INTERNATIONAL AIRLINES GROUP

TRANSFORMING

THE WORLD'S LEADING INTERNATIONAL AIRLINES GROUP

International Airlines Group
Annual Report and Accounts 2012

Formed in January 2011, International Airlines Group (IAG) is the parent company of British Airways and Iberia. IAG is one of the world's largest airline groups with 377 aircraft flying to 200 destinations and carrying more than 54 million passengers every year. Based on revenue, it is the third largest airline group in Europe and the sixth largest in the world.

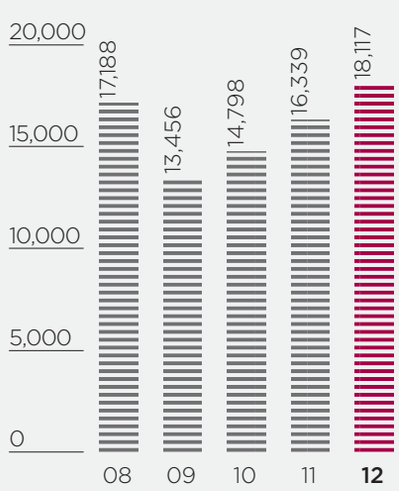
IAG is a Spanish registered company with shares traded on the London and Spanish stock exchanges. The corporate office for IAG is in London, UK.

Our 2012 highlights

Revenue

+10.9%

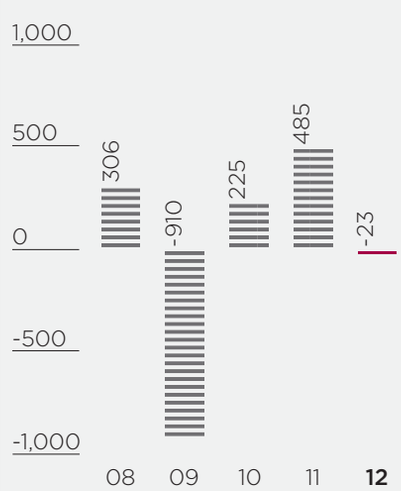
Includes €365 million of revenues from the bmi acquisition



Operating loss (before exceptional items)

-€23 million

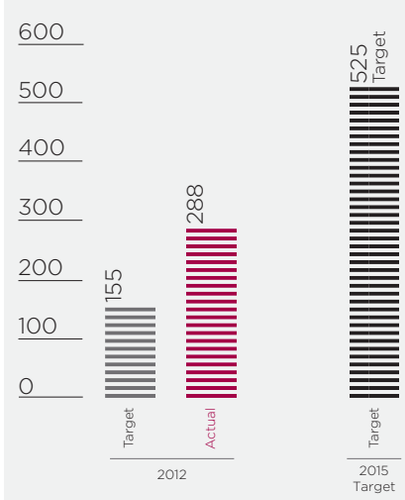
Financial performance of our airlines diverges – British Airways made a €347m profit while Iberia made a €351m loss



Net synergies

+€288 million

Actual net synergies exceeded target with greater benefits primarily in revenue



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Passenger unit revenue

+9.4 %

+3.9% at constant currency

Passenger revenue divided by capacity (Available Seat Kilometres 'ASKs'), this reflects both the changes in prices we charge and the change in volume of our sales.

Productivity

-2.0%

This measures the amount of capacity (ASKs) that our employees deliver on average each year (ASKs divided by average number of employees).

Seat factor

+1.2 points

The number of revenue passenger kilometres flown expressed as a percentage of the number of available seat kilometres flown.

Non-fuel unit costs

+8.5%

+3.8% at constant currency

This is a measure of how we manage costs, which to a large extent are under our control. It is total non-fuel costs divided by capacity (ASKs).

Group overview

Business review

Governance

Management report

Financial statements

Additional information

A YEAR OF TRANSFORMATION

Implementing dynamic plans at British Airways and Iberia to fundamentally transform the businesses over the next three years

Group overview

Chairman's letter
Committed to consolidation

A very warm welcome to International Airlines Group's second Annual Report and Accounts.

As you'd expect, this document charts a tumultuous year for the global economy and for the airline industry.

But I hope it also clearly explains how we are addressing the pressing challenges that face IAG, how we are continuing, with great success, to grasp opportunities to strengthen the Group and why we remain confident we have the right strategy to play a leading role in the future development of international civil aviation.

Significant achievements
We witnessed a combination of very difficult economic conditions during the year. Slowing growth in key emerging economies, uncertainties over the US deficit, the continuing Eurozone crisis and consistently high oil prices all conspired to create powerful headwinds for our industry.

In common with many of our competitors, these conditions inevitably hit our own performance. So to be able to announce a small operating loss of €23 million, before exceptional items, on revenues of €18 billion represents a solid performance.

We have recognised a number of exceptional items this year. The three most significant relate to the integration costs of bmi into British Airways, restructuring charges at Iberia and an impairment of some of Iberia's intangible assets and goodwill.

In fact, 2012, our second full year of operation, was a year of significant progress for IAG.

"The Board is united in its focus on addressing issues in Spain."

The expected benefits of the merger of British Airways and Iberia that we mapped out two years ago continue to be reaped, not least the growing revenue and cost synergies that are flowing from our combined operations, as Willie Walsh explains more fully in his business review on page 14.

A major highlight of the year has been the swifter than expected integration of bmi into British Airways, opening up exciting opportunities to expand our services with both new longhaul routes to vibrant growth markets in Asia and new shorthaul destinations. We now have a clear plan to put this previously heavily loss-making operation into profit. British Airways' own overall performance was strong in a very tough market.

But, despite the successful launch of Iberia Express during the year, Iberia as a whole remains weighed down by a high cost structure, stiff competition and the effects of continuing deep recession in Spain, and saw losses deepen.

We have instigated a restructuring plan at Iberia and, while change is always extremely difficult for those affected, we have no choice. Iberia must adapt. The restructuring plan will reduce the airline's cost base, make it more competitive and set the foundation for the future profitable growth.

The airline is, candidly, in a fight for viability. The restructuring plans offer a credible way to return Iberia to profitability and growth.

Consolidation

Consolidation remains a continuing theme for our industry. Outright merger activity is likely to remain focused within key regions of the world – Latin America, North America, Europe and parts of Asia, for instance – as long as strict controls on foreign direct investment persist.

Elsewhere global alliances and international joint businesses are providing useful ways to boost competitiveness and deliver really important benefits to customers. We are delighted with the continued development of **one**world, which welcomed Malaysia Airlines and is soon to be joined by Qatar Airways and SriLankan Airlines. Our Joint Business with American Airlines continues to thrive, and we launched a new joint business with JAL last autumn. We look forward to the proposed merger of American Airlines and US Airways.

We are committed to leading this process of consolidation and continue to assess opportunities carefully when they arise, as our plans to acquire the 54 per cent of Barcelona-based budget operator Vueling that we do not already own show.

We believe our business model, our management structure and the strong corporate governance framework we have established for IAG put us at a distinct competitive advantage in this respect, allowing us to balance operational management and the need to think strategically.

Environment

Environmental issues – not least global warming remain among the most important long-term challenges for aviation.

British Airways and Iberia are both doing important work to test bio and other alternative fuels that will help to cut our emissions, as will the introduction of new, more efficient aircraft in the next few years.

But ultimately the biggest impact will come from the creation of a global emissions trading scheme (ETS) for our entire industry.

We have been vocal supporters of the EU's own ETS but, with recent threats of retaliation from other regions of the world to the EU scheme, it now looks impossible for this to proceed as a stand-alone initiative without disrupting competition in our market.

The airline industry needs a global agreement as a matter of urgency and, along with the International Air Transport Association (IATA), we think this is best negotiated through the International Civil Aviation Organisation (ICAO), part of the UN.

Corporate responsibility

Many have predicted that five years of grinding recession would inevitably see businesses rein in their commitment to corporate social responsibility (CSR). I'm glad to say that has not been the case at IAG. CSR remains an important priority for us.

British Airways and Iberia continue to do extraordinary work to support the communities we work in and fly to. Although both pursue individual flagship programmes – such as Iberia's ground breaking work with disabled children in Spain or British Airways' Flying Start programme with Comic Relief – we are increasingly co-ordinating our CSR policies and procedures for greater effect.

Outlook

Overall we can be very pleased with the progress we have made in IAG's second year and I'm grateful to colleagues across the business for their tremendous hard work during a challenging period.

Despite some glimmers of hope, economic conditions are likely to remain unsettled for some time and it is essential we continue our efforts to put our airlines on a sound footing for the future. With oil prices likely to remain at consistently high levels, all airlines must find ways to optimise their capacity and lower their unit costs. It is the only way to be consistently profitable.

I'm hopeful we can do that in the year ahead, for the benefit of our customers, employees and shareholders.

Board change

This year Manuel Lagares Gómez-Abascal joined the IAG Board, replacing Rodrigo de Rato y Figaredo who we would like to thank for his contribution.

Antonio Vázquez
Chairman

Chief Executive Officer's Q&A
Positioned for future growth

Willie Walsh answers some of the issues most on shareholders' minds at the moment. To find out more detailed information, follow the links through to the relevant pages of the report.

Q How has IAG played a leading role in the industry's consolidation process in 2012?

A We believe consolidation will help our industry solve some of its traditional problems. We created IAG to both facilitate and participate in the global consolidation of the industry. Following the initial merger between British Airways and Iberia, we're now pleased we've completed our first acquisition, with bmi joining the Group and being integrated into British Airways.

I think the unique structure of IAG gives us an important competitive advantage, leaving us free to provide oversight for our operating airlines and really explore how to extract as much value as possible in cost and revenue synergies. That's been one of the great successes again in 2012.

See page 16 for more information

Q What is your global strategy?

A Our simple vision is to be a multi-national, multi-brand organisation. The combination of British Airways and Iberia is just the start, not the full ambition of the organisation and we believe we can add additional brands. That's the thinking behind our proposed acquisition of Vueling, a low cost brand that, as a third independently-run operation within the Group, can successfully add to our performance and add value for our shareholders. So it's a very simple vision and we're determined to deliver on it. We've made a good start and I'm very optimistic we can continue to build on our progress to date in 2013.

See page 16 for more information

Q How have you delivered cost savings and generated revenue?

A The synergy performance in 2012 has again exceeded the targets that we set at the time of the merger and, indeed, during the year. Building on our success in 2011 and 2012 we've increased our five-year targets to demonstrate our increased ambition. So I think we're showing our investors and the industry that you can achieve real value if you create the right structure and have the right focus. We're very clear where cost synergies will come from, but we've had remarkable success in extracting higher-than-expected revenue synergies. That's very skilful work, and one of the most pleasing aspects of our 2012 performance.

See pages 20 and 24 for more information

Q Has the bmi acquisition been a catalyst for change at British Airways?

A I'm delighted with how the bmi acquisition has progressed. It's a great credit to the British Airways management team that they've been able to deliver all their own targets and have also quickly integrated bmi into their business. They are also turning bmi's financial performance around swiftly. So it's been a truly strong performance and we're going to build on that again in 2013.

The next task is to extract real value from the Heathrow slots we acquired with bmi, using them to rethink and expand British Airways' longhaul network and bolster shorthaul services. For instance we've started flying to Seoul and announced plans to fly to Chengdu in China's Sichuan province. It's great to be delivering on the promises we made at the time of the acquisition.

See page 21 for more information

Q How are you addressing the challenges at Iberia?

A Iberia performed badly in 2012. Its financial performance was unacceptable. We've made it clear the airline needs to be transformed and it's not a case of making simple changes. Iberia is suffering because of problems associated with the Spanish and Eurozone economies that are no fault of its own. But it's also suffering because of its own lack of competitiveness and it needs to be changed in a permanent and structural way. There's a lot of work to be done, but I believe we can do it. We've got a track record in terms of change within the industry and we clearly have the determination to do what's needed to transform Iberia.

See page 23 for more information

Q How has the current economic environment affected IAG?

A The global economy has been weak in 2012. There's been a lot of uncertainty – particularly in the Eurozone – and that uncertainty has dented general confidence, globally. Actually if you look at the figures for 2012, a number of economies performed better than expected and I see 2013 being slightly more positive. But the uncertainty has constrained business investment and when businesses aren't investing, they aren't travelling. So I hope we soon see truly co-ordinated and coherent action by governments to address the uncertainty, particularly in the Eurozone area.

See page 66 for more information

Q What makes your business model sustainable?

A We've got to be sustainable from both a financial and an environmental point of view. I think we're tackling the financial issues by restructuring Iberia, through the integration of bmi into British Airways and the proposed addition of Vueling into the group, which will add to our financial sustainability.

All the operating companies need to focus on environmental sustainability and I believe we've done great work in 2012, which we'll build on this year. I'm really excited about our joint venture with Solena set up to create a sustainable biojet fuel. We'll see a plant being built in London in 2013, with the first fuel coming through in 2014. I think this is one of the most significant environmental developments ever for the airline industry. I'm really excited to be a part of it.

See page 26 for more information

At a glance

We are one of the world's largest airline groups with 377 aircraft flying to 200 destinations and carrying more than 54 million passengers every year.

Our mission

IAG's mission is to win the customer through service and value, deliver higher returns to our shareholders, attract and develop the best people, provide a platform for future consolidation and retain the brands and cultures of the individual airlines which make up IAG.

Our synergies

We have made significant progress in delivering the first two years' synergies and the planning and commencement of the longer-term changes required across the Group to achieve our five-year target. During the year we raised our expected revenue and cost benefits value from €500 million to €560 million. By December 31, 2012 our synergy benefits were €313 million and implementation costs in the year were €25 million, resulting in Income statement benefits of €288 million compared to the target we set in late 2011 of €155 million.

See page 20 for more information

Our people

At IAG we recognise that our future depends on nurturing great individual talent and providing an exciting and dynamic environment where people can flourish personally and professionally. We embrace the unique talents, perspectives and backgrounds of our people and offer a challenging and rewarding environment in which all of our people can realise their full potential and contribute to the success of our company.

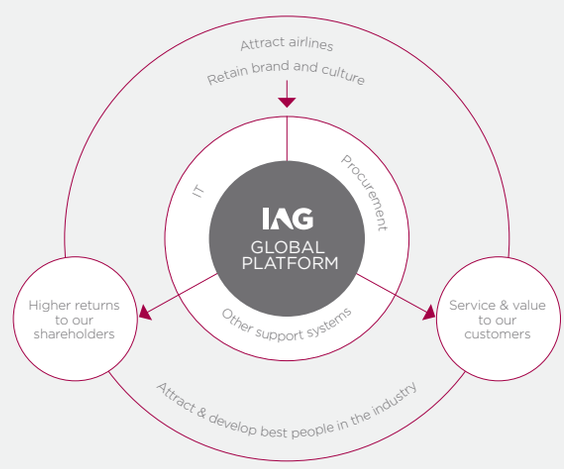
We are determined to attract and retain the most talented people who are highly motivated and proud to work for IAG. Our commitments to our people fundamentally drive our ability to achieve our aims and to generate higher long-term financial performance for our shareholders.

59,574

average manpower equivalent employees

Our business model and strategy

Our mission is supported by our six strategic aims: leadership in our main hubs; leadership across the Atlantic; stronger Europe-to-Asia position in critical markets; greater share of Europe-to-Africa routes; stronger intra-Europe profitability; and competitive cost positions across our businesses.



Providing the best service and value to customers

See page 16 for more information

To watch a video interview online go to
www.iairgroup.com

Our networks and hubs

Connecting passengers to the world through global hubs

IAG combines two of the leading airlines in the UK and Spain, enabling them to enhance their presence in the aviation market. The airlines' passengers and cargo customers benefit from a larger combined network.

IAG is able to build on the airlines' strengths and leadership in their respective markets – British Airways in North America and Iberia in Latin America – and jointly strengthen their position in Europe and Africa. The airlines have complementary networks and the merger enables IAG to improve the planning of future capacity by optimising the network across its two hub airports, London Heathrow and Madrid Barajas.

London Heathrow

London Heathrow airport is the busiest airport in the UK and the third busiest in the world in terms of total passenger traffic; it handles more international passengers than any other airport in the world. It meets the demands of over 1,300 flights and 191,000 passengers a day across its five terminals, the most recent of which is Terminal 5, the main base of British Airways. Due to capacity limitations at Terminal 5, certain flights operate from Terminal 3 and following the acquisition of bmi, from Terminal 1. The acquisition of bmi opened 20 new routes for British Airways and increased capacity on another eight existing routes.

Madrid Barajas

Madrid Barajas is the main international airport serving Madrid and Spain. Located within the city limits just 9 km from the city's financial district, Barajas is designed to handle 70 million passengers annually. Iberia operates out of Terminal 4, the newest terminal at the airport and one of the world's largest airport terminals. It consists of a main building and a satellite building which are approximately 2.5 km apart. Iberia operates out of both buildings and has extensive customer lounges in each facility.

London

37.5 million passengers carried in 2012, up 10 per cent from prior year

82
countries served

Madrid

17.14 million passengers carried in 2012, number one hub for Latin America

47
countries served

Broader benefits
Delivering benefits for our customers

Avios
Avios, IAG's shared reward currency, continued to grow and engender loyalty with its members in 2012. Awareness of the currency has increased throughout the year across our markets. There are now 5.87 million active members who have collected 93.6 billion Avios over the past 12 months, increasing our revenues from partners by eight per cent over 2011, despite a challenging economy. Members of the bmi Diamond Club have been successfully integrated into the programme and have converted destination miles into Avios. Our 'Combine My Avios' tool has enabled our members to move more than 9.6 billion Avios into the IAG programme of their choice.

Avios collectors continue to demonstrate loyalty towards the British Airways and Iberia brands. Redemptions on shorthaul flights have increased during 2012 as a result of the excellent value offered by our Reward Flight Saver product. Non-flight redemptions such as hotels and car hire, introduced for British Airways Executive Club members at the start of 2012, now account for more than 12 per cent of the Avios redeemed by our members. This has all combined to increase Executive Club members' customer satisfaction by 22 per cent when making Avios bookings on British Airways.

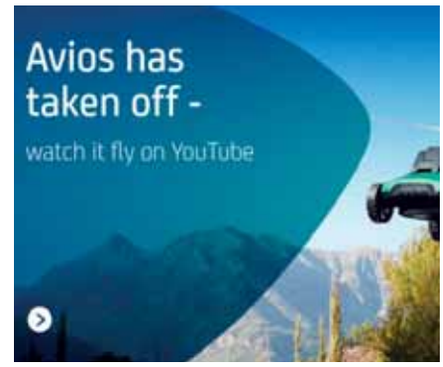
We have achieved credit card revenue growth with partners in the UK, North America and globally, and expanded the number of partners with whom our members can earn Avios internationally. We have also opened an office in Madrid and continue to explore options to expand into new markets to support our vision of becoming global leaders in travel rewards by 2020.

Cargo
The integration of British Airways World Cargo and Iberia Cargo under the IAG Cargo brand has been a key focus in 2012. IAG Cargo customers have benefited from an extensive and geographically diverse cargo network and a single set of aligned products, sold by a single sales team across the globe. In 2013, IAG Cargo will be developing an aligned set of booking and information channels to best meet the needs of different customer segments.

IAG Cargo's three new Boeing 747-8 Freighters continue to act as strong support for the extensive bellyhold network, delivering extra capacity and expanded route options for customers at an improved unit cost. Premium products have performed well over the year. For example, the volumes of Constant Climate, IAG Cargo's temperature controlled product, designed for the transportation of temperature-sensitive pharmaceutical material, has increased compared to last year.

IAG Cargo is the world's seventh largest international freight carrier, serving 350 destinations across

80
countries



The year of the 2012 Games

Home advantage

Anticipating the Games
As the London Olympic and Paralympic Games took off, a flame-coloured aircraft bringing the Olympic Flame touched down from Athens. The aircraft carried special guests HRH the Princess Royal, Lord Coe and David Beckham.

London became the stage for the world's best sporting talent. To show its support for Team GB and Paralympics GB British Airways launched a campaign, to support our athletes.

Continuing to highlight the importance of the home advantage, the airline displayed an image the size of 15 tennis courts, of Jessica Ennis, which was seen by thousands of passengers flying in to Heathrow.

And then it was Games time
British Airways, working with London's airports, helped to ensure a smooth arrival for 2,250 athletes and guests.

British Airways presented Park Live at the Olympic Park. Nearly three quarters of a million fans were able to watch the live action unfold on giant LED screens.

After 28 days of sensational sport, hundreds of thousands of people came out to line the streets of London at 'Our Heroes Parade'. Two British Airways pilots had the honour of flying 'Firefly' in a fly-past over the crowds. The aircraft soared over Buckingham Palace carrying the message 'Thank you' on its underbelly in tribute to the athletes and fans.

Games' effect
The London Games television campaign had a very positive effect with 92 per cent of the staff stating they felt proud to work for British Airways having seen the advertisement. Engagement with customers via social media also proved a success with more than six million people interacting with the advert by taking an aircraft down their own street. The highest awareness of the British Airways brand for five years was achieved as a result of the Games sponsorship and the campaign delivered a 30 per cent increase in people who were inclined to fly with British Airways and a 20 per cent increase in positive sentiment towards the brand.

A LEADING APPROACH

Maximising the benefits of synergies, while continuing to lead industry consolidation

Business review

Chief Executive Officer's review

Creating strong foundations for future growth

2012 has been a year of transformation, we bought bmi and integrated it into British Airways and initiated our restructuring of Iberia.

In our second year of operation we reported operating losses of €23 million on revenues of €18.1 billion, a solid result, given the extremely difficult economic conditions faced by our airlines and our industry. However, significant exceptional items, mainly provisions for restructuring and impairment costs in Iberia, resulted in an operating loss of €613 million.

Despite some significant challenges in the year ahead, the progress we've made to date has allowed us to lay strong foundations for future growth and we're confident that we remain firmly on track to achieve fully diluted earnings per share of €0.52c and operating profits of €1.6 billion by our 2015 target date.

Financial highlights

Revenue was up 10.9 per cent in the full year while our fuel bill rose by 20.4 per cent with non-fuel costs up 11.6 per cent.

At an operating level 2012 was a story of two airlines. British Airways had a good year, reporting operating profits of €347 million. With London remaining relatively insulated from the UK's lingering recession, British Airways saw strong growth in premium traffic. But Iberia saw its losses widen further to €351 million, hit by the continuing weakness of the Spanish economy and its own structural problems, which we are now tackling in earnest.

Despite this, the logic behind the creation of IAG was again strongly underlined during the year through our continuing success in extracting cost and revenue synergies from the combined business. As in 2011, we exceeded our targets, achieving a total of €313 million of cost savings and revenue improvements during the year. This figure, comfortably exceeding even our upgraded mid-year target of €270 million thanks to a strong last quarter, is extraordinary.

Achieving synergy cost savings is relatively easy. But it takes real expertise to extract revenue increases on this scale and, for me, that's one of the most pleasing aspects of the merger to date – not least because it reflects great work by IAG people and translates into real customer benefits. It also underlines the importance of having a much focused team at the top of IAG, free to step back from day-to-day operations and concentrate on strategic goals.

We'll need to invest in IT and maintenance to keep up the momentum in 2013, but we're confident of making further progress.

bmi integration

The integration of bmi into British Airways has gone extremely well. The British Airways management team has done a tremendous job, successfully bringing bmi on board as quickly as was reasonably possible while remaining absolutely focused on achieving British Airways' own targets. There's a lot more to do to turnaround bmi's financial position and the next task will be to realise the value of the 42 Heathrow slots that we gained through the acquisition.

These have given us a rare opportunity to rethink our Heathrow network strategy. The emergence of important new cities – which are powerful economies in their own right – requires new thinking on network development. In longhaul we are now targeting these cities, supported by efficient shorthaul feeder services to and from Europe's major locations.

So a third of the slots will be used to launch new longhaul services, mostly to Asia. We've already started flying direct to Seoul and will start serving Chengdu, in the Sichuan province of southwest China, later this year. The remainder will be used to re-enforce our shorthaul network, allowing us to serve new routes and to return to some important destinations, like Dublin and Belfast.

Vueling proposal

Our vision has always been to turn IAG into a multinational, multi-brand company. We've always said we might, one day, look to include a low cost carrier within our brand portfolio. In November we announced plans to buy the remaining 54 per cent stake in the Barcelona-based airline, Vueling, we do not already own.

If approved, Vueling will come under the IAG umbrella as a third stand-alone operation, alongside BA and Iberia. This is an exciting opportunity for us. Vueling has a strong management team that has managed to achieve rapid, profitable growth. Operating independently within IAG they can continue, undistracted, targeting a market segment with far greater growth potential than our traditional network business.

A more rational industry

Consolidation in our industry is taking many forms and it's our goal to participate fully in all of them.

Joint businesses and alliances remain the most common types. Foreign ownership controls restrict international mergers and many airlines simply aren't ready to pursue cross-border deals. Although a good form of co-operation, joint businesses do not offer the same scope to extract synergies as full mergers and I'm convinced that over time we will see genuine global M&A activity in our industry. We want to be ready.

We are seeing some important regional mergers, not least in the US where the proposed merger between American Airlines and US Airways promises to be an exciting one for us, given our thriving Joint Business with American Airlines on North Atlantic routes. South America also remains a hive of activity, as the creation of LATAM this year shows.

Airline failures are also a form of consolidation and here we are seeing an important sea change. IATA figures show the number of new airlines being created has fallen sharply since the late '90s, from about 120 a year to about 20 in 2012. Many carriers formed in headier days have failed and barriers to entry have got higher for start-ups. Capital is in shorter supply and more expensive, investors are more wary and consistently high oil prices are another hurdle. Our own fuel bill has risen by around €1 billion in each of the last two years. Coping with higher prices is a challenge in the short-term, but one that we've shown we can handle. But it is also having a benefit. It's making our industry more rational.

Transforming Iberia

It's in the context of these fundamental industry changes that we are tackling the challenges at Iberia. The airline simply cannot afford to continue losing cash at the current rate of €1.9 million a day. It needs to adjust its cost base in a permanent and structural way – it needs to be transformed.

The creation of Iberia Express this year proves this can be done. Getting a new airline flying to the highest industry standards, and profitable within its first three months, has been a fantastic achievement.

The challenges for Iberia, in many ways mirror those confronting Spain – a great country facing huge problems, some outside its control and some that relate to deep-rooted challenges of its own. Both need radical reform to realise their full potential.

The Iberia restructuring plan will involve an immediate 15 per cent cut in capacity. Regrettably that will mean the loss of 3,807 jobs, which we are seeking to negotiate with unions. We also need new conditions and salaries so that Iberia can compete with low cost carriers at home and with Latin American airlines on Iberia's most profitable international routes.

The plan will transform Iberia into an efficient and competitive carrier making proper returns that will, in turn, allow us to invest for future growth.

Environment

British Airways and Iberia have always had a strong commitment to corporate responsibility and both are very progressive when it comes to environmental performance.

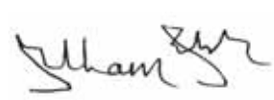
Our partnership with Solena to create a new biojet fuel is progressing well. A production plant will be built this year, with the first fuel produced in 2014. This really is one of the most significant developments for our industry of recent years. New aircraft soon entering service with us will also help us achieve financial and environmental sustainability, reducing emissions and our fuel bill.

Outlook

We're quietly optimistic that 2013 will see a return of confidence across much of the global economy, not least in Asia, and that 2014 will be better again. We think there's good reason to be confident.

But the year ahead will be one of consolidation for IAG. Our priorities will be to complete the bmi integration, to transform Iberia and, hopefully, to complete the Vueling acquisition. We do not envisage any other major strategic initiatives. It will be a case of building on what we've achieved in 2012.

That we've achieved so much, so far, is down to the superb work of people right across IAG. I'm very grateful for their support, energy and dedication.



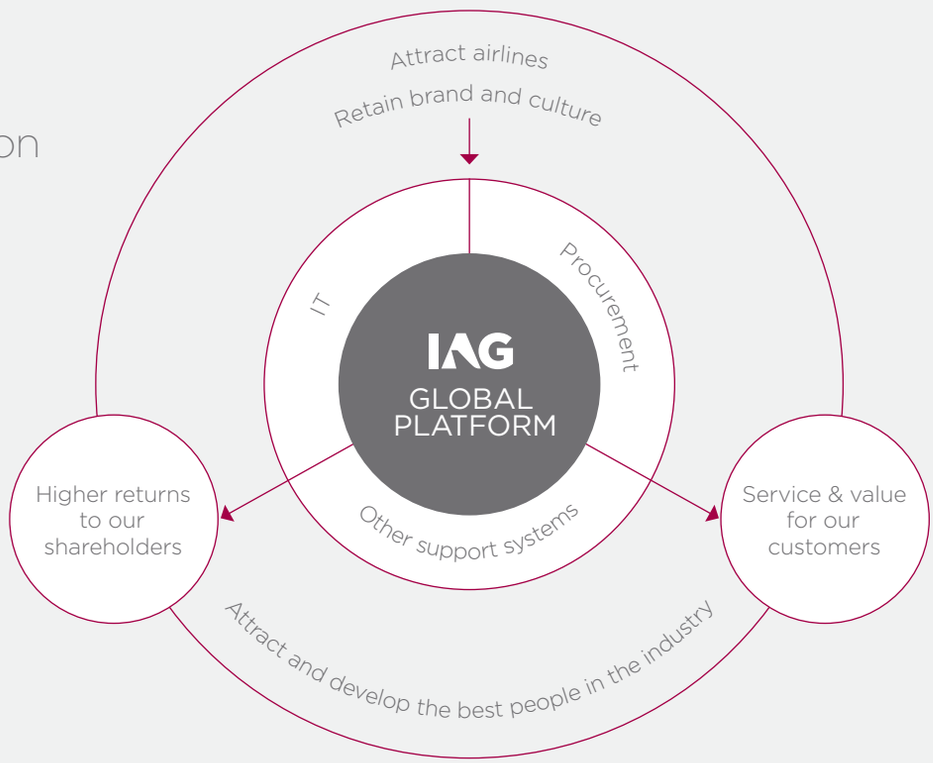
Willie Walsh
Chief Executive Officer

Business model and strategy
Creating value for our stakeholders

Mission

To be the leading international airlines group in future industry consolidation on a regional and a global scale.

Business model



The airline industry is consolidating rapidly due to:

- Cost pressures, such as high oil price, driving airlines to search for greater economies of scale
- Marked reduction in access to cheap sources of capital
- Continued privatisation
- Gradually eroding regulatory hurdles
- Increased potential for partnerships between airlines, such as alliance membership and the establishment of joint businesses

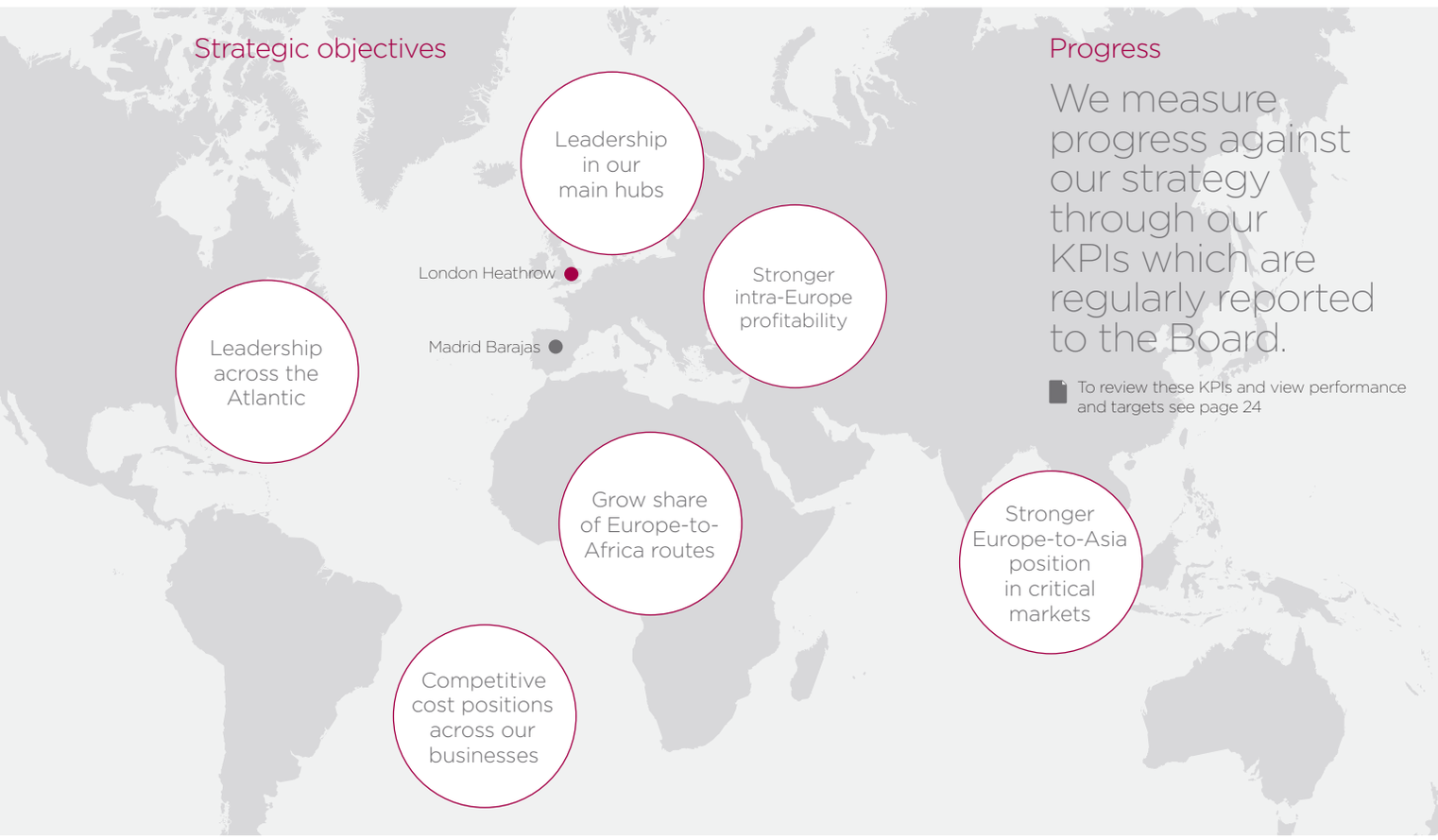
Airline consolidation has the potential to bring the following advantages to airline shareholders and customers:

- Reduced exposure to single-region risk
- Elimination of excess capacity, and the ability to adjust capacity to meet changing demand
- Ability to streamline costs
- A wider choice of product for customers
- More integrated and higher quality customer experience (e.g. lounges and customer loyalty programmes)

IAG is designed to lead the consolidation in the industry but also to create optimal value for shareholders and customers in this changing environment:

- Central team focused on driving revenue and cost synergies between the operating companies
- Simple structure to enable other airlines to plug into
- Dedicated management of core airlines
- Direct management of areas of business which benefit strongly from scale effects, such as cargo and customer loyalty programmes
- A platform for further entities to join the Group with minimal integration cost

Leading the way through our strategic objectives



Progress

We measure progress against our strategy through our KPIs which are regularly reported to the Board.

To review these KPIs and view performance and targets see page 24

IAG's operating strategy is to retain the core assets of brands and products in each of its operating airlines, thereby benefiting from the significant customer loyalty that each one enjoys. The integration of bmi into British Airways was an exception to this approach, but Management believed the scale benefits of operating one airline at London Heathrow outweighed the value of retaining the bmi brand.

Against an industry environment of rapid consolidation IAG has a disciplined approach to evaluating future opportunities and will only act if it is in the interest of its shareholders. This disciplined approach is reflected in IAG's six core strategic objectives which are described below.

Leadership in IAG's main hubs

IAG's operating companies have leading positions in two key markets. British Airways is the leading airline at its main hub, London Heathrow Airport, the third largest airport based on total passengers and the largest airport worldwide based on total international passengers served. London is home to five of the 10 largest longhaul markets worldwide and six of the ten largest markets between Europe and North America. Iberia, in turn, is the leading airline in Madrid Barajas Airport, the 19th largest airport based on total passengers and the 10th largest based on international passengers. Madrid is a key gateway from Europe to Latin America. Of the ten largest markets between Europe and Latin America, six reach Madrid with one other reaching London.

In London, the acquisition of bmi helped to strengthen British Airways' position and expand its network. The Management team has worked to quickly integrate bmi and by the end of 2012, all 25 aircraft and 1,400 employees were transferred to British Airways. The acquisition added 20 new destinations as well as new connecting opportunities from those cities to the rest of the British Airways network.

Business model & strategy continued

In Spain, Iberia Express was successfully launched and grown to 14 aircraft, serving 18 domestic and European destinations in winter 2012. The operation is already driving significant cost reductions, improved productivity and increased efficiency. The current on-going negotiations related to the restructuring of Iberia's mainline operations demonstrate IAG's firm commitment to ensuring that Iberia's role as a major network carrier and its leading position in Madrid are secured for the future.

Leadership across the Atlantic
The Joint Business between British Airways, Iberia and American Airlines has continued to thrive in 2012. Between 2010 and 2012, total revenue in the Joint Business grew 23 per cent on an 11 per cent increase in capacity and a 10 per cent increase in unit revenue. This led to a 1.6 per cent market share increase in premium traffic and 1.0 per cent increase in non-premium traffic. In 2012, the Joint Business accounted for 21 per cent of seat capacity between Europe and North America, and 48 per cent of capacity between the United Kingdom and Spain to North America. IAG's partner, American Airlines, has made significant progress in its restructuring, and IAG welcomes the steps that its partner is taking to strengthen its position. Beyond this, British Airways signed an extensive codeshare deal with Westjet to improve its network in Canada.

While the Iberia transformation plan includes longhaul capacity reduction, Iberia will strive to retain its leading market position to Latin America. Capacity reductions are primarily related to destinations in non-strategic leisure destinations, allowing Iberia to focus on core business markets. Despite pulling back from certain markets that were added in 2011, Iberia in 2012 retained a number one market share position in each of the top five Spanish speaking economies in Latin America, with the exception of Colombia where Iberia holds the number two position. IAG is the largest airline group flying to Latin America, with a market share exceeding 25 per cent.

Stronger Europe-to-Asia position in critical markets
In 2012, IAG improved its presence in Asia primarily by strengthening existing relationships and forging new partnerships, along with moderate capacity growth. British Airways announced a Joint Business with JAL, bringing together two major international longhaul airlines and linking the UK more strongly to the world's third largest economy. British Airways also re-launched operations to Seoul and announced a new route to Chengdu in mainland China to be launched in 2013. British Airways and Qantas will terminate their Joint Business on March 31, 2013, while retaining a codeshare relationship. British Airways is also in discussion on potential partnerships to strengthen connectivity throughout Asia and support Australian routes.

It was also a strong year for **one**world in Asia, with Qatar Airways and SriLankan Airlines accepting invitations to join the global alliance. Qatar Airways, the fast-growing Middle Eastern carrier with particular strength in India and Asia, is expected to become a full alliance member in late 2013. In addition, Malaysia Airlines officially joined the alliance in early 2013 after having accepted an invitation in 2011. These three airlines will significantly increase the ability of IAG to provide a broad Asian offering to its customers.

Grow share of Europe-to-Africa routes
IAG remained focused in 2012 on growing its presence in Africa. While the total market capacity between Europe and Africa declined by 1 per cent in 2012, IAG grew its capacity by over 5 per cent. This was primarily due to the acquisition of bmi, which served seven new destinations in Africa. In addition, British Airways added seats in its core African markets, driven by strong demand from both the United Kingdom and North America. Iberia's capacity declined in 2012 driven by the exit of Johannesburg following significant losses over an extended period. This was offset by the addition of new services to Accra and Luanda and increasing capacity to existing destinations in Northern Africa. Although Iberia's capacity to the region declined when measured in ASKs, the number of seats increased as capacity was deployed to African destinations closer to Madrid.

Stronger intra-Europe profitability
Iberia Express was launched in 2012 to provide a sustainable shorthaul business model that could effectively compete with low cost competitors. Iberia Express has been able to achieve costs that are significantly lower than Iberia mainline operations. The Iberia transformation plan is intended to reduce this cost gap and focus shorthaul flying in key point-to-point markets from Madrid and core markets for connecting traffic to Latin America. This, together with the creation of Iberia Express, will converge to create a Spanish-based airline which is able to make a positive return on its shorthaul flying.

In London, the transformation of British Airways' cost structure at Gatwick has continued with productivity improvements and the outsourcing of ramp handling activities. Coupled to this has been the start of the roll-out of a new commercial model designed to better compete with low cost carriers. While Gatwick is London's second largest airport in terms of total passengers, it is similar in size to Heathrow when comparing total number of shorthaul point-to-point passengers. In 2013, British Airways will begin to replace its Gatwick shorthaul fleet with more efficient aircraft which will further reduce costs, improve dispatch reliability and open new markets.

In November 2012, Veloz Holdco, a Spanish subsidiary of IAG, launched a cash tender offer for the shares of Barcelona-based low cost carrier Vueling Airlines not already owned by Iberia, representing 54.15 per cent of the share capital of the company. The acquisition, if successful, would provide IAG with a low cost platform to grow intra-Europe capacity outside Madrid and London while providing geographic diversification through Vueling's leading position in Barcelona, the fourth largest origin and destination market in Europe.

Competitive cost positions across our businesses

The creation of Iberia Express and the Iberia transformation plan are intended to bring Iberia's costs closer to those of its key competitors, both in Europe and in Latin America. These changes will coincide with the start of the Airbus A330 deliveries in 2013 which will help improve Iberia's longhaul unit cost structure.

In addition to restructuring its Gatwick operations in 2012, British Airways remains focused on continuous cost improvements. Key areas include further cost efficiencies from the bmi integration, the on-going benefit of mixed-fleet cabin crews, a 10 per cent targeted reduction in overhead spend, and productivity improvements across the organisation. In addition, British Airways is planning to take delivery of Boeing 787 and Airbus A380 aircraft in 2013, leading to lower longhaul unit costs.

The synergy programme led by IAG continues to drive significant cost reductions at both British Airways and Iberia. IAG delivered €104 million in cost synergies in 2012, up from €31 million in 2011. Based on current forecasts, cost synergies should double in size over the next two years. This will be achieved through improved supplier management programmes and further efficiencies within maintenance and global business services functions, amongst other initiatives.

IAG is currently studying a widebody aircraft order as part of a longhaul fleet renewal programme for the operating companies. This should lead to future cost savings as more fuel efficient aircraft are introduced into the fleet.

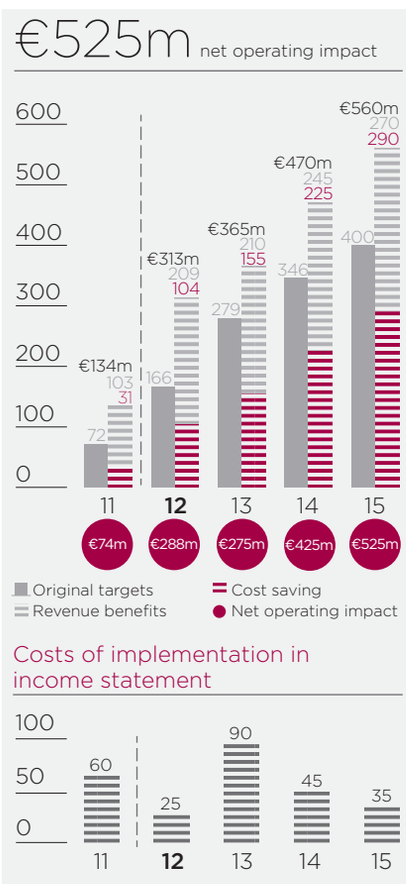
Asks up
2.8%

Our synergies
Creating value for our stakeholders

The IAG synergy programme has continued to deliver financial benefits to the Group. We have raised our five-year target to €560 million, from the €500 million last year and the €400 million estimated at the time of the merger.

Key areas we have addressed over the first two years include:

Passenger revenue
- In 2012 over two million passengers used the flexibility of our 36 codeshares, fare combinability and cross-selling between British Airways and Iberia selling channels that cover most longhaul destinations in the Americas, Africa, the Middle East and South Asia;



- Fare combinability means customers can use the services of both carriers to gain more schedule choice and flexibility for their travel plans, while strengthening both brands; this year the opportunity has been exploited further by rolling out more products and segments;
- British Airways and Iberia have integrated commercial teams in 17 countries offering customers one point of contact for the combined network and products; two-thirds of IAG revenues come from joint markets;
- Structural alignment of booking fees, credit card fees, paid-for seating and upgrade propositions is driving commercial benefits; and
- British Airways' marketing campaigns in the UK and Iberia's campaigns in Spain have included both airlines' routes to take advantage of the home carrier's brand presence.

For information on our synergies in frequent flyer schemes and our cargo services, see page 10.

Maintenance
Savings have been achieved through:
- Joint purchasing with engineering suppliers;
- Insourcing of engine work;
- Sharing of service bulletins;
- Benchmarking engineering departments against each other, and against external companies; and
- Iberia maintenance painting seven bmi aircraft that were unable to be accommodated in British Airways' paint shops.

Resource optimisation
- Significant progress within the Global Business Services project primarily within finance and accounting;
- Tactical reductions in the finance functions of both organisations;
- Alignment of contracts within Communications, Chief of Staff (Corporate Governance) and other back-office functions;
- Airport co-location including Iberia moving into London Heathrow Terminal 5; and
- Headcount reductions as a result of joint operations.

Procurement
- Purchasing discounts on insurance contracts, including aircraft;
- Joint tendering for office space, ground handling, ticket desk, outsourced lounges and uniform contracts;
- Alignment of fuel supply contracts at multiple overlapping stations; and
- Volume benefits on catering contracts at the Heathrow and Barajas hubs.

Information technology
- Alignment of service providers across the Group including server maintenance;
- Reduction in Group manpower with best practice being implemented and resources being utilised on Group projects;
- Reduction of charges with common suppliers primarily on software contracts; and
- Group IT projects underway, avoiding duplication of effort and resources by both companies.

bmi case study

Unlocking value

In 2012, IAG completed a strategically significant acquisition of bmi from Lufthansa. The sale was completed in April and throughout the remainder of the year the bmi mainline operation was successfully integrated into British Airways, bmi Regional was sold and bmibaby was closed.

The rationale

The bmi mainline operation is integral to the long-term success of British Airways. With Heathrow capacity constrained, the European Commission's approval for the bmi acquisition provided 42 new operating slots at Heathrow, complemented by 25 narrow body Airbus aircraft and a highly skilled operational workforce. The deal expands British Airways' network with 20 new destinations and improved connections and frequencies for customers.

Over time, the acquisition will enable growth in British Airways' longhaul operation to increasingly important Asian markets, such as Seoul which was launched in December 2012, and to grow market share into Africa. It increases IAG's share of slots at Heathrow from 43 per cent to over 50 per cent. It is anticipated that by 2015 the integrated bmi operation will add €100 million to operating profit.

Integration

The rapid completion of this complex integration has been achieved with minimal impact on the customer and has enabled British Airways to reduce existing bmi operating losses more quickly than originally anticipated.

It was always the intention to integrate the operation first and then optimise. The clarity of this vision was a key reason for its success. The bmi colleagues understood that there was not an independent future for bmi and British Airways understood the need to stop the cash losses quickly, while retaining the skills and heritage of a British airline with 70 years of history in aviation.

Operationally, approximately 1,400 bmi staff have successfully transferred into the British Airways team. Winter 2012 saw the first integrated network. A British Airways operation in Heathrow Terminal 1 has been successfully established, although the medium-term objective is to relocate into two terminals at Heathrow. The former bmi aircraft being retained through 2013 have been repainted into British Airways branding and have been given a cabin refurbishment.

Benefits

Absorbing all the head office overheads has created future annual cost savings of over €100 million. The new starter rates agreed with the pilots and changes to working practices agreed with ground staff in Terminal 1 will provide long-term benefits.

2013 will see further optimisation of the combined network, the opportunity to increase growth, further revenue synergies and ultimately enhanced returns.

British Airways' transformation

Supporting British Airways' journey to £1.1 billion

Overview

The British Airways business plan sets out a journey to achieving £1.1 billion of operating profit by 2015 based on:

a) Delivery of the remainder of the merger synergies;

b) Initiatives to further transform the revenue and cost base; and

c) Growth.

Joint business and synergies

For over two years American Airlines, British Airways and Iberia have operated a Joint Business between North America and Europe. This has delivered enhanced market share and increased the customer base to which British Airways flights can be sold. Further benefits will be delivered as the relationship grows. In October 2012 British Airways launched another Joint Business venture with the Japanese airline, JAL. There are further opportunities from the merger with Iberia, including further cargo revenue synergies and exploiting the frequent flyer programme now that IAG has a common currency in Avios.

Customer benefits

British Airways has invested in technology to better understand the needs of its customers through a single customer data warehouse; this enables products and services to be better tailored to customers' needs, including targeted marketing campaigns throughout the year. British Airways is implementing a new demand forecast application within its revenue management system; this will enable further targeting of higher margin business opportunities.

Shorthaul

During 2012 a number of changes were implemented at Gatwick, including the outsourcing of part of the ground handling operation and a transformed customer check-in area, including automated baggage tags. The acquisition of bmi brings scope for synergies in the Heathrow shorthaul business. On the revenue side British Airways is focusing on initiatives to enhance volumes in non-peak periods and to exploit yield opportunities brought about by the strength of its products, brand and frequent flyer base.

bmi transformation

2012 saw the successful acquisition of bmi and the integration of bmi's shorthaul business at Heathrow into British Airways. The integration has beaten its targets and provides scope for delivery of cost savings and optimisation of the business, including the use of British Airways' existing back-office systems and processes, with scope for further savings once the new terminal infrastructure comes into service at Heathrow in 2014. The business is expected to be transformed from on-going operating losses of £200 million pre-acquisition to break even by the second half of 2013.

Fuel savings

In the three years 2013 to 2015 British Airways is planning to take delivery of 27 new longhaul aircraft, including the Airbus A380 and the Boeing 787 Dreamliner. These aircraft are significantly more fuel-efficient than those which they replace, enabling savings in both fuel consumption and cost.

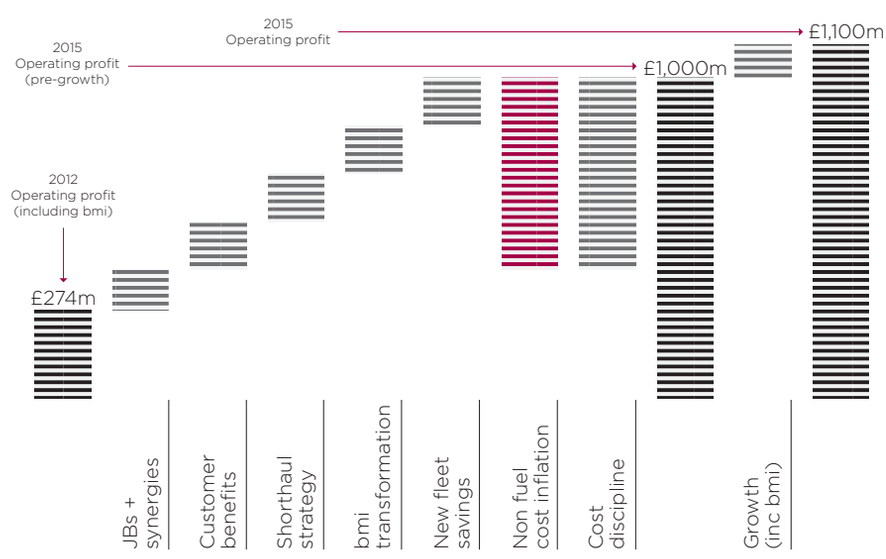
Cost discipline

In recent years British Airways has made structural changes to its people costs in all key areas of the business; the benefits of these changes increase over time, for example the new mixed fleet cabin crew arrangements. Further cost synergies will come from the IAG Group arrangements, both in supplier costs and from back-office systems and processes supporting the IAG operating companies; British Airways has targeted a 10 per cent reduction in overhead costs through a combination of delivery of existing programmes and further structural change.

Growth

The new aircraft deliveries and the increased size of the British Airways business at Heathrow give flexibility for growth, which will be targeted to profitable growth markets, including the North Atlantic and Asia. During 2012 British Airways resumed flights to Seoul, South Korea and announced a new route to Chengdu in China.

British Airways transformation plan



Iberia transformation plan
Transformation for the future

This year IAG moved forward in addressing Iberia's critical financial performance and announced plans to restructure the airline so that it can grow profitably in the future.

Iberia's financial situation is no longer sustainable with record operating losses of €351 million in 2012. The airline's cash burn was €1.9 million per day in 2012. Iberia needs urgent restructuring. The Spanish and European economic crisis has affected the company, but it lacks competitiveness. Iberia has to modernise and adapt to the new competitive environment as its legacy cost base is significantly higher than those of its main competitors in Spain, Europe and Latin America.

In order to address these issues, in November 2012, IAG announced a comprehensive plan to restructure Iberia and return it to profitability. The aim of the Iberia transformation plan is to introduce permanent structural change across all areas of the airline to stem financial losses and enable it to grow profitably in the future.

After failure to reach agreement on the November proposals by January 31, 2013 we have pressed ahead with the November announced capacity reductions of 15 per cent for 2013. In addition, we have commenced complementary plans to return Iberia to break-even, in terms of operating cash flow, by the second half of 2013 and restore Iberia to an acceptable level of profitability by 2015.

In practical terms this initially invokes reducing network capacity by 15 per cent in 2013, suspending loss making routes and frequencies and ensuring there is effective feed for profitable longhaul flights. In addition, Iberia's fleet will be downsized by 25 aircraft – five longhaul and 20 shorthaul and there will be a reduction of 3,807 jobs.

The objective of the plan is to transform Iberia's short and medium haul operation to compete effectively with low cost carriers who have successfully established themselves in Iberia's home market. The plan requires permanent salary adjustments to achieve a competitive and flexible cost base.

In addition, there are new commercial initiatives to boost unit revenues including increasing ancillary sales and website redesign. The plan also involves discontinuing non-profitable third party maintenance and ground handling services outside Madrid. All funding for the transformation plan will be from Iberia's internal resources.

IAG remains confident that a restructured Iberia will have an important future and can grow profitably. It has many advantages including an excellent geographical position to serve Latin America, along with historical ties, a strong brand and the ability to grow long term at its Madrid hub. IAG wants Iberia to be successful and the transformation plan remains critical for Iberia and Spain. A restructured Iberia could create jobs and boost tourism, a key driver in Spain's economic recovery.

Key performance indicators

IAG has continued to use clear and objective financial targets across the operating companies to support the delivery of our long-term goals. Non-financial Key Performance Indicators (KPIs) are not used to measure performance by the IAG holding company, although both operating companies have strong internal non-financial KPIs that are monitored monthly by the executive teams and Boards of the operating companies.

Our financial KPIs are linked to the remuneration reward of the Management Team. The 2012 financial element of the annual incentive plan was based on achieving a target operating profit of the Group. Synergies targets were incorporated in the personal element of the incentive award. For the longer-term performance share plan, Earning Per Share (EPS) is 50 per cent of the potential reward whilst Total Shareholder Return accounts for the other 50 per cent. See pages 49 to 63.

The KPI targets we have set are based on what we aim to achieve by the end of the first five years post-merger. This reflects our focus on the five-year merger synergies programme and the delivery of stretching returns in light of the economic environment in which we operate. During 2012 we reconfirmed our targets through our annual business plan,

Financial targets

Earnings Per Share and Return on Capital Employed (RoCE)
We have continued to use EPS and RoCE as our key financial targets as they encompass the core elements of value creation for our shareholders. We also use financial operating targets across the Group companies such as operating profit before depreciation, amortisation and rental charges (EBITDAR) and operating profit.

In addition, these targets are disaggregated internally to give a coherent set of local targets to all parts of the business: these are cost-related (including cost of capital) as well as revenue-related and product-related (e.g. density of seating on aircraft, utilisation of aircraft, and load factor).

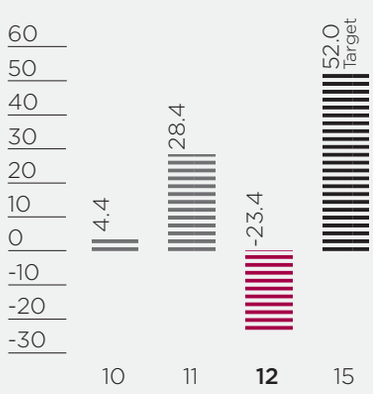
These lower-level targets are used by management and the Board to benchmark the performance of IAG Group companies against their peers, as well as develop and calibrate profit improvement programmes.

EPS (€cents)

Measure Earnings are based on profit before exceptional items, after tax, adjusted for earnings attributable to equity holders for interest on the 5.8 per cent convertible bond. Shares are based on the weighted average number of ordinary shares adjusted for assumed conversion of the bond and the dilutive impact of employee share-based payments outstanding.

Performance By the end of 2012, IAG fully diluted EPS based on combined earnings before exceptional items was negative €23.4 cents.

Target Our 2015 fully diluted EPS target is 52.0 €cents.

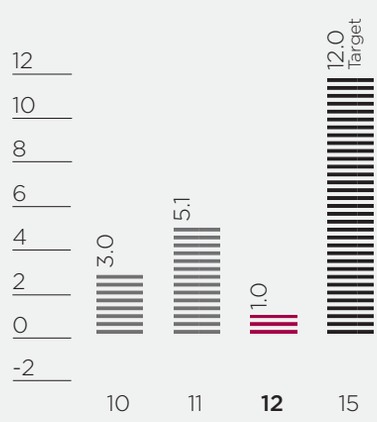


RoCE (%)

Measure RoCE is based on operating profit before exceptional items, adjusted for aircraft leases, multiplied by 1 minus the Group standard tax rate, divided by tangible fixed assets on and off balance sheet plus working capital – excluding cash and cash equivalents, interest-bearing deposits and any current portion of long-term interest-bearing debt.

Performance By the end of 2012, IAG achieved a RoCE of 1.0 per cent, down from 5.1 per cent in 2011.

Target Our 2015 RoCE target is 12.0 per cent.

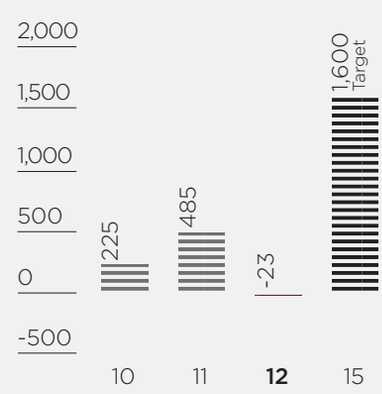


Operating result (€m)

Measure Operating profit is based on Group operating profit before exceptional items.

Performance By the end of 2012, IAG achieved a combined operating loss of €23 million, which is a deterioration of €508 million on 2011.

Target Our 2015 target is to achieve an operating profit before exceptional items of €1,600 million.



raising the operating profit target due to the acquisition of bmi. In addition, during the year we reviewed the Iberia business model in detail and have commenced a transformational programme to return it to a viable profitable business that will support the 2015 Group targets. This Group business plan is based on a number of assumptions relevant for the industry, such as economic growth in our key markets, fuel price and exchange rates. The targets are therefore subject to risk that may impact the business plan assumptions. A full list of risks to our business is set out on pages 78 to 81.

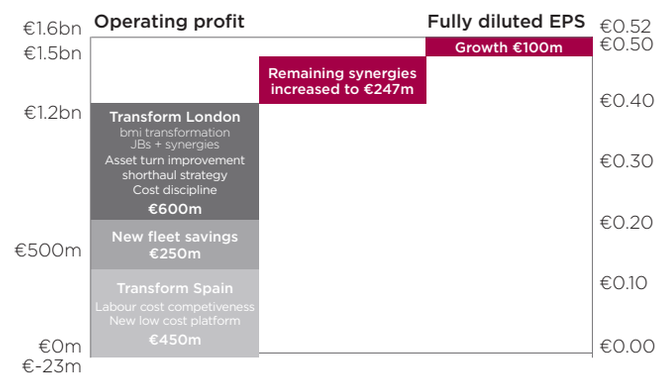
As expected, our operating result for the year has deteriorated from 2011 mostly as a consequence of higher year-over-year fuel prices, though structural issues at Iberia have been further highlighted by the weak Spanish and Eurozone economic performance throughout 2012.

The chart below shows our long-term 2015 target of achieving €0.52 per fully diluted share, which we believe will be achieved by delivering an operating profit of €1.6 billion. This has increased by €100 million from last year as a reflection of the additional value of bmi to the target by 2015.

The results for 2012 worsened from 2011 as a result of the post bmi acquisition losses and integration costs, deteriorating underlying performance at Iberia and the adverse impact of sustained high fuel prices throughout the year. We are confident that we remain firmly on track to deliver our 2015 financial targets as set out above.

Synergies

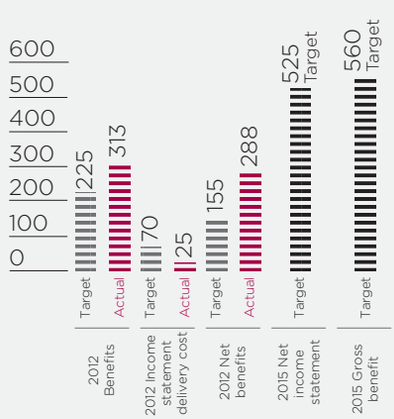
We have set a financial target related to delivering the synergy benefits of merging British Airways and Iberia together under IAG. In 2010 we announced our annual synergy benefits target of €400 million by 2015, and we raised this to €500 million during 2011. We have performed ahead of target in 2012 and have raised our target to €560 million, split across revenue and cost benefits. The ongoing costs to generate these synergies are expected to be €35 million in 2015.



Synergies (€m)

Measure Our net synergy benefit recognises the contributions from revenue and cost benefit work streams, after deducting the current implementation costs incurred to deliver these benefits.

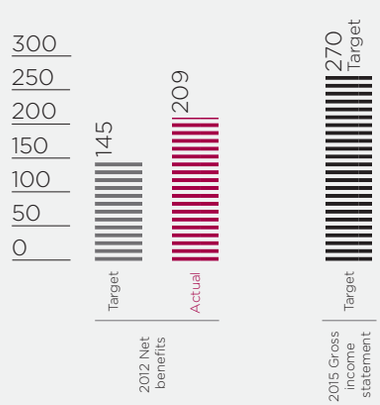
Performance By the end of 2012, we have achieved benefits of €313 million against a target of €225 million; our costs of delivery were €25 million versus a target of €70 million, for a net benefit of €288 million against a target of €155 million set in late 2011. Most of the improvements were related to passenger revenue synergies.



Revenue synergies (€m)

Measure Revenue synergies comprise three work-streams focused on: improved network offering to our passenger and cargo customers, and the launch of Avios, our new single loyalty reward currency.

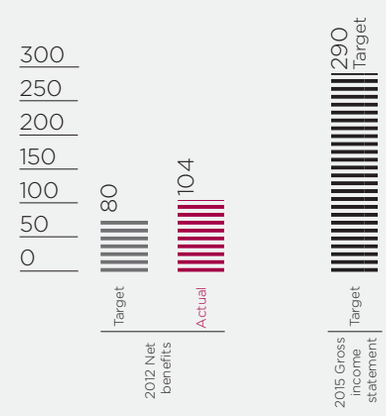
Performance By the end of 2012, we have achieved €209 million of synergies against a target of €145 million.



Cost synergies (€m)

Measure Cost synergies are focused on five core work-streams: procurement, information technology, back-office functions such as finance; engineering and maintenance; and fleet.

Performance By the end of 2012, we have achieved €104 million of cost synergies against a target of €80 million.



Corporate responsibility
Managing our business in a responsible way

IAG's Corporate Responsibility aim is to lead the airline industry in promoting a responsible approach to air travel. IAG's two airlines have differing histories, but both brought with them high standards of Corporate Responsibility.

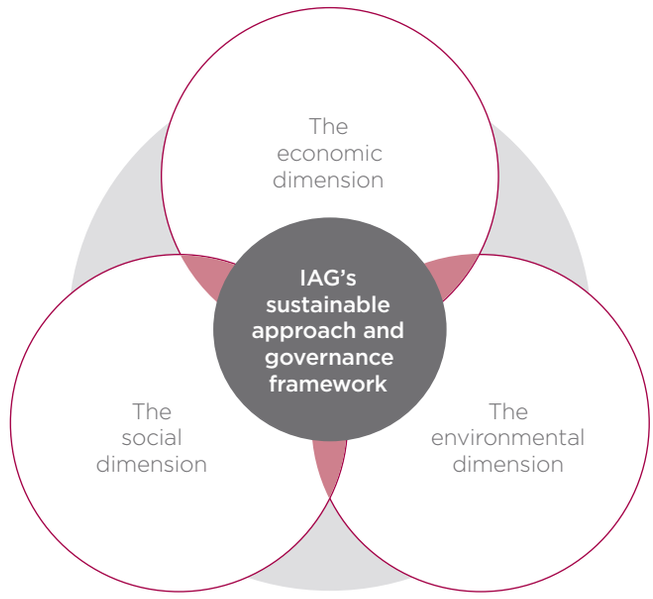
The CEOs of British Airways and Iberia oversee Corporate Responsibility initiatives and take a hands-on approach to making sure it is a part of the day-to-day business. Both airlines report annually on their performance and publish detailed information on Corporate Responsibility on their respective websites throughout the year.

The British Airways and Iberia programmes, One Destination and *'Comprometidos'* (Committed), aim to:

- Manage and minimise the environmental impact of their operations and take a leading role in tackling climate change;
- Support communities, projects, charities and individuals in the areas they work in and fly to; and
- Engage with all stakeholders, including customers and suppliers, to make air travel more sustainable.

One Destination is driven by the British Airways' objective to set the standard for responsible aviation and is a core part of the business strategy. The programme is managed by the environment team and overseen by the British Airways leadership team, led by the CEO, Keith Williams. A senior Non-Executive Director, Gavin Patterson, also chairs a dedicated Corporate Responsibility Board.

'Comprometidos' provides a similar programme to that of One Destination within British Airways. Iberia's approach to Corporate Responsibility relies on stakeholder engagement, and to this end groups that rely on, or have an influence on the airline's operation, are carefully ranked by *'Comprometidos'* according to their importance.



The Economic dimension

IAG is a significant contributor to global economic development, providing connectivity for 54.6 million customers and 6,080 million tonnes of cargo. In 2012, total revenues were €18,117 million and we employed 59,574 staff (average manpower equivalent).

The IAG strategy is to add value through consolidation, increasing industry stability, as well as improving product choice and service for our customers.

As an airline group, IAG is exposed to economic risks linked to its business. Enterprise Risk Management structures and processes are drawn up at both strategic and operational levels, and linked directly to the issues that affect air travel.

IAG optimises operating performance through improved fleet management and assignment, flight scheduling and aircraft and route utilisation.

The environmental dimension

Climate change

IAG recognises that climate change is the most urgent sustainability challenge facing our industry, and we have comprehensive programmes in place to ensure our business will grow responsibly, while meeting targets to reduce our net greenhouse gas emissions.

We focus intensively on improving the carbon efficiency of our operations, and are leading the industry in the development of new low carbon fuels. As these initiatives alone are insufficient to achieve the reduction in emissions that is necessary. IAG supports global carbon pricing through an appropriately designed emissions trading system.

We support global regulation of aviation emissions through multilateral agreement at the International Civil Aviation Organisation (ICAO). We call on governments to introduce a cap on growth in net aviation emissions from 2020 and to establish a carbon market mechanism that will enable a 50 per cent reduction in carbon emissions by 2050, relative to 2005. These targets have been proposed by the entire aviation industry and we are working with IATA to propose practical mechanisms that will meet these objectives.

The European Union's Emission Trading System is expected to be temporarily amended for 2012 compliance to cover only flights within Europe. IAG welcomes this proposal since it would remove the risks of retaliation and competitor non-compliance. The proposal offers a window of opportunity for governments to make progress towards a global agreement for aviation emissions.

Both airlines have strengthened customer engagement on climate change. Iberia has continued to develop its carbon-offsetting programme, which offers customers a comprehensive tool to calculate the carbon footprint of their journey, giving them the possibility to donate to climate change mitigation projects. In 2012 British Airways launched the first project funded by its One Destination Carbon Fund. The fund offers customers the opportunity to donate towards low-carbon community initiatives when booking online.

During 2012, IAG consolidated its carbon reporting and for the first time reported to the Carbon Disclosure Project as a unified group. The IAG carbon footprint for 2012 was 23.2MtCO_2.

Fuel efficiency

IAG has continued to improve coordination between the fuel efficiency programmes of the operating companies. British Airways and Iberia are taking steps to improve fuel efficiency through initiatives including investment in new aircraft, introducing more efficient ways to operate on the ground and in the air, and reducing weight onboard aircraft. In 2012, the IAG combined carbon efficiency, expressed in grams of CO_2 per passenger kilometer (gCO_2/pkm), is approximately 101.2 gCO_2/pkm.

Both British Airways and Iberia will take delivery of new aircraft in 2013. British Airways will introduce the Airbus A380 and Boeing 787, which are 16 per cent and 20 per cent respectively more efficient than the aircraft they will replace. Iberia's new Airbus A330s will use 15 per cent less fuel per passenger than the Airbus A340s they replace. See Fleet Replacement Plan below.

Fleet replacement plan at 31 December 2012

	Aircraft	2012	2015	Deliveries post-2012	Further options
Iberia	A330/ 340	30	29[1]	8	8
British Airways	B747	52	43[1]	–	–
	B767	14	7[1]	–	–
	B777	52	58	6	–
	B787	–	12	24	28
	A380	–	9	12	7
	A318	2	2	–	–
Total longhaul		**150**	**160**	**50**	**43**
Iberia	A320 family	74	52	9	–
British Airways	A320 family	110	120	10	31
	Other	43	26	–	15
Total shorthaul		**227**	**198**	**19**	**46**
Total fleet		**377**	**358**	**69**	**89**

1 Flexible lease extension/retirement.

Corporate responsibility continued

Low carbon fuel

The British Airways project to produce low carbon jet fuel from residual waste with Solena Greensky in London made good progress in 2012. This included activity on site selection, financing, technology selection and planning permission. The project remains on track to start commercial production in 2015. British Airways is also active in the Sustainable Aviation Fuels User Group (SAFUG), and the EU's Flightpath 2020 programme which aims to produce two million tonnes of sustainable aviation fuel for use in Europe.

Iberia is working with AlgaEnergy to research and develop a new biofuel sourced from microalgae, and has joined forces with Airbus and the Spanish Government to develop a complete value chain for commercial aviation biofuel.

Iberia also participates in the In-Service Aircraft for a Global Observation System (IAGOS) air quality research project to fit longhaul aircraft with scientific instruments which analyse the chemical composition of the atmosphere. During 2013 Iberia will install the measuring equipment on one of its Airbus A340-300 aircraft, which will carry it for approximately ten years.

Ground energy

IAG constantly strives to improve the environmental performance of its ground operations and installations. In 2012 the Group invested additional resources to focus on the most efficient use of ground energy.

By April 2012, British Airways had surpassed its five-year 20 per cent ground energy reduction target, saving over 53,000 tonnes of CO_2. This year's programme focused on the on going replacement of air conditioning systems, and the installation of more efficient heating systems.

Iberia's ground operations account for 0.8 per cent of its total CO_2 emissions. In 2012 Iberia reduced these ground operations emissions by 7 per cent relative to 2011. Iberia has continued to tackle its energy efficiency on the ground in a number of ways by controlling environmental management systems, and by replacing older ground vehicles with more efficient models. In 2012 Iberia has developed a new procedure to improve the quality of the fuelling data and thus reducing the fuel consumption and the emissions of this type of equipment. It is estimated that the new equipment will reduce by 5 per cent its fuel consumption in Terminal 4 at Madrid

Waste and recycling

British Airways and Iberia are members of IATA's Cabin Waste Working Group, which aims to share best practice and continuous improvement, and to promote the recycling and reuse of this class of waste.

British Airways has reduced waste to landfill at Heathrow and Gatwick to 5 per cent (2011: 3 per cent) by using a local energy from waste plant and increased focus on recycling. British Airways now recycles 45 per cent (2011: 46 per cent) of waste at its main hub airports of Heathrow and Gatwick. Onboard segregation of aluminium cans for recycling on shorthaul flights departing from Heathrow commenced in 2012. This will be rolled out to other fleets and locations during 2013, beginning with arriving longhaul flights at Heathrow in January. Strict rules govern the disposal of international catering waste, but British Airways' shorthaul caterers at Heathrow recycle onboard packaging. Newspapers on aircraft arriving at London Heathrow and London Gatwick are also recycled.

Iberia introduced an urban waste collection scheme to all its buildings in 2011. Thanks to this initiative, Iberia's total waste recycling improved by 20 per cent. The aim is to achieve zero waste to landfill in the coming years. Iberia's online boarding pass process has been updated to use a single sheet of paper, which prevents the waste of many unnecessary copies.

The social dimension

Across IAG we back a range of local and international projects and charities. As a group, we want to assist in the development and support of communities that we work in and fly to. We want to be responsible neighbours, and limit the impact of our operation on local communities. We involve stakeholders, including customers and suppliers, in our Corporate Responsibility activities.

Community

In 2012 British Airways contributed £9.8 million in direct and indirect donations to the charities it supports (2011: £9.1 million). A total of 40 community and conservation organisations also benefited from flight bursaries, excess baggage allowances, cargo space and fundraising events. At the beginning of 2012, British Airways launched an onboard video which highlights the work of its charity partners. In January 2013 the airline showcased a 10 minutes version of the film on in-flight entertainment systems.

British Airways operates a payroll giving scheme; more than 3,080 present and past employees make donations to their chosen charities. In 2012, £608,314 was raised for charity through the scheme (2011: £581,819).

Iberia's direct cash and in-kind donations to social interest groups amounted to €1.6 million during the year. Donations in sponsorship arrangements with sport, cultural and educational organisations totalled €6.4 million in 2012.

The centrepiece of British Airways' community programme is Flying Start which is a partnership with Comic Relief. Its aim is to raise money for and to support children living incredibly tough lives both in the UK and around the world. Since the

partnership began in June 2010, Flying Start has raised more than £4 million with the overall ambition to raise £6 million by December 2013. In September 2012 British Airways launched, in conjunction with Comic Relief and the Global Alliance for Vaccines, an immunisation campaign with the aim of raising £500,000 to save the lives of 100,000 children across Africa.

British Airways uses its London Heathrow Community Learning Centre to help local children find out about the Company, understand how airlines tackle complex environmental issues and develop their business, IT and language skills. They work alongside positive role models from across the business that provide them with an insight into the world of work. Since the centre opened in 1999, over 77,000 young people have participated in airline related programmes, and over 7,000 young people benefited from the activities provided by the centre in 2012 alone.

As part of Iberia's community programme, staff are encouraged to take part in a wide range of community and corporate citizenship activities. Two of the organisations set up with support from Iberia are prominent in Spain: the Association of Iberia Employees with Disabled Children (APMIB) and the non-governmental organisation *'Mano A Mano'* (Hand to Hand).

APMIB was created in 1977 to support Iberia staff who have children with disabilities. This support continues throughout childhood and into adulthood. Since its creation, APMIB has helped support some 2,200 children and adults with special needs. Recently, a new residence was opened in Madrid for 32 adults with learning difficulties who are all over 45 years old.

Iberia aims to build community projects in countries it flies to. Through '*Mano A Mano*' Iberia not only transports aid to developing countries, but also brings up to 20 children a year to Spain to receive free medical treatment. Iberia is also working in partnership with Amadeus, transporting computers, no longer used in their respective offices, to Latin America and Africa.

Selection of solidarity projects is guided by the UN's Millennium Development Goals. In 2011 Iberia was the first airline to join MASSIVEGOOD, whose goal is to finance projects that help realise the three millennium goals relating to health. Iberia customers booking through Iberia.com are being encouraged to make a donation to help combat malaria, tuberculosis and HIV/AIDS. This successful programme finished its first edition in February 2012, with customers donating €40,700. Also in 2012, Iberia participated in new projects such as '*Lucha contra la anemia y a desnutrición en Dindefello*' (Fight against anemia and malnutrition in Dindefello) with Yakaar Africa, Books for Colombia and Lights for Learning.

Noise

Air transport inevitably causes noise and air pollution to communities living around airports. IAG is in the process of introducing new technologies and augmenting operating procedures, both in the air and on the ground, which are helping to reduce our impact on the communities around the airports we operate from.

We are taking action to reduce the use of auxiliary power units on the ground, using quieter vehicles and reducing the use of reverse thrust braking on landing. Over the past 24 months British Airways has introduced quieter approach procedures for its Boeing 737 and Airbus aircraft.

In 2012 British Airways has been involved in the development of an Industry Code of Practice, which launched in September. The Code of Practice gives advice on operational techniques that can be used to reduce the environmental impacts of ground operations and departing aircraft.

Suppliers

IAG is committed to procuring goods and services from suppliers that can demonstrate ethical principles in the way they conduct their business. IAG engages actively with suppliers on standards of quality, safety and environmental responsibility.

As part of the British Airways tender process, potential suppliers are required to respond to a comprehensive Corporate Responsibility section, and this is one of the key areas that are considered as part of the decision making process. This is underpinned by a responsible procurement strategy that contains three central themes: reducing supplier emissions, sourcing ethical suppliers, and behaving responsibly towards our suppliers.

Following a series of Corporate Responsibility risk audits in 2011, a number of suppliers are now obliged to undergo Sedex Member Ethical Trade Audit (SMETA) audits. In 2012. British Airways has committed to working with suppliers to address any shortcomings identified.

Iberia includes in all its tender contracts clauses covering important issues including confidentiality, intellectual property, data protection, labour and environmental standards and respect for the principles of the UN Global Compact.

Iberia's fleet uses noise abatement procedures as well, making limited use of auxiliary engines at airports, reducing the use of thrust reverse breaking technique and following the least noisy routes for arrival and departure. In 2012, over 70 per cent of Iberia's operations at Madrid Barajas Airport were made with the quietest aircraft, according to the airport's noise level classification.

Foreign branches

We fly to a number of destinations around the world (see page 9). In addition to the foreign branches we have established in many of these countries, we have branches in countries to which we do not fly.

A SOLID GOVERNANCE FRAMEWORK

Underpinning IAG's strong approach to governance across the Group with four dedicated Board Committees

Governance

Management report

Chairman's introduction to corporate governance

Strong governance delivered by an experienced Board

Antonio Vázquez
Chairman

When we created International Airlines Group two years ago we knew we were breaking new ground in terms of accepted approaches to consolidation in the aviation industry.

Our aim was clear. We wanted to create an effective system to manage our independent airline brands efficiently from day-to-day, to extract significant synergies from combining them under the IAG umbrella and give our leadership team the freedom to plan strategically for the Group's continued growth.

It was equally important that we had the support of a strong and experienced Board of Directors to ensure that the Group worked to the highest standards of corporate governance, meeting the requirements of two sets of regulators in the UK and Spain.

We put a great deal of thought into getting this governance and management system right and, two years on, it's clear to me that all that careful planning and thought has really paid off.

In 2012, our system of governance once again proved itself to be robust. Despite testing market conditions, we proved that we've struck the right balance between the operational management of our airlines and the overall strategic direction of the Group. The Boards of IAG, British Airways and Iberia are all working very well together, guided by clear lines of responsibility and a cohesive vision of the opportunities and challenges that lie ahead for us.

As such we have been able to continue pursuing our uniquely flexible business model successfully – a model we believe continues to offer us significant competitive advantages and a real chance to play a lead role in reshaping our industry for the future.

Governance

As a Spanish company, listed in Madrid and London, IAG has to meet both Spanish and UK listing requirements and corporate governance standards. Specifically we need to comply with the UK Financial Reporting Council's Corporate Governance Code (2010) and Spain's Unified Good Governance Code.

Throughout the year the Board continued to monitor our compliance with these codes and we believe that we meet them fully in all but a very few respects (which are described in greater detail later in this chapter.)

Where we do not comply absolutely with the codes we explain why and set out what we plan to do to address the issue.

Let me give you two good examples here.

Best practice in corporate governance is for board directors to be elected on an annual basis. Given that IAG is still a relatively young company, we have taken a different path here to make sure we have continuity of leadership in the Group's early days. We were concerned that it could destabilise the Group if all our Directors faced election at once so early on. We therefore, put our Directors on a longer election cycle of two, three or four years.

The Navigator

Having said that, this year will see a total of five Directors put themselves forward for election at the Annual General Meeting, six the year after and three more in 2015. If elected they will serve for a further three-year term, as set out in our bylaws, meaning that a good proportion of the Board will face election each year. We feel this strikes a good balance between the strategic leadership needs of the Group and the rights of our shareholders.

Diversity is another area where we are not yet in strict compliance. The Spanish Unified Code stipulates that when there are few or no women directors, the Board should explain why and what steps are planned to correct it.

Currently Baroness Kingsmill is the only woman serving on the IAG Board. We recognise the huge benefits of diversity and plan to address this issue by appointing at least one new female director during 2013 and further increasing the overall number of female directors by 2015.

Breadth of experience

Our current Board is very strong. We've assembled a group of people with an extraordinary breadth of international experience, not just internally from Iberia and British Airways, but from across commerce, politics and public affairs. I am very grateful to my colleagues for their support, dedication and excellent guidance in 2012.

We will continue to review the make-up of the Board and seek to bring in new talent that continues to reflect this broad range of skills and experience. Our aim is always to create an environment of strong entrepreneurial leadership within a framework of effective and transparent corporate governance.

Board responsibilities

The IAG Management Committee is responsible for the day-to-day management of the Group, including capturing cost and revenue synergies, and the development of long-term Group strategy.

As the pages that follow describe, the Board is responsible for a number of key decisions. These include:

- Approving the annual budget and business plan;
- Setting financing policy and structure;
- Overseeing risk management and control systems;
- Reviewing internal information; and
- Leading our approach to corporate social responsibility.

Certain tasks are assigned to the Board's Audit and Compliance, Remuneration, Nominations and Safety Committees. You can find reports from the individual Directors who chair these Committees on pages 44 to 63.

Looking ahead

As I have made clear in my introduction to the Annual Report, these are fairly uncertain times both for the global economy and for our industry.

What is in no doubt whatsoever is our commitment to continuing to provide a highly effective system of leadership and governance for IAG that will allow the Group to continue prospering, even in these troubled times. I'm confident we can do that.

Antonio Vázquez
Chairman

Governance calendar for 2012

The overall calendar of meetings of the Board and its Committees for 2012 is shown below:

	Jan	Feb	May	Jun	Jul	Aug	Sep	Nov	Dec
Board (main meetings)	●	●	●	●	●	●	●	●	●
Annual General Meeting				●					
Audit and Compliance Committee	●	●	●			●	●	●	●
Nominations Committee		●	●			●	●		
Safety Committee						●			
Remuneration Committee	●	●	●				●		

Board of Directors

Antonio Vázquez Romero, Chairman

Sir Martin Broughton, Deputy Chairman

Willie Walsh, Chief Executive Officer

César Alierta Izuel

Patrick Cescau

José Manuel Fernández Norniella

Baroness Kingsmill

Antonio Vázquez Romero, Chairman

Antonio Vázquez Romero became Chairman of Iberia in 2009 and was Chief Executive Officer from 2009 to January 2011. He served as Director of the Iberia Board between 2005 and 2008. He is a member of the advisory board of Telefónica Latam. He was chief executive officer of Altadis group and chairman of the board of Logista from 2005 to 2008, having held various positions within the Altadis group from 1993.

Sir Martin Broughton, Deputy Chairman

Sir Martin Broughton became Chairman of British Airways in 2004, having been a Board member since 2000. He served as president of the CBI from 2007 until 2009, and chaired the British Horseracing board from 2004 to 2007. Prior to that he was chairman of British American Tobacco, a role he took on in 1998, having previously been group chief executive and deputy chairman. He is chairman of Sports Investment Partners.

Willie Walsh, Chief Executive Officer

Willie Walsh was Chief Executive Officer of British Airways from October 2005 to the effective merger date. At British Airways, Willie guided the company to its first-ever 10 per cent operating margin in 2007-2008 and introduced permanent changes across the airline to bring it through the worst recession in aviation history in 2008-2009. He secured the airline's long-term strategic objective to establish a transatlantic Joint Business with American Airlines and Iberia and set up the merger with Iberia that led to the formation of IAG. He was chief executive officer of Aer Lingus, a position he was appointed to in the aftermath of 9/11 having joined Aer Lingus in 1979 as a cadet pilot.

In 1998 he was appointed chief executive officer of Futura, Aer Lingus' Spanish charter airline. He returned to Dublin with Aer Lingus in 2000 where he took up the role of chief operating officer and was subsequently appointed as chief executive officer.

César Alierta Izuel

César Alierta Izuel has been the executive chairman of Telefónica since July 2000, and is a member of the boards of directors of China Unicom and Telecom Italia. He is a member of the Colombia Business School Board of Overseers and chairman of the social board of the UNED. He was the chairman and founder of Beta Capital, which he combined from 1991 with his post as chairman of the Spanish Financial Analysts' Association. He was a member of the board of directors and standing committee of the Madrid Stock Exchange. In 1996 he became chairman of Tabacalera and then served as chairman of Altadis group until July 2000 when he was appointed chairman of Telefónica, having been a board member since 1997.

Patrick Cescau

Patrick Cescau joined the board of InterContinental Hotels Group PLC as chairman on 1 January 2013. He has been a non-executive director of Tesco PLC since February 2009, and was appointed the company's senior independent director in July 2010. He was group chief executive officer of Unilever from 2005 to 2009, having previously been chairman of Unilever PLC and deputy chairman of Unilever NV. He is a trustee of the Leverhulme Trust and chairman of the St Jude Children's Charity. Patrick Cescau was appointed a Chevalier de la Légion d'Honneur in 2005.

José Manuel Fernández Norniella

José Manuel Fernández Norniella was a Non-Executive Director of Iberia from 2003. He has held several executive positions in Électromécanique and Alfa Laval (1972-1982) and Boveri and ABB (1981-1993). He has served as director in RTVE, Argentaria, Enagas, Endesa, Televent, Campos Chilenos, IANSA, deputy chairman of Chilectra (Chile) and member of the advisory boards of Abengoa and Accenture. Elected MP for Madrid in 1993, he was secretary of state for trade, tourism and SMEs, representing Spain, as deputy director, in the WBI, the IBD and the BERD. chairman of the Council of Spanish Chambers of Commerce. executive deputy chairman of Aldesa and executive chairman of Ebro Puleva (2000-2005). He is currently director of Telesp (Brazil). He has been deputy chairman of Caja Madrid and director of BFA and Bankia. He has been awarded the Grand Cross of Isabella the Catholic (Spain), the Order of Bernardo O´Higgins (Chile), the Verdienstkreuz mit Stern (Germany) and the Order of Merit (Poland).

Baroness Kingsmill

Baroness Kingsmill was a Non-Executive Director of British Airways from November 2004 until the effective merger date. She entered the House of Lords in 2006. Until December 2003, she chaired the Department of Trade and Industry's Accounting for People task force, and was deputy chairman of the Competition Commission. She is a senior independent non-executive director of APR Energy plc and a member of the supervisory board of E.ON SE. She is deputy chair of the PricewaterhouseCoopers LLP advisory board. Baroness Kingsmill is a member of the International advisory board of IESE and she is a member of the influential House of Lords Economic Affairs Committee.


Manuel Lagares Gómez-Abascal


James Lawrence


José Pérez-Llorca


Kieran Poynter


Rafael Sánchez-Lozano Turmo


John Snow


Keith Williams

Manuel Lagares Gómez-Abascal

Manuel Lagares Gómez-Abascal has a degree in Economic Science and Business Studies from Universidad Pontificia de Comillas (ICADE) and a Master's degree in Public Finance and Tax from Universidad de Alcalá de Henares.

He has worked as a tax inspector, and government comptroller and auditor. He was the chief executive officer of the Neinver Group, joining in 2004 as general manager.

He was the manager of affiliated companies of Bankia; from October 2011 he was the general manager of Banco Financiero y de Ahorros. He was also the executive chairman of European Retail Property Fund (IRUS). Currently, he is also the vice-president of Indra, and a director of Iberdrola and Mapfre S.A.

James Lawrence

James Lawrence was a Non-Executive Director of British Airways from November 2006 until the effective merger date. He is chairman of Rothschild North America where he has been since June 2010; he was at Unilever from 2007 as chief financial officer and as executive director on the boards of Unilever NV and PLC. He was chief financial officer of General Mills from 1998 to 2007. Since 1990, he has served on 15 public company boards.

José Pedro Pérez-Llorca

José Pedro Pérez-Llorca was a Non-Executive Director of Iberia from 2000 until the effective merger date. He was a career diplomat and a member of the Parliamentary Counsel. He is a former Cabinet Minister of the Presidency, Parliamentary Relations, Regional Government and Foreign Affairs. He is a former member of the board of Telefónica and of the Madrid Stock Exchange Council. He was recently appointed president of the board of trustees of the Prado Museum. He is the founding partner and chairman of the law firm Pérez-Llorca.

Kieran Poynter

Kieran Poynter is a Non-Executive Director of British American Tobacco, Nomura International and F&C Asset Management, having been appointed to those roles in July 2010, November 2009 and June 2009 respectively. He spent 37 years with PricewaterhouseCoopers LLP in various roles including eight years as chairman and senior partner before retiring in 2008. He served as a member of the president's committee of the CBI from 2000 to 2008 and in 2009-2010 served as a member of the advisory committee for the Chancellor of the Exchequer on competitiveness of the UK financial services sector. He is also a member of the board of The Royal Automobile Club.

Rafael Sánchez-Lozano Turmo

Rafael Sánchez-Lozano Turmo has been a Non-Executive Director of British Airways since December 2009 and Chief Executive Officer of Iberia from January 2011. From December 2007 to July 2009 he was the representative of Valoración y Control on the Iberia Board. In July 2009, he was appointed Managing Director and Chief Operating Officer of Iberia. Prior to that he worked in Caja Madrid holding different positions in corporate risk, industrial affiliates, merger and acquisitions, international corporate development and an executive position in Cibeles Caja Madrid. He was appointed board member of several subsidiaries of Caja Madrid. Previously to Caja Madrid, he held several positions at J.P. Morgan, Manufacturers Hanover Trust and Citibank.

John Snow

John Snow is president of JWS Associates LLC. He served as the 73rd United States (US) Secretary of the Treasury under President George W. Bush from February 2003 to June 2006. Prior to this he served as chairman, president and chief executive officer of CSX Corporation. John Snow served in several senior roles at the US Department of Transportation under President Ford. His public service also includes his appointment by President Clinton as board chairman of the organisation established by Congress to oversee the air traffic control system in the US. He currently serves on the boards of Marathon Petroleum Corporation and Cerberus Capital Management LP where he is non-executive chair.

Keith Williams

Keith Williams became Chief Executive Officer of British Airways in January 2011. Previously he was Chief Financial Officer of British Airways for over five years. Within this position he played a leading part in the airline's achievement of a record operating margin in 2007/2008, before steering it through the worst recession in its history and masterminding a solution to its long standing pension deficit. Keith joined the airline in 1998 from Reckitt and Coleman where he was head of tax. After training in accountancy with Arthur Andersen in the early 1980s, he held a variety of senior management roles, becoming treasurer for Apple Computer Europe, based in Paris between 1991 and 1996. He is also a non-executive board member and chair of audit committee for Transport for London.

Our management team

Enrique Dupuy de Lôme Chávarri
Chief Financial Officer
Appointed January 2011
Enrique joined from Iberia where he was Chief Financial Officer from 1996. He is responsible for the Company's financial strategy and development, investor relations, treasury and financial risk management, group investments, accounting and audit.

As Iberia's Chief Financial Officer he led areas such as finance, investment and procurement. Between 2007 and 2009, he also played a leading part in Iberia's strategic planning. He currently sits on the boards of Amadeus, British Airways and Iberia, as well as being Chairman of Iberia Cards.

Prior to joining Iberia, he was head of finance and deputy director of financial resources at INI (Instituto Nacional de Industria) and Teneo financial group. He was also previously head of subsidiaries at Enadimsa (INI Group).

Enrique has a degree in mining engineering from Universidad Politécnica de Madrid, and completed a Master's degree in economics and business administration at IESE (Barcelona) and a Master's degree in European studies at CEU (Madrid).

Julia Simpson
Chief of Staff
Appointed January 2011
Julia is responsible for global communications, government relations and executive administration and business services. She was previously Head of Corporate Communications at British Airways, since 2007.

Prior to British Airways, Julia was adviser to the UK Prime Minister on strategic communication issues including home affairs, education, local government and counter terrorism. Before this she was Director of Communications at the Home Office. She has held a number of other key communication positions in government and the public sector, including: head of media relations at the Department for Education and Employment; assistant chief executive, quality and communications at the London Borough of Camden; and head of communications at the Communication Workers Union. She also worked as a journalist.

She is a graduate of Warwick University and holds a BA (Hons) in Spanish and European studies.

Robert Boyle
Director of Strategy
Appointed January 2011
Robert is responsible for the Group's global strategy and achieving its revenue synergy targets and for the business units IAG Cargo and Avios Group Ltd. (IAG's loyalty rewards subsidiary). He was previously Director of Strategy and Business Units at British Airways.

Robert joined British Airways in 1993 working in the corporate finance team and has worked in a variety of roles including Commercial Director, Director of planning and general manager network and fleet planning. He was one of five senior managers who prepared the airline's 9/11 recovery plan 'Future Size and Shape' in 2002 and was a trustee of the British Airways pension fund.

Robert studied mathematics at Cambridge University and has an MBA from INSEAD in France. Before joining British Airways he worked for six years as a management consultant for the strategy consulting firm LEK.

Ignacio de Torres Zabala
Director of Global Services
Appointed January 2011
Ignacio joined from Iberia where he was Director of Finance and Administration from 2009. He was previously Director of Finance for thirteen years.

Ignacio designed and implemented Iberia's new fleet financing programme and was heavily involved in the key financial decisions and acquisitions made by the airline as well as the merger with British Airways. He has held different board positions at Iberia's affiliates.

Before joining Iberia, he had worked in a variety of roles in the banking sector (Crédit Lyonnais, Madrid and Paris) and corporate finance at the Spanish state-owned industrial holding.

Ignacio graduated in business administration at the Universidad Complutense de Madrid.

Chris Haynes
General Counsel
Appointed January 2011
Chris is responsible for the Company's legal and associated compliance activity.

He was previously the senior commercial lawyer at British Airways and head of its mergers and acquisitions team, including during the merger between British Airways and Iberia. Before joining British Airways, he worked as a lawyer for the law firm Ashurst.

Chris studied economics and politics at Bristol University before studying law at the College of Law in Guildford.

Willie Walsh
Chief Executive Officer
For full biography see page 34.

Keith Williams
CEO of British Airways
For full biography see page 35.

Rafael Sánchez-Lozano Turmo
CEO of Iberia
For full biography see page 35.

Corporate governance

Code Compliance

IAG, as a Spanish company, is subject to applicable Spanish legislation, particularly the Spanish Companies Law approved by Royal Legislative Decree 1/2010, of July 2, and the Spanish Securities Market Law 24/1988, of July 28. As it has a listing on the London Stock Exchange, it is also subject to the UK Listing Rules including the requirement to comply with the UK Corporate Governance Code published by the Financial Reporting Council as amended from time to time.

This Corporate Governance Report, together with the Spanish Corporate Governance Report, explains how the Company applies the main principles of the UK Corporate Governance Code, and the Spanish Unified Good Governance Code, including confirmation of whether it complies with those codes or, if not, an explanation as to why it is non–compliant. During the year the Company did not comply with the following provisions of the UK Corporate Governance Code:

(i) Independent membership of the Remuneration Committee: of the four members of the Remuneration Committee one member is considered not to be independent. The UK Corporate Governance Code requires the board to establish a remuneration committee of at least three non-executive directors all of whom should be independent. IAG chose to have a fourth non-independent director, José Manuel Fernández Norniella, as he has wide knowledge and experience of the Spanish market enabling him to make a positive contribution to the Committee. He was an executive director of Bankia, S.A. until June 2012.

(ii) Arrangements for Antonio Vázquez Romero and Rafael Sánchez-LozanoTurmo do not comply with the recommendation that notice periods should be set at one year or less so as to limit any payment on exit. The conditions of the two Directors' Iberia service contracts were taken into account at the time of the merger and an entitlement to lump sum retirement benefits in excess of one year's salary was carried over into IAG service contracts. It was thought necessary to continue the Iberia benefits in order to retain these key Directors and, as such, complying with the Code's principle of only offering a remuneration package sufficient to retain the two Directors. Details can be found in the Report of the Remuneration Committee.

(iii) Appointment of Manuel Lagares Gómez-Abascal: Manuel Lagares Gómez-Abascal was appointed as an External Proprietary Director representing Bankia, S.A. by co-option on August 2, 2012. His appointment will be subject to shareholder approval at the annual ordinary shareholders' meeting to be held in June 2013. Neither an external search consultancy nor open advertising was used in this appointment process because Manuel Lagares Gómez-Abascal was proposed as an External Proprietary Director by Bankia, S.A. and so any such external search was inappropriate. No other non-executive seats on the Board are subject to similar constraints and IAG intends to comply with the UK Corporate Governance Code for future appointments.

(iv) Annual election of Directors: At the time of the merger, British Airways and Iberia agreed that the election of Directors would not be done on an annual basis for an initial period as mentioned in the Chairman's introduction. At a shareholders' meeting of the Company held in November 2010, all Directors (except Manuel Lagares Gómez–Abascal) were elected for a four-year period from the merger effective date, January 21, 2011. Notwithstanding the above, the Board Regulations contain a provision which establishes that the following Directors will resign and stand for election in accordance with the following calendar, without prejudice to the ability of the shareholders' meeting to remove such persons as Board members at any moment according to applicable law:

- Sir Martin Broughton, Patrick Cescau, José Manuel Fernández Norniella and John Snow shall stand for election at the annual ordinary shareholders' meeting to be held in 2013;
- Willie Walsh, César Alierta Izuel, Baroness Kingsmill, José Pedro Pérez–Llorca, Kieran Poynter and Rafael Sánchez–Lozano Turmo shall stand for election at the annual ordinary shareholders' meeting to be held in 2014; and
- Antonio Vázquez Romero, James Lawrence and Keith Williams shall stand for election at the annual ordinary shareholders' meeting to be held in 2015.

If elected, the aforementioned Directors shall be appointed for a term of three years as set forth in the Company's Bylaws.

The Company complies with the provisions of the Spanish Unified Good Governance Code, with the exceptions described in the Spanish Corporate Governance Report.

The Company believes that, notwithstanding the above exceptions, it has a robust governance structure. The Company's Corporate Governance Report is available on the Company's website (www.iairgroup.com).

Corporate governance continued

The Board

The Board provides entrepreneurial leadership of the Company within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives, and reviews management performance. The Board sets the Company's values and standards and ensures that its obligations to its shareholders and others are understood and met. The duties of the Board are set out in the Board Regulations, available on the Company's website (www.iairgroup.com).

The Company has a clear written division of accountability and responsibility between the Board and the Management Committee.

All Directors are involved in, and responsible for, the development of the Company's strategy. The Non–Executive Directors review the performance of the Company with the Executive Directors on a regular basis. The Board delegates certain of its functions to committees, as detailed within this Report. The Board of the Company physically met nine times during the reporting period to consider all matters relating to the overall control, business performance and strategy of the Company. The Board Regulations contain a schedule of matters reserved for Board decision. In particular the Board has retained for itself the approval of the annual budget and business plan; financing policy and structure; risk management and control policy; periodic monitoring of internal information and control systems and corporate social responsibility policy. In addition, the Board approves investment and divestment decisions greater than €20 million including significant contracts and capital commitments.

The Board is led by the Chairman. The Chairman is responsible for setting the Board agenda and ensuring that adequate time is available. Working with Fernando Vives, the Board Secretary, he ensures that Directors receive accurate, timely and clear information.

The Non–Executive Directors scrutinise the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They have satisfied themselves as to the integrity of financial information and that financial controls and systems of risk management are robust.

The Chairman ensures that the Directors update their skills and knowledge through briefings on changes in regulation or law and by receiving regular information about the Company so that they can fulfill their role on the Board.

Papers for Board and Committee meetings are typically distributed in the week prior to the relevant meeting. All Board members have access to the Board Secretary and the General Counsel for any further information they require. If any of the Non–Executive Directors has any concerns about the running of the Company, they can discuss these concerns with one of the Executive Directors, the Secretary or the Chairman. If their concerns cannot be resolved in this way, then they are recorded in the Board minutes. No such concerns arose during the reporting period.

In 2012 the Board established a tailored refresher programme for Non-Executive Directors. Questionnaires were circulated to the Non-Executive Directors to identify areas in which Directors require training. Training sessions will be held over the course of 2013. All Directors, including Executive Directors will be invited to participate.

Five Non–Executive Directors were able to attend the annual Capital Markets Day in November 2012, where they had the opportunity to discuss corporate governance matters with major shareholders.

Independent professional advice is also available to Directors in appropriate circumstances, at the Company's expense. No such advice was requested during the reporting period.

During the reporting period the Chairman and the Non–Executive Directors met once without the Executives present.

Regarding the year under review, a meeting of Non-Executive Directors, led by the Senior Independent Director, took place without the Chairman being present. The performance of the Chairman was evaluated.

Board Committees

During the reporting period the Board had four specific Committees: Audit and Compliance, Nominations, Remuneration and Safety. Each Committee met under their terms of reference as set out in the Board Regulations.

The work carried out during the reporting period by each of the Committees is described in their respective reports. Every Committee has authority to take external advice as required.

There were eight ordinary meetings scheduled during the year and one extraordinary meeting of the Board. In addition, the Board adopted resolutions by written vote without a meeting on one occasion during the reporting period.

Those attended by each Director during the reporting period are shown in the table below:

Director	Board meetings[1]	Audit and Compliance Committee meetings	Nominations Committee meetings	Remuneration Committee meetings	Safety Committee meetings
Total in the period	**9**	**7**	**4**	**4**	**1**
Antonio Vázquez Romero	9	–	–	–	1
Sir Martin Broughton	8	–	–	–	1
Willie Walsh	9	–	–	–	1
César Alierta Izuel	8	–	4	3	–
Patrick Cescau	9	7	–	–	–
José Manuel Fernández Norniella	7	–	3	3	–
Baroness Kingsmill	8	–	4	4	–
Manuel Lagares Gómez–Abascal[2]	4	–	–	–	–
James Lawrence	8	6	–	–	–
José Pedro Pérez–Llorca	9	6	–	–	–
Kieran Poynter	7	7	–	–	1
Rodrigo de Rato y Figaredo[3]	3	–	–	–	–
Rafael Sánchez–Lozano Turmo	9	–	–	–	–
John Snow	6	–	3	3	–
Keith Williams	9	–	–	–	–

1 On March 29, 2012, Board resolutions were approved by all Directors in writing without a meeting.
2 Manuel Lagares Gómez-Abascal was appointed Director by co-option on August 2, 2012.
3 Rodrigo de Rato y Figaredo resigned on July 10, 2012.

Board performance evaluation

At the end of the reporting year an internal questionnaire in relation to performance was sent to members of the Board and to each Board Committee to complete. An analysis of the results to address any issues that arose was carried out and will be implemented in due course together with any action plan as appropriate. Overall the review suggests effective governance is in place.

Board diversity

The IAG Board recognises the value of appointing individual Directors who bring a variety of diverse opinions, perspectives, skills, experiences, backgrounds and orientations to its discussions and its decision-making processes. It believes that debate at Board meetings will be more open, balanced and wide ranging if a significant degree of diversity can be achieved amongst its members. Healthy discussions involving a wide range of views will, the Company believes, ultimately bring about better Board decisions.

Creating a Board and a Management Committee with diverse memberships is important to IAG and both the Board and the Management Committee are fully committed to this objective.

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

An overriding principle is that all appointments to the Board will be based upon merit and suitability of the candidate to the particular role being filled. Subject to this overriding principle, the Board will always have regard to the need to consider candidates from different backgrounds.

Taking this into account, it is the Board's objective to increase the number of female members of the Board to a level that measurably improves the Board's diversity. This will be done over time, taking account of the valuable knowledge and experience of the present Board members and the remaining periods of their terms of office, and the value of a more diverse board.

Accordingly, the Board plans to appoint at least one new female director during the period up to the end of 2013 and intends to increase further the overall number of female directors on the Board by the end of 2015.

The Board will monitor diversity within the Group and also report on its own diversity.

Directors' conflict of interests

Directors must disclose to the Board any situation of direct or indirect conflict that they may have with the interests of the Company. In the event of conflict, the affected Directors must abstain from participating in the transaction referred to by the conflict. One situation of conflict of interests of the Directors occurred during the reporting year: Rafael Sánchez-Lozano Turmo was conflicted in relation to the offer to acquire Vueling

Corporate governance continued

shares, due to his position as CEO of Iberia, a company with an approximate 45 per cent stake in Vueling. The definition of conflict of interests is set out in the Board Regulations on the Company's website (www.iairgroup.com).

Directors' and officers' liability insurance
The Company has purchased insurance against Directors' and Officers' liability for the benefit of the Directors and Officers of the Company and its subsidiaries.

Capital structure and shareholder rights
The share capital of the Company amounts to 927,684,778.50 euros, divided into 1,855,369,557 ordinary shares of the same class and series and with a nominal value of 0.50 euros each, fully subscribed and paid.

There has been no significant change in the shareholder structure during the period. The following notifications have been received by the Company since December 31, 2012:

On January 23, 2013 Majedie Asset Management Limited notified the Company that their shareholding had fallen to 4.98 per cent.

On February 1, 2013 FIL Limited notified the Company that their shareholding had fallen below 1 per cent.

British Airways Plc Employee Share Ownership Trust (the Trust) owns 6,143,751 shares (2011: 6.330,091) in IAG. The Trust is not a subsidiary of IAG; however, it is consolidated in the Group results. 186,340 shares were released to employees during the year as a result of employee share scheme exercises (2011: 1,465,642).

Each share in the Company confers on its legitimate holder the status of shareholder and the rights recognised by applicable law and the Company's Bylaws.

In August 2009, British Airways issued £350 million 5.8 per cent convertible bonds (the Bonds), convertible at the option of the holder, before or upon maturity in August 2014. The Bonds are convertible into fully paid ordinary shares of the Company at a price of 189 pence per share. The Bonds may be redeemed before August 13, 2014 at the option of British Airways at its principal amount, together with accrued interest, upon fulfilment of certain pre-determined criteria, including if conversion rights have been exercised in respect of 85 per cent or more of the Bonds. The Company granted British Airways the right to procure the issue of IAG shares to nominated subscribers.

The Company has a Sponsored Level 1 American Depositary Receipt (ADR) facility that trades on the over-the-counter market in the US.

Date of last change	Share capital (euros)	Number of shares	Number of voting rights
January 21, 2011	927,684,778.50	1,855,369,557	1,855,369,557

No capital increases were made in 2012.

The significant shareholders of the Company at December 31, 2012 were:

Name of Shareholder	Number of direct shares	Number of indirect shares	Total shares	Percentage of capital
Banco Financiero y de Ahorros, S.A.	–	224,253,769	224,253,769	12.087
Templeton Global Advisors Limited	–	92,969,270	92,969,270	5.011
Majedie Asset Management Limited	–	93,343,362	93,343,362	5.031
Black Rock Inc	–	91,539,438	91,539,438	4.934
Legal & General Investment Management Limited	53,761,392	6,076,987	59,838,379	3.226
Schroders Plc	–	59,204,543	59,204,543	3.191
FIL Limited	–	19,518,839	19,518,839	1.052

These shareholdings were held through:

Name of direct holder	Number of direct shares	Percentage of capital
Bankia, S.A.	224,253,769	12.087
Investment entities managed by Templeton Global Advisors Limited	92,969,270	5.011
Investment entities managed by Majedie Asset Management Limited	93,343,362	5.031
Black Rock Investment Management (UK) Ltd	91,539,438	4.934
Schroder Investment Management Ltd	59,186,289	3.190
Investment entities managed by FIL Limited	19,518,839	1.052
Legal & General (Unit Trust Managers) Limited	6,076,987	0.328
Schroder & Co Ltd	18,254	0.001

Each ADR is equivalent to five ordinary shares and each ADR holder is entitled to the financial rights attaching to such shares, although the ADR depositary, Deutsche Bank, is the registered holder. As at December 31, 2012 the equivalent of 17.1 million shares was held in ADR form (2011: 16.2 million IAG shares).

Share issues, buy-backs and treasury shares

The Shareholders' Meeting held on June 21, 2012 authorised the Board, with the express power of substitution, for a term ending at the end of the 2013 ordinary Shareholders' Meeting (or, if earlier, fifteen months from June 21, 2012), to:

(i) increase the share capital pursuant to the provisions of Article 297.1.b) of the Spanish Companies Law, by: (a) up to one-third of the aggregate nominal amount of the Company's issued ordinary share capital as at the date of passing such resolution (such amount to be reduced by the amount that the share capital has been increased by and the maximum amount that the share capital may need to be increased by on the conversion or exchange of any securities issued by the Board under the relevant authorisation); and (b) up to a further one-sixth of the aggregate nominal amount of the Company's issued ordinary share capital as at the date of passing such resolution in connection with an offer by way of rights issue (such amount to be reduced by the amount that the share capital has been increased by and the maximum amount that the share capital may need to be increased by on the conversion or exchange of any securities issued by the Board under the relevant authorisation).

(ii) issue securities (including warrants) convertible into and/or exchangeable for shares of the Company, up to a maximum limit of 1,000,000,000 euros or the equivalent thereof in another currency, provided that the aggregate share capital that may need to be increased on the conversion or exchange of all such securities may not be higher than: (a) one-third of the aggregate nominal amount of the Company's issued ordinary share capital as at the date of passing such resolution (such amount to be reduced by the amount that the share capital has been increased by the Board under the relevant authorisation); and (b) a further one-sixth of the aggregate nominal amount of the Company's issued ordinary share capital as at the date of passing such resolution in connection with an offer by way of rights issue (such amount to be reduced by the amount that the share capital has been increased by the Board under the relevant authorisation).

(iii) exclude preemptive rights in connection with the capital increases and the issuances of convertible or exchangeable securities that the Board may approve under the previous authorities for the purposes of allotting ordinary shares or convertible or exchangeable securities in connection with a rights issue or in any other circumstances for the purposes of allotting ordinary shares or convertible or exchangeable securities subject to an aggregate maximum nominal amount of the ordinary shares so allotted or that may be allotted on conversion or exchange of such securities of five per cent of the aggregate nominal amount of the Company's issued ordinary share capital as at June 21, 2012.

The Shareholders' Meeting held on June 21, 2012 authorised to carry out the acquisition of its own shares directly by the Company or indirectly through its subsidiaries, subject to the following conditions: (a) the maximum aggregate number of ordinary shares which are authorised to be purchased shall be the lower of the maximum amount permitted by the law and such number as represents 10 per cent of the aggregate nominal amount of the Company's issued ordinary share capital on June 21, 2012, date of passing the resolution; (b) the minimum price which may be paid for an ordinary share is zero; (c) the maximum price which may be paid for an ordinary share is the highest of: (i) an amount equal to 5 per cent above the average of the middle market quotations for the ordinary shares as taken from the relevant stock exchange for the five business days immediately preceding the day on which that ordinary share is contracted to be purchased; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out at the relevant time; in each case, exclusive of expenses.

The authorisation is granted for a term ending at the end of the 2013 ordinary Shareholders' Meeting (or, if earlier, fifteen months from June 21, 2012). The shares acquired pursuant to this authorisation may be delivered directly to the employees or Directors of the Company or its subsidiaries or as a result of the exercise of option rights held thereby.

The Securities Code of Conduct of the Company contains the treasury stock transactions code of the Company. This can be accessed on the Company's website (www.iairgroup.com).

Disclosure obligations

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

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

In addition, pursuant to Article 10 of the Company's Bylaws, the Company may require any shareholder or any other person with a confirmed or apparent interest in shares of the Company to disclose to the Company in writing such information as the Company may request in relation to the beneficial ownership of or any interest in the shares in question, as lies within the knowledge of such shareholder

Corporate governance continued

or other person, including any information that the Company deems necessary or appropriate in order to determine whether the nationality of the holders of said shares or other person with an interest in the Company's shares could adversely affect the operating rights of the Company or its operating subsidiaries or whether it is necessary to take steps in order to protect such rights.

In the event of the breach of these obligations by a shareholder or any other person with a confirmed or apparent interest in the Company's shares, the Board may suspend at any time the voting or other political rights of the relevant person. If the shares with respect to which the aforementioned obligations have been breached represent at least 0.25 per cent of the Company's share capital in nominal value, the Board may also direct that no transfer of any such shares shall be registered.

Limitations on ownership of IAG shares

In the event that the Board deems it necessary or appropriate to adopt measures to protect an operating right of the Company or of its operating subsidiaries, in light of the nationality of its shareholders or any persons with an interest in the Company's shares, it may adopt any of the measures provided for such purpose in Article 11 of the Company's Bylaws, including the determination of a maximum number of shares that may be held by non-EU shareholders, which may not be less than 40 per cent of the Company's share capital under any circumstances. At December 31, 2012, 20 per cent of the ordinary shares of the Company were held by non-EU shareholders (2011: 22 per cent).

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

Waiver of dividends

The British Airways Plc Employee Benefits Trustee (Jersey) Limited, which holds IAG shares for the purpose of satisfying awards and options granted to employees under the British Airways share plans, the mechanism for awarding shares prior to the merger, has waived its rights to dividends. The Trustee does not vote on the shares that it holds. At December 31, 2012 there were 6,143,751 shares held in the Trust (2011: 6,330,091).

Relations with shareholders

The Company has established regular contact with its major institutional shareholders. Regular shareholder meetings were held with Executive Directors, the Chairman of the Board and with the investor relations team during 2012.

The Company undertook investor roadshows, investor conferences and company presentations. On November 9, 2012, IAG held its Capital Markets Day in London which was attended by analysts and investors. During February 2012, the Chairman of the Board consulted with major institutional shareholders on a range of topics.

Private shareholders contact the Company through a dedicated website, via email and directly by phone.

Impact of change of control

In takeover bids, or public tender offers, certain licences and authorisations, top management contracts and some supplier or financial agreements would, as the case may be, require an amendment. The following significant agreements contain provisions entitling the counterparties to exercise termination or other rights in the event of a change of control of the Company, British Airways or Iberia as the case may be:

- The Joint Business with American Airlines;
- All of the Company's share schemes, with the exception of the Performance Share Plan, which is subject to the satisfaction of any performance conditions at that time;
- Certain codeshare agreements;
- **one**world membership agreements;
- Certain contracts to sell Avios points;
- Global distribution system contract with Amadeus IT Holding, S.A. for the marketing of Iberia flights;
- The joint business with Japan Airlines;
- The Terminal 7 lease at JFK Airport; and
- Certain exchange and interest rate hedging contracts.

Merger assurances

As part of the merger agreement, the Company, British Airways and Iberia gave certain assurances to protect the specific interests of British Airways and Iberia and their respective stakeholders (Assurances) (Registration Document page 127). The observance and enforcement of those Assurances is carried out via the mechanisms that have been put in place for this purpose and that are described in the Registration Document on pages 129 and 130. Any disputes relating to the Assurances are determined by an Assurance Committee. No matters were referred to the Assurance Committee during 2012.

Post balance sheet events

No material adjusting post balance sheet events occurred after December 31, 2012.

Board of Directors

As set out in the Company's Bylaws the Board of Directors shall comprise a minimum of nine and a maximum of 14 members. During the reporting period the Board consisted of 14 Directors, three Executives, one Proprietary Non-Executive, eight Independent Non-Executives and two other External Non-Executives as set out below:

Name of Board Member	Position	Nature[1]
Antonio Vázquez Romero	Non-Executive Chairman	Other External[2]
Sir Martin Broughton	Deputy Chairman	External Independent and Senior Independent Director
Willie Walsh	Chief Executive Officer	Executive
César Alierta Izuel	Non-Executive Director	External Independent
Patrick Cescau	Non-Executive Director	External Independent
José Manuel Fernández Norniella	Non-Executive Director	Other External[3]
Baroness Kingsmill	Non-Executive Director	External Independent
Manuel Lagares Gómez-Abascal	Non-Executive Director	External Proprietary[4]
James Lawrence	Non-Executive Director	External Independent
José Pedro Pérez-Llorca	Non-Executive Director	External Independent
Kieran Poynter	Non-Executive Director	External Independent
Rafael Sánchez-Lozano Turmo	Executive Director	Executive
John Snow	Non-Executive Director	External Independent
Keith Williams	Executive Director	Executive

1 In accordance with the definitions set forth in the Unified Good Governance Code of Spain.
2 Antonio Vázquez Romero was, until the execution of the merger between British Airways and Iberia, the Chairman and CEO of Iberia.
3 José Manuel Fernández Norniella was until June 2012, an executive director of Bankia, S.A
4 Appointed on proposal from Bankia, S.A.

The Board Secretary is Fernando Vives and the Deputy Secretary is Álvaro López-Jorrín, both partners of the Spanish law firm J&A Garrigues, S.L.P.

Internal control

The Directors are responsible for maintaining, and for reviewing the effectiveness of, the Company's system of internal control including internal financial control. This is designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorised use or disposition and the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. This process is in accordance with Turnbull guidance. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Company has in place internal control and risk management systems in relation to the Company's financial reporting process and the Group's process for the preparation of consolidated financial statements. A risk-based audit plan for the Group was approved by the Audit and Compliance Committee. The Audit and Compliance Committee considered significant control matters raised by management and both the internal and external auditors and reported its findings to the Board. No significant failings or weaknesses were identified in 2012.

Report of the Audit and Compliance Committee

Dear Shareholder

The Audit and Compliance Committee has built on the good foundation of internal control, risk management and compliance practices established in 2011. We have taken a leading role in the Group's management of Eurozone risk and in addressing the accounting challenges of both the bmi acquisition and the Iberia Transformation plan.

The four Committee members were unchanged during the year and their wealth of financial, legal and commercial experience has enabled a consistently high level of challenge and support to the management team. This year we have expanded our report, giving more detail on how we addressed the financial reporting issues raised and our interaction with the external auditors.

Kieran Poynter
Audit and Compliance Committee Chairman

Composition and meetings

The Audit and Compliance Committee comprised four members during the year: Kieran Poynter (Chairman), Patrick Cescau; James Lawrence and José Pedro Pérez-Llorca, Kieran Poynter has recent and relevant financial, accounting and auditing experience for the purposes of Spanish legislation and the UK Corporate Governance Code. José Pedro Pérez-Llorca resigned from the Committee on February 26, 2013. All of the Committee members have appropriate understanding of financial matters. In addition to the Secretary, regular attendees at Committee meetings included the Chairman, the Chief Executive Officer, Chief Financial Officer, the Head of Group Audit and Risk Management, the Head of Group Reporting and Control and representatives from the external auditors.

The Committee met seven times during 2012. During the course of the year the Committee also held closed meetings and met privately with both the external and internal auditors.

The Audit and Compliance Committee's responsibilities

The Committee's principal responsibilities and activities during the year were:

- Review of financial statements and announcements relating to the financial performance and governance of the Group;
- Review of internal control and risk management processes together with the principal risks facing the Group;
- Review and agreement of the internal audit programme, level of staffing, effectiveness and resolution of issues raised;
- Review the reports of the external and internal auditors;
- Recommending the appointment of external auditors and reviewing their effectiveness, fees, terms of reference and independence.

During the year, the Committee performed an evaluation of its performance and concluded it is operating effectively. The Committee also reviewed its terms of reference, and concluded that they remained appropriate.

The full terms of reference of the Committee are included in article 23 of the Board Regulations available on the Company's website.

Other items reviewed

Going concern and liquidity risk

The Committee reviewed the going concern position of the Company together with the going concern positions of British Airways and Iberia. Particular attention was paid to debt and liquidity management and the status of the Iberia transformation plan. The Iberia liquidity forecast was reviewed through to December 2014 with more detailed analysis on a monthly basis through to June 2014. Realisation of the investment in Amadeus; potential impact of foreseeable limited strikes; delays to the implementation of the plan; and sensitivity to yield decline, fuel and foreign exchange were considered. It was concluded that there were no material uncertainties that cast significant doubts on the ability of Iberia to continue as a going concern during the year after publication of the Annual Report.

bmi

The accounting for the bmi acquisition, including the Purchase Price Allocation, was reviewed. The Committee assessed the work done to value the more judgmental assets and liabilities such as landing rights and deferred tax losses; adjustments arising from the alignment of accounting policies; the classification of bmibaby and bmi regional as discontinued operations; and the recognition of the gain on bargain purchase.

Impairment

The Committee reviewed the methodology and assumptions behind the IAS36 impairment review. The geographic growth assumptions underlying the business plans of the main cash generating units, British Airways and Iberia, were reviewed and the Committee satisfied itself that the plans represented reasonable estimates. The discount rates used were also confirmed as appropriate to the assets within each cash-generating unit. The Committee also examined the implementation of Iberia's transformation plan, the associated implementation costs and what improvement in Iberia's performance could be assumed in the cash flow forecasts.

Eurozone
The Committee has reviewed Eurozone risk throughout the year. Earlier reviews covered the potential commercial, contractual and liquidity impacts of the failure of the euro and the responses available. Actions taken within the treasury areas to substantially reduce the exposure to Eurozone periphery institutions were reviewed. More detailed work was then carried out on the potential accounting and legal impact of a Spanish Eurozone exit. The Committee also reviewed the Iberia Eurozone Roadmap, a high level contingency plan which defines the further practical steps that need to be planned in detail and the triggers for initiating that planning.

Financial risk management
The Group's Financial Risk policy governs fuel and currency hedging activity. In December the Committee carried out a review of the policy, including a more detailed examination of the relationships between fuel costs and potential offsetting cash flows resulting from exchange rates, economic growth and competitor activity. The review concluded that the Group fuel hedging policy developed in 2011 continues to be appropriate. The Committee also regularly reviewed the British Airways and Iberia fuel hedging positions. Further information on the policy is included in note 27 to the financial statements.

Financing risk
Recognising the increasing requirement for fleet financing in 2013 and the centralisation of financing activity for the Group, the Committee reviewed financing risk. A new Group policy addresses availability, refinancing, currency, and interest rate risk. The policy also promotes a common approach to key financing terms such as events of default, cross default and covenants.

External audit
The Committee works closely with the Group external auditors, Ernst & Young, with their UK and Spain-based partners attending all seven meetings during the year. The Committee reviewed the engagement letter, fees and the audit plan which included Ernst & Young's assessment of risk areas within the financial statements. Audit results were reviewed during four meetings; one for the half year; one early warning review of findings from interim audits; and two meetings on year-end audit issues.

The Committee also meets with Iberia's auditors, Deloitte, S.A., to review the results of their half and full-year audits.

In assessing the effectiveness and independence of the external auditors, the Committee considered relevant professional and regulatory requirements and the relationship with the auditors as a whole. The Committee monitored the auditors' compliance with relevant regulatory, ethical and professional guidance on the rotation of partners, and assessed their qualifications, expertise, resources and the effectiveness of the audit process, including a report from the external auditor on its own internal quality procedures. Having reviewed Ernst & Young's performance during 2012, the Committee decided it was in the Group's and shareholders' interests not to tender the audit in 2013 and recommends their re-appointment.

The Group audit was last tendered on the incorporation of the IAG holding company in 2010. Spanish law requires an initial appointment of three years which expires with the approval of these accounts. The Company intends to comply with the UK Corporate Governance Code requirement to tender the external audit at least every ten years and the transition arrangements that would require the audit to be tendered for the year 2020 at the latest.

Non-audit services provided by the external auditors are subject to a Board approved policy that prohibits certain categories of work and controls the overall level of expenditure. The policy is applied to both Ernst & Young and Deloitte throughout the Group and, as a result, includes some transition arrangements to run down projects that were in place during the creation of IAG. There is only one transition project still in progress which is the secondment of two Deloitte staff to a British Airways payroll outsourcing project. The Committee has satisfied itself with the scope of the work carried out by the Deloitte staff on this project. The Committee reviews the nature and volume of projects undertaken by the external auditors on a quarterly basis and the Committee Chairman pre-approves projects over €100,000 or of an unusual nature. The overall volume of work is addressed by a target maximum of €1,500,000 for each auditor; individual large projects taking the overall spend over this target will be approved by the Committee. Details of the fees paid to the external auditors during the year can be found in note 8 to the financial statements.

Whistleblowing
The Committee reviewed procedures whereby staff can raise confidential concerns regarding accounting, internal control, auditing and other matters. A confidential helpline run by Safecall is working well at British Airways. During the year Iberia implemented a Spanish language whistleblowing helpline, Ethicspoint, and the Committee is reviewing the promotion and adoption of the new service.

Report of the Nominations Committee

Dear Shareholder

I am delighted to present this report to shareholders on the work of the Nominations Committee during 2012.

The main objective of this Committee is to ensure that the Board and its Committees comprise individuals with the requisite skills, knowledge and experience to enable them to discharge their responsibilities effectively.

During the year under review the Committee tackled a number of important issues. Following the publication of the Davies Report on Women on Boards in 2011, the Committee has reviewed the number of women on the Board, at senior management level and across the Group. It has also reviewed the IAG Board diversity policy, which was subsequently approved by the IAG Board of Directors. An extract is available on the Company's website.

The Committee has also spent time this year reviewing the Company's succession plan for Executive Directors. An outline plan has been prepared and was discussed at the Committee meeting held in January 2013.

As part of the Board evaluation process, the Committee's performance was evaluated during the year. This was carried out internally by the Chairman, supported by the Company Secretary. A questionnaire was circulated to all Directors and the responses collated and analysed by the Company Secretary. The Committee was found to be operating effectively.

On August 2, 2012, Manuel Lagares Gómez-Abascal was appointed by co-option as an external proprietary director representing Bankia, following the resignation of Rodrigo de Rato y Figaredo who had previously represented Bankia. His appointment will be subject to shareholder approval at the Ordinary Shareholders' Meeting to be held in June 2013.

John Snow
Nominations Committee Chairman

Committee membership

The composition, competencies and operating rules of the Nominations Committee are regulated by Article 24 of the IAG Board of Directors' Regulations, which are available on the Company's website. These Regulations state that the Nominations Committee shall be made up of no less than three and no more than five Non-Executive Directors appointed by the Board, with the dedication, capacity and experience necessary to carry out its function. At least two of the members of the Nominations Committee shall be Independent Directors.

Currently, the Nominations Committee comprises four members: John Snow (Chairman), César Alierta Izuel, José Manuel Fernández Norniella and Baroness Kingsmill. With the exception of José Manuel Fernández Norniella, all of these members are considered to be independent Non-Executive Directors.

The Nominations Committee's responsibilities

The Committee's terms of reference are contained in the IAG Board of Directors' Regulations referred to above. The Committee's principal responsibilities can be summarised as follows:

- Reviewing the criteria for the composition of the Board and the selection of candidates;
- Submitting proposed appointments of independent Board members to the Board for approval;
- Reporting to the Board on the proposed appointment of other Board members;
- Reporting to the Board on the proposed designations of officers on the Board and proposing membership of Board committees;
- Succession planning for Board members, including the Chairman and the Chief Executive Officer;
- Establishing guidelines for the appointment, recruitment, career, promotion and dismissal of senior executives;
- Reporting to the Board on the appointment and removal of senior executives;
- Ensuring that Non-Executive Directors receive a formal letter of appointment; and
- Identifying Board members to fill vacancies on Board committees.

Meetings and attendance

During 2012, the Nominations Committee met four times. All members of the Committee attended all meetings, with the exception of John Snow and José Manuel Fernández Norniella, who were each unable to attend one meeting due to other commitments.

The Committee's activities during the year

The Committee dealt with the following significant issues during 2012:

- Induction and refresher programmes for Non-Executive Directors;
- Annual review of the functions of each Director;
- Appointment of a senior independent Non-Executive Director;
- Succession planning for Executive Directors;
- Review of the Committee's annual report;
- Performance evaluation of the Committee;
- Board diversity policy;
- The appointment of Manuel Lagares Gómez-Abascal;
- Nomination of key senior executives for appointment as Directors of Group subsidiaries, including: Julia Simpson (British Airways and Iberia); Garry Copeland (British Airways); Marco Sansavini (Iberia, Avios Group and IAG Cargo); and Ian Milne (Avios Group).

In addition, as part of its annual workload, the Committee evaluates the balance of skills, experience, independence and knowledge on the Board, which is considered to be appropriate for its current needs.

Since December 31, 2012, the Committee has met on two further occasions. Agenda items at these meetings included areas listed above, together with:

- The appointment of Non-Executive Directors;
- Subsidiary Board nominations;
- Diversity reporting; and
- Succession planning for the Management Committee.

Appointments

The Committee may use the services of external advisers to facilitate the search for potential candidates. It will consider candidates from a wide range of backgrounds with due regard to diversity including gender and selection will be made based on merit and against objective criteria, as well as taking account of the candidates' ability to commit sufficient time to the role.

In particular, the Committee has a policy of only engaging external search consultants who have signed up to the UK Voluntary Code of Conduct for Executive Search Firms published in July 2011, or an international equivalent.

Induction of Directors

During the year under review the Nominations Committee considered the existing arrangements for providing newly appointed Directors with an induction programme. It recommended to the Board that an induction policy should be agreed and that a programme should be established; this was agreed by the Board. Under these new arrangements, each newly appointed Director is provided with information about the Group and its operations. These induction programmes are tailored to the individual, and include setting up meetings with key personnel, visits to major sites and attendance at corporate events. The first induction programme is currently under way for Manuel Lagares Gómez-Abascal.

Report of the Safety Committee

Dear Shareholder

I am pleased to present this report to shareholders on the work of the Safety Committee during its second year.

As reported last year, the Committee considers matters relating to the operational safety of IAG and all of its subsidiaries. It also monitors at a high level the safety activities and resources of IAG and its subsidiaries. The Committee reports relevant information to the IAG Board, following up on any safety-related measures as determined by the IAG Board. In addition, the Committee reviews safety information received on IAG, its subsidiaries and franchise activities.

During 2012, the Committee held one meeting, attended by all four Committee members. The principal topics discussed included the safety review report of British Airways, and Iberia.

Willie Walsh
Safety Committee Chairman

Composition and meetings

Composition, competencies and operating rules of the Committee are regulated by article 26 of the IAG Board of Directors' Regulations.

The Committee shall be made up of no less than three and no more than five Directors appointed by the IAG Board, with the dedication, capacity and experience necessary to carry out their function. The Committee comprises four members: Willie Walsh (Chairman), Sir Martin Broughton, Kieran Poynter and Antonio Vázquez Romero.

The Safety Committee's responsibilities

The responsibility for safety matters belongs to the airlines. IAG, through its Safety Committee, will have an overall high level view of airline safety and of the important issues that may affect the industry. IAG, through its Safety Committee, will aim to have visibility and to satisfy itself that the Group's airlines have the appropriate safety resources and procedures. Responsibility for performing a detailed and technical assessment remains with the operating airlines.

The Committee's duties include:

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

Report of the Remuneration Committee

Dear Shareholder

I am pleased to set out the second Remuneration Report of IAG. The year in question has been a solid performance for the Company, against difficult trading conditions, building on the progress made in the first year in ensuring a robust governance regime is in place. The executive remuneration framework aims to underpin our business objectives and financial targets, and the remuneration policy is designed to deliver total remuneration which is market competitive with increased emphasis placed on pay for performance. The year has seen the matter of executive remuneration often in the news in both Spain and the UK. The so-called "shareholder spring" in the UK saw a number of companies receive significant challenges from shareholders on executive arrangements. Against this backdrop, I was delighted to see a 97 per cent vote in favour (96 per cent with abstentions) of the 2011 Remuneration Report at our Annual Shareholders Meeting. I saw this as a great vote of confidence in the fact that the Group has got a robust remuneration policy. This is in no small part due to the Chief Executive Officer of IAG leading by example in proposing restraint in executive packages, and proposing robust stretching targets for all IAG incentive plans. Government departments and investor bodies in both Spain and the UK will be proposing further changes to remuneration reporting and policy in 2013, and the Remuneration Committee will continue to watch developments very closely and act accordingly.

Overall summary of 2012

The continuing difficult global economic situation has meant that 2012 has been a difficult year. The financial targets for 2012 set at the beginning of the year were very stretching, and as such the two-thirds portion of IAG's annual incentive plan linked to operating results will pay out only 35 per cent of the maximum opportunity for 2012. However, the Group has achieved significant success in continuing to find synergies, and has outperformed against the second year cost and revenue synergy targets. These successes will be rewarded through the personal one-third portion of the annual incentive award. The Committee will continue to ensure that executive remuneration underpins the business strategy and is confident that the overall reward framework for 2013 is in the best interests of shareholders.

Members during the reporting period

During the reporting period, the members of the Committee have been César Alierta Izuel (Chairman), Baroness Kingsmill, José Manuel Fernández Norniella and John Snow.

Committee

During the year, the Committee performed an evaluation of its performance and concluded it is operating effectively. The Committee's terms of reference are available on the Company's website.

Beyond Executive Directors, the Committee has a responsibility to oversee the general application of the remuneration policy to the Senior Executives below the main board, and also has oversight on remuneration matters of the Senior Management, as well as the Executive Committee members of the operating companies.

Key activities during the year and stakeholder considerations

During the year, the Committee kept fully abreast of remuneration developments in the external marketplace. The Committee considered that the remuneration framework continued to be appropriate for IAG. In deciding the remuneration policy, the pay and employment conditions in both the Spanish and UK markets were taken into account. Other key metrics considered when deciding pay and remuneration policy include Company affordability, market movements, and retention considerations.

In February, the proposed changes to the performance measures for the 2012 Performance Share Plan award were adopted, following extensive consultation. In May, a methodology for dealing with remuneration aspects of mergers and acquisitions was approved. In December, the Chairman, and the Chief Executive Officer of Iberia, took a voluntary 25 per cent reduction in their fee/basic salary until further notice.

The 2012 report

The UK Government Department of Business, Innovation and Skills (BIS) is currently proposing changes to the layout and information required in Directors' Remuneration Reports. In order to align with their current requirements, IAG has chosen to early adopt these principles where appropriate. As such, this report is split into two sections. The first gives a summary of the 2012 remuneration outcomes, including the total remuneration (a 'single figure') of the Directors and variable pay awarded in the year. These regulations will apply to all UK companies listed on a major stock exchange with financial years ending on or after October 2013, and so the adoption of certain aspects of these regulations in this report is on a voluntary basis. The second section focuses on the policy set for 2013, including the objectives and operation of each element of pay, the context in which decisions for this policy were made, and service contract details. As in 2011, the full body of this report will be subject to an advisory vote at the Annual General Meeting.

Approved by the Board and signed on its behalf by

César Alierta Izuel
Chairman of the Remuneration Committee

Report of the Remuneration Committee continued

Committee and advisers

Introduction

This Report covers the period from January 1, 2012 to December 31, 2012 and provides details of the Remuneration Committee and remuneration policy for the Company.

The Report has been prepared in accordance with the provisions of article 61 'ter' of the Spanish Securities Market Law (Law 24/1998, of 28 July). In accordance with said article this report will be submitted to the consultative vote of the annual shareholders' meeting of the Company. The Remuneration Committee takes responsibility for the preparation of the report, which is approved by the Board.

The Report has also been prepared in accordance with the UK Listing Rules and, although there is no requirement as a Spanish company, the requirements of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

It is understood that Spanish remuneration reporting disclosure requirements may change in the near future. If this leads to a change in disclosure under Spanish Law the Committee may choose to change its approach to voluntary disclosure under UK regulation in order to prevent unnecessary duplication, which could potentially lead to confusion for shareholders.

Summary of 2012 remuneration outcomes

Role, membership and activities of the Committee

According to article 25 of the Board regulations the Remuneration Committee shall be made up of no less than three and no more than five Non-Executive Directors appointed by the Board, with the dedication, capacity and experience necessary to carry out their function. At least three of the members of the Remuneration Committee shall be Independent Directors. For the reporting period three of the members were considered Independent Non-Executive Directors of the Company. For the provision under the UK Corporate Governance Code see page 37. None of the members has any personal financial interest, other than as a shareholder, in the matters to be decided. There were four meetings held in the year. Cesar Alierta Izuel, José Manuel Fernandez Norniella and John Snow were unable to attend one meeting due to other commitments. The Terms of Reference of the Committee can be viewed on the Company's website.

Key topics covered at Remuneration Committee meetings

In 2012, the Committee met four times and discussed, amongst others, the following matters:

Meeting	Agenda items discussed
January	• Review and approval of Directors' basic salaries • Approval of 2012 Annual Incentive Plan • Approval of 2012 Performance Share Plan Awards
February	• Approval of 2012 Performance Share Plan measures and targets, following the shareholder consultation exercise • Approval of 2011 Annual Incentive Plan payments to Directors • Final review of 2011 Directors' Remuneration Report • Review of Directors' share ownership status • Review of the Committee's Terms of Reference
May	• Approval of methodology for dealing with remuneration aspects of mergers and acquisitions • Review of supporting material for the Annual General Meeting • Approval of the vesting outcome of the British Airways Performance Share Plan 2009 award • Approval of action plan following the performance evaluation of the Committee
September	• Review of Remuneration Committee Planner for 2013 • Update from the 2012 Annual General Meeting with voting outcomes • Full update on Spain and UK external market developments and corporate governance • Update on performance to date for the 2012 Annual Incentive Plan • Update on performance to date for the 2010, 2011, and 2012 Performance Share Plans • Approval of strategy for 2013 remuneration (salary, annual incentive and long-term incentive)

Advisers to the Committee

The Committee has not appointed external advisers. The Company obtained high-level headline remuneration survey data from a variety of sources. During the year, the Group Chief Executive Officer and Chief of Staff provided regular briefings to the Committee apart from when their own remuneration was being discussed.

Comparison of overall performance and pay

The Remuneration Committee is aware of the challenging economic environment and its severe impact on the Company's finances, but it also recognises that it is very important to incentivise and retain management to drive business performance.

The Committee is satisfied that the compensation packages, which are set by reference to market-based salary and incentive pay levels and take account of the Company's Key Performance Indicators, do not raise any environmental, social or governance risks by inadvertently motivating irresponsible behaviour or undue risk taking.

Single figure of remuneration for each Director

Subject to Audit

The table below sets out the single figure and breakdown for each Director. An explanation of how the figures are calculated follows the table. The remuneration for each Director reflects the performance of the Company and the contribution each individual has made to the ongoing success of the Company.

Director (€'000)	Base salary/ fees	Benefits	Pension, or cash in lieu	Annual incentive award – cash award	Incentive Award Deferral Plan (IADP)	Subtotal for year to December 31, 2012	Subtotal for year to December 31, 2011	British Airways Long Term Incentive vesting in year	Overall 2012 Total – the 'Single Figure' as per the draft BIS regulations
Executive Directors									
Willie Walsh (GBP)[2]	825	52	206	–	–	1,083	1,298	–	1,083
Willie Walsh (Euro)	1,015	65	254	–	–	1,334	1,494	–	1,334
Keith Williams (GBP)[2]	650	48	176	244	244	1,362	973	–	1,362
Keith Williams (Euro)	800	59	216	300	300	1,675	1,120	–	1,675
Rafael Sánchez-Lozano Turmo[1]	619	28	171	–	–	818	870	–	818
Non-Executive Directors									
Antonio Vázquez Romero[1]	632	53	–	–	–	685	921	–	685
Sir Martin Broughton	350	80	–	–	–	430	576	–	430
Baroness Kingsmill	120	19	–	–	–	139	129	–	139
James Lawrence	120	9	–	–	–	129	121	–	129
César Alierta Izuel	140	1	–	–	–	141	140	–	141
Patrick Cescau	120	19	–	–	–	139	136	–	139
José Manuel Fernández Norniella	120	4	–	–	–	124	115	–	124
José Pedro Pérez-Llorca	120	11	–	–	–	131	120	–	131
Kieran Poynter	140	15	–	–	–	155	144	–	155
Rodrigo de Rato y Figaredo[3]	70	25	–	-	–	95	139	–	95
John Snow	140	–	–	–	–	140	142	–	140
Manuel Lagares Gómez-Abascal	50	1	–	–	–	51	–	–	51
Aggregate emoluments (€'000)	**4,556**	**389**	**641**	**300**	**300**	**6,186**	**6,167**	**–**	**6,186**

1 Rafael Sánchez-Lorano Turmo and Antonio Vázquez Romero took a voluntary 25 per cent reduction in their basic salary/fee, effective December 1, 2012. For Rafael Sánchez-Lorano Turmo, his non-reduced salary is used to calculate his pension employer contribution, his annual incentive award, and his PSP award.
2 Willie Walsh and Keith Williams' remuneration is expressed in sterling pounds and also expressed in euros for information purposes only.
3 Fees corresponding to Rodrigo de Rato y Figaredo were paid to Bankia, S.A.

Note

Base salary/fees: Salary paid in year for Executive Directors and fees paid in year for Non-Executive Directors.

Benefits: Taxable benefits including personal travel and; where applicable, a Company car, driver, fuel and private health insurance.

Pension, or cash in lieu: Employer contribution to pension scheme, and/or cash in lieu of pension.

Report of the Remuneration Committee continued

Annual Incentive Award: Annual incentive award cash payments for the period ended December 31, 2012 (accrued at December 31, 2012, but not paid until March 2013). The outcomes of the performance conditions which determined the award are described in the next section.

Incentive Award Deferral Plan (IADP): Half of the full annual incentive award is deferred into shares for three years. These will vest in April 2016.

British Airways LTIP: The British Airways PSP granted on March 19, 2010 lapsed on May 10, 2012. The outcome of the performance condition which determined the vesting is described in the next section. The three-year performance period began on April 1 prior to the award date and ended on March 31, 2012. 0 per cent of the shares vested.

€:£ exchange rate applied is 1.2305.

Life Insurance
The company provides life insurance for all Directors. For the year to December 31, 2012 the Company paid contributions of €21,834.

Variable pay outcomes
Subject to Audit
2012 Annual Incentive Award
The targets that apply to the Annual Incentive Award are set by the Committee at the beginning of each year. These are set by reference to a number of factors including the business plan (as approved by the Board) and (for role specific objectives including synergy targets) the key targets for the individual and their specific areas of responsibility. The Committee retains the discretion to prevent any incentive award payments if, in its opinion, the underlying financial performance of the Company had not been satisfactory in the circumstances.

The maximum award for the Chief Executive Officer of IAG was 200 per cent of salary (100 per cent of salary for on-target performance) and for other Executive Directors, 150 per cent of salary (75 per cent of salary for on-target performance). The outcomes of the performance conditions were as follows:

Measure		Chief Executive Officer of IAG	Chief Executive Officer of British Airways	Chief Executive Officer of Iberia
Operating profit (67 per cent)	Payout	Nil	€279,939 £227,500	Nil
	per cent of maximum awarded	Nil	35 per cent	Nil
Role-specific objectives (33 per cent)	Outcomes versus targets	Objectives based on setting the overall Group strategy, and Group financial performance including implementation of cost and revenue synergy savings across the operating companies.	Objectives based on BA financial performance including control of the cost base, synergy savings, customer satisfaction, and operational performance.	Objectives based on Iberia financial performance including developing a restructuring plan to restore profitability, synergy savings, customer satisfaction, and operational performance.
	per cent of maximum awarded	Nil	80 per cent	Nil
Details of any discretion exercised		See below	None	See below
Overall outcome		Nil	€599,869 £487,500	Nil

Half of this amount is payable in deferred shares in the Company vesting after three years (under the Incentive Award Deferral Plan).

IAG operating profit for 2012 (two-thirds of the annual incentive) has resulted in 35 per cent of the maximum paying out for this element of the incentive. This is between the threshold level and the on-target level. In 2011, IAG operating profit was below the threshold level, and there were no payments under that element of the annual incentive. For 2012, for the

one-third portion based on personal objectives, the Chief Executive Officer of the Group has determined an outcome as above for the Chief Executive Officer of British Airways and the Chief Executive Officer of Iberia based on their performance against their role-specific objectives.

The CEO of Iberia has agreed to forgo his annual incentive payment for 2012.

Whilst the performance of the Group CEO would in the opinion of the Board have justified the payment of the annual incentive, after considering the financial performance of the Group, the Board has decided to exercise its discretion to withhold the payment of the annual incentive at this time.

British Airways LTIP 2009

The British Airways PSP granted on March 19, 2010 was tested at the end of the performance period, which began on April 1, 2009 and ended on March 31, 2012. The awards granted in 2010 were equivalent to 150 per cent of salary for both the Group CEO and the CEO of British Airways and 100 per cent for other members of the British Airways management team. At the time of the award, Willie Walsh (who at the time was CEO of British Airways) felt it appropriate to decline his award. The outcome of the performance condition was as follows:

Measure	Threshold	Maximum	Outcome	Vesting (as per cent award granted in 2010)
TSR performance against a group of airlines (100 per cent)[1]	Median (25 per cent of award vests)	Upper quintile or above (100 per cent of award vests)	12th	0 per cent
Details of any discretion exercised			None	None
Overall outcome				0 per cent

1 Group of airlines: Air Berlin, Air Canada, Air France/KLM, Air New Zealand, All Nippon Airlines, American Airlines, Cathay Pacific Airlines, Delta Airlines, Easyjet, JAL, LAN, Lufthansa, Qantas Airways, Ryanair, SAS, Singapore Airlines, United Airlines, US Airways. Following their respective mergers, Continental Airlines and Iberia delisted during the performance period and were removed from the group. JAL was retained in the comparator group with its TSR frozen at the date of delisting.

Variable pay awarded during the financial year

The IAG Performance Share Plan (PSP) is a discretionary plan targeted at key senior Group Executives and Managers who directly influence shareholder value. The Company granted an award under the PSP in August 2012. The table in this section sets out the key details of the award.

It is the opinion of the Committee that comparing the Company's TSR to that of European transportation companies, including airlines, is appropriate, given that these companies are subject to external influences impacting share price performance similar to those of the Group. This comparison therefore provides a good reference point for Management outperformance and value creation.

A key drawback of the ranked group measurement approach (used in 2011 and previous to that at British Airways) is that relatively small changes in TSR performance can lead to significant changes in vesting. The Committee approved the measurement of TSR relative to an index in order to rectify this shortcoming, and believes index measurement avoids the step effect associated with rank measurement.

In addition, the Committee considers use of the index approach against a recognised market index to be more objective. By using the MSCI European Transportation Index, automatic adjustments would be made when constituent companies delist or are subject to a corporate transaction, using a consistently applied and externally verified methodology.

The Committee believes that EPS performance provides a strong measure of the underlying financial performance of the business.

Report of the Remuneration Committee continued

PSP eligibility, metrics and targets

Type of award	Shares	
Basis of determination of the size of award	Awards only made to those executives who are consistently high-performing, and/or are in key roles, and/or whom the Company wishes to retain in the long term.	
Face value awarded (per cent of salary)	Chief Executive Officer of IAG– 200 per cent Other Executive Directors – 150 per cent	
Performance period	January 1, 2012 – December 31, 2014	
Performance conditions	EPS performance targets	TSR performance compared to the TSR performance of the MSCI European Transportation (large and mid cap) index
Weighting	50 per cent	50 per cent
Threshold	2014 EPS of €0.20 10 per cent vests	IAG's TSR performance equal to the index 25 per cent vests
Target (straight line vesting between threshold and maximum)	2014 EPS between €0.20 and €0.50	IAG's TSR performance between index return and 8 per cent per annum outperformance
Maximum	2014 EPS of €0.50 100 per cent vests	IAG's TSR performance exceeds index by 8 per cent per annum 100 per cent vests

The maximum vesting under the EPS performance condition only occurs if the Company achieves €0.50 (which at the time of the award was the forecast level for the 2015 business plan). This recognises the stretching goals the Company has set in its business plan. The Committee notes that the Company is currently not forecast to achieve this goal by the end of the performance period in 2014, but that it establishes a strong benchmark for EPS targeting.

The Committee retains the discretion to review and, if appropriate, adjust the EPS targets and/or definition in the context of any corporate transactions, provided that, in the view of the Committee, any revised targets are no more or less challenging than the original targets. To the extent that any such adjustments are made, the Committee will disclose the basis for any adjustments and the rationale in subsequent reports.

Total pension entitlements
Subject to Audit

The Company operates a defined contribution scheme. The Executive Directors are entitled to receive a contribution of 25 per cent of base salary. Executives are also eligible to receive a salary supplement in lieu of a pension.

Willie Walsh is a member of the Company's pension scheme and the Company paid contributions during the reporting period of £50,000, plus cash in lieu of pension of £156,250.

Keith Williams has opted to take cash in lieu of a pension, and during the reporting period he has received £175,625. This includes a back payment of one month for 2011.

Rafael Sánchez-Lozano Turmo opted to take cash in lieu of a pension up to August 31, 2012, and up until that date he had received €118,500. This includes a back payment of one month for 2011. Rafael joined the Company's pension scheme on September 1, 2012, and the Company paid contributions during the period September 1, 2012 to December 31, 2012 of €52,667. For pensionable pay purposes, Rafael's salary remains at €632,000 even after the voluntary reduction of 25 per cent, and Company contributions are calculated on that basis.

Keith Williams is a deferred member of the NAPS scheme, Keith was an active member of the scheme until the merger effective date. The transfer value of the accrued pension at December 31, 2012 is €2,821,711, the increase in benefits during the year is €280,022, of which, net of inflation is €156,812.

Keith Williams was an active member of both the defined benefit NAPS pension scheme and an unfunded approved retirement scheme, which, under the terms of his service contract, will provide a total retirement benefit at age 60 equivalent to 1/56th of pensionable pay for each year of service up to March 31, 2007. For service from April 1, 2007 until he left the scheme at the merger effective date, in line with choices given to all NAPS members, Keith opted to pay extra contributions in order to be entitled to 1/60th of pensionable pay for each year of service payable at age 60.

Exit payments made in year

Rodrigo de Rato y Figaredo left the Board on July 10, 2012. As a Non-Executive Director he was remunerated in fees only and received no exit payments.

Shareholder context

The table below shows the advisory vote on the 2011 remuneration report at the June 2012 Annual General Meeting:

Number of votes cast	For	Against	Abstentions
1,278,766,463	1,228,510,677 (96.1 per cent)	40,683,715 (3.2 per cent)	9,572,071 (0.7 per cent)

Share ownership of Executive Directors

Subject to Audit

In order that their interests are aligned with those of shareholders, Executive Directors are expected to build up and maintain a personal shareholding in the Company.

Under the Group's shareholding guidelines, Executives are expected to build up and maintain a shareholding of 100 per cent of salary, and are expected to retain no fewer than 50 per cent of shares (net of tax) which vest from share plans until this shareholding requirement is attained.

The Committee has reviewed the guidelines and notes those have not yet been fulfilled. This is due to the fact that shareholding tends to be built up through the vesting of share awards, which have historically been fairly low in IAG compared to the market. The table below summarises current Directors' interests

Director	Shareholding requirement (per cent of salary)	Qualifying shareholding[1]	Qualifying shareholding (per cent of salary)
Willie Walsh	100 per cent	343,257	85
Keith Williams	100 per cent	255,420	87
Rafael Sánchez-Lozano Turmo	100 per cent	108,018	78

1 Unvested deferred bonus shares count towards meeting the shareholding guidelines.

Directors' beneficial interests in shares

Subject to Audit

	Total shares	Voting rights	Percentage of capital
Antonio Vázquez Romero	512,291	512,291	0.028
Sir Martin Broughton	69,090	69,090	0.004
Willie Walsh	298,915	298,915	0.016
César Alierta Izuel	1,000,000	1,000,000	0.054
Patrick Cescau	0	0	0.000
José Manuel Fernández Norniella	816	816	0.000
Manuel Lagares Gómez-Abascal	100	100	0.000
Baroness Kingsmill	2,000	2,000	0.000
James Lawrence[1]	50,000	50,000	0.003
José Pedro Pérez-Llorca	408	408	0.000
Kieran Poynter	0	0	0.000
Rafael Sánchez-Lozano Turmo	103,070	103,070	0.006
John Snow	0	0	0.000
Keith Williams	135,615	135,615	0.007
Total	**2,172,305**	**2,172,305**	**0.118**

1 Held as IAG ADSs (one IAG ADS equals five IAG shares).

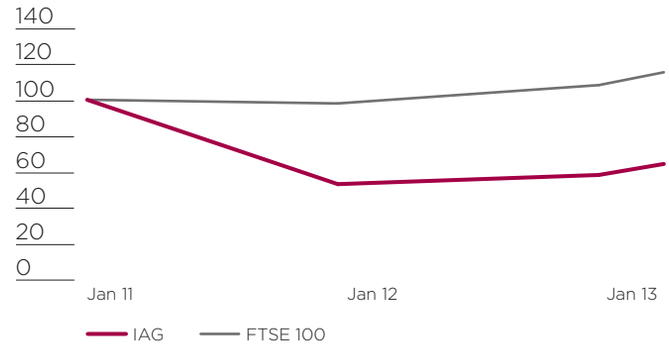
Sir Martin Broughton held two convertible bonds in British Airways Plc at December 31, 2012.

There have been no changes to the shareholdings set out above between December 31, 2012 and the date of this report.

Report of the Remuneration Committee continued

Performance graph
The chart shows the value by December 31, 2012 of a hypothetical £100 invested on listing compared with the value of £100 invested in the FTSE 100 index over the same period. A spot share price has been taken on the date of listing, and a three-month average has been taken prior to the year end. The FTSE 100 was selected because it is a broad equity index of which the Company is a constituent, and the index is widely recognised.

IAG's total shareholder return (TSR) performance compared to the FTSE 100



Source: Bloomberg

Summary of 2013 remuneration policy (This policy took effect on January 1, 2013)

Key elements of pay
The Company's remuneration policy is to provide total remuneration packages which are competitive with the market median, linked to the business strategy and take into account each individual's role, skills and contribution. The Company's primary comparator group is the FTSE 26 to 100 (excluding financial services), with a secondary reference to global airline companies where appropriate. The Committee is updated on the pay and conditions of employees within the Group, and takes these into account when determining the Executive Directors' remuneration.

The table below summarises the main elements of remuneration packages for the Executive Directors.

Purpose and link to strategy	Summary of policy	Opportunity, and performance conditions
Base salary Takes account of role, skills and contribution	The positioning of base salaries is set with reference to similar roles in the benchmarking comparator group (primarily the FTSE 26 to 100 excluding financial services), as well as the individual's skills and contribution. The Committee also considers levels of base salary increases in the rest of the Group, which for 2013 was zero to two per cent.	Chief Executive Officer of IAG: £825,000 (no increase from 2011 or 2012) (€1,015,163). Chief Executive Officer of British Airways: £650,000 (no increase from 2012) (€799,825). Chief Executive Officer of Iberia: €632,000, with a voluntary reduction of 25% to €474,000 effective December 1, 2012 until further notice.
Benefits	Life insurance, personal travel and; where applicable, a Company car, driver, fuel and private health insurance.	The Company will pay contributions in relation to life insurance.
Annual Incentive Award Incentivises annual corporate financial performance and role specific objectives	The targets that apply to the annual incentive award are set by the Committee at the beginning of each year. These are set by reference to a number of factors including the business plan (as approved by the Board) and (for role specific objectives including synergy targets) the key targets for the individual and their specific areas of responsibility. The Committee retains the discretion to prevent any incentive award payments if, in its opinion, the underlying financial performance of the Company had not been satisfactory in the circumstances.	Chief Executive Officer of IAG – 200 per cent of salary (100 per cent of salary for on-target performance). Other Executive Directors – 150 per cent of salary (75 per cent of salary for on-target performance). **Performance conditions** One-third measured by British Airways operating profit, one-third measured by Iberia's net cash flow, and one-third based on role specific objectives which are unchanged from 2012 as detailed earlier in this report.

Purpose and link to strategy	Summary of policy	Opportunity, and performance conditions
Incentive Award Deferral Plan (IADP) Aligns the interest of Executives and shareholders and provides a retention tool	The IADP is designed to align the interests of Executives with shareholders by providing half of the annual incentive in deferred shares. Other than on retirement or redundancy, the shares will be subject to forfeiture if the Executive leaves during the three-year deferral period. On vesting, Executives will receive the benefit of any dividends paid over the deferred period.	Half of any annual incentive award is deferred into shares for three years. **Performance conditions** Clawback provision applies. No other performance conditions apply because it is based on performance already delivered.
Performance Share Plan (PSP) Incentivises long-term shareholder value creation. Drives and rewards delivery of sustained TSR and financial performance	The PSP is a discretionary plan and is targeted at key senior Executives and managers of the Group who directly influence shareholder value. The PSP consists of an award of the Company's shares which vests subject to the achievement of pre-defined performance conditions in full or in part at the third anniversary of the date of the award. No payment is required from individuals when the shares are awarded or when they vest. The Committee retains the discretion to prevent any PSP award payments if, in its opinion, the underlying financial performance of the Company had not been satisfactory in the circumstances.	Chief Executive Officer of IAG – 200 per cent of salary. Other Executive Directors – 150 per cent of salary. The maximum individual award in any financial year is 300 per cent of base salary, unless the Committee considers that exceptional circumstances merit a larger award. **Performance conditions** These are measured over three years: 50 per cent based on IAG TSR performance relative to the MSCI European Transportation Index. This condition is considered appropriate because the companies in the index are subject to external influences impacting share price similar to those of the Group; 50 per cent based on EPS. This condition is considered appropriate because it provides a strong measure of the underlying financial performance of the business.
Pension Provides post-retirement remuneration and ensures total package is competitive	The Company operates a defined contribution scheme. Executives can opt instead to receive a salary supplement in lieu of a pension.	A defined contribution scheme providing 25 per cent of basic salary per annum. Chief Executive Officer of IAG and Chief Executive Officer of Iberia are members of the pension scheme. Chief Executive Officer of British Airways opted to receive salary supplement in lieu of a pension.

IAG employees at all levels participate in the discretionary Annual Incentive Plan. Both the size of award and weighting of performance conditions vary by level, with some business unit specific measures incorporated where relevant.

All members of the Senior Management Team participate in the IADP (50 per cent of any annual incentive payment deferred in IAG shares for three years) and certain selected Senior Management in the PSP in line with the Executive Directors. Employees below Senior Management do not participate in either.

The same performance conditions and weightings between TSR and EPS apply to all participants of the PSP. The size of award varies by level in the business.

Report of the Remuneration Committee continued

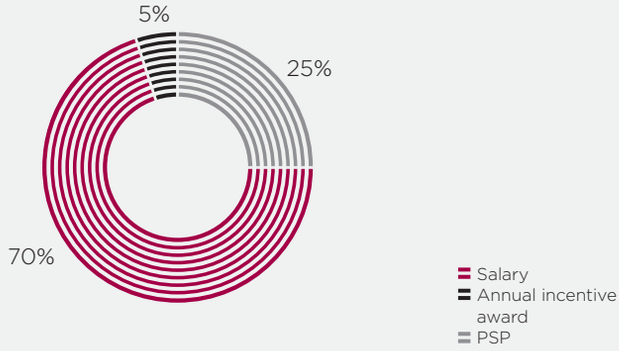
Remuneration scenarios

A significant portion of the Company's total remuneration package is variable, with emphasis placed on longer-term reward to align closely Executive Directors' and Senior Managers' interests with shareholder interests. The charts below show the composition of total remuneration at threshold, target and maximum performance for the Executive Directors.

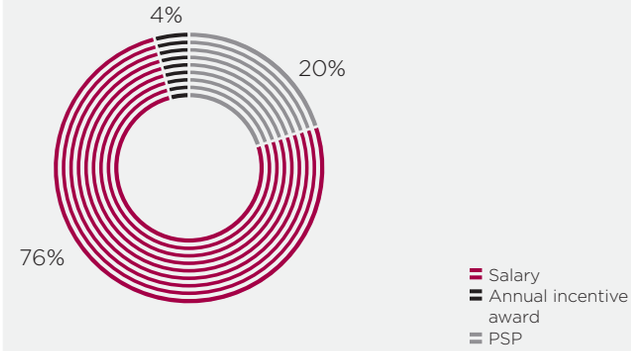
At threshold performance, the annual incentive pays out 5 per cent of the maximum opportunity for the financial measure (two-thirds of the incentive), and 0 per cent for role-specific objectives (one-third of the incentive). For the PSP at threshold performance, 25 per cent of the maximum opportunity vests for TSR performance and 10 per cent of the maximum opportunity vests for EPS performance.

At target performance, both the annual incentive and the PSP pay out 50 per cent of the maximum opportunity.

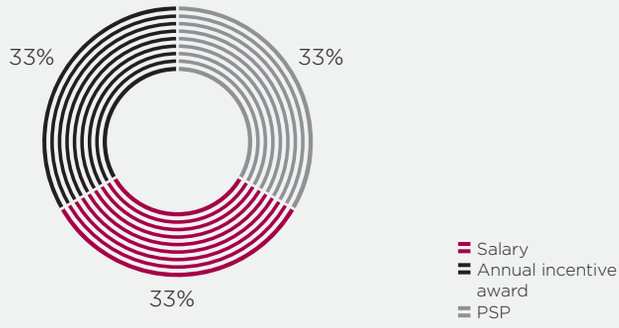
Group CEO – Threshold performance



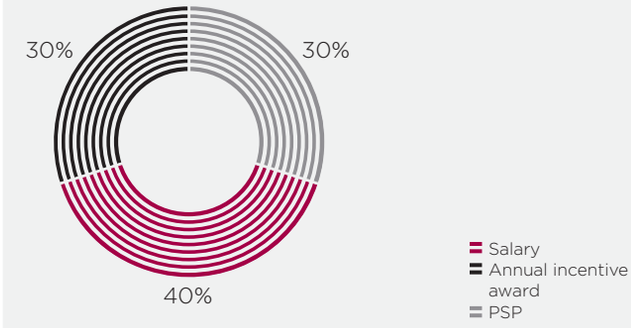
Other Executive Directors – Threshold performance



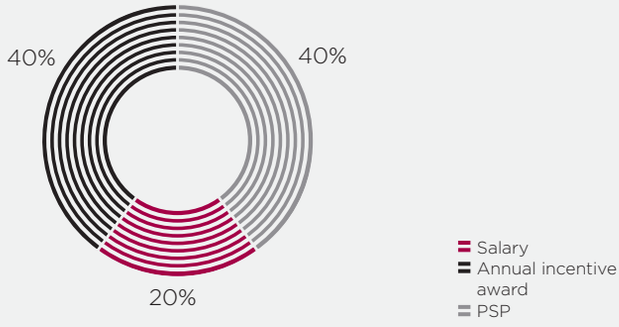
Group CEO – Target performance



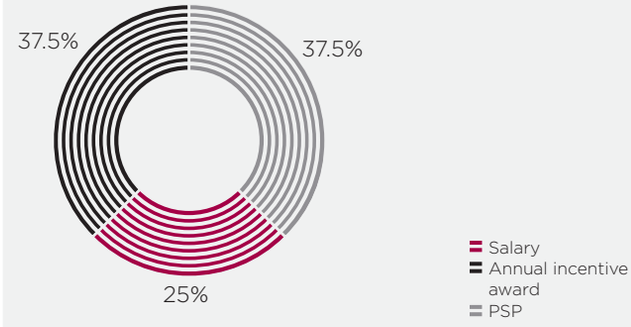
Other Executive Directors – Target performance



Group CEO – Maximum performance



Other Executive Directors – Maximum performance



Service contracts and exit payments

The following is a description of the key terms of the service contracts of Executive Directors.

Executive Director	Date of contract	Notice period
Willie Walsh	January 21, 2011	12 months
Keith Williams	January 21, 2011	12 months
Rafael Sánchez-Lozano Turmo	January 21, 2011	12 months

There are no express provisions in Executives' service contracts with the Company for compensation payable upon termination of those contracts, other than for payments in lieu of notice. The only exception to this is a lump-sum retirement benefit for the Chief Executive Officer of Iberia as noted below.

The period of notice required from the Executive is 26 weeks; the period of notice required from the Company is 52 weeks. Where the Company makes a payment in lieu of notice, a lump sum in lieu of the first 26 weeks, base salary is payable within 28 days of the date of termination of employment. A payment in respect of base salary for the second 26-week period only becomes payable if, in the Company's opinion, the Executive has taken reasonable steps to find alternative paid work and then only in six monthly instalments. The Company may reduce the sum payable in respect of any month by any amount earned by the Executive (including salary and benefits) referable to work done in that month.

In the event of an Executive's redundancy, compensation, whether in respect of a statutory redundancy payment or a payment in lieu of notice or damages for loss of office; is capped at an amount equal to 52 weeks, base salary.

As set out in the merger documentation, the Chief Executive Officer of Iberia will also continue to be entitled to a lump-sum retirement benefit in an amount of €1,168,000. The fund balance under the policy (including accrued interest) will be paid upon exit from the Company for any reason.

The Company may terminate an Executive's service contract with immediate effect and without compensation on a number of grounds including where the Executive is incapacitated for 130 days in any 12 month period, becomes bankrupt, fails to perform his duties to a reasonable standard, acts dishonestly, is guilty of misconduct or persistent breach of his duties, brings the Company into disrepute, is convicted of a criminal offence, is disqualified as a Director, refuses to agree to the transfer of his service contract where there is a transfer of the business in which he is working or ceases to be eligible to work in Spain or the UK (as applicable).

Under the PSP and IADP, if a Director leaves, the Remuneration Committee may exercise its discretion (within the rules of the two schemes) to grant "good leaver" status. This can be granted in certain circumstances including; for example (list not exhaustive); the Director leaving for reasons of ill-health, redundancy, retirement, or death. Directors leaving with "good leaver" status will receive shares awarded to them under the IADP scheme, and a pro-rated amount of their PSP shares subject to the Company performance conditions being met. The pro-ration is calculated according to what proportion of the performance period the Director spent in Company service. If "good leaver" status is not granted to a Director, all outstanding awards made to them under the PSP and IADP will lapse.

Report of the Remuneration Committee continued

Non-Executive Directors do not have service contracts. Their appointment is subject to the Board regulations, Nominations Committee and Board decision on Annual elections. The dates of the Chairman's and Non-Executive Directors' appointment, who served in the period; are as follows:

Non-Executive Director	Date of appointment	Date of election	Date of expiration of period – Shareholders Meeting to be held in:
Antonio Vázquez Romero	May 25, 2010	November 29, 2010	2015
Sir Martin Broughton	May 25, 2010	November 29, 2010	2013
Baroness Kingsmill	September 27, 2010	November 29, 2010	2014
James Lawrence	September 27, 2010	November 29, 2010	2015
César Alierta Izuel	September 27, 2010	November 29, 2010	2014
Patrick Cescau	September 27, 2010	November 29, 2010	2013
José Manuel Fernández Norniella	September 27, 2010	November 29, 2010	2013
José Pedro Pérez-Llorca	September 27, 2010	November 29, 2010	2014
Kieran Poynter	September 27, 2010	November 29, 2010	2014
John Snow	September 27, 2010	November 29, 2010	2013
Manuel Lagares Gómez-Abascal[1]	August 2, 2012		

1 Manuel Lagares Gómez-Abascal will seek election at the Shareholders Meeting in June 2013.

External Non-Executive Directorship

The Company's consent is required before an Executive can accept an External Non-Executive appointment and permission is only given in appropriate circumstances. During the reporting period in question the following Director held a directorship from which he retained a fee:

Director	Company	Fee £
Keith Williams	Transport for London	£24,000

Non-Executive Directors

Non-Executive Directors are paid a flat fee each year, with an additional fee for each Committee chairmanship held, as detailed below:

Role	Fee:
Non-Executive Chairman	€645,000, voluntarily reduced to €483,750 with effect from December 1, 2012 until further notice
Non-Executive Deputy Chairman	€350,000
Other Non-Executive Directors	€120,000
Committee Chairmanship	€20,000

Non-Executive Directors (including the Chairman and Deputy Chairman) are entitled to use air-tickets of the airlines of the Company or related to the Company for a total annual gross amount of €500,000 in aggregate.

In relation to the Chairman, as set out in the merger documentation, the conditions of the service contract with Iberia were taken into account at the time of the merger. This means that he will therefore continue to be entitled to a lump-sum retirement benefit in an amount of €2,800,000. The fund balance under the policy (including accrued interest) will be paid upon exit from the Company for any reason.

Additional information

Subject to Audit

Directors' share options

The following Directors held options to purchase ordinary shares in the Company granted under the British Airways Share Option Plan 1999 (SOP 1999). The SOP 1999 was closed after the final grant in 2005/06. The SOP 1999 provided for the grant of options to acquire ordinary shares in the Company or the Company's American Depositary Shares at an option price not less than the market value of the shares on the date of grant. No payment was due upon the initial grant of options.

Director	Date of grant	Number of options at January 1, 2012	Exercise price	Options exercised during the year	Options lapsed during the year	Exercisable from	Expiry date	Number of options at December 31, 2012
Executive Director								
Keith Williams	July 1, 2002	91,160	181p	–	91,160	July 1, 2005	July 1, 2012	–
	June 25, 2003	114,649	157p	–	–	June 25, 2006	June 25, 2013	114,649
	June 25, 2004	72,480	262p	–	–	June 25, 2007	June 25, 2014	72,480
	June 23, 2005	69,927	276p	–	–	June 23, 2008	June 23, 2015	69,927
Total		**348,216**		–	**91,160**			**257,056**

The performance conditions in relation to all the options listed in the table have been satisfied; therefore all options have vested accordingly.

Report of the Remuneration Committee continued

Directors' conditional awards

The following Directors held conditional awards over ordinary shares of the Company granted under the IAG PSP, the British Airways Long Term Incentive Plan 1996 (LTIP) and the British Airways PSP. The LTIP operated from 1996 to 2004 and was replaced by the British Airways PSP in 2005.

Director	Plan	Date of award	Number of awards at January 1, 2012	Awards vesting during the year	Awards lapsing during the year	Awards made during the year	Number of awards at December 31, 2012
Executive Directors							
Willie Walsh	British Airways PSP	September 17, 2010	469,148	–	–	–	469,148
	IAG PSP	March 31, 2011	714,285	–	–	–	714,285
	IAG PSP	August 3, 2012	–	–	–	1,024,844	1,024,844
Total			**1,183,433**	**–**	**–**	**1,024,844**	**2,208,277**
Keith Williams	LTIP	June 9, 2003	46,631	–	–	–	46,631
	LTIP	June 16, 2004	22,141	–	–	–	22,141
	British Airways PSP	March 19, 2010	325,123	–	325,123	–	–
	British Airways PSP	September 17, 2010	280,851	–	–	–	280,851
	IAG PSP	March 31, 2011	409,090	–	–	–	409,090
	IAG PSP	August 3, 2012	–	–	–	605,590	605,590
Total			**1,083,836**	**–**	**325,123**	**605,590**	**1,364,303**
Rafael Sánchez-Lozano Turmo	IAG PSP	March 31, 2011	359,990	–	–	–	359,990
	IAG PSP	August 3, 2012	–	–	–	486,990	486,990
Total			**359,990**	**–**	**–**	**486,990**	**846,980**

The vested LTIP awards disclosed above were subject to a performance condition that British Airways' TSR performance relative to the constituents of the FTSE 100 was median or above. Upon vesting of the LTIP awards and the Remuneration Committee having considered in both cases that underlying financial performance was satisfactory, participants were granted nil-cost options in accordance with the rules of the scheme. Options are exercisable for seven years from the date of vesting of the relevant LTIP award. No payment is due upon the exercise of these options.

The performance conditions for the PSP awards above will be tested to determine the level of vesting. For the September 2010 PSP award, 100 per cent of the award is subject to TSR performance measured against a comparator group of airlines. For the 2011 PSP award, 70 per cent of the award is subject to TSR performance measured against a comparator group of airlines, and 30 per cent is subject to performance against IAG synergy targets. For the 2012 PSP award, 50 per cent of the award is subject to TSR performance measured against an index, and 50 per cent is subject to EPS performance. In each case, the performance conditions will be measured over a single three year performance period, which began for the awards made under the British Airways Plans on April 1 prior to the award date, for the 2011 IAG award the merger effective date, and for the 2012 IAG award on January 1, 2012.

The award granted on March 19, 2010 was tested at the end of the performance period, and as a result none of the shares vested, as detailed earlier in this report in the section on Variable Pay Outcomes.

The value attributed to the Company's ordinary shares in accordance with the Plan rules on the date of the 2012 PSP award was 161 pence (2011: 231 pence; 2010 235 pence; 2009: 203 pence).

Incentive Award Deferral Plan

The following Directors held conditional awards over ordinary shares of the Company granted under the IAG IADP (awarded as a result of British Airways' performance for the period ended December 31, 2010, and IAG performance for the period ended December 31, 2011), and the British Airways DSP.

Director	Relates to incentive award earned in respect of performance	Date of award	Number of awards at January 1, 2012	Awards released during the year	Date of vesting	Awards lapsing during the year	Awards made during the year	Number of awards at December 31, 2012
Executive Directors								
Willie Walsh	2010	March 31, 2011	90,984	–	March 31, 2014	–	–	90,984
	2011	August 3, 2012	–	–	August 3, 2015	–	93,773	93,773
Total			**90,984**	**–**		**–**	**93,773**	**184,757**
Keith Williams	2009/10	September 17, 2010	70,999	–	June 30, 2013	–	–	70,999
	2010	March 31, 2011	44,904	–	March 31, 2014	–	–	44,904
	2011	August 3, 2012			August 3, 2015	–	58,695	58,695
Total			**115,903**	**–**		**–**	**58,695**	**174,598**
Rafael Sánchez-Lozano Turmo	2011	August 3, 2012	–	–	August 3, 2015	–	20,616	20,616
Total			**–**	**–**		**–**	**20,616**	**20,616**

There are no performance conditions to be tested before vesting for the IADP and DSP, except that the Director must still be employed by the Company at the time of vesting.

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2012 IADP award was 161 pence (2011: 231 pence; 2010: 235 pence).

Share scheme dilution limits

The Association of British Insurers (ABI) sets guidelines that restrict the issue of new shares under all the Company's share schemes in any ten-year period to 10 per cent of the issued ordinary share capital and restrict the issues under the Company's discretionary schemes to 5 per cent in any ten-year period. At the General Meeting in 2010 the Company was given authority to allocate up to 45,000,000 shares (2.43 per cent of the share capital) in 2011 and 2012. Of this a maximum of 5,100,000 shares could be allocated to Executive Directors under all IAG share plans for awards made during 2011 and 2012. At December 31, 2012, 1.59 per cent of the share capital had been allocated under the IAG share plans. At the Annual Shareholders Meeting in June 2013, further authority will be sought to allot shares for share awards in 2013 and 2014.

It will be proposed that the maximum number of ordinary IAG shares that could be allocated to Company share schemes for any award made in 2013 and 2014 is 45,000,000, of which 5,100,000 may be allocated to Executive Directors.

The highest and lowest close prices of the Company's shares during the period and the share price at December 31, 2012 were:

At December 31, 2012	185p
Highest in the period	190p
Lowest in the period	136p

A CHALLENGING ENVIRONMENT

Combating oil prices and challenging operating economies, particularly in Spain

Management report

Operating and Market Environment
The economic landscape

IAG serves all key global markets. Its primary economic exposures are the UK, the Eurozone and North America. In 2012, the weaker economic environment in the Eurozone impacted all major economies and the rate of global Gross Domestic Product (GDP) growth in real terms was around 0.5 per cent lower than in 2011 at approximately 3 per cent, with the outlook for 2013 being limited growth.

UK
Economic growth in the UK softened in 2012 with no growth in GDP. Export levels remain depressed, particularly due to trading conditions in the Eurozone. Progress towards reducing the national deficit is slow and the government programme of fiscal retrenchment is forecast to take longer than initially planned. The Organisation for Economic Co-operation and Development (OECD) forecasts almost one per cent growth in GDP in 2013, with household spending and exports expected to pick up through the year.

Despite this slow recovery, FTSE 100 companies grew EBITDA in 2012 and private sector companies across a broad spectrum of sectors continued to grow employment levels.

Eurozone
The Eurozone experienced a year of uncertainty in 2012, leading to stabilisation measures including quantitative easing and bond-buying to dampen near-term pressures in public finances and bank solvency. The Eurozone was in recession in 2012 and is forecast to remain so in 2013. An end to the crisis depends on breaking the negative interaction between issues of bank solvency, Eurozone break-up risks and debt sustainability.

OECD expects that confidence should begin to recover, and economic activity will gradually strengthen through late 2013 and during 2014, as measures to lower debt levels and achieve deficit reductions begin to bite.

North America
The US has aggressively tackled the two primary causes of the last recession: excessive borrowing and the housing bubble. Personal deleveraging is firmly underway in the US and house prices have broadly returned to their long-run trend, following the high price bubble. US banks' balance sheets are in the main healthier than those of their European counterparts and banks are lending again. The progress that the US has made is reflected in the stability of its economic outlook.

At the end of 2012, the US faced a so-called 'fiscal cliff' a combination of expiring tax cuts and across-the-board government spending cuts, which, if left unchecked, were expected to significantly impact the economy and undermine consumer and investor confidence. The 'fiscal cliff' was averted at the beginning of 2013 with an agreed package of measures to make many tax cuts permanent, albeit with limited action to reduce the budget deficit. The forecasts for the US economy have remained largely unchanged with predicted GDP growth of 2.7 per cent in 2013 and 3.1 per cent forecast in 2014.

Latin America
The slowdown in the emerging economies has proved to be longer than previously expected. Whilst the slowdown in economic growth has been more severe across Brazil, Russia, India and China (BRIC countries) than in the G7, there are signs that Latin America is bouncing back. After a sharp slowdown driven by an appreciating currency, Brazil is seeing recovery; Mexico has suffered limited slowdown thanks to its close association with the US.

Impact on our industry
Premium air travel year-on-year demand in key markets
Global Premium demand remained more resilient in IAG's key markets in 2012 than expected.

	2012	Share of premium revenue
North Atlantic	+0.6%	+22.9%
Within Europe	+1.0%	+5.6%
Within Far East	+9.0%	+7.2%
Europe – Far East	+5.5%	+15.6%
Europe – Middle East	+9.2%	+6.9%
Total market	**+4.8%**	**+100%**

Source: International Air Transport Association (IATA) data

Industry outlook
Trading conditions
IATA estimates that fuel costs will plateau in 2013, at a total cost to the industry of US$210 billion, 50 per cent higher than in 2010. Fuel in the last two years has made up one-third of airline operating costs, having only been a quarter in 2010, which was already a significantly higher proportion of operating costs than historically.

Operating results over the last two years have been constrained by the slowdown in world trade, coupled with the sharp rise in the cost of oil. With these pressures expected to ease in 2013 the outlook is for improved airline profits.

IATA's central forecast is for improvement in operating profits for the industry from US$6.7 billion in 2012 to US$8.8 billion in 2013. In the main, profitability is forecast to be driven by Asia Pacific and North America, with European airlines in aggregate expected to break even.

On the downside, IATA estimates the US from going over the 'fiscal cliff' it could have wiped 2 percentage points off the industries profit margins in 2013, whilst on the upside, a resurgence in US consumer confidence could drive an additional 2 percentage points of profit margin for the industry. In Europe, a break-up of the Eurozone in whole or in part is estimated to impact 2013 profit margins by between two and five per cent.

Despite limited economic growth, passenger air travel continues to remain relatively robust.

Structural change
The industry continues to make structural changes. With conditions for access to capital more stringent, the last three

years have seen the fewest number of airline start-ups of the last 25 years. Existing airlines are also being more prudent and it is widely acknowledged that the industry is exhibiting a more rational attitude to capacity. Last year IATA reported that operated capacity in 2012 grew by only 3.9 per cent, while the demand grew by 5.9 per cent leading, on average to a fuller aircraft.

Consolidation continues to build in the form of mergers, joint ventures and alliances. Structural reform continues in many forms. Many airlines, including IAG, are undertaking large programmes to modernise their cost structures, making operating costs sustainable for the medium and long term. The aims of the Lufthansa restructuring programme include the withdrawal from persistently loss-making entities and driving sustainable earnings improvement. In 2012, it began to move non-hub flying into Germanwings, its wholly-owned shorthaul subsidiary airline. Air France-KLM's structural change programme is tackling its cost base targeting a 10 per cent reduction in non-fuel unit costs by the end of 2014.

Not only is there structural change within existing businesses, there is also consolidation of airlines. IAG acquired the chronically loss-making bmi in 2012, successfully integrated the business into British Airways and is on track to stem the bmi losses in the first half of 2013. The acquisition is driving greater efficiency through the Heathrow hub, British Airways has already started routes to new economic powerhouses, such as Seoul, while maintaining key shorthaul services. As part of its shorthaul strategy, IAG has made an offer to acquire Vueling, Europe's third largest low cost carrier.

Transatlantic operations continue to consolidate. British Airways and Japan Airlines deepened its relationship with the launch of a joint business from October 2012. The joint business covers revenue-sharing on non-stop flights operated by JAL or British Airways between Japan and Europe. The new venture heralds a bigger and better service for our customers and the promise of greater co-operation in the future. In 2012, 70 per cent of capacity on the North Atlantic was part of a joint venture. The American Airlines-British Airways-Iberia joint business is still young and continues to deliver increasing benefit. At the end of 2012 Delta Airlines and Virgin Atlantic announced their intention to form a transatlantic joint venture business, with Delta also acquiring a 49 per cent stake in Virgin Atlantic.

The proposed merger between American Airlines parent AMR and US Airways, will be positive for all stakeholders, and transformational in a complex and dynamic global marketplace. It is supported strongly by its transatlantic joint business partner, IAG, and by all of the **one**world members.

oneworld alliance welcomed Air Berlin into the alliance in 2012 and looks forward to welcoming Malaysia Airlines, Sri Lankan Airways and Qatar Airways who will join the alliance and firmly establish **one**world as the leading alliance for its main target market frequent international business travellers.

Regulatory Controls

Aviation remains one of the most regulated industries in the world. During the year there have been important regulatory developments that have a major impact on the industry.

Taxation

Both UK and Spain have suffered significant increases in 2012 to the taxes and duty raised for passengers departing from both countries. In July 2012, departure taxes at Spanish airports increased significantly. As part of the Spanish budgetary changes, Madrid Barajas airport saw a doubling of charges for EU and International passengers, with similar levels at Barcelona El Prat, whilst other airports only experienced modest increases.

In April 2012, UK Air Passenger Duty, which was already the highest aviation tax in the world, was increased by the UK government by more than twice the level of inflation. When it was introduced in 1994, APD was sold as an environmental tax. Unlike the EU emissions trading scheme which incentivises airlines to use aircraft more efficiently, APD is a flat-rate, regressive tax on passengers that does nothing to help the environment and is simply a tax revenue raiser. IAG strongly believes it is an unfair tax on family holidays, an unfair tax on tourism and an unfair tax on businesses.

European Union's emissions trading scheme (EU ETS)

In 2012, airlines, regardless of nationality, were to be included in the European Union's emissions trading system, with first carbon payments in 2013. EU ETS led to opposition from non-EU countries and the prospect of retaliatory action. At the end of 2012, the EU announced that it would be suspending the coverage of all flights between EU and Non-EU states, within the EU ETS, for one year. This is to allow time for the development of a global market-based approach through the International Civil Aviation Organization (ICAO) that is due to make recommendations in October 2013. In the meantime, the EU ETS still applies to those flights that both take off and land in the EU.

IAG is fully supportive of carbon trading being the most effective way to reduce aviation emissions. The long-term solution must be a global approach led by ICAO, with whom the industry must work closely. For this issue to be resolved in the long-term, we need the major countries to be involved and show their commitment to a global solution. A patchwork of regional and national aviation emission measures negatively impacts businesses based within those areas and distorts the competitive position.

UK Aviation Policy

In November 2012, the UK Government appointed Sir Howard Davies to review the long-term requirements for aviation infrastructure in South East England. To succeed, the Davies commission will have to achieve cross party political concensus and then rigorously assess every option against those needs. None of the options for hub airport capacity is easy. However a clear positive decision would stimulate economic growth, create jobs, and help secure Britain's competitiveness in a changing world.

Next year sees the start of the new regulatory period for London Heathrow airport charges. IAG believes that the regulator has previously been too generous to the airport, allowing excessive returns. IAG has pushed hard on how Heathrow can be made better, more efficient, more cost-effective, and it thinks there are opportunities to do that. That is a primary focus.

Financial review
Maximising value for shareholders

IAG's performance for 2012 was set against a sharp year-over-year rise in the effective price of fuel as hedging benefits unwound towards market prices and the deteriorating economic environment in the Eurozone and particularly Spain. IAG took a significant step forward with the completion of the acquisition of bmi and its integration into British Airways. IAG has also commenced a tender offer process to acquire the remaining 54.15 per cent of Vueling not currently owned by the Group.

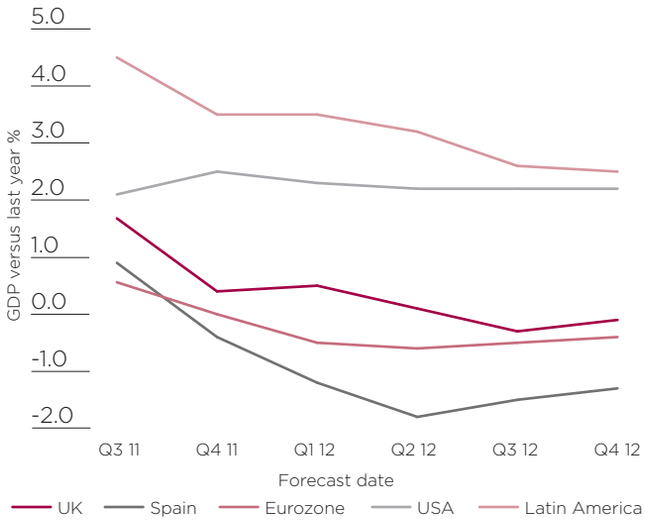
The Iberia transformation plan being undertaken is aimed to safeguard the future viability of that company following a further year of substantial losses. In so doing we have recognised substantial restructuring costs and have impaired goodwill and some intangible assets.

Highlights

- Operating loss including bmi but before exceptional items of €23 million
- Operating loss after exceptional items of €613 million
- Unit passenger revenues up 9.4 per cent (3.9 per cent at constant currency)
- Total unit revenues up 8.0 per cent (2.7 per cent at constant currency)
- Total unit costs up 11.3 per cent (5.2 per cent at constant currency)
- Fuel unit costs up 16.8 per cent (8.4 per cent at constant currency)
- Non-fuel unit costs up 8.5 per cent (3.8 per cent at constant currency, and adjusted up 0.8 per cent)
- Capital investment of €1,239 million (2011: €1,071 million) including over €400m on pre-delivery payments for future aircraft
- Cash down by €826 million to €2,909 million (2011: €3,735 million)
- Net debt up €741 million to €1,889 million (2011: €1,148 million)

The results for 2012 reflect the post-acquisition losses and integration costs for bmi, the deteriorating losses at Iberia requiring structural change and the adverse impact of sustained high fuel prices through the year. We believe 2013 will not see a repeat of these headwinds.

GDP outlook for 2012



Source: Oxford Economics

Economic backdrop

The preceding chart shows the economic deterioration from late 2011 through to the fourth quarter of 2012 in our key markets as measured by GDP output, especially in our core markets: the UK, Spain and the Eurozone.

Business review

From the time our 2012 flying schedules were finalised in late 2011 we continued to see deteriorations in the global economic outlook, especially in our key markets: the UK, Spain and the Eurozone. We therefore adjusted our capacity downwards in light of these adverse macro-economic circumstances. Our initial growth plans for 2012 were to grow capacity by 2.5 per cent, but this was reduced to 1.7 per cent by the first quarter of 2012 and as shown below we further reduced to just 0.7 per cent for the full year, before including the acquisition of bmi.

The reduction against our initial plans was greater at Iberia where the economic pressures on underlying unit revenues, as well as the poor competitive cost base, have increased losses substantially in 2012. At British Airways capacity was reduced marginally as market conditions out of London remained firm.

Against a deterioration in world economic outlook through most of 2012, the airline industry constrained capacity growth and saw healthy rises in traffic and therefore seat factors. IAG also saw a strong improvement in traffic and seat factors as well as improved unit revenues which were up 2.7 per cent at constant currency.

IATA market growths

IATA

Year to December 31, 2012	Capacity ASKs	Traffic RPKs	Passenger seat factor	Cargo CTKs
International	4.0%	6.0%	+1.5 pts	
Domestic	3.8%	4.0%	+0.2 pts	
Total market	**3.9%**	**5.3%**	**+1.0 pts**	**-1.5%**

IAG – excluding bmi acquisition

Year to December 31, 2012	Capacity ASKs	Traffic RPKs	Passenger seat factor	Cargo CTKs
International	0.6%	2.5%	+1.5 pts	
Domestic	4.7%	6.4%	+1.2 pts	
Total market	**0.7%**	**2.6%**	**+1.0 pts**	**-1.8%**

Including bmi, IAG Group traffic was up 4.4 per cent on capacity increases of 2.8 per cent with seat factors up 1.2 points to 80.3 per cent, and cargo CTKs were down 1.2 per cent.

Net of hedging fuel price increases were the main cost hurdle to overcome during the year, as hedging benefits unwound through the year and market prices remained above the $100 a barrel basis for the year. Non-fuel unit costs were well controlled being up 2.8 per cent on a constant currency basis and excluding the impact of bmi joining the Group. Excluding a number of one-off impacts on a like for like basis non-fuel unit costs were only up by 0.9 per cent.

Summary financial statements

Combined basis for year to December 31

	2012	2011		Higher/(lower) Year over year	Higher/(lower) At constant currency
Traffic statistics					
ASKs (million)	219,172	213,193	5,979	2.8%	2.8%
RPKs (million)	176,102	168,617	7,485	4.4%	4.4%
Seat factor (per cent)	80.3	79.1		1.2 pts	1.2 pts
Income statement					
€ million					
Revenue					
Passenger revenue	15,372	13,675	1,697	12.4%	6.7%
Cargo revenue	1,217	1,190	27	2.3%	(1.6)%
Other revenue	1,528	1,474	54	3.7%	0.7%
Total revenue	**18,117**	**16,339**	**1,778**	**10.9 %**	**5.5%**

Financial review continued

	2012	2011		Higher/(lower)	
				Year over year	At constant currency
Income statement					
€ million					
Expenditure					
Fuel and oil costs	6,101	5,068	1,033	20.4%	11.8%
Employee costs	4,341	3,870	471	12.2%	7.4%
Handling, catering and other operating costs	1,805	1,545	260	16.8%	10.7%
Landing fees and en-route charges	1,278	1,200	78	6.5%	2.8%
Engineering and other aircraft costs	1,285	1,099	186	16.9%	11.1%
Property, IT and other costs	997	918	79	8.6%	3.9%
Selling costs	830	756	74	9.8%	4.0%
Currency differences	–	16	(16)	(100.0)%	12.5%
EBITDAR	1,480	1,867	(387)	(20.7)%	(19.5)%
Depreciation, amortisation and impairment	1,071	979	92	9.4%	3.6%
Aircraft operating lease costs	432	403	29	7.2%	0.5%
Operating (loss)/profit before exceptional items	(23)	485	(508)	(104.7)%	(82.7)%
Exceptional Items	(590)	(78)			
Operating (loss)/profit after exceptional items	(613)	407			
Non-operating (costs)/income	(384)	96			
(Loss)/profit before tax	(997)	503			
Tax	112	52			
(Loss)/profit after tax from continuing operations	(885)	555			
Loss after tax from discontinued operations	(38)	–			
(Loss)/profit after tax for the year	(923)	555			

The above results are on the consolidated results of the Group for the year to December 31, 2012 and on the combined results of operations of British Airways, Iberia and IAG for the year to December 31, 2011.

bmi

The full year performance includes bmi from April 19, 2012. bmi accounted for 2.1 per cent of capacity growth; €365 million or 2.3 per cent of the total revenue growth of 10.9 per cent and €463 million or 2.9 per cent of total cost increases of 14.4 per cent. bmi generated an operating loss of €98 million before exceptional costs related to the integration into British Airways of €87 million. The total bmi operating losses, including exceptional items, since acquisition were €185 million. We managed to improve the bmi performance from our original expectations at the time of acquisition. At that time we forecasted an operating loss of €150 million and exceptional items related to the integration into British Airways of €90 million. The integration went very smoothly and completed quicker than we had expected, enabling us to reduce the cost base more than we had forecast. In addition, we have spent less on restructuring.

Exchange rates

Exchange rates can have a substantial impact on the reported performance of the Group. There are two elements to these exchange rate impacts. Firstly there are the transactional exchange rate differences that occur within each of the Group companies and ultimately reflect cash-flow impacts. Secondly there is the translation exchange rate impact of converting British Airways' results from its functional currency of sterling into the Group reporting currency of euros.

The three major currencies that impact the Group and their rates for 2012 compared to 2011 are as follows:

	Full year average		December 31 rate	
	2012	2011	2012	2011
$ to €	1.29	1.39	1.32	1.31
$ to £	1.58	1.60	1.62	1.56
€ to £	1.23	1.15	1.23	1.20

As the Group has more costs in the US dollar than revenues the strengthening of the dollar to the euro has resulted in an overall adverse impact to the operating result of the Group.

The table below shows the impact of the transaction currency effect on the operating result of IAG together with the translation effect of converting British Airways into euros for group reporting.

The transactional exchange rate impacts across the Group for the year saw a negative impact on revenue of €13 million and a negative impact on costs of €131 million. The large adverse impact on costs was mainly due to the large US dollar related costs (principally fuel costs), which exceed the Group's US dollar related revenues. The small adverse impact on revenues arose due to the US dollar related revenue benefits being offset by lower euro denominated revenues.

For the twelve months the translation of British Airways from sterling functional currency into euro reporting currency has resulted in a €885 million year-over-year positive impact on revenue and a €848 million negative impact on operating costs, reflecting 7.0 per cent weakening of the euro against sterling.

Therefore total exchange rate impacts were €872 million benefit to revenues and €979 million adverse impact on costs, resulting in a net adverse impact on operating loss of €107 million.

€ million	2012	2011	Higher/ (lower)
Impact on operating (loss)/profit			
At constant exchange rate	84	485	(401)
Impact of transaction exchange rates	(144)	–	(144)
Before translation impact	(60)	485	(545)
Impact of translation exchange rates	37	–	37
Reported operating (loss)/profit	(23)	485	(508)

Passenger revenue

Passenger revenue increased by €1,697 million or 12.4 per cent compared to the prior year. This reflected increased volume (ASKs) of 2.8 per cent and increased traffic (RPKs) of 4.4 per cent. Passenger revenue at constant exchange rates was up 6.7 per cent.

Unit passenger revenue (per ASK) was up 9.4 per cent and passenger yield (per RPK) was up 7.6 per cent. At constant exchange rates unit passenger revenue was up 3.9 per cent and passenger yield up 2.1 per cent.

The synergies programme continued to show revenue benefits year on year, particularly in the passenger segment.

Market segments

Longhaul

North America capacity increased by 3.3 per cent, whilst traffic improved by 6.1 per cent, resulting in a seat factor increase of 2.2 points to 83.7 per cent. The Joint Business between British Airways, Iberia and American Airlines continued to provide customers with increased choice and destinations across the North Atlantic.

Latin America and Caribbean capacity was reduced by 1.8 per cent and traffic decreased by 0.5 per cent such that seat factor improved 1.2 points to 83.9 per cent, which remains the highest seat factor on the IAG network.

Africa, Middle East and South Asia saw capacity increase of 8.4 per cent partly from the bmi acquisition, and traffic increasing by 10.7 per cent leading to a seat factor increase of 1.6 points to 76.8 per cent.

Asia Pacific capacity grew by 0.7 per cent with traffic growing by 0.9 per cent, which resulted in a seat factor increase of 0.2 points to 79.8 per cent.

Shorthaul

The European market has continued to be very competitive particularly in the Southern Europe region. The acquisition of bmi in April 2012 resulted in additional capacity across the shorthaul segment.

Domestic capacity increased by 9.9 per cent and traffic grew 11.4 per cent leading to a seat factor improvement of 1.0 points to 74.7 per cent.

Europe saw capacity growth of 2.1 per cent and traffic improvement of 2.7 per cent leading to a seat factor increase of 0.5 points to 75.1 per cent.

Joint Business

Offering approximately 100 daily flights with an extensive network built around the key strategic hubs of London, Madrid, New York, Miami, Dallas and Chicago, the Joint Business has been a winning success with our customers. The North Atlantic Joint Business of British Airways, Iberia and American Airlines has gone from strength to strength. Revenues grew to $8.5 billion with market share growing in both the premium and non-premium segments.

Cargo

Cargo revenue was up €27 million or 2.3 per cent to €1,217 million for the year, reflecting volume decrease (cargo tonne kilometres) of 1.2 per cent (set against an industry volume reduction of 1.5 per cent) and yield increases of 3.6 per cent.

Financial review continued

Expenditure before exceptional items

€ million	2012	2011		Higher/(lower) Year over year	Higher/(lower) At constant currency
Expenditure					
Fuel and oil costs	6,101	5,068	1,033	20.4%	11.8%
Employee costs	4,341	3,870	471	12.2%	7.4%
Handling, catering and other operating costs	1,805	1,545	260	16.8%	10.7%
Landing fees and en-route charges	1,278	1,200	78	6.5%	2.8%
Engineering and other aircraft costs	1,285	1,099	186	16.9%	11.1%
Property, IT and other costs	997	918	79	8.6%	3.9%
Selling costs	830	756	74	9.8%	4.0%
Currency differences	–	16	(16)	(100.0%)	12.5%
Supplier costs	6,195	5,534	661	11.9%	7.0%
Depreciation, amortisation and impairment	1,071	979	92	9.4%	3.6%
Aircraft operating lease costs	432	403	29	7.2%	0.5%
Ownership costs	1,503	1,382	121	8.8%	2.7%
Total expenditure on operations	**18,140**	**15,854**	**2,286**	**14.4%**	**8.2%**
Unit measures					
Fuel unit cost (€cents/ASK)	2.78	2.38	0.40	16.8%	8.4%
Employee unit costs (€cents/ASK)	1.98	1.82	0.16	8.8%	4.4%
Supplier unit costs (€cents/ASK)	2.83	2.60	0.23	8.8%	3.8%
Ownership unit costs (€cents/ASK)	0.69	0.65	0.04	6.2%	–
Non-fuel unit costs (€cents/ASK)	5.49	5.06	0.43	8.5%	3.8%
Total unit cost (€cents/ASK)	8.28	7.44	0.84	11.3%	5.2%

Other revenue

Other revenue increased by €54 million or 3.7 per cent to €1,528 million for the year, mostly related to the expansion of British Airways Holidays and Iberia's Maintenance, Repair and Overhaul (MRO) business, whilst reductions occurred in Iberia handling revenues and other revenues.

There were also changes in the breakage rates on some elements of the Avios programme that give rise to one-off revenue benefits.

Total costs excluding exceptional items were up €2,286 million or 14.4 per cent to €18,140 million. Total unit costs were up 11.3 per cent (5.2 per cent at constant exchange) mainly as a result of increased fuel unit costs which were up 16.8 per cent (8.4 per cent at constant exchange). Non-fuel unit costs were up 8.5 per cent (3.8 per cent at constant exchange). The current year results also include: within employee costs increased restructuring costs that are expected to have a favourable impact in future periods and additional litigation provisions as management have a greater clarity over the likely outcome of certain active cases; and within handling costs increased provision for customer compensation for passenger delays following the ruling by the European Court of Justice. Excluding these one-off impacts non-fuel unit costs on a like for like basis were up 0.8 per cent at constant currency.

Fuel costs were up €1,033 million or 20.4 per cent to €6,101 million. Fuel unit costs were up 16.8 per cent, as a result of: increased price, net of hedging benefits; and adverse exchange rate impacts as the dollar strengthened against the euro (7.2 per cent). Fuel unit costs were up 8.4 per cent at constant exchange rates.

Employee costs rose by 12.2 per cent to €4,341 million, reflecting adverse exchange rates, wage awards, increased volumes and employee provisions. Average manpower for the year increased by 4.9 per cent, when capacity in ASKs grew by 2.8 per cent resulting in productivity (ASKs per average employee) deteriorating by 2.0 per cent. The main causes of this decrease are bmi of 0.6 per cent, in addition to capacity reductions prior to employee reductions at Iberia. Employee unit costs were up 4.4 per cent at constant currency.

Supplier costs were up 11.9 per cent to €6,195 million as a result of volume and price increases as well as costs associated with expanding non-capacity related businesses such as Iberia MRO and British Airways Holidays. In addition there were costs resulting from certain changes in the Avios customer proposition as well as increased provision for disruption costs. Offsetting these cost increases were benefits from a number of management actions, including those under the Group synergy programme. Supplier unit costs were up 3.8 per cent at constant currency.

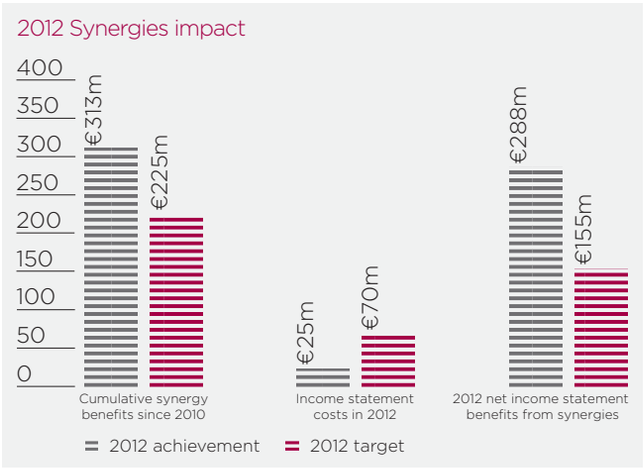
Ownership costs were up 8.8 per cent to €1,503 million, at constant currency they were up 2.7 per cent and on a unit basis were flat year on year.

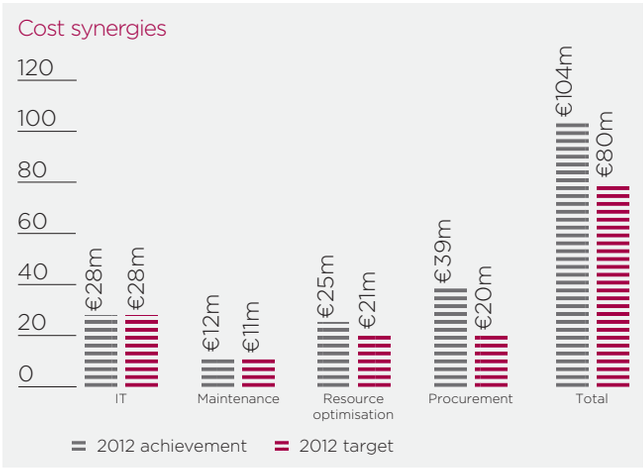
Non-fuel unit costs were up 8.5 per cent, or 3.8 per cent at constant currency. Excluding one-off impacts and accounting changes associated with Avios, they would have been up 0.8 per cent.

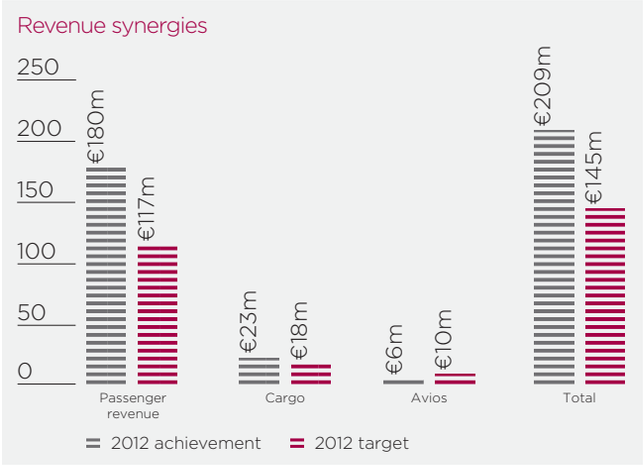
Synergies

We have continued to make significant progress in the delivery of our synergies. During the year we raised our expected revenue and costs benefits value for the five year programme from €500 million to €560 million. In the year to December 31, 2012 our synergy benefits rose to €313 million. Costs of implementation were €34 million, of which €25 million were charged to the Income statement and the rest were capital investments.

The charts below summarise the net position of the synergy benefit.







Key areas already achieved are described in the Our synergies section of this report on page 20.

Financial review continued

Operating result before exceptional items

IAG operating loss was €23 million, excluding the exceptional items, compared to a profit of €485 million for 2011. The consolidated profit for 2011, excluding the first 21 days of trading by Iberia and before exceptional items, was €522 million.

Operating profit and loss performance of operating companies

	British Airways				Iberia		
	2012	2011	Higher/ (Lower)		2012	2011	Higher/ (Lower)
ASKs	158,247	150,152	5.4%	ASKs	60,925	63,042	(3.4)%
RPKs	126,436	117,348	7.7%	RPKs	49,666	51,268	(3.1)%
Seat factor (per cent)	79.9	78.2	1.7 pts	Seat factor (per cent)	81.5	81.3	0.2 pts
£ million				**€ million**			
Passenger revenue	9,499	8,721	8.9%	Passenger revenue	3,675	3,645	0.8%
Cargo revenue	737	739	(0.3)%	Cargo revenue	310	338	(8.3)%
Other revenue	591	527	12.1%	Other revenue	856	889	(3.7)%
Total revenue	**10,827**	**9,987**	**8.4%**	**Total revenue**	**4,841**	**4,872**	**(0.6)%**
Employee costs	2,345	2,172	8.0%	Employee costs	1,340	1,373	(2.4)%
Fuel and oil costs	3,712	3,246	14.4%	Fuel and oil costs	1,531	1,333	14.9%
Supplier costs	3,678	3,295	11.6%	Supplier costs	1,840	1,766	4.2%
EBITDAR	**1,092**	**1,274**	**(14.3)%**	**EBITDAR**	**130**	**400**	**(67.5)%**
Ownership costs	818	756	8.2%	Ownership costs	481	498	(3.4)%
Operating profit before exceptional items	**274**	**518**	**(47.1)%**	**Operating loss before exceptional items**	**(351)**	**(98)**	**(258.2)%**
Exceptional items	(41)	–	–	Exceptional items	**(545)**	–	–
Operating profit after exceptional items	**233**	**518**	**(55.0)%**	**Operating loss after exceptional items**	**(896)**	**(98)**	**(814.3)%**
Passenger yield (pence/RPK)	7.51	7.43	1.1%	Passenger yield (€cents/ RPK)	7.40	7.11	4.1%
Unit passenger revenue (pence/ASK)	6.00	5.81	3.3%	Unit passenger revenue (€cents/ASK)	6.03	5.78	4.3%
Total unit revenue (pence/ASK)	6.84	6.65	2.9%	**Total unit revenue (€cents/ASK)**	7.95	7.73	2.8%
Fuel unit cost (pence/ASK)	2.35	2.16	8.8%	Fuel unit cost (€cents/ASK)	2.51	2.11	19.0%
Non-fuel unit costs (pence/ASK)	4.32	4.14	4.3%	Non-fuel unit costs (€cents/ASK)	6.01	5.77	4.2%
Total unit cost (pence/ASK)	**6.67**	**6.30**	**5.9%**	**Total unit cost (€cents/ASK)**	**8.52**	**7.88**	**8.1%**

Including bmi the British Airways results for the year show a capacity growth of 5.4 per cent and passenger unit revenue growth of 3.3 per cent leading to passenger revenue increase of 8.9 per cent. The London market remained firm through most of the year, though as expected there was some weakness over the Olympic and Paralympic Games period. Longhaul Premium and North Atlantic business continued to show solid improvements. Total unit revenues at constant currency were up 3.9 per cent. Fuel cost rose by 14.4 per cent and 8.8 per cent on a unit basis, mostly reflecting hedging benefits unwinding as price net of hedging moved closer to spot prices through the year. Non-fuel unit costs increased by 4.3 per cent reflecting increases related to price increases and a number of one-off impacts, partially offset by cost reduction actions including synergy benefits. Excluding these one-off impacts non-fuel unit costs were flat year on year at constant currency.

In the face of worse economic conditions than in 2011 and an uncompetitive cost base Iberia losses grew from €98 million in 2011 to €351 million in 2012. Capacity reductions of 3.4 per cent were matched by reduced traffic down 3.1 per cent. Currency benefits on revenue pushed passenger unit revenues up 4.3 per cent leading to total passenger revenue up only 0.8 per cent. In addition, revenues fell in cargo and other segments. Total unit revenues at constant currency were up only 0.4 per cent. Fuel costs increased by 14.9 per cent or 19.0 per cent on a unit basis. This was partly as a result of the strengthening of the US dollar to the euro of 7.2 per cent and the increase in price net of hedging benefits. Non-fuel unit costs increased by 4.2 per cent reflecting adverse currency impacts and prices increases, partially offset by cost-saving actions including those from the synergy programme. Non-fuel unit costs were up 2.4 per cent at constant currency.

Exceptional items

Exceptional items mainly reflect:

- Restructuring costs associated with the Iberia transformation plan of €202 million;
- Impairment of goodwill from the acquisition of Iberia and certain intangible asset write-downs amounting to €343 million;
- Costs associated with the restructuring of the bmi mainline business which amounted to €87 million;
- The benefit realised in quarter 1 of the settlement of competition fines in the UK leading to a release of provision of €35 million; and
- An exceptional credit of €7 million in the year related to aircraft lease hedges acquired upon the Iberia acquisition.

The Iberia restructuring costs of €202 million recognise the accounting provision based on current circumstances. It is possible further provisioning may arise beyond 2012 depending on the outcome of the transformation plan.

Operating result after exceptional items

IAG operating loss after exceptional items was €613 million compared to a profit of €407 million for 2011. The consolidated profit for 2011, excluding the first 21 days of January for Iberia and after exceptional items was €444 million.

Non-operating items

€ million	2012	2011	Higher/ (lower)
Finance costs	(264)	(220)	(44)
Finance income	53	85	(32)
Retranslation of currency borrowings	9	(8)	17
Losses on derivatives not qualifying for hedge accounting	(12)	(12)	–
Net charge relating to available-for-sale financial assets	(1)	(19)	18
Share or post-tax profits in associates	17	7	10
Profit on sale of property, plant, equipment and investments	7	81	(74)
Net financing (charge)/credit relating to pensions	(266)	184	(450)
Gain on bargain purchase	73	–	73
Non-operating (charge)/income	**(384)**	**98**	**(482)**

Finance income and costs

Finance costs for the year were €264 million (2011: €220 million) and finance income was €53 million (2011: €85 million), reflecting increased borrowings and reduced cash balances through the year.

Profit on sale of property, plant and equipment and investments

In 2011 the step acquisition of Iberia resulted in €83 million profit arising as a one-off non-cash item.

Net financing (charge)/credit relating to pensions

Net financing charge for the year mainly reflects two non-cash items under IAS 19 accounting requirements: the net financing relating to pensions is up €115 million as returns on scheme assets have fallen below the interest on scheme present value liabilities; and the restriction on the APS asset ceiling has switched from a credit in 2011 of €142 million to a charge in 2012 of €179 million as increased actuarial losses restricted the amount of the asset that can be recognised, the reverse of what occurred in 2011.

Financial review continued

Gain on bargain purchase
The purchase consideration of bmi was €73 million less than the fair value of the acquired net assets.

(Loss)/profit before tax from continuing operations
IAG loss before tax was €997 million, compared to a profit of €503 million on a combined basis for 2011 and €542 million on a consolidated basis.

Taxation
The tax credit for the year was €112 million (2011: tax credit of €52 million) and reflects rate reductions of corporation tax in the UK and the non-recognition of certain deferred tax losses with respect to Iberia.

(Loss)/profit after tax on continuing operations
IAG loss after tax was €885 million, compared to €555 million profit for 2011.

Loss after tax from discontinued operations
As part of the bmi acquisition two business units bmi regional and bmibaby – were acquired exclusively with a view to disposing of these non-core operations. bmi regional was sold to Sector Aviation Ltd in June 2012 for sale proceeds of €7 million, and no gain or loss was recognised on this disposal. The Group was unable to find a purchaser for bmibaby so it ceased trading in September 2012, with all 14 operating leased aircraft being stood down in advance of hand-back to lessors. The loss after tax arising from these discontinued operations was €38 million.

(Loss)/profit after tax for the year
IAG loss after tax was €923 million, compared to €555 million for 2011.

Earnings per share
The basic earnings per share for the year was negative 51.0 €cents per share (2011: positive 31.1 €cents) and the fully diluted earnings per share for the year was negative 51.0 €cents (2011: positive 29.7 €cents).

Balance sheet

€ million	2012	2011	Higher/ (lower)
Non-current assets			
Property, plant and equipment	9,926	9,584	342
Intangible assets	1,965	1,724	241
Other non-current assets	2,920	2,553	367
	14,811	13,861	950
Current assets			
Cash and cash equivalents and interest-bearing deposits	2,909	3,735	(826)
Other current assets	2,117	2,157	(40)
	5,026	5,892	(866)
Total assets	**19,837**	**19,753**	**84**
Shareholders' equity			
Share capital and share premium	6,208	6,208	–
Other reserves	(1,453)	(822)	(631)
	4,755	5,386	(631)
Non-controlling interest	300	300	–
Total equity	**5,055**	**5,686**	**(631)**
Non-current liabilities			
Interest bearing borrowings	4,128	4,304	(176)
Other non-current liabilities	3,090	3,234	(144)
	7,218	7,538	(320)
Current liabilities			
Interest bearing borrowings	670	579	91
Trade and other payables	6,013	5,377	636
Other current liabilities	881	573	308
	7,564	6,529	1,035
Total liabilities	**14,782**	**14,067**	**715**

Property, plant and equipment
The overall increase reflects additions of €1,118 million, including a Boeing 777-300, an Airbus A320 and an Embraer E190 together with over €400 million progress payments for new aircraft entering the fleet in 2013 and beyond. These investment costs were mostly offset by the annual depreciation charge for the year of €1,028 million. Other increases came from assets acquired as part of the bmi acquisition and exchange rate movements.

Intangible assets
The acquisition of bmi included 42 slot pairs with a fair value of €499 million, which are included as indefinite life intangible assets. Impairments have been made against Iberia goodwill of €249 million, Iberia brand of €79 million and other intangible assets of €15 million.

Other non-current assets
Other non-current assets increased due to the higher value of available-for-sale financial assets, employee benefit assets and deferred tax assets.

Cash and cash equivalents
Cash and cash equivalents at December 31, 2012 were €2,909 million, down €826 million from December 31, 2011. The reduction is mostly a reflection of the weaker operating performance and increased capital expenditure, with significant pre-delivery payments on aircraft. We improved our contingent liquidity from an $805 million secured revolving credit facility for British Airways.

The cash and cash equivalents balance at December 31, 2012 comprised €1,964 million held by British Airways, €808 million held by Iberia, €20 million held by IAG and €117 million held by Veloz, which is held for the proposed acquisition of the 54.15 per cent of Vueling.

Trade and other payables

The increase in trade and other payables mostly arises from the bmi acquisition and business growth.

Net debt

The net debt of the Group increased by €741 million in the year to €1,889 million due to a reduction in cash. Adjusted gearing has therefore increased to 51 per cent, from 44 per cent in the prior year.

Cashflow

€ million	2012	2011
Operating (loss)/profit	(613)	444
Depreciation, amortisation, impairment	1,414	969
Other operating cash movements	(330)	(643)
Cash flows from operating activities from continuing operations	**471**	**770**
Cash used in discontinued operations	(132)	–
Cashflow from operating activities	**339**	**770**
Acquisitions of property, plant and equipment and intangible assets	(1,239)	(1,071)
Cash acquired on business combination (net of proceeds)	(1)	689
Decrease in other current interest-bearing deposits	246	843
Other investing cash movements	106	140
Cashflow from investing activities	**(888)**	**601**
Proceeds from long-term borrowings	534	304
Repayment of borrowings	(669)	(653)
Other financing cash movements	(21)	(20)
Cashflow from financing activities	**(156)**	**(369)**
Net (decrease)/increase in cash and cash equivalents	**(705)**	**1,002**
Net foreign exchange differences	90	58
Cash and cash equivalents 1 January	1,977	917
Cash and cash equivalents at year end	**1,362**	**1,977**
Interest bearing deposits maturing after more than three months	1,547	1,758
Cash and cash equivalents and other interest bearing deposits	**2,909**	**3,735**

Cashflow from operating activities

This decreased mainly as a result of the reduced operating profit down from €444 million in 2011 to a loss of €613 million in 2012 though much of this loss relates to provisions or non-cash impairment and so has not reduced cash in the year.

Cashflow from investing activities

The switch of cash inflows from investing activities in 2011 to outflows in 2012 mainly arises from the increased property, plant and equipment spend with progress payments in excess of €400 million on new aircraft (Boeing 777 – 300s, Boeing 787s, Airbus A320s and Airbus A380s) together with the acquisition of 3 new aircraft in the year as well as engineering overhauls and spares. Progress payments will be recovered in future periods as the aircraft to which they related join the fleet and funding is taken out under operating or finance leases, for example as the Airbus A330 join the Iberia fleet from February 2013. These increases were not offset in the current year as they were in 2011 with cash acquired on business combinations or interest-bearing deposits.

Cashflow from financing activities

Cash outflows on financing decreased mainly due to increased proceeds on aircraft borrowings.

In addition, in October 2012 IAG completed a three-year revolving credit facility of $805 million with a syndicate of banks with collateral provided by unencumbered aircraft and engine assets.

Risk management and risk factors

Enterprise Risk Management
The Group leverages the well-developed Enterprise Risk Management structures and processes in British Airways and Iberia. These have been maintained under the control of the respective Boards. The role of the Company is to: maintain the Group-wide consolidated view of risk allowing challenge from the Board and Management Committee; determining the Enterprise Risk Management methodology to be applied throughout the Group; ensuring that best practices in risk mitigation are adopted; and determining risk appetite and policies for a limited number of key risks that will to be managed on a Group wide basis.

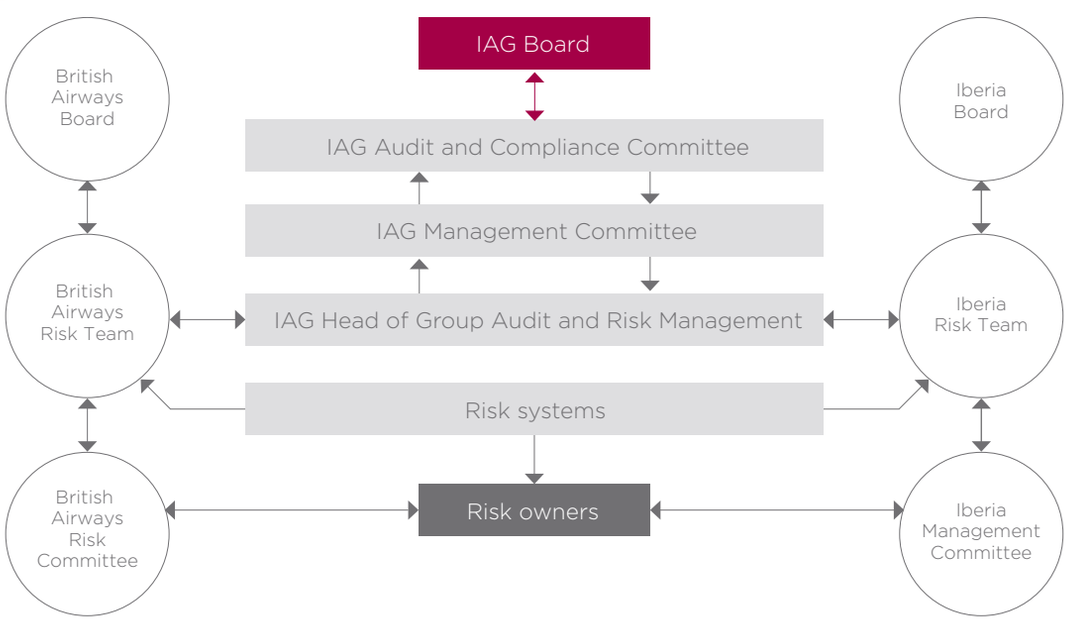
The risk management process includes multiple opportunities for rigorous discussion and debate to assess the relative profile of each risk. The outputs include risk maps for the Group, British Airways and Iberia. The risk maps plot each critical risk on an impact and probability scale. For each critical risk, mitigating actions exist and are actively managed. This process is iterative and refreshed on a regular basis. Within British Airways, a Risk Committee consisting of the British Airways Leadership Team, the British Airways Head of Corporate Risk and Compliance and key senior Executives meets quarterly. They review the key risks maintained in the risk register and ensure that all new and emerging risks are appropriately evaluated and any further actions identified. The Risk Committee also provides guidance to those responsible for managing the individual risks and to the departmental risk leaders. In addition, during 2012 the British Airways Board carried out quarterly risk reviews.

Within Iberia, the Iberia Management Committee reviews the risk map on a quarterly basis and ensures that all new and emerging risks are appropriately evaluated and any further actions identified. Guidance to those responsible for managing the individual risks and to the departmental risk leaders is provided by the central risk management team. The Iberia Board carried out full reviews of risk on a half year basis.

The IAG Management Committee reviewed the Group risk map twice during the year in advance of reviews by the Audit and Compliance Committee of the Board in accordance with the June 2010 UK Corporate Governance Code and the Spanish Unified Good Governance Code Of Listed Companies recommendations. The IAG Board discussed risk at a number of meetings including discussions around the business plan, Iberia transformation, the proposed Vueling acquisition and other major projects. It also discussed the results of the Audit and Compliance Committee full reviews of the Group risk map.

The highly regulated and commercially competitive environment, together with operational complexity, leaves us exposed to a number of significant risks. We remain focused on mitigating these risks at all levels in the business although many remain outside our control; for example, changes in government regulation, taxes, terrorism, adverse weather, pandemics and availability of funding from the financial markets.

Risk management framework



We group our risks into strategic, business and operational, financial and compliance and regulatory risks. The Directors of the Group believe that the risks and uncertainties described below are the ones that may have the most significant impact on the long-term value of IAG. The list is not intended to be exhaustive. The Group carries out detailed risk management reviews to ensure that the risks are mitigated where possible.

Strategic

Competition

The markets in which we operate are highly competitive. We face direct competition from other airlines on our routes, as well as from indirect flights, charter services and from other modes of transport. Competitor capacity growth in excess of demand growth could materially impact our margins. Some competitors have cost structures that are lower than ours or have other competitive advantages such as being supported by government intervention or benefiting from insolvency protection. Fare discounting by some competitors has historically had a negative effect on our results because in some cases we are required to respond to competitors' fares to maintain passenger traffic.

Our strong global market positioning, leadership in strategic markets, alliances and diverse customer base continue to address this risk.

Consolidation and deregulation

As noted above the airline market is fiercely competitive and will need to rationalise given current market conditions. This will involve further airline failures and consolidation leading to opportunities to capture market share and expand the Group. Mergers and acquisitions amongst competitors have the potential to adversely affect our market position and revenue. The Group maintains rigorous cost control and targeted product investment to remain competitive.

Joint business arrangements such as the transatlantic agreement with American Airlines and the new agreement between British Airways and JAL include delivery risks such as realising planned revenue and cost synergies. Any failure of joint business or franchise partners could adversely impact our business. American Airlines has remained committed to the joint business through its Chapter 11 restructuring process. The delivery of merger synergies and integration of new airlines into the Group is inherently subject to industrial relations, revenue leakage and programme management risks. The Management Team has robust merger integration and Joint Business programmes which address these risks, the effectiveness of which were demonstrated by the successful integration of bmi into British Airways in 2012.

The airline industry is increasingly dependent on alliances and IAG is no exception to this. Maintaining a leading presence in **one**world and ensuring the alliance itself performs as expected by the members is key to safeguarding the network.

Some of the markets in which we operate remain regulated by governments, in some instances controlling capacity and/or restricting market entry. Relaxation of such restrictions, whilst creating growth opportunities for us, may have a negative impact on our margins.

Government intervention

Regulation of the airline industry covers many of our activities including route flying rights, airport slot access, security and environmental controls. Our ability to both comply with and influence any changes in these regulations is key to maintaining our operational and financial performance.

2012 has seen a doubling of departure tax at Madrid and Barcelona together with another step up in UK Air Passenger Duty (APD). However, there is some stability in 2013 as UK APD will increase at Retail Price Index (RPI) level. The European Union Emissions Trading Scheme (EU ETS) was introduced in 2012 for intra-European Union flights with the intention to extend the scheme outside the EU in 2014. Further increases or the extension of EU ETS to flights outside the EU, could have an adverse impact upon demand for air travel and/or reduce the profit margin per ticket. These taxes may also benefit our competitors by reducing the relative cost of doing business from their hubs.

Infrastructure constraints

IAG is dependent on and may be affected by infrastructure decisions or changes in infrastructure policy by governments, regulators or other entities, which are often outside the Group's control. London Heathrow has no spare runway capacity and has operated on the same two main runways since it opened over 60 years ago. As a result, we are vulnerable to short-term operational disruption and there is little we can do to mitigate this. We continue to promote the timely conclusion of the South East airport capacity debate and the expansion of the airport to create cost effective extra capacity and reduce delays, enabling London Heathrow to compete more effectively against European hubs such as Paris, Amsterdam and Frankfurt.

Business and operational

Brand reputation

The Group's brands have significant commercial value. Erosion of the brands, through either a single event, or series of events, may adversely impact our leadership position with customers and ultimately affect our future revenue and profitability. The Group allocates substantial resources to safety, operational integrity, product and new aircraft to maintain its market position.

Risk management and risk factors continued

Economic conditions

Our revenue is highly sensitive to economic conditions in the markets in which we operate. Deterioration in either the domestic and/or global economy may have a material impact on our financial position. 15 per cent of Group revenue is sold in the USA and, as a result, we are exposed to any contraction in the economy resulting from management of the fiscal deficit and debt ceiling issues.

The Group has a high exposure to the Eurozone periphery through Iberia's Spanish base and, to a lesser extent, the British Airways route network. The risk of a Eurozone breakup has decreased over the last six months due to the increased determination from the European Central Bank and the European Council to support weaker Eurozone countries and their banks. The more likely risk is of poor or deteriorating market conditions within an intact Eurozone. In this respect, Iberia provides 27 per cent of the Group's external turnover, approximately half of this coming from Spain. 2013 is likely to be a second year of contraction for the Spanish economy with recovery not expected until 2014. British Airways only derives around 6 per cent of its revenue on routes to Italy, Spain, Portugal, Cyprus and Greece all of which are expected to experience contraction in 2013.

The Management Committee and Board regularly consider Eurozone breakup risk and the initiatives underway to manage, as far as practicable, the impact on the Group. During the year these initiatives included establishing a Eurozone crisis management group that meets every month to review progress on projects; scenario planning based on previous shocks to the business; ensuring financial counterparty risk and hedging policies continue to be fit for purpose; and completion of a Spanish Euro exit roadmap project which considers the commercial, administrative, systems and people issues to be addressed. Eurozone breakup risk reduced during the second half of 2012 but the area will continue to be monitored.

The Management Committee reviews the financial outlook of the Group through the financial planning process and regular forecasts. These reviews are used to drive the Group's financial performance through the management of capacity; the deployment of that capacity in geographic markets; together with cost control including management of capital expenditure and the reduction of operational leverage.

Employee relations

We have a large unionised workforce represented by a number of different trade unions. Collective bargaining takes place on a regular basis and breakdowns in the bargaining process disrupt operations and adversely affect business performance.

Failure of a critical IT system

We are dependent on IT systems for most of our principal business processes. The failure of a key system may cause significant disruption to our operation and/or lost revenue.

System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.

Iberia transformation

The Transformation Plan requires permanent structural change in the Iberia business to enable it to return to profitability and growth. The plan is being executed within Iberia's own financial resources. Iberia failed to reach agreement with the unions before a deadline of January 31, 2013 and has therefore commenced the imposition of a 15 per cent capacity reduction, pay cuts and productivity improvements under new Spanish labour laws. Execution risks are high and include delayed implementation, widespread labour conflict, operational disruption, political interference, legal risk around testing new labour reforms and a lack of employee focus. The plan is managed by the Iberia Chief Executive Officer who reports regularly to the IAG Management Committee and Board.

Iberia's liquidity at December 2012 was strong with €808 million of cash and a general purpose facility secured on the shareholding in Amadeus. In addition, all 2013 aircraft deliveries are financed and the delivery of these aircraft will result in cash inflows in 2013 as pre-delivery payments made in 2011 and 2012 are financed. However, this liquidity needs to be carefully managed to ensure that it is spent on achieving the permanent structural change required to make the business cash positive, securing its future and growth. There is a risk of Iberia management and unions not achieving the required changes now and, as a result of continued cash burn, being unable to fund the required changes in future years.

Pandemic

If there is a significant outbreak of infectious disease such as swine flu, staff absence will increase which may seriously impact the operation. Key corporate clients may discourage travel, significantly impacting sales. We have comprehensive pandemic business continuity plans that were last used during the 2009 swine flu outbreak.

Landing fees and security charges

Airport, transit and landing fees and security charges or initiatives represent a significant operating cost to British Airways and Iberia and have an impact on operations. Whilst certain airport and security charges are passed on to passengers by way of surcharges, others are not.

There can be no assurance that such costs will not increase or that the Group will not incur new costs in the UK, Spain or elsewhere. Charges at our London hubs from April 2014 onwards will be determined by the Civil Aviation Authority's ongoing Quinquennial 6 review. There is a risk that charges and development plans agreed significantly increase the cost of operating at our London hubs, or commit to future infrastructure investment in a way that benefits other airport users ahead of the Group's interests. British Airways is constructively engaged in the review process.

Safety/security incident

The safety and security of our customers and employees are fundamental values for us. Failure to prevent or respond effectively to a major safety or security incident may adversely impact our operations and financial performance. The Safety Committee satisfies itself that the airlines have appropriate safety resources and procedures. Our incident centres respond in a structured way in the event of a safety or security incident.

Event causing significant network disruption

Several possible events may cause a significant network disruption. Example scenarios include a major failure of the public transport system; the complete or partial loss of the use of terminals; adverse weather conditions such as snow, fog or volcanic ash; widespread or coordinated air traffic control industrial action; war; civil unrest or terrorism. Such a disruption may result in lost revenue and additional cost. Management has robust business continuity plans to mitigate these risks to the extent feasible. These contingency plans were tested in 2011 through the Japanese earthquake.

Financial

Debt funding

We carry substantial debt that will need to be repaid or refinanced. Our ability to finance ongoing operations, committed aircraft orders and future fleet growth plans are vulnerable to various factors including financial market conditions and financial institutions' appetite for secured aircraft financing. The Group carries substantial cash reserves and committed financing facilities to mitigate the risk of short term interruptions to the aircraft financing market.

The IAG Finance Committee regularly reviews the Group's financial position and is seeking to diversify funding through accessing the Export Credit Agency and US asset backed bond markets.

Fuel price and currency fluctuation

We used approximately 7.4 million tonnes of jet fuel in 2012. Volatility in the price of oil and petroleum products can have a material impact on our operating results. This price risk is partially hedged through the purchase of oil derivatives in forward markets which can generate a profit or a loss.

The Group is exposed to currency risk on revenue, purchases and borrowings in foreign currencies. The Group seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency and actively managing the surplus or shortfall through treasury hedging operations. The approach to financial risk management was reviewed in detail by the Audit and Compliance Committee during the year and is set out in note 27 of the financial statements.

The Group is exposed to non-performance to financial contracts by counterparties, for activities such as money market deposits, fuel and currency hedging. Failure of counterparties may result in financial losses. The approach to credit risk management and the Group's cash exposure by geography is set out in note 27 of the financial statements.

The Group's Hedging Committee regularly reviews the Group's fuel and currency positions. The results of these reviews are discussed with management and the appropriate action taken.

Compliance and regulatory

Governance

The governance structure the IAG Group put in place at the time of the merger has a number of complex features, including nationality structures to protect British Airways' and Iberia's route and operating licenses and assurances to preserve the specific interests of those companies. Although complex, the structure worked well during 2011 and 2012 with synergy targets being exceeded.

Compliance with competition, bribery and corruption law

The Group is exposed to the risk of individual employees' or groups of employees' unethical behaviour resulting in fines or losses to the Group. The Group has comprehensive policies designed to ensure compliance, together with training schemes in place to educate staff on these matters.

The Spanish Corporate Governance Report attached within the financial statements section of this annual report forms part of the Management Report.

Information related to any significant subsequent events and in relation to own shares are included within the financial statements.

STABLE PERFORMANCE

Solid performance despite poor market conditions

Financial Statements

Combined income statement

€ million	Year to December 31					
	Before exceptional items 2012	Exceptional items	Total 2012	Before exceptional items 2011	Exceptional items	Total 2011
Passenger revenue	**15,372**		15,372	13,675		13,675
Cargo revenue	**1,217**		1,217	1,190		1,190
Other revenue	**1,528**		1,528	1,474		1,474
Total revenue	**18,117**		18,117	16,339		16,339
Employee costs	**4,341**	238	4,579	3,870		3,870
Fuel and oil costs	**6,101**		6,101	5,068	89	5,157
Handling charges, catering and other operating costs	**1,805**		1,805	1,545		1,545
Landing fees and en-route charges	**1,278**		1,278	1,200		1,200
Engineering and other aircraft costs	**1,285**		1,285	1,099		1,099
Property, IT and other costs	**997**	9	1,006	918		918
Selling costs	**830**	7	837	756		756
Depreciation, amortisation and impairment	**1,071**	343	1,414	979		979
Aircraft operating lease costs	**432**	(7)	425	403	(11)	392
Currency differences	**–**		–	16		16
Total expenditure on operations	**18,140**	590	18,730	15,854	78	15,932
Operating (loss)/profit	**(23)**	(590)	(613)	485	(78)	407
Finance costs	**(264)**		(264)	(220)		(220)
Finance income	**53**		53	85		85
Retranslation credits/(charges) on currency borrowings	**9**		9	(8)		(8)
Losses on derivatives not qualifying for hedge accounting	**(12)**		(12)	(12)		(12)
Net charge relating to available-for-sale financial assets	**(1)**		(1)	(19)		(19)
Share of post-tax profits in associates accounted for using the equity method	**17**		17	7		7
Profit/(loss) on sale of property, plant and equipment and investments	**7**		7	(2)	83	81
Net financing (charge)/credit relating to pensions	**(266)**		(266)	182		182
Gain on bargain purchase	**–**	73	73	–		–
(Loss)/profit before tax from continuing operations	**(480)**	(517)	(997)	498	5	503
Tax	**68**	44	112	29	23	52
(Loss)/profit after tax from continuing operations	**(412)**	(473)	(885)	527	28	555
Loss after tax from discontinued operations	**–**	(38)	(38)	–		–
(Loss)/profit after tax for the year	**(412)**	(511)	(923)	527	28	555

This financial data is based on the consolidated results of International Consolidated Airlines Group, S.A. for the year to December 31, 2012, and on the combined results of operations of British Airways Plc, Iberia Líneas Aéreas de España S.A. Operadora and IAG the Company for the year to December 31, 2011. These combined financial statements eliminate cross holdings and related party transactions.

This statement does not form part of the Group consolidated financial statements.

Consolidated income statement

€ million	Note	Year to December 31 Before exceptional items 2012	Exceptional items	Total 2012	Before exceptional items 2011	Exceptional items	Total 2011
Passenger revenue		**15,372**		15,372	13,496		13,496
Cargo revenue		**1,217**		1,217	1,176		1,176
Other revenue		**1,528**		1,528	1,431		1,431
Total revenue	4	**18,117**		18,117	16,103		16,103
Employee costs	9	**4,341**	238	4,579	3,799		3,799
Fuel and oil costs		**6,101**		6,101	4,999	89	5,088
Handling charges, catering and other operating costs		**1,805**		1,805	1,522		1,522
Landing fees and en-route charges		**1,278**		1,278	1,175		1,175
Engineering and other aircraft costs		**1,285**		1,285	1,074		1,074
Property, IT and other costs		**997**	9	1,006	903		903
Selling costs		**830**	7	837	740		740
Depreciation, amortisation and impairment	7	**1,071**	343	1,414	969		969
Aircraft operating lease costs	7	**432**	(7)	425	386	(11)	375
Currency differences		**–**		–	14		14
Total expenditure on operations		**18,140**	590	18,730	15,581	78	15,659
Operating (loss)/profit	4	**(23)**	(590)	(613)	522	(78)	444
Finance costs	10	**(264)**		(264)	(220)		(220)
Finance income	10	**53**		53	85		85
Retranslation credits/(charges) on currency borrowings		**9**		9	(8)		(8)
Losses on derivatives not qualifying for hedge accounting		**(12)**		(12)	(12)		(12)
Net charge relating to available-for-sale financial assets	19	**(1)**		(1)	(19)		(19)
Share of post-tax profits in associates accounted for using the equity method	18	**17**		17	7		7
Profit/(loss) on sale of property, plant and equipment and investments		**7**		7	(2)	83	81
Net financing (charge)/credit relating to pensions	10	**(266)**		(266)	184		184
Gain on bargain purchase		**–**	73	73	–		–
(Loss)/profit before tax from continuing operations		**(480)**	(517)	(997)	537	5	542
Tax	11	**68**	44	112	17	23	40
(Loss)/profit after tax from continuing operations		**(412)**	(473)	(885)	554	28	582
Loss after tax from discontinued operations		**–**	(38)	(38)	–		–
(Loss)/profit after tax for the year		**(412)**	(511)	(923)	554	28	582
Attributable to:							
Equity holders of the parent		**(432)**		(943)	534		562
Non-controlling interest		**20**		20	20		20
		(412)		(923)	554		582
Basic (loss)/earnings per share (€ cents)							
From continuing operations				(49.0)			31.1
From discontinued operations				(2.0)			–
From (loss)/profit for the year				(51.0)			31.1
Diluted (loss)/earnings per share (€ cents)							
From continuing operations				(49.0)			29.7
From discontinued operations				(2.0)			–
From (loss)/profit for the year				(51.0)			29.7

Consolidated statement of other comprehensive income

€ million	Note	Year to December 31 2012	2011
Cash flow hedges:			
Fair value movements in equity	31	**36**	(106)
Reclassified and reported in net profit	31	**19**	54
Changes in the fair value of available-for-sale financial assets	31	**156**	(66)
Currency translation differences	31	**77**	48
Total other comprehensive income for the year, net of tax		**288**	(70)
(Loss)/profit after tax for the year		**(923)**	582
Total comprehensive income for the year		**(635)**	512
Total comprehensive income is attributable to:			
Equity holders of the parent		**(655)**	492
Non-controlling interest		**20**	20
		(635)	512
Total comprehensive income attributable to equity shareholders arises from:			
Continuing operations		**(617)**	492
Discontinued operations		**(38)**	–

Consolidated balance sheet

€ million	Note	December 31, 2012	December 31, 2011
Non-current assets			
Property, plant and equipment	14	**9,926**	9,584
Intangible assets	17	**1,965**	1,724
Investments in associates	18	**180**	165
Available-for-sale financial assets	19	**684**	466
Employee benefit assets	32	**1,467**	1,317
Derivative financial instruments	28	**26**	37
Deferred tax assets	11	**450**	497
Other non-current assets	20	**113**	71
		14,811	13,861
Current assets			
Non-current assets held for sale	16	**3**	18
Inventories		**414**	400
Trade receivables	20	**1,149**	1,175
Other current assets	20	**481**	445
Derivative financial instruments	28	**70**	119
Other current interest-bearing deposits	21	**1,547**	1,758
Cash and cash equivalents	21	**1,362**	1,977
		5,026	5,892
Total assets		**19,837**	19,753
Shareholders' equity			
Issued share capital	29	**928**	928
Share premium	29	**5,280**	5,280
Investment in own shares		**(17)**	(17)
Other reserves	31	**(1,436)**	(805)
Total shareholders' equity		**4,755**	5,386
Non-controlling interest	31	**300**	300
Total equity		**5,055**	5,686
Non-current liabilities			
Interest-bearing long-term borrowings	24	**4,128**	4,304
Employee benefit obligations	32	**293**	277
Deferred tax liability	11	**1,202**	1,274
Provisions for liabilities and charges	26	**1,250**	1,244
Derivative financial instruments	28	**95**	55
Other long-term liabilities	23	**250**	384
		7,218	7,538
Current liabilities			
Current portion of long-term borrowings	24	**670**	579
Trade and other payables	22	**6,013**	5,377
Derivative financial instruments	28	**66**	64
Current tax payable		**12**	157
Provisions for liabilities and charges	26	**803**	352
		7,564	6,529
Total liabilities		**14,782**	14,067
Total equity and liabilities		**19,837**	19,753

Consolidated cash flow statement

€ million	Note	Year to December 31 2012	2011
Cash flows from operating activities			
Operating (loss)/profit		**(613)**	444
Depreciation, amortisation and impairment		**1,414**	969
Movement in working capital and other non-cash movements		**312**	130
Settlement of competition investigation		**(70)**	(168)
Cash payments to pension schemes (net of service costs)	32	**(381)**	(414)
Interest paid		**(187)**	(186)
Taxation		**(4)**	(5)
Net cash flows from operating activities from continuing operations		**471**	770
Net cash flows used in operating activities from discontinued operations		**(132)**	–
Net cash flows from operating activities		**339**	770
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		**(1,239)**	(1,071)
Sale of property, plant and equipment		**46**	65
Cash acquired on business combination (net of proceeds)		**(1)**	689
Interest received		**43**	78
Decrease in other current interest-bearing deposits		**246**	843
Acquisition of own shares		**–**	(18)
Dividends received		**14**	10
Other investing movements		**3**	5
Net cash flows from investing activities		**(888)**	601
Cash flows from financing activities			
Proceeds from long-term borrowings		**534**	304
Repayment of borrowings		**(338)**	(312)
Repayment of finance leases		**(331)**	(341)
Distributions made to holders of perpetual securities and other		**(21)**	(20)
Net cash flows from financing activities		**(156)**	(369)
Net (decrease)/increase in cash and cash equivalents		**(705)**	1,002
Net foreign exchange differences		**90**	58
Cash and cash equivalents at 1 January		**1,977**	917
Cash and cash equivalents at year end	21	**1,362**	1,977
Interest bearing deposits maturing after more than three months		**1,547**	1,758
Cash, cash equivalents and other interest bearing deposits	21	**2,909**	3,735

Consolidated statement of changes in equity

At December 31, 2012

€ million	Issued share capital	Share premium	Investment in own shares (note 31)	Other reserves	Retained earnings	**Total shareholders' equity**	Non-controlling interest (note 31)	**Total equity**
At January 1, 2012	928	5,280	(17)	(2,467)	1,662	**5,386**	300	**5,686**
Loss for the year	–	–	–	–	(943)	**(943)**	20	**(923)**
Other comprehensive income for the year:								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	–	–	–	47	–	**47**	–	**47**
Fuel and oil costs	–	–	–	(10)	–	**(10)**	–	**(10)**
Currency differences	–	–	–	(18)	–	**(18)**	–	**(18)**
Net change in fair value of cash flow hedges	–	–	–	36	–	**36**	–	**36**
Net change in fair value of available-for-sale financial assets	–	–	–	156	–	**156**	–	**156**
Currency translation differences	–	–	–	77	–	**77**	–	**77**
Cost of share-based payments	–	–	–	–	24	**24**	–	**24**
Distributions made to holders of perpetual securities	–	–	–	–	–	**–**	(20)	**(20)**
At December 31, 2012	**928**	**5,280**	**(17)**	**(2,179)**	**743**	**4,755**	**300**	**5,055**

At December 31, 2011

€ million	Issued share capital	Share premium	Investment in own shares (note 31)	Other reserves	Retained earnings	Total shareholders' equity	Non-controlling interest (note 31)	Total equity
At January 1, 2011[1]	–	–	(4)	1,442	1,087	2,525	300	2,825
Profit for the year	–	–	–	–	562	562	20	582
Other comprehensive income for the year:								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	–	–	–	41	–	41	–	41
Fuel and oil costs	–	–	–	(6)	–	(6)	–	(6)
Currency differences	–	–	–	19	–	19	–	19
Net change in fair value of cash flow hedges	–	–	–	(106)	–	(106)	–	(106)
Net change in fair value of available-for-sale financial assets	–	–	–	(66)	–	(66)	–	(66)
Currency translation differences	–	–	–	48	–	48	–	48
Shares issued during the year	928	5,280	(14)	(3,839)	–	2,355	–	2,355
Cost of share-based payments	–	–	–	–	18	18	–	18
Exercise of share options	–	–	1	–	(5)	(4)	–	(4)
Distributions made to holders of perpetual securities	–	–	–	–	–	–	(20)	(20)
At December 31, 2011	928	5,280	(17)	(2,467)	1,662	5,386	300	5,686

1 The Issued share capital and Share premium at January 1, 2011 had been retrospectively adjusted as a result of the merger to represent the share capital and share premium of the Company. The remaining reserves balances relate to British Airways and the Company. The issued share capital at April 1, 2010 was €15,000.

Notes to the consolidated financial statements

1 Background and general information

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 of the two companies to create a new leading European airline group. As a result of the merger, International Consolidated Airlines Group S.A. (hereinafter 'International Airlines Group', 'IAG' or the 'Group') was formed to hold the interests of both the existing airline groups. IAG is a Spanish company registered in Madrid and was incorporated on April 8, 2010.

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 Summary of 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 adopted by the European Union (IFRSs as adopted by the EU). The consolidated financial statements are presented in euros, rounded to the nearest million unless otherwise stated. These financial statements have been prepared on a historical cost convention except for certain financial assets and liabilities, including derivative financial instruments and available-for-sale financial assets that are measured at fair value. The carrying value of recognised assets and liabilities that are subject to fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged. The financial statements for the prior year include reclassifications that were made to conform to the current year presentation. The amendments have no material impact on the financial statements.

The Group's financial statements for the year to December 31, 2012 were authorised for issue, and signed by the Board of Directors on February 27, 2013.

The Directors have considered the business activities as set out on pages 8 to 10, the Group's principal risks and uncertainties as set out on pages 78 to 81, 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.

On May 18, 2012 IAG Cargo Ltd (IAG Cargo) was incorporated. The principal activity of IAG Cargo is commercial sales, support and management services in the provision of air freight on the British Airways and Iberia networks.

On September 12, 2012 Veloz Holdco, S.L. (Veloz) (previously named Global Aimara, S.L.) was incorporated and adopted the name of Veloz Holdco, S.L. on November 7, 2012. The main business of Veloz consists of the acquisition and holding of shares or equity interests in other companies, as well as the management and disposition of such equity interests.

On December 10, 2012 Veloz Holdco, S.L. filed an application for the authorisation of the tender offer for the acquisition of 16,193,297 shares of Vueling Airlines, S.A.'s (Vueling) shares, representing 54.15 per cent of its capital stock and an equal percentage of voting rights. IAG indirectly owns 13,711,221 shares representing the remaining 45.85 per cent of Vueling.

Basis of 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, adjusted where appropriate to conform with the Group's accounting policies.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power either directly or indirectly to govern the financial and operating policies of the entity so as to obtain benefit from its activities. 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.

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 re-measured 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, have been eliminated in preparing the consolidated financial statements.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to 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. The 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 spot exchange rate ruling at 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.

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 is recognised in the Income statement.

Property, plant and equipment

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

a Capitalisation of interest on progress payments

Interest attributed to progress payments, and related exchange movements on foreign currency amounts, made on account of aircraft and other qualifying assets under construction are capitalised and added to the cost of the asset concerned.

All other borrowing costs are recognised in the Income statement in the year in which they are incurred.

b Fleet

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits. Fleet assets owned or held on finance leases are depreciated at rates calculated to write down the cost to the estimated residual value at the end of their planned operational lives on a straight-line basis.

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

Aircraft and engine spares acquired on the introduction or expansion of a fleet, as well as rotable spares purchased separately, are carried as property, plant and equipment and generally depreciate 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.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies continued
Property, plant and equipment continued

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

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

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

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

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

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

c Customer loyalty programmes
Customer loyalty programmes arising on the acquisition of subsidiaries are initially recognised at fair value at the acquisition date. A customer loyalty programme with an expected useful life is amortised over the expected remaining useful life. Customer loyalty programmes with an indefinite life 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 over a period not exceeding five 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 amount by which the asset's carrying amount 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 suffered 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, but tested annually for impairment or more frequently if events or changes in circumstances indicate the carrying value may not be recoverable.

Investments in associates

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. The Group's interest in the net assets of associates is included in Investment in associates 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. Where the Group does not 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.

Financial instruments

a Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are not classified as loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included 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.

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.

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

b Trade and other receivables

Trade and other receivables are stated at cost less allowances made for doubtful receivables, which approximates fair value given the short dated nature of these assets. A provision for impairment of trade receivables (allowance for doubtful receivables) is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. Loans to third parties are initially measured at the fair value of the consideration given plus any directly attributable transaction costs, and measured thereafter at amortised cost.

c Other current interest-bearing deposits

Other current interest-bearing deposits, principally comprising funds held with banks and other financial institutions, are carried at amortised cost using the effective interest method. Such financial assets are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Gains and losses are recognised in the Income statement when the deposits are derecognised or impaired, as well as through the amortisation process.

d Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The Group determines the classification at initial recognition and re-evaluates this designation at each year end, except for those financial instruments measured at fair value through the Income statement. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies continued
Financial instruments continued

d Derivative financial instruments and hedging activities continued
Other investments, excluding interests in associates, are designated as available-for-sale financial assets and are recorded at fair value. Any change in the fair value is reported in Other comprehensive income until the investment is sold, when the cumulative amount recognised in equity is recognised in the Income statement. In the case of equity securities classified as available-for-sale investments, a significant or prolonged decline in the fair value of the security below its cost is considered as 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.

Exchange gains and losses on monetary items 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. Derivative financial instruments, comprising interest rate swap agreements, foreign exchange derivatives and fuel hedging derivatives (including options, swaps and futures), are measured at fair value on the Balance sheet.

e Cash flow hedges
Changes in the fair value of derivative financial instruments are reported through operating income or financing according to the nature of the instrument, 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 for the year, are recorded in equity. Gains and losses recorded in equity are reflected in the Income statement when either the hedged cash flow impacts income or the hedged item is no longer expected to occur.

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

Derecognition of financial assets and liabilities
A financial asset or liability is generally derecognised when the contract that gives rise to it has been settled, sold, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts are recognised in the Income statement.

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 periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the balance sheet date on high quality 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 calculation results in a net asset to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan and restricted by any relevant asset ceiling. Fair value is based on market price information and, in the case of quoted securities, is the published bid price.

Current service costs are recognised within operating expenses in the year in which they arise. Past service costs are recognised when the benefit has been given. The financing cost and expected return on plan assets are recognised within financing costs in the years in which they arise. The accumulated effect of changes in estimates, changes in assumptions and deviations from actuarial assumptions (actuarial gains and losses) that are less than ten per cent of the higher of pension benefit obligations and pension plan assets at the beginning of the year are not recorded. When the accumulated effect is above ten per cent the excess amount is recognised on a straight-line basis in the Income statement over the estimated average remaining service period.

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.

b Termination benefits

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

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

Taxation

Current 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.

Non-current assets held for sale

Non-current assets are classified as held for sale when their carrying value is to be recovered principally through sale as opposed to continuing use. The sale must be considered to be highly probable and to be achieved within 12 months. Held for sale assets are carried at the lower of carrying value and fair value less costs to sell. Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

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 includes 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.

Investment in own shares

Shares in the Company held by the British Airways Plc Employee Share Ownership Trust, are classified as Investments in own shares and shown as deductions from shareholders' equity at cost. Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from the sale and the original cost being taken to reserves.

No gain or loss is recognised in the Income statement on the purchase, sale, issue or cancellation of equity shares.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies continued

Share-based payments

The Group operates a number of equity-settled, share-based payment plans, under which the Group receives services from employees as consideration for equity instruments of the Group. The fair value of the share-based payment plans is measured at the date of grant using an appropriate valuation model. 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, of 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 for liabilities and charges

Provisions are made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated. Employee leaving indemnities and other employee related provisions relate partially to 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. The Group is required to remunerate these employees until they reach the statutory retirement age, and the Group recognises a provision for this based on actuarial valuations. Other employee related provisions also include a restructuring provision for direct expenditures of business reorganisation 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 liability. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Revenue

Passenger and cargo revenue is recognised when the transportation service is provided. Passenger tickets net of discounts are recorded as current liabilities as 'sales in advance of carriage' until recognised as revenue. 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.

Other revenue is recognised at the time the service is provided.

Revenue recognition – customer loyalty programmes

The Group operates three principal loyalty programmes: Executive Club, Iberia Plus and Avios. The frequent flyer programmes allow travellers to accumulate Avios points that they can redeem for travel rewards, including flights, hotels and car hire. The fair value attributed to the awarded Avios points is deferred as a liability and recognised as revenue on redemption of the points by the participants to whom the Avios points are issued.

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

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 column in the Income statement relates primarily to the impact of the Iberia impairment and restructuring; and the impact of business combination transactions that do not contribute to the on-going results of the Group. 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.

Critical accounting estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. These underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if these are also affected. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a 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 as disclosed in note 17.

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

b Pensions and other post-retirement benefits
The cost of defined benefit pension plans and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these schemes, such estimates are subject to significant uncertainty and are disclosed in note 32. The Group exercises its judgement in determining the assumptions to be adopted, in discussion with its actuaries.

c Impairment of associates
The Group classifies certain financial assets as associates which are recognised using the equity method. Associates are tested annually for impairment and at other times when such indicators exist. The recoverable amount of associates is determined based on value-in-use calculations. Where the value declines, management makes assumptions to determine whether an impairment should be recognised in the Income statement.

d Passenger revenue recognition
Passenger revenue is recognised when the transportation is provided. Ticket sales that are not expected to be used for transportation ('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.

e Income taxes
The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Critical judgements in applying the entity's accounting policies

a Residual values and useful lives of assets
The Group exercises judgement to determine useful lives and residual values of property and plant and equipment. The assets are depreciated down to their residual values over their estimated useful lives. Further details are provided in note 14.

Changes in accounting policy and disclosures

a New and amended standards adopted by the Group
The Group has adopted the following standards, interpretations and amendments for the first time in the year to December 31, 2012:

IFRS 7 (Amendment) 'Financial Instruments: Disclosures'; effective for periods beginning on or after July 1, 2011. The amendment requires additional quantitative and qualitative disclosures relating to transfers of financial assets when financial assets are not derecognised in their entirety, or when they are derecognised in their entirety but the entity has continuing involvement in them. This did not result in any additional disclosure for the Group during the year.

Other amendments resulting from improvements to IFRSs or to standards did not have any impact on the accounting policies, financial position or performance of the Group.

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 date 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 from January 1, 2013.

IAS 19 'Employee Benefits'; effective for periods beginning on or after January 1, 2013. This amended standard will be adopted on January 1, 2013, with the comparative information for the year to December 31, 2012 being restated in the 2013 consolidated financial statements.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies continued
Changes in accounting policy and disclosures continued

b New standards, amendments and interpretations not yet effective continued

The revised standard has eliminated the use of the corridor approach. This will result in recognition of all re-measurements of the defined benefit liability or asset including gains and losses in Other comprehensive income. At December 31, 2012 the net pension liability was €2,116 million and the net pension asset was €904 million (restricted to €606 million by the APS asset ceiling). Had previously unrecognised cumulative gains and losses been recognised at December 31, 2012, total equity would have decreased by €2,077 million to recognise €2,697 million of cumulative actuarial losses and gains previously unrecognised, partially offset by an increase in the related deferred tax asset of €620 million. Unrecognised cumulative gains in relation to APS will not be recognised as these will be fully restricted by the APS asset ceiling.

The amended standard will also require the Group to determine the net interest expense or income for the year on the net defined benefit liability or asset by applying the discount rate used at the beginning of the period to measure the defined benefit obligation to the net defined benefit liability or asset at the beginning of the year. It takes into account any changes in the net defined benefit liability or asset during the year as a result of contributions and benefit payments. Previously, the Group determined interest income on plan assets based on their long-term rate of expected return. Before adopting the amendment, the Group had a finance charge or income in relation to amortisation of actuarial losses in excess of the corridor and the effect of the APS asset ceiling; following the adoption of the amended standard, all actuarial losses and gains will be recognised immediately in Other comprehensive income, as will changes in the APS asset ceiling.

Had the amended standard been adopted early, the net pensions finance charge would have decreased by €240 million; €179 million for the elimination of the effect of the APS asset ceiling, €44 million for the elimination of financing charges for the amortisation of actuarial losses in excess of the corridor and €17 million due to a reduction in the net financing income relating to pensions.

The amendment to IAS 19 will not result in any change to the actuarial valuation used for the triennial valuation nor will it impact the profile of deficit funding contributions that are agreed with the scheme trustees.

IAS 1 (Amendment) 'Financial statement presentation'; effective for periods beginning on or after July 1, 2012. This amendment requires companies to group together items within other comprehensive income that may be reclassified to the profit or loss section of the income statement. Items in the OCI should be presented as either a single statement or two consecutive primary statements.

IFRS 7 (Amendment) 'Financial instruments: Disclosures'; effective for periods beginning on or after January 1, 2013. The amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.

The IASB issued three new standards relating to interest in other entities and related disclosure. These standards are effective for periods beginning on or after January 1, 2013 and have been endorsed by the EU. The new standards are IFRS 10 'Consolidated financial statements', IFRS 11 'Joint arrangements' and IFRS 12 'Disclosure of interest in other entities'. IFRS 10 replaces the guidance on control and consolidation in IAS 27 and SIC 12 'Consolidation-special purpose entities'. IFRS 11 requires joint arrangements to be accounted for as a joint operation or as a joint venture depending on the rights and obligations of each party to the arrangement. IFRS 12 requires enhanced disclosure of the nature, risk and the financial effects associated with the Group's interest in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they were a single entity remains unchanged, as do the mechanics of consolidation. It is anticipated that the application of these standards will have no significant impact on the Group's net profit or net assets.

IFRS 13 'Fair value measurement'; effective for periods beginning on or after January 1, 2013. The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS.

IAS 27 (Revised 2011) 'Separate financial statements'; effective for periods beginning on or after January 1, 2013. The revised standard includes the provision on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

IAS 28 (Revised 2011) 'Associates and joint ventures'; effective for periods beginning on or after January 1, 2013. The revised standard includes the requirement for joint ventures and associates to be equity accounted following the issue of IFRS 11.

IAS 32 (Amendment) 'Financial instruments: Presentation'; effective for periods beginning on or after January 1, 2014. The amendment clarifies some of the requirements for offsetting financial asset and financial liabilities on the balance sheet.

IFRS 9 'Financial instruments' (not yet endorsed by the EU); effective for periods beginning on or after January 1, 2015. The standard removes the multiple classification and measurement models for financial assets required by IAS 39 and introduces a model that has only two classification categories: amortised cost and fair value. Classification is driven by the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The accounting and presentation for financial liabilities and for derecognising financial instruments is relocated from IAS 39 without any significant changes. The Group has not yet decided the date of adoption and has not yet completed its evaluation of the effects of the adoption.

There are no other standards and 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, interpretation or amendment that has been issued but is not yet effective.

3 Business combinations

On April 19, 2012 through its subsidiary British Airways, the Group acquired 100 per cent of the entire issued share capital of British Midland Limited ('bmi') from LHBD Holdings Limited ('Lufthansa'). bmi consisted of three distinct business units – bmi mainline, bmi regional and bmibaby. The acquisition of bmi mainline allows British Airways to manage its wider London Heathrow slot portfolio more effectively, launch new routes and increase frequencies to existing key destinations.

bmi regional and bmibaby were also acquired as part of the acquisition. These businesses were not part of the Group's longer term plans, and so are included as discontinued operations in the Income statement. The trade, certain assets and certain liabilities of bmi regional were sold to Sector Aviation Holdings Ltd on June 1, 2012; as such the assets and liabilities of this business were acquired exclusively with a view to resale. The Group was unable to find a viable acquirer for bmibaby, and consequently this operation ceased to trade in September 2012.

The assets and liabilities arising from the acquisition are as follows:

€ million	Fair value
Property, plant and equipment	133
Intangible assets[1]	
Landing rights	499
Other non-current assets	37
Cash and cash equivalents	75
Trade receivables[2]	55
Other current assets	125
Current portion of long-term borrowings	(7)
Trade and other payables	(485)
Current provision for liabilities and charges	(100)
Non-current provisions for liabilities and charges	(132)
Interest bearing long-term borrowings	(26)
Net identifiable assets/(liabilities) acquired	174
Cash consideration[3]	101
Gain on bargain purchase	(73)

1 Landing rights have been assessed as having indefinite lives and will be tested annually for impairment.
2 The gross contractual amount for trade receivables is €59 million, 94 per cent which is expected to be collected.
3 There is no deferred or contingent consideration.

Cash consideration of €101 million (£83 million) was paid in total, including €18 million (£15 million) paid in 2011.

The gain on bargain purchase arising from the acquisition of bmi is credited to the Income statement, and does not represent a taxable gain.

Notes to the consolidated financial statements continued

3 Business combinations continued

Transaction costs related to the acquisition of bmi totalling €7 million were recognised within Exceptional items in the Income statement for the year to December 31, 2012 within Property, IT and other costs. Transaction costs totalling €4 million were recognised in 2011.

The contribution to the consolidated Group results of bmi to continuing operations was revenues of €365 million, operating losses before exceptional items of €98 million and operating losses after exceptional items of €185 million. Had bmi been consolidated from January 1, 2012, the Group would have reported total revenue of €18,276 million and an operating loss of €681 million.

4 Segment information

a Business segments

British Airways and Iberia are managed as individual operating companies. Each company operates its network operations as a single business unit. The chief operating decision maker, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the IAG Management Committee. The IAG Management Committee makes resource allocation decisions based on network profitability, primarily by reference to the markets in which the companies operate. The objective in making resource allocation decisions is to optimise consolidated financial results. Therefore, based on the way the Group treats its businesses, and the manner in which resource allocation decisions are made, the Group has two (2011: two) reportable operating segments for financial reporting purposes, reported as British Airways and Iberia.

For the year to December 31, 2012:	2012			
€ million	British Airways	Iberia	Unallocated	**Total**
Revenue				
External revenue	13,312	4,805	–	**18,117**
Inter-segment revenue	26	36	50	**112**
Segment revenue	13,338	4,841	50	**18,229**
Depreciation and amortisation	(886)	(169)	(16)	**(1,071)**
Goodwill and intangible asset impairment				
Goodwill	–	(249)	–	**(249)**
Intangible assets	–	(94)	–	**(94)**
Impairment charge on goodwill and intangible assets	–	(343)	–	**(343)**
Operating profit/(loss) after exceptional items[1]	**295**	**(896)**	**(12)**	**(613)**
Net non-operating costs				**(384)**
Loss before tax from continuing operations				**(997)**

1 The British Airways segment includes an exceptional charge of €52 million related to provisions and business combination costs, the Iberia segment includes an exceptional charge of €202 million related to restructuring costs and a charge of €343 million related to impairment of intangible assets and the impairment of goodwill, and the Unallocated segment includes an exceptional credit of €7 million associated with derivatives and financial instruments (note 6).

For the year to December 31, 2011:	2011			
€ million	British Airways	Iberia	Unallocated	Total
Revenue				
External revenue	11,483	4,620	–	16,103
Inter-segment revenue	9	16	36	61
Segment revenue	11,492	4,636	36	16,164
Depreciation, amortisation and impairment	(786)	(169)	(14)	(969)
Operating profit/(loss) after exceptional items[1]	592	(61)	(87)	444
Net non-operating income				98
Profit before tax				542

1 The Unallocated segment includes an exceptional charge of €78 million (note 6) related to derivatives and financial instruments.

b Geographical analysis

Revenue by area of original sale

€ million	**2012**	2011
UK	**6,029**	5,124
Spain	**2,548**	2,168
USA	**2,647**	2,247
Rest of world	**6,893**	6,564
	18,117	16,103

Assets by area

At December 31, 2012

€ million	**Property, plant and equipment**	**Intangible assets**
UK	**8,460**	**968**
Spain	**1,394**	**960**
USA	**61**	**5**
Unallocated	**11**	**32**
	9,926	**1,965**

At December 31, 2011

€ million		
UK	8,090	377
Spain	1,407	1,310
USA	77	4
Unallocated	10	33
	9,584	1,724

Notes to the consolidated financial statements continued

5 Discontinued operations

Under the terms of the bmi mainline purchase agreement, British Airways acquired bmibaby and bmi regional as part of the acquisition on April 19, 2012. As bmibaby and bmi regional were not part of the Group's long term plans they have not been integrated into the Group and options to dispose of these businesses were pursued. bmi regional was subsequently sold to Sector Aviation Holdings Ltd on June 1, 2012. bmibaby ceased to trade in September 2012, with all aircraft being stood down in advance of handback to lessors.

From the date of acquisition, the loss after tax from discontinued operations is €38 million for the year to December 31, 2012. Revenue of €90 million was earned with total expenditure on operations of €128 million, and is attributable entirely to equity holders of the parent. There was no finance income, finance expense or taxation relating to the discontinued operations.

There were no discontinued operations in the year to December 31, 2011.

6 Exceptional items

€ million	2012	2011
Pre-acquisition cash flow hedge benefits[1]	**(7)**	78
Settlement of competition investigation[2]	**(35)**	–
Business combination costs[3]	**87**	–
Restructuring costs[4]	**202**	–
Intangible assets and goodwill impairment[5]	**343**	–
Recognised in expenditure on operations	**590**	78
Loss on discontinued operations[6]	**(38)**	–
Gain on bargain purchase[7]	**73**	–
Step acquisition[8]	**–**	(83)
Total exceptional charge/(credit) before tax	**625**	(5)

1 Derivatives and financial instruments

On January 21, 2011, Iberia had a portfolio of cash flow hedges with a net mark-to-market benefit of €78 million recorded within Other reserves on the Balance sheet. As these cash flow hedge positions unwind, Iberia will recycle the benefit from Other reserves through its Income statement.

The Group does not recognise the pre-acquisition cash flow hedge net benefits within Other reserves on the Balance sheet, resulting in fuel and aircraft operating lease costs being gross of the pre-acquisition cash flow hedge benefits. For the year to December 31, 2012 this has resulted in a decrease in reported aircraft operating lease costs of €7 million and a related €2 million tax charge (2011: Increase in reported fuel expense of €89 million and a decrease in reported aircraft operating lease costs of €11 million and a related €23 million tax credit).

2 Provisions

In April 2012, British Airways settled a fine with the Office of Fair Trading in the UK relating to investigations into passenger fuel surcharging dating back to 2004 through to 2006. The fine agreed was €70 million (£58.5 million), resulting in a €35 million release of the provision held. This provision release was considered exceptional due to its size, incidence and in line with the recognition of the original charge.

3 Business combination costs

A restructuring expense of €25 million has been recognised in relation to bmi mainline for the year to December 31, 2012, and transaction and integration expenses of €62 million. A related tax credit of €18 million has been recognised.

4 Restructuring costs

A restructuring expense of €202 million has been recognised in relation to the Iberia transformation plan.

5 Intangible assets and goodwill impairment

A charge of €343 million has been recognised for the impairment of the Iberia cash generating unit. Goodwill of €249 million from the acquisition of Iberia was fully impaired, Iberia Brand was partially impaired by €79 million and other intangible assets impaired by €15 million. The associated deferred taxes related to the impaired assets have been reversed, resulting in a tax credit of €28 million.

6 Discontinued operations

From the date of acquisition, the loss after tax from discontinued operations of bmibaby and bmi regional is €38 million for the year to December 31, 2012.

7 Gain on bargain purchase

The gain on bargain purchase related to the bmi acquisition of €73 million has been credited to Non-operating costs in the Income statement (note 3).

8 Step acquisition

As a result of British Airways' initial investment in Iberia, the 2011 Business combination of the Group was achieved in stages. Therefore, the Group revalued its initial investment in Iberia to fair value at the acquisition date resulting in a non-cash gain of €83 million.

7 Expenses by nature

Operating (loss)/profit is arrived at after charging/(crediting)

Depreciation, amortisation and impairment of non-current assets:

€ million	2012	2011
Owned assets	**709**	650
Finance leased aircraft	**244**	223
Other leasehold interests	**56**	54
Impairment charge on property, plant and equipment	**19**	(1)
Amortisation of intangible assets	**43**	43
Impairment charge on goodwill and intangible assets	**343**	–
	1,414	969

Operating lease costs:

€ million		2012	2011
Minimum lease rentals	– aircraft	**425**	375
	– property and equipment	**196**	187
Sub-lease rentals received		**(39)**	(44)
		582	518

Cost of inventories:

€ million	2012	2011
Cost of inventories recognised as an expense, mainly fuel	**6,396**	4,897

Notes to the consolidated financial statements continued

8 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, as well as fees for services billed by Deloitte S.L., and by companies belonging to Deloitte's network, being the auditors of certain individual financial statements of consolidated companies, were as follows:

	2012		2011	
€'000	Ernst & Young	Other auditor	Ernst & Young	Other auditor
Fees payable for the audit of the Group and individual accounts	**2,411**	**660**	2,251	723
Fees payable for other services:				
Audit of the Group's subsidiaries pursuant to legislation	**529**	**71**	402	54
Other services pursuant to legislation	**180**	**–**	101	–
Other services relating to taxation	**288**	**127**	317	897
Other assurance services	**751**	**–**	–	–
Services relating to information technology	**–**	**–**	–	142
Services relating to corporate finance transactions[1]	**90**	**–**	1,789	–
All other services	**–**	**1,302**	–	1,751
	4,249	**2,160**	4,860	3,567

1 This included services in relation to the acquisition of bmi (note 3) (2011: The merger transaction between British Airways and Iberia, and the acquisition of bmi).

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 on page 44 and includes an explanation of how objectivity and independence is safeguarded when non-audit services are provided.

9 Employee costs and numbers

a Employee costs

€ million	2012	2011
Wages and salaries	**3,247**	2,580
Social security costs	**425**	388
Costs related to pension scheme benefits	**262**	230
Other post-retirement benefit costs	**5**	6
Cost of share-based payments	**24**	18
Other employee costs[1]	**616**	577
	4,579	3,799

1 Other employee costs include allowances and accommodation for crew.

The Management Committee was remunerated €3 million for the year to December 31, 2012 (2011: €3 million).

The average number of employees during the year was as follows:

Number	2012	2011
Senior executives[1]	**240**	216
Ground employees:		
Managerial[2]	**2,418**	2,132
Non-managerial[3]	**34,385**	33,261
Technical crew:		
Managerial[4]	**4,525**	4,383
Non-managerial[5]	**18,006**	16,799
	59,574	56,791

Of the final headcount at December 31, 2012 women represent the following percentages: [1] 24 per cent, [2] 38 per cent, [3] 36 per cent, [4] 5 per cent, [5] 66 per cent (2011: [1] 25 per cent, [2] 38 per cent, [3] 36 per cent, [4] 5 per cent, [5] 66 per cent).

b Directors' remuneration

€ million	2012	2011
Board of Directors remuneration	**6**	7
Management Committee remuneration	**4**	3

There was one female Director at December 31, 2012 (2011: one).

The Report of the Remuneration Committee on pages 49 to 63 discloses further details of Directors' remuneration.

The Group provides life insurance for Executive members of the Board, and for the year to December 31, 2012 the Group's obligation was €22,000 (2011: €8,000). At December 31, 2012 the total transfer value of accrued pensions covered under defined benefit pension schemes totalled €3 million (2011: €2 million).

No Directors hold equity investments in companies whose activity is identical, similar or complementary to that of the Group, except for Willie Walsh who holds 10,616 shares (0.002 per cent) (2011: 10,616 shares) in Aer Lingus Group plc.

The Directors have also confirmed that they hold no positions and carry out no duties in companies with identical, similar or complementary activities to those of the Group, nor do they perform activities on their own behalf or on behalf of third parties that are identical, similar or complementary to those of the Group.

In relation to Articles 229 and 230 of the Companies Capital Act, the Directors have announced that they have no conflict with the interests of the Group.

10 Finance costs and income

a Finance costs

€ million	2012	2011
Interest expense on:		
Bank borrowings	**(27)**	(28)
Finance leases	**(100)**	(94)
Provisions: unwinding of discount	**(37)**	(41)
Other borrowings	**(99)**	(76)
Capitalised interest on progress payments	**4**	2
Change in fair value of cross currency swaps	**1**	1
Currency charges on financial fixed assets	**(6)**	16
	(264)	(220)

b Finance income

€ million	2012	2011
Interest on other interest-bearing deposits	**53**	85

c Net financing (charge)/credit relating to pensions

€ million	2012	2011
Net financing (expense)/income relating to pensions	**(43)**	72
Amortisation of actuarial losses in excess of the corridor	**(44)**	(30)
Effect of the APS asset ceiling[1]	**(179)**	142
	(266)	184

1 The value of the APS scheme assets is impacted by the asset ceiling test, which restricts the surplus that can be recognised to only those amounts that can be recovered through refunds or reductions in future contributions.

Notes to the consolidated financial statements continued

11 Tax

a Tax on profit on ordinary activities

Tax credit in the Income statement

€ million	2012	2011
Current tax		
Corporation tax	**3**	8
Current tax adjustments in respect of prior years – overseas tax	**(1)**	3
Other tax credits and deductions	**–**	(2)
Total current tax charge	**2**	9
Deferred tax		
Fixed asset related temporary differences	**(78)**	(59)
Employee benefit plans related temporary differences	**69**	86
Employee leaving indemnities and other employee related provisions	**10**	22
Tax losses carried forward	**(23)**	32
Foreign exchange related temporary differences	**(6)**	(6)
Share-based payment deductions written back	**(1)**	(2)
Other temporary differences	**19**	(17)
Adjustments in respect of prior years	**(14)**	(22)
Effect of corporation tax rate change on deferred tax tax balances	**(90)**	(83)
Total deferred tax credit	**(114)**	(49)
Total tax credit in the Income statement	**(112)**	(40)

Tax charge/(credit) directly to Statement of other comprehensive income and Statement of changes in equity

€ million	2012	2011
Deferred tax relating to items charged to Statement of other comprehensive income		
Exchange differences	**23**	10
Net change in fair value of cash flow hedges	**(17)**	(28)
Net change in fair value of available-for-sale financial assets	**73**	(22)
Impact of changes in substantively enacted tax rates	**4**	5
Total deferred tax charge/(credit) to other comprehensive income	**83**	(35)
Deferred tax relating to items charged to equity		
Share-based payments in issue	**–**	1
Total deferred tax charged to equity	**–**	1
Total tax charge/(credit) relating to items included in other comprehensive income and equity	**83**	(34)

b Reconciliation of the total tax credit

The tax credit is calculated at the domestic rates applicable to profits or losses in countries concerned. The tax credit on the loss for the year to December 31, 2012 is higher than the notional tax credit.

The differences are explained below:

€ million	2012	2011
Accounting (loss)/profit before tax	**(997)**	542
Tax calculated at the domestic rates applicable to profits in countries concerned	**(295)**	138
Effects of:		
Euro preferred securities		
Euro preferred securities accounted for as non-controlling interests	**(5)**	(6)
Deferred tax assets not recognised		
Current year losses not recognised	**204**	7
Other		
Non-deductible expenses	**21**	5
Effect of pension fund accounting	**28**	(70)
Foreign exchange and unwind of discount on competition investigation provisions	**(9)**	5
Share-based payment deductions written back	**–**	2
Adjustments in respect of prior years	**(14)**	(19)
Disposal and write down of investments	**76**	6
Impact of changes in substantively enacted tax rates	**(90)**	(83)
Other differences	**(11)**	(3)
Net impact of accounting for business combinations	**(17)**	(22)
Tax credit in the Income statement	**(112)**	(40)

Notes to the consolidated financial statements continued

11 Tax continued

c Net deferred tax liability

The net deferred tax liability included in the Balance sheet is as follows:

€ million	2012	2011
Temporary differences on:		
Fixed asset related temporary differences	**1,337**	1,347
Employee benefit plan related temporary differences	**166**	108
Exchange differences on funding liabilities	**1**	(26)
Advance corporation tax	**(121)**	(121)
Tax losses carried forward	**(412)**	(294)
Fair value profits recognised on cash flow hedges	**180**	156
Share-based payments related temporary differences	**(9)**	(7)
Deferred revenue in relation to loyalty reward programmes	**(40)**	(61)
Employee leaving indemnities and other employee related provisions	**(292)**	(301)
Other temporary differences	**(14)**	5
Tax assets in relation to tax credits and deductions	**(44)**	(29)
	752	777

Movement in provision

€ million	2012	2011
Balance at beginning of the year	**777**	928
Acquired through Business combination	**(18)**	(82)
Deferred tax credit relating to Income statement	**(112)**	(49)
Deferred tax charge/(credit) taken to Statement of other comprehensive income	**83**	(35)
Deferred tax charge taken to Statement of changes in equity	**–**	1
Exchange movements	**22**	14
	752	777

d Other taxes

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

€ million	2012	2011
UK Air Passenger Duty	**716**	553
Other ticket taxes	**792**	653
Payroll related taxes	**454**	391
Other taxes	**9**	11
	1,971	1,608

The UK Government has announced that the rates of Air Passenger Duty will increase at the rate of inflation from April 1, 2013.

e Factors that may affect future tax charges

Deferred tax assets of €412 million have been recognised in respect of tax losses carried forward. Of these losses, €261 million will expire from 2026 to 2030 and the remaining €151 million have no expiration date. During the year, deferred tax assets of €204 million were not recognised in respect of current year losses and temporary differences. These losses can be utilised until 2030.

The Group has unrecognised capital losses carried forward of €209 million at December 31, 2012 (2011: €176 million) which have no expiration date. These losses are available for offset against future chargeable gains from the same tax jurisdiction. Deferred taxation arising on chargeable gains by roll-over and hold-over relief claims reduced the tax basis of fixed assets by €85 million (December 31, 2011: €83 million). Although they do not expire, no deferred tax liability has been recognised in respect of the crystallisation of these chargeable gains as they could be offset against capital losses carried forward.

The Group also has an unrecognised deferred tax asset of €63 million (2011: €84 million) arising from temporary differences in respect of future capital losses if properties are realised at their residual value. These losses have no expiration date.

The Group has overseas tax losses of €100 million (2011: €113 million) that are carried forward for offset against suitable future taxable profits. No deferred tax asset has been recognised in respect of these losses as their utilisation is not currently anticipated. These losses have no expiration date.

Further reductions in the UK corporation tax rate were substantively enacted in the year. The main rate of corporation tax was reduced from 26 per cent to 24 per cent effective from April 1, 2012. The provision for deferred tax on temporary differences as at December 31, 2012 was calculated at 23 per cent, the corporation tax rate effective from April 1, 2013. The difference from the application of 23 per cent instead of 24 per cent for the three month period to March 31, 2013 is not expected to be material. The effect of further planned reductions to the main rate of corporation tax by 2 per cent to 21 per cent by April 2014 is expected to provide an estimated benefit to the Group's net assets of €87 million and will be applied in the Group's Financial statements as the legislation is substantively enacted.

12 Earnings per share

€ million	**2012**	2011
(Loss)/earnings attributable to equity holders of the parent and basic earnings per share from continuing operations	**(905)**	562
Loss attributable to equity holders of the parent and basic earnings per share from discontinued operations	**(38)**	–
Interest expense on 5.8 per cent convertible bond	**49**	34
Diluted (loss)/earnings attributable to equity holders of the parent and diluted earnings per share	**(894)**	596

€ million	**Number '000**	Number '000
Weighted average number of ordinary shares in issue	**1,848,453**	1,808,077
Assumed conversion on 5.8 per cent convertible bond	**184,727**	184,727
Dilutive employee share-based payments outstanding	**34,571**	12,425
Weighted average number of ordinary shares in issue for diluted earnings per share	**2,067,751**	2,005,229
Basic (loss)/earnings per share (€ cents)		
From continuing operations	**(49.0)**	31.1
From discontinued operations	**(2.0)**	–
From (loss)/profit for the year	**(51.0)**	31.1
Diluted (loss)/earnings per share (€ cents)		
From continuing operations	**(49.0)**	29.7
From discontinued operations	**(2.0)**	–
From (loss)/profit for the year	**(51.0)**	29.7

13 Dividends

The Directors propose that no dividend be paid for the year to December 31, 2012 (2011: €nil).

Notes to the consolidated financial statements continued

14 Property, plant and equipment

€ million	Fleet	Property	Equipment	**Total**
Cost				
Balance at January 1, 2011	14,413	1,797	876	17,086
Additions	850	32	70	952
Acquired through Business combination	826	294	265	1,385
Disposals	(151)	(107)	(21)	(279)
Reclassifications	(159)	–	–	(159)
Exchange movements	272	28	15	315
Balance at December 31, 2011	16,051	2,044	1,205	19,300
Additions	991	42	85	**1,118**
Acquired through Business combination	132	–	1	**133**
Disposals	(269)	(8)	(44)	**(321)**
Reclassifications	(24)	(30)	20	**(34)**
Exchange movements	396	45	24	**465**
At December 31, 2012	**17,277**	**2,093**	**1,291**	**20,661**
Depreciation and impairment				
Balance at January 1, 2011	7,635	755	616	9,006
Charge for the year	760	73	94	927
Impairment charge recognised during the year	(1)	–	–	(1)
Disposals	(121)	(107)	(14)	(242)
Reclassifications	(145)	–	–	(145)
Exchange movements	147	12	12	171
Balance at December 31, 2011	8,275	733	708	9,716
Charge for the year	836	73	100	**1,009**
Impairment charge recognised during the year[1]	19	–	–	**19**
Disposals	(189)	(8)	(30)	**(227)**
Reclassifications	(31)	–	–	**(31)**
Exchange movements	212	19	18	**249**
At December 31, 2012	**9,122**	**817**	**796**	**10,735**
Net book values				
December 31, 2012	**8,155**	**1,276**	**495**	**9,926**
December 31, 2011	7,776	1,311	497	9,584
Analysis at December 31, 2012				
Owned	4,376	1,195	384	**5,955**
Finance leased	3,137	5	55	**3,197**
Progress payments	616	76	56	**748**
Assets not in current use[2]	26	–	–	**26**
Property, plant and equipment	**8,155**	**1,276**	**495**	**9,926**
Analysis at December 31, 2011				
Owned	4,409	1,265	425	6,099
Finance leased	2,969	6	47	3,022
Progress payments	341	40	25	406
Assets not in current use[2]	57	–	–	57
Property, plant and equipment	7,776	1,311	497	**9,584**

1 The impairment charge of €19 million relates to three Boeing 747-400 aircraft which were permanently written down to their realisable value during the year.
2 The net book value of €26 million (2011: €57 million) of assets not in current use comprises 14 aircraft stood down (2011: 22).

The net book value of property comprises:

€ million	2012	2011
Freehold	**549**	577
Long leasehold improvements	**329**	313
Short leasehold improvements[1]	**398**	421
Property	**1,276**	1,311

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

Property, plant and equipment with a net book value of €94 million was disposed of by the Group during the year (2011: €37 million) resulting in a profit of €7 million (2011: profit of €5 million).

At December 31, 2012, bank and other loans of the Group are secured on fleet assets with a cost of €3,279 million (2011: €3,115 million) and letters of credit of €283 million in favour of the British Airways Pension Trustees are secured on certain aircraft (2011: €275 million).

Depreciation

Fleet is generally depreciated over periods ranging from 18 to 25 years after making allowance for estimated residual values. Effective annual depreciation rates resulting from those methods are shown in the following table:

Per cent	2012	2011
Boeing 747-400, 777-200, 777-300, Airbus 340-300 and 340-600	**3.7**	3.7
Boeing 737-400, 767-300	**4.2**	4.2
Boeing 757-200	**4.4**	4.4
Airbus A318, A319, A320, A321	**4.9**	4.9
Embraer E170 and E190	**6.4**	6.4

15 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to €4,910 million for the Group commitments (2011: €5,359 million). The majority of capital expenditure commitments are denominated in US dollars, as such the commitments are subject to the impact of fluctuations in exchange rates.

The outstanding commitments include €4,829 million for the acquisition of 24 Boeing 787s (from 2013 to 2017), 10 Airbus A320s (from 2013 to 2014), 12 Airbus A380s (from 2013 to 2016), four Boeing 777s (from 2013 to 2014) and three Airbus A330s (in 2014).

16 Non-current assets held for sale

The non-current assets held for sale of €3 million (2011: €18 million) represent property acquired as part of the bmi acquisition (2011: three Boeing 757 aircraft). This is presented within the British Airways operating segment and will exit the business within 12 months of December 31, 2012.

Fleet non-current assets held for sale with a net book value of €18 million were disposed of by the Group during the year to December 31, 2012 (2011: €35 million), resulting in no gain or loss on disposal (2011: loss of €7 million).

During the year, bmi regional with net assets of €5 million, was acquired exclusively with a view to resale and was subsequently sold on June 1, 2012 at no gain or loss. The Group also acquired €8 million landing rights as part of the bmi acquisition, which were subsequently sold at no gain or loss.

Notes to the consolidated financial statements continued

17 Intangible assets and impairment review

a Intangible assets

€ million	Goodwill	Brand	Customer loyalty programmes	Landing rights	Other	**Total**
Cost						
Balance at January 1, 2011	47	–	–	315	213	575
Additions	–	–	–	39	58	97
Additions due to business combination	249	306	253	430	88	1,326
Disposals	–	–	–	–	(7)	(7)
Exchange movements	1	–	–	6	5	12
Balance at December 31, 2011	297	306	253	790	357	2,003
Additions	–	–	–	8	111	**119**
Additions due to business combination	–	–	–	499	–	**499**
Disposals	–	–	–	–	(5)	**(5)**
Exchange movements	1	–	–	10	7	**18**
At December 31, 2012	**298**	**306**	**253**	**1,307**	**470**	**2,634**
Amortisation						
Balance at January 1, 2011	–	–	–	69	170	239
Charge for the year	–	–	–	1	42	43
Disposals	–	–	–	–	(7)	(7)
Exchange movements	–	–	–	1	3	4
Balance at December 31, 2011	–	–	–	71	208	279
Charge for the year	–	–	–	1	42	**43**
Impairment losses recognised during the year	249	79	–	–	15	**343**
Disposals	–	–	–	–	(1)	**(1)**
Exchange movements	–	–	–	1	4	**5**
At December 31, 2012	**249**	**79**	**–**	**73**	**268**	**669**
Net book values						
December 31, 2012	**49**	**227**	**253**	**1,234**	**202**	**1,965**
December 31, 2011	297	306	253	719	149	1,724

Other intangible assets consist primarily of software with a net book value of €153 million (2011: €106 million), and also include purchased emissions allowances.

The net book value includes non-EU based landing rights of €15 million (2011: €16 million) that have a definite life.

b Impairment review

The carrying amounts of intangible assets with indefinite life and goodwill for the two cash generating units of the Group are:

€ million	Goodwill	Brand	Customer loyalty programmes	Landing rights	**Total**
2012					
Iberia					
At January 1, 2012	249	306	253	423	**1,231**
Impairment charge recognised in the year	(249)	(79)	–	–	**(328)**
At December 31, 2012	–	227	253	423	**903**
British Airways					
At January 1, 2012	48	–	–	280	**328**
Additions	–	–	–	8	**8**
Additions due to business combination	–	–	–	499	**499**
Exchange movements	1	–	–	9	**10**
At December 31, 2012	49	–	–	796	**845**
At December 31, 2012	**49**	**227**	**253**	**1,219**	**1,748**

€ million	Goodwill	Brand	Customer loyalty programmes	Landing rights	**Total**
2011					
Iberia					
At January 1, 2011	–	–	–	–	–
Additions due to business combination	249	306	253	423	1,231
At December 31, 2011	249	306	253	423	1,231
British Airways					
At January 1, 2011	47	–	–	237	284
Additions	–	–	–	39	39
Exchange movements	1	–	–	4	5
At December 31, 2011	48	–	–	280	328
At December 31, 2011	297	306	253	703	1,559

Basis for calculating recoverable amount

Goodwill, Brand and the Avios customer loyalty programme recoverable amounts have been measured based on their value-in-use.

Landing rights recoverable amount has been measured by reference to market transactions of similar assets less costs to sell; through fair value less costs to sell; or through value-in-use.

Value-in-use is calculated using a discounted cash flow model. Value-in-use for brand is based on the royalty methodology. 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 on long-term growth rates. Cash flow projections are discounted using the cash generating unit's (CGU) pre-tax discount rate.

Annually the Group prepares and approves formal five year business plans. Business plans were approved in the fourth quarter of the year. The Iberia business plan cash flows used in the value-in-use calculations have been adjusted to only reflect restructuring of the business which has been approved by the Board and can be executed by management without requiring any further agreement.

Restructuring costs associated with the Iberia transformation plan of €202 million have been provided as an exceptional charge in Employee costs in the current year Income statement.

Notes to the consolidated financial statements continued

17 Intangible assets and impairment review continued

b Impairment review continued

Key assumptions

Key assumptions and growth rates are based on past performance and management's expectations of the market. The market conditions in which Iberia is currently operating have become more challenging. The outlook for the economic environment in Spain is pessimistic and is expected to remain so over the next 12 to 18 months. Based on these factors, coupled with Iberia's declining performance and the risk of industrial action; the key assumptions for the Iberia CGU have been revised to reflect contingencies in the execution of its Business plan. In addition, the discount rate applied to the Iberia CGU has been increased to reflect the persistently high Spanish Government bond yields and the continued uncertainty arising from austerity measures, high unemployment and bank recapitalisation.

The Business plan assumed a fuel price of $110 per barrel (2011: $120 per barrel), US dollar exchange rate of 1.25 to the euro (2011: 1.40) and 1.57 to the pound sterling (2011: 1.60).

	2012		2011	
Per cent	British Airways	Iberia	British Airways	Iberia
Pre-tax discount rate	**10.0**	**11.7**	10.0	10.0
Perpetual growth rate	**2.5**	**–**	2.5	2.5

Iberia brand recoverable amount has been measured based on the royalty methodology, with a royalty rate of 0.60 per cent (2011: 0.64 per cent). The adjusted business plan projects a 15 per cent reduction in capacity resulting in a decrease in revenues. The decrease in revenues and the increase in discount rate have led to a €79 million impairment of the Iberia brand, recorded as an exceptional charge within Depreciation, amortisation and impairment in the Income statement.

As a result of the Iberia impairment review, goodwill was impaired by its full carrying amount of €249 million and franchise agreements impaired €15 million, both recorded as exceptional charges within Depreciation, amortisation and impairment in the Income statement.

Sensitivities

Any further decline in estimated value-in-use of the Iberia cash generating unit is liable for an additional impairment of the brand, customer loyalty programmes or landing rights. A change of 0.50 percentage points in the post-tax discount rate would increase or decrease the recoverable amount by approximately €90 million. A change of 0.50 percentage points in the perpetual growth rate would increase or decrease the recoverable amount by approximately €65 million. A change of 15 per cent of revenues would increase or decrease the recoverable amount of brand by approximately €35 million.

No reasonable possible change in the key assumptions for the British Airways cash generating unit would cause the carrying amounts of goodwill to exceed the recoverable amounts.

18 Investments in associates

The Group's principal associate at December 31, 2012 was as follows:

€ million	Country of incorporation	Principal activities	Percentage of equity owned	Holding	Market value of Group's interest in listed associate
Vueling Airlines, S.A.	Spain	Passenger transport	45.85	Ordinary shares	100

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

€ million	**2012**	2011
Total assets	**896**	653
Total liabilities	**(601)**	(385)
Revenue	**47**	23
Profit for the year	**17**	7

The detail of the movement in Investment in associates is shown as follows:

€ million	2012	2011
At beginning of year	**165**	1
Acquired through Business combination	**–**	157
Share of retained profits	**17**	7
Dividends received	**(2)**	–
	180	165

There are no significant restrictions on the ability of associated undertakings to transfer funds to the parent.

19 Available-for-sale financial assets

Available-for-sale financial assets include the following:

€ million	2012	2011
Listed securities		
Flybe Group Plc	**8**	9
Comair Limited	**7**	8
Amadeus IT Holding, S.A.	**640**	421
Unlisted securities	**29**	28
	684	466

The net charge relating to available-for-sale financial assets was €1 million (2011: €19 million) which related to an impairment on the Group's investment in Flybe Group Plc (2011: €18 million).

20 Trade receivables and other assets

€ million	2012	2011
Amounts falling due within one year		
Trade receivables	**1,203**	1,226
Provision for doubtful receivables	**(54)**	(51)
Net trade receivables	**1,149**	1,175
Prepayments and accrued income	**292**	228
Loans to third parties	**1**	39
Other non-trade debtors	**188**	178
	1,630	1,620
Amounts falling due after one year		
Prepayments and accrued income	**59**	16
Loans to third parties	**32**	38
Other non-trade debtors	**22**	17
	113	71

Loans to third parties relate to four loans to fleet operating lessors and four loans to fleet finance lessors. The loans have been granted for the same period as the duration of the leases they relate to and are repayable from 2013 to 2014. Annual interest on these loans range from 6.0 per cent to 6.5 per cent.

Notes to the consolidated financial statements continued

20 Trade receivables and other assets continued

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

€ million	2012	2011
At beginning of year	**51**	11
Provision for doubtful receivables	**8**	8
Additions due to Business combination	**4**	35
Unused amounts reversed	**(2)**	(2)
Receivables written off during the year	**(6)**	(1)
Exchange movements	**(1)**	–
	54	51

The ageing analysis of net trade receivables is as follows:

€ million	2012	2011
Neither past due date nor impaired	**1,009**	1,015
< 30 days	**50**	75
30 – 60 days	**30**	13
> 60 days	**60**	72
Net trade receivables	**1,149**	1,175

Trade receivables are generally non-interest-bearing and on 30 day terms (2011: 30 day terms).

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

a Cash and cash equivalents

€ million	2012	2011
Cash at bank and in hand	**777**	753
Short-term deposits falling due within three months	**585**	1,224
Cash and cash equivalents	**1,362**	1,977
Other current interest-bearing deposits maturing after three months	**1,547**	1,758
Cash, cash equivalents and other interest bearing deposits	**2,909**	3,735

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. The fair value of cash and cash equivalents is €1,362 million for the Group (2011: €1,977 million).

At December 31, 2012 the Group had no outstanding bank overdrafts (2011: €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.

b Reconciliation of net cash flow to movement in net debt

€ million	2012	2011
(Decrease)/increase in cash and cash equivalents during the year	**(607)**	371
Net (debt)/funds acquired on business combination	**(41)**	1,402
Net cash outflow from repayments of debt and lease financing	**669**	653
Decrease in other current interest-bearing deposits	**(246)**	(843)
New loans and finance leases	**(534)**	(304)
(Increase)/decrease in net debt resulting from cash flow	**(759)**	1,279
Exchange movements and other non-cash movements	**18**	(73)
(Increase)/decrease in net debt during the year	**(741)**	1,206
Net debt at January 1	**(1,148)**	(2,354)
Net debt at December 31	**(1,889)**	(1,148)

Net debt comprises the current and non-current portions of long-term borrowings less cash and cash equivalents and other current interest-bearing deposits.

22 Trade and other payables

€ million	2012	2011
Trade creditors	**1,951**	1,874
Other creditors	**1,053**	865
Other taxation and social security	**202**	52
Sales in advance of carriage	**1,409**	1,309
Accruals and deferred income[1]	**1,398**	1,277
	6,013	5,377

1 Accruals and deferred income includes €143 million (2011: €174 million) related to deferred income in respect of customer loyalty programmes.

Spanish companies within the Group have made supplier payments of €2,091 million within the Spanish legal payment terms for the year to December 2012 (2011: €2,282 million). Payments exceeded the Spanish legal payment terms, as stipulated by the Law 14/2010 of July 5, by a weighted average of 6 days (2011: 34 days), and totalled €86 million (2011: €95 million). At December 31, 2012 trade creditors of €5 million (2011: €19 million) were over the legal payment terms.

23 Other long-term liabilities

€ million	2012	2011
Non-current trade creditors	**9**	8
Other creditors	**3**	3
Accruals and deferred income	**238**	373
	250	384

24 Long-term borrowings

a Current

€ million	2012	2011
Bank and other loans	**235**	247
Finance leases	**435**	332
	670	579

b Non-current

€ million	2012	2011
Bank and other loans	**1,491**	1,625
Finance leases	**2,637**	2,679
	4,128	4,304

Notes to the consolidated financial statements continued

24 Long-term borrowings continued

b Non-current continued

Bank and other loans are repayable up to the year 2025. Bank and other loans of the Group are secured on aircraft as follows: amounting to US$358 million (2011: US$276 million), €65 million (2011: €68 million), ¥32,268 million (2011: ¥47,268 million) and £258 million (2011: £297 million). Euro-sterling notes and other loans are not secured. 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	2012	2011
£350 million fixed rate 5.8 per cent convertible bond 2014 (i)	**383**	351
£250 million fixed rate 8.75 per cent eurobonds 2016 (ii)	**306**	298
Floating rate sterling mortgage loans secured on aircraft (iii)	**170**	186
Floating rate US dollar mortgage loans secured on aircraft (iv)	**98**	43
Fixed rate sterling mortgage loans secured on aircraft (v)	**147**	169
Floating rate Japanese yen mortgage loans secured on aircraft (vi)	**290**	464
Floating rate US dollar mortgage loans secured on plant and equipment (vii)	**26**	35
Floating rate euro mortgage loan secured on aircraft (viii)	**65**	68
Floating rate unsecured euro loan (ix)	**15**	16
Fixed rate US dollar mortgage loans secured on aircraft (x)	**173**	168
European Investment Bank sterling loans secured on property (xi)	**26**	33
Fixed rate unsecured euro loans with the Spanish State (Department of Industry) (xii)	**27**	29
Fixed rate unsecured US dollar loan (xiii)	**–**	12
	1,726	1,872
Less: current instalments due on bank loans	**(235)**	(247)
	1,491	1,625

(i) £350 million fixed rate 5.8 per cent convertible bond issued by British Airways, convertible at the option of the holder, before or upon maturity in August 2014. Under the terms of the merger, the bondholders are now eligible to convert their bonds into ordinary shares of IAG. Conversion into ordinary shares will occur at a rate of £1.89, being a premium of 38 per cent on the Group's share price on the date of issuance. The Group holds an option to redeem the convertible bond at its principal amount, together with accrued interest, upon fulfilment of certain pre-determined criteria. The equity portion of the convertible bond issue is included in Other reserves (note 31).

At December 31, 2012, 184,708,995 (2011: 184,708,995) options were outstanding.

(ii) £250 million fixed rate 8.75 per cent unsecured eurobonds 2016 are repayable in one instalment in August 2016.

(iii) Floating rate sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.53 per cent and 0.69 per cent above LIBOR. The loans are repayable between 2015 and 2019.

(iv) Floating rate US dollar mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.98 and 2.40 per cent above LIBOR. The loans are repayable between 2015 and 2017.

(v) Fixed rate sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest at 6.3 per cent. The loans are repayable between 2016 and 2018.

(vi) Floating rate Japanese yen mortgage loans are secured on specific aircraft assets of the Group and bear interest of 0.55 per cent above LIBOR. The loans are repayable between 2014 and 2016.

(vii) Floating rate US dollar mortgage loans are secured on certain plant and equipment of the Group and bear interest of 0.75 per cent above LIBOR. The loans are repayable in 2014.

(viii) The floating rate euro mortgage loan is secured on specific aircraft assets of the Group and bears interest of 0.5 per cent above LIBOR. The loan is repayable in 2024.

(ix) The floating rate unsecured euro loan bears interest of 0.0225 per cent above EURIBOR. The loan is repayable in 2015.

(x) Fixed rate US dollar mortgage loans are secured on specific aircraft assets of the Group. These loans bear an average interest of 4.56 per cent and are repayable between 2021 and 2024.

(xi) European Investment Bank loans are secured on certain property assets of the Group and bear interest of between 0.2 per cent below LIBOR and equal to LIBOR. The loans are repayable between 2014 and 2017.

(xii) Fixed rate unsecured euro loans with the Spanish State (Department of Industry) bear no interest and are repayable between 2013 and 2025.

(xiii) The fixed rate unsecured US dollar loan bore an average interest of 1.20 per cent and was repaid in 2012.

d Total loans and finance leases

€ million	2012	2011
Loans		
Bank:		
US dollar	**$393**	$337
Euro	**€106**	€113
Japanese yen	**¥32,268**	¥47,268
Sterling	**£279**	£324
	€1,037	€1,224
Fixed rate bonds:		
Sterling	**£561**	£542
	€689	€648
Finance leases		
US dollar	**$2,319**	$2,268
Euro	**€174**	€245
Japanese yen	**¥9,332**	¥3,327
Sterling	**£862**	£831
	€3,072	€3,011
	€4,798	€4,883

e Obligations under finance leases

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

€ million	2012	2011
Future minimum payments due:		
Within one year	**511**	438
After more than one year but within five years	**1,541**	1,527
In five years or more	**1,370**	1,504
	3,422	3,469
Less: Finance charges	**(350)**	(458)
Present value of minimum lease payments	**3,072**	3,011
The present value of minimum lease payments is analysed as follows:		
Within one year	**435**	332
After more than one year but within five years	**1,342**	1,272
In five years or more	**1,295**	1,407
	3,072	3,011

Notes to the consolidated financial statements continued

24 Long-term borrowings continued

The Group's finance lease for one A340-600 is subject to financial covenants which are tested annually. The Group has informed its lenders that it had failed to meet one of the covenants for the year to December 31, 2012. As a result of this covenant breach, one finance lease has technically become repayable on demand and $85 million (€64 million) has been reclassified from non-current to current.

On February 14, 2013 the Group obtained a waiver from the lessor.

25 Operating lease commitments

The Group has entered into commercial leases on certain properties, equipment and aircraft. These leases have durations ranging from five years for aircraft to 150 years for ground leases. Certain leases contain options for renewal.

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

	2012			2011		
€ million	Fleet	Property, plant and equipment	**Total**	Fleet	Property, plant and equipment	Total
Within one year	553	166	**719**	358	159	517
Between one and five years	851	378	**1,229**	959	349	1,308
Over five years	214	2,074	**2,288**	447	2,026	2,473
	1,618	2,618	**4,236**	1,764	2,534	4,298

Three of the Group's A340-600 operating leases are also subject to financial covenants which are tested annually. The Group has informed its lenders that it had failed to meet one of the covenants for the year to December 31, 2012. The remaining operating lease payments of $239 million (€181 million) will technically fall due within one year.

The Group has received notice from the lessor that two of the eight lending institutions have waived the covenant breach. The remaining institutions have provided positive feedback and are expecting their risk committees to formally waive the breach. It is expected for the lessor to issue a formal waiver by March 15, 2013.

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 1 to 35 years and the assets are surplus to the Group's requirements. Future minimum rentals receivable under non-cancellable operating leases are as follows:

	2012			2011		
€ million	Fleet	Property, plant and equipment	**Total**	Fleet	Property, plant and equipment	Total
Within one year	–	13	**13**	8	14	22
Between one and five years	–	20	**20**	–	25	25
	–	33	**33**	8	39	47

26 Provisions for liabilities and charges

€ million	Employee leaving indemnities and other employee related provisions	Legal claims provisions	Restoration and handback provisions	Other provisions	**Total**
Net book value January 1, 2012	916	253	329	98	1,596
Provisions recorded during the year	333	65	119	108	625
Acquired through Business combination	11	19	103	99	232
Utilised during the year	(156)	(86)	(33)	(56)	(331)
Release of unused amounts	(12)	(49)	(41)	(7)	(109)
Unwinding of discount	22	6	7	2	37
Exchange movements	1	3	–	(1)	3
Net book value at December 31, 2012	**1,115**	**211**	**484**	**243**	**2,053**
Analysis:					
Current	426	140	129	108	803
Non-current	689	71	355	135	1,250
	1,115	**211**	**484**	**243**	**2,053**

Employee leaving indemnities and other employee related provisions

This provision includes staff leaving indemnities relating to staff under various contractual arrangements. The Group also recognises a provision relating to 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. The Group is required to remunerate these employees until they reach the statutory retirement age, and a provision is recognised based on an actuarial valuation made in October 2012. The actuarial valuation was carried out by independent actuaries using the projected unit credit method, based on a discount rate of 2.79 per cent and a 2 per cent annual increase in the Consumer Price Index (CPI).

The Group also recognises a provision for targeted voluntary severance schemes previously announced which are due to continue until 2013. 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 above, with the exception of the discount rate, which in this case was 1 per cent.

The Group has recognised severance in relation to the restructuring plans associated with the transformation of the airlines. This provision is expected to be paid out during the next 12 months.

Legal claims provisions

This provision primarily relates to 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.

During the year to December 31, 2012, the Group reached an early resolution with the UK Office of Fair Trading, pursuant to which it has paid a fine, concluding its investigation into passenger fuel surcharges for the period prior to March 2006. Also included are provisions related to investigations by a number of competition authorities in connection with alleged anti-competitive activity concerning the Group's passenger and cargo businesses.

Restoration and handback provisions

The provision for restoration and handback costs is maintained to meet the contractual return conditions on aircraft held under operating leases. The provision also included amounts 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, which will be utilised by March 2051.

Other provisions

This provision includes the onerous lease provision relating to properties leased by subsidiaries of the Group that are either sub-leased to third parties at a lower rate or vacant with no immediate intention to utilise the property. This provision is a long-term provision, likely to continue until 2027.

Notes to the consolidated financial statements continued

26 Provisions for liabilities and charges continued

Other provisions continued

The provision includes the present value of operating lease payments for leased aircraft that have been stood down related to the transformation of the airlines. This provision is expected to be paid out during the next 12 months.

Also included is a provision in relation to a ruling from the European Court of Justice which concluded that passengers whose flights were significantly delayed are entitled to receive compensation, unless the airline can prove that the delay was caused by circumstances beyond its control.

A provision for Emissions Trading Scheme is also included that represents the excess of CO_2 emitted on flights within the EU in excess of the EU Emission Allowances granted.

27 Financial risk management objectives and policies

The Group is exposed to a variety of financial risks: market risk, including foreign currency risk, interest rate risk and fuel price risk, counterparty risk, capital risk and liquidity risk. The Group's Financial Risk Management programme focuses on the unpredictability of financial markets and defines the amount of risk that the Group is prepared to retain.

Financial Risk Management is managed in two tiers under the overall oversight of the Group treasury department. The first tier comprises fuel price fluctuations, euro-US dollar volatility and sterling-US dollar volatility which represent the largest financial risks facing the Group. The Audit and Compliance Committee reviews analysis of the profitability and cash flow impact of reasonably expected movements in fuel price and US dollar exchange rates and determines the level of risk that should be retained by the business over a two year time horizon. The Board approves the level of risk retention, the hedging levels and the degree of flexibility in applying the levels that are delegated to the IAG Hedging Committee. The IAG Risk Committee meets monthly and includes representatives from Group treasury, British Airways and Iberia. The Committee approves a mandate for British Airways and Iberia treasury teams to place hedging cover in the market for their respective companies, the mandate includes the instruments to be used. Second tier risks such as interest rate movements, emissions and minor currency pairs are managed separately by British Airways and Iberia under authority delegated by their Boards to their treasury departments.

a Fuel price risk

The current Group strategy, as approved by the Board, is to hedge between 70 per cent and 100 per cent of fuel consumption for the next quarter; an average of 45 per cent between quarters two and five; and 10 per cent between quarters six and eight. The Hedging Committee is currently given flexibility to operate within plus or minus 10 per cent of the policy and provides a quarterly report to the Board on the hedging position. The Board reviews the strategy, including the risk retained, every half year.

In implementing the strategy, the Financial Risk Management programme allows for the use of a number of derivatives available on the 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:

2012			2011		
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	**6**	**942**	30	15	903
(30)	**(19)**	**(901)**	(30)	(7)	(862)

b Foreign currency risk

The Group presents its consolidated financial statements in euros and conducts its 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 euro. The currencies, other than the euro, in which these transactions are primarily denominated are US dollar, pound sterling and Japanese yen. The Group generates a surplus in most currencies in which it does business. The US dollar is an exception as capital expenditure, debt repayments and fuel purchases denominated in US dollars typically create a deficit.

The Group has a number of strategies to hedge foreign currency risks. The operational US dollar short position is subject to the same governance structure as the fuel hedging strategy set out above. The current Group strategy, as approved by the Board, is to hedge an average of 60 per cent of the first year's US dollar short position; 20 per cent of the second year's exposure and up to 20 per cent of the third year's exposure. The IAG Hedging Committee targets to operate within plus or minus 10 per cent of the policy and provides a quarterly report to the Board on the hedging position. The Board reviews the strategy, including the risk retained, every half year. Foreign exchange swaps and options are used to implement the strategy.

Operational cash flows in minor currency pairs are hedged by British Airways and Iberia under the control of their Boards.

Aircraft operating leases denominated in US dollars are either treated as part of the operational US dollar short position or are subject to separate cross currency swaps, individually approved by the Board, for the life of the lease.

Iberia's balance sheet assets and liabilities in US dollars are hedged through a rolling programme of swaps that eliminate the profit and loss volatility arising from revaluation of these items into euros. British Airways utilises its US dollar, euro and yen debt repayments as a hedge of future US dollar, euro and yen revenues.

The following table demonstrates the sensitivity of financial instruments to a reasonable possible change in the US dollar, sterling and Japanese yen 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 sterling rate per cent	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in yen rate per cent	Effect on result before tax € million	Effect on equity € million
2012	**10**	**(9)**	**101**	**10**	**5**	**(87)**	**10**	**(2)**	**(34)**
	(10)	**12**	**(85)**	**(10)**	**(5)**	**91**	**(10)**	**2**	**34**
2011	10	(19)	71	10	(1)	(80)	10	–	(50)
	(10)	16	(63)	(10)	1	77	(10)	–	50

c Interest rate risk

The Group is exposed to changes in interest rates on floating rate debt and on cash deposits. Interest rate risk is on floating rate borrowings and operating leases and 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, 60 per cent of the Group's borrowings were at fixed rates and 40 per cent were at floating rates.

All cash deposits are on tenors less than one year. The interest rate is predominately 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
2012	**50**	**(3)**	**2**	**50**	**(1)**	**5**	**50**	**4**	**–**
	(50)	**3**	**(2)**	**(50)**	**1**	**(5)**	**(50)**	**(4)**	**–**
2011	50	(4)	8	50	(1)	3	50	6	–
	(50)	4	(8)	(50)	1	(3)	(50)	(6)	–

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. However, the Group has policies and procedures in place to ensure counterparty risk is limited by placing credit limits on each counterparty. These policies and procedures are coordinated through the IAG Hedging Committee that examines their application by British Airways and Iberia. The Group continuously monitors counterparty credit limits and defaults of counterparties, incorporating this information into credit risk controls. Treasury activities which include placing money market deposits, fuel hedging and foreign currency transactions could lead to a concentration of different credit risks on the same counterparty. This risk is managed by the allocation of overall exposure limits for the counterparty in British Airways and Iberia that are then allocated down to specific material treasury activities. Exposures at the activity level are monitored on a daily basis and the overall exposure limit for the counterparty is reviewed at least monthly in the light of available market information such as credit ratings. Sovereign risk is also monitored, country concentration and sovereign credit ratings are reviewed at every hedging committee meeting.

Notes to the consolidated financial statements continued

27 Financial risk management objectives and policies continued

d Counterparty risk continued

Each operating company invests surplus cash in interest-bearing accounts, time deposits, money market deposits, and marketable securities, choosing instruments with appropriate maturities or liquidity to provide sufficient headroom as determined by the above mentioned forecast. 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. The Group does not hold any collateral to mitigate this exposure, but only transacts with counterparties of sufficient credit ratings to reasonably assure the recoverability of financial assets. Counterparty risks arising from acting as guarantor are disclosed in note 33.

At December 31, 2012 the Group's credit risk position, allocated by region, in respect of treasury managed cash and derivatives was as follows:

Region	Marked-to-market of treasury controlled financial instruments allocated by geography
United Kingdom	31%
Spain	6%
Italy	–
Greece, Portugal, Ireland	–
Rest of Eurozone	24%
Rest of world	39%

e Liquidity risk

Prudent 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 dynamic nature of the underlying business, Group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

At December 31, 2012 the Group had undrawn overdraft facilities of €12 million (2011: €12 million). The Group held undrawn uncommitted money market lines of €31 million at December 31, 2012 (2011: €30 million). The Group had the following undrawn general and committed aircraft financing facilities:

	2012	
Million	Currency	€ equivalent
Euro facility expiring between January and September 2013	€118	118
US dollar facility expiring between January and June 2013	$172	133
Euro facility expiring December 2014	€520	520
US dollar facility expiring December 2014	$335	259
US dollar facility expiring October 2015	$805	626
US dollar facility expiring December 2016	$966	751
US dollar facility expiring May 2017	$509	396

	2011	
Million	Currency	€ equivalent
Euro facility expiring between January and December 2012	€134	134
US dollar facility expiring between January and June 2012	$609	466
Euro facility expiring January 2013	€6	6
US dollar facility expiring June 2013	$504	386
US dollar facility expiring September 2016	$966	740
US dollar facility expiring October 2016	$509	390

The table below analyses the Group's financial assets and liabilities 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 2012**
Interest-bearing loans and borrowings:						
Finance lease obligations	(250)	(261)	(355)	(1,186)	(1,370)	**(3,422)**
Fixed rate borrowings	(50)	(57)	(490)	(543)	(126)	**(1,266)**
Floating rate borrowings	(107)	(95)	(188)	(249)	(69)	**(708)**
Trade and other payables	(3,378)	–	–	–	–	**(3,378)**
Derivative financial instruments:						
Forward currency contracts (asset)	1	–	–	–	–	**1**
Fuel derivatives (asset)	23	21	15	–	–	**59**
Currency options (asset)	2	–	–	–	–	**2**
Aircraft lease hedges (liability)	(5)	(6)	(6)	(9)	–	**(26)**
Cross currency swaps (liability)	–	–	(1)	(1)	–	**(2)**
Forward currency contracts (liability)	(16)	(10)	(3)	–	–	**(29)**
Fuel derivatives (liability)	(5)	(4)	–	–	–	**(9)**
Currency options (liability)	(2)	(2)	(1)	–	–	**(5)**
Hedge of available-for-sale asset	–	–	(29)	–	–	**(29)**
At December 31, 2012	**(3,787)**	**(414)**	**(1,058)**	**(1,988)**	**(1,565)**	**(8,812)**

€ million	Within 6 months	6 – 12 months	1 – 2 years	2 – 5 years	More than 5 years	Total 2011
Interest-bearing loans and borrowings:						
Finance lease obligations	(147)	(291)	(390)	(1,139)	(1,504)	(3,471)
Fixed rate borrowings	(63)	(60)	(103)	(933)	(157)	(1,316)
Floating rate borrowings	(105)	(95)	(202)	(389)	(85)	(876)
Trade and other payables	(3,116)	–	–	–	–	(3,116)
Derivative financial instruments:						
Forward currency contracts (asset)	34	19	2	–	–	55
Fuel derivatives (asset)	22	19	5	–	–	46
Aircraft lease hedges (liability)	(4)	(6)	(6)	(6)	–	(22)
Cross currency swaps (liability)	–	–	–	(1)	(1)	(2)
Fuel derivatives (liability)	(29)	(22)	(12)	–	–	(63)
Currency options	7	10	8	(2)	–	23
At December 31, 2011	(3,401)	(426)	(698)	(2,470)	(1,747)	(8,742)

f Capital risk management

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

Consistent with others in the industry, the Group monitors capital on the basis of the adjusted gearing ratio, net debt as a percentage of total capital adjusted for aircraft operating leases, and adjusted funds from operation (FFO) to net debt. Net debt comprises the current and non-current portions of long-term borrowings, less cash and cash equivalents and other current interest-bearing deposits. Total capital is defined as the total of capital, reserves, non-controlling interests and net debt.

Notes to the consolidated financial statements continued

28 Financial instruments

a Financial assets and liabilities by category

The detail of the Group's financial instruments at December 31, 2012 and December 31, 2011 by nature and classification for measurement purposes is as follows:

At December 31, 2012

	Financial assets						
€ million	Loans and receivables	Assets at FV through P&L	Derivatives used for hedging	Available-for-sale	Assets held to maturity	Non-financial assets	**Total carrying amount by balance sheet item**
Non-current assets							
Available-for-sale financial assets	–	–	–	684	–	–	**684**
Derivative financial instruments	–	–	26	–	–	–	**26**
Other non-current assets	92	–	–	–	4	17	**113**
Current assets							
Trade receivables	1,149	–	–	–	–	–	**1,149**
Other current assets	123	–	–	–	–	358	**481**
Derivative financial instruments	–	–	70	–	–	–	**70**
Other current interest-bearing deposits	1,543	–	–	–	4	–	**1,547**
Cash and cash equivalents	1,362	–	–	–	–	–	**1,362**

	Financial liabilities				
€ million	Loans and payables	Liabilities at FV through P&L	Derivatives used for hedging	Non-financial liabilities	**Total carrying amount by balance sheet item**
Non-current liabilities					
Interest-bearing long-term borrowings	4,128	–	–	–	**4,128**
Derivative financial instruments	–	–	95	–	**95**
Other long-term liabilities	18	–	–	232	**250**
Current liabilities					
Current portion of long-term borrowings	670	–	–	–	**670**
Trade and other payables	3,378	–	–	2,635	**6,013**
Derivative financial instruments	–	–	66	–	**66**

At December 31, 2011

€ million	Financial assets: Loans and receivables	Assets at FV through P&L	Derivatives used for hedging	Available-for-sale	Assets held to maturity	Non-financial assets	Total carrying amount by balance sheet item
Non-current assets							
Available-for-sale financial assets	–	–	–	466	–	–	466
Derivative financial instruments	–	–	37	–	–	–	37
Other non-current assets	42	–	–	–	8	21	71
Current assets							
Trade receivables	1,175	–	–	–	–	–	1,175
Other current assets	203	–	–	–	–	242	445
Derivative financial instruments	–	–	119	–	–	–	119
Other current interest-bearing deposits	1,507	–	–	–	251	–	1,758
Cash and cash equivalents	1,977	–	–	–	–	–	1,977

At December 31, 2011

€ million	Financial liabilities: Loans and payables	Liabilities at FV through P&L	Derivatives used for hedging	Non-financial liabilities	Total carrying amount by balance sheet item
Non-current liabilities					
Interest-bearing long term borrowings	4,304	–	–	–	4,304
Derivative financial instruments	–	–	55	–	55
Other long-term liabilities	11	–	–	373	384
Current liabilities					
Current portion of long-term borrowings	579	–	–	–	579
Trade and other payables	3,116	–	–	2,261	5,377
Derivative financial instruments	–	–	64	–	64

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;

Level 2: Inputs other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and

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

Notes to the consolidated financial statements continued

28 Financial instruments continued

b Fair value of financial assets and financial liabilities continued

The carrying amounts and fair values of the Group's financial assets and liabilities at December 31, 2012 are set out below:

	Fair value				Carrying value
€ million	Level 1	Level 2	Level 3	Total	**Total**
Financial assets					
Available-for-sale financial assets	655	–	29	684	**684**
Aircraft lease hedges[1]	–	8	–	8	**8**
Forward currency contracts[1]	–	2	–	2	**2**
Fuel derivatives[1]	–	71	–	71	**71**
Currency option contracts[1]	–	15	–	15	**15**
Financial liabilities					
Interest-bearing loans and borrowings:					
Finance lease obligations	–	3,303	–	3,303	**3,072**
Fixed rate borrowings	794	389	–	1,183	**1,036**
Floating rate borrowings	14	676	–	690	**690**
Aircraft lease hedges[2]	–	34	–	34	**34**
Cross currency swaps[2]	–	2	–	2	**2**
Forward currency contracts[2]	–	30	–	30	**30**
Fuel derivatives[2]	–	22	–	22	**22**
Hedge of available-for-sale asset	–	52	–	52	**52**
Currency option contracts[2]	–	21	–	21	**21**

1 Current portion of derivative financial assets is €70 million.
2 Current portion of derivative financial liabilities is €66 million.

The carrying amounts and fair values of the Group's financial assets and liabilities at December 31, 2011 are set out below:

	Fair value				Carrying value
€ million	Level 1	Level 2	Level 3	Total	**Total**
Financial assets					
Available-for-sale financial assets	438	–	28	466	**466**
Aircraft lease hedges[1]	–	19	–	19	**19**
Forward currency contracts[1]	–	55	–	55	**55**
Fuel derivatives[1]	–	50	–	50	**50**
Currency option contracts[1]	–	32	–	32	**32**
Financial liabilities					
Interest-bearing loans and borrowings:					
Finance lease obligations	–	3,011	–	3,011	**3,011**
Fixed rate borrowings	664	410	–	1,074	**1,027**
Floating rate borrowings	16	829	–	845	**845**
Aircraft lease hedges[2]	–	38	–	38	**38**
Cross currency swaps[2]	–	3	–	3	**3**
Fuel derivatives[2]	–	67	–	67	**67**
Currency options contracts[2]	–	11	–	11	**11**

1 Current portion of derivative financial assets is €119 million.
2 Current portion of derivative financial liabilities is €64 million.

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

Available-for-sale financial assets
Listed fixed asset investments (level 1) are stated at market value as at December 31, 2012. For other investments (level 3) the fair value cannot be measured reliably, as such these assets are stated at historic cost less accumulated impairment losses.

Forward currency contracts, options, over-the-counter (OTC) fuel derivatives, and interest rate derivatives
These are stated at the market value of instruments with similar terms and conditions at the balance sheet date (level 2).

Interest-bearing loans and borrowings and finance leases excluding i-ii below:
The repayments that the Group is committed to make have been discounted at the relevant market interest rates applicable at December 31, 2012.

(i) Euro-sterling notes and euro-sterling bond 2016:
These are stated at quoted market value (level 1).

(ii) Iberbond 2014:
These are valued at amortised cost (level 2).

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

€ million	**2012**	2011
Opening balance	**28**	21
Acquired through Business combination	**–**	10
Unrealised gains relating to instruments still held at December 31	**1**	1
Purchase, issuances and settlements	**(3)**	(4)
Fair value uplift on investment	**3**	–
	29	28

During the year there were no transfers into or out of level 3 fair value measurements. A reasonable possible change in assumptions is unlikely to result in a significant change in the fair value of level 3 instruments.

d Hedges
i Cash flow hedges
All derivatives to which hedge accounting is applied are designated as cash flow hedges.

At December 31, 2012 the Group held six principal risk management activities that were designated as hedges of future forecast transactions. These were:

- A hedge of a proportion of future long-term revenue receipts by future debt repayments in foreign currency hedging future foreign exchange risk;
- A hedge of future jet fuel purchases by forward crude, gas oil and jet kerosene derivative contracts hedging future fuel price risk;
- A hedge of future aircraft operating lease cash flows by cross currency swaps hedging future foreign exchange and interest rate risk;
- A hedge of certain short-term revenue receipts by foreign exchange contracts hedging future foreign exchange risk;
- A hedge of certain short-term foreign currency operational payments by forward exchange contracts hedging future foreign exchange risk; and
- A hedge of future cash flows from the sale of available-for-sale assets, hedging future share price volatility.

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 on the next page:

Notes to the consolidated financial statements continued

28 Financial instruments continued

d Hedges continued

i Cash flow hedges continued

At December 31, 2012

Financial instruments designated as hedging instruments € million	Cash flows hedged					
	Within 6 months	6 – 12 months	1 – 2 years	2 – 5 years	More than 5 years	**Total December 31, 2012**
Debt repayments to hedge future revenue	40	26	44	51	(21)	**140**
Forward contracts to hedge future payments	16	11	4	–	–	**31**
Hedges of future fuel purchases	(17)	(17)	(12)	–	–	**(46)**
Hedges of future aircraft operating leases	3	5	6	8	–	**22**
Currency options to hedge future payments	(2)	1	–	–	–	**(1)**
Hedge of available-for-sale asset[1]	–	–	30	–	–	**30**
	40	26	72	59	(21)	**176**
Related deferred tax charge						**(45)**
Total amount included within equity						**131**

1 At December 31, 2012 the Group had an investment representative of 7.5 per cent of the share capital of Amadeus IT Holding, S.A. (Amadeus) (note 19). On August 7, 2012 the Group entered into a derivative transaction with Nomura International Plc (Nomura) on its entire ownership interest in Amadeus. The transaction takes the form of a 'collar' and is composed of two 'european' options, whose maturity is fixed between August and December 2014. A summary of the cash flows included in equity are detailed in the table above.

The notional principle amount of the cash flow hedge is €640 million. Changes in the fair value of the cash flow hedge of €30 million have been accounted for directly in equity, net of deferred tax. The time value of €22 million has been recognised in the Income statement.

At December 31, 2012

Million		Notional principal amounts (in local currency)
To hedge future currency revenues against US dollars		$939
To hedge future operating payments in US dollars		$1,115
To hedge future operating payments in euros		€842
Hedges of future fuel purchases		$4,529
Hedges of future share price volatility on available-for-sale asset		€640
Cross currency swaps:	– Floating to fixed (euro)	€717
	– Fixed to fixed (euro)	€275
Debt repayments to hedge future revenue:	– US dollars	$2,244
	– Euro	€192
	– Japanese yen	¥38,370

d Hedges continued

i Cash flow hedges continued

At December 31, 2011

Million	Cash flows hedged					
	Within 6 months	6 – 12 months	1 – 2 years	2 – 5 years	More than 5 years	Total December 31, 2011
Debt repayments to hedge future revenue	37	35	87	116	40	315
Forward contracts to hedge future payments	(35)	(21)	(4)	–	–	(60)
Hedges of future fuel purchases	(4)	3	5	–	–	4
Hedges of future aircraft operating leases	(1)	3	2	3	–	7
Currency options to hedge future payments	(5)	(8)	(7)	–	–	(20)
	(8)	12	83	119	40	246
Related deferred tax charge						(64)
Total amount included within equity						182

Million		Notional principal amounts (in local currency)
To hedge future currency revenues against US dollars		$781
To hedge future operating payments in US dollars		$1,414
Hedges of future fuel purchases		$4,363
Cross currency swaps	– Floating to fixed (euro)	€498
	– Fixed to fixed (euro)	€393
Debt repayments to hedge future revenue	– US dollars	$2,080
	– Euro	€207
	– Japanese yen	¥50,595

The ineffective portion recognised in the Income statement during the year was a loss of €9 million on hedges of future fuel purchases (2011: loss of €12 million).

ii Fair value hedges

The Group has no such hedges at December 31, 2012 and 2011.

iii Net investments in foreign operations

The Group has no such hedges at December 31, 2012 and 2011.

29 Share capital

Allotted, called up and fully paid	Number of shares 000s	Ordinary share capital € million	Share premium € million
At January 1, 2012: Ordinary shares of €0.50 each	1,855,370	928	5,280
At December 31, 2012	**1,855,370**	**928**	**5,280**

Notes to the consolidated financial statements continued

30 Share-based payments

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

a Share Option Plan

The British Airways Share Option Plan 1999 (SOP) granted options to qualifying employees based on performance at an option price which was not less than the market price of the share at the date of the grant (or the nominal value if shares are to be subscribed and this value is greater than the market value). The options are subject to a three year vesting period with the exception of grants made during the year to March 31, 2005, when there was a single re-test after a further year which measured performance of British Airways over the four year period from the date of grant. Upon vesting, options may be exercised at any time until the 10th anniversary of the date of grant. No further grants of options under the SOP have been made since 2005.

b Long Term Incentive Plan

The British Airways Long Term Incentive Plan 1996 (LTIP) awarded options to senior executives conditional upon British Airways' achievement of a performance condition measured over three financial years. If granted, all options may be exercised at any time until the seventh anniversary of the date of grant and no payment is due upon exercise of the options. No further awards under the LTIP have been made since 2004.

c Performance Share Plan

The British Airways Performance Share Plan 2005 (PSP) was granted to key senior executives of British Airways and in 2009 was extended to selected members of the British Airways' wider management team. A conditional award of shares is subject to the achievement of a variety of performance conditions, which will vest after three years subject to the employee remaining employed by the Group. The award made will vest based 100 per cent on meeting Total Shareholder Return (TSR) performance conditions over the following three financial years. No payment is due upon vesting of the shares. Key senior executives awarded shares under the PSP will be expected to retain no fewer than 50 per cent of the shares (net of tax), which vest from the PSP until they have built up a shareholding equivalent to 100 per cent of base salary.

d Deferred Share Plan

The British Airways Deferred Share Plan 2005 (DSP) was 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 received a percentage of their incentive award in cash and the remaining percentage in shares through the DSP. The maximum deferral is 50 per cent.

e IAG Performance Share Plan

In 2011 the Group introduced the IAG Performance Share Plan, 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. A conditional award of shares is subject to the achievement of a variety of performance conditions, which will vest after three years subject to the employee remaining employed by the Group. The award made in 2011 will vest based 70 per cent on meeting Total Shareholder Return (TSR) performance conditions over the following three financial years, and 30 per cent on achievement of IAG synergy targets. The award made in 2012 will vest based 50 per cent on meeting IAG's TSR performance relative to the MSCI European Transportation Index, and 50 per cent based on achievement of earnings per share targets. No payment is required from individuals when the shares are awarded.

f IAG Incentive Award Deferral Plan

In 2011 the Group introduced the IAG Incentive Award Deferral Plan (IADP), 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 in cash and the remaining 50 per cent in shares through the IADP.

Prior to the merger, awards were made under schemes operated by British Airways and represented rights over its ordinary shares. Awards which were outstanding prior to the merger will be settled through shares in the Company. Subsequent to the merger, awards have only been made under the IAG Performance Share Plan and IAG Incentive Award Deferral Plan, operated by the Company, and represent rights over its ordinary shares.

g Share-based payment schemes summary

	Outstanding at January 1, 2012 '000s	Granted number '000s	Lapsed number '000s	Exercised number '000s	Outstanding at December 31, 2012 '000s	Exercisable December 31, 2012 '000s
Share Option Plan	5,626	–	499	21	5,106	5,106
Long Term Incentive Plan	351	–	–	–	351	351
Performance Share Plan	24,697	16,221	7,097	–	33,821	142
Deferred Share Plan and Incentive Award Deferral Plan	5,804	974	90	178	6,510	121
	36,478	**17,195**	**7,686**	**199**	**45,788**	**5,720**
Weighted average exercise price of Share Option Plans (£)	2.49	–	2.03	1.57	**2.54**	**2.54**

A total of 21,000 (2011: 86,000 shares) shares related to the Share Option Plan were exercised at a weighted average market share price of £1.60 (2011: £2.63).

Range of exercise prices at December 31, 2012 for Share Option Plans:

Range of exercise prices	Number of shares 000s	Weighted average contractual life (years)
£1.57-£1.81	694	0.48
£2.62-£2.76	4,412	2.02
At December 31, 2012	**5,106**	**1.81**

Range of exercise prices at December 31, 2011 for Share Option Plans:

Range of exercise prices	Number of shares 000s	Weighted average contractual life (years)
£1.57-£2.61	1,132	1.12
£2.62-£2.76	4,494	3.02
At December 31, 2011	5,626	2.64

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

	December 31, 2012	December 31, 2011
Weighted average fair value (£)	**0.76**	1.11
Expected share price volatility (per cent)	**45**	50
Expected comparator group volatility (per cent)	**28**	27-116
Expected comparator correlation (per cent)	**65**	40
Expected life of options (years)	**3**	3
Weighted average share price at date of grant (£)	**1.61**	1.97

Volatility was calculated with reference to the Group's weekly 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 and the IAG Performance Share Plan also takes into account a market condition of total shareholder returns 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 €24 million for the year to December 31, 2012 (2011: €18 million).

Notes to the consolidated financial statements continued

31 Other reserves and non-controlling interests

Year to December 31, 2012

€ million	Other reserves						
	Retained earnings	Unrealised gains and losses	Currency translation	Equity portion of convertible bond	Merger reserve	**Total other reserves**	Non-controlling interests
At January 1, 2012	1,662	(216)	122	94	(2,467)	**(805)**	300
Loss for the year	(943)	–	–	–	–	**(943)**	20
Other comprehensive income for the year:							
Cash flow hedges reclassified and reported in net loss:							
Passenger revenue	–	47	–	–	–	**47**	–
Fuel and oil costs	–	(10)	–	–	–	**(10)**	–
Currency differences	–	(18)	–	–	–	**(18)**	–
Net change in fair value of cash flow hedges	–	36	–	–	–	**36**	–
Net change in fair value of available-for-sale financial assets	–	156	–	–	–	**156**	–
Currency translation differences	–	–	77	–	–	**77**	–
Cost of share-based payments	24	–	–	–	–	**24**	–
Distributions made to holders of perpetual securities	–	–	–	–	–	**–**	(20)
At December 31, 2012	**743**	**(5)**	**199**	**94**	**(2,467)**	**(1,436)**	**300**

Year to December 31, 2011

€ million	Retained earnings	Other reserves: Unrealised gains and losses	Other reserves: Currency translation	Other reserves: Equity portion of convertible bond	Other reserves: Merger reserve	Total other reserves	Non-controlling interests
At January 1, 2011	1,087	(98)	74	94	1,372	2,529	300
Profit for the year	562	–	–	–	–	562	20
Other comprehensive income for the year:							
Cash flow hedges reclassified and reported in net profit:							
Passenger revenue	–	41	–	–	–	41	–
Fuel and oil costs	–	(6)	–	–	–	(6)	–
Currency differences	–	19	–	–	–	19	–
Net change in fair value of cash flow hedges	–	(106)	–	–	–	(106)	–
Net change in fair value of available-for-sale financial assets	–	(66)	–	–	–	(66)	–
Currency translation differences	–	–	48	–	–	48	–
Shares issued during the year	–	–	–	–	(3,839)	(3,839)	–
Cost of share-based payment	18	–	–	–	–	18	–
Exercise of share options	(5)	–	–	–	–	(5)	–
Distributions made to holders of perpetual securities	–	–	–	–	–	–	(20)
At December 31, 2011	1,662	(216)	122	94	(2,467)	(805)	300

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.

The currency translation reserve records exchange differences arising from the translation of the financial statements of foreign subsidiaries and associates.

The equity portion of convertible bond reserve represents the equity portion of the £350 million fixed rate 5.8 per cent convertible bond (note 24).

The merger reserve records the difference between the fair value of the shares acquired and the nominal value of the shares issued.

The shareholders' equity also includes the balance classified as share capital that includes the total net proceeds (both nominal and share premium) on issue of the Company's equity share capital, comprising €0.50 ordinary shares. Investment in own shares consists of shares held by the British Airways Plc Employee Share Ownership Trust (the Trust). The Trust is governed by British Airways Employee Benefit Trustee (Jersey) Limited which is a wholly-owned subsidiary of British Airways. The Trust is not a legal subsidiary of IAG; however, it is consolidated within the Group results. In March 2011, the Trust bought a total of 7,000,000 shares in the Company at a weighted average share price of £2.21 per share. 186,340 shares were issued to employees during the year as a result of employee share scheme exercises (2011: 1,465,642 shares). At December 31, 2012 the Group held 6,143,751 shares (2011: 6,330,091), which represented 0.33 per cent of the Issued share capital of the Company.

Notes to the consolidated financial statements continued

31 Other reserves and non-controlling interests continued

Non-controlling interests largely comprise €300 million of 6.75 per cent fixed coupon euro perpetual preferred securities issued by British Airways Finance (Jersey) L.P. 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. The effect of the securities on the Group as a whole, taking into account the subordinate guarantee and other surrounding arrangements, is that the obligations to transfer economic benefits in connection with the securities do not go beyond those that would normally attach to preference shares issued by a UK company.

32 Employee benefit obligations

The Group operates a variety of post-employment benefit arrangements, covering both defined contribution and defined benefit schemes. The 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 closed to new members. APS has been closed to new members since March 31, 1984 and NAPS closed to new members on March 31, 2003. From April 1, 2003 British Airways commenced a new defined contribution scheme, the British Airways Retirement Plan, of which all new permanent employees over the age of 18 employed by British Airways and certain of its subsidiary undertakings in the UK may become members. The assets of the scheme are held in separate trustee-administered funds. Iberia holds the Montepío de Previsión Social Loreto defined contribution scheme.

Benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to inflationary increases in payment in line with the Annual Review Orders (ARO) issued by the British Government, which were historically based on the Retail Price Index (RPI). In 2010, the British Government decided to use the Consumer Price Index (CPI) to set each ARO. 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 UK Government's lower earnings limit. NAPS pension increases are also linked to the ARO and increases are capped at a maximum of five per cent in any one year. In NAPS, annual pensionable pay increases for active members are capped at RPI.

Pension contributions for APS and NAPS were determined by actuarial valuations made at March 31, 2009 using assumptions and methodologies agreed between the Group and the Trustees of each scheme. At the date of the actuarial valuation, the market values of the assets of APS and NAPS amounted to €6,340 million and €6,523 million respectively. The value of the assets represented 85.2 per cent (APS) and 69.4 per cent (NAPS) of the value of the benefits that had accrued to members after allowing for assumed increases in earnings. These valuations determined employer contribution rates for future service of an average of 34.7 per cent of pensionable pay for APS and 16.6 per cent of pensionable pay for NAPS.

In order to address the deficits in the schemes, British Airways committed to deficit payments until 2023 for APS and 2026 for NAPS which, taken together with future service costs, will see annual cash contributions maintained at approximately €405 million in real terms. In addition to cash contributions collateral was provided to APS, triggered in the event of British Airways' insolvency, of €283 million of guarantees (first issued in 2007) and a further €307 million issued in 2010. In NAPS the recovery plan included changes to future pension benefits, giving members a choice of lower accrual rates or higher contributions.

The deficit payment plans area agreed with the Trustees of each scheme every three years based on the actuarial valuation (triennial valuation) rather than the IAS 19 accounting valuation. The triennial valuation exercise is currently being undertaken as at March 31, 2012 and will be concluded on or before June 30, 2013.

During 2010 the trustees of APS purchased an insurance contract with Rothesay Life, which covers 20 per cent of the pensioner liabilities at June 18, 2010 for an agreed list of members. The insurance contract is based on future increases to pensions in line with RPI inflation and will match future obligations on that basis for that part of the scheme. For the purpose of IAS 19 the insurance contract asset is valued at €1,462 million at December 31, 2012 (2011: €1,343 million). The insurance contract can only be used to pay or fund employee benefits under the pension scheme.

During 2011 the trustees of APS secured a longevity swap contract with Rothesay Life, which covers 20 per cent of the pensioner liabilities for the same members covered by the 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 premiums payable by the scheme under the contract. For the purpose of IAS 19 the contract obligation is valued at €32 million at December 31, 2012 (2011: €53 million). In addition, the Trustees have granted security over €80 million of the pension assets in favour of Rothesay Life.

Most employees of British Airways engaged outside the UK are covered by appropriate local arrangements. British Airways provides certain additional post-retirement healthcare benefits to eligible employees in the US. British Airways participates in a multi-employer defined benefit plan operated in the US by the International Association of Machinists (IAM) and presents the plan in the financial statements as if it were a defined contribution plan as it is not possible to allocate the assets and liabilities of the scheme due to the nature of the scheme. Contributions to the IAM plan were €2 million (2011: €2 million). British Airways also operates a closed US defined benefit plan and the plan is forecast to make total contributions of €9 million in 2013.

Employer contributions in respect of overseas employees have been determined in accordance with best local practice.

Total employer contributions to defined contribution pension plans both in Spain and the UK for the year to December 31, 2012 were €86 million (2011: €64 million).

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, 2012 net of service costs were €381 million (2011: €414 million).

a Employee benefit schemes recognised on the balance sheet

	Employee benefit obligations		Employee benefit assets	
€ million	**2012**	2011	**2012**	2011
Arising under defined benefit pension plans and post-retirement benefits	**75**	75	**1,467**	1,317
Arising under post-retirement medical benefit plans	**205**	190	**–**	–
Total arising under post-retirement benefits	**280**	265	**1,467**	1,317
Other employee benefit obligations	**13**	12	**–**	–
	293	277	**1,467**	1,317

At December 31, 2012, NAPS was recognised on the Balance sheet as an asset. However, due to the level of unrecognised losses it holds, its net position is a liability and therefore on all future tables within this note, it is included as an employee benefit obligation.

b Scheme assets and liabilities

	2012					
	Employee benefit obligations			Employee benefit assets		
€ million	NAPS	Other schemes	Total	APS	Other schemes	Total
Scheme assets at fair value						
Equities	6,539	224	**6,763**	945	22	**967**
Bonds	3,506	79	**3,585**	5,459	15	**5,474**
Others[1]	2,350	17	**2,367**	2,411	5	**2,416**
Fair value of scheme assets	12,395	320	**12,715**	8,815	42	**8,857**
Present value of scheme liabilities	(14,031)	(800)	**(14,831)**	(7,911)	(42)	**(7,953)**
Net pension (liability)/asset	**(1,636)**	**(480)**	**(2,116)**	**904**	**–**	**904**
Net pension (liability)/asset represented by:						
Net pension asset/(liability) recognised	852	(280)	**572**	606	9	**615**
Restriction on APS surplus due to the asset ceiling	–	–	**–**	179	–	**179**
Cumulative actuarial (losses)/gains not recognised[2]	(2,488)	(200)	**(2,688)**	119	(9)	**110**
	(1,636)	**(480)**	**(2,116)**	**904**	**–**	**904**

1 Included within the APS balance are the insurance contract and longevity swap with Rothesay Life.
2 On January 1, 2013 the Group will adopt an amendment to IAS 19 'Employee Benefits' that will lead to the immediate recognition of previously unrecognised actuarial gains and losses; the impact of this change is set out in note 2.

Notes to the consolidated financial statements continued

32 Employee benefit obligations continued

b Scheme assets and liabilities continued

	2011					
	Employee benefit obligations			Employee benefit assets		
€ million	NAPS	Other schemes	Total	APS	Other schemes	Total
Scheme assets at fair value						
Equities	5,423	194	5,617	825	19	844
Bonds	3,619	89	3,708	5,390	17	5,407
Others[1]	1,853	11	1,864	2,070	5	2,075
Fair value of scheme assets	10,895	294	11,189	8,285	41	8,326
Present value of scheme liabilities	(11,972)	(703)	(12,675)	(7,232)	(40)	(7,272)
Net pension (liability)/asset	(1,077)	(409)	(1,486)	1,053	1	1,054
Net pension (liability)/asset represented by:						
Net pension asset/(liability) recognised	608	(265)	343	700	9	709
Cumulative actuarial (losses)/gains not recognised	(1,685)	(144)	(1,829)	353	(8)	345
	(1,077)	(409)	(1,486)	1,053	1	1,054

1 Included within the APS balance are the insurance contract and longevity swap with Rothesay Life.

The pension plans have not invested in any of the Group's own financial instruments nor in properties or other assets used by the Group.

c Amounts recognised in the Income statement

	2012					
	Employee benefit obligations			Employee benefit assets		
€ million	NAPS	Other schemes	**Total**	APS	Other schemes	**Total**
Current service costs	159	10	**169**	11	1	**12**
Recognised in arriving at operating loss	**159**	**10**	**169**	**11**	**1**	**12**
Expected return on scheme assets	(605)	(22)	**(627)**	(308)	(2)	**(310)**
Interest costs on scheme liabilities	608	33	**641**	338	1	**339**
Amortisation of actuarial losses in excess of the corridor	36	7	**43**	–	1	**1**
Effect of the APS asset ceiling	–	–	**–**	179	–	**179**
Other finance costs	**39**	**18**	**57**	**209**	**–**	**209**

	2011					
	Employee benefit obligations			Employee benefit assets		
€ million	NAPS	Other schemes	Total	APS	Other schemes	Total
Current service costs	152	9	161	10	1	11
Recognised in arriving at operating profit	152	9	161	10	1	11
Expected return on scheme assets	(696)	(23)	(719)	(359)	(2)	(361)
NAPS administration expense	13	–	13	–	–	–
Interest costs on scheme liabilities	601	33	634	359	2	361
Amortisation of actuarial losses in excess of the corridor	20	10	30	–	–	–
Effect of the APS asset ceiling	–	–	–	(142)	–	(142)
Other finance costs	(62)	20	(42)	(142)	–	(142)

d Unrecognised cumulative actuarial gains and losses

	Employee benefit obligations			Employee benefit assets		
€ million	NAPS	Other schemes	Total	APS	Other schemes	Total
Amount of unrecognised actuarial (losses)/gains at January 1, 2010	(1,419)	(179)	(1,598)	55	(6)	49
Actual return on scheme assets	348	(10)	338	922	(1)	921
Less: Expected return on scheme assets	(696)	(23)	(719)	(359)	(2)	(361)
Actuarial (losses)/gains on plan assets	(348)	(33)	(381)	563	(3)	560
Actuarial gains/(losses) on plan liabilities	96	60	156	(276)	1	(275)
Amortisation of actuarial losses in excess of the corridor	20	10	30	–	–	–
Exchange movements	(34)	(2)	(36)	11	–	11
Cumulative unrecognised actuarial (losses)/gains at December 31, 2011	(1,685)	(144)	(1,829)	353	(8)	345
Actual return on scheme assets	1,064	26	**1,090**	672	1	**673**
Less: Expected return on scheme assets	(605)	(22)	**(627)**	(308)	(2)	**(310)**
Actuarial (losses)/gains on plan assets	459	4	**463**	364	(1)	**363**
Actuarial gains/(losses) on plan liabilities	(1,255)	(64)	**(1,319)**	(606)	–	**(606)**
Amortisation of actuarial losses in excess of the corridor	36	7	**43**	–	1	**1**
Exchange movements	(43)	(3)	**(46)**	8	(1)	**7**
Cumulative unrecognised actuarial (losses)/gains at December 31, 2012	**(2,488)**	**(200)**	**(2,688)**	**119**	**(9)**	**110**

The actuarial assumptions made for the expected rates of return on assets were derived by considering best estimates for the expected long-term real rates of return from the main asset classes and combining these in proportions for each scheme. These assumed rates of return are net of investment expenses.

Notes to the consolidated financial statements continued

32 Employee benefit obligations continued

e Actuarial assumptions

	2012			2011		
Per cent per annum	NAPS	APS[1]	Other schemes	NAPS	APS[1]	Other schemes
Inflation (CPI)	2.15	2.10	–	2.25	2.15	–
Inflation (RPI)	2.9	2.9	0.3 – 6.7	3.0	2.9	1.8 – 4.6
Rate of increase in pensionable pay[1]	2.9	2.9	2.0 – 9.5	3.0	2.9	2.0 – 8.5
Rate of increase of pensions in payment	2.15	2.15	1.5 – 6.7	2.15	2.15	1.5 – 4.6
Discount rate	4.5	4.1	0.5 – 8.3	5.0	4.7	1.2 – 8.3
Expected rate of return on scheme assets[2]	n/a	n/a	n/a	5.5	3.7	4.4 – 8.5

1 Rate of increase in pensionable pay is assumed to be in line with inflation. The first increase in pensionable pay is assumed to be in February 2013 for APS.
2 On January 1, 2013 an amendment to IAS 19 'Employee benefits' will be adopted by the Group (note 2), at which point the finance income on assets will be calculated with reference to the discount rate and not the expected rate of return on scheme assets.

Rate of increase in healthcare costs are based on medical trend rates of 7.5 per cent grading down to 5.0 per cent over five years (2011: 8.0 per cent to 5.0 per cent over six 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. In the US, mortality rates were based on the PPA 13 mortality tables. If the post-retirement mortality tables used for APS and NAPS were to be changed such that the life expectancy of members was increased by one year, the defined benefit obligations would increase by around €258 million in APS and €295 million in NAPS.

If the discount rate were to be decreased by 0.1 per cent without changing any other assumption, the defined benefit obligation would increase by approximately €98 million in APS and €270 million in NAPS.

A one percentage point change in the assumed rate of increase in healthcare costs would have the following effects:

€ million	Increase	Decrease
Effect on aggregate service cost and interest cost	(4)	2
Effect on defined benefit obligation	(54)	43

f Present value of scheme liabilities

	Employee benefit obligations			Employee benefit assets		
€ million	NAPS	Other schemes	Total	APS	Other schemes	Total
At January 1, 2011	11,340	733	12,073	6,890	39	6,929
Current service cost	152	9	161	10	1	11
Interest cost	601	33	634	359	2	361
Benefits paid	(292)	(25)	(317)	(432)	(2)	(434)
Employee contributions	58	1	59	2	–	2
Actuarial (gains)/losses	(96)	(60)	(156)	276	(1)	275
Exchange movements	209	12	221	127	1	128
At December 31, 2011	11,972	703	12,675	7,232	40	7,272
Current service cost	159	10	**169**	11	1	**12**
Interest cost	608	33	**641**	338	1	**339**
Benefits paid	(369)	(30)	**(399)**	(474)	(1)	**(475)**
Employee contributions	95	1	**96**	7	–	**7**
Actuarial (gains)/losses	1,255	64	**1,319**	606	–	**606**
Exchange movements	311	19	**330**	191	1	**192**
At December 31, 2012	**14,031**	**800**	**14,831**	**7,911**	**42**	**7,953**

The defined benefit obligation comprises €286 million (2011: €236 million) arising from unfunded plans and €14,545 million (2011: €12,439 million) from plans that are wholly or partly funded.

g Fair value of scheme assets

	Employee benefit obligations			Employee benefit assets		
€ million	NAPS	Other schemes	Total	APS	Other schemes	Total
At January 1, 2011	10,161	309	10,470	7,516	43	7,559
Expected return on plan assets	696	23	719	359	2	361
NAPS administration expense	(13)	–	(13)	–	–	–
Employer contributions	440	14	454	123	1	124
Employee contributions	58	1	59	2	–	2
Benefits paid	(292)	(25)	(317)	(432)	(2)	(434)
Actuarial gains/(losses)	(348)	(33)	(381)	563	(3)	560
Exchange movements	193	5	198	154	–	154
At December 31, 2011	10,895	294	11,189	8,285	41	8,326
Expected return on plan assets	605	22	627	308	2	310
Employer contributions	426	21	447	107	–	107
Employee contributions	95	1	96	7	–	7
Benefits paid	(369)	(30)	(399)	(474)	(1)	(475)
Actuarial gains/(losses)	459	4	463	364	(1)	363
Exchange movements	284	8	292	218	1	219
At December 31, 2012	**12,395**	**320**	**12,715**	**8,815**	**42**	**8,857**

Notes to the consolidated financial statements continued

32 Employee benefit obligations continued

h History of experience gains and losses

	Employee benefit obligations			Employee benefit assets		
€ million	NAPS	Other schemes	Total	APS	Other schemes	Total
At December 31, 2012						
Fair value of scheme assets	12,395	320	**12,715**	8,815	42	**8,857**
Present value of defined benefit obligation	(14,031)	(800)	**(14,831)**	(7,911)	(42)	**(7,953)**
(Deficit)/surplus in the scheme	(1,636)	(480)	**(2,116)**	904	–	**904**
Experience (gains)/losses arising on plan liabilities	1,255	64	**1,319**	606	–	**606**
Experience gains/(losses) arising on plan assets	459	4	**463**	364	(1)	**363**
At December 31, 2011						
Fair value of scheme assets	10,895	294	11,189	8,285	41	8,326
Present value of defined benefit obligation	(11,972)	(703)	(12,675)	(7,232)	(40)	(7,272)
(Deficit)/surplus in the scheme	(1,077)	(409)	(1,486)	1,053	1	1,054
Experience (gains)/losses arising on plan liabilities	(96)	(60)	(156)	276	(1)	275
Experience gains/(losses) arising on plan assets	(348)	(33)	(381)	563	(3)	560
At December 31, 2010						
Fair value of scheme assets	10,161	309	10,470	7,516	43	7,559
Present value of defined benefit obligation	(11,340)	(733)	(12,073)	(6,890)	(39)	(6,929)
(Deficit)/surplus in the scheme	(1,179)	(424)	(1,603)	626	4	630
Experience (gains)/losses arising on plan liabilities	(800)	37	(763)	(439)	3	(436)
Experience gains/(losses) arising on plan assets	192	3	195	(85)	1	(84)
At March 31, 2010						
Fair value of scheme assets	9,026	285	9,311	7,248	40	7,288
Present value of defined benefit obligation	(11,213)	(651)	(11,864)	(7,027)	(35)	(7,062)
(Deficit)/surplus in the scheme	(2,187)	(366)	(2,553)	221	5	226
Experience (gains)/losses arising on plan liabilities	2,817	75	2,892	1,416	4	1,420
Experience gains/(losses) arising on plan assets	1,754	53	1,807	747	11	758
At March 31, 2009						
Fair value of scheme assets	6,472	217	6,689	6,340	30	6,370
Present value of defined benefit obligation	(7,721)	(532)	(8,253)	(5,420)	(30)	(5,450)
(Deficit)/surplus in the scheme	(1,249)	(315)	(1,564)	920	–	920
Experience (gains)/losses arising on plan liabilities	(1,186)	119	(1,067)	(450)	(1)	(451)
Experience gains/(losses) arising on plan assets	(2,376)	(30)	(2,406)	(875)	(11)	(886)

The Directors are unable to determine how much of the pension scheme surplus or deficit recognised on transition to IFRS and taken directly to equity is attributable to actuarial gains and losses since inception of those pension schemes.

33 Contingent liabilities and guarantees

There were contingent liabilities at December 31, 2012 in respect of guarantees and indemnities entered into as part of the normal course of the Group's business. No material losses are likely to arise from such contingent liabilities. A number of other lawsuits and regulatory proceedings are pending, the outcome of which in aggregate is not expected to have a material effect on the Group's financial position or results of operations.

The Group has certain liabilities and commitments, which at December, 31 2012 amounted to €110 million (2011: €111 million).

The Group has contingent liabilities in respect of certain claims and litigation in the normal course of business, which if realised are not expected to have a material adverse effect on the Group's consolidated financial position, results of operations or cash flows. The Group recognises provisions for liabilities when it is more likely than not that a settlement will be required and the value of such a payment can be reliably measured. The Group files income tax returns in many jurisdictions throughout the world. Various tax authorities are currently examining the Group's income tax returns. Tax returns contain matters that could be subject to differing interpretations of applicable tax laws and regulations and the resolution of tax positions through negotiations with relevant tax authorities, or through litigation, can take several years to complete. While it is difficult to predict the ultimate outcome in some cases, the Group does not anticipate that there will be any material impact on the Group's financial position or results of operations.

34 Related party transactions

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

Sales and purchases of goods and services

€ million	2012	2011
Sales of goods and services		
Sales to associates	**148**	163
Sales to significant shareholders	**–**	5
Purchases of goods and services		
Purchases from associates	**63**	66
Purchases from significant shareholders	**22**	21

Year end balances arising from sales and purchase of goods and services

€ million	2012	2011
Receivables from related parties		
Amounts owed by associates	**35**	24
Amounts owed by significant shareholders	**31**	282
Payables to related parties		
Amounts owed to associates	**22**	19
Amounts owed to significant shareholders	**2**	–

In 2012 British Airways paid the 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 (2011: €9 million) in relation to the costs of the Pension Protection Fund levy.

During the year to December 31, 2012 the Group entered into a hedging transaction with Nomura International plc, a related party to IAG as there is a common Non-Executive Board member. The transaction is a risk management exercise to protect the value of the 33,562,331 ordinary shares the Group holds in Amadeus IT Holding S.A.

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.

Notes to the consolidated financial statements continued

34 Related party transactions continued

Bankia S.A. (Bankia), a Spanish listed bank, has guaranteed €26 million of payables on aircraft, aircraft lease payments and returns on financial investments (2011: €40 million). Costs incurred in relation to this guarantee totalled €2 million and have been included in the table above (2011: €2 million).

For the year to December 31, 2012, the Group had not made any provision for doubtful debts relating to amounts owed by related parties (2011: €nil).

Further detail of the main transactions between the Group, its associates and significant shareholders is provided below.

Associates

Sales to associates during the year consisted primarily of €132 million of airline related services provided to Vueling Airlines, S.A. (Vueling), and €11 million to Dunwoody Airline Services (Holding) Limited (Dunwoody) (2011: €155 million).

Purchases from associates mainly included €32 million of airport auxiliary services purchased from Multiservicios Aeroportuarios S.A., €8 million of maintenance services provided by Serpista, S.A., €8 million of services received from International Supply Management, S.A., €5 million of maintenance services received from Madrid Aerospace Services, S.A. and €8 million of services received from Dunwoody (2011: €48 million).

The Group had amounts owed by associates at December 31, 2012 for aircraft related services rendered, mainly with Vueling of €26 million and Iber-América Aerospace, LLC of €3 million and Corjet Maintenance of €2 million (2011: €20 million).

At December 31, 2012 amounts owed to associates consisted primarily of €18 million due to Vueling and €2 million to Multiservicios Aeroportuarios for aircraft related services (2011: €12 million).

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.

There were no sales to significant shareholders during the year (2011: €5 million consisting of finance income on current interest bearing deposits). Purchases from significant shareholders included €20 million of aircraft chartering expenses and aircraft lease financing repayments to Bankia (2011: €18 million).

The Group had a receivables balance of €31 million with Bankia, relating to cash deposits (2011: €282 million). At December 31, 2012 the Group had a payables balance of €2 million with Bankia (2011: nil). In 2012, fleet financing transactions of €96 million occurred with Bankia (2011: €107 million), of which €94 million are related to operating leases.

In addition to the above, during the year the Group had transactions with shareholders, holding a participation of 3 to 5 per cent, totalling €1 million (2011: €1 million). At December 31, 2012 the Group had cash deposit balances with shareholders, holding a participation of between 3 to 5 per cent, of €232 million (2011: €100 million).

Board of Directors and Management Committee remuneration

Compensation received by the Group's key management personnel, which includes the Board of Directors and Management Committee, in 2012 and 2011 is as follows:

€ million	**December 31, 2012**	December 31, 2011
Base salary, fees and benefits		
Board of Directors remuneration	**6**	7
Management Committee remuneration	**4**	3
	10	10

The Report of the Remuneration Committee on pages 49 to 63 discloses further details of the Board of Directors and Management Committee.

The Company provides life insurance for Executive members of the Board and the Management Committee, and for the year to December 31, 2012 the Company's obligation was €28,000 (2011: €13,000).

At December 31, 2012 the transfer value of accrued pensions covered under defined benefit pension obligation schemes, relating to both the Board of Directors and the Management Committee totalled €5 million (2011: €4 million).

No loans or credit transactions were outstanding with Directors or officers of the Group at December 31, 2012 (2011: €nil).

Spanish Corporate Governance Report

The Spanish Corporate Governance Report forms part of the Management Report of International Consolidated Airlines Group, S.A. (the "Company", "IAG" or the "Group")

A Ownership structure of the company

A.1 Complete the following table about the share capital of the Company:

Date of last change	Share capital (euros)	Number of shares	Number of voting rights
21/01/2011	927,684,778.50	1,855,369,557	1,855,369,557

State whether there are different classes of shares with different rights attaching thereto:

NO

Class	Number of shares	Nominal value per share	Number of voting rights per share	Different rights
–	–	–	–	–

A.2 Breakdown of direct and indirect holders of significant shareholdings in the Company as of the end of the fiscal year, excluding Directors:

Individual or corporate name of Shareholder	Number of direct voting rights	Number of indirect voting rights[1]	% of total voting rights
Banco Financiero y de Ahorros, S.A.	–	224,253,769	12.087
Templeton Global Advisors Limited	–	92,969,270	5.011
Majedie Asset Management Limited	–	93,343,362	5.031
Black Rock Inc	–	91,539,438	4.934
Legal & General Investment Management Limited	53,761,392	6,076,987	3,225
Schroders Plc	–	59,204,543	3.191
FIL Limited	–	19,518,839	1.052

1 Through:

Individual or corporate name of indirect holder of the interest	Individual or corporate name of direct holder of the interest	Number of direct voting rights	% of total voting rights
Banco Financiero y de Ahorros, S.A.	Bankia, S.A.	224,253,769	12.087
Templeton Global Advisors Limited	Collective investment schemes managed by Templeton	92,969,270	5.011
Majedie Asset Management Limited	Investment entities managed by Majedie Asset Management Limited	93,343,362	5.031
Black Rock Inc	Black Rock Investment Management (UK) Ltd	91,539,438	4.934
Schroders Plc	Schroder Investment Management Ltd	59,186,289	3.190
FIL Limited	Investment entities managed by FIL Limited	19,518,839	1.052
Legal & General Investment Management Limited	Legal & General (Unit Trust Managers) Limited	6,076,987	0.328
Schroders Plc	Schroder & Co Ltd	18,254	0.001

Indicate the most significant changes in the shareholding structure that have occurred during the fiscal year:

Individual or corporate name of Shareholder	Date of transaction	Description of transaction
Majedie Asset Management Limited	11/05/2012	Increase to above 5% of the share capital.

A.3 Complete the following tables about members of the Board of Directors of the Company who have voting rights attaching to shares of the Company:

Individual or corporate name of Director	Number of direct voting rights	Number of indirect voting rights[1]	% of total voting rights
Antonio Vázquez Romero	512,291	–	0.028
Sir Martin Broughton	49,545	19,545	0.004
Willie Walsh	298,915	–	0.016
Baroness Kingsmill	2,000	–	0.000
César Alierta Izuel	1,000,000	–	0.054
James Lawrence	50,000	–	0.003
José Manuel Fernández Norniella	816	–	0.000
José Pedro Pérez-Llorca	408	–	0.000
Keith Williams	135,615	–	0.007
Rafael Sánchez-Lozano Turmo	103,070	–	0.006
Manuel Lagares Gómez-Abascal	100	–	0.000

1 Through:

Individual or corporate name of indirect holder of the interest	Individual or corporate name of direct holder of the interest	Number of direct voting rights	% of total voting rights
Sir Martin Broughton	Jocelyn Broughton	19,545	0.001

Total percentage of voting rights held by the Board of Directors	0.117

Complete the following tables about members of the Company's Board of Directors who hold rights to shares of the Company:

Individual or corporate name of Director	Number of direct option rights	Number of indirect option rights	Number of share equivalents	% of total voting rights
Willie Walsh	2,393,034	–	2,393,034	0.129
Keith Williams	1,795,957	–	1,795,957	0.097
Rafael Sánchez-Lozano Turmo	867,596	–	867,596	0.047

A.4 Describe, if applicable, the family, commercial, contractual or corporate relationships between significant Shareholders, to the extent known to the Company, unless they are immaterial or result from the ordinary course of business:

Individual or corporate name of related parties	Description of the relationship	Type of relationship
–	–	–

Spanish Corporate Governance report continued

A.5 Describe, if applicable, the commercial, contractual or corporate relationships between significant Shareholders and the Company and/or its Group, unless they are immaterial or result from the ordinary course of business:

The Group has commercial relationships with its Significant Shareholders, some of which are not in Company's ordinary course of business. Details of such relationships have been provided below:

Individual or corporate name of related parties	Type of relationship	Brief description
Black Rock Investment Management (UK) Ltd	Commercial	Cash deposits invested as part of liquidity fund portfolio.
Bankia, S.A.	Commercial	Interest on aircraft financing transactions, guarantees provided on aircraft, aircraft lease payments and returns on financial investments.

A.6 Indicate whether any paracorporate (Shareholders') agreements affecting the Company pursuant to the provisions of Section 112 of the Securities Market Law (Ley del Mercado de Valores) (LMV) have been reported to the Company. If so, briefly describe them and list the Shareholders bound by the agreement:

NO

Parties to the Shareholders' agreement	% of share capital involved	Brief description of the agreement
–	–	–

Indicate whether the Company is aware of the existence of concerted actions among its Shareholders. If so, briefly describe them:

NO

Parties to the concerted action	% of share capital involved	Brief description of the agreement
–	–	–

Expressly indicate whether any such agreements, arrangements or concerted actions have been modified or terminated during the fiscal year.

NO

A.7 Indicate whether there is any individual or legal entity that exercises or may exercise control over the Company pursuant to Section 4 of the Securities Market Law. If so, identify it:

NO

Individual or corporate name
–

Comments
–

A.8 Complete the following tables about the Company's treasury stock:

At December 31, 2012:

Number of direct shares	Number of indirect shares[1]	Total % of share capital
–	–	–

1 Through:

Individual or corporate name of direct Shareholder	Number of direct shares
–	–

Describe any significant changes, pursuant to the provisions of Royal Decree 1362/2007 that have occurred during the fiscal year:

Date of notice	Total direct shares acquired	Total indirect shares acquired	Total % of share capital
–	–	–	–
–			–

A.9 Describe the terms and conditions and the duration of the powers currently in force given by the Shareholders acting at the Shareholders' Meetings to the Board of Directors in order to acquire or transfer Company stock:

The Shareholders' Meeting held on June 21, 2012 authorised to carry out the acquisition of shares issued directly by the Company or indirectly through its subsidiaries, subject to the following conditions: (a) the maximum aggregate number of ordinary shares which are authorised to be purchased shall be the lower of the maximum amount permitted by the law and such number as represents 10 per cent of the aggregate nominal amount of the Company's issued ordinary share capital on June 21, 2012, date of passing the resolution; (b) the minimum price which may be paid for an ordinary share is zero; (c) the maximum price which may be paid for an ordinary share is the highest of: (i) an amount equal to 5 per cent. above the average of the middle market quotations for the ordinary shares as taken from the relevant stock exchange for the five business days immediately preceding the day on which that ordinary share is contracted to be purchased; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out at the relevant time; in each case, exclusive of expenses.

The authorisation is granted for a term ending at the end of 2013 ordinary Shareholders' Meeting (or, if earlier, fifteen months from June 21, 2012, date of passing of the resolution). The shares acquired pursuant to this authorisation may be delivered directly to the employees or Director of the Company or its subsidiaries or as a result of the exercise of option rights held thereby.

The Securities Code of Conduct of the Company contains the treasury stock transactions code of the Company. This can be accessed on the Company's website: www.iairgroup.com.

A.10 Indicate, if applicable, any legal or Bylaw restrictions on the exercise of voting rights, and any legal restrictions on the acquisition or transfer of interests in share capital.

Indicate whether there are legal restrictions on the exercise of voting rights:

YES

Maximum percentage of voting rights that a Shareholder may exercise due to legal restrictions	–

Indicate whether there are Bylaw restrictions on the exercise of voting rights:

YES

Maximum percentage of voting rights that a Shareholder may exercise due to Bylaw restrictions	–

Spanish Corporate Governance report continued

Description of legal and Bylaw restrictions on the exercise of voting rights

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

Disclosure obligations

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

In addition, pursuant to Article 10 of the Company's Bylaws, the Company may require any Shareholder or any other person with a confirmed or apparent interest in shares of the Company to disclose to the Company in writing such information as the Company may request in relation to the beneficial ownership of or any interest in the shares in question, as lies within the knowledge of such shareholder or other person, including any information that the Company deems necessary or appropriate in order to determine whether the nationality of the holders of said shares or other person with an interest in the Company's share whether it is necessary to take steps in order to protect the operating rights of the Company or its operating subsidiaries.

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

Limitations on ownership of the Company shares

In the event that the Board of Directors deems it necessary or appropriate to adopt measures to protect an operating right of the Company or of its operating subsidiaries, in light of the nationality of its Shareholders or any persons with an interest in the Company's shares, it may adopt any of the measures provided for such purpose in Article 11 of the Company's Bylaws, including the determination of a maximum number of shares that may be held by non-EU Shareholders, which may not be less than 40 per cent of the Company's share capital under any circumstances. At December 31, 2012, 20 per cent of the ordinary shares of the Company were held by non-EU Shareholders.

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

Indicate if there are legal restrictions on the acquisition or transfer of interests in the share capital:

YES

Description of the legal restrictions on the acquisition or transfer of interests in the share capital
Refer to the previous explanations.

A.11 Indicate whether the Shareholders acting at a Shareholders' Meeting have approved the adoption of breakthrough measures in the event of a public tender offer pursuant to the provisions of Law 6/2007:

NO

If applicable, describe the approved measures and the terms on which the restrictions will become ineffective.

B Structure Of The Company's Management

B.1 Board of Directors

B.1.1 Describe the maximum and minimum number of Directors set forth in the Bylaws:

Maximum number of Directors	14
Minimum number of Directors	9

B.1.2 Complete the following table identifying the members of the Board of Directors:

Individual or corporate name of Director	Representative	Position	Date first appointment	Date last appointment	Election procedure
Antonio Vázquez Romero	–	President	25/05/2010	21/01/2011	Voting at the Shareholders' Meeting
Sir Martin Broughton	–	Vice-president	25/05/2010	21/01/2011	Voting at the Shareholders' Meeting
Willie Walsh	–	Chief Executive Officer ('CEO')	25/05/2010	21/01/2011	Voting at the Shareholders' Meeting
César Alierta Izuel	–	Director	27/09/2010	21/01/2011	Voting at the Shareholders' Meeting
Patrick Cescau	–	Director	27/09/2010	21/01/2011	Voting at the Shareholders' Meeting
José Manuel Fernández Norniella		Director	27/09/2010	21/01/2011	Voting at the Shareholders' Meeting
Baroness Kingsmill	–	Director	27/09/2010	21/01/2011	Voting at the Shareholders' Meeting
James Lawrence	–	Director	27/09/2010	21/01/2011	Voting at the Shareholders' Meeting
José Pedro Pérez-Llorca	–	Director	27/09/2010	21/01/2011	Voting at the Shareholders' Meeting
Kieran Poynter	–	Director	27/09/2010	21/01/2011	Voting at the Shareholders' Meeting
Manuel Lagares Gómez-Abascal	–	Director	02/08/2012	02/08/2012	Co-optation
Rafael Sánchez-Lozano Turmo	–	Director	25/05/2010	21/01/2011	Voting at the Shareholders' Meeting
John Snow	–	Director	27/09/2010	21/01/2011	Voting at the Shareholders' Meeting
Keith Williams	–	Director	27/09/2010	21/01/2011	Voting at the Shareholders' Meeting

Total number of Directors	14

Indicate vacancies on the Board of Directors during the period:

Individual or corporate name of Director	Status of the Director at the time of vacancy	Date of vacancy
Rodrigo de Rato y Figaredo	Proprietary Director	06/07/2012

Spanish Corporate Governance report continued

B.1.3 Complete the following table about the members of the Board of Directors and each member's status:

Executive Directors

Individual or corporate name of Director	Committee that has proposed the Director's appointment	Position within the Company's structure
Willie Walsh	–	Chief Executive Officer of the Group
Keith Williams	–	Chief Executive Officer of British Airways Plc (British Airways)
Rafael Sánchez-Lozano Turmo	–	Chief Executive Officer of Iberia Líneas Aéreas de España, S.A. Operadora, S.U. ('Iberia')
Total number of Executive Directors		3
Total % of Board of Directors members		21.43%

External Proprietary Directors

Individual or corporate name of Director	Committee that has proposed the Director's appointment	Individual or corporate name of the significant Shareholder represented by the Director or that has proposed the Director's appointment
Manuel Lagares Gómez-Abascal	–	Banco Financiero de Ahorros, S.A. – Bankia, S.A.
Total number of proprietary Directors		1
Total % of Board of Directors members		7.143%

External Independent Directors

Individual or corporate name of Director	Profile
César Alierta Izuel	César Alierta Izuel has been the executive chairman of Telefónica since July 2000, and is a member of the boards of directors of China Unicom and Telecom Italia. He is a member of the Colombia Business School Board of Overseers and chairman of the social board of the UNED. He was the chairman and founder of Beta Capital, which he combined from 1991 with his post as chairman of the Spanish Financial Analysts' Association. He was a member of the board of directors and standing committee of the Madrid Stock Exchange. In 1996 he became chairman of Tabacalera and then served as chairman of Altadis group until July 2000 when he was appointed chairman of Telefónica, having been a board member since 1997.
Sir Martin Broughton	Sir Martin Broughton became Chairman of British Airways in 2004, having been a Board member since 2000. He served as president of the CBI from 2007 until 2009, and chaired the British Horseracing board from 2004 to 2007. Prior to that he was chairman of British American Tobacco, a role he took on in 1998, having previously been group chief executive and deputy chairman. He is chairman of Sports Investment Partners.
Patrick Cescau	Patrick Cescau joined the board of InterContinental Hotels Group PLC as chairman on 1 January 2013. He has been a non-executive director of Tesco PLC since February 2009, and was appointed the company's senior independent director in July 2010. He was group chief executive officer of Unilever from 2005 to 2009, having previously been chairman of Unilever PLC and deputy chairman of Unilever NV. He is a trustee of the Leverhulme Trust and chairman of the St Jude Children's Charity. Patrick Cescau was appointed a Chevalier de la Légion d'Honneur in 2005.

Baroness Kingsmill	Baroness Kingsmill was a Non-Executive Director of British Airways from November 2004 until the effective merger date. She entered the House of Lords in 2006. Until December 2003, she chaired the Department of Trade and Industry's Accounting for People task force, and was deputy chairman of the Competition Commission. She is a senior independent non-executive director of APR Energy plc and a member of the supervisory board of E.ON SE. She is deputy chair of the PricewaterhouseCoopers LLP advisory board. Baroness Kingsmill is a member of the International advisory board of IESE and she is a member of the influential House of Lords Economic Affairs Committee.
James Lawrence	James Lawrence was a Non-Executive Director of British Airways from November 2006 until the effective merger date. He is chairman of Rothschild North America where he has been since June 2010; he was at Unilever from 2007 as chief financial officer and as executive director on the boards of Unilever NV and PLC. He was chief financial officer of General Mills from 1998 to 2007. Since 1990, he has served on 15 public company boards.
José Pedro Pérez-Llorca	José Pedro Pérez-Llorca was a Non-Executive Director of Iberia from 2000 until the effective merger date. He was a career diplomat and a member of the Parliamentary Counsel. He is a former Cabinet Minister of the Presidency, Parliamentary Relations, Regional Government and Foreign Affairs. He is a former member of the board of Telefónica and of the Madrid Stock Exchange Council. He was recently appointed president of the board of trustees of the Prado Museum. He is the founding partner and chairman of the law firm Pérez-Llorca.
Kieran Poynter	Kieran Poynter is a Non-Executive Director of British American Tobacco, Nomura International and F&C Asset Management, having been appointed to those roles in July 2010, November 2009 and June 2009 respectively. He spent 37 years with PricewaterhouseCoopers LLP in various roles including eight years as chairman and senior partner before retiring in 2008. He served as a member of the president's committee of the CBI from 2000 to 2008 and in 2009-2010 served as a member of the advisory committee for the Chancellor of the Exchequer on competitiveness of the UK financial services sector. He is also a member of the board of The Royal Automobile Club.
John Snow	John Snow is president of JWS Associates LLC. He served as the 73rd United States (US) Secretary of the Treasury under President George W. Bush from February 2003 to June 2006. Prior to this he served as chairman, president and chief executive officer of CSX Corporation. John Snow served in several senior roles at the US Department of Transportation under President Ford. His public service also includes his appointment by President Clinton as board chairman of the organisation established by Congress to oversee the air traffic control system in the US13. He currently serves on the boards of Marathon Petroleum Corporation and Cerberus Capital Management LP where he is non-executive chair.

Total number of Independent Directors	8
Total % of Board members	57.143%

Other External Directors

Individual or corporate name of Director	Committee that has proposed the Director's appointment
José Manuel Fernández Norniella	–
Antonio Vázquez Romero	–

Total number of other external Directors	2
Total % of Board members	14.286%

Describe the reasons why they cannot be considered proprietary or independent Directors as well as their ties, whether with the Company, its management or its Shareholders.

Spanish Corporate Governance report continued

Individual or corporate name of Director	Reasons	Company, manager or Shareholder with which he has ties
Antonio Vázquez Romero	He was until the merger effective date (21/01/2011) the President of Iberia, Líneas Aéreas de España, S.A.	Iberia
José Manuel Fernández Norniella	He was an executive director of Bankia S.A. and member of the Board of Banco Financiero y de Ahorros, S.A.	Banco Financiero y de Ahorros, S.A. / Bankia S.A.

Indicate the changes, if any, in the type of Director during the period:

Individual or corporate name of Director	Date of change	Former status	Current status
–	–	–	–

B.1.4 Describe, if applicable, the reasons why proprietary Directors have been appointed at the proposal of Shareholders whose shareholding interest is less than 5% of share capital.

Individual or corporate name of Director	Reason
–	–

State whether formal petitions for presence on the Board of Directors have been received from Shareholders whose shareholding interest is equal to or greater than that of others at whose proposal proprietary Directors have been appointed. If so, describe the reasons why such petitions have not been satisfied.

NO

Individual or corporate name of Shareholder	Reason
–	–

B.1.5 State whether any Director has withdrawn from his/her position before the expiration of his/her term of office, whether the Director has given reasons to the Board and by what means, and in the event that he/she gave reasons in writing to the full Board, describe at least the reasons given by the Director:

Name of the Director	Reason for withdrawal
Rodrigo de Rato y Figaredo	Due to the cessation of his executive responsibilities at Bankia, S.A. and Banco Financiero de Ahorros, S.A., significant shareholder which proposed his appointment.

B.1.6 Indicate the powers delegated to the CEO(s), if any:

Individual or corporate name of Director	Brief description
Willie Walsh	All of the powers of the Board of Directors have been permanently delegated to the Chief Executive officer of the Group for their exercise on a several basis, save for those which cannot be delegated pursuant to the Company's Bylaws, the Board Regulations or the applicable legislation.

B.1.7 Identify the Directors who are managers or Directors of companies within the listed Company's group, if any:

Individual or corporate name of Director	Corporate name of entity within the Group	Position
Antonio Vázquez Romero	Iberia	President
Antonio Vázquez Romero	IB Opco Holding, S.L.	President
Sir Martin Broughton	British Airways Plc	President
Keith Williams	British Airways Plc	British Airways CEO
Keith Williams	BA and AA Holdings Limited	Director
Keith Williams	BA Number One Limited	Director
Keith Williams	BA Number Two Limited	Director
Keith Williams	British Airways (No 1) Limited	Director
Keith Williams	British Airways (No 2) Limited	Director
Keith Williams	BritAir Holdings Limited	Director
Keith Williams	British Airways (BA) Limited	Director
Keith Williams	British Airways (España) Limited	Director
Keith Williams	British Airways (European Operations at Gatwick) Limited	Director
Keith Williams	British Airways 777 Leasing Limited	President
Keith Williams	British Airways Associated Companies Limited	Director
Keith Williams	British Airways Capital Limited	Director
Keith Williams	British Airways Holdings BV	Director
Keith Williams	British Airways Holdings Limited	Director
Keith Williams	British Airways Leasing Limited	Director
Keith Williams	British Airways Regional Limited	Director
Keith Williams	British Caledonian Airways Limited	Director
Keith Williams	British Caledonian Group Limited	Director
Keith Williams	Caledonian Aviation Investments Limited	Director
Keith Williams	OpenSkies Aviation Limited	Director
Keith Williams	Speedwing International Limited	Director
Keith Williams	The Plimsoll Line Limited	Director
Rafael Sánchez-Lozano Turmo	Iberia	Iberia CEO
Rafael Sánchez-Lozano Turmo	IB Opco Holding, S.L.	Director

Spanish Corporate Governance report continued

B.1.8 Identify the Directors of your Company, if any, who are members of the Board of Directors of other companies listed on official stock exchanges in Spain other than those of your Group that have been reported to your Company:

Individual or corporate name of Director	Listed company	Position
César Alierta Izuel	Telefónica, S.A.	President
Manuel Lagares Gómez-Abascal	Iberdrola, S.A.	Director
Manuel Lagares Gómez-Abascal	Mapfre, S.A.	Director
Manuel Lagares Gómez-Abascal	Indra Sistemas, S.A.	Director

B.1.9 Indicate and, if applicable, explain whether the Company has established rules regarding the number of boards of which its Directors may be members:

NO

Description of rules	–

B.1.10 In connection with recommendation number 8 of the Unified Code, indicate the Company's general policies and strategies reserved for approval by the full Board:

The investment and financing policy	YES
The definition of the structure of the Group of companies	YES
The corporate governance policy	YES
The corporate social responsibility policy	YES
The strategic or business plan, as well as management objectives and annual budgets	YES
The policy regarding remuneration and evaluation of performance of senior management	YES
The risk control and management policy, as well as the periodic monitoring of the internal information and control systems	YES
The dividend policy, as well as the treasury stock policy and, especially, the limits thereto	YES

B.1.11 Complete the following tables regarding the aggregate remuneration of Directors accrued during the fiscal year:

a) At the Company covered by this report:

Concept	Data in thousands of euros
Fixed remuneration	4,556
Variable remuneration	600
Attendance fees	–
Bylaw stipulated remuneration	–
Share options and/or other financial instruments	–
Other	968
Total	6,124

Other benefits	Data in thousands of euros
Advances	–
Loans granted	–
Pension funds and plans: Contributions	62
Pension funds and plans: Obligations incurred	2,822
Life insurance premiums	22
Guarantees issued in favour of Directors	–

b) On account of membership by the Company's Directors of other boards of directors and/or in the senior management of Group companies:

Concept	Data in thousands of euros
Fixed remuneration	–
Variable remuneration	–
Attendance fees	–
Bylaw stipulated remuneration	–
Share options and/or other financial instruments	–
Other	–
Total	–

Other benefits	Data in thousands of euros
Advances	–
Loans granted	–
Pension funds and plans: Contributions	–
Pension funds and plans: Obligations incurred	–
Life insurance premiums	–
Guarantees issued in favour of Directors	–

c) Total remuneration by type of Director:

Type of Director	By Company (in thousands of euros)	By Group
Executive	6,671	–
External proprietary	146	–
External independent	1,404	–
Other external	809	–
Total	9,030	–

d) As a percentage of the profits attributable to the controlling Company:

Total remuneration of Directors (in thousands of euros)	9,030
Total remuneration of Directors/profits attributable to the controlling Company (as a %)	–

B.1.12 Identify the members of the Company's senior management who are not Executive Directors and state the total remuneration accruing to them during the fiscal year:

Individual or corporate name	Position
Enrique Dupuy de Lôme Chávarri	Group Chief Financial Officer ('CFO')
Robert Boyle	Director of Strategy
Ignacio de Torres Zabala	Director of Global Services
Julia Simpson	Chief of Staff
Christopher Haynes	General Counsel

Total senior management remuneration (in thousands of euros)	6,274

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B.1.13 Identify, on an aggregate basis, if there are indemnity or 'golden parachute' provisions for the benefit of senior management, including Executive Directors, of the Company or its Group in the event of dismissals or changes of control. Indicate whether such agreements must be reported to and/or approved by the decision-making bodies of the Company or its Group:

Number of beneficiaries	8

	Board of Directors	Shareholders (at the Shareholders' Meeting)
Decision-making body approving the provisions	YES	NO

Is information about these provisions provided to the Shareholders at the Shareholder's Meeting?	YES

B.1.14 Describe the process to set the remuneration of the members of the Board of Directors and the relevant provisions of the Bylaws with regard thereto:

Process to set the remuneration of the members of the Board of Directors and Bylaw provisions
According to article 37 of the Company's Bylaws, the remuneration of Directors shall consist of a fixed fee, annual or periodic, and a variable remuneration in kind.

The remuneration, global and annual, for the entire Board of Directors and for the above items shall be the amount determined for such purpose by the Shareholders' Meeting (applicable and in force unless the Shareholders' Meeting approves its modification), although the Board of Directors may reduce this amount in the fiscal years as it sees fit. The Board of Directors shall be responsible for the distribution of the above amount among the Directors in the manner, at the time and in the proportion freely determined by it, and the remuneration may differ according to (i) the characteristics of each Director or category of Director, (ii) the functions and responsibilities allocated to the Board of Directors and its Committees and (iii) the restrictions provided for in the Company's Bylaws or in the Board of Directors regulations in relation to the remuneration received as member of the Board of Directors of other companies that belong to the Group, with the Board of Directors also being responsible for determining the frequency and manner of payment of the fee.

Directors may not be paid twice as Directors if they belong to the Board of Directors of other companies of the Group.

Without prejudice to the above-mentioned remuneration, remuneration for Executive Directors may also consist of the delivery of shares or stock options or amounts linked to the share value. The application of this kind of remuneration shall require a resolution by the Shareholders' Meeting, expressing, as the case may be, the number of shares to be delivered, the stock option strike price, the value of the shares used as a reference and the duration of this remuneration system.

Additionally, Directors shall be entitled to the payment or reimbursement of any reasonable expenses that they may properly incur as a result of attending meetings and any other tasks directly relating to the discharge of their office as Directors, such as travel, accommodation, meals, and any other expenses that they may incur.

Independently of the remuneration provided for in the preceding paragraphs deriving from membership of the Board of Directors, any Directors that discharge executive or advisory functions other than those of oversight and collective decision inherent in their role as Directors, regardless of the nature of their relationship with the Company, shall be entitled to receive the remuneration, labour-related or professional, fixed or variable, in cash or in kind, which, pursuant to a resolution by the Board of Directors, corresponds to such functions, including participation in any incentive systems which may be established in general for the senior management of the Company and which may involve the delivery of shares or stock options or remuneration linked to the share value, subject at all times to the requirements established in the legislation in force from time to time, and participation in the appropriate welfare and insurance systems. In the event that they cease to discharge such functions, they may be entitled, on the terms and conditions approved by the Board of Directors, to appropriate economic compensation. Any remuneration payable for the above items and the other terms and conditions of the relationship must be approved by the Board of Directors and shall be incorporated into the relevant contract.

The Company may also arrange liability insurance for any Director or former Director of the Company or of any associated company on customary and reasonable terms in light of the circumstances of the Company.

According to article 3.4 of the Board Regulations, the Board of Directors shall adopt the relevant decisions regarding the establishment, pursuant to the Company's Bylaws, of the remuneration policy and remuneration of Directors as well as establishment of any indemnification in the event of removal of senior Company executives.

According to article 25 of the Board Regulations, the Remunerations Committee shall have, amongst others, the power to: (i) propose to the Board of Directors the system and amount of the annual remuneration for Directors, as well as the individual remuneration of the Executive Directors and the other terms of their contracts, pursuant in all cases to the provisions of the Company's Bylaws, (ii) to report to the Board of Directors on the potential indemnification of the dismissal of Senior executives and (iii) to periodically review the remuneration programs, taking into account their suitability and performance and how they reflect and support the Company strategy.

State whether the full Board has reserved the right to approve the following decisions:

At the proposal of the Company's Chief Executive, the appointment and, if applicable, the removal of senior managers, as well as their indemnity provisions.	YES
The remuneration of Directors and, in the case of Executive Directors, the additional remuneration for their executive duties and other terms and conditions that must be included in their contracts.	YES

B.1.15 State whether the Board of Directors approves a detailed remuneration policy and specify the matters covered thereby:

YES

Amount of fixed components, with a breakdown, if applicable, of fees payable for attendance at meetings of the Board and its Committees and estimated annual fixed remuneration arising there from.	YES
Variable remuneration items.	YES
Main characteristics of the social security systems, with an estimate of the amount thereof or equivalent annual cost.	YES
Terms and conditions that must be included in the contracts with Executive Directors performing senior management duties, which will include (i) duration, (ii) amount of prior notice, and (iii) any other clauses regarding hiring bonuses as well as indemnification or 'golden parachute' provisions in the event of early termination or dissolution of the contractual relationship between the Company and the Executive Director.	YES

B.1.16 State whether the Board submits a report on Director remuneration policy to the vote of the Shareholders at a Shareholders' Meeting for consultative purposes. If so, describe the relevant portions of the report regarding the remuneration policy approved by the Board for the following years and the most significant changes experienced by such policies vis-à-vis the policy applied during the fiscal year, and provide an outline of the manner in which the remuneration policy was applied during the fiscal year. Describe the role of the Remunerations Committee and, if external advice has been provided, state the name of the external advisors that have given such advice:

YES

Issues that the remuneration policy report passes upon

The report provides details of the Remunerations Committee and remuneration policy for the Company.

The report has been prepared in accordance with the UK Listing Rules and, although Spanish companies are not required to do so, in voluntary compliance with the requirements of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The report has also been prepared in accordance with the provisions of article 61 'ter' of the Spanish Securities Market Law (Law 24/1998, of July 28). Pursuant to said article, the report will be submitted to the consultative vote of the annual Shareholders' Meeting of the Company as a separate item of the agenda.

Spanish Corporate Governance report continued

Role of the Remunerations Committee

The Remunerations Committee's main duties are:

a) To propose to the Company Board of Directors the system and amount of the annual remuneration for Directors, as well as the individual remuneration of the Executive Directors and the other terms of their contracts, pursuant in all cases to the provisions of the Company's Bylaws;

b) To report to the Company Board of Directors on the potential indemnification that may be established in the event of the dismissal of Senior Executives and to ensure that any payments made are fair to the individual and to the Company, that failure is not rewarded and the duty to mitigate loss is fully recognised;

c) To report to the Company Board of Directors on the senior executive remuneration policy and the basic terms of their contracts;

d) To report on incentive plans and pension supplements;

e) To periodically review the remuneration programs, taking into account their suitability and performance and how they reflect and support the Company strategy;

f) To give due regard to the provisions of applicable good governance codes, applicable law or regulation and requirements imposed by any stock exchange on which the Company's securities are listed when determining any compensation packages and arrangements; and

g) To ensure that the disclosure requirements of the UK Listing Rules, any other applicable listing rules, applicable law or regulation and relevant stock exchanges are fulfilled, including the Annual Report on the Remuneration of the Directors required to be included in the Company's annual report and accounts.

Has external advice been provided?	NO
Name of external advisors	–

B.1.17 Indicate the identity of the members of the Board of Directors, if any, who are also members of the Board of Directors, managers or employees of companies that hold a significant interest in the listed Company and/or in companies within its Group:

Individual or corporate name of Director	Individual or corporate name of significant Shareholder	Position
Manuel Lagares Gómez-Abascal	Banco Financiero y de Ahorros, S.A.-Bankia, S.A	General Director of the subsidiaries

Describe, if applicable, any significant relationships other than the ones contemplated in the prior item, of the members of the Board of Directors linking them to significant Shareholders and/or at companies within the Group:

Individual or corporate name of Director	Individual or corporate name of related significant Shareholder	Description of relationship
–	–	–

B.1.18 State whether the regulations of the Board of Directors have been amended during the fiscal year:

YES

Description of amendments

On February 28, 2012, the Board of Directors approved the amendment of the following articles of the Board Regulations:

- Article 9.4, to allow any Director to ask the President of the Board of Directors to include matters in the Board of Directors meeting agenda;
- Article 22.3, to make it mandatory for the Chairman of Board of Directors Committees to attend the annual Shareholders´ Meeting to answer questions on the Committees' activities;
- Article 22.6 (new), to state that the Committees shall be provided with appropriate and timely training;
- Article 23.2 to include the new powers of the Audit and Compliance Committee;
- Article 24 to adapt the regulations of the Nominations Committee to the Spanish Unified Code; and
- Article 25 to adapt the regulations of the Remunerations Committee to the UK Corporate Governance Code.

B.1.19 Indicate the procedures for the appointment, re-election, evaluation and removal of Directors. List the competent bodies, the procedures to be followed and the criteria applied in each of such procedures.

Appointment of Directors

The Board of Directors shall be composed of a minimum of nine and a maximum of fourteen members.

The Shareholders' Meeting or if, applicable, the Board of Directors itself shall be entitled to designate the members of the Board of Directors pursuant to the provisions of the Spanish Companies Law and the Company's Bylaws.

Any vacancies may be covered by the Board of Directors by means of co-opting, pursuant to applicable law, on an interim basis until the next Shareholders' Meeting is held, which shall approve in its case the appointments, appoint the persons that are to replace any Directors not ratified, or eliminate any vacant positions.

The proposals for the appointment of any Directors put by the Board of Directors to a Shareholders' Meeting for consideration and any decisions adopted by the Board of Directors in respect of any such nominations under the powers of co-opting legally vested in it, shall go to such persons as shall satisfy the legal and statutory conditions required to hold office as a Director, enjoy a high prestige and have professional knowledge, experience and skills appropriate to the exercise of the functions and duties of such an office.

The proposal for the appointment or renewal of Directors which the Board of Directors submits to the Shareholders' Meeting, as well as provisional appointments by the method of co-opting, must be approved by the Board of Directors following a recommendation by the Nominations Committee and, in any event, (i) on the proposal of the Nominations Committee, in the case of independent Board of Directors members, and (ii) subject to a report from the Nominations Committee in all other cases.

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

The Board of Directors appointed Manuel Lagares Gómez-Abascal by co-opting on August 2, 2012, and his office will be subject to approval in the next Shareholders' Meeting.

Re-election of Directors

Once a Director's term of office has expired, his appointment as a Director shall end when, following such expiry, the next Shareholders' Meeting has been held or the legal term to hold the Shareholders' Meeting to approve the accounts of the Company for the previous year has expired.

At the end of their term, Directors may be re-elected one or more times for periods of equal duration to that indicated above (three years).

The proposals for re-election of Directors that the Board of Directors resolves to submit to the Shareholders at the Shareholders' Meeting shall be subject to a formal process of preparation, which shall include a proposal issued by the Nominations Committee containing an analysis of the quality of the work performed and the dedication to the position shown by the proposed Directors during the preceding term of office. For such purposes, the Directors sitting on the Nominations Committee shall be evaluated by the Nominations Committee itself for such purpose, and each of them shall abstain from participating in the debate and voting that may affect them.

All current members of the Board of Directors (except for Manuel Lagares Gómez-Abascal) were re-elected with effect from the date of execution of the merger of British Airways and Iberia by the Company, that is, January 21, 2011, for a period of four years, but shall resign and stand for re-election in accordance with the following calendar, without prejudice to the power of the Shareholders' Meeting to remove them at any moment according to applicable law:

(i) Sir Martin Broughton, Patrick Cescau, José Manuel Fernández Norniella and John Snow shall stand for re-election at the ordinary Shareholders' Meeting to be held in 2013;

(ii) Willie Walsh, César Alierta Izuel, Baroness Kingsmill, José Pedro Pérez-Llorca, Kieran Poynter and Rafael Sánchez-Lozano Turmo shall stand for re-election at the ordinary Shareholders' Meeting to be held in 2014; and

(iii) Antonio Vázquez Romero, James Lawrence, and Keith Williams shall stand for re-election at the ordinary Shareholders' Meeting to be held in 2015.

The President, Deputy President and, if applicable, the Company Secretary and Company Deputy Secretary who are re-elected as members of the Board of Directors by the Shareholders acting at a Shareholders' Meeting shall continue

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to perform the duties that they previously held within the Board of Directors, without the need for a new election and without prejudice to the Board of Directors' power of revocation with respect to such positions.

Evaluation of Directors

The powers of the President of the Board of Directors include ensuring that the performance of individual Directors, the Board of Directors as a whole and Board of Directors Committees is evaluated at least once a year.

At the end of the reporting period an internal questionnaire in relation to performance was sent to members of the Board of Directors to complete. An analysis of the results, plus an action plan to address any issues that arose, was carried out and will be implemented in due course. Overall the review suggests effective governance is in place.

Removal of Directors

The Directors shall cease to hold office upon the expiration of the term of office for which they have been appointed or when it is so resolved by the Shareholders at a Shareholders' Meeting in the exercise of the powers granted to them by applicable law, the Company's Bylaws and the Board of Directors regulations.

Directors leaving their position before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the Board of Directors. Irrespective of whether such resignation is filed as a significant event, the reasons for the same must be explained in the Annual Corporate Governance Report.

The Nominations Committee has the duty to submit to the Board of Directors proposals for the removal of Independent Directors by the Shareholders' Meeting and to report on such proposals regarding any other kind of Directors.

B.1.20 Indicate the circumstances under which the resignation of Directors is mandatory.

According to article 16.2 of the Board Regulations, a Director shall tender his resignation to the Board of Directors and formally resign from his position in the following cases:

a) When he ceases to hold the executive positions to which his appointment as Director is linked, or when the reasons for which he was appointed no longer exist;

b) When he is prohibited by law from acting as a Director;

c) If requested to do so by the Board of Directors as a result of a determination having been made under article 11.7 of the Company's Bylaws to the extent that such determination is due to the fact that such Director is a Director;

d) When his remaining on the Board of Directors might affect the Company's credit or reputation in the market or otherwise jeopardises its interests; or,

e) Pursuant to the Sole Transitional Provision of the Board Regulations.

B.1.21 Explain whether the powers of the top executive of the Company are vested in the President of the Board. If so, indicate the measures that have been taken to mitigate the risks of accumulation of powers in a single person.

NO

Risk mitigation measures
–

Indicate and, if applicable, explain whether rules have been established whereby one of the independent Directors is authorised to request that a meeting of the Board be called or that other items be included on the agenda, to co-ordinate and hear the concerns of external Directors and to direct the evaluation by the Board of Directors.

YES

Description of the rules
In accordance with the new wording of Article 9 of the Board Regulations approved by the Board of Directors on February 28, 2012, any Director may submit a request to the President of the Board of Directors for the inclusion of matters in the agenda and the latter shall be required to include them when such request has been made not less than three days in advance of the date set for the meeting.

B.1.22 Are qualified majorities, different from the statutory majorities, required to adopt any type of decision?

NO

Describe the method used by the Board of Directors to adopt resolutions, including at least the minimum quorum required to hold a valid meeting and the majorities required to adopt resolutions:

Description of resolution	Quorum	Type of majority
All resolutions except those indicated in the following line	More than half of the Directors present, in person or by proxy (50.01%)	Absolute majority (50.01%)
Permanent delegation of powers to the Executive Committee or to the Chief Executive Officer and the designation of the Directors that are to exercise such powers	More than half of the Directors present, in person or by proxy (50.01%)	Two-thirds of the total number of Board members (67%)

B.1.23 Explain whether there are specific requirements, other than the requirements relating to Directors, to be appointed President:

NO

Description of requirements
–

B.1.24 Does the President have a tie-breaking vote?

NO

Matters on which a tie breaking vote may be cast	–

B.1.25 Indicate whether the Bylaws or the regulations of the Board of Directors set forth any age limit for Directors:

NO

Age limit for the President	Age limit for the CEO	Age limit for Directors
0	0	0

B.1.26 Indicate whether the Bylaws or the regulations of the Board of Directors establish any limit on the term of office for independent Directors:

NO

Maximum term of office	0

B.1.27 If the number of women Directors is scant or nil, describe the reasons therefore as well as the initiatives adopted to correct such situation:

Description of reasons and initiatives

Currently, 24 per cent of our senior executives are women. The Company is a young company, formed from a merger of British Airways and Iberia on January 21, 2011. Over time, the Company wants to increase the number of women we have at Board of Directors and executive level.

The Board and the Management Committee of IAG are fully committed to the objective of creating bodies with diverse memberships. The IAG Board is responsible for improving diversity within the IAG Board, whilst the Management Committee is responsible for improving diversity across the IAG Group. The Board's policy is to consider candidates from a wide variety of backgrounds, without discrimination based on gender, race, colour, age, social class, beliefs, religion, sexual orientation, disability or other factors.

On September 27, 2012, the Board of Directors approved the IAG Board diversity policy, which recognises the value of appointing as board members individual Directors who bring a variety of diverse opinions, perspectives, skills, experiences, backgrounds and orientations to its discussions and its decision-making processes.

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The Board plans to appoint at least one new female director during the period up to the end of 2013 and intends to increase further the overall number of female directors on the Board by the end of 2015.

In particular, indicate whether the Nominations and Remunerations Committees have established procedures to ensure that selection processes are free from any implied bias hindering the selection of women Directors, and deliberately searches for women candidates that meet the required profile:

YES

Describe the main procedures
Any proposals for the appointment of any Directors shall go to such persons as shall satisfy the legal and statutory conditions required to hold office as a Director, enjoy a high prestige and have professional knowledge, experience and skills appropriate to the exercise of the functions and duties of such an office.

The Nominations Committee shall report on and review the criteria to be followed for the composition of the Board of Directors and the selection of candidates, defining the necessary functions and skills and evaluating the time and dedication required to correctly fulfil its remit.

In identifying suitable candidates, the Nominations Committee shall use open advertising or the services of external advisors to facilitate the search, consider candidates from a wide range of backgrounds, and consider candidates on merit and against objective criteria, taking care that appointees have sufficient time available to devote to the position.

B.1.28 Indicate whether there are formal procedures for proxy-voting at meetings of the Board of Directors. If so, briefly describe them:

According to article 40 of the Company's Bylaws and 10 of the Board Regulations, the Directors shall make every effort to attend the Board of Directors meetings. Notwithstanding the above, all Directors may cast their vote through and grant a proxy to another Director. Proxies must be granted in writing, addressed to the President or to the Company Secretary and must be granted specifically for each meeting. For such purposes, a message addressed to the President or the Company Secretary by letter, fax, telegram or email shall be valid.

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

B.1.29 Indicate the number of meetings that the Board of Directors has held during the fiscal year. In addition, specify the number of meetings, if any, at which the President was not in attendance:

Number of meetings of the Board	9
Number of meetings of the Board at which the President was not in attendance	0

Indicate the number of meetings held by the different committees of the Board of Directors during the fiscal year:

Number of meetings of the Executive Committee	0
Number of meetings of the Audit and Compliance Committee	7
Number of meetings of the Nominations and Remunerations Committee	0
Number of meetings of the Nominations Committee	4
Number of meetings of the Remunerations Committee	4

B.1.30 Indicate the number of meetings held by the Board of Directors during the fiscal year at which not all of its members have been in attendance. Proxies granted without specific instructions must be counted as absences:

Number of absences of Directors during the fiscal year	6
% of absences over total votes during the fiscal year	4.762%

B.1.31 Indicate whether the annual individual financial statements and the annual consolidated financial statements that are submitted to the Board of Directors for approval have been previously certified:

YES

Identify, if applicable, the person/persons that has/have certified the annual individual and consolidated financial statements of the Company for preparation by the board:

Name	Position
Willie Walsh	Chief Executive Officer of the Group
Enrique Dupuy de Lôme Chávarri	Chief Financial Officer of the Group

B.1.32 Explain the mechanisms, if any, adopted by the Board of Directors to avoid any qualifications in the audit report on the annual individual and consolidated financial statements prepared by the Board of Directors and submitted to the Shareholders' Meeting.

In accordance with article 30.4 of the Board Regulations, the Board of Directors shall draw up the Company's financial statements so that such Financial statements do not give rise to a qualified certificate issued by the auditors. However, if the Board of Directors deems it appropriate to draw up financial statements such that a qualified certificate is issued by the auditors, the Directors shall publicly explain the contents and scope of the reasons the accounts have been qualified.

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

B.1.33 Is the Secretary of the Board of Directors a Director?

NO

B.1.34 Describe the procedures for appointment and removal of the Secretary of the Board of Directors, stating whether the appointment and removal thereof have been reported upon by the Nominations Committee

and approved by the full Board:

Procedure for appointment and removal
The appointment and removal of the Secretary of the Board of Directors of the Company, who may or may not be a Director, is a matter reserved to the Board of Directors.

The appointment of the Secretary of the Board of Directors shall be made at the proposal of the President.

The Nominations Committee has to report on the proposed designation of offices on the Board of Directors.

Does the Nominations Committee report on the appointment?	YES
Does the Nominations Committee report on the removal?	YES
Does the full Board approve the appointment?	YES
Does the full Board approve the removal?	YES

Is the Secretary of the Board especially responsible for ensuring compliance with good governance recommendations?

YES

Spanish Corporate Governance report continued

Comments
In accordance with Article 7 of the Board Regulations the functions assigned to the Company Secretary shall be as follows, in addition to the functions assigned to him under the provisions of applicable law and the Company's Bylaws:

a) Keep custody of the corporate documents, duly record the proceedings of meetings in the minute books, and attest to the resolutions adopted by the collective management decision-making bodies;

b) Ensure the formal and substantive legality of all action taken by the Board of Directors and its representative decision-making bodies as well as compliance with regulations and Company's Bylaws provisions, and ensure observance of the principles or standards of corporate governance of the Company and the provisions of the Board Regulations;

c) Verify compliance with orders of regulatory entities, and that the recommendations thereof, if any, are taken into consideration;

d) Generally act as a channel in relations between the Company and the Directors in connection with all matters relating to the operation of the Board of Directors, in compliance with the President's instructions;

e) Process all requests from the Directors regarding the information and documentation of those matters that fall within the purview of the Board of Directors; and

f) Act as Secretary for the Shareholders' Meeting.

B.1.35 Indicate the mechanisms, if any, used by the Company to preserve the independence of the auditors, the financial analysts, the investment banks and the rating agencies:

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

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

In this regard, the Audit and Compliance Committee has, among others, the following powers:

a) To propose to the Board of Directors, for submission to the Shareholders' Meeting, the designation of the auditor or audit firms, as envisaged by applicable law, and, as the case may be, the terms of its engagement, its remuneration, the scope of its professional mandate and the revocation or renewal of its appointment. To oversee compliance with the audit agreement, ensuring that opinions concerning the annual accounts and principal content of the audit report are drafted in a clear and precise manner;

b) To serve as a channel for communication between the Board of Directors and the auditors, to assess the results of each audit and the response by the Management Team to their recommendations, and to mediate in the event of disputes between the auditors and the Management Team in relation to the principles and methods used in preparing the annual accounts;

c) To develop and implement a policy on the engagement of the external auditors to supply additional non-audit services pursuant to the provisions of the Unified Good Governance Code issued by the Financial Reporting Council;

d) To establish the appropriate relationships with the auditors or audit firms in order to receive information on matters which may jeopardise the independence of the auditors, for its examination by the Audit and Compliance Committee, and on any other matters relating to the audit process, as well as any other communications provided for in the audit legislation and audit regulations. In all cases, written confirmation of their independence vis-à-vis the entity or entities directly or indirectly related thereto must be received annually from the auditors or audit firms, as well as information on additional services of any kind provided to these entities by the aforementioned auditors or audit firms, or by persons or entities related to them pursuant to the provisions of Spanish Audit Law 19/1988, of July 12, 1988;

e) To issue on an annual basis, prior to the issue of the auditors' report, a report expressing an opinion on the independence of the auditors or audit firms. This report must also give an opinion regarding the provision of the additional services referred to in the preceding paragraph; and

f) To review the effectiveness of the external audit process.

During 2012, the Audit and Compliance Committee reviewed the work undertaken by both the external auditors and assessed their independence, objectivity and performance. In doing so, it took into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services. The Audit and Compliance Committee monitored the auditors' compliance with relevant regulatory, ethical and professional guidance on the rotation of partners, and assesses annually its qualifications, expertise, resources and

the effectiveness of the audit process, including a report from the external auditor on its own internal quality procedures. Having reviewed Ernst & Young's and Deloitte's performance during 2012, the Committee decided it was in the Group's and Shareholders' interests not to tender the external audit in 2013.

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

On the other hand, the Board of Directors shall ensure timely compliance with current instructions in respect of relevant events pursuant to the provisions of the applicable law.

The Directors shall take such steps as may be required to ensure that any quarterly, semi-annual and annual financial information to be made available to securities markets and any other information that should be prudently provided thereto from time to time, shall be prepared in accordance with the same professional principles, standards and practices as those applied in the preparation of, and be as reliable as the annual financial statements. For the latter purpose, any such information shall be revised by the Audit and Compliance Committee.

The Board of Directors shall include in its annual public documentation appropriate information about the rules governing the administration of the Company and the level of compliance with applicable law. In the event that following any recommended guidelines is deemed to be inconvenient, the Directors shall explain the reasons for such a decision.

The Company maintains regular contact with its main institutional Shareholders through its investor relations team, through meetings with the Executive Directors and the Chief Executive Officer and through annual institutional investor events. The presentations of these events have been available to private Shareholders on the Company's investor relations web page. The Capital Markets Day was held on November 9, 2012.

B.1.36 Indicate whether the Company has changed the external auditor during the fiscal year. If so, identify the incoming and the outgoing auditor:

NO

Outgoing auditor	Incoming auditor
–	–

If there has been any disagreement with the outgoing auditor, describe the content thereof:

NO

Description of the disagreement
–

B.1.37 Indicate whether the audit firm performs other non-audit work for the Company and/or its Group. If so, state the amount of the fees paid for such work and the percentage they represent of the aggregate fees charged to the Company and/or its Group:

YES

	Company	Group	Total
Amount of other non-audit work (thousands of euros)	–	2,558	2,558
Amount of non-audit work / Aggregate amount billed by the audit firm (%)	–	44	40

Note that the above fees include services provided by Ernst & Young (as the Company's and British Airways' auditors) and Deloitte (as Iberia's auditors).

Spanish Corporate Governance report continued

B.1.38 State whether the audit report on the Annual Financial Statements for the prior fiscal year has observations or qualifications. If so, state the reasons given by the President of the Audit and Compliance Committee to explain the content and scope of such observations or qualifications.

NO

Description of reasons
–

B.1.39 Indicate the consecutive number of years for which the current audit firm has been auditing the annual financial statements of the Company and/or its Group. In addition, state the percentage represented by such number of years with respect to the total number of years in which the annual financial statements have been audited:

	Company	Group
Number of consecutive years	3	3

	Company	Group
Number of years audited by the current audit firm/Number of years in which the Company has been audited (%)	100%	100%

B.1.40 Indicate the interests of members of the Board of Directors in the share capital of companies that engage in the same, similar or complementary activities, both with respect to the Company and its Group, and which have been reported to the Company. In addition, state the position or duties of such Directors in such companies:

Individual or corporate name of Director	Name of company in which shares are held	% interest	Position or duties
Willie Walsh	Aer Lingus Group Plc	0.002	Shareholder

B.1.41 Indicate whether there is any procedure for Directors to hire external advisory services, and if so, describe it:

YES

Description of procedure

According to article 20 of the Board Regulations, in order to be assisted in the performance of his duties, any Director may request the hiring of legal, accounting, technical, financial, commercial or other expert advisors, whose services shall be paid for by the Company.

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

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

a) That it is not necessary for the proper performance of the duties entrusted to the Directors;

b) That the cost thereof is not reasonable in light of the significance of the issues and the assets and income of the Company;

c) That the technical assistance sought may be adequately provided by the Company's own experts and technical personnel; or

d) That it may entail a risk to the confidentiality of the information that must be made available to the expert.

B.1.42 Indicate whether there is any procedure for Directors to obtain sufficiently in advance the information required to prepare for meetings of management-level decision-making bodies and, if so, describe it:

YES

Description of procedure

According to article 9 of the Board Regulations, prior to the commencement of each fiscal year, the Board of Directors shall set a schedule for its ordinary meetings. Such a schedule may be modified by a resolution adopted by the Board of Directors or upon a decision made by the President, who shall report the modification to the Directors not less than five days in advance of the date originally set for the meeting or of the new date set in lieu thereof, if the latter date occurs earlier. Calls to Board of Directors meetings shall be made by letter, fax, email or any other means and shall be authorised with the signature of the President, or of the Company Secretary or Company Deputy Secretary, on the orders of the President. Call notices shall be sent sufficiently in advance to ensure that Directors receive them no later than seven days before the date of the meeting, except in the case of meetings deemed urgent by the President (or by the Deputy President, in the event of absence, illness or inability of the President). This notice period shall not apply to cases in which these Board of Directors regulations require a specific call period. The call notice shall always include, save for justified cause, the meeting agenda and shall be accompanied, as the case may be, with the information deemed necessary. Any Director may submit a request to the President of the Board of Directors for the inclusion of matters in the agenda and the latter shall be required to include them when such request has been made not less than three days in advance of the date set for the meeting.

In this regard, the President shall ensure that the members of the Board of Directors receive accurate, timely and clear information, in particular about the Company's performance, its strategy, challenges and opportunities in order to enable the Board of Directors to take sound decisions and monitor effectively the Company's performance and to lead the Board of Directors' discussions with a view to encouraging effective decision-making and a constructive debate on the performance of the Company, its growth strategy and commercial objectives.

In accordance with Article 22 of the Board regulations the Committees shall be provided with appropriate and timely training, both in the form of an induction program for new members and on an on-going basis for all members. The Committees shall also arrange for periodic reviews of their own performance, externally facilitated at least every three years.

In addition, according to article 19 of the Board Regulations, a Director shall have the broadest powers to obtain information regarding any aspect of the Company, to examine its books, records, documents and other records of corporate transactions, to inspect its facilities, and to communicate with the senior managers of the Company. The exercise of such powers of information shall first be channelled through the President or the Company Secretary.

B.1.43 State whether the Company has established any rules requiring Directors to inform the Company and, if applicable, resign from their position in cases in which the credit and reputation of the Company may be damaged. If so, describe such rules:

YES

Description of rules

According to article 18.3.f of the Board Regulations, a Director shall also disclose to the Company a judicial, administrative or other proceeding instituted against the Director which, because of their significance or characteristics, may seriously reflect upon the reputation of the Company and, in general, any fact or event that may be reasonably relevant to the holding of office as a Director of the Company. In particular, in the event that a Director becomes subject to an order for further criminal prosecution upon indictment or an order for the commencement of an oral trial is issued against him for the commission of any of the crimes contemplated in section 213 of the Spanish Companies Law, such Director shall give notice thereof to the Company, in the person of its President. In such instance, the Board of Directors shall review the case as soon as practicable and shall adopt the decisions it deems fit, taking into account the interests of the Company.

In addition, according to article 16.2 of the Board Regulations, a Director shall tender his resignation to the Board of Directors and formally resign from his position when his remaining on the Board of Directors might affect the Company's credit or reputation in the market or otherwise jeopardise its interests.

Spanish Corporate Governance report continued

B.1.44 State whether any member of the Board of Directors has informed the Company that he has become subject to an order for further criminal prosecution upon indictment or that an order for the commencement of an oral trial has been issued against him for the commission of any of the crimes contemplated in Section 213 of the Companies Law:

NO

Name of Director	Criminal case	Comments
–	–	–

Indicate whether the Board of Directors has analysed the case. If so, provide a duly substantiated explanation of the decision adopted regarding whether or not the Director should remain in office.

–

Decision adopted	Duly substantiated explanation
Proceed to continue / Not proceed to continue	–

B.2. Committees of the Board of Directors

B.2.1 List all the Committees of the Board of Directors and the members thereof:

Audit and compliance committee

Name	Position	Class
Kieran Poynter	President	Independent
Patrick Cescau	Member	Independent
James Lawrence	Member	Independent
José Pedro Pérez-Llorca	Member	Independent

Nominations committee

Name	Position	Class
John Snow	President	Independent
César Alierta Izuel	Member	Independent
José Manuel Fernández Norniella	Member	Other Non-Executive
Baroness Kingsmill	Member	Independent

Remuneration committee

Name	Position	Class
César Alierta Izuel	President	Independent
José Manuel Fernández Norniella	Member	Other Non-Executive
Baroness Kingsmill	Member	Independent
John Snow	Member	Independent

Safety committee

Name	Position	Class
Willie Walsh	President	Executive
Sir Martin Broughton	Member	Executive
Kieran Poynter	Member	Independent
Antonio Vázquez Romero	Member	Other Non-Executive

B.2.2 State whether the Audit and Compliance Committee has the following duties:

Supervise the process of preparation and the integrity of the financial information relating to the Company and, if applicable, to the Group, monitoring compliance with legal requirements, the proper delimitation of the scope of consolidation, and the correct application of accounting principles.	YES
Periodically review the internal control and risk management systems, in order for the main risks to be properly identified, managed and made known.	YES
Ensure the independence and effectiveness of the internal audit area; make proposals regarding the selection, appointment, re-election and withdrawal of the head of the internal audit area; propose the budget for such area; receive periodic information regarding its activities; and verify that senior management takes into account the conclusions and recommendations contained in its reports.	YES
Establish and supervise a mechanism whereby the employees may give notice, on a confidential basis and, if deemed appropriate, anonymously, of any potentially significant irregularities, especially of a financial and accounting nature, that they notice at the Company.	YES
Submit to the Board proposals for the selection, appointment, re-election and replacement of the external auditor, as well as the contractual terms under which it should be hired.	YES
Regularly receive from the external auditor information regarding the audit plan and the results of the implementation thereof, and verify that senior management takes its recommendations into account.	YES
Ensure the independence of the external auditor.	YES
In the case of groups of companies, favour the auditor of the Group as the auditor responsible for audit work at the companies that form part thereof.	NO

B.2.3 Describe the rules of organisation and operation of, and the duties assigned to, each of the Board committees:

Name of the committee: Audit And Compliance Committee

a) Rules of organisation and operation

The Audit and Compliance Committee shall be made up of no less than three and no more than five Non-Executive Directors appointed by the Board of Directors, with the dedication, capacity and experience necessary to carry out its function. At least two of the members of the Audit and Compliance Committee shall be Independent Directors. At least one member shall have recent and relevant financial experience. The Board of Directors shall designate an Audit and Compliance Committee President from among the independent Directors of the Audit and Compliance Committee who must be replaced at least every four years and may stand for re-election one year after vacating office. The Company Secretary or his or her nominee shall act as secretary to the Audit and Compliance Committee.

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

b) Duties

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

The key duties of the Audit and Compliance Committee include:

a) To supervise the effectiveness of the internal control of the Company, the internal auditing, as the case may be, and the risk management systems;

b) To supervise the process for the preparation and presentation of regulated financial information;

c) To propose to the Board of Directors, for submission to the Shareholders' Meeting, the designation of the auditor or audit firms, as envisaged by applicable law;

Spanish Corporate Governance report continued

d) To serve as a channel for communication between the Board of Directors and the auditors, to assess the results of each audit and the response by the management team to their recommendations, and to mediate in the event of disputes between the auditors and the management team in relation to the principles and methods used in preparing the Annual accounts;

e) To review the Company's accounts, monitor compliance with legal requirements and the correct application of generally accepted accounting principles;

f) To review significant financial reporting judgments in the Company's accounts;

g) To monitor the functioning of the internal financial control manuals and procedures adopted by the Company, to verify compliance with them and review the designation and replacement of the persons responsible for them;

h) To ensure the independence and efficiency of the internal audit function; to propose the selection, appointment, reappointment and removal of the head of the internal audit service; to propose the department's budget; to receive periodic information on its activities; and to check that senior management takes the conclusions and recommendations contained in its reports into account;

i) To periodically review the internal control and risk management systems to ensure that the principal risks are adequately identified, managed and made known;

j) To develop and implement a policy on the engagement of the external auditors to supply additional non-audit services;

k) To establish the appropriate relationships with the auditors or audit firms;

l) To review the effectiveness of the external audit process;

m) To review arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters; and

n) To report to the Board of Directors, prior to the adoption by it of the corresponding decision, regarding the creation or acquisition of interests in special purpose entities or entities registered in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature that, due to the complexity thereof, might detract from the transparency of the Group.

Name of the committee: Nominations Committee

a) Rules of organisation and operation

The Nominations Committee shall be made up of no less than three and no more than five Non-Executive Directors appointed by the Board of Directors, with the dedication, capacity and experience necessary to carry out its function. At least two of the members of the Nominations Committee shall be Independent Directors. The Board of Directors shall designate a Nominations Committee President from among the Independent Directors of the Nominations Committee. The Company Secretary or his or her nominee shall act as secretary to the Nominations Committee.

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

b) Duties

The key duties of the Nominations Committee include:

a) To report on and review the criteria to be followed for the composition of the Board of Directors and the selection of candidates, defining the necessary functions and skills and evaluating the time and dedication required to correctly fulfil its remit;

b) To submit to the Board of Directors the proposed appointments of independent Directors for their designation by co-option or, as the case may be, to submit the decision to the Shareholders' Meeting, as well as proposals for the re-appointment or removal of such Directors by the Shareholders' Meeting;

c) To report on the proposals of the Board of Directors for the appointment of the remaining Directors for their designation by co-option or, as the case may be, to submit the decision to the Shareholders' Meeting, as well as proposals for the re-appointment or removal of such Directors by the Shareholders' Meeting;

d) To report on the proposed designation of offices on the Board of Directors and propose to the Board of Directors the members that are to form each of the Board of Directors Committees;

e) To put in place plans for the succession of Directors, in particular, the succession of the President and the Chief Executive;

f) To oversee and establish guidelines relating to the appointment, recruitment, career, promotion and dismissal of senior executives in order to ensure that the Company has the highly-skilled personnel required for its management;

g) To report to the Board of Directors on the appointment and/or removal of the senior executives of the Company;

h) To ensure that, on appointment to the Board of Directors, Non-Executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside Board of Directors meetings; and

i) To identify Directors qualified to fill vacancies on any committee of the Board of Directors (including the Nominations Committee).

Name of the committee: Remuneration committee

a) Rules of organisation and operation

The Remunerations Committee shall be made up of no less than three and no more than five Non-Executive Directors appointed by the Board of Directors, with the dedication, capacity and experience necessary to carry out its function. At least three of the members of the Remunerations Committee shall be Independent Directors. The Board of Directors shall designate a Remunerations Committee President from among the Independent Directors of the Remunerations Committee. The President of the Board of Directors shall not be eligible to be appointed as Remunerations Committee President. The Company Secretary or his or her nominee shall act as secretary to the Remunerations Committee.

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

b) Duties

The key duties of the Remunerations Committee include:

a) To propose to the Board of Directors the system and amount of the annual remuneration for Directors, as well as the individual remuneration of the Executive Directors and the other terms of their contracts, pursuant in all cases to the provisions of the Company's Bylaws;

b) To report to the Board of Directors on the contractual terms on termination for the senior executives, including Executive Directors, and to ensure that any payments made are fair to the individual and the Company, that failure is not rewarded and the duty to mitigate loss is fully recognised;

c) To report to the Board of Directors on the senior executive remuneration policy and the basic terms of their contracts.

d) To report on incentive plans and pension agreements;

e) To periodically review the remuneration programs, taking into account their suitability and performance and how they reflect and support the Company strategy;

f) To give due regard to the provisions of applicable good governance codes, applicable law or regulation and requirements imposed by any stock exchange on which the Company's securities are listed when determining any compensation packages and arrangements; and

g) To ensure that the disclosure requirements of the UK Listing Rules, any other applicable listing rules, applicable law or regulation and relevant stock exchanges are fulfilled, including the report on Directors' remuneration required to be included in the Company's Annual report and Accounts.

Spanish Corporate Governance report continued

Name of committee: Safety committee

a) Rules of organisation and operation

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

b) Duties

The key duties of the Safety Committee include:

a) To receive material safety information about the Company and all the Company subsidiaries and any franchise, codeshare or wet-lease provider used by any member of the Group;

b) To exercise a high level overview of the safety activities and resources of the Company and all the Company subsidiaries and inform the Board of Directors as appropriate (recognising that responsibility for safety matters relating to each subsidiary falls to that subsidiary through its own resources); and

c) To follow up on any safety related measures as determined by the Board of Directors.

B.2.4 Indicate the advisory and consulting powers as well as the delegated powers, if any, of each of the committees:

Name of the committee	Brief description
Audit and Compliance Committee	Advisory committee with powers to report, advise and propose. See section B.2.3.
Nominations Committee	Advisory committee with powers to report, advise and propose. See section B.2.3.
Remuneration Committee	Advisory committee with powers to report, advise and propose. See section B.2.3.
Safety Committee	Advisory committee with powers to report, advise and propose. See section B.2.3.

B.2.5 Indicate, if applicable, the existence of regulations of the Board of Directors committees, where such regulations may be consulted and the amendments made during the fiscal year. Also indicate if any annual report of the activities performed by each committee has been voluntarily prepared:

Audit And Compliance Committee

The Board of Directors Committees are governed by the provisions of the Company's Bylaws and the Board of Directors regulations (article 23 of the Board Regulations for the Audit and Compliance Committee, article 24 for the Nominations Committee, article 25 for the Remunerations Committee and article 26 for the Safety Committee). Where no specific provision is made, the Board of Directors Committees shall be governed, by analogy and where applicable, by the provisions applicable to the Board of Directors of the Company.

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

On February 28, 2012, the Board of Directors approved, among others, the modification of the following articles of the Board Regulations regarding the Audit and Compliance Committee:

a) Article 22.3, to include that the Chairman of each Board of Directors Committee should attend the annual Shareholders´ Meeting to answer questions on the Committees´ activities;

b) Article 22.6 (new), to state that the Committees shall be provided with appropriate and timely training; and

c) Article 23.2 to include the new powers of the Audit and Compliance Committee.

Nominations Committee

The Board of Directors Committees are governed by the provisions of the Company's Bylaws and the Board of Directors regulations (article 23 of the Board Regulations for the Audit and Compliance Committee, article 24 for the Nominations Committee, article 25 for the Remunerations Committee and article 26 for the Safety Committee). Where no specific provision is made, the Board of Directors Committees shall be governed, by analogy and where applicable, by the provisions applicable to the Board of Directors of the Company.

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

On February 28, 2012, the Board of Directors approved, among others, the modification of the following articles of the Board Regulations regarding the Nomination Committee:

a) Article 22.3, to make it mandatory for the Chairmen of Board of Directors Committees to attend the annual Shareholders´ Meeting to answer questions on the Committees' activities;

b) Article 22.6 (new), to state that the Committees shall be provided with appropriate and timely training; and

c) Article 24 to adapt the regulations of the Nominations Committee to the Spanish Unified Code.

The Nominations Committee of the Board of Directors Committee prepares an Annual Report of its activities.

Remunerations Committee

The Board of Directors Committees are governed by the provisions of the Company's Bylaws and the Board of Directors regulations (article 23 of the Board Regulations for the Audit and Compliance Committee, article 24 for the Nominations Committee, article 25 for the Remunerations Committee and article 26 for the Safety Committee). Where no specific provision is made, the Board of Directors Committees shall be governed, by analogy and where applicable, by the provisions applicable to the Board of Directors of the Company.

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

On February 28, 2012, the Board of Directors approved, among others, the modification of the following articles of the Board Regulations regarding the Remunerations Committee:

a) Article 22.3, to include that the Chairman of each Board Committee should attend the annual Shareholders´ Meeting to answer questions on the Committees´ activities;

b) Article 22.6 (new), to state that the Committees shall be provided with appropriate and timely training; and

c) Article 25 to adapt the regulations of the Remunerations Committee to the UK Corporate Governance Code.

The Remunerations Committee of the Board of Directors Committee prepares an Annual Report of its activities.

Safety Committee

The Board of Directors Committees are governed by the provisions of the Company's Bylaws and the Board of Directors regulations (article 23 of the Board Regulations for the Audit and Compliance Committee, article 24 for the Nominations Committee, article 25 for the Remunerations Committee and article 26 for the Safety Committee). Where no specific provision is made, the Board of Directors Committees shall be governed, by analogy and where applicable, by the provisions applicable to the Board of Directors of the Company.

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

The Safety Committee of the Board Committee prepares an Annual Report of its activities.

B.2.6 Indicate whether the composition of the Executive Committee reflects the participation of the different Directors in the Board of Directors based on their category:

NO

If no, explain the composition of your Executive Committee	NOT APPLICABLE

Spanish Corporate Governance report continued

C Related-Party Transactions

C.1 State whether the Board as a full body has reserved for itself the power to approve, after a favourable report of the Audit Committee or any other committee entrusted with such duty, transactions carried out by the Company with Directors, with significant Shareholders or Shareholders represented on the Board, or with persons related thereto:

YES

C.2 Describe the relevant transactions that involve a transfer of resources or obligations between the Company or entities within its Group and the Company's significant Shareholders:

Individual or corporate name of significant Shareholder	Individual or corporate name of the Company or entity within its Group	Nature of the relationship	Type of transaction	Amount (thousands of euros)
Banco Financiero y de Ahorros, S.A.	Bankia, S.A.	Commercial	Interest received on financial deposits	2,309
Banco Financiero y de Ahorros, S.A.	Bankia, S.A.	Commercial	Guarantee of payables on aircraft, aircraft lease payments and returns on financial investments	25,936
Banco Financiero y de Ahorros, S.A.	Bankia, S.A.	Commercial	Fleet financing transactions	96,103
Banco Financiero y de Ahorros, S.A.	Bankia, S.A.	Commercial	Aircraft chartering expenses	20,020
Banco Financiero y de Ahorros, S.A.	Bankia, S.A.	Commercial	Cash deposits	31,471
Banco Financiero y de Ahorros, S.A.	Bankia, S.A.	Commercial	Finance/interest expenses	356
Black Rock Inc	Black Rock Investment Management (UK) Ltd	Commercial	Interest received	1,468
Black Rock Inc	Black Rock Investment Management (UK) Ltd	Commercial	Cash deposits	232,313

C.3 Describe the relevant transactions that involve a transfer of resources or obligations between the Company or entities within its Group and the Directors or managers of the Company:

Other than those listed in section B, the Company has no other transactions of this nature made during the year.

Individual or corporate name of Directors or managers	Individual or corporate name of the Company or entity within its Group	Nature of transaction	Type of transaction	Amount (thousands of euros)
–	–	–	–	–

C.4 Describe the relevant transactions made by the Company with other companies belonging to the same group, provided they are not eliminated in the preparation of the consolidated financial statements and they are not part of the ordinary course of business of the Company as to their purpose and conditions:

NO

Corporate name of the entity within the Group	Brief description of the transaction)	Amount (thousands of euros)
–	–	–

C.5 State whether the members of the Board of Directors have been subject to any conflict of interest situation during the fiscal year pursuant to the provisions of article 127 'ter' of the Companies Law:

YES

Individual or corporate name of the Director	Description of the conflict of interest situation
Rafael Sánchez-Lozano Turmo	He was conflicted in relation to the offer to acquire Vueling shares, due to his position as Chief Executive Officer of of Iberia, a company with an approximate 45% stake in Vueling

C.6 Describe the mechanisms used to detect, determine and resolve potential conflicts of interest between the Company and/or its Group, and its Directors, managers or significant Shareholders:

According to article 28 of the Board Regulations, any transaction by the Company or the companies forming part of the Group with Directors, with Shareholders that own a shareholding interest that is equal to or greater than that legally regarded as a relevant shareholding interest at any time or which have proposed the appointment of any of the Directors of the Company, or with the respective related persons, shall be subject to the approval of the Board of Directors, upon a prior favourable report of the Audit and Compliance Committee.

The Board of Directors shall ensure, through the Audit and Compliance Committee, that transactions between the Company or the companies forming part of the Group with the Directors, the Shareholders mentioned in the preceding paragraph or their respective related persons are carried out under arm's length conditions and with due observance of the principle of equal treatment of Shareholders.

In the case of customary or recurring transactions in the ordinary course of business, it shall be sufficient to give a generic approval of the kind of transaction and of the conditions for performance thereof.

However, no authorisation of the Board of Directors shall be required in connection with transactions that simultaneously satisfy the following three conditions: (i) that they are conducted under contracts whose terms and conditions are standardised and apply en masse to a large number of clients; (ii) that they are conducted at prices or rates established generally by the party acting as supplier of the goods or services in question; and (iii) that the amount thereof does not exceed 1% of the consolidated annual income of the Company, as reflected in the audited annual financial statements for the most recent fiscal year closed prior to the date of the transaction in question.

The Company shall report the transactions mentioned in this article in accordance with applicable law.

C.7 Is more than one company of the Group listed in Spain?

NO

Identify the listed subsidiaries:

Listed subsidiary	–

State whether they have publicly and accurately defined their respective areas of activity and any possible business relationships among them, as well as those between the listed dependent company and the other companies within the Group:

NON APPLICABLE

Describe the possible business relationships between the parent Company and the listed subsidiary, and between the subsidiary and the other companies within the Group.	–

Describe the mechanisms established to resolve possible conflicts of interest between the listed subsidiary and the other companies within the Group:

Mechanisms for the resolution of possible conflicts of interest	–

Spanish Corporate Governance report continued

D Risk Control Systems

D.1 General description of the risk control policy adopted by the Company and/or its Group, describing and assessing the risks covered by the system and a justification for the adjustment of such system to the profile of each kind of risk:

The Group actively manages risk at the Group level and within British Airways and Iberia.

Enterprise Risk Management in British Airways and Iberia
Both British Airways and Iberia have well established Enterprise Risk Management systems that ensure that:

a) Each risk is owned by a senior manager who is ultimately responsible for its management;

b) A central record is kept of all risks, their owners and mitigating actions on systems in both British Airways and Iberia. The two Enterprise Risk Management systems allow risk owners to update risk records online and central risk management teams to monitor updates;

c) A risk map representing the likelihood and potential impact of each risk is reviewed at least every six months by the British Airways and Iberia boards;

d) There are defined procedures for updating risks and the mitigating actions in place to manage those risks; and

e) There is active participation from both the senior managers managing the risks and the executive leadership teams in British Airways and Iberia.

Within Iberia the Head of Risk Management and Emergency Planning reports to the Director of Security who sits on the Iberia Management Committee. Within British Airways the Head of Risk Management reports to the Director of General Services who sits on the British Airways Leadership Team.

Risks are classified by their source:

a) Strategic: risks arising from the competitive and regulatory environment, major projects and strategic decisions;

b) Business and operational: risks encompassing emergencies, information technology operations, major project implementation and airline operations;

c) Financial: risks including liquidity and financing;

d) Compliance and regulatory: risks associated with compliance with laws and regulation; and

e) Latent: low likelihood high impact risks such as terrorism, fleet grounding and pandemic.

Enterprise Risk Management in the Company
The Group leverages the well-developed Enterprise Risk Management structures and processes in British Airways and Iberia. These have been maintained under the control of the respective Boards. The core methodologies within British Airways and Iberia have been harmonised, allowing consolidation of the Group's risk position. The role of the Company is to maintain the Group-wide consolidated view of risk allowing challenge from the Board and Management Committee; determining the Enterprise Risk Management methodology to be applied throughout the Group; ensuring that best practice in risk mitigation is adopted throughout the Group; and determining risk tolerance and policies for a limited number of key risks that will be managed on a Group-wide basis.

During 2012 Enterprise Risk Management activities focused on:

a) Eurozone risk was monitored throughout the year. Earlier reviews covered the potential commercial, contractual and liquidity impacts of the failure of the euro and the responses available. Actions taken within the treasury areas to substantially reduce the exposure to Eurozone periphery institutions were reviewed. More detailed work was then carried out on the potential accounting and legal impact of a Spain Eurozone exit. Iberia developed the Iberia Eurozone Roadmap, a high level contingency plan which defines the further practical steps that need to be planned in detail and the triggers for initiating that planning;

b) Update of the Group's Financial Risk policy governing fuel and currency hedging activity. This included a more detailed examination of the relationships between fuel costs and potential offsetting cash flows resulting from exchange rates, economic growth and competitor activity. The review concluded that the group fuel hedging policy developed in 2011 continues to be appropriate;

c) Recognising the increasing requirement for fleet financing in 2013 and the centralisation of financing activity for the Group, financing risk was reviewed in detail. A new Group policy was developed addressing availability, refinancing, currency, and interest rate risk. The policy also promotes a common approach to key financing terms such as events of default, cross default and covenants; and

d) Internal Audit throughout the Group is centralised under the control of the Head of Group Audit and Risk Management. There is close coordination between the Internal Audit and the Enterprise Risk Management functions ensuring that a substantial proportion of the annual audit effort is devoted to key risks identified through the risk management process.

The Risk management and risk factors section of the Management Report sets out the key risks identified through the Enterprise Risk Management process.

D.2 Indicate whether any of the various types of risks (operational, technological, financial, legal, reputational, tax-related, etc.) affecting the Company and/or its Group materialised during the fiscal year:

YES

If so, indicate the circumstances giving rise to them and whether the established control systems have worked:

Risk that occurred during the fiscal year	Circumstances giving rise thereto	Performance of control systems
Economic Conditions	The continued Eurozone crisis led to economic contraction in Spain, one of the Group's key markets	Iberia responded through the announcement of the Transformation Plan which involves deep structural change in the Iberia business including capacity reduction, productivity improvements and wage decreases
Government Intervention	Departure taxes at Madrid and Barcelona Airports were doubled in 2012	The business continually seeks to control other costs to compensate for increased taxes but such increased taxes ultimately led to increased losses in Iberia

D.3 Indicate whether there is any committee or other decision-making body in charge of establishing and supervising these control mechanisms:

YES

If so, describe its duties:

Name of committee or other body	Description of duties
Audit and Compliance Committee	To supervise the effectiveness of the internal control of the Company, the internal auditing, as the case may be, and the risk management systems, and to discuss with the auditors or audit firms any significant weaknesses in the internal control systems detected in the course of the audit
Management Committee	Monitors the Company managed risks and the consolidated risk position of the Group
Hedging Committee	Manages fuel and major foreign exchange risks within the Financial Risk Management Policy approved by the Board
British Airways and Iberia Boards	Monitor risks, risk ownership and mitigating actions within the operating companies

D.4 Identification and description of the procedures for compliance with the various regulations that affect the Company and/or its Group:

Each management group within the Company is responsible for compliance with legislation applicable to its particular sector of activity. Within the Company, the Board of Directors assumes responsibility for programs to respond to new and changing regulation that affects the whole Group, such as the Bribery Act. Central support for such programs is provided by the Chief of Staff, Director of General Services and the General Counsel, People and Government and Industry Affairs within British Airways, and the Iberia Secretary General and General Counsel. Responsibility for Financial Control throughout lies with the Group Head of Financial Reporting and Control, the British Airways Chief Financial Officer, and the Iberia Chief Financial Officer.

Spanish Corporate Governance report continued

E Shareholders' Meeting

E.1 Indicate and, if applicable, explain whether there are differences with the minimum requirements set out in the Companies Law in connection with the quorum needed to hold a valid Shareholders' Meeting:

NO

	Quorum % different from that established as a general rule in Section 193 of the Companies Law	Quorum % different from that established in Section 194 of the Companies Law for the special cases set forth in such Section 194
Required quorum upon first call	–	–
Required quorum upon second call	–	–

Description of differences

E.2 Indicate and, if applicable, explain whether there are differences with the rules provided by the Companies Law for the adoption of corporate resolutions:

NO

	Qualified majority different from that established in section 194of the Companies Law for the cases set forth in section 103.1	Other cases of qualified majority
% established by the entity for the adoption of resolutions	–	–

Describe the differences

E.3 Explain the rights of the Shareholders regarding Shareholders' Meetings which are different from the rights provided in the Companies Law:

There are no Shareholders rights in the Company other than those established under the Spanish Companies Law with respect to Shareholders' Meetings.

Shareholders' rights in this respect are also shown in detail in the Shareholders Meeting regulations, which are available on the Company's website: www.iairgroup.com.

E.4 Indicate, if applicable, the measures adopted to encourage the participation of Shareholders at Shareholders' Meetings:

According to article 27.5 of the Board Regulations, the Board of Directors shall encourage the informed participation of the Shareholders at the Shareholders' Meeting, and shall take all such measures as may be appropriate to make it easier for the Shareholders acting at a Shareholders' Meeting to effectively exercise the powers conferred upon them by the Company's Bylaws and applicable law, with due observance of the provisions set out in the Shareholders' Meeting Regulations.

In addition, article 33 of the Company's Bylaws establishes that entities that appear as registered Shareholders of the Company but which act on behalf of different persons (the Underlying Holders) and hold such authority in a fiduciary or similar capacity and evidence such circumstances by the means established by the Board of Directors may:

a) Divide their vote when required to carry out the voting instructions received from those Underlying Holders; and

b) Request as many attendance cards as Underlying Holders for which they act, where necessary in order to comply with the voting instructions received from the different Underlying Holders, meaning that votes may be cast in differing directions and such entities may be represented for such purposes at the Shareholders' Meeting by one or more representatives with full discretion to decide on the direction of their vote.

E.5 Indicate whether the President of the Shareholders' Meeting is also the President of the Board of Directors. Describe, if applicable, the measures adopted to ensure independence and proper operation of the Shareholders' Meeting:

YES

Description of measures –

According to Article 20 of the Shareholders' Meeting Regulations, the Chairman of the Shareholders' Meeting, shall generally have, *inter alia*, the following broadest powers:

a) To verify that there is a valid quorum for the Shareholders' Meeting and, if applicable, to declare it to be validly in session;

b) To take notice of the request, if any, made by the Board of Directors for the presence of a notary to take the minutes of the Shareholders' Meeting;

c) Together with the Secretary of the Shareholders' Meeting, to make decisions regarding questions, requests for clarification or claims raised with respect to the list of attendees and delegated powers or proxies, as well as on all matters relating to the possible suspension or limitation of voting and related rights;

d) To give the floor to the Directors or Senior Managers that he deems appropriate in order for them to address the Shareholders and report to them on the principal matters for which they are responsible;

e) To direct the deliberations such that the debate adheres to the agenda;

f) To direct the deliberations by granting the floor to any Shareholder that requests the opportunity to speak, chairing and directing the debate within the confines of the agenda and bringing the debate to a close when the item has been sufficiently debated, in his opinion, and putting the various proposed resolutions to a vote;

g) To indicate the time for voting;

h) To organise the voting and, with the assistance of the Secretary of the Shareholders' Meeting, to perform the calculation thereof;

i) To announce the results of the voting;

j) To accept or reject new proposals in relation to the items on the agenda; and

k) To retake or not grant the floor where he considers an item to have been sufficiently debated, where the item is not on the agenda or where it hinders the progress of the meeting.

- According to Article 13.8 of the Shareholders' Meeting Regulations, the Board of Directors shall consider the advisability of making available to the Shareholders, at the time of the call to the Shareholders' Meeting, any additional information that contributes to a better understanding by Shareholders of the manner of exercising their rights in connection with the Shareholders' Meeting and of the matters to be dealt with thereat, such as shareholder guides, etc. On the occasion of the holding of the Shareholders' Meeting of June 21, 2012, a shareholder's guide was made available to provide information to enable Shareholders and holders of CREST Depositary Interests, to exercise their rights in relation to the holding of such Shareholders' Meeting.
- According to Article 31.3 of the Shareholders' Meeting Regulations, votes by electronic communication shall be cast using a recognised electronic signature or other type of mechanism that the Board of Directors deems suitable for ensuring the authenticity and identification of the shareholder exercising the right to vote, and to which shall be attached an unalterable electronic copy of the attendance and ballot card.
- According to Article 31.5 of the Shareholders' Meeting Regulations, the Board of Directors is authorised to establish the rules, means and procedures appropriate in order to implement the casting of votes and the granting of proxies by electronic means, adapting them, as the case may be, to the rules established for such purpose. Any implementing rules adopted by the Board of Directors in this regard shall be posted on the Company's website.
- The Board of Directors may require the presence of a notary to attend the Shareholders' Meeting and draw up the minutes thereof. For the Shareholders' Meeting held on June 21, 2012, the Board of Directors required the presence of a notary who drew up the minutes of the meeting.
- On the occasion of the holding of the Shareholders' Meeting of June 21, 2012, an Investor Relations Office was made available to the Shareholders and to the holders of CREST Depositary Interests, in which any questions they had were answered and where they could request information on whatever they saw fit regarding the holding of such Shareholders' Meeting.

Spanish Corporate Governance report continued

- An independent firm (Santander) reviewed the control systems relating to attendance, proxies and voting (including electronic voting systems) as well as the procedure for counting and tallying the proxies and the votes of the Shareholders' Meeting held on June 21, 2012.
- The Shareholders' Meeting Regulations published on the company's website contain and detail other additional measures adopted to guarantee the independence and proper functioning of the Shareholders' Meeting.

E.6 Indicate the amendments, if any, made to the regulations for the Shareholders' Meeting during the fiscal year:

On June 21, 2012, the Shareholders' Meeting approved the amendment of the following articles of the Shareholders' Meeting Regulations: Article 8 (types of Shareholders' Meetings), 10 (call of the Shareholders' Meeting), Article 11 (announcement of the call), Article 13 (right of information prior to the holding of a Shareholders' Meeting), Article 28 (right to be informed during the course of a Shareholders' Meeting) and Article 35 (documentation of resolutions), to adapt them to the Spanish Companies Law in force.

E.7 Indicate the data on attendance at the Shareholders' Meetings held during the fiscal year referred to in this report:

Attendance data					
			% distance voting		
Date of Shareholders' Meeting	% of Shareholders present in person	% of Shareholders represented by proxy	Electronic voting	Other	Total
21/06/2012	0.136%	68.661%	0.131%	–	68.928%

E.8 Briefly describe the resolutions adopted by the Shareholders acting at the Shareholders' Meetings held during the fiscal year referred to in this report and the percentage of votes by which each resolution was passed:

The resolutions passed on the Shareholders´ Meeting held on June 21, 2012 on second call are the following:

a) Approval of the individual annual Financial Statements and Management Report of the company and the consolidated annual Financial Statements and Management Report of the Company and its subsidiaries for the fiscal year ended on December 31, 2011, which was formulated by the Board of Directors at its meeting held on March 29, 2012.

This resolution was passed with the 97.013 per cent of the votes in favour.

b) Approval of the proposed allocation of International Consolidated Airlines Group, S.A. 2011 profits, for the sum of €128,000 as follows: The sum of €13,000 to legal reserves and the sum of €115,000 to voluntary reserves.

This resolution was passed with the 99.638 per cent of the votes in favour.

c) Approval of the management of the Board of Directors during the fiscal year ended on December 31, 2011.

This resolution was passed with the 94.837 per cent of the votes in favour.

d) Amendment of articles 21, 23 and 32 of the Company's Bylaws to adapt them to the Spanish Companies Law in force. The amendment is included in the Company´s Bylaws that are available at the Company´s website: www.iairgroup.com.

This resolution was passed with the 98.325 per cent of the votes in favour.

e) Amendment of articles 8, 10, 11, 13, 28 and 35 of the Shareholders' Meeting Regulations to adapt them to the Spanish Companies Law in force. The amendment is included in the Shareholders' Meeting Regulations that are available at the Company´s website: www.iairgroup.com.

This resolution was passed with the 98.941 per cent of the votes in favour.

f) Authorisation, for a term ending at the end of 2013 ordinary Shareholders' Meeting (or, if earlier, fifteen months from June 21, 2012, date of passing of the resolution), for the derivative acquisition of the Company's own shares by the Company itself and/or by its subsidiaries, upon the terms provided by applicable law and subject to the following conditions: (a) the maximum aggregate number of ordinary shares which are authorised to be purchased shall be the lower of the maximum amount permitted by the law and such number as represents 10 per cent. Of the

aggregate nominal amount of the company's issued ordinary share capital as at the date of passing the resolution; (b) the minimum price which may be paid for an ordinary share is zero; (c) the maximum price which may be paid for an ordinary share is the highest of: (i) an amount equal to 5%. Above the average of the middle market quotations for the ordinary shares as taken from the relevant stock exchange for the five business days immediately preceding the day on which that ordinary share is contracted to be purchased; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out at the relevant time; in each case, exclusive of expenses.

This resolution was passed with the 99.794 per cent of the votes in favour.

g) Authorisation of the Board of Directors, with the express power of substitution, for a term ending at the end of the 2013 ordinary Shareholders' Meeting (or, if earlier, fifteen months from June 21, 2012, date of passing of the resolution), to increase the share capital pursuant to the provisions of article 297.1.b) of the Spanish Companies Law, by: (a) up to one-third of the aggregate nominal amount of the company's issued ordinary share capital on June 21, 2012 (such amount to be reduced by the amount that the share capital has been increased by and the maximum amount that the share capital may need to be increased on the conversion or exchange of any securities issued under paragraph (a) of resolution h); and (b) up to a further one-sixth of the aggregate nominal amount of the Company's issued ordinary share capital on June 21, 2012 in connection with an offer by way of rights issue (such amount to be reduced by the amount that the share capital has been increased by and the maximum amount that the share capital may need to be increased on the conversion or exchange of any securities issued under paragraph (b) of resolution i).

This resolution was passed with the 94.320 per cent of the votes in favour.

h) Authorisation of the Board of Directors, with the express power of substitution, for a term ending at the end of 2013 ordinary Shareholders' Meeting (or, if earlier, fifteen months from June 21, 2012, date of passing of the resolution), to issue securities (including warrants) convertible into and/or exchangeable for shares of the company, up to a maximum limit of 1,000,000,000 euros or the equivalent thereof in another currency, provided that the aggregate share capital that may need to be increased on the conversion or exchange of all such securities may not be higher than: (a) one-third of the aggregate nominal amount of the company's issued ordinary share capital on June 21, 2012 (such amount to be reduced by the amount that the share capital has been increased under paragraph (a) of resolution g); and (b) a further one-sixth of the aggregate nominal amount of the company's issued ordinary share capital on June 21, 2012 in connection with an offer by way of rights issue (such amount to be reduced by the amount that the share capital has been increased under paragraph (b) of resolution g). Establishment of the criteria for determining the basis for and terms and conditions applicable to the conversion or exchange. Delegation to the Board of Directors, with the express power of substitution, of the powers required to establish the basis for and terms and conditions applicable to the conversion or exchange, as well as of the power to increase the share capital by the required amount on the conversion.

This resolution was passed with the 92.343 per cent of the votes in favour.

i) Authorisation of the Board of Directors, with the express power of substitution, to exclude pre-emptive rights in connection with the capital increases and the issuances of convertible or exchangeable securities that the Board of Directors may approve under the authority given under resolution g or resolution h for the purposes of allotting ordinary shares or convertible or exchangeable securities in connection with a rights issue or in any other circumstances for the purposes of allotting ordinary shares or convertible or exchangeable securities subject to an aggregate maximum nominal amount of the ordinary shares so allotted and allotted or that may be allotted on conversion or exchange of such securities of 5 per cent of the aggregate nominal amount of the Company's issued ordinary share capital on June 21, 2012.

This resolution was passed with the 98.266 per cent of the votes in favour.

j) Authorisation of the Board of Directors, with the express power of substitution, for a term ending at the end of 2013 ordinary Shareholders' Meeting (or, if earlier, fifteen months from June 21, 2012, date of passing of the resolution), to issue: (a) bonds or simple debentures and other fixed-income securities of a like nature (other than notes), up to a maximum amount of 1,000,000,000 euros or the equivalent thereof in another currency; and (b) notes (*pagarés*) up to a maximum amount at any given time, independently of the foregoing, of 500,000,000 euros or the equivalent thereof in another currency. Authorisation for the company to guarantee, within the limits set forth above, new issuances of securities by subsidiaries.

Spanish Corporate Governance report continued

This resolution was passed with the 93.710 per cent of the votes in favour.

k) Approval of the corporate web page of the Company (www.iairgroup.com) for purposes of the provisions of article 11 bis of the Spanish Companies Law.

This resolution was passed with the 99.818 per cent of the votes in favour.

j) Consultative vote on the Annual Report on the Remuneration of the Directors of the Company.

This resolution was passed with the 96.063 per cent of the votes in favour.

m) Delegation of powers to formalise and execute all resolutions adopted by the Shareholders at the Shareholders' Meeting, for conversion thereof into a public instrument, and for the interpretation, correction and supplementation thereof or further elaboration thereon until the required registrations are made.

This resolution was passed with the 98.313 per cent of the votes in favour.

E.9 Indicate whether there are any Bylaw restrictions requiring a minimum number of shares to be held to attend the Shareholders' Meeting:

NO

Number of shares required to be held to attend the Shareholders' Meeting	–

E.10 Indicate and justify the policies followed by the Company with respect to proxy-voting at the Shareholders' Meeting:

In accordance with Article 16 of the Shareholders' Meeting Regulations all Shareholders entitled to attend a Shareholders' Meeting may be represented at the Shareholders' Meeting by any person (whether or not such person is a Shareholder of the Company), using the means of delegation provided for by the Company for each Shareholders' Meeting, which shall be recorded on the attendance card, in accordance with what is permitted by the Spanish Companies Law. The proxy must be in the possession of the Company before the date scheduled for the Shareholders' Meeting within the time period stipulated in the call notice.

The proxy form must include voting instructions, setting forth for each proposed resolution if the vote is in (i) favour, (ii) against or (iii) vote withheld.

If the proxy has been validly granted pursuant to the applicable law and the Shareholders' Meeting Regulations but does not include voting instructions, it shall be deemed that the proxy (i) is granted in favour of the Chairman of the Board of Directors, (ii) refers to all of the items included in the agenda for the Shareholders' Meeting, (iii) contains the instruction to vote favourably on all proposals made by the Board of Directors and (iv) also extends to matters that may be raised outside of the agenda, in respect of which the proxy-holder shall cast his vote in the direction he deems most favourable to the interests of the Shareholder granting the proxy.

Any person who is appointed as a proxy by a Shareholder may vote in relation to items which, while not envisaged in the agenda contained in the call notice, are permitted by applicable law to be addressed by the Shareholders' Meeting.

The Board of Directors shall adopt procedures for each Shareholder's Meeting for the purpose of voting on the proposed resolutions and the casting of votes, including, without limitation, the use of electronic devices, polls and show of hands. The procedure to be adopted for each Shareholder's Meeting shall be posted on the Company's website in advance of the relevant Shareholders' Meeting.

E.11 Indicate whether the Company is aware of any policy of institutional investors as to participating or not in the decisions of the Company:

NO

Describe the policy	–

E.12 Indicate the address and manner for accessing corporate governance content on your website:

The Company corporate governance information, according to the applicable legislation, is available on the Company's website: www.iairgroup.com.

F Degree To Which Corporate Governance Recommendations Are Followed

Indicate the Company's degree of conformance to the recommendations of the Unified Good Governance Code.

If the Company does not comply with any of such recommendations, please explain the recommendations, standards, practices or criteria applied by the Company.

1. The Bylaws of listed companies do not limit the maximum number of votes that can be cast by a single Shareholder, or impose other obstacles to the takeover of the Company by means of the acquisition of its shares on the market.

See sections: A.9, B.1.22, B1.23. E.1 and E.2

COMPLIES

2. When both the parent Company and a company controlled by it are listed companies, they both provide detailed public disclosure on:

a) Their respective areas of activity, and any business dealings between them, as well as between the controlled listed company and other companies belonging to the group;

b) The mechanisms in place to resolve any conflicts of interest that may arise.

See sections: C.4 and C.7

NOT APPLICABLE

3. Even if not expressly required under applicable commercial laws, transactions involving a structural change of the Company and, in particular, the following, are submitted to the Shareholders at the Shareholders' Meeting for approval:

a) The transformation of listed companies into holding companies through 'subsidiarisation', i.e. reallocating core activities to controlled entities that were previously carried out by the Company itself, even if the latter retains full ownership of the former;

b) The acquisition or disposal of key operating assets, when it involves an actual change in the corporate purpose;

c) Transactions whose effect is tantamount to the liquidation of the Company.

COMPLIES

4. Detailed proposals of the resolutions to be adopted at the Shareholders' Meeting, including the information to which recommendation 28 refers, are made public at the time of publication of the notice of call to the Shareholders' Meeting.

COMPLIES

5. Matters that are substantially independent are voted on separately at the Shareholders' Meeting, in order to allow the Shareholders to express their voting preferences separately. This rule applies, in particular:

a) To the appointment or ratification of Directors, which shall be voted on individually;

b) In the event of amendments of the Bylaws, to each article or group of articles that is substantially independent of the others.

See section: E.8

COMPLIES

6. Companies allow split votes so financial intermediaries who are recorded as having Shareholder status but act for the account of different clients can divide their votes in accordance with the instructions given by such clients.

See section: E.4

COMPLIES

Spanish Corporate Governance report continued

7. The Board performs its duties with a unity of purpose and independent judgement, affording equal treatment to all Shareholders in furtherance of the corporate interests, which shall be understood to mean the optimisation, in a sustained fashion, of the financial value of the Company.

It likewise ensures that in its dealings with stakeholders, the Company abides by the laws and regulations, fulfills its obligations and contracts in good faith, respects the customs and good practices of the industries and territories in which it carries on its business, and upholds any other social responsibility standards to which it has voluntarily adhered.

COMPLIES

8. The Board assumes responsibility, as its core mission, for approving the Company's strategy and the organisation required to put it into practice, and to ensure that Management meets the objectives set while pursuing the Company's interest and corporate purpose. As such, the full Board reserves for itself the right to approve:

a) The Company's policies and general lines of strategy, and in particular:

i) The strategic or business plan as well as the management targets and annual budgets;

ii) The investment and financing policy;

iii) The design of the structure of the corporate group;

iv) The corporate governance policy;

v) The corporate social responsibility policy;

vi) The policy for remuneration and assessment of the performance of senior managers;

vii) The risk control and management policy, as well as the periodic monitoring of internal information and control systems;

viii) The dividend policy and the policy regarding treasury stock and, especially, the limits thereto.

See sections: B.1.10, B.1.13, B.1.14 and D.3

b) The following decisions:

i) At the proposal of the Chief Executive of the Company, the appointment and, if applicable, removal of senior managers, as well as their severance packages.

See section: B.1.14

ii) The remuneration of Directors and, in the case of Executive Directors, the additional remuneration to be paid for their executive duties and other terms of their contracts.

See section: B.1.14

iii) The financial information that the Company must periodically make public due to its status as a listed company.

iv) Investments or transactions of all kinds which are strategic in nature due to the large amount or special characteristics thereof, unless approval thereof falls upon the Shareholders at the Shareholders' Meeting.

v) The creation or acquisition of interests in special-purpose entities or entities registered in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature whose complexity might impair the transparency of the Group.

c) Transactions made by the Company with Directors, with significant Shareholders or Shareholders with Board representation, or with other persons related thereto (related party transactions).

However, Board authorisation need not be required in connection with related party transactions that simultaneously meet the following three conditions:

1. They are governed by standard-form agreements applied on an across-the-board basis to a large number of clients;
2. They are conducted at prices or rates generally set by the party acting as supplier of the goods or services in question;
3. The amount thereof is no more than 1% of the Company's annual revenues.

It is recommended that related party transactions only be approved by the Board upon the prior favourable report of the Audit Committee or such other committee handling the same function; and that the Directors affected thereby should neither exercise nor delegate their votes, and should withdraw from the meeting room while the Board deliberates and votes on the transaction.

It is recommended that the powers granted herein to the Board are conferred without the power of delegation, except for those mentioned under b) and c) above, which may, for urgent reasons, be adopted by the Executive Committee subject to subsequent ratification by the full Board.

See sections: C.1 and C.6

COMPLIES

9. In order to operate effectively and in a participatory manner, the Board ideally is comprised of no fewer than five and no more than fifteen members.

See section: B.1.1

COMPLIES

10. External Directors, Proprietary and Independent, occupy an ample majority of the Board and the number of Executive Directors is the minimum necessary number, bearing in mind the complexity of the corporate group and the percentage interest held by the Executive Directors in the Company's share capital.

See sections: A.2, A.3, B.1.3 and B.1.14

COMPLIES

11. If there is an external Director who cannot be deemed either Proprietary or Independent, the Company explains such circumstance and the links such Director maintains with the Company or its managers or with its Shareholders.

See section: B.1.3

COMPLIES

12. Among external Directors, the relation between the number of Proprietary Directors and Independent Directors reflects the proportion existing between the share capital of the Company represented by Proprietary Directors and the rest of its capital.

This strict proportionality standard can be relaxed so that the weight of Proprietary Directors is greater than would correspond to the total percentage of the share capital that they represent:

1. In large cap companies where few or no equity stakes attain the legal threshold as significant, but there are Shareholders holding interests with a high absolute value.
2. In companies with a plurality of Shareholders represented on the Board but not otherwise related.

See sections: B.1.3, A.2 and A.3

COMPLIES

Spanish Corporate Governance report continued

13. The number of Independent Directors represents at least one-third of the total number of Directors.

See section: B.1.3

COMPLIES

14. The status of each Director is explained by the Board at the Shareholders' Meeting at which the Shareholders are to make or ratify their appointment and that such status is confirmed or reviewed, as the case may be, annually in the Annual Corporate Governance Report, after verification by the Nominations Committee. Said report also discloses the reasons for the appointment of Proprietary Directors at the proposal of Shareholders controlling less than 5% of the share capital, as well as the reasons for not having accommodated formal petitions, if any, for presence on the Board from Shareholders whose equity stake is equal to or greater than that of others at whose proposal Proprietary Directors have been appointed.

See sections: B.1.3 and B.1.4

COMPLIES

15. When women Directors are few or non-existent, the Board explains the reasons for this situation and the measures taken to correct it; and in particular, the Nominations Committee takes steps to ensure that, when new vacancies are filled:

    a) Selection procedures do not have an implied bias that hinders the selection of women Directors;

    b) The Company will actively consider women with the target professional profile and includes them among the potential candidates.

See sections: B.1.2; B.1.27 and B.2.3.

EXPLAIN

See sections: B.1.2; B.1.27 and B.2.3.

16. The President, as the person responsible for the effective operation of the Board, ensures that Directors receive adequate information in advance of Board meetings; promotes debate and the active involvement of Directors during Board meetings; safeguards their rights to freely take a position and express their opinion; and, working with the chairmen of the appropriate committees, organises and coordinates regular evaluations of the Board and, where appropriate, the Chief Executive Officer.

See section: B.1.42

COMPLIES

17. When the President of the Board is also the Chief Executive of the Company, one of the Independent Directors is authorised to request the calling of a Board meeting or the inclusion of new business on the agenda; to coordinate and hear the concerns of external Directors; and to lead the Board's evaluation of the President.

See section: B.1.21

NOT APPLICABLE

18. The Secretary of the Board takes particular care to ensure that the Board's actions:

    a) Adhere to the letter and the spirit of laws and their implementing regulations, including those approved by the regulatory authorities;

    b) Comply with the Company's Bylaws and the regulations for the Shareholders' Meeting, the regulations of the Board and other regulations of the Company;

    c) Are informed by those good governance recommendations included in this Unified Code that the Company has subscribed to.

And, in order to safeguard the independence, impartiality and professionalism of the Secretary, his appointment and removal are reported by the Nominations Committee and approved by the full Board; and that such appointment and removal procedures are set forth in the regulations of the Board.

See section: B.1.34

COMPLIES

19. The Board meets with the frequency required to perform its duties efficiently, in accordance with the calendar and agendas set at the beginning of the fiscal year, and that each Director is entitled to propose items of the agenda that were not originally included therein.

See section: B.1.29

COMPLIES

20. Directors' absences are limited to unavoidable cases and quantified in the Spanish Corporate Governance Report. And when there is no choice but to grant a proxy, it is granted with instructions.

See sections: B.1.28 and B.1.30

COMPLIES

21. When Directors or the Secretary express concerns about a proposal or, in the case of the Directors, regarding the running of the Company, and such concerns have not been resolved at a Board meeting, such concerns are recorded in the minutes at the request of the person expressing them.

COMPLIES

22. The full Board evaluates the following on a yearly basis:

    a) The quality and efficiency of the Board's operation;

    b) On the basis of a report submitted to it by the Nominations Committee, how well the President and Chief Executive of the Company have carried out their duties;

    c) The performance of its Committees, on the basis of the reports furnished by them.

See section: B.1.19

COMPLIES

Spanish Corporate Governance report continued

23. All Directors are able to exercise the right to request any additional information they require on matters within the Board's competence. Unless the Bylaws or the regulations of the Board provide otherwise, such requests are addressed to the President or the Secretary of the Board.

See section: B.1.42

COMPLIES

24. All Directors are entitled to call on the Company for the advice they need to carry out their duties. The Company provides suitable channels for the exercise of this right, which, in special circumstances, may include external advice at the Company's expense.

See section: B.1.41

COMPLIES

25. Companies organise induction programmes for new Directors to rapidly and adequately acquaint them with the Company and its corporate governance rules. Directors are also offered refresher training programmes when circumstances so advise.

COMPLIES

26. Companies require that Directors devote sufficient time and effort to perform their duties efficiently, and, as such:

    a) Directors apprise the Nominations Committee of their other professional duties, in case they might detract from the necessary dedication;

    b) Companies lay down rules about the number of boards on which their Directors may sit.

See sections: B.1.8, B.1.9 and B.1.17

EXPLAIN

According to article 17 of the Board Regulations, the Directors, in the performance of their duties, shall act in good faith and shall comply with the duties prescribed by applicable law, the Company's Bylaws and the Board Regulations, acting in furtherance of the corporate interests of the Company. In addition, Directors are expected to devote sufficient time to meet the expectations of their role.

On the other hand, article 18 of the Board Regulations establishes that a Director shall disclose all positions that he holds and services he provides to other companies or entities, as well as his other professional commitments and, before accepting office as Director or manager in another company or entity, to give notice thereof to the Audit and Compliance Committee, and, in general, he shall disclose any fact or event that may be reasonably relevant to the holding of office as a Director of the Company.

The Nominations Committee shall also ensure that, on appointment to the Board, Non-Executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside Board of Directors meetings (article 24 of the Board Regulations).

The Board of Directors is satisfied that those rules are sufficient to ensure that the Directors are able to devote sufficient time and effort to perform their duties efficiently.

27. The proposal for the appointment or re-election of Directors that the Board submits to the Shareholders at the Shareholders' Meeting, as well as the interim appointment of Directors to fill vacancies, are approved by the Board:

    a) On the proposal of the Nominations Committee, in the case of Independent Directors.

    b) Subject to a prior report from the Nominations Committee, in the case of other Directors.

See section: B.1.2

COMPLIES

28. Companies post the following Director information on their websites, and keep such information updated:

    a) Professional and biographical profile;

    b) Other Boards of Directors of listed or unlisted companies on which they sit;

    c) Indication of the Director's classification, specifying, for proprietary Directors, the Shareholder they represent or to whom they are related.

    d) Date of their first and subsequent appointments as a Company Director; and

    e) Shares held in the Company and options thereon held by them.

COMPLIES

29. Independent Directors do not hold office as such for a continuous period of more than 12 years.

See section: B.1.2

COMPLIES

30. Proprietary Directors tender their resignation when the Shareholder they represent sells its entire shareholding interest. The appropriate numbers of them do likewise when such Shareholder reduces its interest to a level that requires the reduction of the number of its Proprietary Directors.

See sections: A.2, A.3 and B.1.2

COMPLIES

31. The Board of Directors does not propose the removal of any Independent Director prior to the expiration of the term set by the Bylaws for which he was appointed, except where good cause is found by the Board upon a prior report of the Nominations Committee. In particular, good cause shall be deemed to exist whenever the Director has failed to perform the duties inherent in his position or comes under any of the circumstances described in section III.5 (Definitions) of this Code.

The removal of Independent Directors may also be proposed as a result of tender offers, mergers or other similar corporate transactions that entail a change in the equity structure of the Company, when such changes in the structure of the Board follow from the proportionality standard mentioned in Recommendation 12.

See sections: B.1.2, B.1.5 and B.1.26

COMPLIES

32. Companies establish rules obliging Directors to report and, if appropriate, to resign in those instances as a result of which the credit and reputation of the Company might be damaged and, in particular, they require that such Directors report to the Board any criminal charges brought against them, and the progress of any subsequent proceedings.

If a Director is indicted or tried for any of the crimes described in section 124 of the Companies Law, the Board examines the matter as soon as practicable and, in view of the particular circumstances thereof, decides whether or not it is appropriate for the Director to continue to hold office, and the Board provides a substantiated account thereof in the Spanish Corporate Governance Report.

See sections: B.1.43 and B.1.44

COMPLIES

Spanish Corporate Governance report continued

33. All Directors clearly express their opposition when they feel that any proposed resolution submitted to the Board might be contrary to the best interests of the Company. And in particular, Independent Directors and the other Directors not affected by the potential conflict of interest do likewise in the case of decisions that could be detrimental to the Shareholders lacking Board representation.

When the Board adopts material or reiterated resolutions about which a Director has expressed serious reservations, such Director draws the pertinent conclusions and, if he chooses to resign, sets out the reasons in the letter referred to in following Recommendation.

This Recommendation also applies to the Secretary of the Board, even if he is not a Director.

COMPLIES

34. Directors who give up their place before their tenure expires, through resignation or otherwise, explain the reasons in a letter sent to all members of the Board. Without prejudice to such withdrawal being communicated as a significant event, the reason for the withdrawal is explained in the Spanish Corporate Governance Report.

See section: B.1.15

COMPLIES

35. The remuneration policy approved by the Board specifies at least the following points:

a) The amount of the fixed components, with a breakdown showing the fees, if any, for attending the meetings of the Board and its Committees and an estimate of the fixed annual fixed remuneration they give rise to:

b) Variable remuneration items, including, in particular;

i) The classes of Directors to which they apply, as well as an explanation of the relative weight of variable to fixed remuneration items;

ii) Performance evaluation criteria used to calculate entitlement to remuneration in shares, share options or any other variable component;

iii) Main parameters and grounds for any system of annual bonuses or other non-cash benefits; and

iv) An estimate of the absolute amount of variable remuneration arising from the proposed remuneration plan, as a function of the degree of compliance with benchmark assumptions or targets.

c) The main characteristics of pension systems (for example, supplementary pensions, life insurance and similar systems), with an estimate of the amount thereof or the equivalent annual cost.

d) Terms and conditions that must be included in the contracts of Executive Directors performing senior management duties, which will include:

i) Duration;

ii) Notice periods; and

iii) Any other provisions relating to hiring bonuses, as well as indemnity or 'golden parachute' provisions in the event of early or other termination of the contractual relationship between the Company and the Executive Director.

See section: B.1.15

COMPLIES

36. Remuneration paid by means of delivery of shares in the Company or companies that are members of the Group, share options or instruments indexed to the price of the shares, and variable remuneration linked to the Company's performance or pension schemes is confined to Executive Directors.

This recommendation shall not apply to the delivery of shares when such delivery is subjected to the condition that the Directors hold the shares until they cease to hold office as Directors.

See sections: A.3 and B.1.3

COMPLIES

37. The remuneration of external Directors is such as is necessary to compensate them for the dedication, qualifications and responsibility required by their position, but is not so high as to compromise their independence.

COMPLIES

38. The remuneration linked to Company earnings takes into account any qualifications included in the external auditors' report that reduce such earnings.

COMPLIES

39. In the case of variable remuneration, remuneration policies include technical safeguards to ensure that such remuneration reflects the professional performance of the beneficiaries thereof and not simply the general performance of the markets or of the industry in which the Company does business or circumstances of this kind.

COMPLIES

40. The Board submits a report on Director's remuneration policy to the vote of the Shareholders at a Shareholders' Meeting, as a separate item on the agenda and for advisory purposes. This report is made available to the Shareholders separately or in any other manner that the Company deems appropriate.

Such report shall focus especially on the remuneration policy the Board has approved for the current year, as well as on the policy, if any, established for future years. It will emphasise the most significant changes in such policies with respect to the policy applied during the fiscal year prior to that to which the Shareholders' Meeting refers. It shall also include an outline of the manner in which the remuneration policy was applied in such prior fiscal year.

The Board also reports on the role played by the Remuneration Committee in the preparation of the remuneration policy and, if external advice was provided, it states the name of the external advisors that have given such advice.

See section: B.1.16

COMPLIES

41. The notes to the financial statements list the individual Directors' remuneration during the fiscal year, including:

    a) A breakdown of the remuneration of each Director, to include where appropriate:

        i) Attendance fees or other fixed remuneration received as a Director;

        ii) The additional remuneration received as President or member of a Board committee;

        iii) Any remuneration received under profit-sharing or bonus schemes, and the reason for the accrual thereof;

        iv) Contributions on the Director's behalf to defined contribution pension plans; or any increase in the Director's vested rights, in the case of contributions to defined benefit plans;

        v) Any severance package agreed or paid;

        vi) Any remuneration received as a Director of other companies in the Group;

        vii) Remuneration for the performance of senior management duties by Executive Directors; and

        viii) Any item of remuneration other than those listed above, of whatever nature and provenance within the Group, especially when it is deemed to be a related party transaction or when the omission thereof detracts from a true and fair view of the total remuneration received by the Director.

Spanish Corporate Governance report continued

b) A breakdown of any delivery to Directors of shares, share options or any other instrument indexed to the price of the shares, specifying:

i) Number of shares or options awarded during the year, and the terms and conditions for the exercise thereof;

ii) Number of options exercised during the year, specifying the number of shares involved and the exercise price;

iii) Number of options outstanding at the end of the year, specifying their price, date and other requirements for exercise; and

iv) Any change during the year in the terms for the exercise of previously-awarded options.

c) Information on the relationship, in such past fiscal year, between the remuneration received by Executive Directors and the profits or other measures of performance of the Company.

COMPLIES

42. When there is an Executive Committee (hereinafter Executive Committee), the breakdown of its members by Director category is similar to that of the Board, and its secretary is the Secretary of the Board.

See sections: B.2.1 and B.2.6

NOT APPLICABLE

43. The Board is always kept informed of the matters dealt with and the resolutions adopted by the Executive Committee, and all members of the Board receive a copy of the minutes of the meetings of the Executive Committee.

NOT APPLICABLE

44. In addition to the Audit Committee mandatory under the Securities Market Law, the Board of Directors forms a single Nominations and Remunerations Committee as a separate committee of the Board, or a Nominations Committee and a Remunerations Committee.

The rules governing the make-up and operation of the Audit Committee and the Nominations and Remunerations Committee or committees are set forth in the regulations of the Board, and include the following:

a) The Board appoints the members of such Committees, taking into account the background knowledge, qualifications and experience of the Directors and the responsibilities of each Committee, discusses its proposals and reports, and receives a report, at the first meeting of the full Board following the meetings of such committees, on their activities and the work done.

b) These Committees are formed exclusively of external Directors and have a minimum of three members. The foregoing is without prejudice to the attendance of Executive Directors or senior managers, when expressly resolved by the members of the Committee.

c) Committee Chairmen are Independent Directors.

d) They may receive external advice, whenever they feel this is necessary for the discharge of their duties.

e) Minutes are prepared of their meetings, and a copy is sent to all Directors.

See sections: B.2.1 and B.2.3

COMPLIES

45. Supervising compliance with internal codes of conduct and corporate governance rules is entrusted to the Audit Committee, the Nominations Committee or, if they exist separately, to the Compliance or Corporate Governance Committee.

COMPLIES

46. The members of the Audit Committee and, particularly, the President thereof, are appointed taking into account their background knowledge and experience in accounting, auditing and risk management matters.

COMPLIES

47. Listed companies have an internal audit function which, under the supervision of the Audit Committee, ensures the smooth operation of the information and internal control systems.

COMPLIES

48. The head of internal audit presents an annual work plan to the Audit Committee; reports to it directly on any issues arising in the execution of such plan; and submits an activities report to it at the end of each fiscal year.

COMPLIES

49. Risk control and management policy specifies at least:

a) The different types of risk (operational, technological, financial, legal, reputational, etc.) the Company is exposed to, including contingent liabilities and other off-balance sheet risks among financial or economic risks;

b) The determination of the risk level the Company sees as acceptable;

c) Measures in place designed to mitigate the impact of the risks identified, should they materialise; and

d) The internal reporting and control systems to be used to monitor and manage the above risks, including contingent liabilities and off-balance sheet risks.

See section: D

COMPLIES

50. The Audit Committee's role is:

1 With respect to internal control and reporting systems:

a) To monitor the preparation and the integrity of the financial information prepared by the company and, where appropriate, the group, checking compliance with legal requirements and the correct application of generally accepted accounting principles;

b) To periodically review the internal control and risk management systems to ensure that the principal risks are adequately identified, managed and made known;

c) To ensure the independence and efficiency of the internal audit function; to propose the selection, appointment, reappointment and removal of the head of the internal audit service; to propose the department´s budget; to receive periodic information on its activities; and to check that senior management takes the conclusions and recommendations contained in its reports into account;

d) To establish and supervise arrangements by which staff may, confidentially and, if appropriate, anonymously, raise concerns about irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the company.

2 With respect to the external auditor:

a) To make recommendations to the Board for the selection, appointment, reappointment and replacement of the external auditor, and the terms of its engagement;

b) To receive regular information from the external auditor on the audit plan and the results of the implementation thereof, and check that senior management takes its recommendations into account;

Spanish Corporate Governance report continued

c) To monitor the independence of the external auditor, to which end:

i) The Company reports a change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements with the outgoing auditor and the reasons for the same.

ii) The Committee ensures that the Company and the auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, all other regulations established to safeguard the independence of the auditors; and

iii) In the event of resignation of the external auditor, the Committee investigates the circumstances that may have given rise thereto;

d) In the case of groups, the Committee favours the auditor of the Group assuming responsibility for the audits of the companies that form part thereof; and

e) To develop and implement a policy on the engagement of the external auditors to supply additional non-audit services

See sections: B.1.35, B.2.2, B.2.3 and D.3

EXPLAIN

The Audit and Compliance Committee of the Company perform all the duties listed above except favouring that the auditor of the Group assumes responsibility for the audits of the companies that form part thereof. Due to the background of the Company, resulting from the merger of British Airways and Iberia by the Company, the Company and British Airways have retained Ernst & Young as their external auditors, whereas Iberia has retained Deloitte.

The Audit and Compliance Committee does not exclusively favour the Group auditors, Ernst & Young, in making appointments to audit companies that form part of the Group. Deloitte has been retained as auditor of Iberia, as the Committee sees value in continuity of the relationship and maintaining relationships with more than one auditor.

The Audit and Compliance Committee is satisfied that, in the present circumstances, this situation is adequate and in the best interest of the Company.

51. The Audit Committee may cause any Company employee or manager to appear before it, and even order their appearance without the presence of any other manager.

COMPLIES

52. The Audit Committee reports to the Board, prior to the adoption thereby of the corresponding decisions, on the following matters specified in Recommendation 8:

a) The financial information that the Company must periodically make public due to its status as a listed company. The Committee should ensure that interim financial statements are prepared under the same accounting standards as the annual financial statements and, to this end, consider whether a limited review by the external auditor is appropriate.

b) The creation or acquisition of interests in special-purpose entities or entities registered in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the Group.

c) Related party transactions, unless such prior reporting duty has been assigned to another supervision and control committee.

See sections: B.2.2 and B.2.3

COMPLIES

53. The Board of Directors seeks to present the financial statements to the Shareholders at the Shareholders' Meeting without reservations or qualifications in the auditors' report and, in the exceptional instances where they do exist, both the President of the Audit Committee and the auditors give a clear account to the Shareholders of the content and scope of such reservations or qualifications.

See section: B.1.38

COMPLIES

54. The majority of the members of the Nominations Committee, or of the Nominations and Remunerations Committee, if one and the same, are Independent Directors.

See section: B.2.1

COMPLIES

55. The Nominations Committee has the following duties, in addition to those stated in the earlier Recommendations:

    a) To assess the qualifications, background knowledge and experience necessary to sit on the Board, defining, accordingly, the duties and qualifications required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.

    b) To examine or organise, in the manner it deems appropriate, the succession of the President and the Chief Executive and, if appropriate, make proposals to the Board for such succession to take place in an orderly and well-planned manner.

    c) To report on senior manager appointments and removals that the Chief Executive proposes to the Board.

    d) To report to the Board on the gender diversity issues discussed in Recommendation 14 of this Code.

See section: B.2.3

COMPLIES

56. The Nominations Committee consults with the Company's President and Chief Executive, especially on matters relating to Executive Directors.

In addition, any Director may request that the Nominations Committee considers possible candidates to fill vacancies for the position of Director, if it finds them suitably qualified.

COMPLIES

57. The Remunerations Committee is responsible for the following duties, in addition to those set forth in the earlier recommendations:

    a) To propose to the Board of Directors:

        i) The remuneration policy for Directors and senior managers;

        ii) The individual remuneration of Executive Directors and other terms of their contracts; and

        iii) The basic terms and conditions of the contracts with senior managers.

    b) To ensure compliance with the remuneration policy set by the Company.

See sections: B.1.14 and B.2.3

COMPLIES

58. The Remunerations Committee consults with the President and Chief Executive of the Company, especially on matters relating to Executive Directors and senior managers.

COMPLIES

Spanish Corporate Governance report continued

G Other Information of Interest

If you believe that there is any relevant principle or aspect regarding the corporate governance practices applied by your Company that has not been discussed in this Report, please mention it and explain it below.

In this section, you may include any other information, clarification or comment relating to the prior sections of this Report.

Specifically, indicate whether the Company is subject to laws other than Spanish laws regarding corporate governance and, if applicable, include such information as the Company is required to provide that is different from the information required in this report.

I. ADDITIONAL INFORMATION RELATING TO PRIOR SECTIONS OF THIS REPORT

A.2: Legal & General Investment Management Limited, in a letter dated January 14, 2013, notified the Spanish National Securities Market Commission of the acquisition of a number of voting rights above the threshold of 3%. The date on which the obligation to notify arose was January 21, 2011.

FIL Limited, in a form dated December 19, 2012, notified the Spanish National Securities Market Commission of the acquisition of a number of voting rights above the threshold of 1%, as such entity is resident in a tax haven. The date on which the obligation to notify arose was December 17, 2012. FIL Limited, in a form dated February 4, 2013, notified the Spanish National Securities Market Commission of a transfer of voting rights whereby its proportion of voting rights fell below the threshold of 1%. The date on which the obligation to notify arose was February 1, 2013.

After December 31, 2012, Majedie Asset Management Limited transferred voting rights and its proportion of voting rights felt below the threshold of 5% in January 2013.

A.3 The information regarding members of the Board of Directors who have rights attaching to shares of the Company is broken down as follows:

a) Directors' share options

During 2012, the following Directors included in the table below held options to purchase ordinary shares in the Company granted under the British Airways Share Option Plan 1999 (SOP 1999). The SOP 1999 was closed after the final grant in 2005/06. As a result of the merger between Iberia and British Airways, all options under the SOP 1999 were automatically exchanged for options over shares of the Company.

The SOP 1999 provided for the grant of options to acquire ordinary shares in British Airways or the British Airways' American Depositary Shares at an option price not less than the market value of the shares on the date of grant. No payment was due upon the initial grant of options.

Keith Williams	Date of grant	Number of options at Jan 1, 2012	Exercise price	Options exercised during the year	Options lapsed during the year	Options granted during the year	Exercisable from	Expiry date	Number of options at Dec 31, 2012
	July 1, 2002	91,160	181p	–	91,160	–	July 1, 2005	July 1, 2012	–
	June 25, 2003	114,649	157p	–	–	–	June 25, 2006	June 25, 2013	114,649
	June 25, 2004	72,480	262p	–	–	–	June 25, 2007	June 25, 2014	72,480
	June 23, 2005	69,927	276p	–	–	–	June 23, 2008	June 23, 2015	69,927
Total		348,216			91.160	–			257,056

b) Directors' conditional awards

During 2012, the following Directors included in the table below held conditional awards over ordinary shares of the Company granted under (i) the IAG Performance Share Plan (PSP IAG); (ii) the British Airways Long Term Incentive Plan 1996 (LTIP); and (iii) the British Airways Performance Share Plan (PSP BA).

The LTIP operated from 1996 to 2004 and was replaced by the PSP in 2005.

As a result of the merger between Iberia and British Airways, all options under the PSP BA were automatically exchanged for options over shares of the Company.

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the PSP IAG 2012 award was 161 pence.

	Plan	Date of award	Number of awards at Jan 1, 2012	Awards vesting during the year	Options exercised during the year	Awards lapsing during the year	Awards made during the year	Number of awards at Dec 31, 2012
Willie Walsh								
	PSP BA	September 17, 2010	469,148	–	–	–	–	469,148
	PSP IAG 2011	March 31, 2011	714,285	–	–	–	–	714,285
	PSP IAG 2012	August 3, 2012		–	–	–	1,024,844	1,024,844
Total			**1,183,433**	**–**	**–**	**–**	**1,024,844**	**2,208,277**
Keith Williams								
	LTIP	June 9, 2003	46,631	–	–	–	–	46,631
	LTIP	June 16, 2004	22,141	–	–	–	–	22,141
	PSP BA	March 19, 2010	325,123	–	–	325,123	–	–
	PSP BA	September 17, 2010	280,851	–	–	–	–	280,851
	PSP IAG 2011	March 31, 2011	409,090	–	–	–	–	409,090
	PSP IAG 2012	August 3, 2012	–	–	–	–	605,590	605,590
Total			**1,083,836**	–	–	**325,123**	**605,590**	**1,364,303**
Rafael Sánchez-Lozano Turmo								
	PSP IAG 2011	March 31, 2011	359,990	–	–	–	–	359,990
	PSP IAG 2012	August 3, 2012	–	–	–	–	486,990	486,990
Total			**359,990**				**486,990**	**846,980**

Spanish Corporate Governance report continued

Incentive Award Deferral Plan
During 2012, the following Directors included in the table below held conditional awards over ordinary shares of the Company granted under the IAG IADP (IADP IAG) and British Airways Deferred Share Plan (DSP BA).

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the IADP IAG 2012 award was 161 pence.

	Relates to incentive award earned in respect of performance	Date of award	Number of awards at Jan 1, 2012	Awards released during the year	Date of vesting	Awards lapsing during the year	Awards made during the year	Number of awards at Dec 31, 2012
Willie Walsh								
IAG IADP 2011	2010	March 31, 2011	90,984	–	March 31, 2014	–	–	90,984
IAG IADP 2012	2011	August 3, 2012	–	–	August 3, 2015		93,773	93,773
Total			**90,984**	**–**		**–**	**93,773**	**184,757**
Keith Williams								
DSP BA	2009/10	September, 17, 2010	70,999	–	June 30, 2013	–	–	70,999
IAG IADP 2011	2010	March 31, 2011	44,904	–	March 31, 2014	–	–	44,904
IAG IADP 2012	2011	August 3, 2012	–	–	August 3, 2015	–	58,695	58,695
Total			**115,903**	**–**		**–**	**58,695**	**174,598**
Rafael Sánchez-Lozano Turmo								
IAG IADP 2012	2011	August 3, 2012	–	–	August 3, 2015	–	20,616	20,616
Total			**–**	**–**		**–**	**20,616**	**20,616**

B.1.29/B.1.30: The Board of Directors adopted a number of resolutions in writing and without a meeting on March 29, 2012. The adoption of these resolutions has not been taken into account to calculate the number of meetings of the Board of Directors in section B.1.29, nor for the purposes of what is indicated in section B.1.30.

The Safety Committee met once during 2012.

B.37 The fees included the services provided by Ernst & Young (as auditors of the Company and British Airways, Plc) and by Deloitte (as auditors of Iberia).

B.1.39 Ernst & Young S.L. were appointed as the first auditors of the Company and the Group on November 29, 2010.

Ernst & Young LLP have been auditors of British Airways since privatisation in 1987. Deloitte S.L. have been auditors of Iberia since privatisation in 2001.

E Shareholders´Meeting

Pursuant to a resolution by the Board of Directors, the Shareholders' Meeting of the Company was called and was held in Madrid, Auditorio Sur de IFEMA, Feria de Madrid, Campo de las Naciones, on June 21, 2012, at 12 noon (CET) on second call.

The resolutions approved by the Shareholders´ Meeting are included in section E.8 and can be accessed on the Company's website: www.iairgroup.com.

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

a) As it has a listing on the London Stock Exchange, the Company is also subject to the UK Listing Rules, including the requirement to comply with the Unified Good Governance Code published by the Financial Reporting Council in June 2010 (as amended from time to time).

b) In accordance with the UK Listing Rules, the Company is required to report on how it applies the main principles of the Unified Good Governance Code and to confirm that it has applied the Code's provisions or, where it has not, to provide an explanation. During the reporting period the Company did not comply with the following provisions:

c) Concerning the independent membership of the Remuneration Committee: The UK Corporate Governance Code states that all the members of the Remuneration Committee board should be independent. The Company's Remuneration Committee is made up of four members, one of them non independent. Please refer to the Annual Report on the Remuneration of the Directors on page 49;

d) Concerning the arrangements for Antonio Vázquez Romero and Rafael Sánchez-Lozano Turmo which do not comply with the recommendations of the UK Corporate Governance Code, where notice periods should be set at one year or less so as to limit any payment on exit. Please refer to the Annual Report on the Remuneration of the Directors on page 49

e) Concerning the appointment of Manuel Lagares Gómez-Abascal as an External Proprietary Director by co-option. His appointment will be subject to Shareholder approval at the next Shareholders' Meeting. The appointment of Manuel Lagares Gómez-Abascal was proposed by Banco Financiero y de Ahorros, S.A. and Bankia, S.A.; and

f) Concerning the annual re-election of Directors: At the time of the merger of British Airways and Iberia by the Company, it was agreed that the re-election of Directors would not be done on an annual basis for an initial period. All current members of the Board of Directors (except from Manuel Lagares Gómez-Abascal) were re-elected with effect from the date of execution of the merger of British Airways and Iberia by the Company, that is, January 21, 2011, for a period of four years, but shall resign and stand for re-election in accordance with the calendar indicated in section B.1.19, without prejudice to the ability of the Shareholders' Meeting to remove them at any moment according to applicable law:

The Company believes that, notwithstanding the above exceptions, it has a robust governance structure.

Binding definition of Independent Director
Indicate whether any of the Independent Directors has or has had any relationship with the Company, its significant Shareholders or its managers which, had it been sufficiently significant or important, would have resulted in the Director not qualifying for consideration as independent pursuant to the definition set forth in sub-section 5 of the Unified Good Governance Code:

NO

The Spanish Corporate Governance Report was approved by the Board of Directors of the Company at its meeting of February 27, 2013.

Indicate whether any Directors voted against or abstained in connection with the approval of this Report.

NO

Spanish Corporate Governance report continued

III. Additional information required by Article 61 Bis of the Securities Market Law

III.1 The Company's control environment

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

The IAG Board Regulations determine that the Board of Directors is responsible for internal control policy and periodic monitoring of internal control systems. This internal control policy and monitoring includes Internal Control over Financial Reporting (ICFR). The policy and monitoring is designed to produce reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorised use or disposition and the maintenance of proper accounting records and the reliability of financial information used throughout the business or the publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may be reasonably be foreseen and can only provide reasonable but not absolute assurance against material misstatement of loss.

Board of Directors
The Board of Directors of IAG is ultimately responsible for the existence and updating of adequate and effective Internal Control over Financial Reporting. This duty has been delegated to the Audit and Compliance Committee.

Audit and Compliance Committee
The duties of the Audit and Compliance Committee are set out in Section B.2.3.b of this report. These duties include:

- Monitor the integrity of the quarterly financial statements of the Group, and any formal announcements relating to the Group's financial performance, reviewing significant reporting judgments contained in them; and
- Review the effectiveness of the Group's internal; financial controls, internal control and risk management systems.

Audit and Compliance Committee members are appointed based on their knowledge and experience of accounting, auditing, risk management and compliance experience. They regularly receive updates on developments and regulatory changes in these areas.

IAG Disclosure Committee
The Group's disclosure committee is chaired by the General Counsel and includes the Chief Financial Officer and the Head of Investor Relations. The committee sits monthly and reviews:

- matters discussed at the Management Committee and the Board to ensure that external disclosure is adequate; and
- any financial regulatory disclosures (UK Regulatory New Services or Spanish Relevant Fact) including the monthly route results before publication.

IAG Finance Committee
The IAG Finance Committee sits quarterly and reviews complex or judgmental accounting issues in the quarterly reports, emerging accounting issues, preparation for implementation of new accounting standards and issues raised by the external auditors. The committee owns the Group Accounting Policies and approves any changes thereto. The committee is chaired by the IAG Chief Financial Officer and comprises of the IAG Head of Group Financial Reporting and Control; the British Airways and Iberia Chief Financial Officers; and the most senior accounting officers from British Airways and Iberia.

British Airways Finance Committee
The British Airways Finance Committee oversees the implementation of IAG Group Accounting Policies and Procedures within British Airways. It also approves the accounting treatment of proposed transactions and reviews the impact of emerging business issues on the accounts. The committee is chaired by the British Airways Chief Financial Officer and includes the Head of British Airways Central Finance, the British Airways Treasurer, the IAG Head of Audit UK, and representatives from the British Airways reporting team.

Iberia Financial and Control Directorate
There are two groups within the Financial and Control Directorate having direct responsibility for elements of ICFR. The Information Management Unit reviews and checks Iberia quarterly financial statements before submission to IAG. The Administration Sub Directorate ensures compliance with all legal requirements; and ensures the correct application of generally accepted accounting principles. The sub directorates jointly oversee the Iberia financial control manuals and procedures and ensure compliance.

IAG Group Financial Reporting and Control

The IAG Group Financial Reporting and Control department is responsible for the preparation of quarterly financial statements of the Group and monthly internal management accounts. The department also monitors accounting standard and regulatory developments and proposes changes in accounting policy to the IAG Finance Committee.

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

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

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

c) ´Whistle-blowing` channel, for the reporting to the audit committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential; and

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

Within the Company the organisation structure, including job descriptions defining staff responsibilities, is controlled by the Chief of Staff's human resources department. The organisation structure is published on intranet and significant changes are reviewed and approved by the IAG Management Committee. Within British Airways the organisation structure is controlled by the Director of People, Legal and Government & Industry Affairs. Within Iberia the organisation structure is controlled by the Director of Human Resources. Within both British Airways and Iberia the organisation structure is published on the intranet.

The IAG "Way of Business" Group Instruction sets out standards of conduct expected of staff and the support that will be available to the staff from the Executive Management Team in maintaining the expected level of conduct. The Way of Business also sets out IAG policy on supporting the communities in which it operates and sets out the IAG vision on Corporate Responsibility and the Environment.

The IAG Way of Business is cascaded down into British Airways and Iberia through local policies. Within British Airways this is achieved through BA Standing Instruction 2 "Way of Business". Within Iberia the General Code of Conduct sets out principles and detailed rules governing how board members, managers and employees should act. Minor breaches of the codes of conduct are investigated by line managers, more significant breaches are investigated by the Asset Protection team in British Airways and the Security Directorate in Iberia. Disciplinary action is proposed and administered by line managers in accordance with the employment policies and standards applicable to the individual.

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

The Company and Iberia use a third-party provider, Ethicspoint, who intake cases on-line or over the phone on any matter causing concern to the staff member. Within the Company any such cases will be forwarded to the Head of Business Services and the Head of Group Audit and Risk Management for investigation. Within Iberia the whistleblowing channel is managed by the Iberia Compliance Department who report cases to a "Complaints Evaluation and Monitoring Group" which defines the response to the case. The group consists of the Director of Risks and Security; Head of Corporate Risks & Emergency Plan Coordination and Head of Legal Affairs. Additionally and according to the type of complaint, the participation of the Director of Labour Relations may be required. British Airways use a third party provider, Safecall, who intake cases over the phone on any matter causing concern to the staff member. All cases are referred to the British Airways Director of Safety and Security who utilises a network of senior managers and Directors throughout the business to investigate the concerns.

All Company staff have an annual individual training program that sets out their technical and professional skills training requirements. Achievement of this training plan is monitored twice a year. Within British Airways training is offered on an as needed basis and as required by law or professional standards. Within Iberia there is an Annual Training Plan aimed at improving the performance of individuals and groups.

Spanish Corporate Governance report continued

Basic finance and risk management training for IAG and British Airways staff is delivered through eLearning modules. IAG has also delivered classroom based lessons on airline finance basics and interpreting the IAG accounts to widen understanding beyond the finance team and train accountants joining from other industries. IAG sponsors finance staff studying for Master of Business Administration qualifications and targeted technical post graduate qualifications offered by leading business schools. British Airways offer study leave, financial support and appropriate work experience to staff studying for the Institute of Chartered Accountant in England and Wales, the Chartered Institute of Management Accountants and the Association of Chartered Certified Accountants.

Iberia often uses external providers to develop financial training related with accounting rules, auditing, internal control and risk management, and might be delivered to groups or individuals. Managers receive a specific course called "Basic Business Finance" whose goal is to learn financial literacy for people who have little knowledge on the subject. Job specific training requirements are considered on a case by case basis and might be delivered to groups or individuals, often using external providers.

Company finance staff received an average of two days training in 2102. British Airways employees maintain their own training records as required by their professional bodies. For finance professionals this includes, on average, two days in-house training. In Iberia each finance employee annually receives on average about 3.5 days of training related to financial knowledge.

III.2 Risk assessment in financial reporting

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

a) The process exists and is documented;

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

c) A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, holding companies or special purpose vehicles;

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

e) Which of the company's governing bodies is responsible for overseeing the process.

The Group's Enterprise Risk Management (ERM) process assesses the key business risks and mitigating actions facing the Group. In compiling these risks and mitigating actions a close relationship is established between the British Airways and Iberia ERM teams and the finance functions. This involves the finance function feeding into the ERM process and reviewing the output of the process to ensure that the impact of emerging risks are properly captured within the financial statements. This review of the completeness of risks reflected in the Financial Statements is complemented by review of ERM risk maps at the British Airways and Iberia Boards and the IAG Audit and Compliance Committee. The ERM process is described fully in section D of this report.

The scope of the consolidation is addressed in two ways. Firstly the establishment of any Special Purpose Vehicles (SPVs) is approved by the IAG Audit and Compliance Committee, who will confirm the requirement for the SPV, consider the governance of the SPV and consider how the SPV will be accounted for. Secondly, the determination of which entities will be consolidated is considered at the IAG, British Airways and Iberia levels. The consolidation structure is recorded in a single spreadsheet at IAG but changes are determined by IAG, British Airways and Iberia based on developments in the corporate structure during the year. Both IAG and British Airways maintain consolidation hierarchies in their consolidation systems. These hierarchies are subject to access and change controls to ensure their continued integrity. Transactions or group developments that require new group companies to be formed or acquired are considered at the IAG and British Airways Finance Committees so that the hierarchies can be updated.

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

Overall responsibility for coordinating British Airways response to fraud sits with the Head of Risk Management. This response includes an Anti-Fraud Policy backed by training and limited but appropriate detective procedures.

In Iberia the Risks and Security Department is in charge of identifying fraud risk and implementing any necessary controls to reduce or eliminate the impact of this risk. Iberia's employees must comply with the provisions contained in all

in-house regulations of the Company based on the applicable laws and, in particular, Compliance with Bribery Laws and the rules regarding Guidance for Corporate Hospitality, Gifts and Entertainment, published on the Iberia Intranet.

Explicit financial risk identification at more detailed levels is not carried out on a structured and formalised basis as reliance is placed on thorough management review and supervision of the accounts preparation process. Such structured and formalised risk assessment can only be properly carried out alongside the process and control identification activities referred to in sections III.3 and III.4 below, this is a substantial task which would cost many millions were it introduced outside of existing systems change projects. Our intention is to introduce a formal and detailed process identification; risk identification and control design methodology into our Global Business Services project in 2013. We will continue to monitor the legal status of the Spanish ICFR recommendations and the adoption of the more onerous recommendations by other Spanish corporates in order to determine our approach in this area.

III.3 Control activities, indicating their main characteristics

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

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

The quarterly consolidation process is managed to a pre-agreed timetable and includes reviews and sign offs at key stages in the process. Within British Airways the Finance Business Partners, who are senior finance professional responsible for each directorate in the business, review and approve consolidation packs listing the financial information required by the IAG consolidation. This information is then consolidated at the British Airways group level and is reviewed and approved by the British Airways Chief Financial Officer before submission to IAG. Within Iberia the Accounting department reviews and approves the financial information of the business units together with the business units responsible senior managers. This information is consolidated at the Iberia group level and reviewed and approved by the Iberia Chief Financial Officer before submission to IAG. These reviews will ensure that all material business risks have been properly recorded in the accounts, confirm the accounting treatment of judgmental areas and ensure the proper application of new accounting standards and guidance notes.

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

Critical judgments, estimates, evaluations and projections are, as far as possible, identified before the year-end close process and allocated to subject specialists to resolve. These will typically include Frequent Flyer breakage assumptions, pension accounting, recognition of revenue on unflown out-dated tickets and impairment calculations. These issues are considered by the Audit and Compliance Committee at appropriate points throughout the year in order to prepare for the final year end assessment.

Flowcharting of processes and controls is not carried out on a structured and formalised basis. As noted in our description of financial risk identification, reliance is placed on thorough management review and supervision of the accounts preparation process. The Group intends to adopt documentation of financial processes and controls into our global Business Service Project in 2013.

Spanish Corporate Governance report continued

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

The Company's IT systems are run on either British Airways or Iberia systems and are subject to the control environments of the host company.

British Airways IT Systems

British Airways has established a framework of internal control for the management and administration of IT systems and processes. This framework includes the IT environment, architecture and infrastructure, and applications relevant to ICFR.

The British Airways framework includes documented Baseline Standards of Control as well as IT policies, grouped under the following policy areas:

- Organisation of Information Security
- Policies and Controls Management
- Risk Management
- Information Asset Management
- Personnel Security
- Awareness and Training
- Physical and Environmental
- Security Operations
- Access Control
- Networks and Communications
- Systems Development
- Incident Management
- Business Continuity Management

All applications and systems used by British Airways including those related to ICFR must adhere to the Baseline Standards as a minimum standard of internal control.

The documented policies and Baseline Standards for control activity, when taken together, provide clear direction concerning expectations for internal control that are required to cover the inherent risks in the following critical IT system management areas:

IT environment

- The IT department organisational structure and description of responsibilities
- IT systems architecture and infrastructure
- Environmental protection against physical damage, loss, theft, or abuse of IT systems and equipment

System Operations

- Management of back-up files
- Incident and problem management
- Management of data interfaces and exchange
- Service level management and reporting
- Management of external partners and third parties

Control of changes

- Approval and authorisation of changes
- Testing of changes
- Release management

Continuity

- Disaster contingency and recovery plans for IT systems
- Business resilience and contingency management arrangements
- Fault-resilient system design

Physical and logical security

- Information security management
- Systems access control
- Security operations management
- Physical security of data centres

Information Security Management

An Information Security Department leads, manages and co-ordinates the dissemination and implementation of information security practice within British Airways. Information is protected based on its value, confidentiality, criticality to the company, and the risk of loss or compromise.

Security measures and controls are implemented to support availability, integrity and confidentiality of information, and guard against its loss, unauthorised modification, destruction or disclosure. The degree of security protection reflects the value and sensitivity of the information, the nature of the possible threats, the vulnerability to these threats and the loss, harm, or embarrassment that could arise from them. These security measures and controls protect against misuse of British Airways' information resources, where this misuse could cause British Airways, its business partners, customers or employees loss, harm or embarrassment, or where it could lead to a criminal act such as fraud.

Secure Access

Information, computer equipment, software and communications facilities are made available to those who require it in support of British Airways' business operations and access is restricted only to those authorised to do so. Resources are organised and the duties documented, to minimise the risk of unauthorised changes to information, error, theft or fraud and the operation of certain duties is separated to reduce the opportunities for single individuals to misuse data or services.

Access to infrastructure, platforms, applications and is managed via clear segregation of duties and access control processes and platform, system and application owners are responsible to keep their systems free of unauthorised and inappropriate users and access.

External connections to an application are individually identified, verified, recorded and approved by the application owner and controls are established to maintain the security of BA's information and information processing facilities that are: accessed, processed, communicated to, or managed by external parties.

Spanish Corporate Governance report continued

Iberia IT Controls

The Iberia framework of internal control over IT systems is based on compliance with data protection law and quality certifications over key IT control activities.

Demanded by Spanish Data Protection regulation in force

Controls are built around compliance with the Organic Law 15/1999 of December 13 on the Protection of Personal Data and Royal Decree 1720/2007, of December 21, which approves the regulation implementing Organic Law 15/1999 of December 13 on the Protection of Personal Data. The most important security measures implemented as a result of this legislation are:

- Requirement to have personalised credentials for each user accessing to the application. In particular, use of departmental or generic identifiers is forbidden.
- Obligation to establish access profiles based on need- to access rule. Users will only have access to data and functionality required to carry out the tasks assigned to them by the company.
- Password must be complex.
- Passwords must expire periodically, and users must be able to change it at any time.
- Passwords are blocked after a number of denied login attempts.
- Passwords are stored encrypted, in order to prevent viewing, and therefore the likelihood of an authorised user impersonation is minimal.
- Finally, backups and recovery tests must be performed periodically, in order to be able to recover the information in case of an incident.

Demanded by Quality Certifications

ISO 9001: 2008 establishes a set of quality standards and continuous quality management, established by the International Organisation for Standardisation (ISO). These quality standards specify how an organisation operates, its quality standards, delivery times and service levels. Iberia is ISO 9001: 2008 certified for:

- Development and maintenance of information systems.
- Systems operation in data processing centre.
- Telecommunications network management.
- Installation and maintenance of digital equipment.

In order to be compliant with its requirements, there are a number of controls in place in IBERIA, aimed at ensuring the integrity of data:

- Existence of a change management process to prevent uncontrolled changes in the systems.
- Existence of procedures to perform backup and recovery, in order to ensure business continuity after an incident.
- Existence of notification and incident response management procedures to ensure incidents resolution in the minimum time.
- Existence of a critical incidents response protocol.

UNE-ISO/IEC 27001: 2007 (Requirements for Information Technology Security Techniques and Information Security Management Systems) specifies the requirements for establishing, implementing, maintaining and improving an Information Security Management system. IBERIA is certified in UNE-ISO/IEC 27001: 2007 for IBERIA.COM; Employee Portal; and Data Processing Centres.

In order to be compliant with its requirements, there are a number of controls in place in IBERIA:

- Existence of a published security policy, specifying (among others) passwords are personal and not transferable, and the regulation for the use of corporate resources by staff
- Segregation of duties and work environments.
- Training sessions for staff, in order to explain the security policy and their obligations under it.
- Obligation to limit users' access to minimal resources for the performance of their duties. This control is achieved by using:
  - Network segmentation.
  - Installation of access control software on machines.
  - Applications profiles.
- Existence of a change management process to prevent uncontrolled changes in the systems.
- Existence of a business continuity plan to ensure service in the event of an incident.

Both UNE-ISO/IEC 27001: 2007 and ISO 9001: 2008 certifications are subject to annual review by Iberia Head of Quality within the Corporate Affairs Directorate and AENOR, the independent quality certification body.

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

British Airways outsource the derivation of pension scheme accounting. The proposed accounting treatment is subject to review and challenge by an in-house qualified accountant and pension risk management expert. British Airways has also sought professional advice in valuing some of the assets of bmi as part of its purchase price adjustment review. These third party valuations were subject to review by in house experts.

Iberia values the obligations to employees and restructuring plan costs by actuarial studies made by independent experts. These third party valuations are subject to review by in house experts in accounting and HR areas.

Iberia has outsourced financial process support for the head office and European operations to Accenture in Madrid. On a quarterly basis Iberia accounting staff perform a special review of their control accounts, pending collections reconciliation, pending approval of invoices and petty cash. Additionally Iberia management monitor the operational status of processes and key controls through review of a dashboard.

Spanish Corporate Governance report continued

III.4 Information and communication

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

IAG accounting policies are maintained by the Group Reporting and Control department.

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

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

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

III.5 Monitoring of the reporting system

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

The Audit and Compliance Committee review all disclosures relating to ICFR and have validated the Group's approach to complying with the CNMV's ICFR recommendations. In this respect the committee has been careful to strike a balance between the CNMV's ICFR recommendations and the UK Corporate Governance Code approach which does not advocate the detailed documentation of financial processes, financial risks, controls and the testing of those controls.

The Internal Audit department adopts a risk based approach to planning which factors in financial risk. In particular, the internal audit plans for 2012 and 2013 seek to cover a substantial proportion of the processes supporting the major revenue and cost items in the accounts. In 2013 Internal Audit will independently review ICFR documentation produced by the Global Business Services project that seeks to centralise key back office processes such as procurement to pay; reporting, treasury and tax. The results of audits are discussed at the British Airways and Iberia Boards and Management Committees and the IAG Audit and Compliance Committee. The implementation of actions to address weaknesses identified by Internal Audit are tracked and follow up audits carried out whenever the overall rating of the original audit was judged to be Deficient or Seriously Deficient.

III.5.2. A discussion procedure whereby the auditor, the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its audit committee or board of directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

The Company's External Auditors attend all Audit and Compliance Committee meetings and report on significant control weaknesses identified during their work. No significant control weaknesses were identified by the external auditors in 2012.

The Head of Group Audit and Risk Management also attends all Audit and Compliance Committee meetings and submits his report directly to the committee. The Head of Group Audit and Risk Management reports to the Chief Financial Officer and has a dotted reporting line to the Chairman of the Audit Committee and the Chief Executive Officer. The implementation of internal audit recommendations is tracked by the Audit and Compliance Committee.

III.6 Other significant information

None

III.7 External auditor's report

The ICFR information in sections III.1 to III.6 was not submitted for review by the external auditor. Given that IAG has not yet commenced the detailed documentation of financial processes, financial risks and controls, IAG considered that the information presented in this section III of the Spanish Corporate Governance Report to be very similar in nature to the rest of the Spanish Corporate Governance Report which is not subject to audit. We will continue to monitor the benefits of obtaining an external auditor review of the ICFR disclosures in future years.

III.8 Information on securities that are not traded on a regulated EU market, indicating, where appropriate, the different classes of shares and, for each class of shares, the rights and obligations they confer, as well as the percentage of treasury stock and any significant changes in this percentage:

At December 31, 2012, the share capital of International Consolidated Airlines Group, S.A. was 927,684,778.50 euros, represented by 1,855,369,557 fully paid ordinary shares of a single series, par value of 0.50 euro each, all recorded under the book-entry system.

At that date they were admitted to trading on the four Spanish Stock Exchanges (Madrid, Barcelona, Valencia and Bilbao) through the Spanish electronic trading system (Mercado Continuo), where they form part of the Ibex 35 index, and on the London Stock Exchange, where they form part of the FTSE 100 index.

All shares are ordinary, of a single series and confer the same rights and obligations on their holders.

In August 2009, British Airways issued £350 million 5.8% convertible bonds due 2014. The bonds are convertible into fully paid ordinary shares of the Company at a price of 189 pence per share and will mature on August 14, 2014. The bonds may be redeemed before August 13, 2014 at the option of British Airways (subject to certain conditions) in certain circumstances, including if conversion rights have been exercised in respect of 85% or more of the bonds.

The Company has established a Sponsored Level 1 American Depositary Receipt (ADR) facility that trades on the over-the-counter market in the US. Each ADR is equivalent to five ordinary shares and each ADR holder is entitled to the financial rights attaching to such shares, although the ADR depositary, Deutsche Bank, is the registered holder. As at December 31, 2012, the equivalent to 17.1 million shares were held in ADR form.

III.9 Information on the rules applicable to amendment of the Company's Bylaws:

The procedure for amending the Company's Bylaws is governed by articles 285 and the articles which follow, of the revised text of the Spanish Companies Law and requires any change to be approved by Shareholders at the Shareholders' Meeting with the majorities stated in articles 194 and 201 of the same law.

III.10 Any restriction on the transferability of securities and any restriction on voting rights:

See section A.10.

III.11 Information on the powers of the members of the Board of Directors and, in particular, those related to the possibility of issuing or repurchasing shares:

According to article 34 of the Company's Bylaws, the Board of Directors is competent to adopt resolutions concerning all types of matters not attributed by the Bylaws or applicable law to the Shareholders' Meeting.

As a general rule, the Board of Directors, which shall have the broadest powers and authority to manage, run, administer and represent the Company, shall entrust the day-to-day management of the Company to the delegate governing bodies and shall focus its activities on the general function of supervision and on the consideration of matters of particular significance to the Company. The Board of Directors regulations determine those matters that must be approved by a resolution of the Board of Directors and that cannot therefore be delegated.

All of the powers of the Board of Directors have been permanently delegated to the Group Chief Executive Officer for their exercise on a several basis, save for those which cannot be delegated pursuant to the Bylaws, the Board Regulations or the applicable legislation.

Spanish Corporate Governance report continued

The Chief Executive is the Company's top executive and, as such, shall take overall responsibility for the supervision and safe conduct of the Company's business and profitable operation in accordance with the policies, strategies and objectives established by the Board of Directors.

Powers to issue shares
See section E.8 in relation to the resolutions adopted by the Shareholders´ Meeting held on June 21, 2012.

Powers to repurchase shares
See section A.9 in relation to the resolutions adopted by the Shareholders´ Meeting held on June 21, 2012.

III.12 Information on any significant agreements that have been entered into by the Company and that become effective, are amended or are terminated in the event of a change of control of the Company by reason of a takeover bid, and the effects thereof, except where disclosure would result in serious harm to the Company. This exemption will not apply when the Company is legally obliged to publicise this information:

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

a) The Joint Business with American Airlines;

b) All of the Company's share schemes, with the exception of the Performance Share Plan, which is subject to the satisfaction of any performance conditions at that time;

c) Certain codeshare agreements;

d) **one**world membership agreements;

e) Certain contracts to sell Avios points;

f) Global distribution system contract with Amadeus IT Holding, S.A. for the marketing of Iberia flights;

g) Certain exchange and interest rate hedging contracts;

h) The Joint Business with Japan Airlines; and

i) The Terminal 7 Lease at JFK Airport.

III.13 Information on any agreements between the Company and its Directors and managers or employees who are entitled to indemnification when they resign or are dismissed without due cause, or if the employment relationship concludes by reason of a takeover bid:

There are no express provisions in Executives' service contracts with the Company for compensation payable upon termination of those contracts, other than for payments in lieu of notice. The period of notice required from the Executive is 26 weeks; the period of notice required from the Company is 52 weeks. Where the Company makes a payment in lieu of notice, a lump sum in lieu of the first 26 weeks basic salary is payable within 28 days of the date of termination of employment. A payment in respect of basic salary for the second 26 week period only becomes payable if, in the Company's reasonable opinion, the Executive has taken reasonable steps to find alternative paid work and then only in six monthly instalments. The Company may reduce the sum payable in respect of any month by any amount earned by the Executive (including salary and benefits) referable to work done in that month.

Antonio Vázquez Romero and Rafael Sánchez-Lozano Turmo have specific agreements if their contracts are terminated for whatever reason. Additional information on these agreements has been provided on the Annual Report on the Remuneration of the Directors, page 49.

Group investments

At December 31, 2012

Subsidiaries

Name and address	Country of incorporation	Percentage of equity owned
Avios Group (AGL) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
Avios South Africa Proprietary Limited 3rd Floor, Whitely Road Office Block, 34 Whitely Road, Melrose Arch North, Melrose Arch, Johannesburg	South Africa	100%
BA and AA Holdings Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
BA Call Centre India Private Limited (callBA) F-42, East of Kailash, New Delhi	India	100%
BA Cityflyer Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
BA European 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 22 Grenville Street, St Helier, JE4 8PX	Jersey	100%
bmibaby Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
Binter Finance B.V. PrinsBernhardplein 200, 1097 JB, Amsterdam	Netherlands	100%
BritAir Holdings Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Airways (BA) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Airways Plc Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Airways (España) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Airways (European Operations at Gatwick) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Airways 777 Leasing Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	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	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	Bermuda	100%
British Airways Employee Benefit Trustee (Jersey) Limited Queensway House, Hilgrove Street, St Helier, JE1 1ES	Jersey	100%

Group investments continued

Name and address	Country of incorporation	Percentage of equity owned
British Airways Finance (Jersey) Limited Partnership 22 Grenville Street, St Helier, JE4 8PX	Jersey	100%
British Airways Holdings B.V. Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Airways Holdings Limited 22 Grenville Street, St Helier, JE4 8PX	Jersey	100%
British Airways Interior Engineering Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Airways Leasing Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Airways Maintenance Cardiff Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Airways (No 1) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Airways Pension Trustees (No 2) Limited Whitelocke House, 2-4 Lampton Road, Hounslow, Middlesex, TW3 1HU	England	100%
British Airways Regional Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Caledonian Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Caledonian Group Limited Ground Floor, Bute Court, Glasgow Airport, Glasgow, PA3 2SW	Scotland	100%
British Midland Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Midland Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
Caledonian Aviation Investments Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
Campos Velázquez, S.A. Calle Velázquez 130, 28006 Madrid	Spain	100%
Cargosur, S.A. Calle Velázquez 130, 28006 Madrid	Spain	100%
Consultores Hansa, S.A. Calle Velázquez 130, 28006 Madrid	Spain	100%
Deutsche B A Holding GmbH Brienner Strasse 28, 80333 Munich	Germany	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, 28199 Bremen	Germany	100%
IAG Cargo Limited Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, TW6 2JS	England	100%
Iberia Express, S.A. Calle Velázquez 130, 28006 Madrid	Spain	100%

Subsidiaries continued

Name and address	Country of incorporation	Percentage of equity owned
Iberia México, S.A. Ejército Nacional 436-9º	Mexico	100%
Iberia Tecnología, S.A. Calle Velázquez 130, 28006 Madrid	Spain	100%
Iberia Líneas Aéreas de España, S.A. Operadora Calle Velázquez 130, 28006 Madrid	Spain	100%
Illiad Inc Suite 1300, 1105 N Market Street, PO Box 8985, Wilmington, 19899, Delaware	USA	100%
OpenSkies Aviation Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
Openskies SASU 5, Allée du Commandant Mouchotte – 91550 Paray Vieille Poste	France	100%
Overseas Air Travel Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
Remotereport Trading Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
Speedbird Cash Management Limited Canon's Court, 22 Victoria Street, Hamilton, HM 12	Bermuda	100%
Speedbird Insurance Company Limited Canon's Court, 22 Victoria Street, Hamilton, HM 12	Bermuda	100%
Speedwing International Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
Teleflight Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
The Plimsoll Line Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
Veloz Holdco, S.L. Calle Velázquez 130, 28006 Madrid	Spain	100%
VIVA Vuelos Internacionales de Vacaciones, S.A. Calle Velázquez 130, 28006 Madrid	Spain	100%
British Mediterranean Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	89%
Compañía Auxiliar al Cargo Exprés, S.A. Centro de Carga Aérea Parcela 2 p.5 nave 6; Calle Velázquez 130, 28006 Madrid	Spain	75%
Iberia Desarrollo Barcelona, S.L.R. Bergara, 3; Barcelona	Spain	75%
Sociedad Auxiliar Logística Aeroportuaria, S.A. Centro de Carga Aérea Parcela 2 p 5 nave 6; Calle Velázquez 130, 28006 Madrid	Spain	75%

Associates

Name and address	Country of incorporation	Percentage of equity owned
Iber-América Aerospace, LLC 9800 Premier Parkway Miramar, Florida 33025, Miramar, FL	USA	65.33%
Handling Guinea Ecuatorial, S.A. (HANGESA) Malabo International Airport, Malabo	Equatorial Guinea	51%
Corjet Maintenance Europe S.L. Aeropuerto de Barajas Avda de la Hispanidad s/n 28042 Madrid	Spain	50%
Madrid Aerospace Services, S.L. Pol. Ind. Las Monjas, C/Verano, 9	Spain	50%

Group investments continued

Name and address	Country of incorporation	Percentage of equity owned
Empresa Logística de Carga Aérea, S.A. (ELCA) Aeropuerto Jose Martí, Ciudad de La Habana	Cuba	50%
Empresa Hispano Cubana de Mantenimiento de Aeronaves Ibeca, S.A. Aeropuerto Jose Martí, Ciudad de La Habana	Cuba	50%
Multiservicios Aeroportuarios, S.A. Avenida de Manoteras, 46; Madrid	Spain	49%
International Supply Management, S.L. Pozuelo de Alarcón; Madrid	Spain	49%
Vueling Airlines, S.A. Parque de Negocios Mas Blau; Barcelona	Spain	45.85%
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. José Ortega y Gasset, 22; Madrid	Spain	43.5%
Aerohandling Ltd Aeropuerto Ben Gurion – Tel Aviv	Israel	40%
Dunwoody Airline Services (Holdings) Limited Building 70, Argosy Road, East Midlands Airport, Castle Donnington, Derby, DE74 2SA	England	40%
Noamar Air Handling Holdco N.V. Keizersgracht 616, 1017ER, Amsterdam	Netherlands	40%
Serpista, S.A. Marcelo Espínola, 1; Madrid	Spain	39%
Grupo Air Miles España, S.A. Avda. Bruselas 20, Alcobendas; Madrid	Spain	25%

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	Information from latest financial statements: Shareholders' funds (million)	Information from latest financial statements: Profit/(loss) before tax (million)
Servicios de Instrucción de Vuelo, S.L. Camino Muñoza 2, 28042 Madrid	Spain	19.9%	Euro	50	2
The Airline Group Limited Brettenham House South 5th Floor, Lancaster Place, London, WC2N 7EN	England	16.7%	Pound sterling	146	18
Flybe Group plc Jack Walker House, Exeter International Airport, Exeter, Devon, EX5 2HL	England	14.6%	Pound sterling	89	(6)
Comair Limited 1 Marignane Drive, Bonaero Park, 1619	South Africa	11%	South African rand	814	11
Adquira España, S.A. Plaza Cronos, 1 – 4ª planta. 28037 Madrid	Spain	10%	Euro	6,107	512
Amadeus IT Holding, S.A. Calle Salvador Madariaga 1 p.c. 28027 Madrid	Spain	7.5%	Euro	1,239	669

Statement of Directors' responsibilities

LIABILITY STATEMENT OF COMPANY DIRECTORS FOR THE PURPOSES ENVISAGED UNDER ARTICLE 8.1.b OF SPANISH ROYAL DECREE 1362/2007 OF 19 OCTOBER (REAL DECRETO 1362/2007).

At a meeting held on February 27, 2013, the Directors of International Consolidated Airlines Group, S.A. confirmed that to the best of their knowledge the Consolidated Financial Statements for the year to December 31, 2012 were prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and other provisions in the regulatory framework applicable to the Group, offer a true and fair view of the assets, liabilities, financial situation, cash flows and the results of International Consolidated Airlines Group, S.A. and of the companies that fall within the consolidated group taken as a whole, and the Consolidated Management Report includes an accurate analysis of the required information also in accordance with the Financial Services Authority's DTR 4.1 including an indication of important events in the year, a description of the principle risks and material related party transactions.

February 27, 2013

Antonio Vázquez Romero
Chairman

Martin Faulkner Broughton
Deputy Chairman

William Matthew Walsh
Chief Executive Officer

César Alierta Izuel

Patrick Jean Pierre Cescau

José Manuel Fernández Norniella

Denise Patricia Kingsmill

Manuel Lagares Gómez-Abascal

James Arthur Lawrence

José Pedro Pérez-Llorca y Rodrigo

Kieran Charles Poynter

Rafael Sánchez-Lozano Turmo

John William Snow[1]

Keith Williams

1 This Director has not signed because he was unable to be physically present at the Board meeting held on February 27, 2013, although he granted a proxy to this effect to the Chairman, who has signed on his behalf.

ERNST & YOUNG

Ernst & Young, S.L.
Torre Picasso
Plaza Pablo Ruiz Picasso, 1
28020 Madrid

Tel.: 902 365 456
Fax: 915 727 300
www.ey.com/es

AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of the International Consolidated Airlines Group, S.A.:

We have audited the consolidated financial statements of International Consolidated Airlines Group, S.A. (the Parent Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position at December 31, 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto for the year then ended. As indicated in Note 2 to the accompanying consolidated financial statements, the Parent Company's directors are responsible for the preparation of the Group's consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and other provisions in the regulatory framework applicable to the Group. Our responsibility is to express an opinion on the aforementioned consolidated financial statements taken as a whole, based upon work performed in accordance with prevailing audit regulations in Spain, which require the examination, through the performance of selective tests, of the evidence supporting the consolidated financial statements, and the evaluation of whether the presentation of the financial statements, the principles and criteria applied, and the estimates made, are in accordance with the applicable regulatory framework for financial information.

In our opinion, the accompanying 2012 consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of International Consolidated Airlines Group, S.A. and subsidiaries at December 31, 2012, and the consolidated results of its operations and consolidated cash flows for the year then ended, in conformity with IFRS, as adopted by the EU, and other applicable provisions in the regulatory framework for financial information.

The accompanying 2012 consolidated management report contains such explanations as the directors of International Consolidated Airlines Group, S.A. consider appropriate concerning the situation of the Group, the evolution of its business and other matters; however, it is not an integral part of the consolidated financial statements. We have checked that the accounting information included in the aforementioned consolidated management report agrees with that included in the 2012 consolidated financial statements. Our work as auditors is limited to verifying the consolidated management report in accordance with the scope mentioned in this paragraph and does not include the review of information other than that obtained from the accounting records of International Consolidated Airlines Group, S.A. and its subsidiaries.

We have nothing to report in respect of our requirements to review, under the United Kingdom Listing Rules, the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

ERNST & YOUNG, S.L.

February 27, 2013

Rafael Páez Martínez

Domicilio Social: Pl. Pablo Ruiz Picasso, 1. 28020 Madrid
Inscrita en el Registro Mercantil de Madrid al
Tomo 12749, Libro 0, Folio 215, Sección 8ª,
Hoja M-23123, Inscripción 116. C.I.F. B-78970506

Operating and financial statistics

Total Group operations		2012[1]	2011[2]	2010[2]	2009[2]	2008[2]
Traffic and capacity						
Available seat km (ASK)	million	219,172	213,193	199,032	206,301	215,849
Revenue passenger km (RPK)	million	176,102	168,617	157,323	162,055	167,474
Cargo tonne km (CTK)	million	6,080	6,156	5,907	5,499	5,983
Total available tonne km (ATK)	million	30,954	30,050	27,996	28,882	30,166
Passengers carried	'000	54,600	51,687	50,600	53,256	56,651
Tonnes of cargo carried	'000	814	1,050	1,019	963	1,044
Operations						
Average manpower equivalent		59,574	56,791	56,563	59,842	64,206
Aircraft in service at year end		377	348	352	345	368
Aircraft utilisation – Longhaul (average hours per aircraft per day)	hours	13.6	13.6	13.1	13.5	14.0
Aircraft utilisation – Shorthaul (average hours per aircraft per day)	hours	8.2	8.5	8.2	8.2	8.2
Punctuality – within 15 minutes	%	77.7	76.6	74.7	81.6	77.3
Regularity	%	99.0	99.0	95.4	98.8	98.6
Financial						
Passenger unit revenue per ASK	€cents	7.01	6.41	6.19	5.43	6.65
Passenger revenue per RPK	€cents	8.73	8.11	7.83	6.91	8.56
Cargo revenue per CTK	€cents	20.02	19.33	18.55	15.17	20.67
Total traffic revenue per ATK	€cents	53.59	49.47	47.93	41.68	51.67
Average fuel price	($cents/US gallon)	320.33	289.04	224.93	246.27	332.34
Fuel cost per ASK	€cents	2.78	2.38	1.96	1.95	2.41
Operating profit before depreciation, amortisation and rentals (EBITDAR)	€million	1,480	1,867	1,692	487	1,844
Total operating expenditure excluding fuel per ASK	€cents	5.49	5.06	5.36	5.01	5.41
Operating margin	%	(0.1)	3.0	1.5	(7.0)	1.8
Total operating expenditure per ASK	€cents	8.28	7.44	7.32	6.96	7.82
Total operating expenditure per ATK	€cents	58.60	52.76	52.05	49.74	55.96
Dividend cover	times	-	-	-	(11.79)	-
Interest cover	times	(1.27)	4.69	1.50	n/a	n/a
Net debt	€million	1,889	1,148	895	n/a	n/a
Equity	€million	5,055	5,686	4,670	n/a	n/a
Adjusted gearing	%	51	44	47	n/a	n/a

1 Financial data for the full year to December 31, 2012 is based on the consolidated results of the Group.
2 The full year to December 31, 2011 and 2010 is based on the combined results of operations of British Airways Plc and Iberia Líneas Aéreas de España S.A Operadora. Prior to 2010, the figures are an accumulation of British Airways and Iberia.
n/a: not available

Glossary

Adjusted gearing	Net debt plus capitalised operating aircraft lease costs, divided by net debt plus capitalised operating aircraft lease costs and equity
Available seat kilometres (ASK)	The number of seats available for sale multiplied by the distance flown
Available tonne kilometres (ATK)	The number of tonnes of capacity available for the carriage of load (passenger and cargo) multiplied by the distance flown
Cargo revenue per CTK	Cargo revenue divided by CTK
Cargo tonne kilometres (CTK)	The number of tonnes of cargo that generate revenue (freight and mail) carried multiplied by the distance flown
Dividend cover	The number of times profit for the year covers the dividends paid and proposed
EBITDAR	Operating profit before depreciation, amortisation and rental charges
Earnings per share (EPS)	Earnings are based on result after tax, adjusted for earnings attributable to equity holders for interest on the 5.8 per cent convertible bonds. Shares are based on the weighted average number of ordinary shares adjusted for assumed conversion of the bonds and the dilutive impact of employee share-based payments outstanding
Interest cover	The number of times profit before taxation and net interest expense and interest income covers the net interest expense and interest income
Manpower equivalent	Number of employees adjusted for part-time workers, overtime and contractors
Merger effective date	January 21, 2011, the date British Airways and Iberia signed a merger agreement to create International Airlines Group
Net debt	Current and long-term interest bearing borrowings less other current interest-bearing deposits and cash and cash equivalents
Operating margin	Operating profit/(loss) as a percentage of total revenue
Overall load factor	RTK expressed as a percentage of ATK
Passenger load factor	RPK expressed as a percentage of ASK
Punctuality	The industry's standard, measured as the percentage of flights departing within 15 minutes of schedule
Regularity	The percentage of flights completed to flights scheduled, excluding flights cancelled for commercial reasons
Return on capital employed (RoCE)	Profit or loss before exceptional items, adjusted for aircraft leases, multiplied by 1 minus the Group standard tax rate, divided by tangible fixed assets on and off balance sheet plus working capital – excluding cash and cash equivalents and any current portion of non-current interest-bearing borrowings
Revenue passenger kilometres (RPK)	The number of passengers that generate revenue carried multiplied by the distance flown
Passenger unit revenue per ASK	Passenger revenue divided by ASK
Passenger revenue per RPK (yield)	Passenger revenue divided by RPK
Revenue tonne kilometres (RTK)	The revenue load in tonnes multiplied by the distance flown
Total capital	Total equity plus net debt
Total group revenue per ASK	Total group revenue divided by ASK
Total operating expenditure excluding fuel per ASK	Total operating expenditure excluding fuel divided by ASK
Total operating expenditure per ASK	Total operating expenditure divided by ASK
Total traffic revenue per ATK	Revenue from total traffic (passenger and cargo) divided by ATK

Shareholder Information

Registered office
International Consolidated Airlines Group, S.A.
Calle Velázquez 130, 28006 Madrid, Spain

Registro Mercantil de Madrid
Tomo 27312, folio 11, hoja M-492129, Spain
C.I.F. A85845535

UK Branch registered address
International Airlines Group
2 World Business Centre
Newall Road
London Heathrow Airport
Hounslow TW6 2SF, UK

Registered in England & Wales: BR014868

Registrar
Computershare Investor Services PLC

For enquiries relating to shares held through the Corporate Sponsored Nominee (UK share register):

Tel: +44 870 702 0110

Email: web.queries@computershare.co.uk

Online: www.investorcentre.co.uk/iag

IAG Investor relations team
UK: +44 20 8564 2900; or

Spain: +34 91 312 6440

Institutional investors: investor.relations@iairgroup.com

Private shareholders: shareholder.services@iairgroup.com

American Depositary Receipt program
IAG has a Sponsored Level 1 American Depositary Receipt (ADR) facility that trades on the OTC market in the US (see www.otcmarkets.com). Deutsche Bank is the ADR depositary bank.

For shareholder enquiries, contact:

Deutsche Bank Trust Company Americas
c/o American Stock Transfer & Trust Company
Peck Slip Station
P.O. Box 2050
New York, NY 10272-2050, USA

Email: DB@amstock.com

Tel:
Toll free: +1 800 301 3517

International: +1 718 921 8137

Online: www.adr.db.com

Financial calendar
Financial year end: December 31
Q1 results: May 10, 2013
Half year results: August 2, 2013
Q3 results: November 8, 2013

Other key dates can be found on our website:
www.iagshares.com

ShareGift
UK shareholders with a small number of shares may like to consider donating their shares to charity under ShareGift, administered by Orr Mackintosh Foundation. Details are available from the UK Registrar.

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