

SIX MONTHS RESULTS ANNOUNCEMENT

International Consolidated Airlines Group (IAG) today (July 28, 2017) presented Group consolidated results for the six months to June 30, 2017.

IAG period highlights on results:

- Second quarter operating profit €805 million before exceptional items (2016: €555 million)
- Passenger unit revenue for the quarter up 1.5 per cent, up 4.0 per cent at constant currency
- Non-fuel unit costs before exceptional items for the quarter down 0.3 per cent, up 3.5 per cent at constant currency
- Fuel unit costs before exceptional items for the quarter down 10.4 per cent, down 13.2 per cent at constant currency
- Operating profit before exceptional items for the half year €975 million (2016: €710 million), up 37.3 per cent, including the adverse foreign exchange impact for the half year of €44 million
- Cash of €7,944 million at June 30, 2017 was up €1,516 million on 2016 year end
- Adjusted net debt to EBITDAR improved by 0.4 to 1.4 times

Performance summary:

	Six months to June 30		
Financial data € million	2017	2016	Higher / (lower)
Passenger revenue	9,575	9,539	0.4 %
Total revenue	10,888	10,786	0.9 %
Operating profit before exceptional items	975	710	37.3 %
Exceptional items	(77)	79	nm
Operating profit after exceptional items	898	789	13.8 %
Profit after tax	567	554	2.3 %
Adjusted earnings per share (€ cents)	28.5	22.7	25.6 %
Operating figures	2017	2016	Higher / (lower)
Available seat kilometres (ASK million)	147,210	142,915	3.0 %
Seat factor (per cent)	80.9	80.0	0.9pts
Passenger unit revenue per ASK (€ cents)	6.50	6.67	(2.6)%
Non-fuel unit costs per ASK (€ cents)	5.21	5.33	(2.1)%
	June 30, 2017	December 31, 2016	Higher / (lower)
Cash and interest-bearing deposits	7,944	6,428	23.6 %
Adjusted net debt	7,024	8,159	(13.9)%
Adjusted net debt to EBITDAR	1.4	1.8	(0.4pts)
Adjusted gearing	50%	51%	(1pt)

Definitions included in Alternative performance measures section.

Willie Walsh, IAG Chief Executive Officer, said:

“We’re reporting a very strong performance in quarter 2 with an operating profit of €805 million before exceptional items which is up from €555 million last year.

“The underlying trend in unit revenue improved, benefitting partially from Easter and a weak base last year.

“Non-fuel unit costs before exceptional items are up, at constant currency. These costs include the financial impact of the power failure which affected British Airways’ customers.

“In June, LEVEL started longhaul flights from Barcelona to four destinations. Sales continue to be well ahead of our expectations. We’ve ordered three additional aircraft and are considering other European bases for the operation.”

Trading outlook

At current fuel prices and exchange rates, IAG expects its operating profit for 2017 to show a double-digit percentage improvement year-on-year. The Group expects second half passenger unit revenue (passenger revenue per ASK) to show an increase versus last year, at constant currency.

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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

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 2016; these documents are available on www.iagshares.com.

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CONSOLIDATED INCOME STATEMENT

Six months to June 30

€ million	Before exceptional items 2017	Exceptional items	Total 2017	Before exceptional items 2016	Exceptional items	Total 2016	Higher/ (lower)
Passenger revenue	9,575		9,575	9,539		9,539	0.4 %
Cargo revenue	516		516	503		503	2.6 %
Other revenue	797		797	744		744	7.1 %
Total revenue	10,888		10,888	10,786		10,786	0.9 %
Employee costs	2,370	77	2,447	2,467	(51)	2,416	(3.9)%
Fuel, oil costs and emissions charges	2,236		2,236	2,465	(28)	2,437	(9.3)%
Handling, catering and other operating costs	1,357		1,357	1,297		1,297	4.6 %
Landing fees and en-route charges	1,045		1,045	1,044		1,044	0.1 %
Engineering and other aircraft costs	915		915	811		811	12.8 %
Property, IT and other costs	438		438	442		442	(0.9)%
Selling costs	494		494	489		489	1.0 %
Depreciation, amortisation and impairment	603		603	658		658	(8.4)%
Aircraft operating lease costs	446		446	337		337	32.3 %
Currency differences	9		9	66		66	(86.4)%
Total expenditure on operations	9,913	77	9,990	10,076	(79)	9,997	(1.6)%
Operating profit	975	(77)	898	710	79	789	37.3 %
Net non-operating costs	(192)		(192)	(101)		(101)	90.1 %
Profit before tax	783	(77)	706	609	79	688	28.6 %
Tax	(154)	15	(139)	(120)	(14)	(134)	28.3 %
Profit after tax for the period	629	(62)	567	489	65	554	28.6 %

Operating figures	2017 ⁽¹⁾	2016 ⁽¹⁾	Higher/ (lower)
Available seat kilometres (ASK million)	147,210	142,915	3.0 %
Revenue passenger kilometres (RPK million)	119,157	114,295	4.3 %
Seat factor (per cent)	80.9	80.0	0.9pts
Cargo tonne kilometres (CTK million)	2,786	2,654	5.0 %
Passenger numbers (thousands)	48,806	46,676	4.6 %
Tonnes of cargo carried (thousands)	330	326	1.2 %
Sectors	342,428	338,804	1.1 %
Block hours (hours)	1,006,319	988,814	1.8 %
Average manpower equivalent	63,240	63,032	0.3 %
Aircraft in service	549	541	1.5 %
Passenger revenue per RPK (€ cents)	8.04	8.35	(3.7)%
Passenger revenue per ASK (€ cents)	6.50	6.67	(2.6)%
Cargo revenue per CTK (€ cents)	18.52	18.95	(2.3)%
Fuel cost per ASK (€ cents)	1.52	1.72	(11.9)%
Non-fuel costs per ASK (€ cents)	5.21	5.33	(2.1)%
Total cost per ASK (€ cents)	6.73	7.05	(4.5)%

⁽¹⁾Financial ratios are before exceptional items.

CONSOLIDATED INCOME STATEMENT

Three months to June 30

€ million	Before exceptional items 2017	Exceptional items	Total 2017	Before exceptional items 2016	Exceptional items	Total 2016	Higher/ (lower)
Passenger revenue	5,296		5,296	5,074		5,074	4.4 %
Cargo revenue	260		260	241		241	7.9 %
Other revenue	398		398	393		393	1.3 %
Total revenue	5,954		5,954	5,708		5,708	4.3 %
Employee costs	1,218	58	1,276	1,241	(51)	1,190	(1.9)%
Fuel, oil costs and emissions charges	1,174		1,174	1,274	(15)	1,259	(7.8)%
Handling, catering and other operating costs	745		745	690		690	8.0 %
Landing fees and en-route charges	569		569	570		570	(0.2)%
Engineering and other aircraft costs	437		437	407		407	7.4 %
Property, IT and other costs	223		223	218		218	2.3 %
Selling costs	242		242	237		237	2.1 %
Depreciation, amortisation and impairment	301		301	320		320	(5.9)%
Aircraft operating lease costs	223		223	149		149	49.7 %
Currency differences	17		17	47		47	(63.8)%
Total expenditure on operations	5,149	58	5,207	5,153	(66)	5,087	(0.1)%
Operating profit	805	(58)	747	555	66	621	45.0 %
Net non-operating costs	(76)		(76)	(57)		(57)	33.3 %
Profit before tax	729	(58)	671	498	66	564	46.4 %
Tax	(142)	11	(131)	(102)	(12)	(114)	39.2 %
Profit after tax for the period	587	(47)	540	396	54	450	48.2 %

Operating figures	2017 ⁽¹⁾	2016 ⁽¹⁾	Higher/ (lower)
Available seat kilometres (ASK million)	78,906	76,764	2.8 %
Revenue passenger kilometres (RPK million)	65,213	62,073	5.1 %
Seat factor (per cent)	82.6	80.9	1.7pts
Cargo tonne kilometres (CTK million)	1,419	1,334	6.4 %
Passenger numbers (thousands)	27,659	26,307	5.1 %
Tonnes of cargo carried (thousands)	168	163	3.1 %
Sectors	188,755	186,741	1.1 %
Block hours (hours)	545,609	538,686	1.3 %
Average manpower equivalent	64,255	64,323	(0.1)%
Passenger revenue per RPK (€ cents)	8.12	8.17	(0.7)%
Passenger revenue per ASK (€ cents)	6.71	6.61	1.5 %
Cargo revenue per CTK (€ cents)	18.32	18.07	1.4 %
Fuel cost per ASK (€ cents)	1.49	1.66	(10.4)%
Non-fuel costs per ASK (€ cents)	5.04	5.05	(0.3)%
Total cost per ASK (€ cents)	6.53	6.71	(2.8)%

⁽¹⁾Financial ratios are before exceptional items.

FINANCIAL REVIEW

Operating profit overview

IAG's operating profit for the six months to June 30, 2017 was €975 million before exceptional items, an improvement of €265 million from last year. British Airways made a profit of €741 million before exceptional items (2016: €631 million); Iberia made a profit of €84 million (2016: loss €6 million); Aer Lingus made a profit of €59 million (2016: €42 million) and Vueling's loss was €6 million (2016: loss €54 million).

Strategic overview

On March 17th, IAG launched LEVEL, a new longhaul low cost airline brand that started its operations in June 2017 with flights from Barcelona to Los Angeles, San Francisco, Buenos Aires and Punta Cana. LEVEL is flying two new Airbus A330 aircraft fitted with 293 economy and 21 premium economy seats. LEVEL's trading performance for the period was positive.

Operating and market environment

In the first half of 2017 fuel commodity prices rose versus last year however the Group's fuel price net of hedging was positive. Exchange rates were net adverse for the Group. The pound sterling devalued against the euro and the US dollar. The euro was also weaker against the US dollar, although to a lesser extent.

Principal risks and uncertainties

We have continued to maintain and operate our structure and processes to identify, assess and manage risks. The principal risks and uncertainties affecting us, detailed on pages 27 to 32 of the December 31, 2016 Annual Report and Accounts, remain relevant for this period and the remaining six months of the year.

Basis of presentation

The Group's performance for the six month period to June 30, 2017 includes LEVEL's operations since its inception on March 17, 2017. The comparator period does not include any results for LEVEL.

In order to provide additional information on non-operating items included in the Income statement, the Group has included an additional line to separate the unrealised movements on open derivatives from realised gains and losses. Comparative information has been aligned to this format.

Capacity

In the first six months of 2017, IAG capacity (available seat kilometres or ASKs) was higher by 3.0 per cent with increases across all regions. British Airways increased capacity in the Middle East and launched new routes in quarter 1 2017 (Santiago de Chile and Oakland). These were partially offset by lower capacity to Asia Pacific through discontinuation of Chengdu, gauge changes in Japan and the introduction of the Club Europe product in domestic. Iberia grew in Spain in Jerez, Balearics and Canaries and continued to see longhaul increases from routes launched in 2016 with the full year effect of Shanghai, Tokyo and Johannesburg and frequency increases in Mexico and Buenos Aires. Aer Lingus capacity was increased through the annualisation of its expansion across the North Atlantic. Vueling grew in Spain partially reducing its seasonality and strengthening its share. Passenger load factor rose 0.9 pts to 80.9 per cent.

Revenue

Passenger revenue increased 0.4 per cent compared to the prior period, excluding currency up 3.7 per cent. Passenger unit revenue (passenger revenue per ASK) was up 0.7 per cent at constant currency ('ccy') with slightly lower yields (passenger revenue/revenue passenger kilometre) more than offset by an increase in volumes. Passenger unit revenues improved throughout the period and were up 4.0 per cent at ccy for quarter 2 benefitting from strong performance across all the regions, in particular Latin America and the Caribbean and Asia Pacific. Our largest markets North America and Europe also performed well and British Airways saw strength in its corporate bookings. Passengers carried by the Group rose 4.6 per cent to 48,806 thousand and seat factor increased 0.9 points to 80.9 per cent.

Cargo revenue for the period increased by 2.6 per cent, 2.5 per cent at constant currency. Despite trading conditions remaining challenging in many regions, the result benefits from strong performance in the Asia Pacific region following a weaker performance in the same period last year. Cargo volumes grew 5.0 per cent versus the same period in 2016.

Other revenue was up 7.1 per cent, excluding currency up 9.2 per cent. The Group saw higher activity at BA Holidays, and in Iberia's third party maintenance (MRO) and handling businesses. Customer redemption of Avios loyalty points also increased.

Costs

Employee costs decreased 3.9 per cent for the period. Excluding currency and on a unit basis, employee unit costs were down 1.0 per cent. Pay increases and a higher pension charge due to lower AA bond yields were more than offset by productivity and efficiency improvements. The average number of employees rose 0.3 per cent for the Group while productivity increased 2.7 per cent, with improvements at British Airways, Iberia and Aer Lingus. Vueling employee unit costs increased as they focus on reducing seasonality and improving operational resilience.

FINANCIAL REVIEW continued

Fuel costs decreased 9.3 per cent, with fuel unit costs down 14.6 per cent at ccy primarily from lower average fuel prices net of hedging. The Group also continued to benefit from the introduction of new fleet and from improved operational procedures.

Handling, catering and other operating costs rose 4.6 per cent, excluding currency up 11.2 per cent. The increase includes €65 million (c. 5 points) of additional compensation fees and baggage claims related to operational disruption at British Airways due to a power failure over the second May bank holiday weekend. In addition, the airlines carried 4.6 per cent more passengers and the Group's non-ASK businesses BA Holidays, handling and Avios grew, with related revenues and costs.

Landing fees and en-route charges were broadly flat, excluding currency up 2.1 per cent. The increase is from higher activity, with flying hours up 1.8 per cent and sectors flown up 1.1 per cent, partially offset by price reductions in Europe and Africa. The Group has also recognised elements of airport recharges as a cost in the half year, rather than against revenues as in prior years, following a change in contractual arrangements.

Engineering and other aircraft costs rose 12.8 per cent, excluding currency up 11.5 per cent. Increases are driven equally by additional third party maintenance activity at Iberia and from higher flying hours, and price escalation on pay as you go engine contracts at British Airways.

Property, IT and other costs decreased 0.9 per cent, excluding currency up 4.3 per cent. The increase reflects lower capitalised IT charges reflecting the progress of internal projects and the impact of one-off releases in the base.

Selling costs increased 1.0 per cent, excluding currency up 2.6 per cent due to higher volumes.

Ownership costs rose 5.4 per cent, excluding currency up 8.3 per cent. Depreciation costs are down primarily due to the retirement of Iberia's Airbus A340-300s, partially offset by IT charges from the new check-in and aircraft boarding system at British Airways. Aircraft operating lease costs are up due to a tax provision release which benefitted the base and from 9 additional Boeing 787-9s and 10 Airbus A330s.

At constant currency non-fuel unit costs increased 2.5 per cent. Adjusted for non-airline businesses (such as MRO, handling, BA Holidays) and currency up 1.6 per cent, and on this basis improvements were noted at all carriers except British Airways. British Airways' non-fuel unit costs were adversely impacted by the operational disruption and higher maintenance costs described above.

Exceptional items

In 2017, the Group recognised an exceptional charge of €77 million related to the British Airways transformation initiatives.

In 2016, the Group made changes to the US PRMB (Post-Retirement Medical Benefits) to bring the level of benefits in line with national trends in the US. These changes resulted in recognition of a one-off gain in employee costs of €51 million during the period.

Under the Business combination standard, 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 the before exceptional items column. In 2016, a credit was recognised in the exceptional column reversing the impact of unwinding the cash flow hedges to reach the total Fuel, oil costs and emissions charges.

Non-operating items

The total net non-operating charge rose €91 million to €192 million for the six months compared to €101 million last year. The movement on remeasurement of derivatives not qualifying for hedge accounting, realised and unrealised, was €100 million adverse. This was partially offset by a reduction in finance costs of €40 million following a lower debt.

Taxation after exceptional items

The tax charge for the six months to June 30, 2017 is €139 million (2016: €134 million charge) with an effective tax rate of 20 per cent (2016: 20 per cent).

Profit after tax and exceptional items

The profit after tax for the six month period to June 30 was €567 million (2016: €554 million).

FINANCIAL REVIEW continued

Exchange rates

IAG's results are impacted by exchange rates used for the translation of British Airways' and Avios' financial results from sterling to the Group's reporting currency of euro. For the six months, the net impact of translation exchange on operating profit was €71 million adverse, with a decrease in revenues of €734 million and a decrease in cost of €663 million.

From a transactional perspective, the Group's financial performance is impacted by fluctuations in exchange rates, primarily from the US dollar, euro and pound sterling. The net transaction impact on operating profit was positive by €27 million for the period, increasing revenues by €398 million and costs by €371 million.

In summary, during the period the devaluation of the pound sterling against the euro was partially offset by the strengthening of the US dollar against both the euro and the pound sterling. The net impact of translation and transaction exchange for the Group was €44 million adverse.

Cash

The Group's cash position was €7,944 million up €1,516 million from December 31, 2016. British Airways' cash position was €3,708 million, Iberia €1,317 million, Aer Lingus €1,158 million, Vueling €906 million and the parent and other Group companies €855 million.

Compared to December 31, 2016, the Group's adjusted net debt decreased by €1,135 million to €7,024 million and adjusted net debt to EBITDAR improved 0.4 points. Adjusted gearing improved by one point.

INTERNATIONAL CONSOLIDATED AIRLINES GROUP S.A.

Unaudited Condensed Consolidated Interim Financial Statements
January 1, 2017 - June 30, 2017

CONSOLIDATED INCOME STATEMENT

Six months to June 30

€ million	2017			2016		
	Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
Passenger revenue	9,575		9,575	9,539		9,539
Cargo revenue	516		516	503		503
Other revenue	797		797	744		744
Total revenue	10,888		10,888	10,786		10,786
Employee costs	2,370	77	2,447	2,467	(51)	2,416
Fuel, oil costs and emissions charges	2,236		2,236	2,465	(28)	2,437
Handling, catering and other operating costs	1,357		1,357	1,297		1,297
Landing fees and en-route charges	1,045		1,045	1,044		1,044
Engineering and other aircraft costs	915		915	811		811
Property, IT and other costs	438		438	442		442
Selling costs	494		494	489		489
Depreciation, amortisation and impairment	603		603	658		658
Aircraft operating lease costs	446		446	337		337
Currency differences	9		9	66		66
Total expenditure on operations	9,913	77	9,990	10,076	(79)	9,997
Operating profit	975	(77)	898	710	79	789
Finance costs	(113)		(113)	(153)		(153)
Finance income	15		15	18		18
(Loss)/profit on sale of property, plant and equipment and investments	(3)		(3)	3		3
Net gain related to available-for-sale financial assets	1		1	3		3
Share of profits in investments accounted for using the equity method	1		1	3		3
Realised (losses)/gains on derivatives not qualifying for hedge accounting	(7)		(7)	9		9
Unrealised (losses)/gains on derivatives not qualifying for hedge accounting	(72)		(72)	12		12
Net financing (charge)/credit relating to pensions	(16)		(16)	8		8
Net currency retranslation credits/(charges)	2		2	(4)		(4)
Profit before tax	783	(77)	706	609	79	688
Tax	(154)	15	(139)	(120)	(14)	(134)
Profit after tax for the period	629	(62)	567	489	65	554
Attributable to:						
Equity holders of the parent	619		557	479		544
Non-controlling interest	10		10	10		10
	629		567	489		554
Basic earnings per share (€ cents)	29.3		26.4	23.6		26.8
Diluted earnings per share (€ cents)	28.5		25.7	22.7		25.6

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

€ million	Six months to June 30	
	2017	2016
<i>Items that may be reclassified subsequently to net profit</i>		
Cash flow hedges:		
Fair value movements in equity	(470)	(392)
Reclassified and reported in net profit	7	712
Available-for-sale financial assets:		
Fair value movements in equity	5	1
Currency translation differences	(128)	(468)
<i>Items that will not be reclassified to net profit</i>		
Remeasurements of post-employment benefit obligations	184	(1,256)
Total other comprehensive income for the period, net of tax	(402)	(1,403)
Profit after tax for the period	567	554
Total comprehensive income for the period	165	(849)
Total comprehensive income is attributable to:		
Equity holders of the parent	155	(859)
Non-controlling interest	10	10
	165	(849)

Items in the consolidated Statement of other comprehensive income above are disclosed net of tax.

CONSOLIDATED BALANCE SHEET

€ million	June 30, 2017	December 31, 2016
Non-current assets		
Property, plant and equipment	11,725	12,227
Intangible assets	2,990	3,037
Investments accounted for using the equity method	27	29
Available-for-sale financial assets	75	73
Employee benefit assets	989	1,028
Derivative financial instruments	34	169
Deferred tax assets	555	526
Other non-current assets	425	499
	16,820	17,588
Current assets		
Non-current assets held for sale	23	38
Inventories	449	458
Trade receivables	1,686	1,405
Other current assets	992	899
Current tax receivable	140	228
Derivative financial instruments	79	329
Other current interest-bearing deposits	3,870	3,091
Cash and cash equivalents	4,074	3,337
	11,313	9,785
Total assets	28,133	27,373
Shareholders' equity		
Issued share capital	1,066	1,066
Share premium	6,105	6,105
Treasury shares	(577)	(96)
Other reserves	(1,839)	(1,719)
Total shareholders' equity	4,755	5,356
Non-controlling interest	308	308
Total equity	5,063	5,664
Non-current liabilities		
Interest-bearing long-term borrowings	7,017	7,589
Employee benefit obligations	1,635	2,363
Deferred tax liability	234	176
Provisions for liabilities and charges	1,960	1,987
Derivative financial instruments	107	20
Other long-term liabilities	246	238
	11,199	12,373
Current liabilities		
Current portion of long-term borrowings	1,007	926
Trade and other payables	4,170	3,305
Deferred revenue on ticket sales	5,726	4,145
Derivative financial instruments	271	88
Current tax payable	48	101
Provisions for liabilities and charges	649	771
	11,871	9,336
Total liabilities	23,070	21,709
Total equity and liabilities	28,133	27,373

CONSOLIDATED CASH FLOW STATEMENT

€ million	Six months to June 30	
	2017	2016
Cash flows from operating activities		
Operating profit	898	789
Depreciation, amortisation and impairment	603	658
Movement in working capital	1,731	1,620
<i>Increase in trade and other receivables, prepayments, inventories and current assets</i>	(421)	(739)
<i>Increase in trade and other payables, deferred revenue on ticket sales and current liabilities</i>	2,152	2,359
Payments related to restructuring	(122)	(91)
Employer contributions to pension schemes	(569)	(680)
Pension scheme service costs	117	108
Provision and other non-cash movements	65	66
Interest paid	(63)	(107)
Interest received	17	21
Taxation	18	(104)
Net cash flows from operating activities	2,695	2,280
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(687)	(1,731)
Sale of property, plant and equipment and intangible assets	236	83
Net proceeds from sale of investments	15	-
Increase in other current interest-bearing deposits	(887)	(861)
Other investing movements	37	(97)
Net cash flows from investing activities	(1,286)	(2,606)
Cash flows from financing activities		
Net proceeds from long-term borrowings	92	1,083
Repayment of borrowings	(59)	(74)
Repayment of finance leases	(313)	(259)
Acquisition of treasury shares	(198)	(25)
Distributions made to holders of perpetual securities and other	(10)	(10)
Dividend paid	(43)	(40)
Net cash flows from financing activities	(531)	675
Net increase in cash and cash equivalents	878	349
Net foreign exchange differences	(141)	(190)
Cash and cash equivalents at 1 January	3,337	2,909
Cash and cash equivalents at period end	4,074	3,068
Interest-bearing deposits maturing after more than three months	3,870	3,493
Cash, cash equivalents and other interest-bearing deposits	7,944	6,561

At June 30, 2017 Aer Lingus held €45 million of restricted cash (2016: €48 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 six months to June 30, 2017

€ million	Issued share capital	Share premium	Treasury shares	Other reserves ⁽¹⁾	Total shareholders' equity	Non-controlling interest	Total equity
January 1, 2017	1,066	6,105	(96)	(1,719)	5,356	308	5,664
Total comprehensive income for the period (net of tax)	-	-	-	155	155	10	165
Cost of share-based payments	-	-	-	18	18	-	18
Vesting of share-based payment schemes	-	-	19	(31)	(12)	-	(12)
Acquisition of treasury shares	-	-	(500)	-	(500)	-	(500)
Dividend	-	-	-	(262)	(262)	-	(262)
Distributions made to holders of perpetual securities	-	-	-	-	-	(10)	(10)
June 30, 2017	1,066	6,105	(577)	(1,839)	4,755	308	5,063

⁽¹⁾Closing balance includes retained earnings of €1,418 million (excluding cumulative charge to reserves following amendment to 'Employee benefits' accounting standard: retained earnings of €3,467 million).

For the six months to June 30, 2016

€ million	Issued share capital	Share premium	Treasury shares	Other reserves ⁽¹⁾	Total shareholders' equity	Non-controlling interest	Total equity
January 1, 2016	1,020	5,867	(113)	(1,548)	5,226	308	5,534
Total comprehensive income for the period (net of tax)	-	-	-	(859)	(859)	10	(849)
Cost of share-based payments	-	-	-	26	26	-	26
Vesting of share-based payment schemes	-	-	42	(76)	(34)	-	(34)
Acquisition of treasury shares	-	-	(25)	-	(25)	-	(25)
Dividend	-	(106)	-	(106)	(212)	-	(212)
Issue of ordinary shares related to conversion of convertible bond	46	344	-	(33)	357	-	357
Distributions made to holders of perpetual securities	-	-	-	-	-	(10)	(10)
June 30, 2016	1,066	6,105	(96)	(2,596)	4,479	308	4,787

⁽¹⁾Closing balance includes a retained earnings of €331 million (excluding cumulative charge to reserves following amendment to 'Employee benefits' accounting standard: retained earnings of €2,380 million).

NOTES TO THE ACCOUNTS

For the six months to June 30, 2017

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

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).

The condensed consolidated interim financial statements were prepared in accordance with IAS 34 and authorised for issue by the Board of Directors on July 27, 2017. The condensed consolidated interim financial statements herein are not the Company's statutory accounts and are unaudited. 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 interim financial statements.

The basis of preparation and accounting policies set out in the IAG Annual Report and Accounts for the year to December 31, 2016 have been applied in the preparation of these condensed consolidated interim financial statements. IAG's financial statements for the year to December 31, 2016 have been filed with the Registro Mercantil de Madrid, and are in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and with those of the Standing Interpretations issued by the IFRS Interpretations Committee of the International Accounting Standards Board (IASB). The report of the auditors on those financial statements was unqualified.

In order to provide additional information on non-operating items included in the Income statement, the Group has included an additional line to separate the unrealised movements on open derivatives from realised gains and losses.

The financial statements for the prior year include reclassifications that were made to conform to the current year presentation.

2. ACCOUNTING POLICIES

The Group has not adopted any standard, interpretation or amendment in the six months to June 30, 2017 which has had an impact on its accounting policies and has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. The following standards are effective for periods beginning on or after January 1, 2018:

IFRS 15 'Revenue from contracts with customers' effective from January 1, 2018. IAG is currently in the process of finalising its accounting policies under the new standard. It is anticipated that the main changes on adoption will be as follows:

- Passenger revenue - revenue associated with ancillary services that is currently recognised when paid, such as change fees, will be deferred to align with the recognition of revenue associated with the related travel.
- Cargo revenue - interline cargo revenue will be presented gross rather than net of related costs as IAG is considered to be principal rather than agent in these transactions.
- Other revenue - loyalty revenue associated with the redemption of Avios points with third parties will be presented net of the related costs as IAG is considered to be agent rather than principal in these transactions. In addition, revenue associated with maintenance activities and holiday revenue with performance obligations that are fulfilled over time, will be deferred (with the related costs) and recognised over the performance obligation period.

The Group expects to apply the standard on a fully retrospective basis and does not expect a significant change to its financial performance or position on adoption of the standard.

IFRS 9 'Financial Instruments' effective from January 1, 2018. The standard amends the classification and measurement models for financial assets and adds new requirements to address the impairment of financial assets and hedge accounting. IFRS 9 will allow the Group to hedge specific risk components of its fuel purchases, such as crude oil price risk. It also requires movements in the time value of options (currently recognised in the Income statement) to be recognised in Other comprehensive income. These changes will result in a reduction in the gains and losses on derivatives not qualifying for hedge accounting recognised in the Income statement. The standard also requires the Group to make a policy choice on whether gains and losses on equity instruments measured at fair value should be recognised in the Income statement or Other comprehensive income, with no recycling. The Group is currently in the process of finalising its accounting policies under the new standard. The Group does not expect any significant changes to its financial performance or position or its hedging activities on the adoption of the standard.

NOTES TO THE ACCOUNTS continued
For the six months to June 30, 2017

2. ACCOUNTING POLICIES continued

IFRS 16 'Leases' (not yet endorsed by the EU) effective from January 1, 2019. The new standard eliminates the classification of leases as either operating leases or finance leases and instead introduces a single lessee accounting model. The Group is currently assessing the impact of the new standard. Interest-bearing borrowings and non-current assets will increase on implementation of this standard as obligations to make future payments under leases currently classified as operating leases will be recognised on the Balance sheet, along with the related 'right-of-use' asset. There will be a reduction in expenditure on operations and an increase in finance costs as operating lease costs are replaced with depreciation and lease interest expense. Foreign exchange movements on lease obligations, which are predominantly denominated in US dollars, will be remeasured at each balance sheet date, creating volatility in the Income statement.

3. EXCEPTIONAL ITEMS

€ million	Six months to June 30	
	2017	2016
Employee costs ⁽¹⁾	77	(51)
Pre-acquisition cash flow hedge impact ⁽²⁾	-	(28)
Recognised in expenditure on operations	77	(79)
Total exceptional charge/(credit) before tax	77	(79)
Tax on exceptional items	(15)	14
Total exceptional charge/(credit) after tax	62	(65)

⁽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. Costs incurred in the six months to June 30, 2017 in respect of this programme amount to €77 million, with a related tax credit of €15 million.

During the six months to June 30, 2016 the Group made changes to the US PRMB (Post-Retirement Medical Benefits) to further bring the level of benefits in line with national trends seen in the US. This scheme is accounted for in a similar way to a defined benefit plan, so any reduction in benefit results in the recognition of a past service gain when the plan amendment occurs. This change has resulted in a one-off gain in employee costs of €51 million in the period, and a related tax charge of €10 million.

In the period to June 30, 2016:

⁽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 six months to June 30, 2016, a credit of €28 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 €4 million was also recognised.

4. SEASONALITY

The Group's business is highly seasonal with demand strongest during the summer months. Accordingly higher revenues and operating profits are usually expected in the latter six months of the financial year than in the first six months.

5. SEGMENT INFORMATION

a. Business segments

The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments, and has been identified as the IAG Management Committee (IAG MC).

The Group has a number of entities which are managed as individual operating companies including airline and platform functions. Each airline operates its network operations as a single business unit and the IAG MC assesses performance based on measures including operating profit, and makes resource allocation decisions for the airlines based on network profitability, primarily by reference to the passenger markets in which the companies operate. The objective in making resource allocation decisions is to optimise consolidated financial results.

Based on the way that the Group treats its businesses and the manner in which resource allocation decisions are made the Group has determined its operating segments. British Airways, Iberia, Vueling and Aer Lingus have been identified for financial reporting purposes as reportable operating segments. Avios and LEVEL are also operating segments but do not exceed the quantitative thresholds to be reportable and management has concluded that there are currently no other reasons why they should be separately disclosed.

NOTES TO THE ACCOUNTS continued
For the six months to June 30, 2017

5. SEGMENT INFORMATION continued

a. Business segments continued

The platform functions of the business primarily support the airline operations. These activities are not considered to be reportable operating segments as they either earn revenues only incidental to the activities of the Group or are not reviewed by the IAG MC and are included within Other Group companies.

For the six months to June 30, 2017

€ million	2017					Total
	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies	
Revenue						
External revenue	6,763	2,095	902	839	289	10,888
Inter-segment revenue	225	188	-	-	229	642
Segment revenue	6,988	2,283	902	839	518	11,530
Depreciation, amortisation and impairment	(442)	(92)	(10)	(39)	(20)	(603)
Operating profit/(loss) before exceptional items	741	84	(6)	59	97	975
Exceptional items (note 3)	(77)	-	-	-	-	(77)
Operating profit/(loss) after exceptional items	664	84	(6)	59	97	898
Net non-operating costs						(192)
Profit before tax						706

For the six months to June 30, 2016

€ million	2016					Total
	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies	
Revenue						
External revenue	6,875	1,982	857	787	285	10,786
Inter-segment revenue	238	151	-	-	230	619
Segment revenue	7,113	2,133	857	787	515	11,405
Depreciation, amortisation and impairment	(487)	(115)	(9)	(37)	(10)	(658)
Operating profit/(loss) before exceptional items	631	(6)	(54)	42	97	710
Exceptional items (note 3)	51	-	-	-	28	79
Operating profit/(loss) after exceptional items	682	(6)	(54)	42	125	789
Net non-operating costs						(101)
Profit before tax						688

b. Geographical analysis

Revenue by area of original sale

€ million	Six months to June 30	
	2017	2016
UK	3,525	3,854
Spain	1,630	1,659
USA	1,969	1,731
Rest of world	3,764	3,542
	10,888	10,786

NOTES TO THE ACCOUNTS continued
For the six months to June 30, 2017

5. SEGMENT INFORMATION continued

b. Geographical analysis continued

Assets by area

June 30, 2017

€ million	Property, plant and equipment	Intangible assets
UK	9,020	1,159
Spain	1,924	1,230
USA	21	9
Rest of world	760	592
	11,725	2,990

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

6. FINANCE COSTS AND INCOME

€ million	Six months to June 30	
	2017	2016
Finance costs		
Interest payable on bank and other loans, finance charges payable under finance leases	(106)	(141)
Unwinding of discount on provisions	(9)	(11)
Capitalised interest on progress payments	3	1
Change in fair value of cross currency swaps	(1)	(2)
Total finance costs	(113)	(153)
Finance income		
Interest on other interest-bearing deposits	15	18
Total finance income	15	18

7. TAX

The tax charge for the six months to June 30, 2017 is €139 million (2016: €134 million), and the effective tax rate is 20 per cent (2016: 20 per cent).

The tax charge is calculated at the domestic rates applicable to profits or losses in the main countries of operation.

8. EARNINGS PER SHARE AND SHARE CAPITAL

Millions	Six months to June 30	
	2017	2016
Weighted average number of ordinary shares in issue	2,111	2,030
Weighted average number for diluted earnings per share	2,202	2,210

€ cents	Six months to June 30	
	2017	2016
Basic earnings per share	26.4	26.8
Diluted earnings per share	25.7	25.6

NOTES TO THE ACCOUNTS continued
For the six months to June 30, 2017

8. EARNINGS PER SHARE AND SHARE CAPITAL continued

The number of shares in issue at June 30, 2017 was 2,132,988,743 (December 31, 2016: 2,132,988,743) ordinary shares with a par value of €0.50 each.

In February 2017, the Group announced its intention to carry out a share buyback programme of up to €500 million, as part of its corporate finance strategy to return cash to shareholders while reinvesting in the business and managing leverage. The programme started on March 6, 2017 and will complete by December 29, 2017. During the period to June 30, 2017 the Group purchased 31 million shares, amounting to €203 million. The outstanding payment obligation of the share buyback programme totalling €297 million is included in Trade and other payables in the consolidated Balance sheet.

9. DIVIDENDS

The Directors do not propose a dividend for the six months to June 30, 2017 (June 30, 2016: nil).

The final dividend of 12.5 € cents per share for the year to December 31, 2016 was approved at the annual general meeting on June 15, 2017. This final dividend, amounting to €262 million, has been recognised as a liability at June 30, 2017 and was paid from July 3, 2017.

10. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

€ million	Property, plant and equipment	Intangible assets
Net book value at January 1, 2017	12,227	3,037
Additions	654	77
Disposals	(235)	(16)
Depreciation, amortisation and impairment	(543)	(60)
Exchange movements	(378)	(48)
Net book value at June 30, 2017	11,725	2,990

€ million	Property, plant and equipment	Intangible assets
Net book value at January 1, 2016	13,672	3,246
Additions	1,685	70
Acquired through Business combination	58	(51)
Disposals	(101)	(18)
Reclassifications	(25)	11
Depreciation, amortisation and impairment	(609)	(49)
Exchange movements	(1,441)	(171)
Net book value at June 30, 2016	13,239	3,038

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to €12,876 million (December 31, 2016: €14,022 million). The majority of capital expenditure commitments are denominated in US dollars, and as such are subject to changes in exchange rates.

11. IMPAIRMENT REVIEW

Goodwill and intangible assets with indefinite lives are tested for impairment annually (in the fourth quarter) and when circumstances indicate the carrying value may be impaired. The key assumptions used to determine the recoverable amount for the different cash generating units are disclosed in the Annual Report and Accounts for the year to December 31, 2016. For the six months to June 30, 2017 there are no indicators that the carrying value may exceed the recoverable amount.

12. NON-CURRENT ASSETS HELD FOR SALE

The non-current assets held for sale of €23 million represent five Airbus A340-300 aircraft. These are presented within the Iberia operating segment and will exit the business by December 31, 2017.

Assets held for sale with a net book value of €15 million were disposed of during the six months to June 30, 2017, related to the sale of the Group's investment in Propius Holdings Limited ('Propius'), resulting in no gain or loss.

NOTES TO THE ACCOUNTS continued
For the six months to June 30, 2017

12. NON-CURRENT ASSETS HELD FOR SALE continued

At December 31, 2016 the non-current assets held for sale of €38 million represented €15 million for the Group's investment in Propius and €23 million for five Airbus A340-300 aircraft. These were presented within the Aer Lingus and Iberia operating segments respectively.

13. FINANCIAL INSTRUMENTS

a. Financial assets and liabilities by category

The detail of the Group's financial instruments at June 30, 2017 and December 31, 2016 by nature and classification for measurement purposes is as follows:

June 30, 2017

€ million	Financial assets				Total carrying amount by balance sheet item
	Loans and receivables	Derivatives used for hedging	Available-for-sale	Non-financial assets	
Non-current assets					
Available-for-sale financial assets	-	-	75	-	75
Derivative financial instruments	-	34	-	-	34
Other non-current assets	274	-	-	151	425
Current assets					
Trade receivables	1,686	-	-	-	1,686
Other current assets	364	-	-	628	992
Non-current assets held for sale	-	-	-	23	23
Derivative financial instruments	-	79	-	-	79
Other current interest-bearing deposits	3,870	-	-	-	3,870
Cash and cash equivalents	4,074	-	-	-	4,074

€ million	Financial liabilities			Total carrying amount by balance sheet item
	Loans and payables	Derivatives used for hedging	Non-financial liabilities	
Non-current liabilities				
Interest-bearing long-term borrowings	7,017	-	-	7,017
Derivative financial instruments	-	107	-	107
Other long-term liabilities	10	-	236	246
Current liabilities				
Current portion of long-term borrowings	1,007	-	-	1,007
Trade and other payables	3,833	-	337	4,170
Derivative financial instruments	-	271	-	271

NOTES TO THE ACCOUNTS continued
For the six months to June 30, 2017

13. FINANCIAL INSTRUMENTS continued

a. Financial assets and liabilities by category continued

December 31, 2016

€ million	Financial assets				Total carrying amount by balance sheet item
	Loans and receivables	Derivatives used for hedging	Available-for-sale	Non-financial assets	
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				Total carrying amount by balance sheet item
	Loans and payables	Derivatives used for hedging	Non-financial liabilities		
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

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.

NOTES TO THE ACCOUNTS continued
For the six months to June 30, 2017

13. FINANCIAL INSTRUMENTS continued

b. Fair value of financial assets and financial liabilities continued

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 June 30, 2017 are as follows:

€ million	Fair value				Carrying value
	Level 1	Level 2	Level 3	Total	Total
Financial assets					
Available-for-sale financial assets	19	-	56	75	75
Derivatives	-	113	-	113	113
Financial liabilities					
Interest-bearing borrowings	1,088	7,060	-	8,148	8,024
Derivatives	-	378	-	378	378

The carrying amounts and fair values of the Group's financial assets and liabilities at December 31, 2016 are as follows:

€ million	Fair value				Carrying value
	Level 1	Level 2	Level 3	Total	Total
Financial assets					
Available-for-sale financial assets	15	-	58	73	73
Derivatives	-	498	-	498	498
Financial liabilities					
Interest-bearing borrowings	1,020	7,656	-	8,676	8,515
Derivatives	-	108	-	108	108

There have been no transfers between levels of fair value hierarchy during the period.

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	June 30, 2017	December 31, 2016
Opening balance for the period	58	65
Exchange movements	(2)	(7)
Closing balance for the period	56	58

NOTES TO THE ACCOUNTS continued
For the six months to June 30, 2017

13. FINANCIAL INSTRUMENTS continued

c. Level 3 financial assets reconciliation continued

The fair value of Level 3 financial assets cannot be measured reliably; as such these assets are stated at historic cost less accumulated impairment losses with the exception of the Group's investment in The Airline Group Limited. This unlisted investment had previously been valued at nil, since the fair value could not be reasonably calculated. During the year to December 31, 2014 other shareholders disposed of a combined holding of 49.9 per cent providing a market reference from which to determine a fair value. The investment remains classified as a Level 3 financial asset due to the valuation criteria applied not being observable.

14. BORROWINGS

€ million	June 30, 2017	December 31, 2016
Current		
Bank and other loans	136	149
Finance leases	871	777
	1,007	926
Non-current		
Bank and other loans	1,714	1,764
Finance leases	5,303	5,825
	7,017	7,589

15. SHARE BASED PAYMENTS

During the period 5,518,776 nil-cost options were awarded under the Group's Performance Share Plan (PSP) to key senior executives and selected members of the wider management team. No payment is due upon the vesting of the shares. The fair value of equity-settled share awards granted is estimated at the date of the award using the Monte-Carlo model, taking into account the terms and conditions upon which the options were awarded, or based on the share price at the date of grant, dependent on the performance criteria attached. The following are the inputs to the model for the PSP awards granted in the period:

Expected share price volatility: 35 per cent
Expected life of options: 4.6 years
Weighted average share price (£): £5.46

The Group also made awards under the Group's Incentive Award Deferral Plan during the period, under which 673,054 conditional shares were awarded.

16. EMPLOYEE BENEFIT OBLIGATIONS

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.

€ million	June 30, 2017			
	APS	NAPS	Other	Total
Scheme assets at fair value	9,165	18,330	432	27,927
Present value of scheme liabilities	(7,628)	(19,639)	(742)	(28,009)
Net pension asset/(liability)	1,537	(1,309)	(310)	(82)
Effect of the asset ceiling	(554)	-	-	(554)
Other employee benefit obligations	-	-	(10)	(10)
June 30, 2017	983	(1,309)	(320)	(646)
Represented by:				
Employee benefit assets				989
Employee benefit obligations				(1,635)
				(646)

NOTES TO THE ACCOUNTS continued
For the six months to June 30, 2017

16. EMPLOYEE BENEFIT OBLIGATIONS continued

€ million	December 31, 2016			
	APS	NAPS	Other	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	(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)

At June 30, 2017, the assumptions used to determine the obligations under the APS and NAPS were reviewed and updated to reflect market conditions at that date. The change in assumptions has resulted in a credit to Other comprehensive income of €184 million (net of tax). Key assumptions were as follows:

	APS		NAPS	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Per cent per annum				
Inflation (CPI)	2.05	2.10	2.05	2.10
Inflation (RPI)	3.15	3.20	3.15	3.20
Salary increases (as RPI)	3.15	3.20	3.15	3.20
Discount rate	2.55	2.60	2.65	2.70

Further information on the basis of the assumptions is included in note 32 of the IAG Annual Report and Accounts for the year to December 31, 2016.

Pension contributions for APS and NAPS were determined by actuarial valuations made as at March 31, 2012 and March 31, 2015 respectively using assumptions and methodologies agreed between the Group and the Trustees of each scheme.

The triennial valuation as at March 31, 2015 for APS was deferred as a result of legal proceedings (note 18).

17. PROVISIONS FOR LIABILITIES AND CHARGES

€ million	Restoration and handback provisions	Restructuring provisions	Employee leaving indemnities and other employee related provisions	Legal claims provisions	Other provisions	Total
Net book value January 1, 2017	1,201	692	593	189	83	2,758
Provisions recorded during the period	177	87	10	36	104	414
Utilised during the period	(128)	(122)	(12)	(122)	(61)	(445)
Release of unused amounts	(10)	(10)	(3)	(11)	(7)	(41)
Unwinding of discount	1	1	7	-	-	9
Exchange differences	(80)	(4)	-	2	(4)	(86)
Net book value June 30, 2017	1,161	644	595	94	115	2,609
Analysis:						
Current	214	261	58	39	77	649
Non-current	947	383	537	55	38	1,960
	1,161	644	595	94	115	2,609

During the period the Group recognised a provision in relation to the restructuring plans at British Airways (note 3).

The legal claims provision includes the payment of €104 million for the reissued fine in March 2017 against British Airways, related to investigations by a number of competition authorities in connection with alleged anti-competitive activity concerning the Group's passenger and cargo businesses (note 18).

Other provisions includes a €65 million provision recognised during the period on additional compensation fees and baggage claims related to operational disruption at British Airways due to a power failure in quarter 2, 2017.

NOTES TO THE ACCOUNTS continued
For the six months to June 30, 2017

18. CONTINGENT LIABILITIES

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 but in full against other carriers and the fine was refunded in full. British Airways has appealed the partial annulment judgment and the appeal decision is awaited. In March 2017 the European Commission adopted a new decision and reissued the fine against British Airways for the same amount, being €104 million. British Airways subsequently repaid the fine which had been recognised as a provision. The new decision has been appealed.

Pensions

The Trustees of the Airways Pension Scheme (APS) have proposed an additional discretionary increase above CPI for pensions in payment for the year to March 31, 2014. British Airways has challenged the decision, as it considers the Trustees have no power to grant such increases, and initiated legal proceedings to determine the legitimacy of the discretionary increase. The outcome of the legal proceedings was issued in May 2017, which concluded the Trustees do have the power to grant discretionary increases, whilst reiterating they must take into consideration all relevant factors, and ignore irrelevant factors. The Group has appealed the judgment and await an appeal hearing, currently expected to be mid-2018. Payment of the 2013/14 discretionary increase is subject to an injunction as a result of British Airways appeal. The delayed 2015 triennial valuation will now resume. The discretionary increase has not been reflected in the accounting assumptions used, as the outcome is uncertain.

Fuel surcharges on loyalty programme redemption tickets

British Airways is the defendant in a case filed in the United States of America in respect of fuel surcharges on loyalty programme redemption tickets. The class has been certified. British Airways intends to vigorously defend the claim and the outcome of the proceedings is uncertain.

There were no other significant movements in contingent liabilities and guarantees occurring during the period.

19. RELATED PARTY TRANSACTIONS

The Group had the following transactions in the ordinary course of business with related parties.

Sales and purchases of goods and services:

€ million	Six months to June 30	
	2017	2016
Sales of goods and services		
Sales to associates	3	4
Sales to significant shareholders	24	18
Purchases of goods and services		
Purchases from associates	24	23
Purchases from significant shareholders	42	29

Period end balances arising from sales and purchases of goods and services:

€ million	June 30, 2017	December 31, 2016
Receivables from related parties		
Amounts owed by associates	1	2
Amounts owed by significant shareholders	1	1
Payables to related parties		
Amounts owed to associates	3	4
Amounts owed to significant shareholders	1	-

For the six months to June 30, 2017 the Group has not made any provision for doubtful debts arising relating to amounts owed by related parties (2016: nil).

Board of Directors and Management Committee remuneration

Compensation received by the Group's key management personnel is as follows:

€ million	Six months to June 30	
	2017	2016
Base salary, fees and benefits		
Board of Directors' remuneration	2	2
Management Committee remuneration	3	3

NOTES TO THE ACCOUNTS continued

For the six months to June 30, 2017

19. RELATED PARTY TRANSACTIONS CONTINUED

At June 30, 2017 the Board of Directors includes remuneration for two Executive Directors (June 30, 2016: two Executive Directors). The Management Committee includes remuneration for ten members (June 30, 2016: nine members).

The Company provides life insurance for all Executive Directors and the Management Committee. For the six months to June 30, 2017 the Company's obligation was €16,000 (2016: €25,000).

At June 30, 2017 the transfer value of accrued pensions covered under defined benefit obligation schemes, relating to the Management Committee totalled €4 million (2016: €4 million).

No loans were outstanding with Directors or officers of the Group at June 30, 2017 (2016: nil).

20. POST BALANCE SHEET EVENTS

There are no post balance sheet events.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

LIABILITY STATEMENT OF COMPANY 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 July 27, 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 six months to June 30, 2017, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and of the companies that fall within the consolidated group taken as a whole, and that the interim management report includes a fair review of the information required.

July 27, 2017

Antonio Vázquez Romero
Chairman

William Matthew Walsh
Chief Executive Officer

Marc Jan Bolland

Patrick Jean Pierre Cescau

Enrique Dupuy de Lôme Chávarri

James Arthur Lawrence

María Fernanda Mejía Campuzano

Kieran Charles Poynter

Emilio Saracho Rodríguez de Torres

Marjorie Morris Scardino

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 3 of the unaudited condensed consolidated interim 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.

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	June 30, 2017	June 30, 2016
Earnings attributable to equity holders of the parent	557	544
Exceptional items	62	(65)
Earnings attributable to equity holders of the parent before exceptional items	619	479
Interest expense on convertible bonds	9	22
Adjusted earnings	628	501
Weighted average number of shares used for diluted earnings per share (million)	2,202	2,210
Weighted average number of shares used for basic earnings per share (million)	2,111	2,030
Adjusted earnings per share (€ cents)	28.5	22.7
Basic earnings per share before exceptional items (€ cents)	29.3	23.6

EBITDAR

EBITDAR is calculated as the rolling four quarter operating profit before exceptional items, depreciation, amortisation and impairment and aircraft operating lease costs.

€ million	June 30, 2017	December 31, 2016	June 30, 2016
Operating profit before exceptional items	2,800	2,535	2,490
Depreciation, amortisation and impairment	1,232	1,287	1,345
Aircraft operating lease costs	868	759	691
EBITDAR	4,900	4,581	4,526

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. June 2016 has been adjusted to include annualised results from Aer Lingus.

€ million	June 30, 2017	December 31, 2016	June 30, 2016
Interest-bearing long-term borrowings	8,024	8,515	8,819
Cash and cash equivalents	(4,074)	(3,337)	(3,068)
Other current interest-bearing deposits	(3,870)	(3,091)	(3,493)
Net debt	80	2,087	2,258
Aircraft operating lease costs multiplied by 8	6,944	6,072	5,632
Adjusted net debt	7,024	8,159	7,890
EBITDAR	4,900	4,581	4,636
Adjusted net debt to EBITDAR	1.4	1.8	1.7

ALTERNATIVE PERFORMANCE MEASURES continued

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	June 30, 2017	December 31, 2016	June 30, 2016
Adjusted net debt	7,024	8,159	7,890
Equity	5,063	5,664	4,787
IAS 19 cumulative charge to reserves (post-tax)	2,077	2,077	2,077
Adjusted equity	7,140	7,741	6,864
Adjusted net debt plus adjusted equity	14,164	15,900	14,754
Adjusted gearing	50%	51%	53%

AIRCRAFT FLEET

Number in service with Group companies

	On balance sheet fixed assets	Off balance sheet operating leases	Total June 30, 2017	Total December 31, 2016	Changes since December 31, 2016	Future deliveries	Options
Airbus A318	2	-	2	2	-	-	-
Airbus A319	22	43	65	65	-	-	-
Airbus A320	69	153	222	227	(5)	92	128
Airbus A321	26	25	51	47	4	20	-
Airbus A330-200	7	9	16	14	2	2	4
Airbus A330-300	5	10	15	14	1	1	-
Airbus A340-600	7	10	17	17	-	-	-
Airbus A350	-	-	-	-	-	43	52
Airbus A380	12	-	12	12	-	-	7
Boeing 747-400	36	-	36	37	(1)	-	-
Boeing 757-200	1	2	3	3	-	-	-
Boeing 767-300	8	-	8	8	-	-	-
Boeing 777-200	41	5	46	46	-	-	-
Boeing 777-300	9	3	12	12	-	-	-
Boeing 787-8	8	-	8	8	-	4	-
Boeing 787-9	7	9	16	16	-	2	18
Boeing 787-10	-	-	-	-	-	12	-
Embraer E170	6	-	6	6	-	-	-
Embraer E190	9	5	14	14	-	-	-
Group total	275	274	549	548	1	176	209

As well as those aircraft in service the Group also holds 6 aircraft (2016: 9) not in service.