

Full year results announcement

International Consolidated Airlines Group (IAG) today (February 23, 2018) presented Group consolidated results for the year to December 31, 2017.

IAG period highlights on results:

- Fourth quarter operating profit €585 million before exceptional items (2016: €620 million)
- Passenger unit revenue for the quarter up 0.4 per cent, up 2.4 per cent at constant currency
- Non-fuel unit costs before exceptional items for the quarter are up 0.5 per cent, up 3.2 per cent at constant currency
- Fuel unit costs before exceptional items for the quarter up 1.2 per cent, up 2.2 per cent at constant currency
- Operating profit before exceptional items for the year to December 31, 2017 of €3,015 million (2016: €2,535 million), up 18.9 per cent
- Passenger unit revenue for the year down 1.0 per cent and up 1.5 per cent at constant currency
- Fuel unit costs for the year before exceptional items down 7.8 per cent, down 9.1 per cent at constant currency
- Non-fuel unit costs for the year before exceptional items down 1.3 per cent and up 2.7 per cent at constant currency
- Cash of €6,676 million at December 31, 2017 was up €248 million on 2016 year end
- Adjusted net debt to EBITDAR decreased 0.3 to 1.5 times
- Profit after tax before exceptional items €2,243 million up 12.7 per cent, and adjusted earnings per share up 14.0 per cent

Performance summary:

Financial data € million	Year to December 31		
	2017	2016	Higher / (lower)
Passenger revenue	20,245	19,924	1.6 %
Total revenue	22,972	22,567	1.8 %
Operating profit before exceptional items ¹	3,015	2,535	18.9 %
Exceptional items	(288)	(51)	464.7 %
Operating profit after exceptional items	2,727	2,484	9.8 %
Profit after tax	2,021	1,952	3.5 %
Basic earnings per share (€ cents)	95.8	93.0	3.0 %
Adjusted earnings per share (€ cents) ¹	102.8	90.2	14.0 %
Full year dividend per share (€ cents) ²	27.0	23.5	14.9 %

Operating figures	Year to December 31		
	2017	2016	Higher / (lower)
Available seat kilometres (ASK million)	306,185	298,431	2.6 %
Seat factor (per cent)	82.6	81.6	1.0pts
Passenger revenue per ASK (€ cents)	6.61	6.68	(1.0)%
Non-fuel costs per ASK (€ cents)	5.01	5.08	(1.3)%

	December 31		
	2017	2016	Higher / (lower)
Cash and interest-bearing deposits	6,676	6,428	3.9 %
Interest-bearing long-term borrowings	7,331	8,515	(13.9)%
Adjusted net debt ³	7,759	8,159	(4.9)%
Adjusted net debt to EBITDAR ¹	1.5	1.8	(0.3x)
Adjusted gearing ³	45%	51%	(6pts)

1 Included as a key performance indicator for the Group and definition included in Alternative performance measures section.

2 2017 includes a proposed final dividend of 14.5 € cents per share, subject to approval at the Annual General Meeting.

3 Definition included in Alternative performance measures section.

Willie Walsh, IAG Chief Executive Officer, said:

"We're reporting a very good full year performance with an operating profit of €3,015 million before exceptional items, up 18.9 per cent compared to last year.

"Passenger unit revenue improved 1.5 per cent at constant currency and we benefitted from reduced fuel costs for most of 2017 though our fuel bill started to rise in quarter 4.

"All our airlines performed extremely well with their best-ever individual financial results, strong operational performances and commitment to customer service. The turnaround in Vueling, following the challenges of 2016, has been particularly outstanding.

"In quarter 4 we reported an operating profit of €585 million, down from €620 million last year. Our strong performance continued with passenger unit revenue up 2.4 per cent at constant currency. The operating profit was impacted significantly by changes in the employee bonus provision in the quarter compared to the previous year.

"We're pleased to confirm that the Board is proposing a final dividend of 14.5 euro cents per share. This brings the full year dividend to 27.0 euro cents per share, subject to shareholder approval at our AGM in June. With the dividend and share buyback, we returned more than €1 billion to our shareholders last year.

"Our confidence in IAG's future remains undaunted and today we're announcing our intention to undertake a share buyback of €500 million during 2018".

Trading outlook

At current fuel prices and exchange rates, IAG expects its operating profit for 2018 to show an increase year-on-year. Both passenger unit revenue and non-fuel unit costs are expected to improve at constant currency.

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

Enrique Dupuy, Chief Financial Officer

Forward-looking statements:

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

Forward-looking statements can typically be identified by the use of forward-looking terminology, such as "expects", "may", "will", "could", "should", "intends", "plans", "predicts", "envisages" or "anticipates" and include, without limitation, any projections relating to results of operations and financial conditions of International Consolidated Airlines Group S.A. and its subsidiary undertakings from time to time (the 'Group'), as well as plans and objectives for future operations, expected future revenues, financing plans, expected expenditure and divestments relating to the Group and discussions of the Group's Business plan. All forward-looking statements in this report are based upon information known to the Group on the date of this report. Other than in accordance with its legal or regulatory obligations, the Group does not undertake to update or revise any forward-looking statement to reflect any changes in events, conditions or circumstances on which any such statement is based.

It is not reasonably possible to itemise all of the many factors and specific events that could cause the forward-looking statements in this report to be incorrect or that could otherwise have a material adverse effect on the future operations or results of an airline operating in the global economy. Further information on the primary risks of the business and the risk management process of the Group is given in the Annual Report and Accounts 2016; these documents are available on www.iagshares.com.

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Consolidated income statement

Year to December 31

€ million	Before exceptional items 2017	Exceptional items	Total 2017	Before exceptional items 2016	Exceptional items	Total 2016	Higher/ (lower)
Passenger revenue	20,245		20,245	19,924		19,924	1.6 %
Cargo revenue	1,084		1,084	1,022		1,022	6.1 %
Other revenue	1,643		1,643	1,621		1,621	1.4 %
Total revenue	22,972		22,972	22,567		22,567	1.8 %
Employee costs	4,740	248	4,988	4,731	93	4,824	0.2 %
Fuel, oil costs and emissions charges	4,610		4,610	4,873	(42)	4,831	(5.4)%
Handling, catering and other operating costs	2,700	14	2,714	2,664		2,664	1.4 %
Landing fees and en-route charges	2,151		2,151	2,151		2,151	-
Engineering and other aircraft costs	1,773	19	1,792	1,701		1,701	4.2 %
Property, IT and other costs	915	7	922	870		870	5.2 %
Selling costs	982		982	896		896	9.6 %
Depreciation, amortisation and impairment	1,184		1,184	1,287		1,287	(8.0)%
Aircraft operating lease costs	888		888	759		759	17.0 %
Currency differences	14		14	100		100	(86.0)%
Total expenditure on operations	19,957	288	20,245	20,032	51	20,083	(0.4)%
Operating profit	3,015	(288)	2,727	2,535	(51)	2,484	18.9 %
Net non-operating costs	(234)		(234)	(122)		(122)	91.8 %
Profit before tax	2,781	(288)	2,493	2,413	(51)	2,362	15.3 %
Tax	(538)	66	(472)	(423)	13	(410)	27.2 %
Profit after tax for the year	2,243	(222)	2,021	1,990	(38)	1,952	12.7 %

Operating figures	2017 ¹	2016 ¹	Higher/ (lower)
Available seat kilometres (ASK million)	306,185	298,431	2.6 %
Revenue passenger kilometres (RPK million)	252,819	243,474	3.8 %
Seat factor (per cent)	82.6	81.6	1.0pts
Cargo tonne kilometres (CTK million)	5,762	5,454	5.6 %
Passenger numbers (thousands)	104,829	100,675	4.1 %
Sold cargo tonnes (thousands)	701	680	3.1 %
Sectors	717,325	708,615	1.2 %
Block hours (hours)	2,100,089	2,067,980	1.6 %
Average manpower equivalent	63,422	63,387	0.1 %
Aircraft in service	546	548	(0.4)%
Passenger revenue per RPK (€ cents)	8.01	8.18	(2.1)%
Passenger revenue per ASK (€ cents)	6.61	6.68	(1.0)%
Cargo revenue per CTK (€ cents)	18.81	18.74	0.4 %
Fuel cost per ASK (€ cents)	1.51	1.63	(7.8)%
Non-fuel costs per ASK (€ cents)	5.01	5.08	(1.3)%
Total cost per ASK (€ cents)	6.52	6.71	(2.9)%

1 Financial ratios are before exceptional items.

Consolidated income statement

Three months to December 31

€ million	Before exceptional items 2017	Three months to December 31			Higher/ (lower)
		Exceptional items	Total 2017	Before exceptional items 2016	
Passenger revenue	4,771		4,771	4,579	4.2 %
Cargo revenue	309		309	279	10.8 %
Other revenue	387		387	437	(11.4)%
Total revenue	5,467		5,467	5,295	3.2 %
Employee costs	1,178	(23)	1,155	1,075	9.6 %
Fuel, oil costs and emissions charges	1,145		1,145	1,091	4.9 %
Handling, catering and other operating costs	635	14	649	653	(2.8)%
Landing fees and en-route charges	499		499	488	2.3 %
Engineering and other aircraft costs	401	19	420	443	(9.5)%
Property, IT and other costs	259	7	266	198	30.8 %
Selling costs	242		242	185	30.8 %
Depreciation, amortisation and impairment	292		292	316	(7.6)%
Aircraft operating lease costs	219		219	222	(1.4)%
Currency differences	12		12	4	200.0 %
Total expenditure on operations	4,882	17	4,899	4,675	4.4 %
Operating profit	585	(17)	568	620	(5.6)%
Net non-operating costs	(23)		(23)	12	(291.7)%
Profit before tax	562	(17)	545	632	(11.1)%
Tax	(94)	3	(91)	(101)	(6.9)%
Profit after tax for the period	468	(14)	454	531	(11.9)%

Operating figures	2017 ¹	2016 ¹	Higher/ (lower)
Available seat kilometres (ASK million)	74,768	72,075	3.7 %
Revenue passenger kilometres (RPK million)	61,078	57,748	5.8 %
Seat factor (per cent)	81.7	80.1	1.6pts
Cargo tonne kilometres (CTK million)	1,542	1,468	5.0 %
Passenger numbers (thousands)	24,764	23,150	7.0 %
Sold cargo tonnes (thousands)	188	180	4.4 %
Sectors	172,106	163,904	5.0 %
Block hours (hours)	507,938	489,388	3.8 %
Average manpower equivalent	62,196	64,093	(3.0)%
Passenger revenue per RPK (€ cents)	7.81	7.93	(1.5)%
Passenger revenue per ASK (€ cents)	6.38	6.35	0.4 %
Cargo revenue per CTK (€ cents)	20.04	19.01	5.4 %
Fuel cost per ASK (€ cents)	1.53	1.51	1.2 %
Non-fuel costs per ASK (€ cents)	5.00	4.97	0.5 %
Total cost per ASK (€ cents)	6.53	6.49	0.7 %

¹ Financial ratios are before exceptional items.

Financial review

IATA market growths

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

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

IATA market growths

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

Source: IATA Air Passenger Market Analysis

IAG capacity

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

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

Market segments

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

IAG capacity

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

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

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

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

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

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

LEVEL launch

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

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

Exchange impact before exceptional items

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

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

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

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

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

Revenue

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

Passenger revenue

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

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

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

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

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

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

Cargo revenue

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

Other revenue

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

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

Expenditure before exceptional items

Employee costs

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

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

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

Employee costs

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

Productivity

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

Fuel, oil and emissions costs

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

Fuel, oil and emissions costs

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

Supplier costs

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

Supplier costs

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

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

By supplier cost category:

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

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

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

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

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

Ownership costs

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

Ownership costs

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

Number of fleet

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

Non-fuel unit costs

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

Operating profit

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

Financial performance by Brand

Operating profit before exceptionals

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

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

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

Financial performance by Brand

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

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

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

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

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

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

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

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

Financial performance by Brand

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

* Iberia's results exclude LEVEL.

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

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

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

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

Exceptional items

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

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

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

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

The exceptional item in 2016 recorded in Fuel, oil and emissions reflects the impact of recording Aer Lingus fuel cost at the hedged price in the pre-exceptional column, rather than at spot price in the reported column.

Non-operating costs and taxation

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

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

Taxation

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

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

Profit after tax and Earnings per share (EPS)

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

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

Dividends

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

Dividend policy statement

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

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

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

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

Liquidity and capital risk management

IAG's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to maintain an optimal capital structure to reduce the cost of capital and to provide sustainable returns to shareholders.

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

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

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

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

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

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

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

Cash flow

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

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

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

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

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

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

Net debt, adjusted net debt and adjusted gearing

Net debt

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

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

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

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

Off balance sheet arrangements and capital commitments

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

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

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

Strategic framework

IAG's mission is to be the leading international airline group. This means we will:

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

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

IAG's strategic priorities are as follows:

- Strengthening a portfolio of world-class brands and operations
- Growing global leadership positions
- Enhancing the common integrated platform

Principal risks and uncertainties

During the year we have continued to embed our risk framework, which includes processes to identify, assess and manage risks. The principal risks and uncertainties affecting us, detailed on pages 27 to 32 of the Annual Report and Accounts 2016, remain relevant. In general, the Group's strategic risk was stable during the year. The Group continued to evaluate and prepare for the potential changes following the UK's decision to leave the EU. As we move into 2018, there is continued political uncertainty, upward pressure on fuel price and the ongoing risk of impact to our operations and reputation as the frequency, nature and sophistication of cyber attacks increases.

International Consolidated Airlines Group S.A.
Unaudited Full year Consolidated Financial Statements
January 1, 2017 – December 31, 2017

Consolidated income statement

€ million	Note	Year to December 31					
		Before exceptional items 2017	Exceptional items	Total 2017	Before exceptional items 2016	Exceptional items	Total 2016
Passenger revenue		20,245		20,245	19,924		19,924
Cargo revenue		1,084		1,084	1,022		1,022
Other revenue		1,643		1,643	1,621		1,621
Total revenue	3	22,972		22,972	22,567		22,567
Employee costs	4, 7	4,740	248	4,988	4,731	93	4,824
Fuel, oil costs and emissions charges	4	4,610		4,610	4,873	(42)	4,831
Handling, catering and other operating costs		2,700	14	2,714	2,664		2,664
Landing fees and en-route charges		2,151		2,151	2,151		2,151
Engineering and other aircraft costs		1,773	19	1,792	1,701		1,701
Property, IT and other costs		915	7	922	870		870
Selling costs		982		982	896		896
Depreciation, amortisation and impairment	5	1,184		1,184	1,287		1,287
Aircraft operating lease costs	5	888		888	759		759
Currency differences		14		14	100		100
Total expenditure on operations		19,957	288	20,245	20,032	51	20,083
Operating profit	3	3,015	(288)	2,727	2,535	(51)	2,484
Finance costs	8	(225)		(225)	(279)		(279)
Finance income	8	45		45	33		33
(Loss)/profit on sale of property, plant and equipment and investments		(30)		(30)	67		67
Net gain related to available-for-sale financial assets	17	7		7	4		4
Share of profits in investments accounted for using the equity method	16	3		3	6		6
Realised losses on derivatives not qualifying for hedge accounting		(19)		(19)	(7)		(7)
Unrealised (losses)/gains on derivatives not qualifying for hedge accounting		(14)		(14)	67		67
Net financing (charge)/credit relating to pensions	31	(28)		(28)	12		12
Net currency retranslation credits/(charges)		27		27	(25)		(25)
Total net non-operating costs		(234)		(234)	(122)		(122)
Profit before tax		2,781	(288)	2,493	2,413	(51)	2,362
Tax	9	(538)	66	(472)	(423)	13	(410)
Profit after tax for the year		2,243	(222)	2,021	1,990	(38)	1,952
Attributable to:							
Equity holders of the parent		2,223		2,001	1,969		1,931
Non-controlling interest		20		20	21		21
		2,243		2,021	1,990		1,952
Basic earnings per share (€ cents)	10	106.4		95.8	94.9		93.0
Diluted earnings per share (€ cents)	10	102.8		92.6	90.2		88.5

Consolidated statement of other comprehensive income

€ million	Note	Year to December 31	
		2017	2016
<i>Items that may be reclassified subsequently to net profit</i>			
Cash flow hedges:			
Fair value movements in equity	30	101	(182)
Reclassified and reported in net profit	30	27	793
Available-for-sale financial assets:			
Fair value movements in equity	30	9	4
Currency translation differences	30	(146)	(506)
<i>Items that will not be reclassified to net profit</i>			
Remeasurements of post-employment benefit obligations	30	739	(1,807)
Total other comprehensive income for the year, net of tax		730	(1,698)
Profit after tax for the year		2,021	1,952
Total comprehensive income for the year		2,751	254
Total comprehensive income is attributable to:			
Equity holders of the parent		2,731	233
Non-controlling interest	30	20	21
		2,751	254

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

Consolidated balance sheet

€ million	Note	December 31, 2017	December 31, 2016
Non-current assets			
Property, plant and equipment	12	11,846	12,227
Intangible assets	15	3,018	3,037
Investments accounted for using the equity method	16	30	29
Available-for-sale financial assets	17	79	73
Employee benefit assets	31	1,023	1,028
Derivative financial instruments	26	145	169
Deferred tax assets	9	521	526
Other non-current assets	18	376	499
		17,038	17,588
Current assets			
Non-current assets held for sale	14	-	38
Inventories		432	458
Trade receivables	18	1,494	1,405
Other current assets	18	958	899
Current tax receivable	9	258	228
Derivative financial instruments	26	405	329
Other current interest-bearing deposits	19	3,384	3,091
Cash and cash equivalents	19	3,292	3,337
		10,223	9,785
Total assets		27,261	27,373
Shareholders' equity			
Issued share capital	27	1,029	1,066
Share premium	27	6,022	6,105
Treasury shares	28	(77)	(96)
Other reserves	30	115	(1,719)
Total shareholders' equity		7,089	5,356
Non-controlling interest	30	307	308
Total equity		7,396	5,664
Non-current liabilities			
Interest-bearing long-term borrowings	22	6,401	7,589
Employee benefit obligations	31	792	2,363
Deferred tax liability	9	531	176
Provisions for liabilities and charges	24	2,113	1,987
Derivative financial instruments	26	114	20
Other long-term liabilities	21	222	238
		10,173	12,373
Current liabilities			
Current portion of long-term borrowings	22	930	926
Trade and other payables	20	3,766	3,305
Deferred revenue on ticket sales		4,159	4,145
Derivative financial instruments	26	111	88
Current tax payable	9	179	101
Provisions for liabilities and charges	24	547	771
		9,692	9,336
Total liabilities		19,865	21,709
Total equity and liabilities		27,261	27,373

Consolidated cash flow statement

€ million	Note	Year to December 31	
		2017	2016
Cash flows from operating activities			
Operating profit after exceptional items		2,727	2,484
Depreciation, amortisation and impairment	5	1,184	1,287
Movement in working capital		582	83
<i>Increase in trade and other receivables, prepayments, inventories and current assets</i>		(282)	(592)
<i>Increase in trade and other payables, deferred revenue on ticket sales and current liabilities</i>		864	675
Payments related to restructuring	24	(248)	(206)
Employer contributions to pension schemes	31	(899)	(936)
Pension scheme service costs	31	233	196
Provision and other non-cash movements		264	203
Interest paid		(122)	(185)
Interest received		29	37
Tax paid		(237)	(318)
Net cash flows from operating activities		3,513	2,645
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(1,490)	(3,038)
Sale of property, plant and equipment and intangible assets		306	1,737
Proceeds from sale of investments		17	-
Increase in other current interest-bearing deposits		(432)	(450)
Other investing movements		55	2
Net cash flows from investing activities		(1,544)	(1,749)
Cash flows from financing activities			
Proceeds from long-term borrowings		178	1,317
Repayment of borrowings		(148)	(515)
Repayment of finance leases		(825)	(615)
Acquisition of treasury shares	28	(500)	(25)
Distributions made to holders of perpetual securities and other		(21)	(20)
Dividend paid		(512)	(442)
Net cash flows from financing activities		(1,828)	(300)
Net increase in cash and cash equivalents		141	596
Net foreign exchange differences		(186)	(168)
Cash and cash equivalents at 1 January		3,337	2,909
Cash and cash equivalents at year end	19	3,292	3,337
Interest-bearing deposits maturing after more than three months	19	3,384	3,091
Cash, cash equivalents and other interest-bearing deposits	19	6,676	6,428

Consolidated statement of changes in equity

For the year to December 31, 2017

€ million	Issued share capital (note 27)	Share premium (note 27)	Treasury shares (note 28)	Other reserves (note 30)	Retained earnings	Total shareholders' equity	Non-controlling interest (note 30)	Total equity
January 1, 2017	1,066	6,105	(96)	(2,671)	952	5,356	308	5,664
Profit for the year	-	-	-	-	2,001	2,001	20	2,021
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	-	-	-	84	-	84	-	84
Fuel and oil costs	-	-	-	(38)	-	(38)	-	(38)
Currency differences	-	-	-	(19)	-	(19)	-	(19)
Net change in fair value of cash flow hedges	-	-	-	101	-	101	-	101
Net change in fair value of available-for-sale financial assets	-	-	-	9	-	9	-	9
Currency translation differences	-	-	-	(146)	-	(146)	-	(146)
Remeasurements of post-employment benefit obligations	-	-	-	-	739	739	-	739
Total comprehensive income for the year	-	-	-	(9)	2,740	2,731	20	2,751
Cost of share-based payments	-	-	-	-	34	34	-	34
Vesting of share-based payment schemes	-	-	19	-	(33)	(14)	-	(14)
Acquisition of treasury shares	-	-	(500)	-	-	(500)	-	(500)
Dividend	-	-	-	-	(518)	(518)	-	(518)
Cancellation of share capital	(37)	-	500	37	(500)	-	-	-
Dividend of a subsidiary	-	-	-	-	-	-	(1)	(1)
Transfer in Company reserves	-	(83)	-	-	83	-	-	-
Distributions made to holders of perpetual securities	-	-	-	-	-	-	(20)	(20)
December 31, 2017	1,029	6,022	(77)	(2,643)	2,758	7,089	307	7,396

Consolidated statement of changes in equity

For the year to December 31, 2016

€ million	Issued share capital (note 27)	Share premium (note 27)	Treasury shares (note 28)	Other reserves (note 30)	Retained earnings	Total shareholders' equity	Non-controlling interest (note 30)	Total equity
January 1, 2016	1,020	5,867	(113)	(2,708)	1,160	5,226	308	5,534
Profit for the year	-	-	-	-	1,931	1,931	21	1,952
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	-	-	-	(57)	-	(57)	-	(57)
Fuel and oil costs	-	-	-	918	-	918	-	918
Currency differences	-	-	-	(68)	-	(68)	-	(68)
Net change in fair value of cash flow hedges	-	-	-	(182)	-	(182)	-	(182)
Net change in fair value of available-for-sale financial assets	-	-	-	4	-	4	-	4
Currency translation differences	-	-	-	(506)	-	(506)	-	(506)
Remeasurements of post-employment benefit obligations	-	-	-	-	(1,807)	(1,807)	-	(1,807)
Total comprehensive income for the year	-	-	-	109	124	233	21	254
Cost of share-based payments	-	-	-	-	35	35	-	35
Vesting of share-based payment schemes	-	-	42	-	(73)	(31)	-	(31)
Acquisition of treasury shares	-	-	(25)	-	-	(25)	-	(25)
Dividend	-	(106)	-	-	(339)	(445)	-	(445)
Issue of ordinary shares related to conversion of convertible bond	46	344	-	(72)	45	363	-	363
Dividend of a subsidiary	-	-	-	-	-	-	(1)	(1)
Distributions made to holders of perpetual securities	-	-	-	-	-	-	(20)	(20)
December 31, 2016	1,066	6,105	(96)	(2,671)	952	5,356	308	5,664

Notes to the consolidated financial statements

For the year to December 31, 2017

1. Background and general information

International Consolidated Airlines Group S.A. (hereinafter 'International Airlines Group', 'IAG' or the 'Group') is a leading European airline group, formed to hold the interests of airline and ancillary operations. IAG is a Spanish company registered in Madrid and was incorporated on April 8, 2010. On January 21, 2011 British Airways Plc and Iberia Líneas Aéreas de España S.A. Operadora (hereinafter 'British Airways' and 'Iberia' respectively) completed a merger transaction becoming the first two airlines of the Group. Vueling Airlines S.A. ('Vueling') was acquired on April 26, 2013, and Aer Lingus Group Plc ('Aer Lingus') on August 18, 2015. A list of the subsidiaries of the Group is included in the Group investments section.

IAG shares are traded on the London Stock Exchange's main market for listed securities and also on the stock exchanges of Madrid, Barcelona, Bilbao and Valencia (the 'Spanish Stock Exchanges'), through the Spanish Stock Exchanges Interconnection System (Mercado Continuo Español).

2 Significant accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union (IFRSs as endorsed by the EU). The consolidated financial statements herein are not the Group's statutory accounts and are unaudited. The consolidated financial statements are rounded to the nearest million unless otherwise stated. These financial statements have been prepared on a historical cost convention except for certain financial assets and liabilities, including derivative financial instruments and available-for-sale financial assets that are measured at fair value. The carrying value of recognised assets and liabilities that are subject to fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged. In order to provide additional information on the nature of non-operating items included in the Income statement, the Group has included an additional line to separate the unrealised movements on open derivatives from realised gains and losses.

The Group's financial statements for the year to December 31, 2017 were authorised for issue, and approved by the Board of Directors on February 22, 2018.

The Directors have considered the business activities, the Group's principal risks and uncertainties, and the Group's financial position, including cash flows, liquidity position and available committed facilities. The Directors consider that the Group has adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements.

Consolidation

The Group financial statements include the financial statements of the Company and its subsidiaries, each made up to December 31, together with the attributable share of results and reserves of associates and joint ventures, adjusted where appropriate to conform to the Group's accounting policies.

Subsidiaries are consolidated from the date of their acquisition, which is the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group applies the acquisition method to account for business combinations. The consideration paid is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries that are not held by the Group and are presented separately within equity in the consolidated Balance sheet. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the Income statement.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed.

All intra-group account balances, including intra-group profits, are eliminated in preparing the consolidated financial statements.

Segmental reporting

Operating segments are reported in a manner consistent with how resource allocation decisions are made by the chief operating decision-maker. The chief operating decision-maker, who is responsible for resource allocation and assessing performance of the operating segments, has been identified as the IAG Management Committee.

Foreign currency translation

a Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the functional currency, being the currency of the primary economic environment in which the entity operates. In particular, British Airways and Avios have a functional currency of pound sterling. The Group's consolidated financial statements are presented in euros, which is the Group's presentation currency.

b Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency using the rate of exchange prevailing on the date of the transaction. Monetary foreign currency balances are translated into the functional currency at the rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income statement, except where hedge accounting is applied. Foreign exchange gains and losses arising on the retranslation of monetary assets and liabilities classified as non-current on the Balance sheet are recognised within 'Net currency retranslation credits/(charges)' in the Income statement. All other gains and losses arising on the retranslation of monetary assets and liabilities are recognised in operating profit.

c Group companies

The net assets of foreign operations are translated into euros at the rate of exchange ruling at the balance sheet date. Profits and losses of such operations are translated into euros at average rates of exchange during the year. The resulting exchange differences are taken directly to a separate component of equity until all or part of the interest is sold, when the relevant portion of the cumulative exchange difference is recognised in the Income statement.

Property, plant and equipment

Property, plant and equipment is held at cost. The Group has a policy of not revaluing property, plant and equipment. Depreciation is calculated to write off the cost less the estimated residual value on a straight-line basis, over the economic life of the asset. Residual values, where applicable, are reviewed annually against prevailing market values for equivalently aged assets and depreciation rates adjusted accordingly on a prospective basis.

a Capitalisation of interest on progress payments

Interest attributed to progress payments, and related exchange movements on foreign currency amounts, made on account of aircraft and other qualifying assets under construction are capitalised and added to the cost of the asset concerned. All other borrowing costs are recognised in the Income statement in the year in which they are incurred.

b Fleet

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits. Fleet assets owned or held on finance leases are depreciated at rates calculated to write down the cost to the estimated residual value at the end of their planned operational lives (which is the shorter of their useful life or lease term) on a straight-line basis. Depreciation rates are specific to aircraft type, based on the Group's fleet plans, within overall parameters of 23 years and 5 per cent residual value for shorthaul aircraft and 25 years and 5 per cent residual value for longhaul aircraft.

Cabin interior modifications, including those required for brand changes and relaunches, are depreciated over the lower of five years and the remaining economic life of the aircraft.

Aircraft and engine spares acquired on the introduction or expansion of a fleet, as well as rotatable spares purchased separately, are carried as property, plant and equipment and generally depreciated in line with the fleet to which they relate.

Major overhaul expenditure, including replacement spares and labour costs, is capitalised and amortised over the average expected life between major overhauls. All other replacement spares and other costs relating to maintenance of fleet assets (including maintenance provided under 'pay-as-you-go' contracts) are charged to the Income statement on consumption or as incurred respectively.

c Other property, plant and equipment

Provision is made for the depreciation of all property, plant and equipment. Property, with the exception of freehold land, is depreciated over its expected useful life over periods not exceeding 50 years, or in the case of leasehold properties, over the duration of the lease if shorter, on a straight-line basis. Equipment is depreciated over periods ranging from 4 to 20 years.

d Leased assets

Where assets are financed through finance leases, under which substantially all the risks and rewards of ownership are transferred to the Group, the assets are treated as if they had been purchased outright. The amount included in the cost of property, plant and equipment represents the aggregate of the capital elements payable during the lease term. The corresponding obligation, reduced by the appropriate proportion of lease payments made, is included in borrowings.

The amount included in the cost of property, plant and equipment is depreciated on the basis described in the preceding paragraphs on fleet and the interest element of lease payments made is included as an interest expense in the Income statement.

Total minimum payments, measured at inception, under all other lease arrangements, known as operating leases, are charged to the Income statement in equal annual amounts over the period of the lease. In respect of aircraft, certain operating lease arrangements allow the Group to terminate the leases after a limited initial period, without further material financial obligations. In certain cases the Group is entitled to extend the initial lease period on predetermined terms; such leases are described as extendable operating leases.

In determining the appropriate lease classification, the substance of the transaction rather than the form is considered. Factors considered include but are not limited to the following: whether the lease transfers ownership of the asset to the lessee by the end of the lease term; the lessee has the option to purchase the asset at the price that is sufficiently lower than the fair value on exercise date; the lease term is for the major part of the economic life of the asset; and the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

Intangible assets

a Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration paid over the net fair value of the identifiable assets and liabilities of the acquiree. Where the net fair value of the identifiable assets and liabilities of the acquiree is in excess of the consideration paid, a gain on bargain purchase is recognised immediately in the Income statement.

For the purpose of assessing impairment, goodwill is grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Goodwill is tested for impairment annually and whenever indicators exist that the carrying value may not be recoverable.

b Brands

Brands arising on the acquisition of subsidiaries are initially recognised at fair value at the acquisition date. Long established brands that are expected to be used indefinitely are not amortised but assessed annually for impairment.

c Customer loyalty programmes

Customer loyalty programmes arising on the acquisition of subsidiaries are initially recognised at fair value at the acquisition date. A customer loyalty programme with an expected useful life is amortised over the expected remaining useful life. Established customer loyalty programmes that are expected to be used indefinitely are not amortised but assessed annually for impairment.

d Landing rights

Landing rights acquired in a business combination are recognised at fair value at the acquisition date. Landing rights acquired from other airlines are capitalised at cost.

Capitalised landing rights based outside the EU are amortised on a straight-line basis over a period not exceeding 20 years. Capitalised landing rights based within the EU are not amortised, as regulations provide that these landing rights are perpetual.

e Contract based intangibles

Contract based intangibles acquired in a business combination are recognised initially at fair value at the acquisition date and amortised over the remaining life of the contract.

f Software

The cost to purchase or develop computer software that is separable from an item of related hardware is capitalised separately and amortised on a straight-line basis generally over a period not exceeding five years, with certain specific software developments amortised over a period of up to 10 years.

g Emissions allowances

Purchased emissions allowances are recognised at cost. Emissions allowances are not revalued or amortised but are tested for impairment whenever indicators exist that the carrying value may not be recoverable.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the value by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value-in-use. Non-financial assets other than goodwill that were subject to an impairment are reviewed for possible reversal of the impairment at each reporting date.

a Property, plant and equipment

The carrying value is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable and the cumulative impairment losses are shown as a reduction in the carrying value of property, plant and equipment.

b Intangible assets

Intangible assets are held at cost and are either amortised on a straight-line basis over their economic life, or they are deemed to have an indefinite economic life and are not amortised. Indefinite life intangible assets are tested annually for impairment or more frequently if events or changes in circumstances indicate the carrying value may not be recoverable.

Investments in associates and joint ventures

An associate is an undertaking in which the Group has a long-term equity interest and over which it has the power to exercise significant influence. Where the Group cannot exercise control over an entity in which it has a shareholding greater than 51 per cent, the equity interest is treated as an associated undertaking.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investments in associates and joint ventures are accounted for using the equity method, and initially recognised at cost. The Group's interest in the net assets of associates and joint ventures is included in Investments accounted for using the equity method in the Balance sheet and its interest in their results is included in the Income statement, below operating result. The attributable results of those companies acquired or disposed of during the year are included for the periods of ownership.

Financial instruments

a Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets including listed and unlisted investments, excluding interests in associates and joint ventures. After initial recognition, available-for-sale financial assets are measured at fair value, with changes in fair value recognised in Other comprehensive income until the investment is sold or becomes impaired, at which time the cumulative gain or loss previously reported in equity is recognised in the Income statement.

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques. Where fair value cannot be reliably estimated, assets are carried at cost.

b Other interest-bearing deposits

Other interest-bearing deposits, principally comprising funds held with banks and other financial institutions, are carried at amortised cost using the effective interest method.

c Derivative financial instruments and hedging activities

Derivative financial instruments, comprising interest rate swap agreements, foreign exchange derivatives and fuel hedging derivatives (including options, swaps and futures) are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss arising from remeasurement depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged (as detailed below under cash flow hedges). The gains or losses related to derivatives not used as effective hedging instruments are recognised in the Income statement.

Exchange gains and losses on monetary investments are taken to the Income statement unless the item has been designated and is assessed as an effective hedging instrument. Exchange gains and losses on non-monetary investments are reflected in equity until the investment is sold when the cumulative amount recognised in equity is recognised in the Income statement.

Long-term borrowings are recorded at amortised cost, including leases which contain interest rate swaps that are closely related to the underlying financing and as such are not accounted for as an embedded derivative.

d Cash flow hedges

Changes in the fair value of derivative financial instruments are reported in the Income statement, unless the derivative financial instrument has been designated as a hedge of a highly probable expected future cash flow. Gains and losses on derivative financial instruments designated as cash flow hedges and assessed as effective, are recorded in equity. Gains and losses recorded in equity are reflected in the Income statement when either the hedged cash flow impacts the Income statement or the hedged item is no longer expected to occur.

Certain loan repayment instalments denominated in US dollars, euros, Japanese yen and Chinese yuan are designated as cash flow hedges of highly probable future foreign currency revenues. Exchange differences arising from the translation of these loan repayment instalments are recorded in equity and subsequently reflected in the Income statement when either the future revenue impacts income or its occurrence is no longer expected to occur.

e Convertible debt

Convertible bonds are classified as compound instruments, consisting of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt, and is subsequently recorded at an amortised cost basis using the effective interest method until extinguished on conversion or maturity of the bonds, and is recognised within Interest-bearing borrowings. The difference between the proceeds of issue of the convertible bond and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in Equity portion of convertible bond in Other reserves and is not subsequently remeasured.

Issue costs are apportioned between the liability and equity components of the convertible bonds where appropriate based on their relative carrying values at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the effective interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this value and the interest paid is added to the carrying amount of the liability.

f Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events that have occurred since the initial recognition of the asset have had a negative impact on the estimated future cash flows of that asset. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative gain or loss previously reported in Other comprehensive income is included in the Income statement.

An impairment loss in respect of a financial asset carried at amortised cost is calculated as the difference between its carrying value and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

Employee benefit plans

a Pension obligations

The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years. The benefit is discounted to determine its present value, and the fair value of any plan assets are deducted. The discount rate is the yield at the balance sheet date on AA-rated corporate bonds of the appropriate currency that have durations approximating those of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the net obligation calculation results in an asset for the Group, the recognition of an asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan ('the asset ceiling'). The fair value of the plan assets is based on market price information and, in the case of quoted securities, is the published bid price. The fair value of insurance policies which exactly match the amount and timing of some or all benefits payable under the scheme are deemed to be the present value of the related obligations. Longevity swaps are measured at their fair value.

Current service costs are recognised within employee costs in the year in which they arise. Past service costs are recognised in the event of a plan amendment or curtailment, or when the Group recognises related restructuring costs or severance obligations. The net interest is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest and other expenses related to the defined benefit plans are recognised in the Income statement. Remeasurements, comprising actuarial gains and losses, the effect of the asset ceiling (excluding interest) and the return on plan assets (excluding interest), are recognised immediately in Other comprehensive income. Remeasurements are not reclassified to the Income statement in subsequent periods.

b Severance obligations

Severance obligations are recognised when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises a provision for severance payments when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal, or providing severance payments as a result of an offer made to encourage voluntary redundancy.

Other employee benefits are recognised when there is deemed to be a present obligation.

Taxation

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries or associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the Income statement.

Inventories

Inventories, including aircraft expendables, are valued at the lower of cost and net realisable value. Such cost is determined by the weighted average cost method. Inventories include mainly aircraft spare parts, repairable aircraft engine parts and fuel.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and deposits with any qualifying financial institution repayable on demand or maturing within three months of the date of acquisition and which are subject to an insignificant risk of change in value.

Share-based payments

The Group operates a number of equity-settled, share-based payment plans, under which the Group awards equity instruments of the Group for services rendered by employees. The fair value of the share-based payment plans is measured at the date of grant using a valuation model provided by external specialists. The resulting cost, as adjusted for the expected and actual level of vesting of the plan, is charged to the Income statement over the period in which the options vest. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, and accordingly the number of equity instruments that will ultimately vest. The movement in the cumulative expense since the previous balance sheet date is recognised in the Income statement with a corresponding entry in equity.

Provisions

Provisions are made when an obligation exists for a present liability in respect of a past event and where the amount of the obligation can be reliably estimated.

Employee leaving indemnities and other employee provisions are recorded for flight crew who, meeting certain conditions, have the option of being placed on reserve or of taking early retirement. The Group is obligated to remunerate these employees until they reach the statutory retirement age. The calculation is performed by independent actuaries using the projected unit credit method.

Other employee related provisions are recognised for direct expenditures of business reorganisation such as severance payments (restructuring provisions) where plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken at the balance sheet date.

If the effect is material, expected future cash flows are discounted using a rate that reflects, where appropriate, the risks specific to the provision. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Revenue recognition

Passenger and cargo revenue is recognised when the transportation service has been provided. Passenger tickets net of discounts are recorded as deferred revenue on ticket sales in current liabilities until the customer has flown. Unused tickets are recognised as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and statistical analysis of historical trends.

Other revenue including maintenance; handling; hotel and holiday and commissions is recognised at the time the service is provided in accordance with the invoice or contract.

Customer loyalty programmes

The Group operates five loyalty programmes: Executive Club, Iberia Plus, Avios, Vueling Club and Aer Club. The customer loyalty programmes award travellers Avios points to redeem for various rewards, primarily redemption travel, including flights, hotels and car hire. In accordance with IFRIC 13 'Customer loyalty programmes', the fair value attributed to the awarded Avios points is deferred as a liability and recognised as revenue on redemption of the points and provision of service to the participants to whom the Avios points are issued.

In addition, Avios points are sold to commercial partners to use in loyalty activity. The fair value of the Avios points sold is deferred and recognised as revenue on redemption of the Avios points by the participants to whom the Avios points are issued. The difference between the consideration received and the amount deferred is recognised on the issuance of the points. The cost of the redemption of the Avios points is recognised when the Avios points are redeemed.

The Group estimates the fair value of Avios points by reference to the fair value of the awards for which they could be redeemed and is reduced to take into account the proportion of award credits that are not expected to be redeemed based on the results of statistical modelling. The fair value of the Avios point reflects the fair value of the awards for which points can be redeemed.

Exceptional items

Exceptional items are those that in management's view need to be separately disclosed by virtue of their size or incidence. The exceptional items recorded in the Income statement include items such as significant restructuring; the impact of business combination transactions that do not contribute to the ongoing results of the Group; and the impact of the sale, disposal or impairment of an investment in a business.

Business combination transactions include cash items such as the costs incurred to effect the transaction and non-cash items such as accounting gains or losses recognised through the Income statement, such as bargain purchase gains and step acquisition losses.

Critical accounting judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These judgements, estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results in the future may differ from judgements and estimates upon which financial information has been prepared. These underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if these are also affected.

Estimates

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows.

a Employee benefit obligations, employee leaving indemnities, other employee related restructuring provisions

The cost of employee benefit obligations, employee leaving indemnities and other employee related provisions is determined using actuarial valuations. Actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such assumptions are subject to significant uncertainty. The assumptions relating to these schemes are disclosed in notes 24 and 31. The Group determines the assumptions to be adopted in discussion with qualified actuaries. In respect of future pension increases in the Airways Pension Scheme, following legal proceedings the Group has appealed the initial judgement that the Trustee has the power to award discretionary increases to pensions in payment in the 2013/14 scheme year. Further information on these proceedings is disclosed in note 32. The sensitivity to changes in pension increase assumptions is disclosed in note 31.

Restructuring provisions are estimates of future obligations. The Group exercises judgement in determining the expected direct expenditures of reorganisation based on plans which are sufficiently detailed and advanced.

b Revenue recognition

At December 31, 2017 the Group recognised €4,159 million in respect of deferred revenue on ticket sales (2016: €4,145 million) of which €1,217 million (2016: €1,287 million) related to customer loyalty programmes.

Passenger revenue is recognised when the transportation is provided. Ticket sales that are not expected to be used ('unused tickets') are recognised as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and historical trends.

In respect of customer loyalty programmes the fair value attributed to awarded points is deferred as a liability and is recognised as revenue on redemption of the points and provision of service to the participants to whom the points are issued. The fair value of the award credits is estimated by reference to the fair value of the awards for which the points could be redeemed and is reduced to take into account the proportion of award credits that are not expected to be redeemed by customers. The Group determines the assumptions to be adopted in respect of the number of points not expected to be redeemed through the use of statistical modelling and historical trends and the mix and fair value of the award credits. A one point change in the assumption on the percentage of points not expected to be redeemed will increase or reduce the amount recognised as revenue in the year by less than €10 million.

c Income taxes

The Group is subject to income taxes in numerous jurisdictions. Estimates are required when determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit assessments. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The Group recognises deferred income tax assets only to the extent that it is probable that the taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised. Management considers the operating performance in the current year and the future projections of performance laid out in the approved business plan in order to assess the probability of recoverability. The Business plan relies on the use of assumptions, estimates and judgements in respect of future performance and economics. The deferred income tax asset recognised at December 31, 2017 was €521 million (2016: €526 million). Further information on current and deferred tax liabilities is disclosed in note 9.

d Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and intangible assets with indefinite economic lives are tested for impairment annually and at other times when such indicators exist. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates and assumptions as disclosed in note 15.

Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

e Residual values and useful lives of assets

The Group estimates useful lives and residual values of property, plant and equipment, including fleet assets based on network plans and recoverable values. Useful lives and residual values are reassessed annually, taking into consideration the latest fleet plans and other business plan information. Information on the net book values of property, plant and equipment and related depreciation charges is disclosed in note 12.

Judgement

Engineering and other aircraft costs

The Group has a number of contracts with service providers to replace or repair engine parts and other maintenance checks. These agreements are complex and the Group exercises judgement in determining the assumptions used to match the consumption of replacement spares and other costs associated with fleet maintenance with the appropriate income statement charge. Aircraft maintenance obligations are based on aircraft utilisation, expected maintenance intervals, future maintenance costs and the aircraft's condition. At December 31, 2017, the Group recognised €1,125 million in respect of maintenance, restoration and handback provisions (2016: €1,201 million). Information on movements on the provision is disclosed in note 24.

Changes in accounting policy and disclosures

a New and amended standards adopted by the Group

The Group has adopted IAS 7 (Amendment) 'Statement of cash flows' for the first time in the year to December 31, 2017. The amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. The Group has addressed this requirement by providing a reconciliation between the opening and closing balances of assets and liabilities included in the Group's definition of net debt (note 19). This includes a reconciliation of liabilities arising from financing activities.

Other amendments adopted for the first time in the year to December 31, 2017 have not resulted in a significant change to the financial position or performance of the Group, or to presentation and disclosures in the Group financial statements.

b New standards, amendments and interpretations not yet effective

The IASB and IFRIC issued the following standards, amendments and interpretations with an effective date after the year end of these financial statements which management believe could impact the Group in future periods. Unless otherwise stated, the Group plans to adopt the following standards, interpretations and amendments on the date they become mandatory:

IFRS 15 'Revenue from contracts with customers'; effective for periods beginning on or after January 1, 2018. The standard establishes a five-step model that will apply to revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for goods and services and at a point when the performance obligations associated with these goods and services have been satisfied.

The Group has identified the following changes to revenue recognition on adoption of the standard:

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

The Group expects to apply the standard on a fully retrospective basis. On adoption of the standard, the adjustment to retained earnings at January 1, 2017 is expected to be a charge of €27 million. For the year to December 31, 2017, adjustments to reflect the new standard are expected to be: reduction to revenue €31 million, and reduction to operating costs €27 million, resulting in a reduction in operating profit of €4 million. As at December 31, 2017, assets will reduce by €29 million and liabilities increase by €1 million.

IFRS 9 'Financial Instruments'; effective for periods beginning on or after January 1, 2018. The standard amends the classification and measurement models for financial assets and adds new requirements to address the impairment of financial assets. It also introduces a new hedge accounting model to more closely align hedge accounting with risk management strategy and objectives. The standard will allow the Group to hedge account for specific risk components of its fuel purchases, such as crude oil price risk. It also requires movements in the time value of options (currently recognised in the Income statement) to be recognised in Other comprehensive income as they are considered to be a cost of hedging. The standard requires companies to make an election on whether gains and losses on equity instruments measured at fair value should be recognised in the Income statement or Other comprehensive income, with no recycling. On adoption of the standard, the Group expects the following changes:

Financial assets will be classified as at 'amortised cost', 'fair value through profit and loss', or 'fair value through other comprehensive income'. The Group has reviewed its existing classifications and confirmed that most financial assets will continue to be recognised at amortised cost. Equity investments, previously classified as available-for-sale will be classified as financial assets at fair value through Other comprehensive income, with no recycling of gains and losses.

The new impairment model will be applied to trade receivables and other financial assets. Any adjustment to existing provisions on transition will not be material.

The Group will continue to undertake hedging activity in line with its financial risk management objectives and policies. The following changes to hedge accounting will be adopted:

- Non-financial components of price risk may be designated in a hedge relationship;
- Movements in the time value of options will be classified as cost of hedging; and
- Hedge effectiveness assessments will be aligned to the requirements of IFRS 9.

The amounts recognised in the Income statement in respect of derivatives not qualifying for hedge accounting will reduce.

On adoption of the standard, to reflect the change in accounting for the time value of options, there will be a reclassification of accumulated post-tax gains of €38 million from retained earnings to unrealised gains and losses in Other reserves at January 1, 2017. Comparative information in the Income statement in respect of the year to December 31, 2017 will be adjusted to reflect a reduction in unrealised losses on derivatives not qualifying for hedge accounting of €42 million, a reduction in net currency retranslation charges of €11 million and an increase in the tax charge of €12 million, with an offsetting movement in Other comprehensive income. Other changes to hedge accounting will be applied prospectively.

IFRS 16 'Leases'; effective from January 1, 2019. The new standard eliminates the classification of leases as either operating leases or finance leases and instead introduces a single lessee accounting model. The Group has a number of operating leases for assets including aircraft, property and other equipment. Details of the Group's operating lease commitments are disclosed in note 23.

The Group is currently assessing the impact of the new standard and expects its implementation to have a significant impact on the financial statements from the date of adoption. The main changes will be as follows:

1. The amounts recognised as assets and liabilities on adoption of IFRS 16 will be subject to a number of judgements, estimates and assumptions. This includes:
 - a. Judgements when reviewing current agreements (such as agreements for terminal capacity) to determine whether they contain leases as defined under the new standard.
 - b. Assumptions used to calculate the discount rate to apply to lease obligations, which is likely to be based on the incremental borrowing rate for the estimated lease term.
 - c. Estimation of the lease term, including options to extend the lease where the Group is reasonably certain to extend.
2. Interest-bearing borrowings and non-current assets will increase on implementation of the standard as obligations to make future payments under leases currently classified as operating leases will be recognised on the Balance sheet, along with the related 'right-of-use' asset. It is expected that lease obligations, which are predominantly US dollar denominated, will be recognised at the exchange rate ruling on the date of adoption and the appropriate incremental borrowing rate at that date, with the related 'right-of-use' asset recognised at the exchange rate ruling at the commencement of the lease.
3. There will be a reduction in expenditure on operations and an increase in finance costs as operating lease costs are replaced with depreciation and lease interest expense.
4. The Group's Alternative Performance Measures will also be impacted. These comprise Operating profit and lease adjusted operating margin; Adjusted earnings per share; EBITDAR; Return on Invested Capital; Adjusted net debt to EBITDAR; Adjusted gearing; and Equity free cash flow. The definitions of these metrics will be reviewed on adoption of IFRS 16 to ensure that they continue to measure the outcome of the Group's strategy and monitor performance against long-term planning targets.

For future reporting periods after adoption, foreign exchange movements on lease obligations, which are predominantly denominated in US dollars, will be remeasured at each balance sheet date, however the right-of-use asset will be recognised at the historic exchange rate. This will create volatility in the Income statement.

IFRIC Interpretation 23 'Uncertainty over tax treatments' (not yet endorsed by the EU); effective for periods beginning on or after January 1, 2019. The interpretation clarifies application of recognition and measurement requirements in IAS 12 'Income Taxes' when there is uncertainty over income tax treatments. The Group is currently assessing the impact of the interpretation.

There are no other standards, amendments or interpretations in issue but not yet adopted that the Directors anticipate will have a material effect on the reported income or net assets of the Group.

The Group has not early adopted any standard, amendment or interpretation that has been issued but is not yet effective.

3 Segment information

a Business segments

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

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

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

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

For the year to December 31, 2017

€ million	2017					Total
	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies	
Revenue						
External revenue	13,850	4,451	2,125	1,857	689	22,972
Inter-segment revenue	479	400	-	2	459	1,340
Segment revenue	14,329	4,851	2,125	1,859	1,148	24,312
Depreciation, amortisation and impairment	(860)	(182)	(20)	(77)	(45)	(1,184)
Operating profit before exceptional items	1,996	376	188	269	186	3,015
Exceptional items (note 4)	(108)	(180)	-	-	-	(288)
Operating profit after exceptional items	1,888	196	188	269	186	2,727
Net non-operating costs						(234)
Profit before tax						2,493
Total assets	18,872	6,108	1,515	1,976	(1,210)	27,261
Total liabilities	(12,100)	(4,382)	(1,253)	(1,046)	(1,084)	(19,865)

Includes eliminations on total assets of €13,031 million and total liabilities of €2,744 million.

For the year to December 31, 2016

€ million	2016					Total
	British Airways	Iberia	Vueling	Aer Lingus	Other Group companies	
Revenue						
External revenue	13,889	4,233	2,065	1,766	614	22,567
Inter-segment revenue	469	353	-	-	452	1,274
Segment revenue	14,358	4,586	2,065	1,766	1,066	23,841
Depreciation, amortisation and impairment	(950)	(215)	(19)	(75)	(28)	(1,287)
Operating profit before exceptional items	1,786	271	60	233	185	2,535
Exceptional items (note 4)	(93)	-	-	-	42	(51)
Operating profit after exceptional items	1,693	271	60	233	227	2,484
Net non-operating costs						(122)
Profit before tax						2,362
Total assets	19,530	5,752	1,562	1,771	(1,242)	27,373
Total liabilities	(14,503)	(4,197)	(1,240)	(865)	(904)	(21,709)

Includes eliminations on total assets of €13,327 million and total liabilities of €3,725 million.

b Geographical analysis**Revenue by area of original sale**

€ million	Year to December 31	
	2017	2016
UK	7,655	7,877
Spain	3,561	3,632
USA	3,694	3,534
Rest of world	8,062	7,524
	22,972	22,567

Assets by area

December 31, 2017

€ million	Property, plant and equipment	Intangible assets
UK	9,013	1,171
Spain	2,050	1,241
USA	1	6
Rest of world	782	600
	11,846	3,018

December 31, 2016

€ million	Property, plant and equipment	Intangible assets
UK	9,608	1,196
Spain	1,877	1,236
USA	20	18
Rest of world	722	587
	12,227	3,037

4 Exceptional items

€ million	Year to December 31	
	2017	2016
Restructuring costs ¹	288	144
Employee costs ²	-	(51)
Pre-acquisition cash flow hedge impact ³	-	(42)
Recognised in expenditure on operations	288	51
Total exceptional charge before tax	288	51
Tax on exceptional items	(66)	(13)
Total exceptional charge after tax	222	38

1 Restructuring costs

British Airways has embarked on a series of transformation proposals to develop a more efficient and cost effective structure. The overall costs of the programme principally comprise employee severance costs and includes other directly associated costs such as onerous lease provisions and asset write down costs. Costs incurred in the year to December 31, 2017 in respect of this programme amount to €108 million (2016: €144 million), with a related tax credit of €21 million (2016: €27 million).

In the year to December 31, 2017, €180 million of restructuring costs were recognised at Iberia, related to the announcement of a new Transformation Plan. A related tax credit of €45 million was also recognised.

In the year to December 31, 2016:

2 Employee costs

During the year to December 31, 2016 the Group made changes to the US PRMB (Post-Retirement Medical Benefits) to further bring the level of benefits in line with national trends seen in the US. This scheme is accounted for in a similar way to a defined benefit plan, so any reduction in benefit results in the recognition of a past service gain when the plan amendment occurs. This change has resulted in a one-off gain in employee costs of €51 million in the year to December 31, 2016, and a related tax charge of €9 million.

3 Pre-acquisition cash flow hedge impact

Under IFRS 3 Business combinations, gains or losses on cash flow hedges acquired should not be recycled to the income statement but recognised in equity. Following the acquisition of Aer Lingus, IAG continued to unwind the cash flow fuel hedges acquired in reported fuel expense. For the year to December 31, 2016, a credit of €42 million was recognised as an exceptional item, reversing the impact of unwinding the cash flow hedges to arrive at the total Fuel, oil costs and emissions charges. A related tax charge of €5 million was also recognised.

5 Expenses by nature

Operating profit is arrived at after charging

Depreciation, amortisation and impairment of non-current assets:

€ million	2017	2016
Owned assets	641	739
Finance leased aircraft	382	391
Other leasehold interests	41	39
Amortisation of intangible assets	120	104
Impairment on intangible assets	-	14
	1,184	1,287

Operating leases costs:

€ million	2017	2016
Minimum lease rentals – aircraft	888	759
– Property and equipment	224	226
Sub-lease rentals received	(1)	(2)
	1,111	983

Cost of inventories:

€ million	2017	2016
Cost of inventories recognised as an expense, mainly fuel	3,176	3,966

6 Auditors' remuneration

The fees for audit and non-audit services provided by the auditor of the Group's consolidated financial statements and of certain individual financial statements of the consolidated companies, Ernst & Young S.L., and by companies belonging to Ernst & Young's network, were as follows:

€'000	2017	2016
Fees payable for the audit of the Group and individual accounts	3,648	3,313
Fees payable for other services:		
Audit of the Group's subsidiaries pursuant to legislation	569	541
Other services pursuant to legislation	465	440
Other services relating to taxation	-	1
Other assurance services	467	604
Services relating to information technology	-	5
Services relating to corporate finance transactions	296	90
All other services	3	22
	5,448	5,016

The audit fees payable are approved by the Audit and Compliance Committee and have been reviewed in the context of other companies for cost effectiveness. A description of the work of the Audit and Compliance Committee is set out in the Report of the Audit and Compliance Committee and includes an explanation of how objectivity and independence is safeguarded when non-audit services are provided.

7 Employee costs and numbers

€ million	2017	2016
Wages and salaries	3,155	3,136
Social security costs	486	491
Costs related to pension scheme benefits	370	276
Cost of share-based payments	34	36
Other employee costs ¹	943	885
Total employee costs	4,988	4,824

¹ Other employee costs include allowances and accommodation for crew.

The number of employees during the year and at December 31 was as follows:

	2017			2016		
	Average number of employees	December 31, 2017		Average number of employees	December 31, 2016	
Number of employees		Percentage of women	Number of employees		Percentage of women	
Senior executives	166	190	24%	215	188	23%
Ground employees:						
Managerial	2,334	2,296	43%	2,532	2,452	42%
Non-managerial	32,572	32,877	35%	33,313	33,519	35%
Technical crew:						
Managerial	6,644	6,595	11%	6,257	6,404	11%
Non-managerial	21,706	22,036	68%	21,070	21,074	68%
	63,422	63,994		63,387	63,637	

8 Finance costs and income

a Finance costs

€ million	2017	2016
Interest expense on:		
Bank borrowings	(20)	(29)
Finance leases	(116)	(141)
Provisions unwinding of discount	(20)	(21)
Other borrowings	(75)	(90)
Capitalised interest on progress payments	7	3
Change in fair value of cross currency swaps	(1)	(1)
	(225)	(279)

b Finance income

€ million	2017	2016
Interest on other interest-bearing deposits	28	33
Other finance income	17	-
	45	33

c Net financing (charge)/credit relating to pensions

€ million	2017	2016
Net financing (charge)/credit relating to pensions	(28)	12

9 Tax

a Tax charges

Tax (charge)/credit in the Income statement, Other comprehensive income and Statement of changes in equity:

For the year to December 31, 2017

€ million	Income statement	Other comprehensive income	Statement of changes in equity	Total
Current tax				
Movement in respect of prior years	12	-	-	12
Movement in respect of current year	(413)	114	1	(298)
Total current tax	(401)	114	1	(286)
Deferred tax				
Movement in respect of prior years	(8)	-	-	(8)
Movement in respect of current year	(61)	(307)	2	(366)
Rate change	(2)	12	-	10
Total deferred tax	(71)	(295)	2	(364)
Total tax	(472)	(181)	3	(650)

Current tax in Other comprehensive income all relates to employee retirement benefit plans and current tax in the Statement of changes in equity all relates to share-based payments.

For the year to December 31, 2016

€ million	Income statement	Other comprehensive income	Statement of changes in equity	Total
Current tax				
Movement in respect of prior years	13	-	-	13
Movement in respect of current year	(325)	143	10	(172)
Total current tax	(312)	143	10	(159)
Deferred tax				
Movement in respect of prior years	(11)	-	1	(10)
Movement in respect of current year	(130)	158	(7)	21
Rate change	43	(40)	-	3
Total deferred tax	(98)	118	(6)	14
Total tax	(410)	261	4	(145)

Current tax in Other comprehensive income all relates to employee retirement benefit plans and current tax in the Statement of changes in equity all relates to share-based payment schemes (€5 million) and finance costs (€5 million).

Current tax asset/(liability)

€ million	Opening balance	Movement in respect of prior years	Movement in respect of current year	Cash	Exchange movements	Closing balance
2017	127	12	(298)	237	1	79
2016	(45)	13	(172)	318	13	127

Current tax asset is €258 million (2016: €228 million) and current tax liability is €179 million (2016: €101 million).

Deferred tax asset/(liability)

€ million	Opening balance	Movement in respect of prior years	Movement in respect of current year	Rate change	Exchange movements and other	Closing balance
2017	350	(8)	(366)	10	4	(10)
2016	297	(10)	21	3	39	350

The deferred tax asset is €521 million (2016: €526 million) and all arises in Spain. A reversal of €86 million on the deferred tax asset is expected within one year and the remainder beyond one year. The deferred tax liability is €531 million (2016: €176 million).

b Deferred tax

For the year to December 31, 2017

€ million	Opening balance	Movement in respect of prior years	Movement in respect of current year	Rate change	Exchange movements and other	Closing balance
Fixed assets	(1,065)	-	4	-	32	(1,029)
Employee leaving indemnities and other employee related provisions	372	-	3	-	(1)	374
Tax losses carried forward	407	6	(65)	-	4	352
Fair value losses recognised on cash flow hedges	68	2	(24)	1	(8)	39
Employee benefit plans	441	(4)	(293)	9	(13)	140
Tax assets in relation to tax credits and deductions	78	-	-	-	-	78
Share-based payment schemes	13	-	3	-	(1)	15
Foreign exchange	9	(7)	1	-	(1)	2
Other items	27	(5)	5	-	(8)	19
Total deferred tax	350	(8)	(366)	10	4	(10)

Within tax in Other comprehensive income is a tax charge of €24 million (2016: €187 million) that may be reclassified subsequently to the Income statement and a tax charge of €283 million (2016: tax credit of €345 million) that may not. Within tax in Other comprehensive income arising from tax rate changes is a tax credit of €1 million (2016: charge of €12 million) that may be reclassified subsequently to the Income statement and a tax credit of €9 million (2016: charge of €28 million) that may not.

For the year to December 31, 2016

€ million	Opening balance	Movement in respect of prior years	Movement in respect of current year	Rate change	Exchange movements	Closing balance
Fixed assets	(1,208)	(7)	(8)	45	113	(1,065)
Employee leaving indemnities and other employee related provisions	472	1	(99)	(1)	(1)	372
Tax losses carried forward	410	16	(9)	(1)	(9)	407
Fair value losses recognised on cash flow hedges	298	(2)	(192)	(12)	(24)	68
Employee benefit plans	168	-	332	(28)	(31)	441
Tax assets in relation to tax credits and deductions	78	-	-	-	-	78
Share-based payment schemes	22	1	(8)	-	(2)	13
Foreign exchange	8	(4)	6	-	(1)	9
Other items	49	(15)	(1)	-	(6)	27
Total deferred tax	297	(10)	21	3	39	350

Within tax in Other comprehensive income is a tax charge of €187 million that may be reclassified subsequently to the Income statement and a tax credit of €345 million that may not. Within tax in Other comprehensive income arising from tax rate changes is a tax charge of €12 million that may be reclassified subsequently to the Income statement and a tax charge of €28 million that may not.

Detailed deferred tax movement in respect of current year in the Income statement, Other comprehensive income and Statement of changes in equity

For the year to December 31, 2017

€ million	Income statement	Other comprehensive income	Statement of changes in equity	Total
Fixed assets	4	-	-	4
Employee leaving indemnities and other employee related provisions	3	-	-	3
Tax losses carried forward	(65)	-	-	(65)
Fair value losses recognised on cash flow hedges	-	(24)	-	(24)
Employee benefit plans	(10)	(283)	-	(293)
Share-based payment schemes	1	-	2	3
Foreign exchange	1	-	-	1
Other items	5	-	-	5
Total deferred tax	(61)	(307)	2	(366)

For the year to December 31, 2016

€ million	Income statement	Other comprehensive income	Statement of changes in equity	Total
Fixed assets	(8)	-	-	(8)
Employee leaving indemnities and other employee related provisions	(99)	-	-	(99)
Tax losses carried forward	(9)	-	-	(9)
Fair value losses recognised on cash flow hedges	(5)	(187)	-	(192)
Employee benefit plans	(13)	345	-	332
Share-based payment schemes	(1)	-	(7)	(8)
Foreign exchange	6	-	-	6
Other items	(1)	-	-	(1)
Total deferred tax	(130)	158	(7)	21

c Reconciliation of the total tax charge/(credit) in the Income statement

The tax charge is calculated at the domestic rates applicable to profits or losses in the main countries of operation. The tax charge on the profit for the year to December 31, 2017 and 2016 is lower than the notional tax charge.

The differences are explained below:

€ million	2017	2016
Accounting profit before tax	2,493	2,362
Tax calculated at 25 per cent in Spain (2016: 25 per cent), 19.25 per cent in the UK (2016: 20 per cent) and 12.5 per cent in Ireland (2016: 12.5 per cent) ¹	480	466
Effects of:		
Non-deductible expenses - recurring items	6	12
Current year tax assets not recognised	4	4
Tax rate changes	2	(43)
Other items	(1)	(2)
Employee benefit plans accounted for net of withholding tax	(4)	(6)
Euro preferred securities accounted for as non-controlling interests	(4)	(12)
Adjustments in respect of prior years	(4)	(2)
Investment credit	(7)	(7)
Non-deductible expenses - non-recurring	-	9
Previously unrecognised tax assets	-	(9)
Tax charge in the income statement	472	410

¹ The expected tax charge is arrived at by aggregating the expected tax charges arising in each company in the Group. It changes each year as tax rates and profit mix change.

d Other taxes

The Group also contributed tax and related revenues through payment of transaction and payroll related taxes and charges. A breakdown of these other taxes and charges paid during the year is as follows:

€ million	2017	2016
Payroll related taxes	478	495
UK Air Passenger Duty	838	848
Other ticket taxes and charges	1,694	1,626
	3,010	2,969

The reduction in UK air passenger duty paid reflects foreign exchange movements and not a reduction in underlying payments.

e Factors that may affect future tax charges

Unrecognised temporary differences

€ million	2017	2016
Spanish corporate income tax losses and other temporary differences	47	47
UK capital losses arising before the change in ownership of the UK Group in 2011	36	34
UK capital losses arising after the change in ownership of the UK Group in 2011	8	8
UK capital losses arising on properties that were eligible for Industrial Buildings Allowances	283	296
Corporate income tax losses outside of the countries of main operation	179	170

None of the unrecognised temporary differences have an expiry date.

Unrecognised temporary differences - investment in subsidiaries and associates

No deferred tax liability has been recognised in respect of €2,044 million (2016: €170 million) of temporary differences relating to subsidiaries and associates. The Group either controls the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future or no tax consequences would arise from their reversal.

UK tax rate changes

The main rate of corporation tax applicable from April 1, 2020 is reducing from 18 per cent to 17 per cent. This will reduce the Group's future current tax charge. The deferred tax on temporary differences and tax losses at December 31, 2017 was calculated at the rate applicable to the year in which the temporary differences and tax losses are expected to reverse.

Tax audits

The Group files income tax returns in many jurisdictions throughout the world. Tax returns contain matters that are subject to potentially differing interpretations of tax laws and regulations, which may give rise to queries from and disputes with tax authorities. The resolution of these queries and disputes can take several years but the Group does not currently expect any material impact on the Group's financial position or results of operations to arise from such resolution. The extent to which there are open queries and disputes depends upon the jurisdiction and the issue.

10 Earnings per share

€ million	2017	2016
Earnings attributable to equity holders of the parent for basic earnings	2,001	1,931
Interest expense on convertible bonds	17	26
Diluted earnings attributable to equity holders of the parent for diluted earnings per share	2,018	1,957

	2017 Number '000	2016 Number '000
Weighted average number of ordinary shares in issue ¹	2,088,489	2,075,568
Assumed conversion on convertible bonds	72,418	115,688
Dilutive employee share schemes outstanding	18,446	19,734
Weighted average number for diluted earnings per share	2,179,353	2,210,990

1 Includes 34 million as the weighted average impact for 74,999,449 treasury shares purchased in the share buyback programme (note 27).

€ cents	2017	2016
Basic earnings per share	95.8	93.0
Diluted earnings per share	92.6	88.5

The calculation of basic and diluted earnings per share before exceptional items is included in the Alternative performance measures section.

11 Dividends

€ million	2017	2016
Cash dividend declared		
Interim dividend for 2017 of 12.5 € cents per share (2016: 11 € cents per share)	256	233
Final dividend for 2016 of 12.5 € cents per share	262	-

Proposed cash dividend

Final dividend for 2017 of 14.5 € cents per share	298
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The proposed dividend would be distributed from net profit for the year to December 31, 2017.

Proposed dividends on ordinary shares are subject to approval at the Annual General Meeting and subject to approval are recognised as a liability on that date.

12 Property, plant and equipment

€ million	Fleet	Property	Equipment	Total
Cost				
Balance at January 1, 2016	22,875	2,481	1,651	27,007
Additions	2,739	31	123	2,893
Disposals	(2,957)	(5)	(50)	(3,012)
Reclassifications	(178)	-	(21)	(199)
Exchange movements	(2,740)	(297)	(170)	(3,207)
Balance at December 31, 2016	19,739	2,210	1,533	23,482
Additions	1,290	52	102	1,444
Disposals	(532)	(31)	(101)	(664)
Reclassifications	(2)	-	-	(2)
Exchange movements	(797)	(88)	(50)	(935)
December 31, 2017	19,698	2,143	1,484	23,325
Depreciation and impairment				
Balance at January 1, 2016	11,058	1,143	1,076	13,277
Charge for the year	1,016	64	89	1,169
Disposals	(1,309)	(5)	(27)	(1,341)
Reclassifications	(140)	-	(9)	(149)
Exchange movements	(1,430)	(149)	(122)	(1,701)
Balance at December 31, 2016	9,195	1,053	1,007	11,255
Charge for the year	924	57	83	1,064
Disposals	(242)	(26)	(78)	(346)
Exchange movements	(412)	(44)	(38)	(494)
December 31, 2017	9,465	1,040	974	11,479
Net book values				
December 31, 2017	10,233	1,103	510	11,846
December 31, 2016	10,544	1,157	526	12,227
Analysis at December 31, 2017				
Owned	4,044	1,028	401	5,473
Finance leased	5,231	4	62	5,297
Progress payments	958	71	47	1,076
Property, plant and equipment	10,233	1,103	510	11,846
Analysis at December 31, 2016				
Owned	3,930	1,114	409	5,453
Finance leased	6,000	4	57	6,061
Progress payments	614	39	60	713
Property, plant and equipment	10,544	1,157	526	12,227
The net book value of property comprises:				
€ million			2017	2016
Freehold			464	494
Long leasehold improvements			315	331
Short leasehold improvements ¹			324	332
Property			1,103	1,157

1 Short leasehold improvements relate to leasehold interests with duration of less than 50 years.

At December 31, 2017 bank and other loans of the Group are secured on fleet assets with a cost of €938 million (2016: €1,071 million) and letters of credit of €260 million in favour of the British Airways Pension Trustees are secured on certain aircraft (2016: €273 million).

13 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to €12,137 million (December 31, 2016: €14,022 million). The majority of capital expenditure commitments are denominated in US dollars, and as such are subject to changes in exchange rates.

The outstanding commitments include €12,056 million for the acquisition of 92 Airbus A320s (from 2018 to 2022), 21 Airbus A321s (from 2018 to 2020), 4 Airbus A330s (in 2018), 43 Airbus A350s (from 2018 to 2022) and 17 Boeing 787s (from 2018 to 2023).

14 Non-current assets held for sale

At December 31, 2017, there were no non-current assets held for sale (2016: €38 million).

Assets held for sale with a net book value of €38 million were disposed of during the year to December 31, 2017. €15 million related to the Group's investment in Propius Holdings Limited and €23 million related to the sale of five Airbus A340-300 aircraft. These were classified as non-current assets held for sale at December 31, 2016 and presented within the Aer Lingus and Iberia operating segments.

15 Intangible assets and impairment review

a Intangible assets

€ million	Goodwill	Brand	Customer loyalty programmes	Landing rights ¹	Other ²	Total
Cost						
Balance at January 1, 2016	605	451	253	1,684	905	3,898
Additions	-	-	-	-	154	154
Disposals	-	-	-	-	(19)	(19)
Reclassifications	-	-	-	-	20	20
Exchange movements	(7)	-	-	(128)	(100)	(235)
Balance at December 31, 2016	598	451	253	1,556	960	3,818
Additions	-	-	-	1	174	175
Disposals	-	-	-	-	(24)	(24)
Exchange movements	(2)	-	-	(38)	(34)	(74)
December 31, 2017	596	451	253	1,519	1,076	3,895
Amortisation and impairment						
Balance at January 1, 2016	249	-	-	86	368	703
Charge for the year	-	-	-	6	98	104
Impairment charge recognised during the year ³	-	-	-	14	-	14
Reclassifications	-	-	-	-	9	9
Exchange movements	-	-	-	(8)	(41)	(49)
Balance at December 31, 2016	249	-	-	98	434	781
Charge for the year	-	-	-	6	114	120
Disposals	-	-	-	-	(5)	(5)
Exchange movements	-	-	-	(3)	(16)	(19)
December 31, 2017	249	-	-	101	527	877
Net book values						
December 31, 2017	347	451	253	1,418	549	3,018
December 31, 2016	349	451	253	1,458	526	3,037

1 The net book value includes non-EU based landing rights of €106 million (2016: €113 million) that have a definite life. The remaining life of these landing rights is 18 years.

2 Other intangible assets consist primarily of software with a net book value of €473 million (2016: €474 million), and also include purchased emissions allowances.

3 The impairment charge of €14 million in 2016 relates to landing rights associated with British Airways' Openskies operation, €11 million of which related to landing rights in the EU that have an indefinite life.

b Impairment review

The carrying amounts of intangible assets with indefinite life and goodwill allocated to cash generating units (CGUs) of the Group are:

€ million	Goodwill	Landing rights	Brand	Customer loyalty programmes	Total
2017					
Iberia					
January 1 and December 31, 2017	-	423	306	-	729
British Airways					
January 1, 2017	49	771	-	-	820
Additions	-	1	-	-	1
Exchange movements	(2)	(34)	-	-	(36)
December 31, 2017	47	738	-	-	785
Vueling					
January 1 and December 31, 2017	28	89	35	-	152
Aer Lingus					
January 1 and December 31, 2017	272	62	110	-	444
Avios					
January 1 and December 31, 2017	-	-	-	253	253
December 31, 2017	347	1,312	451	253	2,363
2016					
Iberia					
January 1 and December 31, 2016	-	423	306	-	729
British Airways					
January 1, 2016	56	901	-	-	957
Impairment	-	(11)	-	-	(11)
Exchange movements	(7)	(119)	-	-	(126)
December 31, 2016	49	771	-	-	820
Vueling					
January 1 and December 31, 2016	28	89	35	-	152
Aer Lingus					
January 1 and December 31, 2016	272	62	110	-	444
Avios					
January 1 and December 31, 2016	-	-	-	253	253
December 31, 2016	349	1,345	451	253	2,398

Basis for calculating recoverable amount

The recoverable amounts of CGUs have been measured based on their value-in-use.

Value-in-use is calculated using a discounted cash flow model, with the royalty methodology used for brands. Cash flow projections are based on the Business plan approved by the Board covering a five year period. Cash flows extrapolated beyond the five year period are projected to increase based on long-term growth rates. Cash flow projections are discounted using the CGU's pre-tax discount rate.

Annually the Group prepares and the Board approves five year business plans. Business plans were approved in the fourth quarter of the year. The business plan cash flows used in the value-in-use calculations reflect all restructuring of the business that has been approved by the Board and which can be executed by Management under existing agreements.

Key assumptions

For each of the CGUs the key assumptions used in the value-in-use calculations are as follows:

Per cent	2017				
	British Airways	Iberia	Vueling	Aer Lingus	Avios
Lease adjusted operating margin	15	10-14	12-15	15	n/a ¹
Average ASK growth per annum	2	8	10	5	n/a ¹
Long-term growth rate	2.3	2.0	2.0	2.0	2.0
Pre-tax discount rate	8.5	9.8	10.6	7.8	9.1

Per cent	2016				
	British Airways	Iberia	Vueling	Aer Lingus	Avios
Lease adjusted operating margin	12-15	8-14	7-15	12-15	n/a ¹
Average ASK growth per annum	2	4	7	8	n/a ¹
Long-term growth rate	2.5	2.0	2.0	2.0	2.4
Pre-tax discount rate	8.5	9.8	10.6	7.8	9.1

¹ Lease adjusted operating margin and ASK growth per annum assumptions are not applicable for the Avios loyalty reward business, which conducts business with partners both within and outside IAG.

Lease adjusted operating margin is the average annual operating result, adjusted for aircraft operating lease costs, as a percentage of revenue over the five year Business plan to 2022. It is presented as a percentage point range and is based on past performance, Management's expectation of the market development and incorporating risks into the cash flow estimates.

ASK growth is the average annual increase over the Business plan, based on planned network growth and taking into account Management's expectation of the market.

The long-term growth rate is calculated for each CGU based on the forecasted weighted average exposure in each primary market using gross domestic product (GDP) (source: Oxford Economics). The airline's network plans are reviewed annually as part of the Business plan and reflect Management's plans in response to specific market risk or opportunity.

Pre-tax discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and underlying risks of its primary market. The discount rate calculation is based on the circumstances of the airline industry, the Group and the CGU. It is derived from the weighted average cost of capital (WACC). The WACC takes into consideration both debt and equity available to airlines. The cost of equity is derived from the expected return on investment by airline investors and the cost of debt is broadly based on the Group's interest-bearing borrowings. CGU specific risk is incorporated by applying individual beta factors which are evaluated annually based on available market data. The pre-tax discount rate reflects the timing of future tax flows.

Summary of results

In 2017, Management reviewed the recoverable amount of each of its CGUs and concluded the recoverable amounts exceeded the carrying values. Sensitivities have been considered for each CGU. Reducing long-term growth rates to zero, increasing pre-tax discount rates by 4 points, and increasing the fuel price by 40 per cent, does not result in any impairment.

16 Investments

a Investments in subsidiaries

The Group's principal subsidiaries at December 31, 2017 are listed in the Group investments section.

All subsidiary undertakings are included in the consolidation. There have been no significant changes in ownership interests of subsidiaries during the year.

The total non-controlling interest at December 31, 2017 is €307 million which largely comprises €300 million of 6.75 per cent fixed coupon euro preferred securities issued by British Airways Finance (Jersey) L.P. (note 30).

British Airways Employee Benefit Trustee (Jersey) Limited, a wholly-owned subsidiary of British Airways, governs the British Airways Plc Employee Share Ownership Trust (the Trust). The Trust is not a legal subsidiary of IAG; however, it is consolidated within the Group results.

b Investments accounted for using the equity method

The share of assets, liabilities, revenue and profit of the Group's associates and joint ventures, which are included in the Group's financial statements, are as follows:

€ million	2017	2016
Total assets	96	88
Total liabilities	(68)	(61)
Revenue	86	52
Profit for the year	3	6

The detail of the movement in Investments accounted for using the equity method is shown as follows:

€ million	2017	2016
At beginning of year	29	41
Share of retained profits	3	6
Additions	2	-
Disposals	(2)	-
Exchange movements	1	-
Dividends received	(3)	(3)
Reclassification	-	(15)
	30	29

At December 31, 2017 there are no restrictions on the ability of associates or joint ventures to transfer funds to the parent and there are no related contingent liabilities.

At December 31, 2017 the investment in Sociedad Conjunta para la Emision y Gestion de Medios de Pago EFC, S.A. exceeded 50 per cent ownership by the Group (50.5 per cent). The entity is treated as a joint venture as decisions regarding its strategy and operations require the unanimous consent of the parties who share control, including IAG.

17 Available-for-sale financial assets

Available-for-sale financial assets include the following:

€ million	2017	2016
Listed securities		
Comair Limited	23	15
Unlisted securities	56	58
	79	73

The net gain relating to available-for-sale financial assets was €7 million (2016: €4 million).

18 Trade and other receivables

€ million	2017	2016
Amounts falling due within one year		
Trade receivables	1,557	1,469
Provision for doubtful receivables	(63)	(64)
Net trade receivables	1,494	1,405
Prepayments and accrued income	764	717
Other non-trade debtors	194	182
	2,452	2,304
Amounts falling due after one year		
Prepayments and accrued income	297	313
Other interest-bearing deposits (greater than one year)	66	114
Other non-trade debtors	13	72
	376	499

Movements in the provision for doubtful trade receivables were as follows:

€ million	2017	2016
At beginning of year	64	84
Provision for doubtful receivables	15	7
Unused amounts reversed	(1)	(1)
Receivables written off during the year	(13)	(23)
Exchange movements	(2)	(3)
	63	64

The ageing analysis of net trade receivables is as follows:

€ million	2017	2016
Neither past due date nor impaired	1,171	1,017
< 30 days	117	235
30 - 60 days	153	96
> 60 days	53	57
Net trade receivables	1,494	1,405

Trade receivables are generally non-interest-bearing and on 30 days terms (2016: 30 days).

19 Cash, cash equivalents and other current interest-bearing deposits

€ million	2017	2016
Cash at bank and in hand	1,963	2,021
Short-term deposits falling due within three months	1,329	1,316
Cash and cash equivalents	3,292	3,337
Other current interest-bearing deposits maturing after three months	3,384	3,091
Cash, cash equivalents and other interest-bearing deposits	6,676	6,428

Cash at bank is primarily held in AAA money market funds and bank deposits. Short-term deposits are made for periods up to three months depending on the cash requirements of the Group and earn interest based on the floating deposit rates.

At December 31, 2017 the Group had no outstanding bank overdrafts (2016: nil).

Other current interest-bearing deposits are made for periods in excess of three months with maturity typically within 12 months and earn interest based on the market rates available at the time the deposit was made.

At December 31, 2017 Aer Lingus held €43 million of restricted cash (2016: €47 million) within interest-bearing deposits maturing after more than three months to be used for employee related obligations.

a Net debt

Movements in net debt were as follows:

€ million	Balance at January 1, 2017	Cash flows	Exchange movements	Other non-cash	Balance at December 31, 2017
Bank and other loans	(1,913)	138	26	(75)	(1,824)
Finance leases	(6,602)	657	424	14	(5,507)
Interest-bearing borrowings	(8,515)	795	450	(61)	(7,331)
Cash and cash equivalents	3,337	141	(186)	-	3,292
Other current interest-bearing deposits	3,091	432	(139)	-	3,384
	(2,087)	1,368	125	(61)	(655)

20 Trade and other payables

€ million	2017	2016
Trade creditors	2,135	1,776
Other creditors	926	910
Other taxation and social security	238	218
Accruals and deferred income	467	401
	3,766	3,305

Average payment days to suppliers - Spanish Group companies

Days	2017	2016
Average payment days for payment to suppliers	37	31
Ratio of transactions paid	38	30
Ratio of transactions outstanding for payment	35	53

€ million	2017	2016
Total payments made	4,879	4,600
Total payments outstanding	140	86

21 Other long-term liabilities

€ million	2017	2016
Non-current trade creditors	3	4
Accruals and deferred income	219	234
	222	238

22 Long-term borrowings

a Current

€ million	2017	2016
Bank and other loans	183	149
Finance leases	747	777
	930	926

b Non-current

€ million	2017	2016
Bank and other loans	1,641	1,764
Finance leases	4,760	5,825
	6,401	7,589

Banks and other loans are repayable up to the year 2027. Bank and other loans of the Group amounting to €539 million (2016: €613 million) are secured on aircraft. Finance leases are all secured on aircraft or property, plant and equipment.

c Bank and other loans

Bank and other loans comprise the following:

€ million	2017	2016
€500 million fixed rate 0.25 per cent convertible bond 2020 ¹	472	463
€500 million fixed rate 0.625 per cent convertible bond 2022 ¹	450	441
Floating rate euro mortgage loans secured on aircraft ²	278	304
€200 million fixed rate unsecured bonds ³	200	200
Floating rate euro syndicate loan secured on investments ⁴	148	176
Fixed rate US dollar mortgage loans secured on aircraft ⁵	117	157
Fixed rate Chinese yuan mortgage loans secured on aircraft ⁶	68	87
Fixed rate unsecured US dollar loans ⁷	49	-
Floating rate pound sterling mortgage loans secured on aircraft ⁸	27	53
Fixed rate unsecured euro loans with the Spanish State (Department of Industry) ⁹	15	18
Floating rate US dollar mortgage loans secured on aircraft ¹⁰	-	12
European Investment Bank sterling loans secured on certain property ¹¹	-	2
	1,824	1,913
Less current instalments due on bank and other loans	(183)	(149)
	1,641	1,764

1 Two senior unsecured bonds convertible into ordinary shares of IAG were issued by the Group in November 2015; €500 million fixed rate 0.25 per cent raising net proceeds of €494 million and due in 2020, and €500 million fixed rate 0.625 per cent raising net proceeds of €494 million and due in 2022. The Group holds an option to redeem each convertible bond at its principal amount, together with accrued interest, no earlier than two years prior to the final maturity date. The bonds contain dividend protection, and a total of 72,417,846 options related to the bonds were outstanding from issuance and at December 31, 2017.

2 Floating rate euro mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.17 and 1.17 per cent. The loans are repayable between 2024 and 2027.

3 €200 million fixed rate unsecured bonds between 2.5 to 3.75 per cent coupon repayable between 2018 and 2027.

4 Floating rate euro syndicate loan secured on investments is secured on specific assets of the Group and bears interest of 1.375 per cent plus 3 month EURIBOR. The loan is repayable in 2020.

5 Fixed rate US dollar mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 3.81 and 4.76 per cent. The loans are repayable between 2021 and 2026.

6 Fixed rate Chinese yuan mortgage loans are secured on specific aircraft assets of the Group and bear interest of 5.20 per cent. The loans are repayable in 2022.

7 Fixed rate unsecured US dollar loans bearing interest between 1.98 to 2.37 per cent. The loans are repayable in 2023.

8 Floating rate pound sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest of 1.07 per cent. The loans are repayable between 2018 and 2019.

9 Fixed rate unsecured euro loans with the Spanish State (Department of Industry) bear interest of between nil and 5.68 per cent and are repayable between 2018 and 2026.

10 Floating rate US dollar mortgage loans are secured on specific aircraft assets of the Group and bear interest of 3.66 per cent. The loans were repaid in 2017.

11 European Investment Bank pound sterling loan is secured on certain property assets of the Group and bears interest of 0.50 per cent. The loan was repaid in 2017.

d Total loans and finance leases

Million	2017	2016
Loans		
Bank:		
US dollar	\$196	\$176
Euro	€440	€498
Pound sterling	£25	£47
Chinese yuan	CNY 525	CNY 623
	€702	€809
Fixed rate bonds:		
Euro	€1,122	€1,104
	€1,122	€1,104
Finance leases		
US dollar	\$2,882	\$3,246
Euro	€2,296	€2,343
Japanese yen	¥63,978	¥63,614
Pound sterling	£258	£527
	€5,507	€6,602
	€7,331	€8,515

e Obligations under finance leases

The Group uses finance leases principally to acquire aircraft. These leases have both renewal and purchase options, at the option of the Group. Future minimum finance lease payments under finance leases are as follows:

€ million	2017	2016
Future minimum payments due:		
Within one year	875	905
After more than one year but within five years	2,783	3,339
In five years or more	2,464	3,070
	6,122	7,314
Less: finance charges	(615)	(712)
Present value of minimum lease payments	5,507	6,602
The present value of minimum lease payments is analysed as follows:		
Within one year	747	777
After more than one year but within five years	2,409	2,938
In five years or more	2,351	2,887
	5,507	6,602

23 Operating lease commitments

The Group has entered into commercial leases on certain properties, equipment and aircraft. These leases have durations ranging from less than one year to 14 years for aircraft and less than one year to 21 years for property, plant and equipment. One ground lease has a remaining lease of 128 years. Certain leases contain options for renewal.

The aggregate payments, for which there are commitments under operating leases, fall due as follows:

€ million	2017			2016		
	Fleet	Property, plant and equipment	Total	Fleet	Property, plant and equipment	Total
Within one year	802	190	992	975	158	1,133
Between one and five years	2,559	340	2,899	2,970	233	3,203
Over five years	1,789	1,962	3,751	1,918	2,060	3,978
	5,150	2,492	7,642	5,863	2,451	8,314

Sub-leasing

Subleases entered into by the Group relate to surplus rental properties and aircraft assets held under non-cancellable leases to third parties. These leases have remaining terms of one to six years and the assets are surplus to the Group's requirements. Future minimum rentals receivable under non-cancellable operating leases are €8 million (2016: €12 million) with €7 million (2016: €7 million) falling within one year, €1 million (2016: €5 million) between one and five years and nil (2016: nil) over five years.

24 Provision for liabilities and charges

€ million	Restoration and handback provisions	Restructuring provisions	Employee leaving indemnities and other employee related provisions	Legal claims provisions	Other provisions	Total
Net book value January 1, 2017	1,201	692	593	189	83	2,758
Provisions recorded during the year	355	302	22	112	139	930
Utilised during the year	(268)	(248)	(24)	(125)	(126)	(791)
Release of unused amounts	(38)	(17)	(3)	(34)	(26)	(118)
Unwinding of discount	3	2	14	1	-	20
Exchange differences	(128)	(4)	(3)	(3)	(1)	(139)
Net book value December 31, 2017	1,125	727	599	140	69	2,660
Analysis:						
Current	132	241	61	80	33	547
Non-current	993	486	538	60	36	2,113
	1,125	727	599	140	69	2,660

Restoration and handback provisions

The provision for restoration and handback costs is maintained to meet the contractual maintenance and return conditions on aircraft held under operating leases. The provision also includes an amount relating to leased land and buildings where restoration costs are contractually required at the end of the lease. Where such costs arise as a result of capital expenditure on the leased asset, the restoration costs are capitalised. The provision is a long-term provision, typically covering the leased asset term which is up to 14 years for aircraft.

Restructuring

The Group recognises a provision for targeted voluntary severance schemes. Part of this provision relates to a collective redundancy programme, which provides for payments to affected employees until they reach the statutory retirement age. The amount provided for has been determined by an actuarial valuation made by independent actuaries, and was based on the same assumptions as those made to determine the provisions for obligations to flight crew below, with the exception of the discount rate, which in this case was 0.08 per cent. The payments related to this provision will continue in the next ten years.

During the year the Group recognised a provision of €108 million in relation to the restructuring plans at British Airways (note 4). Further costs related to this provision are expected to be incurred in 2018 and the payments will be made over a maximum of five years.

In 2017, a provision of €180 million was also recognised at Iberia in relation to the new Transformation Plan (note 4). The payments related to the provision are expected to be incurred over more than ten years.

At December 31, 2017, €719 million of this provision related to collective redundancy programmes (2016: €674 million).

Employee leaving indemnities and other employee related provisions

This provision includes employees leaving indemnities relating to staff under various contractual arrangements.

The Group recognises a provision relating to flight crew who having met certain conditions, have the option of being placed on reserve and retaining their employment relationship until reaching the statutory retirement age, or taking early retirement. The Group is required to remunerate these employees until they reach the statutory retirement age, and an initial provision was recognised based on an actuarial valuation. The provision was reviewed at December 31, 2017 with the use of independent actuaries using the projected unit credit method, based on a discount rate consistent with the iBoxx index of 1.40 per cent and 0.08 per cent depending on whether the employees are currently active or not, the PERM/F-2000P mortality tables, and assuming a 1.50 per cent annual increase in the Consumer Price Index (CPI). This is mainly a long-term provision. The amount relating to this provision was €542 million at December 31, 2017 (2016: €524 million).

Legal claims provisions

Legal claims provisions includes:

- Amounts for multi-party claims from groups or employees on a number of matters related to its operations, including claims for additional holiday pay and for age discrimination;
- Provisions related to tax assessment; and
- Amounts related to investigations by a number of competition authorities in connection with alleged anti-competitive activity concerning the Group's passenger and cargo businesses. The provision includes the payment of €104 million for the reissued fine in March 2017 against British Airways. The final amount required to pay the remaining claims and fines is subject to uncertainty (note 32).

Other provisions

Other provisions includes:

- Amounts for passengers whose flights were significantly delayed and are entitled to receive compensation. This provision is largely a current provision and is expected to have amounts both utilised and provided for each year. This provision has been reassessed based on the historic level of claims;
- During 2017 a €65 million provision was recognised on additional compensation fees and baggage claims related to operational disruption at British Airways due to a power failure.
- A provision for the Emissions Trading Scheme that represents the excess of CO₂ emitted on flights within the EU in excess of the EU Emission Allowances granted; and
- A provision related to unfavourable fleet contracts.

25 Financial risk management objectives and policies

The Group is exposed to a variety of financial risks: market risk (including fuel price risk, foreign currency risk and interest rate risk), counterparty risk, liquidity risk and capital risk. Further information on the Group's financial instruments exposed to these risks is included in note 26. The Board approves the key strategic principles and the risk appetite, defining the amount of risk that the Group is prepared to retain. The Group's Financial Risk Management programme focuses on the unpredictability of financial markets and seeks to minimise the risk of incremental costs arising from adverse financial market movements.

Financial risks are managed under the overall oversight of the Group Treasury department. Fuel price fluctuations, euro-US dollar and sterling-US dollar exchange rate volatility represents the largest financial risks facing the Group. Other currencies as well as interest rate risk are also the subject of the Financial Risk Management programme. The IAG Management Committee approves the Group hedging profile and delegates to the operating company Risk Committee to agree on the degree of flexibility in applying the levels as defined by the IAG Management Committee. Each operating company Risk Committee meets at least once a month to review and approve a mandate to place hedging cover in the market including the instruments to be used.

The Group Treasury department provides a quarterly report on the hedging position to the IAG Management Committee and the Audit and Compliance Committee. The Board reviews the strategy and risk appetite once a year.

a Fuel price risk

The Group is exposed to fuel price risk. The Group's fuel price risk management strategy aims to provide protection against sudden and significant increases in fuel prices while ensuring that the Group is not competitively disadvantaged in the event of a substantial fall in the price. The current Group strategy is to hedge a proportion of fuel consumption for the next twelve quarters, within certain defined limits.

Within the strategy, the Financial Risk Management programme allows for the use of a number of derivative instruments available on over the counter (OTC) markets with approved counterparties.

The following table demonstrates the sensitivity of financial instruments to a reasonable possible change in fuel prices, with all other variables held constant, on result before tax and equity:

2017			2016		
Increase/(decrease) in fuel price per cent	Effect on result before tax € million	Effect on equity € million	Increase/(decrease) in fuel price per cent	Effect on result before tax € million	Effect on equity € million
30	41	1,142	30	73	1,006
(30)	(48)	(1,039)	(30)	(114)	(855)

b Foreign currency risk

The Group presents its consolidated financial statements in euros, has functional entities in euro and pound sterling, and conducts business in a number of different countries. Consequently the Group is exposed to currency risk on revenue, purchases and borrowings that are denominated in a currency other than the functional currency of the entity. The currencies in which these transactions are denominated are primarily euro, US dollar and pound sterling. The Group generates a surplus in most currencies in which it does business. The US dollar is an exception as fuel purchases, maintenance expenses and debt repayments denominated in US dollars typically create a deficit.

The Group has a number of strategies to hedge foreign currency risk. The operational US dollar short position is subject to the same governance structure as the fuel hedging strategy set out above. The current Group strategy, as approved by the IAG Management Committee, is to hedge a proportion of up to three years of US dollar exposure, within certain defined limits.

British Airways utilises its US dollar, euro, Japanese yen and Chinese yuan debt repayments as a hedge of future US dollar, euro, Japanese yen and Chinese yuan revenues. Iberia's balance sheet assets and liabilities in US dollars are hedged through a rolling programme of swaps and US dollar financial assets that eliminate the profit and loss volatility arising from revaluation of these items into euros. Vueling and Aer Lingus manage their net position in US dollars using derivative financial instruments.

The following table demonstrates the sensitivity of financial instruments to a reasonable possible change in the US dollar, sterling, Japanese yen and Chinese yuan exchange rates, with all other variables held constant, on result before tax and equity:

	Strengthening/ (weakening) in US dollar rate per cent	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in pound sterling rate per cent	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in Japanese yen rate per cent	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in Chinese yuan rate per cent	Effect on result before tax € million	Effect on equity € million
2017	10	(2)	253	10	(36)	232	10	(2)	(45)	10	-	(7)
	(10)	6	(72)	(10)	35	(233)	(10)	2	45	(10)	-	7
2016	10	9	(29)	10	(39)	277	10	(3)	(50)	10	1	(8)
	(10)	(9)	73	(10)	40	(277)	(10)	3	50	(10)	(1)	8

c Interest rate risk

The Group is exposed to changes in interest rates on floating rate debt and on cash deposits.

Interest rate risk on floating rate debt is managed through interest rate swaps, floating to fixed cross currency swaps and interest rate collars. After taking into account the impact of these derivatives, 75 per cent of the Group's borrowings were at fixed rates and 25 per cent were at floating rates.

All cash deposits are generally on tenors less than one year. The interest rate is predominantly fixed for the tenor of the deposit.

The following table demonstrates the sensitivity of financial instruments to a reasonable possible change in the US dollar, euro and sterling interest rates, on result before tax and equity:

	Strengthening/ (weakening) in US interest rate Basis points	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in euro interest rate Basis points	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in sterling interest rate Basis points	Effect on result before tax € million	Effect on equity € million
2017	50	(1)	-	50	(6)	-	50	3	-
	(50)	1	-	(50)	6	-	(50)	(3)	-
2016	50	(1)	7	50	(11)	-	50	10	-
	(50)	1	(8)	(50)	12	-	(50)	(10)	-

d Counterparty risk

The Group is exposed to counterparty risk to the extent of non-performance by its counterparties in respect of financial assets receivable. The Group has policies and procedures in place to minimise the risk by placing credit limits on each counterparty. These policies and procedures are coordinated through the Group Treasury department. The Risk Committee also reviews the application of the policies and procedures by British Airways, Iberia, Vueling and Aer Lingus. The Group monitors counterparty credit limits and defaults of counterparties, incorporating this information into credit risk controls. Treasury activities include placing money market deposits, fuel hedging and foreign currency transactions, which could lead to a concentration of different credit risks with the same counterparty. This risk is managed by allocation of exposure limits for the counterparty to British Airways, Iberia, Vueling and Aer Lingus. Exposures at the activity level are monitored on a daily basis and the overall exposure limit for the counterparty is reviewed at least monthly using available market information such as credit ratings. Sovereign risk is also monitored, country concentration and sovereign credit ratings are monitored by the Group Treasury department and reported to the Audit Committee quarterly.

Each operating company invests surplus cash in interest-bearing accounts, time deposits, and money market funds, choosing instruments with appropriate maturities or liquidity to provide sufficient headroom. At the reporting date the operating companies held money market funds and other liquid assets that are expected to readily generate cash inflows for managing liquidity risk.

The financial assets recognised in the financial statements, net of impairment losses, represent the Group's maximum exposure to credit risk, without taking account of any guarantees in place or other credit enhancements.

At December 31, 2017 the Group's credit risk position, allocated by region, in respect of treasury managed cash and derivatives was as follows:

Region	Mark-to-market of treasury controlled financial instruments allocated by geography	
	2017	2016
United Kingdom	42%	36%
Spain	1%	1%
Ireland	2%	1%
Rest of Eurozone	33%	38%
Rest of world	22%	24%

e Liquidity risk

Liquidity risk management includes maintaining sufficient cash and interest-bearing deposits, the availability of funding from an adequate amount of credit facilities and the ability to close out market positions. Due to the volatile nature of the underlying business, Group treasury maintains flexibility in funding by using committed credit lines.

At December 31, 2017 the Group had undrawn revolving credit facilities of €16 million (2016: €17 million). The Group held undrawn uncommitted money market lines of €28 million (2016: €30 million).

The Group held undrawn general and committed aircraft financing facilities:

Million	2017	
	Currency	€ equivalent
Euro facilities expiring between January and October 2018	€217	217
US dollar facility expiring December 2021	\$1,164	985
US dollar facility expiring June 2022	\$1,053	891

25 Financial risk management objectives and policies continued

Million	2016	
	Currency	€ equivalent
Euro facilities expiring between January and October 2017	€215	215
US dollar facility expiring December 2021	\$1,164	1,117
US dollar facility expiring June 2022	\$1,030	988

The following table categorises the Group's (outflows) and inflows in respect of financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period at December 31 to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest.

€ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total 2017
Interest-bearing loans and borrowings:						
Finance lease obligations	(426)	(449)	(801)	(1,982)	(2,464)	(6,122)
Fixed rate borrowings	(31)	(58)	(99)	(1,224)	(77)	(1,489)
Floating rate borrowings	(29)	(76)	(85)	(144)	(150)	(484)
Trade and other payables	(3,454)	-	(15)	-	-	(3,469)
Derivative financial instruments (assets):						
Aircraft lease hedges	-	-	1	-	-	1
Forward contracts	43	10	8	2	-	63
Fuel derivatives	207	141	112	22	-	482
Currency options	2	-	2	-	-	4
Derivative financial instruments (liabilities):						
Forward contracts	(49)	(56)	(75)	(35)	-	(215)
Fuel derivatives	(2)	-	-	-	-	(2)
Currency options	(2)	(2)	(3)	(1)	-	(8)
December 31, 2017	(3,741)	(490)	(955)	(3,362)	(2,691)	(11,239)

€ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	Total 2016
Interest-bearing loans and borrowings:						
Finance lease obligations	(376)	(529)	(982)	(2,357)	(3,070)	(7,314)
Fixed rate borrowings	(72)	(31)	(70)	(737)	(649)	(1,559)
Floating rate borrowings	(34)	(67)	(105)	(198)	(181)	(585)
Trade and other payables	(3,049)	-	(16)	-	-	(3,065)
Derivative financial instruments (assets):						
Aircraft lease hedges	18	-	-	-	-	18
Forward contracts	93	85	93	5	-	276
Fuel derivatives	68	65	55	12	-	200
Currency options	2	2	2	-	-	6
Derivative financial instruments (liabilities):						
Aircraft lease hedges	(14)	-	-	-	-	(14)
Forward contracts	(23)	(2)	(7)	-	-	(32)
Fuel derivatives	(38)	(24)	(12)	-	-	(74)
December 31, 2016	(3,425)	(501)	(1,042)	(3,275)	(3,900)	(12,143)

f Offsetting financial assets and liabilities

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

The Group enters into derivative transactions under ISDA (International Swaps and Derivatives Association) documentation. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding are aggregated into a single net amount that is payable by one party to the other.

December 31, 2017

€ million	Gross value of financial instruments	Financial instruments that are offset under netting agreements	Net amounts of financial instruments in the balance sheet	Related amounts not offset in the balance sheet	Net amount
Financial assets					
Derivative financial assets	551	(1)	550	(5)	545
Financial liabilities					
Derivative financial liabilities	226	(1)	225	(5)	220

December 31, 2016

€ million	Gross value of financial instruments ¹	Financial instruments that are offset under netting agreements ¹	Net amounts of financial instruments in the balance sheet	Related amounts not offset in the balance sheet	Net amount
Financial assets					
Derivative financial assets	531	(33)	498	(14)	484
Financial liabilities					
Derivative financial liabilities	141	(33)	108	(14)	94

¹ The gross value of financial instruments and the financial instruments that are offset under netting agreements have been amended from the figures presented in 2016, with no impact on the Balance sheet.

g Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern to maintain an optimal capital structure, to reduce the cost of capital and to provide returns to shareholders.

The Group monitors capital on the basis of the adjusted gearing ratio. For the year to December 31, 2017, the adjusted gearing ratio was 45 per cent (2016: 51 per cent). The definition and calculation for this performance measure is included in the Alternative performance measures section.

Further detail on liquidity and capital resources and capital risk management is disclosed in the financial review.

26 Financial instruments

a Financial assets and liabilities by category

The detail of the Group's financial instruments at December 31, 2017 and December 31, 2016 (excluding investments accounted for under the equity method) by nature and classification for measurement purposes is as follows:

December 31, 2017

€ million	Financial assets				Total carrying amount by balance sheet item
	Loans and receivables	Derivatives used for hedging	Available-for-sale	Non-financial assets	
Non-current assets					
Available-for-sale financial assets	-	-	79	-	79
Derivative financial instruments	-	145	-	-	145
Other non-current assets	200	-	-	176	376
Current assets					
Trade receivables	1,494	-	-	-	1,494
Other current assets	337	-	-	621	958
Derivative financial instruments	-	405	-	-	405
Other current interest-bearing deposits	3,384	-	-	-	3,384
Cash and cash equivalents	3,292	-	-	-	3,292
€ million	Financial liabilities			Total carrying amount by balance sheet item	
	Loans and payables	Derivatives used for hedging	Non-financial liabilities		
Non-current liabilities					
Interest-bearing long-term borrowings	-	6,401	-	-	6,401
Derivative financial instruments	-	-	114	-	114
Other long-term liabilities	-	15	-	207	222
Current liabilities					
Current portion of long-term borrowings	-	930	-	-	930
Trade and other payables	-	3,454	-	312	3,766
Derivative financial instruments	-	-	111	-	111

December 31, 2016

€ million	Financial assets			Non-financial assets	Total carrying amount by balance sheet item
	Loans and receivables	Derivatives used for hedging	Available-for-sale		
Non-current assets					
Available-for-sale financial assets	-	-	73	-	73
Derivative financial instruments	-	169	-	-	169
Other non-current assets	267	-	-	232	499
Current assets					
Trade receivables	1,405	-	-	-	1,405
Other current assets	304	-	-	595	899
Non-current assets held for sale	-	-	-	38	38
Derivative financial instruments	-	329	-	-	329
Other current interest-bearing deposits	3,091	-	-	-	3,091
Cash and cash equivalents	3,337	-	-	-	3,337
Financial liabilities					
€ million	Loans and payables	Derivatives used for hedging	Non-financial liabilities		Total carrying amount by balance sheet item
Non-current liabilities					
Interest-bearing long-term borrowings	7,589	-	-	-	7,589
Derivative financial instruments	-	20	-	-	20
Other long-term liabilities	16	-	222	-	238
Current liabilities					
Current portion of long-term borrowings	926	-	-	-	926
Trade and other payables	3,049	-	256	-	3,305
Derivative financial instruments	-	88	-	-	88

b Fair value of financial assets and financial liabilities

The fair values of the Group's financial instruments are disclosed in hierarchy levels depending on the nature of the inputs used in determining the fair values as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices present actual and regularly occurring market transactions on an arm's length basis;

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The fair value of financial instruments that are not traded in an active market is determined by valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates; and

Level 3: Inputs for the asset or liability that are not based on observable market data.

The fair value of cash and cash equivalents, other current interest-bearing deposits, trade receivables, other current assets and trade and other payables approximate their carrying value largely due to the short-term maturities of these instruments.

The following methods and assumptions were used by the Group in estimating its fair value disclosures for financial instruments:

Level 1: The fair value of listed asset investments classified as available-for-sale and listed interest-bearing borrowings is based on market value at the balance sheet date.

Level 2: The fair value of derivatives and other interest-bearing borrowings is determined as follows:

- Forward currency transactions and over-the-counter fuel derivatives are measured at the market value of instruments with similar terms and conditions at the balance sheet date using forward pricing models. Counterparty and own credit risk is deemed to be not significant.
- The fair value of the Group's interest-bearing borrowings including leases is determined by discounting the remaining contractual cash flows at the relevant market interest rates at the balance sheet date.

Level 3: Unlisted investments are predominantly measured at historic cost less accumulated impairment losses.

The carrying amounts and fair values of the Group's financial assets and liabilities, excluding investments accounted for under the equity method, at December 31, 2017 are as follows:

€ million	Fair value				Carrying value
	Level 1	Level 2	Level 3	Total	Total
Financial assets					
Available-for-sale financial assets	23	-	56	79	79
Derivative financial assets:					
Aircraft lease hedges ¹	-	1	-	1	1
Forward contracts ¹	-	63	-	63	63
Fuel derivatives ¹	-	482	-	482	482
Currency option contracts ¹	-	4	-	4	4
Financial liabilities					
Interest-bearing loans and borrowings:					
Finance lease obligations	-	5,639	-	5,639	5,507
Fixed rate borrowings	1,079	287	-	1,366	1,371
Floating rate borrowings	-	453	-	453	453
Derivative financial liabilities:					
Forward contracts ²	-	215	-	215	215
Fuel derivatives ²	-	2	-	2	2
Currency option contracts ²	-	8	-	8	8

1 Current portion of derivative financial assets is €405 million.

2 Current portion of derivative financial liabilities is €111 million.

The carrying amounts and fair values of the Group's financial assets and liabilities, excluding investments accounted for under the equity method, at December 31, 2016 are set out below:

€ million	Fair value			Total	Carrying value
	Level 1	Level 2	Level 3		Total
Financial assets					
Available-for-sale financial assets	15	-	58	73	73
Derivative financial assets:					
Aircraft lease hedges ¹	-	5	-	5	5
Forward contracts ¹	-	252	-	252	252
Fuel derivatives ¹	-	212	-	212	212
Currency option contracts ¹	-	29	-	29	29
Financial liabilities					
Interest-bearing loans and borrowings:					
Finance lease obligations	-	6,823	-	6,823	6,602
Fixed rate borrowings	1,020	286	-	1,306	1,366
Floating rate borrowings	-	547	-	547	547
Derivative financial liabilities:					
Aircraft lease hedges ²	-	1	-	1	1
Cross currency swaps ²	-	1	-	1	1
Forward contracts ²	-	32	-	32	32
Fuel derivatives ²	-	74	-	74	74

1 Current portion of derivative financial assets is €329 million.

2 Current portion of derivative financial liabilities is €88 million.

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

The financial instruments listed in the previous table are measured at fair value for reporting purposes with the exception of the interest-bearing borrowings.

c Level 3 financial assets reconciliation

The following table summarises key movements in Level 3 financial assets:

€ million	December 31, 2017	December 31, 2016
Opening balance for the year	58	65
Additions	1	-
Exchange movements	(3)	(7)
Closing balance for the year	56	58

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

d Hedges

Cash flow hedges

At December 31, 2017 the Group's principal risk management activities that were hedging future forecast transactions were:

- Future loan repayment instalments in foreign currency, hedging foreign exchange risk on revenue cash inflows;
- Forward crude, gas oil and jet kerosene derivative contracts, hedging price risk on fuel cash outflows; and
- Foreign exchange contracts, hedging foreign exchange risk on revenue cash inflows and certain operational payments.

To the extent that the hedges were assessed as highly effective, a summary of the amounts included in equity, the notional principal amounts and the years to which the related cash flows are expected to occur are summarised below:

December 31, 2017

Financial instruments designated as hedging instruments € million	Cash flows hedged					Total December 31, 2017
	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	
Debt repayments to hedge future revenue	40	42	63	162	279	586
Forward contracts to hedge future payments	15	47	67	33	-	162
Hedges of future fuel purchases	(212)	(140)	(100)	(22)	-	(474)
Currency options to hedge future payments	(1)	1	1	-	-	1
	(158)	(50)	31	173	279	275
Related deferred tax credit						(44)
Total amount included within equity						231

The notional values of the significant financial instruments used as cash flow hedges were as follows:

December 31, 2017

€ million	Notional principal amounts (in local currency)
To hedge future currency revenues in euros	€488
To hedge future currency revenues in US dollars	\$377
To hedge future currency revenues in pounds sterling	£175
To hedge future operating payments in US dollars	\$6,945
Hedges of future fuel purchases	\$4,186
Interest rate swaps:	
- Floating to fixed (US dollars)	\$156
- Floating to fixed (euro)	€246
Debt repayments to hedge future revenue:	
- US dollars	\$2,511
- Euro	€1,922
- Japanese yen	¥60,805
- Chinese yuan	CNY 525

December 31, 2016

Financial instruments designated as hedging instruments (€ million)	Cash flows hedged					Total December 31, 2016
	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	
Debt repayments to hedge future revenue	34	77	108	239	361	819
Forward contracts to hedge future payments	(65)	(76)	(73)	(4)	-	(218)
Hedges of future fuel purchases	(24)	(44)	(48)	(11)	-	(127)
Hedges of future aircraft operating leases	(3)	-	-	-	-	(3)
Currency options to hedge future payments	(2)	(7)	(5)	-	-	(14)
	(60)	(50)	(18)	224	361	457
Related deferred tax credit						(73)
Total amount included within equity						384

December 31, 2016

€ million	Notional principal amounts (in local currency)
To hedge future currency revenues in euros	€480
To hedge future currency revenues in US dollars	\$174
To hedge future currency revenues in pounds sterling	£88
To hedge future operating payments in US dollars	\$3,037
Hedges of future fuel purchases	\$4,304
Cross currency swaps:	
- Floating to fixed (US dollars)	\$57
- Floating to fixed (euro)	€17
- Fixed to floating (US dollars)	\$340
Debt repayments to hedge future revenue:	
- US dollars	\$2,798
- Euro	€2,111
- Japanese yen	¥60,577
- Chinese yuan	CNY 623

The ineffective portion recognised in the Income statement during year on cash flow hedges was a gain of €7 million (2016: gain of €36 million).

The Group has no significant fair value hedges at December 31, 2017 and 2016.

27 Share capital and share premium

Allotted, called up and fully paid	Number of shares 000s	Ordinary share capital € million	Share premium € million
January 1, 2017: Ordinary shares of €0.50 each	2,132,989	1,066	6,105
Cancellation of ordinary shares of €0.50 each	(74,999)	(37)	-
Prior years' losses offset ¹	-	-	(83)
December 31, 2017	2,057,990	1,029	6,022

¹ Offset of prior years' losses that are included in the Company's separate balance sheet, against share premium.

During the year IAG carried out a share buyback programme as part of its corporate finance strategy to return cash to shareholders while reinvesting in the business and managing leverage. The programme total was €500 million and it was completed in December 2017. Under this programme, IAG acquired 74,999,449 ordinary shares, which were subsequently cancelled. The weighted average impact of these shares in issuance during the year was 34 million (note 10).

28 Treasury shares

IAG has authority to acquire its own shares, subject to specific conditions.

In February 2018, the Group also announced its intention to carry out a €500 million share buyback programme during the course of 2018 as part of its corporate finance strategy to return cash to shareholders while reinvesting in the business and managing leverage.

The treasury shares balance consists of shares held directly by the Group. During the year to December 31, 2017, IAG purchased directly 74,999,449 shares, which were held as treasury shares, as part of its €500 million share buyback programme launched in March 2017 (note 27). These shares were bought at a weighted average price of €6.67 per share. On completion of the programme, these treasury shares were cancelled. A total of 2.6 million shares were issued to employees during the year as a result of vesting of employee share schemes. At December 31, 2017 the Group held 9.9 million shares (2016: 12.5 million), which represented 0.49 per cent of the Issued share capital of the Company.

29 Share-based payments

The Group operates share-based payment schemes as part of the total remuneration package provided to employees. These schemes comprise both share option schemes where employees acquire shares at nil-cost and share award plans whereby shares are issued to employees at no cost, subject to the achievement by the Group of specified performance targets.

a IAG Performance Share Plan

The IAG Performance Share Plan (PSP) is granted to senior executives and managers of the Group who are most directly involved in shaping and delivering business success over the medium to long term. In 2014, a conditional award of shares was subject to the achievement of a variety of performance conditions, which vest after three years subject to the employee remaining employed by the Group. From 2015, the awards were made as nil-cost options, and also had a two-year additional holding period after the end of the performance period, before vesting takes place. The award made in 2014 vests based 50 per cent on achievement of IAG's TSR performance targets relative to the MSCI European Transportation Index, and 50 per cent based on achievement of earnings per share targets. The awards made from 2015 will vest based one-third on achievement of IAG's TSR performance targets relative to the MSCI European Transportation Index, one-third based on achievement of earnings per share targets, and one-third based on achievement of Return on Invested Capital targets.

b IAG Incentive Award Deferral Plan

The IAG Incentive Award Deferral Plan (IADP) is granted to qualifying employees based on performance and service tests. It will be awarded when an incentive award is triggered subject to the employee remaining in employment with the Group for three years after the grant date. The relevant population will receive 50 per cent of their incentive award up front in cash, and the remaining 50 per cent in shares after three years through the IADP.

c Share-based payment schemes summary

	Outstanding at January 1, 2017 '000s	Granted number '000s	Lapsed number '000s	Vested number '000s	Outstanding at December 31, 2017 '000s	Vested and exercisable December 31, 2017 '000s
Performance Share Plans	14,054	5,897	3,377	2,436	14,138	43
Incentive Award Deferral Plans	5,681	657	125	1,914	4,299	17
	19,735	6,554	3,502	4,350	18,437	60

The fair value of equity-settled share-based payment plans determined using the Monte-Carlo valuation model, taking into account the terms and conditions upon which the plans were granted, used the following assumptions:

	December 31, 2017	December 31, 2016
Expected share price volatility (per cent)	35	30
Expected comparator group volatility (per cent)	20	20
Expected comparator correlation (per cent)	65	60
Expected life of options (years)	4.8	4.8
Weighted average share price at date of grant (£)	5.46	5.41
Weighted average fair value (£)	3.66	2.27

Volatility was calculated with reference to the Group's weekly pound sterling share price volatility. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. The fair value of the PSP also takes into account a market condition of TSR as compared to strategic competitors. No other features of share-based payment plans granted were incorporated into the measurement of fair value.

The Group recognised a share-based payment charge of €33 million for the year to December 31, 2017 (2016: €36 million).

30 Other reserves and non-controlling interests

For the year to December 31, 2017

€ million	Other reserves						Total other reserves	Non-controlling interest ⁶
	Retained earnings	Unrealised gains and losses ¹	Currency translation ²	Equity portion of convertible bond ³	Merger reserve ⁴	Redeemed capital reserve ⁵		
January 1, 2017	952	(299)	(6)	101	(2,467)	-	(1,719)	308
Profit for the year	2,001	-	-	-	-	-	2,001	20
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	-	84	-	-	-	-	84	-
Fuel and oil costs	-	(38)	-	-	-	-	(38)	-
Currency differences	-	(19)	-	-	-	-	(19)	-
Net change in fair value of cash flow hedges	-	101	-	-	-	-	101	-
Net change in fair value of available-for-sale financial assets	-	9	-	-	-	-	9	-
Currency translation differences	-	-	(146)	-	-	-	(146)	-
Remeasurements of post-employment benefit obligations	739	-	-	-	-	-	739	-
Cost of share-based payments	34	-	-	-	-	-	34	-
Vesting of share-based payment schemes	(33)	-	-	-	-	-	(33)	-
Dividend	(518)	-	-	-	-	-	(518)	-
Cancellation of treasury shares	(500)	-	-	-	-	37	(463)	-
Dividend of a subsidiary	-	-	-	-	-	-	-	(1)
Transfer in Company reserves	83	-	-	-	-	-	83	-
Distributions made to holders of perpetual securities	-	-	-	-	-	-	-	(20)
December 31, 2017	2,758	(162)	(152)	101	(2,467)	37	115	307

For the year to December 31, 2016

€ million	Other reserves							
	Retained earnings	Unrealised gains and losses ¹	Currency translation ²	Equity portion of convertible bond ³	Merger reserve ⁴	Redeemed capital reserve ⁵	Total other reserves	Non-controlling interest ⁶
January 1, 2016	1,160	(914)	500	173	(2,467)	-	(1,548)	308
Profit for the year	1,931	-	-	-	-	-	1,931	21
Other comprehensive income for the year								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	-	(57)	-	-	-	-	(57)	-
Fuel and oil costs	-	918	-	-	-	-	918	-
Currency differences	-	(68)	-	-	-	-	(68)	-
Net change in fair value of cash flow hedges	-	(182)	-	-	-	-	(182)	-
Net change in fair value of available-for-sale financial assets	-	4	-	-	-	-	4	-
Currency translation differences	-	-	(506)	-	-	-	(506)	-
Remeasurements of post-employment benefit obligations	(1,807)	-	-	-	-	-	(1,807)	-
Cost of share-based payments	35	-	-	-	-	-	35	-
Vesting of share-based payment schemes	(73)	-	-	-	-	-	(73)	-
Equity portion of convertible bond issued	45	-	-	(72)	-	-	(27)	-
Dividend	(339)	-	-	-	-	-	(339)	-
Dividend of a subsidiary	-	-	-	-	-	-	-	(1)
Distributions made to holders of perpetual securities	-	-	-	-	-	-	-	(20)
December 31, 2016	952	(299)	(6)	101	(2,467)	-	(1,719)	308

1 The unrealised gains and losses reserve records fair value changes on available-for-sale investments and the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

2 The currency translation reserve records exchange differences arising from the translation of the financial statements of non-euro functional currency subsidiaries and investments accounted for under the equity method into the Group's reporting currency of euros. The movement through this reserve is affected by the fluctuations in the pound sterling to euro foreign exchange translation rate.

3 The equity portion of convertible bond reserve represents the equity portion of convertible bonds issued. At December 31, 2017, this related to the €500 million fixed rate 0.25 per cent convertible bond and the €500 million fixed rate 0.625 per cent convertible bond (note 22). At January 1, 2016 this also related to the €390 million fixed rate 1.75 per cent convertible bond. The equity portion of this bond was transferred to retained earnings on conversion during the year to December 31, 2016.

4 The merger reserve originated from the merger transaction between British Airways and Iberia. The balance represents the difference between the fair value of the Group on the transaction date, and the fair value of Iberia and the book value of British Airways (including its reserves).

5 The redeemed capital reserve represents the nominal value of the decrease in share capital, relating to cancelled shares.

6 Non-controlling interests largely comprise €300 million of 6.75 per cent fixed coupon euro perpetual preferred securities issued by British Airways Finance (Jersey) LP. The holders of these securities have no rights against Group undertakings other than the issuing entity and, to the extent prescribed by the subordinated guarantee, British Airways Plc. In the event of a dividend paid by the Company, the coupon payment is guaranteed. The effect of the securities on the Group as a whole, taking into account the subordinate guarantee and other surrounding arrangements, is that the obligations to transfer economic benefits in connection with the securities do not go beyond those that would normally attach to preference shares issued by a UK company.

31 Employee benefit obligations

The Group operates a variety of post-employment benefit arrangements, covering both defined contribution and defined benefit schemes. The Group also has a scheme for flight crew who meet certain conditions and therefore have the option of being placed on reserve and retaining their employment relationship until reaching the statutory retirement age, or taking early retirement (note 24).

Defined contribution schemes

The Group operates a number of defined contribution schemes for its employees.

Costs recognised in respect of defined contribution pension plans in Spain, UK and Ireland for the year to December 31, 2017 were €135 million (2016: €132 million).

Defined benefit schemes

i APS and NAPS

The principal funded defined benefit pension schemes within the Group are the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS), both of which are in the UK and are closed to new members. APS has been closed to new members since 1984 and NAPS closed to new members in 2003. On December 8, 2017, British Airways announced that it intends to open a new defined contribution pension scheme on April 1, 2018, replacing the principal defined contribution scheme (the British Airways Retirement Plan) and NAPS, which will close to future accrual on March 31, 2018. British Airways has offered a range of transition options to NAPS members. The NAPS liabilities are expected to fall as a result of the closure, because deferred pensions are assumed to rise in line with the Consumer Price Index (CPI) whereas salary growth for active members is assumed to rise in line with pay rises and promotions, which are assumed to be higher. The impact of the closure on the liabilities will only be known once members have selected their transition option, expected to be in March 2018. The changes are subject to the NAPS Trustee agreeing to amend the scheme's rules to enable closure to future accrual, and therefore have not been reflected in the financial statements for the year to December 31, 2017. The Group is committed to recovery plan payments of €339 million per year to NAPS until 2027, plus additional payments of up to €170 million per year, depending on British Airways' cash balance at the end of March each year.

The benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to inflationary increases in payment in line with the Government's Pension Increase (Review) Orders (PIRO), which are based on CPI. The benefits provided under NAPS are based on final average pensionable pay reduced by an amount (the abatement) not exceeding one and a half times the Government's lower earnings limit, with pension increases also based on PIRO, subject to a cap of a maximum of five per cent in any given year.

As reported in previous years, the Trustee of APS has proposed an additional discretionary increase above CPI inflation for pensions in payment for the year to March 31, 2014. British Airways challenged the decision as it considers the Trustee has no power to grant such increases, and initiated legal proceedings to determine the legitimacy of the discretionary increase. The outcome of the legal proceedings was issued in May 2017, that concluded the Trustee does have the power to grant discretionary increases, whilst reiterating they must take into consideration all relevant factors. The Group has appealed the judgment and awaits an appeal hearing, expected to be in May 2018. The payment of the 2013/14 discretionary increase is subject to an injunction as a result of British Airways' appeal. The delayed 2015 triennial valuation will be completed once the outcome of the appeal is known. British Airways is committed to an existing recovery plan, which sees deficit payments of €62 million per annum until March 2023.

APS and NAPS are governed by separate Trustee Boards. Although APS and NAPS have separate Trustee Boards, much of the business of the two schemes is common. Most main Board and committee meetings are held in tandem although each Trustee Board reaches its decisions independently. There are three sub committees which are separately responsible for the governance, operation and investments of each scheme. British Airways Pension Trustees Limited holds the assets of both schemes on behalf of their respective Trustees.

Deficit payment plans are agreed with the Trustee of each scheme every three years based on the actuarial valuation (triennial valuation) rather than the IAS 19 accounting valuation. The latest deficit recovery plan was agreed on the March 31, 2012 position with respect to APS and March 31, 2015 with respect to NAPS (note 31i). The actuarial valuations performed at March 31, 2012 and March 31, 2015 are different to the valuation performed at December 31, 2017 under IAS 19 'Employee benefits' mainly due to timing differences of the measurement dates and to the specific scheme assumptions in the actuarial valuation compared with IAS 19 guidance used in the accounting valuation assumptions.

ii Other plans

British Airways provides certain additional post-retirement healthcare benefits to eligible employees in the US through the US Post-Retirement Medical Benefit plan (US PRMB) which is considered to be a defined benefit scheme. In addition, Aer Lingus operates certain defined benefit plans, both funded and unfunded.

The defined benefit plans expose the Group to actuarial risks, such as longevity risk, interest rate risk, inflation risk, and market (investment) risk including currency risk.

iii Cash payments

Cash payments to pension schemes comprise normal employer contributions by the Group; deficit contributions based on the agreed deficit payment plan with APS and NAPS; and cash sweep payments relating to additional payments made conditional on the level of cash in British Airways. Total payments for the year to December 31, 2017 net of service costs were €666 million (2016: €740 million) being the employer contributions of €899 million (2016: €936 million) less the current service cost of €233 million (2016: €196 million) (note 31b).

a Employee benefit schemes recognised on the Balance Sheet

€ million	2017			Total
	APS	NAPS	Other ¹	
Scheme assets at fair value	9,185	19,558	429	29,172
Present value of scheme liabilities	(7,606)	(20,060)	(697)	(28,363)
Net pension asset/(liability)	1,579	(502)	(268)	809
Effect of the asset ceiling ²	(570)	-	-	(570)
Other employee benefit obligations	-	-	(8)	(8)
December 31, 2017	1,009	(502)	(276)	231
Represented by:				
Employee benefit assets				1,023
Employee benefit obligations				(792)
				231

2016

€ million	APS	NAPS	Other ¹	Total
Scheme assets at fair value	9,637	18,366	445	28,448
Present value of scheme liabilities	(8,036)	(20,376)	(781)	(29,193)
Net pension asset/(liability)	1,601	(2,010)	(336)	(745)
Effect of the asset ceiling ²	(580)	-	-	(580)
Other employee benefit obligations	-	-	(10)	(10)
December 31, 2016	1,021	(2,010)	(346)	(1,335)
Represented by:				
Employee benefit assets				1,028
Employee benefit obligations				(2,363)
				(1,335)

1 The present value of scheme liabilities for the US PRMB was €15 million at December 31, 2017 (2016: €18 million).

2 APS has an accounting surplus under IAS 19, which would be available to the Group as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the Trustee.

b Amounts recognised in the Income statement

Pension costs charged to operating result are:

€ million	2017	2016
Defined benefit plans:		
Current service cost	233	196
Past service cost ¹	2	(52)
	235	144
Defined contribution plans	135	132
Pension costs recorded as employee costs	370	276

1 In 2016, includes a past service gain of €51 million in respect of the US PMRB, which was classified as an exceptional item.

Pension costs charged/(credited) as finance costs are:

€ million	2017	2016
Interest income on scheme assets	(730)	(952)
Interest expense on scheme liabilities	743	921
Interest expense on asset ceiling	15	19
Net financing expense/(income) relating to pensions	28	(12)

c Remeasurements recognised in the Statement of other comprehensive income

€ million	2017	2016
Return on plan assets excluding interest income	(1,698)	(3,370)
Remeasurement of plan liabilities from changes in financial assumptions	530	5,624
Remeasurement of plan liabilities for changes in demographic assumptions	-	131
Remeasurement of experience losses/(gains)	274	(268)
Remeasurement of the APS asset ceiling	2	81
Exchange movements	(7)	56
Pension remeasurements (credited)/charged to Other comprehensive income	(899)	2,254

d Fair value of scheme assets

A reconciliation of the opening and closing balances of the fair value of scheme assets is set out below:

€ million	2017	2016
January 1	28,448	28,342
Interest income	730	952
Return on plan assets excluding interest income	1,698	3,370
Employer contributions ¹	881	906
Employee contributions	101	111
Benefits paid	(1,324)	(1,315)
Exchange movements	(1,362)	(3,918)
December 31	29,172	28,448

¹ Includes employer contributions to APS of €109 million (2016: €112 million) and to NAPS of €748 million (2016: €763 million), of which deficit funding payments represented €104 million for APS (2016: €106 million) and €516 million for NAPS (2016: €638 million).

For both APS and NAPS, the Trustee has ultimate responsibility for decision making on investments matters, including the asset-liability matching strategy. The latter is a form of investing designed to match the movement in pension plan assets with the movement in the projected benefit obligation over time. The Trustees' investment committee adopts an annual business plan which sets out investment objectives and work required to achieve these objectives. The committee also deals with the monitoring of performance and activities, including work on developing the strategic benchmark to improve the risk return profile of the scheme where possible, as well as having a trigger based dynamic governance process to be able to take advantage of opportunities as they arise. The investment committee reviews the existing investment restrictions, performance benchmarks and targets, as well as continuing to develop the de-risking and liability hedging portfolio.

Both schemes use derivative instruments for investment purposes and to manage exposures to financial risks, such as interest rate, foreign exchange and liquidity risks arising in the normal course of business. Exposure to interest rate risk is managed through the use of Inflation-Linked Swap contracts. Foreign exchange forward contracts are entered into to mitigate the risk of currency fluctuations. For NAPS, a strategy exists to provide protection against the equity market downside risk by reducing some of the upside participation.

Scheme assets held by all defined benefit schemes operated by the Group at December 31 comprise:

€ million	2017	2016
Return seeking investments – equities		
UK	2,646	3,049
Rest of world	6,677	7,495
	9,323	10,544
Return seeking investments – other		
Private equity	777	825
Property	1,906	1,783
Alternative investments	1,023	1,204
	3,706	3,812
Liability matching investments		
UK fixed bonds	4,885	3,850
Rest of world fixed bonds	95	116
UK index-linked bonds	7,614	6,690
Rest of world index-linked bonds	177	128
	12,771	10,784
Other		
Cash and cash equivalents	670	511
Derivatives	178	228
Insurance contract	1,770	1,872
Longevity swap	(109)	(35)
Other	863	732
	29,172	28,448

All equities and bonds have quoted prices in active markets.

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

€ million	December 31, 2017		December 31, 2016	
	APS	NAPS	APS	NAPS
Return seeking investments	742	12,074	1,582	12,565
Liability matching investments	6,428	6,240	5,936	4,728
	7,170	18,314	7,518	17,293
Insurance contract and related longevity swap	1,637	-	1,811	-
Other	378	1,244	308	1,073
Fair value of scheme assets	9,185	19,558	9,637	18,366

The strategic benchmark for asset allocations differentiates between 'return seeking assets' and 'liability matching assets'. Given the respective maturity of each scheme, the proportion for APS and NAPS vary. At December 31, 2017, the benchmark for APS, expressed as a percentage of the assets excluding the insurance contract, was 9.5 per cent (2016: 19 per cent) in return seeking assets and 90.5 per cent (2016: 81 per cent) in liability matching investments; and for NAPS the benchmark was 65 per cent (2016: 68 per cent) in return seeking assets and 35 per cent (2016: 32 per cent) in liability matching investments. Bandwidths are set around these strategic benchmarks that allow for tactical asset allocation decisions, providing parameters for the investment committee and its investment managers to work within.

In addition to this, APS has an insurance contract with Rothesay Life which covers 24 per cent (2016: 24 per cent) of the pensioner liabilities for an agreed list of members. The insurance contract is based on future increases to pensions in line with inflation and will match future obligations on that basis for that part of the scheme. The insurance contract can only be used to pay or fund employee benefits under the scheme. With effect from June 2010, the Trustee of APS also secured a longevity swap contract with Rothesay Life, which covers 20 per cent (2016: 20 per cent) of the pensioner liabilities for the same members covered by the insurance contract above. The value of the contract is based on the difference between the value of the payments expected to be received under this contract and the pensions payable by the scheme under the contract. During 2017, the Trustee of APS secured two additional longevity swap contracts, one with Canada Life and one with Partner Reinsurance covering 13 per cent and 8 per cent respectively of the pensioner liabilities as at January 1, 2017 (the commencement date of the contracts). The principal increases to pensions in payment under the contract are based on RPI inflation.

e Present value of scheme liabilities

A reconciliation of the opening and closing balances of the present value of the defined benefit obligations is set out below:

€ million	2017	2016
January 1	29,193	27,670
Current service cost	233	196
Past service cost	2	(52)
Interest expense	743	921
Remeasurements - financial assumptions	530	5,624
Remeasurements - demographic assumptions	-	131
Remeasurements of experience losses/(gains)	274	(268)
Benefits paid	(1,324)	(1,315)
Employee contributions	101	111
Exchange movements	(1,389)	(3,825)
December 31	28,363	29,193

The defined benefit obligation comprises €28 million (2016: €33 million) arising from unfunded plans and €28,335 million (2016: €29,160 million) from plans that are wholly or partly funded.

f Effect of the asset ceiling

A reconciliation of the effect of the asset ceiling representing the IAS 19 irrecoverable surplus in APS is set out below:

€ million	2017	2016
January 1	580	561
Interest expense	15	19
Remeasurements	2	81
Exchange movements	(27)	(81)
December 31	570	580

g Actuarial assumptions

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Per cent per annum	2017			2016		
	APS	NAPS	Other schemes	APS	NAPS	Other schemes
Discount rate ¹	2.45	2.55	1.6 – 3.6	2.60	2.70	1.5 – 4.1
Rate of increase in pensionable pay ²	3.15	3.15	2.5 – 3.6	3.20	3.20	3.0 – 3.7
Rate of increase of pensions in payment ³	2.05	2.05	0.0 – 3.5	2.10	2.10	0.4 – 3.5
RPI rate of inflation	3.15	3.15	2.5 – 3.1	3.20	3.20	3.0 – 3.2
CPI rate of inflation	2.05	2.05	1.75 – 3.0	2.10	2.10	1.75 – 3.0

- Discount rate is determined by reference to the yield on high quality corporate bonds of currency and term consistent with the scheme liabilities.
- Rate of increase in pensionable pay is assumed to be in line with long-term market inflation expectations. The inflation rate assumptions for NAPS and APS are based on the difference between the yields on index-linked and fixed-interest long-term government bonds.
- It has been assumed that the rate of increase of pensions in payment will be in line with CPI for APS and NAPS. The APS Trustee has proposed an additional discretionary increase of 20 basis points for the year to March 31, 2014, a decision that British Airways has challenged. British Airways initiated legal proceedings to determine the legitimacy of the additional increase. The proposed discretionary increase is not included in the assumptions above.

Rate of increase in healthcare costs is based on medical trend rates of 6.5 per cent grading down to 5.0 per cent over seven years (2016: 6.75 per cent to 5.0 per cent over seven years).

In the UK, mortality rates are calculated using the standard SAPS mortality tables produced by the CMI for APS and NAPS. The standard mortality tables were selected based on the actual recent mortality experience of members and were adjusted to allow for future mortality changes. The current longevities underlying the values of the scheme liabilities were as follows:

Mortality assumptions	2017	2016
Life expectancy at age 60 for a:		
- male currently aged 60	28.4	28.3
- male currently aged 40	29.7	29.5
- female currently aged 60	30.2	30.1
- female currently aged 40	32.8	32.6

At December 31, 2017, the weighted-average duration of the defined benefit obligation was 12 years for APS (2016: 12 years) and 20 years for NAPS (2016: 20 years).

In the US, mortality rates were based on the RP-14 mortality tables.

h Sensitivity analysis

Reasonable possible changes at the reporting date to significant actuarial assumptions, holding other assumptions constant, would have affected the present value of scheme liabilities by the amounts shown:

€ million	Increase in scheme liabilities		
	APS	NAPS	Other schemes
Discount rate (decrease of 10 basis points)	91	396	8
Future salary growth (increase of 10 basis points)	1	68	1
Future pension growth (increase of 10 basis points)	68	317	1
Future mortality rate (one year increase in life expectancy)	339	577	2

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

i Funding

Pension contributions for APS and NAPS were determined by actuarial valuations made at March 31, 2012 and March 31, 2015 respectively, using assumptions and methodologies agreed between the Group and Trustee of each scheme. At the date of the actuarial valuation, the actuarial deficits of APS and NAPS amounted to €932 million and €3,818 million respectively. In order to address the deficits in the schemes, the Group has also committed to the following undiscounted deficit payments:

€ million	APS	NAPS
Within 12 months	62	339
2-5 years	249	1,359
5-10 years	16	1,612
Total expected deficit payments for APS and NAPS	327	3,310

The Group has determined that the minimum funding requirements set out above for APS and NAPS will not be restricted. The present value of the contributions payable is expected to be available as a refund or a reduction in future contributions after they are paid into the scheme, subject to withholding taxes that would be payable by the Trustee. This determination has been made independently for each scheme. As such, no additional liability is required.

Deficit payments in respect of local arrangements outside of the UK have been determined in accordance with local practice.

In total, the Group expects to pay €593 million in employer contributions and deficit payments to its two significant post-retirement benefit plans in 2018. This is made up of €62 million and €339 million of deficit payments for APS and NAPS respectively as agreed at the latest triennial valuations. In addition, ongoing employer contributions for 2018 would be €5 million for APS and €187 million for NAPS if the NAPS scheme is not closed for future accrual. This excludes any additional deficit contribution that may become due depending on British Airways' cash balance at March 31, 2018. The Group expects to pay €283 million in 2019, having provided collateral on certain payments to APS and NAPS, which at December 31, 2017 amounted to €283 million (2016: €296 million). This amount would be payable in the event that the pension schemes are not fully funded on a conservative basis, with a gilts-based discount rate on January 1, 2019 as determined by the scheme actuary.

Until September 2019, if British Airways pays a dividend to IAG higher than 35 per cent of profit after tax it will either provide the scheme with a guarantee for 100 per cent of the amount above 35 per cent or 50 per cent of that amount as an additional cash contribution.

32 Contingent liabilities and guarantees

The Group has certain contingent liabilities which at December 31, 2017 amounted to €93 million (December 31, 2016: €124 million). No material losses are likely to arise from such contingent liabilities. The Group also has the following claims:

Cargo

The European Commission issued a decision in which it found that British Airways, and 10 other airline groups, had engaged in cartel activity in the air cargo sector (Original Decision). British Airways was fined €104 million. Following an appeal, the decision was subsequently partially annulled against British Airways (and annulled in full against the other appealing airlines) (General Counsel Judgment), and the fine was refunded in full. British Airways appealed the partial annulment to the Court of Justice, but that appeal was rejected.

In parallel, the European Commission chose not to appeal the General Counsel Judgment, and instead adopted a new decision in March 2017 (new decision). The new decision re-issued fines against all the participating carriers, which match those contained in the Original Decision. British Airways has therefore again been fined €104 million. British Airways has appealed the New Decision to the General Counsel again (as have other carriers).

A large number of claimants have brought proceedings in the English courts to recover damages from British Airways which, relying on the findings in the Commission decisions, they claim arise from the alleged cartel activity. It is not possible at this stage to predict the outcome of the proceedings, which British Airways will vigorously defend. British Airways has joined the other airlines alleged to have participated in cartel activity to these proceedings to contribute to such damages, if any are awarded.

British Airways is also party to similar litigation in a number of other jurisdictions including Germany, the Netherlands and Canada together with a number of other airlines. At present, the outcome of the proceedings is unknown. In each case, the precise effect, if any, of the alleged cartelising activity on the claimants will need to be assessed.

Pensions

The Trustees of the Airways Pension Scheme (APS) have proposed an additional discretionary increase above CPI for pensions in payment for the year to March 31, 2014. British Airways has challenged the decision, as it considers the Trustees have no power to grant such increases, and initiated legal proceedings to determine the legitimacy of the discretionary increase. The outcome of the legal proceedings was issued in May 2017, which concluded the Trustees do have the power to grant discretionary increases, whilst reiterating they must take into consideration all relevant factors, and ignore irrelevant factors. The Group has appealed the judgment and awaits an appeal hearing, currently expected to be mid-2018. Payment of the 2013/14 discretionary increase is subject to an injunction as a result of British Airways appeal. The delayed 2015 triennial valuation will be completed once the outcome of the appeal is known.

Guarantees

British Airways has provided collateral on certain payments to its pension schemes, APS and NAPS, which at December 31, 2017 amounted to €283 million (December 31, 2016: €296 million). This amount would be payable in the event that the pension schemes are not fully funded on a conservative basis with a gilts-based discount rate on January 1, 2019 and will be determined by the scheme actuary.

In addition, a guarantee amounting to €260 million (2016: €273 million) was issued by a third party in favour of APS, triggered in the event of British Airways' insolvency.

The Group also has other guarantees and indemnities entered into as part of the normal course of business, which at December 31, 2017 are not expected to result in material losses for the Group.

33 Related party transactions

The following transactions took place with related parties for the financial years to December 31:

€ million	2017	2016
Sales of goods and services		
Sales to associates ¹	7	7
Sales to significant shareholders ²	48	39
Purchases of goods and services		
Purchases from associates ³	58	49
Purchases from significant shareholders ²	109	60
Receivables from related parties		
Amounts owed by associates ⁴	2	2
Amounts owed by significant shareholders ⁵	1	1
Payables to related parties		
Amounts owed to associates ⁶	3	4
Amounts owed to significant shareholders ⁵	3	-

1 Sales to associates: Consisted primarily of sales for airline related services to Dunwoody Airline Services (Holding) Limited (Dunwoody) of €6 million (2016: €7 million) and an amount of less than €1 million to Multiservicios Aeroportuarios, S.A. and Serpista, S.A. (2016: less than €1 million to Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. and Handling Guinea Ecuatorial, S.A.)

2 Sales to and purchases from significant shareholders: Related to interline services and wet leases with Qatar Airways.

3 Purchases from associates: Mainly included €35 million of airport auxiliary services purchased from Multiservicios Aeroportuarios, S.A. (2016: €33 million), €13 million of handling services provided by Dunwoody (2016: €10 million) and €9 million of maintenance services received from Serpista, S.A. (2016: €6 million).

4 Amounts owed by associates: For airline related services rendered, and included balances with Dunwoody of €1 million (2016: €1 million) and €1 million of services provided to Multiservicios Aeroportuarios, S.A., Serpista, S.A. and Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A. (2016: €1 million for Handling Guinea Ecuatorial, S.A., Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. and Iber-America Aerospace, LLC).

5 Amounts owed by and to significant shareholders: Related to Qatar Airways.

6 Amounts owed to associates: Consisted primarily of €1 million due to Dunwoody (2016: €1 million), €2 million to Serpista, S.A. (2016: €1 million) and less than €1 million to Multiservicios Aeroportuarios, S.A. (2016: €2 million).

During the year to December 31, 2017 British Airways met certain costs of administering its retirement benefit plans, including the provision of support services to the Trustees. Costs borne on behalf of the retirement benefit plans amounted to €7 million (2016: €7 million) in relation to the costs of the Pension Protection Fund levy.

The Group has transactions with related parties that are conducted in the normal course of the airline business, which include the provision of airline and related services. All such transactions are carried out on an arm's length basis.

For the year to December 31, 2017, the Group has not made any provision for doubtful debts arising relating to amounts owed by related parties (2016: nil).

Significant shareholders

In this instance, significant shareholders are those parties who have the power to participate in the financial and operating policy decisions of the Group, as a result of their shareholdings in the Group, but who do not have control over these policies.

At December 31, 2017 the Group had cash deposit balances with shareholders holding a participation of between 3 to 5 per cent, of €90 million (2016: €189 million).

Board of Directors and Management Committee remuneration

Compensation received by the Group's Board of Directors and Management Committee, in 2017 and 2016 is as follows:

€ million	December 31, 2017	December 31, 2016
Base salary, fees and benefits		
Board of Directors' remuneration	9	7
Management Committee remuneration	17	10
	26	17

At December 31, 2017 the Board of Directors includes remuneration for two Executive Directors (December 31, 2016: two Executive Directors). The Management Committee includes remuneration for ten members (December 31, 2016: nine members).

The Company provides life insurance for all executive directors and the Management Committee. For the year to December 31, 2017 the Company's obligation was €38,000 (2016: €44,000).

At December 31, 2017 the transfer value of accrued pensions covered under defined benefit pension obligation schemes, relating to the current members of the Management Committee totalled €4 million (2016 : €4 million).

No loan or credit transactions were outstanding with Directors or offices of the Group at December 31, 2017 (2016: nil).

Group investments

Subsidiaries

Aer Lingus

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Aer Lingus 2009 DCS Trustee Limited Dublin Airport, Dublin		Republic of Ireland	100%
Aer Lingus Beachey Limited Penthouse Suite, Analyst House, Peel Road, Isle of Man, IM1 4LZ		Isle of Man	100%
Aer Lingus Group DAC* Dublin Airport, Dublin	Holding company	Republic of Ireland	100%
Aer Lingus Limited* Dublin Airport, Dublin	Airline operations	Republic of Ireland	100%
Aer Lingus (NI) Limited Aer Lingus Base, Belfast City Airport, Sydenham Bypass, Belfast, BT3 9JH		Northern Ireland	100%
Aer Lingus (Ireland) Limited Dublin Airport, Dublin		Republic of Ireland	100%
ALG Trustee Limited Dublin Airport, Dublin		Isle of Man	100%
Dirnan Insurance Company Limited Canon's Court, 22 Victoria Street, Hamilton, Bermuda, HM 12		Bermuda	100%
Santain Developments Limited Dublin Airport, Dublin		Republic of Ireland	100%
Shinagh Limited Dublin Airport, Dublin		Republic of Ireland	100%

Avios

Name and address	Country of Incorporation	Percentage of equity owned
Avios South Africa Proprietary Limited Block C, 1 Marignane Drive, Bonaero Park, Gauteng, 1619	South Africa	100%
Remotereport Trading Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%

British Airways

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Avios Group (AGL) Limited* Astral Towers, Betts Way, London Road, Crawley, West Sussex, RH10 9XY	Airline marketing	England	100%
BA and AA Holdings Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%
BA Call Centre India Private Limited (callBA) F-42, East of Kailash, New Delhi, 110065		India	100%
BA Cityflyer Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100%
BA European Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
BA Healthcare Trust Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
BA Number One Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
BA Number Two Limited 13 Castle Street, St Helier, JE4 5UT		Jersey	100%
Bealine Plc Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
bmibaby Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
BritAir Holdings Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Holding company	England	100%

British Airways continued

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
British Airways (BA) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
British Airways 777 Leasing Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft financing	England	100%
British Airways Associated Companies Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
British Airways Avionic Engineering Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Capital Limited Queensway House, Hilgrove Street, St Helier, JE1 1ES		Jersey	100%
British Airways E-Jets Leasing Limited* Canon's Court, 22 Victoria Street, Hamilton, HM 12	Aircraft financing	Bermuda	100%
British Airways Finance (Jersey) Limited Partnership 13 Castle Street, St Helier, JE4 5UT		Jersey	100%
British Airways Holdings B.V. Atrium, Strawinskylaan 3105, Amsterdam, 1077 ZX		Netherlands	100%
British Airways Holdings Limited* 13 Castle Street, St Helier, JE4 5UT	Holding company	Jersey	100%
British Airways Holidays Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Package holidays	England	100%
British Airways Interior Engineering Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Leasing Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft financing	England	100%
British Airways Maintenance Cardiff Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Aircraft maintenance	England	100%
British Airways Pension Trustees (No 2) Limited Whitelocke House, 2-4 Lampton Road, Hounslow, Middlesex, TW3 1HU		England	100%
British Midland Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
British Midland Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
Diamond Insurance Company Limited 1st Floor, Rose House, 51-59 Circular Road, Douglas, IM1 1RE		Isle of Man	100%
Flyline Tele Sales & Services GmbH Hermann Koehl-Strasse 3, Bremen, 28199		Germany	100%
Gatwick Ground Services Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
Illiad Inc Suite 1300, 1105 N Market Street, PO Box 8985, Wilmington, Delaware, 19899		USA	100%
Openskies SASU* 3 Rue le Corbusier, Rungis, 94150	Airline operations	France	100%
Overseas Air Travel Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
Speedbird Insurance Company Limited* Canon's Court, 22 Victoria Street, Hamilton, HM 12	Insurance	Bermuda	100%
Teleflight Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
British Mediterranean Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	99%

Iberia

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Binter Finance B.V. Prins Bernhardplein 200, Amsterdam, 1097 JB		Netherlands	100%
Compañía Explotación Aviones Cargueros Cargosur, S.A. Calle Martínez Villergas 49, Madrid, 28027		Spain	100%
Compañía Operadora de Corto y Medio Radio Iberia Express, S.A.* Calle Alcañiz 23, Madrid, 28006	Airline operations	Spain	100%
Iberia México, S.A.* Ejército Nacional 436, 9th Floor, Colonia Chapultepec-Morales, Mexico City, 11570	Storage and custody services	Mexico	100%
Iberia Tecnología, S.A.* Calle Martínez Villergas 49, Madrid, 28027	Holding company	Spain	100%
Compañía Auxiliar al Cargo Exprés, S.A.* Centro de Carga Aérea, Parcela 2-5 Nave 6, Madrid, 28042	Cargo transport	Spain	75%
Iberia Desarrollo Barcelona, S.L.* Torre Tarragona, Planta 15, Calle Tarragona 161, Barcelona, 08014	Airport infrastructure development	Spain	75%
Auxiliar Logística Aeroportuaria, S.A.* Centro de Carga Aérea, Parcela 2-5 Nave 6, Madrid, 28042	Airport logistics and cargo terminal management	Spain	75%

IAG Cargo Limited

Name and address	Country of Incorporation	Percentage of equity owned
Zenda Group Limited Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, Middlesex, TW6 2JS	England	100%

International Consolidated Airlines Group S.A.

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
AERL Holding Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
British Airways Plc* Waterside, PO Box 365, Harmondsworth, UB7 0GB	Airline operations	England	100% ¹
FLY LEVEL, S.L. El Caserío, Iberia Zona Industrial nº 2 (La Muñoza), Camino de La Muñoza, s/n, 28042 Madrid		Spain	100%
FLYLEVEL UK Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		England	100%
IAG Cargo Limited* Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, TW6 2JS	Air freight operations	England	100%
IAG Connect Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB		Republic of Ireland	100%
IAG GBS Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB	IT, finance and procurement services	England	100%
IAG GBS Poland sp z.o.o.* ul. Opolska 114, Krakow, 31 -323	IT, finance and procurement services	Poland	100%
IB Opco Holding, S.L. Calle Martínez Villergas 49, Madrid, 28027	Holding company	Spain	100% ²
Iberia Líneas Aéreas de España, S.A. Operadora* Calle Martínez Villergas 49, Madrid, 28027	Airline operations and maintenance	Spain	100% ²

International Consolidated Airlines Group S.A. continued

Name and address	Principal activity	Country of Incorporation	Percentage of equity owned
Veloz Holdco, S.L. Pla de l'Estany 5, Parque de Negocios Mas Blau II, El Prat de Llobregat, Barcelona, 08820		Spain	100%
Vueling Airlines, S.A.* Pla de l'Estany 5, Parque de Negocios Mas Blau II, El Prat de Llobregat, Barcelona, 08820	Airline operations	Spain	99.5%

* Principal subsidiaries

- The Group holds 49.9% of the total number of voting rights and 99.65% of the total nominal share capital in British Airways Plc, such stake having almost 100% of the economic rights. The remaining nominal share capital and voting rights, representing 0.35% and 50.1% respectively, correspond to a trust established for the purposes of implementing the British Airways nationality structure.
- The Group holds 49.9% of both the total nominal share capital and the total number of voting rights in IB Opco Holding, S.L. (and thus, indirectly, in Iberia Líneas Aéreas de España, S.A. Operadora), such stake having almost 100% of the economic rights in these companies. The remaining shares, representing 50.1% of the total nominal share capital and the total number of voting rights belong to a Spanish company incorporated for the purposes of implementing the Iberia nationality structure.

Investments accounted for using the equity method

Name and address	Country of Incorporation	Percentage of equity owned
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. José Ortega y Gasset 22, 3rd Floor, 28006, Madrid	Spain	50.5%
Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A. Avenida de Vantroi y Final, Aeropuerto de Jose Martí, Ciudad de la Habana	Cuba	50%
Empresa Logística de Carga Aérea, S.A. Carretera de Wajay km 15, Aeropuerto de Jose Martí, Ciudad de la Habana	Cuba	50%
Multiservicios Aeroportuarios, S.A. Avenida de Manoteras 46, 2nd Floor, 28050, Madrid	Spain	49%
Dunwoody Airline Services Limited Building 552 Shoreham Road East, London Heathrow Airport, Hounslow, TW6 3UA	England	40%
Serpista, S.A. Cardenal Marcelo Spínola 10, 28016, Madrid	Spain	39%
Programa Travel Club Agencia de Seguros Exclusiva, S.L. Avenida de Bruselas 20, Alcobendas, 28108, Madrid	Spain	27%
Viajes Ame, S.A. Avenida de Bruselas 20, Alcobendas, 28108, Madrid	Spain	27%
Air Miles España, S.A. Avenida de Bruselas 20, Alcobendas, 28108, Madrid	Spain	26.7%

Available-for-sale financial assets

The Group's principal available-for-sale financial assets are as follows:

Name and address	Country of Incorporation	Percentage of equity owned	Currency	Shareholder's funds (million)	Profit/(loss) before tax (million)
Servicios de Instrucción de Vuelo, S.L. El Caserío, Iberia Zona Industrial nº 2 (La Muñoza) Camino de La Muñoza, s/n, 28042 Madrid, Spain	Spain	19.9%	Euro	46	3
The Airline Group Limited Brettenham House South, 5th Floor, Lancaster Place, London, WC2N 7EN	England	16.7%	Pound sterling	287	22
Comair Limited 1 Marignane Drive, Bonaero Park, 1619, Johannesburg	South Africa	11.5%	South African rand	1,543	435
Adquiria España, S.A. Plaza Cronos, 1 - 4th Floor, Madrid, 28037	Spain	10.0%	Euro	7	1

Statement of directors' responsibilities

LIABILITY STATEMENT OF DIRECTORS FOR THE PURPOSES ENVISAGED UNDER ARTICLE 11.1.b OF SPANISH ROYAL DECREE 1362/2007 OF 19 OCTOBER (REAL DECRETO 1362/2007).

At a meeting held on February 22, 2018, the Directors of International Consolidated Airlines Group, S.A. (the "Company") state that, to the best of their knowledge, the condensed consolidated financial statements for the year to December 31, 2017 prepared in accordance with the applicable international accounting standard, offer a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and the interim consolidated management report includes a fair review of the required information.

February 22, 2018

Antonio Vázquez Romero

Chairman

William Matthew Walsh

Chief Executive Officer

Marc Jan Bolland

Patrick Jean Pierre Cescau

Enrique Dupuy de Lôme Chávarri

James Arthur Lawrence

María Fernanda Mejía Campuzano

Kieran Charles Poynter

Emilio Saracho Rodríguez de Torres

Marjorie Morris Scardino

Lucy Nicola Shaw

Alberto Terol Esteban

Alternative performance measures

The performance of the Group is assessed using a number of alternative performance measures (APMs), some of which have been identified as key performance indicators of the Group. The Group's results are presented both before and after exceptional items. Exceptional items are those that in management's view need to be separately disclosed by virtue of their size and incidence. Exceptional items are disclosed in note 4 of the consolidated financial statements. In addition, the Group's results are described using certain measures that are not defined under IFRS and are therefore considered to be APMs. These APMs are used to measure the outcome of the Group's strategy based on 'Unrivalled customer proposition', 'Value accretive and sustainable growth' and 'Efficiency and innovation'. The definition of each APM presented in this report, together with a reconciliation to the nearest measure prepared in accordance with IFRS is presented below.

Operating profit and lease adjusted operating margin

Operating profit is the Group operating result before exceptional items.

Lease adjusted operating margin is operating profit adjusted for leases as a percentage of revenue. The lease adjustment reduces the fleet rental charge to 0.67 of the annual reported charge. This is to reflect the embedded interest expense component in leases; 0.67 is a commonly used ratio in the airline industry.

€ million	2017	2016	2015
Operating profit before exceptional items	3,015	2,535	2,335
Aircraft operating lease costs	888	759	659
Aircraft operating lease costs multiplied by 0.67	(595)	(509)	(442)
	3,308	2,785	2,552
Revenue	22,972	22,567	22,858
Lease adjusted operating margin	14.4%	12.3%	11.2%

Adjusted earnings per share

Earnings are based on results before exceptional items after tax and adjusted for earnings attributable to equity holders and interest on convertible bonds, divided by the weighted average number of ordinary shares, adjusted for the dilutive impact of the assumed conversion of the bonds and employee share schemes outstanding.

€ million	2017	2016	2015
Earnings attributable to equity holders of the parent	2,001	1,931	1,495
Exceptional items	222	38	23
Earnings attributable to equity holders of the parent before exceptional items	2,223	1,969	1,518
Interest expense on convertible bonds	17	26	25
Adjusted earnings	2,240	1,995	1,543
Weighted average number of shares used for diluted earnings per share	2,179,353	2,210,990	2,159,937
Weighted average number of shares used for basic earnings per share	2,088,489	2,075,568	2,034,197
Adjusted earnings per share (€ cents)	102.8	90.2	71.4
Basic earnings per share before exceptional items (€ cents)	106.4	94.9	74.6

EBITDAR

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

€ million	2017	2016	2015
Operating profit before exceptional items	3,015	2,535	2,335
Depreciation, amortisation and impairment	1,184	1,287	1,307
Aircraft operating lease costs	888	759	659
EBITDAR	5,087	4,581	4,301

Return on Invested Capital

Return on Invested Capital (RoIC) is defined as EBITDAR, less adjusted aircraft operating lease costs, fleet depreciation charge adjusted for inflation, and the depreciation charge for other property, plant and equipment, divided by invested capital. It is expressed as a percentage.

The lease adjustment reduces aircraft operating lease costs to 0.67 of the annual reported charge. The inflation adjustment is applied to the fleet depreciation charge and is calculated using a 1.5 per cent inflation rate over the weighted average age of the on balance sheet fleet to allow for inflation and efficiencies of new fleet.

Invested capital is the fleet net book value at the balance sheet date, excluding progress payments for fleet not yet delivered and adjusted for inflation, plus the net book value of the remaining property, plant and equipment plus annual aircraft operating lease costs multiplied by 8. Intangible assets are excluded from the calculation.

€ million	2017	2016	2015 ²
EBITDAR	5,087	4,581	4,463
Less: Aircraft operating lease costs multiplied by 0.67	(595)	(509)	(463)
Less: Depreciation charge for fleet assets multiplied by inflation adjustment	(1,133)	(1,231)	(1,277)
Less: Depreciation charge for other property, plant and equipment	(140)	(153)	(162)
	3,219	2,688	2,561
Invested capital			
Fleet book value excluding progress payments	9,275	9,930	11,090
Inflation adjustment ¹	1.23	1.21	1.16
	11,374	12,048	12,883
Net book value of other property, plant and equipment	1,613	1,683	1,798
Aircraft operating lease costs multiplied by 8	7,104	6,072	5,520
	20,091	19,803	20,201
Return on Invested Capital	16.0%	13.6%	12.7%

1 Presented to two decimal places and calculated using a 1.5 per cent inflation rate over the weighted average age of the on balance sheet fleet (2017 13.7 years; 2016 12.9 years). This calculation was revised in 2016 to reflect the average age of on balance sheet aircraft, weighted based on market reference prices for replacement aircraft in USD. 2015 calculation was based on the accumulated depreciation and current year fleet depreciation as a proxy for weighted average age but was impacted by the foreign exchange fluctuations in period end book values and date of acquisition by the airline versus manufacture date.

2 In 2015, the definition of invested capital excluded all progress payments. 2015 comparatives have not been restated. 2015 comparatives include annualised operating profit, rental charges and depreciation charges for Aer Lingus.

Adjusted net debt to EBITDAR

Adjusted net debt is calculated as long-term borrowings, less cash and cash equivalents and other current interest-bearing deposits, plus annual aircraft operating lease costs multiplied by 8. This is divided by EBITDAR to arrive at adjusted net debt to EBITDAR. 2015 has been adjusted to include annualised results for Aer Lingus.

€ million	2017	2016	2015
Interest-bearing long-term borrowings	7,331	8,515	8,630
Cash and cash equivalents	(3,292)	(3,337)	(2,909)
Other current interest-bearing deposits	(3,384)	(3,091)	(2,947)
Net debt	655	2,087	2,774
Aircraft operating lease costs multiplied by 8	7,104	6,072	5,736
Adjusted net debt	7,759	8,159	8,510
EBITDAR	5,087	4,581	4,463
Adjusted net debt to EBITDAR	1.5	1.8	1.9

Adjusted gearing

The Group monitors capital on the basis of the adjusted gearing ratio. Adjusted gearing is defined as adjusted net debt divided by adjusted net debt and adjusted equity and is expressed as a percentage. Adjusted equity is reported equity adjusted for the cumulative charge to reserves following the amendment to IAS 19 'Employee benefits' accounting standard, up to a maximum of €2,077 million, representing the adjustment to equity on adoption of the amendment to the standard.

€ million	2017	2016	2015
Adjusted net debt	7,759	8,159	8,510
Equity	7,396	5,664	5,534
IAS 19 cumulative charge to reserves (post-tax)	2,077	2,077	1,794
Adjusted equity	9,473	7,741	7,328
Adjusted net debt plus adjusted equity	17,232	15,900	15,838
Adjusted gearing	45%	51%	54%

Equity free cash flow

Equity free cash flow is EBITDA less cash tax, cash interest paid and received and cash capital expenditure net of proceeds from sale of property, plant and equipment and intangible assets. EBITDA is calculated as operating profit before exceptional items, depreciation, amortisation and impairment.

€ million	2017	2016	2015
Operating profit before exceptional items	3,015	2,535	2,335
Depreciation, amortisation and impairment	1,184	1,287	1,307
EBITDA	4,199	3,822	3,642
Interest paid	(122)	(185)	(197)
Interest received	29	37	48
Tax paid	(237)	(318)	(245)
Acquisition of property plant and equipment and intangible assets	(1,490)	(3,038)	(2,040)
Proceeds from sale of property, plant and equipment and intangible assets	306	1,737	273
Equity free cash flow	2,685	2,055	1,481

Aircraft fleet

Number in service with Group companies

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

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