

ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

THE ISSUER'S IDENTIFYING DATA

DATE OF END OF REFERENCE FINANCIAL YEAR	31/12/2017
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TAX IDENTIFICATION NO.	A-85845535
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CORPORATE NAME

International Consolidated Airlines Group, S.A.

REGISTERED OFFICE

El Caserío, Iberia Zona Industrial, nº 2 (La Muñoza), Camino de la Muñoza, s/n, 28042 Madrid

A. OWNERSHIP STRUCTURE

A.1 Complete the following table on the company's share capital:

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
December 18, 2017	1,028,994,647	2,057,989,294	2,057,989,294

Indicate whether different types of shares exist with different associated rights:

No

Type	Number of shares	Nominal amount	Nominal amount of voting rights	Other rights
-	-	-	-	-

A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding directors:

Name or corporate name of shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Name of direct holder	Number of voting rights	
Qatar Airways (Q.C.S.C.)	0	Qatar Airways Luxembourg S.à.r.l.	426,811,047	20.74
Capital Research and Management Company	0	Collective investment institutions managed by Capital Research and Management Company	213,580,659	10.38
Europacific Growth Fund	107,329,400	-	0	5.22
BlackRock Inc.	0	Funds and accounts managed by investors controlled by BlackRock Inc.	66,570,416	3.23
Lansdowne Partners International Limited	0	Funds and accounts managed by Lansdowne Partners (UK) LLP.	41,828,809	2.03
Invesco Limited	0	Mutual and pension funds managed by Invesco Limited and its subsidiaries	42,364,545	2.06

Indicate the most significant movements in the shareholder structure during the year:

Name or corporate name of shareholder	Date of the transaction	Description of the transaction
Capital Research and Management Company	6 March 2017	Increase above 10% of the share capital
Invesco Limited	25 May 2017	Decrease below 2% of the share capital
BlackRock Inc.	28 November 2017	Decrease below 3% of the share capital
Lansdowne Partners International Limited	30 November 2017	Decrease below 2% of the share capital
Lansdowne Partners International Limited	1 December 2017	Increase above 2% of the share capital
Lansdowne Partners International Limited	7 December 2017	Decrease below 2% of the share capital
BlackRock Inc.	15 December 2017	Increase above 3% of the share capital
Invesco Limited	18 December 2017	Increase above 2% of the share capital
Lansdowne Partners International Limited	28 December 2017	Increase above 2% of the share capital

A.3 Complete the following tables on company directors holding voting rights through company shares:

Name or corporate name of director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Name of direct holder	Number of voting rights	
Antonio Vázquez	512,291	–	–	0.03
Willie Walsh	1,844,540	–	–	0.09
Marc Bolland	0	-	-	0.00
Patrick Cescau	0	–	–	0.00
Enrique Dupuy de Lôme	533,418	–	–	0.03
James Lawrence	600,800	Lawrence Family Foundation	151,500	0.04
María Fernanda Mejía	100	–	–	0.00
Kieran Poynter	15,000	–	–	0.00
Emilio Saracho	0	-	-	0.00
Dame Marjorie Scardino	100	–	–	0.00
Alberto Terol	26,537	–	–	0.00
% of total voting rights held by the Board of Directors:				0.18

Complete the following tables on company's share rights held by the company's directors:

Name or corporate name of director	Number of direct rights	Indirect rights		Number of equivalent shares	% of total voting rights
		Direct holder	Number of voting rights		
Willie Walsh	1,263,376	–	–	1,263,376	0.06
Enrique Dupuy de Lôme	522,206	–	–	522,206	0.03

A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:

Related-party name or corporate name	Type of relationship	Brief description
–	–	–

A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:

Related-party name or corporate name	Type of relationship	Brief description
Qatar Airways (Q.C.S.C.)	Commercial	Cargo capacity agreement, passenger codeshares, wet leasing and interline agreement

A.6 Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Spanish Companies Law. Provide a brief description and list the shareholders bound by the agreement, as applicable:

No

Parts bound by agreement	% of share capital affected	Brief description of agreement
–	–	–

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

No

Shareholders involved in concerted action	% of share capital affected	Brief description of concerted action
–	–	–

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year:

Not applicable

A.7 Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company in accordance with article 5 of the Securities Market Law: If so, identify:

No

Name or corporate name
–

Remarks
–

A.8 Complete the following tables on the company's treasury stock:

At year-end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
9,940,991	0	0.48

(*) Through:

Name or corporate name of direct stake	Number of shares held directly
–	–

Total

-

Explain any significant changes during the year, pursuant to Royal Decree 1362/2007:

During the financial year 2017, International Consolidated Airlines Group, S.A. (the “Company” or “IAG”) provided four notices arising from direct acquisitions of own shares due to those acquisitions exceeding 1% of the voting rights since the preceding notice:

- notice of direct acquisitions of a total of 21,888,873 shares (1.026%) provided on March 22, 2017;
- notice of direct acquisitions of a total of 21,636,385 shares (1.014%) provided on June 15, 2017;
- notice of direct acquisitions of a total of 21,522,026 shares (1.009%) provided on September 1, 2017;
- notice of direct acquisitions of a total of 21,306,113 shares (1%) provided on November 13, 2017.

A.9 Give details of the applicable conditions and time periods governing any resolutions of the Shareholders’ Meeting to issue, buy back and/or transfer treasury stock.

The Annual Shareholders’ Meeting of IAG held on June 15, 2017 granted authorisation to the Board of Directors for the derivative acquisition of shares of the Company in the context of the provisions of article 146 of the Spanish Companies Law, according to the applicable laws and subject to the following conditions:

- a) The acquisitions may be made directly by IAG or indirectly through its subsidiaries.
- b) The acquisitions shall be made through purchase and sale, exchange or any other transaction permitted by the law.
- c) The maximum aggregate number of shares which are authorised to be purchased is the lower of the maximum amount permitted by the law and the number as represents 10 per cent of the share capital of IAG as at the date of passing the resolution, that is, June 15, 2017.
- d) The minimum price which may be paid for a share is zero.
- e) The maximum price which may be paid for a share is the highest of:
 - i) an amount equal to 5 per cent above the average of the middle market quotations for the shares as taken from the relevant stock exchange for the five business days immediately preceding the day on which the transaction is performed; and
 - ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the transaction is carried out at the relevant time;
 in each case, exclusive of expenses.
- f) The authorisation is granted for a term ending at 2018 annual Shareholders’ Meeting (or if earlier, 15 months from June 16, 2017).

The resolution of the Shareholders’ Meeting placed expressly on record that for the purposes of provisions of article 146 of the Spanish Companies Law, the shares acquired pursuant to the authorisation may be delivered directly to the employees or directors of the Company or its subsidiaries, or as a result of the exercise of option rights held thereby.

A.9 bis Estimated floating capital

	%
Estimated floating capital	55.68

A.10 Give details of any restriction on the transfer of securities or voting rights. Indicate, in particular, the existence of any restrictions on the takeover of the company by means of share purchases on the market

Yes

Description of restrictions

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

Disclosure obligations

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

In addition, in accordance with article 10.1 of the Bylaws, the Company may require any shareholder or any other person with a confirmed or apparent interest in shares of the Company to disclose to the Company in writing such information as the Company shall require relating to the beneficial ownership of or any interest in the shares in question, as lies within the knowledge of such shareholder or other person, including any information that the Company deems necessary or desirable in order to determine the nationality of the holders of said shares or other person with an interest in the Company's shares, or whether it is necessary to take steps in order to protect the operating rights of the Company or its operating affiliates or for any other reason in relation to the potential application of article 11 of the Bylaws (Limitation on share ownership).

In the event of the breach of these obligations by a shareholder or any other person with a confirmed or apparent interest in the Company's shares, the Board of Directors may suspend at any time the voting and other political rights of the relevant person in respect of the shares in relation to which the default has occurred and the relevant shareholder will not be entitled to exercise any voting rights or any political rights at any Shareholders' Meeting. If the shares with respect to which the aforementioned obligations have been breached represent a percentage equal to or greater than 0.25 per cent of the Company's capital, the Board of Directors may also direct that no transfer of any such shares is registered.

Limitations on ownership of the Company shares

In the event that the Board of Directors deems it necessary or appropriate to adopt measures to protect an operating right of the Company or of its operating subsidiaries, in light of the nationality of its shareholders or any persons with an interest in the Company's shares, it may adopt any of the measures provided for such purpose in article 11 of the Bylaws, including the determination of a maximum number of shares that may be held by non-EU shareholders, which may not be less than 40 per cent of the Company's capital stock under any circumstances.

In the event that the Board has specified a maximum number of shares that may be held by non-EU shareholders, and identified those shares the holding of which gave rise or contributed to such a determination, the Board may also (i) agree on the suspension of voting and other political rights of the holder of the relevant shares, and (ii) request that the holders dispose of the corresponding shares so that no non-EU person may directly or indirectly own such shares or have an interest in the same. If such transfer is not performed on the terms provided for in the Bylaws, the Company may acquire the corresponding shares (for their subsequent redemption) pursuant to applicable legislation. This acquisition must be performed at the lower of the following prices: (a) the book value of the corresponding shares according to the latest published audited balance sheet of the Company; and (b) the middle market quotation for an ordinary share of the Company as derived from the London Stock Exchange's Daily Official List for the business day on which they were acquired by the relevant non-EU person.

A.11 Indicate whether the shareholders' meeting has agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Law 6/2007.

No

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

Not applicable

A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

No

If so, identify the various classes of shares and, for each class of shares, the rights and obligations they confer.

Not applicable

B. SHAREHOLDERS' MEETING

B.1 Indicate, and as applicable, describe the difference in relation to the minimum rules established in the Spanish Companies Law (LSC) regarding the quorum required for constitution of the shareholders' meeting.

No

	Quorum % other than that established in article 193 of the LSC for general cases	Quorum % other than that established in article 194 of the LSC for the special cases described in article 194
Quorum required for first call	–	–
Quorum required for second call	–	–
Description of differences		
	–	

B.2 Indicate and, as applicable, describe any differences in relation to the rules established in the Spanish Companies Law (LSC) regarding the system of adopting corporate resolutions:

No

Describe how they differ from the rules established in the LSC.

	Qualified majority other than that established in article 201.2 of the LSC for general cases described in 194.1 of the LSC	Other cases requiring a qualified majority
% set by company for adopting corporate resolutions	–	–
Describe the differences		
	–	

B.3 Indicate the rules governing amendments to the company's Bylaws. In particular, indicate the majorities required to amend the Bylaws and, if applicable, the rules for protecting shareholders' rights when changing the Bylaws.

The procedure for amending the Bylaws and the applicable rules for protecting shareholders' rights when changing the Bylaws are governed by the provisions established in the Spanish Companies Law.

B.4 Indicate the attendance figures for the shareholders' meetings held during the year corresponding to this report and for the previous year:

Date of shareholders' meeting	% attending in person	% by proxy	Attendance data		Total
			% remote voting		
			Electronic means	Other	
June 16, 2016	0.11	64.20	0.00	4.28	68.59
June 15, 2017	0.06	63.72	0.01	2,75	66.54

B.5 Indicate whether the Bylaws impose any minimum requirement on the number of shares required to attend the shareholders' meetings:

No

Number of shares required to attend the shareholders' meetings

–

B.6 Section eliminated.**B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on shareholders' meetings which must be made available to shareholders on the website.**

The Company corporate governance information is available on the Company's website: www.iairgroup.com in the "Corporate Governance" section.

C. COMPANY MANAGEMENT STRUCTURE**C.1 Board of Directors****C.1.1 List the maximum and minimum number of directors included in the Bylaws:**

Maximum number of directors	14
Minimum number of directors	9

C.1.2 Complete the following table with board members:

Name or corporate name of director	Representative	Category of director	Position on the board	Date of first appointment	Date of last appointment	Election procedure
Antonio Vázquez	–	Independent	Chairman	May 25, 2010	June 15, 2017	Vote at the Shareholders' Meeting
Willie Walsh	–	Executive	Chief Executive Officer	May 25, 2010	June 15, 2017	Vote at the Shareholders' Meeting
Marc Bolland	-	Independent	Director	June 16, 2016	June 15, 2017	Vote at the Shareholders' Meeting
Patrick Cescau	–	Independent	Director	September 27, 2010	June 15, 2017	Vote at the Shareholders' Meeting
Enrique Dupuy de Lôme	–	Executive	Director	September 26, 2013	June 15, 2017	Vote at the Shareholders' Meeting
James Lawrence	–	Other external	Director	September 27, 2010	June 15, 2017	Vote at the Shareholders' Meeting
María Fernanda Mejía	–	Independent	Director	February 27, 2014	June 15, 2017	Vote at the Shareholders' Meeting
Kieran Poynter	–	Independent	Director	September 27, 2010	June 15, 2017	Vote at the Shareholders' Meeting
Emilio Saracho	-	Independent	Director	June 16, 2016	June 16, 2017	Vote at the Shareholders' Meeting
Dame Marjorie Scardino	–	Independent	Director	December 19, 2013	June 15, 2017	Vote at the Shareholders' Meeting
Alberto Terol	–	Independent	Director	June 20, 2013	June 15, 2017	Vote at the Shareholders' Meeting

Total number of directors:	11
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Indicate any board members who left the board during this information period:

Name or corporate name of director	Category of the director at the time of leaving	Leaving date
Baroness Kingsmill	Independent	June 15, 2017

C.1.3 Complete the following tables on board members and their respective categories:

EXECUTIVE DIRECTORS

Name or corporate name of director	Position held in the company organization chart
Willie Walsh	Chief Executive Officer
Enrique Dupuy de Lôme	Chief Financial Officer
Total number of executive directors	2
% of the total of the board	18.18

PROPRIETARY DIRECTORS

Name or corporate name of director	Name or corporate name of significant shareholder represented or proposing appointment
–	–
Total number of proprietary directors	–
% of the total of the board	–

EXTERNAL INDEPENDENT DIRECTORS

Individual or corporate name of director	Profile
Antonio Vázquez	<p>Key areas of experience: consumer, sales/marketing, finance, governance.</p> <p>Current external appointments: Member, Advisory Board of the Franklin Institute. Member, Cooperation Board of Loyola University. Trustee, Nantik Lum Foundation.</p> <p>Previous relevant experience: Chairman, Iberia 2012-2013. Chairman and CEO, Iberia 2009-2011. Chairman and CEO, Altadis Group 2005-2008. Chairman, Logista 2005-2008. Director, Iberia 2005-2007. Chief Operations Officer and other various positions, Cigar Division of Altadis Group 1993-2005. Various positions at Osborne 1978-1983 and Domecq 1983-1993. Began his career in consultancy at Arthur Andersen & Co.</p>
Marc Bolland	<p>Key areas of experience: general management, commercial management/marketing, retail, hospitality industry.</p> <p>Current external appointments: Head of European Portfolio Operations, The Blackstone Group, Director, Coca-Cola Company. Non-Executive Director, Exor S.p.A. Vice President, UNICEF UK.</p> <p>Previous relevant experience: Chief Executive, Marks & Spencer 2010-2016. Chief Executive, WM Morrison Supermarkets PLC 2006-2010. Director, Manpower USA 2005-2015. Chief Operating Officer 2005-2006, Director 2001-2005 and other executive and non-executive positions, Heineken 1986-2001.</p>
Patrick Cescau	<p>Key areas of experience: consumer, finance, sales/marketing, governance.</p> <p>Current external appointments: Chairman, InterContinental Hotel Group. Trustee, LeverHulme Trust. Member, Temasek European Advisory Panel. Patron, St Jude India Children's Charity.</p> <p>Previous relevant experience: Senior Independent and Director, Tesco 2009-2015. Director, INSEAD 2009-2013. Senior Independent and Director, Pearson 2002-2012. Group Chief Executive, Unilever 2005-2008. Chairman, Unilever UK. Deputy Chairman, Unilever The Netherlands, Food Director. Prior to being appointed to the Board of Unilever in 1999 as Group Finance Director, he was Chairman of a number of the company's major operating companies and divisions including the USA.</p>

Individual or corporate name of director	Profile
María Fernanda Mejía	<p>Key areas of experience: general management, marketing and sales, supply chain, strategic planning, corporate transactions.</p> <p>Current external appointments: Senior Vice President, The Kellogg Company. President, Kellogg Latin America. Corporate Officer and member of The Kellogg's Company Executive Leadership Team. Board Member of the Council of the Americas.</p> <p>Previous relevant experience: Vice-President and General Manager Global Personal Care and Corporate Fragrance Development Colgate-Palmolive 2010-2011, Vice-President Marketing and Innovation Europe/South Pacific Division Colgate-Palmolive 2005-2010, President and CEO Spain and Spain Holding Company, 2003-2005, General Manager Hong Kong and Director, Greater China Management team, 2002-2003, Marketing Director Venezuela, 2000-2002, Marketing Director Ecuador, 1998-2000.</p>
Kieran Poynter	<p>Key areas of experience: professional services, finance services, corporate governance and corporate transactions.</p> <p>Current external appointments: Chairman, F&C Asset Management. Senior Independent Director and Chairman of the Audit Committee, British American Tobacco.</p> <p>Previous relevant experience: Chairman, Nomura International 2009-2015. Member, Advisory Committee for the Chancellor of the Exchequer on the competitiveness of the UK financial services sector 2009-2010. Member, President's committee of the Confederation of British Industry 2000-2008. UK Chairman and Senior Partner, PricewaterhouseCoopers 2000-2008. UK Managing Partner, and other executive positions, PricewaterhouseCoopers 1998-2000.</p>
Emilio Saracho	<p>Key areas of experience: corporate finance, investment banking, corporate transactions.</p> <p>Current external appointments: Advisor, Cinven Spain. Director, Altamar Capital Partners. Director, Inditex.</p> <p>Previous relevant experience: Chairman of Banco Popular Español 2017. Vice Chairman and Member of the Investment Banking Management Committee, JPMorgan 2015-2016. Deputy CEO 2012-2015, CEO Investment Banking for EMEA 2012-2014 and member Executive Committee 2009-2013, JP Morgan CEO, JP Morgan Private Banking EMEA 2006-2012. Director, Cintra 2008. Director, ONO 2008. Chairman, JP Morgan Spain and Portugal 1998-2006. Global Investment Banking Head, Santander Investment (UK) 1995-1998. Spanish Market Manager, Goldman Sachs International 1990-1995.</p>
Dame Marjorie Scardino	<p>Key areas of experience: commercial management, government affairs, communications, digital and media, legal services.</p> <p>Current external appointments: Senior Independent Director, Twitter. Senior Independent Director, Pure Tech Health. Member, charitable boards including The MacArthur Foundation (Chairman), London School of Hygiene and Tropical Medicine (Chairman), and The Carter Center. Member, Board of the Royal College of Art. Member of the Visiting Committee for the MIT Media Lab. Member, Board of Bridge International Academies (HQ-Kenya).</p> <p>Previous relevant experience: Chief Executive Officer, Pearson 1997-2012. Chief Executive Officer, The Economist Group from 1993-1996. President, The Economist Group US 1985-1993. Lawyer practising in the US 1975-1985.</p>
Alberto Terol	<p>Key areas of experience: finance, professional services, information technology, hospitality industry. Current external appointments: Leading Director and Chairman of the Nominations, Remuneration and Corporate Governance Committee, Indra Sistemas, Chairman of the Supervisory Board, Senvion. Director, Broseta Abogados. International Senior Advisor, Centerbridge. Independent Director Varma, Independent Director Schindler España and Patron of Fundación Telefonica. Executive Chairman of various family owned companies.</p> <p>Previous relevant experience: Director, OHL 2010-2016. Director, Aktua 2013-2016. Director, N+1 2014-2015. International Senior Advisor, BNP Paribas 2011-2014. Member, Global Executive Committee Deloitte 2007-2009. Managing Partner, EMEA Deloitte 2007-2009. Managing Partner, Global Tax & Legal Deloitte 2007-2009. Member, Global Management Committee Deloitte 2003-2007. Managing Partner, Latin America Deloitte 2003-2007, Integration Andersen Deloitte 2002-2003, Europe Arthur Andersen 2001-2002, Global Tax & Legal Arthur Andersen 1997-2001, Garrigues-Andersen 1997-2000.</p>
Total number of external independent directors	8
% of the board	72.73

List any external independent directors who receive from the company or group any amount or payment other than standard director remuneration or who maintain or have maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained the said relationship.

No

If applicable, include a justified statement from the board detailing the reasons why the said director may carry on their duties as an external independent director.

Name or corporate name of director	Description of the relationship	Justified statement
–	–	–

OTHER NON-EXECUTIVE DIRECTORS

List the reasons why these cannot be considered proprietary or external independent directors and detail their relationships with the company, its executives or shareholders.

Name or corporate name of director	Reasons	Company, executive or shareholder with whom the relationship is maintained
James Lawrence	On May 5, 2017 he was appointed as Non-Executive Director of AerCap Holdings N.V., a listed company that is a global operator in the aircraft lease market and a significant supplier of the Group.	AerCap Holdings N.V.

Total number of other non-executive directors	1
% of the total of the board	9.09

List any changes in the category of each director which have occurred during the year.

Name or corporate name of director	Date of change	Previous category	Current category
James Lawrence	May 5, 2017	Independent	Other external

C.1.4 Complete the following table on the number of female directors at the end of the last four years and their category.

	Number of female directors				% of total directors of each category			
	Year t	Year t-1	Year t-2	Year t-3	Year t	Year t-1	Year t-2	Year t-3
Executive	0	0	0	0	0	0	0	0
Proprietary	0	0	0	0	0	0	0	0
External independent	2	3	3	3	25.00	30.00	33.33	30.00
Other non-executive	0	0	0	0	0	0	0	0
Total	2	3	3	3	18.18	25.00	25.00	23.08

C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female directors on the board to guarantee an even balance between men and women.

Explanation of measures

The Board approved on January 2016 a Directors Selection and Diversity policy which superseded the former IAG Board Diversity policy. This Policy sets out the principles that govern the directors' selection process and the approach to diversity on the Company's Board of Directors.

As stated in this Policy, IAG is committed to promoting equality and diversity both at Board and management level. At the same time, the appointment of directors to the Board shall be made in accordance with a formal, rigorous and transparent procedure, ensuring that the proposals for appointment are based on a prior analysis of the Board's needs and favour a diversity of knowledge, experience and gender.

This Policy incorporates the former IAG diversity principles while regulating the process for appointing directors. Under this Policy, director appointments are evaluated against the existing balance of skills, knowledge, independence, experience and diversity on the Board, with directors asked to be mindful of diversity, inclusiveness and meritocracy considerations when examining nominations to the Board.

When reviewing board appointments, the Board's policy is to consider candidates from a wide variety of backgrounds, without discrimination based on gender, race, colour, age, social class, beliefs, religion, sexual orientation, disability or other factors.

The Board recognises the value of diversity as a tool to enrich its discussions and decision-making process. Consequently, it is the Board's objective to create a board whose composition ensures a healthy diversity of opinions, perspectives, skills, experiences, backgrounds and orientations. Specifically, this will include an appropriate gender ratio, as well as including diversity in other senses, subject to the overriding principle of merit and suitability mentioned above.

This will be achieved over time, taking account of the valuable knowledge and experience of the present board members and the value of a more diverse Board.

Accordingly, the Directors Selection and Diversity Policy establishes a female representation objective of 33 per cent for 2020 following the recommendation included in the final Davies report published in the UK and exceeding the 30 per cent recommended in the Spanish Good Governance Code for Listed Companies.

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

The Board, through its Nominations Committee, regularly reviews the percentage of women that sit on the Board and on the Company's Management Committee, as well as the number of women in the Group's workforce worldwide. The IAG Board and Management Committee continue to focus on this important area.

The Nominations Committee leads the process for Board appointments. It evaluates the balance of skills, experience, independence, diversity and knowledge on the Board and, in the light of this evaluation, considers the role and capabilities required for a particular appointment. This evaluation is made alongside succession plans for directors and takes into consideration any conclusions from the annual review of Board performance. Specific measures taken during the reporting period by the Nominations Committee and the Board and the results of such measures are explained in the following sections C.1.6 and C.1.6 bis.

As further detailed in the following section, the Directors Selection and Diversity Policy states the Company's intention only to engage, so far as practicable, search firms which have signed up to the latest UK Voluntary Code of Conduct for Executive Search Firms (or its international equivalent). This is a voluntary code of conduct to address gender diversity on corporate boards and best practice for the related search processes. The code lays out steps for search firms to follow across the search process, from accepting a brief through to final induction.

IAG's Directors Selection and Diversity Policy is published on the Company's website.

C.1.6 Explain the measures taken, if applicable, by the nomination committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors, and whether the company makes a conscious effort to search for female candidates who have the required profile.

Explanation of measures

As previously stated, the Nominations Committee leads the process for Board appointments. It evaluates the balance of skills, experience, independence, diversity and knowledge in the Board and, in the light of this evaluation, considers the role and capabilities required for a particular appointment. The appointment of new directors is made in accordance with a formal, rigorous and transparent process.

An overriding principle is that all appointments to the Board will be based upon merit and suitability of the candidate to the particular role being filled. As stated in the Directors Selection and Diversity Policy, it is the Board's objective to create a board whose composition ensures a healthy diversity of opinions, perspectives, skills, experiences, backgrounds and orientations. Specifically, this includes an appropriate gender ratio, as well as including diversity in other senses, subject to the overriding principle of merit and suitability mentioned above.

In support of this Policy and, particularly, of the gender ratio objective, IAG has stated that, when conducting a search for a new board member, so far as practicable, it intends only to engage search consultants who have signed up to the UK Voluntary Code of Conduct on gender diversity for executive search firms or an international equivalent.

As previously explained, this is a voluntary code of conduct to address gender diversity on corporate boards and best practice for the related search processes, which lays out steps for search firms to follow across the search process.

According to this code, when taking a specific brief, search firms should look at overall board composition and, in the context of the board's agreed aspirational goals on gender balance and diversity more broadly, explore with the Chairman if recruiting women directors is a priority on this occasion.

In addition, when presenting their longlists, search firms should try to ensure that at least 30 per cent of the candidates are women – and, if not, should explicitly justify to the client why they are convinced that there are no other qualified female options, through demonstrating the scope and rigour of their research. Search firms should seek to ensure that the shortlist is appropriately reflective of the longlist, discussing with their clients each woman on the longlist and aiming to have at least one woman whom they would 'strongly recommend' that the client should meet.

Finally, search firms who are signatories to this code should seek to broaden their own databases of potential female candidates, and are encouraged to invest time into developing relationships with the pipeline of future female candidates.

This code has been signed up to by over 70 search firms, who collectively account for the vast majority of the board work in the UK. All have committed to following the code's provisions in their board search processes, irrespective of sector, company and organisation and to ensuring that all provisions of the code are embedded in their day to day practices.

In parallel, when a selection process is carried out, the Company informs the selected search firm of its policies and objectives regarding diversity. It also ensures that longlist include an adequate number of female candidates.

When, despite the measures taken, there are few or no female directors, explain the reasons.

Explanation

–

C.1.6.bis Explain the conclusions of the Nominations Committee with respect to verification of compliance with the director selection policy. In particular, explain how this policy promotes the objective of having female directors represent at least 30% of the total members of the Board of Directors by 2020.

The Nominations Committee, at its meeting held on December 13, 2017, carried out a check of compliance with its Directors Selection and Diversity Policy. One appointment was made in 2017 to the Board of Directors of the Company. The process followed to complete this appointment was reviewed in detail by the Committee who concluded that:

- a) The procedure, led by the Nominations Committee, was formal, rigorous and transparent.
- b) The proposal was based on a prior analysis of the needs of the IAG Board of Directors. This evaluation was made alongside succession plans for directors and taking into consideration the conclusions from the annual review of Board performance.
- c) The Company engaged a professional and well-known search firm, Spencer Stuart, which is a signatory to the UK Voluntary Code of Conduct for Executive Search Firms.
- d) The process followed conformed to all the gender diversity requirements established in both the IAG's policy and in the UK Voluntary Code of Conduct on gender diversity for executive search firms.

- e) The final proposal referred to a female applicant who satisfies the legal and statutory conditions required to hold office as a director, is of suitable repute and has the appropriate knowledge, experience, skills and availability for the exercise of the functions and duties of such office.
- f) Gender diversity principles were followed throughout the process, while preserving the general diversity and merit based appointment principles established in the policy.

A detailed explanation of how this Policy promotes the achievement of the gender diversity objective established by the Company is included in the two preceding sections.

In addition to this and from a general perspective, the Nominations Committee regularly reviews the percentage of women that sit on the Board and on the Company's Management Committee. It also monitors the number of women within the Group's workforce worldwide. This information (and the progress made towards achieving greater diversity) is published annually in the Company's annual report.

C.1.7 Explain how shareholders with significant holdings are represented on the board.

There are no significant shareholders with representation on the Board of Directors.

C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 3% of the share capital.

Name or corporate name of shareholder	Reason
-	-

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained.

No

Name or corporate name of shareholder	Explanation
-	-

C.1.9 Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board their reasons and through which channel and, if tendered in writing, list below the reasons given by that director:

No

Name of director	Reasons for resignation
-	-

C.1.10 Indicate what powers, if any, have been delegated to the chief executive officer(s).

Name or corporate name of director	Brief description
Willie Walsh	All of the powers of the Board have been permanently delegated to the IAG Chief Executive for their exercise, jointly and severally, save for those which cannot be delegated pursuant to the Bylaws, the Board Regulations or the applicable legislation.

C.1.11 List the directors, if any, who hold office as directors or executives in other companies belonging to the listed company's group:

Individual or corporate name of director	Corporate name of entity within the Group	Position	Do they have executive functions?
Willie Walsh	Aer Lingus plc	Non-Executive Chairman	No

C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets, insofar as these have been disclosed to the company.

Name or corporate name of director	Name of listed company	Position
Marc Bolland	The Coca-Cola Company	Non-Executive Director
Marc Bolland	Exor S.p.A	Non-Executive Director
Patrick Cescau	InterContinental Hotels Group PLC	Non-Executive Chairman
James Lawrence	Smurfit Kappa Group	Non-Executive Director
James Lawrence	Avnet Inc.	Non-Executive Director
James Lawrence	AerCap Holdings N.V.	Non-Executive Director
Kieran Poynter	British American Tobacco PLC	Non-Executive Director
Emilio Saracho	Industria de Diseño Textil, S.A. (Inditex)	Non-Executive Director
Dame Marjorie Scardino	Twitter, Inc.	Non-Executive Director
Alberto Terol	Indra Sistemas, S.A.	Non-Executive Director

C.1.13 Indicate and, where appropriate, explain whether the board regulations establish rules on the maximum number of company boards on which its directors may sit:

Yes

Explanation of rules

According to article 17.5 of the Board Regulations, unless otherwise authorised by the Nominations Committee, a director shall not hold more than six other directorships of which no more than four, in the case of non-executive directors, and no more than one, in the case of executive directors, can be in public listed companies. In any event, prior consent from the Nominations Committee is required before an executive director can accept any external directorship appointment.

Asset-holding or pure investment companies are excluded for the purposes of the preceding paragraph. Furthermore, companies belonging to the same group shall be considered as a single company.

C.1.14 Section eliminated.**C.1.15 List the total remuneration of the board:**

Board remuneration (thousands of euros)	8,295
Amount of pension rights accumulated by directors (thousands of euros)	320
Amount of pension rights accumulated by former directors (thousands of euros)	3,752

C.1.16 List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year.

Name or corporate name	Position(s)
Alex Cruz	Executive Chairman of British Airways
Luis Gallego	Executive Chairman of Iberia
Robert Boyle	Director of Strategy
Javier Sanchez-Prieto	Vueling Chief Executive Officer
Ignacio de Torres	Director of Global Services
Christopher Haynes	General Counsel
Julia Simpson	Chief of Staff
Andrew Crawley	Avios Chief Executive Officer
Stephen Kavanagh	Aer Lingus Chief Executive Officer
Lynne Embleton	IAG Cargo Chief Executive Officer
Total remuneration received by senior management (thousands of euros)	13,793

C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies.

Name or corporate name of director	Name or corporate name of significant shareholder	Position
–	–	–

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the board with significant shareholders and/or their group companies.

Name or corporate name of director	Name or corporate name of significant shareholder	Relationship
–	–	–

C.1.18 Indicate whether any amendments have been made to the board regulations during the year.

No

Description of amendments

C.1.19 Indicate the procedures for selection, appointing, re-electing, evaluating and removing directors. List the competent bodies, procedures and criteria used for each of these procedures.

Appointment of directors

The Shareholders' Meeting or, if applicable, the Board of Directors itself shall be entitled to designate the members of the Board of Directors subject to the current law provisions.

Any vacancies may be covered by the Board of Directors by means of cooption, according to the applicable law, on an interim basis until the next Shareholders' Meeting is held, which shall ratify, as the case may be, the appointments or appoint the persons that are to replace any directors not ratified, or eliminate any vacant positions.

Proposals for the appointment of directors submitted by the Board to the Shareholders' Meeting for consideration, as well as decisions on appointments made by the Board of Directors using the powers of cooption legally attributed to it, shall be in respect of persons that satisfy the legal and Bylaw requirements to hold office as director, are of suitable repute and have appropriate professional skills, experience, knowledge and availability for the exercise of the functions and duties of such office.

Proposals for the appointment or renewal of directors submitted to the Shareholders' Meeting by the Board, as well as provisional appointments by means of cooption, must be approved on the proposal of the Nominations Committee in the case of independent directors and subject to a report

from the Nominations Committee in all other cases.

Directors shall hold office for the period set forth in the Bylaws (one year) unless the Shareholders' Meeting resolves on their removal from office or dismissal, or they stand down from office.

Selection of directors

In identifying suitable candidates, the Nominations Committee may use open advertising or the services of external advisers to facilitate the search, and consider candidates from a wide range of backgrounds with due regard to diversity, including gender as well as other forms of diversity. Selection will be based on merit and against objective criteria, as well as considering the candidates' ability to commit sufficient time to the role.

In accordance with the recommendation included in the Spanish Good Governance Code for Listed Companies, the Board approved in January 2016 a Directors Selection and Diversity Policy which ensures that appointments are based on a prior analysis of the Board's needs and favours a diversity of knowledge, experience and gender. In particular and as established in this policy, IAG only engages external search consultants who have signed up to the UK Voluntary Code of Conduct on gender diversity for executive search firms or an international equivalent.

Re-election of directors

At the end of their term of office, directors may be re-elected one or more times for periods of equal duration to that established in the Bylaws.

Proposals for re-election of directors that the Board of Directors resolves to submit to the Shareholders' Meeting shall be subject to a formal preparation process, which must include a proposal made by the Nominations Committee, in the case of independent directors, and the report from the Nominations Committee in all other cases. The Nominations Committee's proposal or report shall be prepared having given due regard to the performance, commitment, capacity, ability and availability of the director to continue to contribute to the Board with the knowledge, skills and experience required. To this end, the directors sitting on the Nominations Committee shall be evaluated by the Nominations Committee itself, and each of them shall abstain from participating in any debate or vote that may affect them.

Evaluation of directors

Under the Chairman's leadership, the performance of individual directors, the Board of Directors as a whole and the Board Committees is evaluated at least once a year.

During the reporting period, the Chairman met each non-executive directors individually to discuss their contribution to the Board. In addition to this, the Senior Independent Director met with the other non-executive directors to discuss the performance of the Chairman, and the outcome of this evaluation was reported and considered by the Nominations Committee and by the Board as a whole.

Resignation and dismissal of directors

Directors shall cease to hold office when the term of office for which they were appointed expires and they are not re-appointed or whenever so decided by the Shareholders' Meeting.

Notwithstanding the above, a director must place his position at the disposal of the Board of Directors and, at its request, formally resign from office in the cases established in article 16.2 of the Board Regulations.

Directors who stand down before the end of their term of office, due to resignation or for any other reason, must state their reasons in a letter to be sent to all the directors. Without prejudice to the notification of such vacation of office as a price sensitive information communication, the reasons for the same must be explained in the Annual Corporate Governance Report.

The Board of Directors may only propose the removal of an independent director before the end of the mandate established in the Bylaws when it considers there is just cause, following a report by the Nominations Committee. For these purposes, just cause shall be deemed to exist when the director takes up new positions or enters into new obligations that prevent him from dedicating the necessary time to the performance of the duties inherent in his office, breaches the duties inherent in his office or unexpectedly becomes subject to any of the circumstances provided for in article 16.2 of the Board Regulations. The removal may also be proposed as a result of takeover bids, mergers or other similar corporate transactions that determine a material change to the shareholding structure of the Company.

C.1.20 Explain to what extent the annual evaluation of the board has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of amendments

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

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

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

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

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

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

C.1.20 bis Describe the evaluation process and the areas evaluated by the board with the aid, as applicable, of an external consultant, with respect to the diversity of its composition and competencies, the functioning and composition of its committees, the performance of the board chairman and of the chief executive, and the performance and contribution of each director.

The Board and committees' performance evaluation was conducted internally in 2017. The last external evaluation was completed in 2016. The 2017 review took the format of a self-assessment survey designed to test directors' opinions and views on a number of matters including: the role and organisation of the Board, Board composition, organisation of meetings, quality of Board debate, knowledge and experience, relationship with management, and progress made against the 2017 action plan. Additional questionnaires were distributed to all committees' members as applicable.

The Board Secretary prepared a report on the performance evaluation of the Board and each of the committees. The Board report was considered by the Nominations Committee; with each of the committees' reports and the results of the questionnaires being considered by the different committees and discussed at the Board meeting held in January 2018. The review concluded that the Board had effectively fulfilled its responsibilities during 2017, and the general progress made was unanimously recognised by the Board.

The Chairman also met with each director individually to provide feedback on their performance. He also discussed the functioning of the Board as a whole and the contribution expected of each director.

The Board evaluation also included an assessment of performance against the objectives agreed for 2017. In general terms, good progress was made against these objectives as detailed in the previous section.

C.1.20 ter List any business relationships held by the consultant or any company in its group with the company or any group company.

Not applicable

C.1.21 Indicate the cases in which directors must resign.

In accordance with article 16.2 of the Board Regulations, a director must place his position at the disposal of the Board of Directors and, at its request, formally resign from office in the following cases:

- a) When he or she ceases to hold the executive positions to which his or her appointment as director is linked, or when the reasons for which he was appointed no longer exist. In particular, in the case of nominee directors, when the shareholder(s) that proposed, requested or determined their appointment sell or transfer their holding in whole or in part, so that such holding has no longer the status of significant or is not sufficient to justify the appointment.
- b) When, due to supervening circumstances, the director is subject to any of the grounds for incompatibility or prohibition provided for in the law, the Corporate Bylaws or the Board Regulations.
- c) When he is prohibited by law from acting as a director.
- d) If requested to do so by the Board of directors as a result of a determination made in accordance with the provisions of article 11.7 of the Bylaws, to the extent that such determination arises as a result of his or her membership of the Board of Directors.
- e) When the director ceases to have the good standing, suitability, reliability, competence, availability or commitment to office necessary to be a director of the Company.
- f) When his or her presence on the Board of Directors might jeopardise, for any reason, directly, indirectly or through any person related to him, the loyal and diligent exercise of his functions in accordance with the corporate interest.
- g) When his or her remaining on the Board might affect the Company's credit or reputation in the market or otherwise jeopardise its interests.

C.1.22 Section eliminated.

C.1.23 Are qualified majorities other than those prescribed by law required for any type of decision?

No

If applicable, describe the differences.**Description of differences**

–

C.1.24 Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed chairman of the board:

No

Description of requirements

–

C.1.25 Indicate whether the chairman has the casting vote:

No

Matters where the Chairman has the casting vote

–

C.1.26 Indicate whether the bylaws or the board regulations set an age limit for directors.

No

C.1.27 Indicate whether the bylaws or the board regulations set a limited term of office for external independent directors different from the one established in the applicable law.

No

Maximum number of years in office

–

C.1.28 Indicate whether the bylaws or the board regulations stipulate specific rules on appointing a proxy to the board, the procedures for doing so and, in particular, the maximum number of proxy appointments a director may hold, as well as whether any limit has been established in relation to the categories of director that may be appointed as a proxy, further to the limits imposed by law. If so, give brief details.

In accordance with article 40 of the Bylaws and 10 of the Board Regulations, directors shall make every effort to attend Board meetings.

Notwithstanding the above, all directors may cast their vote through, and grant a proxy to another director, although non-executive directors may only grant a proxy to other non-executive director.

Proxies must be granted in writing, addressed to the Chairman or to the Board Secretary, and must be granted specifically for each meeting. For such purposes, a message addressed to the Chairman or the Secretary by letter, fax, telegram or e-mail shall be valid.

No director may hold more than three proxies, with the exception of the Chairman, who shall not be subject to such limit but may not represent more than half of the members of the Board of Directors.

The director granting the proxy shall endeavour, where possible, to include voting instructions in the proxy letter.

C.1.29 Indicate the number of board meetings held during the year and how many times the board has met without the Chairman's attendance. Attendance will also include proxies appointed with specific instructions.

Number of board meetings	11
Number of board meetings held without the Chairman's attendance	0

If the chairman is an executive director, indicate the number of meetings held without the presence of an executive director, in person or by proxy, and under the chairmanship of the lead director.

Number of meetings	–
Indicate the number of meetings of the various board committees held during the year.	–
Number of meetings of the Executive or Delegate Committee	–
Number of meetings of the Audit and Compliance Committee	8
Number of meetings of the Nomination and Remuneration Committee	–
Number of meetings of the Nominations Committee	6
Number of meetings of the Remuneration Committee	5
Number of meetings of the Safety Committee	2

C.1.30 Indicate the number of board meetings held during the year with all members in attendance. Attendance will also include proxies appointed with specific instructions.

Number of meetings held with all directors in attendance	6
% of attendances of the total votes cast during the year	92,86

C.1.31 Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the board are certified previously:

Yes

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior to their approval by the board.

Name	Position
Willie Walsh	Chief Executive Officer
Enrique Dupuy de Lôme	Chief Financial Officer

C.1.32 Explain the mechanisms, if any, established by the board to prevent the individual and consolidated financial statements it prepares from being laid before the shareholders' meeting with a qualified audit report.

In accordance with article 35.4 of the Board Regulations, the Board of Directors shall prepare the Company's financial statements so that such financial statements do not give rise to any restrictions or qualifications by the auditors. This notwithstanding, if the Board of Directors deems it appropriate to prepare the financial statements subject to restrictions or qualifications in the opinion of the auditors, it must clearly explain to shareholders the scope of such restrictions or qualifications and the reasons behind its actions.

The Audit and Compliance Committee has the duty to review the Company's annual financial statements, monitor compliance with legal requirements, the appropriate definition of the scope of consolidation and the correct application of generally accepted accounting principles, as well as reviewing significant financial reporting judgements in the Company's annual accounts.

C.1.33 Is the secretary of the board also a director?

No

If the secretary is not a director, complete the following table:

Name or corporate name of the secretary	Representative
Álvaro López-Jorrín	–

C.1.34 Section eliminated.

C.1.35 Indicate and explain, where applicable, the specific mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

The relations of the Board of Directors with the Company's auditors is channelled through the Audit and Compliance Committee.

The Board of Directors refrains from engaging any audit firm entitled to be paid by the Company for all services rendered fees in an amount in excess of 10 per cent of such firm's total revenue for the previous year.

With regard to the external auditor, the Audit and Compliance Committee has, among others, the following powers:

- i) To submit to the Board proposals on the selection, appointment, reappointment and substitution of the auditor, assuming responsibility for the selection process and the terms of its engagement, its remuneration (ensuring its independence and quality are not compromised), the scope of its professional mandate and the revocation or renewal of its appointment.
 - ii) To regularly collect information from the auditors on the audit plan and its implementation, as well as preserving their independence in the exercise of their functions. In particular, to ensure that the Company and the external auditor respect the current legislation on provision of non-audit services, the limits on the auditor's business concentration and, in general, any other rules regarding auditor independence.
 - iii) To oversee compliance with the audit agreement.
 - iv) To serve as a channel for communication between the Board and the auditors and to assess the results of each audit.
 - v) To review the effectiveness of the external audit process.
 - vi) To establish the appropriate relationships with the external auditor in order to receive information on matters which may jeopardise its independence, for its examination by the Audit and Compliance Committee, and on any other matters relating to the audit process, and, as appropriate, the authorisation of permissible non-audit services as legally established, as well as any other communications provided for in the audit legislation and standards.
- In all cases, the declaration of their independence in relation to the entity or entities directly or indirectly related thereto must be received annually from the external auditors, as well as information on the additional services of any kind provided and the corresponding fees received.
- vii) To issue on an annual basis, prior to the issue of the auditor's report, a report expressing an opinion on whether the independence of the auditor is compromised. This report must contain, in all cases, the assessment of the provision of the additional services referred to in the preceding paragraph, taken individually and as a whole, other than the statutory audit and in relation to the rules on independence or to audit regulations.
 - viii) To develop and implement a policy on the engagement of the external auditors to supply additional non-audit services pursuant to the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council.
 - ix) To ensure that the external auditor has a yearly meeting with the Board of Directors in full to inform on the work undertaken and any developments in the Company's risk and accounting positions.
 - x) In the event of the external auditor's resignation, to review any underlying circumstances.

During 2017, the Audit and Compliance Committee reviewed the work undertaken by the external auditors and assessed their independence, objectivity and performance. In doing so, it took into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services. The Audit and Compliance Committee monitored the auditors' compliance with relevant regulatory, ethical and professional guidance on the rotation of partners, and assessed its qualifications, expertise, resources and the effectiveness of the audit process, including a report from the external auditor on its own internal quality procedures. The Audit and Compliance Committee decided not to tender the audit for the Company for fiscal year 2018.

The Audit and Compliance Committee receives a quarterly report on compliance with the Group's External Auditor Services Policy, which restricts the volume and types of non-audit services that Ernst & Young can provide throughout the Group.

The Board of Directors approved in January 2016 a Shareholder Communication Policy regarding communication and contact with shareholders, institutional investors and proxy advisors that regulates the relationship and channels of communication of the Company with shareholders, institutional investors and proxy advisors. This policy complies in full with market abuse regulations and provides an equitable treatment to shareholders in the same position.

In addition, the Company has a Group Standing Instruction on business integrity in order to ensure compliance with competition and anti-bribery legislation. As stated in this Instruction, IAG and its staff are bound by values of integrity and responsibility; the Company is firmly committed to maintaining the highest standards of ethics, honesty, openness and accountability.

This Instruction applies to all staff of IAG and its subsidiary companies and to suppliers and their representatives when working for IAG. A breach of these principles will be managed in accordance with the Company's established disciplinary procedures or contract engagement terms. In accordance with this policy, staff should immediately report any actual or potential breaches of the Instruction to their line managers or, if not appropriate for whatever reason, to the Chief of Staff or General Counsel. All matters will be dealt with in confidence. Timely, appropriate and thorough investigations will be carried out into all cases of actual or suspected breaches whether discovered or reported. There is also mandatory training providing specific guidance on how these policies apply to staff in their respective roles.

This Instruction also prevents the offering or making of payments or the offering or promising of gifts to dishonestly influence a decision or

to induce or reward a person for improper performance of their functions or job activity.

The Company has established whistleblowing procedures so that staff can report any malpractice. In addition to this, there is a whistle blower hotline as an alternative for those employees who, for whatever reason, do not feel comfortable using internal procedures. This hotline is an independent, confidential call bureau. All calls are forwarded to the highest level of management within IAG.

Conflict of interest situations are also covered within IAG's employees' regulations, establishing appropriate reporting obligations. If employees become aware of any potential conflicts of interest, these must be disclosed to the Company as soon as possible.

C.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor.

No

Outgoing auditor	Incoming auditor
–	–

Explain any disagreements with the outgoing auditor and the reasons for the same.

No

Explanation of the disagreements
–

C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group.

Yes

	Company	Group	Total
Amount of non-audit work (in thousands euros)	27	888	915
Amount of non-audit work as a % of the total amount billed by the audit firm	4%	19%	17%

C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

No

Explanation of reasons
–

C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited.

	Company	Group
Number of consecutive years	8	8
	Company	Group
Number of years audited by current audit firm/Number of years the company's financial statements have been audited (%)	100	100

C.1.40 Indicate and give details of any procedures through which directors may receive external advice:

Yes

Procedures

In accordance with article 26 of the Board Regulations, in order to be assisted in the performance of his or her duties, any director may request the hiring of legal, accounting, technical, financial, commercial or other expert advisors, whose services shall be paid for by the Company.

The assignment must deal with specific issues of certain significance and complexity arising during the performance of the director's duties.

The request for an expert to be hired shall be channelled through the Chairman or the Company Secretary, who may submit it to the prior approval of the Board of Directors. Such approval may be denied in well-founded instances, including the following circumstances:

- a) Where it is not necessary for the proper performance of the duties entrusted to the directors;
- b) Where the cost thereof is not reasonable in light of the significance of the issues and the assets and income of the Company;
- c) Where the technical assistance sought may be adequately provided by the Company's own experts and technical personnel; or
- d) Where it may entail a risk to the confidentiality of the information that must be made available to the expert.

C.1.41 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:

Yes

Procedures

Calls to Board meetings always include, unless there is a justified cause, the meeting agenda (which shall indicate any items requiring a resolution or decision by the Board of Directors) and shall be accompanied, as the case may be, by the information deemed necessary. Call notices shall be sent sufficiently in advance to ensure that directors receive them no later than the seven days before the date of the meeting, except in the case of meetings deemed urgent by the Chairman (or by the Deputy Chairman, in the event of absence, illness or inability of the Chairman). This notice period shall not apply to cases in which the Board Regulations stipulate a specific call period.

In addition, in accordance with article 9 of the Board Regulations, prior to the commencement of each fiscal year, the Board of Directors shall set a schedule for its ordinary meetings. This schedule may be modified by a resolution adopted by the Board of Directors or by a decision made by the Chairman, who shall endeavour to notify the modification to the directors not less than five days in advance of the date originally set for the meeting or of the new date set in lieu thereof, if the latter date falls earlier.

Papers for Board meetings are typically distributed to the Board members in the week prior to the relevant meeting.

In this regard, the Chairman shall ensure that the directors receive accurate, appropriate and clear information, in particular about the Company's performance, its strategy, challenges and opportunities in order to enable the Board of Directors to make sound decisions and monitor correctly the Company's performance and shall lead Board of Directors discussions with a view to encouraging effective decision-making and a constructive debate on the performance of the Company, its growth strategy and commercial objectives encouraging the active participation of the directors during meetings and safeguarding their freedom of expression.

In accordance with article 25 of the Board Regulations, a director shall have the broadest powers to obtain information regarding any aspect of the Company, to examine its books, records and documents, to inspect its facilities, and to communicate with the senior managers of the Company. The exercise of such powers of information shall be channelled through the Chairman or the Board Secretary.

In addition, all Board members have access to the Board Secretary and the Group General Counsel for any further information they require. If any of the non-executive directors has any concerns about the running of the Group, they discuss these concerns with one of the executive directors, the Group General Counsel or the Chairman.

In accordance with article 28 of the Board Regulations, the Board Committees must receive appropriate and timely training, both in the form of induction programmes for new members and on an on-going basis for all members. The Board Committees shall also arrange for annual

evaluations of their own performance, conducted externally at least every three years.

Papers for Committees are typically distributed to their members in the week prior to the relevant meeting.

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be.

Yes

Details of rules

In accordance with article 23.2.c) of the Board Regulations, a director must disclose to the Company any judicial, administrative or other proceedings brought against the director which, because of their significance or characteristics, may seriously reflect upon the reputation of the Company and, in general, any fact or event that may be reasonably material to his or her conduct as a director of the Company. In particular, directors must inform the Company, through the Chairman, if they are charged, become subject to an order for further criminal prosecution upon indictment or if an order for the commencement of an oral trial is issued against them in a criminal proceeding for any crime, and of the occurrence of any other significant procedural milestone in such proceedings. In such case, the Board of Directors shall review the case as soon as practicable and shall adopt the decisions it deems fit, taking into account of the corporate interest.

In addition, in accordance with article 16.2 of the Board Regulations, a director must place his or her position at the disposal of the Board of Directors and, at its request, formally resign from his or her position:

- a) When the director ceases to hold the executive positions to which his or her appointment as director is linked, or when the reasons for which he or she was appointed no longer exist. In particular, in the case of nominee directors, when the shareholders that proposed, requested or determined their appointment sell or transfer their holding in whole or in part, so that such holding no longer has the status of significant or is not sufficient to justify the appointment.
- b) When, due to supervening circumstances, the director is subject to any of the grounds for incompatibility or prohibition provided for in the law, the Corporate Bylaws or these Regulations.
- c) When the director is prohibited by law from acting as a director.
- d) If requested to do so by the Board of Directors as a result of a determination having been made under article 11.7 of the Corporate Bylaws to the extent that such determination is due to the fact that such director is a member of the Board of Directors.
- e) When the director ceases to have the good standing, suitability, reliability, competence, availability or commitment to office necessary to be a director of the Company.
- f) When his or her presence on the Board of Directors might jeopardise, for any reason, directly, indirectly or through any person related to him or her, the loyal and diligent exercise of his functions in accordance with the corporate interest.
- g) When his or her remaining on the Board of Directors might affect the Company's credit or reputation in the market or otherwise jeopardises its interests.

C.1.43 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the Spanish Companies Law.

No

Name of director	Criminal proceedings	Remarks
-	-	-

Indicate whether the board has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.

Decision/action taken	Justified explanation
-	-

C.1.44 List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

The following significant agreements contain provisions entitling the counterparties to exercise termination, alteration or other similar rights, in the event of a change of control of the Company:

- the brand alliance agreement in respect of British Airways and Iberia's membership of "oneworld", the globally-branded airline alliance, could be terminated by a majority vote of the parties in the event of a change of control of the Company.
- the joint business agreement between British Airways, Iberia, American Airlines and Finnair and the joint business agreement between British Airways, Japan Airlines and Finnair can be terminated by the other parties to those agreements in the event of a change of control of the Company by either a third party airline, or the parent of a third party airline.
- Certain British Airways exchange and interest rate hedging contracts allow for early termination if after a change of control of the Company, British Airways' credit worthiness was materially weaker.

In addition, the Company's share plans contain provisions as a result of which options and awards may vest and become exercisable on a change of control of the Company in accordance with the rules of the plans.

C.1.45 Identify, in aggregate form and provide detailed information on agreements between the company and its officers, executives and employees that provide indemnities, guarantee or "golden parachute" clauses for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other type of transaction.

Number of beneficiaries

12

Type of beneficiary	Description of the resolution
Executive Directors and IAG Management Committee	<p>There are no express provisions in executive directors and senior executives service contracts with the Company for compensation payable upon termination of those contracts, other than for payments in lieu of notice. The period of notice required from the executive directors and senior executives is six months; the period of notice required from the Company is 12 months.</p> <p>Where the Company makes a payment in lieu of notice, a lump sum in lieu of six months' basic salary is payable within 28 days of the date of termination of employment. A payment in respect of basic salary for the second six months period only becomes payable if, in the Company's reasonable opinion, the executive directors and senior executives have taken reasonable steps to find alternative paid work and then only in six monthly instalments. The Company may reduce the sum payable in respect of any month by any amount earned by the executive directors and senior executives (including salary and benefits) referable to work done in that month.</p>
Chairman	Antonio Vázquez has a specific agreement if his service contract is terminated for whatever reason. Additional information on this agreement has been provided in the Annual Report on the Remuneration of the Directors.

Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group.

	Board of Directors	Shareholders' Meeting
Body authorising clauses	X	
	Yes	No
Is the Shareholders' Meeting informed of such clauses?	X	

C.2 Board committees

C.2.1 Give details of all board committees, their members and the proportion of executive, proprietary, independent and other non-executive directors on them:

AUDIT COMMITTEE

Name	Position	Type
Kieran Poynter	Chairman	Independent
Patrick Cescau	Member	Independent
Maria Fernanda Mejia	Member	Independent
Alberto Terol	Member	Independent
% of proprietary directors		–
% of external independent directors		100
% of other non-executive directors		–

Explain the functions attributed to this committee, describe the procedures and rules governing its organization and operation, and summarize the most important steps taken during the year.

a) Rules of organisation and operation:

The Audit and Compliance Committee shall be made up of no less than three and no more than five non-executive directors appointed by the Board, with the dedication, capacity and experience necessary to carry out their function. The members of the Audit and Compliance Committee, and particularly its Chairman, shall be appointed in light of their knowledge and experience on accounting, audit and risk management matters, and at least one of them shall have recent and relevant financial experience.

A majority of the members of the Audit and Compliance Committee shall be independent directors and one of them, at least, shall be appointed in light of his or her knowledge and experience on accounting or audit matters, or both.

The Board of Directors shall designate an Audit and Compliance Committee chairman from among the independent directors on the Audit and Compliance Committee who must be replaced at least every four years and may stand for re-election one year after vacating office. The Secretary or his nominee shall act as secretary to the Audit and Compliance Committee.

The Audit and Compliance Committee shall meet whenever convened by its chairman, at his own initiative, or at the request of at least two of its members and at least once every three months and, in all cases, where the Board of Directors requests the issue of reports, the presentation of proposals or the adoption of resolutions within the scope of its functions.

The Chairman of the Audit and Compliance Committee shall have the power to call committee meetings and to establish the agenda. The Audit and Compliance Committee shall be validly convened without prior call when all of its members are present and unanimously agree to hold a meeting. The call notice for ordinary meetings shall include the agenda, shall be served in writing sufficiently in advance to ensure that members receive it no later than three days before the date of the meeting and shall be authorised by the signature of the Chairman of the Audit and Compliance Committee or the Secretary or whomsoever acts as such. Extraordinary meetings may be called by telephone and the above requirements shall not apply where the Chairman of the Audit and Compliance Committee deems that the circumstances justify it.

The Audit and Compliance Committee shall be validly convened where more than half of its members are present, in person or by proxy, and decisions shall be adopted by an absolute majority of the members present, in person or by proxy.

The Audit and Compliance Committee may call any employee or officer of the Company and may even order them to appear without the presence of any other officer.

b) Functions:

The key function of the Audit and Compliance Committee is to assist the Board of Directors in oversight and control of the Group, regularly checking compliance with the legal provisions and internal regulations applicable to the IAG Group.

The main functions of the Audit and Compliance Committee include:

A) In relation to the Shareholders' Meeting:

- To report to the Shareholders' Meeting on questions raised in relation to any matters under the Committee's competence and, in particular, on the results of the statutory audit explaining how this has contributed to the integrity of the financial information and the role that the Committee has performed in this process.

B) With regard to the external auditor:

- To submit to the Board the proposals on the selection, appointment, reappointment and substitution of the auditor, assuming responsibility for the selection process, and the terms of its engagement, its remuneration (ensuring its independence and quality are not compromised), the scope of its professional mandate and the revocation or renewal of its appointment.
- To regularly collect information from the auditors on the audit plan and its implementation, as well as preserving their independence in the exercise of their functions. In particular, to ensure that the Company and the external auditor respect the current legislation on provision of non-audit services, the limits on the auditor's business concentration and, in general, any other rules regarding auditor independence.
- To oversee compliance with the audit agreement, ensuring that the opinion concerning the annual accounts and that the principal contents of the audit report are drafted in a clear and precise manner.

- To serve as a channel for communication between the Board and the auditors, to assess the results of each audit and the response by the management team to their recommendations, and to mediate in the event of disputes between the auditors and the management team in relation to the principles and methods used in preparing the annual accounts.
 - To review the effectiveness of the external audit process.
 - To establish the appropriate relationships with the external auditor in order to receive information on matters which may jeopardise its independence, for its examination by the Committee, and on any other matters relating to the audit process, and, as appropriate, the authorisation of permissible non-audit services as legally established, as well as any other communications provided for in the audit legislation and standards. In all cases, the declaration of their independence in relation to the entity or entities directly or indirectly related thereto must be received annually from the external auditors, as well as information on the additional services of any kind provided and the corresponding fees received from these entities by the external auditors or by persons or entities related thereto pursuant to the provisions of audit legislation.
 - To issue on an annual basis, prior to the issue of the auditor's report, a report expressing an opinion on whether the independence of the auditor is compromised.
 - To develop and implement a policy on the engagement of the external auditors to supply additional non-audit services pursuant to the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council.
 - To ensure that the external auditor has a yearly meeting with the Board of Directors to inform on the work undertaken and any developments in the Company's risk and accounting positions.
 - In the event of the external auditor's resignation, to review any underlying circumstances and, in general, to oversee that the Company discloses the change of auditor as price sensitive information (relevant fact), including a statement regarding any possible discrepancies with the departing auditor and, if any exist, their content.
- C) In relation to internal control and reporting systems:
- To supervise the effectiveness of the internal control of the Company, the internal auditing, and the risk management systems, including tax risks, and to discuss with the auditor any significant weaknesses in the internal control systems identified in the course of the audit.
 - To ensure the independence and efficiency of the internal audit function (which functionally reports to the Chairman of the Audit and Compliance Committee) to propose the selection, appointment, reappointment and removal of the head of the internal audit service; to validate the department's budget; to approve its annual work plan and focus, ensuring that its activity is focused principally on the significant risks faced by the Company; to receive periodic information on its activities, as well as on any incidents arising; and to check that senior management takes into account the conclusions and recommendations contained in its reports.
 - To periodically review the internal control and risk management systems to ensure that the principal risks are adequately identified, managed and disclosed.
 - To monitor the functioning of the Company's risk control and management unit, accountable for: (a) ensuring that risk control and management systems are functioning correctly and, specifically, that major risks the Company faces are correctly identified, managed and quantified; (b) participating actively in the preparation of risk strategies and in key decisions about their management; and (c) ensuring that risk control and management systems are mitigating risks effectively in accordance with the policy drawn up by the Board.
 - To review the arrangements by which the employees of the Group may, in confidence, raise concerns about possible irregularities in matters of financial reporting or other matters. The Audit and Compliance Committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.
- D) In relation to financial information:
- To supervise the process for the preparation and presentation of the required financial information and report to the Board on the financial information that the Company is periodically required to disclose.
 - To review the Company's accounts, monitor compliance with legal requirements, the appropriate definition of the scope of consolidation and the correct application of generally accepted accounting principles. To review significant financial reporting judgements in the Company's accounts. To monitor the functioning of the internal financial control manuals and procedures adopted by the Company, to verify compliance with them and review the designation and replacement of the persons responsible for them.
 - To report to the Board on the steps taken by management to ensure that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.
 - To report to the Board of Directors on the steps taken by management to assess the viability of the Company, including whether there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due.
- E) In relation to compliance supervision:
- To assess the level of compliance with the Bylaws, the Board Regulations and the Internal Code of Conduct in matters relating to the securities market and, in general, with the Company's rules on governance and to make the necessary proposals for improvement, assessing regularly the effectiveness of the Company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and accommodating, as appropriate, the legitimate interests of the remaining stakeholders. In particular, the Audit and Compliance Committee shall be responsible for receiving information and, as the case may be, issuing reports on the disciplinary measures to be applied to senior executives of the Company.

- To consider suggestions from the Audit and Compliance Committee Chairman, directors, senior executives or shareholders, and to report and make proposals to the Board with regard to any measures it deems appropriate in relation to the audit activity and any others assigned to it, as well as with regard to compliance with legislation on market reporting and transparency and accuracy of the same.
 - To oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
 - To review the Company's corporate social responsibility policy, ensuring that it is geared to value creation.
 - To monitor corporate social responsibility strategy and practices and assess compliance in this respect.
 - To monitor and evaluate the Company's interaction with its stakeholder groups.
 - To evaluate all aspects of the non-financial risks the Company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.
 - To coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.
- F) Other responsibilities:
- To report on related transactions or on transactions that entail or may entail a conflict of interest, in the terms established in the Board Regulations.
 - To report to the Board, prior to the adoption by it of the corresponding decision, regarding the creation or acquisition of interests in special purpose entities or entities registered in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature that, due to the complexity thereof, might detract from the transparency of the Group.
 - To receive information on any relevant structural or corporate transactions that the Company plans to undertake, for its analysis and subsequent report to the Board of Directors on its economic conditions and accounting impact and particularly, when applicable, on the exchange ratio proposed.
- G) Activities during the year:

The Committee's principal activities during the year were:

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

State the member of the Audit Committee who has been appointed having regard to his/her knowledge or experience in accounting and/or audit matters and indicate the number of years the Committee chairman has held office.

Name of director with experience	Kieran Poynter
Number of years Committee chairman has held office	1

NOMINATIONS COMMITTEE

Name	Position	Type
Antonio Vázquez	Chairman	Independent
Patrick Cescau	Member	Independent
Emilio Saracho	Member	Independent
Dame Marjorie Scardino	Member	Independent

% of proprietary directors	–
% of external independent directors	100
% of other non-executive directors	–

Explain the functions attributed to this committee, describe the procedures and rules governing its organization and operation, and summarize the most important steps taken during the year.

- a) Rules of organisation and operation:

The Nominations Committee shall be made up of no less than three and no more than five non-executive directors appointed by the Board, with the dedication, capacity and experience necessary to carry out their function. A majority of the members of the Nominations Committee shall be independent directors.

The Board of Directors shall designate a Nominations Committee Chairman from among the independent directors forming part of the Committee. The Secretary of the Board of Directors or his or her nominee shall act as Secretary to the Nominations Committee.

The Nominations Committee shall meet whenever convened by its Chairman, at his or her own initiative, or at the request of two or more of its members and at least once every year and, in all cases, where the Board requests the issue of reports, the presentation of proposals or the adoption of resolutions within the scope of its functions.

b) Functions:

The main functions of the Nominations Committee include:

- A) To evaluate the competencies, knowledge and experience necessary on the Board and report on and review the criteria to be followed for its composition and the selection of candidates, defining the necessary functions and skills and evaluating the time and dedication required to correctly perform its remit.
- B) To submit to the Board the proposed appointments of independent directors for their designation by cooption or, as the case may be, to submit the decision to the Shareholders' Meeting, as well as proposals for the re-appointment or removal of such directors by the Shareholders' Meeting.
- C) To report on the proposals of the Board for the appointment of the remaining directors for their designation by cooption or, as the case may be, to submit the decision to the Shareholders' Meeting, as well as proposals for the re-appointment or removal of such directors by the Shareholders' Meeting.
- D) To report on the proposed designation or removal from office of the Board (including the Secretary and the Deputy Secretary) and propose to the Board the members that are to form each of the Board committees and their chairmen.
- E) To put in place plans for the succession of directors, in particular, the succession of the Chairman and the Chief Executive and, as the case may be, to make proposals to the Board of Directors so that such succession occurs in a planned and orderly manner.
- F) To oversee and establish guidelines relating to the appointment, recruitment, career, promotion and dismissal of senior executives in order to ensure that the Company has the highly-skilled personnel required for its management.
- G) To report on the proposed appointment and/or removal of senior executives of the Company.
- H) To report on the proposed appointment and/or removal of members of the managing bodies of the main subsidiaries and/or investees of the Group and on the appointment of their chairmen and chief executive officers.
- I) To ensure that, on appointment, non-executive directors receive a formal letter of appointment setting out clearly what is expected from them in terms of time commitment, committee service and involvement outside Board meetings.
- J) To identify directors qualified to fill vacancies on any committee of the Board of Directors (including the Nominations Committee).
- K) To establish a target for the representation of the underrepresented gender on the Board which should be pursued by the Company's director selection policy.
- L) To submit to the Board the annual report on the evaluation of the Board as a whole.

c) Activities during the year:

The Committee's principal activities during the year were:

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

REMUNERATION COMMITTEE

Name	Position	Type
Dame Marjorie Scardino	Chairman	Independent
Marc Bolland	Member	Independent
María Fernanda Mejía	Member	Independent
Alberto Terol	Member	Independent
% of proprietary directors		–
% of external independent directors		100
% of other non-executive directors		–

Explain the functions attributed to this committee, describe the procedures and rules governing its organization and operation, and summarize the most important steps taken during the year.

a) Rules of organisation and operation

The Remuneration Committee shall be made up of no less than three and no more than five non-executive directors appointed by the Board of Directors, with the dedication, capacity and experience necessary to carry out their function. A majority of the members of the Remuneration Committee shall be independent directors.

The Board shall designate a Remuneration Committee Chairman from among the independent directors of the Remuneration Committee. The Chairman of the Board may not be appointed as Remuneration Committee Chairman. The Secretary of the Board or his or her nominee shall act as secretary to the Remuneration Committee.

The Remuneration Committee shall meet whenever convened by its Chairman, at his or her own initiative, or at the request of two or more of its members and at least twice every year and, in all cases, where the Board requests the issue of reports, the presentation of proposals or the adoption of resolutions within the scope of its functions.

b) Functions

The main functions of the Remuneration Committee include:

- A) To propose to the Board the system and amount of the annual remuneration for directors, as well as the individual remuneration of the executive directors and the other terms of their contracts.
- B) To report to the Board on the contractual terms on termination for the senior executives, including executive directors, and to ensure that any payments made are fair to the individual and the Company, that failure is not rewarded and the duty to mitigate loss is fully recognised.
- C) To report to the Board on the senior executive remuneration policy and the basic terms of their contracts.
- D) To report on incentive plans and pension arrangements.
- E) To periodically review the remuneration policy for directors and senior executives, taking into account their suitability and performance and how they reflect and support the Company strategy. When considering the remuneration policy, to review and have regard to the remuneration trends and to pay and employees conditions in the Group. And also to obtain reliable, up-to-date information about remuneration in other companies. To help fulfil its obligations, the Committee shall have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary.
- F) To monitor compliance with the Company's remuneration policy.
- G) To ensure that the disclosure requirements of the Spanish and the United Kingdom listing rules, any other applicable listing rules, the law or regulation and relevant stock exchanges are fulfilled, including the annual report on directors' remuneration.
- H) To ensure that any conflicts of interest do not jeopardise the independence of the external advice provided to the Committee.
- I) To verify the information on directors' and executives' remuneration contained in the different corporate documents, including the annual report on directors' remuneration.

c) Activities during the year:

The Committee's principal activities during the year were:

- Review of IAG Management Committee members' basic salaries
- Approval of the 2017 annual incentive plan proposal, including approval of the inclusion of a customer measure
- Approval of the 2017 Performance Share Plan proposal
- 2016 annual incentive plan proposal payments to IAG Management Committee members
- Vesting outcome proposal of the Performance Share Plan 2014 award
- Review of 2016 Directors' Remuneration Report
- Approval of remuneration proposal for a new Management Committee member
- Preparation for the AGM
- Initial review of the new remuneration policy
- Executive remuneration market update
- Remuneration strategy for 2018, and review of the new remuneration policy

SAFETY COMMITTEE

Name	Position	Type
Willie Walsh	Chairman	Executive
Antonio Vázquez	Member	Independent
Marc Bolland	Member	Independent
Kieran Poynter	Member	Independent
% of executive directors		25
% of proprietary directors		–
% of external independent directors		75
% of other non-executive directors		–

Explain the functions attributed to this committee, describe the procedures and rules governing its organization and operation, and summarize the most important steps taken during the year.

a) Rules of organisation and operation

The Safety Committee shall be made up of no less than three and no more than five directors appointed by the Board, with the dedication, capacity and experience necessary to carry out its function.

The Board shall designate a Safety Committee Chairman from among the directors of the Safety Committee. The Secretary or his or her nominee shall act as secretary to the Safety Committee.

b) Functions

The main functions of the Safety Committee include:

- A) To receive material safety information about the Company and all the Company subsidiaries and any franchise, codeshare or wet-lease provider used by any member of the Group;
- B) To exercise a high level overview of the safety activities and resources of the Company and all the Company subsidiaries and inform the Board as appropriate (recognising that responsibility for safety matters relating to each subsidiary falls to that subsidiary through its own resources); and
- C) To follow up on any safety related measures as determined by the Board of Directors.

c) Steps taken during the year:

The Committee's key topics discussed during the year were:

- the relevant safety events which occurred during the relevant period;
- regulatory developments and initiatives from industry associations; and
- the regular safety review reports of British Airways, Iberia, Vueling and Aer Lingus.

C.2.2 Complete the following table on the number of female directors on the various board committees at the end of the last four years.

	Number of female directors							
	Year t		Year t-1		Year t-2		Year t-3	
	Number	%	Number	%	Number	%	Number	%
Audit and Compliance Committee	1	25	1	20	0	0	0	0
Nominations Committee	1	25	2	40	1	25	1	25
Remuneration Committee	2	50	3	60	3	75	3	75
Safety Committee	0	0	0	0	0	0	0	0

C.2.3 Section eliminated.

C.2.4 Section eliminated.

C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.

The Board committees are governed by the provisions of the Bylaws and the Board Regulations (article 29 of the Board Regulations for the Audit and Compliance Committee, article 30 for the Nominations Committee, article 31 for the Remuneration Committee and article 32 for the Safety Committee). Where no specific provision is made, the Board committees shall be governed, by analogy and where applicable, by the provisions applicable to the Board of the Company.

The Bylaws and the Board Regulations are available on the Company's website: www.iairgroup.com.

AUDIT AND COMPLIANCE COMMITTEE

The Audit and Compliance Committee prepares an annual report on its activities, which is available on the Company's website within the Annual Report and Accounts.

NOMINATIONS COMMITTEE

The Nominations Committee prepares an annual report on its activities, which is available on the Company's website within the Annual Report and Accounts.

REMUNERATION COMMITTEE

The Remuneration Committee prepares an annual report on its activities, which is available on the Company's website within the Annual Report and Accounts.

SAFETY COMMITTEE

The Safety Committee prepares an annual report on its activities, which is available on the Company's website within the Annual Report and Accounts.

C.2.6 Section eliminated.

D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Explain, if applicable, the procedures for approving related-party or intragroup transactions.

Competent body

In accordance with article 3.4 of the Board Regulations, the Board of Directors has the exclusive authority to approve transactions that the Company or companies in its Group entered into with directors, or shareholders that have a significant holding or that are represented by the Board of Directors or with any persons related to them.

Procedures for reporting on the approval related-party transactions

The performance by the Company or the companies in the Group of any transaction with directors, with shareholders that have a shareholding equal to or greater than that legally considered significant from time to time or who have proposed the nomination of any Company directors, or with their respective related parties, shall be subject to authorisation from the Board of Directors, following a report by the Audit and Compliance Committee.

The Audit and Compliance Committee has, among other powers, the obligation to report on related transactions or on transactions that entail or may entail a conflict of interest. The Audit and Compliance Committee ensures that transactions between the Company or the companies forming part of the Group with the directors, the shareholders referred to in the preceding paragraph or their respective related persons are carried out

under arm's length conditions and with due observance of the principle of equal treatment of shareholders.

Where the transactions fall within the ordinary course of business and are customary or recurring in nature, it is sufficient with the prior general authorisation of the line of operations and its general terms and conditions by the Board, following a report by the Audit and Compliance Committee.

However, no authorisation of the Board of Directors is required for those transactions that simultaneously satisfy the following three conditions: (i) that they are performed by virtue of contracts with standard conditions that are applied en masse to a high number of customers; (ii) that they are performed at prices or rates generally established by the party acting as supplier of the good or service in question; and (iii) that the amount does not exceed one per cent of the annual consolidated income of the Group.

The authorisation must be endorsed by the Shareholders' Meeting in the cases established in law and, in particular, where it concerns a transaction with a director valued at more than 10 per cent of corporate assets.

In addition to this, and prior to the Audit and Compliance Committee consideration, shareholder related party transactions are also reviewed by the IAG Management Committee and are reported to the IAG Head of Group Audit and Risk Management.

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders.

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (in thousands of euros)
BlackRock Inc.	BlackRock Investment Management (UK) Ltd.	Commercial	Interest received	367
BlackRock Inc.	BlackRock Investment Management (UK) Ltd.	Commercial	Cash deposits	90,080
Qatar Airways (Q.C.S.C.)	Qatar Airways (Q.C.S.C.)	Commercial	Services rendered	47,548
Qatar Airways (Q.C.S.C.)	Qatar Airways (Q.C.S.C.)	Commercial	Purchase of services	109,090

D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors.

Name or corporate name of director or senior manager	Name or corporate name of related party	Connection	Relationship	Amount (in thousands of euros)
–	–	–	–	–

D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens.

Corporate name of the group company	Brief description of the transaction	Amount (in thousands of euros)
–	–	–

D.5 Indicate the amount from other related-party transactions.

50,948 thousand of euros.

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

The Board of Directors has the exclusive authority to consider those matters deriving from the duty of loyalty in accordance with the provisions of the law, including actual or potential conflicts of interest involving directors.

As established in article 20 of the Board Regulations, directors shall adopt the required measures to avoid becoming subject to conflicts of interest

in accordance with the provisions of the law.

Directors must notify the Board, through the Chairman or the Secretary or Deputy Secretary, of any conflict of interest to which they may be subject.

In case of conflict, the affected director will not participate in the deliberation and voting on any such matters and shall be excluded from the number of members in attendance for the purposes of calculating the quorum and voting majorities. In particular, any director affected by proposals for appointment, reelection or dismissal shall refrain from taking part in the discussions and voting in respect of such matters.

In a conflict of interest situation, independent directors and other directors who are not affected by the potential conflict of interest need to ensure that the Company's interests prevail in such situations, provided that this does not result in any unlawful damage to any shareholder or third party affected thereby.

The Company provides information, as required by the law, on any conflict of interest to which the directors have been subject during the year.

In addition, in accordance with article 33.4 of the Board Regulations, all public requests for delegation of voting powers made in favour of any director shall disclose, where applicable, the existence of a conflict of interest, and shall provide detailed reasons for the direction in which the representative shall vote in the event that no instructions are given by the shareholder, subject always to the provisions of applicable law.

The existing procedures regarding related party transactions have been described in section D.1.

D.7 Is more than one group company listed in Spain?

No

Identify the listed subsidiaries in Spain

Listed subsidiaries

–

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;

No

Business dealings between the parent and listed subsidiary, as well as between the subsidiary and other group companies

–

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies.

Mechanisms to resolve possible conflicts of interest

–

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the company.

RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Describe the company's risk management system, including tax risks.

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

This policy sets the framework for a comprehensive risk management process and methodology ensuring a robust assessment of the principal risks facing the Group. This process is led by the Management Committee and its best practices are shared across the Group.

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

Enterprise risk management

There is a comprehensive risk management process and methodology ensuring a robust assessment of the risks facing the Group. All the operating companies have well established enterprise risk management systems that ensure that:

- Risk owners are responsible for identifying risks in their area of responsibility. All risks are assessed for likelihood and impact against the Group Business Plan and strategy. Key controls and mitigations are documented including appropriate response plans. Every risk has appropriate Management Committee oversight.
- At the Group level, key risks from the operating companies, together with Group-wide risks, are maintained in a Group risk map.
- The IAG Management Committee reviews the Group risk map twice during the year in advance of reviews by the Audit and Compliance Committee.
- Risk management professionals at IAG ensure that the risk management framework is embedded across the Group. They maintain risk maps for each operating company and at the IAG Group level, and ensure consistency over the risk management process.
- The management committee of each operating company escalate any risks that have Group impact or require Group consideration in line with the Group ERM department.

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

- Strategic: risks arising from the competitive and regulatory environment, major projects and strategic decisions;
- Business and operational: risks encompassing disruption, information technology operations, major project implementation and operations; people and industrial relations;
- Financial: risks including liquidity and financing and tax;
- Compliance and regulatory: risks associated with compliance with laws and regulation.

Enterprise risk management in the Company

At the Group level, key risks from the operating companies, together with Group-wide risks, are maintained in a Group risk map. The IAG Management Committee reviews the Group risk map twice during the year in advance of reviews by the Audit and Compliance Committee of the Board of Directors in accordance with the April 2016 UK Corporate Governance Code and the Spanish Good Governance Code for Listed Companies.

Risk maps are reviewed by each operating company's management committee who consider the accuracy and completeness of the map, significant movements in risk and any changes required to the response plans addressing those risks. Each operating company management committee confirm to its operating company board as to the identification, quantification and management of risks within its operating company as a whole annually.

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

Tax risk

Tax risk is explicitly included within the Group's Enterprise Risk Management Policy. Tax risk is owned by the IAG Head of Tax and is reported, as part of the overall risk review, to the IAG Management Committee and Audit and Compliance Committee twice a year. Tax risk is mitigated by an IAG Tax Policy which considers engagement between the tax department and the business; compliance with tax obligations; tax planning; reputation; and transparency.

E.2 Identify the bodies responsible for preparing and implementing the risk management system, including tax risks.

The Board of Directors has overall responsibility for ensuring that IAG has an appropriate framework risk management including for the determination of the nature and extent of the principal risks it is willing to take to achieve its strategic objectives.

The Audit and Compliance Committee reviews all Enterprise Risk Management matters on behalf of the Board of Directors. The IAG management committee reviews the Group risk map in advance of reviews by the Audit and Compliance Committee.

The management committees of Aer Lingus, Avios, British Airways, IAG Cargo, Iberia and Vueling review their respective risk maps.

The Group Treasury Committee manages fuel and foreign exchange risk within the Financial Risk Management Policy approved by the IAG Board of Directors. The IAG Tax Department manages tax risk.

E.3 Indicate the main risks, including tax risks, which may prevent the company from achieving its targets.

The main risks classified by their source are listed below:

Strategic

- a) Airports and infrastructure
- b) Brand reputation
- c) Competition
- d) Consolidation and deregulation
- e) Digital disruption
- f) Government intervention

Business and operational

- a) Cyber-attack and data security
- b) Event causing significant network disruption
- c) Failure of a critical IT system
- d) Landing fees and security charges
- e) People and employee relations
- f) Political and Economic conditions
- g) Safety/security incident

Financial

- a) Debt funding
- a) Financial risk
- b) Tax

Compliance and regulatory

- a) Group governance structure
- b) Non-compliance with key regulation including competition, anti-bribery and corruption law

E.4 Identify whether the company has a risk tolerance level, including tax risks.

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

E.5 Identify any risks, including tax risks, which have occurred during the year.

Risk that occurred during the fiscal year	Circumstances giving rise thereto	Performance of control systems
Event causing network disruption	In May, British Airways suffered a power failure to its primary data centre, which led to a severe disruption to its customers and flights.	Management have identified the root causes of the incident and reviewed their business operations and continuity plans to increase resilience.

E.6 Explain the response and monitoring plans for the main risks, including tax risks, the company is exposed to.

Main risk	Risk context	Response and Monitoring Plans
Airports and infrastructure	<p>IAG is dependent on and may be affected by infrastructure decisions or changes in policy by governments, regulators or other entities which impact operations but are outside of the Group's control.</p> <p>IAG is dependent on the oil industry making sufficient investment in the fuel supply infrastructure to ensure that our flight operations can be delivered as scheduled.</p> <p>IAG is dependent on the performance of suppliers such as airport operators, border control and caterers.</p>	<p>London Heathrow has no spare runway capacity. In October 2016, the UK government confirmed a third runway expansion proposal at Heathrow and IAG continues to promote an efficient cost effective, ready to use and fit for purpose solution is developed. The Group's airlines participate in the slot trading market at London Heathrow airport; acquiring slots at reasonable prices when available. IAG announced in November that it is completing the acquisition of a new slot portfolio at London Gatwick. The Group enters into long-term contracts with fuel suppliers to secure fuel supply at a reasonable cost.</p> <p>Short-term fuel shortages are addressed by contingency plans.</p> <p>Capacity issues are regularly reviewed by the IAG Management Committee and form part of the annual Business Plan.</p> <p>Supplier performance risks are mitigated by active supplier management and contingency plans.</p>
Brand reputation	<p>The Group's brands have significant commercial value. Erosion of the brands, through either a single event or a series of events, may adversely impact the Group's leadership position with customers and ultimately affect future revenue and profitability.</p> <p>If the Group does not meet the expectations of its customers and does not engage effectively to maintain their emotional attachment, then the Group may face brand erosion and loss of market share.</p>	<p>Each brand is supported by initiatives within the Group Business Plan, where capital expenditure is reviewed and approved by the Board of Directors.</p> <p>The Group has undertaken a significant review of the portfolio of brands within IAG to understand customer preferences and better position its offerings.</p> <p>There are multiple product investments across the Group's brands to enhance on board product, ancillaries, lounges and customer experience. Success of these investments is measured, including a review of Net Promoter Score (NPS).</p> <p>The Group allocates substantial resources to safety, operational integrity and new aircraft to maintain its market position.</p>
Competition	<p>The markets in which the Group operates are highly competitive. The Group faces direct competition on its routes, as well as from indirect flights, charter services and other modes of transport. Competitor capacity growth in excess of demand growth could materially impact margins. Some competitors have lower cost structures or have other competitive advantages such as government support or benefits from insolvency protection.</p>	<p>The IAG Management Committee devotes one weekly meeting per month to strategic issues. The Board of Directors discusses strategy throughout the year and dedicates two days per year to review the Group's strategic plans. The Group strategy team supports the Management Committee by identifying where resources can be devoted to exploit profitable opportunities. The airline's revenue management departments and systems optimise market share and yield through pricing and inventory management activity.</p> <p>The Group is continually reviewing its product offerings and responds through initiatives to improve the customer experience. IAG launched LEVEL in 2017, operating from Barcelona and with operations planned from Paris in 2018.</p> <p>The Group's strong global market positioning, leadership in strategic markets, alliances, joint businesses, cost competitiveness and diverse customer base continue to address competition risk.</p>
Consolidation and deregulation	<p>Although the airline industry is competitive, we believe that the customer would benefit from further consolidation. Failing airlines can be rescued by government support, delaying the opportunity for more efficient airlines to capture market share and expand. Mergers and acquisitions amongst competitors have the potential to adversely affect our market position</p>	<p>The Group maintains rigorous cost control and targeted product investment to remain competitive.</p> <p>The Group has the flexibility to react to market opportunities arising from weakened competitors, such as the acquisition of a new slot portfolio at London Gatwick.</p> <p>The portfolio of brands provides flexibility in this regard as capacity can be deployed at short notice as needed.</p>

Main risk	Risk context	Response and Monitoring Plans
	<p>and revenue.</p> <p>Joint business arrangements such as the agreements with American Airlines, JAL and Qatar Airways include delivery risks such as realising planned synergies and agreeing the deployment of additional capacity within the joint business.</p> <p>Any failure of a joint business or a joint business partner could adversely impact our business.</p> <p>The Group has a number of franchise partners that feed traffic into our hubs or major outstations. Any failure of a franchise partner will reduce traffic feed.</p> <p>The Group is reliant on the other members of the oneworld alliance to help safeguard the network.</p>	<p>The IAG Management Committee regularly reviews the commercial performance of joint business agreements.</p> <p>The Group maintains a leading presence in oneworld to ensure that the alliance attracts and retains the right members, which is key to ongoing development of the network.</p>
Digital disruption	<p>Competitors, or new entrants to the travel market, may use digital technology and more effectively disrupt the Group's business model or technology disruptors may use tools to position themselves between our brands and our customers.</p>	<p>The Group's focus on the customer experience, together with the Group's own exploitation of digital technology, reduces the impact digital disruptors can have.</p> <p>The Group continues to develop platforms such as the New Distribution Capability changing distribution arrangements and moving from indirect to direct channels.</p> <p>The Hangar 51 programme ran for the second year creating early engagement and leverage new opportunities with start-ups and digital technology disruptors.</p>
Government intervention	<p>Some of the markets in which the Group operates remain regulated by governments, in some instances controlling capacity and/ or restricting market entry. Changes in such restrictions may have a negative impact on margins.</p> <p>Regulation of the airline industry covers many of our activities including route flying rights, airport landing rights, departure taxes, security and environmental controls.</p> <p>Excessive taxes or increases in regulation may impact on the operational and financial performance of the Group</p>	<p>The Group's government affairs department monitors government initiatives, represents the Group's interest and forecasts likely changes to laws and regulations.</p> <p>The Group's ability to comply with and influence changes to regulations is key to maintaining operational and financial performance. The Group continues to monitor and discuss the negative impacts of government policies such as the imposition of Air Passenger Duty (APD).</p>
Cyber attack and data security	<p>The Group could face financial loss, disruption or damage to brand reputation arising from an attack on the Group's systems by criminals, terrorists or foreign governments.</p> <p>If the Group does not adequately protect customer and employee data, it could breach regulation and face penalties and loss of customer trust.</p>	<p>The IAG Management Committee regularly reviews cyber risk and supports Group wide initiatives to enhance defences and response plans.</p> <p>It ensures that the Group is up to date with industry standards and addresses identified weaknesses.</p> <p>There is oversight of critical systems and suppliers to ensure that the Group understands that the data it holds, that it is secure, and regulations are adhered to.</p> <p>A GDPR (Data Protection Regulation) programme is in place and actions are underway to confirm compliance with the new regulations effective May 2018.</p> <p>The fast moving nature of this risk means that the Group will always retain a level of vulnerability.</p>
Event causing significant network disruption	<p>An event causing significant network disruption may result in lost revenue and additional costs if customers or employees are unable to travel.</p> <p>Example scenarios include persistent air traffic control industrial action; war; civil unrest or terrorism; major failure of the public transport system; the complete or partial loss of the use of terminals; adverse weather conditions or pandemic.</p>	<p>Management has business continuity plans to mitigate this risk to the extent feasible.</p>
Failure of a critical IT system	<p>IAG is dependent on IT systems for most key business processes. The failure of a critical system may cause significant disruption to the operation and lost revenue.</p> <p>Increasingly the integration within IAG's supply chain means that the Group is also dependent on</p>	<p>System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.</p> <p>The Group will continue to identify world class partners to work with and increase resilience through migration to a hybrid cloud platform.</p>

Main risk	Risk context	Response and Monitoring Plans
Landing fees and security charges	<p>the performance of suppliers' IT infrastructure, e.g. airport baggage operators.</p> <p>Airport charges represent a significant operating cost to the airlines and have an impact on operations. Whilst certain airport and security charges are itemised to passengers, others are not.</p>	<p>The Group engages in regulatory reviews of supplier pricing, such as the UK Civil Aviation Authority's periodic review of charges at London Heathrow and London Gatwick airports. The Group is active both at an EU policy-level and in consultations with airports covered by the EU Airport Charges Directive. In some cases, regulation provides some assurance that such costs will not increase in an uncontrolled manner.</p>
People and employee relations	<p>The Group has a large unionised workforce represented by a number of different trade unions. Any breakdowns in the bargaining process with the unionised workforces may result in subsequent strike action which may disrupt operations and adversely affect business performance.</p>	<p>Collective bargaining takes place on a regular basis with the Group's human resources departments with a significant level of negotiation across the Group's operating companies. Management focuses on leveraging employee expertise and ensuring the development of talent. Succession planning is in place across all operating companies and we aim to move our best people across our businesses.</p>
Political and Economic conditions	<p>IAG remains sensitive to political and economic conditions in the markets globally. Deterioration in either a domestic market or the global economy may have a material impact on the Group's financial position, while foreign exchange and interest rate movements create volatility.</p>	<p>The Board of Directors and the Management Committee review the financial outlook and business performance of the Group through the financial planning process and regular reforecasts. These reviews are used to drive the Group's financial performance through the management of capacity and the deployment of that capacity in geographic markets, together with cost control, including management of capital expenditure and the reduction of operational and financial leverage.</p> <p>External economic outlook, fuel prices, and exchange rates are carefully considered when developing strategy and plans and are regularly reviewed by the Board of Directors and IAG Management Committee as part of the monitoring of financial and business performance.</p> <p>There is continued uncertainty in 2018 with upward pressure on fuel price and the changing political landscape.</p> <p>Following the UK's decision to leave the EU, the Group continues to evaluate potential changes to ensure that all airlines within the Group are able to operate effectively during any transition. The Group believes that a comprehensive EU/UK air transport agreement will be agreed. The Group has had extensive engagement with all relevant regulators/governments and is confident that it will comply with the EU and the UK ownership and control rules post-Brexit. IAG is a Spanish company, its airlines have long-established AOCs and substantive businesses in Ireland, France, Spain and the UK and IAG has had other structures and protections in its by-laws since it was set up in 2011. At this stage, the Group does not believe that Brexit will have a significant impact on the business in the long-term. However, as for many other industries, there will continue to be some uncertainty, particularly if an EU/UK transitional deal is not agreed. Among other things, this could have a negative impact on investor sentiment towards the European airline sector.</p>
Safety/security incident	<p>The safety and security of our customers and employees are fundamental values for the Group. A failure to prevent or respond effectively to a major safety or security incident may adversely impact the Group's brands, operations and financial performance.</p>	<p>The corresponding safety committees of each of the airlines of the Group satisfy themselves that it has the appropriate resources and procedures which include compliance with Air Operator Certificate requirements. Incident centres respond in a structured way in the event of a safety or security incident.</p>
Debt funding	<p>The Group has substantial debt that will need to be repaid or refinanced. The Group's ability to finance ongoing operations, committed aircraft orders and future fleet growth plans is vulnerable to various factors including financial market conditions and financial institutions' appetite for secured aircraft financing.</p>	<p>The IAG Management Committee regularly reviews the Group's financial position and financing strategy.</p> <p>The Group continues to have good access to a range of financing solutions. The Group's high cash balances and committed financing facilities mitigate the risk of short-term interruptions to the aircraft financing market.</p>
Financial risk	<p>Volatility in the price of oil and petroleum products can have a material impact on our operating results.</p> <p>The Group is exposed to currency risk on revenue, purchases and borrowings in foreign currencies.</p>	<p>Fuel price risk is partially hedged through the purchase of oil derivatives in forward markets. The objective of the hedging programme is to increase the predictability of cash flows and profitability. The IAG Management Committee regularly reviews its fuel and currency positions.</p>

Main risk	Risk context	Response and Monitoring Plans
	<p>The Group is exposed to currency devaluation of cash held in currencies other than the airlines' local currencies of euro and sterling.</p> <p>Interest rate risk arises on floating rate debt and floating rate leases.</p> <p>The Group is exposed to non-performance of financial contracts by counterparties for activities such as money market deposits, fuel and currency hedging. Failure of financial counterparties may result in financial losses.</p>	<p>The Group seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching, and actively managing the surplus or shortfall through treasury hedging operations.</p> <p>When there are delays in the repatriation of cash coupled with the risk of devaluation, risk is mitigated by the review of commercial policy for the route. The impact of rising interest rates is mitigated through structuring selected new debt and lease deals at fixed rate throughout their term.</p>
Tax	<p>The Group is exposed to systemic tax risks arising from either changes to tax legislation or a challenge by tax authorities on interpretation of tax legislation. There is a reputational risk that the Group's tax affairs are questioned by the media.</p>	<p>The Group has no tolerance for breaches with the law, act with integrity in all tax matters and maintain an open relationship with regulators. The Group complies with the tax policy approved by the Board of Directors. Tax risk is managed by the IAG tax department and reviewed by the IAG Management Committee.</p>
Group governance structure	<p>The governance structure the Group put in place at the time of the merger had a number of complex features, including nationality structures to protect British Airways' and Iberia's route and operating licences.</p> <p>IAG could face a challenge to its ownership and control structure.</p>	<p>The governance structure is being extended to other Group airlines. IAG will continue to engage with the relevant regulatory bodies as appropriate regarding the Group structure.</p>
Non-compliance with key regulation including competition, anti-bribery and corruption law	<p>The Group is exposed to the risk of individual employees' or groups of employees' unethical behaviour resulting in reputational damage, fines or losses to the Group.</p>	<p>The Group has clear frameworks in place including comprehensive Group-wide policies designed to ensure compliance.</p> <p>There are mandatory training programmes in place to educate employees in these matters.</p> <p>Compliance professionals specialising in Competition Law and Anti-Bribery legislation support and advise our businesses.</p>

F. INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the company.

F.1 The entity's control environment

F.1.1 The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

The IAG Board Regulations determine that the Board is responsible for control policy and periodic monitoring of internal information and control systems.

This control policy and monitoring is designed to produce reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorised use or disposition and the maintenance of proper accounting records and the reliability of financial information used throughout the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable but not absolute assurance against material misstatement, errors, losses or fraud.

Board of Directors

The Board is ultimately responsible for the supervision of the existence and effectiveness of Internal Control over Financial Reporting ("ICFR"). The Board has delegated the responsibility for the development of effective controls to the Chief Executive and the supervision of the effectiveness of these controls to the Audit and Compliance Committee. The Chief Executive has issued an ICFR policy which requires the IAG Finance Committee to oversee ICFR throughout the Group and delegates responsibility to the relevant Group Operating Company Chief Financial Officers.

Audit and Compliance Committee

The duties of the Audit and Compliance Committee are set out in section C.2.1 of this report. These duties include among others:

- a) Review significant reporting judgements contained in the financial statements of the Group;
- b) Monitor the functioning of the internal financial control manuals and procedures adopted by the Company, to verify compliance with them and review the designation and replacement of the persons responsible for them; and
- c) Supervise the effectiveness of the internal control of the Company, the internal auditing, and the risk management systems, and to discuss with the auditors or audit firm any significant weaknesses in the internal control systems detected in the course of the audit.

Audit and Compliance Committee members are appointed based on their knowledge and experience of accounting, auditing, and risk management matters. They regularly receive updates on developments and regulatory changes in these areas. The Audit and Compliance Committee also receives regular updates on the Group's ICFR status.

Finance Committee

The IAG Finance Committee sits quarterly and is chaired by the IAG Chief Financial Officer and comprises the IAG Head of Group Financial Reporting, and the Aer Lingus, Avios, British Airways, Iberia, Vueling, and IAG Cargo Chief Financial Officers. The Committee supports senior management and the Audit and Compliance Committee by carrying out the following duties related to ICFR:

- a) Maintain and approve the IAG ICFR policy including delegation of ICFR process ownership to subsidiary Chief Financial Officers and, where appropriate, to process owners;
- b) Review complex or judgmental accounting issues in the quarterly reports, emerging accounting issues, preparation for implementation of new accounting standards and issues raised by the external auditors;
- c) Own the Group Accounting Policies and approve any changes thereto; and
- d) Coordinate and monitor ICFR framework implementation and maintenance.

F.1.2 The existence or otherwise of the following components, especially in connection with the financial reporting process:

- **The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company.**

The Board is responsible for designating the Company's Chief Executive, approval of the appointment or removal of individuals to or from the boards of directors of the principal subsidiaries of the Group and the appointment of their Chairmen and Chief Executives. The Board is also responsible for decisions concerning the appointment and removal of the Company's senior executives. Significant changes to the organisation structure are reviewed and approved by the IAG Management Committee.

The authorised structure, including job descriptions defining staff responsibilities, is ultimately controlled by the Chief Executive and delegated to the Chief Executive Officers of Aer Lingus, Avios, British Airways, IAG GBS, Iberia, and Vueling. The authorised structure of the Company, Aer Lingus, British Airways, Iberia and Vueling is updated and reviewed on an ad hoc basis. In British Airways, IAG GBS, Iberia and Vueling it is published on the respective intranet of each company. In Aer Lingus it is available from the Company Secretary.

- **Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

The "Way of Business" Group instruction sets out standards of conduct expected of staff and the support that will be available to the staff from the IAG Management Committee in maintaining the expected level of conduct. The document is approved by the Board and is cascaded down into Aer Lingus, Avios, British Airways, IAG GBS, Iberia and Vueling through local policies available on the intranet of each company.

Minor breaches of the standards of conduct are investigated by line managers, and disciplinary action is in accordance with the employment policies and standards applicable to the individual. Major breaches are investigated by the responsible business area within each operating company.

Under the IAG ICFR policy the IAG Chief Executive delegates responsibility for ICFR to the IAG Chief Financial Officer and the Chief Executive Officers of Aer Lingus, Avios, British Airways, Iberia and Vueling, who maintain ultimate responsibility for ICFR but delegate day to day responsibilities to their Chief Financial Officers. Chief Financial Officers are expected to delegate responsibility for ICFR for defined processes to named senior managers within their own organisations. The Group Accounting Manual provides guidance on financial reporting.

The Company established a Spanish Criminal Code Framework Steering Group in 2015 to ensure each significant Spanish legal entity has in place an effective Criminal Risk Prevention Model, in response to the reform of the Organic Law 10/1995. Several key activities were completed as part of the implementation of the Criminal Risk Prevention Model including the identification and risk assessment of activities, processes, sub-processes and controls, gap analysis and the creation or adjustment of manuals, procedures and controls. The Iberia, Iberia Express and Vueling Criminal Risk Prevention Models were approved by their respective boards in 2016, and each entity has in place a Compliance Committee responsible for the implementation, oversight, monitoring and verification of the six elements of the Criminal Risk Prevention Model.

- **'Whistle-blowing' channel, for the reporting to the Audit Committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.**

There are whistle-blowing channels provided by Safecall and Ethicspoint available throughout the Group, where concerns can be raised on a confidential basis. The IAG Audit and Compliance Committee reviews the effectiveness of whistle-blowing channels on an annual basis. This annual review considers the volume of reports by category; timeliness of follow-up; responsibility for follow-up; and, any issues raised of significance to the financial statements. The annual review is coordinated by the Head of Group Audit.

- **Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.**

IAG staff have individual development discussions which identify their technical and/or professional training needs. Basic finance training is delivered through eLearning modules or classroom based, depending on the Operating Company. Specific training on airline finance basics and interpreting the Company accounts is also available.

IAG and British Airways offer study leave, financial support and appropriate work experience to staff studying for accounting qualifications, including the Institute of Chartered Accountants, in England and Wales, the Chartered Institute of Management Accountants, and the Association of Chartered Certified Accountants.

Company finance staff received an average of two days training in 2017. Members of the IAG Internal Audit team have received on average two hours of ICFR training in 2017.

F.2 Risk assessment in financial reporting

Report at least:

F.2.1 The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

- **The process exists and is documented.**

The Group's Enterprise Risk Management (ERM) process assesses and identifies key risks and controls. The key risks are categorised into strategic, business and operational, financial, compliance and regulatory, and tax. Therefore, part of the ERM process is the identification of financial risks. In compiling these risks and mitigating actions, a close relationship is established between the ERM team and the finance functions. The finance functions feed into the ERM process. Outputs of the process are shared to ensure that the impact of risks are properly considered with the Financial Statements.

The process for addressing all risks covered by the ERM system is explained in detail in section E. The process addresses other types of risk that may affect the reporting information.

- **The process covers all financial reporting objectives (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.**

The financial reporting risk assessment is the responsibility of the IAG Finance Committee and is updated and documented annually. The assessment provides management with a mechanism for the identification of risks and associated controls relevant to the preparation of the financial report. The risk assessment has two main elements, both of which are reviewed annually by the IAG Finance Committee:

- A high level assessment of key risks to the financial statements focusing on judgmental areas and those susceptible to error; and
- Identification of the key underlying business processes through a quantitative and qualitative risk assessment of the financial statements of material subsidiaries. The results of this process are set out in section E.3 and include all financial reporting objectives.

- **A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies.**

A consolidation system is used at the Company and changes are determined based on developments in the corporate structure during the year. The Company, Aer Lingus, Avios, British Airways, Iberia and Vueling maintain consolidation hierarchies in their respective consolidation systems. These hierarchies are subject to access and change controls to ensure their continued integrity. Transactions or Group developments that require new Group companies to be formed or acquired are considered at the IAG Finance Committee, so that the hierarchies can be updated. The finance function is informed by the legal department of new or acquired entities.

The scope of the consolidation is addressed in two ways. Firstly the establishment of any Special Purpose Vehicles (SPVs) will be approved by the IAG Audit and Compliance Committee. This committee will confirm the requirement for the SPV, its governance and how it will be accounted for. Secondly, the determination of which entities will be consolidated is considered at the Company, Aer Lingus, British Airways and Iberia group levels. The consolidation hierarchy is reviewed when changes in ownership structure arise, and new entities are incorporated/acquired. Any changes to the consolidation scope are presented and discussed at the Finance Committee and Audit and Compliance Committee meetings.

- **The process addresses other types of risk (operational, technological, financial, legal, tax, reputational, environmental, etc.) insofar as they may affect the financial statements.**

The risk assessment process identifies the key underlying business processes, and covers the financial reporting objectives. The risk assessment process is updated and documented on an annual basis. The Group Instructions include an Anti-Fraud Policy which is made available to the operating companies.

Fraud risk at the Company level is most significant in individual projects, generally acquisitions and disposals. This fraud risk is managed through the individual projects which are staffed with senior professionals from appropriate departments, including finance, and third party advisors from leading law firms. As the Company, is a holding company with no significant commercial transactions outside individual projects, the risk of a significant fraud in the day to day transactions of the Company is reduced.

– **Which of the company's governing bodies is responsible for overseeing the process.**

The Internal Control team, which reports to IAG Group Head of Financial Integration, reviews financial process and control documentation across the Group, and supports process owners to ensure they have designed effective controls.

The Board has ultimate responsibility for risk management and internal control, including determination of the nature and extent of the principal risks it is willing to take to achieve its strategic objectives.

F.3 Control activities

Indicate the existence of at least the following components, and specify their main characteristics:

F.3.1 Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

The IAG Management Committee reviews the financial performance of the Group on a monthly basis. This review examines the previous month's performance, the forecast for the following quarter and the forecast for the full year against the finance plan and the prior year. Movements in key performance indicators such as unit revenue and unit cost statistics are analysed together with the impact of foreign exchange and fuel commodity costs. The analysis is carried out on the Group's main operating companies, Aer Lingus, Avios, British Airways, Iberia, and Vueling. Consistency of these management accounts with the published quarterly Group accounts leads to a high degree of confidence in the integrity of the published accounts.

The quarterly consolidation process is managed to a pre-agreed timetable and includes reviews and sign offs at key stages in the process. Within each operating company, the finance and accounting departments consolidate, review and approve the financial information. The consolidated financial information is reviewed by the Chief Financial Officer of each operating company, prior to submission to IAG. These reviews will ensure that all material business risks have been properly recorded in the financial statements, confirm the accounting treatment of judgmental areas and ensure the proper application of new accounting standards and guidance notes.

The Company consolidation process involves a critical review of Aer Lingus, Avios, British Airways, Iberia and Vueling group submissions. For specialist areas, such as treasury, consolidated information is reviewed by subject specialists to identify anomalies, inconsistencies with management accounting information, and any inconsistent interpretation of instructions within the Group. The final accounts are reviewed by the Group Head of Reporting together with the Chief Financial Officer. A peer review is also carried out by an experienced finance manager that has not been involved in the latter stages of the consolidation process.

Critical judgements, estimates, evaluations and projections are, as far as possible reviewed in advance of the year-end close process. Where appropriate, management obtains the support of internal or external specialists to conclude on any of these matters.

The scope of ICFR in the Group has been based on the material subsidiaries being Aer Lingus, Avios, British Airways, Iberia and Vueling and processes performed by IAG GBS and IAG Cargo on behalf of the material subsidiaries. The scope of ICFR also includes the Company for Entity Level Controls and the Financial Statement Consolidation Process. The Group ICFR model contains a Finance Risk & Control Matrix that includes entity level controls, IT general controls and 19 main business processes considered relevant to the preparation of the financial statements. The processes are listed below.

- a) Cargo Sales
- b) Payroll
- c) Passenger Sales – Ticket Sales
- d) Passenger Sales – Travel
- e) Passenger Sales – Billing/Interline Billing
- f) Fixed Assets – Aircraft
- g) Fixed Assets – Ground Assets
- h) Fixed Assets – Engines and Engine Parts
- i) Fixed & Current Asset Inventory – Engineering
- j) Debtors & Invoicing
- k) Fuel
- l) Buying Goods and Services
- m) Buying Goods and Services - User charges
- n) Avios
- o) Treasury
- p) Financial Statement Closing Process
- q) Alliance Partner Arrangements

- r) Tax
- s) Other Revenue

The design, implementation and maintenance of appropriate systems of ICFR is primarily the responsibility of management with process ownership identified and communicated to the operating companies via the IAG ICFR Policy. Business process owners are also responsible for the documentation of processes and sub processes, and can call on the support of the Internal Control Team where required.

ICFR controls including 550 key controls have been defined across the 19 business processes and IT general controls in order to provide reasonable assurance as to the reliability of the financial information disclosed to the markets. Such controls can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud. As a result of differences in business processes across the material subsidiaries not all controls are required in all material subsidiaries.

F.3.2 Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

The Company has established the Baseline Information Security Standard which applies to all operating companies across the Group. IAG GBS Group IT Security is responsible for leading, managing and coordinating the dissemination and implementation of information security practice within IAG. Information is protected based on its value, confidentiality, criticality to the company, and the risk of loss or compromise.

The Standard requires that all personnel working for the Group shall be organised in such a way as to minimise the risk of unauthorised changes to information, error, theft or fraud. No personnel shall be allowed to both instigate an action and to approve that action.

IAG Global Business Services (GBS) manage and support IT systems for British Airways and Iberia. IT systems used by Vueling, Avios and Aer Lingus are either managed by those operating companies or by IAG Global Business Services (GBS), depending on IT processes in accordance with the IAG Information Security Standard which is grouped under the following areas:

- a. Organisation of Information Security
- b. Information Security Awareness and Training
- c. Risk Management
- d. Segregation of Duties
- e. Access Control and Privilege Management
- f. Physical Security
- g. Password Management
- h. Logging and Monitoring
- i. Network and Infrastructure
- j. Security Patching and Virus Protection
- k. System Developments and Change Management
- l. Systems and Security Operations
- m. Compliance

The Group IT General Controls (ITGCs) are aligned with the IAG Information Security Standard. There are 22 key and 15 non-key ITGCs supporting the financial reporting processes.

All systems used by the Group including those related to financial reporting must comply with the IAG Information Security Standard as it provides clear direction concerning expectations for internal controls that are required to cover the inherent risks over the following four IT system management areas:

- a. IT environment
 - I. The IT organisational structure and description of responsibilities
 - II. IT systems architecture and infrastructure
 - III. Environmental protection against physical damage, loss, theft, or abuse of IT systems and equipment
- b. Secure access
 - I. Access to system is managed via clear segregation of duties
 - II. Application owners are responsible to keep their systems free of unauthorised and inappropriate users and access
 - III. Users will only have access to data and functionality required to carry out the tasks assigned to them by the Group
 - IV. Logical access controls include procedures for adding, changing and deleting users
 - V. Restriction of privileged access rights to application support teams
 - VI. Requirement to have personalised credentials for each user accessing the application
 - VII. Password settings are configured appropriate to prevent unauthorised access to systems
 - VIII. Physical access control including restricting access to computer facilities to authorised individuals
- c. System Development and Change Management
 - I. Control of changes
 - II. Approval and authorisation of changes
 - III. Testing of changes

- IV. Release management
- d. Systems Operations
 - I. Management of back-up files
 - II. Incident and problem management
 - III. Management of job scheduling
 - IV. Management of external partners and third parties
 - V. Disaster contingency and recovery plans for IT systems

F.3.3 Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

For outsourced processes, Service Level Agreements (SLA) are defined, agreed and signed in the contract with the vendor. British Airways, Iberia, Avios, Vueling and Cargo have outsourced financial process support to Accenture and Aer Lingus to Capita. Finance staff maintain a quarterly or half yearly review of outsourced accounts and reconciliations as well as ongoing monitoring of the operational status of outsourced processes.

When the Group outsources relevant processes for the preparation of financial information to an independent expert, it ensures the professional's technical and legal competence. The Group has identified six processes outsourced to independent experts relevant to financial reporting.

- a. British Airways outsources the derivation of pension scheme valuation and accounting, the proposed accounting treatment is subject to review and challenge by an in-house qualified accountant and pension risk management expert;
- b. Iberia values the obligations to employees and restructuring plan costs by actuarial studies made by independent experts;
- c. Vueling outsources the valuation of financial instruments and the effectiveness testing of derivatives;
- d. The Group outsources the valuation of assets and liabilities as a part of business combinations;
- e. IAG outsources the calculation of the fair values of share based payment plans; and
- f. Aer Lingus outsources the valuation of pension scheme assets and liabilities.

F.4 Information and communication

Indicate the existence of at least the following components, and specify their main characteristics:

F.4.1 A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the company's operating units.

Company accounting policies are maintained by the Group Financial Reporting department, which updates and issues the Group Accounting Policy Manual.

On a quarterly basis, if applicable, new accounting standards and their impact are presented in the Audit and Compliance Committee.

F.4.2 Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

The Group Financial Reporting department issues reporting instructions at each quarter end.

These instructions establish a timetable for key closing activities such as agreeing intragroup balances, submitting the main accounting results and detailed disclosures. Assumptions to be used for accounting tests such as Weighted Average Cost of Capital and percentage sensitivities on derivative transactions are determined centrally and included in the instructions. The format of information to be submitted and the entities expected to submit the information is determined within the consolidation system which includes validation tests for completeness and internal consistency.

Disclosures relating to ICFR are validated by senior accounting professionals identified by the Chief Financial Officers of IAG, Aer Lingus, Avios, British Airways, Iberia, and Vueling.

F.5 Monitoring of the system operation

Indicate the existence of at least the following components, describing their main characteristics:

F.5.1 The ICFR monitoring activities undertaken by the Audit Committee and an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information

The IAG Audit and Compliance Committee reviews all disclosures relating to ICFR and validates the Group's approach to complying with the CNMV's ICFR recommendations. In this respect the Audit and Compliance Committee has been careful to achieve an appropriate balance between the CNMV's ICFR recommendations and the UK Corporate Governance Code approach.

The Group's ICFR includes the Company, Aer Lingus, Avios, British Airways, IAG GBS, Iberia, and Vueling and covers processes performed by IAG GBS and IAG Cargo on behalf of the operating companies. The Audit and Compliance Committee is supported by the Internal Audit department.

The Internal Audit Department adopts a risk based approach to planning which incorporates financial risk factors.

The results of audits are discussed at the Aer Lingus, Avios, British Airways, Iberia and Vueling Boards of Directors or Management Committees, and the IAG Audit and Compliance Committee. The implementation of actions to address weaknesses identified by Internal Audit are tracked and follow up audits carried out whenever the overall rating of the original audit was judged to be "deficient" or "seriously deficient" or a "material weakness" in an internal control over financial reporting.

ICFR 2017 Scope and Results

Entity Level Controls, ITGC's and 19 business processes have been identified as having a major impact on financial reporting for 2017. There are 10 processes in scope for Aer Lingus, two processes in scope for Avios, 18 processes in scope for British Airways, 16 processes in scope for Iberia, and seven processes in scope for Vueling.

Across the entities and business processes identified, the 550 key controls are broken down into 440 business process key controls and 110 key IT general controls.

All in scope processes and key ITGCs have been tested. No material weaknesses were detected. A total of eight substantial weaknesses and 103 weaknesses were detected. Action plans were put in place with process owners to address each of these internal control weaknesses and will be tracked by Internal Audit.

F.5.2 A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its Audit Committee or Board of Directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

The Company's external auditors attend the Audit and Compliance Committee meetings and report on significant control weaknesses identified during their work. No significant control weaknesses were identified by the external auditors in 2017.

The Head of Group Audit attends the Audit and Compliance Committee meetings and submits his report directly to the Committee. The Head of Group Audit reports functionally to the Chairman of the Audit and Compliance Committee. The implementation of Internal Audit recommendations is tracked by the Audit and Compliance Committee.

F.6 Other relevant information

None.

F.7 External auditor review

State whether:

F.7.1 The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The ICFR information supplied to the market has been reviewed by the external auditors, and their auditor report is at the end of this Annual Corporate Governance Report.

G. DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the company's compliance with the recommendations of the Good Governance Code of Listed Companies.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

1. The Bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Explain

IAG considers that it does not comply with this recommendation because of the restrictions included in the Bylaws of the Company in relation to the ownership of shares. This is a partial non-compliance because these restrictions derive directly from the ownership and control restrictions set out in the applicable law or in the bilateral air transport treaties signed by Spain and the United Kingdom and are not simply determined discretionarily by the Company.

2. When a dominant and subsidiary company are both listed, they should provide detailed disclosure on:
 - a) The type of activity they engage in and any business dealings between them, as well as between the listed subsidiary and other group companies;
 - b) The mechanisms in place to resolve possible conflicts of interest.

Not applicable

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:
 - a) Changes taking place since the previous annual general meeting.
 - b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Complies

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position. This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Complies

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20 per cent of capital at the time of such delegation. When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Complies

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:
 - a) Report on auditor independence.
 - b) Reviews of the operation of the audit committee and the nomination and remuneration committee.
 - c) Audit committee report on third-party transactions.
 - d) Report on corporate social responsibility policy.

Complies

7. The company should broadcast its general meetings live on the corporate website.

Complies

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Complies

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Complies

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:
 - a) Immediately circulate the supplementary items and new proposals.
 - b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.
 - c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.
 - d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Not applicable

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Not applicable

12. The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Complies

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Complies

14. The board of directors should approve a director selection policy that:

- a) Is concrete and verifiable;
- b) Ensures that appointment or reelection proposals are based on a prior analysis of the board's needs; and
- c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Complies

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Complies

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

- a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.
- b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Complies

17. Independent directors should be at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.

Complies

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

- a) Background and professional experience.
- b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.
- c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.
- d) Dates of their first appointment as a board member and subsequent re-elections.
- e) Shares held in the company, and any options on the same.

Complies

19. Following verification by the nomination committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Not applicable

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Complies

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the nomination committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

Complies

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Complies

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Complies

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Complies

25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors' regulations should lay down the maximum number of company boards on which directors can serve.

Complies

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Complies

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

Complies

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

Complies

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Complies

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Complies

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Complies

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Complies

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Complies

34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

Not applicable

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Complies

36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

- a) The quality and efficiency of the board's operation.
- b) The performance and membership of its committees.
- c) The diversity of board membership and competences.
- d) The performance of the chairman of the board of directors and the company's chief executive.
- e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nomination committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Complies

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.

Not applicable

38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

Not applicable

39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

Complies

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Complies

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Complies

42. The audit committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

- a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.
- b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.
- c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

- a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.
- b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.
- c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
- d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.
- e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Complies

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Not applicable

45. Risk control and management policy should identify at least:

- a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other offbalance-sheet risks.
- b) The determination of the risk level the company sees as acceptable.
- c) The measures in place to mitigate the impact of identified risk events should they occur.
- d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and offbalance-sheet risks.

Complies

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:
- a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.
 - b) Participate actively in the preparation of risk strategies and in key decisions about their management.
 - c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Complies

47. Appointees to the nomination and remuneration committee – or of the nomination committee and remuneration committee, if separately constituted – should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Complies

48. Large cap companies should operate separately constituted nomination and remuneration committees.

Complies

49. The nomination committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the nomination committee to propose candidates that it might consider suitable.

Complies

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:
- a) Propose to the board the standard conditions for senior officer contracts.
 - b) Monitor compliance with the remuneration policy set by the company.
 - c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.
 - d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.
 - e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

Complies

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations.

They should include at least the following terms:

- a) Committees should be formed exclusively by non-executive directors, with a majority of independents.
- b) They should be chaired by independent directors.
- c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.
- d) They may engage external advice, when they feel it necessary for the discharge of their functions.
- e) Meeting proceedings should be minuted and a copy made available to all board members.

Partially complies

The Board of Directors of IAG, under its powers of self-organisation, considers it appropriate to have a Safety Committee in order to exercise a high level overview of each airline's safety performance and of any important issues that may affect the industry, although responsibility for safety matters belongs to each of the Group's airlines. This Committee is governed by the same principles as all Board Committees and has a clear majority of non-executive directors.

However, the Committee's composition is not compliant with the Code's recommendation as an executive director, the Chief Executive, is a member of this Committee, being also its chairman. The Board believes this to be appropriate in the current circumstances for the following reasons:

- a) IAG is a holding, non-operational company, exercising a supervisory role within the Group.
- b) Consistent with the civil aviation regulatory framework, responsibility for safety matters remains with each operating airline.
- c) The technical nature of safety issues and the fact that each operating airline has its own particular characteristics makes it advisable that the Group's top executive leads this Committee and coordinates the reporting of the different Group airlines.

Furthermore, the remaining Committee members are independent directors of IAG, including the Chairman of the Board and the Chairman of the Audit and Compliance Committee.

Finally, it has to be taken into consideration that safety is a highly regulated area that is subject to strict reporting requirements to the local regulatory authorities of each airline and to regular external audit reviews.

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:
- a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
 - b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
 - c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.
 - d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.
 - e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.
 - f) Monitor and evaluate the company's interaction with its stakeholder groups.
 - g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.
 - h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Complies

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:
- a) The goals of its corporate social responsibility policy and the support instruments to be deployed.
 - b) The corporate strategy with regard to sustainability, the environment and social issues.
 - c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.
 - d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
 - e) The mechanisms for supervising non-financial risk, ethics and business conduct.
 - f) Channels for stakeholder communication, participation and dialogue.
 - g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Complies

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Complies

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Complies

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the director must dispose of to defray costs related to their acquisition.

Complies

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

- a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.
- b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.
- c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Complies

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Complies

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Complies

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Complies

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Complies

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Complies

H. OTHER INFORMATION OF INTEREST

1. **If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.**

2. **You may include in this section any other information, clarification or observation related to the above sections of this report.**

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

3. **Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable identify the Code and date of adoption. In particular, state whether the company has adhered to the Code of Good Tax Practices of July 20, 2010.**

This annual corporate governance report was adopted by the company's Board of Directors at its meeting held on February 22, 2018.

List whether any directors voted against or abstained from voting on the approval of this Report.

No

Name or corporate name of director that did not vote in favour of approving this report

Reasons (voted against, abstention, non-attendance)

Explain the reasons

A.1 Additional information to Company's share capital:

According to the capital reduction resolution approved by the Annual Shareholders' Meeting of the Company held on June 15, 2017 and, as a consequence of the conclusion of the buy-back programme launched by the Company on March 6, 2017, the Company reduced its share capital on December 18, 2017 in the amount of 37,499,724.50 euros, through the cancellation of 74,999,449 treasury shares acquired through the buy-back programme.

As a consequence of the foregoing, the current share capital of the Company following the capital reduction, amounts to 1,028,994,647 euros divided into 2,057,989,294 ordinary shares of the same class and series and with a nominal value of 0.50 euros each, fully subscribed and paid.

A.3 Additional information giving breakdown of voting rights

a) Directors' conditional awards

During 2017, Willie Walsh and Enrique Dupuy de Lôme held awards over ordinary shares of the Company under the Company's Performance Share Plan ("IAG PSP").

The value attributed to the Company's ordinary shares on March 6, 2017 was 546 pence.

Director	Plan	Date of award	Number of awards at January 1, 2017	Awards vesting during the year	Awards lapsed during the year	Awards made during the year	Number of awards at December 31, 2017
Willie Walsh	IAG PSP 2014	March 6, 2014	379,310	189,655	189,655	0	0
Total	–	–	379,310	189,655	189,655	0	0

Director	Plan	Date of award	Number of awards at January 1, 2017	Awards vesting during the year	Awards lapsed during the year	Awards made during the year	Number of awards at December 31, 2017
Enrique Dupuy de Lôme	IAG PSP 2014	March 6, 2014	137,931	68,965	68,966	0	0
Total	–	–	137,931	68,965	68,966	0	0

b) Share options

The following directors held nil-cost options over ordinary shares of the Company granted under the IAG PSP.

The value attributed to the Company's ordinary shares on March 6, 2017 was 546 pence.

Director	Date of grant	Number of options at January 1, 2017	Exercise price	Options exercised during the year	Options lapsed during the year	Options granted during the year	Exercisable from	Expiry date	Number of options at December 31, 2017
Willie Walsh	May 28, 2015	309,091	–	0	0	0	January 1, 2020	December 31, 2024	309,091
	March 7, 2016	314,233	-	0	0	0	January 1, 2021	December 31, 2025	314,233
	March 6, 2017	0	-	0	0	311,355	January 1, 2022	December 31, 2026	311,355
Total		623,324	-	0	0	311,355			934,679

Director	Date of grant	Number of options at January 1, 2017	Exercise price	Options exercised during the year	Options lapsed during the year	Options granted during the year	Exercisable from	Expiry date	Number of options at December 31, 2017
Enrique Dupuy de Lôme	May 28, 2015	112,364	–	0	0	0	January 1, 2020	December 31, 2024	112,364
	March 7, 2016	145,647	-	0	0	0	January 1, 2021	December 31, 2025	145,647
	March 6, 2017	-	-	0	0	147,198	January 1, 2022	December 31, 2026	147,198
Total		258,011	-	0	0	147,198			405,209

c) Incentive Award Deferral Plan

During 2017, Willie Walsh and Enrique Dupuy de Lôme owned awards over ordinary shares of the Company granted under the IADP (Incentive Award Deferral Plan) ("IAG IADP").

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the IAG IADP 2017 award was 546 pence.

Director	Plan	Date of award	Number of awards at January 1, 2017	Awards released during the year	Date of vesting	Awards lapsed during the year	Awards made during the year	Number of awards at December 31, 2017
Willie Walsh	IAG IADP 2014	March, 6, 2014	149,353	149,353	March 6, 2017	0	0	0
	IAG IADP 2015	May 28, 2015	151,111	0	March 8, 2018	0	0	151,111
	IAG IADP 2016	March 7, 2016	125,693	0	March 7, 2019	0	0	125,693
	IAG IADP 2017	March 6, 2017	0	0	March 6, 2020	0	51,893	51,893
Total	-	-	426,157	149,353	-	0	51,893	328,697

Director	Plan	Date of award	Number of awards at January 1, 2017	Awards released during the year	Date of vesting	Awards lapsed during the year	Awards made during the year	Number of awards at December 31, 2017
Enrique Dupuy de Lôme	IAG IADP 2014	March 6, 2014	50,862	50,862	March 6, 2017	0	0	0
	IAG IADP 2015	May 28, 2015	50,252	0	March 8, 2018	0	0	50,252
	IAG IADP 2016	March 7, 2016	44,665	0	March 7, 2019	0	0	44,665
	IADP 2017	March 6, 2017	0	0	March 6, 2020	0	22,080	22,080
Total	-	-	145,779	50,862	-	0	20,080	116,997

For the year to December 31, 2017, the €:£ exchange rate applied is 1.1461

C.1.3 Additional information to company management structure

Pursuant to Spanish Companies Law, on May 5, 2017, Mr. James Lawrence became other external director following his appointment as a Non-Executive Director of AerCapHoldings N.V.

Ms. Lucy Nicola Shaw was appointed a Director, for the bylaw mandated one-year term, at the Annual Shareholders' Meeting held on 15 June 2017, with status of non-executive independent director, with effect from January 1, 2018.

C.1.5 Additional information in relation to article 540.4.c of the Spanish Companies Act

The information related to Company's diversity policy required under article 540.4.c of the Spanish Companies Act, as amended by the Royal Decree 18/2017, of November 24, is included in sections C.1.5, C.1.6 and C.1.6.bis of this report.

D.5 Additional information to related party and intragroup transactions

The Group's related-party transactions included total sales to associate companies of 6,657 thousand of euros and total purchases from associate companies of 57,605 thousands of euros.

ADDITIONAL INFORMATION AS A RESULT OF THE COMPANY ALSO BEING LISTED ON THE LONDON STOCK EXCHANGE

The Company is subject to the UK Listing Rules, including the requirement to explain whether it complies with the UK Corporate Governance Code published by the UK Financial Reporting Council as amended from time to time.

During the year the Company considers it has complied with all the provisions of the UK 2014 Corporate Governance Code but for the following matter: The service contract for Mr. Antonio Vázquez does not comply with the recommendation that notice periods should be set at one year or less so as to limit any payment on exit. Details can be found in the Directors' Remuneration Report.

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

ADDITIONAL INFORMATION IN RELATION TO THE CODE OF GOOD TAX PRACTICES

Iberia, representing IAG, has joined the Code of Good Tax Practices approved by Spain's Forum of Big Companies.

Agreed Upon Procedures Report

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

AGREED UPON PROCEDURES REPORT

To the Directors of International Consolidated Airlines Group, S.A.

In accordance with the request from the Board of Directors of International Consolidated Airlines Group, S.A. (hereinafter IAG) and our engagement letter dated February 5, 2018, we have performed certain procedures on the ICFR-related information of IAG, included within section F of the 2017 Corporate Governance Report, which summarises the internal control procedures of IAG in relation to the annual financial information.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system as well as developing improvements to that system, and preparing and establishing the content of the accompanying ICFR-related information disclosed in section F.

It should be noted that irrespective of the quality of the design and operability of the internal control system adopted by IAG in relation to its annual financial information, it can only provide reasonable, rather than absolute assurance with respect to the objectives pursued, due to the inherent limitations to any internal control system.

In the course of our audit work on the financial statements and pursuant to the Technical Auditing Standards, the sole purpose of our assessment of IAG internal control was to enable us to establish the scope, nature, and timing of the audit procedures to be applied to the IAG financial statements. Therefore, our assessment of the internal control performed for the purposes of the audit of the financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over the regulated annual financial information.

For the purpose of issuing this report, we exclusively applied the specific procedures described below and indicated in the Guidelines on the Auditors' report relating to information on the Internal Control over Financial Reporting of Listed Companies, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Given that the scope of these procedures was limited and substantially less than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or its design or operating effectiveness, in relation to IAG's annual financial information for 2017 described in the ICFR related information in Section F of the Corporate Governance Report. Consequently, had we applied additional procedures to those established by the Guidelines mentioned above or had we carried out an audit or a review of the internal control over the regulated annual financial reporting information, other matters might have been disclosed which would have been reported to you.

Likewise, since this special engagement does not constitute an audit of the financial statements or a review in accordance with prevailing audit regulations in Spain, we do not express an audit opinion in the terms provided for therein.

The procedures applied were as follows:

1. Read and understand the information prepared by IAG in relation to the ICFR -which is provided in the Annual Corporate Governance Report disclosure information included in the Directors' Report- and assess whether such information addresses all the required information which will follow the minimum content detailed in section F, relating to the description of the ICFR, as per the model established by CNMV Circular nº 7/2015 dated December 22, 2015.

2. Make enquiries of personnel in charge of preparing the information described in point 1 above in order to:
 - a. Obtain an understanding of the process followed in its preparation
 - b. Obtain information which will allow us to assess whether the terminology used is adapted to the definitions provided in the reference framework
 - c. Obtain information on whether the control procedures described are implemented and in use by IAG
3. Review the explanatory documentation supporting the information described in point 1 above, which should basically include that which is provided directly to those responsible for preparing the ICFR descriptive information. In this respect, the aforementioned documentation includes related reports prepared by the Internal Audit Department, senior management, and other internal and external experts providing support to the Audit and Compliance Committee.
4. Compare the information described in point 1 above with our knowledge of IAG's ICFR obtained as a result of performing the external audit procedures within the framework of the audit of the financial statements.
5. Read the minutes of the meetings held by the Board of Directors, Audit and Compliance Committee and other IAG committees in order to assess the consistency between the ICFR issues addressed therein and the information provided in point 1 above.
6. Obtain the representation letter related to the work performed, duly signed by the personnel in charge of preparing the information discussed in point 1 above.

As a result of the procedures applied, no inconsistencies or issues were observed that might have an impact on ICFR-related information.

This report was prepared exclusively within the framework of the requirements of the article 540 of the Consolidated Spanish Companies Law and by Circular nº 7/2015 dated December 22, 2015 of the Spanish National Securities Market Commission related to the description of the ICFR in the Annual Corporate Governance Report.

ERNST & YOUNG, S.L.



Hildur Eir Jónsdóttir

February 27, 2018