

IAG's 'share buyback' – further information

At our March Main Board meeting we obtained advice from PwC as to the covenant impact of IAG's announcement (24 February 2017) that it intends to carry out a share buyback of €500m over the course of 2017. The term "share buyback" refers to the process of a company reacquiring shares that have been issued by buying them back from shareholders.

As IAG's announcement prompted a couple of member requests for further information, we want to ensure that the responses provided are made available to all members. The key messages are as follows:

- The share buy-back is at the level of IAG, rather than at the level of its subsidiaries. BA is a subsidiary of IAG and BA, not IAG, is the sponsoring employer of APS and NAPS. This means that the Trustees' focus is at the BA level. As BA is the sponsoring employer of APS and NAPS, it is BA that is required to support the Schemes.
- The level of financial support is reconsidered every three years as part of the funding valuation process. The annual deficit reduction contributions currently payable are £300m p.a. to NAPS and £55m p.a. to APS.
- The controls and restrictions on the payment of dividends by BA (contractually agreed as part of previous funding valuations) ceased from 1 July 2016. During the recent 2015 valuation discussion (concluded in December 2016), the Trustee Directors gave high priority to safe guarding dividend mitigation at the BA level. The protections that the Trustee Directors sought during the valuation process were necessarily on the distributions from BA to IAG, rather than from IAG to IAG shareholders. The dividend mitigation that was obtained is explained below.
- As agreed as part of the 2015 valuation process, BA distributions to IAG are covered by provisions in the NAPS 2016 Scheme Funding Agreement (SFA) and APS 2016 Interim Operating Agreement (IOA). For example, as noted in IAG's 26 October 2016 News Release concerning NAPS, "special" dividend mitigation applies to distributions from BA to IAG exceeding 35% of BA's profits after tax in any one year and is broadly in the form of:
 - Cash equal to 50% of special distributions paid; or
 - A bank guarantee equal to 100% of special distributions paid.
- This matter has also formed part of our routine and regular engagement with The Pensions Regulator.
- PwC will continue to monitor the dividend levels from BA to IAG and we will consult with our advisers to work through any potential impacts on the Schemes as more information is received in due course.