Full year results announcement

International Consolidated Airlines Group (IAG) today (February 24, 2017) presented Group consolidated results for the year to December 31, 2016.

IAG period highlights on results:

- Fourth quarter operating profit €620 million before exceptional items (2015: €530 million)
- Net foreign exchange operating profit impact for the quarter adverse €88 million
- Passenger unit revenue for the quarter down 12.7 per cent, down 4.3 per cent at constant currency
- Non-fuel unit costs before exceptional items for the quarter down 8.8 per cent, down 0.8 per cent at constant currency
- Fuel unit costs before exceptional items for the quarter down 26.6 per cent, down 21.0 per cent at constant currency
- Operating profit before exceptional items for the year to December 31, 2016 of €2,535 million (2015: €2,335 million), up 8.6 per cent
- Net foreign exchange operating profit impact for the year adverse €460 million
- Revenue for the year down 1.3 per cent to €22,567 million and passenger unit revenue for the year down 5.4 per cent at constant currency
- Fuel unit costs for the year before exceptional items down 26.8 per cent, down 25.8 per cent at constant currency
- Non-fuel unit costs for the year before exceptional items down 4.1 per cent and up 0.5 per cent at constant currency
- Cash of €6,428 million at December 31, 2016 was up €572 million on 2015 year end
- Adjusted net debt to EBITDAR improved 0.1 to 1.8 times
- Profit after tax €1,952 million up 28.8 per cent, and diluted earnings per share up 25.7 per cent

Performance summary:

	Year to December 31		
Financial data € million	**2016**	2015	Higher / (lower)
Passenger revenue	**19,924**	20,330	(2.0)%
Total revenue	**22,567**	22,858	(1.3)%
Operating profit before exceptional items	**2,535**	2,335	8.6 %
Exceptional items	**(51)**	(17)	200.0 %
Operating profit after exceptional items	**2,484**	2,318	7.2 %
Profit after tax	**1,952**	1,516	28.8 %
Diluted earnings per share (€ cents)	**88.5**	70.4	25.7 %
Full year dividend per share (€ cents)[1]	**23.5**	20.0	17.5 %

Operating figures	**2016**	2015	Higher / (lower)
Available seat kilometres (ASK million)	**298,431**	272,702	9.4 %
Seat factor (per cent)	**81.6**	81.4	0.2pts
Passenger unit revenue per ASK (€ cents)	**6.68**	7.46	(10.4)%
Non-fuel unit costs per ASK (€ cents)	**5.08**	5.30	(4.1)%

	December 31		
	2016	2015	Higher / (lower)
Cash and interest-bearing deposits	**6,428**	5,856	9.8 %
Adjusted net debt[2]	**8,159**	8,510	(4.1)%
Adjusted net debt to EBITDAR[2]	**1.8**	1.9	(0.1pts)
Adjusted gearing[2]	**51%**	54%	(3pts)

1 2016 includes a proposed final dividend of 12.5 € cents per share, subject to approval at the Annual General Meeting.
2 Definition included in Alternative performance measures section.

Willie Walsh, IAG Chief Executive Officer, said:

“In the quarter, we made an operating profit before exceptional items of €620 million, up from a €530 million operating profit last year, with an improvement of our underlying passenger revenue trend.

“For the full year, it was a good performance in a challenging environment with an operating profit of €2,535 million before exceptional items, up 8.6 per cent versus last year.

“Our performance was affected by an adverse currency impact of €460 million. In particular, this was due to the weak pound following the UK’s EU referendum. However, despite that, we’ve made good progress and continue to build on all we’ve achieved in our first five years.

“In 2016, we carried more than 100 million passengers - double the number British Airways and Iberia carried in 2010, a year before IAG was created.

"We're committed to providing a sustainable dividend for our shareholders and are pleased to confirm that the Board is proposing a final dividend of 12.5 euro cents per share. This brings the full year dividend to 23.5 euro cents per share, subject to shareholder approval at our AGM in June.

"Also today we're announcing that we intend to carry out a share buyback of €500 million during the course of 2017 which may be implemented through one or more share buyback programmes. We have great confidence in IAG's future prospects and are increasing cash returns to our shareholders."

Trading outlook

At current fuel prices and exchange rates, IAG expects its operating profit for 2017 to show an improvement year-on-year.

This announcement contains inside information and is disclosed in accordance with the Company's obligations under the Market Abuse Regulation (EU) No 596/2014.

Enrique Dupuy, Chief Financial Officer, (responsible for arranging the release of this announcement).

Forward-looking statements:

Certain statements included in this report are forward-looking and involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such forward-looking statements.

Forward-looking statements can typically be identified by the use of forward-looking terminology, such as "expects", "may", "will", "could", "should", "intends", "plans", "predicts", "envisages" or "anticipates" and include, without limitation, any projections relating to results of operations and financial conditions of International Consolidated Airlines Group S.A. and its subsidiary undertakings from time to time (the 'Group'), as well as plans and objectives for future operations, expected future revenues, financing plans, expected expenditures and divestments relating to the Group and discussions of the Group's Business plan. All forward-looking statements in this report are based upon information known to the Group on the date of this report. The Group undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

It is not reasonably possible to itemise all of the many factors and specific events that could cause the forward-looking statements in this report to be incorrect or that could otherwise have a material adverse effect on the future operations or results of an airline operating in the global economy. Further information on the primary risks of the business and the risk management process of the Group is given in the Annual Report and Accounts 2015; these documents are available on www.iagshares.com.

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Consolidated income statement

€ million	Before exceptional items 2016	Exceptional items	Total 2016	Before exceptional items 2015	Exceptional items	Total 2015[1]	Higher/ (lower)
	Year to December 31						
Passenger revenue	**19,924**		19,924	20,330		20,330	(2.0)%
Cargo revenue	**1,022**		1,022	1,094		1,094	(6.6)%
Other revenue	**1,621**		1,621	1,434		1,434	13.0 %
Total revenue	**22,567**		22,567	22,858		22,858	(1.3)%
Employee costs	**4,731**	93	4,824	4,905		4,905	(3.5)%
Fuel, oil costs and emissions charges	**4,873**	(42)	4,831	6,082	(51)	6,031	(19.9)%
Handling, catering and other operating costs	**2,664**		2,664	2,571		2,571	3.6 %
Landing fees and en-route charges	**2,151**		2,151	1,882		1,882	14.3 %
Engineering and other aircraft costs	**1,701**		1,701	1,395		1,395	21.9 %
Property, IT and other costs	**870**		870	765	68	833	13.7 %
Selling costs	**896**		896	912		912	(1.8)%
Depreciation, amortisation and impairment	**1,287**		1,287	1,307		1,307	(1.5)%
Aircraft operating lease costs	**759**		759	659		659	15.2 %
Currency differences	**100**		100	45		45	122.2 %
Total expenditure on operations	**20,032**	51	20,083	20,523	17	20,540	(2.4)%
Operating profit	**2,535**	(51)	2,484	2,335	(17)	2,318	8.6 %
Net non-operating costs	**(122)**		(122)	(517)		(517)	(76.4)%
Profit before tax	**2,413**	(51)	2,362	1,818	(17)	1,801	32.7 %
Tax	**(423)**	13	(410)	(279)	(6)	(285)	51.6 %
Profit after tax for the year	**1,990**	(38)	1,952	1,539	(23)	1,516	29.3 %

Operating figures	2016[2]	2015[2]	Higher/ (lower)
Available seat kilometres (ASK million)	**298,431**	272,702	9.4 %
Revenue passenger kilometres (RPK million)	**243,474**	221,996	9.7 %
Seat factor (per cent)	**81.6**	81.4	0.2pts
Cargo tonne kilometres (CTK million)	**5,454**	5,293	3.0 %
Passenger numbers (thousands)	**100,675**	88,333	14.0 %
Tonnes of cargo carried (thousands)	**849**	874	(2.9)%
Sectors	**708,615**	660,438	7.3 %
Block hours (hours)	**2,067,980**	1,867,905	10.7 %
Average manpower equivalent	**63,387**	60,862	4.1 %
Aircraft in service	**548**	529	3.6 %
Passenger revenue per RPK (€ cents)	**8.18**	9.16	(10.6)%
Passenger unit revenue per ASK (€ cents)	**6.68**	7.46	(10.4)%
Cargo revenue per CTK (€ cents)	**18.74**	20.67	(9.3)%
Fuel cost per ASK (€ cents)	**1.63**	2.23	(26.8)%
Non-fuel unit costs per ASK (€ cents)	**5.08**	5.30	(4.1)%
Total cost per ASK (€ cents)	**6.71**	7.53	(10.8)%

1 The prior year consolidated Income statement includes reclassifications to conform to the current year presentation. Refer to note 2 for further details.
2 Financial ratios are before exceptional items.

Consolidated income statement

€ million	Before exceptional items 2016	Exceptional items	Total 2016	Before exceptional items 2015	Exceptional items	Total 2015[1]	Higher/ (lower)
	Three months to December 31						
Passenger revenue	**4,579**		4,579	5,045		5,045	(9.2)%
Cargo revenue	**279**		279	296		296	(5.7)%
Other revenue	**437**		437	398		398	9.8 %
Total revenue	**5,295**		5,295	5,739		5,739	(7.7)%
Employee costs	**1,075**	82	1,157	1,306		1,306	(17.7)%
Fuel, oil costs and emissions charges	**1,091**	(4)	1,087	1,429	(27)	1,402	(23.7)%
Handling, catering and other operating costs	**653**		653	701		701	(6.8)%
Landing fees and en-route charges	**488**		488	495		495	(1.4)%
Engineering and other aircraft costs	**443**		443	306		306	44.8 %
Property, IT and other costs	**198**		198	209	6	215	(5.3)%
Selling costs	**185**		185	216		216	(14.4)%
Depreciation, amortisation and impairment	**316**		316	370		370	(14.6)%
Aircraft operating lease costs	**222**		222	178		178	24.7 %
Currency differences	**4**		4	(1)		(1)	(500.0)%
Total expenditure on operations	**4,675**	78	4,753	5,209	(21)	5,188	(10.3)%
Operating profit	**620**	(78)	542	530	21	551	17.0 %
Net non-operating costs	**12**		12	(268)		(268)	(104.5)%
Profit before tax	**632**	(78)	554	262	21	283	141.2 %
Tax	**(101)**	15	(86)	62	(9)	53	(262.9)%
Profit after tax for the period	**531**	(63)	468	324	12	336	63.9 %

Operating figures	**2016[2]**	2015[2]	Higher/ (lower)
Available seat kilometres (ASK million)	**72,075**	69,321	4.0 %
Revenue passenger kilometres (RPK million)	**57,748**	55,849	3.4 %
Seat factor (per cent)	**80.1**	80.6	(0.5pts)
Cargo tonne kilometres (CTK million)	**1,468**	1,422	3.2 %
Passenger numbers (thousands)	**23,150**	22,131	4.6 %
Tonnes of cargo carried (thousands)	**306**	236	29.6 %
Sectors	**163,904**	166,701	(1.7)%
Block hours (hours)	**489,388**	472,624	3.5 %
Average manpower equivalent	**64,093**	63,496	0.9 %
Passenger revenue per RPK (€ cents)	**7.93**	9.03	(12.2)%
Passenger unit revenue per ASK (€ cents)	**6.35**	7.28	(12.7)%
Cargo revenue per CTK (€ cents)	**19.01**	20.82	(8.7)%
Fuel cost per ASK (€ cents)	**1.51**	2.06	(26.6)%
Non-fuel unit costs per ASK (€ cents)	**4.97**	5.45	(8.8)%
Total cost per ASK (€ cents)	**6.49**	7.51	(13.7)%

1 The prior year consolidated Income statement includes reclassifications to conform to the current year presentation.
2 Financial ratios are before exceptional items.

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.

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

€ million	2016	Higher/(lower) 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.

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 performance by Brand

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.

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.

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%)

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.

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.

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%

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.

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.

Strategic framework

Our mission is to be the leading international airline Group. This means we will:

- Win the customer through service and value across our global network;
- Deliver higher returns to our shareholders through leveraging cost and revenue opportunities across the Group;
- Attract and develop the best people in the industry;
- Provide a platform for quality international airlines, leaders in their markets, to participate in consolidation; and
- Retain the distinct cultures and brands of individual airlines.

By accomplishing our mission, IAG will help to shape the future of the industry, set new standards of excellence and provide sustainability, security and growth.

IAG's six core strategic objectives are:

- Leadership in IAG's main cities;
- Leadership across the Atlantic;
- Stronger Europe-to-Asia position in critical markets;
- Grow share of Europe-to-Africa routes;
- Stronger intra-Europe profitability; and
- Competitive cost positions across our businesses.

Principal risks and uncertainties

During the year we have continued to strengthen our risk framework and processes to identify, assess and manage risks. The principal risks and uncertainties affecting us, detailed on pages 47 to 54 of the Annual Report and Accounts 2015, remain relevant. The Group faced a number of changes in economic conditions in 2016 including the impact of the UK referendum vote to exit the EU and adverse exchange rates, partially offset by lower fuel prices. There is continued uncertainty as we move into 2017 with upward pressure on fuel price and the changing political landscape. We have also seen an increase in the risk of financial loss, disruption or damage to our reputation as the frequency and sophistication of cyber-attacks on corporates continues.

International Consolidated Airlines Group S.A.

Unaudited Full year Consolidated Financial Statements

January 1, 2016 – December 31, 2016

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	Year to December 31 2016	2015
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 herein are not the Group's statutory accounts and are unaudited. 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.

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.

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.

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.

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

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:

	2016	2015	
€'000	Ernst & Young	Ernst & Young	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		2015	
	Average number of employees	**Percentage of women**	Average number of employees	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.

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.

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

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.

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

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

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.

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)**

€ 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

€ million	Financial assets				
	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**

€ million	Financial liabilities			
	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

€ million	Financial assets				
	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

€ 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

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

	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, 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.

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.

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

		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, 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**

For the year to December 31, 2015

€ 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, 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)

€ million	2015 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.

For APS and NAPS, the composition of the scheme assets is:

€ million	December 31, 2016 APS	December 31, 2016 NAPS	December 31, 2015 APS	December 31, 2015 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).

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).

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.

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%

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 11.1.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 condensed consolidated financial statements for the year to December 31, 2016, prepared in accordance with the applicable international accounting standards, offer 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 the interim consolidated management report includes a fair review of the required information.

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

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%

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

Aircraft fleet

Number in service with Group companies

	On balance sheet fixed assets	Off balance sheet operating leases	**Total December 31, 2016**	Total December 31, 2015	Changes since December 31, 2015	Future deliveries	Options
Airbus A318	2	–	**2**	2	–	–	–
Airbus A319	22	43	**65**	68	(3)	–	–
Airbus A320	69	158	**227**	222	5	89	128
Airbus A321	26	21	**47**	43	4	17	–
Airbus A330-200	7	7	**14**	4	10	3	5
Airbus A330-300	4	10	**14**	12	2	2	–
Airbus A340-300	–	–	**–**	7	(7)	–	–
Airbus A340-600	6	11	**17**	17	–	–	–
Airbus A350	–	–	**–**	–	–	43	57
Airbus A380	12	–	**12**	10	2	–	7
Boeing 747-400	37	–	**37**	40	(3)	–	–
Boeing 757-200	1	2	**3**	3	–	–	–
Boeing 767-300	8	–	**8**	12	(4)	–	–
Boeing 777-200	41	5	**46**	46	–	–	–
Boeing 777-300	9	3	**12**	12	–	–	–
Boeing 787-8	8	–	**8**	8	–	4	–
Boeing 787-9	7	9	**16**	5	11	2	18
Boeing 787-10	–	–	**–**	–	–	12	–
Embraer E170	6	–	**6**	6	–	–	–
Embraer E190	9	5	**14**	12	2	–	15
Group total	**274**	**274**	**548**	**529**	**19**	**172**	**230**

As well as those aircraft in service the Group also holds 9 aircraft (2015: 11) not in service.