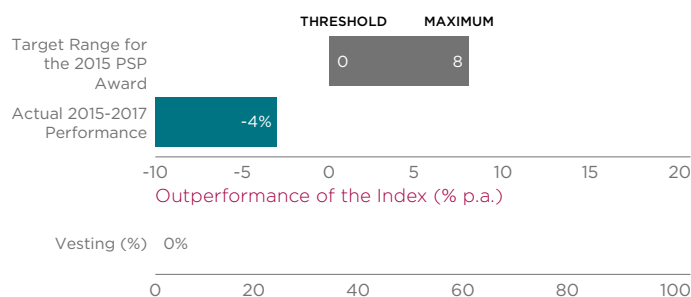


**Net Promoter Score**

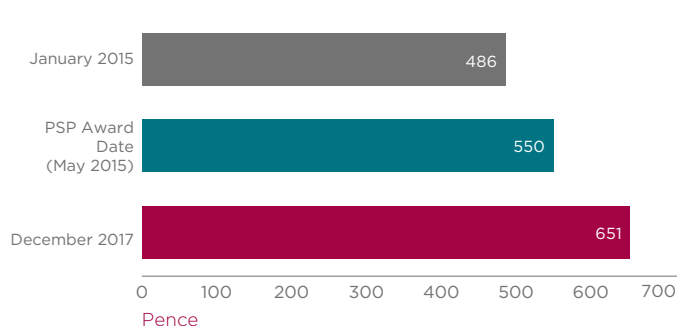


The following four charts show Company performance for the three performance measures in the 2015 PSP award, and share price performance.

**Total Shareholder Return**

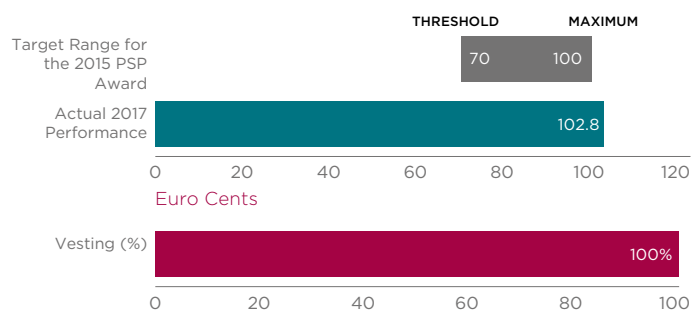


**Share Price**

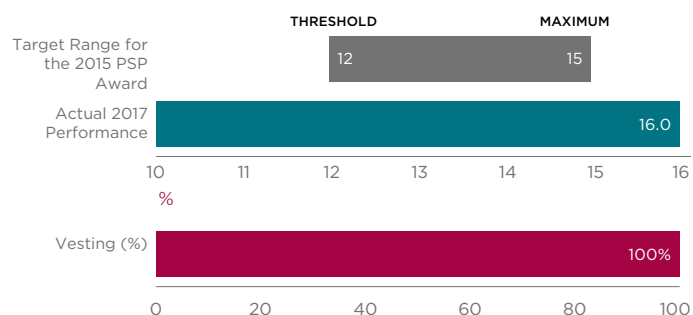


Strong EPS and return performance in 2017 has resulted in very good vesting levels for the following two measures in the 2015 PSP award:

**Adjusted Earnings per Share**



**Return on Invested Capital**



## Introduction

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

The Company's current policy on directors' remuneration was approved by shareholders at the annual Shareholders' Meeting on June 18, 2015. During 2017, the Committee has undertaken a thorough review of all aspects of the policy and the following pages show the proposed future remuneration policy.

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

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 UK DRR and the Spanish DRR are totally consistent. The Spanish DRR, prepared in accordance with Spanish legislation, is available on the Company's website, and the Spanish National Securities Market Commission's website.

In addition to the Remuneration Committee Chairman'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.
- The second section, the Annual Report on Remuneration, covers the information on directors' remuneration paid in the reported year.

## Directors' Remuneration Policy

### Key elements of pay

#### Executive directors

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

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

The policy as shown on the following pages is the proposed future remuneration policy.

## Report of the Remuneration Committee continued

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. The positioning of base salaries is set with reference to the external market, as well as the individual's skills and contribution. Basic salaries are reviewed annually, to take effect on January 1 each year.</p>	<p>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 and non-financial targets that apply to the annual incentive award at the beginning of each year. These are set by reference to a number of factors, including the Business Plan (as approved by the Board). For the 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 performance of other executive directors against their role-specific objectives. All performance evaluations for executive directors 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. Each performance metric in the incentive plan is independent. For each performance metric in the incentive plan, there will be no payment at all until performance for that particular metric has reached the threshold level of the target range, 50 per cent of the maximum will be awarded for on-target performance, and the maximum for each element will only be awarded once a stretch target has been reached.</p>	<p>At least 60 per cent and no more than 80 per cent of the annual incentive is subject to financial measures (e.g. IAG operating profit). The weighting on role-specific objectives will not exceed 25 per cent, and any remaining portion will be subject to measurable non-financial metrics (e.g. Net Promoter Score).</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.</p> <p>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>



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 at least two years. Malus and clawback provisions apply – see below.</p>	<p>The face value of awards will not exceed 200 per cent of salary in respect of any financial year of the Company.</p> <p>At the threshold level of the performance target range, no more than 25 per cent will vest.</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 the Company's share price performance compared with an index of other companies who are subject to external influences impacting share price similar to those of IAG.</p> <p>One or more measures will provide a strong indicator 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, and private health insurance.</p> <p>Where appropriate, benefits may include relocation and international assignment costs.</p>	<p>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, and all executive directors are eligible for membership. Executives can opt instead to receive a salary supplement in lieu of a pension.</p>	<p>The maximum level of employer contribution for new externally recruited executive directors will be 15 per cent of basic salary. For current executive directors and also for internal promotions who are already on a 25 per cent contribution rate, the employer contribution will remain at their contractual level.</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 350 per cent of basic salary, and other executive directors are required to build up and maintain a shareholding of 200 per cent of basic salary. These requirements will not be reduced during the lifetime of this

policy; however the Remuneration Committee may consider increasing the percentages if it is deemed appropriate.

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 PSP and the Incentive Award Deferral Plan to reduce or cancel awards before they vest, and authority under the clawback provisions of the PSP 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.

### Underlying financial performance

This is defined as the overall performance of the Company, which may be considered with reference to a range of measures as the Remuneration Committee considers most appropriate at the time.

### Non-executive directors

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

Purpose and link to strategy	Operation of element of policy	Maximum opportunity
<b>Basic fees</b>	Fees are set with reference to market positioning. Fees are set to take into account the level of responsibility, experience, abilities and dedication required.	The maximum annual aggregate gross remuneration (including annual basic fees and benefits, including travel benefits) payable to directors shall not exceed €3,500,000 as approved by the Shareholders' Meeting on October 19, 2010, in accordance with article 37.3 of the Company's Bylaws.
<b>Taxable benefits</b>	Non-executive directors (including the Chairman) are entitled to use air tickets of the airlines of the Company or related to the Company in accordance with the terms and conditions established in the Company travel scheme. As 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 terms and conditions established in the Company travel scheme.	The maximum total annual gross amount of the personal travel benefit is €500,000 for all non-executive directors taken together (including any former non-executive director who may enjoy this benefit at any given time).

### Remuneration 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 of the Group's companies support the delivery of the Group's long-term goals.

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 participate 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 annual 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.

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

The Committee may make any remuneration payments and payments for loss of office (and exercise any discretions available to it in connection with such payments) which are not in line with the remuneration policy set out above, where the terms of the payment were agreed (i) before the policy came into effect (provided that they were in line with any applicable directors' remuneration policy in force at the time they were agreed) or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Board, the payment was not in consideration of the individual becoming a director of the Company. For these purposes 'payments' include the Committee satisfying awards of variable remuneration. In relation to a share award, the terms of the payment are agreed at the time the award is granted.

### 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 2018 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.

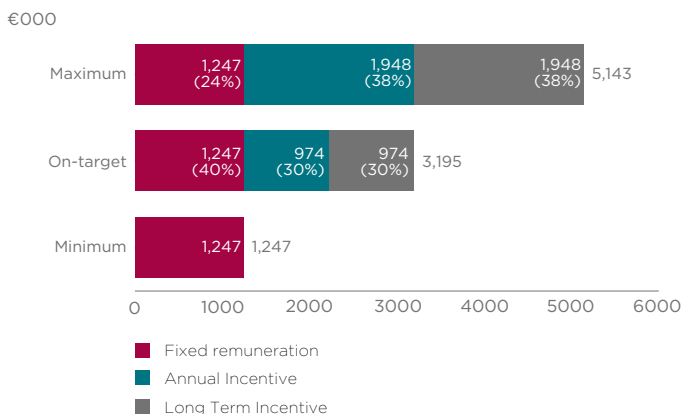
#### Chief Executive Officer of IAG

Fixed remuneration is basic salary (2018 level of €974,000), plus taxable benefits (2017 actual of €29,000) plus pension related benefits (2017 actual of €244,000).

The annual incentive amount is zero at the minimum remuneration level, €974,000 at the on-target level (100 per cent of salary), and €1,948,000 at maximum (200 per cent of salary).

The long-term incentive amount is zero at the minimum remuneration level, €974,000 at the on-target level (half of the face value award of 200 per cent of salary) and €1,948,000 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 1.1461



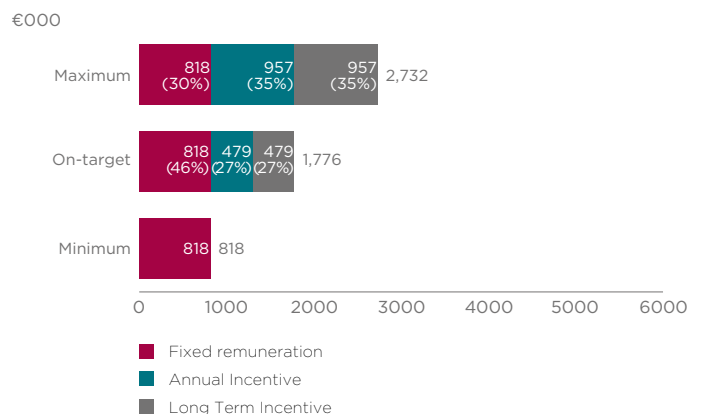
#### Chief Financial Officer of IAG

Fixed remuneration is basic salary (2018 level of €638,000), plus taxable benefits (2017 actual of €23,000) plus pension related benefits (2017 actual of €157,000).

The annual incentive amount is zero at the minimum remuneration level, €479,000 at the on-target level (75 per cent of salary), and €957,000 at maximum (150 per cent of salary).

The long-term incentive amount is zero at the minimum remuneration level, €479,000 at the on-target level (half of the face value award of 150 per cent of salary) and €957,000 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 1.1461



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

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

#### Non-executive directors

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

Non-executive director	Date of the first appointment	Date of last re-election
Antonio Vázquez	May 25, 2010	June 15, 2017
Patrick Cescau	September 27, 2010	June 15, 2017
James Lawrence	September 27, 2010	June 15, 2017
Kieran Poynter	September 27, 2010	June 15, 2017
Alberto Terol	June 20, 2013	June 15, 2017
Dame Marjorie Scardino	December 19, 2013	June 15, 2017
María Fernanda Mejía	February 27, 2014	June 15, 2017
Marc Bolland	June 16, 2016	June 15, 2017
Emilio Saracho	June 16, 2016	June 15, 2017
Nicola Shaw	January 1, 2018 <sup>1</sup>	-

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

### External non-executive directorship

The Company's consent is required before an executive can accept an external non-executive appointment and permission is only given in appropriate circumstances. The Company allows the executive to retain any fee from such appointments.

### Approach to recruitment remuneration

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

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

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 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 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 occasionally considering remuneration matters of 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. Dame Marjorie Scardino is Chairman of the 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 2017, the Committee met five times and discussed, amongst others, the following matters:

Meeting	Agenda items discussed
January	Review of IAG Management Committee members' basic salaries Approval of the 2017 annual incentive plan, including approval of the inclusion of a customer measure Approval of the 2017 Performance Share Plan
February	2016 annual incentive plan payments to IAG Management Committee members Vesting outcome of the Performance Share Plan 2014 award Final review of 2016 Directors' Remuneration Report
May	Approval of remuneration for a new Management Committee member Preparation for the AGM
July	Initial review of the new remuneration policy
October	Executive remuneration market update Remuneration strategy for 2018, and review of the new remuneration policy

#### Advisers to the Committee

The Committee appointed Deloitte as its external adviser in September 2016. Deloitte report directly to the Committee. The fees paid to Deloitte for advice provided to the Remuneration Committee during 2017 were €49,280, charged on a time and materials basis. Deloitte is a member of the Remuneration Consultants Group and a signatory to the voluntary UK Code of Conduct. As well as advising the Remuneration Committee, other Deloitte teams provided advice in relation to remuneration,

pensions, global employment programmes, data governance, internal audit and tax to the Group in 2017. The Committee has reviewed the remuneration advice provided by Deloitte during the year and is comfortable that it has been objective and independent.

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

## Single total figure of remuneration for each director

### Subject to full audit

Non-executive directors

Director (€'000)	2017 fees	Taxable benefits	Total for year to December 31, 2017	2016 fees	Taxable benefits	Total for year to December 31, 2016
Antonio Vázquez <sup>1</sup>	645	35	680	511	35	546
Sir Martin Broughton <sup>2</sup>	-	-	-	162	33	195
Patrick Cescau <sup>3</sup>	150	47	197	136	22	158
César Alierta <sup>2</sup>	-	-	-	55	-	55
Marc Bolland <sup>4</sup>	120	6	126	65	-	65
Baroness Kingsmill <sup>5</sup>	55	12	67	120	27	147
James Lawrence <sup>6</sup>	120	13	133	129	9	138
María Fernanda Mejía	120	17	137	120	3	123
Kieran Poynter	140	21	161	131	35	166
Emilio Saracho <sup>4</sup>	120	26	146	65	4	69
Dame Marjorie Scardino	140	89	229	140	55	195
Alberto Terol	120	36	156	120	33	153
<b>Total (€'000)</b>	<b>1,730</b>	<b>302</b>	<b>2,032</b>	<b>1,754</b>	<b>256</b>	<b>2,010</b>

1 Antonio Vázquez took a voluntary 25 per cent reduction in his fee from December 1, 2012 until October 31, 2016.

2 Retired from the Board on June 16, 2016.

3 Patrick Cescau was appointed as Senior Independent Director on June 16, 2016.

4 Joined the Board on June 16, 2016.

5 Baroness Kingsmill retired from the Board on June 15, 2017.

6 James Lawrence chaired the Audit and Compliance Committee until June 16, 2016 when he was replaced in this position by Kieran Poynter.

### 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, 2017, €:£ exchange rate applied is 1.1461 (2016: 1.2347).

### 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.

#### 2017

Director ('000)	Base salary	Taxable benefits	Pension related benefits	Annual incentive award	Long-term incentive vesting	Total for year to December 31, 2017
Executive directors						
Willie Walsh (GBP) <sup>1</sup>	850	25	213	1,580	1,286	3,954
Willie Walsh (euro)	974	29	244	1,810	1,474	4,531
Enrique Dupuy de Lôme (GBP) <sup>1</sup>	547	20	137	732	467	1,903
Enrique Dupuy de Lôme (euro)	627	23	157	839	535	2,181
<b>Total (€'000)</b>	<b>1,601</b>	<b>52</b>	<b>401</b>	<b>2,649</b>	<b>2,009</b>	<b>6,712</b>

1 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 2017

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, 2017 (accrued at December 31, 2017, but cash payments (50 per cent of the award) not paid until March 2018). 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 2017 annual incentive plan, these will vest in March 2021.

#### Long-term incentive vesting

This relates to the IAG PSP 2015 award based on performance measured to December 31, 2017, although the shares vested will not be delivered until March 2018. For the purposes of this table, the award has been valued using the average share price in the three months to December 31, 2017 of 624.0 pence. The outcomes of the performance conditions which determined vesting are described below.

For the year to December 31, 2017, €:£ exchange rate applied is 1.1461 (2016: 1.2347).

### 2016

Director ('000)	Base salary	Taxable benefits	Pension related benefits	Annual incentive award	Long-term incentive vesting	Total for year to December 31, 2016
Executive directors						
Willie Walsh (GBP) <sup>1</sup>	850	24	213	567	808	2,462
Willie Walsh (euro)	1,049	30	263	700	998	3,040
Enrique Dupuy de Lôme (GBP) <sup>1</sup>	536	19	134	241	294	1,224
Enrique Dupuy de Lôme (euro)	662	23	165	298	363	1,511
Total (€'000)	1,711	53	428	998	1,361	4,551

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

#### Life Insurance

The Company provides life insurance for all executive directors. For the year to December 31, 2017 the Company paid contributions of €16,839 (2016: €18,555).

#### Variable pay outcomes

##### Subject to audit

#### 2017 Annual Incentive Plan

At the beginning of 2017, the Board, upon a recommendation by the Committee, set IAG operating profit before exceptional items 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, outcomes were calculated based on a customer measure which had been introduced to the annual incentive plan for the first time (Net Promoter Score, with a weighting of 8.33 per cent), and personal performance against objectives (weighting of 25 per cent). NPS is used to gauge the loyalty of the Group's customer relationships. It is calculated based on survey responses, by subtracting the percentage of customers who are 'Detractors' from the percentage of customers who are 'Promoters'. 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 22, 2018.

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 150 per cent of salary (75 per cent of salary for on-target performance).

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) (66.67 per cent)</b>	Payout	€1,298,913 £1,133,333	€626,917 £547,000
	per cent of maximum awarded	100 per cent Please see below for details of the performance target ranges	100 per cent Please see below for details of the performance target ranges
<b>Role-specific objectives (33.33 per cent), of which: Group Net Promoter Score (8.33 per cent)</b>	Outcomes versus targets	€97,419 £85,000 Please see below for details of the performance target ranges	€47,019 £41,025 Please see below for details of the performance target ranges
	per cent of maximum awarded	60 per cent	60 per cent
<b>Personal performance against objectives (25 per cent)</b>	Outcomes versus targets	€419,029 £361,250 Please see below for details of the extent of the achievement of objectives.	€164,566 £143,588 Please see below for details of the extent of the achievement of objectives.
	per cent of maximum awarded	85 per cent	70 per cent
<b>Details of any discretion exercised</b>			
<b>Overall outcome</b>		€1,810,361 £1,579,583	€838,502 £731,613

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 2017 (two-thirds of the annual incentive) exceeded the stretch target level, and therefore this has resulted in the maximum paying out for this element of the incentive (2016: 0 per cent). The target range for 2017 was as follows: the threshold level at which payments would begin was €2,500 million, the on-target level at which 50 per cent of the maximum would pay out was €2,670 million, and the stretch target level at which the maximum would pay out was €2,840 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. Net Promoter Score for 2017 achieved 16.8, and this is between the on-target level and the stretch target level, resulting in a pay-out of 60 per cent of the maximum for this element. The target range for 2017 was as follows: the threshold level at which payments would begin was 15.0, the on-target level at which 50 per cent of the maximum would pay out was 16.5, and the stretch target level at which the maximum would pay out was 18.0. 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.

## Personal Performance

In assessing personal performance, the Committee considers a range of factors to ensure there is a holistic and detailed assessment of the executive directors' contribution to the overall strategic priorities of the Group. This is summarised below for executive directors:



### Chief Executive Officer of IAG

#### Unrivalled customer proposition

- Leading the successful launch of LEVEL in record time
- Sustained focus and actions across all airlines to improve customer experience, and strengthen our brand portfolio
- Drive Net Promoter Score (NPS) performance
- Personally ensuring the Group learns from the power outage challenge and formulating and executing a comprehensive plan to improve business continuity planning and Group IT resilience
- Bringing digital initiatives to winning outcomes that better address customer needs e.g. New Distribution Capability (NDC), Hangar 51, Commercial in-flight

#### Value accretive and sustainable growth

- Under Willie Walsh's leadership the Group delivered a strong performance in 2017 with operating profit up 18.9% vs last year and all airlines delivering their best financial performance ever
- Overseeing the turnaround in Vueling, which has restored operational and financial performance

#### Efficiency and innovation

- Continued to reap efficiencies, driving organisational health and culture
- Leveraging the IAG Platform with both Aer Lingus and Vueling now fully integrated under his leadership
- Continued progress in fleet harmonisation and capturing maintenance opportunities

### Chief Financial Officer of IAG

#### Unrivalled customer proposition

- Focussed investment to support enhancing the value of our brands and customer proposition and investing in the resilience of our business models
- Leveraging the strong positions in our main strategic markets and developing our new corporate units such as LEVEL

#### Value accretive and sustainable growth

- Supporting the CEO as the Group delivered a strong performance in 2017 with operating profit up 18.9% vs last year and all airlines delivering their best financial performance ever
- Under his leadership, the Company significantly increased shareholder cash potential, delivering sustainable returns to shareholders in excess of €1 billion in 2017
- Ensuring the Company maintains a strong balance sheet leading to a high level of financial strength and liquidity to enable improved shareholder returns and M&A opportunities

#### Efficiency and innovation

- Driving improved asset utilisation and capex efficiencies, leading to a better return on investment
- Continuing the development of the IAG platform to create future value and delivering operating company cost cutting and efficiency plans



### IAG PSP award 2015

The IAG PSP award granted on May 28, 2015 was tested at the end of the performance period which began on January 1, 2015 and ended on December 31, 2017. 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.

One-third of the award was subject to a TSR performance condition measured against an index, one-third subject to achievement of the Company's adjusted EPS targets (diluted EPS, adjusted for exceptional items), and one-third subject to a RoIC performance condition. 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 2015)
<b>TSR performance compared to the TSR performance of the MSCI European Transportation (large and mid-cap) index (one-third)</b>	IAG's TSR performance equal to the index (25 per cent of award vests)	IAG's TSR performance exceeds index by 8 per cent p.a. (100 per cent of award vests)	IAG underperformed the index by 4 per cent p.a.	0 per cent
<b>Adjusted earnings per share (EPS) (one-third)</b>	2017 EPS of 70 €cents (10 per cent of award vests)	2017 EPS of 100 €cents (100 per cent of award vests)	102.8 €cents	100 per cent
<b>Return on Invested Capital (RoIC) (one-third)</b>	2017 RoIC of 12 per cent (10 per cent of award vests)	2017 RoIC of 15 per cent (100 per cent of award vests)	16.0 per cent	100 per cent
<b>Details of any discretion exercised</b>				
<b>Overall outcome</b>				66.67 per cent

### IAG PSP award 2014

The IAG PSP award granted on March 6, 2014 was tested at the end of the performance period which began on January 1, 2014 and ended on December 31, 2016. 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 (as defined above in the 2015 award) 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 2014)
<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)	IAG underperformed the index by 3 per cent p.a.	0 per cent
<b>Adjusted earnings per share (EPS) (50 per cent)</b>	2016 EPS of 34 €cents (10 per cent of award vests)	2016 EPS of 56 €cents (100 per cent of award vests)	90.2 €cents	100 per cent
<b>Details of any discretion exercised</b>				
<b>Overall outcome</b>				50 per cent

### Scheme interests awarded during the financial year

#### Subject to audit

The IAG PSP is a discretionary plan targeted at key senior Group executives and managers who directly influence shareholder value. The Company granted an award under the PSP on March 6, 2017. 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.

Earnings per share reflect 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 our shareholders.

The Company uses rolling Return on Invested Capital (RoIC) as a profitability indicator to assess efficient return on the Group's asset base. It quantifies how well the Group generates cash flow in relation to the capital invested in the business together with its ability to fund growth and to pay dividends.

#### PSP 2017 - 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 - 150 per cent	
Grant price	£5.46		
Performance period	January 1, 2017 to December 31, 2019		
Performance conditions	Adjusted 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	2019 EPS of 100 €cents 10 per cent vests	2019 RoIC of 12 per cent 10 per cent vests	IAG's TSR performance equal to the index 25 per cent vests
Target	2019 EPS between 100 €cents and 130 €cents (straight line vesting between threshold and maximum)	2019 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	2019 EPS of 130 €cents 100 per cent vests	2019 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		

Adjusted EPS measure is as defined for the 2015 PSP award earlier in the report. The Board, after considering the recommendation of the Remuneration Committee, retains the discretion to review and, if appropriate, revise the 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

Willie Walsh was a member of the Company's pension scheme until March 31, 2016. The Company did not pay any contributions during the reporting period (2016: £9,987). He received cash in lieu of contributions of £212,500 (2016: £202,513).

Enrique Dupuy de Lôme is not a member of the Company's pension scheme, and the Company therefore did not pay any contributions during the reporting period (2016: zero). He received cash in lieu of contributions of £136,750 (2016: £133,950).

### Payments for loss of office

No executive directors have left office during 2017. There were no payments made to non-executive directors after they left office during 2017.

### Payments to past directors

José Pedro Pérez-Llorca received travel benefits worth €4,940 during 2017 after he had left the Company.

Baroness Kingsmill received travel benefits worth €10,788 during 2017 after she had left the Company.

### Statement of voting

The table below shows the consultative vote on the 2016 annual Directors' Remuneration Report at the 2017 annual Shareholders' Meeting, and the binding vote on the Directors' Remuneration Policy at the 2015 annual Shareholders' Meeting:

	Number of votes cast	For	Against	Abstentions/Blank
2016 Annual Directors' Remuneration Report	1,419,239,541	1,246,756,022 (87.847 per cent)	120,810,395 (8.512 per cent)	51,673,124 (3.641 per cent)
Directors' Remuneration Policy	1,313,200,803	973,503,807 (74.132 per cent)	49,560,764 (3.774 per cent)	290,136,232 (22.094 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. This will increase to 350 per cent of salary from 2018, subject to shareholder approval of the new Directors' Remuneration Policy at the 2018 annual Shareholders' Meeting. 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 four 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, 2017:

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 (350 per cent of salary from 2018)	72,000	1,562,759	209,781	174,209	2,018,749 (1,116 per cent of salary)
Enrique Dupuy de Lôme	200 per cent of salary	100	452,305	81,013	62,008	595,426 (569 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. He is also a member of the IATA Board of Governors. Enrique Dupuy de Lôme is Chairman of Iberia Cards.

### Non-executive directors

Non-executive directors are paid a flat fee each year. The Non-Executive Chairman's fee is €645,000, and this was voluntarily reduced by 25 per cent to €483,750 from December 1, 2012 until October 31, 2016. Other non-executive directors have a fee of €120,000. The additional fee for holding a Committee chairmanship is €20,000, and the additional fee for discharging the functions of Senior Independent Director is €30,000.

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

### Directors' interests in shares

#### Subject to audit

	Total shares and voting rights	Percentage of capital
Antonio Vázquez	512,291	0.025
Willie Walsh	1,844,540	0.090
Marc Bolland	0	0.000
Patrick Cescau	0	0.000
Enrique Dupuy de Lôme	533,418	0.026
James Lawrence <sup>1</sup>	752,300	0.037
María Fernanda Mejía	100	0.000
Kieran Poynter	15,000	0.001
Emilio Saracho	0	0.000
Dame Marjorie Scardino	100	0.000
Alberto Terol	26,537	0.001
Total	3,684,286	0.179

<sup>1</sup> Held as IAG ADSs (one IAG ADS equals two IAG shares).

There have been no changes to the shareholdings set out above between December 31, 2017 and the date of this report, other than Nicola Shaw (joined the Board on January 1, 2018) who purchased 1,495 shares on January 2, 2018.

### 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, 2017, 2.33 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, 2017 were:

At December 31 2017	651p
Highest in the period	670p
Lowest in the period	441p

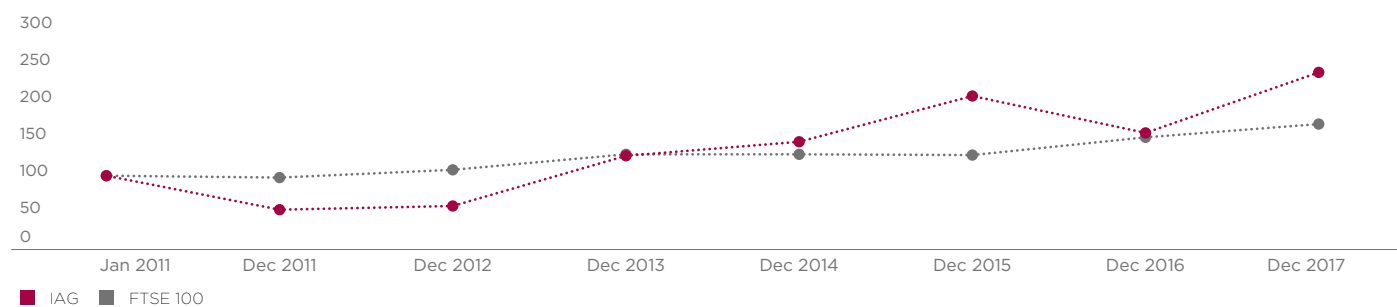
### Company performance graph and Chief Executive Officer of IAG 'single figure' table

The chart shows the value by December 31, 2017 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:



	CEO of IAG - 'total single figure' of remuneration	Annual incentive	Long-term incentive
2011	£1,550,000	Includes annual incentive payment of £302,000 (18 per cent of maximum).	Includes £251,594 value of long-term incentives vesting (35 per cent of maximum).
2012	£1,083,000	No annual incentive payment.	Zero vesting of long-term incentives.
2013	£4,971,000	Includes annual incentive payment of £1,299,375 (78.75 per cent of maximum).	Includes £2,593,569 value of long-term incentives vesting (100 per cent of maximum).
2014	£6,390,000	Includes annual incentive payment of £1,662,222 (97.78 per cent of maximum).	Includes £3,640,135 value of long-term incentives vesting (85 per cent of maximum).
2015	£6,455,000	Includes annual incentive payment of £1,360,000 (80 per cent of maximum).	Includes £4,405,185 value of long-term incentives vesting (100 per cent of maximum).
2016	£2,462,000	Includes annual incentive payment of £566,667 (33.33 per cent of maximum).	Includes £807,741 value of long-term incentives vesting (50 per cent of maximum).
2017	£3,954,000	Includes annual incentive payment of £1,579,583 (92.92 per cent of maximum).	Includes £1,285,819 value of long-term incentives vesting (66.67 per cent of maximum).

Single total figure of remuneration includes basic salary, taxable benefits, pension related benefits, annual incentive award and long-term incentive vesting.

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

### 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 2017 compared to 2016.

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 British Airways, but there are also a number of employees from all other companies in the Group based in the UK. It was determined that employees outside the UK would not be considered for the comparison, as very different employment market conditions exist in other countries.

	Chief Executive Officer of IAG	UK employees
Basic salary	No basic salary increase for 2017.	Basic salary awards in 2017 at UK companies in the Group averaged around 2 per cent.
Annual incentive	Increase from £566,667 in March 2017 (covering the 2016 performance period) to £1,579,583 in March 2018 (covering the 2017 performance period). This represents a 179 per cent increase.	Changes in overall annual incentive payments for 2017 versus 2016 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 £25,000 in 2017 from £24,000 in 2016.	No change in benefits policy. Overall costs 2017 versus 2016 increased very slightly in line with inflation.

### Relative importance of spend on pay

The table below shows, for 2017 and 2016, total remuneration costs, operating profit and dividends for the Company.

	2017	2016
Total employee costs, IAG	<b>€4,740,000,000</b>	€4,731,000,000
Total remuneration, directors (including non-executive directors)	<b>€8,744,000</b>	€6,561,000
IAG operating profit (before exceptional items)	<b>€3,015,000,000</b>	€2,535,000,000
Dividend declared	<b>€256,000,000</b>	€495,000,000
Dividend proposed	<b>€298,000,000</b>	-

Total employee costs are before exceptional items.

### Implementation of remuneration policy for 2018

#### 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 2018 (which varied across the Group from 2 per cent to 4.1 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 (€974,000) (no increase from 2017).
Chief Financial Officer of IAG	£557,000 (€638,000) (in UK sterling terms, an increase of 1.8% from 2017).

The Remuneration Committee recommended the Board to offer the Chief Executive Officer a salary increase in line with that applied to other executives, however it was respectfully declined by him.



## 2018 annual incentive plan

The design of the 2018 annual incentive plan is part of the new Remuneration Policy, and is subject to approval at the 2018 annual Shareholders' Meeting. For 2018, 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. The weighting for the IAG operating profit (before exceptional items) measure will be 60 per cent, and for role-specific objectives will be 25 per cent. The remaining 15 per cent weighting will be for the Net Promoter Score (NPS) measure. The Board, after considering the recommendation of the Committee, has approved a stretching target range for IAG operating profit and NPS for 2018 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 pay out at the stretch target level. 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 for IAG operating profit will not be disclosed until after the end of the performance year. It will be disclosed in next year's Remuneration Report.

## 2018 Performance Share Plan award

The Board, on the Committee's recommendation, has approved a PSP award for 2018, with a performance period of January 1, 2018 to December 31, 2020.

For 2018, 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 and weightings that were used in 2015, 2016 and 2017. The reasons for the Board considering these measures to be appropriate are the same reasons as those mentioned for the 2017 PSP award earlier in the report.

The first is based on IAG TSR performance relative to the MSCI European Transportation Index. The target range is identical to 2017, and is outlined earlier in this report.

The second performance condition is based on adjusted EPS (as defined in the 2015 award). The Board and the Committee have agreed that the adjusted earnings per share (EPS) target range for the 2018 PSP award will be increased compared to the 2017 PSP award. The adjusted EPS measure will be as follows:

Weighting	One-third
Threshold	2020 adjusted EPS of 130 €cents 10 per cent vests
Target (straight line vesting between threshold and maximum)	2020 adjusted EPS between 130 €cents and 170 €cents
Maximum	2020 adjusted EPS of 170 €cents 100 per cent vests

The third performance condition is RoIC. The measure will be as follows:

Weighting	One-third
Threshold	2020 RoIC of 13 per cent 10 per cent vests
Target (straight line vesting between threshold and maximum)	2020 RoIC between 13 per cent and 16 per cent
Maximum	2020 RoIC of 16 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.

## Report of the Remuneration Committee continued

### Taxable benefits and pension related benefits

Taxable benefits remain unchanged for 2018. Pension related benefits as a percentage of basic salary will decrease for new externally recruited executive directors as stated in the remuneration policy.

### Non-executive director fees

Non-executive director fees were reviewed in 2017 but remain unchanged for 2018. The fees have remained unchanged since 2011.

### 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, 2017	Awards vested during the year	Awards lapsed during the year	Awards made during the year	Number of awards at December 31, 2017
<b>Executive directors</b>							
Willie Walsh	IAG PSP	March 6, 2014	379,310	189,655	189,655	-	-
Enrique Dupuy de Lôme	IAG PSP	March 6, 2014	137,931	68,965	68,966	-	-

The award granted on March 6, 2014 was tested at the end of the performance period, and as a result 50 per cent of the award vested, as detailed earlier in this report in the section on Variable pay outcomes.

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2014 PSP award was 435 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, 2017	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, 2017
<b>Executive directors</b>									
Willie Walsh	May 28, 2015	309,091	-	-	-	-	January 1, 2020	December 31, 2024	309,091
	March 7, 2016	314,233	-	-	-	-	January 1, 2021	December 31, 2025	314,233
	March 6, 2017	-	-	-	-	311,355	January 1, 2022	December 31, 2026	311,355
<b>Total</b>		<b>623,324</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>311,355</b>			<b>934,679</b>
Enrique Dupuy de Lôme	May 28, 2015	112,364	-	-	-	-	January 1, 2020	December 31, 2024	112,364
	March 7, 2016	145,647	-	-	-	-	January 1, 2021	December 31, 2025	145,647
	March 6, 2017	-	-	-	-	147,198	January 1, 2022	December 31, 2026	147,198
<b>Total</b>		<b>258,011</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>147,198</b>			<b>405,209</b>

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

The value attributed to the Company's ordinary shares in accordance with the plan rules on the dates of the PSP awards were as follows: 2017: 546 pence; 2016: 541 pence; and 2015: 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, 2014, December 31, 2015 and December 31, 2016).

Director	Relates to incentive award earned in respect of performance	Date of award	Number of awards at January 1, 2017	Awards released during the year	Date of vesting	Awards lapsing during the year	Awards made during the year	Number of awards at December 31, 2017
<b>Executive directors</b>								
Willie Walsh	2013	March 6, 2014	149,353	149,353	March 6, 2017	-	-	-
	2014	May 28, 2015	151,111	-	March 8, 2018	-	-	151,111
	2015	March 7, 2016	125,693	-	March 7, 2019	-	-	125,693
	2016	March 6, 2017	-	-	March 6, 2020	-	51,893	51,893
<b>Total</b>			<b>426,157</b>	<b>149,353</b>		<b>-</b>	<b>51,893</b>	<b>328,697</b>
Enrique Dupuy de Lôme	2013	March 6, 2014	50,862	50,862	March 6, 2017	-	-	-
	2014	May 28, 2015	50,252	-	March 8, 2018	-	-	50,252
	2015	March 7, 2016	44,665	-	March 7, 2019	-	-	44,665
	2016	March 6, 2017	-	-	March 6, 2020	-	22,080	22,080
<b>Total</b>			<b>145,779</b>	<b>50,862</b>		<b>-</b>	<b>22,080</b>	<b>116,997</b>

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

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2017 IADP award was 546 pence (2016: 541 pence; 2015: 550 pence; and 2014: 435 pence).

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2014 IADP award was 435 pence. The share price on the date of the vesting of this award (March 6, 2017) was 548.5 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.

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## Financial Statements

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The Group's consolidated statements which follow have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union.

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## Consolidated income statement

€ million	Note	Year to December 31					
		Before exceptional items 2017	Exceptional items	Total 2017	Before exceptional items 2016	Exceptional items	Total 2016
Passenger revenue		20,245		20,245	19,924		19,924
Cargo revenue		1,084		1,084	1,022		1,022
Other revenue		1,643		1,643	1,621		1,621
<b>Total revenue</b>	3	<b>22,972</b>		<b>22,972</b>	22,567		22,567
Employee costs	4, 7	4,740	248	4,988	4,731	93	4,824
Fuel, oil costs and emissions charges	4	4,610		4,610	4,873	(42)	4,831
Handling, catering and other operating costs		2,700	14	2,714	2,664		2,664
Landing fees and en-route charges		2,151		2,151	2,151		2,151
Engineering and other aircraft costs		1,773	19	1,792	1,701		1,701
Property, IT and other costs		915	7	922	870		870
Selling costs		982		982	896		896
Depreciation, amortisation and impairment	5	1,184		1,184	1,287		1,287
Aircraft operating lease costs	5	888		888	759		759
Currency differences		14		14	100		100
Total expenditure on operations		19,957	288	20,245	20,032	51	20,083
<b>Operating profit</b>	3	<b>3,015</b>	<b>(288)</b>	<b>2,727</b>	2,535	(51)	2,484
Finance costs	8	(225)		(225)	(279)		(279)
Finance income	8	45		45	33		33
(Loss)/profit on sale of property, plant and equipment and investments		(30)		(30)	67		67
Net gain related to available-for-sale financial assets	17	7		7	4		4
Share of profits in investments accounted for using the equity method	16	3		3	6		6
Realised losses on derivatives not qualifying for hedge accounting		(19)		(19)	(7)		(7)
Unrealised (losses)/gains on derivatives not qualifying for hedge accounting		(14)		(14)	67		67
Net financing (charge)/credit relating to pensions	31	(28)		(28)	12		12
Net currency retranslation credits/(charges)		27		27	(25)		(25)
Total net non-operating costs		(234)		(234)	(122)		(122)
<b>Profit before tax</b>		<b>2,781</b>	<b>(288)</b>	<b>2,493</b>	2,413	(51)	2,362
Tax	9	(538)	66	(472)	(423)	13	(410)
<b>Profit after tax for the year</b>		<b>2,243</b>	<b>(222)</b>	<b>2,021</b>	1,990	(38)	1,952
<b>Attributable to:</b>							
Equity holders of the parent		2,223		2,001	1,969		1,931
Non-controlling interest		20		20	21		21
		2,243		2,021	1,990		1,952
<b>Basic earnings per share (€ cents)</b>	10	<b>106.4</b>		<b>95.8</b>	94.9		93.0
<b>Diluted earnings per share (€ cents)</b>	10	<b>102.8</b>		<b>92.6</b>	90.2		88.5

## Consolidated statement of other comprehensive income

€ million	Note	Year to December 31	
		2017	2016
<i>Items that may be reclassified subsequently to net profit</i>			
Cash flow hedges:			
Fair value movements in equity	30	101	(182)
Reclassified and reported in net profit	30	27	793
Available-for-sale financial assets:			
Fair value movements in equity	30	9	4
Currency translation differences	30	(146)	(506)
<i>Items that will not be reclassified to net profit</i>			
Remeasurements of post-employment benefit obligations	30	739	(1,807)
Total other comprehensive income for the year, net of tax		730	(1,698)
Profit after tax for the year		2,021	1,952
<b>Total comprehensive income for the year</b>		<b>2,751</b>	254
Total comprehensive income is attributable to:			
Equity holders of the parent		2,731	233
Non-controlling interest	30	20	21
		<b>2,751</b>	254

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



## Consolidated balance sheet

€ million	Note	December 31, 2017	December 31, 2016
<b>Non-current assets</b>			
Property, plant and equipment	12	11,846	12,227
Intangible assets	15	3,018	3,037
Investments accounted for using the equity method	16	30	29
Available-for-sale financial assets	17	79	73
Employee benefit assets	31	1,023	1,028
Derivative financial instruments	26	145	169
Deferred tax assets	9	521	526
Other non-current assets	18	376	499
		<b>17,038</b>	17,588
<b>Current assets</b>			
Non-current assets held for sale	14	-	38
Inventories		432	458
Trade receivables	18	1,494	1,405
Other current assets	18	958	899
Current tax receivable	9	258	228
Derivative financial instruments	26	405	329
Other current interest-bearing deposits	19	3,384	3,091
Cash and cash equivalents	19	3,292	3,337
		<b>10,223</b>	9,785
<b>Total assets</b>		<b>27,261</b>	27,373
<b>Shareholders' equity</b>			
Issued share capital	27	1,029	1,066
Share premium	27	6,022	6,105
Treasury shares	28	(77)	(96)
Other reserves	30	115	(1,719)
<b>Total shareholders' equity</b>		<b>7,089</b>	5,356
Non-controlling interest	30	307	308
<b>Total equity</b>		<b>7,396</b>	5,664
<b>Non-current liabilities</b>			
Interest-bearing long-term borrowings	22	6,401	7,589
Employee benefit obligations	31	792	2,363
Deferred tax liability	9	531	176
Provisions for liabilities and charges	24	2,113	1,987
Derivative financial instruments	26	114	20
Other long-term liabilities	21	222	238
		<b>10,173</b>	12,373
<b>Current liabilities</b>			
Current portion of long-term borrowings	22	930	926
Trade and other payables	20	3,766	3,305
Deferred revenue on ticket sales		4,159	4,145
Derivative financial instruments	26	111	88
Current tax payable	9	179	101
Provisions for liabilities and charges	24	547	771
		<b>9,692</b>	9,336
<b>Total liabilities</b>		<b>19,865</b>	21,709
<b>Total equity and liabilities</b>		<b>27,261</b>	27,373

## Consolidated cash flow statement

€ million	Note	Year to December 31	
		2017	2016
<b>Cash flows from operating activities</b>			
Operating profit after exceptional items		<b>2,727</b>	2,484
Depreciation, amortisation and impairment	5	<b>1,184</b>	1,287
Movement in working capital		<b>582</b>	83
<i>Increase in trade and other receivables, prepayments, inventories and current assets</i>		<i>(282)</i>	<i>(592)</i>
<i>Increase in trade and other payables, deferred revenue on ticket sales and current liabilities</i>		<i>864</i>	<i>675</i>
Payments related to restructuring	24	<b>(248)</b>	(206)
Employer contributions to pension schemes	31	<b>(899)</b>	(936)
Pension scheme service costs	31	<b>233</b>	196
Provision and other non-cash movements		<b>264</b>	203
Interest paid		<b>(122)</b>	(185)
Interest received		<b>29</b>	37
Tax paid		<b>(237)</b>	(318)
<b>Net cash flows from operating activities</b>		<b>3,513</b>	2,645
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment and intangible assets		<b>(1,490)</b>	(3,038)
Sale of property, plant and equipment and intangible assets		<b>306</b>	1,737
Proceeds from sale of investments		<b>17</b>	-
Increase in other current interest-bearing deposits		<b>(432)</b>	(450)
Other investing movements		<b>55</b>	2
<b>Net cash flows from investing activities</b>		<b>(1,544)</b>	(1,749)
<b>Cash flows from financing activities</b>			
Proceeds from long-term borrowings		<b>178</b>	1,317
Repayment of borrowings		<b>(148)</b>	(515)
Repayment of finance leases		<b>(825)</b>	(615)
Acquisition of treasury shares	28	<b>(500)</b>	(25)
Distributions made to holders of perpetual securities and other		<b>(21)</b>	(20)
Dividend paid		<b>(512)</b>	(442)
<b>Net cash flows from financing activities</b>		<b>(1,828)</b>	(300)
Net increase in cash and cash equivalents		<b>141</b>	596
Net foreign exchange differences		<b>(186)</b>	(168)
Cash and cash equivalents at 1 January		<b>3,337</b>	2,909
<b>Cash and cash equivalents at year end</b>	19	<b>3,292</b>	3,337
<b>Interest-bearing deposits maturing after more than three months</b>	19	<b>3,384</b>	3,091
<b>Cash, cash equivalents and other interest-bearing deposits</b>	19	<b>6,676</b>	6,428

## Consolidated statement of changes in equity

For the year to December 31, 2017

€ million	Issued share capital (note 27)	Share premium (note 27)	Treasury shares (note 28)	Other reserves (note 30)	Retained earnings	Total shareholders' equity	Non-controlling interest (note 30)	Total equity
January 1, 2017	1,066	6,105	(96)	(2,671)	952	<b>5,356</b>	308	<b>5,664</b>
Profit for the year	-	-	-	-	2,001	<b>2,001</b>	20	<b>2,021</b>
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	-	-	-	84	-	<b>84</b>	-	<b>84</b>
Fuel and oil costs	-	-	-	(38)	-	<b>(38)</b>	-	<b>(38)</b>
Currency differences	-	-	-	(19)	-	<b>(19)</b>	-	<b>(19)</b>
Net change in fair value of cash flow hedges	-	-	-	101	-	<b>101</b>	-	<b>101</b>
Net change in fair value of available-for-sale financial assets	-	-	-	9	-	<b>9</b>	-	<b>9</b>
Currency translation differences	-	-	-	(146)	-	<b>(146)</b>	-	<b>(146)</b>
Remeasurements of post-employment benefit obligations	-	-	-	-	739	<b>739</b>	-	<b>739</b>
Total comprehensive income for the year	-	-	-	(9)	2,740	<b>2,731</b>	20	<b>2,751</b>
Cost of share-based payments	-	-	-	-	34	<b>34</b>	-	<b>34</b>
Vesting of share-based payment schemes	-	-	19	-	(33)	<b>(14)</b>	-	<b>(14)</b>
Acquisition of treasury shares	-	-	(500)	-	-	<b>(500)</b>	-	<b>(500)</b>
Dividend	-	-	-	-	(518)	<b>(518)</b>	-	<b>(518)</b>
Cancellation of share capital	(37)	-	500	37	(500)	-	-	-
Dividend of a subsidiary	-	-	-	-	-	-	(1)	<b>(1)</b>
Transfer in Company reserves	-	(83)	-	-	83	-	-	-
Distributions made to holders of perpetual securities	-	-	-	-	-	-	(20)	<b>(20)</b>
<b>December 31, 2017</b>	<b>1,029</b>	<b>6,022</b>	<b>(77)</b>	<b>(2,643)</b>	<b>2,758</b>	<b>7,089</b>	<b>307</b>	<b>7,396</b>

## Consolidated statement of changes in equity

For the year to December 31, 2016

€ million	Issued share capital (note 27)	Share premium (note 27)	Treasury shares (note 28)	Other reserves (note 30)	Retained earnings	Total shareholders' equity	Non-controlling interest (note 30)	Total equity
January 1, 2016	1,020	5,867	(113)	(2,708)	1,160	5,226	308	5,534
Profit for the year	-	-	-	-	1,931	1,931	21	1,952
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	-	-	-	(57)	-	(57)	-	(57)
Fuel and oil costs	-	-	-	918	-	918	-	918
Currency differences	-	-	-	(68)	-	(68)	-	(68)
Net change in fair value of cash flow hedges	-	-	-	(182)	-	(182)	-	(182)
Net change in fair value of available-for-sale financial assets	-	-	-	4	-	4	-	4
Currency translation differences	-	-	-	(506)	-	(506)	-	(506)
Remeasurements of post-employment benefit obligations	-	-	-	-	(1,807)	(1,807)	-	(1,807)
Total comprehensive income for the year	-	-	-	109	124	233	21	254
Cost of share-based payments	-	-	-	-	35	35	-	35
Vesting of share-based payment schemes	-	-	42	-	(73)	(31)	-	(31)
Acquisition of treasury shares	-	-	(25)	-	-	(25)	-	(25)
Dividend	-	(106)	-	-	(339)	(445)	-	(445)
Issue of ordinary shares related to conversion of convertible bond	46	344	-	(72)	45	363	-	363
Dividend of a subsidiary	-	-	-	-	-	-	(1)	(1)
Distributions made to holders of perpetual securities	-	-	-	-	-	-	(20)	(20)
December 31, 2016	1,066	6,105	(96)	(2,671)	952	5,356	308	5,664

# Notes to the consolidated financial statements

For the year to December 31, 2017

## 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. A list of the subsidiaries of the Group is included in the Group investments section.

IAG shares are traded on the London Stock Exchange's main market for listed securities and also on the stock exchanges of Madrid, Barcelona, Bilbao and Valencia (the 'Spanish Stock Exchanges'), through the Spanish Stock Exchanges Interconnection System (Mercado Continuo Español).

## 2 Significant accounting policies

### Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union (IFRSs as endorsed by the EU). The consolidated financial statements are rounded to the nearest million unless otherwise stated. These financial statements have been prepared on a historical cost convention except for certain financial assets and liabilities, including derivative financial instruments and 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. In order to provide additional information on the nature of non-operating items included in the Income statement, the Group has included an additional line to separate the unrealised movements on open derivatives from realised gains and losses.

The Group's financial statements for the year to December 31, 2017 were authorised for issue, and approved by the Board of Directors on February 22, 2018.

The Directors have considered the business activities, the Group's principal risks and uncertainties, 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 and joint ventures, adjusted where appropriate to conform to the Group's accounting policies.

Subsidiaries are consolidated from the date of their acquisition, which is the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group applies the acquisition method to account for business combinations. The consideration paid is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries that are not held by the Group and are presented separately within equity in the consolidated Balance sheet. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the Income statement.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed.

All 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.

### Foreign currency translation

#### a Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the functional currency, being the currency of the primary economic environment in which the entity operates. In particular, British Airways and Avios have a functional currency of pound sterling. The Group's consolidated financial statements are presented in euros, which is the Group's presentation currency.

## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 2 Significant accounting policies continued

#### b Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency using the rate of exchange prevailing on the date of the transaction. Monetary foreign currency balances are translated into the functional currency at the rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income statement, except where hedge accounting is applied. Foreign exchange gains and losses arising on the retranslation of monetary assets and liabilities classified as non-current on the Balance sheet are recognised within 'Net currency retranslation credits/(charges)' in the Income statement. All other gains and losses arising on the retranslation of monetary assets and liabilities are recognised in operating profit.

#### c Group companies

The net assets of foreign operations are translated into euros at the rate of exchange ruling at the balance sheet date. Profits and losses of such operations are translated into euros at average rates of exchange during the year. The resulting exchange differences are taken directly to a separate component of equity 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 (which is the shorter of their useful life or lease term) on a straight-line basis. Depreciation rates are specific to aircraft type, based on the Group's fleet plans, within overall parameters of 23 years and 5 per cent residual value for shorthaul aircraft and 25 years and 5 per cent residual value for longhaul aircraft.

Cabin interior modifications, including those required for brand changes and relaunches, are depreciated over the lower of five years and the remaining economic life of the aircraft.

Aircraft and engine spares acquired on the introduction or expansion of a fleet, as well as rotatable spares purchased separately, are carried as property, plant and equipment and generally depreciated in line with the fleet to which they relate.

Major overhaul expenditure, including replacement spares and labour costs, is capitalised and amortised over the average expected life between major overhauls. All other replacement spares and other costs relating to maintenance of fleet assets (including maintenance provided under 'pay-as-you-go' contracts) are charged to the Income statement on consumption or as incurred respectively.

#### c Other property, plant and equipment

Provision is made for the depreciation of all property, plant and equipment. Property, with the exception of freehold land, is depreciated over its expected useful life over periods not exceeding 50 years, or in the case of leasehold properties, over the duration of the lease if shorter, on a straight-line basis. Equipment is depreciated over periods ranging from 4 to 20 years.

#### d 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.

In determining the appropriate lease 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.



## Intangible assets

### a Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration paid over the net fair value of the identifiable assets and liabilities of the acquiree. Where the net fair value of the identifiable assets and liabilities of the acquiree is in excess of the consideration paid, a gain on bargain purchase is recognised immediately in the Income statement.

For the purpose of assessing impairment, goodwill is grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Goodwill is tested for impairment annually and whenever indicators exist that the carrying value may not be recoverable.

### b Brands

Brands arising on the acquisition of subsidiaries are initially recognised at fair value at the acquisition date. Long established brands that are expected to be used indefinitely are not amortised but assessed annually for impairment.

### c Customer loyalty programmes

Customer loyalty programmes arising on the acquisition of subsidiaries are initially recognised at fair value at the acquisition date. A customer loyalty programme with an expected useful life is amortised over the expected remaining useful life. Established customer loyalty programmes that are expected to be used indefinitely are not amortised but assessed annually for impairment.

### d Landing rights

Landing rights acquired in a business combination are recognised at fair value at the acquisition date. Landing rights acquired from other airlines are capitalised at cost.

Capitalised landing rights based outside the EU are amortised on a straight-line basis over a period not exceeding 20 years. Capitalised landing rights based within the EU are not amortised, as regulations provide that these landing rights are perpetual.

### e Contract based intangibles

Contract based intangibles acquired in a business combination are recognised initially at fair value at the acquisition date and amortised over the remaining life of the contract.

### f Software

The cost to purchase or develop computer software that is separable from an item of related hardware is capitalised separately and amortised on a straight-line basis generally over a period not exceeding five years, with certain specific software developments amortised over a period of up to 10 years.

### g Emissions allowances

Purchased emissions allowances are recognised at cost. Emissions allowances are not revalued or amortised but are tested for impairment whenever indicators exist that the carrying value may not be recoverable.

## 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.

## Investments in associates and joint ventures

An associate is an undertaking in which the Group has a long-term equity interest and over which it has the power to exercise significant influence. Where the Group cannot exercise control over an entity in which it has a shareholding greater than 51 per cent, the equity interest is treated as an associated undertaking.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investments in associates and joint ventures are accounted for using the equity method, and initially recognised at cost. The Group's interest in the net assets of associates and joint ventures is included in Investments accounted for using the equity method in the Balance sheet and its interest in their results is included in the Income statement, below operating result. The attributable results of those companies acquired or disposed of during the year are included for the periods of ownership.

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## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 2 Significant accounting policies continued

#### Financial instruments

##### a Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets including listed and unlisted investments, excluding interests in associates and joint ventures. 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 Other interest-bearing deposits

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

##### c Derivative financial instruments and hedging activities

Derivative financial instruments, comprising interest rate swap agreements, foreign exchange derivatives and fuel hedging derivatives (including options, swaps and futures) are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss arising from remeasurement depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged (as detailed below under cash flow hedges). The 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.

##### d Cash flow hedges

Changes in the fair value of derivative financial instruments are reported in the Income statement, 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, are recorded in equity. Gains and losses recorded in equity are reflected in the Income statement when either the hedged cash flow impacts the Income statement or the hedged item is no longer expected to occur.

Certain loan repayment instalments denominated in US dollars, euros, Japanese yen and Chinese yuan are designated as cash flow hedges of highly probable future foreign currency revenues. Exchange differences arising from the translation of these loan repayment instalments are recorded in equity and subsequently reflected in the Income statement when either the future revenue impacts income or its occurrence is no longer expected to occur.

##### e 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.

##### f 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.

## Employee benefit plans

### a Pension obligations

The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years. The benefit is discounted to determine its present value, and the fair value of any plan assets are deducted. The discount rate is the yield at the balance sheet date on AA-rated corporate bonds of the appropriate currency that have durations approximating those of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the net obligation calculation results in an asset for the Group, the recognition of an asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan ('the asset ceiling'). The fair value of the plan assets is based on market price information and, in the case of quoted securities, is the published bid price. The fair value of insurance policies which exactly match the amount and timing of some or all benefits payable under the scheme are deemed to be the present value of the related obligations. Longevity swaps are measured at their fair value.

Current service costs are recognised within employee costs in the year in which they arise. Past service costs are recognised in the event of a plan amendment or curtailment, or when the Group recognises related restructuring costs or severance obligations. The net interest is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest and other expenses related to the defined benefit plans are recognised in the Income statement. Remeasurements, comprising actuarial gains and losses, the effect of the asset ceiling (excluding interest) and the return on plan assets (excluding interest), are recognised immediately in Other comprehensive income. Remeasurements are not reclassified to the Income statement in subsequent periods.

### b Severance obligations

Severance obligations are recognised when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises a provision for severance payments when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal, or providing severance payments as a result of an offer made to encourage voluntary redundancy.

Other employee benefits are recognised when there is deemed to be a present obligation.

## Taxation

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries or associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the Income statement.

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## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 2 Significant accounting policies continued

#### 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 include cash in hand and deposits with any qualifying financial institution repayable on demand or maturing within three months of the date of acquisition and which are subject to an insignificant risk of change in value.

#### Share-based payments

The Group operates a number of equity-settled, share-based payment plans, under which the Group awards equity instruments of the Group for services rendered by employees. The fair value of the share-based payment plans is measured at the date of grant using a valuation model provided by external specialists. The resulting cost, as adjusted for the expected and actual level of vesting of the plan, is charged to the Income statement over the period in which the options vest. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, and accordingly the number of equity instruments that will ultimately vest. The movement in the cumulative expense since the previous balance sheet date is recognised in the Income statement with a corresponding entry in equity.

#### Provisions

Provisions are made when an obligation exists for a present liability in respect of a past event and where the amount of the obligation can be reliably estimated.

Employee leaving indemnities and other employee provisions are recorded for flight crew who, meeting certain conditions, have the option of being placed on reserve or of taking early retirement. The Group is obligated to remunerate these employees until they reach the statutory retirement age. The calculation is performed by independent actuaries using the projected unit credit method.

Other employee related provisions are recognised for direct expenditures of business reorganisation such as severance payments (restructuring provisions) where plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken at the balance sheet date.

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 deferred revenue on ticket sales in current liabilities 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, Vueling Club and Aer Club. The 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 difference between the consideration received and the amount deferred is recognised on the issuance of the points. 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 awards for which points can be redeemed.

### 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.

### Critical accounting judgements, 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 judgements, estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results in the future may differ from judgements and estimates upon which financial information has been prepared. These underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised 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.

### Estimates

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows.

#### a Employee benefit obligations, employee leaving indemnities, other employee related restructuring provisions

The cost of employee benefit obligations, employee leaving indemnities and other employee related provisions is determined using actuarial valuations. Actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such assumptions are subject to significant uncertainty. The assumptions relating to these schemes are disclosed in notes 24 and 31. The Group determines the assumptions to be adopted in discussion with qualified actuaries. In respect of future pension increases in the Airways Pension Scheme, following legal proceedings the Group has appealed the initial judgement that the Trustee has the power to award discretionary increases to pensions in payment in the 2013/14 scheme year. Further information on these proceedings is disclosed in note 32. The sensitivity to changes in pension increase assumptions is disclosed in note 31.

Restructuring provisions are estimates of future obligations. The Group exercises judgement in determining the expected direct expenditures of reorganisation based on plans which are sufficiently detailed and advanced.

#### b Revenue recognition

At December 31, 2017 the Group recognised €4,159 million in respect of deferred revenue on ticket sales (2016: €4,145 million) of which €1,217 million (2016: €1,287 million) related to customer loyalty programmes.

Passenger revenue is recognised when the transportation is provided. Ticket sales that are not expected to be used ('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 determines 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 the mix and fair value of the award credits. A one point change in the assumption on the percentage of points not expected to be redeemed will increase or reduce the amount recognised as revenue in the year by less than €10 million.

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## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 2 Significant accounting policies continued

#### c Income taxes

The Group is subject to income taxes in numerous jurisdictions. Estimates are required when 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 assessments. 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. The deferred income tax asset recognised at December 31, 2017 was €521 million (2016: €526 million). Further information on current and deferred tax liabilities is disclosed in note 9.

#### 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 and assumptions as disclosed in note 15.

Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

#### e Residual values and useful lives of assets

The Group estimates useful lives and residual values of property, plant and equipment, including fleet assets based on network plans and recoverable values. Useful lives and residual values are reassessed annually, taking into consideration the latest fleet plans and other business plan information. Information on the net book values of property, plant and equipment and related depreciation charges is disclosed in note 12.

### Judgement

#### Engineering and other aircraft costs

The Group has a number of contracts with service providers to replace or repair engine parts and other maintenance checks. 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. Aircraft maintenance obligations are based on aircraft utilisation, expected maintenance intervals, future maintenance costs and the aircraft's condition. At December 31, 2017, the Group recognised €1,125 million in respect of maintenance, restoration and handback provisions (2016: €1,201 million). Information on movements on the provision is disclosed in note 24.

### Changes in accounting policy and disclosures

#### a New and amended standards adopted by the Group

The Group has adopted IAS 7 (Amendment) 'Statement of cash flows' for the first time in the year to December 31, 2017. The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The Group has addressed this requirement by providing a reconciliation between the opening and closing balances of assets and liabilities included in the Group's definition of net debt (note 19). This includes a reconciliation of liabilities arising from financing activities.

Other amendments adopted for the first time in the year to December 31, 2017 have not resulted in a significant change to the financial position or performance of the Group, or to presentation and disclosures in the Group financial statements.



## 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 on the date they become mandatory:

**IFRS 15 'Revenue from contracts with customers'**; effective for periods beginning on or after January 1, 2018. The standard establishes a 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 goods and services and at a point when the performance obligations associated with these goods and services have been satisfied.

The Group has identified the following changes to revenue recognition on adoption of the standard:

- Passenger revenue – revenue associated with ancillary services that is currently recognised when paid, such as administration fees, will be deferred to align with the recognition of revenue associated with the related travel.
- Cargo revenue – interline cargo revenue will be presented gross rather than net of related costs as IAG is considered to be principal rather than agent in these transactions.
- Other revenue – loyalty revenue associated with the redemption of Avios points with third parties will be presented net of the related costs as IAG is considered to be agent rather than principal in these transactions. In addition, revenue associated with maintenance activities and holiday revenue with performance obligations that are fulfilled over time, will be deferred (with the related costs) and recognised over the performance obligation period.

The Group expects to apply the standard on a fully retrospective basis. On adoption of the standard, the adjustment to retained earnings at January 1, 2017 is expected to be a charge of €27 million. For the year to December 31, 2017, adjustments to reflect the new standard are expected to be: reduction to revenue €31 million, and reduction to operating costs €27 million, resulting in a reduction in operating profit of €4 million. As at December 31, 2017, assets will reduce by €29 million and liabilities increase by €1 million.

**IFRS 9 'Financial Instruments'**; effective for periods beginning on or after January 1, 2018. The standard amends the classification and measurement models for financial assets and adds new requirements to address the impairment of financial assets. It also introduces a new hedge accounting model to more closely align hedge accounting with risk management strategy and objectives. The standard will allow the Group to hedge account for specific risk components of its fuel purchases, such as crude oil price risk. It also requires movements in the time value of options (currently recognised in the Income statement) to be recognised in Other comprehensive income as they are considered to be a cost of hedging. The standard requires companies to make an election on whether gains and losses on equity instruments measured at fair value should be recognised in the Income statement or Other comprehensive income, with no recycling. On adoption of the standard, the Group expects the following changes:

Financial assets will be classified as at 'amortised cost', 'fair value through profit and loss', or 'fair value through other comprehensive income'. The Group has reviewed its existing classifications and confirmed that most financial assets will continue to be recognised at amortised cost. Equity investments, previously classified as available-for-sale will be classified as financial assets at fair value through Other comprehensive income, with no recycling of gains and losses.

The new impairment model will be applied to trade receivables and other financial assets. Any adjustment to existing provisions on transition will not be material.

The Group will continue to undertake hedging activity in line with its financial risk management objectives and policies. The following changes to hedge accounting will be adopted:

- Non-financial components of price risk may be designated in a hedge relationship;
- Movements in the time value of options will be classified as cost of hedging; and
- Hedge effectiveness assessments will be aligned to the requirements of IFRS 9.

The amounts recognised in the Income statement in respect of derivatives not qualifying for hedge accounting will reduce.

On adoption of the standard, to reflect the change in accounting for the time value of options, there will be a reclassification of accumulated post-tax gains of €38 million from retained earnings to unrealised gains and losses in Other reserves at January 1, 2017. Comparative information in the Income statement in respect of the year to December 31, 2017 will be adjusted to reflect a reduction in unrealised losses on derivatives not qualifying for hedge accounting of €42 million, a reduction in net currency retranslation charges of €11 million and an increase in the tax charge of €12 million, with an offsetting movement in Other comprehensive income. Other changes to hedge accounting will be applied prospectively.

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## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 2 Significant accounting policies continued

**IFRS 16 'Leases'**, effective from January 1, 2019. The new standard eliminates the classification of leases as either operating leases or finance leases and instead introduces a single lessee accounting model. The Group has a number of operating leases for assets including aircraft, property and other equipment. Details of the Group's operating lease commitments are disclosed in note 23.

The Group is currently assessing the impact of the new standard and expects its implementation to have a significant impact on the financial statements from the date of adoption. The main changes will be as follows:

1. The amounts recognised as assets and liabilities on adoption of IFRS 16 will be subject to a number of judgements, estimates and assumptions. This includes:
  - a. Judgements when reviewing current agreements (such as agreements for terminal capacity) to determine whether they contain leases as defined under the new standard.
  - b. Assumptions used to calculate the discount rate to apply to lease obligations, which is likely to be based on the incremental borrowing rate for the estimated lease term.
  - c. Estimation of the lease term, including options to extend the lease where the Group is reasonably certain to extend.
2. Interest-bearing borrowings and non-current assets will increase on implementation of the standard as obligations to make future payments under leases currently classified as operating leases will be recognised on the Balance sheet, along with the related 'right-of-use' asset. It is expected that lease obligations, which are predominantly US dollar denominated, will be recognised at the exchange rate ruling on the date of adoption and the appropriate incremental borrowing rate at that date, with the related 'right-of-use' asset recognised at the exchange rate ruling at the commencement of the lease.
3. There will be a reduction in expenditure on operations and an increase in finance costs as operating lease costs are replaced with depreciation and lease interest expense.
4. The Group's Alternative Performance Measures will also be impacted. These comprise Operating profit and lease adjusted operating margin; Adjusted earnings per share; EBITDAR; Return on Invested Capital; Adjusted net debt to EBITDAR; Adjusted gearing; and Equity free cash flow. The definitions of these metrics will be reviewed on adoption of IFRS 16 to ensure that they continue to measure the outcome of the Group's strategy and monitor performance against long-term planning targets.

For future reporting periods after adoption, foreign exchange movements on lease obligations, which are predominantly denominated in US dollars, will be remeasured at each balance sheet date, however the right-of-use asset will be recognised at the historic exchange rate. This will create volatility in the Income statement.

**IFRIC Interpretation 23 'Uncertainty over tax treatments' (not yet endorsed by the EU)**, effective for periods beginning on or after January 1, 2019. The interpretation clarifies application of recognition and measurement requirements in IAS 12 'Income Taxes' when there is uncertainty over income tax treatments. The Group is currently assessing the impact of the interpretation.

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 or net assets of the Group.

The Group has not early adopted any standard, amendment or interpretation that has been issued but is not yet effective.

### 3 Segment information

#### a Business segments

The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments, and has been identified as the IAG Management Committee (IAG MC).

The Group has a number of entities which are managed as individual operating companies including airline and platform functions. Each airline operates its network operations as a single business unit and the IAG MC assesses performance based on measures including operating profit, and makes resource allocation decisions for the airlines based on network profitability, primarily by reference to the passenger markets in which the companies operate. The objective in making resource allocation decisions is to optimise consolidated financial results.

The Group has determined its operating segments based on the way that it treats its businesses and the manner in which resource allocation decisions are made. British Airways, Iberia, Vueling and Aer Lingus have been identified for financial reporting purposes as reportable operating segments. Avios and LEVEL are also operating segments but do not exceed the quantitative thresholds to be reportable and management has concluded that there are currently no other reasons why they should be separately disclosed.

The platform functions of the business primarily support the airline operations. These activities are not considered to be reportable operating segments as they either earn revenues incidental to the activities of the Group and resource allocation decisions are made based on the passenger business, or are not reviewed by the IAG MC and are included within Other Group companies.

For the year to December 31, 2017

€ million	2017					Total
	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies	
<b>Revenue</b>						
External revenue	13,850	4,451	2,125	1,857	689	<b>22,972</b>
Inter-segment revenue	479	400	-	2	459	<b>1,340</b>
<b>Segment revenue</b>	<b>14,329</b>	<b>4,851</b>	<b>2,125</b>	<b>1,859</b>	<b>1,148</b>	<b>24,312</b>
Depreciation, amortisation and impairment	(860)	(182)	(20)	(77)	(45)	<b>(1,184)</b>
<b>Operating profit before exceptional items</b>	<b>1,996</b>	<b>376</b>	<b>188</b>	<b>269</b>	<b>186</b>	<b>3,015</b>
Exceptional items (note 4)	(108)	(180)	-	-	-	<b>(288)</b>
<b>Operating profit after exceptional items</b>	<b>1,888</b>	<b>196</b>	<b>188</b>	<b>269</b>	<b>186</b>	<b>2,727</b>
Net non-operating costs						<b>(234)</b>
<b>Profit before tax</b>						<b>2,493</b>

Total assets	18,872	6,108	1,515	1,976	(1,210)	<b>27,261</b>
Total liabilities	(12,100)	(4,382)	(1,253)	(1,046)	(1,084)	<b>(19,865)</b>

Includes eliminations on total assets of €13,031 million and total liabilities of €2,744 million.

For the year to December 31, 2016

€ million	2016					Total
	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies	
<b>Revenue</b>						
External revenue	13,889	4,233	2,065	1,766	614	22,567
Inter-segment revenue	469	353	-	-	452	1,274
<b>Segment revenue</b>	<b>14,358</b>	<b>4,586</b>	<b>2,065</b>	<b>1,766</b>	<b>1,066</b>	<b>23,841</b>
Depreciation, amortisation and impairment	(950)	(215)	(19)	(75)	(28)	(1,287)
<b>Operating profit before exceptional items</b>	<b>1,786</b>	<b>271</b>	<b>60</b>	<b>233</b>	<b>185</b>	<b>2,535</b>
Exceptional items (note 4)	(93)	-	-	-	42	(51)
<b>Operating profit after exceptional items</b>	<b>1,693</b>	<b>271</b>	<b>60</b>	<b>233</b>	<b>227</b>	<b>2,484</b>
Net non-operating costs						(122)
<b>Profit before tax</b>						<b>2,362</b>

Total assets	19,530	5,752	1,562	1,771	(1,242)	27,373
Total liabilities	(14,503)	(4,197)	(1,240)	(865)	(904)	(21,709)

Includes eliminations on total assets of €13,327 million and total liabilities of €3,725 million.

## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 3 Segment information continued

#### b Geographical analysis

##### Revenue by area of original sale

€ million	Year to December 31	
	2017	2016
UK	7,655	7,877
Spain	3,561	3,632
USA	3,694	3,534
Rest of world	8,062	7,524
	<b>22,972</b>	<b>22,567</b>

##### Assets by area

December 31, 2017

€ million	Property, plant and equipment	Intangible assets
UK	9,013	1,171
Spain	2,050	1,241
USA	1	6
Rest of world	782	600
	<b>11,846</b>	<b>3,018</b>

December 31, 2016

€ million	Property, plant and equipment	Intangible assets
UK	9,608	1,196
Spain	1,877	1,236
USA	20	18
Rest of world	722	587
	<b>12,227</b>	<b>3,037</b>

## 4 Exceptional items

€ million	Year to December 31	
	2017	2016
Restructuring costs <sup>1</sup>	288	144
Employee costs <sup>2</sup>	-	(51)
Pre-acquisition cash flow hedge impact <sup>3</sup>	-	(42)
<b>Recognised in expenditure on operations</b>	<b>288</b>	<b>51</b>
<b>Total exceptional charge before tax</b>	<b>288</b>	<b>51</b>
Tax on exceptional items	(66)	(13)
<b>Total exceptional charge after tax</b>	<b>222</b>	<b>38</b>

### 1 Restructuring costs

British Airways has embarked on a series of transformation proposals to develop a more efficient and cost effective structure. The overall costs of the programme principally comprise employee severance costs and includes other directly associated costs such as onerous lease provisions and asset write down costs. Costs incurred in the year to December 31, 2017 in respect of this programme amount to €108 million (2016: €144 million), with a related tax credit of €21 million (2016: €27 million).

In the year to December 31, 2017, €180 million of restructuring costs were recognised at Iberia, related to the announcement of a new Transformation Plan. A related tax credit of €45 million was also recognised.

*In the year to December 31, 2016:*

### 2 Employee costs

During the year to December 31, 2016 the Group made changes to the US PRMB (Post-Retirement Medical Benefits) to further bring the level of benefits in line with national trends seen in the US. This scheme is accounted for in a similar way to a defined benefit plan, so any reduction in benefit results in the recognition of a past service gain when the plan amendment occurs. This change has resulted in a one-off gain in employee costs of €51 million in the year to December 31, 2016, and a related tax charge of €9 million.

### 3 Pre-acquisition cash flow hedge impact

Under IFRS 3 Business combinations, gains or losses on cash flow hedges acquired should not be recycled to the income statement but recognised in equity. Following the acquisition of Aer Lingus, IAG continued to unwind the cash flow fuel hedges acquired in reported fuel expense. For the year to December 31, 2016, a credit of €42 million was recognised as an exceptional item, reversing the impact of unwinding the cash flow hedges to arrive at the total Fuel, oil costs and emissions charges. A related tax charge of €5 million was also recognised.

## 5 Expenses by nature

### Operating profit is arrived at after charging

Depreciation, amortisation and impairment of non-current assets:

€ million	2017	2016
Owned assets	641	739
Finance leased aircraft	382	391
Other leasehold interests	41	39
Amortisation of intangible assets	120	104
Impairment on intangible assets	-	14
	<b>1,184</b>	<b>1,287</b>

Operating leases costs:

€ million	2017	2016
Minimum lease rentals – aircraft	888	759
– Property and equipment	224	226
Sub-lease rentals received	(1)	(2)
	<b>1,111</b>	<b>983</b>

Cost of inventories:

€ million	2017	2016
Cost of inventories recognised as an expense, mainly fuel	3,176	3,966

## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 6 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, were as follows:

€'000	2017	2016
Fees payable for the audit of the Group and individual accounts	<b>3,648</b>	3,313
Fees payable for other services:		
Audit of the Group's subsidiaries pursuant to legislation	<b>569</b>	541
Other services pursuant to legislation	<b>465</b>	440
Other services relating to taxation	-	1
Other assurance services	<b>467</b>	604
Services relating to information technology	-	5
Services relating to corporate finance transactions	<b>296</b>	90
All other services	<b>3</b>	22
	<b>5,448</b>	5,016

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 and includes an explanation of how objectivity and independence is safeguarded when non-audit services are provided.

### 7 Employee costs and numbers

€ million	2017	2016
Wages and salaries	<b>3,155</b>	3,136
Social security costs	<b>486</b>	491
Costs related to pension scheme benefits	<b>370</b>	276
Cost of share-based payments	<b>34</b>	36
Other employee costs <sup>1</sup>	<b>943</b>	885
Total employee costs	<b>4,988</b>	4,824

1 Other employee costs include allowances and accommodation for crew.

The number of employees during the year and at December 31 was as follows:

	2017			2016		
	Average number of employees	December 31, 2017		Average number of employees	December 31, 2016	
Number of employees		Percentage of women	Number of employees		Percentage of women	
Senior executives	<b>166</b>	<b>190</b>	<b>24%</b>	215	188	23%
Ground employees:						
Managerial	<b>2,334</b>	<b>2,296</b>	<b>43%</b>	2,532	2,452	42%
Non-managerial	<b>32,572</b>	<b>32,877</b>	<b>35%</b>	33,313	33,519	35%
Technical crew:						
Managerial	<b>6,644</b>	<b>6,595</b>	<b>11%</b>	6,257	6,404	11%
Non-managerial	<b>21,706</b>	<b>22,036</b>	<b>68%</b>	21,070	21,074	68%
	<b>63,422</b>	<b>63,994</b>		63,387	63,637	



## 8 Finance costs and income

### a Finance costs

€ million	2017	2016
Interest expense on:		
Bank borrowings	(20)	(29)
Finance leases	(116)	(141)
Provisions unwinding of discount	(20)	(21)
Other borrowings	(75)	(90)
Capitalised interest on progress payments	7	3
Change in fair value of cross currency swaps	(1)	(1)
	<b>(225)</b>	<b>(279)</b>

### b Finance income

€ million	2017	2016
Interest on other interest-bearing deposits	28	33
Other finance income	17	-
	<b>45</b>	<b>33</b>

### c Net financing (charge)/credit relating to pensions

€ million	2017	2016
Net financing (charge)/credit relating to pensions	<b>(28)</b>	12

## 9 Tax

### a Tax charges

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

For the year to December 31, 2017

€ million	Income statement	Other comprehensive income	Statement of changes in equity	Total
<b>Current tax</b>				
Movement in respect of prior years	12	-	-	<b>12</b>
Movement in respect of current year	(413)	114	1	<b>(298)</b>
<b>Total current tax</b>	<b>(401)</b>	<b>114</b>	<b>1</b>	<b>(286)</b>
<b>Deferred tax</b>				
Movement in respect of prior years	(8)	-	-	<b>(8)</b>
Movement in respect of current year	(61)	(307)	2	<b>(366)</b>
Rate change	(2)	12	-	<b>10</b>
<b>Total deferred tax</b>	<b>(71)</b>	<b>(295)</b>	<b>2</b>	<b>(364)</b>
<b>Total tax</b>	<b>(472)</b>	<b>(181)</b>	<b>3</b>	<b>(650)</b>

Current tax in Other comprehensive income all relates to employee retirement benefit plans and current tax in the Statement of changes in equity all relates to share-based payments.

## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 9 Tax continued

For the year to December 31, 2016

€ million	Income statement	Other comprehensive income	Statement of changes in equity	Total
<b>Current tax</b>				
Movement in respect of prior years	13	-	-	13
Movement in respect of current year	(325)	143	10	(172)
Total current tax	(312)	143	10	(159)
<b>Deferred tax</b>				
Movement in respect of prior years	(11)	-	1	(10)
Movement in respect of current year	(130)	158	(7)	21
Rate change	43	(40)	-	3
Total deferred tax	(98)	118	(6)	14
Total tax	(410)	261	4	(145)

Current tax in Other comprehensive income all relates to employee retirement benefit plans and current tax in the Statement of changes in equity all relates to share-based payment schemes (€5 million) and finance costs (€5 million).

#### Current tax asset/(liability)

€ million	Opening balance	Movement in respect of prior years	Movement in respect of current year	Cash	Exchange movements	Closing balance
2017	127	12	(298)	237	1	79
2016	(45)	13	(172)	318	13	127

Current tax asset is €258 million (2016: €228 million) and current tax liability is €179 million (2016: €101 million).

#### Deferred tax asset/(liability)

€ million	Opening balance	Movement in respect of prior years	Movement in respect of current year	Rate change	Exchange movements and other	Closing balance
2017	350	(8)	(366)	10	4	(10)
2016	297	(10)	21	3	39	350

The deferred tax asset is €521 million (2016: €526 million) and all arises in Spain. A reversal of €86 million on the deferred tax asset is expected within one year and the remainder beyond one year. The deferred tax liability is €531 million (2016: €176 million).

### b Deferred tax

For the year to December 31, 2017

€ million	Opening balance	Movement in respect of prior years	Movement in respect of current year	Rate change	Exchange movements and other	Closing balance
Fixed assets	(1,065)	-	4	-	32	(1,029)
Employee leaving indemnities and other employee related provisions	372	-	3	-	(1)	374
Tax losses carried forward	407	6	(65)	-	4	352
Fair value losses recognised on cash flow hedges	68	2	(24)	1	(8)	39
Employee benefit plans	441	(4)	(293)	9	(13)	140
Tax assets in relation to tax credits and deductions	78	-	-	-	-	78
Share-based payment schemes	13	-	3	-	(1)	15
Foreign exchange	9	(7)	1	-	(1)	2
Other items	27	(5)	5	-	(8)	19
<b>Total deferred tax</b>	<b>350</b>	<b>(8)</b>	<b>(366)</b>	<b>10</b>	<b>4</b>	<b>(10)</b>

Within tax in Other comprehensive income is a tax charge of €24 million (2016: €187 million) that may be reclassified subsequently to the Income statement and a tax charge of €283 million (2016: tax credit of €345 million) that may not. Within tax in Other comprehensive income arising from tax rate changes is a tax credit of €1 million (2016: charge of €12 million) that may be reclassified subsequently to the Income statement and a tax credit of €9 million (2016: charge of €28 million) that may not.

For the year to December 31, 2016

€ million	Opening balance	Movement in respect of prior years	Movement in respect of current year	Rate change	Exchange movements	Closing balance
Fixed assets	(1,208)	(7)	(8)	45	113	(1,065)
Employee leaving indemnities and other employee related provisions	472	1	(99)	(1)	(1)	372
Tax losses carried forward	410	16	(9)	(1)	(9)	407
Fair value losses recognised on cash flow hedges	298	(2)	(192)	(12)	(24)	68
Employee benefit plans	168	-	332	(28)	(31)	441
Tax assets in relation to tax credits and deductions	78	-	-	-	-	78
Share-based payment schemes	22	1	(8)	-	(2)	13
Foreign exchange	8	(4)	6	-	(1)	9
Other items	49	(15)	(1)	-	(6)	27
<b>Total deferred tax</b>	<b>297</b>	<b>(10)</b>	<b>21</b>	<b>3</b>	<b>39</b>	<b>350</b>

Within tax in Other comprehensive income is a tax charge of €187 million that may be reclassified subsequently to the Income statement and a tax credit of €345 million that may not. Within tax in Other comprehensive income arising from tax rate changes is a tax charge of €12 million that may be reclassified subsequently to the Income statement and a tax charge of €28 million that may not.

#### Detailed deferred tax movement in respect of current year in the Income statement, Other comprehensive income and Statement of changes in equity

For the year to December 31, 2017

€ million	Income statement	Other comprehensive income	Statement of changes in equity	Total
Fixed assets	4	-	-	4
Employee leaving indemnities and other employee related provisions	3	-	-	3
Tax losses carried forward	(65)	-	-	(65)
Fair value losses recognised on cash flow hedges	-	(24)	-	(24)
Employee benefit plans	(10)	(283)	-	(293)
Share-based payment schemes	1	-	2	3
Foreign exchange	1	-	-	1
Other items	5	-	-	5
<b>Total deferred tax</b>	<b>(61)</b>	<b>(307)</b>	<b>2</b>	<b>(366)</b>

For the year to December 31, 2016

€ million	Income statement	Other comprehensive income	Statement of changes in equity	Total
Fixed assets	(8)	-	-	(8)
Employee leaving indemnities and other employee related provisions	(99)	-	-	(99)
Tax losses carried forward	(9)	-	-	(9)
Fair value losses recognised on cash flow hedges	(5)	(187)	-	(192)
Employee benefit plans	(13)	345	-	332
Share-based payment schemes	(1)	-	(7)	(8)
Foreign exchange	6	-	-	6
Other items	(1)	-	-	(1)
<b>Total deferred tax</b>	<b>(130)</b>	<b>158</b>	<b>(7)</b>	<b>21</b>

## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 9 Tax continued

#### c Reconciliation of the total tax charge/(credit) in the Income statement

The tax charge is calculated at the domestic rates applicable to profits or losses in the main countries of operation. The tax charge on the profit for the year to December 31, 2017 and 2016 is lower than the notional tax charge.

The differences are explained below:

€ million	2017	2016
Accounting profit before tax	<b>2,493</b>	2,362
Tax calculated at 25 per cent in Spain (2016: 25 per cent), 19.25 per cent in the UK (2016: 20 per cent) and 12.5 per cent in Ireland (2016: 12.5 per cent) <sup>1</sup>	<b>480</b>	466
Effects of:		
Non-deductible expenses - recurring items	<b>6</b>	12
Current year tax assets not recognised	<b>4</b>	4
Tax rate changes	<b>2</b>	(43)
Other items	<b>(1)</b>	(2)
Employee benefit plans accounted for net of withholding tax	<b>(4)</b>	(6)
Euro preferred securities accounted for as non-controlling interests	<b>(4)</b>	(12)
Adjustments in respect of prior years	<b>(4)</b>	(2)
Investment credit	<b>(7)</b>	(7)
Non-deductible expenses - non-recurring	-	9
Previously unrecognised tax assets	-	(9)
<b>Tax charge in the income statement</b>	<b>472</b>	410

<sup>1</sup> The expected tax charge is arrived at by aggregating the expected tax charges arising in each company in the Group. It changes each year as tax rates and profit mix change.

#### 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 and charges paid during the year is as follows:

€ million	2017	2016
Payroll related taxes	<b>478</b>	495
UK Air Passenger Duty	<b>838</b>	848
Other ticket taxes and charges	<b>1,694</b>	1,626
	<b>3,010</b>	2,969

The reduction in UK air passenger duty paid reflects foreign exchange movements and not a reduction in underlying payments.

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

##### Unrecognised temporary differences

€ million	2017	2016
Spanish corporate income tax losses and other temporary differences	<b>47</b>	47
UK capital losses arising before the change in ownership of the UK Group in 2011	<b>36</b>	34
UK capital losses arising after the change in ownership of the UK Group in 2011	<b>8</b>	8
UK capital losses arising on properties that were eligible for Industrial Buildings Allowances	<b>283</b>	296
Corporate income tax losses outside of the countries of main operation	<b>179</b>	170

None of the unrecognised temporary differences have an expiry date.

##### Unrecognised temporary differences - investment in subsidiaries and associates

No deferred tax liability has been recognised in respect of €2,044 million (2016: €170 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.

## UK tax rate changes

The main rate of corporation tax applicable from April 1, 2020 is reducing from 18 per cent to 17 per cent. This will reduce the Group's future current tax charge. The deferred tax on temporary differences and tax losses at December 31, 2017 was calculated at the rate applicable to the year in which the temporary differences and tax losses are expected to reverse.

## Tax audits

The Group files income tax returns in many jurisdictions throughout the world. Tax returns contain matters that are subject to potentially differing interpretations of tax laws and regulations, which may give rise to queries from and disputes with tax authorities. The resolution of these queries and disputes can take several years but the Group does not currently expect any material impact on the Group's financial position or results of operations to arise from such resolution. The extent to which there are open queries and disputes depends upon the jurisdiction and the issue.

## 10 Earnings per share

€ million	2017	2016
Earnings attributable to equity holders of the parent for basic earnings	<b>2,001</b>	1,931
Interest expense on convertible bonds	<b>17</b>	26
Diluted earnings attributable to equity holders of the parent for diluted earnings per share	<b>2,018</b>	1,957
	<b>2017 Number '000</b>	2016 Number '000
Weighted average number of ordinary shares in issue <sup>1</sup>	<b>2,088,489</b>	2,075,568
Assumed conversion on convertible bonds	<b>72,418</b>	115,688
Dilutive employee share schemes outstanding	<b>18,446</b>	19,734
Weighted average number for diluted earnings per share	<b>2,179,353</b>	2,210,990
	<b>2017</b>	2016
€ cents	<b>2017</b>	2016
Basic earnings per share	<b>95.8</b>	93.0
Diluted earnings per share	<b>92.6</b>	88.5

<sup>1</sup> Includes 34 million as the weighted average impact for 74,999,449 treasury shares purchased in the share buyback programme (note 27).

The calculation of basic and diluted earnings per share before exceptional items is included in the Alternative performance measures section.

## 11 Dividends

€ million	2017	2016
<b>Cash dividend declared</b>		
Interim dividend for 2017 of 12.5 € cents per share (2016: 11 € cents per share)	<b>256</b>	233
Final dividend for 2016 of 12.5 € cents per share	<b>262</b>	-
<b>Proposed cash dividend</b>		
Final dividend for 2017 of 14.5 € cents per share	<b>298</b>	

The proposed dividend would be distributed from net profit for the year to December 31, 2017.

Proposed dividends on ordinary shares are subject to approval at the Annual General Meeting and subject to approval are recognised as a liability on that date.

## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 12 Property, plant and equipment

€ million	Fleet	Property	Equipment	Total
<b>Cost</b>				
Balance at January 1, 2016	22,875	2,481	1,651	27,007
Additions	2,739	31	123	2,893
Disposals	(2,957)	(5)	(50)	(3,012)
Reclassifications	(178)	-	(21)	(199)
Exchange movements	(2,740)	(297)	(170)	(3,207)
Balance at December 31, 2016	19,739	2,210	1,533	23,482
Additions	1,290	52	102	<b>1,444</b>
Disposals	(532)	(31)	(101)	<b>(664)</b>
Reclassifications	(2)	-	-	<b>(2)</b>
Exchange movements	(797)	(88)	(50)	<b>(935)</b>
<b>December 31, 2017</b>	<b>19,698</b>	<b>2,143</b>	<b>1,484</b>	<b>23,325</b>
<b>Depreciation and impairment</b>				
Balance at January 1, 2016	11,058	1,143	1,076	13,277
Charge for the year	1,016	64	89	1,169
Disposals	(1,309)	(5)	(27)	(1,341)
Reclassifications	(140)	-	(9)	(149)
Exchange movements	(1,430)	(149)	(122)	(1,701)
Balance at December 31, 2016	9,195	1,053	1,007	11,255
Charge for the year	924	57	83	<b>1,064</b>
Disposals	(242)	(26)	(78)	<b>(346)</b>
Exchange movements	(412)	(44)	(38)	<b>(494)</b>
<b>December 31, 2017</b>	<b>9,465</b>	<b>1,040</b>	<b>974</b>	<b>11,479</b>
<b>Net book values</b>				
<b>December 31, 2017</b>	<b>10,233</b>	<b>1,103</b>	<b>510</b>	<b>11,846</b>
December 31, 2016	10,544	1,157	526	12,227
<b>Analysis at December 31, 2017</b>				
Owned	4,044	1,028	401	<b>5,473</b>
Finance leased	5,231	4	62	<b>5,297</b>
Progress payments	958	71	47	<b>1,076</b>
<b>Property, plant and equipment</b>	<b>10,233</b>	<b>1,103</b>	<b>510</b>	<b>11,846</b>
<b>Analysis at December 31, 2016</b>				
Owned	3,930	1,114	409	5,453
Finance leased	6,000	4	57	6,061
Progress payments	614	39	60	713
Property, plant and equipment	10,544	1,157	526	12,227
The net book value of property comprises:				
€ million			<b>2017</b>	2016
Freehold			<b>464</b>	494
Long leasehold improvements			<b>315</b>	331
Short leasehold improvements <sup>1</sup>			<b>324</b>	332
<b>Property</b>			<b>1,103</b>	1,157

<sup>1</sup> Short leasehold improvements relate to leasehold interests with duration of less than 50 years.



At December 31, 2017 bank and other loans of the Group are secured on fleet assets with a cost of €938 million (2016: €1,071 million) and letters of credit of €260 million in favour of the British Airways Pension Trustees are secured on certain aircraft (2016: €273 million).

### 13 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to €12,137 million (December 31, 2016: €14,022 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 €12,056 million for the acquisition of 92 Airbus A320s (from 2018 to 2022), 21 Airbus A321s (from 2018 to 2020), 4 Airbus A330s (in 2018), 43 Airbus A350s (from 2018 to 2022) and 17 Boeing 787s (from 2018 to 2023).

### 14 Non-current assets held for sale

At December 31, 2017, there were no non-current assets held for sale (2016: €38 million).

Assets held for sale with a net book value of €38 million were disposed of during the year to December 31, 2017. €15 million related to the Group's investment in Propius Holdings Limited and €23 million related to the sale of five Airbus A340-300 aircraft. These were classified as non-current assets held for sale at December 31, 2016 and presented within the Aer Lingus and Iberia operating segments.

### 15 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, 2016	605	451	253	1,684	905	3,898
Additions	-	-	-	-	154	154
Disposals	-	-	-	-	(19)	(19)
Reclassifications	-	-	-	-	20	20
Exchange movements	(7)	-	-	(128)	(100)	(235)
Balance at December 31, 2016	598	451	253	1,556	960	3,818
Additions	-	-	-	1	174	<b>175</b>
Disposals	-	-	-	-	(24)	<b>(24)</b>
Exchange movements	(2)	-	-	(38)	(34)	<b>(74)</b>
<b>December 31, 2017</b>	<b>596</b>	<b>451</b>	<b>253</b>	<b>1,519</b>	<b>1,076</b>	<b>3,895</b>
<b>Amortisation and impairment</b>						
Balance at January 1, 2016	249	-	-	86	368	703
Charge for the year	-	-	-	6	98	104
Impairment charge recognised during the year <sup>3</sup>	-	-	-	14	-	14
Reclassifications	-	-	-	-	9	9
Exchange movements	-	-	-	(8)	(41)	(49)
Balance at December 31, 2016	249	-	-	98	434	781
Charge for the year	-	-	-	6	114	<b>120</b>
Disposals	-	-	-	-	(5)	<b>(5)</b>
Exchange movements	-	-	-	(3)	(16)	<b>(19)</b>
<b>December 31, 2017</b>	<b>249</b>	<b>-</b>	<b>-</b>	<b>101</b>	<b>527</b>	<b>877</b>
<b>Net book values</b>						
<b>December 31, 2017</b>	<b>347</b>	<b>451</b>	<b>253</b>	<b>1,418</b>	<b>549</b>	<b>3,018</b>
December 31, 2016	349	451	253	1,458	526	3,037

1 The net book value includes non-EU based landing rights of €106 million (2016: €113 million) that have a definite life. The remaining life of these landing rights is 18 years.

2 Other intangible assets consist primarily of software with a net book value of €473 million (2016: €474 million), and also include purchased emissions allowances.

3 The impairment charge of €14 million in 2016 relates to landing rights associated with British Airways' Openskies operation, €11 million of which related to landing rights in the EU that have an indefinite life.

## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 15 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>2017</b>					
<b>Iberia</b>					
January 1 and December 31, 2017	-	423	306	-	<b>729</b>
<b>British Airways</b>					
January 1, 2017	49	771	-	-	<b>820</b>
Additions	-	1	-	-	<b>1</b>
Exchange movements	(2)	(34)	-	-	<b>(36)</b>
December 31, 2017	47	738	-	-	<b>785</b>
<b>Vueling</b>					
January 1 and December 31, 2017	28	89	35	-	<b>152</b>
<b>Aer Lingus</b>					
January 1 and December 31, 2017	272	62	110	-	<b>444</b>
<b>Avios</b>					
January 1 and December 31, 2017	-	-	-	253	<b>253</b>
<b>December 31, 2017</b>	<b>347</b>	<b>1,312</b>	<b>451</b>	<b>253</b>	<b>2,363</b>
<b>2016</b>					
<b>Iberia</b>					
January 1 and December 31, 2016	-	423	306	-	729
<b>British Airways</b>					
January 1, 2016	56	901	-	-	957
Impairment	-	(11)	-	-	(11)
Exchange movements	(7)	(119)	-	-	(126)
December 31, 2016	49	771	-	-	820
<b>Vueling</b>					
January 1 and December 31, 2016	28	89	35	-	152
<b>Aer Lingus</b>					
January 1 and December 31, 2016	272	62	110	-	444
<b>Avios</b>					
January 1 and December 31, 2016	-	-	-	253	253
<b>December 31, 2016</b>	<b>349</b>	<b>1,345</b>	<b>451</b>	<b>253</b>	<b>2,398</b>

### 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 the Board 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 CGUs the key assumptions used in the value-in-use calculations are as follows:

Per cent	2017				
	British Airways	Iberia	Vueling	Aer Lingus	Avios
Lease adjusted operating margin	15	10-14	12-15	15	n/a <sup>1</sup>
Average ASK growth per annum	2	8	10	5	n/a <sup>1</sup>
Long-term growth rate	2.3	2.0	2.0	2.0	2.0
Pre-tax discount rate	8.5	9.8	10.6	7.8	9.1

Per cent	2016				
	British Airways	Iberia	Vueling	Aer Lingus	Avios
Lease adjusted operating margin	12-15	8-14	7-15	12-15	n/a <sup>1</sup>
Average ASK growth per annum	2	4	7	8	n/a <sup>1</sup>
Long-term growth rate	2.5	2.0	2.0	2.0	2.4
Pre-tax discount rate	8.5	9.8	10.6	7.8	9.1

<sup>1</sup> Lease adjusted operating margin and ASK growth per annum assumptions are not applicable for the Avios loyalty reward business, which conducts business with partners both within and outside IAG.

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 2022. 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 planned network growth and taking into account Management's expectation of the market.

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## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 15 Intangible assets and impairment review continued

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). The airline's network plans are reviewed annually as part of the Business plan and reflect Management's plans in response to specific market risk or opportunity.

Pre-tax discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and underlying risks of its primary market. The discount rate calculation is based on the circumstances of the airline industry, the Group and the CGU. It is derived from the weighted average cost of capital (WACC). The WACC takes into consideration both debt and equity available to airlines. The cost of equity is derived from the expected return on investment by airline investors and the cost of debt is 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.

#### Summary of results

In 2017, Management reviewed the recoverable amount of each of its CGUs and concluded the recoverable amounts exceeded the carrying values. Sensitivities have been considered for each CGU. Reducing long-term growth rates to zero, increasing pre-tax discount rates by 4 points, and increasing the fuel price by 40 per cent, does not result in any impairment.

### 16 Investments

#### a Investments in subsidiaries

The Group's principal subsidiaries at December 31, 2017 are listed in the Group investments section.

All subsidiary undertakings are included in the consolidation. There have been no significant changes in ownership interests of subsidiaries during the year.

The total non-controlling interest at December 31, 2017 is €307 million which largely comprises €300 million of 6.75 per cent fixed coupon euro preferred securities issued by British Airways Finance (Jersey) L.P. (note 30).

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 accounted for using the equity method

The share of assets, liabilities, revenue and profit of the Group's associates and joint ventures, which are included in the Group's financial statements, are as follows:

€ million	2017	2016
Total assets	<b>96</b>	88
Total liabilities	<b>(68)</b>	(61)
Revenue	<b>86</b>	52
Profit for the year	<b>3</b>	6

The detail of the movement in Investments accounted for using the equity method is shown as follows:

€ million	2017	2016
At beginning of year	<b>29</b>	41
Share of retained profits	<b>3</b>	6
Additions	<b>2</b>	-
Disposals	<b>(2)</b>	-
Exchange movements	<b>1</b>	-
Dividends received	<b>(3)</b>	(3)
Reclassification	<b>-</b>	(15)
	<b>30</b>	29

At December 31, 2017 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, 2017 the investment in Sociedad Conjunta para la Emision y Gestion de Medios de Pago EFC, S.A. exceeded 50 per cent ownership by the Group (50.5 per cent). The entity is treated as a joint venture as decisions regarding its strategy and operations require the unanimous consent of the parties who share control, including IAG.

## 17 Available-for-sale financial assets

Available-for-sale financial assets include the following:

€ million	2017	2016
<b>Listed securities</b>		
Comair Limited	<b>23</b>	15
<b>Unlisted securities</b>	<b>56</b>	58
	<b>79</b>	73

The net gain relating to available-for-sale financial assets was €7 million (2016: €4 million).

## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 18 Trade and other receivables

€ million	2017	2016
<b>Amounts falling due within one year</b>		
Trade receivables	1,557	1,469
Provision for doubtful receivables	(63)	(64)
Net trade receivables	1,494	1,405
Prepayments and accrued income	764	717
Other non-trade debtors	194	182
	<b>2,452</b>	<b>2,304</b>
<b>Amounts falling due after one year</b>		
Prepayments and accrued income	297	313
Other interest-bearing deposits (greater than one year)	66	114
Other non-trade debtors	13	72
	<b>376</b>	<b>499</b>

Movements in the provision for doubtful trade receivables were as follows:

€ million	2017	2016
At beginning of year	64	84
Provision for doubtful receivables	15	7
Unused amounts reversed	(1)	(1)
Receivables written off during the year	(13)	(23)
Exchange movements	(2)	(3)
	<b>63</b>	<b>64</b>

The ageing analysis of net trade receivables is as follows:

€ million	2017	2016
Neither past due date nor impaired	1,171	1,017
< 30 days	117	235
30 - 60 days	153	96
> 60 days	53	57
<b>Net trade receivables</b>	<b>1,494</b>	<b>1,405</b>

Trade receivables are generally non-interest-bearing and on 30 days terms (2016: 30 days).

### 19 Cash, cash equivalents and other current interest-bearing deposits

€ million	2017	2016
Cash at bank and in hand	1,963	2,021
Short-term deposits falling due within three months	1,329	1,316
Cash and cash equivalents	3,292	3,337
Other current interest-bearing deposits maturing after three months	3,384	3,091
Cash, cash equivalents and other interest-bearing deposits	<b>6,676</b>	<b>6,428</b>

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, 2017 the Group had no outstanding bank overdrafts (2016: 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, 2017 Aer Lingus held €43 million of restricted cash (2016: €47 million) within interest-bearing deposits maturing after more than three months to be used for employee related obligations.



## a Net debt

Movements in net debt were as follows:

€ million	Balance at January 1, 2017	Cash flows	Exchange movements	Other non-cash	Balance at December 31, 2017
Bank and other loans	(1,913)	138	26	(75)	(1,824)
Finance leases	(6,602)	657	424	14	(5,507)
Interest-bearing borrowings	(8,515)	795	450	(61)	(7,331)
Cash and cash equivalents	3,337	141	(186)	-	3,292
Other current interest-bearing deposits	3,091	432	(139)	-	3,384
	(2,087)	1,368	125	(61)	(655)

## 20 Trade and other payables

€ million	2017	2016
Trade creditors	<b>2,135</b>	1,776
Other creditors	<b>926</b>	910
Other taxation and social security	<b>238</b>	218
Accruals and deferred income	<b>467</b>	401
	<b>3,766</b>	3,305

## Average payment days to suppliers - Spanish Group companies

Days	2017	2016
Average payment days for payment to suppliers	<b>37</b>	31
Ratio of transactions paid	<b>38</b>	30
Ratio of transactions outstanding for payment	<b>35</b>	53

€ million	2017	2016
Total payments made	<b>4,879</b>	4,600
Total payments outstanding	<b>140</b>	86

## 21 Other long-term liabilities

€ million	2017	2016
Non-current trade creditors	<b>3</b>	4
Accruals and deferred income	<b>219</b>	234
	<b>222</b>	238

## 22 Long-term borrowings

### a Current

€ million	2017	2016
Bank and other loans	<b>183</b>	149
Finance leases	<b>747</b>	777
	<b>930</b>	926

### b Non-current

€ million	2017	2016
Bank and other loans	<b>1,641</b>	1,764
Finance leases	<b>4,760</b>	5,825
	<b>6,401</b>	7,589

Banks and other loans are repayable up to the year 2027. Bank and other loans of the Group amounting to €539 million (2016: €613 million) are secured on aircraft. Finance leases are all secured on aircraft or property, plant and equipment.

## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 22 Long-term borrowings continued

#### c Bank and other loans

Bank and other loans comprise the following:

€ million	2017	2016
€500 million fixed rate 0.25 per cent convertible bond 2020 <sup>1</sup>	472	463
€500 million fixed rate 0.625 per cent convertible bond 2022 <sup>1</sup>	450	441
Floating rate euro mortgage loans secured on aircraft <sup>2</sup>	278	304
€200 million fixed rate unsecured bonds <sup>3</sup>	200	200
Floating rate euro syndicate loan secured on investments <sup>4</sup>	148	176
Fixed rate US dollar mortgage loans secured on aircraft <sup>5</sup>	117	157
Fixed rate Chinese yuan mortgage loans secured on aircraft <sup>6</sup>	68	87
Fixed rate unsecured US dollar loans <sup>7</sup>	49	-
Floating rate pound sterling mortgage loans secured on aircraft <sup>8</sup>	27	53
Fixed rate unsecured euro loans with the Spanish State (Department of Industry) <sup>9</sup>	15	18
Floating rate US dollar mortgage loans secured on aircraft <sup>10</sup>	-	12
European Investment Bank sterling loans secured on certain property <sup>11</sup>	-	2
	<b>1,824</b>	1,913
Less current instalments due on bank and other loans	<b>(183)</b>	(149)
	<b>1,641</b>	1,764

1 Two senior unsecured bonds convertible into ordinary shares of IAG were issued by the Group in November 2015; €500 million fixed rate 0.25 per cent raising net proceeds of €494 million and due in 2020, and €500 million fixed rate 0.625 per cent raising net proceeds of €494 million and due in 2022. The Group holds an option to redeem each convertible bond at its principal amount, together with accrued interest, no earlier than two years prior to the final maturity date. The bonds contain dividend protection, and a total of 72,417,846 options related to the bonds were outstanding from issuance and at December 31, 2017.

2 Floating rate euro mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.17 and 1.17 per cent. The loans are repayable between 2024 and 2027.

3 €200 million fixed rate unsecured bonds between 2.5 to 3.75 per cent coupon repayable between 2018 and 2027.

4 Floating rate euro syndicate loan secured on investments is secured on specific assets of the Group and bears interest of 1.375 per cent plus 3 month EURIBOR. The loan is repayable in 2020.

5 Fixed rate US dollar mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 3.81 and 4.76 per cent. The loans are repayable between 2021 and 2026.

6 Fixed rate Chinese yuan mortgage loans are secured on specific aircraft assets of the Group and bear interest of 5.20 per cent. The loans are repayable in 2022.

7 Fixed rate unsecured US dollar loans bearing interest between 1.98 to 2.37 per cent. The loans are repayable in 2023.

8 Floating rate pound sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest of 1.07 per cent. The loans are repayable between 2018 and 2019.

9 Fixed rate unsecured euro loans with the Spanish State (Department of Industry) bear interest of between nil and 5.68 per cent and are repayable between 2018 and 2026.

10 Floating rate US dollar mortgage loans are secured on specific aircraft assets of the Group and bear interest of 3.66 per cent. The loans were repaid in 2017.

11 European Investment Bank pound sterling loan is secured on certain property assets of the Group and bears interest of 0.50 per cent. The loan was repaid in 2017.

#### d Total loans and finance leases

Million	2017	2016
<b>Loans</b>		
Bank:		
US dollar	\$196	\$176
Euro	€440	€498
Pound sterling	£25	£47
Chinese yuan	CNY 525	CNY 623
	€702	€809
Fixed rate bonds:		
Euro	€1,122	€1,104
	€1,122	€1,104
<b>Finance leases</b>		
US dollar	\$2,882	\$3,246
Euro	€2,296	€2,343
Japanese yen	¥63,978	¥63,614
Pound sterling	£258	£527
	€5,507	€6,602
	€7,331	€8,515

#### e Obligations under finance leases

The Group uses finance leases principally to acquire aircraft. These leases have both renewal and purchase options, at the option of the Group. Future minimum finance lease payments under finance leases are as follows:

€ million	2017	2016
Future minimum payments due:		
Within one year	875	905
After more than one year but within five years	2,783	3,339
In five years or more	2,464	3,070
	6,122	7,314
Less: finance charges	(615)	(712)
Present value of minimum lease payments	5,507	6,602
The present value of minimum lease payments is analysed as follows:		
Within one year	747	777
After more than one year but within five years	2,409	2,938
In five years or more	2,351	2,887
	5,507	6,602

#### 23 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 to 14 years for aircraft and less than one year to 21 years for property, plant and equipment. One ground lease has a remaining lease of 128 years. Certain leases contain options for renewal.

The aggregate payments, for which there are commitments under operating leases, fall due as follows:

€ million	2017			2016		
	Fleet	Property, plant and equipment	Total	Fleet	Property, plant and equipment	Total
Within one year	802	190	992	975	158	1,133
Between one and five years	2,559	340	2,899	2,970	233	3,203
Over five years	1,789	1,962	3,751	1,918	2,060	3,978
	5,150	2,492	7,642	5,863	2,451	8,314

## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 23 Operating lease commitments continued

#### 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 six years and the assets are surplus to the Group's requirements. Future minimum rentals receivable under non-cancellable operating leases are €8 million (2016: €12 million) with €7 million (2016: €7 million) falling within one year, €1 million (2016: €5 million) between one and five years and nil (2016: nil) over five years.

### 24 Provision for liabilities and charges

€ million	Restoration and handback provisions	Restructuring provisions	Employee leaving indemnities and other employee related provisions	Legal claims provisions	Other provisions	Total
Net book value January 1, 2017	1,201	692	593	189	83	<b>2,758</b>
Provisions recorded during the year	355	302	22	112	139	<b>930</b>
Utilised during the year	(268)	(248)	(24)	(125)	(126)	<b>(791)</b>
Release of unused amounts	(38)	(17)	(3)	(34)	(26)	<b>(118)</b>
Unwinding of discount	3	2	14	1	-	<b>20</b>
Exchange differences	(128)	(4)	(3)	(3)	(1)	<b>(139)</b>
<b>Net book value December 31, 2017</b>	<b>1,125</b>	<b>727</b>	<b>599</b>	<b>140</b>	<b>69</b>	<b>2,660</b>
Analysis:						
Current	132	241	61	80	33	<b>547</b>
Non-current	993	486	538	60	36	<b>2,113</b>
	<b>1,125</b>	<b>727</b>	<b>599</b>	<b>140</b>	<b>69</b>	<b>2,660</b>

#### Restoration and handback provisions

The provision for restoration and handback costs is maintained to meet the contractual maintenance and return conditions on aircraft held under operating leases. The provision also includes 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 leased asset term which is up to 14 years for aircraft.

#### Restructuring

The Group recognises a provision for targeted voluntary severance schemes. 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 0.08 per cent. The payments related to this provision will continue in the next ten years.

During the year the Group recognised a provision of €108 million in relation to the restructuring plans at British Airways (note 4). Further costs related to this provision are expected to be incurred in 2018 and the payments will be made over a maximum of five years.

In 2017, a provision of €180 million was also recognised at Iberia in relation to the new Transformation Plan (note 4). The payments related to the provision are expected to be incurred over more than ten years.

At December 31, 2017, €719 million of this provision related to collective redundancy programmes (2016: €674 million).

#### Employee leaving indemnities and other employee related provisions

This provision includes employees leaving indemnities relating to staff under various contractual arrangements.

The Group recognises a provision relating to flight crew who having met certain conditions, have the option of being placed on reserve and retaining their employment relationship until reaching the statutory retirement age, or taking early retirement. The Group is required to remunerate these employees until they reach the statutory retirement age, and an initial provision was recognised based on an actuarial valuation. The provision was reviewed at December 31, 2017 with the use of independent actuaries using the projected unit credit method, based on a discount rate consistent with the iBoxx index of 1.40 per cent and 0.08 per cent depending on whether the employees are currently active or not, the PERM/F-2000P mortality tables, and assuming a 1.50 per cent annual increase in the Consumer Price Index (CPI). This is mainly a long-term provision. The amount relating to this provision was €542 million at December 31, 2017 (2016: €524 million).

## Legal claims provisions

Legal claims provisions includes:

- Amounts for 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;
- Provisions related to tax assessment; and
- Amounts related to investigations by a number of competition authorities in connection with alleged anti-competitive activity concerning the Group's passenger and cargo businesses. The provision includes the payment of €104 million for the reissued fine in March 2017 against British Airways. The final amount required to pay the remaining claims and fines is subject to uncertainty (note 32).

## 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;
- During 2017 a €65 million provision was recognised on additional compensation fees and baggage claims related to operational disruption at British Airways due to a power failure.
- A provision for the Emissions Trading Scheme 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.

## 25 Financial risk management objectives and policies

The Group is exposed to a variety of financial risks: market risk (including fuel price risk, foreign currency risk and interest rate risk), counterparty risk, liquidity risk and capital risk. Further information on the Group's financial instruments exposed to these risks is included in note 26. The Board approves the key strategic principles and the risk appetite, defining the amount of risk that the Group is prepared to retain. The Group's Financial Risk Management programme focuses on the unpredictability of financial markets and seeks to minimise the risk of incremental costs arising from adverse financial market movements.

Financial risks are managed under the overall oversight of the Group Treasury department. Fuel price fluctuations, euro-US dollar and sterling-US dollar exchange rate volatility represents the largest financial risks facing the Group. Other currencies as well as interest rate risk are also the subject of the Financial Risk Management programme. The IAG Management Committee approves the Group hedging profile and delegates to the operating company Risk Committee to agree on the degree of flexibility in applying the levels as defined by the IAG Management Committee. Each operating company Risk Committee meets at least once a month to review and approve a mandate to place hedging cover in the market including the instruments to be used.

The Group Treasury department provides a quarterly report on the hedging position to the IAG Management Committee and the Audit and Compliance Committee. The Board reviews the strategy and risk appetite once a year.

### a Fuel price risk

The Group is exposed to fuel price risk. The Group's fuel price risk management strategy aims to provide protection against sudden and significant increases in fuel prices while ensuring that the Group is not competitively disadvantaged in the event of a substantial fall in the price. The current Group strategy is to hedge a proportion of fuel consumption for the next twelve quarters, within certain defined limits.

Within the strategy, the Financial Risk Management programme allows for the use of a number of derivative instruments 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 result before tax and equity:

2017			2016		
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	41	1,142	30	73	1,006
(30)	(48)	(1,039)	(30)	(114)	(855)

## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 25 Financial risk management objectives and policies continued

#### b Foreign currency risk

The Group presents its consolidated financial statements in euros, has functional entities in euro and pound sterling, and conducts business in a number of different countries. Consequently the Group is exposed to currency risk on revenue, purchases and borrowings that are denominated in a currency other than the functional currency of the entity. The currencies in which these transactions are denominated are primarily euro, US dollar and pound sterling. The Group generates a surplus in most currencies in which it does business. The US dollar is an exception as fuel purchases, maintenance expenses and debt repayments denominated in US dollars typically create a deficit.

The Group has a number of strategies to hedge foreign currency risk. The operational US dollar short position is subject to the same governance structure as the fuel hedging strategy set out above. The current Group strategy, as approved by the IAG Management Committee, is to hedge a proportion of up to three years of US dollar exposure, within certain defined limits.

British Airways utilises its US dollar, euro, Japanese yen and Chinese yuan debt repayments as a hedge of future US dollar, euro, Japanese yen and Chinese yuan revenues. Iberia's balance sheet assets and liabilities in US dollars are hedged through a rolling programme of swaps and US dollar financial assets that eliminate the profit and loss volatility arising from revaluation of these items into euros. Vueling and Aer Lingus manage their net position in US dollars using derivative financial instruments.

The following table demonstrates the sensitivity of financial instruments to a reasonable possible change in the US dollar, sterling, Japanese yen and Chinese yuan 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	Strengthening/ (weakening) in Chinese yuan rate per cent	Effect on result before tax € million	Effect on equity € million
<b>2017</b>	<b>10</b>	<b>(2)</b>	<b>253</b>	<b>10</b>	<b>(36)</b>	<b>232</b>	<b>10</b>	<b>(2)</b>	<b>(45)</b>	<b>10</b>	<b>-</b>	<b>(7)</b>
	<b>(10)</b>	<b>6</b>	<b>(72)</b>	<b>(10)</b>	<b>35</b>	<b>(233)</b>	<b>(10)</b>	<b>2</b>	<b>45</b>	<b>(10)</b>	<b>-</b>	<b>7</b>
2016	10	9	(29)	10	(39)	277	10	(3)	(50)	10	1	(8)
	(10)	(9)	73	(10)	40	(277)	(10)	3	50	(10)	(1)	8

#### 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, 75 per cent of the Group's borrowings were at fixed rates and 25 per cent were at floating rates.

All cash deposits are generally on tenors less than one year. The interest rate is predominantly fixed for the tenor of the deposit.

The following table demonstrates the sensitivity of financial instruments to a reasonable possible change in the US dollar, euro and sterling interest rates, on result before tax and equity:

	Strengthening/ (weakening) in US interest rate Basis points	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in euro interest rate Basis points	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in sterling interest rate Basis points	Effect on result before tax € million	Effect on equity € million
<b>2017</b>	<b>50</b>	<b>(1)</b>	<b>-</b>	<b>50</b>	<b>(6)</b>	<b>-</b>	<b>50</b>	<b>3</b>	<b>-</b>
	<b>(50)</b>	<b>1</b>	<b>-</b>	<b>(50)</b>	<b>6</b>	<b>-</b>	<b>(50)</b>	<b>(3)</b>	<b>-</b>
2016	50	(1)	7	50	(11)	-	50	10	-
	(50)	1	(8)	(50)	12	-	(50)	(10)	-



#### 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 department. The Risk 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 using available market information such as credit ratings. Sovereign risk is also monitored, country concentration and sovereign credit ratings are monitored by the Group Treasury department and reported to the Audit and Compliance Committee quarterly.

Each operating company invests surplus cash in interest-bearing accounts, time deposits, and money market funds, 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.

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.

At December 31, 2017 the Group's credit risk position, allocated by region, in respect of treasury managed cash and derivatives was as follows:

Region	Mark-to-market of treasury controlled financial instruments allocated by geography	
	2017	2016
United Kingdom	<b>42%</b>	36%
Spain	<b>1%</b>	1%
Ireland	<b>2%</b>	1%
Rest of Eurozone	<b>33%</b>	38%
Rest of world	<b>22%</b>	24%

#### 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 using committed credit lines.

At December 31, 2017 the Group had undrawn revolving credit facilities of €16 million (2016: €17 million). The Group held undrawn uncommitted money market lines of €28 million (2016: €30 million).

The Group held undrawn general and committed aircraft financing facilities:

Million	2017	
	Currency	€ equivalent
Euro facilities expiring between January and October 2018	<b>€217</b>	<b>217</b>
US dollar facility expiring December 2021	<b>\$1,164</b>	<b>985</b>
US dollar facility expiring June 2022	<b>\$1,053</b>	<b>891</b>

## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 25 Financial risk management objectives and policies continued

Million	2016	
	Currency	€ equivalent
Euro facilities expiring between January and October 2017	€215	215
US dollar facility expiring December 2021	\$1,164	1,117
US dollar facility expiring June 2022	\$1,030	988

The following table categorises the Group's (outflows) and inflows in respect of financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period at December 31 to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest.

€ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total 2017
Interest-bearing loans and borrowings:						
Finance lease obligations	(426)	(449)	(801)	(1,982)	(2,464)	<b>(6,122)</b>
Fixed rate borrowings	(31)	(58)	(99)	(1,224)	(77)	<b>(1,489)</b>
Floating rate borrowings	(29)	(76)	(85)	(144)	(150)	<b>(484)</b>
Trade and other payables	(3,454)	-	(15)	-	-	<b>(3,469)</b>
Derivative financial instruments (assets):						
Aircraft lease hedges	-	-	1	-	-	<b>1</b>
Forward contracts	43	10	8	2	-	<b>63</b>
Fuel derivatives	207	141	112	22	-	<b>482</b>
Currency options	2	-	2	-	-	<b>4</b>
Derivative financial instruments (liabilities):						
Forward contracts	(49)	(56)	(75)	(35)	-	<b>(215)</b>
Fuel derivatives	(2)	-	-	-	-	<b>(2)</b>
Currency options	(2)	(2)	(3)	(1)	-	<b>(8)</b>
<b>December 31, 2017</b>	<b>(3,741)</b>	<b>(490)</b>	<b>(955)</b>	<b>(3,362)</b>	<b>(2,691)</b>	<b>(11,239)</b>

€ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total 2016
Interest-bearing loans and borrowings:						
Finance lease obligations	(376)	(529)	(982)	(2,357)	(3,070)	(7,314)
Fixed rate borrowings	(72)	(31)	(70)	(737)	(649)	(1,559)
Floating rate borrowings	(34)	(67)	(105)	(198)	(181)	(585)
Trade and other payables	(3,049)	-	(16)	-	-	(3,065)
Derivative financial instruments (assets):						
Aircraft lease hedges	18	-	-	-	-	18
Forward contracts	93	85	93	5	-	276
Fuel derivatives	68	65	55	12	-	200
Currency options	2	2	2	-	-	6
Derivative financial instruments (liabilities):						
Aircraft lease hedges	(14)	-	-	-	-	(14)
Forward contracts	(23)	(2)	(7)	-	-	(32)
Fuel derivatives	(38)	(24)	(12)	-	-	(74)
<b>December 31, 2016</b>	<b>(3,425)</b>	<b>(501)</b>	<b>(1,042)</b>	<b>(3,275)</b>	<b>(3,900)</b>	<b>(12,143)</b>

## 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 ISDA (International Swaps and Derivatives Association) documentation. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding are aggregated into a single net amount that is payable by one party to the other.

December 31, 2017

€ 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 offset in the balance sheet	Net amount
<b>Financial assets</b>					
Derivative financial assets	551	(1)	550	(5)	<b>545</b>
<b>Financial liabilities</b>					
Derivative financial liabilities	226	(1)	225	(5)	<b>220</b>

December 31, 2016

€ million	Gross value of financial instruments <sup>1</sup>	Financial instruments that are offset under netting agreements <sup>1</sup>	Net amounts of financial instruments in the balance sheet	Related amounts not offset in the balance sheet	Net amount
<b>Financial assets</b>					
Derivative financial assets	531	(33)	498	(14)	484
<b>Financial liabilities</b>					
Derivative financial liabilities	141	(33)	108	(14)	94

<sup>1</sup> The gross value of financial instruments and the financial instruments that are offset under netting agreements have been amended from the figures presented in 2016, with no impact on the Balance sheet.

## g Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern to maintain an optimal capital structure, to reduce the cost of capital and to provide returns to shareholders.

The Group monitors capital on the basis of the adjusted gearing ratio. For the year to December 31, 2017, the adjusted gearing ratio was 45 per cent (2016: 51 per cent). The definition and calculation for this performance measure is included in the Alternative performance measures section.

Further detail on liquidity and capital resources and capital risk management is disclosed in the financial review.

## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 26 Financial instruments

#### a Financial assets and liabilities by category

The detail of the Group's financial instruments at December 31, 2017 and December 31, 2016 (excluding investments accounted for under the equity method) by nature and classification for measurement purposes is as follows:

December 31, 2017

€ million	Financial assets				Total carrying amount by balance sheet item
	Loans and receivables	Derivatives used for hedging	Available-for-sale	Non-financial assets	
<b>Non-current assets</b>					
Available-for-sale financial assets	-	-	79	-	<b>79</b>
Derivative financial instruments	-	145	-	-	<b>145</b>
Other non-current assets	200	-	-	176	<b>376</b>
<b>Current assets</b>					
Trade receivables	1,494	-	-	-	<b>1,494</b>
Other current assets	337	-	-	621	<b>958</b>
Derivative financial instruments	-	405	-	-	<b>405</b>
Other current interest-bearing deposits	3,384	-	-	-	<b>3,384</b>
Cash and cash equivalents	3,292	-	-	-	<b>3,292</b>
<b>Financial liabilities</b>					
€ million	Loans and payables	Derivatives used for hedging	Non-financial liabilities		Total carrying amount by balance sheet item
<b>Non-current liabilities</b>					
Interest-bearing long-term borrowings	-	6,401	-	-	<b>6,401</b>
Derivative financial instruments	-	-	114	-	<b>114</b>
Other long-term liabilities	-	15	-	207	<b>222</b>
<b>Current liabilities</b>					
Current portion of long-term borrowings	-	930	-	-	<b>930</b>
Trade and other payables	3,454	-	-	312	<b>3,766</b>
Derivative financial instruments	-	-	111	-	<b>111</b>

December 31, 2016

€ 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	-	-	73	-	73
Derivative financial instruments	-	169	-	-	169
Other non-current assets	267	-	-	232	499
<b>Current assets</b>					
Trade receivables	1,405	-	-	-	1,405
Other current assets	304	-	-	595	899
Non-current assets held for sale	-	-	-	38	38
Derivative financial instruments	-	329	-	-	329
Other current interest-bearing deposits	3,091	-	-	-	3,091
Cash and cash equivalents	3,337	-	-	-	3,337
€ 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		7,589	-	-	7,589
Derivative financial instruments		-	20	-	20
Other long-term liabilities		16	-	222	238
<b>Current liabilities</b>					
Current portion of long-term borrowings		926	-	-	926
Trade and other payables		3,049	-	256	3,305
Derivative financial instruments		-	88	-	88

## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 26 Financial instruments continued

#### b Fair value of financial assets and financial liabilities

The fair values of the Group's financial instruments are disclosed in hierarchy levels depending on the nature of the inputs used in determining the fair values 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 present 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 these instruments.

The following methods and assumptions were used by the Group in estimating its fair value disclosures for financial instruments:

Level 1: The fair value of listed asset investments classified as available-for-sale and listed interest-bearing borrowings is based on market value at the balance sheet date.

Level 2: The fair value of derivatives and other interest-bearing borrowings is determined as follows:

- Forward currency transactions and over-the-counter fuel derivatives 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.
- The fair value of the Group's interest-bearing borrowings including leases is determined by discounting the remaining contractual cash flows at the relevant market interest rates at the balance sheet date.

Level 3: Unlisted investments are predominantly measured at historic cost less accumulated impairment losses.

The carrying amounts and fair values of the Group's financial assets and liabilities, excluding investments accounted for under the equity method, at December 31, 2017 are as follows:

€ million	Fair value			Total	Carrying value
	Level 1	Level 2	Level 3		Total
<b>Financial assets</b>					
Available-for-sale financial assets	23	-	56	79	<b>79</b>
Derivative financial assets:					
Aircraft lease hedges <sup>1</sup>	-	1	-	1	<b>1</b>
Forward contracts <sup>1</sup>	-	63	-	63	<b>63</b>
Fuel derivatives <sup>1</sup>	-	482	-	482	<b>482</b>
Currency option contracts <sup>1</sup>	-	4	-	4	<b>4</b>
<b>Financial liabilities</b>					
Interest-bearing loans and borrowings:					
Finance lease obligations	-	5,639	-	5,639	<b>5,507</b>
Fixed rate borrowings	1,079	287	-	1,366	<b>1,371</b>
Floating rate borrowings	-	453	-	453	<b>453</b>
Derivative financial liabilities:					
Forward contracts <sup>2</sup>	-	215	-	215	<b>215</b>
Fuel derivatives <sup>2</sup>	-	2	-	2	<b>2</b>
Currency option contracts <sup>2</sup>	-	8	-	8	<b>8</b>

1 Current portion of derivative financial assets is €405 million.

2 Current portion of derivative financial liabilities is €111 million.



The carrying amounts and fair values of the Group's financial assets and liabilities, excluding investments accounted for under the equity method, at December 31, 2016 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	15	-	58	73	73
Derivative financial assets:					
Aircraft lease hedges <sup>1</sup>	-	5	-	5	5
Forward contracts <sup>1</sup>	-	252	-	252	252
Fuel derivatives <sup>1</sup>	-	212	-	212	212
Currency option contracts <sup>1</sup>	-	29	-	29	29
<b>Financial liabilities</b>					
Interest-bearing loans and borrowings:					
Finance lease obligations	-	6,823	-	6,823	6,602
Fixed rate borrowings	1,020	286	-	1,306	1,366
Floating rate borrowings	-	547	-	547	547
Derivative financial liabilities:					
Aircraft lease hedges <sup>2</sup>	-	1	-	1	1
Cross currency swaps <sup>2</sup>	-	1	-	1	1
Forward contracts <sup>2</sup>	-	32	-	32	32
Fuel derivatives <sup>2</sup>	-	74	-	74	74

1 Current portion of derivative financial assets is €329 million.

2 Current portion of derivative financial liabilities is €88 million.

There have been no transfers between levels of fair value hierarchy during the year.

The financial instruments listed in the previous table are measured at fair value for reporting purposes with the exception of the interest-bearing borrowings.

## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 26 Financial instruments continued

#### c Level 3 financial assets reconciliation

The following table summarises key movements in Level 3 financial assets:

€ million	December 31, 2017	December 31, 2016
Opening balance for the year	58	65
Additions	1	-
Exchange movements	(3)	(7)
<b>Closing balance for the year</b>	<b>56</b>	<b>58</b>

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 investment remains classified as a Level 3 financial asset due to the valuation criteria applied not being observable.

#### d Hedges

##### Cash flow hedges

At December 31, 2017 the Group's principal risk management activities that were hedging future forecast transactions were:

- Future loan repayment instalments in foreign currency, hedging foreign exchange risk on revenue cash inflows;
- Forward crude, gas oil and jet kerosene derivative contracts, hedging price risk on fuel cash outflows; and
- Foreign exchange contracts, hedging foreign exchange risk on revenue cash inflows and certain operational payments.

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, 2017

Financial instruments designated as hedging instruments € million	Cash flows hedged					Total December 31, 2017
	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	
Debt repayments to hedge future revenue	40	42	63	162	279	586
Forward contracts to hedge future payments	15	47	67	33	-	162
Hedges of future fuel purchases	(212)	(140)	(100)	(22)	-	(474)
Currency options to hedge future payments	(1)	1	1	-	-	1
	(158)	(50)	31	173	279	275
Related deferred tax credit						(44)
<b>Total amount included within equity</b>						<b>231</b>

The notional values of the significant financial instruments used as cash flow hedges were as follows:

December 31, 2017

€ million	Notional principal amounts (in local currency)
To hedge future currency revenues in euros	<b>€488</b>
To hedge future currency revenues in US dollars	<b>\$377</b>
To hedge future currency revenues in pounds sterling	<b>£175</b>
To hedge future operating payments in US dollars	<b>\$6,945</b>
Hedges of future fuel purchases	<b>\$4,186</b>
Interest rate swaps:	
- Floating to fixed (US dollars)	<b>\$156</b>
- Floating to fixed (euro)	<b>€246</b>
Debt repayments to hedge future revenue:	
- US dollars	<b>\$2,511</b>
- Euro	<b>€1,922</b>
- Japanese yen	<b>¥60,805</b>
- Chinese yuan	<b>CNY 525</b>

December 31, 2016

Financial instruments designated as hedging instruments (€ million)	Cash flows hedged					Total December 31, 2016
	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	
Debt repayments to hedge future revenue	34	77	108	239	361	819
Forward contracts to hedge future payments	(65)	(76)	(73)	(4)	-	(218)
Hedges of future fuel purchases	(24)	(44)	(48)	(11)	-	(127)
Hedges of future aircraft operating leases	(3)	-	-	-	-	(3)
Currency options to hedge future payments	(2)	(7)	(5)	-	-	(14)
	(60)	(50)	(18)	224	361	457
Related deferred tax credit						(73)
Total amount included within equity						384

December 31, 2016

€ million	Notional principal amounts (in local currency)
To hedge future currency revenues in euros	€480
To hedge future currency revenues in US dollars	\$174
To hedge future currency revenues in pounds sterling	£88
To hedge future operating payments in US dollars	\$3,037
Hedges of future fuel purchases	\$4,304
Cross currency swaps:	
- Floating to fixed (US dollars)	\$57
- Floating to fixed (euro)	€17
- Fixed to floating (US dollars)	\$340
Debt repayments to hedge future revenue:	
- US dollars	\$2,798
- Euro	€2,111
- Japanese yen	¥60,577
- Chinese yuan	CNY 623

The ineffective portion recognised in the Income statement during year on cash flow hedges was a gain of €7 million (2016: gain of €36 million).

The Group has no significant fair value hedges at December 31, 2017 and 2016.

## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 27 Share capital and share premium

Allotted, called up and fully paid	Number of shares 000s	Ordinary share capital € million	Share premium € million
January 1, 2017: Ordinary shares of €0.50 each	2,132,989	1,066	6,105
Cancellation of ordinary shares of €0.50 each	(74,999)	(37)	-
Prior years' losses offset <sup>1</sup>	-	-	(83)
<b>December 31, 2017</b>	<b>2,057,990</b>	<b>1,029</b>	<b>6,022</b>

<sup>1</sup> Offset of prior years' losses that are included in the Company's separate balance sheet, against share premium.

During the year IAG carried out a share buyback programme as part of its corporate finance strategy to return cash to shareholders while reinvesting in the business and managing leverage. The programme total was €500 million and it was completed in December 2017. Under this programme, IAG acquired 74,999,449 ordinary shares, which were subsequently cancelled. The weighted average impact of these shares in issuance during the year was 34 million (note 10).

### 28 Treasury shares

IAG has authority to acquire its own shares, subject to specific conditions as set out in the Corporate governance section.

In February 2018, the Group also announced its intention to carry out a €500 million share buyback programme during the course of 2018 as part of its corporate finance strategy to return cash to shareholders while reinvesting in the business and managing leverage.

The treasury shares balance consists of shares held directly by the Group. During the year to December 31, 2017, IAG purchased directly 74,999,449 shares, which were held as treasury shares, as part of its €500 million share buyback programme launched in March 2017 (note 27). These shares were bought at a weighted average price of €6.67 per share. On completion of the programme, these treasury shares were cancelled. A total of 2.6 million shares were issued to employees during the year as a result of vesting of employee share schemes. At December 31, 2017 the Group held 9.9 million shares (2016: 12.5 million), which represented 0.49 per cent of the Issued share capital of the Company.

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

#### a IAG Performance Share Plan

The IAG Performance Share Plan (PSP) is granted to senior executives and managers of the Group who are most directly involved in shaping and delivering business success over the medium to long term. In 2014, a conditional award of shares was subject to the achievement of a variety of performance conditions, which vest after three years subject to the employee remaining employed by the Group. From 2015, the awards were 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 award made in 2014 vests 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 awards made from 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.

#### b IAG Incentive Award Deferral Plan

The IAG Incentive Award Deferral Plan (IADP) is granted to qualifying employees based on performance and service tests. It will be awarded when an incentive award is triggered subject to the employee remaining in employment with the Group for three years after the grant date. The relevant population will receive 50 per cent of their incentive award up front in cash, and the remaining 50 per cent in shares after three years through the IADP.

#### c Share-based payment schemes summary

	Outstanding at January 1, 2017 '000s	Granted number '000s	Lapsed number '000s	Vested number '000s	Outstanding at December 31, 2017 '000s	Vested and exercisable December 31, 2017 '000s
Performance Share Plans	14,054	5,897	3,377	2,436	14,138	43
Incentive Award Deferral Plans	5,681	657	125	1,914	4,299	17
	<b>19,735</b>	<b>6,554</b>	<b>3,502</b>	<b>4,350</b>	<b>18,437</b>	<b>60</b>

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

	December 31, 2017	December 31, 2016
Expected share price volatility (per cent)	<b>35</b>	30
Expected comparator group volatility (per cent)	<b>20</b>	20
Expected comparator correlation (per cent)	<b>65</b>	60
Expected life of options (years)	<b>4.8</b>	4.8
Weighted average share price at date of grant (£)	<b>5.46</b>	5.41
<b>Weighted average fair value (£)</b>	<b>3.66</b>	2.27

Volatility was calculated with reference to the Group's weekly pound sterling share price volatility. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. The fair value of the PSP also takes into account a market condition of TSR as compared to strategic competitors. No other features of share-based payment plans granted were incorporated into the measurement of fair value.

The Group recognised a share-based payment charge of €33 million for the year to December 31, 2017 (2016: €36 million).

### 30 Other reserves and non-controlling interests

For the year to December 31, 2017

€ million	Other reserves						Total other reserves	Non-controlling interest <sup>6</sup>
	Retained earnings	Unrealised gains and losses <sup>1</sup>	Currency translation <sup>2</sup>	Equity portion of convertible bond <sup>5</sup>	Merger reserve <sup>4</sup>	Redeemed capital reserve <sup>5</sup>		
January 1, 2017	952	(299)	(6)	101	(2,467)	-	<b>(1,719)</b>	308
Profit for the year	2,001	-	-	-	-	-	<b>2,001</b>	20
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	-	84	-	-	-	-	<b>84</b>	-
Fuel and oil costs	-	(38)	-	-	-	-	<b>(38)</b>	-
Currency differences	-	(19)	-	-	-	-	<b>(19)</b>	-
Net change in fair value of cash flow hedges	-	101	-	-	-	-	<b>101</b>	-
Net change in fair value of available-for-sale financial assets	-	9	-	-	-	-	<b>9</b>	-
Currency translation differences	-	-	(146)	-	-	-	<b>(146)</b>	-
Remeasurements of post-employment benefit obligations	739	-	-	-	-	-	<b>739</b>	-
Cost of share-based payments	34	-	-	-	-	-	<b>34</b>	-
Vesting of share-based payment schemes	(33)	-	-	-	-	-	<b>(33)</b>	-
Dividend	(518)	-	-	-	-	-	<b>(518)</b>	-
Cancellation of treasury shares	(500)	-	-	-	-	37	<b>(463)</b>	-
Dividend of a subsidiary	-	-	-	-	-	-	<b>-</b>	(1)
Transfer in Company reserves	83	-	-	-	-	-	<b>83</b>	-
Distributions made to holders of perpetual securities	-	-	-	-	-	-	<b>-</b>	(20)
<b>December 31, 2017</b>	<b>2,758</b>	<b>(162)</b>	<b>(152)</b>	<b>101</b>	<b>(2,467)</b>	<b>37</b>	<b>115</b>	<b>307</b>

## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 30 Other reserves and non-controlling interests continued

For the year to December 31, 2016

€ million	Other reserves							Non-controlling interest <sup>6</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>	Redeemed capital reserve <sup>5</sup>	Total other reserves	
January 1, 2016	1,160	(914)	500	173	(2,467)	-	(1,548)	308
Profit for the year	1,931	-	-	-	-	-	1,931	21
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	-	(57)	-	-	-	-	(57)	-
Fuel and oil costs	-	918	-	-	-	-	918	-
Currency differences	-	(68)	-	-	-	-	(68)	-
Net change in fair value of cash flow hedges	-	(182)	-	-	-	-	(182)	-
Net change in fair value of available-for-sale financial assets	-	4	-	-	-	-	4	-
Currency translation differences	-	-	(506)	-	-	-	(506)	-
Remeasurements of post-employment benefit obligations	(1,807)	-	-	-	-	-	(1,807)	-
Cost of share-based payments	35	-	-	-	-	-	35	-
Vesting of share-based payment schemes	(73)	-	-	-	-	-	(73)	-
Equity portion of convertible bond issued	45	-	-	(72)	-	-	(27)	-
Dividend	(339)	-	-	-	-	-	(339)	-
Dividend of a subsidiary	-	-	-	-	-	-	-	(1)
Distributions made to holders of perpetual securities	-	-	-	-	-	-	-	(20)
December 31, 2016	952	(299)	(6)	101	(2,467)	-	(1,719)	308

1 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.

2 The currency translation reserve records exchange differences arising from the translation of the financial statements of non-euro functional currency subsidiaries and investments accounted for under the equity method into the Group's reporting currency of euros. The movement through this reserve is affected by the fluctuations in the pound sterling to euro foreign exchange translation rate.

3 The equity portion of convertible bond reserve represents the equity portion of convertible bonds issued. At December 31, 2017, this 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 22). At January 1, 2016 this also related to the €390 million fixed rate 1.75 per cent convertible bond. The equity portion of this bond was transferred to retained earnings on conversion during the year to December 31, 2016.

4 The merger reserve originated from the merger transaction between British Airways and Iberia. The balance represents the difference between the fair value of the Group on the transaction date, and the fair value of Iberia and the book value of British Airways (including its reserves).

5 The redeemed capital reserve represents the nominal value of the decrease in share capital, relating to cancelled shares.

6 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.

## 31 Employee benefit obligations

The Group operates a variety of post-employment benefit arrangements, covering both defined contribution and defined benefit schemes. The Group also has a scheme for flight crew who meet certain conditions and therefore have the option of being placed on reserve and retaining their employment relationship until reaching the statutory retirement age, or taking early retirement (note 24).

### Defined contribution schemes

The Group operates a number of defined contribution schemes for its employees.

Costs recognised in respect of defined contribution pension plans in Spain, UK and Ireland for the year to December 31, 2017 were €135 million (2016: €132 million).

### Defined benefit schemes

#### i APS and NAPS

The principal funded defined benefit pension schemes within the Group are the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS), both of which are in the UK and are closed to new members. APS has been closed to new members since 1984 and NAPS closed to new members in 2003. On December 8, 2017, British Airways announced that it intends to open a new defined contribution pension scheme on April 1, 2018, replacing the principal defined contribution scheme (the British Airways Retirement Plan) and NAPS, which will close to future accrual on March 31, 2018. British Airways has offered a range of transition options to NAPS members. The NAPS liabilities are expected to fall as a result of the closure, because deferred pensions are assumed to rise in line with the Consumer Price Index (CPI) whereas salary growth for active members is assumed to rise in line with pay rises and promotions, which are assumed to be higher. The impact of the closure on the liabilities will only be known once members have selected their transition option, expected to be in March 2018. The changes are subject to the NAPS Trustee agreeing to amend the scheme's rules to enable closure to future accrual, and therefore have not been reflected in the financial statements for the year to December 31, 2017. The Group is committed to recovery plan payments of €339 million per year to NAPS until 2027, plus additional payments of up to €170 million per year, depending on British Airways' cash balance at the end of March each year.

The benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to inflationary increases in payment in line with the Government's Pension Increase (Review) Orders (PIRO), which are based on CPI. The 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, with pension increases also based on PIRO, subject to a cap of a maximum of five per cent in any given year.

As reported in previous years, the Trustee of APS has proposed an additional discretionary increase above CPI inflation for pensions in payment for the year to March 31, 2014. British Airways challenged the decision as it considers the Trustee has no power to grant such increases, and initiated legal proceedings to determine the legitimacy of the discretionary increase. The outcome of the legal proceedings was issued in May 2017, that concluded the Trustee does have the power to grant discretionary increases, whilst reiterating they must take into consideration all relevant factors. The Group has appealed the judgment and awaits an appeal hearing, expected to be in May 2018. The payment of the 2013/14 discretionary increase is subject to an injunction as a result of British Airways' appeal. The delayed 2015 triennial valuation will be completed once the outcome of the appeal is known. British Airways is committed to an existing recovery plan, which sees deficit payments of €62 million per annum until March 2023.

APS and NAPS are governed by separate Trustee Boards. Although APS and NAPS have separate Trustee Boards, much of the business of the two schemes is common. Most main Board and committee meetings are held in tandem although each Trustee Board reaches its decisions independently. There are three sub committees which are separately responsible for the governance, operation and investments of each scheme. British Airways Pension Trustees Limited holds the assets of both schemes on behalf of their respective Trustees.



## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 31 Employee benefit obligations continued

Deficit payment plans are agreed with the Trustee 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 with respect to APS and March 31, 2015 with respect to NAPS (note 31i). The actuarial valuations performed at March 31, 2012 and March 31, 2015 are different to the valuation performed at December 31, 2017 under IAS 19 'Employee benefits' mainly due to timing differences of the measurement dates and to the specific scheme assumptions in the actuarial valuation compared with IAS 19 guidance used in the accounting valuation assumptions.

#### ii Other plans

British Airways provides certain additional post-retirement healthcare benefits to eligible employees in the US through the US Post-Retirement Medical Benefit plan (US PRMB) which is considered to be a defined benefit scheme. In addition, Aer Lingus operates certain defined benefit plans, both funded and unfunded.

The defined benefit plans expose the Group to actuarial risks, such as longevity risk, interest rate risk, inflation risk, and market (investment) risk including currency risk.

#### iii Cash payments

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, 2017 net of service costs were €666 million (2016: €740 million) being the employer contributions of €899 million (2016: €936 million) less the current service cost of €233 million (2016: €196 million) (note 31b).

### a Employee benefit schemes recognised on the Balance Sheet

€ million	2017			
	APS	NAPS	Other <sup>1</sup>	Total
Scheme assets at fair value	9,185	19,558	429	29,172
Present value of scheme liabilities	(7,606)	(20,060)	(697)	(28,363)
Net pension asset/(liability)	1,579	(502)	(268)	809
Effect of the asset ceiling <sup>2</sup>	(570)	-	-	(570)
Other employee benefit obligations	-	-	(8)	(8)
<b>December 31, 2017</b>	<b>1,009</b>	<b>(502)</b>	<b>(276)</b>	<b>231</b>
Represented by:				
Employee benefit assets				1,023
Employee benefit obligations				(792)
				<b>231</b>

€ million	2016			Total
	APS	NAPS	Other <sup>1</sup>	
Scheme assets at fair value	9,637	18,366	445	28,448
Present value of scheme liabilities	(8,036)	(20,376)	(781)	(29,193)
Net pension asset/(liability)	1,601	(2,010)	(336)	(745)
Effect of the asset ceiling <sup>2</sup>	(580)	-	-	(580)
Other employee benefit obligations	-	-	(10)	(10)
December 31, 2016	1,021	(2,010)	(346)	(1,335)
Represented by:				
Employee benefit assets				1,028
Employee benefit obligations				(2,363)
				(1,335)

1 The present value of scheme liabilities for the US PRMB was €15 million at December 31, 2017 (2016: €18 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 Trustee.

### b Amounts recognised in the Income statement

Pension costs charged to operating result are:

€ million	2017	2016
Defined benefit plans:		
Current service cost	233	196
Past service cost <sup>1</sup>	2	(52)
	235	144
Defined contribution plans	135	132
<b>Pension costs recorded as employee costs</b>	<b>370</b>	<b>276</b>

1 In 2016, includes a past service gain of €51 million in respect of the US PMRB, which was classified as an exceptional item.

Pension costs charged/(credited) as finance costs are:

€ million	2017	2016
Interest income on scheme assets	(730)	(952)
Interest expense on scheme liabilities	743	921
Interest expense on asset ceiling	15	19
<b>Net financing expense/(income) relating to pensions</b>	<b>28</b>	<b>(12)</b>

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

€ million	2017	2016
Return on plan assets excluding interest income	(1,698)	(3,370)
Remeasurement of plan liabilities from changes in financial assumptions	530	5,624
Remeasurement of plan liabilities for changes in demographic assumptions	-	131
Remeasurement of experience losses/(gains)	274	(268)
Remeasurement of the APS asset ceiling	2	81
Exchange movements	(7)	56
<b>Pension remeasurements (credited)/charged to Other comprehensive income</b>	<b>(899)</b>	<b>2,254</b>

## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 31 Employee benefit obligations continued

#### 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	2017	2016
January 1	<b>28,448</b>	28,342
Interest income	<b>730</b>	952
Return on plan assets excluding interest income	<b>1,698</b>	3,370
Employer contributions <sup>1</sup>	<b>881</b>	906
Employee contributions	<b>101</b>	111
Benefits paid	<b>(1,324)</b>	(1,315)
Exchange movements	<b>(1,362)</b>	(3,918)
December 31	<b>29,172</b>	28,448

<sup>1</sup> Includes employer contributions to APS of €109 million (2016: €112 million) and to NAPS of €748 million (2016: €763 million), of which deficit funding payments represented €104 million for APS (2016: €106 million) and €516 million for NAPS (2016: €638 million).

For both APS and NAPS, the Trustee has ultimate responsibility for decision making on investments matters, including the asset-liability matching strategy. The latter is a form of investing designed to match the movement in pension plan assets with the movement in the projected benefit obligation over time. The Trustees' investment committee adopts an annual business plan which sets out investment objectives and work required to achieve these objectives. The committee also deals with the monitoring of performance and activities, including work on developing the strategic benchmark to improve the risk return profile of the scheme where possible, as well as having a trigger based dynamic governance process to be able to take advantage of opportunities as they arise. The investment committee reviews the existing investment restrictions, performance benchmarks and targets, as well as continuing to develop the de-risking and liability hedging portfolio.

Both schemes use derivative instruments for investment purposes and to manage exposures to financial risks, such as interest rate, foreign exchange and liquidity risks arising in the normal course of business. Exposure to interest rate risk is managed through the use of Inflation-Linked Swap contracts. Foreign exchange forward contracts are entered into to mitigate the risk of currency fluctuations. For NAPS, a strategy exists to provide protection against the equity market downside risk by reducing some of the upside participation.

Scheme assets held by all defined benefit schemes operated by the Group at December 31 comprise:

€ million	2017	2016
<b>Return seeking investments – equities</b>		
UK	<b>2,646</b>	3,049
Rest of world	<b>6,677</b>	7,495
	<b>9,323</b>	10,544
<b>Return seeking investments – other</b>		
Private equity	<b>777</b>	825
Property	<b>1,906</b>	1,783
Alternative investments	<b>1,023</b>	1,204
	<b>3,706</b>	3,812
<b>Liability matching investments</b>		
UK fixed bonds	<b>4,885</b>	3,850
Rest of world fixed bonds	<b>95</b>	116
UK index-linked bonds	<b>7,614</b>	6,690
Rest of world index-linked bonds	<b>177</b>	128
	<b>12,771</b>	10,784
<b>Other</b>		
Cash and cash equivalents	<b>670</b>	511
Derivatives	<b>178</b>	228
Insurance contract	<b>1,770</b>	1,872
Longevity swap	<b>(109)</b>	(35)
Other	<b>863</b>	732
	<b>29,172</b>	28,448

All equities and bonds have quoted prices in active markets.

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

€ million	December 31, 2017		December 31, 2016	
	APS	NAPS	APS	NAPS
Return seeking investments	742	12,074	1,582	12,565
Liability matching investments	6,428	6,240	5,936	4,728
	7,170	18,314	7,518	17,293
Insurance contract and related longevity swap	1,637	-	1,811	-
Other	378	1,244	308	1,073
<b>Fair value of scheme assets</b>	<b>9,185</b>	<b>19,558</b>	9,637	18,366

The strategic benchmark for asset allocations differentiates 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, 2017, the benchmark for APS, expressed as a percentage of the assets excluding the insurance contract, was 9.5 per cent (2016: 19 per cent) in return seeking assets and 90.5 per cent (2016: 81 per cent) in liability matching investments; and for NAPS the benchmark was 65 per cent (2016: 68 per cent) in return seeking assets and 35 per cent (2016: 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 (2016: 24 per cent) of the pensioner liabilities for an agreed list of members. The insurance contract is based on future increases to pensions in line with inflation and will match future obligations on that basis for that part of the scheme. The insurance contract can only be used to pay or fund employee benefits under the scheme. With effect from June 2010, the Trustee of APS also secured a longevity swap contract with Rothesay Life, which covers 20 per cent (2016: 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. During 2017, the Trustee of APS secured two additional longevity swap contracts, one with Canada Life and one with Partner Reinsurance covering 13 per cent and 8 per cent respectively of the pensioner liabilities as at January 1, 2017 (the commencement date of the contracts). The principal increases to pensions in payment under the contract are based on RPI inflation.

#### 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	2017	2016
January 1	29,193	27,670
Current service cost	233	196
Past service cost	2	(52)
Interest expense	743	921
Remeasurements - financial assumptions	530	5,624
Remeasurements - demographic assumptions	-	131
Remeasurements of experience losses/(gains)	274	(268)
Benefits paid	(1,324)	(1,315)
Employee contributions	101	111
Exchange movements	(1,389)	(3,825)
<b>December 31</b>	<b>28,363</b>	29,193

The defined benefit obligation comprises €28 million (2016: €33 million) arising from unfunded plans and €28,335 million (2016: €29,160 million) from plans that are wholly or partly funded.

## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 31 Employee benefit obligations continued

#### f Effect of the asset ceiling

A reconciliation of the effect of the asset ceiling representing the IAS 19 irrecoverable surplus in APS is set out below:

€ million	2017	2016
January 1	<b>580</b>	561
Interest expense	<b>15</b>	19
Remeasurements	<b>2</b>	81
Exchange movements	<b>(27)</b>	(81)
<b>December 31</b>	<b>570</b>	580

#### g Actuarial assumptions

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Per cent per annum	2017			2016		
	APS	NAPS	Other schemes	APS	NAPS	Other schemes
Discount rate <sup>1</sup>	<b>2.45</b>	<b>2.55</b>	<b>1.6 – 3.6</b>	2.60	2.70	1.5 – 4.1
Rate of increase in pensionable pay <sup>2</sup>	<b>3.15</b>	<b>3.15</b>	<b>2.5 – 3.6</b>	3.20	3.20	3.0 – 3.7
Rate of increase of pensions in payment <sup>3</sup>	<b>2.05</b>	<b>2.05</b>	<b>0.0 – 3.5</b>	2.10	2.10	0.4 – 3.5
RPI rate of inflation	<b>3.15</b>	<b>3.15</b>	<b>2.5 – 3.1</b>	3.20	3.20	3.0 – 3.2
CPI rate of inflation	<b>2.05</b>	<b>2.05</b>	<b>1.75 – 3.0</b>	2.10	2.10	1.75 – 3.0

1 Discount rate is determined by reference to the yield on high quality corporate bonds of currency and term consistent with the scheme liabilities.

2 Rate of increase in pensionable pay is assumed to be in line with long-term market inflation expectations. 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.

3 It has been assumed that the rate of increase of pensions in payment will be in line with CPI for APS and NAPS. The APS Trustee has proposed an additional discretionary increase of 20 basis points for the year to March 31, 2014, a decision that British Airways has challenged. British Airways initiated legal proceedings to determine the legitimacy of the additional increase. The proposed discretionary increase is not included in the assumptions above.

Rate of increase in healthcare costs is based on medical trend rates of 6.5 per cent grading down to 5.0 per cent over seven years (2016: 6.75 per cent to 5.0 per cent over seven years).

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	2017	2016
Life expectancy at age 60 for a:		
– male currently aged 60	<b>28.4</b>	28.3
– male currently aged 40	<b>29.7</b>	29.5
– female currently aged 60	<b>30.2</b>	30.1
– female currently aged 40	<b>32.8</b>	32.6

At December 31, 2017, the weighted-average duration of the defined benefit obligation was 12 years for APS (2016: 12 years) and 20 years for NAPS (2016: 20 years).

In the US, 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 scheme liabilities		
	APS	NAPS	Other schemes
Discount rate (decrease of 10 basis points)	91	396	8
Future salary growth (increase of 10 basis points)	1	68	1
Future pension growth (increase of 10 basis points)	68	317	1
Future mortality rate (one year increase in life expectancy)	339	577	2

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 and March 31, 2015 respectively, using assumptions and methodologies agreed between the Group and Trustee of each scheme. At the date of the actuarial valuation, the actuarial deficits of APS and NAPS amounted to €932 million and €3,818 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	62	339
2-5 years	249	1,359
5-10 years	16	1,612
<b>Total expected deficit payments for APS and NAPS</b>	<b>327</b>	<b>3,310</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 scheme, subject to withholding taxes that would be payable by the Trustee. This determination has been made independently for each scheme. As such, no additional liability is required.

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 €593 million in employer contributions and deficit payments to its two significant post-retirement benefit plans in 2018. This is made up of €62 million and €339 million of deficit payments for APS and NAPS respectively as agreed at the latest triennial valuations. In addition, ongoing employer contributions for 2018 would be €5 million for APS and €187 million for NAPS if the NAPS scheme is not closed for future accrual. This excludes any additional deficit contribution that may become due depending on British Airways' cash balance at March 31, 2018. The Group expects to pay €283 million in 2019, having provided collateral on certain payments to APS and NAPS, which at December 31, 2017 amounted to €283 million (2016: €296 million). This amount would be payable in the event that the pension schemes are not fully funded on a conservative basis, with a gilts-based discount rate on January 1, 2019 as determined by the scheme actuary.

Until September 2019, if British Airways pays a dividend to IAG higher than 35 per cent of profit after tax it will either provide the scheme with a guarantee for 100 per cent of the amount above 35 per cent or 50 per cent of that amount as an additional cash contribution.

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## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 32 Contingent liabilities and guarantees

The Group has certain contingent liabilities which at December 31, 2017 amounted to €93 million (December 31, 2016: €124 million). No material losses are likely to arise from such contingent liabilities. The Group also has the following claims:

#### Cargo

The European Commission issued a decision in which it found that British Airways, and 10 other airline groups, had engaged in cartel activity in the air cargo sector (Original Decision). British Airways was fined €104 million. Following an appeal, the decision was subsequently partially annulled against British Airways (and annulled in full against the other appealing airlines) (General Counsel Judgment), and the fine was refunded in full. British Airways appealed the partial annulment to the Court of Justice, but that appeal was rejected.

In parallel, the European Commission chose not to appeal the General Counsel Judgment, and instead adopted a new decision in March 2017 (new decision). The new decision re-issued fines against all the participating carriers, which match those contained in the Original Decision. British Airways has therefore again been fined €104 million. British Airways has appealed the New Decision to the General Counsel again (as have other carriers).

A large number of claimants have brought proceedings in the English courts to recover damages from British Airways which, relying on the findings in the Commission decisions, 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.

British Airways 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.

#### Pensions

The Trustees of the Airways Pension Scheme (APS) have proposed an additional discretionary increase above CPI for pensions in payment for the year to March 31, 2014. British Airways has challenged the decision, as it considers the Trustees have no power to grant such increases, and initiated legal proceedings to determine the legitimacy of the discretionary increase. The outcome of the legal proceedings was issued in May 2017, which concluded the Trustees do have the power to grant discretionary increases, whilst reiterating they must take into consideration all relevant factors, and ignore irrelevant factors. The Group has appealed the judgment and awaits an appeal hearing, currently expected to be mid-2018. Payment of the 2013/14 discretionary increase is subject to an injunction as a result of British Airways appeal. The delayed 2015 triennial valuation will be completed once the outcome of the appeal is known.

#### Guarantees

British Airways has provided collateral on certain payments to its pension schemes, APS and NAPS, which at December 31, 2017 amounted to €283 million (December 31, 2016: €296 million). This amount would be payable in the event that the pension schemes are not fully funded on a conservative basis with a gilts-based discount rate on January 1, 2019 and will be determined by the scheme actuary.

In addition, a guarantee amounting to €260 million (2016: €273 million) was issued by a third party in favour of APS, triggered in the event of British Airways' insolvency.

The Group also has other guarantees and indemnities entered into as part of the normal course of business, which at December 31, 2017 are not expected to result in material losses for the Group.



### 33 Related party transactions

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

€ million	2017	2016
<b>Sales of goods and services</b>		
Sales to associates <sup>1</sup>	7	7
Sales to significant shareholders <sup>2</sup>	48	39
<b>Purchases of goods and services</b>		
Purchases from associates <sup>3</sup>	58	49
Purchases from significant shareholders <sup>2</sup>	109	60
<b>Receivables from related parties</b>		
Amounts owed by associates <sup>4</sup>	2	2
Amounts owed by significant shareholders <sup>5</sup>	1	1
<b>Payables to related parties</b>		
Amounts owed to associates <sup>6</sup>	3	4
Amounts owed to significant shareholders <sup>5</sup>	3	-

1 Sales to associates: Consisted primarily of sales for airline related services to Dunwoody Airline Services (Holding) Limited (Dunwoody) of €6 million (2016: €7 million) and an amount of less than €1 million to Multiservicios Aeroportuarios, S.A. and Serpista, S.A. (2016: less than €1 million to Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. and Handling Guinea Ecuatorial, S.A.)

2 Sales to and purchases from significant shareholders: Related to interline services and wet leases with Qatar Airways.

3 Purchases from associates: Mainly included €35 million of airport auxiliary services purchased from Multiservicios Aeroportuarios, S.A. (2016: €33 million), €13 million of handling services provided by Dunwoody (2016: €10 million) and €9 million of maintenance services received from Serpista, S.A. (2016: €6 million).

4 Amounts owed by associates: For airline related services rendered, and included balances with Dunwoody of €1 million (2016: €1 million) and €1 million of services provided to Multiservicios Aeroportuarios, S.A., Serpista, S.A. and Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeica, S.A. (2016: €1 million for Handling Guinea Ecuatorial, S.A., Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. and Iber-America Aerospace, LLC).

5 Amounts owed by and to significant shareholders: Related to Qatar Airways.

6 Amounts owed to associates: Consisted primarily of €1 million due to Dunwoody (2016: €1 million), €2 million to Serpista, S.A. (2016: €1 million) and less than €1 million to Multiservicios Aeroportuarios, S.A. (2016: €2 million).

During the year to December 31, 2017 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 (2016: €7 million) in relation to the costs of the Pension Protection Fund levy.

The Group has transactions with related parties that are conducted in the normal course of the airline business, which include the provision of airline and related services. All such transactions are carried out on an arm's length basis.

For the year to December 31, 2017, the Group has not made any provision for doubtful debts arising relating to amounts owed by related parties (2016: nil).

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## Notes to the consolidated financial statements continued

For the year to December 31, 2017

### 33 Related party transactions continued

#### Significant shareholders

In this instance, significant shareholders are those parties who have the power to participate in the financial and operating policy decisions of the Group, as a result of their shareholdings in the Group, but who do not have control over these policies.

At December 31, 2017 the Group had cash deposit balances with shareholders holding a participation of between 3 to 5 per cent, of €90 million (2016: €189 million).

#### Board of Directors and Management Committee remuneration

Compensation received by the Group's Board of Directors and Management Committee, in 2017 and 2016 is as follows:

€ million	December 31, 2017	December 31, 2016
Base salary, fees and benefits		
Board of Directors' remuneration	9	7
Management Committee remuneration	17	10
	<b>26</b>	17

At December 31, 2017 the Board of Directors includes remuneration for two Executive Directors (December 31, 2016: two Executive Directors). The Management Committee includes remuneration for ten members (December 31, 2016: nine members).

The Company provides life insurance for all executive directors and the Management Committee. For the year to December 31, 2017 the Company's obligation was €38,000 (2016: €44,000).

At December 31, 2017 the transfer value of accrued pensions covered under defined benefit pension obligation schemes, relating to the current members of the Management Committee totalled €4 million (2016: €4 million).

No loan or credit transactions were outstanding with Directors or offices of the Group at December 31, 2017 (2016: nil).

## Group investments

### Subsidiaries

#### Aer Lingus

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
<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 DAC*</b> Dublin Airport, Dublin	Holding company	Republic of Ireland	100%
<b>Aer Lingus Limited*</b> Dublin Airport, Dublin	Airline operations	Republic of Ireland	100%
<b>Aer Lingus (NI) 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> Dublin Airport, Dublin		Isle of Man	100%
<b>Dirnan Insurance Company Limited</b> Canon's Court, 22 Victoria Street, Hamilton, Bermuda, HM 12		Bermuda	100%
<b>Santain Developments Limited</b> Dublin Airport, Dublin		Republic of Ireland	100%
<b>Shinagh Limited</b> Dublin Airport, Dublin		Republic of Ireland	100%

#### Avios

Name and address	Country of Incorporation	Percentage of equity owned
<b>Avios South Africa Proprietary Limited</b> Block C, 1 Marignane Drive, Bonaero Park, Gauteng, 1619	South Africa	100%
<b>Remotereport Trading Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%

#### British Airways

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
<b>Avios Group (AGL) Limited*</b> Astral Towers, Betts Way, London Road, Crawley, West Sussex, RH10 9XY	Airline marketing	England	100%
<b>BA and AA Holdings Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
<b>BA Call Centre India Private Limited (callBA)</b> F-42, East of Kailash, New Delhi, 110065		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>BritAir Holdings Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%

## Group investments continued

### British Airways continued

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
<b>British Airways (BA) Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB		England	100%
<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 Finance (Jersey) Limited Partnership</b> 13 Castle Street, St Helier, JE4 5UT		Jersey	100%
<b>British Airways Holdings B.V.</b> Atrium, Strawinskylaan 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> Whitlocke 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>Diamond Insurance Company Limited</b> 1 <sup>st</sup> Floor, Rose House, 51-59 Circular Road, Douglas, IM1 1RE		Isle of Man	100%
<b>Flyline Tele Sales &amp; Services GmbH</b> Hermann Koehl-Strasse 3, Bremen, 28199		Germany	100%
<b>Gatwick Ground Services Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB		England	100%
<b>Illiad Inc</b> Suite 1300, 1105 N Market Street, PO Box 8985, Wilmington, Delaware, 19899		USA	100%
<b>Openskies SASU*</b> 3 Rue le Corbusier, Rungis, 94150	Airline operations	France	100%
<b>Overseas Air Travel Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB		England	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 OGB		England	100%
<b>British Mediterranean Airways Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 OGB		England	99%

## Iberia

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
<b>Binter Finance B.V.</b> Prins Bernhardplein 200, Amsterdam, 1097 JB		Netherlands	100%
<b>Compañía Explotación Aviones Cargueros Cargosur, S.A.</b> Calle Martínez Villergas 49, Madrid, 28027		Spain	100%
<b>Compañía Operadora de Corto y Medio Radio Iberia Express, S.A.*</b> Calle Alcañiz 23, Madrid, 28006	Airline operations	Spain	100%
<b>Iberia México, S.A.*</b> Ejército Nacional 436, 9 <sup>th</sup> 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	Holding company	Spain	100%
<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>Auxiliar Logística Aeroportuaria, S.A.*</b> Centro de Carga Aérea, Parcela 2-5 Nave 6, Madrid, 28042	Airport logistics and cargo terminal management	Spain	75%

## IAG Cargo Limited

Name and address	Country of Incorporation	Percentage of equity owned
<b>Zenda Group Limited</b> Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, Middlesex, TW6 2JS	England	100%

## International Consolidated Airlines Group S.A.

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
<b>AERL Holding Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
<b>British Airways Plc*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100% <sup>1</sup>
<b>FLY LEVEL, S.L.</b> El Caserio, Iberia Zona Industrial nº 2 (La Muñoza), Camino de La Muñoza, s/n, 28042 Madrid		Spain	100%
<b>FLYLEVEL UK Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
<b>IAG Cargo Limited*</b> Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, TW6 2JS	Air freight operations	England	100%
<b>IAG Connect Limited</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB		Republic of Ireland	100%
<b>IAG GBS Limited*</b> Waterside, PO Box 365, Harmondsworth, UB7 0GB	IT, finance and procurement services	England	100%
<b>IAG GBS Poland sp z.o.o.*</b> ul. Opolska 114, Krakow, 31 -323	IT, finance and procurement services	Poland	100%
<b>IB Opco Holding, S.L.</b> Calle Martínez Villergas 49, Madrid, 28027	Holding company	Spain	100% <sup>2</sup>
<b>Iberia Líneas Aéreas de España, S.A. Operadora*</b> Calle Martínez Villergas 49, Madrid, 28027	Airline operations and maintenance	Spain	100% <sup>2</sup>

## Group investments continued

### International Consolidated Airlines Group S.A. continued

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
<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	99.5%

\* Principal subsidiaries

- The Group holds 49.9% of the total number of voting rights and 99.65% of the total nominal share capital in British Airways Plc, such stake having almost 100% of the economic rights. The remaining nominal share capital and voting rights, representing 0.35% and 50.1% respectively, correspond to a trust established for the purposes of implementing the British Airways nationality structure.
- The Group holds 49.9% of both the total nominal share capital and the total number of voting rights in IB Opco Holding, S.L. (and thus, indirectly, in Iberia Líneas Aéreas de España, S.A. Operadora), such stake having almost 100% of the economic rights in these companies. The remaining shares, representing 50.1% of the total nominal share capital and the total number of voting rights belong to a Spanish company incorporated for the purposes of implementing the Iberia nationality structure.

### Investments accounted for using the equity method

Name and address	Country of Incorporation	Percentage of equity owned
<b>Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A.</b> José Ortega y Gasset 22, 3 <sup>rd</sup> Floor, 28006, Madrid	Spain	50.5%
<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>Multiservicios Aeroportuarios, S.A.</b> Avenida de Manoteras 46, 2 <sup>nd</sup> Floor, 28050, Madrid	Spain	49%
<b>Dunwoody Airline Services Limited</b> Building 552 Shoreham Road East, London Heathrow Airport, Hounslow, TW6 3UA	England	40%
<b>Serpista, S.A.</b> Cardenal Marcelo Spínola 10, 28016, Madrid	Spain	39%
<b>Programa Travel Club Agencia de Seguros Exclusiva, S.L.</b> Avenida de Bruselas 20, Alcobendas, 28108, Madrid	Spain	27%
<b>Viajes Ame, S.A.</b> Avenida de Bruselas 20, Alcobendas, 28108, Madrid	Spain	27%
<b>Air Miles España, S.A.</b> Avenida de Bruselas 20, Alcobendas, 28108, Madrid	Spain	26.7%

### 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	Shareholder's funds (million)	Profit/(loss) before tax (million)
<b>Servicios de Instrucción de Vuelo, S.L.</b> Camino de La Muñoza 2, Madrid, 28042	Spain	19.9%	Euro	46	3
<b>The Airline Group Limited</b> Brettenham House South, 5 <sup>th</sup> Floor, Lancaster Place, London, WC2N 7EN	England	16.7%	Pound sterling	287	22
<b>Comair Limited</b> 1 Marignane Drive, Bonaero Park, 1619, Johannesburg	South Africa	11.5%	South African rand	1,543	435
<b>Adquira España, S.A.</b> Plaza Cronos, 1 - 4 <sup>th</sup> Floor, Madrid, 28037	Spain	10.0%	Euro	7	1

## Statement of directors' responsibilities

### LIABILITY STATEMENT OF DIRECTORS FOR THE PURPOSES ENVISAGED UNDER ARTICLE 8.1.b OF SPANISH ROYAL DECREE 1362/2007 OF 19 OCTOBER (REAL DECRETO 1362/2007).

At a meeting held on February 22, 2018, the Directors of International Consolidated Airlines Group, S.A. (the "Company") state that, to the best of their knowledge, the individual and consolidated financial statements for the year to December 31, 2017, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and that the individual and consolidated management reports include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with the description of the principal risks and uncertainties that they face.

February 22, 2018



**Antonio Vázquez Romero**  
Chairman



**William Matthew Walsh**  
Chief Executive Officer



**Marc Jan Bolland**



**Patrick Jean Pierre Cescau**



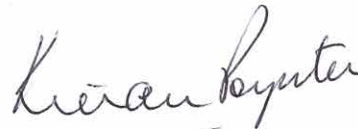
**Enrique Dupuy de Lôme Chávarri**



**James Arthur Lawrence**



**María Fernanda Mejía Campuzano**



**Kieran Charles Poynter**



**Emilio Saracho Rodríguez de Torres**



**Marjorie Morris Scardino**



**Lucy Nicola Shaw**



**Alberto Terol Esteban**



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

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

### **Audit report on the consolidated financial statements**

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#### **Opinion**

We have audited the consolidated financial statements of International Consolidated Airlines Group, S.A. (the parent company) and its subsidiaries (the Group), which comprise the balance sheet as at December 31, 2017, the income statement, the statement of other comprehensive income, the statement of changes in equity, the cash flow statement, all of them consolidated, and the notes thereto for the year then ended.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the equity and the financial position of the Group as at December 31, 2017 and of its financial performance and its cash flows, all of them consolidated, for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union (IFRS-EU), and other provisions in the regulatory framework applicable in Spain.

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#### **Basis for opinion**

We conducted our audit in accordance with prevailing audit regulations in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those related to independence, that are applicable to our audit of the consolidated financial statements in Spain as required by prevailing audit regulations. In this regard, we have not provided non-audit services nor have any situations or circumstances arisen that might have compromised our mandatory independence in a manner prohibited by the aforementioned requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk
<p><b>Passenger and Other revenue recognition, (€20,245 million and €1,643 million, FY16: €19,924 million and €1,621 million)</b></p> <p>The accounting for passenger revenue is susceptible to management override through the recording of manual journal entries either in the underlying ledgers or as a consolidation journal, the override of IT systems to accelerate revenue recognition, or the manipulation of inputs used to calculate ticket breakage. We consider this to be a risk across all the segments within the Group.</p> <p>The accounting for the Group's frequent flyers programmes, including those recorded in other revenue, is subject to management estimates and assumptions. These assumptions are based on historical experience combined with an understanding of current circumstances.</p> <p><i>Refer to note 2 of the consolidated financial statements.</i></p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> <li>▶ We tested the design and operation of the key controls in the passenger revenue processes at each of the Group airlines.</li> <li>▶ We tested the general IT controls to confirm that they were preventative of unauthorised system override.</li> <li>▶ We tested a sample of passenger tickets to ensure that the revenue was recognised in the correct period.</li> <li>▶ We identified and tested material manual postings to passenger revenue.</li> <li>▶ We validated the inputs into the passenger breakage calculations by re-running key reports and checked the completeness and accuracy of the underlying data.</li> <li>▶ We tested and determined the appropriateness of the assumptions utilised in calculating the fair value and the redemption profile (the number of points expected to be redeemed and the period over which this is expected to occur) of the Group's frequent flyer programmes.</li> </ul>
<p><b>Valuation of British Airways and Iberia's employee obligations (€28,846 million, FY16: €29,492 million)</b></p> <p>The valuation of these balances requires significant levels of judgement and technical expertise to select appropriate valuation assumptions.</p> <p>Changes in a number of the key assumptions (discount rate, price inflation, salary increases, retirement assumptions and demographic assumptions) can have a material impact on the valuation of the pension obligations.</p> <p>British's Airways APS and NAPS defined benefit pension scheme liabilities amount to €27,666m (2016: €28,412 million) within the net pension deficit of €502m (2016: €2,010 million). Iberia's commitments with employees amount to €1,180 million (2016: €1,080million).</p> <p><i>Refer to notes 2, 24 and 31 of the consolidated financial statements.</i></p>	<p>We involved internal pension actuaries to assist in the evaluation of the assumptions used in the valuation of the Group's long term employee obligations. The procedures performed included the following:</p> <ul style="list-style-type: none"> <li>▶ We understood the key assumptions used and the process followed to develop those. This included a meeting with British Airways' external actuaries.</li> <li>▶ We compared the key inputs and methodologies used to independent sources, current market information and expectations.</li> <li>▶ We compared the assumptions applied to those used in the prior year and understood the basis for any changes.</li> <li>▶ We independently checked a sample of the scheme membership data provided to the actuaries to the pension plan membership records</li> <li>▶ We evaluated the independence and qualification of management's external actuaries involved in the valuation process.</li> <li>▶ We assessed the adequacy of the related disclosures.</li> </ul>
<p><b>The assessment of the carrying value of goodwill and acquired indefinite life intangible assets (€2,362 million, FY16: €2,398 million)</b></p> <p>The annual impairment test of goodwill and indefinite life intangibles within the different Group' Cash Generating Units (CGUs) requires significant judgment in forecasting cash flow projections of each CGU, together with the discount rates, long-term economic growth rates, fuel prices and exchange rates.</p> <p>Changes to these assumptions can have a significant impact on the available headroom and any impairment that may be required, as can assumptions applied when identifying CGUs.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> <li>▶ We considered the reasonableness of management's business plans. Specifically, whether fuel price and foreign exchange assumptions are reasonable in light of current market data.</li> <li>▶ We tested the appropriateness of management's key assumptions. We performed an evaluation of the alignment of long-term growth rates with our view of long-term inflation and GDP growth for the regions in which the different CGUs operate and considered whether discount rates were within acceptable ranges. We involved a valuation specialist to assist in the evaluation of the discount rates used to discount future cash flows in each of the different CGUs.</li> </ul>

Risk	Our response to the risk
<p>Refer to notes 2 and 15 of the consolidated financial statements.</p>	<ul style="list-style-type: none"> <li>▶ We considered the accuracy of forecasts used in previous years against actual results.</li> <li>▶ We verified the impairment calculations. Furthermore, we reviewed and challenged management's sensitivity analysis to evaluate whether a reasonable change in the key assumptions for any of the Group's CGUs would cause the carrying amounts to exceed the recoverable amounts.</li> <li>▶ We assessed the appropriateness of the related disclosures.</li> </ul>
<p><b>Valuation of the aircraft maintenance obligations (€1,125 million, FY16: €1,201 million)</b></p> <p>The Group operates aircraft which are owned or held under finance or operating lease arrangements. Liabilities for maintenance costs are incurred during the term of the lease in respect of aircraft leased under operating leases. These arise from legal and contractual obligations relating to the condition of the aircraft when it is returned to the lessor.</p> <p>These provisions require complex judgements and estimates including considerations of aircraft utilisation, expected maintenance intervals, future maintenance costs and the aircraft's conditions.</p> <p>Refer to notes 2 and 24 of the consolidated financial statements.</p>	<p>Our procedures included the following:</p> <ul style="list-style-type: none"> <li>▶ We obtained and inspected the engine, airframe and other asset lease agreements to check the completeness of the liabilities for obligations at the hand back at the end of the lease.</li> <li>▶ We understood the estimation processes and tested management's calculations of maintenance expenses including assessing the appropriateness of the assumptions for the timing of the maintenance work and we compared the valuation of maintenance expenses to historic invoices, third-party price lists and/or agreed maintenance contracts.</li> </ul>

#### Other information: consolidated management report

Other information refers exclusively to the 2017 consolidated management report, the preparation of which is the responsibility of the parent company's directors and is not an integral part of the financial statements.

Our audit opinion on the consolidated financial statements does not cover the consolidated management report. Our responsibility for the information contained in the consolidated management report is defined in prevailing audit regulations, which distinguish two levels of responsibility:

- a) A specific level applicable to the non-financial information statement, as well as certain information included in the Corporate Governance Report, as defined in article 35.2 b) of Law 22/2015 on auditing, which solely requires that we verify whether said information has been included in the consolidated management report, or where appropriate, that the corresponding reference to the separate report on non-financial information has been incorporated in the form provided for in the regulation, and if not, disclose this fact.
- b) A general level applicable to the remaining information included in the consolidated management report, which requires us to evaluate and report on the consistency of said information in the consolidated financial statements, based on our knowledge of the Group obtained during the audit, and limited to the information gained through audit evidence. Moreover, we are required to evaluate and report on whether the content and presentation of this part of the consolidated management report are in conformity with applicable regulations. If, based on the work carried out, we conclude that there are material misstatements, we are required to disclose them.

Based on the work performed, as described in the above paragraph, we have verified that the specific information referred to in paragraph a) above has been provided in the consolidated management report, and that the remaining information contained therein is consistent with that provided in the 2017 consolidated financial statements and their content and presentation are in conformity with applicable regulations.



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### **Responsibilities of the parent company's directors and the Audit and Compliance Committee for the consolidated financial statements**

The directors of the parent company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the equity, financial position and results of the Group, in accordance with IFRS-EU, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Audit and Compliance Committee is responsible for overseeing the Group's financial reporting process.

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing audit regulations in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- ▶ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- ▶ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Compliance Committee of the parent company regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Compliance Committee of the parent company with a statement that we have complied with relevant ethical requirements, including those related to independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Compliance Committee of the parent company, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## Report on other legal and regulatory requirements

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### Additional report to the Audit and Compliance Committee

The opinion expressed in this audit report is consistent with the additional report we issued to the Audit and Compliance Committee on February 27, 2018.

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### Term of engagement

The annual general shareholders' meeting held on June 15, 2017 appointed us as auditors for the financial year 2017.

Previously, we were appointed as auditors by the shareholders for one year and we have been carrying out the audit of the financial statements continuously since December 31, 2011.

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.  
(Registered in the Official Register of  
Auditors under No. S0530)



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

February 27, 2018

## Alternative performance measures

The performance of the Group is assessed using a number of alternative performance measures (APMs), some of which have been identified as key performance indicators of the Group. The Group's results are presented both before and after exceptional items. Exceptional items are those that in management's view need to be separately disclosed by virtue of their size and incidence. Exceptional items are disclosed in note 4 of the consolidated financial statements. In addition, the Group's results are described using certain measures that are not defined under IFRS and are therefore considered to be APMs. These APMs are used to measure the outcome of the Group's strategy based on 'Unrivalled customer proposition', 'Value accretive and sustainable growth' and 'Efficiency and innovation'. Further information on why these APMs are used is provided in the Key performance indicators section. The definition of each APM presented in this report, together with a reconciliation to the nearest measure prepared in accordance with IFRS is presented below.

### Operating profit and lease adjusted operating margin

Operating profit is the Group operating result before exceptional items.

Lease adjusted operating margin is operating profit adjusted for leases as a percentage of revenue. The lease adjustment reduces the fleet rental charge to 0.67 of the annual reported charge. This is to reflect the embedded interest expense component in leases; 0.67 is a commonly used ratio in the airline industry.

€ million	2017	2016	2015
Operating profit before exceptional items	<b>3,015</b>	2,535	2,335
Aircraft operating lease costs	<b>888</b>	759	659
Aircraft operating lease costs multiplied by 0.67	<b>(595)</b>	(509)	(442)
	<b>3,308</b>	2,785	2,552
Revenue	<b>22,972</b>	22,567	22,858
<b>Lease adjusted operating margin</b>	<b>14.4%</b>	12.3%	11.2%

### Adjusted earnings per share

Earnings are based on results before exceptional items after tax and adjusted for earnings attributable to equity holders and interest on convertible bonds, divided by the weighted average number of ordinary shares, adjusted for the dilutive impact of the assumed conversion of the bonds and employee share schemes outstanding.

€ million	2017	2016	2015
Earnings attributable to equity holders of the parent	<b>2,001</b>	1,931	1,495
Exceptional items	<b>222</b>	38	23
<b>Earnings attributable to equity holders of the parent before exceptional items</b>	<b>2,223</b>	1,969	1,518
Interest expense on convertible bonds	<b>17</b>	26	25
<b>Adjusted earnings</b>	<b>2,240</b>	1,995	1,543
Weighted average number of shares used for diluted earnings per share	<b>2,179,353</b>	2,210,990	2,159,937
Weighted average number of shares used for basic earnings per share	<b>2,088,489</b>	2,075,568	2,034,197
<b>Adjusted earnings per share (€ cents)</b>	<b>102.8</b>	90.2	71.4
<b>Basic earnings per share before exceptional items (€ cents)</b>	<b>106.4</b>	94.9	74.6

### EBITDAR

EBITDAR is calculated as operating profit before exceptional items, depreciation, amortisation and impairment and aircraft operating lease costs.

€ million	2017	2016	2015
Operating profit before exceptional items	<b>3,015</b>	2,535	2,335
Depreciation, amortisation and impairment	<b>1,184</b>	1,287	1,307
Aircraft operating lease costs	<b>888</b>	759	659
<b>EBITDAR</b>	<b>5,087</b>	4,581	4,301

## Alternative performance measures continued

### Return on Invested Capital

Return on Invested Capital (RoIC) is defined as EBITDAR, less adjusted aircraft operating lease costs, fleet depreciation charge adjusted for inflation, and the depreciation charge for other property, plant and equipment, divided by invested capital. It is expressed as a percentage.

The lease adjustment reduces aircraft operating lease costs to 0.67 of the annual reported charge. The inflation adjustment is applied to the fleet depreciation charge and is calculated using a 1.5 per cent inflation rate over the weighted average age of the on balance sheet fleet to allow for inflation and efficiencies of new fleet.

Invested capital is the fleet net book value at the balance sheet date, excluding progress payments for fleet not yet delivered and adjusted for inflation, plus the net book value of the remaining property, plant and equipment plus annual aircraft operating lease costs multiplied by 8. Intangible assets are excluded from the calculation.

€ million	2017	2016	2015 <sup>2</sup>
EBITDAR	<b>5,087</b>	4,581	4,463
Less: Aircraft operating lease costs multiplied by 0.67	<b>(595)</b>	(509)	(463)
Less: Depreciation charge for fleet assets multiplied by inflation adjustment	<b>(1,133)</b>	(1,231)	(1,277)
Less: Depreciation charge for other property, plant and equipment	<b>(140)</b>	(153)	(162)
	<b>3,219</b>	2,688	2,561
<b>Invested capital</b>			
Fleet book value excluding progress payments	<b>9,275</b>	9,930	11,090
Inflation adjustment <sup>1</sup>	<b>1.23</b>	1.21	1.16
	<b>11,374</b>	12,048	12,883
Net book value of other property, plant and equipment	<b>1,613</b>	1,683	1,798
Aircraft operating lease costs multiplied by 8	<b>7,104</b>	6,072	5,520
	<b>20,091</b>	19,803	20,201
<b>Return on Invested Capital</b>	<b>16.0%</b>	13.6%	12.7%

1 Presented to two decimal places and calculated using a 1.5 per cent inflation rate over the weighted average age of the on balance sheet fleet (2017 13.7 years; 2016 12.9 years). This calculation was revised in 2016 to reflect the average age of on balance sheet aircraft, weighted based on market reference prices for replacement aircraft in USD. 2015 calculation was based on the accumulated depreciation and current year fleet depreciation as a proxy for weighted average age but was impacted by the foreign exchange fluctuations in period end book values and date of acquisition by the airline versus manufacture date.

2 In 2015, the definition of invested capital excluded all progress payments. 2015 comparatives have not been restated. 2015 comparatives include annualised operating profit, rental charges and depreciation charges for Aer Lingus.

### Adjusted net debt to EBITDAR

Adjusted net debt is calculated as long-term borrowings, less cash and cash equivalents and other current interest-bearing deposits, plus annual aircraft operating lease costs multiplied by 8. This is divided by EBITDAR to arrive at adjusted net debt to EBITDAR. 2015 has been adjusted to include annualised results for Aer Lingus.

€ million	2017	2016	2015
Interest-bearing long-term borrowings	<b>7,331</b>	8,515	8,630
Cash and cash equivalents	<b>(3,292)</b>	(3,337)	(2,909)
Other current interest-bearing deposits	<b>(3,384)</b>	(3,091)	(2,947)
<b>Net debt</b>	<b>655</b>	2,087	2,774
Aircraft operating lease costs multiplied by 8	<b>7,104</b>	6,072	5,736
<b>Adjusted net debt</b>	<b>7,759</b>	8,159	8,510
<b>EBITDAR</b>	<b>5,087</b>	4,581	4,463
<b>Adjusted net debt to EBITDAR</b>	<b>1.5</b>	1.8	1.9



### Adjusted gearing

The Group monitors capital on the basis of the adjusted gearing ratio. Adjusted gearing is defined as adjusted net debt divided by adjusted net debt and adjusted equity and is expressed as a percentage. Adjusted equity is reported equity adjusted for the cumulative charge to reserves following the amendment to IAS 19 'Employee benefits' accounting standard, up to a maximum of €2,077 million, representing the adjustment to equity on adoption of the amendment to the standard.

€ million	2017	2016	2015
<b>Adjusted net debt</b>	<b>7,759</b>	8,159	8,510
Equity	<b>7,396</b>	5,664	5,534
IAS 19 cumulative charge to reserves (post-tax)	<b>2,077</b>	2,077	1,794
<b>Adjusted equity</b>	<b>9,473</b>	7,741	7,328
<b>Adjusted net debt plus adjusted equity</b>	<b>17,232</b>	15,900	15,838
<b>Adjusted gearing</b>	<b>45%</b>	51%	54%

### Equity free cash flow

Equity free cash flow is EBITDA less cash tax, cash interest paid and received and cash capital expenditure net of proceeds from sale of property, plant and equipment and intangible assets. EBITDA is calculated as operating profit before exceptional items, depreciation, amortisation and impairment.

€ million	2017	2016	2015
<b>Operating profit before exceptional items</b>	<b>3,015</b>	2,535	2,335
Depreciation, amortisation and impairment	<b>1,184</b>	1,287	1,307
<b>EBITDA</b>	<b>4,199</b>	3,822	3,642
Interest paid	<b>(122)</b>	(185)	(197)
Interest received	<b>29</b>	37	48
Tax paid	<b>(237)</b>	(318)	(245)
Acquisition of property plant and equipment and intangible assets	<b>(1,490)</b>	(3,038)	(2,040)
Proceeds from sale of property, plant and equipment and intangible assets	<b>306</b>	1,737	273
<b>Equity free cash flow</b>	<b>2,685</b>	2,055	1,481

## Operating and financial statistics

Total Group operations		2017	2016	2015 <sup>1</sup>	2014	2013
<b>Traffic and capacity</b>						
Available seat km (ASK)	million	<b>306,185</b>	298,431	272,702	251,931	230,573
Revenue passenger km (RPK)	million	<b>252,819</b>	243,474	221,996	202,562	186,304
Cargo tonne km (CTK)	million	<b>5,762</b>	5,454	5,293	5,453	5,653
Passengers carried	'000	<b>104,829</b>	100,675	88,333	77,334	67,224
Sold cargo tonnes <sup>2</sup>	'000	<b>701</b>	680	661	677	711
Sectors		<b>717,325</b>	708,615	660,438	599,624	538,644
Block hours	hours	<b>2,100,089</b>	2,067,980	1,867,905	1,712,506	1,573,900
<b>Operations</b>						
Average manpower equivalent		<b>63,422</b>	63,387	60,862	59,484	60,089
Aircraft in service at year end		<b>546</b>	548	529	459	431
Aircraft utilisation - Longhaul (average hours per aircraft per day)	hours	<b>13.5</b>	13.5	13.5	13.5	13.3
Aircraft utilisation - Shorthaul (average hours per aircraft per day)	hours	<b>8.9</b>	8.8	9.1	8.8	8.4
Punctuality - within 15 minutes	%	<b>81.8</b>	77.2	80.2	80.9	79.2
Regularity	%	<b>99.1</b>	99.3	99.4	99.5	99.0
<b>Financial</b>						
Passenger revenue per ASK (PASK)	€cents	<b>6.61</b>	6.68	7.46	7.08	7.05
Passenger revenue per RPK	€cents	<b>8.01</b>	8.18	9.16	8.80	8.73
Cargo revenue per CTK	€cents	<b>18.81</b>	18.74	20.67	18.19	18.98
Total revenue per ASK (RASK)	€cents	<b>7.50</b>	7.56	8.38	8.01	8.10
Average fuel price (\$cents/US gallon)		<b>170.11</b>	133.38	175.86	300.16	314.15
Fuel cost per ASK	€cents	<b>1.51</b>	1.63	2.23	2.38	2.58
Operating profit before depreciation, amortisation and rentals (EBITDAR)	€million	<b>5,087</b>	4,581	4,301	3,137	2,258
Total operating expenditure excluding fuel per ASK (CASK ex. fuel)	€cents	<b>5.01</b>	5.08	5.30	5.08	5.18
Operating margin	%	<b>13.1</b>	11.2	10.2	6.9	4.1
Lease adjusted operating margin	%	<b>14.4</b>	12.3	11.2	7.8	5.0
Total operating expenditure per ASK (CASK)	€cents	<b>6.52</b>	6.71	7.53	7.45	7.77
Dividend cover	times	<b>4.0</b>	4.0	3.8	n/a	n/a
Interest cover	times	<b>16.5</b>	10.8	8.2	6.4	2.8
Net debt	€million	<b>655</b>	2,087	2,774	1,673	1,489
Equity <sup>3</sup>	€million	<b>9,473</b>	7,741	7,328	3,793	4,216
Adjusted gearing	%	<b>45</b>	51	54	51	50
Adjusted net debt to EBITDAR	times	<b>1.5</b>	1.8	1.9	1.9	2.5
<b>Exchange rates</b>						
Translation - weighted average	£:€	<b>1.14</b>	1.21	1.39	1.25	1.17
Transaction	£:€	<b>1.14</b>	1.21	1.40	1.25	1.16
Transaction	€:\$	<b>1.14</b>	1.11	1.11	1.34	1.32
Transaction	£:\$	<b>1.29</b>	1.34	1.55	1.67	1.54

<sup>1</sup> Aer Lingus Group plc results have been consolidated from the August 18, 2015.

<sup>2</sup> Sold cargo tonnes are disclosed in lieu of Tonnes of cargo carried.

<sup>3</sup> Restated for amendment to IAS 19 '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 aircraft operating 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 carried that generate revenue (freight and mail) 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
Equity free cash flow	EBITDA before exceptional items less cash tax, cash interest paid and received and cash capital expenditure net of proceeds from sale of property, plant and equipment and intangible assets
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 at the balance sheet date, excluding progress payments and adjusted for inflation, plus the net book value of the remaining property, plant and equipment plus annual aircraft operating lease costs 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
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
Net Promoter Score (NPS)	The Net Promoter Score (NPS) is a metric based on survey responses to the "likelihood to recommend" question and is calculated by subtracting the percentage of customers who are 'Detractors' (score 0-6, unlikely to recommend) from the percentage of customers who are 'Promoters' (score 9-10, likely to recommend)

Operating margin	Operating 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)	EBITDAR less adjusted aircraft operating lease costs, fleet depreciation charge adjusted for inflation, and the depreciation charge for other property, plant and equipment, divided by invested capital. It is expressed as a percentage
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
Sold cargo tonnes	The number of cargo tonnes sold, including freight, courier, mail and interline
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)  
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Madrid Commercial Registrar  
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C.I.F. A85845535

### UK Branch registered address

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### Registrar

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Private shareholders: [shareholder.services@iairgroup.com](mailto:shareholder.services@iairgroup.com)

### American Depositary Receipt program

IAG has a Sponsored Level 1 American Depositary 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 depositary bank.

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### Financial calendar

Financial year end: December 31, 2017

Q1 results: May 4, 2018

Half year results: August 3, 2018

Q3 results: October 26, 2018

Other key dates can be found on our website:  
[www.iairgroup.com](http://www.iairgroup.com)

### ShareGift

UK shareholders with a small number of shares may like to consider donating their shares to charity under ShareGift, administered by Orr Mackintosh Foundation. Details are available from the UK Registrar.

Certain statements included in this report are forward-looking 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.

