

CREATING

THE WORLD'S LEADING INTERNATIONAL AIRLINES GROUP

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 348 aircraft flying to 200 destinations and carrying more than 51 million passengers each year. It is the third largest airline group in Europe and the sixth largest in the world, based on revenue.

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

OUR AIMS ARE...

PROVIDING

an exemplary service to our customers

DELIVERING

on our objectives through a focused strategy

MANAGING

our business in a responsible way

STRIVING

to achieve sustainable returns

ACHIEVING

strong performance for future growth

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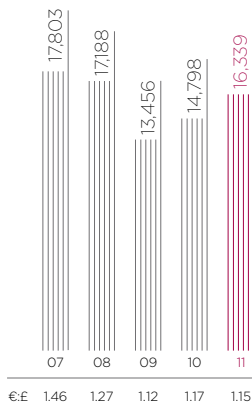


2011 HIGHLIGHTS - COMBINED RESULTS¹

+10.4%

REVENUE (MILLION)

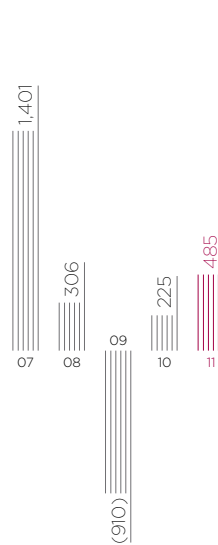
Combined group revenue is up from €14,798 million to €16,339 million.



€485_m

OPERATING PROFIT (before exceptional items)

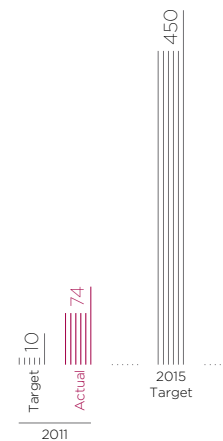
Combined operating profit before exceptional items for the year is up 116% from €225 million to €485 million.



€74_m

NET SYNERGIES

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



UNIT REVENUE

Total 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.

+3.1%

UTILISATION

This is how we measure the amount of time our aircraft are in the air and generating revenue for the Group.

+3.8% LONGHAUL

+3.7% SHORTHHAUL

PRODUCTIVITY

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

+6.7%

NON-FUEL UNIT COSTS

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).

-5.6%

¹ IAG Combined results include the operations of British Airways Plc (British Airways), Iberia Líneas Aéreas de España, S.A. Operadora (Iberia) and IAG (the Company) for the full year to December 31, 2011 and 2010.

CONTINUING TO GROW STRONGER TOGETHER

“

IAG has the strategy, focus and capability to become much more competitive – a group equipped to face and overcome the significant challenges that lie ahead for our industry.

”

I am delighted to welcome you to International Airlines Group's first Annual Report and Accounts.

This document records a year of considerable success for IAG, despite difficult economic conditions, and maps out both our progress to date and our growth plans.

I hope it will convey why we feel positive about our industry's prospects and explain why we think IAG can play a leading role in shaping the future of aviation.

Shared history

I put our success to date down to the history British Airways and Iberia have shared in the last 12 years or so.

British Airways took a strategic stake in Iberia shortly after Iberia's privatisation in 1999. In 2005 the two airlines started a joint business on flights between London, Madrid and Barcelona. In 2008 Iberia took a stake in British Airways. This experience was invaluable when we later formed the three-way Joint Business with American Airlines on the North Atlantic. We are, of course, also partners in the **one**world alliance.

Robust governance

In creating our merger, we spent significant effort developing a structure which would allow us to meet our many regulatory obligations while retaining the flexibility needed to respond to the challenges of our industry. I am very happy with the way that the Board of IAG has established itself in its first year of existence, focusing on the key strategic issues facing the Group, including delivery of merger synergies, while the British Airways and Iberia Boards retain their focus on operational management.



I am committed to ensuring that the IAG Board complies with the highest standards of UK and Spanish corporate governance and believe we have achieved this during the year, subject to some limited exceptions which are largely a legacy of the merger arrangements. We have carried out a thorough Board evaluation process and intend to act upon the results.

We have created an excellent blend of Executive and Non-Executive talent, drawing on the strengths of both airlines and bringing in valuable expertise from outside. I am grateful for the support of all my colleagues, and particularly glad to be working closely with Sir Martin Broughton as Deputy Chairman.

A flexible business model

The timing of our merger and the creation of IAG has been ideal at this juncture in aviation history.

The industry is moving towards consolidation and while this is still within a rigorous regulatory framework, the pace of activity is now quickening and IAG wants to be in pole position.

By providing a shareholding structure under which different airline brands can be efficiently managed, we have created a uniquely flexible model which means that new airlines joining IAG can easily slot into our group. They can preserve their identity, culture and brand while benefiting from the efficiencies that come from being part of one group with a first-class management team and a robust system of corporate governance.

We're already proving that this is a very workable model. The fact that some of our competitors are now seeking to follow this model is compelling evidence of that.

Strong performance

We could perhaps have chosen a calmer economic environment for our first year of operation. The oil price remained very high at an average of \$110 a barrel through the year and the pick-up in economic activity witnessed in late 2010 and early 2011 tailed off in some markets in the second half of the year.

As a result our two operating airlines, British Airways and Iberia – in common with their competitors – faced some tough challenges in 2011. So to be able to report a combined operating profit before exceptional items of €485 million on combined revenues of €16.3 billion is a result of which we can be very proud.

As Willie Walsh explains in his CEO Q&A on page 6, we've made good progress starting to extract synergies from the merger, so much so that we have raised our target for revenue and cost synergies by €100 million to €500 million by 2015.

These synergies translate into real advantages for our customers and we're determined to continue looking for better ways to serve them.

We are equally determined to provide consistent and attractive returns to our shareholders. As we said in our merger prospectus it is our intention to distribute regular dividends to shareholders in the medium and long term in amounts appropriate to market conditions.

Growth opportunities

IAG now stands as the third largest airline group in Europe and the sixth largest in the world by revenue. We are a global group with a significant presence in five continents, ideally placed to serve our target markets in North America, Latin America, Asia and Africa from two of Europe's most important long-haul hubs, London Heathrow and Madrid Barajas.

Clearly the current trading environment is tough and our organic growth is being kept at low levels. However the current climate provides us with low cost opportunities to add to our network via consolidation, but any options must be scrutinised rigorously to ensure that they are viable and add value to the Group.

Our priorities are to reinforce our leadership on Atlantic routes and develop our leadership at London Heathrow and Madrid Barajas, by building an efficient shorthaul business to feed a growing longhaul operation. We also see huge growth potential in Africa and think we are well placed to meet escalating demand on routes via Europe between Asia and the Americas.

I'm convinced that, as a combined group, IAG has the strategy, focus and capability to become much more competitive – a group equipped to face and overcome the significant challenges that lie ahead for our industry. For that reason, we face the future with a sense of real confidence.

Social responsibility

The role we play in society is also important. A large group like IAG needs to dedicate a significant part of its efforts to social responsibility. I want to highlight the role played for many years by the Association of Iberia Employees with Disabled Children (APMIB in Spanish). It was created in 1977 and today is the second biggest association in Spain dedicated to helping people with disabilities. It offers support to more than 2,200 children and provides them with treatment and therapy.

The main focus of British Airways' community programme is Flying Start which is a partnership with Comic Relief. Flying Start raises money for children in the UK and around the world and last year collected more than £1.9 million. As well as fundraising, the programme enables British Airways staff to get involved in the charity through visits to Comic Relief's projects.



Antonio Vázquez Romero
Chairman



Q & A

At the end of IAG's first full year of operation, CEO Willie Walsh gives the top-line answers to some of the questions most frequently asked by investors. For greater detail on these issues, follow the links below to the relevant sections of the report.

Q How will IAG play a leading role in the consolidation of the international airline industry?

A We created IAG when we did because our clear expectation was that consolidation would accelerate and that's exactly what we're seeing. I believe we've got the right structure in place, the right people and, most importantly, the right attitude towards consolidation to succeed.

We can make a big difference because, unlike some of our competitors, we really understand what will make IAG better as a group. We're clear about the areas we want to focus on and what we need to do to add value for our shareholders, our customers, our employees and all of our other stakeholders.

Find out more about delivering our objectives on **page 20**

Q How does the creation of IAG benefit the customers of British Airways and Iberia?

A We've been able to deliver on the promises we made to customers at the time of the merger. That's very important to us. This is a business that depends on customer loyalty.

It's clear to us that customers are benefiting from the revenue synergies we're achieving. They are enjoying a seamless transfer between British Airways and Iberia services, better benefits through our Joint Business with American Airlines and now, through the launch of Avios, a really first-class customer loyalty scheme. So, taken together, I think we can say we've not only met our promises to customers, but actually exceeded them.

Find out more about our products on **page 12**

Q How successful has your cost and revenue synergy programme been this year and what does it indicate for the future?

A The area that has pleased all of us most in this first year has been our ability to deliver real revenue synergies through bringing British Airways and Iberia together; this has been our biggest area of success. These synergies are real and tangible and they're important because they not only benefit the Group financially, but really benefit the customer as well.

Cost synergies are easier to identify in advance, but always more difficult to extract. But here again we've made tremendous progress and, as with revenues, we're confident we can not only meet our initial targets, but improve on them. On the strength of that, we've now increased our 2015 target for total annual synergy benefits from €400 million to €500 million.

Find out more about our synergy achievements on **page 26**

Q What is your global strategy?

A We've tried to articulate our strategy in a very simple way - we want to be the leading international airline group.

We are clear which areas of the world are strategically important for us and we intend to focus on them closely - namely North America, Latin America where we are leaders, Asia into Europe, from Asia over Europe to North and Latin America, and Africa, where we see huge potential. That's about building and developing our longhaul business. But to be successful we also need to have a viable and profitable shorthaul business feeding into our two longhaul hubs at London Heathrow and Madrid Barajas.

Find out more about our strategy on **page 22**



Q How prepared are you to withstand the current economic crisis?

A I think we are well positioned. We've demonstrated in the past our ability to take the necessary action to tackle economic shocks - our track record on that score is very good. Also we've spoken with greater confidence than a lot of commentators about the current economic environment because our business, particularly in London, has performed well in 2011 and we're confident our plans are well founded and appropriate for the conditions we expect to see in 2012.

Having said that, the fuel price will be a challenge in the current year. But we're well prepared for that and believe we can meet our ambitious long-term targets on earnings and operating profit, despite the current economic turmoil.

For more information see our Financial Review on **page 66** »

Q How is the Group managed?

A We've put a very effective and, I think, successful Management Team in place drawing on the internal strengths of both British Airways and Iberia, but also, importantly, drawing on external talent. The strength of the IAG Management Team lies in the fact that we understand the specific challenges faced by both British Airways and Iberia and the general challenges facing the airline industry as a whole. The combination of that internal and external talent, backed by well thought through corporate governance structures, means we have a strong and cohesive Management Team.

Find out more about our Management Team on **page 18** »

Q What makes your business sustainable?

A For the business to be sustainable we've firstly got to have a sustainable business plan. I think we've addressed that well, both individually and collectively, over the recent years.

Both airlines are focused on environmental sustainability. They're doing that in slightly different ways, of course, but actually with the same goal. That is to demonstrate that they can grow in an environmentally sustainable way and we've had a number of important successes here. So sustainability for us is both a question of economics and the environment and we're focusing equally strongly on both.

Find out more about our sustainability on **page 30** »



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



PROVIDING AN
EXEMPLARY SERVICE
TO OUR CUSTOMERS

PROVIDING



CONNECTING PASSENGERS TO THE WORLD THROUGH GLOBAL HUBS

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

IAG is able to build on both airlines' strengths and leadership in their respective markets - Iberia in Latin America and British Airways in North America and South East Asia - 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. Heathrow is less than 22 km from central London and has approximately 90 airlines operating from its two runways. It meets the demands of over 1,200 flights a day and 180,000 passengers across its four terminals, the most recent of which is Terminal 5, the home of British Airways.

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 the newest terminal at the airport, Terminal 4, which was inaugurated in February 2006. It is 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 Heathrow



Madrid Barajas

By coming together we can offer the world - opening up Latin America to British Airways' customers while Iberia's customers have access to Asia for the first time.

LONDON

34.1 million passengers carried in 2011, up 11.6% from last year.

72

countries served

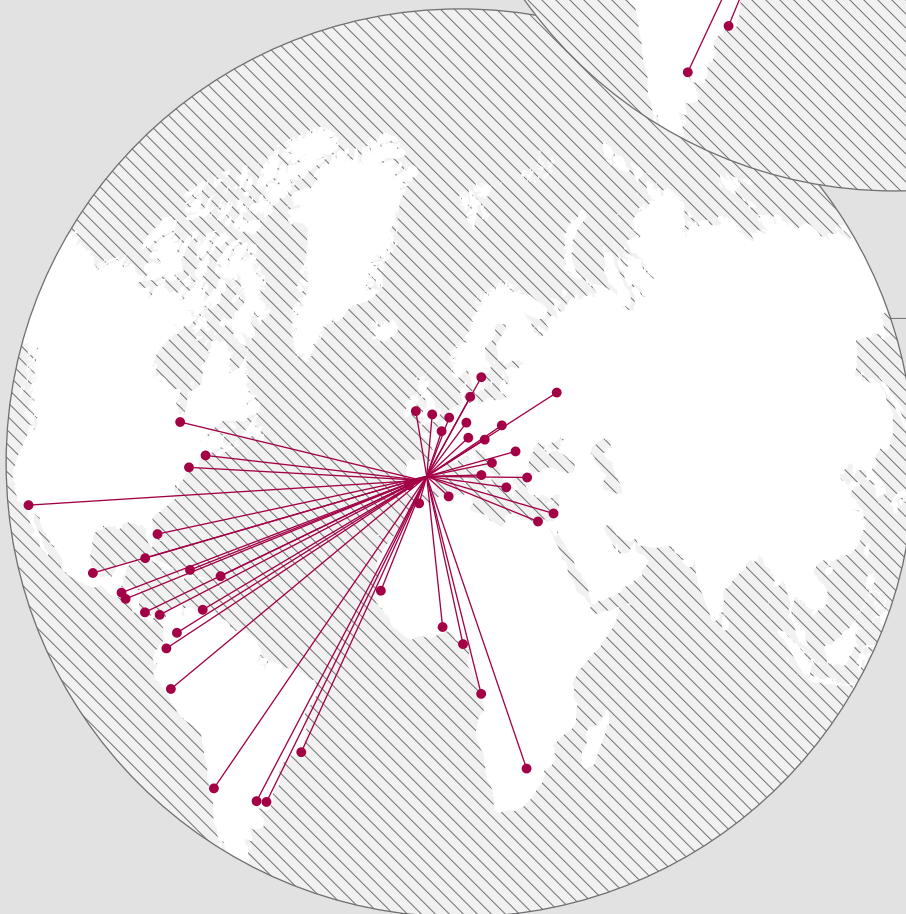


MADRID

17.6 million passengers carried in 2011, number one hub for Latin America.

46

countries served



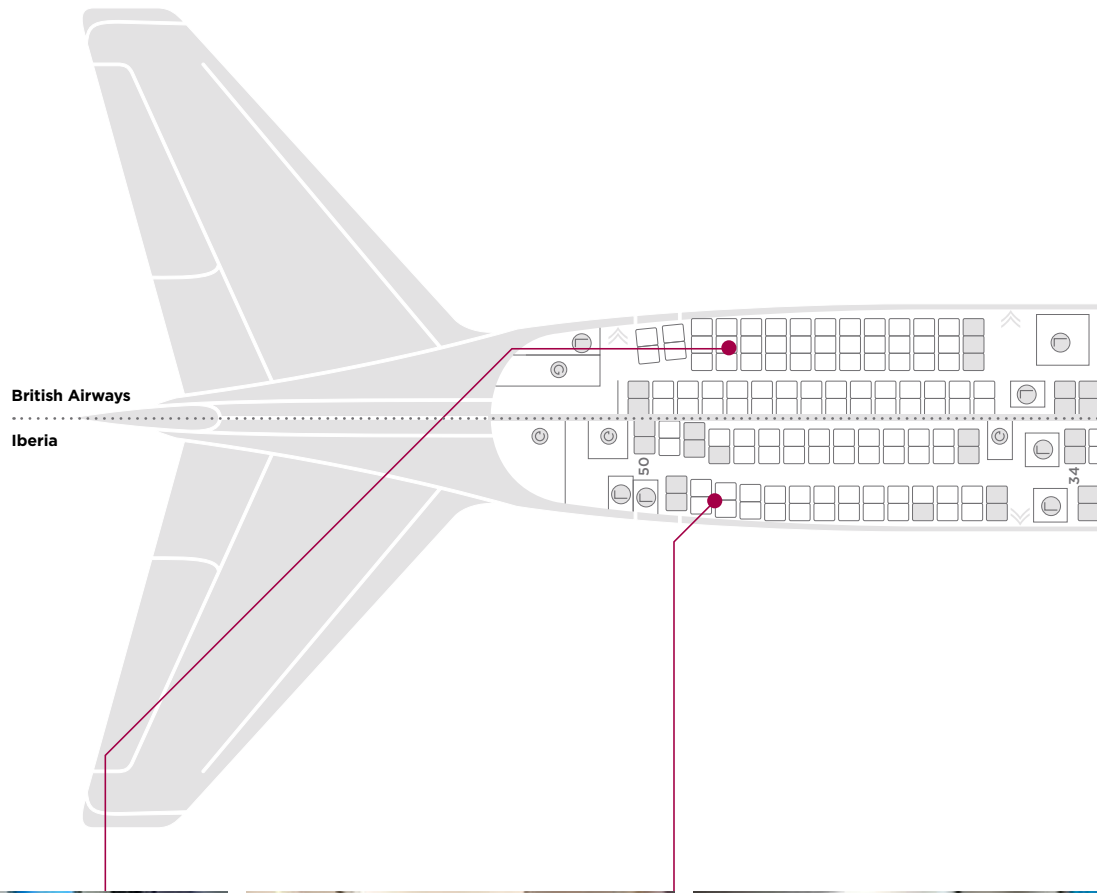
OUR PRODUCTS

PROVIDING UNRIVALLED SERVICE AND EXPERIENCE FOR OUR CUSTOMERS

British Airways and Iberia offer a wide variety of travel classes, offering something for every taste and budget. No matter how our customers choose to travel with us, we aim to make their journey enjoyable and special. The seat map here shows a typical British Airways longhaul layout in the top half and that of Iberia in the lower half.

British Airways' longhaul travel classes include: First, Club World, World Traveller Plus and World Traveller. Our economy cabin is getting a stylish new interior, more comfortable seats and a feature-rich new entertainment system.

Iberia's travel classes include Business Plus and Economy. Both products are soon to be updated with many new features, including more bed length, aisle access from all seats, and more privacy for Business Plus customers. Economy customers will enjoy more leg room, storage space and connectivity.



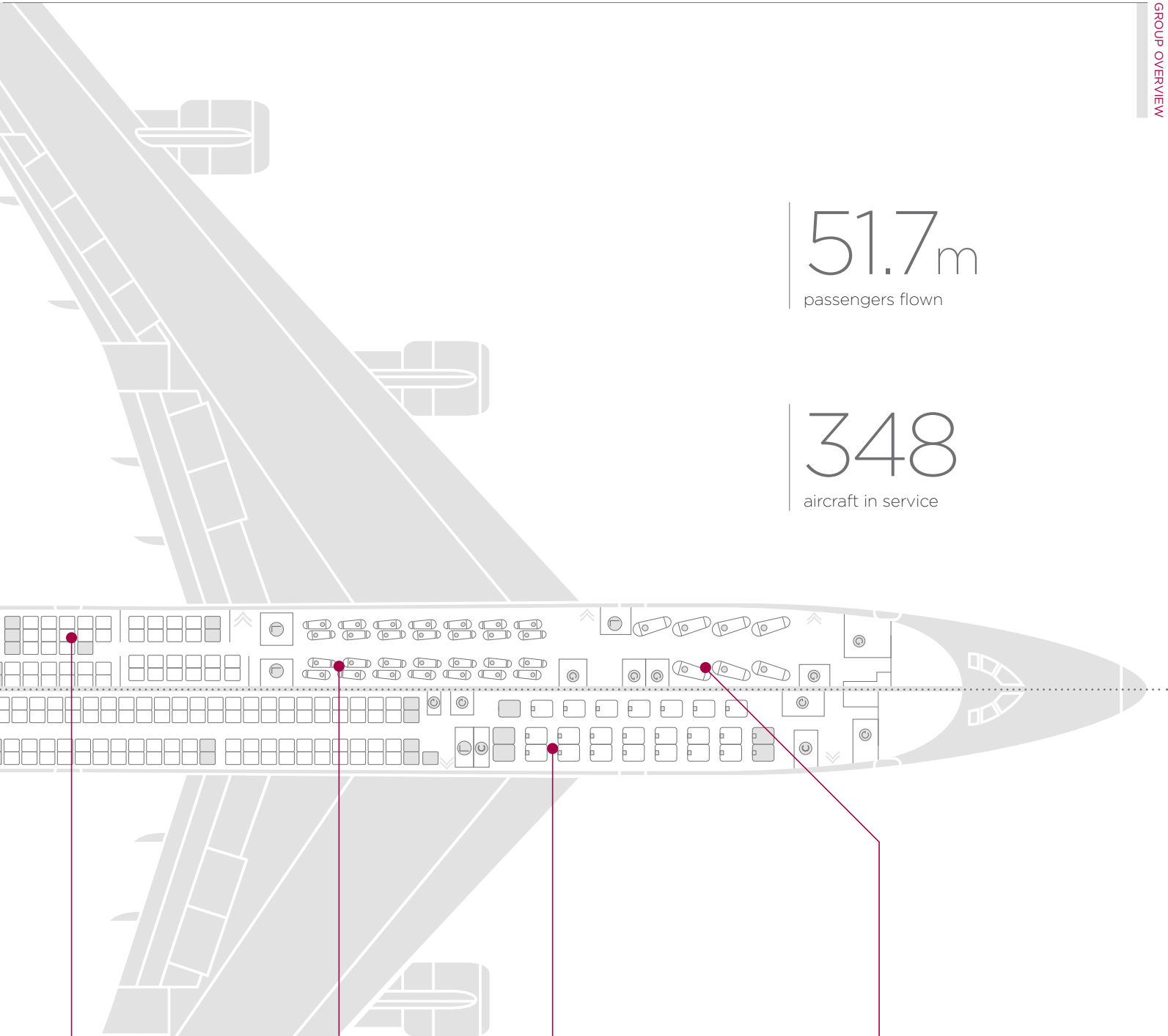
British Airways World Traveller



Iberia Economy



British Airways World Traveller Plus



51.7m

passengers flown

348

aircraft in service



British Airways Club World



Iberia Business Plus



British Airways First

BROADER CUSTOMER BENEFITS

COMBINING AND ENHANCING OUR SERVICES

Avios

2011 saw the launch of Avios, a new shared currency for IAG's three loyalty brands, British Airways Executive Club, Iberia Plus and Avios (formerly Airmiles).

The Avios shared reward currency started with over 5.7 million members and is set to become the world's leading travel reward currency, driving customer loyalty for IAG airlines and its partners.

Retaining British Airways Executive Club and Iberia Plus brands as distinct loyalty programmes allows them to retain uniqueness and relevance for members, but with Avios as their common currency, the programmes offer a range of new benefits and greater value.

We will continue to grow the Avios everyday collection programme and brand in the UK and Spain. We will also look to grow the Avios brand world-wide.

AVIOS

One multinational loyalty rewards programme with collection and redemption opportunities for frequent flyers.

5.7m

active members in 2011

Cargo

IAG Cargo has enjoyed continued growth in 2011, despite the challenging global market. British Airways and Iberia's freight operations have been linked even more effectively by the introduction of an air-bridge using wide-bodied aircraft between London Heathrow and Madrid Barajas, creating extra cargo capacity.

Investment in three new next generation Boeing 747-8 freighters offers customers increased capacity on key trade routes and complements the IAG Cargo global network. The aircraft provide a total capacity of up to 136 tonnes.

Premium products including Constant Climate, Cool and Fast and Prioritise, remain a key part of IAG Cargo's focus. Work is underway to create an integrated IAG Cargo product offering across our network.

CARGO

Combined IAG Cargo revenue for the year was up 8.6 per cent to €1.2 billion.

Volume up

4.2%

versus an 0.7 per cent industry reduction



- 1 Visit www.avios.com
- 2 Get Avios every time you fill up
- 3 Pick up Avios with your weekly shop
- 4 Visit www.iberia-cargo.com
- 5 Keep track of your shipments using the IAG Cargo app
- 6 Visit www.baworldcargo.com





DELIVERING ON OUR
OBJECTIVES THROUGH
A FOCUSED STRATEGY

DO NOT PAINT
AREA WITH
SMOOTH ANTI

IBERIA
CARGO

DELIVERING



IBERIA



THE POWER
IN EVERY

A CREDIBLE AND ROBUST MANAGEMENT TEAM

IAG has a robust and cohesive Management Team, with clear lines of responsibility at Group level and within the individual operating companies. As CEO, Willie Walsh explains, it's a system of corporate governance that allows us to manage our day-to-day operations efficiently while pursuing our strategy to lead the long-term consolidation of the industry.

- 1 Willie Walsh**
Chief Executive Officer
- 2 Keith Williams**
CEO of British Airways
- 3 Rafael Sánchez-Lozano Turmo**
CEO of Iberia
- 4 Enrique Dupuy de Lôme Chávarri**
Chief Financial Officer
- 5 Robert Boyle**
Director of Strategy
- 6 Ignacio de Torres Zabala**
Director of Global Services
- 7 Julia Simpson**
Chief of Staff
- 8 Chris Haynes**
General Counsel

For Management Team biographies see **page 39** »

Before completing the merger of British Airways and Iberia, we did a great deal of advance thinking about how decision-making should be managed within IAG and its operating airlines.

Thanks to the detailed discussions and debates we had and the fact that we had the benefit of looking at what others had done before us – we have created what, I think, is a unique and a very strong system of corporate governance for the Group and its operating businesses.

Governance

It's a system of governance that allows decisions to be taken at the right time and in the right place and to be implemented quickly and effectively throughout the organisation.

Clear lines of responsibility are in place so that everyone knows which decisions should be taken at the operating company level and which ones are more appropriately left with the IAG Management Team.

This has real benefits. The operating teams have the autonomy to run their businesses, day to day, as they see fit. With that comes clear responsibility and accountability.

This leaves the IAG Management Team far greater freedom to concentrate on our over-arching strategy, making real our ambition to become the leading international airline group at a time when the pace of consolidation in the industry is accelerating.

It's tricky to get these things exactly right from scratch. But the good news is that we have had to make only minor changes to our original plans for the Management Team and there was no need for any major restructuring of governance during the year.

Trust

Of course there have been some natural stresses and strains. But that, I think, is a positive thing. I would have been concerned if there had not been one or two differences of opinion to tackle.

Iberia and British Airways have gone about doing things in slightly different ways. Sometimes they have had to do things completely differently. What's pleasing is that people within our Management Team have recognised that's what is needed to be done.

As we've gone through the year and as trust has built up between us, the process of decision making has become easier. We have a strong team of people who aren't afraid to challenge one another. They are comfortable with constructive dialogue and debate. What has really pleased me is the way we've been able to discuss issues and resolve them in a constructive way.

Talent

One of the most important strengths of the Management Team is the combination of internal and external talent we have brought together within IAG. We've been able to select the best of both British Airways and Iberia and to bring in expertise and experience from outside the business.

That means the team includes people who really understand the specific problems faced by the individual airlines and who can call on a long track record of achieving cost efficiencies and implementing important change programmes. But the team also benefits from having a broader perspective on the general issues facing the industry as a whole and a clear idea of how we can play a part in its transformation.

It's that combination of internal and external talent, coupled with strong governance structures, that has allowed us to build a credible and very robust Management Team.



DELIVERING AGAINST OUR MISSION AND OBJECTIVES

IAG aims to be the leading international airlines group. This means we will:

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

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

Our mission is supported by six key aims:

- Leadership in our main hubs
- Leadership across the Atlantic
- Stronger Europe-to-Asia position in critical markets
- Grow share of Europe-to-Africa routes
- Stronger intra-Europe profitability
- Competitive cost positions across our businesses

We believe that the combination of how we deliver our business model together with our key aims make this a compelling proposition for our customers, employees and shareholders.

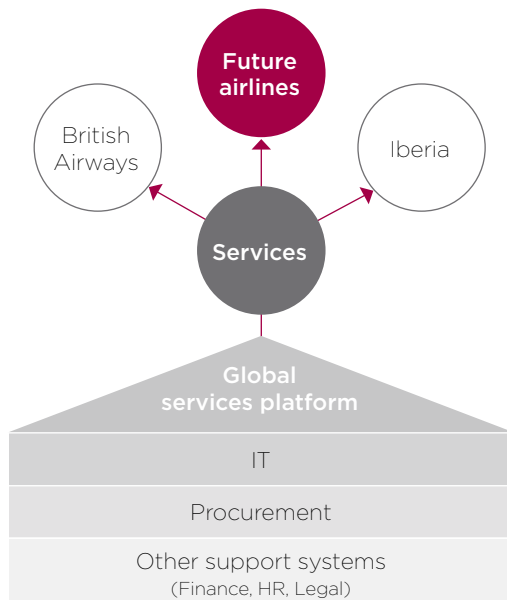
We believe the uniqueness of our model, which retains and encourages local cultures and brands of individual businesses, will enable us to attract further airlines into the Group.

Scalable Platform

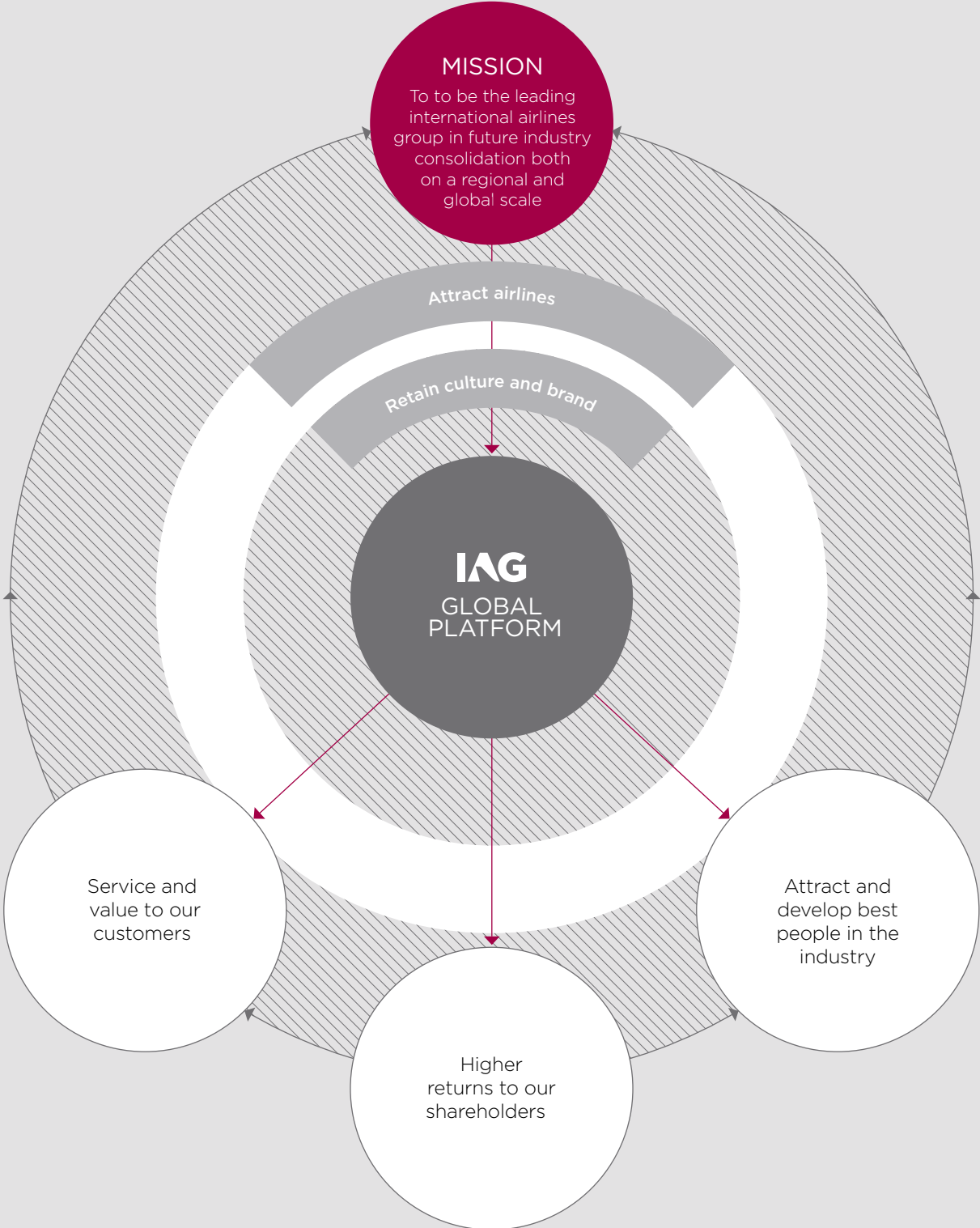
In the current synergies programme we are establishing a series of scalable platforms to deliver the IT, procurement and back office support functions, such as finance. These platforms are being established not just for British Airways and Iberia, but are being designed and developed in such a way that new airlines will be able to quickly plug into these service platforms. The chart on the right shows how these services will be established to deliver benefits for each member of the Group.

The resource optimisation and IT programmes are leading the way on these scalable platforms. We are developing a Global business service approach to establish the most effective and efficient way of delivering our back office functions. Where appropriate this includes consolidating, harmonising and minimising our IT application and infrastructure requirements. These are practical examples of us delivering scalable platforms for the Group.

From the outset of IAG, we recognised that the integration of complex organisations with different cultures and needs requires the highest level of skills and capabilities. Therefore, we have brought many of our most experienced and skilled colleagues from the operating companies into IAG, but where relevant we have enhanced this with new talent to optimise our capabilities to deliver our mission.



THE RIGHT BUSINESS MODEL



LEADING THE WAY THROUGH OUR STRATEGIC OBJECTIVES



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 26** »

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

For more information on our markets see **page 64** »

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

AG's philosophy is to retain the core assets of brands and products in each airline, thereby benefiting from the significant customer loyalty that each one enjoys.

Against a background 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:

1

Leadership in IAG's main hubs

Ranked 3rd and 14th in the world respectively in passenger numbers, London Heathrow and Madrid Barajas provide a solid base for IAG's operating companies. Both British Airways and Iberia have strengthened their positions through a combination of infrastructure and merger initiatives. The further passenger satellite C at Terminal Five, London Heathrow and the opening of the new IAG Cargo terminal at Madrid Barajas represent significant improvements in service levels and capacity opportunities. The purchase of six pairs of slots from bmi in the first half of the year continued a pattern of organic growth for British Airways. Achieving a competitive scale at London Heathrow was further supported by the conclusion of a deal to purchase bmi in late 2011. Subject to regulatory clearances this acquisition should allow British Airways to compete credibly with a more complete network.

Finally, optimising the complementary networks of London Heathrow and Madrid Barajas started in earnest with a series of schedule changes. This has had three beneficial effects. First, the flight timings between those airports are now more regular and therefore convenient for customers. Second, the twice daily wide body flights between London Heathrow and Madrid Barajas have allowed IAG Cargo to tranship significant volumes of freight containers across a wider network. Finally, the removal of night stops has improved the airlines' cost structures. At the end of March 2012 Iberia moved into Terminal 5 at London Heathrow so all IAG UK, and Spanish flights operate from a single terminal.

2

Leadership across the Atlantic

Iberia's unmatched reach into Latin America, coupled with British Airways' strong position into the USA are now complemented by the Joint Business with **oneworld** partner American Airlines on the North Atlantic. Increasing capacity in the US in 2011, Iberia now has a broader reach into the Americas. IAG now enjoys a leading position in the five largest Latin American economies, with a particularly strong showing in the premium cabins. Combining the commercial propositions has allowed British Airways to fly direct or more frequently to certain destinations such as Buenos Aires.

3

Stronger Europe-to-Asia position in critical markets

Asia's continued strong growth makes it a region of particular interest. Considerable capital is available to airlines in the region and the airlines are competing aggressively for the customer. IAG's presence in Asia improved in 2011 primarily by strengthening its existing relationships but also through moderate capacity growth. British Airways optimised its schedule with Qantas to improve the profitability of their joint venture between the UK and Australia.

4

Grow share of Europe-to-Africa routes

Market conditions in North Africa were particularly challenging in 2011 for all airlines. Nevertheless, Africa remains an attractive market for IAG: in particular sub-Saharan Africa. IAG either leads or jointly leads in the top five economies on the continent and grew capacity into four of its key markets.

5

Stronger intra-Europe profitability

Despite relatively lower exposure in Europe compared to its large European rivals, IAG is acutely conscious of the continued inroads of dedicated shorthaul carriers. Although the 'squeezed middle' of small and medium network carriers has borne the brunt of the pressure, both British Airways and Iberia have strong imperatives to improve the performance of their shorthaul networks. Spain and the UK are both considerably more mature low cost carrier markets than the other large economies in Europe.

Despite these pressures, IAG took some clear steps in 2011 to be able to compete more effectively. Iberia trimmed its shorthaul capacity and used Vueling to operate some capacity during the summer. Further to this, the announcement of Iberia Express, a new subsidiary, is a clear signal that there is resolve to improve the cost structure. Within British Airways, the London Gatwick shorthaul operation improved on the back of a new, dedicated, management team as well as benefiting from the opening of a new terminal extension. At London City, British Airways continues to develop a broadly premium service that is proving increasingly popular not only with the financial services industry but also with the East London catchment area.

6

Competitive cost positions across our businesses

Further to the ongoing cost-cutting measures in British Airways and Iberia, a comprehensive programme of cost synergies is being led by IAG. The core elements of this programme are joint procurement, joint airport operations, handling and facilities, Maintenance, Repairs and Overhaul insourcing and Global business services covering Finance and IT.

Effective management of our risks is fundamental to meeting our strategic objectives. For more information on our risks see **page 75**

For more information on corporate responsibility see **page 30**



LEADING THE WAY FOR FUTURE GROWTH



We are not looking to consolidate just to make IAG bigger. We want to consolidate to make IAG better, stronger and, financially, more robust.



ASKs up

7.1%

Seat factor

79.1%

up 0.1pts

Revenue up

10.4%

Operating profit¹

€485

MILLION

¹Before exceptional items

International Airlines Group ended its first full financial year reporting operating profits of €485 million and total revenues of €16.3 billion even though British Airways and Iberia faced some really tough challenges in a very uncertain economic environment.

This is a result we can be very pleased with. It gives us a solid base to build IAG further and real confidence that we can hit our 2015 target to achieve fully diluted earnings per share (EPS) of €0.50c and operating profits of €1.5 billion.

Powerful performance in 2011

We had a strong full year performance in 2011 with total revenue up 10.4 per cent, boosted by unit revenue improvements with good premium traffic growth. Operating profit more than doubled to €485 million. While there was disruption in the base figures, capacity this year was up 7.1 per cent but we remained focused on expanding profitably. This is reflected in the 3.6 per cent increase in passenger unit revenue and 5.6 per cent reduction in non-fuel unit costs. Fuel costs, however, remain a significant issue, up 29.7 per cent with fuel unit costs up 21.4 per cent.

One of our greatest successes in 2011 was securing far greater synergies than predicted – €134 million, against our pre-merger forecast of €72 million. On the strength of that, we've now raised our 2015 synergies target by €100 million to €500 million.

We did particularly well on the revenue side, recording €103 million in synergies. These are particularly important because they relate to real benefits for our customers – seamless transfers between the two airlines, for example, improved frequent flyer programmes through our excellent new loyalty scheme, Avios, and other benefits from our North Atlantic tie-up with American Airlines.



We did well on the cost side too, achieving €31 million of savings by, for instance, using our combined scale to negotiate better deals with our insurers and with aircraft and engine manufacturers. We've also combined our sales teams in key locations – again proving that, if done right, synergies are not about making our product cheaper, but better and more efficient.

Ambitious but realistic growth targets

We're under no illusions how hard we need to work to achieve our 2015 targets, which are based on the realistic assumption that, medium-term, oil will remain in the \$110 to \$120 range.

We will need to grow our revenues, not just through synergies, but also through profitable growth in our network. To do that, we will introduce new destinations and add further frequencies on existing profitable ones.

We'll look to both British Airways and Iberia to improve their revenue performance and continue to cut costs. Our combined cargo operation – which had a strong 2011, despite the weak economy – will also make a strong contribution, as will Avios, as it grows.

The targets we have set mean we will be delivering more than ever before in terms of EPS and operating profit in 2015.

But we're clear that the whole industry must offer much better returns to continue attracting investment. Our competitors will have similar goals, so there's a real urgency about our actions.

Further consolidation

We continue to assess potential acquisitions to grow IAG's portfolio of independent airline brands. But our overall approach is cautious. We will only contemplate deals that allow us to grow profitably. We are not looking to consolidate just to make IAG bigger. We want to consolidate to make IAG better, stronger and financially more robust.

Towards the end of the year we agreed a deal to acquire bmi from Lufthansa for £172.5 million, subject to regulatory approval.

We've never made any secret of our interest in bmi, mainly for its slot portfolio at our UK hub, London Heathrow. But the rationale goes much deeper than that.

As a group, our main objective is to grow our longhaul capability so that we can serve our chosen target markets – namely North America, Latin America, Asia into Europe, Asia

over Europe to the Americas, and Africa. To do that, we need to build an efficient and extensive shorthaul network to feed our longhaul operations at London Heathrow and Madrid Barajas. In the UK, acquiring bmi will help us to do that.

Iberia's shorthaul network is neither as profitable nor as efficient as it needs to be. That's why we're creating a new shorthaul model, Iberia Express, with the right cost base, product and customer proposition to feed Madrid Barajas efficiently. In both cases, reorganisation is about supporting future longhaul growth.

The only other airline we have expressed interest in is TAP Portugal (TAP), which may soon be privatised. TAP has an extensive network into Brazil and Africa, two strategically important markets for IAG. If privatisation goes ahead we would want to look more closely, but there's no guarantee we would bid.

Other routes to consolidation

Airline industry consolidation is being driven by new economic realities. Power is shifting east, and probably faster than expected, thanks in part to Europe's debt crisis. The creation of IAG is our recognition that we need to remain relevant in this changing world.

One of the main benefits of the unique structure we have created is that our Management Team has the freedom to step back from day-to-day operational challenges and think long-term. Few of our competitors have that advantage.

For us, part of the answer lies in mergers and acquisitions (M&A). But the business arrangements and partnerships we are developing will also continue to be central to our strategy.

In October we celebrated the first anniversary of our Joint Business (JB) with American Airlines. This partnership is going well and is delivering terrific benefits for customers. We're looking to create other JB's where applicable, notably with Japan Airlines.

American Airlines had been attempting to restructure its cost base but decided to file for Chapter 11 to re-organise in an orderly way. I believe this was the right decision and that it will emerge a stronger and better airline, and a stronger and better partner for us.

Continuing to develop the **oneworld** alliance also remains key. One weakness we need to address is the fact that, unlike our two rival alliances, we lack

a domestic partner in mainland China which we think is a necessity.

So consolidation is not just about takeovers and mergers. It's also about forming the right partnerships for the new realities we face as an industry.

Growing sustainably

We are determined to grow IAG in a sustainable way. We want to lead our industry in promoting a responsible approach to air travel and I'm really proud that this conviction runs through both British Airways and Iberia.

Both airlines have strong and well-recognised Corporate Social Responsibility (CSR) programmes. They are doing a tremendous amount to support the communities they work in and fly to and in tackling the key environmental challenges we face. Importantly they recognise that responsibility makes good sense ethically and economically.

Outlook

2012 has got off to a good start for IAG, but significant challenges lie ahead. Higher fuel costs, weaker European markets and labour unrest will imply, for the first part of the year, a reduction in operating results when compared with the first half of last year. We expect the year-over-year cost pressures to reduce as we move through the second half of the year.

The fact that we are in such good shape at this point in our history is down to the hard work and dedication of our people working right across the Group, for which I am extremely grateful. It's also thanks to the support we enjoy from our customers, our shareholders, our partners and our suppliers.

We are determined to meet the high expectations of us and are increasingly confident that we can do that in the years ahead.



Willie Walsh
Chief Executive Officer

KEY PERFORMANCE INDICATORS

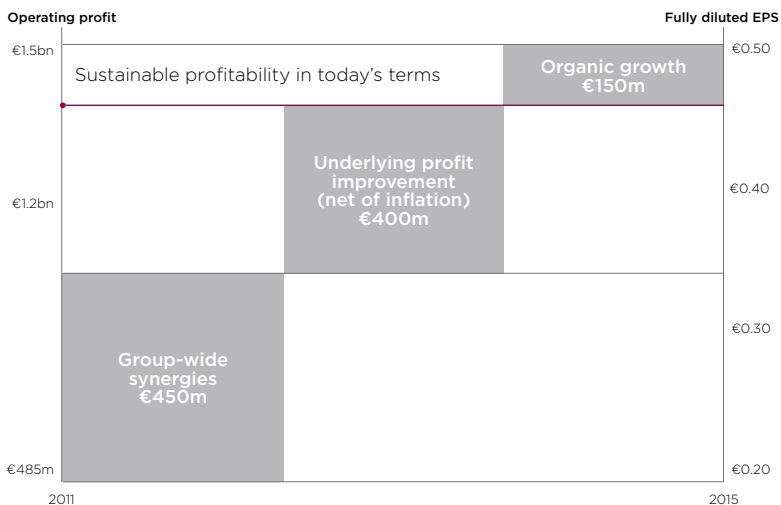
DELIVERING AGAINST OUR GOALS AND TARGETS

In this first year of IAG we have established clear and objective financial targets that are used across the operating companies to support the delivery of our long-term goals. In 2011 we did not consolidate and harmonise non-financial Key Performance Indicators (KPIs) across the Group, however both operating companies have strong internal non-financial KPIs. These non-financial KPIs continue to be monitored by the operating companies. During 2012, we will assess the appropriateness of aligning non-financial KPIs.

Our financial KPIs are linked to the remuneration reward of the Executive Team. The financial element of the annual incentive plan is based on achieving a target operating profit. Synergies targets are incorporated in the personal element of the incentive award. For the longer-term performance share plan, EPS will be 50% of the potential reward. See pages 49 to 61.

The KPI targets we have set are based on our detailed four year business plan to the end of 2015. This plan is based on a number of assumptions relevant for the industry, such as economic growth of 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 75 to 77.

The chart below shows our long-term 2015 target of achieving 50 €cents per fully diluted share, which we believe will be achieved by delivering an Operating profit of €1.5 billion.



FINANCIAL TARGETS

Earnings Per Share and Return on Capital Employed (RoCE)

We have set 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), 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.

SYNERGIES

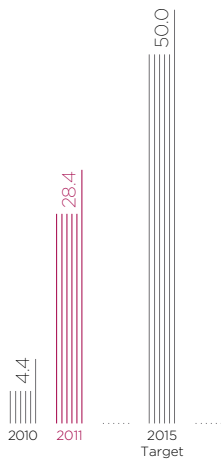
We have set a financial target related to delivering the synergy benefits of merging British Airways and Iberia together under IAG. In 2010 we announced our annual synergy benefits target of €400 million by 2015. We have performed particularly well in 2011 against the targets we set and have raised our target to €500 million, split across revenue and cost benefits. The cost to generate these synergies is expected to be €50 million.

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 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.

Performance In 2011, IAG fully diluted EPS based on combined earnings before exceptional items was 28.4 €cents.

Target Our 2015 fully diluted EPS target is 50.0 €cents.

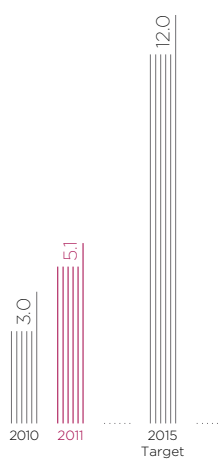


RoCE (%)

Measure RoCE is based on operating profit, 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 long term interest bearing debt.

Performance In 2011, IAG achieved a RoCE of 5.1 per cent, up from 3 per cent in 2010.

Target Our 2015 ROCE target is 12.0 per cent.

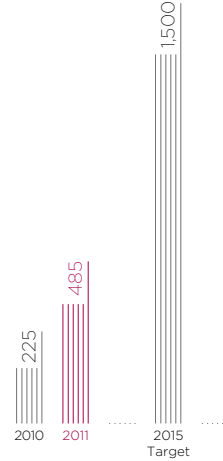


OPERATING PROFIT (€M)

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

Performance In 2011 we achieved a combined operating profit of €485 million, which is an improvement of €260 million or 116 per cent on 2010.

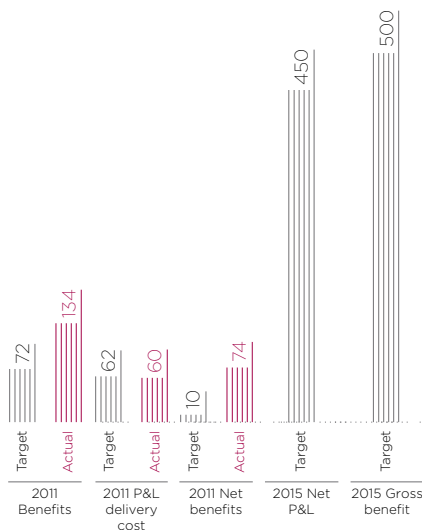
Target Our 2015 target is to achieve an operating profit before exceptional items of €1,500 million.



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.

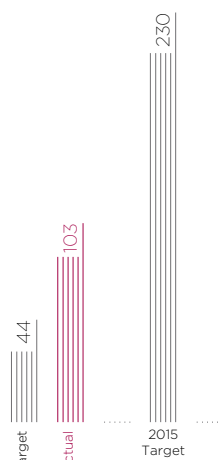
Performance In 2011, we achieved benefits of €134 million against a target of €72 million; our costs of delivery were €60 million versus a target of €62 million, for a net benefit of €74 million against a target of €10 million. Most of the improvements were related to passenger revenue synergies.



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.

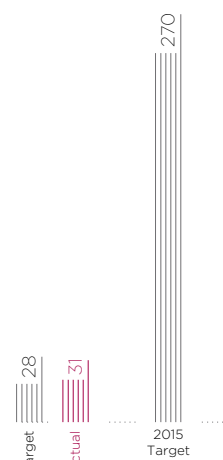
Performance In 2011, we achieved €103 million of synergies against a target of €44 million.



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 In 2011, we achieved €31 million of cost synergies against a target of €28 million.





MANAGING OUR
BUSINESS IN A
RESPONSIBLE WAY



MANAGING

MANAGING OUR BUSINESS IN A RESPONSIBLE WAY

IAG's aim is to lead the airline industry in promoting a sustainable and responsible approach to air travel. IAG was formed from the merger of two airlines with different histories, but British Airways and Iberia each brought with them very high standards, and a commitment to leadership in corporate responsibility. As part of our post-merger integration process, we are putting together a common system to build on the best practice of our operating companies.

Both airlines run comprehensive Corporate Social Responsibility (CSR) programmes geared towards:

- Managing and minimising the environmental impact of their operations and taking a lead role in tackling climate change;
- Supporting people, conservation projects and charities in the communities they work in and fly to;
- Engaging with customers and suppliers to make air travel more sustainable.

Our success in this field is increasingly acknowledged externally and this has enhanced the reputation of IAG with its immediate stakeholders and the wider public.

In 2010, Iberia was one of just two airlines to earn a place on the Dow Jones Sustainability Index, which recognises companies with exemplary social, environmental and economic policies and procedures. British Airways last year won four important responsibility awards, including the Airline Business Magazine award for leadership in the environment.

The CEOs of IAG, British Airways and Iberia oversee our initiatives on CSR and take a hands-on approach to making sure it is a part of day-to day business across our operations. Both airlines report annually on their responsibility performance and publish detailed information through the year on their respective websites about how CSR is managed and measured.

The economic dimension

Our commitment to CSR is carefully managed across all our operations to ensure that we meet the targets we have set ourselves and continue to look for ways to be more sustainable.

Governance

British Airways' corporate responsibility programme - One Destination - is driven by their objective to 'set the standard for responsible aviation' and is a core part of its business strategy.

Investment in the programme was fully protected in 2011, despite challenging economic conditions. British Airways' efforts are focused on meeting the ambitious targets it has set for carbon efficiency, an absolute reduction in emissions, cutting noise, recycling and raising funds for its flagship Flying Start charity partnership.

One Destination is managed by the environment team but is overseen by British Airways' Leadership team, led by CEO Keith Williams. A senior Non-Executive Director chairs the corporate responsibility board, ensuring British Airways' Board is kept regularly updated and has an independent view on progress.

Iberia has developed a comprehensive framework for managing corporate responsibility and this is regularly reviewed and updated. The framework and the policies it supports are published on their website.

Engaging with stakeholders is an important part of the Iberia approach to CSR and groups that rely or have an influence on the airline's operation are carefully ranked according to their importance.



Guaranteeing customers a quality service at every stage of their journey is a key commitment and in 2011 Iberia renewed its third-party certificate for Service Quality and Customer Satisfaction Management. Quality and Safety management are also certified by the International Air Transport Association (IATA) and are subject to regular audit.

Efficiency

Operating efficiently can have a significant impact on the economic sustainability of the airlines and both British Airways and Iberia look for ways to boost their performance in such things as flight scheduling, fleet assignment to routes and aircraft utilisation.

Load factor, or the amount of passenger carrying capacity used on our aircraft, is one of the key measures here. In 2011 Iberia achieved an average load factor of 81.3 per cent, higher than the average for European airlines, while British Airways' load factor was 78.2 per cent during the year.

British Airways' punctuality scores – measured, according to industry standards, by the number of flights leaving within 15 minutes of published departure times – increased by approximately 6 points to 82.3 per cent. Iberia's performance slipped back by 2.7 points to 70.2 per cent, due to a range of operational problems partially beyond its control.

The environmental dimension

Climate change

We recognise that one of the most important challenges facing the airline industry is climate change. Both British Airways and Iberia have drawn up extensive climate change programmes to ensure that they are able to continue growing in an efficient and sustainable way and play a lead role in making air travel sustainable.

British Airways' and Iberia's programmes focus on trying to secure a global policy regime for the industry backed by ambitious long-term carbon reduction targets. British Airways focuses on improving its own carbon efficiency; helping to develop viable low carbon fuels; and promoting the One Destination Carbon Fund. Iberia follows a similar series of initiatives and in 2011 also established a carbon-offsetting programme. Through these programmes passengers are encouraged to consider the footprint of their journeys and to donate.

We firmly believe the industry can best address carbon emissions through global regulation backed by industry-wide reduction targets. We support the introduction of two main goals – to achieve carbon neutral growth from 2020 and to cut net emission in half by 2050.

British Airways and Iberia have already adopted similarly ambitious targets of their own. We are working closely with IATA to call on governments that are members of the International Civil Aviation Authority (ICAO) to adopt a common policy framework on the issue that will apply equally to all airlines and avoid distortion in our markets.

The European Union's Emission Trading System began operating in January 2012. We support this scheme but are concerned that, because it is being imposed unilaterally, it could cause distortion and spark retaliation in some non-EU markets.

Internally, both British Airways and Iberia are taking their own steps to reduce their own carbon footprints through initiatives including buying new more fuel-efficient aircraft (see below), testing new more efficient ways to operate on the ground and in the air, rethinking how flights are scheduled and how aircraft are assigned to different routes and looking at ways to develop greener fuels. British Airways' global carbon footprint was 17.4 metric tonnes (mt) for 2011 and Iberia's was 6.1 mt.

Carbon efficiency is expressed in grams of CO₂ per passenger kilometre (gCO₂/pkm). British Airways aims to reduce this to 83 gCO₂/pkm by 2025, compared with 103.3 gCO₂/pkm in 2010. Iberia has reduced its CO₂ emissions by 5 per cent in the last five years.

Iberia flew the first Spanish biofuel flight during the year using an Airbus A320 shuttling between Madrid and Barcelona. The flight used a blend of 25 per cent biofuel and achieved a 1.5 tonne saving in CO₂. The airline 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.

British Airways is in partnership with the US waste processing firm, Solena, to develop Europe's first biomass to jet-fuel plant in London. It plans to use fuel from the plant in its fleet from 2015. It continues to work with the Sustainable Alternative Fuels User Group and is part of the EU's Flightpath programme which aims to produce 2 million tonnes of sustainable aviation fuel for use in Europe.

New aircraft on order by British Airways and Iberia, including the Boeing 787, and the Airbus A380 and A330, will replace older types and help us reduce emissions significantly, including noise emission. The Boeing 787 has a 30 per cent lower fuel burn than the Boeing 767 it will replace and creates almost half the nitric oxide and nitrogen dioxide (NOX) emissions. The Airbus 380 produces 10 per cent less NOX and has a 17 per cent lower fuel burn than the Boeing 747-400. Iberia's 16 new Airbus 330s will use 15 per cent less fuel than the Airbus 340s they replace.

The table overleaf shows how the fleet looks now and how it will look in 2015. Despite our combined fleet growing by nearly 30 aircraft in that time, our aim is to reduce overall emissions thanks to the use of new generation aircraft.

Fleet replacement plan

	Aircraft	2011	2015	Deliveries post 2011	Further options
Iberia	A330/340	35	40 ¹	8	8
British Airways	B747	52	45 ¹	-	-
	B767	21	1 ¹	-	-
	B777	51	54	3	2
	B787	-	16	24	28
	A380	-	9	12	7
	A318	2	2	-	-
Total longhaul		161	167	47	45
Iberia	A320 family	68	76	19	-
British Airways	A320 family	84	95	11	31
	Other	35	34	-	16
Total shorthaul		187	205	30	47
Total fleet		348	372	77	92

¹ Flexible lease extension/retirement.

Ground energy

We're also looking to improve the environmental performance of our ground operations.

British Airways saw an overall increase in energy use in 2011 due largely to extreme cold weather in 2011 and the need to use extra gas heating. However, electricity use continued to fall. In the five years to March 2012, British Airways had set an ambitious target to reduce energy use by 20 per cent. By December 2011 it had achieved a 19.8 per cent cut, against a 2007 baseline, through a range of investments including the fitting of highly efficient light emitting diode (LED) lighting in seven London Heathrow hangars.

Iberia's ground operations account for 1.5 per cent of its total emissions. In the five years to 2010 these have been cut by 45 per cent. The biggest contributors to ground emissions are fixed installations and the equipment used to serve aircraft and passengers, aircraft MRO and airport services. Iberia has continued to tackle energy efficiency on the ground in a number of ways: through its carefully controlled environmental management system, through setting tough targets, and by replacing old ground vehicles with more efficient models.

Waste and recycling

British Airways and Iberia operate waste and recycling schemes, supported by clear targets.

Iberia introduced an urban waste collection scheme to all its buildings in 2011. All waste is now sorted and nearly half is recycled. The aim is to achieve zero urban waste in the coming years.

British Airways has reduced waste to landfill at London Heathrow and London Gatwick to 3 per cent by using a local energy from waste plant and through increased recycling. British Airways now recycles 46 per cent of waste at its main hub airports of London Heathrow and London Gatwick. Trials of recycling onboard waste have proved successful and will be rolled out to all aircraft in 2012. Strict rules govern the disposal of catering waste, but British Airways shorthaul caterers at London Heathrow recycle most onboard packaging. Newspapers on aircraft arriving at London Heathrow and London Gatwick are also recycled.

The social dimension

Across the Group we back a range of local and international projects and charities. We want to help develop and support the communities we work in and fly to. We also try to be good neighbours, limiting the impact of our operations on local communities and to involve our suppliers and customers in our CSR initiatives.

Community

In 2011 British Airways contributed £9.1 million in direct and in-direct donations to the various charities it supports, compared with £5 million the year before.

A total of 56 community and conservation organisations also benefited from flight bursaries, excess baggage allowances, cargo space and fundraising events. British Airways also operates a payroll-giving scheme through which more than 3,000 present and past employees make donations to their chosen charities. In 2011, a fantastic £591,819 was raised for charity through the scheme.

Iberia's direct cash and in-kind investment in social interest groups amounted to €1.6 million during the year. Investment in sponsorship arrangements with sport, cultural and educational organisations totalled €6.0 million in 2011.

The centrepiece of British Airways community programme is Flying Start – 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. In 2011 Flying Start raised more than £1.9 million. A number of employees travelled to visit projects supported by the scheme during the year including Fight for Peace in Rio de Janeiro, a project which, in the last ten years, has helped 4,000 children living in one of the city's most deprived favelas make positive life choices.

British Airways uses its London Heathrow community learning centre to help local children find out about the company, develop their business and IT skills, get support from positive role models and learn about the environment. Since the centre opened in 1999, nearly 70,000 people have visited it. Just under 8,000 young people were reached by the centre in 2011 alone.

Staff at Iberia take part in a wide range of corporate citizenship activities. Two of the organisations set up with support from Iberia are prominent in Spanish life, Association of Iberia Employees with Disabled Children (APMIB) and the non-governmental organisation (NGO), *Mano A Mano*.

APMIB first started in 1977 to support disabled children of Iberia staff, not only in childhood, but throughout their lives. Over the years it has helped support some 2,200 children and adults with special needs. In September 2011 a new residence was opened in Madrid for 32 adults over 45 years old with learning difficulties.

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 www.iberia.com are being encouraged to make a donation to help combat malaria, tuberculosis and HIV/AIDS. In 2011, customers donated some €31,500.

Noise

Air transport inevitably causes noise and air pollution to communities living around airports. New technologies and better operating techniques, in the air and on the ground, are helping to improve this and across IAG we are working hard to minimise the impact of our operations.

British Airways and Iberia 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. British Airways has, in the last 12 months, introduced quieter approach procedures for its Boeing 737 and Airbus aircraft and is involved in a number of noise reduction research projects, nationally and internationally. This year it will participate in the UK Government's Night Noise Consultation.

Suppliers

Both Iberia and British Airways engage actively with their suppliers to make sure that they meet the highest standards in terms of quality, safety, environmental protection and ethical behaviour. Suppliers are seen as key strategic stakeholders and we believe we can work closely with them to achieve great results.

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.

British Airways' Responsible Procurement Strategy continues to make good progress, helping it to select ethical suppliers, encouraging suppliers to reduce their emissions, while also making sure it treats its suppliers responsibly and fairly.

In 2011 British Airways' procurement team used a risk-based approach to identify any areas of the supply chain that might pose corporate responsibility risks. Three main measures were used: whether customers might be affected (through products and services), if the environment might be harmed and if poor labour standards might be exposed. Areas of highest risk have been identified and the team is working with a group of suppliers to improve standards.

In a bid to tighten its anti-bribery and corruption controls, British Airways also wrote to its key suppliers in 2011 to remind them of their legal and moral obligation to act responsibly and to behave with integrity at all times.

Overseas branches

We fly to a number of destinations around the world (see page 11). In addition to the overseas branches we have established in many of these countries, we have branches in countries to which we do not fly.

STRONG GOVERNANCE DELIVERED BY AN EXPERIENCED BOARD



The structure of IAG is unique in the airline industry. We've put this structure in place to support an extremely flexible business model, which, as I explain at the front of this Report, will allow us to grow strongly and play a leading role in shaping the future of our industry.

But our unique structure also presents some important corporate governance challenges.

We are determined to be completely transparent in the way we operate. I hope the pages that follow give you a clear view of how our Board and its committees are currently run and how they will be run in the future. Above all, I hope they provide proof of our strong commitment to the highest standards of good corporate governance.

Our overriding concern is to make sure that the Boards of IAG, British Airways and Iberia interact with each other appropriately and effectively. This has certainly been the case during our first year. We have clear lines of responsibility and accountability between the three Boards, allowing us to manage our day-to-day operations efficiently, plan strategically and meet the different requirements of two sets of regulators.

In the run up to the merger, we put a great deal of thought into the design of our governance systems and procedures. One year on, I'm pleased to say, they are proving to be very robust.

Governance codes

As a Spanish company, listed in both Madrid and London, IAG must adhere to both Spanish and UK listing requirements and corporate governance standards. We are subject to the UK Corporate Governance Code (2010) drawn up by the Financial Reporting Council and the Spanish Unified Good Governance Code.

During the year we reviewed our compliance with these codes and believe we meet their requirements fully, with the exception of certain provisions. We detail these areas of non-compliance later in the section and in the Spanish Corporate Governance Report and explain the steps we are taking to meet the spirit of the different codes.

For example, the UK Code recommends the appointment of a Senior Independent Director. We appointed our Deputy Chairman, Sir Martin Broughton to this role on February 28, 2012. Throughout the reporting year, Sir Martin Broughton, had all the responsibilities and duties set out in the code for this role. In 2011, he was Senior Independent Director in all but name.



We have appointed a world-class Board of Directors committed to providing strong and effective leadership that will allow us to manage the risks we face and grasp the many opportunities that lie ahead for us.



The Spanish Unified Code stipulates that when women Directors are few or non-existent, the Board should state the reasons and the measures taken to correct it. Currently we have only one female Director, Baroness Kingsmill. IAG is a young company and over time we want to improve the number of women we have at the Board level.

Leadership

IAG has a simple strategy – to become the leading international airline group.

To achieve that goal requires strong leadership and I believe we have appointed a world-class Board of Directors committed to providing strong and effective leadership that will allow us to manage the risks we face and grasp the many opportunities that lie ahead for us.

What sets the IAG Board apart from others in our industry is the extraordinary range of skills, experience and diverse talent we have been able to assemble. We have not only drawn on the best talent within British Airways and Iberia but have also brought in people from outside our industry with invaluable experience in the worlds of commerce, finance, politics and public policy.

As we continue to review the make-up of the Board and seek to bring on new talent for the future management of the Group, we will do everything we can to preserve this blend of superb international capability. This will ensure that the Company continues to have the right entrepreneurial leadership and continues to operate within a strong framework of effective governance controls.

The Executive Team is responsible for the day to day management of the Group, including the delivery of synergies and the development of group strategy.

The Board

Key decisions are the responsibility of the Board. These include, approving the annual budget and business plan, financing policy and structure; deciding on and overseeing risk management systems and controls; reviewing internal information; and providing leadership on corporate social responsibility.

Certain tasks are delegated to the Board's Audit and Compliance, Nominations, Remuneration and Safety Committees. These all met regularly during the year and you can read reports from the individual Committee Chairpersons later in this report on pages 46 to 61.

It is, of course, still relatively early days for our Company, but I am delighted to say that in our first year of operation the Board has come together quickly and is operating as a highly effective and cohesive unit. I'm very grateful to my colleagues for their support and the dedication they have shown to getting IAG off to such a promising start.

Future priorities

In the months and years ahead we will continue to ensure IAG has the right leadership and continues to pursue its ambitious strategy for growth within an effective and carefully managed system of governance.

Based on our experience to date, I am confident that we can do just that.



Antonio Vázquez Romero
Chairman

BOARD OF DIRECTORS



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 and of the TransAtlantic Business Dialogue Executive Board. 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. He served as non-executive member of the Board of the Aldeasa group from 1999 until 2008.



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, 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 (National Long Distance Spanish University). 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 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 has served as a Non-Executive Director of Pearson Plc since 2002 and in 2010 was appointed the senior independent director. In June 2009 he joined the Board of INSEAD. Patrick Cescau 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 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 Electromecánica and Alfa Laval (1972-1982) and Boveri and ABB (1981-1993). He has served as Director in RTVE, Argentaria, Enagas, Endesa, Televant, 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 Mapfre America, Telesp (Brasil), Deputy Chairman of Caja Madrid, director of BFA and Bankia, S.A. 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 merger effective 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 Non-Executive Director of Betfair, of KornFerry International and of Horizon and a member of the Supervisory Board of E.ON AG. She is a member of the PricewaterhouseCoopers LLP Advisory Board and a member of the Microsoft European Policy Board. Baroness Kingsmill is a member of the International Advisory Board of IESE.



James Lawrence

James Lawrence was a Non-Executive Director of British Airways from November 2006 until the merger effective date. He has been Chief Executive Officer of Rothschild North America 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 merger effective 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 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.

BOARD OF DIRECTORS - CONTINUED



Rodrigo de Rato y Figaredo

Rodrigo de Rato y Figaredo was Deputy and member of the Popular Party (PP) leadership for 25 years. He was responsible for the economic alternative of PP from 1985 to 2004 and spokesman of the PP parliamentary group from 1989 to 1996. He served as Economic Vice-President of the Spanish Government from 1996-2004 and is the former Chairman of the European Council of Ministers of Economy for the introduction of the euro (2002) and Managing Director of the International Monetary Fund (May 2004). Doctor in Economy and holder of a BA in law from Madrid Complutense University. He is the Chairman of Bankia, S.A. Banco Financiero y de Ahorros, S.A., Caja Madrid, Corporación Financiera Caja Madrid, Caja Madrid Cibeles, S.A. and Garanair, S.L. Vice-Chairman of the Board of CECA, a Director of Mapfre and a member of the Board of Trustees of the Teatro Real (Royal Theatre) in Madrid.



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.



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 CEO 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 Cerberus Capital Management LP where he is Non-Executive Chair, Marathon Oil Corporation, Verizon Communications and Amerigroup Corporation.



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 for Transport for London.

MANAGEMENT TEAM



Enrique Dupuy de Lôme Chávarri
Chief Financial Officer

Enrique became Chief Financial Officer of IAG in January 2011, joining from Iberia where he was Chief Financial Officer from 1990. 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).



Robert Boyle
Director of Strategy

Robert became IAG's Director of Strategy in January 2011. He is responsible for the Group's global strategy and achieving its revenue synergy targets. 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

Ignacio became Director of Global Services at IAG in January 2011, joining 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.



Julia Simpson
Chief of Staff

Julia became Chief of Staff in January 2011 where she 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.



Chris Haynes
General Counsel

Chris became General Counsel in January 2011. He 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.

Chris joined the British Airways legal team in 1998 and, having held a number of senior positions within the legal team, became head of mergers and acquisitions in 2008. He led British Airways' transaction team in the merger with Iberia.

Chris studied economics and politics at Bristol University before studying law at the College of Law in Guildford. Before joining British Airways, he worked as a lawyer for the law firm Ashurst.

Willie Walsh
Chief Executive Officer
For full biography see [page 36](#)

Keith Williams
CEO of British Airways
For full biography see [page 38](#)

Rafael Sánchez-Lozano Turmo
CEO of Iberia
For full biography see [page 38](#)



CORPORATE GOVERNANCE

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, 2010 and the Spanish Securities Market Law 24/1988, of July 28, 1988. 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 in June 2010 as amended from time to time.

The Corporate Governance Report, together with the Spanish Corporate Governance Report, explain how the Company applies the main principles of the UK Corporate Governance Code, and the Spanish Unified Good Governance Code, including confirmation as to whether it complies with the UK Corporate Governance Code and the Spanish Unified Good Governance Code provisions 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: one member of the Committee is not independent. Refer to the Report of the Remuneration Committee on page 49;
- (ii) Independence of the Chairman upon appointment: Antonio Vázquez Romero was the executive Chairman of Iberia prior to being appointed Chairman of IAG;
- (iii) Directors' contractual arrangements: arrangements for Antonio Vázquez Romero and Rafael Sánchez-Lozano Turmo 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. Details can be found in the Report of the Remuneration Committee on page 56.
- (iv) Appointment of Senior Independent Director: The Board considered it to be in the best interest of the Company to attribute the functions of the Senior Independent Director pursuant to the UK Corporate Governance Code to the Deputy Chairman of the Board. Throughout the reporting year, Sir Martin Broughton had all the responsibilities and duties of a Senior Independent Director; he was Senior Independent Director in all but name. On February 28, 2012, the Company formally appointed Sir Martin Broughton to the role. Sir Martin Broughton was available to meet major shareholders during the reporting period but no such meetings took place.

- (v) Annual re-election of Directors:

At the time of the merger, British Airways and Iberia agreed that the re-election of Directors would not be done on an annual basis for an initial period. At an ordinary shareholders' meeting of the Company held in November 2010, all Directors 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 re-election in accordance with the following calendar, without prejudice to the ability of the shareholders' meeting to remove such persons as a Board member at any moment according to applicable law:

- Sir Martin Broughton, Patrick Cescau, José Manuel Fernández Norniella and John Snow shall stand for re-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 re-election at the annual ordinary shareholders' meeting to be held in 2014; and
- Antonio Vázquez Romero, James Lawrence, Rodrigo de Rato y Figaredo and Keith Williams shall stand for re-election at the annual ordinary shareholders' meeting to be held in 2015.

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

These areas of non-compliance are largely a consequence of the governance and other arrangements negotiated in the context of the merger and, over time, the Company will seek to address them if appropriate.

The Company complies with the provisions of the Spanish Unified Good Governance Code, with the exceptions described in the Spanish Corporate Governance Report (pages 140 to 192).

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

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 of Directors' regulations, available on the Company's website.

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 met 11 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 Company Secretary, he ensures that Board Members receive accurate, timely and clear information.

The Non-Executive Directors scrutinize 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 Company Secretary 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.

Non-Executive Directors were encouraged to attend the annual Capital markets day in November 2011, where they could discuss Corporate Governance matters with major shareholders. Four Non-Executive Directors attended.

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

During the reporting period the Chairman and the Non-Executive Directors met twice without the Executives present.

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 of Directors regulations.

Report of the Audit and Compliance Committee see **page 46** 

Report of the Nominations Committee see **page 47**

Report of the Safety Committee see **page 48**

Report of the Remuneration Committee see **page 49**

CORPORATE GOVERNANCE - CONTINUED

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 nine Ordinary meetings scheduled during the year and two Extraordinary meetings. Those attended by each Director during the reporting period are shown in the table below:

Director	Board meetings	Audit and Compliance Committee meetings	Nominations Committee meetings	Remuneration Committee meetings	Safety Committee meetings
Total in the period	11¹	6	1	4	3
Antonio Vázquez Romero	11	-	-	-	3
Sir Martin Broughton	10	-	-	-	3
Willie Walsh	9	-	-	-	3
César Alierta Izuel	9	-	1	4	-
Patrick Cescau	10	5	-	-	-
José Manuel Fernández Norriella	10	-	1	4	-
Baroness Kingsmill	9	-	1	3	-
Jim Lawrence	10	6	-	-	-
José Pedro Pérez-Llorca	11	5	-	-	-
Kieran Poynter	9	6	-	-	3
Rodrigo de Rato y Figaredo	7	-	-	-	-
Rafael Sánchez-Lozano Turmo	11	-	-	-	-
John Snow	8	-	1	3	-
Keith Williams	10	-	-	-	-

¹ Two additional meetings were scheduled in 2011 with short notice. As a result, certain Directors were unable to attend.

Board performance evaluation

At the end of the reporting period an internal questionnaire in relation to performance was sent to members of the Board 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.

Directors' conflicts of interest

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. No situations of conflict of interests of the Directors occurred during the reporting period. The definition of conflict of interests is set out in the Board regulations on the Company's website.

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.

Relations with shareholders

Post the merger, the Company established regular contact with its major institutional shareholders. Shareholder meetings were held with Executive Directors, the Chairman of the Board and with the investor relations team.

The Company undertook investor roadshows, investor conferences and company presentations. On November 11, 2011, IAG held its inaugural Capital markets day in Madrid

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.

Prior to the merger, but as part of the merger arrangements a General Meeting of the sole shareholder was held in January 2011. Following the merger, the regular cycle of Annual General Meetings will commence, with the next meeting planned for summer 2012.

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 a novation. 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;
- codeshare agreements with Aer Lingus, Cathay Pacific, Finnair, Flybe, JAL, Kingfisher, LAN, Meridiana Fly, and Royal Jordanian;

- contracts to sell Avios points to Alaska Airlines, American Airlines, American Express Services Europe Limited, Chase Bank USA N.A., Lloyds TSB plc, Royal Bank of Canada and Tesco Stores Limited;
- global distribution system contract with Amadeus IT Holding, S.A. for the marketing of Iberia flights; and
- certain exchange and interest rate hedging contracts.

Merger assurances

As part of the merger agreements, 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 to be carried out via the mechanisms

that have been put in place for this purpose and that are described in the Registration Document pages 129 and 130. Any disputes relating to the Assurances are to be determined by an Assurance Committee. No matters were referred to the Assurance Committee during 2011.

Post balance sheet events

No material adjusting post balance sheet events occurred after December 31, 2011.

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.

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

Other than in the context of the merger arrangements (details of which are set out at www.iagshares.com), no capital increases were made in 2011.

The significant shareholders of the Company at December 31, 2011 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
Black Rock Inc	-	91,539,438	91,539,438	4.934
Schroders Plc Holdings	-	59,204,543	59,204,543	3.191
Templeton Global Advisors Limited	-	92,969,270	92,969,270	5.011

These shareholdings were held through:

Name of direct holder	Number of direct shares	Percentage of capital
Bankia, S.A.	224,253,769	12.087
Black Rock Investment Management (UK) Ltd	91,539,438	4.934
Schroder Investment Management Ltd	59,186,289	3.190
Schroder & Co Ltd	18,254	0.001
Investment funds managed by Templeton	92,969,270	5.011

Other than in the context of the merger arrangements (details of which are set out at www.iagshares.com) there has been no significant change in the shareholder structure during the period.

British Airways Plc Employee Share Ownership Trust (the Trust) owns 6,330,091 shares (2010: 795,733) in IAG. The Trust is not a subsidiary of IAG; however it is consolidated in 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; 1,465,642 shares were issued to employees during the year as a result of employee share scheme exercises.

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.

CORPORATE GOVERNANCE - CONTINUED

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 depository, Deutsche Bank, is the registered holder. As at December 31, 2011 the equivalent of 16.2 million shares were held in ADR form (December 31, 2010: 15.7 million British Airways shares).

Share issues, buy-backs and treasury shares

The Shareholders' meeting of the Company has not delegated to the Board the authority to issue shares of the Company.

The Shareholders' meeting held on November 29, 2010 authorised to carry out the acquisition of shares issued, directly by the Company or indirectly through its subsidiaries, up to the maximum amount permitted by applicable law (10 per cent of the share capital). The acquisitions may not be made at a price greater than the listing price of the shares. This authorisation is granted for a maximum period of five years from November 29, 2010. The shares acquired pursuant to this authorisation may be disposed of or allocated to the shares compensation systems of the IAG Group.

The Securities Code of Conduct of the Company contains the Treasury Stock Transactions Code of the Company.

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 the 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, 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 could adversely affect 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 may suspend 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 any non-EU shareholders, which may not be more than 40 per cent of the Company's share capital under any circumstances. At December 31, 2011 22 per cent of the ordinary shares of the Company were held by non-EU shareholders.

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 Employee Benefits Trust (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, 2011 there were 6,330,091 shares held in the Trust (2010: 795,733).

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	Independent
Willie Walsh	Group Chief Executive	Executive
César Alierta Izuel	Non-Executive Director	Independent
Patrick Cescau	Non-Executive Director	Independent
José Manuel Fernández Norniella	Non-Executive Director	Other External ³
Baroness Kingsmill	Non-Executive Director	Independent
Jim Lawrence	Non-Executive Director	Independent
José Pedro Pérez-Llorca	Non-Executive Director	Independent
Kieran Poynter	Non-Executive Director	Independent
Rodrigo de Rato y Figaredo	Non-Executive Director	Proprietary ⁴
Rafael Sánchez-Lozano Turmo	Executive Director	Executive
John Snow	Non-Executive Director	Independent
Keith Williams	Executive Director	Executive

¹ In accordance with the definitions set forth in the Spanish Unified Good Governance Code

² Antonio Vázquez Romero was, until the execution of the merger between British Airways and Iberia, the Chief Executive Officer of Iberia

³ Executive Director of Bankia, S.A., a significant shareholder of IAG

⁴ Appointed on proposal from Bankia, S.A., a significant shareholder of IAG

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

All Directors were re-elected for four years from January 21, 2011 at the General Meeting held on November 29, 2010.

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. 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 2011.

REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE



Dear Shareholder

The Audit and Compliance Committee's first year presented the challenge of maintaining the best of British Airways' and Iberia's control, risk management and compliance practices whilst creating a scaleable platform that could be adopted by new airlines joining the Group.

The four Committee members have a wealth of financial, legal and commercial experience. The Committee has worked constructively in 2011 and we are confident that we can continue to develop industry leading practices throughout the Group in 2012.

Kieran Poynter

Audit and Compliance Committee Chairman

Composition and meetings

The Audit and Compliance Committee comprises four members Kieran Poynter (Chairman), José Pedro Pérez-Llorca, James Lawrence and Patrick Cescau. Kieran Poynter has recent and relevant financial experience for the purposes of the UK Corporate Governance Code and 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 six times during 2011. 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;
- Recommend the appointment of external auditors and review of 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. In early 2012 the Committee reviewed its terms of reference, and the revised terms were approved by the Board and are available on the Company's website.

The full terms of reference of the Committee are shown in section B.2.3 of the Spanish Corporate Governance Report.

Other items reviewed

IAG first year

During the year technical presentations have been made on accounting standard developments relevant to the airline industry and judgemental areas of the Group accounts in preparation for the Committee's review of the first IAG annual financial statements. The Committee has also reviewed the Group's accounting policies, its financial reporting framework and accounting for the merger including the purchase price allocation.

The Committee developed and implemented a policy regarding the non-audit services that may be provided by the external auditors. The policy prohibits certain categories of work and controls the overall level of expenditure. The Group has retained Ernst & Young LLP and Deloitte S.A. as auditors of British Airways and Iberia respectively and appointed Ernst & Young S.A. as IAG's auditors. The policy applies to Ernst & Young and Deloitte services throughout the Group so transitional arrangements were adopted to run down the level of non-audit work carried out in parts of the Group that they do not audit. Details of the fees paid to the external auditors during the year can be found in note 7 to the financial statements.

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 potential impact of the acquisition of bmi. The review was carried out in light of the Financial Reporting Council's guidance for Directors in relation to going concern and liquidity risk (October 2009) as well as its paper entitled Challenges for Audit Committees arising from current economic conditions (November 2009).

Financial risk management

Early in the year, the Committee took a leading role in reviewing the integration of British Airways' and Iberia's fuel and currency hedging activity resulting in a single financial risk management policy and centralisation of decision making in the IAG Hedging Committee. Further information on the policy is included in note 26 to the financial statements.

External audit

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 and Deloitte's performance during 2011, the Committee decided it was in the Group's and shareholders' interests not to tender the audit in 2012 and recommends their re-appointment.

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. The Safecall service was widened to the Group during the year and a Spanish language whistleblowing helpline is currently being implemented within Iberia.

REPORT OF THE NOMINATIONS COMMITTEE



Dear Shareholder

I am delighted to present this first report to shareholders on the work of the Nominations Committee. The main purpose of this committee is to review the criteria to be followed for the composition of the IAG Board and the senior Management Team in order to ensure that the Group has the right structure, skills and experience for the effective management of the Group's businesses. Based upon this continuing review, the Committee will report to the Board and, as and when appropriate, nominate candidates for appointment to the Board.

The Committee was formed in 2010, ahead of the January 2011 merger.

During 2011, the Nominations Committee held one formal meeting, attended by all Committee members. At this meeting, the Nominations Committee considered the requirement for the Board to have a Senior Independent Director pursuant to the UK Corporate Governance Code. As a result, the Nominations Committee proposed to the IAG Board the granting of the powers of a Senior Independent Director to the Deputy Chairman of the Board.

Since the year end, work has begun on establishing a succession plan for the IAG senior Management Team. In 2012, the Nominations Committee will also be focusing on board diversity, a further Board induction and development programme and the outcomes of the recent Board performance evaluation, in addition to other areas falling within its remit. This will include conducting an annual forward-looking analysis of the skills and diversity required of Board members to achieve the Group's objectives.

John Snow

Nominations Committee Chairman

Composition and meetings

The Nominations Committee was created by a resolution of the IAG Board at the meeting held on September 27, 2010. The composition, competencies and operating rules of the Nominations Committee are regulated by article 24 of the IAG Board of Directors' Regulations.

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 terms of reference of the Committee are contained in the Company's Board regulations and the main duties can be summarised as follows:

- Report on and review the criteria to be followed for the composition of the Board and the selection of candidates, defining the necessary functions and skills and evaluating the time and dedication required to correctly perform its remit;
- Plan for the succession of Board members, in particular, the succession of the Chairman and the Chief Executive Officer;
- Submit to the Board the proposed appointments of Independent Board members;
- Report to the Board on the proposed appointment of the other Board members;
- 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 meetings;
- Identify Board members qualified to fill vacancies on any committee of the Board; and
- Oversee and establish guidelines relating to the appointment, recruitment, career, promotion and dismissal of senior executives.

In identifying suitable candidates, the Nominations Committee shall use open advertising or the services of external advisers 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.

During the year, the Committee performed an evaluation of its performance and concluded it is operating effectively. In early 2012 the Committee reviewed its terms of reference, and the revised terms were approved by the Board and are available on the Company's website.

REPORT OF THE SAFETY COMMITTEE



Dear Shareholder

I am pleased to present this first report to shareholders on the work of the Safety Committee. In the airline industry, safety is paramount.

The Safety 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 Safety Committee reports to the IAG Board relevant information, following up on any safety related measures as determined by the IAG Board. In addition, the Safety Committee reviews safety information received on IAG, its subsidiaries and franchise activities.

During 2011, the Safety Committee held three meetings, attended by all Committee members. The principal topics discussed included:

- the review of responsibilities of IAG and the operating companies in terms of safety;
- the terms of reference for the activities of the Safety Committee;
- a general view of the industry in relation to safety issues, including major incidents to other operators; and
- the safety review reports of British Airways and Iberia.

Willie Walsh
Safety Committee Chairman

Composition and meetings

The Safety Committee was created by a resolution of the IAG Board at the meeting held on October 19, 2010. The composition, competencies and operating rules of the Safety Committee are regulated by article 26 of the IAG Board of Directors' regulations.

The Safety 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 Safety 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. The responsibility to perform 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;
- To carry out any other safety related functions assigned by the Board.

In early 2012 the Committee reviewed its terms of reference, and the revised terms were approved by the Board and are available on the Company's website.

REPORT OF THE REMUNERATION COMMITTEE



Dear Shareholder

I am pleased to set out the first Remuneration Report of IAG. The year in question has been a successful one for the Company, building on the robust governance already in place within British Airways and Iberia with the ultimate aim to create an executive remuneration framework which supports our business objectives and achieves our financial targets. In this context, our remuneration policy is to provide total remuneration which is market competitive with increased emphasis placed on pay for performance.

During the year, the Committee reviewed the remuneration arrangements that had been put in place when IAG was formed and which were set out in the merger documentation. The Committee considered that the remuneration framework continued to be appropriate for IAG, however certain refinements have been made, following consultation with key investors.

In summary, performance share awards granted in 2012 will now be subject to Total Shareholder Return (TSR) and EPS performance conditions (awards granted in 2011 were subject to TSR and synergy targets). The Committee considers that the achievement of synergy targets continues to be of key importance and will be incorporated in the annual incentive award targets. Further details of these changes are set out in this report.

Although there has been strong full year performance, we have not met our stretching financial targets which were set at the beginning of the year and as such the two-thirds portion of IAG's annual incentive plan linked to financial performance will not pay out for 2011. However, the Group has achieved significant successes throughout the year, including outperforming our first year cost and revenue synergies. 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 supports the business strategy and is confident that the changes for 2012 are in the best interests of shareholders.

Approved by the Board and signed on its behalf by

César Alierta Izuel
Chairman of the Remuneration Committee

Introduction

This report covers the reporting period from January 1, 2011 to December 31, 2011 and provides details of the Remuneration Committee (the Committee) and remuneration policy for the Company. This report has been prepared in accordance with the UK Listing Rules and although there is no requirement as a Spanish company, therefore on a voluntary basis, the requirements of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

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.

Information not subject to audit.

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 Norriella and John Snow.

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 two 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 and 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 and attendance is shown on page 42.

Committee and advisers

During the year under review, the Committee's main duties were:

- to propose to the Board the system and amount of the annual remuneration for Board members, as well as the individual remuneration of the Executive Board members and the other terms of their contracts, pursuant in all cases to the provisions of the Company's Bylaws;
- to report to the Board on the potential indemnification that may be established in the event of the dismissal of senior executives;
- to report to the Board on the senior executive remuneration policy and the basic terms of their contracts;
- to report on incentive plans and pension supplements;
- to periodically review the remuneration programmes, taking into account their suitability and performance;
- 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; 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;
- to exercise any other powers attributed to it by the Company's Bylaws, the Board of Directors regulations or the Board itself.

REPORT OF THE REMUNERATION COMMITTEE – CONTINUED

Remuneration policy

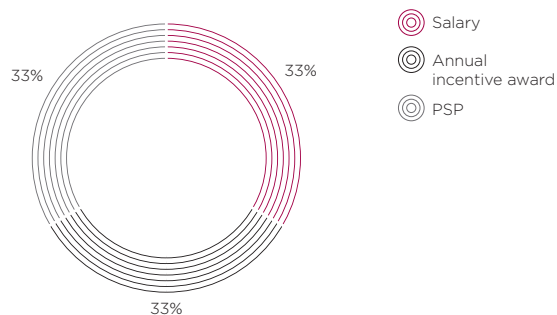
The Company's remuneration policy is to provide total remuneration packages which are broadly competitive with the market median, linked to the business strategy and take into account each individual's role, skills and contribution. The Company's primary comparator group is the FTSE 26 to 100 (excluding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

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

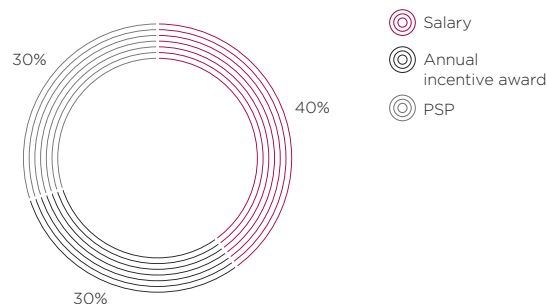
Element of remuneration	How this supports strategy	Opportunity	
		2011	2012
Base salary	Takes account of role, skills and contribution	Group Chief Executive – £825,000	Group Chief Executive – £825,000
		Chief Executive Officer of British Airways – £630,000	Chief Executive Officer of British Airways – £650,000
		Chief Executive Officer of Iberia – €632,000	Chief Executive Officer of Iberia – €632,000
Annual incentive award	Incentivises annual corporate financial performance and role specific objectives	Group Chief Executive – 200% of salary (100% of salary for on-target performance) Other Executive Directors – 150% of salary (75% of salary for on-target performance)	Unchanged
Incentive Award Deferral Plan (IADP)	Aligns the interest of executives and shareholders and provides a retention tool	Half of any annual incentive award is deferred into shares	Unchanged
Performance Share Plan (PSP)	Incentivises long-term shareholder value creation. Drives and rewards delivery of sustained TSR and financial performance	Group Chief Executive – 200% of salary Other Executive Directors – 150% of salary	Unchanged
Pension	Provides post-retirement remuneration and ensures total remuneration package is competitive	A defined contribution scheme providing 25% of basic salary per annum	Unchanged
Shareholding guidelines	Provides further alignment between the interests of executives and shareholders	Executives are expected to build up and maintain a shareholding of 100% of salary	Unchanged

Performance measures and vesting schedule	Changes for 2012
<p>Benchmarked against companies in the FTSE 26 to 100 and other global airline companies</p> <p>Reviewed annually</p>	<p>The salaries for the Group Chief Executive and the Chief Executive of Iberia have been frozen. The salary for the Chief Executive Officer of British Airways increased by 3%</p>
<p>Two-thirds based on corporate financial performance (for 2011, Group profit before tax excluding exceptional items), one-third based on role specific objectives</p>	<p>Incorporate relevant synergy targets in role specific portion of the annual incentive award</p> <p>Two-thirds measured by operating profit (rather than profit before tax excluding exceptional items), one-third based on role specific objectives</p>
<p>Vest after three years subject to continued employment</p> <p>A clawback provision applies</p>	<p>Unchanged</p>
<p>For 2011, 70% based on IAG TSR performance relative to a ranked comparator group of international airlines and 30% based on achievement of synergy targets</p>	<p>No change in the maximum award. For 2012, the performance conditions will be: 50% based on IAG TSR performance relative to the MSCI European Transportation Index and 50% based on EPS</p>
<p>Not applicable</p>	<p>Unchanged</p>
<p>Executives are expected to retain no fewer than 50% of shares (net of tax) which vest from share plans until shareholding requirement is attained</p>	<p>Unchanged</p>

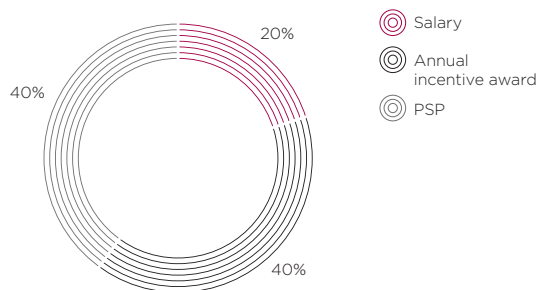
Group CEO – Target performance



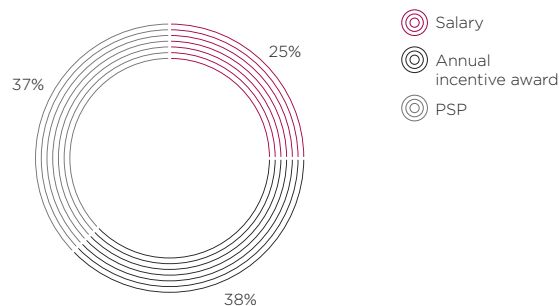
Other Executive Directors – Target performance



Group CEO – Maximum performance



Other Executive Directors – Maximum performance



During the year, the Committee performed an evaluation of its performance and concluded it is operating effectively. In early 2012 the Committee reviewed its terms of reference, and the revised terms were approved by the Board and are available on the Company's website.

The Committee has not appointed external advisers. The Company obtained remuneration survey data from Towers Watson. During the year, the Group Chief Executive Officer provided regular briefings to the Committee apart from when his own remuneration was being discussed.

Balance between fixed and variable remuneration

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

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 the business forward.

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

Individual elements of remuneration

Fixed elements of reward

Base salary

The Committee proposes an Executive Director's base salary at the beginning of each year and any change is applied with effect from January 1. 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.

Chief Executive Officer IAG:

The Chief Executive Officer of IAG proposed to the committee that his salary be frozen and kept at its 2011 level. After careful consideration, the Committee accepted this proposal, though it is mindful of the need to continue to maintain base salaries at a competitive level, and will keep this matter under ongoing review.

Chief Executive Officer of British Airways:

A three per cent increase was awarded to the Chief Executive Officer of British Airways. This is in line with overall pay increases made to the wider UK-based employee population and the revised salary continues to be within the market competitive range for the role.

Chief Executive Officer of Iberia:

In light of economic conditions in Iberia's home market, managers' salaries at Iberia have been frozen and kept at 2011 levels. The Chief Executive Officer of Iberia requested that his salary be frozen and kept at its 2011 level, in line with the

company-wide objective of no general increases for Iberia management. After careful consideration, the Committee accepted this proposal, though it is mindful of the need to continue to maintain base salaries at a competitive level, and will keep this matter under ongoing review.

Pension

The Company operates a defined contribution scheme. The Executive Directors are entitled to receive a contribution of 25 per cent of base salary. Executives who are not part of the scheme receive a salary supplement in lieu of a pension.

Variable elements of reward

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) 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 financial performance of the Company had not been satisfactory in the circumstances.

For 2011 and 2012, two-thirds of the potential maximum incentive award is based on corporate financial performance.

For 2011, the financial measure used was profit before tax. Based on performance against stretching targets set at the beginning of 2011, the minimum level of performance required for a threshold payout was not met. Therefore, there will be no incentive award payout in respect of this performance measure.

One third of the potential maximum incentive award is based on role-specific objectives. As a result, the award relating to 2011 to the Group Chief Executive was £302,000, to the Chief Executive Officer of British Airways was £189,000, and to the Chief Executive Officer of Iberia was €79,000. Half of this amount is payable in deferred shares in the Company vesting after three years, as outlined in this report.

Although there was no payout under the two-thirds portion of the annual incentive based on purely financial targets, the Group has achieved significant successes throughout the year, and full year performance has been strong.

In particular, IAG's net cost and revenue synergies considerably exceeded targeted levels, reflecting efforts across the Group. In addition, British Airways' performance was strong, with increased levels of operating profit compared to 2010, and outperformance against customer service and punctuality targets.

This strong full year performance will be rewarded for each Executive Director through the one-third portion of the annual incentive which is based on role specific objectives. The actual incentive payouts for the Chief Executive Officer of British Airways and the Chief Executive Officer of Iberia reflect the respective performances of their businesses.

For 2012, the financial measure used will be Operating profit. Operating profit is viewed as an appropriate measure for rewarding management performance, as it is more within management's control than Profit before tax.

Incentive Award Deferral Plan

The IAG IADP was approved by the Board pursuant to shareholders authorisation granted prior to the merger. The IADP is the mechanism for delivering the deferred element of the annual incentive award. 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.

Long term incentive arrangements

The IAG Performance Share Plan (PSP) was approved by the Board pursuant to shareholders' authorisation granted prior to the merger. The PSP is a discretionary plan and is targeted at key senior executives and managers of the Group.

The Company made its first award under the PSP in March 2011. 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.

For the 2011 award, 30 per cent will be subject to achievement of the Company's synergy targets and 70 per cent subject to a TSR performance condition measured against a group of comparator airlines. The vesting of any award is subject to the Committee being satisfied that the Group's underlying financial performance was satisfactory in the circumstances prevailing over the three year period.

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. The maximum individual award made in 2011 was equal to 200 per cent of base salary (for the Group Chief Executive Officer) and 150 per cent of base salary (for the other Executive Directors).

REPORT OF THE REMUNERATION COMMITTEE – CONTINUED

IAG Synergy € targets (30 per cent) for 2011 awards

Achievement of year 1 synergy target of €72 million will trigger 5 per cent.

Achievement of year 2 synergy target of €166 million will trigger 5 per cent.

Achievement of year 3 synergy target of €279 million will trigger 5 per cent.

The 15 per cent balance will trigger if the year 3 synergy target is exceeded by more than 20 per cent (> €335 million).

This portion of the PSP incentivises participants to achieve synergies from the British Airways and Iberia merger, over the three year period. The full award only vests if synergies achieved in 2013 are at least 20 per cent higher than target levels and are therefore set at a stretch level.

TSR (70 per cent) for 2011 awards

TSR measures the financial benefits of holding a company's shares and is determined by share price performance along with any dividends that are paid.

The comparator group of airlines used for the 2011 award is:

Air Berlin	LAN
Air Canada	Lufthansa
Air France/KLM	Qantas Airways
Air New Zealand	Ryanair
All Nippon Airlines	SAS
American Airlines	Singapore Airlines
Cathay Pacific Airways	United Airlines
Delta Airlines	US Airways
Easyjet	

Originally, Japan Airlines was included in this group but it has been removed as the company delisted before the beginning of the performance period.

This performance condition will be measured over a single three year performance period. Performance will normally be measured from the financial year end prior to the award date to the third financial year end following the award date. For the 2011 awards a ten trading-day period from February 4 to 17, will be used for the Company and all the comparator companies. The Board considers that this approach removes the effect of the post-merger unusual trading from the calculation.

Vesting is determined in accordance with the following schedule:

IAG TSR performance	% of this portion of the award vesting
Upper quartile	100
Between median and upper quartile	Pro-rata (straight line basis)
Median	25
Below median	0

Changes for 2012 awards

As outlined in this report, following consultation with key investors, the Committee has made certain refinements to the performance conditions used. Awards granted in 2012 will be subject to a relative TSR and EPS performance condition. No changes are being made to award levels for Executive Directors.

TSR (50 per cent) for 2012 awards

50 per cent of the award will be subject to the Company's TSR performance when compared to the TSR performance of the MSCI European Transportation (large and mid cap) index. The Committee is of the view that comparing the Company's TSR to European transportation companies which includes a number of airline companies, ensures that comparison is made to other companies subject to similar external influences impacting share price performance. This therefore provides a better reference point for management outperformance and value creation.

The Committee proposes a change to an Index TSR approach, as it acknowledges a key drawback of the current ranked group approach is that relatively small changes in TSR performance can lead to dramatic changes in vesting. The Committee considers that measuring TSR performance relative to an index can help avoid this step effect.

Furthermore, the Committee considers that using the index approach with a recognised market index can make some elements of TSR decision-making more objective. The selection of individual peer companies is carried out independently by the MSCI European Transportation Index, and automatic adjustments are made when constituent companies are delisted or are subject to a corporate transaction, using a consistently applied and externally verified methodology.

For the 2012 awards, the vesting schedule will be as follows:

Relative performance over the three year performance period	% payout of this portion of the award
IAG's TSR performance exceeds index by 8% p.a.	100
IAG's TSR performance is between index return and 8% p.a. outperformance	Pro-rata
IAG's TSR performance is equal to the index	25
IAG's TSR performance is less than the index	0

Earnings per share (50 per cent) for 2012 awards

EPS represents the earnings attributable to one ordinary share. For 2012, 50 per cent of the award will be subject to IAG EPS performance targets. The Committee considers that EPS performance provides a strong measure of the underlying financial performance of the business.

Targets will be set at the beginning of the three year performance period, taking into consideration internal growth projections, market consensus figures and general external conditions. The Committee believes that the targets set for 2012 awards are sufficiently stretching. These are set out in the table below:

2014 EPS achieved	% payout of this portion of the award
50 €cents	100
Between 20 €cents and 50 €cents	Pro-rata
20 €cents	10
Below 20 €cents	0

The target is set at the Company's 2015 business plan level of 50 €cents per fully diluted EPS. This recognises the stretching goal the Company has set in its business plan. The Committee notes that by 2014 the Company does not currently project to reach this goal. However, it establishes a 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.

Change of control

In the event of a change of control of the Company, awards will vest to the extent that any performance condition is satisfied to the date of the event and on a time pro-rated basis. The Committee may allow or require awards to be exchanged for equivalent awards over shares in the company which obtains control.

Outstanding awards under legacy share plans

Prior to the merger a number of share plans were in operation in British Airways, with outstanding awards for Executive Directors. Following the merger, all options and awards held by participants in these were automatically exchanged for options and awards of an equivalent value and on the same terms to acquire IAG shares in accordance with the relevant British Airways Share Plan rules with the exception of the long-term incentive plan (LTIP). All options under the LTIP were already exercisable and remained exercisable for a period of three months following the merger. Optionholders had the opportunity to exchange their options for equivalent rights in IAG shares. Details of the outstanding awards are set out in the share awards tables in the audited section. Further detail of the performance condition which applies to the British Airways Performance Share Plan (PSP) 2005 is set out below.

British Airways Performance Share Plan 2005

There are two awards outstanding under this plan which relate to the performance period commencing April 1, 2009 and April 1, 2010, awarded in March 2010 and September 2010 respectively. These awards were made to Executive Directors as part of their role within British Airways at that time. Both are subject to a three year TSR performance relative to a ranked comparator group. The comparator group of airlines used for those awards is shown in the table below:

Air Berlin	Iberia
Air Canada	JAL (2009 only)
Air France/KLM	LAN
Air New Zealand	Lufthansa
All Nippon Airlines	Qantas Airways
American Airlines	Ryanair
Cathay Pacific Airways	SAS
Continental Airlines	Singapore Airlines
Delta Airlines	United Airlines
Easyjet	US Airways

Service contracts for Executive Directors

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 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 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.

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.

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 the UK (as applicable).

As set out in the merger documentation, the Chief Executive 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.

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	22,000

Non-Executive Directors

The fee levels for the Non-Executive Chairman, Non-Executive Deputy Chairman and Non-Executive Directors were set at the time of the merger. The table below sets out the fees.

	2011 and 2012
Base fees	
Non-Executive Chairman ¹	€645,000
Non-Executive Deputy Chairman ¹	€350,000
Other Non-Executive Directors	€120,000
Additional fees	
Committee chairmanship fee	€20,000

¹ As set out in the merger documentation, in 2011 the Non-Executive Chairman and the Non-Executive Deputy Chairman received an additional fee (€235,000 and €175,000 respectively) to recognise the additional responsibilities and time commitment of each position following the merger. These additional fees will not be payable for 2012.

Non-Executive Directors (including the Chairman and Deputy Chairman) shall be 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 Non-Executive 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.

Non-Executive Director appointments

Non-Executive Directors (including the Chairman and Deputy Chairman) do not have service contracts. Their appointment is subject to the Board regulations and the dates they joined the Board are shown in the table below.

The dates of the Chairman's and Non-Executive Directors' appointments, who served during the reporting period are as follows:

Non-Executive Director	Date of appointment	Date of election ¹	Date of re-election - 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 Norriella	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
Rodrigo de Rato y Figaredo	September 27, 2010	November 29, 2010	2015
John Snow	September 27, 2010	November 29, 2010	2013

¹ With effect from the merger effective date (January 21, 2011)

After the expiration of their initial period, each Director will, if re-elected, be appointed for further periods of three years provided that they are re-elected at the end of each three year period. In this way, all of the Directors will (after the initial period) come up for re-election in any rolling three year period.

Life insurance

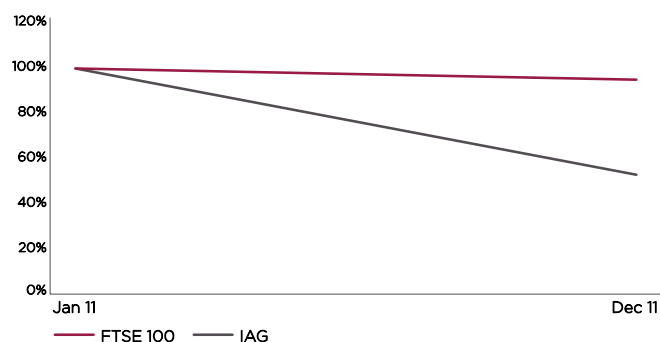
The Company provides life insurance for all Directors. For the year to December 31, 2011 the Company paid contributions of €7,779.

Performance graph

The chart shows the value by December 31, 2011 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: Datastream

REPORT OF THE REMUNERATION COMMITTEE – CONTINUED

The following information is subject to audit:

Directors' remuneration

	Base salary and fees ^{2,4} (€'000)	Taxable benefits ^{3,4} (€'000)	Pension supplement ⁵ (€'000)	Performance related incentive award		Total for year to December 31, 2011 (€'000)
				Cash ⁷ (€'000)	Value of deferred shares (€'000)	
Executive Directors						
Willie Walsh	943	21	182	174	174	1,494
Keith Williams	713	17	172	109	109	1,120
Rafael Sánchez-Lozano Turmo	625	31	136	39	39	870
Non-Executive Directors						
Antonio Vázquez Romero	871	50	-	-	-	921
Sir Martin Broughton ⁶	518	58	-	-	-	576
Baroness Kingsmill	113	16	-	-	-	129
James Lawrence	113	8	-	-	-	121
César Alierta Izuel	140	-	-	-	-	140
Patrick Cescau	120	16	-	-	-	136
José Manuel Fernández Norriella	113	2	-	-	-	115
José Pedro Pérez-Llorca	113	7	-	-	-	120
Kieran Poynter	140	4	-	-	-	144
Rodrigo de Rato y Figaredo ⁸	113	26	-	-	-	139
John Snow	140	2	-	-	-	142
Aggregate emoluments	4,775	258	490	322	322	6,167

¹ €:£ exchange rate applied is 1.1514

² Base salary: Executive Directors; fees: Non-Executive Directors

³ Taxable benefits include personal travel and where applicable, a company car, fuel and private health insurance

⁴ Salary, fee and taxable benefits also include amounts relating to the first 20 days of January, 2011 paid by British Airways and Iberia

⁵ Cash in lieu of pension (Willie Walsh is also a member of the Company's defined contribution scheme, details of which can be found in this report)

⁶ Represents the use of a company car during the year to December 31, 2011, which is a continuation of the benefit he was entitled to as Chairman of British Airways

⁷ Annual incentive award payments for the period ended December 31, 2011

⁸ From December 2011 fees corresponding to Rodrigo de Rato y Figaredo are paid to Bankia, S.A.

Pension benefits

Willie Walsh and Keith Williams were active members of British Airways' pension schemes until the merger effective date and their pension entitlements are:

€	Accumulated accrued benefits January 20, 2011	Increase in accrued benefits during the period	Increase, before inflation, in accrued benefits during the period	Transfer value ¹ of increase before inflation, less Directors' contributions
Keith Williams	2,476,730	360	30	578

The transfer value¹ of accrued benefits at the end of the financial year is as follows:

€	January 20, 2011 ²	December 31, 2010	Movement, less Director's contributions
Keith Williams	2,476,730	2,307,547	169,183

¹ Transfer value represents a liability of the Company, not a sum paid or due to the individual. It is calculated in accordance with 'The Occupational Pension Schemes Transfer Value Regulations (1996)' as subsequently amended

² Calculated by reference to market conditions at December 31, 2011

Keith Williams was a member of both the NAPS and an unfunded unapproved 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 between April 1, 2007 and September 30, 2010, he is entitled to 1/60th of

pensionable pay for each year of service payable at age 65. In line with other NAPS members, Keith was entitled to buy his pension to remain payable at age 60 which he elected to do. For service from October 1, 2010, Keith is entitled to 1/75th of pensionable pay payable at age 65. Again, in line with other NAPS members, for service from October 1, 2010, Keith Williams is entitled to his pension to be payable from age 60 should he so elect.

Willie Walsh was a member of the British Airways Retirement Plan, a defined contribution scheme, and British Airways paid contributions of €5,924 during the reporting period (2010: €81,801).

From the merger effective date Willie Walsh is a member of the Company's pension scheme, a defined contribution scheme and the Company paid contributions during the reporting period of €43,174. Keith Williams and Rafael Sánchez-Lozano Turmo both take cash in lieu of a pension.

Directors' beneficial interests in shares

	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	-	-	-
José Manuel Fernández Norniella	816	816	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	-	-	-
Rodrigo de Rato y Figaredo	408	408	0.000
Rafael Sánchez-Lozano Turmo	103,070	103,070	0.006
John Snow	-	-	-
Keith Williams	135,615	135,615	0.007
Total	2,172,613	2,172,613	0.118

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

Sir Martin Broughton held 2 convertible bonds in British Airways Plc at December 31, 2011.

There have been no changes to the shareholdings set out above between December 31, 2011 and the date of this report.

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.

	Date of grant	Number of options at January 1, 2011	Exercise price	Options exercised during the year	Options lapsed during the year	Options granted during the year	Exercisable from	Expiry date	Number of options at December 31, 2011
Keith Williams	June 26, 2001	38,940	321p	-	38,940	-	June 26, 2004	June 26, 2011	-
	July 1, 2002	91,160	181p	-	-	-	July 1, 2005	July 1, 2012	91,160
	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		387,156		-	38,940	-			348,216

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 BA PSP in 2005.

	Plan	Date of award	Number of awards at January 1, 2011	Awards vesting during the year	Options exercised during the year	Awards lapsing during the year	Awards made during the year	Number of awards at December 31, 2011
Willie Walsh								
	BA PSP	August 19, 2008	430,664	148,837	-	281,827	-	-
	BA PSP	September 17, 2010	469,148	-	-	-	-	469,148
	IAG PSP	March 31, 2011	-	-	-	-	714,285	714,285
Total			899,812	148,837	-	281,827	714,285	1,183,433
Keith Williams								
	LTIP	June 9, 2003	46,631	-	-	-	-	46,631
	LTIP	June 16, 2004	22,141	-	-	-	-	22,141
	BA PSP	August 19, 2008	257,813	89,100	-	168,713	-	-
	BA PSP	March 19, 2010	325,123	-	-	-	-	325,123
	BA PSP	September 17, 2010	280,851	-	-	-	-	280,851
	IAG PSP	March 31, 2011	-	-	-	-	409,090	409,090
Total			932,559	89,100	-	168,713	409,090	1,083,836
Rafael Sánchez-Lozano Turmo								
	IAG PSP	March 31, 2011	-	-	-	-	359,990	359,990
Total			-	-	-	-	359,990	359,990

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.

PSP awards are subject to the performance conditions outlined earlier in this report. 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 and for the IAG award the merger effective date.

The award granted in 2008 was tested at the end of the performance period. The award was subject to two performance conditions: 50 per cent was subject to TSR performance measured against a group of airlines, and 50 per cent was subject to average operating margin performance. As a result none of the shares subject to the operating margin performance condition vested and 34.56 per cent of the original award based on TSR vested on August 19, 2011, the remaining shares lapsed. The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2008 PSP award (August 19, 2008) was 256 pence. The share price on the date of vesting of this award (August 19, 2011) was 169.04 pence. The money value of the shares received was the share price on the date of vesting multiplied by the number of shares in respect of which the award vested as shown in the table above.

The value attributed to the ordinary shares in accordance with the plan rules on the date of the 2011 PSP award was 231 pence (2010: 235 pence; 2009: 203 pence; 2008: 256 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, 2011) and the British Airways DSP.

	Relates to incentive award earned in respect of performance	Date of award	Number of awards at January 1, 2011	Awards released during the year	Date of vesting	Awards lapsing during the year	Awards made during the year	Number of awards at December 31, 2011
Willie Walsh								
IAG IADP	2010	March 31, 2011	-	-	March 31, 2014	-	90,984	90,984
Total			-	-		-	90,984	90,984
Keith Williams								
BA DSP	2007/08	August 19, 2008	26,100	26,100	June 30, 2011	-	-	-
BA DSP	2009/10	September 17, 2010	70,999	-	September 17, 2013	-	-	70,999
IAG IADP	2010	March 31, 2011	-	-	March 31, 2014	-	44,904	44,904
Total			97,099	26,100		-	44,904	115,903

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

The value attributed to the ordinary shares on the date of the 2008 DSP award (August 19, 2008) was 256 pence. The share price on the date of vesting of this award (June 30, 2011) was 252.3 pence. The money value of the shares received was the share price on the date of vesting multiplied by the number of shares in respect of the award vested, as shown in the table above.

Share scheme dilution limits

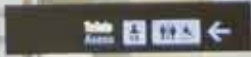
The Association of British Insurers (ABI) sets guidelines that restrict the issue of new shares under all the Company's share schemes in any ten year period to 10 per cent of the issued ordinary share capital and restrict the issues under the Company's discretionary schemes to 5 per cent in any ten year 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, 2011, 0.66 per cent of the share capital had been allocated under the IAG share plans.

The Company's shares began trading on January 24, 2011. The highest and lowest close prices of the Company's shares during the period and the share price at December 31, 2011 were:

At December 31, 2011	147p
Highest in the period	285p
Lowest in the period	132p



STRIVING TO ACHIEVE
SUSTAINABLE RETURNS





STRIVING

IBERIA



H24



→



THE ECONOMIC LANDSCAPE

IAG operates in all key global markets, with primary economic exposure in the UK and the eurozone as well as strong exposure to North and South America.

UK

In the UK, fiscal austerity, combined with rising unemployment and inflation (pushed up by January's VAT increase, a series of energy tariff hikes and high commodity prices) depressed household real incomes, providing a drag on economic growth. Problems in the eurozone hit confidence in the second half of the year, deterring consumer spending and investment, and paving the way for a further softening of economic growth in 2012 to as low as 0.3 per cent. A period of recession seems highly likely, although reasonable growth, albeit of less than 2 per cent, should return in 2013, absent any further significant deterioration in Europe.

Eurozone

The eurozone is expected to be recessionary in 2012, compared with the growth of 1.6 per cent for 2011. It is forecast to recover slowly, reaching 1.8 per cent by 2014. In the event of some form of break-up in the eurozone, economic growth is expected to be similar to that of the latest global recession, with a 5 per cent drop in GDP over the next two years, which would increase significantly with a disorderly break-up or major economies exiting. A eurozone recession is also expected to affect the UK, which relies on the eurozone as the destination for 50 per cent of its goods exports. UK exports to Europe could fall by 10 per cent over the next two years, and this could reduce UK GDP growth, at a time when the UK is increasingly relying on exports to fuel economic growth.

North America

The economic fundamentals in the US point to increased growth, but house prices and consumer retrenchment pose risks. On the positive side, upbeat signals about the US economy continue to accumulate albeit at low levels. Employment trends have been encouraging, with unemployment figures falling in the last months of 2011 and early 2012. There are some signs of a pick-up in corporate spend from increased profitability. Economic growth in 2012 is expected to be 2.5 per cent, higher than that estimated for 2011 (at 1.7 per cent). Growth should then stabilise and strengthen to around 3.0 per cent by 2014, which is expected to be sustainable in 2015 and beyond.

Latin America

Strong demand from China and India will keep the emerging economies at the forefront of global economic growth, although the more externally focused emerging countries may find themselves vulnerable to developments in the

Organisation for Economic Co-operation and Development (OECD) economies, particularly the US. There are also persistent concerns around the effects of inflation and asset bubbles leading to a correction in Chinese growth in 2012 with associated adverse effects on global trade.

Impact on our industry

Premium air travel year on year demand in key markets

Premium demand remained more resilient in IAG's key markets in 2011 than expected.

	2011	2010
North Atlantic	6.1%	5.2%
Within Europe	5.1%	3.0%
Within Far East	9.1%	21.1%
Europe - Far East	8.4%	12.2%
Europe - Middle East	9.1%	10.7%
Total market	5.5%	9.1%

Source: IATA data

Competitor outlook

Trading conditions

IATA estimates industry fuel costs will rise 11 per cent in 2012 to almost \$200 billion. High oil prices with an uncertain economic environment are impacting industry profitability. Most carriers have weathered the storm so far, many through discipline around the deployment of capacity.

The current environment is forcing some into drastic action: most recently Barcelona-based Spanair ceased operations. AMR, parent company of American Airlines filed for bankruptcy protection in November 2011 but is expected to emerge a stronger, more competitive carrier.

Many airlines are implementing cost savings programmes. At the start of 2012 Air France-KLM announced restructure plans to drive €1 billion of cost savings over three years. Lufthansa group has also announced cumulative cost saving targets of €1.5 billion.

Middle East carriers continue to develop their business at an unprecedented pace. These carriers are aggressively developing global brands through high-profile sponsorships, advertising and financial investments while increasing shares of longhaul passenger flows as they extend their geographic reach.

With the prospect of continued increase in fuel costs and a weak economic backdrop, the trading conditions for 2012 will require discipline and strong reserves.

Consolidation and alliances

Merger activity and alliance approvals slowed in 2011 as the industry focused on driving the benefits of deeper co-operation within alliances and merger synergy benefits. The industry, however, remains fragmented and polarised between markets where free market principles are liberally applied, such as Europe, and a diminishing number of markets where heavy regulation and government intervention still feature.

Lufthansa Group offered bmi for sale in Autumn 2011 and IAG was successful in securing a binding agreement to acquire the bmi group, subject to regulatory clearance in 2012.

The merger of LAN-TAM was approved by Chilean courts in September and will complete in the first half of 2012.

oneworld alliance welcomes more airlines on board during 2012. These additions represent a key landmark in firmly establishing **one**world as the leading alliance for its main target market – frequent international business travellers.

SkyTeam added new members in 2011, including China Eastern and China Southern Airlines, with further additions planned for 2012 including Saudi Arabian, Middle East Airlines and Aerolíneas Argentinas. The Star Alliance added Ethiopian Airlines at the end of 2011 and Avianca-Taca and Copa are scheduled to join during 2012. Air India's membership invitation has been withdrawn and bmi will exit the Star Alliance when acquired by IAG.

Regulatory controls

Aviation is one of the most regulated industries in the world. During the year there have been important regulatory developments that have had a major impact on the industry and on our own strategy.

EU and OpenSkies

Following implementation of the EU-US open skies agreement, the EU has agreed and implemented a similar but more comprehensive agreement with Canada without restrictions on routes, prices or frequencies. A similar agreement has been agreed but not yet implemented with Brazil, and we expect the EU to negotiate more open skies agreements with other countries in the future. These OpenSkies aviation agreements are key to the future growth of EU economies by improving global connectivity and creating high value jobs, as well as better regulatory cooperation between nations in areas such as safety, security and competition.

Russia finally secured accession to the World Trade Organization in December 2011 which triggered the implementation of the EU-Russia agreement to phase out the high payments imposed on EU airlines overflying Trans-Siberian airspace on services between the EU and Asia. These payments will be eliminated by January, 2014 and should allow the opportunity for EU airlines to operate more air services to the fast-growing Asian market.

Spanish airports

In January 2012, the new Spanish government announced its intention to postpone the planned privatisation of AENA, the Spanish public body that owns and operates the majority of

airports in Spain, as well as Spanish air navigation services. A decision on which business model Spanish airports will follow will be announced following further studies. Airports must be run in the most efficient way possible, offering competitive prices and a high quality service. Madrid Barajas and Barcelona El Prat are key airports for Iberia and charges at both airports have subsidised loss making airports in the past. During 2011, airport charges for Airbus A320 aircraft increased by 24 per cent at Barajas airport and 15 per cent at Barcelona El Prat airport. Iberia has called for an end to cross-subsidies. Further consideration should be given to lowering charges for passengers in transit at Madrid to promote the connectivity of the airport.

An integrated high speed rail link at Madrid Barajas Terminal 4 is key to the development of the airport and Iberia. The provision of effective and seamless connections between train and plane should mean that rail journeys will replace flights with a duration of one hour or less. This means that slots can be used more efficiently.

UK aviation policy

Following the cancellation of plans for a third runway at London Heathrow, the UK government published its Scoping Document for developing a sustainable framework for UK aviation in March 2011. British Airways issued a comprehensive reply, outlining the company's confidence that the UK can grow its hub capacity whilst meeting its environmental obligations. To truly support the UK economy, there must be additional capacity to meet the growing demand for global connectivity.

The UK government introduced the Civil Aviation Bill which will broaden the remit of the UK Civil Aviation Authority (CAA) promoting passengers' interests. The CAA will be granted more flexibility to set performance targets at major UK airports and the ability to provide passengers with enhanced information about airline and airport performance. Should airports breach licence conditions, the UK CAA will have the power to impose penalties of up to 10 per cent of turnover.

The CAA is responsible for setting price controls every five years at designated airports. The regulatory arrangements for the current control period are due to expire in March 2014 and last year the CAA launched a consultation for the next round of airport price reviews. British Airways' priority is to ensure that airport users get value for money from the charges they pay. The charges have tripled in the last ten years and future increases on this scale are untenable and unjustifiable. Airport operators should be incentivised to deliver an effective, timely service to our customers at a fair and efficient price.

In December 2011, the UK government announced an 8 per cent increase in Air Passenger Duty (APD) rates effective from the start of April 2012. Prior to the announcement, IAG joined forces with Easyjet, Ryanair and Virgin Atlantic to form the Axe the Tax campaign. This tax should be abandoned by the government as it threatens the competitiveness of the UK and stifles economic growth.



We have made significant progress in the delivery of both our first year synergies and the planning and commencement of the longer term changes required across the Group to deliver our five year target.



Enrique Dupuy de Lôme Chávarri
Chief Financial Officer

The financial review of the year sets out the economic background to 2011 and summarises the key elements of our performance for the year which has seen our operating profit on a combined basis improve by 116 per cent from €225 million to €485 million, before exceptional items. We have set out the majority of the performance analysis on a like for like calendar year basis comparing the combined results for 2011 versus 2010.

Economic backdrop

The airline industry is highly sensitive to economic conditions and in particular gross domestic product changes in key markets. For IAG the GDP performance for the past five years for our key markets is shown below:

IAG key GDP movements - last 5 years



Source: Relevant country's statistics reporting body or Oxford Economics

IATA market growths

IATA

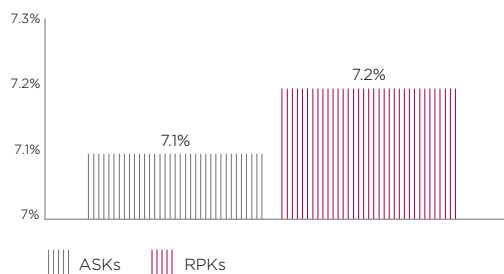
Full year to December 31, 2011	Capacity ASKs	Traffic RPKs	Cargo CTKs
International	8.2%	6.9%	-
Domestic	3.1%	4.2%	-
Total market	6.3%	5.9%	(0.7%)

IAG

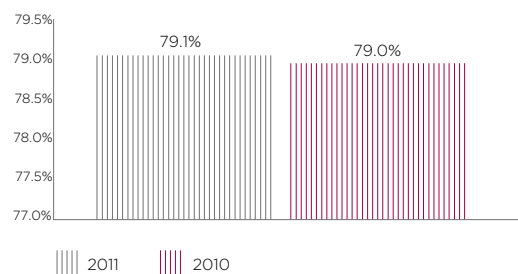
Full year to December 31, 2011	Capacity ASKs	Traffic RPKs	Cargo CTKs
International	8.2%	8.1%	-
Domestic	(12.9%)	(11.7%)	-
Total market	7.1%	7.2%	4.2%

In 2011 IAG increased its traffic (RPKs) by 7.2 per cent against a capacity increase of 7.1 per cent resulting in an increase in seat factor of 0.1 point to 79.1 per cent.

IAG capacity and traffic 2011 v 2010



IAG seat factor



Financial performance

The table below summarises the consolidated results of IAG for the year to December 31, 2011 compared to British Airways' results for the nine months to December 31, 2010. In accordance with the relevant financial reporting standards, the results of British Airways are included for both periods and the results of Iberia are included from January 21, 2011, the date on which Iberia joined the Group. In addition the combined results of the IAG Group are summarised below for the full year to December 31, 2011 and 2010 to provide a better understanding of the year over year performance changes.

€ million	Consolidated			Combined (note 3)		
	12 months to 31/12/11 (note 1)	9 months to 31/12/10 (note 2)	Higher/ (lower)	12 months to 31/12/11	12 months to 31/12/10	Higher/ (lower)
Operating revenue						
Passenger	13,496	6,885	96.0%	13,675	12,322	11.0%
Cargo	1,176	625	88.2%	1,190	1,096	8.6%
Other	1,431	379	277.6%	1,474	1,380	6.8%
Total revenue	16,103	7,889	104.1%	16,339	14,798	10.4%
Operating costs						
Employee costs	3,799	1,829	107.7%	3,870	3,790	2.1%
Fuel and oil costs	4,999	2,204	126.8%	5,068	3,907	29.7%
Handling, catering and other operating costs	1,522	902	68.7%	1,545	1,512	2.2%
Landing fees and en-route charges	1,175	547	114.8%	1,200	1,153	4.1%
Engineering and other aircraft costs	1,074	485	121.4%	1,099	1,075	2.2%
Property, IT and other costs	903	497	81.7%	918	991	(7.4%)
Selling costs	740	277	167.1%	756	679	11.3%
Depreciation, amortisation and impairment	969	671	44.4%	979	1,064	(8.0%)
Aircraft operating lease costs	386	60	543.3%	403	403	-
Currency differences	14	(1)	nm	16	(1)	nm
Total expenditure on operations	15,581	7,471	108.6%	15,854	14,573	8.8%
Operating profit before exceptional items	522	418	24.9%	485	225	115.6%
Exceptional items	(78)			(78)		
Operating profit after exceptional items	444	418		407	225	
Finance costs	(220)	(147)		(220)	(222)	
Finance income	85	21		85	53	
Retranslation on currency borrowings	(8)	(14)		(8)	(55)	
Fuel derivative (losses)/gains	(12)	(2)		(12)	21	
Net charge relating to available-for-sale financial assets	(19)	(21)		(19)	(9)	
Share of post tax profit in associates	7	7		7	19	
Profit/(loss) on sale of property, plant, equipment and investments	81	(4)		81	90	
Net financing credit/(charge) relating to pensions	184	(57)		182	(38)	
Profit before tax	542	201		503	84	
Tax	40	11		52	16	
Profit after tax	582	212		555	100	

Note 1 - Full year consolidated results include those of British Airways for the full year to December 31, 2011 and for Iberia from January 21, 2011 to December 31, 2011.

Note 2 - Consolidated results are those of British Airways for the nine months to December 31, 2010.

Note 3 - Combined results include the IAG Group for the full years to December 31, 2011 and 2010.

Results including Iberia from the acquisition date January 21, 2011

The consolidated performance (comparing IAG with British Airways stand-alone last year) shows passenger revenue up €6,611 million or 96 per cent to €13,496 million and costs up €8,188 million or 110 per cent to €15,659 million, principally as a result of:

- the inclusion of Iberia within the Group;
- the accounting period being a full year versus the comparative nine months; and
- the non-repetition of the significant disruption in 2010.

The consolidated results including Iberia from the acquisition date of January 21, 2011, show an operating profit of €444 million (2010: €418 million); a profit before tax of €542 million (2010: €201 million); and a profit after tax of €582 million (2010: €212 million).

Further line by line comparatives are not meaningful due to the Iberia acquisition and that the prior year is only British Airways for the nine months to December 31, 2010. Therefore, this financial review comments on the full year to December 31, 2011 of IAG excluding exceptional items compared to the combined performance of British Airways and Iberia for the prior year.

Full year performance of IAG versus last year
Exchange rates

Exchange rates can have a substantial impact on the 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 exchange rate impact of translating British Airways' results from its functional currency of sterling into the Group reporting currency of the euro.

The three major currencies that impact the Group and their rates for 2011 compared to 2010 are as follows:

	Full year average		December 31 rate	
	2011	2010	2011	2010
\$ to €	1.39	1.33	1.31	1.32
\$ to £	1.60	1.55	1.56	1.55
€ to £	1.15	1.17	1.20	1.18

As the Group has more costs in the US dollar than revenues the weakening of the dollar to the euro has resulted in an overall benefit to the operating result of the Group. The table below shows the impact of the transaction currency effect on the operating profit of IAG together with the translation effect of converting British Airways into euros for group reporting.

€ million	Operating profit		
	2011	2010	Higher/ (lower)
At constant exchange rate	378	225	153
Operating exchange rate impact	132		132
Before translation impact	510	225	285
Impact of translation	(25)		(25)
Reported operating profit	485	225	260

The transactional exchange rate impacts across the Group for the year saw a negative impact on revenue of €116 million and a favourable impact on costs of €248 million resulting in a net favourable impact of €132 million.

The large benefit on costs compared to the negative impact on revenues is mainly due to the large US dollar related costs (principally fuel costs), which exceed the Group's US dollar related revenues.

For the full year the translation of British Airways from sterling functional currency into euro reporting currency has resulted in a €201 million year over year negative impact on revenue and a €176 million benefit on operating costs, mainly reflecting the 1.3 per cent strengthening of the euro against sterling resulting in a negative impact of €25 million.

Therefore total exchange rate impacts were €317 million adverse on revenues and €424 million favourable on costs, resulting in a net favourable impact on operating profit of €107 million.

Passenger revenue

	2011	2010	Higher/ (lower)
Passenger revenue (€ million)	13,675	12,322	11.0%
ASKs (million)	213,193	199,032	7.1%
RPKs (million)	168,617	157,323	7.2%
Yield (revenue/RPK) (€ cent)	8.11	7.83	3.6%
Unit revenue (€cents/ASK)	6.41	6.19	3.6%

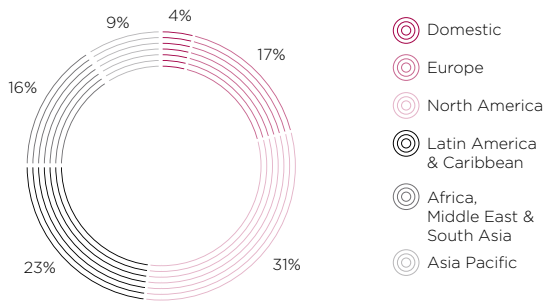
Passenger revenue increased by €1,353 million or 11.0 per cent compared to the prior year. This reflected increased capacity (ASKs) of 7.1 per cent and increased traffic (RPKs) of 7.2 per cent.

The impact at the Group level from translating British Airways' passenger revenue from sterling to the euro reduced the Group passenger revenue by 1.3 per cent. Group passenger revenue at constant exchange rates would have been up 13.2 per cent.

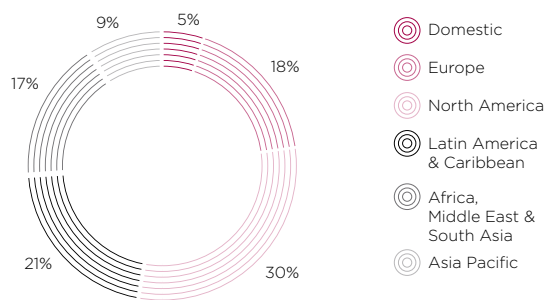
Unit passenger revenue (per ASK) was up 3.6 per cent and passenger yield (per RPK) was also up 3.6 per cent. At constant exchange rates unit passenger revenue was up 5.8 per cent and passenger yield up 5.7 per cent. The focus for 2011 was on volume recovery and market growth whilst also improving unit revenues and yields.

Market growth was stronger across the North Atlantic than in continental Europe. Volume growth was also driven from both the recapture of lost activity due to the volcanic ash cloud and industrial disruption of 2010 and market increases in 2011.

2011 Capacity by region

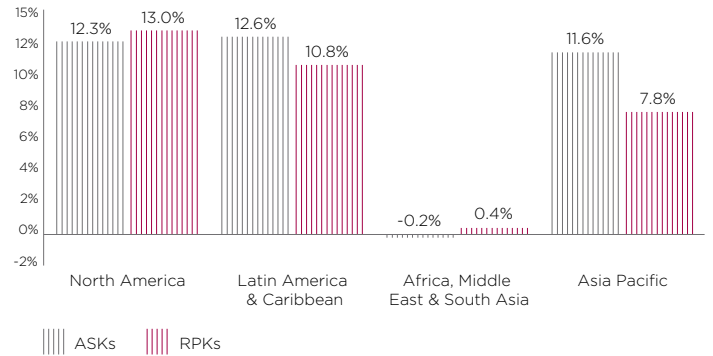


2010 Capacity by region

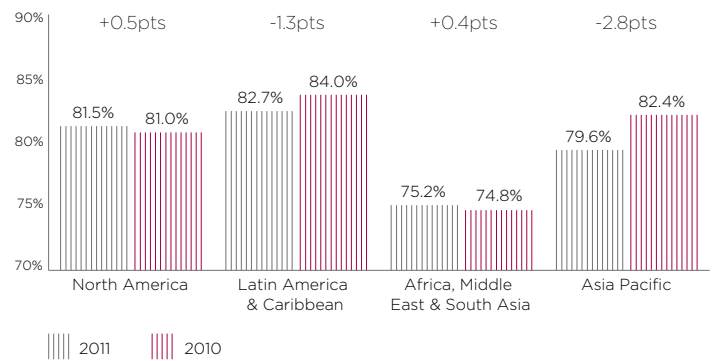


Market segments

Longhaul capacity and traffic 2011 v 2010



Longhaul seat factor



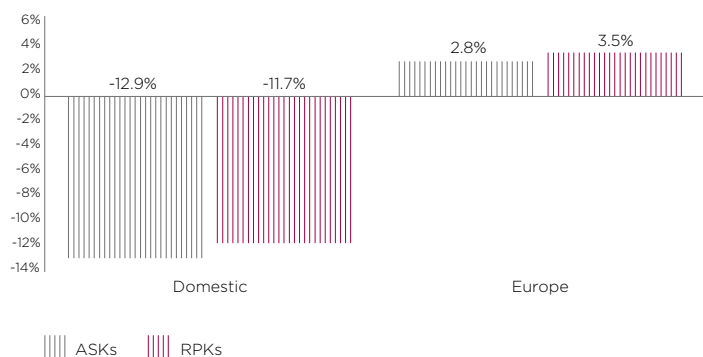
North America capacity increased by 12.3 per cent, while traffic improved by 13.0 per cent, resulting in a small seat factor increase of 0.5 points to 81.5 per cent. We began new routes from Madrid to Los Angeles and London to San Diego for example as well as increasing frequency on a number of other routes. The Joint Business between British Airways, Iberia and American Airlines had its first full year impact this year providing increased customer choice and destinations across the North Atlantic.

Latin America and Caribbean capacity grew by 12.6 per cent and traffic by 10.8 per cent such that seat factor declined 1.3 points to 82.7 per cent. This remains the highest seat factor on the network. We started routes from Madrid to Recife and Fortaleza, and from London to San Juan.

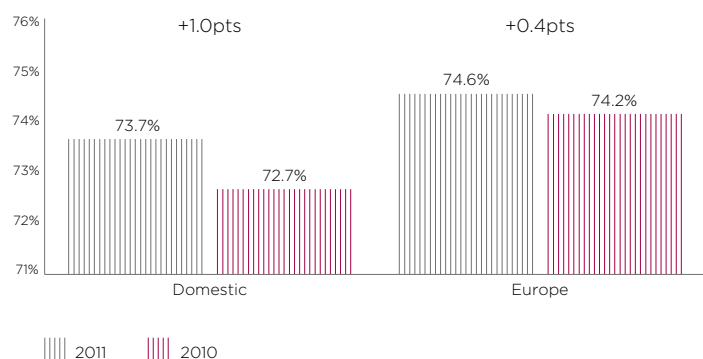
Africa, Middle East and South Asia saw a moderate capacity decrease of 0.2 per cent, but traffic increased by 0.4 per cent leading to a seat factor increase of 0.4 points to 75.2 per cent.

Asia Pacific capacity grew by 11.6 per cent with some frequency increases and the London to Haneda route commencing. Traffic grew only by 7.8 per cent, which resulted in a seat factor decline of 2.8 points to 79.6 per cent.

Shorthaul capacity and traffic 2011 v 2010



Shorthaul seat factor



Domestic capacity decreased by 12.9 per cent and traffic was down 11.7 per cent leading to a seat factor improvement of 1.0 points to 73.7 per cent.

Europe saw capacity growth of 2.8 per cent and traffic improvement of 3.5 per cent leading to a seat factor increase of 0.4 points to 74.6 per cent. The European market has continued to be very competitive particularly in the southern Europe region. This has seen reductions in Iberia's capacity partly through moving some flights to Air Nostrum and Vueling.

Premium traffic (RPKs) increased substantially more than non-premium in the year with a positive mix impact on unit revenues and yields. However significant stage length growth (particularly at Iberia, where shorthaul capacity was substantially reduced whilst at the same time longhaul was increased) has reduced headline unit revenues and yields.

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 American Airlines, British Airways and Iberia has gone from strength to strength in this first full year of operation. Revenues grew to just over \$8 billion with market share growing in both the premium and non-premium segments. American Airlines filing for Chapter 11 restructuring has had no impact on the performance of the Joint Business to date.

Cargo

	2011	2010	Higher/ (lower)
Cargo revenue (€ million)	1,190	1,096	8.6%
CTKs (million)	6,156	5,907	4.2%
Cargo yield (revenue/CTK) (€ cent)	19.33	18.55	4.2%

Cargo revenue was up €94 million or 8.6 per cent to €1,190 million for the year, reflecting volume increases (cargo tonne kilometres) of 4.2 per cent (set against an industry volume reduction of 0.7 per cent, IATA December 2011 Air Transport Market Analysis) and yield increases of 4.2 per cent.

Other revenue

€ million	2011	2010	Higher/ (lower)
Maintenance	413	372	11.0%
Airport handling	290	270	7.4%
Other	771	738	4.5%
Total other revenue	1,474	1,380	6.8%

Other revenue increased by €94 million or 6.8 per cent to €1,474 million for the year. The main increases were in the Maintenance, Repair and Overhaul (MRO) business with revenue growing by 11.0 per cent and airport handling which was up 7.4 per cent. Last year included a €33 million benefit for Iberia from the recovery of provisions in the wake of four Supreme Court rulings accepting Iberia's appeals and absolving the company from paying several settlements of customs duties for the period from 1998 to 2000. The 2011 full year included a benefit of €35 million in respect of a change in estimate on some elements of deferred revenue.

Exceptional items

As a result of British Airways' initial investment in Iberia, the 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, recognised within Exceptional items in the consolidated Income statement.

In accordance with Business combinations accounting standard, the Group cannot recycle the pre-acquisition cash flow hedge net benefits through the Income statement, resulting in fuel and aircraft operating lease costs gross of the pre-acquisition cash flow hedges despite these being effective hedges for Iberia, delivering gains in 2011. For the year this has resulted in an increase in reported fuel expense of €89 million, a decrease in reported aircraft operating lease costs of €11 million and a tax credit of €23 million.

The commentary on operating costs below is prior to the inclusion of these exceptional items that arose on the consolidation of the new Group. For non-operating costs and results, exceptional items are included.

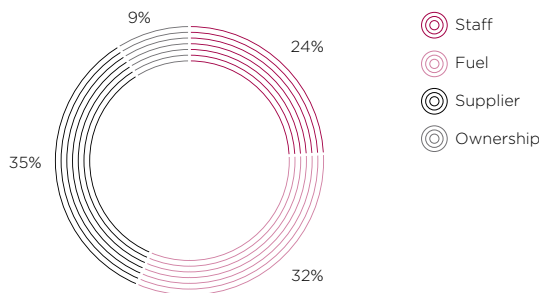
Costs

Total costs excluding exceptional items were up €1,281 million or 8.8 per cent to €15,854 million. Total unit costs were up 1.6 per cent mainly as a result of increased fuel unit costs. Non-fuel unit costs were down 5.6 per cent, and 4.1 per cent at constant exchange rates. Reductions in non-fuel unit costs benefited from continued cost control across the Group as well as the non-repeat of disruption in the prior year.

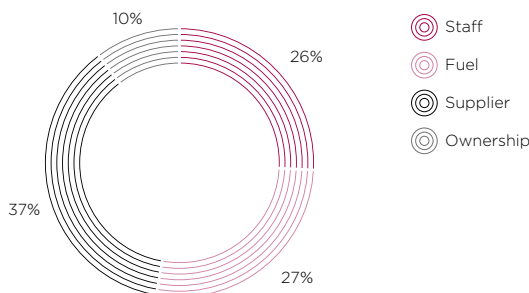
The charts below show the distribution of costs for both 2011 and 2010. The continued rise in fuel commodity prices has led to a significant increase in the proportion of fuel to our total costs, up from 26.8 per cent to 32.0 per cent. Management actions at both British Airways and Iberia together with cost synergy benefits have helped reduce non-fuel unit costs by over 5.6 per cent. Total unit costs for the year rose by 1.6 per cent.

Distribution of costs

2011



2010



Employee costs rose by 2.1 per cent to €3,870 million, reflecting wage awards and increased volumes. Together these accounted for a 3.8 per cent year on year increase, but were partially offset by exchange rate benefits of 1.2 per cent and efficiencies. Average manpower for the year increased by only 0.4 per cent, when capacity in ASKs grew by 7.1 per cent resulting in productivity (ASKs per average employee) improving by 6.7 per cent. Employee unit costs were down 4.2 per cent.

Fuel costs were up €1,161 million or 29.7 per cent to €5,068 million. Fuel unit costs were up 21.4 per cent, as a result of increased commodity price, net of hedging benefits. This was partly offset by exchange rate benefits as the dollar weakened against the euro (4.7 per cent). Fuel unit costs were up 27.6 per cent at constant exchange rates.

Handling charges, catering and other operating costs

were up 2.2 per cent to €1,545 million. The 7.1 per cent increase in ASKs resulted in only a 3.7 per cent increase in these costs, whilst inflation added a further 2.4 per cent. Offsetting these cost increases were benefits from exchange rates and from a number of management actions, including joint airport handling procurement and reduction of crew hotel costs under the Group synergy programme.

Landing fees and en-route charges rose by 4.1 per cent to €1,200 million, mostly as a result of increased volume related costs of 4.9 per cent, but also price increases of 4.2 per cent which outstripped inflation in many markets, particularly at London Heathrow. Exchange rate benefits and some rebates helped reduce these costs.

Engineering and other aircraft costs were up 2.2 per cent to €1,099 million, partly reflecting increased volume of flying across the Group, but also increased materials for the MRO business. Exchange rate benefits more than offset inflation increases and some synergy benefits for line maintenance have already helped reduce costs.

Property, IT and other costs were down 7.4 per cent to €918 million, mainly reflecting the non-repeat of merger costs incurred in the prior year. Remaining costs were held flat. The Group did not incur significant expenditure for research and development.

Selling costs increased by 11.3 per cent to €756 million. This reflected increased volume costs due to the higher revenue which was up 10.4 per cent. A change in accounting for certain incentive commissions previously netted off passenger revenue, which now increases costs. Investments in brand campaigns also increased costs but were offset by benefits from exchange rates.

Depreciation, amortisation and impairment was down 8.0 per cent to €979 million, reflecting non-repeat of impairment charges of €42 million in 2010, exchange rate benefits and a reduction in the level of assets held such as the retirement of Boeing 757s in 2010.

Aircraft operating lease costs were flat at €403 million.

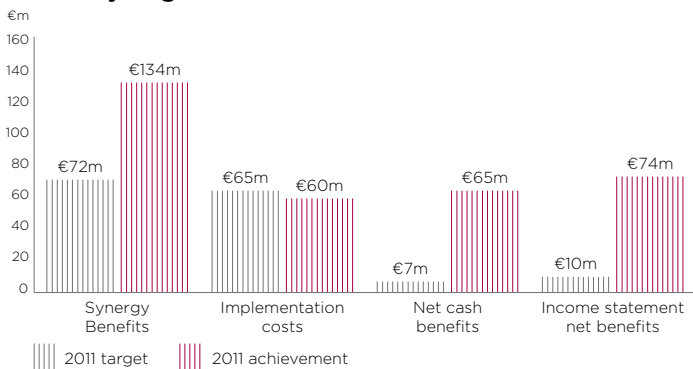
Currency differences resulted in a €16 million charge for 2011 compared to a €1 million credit in 2010.

Synergies

We have made significant progress in the delivery of both our first year synergies and the planning and commencement of the longer term changes required across the Group to deliver our five year target. During the year we raised our expected revenue and costs benefits value from €400 million to €500 million. By December 31, 2011 our synergy benefits were €134 million and costs of implementation were €60 million, resulting in Income statement benefits to date of €74 million compared to our original target of €10 million.

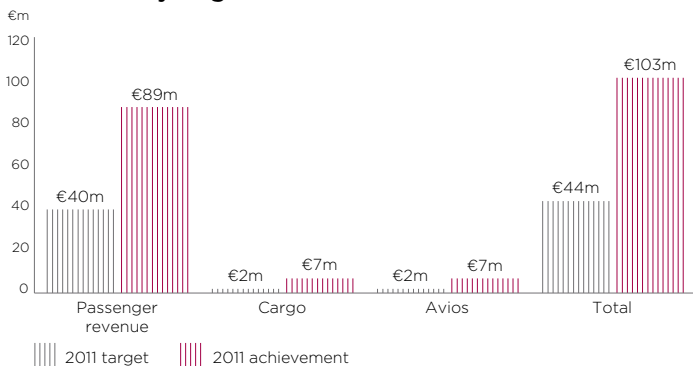
The chart below summarises the net position of the synergy benefits both on a cash basis, which at €65 million were €58 million better than our target for 2011 and on an Income statement basis, which at €74 million were €64 million better than the 2011 target. The major reason for this improvement has been higher benefits from passenger revenue than expected.

2011 Synergies achievement



The charts below summarise the overall 2011 delivery versus the target, and a breakdown of the key areas under both the Revenue and Cost synergy programmes.

Revenue synergies



Key synergies achieved to date:

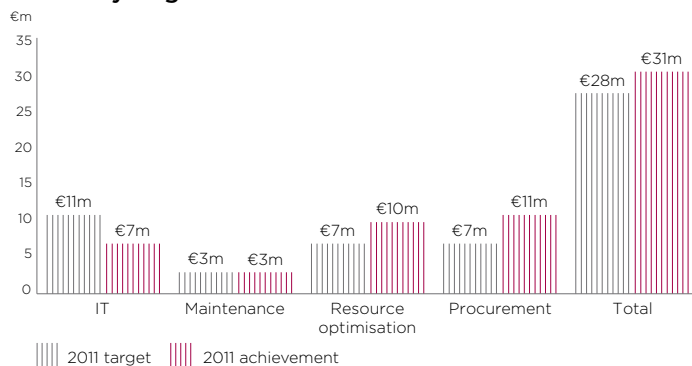
Revenue synergies

- Fare combinability across British Airways' and Iberia's longhaul networks; customers can combine British Airways' and Iberia's fares on cross airline journeys such as London - Buenos Aires - Madrid - London;
- Codeshares in 33 destinations across Latin America, Africa and Europe and a broad programme between Europe and North America as part of the Joint Business with American Airlines;
- Cross selling through airline channels such as ba.com and Iberia.com;
- Cargo - single business with increased network, greater capacity and single strategy, including increased cargo capacity on the London - Madrid air bridge;
- Cargo has introduced joint trucking deals, joint customer incentives and single commercial teams;
- Avios single currency customer loyalty programme introduced; 5.7 million active members, with more ways for customers to collect and redeem points.

Cost synergies

- Sales force integration in British Airways and Iberia home markets as well as USA, South Africa, Egypt, Russia, Chile, Switzerland and Nigeria;
- A number of joint purchases have been made using the economies of scale of the Group;
- Joint crew hotel accommodation and night stop reduction at the London and Madrid hubs;
- Single management teams in a number of airports, such as Orly, Los Angeles, and Luanda;
- Sharing of customer lounge facilities, as well as shared offices and ticket desks at selected airports;
- Benefits from engineering services including a joint team for third party commercial contracts, insourcing work where beneficial, and single line maintenance and inventory at certain airports;
- Restructuring of IT departments and teams to optimise resources across the Group.

Cost synergies



Operating profit

IAG operating profit was €485 million, excluding the exceptional items, compared to a profit of €225 million for 2010.

Operating profit and loss performance of operating companies

	British Airways				Iberia		
	2011	2010	Higher/ (lower)		2011	2010	Higher/ (lower)
ASKs (million)	150,152	136,721	9.8%	ASKs (million)	63,042	62,312	1.2%
RPKs (million)	117,348	106,082	10.6%	RPKs (million)	51,268	51,242	0.1%
Seat factor (per cent)	78.2	77.6	0.6pts	Seat factor (per cent)	81.3	82.2	(0.9pts)
£ million				€ million			
Passenger revenue	8,721	7,454	17.0%	Passenger revenue	3,645	3,610	1.0%
Cargo revenue	739	679	8.8%	Cargo revenue	338	302	11.9%
Other revenue	527	404	30.4%	Other revenue	889	895	0.7%
Total revenue	9,987	8,537	17.0%	Total revenue	4,872	4,807	1.4%
Employee costs	2,172	2,033	6.8%	Employee costs	1,373	1,340	2.5%
Fuel costs	3,246	2,428	33.7%	Fuel costs	1,333	1,071	24.5%
Supplier costs	3,295	3,053	7.9%	Supplier costs	1,766	1,906	(7.3%)
EBITDAR	1,274	1,023	24.5%	EBITDAR	400	490	(18.4%)
Ownership costs	756	826	(8.5%)	Ownership costs	498	518	(3.9%)
Operating profit	518	197	162.9%	Operating loss	(98)	(28)	250.0%
Passenger yield	7.43	7.03	5.7%	Passenger yield	7.11	7.05	0.9%
Unit passenger revenue	5.81	5.45	6.6%	Unit passenger revenue	5.78	5.79	(0.2%)
Total unit revenue (pence/ASK)	6.65	6.24	6.6%	Total unit revenue (€cents/ASK)	7.73	7.71	0.3%
Total unit cost (pence/ASK)	6.31	6.10	3.4%	Total unit cost (€cents/ASK)	7.88	7.76	1.5%
Fuel unit cost (pence/ASK)	2.16	1.78	21.3%	Fuel unit cost (€cents/ASK)	2.11	1.72	22.7%
Non-fuel unit costs (pence/ASK)	4.14	4.32	(4.2%)	Non-fuel unit costs (€cents/ASK)	5.77	6.04	(4.5%)

The British Airways results for the year show strong capacity growth of 9.8 per cent and strong total unit revenue improvement of 6.6 per cent, driving revenue up by 17.0 per cent. The London market remained strong throughout the year together with the North Atlantic and premium segments. Fuel costs rose by 33.7 per cent in the year mostly due to commodity price rises of 40 per cent with fuel unit costs up 21.3 per cent. Non-fuel unit costs were down by 4.2 per cent reflecting continued strong cost control.

The Iberia results for the year show a small capacity growth of 1.2 per cent, which was driven by growth in longhaul and substantial reductions in domestic and shorthaul. Total unit revenue only grew by 0.3 per cent. Whilst the change in the average stage length reduced unit revenues the underlying economic conditions in Spain and its key European markets impacted its ability to raise fares. Total revenue was up 1.4 per cent. Fuel costs rose by 24.5 per cent in the year

mostly due to commodity price rises of 40 per cent with fuel unit costs up 22.7 per cent. Non-fuel unit costs were down by 4.5 per cent reflecting continued strong cost control, and growth in stage length.

Non-operating items

Non-operating items for the year amount to a credit of €96 million (2010: charge of €141 million). The year over year change of €237 million principally reflects a €241 million movement in net financing mainly relating to the British Airways defined benefits pension schemes with lower interest costs on scheme liabilities, higher than expected returns on scheme assets and a significant reduction in the amortisation of actuarial losses in excess of the corridor. The step acquisition of Iberia resulted in a profit of €83 million; this was more than offset by the non-repeat of a 1.5 per cent disposal by Iberia of Amadeus IT Holding, S.A. in 2010 for a profit of €90 million.

Profit before tax

IAG profit before tax was €503 million, compared to €84 million for 2010.

Taxation

Despite a profit before tax of €503 million there was a tax credit for the year of €52 million. This credit mainly arose on deferred tax adjustments related to the adjustment on British Airways' pension fund accounting and the impact of substantively enacted lower tax rates in the UK.

Profit after tax

IAG profit after tax was €555 million, compared to €100 million for 2010.

Earnings per share

The basic earnings per share for the year was 31.1 €cents per share (nine months to December 31, 2010: 17.1 €cents) and the fully diluted earnings per share for the year was 29.7 €cents (nine months to December 31, 2010: 17.1 €cents)

Dividend

The Board has decided not to recommend the payment of a dividend.

Balance sheet and Cash flow statement

The commentary on the Balance sheet and Cash flow statement is based on the consolidated Balance sheet and Cash flow statement, which reflect British Airways only for 2010 and the consolidated Group for 2011.

Balance sheet
Property, plant and equipment

Property, plant and equipment grew by €1,518 million mainly reflecting the €1,385 million acquired through the Business combination; additions of €952 million and depreciation of €927 million.

Business combination

The merger of British Airways and Iberia in accounting terms is treated as an acquisition of Iberia by British Airways. Under this Business combination a purchase price allocation (PPA) exercise has been undertaken to evaluate the fair value of the Iberia assets and liabilities acquired by the Group. The resulting goodwill of €249 million is included as part of Intangible assets. The other substantial increases in Intangible assets also reflect a number of other valuations under this PPA exercise, including brand, customer loyalty programme and landing rights (see note 3 of the financial statements).

Cash

Cash at December 31, 2011 was €3,735 million, up €1,437 million from December 31, 2010. This mainly reflects cash brought into the Group through the Business combination of €1,864 million together with the strong trading performance during the year, however it does include two one off payments in relation to British Airways' competition fines provisions of €168 million and a €157 million payment to British Airways' pension fund as part of the 2010 agreement with the trustees.

Interest-bearing borrowings

Interest bearing borrowings increased by €231 million to €4,883 million. This includes €462 million acquired on the Business combination, proceeds from borrowing of €304 million, and repayments of €653 million.

Net debt

The net debt of the Group increased by €253 million in the year to €1,148 million. Adjusted gearing has fallen to 44 per cent, from 47 per cent in the prior year.

Other balance sheet movements

These mainly arose due to the Business combination. Information in relation to own shares is included within note 30 of the financial statements.

Cash flow statement

Operating cash flow for the year was €770 million (2010: €936 million) which included a one off payment of €168 million in respect of settlement of competition investigations at British Airways and a one off payment of €157 million to British Airways' pension scheme.

Net cash flow from investing activities reflected capital investments of €601 million, which includes €1,071 million spent on property, plant, equipment and intangible asset acquisitions and cash acquired on the Business combination of €689 million and a decrease in other current interest-bearing deposits of €843 million.

Net cash outflow from financing activities of €369 million mainly reflected repayments of borrowings of €312 million and of finance leases of €341 million, whilst an additional €304 million of proceeds from long-term borrowings were received.

Liquidity

Our liquidity position remains strong with nearly €3,735 million of cash and cash equivalents at December 31, 2011. In addition, general purpose committed facilities of €331 million are available for immediate drawing and a further €275 million are available on the provision of substitute collateral to the pension scheme trustees. Aircraft purchase committed facilities of €1,516 million are sufficient to finance all contracted aircraft purchases until December 2012. Note 26 to the financial statements provides detailed analysis and explanation of our cash flow position. Our capital expenditure commitments are outlined in note 14 to the financial statements.

Going concern

Our business activities, performance, strategy and risks are set out in this report. The financial position of the Group, including cash flows, liquidity position and available committed facilities are discussed in this section, and further information is provided in the financial statements. After making enquiries, our Directors have a reasonable expectation that our Company and the Group have adequate resources to continue operating for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the accounts.

Subsequent events

There have been no significant subsequent events.

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 core methodologies within British Airways and Iberia were very similar prior to the merger and 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 Team; determining the Enterprise Risk Management methodology to be applied throughout the Group; ensuring that best practices in risk mitigation are adopted throughout the Group; and determining risk appetite and policies for a limited number of key risks that will 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 to the other. 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.

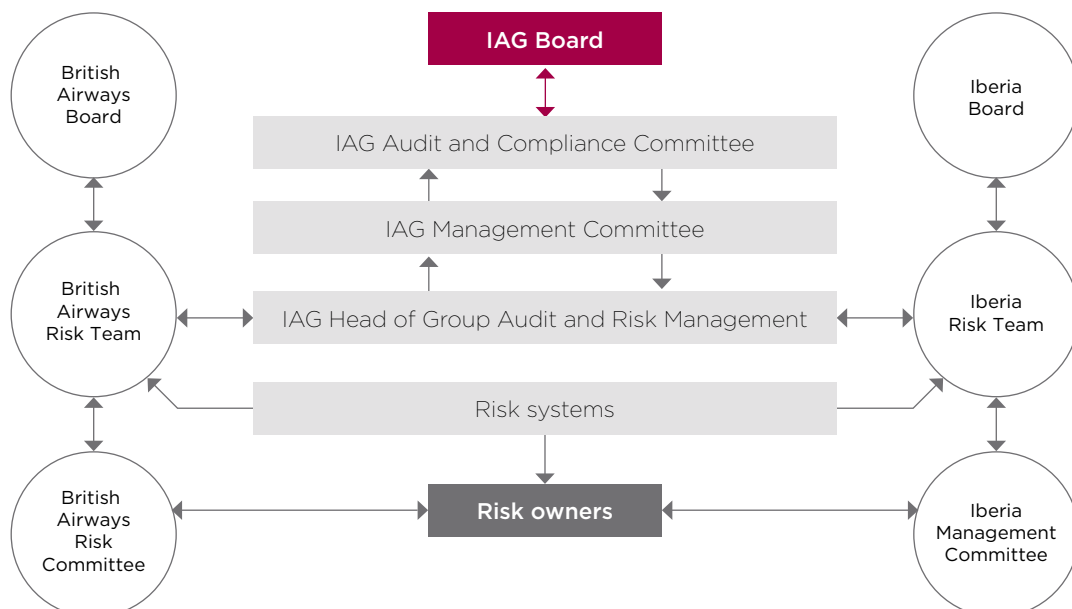
Within British Airways, a Risk Committee consisting of the British Airways Leadership Team, the Head of Corporate Risk and key senior executives meets quarterly. They review the key risks maintained in the risk register and ensure that all new and emerging risks are appropriately evaluated and any further 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 2011 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 yearly basis.

The Company's Management Committee reviewed the Group risk map in advance of a review 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, major projects and the bmi acquisition. It also discussed the results of the Audit and Compliance Committee full review of the Group risk map.

The highly regulated and commercially competitive environment, together with operational complexity, leave 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.

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.



RISK MANAGEMENT AND RISK FACTORS – CONTINUED

**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 merger between British Airways and Iberia and the Joint Business between American Airlines, British Airways and Iberia for transatlantic routes include delivery risks such as realising planned revenue and cost synergies. American Airlines have remained committed to the Joint Business through their Chapter 11 restructuring process. The delivery of synergies 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.

Any additional consolidation by the Group, such as bmi, adds to existing integration risks, including delivering value from the transactions. The airline industry is increasingly dependent on alliances and IAG is no exception to this. Maintaining a leading presence in **oneworld** 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.

Plans by governments to significantly increase environmental taxes such as the UK Air Passenger Duty, the commencement of the European Union Emissions Trading scheme and the potential for other environmental taxes may 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. We continue to focus our communications and government relations activity on highlighting the increasing tax burden on the UK aviation industry.

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 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 has committed to substantial investment in on-board product and new aircraft to maintain its market position.

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. Iberia is particularly exposed to the Spanish economy which grew slowly in 2011 but is widely expected to contract in 2012. The eurozone fiscal crisis increases the risk to economic conditions and stability.

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 Groups' 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. Initiatives aimed at improving competitiveness, such as establishing Iberia Express, have led to strike action amongst Iberia pilots.

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.

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. There is a risk that charges and development plans agreed during the ongoing Quinquennial review 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 as a major stakeholder in the Civil Aviation Authority's Quinquennial 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. 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 2010 through the Japanese earthquake and civil unrest in the Middle East and North Africa.

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 the sources of funding utilised by the Group.

Fuel price and currency fluctuation

We used approximately 7.4 million tonnes of jet fuel in 2011. 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 approved by the Board. It is set out in note 26 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 26 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 synergy targets have been exceeded.

Compliance with competition, bribery and corruption law

The Group is exposed to the risk of individual employee's 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.



ACHIEVING STRONG
PERFORMANCE FOR
FUTURE GROWTH



ACHIEVING

COMBINED INCOME STATEMENT

	Full year to December 31			
€ million	Before exceptional items 2011	Exceptional items	Total 2011	Total 2010
Passenger revenue	13,675		13,675	12,322
Cargo revenue	1,190		1,190	1,096
Other revenue	1,474		1,474	1,380
Total revenue	16,339		16,339	14,798
Employee costs	3,870		3,870	3,790
Fuel and oil costs	5,068	89	5,157	3,907
Handling charges, catering and other operating costs	1,545		1,545	1,512
Landing fees and en-route charges	1,200		1,200	1,153
Engineering and other aircraft costs	1,099		1,099	1,075
Property, IT and other costs	918		918	991
Selling costs	756		756	679
Depreciation, amortisation and impairment	979		979	1,064
Aircraft operating lease costs	403	(11)	392	403
Currency differences	16		16	(1)
Total expenditure on operations	15,854	78	15,932	14,573
Operating profit	485	(78)	407	225
Finance costs	(220)		(220)	(222)
Finance income	85		85	53
Retranslation charges on currency borrowings	(8)		(8)	(55)
Fuel derivative (losses)/gains	(12)		(12)	21
Net charge relating to available-for-sale financial assets	(19)		(19)	(9)
Share of post-tax profits in associates accounted for using the equity method	7		7	19
(Loss)/profit on sale of property, plant and equipment and investments	(2)	83	81	90
Net financing credit/(charge) relating to pensions	182		182	(38)
Profit before tax	498	5	503	84
Tax	29	23	52	16
Profit after tax for the year	527	28	555	100

This financial data is based on the combined results of operations of British Airways Plc, Iberia Líneas Aéreas de España, S.A. Operadora and IAG the Company for the full year to December 31, 2011 and 2010. These combined financial statements eliminate cross holdings and related party transactions; however, the comparatives do not reflect any adjustments required to account for the merger transaction.

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

CONSOLIDATED INCOME STATEMENT

€ million	Note	Full year to December 31, 2011			Nine months to December 31, 2010
		Before exceptional items	Exceptional items	Total	
Passenger revenue		13,496		13,496	6,885
Cargo revenue		1,176		1,176	625
Other revenue		1,431		1,431	379
Total revenue	4	16,103		16,103	7,889
Employee costs	8	3,799		3,799	1,829
Fuel and oil costs		4,999	89	5,088	2,204
Handling charges, catering and other operating costs		1,522		1,522	902
Landing fees and en-route charges		1,175		1,175	547
Engineering and other aircraft costs		1,074		1,074	485
Property, IT and other costs		903		903	497
Selling costs		740		740	277
Depreciation, amortisation and impairment	6	969		969	671
Aircraft operating lease costs	6	386	(11)	375	60
Currency differences		14		14	(1)
Total expenditure on operations		15,581	78	15,659	7,471
Operating profit	4	522	(78)	444	418
Finance costs	9	(220)		(220)	(147)
Finance income	9	85		85	21
Retranslation charges on currency borrowings		(8)		(8)	(14)
Fuel derivative losses		(12)		(12)	(2)
Net charge relating to available-for-sale financial assets	18	(19)		(19)	(21)
Share of post-tax profits in associates accounted for using the equity method	17	7		7	7
(Loss)/profit on sale of property, plant and equipment and investments		(2)	83	81	(4)
Net financing credit/(charge) relating to pensions	9	184		184	(57)
Profit before tax		537	5	542	201
Tax	10	17	23	40	11
Profit after tax for the period		554	28	582	212
Attributable to:					
Equity holders of the parent		534		562	197
Non-controlling interest		20		20	15
		554		582	212
Earnings per share					
Basic	11			31.1	17.1
Diluted	11			29.7	17.1

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

€ million	Note	Full year to December 31, 2011	Nine months to December 31, 2010
Cash flow hedges:			
Fair value movements in equity	30	(106)	79
Reclassified and reported in net profit	30	54	20
Changes in the fair value of available-for-sale financial assets	30	(66)	-
Share of other movements in reserves of associates	17	-	57
Currency translation differences	30	48	20
Total other comprehensive income for the period, net of tax		(70)	176
Profit after tax for the period		582	212
Total comprehensive income for the period		512	388
Total comprehensive income is attributable to:			
Equity holders of the parent		492	373
Non-controlling interest		20	15
		512	388

CONSOLIDATED BALANCE SHEET

€ million	Note	December 31, 2011	December 31, 2010
Non-current assets			
Property, plant and equipment	13	9,584	8,080
Intangible assets	16	1,724	336
Investments in associates	17	165	287
Available-for-sale financial assets	18	466	77
Employee benefit assets	31	1,317	676
Derivative financial instruments	27	37	22
Deferred tax assets	10	497	-
Other non-current assets	19	71	48
		13,861	9,526
Current assets			
Non-current assets held for sale	15	18	39
Inventories		400	115
Trade receivables	19	1,175	453
Other current assets	19	445	306
Derivative financial instruments	27	119	156
Other current interest-bearing deposits	20	1,758	1,381
Cash and cash equivalents	20	1,977	917
		5,892	3,367
Total assets		19,753	12,893
Shareholders' equity			
Issued share capital	28	928	-
Share premium	28	5,280	-
Investment in own shares		(17)	(4)
Other reserves	30	(805)	2,529
Total shareholders' equity		5,386	2,525
Non-controlling interest	30	300	300
Total equity		5,686	2,825
Non-current liabilities			
Interest-bearing long-term borrowings	23	4,304	4,114
Employee benefit obligations	31	277	258
Deferred tax liability	10	1,274	928
Provisions for liabilities and charges	25	1,244	194
Derivative financial instruments	27	55	4
Other long-term liabilities	22	384	362
		7,538	5,860
Current liabilities			
Current portion of long-term borrowings	23	579	538
Trade and other payables	21	5,377	3,314
Derivative financial instruments	27	64	11
Current tax payable		157	12
Provisions for liabilities and charges	25	352	333
		6,529	4,208
Total liabilities		14,067	10,068
Total equity and liabilities		19,753	12,893

CONSOLIDATED CASH FLOW STATEMENT

€ million	Note	Full year to December 31, 2011	Nine months to December 31, 2010
Cash flows from operating activities			
Operating profit		444	418
Depreciation, amortisation and impairment		969	671
Movement in working capital		(115)	(47)
Settlement of competition investigation		(168)	(3)
Cash payments to pension scheme		(157)	-
Other non-cash movements		(12)	-
Interest paid		(186)	(103)
Taxation		(5)	-
Net cash flows from operating activities		770	936
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(1,071)	(641)
Sale of property, plant and equipment		65	50
Cash acquired on business combination		689	-
Interest received		78	20
Decrease/(increase) in other current interest-bearing deposits		843	(302)
Acquisition of own shares		(18)	-
Dividends received		10	-
Other investing movements		5	(7)
Net cash flows from investing activities		601	(880)
Cash flows from financing activities			
Proceeds from long-term borrowings		304	436
Repayment of borrowings		(312)	(118)
Repayment of finance leases		(341)	(414)
Distributions made to holders of perpetual securities		(20)	(15)
Net cash flows from financing activities		(369)	(111)
Net increase/(decrease) in cash and cash equivalents		1,002	(55)
Net foreign exchange differences		58	88
Cash and cash equivalents at January 1		917	884
Cash and cash equivalents at period end	20	1,977	917
Interest bearing deposits maturing after more than three months		1,758	1,381
Cash, cash equivalents and other interest bearing deposits	20	3,735	2,298

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Full year to December 31, 2011

€ million	Issued share capital	Share premium	Investment in own shares (note 30)	Other reserves	Retained earnings	Total shareholders' equity	Non-controlling interest (note 30)	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 April 1, 2010 have been retrospectively adjusted as a result of the merger (note 3) 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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - CONTINUED

Nine months to December 31, 2010

€ million	Issued share capital	Share premium	Investment in own shares (note 30)	Other reserves	Retained earnings	Total shareholders' equity	Non-controlling interest (note 30)	Total equity
At April 1, 2010	-	-	(5)	1,316	834	2,145	300	2,445
Profit for the period	-	-	-	-	197	197	15	212
Other comprehensive income for the period:								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	-	-	-	32	-	32	-	32
Fuel and oil costs	-	-	-	1	-	1	-	1
Currency differences	-	-	-	(13)	-	(13)	-	(13)
Net change in fair value of cash flow hedges	-	-	-	79	-	79	-	79
Share of other movements in reserves of associates	-	-	-	-	57	57	-	57
Currency translation differences	-	-	-	27	(7)	20	-	20
Cost of share-based payments	-	-	-	-	7	7	-	7
Exercise of share options	-	-	1	-	(1)	-	-	-
Distributions made to holders of perpetual securities	-	-	-	-	-	-	(15)	(15)
At December 31, 2010 ¹	-	-	(4)	1,442	1,087	2,525	300	2,825

¹ The Issued share capital and Share premium at April 1, 2010 have been retrospectively adjusted as a result of the merger (note 3) 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 values 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 comparative results for the Group are the published financial statements of British Airways for the nine months ended December 31, 2010, which have been translated into euros. As a result of the business combination in the year, the Group has reviewed the description of certain line items in the Income statement, Statement of comprehensive income, Balance sheet, Cash flow statement, Statement of changes in equity and related notes to the financial statements. Where appropriate the classification and presentation of certain items have been enhanced where applicable as a result of significant new balances in the Group.

The Group's financial statements for the full year to December 31, 2011 were authorised for issue, and signed by the Board of Directors on March 29, 2012.

The Directors have considered the business activities as set out on pages 10 to 15, the Group's principal risks and uncertainties as set out on pages 75 to 77, 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.

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 Balance sheet. Acquisition-related costs are expensed as incurred.

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

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

All intra-group account balances, including intra-group profits, 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.

2 Summary of significant accounting policies continued

Merger transaction of British Airways and Iberia

Under the terms of the merger, British Airways' ordinary shareholders received one new ordinary share of IAG for every existing British Airways ordinary share and Iberia's shareholders received 1.0205 new ordinary shares for every existing Iberia ordinary share. Upon completion of the transaction, British Airways' shareholders held 56 per cent of IAG and Iberia's shareholders 44 per cent.

For the purposes of accounting, British Airways is deemed to be the acquirer of Iberia. The Group's value was determined based on British Airways' fair value, calculated from British Airways' quoted market price at the close of business on January 20, 2011. The purchase price of Iberia was calculated based on the agreed merger ratios and the Group's value on the transaction date.

In addition, the Group revalued its initial investment in Iberia to fair value at the acquisition date.

The main impacts of this transaction are explained in note 3.

On December 22, 2011, British Airways entered into a binding agreement with Deutsche Lufthansa AG (Lufthansa) for the acquisition of the shares of British Midland Limited (bmi) for a consideration of €207 million (£172.5 million). Under the agreement €72 million (£60 million) of the purchase price will be paid in four instalments to Lufthansa pre-completion. At December 31, 2011 one instalment of €18 million (£15 million) had been paid, with the remaining three instalments totalling €54 million (£45 million) disclosed within capital commitments. The acquisition is expected to complete during the first quarter of 2012, subject to regulatory clearance from the European Commission and other bodies. Under the terms of the agreement British Airways is liable to pay a termination fee of €12 million (£10 million) if phase one EU regulatory approval is not achieved by March 31, 2012, and if either party elects to terminate the agreement.

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. The nature of the operating segments is set out in note 4.

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 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 period. 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.

Change in presentation currency

A change in presentation currency is a change in accounting policy which is accounted for retrospectively. As the Group's presentation currency is euros, the comparative results included in the Group's consolidated financial statements previously reported in pounds sterling have been translated into euros using the procedures outlined below:

- assets and liabilities are translated from their functional currency into the new presentation currency at the beginning of the comparative period using the opening exchange rate and retranslated at the closing rate;
- Income statement items are translated at an average rate for the period;
- equity items are translated at either the historical rate or the closing rate, with the balancing amount being reported in the currency translation reserve.

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 period 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 lease or hire purchase arrangements, 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 rotatable 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.

d Leased and hire purchase assets

Where assets are financed through finance leases or hire purchase arrangements, 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 or hire purchase term. The corresponding obligation, reduced by the appropriate proportion of lease or hire purchase 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 or hire purchase 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, liabilities and contingent liabilities of the acquiree.

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.

2 Summary of significant accounting policies continued

Intangible assets continued

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 that do not have a foreseeable limit to the period over which the assets are expected to generate net cash inflows 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 of purchase or development of 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 amount 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 amount is reviewed for impairment when events or changes in circumstances indicate the carrying amount may not be recoverable and the cumulative impairment losses are shown as a reduction in the carrying amount 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 amount 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 profit. 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 amounts 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

Financial instruments are recorded initially at fair value, and subsequent measurement of those instruments at the balance sheet date reflects the designation of the financial instrument. The Group determines the classification at initial recognition and re-evaluates this designation at each period end except for those financial instruments measured at fair value through the Income statement.

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 period, 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.

2 Summary of significant accounting policies continued

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 is 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 periods.

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.

Current service costs are recognised within operating expenses in the period 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 periods 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 enacted 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.

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.

2 Summary of significant accounting policies continued

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 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 16.

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 31. 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 13.

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 this financial year:

IFRS 3 (Amendment) 'Business Combinations'. The amendment clarifies guidance on the choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets, which applies only to instruments that present ownership interest and entitle their holders to a proportionate share of the net assets in the event of liquidation. This is not currently applicable to the Group.

IFRS 7 (Amendment) 'Financial Instruments: Disclosures'. The amendment includes multiple clarifications related to the disclosure of financial instruments. The standard requires a change in the presentation of the Group's notes to the financial statements but has no impact on reported profits.

IAS 1 (Amendment) 'Presentation of Financial Statements'. The amendment permits, for each component of equity, the presentation of the analysis by item to be included in either the Statement of changes in equity or the notes to the financial statements. The standard requires a change in the format and presentation of the Group's primary statements but has no impact on reported profits or equity.

IAS 34 (Amendment) 'Interim Financial Reporting'. The amendment clarifies guidance on the disclosure principles involving significant events and transactions, including changes to fair value measurements, and the requirement to update relevant information from the most recent annual report. This standard represents a change in disclosure and does not impact the financial statements for the year to December 31, 2011.

IAS 24 (Amendment) 'Related Party Transactions'. The amendment clarifies the definition of related party relationships, with particular emphasis on party relationships with persons and key management personnel. The amendment also permits that entities may be exempt from related party disclosure requirements for transactions with a government, where those entities are controlled, jointly controlled, or significantly influenced by that same government. The new definition of a related party does not impact the Group's disclosures.

IAS 32 (Amendment) 'Financial Instruments: Presentation'. The amendment permits that rights issues and certain options or warrants may be classified as equity instruments, provided that the rights are given pro-rata to all existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The standard does not impact the Group's classification of equity instruments.

IFRIC 14 (Amendment) 'Prepayments of a Minimum Funding Requirement'. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset, where the Group is not subject to minimum funding requirements. The standard does not affect the financial position of the Group.

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. The Group plans to adopt the following standards, interpretations and amendments from January 1, 2012; however, management have not yet determined the potential effect of the amendments.

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.

IFRS 1 (Amendment) 'Severe hyperinflation and removal of fixed dates for first-time adopters'; effective for periods beginning on or after July 1, 2011. The amendment proposes guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. This is not expected to have an impact on the Group.

2 Summary of significant accounting policies continued

Changes in accounting policy and disclosures continued

b New standards, amendments and interpretations not yet effective continued

IAS 12 (Amendment) 'Income taxes on deferred tax' (not yet endorsed by the EU); effective for periods beginning on or after January 1, 2012. The amendment requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will normally be through sale.

IFRS 9 'Financial instruments' (not yet endorsed by the EU); effective for periods beginning on or after January 1, 2013. 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.

IFRS 10 'Consolidated financial statements' (not yet endorsed by the EU); effective for periods beginning on or after January 1, 2013. The standard replaces the guidance of control and consolidation in IAS 27 and SIC 12 'Consolidation - special purpose 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.

IFRS 11 'Joint arrangements' (not yet endorsed by the EU); effective for periods beginning on or after January 1, 2013. The standard 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. Proportionate consolidation for joint ventures will be eliminated and equity accounting will be mandatory. It is anticipated that the application of the standard will result in an immaterial decrease in net sales, total assets and total liabilities of the Group but have no impact on the Group's net profit or net assets.

IFRS 12 'Disclosure of interests in other entities' (not yet endorsed by the EU); effective for periods beginning on or after January 1, 2013. The standard requires enhanced disclosures of the nature, risks and financial effects associated with the Group's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

IFRS 13 'Fair value measurement' (not yet endorsed by the EU); effective for periods beginning on or after January 1, 2013. The standard explains how to measure fair value and aims to enhance fair value disclosures. The standard does not change the measurement of fair value but codifies it in one place.

IAS 19 (Amendment) 'Employee Benefits'; effective for periods beginning on or after January 1, 2013. The revised standard has eliminated the use of the corridor approach and instead mandates immediate recognition of all re-measurements of defined benefit liabilities and assets including gains and losses in Other comprehensive income.

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 other standard, interpretation or amendment that has been issued but is not yet effective.

3 Business combinations

Principal terms

Under the terms of the merger, British Airways ordinary shareholders received one new ordinary share of IAG for every existing British Airways ordinary share and Iberia shareholders received 1.0205 new ordinary shares for every existing Iberia ordinary share. Upon completion of the transaction, British Airways' shareholders held 56 per cent of IAG and Iberia's shareholders 44 per cent.

Prior to January 21, 2011 British Airways owned 13.15 per cent of the issued share capital of Iberia (13.55 per cent after cancellation of Iberia treasury shares) and Iberia owned 9.98 per cent of the issued share capital of British Airways. Subsequent to the merger, the cross holdings between British Airways and Iberia were maintained or recreated with the same economic and voting rights.

For the purposes of accounting British Airways is deemed to be the acquirer of Iberia. IAG's value was determined based on British Airways' fair value, calculated from British Airways quoted market price at the close of business on January 20, 2011 of €3.346 (or £2.825) for its 1,154 million outstanding ordinary shares. The purchase price of Iberia was calculated based on the agreed merger ratios and IAG's value on the transaction date.

The Group is expecting to generate annual synergies of approximately €500 million by the end of its fifth year and benefit shareholders, customers and employees. IAG will combine the two companies' leading positions in the UK and Spain and enhance their strong presence in international longhaul markets, while retaining the individual brands and operations of both airlines.

€ million	January 21, 2011
IAG value	
British Airways fair value	3,862
Iberia stake in British Airways	(385)
	3,477
British Airways' shareholders ownership in IAG (per cent)	56
IAG value	6,209
Purchase price	
IAG value	6,209
Iberia's shareholders ownership in IAG (per cent)	44
	2,732
British Airways stake in Iberia	370
Purchase price	3,102

On January 21, 2011 the assets and liabilities arising from the acquisition are as follows:

€ million	Acquiree's carrying amount	Fair value
Property, plant and equipment	1,264	1,385
Intangible assets		
Goodwill	-	249
Brand	-	306
Loyalty programmes	-	253
Landing rights	-	430
Other	45	88
Investments in associates	157	157
Other non-current assets	1,254	1,263
Cash and cash equivalents	689	689
Other current interest-bearing deposits	1,175	1,175
Trade and other receivables ¹	568	568
Inventories	215	215
Other current assets	201	201
Interest bearing long-term borrowings	(462)	(462)
Trade and other payables	(1,549)	(1,549)
Other current liabilities	(184)	(184)
Non-current provisions	(1,203)	(1,265)
Deferred tax liability	(191)	(537)
Other non-current liabilities	(265)	(265)
Net identifiable assets acquired	1,714	2,717

¹ The gross contractual amount for trade receivables was €603 million, 94 per cent of which is expected to be collected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

3 Business combinations continued

Goodwill recognised on the acquisition of Iberia reflects the excess value of the transaction that cannot be attributed to specific assets and liabilities. This goodwill reflects the synergies that are expected to be achieved through the business combination. The goodwill has been allocated to the cash generating unit of Iberia and is not tax deductible.

Brand, loyalty programmes and landing rights have been assessed as assets with indefinite lives which will be tested annually for impairment.

Transaction costs of €58 million were recognised in the Income statement for the nine months to December 31, 2010 within Property, IT and other costs. No material costs arose in the full year to December 31, 2011.

Iberia contributed revenues of €4,620 million and operating losses of €61 million to the consolidated Group results. Had Iberia been consolidated from January 1, 2011, the Group would have reported total revenue of €16,339 million and operating profit of €407 million.

4 Segment information

a Business segments

British Airways and Iberia are managed as individual operating companies. Each company operates its network passenger and cargo operations as a single business unit. The chief operating decision maker, who 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 operating companies serve. The objective in making resource allocation decisions is to optimise consolidated financial results. Therefore, based on the way the Group treats the network, and the manner in which resource allocation decisions are made, the Group has two (2010: one) reportable operating segments for financial reporting purposes, reported as British Airways and Iberia.

For the full year to December 31, 2011 and the nine months to December 31, 2010:

€ million				2011	2010
	British Airways	Iberia	Unallocated	Total	Total
Revenue					
External revenue	11,483	4,620	-	16,103	7,889
Inter-segment revenue	9	16	36	61	-
Segment revenue	11,492	4,636	36	16,164	7,889
Depreciation, amortisation and impairment	(786)	(169)	(14)	(969)	(671)
Operating profit/(loss)¹	592	(61)	(87)	444	418
Net non-operating income/(costs)				98	(217)
Profit before tax				542	201

¹ The 'Unallocated' segment includes an exceptional charge of €78 million (note 5).

b Geographical analysis

Revenue by area of original sale

€ million	Full year to December 31, 2011	Nine months to December 31, 2010
UK	5,124	3,474
Spain	2,168	93
USA	2,247	1,575
Rest of world	6,564	2,747
	16,103	7,889

Assets by area
At December 31, 2011
€ million

	Property, plant and equipment	Intangible assets
UK	8,090	377
Spain	1,407	1,310
USA	77	4
Unallocated	10	33
	9,584	1,724

At December 31, 2010
 € million

UK	7,976	299
Spain	-	-
USA	91	3
Unallocated	13	34
	8,080	336

5 Exceptional items

a Step acquisition

As a result of British Airways' initial investment in Iberia, the 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 recognised within Exceptional items in the Income statement.

b 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 gross of the pre-acquisition cash flow hedge benefits. For the full year to December 31, 2011, this has resulted in an increase in reported fuel expense of €89 million, a decrease in reported aircraft operating lease costs of €11 million and a related tax credit of €23 million.

The Group recognised the impact of the pre-acquisition cash flow hedges within Exceptional items in the Income statement.

6 Expenses by nature

Operating profit is arrived at after charging/(crediting)

Depreciation, amortisation and impairment of non-current assets:

€ million	Full year to December 31, 2011	Nine months to December 31, 2010
Owned assets	650	436
Finance leased aircraft	216	128
Hire purchased aircraft	7	24
Other leasehold interests	54	42
Impairment charge on property, plant, equipment and intangible assets	(1)	33
Amortisation of intangible assets	43	8
	969	671

The Group incurred no significant research and development expenditure during the year to December 31, 2011.

6 Expenses by nature continued

Operating lease costs:

€ million	Full year to December 31, 2011	Nine months to December 31, 2010
Minimum lease rentals	375	60
- aircraft	187	86
- property and equipment	(44)	(13)
Sub-lease rentals received	518	133

Cost of inventories:

€ million	Full year to December 31, 2011	Nine months to December 31, 2010
Cost of inventories recognised as an expense, mainly fuel	4,897	2,337

7 Auditors' remuneration

The fees for audit and non-audit services provided by the auditor of the Group's consolidated financial statements, 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 the subsidiaries, were as follows:

€'000	Ernst & Young		Other auditor	
	Full year to December 31, 2011	Nine months to December 31, 2010	Full year to December 31, 2011	Nine months to December 31, 2010
Fees payable to the Group's auditor for the audit of the Group's financial statements	2,251	2,003	723	-
Fees payable to the Group's auditor and its associates for other services:				
Audit of the Group's subsidiaries pursuant to legislation	402	473	54	-
Other services pursuant to legislation	101	34	-	-
Other services relating to taxation	317	246	897	-
Services relating to information technology	-	-	142	-
Services relating to corporate finance transactions ¹	1,789	2,591	-	-
All other services	-	-	1,751	-
	4,860	5,347	3,567	-

¹ This included services in relation to the merger transaction between British Airways and Iberia, and the acquisition of British Midland Limited subject to regulatory approval (note 2) (nine months to December 31, 2010: Services in relation to the Joint Business with American Airlines and Iberia, and the merger transaction between British Airways and Iberia).

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 46 and includes an explanation of how objectivity and independence are safeguarded when non-audit services are provided.

8 Employee costs and numbers

a Employee costs

€ million	Full year to December 31, 2011	Nine months to December 31, 2010
Wages and salaries	2,580	1,169
Social security costs	388	135
Costs related to pension scheme benefits	230	185
Other post-retirement benefit costs	6	4
Cost of share-based payments	18	7
Other employee costs ¹	577	329
	3,799	1,829

¹ Other employee costs include allowances and accommodation for crew.

The Management Committee was remunerated €3 million for the year to December 31, 2011 (nine months to December 31, 2010: €4 million).

The average number of employees during the period was as follows:

Number	Full year to December 31, 2011	Nine months to December 31, 2010
Senior executives ¹	216	224
Ground employees:		
Managerial ²	2,132	1,540
Non-managerial ³	33,261	20,934
Technical crew:		
Managerial ⁴	4,383	3,040
Non-managerial ⁵	16,799	14,090
	56,791	39,828

Of the final headcount at December 31, 2011 women represent the following percentages: ¹ 25 per cent, ² 38 per cent, ³ 36 per cent, ⁴ 5 per cent, ⁵ 66 per cent (2010: ¹ 25 per cent, ² 32 per cent, ³ 41 per cent, ⁴ 5 per cent, ⁵ 64 per cent).

b Directors' remuneration

€ million	Full year to December 31, 2011	Nine months to December 31, 2010
Base salary, fees and benefits	6	3
Share based payments	1	1
	7	4

There was one female Director at December 31, 2011 (2010: three).

The Report of the Remuneration Committee on pages 49 to 61 discloses further details of Directors' remuneration.

The Company provides life insurance for all members of the Board. For the year to December 31, 2011 the Company paid contributions of €8,000. At December 31, 2011 the total transfer value of accrued pensions covered under defined benefit pension schemes totalled €2 million (2010: €2 million).

No Company Directors hold equity investments in companies whose activity is identical, similar or complementary to that of the Company, except for Willie Walsh who holds 10,616 shares (0.002 per cent) 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 Company, 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 Company.

In relation to Articles 229 and 230 of the Companies Capital Act, the Company's Directors have announced that they have no conflict with the interests of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

9 Finance costs and income
a Finance costs

€ million	Full year to December 31, 2011	Nine months to December 31, 2010
Interest expense on:		
Bank borrowings	(28)	(17)
Finance leases	(94)	(55)
Hire purchase arrangements	-	(2)
Provisions: unwinding of discount	(41)	(14)
Other borrowings	(76)	(61)
Capitalised interest on progress payments	2	1
Change in fair value of cross currency swaps	1	1
Currency charges on financial fixed assets	16	-
	(220)	(147)

b Finance income

€ million	Full year to December 31, 2011	Nine months to December 31, 2010
Interest on other interest-bearing deposits	85	21

c Net financing credit/(charge) relating to pensions

€ million	Full year to December 31, 2011	Nine months to December 31, 2010
Net financing income relating to pensions	72	3
Amortisation of actuarial losses in excess of the corridor	(30)	(73)
Immediate recognition of net actuarial gains on the Airways Pension Scheme (APS)	-	99
Effect of the APS asset ceiling ¹	142	(86)
	184	(57)

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. The asset ceiling has increased at December 31, 2011 resulting in a €142 million credit to the Income statement and a corresponding increase to the asset recognised on the Balance sheet.

10 Tax**a Tax on profit on ordinary activities****Tax credit in the Income statement**

€ million	Full year to December 31, 2011	Nine months to December 31, 2010
Current tax		
Corporation tax	8	2
Current tax adjustments in respect of prior years – overseas tax	3	5
Other tax credits and deductions	(2)	–
Total current tax charge	9	7
Deferred tax		
Fixed asset related temporary differences	(59)	(78)
Employee benefit plans related temporary differences	86	(46)
Employee leaving indemnities and other employee related provisions	22	–
Unremitted earnings of associate companies	–	(1)
Tax losses carried forward	32	145
Foreign exchange related temporary differences	(6)	(4)
Share-based payment deductions written back	(2)	(1)
Other temporary differences	(17)	–
Adjustments in respect of prior years	(22)	9
Effect of corporation tax rate change on deferred tax balances	(83)	(42)
Total deferred tax credit	(49)	(18)
Total tax credit in the Income statement	(40)	(11)

Tax (credit)/charge directly to the Statement of other comprehensive income and Statement of changes in equity

€ million	Full year to December 31, 2011	Nine months to December 31, 2010
Deferred tax relating to items charged to other comprehensive income		
Exchange differences	10	13
Net change in fair value of cash flow hedges	(28)	24
Net change in fair value of available-for-sale financial assets	(22)	–
Impact of changes in substantively enacted tax rates	5	–
Total deferred tax (credit)/charge to other comprehensive income	(35)	37
Deferred tax relating to items charged to equity		
Share-based payments in issue	1	2
Total deferred tax charged to equity	1	2
Total tax (credit)/charge relating to items included in other comprehensive income and equity	(34)	39

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
10 Tax continued
b Reconciliation of the total tax credit

The weighted average applicable tax rate for the year to December 31, 2011 was 25 per cent (nine months to December 31, 2010: 28 per cent). The decrease is caused by the merger and the reduction of the UK tax rate.

The tax credit on the profit for the year to December 31, 2011 is less than the notional tax charge calculated at the weighted average applicable tax rate of 25 per cent (nine months to December 31, 2010: UK corporation tax rate of 28 per cent).

The differences are explained below:

€ million	Full year to December 31, 2011	Nine months to December 31, 2010
Accounting profit before tax	542	201
Tax calculated at the weighted average tax rate of 25 per cent for the year to December 31, 2011 (nine months to December 31, 2010: 28 per cent)	138	56
Effects of:		
Tax on associate and subsidiary companies		
Tax on associates' profits and dividends	-	(2)
Tax on remitted earnings	-	1
Euro preferred securities		
Euro preferred securities accounted for as non-controlling interests	(6)	(5)
Tax on revaluation of intra group foreign currency loans	-	1
Deferred tax assets not recognised		
Current year losses not recognised	7	5
Other		
Non-deductible expenses	5	16
Effect of pension fund accounting	(70)	(73)
Foreign exchange and unwind of discount on competition investigation provisions	5	4
Share-based payment deductions written back	2	-
Adjustments in respect of prior years	(19)	14
Disposal and write down of investments	6	12
Overseas tax in relation to branches	-	2
Impact of changes in substantively enacted tax rates	(83)	(42)
Other differences	(3)	-
Net impact of accounting for Business combinations	(22)	-
Tax credit in the Income statement	(40)	(11)

c Net deferred tax liability

The net deferred tax liability included in the Balance sheet is as follows:

€ million	December 31, 2011	December 31, 2010
Temporary differences on:		
Fixed asset related temporary differences	1,347	1,121
Employee benefit plan related temporary differences	108	24
Exchange differences on funding liabilities	(26)	(35)
Advance corporation tax	(121)	(111)
Tax losses carried forward	(294)	(72)
Fair value profits recognised on cash flow hedges	156	47
Share-based payments related temporary differences	(7)	(6)
Deferred revenue in relation to loyalty reward programmes	(61)	(38)
Employee leaving indemnities and other employee related provisions	(301)	-
Other temporary differences	5	(2)
Tax assets in relation to tax credits and deductions	(29)	-
At period end	777	928

Movement in provision

€ million	December 31, 2011	December 31, 2010
Balance at beginning of period	928	871
Acquired through business combination	(82)	–
Deferred tax credit relating to Income statement	(49)	(18)
Deferred tax (credit)/charge taken to Statement of other comprehensive income	(35)	37
Deferred tax charge taken to Statement of changes in equity	1	2
Exchange movements	14	36
	777	928

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	December 31, 2011	December 31, 2010
UK Air Passenger Duty	553	307
Other ticket taxes	653	221
Payroll related taxes	391	131
Other taxes	11	–
	1,608	659

The UK Government has announced that the rates of Air Passenger Duty will increase by 8 per cent from April 1, 2012.

e Factors that may affect future tax charges

Deferred tax assets of €294 million have been recognised in respect of tax losses carried forward and will expire between the years 2023 to 2025. These deferred tax assets are recognised on the Balance sheet as it is considered probable that they will be recovered based on best estimates of future results.

The Group has unrecognised capital losses carried forward of €176 million at December 31, 2011 (2010: €222 million). 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 €83 million (nine months to December 31, 2010: €81 million). 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 €84 million (2010: €88 million) arising from temporary differences in respect of future capital losses if properties are realised at their residual value.

The Group has overseas tax losses of €113 million (2010: €72 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.

During the year, the UK corporation tax rate was reduced from 28 per cent to 26 per cent. The tax rate change was substantively enacted by March 31, 2011 and was effective from April 2011. The applicable deferred tax balances have been reduced by €78 million. Further reductions to the UK corporation tax rates have been announced and propose to reduce the rate to 22 per cent by April 1, 2014. The provision for deferred tax on UK timing differences as at December 31, 2011 was calculated at 25 per cent, being the corporation tax rate effective from April 1, 2012. The difference between the application of 25 per cent instead of 26 per cent for the three month period to March 31, 2012 is not expected to be material. The effect of further planned reductions to the main rate of corporation tax to 22 per cent by April 1, 2014, is expected to provide an estimated benefit to the Group's net assets of €126 million and will be applied in the Group's financial statements as the legislation is substantively enacted.

11 Earnings per share

€ million	Full year to December 31, 2011	Nine months to December 31, 2010
Earnings attributable to equity holders of the parent and basic earnings per share	562	197
Interest expense on 5.8 per cent convertible bond	34	33
Diluted earnings attributable to equity holders of the parent and diluted earnings per share	596	230
	Number '000	Number '000
Weighted average number of ordinary shares in issue	1,808,077	1,152,634
Assumed conversion on 5.8 per cent convertible bond	184,727	185,185
Dilutive employee share-based payments outstanding	12,425	8,558
Weighted average number of ordinary shares in issue for diluted earnings per share	2,005,229	1,346,377
Basic earnings per share (cents)	31.1	17.1
Dilutive earnings per share (cents)	29.7	17.1

12 Dividends

The Directors declare that no dividend be paid for the full year to December 31, 2011 (nine months to December 31, 2010: €nil).

13 Property, plant and equipment

€ million	Fleet	Property	Equipment	Total
Cost				
Balance at April 1, 2010	13,443	1,711	837	15,991
Additions	642	9	12	663
Disposals	(86)	(2)	(9)	(97)
Reclassifications	(208)	-	(2)	(210)
Exchange movements	622	79	38	739
Balance at December 31, 2010	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
At December 31, 2011	16,051	2,044	1,205	19,300
Depreciation and impairment				
Balance at April 1, 2010	6,988	675	561	8,224
Charge for the period	538	51	41	630
Impairment charge recognised during the period	21	-	-	21
Disposals	(84)	(2)	(9)	(95)
Reclassifications	(154)	-	(4)	(158)
Exchange movements	326	31	27	384
Balance at December 31, 2010	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
At December 31, 2011	8,275	733	708	9,716
Net book values				
December 31, 2011	7,776	1,311	497	9,584
December 31, 2010	6,778	1,042	260	8,080
Analysis at December 31, 2011				
Owned	4,409	1,265	425	6,099
Finance leased	2,842	-	22	2,864
Hire purchase arrangements	127	6	25	158
Progress payments	341	40	25	406
Assets not in current use ¹	57	-	-	57
Property, plant and equipment	7,776	1,311	497	9,584
Analysis at December 31, 2010				
Owned	3,872	1,029	234	5,135
Finance leased	2,489	-	19	2,508
Hire purchase arrangements	237	-	-	237
Progress payments	77	13	7	97
Assets not in current use ¹	103	-	-	103
Property, plant and equipment	6,778	1,042	260	8,080

¹ The net book value of €57 million (2010: €103 million) of assets not in current use comprises 22 aircraft stood down (2010: 3).

13 Property, plant and equipment continued

The net book value of property comprises:

€ million	December 31, 2011	December 31, 2010
Freehold	577	295
Long leasehold improvements	313	297
Short leasehold improvements ¹	421	450
	1,311	1,042

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

Property, plant and equipment with a net book value of €37 million was disposed of by the Group during the year (nine months to December 31, 2010: €2 million) resulting in a profit of €5 million (nine months to December 31, 2010: €nil).

As at December 31, 2011, bank and other loans of the Group are secured on fleet assets with a cost of €3,115 million (2010: €2,891 million) and letters of credit of €275 million in favour of the British Airways Pension Trustees are secured on certain aircraft (2010: €271 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	Full year to December 31, 2011	Nine months to December 31, 2010
Boeing 747-400, 777-200, 777-300, Airbus 340-300 and 340-600	3.7	3.7
Boeing 737-400, 767-300	4.2	4.8
Boeing 757-200	4.4	4.4
Airbus A318, A319, A320, A321	4.9	4.9
Embraer E170 and E190	6.4	6.4

14 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to €5,359 million for the Group commitments (2010: €4,831 million). The majority of capital expenditure commitments are denominated in US dollars, as such the commitments are subject to the impact of changes in exchange rates.

The outstanding commitments include €5,222 million for the acquisition of 28 Airbus A320s (from 2012 to 2014), 24 Boeing 787s (from 2013 to 2017), 12 Airbus A380s (from 2013 to 2016), eight Airbus A330s (from 2013 to 2014), three Boeing 777s (from 2012 to 2013) and two Airbus 319s (in 2014).

15 Non-current assets held for sale

The non-current assets held for sale of €18 million (2010: €39 million) comprise three Boeing 757 aircraft (2010: six Boeing 757 aircraft). These aircraft are presented within the British Airways operating segment and will exit the business within 12 months of December 31, 2011.

Assets with a net book value of €14 million were transferred to non-current assets held for sale during the full year to December 31, 2011 (nine months to December 31, 2010: €55 million).

Non-current assets held for sale with a net book value of €35 million were disposed of by the Group during the full year to December 31, 2011 (nine months to December 31, 2010: €52 million), resulting in a loss of €7 million (nine months to December 31, 2010: loss of €4 million).

16 Intangible assets and impairment review**a Intangible assets**

€ million	Goodwill	Brand	Customer loyalty programmes	Landing rights	Other	Total
Cost						
Balance at April 1, 2010	45	-	-	284	184	513
Additions	-	-	-	21	20	41
Exchange movements	2	-	-	10	9	21
Balance at December 31, 2010	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
At December 31, 2011	297	306	253	790	357	2,003
Amortisation						
Balance at April 1, 2010	-	-	-	55	155	210
Charge for the period	-	-	-	-	8	8
Impairment losses recognised	-	-	-	12	-	12
Exchange movements	-	-	-	2	7	9
Balance at December 31, 2010	-	-	-	69	170	239
Charge for the year	-	-	-	1	42	43
Disposals	-	-	-	-	(7)	(7)
Exchange movements	-	-	-	1	3	4
At December 31, 2011	-	-	-	71	208	279
Net book values						
December 31, 2011	297	306	253	719	149	1,724
December 31, 2010	47	-	-	246	43	336

Other intangible assets consist primarily of software with a net book value of €106 million (2010: €43 million), and also include purchased emissions allowances and franchise agreements.

The net book value includes non-EU based landing rights of €16 million (2010: €9 million) that have a definite life.

b Impairment review

€ million	December 31, 2011	December 31, 2010
Carrying amount of intangible assets with indefinite life		
Avios customer loyalty programme	253	-
Iberia brand	306	-
Landing rights	703	237
	1,262	237

Intangible assets with indefinite life are part of the Iberia CGU with the exception of €280 million of landing rights (2010: €237 million).

For the purposes of impairment testing, goodwill has been allocated to the following cash generating units:

€ million	December 31, 2011	December 31, 2010
Cash generating units		
Iberia	249	-
British Airways	48	47
	297	47

Goodwill 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.

16 Intangible assets and impairment review continued

b Impairment review continued

Value in use is calculated using a discounted cash flow model. Cash flow projections are based on the business plan approved by the Board covering a four year period. The business plan assumed a fuel price of US dollar 120 per barrel, US dollar exchange rate of 1.40 to the euro and 1.60 to the pound sterling. Key assumptions and growth rates are based on past performance and management's expectations of the market. The business plan assumes growth in key sectors such as North and Latin America, which are particularly strong markets for British Airways and Iberia, respectively.

Cash flows extrapolated beyond the four year period are projected to increase at a long-term growth rate of 2.5 per cent (2010: 2.5 per cent). Cash flow projections are discounted using the Group's pre-tax weighted average cost of capital of 10.0 per cent (2010: 8.9 per cent).

Iberia brand recoverable amount has been measured based on value in use discounted cash flows using a royalty methodology, with a royalty rate of 0.64 per cent. Cash flows are projected to increase at a long-term growth rate of 2.5 per cent and are discounted using the Group's pre-tax weighted average cost of capital of 10.0 per cent.

A number of sensitivity analyses in relation to key assumptions have been performed and management has concluded that no reasonable possible change in the key assumptions would cause the carrying amounts of goodwill to exceed the recoverable amounts. The market conditions in which Iberia is currently operating are challenging. In testing for goodwill impairment, an unmitigated reduction in Iberia's budgeted cash flows of 34 per cent would decrease the headroom to nil. Alternatively, applying a specific risk premium of 4.7 per cent would also decrease the headroom to nil.

No impairment arose in the year as a result of the review.

17 Investments in associates

At December 31, 2010 British Airways held an investment in Iberia as an associate. Since the merger date, this investment has been eliminated on consolidation and therefore at December 31, 2011 is no longer accounted for as an associate. The balance at January 1, 2011 represents solely the British Airways holding in associates excluding Iberia.

The Group's principal associate as at December 31, 2011 was as follows:

€ million	Country of incorporation	Principal activities	Percentage of equity owned	Holding	Carrying amount	Market value of listed associate
Vueling Airlines, S.A.	Spain	Passenger transport	45.85	Ordinary shares	109	53

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	December 31, 2011	December 31, 2010
Total assets	653	792
Total liabilities	(385)	(524)
Revenue	23	477
Profit for the period	7	7

The detail of the movement in Investment in associates is shown as follows:

€ million	December 31, 2011	December 31, 2010
At beginning of period	1	232
Exchange differences	-	(9)
Acquired through business combination	157	-
Share of retained profits	7	7
Share of movements on other reserves	-	57
	165	287

There are no significant restrictions on the ability of associated undertakings to transfer funds to the parent.

18 Available-for-sale financial assets

Available-for-sale financial assets include the following:

€ million	December 31, 2011	December 31, 2010
Listed securities		
Flybe Group Plc	9	41
Comair Limited	8	15
Amadeus IT Holding, S.A.	421	-
Unlisted securities	28	21
	466	77

The net charge relating to available-for-sale financial assets was €19 million (nine months to December 31, 2010: €21 million), of which a charge of €18 million (nine months to December 31, 2010: €18 million) related to an impairment on the Group's investment in Flybe Group Plc.

19 Trade receivables and other assets

€ million	December 31, 2011	December 31, 2010
Amounts falling due within one year		
Trade receivables	1,226	464
Provision for doubtful receivables	(51)	(11)
Net trade receivables	1,175	453
Prepayments and accrued income	228	189
Loans to third parties	39	-
Other non-trade debtors	178	117
	1,620	759
Amounts falling due after one year		
Prepayments and accrued income	16	48
Loans to third parties	38	-
Other non-trade debtors	17	-
	71	48

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 2012 to 2014. Annual interest on these loans ranges from 4.0 per cent to 6.5 per cent.

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

€ million	2011	2010
At beginning of period	11	11
Provision for doubtful receivables	8	2
Acquired through business combination	35	-
Unused amounts reversed	(2)	(2)
Receivables written off during the period	(1)	(1)
Exchange movements	-	1
	51	11

The ageing analysis of net trade receivables is as follows:

€ million	December 31, 2011	December 31, 2010
Neither past due date nor impaired	1,015	407
< 30 days	75	30
30 – 60 days	13	4
> 60 days	72	12
Net trade receivables	1,175	453

Trade receivables are generally non-interest-bearing and on 30 day terms (2010: 30 day terms).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
20 Cash, cash equivalents and other current interest-bearing deposits
a Cash and cash equivalents

€ million	December 31, 2011	December 31, 2010
Cash at bank and in hand	753	723
Short-term deposits falling due within three months	1,224	194
Cash and cash equivalents	1,977	917
Other current interest-bearing deposits maturing after three months	1,758	1,381
Cash, cash equivalents and other interest bearing deposits	3,735	2,298

Restricted cash of €79 million (2010: €nil) consists of cash deposited in a bank account, which is not available for use by the Group. The cash deposited will be used to satisfy the terms of a funding agreement with trustees of the British Airways defined benefit pension scheme with the balance returned to the Group. The final amount required to settle the agreement with the pension trustees is subject to uncertainty but will not be in excess of the €79 million.

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 €1,977 million for the Group (2010: €917 million).

At December 31, 2011 the Group had no outstanding bank overdrafts (2010: €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	Full year to December 31, 2011	Nine months to December 31, 2011
Increase/(decrease) in cash and cash equivalents during the period	371	(58)
Net funds acquired on business combination	1,402	-
Net cash outflow from repayments of debt and lease financing	653	532
(Decrease)/increase in other current interest-bearing deposits	(843)	302
New loans and finance leases taken out and hire purchase arrangements made	(304)	(436)
Decrease in net debt resulting from cash flow	1,279	340
Exchange movements and other non-cash movements	(73)	(121)
Decrease in net debt during the period	1,206	219
Net debt at beginning of period	(2,354)	(2,573)
Net debt at December 31	(1,148)	(2,354)

Net debt comprises the current and non-current portions of long-term borrowings less cash and cash equivalents and other current interest-bearing deposits.

21 Trade and other payables

€ million	December 31, 2011	December 31, 2010
Trade creditors	1,874	845
Other creditors	865	559
Other taxation and social security	52	43
Sales in advance of carriage	1,309	889
Accruals and deferred income	1,277	978
	5,377	3,314

Spanish companies within the Group have made supplier payments of €2,282 million within the Spanish legal payment terms for the year to December 2011 (nine months to December 31, 2010: €nil). Payments exceeded the Spanish legal payment terms, as stipulated by the Law 14/2010 of July 5, by a weighted average of 34 days, and totalled €95 million. At December 31, 2011 trade creditors of €19 million were over the legal payment terms.

22 Other long-term liabilities

€ million	December 31, 2011	December 31, 2010
Non-current trade creditors	8	13
Other creditors	3	-
Accruals and deferred income	373	349
	384	362

23 Long-term borrowings

€ million	December 31, 2011	December 31, 2010
a Current		
Bank and other loans	247	209
Finance leases	317	255
Hire purchase arrangements	15	74
	579	538
b Non-current		
Bank and other loans	1,625	1,688
Finance leases	2,673	2,405
Hire purchase arrangements	6	21
	4,304	4,114

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\$276 million (2010: US\$314 million), €68 million (2010: €70 million), ¥47,268 million (2010: ¥53,939 million) and £297 million (2010: £332 million). Euro-sterling notes and other loans are not secured. Finance leases and hire purchase arrangements are all secured on aircraft or property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

23 Long-term borrowings continued**c Bank and other loans continued**

Bank and other loans comprise the following:

€ million	December 31, 2011	December 31, 2010
£350 million fixed rate 5.8 per cent convertible bond 2014 (i)	351	336
£250 million fixed rate 8.75 per cent eurobonds 2016 (ii)	298	292
Floating rate sterling mortgage loans secured on aircraft (iii)	186	201
Floating rate US dollar mortgage loans secured on aircraft (iv)	43	58
Fixed rate sterling mortgage loans secured on aircraft (v)	169	188
Floating rate Japanese yen mortgage loans secured on aircraft (vi)	464	489
Floating rate US dollar mortgage loans secured on plant and equipment (vii)	35	42
Floating rate euro mortgage loan secured on aircraft (viii)	68	71
Floating rate unsecured euro loan (ix)	16	-
Fixed rate US dollar mortgage loans secured on aircraft (x)	168	180
European Investment Bank sterling loans secured on property (xi)	33	40
Fixed rate unsecured euro loans with the Spanish State (Department of Industry) (xii)	29	-
Fixed rate unsecured US dollar loan (xiii)	12	-
	1,872	1,897
Less: current instalments due on bank loans	(247)	(209)
	1,625	1,688

(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 30).

In January 2011, 476,190 options were exercised at an exercise price of £1.89 per share with an aggregate principal balance of £900,000. As at December 31, 2011, 184,708,995 (2010: 185,185,185) 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 0.59 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 0.99 per cent above LIBOR. The loans are repayable by 2016.
- (v) Fixed rate sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest at 6.3 per cent to 7.35 per cent. The loans are repayable between 2012 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 4.63 per cent and are repayable between 2021 and 2022.
- (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 bears an average interest of 1.20 per cent and is repayable in 2012.

d Total loans, finance leases and hire purchase arrangements

Million	December 31, 2011	December 31, 2010
Loans		
Bank:		
US dollar	\$337	\$369
Euro	€113	€70
Japanese yen	¥47,268	¥53,939
Sterling	£324	£366
	€1,224	€1,270
Fixed rate bonds:		
Sterling	£542	£533
	€648	€627
Finance leases		
US dollar	\$2,241	\$1,940
Euro	€245	€130
Japanese yen	¥3,327	¥3,268
Sterling	£831	£876
	€2,990	€2,660
Hire purchase arrangements		
US dollar	\$27	\$46
Japanese yen	-	¥6,604
	€21	€95
	€4,883	€4,652

e Obligations under finance leases and hire purchase contracts

The Group uses finance leases and hire purchase contracts 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 and hire purchase contracts are as follows:

€ million	December 31, 2011	December 31, 2010
Future minimum payments due:		
Within one year	438	399
After more than one year but within five years	1,527	1,288
In five years or more	1,504	1,453
	3,469	3,140
Less: Finance charges	(458)	(385)
Present value of minimum lease payments	3,011	2,755
The present value of minimum lease payments is analysed as follows:		
Within one year	332	329
After more than one year but within five years	1,272	1,066
In five years or more	1,407	1,360
	3,011	2,755

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
24 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:

€ million	December 31, 2011			December 31, 2010		
	Fleet	Property, plant and equipment	Total	Fleet	Property, plant and equipment	Total
Within one year	358	159	517	86	105	191
Between one and five years	959	349	1,308	312	341	653
Over five years	447	2,026	2,473	350	2,067	2,417
	1,764	2,534	4,298	748	2,513	3,261

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:

€ million	December 31, 2011			December 31, 2010		
	Fleet	Property, plant and equipment	Total	Fleet	Property, plant and equipment	Total
Within one year	8	14	22	5	9	14
Between one and five years	-	25	25	-	31	31
Over five years ¹	-	-	-	-	-	-
	8	39	47	5	40	45

¹ Sublease income related to property, plant and equipment over five years is less than €1 million.

25 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, 2011	36	309	135	47	527
Provisions recorded during the year	73	46	81	35	235
Acquired through business combination	956	78	166	65	1,265
Utilised during the year	(130)	(179)	(22)	(35)	(366)
Release of unused amounts	(43)	(7)	(41)	(13)	(104)
Unwinding of discount	23	9	8	1	41
Exchange movements	1	(3)	2	(2)	(2)
Net book value at December 31, 2011	916	253	329	98	1,596
Analysis:					
Current	137	114	74	27	352
Non-current	779	139	255	71	1,244
	916	253	329	98	1,596

Employee leaving indemnities and other employee related provisions

This provision includes staff leaving indemnities relating to staff under various overseas 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 the year. The actuarial valuation was carried out by independent actuaries using the projected unit credit method, based on a discount rate of 2.87 per cent and a 2 per cent annual growth 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 procedure, 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 were 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 1.84 per cent.

Legal claims provisions

This provision primarily relates to investigations by a number of competition authorities in connection with alleged anti-competitive activity concerning the Group's passenger and cargo businesses, a significant portion of the provision has been utilised over the year. The Group is also subject to multi-party claims from groups of employees on a number of matters relating to its operations, including claims for additional holiday pay and for age discrimination. Also provided for are current tax disputes on employees' benefit in kind payments.

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 includes 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 also capitalised. This 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 or vacant with no immediate intention to utilise the property. This provision is a long term provision, likely to continue until 2027.

26 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), credit risk, capital risk and liquidity risk. The Group's Financial Risk Management programmes focus 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, euro-US dollar and sterling-US dollar 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 Hedging Committee. The Hedging 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 rates, 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 +/- 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 fuel risk management programme allows for the use of a number of derivatives available on the over-the-counter (OTC) markets with approved counterparties.

26 Financial risk management objectives and policies continued

a Fuel price risk continued

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

2011			2010		
Increase/(decrease) in fuel price per cent	Effect on profit before tax € million	Effect on equity € million	Increase/(decrease) in fuel price per cent	Effect on profit before tax € million	Effect on equity € million
30	15	903	30	(5)	494
(30)	(7)	(862)	(30)	(19)	(400)

b Foreign currency risk

The Group publishes its consolidated financial statements in euro 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 normally create a deficit. The Group has substantial liabilities denominated in US dollar, euro and yen.

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 Hedging Committee targets to operate within +/- 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 euro. 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 reasonably possible change in the US dollar, euro and yen exchange rates, with all other variables held constant, on profit before tax and equity:

	Strengthening/(weakening) in US dollar rate per cent	Effect on profit before tax € million	Effect on equity € million	Strengthening/(weakening) in euro rate per cent	Effect on profit before tax € million	Effect on equity € million	Strengthening/(weakening) in yen rate per cent	Effect on profit before tax € million	Effect on equity € million
2011	10	(19)	71	10	(1)	(80)	10	-	(50)
	(10)	16	(63)	(10)	1	77	(10)	-	50
2010 ¹	10	(5)	(93)	10	(2)	(41)	10	(4)	(58)
	(10)	5	93	(10)	2	41	(10)	4	58

¹ The percentages used to assess the Group's exposure to reasonably possible changes in exchange rates have been restated to 10 per cent from 20 per cent, to reflect shifts in the Group's exposure to variations in exchange rates, and ensure comparability with analysis at December 31, 2011.

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, 83 per cent of the Group's borrowings were at fixed rates and 17 per cent were at floating rates.

All cash deposits are on tenures less than one year. The interest rate is predominately fixed for the tenure of the deposit.

c Interest rate risk

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

	Strengthening/ (weakening) in US interest rate Basis points	Effect on profit before tax € million	Effect on equity € million	Strengthening/ (weakening) in euro interest rate Basis points	Effect on profit before tax € million	Effect on equity € million
2011	50	-	8	50	-	3
	(50)	-	(8)	(50)	-	(3)
2010 ¹	50	-	-	50	-	-
	(50)	-	-	(50)	-	-

¹ The percentages used to assess the Group's exposure to reasonably possible changes in interest rates have been restated to an increase of 50 basis points from an increase of 100 basis points, to reflect shifts in the Group's exposure to variations in interest rates, and ensure comparability with analysis at December 31, 2011.

d Credit risk

The Group is exposed to credit 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 credit risk is limited by placing credit limits on each counterparty. These policies and procedures are coordinated through the 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.

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. Credit risks arising from acting as guarantor are disclosed in note 32.

At December 31, 2011 the Group's credit risk position, allocated by region, in respect of treasury managed cash and derivatives was as follows:

Per cent	Mark-to-market of treasury controlled financial instruments allocated by region (per cent)
United Kingdom	30
Spain	27
Italy	1
Rest of eurozone	20
Rest of world	22

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
26 Financial risk management objectives and policies continued
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, 2011 the Group had unused overdraft facilities of €12 million (2010: €12 million). The Group held undrawn uncommitted money market lines of €30 million at December 31, 2011 (2010: €29 million). The Group had the following undrawn general and committed aircraft financing facilities:

Million	December 31, 2011	
	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

Million	December 31, 2010	
	Currency	€ equivalent
Japanese yen facility expiring January 2011	¥7,784	70
US dollar facility expiring June 2012	\$696	528
US dollar facility expiring June 2013	\$708	537
US dollar facility expiring September 2016	\$966	732
US dollar facility expiring October 2016	\$509	385

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 2011
Interest-bearing loans and borrowings:						
Finance lease and hire purchase 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)

€ million	Within 6 months	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	Total 2010
Interest-bearing loans and borrowings:						
Finance lease and hire purchase obligations	(248)	(151)	(288)	(999)	(1,454)	(3,140)
Fixed rate borrowings	(49)	(57)	(106)	(599)	(540)	(1,351)
Floating rate borrowings	(100)	(80)	(171)	(441)	(141)	(933)
Trade and other payables	(1,446)	-	-	-	-	(1,446)
Derivative financial instruments:						
Cross currency swaps	-	-	(1)	(2)	(2)	(5)
Forward currency contracts	4	4	-	-	-	8
Fuel derivatives	97	52	22	-	-	171
Forward currency contracts	(9)	(2)	-	-	-	(11)
At December 31, 2010	(1,751)	(234)	(544)	(2,041)	(2,137)	(6,707)

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 gearing ratio, net debt as a percentage of total capital and net debt to EBITDAR (Operating profit before depreciation, amortisation and rental charges). Net debt is defined as the total borrowings, finance leases and hire purchase liabilities, net interest-bearing deposits and cash and cash equivalents less overdrafts. See note 20 for details of the calculation of net debt. Total capital is defined as the total of capital, reserves, non-controlling interests and net debt. The gearing ratios are as follows:

€ million (except ratios)	December 31, 2011	December 31, 2010
Capital reserves	5,386	2,525
Add non-controlling interests	300	300
Total equity	5,686	2,825
Net debt (a)	1,148	2,354
Total capital (b)	6,834	5,179
Gearing ratio (a)/(b)	16.8%	45.5%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
27 Financial instruments
a Financial assets and liabilities by category

The accounting classification of each class of financial assets and liabilities are as follows:

At December 31, 2011

€ million	Financial assets						Total carrying amount by balance sheet item
	Loans and receivables	Financial assets at FV through P&L	Derivatives used for hedging	Available for sale	Financial assets held to maturity	Non-financial assets	
Non-current financial assets							
Available-for-sale financial assets	-	-	-	466	-	-	466
Derivative financial instruments	-	-	37	-	-	-	37
Other non-current assets	42	-	-	-	8	21	71
Current financial 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

€ million	Financial liabilities				Total carrying amount by balance sheet item
	Loans and payables	Financial liabilities at FV through P&L	Derivatives used for hedging	Non-financial liabilities	
Non-current financial liabilities					
Interest-bearing long-term borrowings		4,304	-	-	4,304
Derivative financial instruments		-	-	55	55
Other long-term liabilities		11	-	373	384
Current financial liabilities					
Current portion of long-term borrowings		579	-	-	579
Trade and other payables		3,116	-	2,261	5,377
Derivative financial instruments		-	-	64	64

At December 31, 2010

€ million	Financial assets						Total carrying amount by balance sheet item
	Loans and receivables	Financial assets at FV through P&L	Derivatives used for hedging	Available for sale	Financial assets held to maturity	Non-financial assets	
Non-current financial assets							
Available-for-sale financial assets	-	-	-	77	-	-	77
Derivative financial instruments	-	-	22	-	-	-	22
Other non-current assets	-	-	-	-	-	48	48
Current financial assets							
Trade receivables	453	-	-	-	-	-	453
Other current assets	131	-	-	-	-	175	306
Derivative financial instruments	-	-	156	-	-	-	156
Other current interest-bearing deposits	1,381	-	-	-	-	-	1,381
Cash and cash equivalents	917	-	-	-	-	-	917

€ million	Financial liabilities					Total carrying amount by balance sheet item
	Loans and payables	Financial liabilities at FV through P&L	Derivatives used for hedging	Non-financial liabilities		
Non-current financial liabilities						
Interest-bearing long-term borrowings	4,114	-	-	-	-	4,114
Derivative financial instruments	-	-	4	-	-	4
Other long-term liabilities	13	-	-	349	-	362
Current financial liabilities						
Current portion of long-term borrowings	538	-	-	-	-	538
Trade and other payables	1,781	-	-	1,533	-	3,314
Derivative financial instruments	-	-	11	-	-	11

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
27 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, 2011 are set out below:

€ million	Fair value				Carrying value
	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 and hire purchase obligations	-	3,011	-	3,011	3,011
Fixed rate borrowings	693	381	-	1,074	1,027
Floating rate borrowings	16	829	-	845	845
Aircraft lease hedges (liability)	-	38	-	38	38
Cross currency swaps ²	-	3	-	3	3
Fuel derivatives ²	-	67	-	67	67
Currency option 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 carrying amounts and fair values of the Group's financial assets and liabilities at December 31, 2010 are set out below:

€ million	Fair value				Carrying value
	Level 1	Level 2	Level 3	Total	Total
Financial assets					
Available-for-sale financial assets	56	-	21	77	77
Forward currency contracts ¹	-	7	-	7	7
Fuel derivatives ¹	-	171	-	171	171
Financial liabilities					
Interest-bearing loans and borrowings:					
Finance lease and hire purchase obligations	-	2,863	-	2,863	2,755
Fixed rate borrowings	795	408	-	1,203	996
Floating rate borrowings	-	901	-	901	901
Cross currency swaps ²	-	4	-	4	4
Forward currency contracts ²	-	11	-	11	11

¹ Current portion of derivative financial assets is €156 million.

² Current portion of derivative financial liabilities is €11 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, 2011. 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 December 31 (level 2).

Interest-bearing loans and borrowings, finance leases and hire purchase arrangements excluding i – iii below

The majority of repayments that the Group is committed to make have been discounted at the relevant market interest rates applicable at December 31, 2011 (level 2). Where the Group has borrowings with the Spanish State (Department of Industry), and these borrowings carry a 0 per cent rate of interest, these loans have been included using contractual undiscounted cash flows.

- (i) Japanese yen denominated portions of hire purchase arrangements carrying fixed rates of interest:
These amounts relate to the tax equity portions of Japanese leveraged leases which are personal to the Group, cannot be assigned and could not be refinanced or replaced in the same cross border market on a mark-to-market basis. The carrying value of €nil (2010: €60 million) is determined with reference to the effective interest rate (level 2).
- (ii) Euro-sterling notes and euro-sterling bond 2016:
These are stated at quoted market value (level 1).
- (iii) 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	December 31, 2011	December 31, 2010
Opening balance	21	70
Acquired through business combination	10	–
Unrealised gains relating to instruments still held at December 31	1	1
Purchase, issuances and settlements	(4)	(4)
Transfers into or out of level 3 ¹	–	(46)
	28	21

¹ Investment in Flybe Group Plc was reclassified from level 3 to level 1 as a result of the instrument being listed on the London Stock Exchange in December 2010.

During the year there were no transfers between level 1 and level 2 fair value measurements, and no transfers into or out of level 3 fair value measurements. A reasonably possible change in assumptions is unlikely to result in a significant change in the fair value of level 3 instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
27 Financial instruments continued
d Hedges
i Cash flow hedges

All derivatives to which hedge accounting is applied are designated as cash flow hedges.

At December 31, 2011 the Group held five 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 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;
- A hedge of future jet fuel purchases by forward crude, gas oil and jet kerosene derivative contracts hedging future fuel price risk; and
- A hedge of future aircraft lease cash flows by cross currency swaps hedging future foreign exchange and interest rate risk.

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 periods to which the related cash flows are expected to occur are summarised below:

Full year to December 31, 2011

Financial instruments designated as hedging instruments € million	Cash flows hedged					Total December 31, 2011
	Within 6 months	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	
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 revenues:	
- US dollars	\$2,080
- Euro	€207
- Japanese yen	¥50,595

Nine months to December 31, 2010

Financial instruments designated as hedging instruments € million	Cash flows hedged					Total December 31, 2010
	Within 6 months	6 - 12 months	1 - 2 years	2 - 5 years	More than 5 years	
Debt repayments to hedge future revenue	24	32	62	171	60	349
Forward contracts to hedge future payments	-	(1)	-	-	-	(1)
Hedges of future fuel purchases	(92)	(52)	(27)	(1)	-	(172)
	(68)	(21)	35	170	60	176
Related deferred tax charge						(47)
Total amount included within equity						129

Million	Notional principal amounts (in local currency)
To hedge future currency revenues against US dollars	\$508
To hedge future operating payments in US dollars	\$165
Hedges of future fuel purchases	\$2,352
Debt repayments to hedge future revenue	
- US dollars	\$2,158
- Euro	€200
- Japanese yen	¥63,811

The ineffective portion recognised in the Income statement during the year was a loss of €12 million on hedges of future fuel purchases (2010: €2 million). On currency options, the ineffective portion recognised in the Income statement was a loss of €4 million (2010: €nil).

ii Fair value hedges

The Group has no fair value hedges.

iii Net investments in foreign operations

The Group has no such hedges at December 31, 2011.

28 Share capital

Allotted, called up and fully paid	Number of shares 000s	Ordinary share capital € million	Share premium € million
At January 1, 2011: Ordinary shares of €1 each	15	-	-
Share redemption	(15)	-	-
Shares issued on January 21, 2011 - ordinary shares of €0.50 each	1,855,370	928	5,280
At December 31, 2011	1,855,370	928	5,280

The Group issued 1,855,369,557 shares on January 21, 2011 as part of the merger (note 3).

29 Share-based payments

The Group operates share-based payment schemes as part of the total remuneration package provided to employees. These schemes comprise both share option schemes where employees acquire shares at a grant 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 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 British Airways. 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 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. 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, 2011 000s	Granted number 000s	Lapsed number 000s	Exercised number 000s	Outstanding at December 31, 2011 000s	Exercisable December 31, 2011 000s
Deferred Share Plan and Incentive Award Deferral Plan	5,516	928	158	482	5,804	113
Performance Share Plan	15,899	11,878	2,391	689	24,697	–
Long Term Incentive Plan	577	–	14	212	351	351
Share Option Plan	7,085	–	1,373	86	5,626	5,626
	29,077	12,806	3,936	1,469	36,478	6,090
Weighted average exercise price of Share Option Plans (£)	2.56	–	2.89	2.09	2.49	2.49

A total of 86,000 shares related to the Share Option Plan were exercised at a weighted average market share price of £2.63.

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-£1.81	1,132	1.12
£2.62-£2.76	4,494	3.02
At December 31, 2011	5,626	2.64

Range of exercise prices at December 31, 2010 for Share Option Plans:

Range of exercise prices	Number of shares 000s	Weighted average contractual life (years)
£1.57-£2.61	1,231	2.15
£2.62-£3.20	5,218	4.02
£3.21	636	0.48
At December 31, 2010	7,085	3.38

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, 2011	December 31, 2010
Weighted average fair value (£)	1.11	1.49
Expected share price volatility (per cent)	50	56
Expected comparator group volatility (per cent)	27-116	27-119
Expected comparator correlation (per cent)	40	39
Expected life of options (years)	3	3
Weighted average share price at date of grant (£)	1.97	2.35

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 options granted were incorporated into the measurement of fair value.

The Group recognised a share-based payment charge of €18 million for the year to December 31, 2011 (nine months to December 31, 2010: €7 million).

30 Other reserves and non-controlling interests
Full year to December 31, 2011

€ million	Other reserves					Total other reserves	Non-controlling interest
	Retained earnings	Unrealised gains and losses	Currency translation	Equity portion of convertible bond	Merger reserve		
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 payments	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

Nine months to December 31, 2010

€ million	Other reserves					Total other reserves	Non-controlling interest
	Retained earnings	Unrealised gains and losses	Currency translation	Equity portion of convertible bond	Merger reserve		
At April 1, 2010	834	(197)	47	94	1,372	2,150	300
Profit for the period	197	-	-	-	-	197	15
Other comprehensive income for the period:							
Cash flow hedges reclassified and reported in net profit:							
Passenger revenue	-	32	-	-	-	32	-
Fuel and oil costs	-	1	-	-	-	1	-
Currency differences	-	(13)	-	-	-	(13)	-
Net change in fair value of cash flow hedges	-	79	-	-	-	79	-
Share of other movements in reserves of associates	57	-	-	-	-	57	-
Currency translation differences	(7)	-	27	-	-	20	-
Cost of share-based payments	7	-	-	-	-	7	-
Exercise of share options	(1)	-	-	-	-	(1)	-
Distributions made to holders of perpetual securities	-	-	-	-	-	-	(15)
At December 31, 2010	1,087	(98)	74	94	1,372	2,529	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 23).

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. 1,465,642 shares were issued to employees during the year as a result of employee share scheme exercises. At December 31, 2011 the Trust held 6,330,091 shares (2010: 795,733), which represented 0.34 per cent of the Issued share capital of the Company.

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.

31 Pension costs

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 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 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 as 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 €395 million in real terms. In addition to cash contributions collateral was provided to APS, triggered in the event of British Airways' insolvency, of €275 million of guarantees (first issued in 2007) and a further €299 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.

During 2010 the trustees of APS purchased an insurance contract with Rothesay Life, which covers 20 per cent of the pensioner liabilities as 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 €1,343 million as at December 31, 2011. The insurance contract can only be used to pay or fund employee benefits under the pension scheme.

During the year 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 €53 million as at December 31, 2011. In addition, the Trustees have granted security over €81 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 (nine months to December 31, 2010: €2 million). British Airways also operates a closed US defined benefit plan and is forecast to make total contributions of €19 million in 2012.

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, 2011 were €64 million (nine months to December 31, 2010: €24 million).

a Employee benefit schemes recognised on the balance sheet

€ million	Employee benefit obligations		Employee benefit assets	
	December 31, 2011	December 31, 2010	December 31, 2011	December 31, 2010
Arising under defined benefit pension plans and post-retirement benefits	75	77	1,317	676
Arising under post-retirement medical benefit plans	190	168	-	-
Total arising under post-retirement benefits	265	245	1,317	676
Other employee benefit obligations	12	13	-	-
	277	258	1,317	676

At December 2011, 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

€ million	December 31, 2011					
	Employee benefit obligations			Employee benefit assets		
	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
31 Pension costs continued
b Scheme assets and liabilities continued

€ million	December 31, 2010					
	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
Scheme assets at fair value						
Equities	6,611	215	6,826	1,037	23	1,060
Bonds	2,206	82	2,288	4,505	20	4,525
Others ¹	1,344	12	1,356	1,974	-	1,974
Fair value of scheme assets	10,161	309	10,470	7,516	43	7,559
Present value of scheme liabilities	11,340	733	12,073	6,890	39	6,929
Net pension (liability)/asset	(1,179)	(424)	(1,603)	626	4	630
Net pension (liability)/asset represented by:						
Net pension asset/(liability) recognised	240	(245)	(5)	426	10	436
Restriction on APS surplus due to the asset ceiling	-	-	-	145	-	145
Cumulative actuarial (losses)/gains not recognised	(1,419)	(179)	(1,598)	55	(6)	49
	(1,179)	(424)	(1,603)	626	4	630

¹ Included within the APS balance is the insurance contract 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

€ million	December 31, 2011					
	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
Current service cost	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 cost	(62)	20	(42)	(142)	-	(142)

€ million	December 31, 2010					
	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
Current service cost	146	7	153	8	-	8
Recognised in arriving at operating profit	146	7	153	8	-	8
Expected return on scheme assets	(510)	(17)	(527)	(288)	(2)	(290)
NAPS administration expense	9	-	9	-	-	-
Interest costs on scheme liabilities	483	27	510	294	1	295
Amortisation of actuarial losses in excess of the corridor	67	6	73	-	-	-
Immediate recognition of net actuarial gains (APS)	-	-	-	(99)	-	(99)
Effect of the APS asset ceiling	-	-	-	86	-	86
Other finance cost	49	16	65	(7)	(1)	(8)

d Unrecognised cumulative actuarial gains and losses

€ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
Amount of unrecognised actuarial losses at April 1, 2010	(2,365)	(143)	(2,508)	(192)	(3)	(195)
Actual return on scheme assets	702	20	722	203	3	206
Less: Expected return on scheme assets	(510)	(17)	(527)	(288)	(2)	(290)
Actuarial gains/(losses) on plan assets	192	3	195	(85)	1	(84)
Actuarial gains/(losses) on plan liabilities	800	(37)	763	439	(3)	436
Amortisation of actuarial losses in excess of the corridor	67	6	73	-	-	-
Immediate recognition of net actuarial gains (APS)	-	-	-	(99)	-	(99)
Exchange movements	(113)	(8)	(121)	(8)	(1)	(9)
Cumulative unrecognised actuarial (losses)/gains at December 31, 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

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.

e Actuarial assumptions

Per cent per annum	December 31, 2011			December 31, 2010		
	NAPS	APS ¹	Other schemes	NAPS	APS ¹	Other schemes
Inflation (CPI)	2.25	2.15	-	3.0	2.9	-
Inflation (RPI)	3.0	2.9	1.8 - 4.6	3.5	3.4	0.5 - 4.6
Rate of increase in pensionable pay ¹	3.0	2.9	2.0 - 8.5	3.5	3.4	2.8 - 8.5
Rate of increase of pensions in payment	2.15	2.15	1.5 - 4.6	2.9	2.9	1.5 - 4.6
Discount rate	5.0	4.7	1.2 - 8.3	5.5	5.5	1.8 - 8.3
Expected rate of return on scheme assets	5.5	3.7	4.4 - 8.5	7.0	5.0	3.0 - 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 NAPS.

Rates of increase in healthcare costs are based on medical trend rates of 8.0 per cent grading down to 5.0 per cent over six years (2010: 8.5 per cent to 5.0 per cent over seven years).

In the UK, mortality rates are calculated using the standard SAPS mortality tables produced by the CMI for APS and NAPS. The standard mortality tables were selected based on the actual recent mortality experience of members and were adjusted to allow for future mortality changes. In the US, mortality rates were based on the PPA 12 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 €239 million in both APS and 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 €84 million in APS and €227 million in NAPS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

31 Pension costs continued

e Actuarial assumptions continued

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	(38)	31

f Present value of scheme liabilities

€ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
As at April 1, 2010	11,213	651	11,864	7,027	35	7,062
Current service cost	146	7	153	8	-	8
Interest cost	483	27	510	294	1	295
Benefits paid	(270)	(21)	(291)	(330)	(2)	(332)
Employee contributions	45	1	46	2	-	2
Actuarial (gains)/losses	(800)	37	(763)	(439)	3	(436)
Exchange movements	523	31	554	328	2	330
As at December 31, 2010	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

The defined benefit obligation comprises €236 million (2010: €292 million) arising from unfunded plans and €12,431 million (2010: €11,781 million) from plans that are wholly or partly funded.

g Fair value of scheme assets

€ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
As at April 1, 2010	9,026	285	9,311	7,248	40	7,288
Expected return on plan assets	510	17	527	288	2	290
NAPS administration expense	(9)	-	(9)	-	-	-
Employer contributions	248	12	260	55	-	55
Employee contributions	45	1	46	2	-	2
Benefits paid	(270)	(21)	(291)	(330)	(2)	(332)
Actuarial gains/(losses)	192	3	195	(85)	1	(84)
Exchange movements	419	12	431	338	2	340
As at December 31, 2010	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

h History of experience gains and losses

€ million	Employee benefit obligations			Employee benefit assets		
	NAPS	Other schemes	Total	APS	Other schemes	Total
As 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
As 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)
As 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
As 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)
As at March 31, 2008 (restated)						
Fair value of scheme assets	9,258	278	9,536	8,402	44	8,446
Present value of defined benefit obligation	(9,708)	(484)	(10,192)	(6,844)	(37)	(6,881)
(Deficit)/surplus in the scheme	(450)	(206)	(656)	1,558	7	1,565
Experience (gains)/losses arising on plan liabilities	(1,248)	(40)	(1,288)	(881)	4	(877)
Experience gains/(losses) arising on plan assets	(699)	(37)	(736)	260	1	261

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

32 Contingent liabilities and guarantees

There were contingent liabilities at December 31, 2011 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 guaranteed certain liabilities and commitments, which at December 31, 2011 amounted to €411 million (2010: €460 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.

33 Related party transactions

Following the merger on January 21, 2011 the Group held the interests of both British Airways and Iberia. IAG is the ultimate controlling party of its subsidiaries British Airways and Iberia.

All amounts disclosed for 2010 include transactions between British Airways and Iberia; before the merger both companies had crossholdings in each other. As a result of the merger both British Airways and Iberia are now classified as subsidiaries of the Group and all subsequent transactions between the two companies have been eliminated on consolidation.

The following transactions took place with related parties for the financial periods ended December 31:

Sales and purchases of goods and services

€ million	December 31, 2011	December 31, 2010
Sales of goods and services		
Sales to associates	163	44
Sales to significant shareholders	5	-
Purchases of goods and services		
Purchases from associates	66	49
Purchases from significant shareholders	21	-
Period end balances arising from sales and purchase of goods and services		
Receivables from related parties		
Amounts owed by associates	24	1
Amounts owed by significant shareholders	282	-
Payables to related parties		
Amounts owed to associates	19	8
Amounts owed to significant shareholders	-	-

In 2011 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 €9 million (nine months to December 2010: €5 million) in relation to the costs of the Pension Protection Fund levy.

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

Bankia, S.A. (Bankia), a Spanish listed bank, has guaranteed €40 million of payables on aircraft, aircraft lease payments and returns on financial investments (2010: €nil). Costs incurred in relation to this guarantee totalled €2 million and have been included in the table above.

For the full year to December 31, 2011, the Group had not made any provision for doubtful debts relating to amounts owed by related parties (nine months to December 2010: €nil).

Further details 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 €144 million of airline related services provided to Vueling Airlines, S.A. (Vueling), and €11 million to Dunwoody Airline Services (Holding) Limited (Dunwoody) (nine months to December 2010: €44 million).

Purchases from associates mainly included €30 million of airport auxiliary services purchased from Multiservicios Aeroportuarios S.A., €9 million of maintenance services provided by Serpista, S.A. and €9 million of services received from Dunwoody (nine months to December 2010: €49 million).

The Group had amounts owed by associates at December 31, 2011 for aircraft related services rendered, mainly with Vueling of €16 million and Iber-América Aerospace, LLC of €4 million (2010: €1 million).

At December 31, 2011 amounts owed to associates consisted primarily of €12 million due to Vueling for aircraft related services (2010: €8 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.

Sales to significant shareholders consisted of finance income received from Bankia of €5 million, relating to current interest bearing deposits (nine months to December 2010: €nil). Purchases from significant shareholders included €18 million of aircraft lease financing repayments to Bankia (nine months to December 2010: €nil).

The Group had a receivables balance of €282 million with Bankia, relating to cash deposits (2010: €nil). At December 31, 2011 the Group had no payables balances; fleet financing transactions of €107 million occurred during the year with Bankia, which are wholly classified as 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 (nine months to December 2010: €nil). At December 31, 2011 the Group had cash deposit balances with shareholders, holding a participation of between 3 to 5 per cent, of €100 million (2010: €148 million).

Board of Directors and Management Committee remuneration

No loans or credit transactions were outstanding with Directors or officers of the Group at December 31, 2011 (2010: €nil) that require disclosure in accordance with the requirements of article 260 of the Ley de Sociedades de Capital.

Compensation received by the Group's key management personnel, which includes the Board of Directors and Management Committee, in 2011 and 2010 is as follows:

€ million	Full year to December 31, 2011	Nine months to December 31, 2010
Salaries and other short-term benefits	9	6
Share-based payments	1	2
	10	8

The Report of the Remuneration Committee on pages 49 to 61 discloses further details of the Board of Directors and Management Committee.

The Company provides life insurance for all members of the Board and Management Committee. For the year to December 31, 2011 the Company paid contributions of €13,000. At December 31, 2011 the total transfer value of accrued pensions covered under defined benefit pension schemes totalled €4 million (2010: €11 million).

SPANISH CORPORATE GOVERNANCE REPORT

The Spanish Corporate Governance Report forms part of the Management Report.

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
Black Rock Inc	-	91,539,438	4.934
Schroders Plc Holdings	-	59,204,543	3.191
Templeton Global Advisors Limited	-	92,969,270	5.011

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
Black Rock Inc	Black Rock Investment Management (UK) Ltd	91,539,438	4.934
Schroders Plc Holdings	Schroder Investment Management Ltd	59,186,289	3.190
Schroders Plc Holdings	Schroder & Co Ltd	18,254	0.001
Templeton Global Advisors Limited	Investment funds managed by Templeton	92,969,270	5.011

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
Black Rock Inc	25/01/2011	Increase to above 5% of the share capital.
Black Rock Inc	09/11/2011	Decrease to below 5% of the share capital.
Schroders Plc Holdings	30/08/2011	Increase to above 3% of the share capital.
Templeton Global Advisors Limited	16/08/2011	Increase to above 3% of the share capital.
Templeton Global Advisors Limited	15/09/2011	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	69,090	-	0.004
Willie Walsh	298,915	-	0.016
César Alierta Izuel	1,000,000	-	0.054
José Manuel Fernández Norniella	816	-	0.000
Baroness Kingsmill	2,000	-	0.000
James Lawrence	50,000	-	0.003
José Pedro Pérez-Llorca	408	-	0.000
Rodrigo de Rato y Figaredo	408	-	0.000
Rafael Sánchez-Lozano Turmo	103,070	-	0.006
Keith Williams	135,615	-	0.007

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
-	-	-	-

Total percentage of voting rights held by the Board of Directors 0.118

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	1,274,417	-	1,274,417	0.07
Keith Williams	1,547,955	-	1,547,955	0.08
Rafael Sánchez-Lozano Turmo	359,990	-	359,990	0.02

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
-	-	-

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 IAG’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 and Black Rock Advisors (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, 2011:

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
-	-	-	-

Gains/(losses) on the Company's own stock transferred during the period -

A.9 Describe the terms and conditions and the duration of the powers currently in force given by the shareholders acting at the General Shareholders' Meetings to the Board of Directors in order to acquire or transfer Company stock:

The Shareholders' meeting held on November 29, 2010 authorised to carry out the acquisition of shares issued directly by the Company or indirectly through its subsidiaries, up to the maximum amount permitted by applicable law (10 per cent of the share capital). The acquisitions may not be made at a price greater than the listing price of the shares. This authorisation is granted for a maximum period of five years from November 29, 2010. The shares acquired pursuant to this authorisation may be disposed of or allocated to the shares remuneration systems of the IAG Group.

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.

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 -

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 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, 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 could adversely affect 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 may suspend 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 any non-EU shareholders, which may not be less than 40 per cent of the Company's share capital under any circumstances. At December 31, 2011 22 per cent of the ordinary shares of the Company were held by non-EU shareholders.

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.

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 General 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	-	Chairman	25/05/2010	21/01/2011	Appointed by the sole shareholder prior to listing.
Sir Martin Broughton	-	Deputy Chairman	25/05/2010	21/01/2011	Appointed by the sole shareholder prior to listing.
Willie Walsh	-	CEO	25/05/2010	21/01/2011	Appointed by the sole shareholder prior to listing.
César Alierta Izuel	-	Director	27/09/2010	21/01/2011	Appointed by the sole shareholder prior to listing.
Patrick Cescau	-	Director	27/09/2010	21/01/2011	Appointed by the sole shareholder prior to listing.
José Manuel Fernández Norniella	-	Director	27/09/2010	21/01/2011	Appointed by the sole shareholder prior to listing.
Baroness Kingsmill	-	Director	27/09/2010	21/01/2011	Appointed by the sole shareholder prior to listing.
James Lawrence	-	Director	27/09/2010	21/01/2011	Appointed by the sole shareholder prior to listing.
José Pedro Pérez-Llorca	-	Director	27/09/2010	21/01/2011	Appointed by the sole shareholder prior to listing.
Kieran Poynter	-	Director	27/09/2010	21/01/2011	Appointed by the sole shareholder prior to listing.
Rodrigo de Rato y Figaredo	-	Director	27/09/2010	21/01/2011	Appointed by the sole shareholder prior to listing.
Rafael Sánchez-Lozano Turmo	-	Director	25/05/2010	21/01/2011	Appointed by the sole shareholder prior to listing.
John Snow	-	Director	27/09/2010	21/01/2011	Appointed by the sole shareholder prior to listing.
Keith Williams	-	Director	27/09/2010	21/01/2011	Appointed by the sole shareholder prior to listing.
Total number of Directors					14

SPANISH CORPORATE GOVERNANCE REPORT – CONTINUED

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
-	-	-

B.1.3 Complete the following table about the members of the Board 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	-	Group CEO
Keith Williams	-	British Airways CEO
Rafael Sánchez-Lozano Turmo	-	Iberia CEO
Total number of Executive Directors		3
Total % of Board 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
Rodrigo de Rato y Figaredo	-	Banco Financiero y de Ahorros, S.A./ Bankia, S.A.
Total number of proprietary Directors		1
Total % of Board members		7.14%

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 (National Long Distance Spanish University). 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, 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 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 has served as a Non-Executive Director of Pearson Plc since 2002 and in 2010 was appointed the senior independent Director. In June 2009 he joined the Board of INSEAD. Patrick Cescau 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 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 merger effective 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 Non-Executive Director of Betfair, of KornFerry International and of Horizon and a member of the Supervisory Board of E.ON AG. She is a member of the PwC Advisory Board and a member of the Microsoft European Policy Board. Baroness Kingsmill is a member of the International Advisory Board of IESE.
James Lawrence	James Lawrence was a Non-Executive Director of British Airways from November 2006 until the merger effective date. He has been Chief Executive Officer of Rothschild North America 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 14 public company boards.
José Pedro Pérez-Llorca	José Pedro Pérez-Llorca was a Non-Executive Director of Iberia from March 2000 until the merger effective 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 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 Chairman of the audit committee of the International Business Leaders Forum and 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 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 CEO 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 United States. He currently serves on the Boards of Cerberus Capital Management LP where he is Non-Executive Chair, Marathon Oil Corporation, Verizon Communications and Amerigroup Corporation.

SPANISH CORPORATE GOVERNANCE REPORT – CONTINUED

Total number of Independent Directors	8
Total % of Board members	57.14%

OTHER EXTERNAL DIRECTORS

Individual or corporate name of Director	Committee that has proposed the Director's appointment
José Manuel Fernández Norriella	-
Antonio Vázquez Romero	-

Total number of other external Directors	2
Total % of Board members	14.29%

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.

Individual or corporate name of Director	Reasons	Company, manager or shareholder with which he has ties
José Manuel Fernández Norriella	He is 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.
Antonio Vázquez Romero	He was until the merger effective date (21/01/2011) the Executive Chairman of Iberia.	Iberia

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 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
-	-

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 Group CEO 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 Líneas Aéreas de España, S.A. Operadora	Chairman
	IB Opco Holding, S.L.	Chairman
Sir Martin Broughton	British Airways Plc	Chairman
Keith Williams	British Airways Plc	British Airways CEO
	Iberia Líneas Aéreas de España, S.A. Operadora	Director
	Avios Group (AGL) Limited	Director
	BA and AA Holdings Limited	Director
	BritAir Holdings Limited	Director
	British Airways (España) Limited	Director
	British Airways (European Operations at Gatwick) Limited	Director
	British Airways 777 Leasing Limited	Chairman
	British Airways Associated Companies Limited	Director
	British Airways Capital Limited	Director
	British Airways Holdings BV	Director
	British Airways Holdings Limited	Director
	British Airways Leasing Limited	Director
	British Airways Regional Limited	Director
	British Caledonian Airways Limited	Director
	British Caledonian Group Limited	Director
	Caledonian Aviation Investments Limited	Director
	IB Opco Holding, S.L.	Director
	OpenSkies Aviation Limited	Director
	Remotereport Trading Limited	Director
	Speedwing International Limited	Director
	The Plimsoll Line Limited	Director
Rafael Sánchez-Lozano Turmo	Iberia Líneas Aéreas de España, S.A. Operadora	Iberia CEO
	British Airways Plc	Director
	IB Opco Holding, S.L.	Director

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.	Executive Chairman
José Manuel Fernández Norniella	Bankia, S.A.	Executive Director
Rodrigo de Rato y Figaredo	Bankia, S.A.	Executive Chairman

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	
	-

SPANISH CORPORATE GOVERNANCE REPORT – CONTINUED

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	4,775
Variable remuneration	644
Attendance fees	n/a
Bylaw stipulated remuneration	n/a
Share options and/or other financial instruments	539
Other	748
Total	6,706

Other benefits	Data in thousands of euros
Advances	-
Loans granted	-
Pension funds and plans: Contributions	54
Pension funds and plans: Obligations incurred	2,477
Life insurance premiums	8
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 (euros)	By Group
Executive	6,557,774	-
External proprietary	139,005	-
External independent	1,509,459	-
Other external	1,039,171	-
Total	9,245,409	-

d) As a percentage of the profits attributable to the controlling Company:

Total remuneration of Directors (in thousands of euros)	9,245
Total remuneration of Directors/profits attributable to the controlling Company (as a %)	1.7%

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
Robert Boyle	Director of Strategy
Ignacio de Torres Zabala	Director of Global Services
Julia Simpson	Chief of Staff
Chris Haynes	General Counsel

Total senior management remuneration (in thousands of euros)	5,274
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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 General Shareholders' Meeting)
Decision-making body approving the provisions	YES	NO

Is information about these provisions provided to the shareholders at the General 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 Board members 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 financial 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 Board member or category of Board member, (ii) the functions and responsibilities allocated to the Board 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 also being responsible for determining the frequency and manner of payment of the fee.

Board members may not be paid twice as Directors if they belong to the board of other companies of the Group.

SPANISH CORPORATE GOVERNANCE REPORT – CONTINUED

Without prejudice to the above-mentioned remuneration, remuneration for Executive Board members 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 Board members that discharge executive or advisory functions other than those of oversight and collective decision inherent in their role as Board members, 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 shall adopt the relevant decisions regarding the establishment, pursuant to the Company's Bylaws, of the remuneration policy and remuneration of Board members as well as the decisions concerning the appointment and removal of the Company's senior executives, as well as establishment of any indemnification in the event of their removal and the basic terms of their contracts.

According to article 25 of the Board regulations, the Remuneration Committee shall have the power to propose to the Board of Directors the system and amount of the annual remuneration for Board members, as well as the individual remuneration of the Executive Board members and the other terms of their contracts, pursuant in all cases to the provisions of the Company's Bylaws, to report to the Board of Directors on the potential indemnification that may be established in the event of the dismissal of senior executives and to report to the Board of Directors on the senior executive remuneration policy and the basic terms of their contracts.

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 General 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 Remuneration 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 Remuneration Committee (the Committee) and remuneration policy for the Company.

The report has been prepared in accordance with the UK Listing Rules and although there is no requirement as a Spanish company, therefore on a voluntarily basis, in accordance 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 28 July).

According to said article, the report will be submitted to the consultative vote of the annual Shareholders' Meeting of the Company.

Role of the Remuneration Committee

The Committee's main duties are:

- to propose to the IAG Board the system and amount of the annual remuneration for IAG Board members, as well as the individual remuneration of the Executive IAG Board members and the other terms of their contracts, pursuant in all cases to the provisions of the Company's Bylaws;
- to report to the IAG Board on the potential indemnification that may be established in the event of the dismissal of senior executives;
- to report to the IAG Board on the senior executive remuneration policy and the basic terms of their contracts;
- to report on incentive plans and pension supplements;
- to periodically review the remuneration programmes, taking into account their suitability and performance;
- 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;
- 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; and
- to exercise any other powers attributed to it by the Company's Bylaws, the Board of Directors regulations or the Board itself.

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
José Manuel Fernández Norniella	Bankia, S.A.	Executive Director
Rodrigo de Rato y Figaredo	Bankia, S.A.	Executive Chairman

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 December 15, 2011, the Board approved the modification of the following articles of the Board regulations:

- Article 3.4, to update the powers of the Board of Directors in accordance with the functioning of the body.
- Article 23.2, to update the powers of the Audit and Compliance Committee.
- Article 26, to adapt the regulation of the Safety Committee to the actual scope of its functions.

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 confirm the appointments, appoint the persons that are to replace any Board members not ratified, or eliminate any vacant positions.

Any 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.

Re-election of Directors

Board members 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.

Notwithstanding the above, all current members of the Board were re-elected with effect from the date of execution of the merger between British Airways and Iberia (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 ability of the Shareholders' meeting to remove them at any moment according to applicable law:

- (i) Sir Martin Broughton, Mr. Patrick Cescau, Mr. José Manuel Fernández Norriella and Mr. John Snow shall stand for re-election at the ordinary Shareholders' Meeting to be held in 2013.
- (ii) Mr. Willie Walsh, Mr. César Alierta Izuel, Baroness Kingsmill, Mr. José Pedro Pérez-Llorca, Mr. Kieran Poynter and Mr. Rafael Sánchez-Lozano Turmo shall stand for re-election at the ordinary Shareholders' Meeting to be held in 2014.
- (iii) Mr. Antonio Vázquez Romero, Mr. James Lawrence, Mr. Rodrigo de Rato y Figaredo and Mr. Keith Williams shall stand for re-election at the ordinary Shareholders' Meeting to be held in 2015.

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 appointment's term, Board members 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 decision of 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.

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.

The Chairman, Deputy Chairman and, if applicable, the Company Secretary and Company Deputy Secretary who are re-elected as members of the Board by the shareholders acting at a Shareholders' Meeting shall continue to perform the duties that they previously held within the Board, 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 Chairman of the Board include to ensure that the performance of individual Board members, the Board as a whole and Board 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 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.

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 who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the Board 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 the proposals for the removal of independent Directors by the Shareholders' Meeting and to report on such proposals regarding any other kind of Board members.

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 shall become 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 Board member;
- d) When his remaining on the Board 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 Chairman 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.

NO

Description of the rules

—

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.	Absolute majority (i.e. more than half) of the votes present, in person or by proxy.
Permanent delegation of powers and the designation of the Board members that are to exercise such powers.	More than half of the Directors present, in person or by proxy.	Two-thirds of the total number of Board members.

B.1.23 Explain whether there are specific requirements, other than the requirements relating to Directors, to be appointed Chairman:

NO

Description of requirements
-

B.1.24 Does the Chairman 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 Chairman	Age limit for the CEO	Age limit for Directors
-	-	-

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	-
------------------------	---

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, 25 per cent of our senior executives are women. IAG is a young company, formed from a merger of British Airways and Iberia in January 2011. Over time, the Company wants to improve the number of women we have at Board and executive level.

In particular, indicate whether the Nominations and Remuneration 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 fulfill 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 meetings. Notwithstanding the above, all Board members may cast their vote through and grant a proxy to another Board member. Proxies must be granted in writing, addressed to the Chairman or to the Company Secretary and must be granted specifically for each meeting. For such purposes, a message addressed to the Chairman or the Company Secretary by letter, fax, telegram, email shall be valid.

The Board member 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 Chairman was not in attendance:

Number of meetings of the Board	11
Number of meetings of the Board at which the Chairman was not in attendance	-

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	n/a
Number of meetings of the Audit and Compliance Committee	6
Number of meetings of the Nominations Committee	1
Number of meetings of the Remuneration Committee	4
Number of meetings of the Safety Committee	3

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	9
% of absences over total votes during the fiscal year	5.8

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	Group CEO
Enrique Dupuy de Lôme Chávarri	Group CFO

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 General Shareholders' Meeting.

According to article 30.4 of the Board regulations, the Board of Directors shall draw up the Company's accounts so that such accounts do not give rise to a qualified certificate issued by the auditors. However, if the Board of Directors deems it appropriate to draw up accounts 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 accounts, monitor compliance with legal requirements and the correct application of generally accepted accounting principles, as well as reviewing significant financial reporting judgements 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, 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.

The appointment of the Secretary of the Board shall be made at the proposal of the Chairman.

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

Comments

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 Chairman'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.
- 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 ten per cent 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 UK Corporate 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.
- f) To review the effectiveness of the external audit process.

During 2011, 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 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 2011, the Committee decided it was in the Group's and shareholders' interests not to tender the external audit in 2012.

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 maintained regular contact with its major institutional shareholders through its investor relations team, through meetings with the Executive Directors and the Chairman and through annual institutional investor events. The presentations from these events were available to private shareholders through the Company's investor relations website. The first Investor Day took place in November 2011.

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)	1,267	3,730	4,997
Amount of non-audit work / Aggregate amount billed by the audit firm (%)	69	57	59

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).

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 Chairman of the Audit 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	2	2
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 Chairman 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.
- 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 Chairman, 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 meetings shall be made by letter, fax, email or any other means and shall be authorised with the signature of the Chairman, or of the Company Secretary or Company Deputy Secretary, on the orders of the Chairman. Call notices shall be sent sufficiently in advance to ensure that Board members receive them no later than seven days before the date of the meeting, except in the case of meetings deemed urgent by the Chairman (or by the Deputy Chairman, in the event of absence, illness or inability of the Chairman). This notice period shall not apply to cases in which 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.

In this regard, the Chairman shall ensure that the members of the Board 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 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 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 channeled through the Chairman 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 Chairman. 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 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 124 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.

NOT APPLICABLE

Decision adopted	Duly substantiated explanation
-	-

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	Chairman	Independent
Patrick Cescau	Member	Independent
James Lawrence	Member	Independent
José Pedro Pérez-Llorca	Member	Independent

NOMINATIONS COMMITTEE

Name	Position	Class
John Snow	Chairman	Independent
César Alierta Izuel	Member	Independent
José Manuel Fernández Norriella	Member	Other Non-Executive
Baroness Kingsmill	Member	Independent

REMUNERATION COMMITTEE

Name	Position	Class
César Alierta Izuel	Chairman	Independent
José Manuel Fernández Norriella	Member	Other Non-Executive
Baroness Kingsmill	Member	Independent
John Snow	Member	Independent

SAFETY COMMITTEE

Name	Position	Class
Willie Walsh	Chairman	Executive
Sir Martin Broughton	Member	Independent
Kieran Poynter	Member	Independent
Antonio Vázquez Romero	Member	Other Non-Executive

B.2.2 State whether the Audit 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 shall designate an Audit and Compliance Committee Chairman 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 Chairman, 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 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 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:

- Monitor the integrity of the quarterly financial statements of the Group, and any formal announcements relating to the Group's financial performance, reviewing significant financial reporting judgements contained in them;
- Review the effectiveness of the Group's internal financial controls, internal control and risk management systems;
- Monitor and review the effectiveness of the Group's internal audit function;
- Make recommendations to the Board, for it to put to the shareholders for their approval in general meetings, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements;

SPANISH CORPORATE GOVERNANCE REPORT – CONTINUED

- Develop and implement policy on the engagement of the external auditors to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken; and
- Establish and maintain procedures for processing complaints regarding accounting, internal controls or auditing matters and to review the Company's procedures for the confidential and, where possible, anonymous submission by Company employees of concerns regarding questionable accounting or auditing matters.

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 shall designate a Nominations Committee Chairman 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.

b) Duties

The key duties of the Nominations Committee include:

- 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;
- To submit to the Board of Directors the proposed appointments of independent Board members 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 Board members by the Shareholders' Meeting;
- To report on the proposals of the Board of Directors for the appointment of the remaining Board members 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 Board members by the Shareholders' Meeting;
- 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 Committees;
- To put in place plans for the succession of Board members, in particular, the succession of the Chairman and the Chief Executive;
- 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;
- To report to the Board of Directors on the appointment and/or removal of the senior executives of the Company;
- To 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 meetings; and
- To identify Board members qualified to fill vacancies on any committee of the Board (including the Nominations Committee).

The Nominations Committee shall meet whenever convened by its Chairman, 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 requests the issue of reports, the presentation of proposals or the adoption of resolutions within the scope of its functions.

Name of the committee: **REMUNERATION COMMITTEE**

a) Rules of organisation and operation

The Remuneration Committee shall be made up of no less than three and no more than five Non-Executive Directors appointed by the Board of Directors, with the dedication, capacity and experience necessary to carry out its function. At least two of the members of the Remuneration Committee shall be Independent Directors. The Board shall designate a Remuneration Committee Chairman from among the Independent Directors of the Remuneration Committee. The Chairman of the Board shall not be eligible to be appointed as Remuneration Committee Chairman. The Company Secretary or his or her nominee shall act as secretary to the Remuneration Committee.

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

b) Duties

The key duties of the Remuneration Committee include:

- To propose to the Board of Directors the system and amount of the annual remuneration for Board members, as well as the individual remuneration of the Executive Board members and the other terms of their contracts, pursuant in all cases to the provisions of the Company's Bylaws.
- To report to the Board of Directors on the potential indemnification that may be established in the event of the dismissal of senior executives.
- To report to the Board of Directors on the senior executive remuneration policy and the basic terms of their contracts.
- To report on incentive plans and pension supplements.
- To periodically review the remuneration programmes, taking into account their suitability and performance.
- 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.
- To ensure that the disclosure requirements of the United Kingdom 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.

Name of the 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 shall designate a Safety Committee Chairman from among the Directors of the Safety Committee.

b) Duties

The key duties of the Safety Committee include:

- To receive material safety information about IAG and all IAG 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 IAG 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).
- To follow up on any safety related measures as determined by the Board of Directors.
- Any other safety related functions assigned 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 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:

The Board 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 Remuneration Committee and article 26 for the Safety Committee). Where no specific provision is made, the Board Committees shall be governed, by analogy and where applicable, by the provisions applicable to the Board of Directors of the Company.

The Company’s Bylaws and the Board regulations are available in the Company’s website: www.iairgroup.com.

On 15 December 2011, the Board approved, among others, the modification of the following articles of the Board regulations:

- Article 23.2, to update the powers of the Audit and Compliance Committee.
- Article 26, to adapt the regulation of the Safety Committee to the actual scope of its functions.

Each 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:

NOT APPLICABLE

If no, explain the composition of your Executive Committee

-

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)
Black Rock Inc	Black Rock Investment Management (UK) Ltd	Commercial	Cash deposits	99,788
Black Rock Inc	Black Rock Investment Management (UK) Ltd	Commercial	Management fee	78
Black Rock Inc	Black Rock Investment Management (UK) Ltd	Commercial	Interest received	920
Banco Financiero y de Ahorros, S.A.	Bankia, S.A.	Commercial	Cash deposits	281,885
Banco Financiero y de Ahorros, S.A.	Bankia, S.A.	Commercial	Fleet financing transactions	106,696
Banco Financiero y de Ahorros, S.A.	Bankia, S.A.	Commercial	Guarantee of payables on aircraft, aircraft lease payments and returns on financial investments	40,003
Banco Financiero y de Ahorros, S.A.	Bankia, S.A.	Commercial	Interest received on financial deposits	5,052
Banco Financiero y de Ahorros, S.A.	Bankia, S.A.	Commercial	Aircraft chartering expenses	18,107
Banco Financiero y de Ahorros, S.A.	Bankia, S.A.	Commercial	Finance/interest expenses	2,440

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:

NO

Individual or corporate name of the Director	Description of the conflict of interest situation
-	-

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 one per cent 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	-
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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:

NOT 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.	-
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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	-
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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:

- Each risk is owned by a senior manager who is ultimately responsible for its management.
- 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.
- 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.
- There are defined procedures for updating risks and the mitigating actions in place to manage those risks.
- 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 Chief of Staff who sits on the British Airways Leadership Team.

During 2011 British Airways and Iberia have aligned their classification of risks and definition of common risks to allow consolidation at the Group level. Risks are classified by their source:

1. Strategic: risks arising from the competitive and regulatory environment, major projects and strategic decisions.
2. Business and operational: risks encompassing emergencies, information technology operations, major project implementation and airline operations.
3. Financial: risks including liquidity and financing.
4. Compliance and regulatory: risks associated with compliance with laws and regulation.
5. Latent: low likelihood high impact risks such as terrorism, fleet grounding and pandemic.

Enterprise Risk Management in IAG

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 were very similar on merger and 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 appetite and policies for a limited number of key risks that will be managed on a Group wide basis.

During IAG's first year Enterprise Risk Management has been implemented in four stages:

1. Development and implementation of a Group wide financial risk management strategy covering fuel price and major currency risks. This involved analysis of the profitability and cash flow impact of reasonably expected movements in fuel price and US dollar exchange rates and determined the level of risk that should be retained by the business over a two year time horizon. The Board approved the level of risk retention, the hedging levels and the degree of flexibility in applying the levels that is delegated to the Hedging Committee. The policy is implemented through the Hedging Committee which takes decisions on hedging levels, within the discretion granted by the Board, and instructs hedging teams in British Airways and Iberia to execute hedging transactions.
2. Alignment of British Airways and Iberia risk classifications and definition of common risks.

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3. Creation of the IAG risk map through the consolidation of British Airways' and Iberia's risks and consideration of IAG level risks. This risk map has been reviewed by the Management Committee and the Audit and Compliance Committee.
4. Internal Audit throughout the Group is being 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
Employee relations	Continued efforts to manage Iberia employment costs, including the announcement of the Iberia Express operation, have led to a deterioration in the relationship with Iberia's pilots.	Contingency plans established to respond to strikes have operated well leading to passengers on cancelled flights being rebooked onto other Iberia, British Airways and other carrier flights.

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 IAG 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 IAG the General Council assumes responsibility for programmes to respond to new and changing regulation that affects the whole Group, such as the Bribery Act. Central support for such programmes is provided by the Chief of Staff and the Director of Legal, People and Government and Industry Affairs within British Airways, and the Iberia Secretary General and Legal Director. Responsibility for Financial Control throughout sits with the IAG Group Head of Financial Reporting and Control, the British Airways Chief Financial Officer, and the Iberia Chief Financial Officer.

E GENERAL 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 General Shareholders' Meeting:****NO**

	Quorum % different from that established as a general rule in Section 102 of the Companies Law	Quorum % different from that established in Section 103 of the Companies Law for the special cases set forth in such Section 103
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 103.2 of 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 General 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 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.

E.4 Indicate, if applicable, the measures adopted to encourage the participation of shareholders at General Shareholders' Meetings:

The Company has not held a Shareholders' Meeting since it ceased to be a sole shareholder company following the implementation of the merger between British Airways and Iberia on January 21, 2011.

In any event, 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:

1. Divide their vote when required to carry out the voting instructions received from those Underlying Holders; and
2. 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 Chairman of the General Shareholders' Meeting is also the chairman of the Board of Directors. Describe, if applicable, the measures adopted to ensure independence and proper operation of the General Shareholders' Meeting:

YES

Description of measures

-

E.6 Indicate the amendments, if any, made to the regulations for the General Shareholders' Meeting during the fiscal year:

No amendments have been made to the regulations of the General Shareholders' meeting during the fiscal year.

E.7 Indicate the data on attendance at the general shareholders' meetings held during the fiscal year referred to in this report:

Date of General Shareholders' Meeting	% of shareholders present in person	% of shareholders represented by proxy	Attendance data		Total
			% distance voting		
			Electronic voting	Other	
-	-	-	-	-	-

E.8 Briefly describe the resolutions adopted by the shareholders acting at the general shareholders' meetings held during the fiscal year referred to in this report and the percentage of votes by which each resolution was passed:

The Company has not held a Shareholders' Meeting since it ceased to be a sole shareholder company following the implementation of the merger between British Airways and Iberia on January 21, 2011.

Before that date, on January 20, 2011, the Company's sole shareholder approved the financial statements for 2010, the proposed distribution of income and the conduct of business by the managing body in that year.

In any event, according to article 30 of the Shareholders' Meeting regulations, the Board of Directors shall propose different resolutions in connection with matters that are substantially independent of one another, such that the shareholders may separately express their voting preferences. This rule shall specifically apply: (i) to the appointment, re-election or ratification of Directors, such that a separate proposal shall be made for each Director whose appointment, re-election or ratification is proposed to the shareholders at the Shareholders' Meeting, and (ii) in the case of amendments of the Company's Bylaws, to each article or group of articles that is substantially independent of the others.

E.9 Indicate whether there are any Bylaw restrictions requiring a minimum number of shares to be held to attend the General Shareholders' Meeting:

NO

Number of shares required to be held to attend the General Shareholders' Meeting

-

E.10 Indicate and justify the policies followed by the Company with respect to proxy-voting at the General Shareholders' Meeting:

The Company has not held a Shareholders' Meeting since it ceased to be a sole shareholder company following the implementation of the merger between British Airways and Iberia on January 21, 2011.

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:

IAG 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, B.1.23 and E.1, 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 General 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 General 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 General Shareholders' Meeting.

Complies

5. Matters that are substantially independent are voted on separately at the General 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

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 General 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 one per cent 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

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 General 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 five per cent 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.

Over time the Company wants to improve the number of women we have at Board and Executive level. Currently, 25 per cent of our senior executives are women. IAG is a young company, formed from a merger of British Airways and Iberia in January 2011.

Any proposals for the appointment of any Directors shall go to such persons who 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 perform 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.

16. The Chairman, 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 Chairman 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 Chairman.

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 General 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 Chairman 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

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 Chairman 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.

Besides, the Nominations Committee shall 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 meetings (article 24 of the Board regulations).

The Board 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 General 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 number 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

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 the next 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.1.5

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 remuneration policy to the vote of the shareholders at a General 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 General 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 Chairman 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.
 - 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 Remuneration Committee as a separate committee of the Board, or a Nominations Committee and a Remuneration Committee.

The rules governing the make-up and operation of the Audit Committee and the Nominations and Remuneration 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 Board members.

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 Chairman 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 the internal control and reporting systems:

- a) To monitor the preparation and the integrity of the financial information relating to the Company and, if appropriate, to the Group, checking compliance with legal requirements, the appropriate demarcation of the scope of consolidation, and the correct application of accounting standards.
- b) To periodically review internal control and risk management systems so main risks are properly identified, managed and disclosed.
- c) To ensure the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of the internal audit service; propose the department's budget; receive regular reports on its activities; and verify that senior management takes into account the findings and recommendations of its reports.
- d) To establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate, anonymously, potentially significant irregularities within the Company that they detect, in particular financial or accounting irregularities.

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.
- 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;
 - 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.

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 to favour 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, 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, have been retained as auditors 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 thereof 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 General Shareholders' Meeting without reservations or qualifications in the auditors' report and, in the exceptional instances where they do exist, both the Chairman 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 Remuneration 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 Chairman 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 Chairman and Chief Executive, especially on matters relating to Executive Directors.

In addition, any Board member 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 Remuneration 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 Remuneration Committee consults with the Chairman and Chief Executive of the Company, especially on matters relating to Executive Directors and senior managers.

Complies

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.3 The information regarding members of the Board of Directors who have rights attaching to shares of the Company is broken down as follows:

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.

	Date of grant	Number of options at Jan 1, 2011	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, 2011
Keith Williams	June 26, 2001	38,940	321p	-	38,940	-	June 26, 2004	June 26, 2011	-
	July 1, 2002	91,160	181p	-	-	-	July 1, 2005	July 1, 2012	91,160
	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		387,156		-	38,940	-			348,216

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 PSP in 2005.

	Plan	Date of award	Number of awards at Jan 1, 2011	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, 2011
Willie Walsh								
	BA PSP	August 19, 2008	430,664	148,837	-	281,827	-	-
	BA PSP	September 17, 2010	469,148	-	-	-	-	469,148
	IAG PSP	March 31, 2011	-	-	-	-	714,285	714,285
Total			899,812	148,837	-	281,827	714,285	1,183,433
Keith Williams								
	LTIP	June 9, 2003	46,631	-	-	-	-	46,631
	LTIP	June 16, 2004	22,141	-	-	-	-	22,141
	BA PSP	August 19, 2008	257,813	89,100	-	168,713	-	-
	BA PSP	March 19, 2010	325,123	-	-	-	-	325,123
	BA PSP	September 17, 2010	280,851	-	-	-	-	280,851
	IAG PSP	March 31, 2011	-	-	-	-	409,090	409,090
Total			932,559	89,100	-	168,713	409,090	1,083,836
Rafael Sánchez-Lozano Turmo								
	IAG PSP	March 31, 2011	-	-	-	-	359,990	359,990
Total			-	-	-	-	359,990	359,990

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.

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PSP awards are subject to certain performance conditions. In each case, the performance conditions will be measured over a single three year performance period, which began for the awards made under British Airways plans on April 1 prior to the award date and for the IAG award the merger effective date.

The award granted in 2008 was tested at the end of performance period, as a result 34.56 per cent of the original award vested on 19 August 2011, and the remaining shares lapsed.

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2011 PSP award was 231 pence.

Incentive Award Deferral Plan

The following Directors held conditional awards over ordinary shares of the Company granted under the IAG IADP and the BA DSP:

	Relates to incentive award earned in respect of performance	Date of award	Number of awards at Jan 1, 2011	Awards released during the year	Date of vesting	Awards lapsing during the year	Awards made during the year	Number of awards at Dec 31, 2011
Willie Walsh								
IAG IADP	2010	March 31, 2011	-	-	March 31, 2014	-	90,984	90,984
Total			-	-		-	90,984	90,984
Keith Williams								
BA DSP	2007/08	August 19, 2008	26,100	26,100	June 30, 2011	-	-	-
BA DSP	2009/10	September 17, 2010	70,999	-	September 17, 2013	-	-	70,999
IAG IADP	2010	March 31, 2011	-	-	March 31, 2014	-	44,904	44,904
Total			97,099	26,100		-	44,904	115,903

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2011 IADP award was 231 pence.

B.1.3 The Directors were appointed by the sole shareholder of the Company as part of the merger arrangements between British Airways and Iberia, prior to the creation of the Nominations Committee and the listing of the Company.

B.1.12 At the shareholders' meeting of the Company held in November 2010, all Directors were elected for a four year period as 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 re-election in accordance with the following calendar, without prejudice to the ability of the Shareholders' meeting to remove such persons as a Board member at any moment according to applicable law:

- Sir Martin Broughton, Patrick Cescau, José Manuel Fernández Norriella and John Snow shall stand for re-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 re-election at the annual ordinary shareholders' meeting to be held in 2014; and
- Antonio Vázquez Romero, James Lawrence, Rodrigo de Rato y Figaredo and Keith Williams shall stand for re-election at the annual ordinary shareholders' meeting to be held in 2015.

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

In this way, all of the Directors will (after the initial period) come up for re-election in any rolling three year period.

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 Since it ceased to be a sole shareholder company following the implementation of the merger between British Airways and Iberia on January 21, 2011, the Company has not held a Shareholders' Meeting, and the first such meeting that the Company expects to hold is the forthcoming annual Shareholders' Meeting for 2012. As a result, in section E of this report no information can be provided on IAG's previous Shareholders' Meetings.

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

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 UK Corporate Governance Code published by the Financial Reporting Council in June 2010 (as amended from time to time).

In accordance with the UK Listing Rules, the Company is required to report on how it applies the main principles of the UK Corporate 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:

- (i) provision concerning annual re-election of Directors (at the time of their merger, British Airways and Iberia agreed that the re-election of Directors would not be done on an annual basis for an initial period (see below));
- (ii) provision concerning independent membership of the Remuneration Committee (the UK Corporate Governance Code sets forth that all the members of such Committee shall be independent, which is not the case, please refer to the Report of the Remuneration Committee on page 49);
- (iii) provision concerning independence of the Chairman upon appointment (as Antonio Vázquez Romero was prior to being appointed Chairman of the Company the Executive Chairman of Iberia);
- (iv) provision concerning appointment of a senior independent Director, the Company appointed Sir Martin Broughton, Deputy Chairman, to this role February 28, 2012. Throughout the reporting year, Sir Martin Broughton had all the responsibilities and duties set out in the UK Corporate Governance Code of a senior independent Director; he was senior independent Director in all but name; and
- (v) provision concerning Directors' direct arrangements (details can be found in the Report of the Remuneration Committee on page 56 in relation to 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).

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 March 29, 2012.

Indicate whether any Directors voted against or abstained in connection with the approval of this Report.

NO

III. ADDITIONAL INFORMATION REQUIRED BY ARTICLE 61 BIS OF THE SECURITIES MARKET LAW

III.1 Description of the principal characteristics of the internal control and risk management systems connected with the process of issuing financial information:

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 the publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable but not absolute assurance against material misstatement 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 accounts. A risk based audit plan for the Group was approved by the Audit and Compliance Committee. The Audit and Compliance Committee considered significant control

SPANISH CORPORATE GOVERNANCE REPORT – CONTINUED

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 2011.

IAG IT systems used for the preparation of accounts are hosted by, and under the control regimes of, British Airways and Iberia. Both British Airways and Iberia have comprehensive systems of Internal Control over IT systems including:

1. Security policies which set out minimum requirements for logical access controls over all systems including, inter alia, mechanisms for the identification, authentication and data access control.
2. Security audits such as anti-hacking controls.
3. Change control, including the definition of requirements, testing, user acceptance testing, system change freezes around accounting period ends and effective segregation of duties environments.
4. IT disaster recovery plans including mirrored data centres for key systems.

Ernst & Young; the Head of Group Reporting and Control; and the Head of Group Audit and Risk Management attend all Audit and Compliance Committee meetings. The Audit and Compliance Committee also holds private meetings with Ernst & Young and the Head of Group Audit and Risk management throughout the year. Iberia's auditors, Deloitte, present their findings to the Audit and Compliance Committee twice a year.

Should any follow up actions be required the Audit and Compliance Committee might delegate closure of the action or require a report back to the Committee.

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 core methodologies within British Airways and Iberia were very similar on merger and 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 IAG 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 appetite and policies for a limited number of key risks that will be managed on a Group wide basis.

The risk management process includes multiple opportunities for rigorous discussion and debate to assess the profile of each risk relative to the other. The outcome 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 an ongoing basis.

The IAG risk map derived from the Enterprise Risk Management process is reviewed in detail by the Chief Financial Officer and the Head of Group Audit and Risk Management, who is responsible for the Enterprise Risk management process attends the Audit and Compliance Committee where the financial statements are reviewed.

Within British Airways, a Risk Committee consisting of the British Airways Leadership Team, the Head of Corporate Risk and key senior executives meets quarterly. It reviews the key risks contained in the risk register and ensures 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. The British Airways Board carries out quarterly risk reviews.

Within Iberia, the 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 carries out full reviews of risk on a half yearly basis.

The Company's Management Committee reviewed the Group risk map in advance of a review by the Audit and Compliance Committee of the Board in accordance with the June 2010 UK Corporate Governance Code and the Comisión Nacional del Mercado de Valores' Unified Good Governance Code Of Listed Companies recommendations.

III.2 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, 2011, 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 per cent 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 per cent 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 depository, Deutsche Bank, is the registered holder. As at December 31, 2011 the equivalent of 16,182,710 shares were held in ADR form.

III.3 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 Corporation 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.4 Any restriction on the transferability of securities and any restriction on voting rights:

Refer to section A.10 of this Report.

III.5 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:

Powers of the Directors

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 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.

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

The Shareholders' meeting of the Company has not delegated to the Board the authority to issue shares of the Company.

Powers to repurchase shares

The Shareholders' meeting held on November 29, 2010 authorised to carry out the acquisition of shares issued, directly by the Company or indirectly through its subsidiaries, up to the maximum amount permitted by applicable law (10 per cent of the share capital). The acquisitions may not be made at a price greater than the listing price of the shares. This authorisation is granted for a maximum period of five years from November 29, 2010. The shares acquired pursuant to this authorisation may be disposed of or allocated to the shares compensation systems of the IAG Group.

The Securities Code of Conduct of the Company contains the Treasury Stock Transactions Code of the Company.

III.6 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 Inc;
- 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) codeshare agreements with Aer Lingus, Cathay Pacific, Finnair, Flybe, JAL, Kingfisher, LAN, Malev, Meridiana Fly, and Royal Jordanian;
- d) contracts to sell Avios points to Alaska Airlines, American Airlines, American Express Services Europe Limited, Chase Bank USA N.A., Lloyds TSB plc, Royal Bank of Canada and Tesco Stores Limited;
- e) global distribution system contract with Amadeus for the marketing of Iberia flights; and
- f) certain exchange and interest rate hedging contracts.

III.7 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 page 56 of the Report of the Remuneration Committee.

GROUP INVESTMENTS

AT DECEMBER 31, 2011

Name and address	Country of incorporation	Percentage of equity owned
Subsidiaries		
Avios Group (AGL) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	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%
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 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%
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	Netherlands	100%
British Airways Holdings Limited 22 Grenville Street, St Helier, JE4 8PX	Jersey	100%
British Airways Holidays Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	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 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%

GROUP INVESTMENTS - CONTINUED

Name and address	Country of incorporation	Percentage of equity owned
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%
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%
Flyline Tele Sales & Services GmbH Hermann Koehl-Strasse 3, 28199 Bremen	Germany	100%
Iberia Express, S.A. Calle Velázquez 130, 28006 Madrid	Spain	100%
Iberia México, S.A. Ejército Nacional 436-9ª	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 Mileage Company Limited Astral Towers, Betts Way, London Road, Crawley, West Sussex, RH10 9XY	England	100%
The Plimsoll Line Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
VIVA Vuelos Internacionales de Vacaciones, S.A. Calle Velázquez 130, 28006 Madrid	Spain	100%
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%

Name and address	Country of incorporation	Percentage of equity owned
Associates		
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%
Empresa Logística de Carga Aérea, S.A. (ELCA) Aeropuerto Jose Martí, Ciudad de La Habana	Cuba	50%
Madrid Aerospace Services, S.L. Pol. Ind. Las Monjas, C/Verano, 9	Spain	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%
Oneworld Management Company Inc Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle County, 19801, Delaware	USA	26%
Grupo Air Miles España, S.A. Avda. Bruselas 20, Alcobendas; Madrid	Spain	25%

GROUP INVESTMENTS - CONTINUED
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)	Profit/(loss) before tax (million)
Servicios de Instrucción de Vuelo, S.L. Camino Muñoz 2, 28042 Madrid	Spain	19.9%	Euro	47	473
The Airline Group Limited Brettenham House South 5th Floor, Lancaster Place, London, WC2N 7EN	England	16.7%	Pound sterling	106	-
Flybe Group plc Jack Walker House, Exeter International Airport, Exeter, EX5 2HL	England	14.6%	Pound sterling	108	(4)
Comair Limited 1 Marignane Drive, Bonaero Park, 1619	South Africa	11%	South African rand	801	106
Adqira España, S.A. Plaza Cronos, 1 - 4ª planta. 28037 Madrid	Spain	10%	Euro	5,104	(666)
Amadeus IT Holding, S.A. Calle Salvador Madariaga 1 p.c. 28027 Madrid	Spain	7.5%	Euro	767	66

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 March 29, 2012, the Directors of International Consolidated Airlines Group, S.A. confirmed that to the best of their knowledge the Consolidated Financial Statements for the year ended December 31, 2011 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.

March 29, 2012

Antonio Vázquez Romero
Chairman

Martin Faulkner Broughton
Deputy Chairman

William Matthew Walsh
Chief Executive Officer

Patrick Jean Pierre Cescau

Denise Patricia Kingsmill

Keith Williams

Kieran Charles Poynter

César Alierta Izuel

José Manuel Fernández Norniella

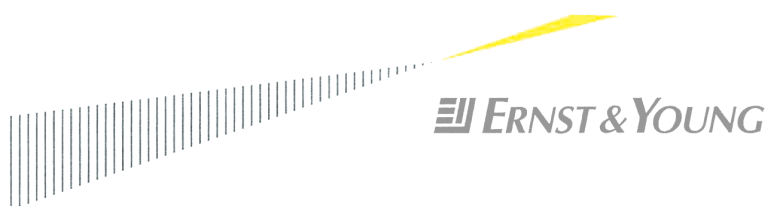
José Pedro Pérez-Llorca y Rodrigo

Rodrigo de Rato y Figaredo

Rafael Sánchez-Lozano Turmo

James Arthur Lawrence

John William Snow



Ernst & Young, S.L.
 Torre Picasso
 Plaza Pablo Ruiz Picasso, 1
 28020 Madrid
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 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, 2011, 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 2011 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, 2011, 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 2011 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 2011 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.

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 8,
 Hoja M-23123, Inscripción 116. C.I.F. B-78970506

March 29, 2012

OPERATING AND FINANCIAL STATISTICS

Total Group operations		2011 ¹	2010 ¹	2009 ²	2008 ²	2007 ²
Traffic and capacity						
Available seat km (ASK)	million	213,193	199,032	206,301	215,849	215,719
Revenue passenger km (RPK)	million	168,617	157,323	162,055	167,474	167,154
Cargo tonne km (CTK)	million	6,156	5,907	5,499	5,983	5,976
Total available tonne km (ATK)	million	30,050	27,996	28,882	30,166	30,531
Passengers carried	'000	51,687	50,600	53,256	56,651	59,901
Tonnes of cargo carried	'000	1,050	1,019	963	1,044	1,040
Operations						
Average manpower equivalent		56,791	56,563	59,842	64,206	64,886
Aircraft in service at year end		348	352	345	368	382
Aircraft utilisation – Longhaul (average hours per aircraft per day)	hours	13.6	13.1	13.5	14.0	13.7
Aircraft utilisation – Shorthaul (average hours per aircraft per day)	hours	8.5	8.2	8.2	8.2	8.2
Punctuality – within 15 minutes	%	76.6	74.7	81.6	77.3	74.3
Regularity	%	99.0	95.4	98.8	98.6	98.8
Financial						
Passenger unit revenue per ASK	€cents	6.41	6.19	5.43	6.65	6.99
Passenger revenue per RPK	€cents	8.11	7.83	6.91	8.56	9.02
Cargo revenue per CTK	€cents	19.33	18.55	15.17	20.67	20.05
Total traffic revenue per ATK	€cents	49.47	47.93	41.68	51.67	53.31
Average fuel price	(\$cents/US gallon)	289.04	224.93	246.27	332.34	225.85
Fuel cost per ASK	€cents	2.38	1.96	1.95	2.41	1.87
EBITDAR	€ million	1,867	1,692	487	1,844	3,293
Total operating expenditure excluding fuel per ASK	€cents	5.06	5.36	5.01	5.41	5.89
Operating margin	%	3.0	1.5	(7)	1.8	7.9
Total operating expenditure per ASK	€cents	7.44	7.32	6.96	7.82	7.76
Total operating expenditure per ATK	€cents	52.76	52.05	49.74	55.96	54.80
Dividend cover	times	-	-	(11.79)	-	6.49
Interest cover	times	4.69	1.50	n/a	n/a	n/a
Net debt	€ million	1,148	895	n/a	n/a	n/a
Equity	€ million	5,686	4,670	n/a	n/a	n/a
Adjusted gearing	%	44	47	n/a	n/a	n/a

¹ This financial data is based on the combined results of operations of British Airways Plc and Iberia Líneas Aéreas de España, S.A Operadora for the full year to December 31, 2011 and 2010.

² Prior to 2010 the figures are a sum 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
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
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 established 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 depository 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 11, 2012

Half year results: August 3, 2012

Q3 results: November 9, 2012

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.

IAG