INTERNATIONAL AIRLINES GROUP

The **best** is yet to come

Annual report and accounts

2016

Contents

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:

"2016 was a challenging year but we've delivered a good result. There's still more that we can do, and quite honestly, **the best is yet to come**. There are still improvements that we can make and efficiencies that can be delivered."

Willie Walsh
Chief Executive Officer

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.

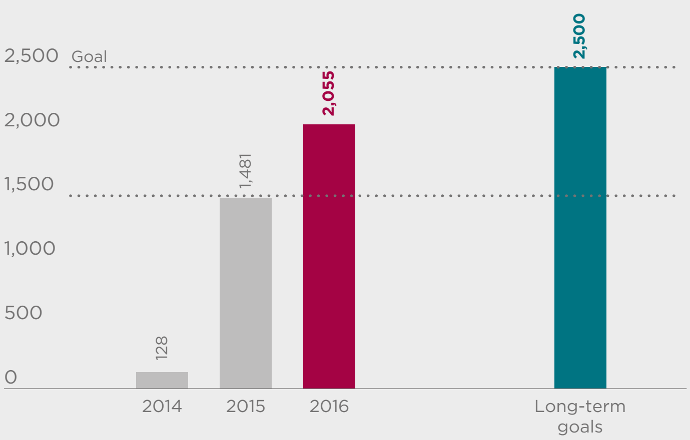
Financial highlights

Delivering good results towards our long-term goals

Despite the challenging environment, we have made good progress toward achieving our long-term goal. Our unique Group structure has supported our group performance while promoting the value of our brands. We have been able to leverage our brands effectively in different market segments. We will build on our progress and continue to invest while reaping further benefits from the IAG platform.

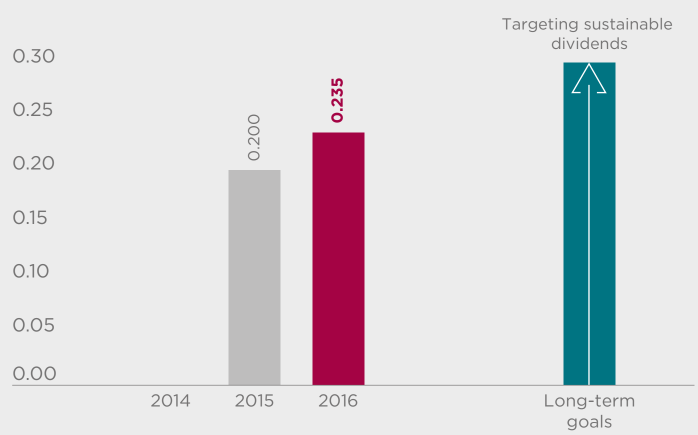
Equity Free Cash Flow (€m)

+€574 million vly

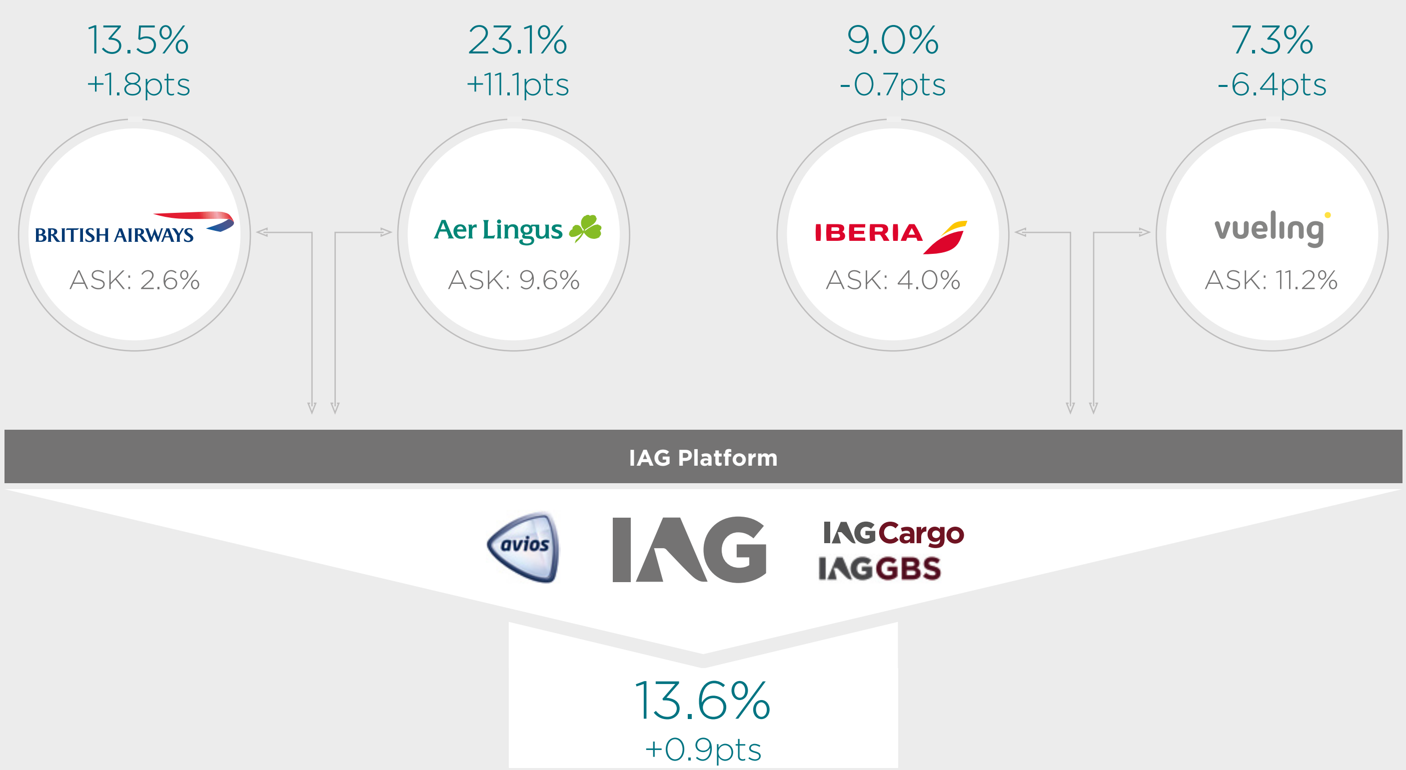


Total dividend per share[1] (€)

+17.5% vly



RoIC[2]



1 2016 includes recommended final dividend of €12.5 cent per share.
2 Definition included in Alternative performance measures section. The comparison to 2015 includes the annualised results of Aer Lingus.

A firm focus on long-term growth and sustainable returns

"A very warm welcome to our sixth Annual Report which charts the start of a new phase in our journey to secure a sustainable and profitable future for our airlines and for International Airlines Group as a whole."

Antonio Vázquez
Chairman

2016 was a challenging year for our business but one where once again we proved that the IAG business model continues to be resilient and highly effective.

Our airlines carried over 100 million people last year, double the number of passengers we carried when British Airways and Iberia merged six years ago. Although our results were hit by the Brexit vote and the subsequent sharp fall in the pound, we were still able to report an impressive operating profit of €2.5 billion on revenues of €22.6 billion.

On the morning after the UK Referendum we updated the market on the likely short-term impact on our results.

Despite the significant impact our share price suffered, we were able to re-assure the financial community at our Capital Markets Day in November that our long-term financial targets remain largely unchanged – an investment grade message that was well received.

I believe investors understand that this business is being carefully and skilfully managed to achieve its promises on long-term growth and sustainable shareholder returns.

We were delighted once again this year to honour our commitment to pay dividends. In addition, we intend to carry out a share buyback of €500 million during the course of 2017, further increasing cash returns to our shareholders. We are a cyclical industry where volatility – fuel price, terrorism, weather, politics – is a fact of life. I am so proud that IAG is managing these challenges so well that it can commit to a sustainable dividend policy as companies in more stable sectors do.

Brexit has so far provided few certainties. We expect the button will be pushed on Article 50 in March, commencing two-years of divorce negotiations. Beyond that very little is visible.

For our industry the big question is the future of the single market for aviation in Europe. I trust that geography, safety, security, consumers' interests, and those of our whole society to cut emissions, will prevail over politics or short-term interests.

Consolidation is in our DNA. Controls on foreign investment and competition regulations means that acquisition opportunities are relatively rare. But we have the resources and a uniquely flexible 'plug-in and play' system to fit new independent airline brands into our existing hub of equities, with the promise of huge and proven cost synergies when they do.

Alliances and joint business arrangements are also very important and we're delighted that British Airways and Qatar have launched a joint business while a similar tie up between Latam, Iberia and British Airways is awaiting clearance. They will provide great opportunities in the Middle East and South America.

2016 also saw our industry sign up to the world's first truly global carbon offsetting scheme at the 39th International Civil Aviation Organisation assembly – something we have long campaigned for.

Our industry – which contributes about 2 per cent of global CO_2 emissions –has agreed to halve emissions by 2050 and to grow in a carbon neutral way from 2020, despite expected strong growth in passenger traffic. It's a huge challenge, but one IAG intends to lead on.

At the end of an eventful year I would like to thank people across the Group who work every day to make IAG such a successful business. I also thank shareholders for their continued support.

I hope after reading this report you will all share my strong conviction that the Group is very well placed to achieve sustainable profitable growth in the years to come. These are complex but very exciting times.

Antonio Vázquez
Chairman

With Chief Executive Officer Willie Walsh

IAG had a very strong year in 2016 despite some significant external challenges. Here Chief Executive Officer Willie Walsh explains how the business is tackling those short-term issues while keeping a firm and confident focus on the long-term sustainability of IAG.

Willie Walsh
Chief Executive Officer

Q What impact has the UK's EU referendum had on IAG's financial performance in 2016?

A The result of the Referendum vote on June 23 had three very specific impacts on our business.

The first comes because we report our results in euros but we've got a very big sterling revenue and profit base thanks to British Airways. When we translate that sterling profitability into euros it's now being done at a much lower rate, following the sharp fall in the pound.

The second impact is that we have a lot of dollar expenses – it's the currency we use to buy fuel and aircraft, for example. With the devaluation of both the pound and the euro against the dollar it makes those dollar-related costs more expensive.

The third impact became obvious to us in the lead up to the Referendum. There was a slowdown and softening in UK corporate activity as business people were, temporarily, travelling a bit less.

So the combination of those three factors – the translation impact of a weak pound, the transaction impact of the pound and euro losing value against the dollar, and softer bookings from UK companies – have hit our euro-reported profitability.

See pages 35 for more about the impact of UK Referendum vote to leave the EU.

Q How is IAG generating returns in the current economic environment?

A Global growth has certainly slowed down in 2016 and is, I think, likely to stay at a similar level in 2017.

In spite of that, we remain pretty optimistic about the global economic environment and I think some areas of weakness in 2016 – like Brazil, an important market for IAG – will show signs of recovery in 2017.

But we do have to acknowledge that we're going to be growing capacity at a lower rate in the immediate future and that means we need to focus on the profitable areas of our business and, crucially, continue to improve our cost performance.

We're also continuing to innovate and looking to take advantage of new markets. We're launching new longhaul flights out of Barcelona, for instance. "Longhaul, low-cost" is the label everybody is putting on this new initiative, but what we are talking about is a new transatlantic longhaul service out of Barcelona, using a new way of operating which responds directly to changing consumer demands.

Barcelona is a superb base for this because it is fed by Vueling's shorthaul network. That, we think, is an essential pre-requisite for any successful low-cost, longhaul operation and other carriers in the market agree. We will also consider other locations in Europe for these flights in due course.

So I think IAG needs to continue to be both flexible and disciplined, and we are very well placed to do that.

We need to recognise that we're not going to be able to rely on strong economic growth. We need to take all of our investment decisions very carefully to make sure we make a sensible return.

See pages 34 – 35 for more about the economic landscape

And, importantly, we have to remain focused on the financial viability and sustainability of IAG, balancing that short-term profitability against the long-term needs of the business.

Q What will be the impact of a Heathrow third runway on your business?

A The UK Government decided in October 2016 to support the expansion of Heathrow with a third runway. But I'm pleased to say that support comes with conditions.

The most important condition, from our point of view, is that the project will only proceed if the cost for consumers remains flat. That's very important for us.

We've got to look at an expanded Heathrow as an opportunity for IAG. But that will only be true if the costs of that expansion can be carried out in a sensible way so that we're not required to foot a disproportionate amount of the bill and consumers, in general, aren't forced to pay more for the operation of Heathrow.

There are also significant environmental challenges that will need to be tackled before expansion can go ahead.

So there are a lot of challenges that need to be overcome. But, overall, I'm quietly optimistic we will see the right result in the end.

See page 10 for more about the third runway at Heathrow

Q How will the Hangar 51 start-up accelerator benefit IAG?

A The Hangar 51 start-up accelerator is a really exciting development for IAG.

We recognise there are fantastic developments in the digital sphere. We want to be up to speed with those developments not only because some of these innovations could challenge and disrupt our business, but also because we want to identify technologies that will transform and enhance the way we work.

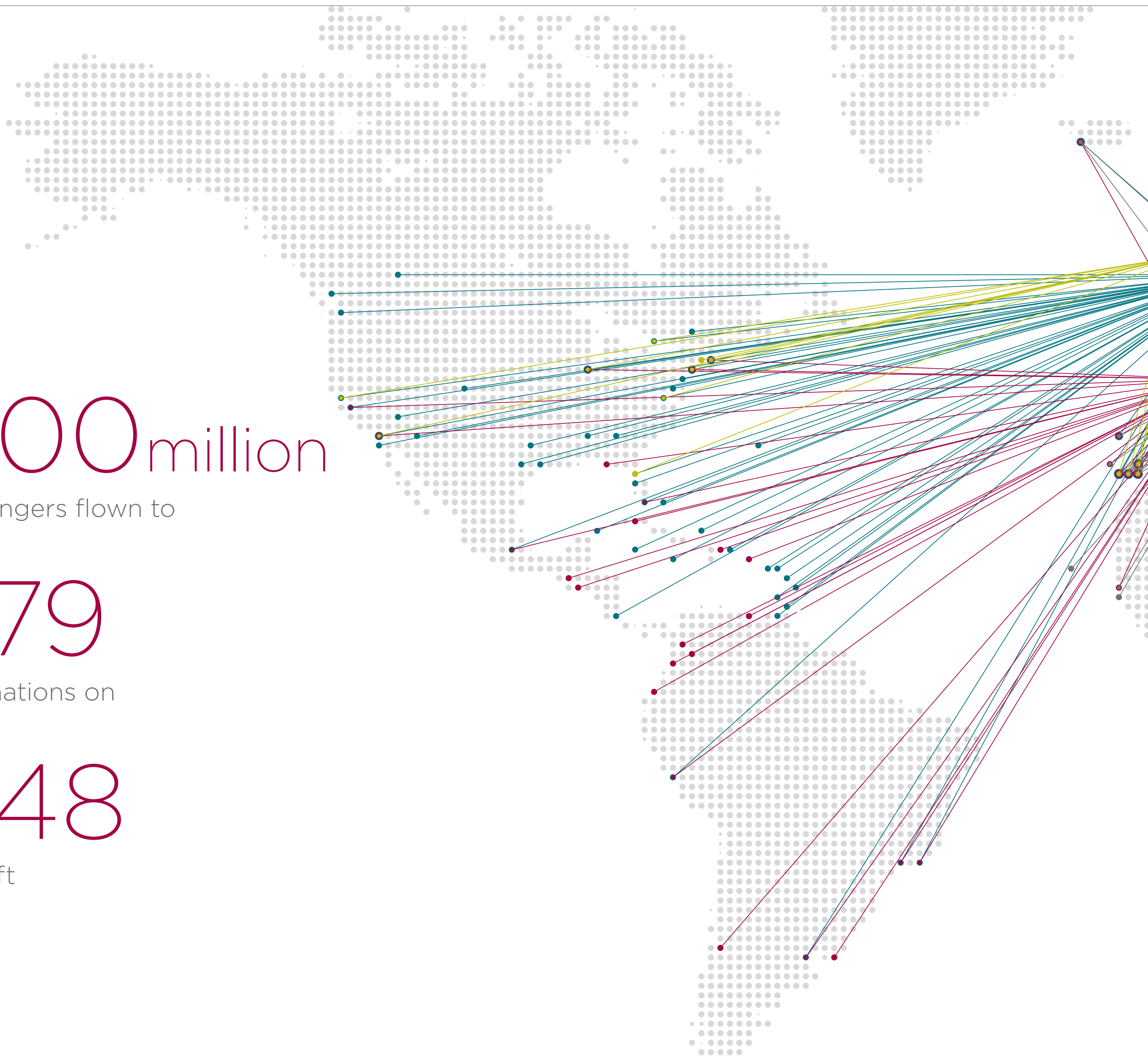
So we've tapped into the best and brightest developers out there and we've got them working inside IAG to see if we can take advantage of some of their great ideas. If we can, we will use those ideas to change the way we operate, for the benefit of our business and, more importantly, for the benefit of our customers.

I think this is going to be really exciting to watch.

See page 26 for more about our digital transformation initiative

Watch the full interview on our website **www.iairgroup.com**

Our business around the world



+100 million

passengers flown to

279

destinations on

548

aircraft

Our brands

BRITISH AIRWAYS

See pages 18 – 19 for more about British Airways

IBERIA

See pages 20 – 21 for more about Iberia

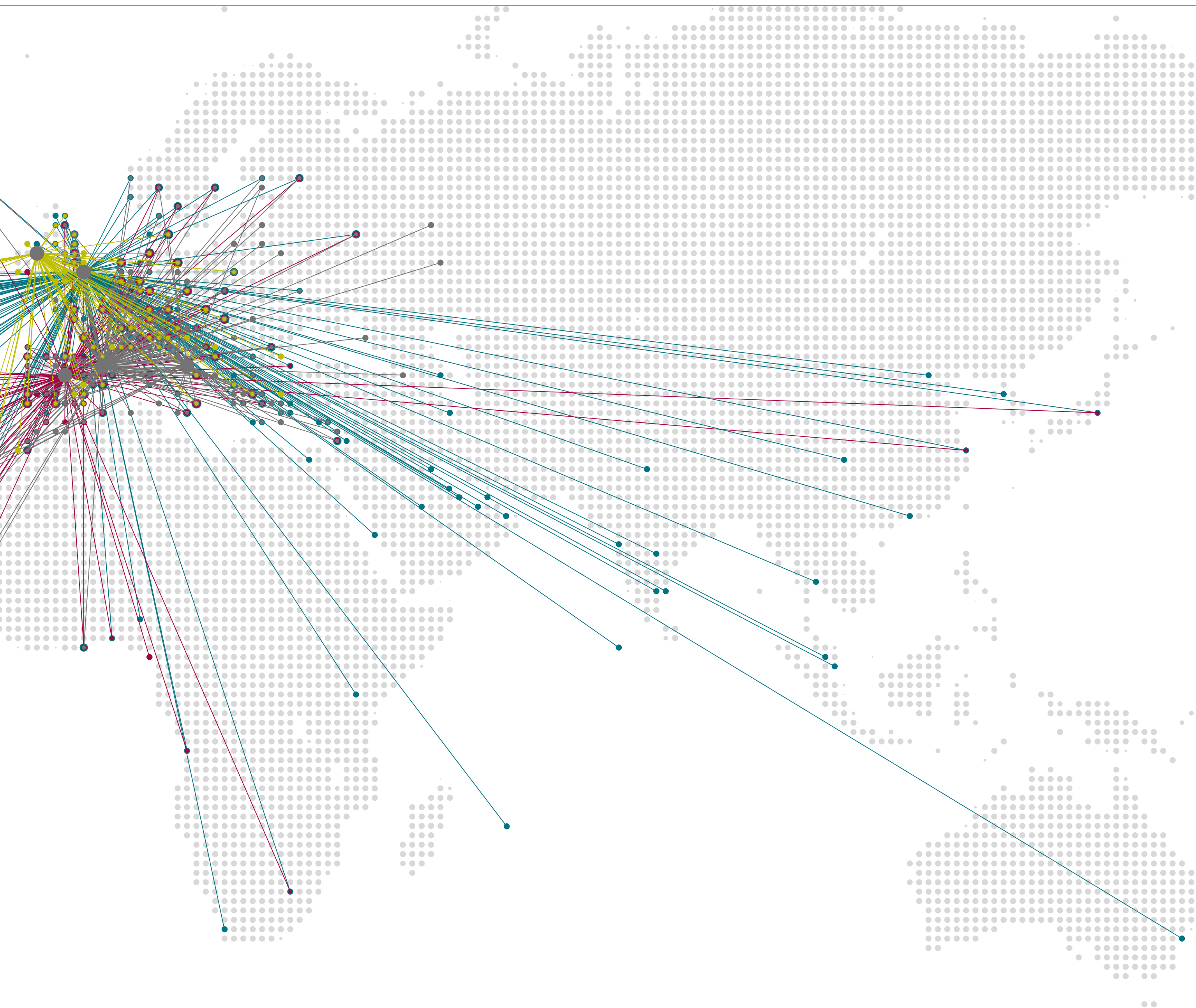
vueling

See page 22 for more about Vueling

IAG combines the leading airlines in the UK, Spain and Ireland.

The airlines' customers benefit from a larger combined network for both passenger and cargo.

See pages 12 – 13 for more about our strategic objectives



Aer Lingus

See page 23 for more about Aer Lingus

See page 24 for more about Avios

IAG Cargo

See page 25 for more about IAG Cargo

Ensuring the long-term viability of the business

"2016 was a good year for IAG even though the external impact of the Brexit vote and the subsequent sharp fall in the pound took the shine off our results. Nevertheless, we are very confident about the future and convinced the best is yet to come."

Willie Walsh
Chief Executive Officer

In 2016 we continued to build on all the tremendous progress we have made in the six years since IAG was first formed and I think we can feel both proud of our achievements to date and very confident about the long-term future of this business.

The year was not without its difficulties, of course, and a number of external factors took the gloss off what was otherwise another powerful performance by the Group, none more so than the unexpected UK vote to leave the EU and the subsequent sharp fall in the value of the pound.

The impact of Brexit led us to conclude that we wouldn't be able to deliver on our euro profit targets for the year and on the morning after the vote we updated the market, which had a big impact on our share price.

During the year we looked for ways to counteract that impact, but the scale of it was significant and we did not have the capacity to offset it completely.

The plain fact is no company can control exchange rates. Although we do hedge against fluctuations in our transactional costs, we do not and would not hedge against translation to our reporting currency – that is something that the investment community has to factor into its assessments of our performance.

As a result of these factors we reported a full year operating profit of €2.5 billion compared with €2.3 billion in 2015. Although that outcome is below our expectations, I believe it is still a very strong result given the considerable turbulence we faced during the year and it's one which we can still be very proud of.

The long-term impact of Brexit

The Brexit vote has created uncertainty and uncertainty is never welcome. But longer term we do not think it will undermine the fundamental strength of our business.

Indeed, we've already seen bookings by UK companies stabilise. I think there is a genuine political will to make the UK a strong independent trading country, a goal I've no doubt will be achieved. People will continue to fly for business, for leisure and to visit friends and family, so the core of our business will not only remain strong but will continue to grow.

There are regulatory issues to be addressed and, as the Chairman has indicated, many of these will not become clear until the precise terms of Brexit are agreed and new arrangements are in place.

But I do think there is a common interest on both sides of the Atlantic in maintaining an "Open Skies" environment between the UK and the US and I fully expect a new agreement to be put in place once the current EU agreement with the US comes to an end after Brexit.

There is some more doubt over the future of the deregulated aviation market within Europe. This is a real issue for carriers operating intra-EU services, but not one for British Airways as all its flights are to and from the UK.

But it's important to say we are not seeking competitive advantage from this situation. We would never encourage the UK Government to take a protectionist stance. Deregulation has delivered huge benefits for consumers and I believe politicians should and will act rationally to protect those benefits. Preserving the current liberalised market is the right way forward.

Operating highlights

British Airways continues to develop well. Its core business is robust and it is responding to customer demands very effectively. Some of its stiffest challenges are now coming from new competitors rather than traditional carriers. For example, Norwegian's low-cost, longhaul operation at Gatwick required a competitive response from British Airways, which they've done and done very well, expanding our transatlantic operations out of that airport.

As promised, British Airways continued to open up new routes during the year, launching services to San Jose, California, San Jose, Costa Rica, Lima, Santiago de Chile and Tehran. Plans for a new service to New Orleans have also been announced.

We still have ambitions to expand in China and remain optimistic, but we face some challenges there. These mostly relate to UK visa policy, where Chinese visitors continue to face steep costs and bureaucratic delays. For that reason the financial performance of British Airways' Chengdu route has been disappointing and, sadly, we had to suspend the service during the year.

We're very proud of what Iberia has achieved through its *Plan de Futuro* business transformation programme and I say this everywhere I go. Iberia's turnaround is a fantastic example of genuine transformation at every level – from cost base, to operating performance, brand strength and customer satisfaction. The people at Iberia have done a truly great job.

The difficulties it faced during the year related mostly to macroeconomic factors in key markets. Latin America was much softer, for instance. Brasil was particularly difficult and, given the size of its economy, there were inevitable ripple effects across the region forcing many other carriers to cut capacity.

On the positive side it was terrific to see Iberia move into Asia with services to Shanghai and Tokyo. That ambition would have been inconceivable a few years ago and I have to admit I thought it would take them a lot longer to achieve. It just proves what tremendous opportunities are open to you when you transform a business so deeply.

Iberia still has more work to do on cost and the management team have now launched *Plan de Futuro II* to do just that. It's really good news that these further changes are being undertaken with consensus. Change is no longer seen as something to fear within Iberia, but something to be debated and embraced.

Of all the Group's airlines, Vueling had the most challenging year operationally and its profitability suffered as a result. The biggest disruption came from a long series of summer strikes by French air traffic controllers. These hit Vueling harder than most given that some 70 per cent of its flights to and from Barcelona pass through French airspace.

Given those difficult circumstances, I think the new management team at Vueling has been fantastic. They've faced up to the challenges, been honest about the issues confronting them and have not shied away from mistakes that were made internally. The new team has re-established the airline's operational performance, and is making the network more resilient.

The current year will be about stabilising and consolidating Vueling's position. It will be a year of financial growth with less dramatic increases in capacity. But I want to be clear - this is a great airline with a great future and we are absolutely committed to it.

2016 marked the first full year for Aer Lingus within the Group and I'm delighted to say it had a fantastic year.

That was not a surprise to us. We clearly believed the potential was there when we brought Aer Lingus into IAG. The management team have done an excellent job and the integration into IAG has been seamless.

It was a particularly strong year for Aer Lingus' transatlantic network as it exploited its geographic position and its ability to use the Dublin hub to grow, helped too by some one off events including the 1916 centenary celebrations - a big event in Ireland and one that attracted a lot of US interest and traffic.

Capitalising on this growth, the airline has launched a number of new US routes including Los Angeles, Newark and Hartford, Connecticut – the latter proving that there is a very good business to be built by serving what some would describe as a "secondary" US city.

The challenge for Aer Lingus is to remain cost-competitive at a time of increasing competition. A lot of carriers are operating transatlantic services into and out of Ireland and we expect that competition to grow. But Aer Lingus has a very strong brand and I've no doubt it can continue to build on its strong position.

Cargo continues to make an important financial contribution to the Group. While its market continues to suffer a structural imbalance between supply and demand, we have adjusted to that reality better than most. We've reduced our exposure to dedicated freighter aircraft and have focused on the specialist, premium end of the market such as shipping pharmaceutical products.

Continued innovation

As mentioned previously, Hangar 51 – the digital start-up accelerator we launched in January 2017 – has been a fascinating programme for IAG.

But we also continue to look for other innovative ways to create value. Our Global Business Services (GBS) operation in Krakow, Poland, is a case in point and I was so impressed with the quality of people in the GBS team when I visited them for the first time during the year.

GBS plays an important role in ensuring we have a competitive cost base and an efficient structure that can support all of our current airlines and, if the right opportunity comes along, any new acquisitions we might make. Its importance will only continue to grow as we expand.

Heathrow expansion

We are delighted that both the Government and the Civil Aviation Authority have said that expansion at Heathrow must not lead to increases in airport charges.

That's a case we've made very strongly in the last 12 months and I'm pleased that ministers and the regulator agree. Whether or not the airport operator has fully understood that condition remains to be seen, so we will challenge them all the way. Its current £17.6 billion cost estimate for the project is completely unacceptable because that level of cost cannot be borne without an increase in charges that would hit our customers – something we will not accept.

There is a long way to go on this and it could be 10 or even 20 years before a new runway is complete. If it is done at a sensible price, however, it will be an opportunity for IAG that we will take advantage of.

A sustainable business

At our capital markets day in November we restated our financial targets for 2020 using a set of metrics that has gradually evolved since we presented them at our first investor day in November 2011.

In our latest targets we have adjusted our expectations on capacity growth, EBITDA and capital expenditure, but, despite the challenges we've faced in 2016, have kept targets on return on invested capital, operating margin, average earnings per share growth and equity free cash flow unchanged.

This, I think, clearly demonstrates how confident we are that we have created a business that is structured to deliver long-term, sustainable financial results.

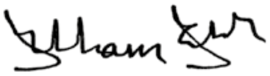
To do so we must balance long-term returns with short-term profitability, invest wisely in areas that will generate good returns and re-enforce our brands, and, above all, remain both flexible and disciplined in our approach.

We can't become complacent and we won't become complacent. We know why we are here. Our job is to secure the long-term viability of this business.

It won't always be a smooth ride. As in 2016, there will be turbulence to go through - that is the nature of our business.

But our ability to respond to such challenges is much greater today than five years ago and utterly different to where our individual airlines stood 10 years ago.

For that reason, I remain absolutely confident about the future and convinced that the best is yet to come.



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.

Stephen Kavanagh
Chief Executive Officer of Aer Lingus

Javier Sanchez Prieto
Chairman and Chief Executive Officer of Vueling

Ignacio de Torres Zabala
Director of Global Services

Alex Cruz
Chairman and Chief Executive Officer of British Airways

Andrew Crawley
Chief Executive Officer of IAG Cargo

Julia Simpson
Chief of Staff

Luis Gallego Martin
Chairman and Chief Executive Officer of Iberia

Robert Boyle
Director of Strategy

Chris Haynes
General Counsel

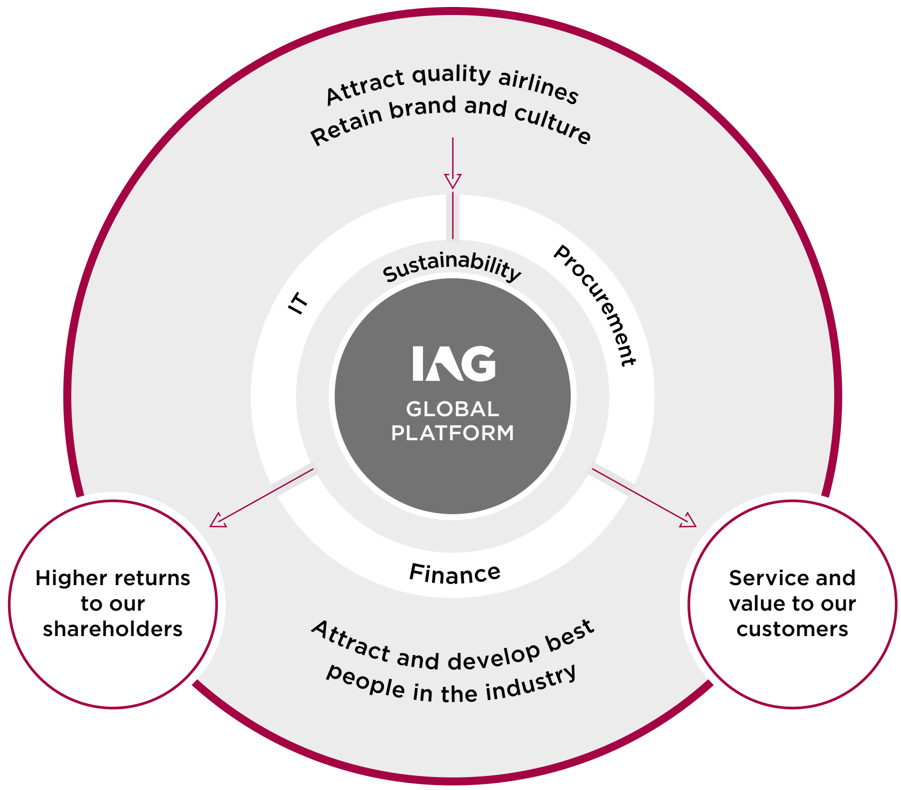
Executive Directors not pictured: Willie Walsh, Chief Executive Officer; Enrique Dupuy de Lôme, Chief Financial Officer.

See page 56 for our Board of Directors.

For a full biography of each member please visit www.iairgroup.com

Maximising value across the Group portfolio

IAG's business model has been designed to maximise sustainable value creation for both shareholders and customers. The Group structure provides a common integrated platform to drive Group strategy and synergies while at the same time enabling operating companies to maintain their unique identities and optimise performance in their respective markets.



Unique operating companies

The Group portfolio enables IAG to provide distinctive propositions across different markets and customer segments with the ability to respond rapidly to changing market dynamics. Each operating company has its own unique profile and brand positioning and retains the independence to manage evolving challenges within their respective markets. The Group structure and governance have been designed to allow IAG to set targets and oversee performance while maintaining profit accountability at the operating company level.

Common integrated platform

IAG continues to develop its integrated platform which enables Group operating companies to share best practices effectively, generate efficiencies and create standardised processes. The integrated platform provides cost effective and rapidly scalable systems that support simplification and drive ongoing cost efficiency along with revenue improvement opportunities and enhanced service delivery. Through a partnering approach with the operating companies, IAG's Global Business Services (GBS) continues to drive significant cost improvements and deliver high quality outcomes for the business through centralised and enhanced back office functions.

Moving beyond centralisation of standard functions such as IT, Procurement and Finance, IAG's integrated platform supports additional Group revenue generation and customer loyalty through its shared global reward currency, Avios and through IAG Cargo.

Further enhancement of IAG's integrated platform is actively supported by IAG Digital which works across critical business areas to identify, evaluate and implement digital disruption opportunities that drive both step changes in efficiencies and generate greater value through new services and products.

Industry consolidation

IAG believes that airline consolidation will continue to be a critical enabler for sustainable industry improvements on both a European and a global scale and is continually evaluating acquisition and partnership opportunities that could enhance the Group portfolio. IAG is deliberately structured to enable the Group to assess and develop acquisition opportunities without unnecessarily distracting the operating companies from executing their business objectives.

See pages 12 – 13 for how we are achieving our goals.

Six core strategic objectives

1
Leadership in IAG's main cities

We achieve this by

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

Our performance in 2016

2016 saw a range of political and economic disruption across key IAG markets, resulting in a softening of underlying demand coupled with high overall industry growth. IAG's operating companies have adapted to the new market environment by adjusting capacity, accelerating cost reduction programmes and leveraging technology and ancillary revenue opportunities to improve performance.

IAG has continued to strengthen its leadership position in its main cities by focusing on profitable markets from Barcelona, Dublin, London, Madrid and Rome adding a total of 19 new destinations in 2016.

Aer Lingus has looked to enhance its leadership position with 11 per cent Dublin capacity growth focused on longhaul destinations.

IAG has also continued to enhance its position in London through expansion of operations into new airports with Vueling opening four new routes from Luton, and Cityflyer commencing operations from Stansted.

2
Leadership across the Atlantic

We achieve this by

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

Our performance in 2016

As in IAG main markets, economic, political and security concerns continued to negatively impact underlying transatlantic demand in 2016. These concerns included: ongoing economic instability in Latin America, particularly in Brasil, political uncertainty across Europe following the UK's Referendum vote to leave the EU and the Presidential election in America.

At a currency level, the pound sterling depreciated 16.3 per cent against the US dollar and 13.6 per cent against the euro. Security concerns resulting from European terrorism events have also had significant impact on transatlantic performance with a softening of US originating traffic to Europe.

In response to changing market dynamics, IAG has adjusted its capacity plans to focus on the most attractive return opportunities. IAG's newest member airline, Aer Lingus, continued to strengthen its leadership position into North America, launching three new routes to Los Angeles, Newark, New Jersey and Hartford, Connecticut. British Airways also expanded its transatlantic operations, launching three new destinations: Lima, Peru; San Jose, Costa Rica; and San Jose, United States, and a new service from London Gatwick to New York JFK, while Iberia reintroduced its service to San Juan, Puerto Rico.

3
Stronger Europe-to-Asia position in critical markets

We achieve this by

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

Our performance in 2016

IAG has continued to expand its presence into Asian markets with the reintroduction of Iberia services in 2016. Iberia launched two new services to Shanghai and to Tokyo after withdrawing from the region in 1998. Iberia's new Tokyo service is supported by Japan Airlines through incorporation into the pre-established Siberian Joint Business.

British Airways maintained growth into Asia with 4 per cent higher capacity driven by the full year of operations into Kuala Lumpur, increased frequency into Shanghai and increased utilisation of the higher gauged Airbus A380 aircraft into Singapore.

IAG's Europe to Asia proposition was further strengthened by the launch of a new Joint Business with Qatar, enabling greater IAG network reach and an expanded product offering into the Middle East, Asia and East Africa.

IAG Cargo also continued to expand its Asian network options by introducing China Southern as a new partner in the Partner Plus Programme.

See pages 14 – 15 for more about our performance indicators.

4

Grow share of Europe-to-Africa routes

We achieve this by

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

Our performance in 2016

Volatility continued across Africa in 2016 with ongoing geopolitical issues and suppressed commodity prices impacting traffic between Europe and Africa.

North and West African nations were the most impacted by these issues and, as a result, IAG has proactively reduced its capacity into a number of destinations including Angola, Nigeria, Morocco, Tunisia and Uganda.

In South Africa, IAG has continued to enhance its network with the reintroduction of Iberia's service to Johannesburg (after an absence of three years) along with greater British Airways frequencies on the Airbus A380 into Johannesburg and the launch of a new London Gatwick service to Cape Town.

5

Stronger intra-Europe profitability

We achieve this by

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

Our performance in 2016

IAG has continued to improve intra-European profit performance despite the impact of multiple external events (including terrorist acts, air traffic controller strikes) and Vueling's operational disruption during the summer peak. The Group has achieved this through a range of initiatives covering customer satisfaction, operational delivery, revenue optimisation and cost control.

Vueling's summer disruption in Barcelona had an impact on its full year performance. After a comprehensive review, Vueling's management has introduced a number of critical changes, including network rationalisation and overhaul of the airline's fleet and crew basing strategies, to improve operational resilience.

Overall IAG intra-European capacity grew by 7 per cent in 2016, incorporating a 9 per cent increase in capacity between home markets and the launch of 74 new routes.

Commercial collaboration across the Group has also continued to strengthen with the successful integration of Aer Lingus, further expansion of the Avios loyalty proposition and partner ecosystem, and deepening of intra-group codeshares and combined marketing efforts.

6

Competitive cost positions across our businesses

We achieve this by

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

Our performance in 2016

Over the course of 2016, IAG renewed its focus on deepening and accelerating cost reduction programmes while at the same time ensuring customer value creation. At a Group level, IAG is driving the next level of efficiencies through its integrated platform within GBS (finance, procurement and IT) and maintenance. Group synergies have also moved beyond the traditional centralised functions within GBS to include IAG Digital, IAG Cargo and Avios with a clear objective to drive further efficiencies and value across the operating companies.

At the operating company level, Iberia has commenced phase II of its *"Plan de Futuro"* focusing on further improving labour productivity and reducing overhead costs. British Airways has introduced "Plan4" which includes improvement of capital efficiency and overall cost competitiveness. In Barcelona, Vueling has commenced its "NEXT" business model enhancement programme focused on operational excellence and cost discipline and, in Dublin, Aer Lingus continues to deliver a range of productivity and cost initiatives to further improve its value carrier proposition and performance.

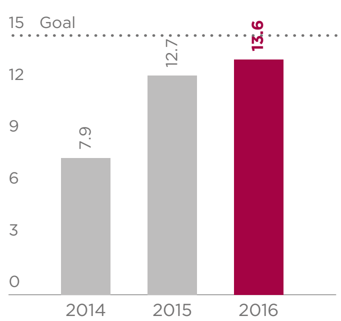
Maintaining our targets in a challenging environment

We are committed to delivering our long-term goals to reach our strategic objectives and deliver sustainable cash returns to our shareholders despite the external challenges.

Objectives

Profitability

RoIC[1] (R) (%)



Goals 2016 – 2020

Targeting sustainable

15%

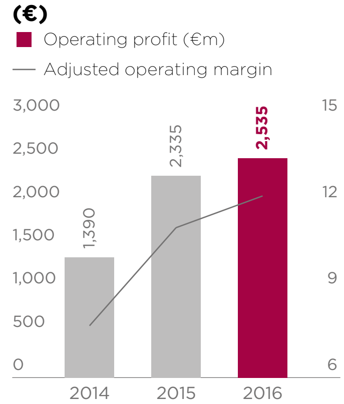
Why we measure?

We use 12 months rolling RoIC[3] as a profitability indicator to assess efficient return on the Group's asset base. It quantifies how well the airlines generate cash flow in relation to the capital invested in their businesses together with their ability to fund growth and to pay dividends.

2016 Performance

In 2016 RoIC increased 0.9 points to 13.6 per cent making progress towards our goal of 15+ per cent by 2020. The improvement was from lower capital expenditure compared to last year and improved earnings.

Operating Profit[1] (R) (€)



Adjusted operating margin

12%-15%

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

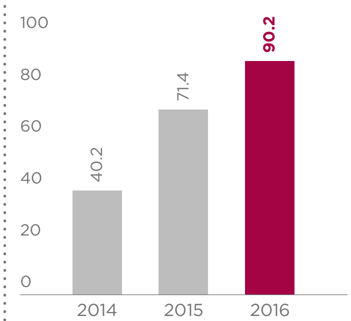
We use the operating margin ratio to measure the efficiency of our business which links with our strategic objective to reach a competitive cost position and to optimise revenues through market leadership.

The Group's operating profit, before exceptional items, improves by €200 million from last year. This increase reflects the Group's drive towards achieving a competitive cost base and from improved productivity. The macroeconomic environment was challenging; driving €460 million of adverse currency impacts with significant pressure on our passenger unit revenues.

Adjusted operating margin increased by 1.1 points to 12.3 per cent.

Efficient growth

Adjusted EPS[1] (R) (€ cents)



Growth per annum

12%+

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

We grew our adjusted earnings per share by 26.3 per cent in 2016.

Profit after tax before exceptional items grew by 29.3 per cent this year. The increase reflects a solid operating profit performance and benefits from a better non-operating cost result with the timing of derivative revaluations and one time profits on fleet transactions.

(R) Measure directly linked to remuneration of Management Committee.

The performance indicators presented in this report are the measures used to assess and monitor the Group's performance against our long-term planning goals[2].

We evaluate opportunities based on the strategic objectives of the Group and using the performance indicators to identify and generate sustainable value for our shareholders.

The IAG Management Committee reviews individual business plans of the operating companies and sets stretching annual financial targets for each operating company to support the delivery of the Group's long-term goals.

These indicators influence the remuneration of the operating companies and of the IAG Management Committee.

Non-financial metrics

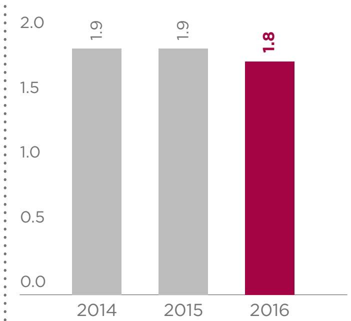
The Group measures a range of non-financial and sustainability metrics, such as the diversity of our people and the impact that our airlines have on the environment. In addition, the operating companies review non-financial measures, such as airline punctuality and customer satisfaction, which are linked to variable remuneration. These measures are reviewed regularly by the management teams of the airlines and, by exception, by the IAG Management Committee.

Customer satisfaction is an important lead indicator of the Group financial performance. The customer measure "Net Promoter Score" (NPS) will be added as a non-financial performance indicator in 2017. This measure will be used in the Group's 2017 incentive plan.

Balance sheet and cash flow

See pages 12 – 13 for more about strategy
See pages 76- 97 for more about remuneration
See pages 36 – 44 for the financial review
See the glossary on pages 222 – 223 for definition of the indicators
See pages 224 – 226 for reconciliation of the measures to the closest IFRS measure
See pages 45 – 51 for non-financial performance in our Sustainability section and see Sustainability indicators on page 227

Adjusted Net Debt to EBITDAR[1]

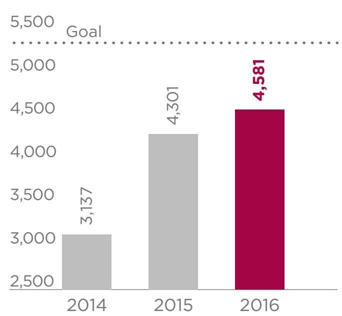


Investment grade zone

We use this measure to monitor our leverage and to assess financial headroom through the same lens as financial institutions.[3]

Adjusted net debt to EBITDAR improved to 1.8 times from an improvement in net debt and higher EBITDAR.

EBITDAR[1] (€m)



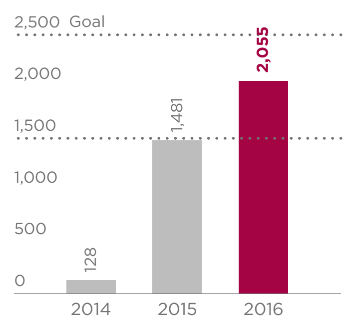
Average per annum

€5.3bn

EBITDAR 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.

The Group's EBITDAR improved by €280 million from last year contributing to increasing our core operating cash flows.

Equity Free Cash Flow[1] (€m)



Per annum

€1.5-€2.5bn

Equity free cash flow[4] is an indicator of the financial management of the business. 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.

The Group's equity free cash flow reached €2.1 billion, up €574 million versus last year.

The improvement was from stronger operating results, improving EBITDAR and from lower net capital expenditure spend as the Group focuses on its capital discipline and flexibility.

1 Before exceptional items.
2 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 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, see page 27 to 32.
3 In 2015, the full year results of Aer Lingus were included in the calculation.
4 Prior year information has been restated to reflect refinement of the definition.

Continually transforming the business

In 2016 the Group made significant progress in the development of its global platform while exploiting the opportunities created and advancing new initiatives.

IAG's initial synergy plans included the creation of a scalable platform to deliver IT, procurement and back office support functions, for new and existing airlines. The platform has moved forward with the addition of Maintenance, Repair and Overhaul (MRO), Fleet and Digital providing the Group with further sources of benefits and creating value for our shareholders.

The chart on the opposite page shows the components of the IAG platform and the status at the end of 2016.

See page 24 for more information on Avios

See page 25 for more information on IAG Cargo

See page 26 for more information on Digital

Global Business Services (GBS)

Continuing its journey toward an efficient and competitive platform

GBS leads centralised procurement, finance and IT functions on behalf of the Group. GBS aims to deliver services at market competitive costs, embedding innovative working practices and delivering a high quality of service.

Following the centralisation of processes and activities from 2013 to 2015, this year marked the beginning of transformational change. The chart below outlines the evolution of the GBS model.

Procurement

The transformation of Procurement was completed in 2016. The function is well established across the operating companies and Aer Lingus procurement was integrated into the model during the year.

Procurement delivered significant supplier savings in 2016 working closely with Digital, Fleet and other parts of the Group.

Main achievements:

- continued to leverage the scale of the Group including the integration of Aer Lingus in common supplier contracts such as media, on-board advertising and airport suppliers;
- continued working on harmonisation of fleet defining the common seat in Airbus A350 economy and premium economy and in Airbus A320 economy;
- used data analytics to optimise catering loading and reduce wastage; and
- reduced property costs through increased energy efficiency and harmonisation of back office supplies.

Other highlights include:

- established brand partnership with Marks and Spencer;
- reached an agreement with Gogo and Inmarsat to provide high-speed inflight connectivity on longhaul and shorthaul flights respectively; and
- launched the second review of specification for airport ground-handling services.

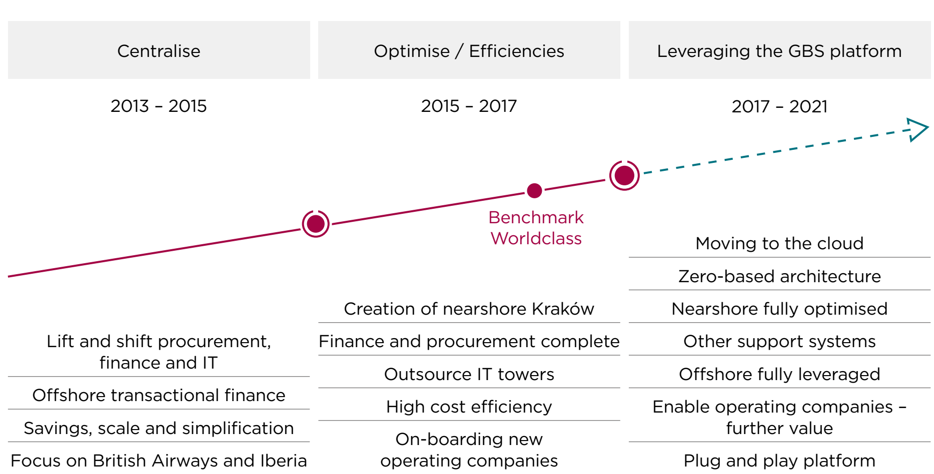
Finance

In 2016, GBS finance concluded the centralisation of several functions from the airlines, Avios and Cargo to GBS:

- financial planning and analysis migration from British Airways and Avios;
- finance processes migration from British Airways and Iberia;
- integration of GBS activities in Poland with outsourced service centres in India; and
- migration of Group treasury operations and indirect tax following the centralisation of the services from British Airways and Iberia into IAG in 2015.

The original plans are 90 per cent complete, delivering a cost improvement of around 35 per cent.

Our GBS journey



IT

This year significant work has been undertaken with the completion of outsourcing the IT operations at British Airways and Iberia and two of following three IT functions at Avios and Aer Lingus:

- **End user computing (EUC)** is a collection of services primarily supporting IT equipment, software, services and systems that are directly used by our employees and our agents throughout our global operations;
- **Networks** includes operational ground to air communications and call centre telecom charges in addition to the more common IT network requirements; and
- **Service operations** is responsible for managing IT services in the Group. This includes issue resolution, introduction of new services and ensuring that the complete IT environment operates as required.

The transformation of IT is half-way completed. Post transformation, IT aims to deliver €90 million of costs savings by the end of 2018.

In parallel, GBS IT continued to transform the business enabling the modernisation of websites and processes at British Airways and Iberia and upgrading the check-in system at British Airways.

Maintenance, repair and overhaul (MRO)

Targeting a minimum 11 per cent reduction in maintenance costs by 2020

IAG made significant progress in its strategic assessment of maintenance activities across the Group. The team set up last year and led by Iberia CEO Luis Gallego is finalising the strategy design phase, reviewing all maintenance activities to ensure maximised Group returns. The team have assessed internal competitiveness using market intelligence from existing outsourcing contracts within the Group and ad-hoc tenders. Plans have been reviewed to ensure best in class performance. A new top management has been appointed for MRO.

The Group is committed to achieving market competitive costs, delivering substantial savings from productivity, efficiency improvements and footprint optimisation. Activities for which the in-house model cannot ensure competitiveness may be subject to outsourcing.

Specific strategies have been defined for most of the activities and will deliver an 11 per cent cost reduction when fully developed. As the programme moves to execution, further benefits from Group consolidation and supplier spend initiatives will be defined.

IAG maintenance activities

Heavy
Major maintenance tasks performed on aircraft temporarily removed from the flight schedule

Line
Minor maintenance tasks carried out on aircraft during transits or night stops

Components and Inventory
Off-wing repair of aircraft parts and inventory operations support providing replacement parts during repair

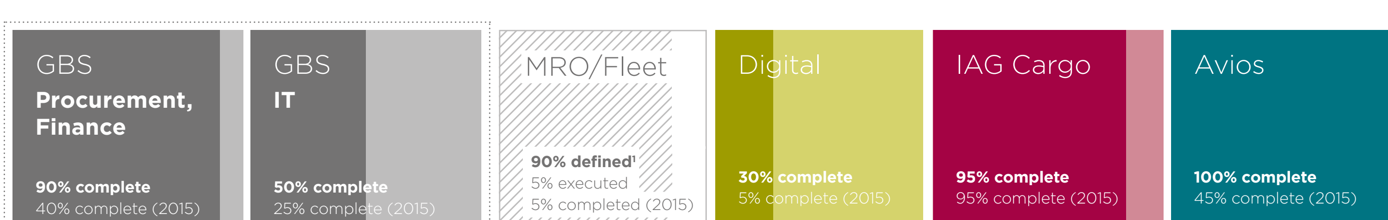
Engines
Repair in the workshop of engines removed from the aircraft for performance restoration/parts replacement

Technical & Engineering
Activities required to ensure fleet airworthiness and other support services

Fleet

The teams have continued to work on the fleet harmonisation in three areas: cabin configuration, avionics systems and emergency equipment. Harmonisation has been extended to all new aircraft, including the incoming Airbus A320neos and Airbus A350s. The goals of the programme remain to lower operating costs through fleet simplification and lean and flexible capital expenditure.

IAG Platform progress



1 Since Capital Market Day presentation on November 4, 2016, there has been substantial progress in the definition of the MRO strategy and is nearly completed at 90 per cent.

Changing the way we fly the world

"We have the ambition and we have the plan to deliver the best value-for-money experience for all of our customers."

Alex Cruz
Chairman and Chief Executive Officer of British Airways

Performance

£ million	2016	Higher/ lower
Revenue	**11,443**	+1.2%
EBITDAR	**2,402**	+12.7%
Operating profit	**1,473**	17.8%

Overview

In 2016 we achieved another strong financial result despite an uncertain economic landscape and challenging market conditions. We have built a robust business plan for the future, Plan4, which will build on our solid fundamentals. The economic uncertainty created by the result of the UK's Referendum vote to leave the EU and the subsequent weakening of the pound sterling, as well as industry overcapacity, is providing new challenges and opportunities for British Airways. We are well positioned to take advantage of the weak pound sterling with 60 per cent of our longhaul passengers originating outside the UK, enabling us to increase the mix of non-sterling revenue through the redeployment of capacity, optimising connecting flights and increasing the availability of overseas seats.

We continue to develop our longhaul network, with four new routes to commence in 2017 – Fort Lauderdale, Oakland, New Orleans and Santiago de Chile – while in 2016 we launched our joint business with Qatar Airways and a codeshare agreement with China Eastern. The refresh of 18 of our Boeing 747 fleet was completed in August and continues to deliver an improved customer experience on key longhaul routes. We also undertook the biggest change yet to our check-in systems across our operation which, despite some initial instability, continues to deliver performance improvements.

Plan4

Plan4 targets an operating margin of between 12 and 15 per cent each year and delivery of a sustainable RoIC of 15+ per cent through the cycle.

Plan4 is built around four key pillars:

- Customer: invest and innovate where customers value it most;
- Operations: be safe, reliable and responsible;
- Efficiency: improve capital efficiency and have competitive costs; and
- People: unleash our true potential.

Invest and innovate where customers value it most

Plan4 will see significant investment in the customer, across all cabins, over the next five years. From January 2017, shorthaul catering quality and choice was upgraded through our new partnership with Marks and Spencer. Wi-Fi is being embodied on our aircraft from 2016, with 90 per cent of the longhaul fleet to be complete by 2019. The new British Airways app will enable customers to rebook their flights during periods of disruption, giving them greater choice and control.

In Club World, our ambition is to create an experience that exceeds that of our key competitors. £400 million will be invested in Club World to transform food and drink offered to customers, deliver a step-change in service; providing more opportunities to sleep on overnight flights by changing service routines and providing new bedding and amenities. The potential for a new Club World seat is also currently being examined. On the ground, the First Wing in Terminal 5 will open in 2017, allowing First and Gold Executive Club members faster direct access to our lounges after check-in, and we will also invest significantly in our lounges at London Heathrow, Gatwick, New York JFK and Boston. Club Europe will also be reintroduced on UK domestic flights in 2017.

Be safe, reliable and responsible

Operational reliability will remain a key focus over the next five years. British Airways was again more reliable than key competitors in 2016, with more on-time departures from London than easyJet and Ryanair according to Civil Aviation Authority (CAA) data. External variables, such as air traffic control, will continue to have a significant effect on our operation. In 2017 we will strengthen our operational resilience, improving punctuality through a greater focus on aircraft turnaround

Key statistics

Punctuality
76.8%

Fuel efficiency gCO_2/pkm
97.8

British Airways targets aligned with IAG targets

	2016	2016-2020
Lease adjusted operating margin (%)	13.3% +1.9pts	12–15%
RoIC	13.5% +1.8pts	15%+
ASK growth per annum	2.6%	c.2%
Fleet	293	301

and additional summer aircraft availability by re-timing retirements and planned maintenance. Baggage performance will also be improved, especially transfer baggage, through a new integrated baggage system and increased baggage capacity in 2017.

Improve capital efficiency and have competitive costs

Through execution of Plan4 management will reduce non-fuel unit costs over the next five years. A structural change programme was started in 2016 and will be completed by the end of 2018, impacting all areas of the business. New technology will be utilised to automate areas of the operation and back-office functions, driving increased efficiency; IAG maintenance strategy and call centre initiatives will deliver significant savings in areas where there is substantial scope for functions to be optimised. These, along with other initiatives, will seek to streamline and simplify our operations and head office. We recently reached agreement with the NAPS Trustees on the latest triennial valuation. The low interest environment has driven up the deficit by £100 million to £2.8 billion. However, this new agreement only addresses past benefits, and we need to address the reality that low interest rates also mean costs are going to be higher for future service on defined benefit pensions. In 2017, we will be consulting with colleagues and the trade unions on future pension provision.

The weaker pound sterling has made investment in aircraft, which we buy in US dollars, more expensive. As a result, we need to be, and we will be, more capital efficient with our investments. At London Gatwick, our Boeing 777 fleet will be reconfigured, with 10 seats in each row of the World Traveller cabin. The number of World Traveller Plus seats will also double to 48 whilst the Club World cabin will reduce to 32 seats. This will result in the number of seats increasing from 280 to 332 from 2018 onwards. This will ensure that we have a more competitive configuration, particularly at Gatwick, and is a more efficient way to continue to grow capacity.

Our shorthaul aircraft will also be up-gauged and densified. The number of Airbus 319s in our fleet will reduce from 44 to 26 by 2021 (being replaced by Airbus A320neos and Airbus A321neos from 2018), while Heathrow-based Airbus A320s will be densified to 180 seats (from 168 seats). Airbus A321s will be densified to 218 seats (up from 205 seats) starting from early 2018.

Unleash our true potential

Our people are vital to the successful delivery of Plan4. We have a number of people-orientated initiatives, which will develop leaders at all levels of the organisation, equipping our colleagues with the skills necessary to deliver and exceed expectations consistently.

Delivering high standards of customer service is fundamental to our success. Our world class training centre, the British Airways Global Learning Academy, has continued to thrive, with 84,500 delegates receiving instruction throughout the year on 9,400 specially tailored courses to ensure our customers receive the best possible service.

Digital

Digital underpins British Airways' business plan. We have a long history of digital innovation. It is over 20 years since we introduced ba.com, our first online selling capability. We created and patented the first calendar-led selling – now a travel industry best practice. More recently, we introduced a full staff mobility programme, putting relevant data in front of our crew to provide a more tailored customer service. Digital, data and technology will enable us to transform our distribution landscape and capability.

Conclusion

We have solid fundamentals. The four pillars underpinning our new business plan 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.

Fuel efficiency – Our plan, our planet

Fuel efficiency is important to us from both a commercial and an environmental perspective. In 2014 we set up a dedicated fuel efficiency team with experts in flight operations, network operations and engineering. In addition to the fuel savings achieved with the introduction of our newer and more efficient aircraft, the team has implemented over 41 fuel efficiency initiatives saving a total of 83,000 tonnes of fuel, and reducing our CO_2 emissions by 261,500 tonnes.

The range of initiatives introduced covers all aspects of our operation including reducing weight on the aircraft, improving processes on the ground such as delaying the engine start and applying reduced engine taxiing, and working in collaboration with air navigation companies to improve airspace, and optimise routes and speeds.

See pages 45 – 51 for more about Sustainability

Delivering on our promise

"One of the key pillars of the *Plan de Futuro* is our full transformation of Iberia's customer proposition, putting the customer in the centre of all our activities."

Luis Gallego Martín
Chairman and Chief Executive Officer of Iberia

Performance

€ million	2016	Higher/ lower
Revenue	**4,586**	(2.4)%
EBITDAR	**738**	+6.5%
Operating profit	**271**	+22.6%

Overview

In 2014 Iberia launched its *Plan de Futuro* to radically transform a company that was struggling to adapt to the new and challenging environment in our industry.

After three years, we can state that the Plan has been successful: after several years in the red, Iberia has had its third consecutive year of operating profits, while consistently improving operational and key business indicators.

We are proud of what we have achieved so far, but we are also aware that we have only completed half of the path towards full transformation of the company.

Industry context in 2016

2016 has not been an easy year for aviation. We have experienced strong headwinds due to terrorist attacks, the economic uncertainty caused by the UK referendum result, macroeconomic instability in Latin America and, in addition, unprecedented overcapacity in our core markets which has, in turn, resulted in yield pressure.

Iberia reacts to a complex environment

The tough context in 2016 has put us to the test but we have reacted swiftly to this challenging environment.

On one hand, we have adjusted our capacity to the new market reality, by tactically reducing our exposure to markets with low profitability or high risk. In parallel, we have intensified our focus on strategic markets that can now be operated profitably with our lower cost base. During 2016, we restarted flights to San Juan in Puerto Rico and Johannesburg, and launched new routes to Shanghai and Tokyo supporting our strategic aim to compete in Asian markets.

On the other hand, we have intensified the execution of the initiatives of our ongoing *Plan de Futuro*.

On the revenue side, the enhancement of our initiatives in revenue management allowed us to minimise the yield erosion on longhaul markets, while on short and medium haul the expansion of basic fares throughout the economy cabin, fare simplification, and capturing demand early in the booking curve have allowed us to reach unprecedented load factor levels.

The introduction of new ancillary propositions, increasing our digital capabilities, further enhancing Iberia's brand, and developing our sales programmes within IAG – such as the launch of On Business– enabled us to sustain our revenue performance in this unfavourable RASK context.

With regards to costs, we have continued implementing our *Plan de Futuro* optimization measures across the full cost base, with special focus on reduction of our labour costs, through voluntary collective dismissal plans (our 2016 employee cost per ASK was 24 per cent lower than in 2012).

Finally, we have further developed the transformation of our complementary businesses, Airport Services and Maintenance, focusing on improving productivity, flexibility, and customer service. IAG's Maintenance project is becoming a catalyst for us to push forward a new innovative approach that will allow Iberia to become a top-class world player while providing superior service to all IAG airlines.

The future ahead of us: *Plan de Futuro* Phase 2

2016 operating profit of €271 million continues the trend of 2015 and gives us the confidence that we are on the right track. But, as I said before, we are still half way in our transformation journey, particularly considering the industry context today.

Key statistics

Punctuality

88.7%

Fuel efficiency gCO_2/pkm

86.5

Iberia targets aligned with IAG targets

	2016	2016-2020
Lease adjusted operating margin (%)	7.6% +1.2pts	8-13%
RoIC	9.0% (0.7)pts	15%
ASK growth per annum	4%	4%
Fleet	98	106

This is why we have recently launched Phase 2 of our *Plan de Futuro*, encompassing over 200 projects aimed at placing us among the best operators in the industry, in revenues, costs, and capital efficiency. This second phase of our plan is expected to generate €400 million of additional operating profit focusing in four areas:

- Stronger revenue and customer proposition;
- Best-practice costs in the industry;
- Sustainable profitability of complementary businesses (MRO and HDL); and
- Improved capital efficiency and flexibility to adapt to market changes.

Stronger revenue and customer proposition

On the revenue side, we are redefining how we undertake revenue management, using state-of-the-art technology and processes, and focusing on ancillary revenue.

The Joint Business model that we have today with our partners in the North Atlantic and between Europe and Japan has proven to be successful, which is why we aim to reinforce the model and expand it to other relevant markets.

We are also introducing our new Premium Economy cabin which will optimise revenue generation by serving an increasing demand of customers looking for a superior product at an adjusted fare. We are also adding slim seats to our narrow body aircraft to increase revenue generation opportunities.

Lastly, we will continue working as hard to remain the most punctual airline in the world as we have achieved in 2016.

Best practice costs in the industry

On the cost side, we have intensified even further the transformation of our cost base, with the target of becoming one of the most competitive airlines in the industry. In this effort we are benefitting from increased integration with GBS, which should allow us to reduce our supplier and IT costs, one of the main focuses of this Phase 2.

Also, labour restructuring is not finished yet and there is still work to do on this front. We continue working towards a more agile organisation, with special focus on reducing our SG&A costs.

Always keeping the customer at the centre

The customer is always at the centre of all decisions that we make.

We continue to invest in our fleet. After the exit of all the Airbus A340-300s this year and the arrival of eight new Airbus A330-200s, all our wide body aircraft are now fitted with our new cabin, which has been very well received by our customers, particularly the new entertainment system. The cabin improvements have been a key contributor to the significant improvement in our Net Promoter Score.

Moreover, we are leveraging digital as one of the key components of Iberia's value proposition to our customers. In-flight connectivity has created new merchandising opportunities in the air such as pay-for-content and we have made significant improvements to our check-in process through the web, mobile apps, and physical kiosks, making it more efficient and seamless than ever before. On-time performance is one of the attributes that our customers value the most. This is why our commitment to operational excellence and on time performance is stronger than ever. We are proud of having become the most punctual airline in the world in 2016 and of Iberia Express reaching the top spot in the low cost carriers' category.

Our customers also expect us to become a role model in embracing a sustainable approach to the way we operate our business. This is why in 2016 Iberia took a leading role in a three year EU project called "LIFE+ Zero Cabin Waste". Our aim is to reduce waste from catering in our aircraft by 5 per cent and recycle 80 per cent of the waste generated.

Sustainable profitability of complementary businesses (MRO and HDL)

Phase 2 of *Plan de Futuro* has set very ambitious goals to increase productivity and sustainable profitability of our complementary businesses (MRO and HDL), while offering competitive service to all the carriers in the Group..

Improved capital efficiency and flexibility to adapt to market changes

We are working hard to become a more flexible airline that adapts quickly to environment changes.

First, the new Premium Economy and the slim seats will allow us to add more seats to our aircraft to increase revenue generation opportunities.

Second, we are rethinking from the ground up our network and fleet plan to increase aircraft utilisation and achieve the most optimal fleet mix.

Finally, we are balancing our fleet financing mix to be able to adapt upwards or downwards to market changes. We are working with IAG to achieve harmonisation in the Group's fleet, which will allow for further flexibility within the Group at a lower cost.

Conclusion

In summary, we are proud of the transformation we have achieved so far, but we are well aware that our work is not finished but we are confident that this new phase of our *Plan de Futuro* will allow us to complete the transformation that Iberia needs and reach the level of profitability and sustainability that we want for the Iberia of the future.

Continuing with the Vueling evolution

"Vueling's key strategic levers for the future are customer focus, operational excellence and profitability."

Javier Sanchez-Prieto
Chief Executive Officer of Vueling

Overview

Our operational environment was particularly challenging in 2016. We suffered abnormal levels of external disruptions, including many industrial actions mainly in France, and unprecedented levels of air traffic controller disruptions which affected 35 per cent of our flights compared to 12 per cent a year earlier. Vueling took strong and successful measures, engaging all the necessary resources, to return the operations to expected levels.

Since 2004 Vueling has grown rapidly through various development stages; the merger of Vueling and Clickair, the Spanish domestic market consolidation, and its expansion into European markets. Vueling now enters into a new phase, a time to strengthen all aspects of the organisation and reinforce our foundation. In this new phase, the customer will be at the centre of everything we do. Our customers demand good prices and a reliable experience (in our segment punctuality and regularity). We also want the relationship with our company to be easy, and we will innovate our customer experience to improve the ease of doing business with us, while maintaining high levels of reliability.

Vueling NEXT, our plan to realise our new vision and strategy

Vueling has designed an integrated and cross-functional plan called Vueling NEXT that relies on four main pillars as the basis for its evolution into this new stage. First, achieving **operational excellence** by upgrading the capabilities of our operation to deliver a higher level of efficiency and reliability.

The second pillar will focus on building a **sustainable and profitable network** based on a smart restructuring that shifts capacity to better performing markets, gains efficiency through reduced complexity, seasonality and variability, and improves fleet utilisation. As a result, we will strengthen Spain as our top market in Europe, in both the leisure and business segments, building leadership positions in key Spanish cities in order to become the customers' preferred choice when travelling between Spain and the rest of Europe. We will also selectively pursue other international growth opportunities that align to our strategy.

The third pillar is aimed at building a **reliable customer proposition**. Vueling will redesign its customer experience with the objective of delivering the best low cost customer experience in Europe. Through more reliable operations, we expect to capitalise on improvements in on-time performance and reliability. We will focus on how the customers do business with us, from easy booking to efficient customer assistance, while improving the way we communicate with our customers, keeping them up to date on their journey. Our aim is to meet the customers' needs by a better alignment of products and services to our distinct customer segments.

Lastly, these changes will be supported by our fourth pillar, a **high performing organisation** that aims to evolve our team. This will focus on the right talent in the right job, efficient and effective management and engaged employees translating to a more customer-focused organisation, with broader knowledge and deeper experience, and the ability to deliver a stronger international footprint. Vueling will also reinforce its resources in key areas to support more efficient and stable operation.

Vueling NEXT supports and enhances our continued effort to lower costs and increase efficiency. As an example, Vueling NEXT targets gains in fleet and maintenance utilisation and improvements in employee productivity, by optimisation of resources and planning. A customer oriented approach and a more robust operation will also yield customer service and compensation benefits. We will continue to work on supply-chain savings based on efficiency and leverage of the IAG platform and to realise efficiencies on new aircraft entering the fleet from 2018, including five additional Airbus A321 aircraft.

Conclusion

Vueling is building a stronger platform to serve as a firm base for future growth and solid financial performance, achieving IAG targets.

Performance

€ million	2016	Higher/ lower
Revenue	2,065	5.2%
EBITDAR	315	(18.6%)
Operating profit	60	(62.4%)

Key statistics

Punctuality

68.6%

Fuel efficiency gCO_2/pkm

87.3

Vueling targets aligned with IAG targets

	2016		2016-2020
Lease adjusted operating margin (%)	6.7%	(5.1)pts	7-15%
RoIC	7.3%	(6.4)pts	15%
ASK growth per annum	11.2%		7%
Fleet	110		130

Making the most of our opportunities

"2016 has been a year of profitable growth with a strong return on invested capital supported by reduced non-fuel unit cost and an improved guest value proposition."

Stephen Kavanagh
Chief Executive Officer of Aer Lingus

Performance[1]

€ million	2016	Higher/ lower
Revenue	**1,766**	+2.8%
EBITDAR	**399**	+40.2%
Operating profit	**233**	+86.9%

Overview

Throughout 2016, we have leveraged the benefits of IAG ownership, with accelerated network and fleet growth, cost synergies and increased market reach to deliver a record operating margin of 13.2 per cent This result is underpinned by our positioning as a value carrier and our application of a resilient demand led business model – a model that is simple by design; centred on cost, product and service. We are committed to delivering value to our guests, and our productivity and non-fuel unit cost improvements in 2016 have enabled us to deliver more competitive products, and to significantly improve our operating margin.

An ambitious strategy

Our 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-focussed brand and service, a network that offers compelling connection propositions, and a competitive and resilient cost base. We believe that Aer Lingus is well positioned to continue to grow successfully to extract the benefits of IAG ownership, and to deliver on our targets.

A value carrier focussed on guest experience

Guided by our "Voice of Guest" surveys and direct feedback, we have continued to invest proactively in product, process and brand to improve our guest experience, cost and value proposition. A key focus in 2016 was our on-time performance and we achieved the most punctual status every month at our main base of operations, and were placed in the top 20 most punctual airlines globally.

The roll-out of our new transatlantic business cabin was completed with consistency across the Aer Lingus Airbus A330 and Boeing 757 fleets. In 2016, we introduced new and enhanced retail products, simplified boarding processes and automated check-in facilities, and launched our new loyalty programme AerClub, with Avios, in the fourth quarter.

These initiatives and the dedication to service delivered every day by the team at Aer Lingus have been rewarded by increased seat factor, guest satisfaction and cost efficiencies. Our "Good to Great" programme, which incorporates consistent service standards across the customer journey, continues to deliver, and we received external validation with the award of a 4-star rating by Skytrax during the year, becoming Ireland's first and only 4-star airline.

Building the Dublin Gateway

We remain committed to exploiting the geographic advantage of Dublin as a gateway between Europe and North America. In 2016, we continued our profitable growth, we built on the momentum of recent years, with direct services to Los Angeles, Newark and Hartford, strengthening IAG's leadership across the transatlantic and leveraging the power of the Aer Lingus mainline and regional shorthaul networks.

The profitable network growth was enabled by the introduction of an additional Boeing 757 and two Airbus A330-300s, the latter procured jointly with the benefit of IAG. In 2017, we will introduce two more Airbus A330-300s to add frequency and capacity across our networks, and we will begin a new direct service to Miami. We continue to use this growth to drive efficiency and productivity in our Dublin operations. Revisions to turn, team composition and increased use of automation, for example, in combination with the increased scale of operations, have improved the relative cost competitiveness of the Gateway.

Conclusion

In 2017, we, in Aer Lingus, will build upon our success and target sustainable returns for IAG. Our commitment to our demand led value carrier model will see us continue to focus on cost, product and service. In addition, we will develop our commercial capabilities to further leverage the network opportunities provided by fellow IAG airlines, American Airlines and other partners.

Key statistics

Punctuality	**82.5**
Fuel efficiency gCO_2/pkm	**87.0**

Aer Lingus targets aligned with IAG targets[1]

	2016		2016-2020
Lease adjusted operating margin (%)	14.9%	+6.0pts	15%+
RoIC	23.1%	+11.1pts	15%+
ASK growth per annum	9.6%		8%
Fleet	47		59

1 The comparison to 2015 includes the annualised results of Aer Lingus

Avios, the currency of loyalty

"Avios offers inspiring travel rewards and experiences for its collectors with multiple ways to earn rewards through a growing alliance of leading brands."

Gavin Halliday
Chief Executive Officer of Avios

Overview

Avios engages collectors, achieving high returns for the Group through a dynamic and versatile business model. It continues to increase customer relevance by broadening collection opportunities and linking to everyday purchases, whilst expanding ways to spend Avios.

In addition to connecting IAG airlines and their frequent flyer plans through a common currency Avios presents opportunities for the Group to continue to extend its brand reach, increasing customer relevance in new markets through new airline and non-airline partnerships. The airlines benefit from the brand loyalty Avios generates, increasing the Group's passenger and ancillary revenues.

In 2016 Avios continued to build on its successes as an independent operating company within IAG. It has transformed from a predominantly UK focused loyalty entity to an international loyalty currency business, collecting revenues in euros, US dollars and pounds sterling.

Key successes

Avios continued to grow its airline portfolio with the addition of Aer Lingus and its AerClub programme in the last quarter of 2016, and is expecting to launch the Vueling programme in the first quarter of 2017. The addition of these airlines has seen Avios become the single loyalty currency which supports all IAG frequent flyer plans. This offers a number of strategic advantages, including an enhanced presence within Europe.

Avios continues to evolve its loyalty proposition, moving it from a model specific to full service carriers such as British Airways and Iberia, to being compatible with new generation airline models such as Vueling. To achieve this Avios developed a collection proposition based on customer spend and using the Pay with Avios product to give customers the opportunity to spend Avios to reduce the cost of any flight.

Through 2016, Avios has evolved its digital capabilities, paving the way for the launch of its first digital, direct collection partnership with Pizza Express, leveraging digital wallet technology, which can be used in future partnerships. Card linked collection, which is available on mobile devices, allows users to register their payment card details within the app, enabling Avios collectors to earn directly. This has allowed collection opportunities in-store, first with Caffè Nero. The data gathered through these channels will provide insights that in turn will drive future development of Avios products and tailored communication to customers.

2016 also marked a year of international growth for Avios in the field of non-airline partnerships, with the launch of key agreements, notably with fuel provider Cepsa in Spain and Irish Grocer SuperValu. Other strategic partnerships include a global agreement with Priceline Group's Agoda. Avios took steps to expand its global footprint, with its first partnerships in both Chile and China, with Banco de Chile and Mileslife respectively, increasing the customer database.

Avios also worked on a redemption proposition to enable Pay with Avios for Flybe customers with Kulula to follow in 2017 and offering increased availability and differential off-peak and peak pricing with British Airways and Iberia. Together with investment in dynamic pricing capability through the Pay with Avios product, Avios continues to work towards a leading redemption proposition offering always available redemption capability and a value proposition.

Coming soon

In 2017 Avios will implement a single bank solution, alongside new redemption and pricing capabilities. The single bank solution allows for:

- a consolidated loyalty platform for customers to see all their points across programmes;
- optimisation of customer experience by broadening collect and spend options; and
- revenue and cost synergies for the Group by the end of 2017 and onwards.

e-store

In April 2016, Avios launched an improved online e-store which enables British Airways Executive Club, Iberia Plus and Avios Travel Reward Programme members to collect generous volumes of Avios with over 1,000 retailers when shopping online.

The e-store acts as an entry portal, redirecting the customer to shop with the online retailer and rewarding them for their purchases. In 2016, 610,000 purchases were recorded.

In December 2016, it was also made possible to collect Avios "in-store" with particular retailers, such as Caffè Nero. Customers link their regular payment card through the e-store and then earn Avios when using that card at the retailer's physical site.

Resilient performance in challenging trading conditions

"The air freight industry as a whole has suffered from decades of underinvestment in technology and IAG Cargo now has a renewed focus on innovation and digitisation across our business."

Andrew Crawley
Chief Executive Officer of IAG Cargo

Overview

The competitive trading environment of 2015 has continued into 2016 with growing supply from freighter and new generation passenger fleets outstripping flat demand for general freight. 2016 started robustly, despite already high comparisons due to the benefits of the West Coast Port Strike in the first quarter of 2015. The second and third quarter saw demand fall off considerably leading to significant yield pressures before some improvement in the peak of the last quarter of the year. Aggressive cost management as well as continued focus on growing our premium products went some way to offsetting the yield pressure and saw IAG Cargo grow its revenue share of the market this year.

Differentiation through premium products and customer focus

The development of our premium products and customer experience was further reinforced with the announcement of a £55 million investment into a new premium freight facility. Set to become operational in 2018, the new building at London Heathrow has been designed around the modern demands of shippers and freight forwarders and will double our premium capacity.

IAG Cargo further enhanced its premium proposition by launching 'Critical', IAG Cargo's first non-off loadable product. 'Critical' was designed in response to direct feedback from our customers, offering them an emergency solutions product for time urgent shipments. The product, which launched in October, has already processed over 400 emergency shipments, including Formula 1 tyres and equipment, and emergency machinery parts. Our core premium products have also continued to perform at encouraging levels. With our blend of strong network, diverse product portfolio and customer offering, we achieved a premium product mix of 20 per cent this year. A primary driver of this is our pharmaceutical product, Constant Climate. This has seen consistent double digit growth year on year, in volume terms, shipping over 40,000 consignments in 2016. IAG Cargo has 110 quality approved Constant Climate gateways on its network and, following a Good Distribution Practice (GDP) certification award, is trusted as the industry leading product.

IAG Cargo's leadership in this category is strengthened by a commitment to quality training, raising standards with over 200 days of training annually for our network supply chain partners.

Growth and scale

The acquisition of Aer Lingus in August 2015 has demonstrated the strength and ability of our model to integrate new entrants quickly and effectively into the Group. Our product portfolio, sales teams and global operations are now fully unified, providing significant synergies for our business. We have also continued to invest to provide our customers with a strong network offering and throughout 2016 IAG Cargo has launched several important destinations: Lima, San Juan, San Jose, California, San Jose, Costa Rica and Tehran providing our customers with new options for shipping goods into key markets.

IAG Cargo was also able to expand its reach by establishing partnership deals with other air carriers. IAG Cargo now has interline partnerships with over 100 airlines, the latest entrants this year being Boliviana de Aviación and Air China; which aid us in providing greater network reach for our customers.

Identifying new ways to differentiate and enhance our customer proposition has also been a key focus this year. The air freight industry as a whole has suffered from decades of underinvestment in technology and IAG Cargo now has a renewed focus on innovation and digitisation across our business. This year IAG Cargo helped launch the IAG global accelerator programme, Hangar 51, a new initiative that will find and scale some of the best aviation and logistics tech start-ups, who will help us digitise our business and provide greater ease for customers.

Conclusion

Despite what has been a difficult year for the industry, we have delivered a stable and resilient performance. IAG Cargo's model is firmly established and by continuing to invest in all areas of our business through infrastructure improvements, network expansion, new partnerships and technology advances, we will continue to bring further benefits to our customers and shareholder. We remain confident in our strategy for 2017 and beyond.

Data underpins business transformation

Digital transformation

At IAG we use five areas of digital transformation to create measurable change, preparing our business for the digital age:

- **New business:** refers to adapting our businesses for a fast moving market as well as creating new revenue streams enabled by technology and data.
- **Product:** looks to create innovative digital products from apps that help customers navigate through airports to chatbots that can be tested and adjusted at speed. New products must drive business value and meet the customers' needs as well as their future expectations.
- **Business process:** aims to enable rapid scalable change through new processes. We use automation and design thinking to adjust, trim and remove processes.
- **People:** ensures we recruit and educate employees to have the right digital skills. We created Hangar 51, IAG's first start-up accelerator, for this purpose. We also create new methods of work, hackathons, meetups and continuous engagement with the start-up and corporate digital ecosystem.
- **Data enablement:** aims to provide fast access to the right data at the right time to predict, provide intelligence and act. Using machine learning, artificial intelligence and the latest block chain and biometric capabilities we aim to meet customer needs.

Some of the key 2016 achievements include:

API's (Application Programming Interface): IAG has created over 60 open API's to generate revenue opportunities and make easier to connect with external partners and suppliers. IATA awarded British Airways, Iberia and Iberia Express the highest certification level for their New Distribution Capability (NDC) APIs. A key NDC development was announced in September 2016 between British Airways and KAYAK, the travel search engine. Customers can now book both direct and connecting flights and pay for their preferred seat on British Airways flights via the Kayak website.

One Order: IAG led IATA to reach industry approval of the One Order concept which will modernise the order, delivery and accounting processes in the airline industry.
The One Order standards resolution was approved in October 2016 at the Passenger Services Conference composed of IATA member airlines.

Identity: IAG is working in collaboration with UK Government bodies, partners and startups to test how a digital identity might streamline the airline passenger journey. As part of this strategy IAG has joined OIX (Open Identity Exchange) whose purpose is to accelerate the adoption of digital identity services based on open standards.

Commercial in-flight

IAG has now finalised the longhaul and shorthaul connectivity strategies for the Group aligning with the airlines' focus on customers. In May, IAG announced that Gogo will provide high-speed inflight connectivity on longhaul flights using next generation satellite-based systems. It will be the first European airline group to use Gogo's latest technology called "2Ku". In total, 118 British Airways, four Aer Lingus and up to 15 Iberia longhaul aircraft will be fitted with 2Ku. This is in addition to the existing Iberia and Aer Lingus' Airbus A330 fleet which have Panasonic GCS connectivity. We remain on track to fit the technology pre-delivery on British Airways Boeing 787-10s and Iberia Airbus A350s from 2018.

IAG will introduce high speed Wi-Fi to the shorthaul fleet with Inmarsat in Summer 2017. The first install has already been completed for British Airways in December 2016. This will be followed by Aer Lingus, Iberia and Vueling later in 2017. By 2019, 90 per cent of IAG airlines' fleet will be fitted with high quality connectivity. In addition, IAG has started the Group's In-Flight Portal development to unlock revenue from a new channel in the air. The portal will launch for shorthaul in September 2017 and for longhaul in October 2017.

Hangar 51

Hangar 51 is an airline industry accelerator programme. The ten week programme, based at IAG's offices in London, will enable start-ups looking to enter the aviation industry to trial their products globally and receive mentoring from IAG and insight into the airline industry with a FTSE group. This will help them to rapidly accelerate their product development and gain valuable customer insight. Where a strategic alignment is identified the Group will consider investing. Hangar 51 brings the very latest start-up technology and skills together with IAG industry expertise and strong global customer brands to develop the next airline industry transformations.

The programme focuses on four areas:

- **Improving airport processes:** making customer journeys through the airport easier;
- **Digitising business processes:** developing new tools to speed-up and simplify the front, middle and back office businesses;
- **Data driven decisions:** finding new ways that data can increase customer satisfaction, create new revenue and cost efficiencies; and
- **Wildcard:** any idea that start-ups believe can improve customer experience.

Hangar 51 has been an overwhelming success with over 450 applicants from 36 countries. 26 of which pitched to IAG's team on December 6, 2016. The successful applicants started at IAG's offices in London on January 9, 2017.

For more information visit **www.hangar51.com**

Effective risk management

The Board has overall responsibility for ensuring that IAG has appropriate risk management and internal controls in place and that they operate effectively. IAG has an Enterprise Risk Management (ERM) policy which has been approved by the Board.

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

Throughout the Group, risk owners are responsible for identifying risks within their area of responsibility, quantifying and managing the risk including putting in place appropriate response plans. They are supported by risk management professionals who maintain risk maps for each operating company and at the IAG Group level, and ensure consistency over the risk management process. The risk maps plot each risk on an impact and probability scale. For each risk, mitigating actions are documented and are actively managed.

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.

At the Group level, material 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 of the Board in accordance with the September 2014 UK Corporate Governance Code and the 2015 Spanish Good Governance Code of Listed Companies recommendations.

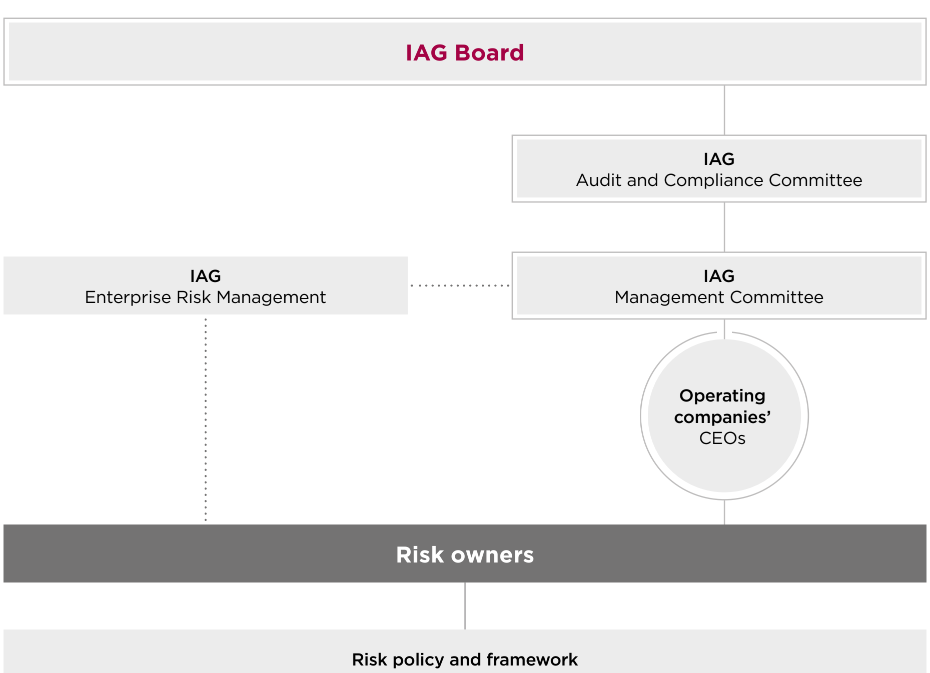
The IAG Board discussed risk at a number of meetings including a review of the assessment of the Group performance against its risk appetite; Chief Executive Officer updates; regular discussions around strategy and the Business Plan.

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.

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 government regulation, adverse weather, acts of terrorism, pandemics, fuel prices and foreign exchange. Risks are grouped into four categories: strategic, business and operational, financial, and compliance and regulatory risks. Guidance is provided below on the 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



Strategic risks

Open competition and markets are in the long-term best interests of the airline industry and we have a high appetite for continued deregulation and consolidation. We seek to minimise the risk that government intervention or the regulation of monopoly suppliers disadvantages us.

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

Business and operational risks

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

Cyber risk continues to be a risk focus area this year. The IAG Management Committee has led the response to cyber risk through monthly reviews and initiatives to ensure that there are consistently robust defences and incident response plans throughout the Group. There is a Group-wide Cyber Security Governance Board that reports to the Chief of Staff.

Risk management and principal risk factors continued

During 2016 British Airways completed the implementation of its customer management systems that provide passenger check-in and aircraft boarding functionality.

Financial risks

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

In 2016 events such as the UK Referendum vote to leave the EU and other political events impacted the business, 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 in the markets in which IAG operates.

Risk	Potential impact	Management and mitigation
Strategic		
Airports	IAG is dependent on and may be affected by infrastructure decisions or changes in policy by governments, regulators or other entities outside the Group's control. London Heathrow has no spare runway capacity and has operated on the same two main runways since it opened over 60 years ago. As a result, British Airways is vulnerable to short-term operational disruption. In October, the UK government confirmed a third runway expansion proposal at Heathrow. This proposal is subject to approval by the UK Parliament.	The Group's airlines participate in the slot trading market at London Heathrow airport; acquiring slots at reasonable prices when available. The Group continues to promote an efficient, cost-effective, ready to use and fit for purpose infrastructure development at London Heathrow airport.
	IAG is dependent on the oil industry making sufficient investment in fuel supply infrastructure. Peak consumption at London Heathrow and London Gatwick airports is nearing the capacity of the pipe and rail infrastructure serving these airports. In addition, storage capacity at London Heathrow is lower than at other international airports, increasing the risk of any disruption to supply impacting our operations.	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. Plans to address capacity issues are reviewed by the IAG Management Committee.
	IAG is also dependent on the performance of suppliers of airport services such as airport operators, border control and caterers.	Supplier performance risks are mitigated by active supplier management and contingency plans.
Brand reputation	The Group's brands have significant commercial value. Erosion of the brands, through either a single event or a series of events, may adversely impact our leadership position with customers and ultimately affect our future revenue and profitability.	Each of our brands is supported by the Group Business Plan, where capital expenditure is reviewed and approved by the Board. The Group allocates substantial resources to safety, operational integrity and new aircraft to maintain its market position. We are also investing in a number of products and facilities to improve our customer experience, which we measure through NPS.
Competition	The markets in which we operate are highly competitive. The Group faces direct competition on our routes, as well as from indirect flights, charter services and other modes of transport. Competitor capacity growth in excess of demand growth could materially impact our margins. Some competitors have cost structures that are lower than ours, have other competitive advantages such as government support or benefits from insolvency protection. In addition the low cost model continues to be extended into longhaul by our competitors.	The IAG Management Committee devotes one weekly meeting per month to strategic issues. The Board discusses strategy throughout the year and dedicates two days per year to review the Group's strategic plans. 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. 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. The Group is continually reviewing its product offerings and responds through initiatives to improve the customer experience. IAG plans to set up a next generation longhaul operation in Barcelona.

Risk	Potential impact	Management and mitigation
Strategic		
Consolidation and deregulation	Although the airline industry is competitive, we believe that the customer would benefit from further consolidation. Failing airlines can be rescued by government support, delaying the opportunity for more efficient airlines to capture market share and expand. Mergers and acquisitions amongst competitors have the potential to adversely affect our market position and revenue.	The Group maintains rigorous cost control and targeted product investment to remain competitive. The Group has the flexibility to react to market opportunities arising from weakened competitors. Vueling and Iberia Express give us additional flexibility in this regard as they can deploy capacity at short notice across Europe.
	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.	The IAG Management Committee regularly reviews the commercial performance of joint business agreements. In 2016, the IAG Management Committee continued to review the joint business arrangement with American Airlines with respect to the inclusion of Aer Lingus.
	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.	The IAG Management Committee regularly reviews our franchisee performance and risks.
	The airline industry has a number of alliances that improve the customer experience. IAG is a leading presence in the **one**world alliance and is reliant on the other members to help safeguard the network.	Maintaining a leading presence in **one**world and ensuring the alliance attracts and retains the right members is key to ongoing development of the network.
Digital disruption	Competitors, or new entrants to the travel market, may use digital technology to disrupt the business.	The Group's focus on the customer experience, together with our own exploitation of digital technology, reduces the impact digital disruptors can have.
Government intervention	Some of the markets in which the Group operates remain regulated by governments, in some instances controlling capacity and/or restricting market entry. Changes in such restrictions, whilst creating longer-term growth opportunities for the Group, may have a negative short-term impact on our margins.	The Group's government affairs department monitors government initiatives, represents our point of view and forecasts likely changes to laws and regulations.
	Regulation of the airline industry covers many of our activities including route flying rights, airport landing rights, departure taxes, security and environmental controls. Excessive taxes or increases in regulation may impact on our operational and financial performance.	The Group's ability to comply with and influence changes to regulations is key to maintaining operational and financial performance. The Group continues to monitor and discuss the negative impacts of government policy such as the imposition of Air Passenger Duty (APD).
Business and operational		
Cyber attack	Financial loss, disruption or damage to brand reputation arising from an attack on our systems by criminals, terrorists or foreign governments.	A Group Cyber Security Governance Board reviews the Group IT security strategy and cyber risk initiatives, and considers advice from industry experts. The IAG Management Committee regularly reviews cyber risk and supports Group-wide initiatives to enhance defences and response plans. Whilst ensuring that we are up to date with industry standards and address identified weaknesses, the fast moving nature of this risk means that we will always retain a level of vulnerability.

Risk management and principal risk factors continued

Risk	Potential impact	Management and mitigation
Business and operational		
Economic conditions	IAG remains sensitive to economic conditions in the markets in which it operates. Deterioration in either a domestic market or the global economy may have a material impact on our financial position, while foreign exchange and interest rate movements create volatility. In 2016, the Group performance was negatively impacted by terrorist attacks, the UK Referendum vote to leave the EU, operational disruption including air traffic control industrial action and adverse exchange rates, partially offset by lower fuel prices. In 2016 the UK contributed 35 per cent of Group revenue, Spain 16 per cent of Group revenue and USA 16 per cent of Group revenue. There is continued uncertainty as we move into 2017 with upward pressure on fuel price and the changing political landscape. The Group continues to evaluate the potential changes following the UK Referendum vote to ensure that we are able to operate effectively during the transition. At this stage, we do not believe that it will have a significant impact on our business in the longer term.	The IAG Board and the Management Committee review the financial outlook and business performance of the Group through the financial planning process and regular reforecasts. These reviews are used to drive the Group's financial performance through the management of capacity and the deployment of that capacity in geographic markets, together with cost control, including management of capital expenditure and the reduction of operational and financial leverage. External economic outlook, fuel prices, and exchange rates are carefully considered when developing strategy and plans and are regularly reviewed by the Board and IAG Management Committee as part of the monitoring of financial and business performance.
Employee relations	The Group has a large unionised workforce represented by a number of different trade unions. Collective bargaining takes place on a regular basis and we face a significant level of negotiation across our operating companies in 2017. Any breakdowns in the bargaining process and subsequent strike action may disrupt operations and adversely affect business performance.	Human resource departments within the operating companies engage in collective bargaining with the many trade unions representing our staff.
Event causing significant network disruption	Several possible events may cause a significant network disruption. 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 such as snow, fog or volcanic ash. Such a disruption may result in lost revenue and/or additional costs.	Management has business continuity plans to mitigate this risk to the extent feasible. In 2016 the Group was impacted by air traffic controller strikes resulting in disruption to our operations with delays and cancellations and increased costs under Regulation EU261/04. The impact of the industrial action in Europe on Vueling resulted in additional depth being built into the management team to increase resilience against any similar strike action or external network disruption.
Failure of a critical IT system	IAG is dependent on IT systems for most of our key business processes. The failure of a critical system may cause significant disruption to our operation and/or lost revenue.	System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure. In 2016, British Airways completed the implementation of its new customer management system that provides passenger check-in and aircraft boarding functionality.

Risk	Potential impact	Management and mitigation
Business and operational		
Landing fees and security charges	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. Regulation provides some assurance that such costs will not increase in an uncontrolled manner; however, the Group may incur increased costs in the UK, Spain, Ireland or elsewhere.	The Group engages in regulatory reviews of supplier pricing, such as the UK Civil Aviation Authority's periodic review of charges at Heathrow and Gatwick airports. Also, the Group is active both at an EU policy level and in consultations with airports covered by the EU Airport Charges Directive.
Pandemic	If there is a significant outbreak of infectious disease such as swine flu, staff absence may increase which may seriously impact the operation. Leisure customers may not book holidays and corporate clients may discourage travel, significantly impacting sales.	Management has business continuity plans to mitigate this risk to the extent feasible.
Safety/security incident	The safety and security of our customers and employees are fundamental values for the Group. Failure to prevent or respond effectively to a major safety or security incident may adversely impact our brand, operations and financial performance.	The corresponding safety committees of each of the airlines of the Group, satisfy themselves that they have appropriate resources and procedures which include compliance with Air Operator Certificate requirements. Their incident centres respond in a structured way in the event of a safety or security incident.
Financial		
Debt funding	The Group has substantial debt that will need to be repaid or refinanced. The Group's ability to finance ongoing operations, committed aircraft orders and future fleet growth plans is vulnerable to various factors including financial market conditions and financial institutions' appetite for secured aircraft financing.	The IAG Management Committee regularly reviews the Group's financial position and financing strategy. The Group continues to have good access to a range of financing solutions. In 2016, British Airways, Iberia and Vueling all raised secured debt from a broad range of financial institutions. The Group's high cash balances and committed financing facilities mitigate the risk of short-term interruptions to the aircraft financing market.
Financial risk	We used approximately 8.9 million tonnes of jet fuel in 2016. Volatility in the price of oil and petroleum products can have a material impact on our operating results.	Fuel price risk is partially hedged through the purchase of oil derivatives in forward markets which can generate a profit or a loss. The objective of the hedging programme is to increase the predictability of cash flows and profitability. The IAG Management Committee regularly reviews its fuel and currency positions. The results of these are discussed with management and the appropriate hedging action taken.
	The Group is exposed to currency risk on revenue, purchases and borrowings in foreign currencies.	The Group seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency and actively managing the surplus or shortfall through treasury hedging operations. The approach to financial risk management is set out in note 26 to the Financial statements.

Risk management and principal risk factors continued

Risk	Potential impact	Management and mitigation
Financial		
Financial risk	The Group is exposed to currency devaluation of cash held in currencies other than the airlines' local currencies of euro and sterling. This risk is minimised by holding cash in euro and sterling wherever possible but exchange controls in some countries will from time to time delay conversion and repatriation of funds.	When there are delays in the repatriation of cash coupled with the risk of devaluation, risk is mitigated by the review of commercial policy for the route. This may involve capacity reductions and rebalancing the point of sale away from the local market towards the airline's home market and renegotiating supplier contracts to allow payment in local currencies.
	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 rate throughout their term. The approach to interest rate risk management and proportions of fixed and floating debt is set out in note 26 to the Financial statements.
	The 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 counterparty credit risk management and the Group's exposure by geography is set out in note 26 to the Financial statements.
Tax	The Group is exposed to systemic tax risks arising from either changes to tax legislation or a challenge by tax authorities on interpretation of tax legislation. There is a reputational risk that the Group's tax affairs are questioned by the media.	The Group seeks to comply with the law, act with integrity in all tax matters and maintain an open relationship with regulators. The Group complies with the tax policy approved by the IAG Board. Tax risk is managed by the IAG tax department and reviewed by the IAG Management Committee.
Compliance and regulatory		
Group governance structure	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 continued to work well in 2016. We will continue to engage with the relevant regulatory bodies as appropriate regarding the Group structure.
Non-compliance with competition, bribery and corruption law	The Group is exposed to the risk of individual employees' or groups of employees' unethical behaviour resulting in reputational damage, fines or losses to the Group.	The Group has comprehensive policies designed to ensure compliance, together with mandatory training programmes in place to educate employees in these matters.

Viability statement

The directors have assessed the viability of the Group over a five year period to December 2021. The assessment takes account of the Group's current position and plans and the potential impact of the Group's principal risks. Based on this assessment, the directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to December 2021.

In making this statement the directors have considered the impact on our Group Business Plan of severe but plausible scenarios in which combinations of principal risks materialise together. The effectiveness of mitigating management actions has also been considered.

Each scenario considered the impact on liquidity, solvency and the ability to raise financing over the period to December 2021. The directors have determined that the five year period to December 2021 is an appropriate period over which to provide its viability statement. In making this assessment, the directors have taken account of the planning horizon of the five year Group Business Plan and the Group's financial targets. In selecting the five year horizon for the viability statement, it is recognised that such future assessments are subject to a level of uncertainty that increases with time and, as a result, future outcomes cannot be guaranteed or predicted with certainty.

A significant step forward

"Through 2016 IAG has achieved a significant step forward, keeping us aligned with our Business Plan Targets, allowing us to improve our regular dividend payments and to face with confidence future investment opportunities."

Enrique Dupuy de Lôme Chávarri
Chief Financial Officer

2016 was a positive year for IAG in quite a challenging political, economic and operational environment. We achieved a strong operating profit of €2,535 million before exceptional items. Both our Operating profit and Equity free cash flow were in excess of €2,000 million, and were aligned with our medium-term targets. Net profit after tax before exceptional items reached €1,990 million and diluted earnings per share increased by 26.3 per cent to 90.2 euro cents per share.

The challenges we have been facing through most of the year were related to: terrorist attacks in Europe, pre and post Brexit vote uncertainties, foreign exchange and fuel price instability, higher than normal air traffic controller disruptions and airline sector capacity expansion. This changing and volatile environment has driven us to recalibrate our growth priorities and also give a greater focus to an efficient use and allocation of capital through time. Taking these factors into consideration, the Group has moderated its growth plans during the year, while simultaneously giving priority to support Aer Lingus' expansion and its strategic North Atlantic routes.

In the last quarter of 2016, the political and economic environment stabilised somewhat, and accordingly our revenue and yield performance has been improving in most of our strategic markets.

In parallel we have kept our focus on non-fuel unit cost management with significant success in improving the productivity of our workforce through programmes such as *Plan de Futuro* (in Iberia), Plan 4 (in British Airways) and an efficient expansion model (in Aer Lingus). Vueling's performance suffered significant disruption through the beginning of the summer, returning to normality in the last quarter of the year. The supplier cost performance has been negatively affected by operational disruption, higher passenger compensation claims and changes in some of our maintenance contracts, while fleet ownership unit costs have remained near to flat, even through the fleet renewal programmes progress.

As a whole, and taking into account the significant fuel cost decrease through the year, the total unit cost reduction has been 7.3 per cent in constant euro terms, which more than offsets the unit revenue decline of the year.

There was a significant negative impact of sterling weakness (pre and post Brexit vote) on the Group profits. At an Operating profit level our results would have been circa €460 million higher excluding the volatility of foreign exchange.

Finally, I think it is important to mention the significant improvement of our Equity Free Cash Flow generation, consistent with profitability, margin increases and CAPEX efficiency.

Through 2016 IAG has achieved a significant step forward, keeping us aligned with our Business Plan Targets in terms of Profitability, Returns and Cash Generation, allowing us to improve our regular dividend payments and to face with confidence future investment opportunities and shareholder return increases.

Enrique Dupuy de Lôme Chávarri
Chief Financial Officer

See pages 34 – 35 for more about our economic landscape

See pages 36 – 44 for the financial review

See pages 27 – 32 for risk management and principal risk factors

Ongoing developments that impact our industry

Global GDP growth

Actual 2016	**+3.1%**
International Monetary Fund (IMF) forecast (January 2016)	+3.4%
Actual 2015	+3.2%

Once again, global GDP growth came in below IMF expectations in 2016, but broadly similar to the performance in 2015. The IMF expects the rate of GDP growth to increase in 2017, especially in emerging market and developing economies. However, the IMF noted that there is a wide dispersion of possible outcomes around its projections, given uncertainty surrounding the policy stance of the new US administration and its global ramifications.

UK GDP growth

Actual 2016	**+2.0%**
IMF forecast (January 2016)	+2.2%
Actual 2015	+2.2%

UK GDP growth came in at 2.0 per cent in 2016, slightly down on the performance in 2015 and below IMF forecasts issued in January 2016. The rate of GDP growth accelerated during the year, with the economy growing +1.8 per cent in the first quarter, +2.0 per cent in the second quarter, and +2.2 per cent in the third and four quarters. The GfK Consumer Confidence index started the year positively at +4 in January compared to +2 in December 2015, but fell throughout the year, reaching a low point of -12 in July 2016 following the UK vote in favour of leaving the EU. Whilst the index improved later in the year, it remained at -7 in December 2016. In contrast the UK unemployment rate continued to fall during 2016, ending the year at 4.8 per cent, compared to 5.1 per cent in December 2015. For 2017, both the OECD and IMF forecast a significant slowdown in UK GDP growth; +1.2 per cent and +1.5 per cent for the OECD/IMF respectively. In its forecast, the IMF stated “slower growth is expected since the referendum as uncertainty in the after-math of the Brexit vote weighs on firms’ investment and hiring decisions and consumers purchases of durable goods and housing”. However, there is a very large divergence in UK GDP growth forecasts from the various forecasting bodies with a range of +0.8 per cent to +2.6 per cent for 2017.

Eurozone GDP growth

Actual 2016	**+1.7%**
IMF forecast (January 2016)	+1.7%
Actual 2015	+2.0%

Economic growth in the Eurozone dipped compared to 2015, but was in line with IMF forecasts issued in January 2016. Growth remained stable across the year, with GDP growth of +1.7 per cent in the first quarter, and +1.8 per cent in the remaining quarters of the year. The political backdrop remained difficult with the rejection of constitutional reforms in Italy and a variety of terrorist incidents across Europe damaging sentiment and investment. In March 2016, the ECB announced a significant package to ease monetary policy, shifting the focus away from rate cuts to quantitative and credit easing, a process that the ECB has confirmed will be continuing throughout 2017. The unemployment rate continued to fall, reaching 9.8 per cent by the end of 2016, compared to 10.4 per cent at the end of 2015. Both the OECD and IMF forecast a slight dip in the rate of GDP growth for 2017, forecasting +1.6 per cent and +1.5 per cent respectively.

US GDP growth

Actual 2016	**+1.6%**
IMF forecast (January 2016)	+2.6%
Actual 2015	+2.6%

The US GDP growth rate slowed in 2016 compared to 2015, and IMF forecasts issued in January 2016. The US economy lost momentum in the first half of the year, with GDP growth of +1.6 per cent in the first quarter, +1.3 per cent in the second quarter, down from the fourth quarter of 2015 at +1.9 per cent. However, growth accelerated in the second half, with quarter three GDP growth of +1.7 per cent and +1.9 per cent in quarter four. A strong labour market remained a key driver as the unemployment rate dropped to 4.7 per cent at the end of 2016 from 5.0 per cent at the end of 2015. Following the first US interest rate rise in seven years in December 2015, the US Federal Reserve voted in favour of a further rate rise in December 2016 following the on going recovery in GDP and decline in unemployment. The OECD and the IMF are forecasting GDP growth of +2.3 per cent in 2017.

Latin America GDP growth

Actual 2016	**–0.7%**
IMF forecast (January 2016)	–0.3%
Actual 2015	+0.1%

Latin America continued to experience challenging conditions, with GDP contracting in 2016 compared to flat growth in 2015, and lower than IMF forecasts issued in January 2016. Once again, there was a divergence in regional performance, with recession in South America worsening (GDP growth -2.0 per cent in 2016 compared to -1.3 per cent in 2015), but Central America’s GDP growth rate remaining robust (+3.9 per cent in 2016 compared to +4.2 per cent in 2015). Brasil and Venezuela remained in recession, but while Venezuela’s recession worsened, the rate of decline in GDP in Brasil slowed compared to 2015 (-3.3 per cent in 2016 compared to -3.8 per cent in 2015), despite the challenging political situation. Both Argentina and Ecuador slipped into recession in 2016, and with the exception of Paraguay and Peru, every other country in South America experienced slower economic growth in 2016 compared to 2015. The IMF expects a recovery in Latin America in 2017, forecasting GDP growth of +1.6 per cent. This mainly reflects an improvement in economic conditions in South America, with Brasil and Argentina forecast to emerge from recession and return to growth. Likewise, the IMF also forecasts a better performance in 2017 in all other South American countries with the exception of Ecuador, where the IMF forecasts the recession to worsen. Economic growth in the other parts of Latin America is expected to remain strong in 2017.

The significant depreciation in sterling (GBP)

Sterling endured a significant sell-off following the UK’s vote in favour of leaving the EU. Against the euro, pound sterling fell 5.8 per cent on the day the referendum result was announced (June 23rd), but 8.1 per cent against the US dollar, which represented the largest one-day fall since the introduction of free-floating exchange rates in the early 1970s. Following the vote, the Bank of England cut interest rates by 0.25 per cent to a record low of 0.25 per cent alongside a variety of monetary stimulus measures including the purchase of UK Government and corporate bonds.

However, continued weakness in the second half of 2016 saw pound sterling close the year down 13.6 per cent against the euro and 16.3 per cent down against the US dollar.

Increasing oil prices

Brent crude increased significantly in price during 2016, starting the year trading at $37.28/bbl but ending the year at $56.82/bbl, the overall high for 2016. Oversupply concerns and demand uncertainty had subdued oil prices through the year. However, an agreement in principle to cut supply was announced by OPEC in September, followed by an agreement to the first supply cut in eight years in November. The importance of this accord was underlined by the +8.8 per cent rise in Brent crude on the day of the announcement, with prices rising a further +12.6 per cent by the end of the year.

Industry outlook

IATA is forecasting industry operating margins to 6.6 per cent in 2017, 1.7 percentage points below the operating margins in both 2015 and 2016. IATA forecasts seat capacity to increase 5.6 per cent in 2017, lower than the 6.2 per cent growth in 2016 and the 6.7 per cent growth in 2015. Passenger load factor is expected to dip slightly to 79.8 per cent compared to 80.2 per cent in 2016. Passenger yield is expected to be flat compared to 2017; the first time since 2011 that passenger yields have not fallen year-on-year.

IATA expects Africa to continue to generate the lowest profitability and to be the only region with negative net post-tax margins in 2017 at -5.7 per cent which IATA attributes to regional conflict and the impact of low commodity prices. North American airlines are once again expected to generate the highest margins, although IATA's forecast for 2017 (+8.5 per cent) is lower than the performance in 2016 (+9.7 per cent) and 2015 (+9.8 per cent). For Europe, IATA forecasts net post-tax margins of 2.9 per cent, lower than 2016 (4.0 per cent) and 2015 (3.8 per cent).

Regulatory controls

The airline sector continues to be among the most heavily regulated industries in the world and 2016 saw some significant developments including agreement at the International Civil Aviation Organisation (ICAO) on a Global Market Based Mechanism to deal with airline carbon emissions. See page 45 for developments in sustainability.

Air Passenger Duty (APD)

The UK government continues to impose APD on airlines, still the heaviest tax of its kind in the world, and which costs the industry over £3 billion a year. Although the Scottish Government has published its Air Departure Tax bill that will introduce a revised charge and reduce the rate of tax at Scottish airports by up to 50 per cent from April 2018, IAG continues to believe that reducing tax only in Scotland will distort competition between airports and we continue to argue vigorously for the abolition of APD which is holding back UK industry.

UK visa policy

The UK introduced a two year visa for Chinese visitors in 2016, but IAG continues to press the Government to deliver the promised trial of a ten year visa, similar to that offered by the US, to improve the UK's attractiveness to visitors from China and to make similar improvements for travellers from other key markets, including India.

UK airports

On October 25, 2016 the UK Government announced it would accept the recommendation of the Airports Commission for a new runway to the North West of Heathrow. The scheme will be taken forward in the form of a draft National Policy Statement for consultation, with a first draft expected in early 2017.

IAG believes that expansion of Heathrow represents a very positive development for its business and for the wider UK economy, but has continued to challenge the excessive costs of the proposals put forward by Heathrow's operator, HAL. IAG continues to argue that costs must be reduced and charges remain flat for the new capacity to be commercially viable. The UK government indicated its support for IAG's position stating: the "aim should be to deliver a plan for expansion that keeps landing charges close to current levels." IAG will actively engage in the forthcoming consultations with the operator and regulators to ensure that the new capacity is delivered cost effectively.

UK Referendum vote to leave the EU

On June 23, 2016 the UK voted to leave the EU. After careful evaluation, IAG has concluded that over the long-term, the UK's secession from the EU will not have a significant impact on our business. We will continue to engage with the relevant authorities over the coming year to ensure that our views on future aviation relations between the UK, EU and other markets continue to be taken into account.

Irish National Aviation Policy

In 2016, the Irish Government established a National Civil Aviation Development Forum to facilitate consultation with the industry on national, EU and international policy. Aer Lingus is an active participant including on regulatory matters, aviation training, skills and employment. A comprehensive review of the regulatory regime for airport charges in Ireland was completed in 2016 and a policy statement by the Government on its proposed plan of action is expected in early 2017.

Spanish airports

IAG welcomes the recent decision by the Spanish Council of Ministers to recognise the importance of encouraging demand to benefit its economy by reducing charges at Spain's airports by 2.2 per cent during each of the next five years. IAG also awaits the decision of the Spanish Supreme Court on a previous ruling that mandated a reduction in the use of one of Madrid-Barajas Airport's main runways to mitigate noise impacts in certain weather conditions. However, should this restrict capacity, we do not anticipate that it would have a material impact on IAG as there remains significant room for growth.

European aviation strategy

In line with the European Commission's 2015 Aviation Strategy the remit of the European Aviation Safety Agency is being expanded to cover security and ground handling and IAG continues to engage with EU Institutions and Member States to ensure its interests are taken into account in this and all areas. Working with the new Airlines for Europe campaign group, IAG continues to urge the EU Commission to reduce the impact of air traffic controller strikes, reform the out of date Regulation on airport charges and to discourage the proliferation of taxes on aviation. Following the UK's vote to exit from the EU, IAG will continue to encourage both sides to ensure liberal air transport services continue to facilitate competition and benefit to passengers.

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.

In light of this agreement, we expect the EU to make an announcement for the post 2020 EU ETS regime during 2017.

The EU Commission will develop proposals outlining the options for the treatment of intra-European international flights from 2021. IAG is opposed to double regulation of these flights in two separate market-based mechanisms.

IATA market growths

The air travel industry had another strong year reporting an increase in demand. There was an upward trend in the latter part of the year following the headwinds in the first six months with terrorist attacks and political instability. Average fares fell benefitting from the lower fuel environment.

Overall capacity increased 6.2 per cent and the fastest growing regions were the Middle East, Europe, Africa and Asia, with passenger load factors down on the Middle East. North America saw the highest load factor, although it was down 0.4 points. Overall passenger load factor improved 0.1 points to 80.5 per cent.

IATA market growths

Year to December 31, 2016	Capacity ASKs	Passenger load factor	Higher/ (lower)
Europe	4.4%	82.4	0.2 pts
North America	3.7%	83.5	(0.4) pts
Latin America	1.9%	80.8	1.3 pts
Africa	6.3%	68.6	0.1 pts
Middle East	13.5%	74.7	(1.6) pts
Asia Pacific	8.1%	79.7	0.8 pts
Total market	**6.2%**	**80.5**	**0.1**

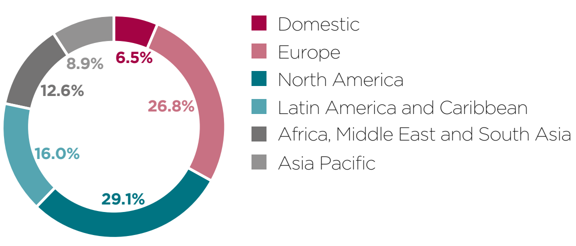
Source: IATA Air Passenger Market analysis

IAG capacity

In 2016, IAG increased capacity, measured in available seat kilometres (ASKs) by 4.3 per cent including Aer Lingus from January 1st in the base. With the exception of Africa, Middle East and South Asia, IAG capacity was increased across all regions, reflecting continued expansion at Vueling and Aer Lingus; restoration of routes as part of Iberia's *Plan de Futuro*; and new destinations and larger aircraft at British Airways.

IAG passenger load factor was 81.6 per cent which was higher than the IATA average and broadly flat versus last year.

IAG network by region



Market segments

Our **Domestic and European** passenger load factors improved in both regions, but remain lower than the European average reported by IATA. The Group launched 74 new intra-European routes, including London-Inverness, Madrid-Marseille, Paris-Venice and Dublin-Florence.

IAG capacity

Year to December 31, 2016	Capacity ASKs	Passenger load factor	Higher/ (lower)
Domestic	4.0%	81.3	3.2 pts
Europe	7.6%	79.9	0.8 pts
North America	4.6%	83.0	(1.1) pts
Latin America and Caribbean	1.0%	83.1	0.0 pts
Africa, Middle East and South Asia	(2.7%)	79.5	0.9 pts
Asia Pacific	11.3%	82.5	(0.7) pts
Total network	**4.3%**	**81.6**	**0.2 pts**

North America continued to represent the largest part of the IAG network at almost 30 per cent, with a strong passenger load factor, although down slightly, at 83 per cent. Capacity was increased through Aer Lingus' expansion with three new routes to Los Angeles, Newark, New Jersey and Hartford, Connecticut. British Airways also launched routes to San Jose, California and to New York JFK from London Gatwick.

Latin America and Caribbean capacity was broadly flat. British Airways launched two new destinations Lima, Peru and San Jose, Costa Rica, while Iberia reintroduced its service to San Juan, Puerto Rico. Passenger load factor in this region was flat and was two points ahead of the industry average.

IAG decreased its capacity to **Africa, Middle East and South Asia** due to weaker demand resulting from geopolitical issues. Flying was reduced this year to Angola, Nigeria, Morocco, Tunisia and Uganda. Other decreases resulted from the full year impact of reductions made last year to Entebbe, Senegal and Gambia. Additional capacity was deployed to South Africa with Iberia reintroducing Johannesburg and British Airways launching a Cape Town route from London Gatwick. Passenger load factor improved 0.9 points.

In **Asia Pacific**, the capacity increase was driven by the full year impact of the network and aircraft changes made by British Airways last year on Kuala Lumpur, Singapore and Haneda. In 2016, Iberia launched its new service to Tokyo and Shanghai. Passenger load factors increased to 82.5 per cent, one of the highest regions on the IAG network.

Acquisitions

The 2016 Group performance includes Aer Lingus for the full year. Aer Lingus was acquired on August 18, 2015, therefore the Group's 2015 comparator performance only includes Aer Lingus since the acquisition date. Metrics reported as on a like-for-like basis include Aer Lingus for the full year in the base.

Exchange impact before exceptional items

Exchange rate movements are calculated by retranslating current year results as though they had been generated at prior year exchange rates. The reported results are impacted by translation currency from converting results from currencies other than euro to the Group's reporting currency of euro, 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 exchange rates used and the estimated impact of translation and transaction exchange rates on operating profit before exceptional items are set out as follows. At constant currency, the Group's operating profit before exceptional items would have been €2,995 million, €460 million higher than the reported result.

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

€ million	Higher/ (lower)
Reported revenue	
Translation impact	(1,781)
Transaction impact	532
Total exchange impact on revenue	(1,249)
Reported operating expenditure	
Translation impact	1,523
Transaction impact	(734)
Total exchange impact on operating expenditures	789
Reported operating profit	
Translation impact	(258)
Transaction impact	(202)
Total exchange impact on operating profit	(460)

	2016	Higher/ (lower)
Translation (average)		
£ to €	**1.23**	(10.2%)
Transaction		
£ to €	**1.23**	(10.2%)
€ to $	**1.11**	(0.9%)
£ to $	**1.36**	(11.7%)

Revenue

		Higher/(lower)	
€ million	**2016**	Year over year	**Per ASK at ccy**
Passenger revenue	**19,924**	(2.0%)	**(5.4%)**
Cargo revenue	**1,022**	(6.6%)	
Other revenue	**1,621**	13.0%	
Total revenue	**22,567**	(1.3%)	

Passenger revenue

On a reported basis, passenger revenue for the Group was down 2.0 per cent, with 5.6 points of adverse currency, while capacity was increased 9.4 per cent. At constant currency ('ccy'), passenger unit revenue (passenger revenue per ASK) decreased 5.4 per cent from lower yields (passenger revenue/ revenue passenger kilometre) with a small, 0.2 point, increase in load factor. Including Aer Lingus results from January 1, 2015, on a like-for-like basis, passenger unit revenue decreased 5.6 per cent.

In the first half of 2016 yields decreased with demand impacted by the increased frequency of terrorist attacks (Paris, Brussels, and Nice) and from fare pressure driven by a low fuel commodity price environment. Lower fuel prices impacted oil related routes and stimulated industry capacity growth, creating areas of demand weakness, particularly across Latin America, Africa, and the Middle East. Revenue performance across the Group was strongest in the Domestic and European markets.

The economic weakness in Latin America, together with industry capacity growth in North America has had an impact on Iberia and British Airways' year over year passenger unit revenue performance. Aer Lingus continued its expansion into North America through Dublin leveraging the strength of its shorthaul network.

The summer period saw British Airways revenue performance impacted by the UK's referendum vote to leave the EU, creating economic uncertainty leading up to and following the vote. Summer also saw a high level of air traffic control industrial action in Europe which contributed to significant temporary operational disruption at Vueling. The Vueling operational performance recovered and stabilised in the fourth quarter.

In summary, the revenue environment has been challenging in 2016, and although passenger unit revenues remain down versus last year, the end of the period saw an improvement in trend. Despite the lower fares, the Group's operating margin improved with the benefit of a reduction in fuel cost.

Together, the Group carried over 100 million passengers, an increase of 12 million from 2015, with passenger load factor improvement across three of the four carriers.

Cargo revenue

The competitive trading environment for the airfreight industry continued into 2016. Global supply from freighter and new generation passenger fleets have continued to outstrip demand for general freight. Cargo volume measured in tonne kilometres (CTK) increased by 3.0 per cent with a reduction in yield of 9.3 per cent at ccy. IAG Cargo continue to focus on premium product growth and has been able to grow its revenue share of the market this year despite the industry challenges. IAG Cargo also integrated Aer Lingus to add breadth to its network and allow access to new products such as its industry leading constant climate product.

Other revenue

Other revenue includes the BA Holidays programme, Avios product redemption and third party point sales, maintenance and handling activity. Other revenue rose 13.0 per cent, from an increase in activity at BA Holidays and from higher third party maintenance business at Iberia. The MRO business performed more heavy maintenance overhauls in 2016 versus 2015. Avios revenues increased reflecting additional points sold to finance partners and from higher product redemptions.

Total revenue for the Group reduced 1.3 per cent (or 5.8 per cent on a like for like basis), impacted by weaker sterling and from decreases in passenger and cargo revenues due to lower yields. This was partially offset by improvements in Other revenue related to the Group's non-airline businesses.

Expenditure before exceptional items

Employee costs

On a reported basis, employee costs for the Group were down 3.5 per cent, 6.9 points at ccy. On a unit basis and at ccy, employee unit costs improved 5.5 per cent.

Employee unit costs improved at British Airways and Iberia due to lower variable pay from not achieving performance targets and from efficiency initiatives, offsetting wage increases. Aer Lingus reported a strong employee unit cost performance versus last year driven by productivity improvements. Its ASKs increased 9.6 per cent with broadly the same number of MPEs (measured in average manpower equivalent 'MPE') as last year. Some of the efficiencies were achieved at Dublin station and through the use of seasonal crew. For the Group, productivity also increased 5.1 per cent, with improvements at each airline, with the exception of Vueling. Versus last year, Vueling's MPEs increased significantly, while productivity and employee unit costs were affected by the operational disruption. The performance also reflects the impact of the new EU flight time limitation regulations, shifting certain activities from contracted to internal and strengthening of the existing workforce.

Overall productivity improved while the Group employed 4.1 per cent more employees than last year (or 0.1 per cent on a like for like basis) with an average of 63,387 people.

Employee costs

		Higher/(lower)	
€ million	**2016**	Year over year	**Per ASK at ccy**
Employee costs	**4,731**	(3.5%)	**(5.5%)**

Productivity

		Higher/(lower)
€ million	**2016**	Year over year
Productivity	**4,708**	5.1%
Average manpower equivalent	**63,387**	4.1%

Fuel, oil and emissions costs

Total fuel costs for the year decreased by 19.9 per cent. At ccy, and on a unit basis fuel costs are down 25.8 per cent from lower fuel prices, net of hedging and from improved unit consumption. The foreign exchange transaction impact on fuel costs net of hedging was adverse c. 6 percentage points for the Group, reflecting the stronger US dollar against the pound sterling and euro. Unit consumption improved c. 2.5 percentage points with new generation aircraft and more efficient operational procedures.

Fuel, oil and emissions costs

		Higher/(lower)	
€ million	**2016**	Year over year	**Per ASK at ccy**
Fuel, oil costs and emissions charges	**4,873**	(19.9%)	**(25.8%)**

Supplier costs

Total supplier costs for the year increased by 10.7 per cent. At ccy and on a unit basis, supplier costs rose 4.8 per cent. In 2016 the Group's non-ASK 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

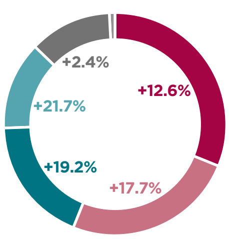
		Higher/(lower)	
€ million	**2016**	Year over year	**Per ASK at ccy**
Supplier costs:			**4.8%**
Handling, catering and other operating costs	**2,664**	3.6%	
Landing fees and en-route charges	**2,151**	14.3%	
Engineering and other aircraft costs	**1,701**	21.9%	
Property, IT and other costs	**870**	13.7%	
Selling costs	**896**	(1.8%)	
Currency differences	**100**	122.2%	

Excluding the additional costs related to the non-airline activity, supplier unit cost increased 2.8 per cent reflecting a mixed performance across the airlines and by cost categories. British Airways' airline supplier unit costs at ccy are up, reflecting one-time engineering benefits in 2015 not repeated this year and loss of sub-leased rentals. Iberia airline supplier unit cost at ccy decreased from a reduction in selling costs from lower commissions paid and from airport discounts. Vueling supplier unit costs are adverse reflecting higher compensation costs related to operational disruption and from one-time engineering benefits in the base. Aer Lingus had a strong supplier unit cost performance with efficient growth and a number of cost saving initiatives.

By supplier cost category:

Handling, catering and other operating costs rose 12.6 per cent at ccy. This increase is due to additional BA Holiday activity (c.3 points), 14 per cent more passengers carried, and from higher EU compensation claims, including the cost related to the operational disruption at Vueling. These factors were partially offset by improvements such as cleaning services and ground handling costs.

Supplier cost category (vly at ccy)



Landing fees and en-route charges were higher by 17.7 per cent excluding currency impacts. The increase reflects a twelve point impact from Aer Lingus, which is in excess of its ASK contribution, due to a shorter stage length. The remaining variance is from additional flying hours, with sectors flown up 7.3 per cent.

Engineering and other aircraft costs were up 19.2 per cent excluding currency impacts reflecting additional MRO activity (c.7 points). Maintenance costs increased from volume with more aircraft and higher flying hours, up 10.7 per cent. They also increased from the timing of the recognition of provisions linked to the Group's shift to pay as you go maintenance contracts.

Property, IT and other costs are up 21.7 per cent excluding currency, of which 5 points relates to the full year impact of Aer Lingus. The remaining increase primarily reflects lost sub-leased revenue following a new agreement for terminal 7 at JFK airport.

Selling costs increased 2.4 per cent excluding currency. Additional costs were incurred related to higher passenger numbers and from initiatives in new markets, offset by lower commissions paid.

Overall supplier unit cost performance reflected an upward trend from higher compensation claims and the continued shift towards maintenance contracts linked to flying hours, partially offset by the Group's structural initiatives aimed to improve efficiency.

Ownership costs

The Group's ownership costs were up 4.1 per cent, with 4.1 points of adverse currency. In 2016, depreciation costs increased from higher IT charges as the renewal of technology replaced fully depreciated assets, including the British Airways new check in and departure control system. The current year charge also reflects a partial impairment of British Airways' Openskies operation in France, the full year impact of owning Aer Lingus, and accelerated depreciation of Iberia's Airbus A340-300s in 2015. Operating lease costs rose at Aer Lingus, British Airways and Vueling, partially offset by a reduction from a tax court ruling in Iberia. The Group had 32 additional leased aircraft compared to the same period last year partially due to fleet renewal with 13 less owned aircraft.

Total operating costs decreased 2.4 per cent (or 6.9 per cent on a like for like basis) impacted by the weaker sterling – reducing our euro cost base, from lower fuel commodity prices and through management cost initiatives. These were partially offset by supplier inflationary increases and from higher activity. Total unit costs decreased by 7.3 per cent excluding currency.

Ownership costs

€ million	**2016**	Higher/(lower) Year over year	**Per ASK at ccy**
Ownership costs	**2,046**	4.1%	**(1.1%)**

Number of fleet

Number of fleet	**2016**	Higher/(lower) Year over year
Shorthaul	**359**	2.3%
Longhaul	**189**	6.2%
	548	3.6%

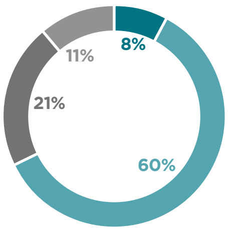
Operating profit

The Group's operating profit, before exceptional items, for the year was €2,535 million, a €200 million improvement from last year. This increase reflects the Group's drive towards achieving a competitive cost base with improved productivity and non-fuel cost savings. These positive results have been reached in a challenging macroeconomic environment with €460 million adverse currency impact, reducing passenger unit revenues but improving total unit costs. The Group's adjusted operating margin improved 1.2 points to 12.3 per cent.

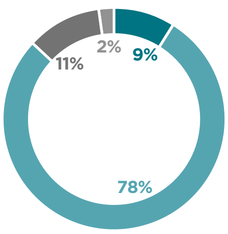
Financial review continued

Financial performance by Brand

Capacity



Operating profit



British Airways operating profit was £1,473 million, excluding exceptional items, an improvement of £223 million over the prior year on a capacity increase of 2.6 per cent. British Airways' home market environment was impacted by the UK's referendum vote to leave the EU with significant volatility in its primary currency and from weaker demand surrounding the vote. The devaluation of sterling benefitted British Airways' revenues in sterling terms while it was adverse on the cost base. Passenger revenue increased for the year, as did BA Holidays revenue reflecting continued growth.

British Airways launched Plan4 this year to streamline and simplify its operations and its head office function, this included recognising an exceptional charge for the year of £124 million. In 2016 cost savings have been achieved with efficiency gains in employee and operational costs.

Overall, British Airways' adjusted operating margin improved 1.9 points to 13.3 per cent.

*For comparative purposes, the 2015 base has been restated to exclude British Airways' share of Avios profits.

Operating profit and loss performance of operating companies

	British Airways* £ million		Aer Lingus € million	
	2016	Higher/ (lower)	**2016**	Higher/ (lower)
ASKs	178,732	2.6%	23,533	9.6%
RPKs	145,170	2.2%	19,194	9.5%
Seat factor (per cent)	81.2	(0.3)pts	81.6	(0.0)pts
Passenger revenue	10,340	1.3%	1,707	4.9%
Cargo revenue	589	0.2%	45	(15.8%)
Other revenue	514	4.0%	14	(62.5%)
Total revenue	**11,443**	1.2%	**1,766**	2.8%
Fuel, oil costs and emissions charges	2,469	(18.5%)	319	(17.8%)
Employee costs	2,444	(1.4%)	327	(1.2%)
Supplier costs	4,128	12.7%	721	0.8%
EBITDAR	**2,402**	12.7%	**399**	40.2%
Ownership costs	930	5.5%	166	3.8%
Operating profit before exceptional items	**1,473**	17.8%	**233**	86.9%
Adjusted operating margin	13.3%	1.9pts	14.9%	5.9pts
Passenger yield (£ pence or € cents/RPK)	7.13	(1.1%)	8.90	(4.2%)
Unit passenger revenue (£ pence or € cents/ASK)	5.78	(1.4%)	7.26	(4.3%)
Total unit revenue (£ pence or € cents/ASK)	**6.40**	(1.3%)	**7.51**	(6.0%)
Fuel unit cost (£ pence or € cents/ASK)	1.38	(20.6%)	1.36	(25.1%)
Non-fuel unit costs (£ pence or € cents/ASK)	4.20	4.1%	5.16	(8.1%)
Total unit cost (£ pence or € cents/ASK)	**5.58**	(3.3%)	**6.53**	(12.2%)

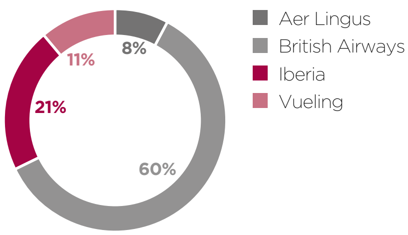
For the full year, **Aer Lingus** operating profit was €233 million, an improvement of €109 million over last year on a like for like basis. Capacity was increased 9.6 per cent with the introduction of two additional Airbus A330s to support Aer Lingus' longhaul expansion, including new destinations such as Los Angeles and Newark.

Following on from the growth and facing significant industry pressure, passenger yields were down. The increase in operating profit reflects the benefit of a lower fuel price environment and cost savings, partially offset by the revenue weakness.

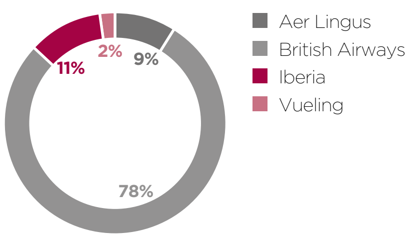
Aer Lingus' cost savings were achieved through efficient growth with higher productivity and from supplier and ownership initiatives leveraged through IAG. This included areas such as catering, cleaning, maintenance, ground handling and aircraft lease extension negotiations.

Aer Lingus, adjusted operating margin increased 5.9 points to 14.9 per cent. This performance reflects a turnaround from prior years, creating a competitive cost base and positioning itself to continue on its growth strategy.

Capacity



Operating profit



Iberia's operating profit was €271 million, up €49 million versus last year, achieving an adjusted operating margin of 7.6 per cent. Capacity for the year was up 4.0 per cent, on decreasing passenger unit revenues, impacted by capacity imbalance in longhaul, particularly in parts of Latin America and to a lesser degree in North America. Spain and the rest of Europe remain a challenging environment, while Iberia's revenue performance was relatively stable.

In 2016, Iberia's MRO business increased its external revenues by approximately €100 million while continuing to provide services to other Group companies.

On the cost side, airline non-fuel unit costs improved through higher productivity and from supplier initiatives, in particular efficiencies in IT and lower selling costs.

Iberia is continuing on its transformation journey with a focus on improving profitability in its strategic markets and the launch of the *Plan de Futuro II*.

*For comparative purposes, the 2015 base has been restated to exclude Iberia's share of Avios profits.

Operating profit and loss performance of operating companies

	Iberia* € million		Vueling € million	
	2016	Higher/ (lower)	**2016**	Higher/ (lower)
ASKs	**62,282**	4.0%	**33,884**	11.2%
RPKs	**51,064**	5.1%	**28,046**	13.2%
Seat factor (per cent)	**82.0**	0.9pts	**82.8**	1.5pts
Passenger revenue	**3,393**	(5.0%)	**2,049**	5.3%
Cargo revenue	**253**	(5.4%)	**-**	-
Other revenue	**939**	9.1%	**16**	(1.3%)
Total revenue	**4,586**	(2.4%)	**2,065**	5.2%
Fuel, oil costs and emissions charges	**1,003**	(19.8%)	**504**	(5.5%)
Employee costs	**1,032**	0.6%	**214**	18.0%
Supplier costs	**1,813**	4.8%	**1,032**	19.9%
EBITDAR	**738**	6.5%	**315**	(18.6%)
Ownership costs	**467**	(1.1%)	**255**	12.3%
Operating profit before exceptional items	**271**	22.6%	**60**	(62.4%)
Adjusted operating margin	**7.6%**	1.2pts	**6.7%**	(5.1pts)
Passenger yield (€ cents/RPK)	**6.65**	(9.6%)	**7.31**	(7.0%)
Unit passenger revenue (€ cents/ASK)	**5.45**	(8.7%)	**6.05**	(5.3%)
Total unit revenue (€ cents/ASK)	**7.36**	(6.2%)	**6.09**	(5.4%)
Fuel unit cost (€ cents/ASK)	**1.61**	(22.9%)	**1.49**	(15.0%)
Non-fuel unit costs (€ cents/ASK)	**5.32**	(1.4%)	**4.43**	6.4%
Total unit cost (€ cents/ASK)	**6.93**	(7.4%)	**5.92**	0.1%

Vueling's operating profit was €60 million with an adjusted operating margin of 6.7 per cent, down 5.1 points versus last year. 2016 was a difficult year with significant Air traffic control industrial action impacting Vueling's network operations. This high level of industrial action coupled with existing stretch in Vueling's resources, due in part to the rate of growth and in part to time of year (the summer peak period), led to significant customer disruption. The issues were addressed through contingency plans and temporary resources.

Vueling's underlying unit revenue performance, although down, was amongst the strongest in the Group.

Vueling's non-fuel unit cost performance reflects higher compensation and employee costs, in part from disruption, but also from the new EU Flight time legislation.

The Vueling NEXT programme will build a stronger platform to support its future growth.

Financial review continued

Exceptional items

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

In 2016, net exceptional charges at the operating profit level were €51 million (2015: €17 million). The net exceptional charge included in Employee costs relate to items at British Airways. In 2016, changes to the US Post-Retirement Medical Benefits were made to align with national trends in the US resulting in a credit of €51 million which has been offset by a €144 million restructuring charge related to initiatives developed to improve overall efficiency and effectiveness. The exceptional item in Fuel, oil and emissions in 2016 and 2015 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.

In 2015, exceptional charges in Property, IT and other relate to Aer Lingus acquisition costs of €33 million and a legal settlement at British Airways.

Non-operating costs and taxation

Net non-operating costs after exceptional items were €122 million, down from €517 million last year. The improvements are non-recurring, reflecting a:

- €230 million positive swing in partially unrealised gains from losses on derivative instruments not qualifying for hedge accounting; and
- €105 million improvement in profit or loss on the sale of property plant, equipment and investments. The Group recognised a gain on the sale and lease back of Airbus A319s and Boeing 787s in 2016, versus a loss on disposal of the Boeing 737s last year.

The great majority of the Group's activities are taxed in the countries of effective management of the main airline operations (UK, Spain or Ireland, with corporation tax rates during 2016 of 20 per cent, 25 per cent and 12.5 per cent respectively). The Group's effective tax rate for the year is 19.6 per cent (2015: 20 per cent).

Although the Group continues to offset prior year tax losses and other tax assets against its current year taxable profit, in 2016 the Group paid corporation taxes of €318 million (2015: €245 million). This represents 13.5 per cent (2015: 13.6 per cent) of the Group's accounting profit before tax.

Profit after tax and Earnings per share (EPS)

Profit after tax before exceptional items was €1,990 million, up 29.3 per cent. The increase reflects a solid operating profit performance in a challenging environment. Diluted earnings per share before exceptional items is one of our key performance indicators and increased by 26.3 per cent.

Dividends

The Board is proposing a final dividend to shareholders of 12.5 euro cents, which brings the full year dividend to 23.5 euro cents. The final dividend will be paid, subject to shareholder approval at the Annual General Meeting to shareholders on the register on the record date.

Dividend policy statement

In determining the level of dividend in any year, the Board considers a number of 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 airlines in 2016, although due to accumulated losses in certain companies they were not all distributable. Distributions may also be restricted by certain matching principles associated with the Group's pension schemes, see note 32 of the Financial statements.

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

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 in order to reduce the cost of capital and to provide future returns to shareholders.

The Group monitors capital using adjusted gearing, **adjusted net debt to EBITDAR** and liquidity.

In 2016, the Group's financial headroom increased as adjusted net debt to EBITDAR decreased to 1.8 from 1.9 in 2015.

Adjusted net debt reduced to €8,159 million and adjusted **gearing** improved 3 points to 51 per cent for the period from higher profit after tax.

The Group's **equity free cash flow** improved €574 million in 2016 due to the increase in EBITDAR and EBITDA before exceptional items with a stronger operating result and from lower net capital expenditure ('CAPEX') spend. The EBITDAR improvement brings the Group closer to its average long term planning goal of c.€5.3 billion on average per annum.

Overall, the Group generated sufficient equity free cash flow in 2016 to support the recommendation of an interim and final cash dividend of €498 million for its shareholders with cash coverage of 4.1 times (2015: 2.8 times).

In February 2017, the Group also announced its intention to carry 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 will be €500 million, carried out during the course of 2017 and may be implemented through one or more share buyback programmes.

Cash flow

€ million	2016	2015	Higher/ (lower)
EBITDAR before exceptional	**4,581**	4,301	280
Rentals (before exceptional)	**(759)**	(659)	(100)
EBITDA	**3,822**	3,642	180
Net interest	**(148)**	(149)	1
Tax	**(318)**	(245)	(73)
Net capex	**(1,301)**	(1,767)	466
Equity Free Cash Flow	**2,055**	1,481	574
Movement in working capital and other	**235**	(575)	810
Pension and restructuring	**(946)**	(671)	(275)
Acquisition of subsidiary (net of cash and deposits)	**-**	(438)	438
Dividend paid	**(442)**	(163)	(279)
Net financing and refinancing	**187**	1,067	(880)
Other investing movements	**2**	45	(43)
Other financing movements	**(45)**	(184)	139
Cash inflow	**1,046**	562	484
Opening cash, cash equivalents and interest-bearing deposits	**5,856**	4,944	912
Net foreign exchange differences	**(474)**	350	(824)
Cash and cash equivalents and other interest-bearing deposits	**6,428**	5,856	572

€ million	2016	2015	Higher/ (lower)
British Airways	**2,958**	2,806	152
Iberia	**1,179**	832	347
Aer Lingus	**855**	772	83
Vueling	**648**	633	15
IAG and other Group companies	**788**	813	(25)
Cash and cash equivalents and interest-bearing deposits	**6,428**	5,856	572

In 2016, the Group **net 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 has been partially offset by €1,582 million of proceeds from the sale and leaseback of 26 new aircraft (nine Airbus A321 family, eight Airbus A330 family 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.

In comparison, 2015 deliveries included nine new aircraft, two Airbus A380s, five Boeing B787-9s, one Airbus A320 and one Embraer E-190. In 2015 the Group sale and leaseback was €111 million. The current year net CAPEX of €1,301 million is below the Group's long term planning goal of an average of €1,700 million per annum.

Movements in **Working capital** generated a €235 million increase in free cash flow primarily related to an increase in sales in advance of carriage. In 2015, the significant use of cash through working capital reflects higher prepayments including fuel, a reduction in payables primarily with lower fuel prices, and the addition of Aer Lingus from August 18, 2015.

Pension and restructuring payments are higher at British Airways due to an increase in cash sweep of €403 million and from a low base with some of the 2015 payment made in 2014.

In 2015, the **acquisition** of Aer Lingus net of its cash and deposits was a cash outflow of €438 million.

In 2016, the cash **Dividend paid** reflects the 2015 final dividend and the 2016 interim dividend. In 2015, the cash dividend was only the 2015 interim dividend, the Group's first dividend payment.

Net financing and refinancing are discussed on the next page.

Taking these factors into consideration, the Group's cash in flow for the year was €1,046 million and after net foreign exchange differences, **the increase in cash net of exchange** was €572 million. Adequate cash levels are maintained by each operating company.

Financial review continued

Net debt, adjusted net debt and adjusted gearing

Net debt

€ million	2016	2015	Higher/ (lower)
Debt	**(8,630)**	(6,617)	(2,013)
Cash and cash equivalents and interest bearing deposits	**5,856**	4,944	912
Net debt at January 1	**(2,774)**	(1,673)	(1,101)
Increase in cash net of exchange	**572**	–	572
Net cash outflow from repayments of debt and lease financing	**1,130**	1,026	104
New borrowings and finance leases	**(1,317)**	(905)	(412)
(Increase)/decrease in net debt from regular financing	**(187)**	121	(308)
Debt	**–**	(406)	406
Cash and cash equivalents and interest bearing deposits	**–**	913	(913)
Net debt through acquisition	**–**	507	(507)
Financing raised through acquisition	**–**	(1,087)	1,087
Exchange and other non-cash movements	**302**	(642)	944
Net debt at December 31	**(2,087)**	(2,774)	687
Capitalised aircraft lease costs	**(6,072)**	(5,736)	(336)
Adjusted net debt at December 31	**(8,159)**	(8,510)	351

Net debt at December 31, 2016 was €2,087 million, a reduction of €687 million in the year from the stronger cash position.

Net debt from regular financing activities increased €187 million, with new borrowings slightly exceeding the current year's regular debt and lease repayments. The level of 2016 new borrowings and finance leases reflected the timing of fleet deliveries for the Group.

In 2015, the Group's **Net debt through acquisition** was €507 million from the addition of Aer Lingus. The improvement reflected Aer Lingus' strong cash position and mix of operating versus financing leases. Also related to the 2015 Aer Lingus acquisition, IAG launched two tranches of convertible bonds totalling €1 billion.

Capitalised aircraft lease costs rose during the year from the full year impact of Aer Lingus and from an increase in leased aircraft at British Airways as part of the regular fleet renewal programme.

Capital commitments and off balance sheet arrangements

Capital expenditure authorised and contracted for amounted to €14,022 million (2015: €16,091 million) for the Group. The majority of this is in US dollars and includes commitments until 2022 for 106 aircraft from the Airbus A320 family, 18 Boeing 787s, 43 Airbus A350s, and 5 Airbus A330s.

Expected fleet deliveries in each of 2017 and 2022 is nine aircraft, compared to an average of 38 aircraft for each of 2018, 2019, 2020 and 2021. The expected net capital expenditure by year follows the pattern of the fleet deliveries. Overall, the Group maintains flexibility in its fleet plans through the use of deferrals, options and its renewal terms.

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

Committed to our sustainability goals

"We are proud to have played a part in the historic agreement at the International Civil Aviation Organisation (ICAO) securing the world's first carbon offsetting scheme."

Antonio Vázquez
Chairman

We remain committed to our ambition to make IAG the world's leading airline group on sustainability and we continue to develop our environmental and corporate responsibility programmes to support that goal.

It's been an important and eventful year in this regard.

The historic agreement at the 39th ICAO General Assembly to create a global market-based measure to address airline carbon emissions was a very significant milestone for our industry, backed by really ambitious targets to halve emissions by 2050 and to grow in a carbon neutral way from 2020. It will take a huge effort to achieve these targets, but the ambition is clearly there and shared internationally.

We were also delighted to see the UK Government recognise the importance of sustainable alternative aviation fuels by including them in their policy considerations for the first time. There are many challenges to overcome with the use of these fuels but we are convinced they will play an important part in improving the environmental performance of our industry.

We've advocated for these two significant developments for a very long time and are pleased to see such good progress.

We've also been busy internally. During 2016 we established new programmes and governance systems to ensure our sustainability strategy is more closely matched up with our core business strategy. Sustainability is now highlighted as a central part of IAG's business model with a focus on creating value in a sustainable way and on responsible environmental, social and corporate governance.

The IAG business model (page 11) describes how we create value for all our stakeholders and it provides the anchor for all our sustainability work throughout the business. Sustainability is also embedded in our Enterprise Risk Framework and is now supported by an improved governance structure. In addition we are now linking our programme to the UN's Sustainable Development Goals.

On an operational level we continue to make real progress reducing our carbon and noise impacts, greatly helped by new operating procedures and the arrival of 37 new aircraft in our fleet which on average produce 20% less CO_2 and are 50% quieter than the planes they replace.

In the year ahead we will continue this work – supporting the implementation of the global market based scheme for our industry, pressing ahead with our sustainable alternative fuels project in the UK and taking action to make sure we have a consistent approach to environmental management across all of our operating companies.

Antonio Vázquez
Chairman

See pages 11 - 13 for more about our Business model and strategy

Sustainability overview

Governance

As IAG's sustainability strategy matures, and as part of our materiality study and risk assessment in 2016, we have extended the scope of our sustainability governance to include all the operating companies and business units within the Group. The IAG Management Committee and Board have also approved the establishment of a new Sustainability Committee bringing sustainability in line with other governance models managed by the IAG Management Committee.

Materiality

In 2016 we updated our materiality assessment to clarify the relative importance of the Environmental, Social and Governance (ESG) issues for IAG. Based on the Global Reporting Initiative (GRI) guidance, we drew on external stakeholder materiality feedback and balanced this through the same scoring grid with input from our own understanding of the most material issues.

The exercise proved valuable in checking that IAG's sustainability strategy and plans give proportionate and appropriate attention to each ESG matter at both Group and operating company level. It also informed our approach to this report, enabling a focus on the material issues of most interest to our stakeholders.

We intend to repeat the exercise periodically to gather feedback from additional stakeholder groups to help further refine and focus our sustainability reporting.

Sustainability risks and enterprise risk management

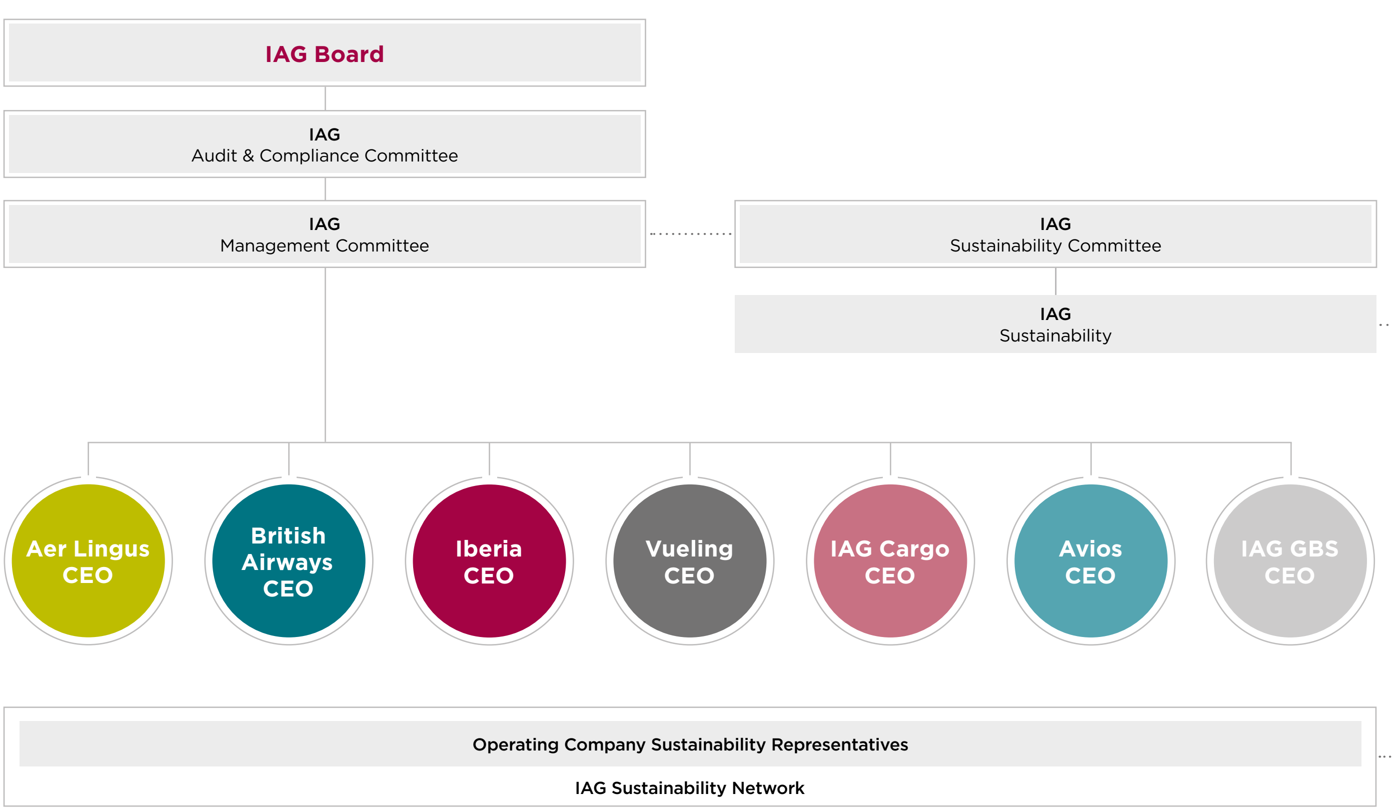
The IAG Sustainability Committee reports regularly to the Management Committee and at least once a year to the IAG Board on sustainability risks, in line with the requirements of our Spanish Corporate Governance Code. This year we have aligned our sustainability strategy to the IAG Enterprise Risk Management (ERM) function.

We have identified our sustainability risks following the ERM methodology and all risks have owners within the operating companies. We work with them to ensure that the risks are appropriately managed to mitigate them effectively.

The sustainability risk assessment identified two areas this year where further management attention was needed, supply chain sustainability governance and the consistency of approach to environmental compliance. These have now been addressed with action plans put in place following the risk assessment.

We consider the impact of sustainability and environmental matters as part of our overall strategy and planning processes including sustainability risks.

Sustainability structure



UN Sustainable Development Goals

In September 2015, as part of the United Nation's Summit on Sustainable Development, all 193 Member States of the United Nations adopted a plan to "end poverty, fight inequality and injustice, and tackle climate change by 2030. At the heart of this 'Agenda 2030' are 17 Sustainable Development Goals (SDGs). Fulfilling these goals will take significant effort by all sectors in society and it is widely recognised that business has an important role to play.

For IAG, it is possible to draw connections to many of the UN SDGs and will include those connections in the future performance reporting. However, we have also selected a smaller number of SDGs, set out in the table below, that we believe reflect the material issues and opportunities for IAG. For these, during 2017 we will be working to align our strategies in support of these goals and undertaking formal commitment and reporting via UN SDG channels.

UN SDG selected for IAG sustainability strategy	Relevance to IAG and key opportunities for action in 2017 and beyond
Goal 5: Gender equality: Achieve gender equality and empower all women and girls.	Gender equality has been a key consideration in planning the long-term composition of the IAG Board itself and further strategies are in place across the organisation to encourage greater gender equality. The Group reports employees by gender.
Goal 7: Affordable and clean energy: Ensure access to affordable, reliable, sustainable and modern energy for all.	IAG is proactively working with partners in fuel production and waste management to develop the technology and market for sustainable aviation fuels which not only help address climate impacts but also support affordable, reliable energy supply for aviation and other users.
Goal 8: Decent work and economic growth: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.	As one of the largest airline groups in the world, IAG contributes to global economic prosperity by transporting goods and connecting people, places, communities and cultures. In 2016 IAG transported over 5,454 million tonnes of cargo kilometres, carried over 100 million passengers, employed 63,387 people (average manpower equivalent) and paid €318 million in taxes.
Goal 13: Climate Action: Take urgent action to combat climate change and its impacts.	IAG has and will continue to take a strong leadership role in shaping national and international policy to support aviation in addressing its climate change impacts. We also actively support and implement the industry's four pillar strategy to address climate impacts by pursuing more efficient aircraft operations, investing in improved technology including newer aircraft and sustainable low-carbon fuels, and actively supporting global carbon pricing for aviation.

Sustainability future focus

In aviation, due to the long-term development timescales for new aircraft technologies and infrastructure, it is important we continually seek out opportunities to innovate to address our sustainability impacts. Here are some of the exciting opportunities we are working on:

Real time data sharing to optimise fuel efficiency

Internet connection to our aircraft is currently being deployed in IAG's airlines and will offer opportunities to optimise flight efficiency. In 2017, we are implementing new Group-wide fuel efficiency software to enable better tracking and benchmarking of our operational flight efficiency, providing a platform to evolve to real-time fuel performance management.

Deriving sustainable aviation fuels from waste materials

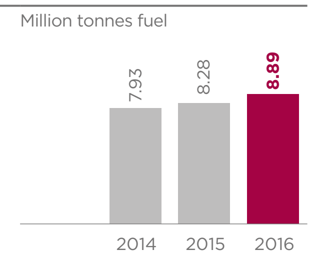
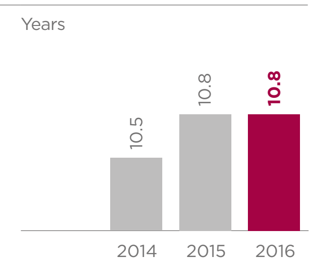
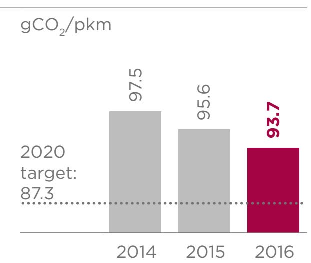
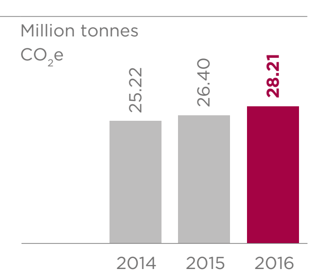
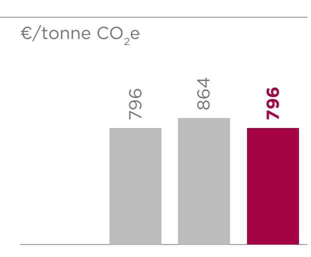
IAG is actively exploring opportunities in this area and, with the right policy incentives in place, we believe aircraft could be operating on up to 25 per cent sustainable alternative fuels by 2050. In 2017, we continue to lobby for policy support for these fuels and intend to formalise our working with strategic partners to progress one or more UK projects.

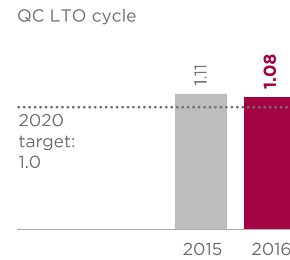
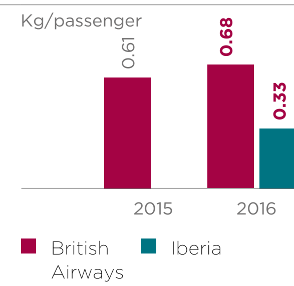
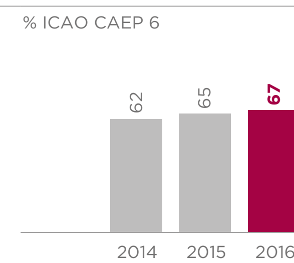
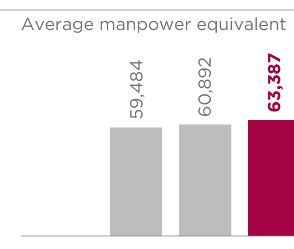
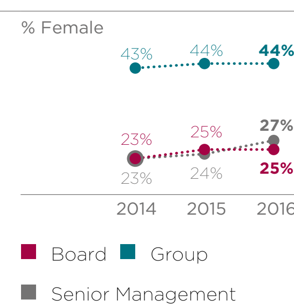
Carbon pricing

The Paris climate change agreement demonstrates both government and industry commitment to develop low carbon economies. IAG believes putting a cost on carbon is the most effective mechanism to address carbon emissions global market based measure, Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), is a positive step towards full carbon pricing for the aviation sector and in 2017 IAG will continue to engage in international discussions to further build on this.

Sustainability performance

This year, following a report benchmarking exercise, we have refined our focus on sustainability performance measures. This section focuses on the core areas of our sustainability performance reflecting our most material matters, while a broader overview across all our sustainability performance measures, consistent with previous years, is provided on page 227. During 2017 we will be working to establish consistent data capture to begin reporting on energy efficiency, customer satisfaction and supply chain metrics too. The sustainability programmes, initiatives and performance measures presented in this report are co-ordinated across the Group through the IAG sustainability network.

Aspect and link to SDGs	Performance indicator	Target / future direction	2016 highlights	Performance
Climate	Jet fuel (Million tonnes fuel)	As commercial aircraft remain reliant on liquid kerosene for the foreseeable future, IAG's climate change focus is on purchasing more fuel efficient aircraft, developing sustainable jet fuel, pursuing operational fuel efficiency and supporting the CORSIA global carbon offsetting scheme.	• Global aviation carbon offsetting scheme (CORSIA) agreed • Sustainable aviation fuels included in UK Consultation	
	Average age of aircraft fleet (Years)	The long-term replacement of Boeing 747, Boeing 767 and Airbus A340 aircraft with Airbus A350 and Boeing 787 aircraft continues. Some new longhaul deliveries have been delayed by approximately one year, however the average age of the fleet is forecast to continue to fall due to significant deliveries of new shorthaul aircraft.	• 37 new aircraft purchased (11 Boeing 787s, one Airbus A380, 12 Airbus A330s, and 12 Airbus A320s) • 14 aircraft retired from fleet (four Boeing 767s and three Boeing 747s in British Airways, seven Airbus A340-300s in Iberia) • Total aircraft fleet at end of December 2016: 548	
	Flights only emissions intensity (gCO_2/pkm)	Target: 10 per cent improvement by 2020 compared to 2014. Grammes of CO_2 per passenger kilometre is a standard industry measure of fuel efficiency. Another way to interpret this same metric is 'how far can be travelled for one tonne of CO_2?' For IAG in 2012, the distance was 9,950 km and in 2016 it was 10,672 km a 7.3% per cent improvement.	• IAG achieved 2 per cent improvement, continuing to exceed the industry target of 1.5 per cent annual improvement in fuel efficiency • We are monitoring closely any delays in fleet replacement and its potential impact on this target • Board approval was given to reconfigure nine Boeing 777 aircraft to accommodate an average of 56 additional seats, improving emissions intensity • Fuel efficiency successes. See case study page 50	
	Scope 1 Direct GHG emissions (Million tonnes CO_2e)	IAG reports Green House Gas (GHG) emissions in accordance with the GHG Protocol's three categories; Scope 1, Scope 2 and Scope 3 emissions. Put simply, these can be summarised respectively as; our flying, our buildings and our other indirect sources (such as supply chain, staff commuting etc.).	• IAG discloses detailed information about our GHG emissions annually through the Carbon Disclosure Project (CDP). Reports are publicly available to view online • 2016 CDP score for IAG under the new scoring format was C	
Economic return versus climate impact	Revenue per tonne CO_2e (€/tonne CO_2e for scope 1 and 2 emissions combined)	This new Group metric is designed as a long-term measure to track the connection between economic growth and climate impact of our operations.	• We have seen an increased level of revenue per tonnes of CO_2e. This dropped in 2016 due to a levelling off of general revenue as explained on page 37	

Aspect and link to SDGs	Performance indicator	Target / future direction	2016 highlights	Performance
Noise	Average noise (QC LTO cycle)	Target: reduce noise per flight by 10 per cent to 1.0 by 2020 compared to 1.1 in 2015. This metric measures average noise per flight taking into account arrival and departure noise for each aircraft type (using QC 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 QC score would be 6.0 whereas an Airbus A320 would be 1.0.	• 99 per cent of fleet meet ICAO Chapter 4 noise standard • 46 per cent of fleet meet latest ICAO Chapter 14 noise standard • Improved continuous descent operations • Noise mitigation collaboration in Madrid	
Waste	Average aircraft cabin waste per passenger (Kg/passenger)	During 2017 we will be working to establish average aircraft cabin waste baselines and intend to begin reporting Group performance on this from next year onwards. Both British Airways and Iberia's performance compares favourably with IATA published average cabin waste figures.	• Iberia take lead in EU catering waste project • British Airways progress in reducing on-board catering in shorthaul • British Airways increase in longhaul cabin waste due to increased packaging weight of tuck boxes and Club Kitchen	
Air quality	Aircraft fleet that meet ICAO CAEP 6 standard for NOx emissions (%)	We are actively working to minimise impact on local air quality through our investment in new aircraft and the improved operational practices.	• Trialled electric tug device • Increased instances of single engine taxiing • Limiting use of auxiliary power units • 24 per cent of our aircraft fleet meet latest ICAO CAEP 8 NOx standard	
Employment	Average manpower equivalent (Number)	Seeking efficiencies to maintain a competitive cost base but recognise that number of employees is a positive economic and social metric that will fluctuate with passenger demand and business growth.	• British Airways won Gold accreditation by Fair Train for quality work experience placements, 350 placements hosted	
Gender diversity	Board, senior management, and Group Level (%) Female	IAG encourages greater gender equality at all levels in the workplace including in our general work force, graduate programme, in senior management and at Board level.	• British Airways Science, technology, engineering and mathematics (STEM) work experience programmes attracted 19 per cent females to participate, 10 per cent increase on 2015 • Proactive recruitment of female Board members has improved IAG Board's female representation from 17 per cent in 2013 to 25 per cent in 2016	

Sustainability in action

Our actions in support of our sustainability strategy

Climate Change

Global aviation carbon offsetting scheme

In 2016 we made a significant step towards our industry goal of carbon neutral growth from 2020, when ICAO, achieved agreement to develop CORSIA, the world's first global market based measure to address aviation carbon emissions.

From 2021, airlines will buy emissions units to offset their share of the sector's growth emissions to fund sustainable carbon reduction projects around the world.

The voluntary first phase from 2021 to 2026 has attracted strong support from the international community with 66 nations, so far declaring their commitment to participate. Over its life to 2035 it is expected to cover over 85 per cent of international aviation emissions growth.

IAG and our airlines have been involved in the development of CORSIA for eight years and will continue to play an active role over the next three years.

IAG expects the CORSIA scheme will replace international aviation's inclusion in the EU emissions trading system to avoid double regulation.

Successfully implementing CORSIA will allow us to develop further plans to deliver on our longer-term target of a 50 per cent reduction in CO_2 emissions by 2050.

Sustainable aviation fuels

In 2016, Oslo and Los Angeles airports introduced a regular supply of sustainable jet fuel for use in commercial airliners. These milestone projects benefitted from regional support and as the cost differential between fossil and, jet fuel currently is significant, this demonstrates government policy support is essential for these emerging technologies.

Global policy development has progressed to address the new reporting methods required to take account of sustainable jet fuels within the CORSIA scheme. The government has launched a formal UK consultation on future fuels policy to 2030 that includes aviation fuels. We are committed to investing in sustainable fuel technologies and to working with a range of partners to achieve them.

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 seven additional energy projects in 2016, bringing the total to 21, exceeding €2 million in community benefits.

We also invested in projects for schools and community leisure centres in the UK but the fund also supported the Ol Pejeta Conservancy in Kenya with a solar pump to provide a reliable water supply for local communities and wildlife. The solar power also provides free Wi-Fi for local schools.

IAG fuel efficiency network

The IAG fuel efficiency network enables each airline's experts to share best practice. This year we undertook further single engine taxiing, continuous descents, compressor washing regimes and, procuring a Group-wide fuel efficiency software system.

This year Aer Lingus' introduced an improved descent procedure into London Heathrow. Aircraft can fly a more efficient gradual descent towards the holding point. With 8,000 flights a year on that route this saves over 300 tonnes of fuel, and over 1,000 tonnes of CO_2 per annum.

Supply chain

IAG engages with suppliers on standards of quality, safety, environmental responsibility and human rights. Supplier audit priority is based on annual expenditure, factories located in high-risk geographies, and the supplier strategic importance IAG also continues to strengthen its partnership with Sedex, a non-profit organisation dedicated to driving improvements in responsible and ethical business practices in global supply chains. In 2016 IAG continued progress on health, safety and environment by executing audits and working on mitigation actions together with our suppliers through a focus on safety leadership, training and local programmes.

Noise

Continuous descent operations (CDO) help reduce noise by keeping aircraft higher over the ground for longer, and save fuel. CDO performance is closely monitored in the UK, and British Airways and Aer Lingus are already among the top performing airlines, regularly achieving over 90 per cent compliance. In 2016, Iberia's crew training to support CDOs achieved 22 per cent improvement to 79 per cent compliance, and Vueling achieved 15 per cent improvement to 62 per cent compliance. During 2017 we will continue our focus on this and aim to see all our operating companies achieving over 80 per cent CDO compliance in the UK.

We have also been working with a range of stakeholders at Madrid-Barajas airport to explore opportunities to mitigate approach noise. This is in the context of an ongoing court case where residents affected by Madrid Barajas airport's approach routes are calling for a reduction in the number of overflights. Working with multiple stakeholders (including Madrid-Barajas Airport, Airbus, Iberia and IAG) we are pursuing operational and technical innovations to help mitigate noise and achieve an acceptable balance for all stakeholders.

Air quality – electric tug trial

British Airways began trialling the Mototok electric pushback device in April 2016 to test whether it would be suitable for the airline's shorthaul operation in Terminal 5A at London Heathrow. The device allows aircraft to push back entirely by remote control. As well as reducing costs and improving safety with zero emissions it also has local air quality and climate change benefits over a traditional tug. The trial confirmed the Mototok's effectiveness and British Airways are exploring opportunities for adoption on selected shorthaul operations.

Energy efficiency

IAG has begun co-ordination of data monitoring on energy efficiency and we intend to begin reporting performance on this from next year. However there has already been progress in this area over recent years; British Airways for example established a baseline in 2013 for a set of core sites, primarily those directly managed by British Airways and its facilities management suppliers. By the end of 2016 electricity use at these sites had been reduced by 25 per cent and gas use has been reduced by 46 per cent compared to 2013.

Waste

Reducing cabin waste is important in terms of cost, natural resources, fuel and carbon emissions. However this needs to be balanced with maintaining the quality of our commercial product and flight experience for passengers. Also, waste regulations add complexity as international catering waste from flights outside the EU is classified as category 1 waste (a high risk waste due to potential animal by-product content) and its management in the EU is restricted to landfilling or incenaration.

In 2016 Iberia took a leading role in a three year EU project 'LIFE+ Zero Cabin Waste'. Its goals are:

- 5 per cent reduction in waste,
- waste recovery with 80 per cent of total cabin waste diverted from landfill;
- improved separation and recycling to reduce the cost of disposal, and
- establish a model that can be replicated by other airlines.

The project began at Madrid's Barajas airport, where Iberia's catering company Gate Gourmet currently collects 6,000 tonnes of cabin waste per year (4,000 tonnes Category 1). Crew and ground staff training, new equipment and new procedures are all being developed along with a new test treatment for Category 1 waste. During the project's final year the model will be replicated at London Heathrow airport to test its transferability.

Wildlife trafficking

In April 2016 Transport industry leaders, including IAG, and intergovernmental organisations, signed the United for Wildlife Transport Taskforce Buckingham Palace Declaration. The declaration aims to reduce the levels of trafficking of endangered animals by improving information sharing, staff training and resource sharing.

The endangered animal trade is a growing problem and the transport industry is looking to remove the use of our industry for this illegal trade.

Modern slavery policy

As part of the UK Modern Slavery Act, IAG is required to publish a Group wide statement outlining our activity in this important area. We take this issue seriously and have made efforts in the past to ensure that there are no examples of modern slavery within our business. We also conduct audits and inspections to reduce any likelihood of activity within our supply chains and also on-board our aircraft, particularly in relation to human trafficking. In 2017 we will publish a statement outlining our commitment to reducing modern slavery on our website.

Charity

Vueling customers and staff raised more than €250,000 in 2016. Vueling will renew their alliance with Save the Children for another year to keep supporting their work for child refugees in Europe.

Flying Start, British Airways corporate charity partnership with Comic Relief, launched the Big Charity Choice in 2016. £200,000 was allocated across five youth charities who received between £10,000 and £100,000 each.

British Airways Flying Start fundraising totaled £3 million in 2016.

Aer Lingus has supported Special Olympics Ireland since 2003 and contributed €14,000 to the total of €650,000 raised on Ireland National Collection Day in April 2016. In 2017, Aer Lingus will again support Special Olympics Ireland, providing flight support for athletes attending the World Winter Games in Austria in March and sending five staff volunteers to support Team Ireland.

Iberia participated in three main charity projects in 2016; transporting humanitarian aid to Africa and Latin America, supporting child protection with Save the Children in Guatemala City and continuing collaboration with Unicef and Amadeus on the "100% Let's vaccinate every child" initiative. Donations of €690,000 from Iberia customers since 2013 has enabled more than 1.8 million children to be vaccinated.

Corporate governance

In this section

Corporate Governance

“2016 has really tested the Group. However, the quality of our brands, our core management allied with IAG’s unique structure are our key assets to face these head-winds. The Board remains **enthusiastic and confident** about the future.”

Antonio Vázquez
Chairman

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

An efficient Board support that creates value

"The IAG Board continues to evolve in important ways and in a challenging economic and political environment over the last 12 months has proved itself to be highly effective in supporting the Group's management and adding value."

Antonio Vázquez
Chairman

The main role of the Board of Directors is to supervise the Group's day-to-day management, helping them to create a profitable and sustainable business and to maximise the value of the Company for the long term.

2016 was in some ways a testing year. The uncertainties caused by the Brexit referendum had a significant and immediate impact on the Group's share price. However, we took swift action to offer the financial community guidance on the immediate impact of the vote on the business and were able to reassure investors that our long-term financial and operating targets remain robust.

Our annual two-day strategy meeting gave Board members an excellent opportunity to spend time with the Group's executive teams, to get a detailed update on the performance of the different businesses within the Group and to reflect deeply on the challenges that lie ahead for IAG as a whole. This year's meeting was particularly important, coming, as it did, at the start of a new five-year strategy cycle for the business.

We were delighted to hold this meeting in Dublin. It gave us a chance to welcome our colleagues from Aer Lingus to the Group and the opportunity to introduce our non-executives to the Aer Lingus team, a meeting that proved very useful for everyone concerned.

Board changes and succession planning

I am fortunate indeed to be supported by a superb and extremely talented group of fellow directors with a broad range of international experience in commerce, finance and public policy. They bring great strength to the Company and I thank them all for their support and dedication.

During the year Sir Martin Broughton stepped down as Deputy Chairman and Senior Independent Director, having served for six years on the IAG Board and 10 years at British Airways. He is succeeded by Patrick Cescau as Senior Independent Director. César Alierta also retired during the year. On behalf of the Board, I would like to thank them both for their commitment and service to IAG in these very important first six years of the Company's life.

In seeking new Board members, we were keen to recruit a director with deep corporate finance and M&A experience and one with a detailed knowledge of the retail sector. So we were delighted to welcome Emilio Saracho, Vice Chairman of JP Morgan, and Marc Bolland, the former Marks & Spencer CEO, to the Board. The process we followed in making these appointments is described in detail in the Nominations Committee report on page 72.

We refreshed the composition of the different Board committees following these appointments to make sure we have the right mix of skills and experience on each and that duties are shared in an effective way amongst all of the directors.

We remain committed to recruiting a diverse Board in terms of gender, background and experience around the world. Currently we have three women non-executive directors on the Board, but we are committed to making sure four of our 12 Board members are women by the end of 2020.

All Board members are subject to re-election each year, a practice that is common in the UK but rare in other markets.

The October meeting of the Nominations Committee was particularly devoted to looking at succession plans both for the Board and for the IAG executive team, where of course the Board plays an important role in supporting the Chief Executive.

I think we can be very proud that we've been able to draw on the skills and talents of people within the Group to fill important senior executive positions in our operating businesses in recent times, not least the leaders of British Airways, Vueling and our Cargo business.

Although we are always keen to look at new talent from outside the Group, it is excellent that we are providing such fantastic opportunities for our own people to progress. It is proof that we have a superb inventory of talent within IAG.

We plan to maintain a special focus in this important matter both at Board and management level during 2017.

Risk management and control

As a company listed on both the Spanish and the London Stock Exchanges we are obliged to meet both Spanish and UK listing requirements and to take account of governance standards in both countries. We have brought ourselves into line with new Spanish and UK standards in recent years and continue to do so.

For example, in line with a Spanish Corporate Governance Code recommendation, we arranged for the full Board to review the Group's risk map in 2016 in addition to reviews carried out by the Audit and Compliance Committee and plan to do so on an annual basis. The risk map was presented to the Board by the new Head of Enterprise Risk Management, a position created after this function was centralised at Group level.

The Board also held a special session with the Company's external auditor to review developments and any relevant work undertaken on risk and accounting matters.

Evaluating the Board's effectiveness

We continued to evaluate the effectiveness of the Board, both internally and externally.

I spoke in depth with all my colleagues – as I do each year – to get their feedback on the operation of the Board and their recommendations and ideas on where we might improve our performance.

In addition we staged an external evaluation of Board performance which proved very fruitful and has led to some important discussions.

We engaged the same firm that carried out the first external evaluation of Board performance in 2013 to get a real perspective on how well we have adapted our approach and structures since the Company's earliest days. I'm glad to say that the review confirmed our view that the Board has made meaningful progress and built on its strengths in the last three years. In particular, the review found that there has been a substantial improvement in our ability to add value to the Company.

While that is encouraging, we are always conscious that there is room for further improvement. We constantly challenge ourselves to get better and to set the right tone from the top.

Following internal discussions, we have set ourselves a number of objectives to further strengthen the Board. These are described in more detail on page 64, but would highlight three particular priorities:

In the short term we will place an emphasis on developing Board scrutiny of the risk agenda beyond the Audit and Compliance Committee; Longer term we want to enhance the contribution we make to developing Group strategy; and continuing to play a full and supportive role in succession planning is also high on our agenda:

These are somewhat uncertain times for the world and for our industry. But I am convinced that the Board and the governance structure we have created for the Group are playing an essential role in placing IAG in a position of great and continuing competitive advantage.

Antonio Vázquez
Chairman

Board of Directors

Antonio Vázquez
Chairman

N S

Key areas of experience:
retail, sales/marketing, finance, governance.

Current external appointments:
Member, Advisory Board of Telefónica América Latina. Member, Advisory Board of the Franklin Institute. Member, Advisory Board of Loyola University.

Previous relevant experience:
Chairman, Iberia 2012-2013. Chairman and CEO, Iberia 2009-2011. Chairman and CEO, Altadis Group 2005-2008. Chairman, Logista 2005-2008. Non-Executive Director, Iberia 2005-2007. CEO of Altadis Cigars and other various positions in Altadis Group 1993-2005. Various positions at Osborne 1978-1983 and Domecq 1983-1993.

Willie Walsh
Chief Executive Officer

S

Key areas of experience:
airline industry.

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

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

Patrick Cescau
Senior Independent Director

A N

Key areas of experience:
retail, finance, sales/marketing, governance.

Current external appointments:
Non-Executive 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 Non-Executive Director, Tesco 2009-2015. Director, INSEAD 2009-2013. Senior Independent and Non-Executive Director, Pearson PLC 2002-2012. Group Chief Executive, Unilever 2005-2008. Chairman, Unilever PLC. Deputy Chairman, Unilever NV, 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, Indonesia and Portugal.

Marc Bolland
Non-Executive Director

R S

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

Current external appointments:
Head of European Portfolio Operations, The Blackstone Group, L.P. Non-Executive 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. Non-Executive Director, Manpower Inc. USA 2005-2015. Chief Operating Officer 2005-2006, Executive Director 2001-2005 and other executive and non-executive positions, Heineken 1986-2001.

Enrique Dupuy de Lôme
Chief Financial Officer

Key areas of experience:
finance, airline industry.

Current external appointments:
Chairman, Iberia Cards.

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

Baroness Kingsmill CBE
Non-Executive Director

N R

Key areas of experience:
government, legal and regulatory affairs.

Current external appointments:
Non-Executive Director, Industria de Diseño Textil S.A. (Inditex). Non-Executive Director, EON Supervisory Board. Non-Executive Director, Telecom Italia. Chairman, Monzo Bank Ltd., Member of the International Advisory Board, IESE Business School. Member of the House of Lords since 2006.

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

Committee Membership Key

- A Audit and Compliance Committee
- N Nominations Committee
- R Remuneration Committee
- S Safety Committee
- Committee Chair

James Lawrence
Non-Executive Director

A

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.

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

María Fernanda Mejía
Non-Executive Director

A R

Key areas of experience:
consumer, customer development, strategic planning, supply chain, innovation, marketing communications, merger and acquisitions.

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

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

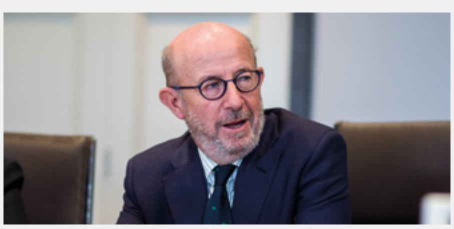
Kieran Poynter
Non-Executive Director

A S

Key areas of experience:
professional services, finance services, corporate governance.

Current external appointments:
Chairman, F&C Asset Management PLC. Senior Independent Director and Chairman of the Audit Committee, British American Tobacco PLC.

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



Emilio Saracho
Non-Executive Director

N

Key areas of experience:
corporate finance, investment banking.

Current external appointments:
Vice Chairman and Member of the Investment Banking Management Committee, JPMorgan Chase & Co. Non-Executive Director, Industria de Diseño Textil S.A. (Inditex).

Previous relevant experience:
Deputy CEO for EMEA 2012-2015, CEO Investment Banking for EMEA 2012-2014 and member of the Executive Committee 2009-2013, JP Morgan Chase & Co. CEO, JP Morgan Private Banking for EMEA 2006-2012. Member of the Board, Cintra 2008. Member of the Board, ONO 2008. Chairman, JP Morgan Spain and Portugal 1998-2006. Global Investment Banking Head, Santander Investment (UK) 1995-1998. Spanish Market Manager, Goldman Sachs International 1990-1995. Investment Banking division Manager, Banco Santander de Negocios 1985-1990. Analyst, Chase Manhattan Bank 1980-1985. Member of the Board, Fiseat 1988.

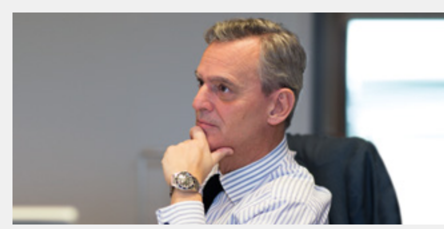
Dame Marjorie Scardino
Non-Executive Director

N R

Key areas of experience:
commercial management, government affairs, communications, digital and media, legal services.

Current external appointments:
Senior Independent Director, Twitter, Inc. 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 plc 1997-2012. Chief Executive Officer, The Economist Group from 1993-1996. President, The Economist Group US 1985-1993. Lawyer practising in the US 1975-1985.



Alberto Terol
Non-Executive Director

A R

Key areas of experience:
finance, professional services, information technology, hospitality industry.

Current external appointments:
Non-Executive Director, Indra Sistemas, S.A. Non-Executive Director, Broseta Abogados. International Senior Advisor, Centerbridge. Executive Chairman of various family owned companies.

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

Corporate governance

IAG as a Group

IAG is responsible for the Group's strategy and business plan. It centralizes 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

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

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

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

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

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

Safety Committee

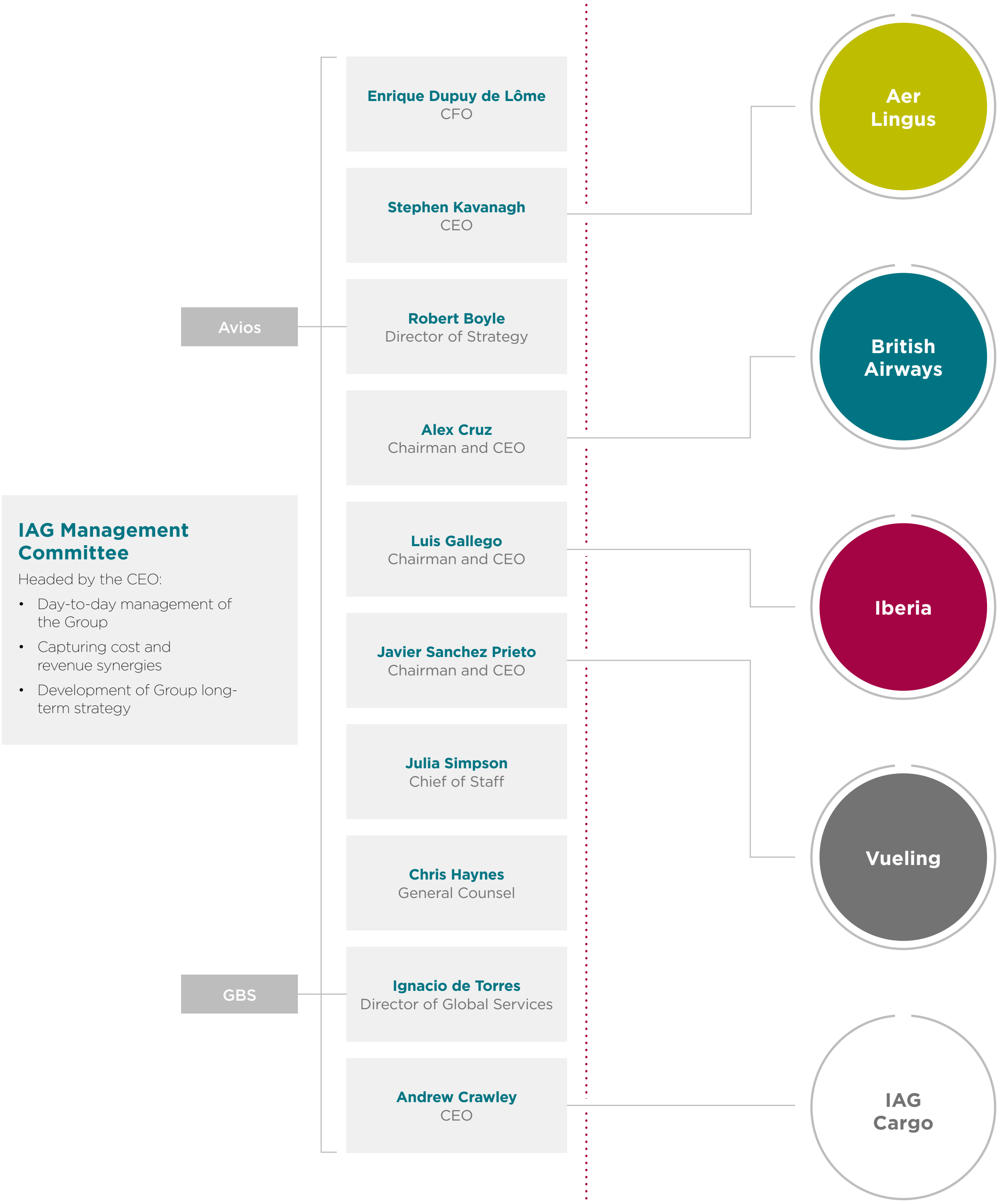
- receives material safety information about any subsidiary or franchise, codeshare or wet lease provider
- exercises a high level overview of the safety activities and resources
- follows up on any safety related measures as determined by the Board

* List of Board's reserved matters can be found in article 3 of the Board Regulations, available in 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 continued

Corporate governance code compliance

As a company incorporated and listed in Spain, IAG is subject to applicable Spanish legislation and to the Spanish corporate governance framework. At the same time, as it has a listing on the London Stock Exchange, IAG is also subject to the UK Listing Rules, including the requirement to explain whether it complies with the UK Corporate Governance Code published by the UK Financial Reporting Council as amended from time to time (a copy of which is available from www.frc.org.uk).

This Corporate Governance section (the UK Corporate Governance Report) includes an explanation regarding the Company's application of the main principles of the UK Corporate Governance Code. In addition, the Company prepares an Annual Corporate Governance Report according to Spanish legal requirements which includes information regarding compliance with the Spanish Good Governance Code of Listed Companies. This report is included on pages 154 to 214.

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

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

The Company believes that, notwithstanding the above exception, it has a robust governance structure.

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

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, 2016 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
Baroness Kingsmill	Director (independent)	September 27, 2010
James Lawrence	Director (independent)	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

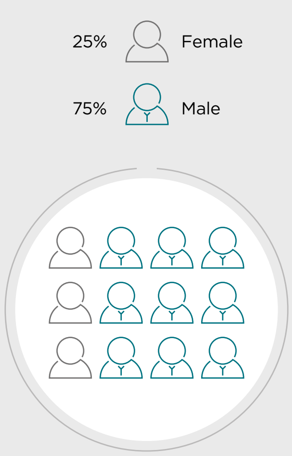
The Board Secretary is Álvaro López-Jorrín, partner of the Spanish law firm J&A Garrigues, S.L.P and the Deputy Secretary is Lucila Rodríguez.

The IAG Board currently comprises ten non-executive directors and two executive directors, IAG's Chief Executive and Chief Financial Officer. The Board composition is regularly refreshed, with half of the non-executive directors appointed within the last three years and none of them having served more than seven years. The non-executive directors provide a strong, independent element on 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, with the majority of them having previous business management experience.

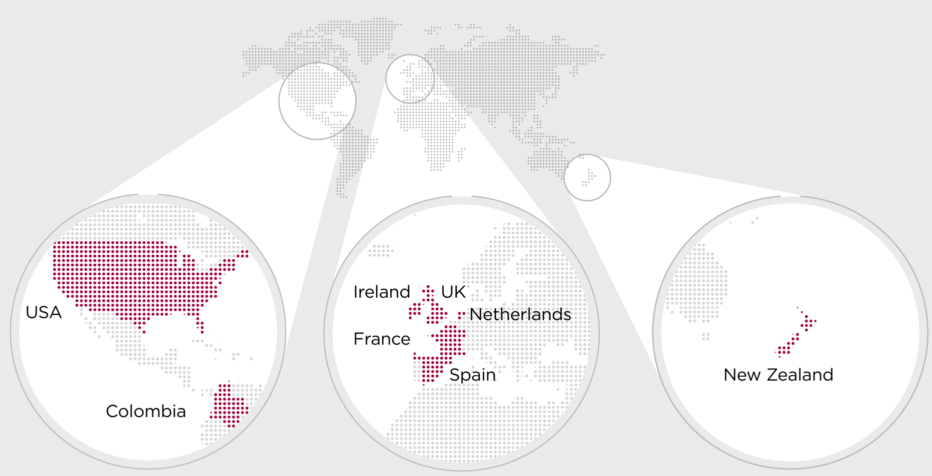
In terms of gender diversity, the Company currently has a 25 per cent female representation on the Board, and in terms of nationality, the IAG Board includes directors from a variety of origins and cultures as set out in the chart below.

Board diversity

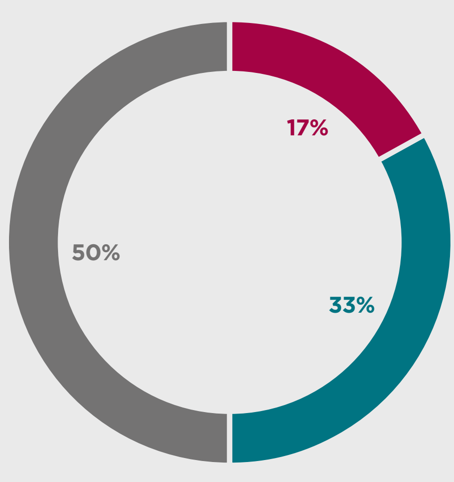
Gender



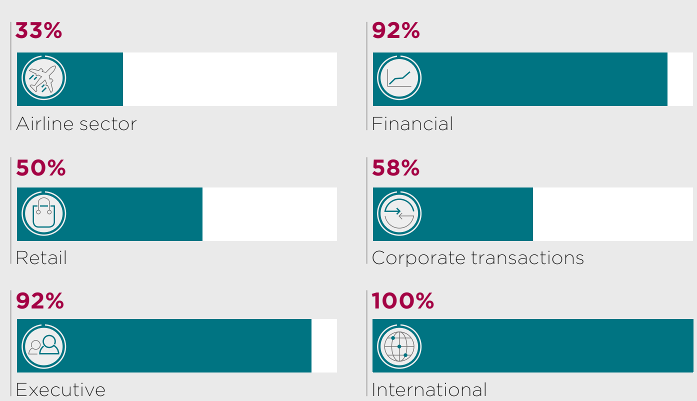
Nationality



Tenure



Experience



Corporate Governance continued

In accordance with the Spanish Corporate Governance code recommendation, the Board approved in January 2016 a Directors Selection and Diversity Policy which supersedes the former Board 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. This policy incorporates the former diversity principles while regulating the process for appointing directors. Information on compliance with this policy is included as part of the Nominations Committee Report.

The Directors Selection and Diversity Policy establishes a new female representation objective of 33 per cent by the end of 2020 following the recommendation included in the final Davies Report published in the UK. The Board, through its Nominations Committee, regularly reviews the percentage of women that sit on the Board and on the IAG Management Committee, as well as the number of women in the Group's workforce worldwide. This information is included on page 49.

Board and committee meetings

The Board met eleven times during the reporting period. The Board also held its annual two-day strategy meeting in September 2016. During the reporting period, the Chairman and the non-executive directors met three times without the executives present. The Senior Independent Director met with all directors without the Chairman in order to discuss the Chairman's performance.

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

Director	Board	Audit and Compliance Committee	Nominations Committee	Remuneration Committee	Safety Committee
Total in the period	11	8	6	3	2
Antonio Vázquez	11	–	6	–	2
Sir Martin Broughton[1]	5	–	4	–	–
Willie Walsh	11	–	–	–	2
César Alierta[1]	2	–	2	–	–
Marc Bolland[2, 3]	6	–	–	1	2
Patrick Cescau[4]	11	8	2	–	–
Enrique Dupuy de Lôme	11	–	–	–	–
Baroness Kingsmill	10	–	6	3	–
James Lawrence	11	8	–	–	–
María Fernanda Mejía[5]	11	4	–	3	–
Kieran Poynter	9	8	–	–	2
Emilio Saracho[2, 4]	5	–	2	–	–
Dame Marjorie Scardino[4]	8	–	1	2	–
Alberto Terol	11	8	–	3	–

1 Sir Martin Broughton and César Alierta retired from the Board with effect from June 16, 2016.
2 Marc Bolland and Emilio Saracho were elected as non-executive directors on June 16, 2016.
3 Marc Bolland became a member of the Remuneration Committee and of the Safety Committee on June 16, 2016.
4 Patrick Cescau, Emilio Saracho and Dame Marjorie Scardino became members of the Nominations Committee on June 16, 2016.
5 María Fernanda Mejía became a member of the Audit and Compliance Committee on June 16, 2016.

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 2016 the Board received specific briefings on key developments, such as the new Market Abuse Regulation and Brexit. In its December meeting, the Board considered the Group risk map and reviewed the effectiveness of its risk management and internal control systems. The Board also included in its December agenda a meeting with the external auditor covering the work undertaken and the developments in the Company's risk and accounting positions.

In addition, a specific safety and security briefing session was held in July. As in previous years, an on-site session was organised at one of the operating companies, Aer Lingus offices in Dublin, designed to help non-executives deepen their knowledge of the Group's operations, as well as providing them with an opportunity to meet with the Aer Lingus management 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 2017.

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. As recommended in the 2015 annual evaluation, specific induction sessions were arranged for new committee members, as was the case for the Audit and Compliance Committee and for the Safety Committee.

Induction programme prepared for Marc Bolland and Emilio Saracho

Phase 1

16 to 29 June 2016

Induction pack

Key corporate documents (e.g. strategic plan, financial plan), including:

- General corporate information
- IAG Corporate Governance
- Shareholders' meeting material
- Business information
- Board of Directors historical information
- Administrative information

Phase 2

7 July to 13 October 2016

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 situation

General Counsel
- Company's history / IAG dual listing
- Aviation regulation
- Litigation
- Group corporate governance

Chief of Staff
- Communication particulars
- Regulatory and Government Affairs
- Sustainability policy

Director of Global Services
- Evolution from cost synergies to the new GBS platform

CEO of Avios
- Presentation and business model
- Strategy and current situation

Head of Investor Relations
- Capital structure
- Main shareholders
- Main analysts' coverage

Phase 3

July 2016 to Q3 2017

Sites and OpCos visits

- July 2016 – Safety session
- September 2016 – Aer Lingus
- January 2017 – British Airways
- February 2017 – Cargo
- March/April 2017 – Iberia
- May 2017 – Vueling
- Q3 2017 – MRO

Corporate Governance continued

Board and committee evaluation

Following the internal evaluations carried out in 2014 and 2015, an external evaluation was conducted this year facilitated by Dr Tracy Long from Boardroom Review Limited, who has no other connection with the Company. Dr Long also facilitated the 2013 evaluation and was re-appointed to provide a degree of continuity to this exercise, enabling the Board to better assess its development and progress since the incorporation of the Company.

The overall conclusions of the review were positive. Over the last three years the Board was considered to have made meaningful progress and to have built on its strengths. The results of the evaluation show that the Board continues to adequately fulfil its responsibilities and that each of its committees continue to be effective and efficient.

The key actions agreed by the Board following this year's evaluation are set out in the table below.

Strategy and business oversight	Provide further context for Board strategy discussions, enhancing visibility of changing environment
	Enrich non-financial information reporting to the Board
	Implement suggestions to further improve the effectiveness of the annual strategy session
Risk agenda	Increase coverage and visibility of risk priorities across the Board forward agenda
Board performance	More dynamic management of the Board planning agenda, ensuring focus on agreed priorities, including training and development
	Continue to encourage site visits and other opportunities to engage with management, not only as an important source of information for non-executive directors but also as it provides context for succession planning and talent development discussions
Succession Planning	Succession planning at both Board and executive level should remain a priority
	Further formalise the process and reinforce the report to the whole Board
	Continue analysis of the Board skills matrix and discussions on future domain knowledge priorities
	At executive level, strengthen focus on talent development

The Senior Independent Director met with the other directors to discuss the performance of the Chairman. 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 2016. In general terms, good progress was made against these objectives, namely the improvements introduced regarding the Board agenda and time management, as well as the induction designed and completed this year for new members of the Audit and Compliance and Safety Committees.

Relations with shareholders

The Board is committed to maintaining an open dialogue with shareholders and recognises the importance of that relationship in the governance process. The Chairman is responsible for ensuring that an effective communication with shareholders takes place and that directors and executives understand and address investors' concerns. The Board is briefed on a regular basis by the Group Head of Investor Relations and analysts' reports are circulated to all directors. During 2016, the Board discussed shareholder matters on five different occasions, two of which included the Company's corporate broker.

The Board approved in January 2016 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 business. Regular shareholder meetings were held with executive directors, and the investor relations team during 2016. During May 2016, the Chairman, the Chair of the Remuneration Committee, along with the Group Head of Investor Relations, met with many of our largest shareholders to discuss, among other matters, governance and remuneration.

The Group's medium to long term plans and targets were discussed in detail in a full day of presentations by the senior management team at the annual Capital Markets day that took place in London on November 4, 2016. 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 16, 2016 authorised the Board, with the express power of substitution, for a term ending at the 2017 Annual General Meeting (or, if earlier, 15 months from June 16, 2016), 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 16, 2016.

(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 16, 2016, the date of passing the resolution;

   (b) the minimum price which may be paid for an ordinary share is zero;

   (c) the maximum price which may be paid for an ordinary share is the highest of:

      (i) an amount equal to five per cent above the average of the middle market quotations for the shares as taken from the relevant stock exchange for the five business days immediately preceding the day on which that ordinary share is contracted to be purchased; and

      (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out at the relevant time;

   in each case, exclusive of expenses.

The shares acquired pursuant to this authorisation may be delivered directly to the employees or directors of the Company or its subsidiaries or as a result of the exercise of option rights held thereby. For further details see note 29 to the 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.

No shares were purchased under the above mentioned authority during 2016.

Corporate Governance continued

Capital structure and shareholder rights

As of December 31, 2016, the share capital of the Company amounted to 1,066,494,371.50 euros (2015: 1,020,039,261.50 euros), divided into 2,132,988,743 shares (2015: 2,040,078,523 shares) of the same class and series and with a nominal value of 0.50 euros each, fully subscribed and paid.

As of December 31, 2016 the Company owned 12,521,662 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.

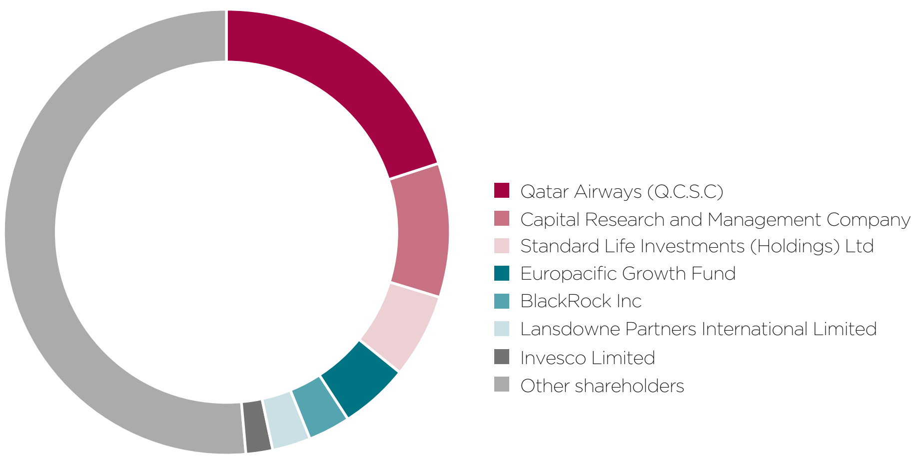
The Company has a Sponsored Level 1 American Depositary Receipt (ADR) facility that trades on the over-the-counter market in the US. Each ADR is equivalent to two ordinary shares and each ADR holder is entitled to the financial rights attaching to such shares, although the ADR depositary, Deutsche Bank, is the registered holder. During the reporting period the ratio changed from one ADR being equivalent to five ordinary shares to two ordinary shares. As at December 31, 2016 the equivalent of 5.6 million shares was held in ADR form (2015: 18.4 million IAG shares).

During 2016 the Company received three conversion requests in respect of the IAG €390,000,000 1.75 per cent. convertible bonds due 2018 ('Bonds'). On May 6, 2016 the Company exercised its option to redeem the remaining outstanding Bonds giving bondholders the option to exercise their right to convert their Bonds into ordinary shares in IAG. As a result of this, a total of 91,981,118 shares were issued.

Company's Share Capital

Date of change	Share capital (euros)	Number of shares/voting rights
January 14, 2016	1,020,479,989.50	2,040,959,979
March 1, 2016	1,020,491,901	2,040,983,802
April 1, 2016	1,020,502,812.50	2,041,007,625
June 20, 2016	1,066,494,371.50	2,132,988,743

The significant shareholders of the Company at December 31, 2016, 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.	426,911,047	20.01%
Capital Research and Management Company	–	212,588,702	Collective investment institutions managed by Capital Research and Management Company	212,588,702	9.967%
Standard Life Investments (Holdings) Ltd		125,314,496	Standard Life Investments Limited and Ignis Investment Services Limited	125,314,496	5.875%
Europacific Growth Fund	107,329,400	–	–	107,329,400	5.032%
BlackRock Inc	–	66,227,368	Funds and accounts managed by investors controlled by BlackRock Inc.	66,227,368	3.105%
Lansdowne Partners International Limited	–	58,627,247	Funds and accounts managed by Lansdowne Partners (UK) LLP	58,627,247	2.749%
Invesco Limited	–	42,814,558	Mutual benefit societies and pension funds managed by Invesco Limited and its subsidiaries	42,814,558	2.007%

On February 13, 2017 Deutsche Bank AG notified to the Spanish National Securities Market Commission (CNMV) the acquisition of a shareholding of 3.061 per cent.

Corporate Governance continued

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, 2016.

Internal control

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

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

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

Report of the Audit and Compliance Committee

Committee members

Date of appointment	Attendance
Kieran Poynter (Chair) September 27, 2010	●●●●●●●●
Patrick Cescau September 27, 2010	●●●●●●●●
James Lawrence September 27, 2010	●●●●●●●●
María Fernanda Mejía June 16, 2016	●●●●
Alberto Terol August 2, 2013	●●●●●●●●

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 Committee has continued to target known and emerging risk areas for deep dives in 2016 including the rollout of the new British Airways passenger check-in and aircraft boarding system.

I would like to thank James Lawrence, who stood down as the Chairman of the Audit and Compliance Committee in June 2016 after twenty months in the role, and I am pleased to report that he has agreed to continue serving on the Committee. I would also like to welcome María Fernanda Mejía who joined the Committee in June 2016.

Looking forward to 2017, I believe the Committee is well placed to ensure developments in internal control and compliance keep pace with changes in the business, as well as challenges posed by continuing economic and political uncertainty.

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.

Meetings

The Committee met eight times during 2016. The Committee also holds closed meetings and meets privately with both the external and internal auditors as appropriate.

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

The Committee's responsibilities

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

- review of financial statements and announcements relating to the financial performance and governance of the Group;
- review of the effectiveness of the internal control system, provision of assurance on the risk management process and review of the principal risks facing the Group;
- review and agreement of the internal audit programme, resourcing, effectiveness and resolution of issues raised; and
- recommending the appointment of external auditors and reviewing their effectiveness, fees, terms of reference and independence.

An evaluation of the Committee's performance was completed as part of the external evaluation process carried out in 2016. The Committee was found to be operating effectively during the year and will be implementing recommendations to enhance how the Committee supports the Board in its assessment of the risks facing the Group. As suggested in the 2015 annual evaluation, a specific induction session was undertaken for the new Committee member, María Fernanda Mejía.

Other items reviewed

Viability statement

The February 2017 Committee reviewed the detailed viability analysis over a five year time horizon, reflecting the Group's Business Plan period and focusing on the risks that should be combined to generate severe but plausible downturn scenarios, how those risks might interact, how solvency is assessed and the period over which viability is considered. The Committee agreed with management's assessment that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 2021.

Anti-bribery, sanctions and competition law compliance

The Committee reviewed developments in the anti-bribery compliance programme including the continued refinement of the Group-wide Know Your Counterparty due diligence programme. Competition, Anti-Bribery and Sanctions compliance risk maps were reviewed together with the results of targeted compliance initiatives, training attendance and priorities for 2017.

Litigation

The Committee received regular litigation status reports from the General Counsel including the status of the remaining civil claims against British Airways following the 2010 European Commission decision on alleged cartel activity with respect to air cargo prices. The decision was partially annulled against British Airways following an appeal to the General Court of the European Union and the fine was refunded in full. The European Commission expects to adopt a new decision in 2017.

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

Sustainability

The Committee reviewed the progress made in the implementation of the sustainability strategy and the performance against targets in key areas such as carbon footprint and noise performance.

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 2016, these included the exceptional item for restructuring costs and the finalisation of the Aer Lingus purchase price allocation.

The exceptional item for restructuring costs is a result of British Airways announcing restructuring plans during 2016. British Airways has embarked on a series of structural transformation proposals to develop a more efficient and cost effective structure. Certain announcements have been made, and the related restructuring costs have been recognised in the financial statements. 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 or incidence.

The Aer Lingus purchase price allocation was finalised in August 2016. The Committee reviewed the valuation methodologies employed by management together with EY's interim report on their audit. The Committee is satisfied with the adjustment made to the preliminary allocation increasing fleet value and that the final purchase price allocation fairly reflects the assets and liabilities acquired.

The Committee also reviewed and agreed with management's decision to remove foreign exchange exposure as a key accounting estimate and judgement. The judgement surrounding the exchange rate applied to the Group's current significant foreign exchange exposures has become less complex and comparable to market observed rates.

British Airways Travel Programme

The roll-out of the Travel Programme was finalised in 2016 completing the implementation of a new passenger check-in and aircraft boarding system together with new IT integration technology. The Committee received regular updates during the year from the accountable IT and operations directors focusing on the status of the implementation and the management and resolution of key implementation risks and issues arising.

UK Referendum vote to leave the European Union

The Committee received regular updates from management on the risks to the Group leading up to and following the UK Referendum vote to leave the European Union. The Committee continues to monitor the impact of the increasing volatility of the fuel price and foreign exchange as well as management's evaluation and risk assessment of the potential changes following the UK referendum vote.

The Committee agrees with management's initial assessment that the Group can operate effectively during the transition.

Cyber Security

The Group Head of IT and the Group IT Security Manager updated the Committee on the fast-developing cyber risk landscape and the implementation and testing of the Group's Cyber Security Strategy. The Committee also focused on the implementation of actions arising from an Internal Audit review and a Management Committee led initiative to ensure consistent cyber security responses across the Group.

Treasury risk management

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

Internal Control over Financial Reporting (ICFR)

In 2016, an Internal Control team was established to support process owners across the Group in reviewing and updating their financial process design and control documentation.

ICFR, which is a Spanish Corporate Governance requirement, is a thorough analysis of risks in financial reporting, the documentation of accounting processes, and audit of internal controls. In 2016 no material weaknesses were identified. A full description of ICFR is set out in Section F of the Spanish Corporate Governance Report.

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

Enterprise risk management

The Enterprise Risk Management resources were centralised at the Group level during 2016. The Head of Enterprise Risk Management reported to the Committee on the key risks of the Group and the priorities for 2017.

The Committee reviewed the process by which risk strategy and appetite had been determined as well as the performance of the Group against each of its risk appetite statements. The Committee agreed with management's assessment that the Group has operated within all 19 of the risk appetite statements.

External audit

The Group's external auditors, EY, audited Aer Lingus in 2016 for the first time. 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 three meetings; for the half year, for the findings from interim audits and 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 and that they are providing an effective external audit across the Group. Having reviewed EY's performance during 2016, the Committee concluded that EY were independent and that it was in the Group's and shareholders' interests not to tender the audit in 2017 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, of July 20, 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.

Non-audit services provided by the external auditors are subject to a Board approved policy that prohibits certain categories of work and controls the overall level of expenditure. The Committee reviews the nature and volume of projects undertaken by the external auditors on a quarterly basis and the Committee Chairman pre-approves projects over €100,000 or of an unusual nature. The overall volume of work is addressed by a target maximum of €1.4 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 2016 was below the target maximum at €838,000 with no additional spend on large projects. 68 per cent of the €838,000 spend related to recurring work on the audit of accounts required by our Joint Business arrangements. Details of the fees paid to the external auditors during the year can be found in note 7 to the Financial statements.

Whistleblowing

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

Report of the Nominations Committee

Committee members

Date of appointment	Attendance
Antonio Vázquez (Chair) December 19, 2013	●●●●●●
Patrick Cescau June 16, 2016	●●
Baroness Kingsmill September 27, 2010	●●●●●●
Emilio Saracho June 16, 2016	●●
Dame Marjorie Scardino June 16, 2016	●○

○ Absent

Dear Shareholder

In my role as Committee Chairman, I am pleased to present the Nominations Committee's Report for 2016.

This has been a period of significant activity and the Committee had six meetings during the year.

At the 2016 Shareholders' Meeting, our Deputy Chairman, Sir Martin Broughton, stepped down after serving for more than 16 years at IAG and British Airways, In addition to this, César Alierta also decided to retire. The Board and I expressed our gratitude to both directors for their contribution to the development of the Company since it was formed.

In 2016, we also welcomed the appointment of Marc Bolland and Emilio Saracho. Each of them brings valued skills and experience which contribute to the effectiveness of the Board as a whole. As previously reported, Marc Bolland reinforces the expertise of the Board in consumer product manufacturing and distribution companies. Emilio Saracho brings valuable expertise in international corporate transactions and financial markets.

Following Sir Martin's retirement, the Committee considered it appropriate to redefine this role and to appoint solely a Senior Independent Director. Consistent with the succession planning process, Patrick Cescau was selected for this role.

Following these changes, the Committee focused on the review of the Board committee's composition, and several modifications were introduced, as detailed later in this report.

Although a lot has been done with regard to succession planning we maintained our focus on this matter during the year and will continue to do so in 2017, We will also continue to support the Group Chief Executive in relation to executive succession planning, and particularly in relation to talent development.

In this regard, the Group is already benefitting from its structure and is fostering the development of talent from within. As evidence of this, we saw this year the appointment of Javier Sánchez-Prieto as CEO of Vueling, as well as that of Andrew Crawley as CEO of our Cargo business.

As the external 2016 Board performance evaluation was completed in September, we had the opportunity to consider its results as far as the work of our Committee is concerned. The outcome of this exercise determines our main priorities for 2017, principally maintaining the focus on succession plans for both directors and management.

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.

Meetings

During 2016 the Nominations Committee met six times. Directors' attendance at these meetings is shown above and further detailed on page 62.

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

The Committee dealt with the following significant issues during 2016:

- approval of the Directors Selection and Diversity Policy;
- 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 non-executive directors;
- changes to the composition of the Board Committees;
- review of investor feedback from the 2016 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

Two new non-executive directors, Marc Bolland and Emilio Saracho, were appointed in 2016 to fill the vacancies left by Sir Martin Broughton and César Alierta who stood down as directors at the Shareholders' Meeting in June 2016.

The flow chart on the next page describes the process followed for the appointment of these two new non-executive directors. 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 proposals were 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;
- both proposals referred to candidates who satisfy the legal and statutory conditions required to hold office as a director, are of suitable repute and have 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.

Following Sir Martin Broughton's retirement, the Board announced the appointment of Patrick Cescau as Senior Independent Director on June 16, 2016, following the recommendation of the Nominations Committee.

Board Committee changes

The Committees' configuration was reviewed in accordance with the new Board composition, and the following changes were recommended to the Board and approved:

- the appointment of Kieran Poynter as Chairman of the Audit and Compliance Committee, replacing James Lawrence, who remained as a Committee member, and the appointment of María Fernanda Mejía as a member of that Committee;
- the appointment of Patrick Cescau, Emilio Saracho and Dame Marjorie Scardino as members of the Nominations Committee, with Antonio Vázquez becoming the Committee Chairman; and
- the appointment of Marc Bolland as a member of the Remuneration Committee and of the Safety Committee.

Report of the Nominations Committee continued

The appointment of Marc Bolland and Emilio Saracho

1	2	3	4	5
Search initiated in accordance with Board succession plans	Skills and business experience priorities and required attributes discussed and agreed	Executive Search Firm engaged to assist with the search (refinement of search specifications)	First long-list of potential candidates considered	Second long-list of candidates reviewed and shared with the Board
6	**7**	**8**	**9**	**10**
Short-list agreed Interviews completed	Second vacancy identified and process broaden to cover both positions	Nominations Committee considered final candidates and made recommendation to the Board	Appointment announced by the Board, and published report on the proposed appointments for submission to the Shareholders' Meeting	Appointments approved by the Shareholders' Meeting

Induction of directors

The induction programme for new directors was reviewed in line with the feedback received from directors and specifically arranged according to the needs of the two non-executive directors appointed this year. This is described in more detailed on page 63.

Succession planning

As already stated, the Nominations Committee continued to review and refresh non-executive director succession planning. This year the Committee postponed its full review of succession plans in order to benefit from the conclusions of the external Board performance evaluation that was completed in September. In accordance with this, the Committee reviewed the skills matrix, as well as the likely pattern of Board retirements over the coming years, and agreed on future priorities.

The Committee also continued to review and assess the succession arrangements for executive directors, and for key executive positions at IAG and at the operating companies. Building on the work completed in 2015 in identifying potential candidates for each role, during 2016, much of the work focused on the assessment of the potential candidates identified and the discussion of individual development. During 2017, management will continue with this exercise and will also pay special attention to diversity mix considerations.

Annual evaluation of performance

The Committee reviews directors' performance and independence as part of the Committee's assessment of their eligibility for re-election. The performance, commitment, ability and availability of each of the non-executive directors were reviewed and discussed with them privately by the Chairman. The results were shared with the Nominations Committee and the Committee recommended each director standing for re-election at the 2016 Shareholders' Meeting to be re-elected.

An evaluation of the Committee's performance was completed as part of the external evaluation process carried out in 2016. The Committee was found to be operating effectively. The Committee's objectives for 2017 are described within the Board performance evaluation information on page 64.

Board diversity

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

There are currently three female directors on the Board, representing 25 per cent of the Board positions, and one of them chairs one of the Board committees. Under the new Directors Selection and Diversity Policy, the female representation target has been increased this year 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.

It is the Nominations Committee's intention to reconcile the achievement of this objective with preserving the general diversity and merit based appointment principles established in IAG's policy.

Further details on diversity, can be found on page 61 of this Corporate Governance section and on page 49 of the Sustainability section.

Report of the Safety Committee

Committee members

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

Dear Shareholder

I am pleased to present the Safety Committee's Report for 2016.

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.

As I have mentioned in previous reports, from my perspective, and 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. This necessarily implies a need to develop common reporting metrics and methodologies, where I have seen important progress made this year.

During 2016, we said goodbye to an important member of this Committee, Sir Martin Broughton, as he retired from the Board. Following this departure, we were pleased to welcome Marc Bolland to the Committee in June. We used this opportunity to arrange a specific induction session on safety and security matters, which was extended to other non-executive directors. This was completed in July with the valued support of the British Airways safety and security team.

Willie Walsh
Safety Committee Chairman

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 as appropriate;
- to follow up on any safety-related matters as determined by the Board; and
- to carry out any other safety-related functions assigned by the Board.

The Safety Committee

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 2016, the British Airways Director of Safety and Security, representatives of the Iberia and Vueling safety teams and the Aer Lingus Corporate Safety & Risk Manager attended meetings.

The Committee's activities during the year

During 2016, the Committee held two meetings. These were attended by all Committee members that were eligible to attend. Key topics discussed included the relevant safety events that occurred during the relevant period, regulatory developments and initiatives from industry associations, along with the regular safety review reports of Aer Lingus, British Airways, Iberia and Vueling.

During the year the Committee received specific and separate presentations on aircraft cyber security, with support from Boeing, and on remote piloted air systems.

Report of the Remuneration Committee

Committee members

Date of appointment	Attendance
Dame Marjorie Scardino (Chair) December 19, 2013	●○●
Marc Bolland June 16, 2016	●
Baroness Kingsmill September 27, 2010	●●●
María Fernanda Mejía October 30, 2014	●●●
Alberto Terol December 19, 2013	●●●

○ Absent

Dear Shareholder,

As Chairman of the Remuneration Committee, and on behalf of the Board, I am pleased to present the Remuneration Report for 2016.

Overall strategy and link to remuneration

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

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

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

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, as its main financial measure, in order to provide a direct link to our strategy;
- total shareholder return (TSR) to ensure alignment with our shareholders; and
- return on invested capital (RoIC) to emphasise the increased focus on how we use our capital.

The *annual incentive* plan focuses on improvement in financial performance, and therefore the primary measure in the plan is operating profit before exceptional items at the Group level.

The 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 2017 and beyond is in the best interests of shareholders.

Summary of 2016 (and the performance period 2014 to 2016)

The PSP that vests during 2017 had a three-year performance period (2014 to 2016). Performance targets for the two measures (adjusted EPS and TSR) were set at the beginning of 2014.

At that time, the Company reported an adjusted EPS of 20.8 euro cents for 2013, and the stretch target (i.e. the level at which maximum pay-out would be achieved) for 2016 adjusted EPS was set at 56 euro cents. For the other 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 2016 adjusted EPS reaching 90.2 euro cents. As a result, the performance share plan awarded to executives in 2014 will pay out in 2016 at its maximum level for the EPS element. The share price showed strong growth during the first two and a half years of the three-year performance period, but suffered a significant fall following the outcome of the UK referendum on EU membership.

Despite a growth in share price of around 10 per cent over the three years, plus our first dividend payments, the Company has not outperformed the industry index and therefore there will be no pay-out for the TSR element of the performance share plan.

The financial targets for the 2016 annual incentive plan set at the beginning of the year were very demanding: on-target level increased by 52 per cent over 2015. The Company's performance during 2016, whilst strong, was affected by a tough operating environment with a significant negative currency impact. Operating profit failed to reach the threshold level at which incentive payments begin for the two-thirds portion of the scheme linked to financial performance (the final third portion being focused on individual objectives). The fact that operating profit for 2016 is at a record level for the Company but has still not triggered any payment for that element in the annual incentive plan is a further example of how demanding the Company is when setting targets.

Decisions during 2016

The Committee has closely monitored the many developments that have taken place in the external marketplace in the past year, including the reports from the Executive Remuneration Working Group and the Investment Association Principles of Remuneration, the 2016 AGM season, and the Green Paper on corporate governance reform.

Major matters that were considered by the Committee during 2016 include:

- agreeing to incorporate a customer metric (Net Promoter Score) as part of the one-third based on role specific objectives for the annual incentive plan from 2017;
- considering reward strategy in the round to inform us well in advance of our future policy review; and
- reviewing the remuneration for the new Senior Independent Director following the retirement of Sir Martin Broughton from the Board, as well as reviewing the Chairman's fees.

Working with shareholders

The Group Head of Investor Relations, and I, along with the IAG Chairman, met many of our largest shareholders over the last year. As this was my first full year in this chair I very much valued your constructive comments and was very pleased with your strong support for our 2015 Remuneration Report. But more than that I valued your suggestions and ideas about the moving thinking in remuneration. We have noted your views on longer-term and annual pay strategy and will be talking to you more as we consider incorporating these into our new policy thinking for 2018.

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 plan to review our remuneration policy and consider any possible changes that may help us ensure a complete alignment to our strategy and the creation of long term sustainable shareholder value. We will engage constructively with our major shareholders and other representative bodies during 2017 to present our thoughts and seek their views.

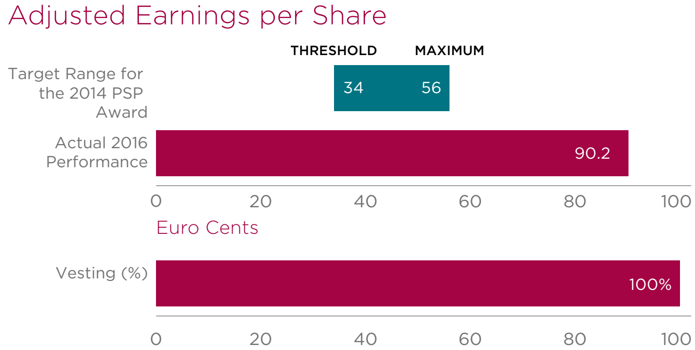
Approved by the Board and signed on its behalf by

Dame Marjorie Scardino
Chairman of the Remuneration Committee

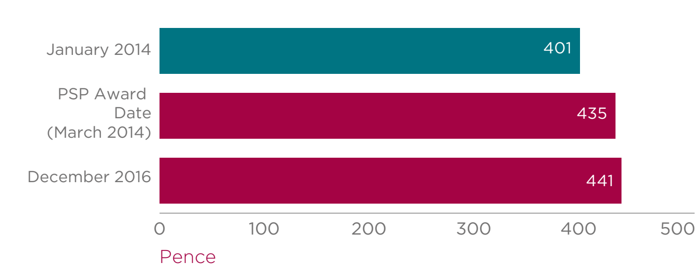
AT A GLANCE

Implementation of remuneration policy in 2016

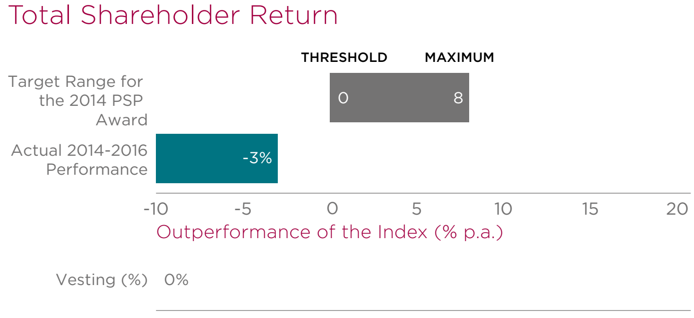
Adjusted Earnings per Share



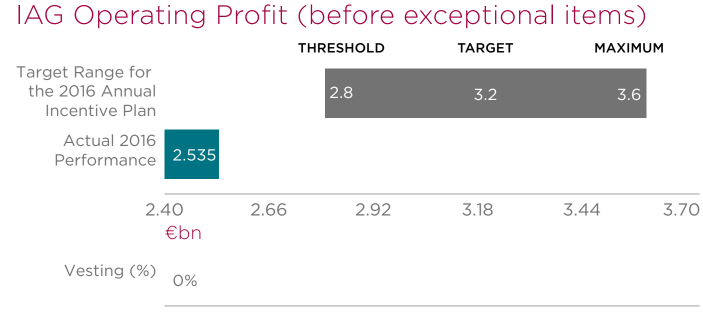
Share Price



Total Shareholder Return



IAG Operating Profit (before exceptional items)



Introduction

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.

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 (this section has no changes from last year). No changes to the policy will be proposed this year.
- The second section, the Annual Remuneration Report, covers the information on Directors' remuneration paid in the reported year.

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

The Company's policy on directors' remuneration was approved by shareholders at the annual Shareholders' Meeting on June 18, 2015. No changes to the policy will be proposed this year. However, certain aspects of how the policy operates in practice were approved by the Board with effect from January 1, 2016. These adjustments to the application of policy were listed in last year's Report at the beginning of the Remuneration Policy section, and are listed again (unchanged) in this Report.

Directors' Remuneration Policy

Key elements of pay

Executive Directors

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

The Company's primary comparator group is the FTSE 26 to 100 (excluding financial services), with a secondary reference to Ibex-35 and global airline companies where appropriate.

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

The policy as shown on the following pages was approved by shareholders at the 2015 Shareholders' Meeting. The policy remains unchanged from that disclosed in the last two financial years. However, as was explained last year, listed below is how the policy is applied in practice in respect of certain remuneration elements. Also, notes to clarify adjustments to the practical application of the policy have been added to the Policy section, in italics.

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

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

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

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

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

Report of the Remuneration Committee continued

Purpose and link to strategy	Operation of element of policy	Maximum opportunity,	Performance metrics
Performance Share Plan (PSP) Incentivises long-term shareholder value creation. Drives and rewards delivery of sustained TSR and financial performance	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. 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. 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. 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. Following the performance period, there is an additional holding period of two years. Malus and clawback provisions apply – see below.	The face value of awards will not normally exceed 200 per cent of salary in respect of any financial year of the Company (with the Board having the discretion to award up to 300 per cent of salary in exceptional circumstances). *Note: this discretion will not be used.* At the threshold level of the performance target range, either 10 per cent or 25 per cent will vest depending on which performance measure is being tested.	Any PSP award made will be measured over at least three years. Each year, the Board, following the advice of the Committee, will determine appropriate performance conditions, with appropriate and stretching target ranges. These will take into account market conditions and also ensure alignment with shareholder interests. At least one condition is likely to be a measure of Group share performance compared with an index of other companies who are subject to external influences impacting share price similar to those of the Group. One or more measures will provide a strong measure of the underlying financial performance of the business.
Taxable Benefits Ensures total package is competitive	Life insurance, personal travel and where applicable, a company car, fuel, occasional chauffeur services, and private health insurance. Where appropriate, benefits may include relocation and international assignment costs.	Although there is no formal maximum, the Company determines benefits policy by taking into account company affordability, and with reference to the external market.	
Pension Provides post-retirement remuneration and ensures total package is competitive	The Company operates a defined contribution scheme as a percentage of salary. Executives can opt instead to receive a salary supplement in lieu of a pension. The Chief Executive Officer of IAG and the Chief Financial Officer of IAG are eligible for membership of the pension scheme.	The level of employer contribution is 25 per cent of basic salary.	

Shareholding Requirements

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

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

Malus and Clawback Provisions

The Board, following the advice of the Committee, has authority under the malus provisions of the 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.

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,
Basic Fees Fees are set to take into account the level of responsibility, experience, abilities and dedication required.	Fees are set with reference to market positioning (primarily the IBEX 35 and the FTSE 26 to 100, excluding financial services). To acknowledge certain key roles at Board level, fees are set separately for the Non-Executive Chairman, and the Non-Executive Deputy Chairman. There is also an additional fee paid to any non-executive director for holding a Committee Chairmanship. There is no additional fee for Committee membership. Non-executive director fees will take into account external market conditions to ensure it is possible to attract and retain the necessary talent. There is no specific review date set, but it is the Company's intention to review fees from time to time. There has been no change to fee levels since IAG came into existence in 2011.	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.
Taxable Benefits	Non-executive directors (including the Chairman and Deputy Chairman) are entitled to use air tickets of the airlines of the Company or related to the Company in accordance with the applicable travel scheme. As foreseen under article 37.8 of the Company's Bylaws this benefit may also be provided to non-executive directors after they have vacated office in accordance with the applicable travel scheme.	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 are the aggregate of the financial targets of the Group's companies, ensuring alignment between the Group's head office and the Group's companies.

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

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

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

Report of the Remuneration Committee continued

Notes on the above forward-looking policy tables

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

Remuneration scenarios

A significant portion of the Company's total remuneration package is variable, with emphasis placed on longer-term reward to align closely executive directors' and senior managers' interests with shareholder interests. The charts below show, for 2017 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.

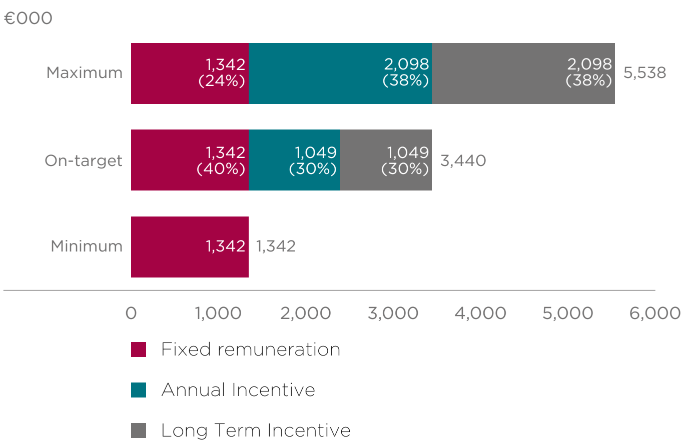
Chief Executive Officer of IAG

Fixed remuneration is basic salary (2017 level of €1,049,000), plus taxable benefits (2016 actual of €30,000) plus pension related benefits (2016 actual of €263,000).

The annual incentive amount is zero at the minimum remuneration level, €1,049,000 at the on-target level (100 per cent of salary), and €2,098,000 at maximum (200 per cent of salary).

The long-term incentive amount is zero at the minimum remuneration level, €1,049,000 at the on-target level (half of the face value award of 200 per cent of salary) and €2,098,000 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 1.2347



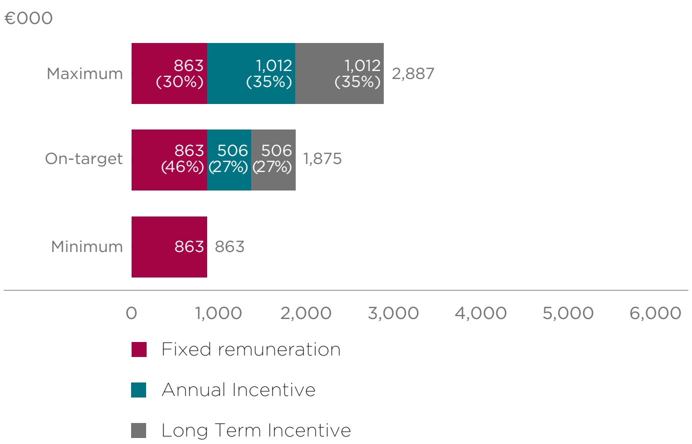
Chief Financial Officer of IAG

Fixed remuneration is basic salary (2017 level of €675,000), plus taxable benefits (2016 actual of €23,000) plus pension related benefits (2016 actual of €165,000).

The annual incentive amount is zero at the minimum remuneration level, €506,000 at the on-target level (75 per cent of salary), and €1,012,000 at maximum (150 per cent of salary).

The long-term incentive amount is zero at the minimum remuneration level, €506,000 at the on-target level (half of the face value award of 150 per cent of salary) and €1,012,000 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 1.2347



Service contracts and exit payments policy

Executive Directors

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

The contracts of executive directors are for an indefinite period.

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

Executive Director	Date of contract	Notice period
Willie Walsh	January 21, 2011	12 months
Enrique Dupuy de Lôme	January 21, 2011	12 months

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

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

Under the PSP and IADP, if a director leaves, the Board, after considering the recommendation of the Remuneration Committee, may exercise their discretion (within the rules of the two schemes) to grant Good Leaver status. This can be granted in certain circumstances including for example (list not exhaustive) the director leaving for reasons of ill-health, redundancy, retirement, or death. Executive directors leaving with Good Leaver status will receive shares awarded to them under the IADP scheme, and a pro-rata amount of their PSP shares subject to the company performance conditions being met. The pro-ration 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 (1) year. The dates of the Chairman's and current non-executive directors' appointments are as follows:

Non-Executive Director	Date of the first appointment	Date of last re-election
Antonio Vázquez	May 25, 2010	June 16, 2016
Patrick Cescau	September 27, 2010	June 16, 2016
Baroness Kingsmill	September 27, 2010	June 16, 2016
James Lawrence	September 27, 2010	June 16, 2016
Kieran Poynter	September 27, 2010	June 16, 2016
Alberto Terol	June 20, 2013	June 16, 2016
Dame Marjorie Scardino	December 19, 2013	June 16, 2016
María Fernanda Mejía	February 27, 2014	June 16, 2016
Marc Bolland	June 16, 2016	June 16, 2016
Emilio Saracho	June 16, 2016	June 16, 2016

Report of the Remuneration Committee continued

External Non-Executive Directorship

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

Approach to recruitment remuneration

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

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

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

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

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

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

Consideration of employment conditions elsewhere in the Group

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

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

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

Consideration of shareholder views

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

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

Annual Remuneration Report

Committee terms of reference

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

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

Remuneration Committee membership and activity

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.

Key topics covered at Remuneration Committee meetings

In 2016, the Committee met three times and discussed, amongst others, the following matters:

Meeting	Agenda items discussed
January	Review of IAG Management Committee members' basic salaries
	Approval of the 2016 annual incentive plan
	Approval of the 2016 Performance Share Plan
February	2015 annual incentive plan payments to IAG Management Committee members
	Vesting outcome of the Performance Share Plan 2013 award
	Final review of 2015 Directors' Remuneration Report
October	Executive remuneration market update
	Remuneration strategy for 2017
	Review of non-executive directors' remuneration

Advisers to the Committee

The Committee appointed Towers Watson (now known as Willis Towers Watson) as its external advisers in 2014. This appointment ceased on September 19, 2016. Willis Towers Watson reported directly to the Committee. The fees paid to Willis Towers Watson for advice provided to the Remuneration Committee during 2016 until their appointment ceased were €29,633. Willis Towers Watson is a signatory to the voluntary UK Code of Conduct for executive remuneration consultants. Willis Towers Watson also provides other services to the Company in terms of the valuation of awards under the PSP for accounting purposes.

The Committee appointed Deloitte as its external advisers following a tender process, effective from September 20, 2016. Deloitte report directly to the Committee. The fees paid to Deloitte for advice provided to the Remuneration Committee from their appointment date until the end of 2016 were €37,616, 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, Deloitte provided remuneration advice, pension advice, internal audit advisory and tax consulting services to the Group in 2016. 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.

Report of the Remuneration Committee continued

Single total figure of remuneration for each director

Subject to full audit

Non-Executive Directors

Director (€'000)	Fees	Taxable benefits	Total for year to December 31, 2016	Fees	Taxable benefits	Total for year to December 31, 2015
Antonio Vázquez[1]	511	35	546	484	19	503
Sir Martin Broughton[2]	162	33	195	350	56	406
Patrick Cescau[3]	136	22	158	120	34	154
César Alierta[4]	55	–	55	120	–	120
Marc Bolland[5]	65	–	65	–	–	–
Baroness Kingsmill	120	27	147	135	25	160
James Lawrence[6]	129	9	138	140	37	177
María Fernanda Mejía	120	3	123	120	8	128
José Pedro Pérez-Llorca[7]	–	–	–	60	6	66
Kieran Poynter	131	35	166	120	29	149
Emilio Saracho[8]	65	4	69	–	–	–
Dame Marjorie Scardino	140	55	195	125	72	197
Alberto Terol	120	33	153	120	26	146
Total (€'000)	1,754	256	2,010	1,894	312	2,206

1 Antonio Vázquez took a voluntary 25 per cent reduction in his fee from December 1, 2012 until October 31, 2016

2 Sir Martin Broughton retired from the Board on June 16, 2016

3 Patrick Cescau was appointed as Senior Independent Director on June 16, 2016

4 César Alierta retired from the Board on June 16, 2016

5 Mark Bolland joined the Board on June 16, 2016

6 James Lawrence chaired the Audit and Compliance Committee until June 16, 2016 when he was replaced in this position by Kieran Poynter

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

8 Emilio Saracho joined the Board on June 16, 2016

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, 2016, €:£ exchange rate applied is 1.2347

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

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.

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)[1]	850	24	213	567	808	2,462
Willie Walsh (euro)	1,049	30	263	700	998	3,040
Enrique Dupuy de Lôme (GBP)[1]	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

Additional explanations in respect of the single total figure table for 2016

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, 2016 (accrued at December 31, 2016, but cash payments (50 per cent of the award) not paid until March 2017). 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 2016 annual incentive plan, these will vest in March 2020.

Long-term incentive vesting

This relates to the IAG PSP 2014 award based on performance measured to December 31, 2016, although the shares vested will not be delivered until March 2017. For the purposes of this table, the award has been valued using the average share price in the three months to December 31, 2016 of 425.9 pence. The outcomes of the performance conditions which determined vesting are described below.

For the year to December 31, 2016, €:£ exchange rate applied is 1.2347

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

2015

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

1 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, 2016 the Company paid contributions of €18,555 (2015: €28,230).

Variable pay outcomes

Subject to audit

2016 Annual Incentive Plan

At the beginning of 2016, the Board, upon a recommendation by the Committee, set IAG operating profit as the financial target to be applied to the two-thirds of the Annual Incentive Plan for that year. Operating profit was considered to be the most appropriate financial measure in aligning shareholder interests with the Company and individual performance. For the one-third portion based on role-specific objectives, the Remuneration Committee, on the proposal of the Chairman, considered the Chief Executive Officer's performance against his objectives; and the Remuneration Committee, on the proposal of the Chief Executive Officer, considered the Chief Financial Officer's performance against his objectives. Both performance evaluations were submitted to the Board for final approval on February 23, 2017.

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).

Report of the Remuneration Committee continued

The outcomes of the performance conditions were as follows:

Measure		Chief Executive Officer of IAG	Chief Financial Officer of IAG
IAG Operating Profit (before exceptional items) (67 per cent)	Payout	€0 £0	€0 £0
	per cent of maximum awarded	0 per cent Please see below for details of the performance target ranges	0 per cent Please see below for details of the performance target ranges
Role-specific objectives (33 per cent)	Outcomes versus targets	€699,663 £566,667 Please see below for details of the extent of the achievement of objectives.	€297,699 £241,110 Please see below for details of the extent of the achievement of objectives.
	per cent of maximum awarded	100 per cent	90 per cent
Details of any discretion exercised			
Overall outcome		€699,663 £566,667	€297,699 £241,110

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 2016 (two-thirds of the annual incentive) did not reach the threshold level at which payments begin, and therefore this has resulted in zero per cent of the maximum paying out for this element of the incentive (2015: 70 per cent). The target range for 2016 was as follows: the threshold level at which payments would begin was €2,800 million, the on-target level at which 50 per cent of the maximum would pay out was €3,200 million, and the stretch target level at which the maximum would pay out was €3,600 million. There was a straight line sliding scale between the threshold level and the on-target level, and between the on-target level and the stretch target level.

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

Willie Walsh provided strong and effective leadership of IAG throughout 2016 in a tough external environment. He continued to drive strategic transformational change across the Group and maintained the focus on cost control and capacity management. He is widely recognised as an industry leader and in 2016 he was appointed chairman of the IATA Board of Governors and was also one of the founding CEOs of Airlines for Europe (A4E).

Achievements in 2016 included an improvement in financial performance leading to an increase of 10% in the interim dividend and continued growth across the Group which flew a record of over 100 million passengers in 2016. However, various external headwinds meant the Group did not reach all its targets, notably operating profit was below the threshold level, despite achieving a year on year improvement. Succession planning was a significant area of focus for the CEO in 2016 with several key internal appointments being made to leadership positions.

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

Enrique Dupuy delivered strong personal performance throughout 2016 and provided effective financial leadership of the Group throughout the year. Initiatives led by him during 2016 led to a 10 per cent (€2 billion) structural saving in long-term invested capital.

Despite missing the Group's operating profit targets for the year, achievements included the delivery of cost savings and maintaining a strong balance sheet and equity free cash flow to strengthen the sustainability of the dividend. Succession planning was also an important area of focus for the CFO, with appointments made in key finance positions.

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 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)
TSR performance compared to the TSR performance of the MSCI European Transportation (large and mid-cap) index (50 per cent)	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
Adjusted Earnings per Share (EPS) (50 per cent)	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
Details of any discretion exercised				
Overall outcome				50 per cent

IAG PSP Award 2013

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

50 per cent of the award was subject to achievement of the Company's adjusted EPS targets and 50 per cent subject to a TSR performance condition measured against an index. The vesting of any award was subject to the Board being satisfied that the Group's underlying financial performance was satisfactory in the circumstances prevailing over the three year period.

The outcome of the performance condition was as follows:

Measure	Threshold	Maximum	Outcome	Vesting (as per cent award granted in 2013)
TSR performance compared to the TSR performance of the MSCI European Transportation (large and mid-cap) index (50 per cent)	IAG's TSR performance equal to the index (25 per cent of award vests)	IAG's TSR performance exceeds index by 8 per cent p.a. (100 per cent of award vests)	Performance exceeded index by 35 per cent p.a.	100 per cent
Adjusted Earnings per Share (EPS) (50 per cent)	2015 EPS of 30 €cents (10 per cent of award vests)	2015 EPS of 52 €cents (100 per cent of award vests)	71.4 €cents	100 per cent
Details of any discretion exercised				
Overall outcome				100 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 7, 2016. The table in this section sets out the key details of the award.

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The Committee believes that comparing the Company's TSR to that of European transportation companies, including airlines, is appropriate, given that these companies are subject to external influences impacting share price performance similar to those of the Group. This comparison therefore provides a good reference point for management outperformance and value creation.

Report of the Remuneration Committee continued

The Committee believes that EPS performance provides a strong measure of the underlying financial performance of the business.

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

PSP 2016 – 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	£5.41		
Performance period	January 1, 2016 to December 31, 2018		
Performance conditions	EPS performance targets	RoIC performance targets	TSR performance compared to the TSR performance of the MSCI European Transportation (large and mid-cap) index
Weighting	One-third	One-third	One-third
Threshold	2018 EPS of 105 €cents 10 per cent vests	2018 RoIC of 12 per cent 10 per cent vests	IAG's TSR performance equal to the index 25 per cent vests
Target	2018 EPS between 105 €cents and 145 €cents (straight line vesting between threshold and maximum)	2018 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	2018 EPS of 145 €cents 100 per cent vests	2018 RoIC of 15 per cent 100 per cent vests	IAG's TSR performance exceeds index by 8 per cent p.a. 100 per cent vests
Holding period	Additional period of two years after the performance period		

EPS is based on diluted EPS adjusted for exceptional items. The Board, after considering the recommendation of the Remuneration Committee, retains the discretion to review and, if appropriate, revise the EPS targets and/or definition in the context of any corporate transactions, provided that, in its view, any revised targets are no more or less challenging than the original targets. To the extent that any such adjustments are made, the Committee will disclose the basis for any adjustments and the rationale in subsequent reports.

Total pension entitlements

Subject to Audit

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

Willie Walsh was a member of the Company's pension scheme until March 31, 2016 and the Company paid contributions during the reporting period of £9,987 (2015: £39,950), plus cash in lieu of contributions of £202,513 (2015: £172,550).

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 (2015: zero). He received cash in lieu of contributions of £133,950 (2015: £131,325).

Payments for loss of office

No executive directors have left office during 2016. There were no payments made to non-executive directors after they left office during 2016.

Payments to past directors

José Pedro Pérez-Llorca received travel benefits worth €4,380 during 2016 after he had left the Company.

Statement of Voting

The table below shows the consultative vote on the 2015 annual Directors' Remuneration Report at the 2016 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
2015 Annual Directors' Remuneration Report	1,400,009,837	1,328,811,284 (94.914 per cent)	18,478,393 (1.320 per cent)	52,720,160 (3.766 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. 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 three 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, 2016:

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	72,000	1,457,328	126,754	225,375	1,881,457 (1017 per cent of salary)
Enrique Dupuy de Lôme	200 per cent of salary	100	413,967	52,740	77,263	544,070 (523 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.

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 (when the Chairman accepted the proposal of the Board of Directors to reverse the voluntary 25 per cent reduction of his remuneration). Other non-executive directors have a fee of €120,000. The additional fee for holding a Committee chairmanship is €20,000. As regards the position of Senior Independent Director, the functions of this role were previously performed by the Deputy Chairman and embedded in his remuneration (an annual fee of €350,000). Given that the newly appointed Senior Independent Director does not hold the position of Deputy Chairman, the additional fee for discharging the functions of Senior Independent Director has been reduced to €30,000.

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

Report of the Remuneration Committee continued

Directors' interests in shares

Subject to audit

	Total shares and voting rights	Percentage of capital
Antonio Vázquez	512,291	0.024
Willie Walsh	1,656,082	0.078
Marc Bolland	0	0.000
Patrick Cescau	0	0.000
Enrique Dupuy de Lôme	466,807	0.022
Baroness Kingsmill	2,000	0.000
James Lawrence[1]	326,500	0.016
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	16,900	0.001
Total	**2,995,780**	**0.140**

1 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, 2016 and the date of this report.

Share scheme dilution limits

The Investment Association sets guidelines that restrict the issue of new shares under all the Company's share schemes in any ten year period to 10 per cent of the issued ordinary share capital and restrict the issues under the Company's discretionary schemes to 5 per cent in any ten year period. At the annual Shareholders' Meeting on June 18, 2015 the Company was given authority to allocate up to 67,500,000 shares (3.31 per cent of the share capital) in 2015, 2016, 2017 and 2018. Of this a maximum of 7,650,000 shares could be allocated to executive directors under all IAG share plans for awards made during 2015, 2016, 2017 and 2018. At December 31, 2016, 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, 2016 were:

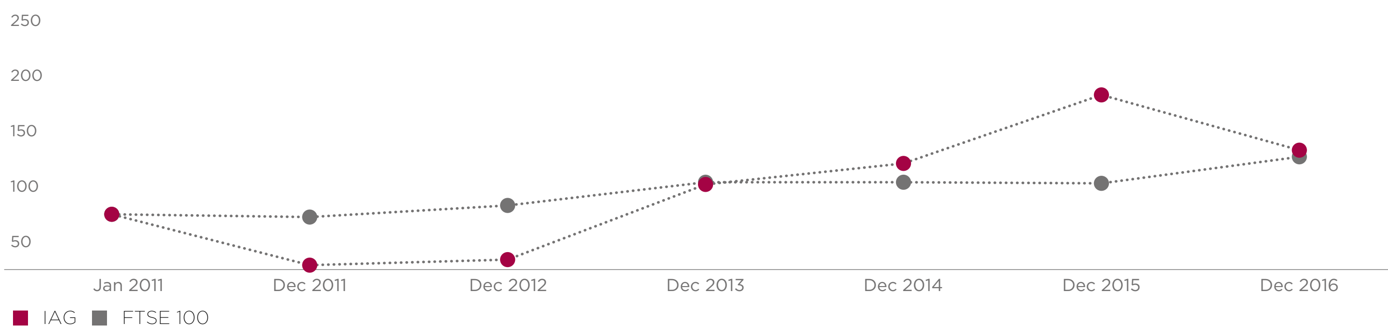
At December 31 2016	441p
Highest in the period	611p
Lowest in the period	344p

Company performance graph and Chief Executive Officer of IAG 'single figure' table

The chart shows the value by December 31, 2016 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).

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 2016 compared to 2015.

This is then compared to a group of appropriate employees. It has been determined that the most appropriate group of employees are all UK employees in the Group, comprising around 40,000 employees in total. To make the comparison between the CEO of IAG and employees as meaningful as possible, it was determined that as large a group as possible of employees should be chosen.

The selection of all UK employees in the Group (roughly two-thirds of the entire Group's employees) meets these criteria. The majority of the 40,000 UK employees in the Group are employed by BA, but there are also a number of employees from all other companies in the Group based in the UK. It was determined that employees outside the UK would not be considered for the comparison, as very different employment market conditions exist in other countries.

	Chief Executive Officer of IAG	UK employees
Basic salary	No basic salary increase for 2016.	Basic salary awards in 2016 at UK companies in the Group averaged around 2 per cent.
Annual incentive	Decrease from £1,360,000 in March 2016 (covering the 2015 performance period) to £566,667 in March 2017 (covering the 2016 performance period). This represents a 58 per cent decrease.	Changes in overall annual incentive payments for 2016 vs. 2015 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 decreased to £24,000 in 2016 from £27,000 in 2015.	No change in benefits policy. Overall costs 2016 vs. 2015 increased very slightly in line with inflation.

Report of the Remuneration Committee continued

Relative importance of spend on pay

The table below shows, for 2016 and 2015, total remuneration costs, operating profit, and dividends for the Company.

	2016	2015
Total employee costs, IAG	**€4,731,000,000**	€4,905,000,000
Total remuneration, directors (including non-executive directors)	**€6,561,000**	€14,669,000
IAG Operating Profit (before exceptional items)	**€2,535,000,000**	€2,300,000,000
Dividend declared	**€233,000,000**	€407,000,000
Dividend proposed	**€265,000,000**	–

Total employee costs are before exceptional items.

The figure used for IAG operating profit for 2015 excludes Aer Lingus' contribution to the Company.

Implementation of remuneration policy for 2017

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 2017 (which varied across the Group from 2 per cent to 2.5 per cent), the Board, following the recommendation of the Remuneration Committee, approved the following:

Executive Director	Basic salary review
Chief Executive Officer of IAG	£850,000 (€1,049,000) (no increase from 2016).
Chief Financial Officer of IAG	£547,000 (€675,000) (in UK sterling terms, an increase of 2.1% from 2016).

The Remuneration Committee agreed to offer the Chief Executive Officer a salary increase in line with that applied to other executives, however it was respectfully declined by him.

2017 annual incentive plan

For 2017, 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 measure will remain at two-thirds. The role-specific objectives measure (weighting: one-third) will include 25 per cent on personal performance and 8.33 per cent based on a customer measure, Net Promoter Score (NPS). NPS is used to gauge the loyalty of the Group's customer relationships. NPS is calculated based on survey responses, by subtracting the percentage of customers who are 'Detractors' from the percentage of customers who are 'Promoters'. The Board, after considering the recommendation of the Committee, has approved a stretching target range for IAG operating profit and NPS for 2017 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.

2017 Performance Share Plan award

The Board, on the Committee's recommendation, has approved a PSP award for 2017, with a performance period of January 1, 2017 to December 31, 2019.

For 2017, 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 and 2016.

The first is based on IAG TSR performance relative to the MSCI European Transportation Index. This condition is considered appropriate because the companies in the index are subject to external influences impacting share price similar to those of the Group. The target range is identical to 2016, and is outlined earlier in this report.

The second performance condition is based on adjusted EPS. This condition is considered appropriate because it provides a strong measure of the underlying financial performance of the business. The Board and the Committee have agreed that the earnings per share (EPS) target range for the 2017 PSP award should be slightly decreased compared to the 2016 PSP award, reflecting the challenging long-term market conditions. However, the target range remains appropriately stretching. The adjusted EPS measure will be as follows:

Weighting	One-third
Threshold	2019 adjusted EPS of 100 €cents 10 per cent vests
Target (straight line vesting between threshold and maximum)	2019 adjusted EPS between 100 €cents and 130 €cents
Maximum	2019 adjusted EPS of 130 €cents 100 per cent vests

The third performance condition is Return on Invested Capital (RoIC). This is a financial measure that quantifies how well a company generates cash flow relative to the capital it has invested in its business, and is considered an appropriate measure because it also provides a strong measure of the underlying financial performance of the business. The RoIC measure will be as follows:

Weighting	One-third
Threshold	2019 RoIC of 12 per cent 10 per cent vests
Target (straight line vesting between threshold and maximum)	2019 RoIC between 12 per cent and 15 per cent
Maximum	2019 RoIC of 15 per cent 100 per cent vests

There will be an additional holding period of two years. This means that executives will be required to retain the shares for a minimum of two years following the end of the performance period. This is to strengthen the alignment between executives and shareholders.

Taxable benefits and pension related benefits

Taxable benefits and pension related benefits (as a percentage of basic salary) remain unchanged for 2017.

Non-Executive Director Fees

Non-executive director fees were reviewed in 2016 but remain unchanged for 2017. 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, 2016	Awards vested during the year	Awards lapsed during the year	Awards made during the year	Number of awards at December 31, 2016
Executive Directors							
Willie Walsh	IAG PSP	March 6, 2013	684,647	684,647	–	–	–
	IAG PSP	March 6, 2014	379,310	–	–	–	379,310
Total			**1,063,957**	**684,647**	**–**	**–**	**379,310**
					–		
Enrique Dupuy de Lôme	IAG PSP	March 6, 2013	248,963	248,963	–	–	–
	IAG PSP	March 6, 2014	137,931	–	–	–	137,931
Total			**386,894**	**248,963**	**–**	**–**	**137,931**

The performance conditions for the 2014 PSP award above were tested by the Remuneration Committee, and reported to the Board, in their meetings held in February 2017.

The award granted on March 6, 2013 was tested at the end of the performance period, and as a result 100 per cent of the award vested, as detailed earlier in this report in the section on Variable Pay Outcomes.

The values attributed to the Company's ordinary shares in accordance with the plan rules on the dates of the PSP awards were as follows: 2014: 435 pence; and 2013: 241 pence.

Report of the Remuneration Committee continued

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, 2016	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, 2016
Executive Directors									
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
Total		**309,091**	**–**	**–**	**–**	**314,233**			**623,324**
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
Total		**112,364**	**–**	**–**	**–**	**145,647**			**258,011**

The performance conditions for both the 2015 and 2016 PSP awards above will be tested to determine the level of vesting. For both these awards, one-third of the award is subject to TSR performance measured against an index, one-third is subject to adjusted Earnings per Share (EPS) performance, and one-third is subject to Return on Invested Capital (RoIC) performance. The performance conditions will be measured over a single three year performance period. For both 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: 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, 2013; December 31, 2014 and December 31, 2015).

Director	Relates to incentive award earned in respect of performance	Date of award	Number of awards at January 1, 2016	Awards released during the year	Date of vesting	Awards lapsing during the year	Awards made during the year	Number of awards at December 31, 2016
Executive Directors								
Willie Walsh	2013	March 6, 2014	149,353	–	March 6, 2017	–	–	149,353
	2014	May 28, 2015	151,111	–	March 8, 2018	–	–	151,111
	2015	March 7, 2016	–	–	March 7, 2019	–	125,693	125,693
Total			**300,464**	**–**		**–**	**125,693**	**426,157**
Enrique Dupuy de Lôme	2012	March 6, 2013	62,241	62,241	March 6, 2016	–	–	–
	2013	March 6, 2014	50,862	–	March 6, 2017	–	–	50,862
	2014	May 28, 2015	50,252	–	March 8, 2018	–	–	50,252
	2015	March 7, 2016	–	–	March 7, 2019	–	44,665	44,665
Total			**163,355**	**62,241**		**–**	**44,665**	**145,779**

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

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2016 IADP award was 541 pence (2015: 550 pence; 2014: 435 pence; and 2013: 241 pence).

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2013 IADP award was 241 pence. The share price on the date of the vesting of this award (March 7, 2016) was 540 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.

In this section

Financial statements

"Creating value for our shareholders into the future is about **leadership, cost efficiency and the ability to adjust** and reinvent ourselves."

Enrique Dupuy de Lôme
Chief Financial Officer

The Group's consolidated statements which follow have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union. This section also includes the Report of Spanish Corporate Governance filed with the Comisión Nacional del Mercado de Valores to comply with the statutory requirements for companies listed on the Spanish market.

Consolidated income statement

€ million	Note	Before exceptional items 2016	Exceptional items	Total 2016	Before exceptional items 2015	Exceptional items	Total 2015[1]
		Year to December 31					
Passenger revenue		**19,924**		**19,924**	20,330		20,330
Cargo revenue		**1,022**		**1,022**	1,094		1,094
Other revenue		**1,621**		**1,621**	1,434		1,434
Total revenue	4	**22,567**		**22,567**	22,858		22,858
Employee costs	5, 8	**4,731**	**93**	**4,824**	4,905		4,905
Fuel, oil costs and emissions charges	5	**4,873**	**(42)**	**4,831**	6,082	(51)	6,031
Handling, catering and other operating costs		**2,664**		**2,664**	2,571		2,571
Landing fees and en-route charges		**2,151**		**2,151**	1,882		1,882
Engineering and other aircraft costs		**1,701**		**1,701**	1,395		1,395
Property, IT and other costs		**870**		**870**	765	68	833
Selling costs		**896**		**896**	912		912
Depreciation, amortisation and impairment	6	**1,287**		**1,287**	1,307		1,307
Aircraft operating lease costs	6	**759**		**759**	659		659
Currency differences		**100**		**100**	45		45
Total expenditure on operations		**20,032**	**51**	**20,083**	20,523	17	20,540
Operating profit	4	**2,535**	**(51)**	**2,484**	2,335	(17)	2,318
Finance costs	9	**(279)**		**(279)**	(294)		(294)
Finance income	9	**33**		**33**	42		42
Net currency retranslation charges		**(25)**		**(25)**	(56)		(56)
Gains/(losses) on derivatives not qualifying for hedge accounting		**60**		**60**	(170)		(170)
Net gain related to available-for-sale financial assets	18	**4**		**4**	5		5
Share of profits in investments accounted for using the equity method	17	**6**		**6**	6		6
Profit/(loss) on sale of property, plant and equipment and investments		**67**		**67**	(38)		(38)
Net financing credit/(charge) relating to pensions	9	**12**		**12**	(12)		(12)
Profit before tax		**2,413**	**(51)**	**2,362**	1,818	(17)	1,801
Tax	10	**(423)**	**13**	**(410)**	(279)	(6)	(285)
Profit after tax for the year		**1,990**	**(38)**	**1,952**	1,539	(23)	1,516
Attributable to:							
Equity holders of the parent		**1,969**		**1,931**	1,518		1,495
Non-controlling interest		**21**		**21**	21		21
		1,990		**1,952**	1,539		1,516
Basic earnings per share (€ cents)	11	**94.9**		**93.0**	74.6		73.5
Diluted earnings per share (€ cents)	11	**90.2**		**88.5**	71.4		70.4

1 The prior year consolidated Income statement includes reclassifications to conform to the current year presentation. Refer to note 2 for further details.

Consolidated statement of other comprehensive income

€ million	Note	Year to December 31 2016	2015
Items that may be reclassified subsequently to net profit			
Cash flow hedges:			
Fair value movements in equity	31	**(182)**	(1,104)
Reclassified and reported in net profit	31	**793**	1,290
Available-for-sale financial assets:			
Fair value movements in equity	31	**4**	(9)
Reclassified and reported in net profit	31	**-**	(5)
Currency translation differences	31	**(506)**	181
Items that will not be reclassified to net profit			
Remeasurements of post-employment benefit obligations	31	**(1,807)**	156
Total other comprehensive income for the year, net of tax		**(1,698)**	509
Profit after tax for the year		**1,952**	1,516
Total comprehensive income for the year		**254**	2,025
Total comprehensive income is attributable to:			
Equity holders of the parent		**233**	2,004
Non-controlling interest	31	**21**	21
		254	2,025

Items in the consolidated Statement of other comprehensive income above are disclosed net of tax.

Consolidated balance sheet

€ million	Note	December 31 2016	December 31 2015
Non-current assets			
Property, plant and equipment	13	**12,227**	13,730
Intangible assets	16	**3,037**	3,195
Investments accounted for using the equity method	17	**29**	41
Available-for-sale financial assets	18	**73**	74
Employee benefit assets	32	**1,028**	957
Derivative financial instruments	27	**169**	62
Deferred tax assets	10	**526**	723
Other non-current assets	19	**499**	365
		17,588	19,147
Current assets			
Non-current assets held for sale	15	**38**	5
Inventories		**458**	520
Trade receivables	19	**1,405**	1,196
Other current assets	19	**899**	1,235
Current tax receivable	10	**228**	79
Derivative financial instruments	27	**329**	198
Other current interest-bearing deposits	20	**3,091**	2,947
Cash and cash equivalents	20	**3,337**	2,909
		9,785	9,089
Total assets		**27,373**	28,236
Shareholders' equity			
Issued share capital	28	**1,066**	1,020
Share premium	28	**6,105**	5,867
Treasury shares	29	**(96)**	(113)
Other reserves	31	**(1,719)**	(1,548)
Total shareholders' equity		**5,356**	5,226
Non-controlling interest	31	**308**	308
Total equity		**5,664**	5,534
Non-current liabilities			
Interest-bearing long-term borrowings	23	**7,589**	7,498
Employee benefit obligations	32	**2,363**	858
Deferred tax liability	10	**176**	426
Provisions for liabilities and charges	25	**1,987**	2,049
Derivative financial instruments	27	**20**	282
Other long-term liabilities	22	**238**	223
		12,373	11,336
Current liabilities			
Current portion of long-term borrowings	23	**926**	1,132
Trade and other payables	21	**3,305**	3,803
Deferred revenue on ticket sales		**4,145**	4,374
Derivative financial instruments	27	**88**	1,328
Current tax payable	10	**101**	124
Provisions for liabilities and charges	25	**771**	605
		9,336	11,366
Total liabilities		**21,709**	22,702
Total equity and liabilities		**27,373**	28,236

Consolidated cash flow statement

€ million	Note	2016	2015
		Year to December 31	
Cash flows from operating activities			
Operating profit		**2,484**	2,318
Depreciation, amortisation and impairment	6	**1,287**	1,307
Movement in working capital		**83**	(757)
Increase in trade and other receivables, prepayments, inventories and current assets		*(592)*	*(556)*
Increase/(decrease) in trade and other payables, deferred revenue on ticket sales and current liabilities		*675*	*(201)*
Payments related to restructuring	25	**(206)**	(237)
Employer contributions to pension schemes	32	**(936)**	(699)
Pension scheme service costs	32	**196**	265
Provisions and other non-cash movements		**203**	213
Interest paid		**(185)**	(197)
Interest received		**37**	48
Taxation		**(318)**	(245)
Net cash flows from operating activities		**2,645**	2,016
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		**(3,038)**	(2,040)
Sale of property, plant and equipment and intangible assets		**1,737**	273
Net proceeds from sale of investments		**-**	6
Acquisition of subsidiary (net of cash acquired)		**-**	(1,146)
(Increase)/decrease in other current interest-bearing deposits		**(450)**	1,436
Dividends received		**2**	9
Other investing movements		**-**	30
Net cash flows from investing activities		**(1,749)**	(1,432)
Cash flows from financing activities			
Net proceeds from long-term borrowings		**1,317**	2,757
Net proceeds from equity portion of convertible bond issued		**-**	101
Repayment of borrowings		**(515)**	(954)
Repayment of finance leases		**(615)**	(837)
Acquisition of treasury shares	29	**(25)**	(163)
Distributions made to holders of perpetual securities and other		**(20)**	(21)
Dividend paid		**(442)**	(163)
Net cash flows from financing activities		**(300)**	720
Net increase in cash and cash equivalents		**596**	1,304
Net foreign exchange differences		**(168)**	77
Cash and cash equivalents at 1 January		**2,909**	1,528
Cash and cash equivalents at year end	20	**3,337**	2,909
Interest-bearing deposits maturing after more than three months	20	**3,091**	2,947
Cash, cash equivalents and other interest-bearing deposits	20	**6,428**	5,856

At December 31, 2016 Aer Lingus held €47 million of restricted cash (2015: €49 million) within interest-bearing deposits maturing after more than three months to be used for employee related obligations.

Consolidated statement of changes in equity

For the year to December 31, 2016

€ million	Issued share capital (note 28)	Share premium (note 28)	Treasury shares (note 29)	Other reserves (note 31)	Retained earnings	**Total shareholders' equity**	Non-controlling interest (note 31)	**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)**
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**

Consolidated statement of changes in equity
For the year to December 31, 2015

€ million	Issued share capital (note 28)	Share premium (note 28)	Treasury shares (note 29)	Other reserves (note 31)	Retained earnings	Total shareholders' equity	Non-controlling interest (note 31)	Total equity
January 1, 2015	1,020	5,867	(6)	(3,162)	(234)	3,485	308	3,793
Profit for the year	–	–	–	–	1,495	1,495	21	1,516
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	–	–	–	14	–	14	–	14
Fuel and oil costs	–	–	–	1,474	–	1,474	–	1,474
Currency differences	–	–	–	(202)	–	(202)	–	(202)
Investments	–	–	–	4	–	4	–	4
Net change in fair value of cash flow hedges	–	–	–	(1,104)	–	(1,104)	–	(1,104)
Available-for-sale assets reclassified and reported in net profit	–	–	–	(5)	–	(5)	–	(5)
Net change in fair value of available-for-sale financial assets	–	–	–	(9)	–	(9)	–	(9)
Currency translation differences	–	–	–	181	–	181	–	181
Remeasurements of post-employment benefit obligations	–	–	–	–	156	156	–	156
Cost of share-based payments	–	–	–	–	45	45	–	45
Vesting of share-based payment schemes	–	–	56	–	(99)	(43)	–	(43)
Equity portion of convertible bond issued	–	–	–	101	–	101	–	101
Acquisition of treasury shares	–	–	(163)	–	–	(163)	–	(163)
Dividend	–	–	–	–	(203)	(203)	–	(203)
Dividend of a subsidiary	–	–	–	–	–	–	(1)	(1)
Distributions made to holders of perpetual securities	–	–	–	–	–	–	(20)	(20)
December 31, 2015	1,020	5,867	(113)	(2,708)	1,160	5,226	308	5,534

Notes to the consolidated financial statements

1 Background and general information

International Consolidated Airlines Group S.A. (hereinafter 'International Airlines Group', 'IAG' or the 'Group') is a leading European airline group, formed to hold the interests of airline and ancillary operations. IAG is a Spanish company registered in Madrid and was incorporated on April 8, 2010. On January 21, 2011 British Airways Plc and Iberia Líneas Aéreas de España S.A. Operadora (hereinafter 'British Airways' and 'Iberia' respectively) completed a merger transaction becoming the first two airlines of the Group. Vueling Airlines S.A. ('Vueling') was acquired on April 26, 2013, and Aer Lingus Group Plc ('Aer Lingus') on August 18, 2015.

IAG shares are traded on the London Stock Exchange's main market for listed securities and also on the stock exchanges of Madrid, Barcelona, Bilbao and Valencia (the 'Spanish Stock Exchanges'), through the Spanish Stock Exchanges Interconnection System (Mercado Continuo Español).

2 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. The financial statements for the prior year include reclassifications that were made to conform to the current year presentation. The amendments have no material impact on the financial statements.

The Group's financial statements for the year to December 31, 2016 were authorised for issue, and approved by the Board of Directors on February 23, 2017.

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.

b Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency using the rate of exchange prevailing on the date of the transaction. Monetary foreign currency balances are translated into the functional currency at the rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income statement, except where hedge accounting is applied. Foreign exchange gains and losses arising on the retranslation of monetary assets and liabilities classified as non-current on the Balance sheet are recognised within 'Net currency retranslation charges' 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 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 life of the aircraft.

Aircraft and engine spares acquired on the introduction or expansion of a fleet, as well as rotable 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.

Intangible assets

a Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration paid over the net fair value of the identifiable assets and liabilities of the acquiree. Where the net fair value of the identifiable assets and liabilities of the acquiree is in excess of the consideration paid, a gain on bargain purchase is recognised immediately in the Income statement.

For the purposes of assessing impairment, goodwill is grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Goodwill is tested for impairment annually and whenever indicators exist that the carrying value may not be recoverable.

b Brands

Brands arising on the acquisition of subsidiaries are initially recognised at fair value at the acquisition date. Long established brands that are expected to be used indefinitely are not amortised but assessed annually for impairment.

2 Significant accounting policies continued

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. The Group has assessed the nature of its joint arrangement and determined it to be a joint venture.

Investments in associates and joint ventures are accounted for using the equity method, and initially recognised at cost. The Group's interest in the net assets of associates and joint ventures is included in Investments accounted for using the equity method in the Balance sheet and its interest in their results is included in the Income statement, below operating result. The attributable results of those companies acquired or disposed of during the year are included for the periods of ownership.

Financial instruments

a Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets including listed and unlisted investments, excluding interests in associates. After initial recognition, available-for-sale financial assets are measured at fair value, with changes in fair value recognised in Other comprehensive income until the investment is sold or becomes impaired, at which time the cumulative gain or loss previously reported in equity is recognised in the Income statement.

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques. Where fair value cannot be reliably estimated, assets are carried at cost.

b 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, euro and Japanese yen are designated as cash flow hedges of highly probable future foreign currency revenues. Exchange differences arising from the translation of these loan repayment instalments are recorded in equity and subsequently reflected in the Income statement when either the future revenue impacts income or its occurrence is no longer expected to occur.

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.

2 Significant accounting policies continued

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years. The benefit is discounted to determine its present value, and the fair value of any plan assets are deducted. The discount rate is the yield at the balance sheet date on AA-rated corporate bonds of the appropriate currency that have durations approximating those of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the net obligation calculation results in an asset for the Group, the recognition of an asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan ('the asset ceiling'). The fair value of the plan assets is based on market price information and, in the case of quoted securities, is the published bid price.

Current service costs are recognised within 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 termination benefits. The net interest is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest and other expenses related to the defined benefit plans are recognised in the Income statement. Remeasurements, comprising actuarial gains and losses, the effect of the asset ceiling (excluding interest) and the return on plan assets (excluding interest), are recognised immediately in Other comprehensive income. Remeasurements are not reclassified to the Income statement in subsequent periods.

b Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Other employee benefits are recognised when there is deemed to be a present obligation.

Taxation

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries or associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the Income statement.

Inventories

Inventories, 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 (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, Punto 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 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 estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results in the future may differ from estimates upon which financial information has been prepared. These underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if these are also affected. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as follows.

a Employee benefit obligations, employee leaving indemnities, other employee related provisions and restructuring

The cost of employee benefit obligations, employee leaving indemnities and other employee related provisions is determined using actuarial valuations. Actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such estimates are subject to significant uncertainty. The assumptions relating to these schemes are disclosed in notes 25 and 32. The Group exercises its judgement in determining the assumptions to be adopted, in discussion with qualified actuaries.

Restructuring provisions are estimates of future obligations. The Group exercises judgement in determining the expected direct expenditures of reorganisation based on plans which are sufficiently detailed and advanced.

b Revenue recognition

Passenger revenue is recognised when the transportation is provided. Ticket sales that are not expected to be used ('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.

2 Significant accounting policies continued

In respect of customer loyalty programmes the fair value attributed to awarded points is deferred as a liability and is recognised as revenue on redemption of the points and provision of service to the participants to whom the points are issued. The fair value of the award credits is estimated by reference to the fair value of the awards for which the points could be redeemed and is reduced to take into account the proportion of award credits that are not expected to be redeemed by customers. The Group exercises its judgement in determining the assumptions to be adopted in respect of the number of points not expected to be redeemed through the use of statistical modelling and historical trends and in determining the mix and fair value of the award credits.

At December 31, 2016 the Group recognised €4,145 million in respect of deferred revenue on ticket sales (2015: €4,374 million) of which €1,287 million (2015: €1,545 million) related to customer loyalty programmes.

c Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The Group recognises deferred income tax assets only to the extent that it is probable that the taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised. Management consider the operating performance in the current year and the future projections of performance laid out in the approved business plan in order to assess the probability of recoverability. The Business plan relies on the use of assumptions, estimates and judgements in respect of future performance and economics.

d Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and intangible assets with indefinite economic lives are tested for impairment annually and at other times when such indicators exist. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates and assumptions as disclosed in note 16.

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 exercises judgement to determine useful lives and residual values of property, plant and equipment, including fleet assets. Useful lives and residual values are reassessed annually, taking into consideration the latest fleet plans and other business plan information. The assets are depreciated to their residual values over their estimated useful lives.

f Lease classification

A lease is classified as a finance lease when substantially all the risks and rewards of ownership are transferred to the Group. In determining the appropriate classification, the substance of the transaction rather than the form is considered. Factors considered include but are not limited to the following: whether the lease transfers ownership of the asset to the lessee by the end of the lease term; the lessee has the option to purchase the asset at the price that is sufficiently lower than the fair value on exercise date; the lease term is for the major part of the economic life of the asset; and the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset. Details of the Group's operating lease commitments are disclosed in note 24.

g Maintenance provision

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.

Changes in accounting policy and disclosures

a New and amended standards adopted by the Group

The Group has adopted a number of amendments to accounting standards for the first time in the year to December 31, 2016. None of these amendments has resulted in a significant change to the financial position or performance of the Group, or presentation and disclosures in the Group's 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:

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.

IAG has initiated a project to identify the revenue streams throughout the Group, and to analyse them using the five-step model. In addition, the Group has worked with other airlines through the International Air Transport Association (IATA) Industry Accounting Working Group to ensure that the proposed approach is consistent with other industry participants. At this stage, the Group expects the following main changes to revenue accounting on adoption of IFRS 15:

- A change in timing of the recognition of certain ancillary revenue, to align with the principal performance obligations associated with the services provided;
- Changes to the gross or net presentation of revenue arising from the review of terms and conditions of certain transactions undertaken by the operating companies where they may be identified as principal or agent.

The Group expects to adopt the standard from January 1, 2018 and is currently considering whether to use the full retrospective application or the cumulative catch-up transition method. The Group does not expect a significant change to its performance or financial position on adoption of this standard.

IFRS 9 'Financial instruments'; effective for periods beginning on or after January 1, 2018. The standard removes the multiple classification and measurement models for financial assets required by IAS 39 and introduces a model that has only two classification categories: amortised cost and fair value. Classification is driven by the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The accounting and presentation for financial liabilities and for derecognising financial instruments is relocated from IAS 39 without any significant changes. IFRS 9 (2010) introduces additional changes relating to financial liabilities. IFRS 9 adds new requirements to address the impairment of financial assets and hedge accounting. The Group does not expect that there will be a significant change in the classification and measurement of its financial instruments or in its hedging activities on adoption of this standard.

IFRS 16 'Leases' (not yet endorsed by the EU); effective for periods beginning on or after January 1, 2019. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The new standard eliminates the classification of leases as either operating leases or finance leases and instead introduces a single lessee accounting model. Applying this model, lessees are required to recognise a lease liability reflecting the obligation to make future lease payments and a 'right-of-use' asset for virtually all lease contracts. IFRS 16 includes an optional exemption for certain short-term leases and leases of low-value assets. The Group is currently assessing the impact of the new standard. It is expected that both net debt and non-current assets will increase on implementation of this standard as obligations to make future payments under leases currently classified as operating leases are recognised on the balance sheet, along with the related 'right-of-use' asset. Details of the Group's operating lease commitments are disclosed in note 24.

IAS 7 (Amendment) 'Statement of cash flows' (not yet endorsed by the EU); effective for periods beginning on or after January 1, 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 amendment suggests that one way to fulfil the disclosure requirement is by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The adoption of the amendment will result in additional disclosure requirements for the Group.

IFRS 2 (Amendment) 'Classification and measurement of share-based payment transactions' (not yet endorsed by the EU); effective for periods beginning on or after January 1, 2018. The amendments address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. The adoption of the amendments will not result in a change to the financial position or performance of the Group.

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.

c Prior period reclassification

The financial statements for the prior year include reclassifications that were made to conform to the current year presentation.

In 2016 the Group reviewed and amended the reporting of individual line items in the consolidated Income statement to better reflect the nature of underlying transactions and improve comparability between reporting periods. As a result, for the year to December 31, 2015, revenue previously reported as Other revenue has been reclassified to Passenger revenue and Cargo revenue. Expenditure in respect of certain subcontracted services, previously allocated to Property, IT and other costs, has been reclassified to Handling, catering and other operating costs. These reclassifications have not affected reported total revenue, expenditure or operating profit for 2015. Details of these adjustments are provided in the table below.

Notes to the consolidated financial statements continued

2 Significant accounting policies continued

Consolidated Income statement for the year to December 31, 2015

€ million	Previously reported	Reclassification	After reclassification
Passenger revenue	20,350	(20)	20,330
Cargo revenue	1,024	70	1,094
Other revenue	1,484	(50)	1,434
Total revenue	22,858	–	22,858
Handling, catering and other operating costs	2,371	200	2,571
Property, IT and other costs	1,033	(200)	833
Other expenditure on operations	17,136	–	17,136
Total expenditure on operations	20,540	–	20,540
Operating profit	2,318	–	2,318

3 Business combination

On August 18, 2015, the Group acquired 100 per cent of the issued ordinary share capital of Aer Lingus Group for €2.55 per share.

The fair values of the assets and liabilities arising from the acquisition were presented in the financial statements for the year to December 31, 2015 on a provisional basis. During the twelve months to December 31, 2016 the valuation exercise was finalised, resulting in an increase of €58 million to the fair value of property, plant and equipment arising from the acquisition, a related €7 million deferred tax liability, and a corresponding decrease to goodwill. The comparative information is restated to reflect this adjustment.

The goodwill is recognised as follows:

€ million	
Cash consideration	1,351
Fair value of identifiable net assets	1,079
Goodwill	272

4 Segment information

a Business segments

British Airways, Iberia, Vueling and Aer Lingus are managed as individual operating companies. Each airline operates its network operations as a single business unit. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments, and has been identified as the IAG Management Committee. The IAG Management Committee makes resource allocation decisions based on network profitability, primarily by reference to the passenger markets in which the companies operate. The objective in making resource allocation decisions is to optimise consolidated financial results. Therefore, based on the way the Group treats its businesses, and the manner in which resource allocation decisions are made, the Group has four reportable operating segments for financial reporting purposes, reported as British Airways, Iberia, Vueling and Aer Lingus. Other Group companies include the head office companies.

In 2016, the Avios business has been treated as a separate operating unit and is included in Other Group companies in the Business segment information. In 2015, Avios was allocated to the British Airways and Iberia operating segments according to the ownership percentage. The 2015 comparatives have been restated and Avios has been included in Other Group companies.

For the year to December 31, 2016

	2016					
€ million	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies	**Total**
Revenue						
External revenue	13,889	4,233	2,065	1,766	614	**22,567**
Inter-segment revenue	469	353	–	–	452	**1,274**
Segment revenue	14,358	4,586	2,065	1,766	1,066	**23,841**
Depreciation, amortisation and impairment	(950)	(215)	(19)	(75)	(28)	**(1,287)**
Operating profit before exceptional items	**1,786**	**271**	**60**	**233**	**185**	**2,535**
Exceptional items (note 5)	(93)	–	–	–	42	**(51)**
Operating profit after exceptional items	**1,693**	**271**	**60**	**233**	**227**	**2,484**
Net non-operating costs						**(122)**
Profit before tax						**2,362**

For the year to December 31, 2015

	2015					
€ million	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies	Total
Revenue						
External revenue	15,413	4,339	1,962	622	522	22,858
Inter-segment revenue	420	359	–	–	469	1,248
Segment revenue	15,833	4,698	1,962	622	991	24,106
Depreciation, amortisation and impairment	(1,045)	(205)	(13)	(27)	(17)	(1,307)
Operating profit before exceptional items	1,759	222	160	35	159	2,335
Exceptional items (note 5)	(35)	–	–	(3)	21	(17)
Operating profit after exceptional items	1,724	222	160	32	180	2,318
Net non-operating costs						(517)
Profit before tax						1,801

b Geographical analysis

Revenue by area of original sale

€ million	**2016**	2015
UK	**7,877**	8,256
Spain	**3,632**	3,462
USA	**3,534**	3,447
Rest of world	**7,524**	7,693
	22,567	22,858

Assets by area

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**
	12,227	**3,037**

December 31, 2015

€ million	Property, plant and equipment	Intangible assets
UK	11,112	1,346
Spain	1,798	1,221
USA	26	14
Rest of world	794	614
	13,730	3,195

Notes to the consolidated financial statements continued

5 Exceptional items

€ million	2016	2015
Employee costs[1]	**93**	–
Pre-acquisition cash flow hedge impact[2]	**(42)**	(51)
Business combination costs[3]	**–**	33
Litigation provision[4]	**–**	35
Recognised in expenditure on operations	**51**	17
Total exceptional charge before tax	**51**	17
Tax on exceptional items	**(13)**	6
Total exceptional charge after tax	**38**	23

1 Employee 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. The costs incurred in the year to December 31, 2016 in respect of these projects amount to €144 million, with a related tax credit of €27 million.
During the year 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.

2 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 (2015: €51 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 (2015: €6 million) was also recognised.

In the year to December 31, 2015:

3 Business combination costs
Transaction expenses of €33 million were recognised in relation to the Aer Lingus Business combination in the year to December 31, 2015.

4 Litigation provision
The litigation provision represents the continuation of the civil claims brought against British Airways in 2006. This provision represents a settled case against British Airways in the cargo claim for a total of €35 million. The final amount required to pay the remaining claims detailed in note 33 is subject to significant uncertainty.

6 Expenses by nature

Operating profit is arrived at after charging

Depreciation, amortisation and impairment of non-current assets:

€ million	2016	2015
Owned assets	**739**	834
Finance leased aircraft	**391**	346
Other leasehold interests	**39**	47
Impairment charge on property, plant and equipment	**–**	5
Amortisation of intangible assets	**104**	75
Impairment on intangible assets	**14**	–
	1,287	1,307

Operating leases costs:

€ million		2016	2015
Minimum lease rentals	– aircraft	**759**	659
	– property and equipment	**226**	195
Sub-lease rentals received		**(2)**	(46)
		983	808

Cost of inventories:

€ million	2016	2015
Cost of inventories recognised as an expense, mainly fuel	**3,966**	4,899

7 Auditors' remuneration

The fees for audit and non-audit services provided by the auditor of the Group's consolidated financial statements and of certain individual financial statements of the consolidated companies, Ernst & Young S.L., and by companies belonging to Ernst & Young's network, were as follows:

€'000	2016 Ernst & Young	2015 Ernst & Young	2015 Other auditor[1]
Fees payable for the audit of the Group and individual accounts	**3,313**	3,552	40
Fees payable for other services:			
Audit of the Group's subsidiaries pursuant to legislation	**541**	571	388
Other services pursuant to legislation	**440**	389	4
Other services relating to taxation	**1**	57	–
Other assurance services	**604**	552	–
Services relating to information technology	**5**	34	–
Services relating to corporate finance transactions[2]	**90**	610	–
All other services	**22**	85	–
	5,016	5,850	432

1 Fees for services billed to Aer Lingus by PricewaterhouseCoopers LLP ('PwC') and by companies belonging to PwC's network, being the auditors of Aer Lingus in 2015.
2 In 2015 this mainly included services in relation to the Aer Lingus acquisition.

The audit fees payable are approved by the Audit and Compliance Committee and have been reviewed in the context of other companies for cost effectiveness. A description of the work of the Audit and Compliance Committee is set out in the Report of the Audit and Compliance Committee and includes an explanation of how objectivity and independence is safeguarded when non-audit services are provided.

8 Employee costs and numbers

€ million	2016	2015
Wages and salaries	**3,136**	3,277
Social security costs	**491**	485
Costs related to pension scheme benefits	**276**	372
Cost of share-based payments	**36**	35
Other employee costs[1]	**885**	736
Total employee costs	**4,824**	4,905

1 Other employee costs include allowances and accommodation for crew

The average number of employees during the year was as follows:

	2016 Average number of employees	2016 Percentage of women	2015 Average number of employees	2015 Percentage of women
Senior executives	**215**	**27%**	214	24%
Ground employees:				
Managerial	**2,532**	**40%**	2,385	41%
Non-managerial	**33,313**	**35%**	32,835	36%
Technical crew:				
Managerial	**6,257**	**11%**	5,906	10%
Non-managerial	**21,070**	**68%**	19,522	67%
	63,387		60,862	

9 Finance costs and income

a Finance costs

€ million	2016	2015
Interest expense on:		
Bank borrowings	**(29)**	(23)
Finance leases	**(141)**	(138)
Provisions unwinding of discount	**(21)**	(21)
Other borrowings	**(90)**	(115)
Capitalised interest on progress payments	**3**	2
Change in fair value of cross currency swaps	**(1)**	1
	(279)	(294)

b Finance income

€ million	2016	2015
Interest on other interest-bearing deposits	**33**	42

c Net financing credit/(charge) relating to pensions

€ million	2016	2015
Net financing credit/(charge) relating to pensions	**12**	(12)

10 Tax

a Tax charges and tax balances

Tax (charge)/credit in the Income statement, Other comprehensive income and Statement of changes in equity

For the year to December 31, 2016

€ million	Income statement	Other comprehensive income	Statement of changes in equity	Total
Current tax				
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)**
Deferred tax				
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 benefit plans and current tax in the Statement of changes in equity relates to share-based payment schemes (€5 million) and finance costs (€5 million).

For the year to December 31, 2015

€ million	Income statement	Other comprehensive income	Statement of changes in equity	Total
Current tax				
Movement in respect of prior years	(5)	–	–	(5)
Movement in respect of current year	(337)	76	14	(247)
Total current tax	(342)	76	14	(252)
Deferred tax				
Movement in respect of prior years	32	1	–	33
Movement in respect of current year	(59)	(180)	(4)	(243)
Rate change	84	–	–	84
Total deferred tax	57	(179)	(4)	(126)
Total tax	(285)	(103)	10	(378)

Current tax in the Other comprehensive income all relates to employee benefit plans and current tax in the Statement of changes in equity all relates to share-based payment schemes.

Current tax (liability)/asset

€ million	Opening balance	Movement in respect of prior years	Movement in respect of current year	Cash	Exchange movements	Closing balance
2016	(45)	13	(172)	318	13	127
2015	(48)	(5)	(247)	245	10	(45)

The current tax asset is €228 million (2015: €79 million) and the current tax liability is €101 million (2015: €124 million).

Deferred tax asset/(liability)

€ million	Opening balance	Movement in respect of prior years	Movement in respect of current year	Rate change	Business combinations	Exchange movements	Closing balance
2016	297	(10)	21	3	–	39	350
2015	491	33	(243)	84	(42)	(26)	297

The deferred tax asset is €526 million (2015: €723 million) and the deferred tax liability is €176 million (2015: €426 million).

b Deferred tax

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
Deferred revenue in relation to customer loyalty programmes	1	–	1	–	–	2
Other items	48	(15)	(2)	–	(6)	25
Total deferred tax	**297**	**(10)**	**21**	**3**	**39**	**350**

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.

Notes to the consolidated financial statements continued

10 Tax continued

For the year to December 31, 2015

€ million	Opening balance	Movement in respect of prior years	Movement in respect of current year	Rate change	Transfer	Exchange movements	Closing balance
Fixed assets	(1,126)	18	(10)	84	(47)	(127)	(1,208)
Employee leaving indemnities and other employee related provisions	492	(6)	(13)	–	–	(1)	472
Tax losses carried forward	396	15	(42)	–	–	41	410
Fair value losses recognised on cash flow hedges	330	–	(41)	–	–	9	298
Employee benefit plans	248	–	(125)	–	–	45	168
Tax assets in relation to tax credits and deductions	89	(10)	(1)	–	–	–	78
Share-based payment schemes	22	3	(4)	–	–	1	22
Foreign exchange	(16)	4	20	–	–	–	8
Deferred revenue in relation to customer loyalty programmes	17	–	(16)	–	–	–	1
Other items	39	9	(11)	–	5	6	48
Total deferred tax	491	33	(243)	84	(42)	(26)	297

Within tax in Other comprehensive income is a tax charge of €53 million that may be reclassified subsequently to the Income statement and a tax charge of €127 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, 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
Deferred revenue in relation to customer loyalty programmes	1	–	–	1
Other items	(2)	–	–	(2)
Total deferred tax	**(130)**	**158**	**(7)**	**21**

For the year to December 31, 2015

€ million	Income statement	Other comprehensive income	Statement of changes in equity	Total
Fixed assets	(10)	–	–	(10)
Employee leaving indemnities and other employee related provisions	(13)	–	–	(13)
Tax losses carried forward	(42)	–	–	(42)
Fair value losses recognised on cash flow hedges	12	(53)	–	(41)
Employee benefit plans	2	(127)	–	(125)
Tax assets in relation to tax credits and deductions	(1)	–	–	(1)
Share-based payment schemes	–	–	(4)	(4)
Foreign exchange	20	–	–	20
Deferred revenue in relation to customer loyalty programmes	(16)	–	–	(16)
Other items	(11)	–	–	(11)
Total deferred tax	(59)	(180)	(4)	(243)

c Reconciliation of the total tax charge 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, 2016 and 2015 is lower than the notional tax charge.

The differences are explained below:

€ million	2016	2015
Accounting profit before tax	**2,362**	1,801
Tax calculated at 25 per cent in Spain (2015: 28 per cent), 20 per cent in the UK (2015: 20.25 per cent) and 12.5 per cent in Ireland (2015: 12.5 per cent)[1]	**466**	381
Effects of:		
Non-deductible expenses – recurring items	**12**	6
Non-deductible expenses – non-recurring items	**9**	11
Current year tax assets not recognised	**4**	3
Tax on unremitted earnings	**-**	3
Employee benefit plans accounted for net of withholding tax	**(6)**	(8)
Investment credit	**(7)**	(6)
Previously unrecognised tax assets	**(9)**	-
Euro preferred securities accounted for as non-controlling interests	**(12)**	(4)
Other items	**(2)**	10
Adjustments in respect of prior years	**(2)**	(27)
Tax rate changes	**(43)**	(84)
Tax charge in the Income statement	**410**	285

1 The expected tax charge is calculated by aggregating the expected tax charges arising in each Group company.

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 2016 is as follows:

€ million	2016	2015
Payroll related taxes	**495**	455
UK Air Passenger Duty	**848**	923
Other ticket taxes and charges	**1,626**	1,583
	2,969	2,961

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 – losses

€ million	2016	2015
Spanish corporate income tax losses and deferred finance costs	**47**	35
UK capital losses arising before the change in ownership of the UK Group in 2011	**34**	101
UK capital losses arising after the change in ownership of the UK Group in 2011	**8**	10
UK capital losses arising on properties that were eligible for Industrial Buildings Allowances	**296**	350
Corporate income tax losses outside of the countries of main operation	**170**	154

Unrecognised temporary differences – investment in subsidiaries and associates

No deferred tax liability has been recognised in respect of €170 million (2015: €795 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

A reduction in the UK corporation tax rate was substantively enacted in the year, in addition to those enacted in 2015. The main rate of corporation tax applicable from April 1, 2020 was reduced from 18 per cent to 17 per cent. The deferred tax on temporary differences and tax losses at December 31, 2016 was calculated at the rate applicable to the year in which the temporary differences and tax losses are expected to reverse.

Notes to the consolidated financial statements continued

10 Tax continued

Spanish tax law changes

Changes in Spanish corporate income tax law were made towards the end of 2016. These changes included delaying the tax deduction for certain expenditure and delaying the offset of brought forward tax losses, both of which accelerate tax payable by the Group. There were also changes which increased prepayments of corporate income tax (current tax asset 2016: €228 million). These changes are not expected to affect the total future tax charge.

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. 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.

11 Earnings per share

€ million	2016	2015
Earnings attributable to equity holders of the parent for basic earnings	**1,931**	1,495
Interest expense on convertible bonds	**26**	25
Diluted earnings attributable to equity holders of the parent and diluted earnings per share	**1,957**	1,520

	2016 Number '000	2015 Number '000
Weighted average number of ordinary shares in issue	**2,075,568**	2,034,197
Assumed conversion on convertible bonds	**115,688**	101,480
Dilutive employee share schemes outstanding	**19,734**	24,260
Weighted average number for diluted earnings per share	**2,210,990**	2,159,937

€ cents	2016	2015
Basic earnings per share	**93.0**	73.5
Diluted earnings per share	**88.5**	70.4

The calculation of basic and diluted earnings per share before exceptional items is included in the Alternative performance measures section.

12 Dividends

€ million	2016	2015
Cash dividend declared		
Interim dividend for 2016 of 11 € cents per share (2015: 10 € cents per share)	**233**	203
Final dividend for 2015 of 10 € cents per share	**212**	–
Proposed cash dividend		
Final dividend for 2016 of 12.5 € cents per share	**265**	

The proposed dividend would be distributed from net profit for the year to December 31, 2016.

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.

13 Property, plant and equipment

€ million	Fleet	Property	Equipment	**Total**
Cost				
Balance at January 1, 2015	20,226	2,259	1,515	24,000
Additions	1,774	51	112	1,937
Acquired through Business combination	751	16	12	779
Disposals	(1,180)	(3)	(56)	(1,239)
Reclassifications	(184)	3	(22)	(203)
Exchange movements	1,488	155	90	1,733
Balance at December 31, 2015	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)**
December 31, 2016	**19,739**	**2,210**	**1,533**	**23,482**
Depreciation and impairment				
Balance at January 1, 2015	10,252	999	965	12,216
Charge for the year	1,066	70	91	1,227
Disposals	(954)	(3)	(34)	(991)
Reclassifications	(99)	2	(10)	(107)
Exchange movements	793	75	64	932
Balance at December 31, 2015	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)**
December 31, 2016	**9,195**	**1,053**	**1,007**	**11,255**
Net book values				
December 31, 2016	**10,544**	**1,157**	**526**	**12,227**
December 31, 2015	11,817	1,338	575	13,730
Analysis at December 31, 2016				
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**
Analysis at December 31, 2015				
Owned	4,763	1,289	460	6,512
Finance leased	6,385	16	33	6,434
Progress payments	669	33	82	784
Property, plant and equipment	11,817	1,338	575	13,730

Notes to the consolidated financial statements continued

13 Property, plant and equipment continued

The net book value of property comprises:

€ million	2016	2015
Freehold	**494**	561
Long leasehold improvements	**331**	387
Short leasehold improvements[1]	**332**	390
Property	**1,157**	1,338

1 Short leasehold improvements relate to property leasehold interests with duration of less than 50 years.

At December 31, 2016, bank and other loans of the Group are secured on fleet assets with a cost of €1,071 million (2015: €1,466 million) and letters of credit of €273 million in favour of the British Airways Pension Trustees are secured on certain aircraft (2015: €278 million).

14 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to €14,022 million (December 31, 2015: €16,091 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 €13,991 million for the acquisition of 89 Airbus A320s (from 2018 to 2022), 17 Airbus A321s (from 2017 to 2019), 5 Airbus A330s (from 2017 to 2018), 43 Airbus A350s (from 2018 to 2022) and 18 Boeing 787s (from 2017 to 2021).

15 Non-current assets held for sale

The non-current assets held for sale of €38 million represent €15 million for the Group's investment in Propius Holdings Limited and €23 million for five Airbus A340-300 aircraft. These are presented within the Aer Lingus and Iberia operating segments respectively and will exit the business within 12 months of December 31, 2016.

During the year to December 31, 2016 six Airbus A340-300 aircraft were classified as held for sale. Assets held for sale with a net book value of €19 million disposed of during the year, related to the sale of one Airbus A340-300 aircraft in Iberia and three Boeing 737-400 airframes and nine Boeing 737-400 engines in British Airways, resulting in a gain of €1 million in British Airways.

At December 31, 2015 the non-current assets held for sale of €5 million represented three Boeing 737-400 airframes and nine Boeing 737-400 engines that had been stood down from use and were being marketed for sale. These were presented within the British Airways segment.

16 Intangible assets and impairment review

a Intangible assets

€ million	Goodwill	Brand	Customer loyalty programmes	Landing rights[1]	Other[2]	Total
Cost						
Balance at January 1, 2015	328	341	253	1,442	749	3,113
Additions	–	–	–	–	168	168
Acquired through Business combination	272	110	–	172	40	594
Disposals	–	–	–	–	(114)	(114)
Reclassifications	–	–	–	–	20	20
Exchange movements	5	–	–	70	42	117
Balance at December 31, 2015	605	451	253	1,684	905	3,898
Additions	–	–	–	–	154	**154**
Disposals	–	–	–	–	(19)	**(19)**
Reclassifications	–	–	–	–	20	**20**
Exchange movements	(7)	–	–	(128)	(100)	**(235)**
December 31, 2016	**598**	**451**	**253**	**1,556**	**960**	**3,818**
Amortisation and impairment						
Balance at January 1, 2015	249	–	–	77	349	675
Charge for the year	–	–	–	3	72	75
Disposals	–	–	–	–	(78)	(78)
Reclassifications	–	–	–	–	8	8
Exchange movements	–	–	–	6	17	23
Balance at December 31, 2015	249	–	–	86	368	703
Charge for the year	–	–	–	6	98	**104**
Impairment charge recognised during the year[3]	–	–	–	14	–	**14**
Reclassifications	–	–	–	–	9	**9**
Exchange movements	–	–	–	(8)	(41)	**(49)**
December 31, 2016	**249**	**–**	**–**	**98**	**434**	**781**
Net book values						
December 31, 2016	**349**	**451**	**253**	**1,458**	**526**	**3,037**
December 31, 2015	356	451	253	1,598	537	3,195

1 The net book value includes non-EU based landing rights of €113 million (2015: €123 million) that have a finite life. The remaining life of these landing rights is 19 years.
2 Other intangible assets consist primarily of software with a net book value of €474 million (2015: €487 million), and also include purchased emissions allowances.
3 The impairment charge of €14 million relates to landing rights associated with British Airways' Openskies operation, €11 million of which relates to landing rights in the EU that have an indefinite life.

16 Intangible assets and impairment review continued

b Impairment review

The carrying amounts of intangible assets with indefinite life and goodwill allocated to cash generating units (CGUs) of the Group are:

€ million	Goodwill	Landing rights	Brand	Customer loyalty programmes	**Total**
2016					
Iberia					
January 1 and December 31, 2016	–	423	306	–	**729**
British Airways					
January 1, 2016	56	901	–	–	**957**
Impairment	–	(11)	–	–	**(11)**
Exchange movements	(7)	(119)	–	–	**(126)**
December 31, 2016	49	771	–	–	**820**
Vueling					
January 1 and December 31, 2016	28	89	35	–	**152**
Aer Lingus					
January 1 and December 31, 2016	272	62	110	–	**444**
Avios					
January 1 and December 31, 2016	–	–	–	253	**253**
December 31, 2016	**349**	**1,345**	**451**	**253**	**2,398**

€ million	Goodwill	Landing rights	Brand	Customer loyalty programmes	Total
2015					
Iberia					
January 1, 2015	–	423	306	253	982
Transfer to Avios	–	–	–	(253)	(253)
December 31, 2015	–	423	306	–	729
British Airways					
January 1, 2015	51	840	–	–	891
Exchange movements	5	61	–	–	66
December 31, 2015	56	901	–	–	957
Vueling					
January 1 and December 31, 2015	28	89	35	–	152
Aer Lingus					
January 1, 2015	–	–	–	–	–
Acquired through Business combination	272	62	110	–	444
December 31, 2015	272	62	110	–	444
Avios					
January 1, 2015	–	–	–	–	–
Transfer from Iberia	–	–	–	253	253
December 31, 2015	–	–	–	253	253
December 31, 2015	356	1,475	451	253	2,535

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:

	2016				
Per cent	**British Airways**	**Iberia**	**Vueling**	**Aer Lingus**	**Avios**
Lease adjusted operating margin	**12–15**	**8–14**	**7–15**	**12–15**	**n/a[1]**
Average ASK growth per annum	**2**	**4**	**7**	**8**	**n/a[1]**
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**

	2015			
Per cent	British Airways	Iberia	Vueling	Avios
Lease adjusted operating margin	12–15	8–14	12–15	n/a[1]
Average ASK growth per annum	2–3	7	10	n/a[1]
Long-term growth rate	2.5	2.0	2.0	2.4
Pre-tax discount rate	8.6	9.7	10.3	9.1

1 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 2021. It is presented as a percentage point range and is based on past performance, Management's expectation of the market development and incorporating risks into the cash flow estimates.

ASK growth is the average annual increase over the Business plan, based on past performance and Management's expectation of the market.

The long-term growth rate is calculated for each CGU based on the forecasted weighted average exposure in each primary market using gross domestic product (GDP) (source: Oxford Economics). This is reviewed each year and updated as necessary to reflect management's view on specific market risk.

Pre-tax discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and underlying risks of its primary market. The discount rate calculation is based on the circumstances of the airline industry, the Group and 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 2016, Management reviewed the recoverable amount of each of its CGUs and concluded the recoverable amounts exceeded the carrying values.

In 2016, British Airways recognised an impairment charge of €14 million in respect of landing rights associated with its Openskies operation, €11 million of which related to landing rights in the EU that have an indefinite life. The impairment has arisen as a result of changes in Business plan assumptions for the Openskies operation. At December 31, 2016 the remaining carrying value was €12 million, representing its value-in-use.

Sensitivities

Sensitivities have been considered for each CGU. No reasonable possible change in the key assumptions for any of the Groups CGUs would cause the carrying amounts to exceed the recoverable amounts.

17 Investments

a Investments in subsidiaries

The Group's principal subsidiaries at December 31, 2016 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, 2016 is €308 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 31).

British Airways Employee Benefit Trustee (Jersey) Limited, a wholly-owned subsidiary of British Airways, governs the British Airways Plc Employee Share Ownership Trust (the Trust). The Trust is not a legal subsidiary of IAG; however, it is consolidated within the Group results.

b Investments in associates and joint ventures

The share of 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	**2016**	2015
Total assets	**88**	100
Total liabilities	**(61)**	(64)
Revenue	**52**	75
Profit for the year	**6**	6

The detail of the movement in Investment in associates and joint ventures is shown as follows:

€ million	**2016**	2015
At beginning of year	**41**	27
Share of retained profits	**6**	6
Acquired through Business combination	**-**	17
Disposals	**-**	(1)
Reclassification[1]	**(15)**	-
Exchange movements	**-**	1
Dividends received	**(3)**	(9)
	29	41

1 During the year the Group's 33.33 per cent equity interest in the share capital of Propius Holdings Limited was classified as held for sale.

At December 31, 2016 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, 2016 the investment in Handling Guinea Ecuatorial, S.A. exceeded 50 per cent ownership by the Group (51 per cent) and is treated as an associate as the local partner controls its activities.

18 Available-for-sale financial assets

Available-for-sale financial assets include the following:

€ million	**2016**	2015
Listed securities		
Comair Limited	**15**	9
Unlisted securities	**58**	65
	73	74

The net gain relating to available-for-sale financial assets was €4 million (2015: €5 million).

19 Trade and other receivables

€ million	2016	2015
Amounts falling due within one year		
Trade receivables	**1,469**	1,280
Provision for doubtful receivables	**(64)**	(84)
Net trade receivables	**1,405**	1,196
Prepayments and accrued income	**717**	925
Other non-trade debtors	**182**	310
	2,304	2,431
Amounts falling due after one year		
Prepayments and accrued income	**313**	173
Other interest-bearing deposits (greater than one year)	**114**	104
Other non-trade debtors	**72**	88
	499	365

Movements in the provision for doubtful trade receivables were as follows:

€ million	2016	2015
At beginning of year	**84**	97
Provision for doubtful receivables	**7**	8
Unused amounts reversed	**(1)**	(3)
Receivables written off during the year	**(23)**	(20)
Exchange movements	**(3)**	2
	64	84

The ageing analysis of net trade receivables is as follows:

€ million	2016	2015
Neither past due date nor impaired	**1,017**	986
< 30 days	**235**	117
30 – 60 days	**96**	77
> 60 days	**57**	16
Net trade receivables	**1,405**	1,196

Trade receivables are generally non-interest-bearing and on 30 days terms (2015: 30 days).

20 Cash, cash equivalents and other current interest-bearing deposits

€ million	2016	2015
Cash at bank and in hand	**2,021**	2,230
Short-term deposits falling due within three months	**1,316**	679
Cash and cash equivalents	**3,337**	2,909
Other current interest-bearing deposits maturing after three months	**3,091**	2,947
Cash, cash equivalents and other interest-bearing deposits	**6,428**	5,856

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, 2016 the Group had no outstanding bank overdrafts (2015: 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, 2016 Aer Lingus held €47 million of restricted cash (2015: €49 million) within interest-bearing deposits maturing after more than three months to be used for employee related obligations.

21 Trade and other payables

€ million	2016	2015
Trade creditors	**1,776**	2,043
Other creditors	**910**	1,031
Other taxation and social security	**218**	186
Accruals and deferred income	**401**	543
	3,305	3,803

Notes to the consolidated financial statements continued

21 Trade and other payables continued

Average payment days to suppliers – Spanish Group companies

Days	2016	2015
Average payment days for payment to suppliers	**31**	42
Ratio of transactions paid	**30**	42
Ratio of transactions outstanding for payment	**53**	47

€ million	2016	2015
Total payments made	**4,600**	4,272
Total payments outstanding	**86**	84

22 Other long-term liabilities

€ million	2016	2015
Non-current trade creditors	**4**	5
Accruals and deferred income	**234**	218
	238	223

23 Long-term borrowings

a Current

€ million	2016	2015
Bank and other loans	**149**	576
Finance leases	**777**	556
	926	1,132

b Non-current

€ million	2016	2015
Bank and other loans	**1,764**	2,176
Finance leases	**5,825**	5,322
	7,589	7,498

During the year all holders of the €390 million 1.75 per cent convertible bond exercised their options to exchange their convertible bonds for ordinary shares in the Company, resulting in the issuance of 92,910,220 shares during the year.

Banks and other loans are repayable up to the year 2027. Bank and other loans of the Group amounting to €613 million (2015: €813 million) are secured on aircraft. Finance leases are all secured on aircraft or property, plant and equipment.

c Bank and other loans

Bank and other loans comprise the following:

€ million	2016	2015
€500 million fixed rate 0.25 per cent convertible bond 2020[1]	**463**	454
€500 million fixed rate 0.625 per cent convertible bond 2022[1]	**441**	431
Floating rate euro mortgage loans secured on aircraft[2]	**304**	328
€200 million fixed rate unsecured bonds[3]	**200**	147
Floating rate euro syndicate loan secured on investments[4]	**176**	192
Fixed rate US dollar mortgage loans secured on aircraft[5]	**157**	174
Fixed rate Chinese yuan mortgage loans secured on aircraft[6]	**87**	102
Floating rate pound sterling mortgage loans secured on aircraft[7]	**53**	55
Fixed rate unsecured euro loans with the Spanish State (Department of Industry)[8]	**18**	15
Floating rate US dollar mortgage loans secured on aircraft[9]	**12**	52
European Investment Bank sterling loans secured on certain property[10]	**2**	7
€390 million fixed rate 1.75 per cent convertible bond 2018[11]	**-**	350
£250 million fixed rate 8.75 per cent unsecured Eurobonds 2016[12]	**-**	343
Fixed rate pound sterling mortgage loans secured on aircraft[13]	**-**	102
	1,913	2,752
Less current instalments due on bank and other loans	**(149)**	(576)
	1,764	2,176

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 equity portion of the convertible bond issue of €39 million and €62 million respectively is included in Other reserves (note 31). 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, 2016.

2 Floating rate euro mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.29 and 1.50 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. During the year, the Group issued bonds totalling €49 million.
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 bears interest of 5.20 per cent. The loans are repayable in 2022.
7 Floating rate pound sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest of 1.10 per cent. The loans are repayable between 2018 and 2019.
8 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 2017 and 2026.
9 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 are repayable in 2017.
10 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 is repayable in 2017.
11 €390 million fixed rate 1.75 per cent convertible bond issued by the Group, in May 2013, raising net proceeds of €386 million, convertible into ordinary shares at the option of the holder before or upon maturity in May 2018. The conversion price was set at a premium of 35 per cent on the Group's share price on the date of issuance. The Group held an option to redeem the convertible bond at its principal amount, together with accrued interest, upon fulfilment of certain pre-determined criteria.
In early 2016 certain bondholders requested conversion, resulting in the issuance of 929,102 shares. Following the announcement by the Group that it had exercised its option to redeem all of its outstanding €390 million 1.75 per cent convertible bonds due 2018, in June 2016 all remaining bondholders exercised their option to exchange their convertible bonds for ordinary shares, resulting in the issuance of 91,981,118 new shares.
At December 31, 2016 there were no options outstanding (2015: 91,758,228).
12 £250 million fixed rate 8.75 per cent unsecured eurobonds 2016 were repaid in August 2016.
13 Fixed rate pound sterling mortgage loans were converted into floating rate sterling mortgage loans during the year. These loans are now included within part 7 above.

d Total loans and finance leases

Million	**2016**	2015
Loans		
Bank:		
US dollar	**$176**	$246
Euro	**€498**	€536
Pound sterling	**£47**	£119
Chinese yuan	**CNY 623**	CNY 716
	€809	€1,027
Fixed rate bonds:		
Euro	**€1,104**	€1,381
Pound sterling	**-**	£250
	€1,104	€1,725
Finance leases		
US dollar	**$3,246**	$3,464
Euro	**€2,343**	€1,458
Japanese yen	**¥63,614**	¥44,599
Pound sterling	**£527**	£656
	€6,602	€5,878
	€8,515	€8,630

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	**2016**	2015
Future minimum payments due:		
Within one year	**905**	692
After more than one year but within five years	**3,339**	3,084
In five years or more	**3,070**	2,769
	7,314	6,545
Less: finance charges	**(712)**	(667)
Present value of minimum lease payments	**6,602**	5,878
The present value of minimum lease payments is analysed as follows:		
Within one year	**777**	556
After more than one year but within five years	**2,938**	2,723
In five years or more	**2,887**	2,599
	6,602	5,878

Notes to the consolidated financial statements continued

24 Operating lease commitments

The Group has entered into commercial leases on certain properties, equipment and aircraft. These leases have durations ranging from less than one year to 14 years for aircraft and less than one year to 22 years for property, plant and equipment with the exception of one ground lease which has a remaining lease of 129 years. Certain leases contain options for renewal.

The aggregate payments, for which there are commitments under operating leases, fall due as follows:

	2016			2015		
€ million	Fleet	Property, plant and equipment	Total	Fleet	Property, plant and equipment	Total
Within one year	**975**	**158**	**1,133**	778	179	957
Between one and five years	**2,970**	**233**	**3,203**	2,184	384	2,568
Over five years	**1,918**	**2,060**	**3,978**	1,206	2,456	3,662
	5,863	**2,451**	**8,314**	4,168	3,019	7,187

Sub-leasing

Sub-leases 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 21 years and the assets are surplus to the Group's requirements. Future minimum rentals receivable under non-cancellable operating leases are €12 million (2015: €16 million) with €7 million (2015: €9 million) falling due within one year, €5 million (2015: €5 million) between one and five years and nil (2015: €2 million) over five years.

25 Provision for liabilities and charges

€ million	Restoration and handback provisions	Restructuring	Employee leaving indemnities and other employee related provisions	Legal claims provisions	Other provisions	Total
Net book value January 1, 2016	1,013	744	579	235	83	**2,654**
Provisions recorded during the year	319	172	26	23	101	**641**
Utilised during the year	(141)	(206)	(24)	(8)	(94)	**(473)**
Release of unused amounts	(23)	(18)	(1)	(60)	(5)	**(107)**
Unwinding of discount	3	3	13	1	1	**21**
Exchange differences	30	(3)	–	(2)	(3)	**22**
Net book value December 31, 2016	**1,201**	**692**	**593**	**189**	**83**	**2,758**
Analysis:						
Current	296	248	65	119	43	**771**
Non-current	905	444	528	70	40	**1,987**
	1,201	**692**	**593**	**189**	**83**	**2,758**

Restoration and handback provisions

The provision for restoration and handback costs is maintained to meet the contractual return conditions on aircraft held under operating leases. The provision also 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 0.20 per cent. The payments related to this provision will continue over ten years.

During the year the Group recognised a provision of €144 million in relation to the restructuring plans at British Airways (note 5). The costs related to this provision are expected to be incurred in the next two years.

Employee leaving indemnities and other employee related provisions

This provision includes employees leaving indemnities relating to staff under various contractual arrangements.

The Group recognises a provision relating to flight crew who, 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, 2016 with the use of independent actuaries using the projected unit credit method, based on a discount rate of 1.18 per cent and a 0.02 per cent depending on whether the employees are currently active or not and 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 €524 million at December 31, 2016 (2015: €505 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 final amount required to pay the remaining claims and fines is subject to uncertainty (note 33).

Other provisions

Other provisions includes:

- Amounts for passengers whose flights were significantly delayed and are entitled to receive compensation. This provision is largely a current provision and is expected to have amounts both utilised and provided for each year. This provision has been reassessed based on the historic level of claims;
- A provision for the Emissions Trading Scheme that represents the excess of CO_2 emitted on flights within the EU in excess of the EU Emission Allowances granted; and
- A provision related to unfavourable fleet contracts.

26 Financial risk management objectives and policies

The Group is exposed to a variety of financial risks: market risk (including fuel price risk, foreign currency risk and interest rate risk), counterparty risk, liquidity risk and capital risk. The Group's Financial Risk Management programme focuses on the unpredictability of financial markets and defines the amount of risk that the Group is prepared to retain.

Financial risk is managed in two tiers under the overall oversight of the Group Treasury department. The first tier comprises fuel price fluctuations, euro-US dollar volatility and sterling-US dollar volatility which represent the largest financial risks facing the Group. The Board approves the key strategic principles and the risk appetite. The IAG Management Committee approves the hedging levels and the degree of flexibility in applying the levels that are delegated to the Group Treasury Committee. The Group Treasury Committee meets periodically and includes representatives from Group Treasury, British Airways, Iberia, Vueling and Aer Lingus. The Committee approves a mandate for British Airways, Iberia, Vueling and Aer Lingus treasury teams to place hedging cover in the market for their respective companies, including the instruments to be used. Second tier risks such as interest rate movements, emissions and minor currency pairs are managed separately by Group Treasury for British Airways and Iberia. Vueling and Aer Lingus manage second tier risks under authority delegated by their boards to their treasury departments, aligned with Group treasury policy.

The Group Treasury Committee provides a quarterly report on the hedging position to the IAG Management Committee and the Audit and Compliance Committee. The Board reviews the strategy 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, as approved by the IAG Management Committee, is to hedge a proportion of fuel consumption for the next eight quarters, within certain defined limits. In addition, the Group has additional flexibility to hedge a proportion of fuel consumption up to quarter 12.

Within the strategy, the Financial Risk Management programme allows for the use of a number of derivatives available on over-the-counter (OTC) markets with approved counterparties.

The following table demonstrates the sensitivity of financial instruments to a reasonable possible change in fuel prices, with all other variables held constant, on result before tax and equity:

		2016			2015
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	**73**	**1,006**	30	70	656
(30)	**(114)**	**(855)**	(30)	(49)	(731)

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.

26 Financial risk management objectives and policies continued

The Group has a number of strategies to hedge foreign currency risks. The operational US dollar short position is subject to the same governance structure as the fuel hedging strategy set out above. The current Group strategy, as approved by the IAG Management Committee, is to hedge a proportion of up to three years of US dollar exposure, within certain defined limits. Foreign exchange forwards and options are used to implement the strategy.

British Airways utilises its US dollar, euro and Japanese yen debt repayments as a hedge of future US dollar, euro and Japanese yen 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 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
2016	**10**	**9**	**(29)**	**10**	**(39)**	**277**	**10**	**(3)**	**(50)**
	(10)	**(9)**	**73**	**(10)**	**40**	**(277)**	**(10)**	**3**	**50**
2015	10	(2)	(72)	10	(43)	170	10	–	(32)
	(10)	2	117	(10)	43	(179)	(10)	–	32

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, 70 per cent of the Group's borrowings were at fixed rates and 30 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
2016	**50**	**(1)**	**7**	**50**	**(11)**	**-**	**50**	**10**	**-**
	(50)	**1**	**(8)**	**(50)**	**12**	**-**	**(50)**	**(10)**	**-**
2015	50	(3)	1	50	(6)	–	50	8	–
	(50)	3	(1)	(50)	6	–	(50)	(8)	–

d Counterparty risk

The Group is exposed to counterparty risk to the extent of non-performance by its counterparties in respect of financial assets receivable. The Group has policies and procedures in place to minimise the risk by placing credit limits on each counterparty. These policies and procedures are coordinated through the Group Treasury Committee. The Committee also reviews the application of the policies and procedures by British Airways, Iberia, Vueling and Aer Lingus. The Group monitors counterparty credit limits and defaults of counterparties, incorporating this information into credit risk controls. Treasury activities include placing money market deposits, fuel hedging and foreign currency transactions, which could lead to a concentration of different credit risks with the same counterparty. This risk is managed by allocation of exposure limits for the counterparty to British Airways, Iberia, Vueling and Aer Lingus. Exposures at the activity level are monitored on a daily basis and the overall exposure limit for the counterparty is reviewed at least monthly using available market information such as credit ratings. Sovereign risk is also monitored, country concentration and sovereign credit ratings are reviewed at every Group Treasury Committee meeting.

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, 2016 the Group's credit risk position, allocated by region, in respect of treasury managed cash and derivatives was as follows:

	Mark-to-market of treasury controlled financial instruments allocated by geography	
Region	**2016**	2015
United Kingdom	**36%**	20%
Spain	**1%**	4%
Ireland	**1%**	7%
Rest of Eurozone	**38%**	38%
Rest of world	**24%**	31%

e Liquidity risk

Liquidity risk management includes maintaining sufficient cash and interest-bearing deposits, the availability of funding from an adequate amount of credit facilities and the ability to close out market positions. Due to the volatile nature of the underlying business, Group treasury maintains flexibility in funding by using committed credit lines.

At December 31, 2016 the Group had undrawn revolving credit of facilities of €17 million (2015: €14 million). The Group held undrawn uncommitted money market lines of €30 million at December 31, 2016 (2015: €34 million). The Group held undrawn general and committed aircraft financing facilities:

	2016	
Million	**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**

	2015	
Million	Currency	€ equivalent
Euro facilities expiring between February and November 2016	€137	137
US dollar facilities expiring between September and December 2016	$1,247	1,146
US dollar facility expiring December 2021	$1,164	1,069
US dollar facility expiring June 2022	$1,750	1,608

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 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 currency 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 currency contracts	(23)	(2)	(7)	–	–	**(32)**
Fuel derivatives	(38)	(24)	(12)	–	–	**(74)**
December 31, 2016	**(3,425)**	**(501)**	**(1,042)**	**(3,275)**	**(3,900)**	**(12,143)**

26 Financial risk management objectives and policies continued

€ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total 2015
Interest-bearing loans and borrowings:						
Finance lease obligations	(315)	(371)	(803)	(2,263)	(2,765)	(6,517)
Fixed rate borrowings	(53)	(449)	(89)	(1,109)	(737)	(2,437)
Floating rate borrowings	(62)	(73)	(81)	(251)	(207)	(674)
Trade and other payables	(3,442)	–	(10)	–	–	(3,452)
Derivative financial instruments (assets):						
Aircraft lease hedges	1	1	10	–	–	12
Forward currency contracts	97	86	38	11	–	232
Fuel derivatives	2	1	–	–	–	3
Currency options	11	3	4	2	–	20
Derivative financial instruments (liabilities):						
Aircraft lease hedges	(1)	(1)	(3)	–	–	(5)
Forward currency contracts	(6)	–	(2)	(2)	–	(10)
Fuel derivatives	(858)	(465)	(232)	(42)	–	(1,597)
Currency options	(2)	(1)	(1)	(1)	–	(5)
Hedge of available-for-sale asset	1	–	–	–	–	1
December 31, 2015	(4,627)	(1,269)	(1,169)	(3,655)	(3,709)	(14,429)

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, 2016

€ 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**
Financial assets					
Derivative financial assets	1,419	(921)	498	(14)	**484**
Financial liabilities					
Derivative financial liabilities	1,029	(921)	108	(14)	**94**

December 31, 2015

€ million	Gross value of financial instruments	Financial instruments that are offset under netting agreements	Net amounts of financial instruments in the balance sheet	Related amounts not offset in the balance sheet	Net amount
Financial assets					
Derivative financial assets	279	(19)	260	(5)	255
Financial liabilities					
Derivative financial liabilities	1,629	(19)	1,610	(5)	1,605

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, 2016, the adjusted gearing ratio was 51 per cent (2015: 54 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.

27 Financial instruments

a Financial assets and liabilities by category

The detail of the Group's financial instruments at December 31, 2016 and December 31, 2015 by nature and classification for measurement purposes is as follows:

December 31, 2016

	Financial assets				
€ million	Loans and receivables	Derivatives used for hedging	Available-for-sale	Non-financial assets	**Total carrying amount by balance sheet item**
Non-current assets					
Available-for-sale financial assets	–	–	73	–	**73**
Derivative financial instruments	–	169	–	–	**169**
Other non-current assets	267	–	–	232	**499**
Current assets					
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**

	Financial liabilities			
€ million	Loans and payables	Derivatives used for hedging	Non-financial liabilities	**Total carrying amount by balance sheet item**
Non-current liabilities				
Interest-bearing long-term borrowings	7,589	–	–	**7,589**
Derivative financial instruments	–	20	–	**20**
Other long-term liabilities	16	–	222	**238**
Current liabilities				
Current portion of long-term borrowings	926	–	–	**926**
Trade and other payables	3,049	–	256	**3,305**
Derivative financial instruments	–	88	–	**88**

December 31, 2015

	Financial assets				
€ million	Loans and receivables	Derivatives used for hedging	Available-for-sale	Non-financial assets	Total carrying amount by balance sheet item
Non-current assets					
Available-for-sale financial assets	–	–	74	–	74
Derivative financial instruments	–	62	–	–	62
Other non-current assets	345	–	–	20	365
Current assets					
Trade receivables	1,196	–	–	–	1,196
Other current assets	545	–	–	690	1,235
Non-current assets held for sale	–	–	–	5	5
Derivative financial instruments	–	198	–	–	198
Other current interest-bearing deposits	2,947	–	–	–	2,947
Cash and cash equivalents	2,909	–	–	–	2,909

Notes to the consolidated financial statements continued

27 Financial instruments continued

€ million	Financial liabilities: Loans and payables	Financial liabilities: Derivatives used for hedging	Non-financial liabilities	Total carrying amount by balance sheet item
Non-current liabilities				
Interest-bearing long-term borrowings	7,498	–	–	7,498
Derivative financial instruments	–	282	–	282
Other long-term liabilities	10	–	213	223
Current liabilities				
Current portion of long-term borrowings	1,132	–	–	1,132
Trade and other payables	3,442	–	361	3,803
Derivative financial instruments	–	1,328	–	1,328

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 at December 31, 2016 are set as follows:

€ million	Fair value Level 1	Level 2	Level 3	Total	Carrying value Total
Financial assets					
Available-for-sale financial assets	15	–	58	73	**73**
Aircraft lease hedges	–	5	–	5	**5**
Forward currency contracts[1]	–	252	–	252	**252**
Fuel derivatives[1]	–	212	–	212	**212**
Currency option contracts[1]	–	29	–	29	**29**
Financial liabilities					
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**
Aircraft lease hedges[2]	–	1	–	1	**1**
Cross currency swaps[2]	–	1	–	1	**1**
Forward currency contracts[2]	–	32	–	32	**32**
Fuel derivatives[2]	–	74	–	74	**74**

1 Current portion of derivative financial assets is €329 million.
2 Current portion of derivative financial liabilities is €88 million.

The carrying amounts and fair values of the Group's financial assets and liabilities at December 31, 2015 are set out below:

€ million	Fair value Level 1	Level 2	Level 3	Total	Carrying value Total
Financial assets					
Available-for-sale financial assets	9	–	65	74	74
Aircraft lease hedges[1]	–	12	–	12	12
Forward currency contracts[1]	–	231	–	231	231
Fuel derivatives[1]	–	3	–	3	3
Currency option contracts[1]	–	14	–	14	14
Financial liabilities					
Interest-bearing loans and borrowings:					
Finance lease obligations	–	6,117	–	6,117	5,878
Fixed rate borrowings	2,102	496	–	2,598	2,117
Floating rate borrowings	–	635	–	635	635
Aircraft lease hedges[2]	–	5	–	5	5
Forward currency contracts[2]	–	10	–	10	10
Fuel derivatives[2]	–	1,595	–	1,595	1,595

1 Current portion of derivative financial assets is €198 million.
2 Current portion of derivative financial liabilities is €1,328 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.

c Level 3 financial assets reconciliation

The following table summarises key movements in Level 3 financial assets:

€ million	**December 31, 2016**	December 31, 2015
Opening balance for the year	**65**	65
Settlements	**-**	(5)
Exchange movements	**(7)**	5
Closing balance for the year	**58**	65

27 Financial instruments continued

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, 2016 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;
- Cross currency swaps, hedging foreign exchange and interest rate risk associated with lease 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, 2016

	Cash flows hedged					
Financial instruments designated as hedging instruments € million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	**Total December 31, 2016**
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 Canadian dollars	**CAD 85**
To hedge future currency revenues in pound sterling	**£88**
To hedge future currency revenues in US dollars	**$174**
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**
- Fixed 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**

December 31, 2015

Financial instruments designated as hedging instruments (€ million)	Cash flows hedged: Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total December 31, 2015
Debt repayments to hedge future revenue	7	14	33	26	(10)	70
Forward contracts to hedge future payments	(92)	(86)	(36)	(9)	(3)	(226)
Hedges of future fuel purchases	780	530	206	32	–	1,548
Hedges of future aircraft operating leases	1	–	(7)	–	–	(6)
Currency options to hedge future payments	(8)	(1)	(2)	(1)	–	(12)
	688	457	194	48	(13)	1,374
Related deferred tax credit						(298)
Total amount included within equity						1,076

December 31, 2015

€ million	Notional principal amounts (in local currency)
To hedge future currency revenues in euros	€160
To hedge future currency revenues in pound sterling	£76
To hedge future currency revenues in US dollars	$54
To hedge future operating payments in US dollars	$3,770
Hedges of future fuel purchases	$4,710
Cross currency swaps:	
- Floating to fixed (euro)	€260
- Fixed to fixed (euro)	€126
Debt repayments to hedge future revenue:	
- US dollars	$3,061
- Euro	€1,498
- Japanese yen	¥41,698
- Chinese yuan	CNY 716

The ineffective portion recognised in the Income statement during the year on unrealised cash flow hedges was a gain of €36 million (2015: loss of €70 million).

The Group has no significant fair value hedges or net investments in foreign operations at December 31, 2016 and 2015.

28 Share capital and share premium

Alloted, called up and fully paid	Number of shares 000s	Ordinary share capital € million	Share premium € million
January 1, 2016: Ordinary shares of €0.50 each	2,040,079	1,020	5,867
Issue of ordinary shares of €0.50 each	92,910	46	344
Final 2015 dividend of €0.05 per share	–	–	(106)
December 31, 2016	**2,132,989**	**1,066**	**6,105**

During the year all holders of the €390 million 1.75 per cent convertible bond exercised their options to exchange their convertible bonds for ordinary shares in the Company, resulting in the issuance of 92,910,220 shares during the year.

29 Treasury shares

The Group has authority to acquire its own shares, subject to specific conditions as set out in the Corporate governance section.

In February 2017, the Group announced its intention to carry 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 will be €500 million, carried out during the course of 2017 and may be implemented through one or more share buyback programmes.

The treasury shares balance consists of shares held directly by the Group. During the year to December 31, 2016, the Group purchased 3.3 million shares at a weighted average share price of €7.10 per share totalling €25 million, which are held as Treasury shares. A total of 5.5 million shares were issued to employees during the year as a result of vesting of employee share schemes. At December 31, 2016 the Group held 12.5 million shares, which represented 0.59 per cent of the Issued share capital of the Company.

30 Share-based payments

The Group operates share-based payment schemes as part of the total remuneration package provided to employees. These schemes comprise both share option schemes where employees acquire shares at an option price and share award plans whereby shares are issued to employees at no cost, subject to the achievement by the Group of specified performance targets.

Notes to the consolidated financial statements continued

30 Share-based payments continued

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. For 2011 to 2014, a conditional award of shares is subject to the achievement of a variety of performance conditions, which will vest after three years subject to the employee remaining employed by the Group. From 2015, the award was made as nil-cost options, and also had a two-year additional holding period after the end of the performance period, before vesting takes place. The awards made between 2012 and 2014 will vest based 50 per cent on achievement of IAG's TSR performance targets relative to the MSCI European Transportation Index, and 50 per cent based on achievement of earnings per share targets. The awards made in 2015 and 2016 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, 2016	Granted number	Lapsed number	Vested number	**Outstanding at December 31, 2016**	Vested and exercisable December 31, 2016
	'000s	'000s	'000s	'000s	**'000s**	'000s
Performance Share Plans	17,852	5,413	1,756	7,455	**14,054**	43
Incentive Award Deferral Plans	6,408	1,916	122	2,521	**5,681**	17
	24,260	**7,329**	**1,878**	**9,976**	**19,735**	**60**

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 weighted average assumptions:

	December 31, 2016	December 31, 2015
Weighted average fair value (£)	**2.27**	3.19
Expected share price volatility (per cent)	**30**	30
Expected comparator group volatility (per cent)	**20**	20
Expected comparator correlation (per cent)	**60**	60
Expected life of options (years)	**4.79**	2.40
Weighted average share price at date of grant (£)	**5.41**	5.50

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 €36 million for the year to December 31, 2016 (2015: €35 million).

31 Other reserves and non-controlling interests

For the year to December 31, 2016

€ million	Retained earnings	Other reserves: Unrealised gains and losses[1]	Currency translation[2]	Equity portion of convertible bond[3]	Merger reserve[4]	**Total other reserves**	Non-controlling interest[5]
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)**	–
Dividend	(339)	–	–	–	–	**(339)**	–
Issue of ordinary shares related to conversion of convertible bond	45	–	–	(72)	–	**(27)**	–
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**

31 Other reserves and non-controlling interests continued

For the year to December 31, 2015

		Other reserves					
€ million	Retained earnings	Unrealised gains and losses[1]	Currency translation[2]	Equity portion of convertible bond[3]	Merger reserve[4]	Total other reserves	Non-controlling interest[5]
January 1, 2015	(234)	(1,086)	319	72	(2,467)	(3,396)	308
Profit for the year	1,495	–	–	–	–	1,495	21
Other comprehensive income for the year							
Cash flow hedges reclassified and reported in net profit:							
Passenger revenue	–	14	–	–	–	14	–
Fuel and oil costs	–	1,474	–	–	–	1,474	–
Currency differences	–	(202)	–	–	–	(202)	–
Investments	–	4	–	–	–	4	–
Net change in fair value of cash flow hedges	–	(1,104)	–	–	–	(1,104)	–
Available-for-sale assets reclassified and reported in net profit	–	(5)	–	–	–	(5)	–
Net change in fair value of available-for-sale financial assets	–	(9)	–	–	–	(9)	–
Currency translation differences	–	–	181	–	–	181	–
Remeasurements of post-employment benefit obligations	156	–	–	–	–	156	–
Cost of share-based payments	45	–	–	–	–	45	–
Vesting of share-based payment schemes	(99)	–	–	–	–	(99)	–
Equity portion of convertible bond issued	–	–	–	101	–	101	–
Dividend	(203)	–	–	–	–	(203)	–
Dividend of a subsidiary	–	–	–	–	–	–	(1)
Distributions made to holders of perpetual securities	–	–	–	–	–	–	(20)
December 31, 2015	1,160	(914)	500	173	(2,467)	(1,548)	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 associates into the Group's reporting currency of euros. The movement through this reserve in 2016 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, 2016, 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 23). At December 31, 2015 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 Non-controlling interests largely comprise €300 million of 6.75 per cent fixed coupon euro perpetual preferred securities issued by British Airways Finance (Jersey) LP. The holders of these securities have no rights against Group undertakings other than the issuing entity and, to the extent prescribed by the subordinated guarantee, British Airways Plc. In the event of a dividend paid by the Company, the coupon payment is guaranteed. The effect of the securities on the Group as a whole, taking into account the subordinate guarantee and other surrounding arrangements, is that the obligations to transfer economic benefits in connection with the securities do not go beyond those that would normally attach to preference shares issued by a UK company.

32 Employee benefit obligations

The Group operates a variety of post-employment benefit arrangements, covering both defined contribution and defined benefit schemes. The Group also has a scheme for flight crew who meet certain conditions and therefore have the option of being placed on reserve and retaining their employment relationship until reaching the statutory retirement age, or taking early retirement (note 25).

Defined contribution schemes

The 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, 2016 were €132 million (2015: €108 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.

Benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to inflationary increases in payment in line with the Annual Review Orders (ARO) issued by the UK Government, which is based on the Consumer Price Index (CPI). Benefits provided under NAPS are based on final average pensionable pay reduced by an amount (the abatement) not exceeding one and a half times the Government's lower earnings limit. NAPS pension increases are also linked to the ARO and increases are capped at a maximum of five per cent in any one year.

The Trustees of APS have proposed an additional discretionary increase above CPI inflation 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 it is concerned about the actuarial funding position of the scheme. British Airways is also concerned about the residual unhedged risk in the scheme, which will be increased by the addition of new unfunded benefits, to which British Airways may ultimately be exposed as the principal employer and sponsor of the scheme. British Airways is committed to an existing recovery plan, which sees deficit payments of €65 million per annum until March 2023. Legal proceedings, initiated by British Airways, are underway to determine the legitimacy of the additional discretionary increase. The outcome of the proceedings is awaited. The discretionary increase has not been reflected in the accounting assumptions used.

APS and NAPS are governed by separate Trustee Boards. Although separate, much of the business of the two schemes is common. Most main Board and committee meetings are held in tandem although each Trustee Board reaches its decisions independently. There are three committees which are separately responsible for the governance, operation and investments of each scheme. British Airways Pension Trustees Limited holds the assets of both schemes on behalf of their respective Trustees.

Deficit payment plans are agreed with the Trustees of each scheme every three years based on the actuarial valuation (triennial valuation) rather than the IAS 19 accounting valuation. The latest deficit recovery plan was agreed on the March 31, 2012 position with respect to APS and March 31, 2015 with respect to NAPS (note 32i). As a result of the litigation referred to above, the triennial valuation as at March 31, 2015 for APS has been deferred until the conclusion of the legal proceedings. The actuarial valuations performed at March 31, 2012 and March 31, 2015 are different to the valuation performed under IAS 19 'Employee benefits' at December 31, 2016 due mainly to timing differences of the measurement dates and to the scheme specific assumptions used in the actuarial valuation compared to IAS 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 risks, such as longevity risk, interest rate risk, market (investment) risk and 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, 2016 net of service costs were €740 million (2015: €434 million) being the employer contributions of €936 million (2015: €699 million) less the current service cost of €196 million (2015: €265 million) (note 32b).

a Employee benefit schemes recognised on the Balance Sheet

	2016			
€ million	APS	NAPS	Other[1]	Total
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[2]	**(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)

Notes to the consolidated financial statements continued

32 Employee benefit obligations continued

	2015			
€ million	APS	NAPS	Other[1]	Total
Scheme assets at fair value	9,916	17,997	429	28,342
Present value of scheme liabilities	(8,405)	(18,460)	(805)	(27,670)
Net pension asset/(liability)	1,511	(463)	(376)	672
Effect of the asset ceiling[2]	(561)	–	–	(561)
Other employee benefit obligations	–	–	(12)	(12)
December 31, 2015	950	(463)	(388)	99
Represented by:				
Employee benefit assets				957
Employee benefit obligations				(858)
				99

1 The present value of scheme liabilities for the US PRMB was €18 million at December 31, 2016 (2015: €62 million).
2 APS has an accounting surplus under IAS 19, which would be available to the Group as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustees.

b Amounts recognised in the Income statement

Pension costs charged to operating result are:

€ million	**2016**	2015
Defined benefit plans:		
Current service cost	**196**	265
Past service cost[1]	**(52)**	(1)
	144	264
Defined contribution plans	**132**	108
Pension costs recorded as employee costs	**276**	372

1 In 2016 includes a past service gain of €51 million in respect of the US PRMB, which has been classified as an exceptional item.

Pension costs (credited)/charged as finance costs are:

€ million	**2016**	2015
Interest income on scheme assets	**(952)**	(1,031)
Interest expense on scheme liabilities	**921**	1,024
Interest expense on asset ceiling	**19**	19
Net financing (income)/expense relating to pensions	**(12)**	12

c Remeasurements recognised in the Statement of other comprehensive income

€ million	**2016**	2015
Return on plan assets excluding interest income	**(3,370)**	462
Remeasurement of plan liabilities from changes in financial assumptions	**5,624**	(498)
Remeasurement of experience gains	**(137)**	(183)
Remeasurement of the APS asset ceiling	**81**	–
Exchange movements	**56**	12
Pension remeasurements charged/(credited) to Other comprehensive income	**2,254**	(207)

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	2016	2015
January 1	**28,342**	26,167
Acquired through Business combination	**-**	13
Interest income	**952**	1,031
Return on plan assets excluding interest income	**3,370**	(462)
Employer contributions[1]	**906**	684
Employee contributions	**111**	114
Benefits paid	**(1,315)**	(1,276)
Exchange movements	**(3,918)**	2,071
December 31	**28,448**	28,342

1 Includes employer contributions to APS of €112 million (2015: €120 million) and to NAPS of €763 million (2015: €535 million), of which deficit funding payments represented €106 million for APS (2015: €110 million) and €638 million for NAPS (2015: €389 million).

Scheme assets held by all defined benefit schemes operated by the Group at December 31 comprise:

€ million	2016	2015
Return seeking investments – equities		
UK	**3,049**	2,724
Rest of world	**7,495**	7,112
	10,544	9,836
Return seeking investments – other		
Private equity	**825**	882
Property	**1,783**	2,142
Alternative investments	**1,204**	1,224
	3,812	4,248
Liability matching investments		
UK fixed bonds	**3,850**	3,949
Rest of world fixed bonds	**116**	118
UK index-linked bonds	**6,690**	6,650
Rest of world index-linked bonds	**128**	124
	10,784	10,841
Other		
Cash and cash equivalents	**511**	1,174
Derivatives	**228**	(114)
Insurance contract	**1,872**	1,928
Longevity swap	**(35)**	(40)
Other	**732**	469
	28,448	28,342

All equities and bonds have quoted prices in active markets.

Notes to the consolidated financial statements continued

32 Employee benefit obligations continued

For APS and NAPS, the composition of the scheme assets is:

	December 31, 2016		December 31, 2015	
€ million	**APS**	**NAPS**	APS	NAPS
Return seeking investments	**1,582**	**12,565**	1,721	12,169
Liability matching investments	**5,936**	**4,728**	6,103	4,616
	7,518	**17,293**	7,824	16,785
Insurance contract and related longevity swap	**1,811**	**-**	1,862	-
Other	**308**	**1,073**	230	1,212
Fair value of scheme assets	**9,637**	**18,366**	9,916	17,997

For both APS and NAPS, the Trustees have ultimate responsibility for decision making on investments matters, including the asset-liability matching strategy, which is a form of investing designed to match the movement in pension plan assets with the movement in the projected benefit obligation over time. The Trustees' investment committee adopts an annual business plan which sets out investment objectives and work required to support achievement of these objectives. The committee also deals with the monitoring of performance and activities, including work on developing the strategic benchmark to improve the risk return profile of the scheme where possible, as well as having a trigger based dynamic governance process to be able to take advantage of opportunities as they arise. The investment committee reviews the existing investment restrictions, performance benchmarks and targets, as well as continuing to develop the de-risking and liability hedging portfolio.

The strategic benchmark for asset allocations 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, 2016, the benchmark for APS, expressed as a percentage of the assets excluding the insurance contract, was 19 per cent (2015: 19 per cent) in return seeking assets and 81 per cent (2015: 81 per cent) in liability matching investments; and for NAPS the benchmark was 68 per cent (2015: 68 per cent) in return seeking assets and 32 per cent (2015: 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 20 per cent (2015: 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. APS has also secured a longevity swap contract with Rothesay Life, which covers an additional 24 per cent (2015: 20 per cent) of the pensioner liabilities for the same members covered by the insurance contract above. The value of the contract is based on the difference between the value of the payments expected to be received under this contract and the pensions payable by the scheme under the contract.

The fair value of insurance policies which exactly match the amount and timing of some or all benefits payable under the scheme are deemed to be the present value of the related obligations. Longevity swaps are measured at their fair value.

Both schemes use derivative instruments for investment purposes and to manage exposures to financial risks, such as interest rate, foreign exchange and liquidity risks arising in the normal course of business. Exposure to interest rate risk is managed through the use of Inflation-Linked Swap contracts. Foreign exchange forward contracts are entered into to mitigate the risk of currency fluctuations. For NAPS, a strategy exists to provide protection against the equity market downside risk by reducing some of the upside participation.

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	2016	2015
January 1	**27,670**	26,120
Acquired through Business combination	**-**	21
Current service cost	**196**	265
Past service cost	**(52)**	(1)
Interest expense	**921**	1,024
Remeasurements – financial assumptions	**5,624**	(498)
Remeasurements – demographic assumptions	**(137)**	(183)
Benefits paid	**(1,315)**	(1,276)
Employee contributions	**111**	114
Exchange movements	**(3,825)**	2,084
December 31	**29,193**	27,670

The defined benefit obligation comprises €33 million (2015: €79 million) arising from unfunded plans and €29,160 million (2015: €27,591 million) from plans that are wholly or partly funded.

f Effect of the asset ceiling

A reconciliation of the effect of the asset ceiling representing the IAS 19 irrecoverable surplus in APS is set out below:

€ million	2016	2015
January 1	**561**	502
Interest expense	**19**	19
Remeasurements	**81**	–
Exchange movements	**(81)**	40
December 31	**580**	561

g Actuarial assumptions

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2016			2015		
Per cent per annum	APS	NAPS	Other schemes	APS	NAPS	Other schemes
Discount rate[1]	**2.60**	**2.70**	**1.5 - 4.1**	3.60	3.85	2.1 – 4.4
Rate of increase in pensionable pay[2]	**3.20**	**3.20**	**3.0 - 3.7**	2.85	3.00	3.0 – 4.0
Rate of increase of pensions in payment[3]	**2.10**	**2.10**	**0.4 - 3.5**	1.85	2.00	1.5 – 3.5
RPI rate of inflation	**3.20**	**3.20**	**3.0 - 3.2**	2.85	3.00	3.0 – 3.2
CPI rate of inflation	**2.10**	**2.10**	**1.75 - 3.0**	1.85	2.00	1.7 – 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. The decline in these yields has resulted in lower discount rates being applied in 2016.
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. However, the APS Trustees have 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 outcome of which is expected in 2017. The proposed discretionary increase is not included in the assumptions above.

Rate of increase in healthcare costs is based on medical trend rates of 6.75 per cent grading down to 5.0 per cent over seven years (2015: 7.0 per cent to 5.0 per cent over eight years).

32 Employee benefit obligations continued

In the UK, mortality rates are calculated using the standard SAPS mortality tables produced by the CMI for APS and NAPS. The standard mortality tables were selected based on the actual recent mortality experience of members and were adjusted to allow for future mortality changes. The current longevities underlying the values of the scheme liabilities were as follows:

Mortality assumptions	**2016**	2015
Life expectancy at age 60 for a:		
– male currently aged 60	**28.3**	28.3
– male currently aged 40	**29.9**	29.9
– female currently aged 60	**29.9**	29.9
– female currently aged 40	**32.4**	32.3

At December 31, 2016, the weighted-average duration of the defined benefit obligation was 12 years for APS (2015: 12 years) and 20 years for NAPS (2015: 19 years).

For the US PRMB, mortality rates were based on the RP-14 mortality tables.

h Sensitivity analysis

Reasonable possible changes at the reporting date to significant actuarial assumptions, holding other assumptions constant, would have affected the present value of scheme liabilities by the amounts shown:

€ million	**Increase in scheme liabilities**
Discount rate (decrease of 10 basis points)	**519**
Future salary growth (increase of 10 basis points)	**97**
Future pension growth (increase of 10 basis points)	**393**
Future mortality rate (one year increase in life expectancy)	**940**

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 using assumptions and methodologies agreed between the Group and the Trustees of each scheme. At the date of the actuarial valuation, the actuarial deficits of APS and NAPS amounted to €932 million and €3,818 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	**65**	356
2-5 years	**261**	1,423
5-10 years	**82**	1,779
More than 10 years	**–**	267
Total expected deficit payments for APS and NAPS	**408**	3,825

The Group has determined that the minimum funding requirements set out above for APS and NAPS will not be restricted. The present value of the contributions payable is expected to be available as a refund or a reduction in future contributions after they are paid into the plan. This determination has been made independently for each plan, subject to withholding taxes that would be payable by the Trustees.

Deficit payments in respect of local arrangements outside of the UK have been determined in accordance with local practice.

In total, the Group expects to pay €683 million in employer contributions and deficit payments to its post-retirement benefit plans in 2017. This includes expected deficit contributions of €65 million to APS and €356 million to NAPS. This excludes any additional deficit contributions which may become due depending on the Group's cash balance at March 31, 2017.

Until September 2019, if British Airways pays a dividend to IAG higher than 35 per cent of its profits 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.

British Airways has provided collateral on certain payments to APS which at December 31, 2016 amounted to €296 million (2015: €343 million).

33 Contingent liabilities and guarantees

The Group has certain contingent liabilities and guarantees, in respect of guarantees and indemnities entered into as part of the normal course of the Group's business which at December 31, 2016 amounted to €173 million (December 31, 2015: €172 million). No material losses are likely to arise from such contingent liabilities and guarantees. The Group also has the following claims:

Cargo

The Group is party to a number of legal proceedings in the English courts relating to a decision by the European Commission in 2010 which fined British Airways and ten other airline groups for participating in a cartel in respect of air cargo prices. The decision was partially annulled against British Airways following an appeal to the general court of the European Union and the fine was refunded in full. In May 2016 the Commission expressed its intention to adopt a new decision amending the 2010 decision insofar as that decision was annulled by the General Court. It expects to adopt a new decision in 2017.

The original decision has led to a large number of claimants seeking, in proceedings brought in the English courts, to recover damages from British Airways which they claim arise from the alleged cartel activity. It is not possible at this stage to predict the outcome of the proceedings, which British Airways will vigorously defend. British Airways has joined the other airlines alleged to have participated in cartel activity to these proceedings to contribute to such damages, if any awarded.

The Group is also party to similar litigation in a number of other jurisdictions including Germany, the Netherlands and Canada together with a number of other airlines. At present, the outcome of the proceedings is unknown. In each case, the precise effect, if any, of the alleged cartelising activity on the claimants will need to be assessed.

We are currently unable to determine whether the Group has an existing obligation as a result of the past event.

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 is uncertain and, once known, the delayed 2015 triennial valuation will resume so that an appropriate funding plan can be agreed with the Trustees. The outcome is expected in 2017, and may result in changes to the obligations under the scheme which are recognised in the financial statements. The Group is unable to quantify the financial effects until the outcome of the legal proceedings is known.

34 Related party transactions

The following transactions took place with related parties for the financial years to December 31:

€ million	**2016**	2015
Sales of goods and services		
Sales to associates[1]	**7**	8
Sales to significant shareholders[2]	**39**	29
Purchases of goods and services		
Purchases from associates[3]	**49**	57
Purchases from significant shareholders[2]	**60**	61
Receivables from related parties		
Amounts owed by associates[4]	**2**	3
Amounts owed by significant shareholders[5]	**1**	1
Payables to related parties		
Amounts owed to associates[6]	**4**	3
Amounts owed to significant shareholders[5]	**-**	4

1 Sales to associates: Consisted primarily of sales for airline related services to Dunwoody Airline Services (Holding) Limited (Dunwoody) of €7 million (2015: €8 million) and an amount of less than €1 million (2015: less than €1 million) to Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. (Medios de Pago) and Handling Guinea Ecuatorial, S.A.
2 Sales to and purchases from significant shareholders: Related to interline services with Qatar Airways.
3 Purchases from associates: Mainly included €33 million of airport auxiliary services purchased from Multiservicios Aeroportuarios, S.A. (2015: €29 million), €10 million of handling services provided by Dunwoody (2015: €10 million), €6 million of maintenance services received from Serpista, S.L. (2015: €7 million). During the year there were no services received from International Supply Management, S.L. (2015: €8 million) and less than €1 million of services provided by Iber-America Aerospace, LLC (2015: €3 million).
4 Amounts owed by associates: For airline related services rendered, that included balances with Dunwoody of €1 million (2015: €1 million) and €1 million of services provided to Handling Guinea Ecuatorial, S.A., Medios de Pago and Iber-America Aerospace, LLC (2015: €2 million for Madrid Aerospace Services, S.L. and Medios de Pago).
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 (2015: €1 million), €2 million to Multiservicios Aeroportuarios, S.A. (2015: less than €1 million) and €1 million to Serpista, S.A. (2015: €1 million).

34 Related party transactions continued

During the year to December 31, 2016 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 (2015: €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, 2016, the Group has not made any provision for doubtful debts arising relating to amounts owed by related parties (2015: nil).

Significant shareholders

In this instance, significant shareholders are those parties who have the power to participate in the financial and operating policy decisions of the Group, as a result of their shareholdings in the Group, but who do not have control over these policies.

On July 29, 2016, Qatar Airways (Q.C.S.C.) increased its shareholding in IAG to 20.01 per cent (2015: 9.99 per cent).

On February 13, 2017 Deutsche Bank AG notified the Spanish National Securities Market Commission (CNMV) of the acquisition of a shareholding of 3.061 per cent.

At December 31, 2016 the Group had cash deposit balances with shareholders holding a participation of between 3 to 5 per cent, of €189 million (2015: €48 million).

Board of Directors and Management Committee remuneration

Compensation received by the Group's Board of Directors and Management Committee, in 2016 and 2015 is as follows:

€ million	**December 31, 2016**	December 31, 2015
Base salary, fees and benefits		
Board of Directors' remuneration	**7**	15
Management Committee remuneration	**10**	22
	17	37

The Board of Directors includes remuneration for two Executive Directors (2015: two Executive Directors).

The Management Committee includes remuneration for nine members (2015: nine members).

The Company provides life insurance for all Executive Directors and the Management Committee. For the year to December 31, 2016 the Company's obligation was €44,000 (2015: €72,000).

At December 31, 2016 the transfer value of accrued pensions covered under defined benefit obligation schemes, relating to the Management Committee totalled €4 million (2015: €9 million).

No loans or credit transactions were outstanding with Directors or officers of the Group at December 31, 2016 (2015: nil).

In relation to Article 229 of the Spanish Companies Act, all IAG Directors have confirmed that they have no conflict with the Company's interests.

Spanish corporate governance report

According to the provisions of Article 540 of the Spanish Companies Act, the Company presents the Spanish Corporate Governance Report, which provides a detailed explanation of the structure of its governance and its operation. This report has been prepared following the form established by the Comisión Nacional del Mercado de Valores for this purpose.

In this section

A. OWNERSHIP STRUCTURE

A.1 Complete the following table on the company's share capital:

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
June 20, 2016	1,066,494,371.50	2,132,988,743	2,132,988,743

Indicate whether different types of shares exist with different associated rights:

No

Type	Number of shares	Nominal amount	Nominal amount of voting rights	Other rights

A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding directors:

Name or corporate name of shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Name of direct holder	Number of voting rights	
Qatar Airways (Q.C.S.C.)	0	Qatar Airways Luxembourg S.à.r.l.	426,811,047	20.01
Capital Research and Management Company	0	Collective investment institutions managed by Capital Research and Management Company	212,588,702	9.967
Standard Life Investments (Holdings) Limited	0	Standard Life Investments Limited and Ignis Investment Services Limited	125,314,496	5.875
Europacific Growth Fund	107,329,400	–	0	5.032
BlackRock Inc.	0	Funds and accounts managed by investors controlled by BlackRock Inc.	66,227,368	3.105
Lansdowne Partners International Limited	0	Funds and accounts managed by Lansdowne Partners (UK) LLP.	58,627,247	2.749
Invesco Limited	0	Mutual and pension funds managed by Invesco Limited and its subsidiaries	42,814,558	2.007

Indicate the most significant movements in the shareholder structure during the year:

Name or corporate name of shareholder	Date of the transaction	Description of the transaction
Qatar Airways (Q.C.S.C)	March 3, 2016	Increase to above 10% of the share capital
Qatar Airways (Q.C.S.C.)	May 17, 2016	Increase to above 15% of the share capital
Qatar Airways (Q.C.S.C.)	June 21, 2016	Decrease to below 15% of the share capital
Qatar Airways (Q.C.S.C.)	July 5, 2016	Increase to above 15% of the share capital
Qatar Airways (Q.C.S.C.)	July 28, 2016	Increase to above 20% of the share capital
Lansdowne Partners International Limited	January 26, 2016	Increase to above 2% of the share capital
Lansdowne Partners International Limited	January 27, 2016	Decrease to below 2% of the share capital
Lansdowne Partners International Limited	February 1, 2016	Increase to above 2% of the share capital
Capital Research and Management Company	October 25, 2016	Increase to above 10% of the share capital
Capital Research and Management Company	November 21, 2016	Decrease to below 10% of the share capital
BlackRock Inc.	May 10, 2016	Decrease to below 3% of the share capital
BlackRock Inc.	July 11, 2016	Increase to above 3% of the share capital
Invesco Limited	December 12, 2016	Increase to above 2% of the share capital

A.3 Complete the following tables on company directors holding voting rights through company shares:

Name or corporate name of director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Name of direct holder	Number of voting rights	
Antonio Vázquez	512,291	–	–	0.024
Willie Walsh	1,656,082	–	–	0.078
Marc Bolland	0	-	-	0.000
Patrick Cescau	0	–	–	0.000
Enrique Dupuy de Lôme	466,807	–	–	0.021
Baroness Kingsmill	2,000	–	–	0.000
James Lawrence	326,500	–	–	0.015
María Fernanda Mejía	100	–	–	0,000
Kieran Poynter	15,000	–	–	0.000
Emilio Saracho	0	-	-	0.000
Dame Marjorie Scardino	100	–	–	0.000
Alberto Terol	16,900	–	–	0.001

% of total voting rights held by the Board of Directors:	0.139

Complete the following tables on company's share rights held by the company's directors:

Name or corporate name of director	Number of direct rights	Indirect rights		Number of equivalent shares	% of total voting rights
		Direct holder	Number of voting rights		
Willie Walsh	1,428,791	–	–	1,428,791	0.067
Enrique Dupuy de Lôme	541,721	–	–	541,721	0.025

Spanish corporate governance report continued

A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:

Related-party name or corporate name	Type of relationship	Brief description
–	–	–

A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:

Related-party name or corporate name	Type of relationship	Brief description
BlackRock Investment Management (UK) Ltd.	Commercial	Cash deposits invested as part of liquidity fund portfolio
Qatar Airways (Q.C.S.C.)	Commercial	Cargo capacity agreement, passenger codeshares and interline agreement

A.6 Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Spanish Companies Law. Provide a brief description and list the shareholders bound by the agreement, as applicable:

No

Parts bound by agreement	% of share capital affected	Brief description of agreement
–	–	–

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

No

Shareholders involved in concerted action	% of share capital affected	Brief description of concerted action
–	–	–

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year:

Not applicable

A.7 Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company in accordance with article 5 of the Securities Market Law: If so, identify:

No

Name or corporate name
–

Remarks
–

A.8 Complete the following tables on the company's treasury stock:

At year-end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
12,521,662	0	0.587

(*) Through:

Name or corporate name of direct stake	Number of shares held directly
–	–
Total	–

Explain any significant changes during the year, pursuant to Royal Decree 1362/2007:

Explanation of significant changes

Date of notification	Total number of direct shares acquired	Total number of indirect shares acquired	% of total share capital

A.9 Give details of the applicable conditions and time periods governing any resolutions of the Shareholders' Meeting to issue, buy back and/or transfer treasury stock.

The Annual Shareholders' Meeting of International Consolidated Airlines Group, S.A. ("IAG" or the "Company") held on June 16, 2016, granted authorisation to the Board of Directors for the derivative acquisition of shares of the Company in the context of the provisions of article 146 of the Spanish Companies Law, according to the applicable laws and subject to the following conditions:

a) The acquisitions may be made directly by IAG or indirectly through its subsidiaries.

b) The acquisitions shall be made through purchase and sale, exchange or any other transaction permitted by the law.

c) The maximum aggregate number of shares which are authorised to be purchased is the lower of the maximum amount permitted by the law and the number as represents 10 per cent of the share capital of IAG as at the date of passing the resolution, that is, June 16, 2016.

d) The minimum price which may be paid for a share is zero.

e) The maximum price which may be paid for a share is the highest of:

   i) an amount equal to 5 per cent above the average of the middle market quotations for the shares as taken from the relevant stock exchange for the five business days immediately preceding the day on which the transaction is performed; and

   ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the transaction is carried out at the relevant time;

   in each case, exclusive of expenses.

f) The authorisation is granted for a term ending at 2017 annual Shareholders' Meeting (or if earlier, 15 months from June 16, 2016).

The resolution of the Shareholders' Meeting, places expressly on record that for the purposes of provisions of article 146 of the Spanish Companies Law, the shares acquired pursuant to the authorisation may be delivered directly to the employees or directors of the Company or its subsidiaries, or as a result of the exercise of option rights held thereby.

A.9 bis Estimated floating capital

	%
Estimated floating capital	50.529

A.10 Give details of any restriction on the transfer of securities or voting rights. Indicate, in particular, the existence of any restrictions on the takeover of the company by means of share purchases on the market

Yes

Description of restrictions

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

Disclosure obligations

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

In addition, in accordance with article 10.1 of the Bylaws, the Company may require any shareholder or any other person with a confirmed or apparent interest in shares of the Company to disclose to the Company in writing such information as the Company shall require relating to the beneficial ownership of or any interest in the shares in question, as lies within the knowledge of such shareholder or other person, including any information that the Company deems necessary or desirable in order to determine the nationality of the holders of said shares or other person with an interest in the Company's shares, or whether it is necessary to take steps in order to protect the operating rights of the Company or its operating affiliates or for any other reason in relation to the potential application of article 11 of the Bylaws (Limitation on share ownership).

In the event of the breach of these obligations by a shareholder or any other person with a confirmed or apparent interest in the Company's shares, the Board of Directors may suspend at any time the voting and other political rights of the relevant person in respect of the shares in relation to which the default has occurred and the relevant shareholder will not be entitled to exercise any voting rights or any political rights at any Shareholders' Meeting. If the shares with respect to which the aforementioned obligations have been breached represent a percentage equal to or greater than 0.25 per cent of the Company's capital, the Board of Directors may also direct that no transfer of any such shares is registered.

Limitations on ownership of the Company shares

In the event that the Board of Directors deems it necessary or appropriate to adopt measures to protect an operating right of the Company or of its operating subsidiaries, in light of the nationality of its shareholders or any persons with an interest in the Company's shares, it may adopt any of the measures provided for such purpose in article 11 of the Bylaws, including the determination of a maximum number of shares that may be held by non-EU shareholders, which may not be less than 40 per cent of the Company's capital stock under any circumstances.

In the event that the Board has specified a maximum number of shares that may be held by non-EU shareholders, and identified those shares the holding of which gave rise or contributed to such a determination, the Board may also (i) agree on the suspension of voting and other political rights of the holder of the relevant shares, and (ii) request that the holders dispose of the corresponding shares so that no non-EU person may directly or indirectly own such shares or have an interest in the same. If such transfer is not performed on the terms provided for in the Bylaws, the Company may acquire the corresponding shares (for their subsequent redemption) pursuant to applicable legislation. This acquisition must be performed at the lower of the following prices: (a) the book value of the corresponding shares according to the latest published audited balance sheet of the Company; and (b) the middle market quotation for an ordinary share of the Company as derived from the London Stock Exchange's Daily Official List for the business day on which they were acquired by the relevant non-EU person.

A.11 Indicate whether the shareholders' meeting has agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Law 6/2007.

No

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

Not applicable

A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

No

If so, identify the various classes of shares and, for each class of shares, the rights and obligations they confer.

Not applicable

B. SHAREHOLDERS' MEETING

B.1 Indicate, and as applicable, describe the difference in relation to the minimum rules established in the Spanish Companies Law (LSC) regarding the quorum required for constitution of the shareholders' meeting.

No

	Quorum % other than that established in article 193 of the LSC for general cases	Quorum % other than that established in article 194 of the LSC for the special cases described in article 194
Quorum required for first call	–	–
Quorum required for second call	–	–

Description of differences
–

B.2 Indicate and, as applicable, describe any differences in relation to the rules established in the Spanish Companies Law (LSC) regarding the system of adopting corporate resolutions:

No

Describe how they differ from the rules established in the LSC.

	Qualified majority other than that established in article 201.2 of the LSC for general cases described in 194.1 of the LSC	Other cases requiring a qualified majority
% set by company for adopting corporate resolutions	–	–

Describe the differences
–

B.3 Indicate the rules governing amendments to the company's Bylaws. In particular, indicate the majorities required to amend the Bylaws and, if applicable, the rules for protecting shareholders' rights when changing the Bylaws.

The procedure for amending the Bylaws and the applicable rules for protecting shareholders' rights when changing the Bylaws are governed by the provisions established in the Spanish Companies Law.

B.4 Indicate the attendance figures for the shareholders' meetings held during the year corresponding to this report and for the previous year:

	Attendance data				
			% remote voting		
Date of shareholders' meeting	% attending in person	% by proxy	Electronic means	Other	Total
June 16, 2016	0.108	64.198	0.005	4.283	68.594
June 18, 2015	0.124	60.677	0.003	3.566	64.370

B.5 Indicate whether the Bylaws impose any minimum requirement on the number of shares required to attend the shareholders' meetings:

No

Number of shares required to attend the shareholders' meetings
–

B.6 Section eliminated.

B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on shareholders' meetings which must be made available to shareholders on the website.

The Company corporate governance information is available on the Company's website: www.iairgroup.com in the "Corporate Governance" section.

Spanish corporate governance report continued

C. COMPANY MANAGEMENT STRUCTURE

C.1 Board of Directors

C.1.1 List the maximum and minimum number of directors included in the Bylaws:

Maximum number of directors	14
Minimum number of directors	9

C.1.2 Complete the following table with board members:

Name or corporate name of director	Representative	Category of director	Position on the board	Date of first appointment	Date of last appointment	Election procedure
Antonio Vázquez	–	Independent	Chairman	May 25, 2010	June 16, 2016	Vote at the Shareholders' Meeting
Willie Walsh	–	Executive	Chief Executive Officer	May 25, 2010	June 16, 2016	Vote at the Shareholders' Meeting
Marc Bolland	-	Independent	Director	June 16, 2016	June 16, 2016	Vote at the Shareholders' Meeting
Patrick Cescau	–	Independent	Director	September 27, 2010	June 16, 2016	Vote at the Shareholders' Meeting
Enrique Dupuy de Lôme	–	Executive	Director	September 26, 2013	June 16, 2016	Vote at the Shareholders' Meeting
Baroness Kingsmill	–	Independent	Director	September 27, 2010	June 16, 2016	Vote at the Shareholders' Meeting
James Lawrence	–	Independent	Director	September 27, 2010	June 16, 2016	Vote at the Shareholders' Meeting
María Fernanda Mejía	–	Independent	Director	February 27, 2014	June 16, 2016	Vote at the Shareholders' Meeting
Kieran Poynter	–	Independent	Director	September 27, 2010	June 16, 2016	Vote at the Shareholders' Meeting
Emilio Saracho	-	Independent	Director	June 16, 2016	June 16, 2016	Vote at the Shareholders' Meeting
Dame Marjorie Scardino	–	Independent	Director	December 19, 2013	June 16, 2016	Vote at the Shareholders' Meeting
Alberto Terol	–	Independent	Director	June 20, 2013	June 16, 2016	Vote at the Shareholders' Meeting
Total number of directors:						12

Indicate any board members who left the board during this information period:

Name or corporate name of director	Category of the director at the time of leaving	Leaving date
Sir Martin Broughton	Independent	June 16, 2016
Cesar Alierta	Independent	June 16, 2016

C.1.3 Complete the following tables on board members and their respective categories:

EXECUTIVE DIRECTORS

Name or corporate name of director	Position held in the company organization chart
Willie Walsh	Chief Executive Officer
Enrique Dupuy de Lôme	Chief Financial Officer

Total number of executive directors	2
% of the total of the board	16.67

PROPRIETARY DIRECTORS

Name or corporate name of director	Name or corporate name of significant shareholder represented or proposing appointment
–	–
Total number of proprietary directors	–
% of the total of the board	–

EXTERNAL INDEPENDENT DIRECTORS

Individual or corporate name of director	Profile
Antonio Vázquez	**Key areas of experience:** retail, sales/marketing, finance, governance. **Current external appointments:** Member, Advisory Board of Telefónica América Latina. Member, Advisory Board of the Franklin Institute. Member, Advisory Board of Loyola University. **Previous relevant experience:** Chairman, Iberia 2012-2013. Chairman and CEO, Iberia 2009-2011. Chairman and CEO, Altadis Group 2005-2008. Chairman, Logista 2005-2008. Non-Executive Director, Iberia 2005-2007. CEO of Altadis Cigars and other various positions in Altadis Group 1993-2005. Various positions at Osborne 1978-1983 and Domecq 1983-1993.
Marc Bolland	**Key areas of experience:** general management, commercial management/marketing, retail, hospitality industry. **Current external appointments:** Head of European Portfolio Operations, The Blackstone Group, L.P. Non-Executive 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. Non-Executive Director, Manpower Inc USA 2005-2015. Chief Operating Officer 2005-2006, Executive Director 2001-2005 and other executive and non-executive positions, Heineken 1986-2001.
Patrick Cescau	**Key areas of experience:** retail, finance, sales/marketing, governance. **Current external appointments:** Non-Executive 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 Non-Executive Director, Tesco 2009-2015. Director, INSEAD 2009-2013. Senior Independent and Non-Executive Director, Pearson Plc 2002-2012. Group Chief Executive, Unilever 2005-2008. Chairman, Unilever PLC. Deputy Chairman, Unilever NV, 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, Indonesia and Portugal.

Spanish corporate governance report continued

Individual or corporate name of director	Profile
Baroness Kingsmill	**Key areas of experience:** government, legal and regulatory affairs. **Current external appointments:** Non-Executive Director, Industria de Diseño Textil, S.A. (Inditex). Non-Executive Director, EON Supervisory Board. Non-Executive Director, Telecom Italia. Chairman, Monzo Bank Ltd. Member of the International Advisory Board, IESE Business School. Member of the House of Lords since 2006. **Previous relevant experience:** Vice Chair and Senior Independent Director, APR Energy 2010-2015. Non-Executive Director, British Airways 2004-2011. Deputy Chairman, Competition Commission 1997-2003. Chairman, Department of Trade and Industry's Accounting for People task force 2003.
James Lawrence	**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. **Previous relevant experience:** Chairman, Rothschild North America 2012-2015. CEO, Rothschild North America and Co-Head of Global Investment Banking 2010-2012. Non-Executive Director, British Airways 2006-2011. Executive Director and Chief Financial Officer, Unilever 2007-2010. Vice Chairman, Chief Financial Officer and Head of International, General Mills 1998-2007. Executive Vice President and Chief Financial Officer, Northwest Airlines 1996-1998. Executive Vice President and other executive positions, Pepsi-Cola 1992-1996. Chairman and Co-Founder, LEK Consulting 1983-1992. Partner, Bain & Company 1977-1983.
María Fernanda Mejía	**Key areas of experience:** consumer, customer development, strategic planning, supply chain, innovation, marketing communications, merger and acquisitions. **Current external appointments:** Senior Vice President and President of Kellogg Latin America, Corporate Officer and member of Kellogg's Global Leadership Team. Board Member of the Council of the Americas. **Previous relevant experience:** Vice-President and General Manager Global Personal Care and Corporate Fragrance Development Colgate-Palmolive Co. 2010-2011, Vice-President Marketing and Innovation Europe/South Pacific Division Colgate-Palmolive Co. 2005-2010, President and CEO Spain and Spain Holding Company 2003-2005, General Manager Hong Kong and Director , Greater China Management team 2002-2003, Marketing Director Venezuela 2000-2002, Marketing Director Ecuador 1998-2000.
Kieran Poynter	**Key areas of experience:** professional services, finance services, corporate governance. **Current external appointments:** Chairman, F&C Asset Management PLC. Senior Independent Director and Chairman of the Audit Committee, British American Tobacco PLC. **Previous relevant experience:** Chairman, Nomura International plc 2009-2015. Member, Advisory Committee for the Chancellor of the Exchequer on the competitiveness of the UK financial services sector 2009-2010. Member, President's committee of the Confederation of British Industry 2000-2008. Chairman and Senior Partner, PricewaterhouseCoopers 2000-2008. Managing Partner, PricewaterhouseCoopers 1998-2000 and other executive positions at PricewaterhouseCoopers 1982-1998.
Emilio Saracho	**Key areas of experience:** corporate finance, investment banking. **Current external appointments:** Vice Chairman and Member of the Investment Banking Management Committee, JPMorgan Chase & Co. Non-executive Director, Industria de Diseño Textil, S.A. (Inditex). **Previous relevant experience:** Deputy CEO for EMEA 2012-2015, CEO Investment Banking for EMEA 2012-2014 and member of the Executive Committee 2009-2013, JP Morgan Chase & Co. CEO, JP Morgan Private Banking for EMEA 2006-2012. Member of the Board, Cintra 2008. Member of the Board, ONO 2008. Chairman, JP Morgan Spain and Portugal 1998-2006. Global Investment Banking Head, Santander Investment (UK) 1995-1998. Spanish Market Manager, Goldman Sachs International 1990-1995. Investment Banking division Manager, Banco Santander de Negocios 1985-1990. Analyst, Chase Manhattan Bank 1980-1985. Member of the Board, Fiseat 1988.

Individual or corporate name of director	Profile
Dame Marjorie Scardino	**Key areas of experience:** commercial management, government affairs, communications, digital and media, legal services. **Current external appointments:** Senior Independent Director, Twitter, Inc. 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 plc 1997-2012. Chief Executive Officer, The Economist Group from 1993-1996. President, The Economist Group US 1985-1993. Lawyer practising in the US 1975-1985.
Alberto Terol	**Key areas of experience:** finance, professional services, information technology, hospitality industry. **Current external appointments:** Non-Executive Director, Indra Sistemas, S.A. Non-Executive Director, Broseta Abogados. International Senior Advisor, Centerbridge. Executive Chairman of various family owned companies. **Previous relevant experience:** Non-Executive Director, OHL 2010-2016. Non-Executive Director, Aktua 2013-2016. Non-Executive Director, N+1 2014-2015. International Senior Advisor, BNP Paribas 2011-2014. Member, Global Executive Committee Deloitte 2007-2009. Managing Partner, EMEA Deloitte 2007-2009. Managing Partner, Global Tax & Legal Deloitte 2007-2009. Member, Global Management Committee Deloitte 2003-2007. Managing Partner, Latin America Deloitte 2003-2007. Managing Partner, Integration Andersen Deloitte 2002–2003, Managing Partner, Europe Arthur Andersen 2001-2002. Managing Partner, Global Tax & Legal Arthur Andersen 1997-2001. Managing Partner, Garrigues 1997-2000.

Total number of external independent directors	10
% of the board	83.33

List any external independent directors who receive from the company or group any amount or payment other than standard director remuneration or who maintain or have maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained the said relationship.

No

If applicable, include a justified statement from the board detailing the reasons why the said director may carry on their duties as an external independent director.

Name or corporate name of director	Description of the relationship	Justified statement
–	–	–

OTHER NON-EXECUTIVE DIRECTORS

Name or corporate name of director	Committee notifying or proposing appointment
–	-

Total number of other non-executive directors	-
% of the total of the board	-

Spanish corporate governance report continued

List the reasons why these cannot be considered proprietary or external independent directors and detail their relationships with the company, its executives or shareholders.

Name or corporate name of director	Reasons	Company, executive or shareholder with whom the relationship is maintained
-	-	–

List any changes in the category of each director which have occurred during the year.

Name or corporate name of director	Date of change	Previous category	Current category
Antonio Vázquez	January 21, 2016	Other external	Independent

C.1.4 Complete the following table on the number of female directors at the end of the last four years and their category.

	Number of female directors				% of total directors of each category			
	Year t	Year t-1	Year t-2	Year t-3	Year t	Year t-1	Year t-2	Year t-3
Executive	0	0	0	0	0	0	0	0
Proprietary	0	0	0	0	0	0	0	0
External independent	3	3	3	2	30.00	33.33	30.00	22.22
Other non-executive	0	0	0	0	0	0	0	0
Total	3	3	3	2	25.00	25.00	23.08	14.29

C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female directors on the board to guarantee an even balance between men and women.

Explanation of measures

Following the new Spanish corporate governance code recommendation, the Board approved on January 2016 a Directors Selection and Diversity policy which superseded the former IAG Board 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 favour a diversity of knowledge, experience and gender. This Policy incorporates the former IAG diversity principles while regulating the process for appointing directors. Under this Policy, director appointments are evaluated against the existing balance of skills, knowledge and experience on the Board, with directors asked to be mindful of diversity, inclusiveness and meritocracy considerations when examining nominations to the Board.

The Board recognises the value of diversity as a tool to enrich its discussions and decision-making process. Consequently, it is the Board's objective to create a board whose composition ensures a healthy diversity of opinions, perspectives, skills, experiences, backgrounds and orientations. Specifically, this will include an appropriate gender ratio, as well as including diversity in other senses, subject to the overriding principle of merit and suitability mentioned above.

This will be achieved over time, taking account of the valuable knowledge and experience of the present board members and the value of a more diverse Board.

Accordingly, the Directors Selection and Diversity Policy establishes a new female representation objective of 33 per cent for 2020 following the recommendation included in the final Davies report published in the UK and exceeding the 30 per cent recommended in the Spanish Good Governance Code for Listed Companies.

The Board, through its Nominations Committee, regularly reviews the percentage of women that sit on the Board and on the Company's Management Committee, as well as the number of women in the Group's workforce worldwide. The IAG Board and Management Committee continue to focus on this important area.

The Nominations Committee leads the process for Board appointments. It evaluates the balance of skills, experience, independence, diversity and knowledge on the Board and, in the light of this evaluation, considers the role and capabilities required for a particular appointment. This evaluation will be made alongside succession plans for directors and takes into consideration any conclusions from the annual review of Board performance.

As further detailed in the following section, the Directors Selection and Diversity Policy states the Company's intention only to engage, so far as practicable, search firms which have signed up to the latest UK Voluntary Code of Conduct for Executive Search Firms (or its international equivalent). This is a voluntary code of conduct to address gender diversity on corporate boards and best practice for the related search processes. The code lays out steps for search firms to follow across the search process, from accepting a brief through to final induction.

When reviewing board appointments, the Board's Policy is to consider candidates from a wide variety of backgrounds, without discrimination based on gender, race, colour, age, social class, beliefs, religion, sexual orientation, disability or other factors.

It is the Nominations Committee's intention to reconcile the achievement of this objective while preserving the general diversity and merit based appointment principles established in IAG's policy.

IAG's Directors Selection and Diversity Policy is published on the Company's website.

C.1.6 Explain the measures taken, if applicable, by the nomination committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors, and whether the company makes a conscious effort to search for female candidates who have the required profile.

Explanation of measures

As previously stated, the Nominations Committee leads the process for Board appointments. It evaluates the balance of skills, experience, independence, diversity and knowledge in the Board and, in the light of this evaluation, considers the role and capabilities required for a particular appointment. The appointment of new directors is made in accordance with a formal, rigorous and transparent process.

An overriding principle is that all appointments to the Board will be based upon merit and suitability of the candidate to the particular role being filled. As stated in the Directors Selection and Diversity Policy, it is the Board's objective to create a board whose composition ensures a healthy diversity of opinions, perspectives, skills, experiences, backgrounds and orientations. Specifically, this includes an appropriate gender ratio, as well as including diversity in other senses, subject to the overriding principle of merit and suitability mentioned above.

In support of this Policy and, particularly, of the gender ratio objective, IAG has stated that, when conducting a search for a new board member, so far as practicable, it intends only to engage search consultants who have signed up to the UK Voluntary Code of Conduct on gender diversity for executive search firms or an international equivalent.

As previously explained, this is a voluntary code of conduct to address gender diversity on corporate boards and best practice for the related search processes, which lays out steps for search firms to follow across the search process.

According to this code, when taking a specific brief, search firms should look at overall board composition and, in the context of the board's agreed aspirational goals on gender balance and diversity more broadly, explore with the Chairman if recruiting women directors is a priority on this occasion.

In addition, when presenting their longlists, search firms should try to ensure that at least 30 per cent of the candidates are women – and, if not, should explicitly justify to the client why they are convinced that there are no other qualified female options, through demonstrating the scope and rigour of their research. Search firms should seek to ensure that the shortlist is appropriately reflective of the longlist, discussing with their clients each woman on the longlist and aiming to have at least one woman whom they would 'strongly recommend' that the client should meet.

Finally, search firms who are signatories to this code should seek to broaden their own databases of potential candidates, and are encouraged to invest time into developing relationships with the pipeline of future female candidates.

This code has been signed up to by over 70 search firms, who collectively account for the vast majority of the board work in the UK. All have committed to following the code's provisions in their board search processes, irrespective of sector, company and organisation and to ensuring that all provisions of the code are embedded in their day to day practices.

In parallel, when a selection process is carried out, the Company informs the selected search firm of its policies and objectives regarding diversity. It also ensures that longlist include an adequate number of female candidates.

When, despite the measures taken, there are few or no female directors, explain the reasons.

Explanation
–

Spanish corporate governance report continued

C.1.6.bis Explain the conclusions of the Nominations Committee with respect to verification of compliance with the director selection policy. In particular, explain how this policy promotes the objective of having female directors represent at least 30% of the total members of the Board of Directors by 2020.

The Nominations Committee, at its meeting held on December 14, 2016, carried out a check of compliance with its Directors Selection and Diversity Policy. Two appointments were made in 2016 to the Board of Directors of the Company, both as a result of the same process. The process followed to complete these two appointments was reviewed in detail by the Committee who concluded that:

a) The procedure was formal, rigorous and transparent.

b) The proposals were based on a prior analysis of the needs of the IAG Board of Directors. This evaluation was made alongside succession plans for directors and taking into consideration the conclusions from the annual review of Board performance.

c) 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.

d) The process followed conformed to all the gender diversity requirements established in both the IAG's policy and in the UK Voluntary Code of Conduct on gender diversity for executive search firms.

e) Both proposals referred to applicants who satisfy the legal and statutory conditions required to hold office as a director, are of suitable repute and have the appropriate knowledge, experience, skills and availability for the exercise of the functions and duties of such office.

A detailed explanation of how this Policy promotes the achievement of the gender diversity objective established by the Company is included in the two preceding sections.

In addition to this and from a general perspective, the Nominations Committee regularly reviews the percentage of women that sit on the Board and on the Company's Management Committee. It also monitors the number of women within the Group's workforce worldwide. This information (and the progress made towards achieving greater diversity) is published annually in the Company's annual report.

C.1.7 Explain how shareholders with significant holdings are represented on the board.

There are no significant shareholders with representation on the Board of Directors.

C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 3% of the share capital.

Name or corporate name of shareholder	Reason
–	–

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained.

No

Name or corporate name of shareholder	Explanation
–	–

C.1.9 Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board their reasons and through which channel and, if tendered in writing, list below the reasons given by that director:

Name of director	Reasons for resignation
–	–

C.1.10 Indicate what powers, if any, have been delegated to the chief executive officer(s).

Name or corporate name of director	Brief description
Willie Walsh	All of the powers of the Board have been permanently delegated to the IAG Chief Executive for their exercise, jointly and severally, save for those which cannot be delegated pursuant to the Bylaws, the Board Regulations or the applicable legislation.

C.1.11 List the directors, if any, who hold office as directors or executives in other companies belonging to the listed company's group:

Individual or corporate name of director	Corporate name of entity within the Group	Position	Do they have executive functions?
Willie Walsh	Aer Lingus plc	Non-Executive Chairman	No

C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets, insofar as these have been disclosed to the company.

Name or corporate name of director	Name of listed company	Position
Marc Bolland	Coca-Cola Company	Non-Executive Director
Marc Bolland	Exor S.p.A	Non-Executive Director
Patrick Cescau	Intercontinental Hotels Group	Non–Executive Chairman
Baroness Kingsmill	Telecom Italia	Non–Executive Director
Baroness Kingsmill	E.ON	Member of the Supervisory Board
Baroness Kingsmill	Industria de Diseño Textil, S.A. (Inditex)	Non-Executive Director
James Lawrence	Smurfit Kappa Group	Non–Executive Director
James Lawrence	Avnet Inc.	Non–Executive Director
Kieran Poynter	British American Tobacco	Non–Executive Director
Emilio Saracho	Industria de Diseño Textil, S.A. (Inditex)	Non-Executive Director
Dame Marjorie Scardino	Twitter, Inc.	Non–Executive Director
Alberto Terol	Indra Sistemas, S.A.	Non–Executive Director

C.1.13 Indicate and, where appropriate, explain whether the board regulations establish rules on the maximum number of company boards on which its directors may sit:

Yes

Explanation of rules

According to article 17.5 of the Board Regulations, unless otherwise authorised by the Nominations Committee, a director shall not hold more than six other directorships of which no more than four, in the case of non-executive directors, and no more than one, in the case of executive directors, can be in public listed companies. In any event, prior consent from the Nominations Committee is required before an executive director can accept any external directorship appointment.

Asset-holding or pure investment companies are excluded for the purposes of the preceding paragraph. Furthermore, companies belonging to the same group shall be considered as a single company.

C.1.14 Section eliminated.

C.1.15 List the total remuneration of the board:

Board remuneration (thousands of euros)	11,329
Amount of pension rights accumulated by directors (thousands of euros)	320
Amount of pension rights accumulated by former directors (thousands of euros)	3,752

C.1.16 List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year.

Name or corporate name	Position(s)
Alex Cruz	Executive Chairman of British Airways
Luis Gallego	Executive Chairman of Iberia
Robert Boyle	Director of Strategy
Javier Sanchez-Prieto	Vueling Chief Executive Officer
Ignacio de Torres	Director of Global Services
Christopher Haynes	General Counsel
Julia Simpson	Chief of Staff
Andrew Crawley	IAG Cargo Chief Executive Officer
Stephen Kavanagh	Aer Lingus Chief Executive Officer

Total remuneration received by senior management (thousands of euros)	16,010

C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies.

Name or corporate name of director	Name or corporate name of significant shareholder	Position
–	–	–

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the board with significant shareholders and/or their group companies.

Name or corporate name of director	Name or corporate name of significant shareholder	Relationship
–	–	–

C.1.18 Indicate whether any amendments have been made to the board regulations during the year.

No

Description of amendments

C.1.19 Indicate the procedures for selection, appointing, re-electing, evaluating and removing directors. List the competent bodies, procedures and criteria used for each of these procedures.

Appointment of directors

The Shareholders' Meeting or, if applicable, the Board of Directors itself shall be entitled to designate the members of the Board of Directors subject to the current law provisions.

Any vacancies may be covered by the Board of Directors by means of cooption, according to the applicable law, on an interim basis until the next Shareholders' Meeting is held, which shall ratify, as the case may be, the appointments or appoint the persons that are to replace any directors not ratified, or eliminate any vacant positions.

Proposals for the appointment of directors submitted by the Board to the Shareholders' Meeting for consideration, as well as decisions on appointments made by the Board of Directors using the powers of cooption legally attributed to it, shall be in respect of persons that satisfy the legal and Bylaw requirements to hold office as director, are of suitable repute and have appropriate professional skills, experience, knowledge and availability for the exercise of the functions and duties of such office.

Proposals for the appointment or renewal of directors submitted to the Shareholders' Meeting by the Board, as well as provisional appointments by means of cooption, must be approved on the proposal of the Nominations Committee in the case of independent directors and subject to a report from the Nominations Committee in all other cases.

Directors shall hold office for the period set forth in the Bylaws (one year) unless the Shareholders' Meeting resolves on their removal from office or dismissal, or they stand down from office.

Selection of directors

In identifying suitable candidates, the Nominations Committee may use open advertising or the services of external advisers to facilitate the search, and consider candidates from a wide range of backgrounds with due regard to diversity, including gender as well as other forms of diversity. Selection will be based on merit and against objective criteria, as well as considering the candidates' ability to commit sufficient time to the role.

In accordance with the recommendation included in the Spanish Good Governance Code for Listed Companies, the Board approved in January 2016 a Directors Selection and Diversity Policy which ensures that appointments are based on a prior analysis of the Board's needs and favours a diversity of knowledge, experience and gender. In particular and as established in this policy, IAG only engages external search consultants who have signed up to the UK Voluntary Code of Conduct on gender diversity for executive search firms or an international equivalent.

Re-election of directors

At the end of their term of office, directors may be re-elected one or more times for periods of equal duration to that established in the Bylaws.

Proposals for re-election of directors that the Board of Directors resolves to submit to the Shareholders' Meeting shall be subject to a formal preparation process, which must include a proposal made by the Nominations Committee, in the case of independent directors, and the report from the Nominations Committee in all other cases. The Nominations Committee's proposal or report shall be prepared having given due regard to the performance, commitment, capacity, ability and availability of the director to continue to contribute to the Board with the knowledge, skills and experience required. To this end, the directors sitting on the Nominations Committee shall be evaluated by the Nominations Committee itself, and each of them shall abstain from participating in any debate or vote that may affect them.

Evaluation of directors

Under the Chairman's leadership, the performance of individual directors, the Board of Directors as a whole and the Board Committees is evaluated at least once a year.

During the reporting period, the Chairman met each non-executive directors individually to discuss their contribution to the Board. In addition to this, the Senior Independent Director met with the other non-executive directors to discuss the performance of the Chairman, and the outcome of this evaluation was reported and considered by the Nominations Committee and by the Board as a whole.

Resignation and dismissal of directors

Directors shall cease to hold office when the term of office for which they were appointed expires and they are not re-appointed or whenever so decided by the Shareholders' Meeting.

Notwithstanding the above, a director must place his position at the disposal of the Board of Directors and, at its request, formally resign from office in the cases established in article 16.2 of the Board Regulations.

Directors who stand down before the end of their term of office, due to resignation or for any other reason, must state their reasons in a letter to be sent to all the directors. Without prejudice to the notification of such vacation of office as a price sensitive information communication, the reasons for the same must be explained in the Annual Corporate Governance Report.

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

Spanish corporate governance report continued

C.1.20 Explain to what extent the annual evaluation of the board has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of amendments

An external evaluation was conducted this year facilitated by Dr Tracy Long from Boardroom Review Limited, who has no other connection with the Company. Dr Long also facilitated the 2013 evaluation and was re-appointed to provide a degree of continuity to this exercise, enabling the Board to better assess its development and progress since the incorporation of the Company.

The overall conclusion of the review was positive. Over the last three years the Board was considered to have made meaningful progress and to have built on its strengths. The result of the evaluation shows that the Board continues to adequately fulfil its responsibilities and that each of its committees continue to be effective and efficient.

The key actions agreed by the Board following this year's evaluation are set out in the table below.

Strategy and business oversight	
	Provide further context for Board strategy discussions, enhancing visibility of changing environment
	Enrich non-financial information reporting to the Board
	Implement suggestions to further improve the effectiveness of the annual strategy session
Risk agenda	
	Increase coverage and visibility of risk priorities across the Board forward agenda
Board performance	
	More dynamic management of the Board planning agenda, ensuring focus on agreed priorities and including training and development
	Continue to encourage site visits and other opportunities to engage with management, not only as an important source of information for non-executive directors but also as it provides context for succession planning and talent development discussions
Succession Planning	
	Succession planning at both Board and executive level should remain a priority
	Further formalisation of the process and reinforce the report to the whole Board
	Continue analysis of the Board skills matrix and discussions on future domain knowledge priorities
	At executive level, strengthen focus on talent development

C.1.20 bis Describe the evaluation process and the areas evaluated by the board with the aid, as applicable, of an external consultant, with respect to the diversity of its composition and competencies, the functioning and composition of its committees, the performance of the board chairman and of the chief executive, and the performance and contribution of each director.

As stated in the previous section, the Board and committees' performance evaluation was conducted externally in 2016.

The evaluation comprised in-depth one-to-one interviews with directors, the General Counsel of the Company and the Company Secretary, observation of Board and committees meetings, and a review of Board and committee papers as well as other Company information.

The main themes covered in this evaluation were: strategy and execution; risk and control; remuneration and executive succession; stakeholders; culture, composition and board choreography; as well as the use of time and quality of information.

The Senior Independent Director met with the other non-executive directors to discuss the performance of the Chairman. 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 2016. In general terms, good progress was made against these objectives, namely the improvements introduced regarding the Board agenda and time management, as well as the induction designed and completed this year for new committee members.

C.1.20 ter List any business relationships held by the consultant or any company in its group with the company or any group company.

Not applicable

C.1.21 Indicate the cases in which directors must resign.

In accordance with article 16.2 of the Board Regulations, a director must place his position at the disposal of the Board of Directors and, at its request, formally resign from office in the following cases:

a) When he or she ceases to hold the executive positions to which his or her appointment as director is linked, or when the reasons for which he was appointed no longer exist. In particular, in the case of nominee directors, when the shareholder(s) that proposed, requested or determined their appointment sell or transfer their holding in whole or in part, so that such holding has no longer the status of significant or is not sufficient to justify the appointment.

b) When, due to supervening circumstances, the director is subject to any of the grounds for incompatibility or prohibition provided for in the law, the Corporate Bylaws or the Board Regulations.

c) When he is prohibited by law from acting as a director.

d) If requested to do so by the Board of directors as a result of a determination made in accordance with the provisions of article 11.7 of the Bylaws, to the extent that such determination arises as a result of his or her membership of the Board of Directors.

e) When the director ceases to have the good standing, suitability, reliability, competence, availability or commitment to office necessary to be a director of the Company.

f) When his or her presence on the Board of Directors might jeopardise, for any reason, directly, indirectly or through any person related to him, the loyal and diligent exercise of his functions in accordance with the corporate interest.

g) When his or her remaining on the Board might affect the Company's credit or reputation in the market or otherwise jeopardise its interests.

C.1.22 Section eliminated.

C.1.23 Are qualified majorities other than those prescribed by law required for any type of decision?

No

If applicable, describe the differences.

Description of differences
–

C.1.24 Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed chairman of the board:

No

Description of requirements
–

C.1.25 Indicate whether the chairman has the casting vote:

No

Matters where the Chairman has the casting vote
–

C.1.26 Indicate whether the bylaws or the board regulations set an age limit for directors.

No

C.1.27 Indicate whether the bylaws or the board regulations set a limited term of office for external independent directors different from the one established in the applicable law.

No

Maximum number of years in office
–

C.1.28 Indicate whether the bylaws or the board regulations stipulate specific rules on appointing a proxy to the board, the procedures for doing so and, in particular, the maximum number of proxy appointments a director may hold, as well as whether any limit has been established in relation to the categories of director that may be appointed as a proxy, further to the limits imposed by law. If so, give brief details.

In accordance with article 40 of the Bylaws and 10 of the Board Regulations, directors shall make every effort to attend Board meetings.

Notwithstanding the above, all directors may cast their vote through, and grant a proxy to another director, although non-executive directors may only grant a proxy to other non-executive director.

Proxies must be granted in writing, addressed to the Chairman or to the Board Secretary, and must be granted specifically for each meeting. For such purposes, a message addressed to the Chairman or the Secretary by letter, fax, telegram or e-mail shall be valid.

No director may hold more than three proxies, with the exception of the Chairman, who shall not be subject to such limit but may not represent more than half of the members of the Board of Directors.

The director granting the proxy shall endeavour, where possible, to include voting instructions in the proxy letter.

C.1.29 Indicate the number of board meetings held during the year and how many times the board has met without the Chairman's attendance. Attendance will also include proxies appointed with specific instructions.

Number of board meetings	11
Number of board meetings held without the Chairman's attendance	0

If the chairman is an executive director, indicate the number of meetings held without the presence of an executive director, in person or by proxy, and under the chairmanship of the lead director.

Number of meetings	–

Indicate the number of meetings of the various board committees held during the year.

Number of meetings of the Executive or Delegate Committee	–
Number of meetings of the Audit and Compliance Committee	8
Number of meetings of the Nomination and Remuneration Committee	–
Number of meetings of the Nominations Committee	6
Number of meetings of the Remuneration Committee	3
Number of meetings of the Safety Committee	2

C.1.30 Indicate the number of board meetings held during the year with all members in attendance. Attendance will also include proxies appointed with specific instructions.

Number of meetings held with all directors in attendance	5
% of attendances of the total votes cast during the year	94.21

C.1.31 Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the board are certified previously:

Yes

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior to their approval by the board.

Name	Position
Willie Walsh	Chief Executive Officer
Enrique Dupuy de Lôme	Chief Financial Officer

C.1.32 Explain the mechanisms, if any, established by the board to prevent the individual and consolidated financial statements it prepares from being laid before the shareholders' meeting with a qualified audit report.

In accordance with article 35.4 of the Board Regulations, the Board of Directors shall prepare the Company's financial statements so that such financial statements do not give rise to any restrictions or qualifications by the auditors. This notwithstanding, if the Board of Directors deems it appropriate to prepare the financial statements subject to restrictions or qualifications in the opinion of the auditors, it must clearly explain to shareholders the scope of such restrictions or qualifications and the reasons behind its actions.

The Audit and Compliance Committee has the duty to review the Company's annual financial statements, monitor compliance with legal requirements, the appropriate definition of the scope of consolidation and the correct application of generally accepted accounting principles, as well as reviewing significant financial reporting judgements in the Company's annual accounts.

C.1.33 Is the secretary of the board also a director?

No

If the secretary is not a director, complete the following table:

Name or corporate name of the secretary	Representative
Álvaro López-Jorrín	–

C.1.34 Section eliminated.

C.1.35 Indicate and explain, where applicable, the specific mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

The relations of the Board of Directors with the Company's auditors shall be channelled through the Audit and Compliance Committee.

The Board of Directors shall refrain from engaging any audit firm entitled to be paid by the Company for all services rendered fees in an amount in excess of 10 per cent of such firm's total revenue for the previous year.

With regard to the external auditor, the Audit and Compliance Committee has, among others, the following powers:

- i) To submit to the Board proposals on the selection, appointment, reappointment and substitution of the auditor, assuming responsibility for the selection process and the terms of its engagement, its remuneration (ensuring its independence and quality are not compromised), the scope of its professional mandate and the revocation or renewal of its appointment.
- ii) To regularly collect information from the auditors on the audit plan and its implementation, as well as preserving their independence in the exercise of their functions. In particular, to ensure that the Company and the external auditor respect the current legislation on provision of non-audit services, the limits on the auditor's business concentration and, in general, any other rules regarding auditor independence.
- iii) To oversee compliance with the audit agreement.
- iv) To serve as a channel for communication between the Board and the auditors and to assess the results of each audit.
- v) To review the effectiveness of the external audit process.

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vi) To establish the appropriate relationships with the external auditor in order to receive information on matters which may jeopardise its independence, for its examination by the Audit and Compliance Committee, and on any other matters relating to the audit process, and, as appropriate, the authorisation of permissible non-audit services as legally established, as well as any other communications provided for in the audit legislation and standards.

In all cases, the declaration of their independence in relation to the entity or entities directly or indirectly related thereto must be received annually from the external auditors, as well as information on the additional services of any kind provided and the corresponding fees received.

vii) To issue on an annual basis, prior to the issue of the auditor's report, a report expressing an opinion on whether the independence of the auditor is compromised. This report must contain, in all cases, the assessment of the provision of the additional services referred to in the preceding paragraph, taken individually and as a whole, other than the statutory audit and in relation to the rules on independence or to audit regulations.

viii) To develop and implement a policy on the engagement of the external auditors to supply additional non-audit services pursuant to the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council.

ix) To ensure that the external auditor has a yearly meeting with the Board of Directors in full to inform on the work undertaken and any developments in the Company's risk and accounting positions.

x) In the event of the external auditor's resignation, to review any underlying circumstances.

During 2016, the Audit and Compliance Committee reviewed the work undertaken by the external auditors and assessed their independence, objectivity and performance. In doing so, it took into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services. The Audit and Compliance Committee monitored the auditors' compliance with relevant regulatory, ethical and professional guidance on the rotation of partners, and assessed its qualifications, expertise, resources and the effectiveness of the audit process, including a report from the external auditor on its own internal quality procedures. The Audit and Compliance Committee decided not to tender the audit for the Company for fiscal year 2017.

The Audit and Compliance Committee receives a quarterly report on compliance with the Group's External Auditor Services Policy, which restricts the volume and types of non-audit services that Ernst & Young can provide throughout the Group.

The Board of Directors approved in January 2016 a Shareholder Communication Policy regarding communication and contact with shareholders, institutional investors and proxy advisors that regulates the relationship and channels of communication of the Company with shareholders, institutional investors and proxy advisors. This policy complies in full with market abuse regulations and provides an equitable treatment to shareholders in the same position.

In addition, the Company has a Group Standing Instruction on business integrity in order to ensure compliance with competition and anti-bribery legislation. As stated in this Instruction, IAG and its staff are bound by values of integrity and responsibility; the Company is firmly committed to maintaining the highest standards of ethics, honesty, openness and accountability.

This Instruction applies to all staff of IAG and its subsidiary companies and to suppliers and their representatives when working for IAG. A breach of these principles will be managed in accordance with the Company's established disciplinary procedures or contract engagement terms. In accordance with this policy, staff should immediately report any actual or potential breaches of the Instruction to their line managers or, if not appropriate for whatever reason, to the Chief of Staff or General Counsel. All matters will be dealt with in confidence. Timely, appropriate and thorough investigations will be carried out into all cases of actual or suspected breaches whether discovered or reported. There is also mandatory training providing specific guidance on how these policies apply to staff in their respective roles.

This Instruction also prevents the offering or making of payments or the offering or promising of gifts to dishonestly influence a decision or to induce or reward a person for improper performance of their functions or job activity.

The Company has established whistleblowing procedures so that staff can report any malpractice. In addition to this, there is a whistle blower hotline as an alternative for those employees who, for whatever reason, do not feel comfortable using internal procedures. This hotline is an independent, confidential call bureau. All calls are forwarded to the highest level of management within IAG.

Conflict of interest situations are also covered within IAG's employees' regulations, establishing appropriate reporting obligations. If employees become aware of any potential conflicts of interest, these must be disclosed to the Company as soon as possible.

C.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor.

No

Outgoing auditor	Incoming auditor
–	–

Explain any disagreements with the outgoing auditor and the reasons for the same.

No

Explanation of the disagreements
–

C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group.

Yes

	Company	Group	Total
Amount of non-audit work (in thousands euros)	33	805	838
Amount of non-audit work as a % of the total amount billed by the audit firm	5	18	17

C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

No

Explanation of reasons
–

C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited.

	Company	Group
Number of consecutive years	7	7

	Company	Group
Number of years audited by current audit firm/Number of years the company's financial statements have been audited (%)	100	100

C.1.40 Indicate and give details of any procedures through which directors may receive external advice:

Yes

Procedures

In accordance with article 26 of the Board Regulations, in order to be assisted in the performance of his or her duties, any director may request the hiring of legal, accounting, technical, financial, commercial or other expert advisors, whose services shall be paid for by the Company.

The assignment must deal with specific issues of certain significance and complexity arising during the performance of the director's duties.

The request for an expert to be hired shall be channelled through the Chairman or the Company Secretary, who may submit it to the prior approval of the Board of Directors. Such approval may be denied in well-founded instances, including the following circumstances:

a. Where it is not necessary for the proper performance of the duties entrusted to the directors;

b. Where the cost thereof is not reasonable in light of the significance of the issues and the assets and income of the Company;

c. Where the technical assistance sought may be adequately provided by the Company's own experts and technical personnel; or

d. Where it may entail a risk to the confidentiality of the information that must be made available to the expert.

C.1.41 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

Yes

Procedures

Calls to Board meetings always include, unless there is a justified cause, the meeting agenda (which shall indicate any items requiring a resolution or decision by the Board of Directors) and shall be accompanied, as the case may be, by the information deemed necessary. Call notices shall be sent sufficiently in advance to ensure that directors receive them no later than the seven days before the date of the meeting, except in the case of meetings deemed urgent by the Chairman (or by the Deputy Chairman, in the event of absence, illness or inability of the Chairman). This notice period shall not apply to cases in which the Board Regulations stipulate a specific call period.

In addition, in accordance with article 9 of the Board Regulations, prior to the commencement of each fiscal year, the Board of Directors shall set a schedule for its ordinary meetings. This schedule may be modified by a resolution adopted by the Board of Directors or by a decision made by the Chairman, who shall endeavour to notify the modification to the directors not less than five days in advance of the date originally set for the meeting or of the new date set in lieu thereof, if the latter date falls earlier.

Papers for Board meetings are typically distributed to the Board members in the week prior to the relevant meeting.

In this regard, the Chairman shall ensure that the directors receive accurate, appropriate and clear information, in particular about the Company's performance, its strategy, challenges and opportunities in order to enable the Board of Directors to make sound decisions and monitor correctly the Company's performance and shall lead Board of Directors discussions with a view to encouraging effective decision-making and a constructive debate on the performance of the Company, its growth strategy and commercial objectives encouraging the active participation of the directors during meetings and safeguarding their freedom of expression.

In accordance with article 25 of the Board Regulations, a director shall have the broadest powers to obtain information regarding any aspect of the Company, to examine its books, records and documents, to inspect its facilities, and to communicate with the senior managers of the Company. The exercise of such powers of information shall be channelled through the Chairman or the Board Secretary.

In addition, all Board members have access to the Board Secretary and the Group General Counsel for any further information they require. If any of the non–executive directors has any concerns about the running of the Group, they discuss these concerns with one of the executive directors, the Group General Counsel or the Chairman.

In accordance with article 28 of the Board Regulations, the Board Committees must receive appropriate and timely training, both in the form of induction programmes for new members and on an on-going basis for all members. The Board Committees shall also arrange for annual evaluations of their own performance, conducted externally at least every three years.

Papers for Committees are typically distributed to their members in the week prior to the relevant meeting.

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be.

Yes

Details of rules

In accordance with article 23.2.c) of the Board Regulations, a director must disclose to the Company any judicial, administrative or other proceedings brought against the director which, because of their significance or characteristics, may seriously reflect upon the reputation of the Company and, in general, any fact or event that may be reasonably material to his or her conduct as a director of the Company. In particular, directors must inform the Company, through the Chairman, if they are charged, become subject to an order for further criminal prosecution upon indictment or if an order for the commencement of an oral trial is issued against them in a criminal proceeding for any crime, and of the occurrence of any other significant procedural milestone in such proceedings. In such case, the Board of Directors shall review the case as soon as practicable and shall adopt the decisions it deems fit, taking into account of the corporate interest.

In addition, in accordance with article 16.2 of the Board Regulations, a director must place his or her position at the disposal of the Board of Directors and, at its request, formally resign from his or her position:

a. When the director ceases to hold the executive positions to which his or her appointment as director is linked, or when the reasons for which he or she was appointed no longer exist. In particular, in the case of nominee directors, when the shareholders that proposed, requested or determined their appointment sell or transfer their holding in whole or in part, so that such holding no longer has the status of significant or is not sufficient to justify the appointment.
b. When, due to supervening circumstances, the director is subject to any of the grounds for incompatibility or prohibition provided for in the law, the Corporate Bylaws or these Regulations.
c. When the director is prohibited by law from acting as a director.
d. If requested to do so by the Board of Directors as a result of a determination having been made under article 11.7 of the Corporate Bylaws to the extent that such determination is due to the fact that such director is a member of the Board of Directors.
e. When the director ceases to have the good standing, suitability, reliability, competence, availability or commitment to office necessary to be a director of the Company.
f. When his or her presence on the Board of Directors might jeopardise, for any reason, directly, indirectly or through any person related to him or her, the loyal and diligent exercise of his functions in accordance with the corporate interest.
g. When his or her remaining on the Board of Directors might affect the Company's credit or reputation in the market or otherwise jeopardises its interests.

C.1.43 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the Spanish Companies Law.

No

Name of director	Criminal proceedings	Remarks
–	–	–

Indicate whether the board has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.

Decision/action taken	Justified explanation
–	–

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C.1.44 List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

The following significant agreements contain provisions entitling the counterparties to exercise termination, alteration or other similar rights, in the event of a change of control of the Company:

- the brand alliance agreement in respect of British Airways and Iberia's membership of "**one**world", the globally-branded airline alliance, could be terminated by a majority vote of the parties in the event of a change of control of the Company.
- the joint business agreement between British Airways, Iberia, American Airlines and Finnair and the joint business agreement between British Airways, Japan Airlines and Finnair can be terminated by the other parties to those agreements in the event of a change of control of the Company by either a third party airline, or the parent of a third party airline.
- Certain British Airways exchange and interest rate hedging contracts allow for early termination if after a change of control of the Company, British Airways' credit worthiness was materially weaker.

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

C.1.45 Identify, in aggregate form and provide detailed information on agreements between the company and its officers, executives and employees that provide indemnities, guarantee or "golden parachute" clauses for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other type of transaction.

Number of beneficiaries
12

Type of beneficiary	Description of the resolution
Executive Directors and IAG Management Committee	There are no express provisions in executive directors and senior executives service contracts with the Company for compensation payable upon termination of those contracts, other than for payments in lieu of notice. The period of notice required from the executive directors and senior executives is six months; the period of notice required from the Company is 12 months. Where the Company makes a payment in lieu of notice, a lump sum in lieu of six months' basic salary is payable within 28 days of the date of termination of employment. A payment in respect of basic salary for the second six months period only becomes payable if, in the Company's reasonable opinion, the executive directors and senior executives have taken reasonable steps to find alternative paid work and then only in six monthly instalments. The Company may reduce the sum payable in respect of any month by any amount earned by the executive directors and senior executives (including salary and benefits) referable to work done in that month.
Chairman	Antonio Vázquez has a specific agreement if his service contract is terminated for whatever reason. Additional information on this agreement has been provided in the Annual Report on the Remuneration of the Directors.

Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group.

	Board of Directors	Shareholders' Meeting
Body authorising clauses	X	

	Yes	No
Is the Shareholders' Meeting informed of such clauses?	X	

C.2 Board committees

C.2.1 Give details of all board committees, their members and the proportion of executive, proprietary, independent and other non-executive directors on them:

EXECUTIVE OR DELEGATE COMMITTEE

Name	Position	Type
–	–	–
–	–	–

% of executive directors	–
% of proprietary directors	–
% of external independent directors	–
% of other non-executive directors	–

Explain the functions attributed to this committee, describe the procedures and rules governing its organization and operation, and summarize the most important steps taken during the year.

–

Indicate whether the composition of the executive or delegate committee reflects the participation within the board of the different types of directors:

No

If not, explain the composition of the executive or delegate committee
–

AUDIT COMMITTEE

Name	Position	Type
Kieran Poynter	Chairman	Independent
Patrick Cescau	Member	Independent
James Lawrence	Member	Independent
Maria Fernanda Mejia	Member	Independent
Alberto Terol	Member	Independent

% of proprietary directors	–
% of external independent directors	100
% of other non-executive directors	–

Explain the functions attributed to this committee, describe the procedures and rules governing its organization and operation, and summarize the most important steps taken during the year.

a) Rules of organisation and operation:

The Audit and Compliance Committee shall be made up of no less than three and no more than five non-executive directors appointed by the Board, with the dedication, capacity and experience necessary to carry out their function. The members of the Audit and Compliance Committee, and particularly its Chairman, shall be appointed in light of their knowledge and experience on accounting, audit and risk management matters, and at least one of them shall have recent and relevant financial experience.

A majority of the members of the Audit and Compliance Committee shall be independent directors and one of them, at least, shall be appointed in light of his or her knowledge and experience on accounting or audit matters, or both.

The Board of Directors shall designate an Audit and Compliance Committee chairman from among the independent directors on the Audit and Compliance Committee who must be replaced at least every four years and may stand for re-election one year after vacating office. The Secretary or his nominee shall act as secretary to the Audit and Compliance Committee.

The Audit and Compliance Committee shall meet whenever convened by its chairman, at his own initiative, or at the request of at least two of its members and at least once every three months and, in all cases, where the Board of Directors requests the issue of reports, the presentation of proposals or the adoption of resolutions within the scope of its functions.

The Chairman of the Audit and Compliance Committee shall have the power to call committee meetings and to establish the agenda. The Audit and Compliance Committee shall be validly convened without prior call when all of its members are present and unanimously agree to hold a meeting. The call notice for ordinary meetings shall include the agenda, shall be served in writing sufficiently in advance to ensure that members receive it no later than three days before the date of the meeting and shall be authorised by the signature of the Chairman of the Audit and Compliance Committee or the Secretary or whomsoever acts as such. Extraordinary meetings may be called by telephone and the above requirements shall not apply where the Chairman of the Audit and Compliance Committee deems that the circumstances justify it.

The Audit and Compliance Committee shall be validly convened where more than half of its members are present, in person or by proxy, and decisions shall be adopted by an absolute majority of the members present, in person or by proxy.

The Audit and Compliance Committee may call any employee or officer of the Company and may even order them to appear without the presence of any other officer.

b) Functions:

The key function of the Audit and Compliance Committee is to assist the Board of Directors in oversight and control of the Group, regularly checking compliance with the legal provisions and internal regulations applicable to the IAG Group.

The main functions of the Audit and Compliance Committee include:

A. In relation to the Shareholders' Meeting:

a. To report to the Shareholders' Meeting on questions raised in relation to any matters under the Committee's competence and, in particular, on the results of the statutory audit explaining how this has contributed to the integrity of the financial information and the role that the Committee has performed in this process.

B. With regard to the external auditor:

a. To submit to the Board the proposals on the selection, appointment, reappointment and substitution of the auditor, assuming responsibility for the selection process, and the terms of its engagement, its remuneration (ensuring its independence and quality are not compromised), the scope of its professional mandate and the revocation or renewal of its appointment.

b. To regularly collect information from the auditors on the audit plan and its implementation, as well as preserving their independence in the exercise of their functions. In particular, to ensure that the Company and the external auditor respect the current legislation on provision of non-audit services, the limits on the auditor's business concentration and, in general, any other rules regarding auditor independence.

c. To oversee compliance with the audit agreement, ensuring that the opinion concerning the annual accounts and that the principal contents of the audit report are drafted in a clear and precise manner.

d. To serve as a channel for communication between the Board and the auditors, to assess the results of each audit and the response by the management team to their recommendations, and to mediate in the event of disputes between the auditors and the management team in relation to the principles and methods used in preparing the annual accounts.

e. To review the effectiveness of the external audit process.

f. To establish the appropriate relationships with the external auditor in order to receive information on matters which may jeopardise its independence, for its examination by the Committee, and on any other matters relating to the audit process, and, as appropriate, the authorisation of permissible non-audit services as legally established, as well as any other communications provided for in the audit legislation and standards. In all cases, the declaration of their independence in relation to the entity or entities directly or indirectly related thereto must be received annually from the external auditors, as well as information on the additional services of any kind provided and the corresponding fees received from these entities by the external auditors or by persons or entities related thereto pursuant to the provisions of audit legislation.

g. To issue on an annual basis, prior to the issue of the auditor's report, a report expressing an opinion on whether the independence of the auditor is compromised.

h. To develop and implement a policy on the engagement of the external auditors to supply additional non-audit services pursuant to the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council.

i. To ensure that the external auditor has a yearly meeting with the Board of Directors to inform on the work undertaken and any developments in the Company's risk and accounting positions.

j. In the event of the external auditor's resignation, to review any underlying circumstances and, in general, to oversee that the Company discloses the change of auditor as price sensitive information (relevant fact), including a statement regarding any possible discrepancies with the departing auditor and, if any exist, their content.

C. In relation to internal control and reporting systems:

a. To supervise the effectiveness of the internal control of the Company, the internal auditing, and the risk management systems, including tax risks, and to discuss with the auditor any significant weaknesses in the internal control systems identified in the course of the audit.

b. To ensure the independence and efficiency of the internal audit function (which functionally reports to the Chairman of the Audit and Compliance Committee) to propose the selection, appointment, reappointment and removal of the head of the internal audit service; to validate the department's budget; to approve its annual work plan and focus, ensuring that its activity is focused principally on the significant risks faced by the Company; to receive periodic information on its activities, as well as on any incidents arising; and to check that senior management takes into account the conclusions and recommendations contained in its reports.

c. To periodically review the internal control and risk management systems to ensure that the principal risks are adequately identified, managed and disclosed.

d. To monitor the functioning of the Company's risk control and management unit, accountable for: (a) ensuring that risk control and management systems are functioning correctly and, specifically, that major risks the Company faces are correctly identified, managed and quantified; (b) participating actively in the preparation of risk strategies and in key decisions about their management; and (c) ensuring that risk control and management systems are mitigating risks effectively in accordance with the policy drawn up by the Board.

e. To review the arrangements by which the employees of the Group may, in confidence, raise concerns about possible irregularities in matters of financial reporting or other matters. The Audit and Compliance Committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

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D. In relation to financial information:

a. To supervise the process for the preparation and presentation of the required financial information and report to the Board on the financial information that the Company is periodically required to disclose.

b. To review the Company's accounts, monitor compliance with legal requirements, the appropriate definition of the scope of consolidation and the correct application of generally accepted accounting principles. To review significant financial reporting judgements in the Company's accounts. To monitor the functioning of the internal financial control manuals and procedures adopted by the Company, to verify compliance with them and review the designation and replacement of the persons responsible for them.

c. To report to the Board on the steps taken by management to ensure that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

d. To report to the Board of Directors on the steps taken by management to assess the viability of the Company, including whether there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due.

E. In relation to compliance supervision:

a. To assess the level of compliance with the Bylaws, the Board Regulations and the Internal Code of Conduct in matters relating to the securities market and, in general, with the Company's rules on governance and to make the necessary proposals for improvement, assessing regularly the effectiveness of the Company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and accommodating, as appropriate, the legitimate interests of the remaining stakeholders. In particular, the Audit and Compliance Committee shall be responsible for receiving information and, as the case may be, issuing reports on the disciplinary measures to be applied to senior executives of the Company.

b. To consider suggestions from the Audit and Compliance Committee Chairman, directors, senior executives or shareholders, and to report and make proposals to the Board with regard to any measures it deems appropriate in relation to the audit activity and any others assigned to it, as well as with regard to compliance with legislation on market reporting and transparency and accuracy of the same.

c. To oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.

d. To review the Company's corporate social responsibility policy, ensuring that it is geared to value creation.

e. To monitor corporate social responsibility strategy and practices and assess compliance in this respect.

f. To monitor and evaluate the Company's interaction with its stakeholder groups.

g. To evaluate all aspects of the non-financial risks the Company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

h. To coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

F. Other responsibilities:

a. To report on related transactions or on transactions that entail or may entail a conflict of interest, in the terms established in the Board Regulations.

b. To report to the Board, prior to the adoption by it of the corresponding decision, regarding the creation or acquisition of interests in special purpose entities or entities registered in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature that, due to the complexity thereof, might detract from the transparency of the Group.

c. To receive information on any relevant structural or corporate transactions that the Company plans to undertake, for its analysis and subsequent report to the Board of Directors on its economic conditions and accounting impact and particularly, when applicable, on the exchange ratio proposed.

c) Steps taken during the year:

The Committee's principal activities during the year were:

- review of financial statements and announcements relating to the financial performance and governance of the Group;
- review of the effectiveness of the internal control system, provide assurance on the risk management process and review the principal risks facing the Group;
- review and agreement of the internal audit programme, resourcing, effectiveness and resolution of issues raised; and
- recommending the appointment of external auditors and reviewing their effectiveness, fees, terms of reference and independence.

State the member of the Audit Committee who has been appointed having regard to his/her knowledge or experience in accounting and/or audit matters and indicate the number of years the Committee chairman has held office.

Name of director with experience	Kieran Poynter
Number of years Committee chairman has held office	0

NOMINATION AND REMUNERATION COMMITTEE

Name	Position	Type
–	–	–
–	–	–
% of proprietary directors		–
% of external independent directors		–
% of other non-executive directors		–

Explain the functions attributed to this committee, describe the procedures and rules governing its organization and operation, and summarize the most important steps taken during the year.

NOMINATIONS COMMITTEE

Name	Position	Type
Antonio Vázquez	Chairman	Independent
Patrick Cescau	Member	Independent
Baroness Kingsmill	Member	Independent
Emilio Saracho	Member	Independent
Dame Marjorie Scardino	Member	Independent

% of proprietary directors	–
% of external independent directors	100
% of other non-executive directors	–

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Explain the functions attributed to this committee, describe the procedures and rules governing its organization and operation, and summarize the most important steps taken during the year.

a) Rules of organisation and operation:

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

The Board of Directors shall designate a Nominations Committee Chairman from among the independent directors forming part of the Committee. The Secretary of the Board of Directors or his or her nominee shall act as Secretary to the Nominations Committee.

The Nominations Committee shall meet whenever convened by its Chairman, at his or her own initiative, or at the request of two or more of its members and at least once every year and, in all cases, where the Board requests the issue of reports, the presentation of proposals or the adoption of resolutions within the scope of its functions.

b) Functions:

The main functions of the Nominations Committee include:

A. To evaluate the competencies, knowledge and experience necessary on the Board and report on and review the criteria to be followed for its composition and the selection of candidates, defining the necessary functions and skills and evaluating the time and dedication required to correctly perform its remit.

B. To submit to the Board the proposed appointments of independent directors for their designation by cooption or, as the case may be, to submit the decision to the Shareholders' Meeting, as well as proposals for the re-appointment or removal of such directors by the Shareholders' Meeting.

C. To report on the proposals of the Board for the appointment of the remaining directors for their designation by cooption or, as the case may be, to submit the decision to the Shareholders' Meeting, as well as proposals for the re-appointment or removal of such directors by the Shareholders' Meeting.

D. To report on the proposed designation or removal from office of the Board (including the Secretary and the Deputy Secretary) and propose to the Board the members that are to form each of the Board committees and their chairmen.

E. To put in place plans for the succession of directors, in particular, the succession of the Chairman and the Chief Executive and, as the case may be, to make proposals to the Board of Directors so that such succession occurs in a planned and orderly manner.

F. To oversee and establish guidelines relating to the appointment, recruitment, career, promotion and dismissal of senior executives in order to ensure that the Company has the highly-skilled personnel required for its management.

G. To report on the proposed appointment and/or removal of senior executives of the Company.

H. To report on the proposed appointment and/or removal of members of the managing bodies of the main subsidiaries and/or investees of the Group and on the appointment of their chairmen and chief executive officers.

I. To ensure that, on appointment, non-executive directors receive a formal letter of appointment setting out clearly what is expected from them in terms of time commitment, committee service and involvement outside Board meetings.

J. To identify directors qualified to fill vacancies on any committee of the Board of Directors (including the Nominations Committee).

K. To establish a target for the representation of the underrepresented gender on the Board which should be pursued by the Company's director selection policy.

L. To submit to the Board the annual report on the evaluation of the Board as a whole.

c) Steps taken during the year:

The Committee's principal activities during the year were:

- Board succession planning;
- Director' Selection and Diversity Policy;
- performance evaluation of the Chairman and the Chief Executive;
- annual review of the category of each director;
- assessment of directors re-election;
- review of investors' feedback from the 2016 Shareholders' Meeting;
- appointments to the Group subsidiary boards;
- succession planning for the Group Chief Executive, the IAG Management Committee and leadership teams of the Group operating companies; and
- annual performance evaluation planning for the Board and for the Committee.

REMUNERATION COMMITTEE

Name	Position	Type
Dame Marjorie Scardino	Chairman	Independent
Marc Bolland	Member	Independent
Baroness Kingsmill	Member	Independent
María Fernanda Mejía	Member	Independent
Alberto Terol	Member	Independent

% of proprietary directors	–
% of external independent directors	100
% of other non-executive directors	–

Explain the functions attributed to this committee, describe the procedures and rules governing its organization and operation, and summarize the most important steps taken during the year.

a) Rules of organisation and operation

The Remuneration Committee shall be made up of no less than three and no more than five non-executive directors appointed by the Board of Directors, with the dedication, capacity and experience necessary to carry out their function. A majority of the members of the Remuneration Committee shall be independent directors.

The Board shall designate a Remuneration Committee Chairman from among the independent directors of the Remuneration Committee. The Chairman of the Board may not be appointed as Remuneration Committee Chairman. The Secretary of the Board or his or her nominee shall act as secretary to the Remuneration Committee.

The Remuneration Committee shall meet whenever convened by its Chairman, at his or her own initiative, or at the request of two or more of its members and at least twice every year and, in all cases, where the Board requests the issue of reports, the presentation of proposals or the adoption of resolutions within the scope of its functions.

b) Functions

The main functions of the Remuneration Committee include:

A. To propose to the Board the system and amount of the annual remuneration for directors, as well as the individual remuneration of the executive directors and the other terms of their contracts.

B. To report to the Board on the contractual terms on termination for the senior executives, including executive directors, and to ensure that any payments made are fair to the individual and the Company, that failure is not rewarded and the duty to mitigate loss is fully recognised.

C. To report to the Board on the senior executive remuneration policy and the basic terms of their contracts.

D. To report on incentive plans and pension arrangements.

Spanish corporate governance report continued

E. To periodically review the remuneration policy for directors and senior executives, taking into account their suitability and performance and how they reflect and support the Company strategy. When considering the remuneration policy, to review and have regard to the remuneration trends and to pay and employees conditions in the Group. And also to obtain reliable, up-to-date information about remuneration in other companies. To help fulfil its obligations, the Committee shall have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary.

F. To monitor compliance with the Company's remuneration policy.

G. To ensure that the disclosure requirements of the Spanish and the United Kingdom listing rules, any other applicable listing rules, the law or regulation and relevant stock exchanges are fulfilled, including the annual report on directors' remuneration.

H. To ensure that any conflicts of interest do not jeopardise the independence of the external advice provided to the Committee.

I. To verify the information on directors' and executives' remuneration contained in the different corporate documents, including the annual report on directors' remuneration.

c) Steps taken during the year:

The Committee's principal activities during the year were:

- Update on the 2015 Remuneration Directors Report;
- 2015 Annual Incentive Plans pay-outs; and
- Remuneration strategy for 2017.

SAFETY COMMITTEE

Name	Position	Type
Willie Walsh	Chairman	Executive
Antonio Vázquez	Member	Independent
Marc Bolland	Member	Independent
Kieran Poynter	Member	Independent

% of executive directors	25
% of proprietary directors	–
% of external independent directors	75
% of other non-executive directors	–

Explain the functions attributed to this committee, describe the procedures and rules governing its organization and operation, and summarize the most important steps taken during the year.

a) Rules of organisation and operation

The Safety Committee shall be made up of no less than three and no more than five directors appointed by the Board, with the dedication, capacity and experience necessary to carry out its function.

The Board shall designate a Safety Committee Chairman from among the directors of the Safety Committee. The Secretary or his or her nominee shall act as secretary to the Safety Committee.

b) Functions

The main functions of the Safety Committee include:

A. To receive material safety information about the Company and all the Company subsidiaries and any franchise, codeshare or wet-lease provider used by any member of the Group;

B. To exercise a high level overview of the safety activities and resources of the Company and all the Company subsidiaries and inform the Board as appropriate (recognising that responsibility for safety matters relating to each subsidiary falls to that subsidiary through its own resources); and

C. To follow up on any safety related measures as determined by the Board of Directors.

c) Steps taken during the year:

The Committee's key topics discussed during the year were:

- the relevant safety events which occurred during the relevant period;
- regulatory developments and initiatives from industry associations; and
- the regular safety review reports of British Airways, Iberia, Vueling and Aer Lingus.

C.2.2 Complete the following table on the number of female directors on the various board committees at the end of the last four years.

	Number of female directors							
	Year t		Year t-1		Year t-2		Year t-3	
	Number	%	Number	%	Number	%	Number	%
Executive Committee	–	–	–	–	–	–	–	–
Audit Committee	1	20	0	0	0	0	0	0
Nomination and Remuneration Committee	–	–	–	–	–	–	–	–
Nominations Committee	2	40	1	25	1	25	1	25
Remuneration Committee	3	60	3	75	3	75	2	66.67
Safety Committee	0	0	0	0	0	0	0	0

C.2.3 Section eliminated.

C.2.4 Section eliminated.

C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.

The Board committees are governed by the provisions of the Bylaws and the Board Regulations (article 29 of the Board Regulations for the Audit and Compliance Committee, article 30 for the Nominations Committee, article 31 for the Remuneration Committee and article 32 for the Safety Committee). Where no specific provision is made, the Board committees shall be governed, by analogy and where applicable, by the provisions applicable to the Board of the Company.

The Bylaws and the Board Regulations are available on the Company's website: www.iairgroup.com.

AUDIT AND COMPLIANCE COMMITTEE

The Audit and Compliance Committee prepares an annual report on its activities, which is available on the Company's website within the Annual Report and Accounts.

NOMINATIONS COMMITTEE

The Nominations Committee prepares an annual report on its activities, which is available on the Company's website within the Annual Report and Accounts.

REMUNERATION COMMITTEE

The Remuneration Committee prepares an annual report on its activities, which is available on the Company's website within the Annual Report and Accounts.

SAFETY COMMITTEE

The Safety Committee prepares an annual report on its activities, which is available on the Company's website within the Annual Report and Accounts.

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C.2.6 Section eliminated.

D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Explain, if applicable, the procedures for approving related-party or intragroup transactions.

Competent body

In accordance with article 3.4 of the Board Regulations, the Board of Directors has the exclusive authority to approve transactions that the Company or companies in its Group entered into with directors, or shareholders that have a significant holding or that are represented by the Board of Directors or with any persons related to them.

Procedures for reporting on the approval related-party transactions

The performance by the Company or the companies in the Group of any transaction with directors, with shareholders that have a shareholding equal to or greater than that legally considered significant from time to time or who have proposed the nomination of any Company directors, or with their respective related parties, shall be subject to authorisation from the Board of Directors, following a report by the Audit and Compliance Committee.

The Audit and Compliance Committee has, among other powers, the obligation to report on related transactions or on transactions that entail or may entail a conflict of interest. The Audit and Compliance Committee ensures that transactions between the Company or the companies forming part of the Group with the directors, the shareholders referred to in the preceding paragraph or their respective related persons are carried out under arm's length conditions and with due observance of the principle of equal treatment of shareholders.

Where the transactions fall within the ordinary course of business and are customary or recurring in nature, it is sufficient with the prior general authorisation of the line of operations and its general terms and conditions by the Board, following a report by the Audit and Compliance Committee.

However, no authorisation of the Board of Directors is required for those transactions that simultaneously satisfy the following three conditions: (i) that they are performed by virtue of contracts with standard conditions that are applied en masse to a high number of customers; (ii) that they are performed at prices or rates generally established by the party acting as supplier of the good or service in question; and (iii) that the amount does not exceed one per cent of the annual consolidated income of the Group.

The authorisation must be endorsed by the Shareholders' Meeting in the cases established in law and, in particular, where it concerns a transaction with a director valued at more than 10 per cent of corporate assets.

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

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders.

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (in thousands of euros)
BlackRock Inc.	BlackRock Investment Management (UK) Ltd.	Commercial	Interest received	2,330
BlackRock Inc.	BlackRock Investment Management (UK) Ltd.	Commercial	Other	189,436
Qatar Airways (Q.C.S.C.)	Qatar Airways (Q.C.S.C.)	Commercial	Services rendered	38,689
Qatar Airways (Q.C.S.C.)	Qatar Airways (Q.C.S.C.)	Commercial	Reception of services	59,978

D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors.

Name or corporate name of director or senior manger	Name or corporate name of related party	Connection	Relationship	Amount (in thousands of euros)
–	–		–	–

D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens.

Corporate name of the group company	Brief description of the transaction	Amount (in thousands of euros)
–	–	–

D.5 Indicate the amount involved in other related-party transactions.

51,395 thousand of euros.

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

The Board of Directors has the exclusive authority to consider those matters deriving from the duty of loyalty in accordance with the provisions of the law, including actual or potential conflicts of interest involving directors.

As established in article 20 of the Board Regulations, directors shall adopt the required measures to avoid becoming subject to conflicts of interest in accordance with the provisions of the law.

Directors must notify the Board, through the Chairman or the Secretary or Deputy Secretary, of any conflict of interest to which they may be subject.

In case of conflict, the affected director will not participate in the deliberation and voting on any such matters and shall be excluded from the number of members in attendance for the purposes of calculating the quorum and voting majorities. In particular, any director affected by proposals for appointment, reelection or dismissal shall refrain from taking part in the discussions and voting in respect of such matters.

In a conflict of interest situation, independent directors and other directors who are not affected by the potential conflict of interest need to ensure that the Company's interests prevail in such situations, provided that this does not result in any unlawful damage to any shareholder or third party affected thereby.

The Company provides information, as required by the law, on any conflict of interest to which the directors have been subject during the year.

In addition, in accordance with article 33.4 of the Board Regulations, all public requests for delegation of voting powers made in favour of any director shall disclose, where applicable, the existence of a conflict of interest, and shall provide detailed reasons for the direction in which the representative shall vote in the event that no instructions are given by the shareholder, subject always to the provisions of applicable law.

The existing procedures regarding related party transactions have been described in section D.1.

D.7 Is more than one group company listed in Spain?

No

Identify the listed subsidiaries in Spain

Listed subsidiaries
–

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;

No

Business dealings between the parent and listed subsidiary, as well as between the subsidiary and other group companies
–

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies.

Mechanisms to resolve possible conflicts of interest
–

E. RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Describe the company's risk management system, including tax risks.

The Group has an Enterprise Risk Management Policy approved by the IAG Board of Directors. This Policy establishes a common framework within the Group to manage and control the financial and non-financial risks the Group is exposed to, establishing the risk level that is considered acceptable.

The IAG Board has ultimate responsibility for risk management and internal control, including the determination of the nature and extent of the principal risks it is willing to take to achieve its strategic objectives.

The Audit and Compliance Committee reviews all enterprise risk management matters on behalf of the Board. This includes a six monthly IAG risk map review containing a robust assessment of the principal risks facing the Group and how these risks are managed or mitigated to reduce their incidence or their impact. The Audit and Compliance Committee also carries out deep dives on selected risks as and when requested. During such reviews the requirement for any changes to the Board's risk appetite is considered. The Audit and Compliance Committee also monitors and reviews the risk management framework, satisfying itself that it is functioning effectively and that corrective action is being taken where necessary.

Within this common framework, Enterprise Risk Management is led by the Management Committee of IAG supported by the Aer Lingus, Avios, British Airways, IAG Cargo, Iberia and Vueling Management Committees.

Enterprise risk management

There is a comprehensive risk management process and methodology ensuring a robust assessment of the principal risks facing the Group. All the operating companies have well established enterprise risk management systems that ensure that:

a. Each risk is owned by a Senior Manager who is ultimately responsible for its management;

b. All operating companies' risks are discussed with the IAG risk management team.

c. A central record is kept of all risks, their owners and mitigating actions in all of the operating companies.

d. A risk map representing the likelihood and potential impact of each risk is reviewed at least every six months by the respective management committees;

e. There are defined procedures for updating risks and the mitigating actions in place to manage those risks; and

f. There is active participation from both the Senior Managers managing the risks and the management committees.

Risks are classified by their source in:

a. Strategic: risks arising from the competitive and regulatory environment, major projects and strategic decisions;

b. Business and operational: risks encompassing emergencies, information technology operations, major project implementation and airline operations;

c. Financial: risks including liquidity and financing;

d. Compliance and regulatory: risks associated with compliance with laws and regulation.

Enterprise risk management in the Company

At the Group level, material risks from the airlines, together with Group wide risks, are maintained in a Group risk map. The IAG Management Committee reviews the Group risk map twice a year in advance of reviews by the Audit and Compliance Committee. The IAG Board also discusses risks at a number of meetings, including a specific annual review of the Group's risk map and risk appetite as well as in the context of discussions around strategy and the business plan.

Tax risk

Tax risk is explicitly included within the Group's Enterprise Risk Management Policy. Tax risk is owned by the IAG Head of Tax and is reported, as part of the overall risk review, to the IAG Management Committee and Audit and Compliance Committee twice a year. Tax risk is mitigated by an IAG Tax Policy which considers engagement between the tax department and the business; compliance with tax obligations; tax planning; reputation; and transparency.

E.2 Identify the bodies responsible for preparing and implementing the risk management system, including tax risks.

The IAG Board has ultimate responsibility for risk management and internal control, including for the determination of the nature and extent of the principal risks it is willing to take to achieve its strategic objectives.

The IAG Audit and Compliance Committee reviews all Enterprise Risk Management matters on behalf of the IAG Board.

The management committees of Aer Lingus, Avios, British Airways, IAG Cargo, Iberia and Vueling review their respective risk maps.

The Group Treasury Committee manages fuel and foreign exchange risk within the Financial Risk Management Policy approved by the IAG Board. The IAG Tax Department manages tax risk.

E.3 Indicate the main risks, including tax risks, which may prevent the company from achieving its targets.

The main risks classified by their source are listed below:

Strategic

a. Airports

b. Brand reputation

c. Competition

d. Consolidation and deregulation

e. Digital disruption

f. Government intervention

Business and operational

a. Cyber attack

b. Economic conditions

c. Employee relations

d. Event causing significant network disruption

e. Failure of a critical IT system

f. Landing fees and security charges

g. Pandemic

h. Safety/security incident

Financial

a. Debt funding

b. Financial risk

c. Tax

Compliance and regulatory

a. Group governance structure

b. Non-compliance with competition, anti-bribery and corruption law

E.4 Identify whether the company has a risk tolerance level, including tax risks.

IAG has developed 19 risk appetite statements. These statements inform the business, either qualitatively or quantitatively, on the Board's appetite for certain risks. Each risk appetite statement formalised how performance is monitored either on a Group wide basis or within major projects.. Risk tolerance is also considered, but not necessarily quantified, in assessing the risk of new projects when presented to the IAG Board for approval.

E.5 Identify any risks, including tax risks, which have occurred during the year.

Risk that occurred during the fiscal year	Circumstances giving rise thereto	Performance of control systems
UK referendum on EU membership	The vote to leave in June 2016 resulted in increased volatility in fuel and foreign exchange rates.	The IAG Board and the Management Committee review the financial outlook and business performance of the Group through the financial planning process and regular reforecasts.
Network disruption	In 2016 the Group was impacted by air traffic controller strikes resulting in disruption to our operations with delays and cancellations and increased costs under EU261/04 directive.	Management have reviewed their business continuity plans. The impact of the industrial action in Vueling resulted in additional depth being built into the management team to increase resilience against any similar strike action or external network disruption.

E.6 Explain the response and monitoring plans for the main risks, including tax risks, the company is exposed to.

Main risk	Response and Monitoring Plans
Airports	The Group's airlines participate in the slot trading market at Heathrow airport; acquiring slots at reasonable prices when available. The Group continues to promote an efficient, cost-effective, ready to use and fit for purpose infrastructure development at the Heathrow airport. 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. Plans to address capacity issues are reviewed by the IAG Management Committee. Supplier performance risks are mitigated by active supplier management and contingency plans.
Brand reputation	Each of our brands is supported by the Group Business Plan, where capital expenditure is reviewed and approved by the Board. The Group allocates substantial resources to safety, operational integrity and new aircraft to maintain its market position. We are also investing in a number of products and facilities to improve our customer experience.
Competition	The IAG Management Committee devotes one weekly meeting per month to strategic issues. The Board discusses strategy throughout the year and dedicates two days per year to review the Group's strategic plans. The Group strategy team supports the Management Committee by identifying where resources can be devoted to exploit profitable opportunities. The airline's revenue management departments and systems optimise market share and yield through pricing and inventory management activity. 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. The Group is continually reviewing its product offerings and responds through initiatives to improve the customer experience. IAG plans to set up a next generation longhaul operation in Barcelona.
Consolidation and deregulation	The Group maintains rigorous cost control and targeted product investment to remain competitive. The Group has the flexibility to react to market opportunities arising from weakened competitors. Vueling and Iberia Express give us additional flexibility in this regard as they can deploy capacity at short notice across Europe. The IAG Management Committee regularly reviews the commercial performance of joint business agreements. In 2016, the IAG Management Committee continued to review the joint business arrangements with American Airlines with respect to the inclusion of Aer Lingus. The IAG Management Committee regularly reviews our franchisee performance and risks. Maintaining a leading presence in **one**world and ensuring the alliance attracts and retains the right members is key to ongoing development of the network.
Digital disruption	The Group's focus on the customer experience, together with our own exploitation of digital technology, reduces the impact digital disruptors can have.

Main risk	Response and Monitoring Plans
Government intervention	The Group's government affairs department monitors government initiatives, represents our point of view and forecasts likely changes to laws and regulations. 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 policy such as the imposition of Air Passenger Duty (APD).
Cyber attack	A Group Cyber Security Governance Board reviews the Group IT security strategy, cyber risk initiatives and considers advice from industry experts. The IAG Management Committee regularly reviews cyber risk and supports Group wide initiatives to enhance defences and response plans. Whilst ensuring that we are up to date with industry standards and address identified weaknesses, the fast moving nature of this risk means that we will always retain a level of vulnerability.
Economic conditions	The IAG Board and the Management Committee review the financial outlook and business performance of the Group through the financial planning process and regular reforecasts. These reviews are used to drive the Group's financial performance through the management of capacity and the deployment of that capacity in geographic markets, together with cost control, including management of capital expenditure and the reduction of operational and financial leverage. External economic outlook, fuel prices, and exchange rates are carefully considered when developing strategy and plans and are regularly reviewed by the Board and IAG Management Committee as part of the monitoring of financial and business performance.
Employee relations	Human resource departments within the operating companies engage in collective bargaining with the many trade unions representing our staff.
Event causing significant network disruption	Management has business continuity plans to mitigate this risk to the extent feasible. In 2016 the Group was impacted by air traffic controller strikes resulting in disruption to our operations with delays and cancellations and increased costs under Regulation EU261/04. The impact of the industrial action in Europe on Vueling resulted in additional depth being built into the management team to increase resilience against any similar strike action or external network disruption.
Failure of a critical IT system	System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.
Landing fees and security charges	The Group engages in regulatory reviews of supplier pricing, such as the UK Civil Aviation Authority's periodical review of charges at Heathrow and Gatwick airports. Also, the Group is active both at an EU policy-level and in consultations with airports covered by the EU Airport Charges Directive.
Pandemic	Management has business continuity plans to mitigate this risk to the extent feasible.
Safety/security incident	The corresponding safety committees of each of the airlines of the Group satisfy themselves that they have appropriate resources and procedures, which include compliance with Air Operator Certificate requirements. Their incident centres respond in a structured way in the event of a safety or security incident.
Debt funding	The IAG Management Committee regularly reviews the Group's financial position and financing strategy. The Group continues to have good access to a range of financing solutions. In 2016, British Airways, Iberia and Vueling all raised secured debt from a broad range of financial institutions. The Group's high cash balances and committed financing facilities mitigate the risk of short-term interruptions to the aircraft financing market.

Main risk	Response and Monitoring Plans
Financial risk	Fuel price risk is partially hedged through the purchase of oil derivatives in forward markets which can generate a profit or a loss. The objective of the hedging programme is to increase the predictability of cash flows and profitability. The IAG Management Committee regularly reviews its fuel and currency positions. The results of these are discussed with management and the appropriate hedging action taken. The Group seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency and actively managing the surplus or shortfall through treasury hedging operations. When there are delays in the repatriation of cash coupled with the risk of devaluation, risk is mitigated by the review of commercial policy for the route. This may involve capacity reductions and rebalancing the point of sale away from the local market towards the airline's home market and renegotiating supplier contracts to allow payment in local currencies. The impact of rising interest rates is mitigated through structuring selected new debt and lease deals at fixed rate throughout their term.
Tax	The Group seeks to comply with the law, act with integrity in all tax matters and maintain an open relationship with regulators. The Group complies with the tax policy approved by the IAG Board. Tax risk is managed by the IAG tax department and reviewed by the IAG Management Committee.
Group governance structure	The governance structure continued to work well in 2016. We will continue to engage with the relevant regulatory bodies as appropriate regarding the Group structure.
Non-compliance by an individual or group of individuals with Competition, Anti-Bribery and Corruption Law	The Group has comprehensive policies designed to ensure compliance together with mandatory training programmes in place to educate employees in these matters.

F. INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the company.

F.1 The entity's control environment

F.1.1 The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

The IAG Board Regulations determine that the Board of Directors is responsible for control policy and periodic monitoring of internal information and control systems.

This control policy and monitoring is designed to produce reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorised use or disposition and the maintenance of proper accounting records and the reliability of financial information used throughout the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable but not absolute assurance against material misstatement, errors, losses or fraud.

Board of Directors

The Board of Directors is ultimately responsible for the supervision of the existence and effectiveness of Internal Control over Financial Reporting ("**ICFR**"). The Board of Directors has delegated the responsibility for the development of effective controls to the Chief Executive and the supervision of the effectiveness of these controls to the Audit and Compliance Committee. The Chief Executive has issued an ICFR policy which requires the IAG Finance Committee to oversee ICFR throughout the Group and delegates responsibility to the relevant Group Operating Company Chief Financial Officers.

Audit and Compliance Committee

The duties of the Audit and Compliance Committee are set out in section C.2.1 of this report. These duties include among others:

a. Review significant reporting judgements contained in the financial statements of the Group;

b. Monitor the functioning of the internal financial control manuals and procedures adopted by the Company, to verify compliance with them and review the designation and replacement of the persons responsible for them; and

c. Supervise the effectiveness of the internal control of the Company, the internal auditing, and the risk management systems, and to discuss with the auditors or audit firm any significant weaknesses in the internal control systems detected in the course of the audit.

Audit and Compliance Committee members are appointed based on their knowledge and experience of accounting, auditing, and risk management matters. They regularly receive updates on developments and regulatory changes in these areas. The Audit and Compliance Committee also receives regular updates on the Group's ICFR status.

Finance Committee

The IAG Finance Committee sits quarterly and is chaired by the IAG Chief Financial Officer and comprises the IAG Head of Group Financial Reporting, and the Aer Lingus, Avios, British Airways, Iberia, Vueling, and IAG Cargo Chief Financial Officers. The Committee supports senior management and the Audit and Compliance Committee by carrying out the following duties related to ICFR:

a. Maintain and approve the IAG ICFR policy including delegation of ICFR process ownership to subsidiary chief financial officers and, where appropriate, to process owners;

b. Review complex or judgemental accounting issues in the quarterly reports, emerging accounting issues, preparation for implementation of new accounting standards and issues raised by the external auditors;

c. Own the Group Accounting Policies and approve any changes thereto; and

d. Coordinate and monitor ICFR framework implementation and maintenance.

F.1.2 The existence or otherwise of the following components, especially in connection with the financial reporting process:

- The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company.
- Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.
- 'Whistle-blowing' channel, for the reporting to the Audit Committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.
- Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.

The Board is responsible for designating the Company's Chief Executive, approval of the appointment or removal of individuals to or from the boards of directors of the principal subsidiaries of the Group and the appointment of their chairmen and chief executives. The Board is also responsible for decisions concerning the appointment and removal of the Company's senior executives. Significant changes to the organisation structure are reviewed and approved by the IAG Management Committee.

The authorised structure, including job descriptions defining staff responsibilities, is ultimately controlled by the Chief Executive and delegated to the chief executive officers of Aer Lingus, Avios, British Airways, Iberia, and Vueling. The authorised structure of the Company, Aer Lingus, British Airways, Iberia and Vueling is updated and reviewed on an ad hoc basis. In British Airways, Iberia and Vueling it is published on the respective intranet of each company. In Aer Lingus it is available from the Company Secretary.

The "Way of Business" Group instruction sets out standards of conduct expected of staff and the support that will be available to the staff from the IAG Management Committee in maintaining the expected level of conduct. The document is approved by the Board and disseminated by the Management Committee. The Group instruction, "Way of Business", is cascaded down into Aer Lingus, Avios, British Airways, Iberia and Vueling through local policies available on the intranet of each company.

Minor breaches of the Codes of Conduct are investigated by line managers, and disciplinary action is in accordance with the employment policies and standards applicable to the individual. Major breaches are investigated by the responsible business area within each operating company.

Under the IAG ICFR policy the IAG Chief Executive delegates responsibility for ICFR to the IAG Chief Financial Officer with a requirement that the chief financial officers of material subsidiaries fully support the IAG Chief Financial Officer. Chief financial officers are expected to delegate responsibility for ICFR for defined processes to named senior managers within their own organisations. The Group Accounting Manual provides guidance on financial reporting.

The Company established a Spanish Criminal Code Framework Steering Group in 2015 to ensure each significant Spanish legal entity has in place an effective Criminal Risk Prevention Model, in response to the reform of the Organic Law 10/1995. Several key activities were completed as part of the implementation of the Criminal Risk Prevention Model including the identification and risk assessment of activities, processes, sub-processes and controls, gap analysis and the creation or adjustment of manuals, procedures and controls. The Iberia, Iberia Express and Vueling Criminal Risk Prevention Models were approved by their respective boards in 2016, and each entity has in place a Compliance Committee responsible for the implementation, oversight, monitoring and verification of the six elements of the Criminal Risk Prevention Model.

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.

All IAG staff have an individual development plan which identifies their technical and/or professional skills training requirements. Achievement of this training plan is monitored twice a year. Basic finance training is delivered through eLearning modules or classroom based, depending on the Operating Company. Specific training on airline finance basics and interpreting the Company accounts is available.

IAG and British Airways offer study leave, financial support and appropriate work experience to staff studying for accounting qualifications, including the Institute of Chartered Accountants, in England and Wales, the Chartered Institute of Management Accountants, and the Association of Chartered Certified Accountants.

Company finance staff received an average of two days training in 2016. Members of the IAG Internal Audit team have received on average one day of ICFR training.

F.2 Risk assessment in financial reporting

Report at least:

F.2.1 The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

- The process exists and is documented.
- The process covers all financial reporting objectives (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.
- A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies.
- The process addresses other types of risk (operational, technological, financial, legal, tax, reputational, environmental, etc.) insofar as they may affect the financial statements.
- Which of the company's governing bodies is responsible for overseeing the process.

The Group's Enterprise Risk Management (ERM) process assesses and identifies key risks and controls. The key risks are categorised into strategic, business and operational, financial, compliance and regulatory, and tax. Therefore, part of the ERM process is the identification of financial risks. In compiling these risks and mitigating actions, a close relationship is established between the ERM team and the finance functions. This involves the finance function feeding into the ERM process, and reviewing the output of the process to ensure that the impact of emerging risks is properly captured within the Financial Statements.

The process for addressing all risks covered by the ERM system is explained in detail in section E. The process addresses other types of risk that may affect the reporting information.

The financial risk assessment is the responsibility of the IAG Finance Committee and is updated and documented annually. The assessment provides management with a mechanism for the identification of risks and associated controls relevant to the preparation of the financial report. The risk assessment has two main elements, both of which are reviewed annually by the IAG Finance Committee:

a. A high level assessment of key risks to the financial statements focusing on judgemental areas and those susceptible to error; and
b. Identification of the key underlying business processes through a quantitative and qualitative risk assessment of the financial statements of material subsidiaries. The results of this process are set out in section E.3 and include all financial reporting objectives.

The Internal Control team, which reports to IAG Group Head of Financial Integration, reviews financial process and control documentation across the Group, and supports process owners to ensure they have designed effective controls.

The risk assessment process identifies the key underlying business processes, and covers financial reporting objectives. The risk assessment process is updated and documented on an annual basis. The Group Instructions include an Anti-Fraud Policy which is cascaded to the operating companies.

Fraud risk at the Company level is most significant in individual projects, generally acquisitions and disposals. This fraud risk is managed through the individual projects which are staffed with senior professionals from appropriate departments, including finance, and third party advisors from leading law firms. As the Company, is a holding company with no commercial transactions outside individual projects, the risk of a significant fraud in the day to day transactions of the Company is reduced.

A consolidation system is used at the Company and changes are determined based on developments in the corporate structure during the year. The Company, Aer Lingus, Avios, British Airways, Iberia and Vueling maintain consolidation hierarchies in their respective consolidation systems. These hierarchies are subject to access and change controls to ensure their continued integrity. Transactions or Group developments that require new Group companies to be formed or acquired are considered at the IAG Finance Committee, so that the hierarchies can be updated.

The scope of the consolidation is addressed in two ways. Firstly the establishment of any Special Purpose Vehicles (SPVs) will be approved by the IAG Audit and Compliance Committee. This committee will confirm the requirement for the SPV, its governance and how it will be accounted for. Secondly, the determination of which entities will be consolidated is considered at the Company, Aer Lingus, British Airways, Iberia group levels. The consolidation hierarchy is reviewed when changes in ownership structure arise, and new entities are incorporated/acquired. Any changes to the consolidation scope are presented and discussed at the Finance Committee and Audit and Compliance Committee meetings.

The Board of Directors has ultimate responsibility for risk management and internal control, including determination of the nature and extent of the principal risks it is willing to take to achieve its strategic objectives.

F.3 Control activities

Indicate the existence of at least the following components, and specify their main characteristics:

F.3.1 Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

The IAG Management Committee reviews the financial performance of the Group on a monthly basis. This review examines the previous month's performance, the forecast for the following quarter and the forecast for the full year against the finance plan and the prior year. Movements in key performance indicators such as unit revenue and unit cost statistics are analysed together with the impact of foreign exchange and fuel commodity costs. The analysis is carried out on the Group's main operating companies, Aer Lingus, Avios, British Airways, Iberia, and Vueling. Consistency of these management accounts with the published quarterly Group accounts leads to a high degree of confidence in the integrity of the published accounts.

The quarterly consolidation process is managed to a pre-agreed timetable and includes reviews and sign offs at key stages in the process. Within each operating company, the finance and accounting departments consolidate, review and approve the financial information. The consolidated financial information is reviewed by the Chief Financial Officer of each operating company, prior to submission to IAG. These reviews will ensure that all material business risks have been properly recorded in the financial statements, confirm the accounting treatment of judgemental areas and ensure the proper application of new accounting standards and guidance notes.

Spanish corporate governance report continued

The Company consolidation process involves a critical review of Aer Lingus, Avios, British Airways, Iberia and Vueling group submissions. For specialist areas, such as treasury, consolidated information is reviewed by subject specialists to identify anomalies, inconsistencies with management accounting information, and any inconsistent interpretation of instructions within the Group. The final accounts are reviewed by the Group Head of Reporting together with the Chief Financial Officer. A peer review is also carried out by an experienced finance manager that has not been involved in the latter stages of the consolidation process.

Critical judgements, estimates, evaluations and projections are, as far as possible reviewed in advance of the year-end close process. Where appropriate, management obtains the support of internal or external specialists to conclude on any of these matters.

The scope of ICFR in the Group has been based on the material subsidiaries being Aer Lingus, Avios, British Airways, Iberia and Vueling. The scope of ICFR also includes the Company for Entity Level Controls and the Financial Statement Consolidation Process. The Group ICFR model contains a Finance Risk & Control Matrix that includes entity level controls, IT general controls and 19 main business processes considered relevant to the preparation of the financial statements. The controls and processes are listed below.

a. Cargo Sales
b. Payroll
c. Passenger Sales – Ticket Sales
d. Passenger Sales – Travel
e. Passenger Sales – Billing/Interline Billing
f. Fixed Assets – Aircraft
g. Fixed Assets – Ground Assets
h. Fixed Assets – Engines and Engine Parts
i. Fixed & Current Asset Inventory – Engineering
j. Debtors & Invoicing
k. Fuel
l. Buying Goods and Services
m. User charges
n. Avios
o. Treasury
p. Financial Statement Closing Process
q. Alliance Partner Arrangements
r. Tax
s. Other Revenue

The design, implementation and maintenance of appropriate systems of ICFR is primarily the responsibility of management with process ownership identified and communicated to the operating companies via the IAG ICFR Policy. Business process owners with the support of the Internal Control team, are also responsible for the documentation of processes and sub processes.

ICFR controls including 587 key controls have been defined across the 19 business processes and IT general controls in order to provide reasonable assurance as to the reliability of the financial information disclosed to the markets. Such controls can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud. As a result of differences in business processes across the material subsidiaries not all controls are required in all material subsidiaries.

F.3.2 Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

The Company has established the Baseline Information Security Standard which applies to all operating companies within the Group. IAG GBS Group IT Security is responsible for leading, managing and coordinating the dissemination and implementation of information security practice within IAG. Information is protected based on its value, confidentiality, criticality to the company, and the risk of loss or compromise.

The Standard requires that all personnel working for the Group shall be organised in such a way as to minimise the risk of unauthorised changes to information, error, theft or fraud. No personnel shall be allowed to both instigate an action and to approve that action.

IAG Global Business Services (GBS) manage and support IT systems for British Airways and Iberia. IT systems used by Vueling, Avios and Aer Lingus are managed by those operating companies in accordance with the IAG Information Security Standard which is grouped under the following areas:

a. Organisation of Information Security
b. Information Security Awareness and Training
c. Risk Management
d. Segregation of Duties
e. Access Control and Privilege Management
f. Physical Security
g. Password Management
h. Logging and Monitoring
i. Network and Infrastructure
j. Security Patching and Virus Protection
k. System Developments and Change Management
l. Systems and Security Operations
m. Compliance

The Group IT General Controls (ITGCs) are aligned with the IAG Information Security Standard. There are 21 key and 16 non-key ITGCs supporting the financial reporting processes.

All systems used by the Group including those related to financial reporting must comply with the IAG Information Security Standard as it provides clear direction concerning expectations for internal controls that are required to cover the inherent risks over the following four IT system management areas:

a. IT environment
    I. The IT organisational structure and description of responsibilities
    II. IT systems architecture and infrastructure
    III. Environmental protection against physical damage, loss, theft, or abuse of IT systems and equipment
b. Secure access
    I. Access to system is managed via clear segregation of duties
    II. Application owners are responsible to keep their systems free of unauthorised and inappropriate users and access
    III. Users will only have access to data and functionality required to carry out the tasks assigned to them by the Group
    IV. Logical access controls include procedures for adding, changing and deleting users
    V. Restriction of privileged access rights to application support teams
    VI. Requirement to have personalised credentials for each user accessing the application
    VII. Password settings are configured appropriate to prevent unauthorized access to systems
    VIII. Physical access control including restricting access to computer facilities to authorised individuals

c. System Development and Change Management
   I. Control of changes
   II. Approval and authorisation of changes
   III. Testing of changes
   IV. Release management

d. Systems Operations
   I. Management of back-up files
   II. Incident and problem management
   III. Management of data interfaces and exchange
   IV. Management of external partners and third parties
   V. Disaster contingency and recovery plans for IT systems

F.3.3 Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

For all outsourced processes, Service Level Agreements (SLA) are defined, agreed and signed in the contract with the vendor. As part of the Global Business Service Project British Airways, Iberia, Avios and Cargo have outsourced financial process support to Accenture. Finance staff maintain a quarterly or half yearly review of outsourced accounts and reconciliations as well as ongoing monitoring of the operational status of outsourced processes.

When the Group outsources relevant processes for the preparation of financial information to an independent expert, it ensures the professional's technical and legal competence. The Group has identified five processes outsourced to independent experts relevant to financial reporting.

a. British Airways outsources the derivation of pension scheme valuation and accounting, the proposed accounting treatment is subject to review and challenge by an in-house qualified accountant and pension risk management expert;
b. Iberia values the obligations to employees and restructuring plan costs by actuarial studies made by independent experts;
c. Vueling outsources the valuation of financial instruments and the effectiveness testing of derivatives;
d. The Group outsources the valuation of assets and liabilities as a part of business combinations;
e. IAG outsources the calculation of the fair values of share based payment plans; and
f. Aer Lingus outsources the valuation of pension scheme assets and liabilities.

F.4 Information and communication

Indicate the existence of at least the following components, and specify their main characteristics:

F.4.1 A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the company's operating units.

Company accounting policies are maintained by the Group Reporting department, which updates and issues the Group Accounting Policy Manual.

On a quarterly basis, if applicable, new accounting standards and their impact are presented in the Audit and Compliance Committee.

F.4.2 Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

The Group Financial Reporting Department issues reporting instructions at each quarter end.

These instructions establish a timetable for key closing activities such as agreeing intragroup balances, submitting the main accounting results and detailed disclosures. Assumptions to be used for accounting tests such as Weighted Average Cost of Capital and percentage sensitivities on derivative transactions are determined centrally and included in the instructions. The format of information to be submitted and the entities expected to submit the information is determined within the consolidation system which includes validation tests for completeness and internal consistency.

Disclosures relating to ICFR are validated by senior accounting professionals identified by the Chief Financial Officers of IAG, Aer Lingus, Avios, British Airways, Iberia, and Vueling.

F.5 Monitoring of the system operation

Indicate the existence of at least the following components, describing their main characteristics:

F.5.1 The ICFR monitoring activities undertaken by the Audit Committee and an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information

The IAG Audit and Compliance Committee reviews all disclosures relating to ICFR and validates the Group's approach to complying with the CNMV's ICFR recommendations. In this respect the Audit and Compliance Committee has been careful to achieve an appropriate balance between the CNMV's ICFR recommendations and the UK Corporate Governance Code approach.

The Group's ICFR includes the Company, Aer Lingus, Avios, British Airways, Iberia, and Vueling and covers processes performed by IAG GBS and IAG Cargo on behalf of the operating companies. The Audit and Compliance Committee is supported by the Internal Audit department.

The Internal Audit Department adopts a risk based approach to planning which incorporates financial risk factors. The results of audits are discussed at the Aer Lingus, Avios, British Airways, Iberia and Vueling Boards of Directors or Management Committees, and the IAG Audit and Compliance Committee. The implementation of actions to address weaknesses identified by Internal Audit are tracked and follow up audits carried out whenever the overall rating of the original audit was judged to be "deficient" or "seriously deficient" or a "material weakness" in an internal control over financial reporting.

ICFR 2016 Scope

Entity Level Controls, ITGC's, and 19 business processes have been identified as having a major impact on financial reporting for 2016. There are nine processes in scope for Aer Lingus, one process in scope for Avios, 18 processes in scope for British Airways, 15 processes in scope for Iberia, five processes in scope for Vueling.

Across the entities and business processes identified, the 587 key controls are broken down into 482 business process key controls and 105 key IT general controls.

All in scope processes and key ITGCs have been tested. No material weaknesses were detected. A total of 12 substantial weaknesses and 133 weaknesses were detected. Action plans were put in place with process owners to address each of these internal control weaknesses and will be tracked by Internal Audit.

F.5.2 A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its Audit Committee or Board of Directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

The Company's external auditors attend the Audit and Compliance Committee meetings and report on significant control weaknesses identified during their work. No significant control weaknesses were identified by the external auditors in 2016.

The Head of Group Audit attends the Audit and Compliance Committee meetings and submits his report directly to the Committee. The Head of Group Audit reports functionally to the Chairman of the Audit and Compliance Committee. The implementation of Internal Audit recommendations is tracked by the Audit and Compliance Committee.

F.6 Other relevant information

None.

F.7 External auditor review

State whether:

F.7.1 The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The ICFR information supplied to the market has been reviewed by the external auditors, and their auditor report is at the end of this Annual Corporate Governance Report.

G. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the company's compliance with the recommendations of the Good Governance Code of Listed Companies.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

1. The Bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Explain

IAG considers that it does not comply with this recommendation because of the restrictions included in the Bylaws of the Company in relation to the ownership of shares. This is a partial non-compliance because these restrictions derive directly from the ownership and control restrictions set out in the applicable law or in the bilateral air transport treaties signed by Spain and the United Kingdom and are not simply determined discretionarily by the Company.

2. When a dominant and subsidiary company are both listed, they should provide detailed disclosure on:
   a) The type of activity they engage in and any business dealings between them, as well as between the listed subsidiary and other group companies;
   b) The mechanisms in place to resolve possible conflicts of interest.

Not applicable

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:
   a) Changes taking place since the previous annual general meeting.
   b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Complies

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

   This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Complies

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20 per cent of capital at the time of such delegation.

   When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Complies

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:
   a) Report on auditor independence.
   b) Reviews of the operation of the audit committee and the nomination and remuneration committee.
   c) Audit committee report on third-party transactions.
   d) Report on corporate social responsibility policy.

Complies

7. The company should broadcast its general meetings live on the corporate website.

Complies

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Complies

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

   Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Complies

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:
    a) Immediately circulate the supplementary items and new proposals.
    b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.
    c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.
    d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Not applicable

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Not applicable

12. The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

    In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Complies

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Complies

Spanish corporate governance report continued

14. The board of directors should approve a director selection policy that:
    a) Is concrete and verifiable;
    b) Ensures that appointment or reelection proposals are based on a prior analysis of the board's needs; and
    c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Complies

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Complies

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.
b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Complies

17. Independent directors should be at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.

Complies

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:
    a) Background and professional experience.
    b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.
    c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.
    d) Dates of their first appointment as a board member and subsequent re-elections.
    e) Shares held in the company, and any options on the same.

Complies

19. Following verification by the nomination committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Not applicable

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latters' number should be reduced accordingly.

Complies

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the nomination committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

Complies

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Complies

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Complies

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Complies

25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors regulations should lay down the maximum number of company boards on which directors can serve.

Complies

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Complies

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

Complies

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

Complies

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Complies

Spanish corporate governance report continued

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Complies

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Complies

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Complies

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Complies

34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

Not applicable

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Complies

36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:
    a) The quality and efficiency of the board's operation.
    b) The performance and membership of its committees.
    c) The diversity of board membership and competences.
    d) The performance of the chairman of the board of directors and the company's chief executive.
    e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nomination committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Complies

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.

Not applicable

38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

Not applicable

39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

Complies

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Complies

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Complies

42. The audit committee should have the following functions over and above those legally assigned:
    1. With respect to internal control and reporting systems:
        a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.
        b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.
        c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.
    2. With regard to the external auditor:
        a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.
        b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.
        c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
        d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.
        e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Complies

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Complies

45. Risk control and management policy should identify at least:
    - a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other offbalance-sheet risks.
    - b) The determination of the risk level the company sees as acceptable.
    - c) The measures in place to mitigate the impact of identified risk events should they occur.
    - d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and offbalance-sheet risks.

Complies

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:
    - a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.
    - b) Participate actively in the preparation of risk strategies and in key decisions about their management.
    - c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Complies

47. Appointees to the nomination and remuneration committee – or of the nomination committee and remuneration committee, if separately constituted – should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Complies

48. Large cap companies should operate separately constituted nomination and remuneration committees.

Complies

49. The nomination committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the nomination committee to propose candidates that it might consider suitable.

Complies

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:
    - a) Propose to the board the standard conditions for senior officer contracts.
    - b) Monitor compliance with the remuneration policy set by the company.
    - c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.
    - d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.
    - e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

Complies

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations.

They should include at least the following terms:

a) Committees should be formed exclusively by non-executive directors, with a majority of independents.
b) They should be chaired by independent directors.
c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.
d) They may engage external advice, when they feel it necessary for the discharge of their functions.
e) Meeting proceedings should be minuted and a copy made available to all board members.

Partially complies

The Board of Directors of IAG, under its powers of self-organisation, considers it appropriate to have a Safety Committee in order to exercise a high level overview of each airline's safety performance and of any important issues that may affect the industry, although responsibility for safety matters belongs to each of the Group's airlines. This Committee is governed by the same principles as all Board Committees and has a clear majority of non-executive directors.

However, the Committee's composition is not compliant with the Code's recommendation as an executive director, the Chief Executive, is a member of this Committee, being also its chairman. The Board believes this to be appropriate in the current circumstances for the following reasons:

a) IAG is a holding, non-operational company, exercising a supervisory role within the Group.
b) Consistent with the civil aviation regulatory framework, responsibility for safety matters remains with each operating airline.
c) The technical nature of safety issues and the fact that each operating airline has its own particular characteristics makes it advisable that the Group's top executive leads this Committee and coordinates the reporting of the different Group airlines.

Furthermore, the remaining Committee members are independent directors of IAG, including the Chairman of the Board and the Chairman of the Audit and Compliance Committee.

Finally, it has to be taken into consideration that safety is a highly regulated area that is subject to strict reporting requirements to the local regulatory authorities of each airline and to regular external audit reviews.

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.
d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.
e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.
f) Monitor and evaluate the company's interaction with its stakeholder groups.
g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.
h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Complies

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:
    a) The goals of its corporate social responsibility policy and the support instruments to be deployed.
    b) The corporate strategy with regard to sustainability, the environment and social issues.
    c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.
    d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
    e) The mechanisms for supervising non-financial risk, ethics and business conduct.
    f) Channels for stakeholder communication, participation and dialogue.
    g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Complies

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Complies

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Complies

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the director must dispose of to defray costs related to their acquisition.

Complies

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

    a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.
    b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.
    c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Partially complies

IAG Remuneration Policy complies with this recommendation as it is designed to ensure that variable rewards reflect the professional performance of the beneficiaries and includes appropriate limits and technical safeguards. The performance measures used include a balanced mix of financial measures as well as personal performance against individual objectives. Although IAG remuneration framework promotes long-term value creation and ensures, through individual performance, compliance with IAG's mission and values, it does not include concrete non-financial criteria in the sense required by letter b) of this Recommendation 58. IAG is examining options to improve the focus on the long-term sustainability of the Company, including through the individual objectives and the introduction of more specific non-financial performance measures. In this regard, NPS will be included in as a non-financial performance measure in the 2017 annual incentive.

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Complies

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Complies

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Complies

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Complies

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Complies

H. OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.
2. You may include in this section any other information, clarification or observation related to the above sections of this report.

   Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.
3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable identify the Code and date of adoption. In particular, state whether the company has adhered to the Code of Good Tax Practices of July 20, 2010.

This annual corporate governance report was adopted by the company's Board of Directors at its meeting held on February 23, 2017.

List whether any directors voted against or abstained from voting on the approval of this Report.

No

Name or corporate name of director that did not vote in favour of approving this report	Reasons (voted against, abstention, non-attendance)	Explain the reasons

Spanish corporate governance report continued

A.1 Additional information to Company's share capital:

During 2016 the Company received three conversion requests in respect of the IAG €390,000,000 1.75 per cent. convertible bonds due 2018 ('Bonds'). On May 6, 2016 the Company exercised its option to redeem the remaining outstanding Bonds giving bondholders the option to exercise their right to convert their Bonds into ordinary shares in IAG. As a result of this, a total of 91,981,118 shares were issued.

As a consequence of the foregoing, the total share capital of the Company on the date of this report is €1,066,494,371.50, divided into 2,132,988,743 ordinary shares with a nominal value of €0.50 each share.

A.2 Additional information to direct and indirect holders of significant ownership interests:

On February 13, 2017 Deutsche Bank AG notified the Spanish National Securities Market Commission (CNMV) the acquisition of a shareholding of 3.061 per cent.

A.3 Additional information giving breakdown of voting rights

a) Directors' conditional awards

During 2016, Willie Walsh and Enrique Dupuy de Lôme held awards over ordinary shares of the Company under the Company's Performance Share Plan ("**IAG PSP**").

The value attributed to the Company's ordinary shares on March 7, 2016 was 541 pence.

Director	Plan	Date of award	Number of awards at January 1, 2016	Awards vesting during the year	Awards lapsed during the year	Awards made during the year	Number of awards at December 31, 2016
Willie Walsh	IAG PSP 2013	March 6, 2013	684,647	684,647	0	0	0
	IAG PSP 2014	March 6, 2014	379,310	0	0	0	379,310
Total	–	–	1,063,957	684,647	0	0	379,310

Director	Plan	Date of award	Number of awards at January 1, 2016	Awards vesting during the year	Awards lapsed during the year	Awards made during the year	Number of awards at December 31, 2016
Enrique Dupuy de Lôme	IAG PSP 2013	March 6, 2013	248,963	248,963	0	0	0
	IAG PSP 2014	March 6, 2014	137,931	0	0	0	137,931
Total	–	–	386,894	248,963	0	0	137,931

b) Share options

The following directors held nil-cost options over ordinary shares of the Company granted under the IAG PSP.

The value attributed to the Company's ordinary shares on March 7, 2016 was 541 pence.

Director	Date of grant	Number of options at January 1, 2016	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, 2016
Willie Walsh	May 28, 2015	309,091	–	0	0	0	January 1, 2020	December 31, 2024	309,091
	March 7, 2016	0	-	0	0	314,233	January 1, 2021	December 31, 2025	314,233
Total		0	-	0	0	314,233			623,324

Director	Date of grant	Number of options at January 1, 2016	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, 2016
Enrique Dupuy de Lôme	May 28, 2015	112,364	–	0	0	0	January 1, 2020	December 31, 2024	112,364
	March 7, 2016	-	-	0	0	145,647	January 1, 2021	December 31, 2025	145,647
Total		112,364	-	0	0	145,647			258,011

c) Incentive Award Deferral Plan

During 2016, Willie Walsh and Enrique Dupuy de Lôme owned awards over ordinary shares of the Company granted under the IADP (Incentive Award Deferral Plan) ("IAG IADP").

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the IAG IADP 2016 award was 541 pence.

Director	Plan	Date of award	Number of awards at January 1, 2016	Awards released during the year	Date of vesting	Awards lapsed during the year	Awards made during the year	Number of awards at December 31, 2016
Willie Walsh	IAG IADP 2014	March, 6, 2014	149,353	0	March 6, 2017	0	0	149,353
	IAG IADP 2015	May 28, 2015	151,111	0	March 8, 2018	0	0	151,111
	IAG IADP 2016	March 7, 2016	0	0	March 7, 2019	0	125,693	125,693
Total	–	–	300,464	0	–	0	125,693	426,157

Spanish corporate governance report continued

Director	Plan	Date of award	Number of awards at January 1, 2016	Awards released during the year	Date of vesting	Awards lapsed during the year	Awards made during the year	Number of awards at December 31, 2016
Enrique Dupuy de Lôme	IAG IADP 2013	March 6, 2013	62,241	62,241	March 6, 2016	0	0	0
	IAG IADP 2014	March 6, 2014	50,862	0	March 6, 2017	0	0	50,862
	IAG IADP 2015	May 28, 2015	50,252	0	March 8, 2018	0	0	50,252
	IAG IADP 2016	March 7, 2016	0	0	March 7, 2019	0	44,665	44,665
Total	–	–	163,355	62,241	–	0	44,665	145,779

For the year to December 31, 2016, the €:£ exchange rate applied is 1.2347.

C.1.3 Additional information to company management structure

Pursuant to Spanish Companies Law, on January 21, 2016, Mr. Antonio Vázquez became an independent director since five years had elapsed since his removal as Executive Chairman of Iberia prior to the merger with British Airways.

D.5 Additional information to related party and intragroup transactions

The Group's related-party transactions included total sales to associate companies of 7,159 thousand of euros and total purchases from associate companies of 49,157 thousands of euros.

Additional information as a result of the Company also being listed on the London Stock Exchange

The Company is subject to the UK Listing Rules, including the requirement to explain whether it complies with the UK Corporate Governance Code published by the UK Financial Reporting Council as amended from time to time.

During the year the Company considers it has complied with all the provisions of the UK 2014 Corporate Governance Code but for the following matter: The service contract for Mr. Antonio Vázquez does not comply with the recommendation that notice periods should be set at one year or less so as to limit any payment on exit. Details can be found in the Directors' Remuneration Report.

The Company believes that, notwithstanding this exception, it has a robust governance structure.

ADDITIONAL INFORMATION IN RELATION TO THE CODE OF GOOD TAX PRACTICES

Iberia, representing IAG, has joined the Code of Good Tax Practices approved by Spain's Forum of Big Companies.

Building a better
working world

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AGREED UPON PROCEDURES REPORT

To the Directors of International Consolidated Airlines Group, S.A.

In accordance with the request from the Board of Directors of International Consolidated Airlines Group, S.A. (hereinafter IAG) and our engagement letter dated February 6, 2017, we have performed certain procedures on the accompanying ICFR-related information of IAG, for the year 2016, which summarises the internal control procedures of IAG in relation to the annual financial information.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system as well as developing improvements to that system, and preparing and establishing the content of the accompanying ICFR-related information disclosed in section F.

It should be noted that irrespective of the quality of the design and operability of the internal control system adopted by IAG in relation to its annual financial information, it can only provide reasonable, rather than absolute assurance with respect to the objectives pursued, due to the inherent limitations to any internal control system.

In the course of our audit work on the financial statements and pursuant to the Technical Auditing Standards, the sole purpose of our assessment of IAG internal control was to enable us to establish the scope, nature, and timing of the audit procedures to be applied to the IAG financial statements. Therefore, our assessment of the internal control performed for the purposes of the audit of the financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over the regulated annual financial information.

For the purpose of issuing this report, we exclusively applied the specific procedures described below and indicated in the Guidelines on the Auditors' report relating to information on the Internal Control over Financial Reporting of Listed Companies, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Given that the scope of these procedures was limited and substantially less than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or its design or operating effectiveness, in relation to IAG's annual financial information for 2016 described in the accompanying ICFR. Consequently, had we applied additional procedures to those established by the Guidelines mentioned above or had we carried out an audit or a review of the internal control over the regulated annual financial reporting information, other matters might have been disclosed which would have been reported to you.

Likewise, since this special engagement does not constitute an audit of the financial statements or a review in accordance with enacted audit regulation, we do not express an audit opinion in the terms provided for therein.

The procedures applied were as follows:

1. Read and understand the information prepared by IAG in relation to the ICFR -which is provided in the Annual Corporate Governance Report disclosure information included in the Directors' Report- and assess whether such information addresses all the required information which will follow the minimum content detailed in section F, relating to the description of the ICFR, as per the model established by CNMV Circular nº 7/2015 dated December 22, 2015.
2. Make enquiries of personnel in charge of preparing the information described in point 1 above in order to:
   a. Obtain an understanding of the process followed in its preparation
   b. Obtain information which will allow us to assess whether the terminology used is adapted to the definitions provided in the reference framework
   c. Obtain information on whether the control procedures described are implemented and in use by IAG
3. Review the explanatory documentation supporting the information described in point 1 above, which should basically include that which is provided directly to those responsible for preparing the ICFR descriptive information. In this respect, the aforementioned documentation includes related reports prepared by the Internal Audit Department, senior management, and other internal and external experts providing support to the Audit and Compliance Committee.
4. Compare the information described in point 1 above with IAG's ICFR knowledge obtained as a result of performing the external audit procedures within the framework of the audit of the financial statements.
5. Read the minutes of the meetings held by the Board of Directors, Audit and Compliance Committee and other IAG committees in order to assess the consistency between the ICFR issues addressed therein and the information provided in point 1 above.
6. Obtain the representation letter related to the work performed, duly signed by the personnel in charge of preparing the information discussed in point 1 above.

As a result of the procedures applied, no inconsistencies or issues were detected that might have an impact on ICFR-related information.

This report was prepared exclusively within the framework of the requirements of the article 540 of the Consolidated Spanish Companies Law and by Circular nº 7/2015 dated December 22, 2015 of the Spanish National Securities Market Commission related to the description of the ICFR in the Annual Corporate Governance Report.

ERNST & YOUNG, S.L.

Hildur Eir Jónsdóttir

February 28, 2017

Hildur Eir Jónsdóttir

Group investments

Subsidiaries

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
AERL Holding Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
Aer Lingus 2009 DCS Trustee Limited Dublin Airport, Dublin		Republic of Ireland	100%
Aer Lingus Beachey Limited Penthouse Suite, Analyst House, Peel Road, Isle of Man, IM1 4LZ		Isle of Man	100%
Aer Lingus Group DAC* Dublin Airport, Dublin	Holding company	Republic of Ireland	100%
Aer Lingus Limited* Dublin Airport, Dublin	Airline operations	Republic of Ireland	100%
Aer Lingus (NI) Limited Aer Lingus Base, Belfast City Airport, Sydenham Bypass, Belfast, BT3 9JH		Northern Ireland	100%
Aer Lingus (Ireland) Limited Dublin Airport, Dublin		Republic of Ireland	100%
ALG Trustee Limited Dublin Airport, Dublin		Republic of Ireland	100%
Avios Group (AGL) Limited* Astral Towers, Betts Way, London Road, Crawley, West Sussex, RH10 9XY	Airline marketing	England	100%
Avios South Africa Proprietary Limited 34 Whitley Road, Unit B, 3rd Floor, Melrose Arch, Melrose North, Johannesburg		South Africa	100%
BA and AA Holdings Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
BA Call Centre India Private Limited (callBA) F-42, East of Kailash, New-Delhi, 110065		India	100%
BA Cityflyer Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%
BA European Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
BA Healthcare Trust Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
BA Number One Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
BA Number Two Limited 13 Castle Street, St Helier, JE4 5UT		Jersey	100%
Bealine Plc Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
bmibaby Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
Binter Finance B.V. Prins Bernhardplein 200, Amsterdam, 1097 JB		Netherlands	100%
BritAir Holdings Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
British Airways Plc* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%[1]
British Airways (BA) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
British Airways 777 Leasing Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft financing	England	100%
British Airways Associated Companies Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
British Airways Avionic Engineering Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Capital Limited Queensway House, Hilgrove Street, St Helier, JE1 1ES		Jersey	100%
British Airways E-Jets Leasing Limited* Canon's Court, 22 Victoria Street, Hamilton, HM 12	Aircraft financing	Bermuda	100%
British Airways Employee Benefit Trustees (Jersey) Limited Queensway House, Hilgrove Street, St Helier, JE1 1ES		Jersey	100%

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
British Airways Finance (Jersey) Limited Partnership 13 Castle Street, St Helier, JE4 5UT		Jersey	100%
British Airways Holdings B.V. Atrium, Strawinskylaan 3105, Amsterdam, 1077 ZX		Netherlands	100%
British Airways Holdings Limited* 13 Castle Street, St Helier, JE4 5UT	Holding company	Jersey	100%
British Airways Holidays Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Package holidays	England	100%
British Airways Interior Engineering Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Leasing Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft financing	England	100%
British Airways Maintenance Cardiff Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Pension Trustees (No 2) Limited Whitelocke House, 2-4 Lampton Road, Hounslow, Middlesex, TW3 1HU		England	100%
British Midland Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
British Midland Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
Compañía Explotación Aviones Cargueros Cargosur, S.A. Calle Martínez Villergas 49, Madrid, 28027		Spain	100%
Compañía Operadora de Corto Y Medio Radio Iberia Express, S.A.* Calle Alcañiz 23, Madrid, 28006	Airline operations	Spain	100%
Diamond Insurance Company Limited 1st Floor, Rose House, 51-59 Circular Road, Douglas, IM1 1RE		Isle of Man	100%
Dirnan Insurance Company Limited Canon's Court, 22 Victoria Street, Hamilton, Bermuda, HM 12		Bermuda	100%
Flyline Tele Sales & Services GmbH Hermann Koehl-Strasse 3, Bremen, 28199		Germany	100%
Gatwick Ground Services Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
IAG Cargo Limited* Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, TW6 2JS	Air freight operations	England	100%
IAG GBS Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	IT, finance and procurement services	England	100%
IAG GBS Poland sp z.o.o.* ul. Opolska 114, Krakow, 31 -323	IT, finance and procurement services	Poland	100%
IB Opco Holding, S.L. Calle Martínez Villergas 49, Madrid, 28027	Holding company	Spain	100%[2]
Iberia México, S.A.* Ejército Nacional 436, 9th Floor, Colonia Chapultepec-Morales, Mexico City, 11570	Storage and custody services	Mexico	100%
Iberia Tecnología, S.A.* Calle Martínez Villergas 49, Madrid, 28027	Holding company	Spain	100%
Iberia Líneas Aéreas de España, S.A. Operadora* Calle Martínez Villergas 49, Madrid, 28027	Airline operations and maintenance	Spain	100%[2]
Illiad Inc Suite 1300, 1105 N Market Street, PO Box 8985, Wilmington, Delaware, 19899		USA	100%
Openskies SASU* 3 Rue le Corbusier, Rungis, 94150	Airline operations	France	100%
Overseas Air Travel Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
Remotereport Trading Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%

Group investments continued

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Santain Developments Limited Dublin Airport, Dublin		Republic of Ireland	100%
Shinagh Limited Dublin Airport, Dublin		Republic of Ireland	100%
Speedbird Insurance Company Limited* Canon's Court, 22 Victoria Street, Hamilton, HM 12	Insurance	Bermuda	100%
Teleflight Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
The Plimsoll Line Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
Veloz Holdco, S.L. Pla de l'Estany 5, Parque de Negocios Mas Blau II, El Prat de Llobregat, Barcelona, 08820		Spain	100%
Vueling Airlines, S.A.* Pla de l'Estany 5, Parque de Negocios Mas Blau II, El Prat de Llobregat, Barcelona, 08820	Airline operations	Spain	99%
British Mediterranean Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	99%
Compañía Auxiliar al Cargo Exprés, S.A.* Centro de Carga Aérea, Parcela 2-5 Nave 6, Madrid, 28042	Cargo transport	Spain	75%
Iberia Desarrollo Barcelona, S.L.* Torre Tarragona, Planta 15, Calle Tarragona 161, Barcelona, 08014	Airport infrastructure development	Spain	75%
Auxiliar Logística Aeroportuaria, S.A.* Centro de Carga Aérea, Parcela 2-5 Nave 6, Madrid, 28042	Airport logistics and cargo terminal management	Spain	75%

* Principal subsidiaries

1 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.

2 The Group holds 49.9% of 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.

Associates

Name and address	Country of Incorporation	Percentage of equity owned
Handling Guinea Ecuatorial S.A. Malabo Bioko Norte International Airport, Apartado de Correos 92, Malabo	Equatorial Guinea	51%
Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A. Avenida de Vantroi y Final, Aeropuerto de Jose Martí, Ciudad de la Habana	Cuba	50%
Empresa Logística de Carga Aérea, S.A. Carretera de Wajay km 15, Aeropuerto de Jose Martí, Ciudad de la Habana	Cuba	50%
Multiservicios Aeroportuarios, S.A. Avenida de Manoteras 46, 2nd Floor, 28050, Madrid	Spain	49%
Dunwoody Airline Services (Holdings) Limited Building 70, Argosy Road, East Midlands Airport, Castle Donnington, Derby, DE74 2SA	England	40%
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. José Ortega y Gasset 22, 3rd Floor, 28006, Madrid	Spain	43.5%
Serpista, S.A. Cardenal Marcelo Spínola 10, 28016, Madrid	Spain	39%
Air Miles España, S.A. Avenida de Bruselas 20, Alcobendas, 28108, Madrid	Spain	25%

Joint ventures

Name and address	Country of Incorporation	Percentage of equity owned
Propius Holding Limited PO Box 309, Ugland House, Grand Cayman, K41-1104	Cayman Islands	33.3%

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)
Servicios de Instrucción de Vuelo, S.L. Camino de la Muñoza 2, Madrid, 28042	Spain	19.9%	Euro	45	2
The Airline Group Limited Brettenham House South, 5th Floor, Lancaster Place, London, WC2N 7EN	England	16.68%	Pound sterling	287	32
Comair Limited 1 Marignane Drive, Bonaero Park, 1619, Johannesburg	South Africa	11.5%	South African rand	1,330	294
Adquira España, S.A. Plaza Cronos, 1 – 4th 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 23, 2017, 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, 2016, 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 23, 2017

Antonio Vázquez Romero **Chairman**	**William Matthew Walsh** **Chief Executive Officer**
Marc Jan Bolland	**Patrick Jean Pierre Cescau**
Enrique Dupuy de Lôme Chávarri	**Denise Patricia Kingsmill**
James Arthur Lawrence	**María Fernanda Mejía Campuzano**
Kieran Charles Poynter	**Emilio Saracho Rodríguez de Torres**
Marjorie Morris Scardino	**Alberto Terol Esteban**

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INDEPENDENT AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of the International Consolidated Airlines Group, S.A.:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of International Consolidated Airlines Group, S.A. (the parent company) and its subsidiaries (the Group), which comprise consolidated balance sheet at December 31, 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto for the year then ended.

Directors' responsibility for the consolidated financial statements

The directors of the parent company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the consolidated equity and consolidated financial position and the consolidated results of International Consolidated Airlines Group, S.A. and its subsidiaries, in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying consolidated financial statements based on our audit. We conducted our audit in accordance with prevailing audit regulations in Spain. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of consolidated financial statements by the directors of the parent company in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of International Consolidated Airlines Group, S.A. and its subsidiaries at December 31, 2016, and its consolidated results and consolidated cash flow for the year then ended, in accordance with IFRS, as adopted by the EU, and other provisions in the regulatory framework for financial information applicable in Spain.

Report on other legal and regulatory requirements

The accompanying consolidated 2016 management report contains such explanations as the directors of the parent company consider appropriate concerning the situation of the Group, the evolution of its business and other matters; however, it is not an integral part of the consolidated financial statements. We have checked that the accounting information included in the aforementioned consolidated management report agrees with the 2016 consolidated financial statements. Our work as auditors is limited to verifying the consolidated management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the accounting records of International Consolidated Airlines Group, S.A. and its subsidiaries.

We have nothing to report in respect of our requirement to review, under the United Kingdom Listing Rules, the directors' statement in relation to going concern and longer-term viability and the part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

ERNST & YOUNG, S.L.

Hildur Eir Jónsdóttir

February 28, 2017

Hildur Eir Jónsdóttir

Glossary

Adjusted aircraft operating leases	Aircraft operating lease costs multiplied by 0.67
Adjusted earnings per share	Earnings are based on results before exceptional items, after tax adjusted for earnings attributable to equity holders and interest on convertible bonds, divided by the weighted average number of ordinary shares, adjusted for the dilutive impact of the assumed conversion of the bonds and employee share schemes outstanding
Adjusted gearing	Adjusted net debt, divided by adjusted net debt and adjusted equity
Adjusted net debt	Net debt plus capitalised operating aircraft lease costs
Available seat kilometres (ASK)	The number of seats available for sale multiplied by the distance flown
Available tonne kilometres (ATK)	The number of tonnes of capacity available for the carriage of load (passenger and cargo) multiplied by the distance flown
Block hours	Hours of service for aircraft, measured from the time that the aircraft leaves the gate at the departure airport to the time that it arrives at the gate at the destination airport
Cargo revenue per CTK	Cargo revenue divided by CTK
Cargo tonne kilometres (CTK)	The number of tonnes of cargo that generate revenue (freight and mail) carried multiplied by the distance flown
Dividend cover	The number of times profit for the year covers the dividends paid and proposed
EBITDAR	Operating profit before depreciation, amortisation and rental charges
Earnings per share (EPS)	Earnings are based on results after exceptional items, after tax adjusted for earnings attributable to equity holders and interest on convertible bonds, divided by the weighted average number of ordinary shares, adjusted for the dilutive impact of the assumed conversion of the bonds and employee share schemes outstanding.
Equity free cash flow	EBITDA 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)	Metric based on survey responses to the “likelihood to recommend” question and is calculated by subtracting the percentage of customers who are ‘Detractors’ (unlikely to recommend) from the percentage of customers who are ‘Promoters’ (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
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

Alternative performance measures

The performance of the Group is assessed using a number of Alternative Performance Measures (APMs). 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 5 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 measures have been used to identify the Group's long-term planning goals on 'Profitability', 'Efficient growth' and 'Balance sheet and cash flow', and to monitor performance towards these goals. 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 adjusted operating margin

Operating profit is the Group operating result before exceptional items.

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.

€ million	**2016**	2015
Operating profit before exceptional items	**2,535**	2,335
Aircraft operating lease costs	**759**	659
Aircraft operating lease costs multiplied by 0.67	**(509)**	(442)
	2,785	2,552
Revenue	**22,567**	22,858
Adjusted operating margin	**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	**2016**	2015
Earnings attributable to equity holders of the parent	**1,931**	1,495
Exceptional items	**38**	23
Earnings attributable to equity holders of the parent before exceptional items	**1,969**	1,518
Interest expense on convertible bonds	**26**	25
Adjusted earnings	**1,995**	1,543
Weighted average number of shares used for diluted earnings per share	**2,210,990**	2,159,937
Weighted average number of shares used for basic earnings per share	**2,075,568**	2,034,197
Adjusted earnings per share (€ cents)	**90.2**	71.4
Basic earnings per share before exceptional items (€ cents)	**94.9**	74.6

EBITDAR

EBITDAR is calculated as operating profit before exceptional items, depreciation, amortisation and impairment and aircraft operating lease costs.

€ million	**2016**	2015
Operating profit before exceptional items	**2,535**	2,335
Depreciation, amortisation and impairment	**1,287**	1,307
Aircraft operating lease costs	**759**	659
EBITDAR	**4,581**	4,301

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 average age of the 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 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.

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.

€ million	2016	2015
EBITDAR	**4,581**	4,463
Less: Aircraft operating lease costs multiplied by 0.67	**(509)**	(463)
Less: Depreciation charge for fleet assets multiplied by inflation adjustment	**(1,231)**	(1,277)
Less: Depreciation charge for other property, plant and equipment	**(153)**	(162)
	2,688	2,561
Invested capital		
Fleet book value excluding progress payments	**9,930**	11,090
Inflation adjustment[1]	**1.21**	1.16
	12,048	12,883
Net book value of other property, plant and equipment	**1,683**	1,798
Aircraft operating lease costs multiplied by 8	**6,072**	5,520
	19,803	20,201
Return on Invested Capital	**13.6%**	12.7%

1 Calculated using a 1.5 per cent inflation rate over the average age of the fleet. Presented to two decimal places.

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	2016	2015
Interest-bearing long-term borrowings	**8,515**	8,630
Cash and cash equivalents	**(3,337)**	(2,909)
Other current interest-bearing deposits	**(3,091)**	(2,947)
Net debt	**2,087**	2,774
Aircraft operating lease costs multiplied by 8	**6,072**	5,736
Adjusted net debt	**8,159**	8,510
EBITDAR	**4,581**	4,463
Adjusted net debt to EBITDAR	**1.8**	1.9

Adjusted gearing

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 €2,077 million, representing the adjustment to equity on adoption of the amendment to the standard.

€ million	2016	2015
Adjusted net debt	**8,159**	8,510
Equity	**5,664**	5,534
IAS 19 cumulative charge to reserves (post-tax)	**2,077**	1,794
Adjusted equity	**7,741**	7,328
Adjusted net debt plus adjusted equity	**15,900**	15,838
Adjusted gearing	**51%**	54%

Alternative performance measures continued

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	2016	2015
Operating profit before exceptional items	**2,535**	2,335
Depreciation, amortisation and impairment	**1,287**	1,307
EBITDA	**3,822**	3,642
Interest paid	**(185)**	(197)
Interest received	**37**	48
Tax paid	**(318)**	(245)
Acquisition of property plant and equipment and intangible assets	**(3,038)**	(2,040)
Proceeds from sale of property, plant and equipment and intangible assets	**1,737**	273
Equity free cash flow	**2,055**	1,481

Sustainability indicators

Indicator	Units	2016	2015[11]	2014	2013	2012	(2016-2015)
Total energy consumption from jet fuel, gas and electricity	Megawatt hours	**108,386,850**	101,051,244	96,712,371	91,062,826	89,350,479	**7.3%**
Greenhouse gas (GHG) emissions[1 2 3 4]							
Direct (Scope 1)	Tonnes CO_2e	**28,264,447**	26,335,726	25,219,827	23,664,495	23,249,641	**7.3%**
Indirect (Scope 2)	Tonnes CO_2e	**123,345**	115,304	113,833	118,036	132,610	**7.0%**
Other indirect (Scope 3)	Tonnes CO_2e	**7,640,028**	5,419,599	5,179,537	4,871,126	n/a	**41.0%**
GHG emissions intensity (grammes of carbon dioxide per passenger kilometre)[1 2 4]	gCO_2/pkm	**94.3**	96.0	98.2	100.4	101.2	**(1.8%)**
CO_2 emissions intensity for flight operations only	gCO_2/pkm	**93.7**	95.4	97.5	99.7	100.5	**(1.8%)**
Percentage of aircraft fleet that meet ICAO technology standard for noise[5 6]							
Noise Chapter 4	%	**99.0%**	99.0%	98.7%	93.1%	90.9%	**-**
Noise Chapter 14[10]	%	**46.0%**	n/a	n/a	n/a	n/a	**n/a**
Percentage of aircraft fleet that meet ICAO CAEP technology standards for Oxides of Nitrogen (NOx) emissions[5 6]							
NOx CAEP 4	%	**95.0%**	93.0%	91.7%	89.7%	87.5%	**2.0pts**
NOx CAEP 6	%	**67.0%**	65.0%	61.7%	56.1%	48.0%	**2.0pts**
NOx CAEP 8[10]	%	**24.0%**	n/a	n/a	n/a	n/a	**n/a**
Water consumption at main sites[10]	Cubic metres	**500,868**	543,028	501,219	n/a	n/a	**(7.8%)**
Waste produced at main sites excluding suppliers[7 10]	Tonnes	**8,204**	10,546	9,932	n/a	n/a	**(22.2%)**
Average age of aircraft fleet	Years	**10.8**	10.8	10.5	11.1	11.8	**-**
Average manpower equivalent	Number	**63,387**	60,892	59,484	60,089	59,574	**4.1%**
Number of new permanent hires in calendar year	Number	**4,286**	5,216	3,670	2,647	4,389	**(17.8%)**
Average hours of training per year, per employee	Hours	**36.7**	36.1	37.3	35.6	35.0	**1.7%**
Monetary value of significant fines for non-compliances with laws and regulations[8 10]	Euros	**1,209,114**	468,576	392,359	n/a	n/a	**158%**
Total customer and colleague direct and in-kind donations to charity[9]	Euros	**9,318,294**	11,457,171	13,515,678	15,058,811	20,139,797	**(18.7%)**

Notes
1 GHG indicators represent the most accurate figures available at date of publication. The IAG Investor CDP report available later in the year will contain the finalised data.
2 IAG has reported all GHG emissions sources required under the 2006 Companies Act (Strategic and Directors' Reports) Regulations 2013. IAG uses the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (revised edition), applying an operational control boundary.
3 The GHG emissions are split into Scope 1 (direct, burning jet fuel and natural gas), Scope 2 (indirect, electricity), and Scope 3 (indirect, upstream fossil fuel production).
4 The emissions data was calculated by applying the UK Government's GHG conversion factors for Company Reporting (2012 to 2016).
5 The International Civil Aviation Organization's Committee on Aviation Environmental Protection (CAEP) establishes international standards for aircraft noise and engine emissions. Oxides of Nitrogen (NOx) emissions are relevant to local air quality around airports. The ICAO CAEP 4 and 6 NOx standards were applicable for engines first manufactured after December 31, 2003 and December 31, 2007 respectively and the newer CAEP 8 standards apply from 2014. The ICAO CAEP Chapter 4 technology standard for aircraft noise applies to new aircraft certified on or after January 1, 2006 and Chapter 14 is applicable for new aircraft certified from January 1, 2017.
6 Noise and NOx indicators include the combined performance of all airlines in the Group. Historic values have been revised in line with this and therefore are different to those shown in previous reports.
7 Waste figures exclude Vueling.
8 Figures referring to monetary fines relate to British Airways, Iberia, Vueling and Aer Lingus. In 2016 we included €828,000 fines related to disruptions suffered during the summer.
9 Figures referring to charity donations for 2013 and 2012 relate to British Airways and Iberia only. 2014 includes Vueling also and 2015 also includes Aer Lingus from August 18, 2015. Euro to pound sterling conversion rate full year average for 2016 of 1.2347.
10 These indicators are being disclosed for the first time in 2016, in these instances historic data is unavailable.
11 All figures for IAG 2015 include Aer Lingus from August 18, 2015.

Operating and financial statistics

Total Group operations		**2016**	2015[1]	2014	2013	2012
Traffic and capacity						
Available seat km (ASK)	million	**298,431**	272,702	251,931	230,573	219,172
Revenue passenger km (RPK)	million	**243,474**	221,996	202,562	186,304	176,102
Cargo tonne km (CTK)	million	**5,454**	5,293	5,453	5,653	6,080
Passengers carried	'000	**100,675**	88,333	77,334	67,224	54,600
Tonnes of cargo carried	'000	**849**	874	897	928	1,011
Sectors		**26,508**	660,438	599,624	538,644	453,100
Block hours	hours	**64,269**	1,867,905	1,712,506	1,573,900	1,419,601
Operations						
Average manpower equivalent		**63,387**	60,862	59,484	60,089	59,574
Aircraft in service at year end		**548**	529	459	431	377
Aircraft utilisation – Longhaul (average hours per aircraft per day)	hours	**13.5**	13.5	13.5	13.3	13.6
Aircraft utilisation – Shorthaul (average hours per aircraft per day)	hours	**8.8**	9.1	8.8	8.4	8.2
Punctuality – within 15 minutes	%	**77.2**	80.2	80.9	79.2	77.2
Regularity	%	**99.3**	99.4	99.5	99.0	99.0
Financial						
Passenger unit revenue per ASK (PASK)	€cents	**6.68**	7.46	7.08	7.05	7.01
Passenger revenue per RPK	€cents	**8.18**	9.16	8.80	8.73	8.73
Cargo revenue per CTK	€cents	**18.74**	20.67	18.19	18.98	20.02
Total revenue per ASK (RASK)	€cents	**7.56**	8.38	8.01	8.10	8.27
Average fuel price	($cents/US gallon)	**133.38**	175.86	300.16	314.15	320.33
Fuel cost per ASK	€cents	**1.63**	2.23	2.38	2.58	2.78
Operating profit before depreciation, amortisation and rentals (EBITDAR)	€million	**4,581**	4,301	3,137	2,258	1,480
Total operating expenditure excluding fuel per ASK (CASK ex. fuel)	€cents	**5.08**	5.30	5.08	5.18	5.49
Operating margin	%	**11.2**	10.2	6.9	4.1	(0.1)
Lease adjusted operating margin	%	**12.3**	11.2	7.8	5.0	0.7
Total operating expenditure per ASK (CASK)	€cents	**6.71**	7.53	7.45	7.77	8.28
Dividend cover	times	**4.1**	3.8	n/a	n/a	n/a
Interest cover[2]	times	**10.8**	8.2	6.4	2.8	(0.2)
Net debt	€million	**2,087**	2,774	1,673	1,489	1,889
Equity[2]	€million	**7,721**	7,328	3,793	4,216	2,978
Adjusted gearing	%	**51**	54	51	50	51
Adjusted net debt to EBITDAR	times	**1.8**	1.9	1.9	2.5	3.6

1 Aer Lingus Group plc results have been consolidated from August 18, 2015.
2 Restated for amendment to IAS19 'Employee benefits' accounting standard.
n/a: not available

Shareholder information

Registered office

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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.otcmarkets.com). Deutsche Bank is the ADR depositary bank.

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Financial calendar

Financial year end: December 31, 2016
Q1 results: May 5, 2017
Half year results: July 28, 2017
Q3 results: October 27, 2017

Other key dates can be found on our website: 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.

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