INTERNATIONAL AIRLINES GROUP

STRENGTHENING

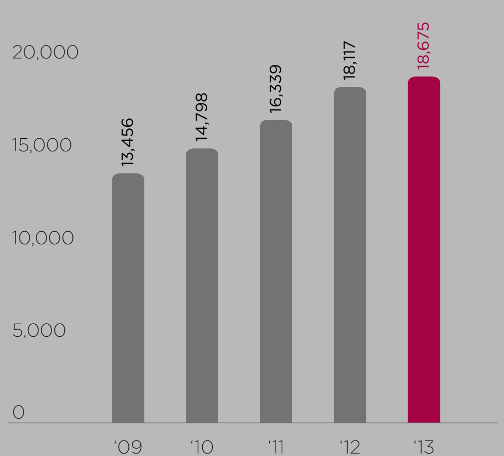
International Airlines Group

2013 Annual Report and Accounts

Three years after our creation, International Airlines Group (IAG) has continued to **STRENGTHEN** its position.

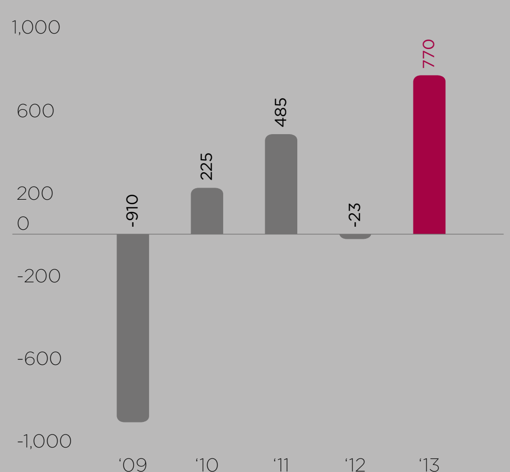
REVENUE

+6.2%
at constant currency



OPERATING PROFIT
(before exceptional items)

€770m
up €793m



NON-FUEL UNIT COSTS

-2.7%
at constant currency

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

PRODUCTIVITY

+4.3%

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

LOAD FACTOR

+0.5 points

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

PASSENGER UNIT REVENUE

+3.7%
at constant currency

Passenger revenue divided by capacity (ASKs). This reflects both the changes in prices we charge and the change in volume of our sales.

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Strategic report

"The Companies Act 2006 (Strategic Report and Directors' Report) The Regulations require all companies that are not small to prepare a strategic report which contains a fair and balanced analysis, consistent with the size and complexity of the business, of: a) the development and performance of the company's business during the financial year; b) the position of the company at the end of the year; and, c) a description of the principal risks and uncertainties facing the company. The strategic report replaces the business review and will be presented as a separate section of the annual report, outside of the directors' report." As far as possible the Company has complied with these voluntary requirements. The Strategic report is contained in the following sections:

Management report

Additionally IAG is required to prepare the Management Report in accordance with Article 35ter of the Spanish Securities Market Law, with regard to compliance with all the requirements set forth in Article 49 of the Spanish Commercial Code (Com. Code) and Article 262 of the Spanish Limited Liability Companies Law (SLLCL). IAG is adopting the guide published by the CNMV setting out recommendations that listed companies may follow when preparing management reports that accompany financial statements which, in accordance with Spanish legislation, must contain a fair review of the entity's business development and performance, together with a description of the main risks and uncertainties that it faces. The Management report is contained in the following sections:

STRENGTHENING
Growth and progress in 2013

April 2013 – August 2013

IAG announces orders for 18 Airbus A350s and converts 18 options for Boeing 787 Dreamliners and 220 Airbus shorthaul aircraft

IAG converted 18 existing Boeing 787 options into firm orders and placed 18 firm orders for Airbus A350-1000 together with 18 options for British Airways. The firm order will be used to replace 30 Boeing 747-400 aircraft between 2017 and 2023. For Iberia, IAG reached agreement with Airbus and Boeing to secure commercial terms and delivery slots that could lead to firm orders for Airbus A350s and for Boeing 787s. Firm orders will only be made when Iberia is in a position to grow profitability, having restructured and reduced its cost base.

IAG also secured firm orders and options for up to 220 Airbus A320 family shorthaul aircraft, up to 120 of these for Vueling. The new aircraft will enable the Barcelona-based airline to replace some of its existing Airbus A320 fleet and expand its business. The Vueling agreement comprises 62 firm orders, 30 Airbus A320ceo and 32 Airbus A320neo, plus 58 options. The firm aircraft orders will be delivered to Vueling between 2015 and 2020. In addition, IAG has secured 100 Airbus A320neo options which could be used for any of the airlines in the Group, British Airways, Iberia or Vueling.

April 2013

IAG completes the acquisition of Barcelona-based Vueling

Vueling, the Spanish low-cost carrier based in Barcelona, became part of IAG after the majority of its shareholders accepted IAG's cash tender offer for the airline, following recommendation by the Vueling board.

Apart from its main airport at Barcelona and 12 other bases in Spain, Vueling operates out of Amsterdam, Paris, Florence and Rome; flying over 17 million passengers to over 110 destinations across Europe, Africa and the Mediterranean.

Describing itself as a "premium low cost" carrier, Vueling, unlike most other new generation airlines, offers a passenger connecting product, interline and code-share agreements with other airlines, a frequent flyer programme and a business class.

Willie Walsh, IAG Chief Executive Officer, said: "Vueling is a great airline and is a welcome addition to IAG where it benefits from the Group's financial strength. We plan to retain Vueling's current business model and management structure and its strong base in Barcelona."

July 2013 – September 2013

British Airways' and Iberia's new aircraft enter commercial service

On July 27, 2013, the new Iberia Airbus A330 aircraft took off from Madrid T4 to Chicago, where it received a water salute, before flying back to Madrid.

British Airways' new Boeing 787 Dreamliner made its inaugural flight to Toronto on September 1, 2013. The Dreamliner flew exclusively between Toronto and London in September and between New York and London from October.

The British Airways Airbus A380 took to the skies for its first longhaul flight BA269 on September 24, 2013 to Los Angeles. It is the first and only A380 aircraft to operate between London and Los Angeles.

British Airways is the first airline in Europe to operate both these two new aircraft types.

November 2013

Iberia unveils updated branding and livery as part of its new image

On November 21, 2013 at its terminal 4 in Madrid-Barajas airport, Iberia formally introduced the first aircraft bearing its new livery and logo, an Airbus A330, the airline's fifth, christened "Juan Carlos I".

Iberia's Chief Executive Officer, Luis Gallego, commented that "This relaunch of our brand expresses Iberia's ongoing process of transformation and modernisation, and is an investment in the future of the airline, in which it will be much closer to the customer, while continuing to be a pioneering force in the air travel business."

GROUP OVERVIEW

Our leadership team discusses the year, our plans for the future of IAG and how we will continue to create long-term value for shareholders.

In this section

CHAIRMAN'S LETTER

Fine-tuning the Group for future opportunities

Antonio Vázquez
Chairman

It's my great pleasure to welcome you to this, the latest Annual Report from International Airlines Group, marking our third full year of operations since we brought the business into being with the merger of British Airways and Iberia.

2013 was a year of significant progress for the company for our headline financial results – achieving operating profits of €770 million before net exceptional charges of €243 million, on revenues of €19 billion – which tell only part of a rapidly unfolding story.

In this report we tell you in detail how we are working to put IAG and its operating airlines on to a truly competitive footing so that we can continue investing in growth for the future and attracting the support of our investors, irrespective of the economic conditions facing us.

Many challenges lie ahead. But I hope you will be in no doubt reading this report about our determination to build a truly sustainable global airline business and one that can offer its shareholders and other stakeholders real, long-term rewards.

Highlights of the year

We promised this time last year that 2013 would be a year of consolidation within the Group, and so it was. It was a year of tackling some of the significant issues that arose within the business in 2012 with real zeal to ensure each of our airlines is absolutely state-of-the-art in terms of operational and financial efficiency.

Nowhere was this truer than with Iberia, which, as you know, was in a fight for its very survival 12 months ago. The new management team – working very closely with stakeholders, particularly the trade unions – have worked with extraordinary energy to turn that situation round and are making real progress.

I think it's important to emphasise the scale of that endeavour. We are talking about one of the deepest restructurings ever undertaken in Europe's airline sector and it's one that will provide huge opportunities to us, particularly as Spain emerges from recession. It is not just about tackling costs, capacity, salaries and working practices, vital though those issues are. We are trying to achieve a cultural transformation of the airline, its brand, its services and its relationship with its customers. That is very difficult work, but we are delighted with progress to date.

British Airways' own process of transformation is much further down the road, although there remains work to be done. It's been a good year for the carrier, which has been able to draw strength at its Heathrow hub from a resilient London economy, where levels of demand have remained high throughout the downturn elsewhere in Europe. The successful integration of bmi and its valuable Heathrow slots has allowed British Airways to launch important new routes and its fleet is being renewed with the introduction of new fuel-efficient aircraft.

Vueling is a very welcome addition to the Group as a third, stand-alone operating company. This dynamic low-cost operator, with its unrivalled growth record, will allow us to compete much more effectively across Europe, building on a leadership position at its Barcelona base and on key routes.

It's been a year of considerable progress in improving, yet further, the governance of IAG. As I describe in more detail on page 32; we have made some important changes to the make up of IAG's Board, its Management Committee and the Boards of the airlines. We've also recruited some phenomenally talented new people to the IAG Board, with skills in key areas that are vital to us. These changes – agreed after both an internal and an independent external review of the Board – are all about further sharpening decision-making, strategy planning and execution across the company, already some of the great strengths we derive from the unique structure of IAG.

Global and aviation economics

Despite sluggish economic growth in many of the world's main markets, particularly those, like Europe which are most mature, the air transport sector finds itself in a much better place today. That is thanks to concerted efforts by businesses like our own to exert new levels of financial and operational discipline. There's now a focus on return on capital rather than market share in our industry, for example.

Consolidation remains a theme in our industry, but because of continuing controls on direct foreign investment, outright M&A activity remains restricted within regions and remains difficult to achieve across borders. Given the improving health of the US industry – always a stumbling block to international consolidation in the past – one could speculate that this will change, but we think it is unlikely to do so soon. Hence the ongoing importance of alliances– such as our own **one**world partnership, which now includes Qatar Airways – and joint business arrangements, such as our North Atlantic agreement with American Airlines, which now also includes Finnair.

Consolidation will not go away and that's why the work we are doing within IAG is so important. The new shape of IAG – with the three main operating companies being properly fine-tuned will make us a much more reliable and sought after partner whatever further consolidation takes place in the future.

Environment and community

Finding a workable way to control global aviation emissions remains one of the most important regulatory challenges facing our industry. Following the demise of the EU's Emissions Trading Scheme in the face of protests from players in other markets, I'm glad that the recent 38th International Civil Aviation Organisation (ICAO) assembly agreed to work towards an inclusive global trading arrangement. This is surely the only way to go and it's vital we make rapid progress here.

The biggest environmental contribution any airline can make is through operating new generation, fuel-efficient aircraft like the Airbus A380, Boeing 787 and new variants of the Airbus A320 and A330. Our current and proposed fleet renewal plans, covering both long and shorthaul aircraft, are ambitious and signal our clear intent in this regard. We continue to test the viability of bio-fuels too and we will be announcing the site for a new bio-fuel plant, as part of British Airways' joint venture with Solena, going into production in 2017.

Despite the obvious pre-occupation with boosting the competitiveness of our airlines, CSR remains a strong focus for us too and both British Airways and Iberia continue to support terrific community programmes at home and in the places they fly to. We were also pleased to play an active role in transporting aid to the Philippines following the devastating typhoon Haiyan last year.

Outlook

The year ahead will be one of continued growth for IAG, propelled by new targets for the business, which Willie Walsh explains in detail in his CEO's review on page 12. Achieving these targets will bring benefits to the great people who work so hard within IAG, to our passengers and our suppliers.

I thank all of our stakeholders for their continued support of the company. We have much work to do in the years ahead. But we approach that work with a growing sense of optimism and an absolute sense of purpose.

Antonio Vázquez
Chairman

"The new shape of IAG – with the three main operating companies being properly fine-tuned – will make us a much more reliable and sought after partner whatever further consolidation takes place in the future."

CHIEF EXECUTIVE OFFICER'S QUESTIONS & ANSWERS

Firmly establishing our role as a leading airline group

Chief Executive Officer Willie Walsh answers some of the questions most on the minds of our stakeholders at the end of 2013.

For more detailed information, follow the links to the relevant sections of the report.

Watch the full interview on our website **www.iairgroup.com**

How will you be disciplined on capital and capacity?
Perhaps the two most important messages we've sent to the market in 2013 are about our discipline on adding capacity and on capital how we spend our money. It means we only add new flights or new aircraft where there's a clear demand. And we only invest money where we're sure we'll make a return greater than the cost of capital. These two messages are key and have been fundamental to our success in 2013, but also vital in generating confidence in IAG for the future.

See page 15 for more about our strategy

What is your global strategy?
We want to ensure we can operate effectively within and between the key markets where we are strong. We want to be more competitive in Europe, the world's second largest air transport market to have a leadership position from Europe to North America and Latin America; to strengthen our position in Africa and particularly focus on Asia's growth markets where we weren't that strong traditionally. Our strategy is quite simple – we want to build on the traditional international strengths of British Airways and Iberia and use Vueling as a new platform to compete within Europe.

See page 10 for more about our networks, hubs and consolidation

Synergies – what's next?
I'm delighted that, once again in 2013, we've exceeded the synergy targets we set. We've now set a new 2015 target to generate €650 million in gross synergies well in excess of the €400 million target we set when we started. But more importantly we're beginning to ask ourselves: if we innovate and change the way we work, can we generate even greater synergies? We believe there's great potential here and it's something we're going to work hard on in 2014.

See page 17 for more about our synergies

You've achieved a strong financial turnaround in 2013. Is it enough?
Financially, we've made very good progress and changes we've made in 2013 will also bring benefits this year. But while I'm pleased with the performance, I don't think it's enough, particularly when you think of the amount of investment we're planning. That's why our new 2015 targets – achieving €1.8 billion in operating profit and a return on invested capital of 12 per cent or more – are very important metrics. Attaining those will give us confidence to continue investing and reassure shareholders we can deliver sustainable returns to them through a combination of dividends and capital growth.

See page 78 for our financial review

What benefits does Vueling bring to IAG?
I'm delighted with the acquisition of Vueling. It's a great company and it's given us confidence we can compete more effectively in Europe. It has a great cost base, an excellent track record and it's done something almost unique in the industry growing at a significant rate, while increasing profitability at the same pace.

See page 20 for more about Vueling

What's the future for Iberia?
Iberia has gone through a very difficult time, suffering from a negative economic environment in Spain, but also exposed in terms of competitiveness against new and traditional carriers. 2013 has been a year of restructuring and I'm really pleased with the progress we've made. We've got a new management team in place; they've introduced a new culture and are making good progress which should enable Iberia to be profitable in 2014. But the key is for it to generate levels of profitability that will give us confidence to invest in its future. We're not there yet – but we've made a great start.

See page 19 for more about Iberia

What environmental benefits will the new fleet orders bring?
I talk a lot about financial sustainability because it's critical to demonstrate that this is a business that can exceed its cost of capital. But equally, we've got to talk about environmental sustainability and get a balance between the two as they go hand in hand. These new aircraft are much more efficient, so lower the single biggest element of our costs, fuel, while also significantly reducing CO_2 emissions. That's why we're excited to be taking delivery of new aircraft in British Airways, Vueling and hopefully through the financial turnaround Iberia as well.

See page 24 for more about our approach to corporate responsibility

OUR BRANDS AND NETWORKS

Connecting people to the world

IAG comprises three of the leading airlines in the UK and Spain. The combination of these three airlines, each of which operates significant networks; enables IAG to offer passenger and cargo customers unique benefits from its larger combined network.

BRITISH AIRWAYS

British Airways is the UK's largest international airline and one of the world's leading global premium carriers. Its principal place of business is London, the world's largest premium travel market, with significant presence at London Heathrow, London Gatwick and London City airports.

157 destinations across 85 countries

194 routes

40 million passengers served

IBERIA

With more than 80 years of history, Iberia is Spain's largest air transport company. It is also the leading airline on routes between Spain and Latin America.

61 destinations across 46 countries

68 routes

14 million passengers served

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.

Madrid Barajas

Madrid Barajas is the main international airport serving Madrid and Spain; located within the city limits just 9 kilometers from the city's financial district,

Barcelona El Prat

Barcelona El Prat Airport is located southwest of Barcelona, just 12 kilometres from the city centre. It has two passenger terminals, T1 and T2. Vueling operates out of T1, the newer, more modern terminal of the airport.

vueling

Vueling joined the Group in April 2013 and is a leading company at Barcelona El Prat Airport. It offers a wide network to Spain, Europe, the Middle East and Africa and is focused on providing a premium service at a low cost.

107 destinations across 30 countries

209 routes

13 million passengers served since acquisition

avios

Avios is our shared global reward currency used by IAG reward programmes: the Avios Travel Rewards Programme in UK and South Africa, British Airways Executive Club, and Iberia Plus.

97 billion Avios points collected

5.9 million customers

IAG Cargo

IAG Cargo came into existence with the merger of British Airways World Cargo and Iberia Cargo. This consolidation has enhanced its position as one of the world's leading international air freight carriers.

5,653 million cargo tonne kilometres

350 destinations

CHIEF EXECUTIVE OFFICER'S REVIEW

2013 saw a shift in attitude to our industry and to IAG

Willie Walsh
Chief Executive Officer

2013 was, for the most part, a good year for International Airlines Group. We had a great deal of work to do on the back of some major challenges in 2012 – particularly relating to Iberia, but also connected with British Airways – and we set about that work with real determination.

See page 78 for our financial review

We successfully completed the acquisition of Vueling, bringing one of Europe's most dynamic low cost operators into the Group, and mapped out our longhaul and shorthaul fleet renewal plans for our airlines.

So I look back on last year with a sense of real pride and achievement for what people within IAG have done to put the business on a more secure footing. But I'm equally clear we have much more to do to transform IAG into a sustainable business that investors can continue supporting, confident of making reliable, long-term returns.

I'm absolutely convinced we can do just that. That's why we've sent a very clear signal to our current and potential shareholders by adopting new stretching targets for 2015. We are now aiming to achieve €1.8 billion in operating profits by that time (€200 million more than our original goal) and earnings per share of 54.0 €cents (52.0 €cents) on a fully diluted basis, implying a return on invested capital equal to or more than 12 per cent.

These targets are underpinned by a commitment to manage capacity and capital spending with unflinching discipline as we build for the future. That discipline will ensure that we are an airline group that creates value rather than destroys it, irrespective of the economic conditions we fly into.

Financial highlights

This year we've seen a strong recovery in our financial performance with a return to profitability. Overall, our revenue was up while non-fuel costs were down 0.7 per cent.

British Airways continued its strong revenue performance and began to improve its cost control while Iberia turned the corner on reducing its costs. Vueling made a profitable contribution, underlying its value to the Group.

We continue to prove the critical logic of merging British Airways and Iberia through the cost and revenue synergies we are achieving. I'm delighted that once again we exceeded our targets for these savings, reaching a total of €460 million gross and €429 million net benefit in 2013. On the strength of that record, we have increased our 2015 gross synergy target to €650 million – €250 million more than the target we set at the outset.

Although synergies can be difficult to achieve, particularly on the revenue side, most to date are the result of traditional economies of scale. This year we're asking: what more could we achieve through deeper innovation and by changing the way we work? I'm already convinced these "next generation" synergies will be significant and, because of our unique structure, could be hard for other airline groups to emulate, allowing us to steal a lead on our competitors.

Our airlines

The huge progress made at Iberia was undoubtedly a major highlight of the year and it reflects huge credit on the new management team, led by Luis Gallego. They've shown their commitment, knowledge and determination to turn the airline round. I've never worked with a group of people more passionate about changing both the finances and culture of a company.

That has obviously involved some very painful decisions, including reducing capacity by 14 per cent and cutting 3,141 jobs. Iberia will be profitable in 2014, if it can agree, implement and sustain new working practices so it can compete effectively. Only by doing this will we be in a position to invest securely in new aircraft confident of making a return. We're not there yet; but we're much closer today, I'm delighted to say.

British Airways had a year of strong and steady progress, following the integration of bmi and its Heathrow landing slots. These have allowed us to launch new services to growth markets like Seoul in Korea and Chengdu in China and fine-tune our shorthaul operation. 2013 saw British Airways successfully bring both the Airbus A380 and Boeing 787 into service, within a week of each other – an extraordinary feat. We're delighted with the economic and environmental performance of these aircraft. Customers love them too.

But British Airways also has much further to go to boost its competitiveness and to support continued investment in future new aircraft. That's why we have increased British Airways' operating profit target for 2015 by £200 million to £1.3 billion, a goal I'm confident can be achieved.

Vueling is a terrific addition to IAG, adding a new dimension to the culture of the Group and providing us with a brilliant new platform to serve the European market. It's an airline that has managed to grow capacity by 24 per cent in recent years, while growing profitability at the same rate. Few other airlines can boast a record like that and it's one we intend to continue, helped by our ability to renew Vueling's Airbus A320 fleet on excellent terms, thanks to our Group purchasing power.

Fleet orders

We announced firm orders, options and delivery positions for both longhaul and shorthaul aircraft. We ordered 18 Airbus A350s and converted 18 Boeing 787 options into firm orders for British Airways. We have also reached agreement with Airbus and Boeing to secure commercial terms and delivery slots for Iberia that could lead to firm orders for Airbus A350s and/or Boeing 787s. These will only be made when Iberia is in a position to grow profitably.

We also ordered up to 220 Airbus A320 aircraft. Of these, 120 are for Vueling with 62 firm orders plus 58 options. The remaining options can be used by any of the airlines in the Group.

Securing new sources of finance

Since the credit crunch many traditional sources of finance have been closed to our industry or become highly restricted. This year we have explored new innovative ways to fund the investment in new aircraft.

The most important remains our ability to generate cash internally. Asset-backed debt financing remains an option for us, as does leasing.

But in 2013 we succeeded in securing the first Enhanced Equipment Trust Certificate – a bond using our aircraft as collateral – to be completed in Europe, under English law and with the backing of Japanese financing, raising €927 million. This proves that we continue to have good access to diversified sources of finance, giving us greater confidence to push ahead with our future fleet renewal plans.

Consolidation

Our ambition is to be a lead player in consolidation. However opportunities for full mergers still tend to lie within regions, rather than across borders. Clearance for the US Airways and American Airlines merger is a good example and one we support strongly given our joint business arrangement on North Atlantic routes with American Airlines.

Although we continue to study Merger and Acquisitions options within Europe, consolidation for us is not just about scale. Our priority is to build a stronger group rather than a larger one. Buying minority stakes in airlines is an option some have pursued, but we will only do so if it offers strong strategic benefits to IAG.

The **one**world alliance remains hugely important to us and to our customers. We were really pleased to welcome Qatar Airways to the alliance in 2013. Operating from its Doha hub, Qatar offers our customers access to a very rich mix of destinations, particularly in Asia. We have signed a new cargo freighter agreement with Qatar, enabling us to make important savings on leased aircraft.

A turning point

Although the global economy improved slowly but steadily last year, risks still remain. I fear there simply hasn't been enough structural change to sustain recovery, especially in Europe. But while 2013 was not a spectacular year for economic growth, I think it's fair to say that last year was a landmark year for our industry and, particularly, for IAG.

People will only invest in airlines and IAG if they believe we can exercise capital discipline, achieve sustainable returns in excess of the cost of capital and be in a position to pay dividends.

Traditionally our industry has tended to ride the economic cycles in a chaotic way but increasingly airlines are seeking a different way forward and, like us, believe the industry can and must learn to perform through the cycle. In IAG we are seeking the flexibility – in our cost structures, capacity planning and supplier relationships – to respond quickly to changing market conditions. It's all about controlling the things that we can, with that same rigorous discipline I've already described.

Thanks to the tremendous work of people across IAG, we're making great progress with this. I'm confident that we can continue to do so in the years ahead as we continue the task of building a truly sustainable airline business.

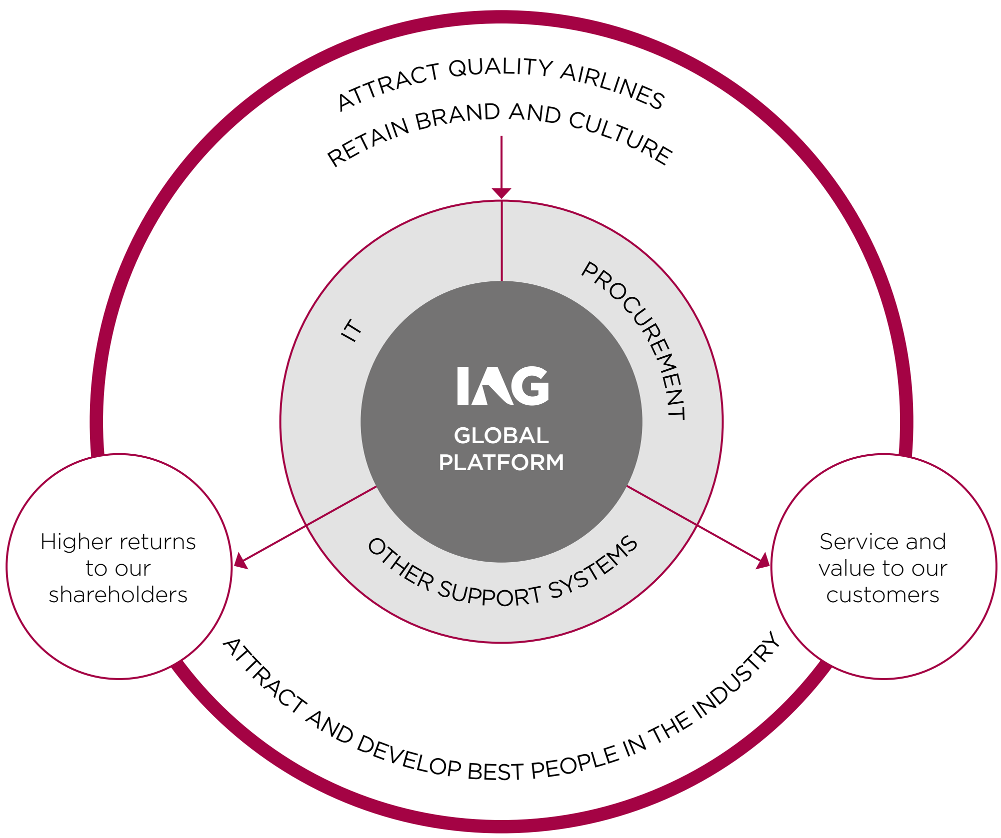
Willie Walsh
Chief Executive Officer

"People will only invest in airlines and IAG if they believe we can exercise capital discipline, achieve sustainable returns in excess of the cost of capital and be in a position to pay dividends."

BUSINESS MODEL AND STRATEGY
Delivering value for our stakeholders

Key to our success is to win our customers through service and value across our global network. We believe this will enable us to deliver high returns to our shareholders through leveraging cost and revenue opportunities across the Group.

Business model



The airline industry is consolidating rapidly due to:

- cost pressures, such as high oil prices, driving airlines to search for greater economies of scale;
- marked reduction in access to cheap sources of capital;
- continued privatisation;
- changes in regulation; and
- increased potential for partnerships between airlines, such as alliance membership and the establishment of joint businesses.

Airline consolidation is bringing 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; and
- 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;
- dedicated management of core airlines;
- direct management of areas of business which benefit strongly from scale effects, such as cargo and customer loyalty programmes; and
- a platform for further entities to join the Group with immediate financial benefits.

Our strategy

IAG continues to believe that retaining the core assets of brands and products in each of its operating airlines is important to maintaining valuable customer loyalty.

IAG has maintained its disciplined approach to evaluating future inorganic growth opportunities and will only act if it is in the interest of its shareholders. This disciplined approach is reflected in IAG's six core strategic objectives which are described below.

Leadership in IAG's main cities
British Airways and Iberia retain their leadership status in London and Madrid respectively. British Airways grew capacity in line with market growth by 2.0 per cent over the year whilst Iberia reduced by 14.0 per cent as per its Transformation Plan.

In 2013 IAG added Barcelona as a major city to its network through the acquisition of Vueling. Vueling's leading position in Barcelona is in line with the leading position of IAG's other operating companies in London and Madrid. Barcelona is Europe's fourth largest aviation market by passenger numbers; a major industrial heartland as well as an inbound tourism destination.

Leadership across the Atlantic
Building on a strong 2012, the Atlantic Joint Business (AJB) between British Airways, Iberia and American Airlines welcomed Finnair into the business. Through its hub in Helsinki, the airline provides additional European reach as well as connections to Asia.

The recently completed merger between American Airlines and US Airways provides an exciting opportunity for further growth in 2014. US Airways' hubs at Philadelphia and Charlotte will deepen IAG's ability to connect its customers to North America.

The AJB has continued to thrive in 2013. Between 2010 and 2013, total revenue in the AJB grew 30 per cent through a 13 per cent increase in capacity and a 17 per cent increase in unit revenue. This led to a 3.3 point market share increase in premium traffic and a 1.2 point market share increase in non-premium traffic. In 2013, the AJB accounted for 22 per cent of seat capacity between Europe and North America, and 54 per cent of premium capacity between the United Kingdom and Spain to North America. Following modest capacity reduction across the South Atlantic, Iberia has maintained its strong position, launched a significant rebranding and started to deploy its new Airbus A330 fleet in parallel with major refurbishment of its Airbus A340-600 fleet. IAG remains the leading transatlantic player.

IAG played a significant part in the successful campaign to bring TAM, recently merged with LAN, out of its previous global alliance and into **one**world. This provides IAG with a major partner with a leading position in the region's largest economy.

Stronger Europe-to-Asia position in critical markets
In 2013, IAG started to benefit from some major partnership opportunities. Qatar Airways and Malaysia Airlines joined the **one**world alliance on schedule. The addition of these two airlines to the alliance marks a major increase in the offering that British Airways and Iberia can provide to their customers across two broad and high quality networks into Asia. Simultaneously, our new partners' passengers now have access to the Madrid and London hubs for travel into Europe and North Africa and across the Atlantic. Looking ahead to 2014, SriLankan Airlines is expected to join **one**world.

Beyond the alliance, British Airways will benefit from the addition of Finnair to the trans-Siberian joint business with JAL; as well as a marked improvement in the performance of Australian capacity following the ending of the joint business with Qantas.

Finally, in 2013 British Airways started to operate to Chengdu and started deploying the Airbus A380 to Hong Kong.

Grow share of Europe-to-Africa routes
Throughout 2013, IAG took several steps to refocus its capacity to Africa responding to market and competitor developments. British Airways added capacity into Accra, Monrovia and Tripoli. In parallel it suspended operations to Tunis and Lusaka and reduced the size of aircraft to Cairo. Looking ahead, British Airways has announced more frequencies to Cape Town and the Airbus A380 has been deployed to Johannesburg.

Iberia also adjusted its network, ceasing operations to Cairo and Rabat whilst introducing a wide body product to Luanda with a new Airbus A330-300.

Business model and strategy continued

The introduction of Vueling into the Group marks a significant capacity increase on the African continent. In 2013 Vueling increased its African destinations from one to eight and further announced Dakar as a destination in 2014.

Stronger intra-Europe profitability
The addition of Vueling in 2013 has provided the Group with a significant, profitable and fast-growing narrow body operator. Apart from its main base in Barcelona, Vueling has smaller bases in Bilbao, Paris, Florence and Rome. Vueling, unlike most other new generation carriers, offers a connecting product and has a business class. Describing itself as a “premium low cost” carrier, Vueling flew over 17 million passengers in 2013 to over a hundred destinations.

Beyond Vueling, IAG has made considerable progress in 2013 in improving the performance of its more traditional shorthaul network. London Heathrow’s shorthaul performance has markedly improved. London City’s performance remains strong and modest growth is planned. A new management team at London Gatwick built on 2012’s significant cost reduction success by refreshing the network, starting the replacement of the fleet and successfully launching hand baggage only fares.

At Iberia, the Transformation Plan has combined a significant network contraction with the launch of Iberia Express. This has focused the network on the most productive routes, and resulted in a healthier network.

In 2014 IAG will finalise a narrow body fleet harmonisation programme. This will provide a platform for higher levels of synergy across this key element of our network. By driving as much commonality as possible across all shorthaul fleets, IAG will benefit in future years from lower maintenance costs and increased flexibility.

Competitive cost positions across our businesses
Bringing Vueling into the Group and growing Iberia Express to its current size; and the changes in longhaul fleet mix at Iberia are significantly improving IAG’s Spain-based cost structure. The introduction of the Boeing 787s and Airbus A380s at British Airways is similarly improving British Airways’ cost structure.

The major wide body fleet orders in 2013 (firm orders of 18 Airbus A350-1000 and 18 Boeing 787s as well as options for six more Boeing 787s and 18 more Airbus A350s) will significantly reduce the average age of the fleet.

The synergy programme led by IAG continues to drive significant cost reductions.

OUR SYNERGIES
Creating value for our stakeholders

Our forecast for 2013 of €365 million has been substantially exceeded, with our benefits reaching €460 million for the year. We have also increased our 2015 target from €560 million to €650 million.

Passenger revenue
A wider choice of trip combinations introduced for passengers, and sales teams integrated to increase revenue generation.

- 58 Codeshares implemented in Asia, LATAM, Africa, Europe and America since the time of the merger – including 19 in 2013
- 2.5 million passengers in 2013 benefited from 51,900 different enabled itineraries that were not available pre-merger
- Further alignment of ancillary products, as well as credit card and booking fees
- E-commerce progress including the re-launch of the Iberia.com website, and cross-selling of selected Vueling flights on British Airways' website
- Better use of Group information to make more optimal pricing and network decisions

Maintenance
The focus of the work has been to provide cost competitive services to the Group airlines, while maintaining high quality.

- Build capability to enable further insourcing of engine business in 2014 (V2500)
- Further alignment of joint commercial organisation to improve service to third-party customers
- Further insourcing of British Airways "heavy checks" and paint work to Iberia in 2013
- Significant restructuring of heavy and line maintenance teams in 2013

Resource optimisation
2013 has seen continued progress in optimising people, properties and selected external spend.

- Finance contracted with a transactional service provider and the first head office process integrated into Business Process Outsourcing partner
- Rationalisation of external audit providers
- Implementing a Group communications departmental structure
- Integration of sales teams in Nordics, Morocco, Portugal and Brazil, bringing total to 19 countries.

Procurement
Areas of success in 2013 have included the following contracts:

- Joint contract with Global Distribution Systems (GDS) provider;
- Single media agency;
- In-flight entertainment system content, contract tendered and awarded in 2013;
- Joint contracts at overlapping airport stations – primarily Swiss cluster, Italy, Belgium and Holland; and
- Insurance savings for aircraft.

IT
Group IT is ensuring the IAG business delivers its business aims as well as continuing to deliver synergies of its own through efficiency and investing once rather than multiple times. Areas of focus in 2013 have been:

- Standardisation of server estate
- Decommissioning of legacy infrastructure
- Joint business communication solution for 58,000 employees, enabling the workforce to collaborate virtually anytime, anywhere around the world
- Reduction of third-party spend through alignment of contracts and leveraging Group scale
- Team reduction through productivity improvement

Fleet
During 2013 IAG has secured firm orders and options for new and replacement aircraft; and has benefited from significant discounts to list prices based on the size and scale of the Group.

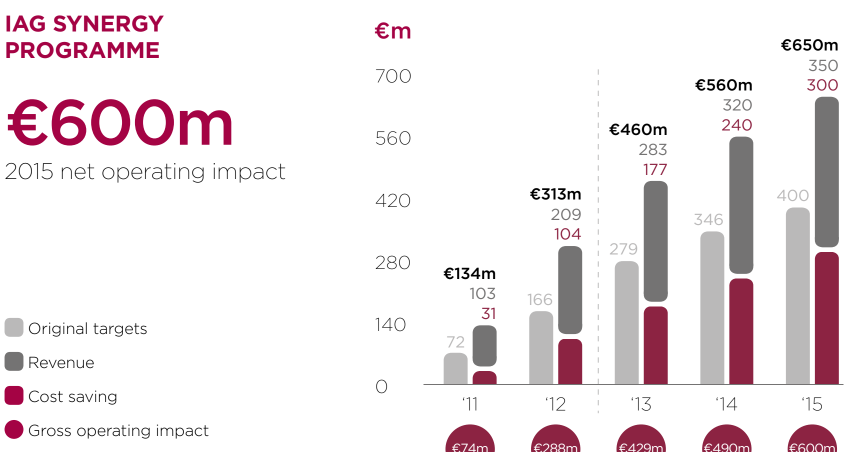
In 2013 the synergy teams have continued to focus on near term delivery whilst ensuring preparatory work is done for longer-term benefits, such as in IT and Financial Services.

See page 21 for more about Avios and IAG Cargo

IAG SYNERGY PROGRAMME

€600m

2015 net operating impact



	'11	'12	'13	'14	'15
Cost of delivery	60	25	31	70	50
Net P&L impact	74	288	429	490	600

STRENGTHENING BRITISH AIRWAYS' POSITION

British Airways' journey to £1.3 billion

In late February 2014, British Airways was named top of the 2014 UK Consumer Superbrands, the first time an airline or travel brand has topped this poll.

Overview

The British Airways business plan has increased its operating profit target in 2015 from £1.1 billion to £1.3 billion. Supporting this target are plans including:

- Initiatives to improve revenue;
- Further opportunities for synergies and to control the cost base;
- Efficiencies from introduction of new longhaul aircraft;
- Renewed focus on shorthaul profitability; and
- Disciplined capacity growth.

Revenue

British Airways has invested in technology to better understand the needs of its customers through a single customer data warehouse. This is an IAG Group solution that enabled products and services to be better tailored to customers' needs, including targeted marketing campaigns throughout the year, which proved to have been very successful. Initiatives are planned to increase engagement with small and medium-sized enterprises, which represent a growing customer segment, and to build on the success of ancillary sales, including upgrades, seating and non-flight products.

In addition, technology is being used to improve the customer service experience. For example, iPads have now been issued to more than 2,000 senior cabin crew, which has enabled them to provide insight into our customers' preferences across a whole range of areas and led to improved customer satisfaction.

Joint business

American Airlines, British Airways, Finnair and Iberia operate a Joint Business agreement between North America and Europe. Last year, British Airways also launched a Joint Business venture with the Japanese airline, JAL. These relationships create customer benefits and generate incremental revenue for the business. Further benefits are expected to be delivered as the relationships grow.

Where appropriate, British Airways will continue to seek to deepen other partnerships through the extension of codeshare relationships and the development of joint businesses. The airline continues to be committed to the future development of the **one**world alliance.

Cost discipline and synergies

British Airways is focused on managing controllable costs and has recently made changes to its employee costs in key areas of the business; the benefits of these changes will increase over time, for example the new mixed fleet cabin crew arrangements. Efficiencies are targeted in supplier costs to offset inflationary pressures. British Airways will consolidate its Heathrow operation from three to two terminals in 2015.

Further cost synergies will come from the IAG Group arrangements, in supplier costs and from back-office systems and processes supporting the IAG operating companies. British Airways has an ongoing targeted reduction in overhead costs through a combination of delivery of existing programmes and further structural change. British Airways continues to seek out synergy opportunities with Iberia and Vueling in all aspects of the business.

Fuel savings

In the next two years, British Airways is planning to take delivery of 18 additional new longhaul aircraft, including the Airbus A380 and the Boeing 787 Dreamliner. The introduction of these new aircraft is expected to deliver £150 million per annum of cost savings due to improved fuel efficiency by 2015.

Shorthaul profitability

British Airways is focused on improving shorthaul revenue and profit contributions at its Heathrow, Gatwick and London City bases.

With profitability being challenged due to low cost carrier growth and high fuel costs, British Airways recognises the need to ensure our shorthaul offering continues to be innovative and relevant to customers whilst achieving a competitive cost base, and developing a long-term sustainable shorthaul business.

In addition, a number of successful shorthaul initiatives have been launched during 2013, including hand baggage only and semi-flexible fares.

Disciplined capacity growth

The new aircraft deliveries and the increased size of the British Airways business at Heathrow, through the successful acquisition and integration of bmi in 2012, have given British Airways flexibility for growth.

This is being targeted at profitable growth markets, including new North Atlantic and Asian destinations, alongside growth to established destinations. Growth is planned across its London hubs.

IBERIA TRANSFORMATION

Big steps towards the Iberia of the future

Background

Over the past two years Iberia's performance has been adversely impacted by a combination of both external and internal factors.

On the external front, the airline industry in Spain has experienced a dramatic transformation, especially in shorthaul and medium haul (due to the increasing competition of low cost carriers and the High Speed Trains). Iberia has been forced to adapt to these changes. Additionally, the Eurozone suffered from a macroeconomic crisis which was especially severe in Spain, Iberia's home market, resulting in a significant weakening in demand.

On the internal front, Iberia's restructuring efforts, aimed to improve its competitive cost base, were affected by several legal decisions. First, the two Arbitral Awards ("Laudos") that limited the development of Iberia Express; and more recently, a favourable outcome from the March 2013 Mediation Agreement.

"Plan de Futuro"

In order to address this situation, Iberia launched a plan ("Plan de Futuro") with the aim of building a sustainable and profitable future for the company.

Under the umbrella of this Plan, Iberia pressed ahead with the November 2012 announced capacity reductions of 15 per cent and reducing its fleet by 23 aircraft. This resulted in a more viable network.

In addition, Iberia implemented several labour restructuring measures included in the March 2013 Mediation Agreement, achieving the voluntary exit of 2,507 employees (out of the 3,141 exits agreed for the period 2013-2015), as well as salary reductions and tenure freezes.

Commercial turnaround

The Plan also included a Commercial Turnaround based on five pillars:

- New longhaul product, which is already leading to increased customer satisfaction;
- Profound changes in revenue management and product offerings;
- Deep transformation of the sales function;
- New digital experience, including a complete web redesign and new mobile apps; and
- New brand and visual identity, representing Iberia's core values and supported by a new communications approach "Hoy".

These measures have already produced a revenue improvement (adjusted[1] RASK) of over 4.6 per cent in the second half of 2013 (and is expected to achieve its full impact in 2016).

Cultural transformation

As part of the Plan, the company also launched a cultural transformation programme to enable Iberia to deliver sustained performance by becoming more agile and strengthening its decision making and execution abilities. To achieve that, Iberia has:

- Simplified the organisation, reducing its middle management by 50 per cent;
- Driven a more performance oriented culture by introducing variable compensation packages based on individual performance and corporate results; and
- Invested in capabilities and talent management and moved to a more cost effective headquarters conducive to improved working practices and efficiency.

Structural agreements

In parallel to all these transformation measures, Iberia's management team launched negotiations to achieve long-term structural agreements with the labour unions. These conversations included actions to increase crews' productivity to market standards, new salary tables, removal of current constraints to growth in the shorthaul through Iberia and Iberia Express under a competitive cost base, and measures to increase the competitiveness and profitability of the handling and maintenance businesses.

Iberia and its pilot and cabin crew unions reached an agreement in principle in February 2014 to introduce such permanent structural changes. This landmark agreement provides a strong foundation to put Iberia on the path towards sustainable profitable growth, based on a new positive working relationship between Iberia and its unions.

The future

Iberia is currently undergoing an intense and radical transformation towards a new, more competitive and profitable business model.

The ongoing implementation of the "Plan de Futuro", coupled with the structural agreements with the labour unions, should allow Iberia to quickly reach a cost and revenue base in line with best market practices.

The resulting Iberia will be in an optimal position to leverage its unique competitive strengths, build on the economic recovery of its home markets and capture strategic growth opportunities.

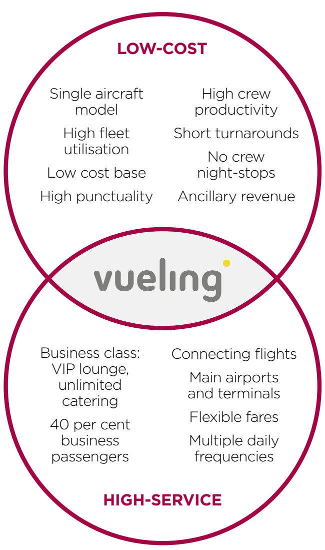
Iberia is confident that the "Plan de Futuro" will enable the company to reach a healthy cost and revenue base and be in a strong position to capture strategic growth opportunities.

1 stage length and fx rate adjusted.

VUELING

Strengthening our European platform

In 2013 Vueling became a member of IAG. Vueling is a low cost airline with a competitive business model and cost base, compatible with the other airlines of the Group (including allocated seating, premium product, connecting traffic, code-sharing, etc.). Vueling will contribute to strengthening IAG's position.



Overview
Vueling is a low cost airline that has a successful track record of growth and profitability in recent years despite a challenging macroeconomic environment. Vueling's business model stands on two building blocks: low cost structure and premium product and services. Vueling has a very competitive cost structure, which is based on a low cost carrier operating model featuring a single aircraft model, high fleet utilisation, high crew productivity and short turnarounds. However, Vueling offers premium products and services traditionally associated with full service carriers including connecting flights, code-sharing, assigned seating, access to VIP lounges, fast track security access at selected airports and flexible fares.

Competitive costs
In terms of costs, Vueling has one of the lowest cost bases among short and medium haul European carriers. This cost advantage makes Vueling an airline that is capable of offering very competitive fares in any European market. The airline has developed a sustainable cost model, implementing an ongoing annual cost saving programme of cost reduction initiatives that contributed to offsetting inflation and other cost increases. Moreover, Vueling is now taking steps to introduce new structural cost reductions in areas such as fleet, handling and maintenance.

Fleet
At the present time, Vueling's fleet is comprised of 68 Airbus A320 family aircraft. During the course of 2013, IAG announced a fleet order for Vueling of 62 firm orders (30 Airbus A320ceo and 32 Airbus A320neo) and 58 options. The firm orders will be delivered between 2015 and 2020.

Leadership
Vueling has built a leadership position in Barcelona El Prat airport, where it offers a wide network of more than 100 destinations. Recently, Vueling has increased its international presence at main European airports, opening bases in airports such as Paris Orly, Rome Fiumicino and Amsterdam Schipol. Following this European expansion, Vueling has recently announced growth at Rome Fiumicino airport for next summer season, linking it with a total of 33 direct destinations within Italy and Europe. Also the company will open a base in Brussels airport in the upcoming summer season.

Product
Vueling continues a track record of innovation and customer service. In 2013 Vueling launched its "Excellence Class", a premium product that includes a full range of services: empty middle seat, fully flexible ticket, dedicated check-in counter, priority boarding, catering on board, fast track and access to VIP lounges. Vueling is working to further improve its product and customer experience, introducing a new seat configuration in the first four rows of its aircraft to allow for additional comfort.

BROADER BENEFITS

Delivering benefits for our customers

Avios

Avios, IAG's single reward currency, continued to grow and engender loyalty with its members in 2013. Members have collected 97 billion Avios over the past 12 months, demonstrating the continued attraction of collecting and saving Avios to redeem on aspirational travel rewards.

The currency also drives additional revenues to IAG airlines as the benefits of collecting Avios drive customer behaviour. Research conducted by Avios has shown that since the introduction of the global Avios currency for previous Airmiles collectors, they have shifted their airline preferences from competitors to British Airways in the UK market. The number of journeys booked by members of the Executive Club on British Airways has increased by 29 per cent since the launch of Avios in November 2011; illustrating that members find the Avios proposition increasingly attractive and are increasingly loyal to IAG brands.

In 2013 Avios launched its travel rewards programme in South Africa. This was an exciting step towards achieving its vision of being the global leader in travel rewards. We established new partnerships with BP, Pick and Pay; and ABSA Bank in South Africa.

We also extended our partnerships into the real estate sector with Lew Geffen Sotheby's Real Estate and enabled members also to earn with Avis car hire.

We have developed new ways in which Avios can be used to enhance customer choice and satisfaction. We launched our Cash & Avios product in October 2013 which enables British Airways customers to use their Avios as discounts on British Airways commercial flights. We also enabled Iberia Plus members to use their Avios to redeem in hotels, thereby offering our customers more choice and continued great value.

For more information go online:
www.avios.com

IAG Cargo

IAG Cargo focused in 2013 on building a new integrated business following the merger of British Airways and Iberia freight operations. The development of a single commercial platform has brought benefits for our customers and enhanced IAG Cargo's position.

In 2013, IAG Cargo customers have seen new routes, improved products and online booking. These developments support our growth in new geographical markets as well as among target groups including small and medium sized freight forwarders.

New aircraft are starting to add valuable cargo capacity to our existing network. We are expanding with other carriers under our 'Partner Plus' programme, which promotes co-operation among member airlines.

During the year, Cargo carried out a strategic review of our longhaul freighter operations to take account of the merger and changing market conditions. We decided to terminate our lease agreement for three Boeing 747-8F aircraft and signed a commercial agreement with Qatar Airways to purchase capacity on their freighter fleet, with effect from May 2014.

Cargo have continued to invest in our products to meet the needs of a wide variety of industries from pharmaceuticals to perishables and fashion.

One such investment is the Constant Climate Centre at Heathrow, which opened in October and is designed for the transport of temperature-sensitive air cargo such as vaccines and insulin. IAG Cargo's Constant Climate network now has over 90 stations around the globe including additions in Latin America.

An important element of integration has been changing the way we do business. We have continued to develop the Optima revenue management system which will allow customers to benefit from faster decisions and more responsive pricing. The system, whose main phase launched in January 2014, enables IAG Cargo to allocate capacity more efficiently to maximise yields.

For more information go online:
www.iagcargo.com

5.9 million
active Avios members

5,653 million
cargo tonne kilometres

KEY PERFORMANCE INDICATORS
Delivering against our goals and targets

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

The remuneration reward of the Management Committee is linked to our financial KPIs. The 2013 financial element of the annual incentive plan was focused on the operating profit performance of British Airways and the second half cash targets of Iberia. Synergy targets were incorporated in the personal element of the incentive award where applicable. For the longer-term performance share plan, Earnings Per Share (EPS) is 50 per cent of the potential reward whilst Total Shareholder Return accounts for the other 50 per cent. See pages 53 to 71.

We have set KPI targets to achieve certain goals by the end of the first five years post-merger. These reflect our focus on the merger synergies programme and the delivery of stretching returns. During 2013 we raised our targets through our annual business plan review process. The Group operating profit target was increased as a result of the solid 2013 revenue performance of British Airways, together with Vueling joining the Group. During the year Iberia commenced its Transformation Plan to return it to a viable profitable business which was a key element of our business plan. The Group business plan is

Financial targets

Earnings Per Share and Return on Invested Capital (RoIC)
Whilst we have continued to set EPS as one half of our key financial targets we have redefined our other target from Return on Capital Employed to Return on Invested Capital, to provide a stronger link to decision making across the Group. We believe these targets encompass the core elements of value creation for our shareholders. We also use financial operating targets across the Group companies such as unit revenue and unit cost measures and operating profit.

These targets are disaggregated internally to give a coherent set of local targets to all parts of the business, with a focus on cost (including cost of capital), revenue and product (such as density of seating on aircraft, utilisation and load factor).

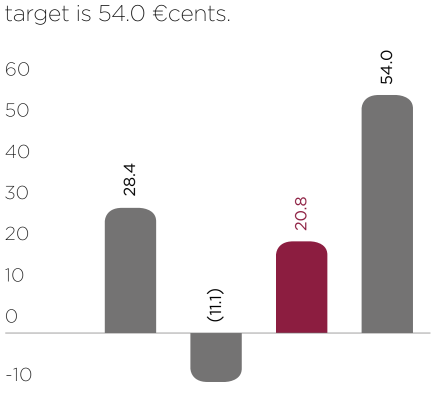
These targets are used by management and the Board to benchmark the performance of IAG Group companies against their peers, as well as to develop and calibrate profit improvement programmes.

EPS (€cents)

Measure Profit before exceptional items, after tax adjusted for earnings attributable to equity holders for interest on the 2018 convertible bonds, if dilutive. Shares are based on the weighted average number of ordinary shares, adjusted for the dilutive impact of the assumed conversion of the bonds and employee share-based payment schemes outstanding.

Performance In 2013, IAG fully diluted EPS before exceptional items was 20.8 €cents.

Target Our 2015 fully diluted EPS target is 54.0 €cents.

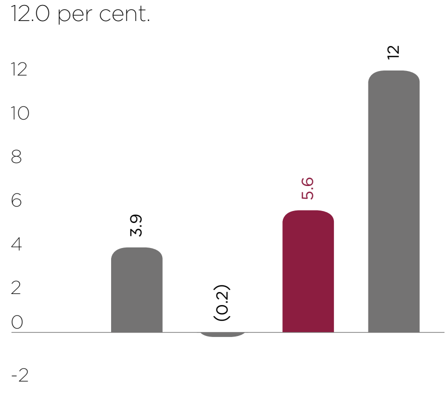


RoIC (%)

Measure Operating profit before exceptional items, divided by a notional half-life current cost of tangible fixed assets (calculated by multiplying gross tangible fixed asset cost by a cumulative inflation factor divided by two. An annual inflation factor of 2.5 per cent is used over a period determined by dividing accumulated depreciation by the annual charge).

Performance In 2013, IAG achieved a RoIC of 5.6 per cent, up from (0.2) per cent in 2012.

Target Our 2015 RoIC target is 12.0 per cent.

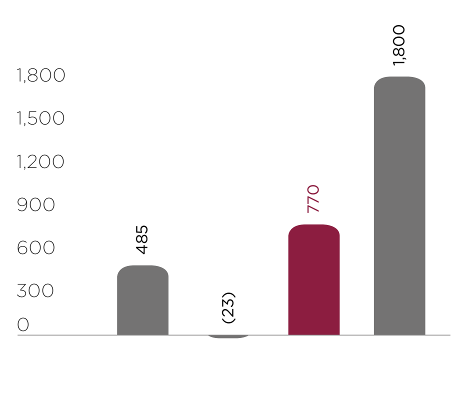


OPERATING PROFIT (€m)

Measure Group operating profit before exceptional items.

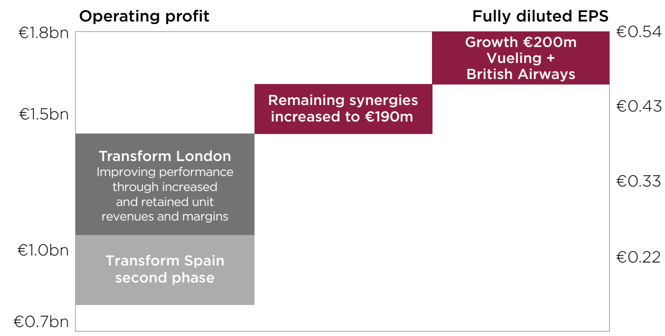
Performance In 2013 we achieved an operating profit of €770 million, an improvement of €793 million over 2012.

Target Our 2015 target is to achieve an operating profit before exceptional items of €1,800 million.



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. For a full list of risks to our business see pages 88 to 95.

The chart opposite shows our long-term 2015 target of 54 €cents per fully diluted share, through an operating profit of €1.8 billion.



Synergies

We have set a financial target related to the synergy benefits of merging British Airways and Iberia under IAG. In 2010 we announced our annual synergy benefits target of €400 million by 2015. This was raised to €560 million during 2012 and to €650 million in 2013, split across revenue and cost benefits. The ongoing costs to generate these synergies are expected to be €50 million in 2015.

SYNERGIES (€m)

Measure Contributions from revenue and cost benefit work streams, net of the implementation costs incurred to deliver these benefits.

Performance In 2013, we achieved benefits of €460 million against a target of €365 million; our costs of delivery were €31 million versus €90 million, for a net benefit of €429 million against a target of €275 million. Improvements were primarily related to passenger revenue.

REVENUE SYNERGIES (€m)

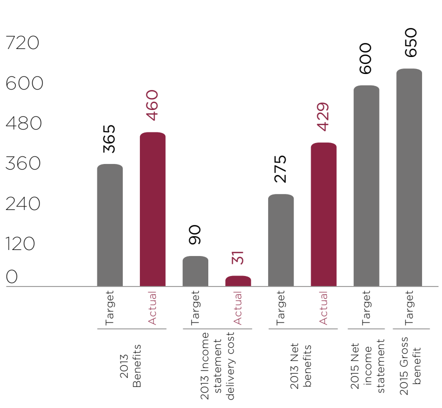
Measure Three work streams focused on: improving network offering to our passenger and cargo customers and the launch of Avios, our new single loyalty reward currency.

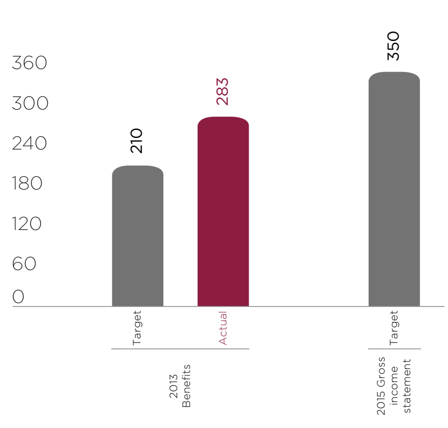
Performance In 2013, we achieved €283 million of synergies against a target of €210 million.

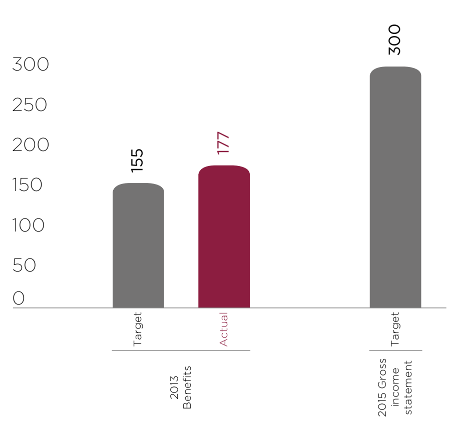
COST SYNERGIES (€m)

Measure Five core work streams focused on: procurement; information technology; back office functions such as finance, engineering and maintenance; and fleet.

Performance In 2013, we achieved €177 million of synergies against a target of €155 million.







CORPORATE RESPONSIBILITY

Managing our business in a responsible way

Antonio Vázquez
Chairman

Recognising the role we play in society strengthens our commitment to operating responsibly

In 2013, IAG strengthened its focus on corporate responsibility and expanded the disclosure of Group corporate responsibility performance. We have improved fuel efficiency by 0.8 per cent compared to 2012 and played a leading role in securing a global industry agreement on climate change regulation. Sustainability and responsibility are central elements of our business strategy and fundamental to the long-term growth of IAG. As one of the world's largest airline groups we are in a strong position to drive our industry towards sustainability. That's why our aim is to lead the airline industry in promoting a responsible approach to air travel.

Antonio Vázquez
Chairman

> **IAG is a significant contributor to global economic development, providing connectivity to over 67 million customers and carrying 5,653 million tonnes of cargo kilometres.**

Governance

Corporate Responsibility programmes are maintained under the control of the Boards of each airline. The IAG risk management process (see page 88 of this report) provides for both assessment and action on risks in the area of corporate responsibility, such as climate change regulation, environmental impacts, and labour relations.

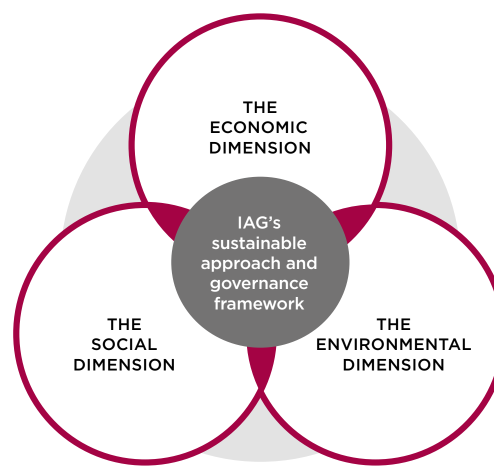
British Airways' Chairman and Chief Executive Officer Keith Williams chairs the British Airways Leadership Team that oversees the governance of the British Airways Corporate Responsibility programme. Additionally, British Airways' Non-Executive Director Gavin Patterson chairs the Corporate Responsibility Board Committee which guides the strategic direction and implementation of the programme.

At Iberia, Sergio Turrión, Vice President for Corporate Affairs and member of the Board of Directors, leads the strategic direction and implementation of Iberia's Corporate Responsibility Programme, and reports directly to Iberia's Chairman and Chief Executive Officer, Luis Gallego.

Vueling's Corporate Responsibility programme is managed by the Corporate Services division, under the direction of Chief Financial Officer Sonia Jerez, who is also a member of the Vueling Management Committee and who reports directly to Vueling's Chairman and Chief Executive Officer, Alex Cruz.

Stakeholder engagement and disclosure

IAG maintains frequent dialogue with key stakeholders including shareholders, the investment community and governments. Each airline has identified relevant stakeholders through a materiality analysis and engages with them through various channels; for example, by providing opportunities for gathering customer insight, dialogue with industry associations such as IATA, influencing policymakers and participating in local community engagement.



In 2013 British Airways conducted a stakeholder review of its Corporate Responsibility programme that will be used to enhance engagement. Both British Airways and Iberia have a long history of publishing annual environmental and sustainability reports. Direct links to all published corporate responsibility documents are available on IAG's website. This year we have expanded the number of IAG corporate responsibility indicators, aligning data capture methodologies across the Group, following the framework set out by the Global Reporting Initiative (see table on page 29).

Key sustainability aspects

IAG is a significant contributor to global economic development, providing connectivity to over 67 million customers and carrying 5,653 million tonnes of cargo kilometres. In 2013, total revenue was €18,675 million and we employed approximately 60,000 staff (average manpower equivalent). The economic contribution of IAG is documented throughout this report.

Climate change is a key sustainability issue for IAG, with direct greenhouse gas emissions in 2013 of 23.7 million tonnes of carbon dioxide equivalent (CO_2e). Our approach to climate change focuses on improving fuel efficiency, development of sustainable low carbon fuels and support for positive economic measures to achieve global emissions reduction targets. Other key aspects are our noise and air quality impacts on communities around airports, and our global community investment programmes.

The British Airways, Iberia and Vueling programmes aim to:

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

Climate change

IAG recognises that climate change is the most urgent sustainability challenge facing our industry, and we have comprehensive programmes in place to ensure our business can grow responsibly, while meeting targets to reduce our net greenhouse gas emissions. IAG, led by its Group Chief Executive Willie Walsh, played a pivotal role in developing and finding consensus on the global aviation industry agreement of June 2013, which proposed a mechanism for the implementation of a global intergovernmental policy to achieve Carbon Neutral Growth from 2020.

IAG has continued to improve and refine the Group's carbon reporting, and was recognised in the Carbon Disclosure Project's "Climate Disclosure Leadership Index 2013". This index highlights companies that have displayed a strong approach to information disclosure regarding climate change. IAG welcomed the requirement for UK quoted companies to report carbon and efficiency data in the Annual Report and Accounts.

Fuel efficiency

In 2013 IAG introduced several new fuel efficient aircraft types, with the Boeing 787, Airbus A330 and Airbus A380. Multiple initiatives were also introduced, including more efficient ways to operate on the ground and in the air, and the reduction of weight onboard aircraft. In 2013, the IAG combined carbon efficiency, expressed in grammes of CO_2 per passenger kilometre (gCO_2/pkm), was 100.4 gCO_2/pkm, an improvement of 0.8 per cent over 2012.

GREENHOUSE GAS EMISSIONS

23.7 million

tonnes of CO_2e

AIRCRAFT FLEET – CURRENT AND FORECAST

	2013	2012	Future deliveries	Options
Airbus A320 family	238	186	101	202
Airbus A330	5	–	3	8
Airbus A340	24	30	–	–
Airbus A350	–	–	18	34
Airbus A380	3	–	9	7
Boeing 747	51	52	–	–
Boeing 767	20	21	–	–
Boeing 777	54	52	4	–
Boeing 787	4	–	38	16
Other	32	36	3	15
Total fleet	**431**	**377**	**176**	**282**

Corporate responsibility continued

> **IAG is committed to the development of sustainable low-carbon fuels and we recognise the part these will play in reducing the climate impact of aviation.**

In 2013 British Airways' fuel efficiency priority was to fully integrate its new aircraft into the operation, and maximise the potential improvements to efficiency offered by these aircraft. The airline is in the early stages of introducing a fuel efficiency data monitoring tool which will provide essential support in delivering fuel savings from the various initiatives in its overall fuel efficiency programme. The monitoring tool is expected to be fully functional in early 2014.

During 2013, Iberia worked with the governance bodies at Madrid Barajas Airport to achieve a Level 2 Certificate in the International Airport Carbon Accreditation Programme. The Programme is an initiative that promotes reductions in CO_2 emissions at air transport facilities. Madrid Barajas Airport has also introduced improvements to carbon management processes as well as reducing its carbon footprint. The Level 2 certificate, awarded by Airports Council International (Europe), has not been achieved by any other Spanish airport as of 2013.

Vueling's commitment to developing and implementing efficiency improvements in terms of fuel consumption and CO_2 emissions is integral to its business. This has been demonstrated by the introduction of several new operational procedures to reduce fuel consumption.

A major development in 2013 was the confirmation of a new fleet order which will renew the Vueling fleet with modern and efficient aircraft over the next few years. This commitment will allow for a significant reduction of the environmental impacts associated with the Vueling operation. Also during 2013, Vueling took delivery of aircraft fitted with "sharklets", further improving fuel efficiency.

Vueling have also launched an Electronic Flight Bag project to replace paper documentation which is currently carried in the cockpit such as maps and manuals, reducing not only the weight onboard but also paper consumption.

Sustainable low carbon fuels

As well as the work underway to introduce new, more fuel-efficient aircraft into the Group, IAG is committed to the development of sustainable low-carbon fuels and we recognise the part these will play in reducing the climate impact of aviation. Our Group airlines are working on a number of fronts to overcome the barriers to the introduction of these fuels through a number of collaborative programmes.

British Airways continued to work towards bringing sustainable low carbon jet fuel to commercial production. The Solena Greensky project completed the initial design stage and continued to make progress in financing, technology selection and planning permission. We expect the facility to commence construction near London in 2014 with fuel production commencing in 2017. The Rolls-Royce and British Airways collaborative study on novel early stage fuels concluded during 2013, with each of the final four fuels showing high potential as alternatives to jet kerosene. British Airways also joined Leaders of Sustainable Biofuels, an EU group of companies committed to the development of advanced biofuels produced from wastes and residues; and to lobbying governments for a stable policy framework for all sustainable fuels.

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

Atmospheric research

IAGOS, the in-service aircraft for a global observing system project, included within the European Strategy Forum on Research Infrastructures, consists of fitting longhaul aircraft with scientific instruments to analyse the chemical atmospheric composition (H_2O, O_3, CO, CO_2, NO_x), aerosols and cloud particles, and assessing air quality at certain altitudes throughout the world. Iberia formalised its participation in the IAGOS air quality research project in 2011. In November 2013, the Company finished the installation phase of the measuring equipment on one of its Airbus A340-300 aircraft, which will be carried for approximately ten years. Iberia is the first Spanish airline and the third European airline to collaborate in this scientific project, which aims to improve our understanding of the impact of aircraft operations on the atmosphere.

Ground operations

The Group aims to improve the environmental performance of its ground operations and facilities. In 2013 the Group invested additional resources to focus on the most efficient use of energy on the ground.

After surpassing its ground operations energy saving target of 20 per cent during 2012, British Airways continued to improve on this figure during 2013, achieving a further energy saving of 5 per cent.

To further improve the energy efficiency at its aircraft maintenance facilities in Madrid, Iberia has installed automatic electricity consumption control systems with individual meters for each facility. This allows a central control office to monitor consumption through a live feed, as well as measuring the effects of any efficiency initiative.

Noise and air quality

IAG continues to work to minimise the noise and emissions produced by its operations. We are achieving this in the short-term through use of best practice operational techniques where possible, and in the long-term through fleet investment and collaborating with industry partners on operational and technological innovation. The first deliveries of the Boeing 787, Airbus A330 and A380 aircraft in 2013 ensure that the Group can replace some older aircraft with cleaner and quieter models. These new aircraft produce less noise on departure and arrival than the aircraft they replace and the engines fitted exceed the latest applicable emissions standards.

91 per cent of aircraft in the combined British Airways and Iberia fleets meet the ICAO Chapter 4 technology standard for noise, and 87 per cent meet the ICAO CAEP4 technology standard for Oxides of Nitrogen (NO_x).

In 2013, along with industry partners, British Airways contributed to the development of the Sustainable Aviation Noise Roadmap. This document shows that future aircraft noise levels can be reduced despite a predicted increase in movements.

British Airways adopts operational best practice to minimise noise and emissions from flight operations, including the use of continuous descent approach, noise abatement departure procedures and optimised descent flap settings and landing gear deployment. The airline also aims to minimise impact from ground operations by reducing the use of Auxiliary Power Units and adopting reduced engine taxiing procedures where safe and practicable.

Waste and recycling

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

British Airways' waste to landfill at Heathrow and Gatwick continues to be low at 6 per cent (2012: 5 per cent) by using a local energy from waste plant and increased focus on recycling. British Airways recycled 45 per cent (2012: 45 per cent) of waste at its main hub airports of Heathrow and Gatwick. Onboard segregation of aluminium cans for recycling on longhaul flights arriving at Heathrow and Gatwick commenced in 2013. Strict rules govern the disposal of international catering waste, but British Airways' shorthaul caterers at Heathrow recycle most onboard packaging. Newspapers on aircraft arriving at London Heathrow and London Gatwick are also recycled.

Iberia's corporate functions have moved to a new building in Madrid, adjoining the arterial road with the Madrid Barajas airport. The new headquarters has an integrated waste collection system, as well as advanced heating and cooling systems.

At Vueling's headquarters in Barcelona, plastics are collected and recycled by local authorities, whilst paper is recycled by a local company that employs workers with disabilities. In 2013, efficiency initiatives resulted in an estimated paper use reduction of 18 per cent.

Community investment

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

In 2013 British Airways contributed £7.5 million in direct and indirect donations to the charities it supports (2012: £9.8 million). A total of 40 community and conservation organisations also benefited from flight bursaries, excess baggage allowances and

“As a Group, we want to assist in the development and support of communities that we work in and fly to.”

Corporate responsibility continued

cargo space and fundraising events. Flying Start, British Airways' corporate charity partnership with Comic Relief celebrated its three-year relationship by exceeding its fundraising target. Since June 2010 British Airways has raised in excess of £6.75 million to support Comic Relief's work both in the UK and overseas. During 2014 British Airways will be launching its Sport Relief campaign and in April 2014 will be launching a new fundraising campaign focusing on vulnerable children who live incredibly tough lives both in the UK and overseas.

British Airways operates a payroll giving scheme; where present and past employees make donations to their chosen charities. In 2013 £632,000 was raised for charities through the scheme (2012: £608,000).

> **IAG is committed to procuring goods and services from suppliers that can demonstrate ethical principles in the way they conduct their business.**

British Airways also formally launched its Volunteering programme in November 2013, enabling employees to participate in volunteering activities supporting a range of good causes close to its operation.

British Airways uses its London Heathrow Community Learning Centre to help local children find out about the Company; understand how the airline works; and provides them with an insight into the world of work. Since the Centre opened in 1999 over 82,000 young people have participated in programmes and in 2013 over 7,000 students visited the Centre. We also host an extensive work experience programme and 2013 saw the participation of 260 students across several areas of the business.

Iberia and its employees are committed to promoting sustainable growth and improving living conditions in the countries in which it operates. During 2013, Iberia renewed and expanded its collaboration with Amadeus on Corporate Responsibility issues, delivering more than 700 donated computers to schools in countries such as Nicaragua, South Africa, Cuba, Kenya and Chile. As part of this collaboration, Iberia will continue to carry computer equipment supplied by the Amadeus PC Bank Project to any of the international destinations served by the airline.

In 2013 Iberia received the "Madrid Excelente" Award from the Region of Madrid. It recognises the airline as a model of quality and excellence in the areas of business management, social responsibility and customer confidence.

In 2013, Iberia Express collaborated with UNICEF in its project "Urgent Water for the Syrian Children", collecting enough funds to secure safe drinking water for 3,450 children affected by the conflict in Syria. Safe drinking water and adequate sanitation are fundamental to the health and wellbeing of thousands of families currently displaced from their homes, living in overcrowded refugee camps. This figure exceeds the initial target and has been made possible thanks to the participation of over 5,000 people in the "Caring Flights" (Vuelos solidarios) prize draw on Facebook. For each online participant, Iberia Express pledged to donate €1 to support UNICEF's work in Syria.

In 2013 Iberia and Vueling maintained their annual collaboration with the Make-a-Wish Spain Foundation. During 2013, the airlines worked with the Foundation by funding activities to help make the wishes of seriously ill children a reality.

Vueling is proud of its tight-knit workplace community, and the contributions they make towards social causes. In mid-2013 the airline joined a plan led by the NGO "Nutrition Without Borders", to recover on-board food from crew meals. The project "Barcelona shares food" (Barcelona comparte la comida) distributes food to charities and community kitchens that care for people who have difficulty in meeting their food needs. During the first six months Vueling, with the help of its crew, have recovered and redistributed approximately 457 kg of fruit, 5,688 litres of water and up to 3,880 units of hot drinks such as tea and coffee.

This year Vueling has also worked on several initiatives in partnership with GATS, a non-profit organisation dedicated to social improvement in the most deprived neighbourhoods of El Prat de Llobregat, where the airline's headquarters are located. In October 2013 Vueling collaborated on the "Wise Women" project (Les Dones Sàvies), which invited to Paris a group of elderly women who had never left their local area, despite only living a few minutes away from one of the busiest airports in Europe. During 2013 Vueling also supported the Walk On Project Foundation, located in the Basque country, by sponsoring the Estropatada event in Bilbao, one of its main operating bases. This initiative raised funds for research into neurodegenerative diseases.

Suppliers and procurement

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

As part of the British Airways tender process, potential suppliers are required to respond to a comprehensive Corporate Responsibility questionnaire. This is a key area that is considered as part of the procurement decision-making process.

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 is proud to be the first airline to join Sedex (a not for profit organisation dedicated to driving improvements in responsible and ethical business practices in global supply chains).

Foreign branches

We fly to a number of destinations around the world (see page 10). In addition to the foreign branches we have established in many of these countries, we have branches in countries to which we do not fly.

CORPORATE RESPONSIBILITY INDICATORS

Indicator	Units	**2013**	2012	2011	Year over year (2012-2013)
Total energy consumption from jet fuel, gas and electricity	Megawatt hours	**91,062,826**	89,350,479	88,684,419	1.9%
Direct greenhouse gas (GHG) emissions (Scope 1)	Tonnes CO_2e	**23,664,495**	23,249,641	23,080,809	1.8%
Indirect GHG emissions (Scope 2)	Tonnes CO_2e	**118,036**	132,610	111,908	(11.0%)
Other indirect GHG emissions (Scope 3)	Tonnes CO_2e	**4,871,126**	n/a	n/a	n/a
GHG emissions intensity (grammes of carbon dioxide per passenger kilometre)	gCO_2/pkm	**100.4**	101.2	n/a	(0.8%)
Percentage of aircraft fleet that meet ICAO CAEP 4 technology standard for noise	Percentage	**91.0%**	90.1%	89.4%	0.9pt
Percentage of aircraft fleet that meet ICAO CAEP 4 technology standard for Oxides of Nitrogen (NO_x) emissions	Percentage	**86.7%**	86.6%	86.1%	0.1pt
Percentage of aircraft fleet that meet ICAO CAEP 6 technology standard for Oxides of Nitrogen (NO_x) emissions	Percentage	**45.8%**	43.9%	47.4%	1.9pts
Average age of aircraft fleet	Years	**11.1**	11.8	n/a	(5.9%)
Number of new hires in calendar year	Number	**2,647**	4,389	2,771	(39.7%)
Average hours of training per year, per employee	Hours per employee	**35.6**	35.0	n/a	1.7%

Notes

Indicators describe the combined performance of British Airways and Iberia. Energy and greenhouse gas emissions indicators also include Vueling, British Airways Cityflyer and Open Skies. Fleet age includes all airlines in the Group.

IAG has reported all greenhouse gas emissions sources required under the 2006 Companies Act (Strategic and Directors' Reports) Regulations 2013.

IAG uses the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (revised edition), applying an operational control boundary. The greenhouse gas emissions are split into Scope 1 (direct, burning jet fuel and natural gas), Scope 2 (indirect, electricity), and Scope 3 (indirect, upstream fossil fuel production). The 2011-13 emissions data was calculated by applying the UK Government's GHG conversion factors for Company Reporting (2011, 2012, 2013).

The International Civil Aviation Organization's Committee on Aviation Environmental Protection (CAEP) establishes international standards for aircraft noise and engine emissions. Oxides of Nitrogen (NOx) emissions are relevant to local air quality around airports. The ICAO CAEP 4 and CAEP 6 NOx standards were applicable for engines first manufactured after December 31, 2003 and December 31, 2007 respectively.

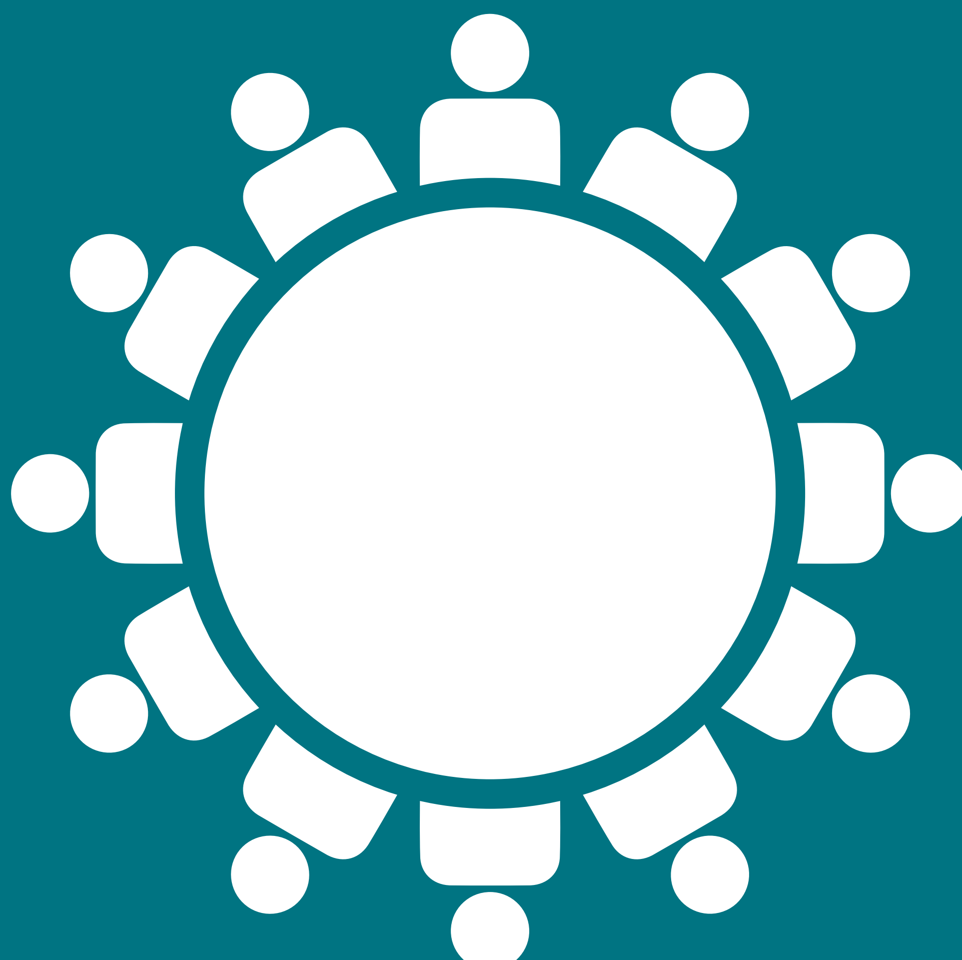
The ICAO CAEP Chapter 4 technology standard for aircraft noise is applicable for new aircraft certified on or after January 1, 2006.

GOVERNANCE

We have an effective system to manage our airlines efficiently and give our leadership team the freedom to plan strategically.

In this section

Governance



CHAIRMAN'S INTRODUCTION TO CORPORATE GOVERNANCE

Better decision-making through effective governance

Antonio Vázquez
Chairman

One of the key strengths of IAG's corporate structure is a system of governance that allows us to manage our airline brands effectively day-to-day, plan strategically for the long term and ensure that our Board provides a level of oversight that meets the highest international standards.

The original system of governance we put in place when we created IAG – while a little complex because of our various merger agreements, and regulatory restrictions on air traffic rights – has, nevertheless, served the Group and its shareholders very well.

But in our third year of existence we decided it was right to review our Board and senior management structures thoroughly and with two clear aims in mind.

The first was to reinforce our governance systems to make them attuned to best practice standards followed by other similar quoted companies. The second was to simplify our management organisation so that we create a more flexible, more streamlined and more accountable decision-making process.

As a Spanish company, quoted on both the Madrid and London stock exchanges, any changes in governance we make have to meet a number of regulatory requirements and in particular we need to respond to both the UK Financial Reporting Council's Corporate Governance Code (2012) and Spain's Unified Good Governance Code.

Board evaluation reviews

Against that backdrop we undertook two fundamental reviews of our corporate governance structures in 2013 – the first a detailed internal exercise, the second an external review conducted by an independent evaluator.

As a result of these reviews we have introduced a number of significant changes, which I believe will make an important difference to the effectiveness of our management and supervisory systems and allow IAG to pursue its strategic objectives with greater clarity and purpose.

Board and management committee changes

We are determined to create the right balance between oversight, Group management and strategy planning, and the day-to-day operation of our three operating companies, British Airways, Iberia and Vueling.

As a result of the internal review, both Sir Martin Broughton and I have stepped down as Chairman of British Airways and Iberia, respectively, to focus on our roles as Chairman and Deputy Chairman (and Senior Independent Director) of the IAG Board. Similarly, Keith Williams and Luis Gallego become Chairman and Chief Executive of British Airways and Iberia respectively (as well as being members of the IAG Management Committee), but have stepped down from the IAG Board. Enrique Dupuy de Lôme, our Group Chief Financial Officer, has also joined the IAG Board for the first time.

Thanks to these changes, both the IAG Board and Management Committee are now both more streamlined and more focused on their respective roles.

The Management Committee, led by Chief Executive Officer Willie Walsh, now includes our Chief Financial Officer and the leaders of all our airlines and our cargo business. Working closely together they have the freedom to plan and execute Group strategy and fulfil their responsibility to extract synergies from the Group as we build for the future. This also allows our executives to share experience and knowledge, giving greater coherence and continuity to the overall strategy we are pursuing for the Group.

MANAGEMENT STRUCTURE

The IAG Board, meanwhile, is far better placed to provide the sort of rigorous and objective oversight that is so important to a major international company such as our own.

Board diversity

From the earliest days of IAG we have been fortunate to benefit from the advice and support of a group of extremely talented Non-Executive Directors. They bring with them a broad range of skills honed not only within our own industry but across a broad span of sectors; and from both the private and public sectors. They also constitute a group with exceptional international experience working in a number of markets important to the Group.

This year saw four Directors, Rafael Sánchez-Lozano, Manuel Lagares, José Manuel Fernández Norniella and John Snow leaving the IAG Board. We are grateful for their contribution.

In 2013, the IAG Board also welcomed three exceptional new Non-Executives to the Board. Alberto Terol, amongst many other things is a senior former member of Deloitte's global executive committee, joined us, bringing important skills to the main Board and its Audit and Remuneration committees.

Dame Marjorie Scardino, former CEO of the publishing and education group, Pearson, and a recent recruit to the Board of Twitter, brings her leadership skills and a wealth of experience in communications and social media to the Board and will also serve on our Remuneration Committee.

In February the Board also invited María Fernanda Mejía to join our non-executive team. She is president of Kellogg's Latin America and brings huge experience in the consumer sector with a deep understanding of one of our most important markets.

In the past we have made it clear that we intended to increase the representation of women on our Board. With the appointment of Dame Marjorie Scardino and María Fernanda Mejía – working alongside Baroness Kingsmill, who has been with us from the start – we are delighted to have achieved the balance rightly sought by our regulators.

Election of directors

The one area where we have differed from many other companies in the FTSE100 is on the annual re-election of directors. We took a different path in the early days of the company for a specific good reason. We wanted to ensure that we had continuity of leadership in the company as it made its first steps in the corporate world and for that reason opted for a rolling schedule of re-election for our Directors, in accordance with an agreed calendar and with a term of office established in the Company's by-laws of three years.

However, we have reconsidered these plans in the light of last year's feedback from institutional investors and, from 2014, we will move to annual re-election, in common with most other FTSE100 companies.

Board responsibilities

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

- approving the annual budget and the business plan;
- setting financing policy and structure;
- reviewing internal information;
- leading our approach to Corporate Responsibility;
- agreeing the strategic framework and keeping it under review;
- monitoring performance and the implementation of strategy;
- maintaining an effective governance framework;
- safeguarding the long-term values and reputation of the Company; and
- risk and control.

Certain tasks are assigned to the Board's Audit and Compliance, Remuneration, Nominations and Safety Committees. In the pages that follow, you can read a full report of the activities of these Committees during the year and a personal statement from each of the Committee's Chairpersons.

Looking ahead

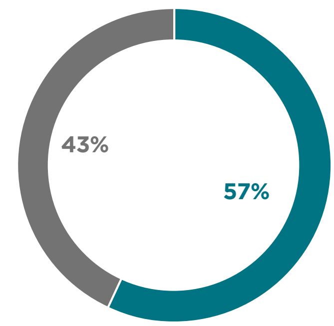
As I make clear in my letter at the front of this report, IAG is at a critical stage of its development. We have achieved so much, so far. But we have a great deal more to do to make this company as agile and as competitive as it needs to be to become a truly sustainable business, able to serve all of its stakeholders well and lead the consolidation of our industry.

Getting that right will require a system of governance that allows our leaders to deploy their strategic and entrepreneurial skills in effective ways, within a system of strong and insightful oversight. I am convinced we are building just such a system.

Antonio Vázquez
Chairman

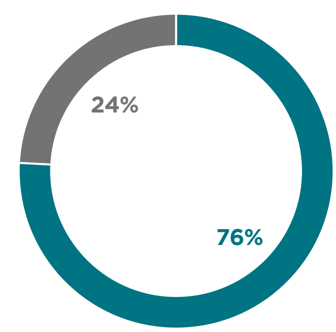
GENDER DIVERSITY

Group



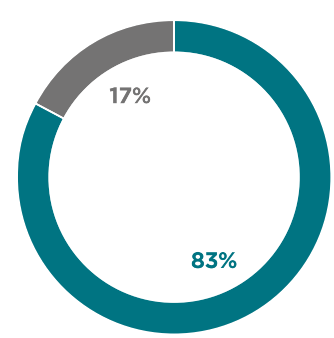
Male - 34,201
Female - 25,888

Senior management



Male - 191
Female - 60

Board



Male - 10
Female - 2

BOARD OF DIRECTORS

1  2  3  4  5  6 

1 **Antonio Vázquez,** Chairman

First appointed: May 2010. Re-elected January 2011

Committee Membership: Nominations Committee, Safety Committee

Key areas of prior experience: consumer, sales/marketing, finance, governance

Current external appointments: Member, Advisory Board of Telefónica Latam. Member, Advisory Board of the Franklin Institute.

Previous relevant experience: Chairman, Iberia 2009-2013. Chairman and CEO, Altadis Group 2005-2008. Chairman, Board of Directors of Logista 2005-2008. Non-Executive Director, Iberia 2005-2007. Chief Operating Officer and other various positions, Cigar Division of Altadis Group 1993- 2005. Various positions at Osborne 1978-1983 and Domecq 1983-1993.

2 **Sir Martin Broughton,** Deputy Chairman

First appointed: May 2010. Re-elected June 2013

Committee Membership: Nominations Committee, Safety Committee

Key areas of prior experience: consumer, finance, governance

Current external appointments: Chairman, Sports Investment Partners.

Previous relevant experience: Chairman, British Airways 2004-2013. Director, British Airways since 2000. President, Confederation of British Industry 2008-2010. Chairman, Liverpool FC 2010. Chairman, British Horseracing Board 2004-2007. Chairman, British American Tobacco 1997-2004 and member of the Board since 1988. Chief Executive Officer, British American Tobacco 1993-1997 and other executive positions at British American Tobacco 1971-1997.

3 **Willie Walsh,** Chief Executive Officer

First appointed: May 2010. Re-elected January 2011

Committee Membership: Safety Committee

Key areas of prior experience: Airline industry

Current external appointments: Chairman of the Ireland State Debt Agency

Previous relevant experience: Chief Executive Officer, British Airways 2005-2011. Chief Executive Officer, Aer Lingus 2001-2005. Chief Operating Officer, Aer Lingus 2000-2001. Chief Executive Officer, Futura (Aer Lingus' Spanish Charter airline) 1998-2000. Joined Aer Lingus as cadet pilot in 1979.

4 **Enrique Dupuy de Lôme Chávarri,** Chief Financial Officer

First appointed: June 2013. Re-elected September 2013

Key areas of prior experience: finance, airline industry

Current external appointments: Chairman, Iberia Cards. Non-Executive Director, Amadeus

Previous relevant experience: Chief Financial Officer, Iberia 1990-2011. Head of finance and deputy director of financial resources, Instituto Nacional de Industria (INI) and Teneo financial group, 1985-1989. Head of subsidiaries at Enadimsa (INI Group), 1982-1985, Chairman IATA finance committee.

5 **César Alierta Izuel,** Non-Executive Director

First appointed: September 2010. Re-elected January 2011

Committee Membership: Nominations Committee

Key areas of prior experience: finance, telecommunications, consumer

Current external appointments: Executive Chairman, Telefónica Group. Non-Executive Director, China Unicom. Member, Columbia Business School Board of Overseers. Chairman, Social Board of the Spanish UNED.

Previous relevant experience: Non-Executive Director, Telefónica 1997-2000. Executive Chairman, Altadis Group 1996-2000. Member of the Board, Telecom Italia 2007-2013. Member of the Board, Madrid Stock Exchange 1991-1996. Chairman, Spanish Financial Analysts' Association 1991-1996. Chairman and founder, Beta Capital 1985-1996.

6 **Patrick Cescau,** Non-Executive Director

First appointed: September 2010. Re-elected June 2013

Committee Membership: Audit and Compliance Committee

Key areas of prior experience: consumer, finance, sales/ marketing, governance

Current external appointments: Non-Executive Chairman, InterContinental Hotel Group. Senior Independent and Non-Executive Director, Tesco. Trustee, LeverHulme Trust. Chairman, St Jude India Children's Charity.

Previous relevant experience: Group Chief Executive, Unilever 2005-2008. Chairman, Unilever PLC. Deputy Chairman, Unilever NV Foods, Director and other executive positions (including a number of Unilever major operating companies and divisions in the USA, Indonesia and Portugal), having joined the Unilever Group in 1973.

7 **Baroness Kingsmill CBE,** Non-Executive Director

First appointed: September 2010. Re-elected January 2011

Committee Membership: Remuneration Committee, Nominations Committee

Key areas of prior experience: government, legal and regulatory affairs

Current external appointments: Non-Executive Director, EON Supervisory Board. Senior Independent Director and Chairman of Nominations and Ethics Committees, APR Energy. Chairman, (24)7 Inc UK Advisory Board. Deputy Chairman, PricewaterhouseCoopers Advisory Board. Member of the International Advisory Board, IESE Business School. Member of the House of Lords since 2006.

Previous relevant experience: Non-Executive Director, British Airways 2004-2010. Deputy Chairman, Competition Commission 2003. Chairman, Department of Trade and Industry's Accounting for People task force 2003.

8 **James Lawrence,** Non-Executive Director

First appointed: September 2010. Re-elected January 2011

Committee Membership: Audit and Compliance Committee

Key areas of prior experience: finance, consumer, corporate governance

Current external appointments: Chairman, Rothschild North America.

Previous relevant experience: Non-Executive Director, British Airways 2006-2010. CEO, Rothschild North America and Co-Head of Global Investment Banking 2010-2012. Executive Director and Chief Financial Officer, Unilever 2007-2010. Vice Chairman, Chief Financial Officer and Head of International, General Mills 1998-2007. Executive Vice President and Chief Financial Officer, Northwest Airlines 1996-1998. Executive Vice President and other executive positions, Pepsi-Cola 1992-1996. Chairman and Co-Founder, LEK Consulting 1983-1992. Partner, Bain & Company 1977-1983.

9 **José Pedro Pérez-Llorca,** Non-Executive Director

First appointed: September 2010. Re-elected January 2011

Key areas of prior experience: diplomacy, legal services, government affairs

Current external appointments: Founding Partner, Pérez-Llorca law firm. International arbitrator. Chairman, Board of Trustees of the Prado Museum.

Previous relevant experience: Chairman, AEG Ibérica 1983-1991. Chairman, Urquijo Leasing 1983-1990. Non-Executive Director, Telefónica 1996-2001. Member, Governing Council for the Madrid Stock Exchange 1986-1991. Minister with cabinet rank in several departments, including Foreign Affairs 1979-1983. He was one of the founding members of the UCD party and President of the Parliamentary Group of the Centrist Parliamentary Group in the Congress of Deputies. He is one of the seven framers of the current Spanish Constitution. Chairman, INVEX 1974-1977. He is a career diplomat and congressional attorney.

10 **Kieran Poynter,** Non-Executive Director

First appointed: September 2010. Re-elected January 2011

Committee Membership: Audit and Compliance Committee, Safety Committee

Key areas of prior experience: professional services, finance services

Current external appointments: Chairman, F&C Asset Management PLC. Chairman, Nomura International PLC. Non-Executive Director and Chairman of the Audit Committee, British American Tobacco.

Previous relevant experience: Member, Advisory Committee for the Chancellor of the Exchequer on the competitiveness of the UK financial services sector 2009-2010. Member, President's committee of the CBI 2000-2008. Chairman and Senior Partner, PricewaterhouseCoopers 2000-2008. Managing Partner, PricewaterhouseCoopers 1998-2000 and other executive positions at PricewaterhouseCoopers 1982-1998. He joined PricewaterhouseCoopers in 1971.

11 **Dame Marjorie Scardino,** Non-Executive Director

First appointed: December 2013

Committee Membership: Remuneration Committee

Key areas of prior experience: communications and media, legal services

Current external appointments: Member, Charitable Boards including The MacArthur Foundation, Oxfam, and Carter Center. Member, Board of the Royal College of Art. Member, Advisory council of the Massachusetts Institute of Technology Media Lab. Board member, Bridge Schools (Kenya).

Previous relevant experience: Chief Executive Officer, Pearson 1997- 2012. Chief Executive Officer, The Economist Group from 1993-1996. President, The Economist Group US 1985-1993. Lawyer practising in the US 1975-1985.

12 **Alberto Terol Esteban,** Non-Executive Director

First appointed: June 2013. Re-elected June 2013

Committee Membership: Remuneration Committee, Audit and Compliance Committee

Key areas of prior experience: finance, professional services, information technology

Current external appointments: Non-Executive Director, Indra. Non-Executive Director, OHL. Non-Executive Director, AKTUA. Executive Chairman, various family-owned companies (Palacio de los Ávila y Tiedra, S.L; Inmobiliaria la Fuente de San Esteban, S.L.; Inversiones Hoteleras Canarias, S.L.; and Inversiones Turísticas Playa Blanca, S.L.).

Previous relevant experience: Member, Global Executive Committee Deloitte 2007-2009. Managing Partner, EMEA Deloitte 2007-2009. Managing Partner, Global Tax & Legal Deloitte 2007-2009. Member, Global Management Committee Deloitte 2003-2007. Managing Partner, Latin America Deloitte 2003-2007. Managing Partner, Integration Andersen Deloitte 2002–2003, Managing Partner, Europe Arthur Andersen 2001-2002). Managing Partner, Global Tax & Legal Arthur Andersen 1997-2001. Managing Partner, Garrigues 1997-2000.

MANAGEMENT COMMITTEE

The day-to-day management of the IAG Group is carried out by the IAG Management Committee led by the Group Chief Executive Officer Willie Walsh. The Management Committee consists of the Chief Executive Officers of British Airways, Iberia and Vueling and other members of senior management. The Committee is responsible for the overall direction and strategy of the Group, the delivery of synergies and co-ordination of central functions. In January 2014 Steve Gunning, Chief Executive officer of IAG Cargo, was appointed to the Management Committee. Steve brings with him a wealth of senior management and leadership experience in both the finance and airline industries.

1 **Keith Williams,** Chairman and Chief Executive Officer of British Airways

Appointed January 2011

Keith 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 a non-executive board member and chair of the audit committee for Transport for London. He was also recently appointed as a Non-Executive board member of John Lewis.

2 **Luis Gallego Martín,** Chairman and Chief Executive Officer of Iberia

Appointed March 2013

Luis became Chairman and Chief Executive Officer of Iberia in January 2014, after becoming Chief Executive Officer of the airline in March 2013. Since his appointment, Luis has been working to implement a Transformation Plan to restore the profitability and ensure the future viability of the Spanish airline, as well as to improve Iberia's efficiency and customer service.

Previously he launched Iberia Express, where he was Chief Executive from January 2012. The carrier has become one of the most efficient and punctual airlines in Europe since. Luis was Chief Operating Officer at Vueling from 2009, when the airline merged with Clickair. At Vueling, he was responsible for flight operations, training, quality and safety, maintenance and ground handling operations with a fleet of 47 aircraft and more than 1,600 employees.

From 2006 to 2009 Luis was one of the founders of Clickair, the low cost airline. Until its merger with Vueling, Clickair was the fastest growing European airline. Between 1997 and 2006, he held various positions at the regional Spanish carrier Air Nostrum. He started his career at BDE, an engineering and services company.

3 **Alex Cruz,** Chief Executive Officer of Vueling

Appointed April 2013
In 2006 he founded Clickair. As CEO, Alex drove the airline's fast European growth, culminating in the 2009 merger with Vueling, turning the new Vueling into one of the most profitable airlines in Europe.

From 2000 to 2006, he was a partner at Arthur D. Little and later in Accenture as its head of aviation. As a consultant, Alex has directed projects with airlines and travel industry companies around the world. Alex began his professional career at American Airlines working in Dallas improving their ground operations at its hub airports. The last five years of his 10-year AMR career were in London, delivering solutions to airlines within The Sabre Group.

Alex is from Bilbao, Spain, has a BS (Central Michigan), MSc degree (Ohio State) in industrial engineering, and a graduate Business Management and Administration degree from the Cox School of Business in Dallas.

4 **Steve Gunning,** Chief Executive Officer of IAG Cargo

Appointed January 2014
Steve Gunning became IAG Cargo's Chief Executive in January 2014.

Previous to this he was IAG Cargo's Managing Director, where he aligned and oversaw the merger of British Airways World Cargo, Iberia Cargo and bmi Cargo, as well as the strategic direction of the new brand. Steve has also been the Chairman of the IATA Cargo Committee since 2012.

Steve joined British Airways in 1998 and ahead of becoming managing director of British Airways World Cargo in 2007 he held the roles of finance director and head of internal control for British Airways. Prior to joining British Airways, Steve was a senior manager at PriceWaterhouseCoopers where he qualified as a chartered accountant and worked in both the UK and US offices.

Steve has a master's degree in Engineering & Management, from the University of Birmingham.

5 **Robert Boyle,** Director of Strategy

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

Robert joined British Airways in 1993 and has worked in a variety of roles including Commercial Director, Director of Planning and Director of Strategy and Business Units.

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

6 **Ignacio de Torres Zabala,** Director of Global Services

Appointed January 2011
Ignacio joined from Iberia where he was Director of Finance and Administration from 2009. He was previously Director of Finance for thirteen years. Ignacio designed and implemented Iberia's new fleet financing programme and was heavily involved in the key financial decisions and acquisitions made by the airline as well as the merger with British Airways. He has held different board positions at Iberia's affiliates.

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

7 **Julia Simpson,** Chief of Staff

Appointed January 2011
Julia is responsible for global communications, government relations and executive administration and business services. 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. She held a number of key communication positions in government and the public sector, including: assistant chief executive at the London Borough of Camden; and head of communications at the Communication Workers Union. She started her career as a journalist. She is a graduate of Warwick University in Spanish and European Studies. She is on the Boards of British Airways and Iberia.

8 **Chris Haynes,** General Counsel

Appointed January 2011
Chris is responsible for the Group's legal and associated compliance activity. He was previously the senior commercial lawyer at British Airways and head of its mergers and acquisitions team, including during the merger between British Airways and Iberia.

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

Willie Walsh, Chief Executive Officer

For biography see page 34.

Enrique Dupuy de Lôme Chávarri, Chief Financial Officer

For biography see page 34.

CORPORATE GOVERNANCE

UK Corporate Governance Code Compliance

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

This Corporate Governance section (the UK Corporate Governance Report), together with the Spanish Annual Corporate Governance Report, includes an explanation regarding the Company's application of the main principles of the UK Corporate Governance Code and the Spanish Unified Good Governance Code.

During the year the Company did not comply with the following provisions of the UK Corporate Governance Code:

(i) The service contract for Antonio Vázquez does not comply with the recommendation that notice periods should be set at one year or less so as to limit any payment on exit. The terms of Antonio Vázquez's service contract as Executive Chairman of Iberia were considered at the time of the merger between British Airways and Iberia, and it was determined that an entitlement to lump sum retirement benefits in excess of one year's salary should be carried over into his IAG service contract. It was thought necessary to continue the Iberia benefits in order to retain this key Director and, as such, complying with the UK Corporate Governance Code's principle of only offering a remuneration package sufficient to retain this Director. Details can be found in the Directors' Remuneration Report.

(ii) At the time of the merger, transitional arrangements were agreed to ensure that the company had continuity of leadership in the Group's early days. These provide that the Directors in office at that time should resign and stand for re-election by shareholders in accordance with an agreed calendar, providing for a phased rotation of all Directors between 2013 and 2015. If re-elected, Directors were to serve for a three-year term which is the period of office established in the by-laws of the company.

- However, following the recommendation of the Nominations Committee, the Board has reconsidered the existing arrangements and has decided that, starting this year, all Directors should stand for re-election annually at each Annual Shareholders' Meeting. Consequently, the relevant resolutions will be submitted to the Annual Shareholders' Meeting to be held in 2014, including a proposal to amend the Company's by-laws to reduce Directors' terms of office to one year. This will bring IAG into line with best practice as set out in the UK Corporate Governance Code.

The Company complies with the provisions of the Spanish Unified Good Governance Code, with the exceptions described in the Spanish Corporate Governance Report. This report is included from pages 162 to 228.

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

The Board

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

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

All Directors are involved in, and responsible for, the development of the Group's strategy. The Non–Executive Directors review the performance of the Group with the Executive Directors on a regular basis. During the year the Board set aside a two-day meeting to consider the Group's strategy in more detail. The Board has created advisory committees to assist it with certain of its functions, as detailed within this Report. The Board of the Group physically met eleven times during the reporting period to consider all matters relating to the overall control, business performance and strategy of the Group.

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 the Board Secretary, he ensures that Directors receive accurate, timely and clear information.

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

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

Papers for Board and Committee meetings are typically distributed in the week prior to the relevant meeting. All Board members have access to the Board Secretary and the Group General Counsel for any further information they require. If any of the Non-Executive Directors has any concerns about the running of the Group, they can discuss these concerns with one of the Executive Directors, the Group General Counsel 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.

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

During the year a tailored refresher programme for Directors has been in operation and a number of sessions have been carried out in relation to issues such as bribery and corruption compliance and Spanish and UK listing rules and corporate governance codes development.

Also during the year a number of new Directors joined the Board and they have all been given fully tailored induction programmes which are in the course of being completed.

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

An additional meeting of Non-Executive Directors, led by the Deputy Chairman and Senior Independent Director, took place without the Chairman being present. The performance of the Chairman was evaluated.

Board Committees

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

Meetings attended by each Director of the Board of Directors and the Committees 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	**11**	**7**	**8**	**7**	**2**
Antonio Vázquez	11	–	–	–	2
Sir Martin Broughton	10	–	–	–	2
Willie Walsh	11	–	–	–	2
César Alierta Izuel	6	–	3	4	–
Patrick Cescau	10	7	–	–	–
Enrique Dupuy de Lôme Chávarri[1]	2	–	–	–	–
José Manuel Fernández Norniella[2]	6	–	3	3	–
Luis Gallego Martín[3]	6	–	–	–	–
Baroness Kingsmill	10	–	7	7	–
Manuel Lagares Gómez-Abascal[4]	7	–	–	–	–
James Lawrence	11	7	–	–	–
José Pedro Pérez-Llorca[9]	8	–	–	–	–
Kieran Poynter	10	7	–	–	2
Rafael Sánchez-Lozano Turmo[5]	3	–	–	–	–
Dame Marjorie Scardino[6]	–	–	–	–	–
John Snow[7]	7	–	5	5	–
Alberto Terol Esteban[8]	4	3	–	–	–
Keith Williams	11	–	–	–	–

1 Enrique Dupuy de Lôme Chávarri was appointed as Director of the Company on September 26, 2013.
2 José Manuel Fernández Norniella resigned on June 20, 2013.
3 Luis Gallego Martín was appointed as Director of the Company on March 27, 2013.
4 Manuel Lagares Gómez-Abascal resigned on July 3, 2013.
5 Rafael Sánchez-Lozano Turmo resigned on March 27, 2013.
6 Dame Marjorie Scardino was appointed as Director of the Company on December 19, 2013.
7 John Snow resigned on December 19, 2013.
8 Alberto Terol Esteban was appointed a Director of the Company on June 20, 2013.
9 José Pedro Pérez-Llorca resigned as member of the Audit and Compliance Committee on February 25, 2013.

Board performance evaluation

The IAG Board is, in many respects, a young Board, put in place in 2010 to lead and support the newly created Group and its business model. The first three years of IAG as a company, and of its Board, have been focused on the key strategic issues facing the Group, extracting the synergies generated under the IAG umbrella, while developing its own culture as a new company and Board. After these first three years, and following careful consideration, the Board has decided to implement a number of significant corporate governance changes. This was also deemed the ideal time to carry out an external evaluation of the Board's effectiveness to provide meaningful insight into the Board's functioning, building on what has been done to further develop its role and performance for the future.

This independent Board effectiveness review was conducted by Boardroom Review Limited. Boardroom Review does not have any other connection with the Group and is considered independent with no actual or perceived conflict of interest. The evaluation comprised in-depth one-to-one interviews with Board members, the General Counsel of the Company and the Company Secretary, attendance at Board and Committees meetings, and a review of Board and Committee papers. Among other areas, the evaluation covered key aspects of Board effectiveness such as the Board environment (culture, dynamics, composition and tenure), the Board's input into strategy discussions, risk and control and performance management, and the workload of the Board (the use of time and process).

The report highlighted a number of key strengths including: a robust Board composition which combines a diversity of perspective and experience, strong leaderships of both Chairman and Chief Executive Officer in their respective roles, and a strong Audit and Compliance Committee.

As mentioned above, the review was conducted in a period of significant transformation of the Board, which explains that a number of findings in the report were already addressed, or were in the course of being addressed, at the time the review was presented to the Board. The progress already made includes the strengthening of the Board's profile, a number of governance changes to help define the Board's role and increase its contribution, and putting in place relevant cross-Committee membership.

The results of the evaluation were presented to, and discussed by, the Board as a whole and feedback was also given on an individual basis. The Board and the Committees have continued this discussion and a series of actions have been agreed; mainly referring to:

- planning the longer-term succession of Board and Committee members, including the Chairman, the Deputy Chairman and the Chief Executive Officer;
- refocusing and reorganising the Board agenda to further improve the use of Board's time, mainly by:
  - scheduling more regular executive presentations from the Operating Companies;
  - increasing strategic discussions across the year;
  - providing a more holistic approach to risk dialogue; and
  - increasing Board involvement in senior executive development and succession planning.

  The Chief Executive Officer will lead the necessary arrangements as regards key executive positions, focusing on leadership development, performance management and succession planning, to be subsequently reviewed in detail by the Board.

The Board and the Committees have already started to make progress against the agreed actions and a review of the process has been scheduled for later in 2014.

Board diversity

The IAG Board diversity policy approved on September 27, 2012 remains in force. This policy recognises the value of appointing as Board members individual Directors who bring a variety of diverse opinions, perspectives, skills, experiences, backgrounds and orientations to its discussions and its decision-making processes.

It is believed that debate at Board meetings is more open, balanced and wide ranging if a significant degree of diversity can be achieved amongst its members. Healthy discussion involving a wide range of views, the Board believes, ultimately brings about better Board decisions.

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

The Board's policy is to consider candidates from a wide variety of backgrounds with the assistance of the Nominations Committee and, as appropriate, of external advisers and search firms, without discrimination based on gender, race, colour, age, social class, beliefs, religion, sexual orientation, disability or other factors.

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

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

Within this framework, the Board appointed Dame Marjorie Scardino as a Non-Executive Director on December 19, 2013. Pursuant to the Board's desire to increase further the overall number of female directors before 2015, María Fernanda Mejía was appointed to the Board on February 27, 2014.

The Board monitors diversity within the Group and also reports on its own diversity.

Directors' conflict of interests

Directors must disclose to the Board any situation of direct or indirect conflict that they may have with the interests of the Company. In the event of conflict, the affected Directors must abstain from participating in the transaction referred to by the conflict. 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.

Share issues, buy-backs and treasury shares

The Ordinary General Shareholders' Meeting held on June 20, 2013 authorised the Board, with the express power of substitution, for a term ending at the end of the 2014 ordinary Shareholders' Meeting (or, if earlier, fifteen months from June 20, 2013), to:

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

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

(iii) exclude preemptive rights in connection with the capital increases and the issuances of convertible or exchangeable securities that the Board may approve under the previous authorities for the purposes of allotting ordinary shares or convertible or exchangeable securities in connection with a rights issue or in any other circumstances for the purposes of allotting ordinary shares or convertible or exchangeable securities subject to an aggregate maximum nominal amount of the ordinary shares so allotted or that may be allotted on conversion or exchange of such securities of five per cent of the aggregate nominal amount of the Company's issued ordinary share capital as at June 20, 2013.

(iv) carry out the acquisition of its own shares directly by the Company or indirectly through its subsidiaries, subject to the following conditions: (a) the maximum aggregate number of ordinary shares which is authorised to be purchased shall be the lower of the maximum amount permitted by the law and such number as represents 10 per cent of the aggregate nominal amount of the Company's issued ordinary share capital on June 20, 2013, date of passing the resolution; (b) the minimum price which may be paid for an ordinary share is zero; (c) the maximum price which may be paid for an ordinary share is the highest of: (i) an amount equal to 5 per cent above the average of the middle market quotations for the ordinary shares as taken from the relevant stock exchange for the five business days immediately preceding the day on which that ordinary share is contracted to be purchased; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out at the relevant time; in each case, exclusive of expenses. The authorisation is granted for a term ending at the end of the 2014 ordinary Shareholders' Meeting (or, if earlier, fifteen months from June 20, 2013). The shares acquired pursuant to this authorisation may be delivered directly to the employees or Directors of the Company or its subsidiaries or as a result of the exercise of option rights held thereby.

Under the above-mentioned authority, the Company purchased 9,000,000 shares with a nominal value of €0.50. All the shares purchased will be used to satisfy awards under the IAG Share Plans. For further details see note 31 of the financial statements.

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.

Corporate governance continued

Capital structure and shareholder rights

The share capital of the Company amounts to 1,020,039,261.50 euros (2012: 927,684,778.50 euros), divided into 2,040,078,523 ordinary shares (2012: 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.

As of December 31, 2013 the Company owns 9,000,000 shares as treasury shares.

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 By-laws.

The Company has a Sponsored Level 1 American Depositary Receipt (ADR) facility that trades on the over-the-counter market in the US. Each ADR is equivalent to five ordinary shares and each ADR holder is entitled to the financial rights attaching to such shares, although the ADR depositary, Deutsche Bank, is the registered holder. As at December 31, 2013 the equivalent of 25.7 million shares was held in ADR form (2012: 17.1 million IAG shares).

In August 2013 the Company's subsidiary British Airways Plc announced it had exercised its option to redeem all of its outstanding £350,000,000 5.80 per cent convertible bonds due 2014 (the "Bonds"), giving bondholders the option to exercise their right to convert their Bonds into ordinary shares of IAG. As a result of this, 184,708,966 new ordinary shares were issued.

Date of change	Share capital (euros)	Number of shares	Number of voting rights
August 27, 2013	951,746,945.00	1,903,493,890	1,903,493,890
September 3, 2013	973,572,869.00	1,947,145,738	1,947,145,738
September 10, 2013	982,037,682.50	1,964,075,365	1,964,075,365
September 17, 2013	997,963,605.00	1,995,927,210	1,995,927,210
September 24, 2013	1,004,588,736.00	2,009,177,472	2,009,177,472
October 1, 2013	1,020,039,261.50	2,040,078,523	2,040,078,523

The significant shareholders of the Company at December 31, 2013 were:

Name of Shareholder	Number of direct shares	Number of indirect shares	Total shares	Percentage of capital
Europacific Growth Fund	107,329,400	–	107,329,400	5.261%
BlackRock Inc	–	91,539,438	91,539,438	4.487%
Templeton Global Advisors Limited	–	92,969,270	92,969,270	4.557%
Legal & General Investment Management Limited	54,407,837	11,611,554	66,019,391	3.236%
Lansdowne Partners Limited	–	23,548,644	23,548,644	1.154%
Capital Research and Management Company	–	102,997,951	102,997,951	5.049%
FIL Limited	–	20,405,169	20,405,169	1.000%

These shareholdings were held through:

Name of direct holder	Number of direct shares	Percentage of capital
Collective investment institutions managed by Templeton Global Advisors Limited	92,969,270	4,557%
Black Rock Investment Management (UK) Ltd.	91,539,438	4,487%
Legal & General (Unit Trust Managers) Limited	11,611,554	0.569%
Collective investment institutions managed by Capital Research and Management Company	102,997,951	5.049%
Collective investment institutions managed by FIL Limited	20,405,169	1.000%
Lansdowne Developed Markets Master Fund Ltd	23,548,644	1.154%

The following notifications have been received by the Company since December 31, 2013: On January 9, 2014 FIL notified the Company that their shareholding had fallen below 1 per cent and on January 29, 2014 Templeton Global Advisors Limited notified the Company that their shareholding had fallen below 5 per cent.

Disclosure obligations

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

In accordance with Article 7.2 b) of the Company's By-laws, 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 capital stock, or of the voting rights corresponding thereto, expressly indicating the nationality of the transferor and/or the transferee obliged to notify, 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 By-laws, the Company may require any shareholder or any other person with a confirmed or apparent interest in shares of the Company to disclose to the Company in writing such information as the Company shall require relating to the beneficial ownership of or any interest in the shares in question, as lies within the knowledge of such shareholder or other person, including any information that the Company deems necessary or desirable in order to determine the nationality of the holders of said shares or other person with an interest in the Company's shares or whether it is necessary to take steps in order to protect the operating rights of the Company or its operating affiliates.

In the event of the breach of these obligations by a shareholder or any other person with a confirmed or apparent interest in the Company's shares, the Board may suspend at any time the voting or other political rights of the relevant person. If the shares with respect to which the aforementioned obligations have been breached represent at least 0.25 per cent of the Company's capital stock 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 By-laws, including the determination of a maximum number of shares that may be held by non-EU shareholders provided that such maximum may not be lower than 40 per cent of the Company's share capital.

At December 31, 2013, 31 per cent of the ordinary shares of the Company were held by non-EU shareholders (2012: 20 per cent).

The Board may also (i) agree on the suspension of voting and other political rights of the holder of the relevant shares, and (ii) request that the holders dispose of the corresponding shares so that no non-EU person may directly or indirectly own such shares or have an interest in the same. If such transfer is not performed on the terms provided for in the Company's By-laws, 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.

Corporate governance continued

Waiver of dividends
The British Airways Plc Employee Benefits Trustee (Jersey) Limited, which holds IAG shares for the purpose of satisfying awards and options granted to employees under the British Airways share plans, the mechanism for awarding shares prior to the merger, has waived its rights to dividends. The Trustee of British Airways Plc Employee Benefits Trust (Jersey)Limited does not exercise its vote on the shares that British Airways Plc Employee Benefits Trust (Jersey) Limited holds of IAG. At December 31, 2013 there were 1,789,652 IAG shares held by British Airways Plc Employee Benefits Trust (Jersey) Limited.

Relations with shareholders
The Company has established regular contact with its major institutional shareholders. Regular shareholder meetings were held with Executive Directors, the Chairman of the Board and with the investor relations team during 2013.

The Company undertook investor roadshows, investor conferences and company presentations. During February 2013, the Chairman of the Board consulted with major institutional shareholders on a range of topics.

The annual Capital Markets day took place on November 15, 2013 with six Non–Executive Directors in attendance, giving major shareholders and investors the opportunity to discuss corporate governance matters with members of the Board.

The Board has regular updates on shareholder views from the Executive Directors and Group Head of Investor Relations.

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

Impact of change of control
In takeover bids, or public tender offers, certain licences and authorisations, top management contracts and some supplier or financial agreements would, as the case may be, require an amendment. The following significant agreements contain provisions entitling the counterparties to exercise the right to terminate 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 and Finnair;
- All of the Company's share schemes, with the exception of the Performance Share Plan, which is subject to the satisfaction of any performance conditions at that time;
- Certain codeshare agreements;
- **one**world membership agreements;
- Certain contracts to sell Avios points;
- Global distribution system contract with Amadeus IT Holding, S.A. for the marketing of Iberia flights;
- The Joint Business with Japan Airlines;
- The Terminal 7 lease at JFK Airport; and
- Certain exchange and interest rate hedging contracts.

Merger assurances
As part of the merger agreement, the Company, British Airways and Iberia gave certain assurances to protect the specific interests of British Airways and Iberia and their respective stakeholders (Assurances) (Registration Document page 127 on the IAG website). The observance and enforcement of those Assurances is carried out via the mechanisms that have been put in place for this purpose and that are described in the Registration Document on pages 129 and 130. Any disputes relating to the Assurances are determined by an Assurance Committee. No matters were referred to the Assurance Committee during 2013.

Post balance sheet events
No material adjusting post balance sheet events occurred after December 31, 2013.

Board of Directors
As set out in the Company's By-laws the Board of Directors shall comprise a minimum of nine and a maximum of 14 members.

The Board Secretary is Álvaro López Jorrín Hernández, partner of the Spanish law firm J&A Garrigues, S.L.P. and the Deputy Secretary is Lucila Rodriguez.

As of December 31, 2013 the Board composition was:

Name of Board Member	Position	Nature[1]
Antonio Vázquez Romero	Chairman	Other External[2]
Sir Martin Broughton	Deputy Chairman	External Independent and Senior Independent Director
Willie Walsh	Chief Executive Officer	Executive
César Alierta Izuel	Director	External Independent
Patrick Cescau	Director	External Independent
Enrique Dupuy de Lôme Chávarri	Director	Executive
Luis Gallego Martín	Director	Executive
Baroness Kingsmill	Director	External Independent
James Lawrence	Director	External Independent
José Pedro Pérez-Llorca	Director	External Independent
Kieran Poynter	Director	External Independent
Dame Marjorie Scardino	Director	External Independent
Alberto Terol Esteban	Director	External Independent
Keith Williams	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 Chairman of Iberia.

Internal control

The Directors are responsible for maintaining, and for reviewing the effectiveness of, the Company's system of internal control including internal financial control. This is designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorised use or disposition and the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. This process is in accordance with Guidance to Directors. 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 during the year under review or up until the date of approval of this report.

REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE

Dear Shareholder
The Audit and Compliance Committee continues to promote strong internal control, risk management and compliance practices throughout the Group. We have continued to target emerging risk areas for deep dives, reviewing how data protection practices are evolving in response to Big Data risks and how commercial policy has been adapted in response to currency devaluation risk in South America. The Committee has ensured that we have structures that place responsibility for compliance in the business whilst providing an unfettered reporting channel to the Committee if those charged with governance have any concerns.

I am pleased to welcome Alberto Terol Esteban to the Committee. Through his wide financial, commercial and Spanish corporate governance experience he is already contributing to our high level of challenge and support to the management team. I would like to thank José Pedro Pérez-Llorca, who stepped down from the Committee in February 2013, for his contribution to establishing the Committee.

Kieran Poynter
Audit and Compliance Committee Chairman

Committee membership and meetings

The Audit and Compliance Committee comprises four members: Kieran Poynter (Chairman), James Lawrence, Patrick Cescau and Alberto Terol Esteban. Kieran Poynter and Alberto Terol Esteban have 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 the Group Consolidation Senior Manager plus representatives from the external auditors.

The Committee met seven times during 2013. Each year the Committee also holds closed meetings and meets 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; and
- 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 addition, the independent Board effectiveness review highlighted the strength of the Committee. The Committee also updated its terms of reference to reflect how the Committee supports the Board in its assessment that the Annual Report and Accounts are fair, balanced and understandable.

The full terms of reference of the Committee are shown in section C.2.4 of the Spanish Corporate Governance Report within this document.

Other items reviewed

Anti-bribery compliance

The Committee reviewed anti-bribery compliance across the Group. This included detailed reports from the leaders of the British Airways and Iberia anti-bribery compliance programmes that explained how standards cascaded down the Group, training programmes and defence procedures employed to detect bribery. Whilst concluding that the individual programmes were fit for purpose the Committee endorsed a recommendation from the IAG Management Committee to establish an Anti-Bribery Compliance Steering Group. The steering group, which is chaired by the IAG General Counsel, monitors the status of compliance programmes, ensures co-ordination across the Group and provides a clear conduit for independently routing concerns to the Committee.

Competition law compliance

Competition Law is addressed through comprehensive training programmes in the IAG parent company, British Airways and Iberia together with the availability of timely legal advice to projects or individual staff. The Committee reviewed the Group competition law risk map and ensured that training was appropriately comprehensive and targeted. Priorities for 2014 were reviewed and the Committee endorsed the IAG Head of Competition Law's programme for integrating Vueling competition compliance.

Venezuela commercial policy
Risk around the devaluation of foreign currencies came to a head in Venezuela during the year as repatriation of Iberia's surplus funds through the Venezuela Central Bank slowed and expectations of a substantial devaluation grew. The Committee reviewed Iberia's experiences in previous devaluations, when airlines had a substantial amount of their trapped cash protected from the devaluation, and the development of the commercial policy around selling tickets.

Accounting issues
Throughout the year, the Committee considers the implications of new accounting standards, reviews complex accounting transactions and considers the key estimates and judgements used in the preparation of the Group financial statements. In 2013, these included the acquisition of Vueling, the US medical benefits provision, Avios revenue recognition and the recoverability of the Iberia deferred tax asset.

With the assistance of independent experts management concluded, and the Committee reviewed, the purchase price allocation related to the Group's acquisition of Vueling. The more subjective areas included assumptions regarding discount rates, brand and landing rights.

During the year British Airways reduced its US retirees' medical benefits in line with national trends. This resulted in a €170 million decrease in the provision and a credit benefit to the income statement. The Committee reviewed the accounting treatment including its classification as an exceptional item within the income statement.

As a result of the availability of better information, the Group changed its estimate for the recognition of deferred revenue associated with the redemption of Avios. Revenue was previously recognised when a ticket was booked with Avios, but is now recognised when the passenger has flown. This change was reviewed by the Committee and resulted in a one-time charge to the income statement during the year of €106 million.

Over the past two years Iberia deferred tax credits associated with the losses incurred have not been recognised as an asset on the Group's balance sheet. Although these tax losses can be used to offset against future taxable profits they do expire. Due to the risk associated with the execution of the Iberia transformation, management has concluded and the Committee agreed that it would wait until Iberia is profitable before recognising these assets.

IT Risk management & cyber security
2014 will see increased IT risk as new operations systems controlling the worldwide check-in and aircraft loading processes at British Airways are implemented. The Committee reviewed programme risk and governance around the IT projects.

IAG participated in the UK Cyber Governance Health Check. The Committee reviewed the results and supported the proposed governance structure which sees cyber security considered at the IAG Management Committee and the Audit and Compliance Committee. The IAG Chief Information Officer also reported on a more detailed cyber security diagnostic review assessing risk appetite and current level of IT security controls across the British Airways, Iberia and Avios IT environments. These environments are seeing increasing levels of integration and, as a result, cyber security risk will now be considered at the IAG IT Governance Board as well as within the individual airlines.

Data protection
As technology develops we will be able to deliver a more personalised service to our customers through developing a better understanding of them as individuals. Alongside this enhanced service comes the risk that customers find the personalisation intrusive or feel that the data we hold or the use of that data is inappropriate. The Committee reviewed compliance with current data protection laws and how our approach is moving from regulatory compliance towards one that is rooted in brand values and will also be compliant with the expected new European Union Data Protection regulation.

Financial risk management
The Group's Financial Risk policy governs fuel and currency hedging activity. The November committee carried out a review of the policy, including a more detailed examination of the US dollar exposure resulting from the capital expenditure programme. US dollar lease and debt payments are included in the exposure covered by our two-year operational hedging programme. The Group chooses not to take longer-term cover as it potentially distorts our balance sheet through large long-term mark to market positions, it is bank credit line intensive and the short-term capital expenditure cash flow exposure is generally eliminated through arranging US dollar financing for aircraft purchases. The Committee also regularly reviewed the British Airways, Iberia and Vueling fuel hedging positions. Further information on the policy is included in note 27 to the financial statements.

Internal audit effectiveness
A third-party Internal Audit Effectiveness Review was carried out in line with the Institute of Internal Auditors' ("IIA") recommendation. The review included benchmarking; comprehensive methodology, working paper and reporting reviews; and interviews with eight Directors and compliance executives in IAG and the three airlines. The review concluded that the department complies with IIA standards, is delivering a good quality internal audit service and is regarded as an objective assurance function which is fully independent of management.

Report of the Audit and Compliance Committee continued

External audit

The Committee adopted a policy of having a single external auditor for the Group in line with the CNMV's good governance code. The Group external auditors, Ernst & Young, were appointed as auditors of Iberia for 2013 and we expect to appoint them as auditors of Vueling in 2014. The Committee works closely with Ernst & Young, with their UK and Spain-based partners attending all seven meetings during the year. The Committee reviewed the engagement letter, fees and the audit plan which included Ernst & Young's assessment of risk areas within the financial statements. Audit results were reviewed during four meetings; one for the half year; one "early warning" review of findings from interim audits; and two meetings on year end audit matters.

In assessing the effectiveness and independence of the external auditors, the Committee considered relevant professional and regulatory requirements and the relationship with the auditors as a whole. The Committee monitored the auditors' compliance with relevant regulatory, ethical and professional guidance on the rotation of partners, and assessed their qualifications, expertise, resources and the effectiveness of the audit process, including a report from the external auditor on its own internal quality procedures. Having reviewed Ernst & Young's performance during 2013, the Committee decided it was in the Group's and shareholders' interests not to tender the audit in 2014 and recommends their re-appointment.

The Group audit was last tendered on the incorporation of the IAG parent company in 2010. Unless new requirements are introduced, in the meantime, the Company intends to comply with the UK Corporate Governance Code requirement to tender the external audit at least every ten years and the transition arrangements that would require the audit to be tendered for the year 2020 at the latest.

Non-audit services provided by the external auditors are subject to a Board approved policy that prohibits certain categories of work and controls the overall level of expenditure. The Committee reviews the nature and volume of projects undertaken by the external auditors on a quarterly basis and the Committee Chairman pre-approves projects over €100,000 or of an unusual nature. The overall volume of work is addressed by a target maximum of €1,500,000 recognising that large projects where Ernst & Young are uniquely placed to carry out the work may be considered in addition to the target maximum. During 2013 Ernst & Young were retained as reporting accountants on the Class 1 Circular relating to fleet acquisition. Ernst & Young were uniquely well placed to carry out this work given their position as external auditors. The Committee agreed to their appointment and the fees of €954,000 were not counted against the target. Details of the fees paid to the external auditors during the year can be found in note 8 to the financial statements.

Whistleblowing

The Committee reviewed procedures whereby staff across the Group can raise confidential concerns regarding accounting, internal control, auditing and other matters. Third-party providers are used to provide whistleblowing channels so that all staff across the Group can report concerns to senior management in their company. The Committee also reviewed the volume and nature of cases reported and noted that the there were no significant financial or compliance issues raised.

REPORT OF THE NOMINATIONS COMMITTEE

Dear Shareholder
The Nominations Committee made significant progress during 2013.

During the year the focus and attention of the Committee was on the Group's corporate governance structure and the composition of the Board and its key Committees. Diversity, both in terms of gender and in the broader sense, has been a fundamental element when planning the long-term composition of the Board.

We reviewed the arrangements put in place at the time of the merger for the timing of Directors' elections by shareholders. A recommendation was made to the Board that all Directors should stand for election by shareholders annually and this has now been approved. This brings us in line with best practice amongst major companies listed in the UK. The new arrangements will be set out in the notice of the forthcoming Ordinary Shareholders' Meeting.

During the year we put in place a comprehensive induction programme for newly appointed Directors, as well as a tailored programme of continuing professional development. This will continue to be developed.

Antonio Vázquez
Nominations Committee Chairman

Committee membership
The composition, competencies and operating rules of the Nominations Committee are regulated by Article 24 of the IAG Board of Directors' Regulations. A copy of these Regulations can be found under Bylaws and Regulations in the Corporate Governance section of the Investor Relations pages of the Company's website. These Regulations state that the Nominations Committee shall be made up of no less than three and no more than five Non-Executive Directors appointed by the Board, with the dedication, capacity and experience necessary to carry out its function. At least two of the members of the Nominations Committee must be independent Directors.

From January 1 to June 20, 2013 the Committee comprised 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 were considered to be independent Non-Executive Directors. Due to the resignation of José Manuel Fernández Norniella on June 20, 2013, the Committee operated with these three members until December 19, 2013, when John Snow presented his resignation. From December 19, 2013, the members of the Committee are Antonio Vázquez (Chairman), Sir Martin Broughton, César Alierta Izuel and Baroness Kingsmill. All members are Non-Executive Directors, and three of them are considered independent. In line with UK best practices, the Chairman of the Board also chairs this Committee.

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

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

Meetings and attendance
During 2013 the Nominations Committee met eight times and Directors' attendance at these meetings is shown on page 39.

Report of the Nominations Committee continued

The Committee's activities during the year

The Committee dealt with the following significant issues during 2013:

- Succession planning for Directors and senior management teams at Group head office and Group operating company;
- Appointments process and subsequent appointments of Non-Executive and Executive Directors;
- Evaluation of the Committee's performance;
- Performance evaluation of the Chairman and the Chief Executive Officer;
- Induction and refresher programmes for Non-Executive Directors;
- Update on diversity trends and Group diversity reporting;
- Review of the Committee's annual reports;
- Annual review of the functions of each Director; and
- Review of key senior executives on Group subsidiary Boards.

Election of Directors

During the year, the Nominations Committee reviewed the existing arrangements relating to the election of Directors by shareholders over a phased period of time (as set out in the Company's Registration Document approved on October 26, 2010 relating to the merger). It subsequently recommended to the Board that, notwithstanding these existing arrangements, all Directors should stand for election annually at each Ordinary Shareholders' Meeting. The Committee's recommendation was accepted and the relevant resolutions will be incorporated into the Shareholders' Notice of Meeting to be held in 2014. This now brings the Company into line with best practice as set out in the UK Corporate Governance Code.

The Committee has put in place appropriate procedures for the refreshment of its Non-Executive Directors and for bringing in new Non-Executive Directors to ensure that the Board as a whole continues to have relevant skills, knowledge and experience.

Board and Board Committee composition

There were a number of changes in the composition of the IAG Board during 2013 and the Committee reviewed these changes before making recommendations to the IAG Board. These were:

- On March 27, Rafael Sánchez-Lozano stood down as a Director following his resignation as Chief Executive Officer of Iberia and Luis Gallego Martin was appointed in his place.
- On June 20, José Manuel Fernández Norniella resigned as a Director and Alberto Terol Esteban was appointed in his place.
- On July 3, Manuel Lagares Gómez-Abascal resigned as a Director following Bankia's sale of its investment in IAG.
- On September 26, Enrique Dupuy de Lôme Chávarri was appointed as an Executive Director, having served as IAG's Chief Financial Officer since January 2011.
- On December 19, John Snow resigned as a Director and Dame Marjorie Scardino was appointed in his place.

On November 7, 2013, the Board approved a number of changes to the governance of the Group which took effect on January 1, 2014. In accordance with this, on January 1, 2014 Luis Gallego stood down as an Executive Director on the IAG Board to focus on his role as Executive Chairman of Iberia. At the same time, Keith Williams stood down as an Executive Director on the IAG Board to focus on his role as Executive Chairman of British Airways.

In addition to these changes to the IAG Board, Antonio Vázquez and Sir Martin Broughton stood down as Non-Executive Chairmen of Iberia and British Airways respectively, but each continued in their current roles on the IAG Board.

In parallel to these changes and following the resignation of Fernando Vives as Secretary of the IAG Board with effect from November 2013, Álvaro López-Jorrin was appointed to that role and Lucila Rodríguez was appointed as Deputy Secretary.

The Committee's performance was evaluated externally this year as part of the Board evaluation process. The Committee was found to be operating effectively. Further details concerning the evaluation are set out on page 32. As a result of this process, a number of priorities were agreed for 2014 that would fall under the scope of the Committee. Regarding future Board composition, incorporating consumer facing experience would be a priority. In addition to this, the Committee will devote particular attention this year to both Board and management succession planning and, within this context, to executive leadership development.

Appointments and diversity

During 2013 the Nominations Committee has kept under review the number of women on the Board, at senior management levels and amongst the Group's worldwide employees. It has also reviewed the IAG Board diversity policy and its appointments process to ensure that these are still fit for purpose. The Board diversity policy is described on the Company's website and further information concerning diversity within the IAG Group is available on page 33.

The Committee may from time to time use the services of external advisers to facilitate a search for potential candidates. In particular, the Committee has a policy of only engaging external search consultants who have signed up to the UK Voluntary Code of Conduct for Executive

Search Firms, most recently published in April 2013, or an international equivalent. The Committee will consider candidates from a wide range of backgrounds with due regard to diversity, including gender as well as other forms of diversity. Selection will be based on merit and against objective criteria, as well as taking account of the candidates' ability to commit sufficient time to the role.

The flow chart below describes the approach taken to appoint the most recent Non-Executive Director, María Fernanda Mejía. Spencer Stuart, which has no other connections with IAG, was engaged to carry out the search.

Following the relevant search process, the Committee was pleased to recommend to the Board the appointment of María Fernanda Mejía as Non-Executive Director. María Fernanda Mejía has a strong international consumer facing background. She was appointed to the Board on February 27, 2014. In accordance with IAG Policy, these last Board appointments represent significant progress in improving gender diversity.

Succession planning

The Committee has continued to review senior management succession plans to ensure that there is a robust talent pipeline for future Board, Management Committee and other senior management positions across the Group. This will be reviewed on a routine basis each year but will be the subject of particular focus to the Committee in 2014.

Following the recommendations of the 2013 independent Board evaluation the Chief Executive Officer will lead the necessary arrangements for succession planning of key executive positions, to be subsequently reviewed in detail by the Committee and the Board.

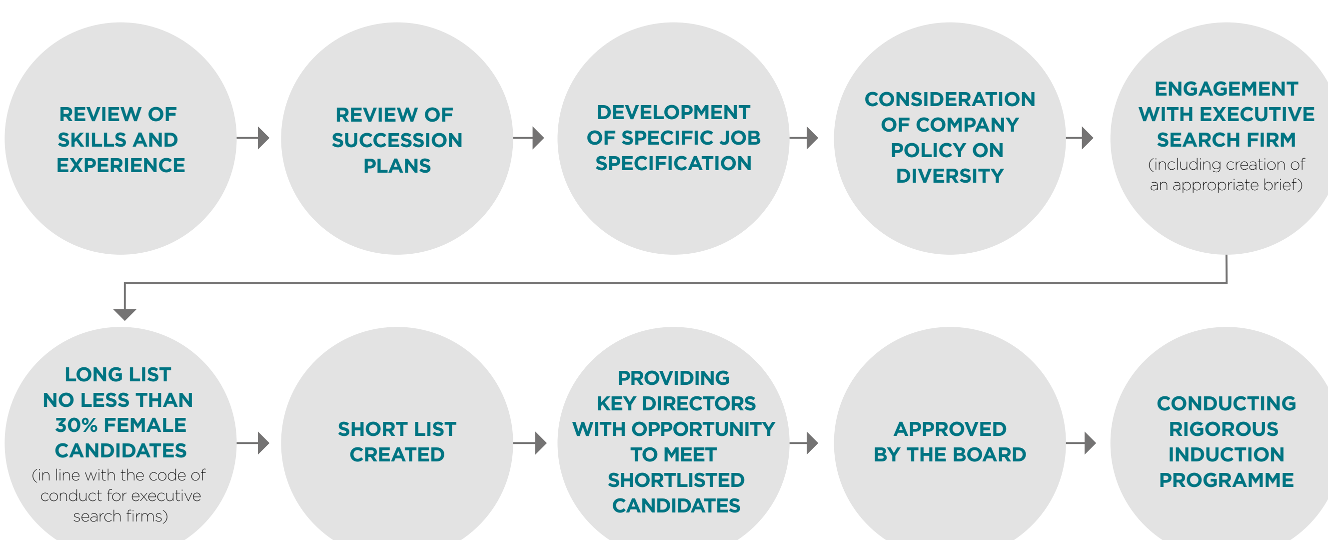
Induction of Directors

During the year under review the Nominations Committee refreshed the existing arrangements for induction programmes for newly appointed Directors. Under these new arrangements, each newly appointed Director is provided with a flow of information about the Group and its operations, delivered in various forms over a period of several months following their appointment. These induction programmes are comprehensive and tailored to the individual, taking into account their existing skills, knowledge and experience. New Non-Executive Directors meet with the Group head of investor relations to gain an understanding of shareholder expectations and are invited to attend key corporate events, such as Capital Markets day. The programmes also include meetings with key personnel at IAG, visits to major sites – for example; head office locations of the Group's operating companies.

Activity following the end of the year under review

Since December 31, 2013, the Committee has met on two further occasions. Agenda items at these meetings included:

- Director annual elections;
- Board induction programme;
- Annual review of functions (category) of each Director;
- Performance of the Chairman and the Chief Executive Officer; and
- Update on search and appointment process of Non-Executive Director.



REPORT OF THE SAFETY COMMITTEE

Dear Shareholder
I am pleased to present this report on the work of the Safety Committee during 2013.

As reported previously, the Committee considers matters relating to the operational safety of IAG and its subsidiaries. It also monitors the systems and resources dedicated to safety activities across the Group. The Committee reports relevant information to the IAG Board, and follows up on any safety-related measures as determined by the IAG Board. In addition, the Committee reviews safety information received on IAG, its subsidiaries, other Group companies such as OpenSkies, Iberia Express and Cityflyer and global franchise activities, including Comair and Sunair.

Willie Walsh
Safety Committee Chairman

Committee membership

Composition, competencies and operating rules of the Committee are regulated by article 26 of the IAG Board of Directors' Regulations. The Committee shall be made up of no less than three and no more than five Directors appointed by the IAG Board, with the dedication, capacity and experience necessary to carry out their function.

The Committee comprises four members: Willie Walsh (Chairman), Sir Martin Broughton, Kieran Poynter and Antonio Vázquez. In addition, senior managers with responsibility for safety are invited to attend Committee meetings as and when necessary. For 2013, Roberto Alcover Diaz from Iberia, Captain Tim Steeds from British Airways and Fernando Val Martinez from Vueling attended.

The Safety Committee's responsibilities

Responsibility for safety matters belongs to the Group's subsidiary airlines. IAG, through its Safety Committee, will have an overall view of each airline's safety performance and of any important issues that may affect the industry. The Safety Committee also has visibility on the Group's airlines resources and procedures. Responsibility for performing detailed and technical assessments remains with each operating airline.

The Committee's duties include:

- To receive significant safety information about IAG's subsidiaries, 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 its subsidiaries;
- Inform the Board as appropriate (recognising that responsibility for resources and safety matters falls to each subsidiary);
- To follow up on any safety-related matters as determined by the Board; and
- To carry out any other safety-related functions assigned by the Board.

The Committee's activities during the year

During 2013, the Committee held two meetings, attended by all four Committee members. The key topics discussed included relevant industry issues and the safety review reports of British Airways, Iberia and Vueling.

REPORT OF THE REMUNERATION COMMITTEE

Dear Shareholder,
I am pleased to set out the Remuneration Report of IAG for 2013. The year in question has seen solid performance for the Company against difficult trading conditions, building on the progress made in the first two years in ensuring a robust governance regime is in place. The executive remuneration framework aims to underpin our business objectives and financial targets, and the remuneration policy is designed to deliver total remuneration which is market competitive with increased emphasis placed on pay for performance. The 2013 annual incentive plan had financial measures based on the performance of British Airways and Iberia and there has been a turnaround in the financial performance of both airlines.

I was delighted to see a 98 per cent vote in favour of the 2012 Remuneration Report at our annual Shareholders Meeting. I saw this as a great vote of confidence in the fact that the Group has a robust remuneration policy. Once again, the Chief Executive of IAG has continued to lead by example in proposing restraint in executive packages, and proposing robust stretching targets for all IAG incentive plans.

This year has seen further changes to disclosure requirements, and the Remuneration Committee will continue to watch developments very closely and act accordingly.

Overall summary of 2013
Difficult global trading conditions continued in 2013, but there has been some evidence of a turnaround in the fortunes of British Airways and Iberia. The financial targets for 2013 set at the beginning of the year were stretching, and as such the two-thirds portion of IAG's annual incentive plan linked to financial performance will pay out only 68 per cent of the maximum opportunity for 2013. However, the Group has achieved significant success in continuing to find synergies, and has outperformed against the third-year cost and revenue synergy targets. These successes will be rewarded through the personal one-third portion of the annual incentive award. The Committee will continue to ensure that executive remuneration underpins the business strategy and is confident that the overall reward framework for 2014 and beyond is in the best interests of shareholders.

Members during the reporting period
During the reporting period and until December 19, 2013, the members of the Committee have been César Alierta Izuel (Chairman), Baroness Kingsmill, José Manuel Fernández Norniella (resigned June 20, 2013) and John Snow (resigned December 19, 2013). From December 19, 2013 the members of the Committee are Baroness Kingsmill (Chair), Dame Marjorie Scardino and Alberto Terol Esteban.

Committee and advisers
During the year, there was an external evaluation of the Committee's performance which concluded that it is operating effectively. As a result of this process, and considering the Committee's new configuration, a number of actions were agreed in relation to its work and organisation. The Committee's terms of reference are available on the Company's website.

Beyond Executive Directors, the Committee has a responsibility to oversee the general application of the remuneration policy to the IAG Management Committee, and also has oversight of remuneration matters of senior managers generally across the Group.

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

In March, the remuneration arrangements for the exit of the Chief Executive of Iberia and the remuneration arrangements for his replacement were reviewed and recommended to the Board. In September, the overall remuneration strategy for 2014 was reviewed, taking into account the latest developments in the marketplace. Throughout the year, the Committee has kept a close watch on the proposed changes to disclosure requirements, and has approved the revised format of this report to reflect the requirements.

Summary of substantial changes to the 2013 report
The UK Government Department of Business, Innovation and Skills (BIS) has finalised its proposed changes to the layout and information required in Director Remuneration Reports, and this legislation became effective in 2013. It is the Company's intention to comply voluntarily with all reporting aspects of the UK legislation. This report is split into two sections. The first section gives the detail of the implementation of the 2013 remuneration policy including the total remuneration (a "single figure") of the Directors and variable pay awarded in the year. It also gives details of how 2014 remuneration policy will be implemented. The second section is the Company's proposed future remuneration policy, including the objectives and operation of each element of pay, the context in which decisions for this policy were made, and service contract details.

As this report does not comply with the Spanish format, a Directors' Remuneration Report following Circular 4/2013 of the Spanish Comisión Nacional del Mercado de Valores has also been prepared and will be available on the Company's website. It is mandatory to put to an advisory vote the Spanish format at the 2014 annual Shareholders' Meeting.

Approved by the Board and signed on its behalf by

Baroness Kingsmill
Chair of the Remuneration Committee

Report of the Remuneration Committee continued

Introduction

This report covers the period from January 1, 2013 to December 31, 2013 and provides details of the Remuneration Committee and remuneration policy for the Company.

The Remuneration Committee takes responsibility for the preparation of the report, which is approved by the Board.

This Report has been prepared in accordance with the UK Listing Rules and, although there is no requirement as a Spanish company, the requirements of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) (amendment) Regulations 2013.

Annual Report on Implementation of 2013 Remuneration Policy

Remuneration Committee membership and activity

According to article 25 of the Board regulations the Remuneration Committee shall be made up of no less than three and no more than five Non-Executive Directors appointed by the Board, with the dedication, capacity and experience necessary to carry out their function. At least three of the members of the Remuneration Committee shall be Independent Directors. Up to December, 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. Currently, all members of the Committee are considered Independent Non-Executive Directors and none of the members has any personal financial interest, other than as shareholders; in the matters to be decided.

The Terms of Reference of the Committee can be viewed on the Company's website.

Key topics covered at Remuneration Committee meetings

In 2013, the Committee met seven times. The following matters, among others were discussed:

Meeting	Agenda items discussed
January	• Review and approval of IAG Management Committee members' basic salaries • Approval of 2013 Annual Incentive Plan • Approval of 2013 Performance Share Plan • Review of Directors' share ownership status • Review of 2012 Directors' Remuneration Report
February	• Update on the outcome of the Committee performance evaluation, and approval of action plan • Approval of 2012 Annual Incentive Plan payments to IAG Management Committee members • Final review of 2012 Directors' Remuneration Report • Review of Remuneration Committee Planner for 2013 • Approval of financial performance measures for the 2013 Annual Incentive Plan
March	• Terms and conditions of the termination of the employment contract of the Chief Executive Officer of Iberia
May	• Review of supporting material for the annual Shareholders' Meeting • Vesting outcome of the British Airways Performance Share Plan 2010 award • Review of the proposal to be submitted to the annual Shareholders' Meeting in relation to the allotment of shares for the IAG share plans
September	• Review of Remuneration Committee Planner for 2014 and 2015 • Update from the 2013 annual Shareholders' Meeting with voting outcomes • UK and Spain executive remuneration market update • Update on proposed structure for the 2013 Directors' Remuneration Report • Update on performance to date for the 2013 Annual Incentive Plan and the 2011, 2012, and 2013 Performance Share Plans • Approval of strategy for 2014 remuneration (salary, annual incentive and long term incentive)
November	• Review of 2013 Directors' Remuneration Report • Review of the proposed changes to the IAG share plans rules
December	• Approval of 2014 Annual Incentive Plan • Approval of 2014 Performance Share Plan

Advisers to the Committee

The Committee has recently appointed external advisers. The Company obtained high-level headline remuneration survey data from a variety of sources. During the year, the Group Chief Executive Officer provided regular briefings to the Committee apart from when his own remuneration was being discussed.

Comparison of overall performance and pay

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

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

Single total figure of remuneration for each Director

Subject to full audit

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

Director (€'000)	Base salary	Taxable benefits	Pension related benefits	Termination Payment	Annual incentive award	Long-term incentive vesting	**Total for year to December 31, 2013**
Executive Directors							
Willie Walsh (GBP)	825	47	206		1,299	2,594	**4,971**
Willie Walsh (euro)	973	55	243		1,532	3,058	**5,861**
Keith Williams (GBP)[1]	650	41	163		670	1,485	**3,009**
Keith Williams (euro)	766	48	192		790	1,751	**3,547**
Rafael Sánchez-Lozano Turmo[2]	115	6	40	1,642		1,027	**2,830**
Luis Gallego Martín[2]	412	8	121		–		**541**
Enrique Dupuy de Lôme Chávarri (GBP)[1, 3]	132	5	33		117	905	**1,192**
Enrique Dupuy de Lôme Chávarri (euro)	156	6	39		138	1,067	**1,406**
Total	2,422	123	635	1,642	2,460	6,903	**14,185**

1 Willie Walsh, Keith Williams, and Enrique Dupuy de Lôme Chávarri's remuneration is paid in sterling and expressed in euro for information purposes only.
2 Rafael Sánchez-Lozano Turmo took a voluntary 25 per cent reduction in his basic salary/fee, effective December 1, 2012. His non-reduced salary was used to calculate his pension employer contribution, his annual incentive award, and his PSP award. Luis Gallego Martín took a voluntary reduction of approximately 15 per cent in his basic salary, effective March 27, 2013. His non-reduced salary was used to calculate his pension employer contribution, his annual incentive award, and his PSP award.
3 Enrique Dupuy de Lôme Chávarri's remuneration covers only the period since he became Executive Director.

Director (€'000)	Base salary	Taxable benefits	Pension related benefits	Annual incentive award	Long-term incentive vesting	Total for year to December 31, 2012
Executive Directors						
Willie Walsh (GBP)	825	52	206	–	–	1,083
Willie Walsh (euro)	1,015	65	254	–	–	1,334
Keith Williams (GBP)	650	48	176	488	–	1,362
Keith Williams (euro)	800	59	216	600	–	1,675
Rafael Sánchez-Lozano Turmo	619	28	171	–	–	818
Luis Gallego Martín						
Enrique Dupuy de Lôme Chávarri (GBP)						
Enrique Dupuy de Lôme Chávarri (euro)						
Aggregate emoluments (€'000)	2,434	152	641	600	–	3,827

Report of the Remuneration Committee continued

Director (€'000)	Fees	Taxable benefits	Total for year to December 31, 2013	Fees	Taxable benefits	Total for year to December 31, 2012
Non-Executive Directors						
Antonio Vázquez[1]	484	12	496	632	53	685
Sir Martin Broughton[2]	350	88	438	350	80	430
Baroness Kingsmill	120	19	139	120	19	139
James Lawrence	120	13	133	120	9	129
César Alierta Izuel	140	–	140	140	1	141
Patrick Cescau	120	19	139	120	19	139
José Manuel Fernández Norniella	57	–	57	120	4	124
José Pedro Pérez-Llorca	120	1	121	120	11	131
Kieran Poynter	140	21	161	140	15	155
Rodrigo de Rato y Figaredo[3]	–	–	–	70	25	95
John Snow	135	–	135	140	–	140
Manuel Lagares Gómez-Abascal	62	3	65	50	1	51
Alberto Terol Esteban	64	28	92	–	–	–
Dame Marjorie Scardino	4	–	4	–	–	–
Aggregate emoluments (€'000)	1,916	204	2,120	2,122	237	2,359

1 Antonio Vázquez took a voluntary 25 per cent reduction in his basic salary/fee, effective December 1, 2012.
2 From January 1, 2014, the Non-Executive Deputy Chairman will no longer have the service of a car, fuel card and chauffeur.
3 Fees corresponding to Rodrigo de Rato y Figaredo were paid to Bankia, S. A.

Additional requirements in respect of the single total figure table.

Each Director has confirmed in writing that they have not received any other items in the nature of remuneration.
Rafael Sánchez-Lozano Turmo resigned on March 27, 2013.
Luis Gallego Martin became an Executive Director on March 27, 2013.
Enrique Dupuy de Lôme Chávarri became an Executive Director on September 26, 2013.
Keith Williams stood down from the Board (but remains an Executive at the Company) effective January 1, 2014.
Luis Gallego Martin stood down from the Board (but remains an Executive at the Company) effective January 1, 2014.
José Manuel Fernández Norniella left the Board on June 20, 2013.
Manuel Lagares Gómez-Abascal left the Board on July 3, 2013.
Alberto Terol Esteban joined the Board as a Non-Executive Director on June 20, 2013.
John Snow resigned on December 19, 2013.
Dame Marjorie Scardino joined the Board as a Non-Executive Director on December 19, 2013.

Base salary: Salary paid in year for Executive Directors.
Fees: fees paid in year for Non-Executive Directors.
Benefits: Taxable benefits including personal travel and where applicable, a company car, fuel and private health insurance
Pension, or cash in lieu: Employer contribution to pension scheme, and/or cash in lieu of pension.
Annual Incentive Award – cash award: Annual incentive award cash payments for the period ended December 31, 2013 (accrued at December 31, 2013, but not paid until March 2014). The outcomes of the performance conditions which determined the award are described in the next section.
Incentive Award Deferral Plan (IADP): Half of the full annual incentive award is deferred into shares for three years. For the 2013 annual incentive plan, these will vest in April 2017.
Long Term Incentive Vesting: This relates to the 2011 PSP Awards which vests in March 2014 based on performance measured to 31 December 2013. For the purposes of this table, the award has been valued using the average share price to the three months to 31 December 2013 of 363.1 pence. 70 per cent of the value of awards vesting under the 2011 PSP cycle was the result of share price appreciation, reflecting the significant increase in shareholder value created over the period. The outcomes of the performance conditions which determined vesting are described below.

For the year to December 31, 2013, €:£ exchange rate applied is 1.1790

For the year to December 31 2012, €:£ exchange rate applied is 1.2305

Life Insurance

The Company provides life insurance for all Executive Directors. For the year to December 31, 2013 the Company paid contributions of €21,541 (2012: €21,834).

Variable pay outcomes

Subject to audit

2013 Annual Incentive Award

The targets that apply to the Annual Incentive Award are set by the Board, upon a recommendation by the Committee at the beginning of each year. These are set by reference to a number of factors including the Business Plan and for role specific objectives including synergy targets and their specific areas of responsibility. The Board retains the discretion to prevent any incentive award payments if, in its opinion, the underlying financial performance of the Company had not been satisfactory in the circumstances.

The maximum award for the Chief Executive Officer of IAG was 200 per cent of salary (100 per cent of salary for on-target performance), for the airline Chief Executive Officers 150 per cent of salary (75 per cent of salary for on-target performance), and for the Chief Financial Officer of IAG 120 per cent of salary (60 per cent of salary for on-target performance). The outcomes of the performance conditions were as follows:

Measure		Chief Executive Officer of IAG	Chief Executive Officer of British Airways	Chief Executive Officer of Iberia (Luis Gallego Martin)	Chief Financial Officer of IAG
BA Operating Profit (33 per cent)	Payout	£445,500 €525,245	£263,250 €310,372	€195,410	£42,750 €50,402
	per cent of maximum awarded	81 per cent	81 per cent	81 per cent	81 per cent
Iberia cash flow (33 per cent)	Payout	£303,875 €358,269	£179,563 €211,704	€133,289	£29,160 €34,379
	per cent of maximum awarded	55.25 per cent	55.25 per cent	55.25 per cent	55.25 per cent
Role-specific objectives (33 per cent)	Outcomes versus targets	£550,000 €648,450 Objectives based on setting the overall Group strategy, and Group financial performance including implementation of cost and revenue synergy savings across the operating companies.	£227,500 €268,223 Objectives based on BA financial performance including control of the cost base, synergy savings, customer satisfaction, and operational performance.	€241,247 Objectives based on Iberia financial performance including developing a restructuring plan to restore profitability, synergy savings, customer satisfaction, and operational performance.	£44,861 €52,891
	per cent of maximum awarded	100 per cent	70 per cent	100 per cent	85 per cent
Details of any discretion exercised					
Overall outcome		£1,299,375 €1,531,963	£670,313 €790,298	€569,947	£116,771 €137,673

Half of these amounts in the above table are payable in deferred shares in the Company vesting after three years (under the Incentive Award Deferral Plan).

Luis Gallego Martín was awarded €569,947 in variable pay by the Committee based on the financial performance of the Group and on his personal performance, however he has declined this award.

Report of the Remuneration Committee continued

BA operating profit for 2013 (one-third of the annual incentive) has resulted in 81 per cent of the maximum payout for this element of the incentive. This is between the on-target level and the stretch target level of the target range. Iberia net cash flow for the second half of 2013 (one-third of the annual incentive) has resulted in 55 per cent of the maximum payout for this element of the incentive. This is between the on-target level and the stretch target level of the target range. Overall therefore, there is a 68 per cent pay-out for the two-thirds of the annual incentive that was subject to financial performance for 2013 (2012: 35 per cent). For 2013, the one-third portion based on personal objectives, the Board has determined an outcome as above for the Chief Executive Officer of IAG based on his performance against his role-specific objectives; and the Chief Executive Officer of IAG has determined an outcome as above for the Chief Executive Officer of British Airways, the Chief Executive Officer of Iberia and the Chief Financial Officer of IAG based on their performance against their role-specific objectives.

IAG PSP Awards 2011

The IAG PSP awards granted on March 6, 2011 was tested at the end of the performance period which began in January 2011 and ended on December 31, 2013. The awards were equivalent to 200 per cent of salary for the Chief Executive Officer of IAG and 150 per cent of salary for the other Executive Directors.

30 per cent of the award was 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 was 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 outcome of the performance condition was as follows:

Measure	Threshold	Maximum	Outcome	Vesting (as per cent award granted in 2011)
TSR performance against a group of airlines[1] (70 per cent)	Median (25 per cent of award vests)	Upper quartile or above (100 per cent of award vests)	5th out of 17 airlines	100 per cent
IAG synergy € targets (30 per cent)	Achievement of year 1 synergy target of €72 million will trigger 5 per cent.		€134m	100 per cent
	Achievement of year 2 synergy target of €166 million will trigger 5 per cent.		€313m	100 per cent
	Achievement of year 3 synergy target of €279 million will trigger 5 per cent.		€460m	100 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).		€460m	100 per cent
Details of any discretion exercised				
Overall outcome				100 per cent

1 Group of airlines: Air Berlin, Air France/KLM, Air New Zealand, All Nippon Airlines, American Airlines, Cathay Pacific Airlines, Delta Airlines, easyJet, LAN, Lufthansa, Qantas Airways, Ryanair, SAS, Singapore Airlines, United Airlines, US Airways. Air Canada delisted during the performance period (24 April 2012) and was removed from the group. American Airlines was retained in the group and following its merger with US Airways, both the respective TSR figures tracked forward from the merger date in line with the TSR of the new company, American Airlines Group.

British Airways LTIP 2010

The British Airways PSP granted on September 17, 2010 was tested at the end of the performance period, which began on April 1, 2010 and ended on March 31, 2013. The awards granted in 2010 were equivalent to 150 per cent of salary for both the Chief Executive Officer of IAG (who at the time was Chief Executive Officer of British Airways) and the Chief Executive Officer of British Airways (who at the time was Chief Financial Officer of British Airways) and 100 per cent for other members of the British Airways management team. The outcome of the performance condition was as follows:

Measure	Threshold	Maximum	Outcome	Vesting (as per cent award granted in 2010)
TSR performance against a group of airlines[1] (100 per cent)	Median (25 per cent of award vests)	Upper quintile or above (100 per cent of award vests)	10th (below median)	0 per cent
Details of any discretion exercised			None	None
Overall outcome				0 per cent

1 Group of airlines: Air Berlin, Air France/KLM, Air New Zealand, All Nippon Airlines, American Airlines, Cathay Pacific Airlines, Delta Airlines, Easyjet, LAN, Lufthansa, Qantas Airways, Ryanair, SAS, Singapore Airlines, United Airlines, US Airways. Following their respective mergers, Continental Airlines and Iberia delisted during the performance period and were removed from the group. Air Canada also delisted during the performance period and was removed from the group. American Airlines delisted in 2012 following its filing for Chapter 11 bankruptcy. Consistent with the treatment of JAL in previous awards, American Airlines was retained in the group with its TSR frozen at delisting.

Scheme interests awarded during the financial year

Subject to audit

The IAG Performance Share Plan (PSP) is a discretionary plan targeted at key senior Group executives and managers who directly influence shareholder value. The Company granted an award under the PSP on March 6, 2013. The table in this section sets out the key details of the award.

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

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

Report of the Remuneration Committee continued

PSP – eligibility, metrics, and targets

Type of award	Shares	
Basis of determination of the size of award	Executives who are consistently high-performing, and/or are in key roles, and/or whom the Company wishes to retain in the long term.	
Face-value awarded (per cent of salary)	Group Chief Executive – 200 per cent	Other Executive Directors – 150 per cent
Grant price	£2.41	
Performance period	January 1, 2013 – December 31, 2015	
Performance conditions	EPS performance targets	TSR performance compared to the TSR performance of the MSCI European Transportation (large and mid cap) index
Weighting	50 per cent	50 per cent
Threshold	2015 EPS of 30 €cents 10 per cent vests	IAG's TSR performance equal to the index 25 per cent vests
Target (straight line vesting between threshold and maximum)	2015 EPS between 30 €cents and 52 €cents	IAG's TSR performance between index return and 8 per cent p.a. outperformance
Maximum	2015 EPS of 52 €cents 100 per cent vests	IAG's TSR performance exceeds index by 8 per cent p.a. 100 per cent vests

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

Total pension entitlements

Subject to Audit

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

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

Keith Williams has opted to take cash in lieu of a pension, and during the reporting period he has received £162,500.

Rafael Sanchez-Lozano Turmo was a member of the Company's pension scheme until his resignation from the Company on March 27, 2013. During the reporting period until his resignation, the Company paid contributions of €39,500. For pensionable pay purposes, Rafael's salary remained at €632,000 even after the voluntary reduction of 25 per cent, and Company contributions were calculated on that basis.

Luis Gallego Martin has opted to take cash in lieu of a pension. Since becoming an Executive Director on March 27, 2013, the Company has paid cash in lieu/contributions during the reporting period of €120,694. For pensionable pay purposes, Luis' salary remains at €632,000 even after the voluntary reduction of approximately 15 per cent, and Company contributions are calculated on that basis.

Enrique Dupuy de Lôme Chávarri is a member of the Company's pension scheme. Since he became an Executive Director on September 26, 2013, the Company has paid contributions during the reporting period of £13,195, plus cash in lieu of a pension of £19,762.

Keith Williams is a deferred member of the British Airways NAPS scheme. Keith Williams was an active member of the scheme until the date of the merger between British Airways and Iberia. The transfer value of the accrued pension at December 31, 2013 is €3,051,674 (2012:€2,821,711), and the increase in benefits during the year is €312,644 (2012: €280,022) of which, net of inflation is €NIL (2012 €156,812).

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

Payments for loss of office

Rafael Sánchez-Lozano Turmo resigned on March 27, 2013. On termination of employment he was paid €316,000 (which equated to six months' basic salary), plus a lump-sum retirement benefit of €1,168,000 as set out in the merger agreement. He has also been paid €52,667 monthly in each of October, November and December of 2013. This was subject to the Company being satisfied in its opinion that he had complied with his obligations to find alternative paid work under his termination agreement. He will also be paid €52,667 monthly in each of January, February and March of 2014, subject to the Company being satisfied in its opinion that he has complied with his obligations to find alternative paid work under his termination agreement. If he does find such work, the monthly sums due will be reduced by any earnings referable to his work in the relevant month. This will mean his total payments equal 52 weeks salary, in line with policy on exit payments. No discretion was exercised by the Board when applying the termination policy for Rafael Sánchez-Lozano Turmo. Rafael was granted good leaver status, and therefore received deferred shares from the 2011 annual incentive plan. He will receive shares from the 2011 performance share plan award if there is a positive vesting, pro-rated to take into account the proportion of the performance period that he was employed by the Company.

José Manuel Fernández Norniella left the Board on June 20, 2013. Manuel Lagares Gómez-Abascal left the Board on July 3, 2013. John Snow left the Board on December 19, 2013. As Non-Executive Directors, they were remunerated in fees only and received no exit payment.

Keith Williams stood down from the Board effective January 1, 2014. Luis Gallego Martin stood down from the Board effective January 1, 2014. As they remain Executives at the Company, there are no exit payments.

Statement of voting

The advisory vote on the 2012 Report of the Remuneration Committee at the June 2013 annual Shareholders' Meeting was as follows:

Number of votes cast	For	Against	Abstentions
1,258,961,889	1,233,416,142 (98.0 per cent)	6,215,857 (0.5 per cent)	19,329,890 (1.5 per cent)

The vote showed that there was very strong shareholder support for the Company's 2012 remuneration report, placing the Company at the top end of companies in terms of proportion of votes in favour.

Statement of Directors' Shareholding and Share Interests

Subject to Audit

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

Under the Group's shareholding guidelines, Executives are expected to build up and maintain a shareholding of 100 per cent of salary, and are expected to retain no fewer than 50 per cent of shares (net of tax) which vest from share plans until this shareholding requirement is attained. The Committee has reviewed the guidelines and notes that except for one Executive these have not yet been fulfilled. This is due to the fact that shareholding tends to be built up through the vesting of share awards, which have historically been fairly low in IAG compared to the market. Due to this, the Committee has not set a time frame over which it expects the guideline to be met. Shares which count towards the guideline include shares already held by the executive, vested and exercised shares, vested and unexercised shares, and unvested deferred annual incentive shares. The table below summarises current Executive Directors' interests.

Executive Director	Shareholding requirement	Shares owned	Shares already vested from share option plans	Shares already vested from performance share plans	Shares already vested from deferred annual incentive plans	Unvested shares from deferred annual incentive plans	Total qualifying shareholding
Willie Walsh	100 per cent of salary	22,000	–	248,571	28,344	97,921	396,836 (98 per cent of salary)
Keith Williams	100 per cent of salary	6,020	23,084	124,633	67,314	108,512	329,563 (109 per cent of salary)
Luis Gallego Martin	100 per cent of salary	100	–	–	–		100 (0 per cent of salary)
Enrique Dupuy de Lôme Chávarri	100 per cent of salary	100	–	–	–	52,739	52,839 (22 per cent of salary)

Report of the Remuneration Committee continued

Directors' interests in shares
Subject to audit

	Total shares and voting rights	Percentage of capital
Antonio Vázquez Romero	512,291	0.025
Sir Martin Broughton	174,910	0.009
Willie Walsh	298,915	0.015
Cesar Alierta Izuel	1,000,000	0.049
Patrick Cescau	–	0.000
Enrique Dupuy de Lôme Chávarri	100	0.000
Baroness Kingsmill	2,000	0.000
James Lawrence[1]	50,000	0.002
José Pedro Pérez-Llorca	408	0.000
Kieran Poynter	–	0.000
Luis Gallego Martin	100	0.000
Dame Marjorie Scardino	100	0.000
Alberto Terol Esteban	–	0.000
Keith Williams	221,051	0.011
Total	**2,259,875**	**0.111**

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

There have been no changes to the shareholdings set out above between December 31, 2013 and the date of this report.

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 annual Shareholders Meeting on June 20, 2013 the Company was given authority to allocate up to 67,500,000 shares (3.31 per cent of the share capital) in 2013, 2014 and 2015. Of this a maximum of 7,650,000 shares could be allocated to Executive Directors under all IAG share plans for awards made during 2013, 2014 and 2015. At December 31, 2013, 1.92 per cent of the share capital had been allocated under the IAG share plans.

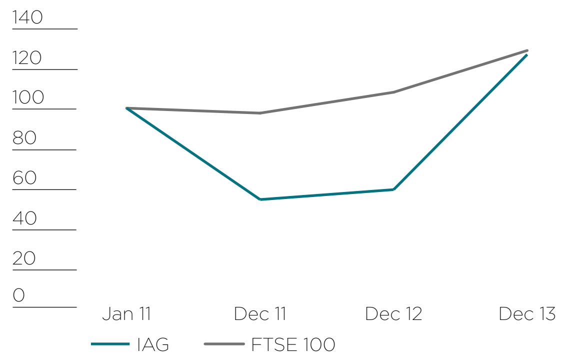
The highest and lowest closing prices of the Company's shares during the period and the share price at December 31, 2013 were:

At December 31 2013	401p
Highest in the period	402p
Lowest in the period	185p

Company performance graph and Chief Executive Officer of IAG ‘single figure’ table

The chart shows the value by December 31, 2013 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 ends. The FTSE 100 was selected because it is a broad equity index of which the Company is a constituent, and the index is widely recognised.

IAG’S TOTAL SHAREHOLDER RETURN (TSR) PERFORMANCE COMPARED TO THE FTSE 100



Source: Bloomberg

The table below shows the CEO’s ‘single total figure’ of remuneration for the past three years.

	2011	2012	2013
Chief Executive Officer of IAG – ‘total single figure’ of remuneration	£1,550,000	£1,083,000	£4,971,000
Annual incentive	The above ‘total single figure’ includes £302,000 annual incentive (18 per cent of maximum).	No annual incentive payment.	Includes annual incentive payment of £1,299,375 (78.75 per cent of maximum).
Long term incentive	The above ‘total single figure’ includes £251,594 value of long term incentives vesting (35 per cent of maximum).	Zero vesting of long term incentives.	The above ‘total single figure’ includes £2,593,569 value of long term incentives vesting (100 per cent of maximum).
Notes	The above ‘total single figure’ includes 20 days of remuneration (in January 2011) paid by British Airways.		70 per cent of the value of awards vesting under the 2011 PSP was the result of share price appreciation, reflecting the significant increase in shareholder value created over the period.

Single total figure of remuneration includes basic salary, taxable benefits, pension related benefits, annual incentive award, and long term incentive vesting.

Percentage change in remuneration of the Chief Executive Officer of IAG compared to employees

The table below shows how the remuneration of the Chief Executive Officer of IAG has changed for 2013 compared to 2012. This is then compared to a group of appropriate employees. It has been determined that the most appropriate group of employees are IAG Head Office Employees, based in London, comprising 99 employees in total.

	Chief Executive Officer of IAG	IAG Head Office employees
Basic salary	Unchanged in 2013 compared to 2012	Unchanged in 2013 compared to 2012, as a result of a pay freeze for the 2013 annual review.
Annual incentive	Increase from zero in March 2013 (covering the 2012 performance period) to £1,299,375 in March 2014 (covering the 2013 performance period)	Overall annual incentive payments increased by 50 per cent in March 2014 (covering the 2013 performance period) compared to a year earlier, as a result of increased vesting for the financial metrics.
Taxable benefits	No change in benefits policy. Actual payments decreased to £47,000 in 2013 from £52,000 in 2012.	No change in benefits policy. No change in overall costs 2013 vs. 2012.

Report of the Remuneration Committee continued

Relative importance of spend on pay

The table below shows, for 2013 and 2012, total remuneration costs and dividends for the IAG Group.

	2013	2012
Total employee costs, IAG Group	**€4,123,000,000**	€4,341,000,000
Total remuneration, Directors (including Non-Executive Directors)	**€16,305,000**	€6,186,000
Dividends	**–**	–

Implementation of remuneration policy for 2014

The Company intends to make the following changes to the overall remuneration policy for 2014 when compared to 2013.

Basic Salary

Basic salaries for Executive Directors are reviewed on January 1 each year. After careful consideration of Company affordability, the value and worth of each executive, retention risks, and the size of pay increases generally across the IAG Group for 2014 (which were approved by the Board, on the Committee's recommendation, at 3.0 per cent), the Board approved the following:

Executive Director	Basic salary review
Chief Executive Officer of IAG	£850,000 (declined an increase in January 2012, January 2013) (€1,002,150)*
Chief Financial Officer of IAG	£515,000 (€607,000) (in UK's sterling terms, an increase of 3% from 2013).

* The Chief Executive Officer has decided to give this 3% salary increase to a charity of his choice.

2014 annual incentive plan

The financial measure for 2014 (two-thirds of the annual incentive) will be IAG operating profit. This is a change from the 2013 plan, where British Airways operating profit and Iberia net cash flow were each used for one-third of the incentive. The Committee believes that IAG operating profit is the best financial measure in aligning shareholder interests with Company and individual performance. The 2013 measures were introduced as a short-term measure because IAG operating profit was felt to be too volatile to use as an incentive plan measure whilst the early days of the Iberia restructuring was taking place.

The Committee have set a stretching target range for IAG operating profit for 2014 at the threshold, on-target and maximum levels.

2014 Performance Share Plan award

The Board, on the Committee's recommendation has approved a PSP award for 2014, with a performance period of January 1, 2014 to December 31, 2016.

For 2014, the Board has approved the use of the same two performance conditions as the 2013 award, each still with a 50 per cent weighting. The first is based on IAG TSR performance relative to the MSCI European Transportation Index. This condition is considered appropriate because the companies in the index are subject to external influences impacting share price similar to those of the Group. The target range is identical to 2013, and is outlined earlier in this report.

The second performance condition is based on EPS. This condition is considered appropriate because it provides a strong measure of the underlying financial performance of the business. The Committee has agreed that the earnings per share (EPS) target range for the 2014 PSP award should be increased. This is to reflect the fact that the Company is one year further on in the recovery outlined in the Business Plan. It also reflects the continued improvement in the financial performance of the Group, and ensures that the target remains appropriately stretching. The EPS measure will be as follows:

Weighting	50 per cent
Threshold	2016 EPS of 34 €cents 10 per cent vests
Target (straight line vesting between threshold and maximum)	2016 EPS between 34 €cents and 56 €cents
Maximum	2016 EPS of 56 €cents 100 per cent vests

Directors' remuneration policy

Key elements of pay

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

Purpose and link to strategy	Operation of element of policy	Opportunity, and performance metrics
Base salary Takes account of role, skills and contribution	The positioning of base salaries is set with reference to similar roles in the benchmarking comparator group (primarily the FTSE 26 to 100 excluding financial services), as well as the individual's skills and contribution. Basic salaries will be reviewed on January 1 each year. When reviewing salaries, the Remuneration Committee will take into account the following factors: company affordability, the value and worth of the executive, retention risks, and the size of pay increases generally across the IAG Group. The Group has a focus on containing fixed costs, and therefore any pay increases in future years can be expected to be modest.	The current basic salaries and most recent salary reviews are shown in the section above on 2014 remuneration policy.
Benefits	Life insurance, personal travel and; where applicable, a company car, fuel and private health insurance.	The Company will pay contributions in relation to life insurance.
Annual incentive award Incentivises annual corporate financial performance and role specific objectives	The Board on a recommendation from the Committee sets the targets that apply to the annual incentive award. These are set by reference to a number of factors including the business plan and the key targets for the individual and their specific areas of responsibility. The Board on a recommendation from the Committee retains the discretion to prevent any incentive award payments if, in its opinion, the underlying financial performance of the Company has not been satisfactory in the circumstances.	It is intended that, for the lifetime of this policy, the maximum opportunity in the incentive plan will be unchanged from present, which is a maximum opportunity for the Chief Executive of IAG of 200 per cent of salary (50 per cent of this may be awarded for on-target performance). Performance conditions It is intended that, for the lifetime of this policy, two-thirds of the annual incentive will be subject to a financial measure, and one-third will be based on role specific objectives. The financial measure is likely to be IAG operating profit, but the Committee retains the discretion to alter this measure or the weightings of each measure if an alternative is deemed to be more appropriate.

Report of the Remuneration Committee continued

Purpose and link to strategy	Operation of element of policy	Opportunity, and performance metrics
Incentive Award Deferral Plan (IADP) Aligns the interest of Executives and shareholders and provides a retention tool	The IADP is designed to align the interest of Executives with shareholders by providing a proportion of the annual incentive in deferred shares. The shares will be subject to forfeiture if the Executive leaves during the three-year deferral period, except if the Executive is granted "good leaver" status. This is covered in the section below on exit payment policy. On vesting, Executives will receive the benefit of any dividends paid over the deferred period.	It is intended that, for the lifetime of this policy, there is no change to the current proportion of the annual incentive that is deferred into shares for three years. The current proportion is half. Performance conditions Clawback provision applies. No other performance conditions apply because it is based on performance already delivered.
Performance Share Plan (PSP) Incentivises long-term shareholder value creation. Drives and rewards delivery of sustained TSR and financial performance	The PSP is a discretionary plan and is targeted at key senior executives and managers of the Group who directly influence shareholder value. The PSP consists of an award of the Company's shares which vests subject to the achievement of pre-defined performance conditions in full or in part at the third anniversary of the date of the award. No payment is required from individuals when the shares are awarded or when they vest. The Board retains the discretion to prevent any PSP award payments if, in its opinion, the underlying financial performance of the Company had not been satisfactory in the circumstances.	For the lifetime of this policy, it is intended that the face value of awards will be 200 per cent of salary for the Chief Executive of IAG, and 120 or 150 per cent of salary for other Executive Directors. depending on the size of the role The Remuneration Committee will have the discretion to alter these percentages from time to time if deemed appropriate, but they will not be greater than 300 per cent of salary in any financial year in the lifetime of this policy, unless the Committee considers that exceptional circumstances merit a larger award. Performance conditions It is intended that any PSP award made during the lifetime of this policy will be measured over three years. The Remuneration Committee will have the discretion to alter the length of the performance period from time to time if deemed appropriate, but it will not be shorter than three years. Each year, the Board, following the advice of the Committee; will determine appropriate performance conditions, with appropriate and stretching target ranges. These will take into account market conditions and also ensure alignment with shareholder interests. At least one condition is likely to be a measure of Group share performance compared with an index of other companies that are subject to external influences impacting share price similar to those of the Group. One or more measures will provide a strong measure of the underlying financial performance of the business.

Purpose and link to strategy	Operation of element of policy	Opportunity, and performance metrics
Pension Provides post-retirement remuneration and ensures total package is competitive	The Company operates a defined contribution scheme. Executives can opt instead to receive a salary supplement in lieu of a pension. The Chief Executive of IAG and the Chief Financial Officer of IAG are members of the pension scheme.	It is intended that, for the lifetime of this policy, there is no change to the current level of employer contribution, which is 25 per cent of basic salary per annum. However, the Remuneration Committee will have the discretion to alter this percentage from time to time if market conditions dictate.
Shareholding requirements	Executives are expected to build up and maintain a shareholding of 100 per cent of basic salary, and are expected to retain no fewer than 50 per cent of shares (net of tax) which vest from share plans until this shareholding requirement is attained.	It is intended that, for the lifetime of this policy, there is no change to the current shareholding requirements. However, the Remuneration Committee will have the discretion to alter this from time to time if market conditions dictate.
NED Fees	Non-Executive Director fees will take into account external market conditions to ensure it is possible to attract and retain the necessary talent.	

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

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

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

In drafting this section of the report the Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the policy set out in this section where the terms of the payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted which may include different performance measures to those outlined in the forward-looking policy table above. The Committee may make minor amendments to the policy set out above (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

Remuneration scenarios

A significant portion of the Company's total remuneration package is variable, with emphasis placed on longer-term reward to align closely Executive Directors' and Senior Managers' interests with shareholder interests. The charts below show, for each Executive Director, the minimum remuneration receivable, the remuneration receivable if the Director performs in line with the Company's expectations, and the maximum remuneration receivable.

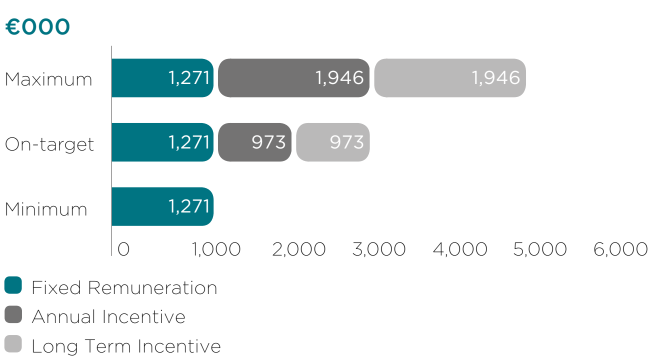
Chief Executive Officer of IAG

Fixed remuneration is basic salary (2014 level excluding charity payments of €973,000), plus taxable benefits (2013 actual of €55,000), plus pension related benefits (2013 actual of €243,000).

The annual incentive amount is zero at the minimum remuneration level, €973,000 at the on-target level (50 per cent of the maximum opportunity of 200 per cent of salary), and €1,946,000 at maximum (200 per cent of salary).

The long term incentive amount is a zero at the minimum remuneration level, €973,000 at the on-target level (50 per cent of the face value award of 200 per cent of salary), and €1,946,000 at maximum (200 per cent of salary).

All amounts are actually paid in sterling, and are shown here in euro at the £:€ exchange rate of 1.179.



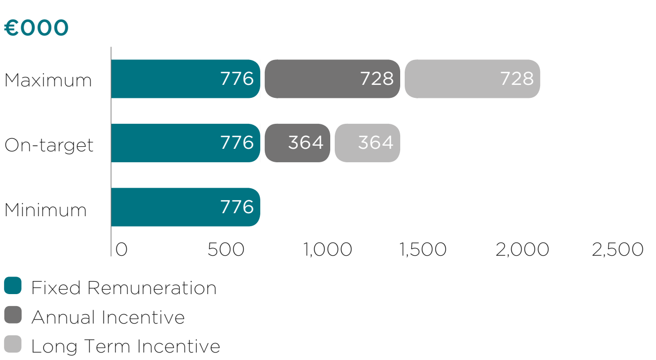
Chief Financial Officer of IAG

Fixed remuneration is basic salary (2014 level of €607,000), plus taxable benefits (2013 whole-year actual of €22,000), plus pension related benefits (2013 whole-year actual of €147,000).

The annual incentive amount is zero at the minimum remuneration level, €364,200 at the on-target level (50 per cent of the maximum opportunity of 120 per cent of salary), and €728,400 at maximum (120 per cent of salary).

The long term incentive amount is zero at the minimum remuneration level, €364,200 at the on-target level (50 per cent of the face value award of 120 per cent of salary), and €728,400 at maximum (120 per cent of salary).

All amounts are actually paid in sterling, and are shown here in euro at the £:€ exchange rate of 1.179.



Service contracts and exit payments policy

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
Enrique Dupuy de Lôme Chávarri	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 six months; the period of notice required from the Company is 12 months. Where the Company makes a payment in lieu of notice, a lump sum in lieu of the first six months, base salary is payable within 28 days of the date of termination of employment. A payment in respect of base salary for the second six month period only becomes payable if, in the Company's opinion, the Executive has taken reasonable steps to find alternative paid work and then only in six-monthly instalments. The Company may reduce the sum payable in respect of any month by any amount earned by the Executive including salary and benefits referable to work done in that month.

In the event of an Executive's redundancy, compensation, whether in respect of a statutory redundancy payment or a payment in lieu of notice or damages for loss of office is capped at an amount equal to 12 months base salary.

The Company will honour the contractual entitlements of a terminated Director; however, 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 UK or Spain as applicable.

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

Non-Executive Directors including the Chairman and Deputy Chairman do not have service contracts. Their appointment is subject to the Board regulations. The dates of the Chairman's and current Non-Executive Directors' appointments are as follows:

Non-Executive Director	Date of the first appointment	Date of last re-election	Date of expiration of period – Shareholders Meeting to be held in:
Antonio Vázquez Romero	May 25, 2010	January 21, 2011	2015
Sir Martin Broughton	May 25, 2010	June 20, 2013	2016
César Alierta Izuel	September 27, 2010	January 21, 2011	2014
Patrick Cescau	September 27, 2010	June 20, 2013	2016
Baroness Kingsmill	September 27, 2010	January 21, 2011	2014
James Lawrence	September 27, 2010	January 21, 2011	2015
José Pedro Pérez-Llorca	September 27, 2010	January 21, 2011	2014
Kieran Poynter	September 27, 2010	January 21, 2011	2014
Dame Marjorie Scardino	December 19, 2013	–	2014
Alberto Terol Esteban	June 20, 2013	–	2016

Report of the Remuneration Committee continued

External Non-Executive Directorship

The Company's consent is required before an Executive Director can accept an external Non-Executive Directors appointment and permission is only given in appropriate circumstances.

During the reporting period in question the following Director held a directorship from which he retained a fee:

Director	Company	Fee
Keith Williams	Transport for London	£24,000
Enrique Dupuy de Lôme Chávarri	Amadeus	€106,250

Willie Walsh is a Non-Executive Director of the Irish National Treasury Management Agency, for which he has declined a fee.

Non-Executive Directors

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

Role	Fee
Non-Executive Chairman	€645,000, voluntarily reduced by 25% to €483,750 with effect from December 1, 2012 until further notice
Non-Executive Deputy Chairman	€350,000
Other Non-Executive Directors	€120,000
Committee Chairmanship	€20,000

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

(Note: this does not form part of the Company's policy). In relation to the Chairman, as set out in the British Airways and Iberia 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.

Approach to recruitment remuneration
The remuneration for new Executive Directors will be in line with the policy current for Executive Directors, as expressed in the policy table earlier in this report. On appointment, new Executive Directors will have their basic salary set by taking into account the external market, their peers, and their level of experience. New Executive Directors will participate in the annual and long-term incentives on the same basis as existing Directors.

The Remuneration Committee retains the discretion to deviate from the stated remuneration policy as necessary to ensure the hiring of candidates of the appropriate calibre with due regard to the best interests of shareholders. For example, to facilitate recruitment, the Committee may make one-off awards to “buy out” variable pay or contractual rights forfeited on leaving a previous employer. Generally, such buy-out awards will be made on a comparable basis to those forfeited giving due regard to all relevant factors (including value, performance targets, the likelihood of those targets being met and vesting periods). In such circumstances, shareholders will be provided with full details and rationale in the next published remuneration report.

Excluding the value of any potential buy-out, the maximum value of variable remuneration offered at recruitment to any new executive director will be 500% of base salary, in line with the stated policy.

Consideration of employment conditions elsewhere in the Group
The pay of employees across all companies in the IAG Group is taken into account when considering the level of any increase in the annual salary review of Directors. This takes place each year at the January Committee meeting.

When considering the PSP awards for Executive Directors, the Committee takes note of the eligibility criteria and the potential size of awards for Executives below Director level in all companies within IAG.

Consideration of shareholder views
The Committee discusses at its September meeting each year the issues and outcomes from the annual Shareholders Meeting held in June, and determines any appropriate action required as a result.

It is intended that the Company will engage in an extensive investor consultation exercise whenever there are any significant changes to remuneration policy. The last time that this occurred was in early 2012, when meetings were held with major investors in advance of changes to the metrics in the long-term incentive plan.

Supplementary information

Directors' share options

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

Director	Date of grant	Number of options at January 1, 2013	Exercise price	Options exercised during the year	Options lapsed during the year	Exercisable from	Expiry date	Number of options at December 31, 2013
Executive Director								
Keith Williams	June 25, 2003	114,649	157p	114,649	–	June 25, 2006	June 25, 2013	–
	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		**257,056**		**114,649**	**–**			**142,407**

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

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.

Director	Plan	Date of award	Number of awards at January 1, 2013	Awards vested during the year	Awards lapsed during the year	Awards made during the year	Number of awards at December 31, 2013
Executive Directors							
Willie Walsh	BA PSP	September 17, 2010	469,148	–	469,148	–	–
	IAG PSP 2011	March 31, 2011	714,285	–	–	–	714,285
	IAG PSP 2012	August 3, 2012	1,024,844	–	–	–	1,024,844
	IAG PSP 2013	March 6, 2013	–	–	–	684,647	684,647
Total			**2,208,277**	**–**	**469,148**	**684,647**	**2,423,776**
Enrique Dupuy de Lôme Chávarri	IAG PSP 2011	March 31, 2011	249,350	–	–	–	249,350
	IAG PSP 2012	August 3, 2012	372,670	–	–	–	372,670
	IAG PSP 2013	March 6, 2013	–	–	–	248,963	248,963
Total			**622,020**	**–**	**–**	**248,963**	**870,983**
Luis Gallego Martin	IAG PSP 2013	May 23, 2013	–	–	–	273,198	273,198
	IAG PSP 2012	October 8, 2013[1]	–	–	–	102,741	102,741
Total			**–**	**–**	**–**	**375,939**	**375,939**
Keith Williams	LTIP	June 9, 2003	46,631	46,631[2]	–	–	–
	LTIP	June 16, 2004	22,141	–	–	–	22,141
	BA PSP	September 17, 2010	280,851	–	280,851	–	–
	IAG PSP 2011	March 31, 2011	409,090	–	–	–	409,090
	IAG PSP 2012	August 3, 2012	605,590	–	–	–	605,590
	IAG PSP 2013	March 6, 2013	–	–	–	404,564	404,564
Total			**1,364,303**	**46,631**	**280,851**	**404,564**	**1,441,385**

1 The award for 2012 PSP was made in October 8, 2013 pending formalisation after his appointment as an Executive within the IAG Group.
2 Option surrendered and settled in cash.

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. In relation to the award dated June 9, 2003, the option was granted in June 2006 and was over 46,631 shares. The exercise price was nil. The share price on the date of surrender was 257 pence. The money value of the surrender was the share price on the date of surrender multiplied by the number of shares in respect of the award vested, as shown in the table above.

The performance conditions for the PSP awards above will be tested to determine the level of vesting. For the 2011 PSP award, 70 per cent of the award is subject to TSR performance measured against a comparator group of airlines, and 30 per cent is subject to performance against IAG synergy targets. For the 2012 and 2013 PSP awards, 50 per cent of the award is subject to TSR performance measured against an index, and 50 per cent is subject to EPS performance. In each case, the performance conditions will be measured over a single three-year performance period, which began for the 2011 award on the merger effective date, for the 2012 and 2013 awards on January 1, 2012, and 2013 respectively.

The award granted on September 17, 2010 was tested at the end of the performance period, and as a result none of the shares vested.

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2013 PSP award was 241 pence, and 282 pence for the award for the Chief Executive of Iberia, whose award date of May 23, 2013 was later than the other Executive Directors (2012: 161 pence; 2011: 231 pence; 2010: 235 pence).

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2010 IADP award was 235 pence. The share price on the date of the vesting of this award (June 30, 2013) was 265.2 pence. The money value of the shares received was the share price on the date of the vesting multiplied by the number of shares in respect of the award vested, as shown in the table above.

Incentive Award Deferral Plan

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

Director	Relates to incentive award earned in respect of performance	Date of award	Number of awards at January 1, 2013	Awards released during the year	Date of vesting	Awards lapsing during the year	Awards made during the year	Number of awards at December 31, 2013
Executive Directors								
Willie Walsh	2010	March 31, 2011	90,984	–	March 31, 2014	–	–	90,984
	2011	August 3, 2012	93,773	–	August 3, 2015	–	–	93,773
Total			**184,757**	**–**		**–**	**–**	**184,757**
Enrique Dupuy de Lôme Chávarri	2011	August 3, 2012	37,267	–	August 3, 2015	–	–	37,267
	2012	March 6, 2013	–	–	March 6, 2016	–	62,241	62,241
Total			**37,267**	**–**		**–**	**62,241**	**99,508**
Keith Williams	2009/10	September 17, 2010	70,999	70,999	June 30, 2013	–	–	0
	2010	March 31, 2011	44,904	–	March 31, 2014	–	–	44,904
	2011	August 3, 2012	58,695	–	August 3, 2015	–	–	58,695
	2012	March 6, 2013	–	–	March 6, 2016	–	101,141	101,141
Total			**174,598**	**70,999**		**–**	**101,141**	**204,740**

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

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2013 IADP award was 241 pence (2012: 161 pence; 2011: 231 pence; 2010: 235 pence).

FINANCIAL OVERVIEW

We are strengthening our airlines and performance.

In this section

OPERATING AND MARKET ENVIRONMENT
The economic landscape

Summary
Global GDP estimates for 2013 fell over the course of the year with a slowdown in the rate of growth in some emerging economies, although many developed economies performed relatively well including the UK. The IMF expects growth in the global economy to accelerate in 2014, forecasting GDP growth of 3.7 per cent in 2014 compared to 3.0 per cent in 2013.

UK
Confidence in the UK economy re-emerged in the second half of the year, despite austerity cuts aimed at reducing the size of the fiscal deficit, and an increase in the trade deficit despite weaker sterling, The GDP growth picture improved through the year with growth of 0.7 per cent in the first quarter; growth of 2 per cent in the second quarter, growth of 1.9 per cent for the third quarter, and growth of 2.8 per cent for the last quarter. Construction output rose in the second half of the year, consistent with a revival in the housing market, which had a positive impact on consumer confidence. Unemployment rates fell through 2013, although wage inflation remained below Consumer Price inflation. Unemployment at the end of 2013 stood at 7.2 per cent, above the 7 per cent threshold that will prompt the Bank of England to consider increases in interest rates. The OECD and IMF currently both forecast UK Real GDP growth of 2.4 per cent in 2014, compared to 1.9 per cent growth in 2013.

Eurozone
Whilst the Eurozone exited from recession in the second half of 2013, the recovery was constrained by a number of factors including unemployment, weak industrial production, and budgetary concerns in a number of member states. GDP growth picked up in the fourth quarter, up 0.5 per cent compared with being down 0.6 per cent and 0.3 per cent in the second and third quarters respectively. However, a divergence in performance between some of the member states remains. Whilst Germany delivered a strong economic performance through the year; weakness in France, Italy and Spain held back overall growth in the region. However, these three economies are forecast to return to growth in 2014, following two years of negative GDP in the case of Italy and Spain. The consumer outlook improved through the year, with positive signs at the end of 2013 in both retail sales and consumer confidence indicators. The OECD and IMF currently forecast Eurozone Real GDP growth of 1.0 per cent in 2014, compared to -0.4 per cent in 2013.

North America
US GDP growth strengthened through 2013, although the robust recovery fostered debate around the likelihood of the Federal Reserve "tapering" its asset purchases, which began in January 2014, as part of its programme of quantitative easing (QE). US unemployment fell from 7.8 per cent in quarter four 2012 to 7.0 per cent in 2013. Consumer confidence levels were affected by the US government shutdown and budget ceiling negotiations towards the end of 2013, and while the general trend for the year remained positive, it did not feed into significantly increased personal consumption levels. The OECD and IMF currently forecast US Real GDP growth of 2.9 per cent and 2.8 per cent respectively in 2014 compared to 1.9 per cent in 2013.

Latin America
The economic performance in Latin America was weaker than expected in 2013 with lower GDP growth than in 2012. The IMF expects growth to gradually recover in 2014 as external demand strengthens, but risks to remain on the downside. The Brazilian economy, which is the largest in Latin America, saw slowing GDP growth in the second half of 2013. The IMF is forecasting GDP growth of 2.3 per cent in 2014, in line with the 2.5 per cent in 2013. Mexico also experienced slower growth through 2013, although the IMF expects the economy to accelerate in 2014, forecasting GDP growth of 3.0 per cent, compared to 1.2 per cent in 2013. In Argentina, GDP growth also decelerated in the second half of 2013, and the IMF expects this to continue into 2014, forecasting GDP growth of 2.8 per cent compared to 3.5 per cent in 2013.

Industry outlook

Trading conditions
IATA has highlighted that prospects for 2014 look encouraging, forecasting industry operating margins to average 4.7 per cent in 2014, the best performance since 2010. IATA's central forecast is for operating profit to rise from $23.6 billion in 2013 to $34.7 billion in 2014. This compares to the $14.8 billion generated by global commercial airlines in 2012.

This outlook is based on three main factors. Firstly, IATA expects that whilst the global business cycle has not yet turned up again, improved consumer and business confidence suggest that it will do so in 2014. Secondly, IATA expects the benefits of improving market structure in several regions to rise, with consolidation in some mature markets, new entry into the market down due to financing difficulties, and ancillary revenues growing in importance. Lastly, IATA highlights that oil prices are anticipated to fall to an average $105 per barrel due to lower geopolitical risk and the improved US energy outlook.

IATA expects the pattern of weak cargo/strong travel and weakening emerging economies/strengthening developed economies to be reflected in divergence of airlines performance in 2014.

Structural change
There continues to be positive structural change in the industry. The conditions for access to capital continue to be more stringent, particularly for "start-up" or new entrant airlines, and the industry continues to display a more rational approach to capacity that better matches supply with demand. IATA reported that operated traffic grew 5.2 per cent in total during 2013, with capacity growing 4.8 per cent.

Many airlines, IAG included, are undertaking multi-year programmes aimed at reducing their operating costs to sustainable levels for the medium and long-term through structural changes to their businesses. Air France-KLM's "Transform 2015" and Lufthansa's "SCORE" programmes are two such examples.

The IAG Group companies also made progress with their respective programmes during 2013. Iberia began the implementation of, and saw the first financial benefits of the mediation agreement which will see redundancies of at least 3,141 employees in addition to salary cuts and tenure freezes.

British Airways continues to see turnaround benefits from the bmi acquisition such as the deployment of slots on longhaul growth together with the introduction of new generation aircraft.

Vueling was consolidated in IAG's accounts from April 26, 2013, and following a de-listing tender offer was delisted from the Barcelona, Bilbao, Madrid and Valencia Stock Exchanges in August 2013.

Transatlantic operations continued to consolidate in 2013. In July, Finnair joined the American Airlines, British Airways and Iberia Atlantic joint business; and the Delta Air Lines and Virgin Atlantic joint venture was given regulatory approval in September. Both airlines plan to operate a "harmonised schedule between New York-JFK and London Heathrow" starting March 30, 2014.

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

The **one**world alliance welcomed Malaysian Airlines and Qatar Airways into the alliance in 2013, and looks forward to welcoming TAM Airlines and SriLankan Airlines in 2014.

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

Taxation
Airport charges
The CAA announced its final price proposal for the next five years at RPI -1.5 per cent, which means an increase of between 5 per cent and 6 per cent over five years. Heathrow is already the most expensive hub airport in the world. It means Heathrow will continue to levy charges well above other hub airports. The CAA has let down our customers despite its new remit to promote their interests first. IAG is now considering next steps.

Air Passenger Duty
The UK has the highest aviation taxes in the world. Since 2007, APD has risen by 260 per cent on shorthaul flights and up to 360 per cent on longhaul, while inflation has risen barely 20 per cent. A family of four flying economy to Australia pays £376 in tax in the UK, £160 in Germany, £15 in France and nothing in 25 other EU countries.

During the year PricewaterhouseCoopers was commissioned to carry out an economic impact assessment of Air Passenger Duty. They used a model to simulate how changes in one area of the economy (such as tax policy) affect all the rest. It said scrapping APD would create 0.46 per cent GDP in the first year and at least £16 billion in the first three years, and would also result in almost 60,000 new jobs in the UK.

European Union's emissions trading scheme (EU ETS)
In 2012, all airlines were to be included in the European Union's emissions trading scheme, with the first carbon payments due in 2013.

Following international opposition and the threat of retaliation, the EU announced it would suspend the coverage of all flights between EU and non-EU states, within the EU ETS, for one year.

This would allow time for development of a global market-based approach through the International Civil Aviation Organisation (ICAO). In the meantime, the EU ETS still applied to those flights that both take off and land in the EU.

The ICAO General Assembly in October agreed to progress a global market based measure by 2016. The EU announced that it would reduce the scope of the EU ETS to emissions within EU airspace. This proposal is subject to consultation with EU and non-EU states and requires agreement of the EU Parliament and Council by the end of the first quarter 2014.

IAG is fully supportive of carbon trading as the most effective way to reduce aviation's emissions. The long-term solution must be a global approach led by ICAO. A patchwork of regional and national aviation emission measures negatively impacts businesses based in those areas and distorts the competitive position.

UK Aviation Policy
In 2012, Sir Howard Davies was appointed to carry out an independent review into airport capacity and connectivity in the UK. Three options were shortlisted:

- At Heathrow a 3,500m runway to the northwest and a proposal to extend the existing northern runway to at least 6,000m enabling the extended runway to operate as two independent runways;
- At Gatwick the proposal is for a new runway to the south of the existing runway; and
- The Commission will also undertake further study of the Isle of Grain option in early 2014.

The final recommendation will be made to Government in summer 2015 after the next general election. IAG believes the Commission will continue to produce detailed analysis of the issues but its efforts will be wasted without political consensus.

FINANCIAL REVIEW

Enrique Dupuy de Lôme Chávarri
Chief Financial Officer

In 2013 IAG returned to profitability with an operating profit before exceptional items of €770 million. British Airways achieved an operating profit of £651 million with a solid revenue performance, whilst Iberia executed its Transformation Plan achieving significant cost reductions reducing its pre-exceptional losses to €166 million, and IAG acquired 54 per cent of Vueling improving the Group's operating profit by€168 million this year.

IAG recognised net exceptional charges in the year of €243 million, including:

- An increase in Iberia restructuring charges following the mediator's agreement in March of €312 million;
- A reduction in revenues of €106 million related to the timing of revenue recognition for Avios points redeemed; offset by
- A €170 million release for US pension benefit obligations aligning benefits with national trends.

These have been classified as exceptional due to their nature and magnitude.

In May we issued a €390 million convertible bond which was used to fund the acquisition of Vueling and improved the Group's overall liquidity position. We also issued a $927 million EETC bond to finance the delivery of new British Airways aircraft throughout 2013 and 2014. Both transactions were a first for the merged Group and demonstrated our ability to access these different and broad finance markets.

Improvements in the Group's financial position have been reflected in the adjusted gearing despite significant investment in property, plant and equipment and the acquisition of Vueling. This was due to:

- Improvement in cash generation;
- Conversion of the British Airways 2009 £350 million convertible bond into IAG shares; and
- The equity portion of the IAG convertible bond issued during the year.

IAG period highlights on results

- Operating profit for the year to December 31, 2013 of €770 million (2012: operating loss of €23 million) before exceptional items.
- Revenue for the year up 3.1 per cent to €18,675 million.
- Passenger unit revenue for the year up 0.6 per cent (3.7 per cent at constant currency).
- Fuel costs for the year down 2.5 per cent to €5,951 million (2012: €6,101 million). Fuel unit costs down 5.0 per cent at constant currency.
- Non-fuel costs before exceptional items for year down 0.7 per cent at €11,954 million. Non-fuel unit costs down 5.6 per cent, and down 2.7 per cent at constant currency.
- Cash of €3,633 million at December 31, 2013 was up €724 million on 2012 year end (December 2012: €2,909 million). Group net debt down €400 million to €1,489 million.
- Adjusted gearing down 1 points to 50 per cent.

IATA market growth

Despite relatively slow economic growth, passenger load factors for the industry improved 0.4 points on a capacity increase of 4.8 per cent. Whilst overall growth in air travel was driven primarily through expansion in emerging regions with less growth in mature markets, IAG's growth was in its Domestic and European markets through the acquisition of Vueling and British Airways new generation fleet deliveries in the later part of the year.

IATA

Year to December 31, 2013	Capacity ASKs	Traffic RPKs	Passenger load factor
International	4.9%	5.4%	+0.4 pts
Domestic	4.6%	4.9%	+0.4 pts
Total market	**4.8%**	**5.2%**	**+0.4 pts**

IAG capacity

In 2013, IAG increased capacity by 5.2 per cent primarily in its Domestic and European markets through the acquisition of Vueling, offset by a reduction in Latin America related to Iberia's Transformation Plan. At the Group level, Vueling contributed 7.6 per cent to the increase in capacity and Iberia a 3.9 per cent decrease. British Airways had a marginal capacity increase, 1.5 per cent at the Group level, reflecting changes in its fleet and network.

Year to December 31, 2013	% of total network in ASKs	ASKs higher/ (lower)	Passenger load factor	Higher/ (lower)
Domestic	6.1%	+39.8%	75.7	+1.0 pts
Europe	20.9%	+27.6%	77.8	+2.7 pts
North America	30.0%	+1.3%	84.6	+0.9 pts
Latin America	18.3%	(9.8)%	82.6	(1.3) pts
Africa, Middle East and South Asia	15.9%	+0.1%	77.2	+0.4 pts
Asia Pacific	8.8%	+3.1%	81.4	+1.6 pts
Total network	**100%**	**+5.2%**	**80.8**	**+0.5 pts**

Market segments

Across the network, passenger load factor improved 0.5 points while capacity increased in all regions, with the exception of Latin America. During 2013, we cancelled routes to Havana, San Juan, and Montevideo in line with Iberia's Transformation Plan. Although passenger load factor in this region of 82.6 per cent remains higher than the network average, it was lower than the previous year.

The acquisition of Vueling led to significant capacity increases in the Domestic and European markets. Apart from its main airport at Barcelona and 12 further bases in Spain, Vueling operates out of Amsterdam, Paris, Florence and Rome. While the Domestic and European markets continued to be very competitive, our passenger load factors improved in both regions. In the second half of the year, confidence in the UK market re-emerged, while Spain and the Eurozone exited recession.

Our North American market remains strong with the highest passenger load factor on the network at 84.6 per cent, up 0.9 points from last year. This market saw the introduction of British Airways' new fleet on some of its routes in 2013. The Boeing 787 flies to Newark and Toronto and the Airbus A380 to Los Angeles.

Africa, Middle East and South Asia capacity increase of 0.1 per cent reflects three main factors during the year. First the redeployment of historic bmi routes to the Domestic and European markets; second, the contribution of Vueling, with destinations in Morocco (Fez, Nador, Tangier and Casablanca) and new routes in Algeria (Algiers and Oran); and Iberia cancelled routes as part of its Transformation Plan.

In Asia Pacific, the capacity increase is driven by additional routes, such as Seoul and Chengdu; the Hong Kong route also sees more capacity reflecting the increase in gauge of the Airbus A380. Despite these capacity increases load factors have improved 1.6 points in relation to last year.

Acquisitions

The full year performance includes Vueling from April 26, 2013.

Financial review continued

Income Statement

€ million	2013	2012 (restated)[1]	Higher/(lower) Year over year	Per ASK at constant currency
Traffic statistics				
ASKs (million)	**230,573**	219,172	5.2%	
Passenger load factor (per cent)	**80.8**	80.3	0.5pts	
Revenue				
Passenger revenue	**16,264**	15,372	5.8%	**3.7%**
Cargo revenue	**1,073**	1,217	(11.8)%	
Other revenue	**1,338**	1,528	(12.4)%	
Total revenue	**18,675**	18,117	3.1%	**1.0%**
Expenditure				
Fuel, oil costs and emissions charges	**5,951**	6,101	(2.5)%	**(5.0)%**
Employee costs	**4,123**	4,341	(5.0)%	**(7.1)%**
Supplier costs:				
Handling, catering and other operating costs	**1,932**	1,805	7.0%	
Landing fees and en-route charges	**1,422**	1,278	11.3%	
Engineering and other aircraft costs	**1,237**	1,285	(3.7)%	
Property, IT and other costs	**922**	997	(7.5)%	
Selling costs	**785**	830	(5.4)%	
Currency differences	**45**	–	–	
EBITDAR	**2,258**	1,480	52.6%	
Ownership costs	**1,488**	1,503	(1.0)%	**(2.9)%**
Operating profit/(loss) before exceptional items	**770**	(23)		
Exceptional Items	**(243)**	(590)		
Operating profit/(loss) after exceptional items	**527**	(613)		
Non-operating costs	**(300)**	(161)		
Profit/(loss) before tax	**227**	(774)		
Tax	**(76)**	116		
Profit/(loss) after tax from continuing operations	**151**	(658)		
Loss after tax from discontinued operations	**(4)**	(38)		
Profit/(loss) after tax for the year	**147**	(696)		

1 Restated for amendment to IAS 19 'Employee benefits' accounting standard.

Revenue

Passenger revenue

Passenger revenue was up 5.8 per cent for the year. At constant currency (ccy) the increase was 9.1 per cent, with unit revenue improvement of 3.7 per cent. The improvement is due to the Group's disciplined approach to capacity in a global framework of industry constrained growth.

British Airways' available capacity increased 2.0 per cent with the introduction of two new aircraft types but was matched against market demands. Passenger load factor was 1.4 points higher, while yields also improved 2.7 per cent from the previous year, driven by solid performances in both the long and shorthaul non-premium cabins.

Iberia embarked on its Transformation Plan suspending unprofitable routes, reducing its fleet by 23 aircraft and decreasing available capacity by 14.0 per cent. Despite the capacity decrease, passenger load factor was down 2.4 points further impacted by weak demand in the Madrid market, competition and pricing policies aimed at yield improvements. Passenger yields were up 4.2 per cent benefiting from the strong performance over the North Atlantic and reflecting the impact of the market in South America.

Vueling's revenue for the period was €1,133 million or 6.1 per cent of the Group's total revenue. Vueling delivers premium and non-premium products and services, however its cabin split and exclusive focus on total passenger revenue earns lower revenue (and costs) per ASK than the Group. The adverse impact on IAG's total unit revenue performance at ccy for the year was 1.9 points and 0.6 points at passenger unit revenue level, but with a greater positive impact on the Group total unit costs per ASK.

Vueling also depends heavily on leisure traffic and remains more exposed to seasonality, driving deeper troughs and higher peaks in the Group's revenue and earnings cycle.

Cargo revenue

Cargo revenue was down 11.8 per cent or 9.2 per cent at constant currency due to weak demand and lower yields.

Other revenue

Other revenue was down 12.4 per cent. At constant currency other revenue is down 10.0 per cent or €153 million.

Other revenue has been adversely impacted by the industrial action in Spain. In the first quarter the Group suffered a loss of productivity in its maintenance and handling activities, followed by a loss of maintenance contracts from the second quarter onwards. The impact was a €60 million reduction in revenues and a reduction in costs.

Other revenue has seen some improvements, such as in BA Holidays. The enhanced product offerings are increasing demand.

Through Iberia, the Group provides handling and maintenance, repair and other services (MRO) to Vueling. Prior to the acquisition the revenue was third party to the Group and reported as 'Other revenue'. From April 26 this trade was eliminated on consolidation, and the impact was approximately €100 million on revenues and expenses for the year.

At the total revenue level, there is a one-off benefit in the fourth quarter of 2012 and a one-off charge in the same quarter of 2013 with an adverse impact of approximately €130 million for the full year.

Expenditure before exceptional items

Employee costs

Employee costs are down 5.0 per cent. At constant currency employee costs are down 2.1 per cent and 7.1 per cent on a unit basis. The average number of employees increased 0.9 per cent with Vueling coming into the Group offset by the Iberia Transformation Plan. Productivity improved 4.3 per cent.

British Airways maintained flat employee unit costs throughout the year, offsetting wage awards and tenure increases through improved productivity and efficiency initiatives. Iberia's restructuring saw 2,507 employees leave Iberia under a voluntary redundancy programme, salaries were reduced 11 – 18 per cent and tenure was held. Iberia employee costs were down 14.3 per cent for the year, with employee unit costs down 0.5 points; productivity was reduced temporarily by 6.6 per cent. Vueling's low cost structure and exclusive focus on passenger transportation produces a lower employee cost per ASK than IAG's base, leading to the Group's employee unit cost improvement for the year.

Financial review continued

Fuel costs

Fuel costs are down 2.5 per cent. At constant currency fuel costs are down 0.2 per cent and 5.0 per cent on a unit basis.

Fuel and oil costs have benefited from a lower average price and improvements in aircraft efficiency. The US dollar foreign exchange impact has been positive for the Group against the euro, but adverse against sterling. Fuel unit costs have also benefited from Vueling's lower cost per unit, with smaller aircraft, carrying passengers only, and a high seat density configuration.

Supplier costs

Supplier costs for the year have increased by 2.4 per cent on a capacity increase of 5.2 per cent. At constant currency and on a unit basis supplier costs are flat. This is due to two main factors, improvements in productivity and efficiency across the Group, and the impact of consolidating Vueling in the current year.

Excluding the growth in its BA Holidays business, **British Airways'** supplier unit costs at ccy have been flat for the year, on a capacity increase of 2.0 per cent. Efficiencies have been gained from the further integration of bmi, and offsetting inflationary increases which were particularly high in areas such as landing fees.

As part of its Transformation Plan **Iberia** reduced activity in its passenger, MRO and handling businesses leading to decreases in the related variable costs, such as engineering, handling, landing and selling. Iberia's plan also targeted fixed supplier costs, one example is property rationalisation. While significant efficiencies have been achieved throughout the year the full impact has lagged behind the capacity cut which began in earnest in January 2013; capacity flown during the year was down 14.0 per cent. Supplier costs are down 13.4 per cent at Iberia, and supplier unit costs were up 3.0 per cent at ccy for the full year.

Operating profit and loss performance of operating companies

	British Airways £ million		Iberia € million		Vueling € million
	2013	Higher/ (lower)	2013	Higher/ (lower)	2013 Post-acquisition
ASKs	161,444	2.0%	52,429	(14.0%)	16,700
Seat factor (per cent)	81.3	1.4 pts	79.1	(2.4) pts	80.7
Passenger revenue	10,129	6.6%	3,200	(12.9%)	1,133
Cargo revenue	689	(6.5%)	261	(15.8%)	–
Other revenue	603	2.0%	773	(9.7%)	–
Total revenue	**11,421**	**5.5%**	**4,234**	**(12.5%)**	**1,133**
Fuel, oil costs and emissions charges	3,755	1.2%	1,214	(20.7%)	312
Employee costs	2,392	2.0%	1,149	(14.3%)	83
Supplier costs	3,816	3.8%	1,593	(13.4%)	472
EBITDAR	**1,458**	**33.5%**	**278**	**113.8%**	**266**
Ownership costs	807	(1.3%)	444	(7.7%)	98
Operating profit/(loss) before exceptional items	**651**	**137.6%**	**(166)**	**(52.7%)**	**168**
Passenger yield (pence or cents/RPK)	7.71	2.7%	7.71	4.2%	8.41
Unit passenger revenue (pence or cents/ASK)	6.27	4.5%	6.11	1.2%	6.78
Total unit revenue (pence or cents/ASK)	**7.07**	**3.4%**	**8.08**	**1.6%**	**6.78**
Fuel unit cost (pence or cents/ASK)	2.33	(0.9%)	2.32	(7.7%)	1.87
Non-fuel unit costs (pence or cents/ASK)	4.35	0.7%	6.08	1.2%	3.91
Total unit cost (pence or cents/ASK)	**6.68**	**0.1%**	**8.40**	**(1.5%)**	**5.78**

While **Vueling** contributed 7.2 per cent of the Group's ASKs for the year, it has a shorter stage length than both British Airways and Iberia. As a result it represented a higher proportion of the Group's sectors and passengers flown at 18 and 10 per cent respectively. With sectors and passengers as primary drivers for 'Handling, catering and other costs' and 'Landing fees and en-route charges', Vueling increased these unit costs (measured in ASKs) for the Group.

Ownership costs

The Group's ownership costs decreased 1.0 per cent and ownership unit costs by 2.9 per cent at ccy.

Ownership costs were down for both British Airways and Iberia. For British Airways ownership costs were down as a result of certain bmi costs in the base, and Iberia costs are down due to the Transformation Plan, including reducing the fleet. Vueling's ownership costs are primarily aircraft operating leases; on a unit cost basis Vueling is lower than the Group average due to its higher density aircraft.

Non-fuel unit costs

The Group's non-fuel unit costs at ccy improved 2.7 per cent and were flat excluding Vueling. British Airways non-fuel unit costs at ccy improved 0.5 per cent, while Iberia's cost cutting initiatives have not yet seen the full benefit in 2013 and were up 2.7 per cent at ccy.

Vueling operates a low cost structure, with a single aircraft model, high fleet utilisation and seat density, high crew productivity and short turnarounds. This level of efficiency and simplicity resulted in lower non-fuel costs per ASK for Vueling than for the Group due to the nature of a short haul business and Vueling's high fleet utilisation. The benefit on the Group is 2.7 points.

Operating result

The Group's operating profit, before exceptional items, for the year was €770 million, a €793 million improvement from last year. The improvement is primarily driven by a solid revenue performance at British Airways, cost savings at Iberia and inorganic growth in domestic and European markets through Vueling.

British Airways' operating profit was £651 million, an improvement of £377 million over the prior year. British Airways strengthened its position with solid revenues and a continued focus on cost discipline. Revenues benefited from a full year of bmi, including the redeployment of those landing rights, and cycling over the Olympic impact felt in 2012.

Iberia's operating loss was €166 million, an improvement of €185 million over the prior year. Iberia has taken big steps with its focus on restructuring the business. This has led to significant cost savings during the year and modest improvements in unit revenues, however still affected by economic weakness in Spain.

Vueling operating profit was €137 million for the year, an improvement of €101 million. Vueling increased its flown capacity 21.9 per cent. Revenues improved by 28 per cent while its cost base grew broadly in line with capacity, leading to the strong year over year performance. Vueling operating profit from April 26th, was €168 million.

Financial review continued

Exceptional items

For a full list of exceptional items, refer to note 6 of the financial statements. Below is a summary of the significant current year exceptional items recorded at the operating profit level.

In 2012, management recorded a restructuring provision in line with its Transformation Plan, taking into consideration the labour laws in Spain and a prevailing lack of agreement with the unions at that time. In March 2013, Iberia accepted the appointed mediator's labour agreement proposal. As a result management recorded an additional €265 million related to employee restructuring costs and €47 million for costs associated with standing down owned aircraft and the return of leased aircraft.

The acquisition of Vueling has resulted in a number of exceptional items during the period; fuel cash flow hedges resulting in a €3 million credit, acquisition costs of €5 million and a step acquisition loss of €17 million. In 2013, as part of the transition of the Avios business management changed how it recognised revenue under the frequent flyer programme. With the availability of new information, revenue was deferred until the passenger departed (rather than recognised on booking) giving rise to a timing difference with a current year reduction in passenger revenue of €106 million.

In 2013, the Group made changes to its US post-retirement benefits to align with national trends, reducing an employee benefit obligation and creating a one time gain in employee costs of €170 million.

Non-operating costs

Net non-operating costs after exceptional items were €300 million, up from €161 million last year. Net finance costs including pensions and derivatives not qualifying for hedging of €280 million were broadly in line with the prior year. Associate income was down €25 million as Vueling profits are no longer accounted for using the equity method. The remaining variance is primarily driven by a €90 million swing in non-operating cost exceptional items. In 2013 IAG recorded a €17 million loss on the step acquisition of Vueling; 2012 reflects a €73 million gain on the bargain purchase of bmi.

Taxation

The majority of the Group's operations are taxed either in the UK or Spain. In 2013, the reported tax rate in the UK decreased from 24 to 23 per cent (2012: from 26 to 24 per cent) resulting in the recognition of a €121 million credit (2012: €90 million credit). The Group did not recognise a deferred tax asset associated with the losses incurred by Iberia during 2013 or 2012. Excluding both of these impacts the Group's effective tax rate for the year is 8 per cent (2012: 30 per cent) and the tax charge was €76 million (2012: credit €116 million).

Profit after tax and earnings per share

The Group's profit after tax, after exceptional items, was €147 million, with earnings of 6.4 euro cents per share and 6.3 euro cents per fully diluted share.

Exchange impact before exceptional items

€ million	Higher/ (lower)
Reported revenue	
Translation impact	(599)
Transaction impact	29
Total exchange impact on revenue	**(570)**
Reported operating expenditure	
Translation impact	(556)
Transaction impact	59
Total exchange impact on operating expenditure	**(497)**
Reported operating profit	
Translation impact	(43)
Transaction impact	(30)
Total exchange impact on operating profit	**(73)**

	2013	Higher/ (lower)
Translation		
£ to €	1.19	(3.3%)
Transaction		
£ to €	1.18	(4.1%)
€ to $	1.33	3.1%
£ to $	1.56	(1.3%)

Exchange rates

Exchange rate movements are calculated by retranslating current year results as though they had been generated at prior year exchange rates. The reported results are impacted by translation currency from converting British Airways' results from sterling to the Group's reporting currency of euro. British Airways represents approximately 70 per cent of the Group's revenues and operating expenses which causes a significant variation year over year. From a transactional perspective, the Group performance is impacted by the fluctuation of exchange rates; primarily sterling, euro and US dollar. The Group exchange rates used and the estimated impact of translation and transaction exchange rates on operating profit before exceptional items are set out above. At constant currency, the Group's operating profit before exceptional items would have been €843 million, €73 million higher than the reported operating profit.

Balance sheet
In respect of cash, cash equivalents and interest-bearing deposits, interest-bearing long-term borrowings, see Liquidity and capital resources below.

Vueling
Vueling's net assets on acquisition were approximately €250 million; €940 million in assets and €690 million in liabilities. Over 65 per cent of Vueling's assets and liabilities are current; primarily represented by working capital balances such as cash and sales in advance of carriage, included in other current assets and other current liabilities. Prior to obtaining control, the Group held a 45.85 per cent stake in its share capital representing an investment in associate of €144 million.

Property, plant and equipment
The increase in property, plant and equipment in 2013 is related to the Group's investment in aircraft. On balance sheet fleet increases €360 million, reflecting:

- Introduction of 12 new aircraft, including four Boeing 787s and three Airbus A380s;
- Pre-delivery payments related to future deliveries;
- Modifications of existing aircraft; offset by
- The sale and leaseback of ten aircraft;
- Depreciation; and
- Adverse exchange on translation.

Intangible assets
The allocation of the purchase price to the fair value of the acquired assets and liabilities of Vueling has led to an increase in the Group's intangible assets, including €89 million for landing rights, €35 million for the Vueling Brand and €28 million of goodwill.

Shareholders' equity
In 2013, IAG issued ordinary shares to the bondholders of the £350 million British Airways convertible bond, increasing share capital €92 million and share premium €587 million, whilst decreasing other reserves by €266 million. The overall increase in other reserves reflects the movements in other comprehensive income, including decreases in the fair value of cash flow hedges and increases in the fair value of available-for-sale assets with a net benefit of €127 million, and the re-measurement of post-employment benefit obligations improvement of €521 million.

Other current liabilities
The restructuring provision recorded in 2012 for the employee redundancy programme was based on the expected payment in 2013 following the new Spanish labour law. Following the mediator agreement, the payment profile has changed and is now classified as non-current liabilities.

Balance sheet

€ million	2013	2012 (restated)[1]	Higher/ (lower)
Non-current assets			
Property, plant and equipment	**10,228**	9,926	302
Intangible assets	**2,196**	1,965	231
Other non-current assets	**2,335**	2,059	276
	14,759	13,950	809
Current assets			
Cash and cash equivalents and interest-bearing deposits	**3,633**	2,909	724
Other current assets	**2,385**	2,117	268
	6,018	5,026	992
Total assets	**20,777**	**18,976**	**1,801**
Shareholders' equity			
Issued share capital and share premium	**6,887**	6,208	679
Other reserves	**(2,978)**	(3,530)	552
	3,909	2,678	1,231
Non-controlling interest	**307**	300	7
Total equity	**4,216**	**2,978**	**1,238**
Non-current liabilities			
Interest-bearing long-term borrowings	**4,535**	4,128	407
Other non-current liabilities	**3,709**	4,306	(597)
	8,244	**8,434**	**(190)**
Current liabilities			
Interest-bearing borrowings	**587**	670	(83)
Trade and other payables	**6,793**	6,013	780
Other current liabilities	**937**	881	56
	8,317	**7,564**	**753**
Total liabilities	**16,561**	**15,998**	**563**

1 Restated for amendment to IAS 19 'Employee benefits' accounting standard.

Financial review continued

Cash flow

€ million	2013	2012	Higher/ (lower)
Operating profit/(loss)	**527**	**(613)**	**1,140**
Depreciation, amortisation and impairment	1,014	1,414	(400)
Other operating cash movements	(281)	(330)	49
Net cash flows from operating activities from continuing operations	**1,260**	**471**	**789**
Net cash flows used in discontinued operations	(42)	(132)	90
Net cash flows from operating activities	**1,218**	**339**	**879**
Acquisitions of property, plant and equipment and intangible assets	(2,196)	(1,239)	(957)
Cash acquired on Business combination (net of consideration)	293	(1)	294
(Increase)/decrease in other current interest-bearing deposits	(593)	246	(839)
Other investing cash movements	561	106	455
Net cash flows from investing activities	**(1,935)**	**(888)**	**(1,047)**
Proceeds from long-term borrowings	1,529	534	995
Repayments of borrowings	(677)	(669)	(8)
Other financing cash movements	(14)	(21)	7
Net cash flows from financing activities	**838**	**(156)**	**994**
Net increase/(decrease) in cash and cash equivalents	**121**	**(705)**	**826**
Net foreign exchange differences	58	90	(32)
Cash and cash equivalents at 1 January	1,362	1,977	(615)
Cash and cash equivalents at year end	**1,541**	**1,362**	**179**
Interest-bearing deposits maturing after more than three months	2,092	1,547	545
Cash, cash equivalents and other interest-bearing deposits	**3,633**	**2,909**	**724**

Liquidity and capital resources

The primary source of the Group's liquidity over the past two years has been cash generated from operations. A summary of the cash flow and reconciliation of movement in net debt for the year to December 31, 2013 is as follows:

In 2013 cash generated from operations increased to €1,218 million from €339 million. The improvement is due to stronger operating results by both British Airways and Iberia, and the addition of Vueling during the period. The cash flows generated from operating activities is after payments made to pension schemes of €372 million, and after interest and tax payments of €197 million. The Group also made cash payments of €42 million for discontinued operations related to the 2012 acquisition of bmi.

Net cash flow from investing activities

The Group acquired €2,196 million in property, plant and equipment and intangible assets during the year. Cash obtained from the acquisition of Vueling was €293 million net of consideration. The remaining investment is primarily represented by fleet transactions, including:

- The delivery of 12 new aircraft (three Airbus A380s, three A320s, four Boeing 787s and two Boeing 777s);
- Pre-delivery payments related to future aircraft deliveries; and
- Modifications, engineering and inventory for aircraft.

In addition, seven Airbus A320 and three A330 aircraft were sold and leased back during the year, increasing both the sale and acquisition of property, plant and equipment.

At December 31, 2013, the Group's investment in interest-bearing deposits maturing after more than three months was €593 million higher than the previous year.

Net cash flow from financing activities

The Group's net cash inflow from financing activities was €838 million during the year. In May 2013 the Group issued a €390 million fixed rate convertible bond, with a coupon rate of 1.75 per cent, a conversion premium of 35 per cent and with a five year maturity. The bond was drawn down in full and used to fund the acquisition of Vueling, with the remaining balance improving the Group's overall cash position. In June 2013, the Group raised $927 million of funds through fully committed enhanced equipment trust certificates (EETC), out of which $496 million was drawn down by year end. This was a new type of financing for the Group and will be used to purchase new aircraft.

During the year, the Group repaid €677 million of borrowings and finance leases, in line with repayments made in 2012 of €669 million.

Cash, cash equivalents and interest-bearing deposits

At December 31 the Group's cash position improved by €724 million; from the issuance of the convertible bond and from Vueling. The net cash flows from operations covered the repayment of borrowings and of finance leases; funded the acquisition of non-fleet assets; and contributed to the current year increase in cash.

The Group currently holds the equivalent of €217 million in funds in countries awaiting repatriation. The length of time to repatriate the cash varies, however €184 million relates to the funds in Venezuela where the time taken to repatriate cash has increased to over 12 months in line with the rest of the industry.

Liquidity risk management

At December 31, 2013, the Group had undrawn general and committed aircraft financing facilities (primarily available in US dollar) in euro equivalent of €3,686 million (2012: €2,803 million). The Group also had undrawn overdraft facilities of €12 million (2012: €12 million) and undrawn uncommitted money market lines of €30 million (2012: €31 million).

Capital risk management

The Group's adjusted net debt at December 31, 2013 was €5,701 million up €356 million and adjusted gearing improved by 1 point to 50 per cent.

IAG's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to maintain an optimal capital structure in order to reduce the cost of capital, and to prepare the Group to provide future returns to shareholders. The Group monitors capital using the adjusted gearing ratio, calculated based on net debt as a percentage of capital adjusted for aircraft operating leases and the pension restatement.

The Group's net cash increased €785 million during the year, due to improved cash flows from operations and through the acquisition of Vueling. The Group's financing increased €852 million which includes the issuance of IAG's convertible bond and the EETC. The Group's net debt improved by €400 million as a result of settlement of the 2009 British Airways £350 million convertible bond through the issuance of share capital. Although the Group's net debt improved for the year, adjusted net debt increased as a result of Vueling's off balance sheet operating leases.

IAG's equity position strengthened, reflecting the total comprehensive income after tax earned during the year (excluding the post-retirement remeasurement) and the increase in equity from the conversion of the 2009 British Airways convertible bond. The result of these factors on adjusted gearing was a 1 point improvement to 50 per cent.

The cash balance at December 31, 2013 comprised €2,206 million held by British Airways, €711 million held by Iberia, €495 million held by Vueling and €221 million held by the parent and holding companies.

Capital commitments and off balance sheet arrangements

Capital expenditure authorised and contracted amounted to €8,745 million (2012: €4,910 million) for the Group. The majority of this is in US dollars and includes commitments until 2021 for 69 Airbus A320s, 38 Boeing 787s, 18 Airbus A350s, nine Airbus A380s, and two Boeing 777s. Other capital commitments not provided for are estimated at €124 million (2012: €110 million).

IAG does not have any other off-balance sheet financing arrangements that currently have or are reasonably likely to have a material future effect on the Group's financial condition, changes in financial condition, results of operations, liquidity, capital expenditure or capital resources.

Net debt € million	**2013**	2012 (restated)[1]	Higher/ (lower)
Decrease in cash and cash equivalents during the year (excluding Business combination)	**(114)**	(607)	493
Increase/(decrease) in other current interest-bearing deposits	**593**	(246)	839
Net funds/(debt) acquired through Business combinations	**306**	(41)	347
Increase/(decrease) in cash net of exchange	**785**	(894)	1,679
Net cash outflow from repayments of debt and lease financing	**677**	669	8
New borrowings and finance leases	**(1,529)**	(534)	(995)
(Increase)/decrease in net debt resulting from financing cash flows	**(852)**	135	(987)
Exchange movements and other non-cash movements[1]	**467**	18	449
Decrease/(increase) in net debt during the year	**400**	(741)	1,141
Net debt at January 1	**(1,889)**	(1,148)	(741)
Net debt at December 31	**(1,489)**	(1,889)	400

1 Including the non-cash effect of the conversion of the British Airways 2009 £350 million convertible bond.

RISK MANAGEMENT AND RISK FACTORS
Enterprise Risk Management

Enterprise Risk Management is led by the Management Committee and leverages established processes in British Airways and Iberia. These established processes have been maintained under the control of the respective Boards.

The Head of Group Audit and Risk Management maintains the Group-wide consolidated view of risk allowing challenge from the Board and Management Committee and determines the Enterprise Risk Management methodology to be applied throughout the Group ensuring that best practices in risk mitigation are adopted.

The risk management process includes multiple opportunities for rigorous discussion and debate to assess the relative profile of each risk. The outputs include risk maps for the Group, British Airways and Iberia. The risk maps plot each critical risk on an impact and probability scale. For each critical risk, mitigating actions exist and are actively managed. This process is iterative and refreshed on a regular basis. Within British Airways, the Leadership Team reviews the risk map on a quarterly basis with their Head of Corporate Risk and Compliance to ensure that all new and emerging risks are appropriately evaluated and any further actions identified. The Head of Corporate Risk and Compliance also provides guidance to those responsible for managing the individual risks and to the departmental risk leaders. In addition, during 2013 the British Airways Board carried out quarterly risk reviews.

Within Iberia, the Iberia Management Committee reviews the risk map on a half-yearly 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. Due to the size of the business, existing Vueling risk management activity is not yet aligned with the IAG Enterprise Risk Management process. However, Vueling does contribute to the overall review of Group risks at the IAG Management Committee and IAG will implement an appropriate Vueling Enterprise Risk Management process in 2014.

The IAG Management Committee reviewed the Group risk map twice during the year in advance of reviews by the Audit and Compliance Committee of the Board in accordance with the June 2012 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 a full review of the Group risk map and discussions around strategy, the business plan, Iberia transformation, the Vueling acquisition and other major projects.

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

We group our risks into strategic, business and operational, financial and compliance and regulatory risks. We give guidance below on our risk appetite within these groups and have described the individual risks and uncertainties that may have the most significant impact on the long-term value of IAG. The list is not intended to be exhaustive.

Strategic risks

Open competition and markets are in the long-term best interests of the airline industry and we have a high appetite for continued deregulation and rational consolidation. We seek to minimise the risk that government intervention or the regulation of monopoly suppliers disadvantages us.

Business and operational risks

The safety and security of our customers is a fundamental value to us. In other areas we have an appetite for short-term risk that delivers long-term benefit for the business.
For example, we accepted a strike risk within the Iberia Transformation Plan. The resulting short-term disruption and financial loss in early 2013 were deemed acceptable in order to help secure a long-term future for the business. We also monitor the balance between the resources we devote to building resilience into our operations and the impact on our customers of disruption. British Airways has substantially increased its investment in contingency planning in the face of persistent problems in recovering from disruption at its congested Heathrow hub.

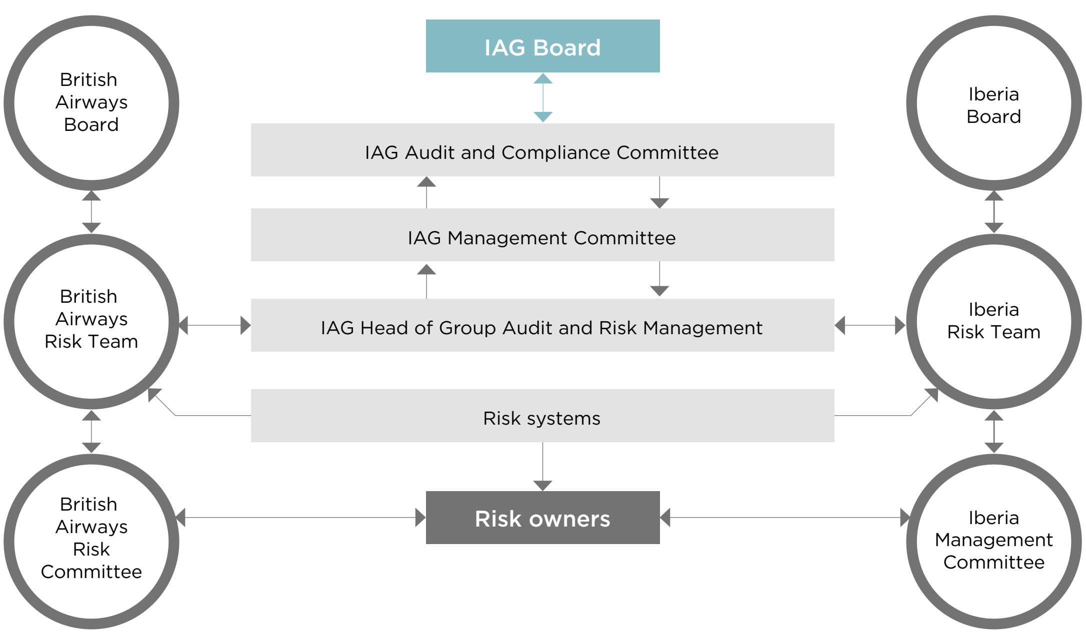
Financial risks

IAG balances the relatively high business and operational risks inherent in our business through adopting a low appetite for financial risk. This conservative approach involves maintaining high cash balances and substantial committed financing facilities. Policies around fuel price and currency risk explicitly consider our appetite for fluctuations in our cash position resulting from market movements. However, we are also careful to understand our hedging positions compared to our competitors to ensure that we are not commercially disadvantaged through being over-hedged in a favourable market.

Compliance and regulatory

We have no tolerance for breaches of legal and regulatory requirements in the markets in which we operate.

RISK MANAGEMENT FRAMEWORK



Risk management and risk factors continued

Risk	Impact	Mitigation
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 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.	The IAG Management Committee devotes one weekly meeting per month to strategy issues. The Group strategy team supports the Management Committee by identifying where resources can be devoted to exploit profitable opportunities. Airline revenue management departments and systems optimise market share and yield through pricing and inventory management activity. Our strong global market positioning, leadership in strategic markets, alliances, joint businesses and diverse customer base continue to address this risk. We also continually review our product offering and respond through initiatives such as the new Iberia longhaul product, hand baggage only fares in British Airways and leveraging Vueling's experience of delivering a premium service at a low cost.
Consolidation and deregulation	The airline market is competitive and still needs to rationalise given current market conditions in some major markets such as Europe. One would normally expect this to involve airline failures leading to the opportunity to capture market share and expand the Group but airlines can be saved from bankruptcy by government support. There have been no major airline failures in 2013. Mergers and acquisitions amongst competitors have the potential to adversely affect our market position and revenue.	The Group maintains rigorous cost control and targeted product investment to remain competitive. Even in the absence of airline failures, the Group has the flexibility to react to market opportunities arising from weakened competitors. For example, Vueling will base aircraft in Rome from the summer 2014 season.
	Joint business arrangements such as the agreements with American Airlines and JAL include delivery risks such as realising planned revenue and cost synergies. Any failure of joint business partners could adversely impact our business.	American Airlines' exit from Chapter 11 and merger with US Airways has reduced risk in this area, British Airways and Iberia look forward to working with the new airline.
	Failure of a franchise partner will reduce traffic feed into our hubs or major outstations.	We regularly review franchisee performance and risks.
	The airline industry is increasingly dependent on alliances and IAG is no exception to this.	Maintaining a leading presence in **one**world and ensuring the alliance attracts and retains the right members is key to safeguarding the network.
	The delivery of synergies and integration of new airlines into the Group is inherently subject to industrial relations, revenue leakage and programme management risks.	We have robust synergy programmes which address these risks, the effectiveness of which are being proven as IAG progresses the consolidation of back-office functions.
	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 short-term impact on our margins.	The Group's Government Affairs departments monitor government initiatives, represent our point of view and forecast likely changes to laws and regulations.

Risk	Impact	Mitigation
Government intervention	Regulation of the airline industry covers many of our activities including route flying rights, airport landing rights, departure taxes, 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.
	The European Union Emissions Trading Scheme (EU ETS) was introduced in 2012 for intra-European Union flights and the European Commission has announced that it intends to extend the scheme to European regional airspace from January 1, 2014. Extension of EU ETS could result in Non EU government retaliatory action, 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.	There will be no cost disadvantage against competitors flying through European airspace. Increases in non-European competitors' structural cost advantages are addressed by rigorous cost control across the business.
Airports	IAG is dependent on and may be affected by infrastructure decisions or changes in infrastructure policy by governments, regulators or other entities outside the Group's control. London Heathrow has no spare runway capacity and has operated on the same two main runways since it opened over 60 years ago. As a result, we are vulnerable to short-term operational disruption and there is little we can do to mitigate this.	We continue to promote the timely conclusion of the Airports Commission's work on South East airport capacity and for action to be taken based on the findings. British Airways participates in the landing rights trading market at Heathrow Airport acquiring landing rights at reasonable prices when available.
	Iberia's third-party handling business is dependent on licences granted by Aena to operate in Spanish airports. These handling licences are subject to a tender process which has commenced with a tender for smaller airports. In addition to the competitive aspects of the tender, retaining licences will depend upon reducing costs through renegotiation of employment conditions with unions.	If licences are lost, costs of withdrawing from the handling business are mitigated by staff being transferred to the successful bidder. However, this transfer could lead to industrial disputes with a risk to normal operations.
	IAG is also dependent on the oil industry making sufficient investment in fuel supply infrastructure. Peak consumption at Heathrow and Gatwick airports is nearing the capacity of the pipe and rail infrastructure serving the airports and storage capacity at Heathrow is lower than at other international airports thereby increasing the risk of any disruption to supply impacting our operations.	We enter into long-term contracts with fuel suppliers wherever this can secure fuel supply at a reasonable cost. Short-term fuel shortages are addressed by contingency plans.
	IAG is also dependent on the performance of suppliers of airport services such as airport operators, border control and caterers.	These risks are mitigated by active supplier management and contingency plans.

Risk management and risk factors continued

Risk	Impact	Mitigation
Business and operational		
Brand reputation	The Group's brands have significant commercial value. Erosion of the brands, through either a single event, or a series of events, may adversely impact our leadership position with customers and ultimately affect our future revenue and profitability.	The Group allocates substantial resources to safety, operational integrity, and new aircraft to maintain its market position. Product investment, such as the new Iberia business class, will enhance our position in key markets.
Economic conditions	Our revenue is highly sensitive to economic conditions in the markets in which we operate. Deterioration in either the domestic or the global economy may have a material impact on our financial position. 14 per cent of Group revenue is sold in the USA and, as a result, we are exposed to any contraction in the economy resulting from the commencement of tapering of the US Federal Reserve bond buying programme together with their management of fiscal deficit and debt ceiling issues. The risk of a Eurozone break-up in the short-term is now considered remote and the Group's contingency planning for this specific event was frozen in early 2013. However, the Group continues to have high exposure to negative or low growth in the Eurozone periphery through Iberia's and Vueling's Spanish bases and, to a lesser extent, the British Airways route network. In this respect, Iberia and Vueling provide 28 per cent of the Group's external turnover, approximately half of this coming from Spain. 2013 was the second consecutive year of contraction for the Spanish economy but a modest recovery is expected in 2014. We have also observed an improvement in the financing market in Spain. Risk premiums are reduced and financial institutions are returning to the market giving us more confidence in Iberia's ability to raise funds.	The Management Committee reviews the financial outlook of the Group through the financial planning process and regular forecasts. These reviews are used to drive the Group's financial performance through the management of capacity and the deployment of that capacity in geographic markets; together with cost control; including management of capital expenditure and the reduction of operational leverage. Vueling's strong performance demonstrates that the impact of weak economic conditions can be mitigated.
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.	Human resource departments within the airlines engage in collective bargaining with the many trade unions representing our staff.
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.
	In 2014 British Airways expects to implement its new Customer Management system that provides passenger check-in and aircraft loading and, as such, is a critical operational system.	The project has a strong risk management workstream designed to minimise, but not eliminate, the risk of disruption during implementation.

Risk	Impact	Mitigation
Iberia transformation	The Transformation Plan requires permanent structural change in the Iberia business to enable it to return to profitability and growth. The plan is moving into its second year of execution and substantial progress has been made in reducing capacity, staff numbers and pay. However, risk still remains as changes in working practices leading to further reductions in staff numbers must be achieved if Iberia is to secure its future and grow.	The plan is managed by the Iberia Chief Executive Officer who reports regularly to the IAG Management Committee and Board. On 13 February 2014 Iberia reached an agreement in principle with its pilot and cabin crew unions, to introduce permanent structural change and improve the airline's viability. This heralded a new positive working relationship between Iberia and its unions after years of conflict. The agreement, which is subject to approval by the union's general assembly, facilitates fundamental productivity improvements and allows the growth of Iberia and Iberia Express.
	Iberia's liquidity at December 2013 was strong with €711 million of cash and a general purpose facility secured on the shareholding in Amadeus. The financing requirement in 2014 is small with only two Airbus A320 aircraft requiring financing. There is a refinancing risk in 2014 as there are 16 Airbus A320 aircraft under operating leases which are required long term in the fleet. Iberia expects to exercise a December 2014 fixed price purchase option on these aircraft at a cost of around US $460 million.	Although comfortable, the liquidity position needs to be carefully managed to ensure that it is spent on achieving the permanent structural change required to make the business cash positive, securing its future and growth. Based on responses to our request for proposal, we are confident that we can refinance the 16 Airbus A320 aircraft before purchase but there is a risk of a shortfall between the purchase price and the financing achieved.
Pandemic	If there is a significant outbreak of infectious disease such as swine flu, staff absence will increase which may seriously impact the operation. Leisure customers may cancel trips and 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 represent a significant operating cost to the airlines and have an impact on operations. Whilst certain airport and security charges are passed on to passengers by way of surcharges, others are not. There can be no assurance that such costs will not increase or that the Group will not incur new costs in the UK, Spain or elsewhere. Charges at our London hubs from April 2014 onwards are determined by the Civil Aviation Authority's ongoing Quinquennial 6 review. The CAA's decision issued in January 2014 allows Heathrow charges to increase in line with the Retail Price Index (RPI) – 1.5% - allowing the airport to continue to operate inefficiently and provide an artificially high return to investors.	Constructive engagement in regulatory reviews of supplier pricing.

Risk management and risk factors continued

Risk	Impact	Mitigation
Business and operational continued		
Safety/security incident	The safety and security of our customers and employees are fundamental values for us. Failure to prevent or respond effectively to a major safety or security incident may adversely impact our operations and financial performance.	The Safety Committee satisfies itself that the airlines have appropriate safety resources and procedures which include compliance with Air Operator Certificate requirements. 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.
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 IAG Management Committee regularly reviews the Group's financial position and financing strategy. The Group carries substantial cash reserves and committed financing facilities to mitigate the risk of short-term interruptions to the aircraft financing market. During 2013 we were successful in diversifying our sources of funding through British Airways' first US asset backed bond market issue and their first use of European Export Credit Agency financing for two Airbus A380 aircraft. We also established IAG in the debt markets through our first convertible bond issue.
Financial risk	We used approximately 7.6 million tonnes of jet fuel in 2013. 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 regularly reviews its fuel and currency positions. The results of these reviews are discussed with management and the appropriate action taken.
	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 by the Audit and Compliance Committee during the year and is set out in note 27 to the financial statements.

Risk	Impact	Mitigation
	The Group is also exposed to currency devaluation of cash held in currencies other than the airlines' local currencies of euro and sterling. This risk is minimised by holding cash in euro and sterling wherever possible but exchange controls in some markets will from time to time delay conversion and repatriation of funds. Delays are generally modest but in 2013 the Venezuela Central Bank blocked the repatriation of funds leading to €184 million equivalent at the official exchange rate being held in Bolivar at the year end. In his January 2014 state of the union address, President Maduro of Venezuela announced that there would be no devaluation this year but this is against a backdrop of high inflation and an active black market. This was followed by an announcement by Vice President Ramirez that airlines would have to access the Central Bank's weekly auctions to convert Bolivars to US dollars at a rate well below the official rate. However, this announcement was silent on what rates would apply to funds already registered with the Central Bank and the timing of any repatriation. Iberia and the Spanish government are working with the Venezuelan authorities to determine a commercially acceptable solution in order for Iberia to continue operating to Venezuela.	When there are delays in the repatriation of cash, risk is mitigated by the review of commercial selling practices that seek to shift the point of sale away from the market subject to delay and limit future sales where these sales might be subject to devaluation before the customer flies.
	Interest rate risk arises on floating rate debt and floating rate leases which are typically linked to London Interbank Offered Rates. This exposure is partially offset by the reinvestment of cash deposits which are all of less than one year in tenor.	The impact of rising interest rates is mitigated through structuring selected new debt and lease deals at fixed rate throughout their term. The approach to interest rate risk management and proportions of fixed and floating debt are set out in note 27 to the financial statements.
	The Group is exposed to non-performance of financial contracts by counterparties, for activities such as money market deposits, fuel and currency hedging. Failure of counterparties may result in financial losses.	The approach to credit risk management and the Group's cash exposure by geography is set out in note 27 to the financial statements.
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 licences and assurances to preserve the specific interests of those companies.	Although complex, the structure has worked well with synergy targets being exceeded.
Non-compliance with competition, bribery and corruption law	The Group is exposed to the risk of individual employees' or groups of employees' unethical behaviour resulting in fines or losses to the Group.	The Group has comprehensive policies designed to ensure compliance, together with training schemes in place to educate staff in these matters.

The Spanish Corporate Governance Report 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 is included within the financial statements.

FINANCIAL STATEMENTS

In this section

CONSOLIDATED INCOME STATEMENT

		Year to December 31					
€ million	Note	**Before exceptional items 2013**	Exceptional items	Total 2013	Before exceptional items 2012 (restated)[1]	Exceptional items	Total 2012 (restated)[1]
Passenger revenue		**16,264**	(106)	16,158	15,372		15,372
Cargo revenue		**1,073**		1,073	1,217		1,217
Other revenue		**1,338**		1,338	1,528		1,528
Total revenue	4	**18,675**	(106)	18,569	18,117		18,117
Employee costs	9	**4,123**	98	4,221	4,341	238	4,579
Fuel, oil costs and emissions charges		**5,951**	(6)	5,945	6,101		6,101
Handling charges, catering and other operating costs		**1,932**		1,932	1,805		1,805
Landing fees and en-route charges		**1,422**		1,422	1,278		1,278
Engineering and other aircraft costs		**1,237**	15	1,252	1,285		1,285
Property, IT and other costs		**922**	5	927	997	9	1,006
Selling costs		**785**		785	830	7	837
Depreciation, amortisation and impairment	7	**1,006**	8	1,014	1,071	343	1,414
Aircraft operating lease costs	7	**482**	17	499	432	(7)	425
Currency differences		**45**		45	–		–
Total expenditure on operations		**17,905**	137	18,042	18,140	590	18,730
Operating profit/(loss)	4	**770**	(243)	527	(23)	(590)	(613)
Finance costs	10	**(301)**		(301)	(264)		(264)
Finance income	10	**31**		31	53		53
Retranslation credits on currency borrowings		**12**		12	9		9
Gains/(losses) on derivatives not qualifying for hedge accounting		**43**		43	(12)		(12)
Net credit/(charge) relating to available-for-sale financial assets	19	**2**		2	(1)		(1)
Share of post-tax (losses)/profits in associates accounted for using the equity method	18	**(8)**		(8)	17		17
(Loss)/profit on sale of property, plant and equipment and investments		**(9)**	(17)	(26)	7		7
Net financing charge relating to pensions	10	**(53)**		(53)	(43)		(43)
Gain on bargain purchase		**–**		–	–	73	73
Profit/(loss) before tax from continuing operations		**487**	(260)	227	(257)	(517)	(774)
Tax	11	**(57)**	(19)	(76)	72	44	116
Profit/(loss) after tax from continuing operations		**430**	(279)	151	(185)	(473)	(658)
Loss after tax from discontinued operations	5	**–**	(4)	(4)	–	(38)	(38)
Profit/(loss) after tax for the year		**430**	(283)	147	(185)	(511)	(696)
Attributable to:							
Equity holders of the parent		**405**		122	(205)		(716)
Non-controlling interest		**25**		25	20		20
		430		147	(185)		(696)
Basic earnings/(loss) per share (€ cents)							
From continuing operations				6.6			(36.7)
From discontinued operations				(0.2)			(2.0)
From profit/(loss) for the year				6.4			(38.7)
Diluted earnings/(loss) per share (€ cents)							
From continuing operations				6.5			(36.7)
From discontinued operations				(0.2)			(2.0)
From profit/(loss) for the year				6.3			(38.7)

1 Restated for amendment to IAS 19 Employee benefits accounting standard (note 2).

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

€ million	Note	Year to December 31 2013	2012 (restated)
Items that may be reclassified subsequently to net profit			
Cash flow hedges:			
Fair value movements in equity	31	**(203)**	36
Reclassified and reported in net profit	31	**36**	19
Changes in the fair value of available-for-sale financial assets	31	**294**	156
Currency translation differences	31	**(20)**	49
Items that will not be reclassified to net profit			
Remeasurements of post-employment benefit obligations	31	**521**	(902)
Total other comprehensive income for the year, net of tax		**628**	(642)
Profit/(loss) after tax for the year		**147**	(696)
Total comprehensive income for the year		**775**	(1,338)
Total comprehensive income is attributable to:			
Equity holders of the parent		**750**	(1,358)
Non-controlling interest		**25**	20
		775	(1,338)
Total comprehensive income attributable to equity shareholders arises from:			
Continuing operations		**754**	(1,320)
Discontinued operations		**(4)**	(38)

CONSOLIDATED BALANCE SHEET

€ million	Note	**December 31, 2013**	December 31, 2012 (restated)	January 1, 2012 (restated)
Non-current assets				
Property, plant and equipment	14	**10,228**	9,926	9,584
Intangible assets	17	**2,196**	1,965	1,724
Investments in associates	18	**25**	180	165
Available-for-sale financial assets	19	**1,092**	684	466
Employee benefit assets	32	**485**	606	703
Derivative financial instruments	28	**35**	26	37
Deferred tax assets	11	**501**	450	497
Other non-current assets	20	**197**	113	71
		14,759	13,950	13,247
Current assets				
Non-current assets held for sale	16	**12**	3	18
Inventories		**411**	414	400
Trade receivables	20	**1,196**	1,149	1,175
Other current assets	20	**631**	481	445
Derivative financial instruments	28	**135**	70	119
Other current interest-bearing deposits	21	**2,092**	1,547	1,758
Cash and cash equivalents	21	**1,541**	1,362	1,977
		6,018	5,026	5,892
Total assets		**20,777**	18,976	19,139
Shareholders' equity				
Issued share capital	29	**1,020**	928	928
Share premium	29	**5,867**	5,280	5,280
Treasury shares	31	**(42)**	(17)	(17)
Other reserves	31	**(2,936)**	(3,513)	(2,179)
Total shareholders' equity		**3,909**	2,678	4,012
Non-controlling interest	31	**307**	300	300
Total equity		**4,216**	2,978	4,312
Non-current liabilities				
Interest-bearing long-term borrowings	24	**4,535**	4,128	4,304
Employee benefit obligations	32	**738**	2,129	1,497
Deferred tax liability	11	**884**	582	814
Provisions for liabilities and charges	26	**1,796**	1,250	1,244
Derivative financial instruments	28	**66**	95	55
Other long-term liabilities	23	**225**	250	384
		8,244	8,434	8,298
Current liabilities				
Current portion of long-term borrowings	24	**587**	670	579
Trade and other payables	22	**6,793**	6,013	5,377
Derivative financial instruments	28	**528**	66	64
Current tax payable		**11**	12	157
Provisions for liabilities and charges	26	**398**	803	352
		8,317	7,564	6,529
Total liabilities		**16,561**	15,998	14,827
Total equity and liabilities		**20,777**	18,976	19,139

CONSOLIDATED CASH FLOW STATEMENT

€ million	Note	Year to December 31 2013	2012
Cash flows from operating activities			
Operating profit/(loss)		**527**	(613)
Depreciation, amortisation and impairment		**1,014**	1,414
Movement in working capital and other non-cash movements		**320**	312
Settlement of competition investigation		**(32)**	(70)
Cash payments to pension schemes (net of service costs)	32	**(372)**	(381)
Interest paid		**(163)**	(187)
Taxation		**(34)**	(4)
Net cash flows from operating activities from continuing operations		**1,260**	471
Net cash flows used in operating activities from discontinued operations		**(42)**	(132)
Net cash flows from operating activities		**1,218**	339
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		**(2,196)**	(1,239)
Sale of property, plant and equipment and intangible assets		**525**	46
Cash acquired on Business combination (net of consideration)		**293**	(1)
Interest received		**27**	43
(Increase)/decrease in other current interest-bearing deposits		**(593)**	246
Dividends received		**3**	14
Other investing movements		**6**	3
Net cash flows from investing activities		**(1,935)**	(888)
Cash flows from financing activities			
Proceeds from long-term borrowings		**1,529**	534
Proceeds from equity portion of convertible bond issued		**72**	–
Repayment of borrowings		**(275)**	(338)
Repayment of finance leases		**(402)**	(331)
Acquisition of own shares		**(42)**	–
Acquisition of non-controlling interest		**(24)**	–
Distributions made to holders of perpetual securities and other		**(20)**	(21)
Net cash flows from financing activities		**838**	(156)
Net increase/(decrease) in cash and cash equivalents		**121**	(705)
Net foreign exchange differences		**58**	90
Cash and cash equivalents at 1 January		**1,362**	1,977
Cash and cash equivalents at year end[1]	21	**1,541**	1,362
Interest-bearing deposits maturing after more than three months	21	**2,092**	1,547
Cash, cash equivalents and other interest-bearing deposits	21	**3,633**	2,909

1 Included in the Group's cash balance are funds of €217 million equivalent of restricted cash, of which €184 million relates to funds which have been recognised by Venezuela's Central Bank, but not yet repatriated. This is common practice for airlines operating in Venezuela. Between February 2013 and December 2013 the time taken to repatriate cash has risen to 12 months.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

At December 31, 2013

€ million	Issued share capital	Share premium	Treasury shares (note 31)	Other reserves	Retained earnings	**Total shareholders' equity**	Non-controlling interest (note 31)	**Total equity**
At January 1, 2013	928	5,280	(17)	(2,179)	743	**4,755**	300	**5,055**
Restatement	–	–	–	(28)	(2,049)	**(2,077)**	–	**(2,077)**
At January 1, 2013	928	5,280	(17)	(2,207)	(1,306)	**2,678**	300	**2,978**
Profit for the year	–	–	–	–	122	**122**	25	**147**
Other comprehensive income for the year:								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	–	–	–	46	–	**46**	–	**46**
Fuel and oil costs	–	–	–	(17)	–	**(17)**	–	**(17)**
Currency differences	–	–	–	7	–	**7**	–	**7**
Net change in fair value of cash flow hedges	–	–	–	(203)	–	**(203)**	–	**(203)**
Net change in fair value of available-for-sale financial assets	–	–	–	294	–	**294**	–	**294**
Currency translation differences	–	–	–	(20)	–	**(20)**	–	**(20)**
Remeasurements of post-employment benefit obligations	–	–	–	–	521	**521**	–	**521**
Cost of share-based payments	–	–	–	–	30	**30**	–	**30**
Exercise of share options	–	–	17	–	(9)	**8**	–	**8**
Acquisition of own shares	–	–	(42)	–	–	**(42)**	–	**(42)**
Equity portion of convertible bond issued	–	–	–	72	–	**72**	–	**72**
Non-controlling interest arising on Business combination	–	–	–	–	–	**-**	26	**26**
Acquisition of non-controlling interest	–	–	–	–	–	**-**	(24)	**(24)**
Issue of ordinary shares related to conversion of convertible bond	92	587	–	(94)	(172)	**413**	–	**413**
Distributions made to holders of perpetual securities	–	–	–	–	–	**-**	(20)	**(20)**
At December 31, 2013	**1,020**	**5,867**	**(42)**	**(2,122)**	**(814)**	**3,909**	**307**	**4,216**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

At December 31, 2012 (restated)

€ million	Issued share capital	Share premium	Investment in own shares (note 31)	Other reserves	Retained earnings	Total shareholders' equity	Non-controlling interest (note 31)	Total equity
At January 1, 2012	928	5,280	(17)	(2,467)	1,662	5,386	300	5,686
Restatement	–	–	–	–	(1,374)	(1,374)	–	(1,374)
At January 1, 2012 (restated)	928	5,280	(17)	(2,467)	288	4,012	300	4,312
Loss for the year	–	–	–	–	(716)	(716)	20	(696)
Other comprehensive income for the year:								
Cash flow hedges reclassified and reported in net profit:								
Passenger revenue	–	–	–	47	–	47	–	47
Fuel and oil costs	–	–	–	(10)	–	(10)	–	(10)
Currency differences	–	–	–	(18)	–	(18)	–	(18)
Net change in fair value of cash flow hedges	–	–	–	36	–	36	–	36
Net change in fair value of available-for-sale financial assets	–	–	–	156	–	156	–	156
Currency translation differences	–	–	–	49	–	49	–	49
Remeasurements of post-employment benefit obligations	–	–	–	–	(902)	(902)	–	(902)
Cost of share-based payments	–	–	–	–	24	24	–	24
Distributions made to holders of perpetual securities	–	–	–	–	–	–	(20)	(20)
At December 31, 2012	928	5,280	(17)	(2,207)	(1,306)	2,678	300	2,978

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).

During the year, IAG increased its shareholding in Vueling Airlines, S.A. (Vueling) from 45.85 per cent to 99.36 per cent as a result of three transactions. The Group already indirectly owned 45.85 per cent of Vueling through its subsidiary Iberia. On April 26, 2013, the Group acquired a further 44.66 per cent of the issued share capital of Vueling totalling €124 million. On August 7, 2013, the Group acquired a further 7.01 per cent of the issued share capital of Vueling, for a total of €19 million, bringing the total IAG Group shareholding in Vueling to 97.52 per cent. During November and December 2013, the Group acquired a further 1.84 per cent of the issued share capital of Vueling for a total of €5 million, bringing the total IAG Group shareholding in Vueling to 99.36 per cent at December 31, 2013.

On May 14, 2013, the Group issued a €390 million fixed rate convertible bond, raising net proceeds of €386 million, which holds a coupon rate of 1.75 per cent and is convertible into ordinary shares at the option of the holder before or upon maturity in May 2018. The conversion price was set at a premium of 35 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.

On August 16, 2013 IAG announced that British Airways had exercised its option to redeem all of its outstanding £350 million 5.80 per cent convertible bonds. As an alternative to the redemption of the bonds, the bondholders had the option under the terms and conditions of the bonds to exchange bonds for ordinary shares in the Company. During August and September 2013, all bondholders exercised their option to exchange their convertible bonds for ordinary shares, resulting in the issue of 184,708,966 new shares.

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

The Group has adopted amendments to IAS 19 'Employee benefits' from January 1, 2013 and has retrospectively applied these changes to the comparative information (note 2).

The Group's financial statements for the year to December 31, 2013 were authorised for issue, and approved by the Board of Directors on February 27, 2014.

The Directors have considered the business activities as set out on pages 10 to 16, the Group's principal risks and uncertainties as set out on pages 88 to 95, and the Group's financial position, including cash flows, liquidity position and available committed facilities. The Directors consider that the Group has adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements.

Consolidation

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

Subsidiaries are consolidated from the date of their acquisition, which is the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Control exists when the Group 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.

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

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

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

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

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

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

Foreign currency translation
a Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the functional currency, being the currency of the primary economic environment in which the entity operates. The Group's consolidated financial statements are presented in euros, which is the Group's presentation currency.

b Transactions and balances
Transactions in foreign currencies are initially recorded in the functional currency using the rate of exchange prevailing on the date of the transaction. Monetary foreign currency balances are translated into the functional currency at the rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income statement, except where hedge accounting is applied.

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

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

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

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

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

2 Summary of significant accounting policies continued

b Fleet continued

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

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

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

c Other property, plant and equipment

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

d Leased assets

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

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

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

Intangible assets

a Goodwill

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

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

b Brands

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

c Customer loyalty programmes

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

d Landing rights

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

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

e Contract based-intangibles

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

f Software
The cost to purchase or develop computer software that is separable from an item of related hardware is capitalised separately and amortised on a straight-line basis over a period not exceeding five years.

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

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

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

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

Investments in associates
An associate is an undertaking in which the Group has a long-term equity interest and over which it has the power to exercise significant influence. The Group's interest in the net assets of associates is included in Investment in associates in the Balance sheet and its interest in their results is included in the Income statement, below Operating result. The attributable results of those companies acquired or disposed of during the year are included for the periods of ownership. Where the Group does not exercise control over an entity in which it has a shareholding greater than 51 per cent, the equity interest is treated as an associated undertaking.

Financial instruments
a Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets not classified as loans and receivables. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised in Other comprehensive income until the investment is sold or becomes impaired, at which time the cumulative gain or loss previously reported in equity is recognised in the Income statement.

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

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events that have occurred since the initial recognition of the asset have had a negative impact on the estimated future cash flows of that asset.

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

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

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

2 Summary of significant accounting policies continued

Financial instruments continued

d Derivative financial instruments and hedging activities

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

Other investments, excluding interests in associates, are designated as available-for-sale financial assets and are recorded at fair value. Any change in the fair value is reported in Other comprehensive income until the investment is sold, when the cumulative amount recognised in equity is recognised in the Income statement. In the case of equity securities classified as available-for-sale investments, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative gain or loss previously reported in Other comprehensive income is included in the Income statement.

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

Long-term borrowings are recorded at amortised cost, including leases which contain interest rate swaps that are closely related to the underlying financing. Derivative financial instruments, comprising interest rate swap agreements, foreign exchange derivatives and fuel hedging derivatives (including options, swaps and futures), are measured at fair value on the Balance sheet.

e Cash flow hedges

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

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

f Convertible debt

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

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

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

Derecognition of financial assets and liabilities

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

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

Employee benefit plans

a Pension obligations

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

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

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets are deducted. The discount rate is the yield at the balance sheet date on AA-rated corporate bonds of the appropriate currency that have durations approximating those of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a net asset to the Group, the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan ('the asset ceiling'). Fair value is based on market price information and, in the case of quoted securities, is the published bid price.

The fair value of insurance policies which exactly match the amount and timing of some or all benefits payable under the scheme are deemed to be the present value of the related obligations. Longevity swaps are measured at their fair value.

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

b Termination benefits

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

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

Taxation

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

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

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

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

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

Non-current assets held for sale

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

2 Summary of significant accounting policies continued

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 purchased and held directly by the Company are classified as Treasury shares, and shown as deductions from shareholders' equity at cost. Shares in the Company held by the British Airways Plc Employee Share Ownership Trust are classified as Investment 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

Provisions are made when a future obligation exists for a present liability in respect of a past event and where the amount of the obligation can be reliably estimated. Employee leaving indemnities and other employee provisions 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 recognition

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

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

Revenue recognition – customer loyalty programmes

The Group operates three principal loyalty programmes: Executive Club, Iberia Plus and Avios, and has recently acquired through Business combination the Vueling plan 'Punto'. The principal 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 and provision of service to the participants to whom the Avios points are issued. During the year management have changed the estimate regarding the revenue recognised on redemption (note 6).

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 includes items such as significant restructuring; the impact of business combination transactions that do not contribute to the on-going results of the Group; and any impact of an impairment of a business.

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

Critical accounting 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. Actual results in the future may differ from estimates upon which financial information has been prepared. These underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if these are also affected. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a Impairment of non-financial assets
The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and intangible assets with indefinite economic lives are tested for impairment annually and at other times when such indicators exist. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as disclosed in note 17.

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

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

c 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.

d 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 to their residual values over their estimated useful lives.

Changes in accounting policy and disclosures
a New and amended standards adopted by the Group
The Group has adopted the following standards, interpretations and amendments for the first time in the year to December 31, 2013:

IFRS 7 (Amendment) 'Financial Instruments: Disclosures'; effective for periods beginning on or after January 1, 2013. 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.

2 Summary of significant accounting policies continued

Changes in accounting policy and disclosures continued

IFRS 13 'Fair value measurement'; effective for periods beginning on or after January 1, 2013. The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. 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) 'Financial statement presentation'; effective for periods beginning on or after July 1, 2012. This amendment requires companies to group together items within Other comprehensive income that may be reclassified to the profit or loss section of the income statement. Items in the Other comprehensive income should be presented as either a single statement or two consecutive primary statements.

Prior period restatement – Adoption of IAS 19 'Employee benefits' accounting standard

The Group has adopted the revised IAS 19 'Employee benefits' standard from January 1, 2013 and has retrospectively applied these changes to the comparative information.

The revised standard has eliminated the use of the corridor approach. This has resulted in recognition of all remeasurements of the defined benefit liability or asset including gains and losses in Other comprehensive income. Any deficits and surpluses of defined benefit plans are now recognised in full in the Balance sheet, subject to any restrictions on surpluses due to the asset ceiling requirements. Unrecognised cumulative gains in relation to the Airways Pension Scheme (APS) will not be recognised as these will be fully restricted by the APS asset ceiling. At December 31, 2012 the net pensions liability has been increased to reflect previously unrecognised cumulative net losses, being an increase in the net liability of €2,697 million, partially offset by a decrease in the related deferred tax liability of €620 million. Total equity is restated at December 31, 2012 to reduce equity by €2,077 million to €2,978 million.

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

The effect of the prior period restatement is a decrease in the net pensions finance charge for the year to December 31, 2012 of €223 million; €44 million for the elimination of financing charges for the amortisation of actuarial losses in excess of the corridor; and €179 million due to the effect of the asset ceiling restriction.

The revised standard also enhances the disclosure requirements for the defined benefit plans, requiring more information about the characteristics of such plans and the risk to which the Group are exposed through participation in those plans, as set out in note 32.

The restatements recorded by the Group are summarised as follows:

Year to December 31, 2012

€ million	Effect on the Income statement: Net financing (expense)/ income relating to pensions	Tax	**Loss after tax**[1]	Effect on Other comprehensive income: Remeasurements of post-employment benefits obligations	Other	**Other comprehensive income**	**Total Comprehensive income**[1]
Amount previously reported for 2012	(266)	112	**(885)**	–	288	**288**	**(597)**
Restatement	223	4	**227**	(902)	(28)	**(930)**	**(703)**
Restated amount for 2012	(43)	116	**(658)**	(902)	260	**(642)**	**(1,300)**
Attributable to:							
Equity holder of the parent			**(678)**				**(1,320)**
Non-controlling interest			**20**				**20**
Restated amount for 2012			**(658)**				**(1,300)**

1 Before discontinued operations.

At December 31, 2012

€ million	Employee benefit assets	Total non-current assets	**Total assets**	Employee benefit obligations	Deferred tax liability	Total non-current liabilities	**Total liabilities**	**Total equity**
Balance previously reported as at December 31, 2012	1,467	14,811	**19,837**	293	1,202	7,218	**14,782**	**5,055**
Cumulative effect for prior periods – restatement	(861)	(861)	**(861)**	1,836	(620)	1,216	**1,216**	**(2,077)**
Restated balance as at December 31, 2012	606	13,950	**18,976**	2,129	582	8,434	**15,998**	**2,978**

At December 31, 2011

€ million	Employee benefit assets	Total non-current assets	**Total assets**	Employee benefit obligations	Deferred tax liability	Total non-current liabilities	**Total liabilities**	**Total equity**
Balance previously reported as at December 31, 2011	1,317	13,861	**19,753**	277	1,274	7,538	**14,067**	**5,686**
Cumulative effect for prior periods – restatement	(614)	(614)	**(614)**	1,220	(460)	760	**760**	**(1,374)**
Restated balance as at December 31, 2011	703	13,247	**19,139**	1,497	814	8,298	**14,827**	**4,312**

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

b New standards, amendments and interpretations not yet effective

The IASB and IFRIC issued the following standards, amendments and interpretations with an effective date after the date of these financial statements which management believe could impact the Group in future periods. Unless otherwise stated, the Group plans to adopt the following standards, interpretations and amendments from January 1, 2014.

IFRS 9 'Financial instruments' (not yet endorsed by the EU); effective for periods beginning on or after January 1, 2015. The standard removes the multiple classification and measurement models for financial assets required by IAS 39 and introduces a model that has only two classification categories: amortised cost and fair value. Classification is driven by the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The accounting and presentation for financial liabilities and for derecognising financial instruments is relocated from IAS 39 without any significant changes. IFRS 9 (2010) introduces additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. The Group has not yet decided the date of adoption and has not yet completed its evaluation of the effects of the adoption.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies continued

Changes in accounting policy and disclosures continued

The IASB issued three new standards relating to interest in other entities and related disclosure. These standards are mandatory for the Group from January 1, 2014. The new standards are IFRS 10 'Consolidated financial statements', IFRS 11 'Joint arrangements' and IFRS 12 'Disclosure of interest in other entities'. IFRS 10 replaces the guidance on control and consolidation in IAS 27 and SIC 12 'Consolidation-special purpose entities'. IFRS 11 requires joint arrangements to be accounted for as a joint operation or as a joint venture depending on the rights and obligations of each party to the arrangement. IFRS 12 requires enhanced disclosure of the nature, risk and the financial effects associated with the Group's interest in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they were a single entity remains unchanged, as do the mechanics of consolidation. It is anticipated that the application of these standards will have no significant impact on the Group's net profit or net assets.

IAS 32 (Amendment) 'Financial instruments: Presentation'; effective for periods beginning on or after January 1, 2014. The amendment clarifies some of the requirements for offsetting financial asset and financial liabilities on the balance sheet. It is anticipated that the application of this standard will have no significant impact on the Group's net profit or net assets.

IAS 36 (Amendment) 'Impairment of assets'; effective for periods beginning on or after January 1, 2014. The amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The standard requires a change in the presentation of the Group's notes to the financial statements.

IAS 39 (Amendment) 'Financial instruments: Recognition and measurement'; effective for periods beginning on or after January 1, 2014. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specific criteria. It is anticipated that the application of this standard will have no significant impact on the Group's net profit or net assets.

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

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

3 Business combinations

On April 26, 2013, the Group acquired a further 44.66 per cent of the issued share capital of Vueling for €9.25 per share, therefore bringing the IAG Group shareholding in Vueling to 90.51 per cent. The Group already indirectly owned 45.85 per cent of Vueling through its subsidiary Iberia.

The acquisition will contribute to the geographic diversification of the Group. Through Vueling's leading position in Barcelona and growth in the rest of Europe, IAG expects incremental synergies primarily from purchasing and financing; additionally Vueling incorporates a low-cost platform for the Group.

Transaction costs related to the acquisition of Vueling totalling €5 million were recognised within Property, IT and other costs in the Income statement for the year to December 31, 2013.

From April 26, 2013, Vueling's contribution to the consolidated Group results was revenue of €1,130 million, and an operating profit of €168 million. Had Vueling been consolidated from January 1, 2013, the Group would have reported total revenue of €18,851 million and an operating profit after exceptional items of €496 million for the year to December 31, 2013.

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

€ million	Fair value
Property, plant and equipment	3
Intangible assets	
Brand	35
Landing rights[1]	89
Other	16
Other non-current assets	171
Cash and cash equivalents	417
Other current interest-bearing deposits	13
Trade receivables[2]	70
Other current assets	120
Trade and other payables	(436)
Provision for liabilities and charges	(223)
Deferred tax liability	(26)
Net identifiable assets/(liabilities) acquired	**249**

1 Landing rights have been assessed as having indefinite lives and will be tested annually for impairment.
2 The gross contractual amount for trade receivables is €70 million, 100 per cent which is expected to be collected.

The goodwill is recognised as follows:

€ million	
Cash consideration for obtaining control[1]	124
Fair value of pre-existing interest in Vueling	127
Purchase price representing IAG's 90.51 per cent ownership in Vueling	251
Non-controlling interest[2]	26
Fair value of identifiable net assets	249
Goodwill	**28**

1 There is no deferred or contingent consideration.
2 The non-controlling interest at April 26, 2013 has been valued at €9.25 per share.

None of the goodwill recognised is expected to be deductible for tax purposes.

Acquisition of additional interest in Vueling

Following obtaining control, the Group increased its ownership interest in Vueling. An increase in ownership of a subsidiary is recorded as a decrease in non-controlling interest with no impact on the original purchase price.

In the second half of the year, the Group acquired a further 8.85 per cent of the issued share capital of Vueling in three separate tranches, increasing its ownership from 90.51 per cent to 99.36 per cent. The total cost of purchasing the additional Vueling shares was €24 million, and all transactions were for €9.25 per share. The Group recognised a decrease in non-controlling interest of €24 million.

Notes to the consolidated financial statements continued

4 Segment information

a Business segments

British Airways, Iberia and Vueling are managed as individual operating companies. Each company operates its network operations as a single business unit. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments, and has been identified as the IAG Management Committee. The IAG Management Committee makes resource allocation decisions based on network profitability, primarily by reference to the passenger markets in which the companies operate. The objective in making resource allocation decisions is to optimise consolidated financial results. Therefore, based on the way the Group treats its businesses, and the manner in which resource allocation decisions are made, the Group has three (2012: two) reportable operating segments for financial reporting purposes, reported as British Airways, Iberia and Vueling.

For the year to December 31, 2013

	2013				
€ million	British Airways	Iberia	Vueling[1]	Unallocated	**Total**
Revenue					
External revenue	13,337	4,102	1,130	–	**18,569**
Inter-segment revenue	18	128	3	84	**233**
Segment revenue	13,355	4,230	1,133	84	**18,802**
Depreciation, amortisation and impairment	(851)	(154)	(5)	(4)	**(1,014)**
Operating profit/(loss) after exceptional items[2]	**830**	**(482)**	**168**	**11**	**527**
Net non-operating costs					**(300)**
Profit before tax from continuing operations					**227**

1 The Vueling performance is reported under the Group accounting policies and represents results from the acquisition date of April 26, 2013.

2 The British Airways segment includes an exceptional credit of €170 million related to the revision in the US past service cost benefits and an exceptional charge of €102 million related to the frequent flyer programme change in estimate; the Iberia segment includes an exceptional charge of €312 million related to the Iberia Transformation Plan and an exceptional charge of €4 million related to the frequent flyer programme change in estimate; and the Unallocated segment includes an exceptional credit of €10 million associated with derivatives and financial instruments, and an exceptional charge of €5 million related to Business combination costs (note 6).

For the year to December 31, 2012 (restated)

	2012			
€ million	British Airways	Iberia	Unallocated	Total
Revenue				
External revenue	13,312	4,805	–	18,117
Inter-segment revenue	26	36	50	112
Segment revenue	13,338	4,841	50	18,229
Depreciation, amortisation and impairment	(886)	(169)	(16)	(1,071)
Goodwill and intangible asset impairment				
Goodwill	–	(249)	–	(249)
Intangible assets	–	(94)	–	(94)
Impairment charge on goodwill and intangible assets	–	(343)	–	(343)
Operating profit/(loss) after exceptional items[1]	295	(896)	(12)	(613)
Net non-operating costs				(161)
Loss before tax from continuing operations				(774)

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

b Geographical analysis

Revenue by area of original sale

€ million	2013	2012
UK	**6,085**	6,029
Spain	**2,839**	2,548
USA	**2,677**	2,647
Rest of world	**6,968**	6,893
	18,569	18,117

Assets by area

At December 31, 2013

€ million	Property, plant and equipment	Intangible assets
UK	**8,891**	**1,022**
Spain	**1,296**	**1,138**
USA	**34**	**5**
Unallocated	**7**	**31**
	10,228	**2,196**

At December 31, 2012

€ million		
UK	8,460	968
Spain	1,394	960
USA	61	5
Unallocated	11	32
	9,926	1,965

5 Discontinued operations

In 2012 through its subsidiary British Airways, the Group acquired bmibaby and bmi regional as part of the acquisition of British Midland Airways Limited. As bmibaby and bmi regional were not part of the Group's long-term plans, they were presented as discontinued operations. bmi regional was sold to Sector Aviation Holdings Ltd in 2012. bmibaby ceased to trade in September 2012, with all 14 aircraft being stood down in advance of handback to lessors.

In 2013, no revenue (2012: €90 million) was earned with total expenditure on operations of €4 million (2012: €128 million), relating to additional costs incurred in handing back aircraft to lessors. There was no finance income, finance expense or taxation relating to the discontinued operations (2012: nil).

6 Exceptional items

€ million	2013	2012
Restructuring costs – employee[1]	**268**	202
Restructuring costs – aircraft[1]	**44**	–
Business combination costs[2]	**5**	87
Pre-acquisition cash flow hedge impact[3]	**(10)**	(7)
Revision in US past service cost benefits[4]	**(170)**	–
Frequent flyer programme change in estimate[5]	**106**	–
Settlement of competition investigation[6]	**–**	(35)
Intangible assets and goodwill impairment[7]	**–**	343
Recognised in expenditure on operations	**243**	590
Loss on step acquisition[8]	**17**	–
Loss on discontinued operations[9]	**4**	38
Gain on bargain purchase[10]	**–**	(73)
Total exceptional charge before tax	**264**	555

Notes to the consolidated financial statements continued

6 Exceptional items continued

1 Restructuring costs
A restructuring expense of €312 million has been recognised in relation to the Iberia Transformation Plan (2012: €202 million). Employee restructuring costs associated with the Transformation Plan of Iberia were recorded in 2012, calculated based on Management's expectation of the application of the new labour law in Spain. During the year, €265 million of additional employee restructuring costs have been charged to reflect the increased cost of the severance as proposed by the mediator agreement.

Restructuring costs of €47 million associated with the return of leased aircraft and standing down owned aircraft have also been recorded.

2 Business combination costs
Transaction expenses of €5 million have been recognised in relation to Vueling in the year to December 31, 2013.

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

3 Derivatives and financial instruments
On January 21, 2011, Iberia had a portfolio of cash flow hedges with a net mark-to-market charge of €67 million recorded within Other reserves on the Balance sheet. On April 26, 2013, Vueling had a portfolio of cash flow hedges with a net mark-to-market charge which rounds to nil recorded within Other reserves in the Balance sheet. As these cash flow hedge positions unwind, Iberia and Vueling will recycle the impact from Other reserves through their respective Income statement.

The Group does not recognise the pre-acquisition cash flow hedge net position within Other reserves on the Balance sheet, resulting in fuel and aircraft operating lease costs being gross of the pre-acquisition cash flow hedge positions. For the year to December 31, 2013 this has resulted in a decrease in reported aircraft operating lease costs of €4 million (2012: decrease of €7 million), a decrease in reported fuel expense of €6 million and a related €3 million tax charge (2012: €2 million tax charge).

4 Revision in US past service cost benefits
The Group made changes to the US PRMB (Post-Retirement Medical Benefits) during 2013 to bring the level of benefits in line with national trends in the US. This scheme is accounted for in a similar way to a defined benefit plan, meaning that any reduction in benefit would result in a recognition of a past service gain when the plan amendment occurs. This change has resulted in a recognition of a one-off gain in employee costs of €170 million during the year, and a related deferred tax charge of €39 million.

5 Frequent flyer programme change in estimate
During 2013, management revised estimates relating to the frequent flyer programme revenue recognised on redemption. Historically, management information systems have provided a constraint on the reliability of revenue recognition at the point of departure. As part of a Group-wide exercise to review the existing frequent flyer programmes, reporting has been developed to better estimate the revenue that should be deferred to departure and so this new management information has been adopted during the year giving rise to a current year reduction in passenger revenue of €106 million, and a related tax credit of €23 million.

6 Provisions
In April 2012, British Airways settled a fine with the Office of Fair Trading in the UK relating to investigations into passenger fuel surcharging dating back to 2004 through to 2006. The fine agreed was €70 million (£58.5 million), resulting in a €35 million release in the year to December 31, 2012 of the provision held. This provision release was considered exceptional due to its size, incidence and in line with the recognition of the original charge.

7 Intangible assets and goodwill impairment
For the year to December 31, 2012, a charge of €343 million was recognised for the impairment of the Iberia cash generating unit. Goodwill of €249 million from the acquisition was fully impaired, the Iberia Brand was partially impaired by €79 million and other intangible assets impaired by €15 million. The associated deferred taxes related to the impaired assets have been reversed, resulting in a tax credit of €28 million.

8 Loss on step acquisition
As a result of Iberia's original investment in Vueling, the Business combination was achieved in stages. The Group revalued its original investment in Vueling to fair value at the acquisition date resulting in a non-cash loss of €17 million recognised in the Loss on sale of property, plant and equipment and investments line within Exceptional items in the Income statement.

9 Discontinued operations
The loss after tax from discontinued operations of bmibaby and bmi regional was €4 million for the year to December 31, 2013 (2012: €38 million).

10 Gain on bargain purchase
The 2012 gain on bargain purchase related to the bmi acquisition of €73 million has been credited to Non-operating costs in the Income statement.

7 Expenses by nature

Operating profit/(loss) is arrived at after charging/(crediting)

Depreciation, amortisation and impairment of non-current assets:

€ million	2013	2012
Owned assets	699	709
Finance leased aircraft	206	244
Other leasehold interests	58	56
Impairment charge on property, plant and equipment	19	19
Amortisation of intangible assets	32	43
Impairment charge on goodwill and intangible assets	–	343
	1,014	1,414

Operating lease costs:

€ million		2013	2012
Minimum lease rentals	– aircraft	499	425
	– property and equipment	186	196
Sub-lease rentals received		(38)	(39)
		647	582

Cost of inventories:

€ million	2013	2012
Cost of inventories recognised as an expense, mainly fuel	5,819	6,396

8 Auditors' remuneration

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

	2013		2012	
€'000	Ernst & Young	Other auditor	Ernst & Young	Other auditor
Fees payable for the audit of the Group and individual accounts	2,717	–	2,411	660
Fees payable for other services:				
Audit of the Group's subsidiaries pursuant to legislation	622	145	529	71
Other services pursuant to legislation	274	–	180	–
Other services relating to taxation	314	–	288	127
Other assurance services	399	16	751	–
Services relating to information technology	50	–	–	–
Services relating to corporate finance transactions[1]	1,139	–	90	–
All other services	–	–	–	1,302
	5,515	161	4,249	2,160

1 This mainly included services in relation to the fleet order circular (2012: The acquisition of bmi).

The audit fees payable are approved by the Audit and Compliance Committee and have been reviewed in the context of other companies for cost effectiveness. A description of the work of the Audit and Compliance Committee is set out in the Report of the Audit and Compliance Committee on page 46 and includes an explanation of how objectivity and independence is safeguarded when non-audit services are provided.

9 Employee costs and numbers

a Employee costs

€ million	2013	2012
Wages and salaries	**3,041**	3,247
Social security costs	**423**	425
Costs related to pension scheme benefits[1]	**124**	262
Other post-retirement benefit costs	**3**	5
Cost of share-based payments	**30**	24
Other employee costs[2]	**600**	616
	4,221	4,579

1 Includes an exceptional gain of €170 million related to revision in US past service cost benefits (note 6).

2 Other employee costs include allowances and accommodation for crew.

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

Number	2013	2012
Senior executives[1]	**251**	240
Ground employees:		
Managerial[2]	**2,476**	2,418
Non-managerial[3]	**33,509**	34,385
Technical crew:		
Managerial[4]	**5,431**	4,525
Non-managerial[5]	**18,422**	18,006
	60,089	59,574

Of the final headcount at December 31, 2013 women represent the following percentages: [1] 24 per cent, [2] 40 per cent, [3] 36 per cent, [4] 9 per cent, [5] 67 per cent (2012: [1] 24 per cent, [2] 38 per cent, [3] 36 per cent, [4] 5 per cent, [5] 66 per cent).

b Directors' remuneration

€ million	2013	2012
Board of Directors remuneration	**16**	6
Management Committee remuneration	**8**	4

There were two female Directors at December 31, 2013 (2012: one).

The Report of the Remuneration Committee on pages 53 to 73 discloses further details of Directors' remuneration.

The Group provides life insurance for the Executive Directors of the Board, and for the year to December 31, 2013 the Group's obligation was €22,000 (2012: €22,000). At December 31, 2013 the total transfer value of accrued pensions covered under defined benefit pension schemes totalled €3 million (2012: €3 million).

No Directors hold equity investments in companies whose activity is identical, similar or complementary to that of the Group, except for the Chief Executive Officer who holds 10,616 shares (0.002 per cent) (2012: 10,616 shares) in Aer Lingus Group plc.

The Directors have also confirmed that they hold no positions and carry out no duties in companies with identical, similar or complementary activities to those of the Group, nor do they perform activities on their own behalf or on behalf of third parties that are identical, similar or complementary to those of the Group.

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

10 Finance costs and income

a Finance costs

€ million	2013	2012
Interest expense on:		
Bank borrowings	**(22)**	(27)
Finance leases	**(85)**	(100)
Provisions: unwinding of discount	**(51)**	(37)
Other borrowings	**(130)**	(99)
Capitalised interest on progress payments	**4**	4
Change in fair value of cross currency swaps	**(7)**	1
Currency charges on financial fixed assets	**(10)**	(6)
	(301)	(264)

b Finance income

€ million	2013	2012
Interest on other interest-bearing deposits	**31**	53

c Net financing charge relating to pensions

€ million	2013	2012 (restated)
Net financing charge relating to pensions	**(53)**	(43)

11 Tax

a Tax on profit on ordinary activities

Tax charge/(credit) in the Income statement

€ million	2013	2012 (restated)
Current tax		
Tax on profits	**108**	3
Adjustments in respect of prior years	**(8)**	(1)
Total current tax charge	**100**	2
Deferred tax arising on the differences between the accounting and tax treatment of:		
Fixed assets	**(24)**	(78)
Employee benefit plans	**35**	65
Employee leaving indemnities and other employee related provisions	**-**	10
Foreign exchange	**(13)**	(6)
Tax losses carried forward	**60**	(23)
Share-based payment deductions	**(1)**	(1)
Adjustments in respect of prior years	**7**	(14)
Deferred revenue in relation to loyalty reward programmes	**20**	10
Effect of tax rate changes	**(121)**	(90)
Other items	**13**	9
Total deferred tax credit	**(24)**	(118)
Total tax charge/(credit) in the Income statement	**76**	(116)

Notes to the consolidated financial statements continued

11 Tax continued

Tax on profit on ordinary activities continued

Tax charged/(credited) directly to Other comprehensive income and Statement of changes in equity

€ million	2013	2012 (restated)
Current tax relating to items charged directly to Other comprehensive income		
Employee benefit plans	**(65)**	–
Current tax relating to items charged directly to Statement of changes in equity		
Share-based payments in issue	**(1)**	–
Deferred tax relating to items charged directly to Other comprehensive income		
Exchange differences	**32**	23
Net change in fair value of cash flow hedges	**(121)**	(17)
Net change in fair value of available-for-sale financial assets	**121**	73
Employee benefit plans	**266**	(143)
Effect of tax rate changes	**19**	4
	317	(60)
Deferred tax relating to items charged directly to Statement of changes in equity		
Share-based payments in issue	**(4)**	–
Total tax charge/(credit) relating to items included in Other comprehensive income and equity	**247**	(60)

b Reconciliation of the total tax charge/(credit)

The tax charge/(credit) is calculated at the domestic rates applicable to profits or losses in the main countries of operation. The tax charge (2012: credit) on the profit for the year to December 31, 2013 (2012: loss) is higher (2012: lower) lower than the notional tax charge (2012: credit).

The differences are explained below:

€ million	2013	2012 (restated)
Accounting profit/(loss) before tax	**227**	(774)
Tax calculated at 30% in Spain (2012: 30%) and 23.3% in the UK (2012: 24.5%)	**28**	(240)
Effects of:		
Current year losses not recognised	**86**	138
Other temporary differences not recognised	**93**	66
Non-deductible expenses	**6**	21
Pension fund accounting	**(5)**	(31)
Euro preferred securities accounted for as non-controlling interests	**(5)**	(5)
Foreign exchange	**-**	(9)
Adjustments in respect of prior years	**(1)**	(14)
Disposal and write down of investments	**-**	76
Net impact of accounting for Business combinations	**(1)**	(17)
Effect of tax rate changes	**(121)**	(90)
Other items	**(4)**	(11)
Tax charge/(credit) in the Income statement	**76**	(116)

c Net deferred tax liability

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

€ million	2013	2012 (restated)
Difference between the accounting and tax treatment of:		
Fixed assets	**1,217**	1,337
Employee benefit plans	**(132)**	(454)
Exchange differences on funding liabilities	**17**	1
Advance corporation tax paid	**(118)**	(121)
Tax losses carried forward	**(404)**	(412)
Fair value losses recognised on cash flow hedges	**(130)**	(12)
Fair value profits recognised on available-for-sale financial assets	**313**	192
Share-based payments	**(14)**	(9)
Deferred revenue in relation to loyalty reward programmes	**(19)**	(40)
Employee leaving indemnities and other employee related provisions	**(292)**	(292)
Tax assets in relation to tax credits and deductions	**(44)**	(44)
Other items	**(11)**	(14)
	383	132

Movement in provision

€ million	2013	2012 (restated)
Balance at beginning of the year	**132**	317
Acquired through Business combination	**(31)**	(18)
Deferred tax credit relating to Income statement	**(24)**	(116)
Deferred tax charge/(credit) taken to Statement of other comprehensive income	**317**	(60)
Deferred tax charge taken to Statement of changes in equity	**(4)**	–
Exchange movements	**(7)**	9
	383	132

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	2013	2012
UK Air Passenger Duty	**723**	716
Other ticket taxes	**1,171**	792
Payroll related taxes	**419**	454
	2,313	1,962

e Factors that may affect future tax charges

Deferred tax assets of €302 million (2012: €261 million) in Spain and of €102 million (2012: €151 million) in the UK have been recognised in respect of tax losses carried forward. The Spanish tax losses will expire from 2025 to 2029 and the UK losses have no expiration date. Cumulative unrecognised deferred tax assets of €373 million (2012: €200 million) relate to Iberia tax losses and other temporary differences and will be considered for recognition when Iberia is profitable. The loss element of those assets will expire by 2031.

The Group has overseas tax losses of €138 million (2012: €100 million) that are carried forward for offset against suitable future taxable profits. No deferred tax asset has been recognised in respect of these losses as their utilisation is not currently anticipated. These losses have no expiration date.

To the extent that the losses carried forward are offset against suitable future taxable profits in accordance with local laws, future cash tax payments will reduce.

Notes to the consolidated financial statements continued

11 Tax continued

The Group has unrecognised capital losses carried forward of €202 million at December 31, 2013 (2012: €209 million) which have no expiration date. These losses are available for offset against future chargeable gains in the UK. Deferred tax arising on chargeable gains by roll-over and hold-over relief claims reduced the tax basis of fixed assets by €82 million (December 31, 2012: €85 million). No deferred tax liability has been recognised in respect of the crystallisation of these chargeable gains as they can be offset against capital losses carried forward. The Group also has an unrecognised deferred tax asset of €61 million (2012: €63 million) arising from temporary differences in respect of future capital losses if certain properties are realised at their residual value. These losses have no expiration date.

The provision for deferred tax arising in Spain at December 31, 2013 was calculated at 30 per cent. The main rate of UK corporation tax reduced from 24 per cent to 23 per cent effective from April 1, 2013. Further reductions in the UK corporation tax rate to 21 per cent effective from April 1, 2014 and 20 per cent effective from April 1, 2015 were substantively enacted in the year. The provision for deferred tax arising in the UK on differences between tax and accounting treatment as at December 31, 2013 was calculated at the tax rates at which the difference is expected to reverse in future periods.

12 Earnings per share

€ million	2013	2012 (restated)
Earnings/(loss) attributable to equity holders of the parent and basic earnings per share from continuing operations	**126**	(678)
Loss attributable to equity holders of the parent and basic earnings per share from discontinued operations	**(4)**	(38)
Interest expense on 5.8 per cent convertible bond	**-**	49
Diluted earnings/(loss) attributable to equity holders of the parent and diluted earnings per share	**122**	(667)

	Number '000	Number '000
Weighted average number of ordinary shares in issue	**1,905,717**	1,848,453
Assumed conversion on 5.8 per cent convertible bond	**-**	184,727
Dilutive employee share-based payments outstanding	**39,524**	34,571
Weighted average number of ordinary shares in issue for diluted earnings per share	**1,945,241**	2,067,751

The effect of the assumed conversion of the IAG €390 million convertible bond is antidilutive in 2013, and therefore has not been included in the diluted earnings per share calculation.

Basic earnings/(loss) per share (€ cents)		
From continuing operations	**6.6**	(36.7)
From discontinued operations	**(0.2)**	(2.0)
From profit/(loss) for the year	**6.4**	(38.7)

Diluted earnings/(loss) per share (€ cents)		
From continuing operations	**6.5**	(36.7)
From discontinued operations	**(0.2)**	(2.0)
From profit/(loss) for the year	**6.3**	(38.7)

13 Dividends

The Directors propose that no dividend be paid for the year to December 31, 2013 (2012: €nil).

14 Property, plant and equipment

€ million	Fleet	Property	Equipment	**Total**
Cost				
Balance at January 1, 2012	16,051	2,044	1,205	19,300
Additions	991	42	85	1,118
Acquired through Business combination	132	–	1	133
Disposals	(269)	(8)	(44)	(321)
Reclassifications	(24)	(30)	20	(34)
Exchange movements	396	45	24	465
Balance at December 31, 2012	17,277	2,093	1,291	20,661
Additions	1,916	47	94	**2,057**
Acquired through Business combination	–	–	3	**3**
Disposals	(902)	(2)	(17)	**(921)**
Reclassifications	(156)	–	–	**(156)**
Exchange movements	(462)	(53)	(27)	**(542)**
At December 31, 2013	17,673	2,085	1,344	**21,102**
Depreciation and impairment				
Balance at January 1, 2012	8,275	733	708	9,716
Charge for the year	836	73	100	1,009
Impairment charge recognised during the year[1]	19	–	–	19
Disposals	(189)	(8)	(30)	(227)
Reclassifications	(31)	–	–	(31)
Exchange movements	212	19	18	249
Balance at December 31, 2012	9,122	817	796	10,735
Charge for the year	807	76	80	**963**
Impairment charge recognised during the year[1]	19	–	–	**19**
Disposals	(388)	(2)	(8)	**(398)**
Reclassifications	(141)	–	–	**(141)**
Exchange movements	(261)	(24)	(19)	**(304)**
At December 31, 2013	9,158	867	849	**10,874**
Net book values				
December 31, 2013	8,515	1,218	495	**10,228**
December 31, 2012	8,155	1,276	495	9,926
Analysis at December 31, 2013				
Owned	4,252	1,153	422	**5,827**
Finance leased	3,789	5	48	**3,842**
Progress payments	452	60	25	**537**
Assets not in current use[2]	22	–	–	**22**
Property, plant and equipment	8,515	1,218	495	**10,228**
Analysis at December 31, 2012				
Owned	4,376	1,195	384	5,955
Finance leased	3,137	5	55	3,197
Progress payments	616	76	56	748
Assets not in current use[2]	26	–	–	26
Property, plant and equipment	8,155	1,276	495	9,926

1 The impairment charge of €19 million (2012: €19 million) relates to two Boeing 747-400 aircraft (2012: three Boeing 747-400 aircraft) which were permanently written down to their realisable value.

2 The net book value of €22 million (2012: €26 million) of assets not in current use comprises 24 aircraft (2012: 14 aircraft) stood down.

14 Property, plant and equipment continued

The net book value of property comprises:

€ million	2013	2012
Freehold	**535**	549
Long leasehold improvements	**321**	329
Short leasehold improvements[1]	**362**	398
Property	**1,218**	1,276

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

Property, plant and equipment with a net book value of €523 million (including sale and lease back transactions) were disposed of by the Group during the year (2012: €94 million) resulting in a loss of €8 million (2012: profit of €7 million).

As at December 31, 2013, bank and other loans of the Group are secured on fleet assets with a cost of €2,497 million (2012: €3,279 million) and letters of credit of €274 million in favour of the British Airways Pension Trustees are secured on certain aircraft (2012: €283 million).

15 Capital expenditure commitments

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to €8,745 million for the Group commitments (2012: €4,910 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 €8,581 million for the acquisition of 69 Airbus A320s (from 2014 to 2020), 38 Boeing 787s (from 2014 to 2021), 18 Airbus A350s (from 2018 to 2021), nine Airbus A380s (from 2014 to 2016), two Boeing 777s (in 2014), and one Embraer E-jet (in 2014).

16 Non-current assets held for sale

The non-current assets held for sale of €12 million (2012: €3 million) represent four Boeing 737s and one Boeing 767 aircraft stood down (2012: property acquired as part of the bmi acquisition). These are presented within the British Airways operating segment and will exit the business within 12 months of December 31, 2013.

Property held for sale with a net book value of €3 million was disposed of by the Group during the year to December 31, 2013 resulting in no gain or loss on disposal (2012: net book value of €31 million at no gain or loss).

17 Intangible assets and impairment review

a Intangible assets

€ million	Goodwill	Brand	Customer loyalty programmes	Landing rights[1]	Other[2]	**Total**
Cost						
Balance at January 1, 2012	297	306	253	790	357	2,003
Additions	–	–	–	8	111	119
Additions due to Business combination	–	–	–	499	–	499
Disposals	–	–	–	–	(5)	(5)
Exchange movements	1	–	–	10	7	18
Balance at December 31, 2012	298	306	253	1,307	470	2,634
Additions	–	–	–	15	135	**150**
Additions due to Business combination	28	35	–	89	16	**168**
Disposals	–	–	–	–	(28)	**(28)**
Exchange movements	(1)	–	–	(24)	(10)	**(35)**
At December 31, 2013	**325**	**341**	**253**	**1,387**	**583**	**2,889**
Amortisation and impairment						
Balance at January 1, 2012	–	–	–	71	208	279
Charge for the year	–	–	–	1	42	43
Impairment charge recognised during the year	249	79	–	–	15	343
Disposals	–	–	–	–	(1)	(1)
Exchange movements	–	–	–	1	4	5
Balance at December 31, 2012	249	79	–	73	268	669
Charge for the year	–	–	–	1	31	**32**
Disposals	–	–	–	–	(1)	**(1)**
Exchange movements	–	–	–	(2)	(5)	**(7)**
At December 31, 2013	**249**	**79**	**–**	**72**	**293**	**693**
Net book values						
December 31, 2013	**76**	**262**	**253**	**1,315**	**290**	**2,196**
December 31, 2012	49	227	253	1,234	202	1,965

1 The net book value includes non-EU based landing rights of €14 million (2012: €15 million) that have a definite life.

2 Other intangible assets consist primarily of software with a net book value of €253 million (2012: €153 million), and also include purchased emissions allowances.

17 Intangible assets and impairment review continued

b Impairment review

The carrying amounts of intangible assets with indefinite life and goodwill for the three cash generating units of the Group are:

€ million	Goodwill	Brand	Customer loyalty programmes	Landing rights	**Total**
2013					
Iberia					
At January 1, 2013	–	227	253	423	**903**
At December 31, 2013	–	227	253	423	**903**
British Airways					
At January 1, 2013	49	–	–	796	**845**
Additions	–	–	–	15	**15**
Exchange movements	(1)	–	–	(22)	**(23)**
At December 31, 2013	48	–	–	789	**837**
Vueling					
At January 1, 2013	–	–	–	–	**–**
Additions due to Business combination	28	35	–	89	**152**
At December 31, 2013	28	35	–	89	**152**
At December 31, 2013	**76**	**262**	**253**	**1,301**	**1,892**

€ million	Goodwill	Brand	Customer loyalty programmes	Landing rights	Total
2012					
Iberia					
At January 1, 2012	249	306	253	423	1,231
Impairment charge recognised during the year	(249)	(79)	–	–	(328)
At December 31, 2012	–	227	253	423	903
British Airways					
At January 1, 2012	48	–	–	280	328
Additions	–	–	–	8	8
Additions due to Business combination	–	–	–	499	499
Exchange movements	1	–	–	9	10
At December 31, 2012	49	–	–	796	845
At December 31, 2012	49	227	253	1,219	1,748

Basis for calculating recoverable amount

Goodwill, brand and the Avios customer loyalty programme recoverable amounts have been measured based on their value-in-use.

Landing rights recoverable amount has been measured by reference to market transactions of similar assets less costs to sell; through fair value less costs to sell; or through value-in-use.

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

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

Key assumptions

Key assumptions and growth rates are based on past performance and management's expectations of the market. The market conditions in which Iberia is currently operating remain challenging. The outlook for the economic environment in Spain has improved with a return to growth expected in 2014. However, this follows two years of negative GDP. The change in discount rate from 2012 reflects movements in the government bond yields.

Iberia brand recoverable amount has been measured based on the royalty methodology, with a royalty rate of 0.60 per cent (2012: 0.60 per cent).

The Business plan assumed a fuel price of $100 per barrel (2012: $110 per barrel), US dollar exchange rate of 1.30 to the euro (2012: 1.25) and 1.56 to the pound sterling (2012: 1.57).

	2013			2012	
Per cent	**British Airways**	**Iberia**	**Vueling**	British Airways	Iberia
Pre-tax discount rate	**10.0**	**12.2**	**12.4**	10.0	11.7
Perpetual growth rate	**2.5**	**–**	**–**	2.5	–

Summary of results

In 2012, the impairment review of the Iberia brand resulted in an impairment of €79 million. This was based on the approved Business plan adjusted for restructuring approved by the Board not requiring any further agreement. This plan included a capacity reduction of 15 per cent driving a reduction in forecasted revenues. In 2013, the Board approved the five year Business plan which included a small capacity growth in future years following Iberia's return to profitability. This plan supports the write back of a portion of the brand impairment, however when sensitivities are applied, the headroom is more than eliminated. This latest Business plan is dependent on growth in the primary economies in which Iberia operates. Whilst the market has shown signs of improvement, 2013 overall GDP in Spain was negative. In light of these factors, management has concluded that the reversal of brand impairment would not be considered appropriate in 2013.

Impairment reviews over the carrying amount of Iberia's customer loyalty programme and landing rights with indefinite lives were also carried out. The results of those individual impairment reviews support the original carrying value of those assets.

As a result of the 2012 Iberia impairment review, goodwill was impaired by its full carrying amount of €249 million and franchise agreements impaired €15 million; both were recorded as exceptional charges within Depreciation, amortisation and impairment in the Income Statement.

Impairment reviews of the carrying amounts of intangible assets with indefinite life and goodwill have also been undertaken for British Airways and Vueling. Management has concluded that as a result of these reviews no impairment is required in respect of those assets.

Sensitivities

For the Iberia cash generating unit, additional sensitivities have been considered at the overall CGU level. A change of 0.50 percentage points in the post-tax discount rate would increase or decrease the recoverable amount of the CGU by approximately €170 million. A 4.9 per cent increase in the post-tax discount rate would reduce the recoverable amount to the carrying amount. A change of 0.50 percentage points in the perpetual growth rate would increase or decrease the recoverable amount by approximately €140 million.

No reasonable possible change in the key assumptions for the British Airways or Vueling cash generating units would cause the carrying amounts of goodwill to exceed the recoverable amounts.

Notes to the consolidated financial statements continued

18 Investments in associates

During the year, the Group increased its shareholding in Vueling from 45.85 per cent to 99.36 per cent (note 3). As a result Vueling has been accounted for as a subsidiary since April 26, 2013.

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	2013	2012
Total assets[1]	**92**	896
Total liabilities[1]	**(66)**	(601)
Revenue[2]	**224**	592
(Loss)/profit for the year[2]	**(8)**	17

1 Excludes Vueling at December 31, 2013 (note 3).

2 Includes the Group's share of Vueling as an associate from January 1, 2013 to April 26, 2013.

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

€ million	2013	2012
At beginning of year	**180**	165
Amounts derecognised as a result of the Business combination	**(144)**	–
Share of retained (losses)/profits	**(8)**	17
Dividends received	**(3)**	(2)
	25	180

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

19 Available-for-sale financial assets

Available-for-sale financial assets include the following:

€ million	2013	2012
Listed securities		
Flybe Group Plc	**14**	8
Comair Limited	**12**	7
Amadeus IT Holding, S.A.	**1,044**	640
Unlisted securities	**22**	29
	1,092	684

The net gain relating to available-for-sale financial assets was €2 million (2012: charge of €1 million) which related to interest and dividends received. The charge in 2012 related to an impairment on the Group's investment in Flybe Group Plc.

20 Trade receivables and other assets

€ million	2013	2012
Amounts falling due within one year		
Trade receivables	**1,285**	1,203
Provision for doubtful receivables	**(89)**	(54)
Net trade receivables	**1,196**	1,149
Prepayments and accrued income	**364**	292
Loans to third parties	**30**	1
Other non-trade debtors	**237**	188
	1,827	1,630
Amounts falling due after one year		
Prepayments and accrued income	**136**	59
Loans to third parties	**2**	32
Other non-trade debtors	**59**	22
	197	113

Loans to third parties relate to three loans to fleet finance lessors. The loans have been granted for the same period as the duration of the leases to which they relate and are repayable in 2014. Annual interest on these loans range from 6.0 per cent to 6.5 per cent.

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

€ million	**2013**	2012
At beginning of year	**54**	51
Provision for doubtful receivables	**40**	8
Additions due to Business combination	**-**	4
Unused amounts reversed	**(1)**	(2)
Receivables written off during the year	**(4)**	(6)
Exchange movements	**-**	(1)
	89	54

The ageing analysis of net trade receivables is as follows:

€ million	**2013**	2012
Neither past due date nor impaired	**1,063**	1,009
< 30 days	**47**	50
30-60 days	**28**	30
> 60 days	**58**	60
Net trade receivables	**1,196**	1,149

Trade receivables are generally non-interest-bearing and on 30 day terms (2012: 30 day terms).

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

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

€ million	**2013**	2012
Cash at bank and in hand	**1,138**	777
Short-term deposits falling due within three months	**403**	585
Cash and cash equivalents	**1,541**	1,362
Other current interest-bearing deposits maturing after three months	**2,092**	1,547
Cash, cash equivalents and other interest-bearing deposits	**3,633**	2,909

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 €1,541 million for the Group (2012: €1,362 million).

At December 31, 2013 the Group had no outstanding bank overdrafts (2012: €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.

21 Cash, cash equivalents and other current interest-bearing deposits continued

b Reconciliation of net cash flow to movement in net debt

€ million	2013	2012
Decrease in cash and cash equivalents during the year (excluding Business combination)	**(114)**	(607)
Increase/(decrease) in other current interest-bearing deposits	**593**	(246)
Net funds/(debt) acquired through Business combination	**306**	(41)
Increase/(decrease) in cash net of exchange	**785**	(894)
Net cash outflow from repayments of debt and lease financing	**677**	669
New borrowings and finance leases	**(1,529)**	(534)
(Increase)/decrease in net debt resulting from financing cash flows	**(852)**	135
Exchange movements and other non-cash movements[1]	**467**	18
Decrease/(increase) in net debt during the year	**400**	(741)
Net debt at January 1	**(1,889)**	(1,148)
Net debt at December 31	**(1,489)**	(1,889)

1 Including the non-cash effect of the conversion of the British Airways £350 million convertible bond of €372 million.

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

22 Trade and other payables

€ million	2013	2012
Trade creditors	**1,992**	1,951
Other creditors	**763**	584
Other taxation and social security	**131**	202
Sales in advance of carriage	**2,185**	1,878
Accruals and deferred income[1]	**1,722**	1,398
	6,793	6,013

1 Accruals and deferred income includes €1,311 million (2012: €1,104 million) related to deferred income in respect of customer loyalty programmes.

Spanish companies within the Group have made supplier payments of €2,509 million within the Spanish legal payment terms for the year to December 2013 (2012: €2,091 million). Payments exceeded the Spanish legal payment terms, as stipulated by the Law 14/2010 of July 5, by a weighted average of 9 days (2012: 6 days), and totalled €349 million (2012: €86 million). At December 31, 2013 trade creditors of €5 million (2012: €5 million) were over the legal payment terms.

23 Other long-term liabilities

€ million	2013	2012
Non-current trade creditors	**2**	9
Other creditors	**6**	3
Accruals and deferred income	**217**	238
	225	250

24 Long-term borrowings

a Current

€ million	2013	2012
Bank and other loans	**183**	235
Finance leases	**404**	435
	587	670

b Non-current

€ million	2013	2012
Bank and other loans	**1,169**	1,491
Finance leases	**3,366**	2,637
	4,535	4,128

Bank and other loans are repayable up to the year 2026. Bank and other loans of the Group amounting to €661 million (2012: €943 million) are secured on aircraft. Finance leases are all secured on aircraft or property, plant and equipment.

24 Long-term borrowings continued

c Bank and other loans

Bank and other loans comprise the following:

€ million	2013	2012
€390 million fixed rate 1.75 per cent convertible bond 2018 (i)	**321**	–
£250 million fixed rate 8.75 per cent unsecured Eurobonds 2016 (ii)	**297**	306
Fixed rate US dollar mortgage loans are secured on specific aircraft (iii)	**161**	173
Floating rate sterling mortgage loans are secured on specific aircraft (iv)	**142**	170
Fixed rate sterling mortgage loans are secured on specific aircraft (v)	**126**	147
Floating rate Japanese yen mortgage loans are secured on specific aircraft (vi)	**100**	290
Floating rate US dollar mortgage loans are secured on specific aircraft (vii)	**68**	98
Floating rate euro mortgage loan is secured on specific aircraft (viii)	**62**	65
Fixed rate unsecured euro loans with the Spanish State (Department of Industry) (ix)	**26**	27
European Investment Bank loans are secured on certain property (x)	**18**	26
Floating rate US dollar mortgage loans are secured on certain plant and equipment (xi)	**18**	26
Floating rate unsecured euro loan (xii)	**13**	15
£350 million fixed rate 5.8 per cent convertible bond 2014 (xiii)	**–**	383
	1,352	1,726
Less: current instalments due on bank loans	**(183)**	(235)
	1,169	1,491

(i) €390 million fixed rate 1.75 per cent convertible bond issued by the Group, in May 2013, raising net proceeds of €386 million, convertible into ordinary shares at the option of the holder before or upon maturity in May 2018. The conversion price was set at a premium of 35 per cent on the Group's share price on the date of issuance. The Group holds an option to redeem the convertible bond at its principal amount, together with accrued interest, upon fulfilment of certain pre-determined criteria. The equity portion of the convertible bond issue is included in Other reserves (note 31).

A total of 91,758,228 options related to this bond were outstanding from issuance and at December 31, 2013.

(ii) £250 million fixed rate 8.75 per cent unsecured eurobonds 2016 are repayable in one instalment in 2016.

(iii) Fixed rate US dollar mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 1.38 per cent and 4.54 per cent and are repayable between 2015 and 2024.

(iv) Floating rate sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.53 per cent and 0.69 per cent above LIBOR. The loans are repayable between 2015 and 2019.

(v) Fixed rate sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 6.2 per cent and 6.3 per cent. The loans are repayable between 2016 and 2018.

(vi) Floating rate Japanese yen mortgage loans are secured on specific aircraft assets of the Group and bear interest of 0.55 per cent above LIBOR. The loan is repayable between 2014 and 2016.

(vii) Floating rate US dollar mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 0.98 per cent and 2.40 per cent above LIBOR. The loans are repayable between 2016 and 2017.

(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) Fixed rate unsecured euro loans with the Spanish State (Department of Industry) bear no interest and are repayable between 2014 and 2026.

(x) 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.

(xi) 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.

(xii) The floating rate unsecured euro loan bears interest of 0.0225 per cent above EURIBOR. The loan is repayable in 2015.

(xiii) £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. The equity portion of the convertible bond issue was included in Other reserves (note 31). The Group held an option to redeem the convertible bond at its principal amount, together with accrued interest, upon fulfilment of certain pre-determined criteria. Conversion into ordinary shares has occured at a rate of £1.89, being a premium of 38 per cent on the Group's share price on the date of issuance. During August and September 2013, all bondholders exercised their options under the terms and conditions to exchange their convertible bonds for ordinary shares in the Company, resulting in the issue of 184,708,966 new shares.

At December 31, 2013 there were no options outstanding (2012: 184,708,995).

d Total loans and finance leases

Million	**2013**	2012
Loans		
Bank:		
US dollar	**$338**	$393
Euro	**€101**	€106
Japanese yen	**¥14,259**	¥32,268
Sterling	**£240**	£279
	€734	€1,037
Fixed rate bonds:		
Euro	**€321**	–
Sterling	**£249**	£561
	€618	€689
Finance leases		
US dollar	**$2,935**	$2,319
Euro	**€456**	€174
Japanese yen	**¥18,557**	¥9,332
Sterling	**£874**	£862
	€3,770	€3,072
	€5,122	€4,798

At December 31, 2013, US$496 million had been drawn down against the Enhanced Equipment Trust Certificates bonds. The transaction included Class A and Class B Certificates, with an annual coupon of 4.625 per cent and 5.625 per cent respectively. The underlying collateral pool is made up of six new Boeing 787-8 aircraft, two new Boeing 777-300 ER aircraft and six new Airbus A320-200 aircraft, due for delivery within the next 12 months.

24 Long-term borrowings continued

e Obligations under finance leases

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

€ million	2013	2012
Future minimum payments due:		
Within one year	**492**	511
After more than one year but within five years	**1,893**	1,541
In five years or more	**1,858**	1,370
	4,243	3,422
Less: Finance charges	**(473)**	(350)
Present value of minimum lease payments	**3,770**	3,072
The present value of minimum lease payments is analysed as follows:		
Within one year	**404**	435
After more than one year but within five years	**1,650**	1,342
In five years or more	**1,716**	1,295
	3,770	3,072

The Group's finance lease for one Airbus A340-600 is subject to financial covenants which are tested annually. The lease is part of a syndicate family. The Group has informed the syndicate that it had failed to meet two of the covenants for the year to December 31, 2013. As a result of these covenant breaches, one finance lease has technically become repayable on demand and $84 million (€61 million) has been classified as current. The institutions have provided positive feedback and are expected to formally waive the breach in the first half of the year.

25 Operating lease commitments

The Group has entered into commercial leases on certain properties, equipment and aircraft. These leases have remaining durations ranging from 15 years for aircraft to 133 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:

	2013			2012		
€ million	Fleet	Property, plant and equipment	Total	Fleet	Property, plant and equipment	Total
Within one year	**543**	**156**	**699**	553	166	719
Between one and five years	**1,537**	**383**	**1,920**	851	378	1,229
Over five years	**1,009**	**1,958**	**2,967**	214	2,074	2,288
	3,089	**2,497**	**5,586**	1,618	2,618	4,236

Sub-leasing

Subleases entered into by the Group relate to surplus rental properties held under non-cancellable leases to third parties. These leases have remaining terms of 1 to 33 years and the assets are surplus to the Group's requirements. Future minimum rentals receivable under non-cancellable operating leases are as follows:

€ million	2013	2012
Within one year	**9**	13
Between one and five years	**14**	20
Over five years	**3**	–
	26	33

Three of the Group's A340-600 operating leases are also subject to financial covenants which are tested annually. The Group has informed the syndicate that it had failed to meet two of the covenants for the year to December 31, 2013. The remaining operating lease payments of $243 million (€176 million) will technically fall due within one year. The institutions have provided positive feedback and are expected to formally waive the breach in the first half of the year.

26 Provisions for liabilities and charges

€ million	Employee leaving indemnities and other employee related provisions	Legal claims provisions	Restoration and handback provisions	Other provisions	Total
Net book value January 1, 2013	1,115	211	484	243	**2,053**
Provisions recorded during the year	316	13	175	49	**553**
Acquired through Business combination	–	9	208	6	**223**
Utilised during the year	(158)	(95)	(123)	(103)	**(479)**
Release of unused amounts	(21)	(40)	(56)	(53)	**(170)**
Unwinding of discount	24	7	17	3	**51**
Exchange movements	(2)	(4)	(21)	(10)	**(37)**
Net book value at December 31, 2013	**1,274**	**101**	**684**	**135**	**2,194**
Analysis:					
Current	157	25	140	76	**398**
Non-current	1,117	76	544	59	**1,796**
	1,274	**101**	**684**	**135**	**2,194**

Employee leaving indemnities and other employee related provisions

This provision includes staff leaving indemnities relating to staff under various contractual arrangements. The Group also recognises a provision relating to flight crew who meet certain conditions and therefore have the option of being placed on reserve and retaining their employment relationship until reaching the statutory retirement age, or taking early retirement. The Group is required to remunerate these employees until they reach the statutory retirement age, and a provision is recognised based on an actuarial valuation made in December 2013. The actuarial valuation was carried out by independent actuaries using the projected unit credit method, based on a discount rate of 3.17 per cent and a 2 per cent annual increase in the Consumer Price Index (CPI). This provision is a long-term provision.

The Group also recognises a provision for targeted voluntary severance schemes previously announced. Part of this provision relates to a collective redundancy programme, which provides for payments to affected employees until they reach the statutory retirement age. The amount provided for has been determined by an actuarial valuation made by independent actuaries, and 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 1.34 per cent. The payments related to this provision will continue over five years.

During the year the Group has recognised an additional provision in relation to the restructuring plans associated with the transformation of Iberia. The payments related to this provision will continue over 10 years.

Legal claims provisions

This provision primarily relates to multi-party claims from groups or employees on a number of matters related to its operations, including claims for additional holiday pay and for age discrimination.

Also included are provisions related to investigations by a number of competition authorities in connection with alleged anti-competitive activity concerning the Group's passenger and cargo businesses.

Restoration and handback provisions

The provision for restoration and handback costs is maintained to meet the contractual return conditions on aircraft held under operating leases. The provision also included an amount relating to leased land and buildings where restoration costs are contractually required at the end of the lease. Where such costs arise as a result of capital expenditure on the leased asset, the restoration costs are capitalised. The provision is a long-term provision, which will be utilised by March 2051.

Other provisions

This provision includes amounts for passengers whose flights were significantly delayed and are entitled to receive compensation. This provision is largely a current provision and expected to have amounts both utilised and provided for each year.

This provision includes the onerous portion of leases related to properties leased by subsidiaries of the Group that are either sub-leased to third parties at a lower rate or vacant with no immediate intention to utilise the property. This provision is a long-term provision, likely to continue until 2027.

A provision for the Emissions Trading Scheme is also included that represents the excess of CO_2 emitted on flights within the EU in excess of the EU Emission Allowances granted.

Provisions released during the year include amounts for onerous leases no longer required and the settlement of insurance claims.

27 Financial risk management objectives and policies

The Group is exposed to a variety of financial risks: market risk, including foreign currency risk, interest rate risk and fuel price risk, counterparty risk, capital risk and liquidity risk. The Group's Financial Risk Management programme focuses on the unpredictability of financial markets and defines the amount of risk that the Group is prepared to retain.

Financial risk management is managed in two tiers under the overall oversight of the Group treasury department. The first tier comprises fuel price fluctuations, euro-US dollar volatility and sterling-US dollar volatility which represent the largest financial risks facing the Group. The Board approves the level of risk retention, the hedging levels and the degree of flexibility in applying the levels that are delegated to the IAG Hedging Committee. The IAG Risk Committee meets monthly and includes representatives from Group treasury, British Airways, Iberia and Vueling. The Committee approves a mandate for British Airways, Iberia and Vueling treasury teams to place hedging cover in the market for their respective companies, the mandate includes the instruments to be used. Second tier risks such as interest rate movements, emissions and minor currency pairs are managed separately by British Airways, Iberia and Vueling under authority delegated by their Boards to their treasury departments.

a Fuel price risk

The Group is exposed to fuel price risk. The Group's fuel price risk management strategy aims to provide the Group with protection against sudden and significant increases in oil prices while ensuring that the Group is not competitively disadvantaged in the event of a substantial fall in the price of fuel. The current Group strategy, as approved by the Board, is to hedge between 70 per cent and 100 per cent of fuel consumption for the next quarter; an average of 45 per cent between quarters two and five; and 10 per cent between quarters six and eight. The Hedging Committee is currently given flexibility to operate within plus or minus 10 per cent of the policy and provides a quarterly report to the Audit and Compliance Committee on the hedging position. The Audit and Compliance Committee reviews the strategy, including the risk retained, every year.

In implementing the strategy, the Financial Risk Management programme allows for the use of a number of derivatives available on over-the-counter (OTC) markets with approved counterparties.

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

2013			2012		
Increase/ (decrease) in fuel price per cent	**Effect on result before tax € million**	**Effect on equity € million**	Increase/ (decrease) in fuel price per cent	Effect on result before tax € million	Effect on equity € million
30	**6**	**1,089**	30	6	942
(30)	**(35)**	**(994)**	(30)	(19)	(901)

b Foreign currency risk

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

The Group has a number of strategies to hedge foreign currency risks. The operational US dollar short position is subject to the same governance structure as the fuel hedging strategy set out above. The current Group strategy, as approved by the Board, is to hedge an average of 60 per cent of the first year's US dollar short position; 20 per cent of the second year's exposure and up to 20 per cent of the third year's exposure. The IAG Hedging Committee targets to operate within plus or minus 10 per cent of the policy and provides a quarterly report to the Board on the hedging position. The Board reviews the strategy, including the risk retained, every half year. Foreign exchange swaps and options are used to implement the strategy.

Operational cash flows in minor currency pairs are hedged by British Airways, Iberia and Vueling under the control of their Boards.

Aircraft operating leases denominated in US dollars are either treated as part of the operational US dollar short position or are subject to separate cross currency swaps, individually approved by the Board, for the life of the lease.

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

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

	Strengthening/ (weakening) in US dollar rate per cent	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in sterling rate per cent	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in yen rate per cent	Effect on result before tax € million	Effect on equity € million
2013	**10**	**12**	**46**	**10**	**2**	**138**	**10**	**(4)**	**(21)**
	(10)	**(10)**	**(15)**	**(10)**	**(2)**	**(129)**	**(10)**	**4**	**21**
2012	10	(9)	101	10	(5)	91	10	(2)	(34)
	(10)	12	(85)	(10)	5	(87)	(10)	2	34

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, 70 per cent of the Group's borrowings were at fixed rates and 30 per cent were at floating rates.

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

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

	Strengthening/ (weakening) in US interest rate Basis points	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in euro interest rate Basis points	Effect on result before tax € million	Effect on equity € million	Strengthening/ (weakening) in sterling interest rate Basis points	Effect on result before tax € million	Effect on equity € million
2013	**50**	**(2)**	**–**	**50**	**(2)**	**(1)**	**50**	**4**	**4**
	(50)	**2**	**–**	**(50)**	**2**	**1**	**(50)**	**(4)**	**(4)**
2012	50	(3)	2	50	(1)	5	50	4	–
	(50)	3	(2)	(50)	1	(5)	(50)	(4)	–

d Counterparty risk

The Group is exposed to counterparty risk to the extent of non-performance by its counterparties in respect of financial assets receivable. However, the Group has policies and procedures in place to ensure counterparty risk is limited by placing credit limits on each counterparty. These policies and procedures are coordinated through the IAG Hedging Committee that examines their application by British Airways, Iberia and Vueling. 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 allocation of overall exposure limits for the counterparty in British Airways, Iberia and Vueling that are then allocated down to specific material treasury activities. Exposures at the activity level are monitored on a daily basis and the overall exposure limit for the counterparty is reviewed at least monthly in the light of available market information such as credit ratings. Sovereign risk is also monitored, country concentration and sovereign credit ratings are reviewed at every hedging committee meeting.

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 the exposure, but only transacts with counterparties of sufficient credit ratings to reasonably assure the recoverability of financial assets. Counterparty risks arising from acting as guarantor are disclosed in note 33.

Notes to the consolidated financial statements continued

27 Financial risk management objectives and policies continued

d Counterparty risk continued

Region	Marked-to-market of treasury controlled financial instruments allocated by geography
United Kingdom	33%
Spain	15%
Italy, Greece, Portugal, Ireland	–
Rest of Eurozone	19%
Rest of world	33%

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, 2013 the Group had undrawn overdraft facilities of €12 million (2012: €12 million). The Group held undrawn uncommitted money market lines of €30 million at December 31, 2013 (2012: €31 million). The Group had the following undrawn general and committed aircraft financing facilities:

	2013	
Million	**Currency**	**€ equivalent**
Euro facility expiring between January and September 2014	**€76**	**76**
US dollar facility expiring between February and December 2014	**$952**	**695**
Euro facility expiring December 2014	**€520**	**520**
US dollar facility expiring October 2015	**$805**	**587**
US dollar facility expiring September and October 2016	**$1,314**	**959**
US dollar facility expiring December 2021	**$1,164**	**849**

	2012	
Million	Currency	€ equivalent
Euro facility expiring between January and September 2013	€118	118
US dollar facility expiring between January and June 2013	$172	133
Euro facility expiring December 2014	€520	520
US dollar facility expiring December 2014	$335	259
US dollar facility expiring October 2015	$805	626
US dollar facility expiring December 2016	$966	751
US dollar facility expiring May 2017	$509	396

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 2013**
Interest-bearing loans and borrowings:						
Finance lease obligations	(185)	(307)	(551)	(1,342)	(1,858)	**(4,243)**
Fixed rate borrowings	(40)	(48)	(85)	(508)	(81)	**(762)**
Floating rate borrowings	(87)	(53)	(133)	(117)	(51)	**(441)**
Trade and other payables	(3,176)	–	–	–	–	**(3,176)**
Derivative financial instruments						
Aircraft lease hedges (asset)	1	–	1	1	–	**3**
Forward currency contracts (asset)	2	1	–	–	–	**3**
Fuel derivatives (asset)	95	46	25	–	–	**166**
Aircraft lease hedges (liability)	(8)	(7)	(12)	(7)	–	**(34)**
Cross currency swaps (liability)	–	–	(1)	(1)	–	**(2)**
Forward currency contracts (liability)	(42)	(28)	(18)	(5)	–	**(93)**
Fuel derivatives (liability)	(1)	–	–	–	–	**(1)**
Currency options (liability)	(7)	(5)	(3)	–	–	**(15)**
Hedge of available-for-sale asset	–	(436)	–	–	–	**(436)**
At December 31, 2013	**(3,448)**	**(837)**	**(777)**	**(1,979)**	**(1,990)**	**(9,031)**

€ million	Within 6 months	6 – 12 months	1 – 2 years	2 – 5 years	More than 5 years	Total 2012
Interest-bearing loans and borrowings:						
Finance lease obligations	(250)	(261)	(355)	(1,186)	(1,370)	(3,422)
Fixed rate borrowings	(50)	(57)	(490)	(543)	(126)	(1,266)
Floating rate borrowings	(107)	(95)	(188)	(249)	(69)	(708)
Trade and other payables	(3,378)	–	–	–	–	(3,378)
Derivative financial instruments						
Forward currency contracts (asset)	1	–	–	–	–	1
Fuel derivatives (asset)	23	21	15	–	–	59
Currency options (asset)	2	–	–	–	–	2
Aircraft lease hedges (liability)	(5)	(6)	(6)	(9)	–	(26)
Cross currency swaps (liability)	–	–	(1)	(1)	–	(2)
Forward currency contracts (liability)	(16)	(10)	(3)	–	–	(29)
Fuel derivatives (liability)	(5)	(4)	–	–	–	(9)
Currency options (liability)	(2)	(2)	(1)	–	–	(5)
Hedge of available-for-sale asset	–	–	(29)	–	–	(29)
At December 31, 2012	(3,787)	(414)	(1,058)	(1,988)	(1,565)	(8,812)

27 Financial risk management objectives and policies continued

f Master netting or similar agreements

The Group enters into derivative transactions under master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding are aggregated into a single net amount that is payable by one party to the other.

Certain transactions do not meet the criteria for offsetting in the statement of financial position. This is because the Group does not have a legally enforceable right to offset recognised amounts, because the right to offset is enforceable only on the occurrence of future events such as a default on the bank loans or other credit events.

The following table sets out the carrying amounts of derivatives recognised in the Balance sheet that are subject to the above:

At December 31, 2013

€ million	Gross value of financial instruments	Financial instruments that are offset under netting agreements	Net amounts of financial instruments in the balance sheet	Related amounts not set off in the balance sheet	**Net amount**
Financial assets					
Aircraft lease hedges	4	–	4	–	**4**
Forward currency contracts	3	–	3	(2)	**1**
Fuel derivatives	182	(24)	158	(1)	**157**
Currency option contracts	7	(2)	5	–	**5**
	196	**(26)**	**170**	**(3)**	**167**
Financial liabilities					
Aircraft lease hedges	37	–	37	–	**37**
Cross currency swaps	2	–	2	–	**2**
Forward currency contracts	94	–	94	(2)	**92**
Fuel derivatives	26	(24)	2	(1)	**1**
Hedge of available-for-sale asset	437	–	437	–	**437**
Currency option contracts	24	(2)	22	–	**22**
	620	**(26)**	**594**	**(3)**	**591**

At December 31, 2012

€ million	Gross value of financial instruments	Financial instruments that are offset under netting agreements	Net amounts of financial instruments in the balance sheet	Related amounts not set off in the balance sheet	Net amount
Financial assets					
Aircraft lease hedges	8	–	8	–	8
Forward currency contracts	2	–	2	(1)	1
Fuel derivatives	115	(44)	71	(2)	69
Currency option contracts	17	(2)	15	–	15
	142	(46)	96	(3)	93
Financial liabilities					
Aircraft lease hedges	34	–	34	–	34
Cross currency swaps	2	–	2	–	2
Forward currency contracts	30	–	30	(1)	29
Fuel derivatives	66	(44)	22	(2)	20
Hedge of available-for-sale asset	52	–	52	–	52
Currency option contracts	23	(2)	21	–	21
	207	(46)	161	(3)	158

g Capital risk management

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

Consistent with others in the industry, the Group monitors capital on the basis of the adjusted gearing ratio, net debt as a percentage of total capital adjusted for aircraft operating leases, and adjusted funds from operation (FFO) to net debt. Net debt comprises the current and non-current portions of long-term borrowings, less cash and cash equivalents and other current interest-bearing deposits. Total capital is defined as the total of capital, reserves adjusted for the pension restatement and further remeasurements, non-controlling interest and net debt.

28 Financial instruments

a Financial assets and liabilities by category

The detail of the Group's financial instruments at December 31, 2013 and December 31, 2012 by nature and classification for measurement purposes is as follows:

At December 31, 2013

	Financial assets						
€ million	Loans and receivables	Assets at FV through P&L	Derivatives used for hedging	Available for sale	Assets held to maturity	Non-financial assets	**Total carrying amount by balance sheet item**
Non-current assets							
Available-for-sale financial assets	–	–	–	1,092	–	–	**1,092**
Derivative financial instruments	–	–	35	–	–	–	**35**
Other non-current assets	182	–	–	–	–	15	**197**
Current assets							
Trade receivables	1,196	–	–	–	–	–	**1,196**
Other current assets	270	–	–	–	–	361	**631**
Derivative financial instruments	–	–	135	–	–	–	**135**
Other current interest-bearing deposits	1,744	–	–	–	348	–	**2,092**
Cash and cash equivalents	1,541	–	–	–	–	–	**1,541**

28 Financial instruments continued
a Financial assets and liabilities by category continued

At December 31, 2013

€ million	Financial liabilities: Loans and payables	Financial liabilities: Liabilities at FV through P&L	Financial liabilities: Derivatives used for hedging	Non-financial liabilities	**Total carrying amount by balance sheet item**
Non-current liabilities					
Interest-bearing long-term borrowings	4,535	–	–	–	**4,535**
Derivative financial instruments	–	–	66	–	**66**
Other long-term liabilities	7	–	–	218	**225**
Current liabilities					
Current portion of long-term borrowings	587	–	–	–	**587**
Trade and other payables	3,176	–	–	3,617	**6,793**
Derivative financial instruments	–	–	528	–	**528**

At December 31, 2012

€ million	Financial assets: Loans and receivables	Financial assets: Assets at FV through P&L	Financial assets: Derivatives used for hedging	Financial assets: Available-for-sale	Financial assets: Assets held to maturity	Non-financial assets	Total carrying amount by balance sheet item
Non-current assets							
Available-for-sale financial assets	–	–	–	684	–	–	684
Derivative financial instruments	–	–	26	–	–	–	26
Other non-current assets	92	–	–	–	4	17	113
Current assets							
Trade receivables	1,149	–	–	–	–	–	1,149
Other current assets	123	–	–	–	–	358	481
Derivative financial instruments	–	–	70	–	–	–	70
Other current interest-bearing deposits	1,543	–	–	–	4	–	1,547
Cash and cash equivalents	1,362	–	–	–	–	–	1,362

At December 31, 2012

€ million	Financial liabilities: Loans and payables	Financial liabilities: Liabilities at FV through the P&L	Financial liabilities: Derivatives used for hedging	Non-financial liabilities	Total carrying amount by balance sheet item
Non-current liabilities					
Interest-bearing long-term borrowings	4,128	–	–	–	4,128
Derivative financial instruments	–	–	95	–	95
Other long-term liabilities	18	–	–	232	250
Current liabilities					
Current portion of long-term borrowings	670	–	–	–	670
Trade and other payables	3,378	–	–	2,635	6,013
Derivative financial instruments	–	–	66	–	66

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.

The carrying amounts and fair values of the Group's financial assets and liabilities at December 31, 2013 are set out below:

	Fair value				**Carrying value**
€ million	Level 1	Level 2	Level 3	Total	**Total**
Financial assets					
Available-for-sale financial assets	1,070	–	22	1,092	**1,092**
Aircraft lease hedges[1]	–	4	–	4	**4**
Forward currency contracts[1]	–	3	–	3	**3**
Fuel derivatives[1]	–	158	–	158	**158**
Currency option contracts[1]	–	5	–	5	**5**
Financial liabilities					
Interest-bearing loans and borrowings:					
Finance lease obligations	–	3,937	–	3,937	**3,770**
Fixed rate borrowings	452	585	–	1,037	**931**
Floating rate borrowings	13	408	–	421	**421**
Aircraft lease hedges[2]	–	37	–	37	**37**
Cross currency swaps[2]	–	2	–	2	**2**
Forward currency contracts[2]	–	94	–	94	**94**
Fuel derivatives[2]	–	2	–	2	**2**
Hedge of available-for-sale asset	–	437	–	437	**437**
Currency option contracts[2]	–	22	–	22	**22**

1 Current portion of derivative financial assets is €135 million

2 Current portion of derivative financial liabilities is €528 million

28 Financial instruments continued

b Fair value of financial assets and financial liabilities continued

The carrying amounts and fair values of the Group's financial assets and liabilities at December 31, 2012 are set out below:

	Fair value				Carrying value
€ million	Level 1	Level 2	Level 3	Total	Total
Financial assets					
Available-for-sale financial assets	655	–	29	684	684
Aircraft lease hedges[1]	–	8	–	8	8
Forward currency contracts[1]	–	2	–	2	2
Fuel derivatives[1]	–	71	–	71	71
Currency option contracts[1]	–	15	–	15	15
Financial liabilities					
Interest-bearing loans and borrowings:					
Finance lease obligations	–	3,303	–	3,303	3,072
Fixed rate borrowings	794	389	–	1,183	1,036
Floating rate borrowings	14	676	–	690	690
Aircraft lease hedges[2]	–	34	–	34	34
Cross currency swaps[2]	–	2	–	2	2
Forward currency contracts[2]	–	30	–	30	30
Fuel derivatives[2]	–	22	–	22	22
Hedge of available-for-sale asset	–	52	–	52	52
Currency options contracts[2]	–	21	–	21	21

1 Current portion of derivative financial assets is €70 million.

2 Current portion of derivative financial liabilities is €66 million.

There were no transfers between Level 1 and Level 2 during the year. Transfers between Levels 2 and 3 are addressed in the Level 3 reconciliation.

Out of the financial instruments listed in the table above, only the interest-bearing loans and borrowings are not measured at fair value on a recurring basis.

The fair values of cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying value largely due to the short-term maturities of those instruments.

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

Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices present actual and regularly occurring market transactions on an arm's length basis.

Instruments included in Level 1 comprise listed fixed asset investments classified as available-for-sale and interest-bearing borrowings, in particular Euro-sterling notes and Euro sterling bond 2016. These are stated at market value as at December 31, 2013.

Level 2

The fair value of financial instruments that are not traded in an active market is determined by valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates.

Forward currency transactions and over-the-counter (OTC) fuel derivatives are entered into with various counterparties, principally financial institutions with investment grade ratings. These are measured at the market value of instruments with similar terms and conditions at the balance sheet date using forward pricing models. Counterparty and own credit risk is deemed to be not significant.

The fair value of the Group's interest-bearing borrowings and loans including leases are determined by discounting the remaining contractual cash flows at the relevant market interest rates as at December 31, 2013.

The hedge of the available-for-sale asset takes the form of an equity collar. The valuation of this collar is based on a Black Scholes valuation model which looks at the spot rate of the share price, the strike price, the stock volatility and the euro interest rate curve.

All resulting fair value estimates are included in Level 2 except for certain other investments which are explained below and classified as Level 3.

c Level 3 financial assets reconciliation

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

€ million	**December 31, 2013**	December 31, 2012
Opening balance for the year	**29**	28
Gains recognised in profit or loss[1]	**1**	1
Sales	**(2)**	(3)
Settlements	**(6)**	–
Fair value uplift upon disposal	**–**	3
Closing balance for the period	**22**	29

1 Included in 'Net credit/(charge) relating to available-for-sale financial assets' in the Income statement.

During the year there were no transfers into or out of Level 3 fair value measurements.

The fair value of Level 3 financial assets cannot be measured reliably; as such these assets are stated at historic cost less accumulated impairment losses.

d Hedges

i Cash flow hedges

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

At December 31, 2013 the Group held six principal risk management activities that were designated as hedges of future forecast transactions. These were:

- A hedge of a proportion of future long-term revenue receipts by future debt repayments in foreign currency hedging future foreign exchange risk;
- A hedge of future jet fuel purchases by forward crude, gas oil and jet kerosene derivative contracts hedging future fuel price risk;
- A hedge of future aircraft operating lease cash flows by cross currency swaps hedging future foreign exchange and interest rate risk;
- A hedge of certain short-term revenue receipts by foreign exchange contracts hedging future foreign exchange risk;
- A hedge of certain short-term foreign currency operational payments by forward exchange contracts hedging future foreign exchange risk; and
- A hedge of future cash flows from the sale of available-for-sale assets, hedging future share price volatility.

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

At December 31, 2013

Financial instruments designated as hedging instruments € million	Cash flows hedged Within 6 months	6 – 12 months	1 – 2 years	2 – 5 years	More than 5 years	**Total December 31, 2013**
Debt repayments to hedge future revenue	15	8	15	28	(69)	**(3)**
Forward contracts to hedge future payments	43	31	22	8	–	**104**
Hedges of future fuel purchases	(78)	(39)	(25)	–	–	**(142)**
Hedges of future aircraft operating leases	6	6	9	4	–	**25**
Currency options to hedge future payments	5	2	1	–	–	**8**
Hedge of available-for-sale asset[1]	–	437	–	–	–	**437**
	(9)	445	22	40	(69)	**429**
Related deferred tax charge						**(131)**
Total amount included within equity						**298**

Notes to the consolidated financial statements continued

28 Financial instruments continued

d Hedges continued

At December 31, 2013

Million		Notional principal amounts (in local currency)
To hedge future currency revenues against US dollars		**$1,225**
To hedge future operating payments in US dollars		**$3,096**
To hedge future operating payments in euros		**€428**
Hedges of future fuel purchases		**$4,543**
Hedges of future share price volatility on available-for-sale assets		**€1,044**
Cross Currency swaps:	– Floating to fixed (euro)	**€399**
	– Fixed to fixed (euro)	**€311**
Debt repayments to hedge future revenue:	– US dollars	**$2,832**
	– Euro	**€480**
	– Japanese yen	**¥30,177**

At December 31, 2012

	Cash flows hedged					
€ Million	Within 6 months	6 – 12 months	1 – 2 years	2 – 5 years	More than 5 years	Total December 31, 2012
Debt repayments to hedge future revenue	40	26	44	51	(21)	140
Forward contracts to hedge future payments	16	11	4	–	–	31
Hedges of future fuel purchases	(17)	(17)	(12)	–	–	(46)
Hedges of future aircraft operating leases	3	5	6	8	–	22
Currency options to hedge future payments	(2)	1	–	–	–	(1)
Hedge of available-for-sale asset[1]	–	–	30	–	–	30
	40	26	72	59	(21)	176
Related deferred tax charge						(45)
Total amount included within equity						131

At December 31, 2012

Million		Notional principal amounts (in local currency)
To hedge future currency revenues against US dollars		$939
To hedge future operating payments in US dollars		$1,115
To hedge future operating payments in euros		€842
Hedges of future fuel purchases		$4,529
Hedges of future share price volatility on available-for-sale asset		€640
Cross currency swaps:	– Floating to fixed (euro)	€717
	– Fixed to fixed (euro)	€275
Debt repayments to hedge future revenue:	– US dollars	$2,244
	– Euro	€192
	– Japanese yen	¥38,370

1 At December 31, 2013 the Group had an investment representative of 7.5 per cent (2012: 7.5 per cent) of the share capital of Amadeus IT Holding, S.A (Amadeus) (note 19). In 2012 the Group entered into a derivative transaction with Nomura International Plc (Nomura) on its entire ownership interest in Amadeus. The transaction takes the form of a 'collar' and is composed of two 'European' options whose maturity is fixed between August and December 2014. A summary of the cash flows included in equity are detailed in the tables above.

The notional principle amount of the cash flow hedge is €1,044 million (2012: €640 million). Changes in the fair value of the cash flow hedge of €407 million (2012: €30 million) have been accounted for directly in equity, net of deferred tax. The time value credit of €22 million (2012: €22 million charge) has been recognised in the Income statement.

The ineffective portion recognised in the Income statement during the year was a profit of €22 million on hedges of future fuel purchases (2012: loss of €9 million).

ii. Fair value hedges
The Group has no significant fair value hedges at December 31, 2013 and 2012.

iii. Net investments in foreign operations
The Group has no such hedges at December 31, 2013 and 2012.

29 Share capital

Allotted, called up and fully paid	Number of shares 000s	Ordinary share capital € million	Share premium € million
At January 1, 2013: Ordinary shares of €0.50 each	1,855,370	928	5,280
Issue of ordinary shares of €0.50 each	184,709	92	587
At December 31, 2013	**2,040,079**	**1,020**	**5,867**

During the year all holders of the British Airways £350 million fixed rate 5.8 per cent convertible bond exercised their options under the terms and conditions to exchange their convertible bonds for ordinary shares in the Company, resulting in the issue of 184,708,966 new shares (note 24).

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

a Share Option Plan
The British Airways Share Option Plan 1999 (SOP) granted options to qualifying employees based on performance at an option price which was not less than the market price of the share at the date of the grant (or the nominal value if shares are to be subscribed and this value is greater than the market value). The options are subject to a three year vesting period with the exception of grants made during the year to March 31, 2005, when there was a single re-test after a further year which measured performance of British Airways over the four year period from the date of grant. Upon vesting, options may be exercised at any time until the 10th anniversary of the date of grant. No further grants of options under the SOP have been made since 2005.

b Long Term Incentive Plan
The British Airways Long Term Incentive Plan 1996 (LTIP) awarded options to senior executives conditional upon British Airways' achievement of a performance condition measured over three financial years. If granted, all options may be exercised at any time until the seventh anniversary of the date of grant and no payment is due upon exercise of the options. No further awards under the LTIP have been made since 2004.

c Performance Share Plan
The British Airways Performance Share Plan 2005 (PSP) was granted to key senior executives of British Airways and in 2009 was extended to selected members of the British Airways wider management team. A conditional award of shares is subject to the achievement of a variety of performance conditions, which will vest after three years subject to the employee remaining employed by the Group. The award made will vest based 100 per cent on meeting Total Shareholder Return (TSR) performance conditions over the following three financial years. No payment is due upon vesting of the shares. Key senior executives awarded shares under the PSP will be expected to retain no fewer than 50 per cent of the shares (net of tax), which vest from the PSP until they have built up a shareholding equivalent to 100 per cent of base salary. At December 31, 2013 there are no awards outstanding.

d Deferred Share Plan
The British Airways Deferred Share Plan 2005 (DSP) was granted to qualifying employees based on performance and service tests. It will be awarded when an incentive award is triggered subject to the employee remaining in employment with the Group for three years after the grant date. The relevant population received a percentage of their incentive award in cash and the remaining percentage in shares through the DSP. The maximum deferral is 50 per cent.

e IAG Performance Share Plan
In 2011 the Group introduced the IAG Performance Share Plan, granted to senior executives and managers of the Group who are most directly involved in shaping and delivering business success over the medium to long term. A conditional award of shares is subject to the achievement of a variety of performance conditions, which will vest after three years subject to the employee remaining employed by the Group. The award made in 2011 will vest based 70 per cent on meeting Total Shareholder Return (TSR) performance conditions over the following three financial years, and 30 per cent on achievement of IAG synergy targets. The awards made in 2012 and 2013 will vest based 50 per cent on meeting IAG's TSR performance relative to the MSCI European Transportation Index, and 50 per cent based on achievement of earnings per share targets. No payment is required from individuals when the shares are awarded.

30 Share-based payments continued

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 up front in cash, and the remaining 50 per cent in shares after three years 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, 2013 '000s	Granted number '000s	Lapsed number '000s	Exercised number '000s	**Outstanding at December 31, 2013 '000s**	Exercisable December 31, 2013 '000s
Share Option Plan	5,106	–	124	1,961	**3,021**	3,021
Long Term Incentive Plan	351	–	47	157	**147**	147
Performance Share Plans	33,821	8,996	8,218	–	**34,599**	250
Deferred Share Plans and Incentive Award Deferral Plans	6,510	2,754	308	4,350	**4,606**	12
	45,788	**11,750**	**8,697**	**6,468**	**42,373**	**3,430**

Weighted average exercise price of Share Option Plans (£)	2.54	–	2.74	2.30	**2.71**	**2.71**

A total of 1,961,000 (2012: 21,000 shares) shares related to the Share Option Plan were exercised at a weighted average market share price of £3.02 (2012: £1.60).

Range of exercise prices at December 31, 2013 for Share Option Plan:

Range of exercise prices	Number of shares '000s	Weighted average contractual life (years)
£2.62	1,142	0.48
£2.76	1,879	1.48
At December 31, 2013	**3,021**	**1.10**

Range of exercise prices at December 31, 2012 for Share Option Plan:

	Number of shares '000s	Weighted average contractual life (years)
Range of exercise prices		
£1.57-£1.81	694	0.48
£2.62-£2.76	4,412	2.02
At December 31, 2012	5,106	1.81

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, 2013	December 31, 2012
Weighted average fair value (£)	**2.08**	0.76
Expected share price volatility (per cent)	**40**	45
Expected comparator group volatility (per cent)	**25**	28
Expected comparator correlation (per cent)	**69**	65
Expected life of options (years)	**3**	3
Weighted average share price at date of grant (£)	**2.69**	1.61

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

The Group recognised a share-based payment charge of €30 million for the year to December 31, 2013 (2012: €24 million).

31 Other reserves and non-controlling interests

Year to December 31, 2013

	Other reserves						
€ million	Retained earnings	Unrealised gains and losses[1]	Currency translation[2]	Equity portion of convertible bond[3]	Merger reserve[4]	**Total other reserves**	Non-controlling interests[5]
At January 1, 2013	743	(5)	199	94	(2,467)	**(1,436)**	300
Restatement	(2,049)	–	(28)	–	–	**(2,077)**	–
At January 1, 2013 (restated)	(1,306)	(5)	171	94	(2,467)	**(3,513)**	300
Profit for the year	122	–	–	–	–	**122**	25
Other comprehensive income for the year:							
Cash flow hedges reclassified and reported in net profit:							
Passenger revenue	–	46	–	–	–	**46**	–
Fuel and oil costs	–	(17)	–	–	–	**(17)**	–
Currency differences	–	7	–	–	–	**7**	–
Net change in fair value of cash flow hedges	–	(203)	–	–	–	**(203)**	–
Net change in fair value of available-for-sale financial assets	–	294	–	–	–	**294**	–
Currency translation differences	–	–	(20)	–	–	**(20)**	–
Remeasurements of post-employment benefit obligations	521	–	–	–	–	**521**	–
Cost of share-based payments	30	–	–	–	–	**30**	–
Exercise of share options	(9)	–	–	–	–	**(9)**	–
Equity portion of convertible bond issued	–	–	–	72	–	**72**	–
Non-controlling interest arising on Business combination	–	–	–	–	–	**-**	26
Acquisition of non-controlling interest	–	–	–	–	–	**-**	(24)
Issue of ordinary shares related to conversion of convertible bond	(172)	–	–	(94)	–	**(266)**	–
Distributions made to holders of perpetual securities	–	–	–	–	–	**-**	(20)
At December 31, 2013	**(814)**	**122**	**151**	**72**	**(2,467)**	**(2,936)**	**307**

Notes to the consolidated financial statements continued

31 Other reserves and non-controlling interests continued

Year to December 31, 2012
(Restated)

€ million	Retained earnings	Other reserves: Unrealised gains and losses[1]	Currency translation[2]	Equity portion of convertible bond[3]	Merger reserve[4]	Total other reserves	Non-controlling interests[5]
At January 1, 2012	1,662	(216)	122	94	(2,467)	(805)	300
Restatement	(1,374)	–	–	–	–	(1,374)	–
At January 1, 2012 (restated)	288	(216)	122	94	(2,467)	(2,179)	300
Loss for the year	(716)	–	–	–	–	(716)	20
Other comprehensive income for the year:							
Cash flow hedges reclassified and reported in net loss:							
Passenger revenue	–	47	–	–	–	47	–
Fuel and oil costs	–	(10)	–	–	–	(10)	–
Currency differences	–	(18)	–	–	–	(18)	–
Net change in fair value of cash flow hedges	–	36	–	–	–	36	–
Net change in fair value of available-for-sale financial assets	–	156	–	–	–	156	–
Currency translation differences	–	–	49	–	–	49	–
Remeasurements of post-employment benefit obligations	(902)	–	–	–	–	(902)	–
Cost of share-based payments	24	–	–	–	–	24	–
Distributions made to holders of perpetual securities	–	–	–	–	–	–	(20)
At December 31, 2012	(1,306)	(5)	171	94	(2,467)	(3,513)	300

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

2 The currency translation reserve records exchange differences arising from the translation of the financial statements of foreign subsidiaries and associates.

3 The equity portion of convertible bond reserve represents the equity portion of convertible bonds issued. At December 31, 2013, this related to the €390 million fixed rate 1.75 per cent convertible bond (2012: British Airways £350 million fixed rate 5.8 per cent convertible bond) (note 24).The equity portion of the British Airways convertible bond was transferred to retained earnings on conversion.

4 The merger reserve records the difference between the fair value of the shares acquired and the nominal value of the shares issued.

5 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.

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. Treasury shares consist of shares held directly by the Company. During the year, the Company purchased directly 9,000,000 shares at a weighted average share price of €4.01 per share, totalling €36 million, which are held as Treasury shares. At December 31, 2013 the Group held 9,000,000 shares, which represented 0.44 per cent of the Issued share capital of the Company.

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. During the year, the Trust bought a total of 2,000,000 shares in the Company at a weighted average share price of £3.57 per share totalling €8 million. 6,354,099 shares were issued to employees during the year as a result of employee share scheme exercises (2012: 186,340 shares). At December 31, 2013 the Trust held 1,789,652 shares (2012: 6,143,751), which represented 0.10 per cent of the Issued share capital of the Company.

32 Employee benefit obligations

The Group operates a variety of post-employment benefit arrangements, covering both defined contribution and defined benefit schemes. From April 1, 2003 British Airways commenced a defined contribution scheme, the British Airways Retirement Plan (BARP), in which all new permanent employees over the age of 16 employed by British Airways and certain subsidiary undertakings in the UK may become members. Iberia holds the Montepío de Previsión Social Loreto defined contribution scheme. 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, 2013 were €92 million (2012: €86 million).

The principal funded defined benefit pension schemes within the Group are the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS), both of which are in the UK and are closed to new members. APS has been closed to new members since 1984 and NAPS closed to new members in 2003.

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 is based on the Consumer Price Index (CPI). 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.

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

Deficit payment plans are agreed with the Trustees of each scheme every three years based on the actuarial valuation (triennial valuation) rather than the IAS 19 accounting valuation. The latest deficit recovery plan was agreed at March 31, 2012 (note 32i).

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

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 through the US Post-Retirement Medical Benefit plan (US PRMB).

Cash payments to pension schemes comprise normal employer contributions by the Group; deficit contributions based on the agreed deficit payment plan with APS and NAPS; and cash sweep payments relating to additional payments made conditional on the level of cash in British Airways. Total payments for the year to December 31, 2013 net of service costs were €372 million (2012: €381 million).

The Group has adopted amendments to IAS 19 'Employee benefits' from January 1, 2013 and has retrospectively applied these changes to the comparative information.

Notes to the consolidated financial statements continued

32 Employee benefit obligations continued

a Employee benefit schemes recognised on the Balance sheet

€ million	2013 APS	2013 NAPS	2013 Other[1]	2013 Total
Scheme assets at fair value	8,250	13,847	384	**22,481**
Present value of scheme liabilities	(7,535)	(14,342)	(608)	**(22,485)**
Net pension asset/(liability)	715	(495)	(224)	**(4)**
Effect of the asset ceiling[2]	(236)	–	–	**(236)**
Other employee benefit obligations	–	–	(13)	**(13)**
At December 31, 2013	479	(495)	(237)	**(253)**
Represented by:				
Employee benefit assets				**485**
Employee benefit obligations				**(738)**
				(253)

1 The present value of scheme liabilities for the US PRMB was €69 million at December 31, 2013.

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

€ million	2012 (restated) APS	2012 (restated) NAPS	2012 (restated) Other[1]	2012 (restated) Total
Scheme assets at fair value	8,815	12,395	362	21,572
Present value of scheme liabilities	(7,911)	(14,031)	(842)	(22,784)
Net pension asset/(liability)	904	(1,636)	(480)	(1,212)
Effect of the asset ceiling[2]	(298)	–	–	(298)
Other employee benefit obligations	–	–	(13)	(13)
At December 31, 2012	606	(1,636)	(493)	(1,523)
Represented by:				
Employee benefit assets				606
Employee benefit obligations				(2,129)
				(1,523)

1 The present value of scheme liabilities for the US PRMB was €274 million at December 31, 2012.

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

b Amounts recognised in the Income statement

Pension costs charged/(credited) to operating result are:

€ million	2013	2012
Defined benefit plans:		
Current service cost	**205**	181
Past service cost[1]	**(170)**	–
	35	181
Defined contribution plans	**92**	86
Pension costs recorded as employee costs	**127**	267

1 The credit to past service costs of €170 million in 2013 has been treated as an exceptional item (note 6).

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

€ million	2013	2012 (restated)
Interest income on scheme assets	**892**	954
Interest expense on scheme liabilities	**(933)**	(980)
Interest expense on asset ceiling	**(12)**	(17)
Net financing expense relating to pensions	**(53)**	(43)

c Remeasurements recognised in the Statement of other comprehensive income

€ million	2013	2012 (restated)
Return on plan assets excluding interest income	**822**	826
Remeasurement of plan liabilities from changes in financial assumptions	**(138)**	(2,004)
Remeasurement of experience (losses)/gains	**(7)**	41
Remeasurement of the APS asset ceiling	**64**	80
Exchange movements	**–**	12
Pension remeasurements	**741**	(1,045)

d Fair value of scheme assets

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

€ million	2013	2012
At January [1]	**21,572**	19,515
Interest income	**892**	954
Return on plan assets excluding interest income	**822**	825
Employer contributions	**564**	554
Employee contributions[1]	**101**	103
Benefits paid	**(841)**	(874)
Exchange movements	**(629)**	495
At December 31	**22,481**	21,572

1 Includes employer contributions to APS of €74 million (2012: €107 million) and to NAPS of €467 million (2012: €426 million), of which deficit funding payments represented €65 million for APS (2012: €92 million) and €245 million for NAPS (2012: €289 million).

Scheme assets at December 31 comprise:

€ million	2013	2012
Return seeking investments – equities		
UK	**2,520**	2,064
Rest of world	**5,382**	4,952
	7,902	7,016
Return seeking investments – other		
Private equity	**692**	688
Property	**1,546**	1,435
Alternative investments	**775**	732
	3,013	2,855
Liability matching investments		
UK fixed bonds	**2,738**	2,793
Rest of world fixed bonds	**253**	246
UK index-linked bonds	**4,731**	5,454
Rest of world index-linked bonds	**432**	559
	8,154	9,052
Other		
Cash and cash equivalents	**1,018**	930
Derivatives	**29**	(71)
Insurance contract	**1,677**	1,462
Longevity swap	**(51)**	(32)
Other	**739**	360
	22,481	21,572

All equities and bonds have quoted prices in active markets.

32 Employee benefit obligations continued

d Fair value of scheme assets continued

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

	At December 31, 2013		At December 31, 2012	
€ million	APS	NAPS	APS	NAPS
Return seeking investments	**1,664**	**9,047**	1,603	8,047
Liability matching investments	**4,614**	**3,448**	5,459	3,506
	6,278	**12,495**	7,062	11,553
Insurance contract and related longevity swap	**1,605**	**–**	1,430	–
Other	**367**	**1,352**	323	842
Fair value of scheme assets	**8,250**	**13,847**	8,815	12,395

For both APS and NAPS, the trustees have ultimate responsibility for decision-making on investment matters, including the asset-liability matching strategy. The Investment Committee adopts an annual business plan which sets out investment objectives and work required to support achievement of these objectives. The Committee also deals with the monitoring of performance and activities, including work on developing the strategic benchmark to improve the risk return profile of the scheme where possible, as well as having a trigger based dynamic governance process to be able to take advantage of opportunities as they arise. The Investment Committee review the existing investment restrictions, performance benchmarks and targets, as well as continuing to develop the de-risking and liability hedging portfolio.

The strategic benchmark for asset allocations differentiates between 'return seeking assets' and 'liability matching assets'. Given the respective maturity of each scheme, the proportion for APS and NAPS vary. At March 31, 2013, the date of the latest annual review, the benchmark for APS was 23.7 per cent (2012: 22.5 per cent) in return seeking assets and 76.3 per cent (2012: 77.5 per cent) in liability matching investments; and for NAPS the benchmark was 68 per cent (2012: 68 per cent) in return seeking assets and 32 per cent (2012: 32 per cent) in liability matching investments. Bandwidths are set around these strategic benchmarks that allow for tactical asset allocation decisions, providing parameters for the Investment Committee and their investment managers to work within.

In addition to this, APS has an insurance contract with Rothesay Life which now covers 24 per cent (2012: 20 per cent) of the pensioner liabilities for an agreed list of members. The insurance contract is based on future increases to pensions in line with RPI inflation and will match future obligations on that basis for that part of the scheme. The insurance contract can only be used to pay or fund employee benefits under the scheme. APS also has secured a longevity swap contract with Rothesay Life, which covers an additional 20 per cent (2012: 20 per cent) of the pensioner liabilities for the same members covered by the insurance contract above. The value of the contract is based on the difference between the value of the payments expected to be received under this contract and the pensions payable by the scheme under the contract.

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

The asset-liability matching strategy in respect of the Group's other schemes have been determined in accordance with best local practice.

e Present value of scheme liabilities

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

€ million	2013	2012
At January 1	**22,784**	19,947
Current service cost	**205**	181
Past service cost	**(170)**	–
Interest expense	**933**	980
Remeasurements – financial assumptions	**138**	2,004
Remeasurements – demographic assumptions	**7**	(41)
Benefits paid	**(841)**	(874)
Employee contributions	**101**	103
Exchange movements	**(672)**	484
At December 31	**22,485**	22,784

The defined benefit obligation comprises €80 million (2012: €286 million) arising from unfunded plans and €14,816 million (2012: €14,545 million) from plans that are wholly or partly funded.

f Effect of the asset ceiling

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

€ million	2013	2012 (restated)
At January 1	**298**	351
Interest expense	**12**	17
Remeasurements	**(64)**	(80)
Exchange movements	**(10)**	10
At December 31	**236**	298

g Actuarial assumptions

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

	2013			2012		
Per cent per annum	APS	NAPS	Other schemes	APS	NAPS	Other schemes
Discount rate	**4.40**	**4.70**	**4.5 – 4.9**	4.10	4.50	4.0 – 4.7
Rate of increase in pensionable pay[1]	**3.25**	**3.30**	**3.5 – 4.3**	2.85	2.90	3.5 – 4.1
Rate of increase of pensions in payment	**2.50**	**2.55**	**1.5 – 3.3**	2.10	2.15	1.5 – 3.0
RPI rate of inflation[2]	**3.25**	**3.30**	**3.0 – 3.5**	2.85	2.90	3.0 – 3.1
CPI rate of inflation[2]	**2.50**	**2.55**	**2.5 – 3.0**	2.10	2.15	2.4 – 3.0

1 Rate of increase in pensionable pay is assumed to be in line with employee cost inflation reflected in the Group's five year business plan and inflation for all later periods.

2 The inflation rate assumptions for NAPS and APS are based on the difference between the yields on index-linked and fixed-interest long-term government bonds. The inflation assumptions are used to determine the rate of increase for pensions in payment and the rate of increase in deferred pensions where there is such an increase.

Rate of increase in healthcare costs is based on medical trend rates of 8.0 per cent grading down to 5.0 per cent over six years (2012: 7.5 per cent to 5.0 per cent over five years).

32 Employee benefit obligations continued

g Actuarial assumptions continued

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

Mortality assumptions	**2013**	2012
Life expectancy at age 60 for a:		
– male currently aged 60	**28.3**	28.4
– male currently aged 40	**29.7**	29.9
– female currently aged 60	**29.7**	30.2
– female currently aged 40	**32.2**	32.7

At December 31, 2013, the weighted-average duration of the defined benefit obligation was 12 years for APS (2012: 13 years) and 19 years for NAPS years (2012: 20 years).

In the US, mortality rates were based on the PPA13 mortality tables.

h Sensitivity analysis

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

€ million	Increase in net pension liability
Discount rate (decrease of 10 basis points)	357
Future salary growth (increase of 10 basis points)	61
Future pension growth (increase of 10 basis points)	264
Future mortality rate – one year increase in life expectancy	607

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

i Funding

Pension contributions for APS and NAPS were determined by actuarial valuations made as at March 31, 2012 using assumptions and methodologies agreed between the Group and the Trustees of each scheme. At the date of the actuarial valuation, the actuarial deficits of APS and NAPS amounted to €811 million and €3,172 million respectively. In order to address the deficits in the schemes, the Group has also committed to the following deficit payments:

€ million	**APS**	**NAPS**
Within 12 months	**66**	**26**
2-5 years	**262**	**764**
5-10 years	**279**	**1,492**
More than 10 years	**–**	**810**
Total expected deficit payments for APS and NAPS	**607**	**3,092**

The Group has determined that the minimum funding requirements set out above for APS and NAPS will not be restricted. The present value of the contributions payable is expected to be available as a refund or a reduction in future contributions after they are paid into the plan. This determination has been made independently for each plan.

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

In total, the Group expects to pay €348 million in employer contributions and deficit payments to its post-retirement benefit plans in 2014. This includes expected employer contributions of €75 million to APS (of which €66 million relates to the funding shortfall) and €255 million to NAPS (of which €26 million is relates to the funding shortfall).

33 Contingent liabilities and guarantees

There were contingent liabilities at December 31, 2013 in respect of guarantees and indemnities entered into as part of the normal course of the Group's business. No material losses are likely to arise from such contingent liabilities. A number of other lawsuits and regulatory proceedings are pending, the outcome of which in aggregate is not expected to have a material effect on the Group's financial position or results of operations.

The Group has certain liabilities and commitments, which at December, 31 2013 amounted to €124 million (2012: €110 million).

The Group has contingent liabilities in respect of certain claims and litigation in the normal course of business, which if realised are not expected to have a material adverse effect on the Group's consolidated financial position, results of operations or cash flows. The Group recognises provisions for liabilities when it is more likely than not that a settlement will be required and the value of such a payment can be reliably measured. The Group files income tax returns in many jurisdictions throughout the world. Various tax authorities are currently examining the Group's income tax returns. Tax returns contain matters that could be subject to differing interpretations of applicable tax laws and regulations and the resolution of tax positions through negotiations with relevant tax authorities, or through litigation, can take several years to complete. While it is difficult to predict the ultimate outcome in some cases, the Group does not anticipate that there will be any material impact on the Group's financial position or results of operations.

34 Related party transactions

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

Sales and purchases of goods and services

€ million	**2013**	2012
Sales of goods and services		
Sales to associates	**78**	148
Sales to significant shareholders	**-**	-
Purchases of goods and services		
Purchases from associates	**61**	63
Purchases from significant shareholders	**-**	22

Year end balances arising from sales and purchase of goods and services

€ million	**2013**	2012
Receivables from related parties		
Amounts owed by associates	**7**	35
Amounts owed by significant shareholders	**-**	31
Payables to related parties		
Amounts owed to associates	**6**	22
Amounts owed to significant shareholders	**-**	2

Vueling is no longer an associate of the Group since its acquisition on April 26, 2013 (note 3). Bankia, S.A. (Bankia), a Spanish listed bank, is no longer a significant shareholder at December 31, 2013.

34 Related party transactions continued

During the year to December 31, 2013 British Airways met certain costs of administering its retirement benefit plans, including the provision of support services to the Trustees. Costs borne on behalf of the retirement benefit plans amounted to €6 million (2012: €7 million) in relation to the costs of the Pension Protection Fund levy.

In 2012 the Group entered into a hedging transaction at arm's length with Nomura International plc., a related party to IAG as there is a common Non-Executive Board member. The transaction was a risk management exercise to protect the value of the 33,562,331 ordinary shares that the Group holds in Amadeus IT Holding, S.A.

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

For the year to December 31, 2013, the Group has not made any provision for doubtful debts arising relating to amounts owed by related parties (2012: €nil).

Further details of the main transactions between the Group, associates and significant shareholders are provided below.

Associates

Total sales to associates of €78 million during the year (2012: €148 million) consisted primarily of sales to Vueling between January 1, 2013 and April 26, 2013 of €61 million (2012: €132 million), airline related services to Dunwoody Airline Services (Holding) Limited (Dunwoody) of €12 million (2012: €11 million), and services to Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. (Medios de Pagos) of €2 million (2012: €3 million). Maintenance services totalling €2 million were provided to Madrid Aerospace Services, S.L. Corjet Maintenance Europe, S.L. and Multiservicios Aeroportuarios, S.A. (2012: €nil).

Purchases from associates totalling €61 million (2012: €63 million) mainly included €30 million of airport auxiliary services purchased from Multiservicios Aeroportuarios, S.A. (2012: €32 million), €8 million of maintenance services provided by Serpista, S.L. (2012: €8 million), €7 million of services received from International Supply Management, S.L. (2012: €8 million), €5 million of maintenance services received from Madrid Aerospace Services, S.L. (2012 €5 million) and €10 million of services received from Dunwoody (2012: €8 million).

The Group had amounts owed by associates at December 31, 2013 for airline related services rendered, that included balances with Iber-América Aerospace, LLC of €2 million (2012: €3 million), Medios de Pagos of €2 million (2012: €nil), Madrid Aerospace Services, S.L. of €1 million (2012: €nil) and Dunwoody of €1 million (2012: €nil). 2012 also included amounts owed by Vueling of €26 million.

At December 31, 2013 amounts owed to associates consisted primarily of €3 million to Multiservicios Aeroportuarios, S.A. (2012: €2 million), €1 million due to Dunwoody (2012: €nil), €1 million to Handling Guinea Ecuatorial, S.A. (HANGESA) (2012: €nil) and €1 million to Serpista, S.A. (2012: €nil). 2012 also included amounts owed to Vueling of €18 million.

Significant shareholders

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

There were no sales to significant shareholders during the year (2012: €nil). There were also no purchases from significant shareholders during the year (2012: €22 million, including €20 million of aircraft chartering expenses and aircraft lease financing repayments to Bankia).

The Group had no receivables balance at the end of the year (2012: €31 million with Bankia), and no outstanding payables balance at the end of the year (2012: €2 million with Bankia).

In addition to the above, during the year, the Group had transactions with shareholders, holding a participation of 3 to 5 per cent, totalling €2 million (2012: €1 million). At December 31, 2013 the Group had cash deposit balances with shareholders, holding a participation of between 3 to 5 per cent, of €209 million (2012: €232 million).

Board of Directors and Management Committee remuneration

Compensation received by the Group's key management personnel, which includes the Board of Directors and Management Committee, in 2013 and 2012 is as follows:

€ million	**December 31, 2013**	December 31, 2012
Base salary, fees and benefits		
Board of Directors' remuneration	**16**	6
Management Committee remuneration	**8**	4
	24	10

The Report of the Remuneration Committee on pages 53 to 71 discloses further details of the Board of Directors and Management Committee.

The Company provides life insurance for all Executive Directors and the Management Committee, and for the year to December 31, 2013 the Company's obligation was €37,000 (2012: €28,000).

At December 31, 2013 the transfer value of accrued pensions covered under defined benefit pension obligation schemes, relating to both the Board of Directors and the Management Committee totalled €5 million (2012: €5 million).

No loans or credit transactions were outstanding with Directors or officers of the Group at December 31, 2013 (2012: €nil)

SPANISH CORPORATE GOVERNANCE REPORT

A OWNERSHIP STRUCTURE

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

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
October 7, 2013	1,020,039,261.50	2,040,078,523	2,040,078,523

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

No

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

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

Name or corporate name of shareholder	Number of direct voting rights	Indirect voting rights: Name of direct holder	Indirect voting rights: Number of voting rights	% of total voting rights
Templeton Global Advisors Limited	0	Collective investment institutions managed by Templeton Global Advisors Limited	92,969,270	4.557%
BlackRock Inc.	0	BlackRock Investment Management (UK) Ltd	91,539,438	4.487%
Legal & General Investment Management Limited	54,407,837	Legal & General (Unit Trust Managers) Limited	11,611,554	3.236%
Europacific Growth Fund	107,329,400	–	0	5.261%
Capital Research and Management Company	0	Collective investment institutions	102,997,951	5.049%
Lansdowne Partners Limited Partnership	0	Lansdowne Developed Markets Master Fund Ltd	23,548,644	1.154%
FIL Limited	0	Collective investment institutions	20,405,169	1%

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

Name or corporate name of shareholder	Date of the transaction	Description of the transaction
Banco Financiero y de Ahorros, S.A.	June 27, 2013	Decrease to below 10% of the share capital
Capital Research and Management Company	October 25, 2013	Increase to above 3% of the share capital
Capital Research and Management Company	December 10, 2013	Increase to above 5% of the share capital
Europacific Growth Fund	November 13, 2013	Increase to above 3% of the share capital
Europacific Growth Fund	December 17, 2013	Increase to above 5% of the share capital
FIL Limited	February 1, 2013	Decrease to below 1% of the share capital
FIL Limited	June 28, 2013	Increase to above 1% of the share capital
FIL Limited	December 12, 2013	Decrease to below 1% of the share capital
FIL Limited	December 20, 2013	Increase to above 1% of the share capital
Majedie Asset Management Limited	January 13, 2013	Decrease to below 5% of the share capital
Majedie Asset Management Limited	August 22, 2013	Decrease to below 3% of the share capital
Schroders Plc Holdings	April 4, 2013	Decrease to below 3% of the share capital
UBS AG	June 28, 2013	Increase to above 3% of the share capital
UBS AG	July 2, 2013	Decrease to below 3% of the share capital
UBS AG	August 1, 2013	Increase to above 3% of the share capital
UBS AG	August 5, 2013	Decrease to below 3% of the share capital

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

Name or corporate name of director	Number of direct voting rights	Indirect voting rights: Name of direct holder	Indirect voting rights: Number of voting rights	% of total voting rights
Antonio Vázquez Romero	512,291	–	–	0.025%
Sir Martin Broughton	155,365	Jocelyn Broughton	19,545	0.009%
Willie Walsh	298,915	–	–	0.015%
César Alierta Izuel	1,000,000	–	–	0.049%
Enrique Dupuy de Lôme Chávarri	100	–	–	0.000%
Luis Gallego Martín	100	–	–	0.000%
Baroness Kingsmill	2,000	–	–	0.000%
James Lawrence	50,000	–	–	0.002%
José Pedro Pérez-Llorca	408	–	–	0.000%
Dame Marjorie Scardino	100	–	–	0.000%
Keith Williams	221,051	–	–	0.011%

% of total voting rights held by the Board of Directors:	0.111%

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

Name or corporate name of director	Number of direct rights	Indirect rights: Direct holder	Indirect rights: Number of voting rights	Number of equivalent shares	% of total voting rights
Willie Walsh	2,608,533	–	–	2,608,533	0.127%
Keith Williams	1,788,532	–	–	1,788,532	0.088%
Enrique Dupuy de Lôme Chávarri	970,491	–	–	970,491	0.048%
Luis Gallego Martín	375,939	–	–	375,939	0.018%

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

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

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

Related-party name or corporate name	Type of relationship	Brief description
BlackRock Investment Management (UK) Ltd	Commercial	Cash deposits invested as part of liquidity fund portfolio

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

No

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

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

No

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

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

Non applicable

A.7 Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company in accordance with article 4 of the Securities' Market Law: If so, identify:

No

Name or corporate name
–

Remarks
–

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

At year-end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
9,000,000	0	0.441%

(*) Through:

Name or corporate name of direct holder	Number of shares held directly
–	–
Total	–

Give details of any significant changes during the year, pursuant to Royal Decree 1362/2007:

Date of notification	Total number of direct shares acquired	Total number of indirect shares acquired	% of total share capital
–	–	–	–

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

The Annual Shareholders' Meeting held on June 20, 2013, granted authorisation to the Board of Directors of International Consolidated Airlines Group, S.A. ("IAG" or the "Company") for the derivative acquisition of shares of the Company in the context of the provisions of article 146 of the Spanish Companies Law, according to the applicable laws and subject to the following conditions:

a) Acquisitions shall be made directly by IAG or indirectly through its subsidiaries, on the same terms.

b) Acquisitions may be made by means of sale and purchase, exchange or any other legally permitted transaction.

c) The maximum aggregate number of ordinary shares that may be acquired shall be the lower of the maximum amount permitted by law and 10% of the amount of the issued ordinary share capital of the Company on June 20, 2013.

d) The minimum price which may be paid for an ordinary share is zero.

e) The maximum price which may be paid for an ordinary share is the highest of:

i) an amount equal to the result of increasing by 5 per cent the average share price of the ordinary shares on the relevant stock exchange for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased; and

ii) the higher of the price of the last independent trade and the highest current independent bid on the trading platforms at the time the purchase is made;

in each case, exclusive of expenses.

f) The authorisation was granted until the next Annual Shareholders' Meeting to be held on 2014 (or for a period of fifteen months as from June 20, 2013, if earlier.)

The resolution of the Annual Shareholders' Meeting held on June 20, 2013, places expressly on record that for the purposes of provisions of article 146 of the Spanish Companies Law, the shares acquired pursuant to the authorisation mentioned before may be delivered directly to the employees or Directors of the Company or its subsidiaries, or as a result of the exercise of option rights held thereby.

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

Yes

Description of restrictions

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

Disclosure obligations

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

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

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

Limitations on ownership of the Company shares

In the event that the Board of Directors deems it necessary or appropriate to adopt measures to protect an operating right of the Company or of its operating subsidiaries, in light of the nationality of its shareholders or any persons with an interest in the Company's shares, it may adopt any of the measures provided for such purpose in article 11 of the Bylaws, including the determination of a maximum number of shares that may be held by non-EU shareholders, which may not be less than 40 per cent of the Company's capital stock under any circumstances. At December 31, 2013, 31 per cent of the ordinary shares of the Company were held by non-EU shareholders.

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

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

No

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

Non applicable

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

No

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

Non applicable

B SHAREHOLDERS' MEETING

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

No

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

Description of differences
–

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

No

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

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

Describe the differences
–

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

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

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

	Attendance data				
			% remote voting		
Date of general meeting	% attending in person	% by proxy	Electronic means	Other	Total
September 26, 2013	0.056%	57.735%	0.623%	–	58.414%
June 20, 2013	0.078%	64.480%	3.299%	–	67.857%
June 21, 2012	0.136%	68.661%	0.131%	–	68.928%

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

No

Number of shares required to attend the General Meetings
–

B.6 Indicate whether decisions involving a fundamental corporate change ("subsidiarisation", acquisitions/disposals of key operating assets, operations that effectively entail the company's liquidation) must be submitted to the shareholders' meeting for approval or ratification even when not expressly required under company Law.

Yes

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

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

Spanish Corporate Governance Report continued

C COMPANY MANAGEMENT STRUTUCTURE

C.1 Board of Directors

C.1.1 List the maximum and minimum number of directors included in the by-laws:

Maximum number of directors	14
Minimum number of directors	9

C.1.2 Complete the following table with board members:

Name or corporate name of director	Representative	Position on the board	Date of first appointment	Date of last appointment	Election procedure
Antonio Vázquez Romero	–	Chairman	May 25, 2010	January 21, 2011	Voting at the Shareholders' Meeting
Sir Martin Broughton	–	Deputy Chairman	May 25, 2010	June 20, 2013	Voting at the Shareholders' Meeting
Willie Walsh	–	Chief Executive Officer	May 25, 2010	January 21, 2011	Voting at the Shareholders' Meeting
César Alierta Izuel	–	Director	September 27, 2010	January 21, 2011	Voting at the Shareholders' Meeting
Patrick Cescau	–	Director	September 27, 2010	June 20, 2013	Voting at the Shareholders' Meeting
Enrique Dupuy de Lôme Chávarri	–	Director	September 26, 2013	September 26, 2013	Voting at the Shareholders' Meeting
Luis Gallego Martín	–	Director	March 27, 2013	June 20, 2013	Voting at the Shareholders' Meeting
Baroness Kingsmill	–	Director	September 27, 2010	January 21, 2011	Voting at the Shareholders' Meeting
James Lawrence	–	Director	September 27, 2010	January 21, 2011	Voting at the Shareholders' Meeting
José Pedro Pérez-Llorca	–	Director	September 27, 2010	January 21, 2011	Voting at the Shareholders' Meeting
Kieran Poynter	–	Director	September 27, 2010	January 21, 2011	Voting at the Shareholders' Meeting
Dame Marjorie Scardino	–	Director	December 19, 2013	December 19, 2013	Co-optation
Alberto Terol Esteban	–	Director	June 20, 2013	June 20, 2013	Voting at the Shareholders' Meeting
Keith Williams	–	Director	September 27, 2010	January 21, 2011	Voting at the Shareholders' Meeting

Total number of directors:	14

Indicate any board members who left the board during this information period:

Name or corporate name of director	Status of the director at the time of leaving	Leaving date
John Snow	External Independent Director	December 19, 2013
Manuel Lagares Gómez- Abascal	Proprietary Director	July 3, 2013
José Manuel Fernández Norniella	Other external	June 20, 2013
Rafael Sánchez-Lozano Turmo	Executive director	March 27, 2013

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

EXECUTIVE DIRECTORS

Name or corporate name of director	Committee proposing appointment	Position held in the company organization chart
Willie Walsh	–	Chief Executive Officer
Enrique Dupuy de Lôme Chávarri	Nominations Committee	Chief Financial Officer See section C.1.11.
Luis Gallego Martín	Nominations Committee	Chief Executive Officer of Iberia, Líneas Aéreas de España, S.A. ("**Iberia**")
Keith Williams	–	Chief Executive Officer of British Airways Plc. ("**British Airways**") See section C.1.11.

Total number of executive directors	4
% of the total of the board	28.57%

PROPRIETARY DIRECTORS

Name or corporate name of director	Committee proposing appointment	Name or corporate name of significant shareholder represented or proposing appointment
–	–	–

Total number of proprietary directors	–
% of the total of the board	–

Spanish Corporate Governance Report continued

EXTERNAL INDEPENDENT DIRECTORS

Individual or corporate name of Director	Profile
Sir Martin Broughton	Committee membership at the Company: Nominations Committee and Safety Committee. Key areas of prior experience: consumer, finance, governance. Current external appointments: Chairman, Sports Investment Partners. Previous relevant experience: Chairman, British Airways (2004-2013). Director, British Airways since 2000. President, Confederation of British Industry (2008-2010). Chairman, Liverpool FC 2010. Chairman, British Horseracing Board (2004-2007). Chairman, British American Tobacco (1997-2004) and member of the Board since 1988. Chief Executive Officer, British American Tobacco (1993-1997) and other executive positions at British American Tobacco (1971-1997).
César Alierta Izuel	Committee membership at the Company: Nominations Committee. Key areas of prior experience: finance, telecommunications, consumer. Current external appointments: Executive Chairman, Telefónica Group. Non-Executive Director, China Unicom. Member of the Board of Overseers, Columbia Business School. Chairman, Social Board of the Spanish UNED. Previous relevant experience: Non-Executive Director, Telefónica (1997-2000). Executive Director, Altadis Group (1996-2000). Member of the Board, Telecom Italia (2007-2013). Member of the Board, Madrid Stock Exchange (1991-1996). Chairman, Spanish Financial Analysts' Association (1991-1996). Chairman and founder, Beta Capital (1985-1996).
Patrick Cescau	Committee membership at the Company: Audit and Compliance Committee. Key areas of prior experience: consumer, finance, sales/marketing, governance. Current external appointments: Non-Executive Chairman, InterContinental Hotel Group. Senior Independent and Non-Executive Director, Tesco. Trustee, LeverHulme Trust. Chairman, St Jude India Children's Charity. Previous relevant experience: Group Chief Executive, Unilever (2005-2008). Chairman, Unilever PLC. Deputy Chairman, Unilever NV. Foods Director and other executive positions (including a number of Unilever major operating companies and divisions in the USA, Indonesia and Portugal), having joined the Unilever Group in 1973.
Baroness Kingsmill	Committee membership at the Company: Remuneration Committee and Nominations Committee. Key areas of prior experience: government, legal and regulatory affairs. Current external appointments: Non-Executive Director, EON Supervisory Board. Senior Independent Director and Chairman of Nominations and Ethics Committees, APR Energy. Chairman of the UK Advisory Board, (24)7 Inc. Deputy Chairman, PricewaterhouseCoopers, Advisory Board. Member of the International Advisory Board, IESE Business School. Member of the House of Lords since 2006. Previous relevant experience: Non-Executive Director, British Airways (2004-2010). Deputy Chairman, Competition Commission (2003). Chairman, Department of Trade and Industry's Accounting for People task force (2003).

Individual or corporate name of Director	Profile
James Lawrence	Committee membership at the Company: Audit and Compliance Committee. Key areas of prior experience: finance, consumer, corporate governance. Current external appointments: Chairman, Rothschild North America. Previous relevant experience: Non-Executive Director, British Airways (2006-2010). CEO, Rothschild North America and Co-Head of Global Investment Banking (2010-2012). Executive Director and Chief Financial Officer, Unilever (2007-2010). Vice Chairman, Chief Financial Officer and Head of International, General Mills (1998-2007). Executive Vice President and Chief Financial Officer, Northwest Airlines (1996-1998). Executive Vice President and other executive positions, Pepsi-Cola (1992-1996). Chairman and Co-Founder, LEK Consulting (1983-1992). Partner, Bain & Company (1977-1983).
José Pedro Pérez-Llorca	Key areas of prior experience: diplomacy, legal services, government affairs. Current external appointments: Founding Partner, Pérez-Llorca law firm. International arbitrator. Chairman, Board of Trustees of the Prado Museum. Previous relevant experience: Chairman, AEG Ibérica (1983-1991). Chairman, Urquijo Leasing (1983-1990). Non-Executive Director, Telefónica (1996-2001). Member, Governing Council for the Madrid Stock Exchange (1986-1991). Minister with cabinet rank in several departments, including Foreign Affairs (1979-1983). He is one of the founding members of the UCD party and President of the Parliamentary Group of the Centrist Parliamentary Group in the Congress of Deputies. He is one of the seven framers of the current Spanish Constitution. Chairman, INVEX (1974-1977). He is a career diplomat and congressional attorney.
Kieran Poynter	Committee membership at the Company: Audit and Compliance Committee and Safety Committee. Key areas of prior experience: professional services, finance services. Current external appointments: Chairman, F&C Asset Management PLC. Chairman, Nomura International PLC. Non-Executive Director and Chairman of the Audit Committee, British American Tobacco. Previous relevant experience: Member, Advisory Committee for the Chancellor of the Exchequer on the competitiveness of the UK financial services sector (2009-2010). Member, President's Committee of the CBI (2000-2008). Chairman and Senior Partner, PricewaterhouseCoopers (2000-2008). Managing Partner, PricewaterhouseCoopers (1998-2000) and other executive positions at PricewaterhouseCoopers (1982-1998). He joined PricewaterhouseCoopers in 1971.
Dame Marjorie Scardino	Committee membership at the Company: Remuneration Committee. Key areas of prior experience: communications and media, legal services. Current external appointments: Member, Charitable boards including The MacArthur Foundation, Oxfam, and Carter Center. Member, Board of the Royal College of Art. Member, Advisory council of the Massachusetts Institute of Technology Media Lab. Board member, Bridge Schools (Kenya). Previous relevant experience: Chief Executive Officer, Pearson (1997- 2012). Chief Executive Officer, The Economist Group (1993-1996). President, The Economist Group US (1985-1993). Lawyer practising in the US (1975-1985).

Individual or corporate name of Director	Profile
Alberto Terol Esteban	Committee membership at the Company: Remuneration Committee and Audit and Compliance Committee. Key areas of prior experience: finance, professional services, information technology. Current external appointments: Non-Executive Director, Indra. Non-Executive Director, OHL. Non-Executive Director, AKTUA. Executive Chairman, various family-owned companies (Palacio de los Ávila y Tiedra, S.L; Inmobiliaria la Fuente de San Esteban, S.L.; Inversiones Hoteleras Canarias, S.L.; and Inversiones Turísticas Playa Blanca, S.L.). Previous relevant experience: Member, Global Executive Committee Deloitte (2007-2009). Managing Partner, EMEA Deloitte (2007-2009). Managing Partner, Global Tax & Legal Deloitte (2007-2009). Member, Global Management Committee Deloitte (2003-2007). Managing Partner, Latin America Deloitte (2003-2007). Managing Partner, Integration Andersen Deloitte (2002-2003). Managing Partner, Europe Arthur Andersen (2001-2002). Managing Partner, Global Tax & Legal Arthur Andersen (1997-2001). Managing Partner, Garrigues (1997-2000).

Total number of external independent directors	9
% of the board	64.28%

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

No

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

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

OTHER NON-EXECUTIVE DIRECTORS

Name or corporate name of director	Committee notifying or proposing appointment
Antonio Vázquez Romero	--

Total number of other non-executive directors	1
% of the total of the board	7.14%

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

Name or corporate name of director	Reasons	Company, executive or shareholder with whom the relationship is maintained
Antonio Vázquez Romero	He was until the merger effective date (January 21, 2011) the Executive Chairman of Iberia	Iberia

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

Name or corporate name of director	Date of change	Previous category	Current category
–	–	–	–
–	–	–	–

C.1.4 Complete the following table on the number of female directors over the past four years and their category.

	Number of female directors				% of total directors of each type			
	Year t	Year t-1	Year t-2	Year t-3	Year t	Year t-1	Year t-2	Year t-3
Executive	0	0	0	–	0	0	0	–
Proprietary	0	0	0	–	0	0	0	–
External Independent	2	1	1	–	22.22%	12.5%	12.5%	–
Other non-executive	0	0	0	–	0	0	0	–
Total	2	1	1	–	14.29%	7.14%	7.14%	–

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

Explanation of measures

The Board of Directors is fully committed to the objective of creating bodies with diverse membership candidates from a wide variety of backgrounds and different vital experiences. In particular, IAG Board of Directors policy is to consider candidates from a wide variety of backgrounds, without discrimination based on gender, race, colour, age, social class, beliefs, religion, sexual orientation, disability or other factors.

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

The IAG Board of Directors Diversity Policy approved on September 27, 2012 remains in force. Part of this policy´s objective is to increase the number of female members of the Board of Directors to a level that measurably improves the Board's gender diversity.

According to the objectives for 2013, the Board of Directors appointed on December 19, 2013 Dame Marjorie Scardino as Non-Executive Director. The Company intends to continue increasing the total number of female directors by no later than the end of 2015.

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

Explanation of measures

Proposals for the appointment of Directors shall be in respect of persons that satisfy the legal and regulatory requirements to hold office as Director, enjoy great prestige and have appropriate professional skills, experience and knowledge for the exercise of the functions and duties of such office.

The Nominations Committee reports on and reviews the criteria to be followed for the composition of the Board of Directors and the selection of candidates, defining the necessary functions and skills and evaluating the time and dedication required to correctly fulfil its remit.

In identifying suitable candidates, the Nominations Committee shall use open advertising or the services of external advisors to facilitate the search, consider candidates from a wide range of backgrounds, and consider candidates on merit and against objective criteria, taking care that appointees have sufficient time available.

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

Explanation of reasons

The Company is a young company, formed from a merger of British Airways and Iberia on January 21, 2011. Over time, the Company wants to increase the number of women we have at Board of Directors and executive level.

The Board of Directors and the Management Committee of IAG are fully committed to the objective of creating bodies with diverse memberships. The Board of Directors is responsible for improving diversity within the Board of Directors, whilst the Management Committee is responsible for improving diversity across the IAG Group. The Board's policy is to consider candidates from a wide variety of backgrounds, without discrimination based on gender, race, colour, age, social class, beliefs, religion, sexual orientation, disability or other factors.

On September 27, 2012, the Board of Directors approved the IAG Board Diversity Policy, which recognises the value of appointing as board members individual Directors who bring a variety of diverse opinions, perspectives, skills, experiences, backgrounds and orientations to its discussions and its decision-making processes.

The Board of Directors appointed one new female Director during 2013 and plans to appoint at least one more in 2014.

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

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

C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 5% of the share capital.

Name or corporate name of shareholder	Reason
–	–

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

No

Name or corporate name of shareholder	Explanation
–	–

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

Name of director	Reasons for resignation
John Snow	Personal reasons.
Manuel Lagares Gómez-Abascal	As a result of the sale of the holding of Banco Financiero de Ahorros, S.A. in IAG this was the significant shareholder that had proposed his appointment.
Jose Manuel Fernández Norniella	Personal reasons.
Rafael Sánchez Lozano Turmo	As a result of the resignation of his executive roles.

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

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

C1.11 List the directors, if any, who hold office as directors or executives in other companies belonging to the listed company's group:

Individual or corporate name of Director	Corporate name of entity within the Group	Position
Antonio Vázquez Romero	Iberia	President
Antonio Vázquez Romero	IB Opco Holding, S.L.	President
Sir Martin Broughton	British Airways	Chairman
Keith Williams	British Airways	Chief Executive Officer
Keith Williams	BA and AA Holdings Limited	Director
Keith Williams	BA Number One Limited	Director
Keith Williams	BA Number Two Limited	Director
Keith Williams	British Airways (No 1) Limited	Director
Keith Williams	BritAir Holdings Limited	Director
Keith Williams	British Airways (BA) Limited	Director
Keith Williams	British Airways (España) Limited	Director
Keith Williams	British Airways (European Operations at Gatwick) Limited	Director
Keith Williams	British Airways 777 Leasing Limited	Director
Keith Williams	British Airways Associated Companies Limited	Director
Keith Williams	British Airways Capital Limited	Director
Keith Williams	British Airways Holdings BV	Director
Keith Williams	British Airways Holdings Limited	Director
Keith Williams	British Airways Leasing Limited	Director
Keith Williams	British Airways Regional Limited	Director
Keith Williams	British Caledonian Airways Limited	Director
Keith Williams	British Caledonian Group Limited	Director
Keith Williams	Caledonian Aviation Investments Limited	Director
Keith Williams	OpenSkies Aviation Limited	Director
Keith Williams	Speedwing International Limited	Director
Keith Williams	The Plimsoll Line Limited	Director
Enrique Dupuy de Lôme Chávarri	British Airways	Director
Enrique Dupuy de Lôme Chávarri	Iberia	Director

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

Name or corporate name of Director	Name of listed company	Position
César Alierta Izuel	Telefónica, S.A.	Chairman
César Alierta Izuel	China Unicom	Non-Executive Director
Patrick Cescau	Tesco Plc	Senior Independant and Non-Executive Director
Patrick Cescau	Intercontinental Hotels Group	Non-Executive Chairman
Enrique Dupuy de Lôme Chávarri	Amadeus IT Holding, S.A.	Non-Executive Director
Baroness Kingsmill	APR Energy	Senior Independent Director
Kieran Poynter	British American Tobacco	Non-Executive Director
Kieran Poynter	F&C Asset Management Plc	Chairman
Alberto Terol Esteban	Indra Sistemas, S.A.	External Independent Director
Alberto Terol Esteban	Obrascon Huarte Lain, S.A.	External Independent Director

C.1.13 Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its directors may sit.

No

Explanation of rules
–

C.1.14 Indicate the company's general policies and strategies that are reserved for approval by the board in plenary session.

	YES	NO
Investment and financing policy	X	
Design of the structure of the corporate group	X	
Corporate governance policy	X	
Corporate social responsibility policy	X	
Strategic or business plans, management targets and annual budgets	X	
Remuneration and evaluation of senior officers performance	X	
Risk control and management, and the periodic monitoring of internal information and control systems	X	
Dividend policy, as well as the policies and limits applying to treasury stock	X	

C.1.15 List the total remuneration of the board:

Board remuneration (thousands of euros)	8,549
Amount of total remuneration corresponding to accumulated pension rights (thousands of euros)	3,449
Total board remuneration (thousands of euros)	11,998

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

Name or corporate name	Position(s)
Robert Boyle	Director of Strategy
Alejandro Cruz	Vueling Chief Executive Officer
Ignacio de Torres Zabala	Director of Global Services
Christopher Haynes	General Counsel
Julia Simpson	Chief of Staff

Total remuneration received by senior management (thousands of euros)	6,606

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

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

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

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

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

Yes

Description of amendments

The meeting of the Board of Directors held on November 7, 2013, approved the amendment of section 2 of article 23 of the Board Regulations of the Company. The new wording of the referred section is the following:

"2.- Without prejudice to the other tasks assigned to it by applicable law, the Bylaws or the Board of Directors, the Audit and Compliance Committee shall have the following powers to report, advise and propose:

a) To inform the Shareholders' Meeting on questions raised by shareholders regarding matters under its competence.

b) 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.

c) To supervise the process for the preparation and presentation of regulated financial information.

d) 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.

e) 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.

f) To review the Company's accounts, monitor compliance with legal requirements and the correct application of generally accepted accounting principles. To review material financial reporting criteria in the Company's accounts. To monitor the functioning of the internal financial control manuals and procedures adopted by the Company, to verify compliance with them and review the designation and replacement of the persons responsible for them.

g) To assess the level of compliance with the Bylaws, the Board of Directors Regulations and the Internal Code of Conduct in matters relating to the securities market and, in general, with the Company's rules on governance and to make the necessary proposals for improvement. In particular, the Audit and Compliance Committee shall be responsible for receiving information and, as the case may be, issuing reports on the disciplinary measures to be applied to senior Executives of the Company.

h) To ensure the independence and efficiency of the internal audit function; to propose the selection, appointment, reappointment and removal of the head of the internal audit service; to propose the department's budget; to receive periodic information on its activities; and to check that senior management takes the conclusions and recommendations contained in its reports into account.

i) To periodically review the internal control and risk management systems to ensure that the principal risks are adequately identified, managed and made known.

j) To consider suggestions from the Audit and Compliance Committee Chairman, Board members, senior Executives or shareholders and to report and make proposals to the Board of Directors on the measures it deems appropriate in the audit activity and any others assigned to it, as well as with regard to compliance with legislation on market reporting and transparency and accuracy of the same.

k) 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.

l) 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 the 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.

m) To issue on an annual basis, prior to the issue of the auditor's 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.

n) To report on related transactions or transactions that entail or may entail a conflict of interest.

o) To review the effectiveness of the external audit process.

p) To review arrangements by which staff of the Group may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The Audit and Compliance Committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

q) To report to the Board of Directors, prior to the adoption by it of the corresponding decision, regarding the creation or acquisition of interests in special purpose entities or entities registered in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature that, due to the complexity thereof, might detract from the transparency of the Group.

r) To report to the Board on the steps taken by management to ensure that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

The function of the Audit and Compliance Committee is oversight. The management of the Company is responsible for the preparation, presentation and integrity of the Company's financial statements."

The meeting of the Board of Directors held on December 19, 2013, approved the amendment of section 1 of article 24 of the Board Regulations of the Company. The new wording of the referred section is the following:

"The Nominations Committee shall be made up of no less than three (3) and no more than five (5) non-executive directors appointed by the Board of Directors, with the dedication, capacity and experience necessary to carry out its function. At least two (2) of the members of the Nominations Committee shall be independent directors. The Board shall designate a Nominations Committee Chairman from among the directors of the Nominations Committee. The Company Secretary or his or her nominee shall act as secretary to the Nominations Committee."

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

Appointment of Directors

The Shareholders' Meeting or if, applicable, the Board of Directors itself shall be entitled to designate the members of the Board of Directors pursuant to the provisions of the Spanish Companies Law and the Bylaws.

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

Proposals for the appointment of Directors put to the Shareholders' Meeting for consideration by the Board of Directors and decisions on appointments made by the Board of Directors using the powers of co-option legally attributed to it, shall be in respect of persons that satisfy the legal and Bylaw requirements to hold office as Director, enjoy great prestige and have appropriate professional skills, experience and knowledge for the exercise of the functions and duties of such office.

Proposals for the appointment or renewal of Directors submitted to the Shareholders' Meeting by the Board of Directors, as well as provisional appointments by means of co-option, 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 External Independent Directors, and (ii) subject to a report from the Nominations Committee in all other cases.

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

Re-election of Directors

Once a Director's term of office has expired, his or her appointment as a Director shall end when the next Shareholders' Meeting has been held or the legal term for the holding of the Shareholders' Meeting that is to approve the annual accounts for the previous year has expired.

At the end of their term of office, Directors may be re-elected one or more times for periods of equal duration to that indicated above (three years).

Proposals for re-election of Directors that the Board of Directors resolves to submit to the Shareholders' Meeting shall be subject to a formal preparation process, which must include a proposal made by the Nominations Committee containing an evaluation of the quality of the work performed and the dedication to office shown by the proposed Directors during the preceding term of office. For such purposes, the Directors sitting on the Nominations Committee shall be evaluated by the Nominations Committee itself, and each of them shall abstain from participating in any debate or vote that may affect them.

At the time of the merger, transitional arrangements were agreed to ensure that the Company had continuity of leadership in the IAG Group's early days. These provide that the Directors in office at that time should resign and stand for re-election by shareholders in accordance with an agreed calendar, providing for a phased rotation of all Directors between 2013 and 2015. If re-elected, Directors were to serve for a three-year term which is the period of office established in the Bylaws.

However, following the recommendation of the Nominations Committee, the Board of Directors has reconsidered the existing arrangements and has decided that, starting this year, all Directors should stand for re-election annually at each Annual Shareholders' Meeting. Consequently, the relevant resolutions will be submitted to the Annual Shareholders´ Meeting to be held in 2014, including a proposal to amend the Bylaws to reduce Directors' term of office to one year.

Evaluation of Directors

The powers of the Chairman of the Board of Directors include ensuring that the performance of individual Directors, the Board of Directors as a whole and the Board Committees is evaluated at least once a year.

At the end of the year, an internal evaluation questionnaire was sent to the members of the Board of Directors. The results were analysed and an action plan was drawn up to address the issues detected, to be implemented in due course.

Removal of Directors

Directors shall cease to hold office upon expiration of the term of office for which they were appointed or when so resolved by the Shareholders' Meeting in the exercise of the powers conferred on it by the applicable legislation, the Bylaws and the Board Regulations.

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

The Nominations Committee has the power to submit proposals to the Board of Directors for the removal of External Independent Directors by the Shareholders' Meeting and to report on such proposals for removal by the Shareholders' Meeting with respect to any other type of Board member.

C.1.20 Indicate whether the board has evaluated its performance during the year:

Yes

Explain, if applicable, to what extent this evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of amendments
Boardroom Review Limited has carried out an external evaluation of the Company Board of Directors' effectiveness. The results of the evaluation were presented to, and discussed, by the Board as a whole and feedback was also given on an individual basis.

A number of findings included in the report of Boardroom Review Limited were already addressed, or were in the course of being addressed, at the time the review was presented to the Board of Directors. The progress already made includes the following:

a) Board of Directors composition: In order to strengthen the Board of Directors' profile, consumer facing experience was identified as a priority in the recruitment of new Board of Directors members.

b) Board of Directors´ role as head of the IAG Group: A number of corporate governance changes already in place will help to define the Board of Directors role and increase its contribution, including: the fact that both the Chairman and the Deputy Chairman have stood down as the chairmen of Iberia and British Airways, respectively, and that the Chief Executive Officer of British Airways and Iberia have retired from IAG Board, the addition of IAG's Chief Financial Officer to the Board, as well as the renewed composition of the Board's Committees.

c) Cross-Committee membership: There is one Non-Executive Director attending both Audit and Compliance and Remuneration Committees, one attending both Nominations and Remunerations Committees, and one Non-Executive Director as a member of both the Audit and Compliance and Safety Committees.

The Board of Directors and the Board Committees have continued the discussion and a series of actions have been agreed mainly referring to:

a) Planning the longer-term succession of Board of Directors and Committee members, including the Chairman, the Deputy Chairman and the Chief Executive Officer.

b) Refocusing and reorganizing the Board of Directors agenda to further improve the use of Board's time, mainly by:

   i) Scheduling more regular executive presentations from the operating companies;

   ii) Increasing strategic discussions across the year;

   iii) Providing a more holistic approach to risk dialogue; and

   iv) Increasing Board involvement in senior Executive development and succession planning. The Chief Executive Officer will lead the necessary arrangements as regards to key executive positions, focusing on leadership development, performance management and succession planning, to be subsequently reviewed in detail by the Board.

The Board and the Board Committees have already started to make progress against the agreed actions and a review of the process has been scheduled for later in 2014.

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

In accordance with article 16.2 of the Board Regulations, a Director shall tender his or her resignation to the Board of Directors and formally resign from office in the following cases:

a) When he ceases to hold the executive positions to which his or her appointment as Director is linked, or when the reasons for which he was appointed no longer exist;

b) When he is prohibited by law from acting as a Director;

c) If requested to do so by the Board of Directors as a result of a determination made in accordance with the provisions of article 11.7 of the Bylaws, to the extent that such determination arises as a result of his or her membership of the Board of Directors;

d) When his or her remaining on the Board of Directors might affect the Company's credit or reputation in the market or otherwise jeopardise its interests; or,

e) Pursuant to the provisions of the sole transitional provision of the Board Regulations.

C.1.22 Indicate whether the duties of the chief executive officer fall upon the chairman of the board. If so, describe the measures taken to limit the risk of powers being concentrated in a single person:

No

Measures for limiting risk
–

Indicate, and if necessary, explain whether rules have been established that enable any of the external independent directors to convene board meetings or include new items on the agenda, to coordinate and voice the concerns of non-executive directors and oversee the evaluation by the board.

Yes

Explanation of rules
In accordance with the article 9 of the Board Regulations, any Director may submit a request to the Chairman of the Board of Directors for the inclusion of matters in the agenda and the latter shall be required to include them when such request has been made not less than three days in advance of the date set for the meeting.

Additionally, the Board of Directors appointed the Company External Independent Deputy Chairman as Senior Independent Director.

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

No

If applicable, describe the differences.

Description of differences
–

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

No

Description of requirements
–

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

No

Matters where the Chairman has the casting vote
–

C.1.26 Indicate whether the by-laws or the board regulations set an age limit for directors.

No

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

No

Maximum number of years in office
–

C.1.28 Indicate whether the by-laws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether only one director of the same category may be appointed as a proxy. If so, give brief details.

In accordance with article 40 of the Bylaws and 10 of the Board Regulations, Directors shall make every effort to attend Board meetings. Notwithstanding the above, all Directors may cast their vote through, and grant a proxy to another Director. Proxies must be granted in writing, addressed to the Chairman or to the Company Secretary and must be granted specifically for each meeting, and no Director may hold more than three proxies, with the exception of the Chairman, who shall not be subject to such limit but may not represent the majority of the Board of Directors. The Director granting the proxy shall endeavour, where possible, to include voting instructions in the proxy letter. For such purposes, a message addressed to the Chairman or the Company Secretary by letter, fax, telegram or email shall be valid.

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

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

Indicate the number of meetings of the various board committees held during the year.

Number of meetings of the Executive or Delegated Committee	-
Number of meetings of the Audit and Compliance Committee	7
Number of meetings of the Nomination and Remuneration Committee	-
Number of meetings of the Nomination Committee	8
Number of meetings of the Remuneration Committee	7
Number of meetings of the Safety Committee	2

C.1.30 Indicate the number of board meetings held during the year with all members in attendance.

Attendance will also include proxies appointed with specific instructions.

Directors' attendance	3
% of attendances of the total votes cast during the year	87.662%

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

Yes

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

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

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

In accordance with article 30.4 of the Board Regulations, the Board of Directors shall draw up the Company's financial statements so that such financial statements do not give rise to a qualified certificate issued by the auditors. However, if the Board of Directors deems it appropriate to draw up financial statements such that a qualified opinion is issued by the auditors, the Directors shall publicly explain the reason why the Company's auditors have issued their report with qualifications.

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

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

No

C.1.34 Explain the procedures for appointing and removing the secretary of the board, indicating whether their appointment and removal have been notified by the nomination committee and approved by the board in plenary session.

Appointment and removal procedure

The appointment and removal of the Secretary of the Board of Directors of the Company, who may or may not be a Director, is a matter reserved to the Board of Directors.

The appointment of the Secretary of the Board of Directors shall be made at the proposal of the Chairman.

The Nominations Committee has to report on the proposed designation of the Secretary of the Board of Directors.

	YES	NO
Does the Nomination Committee propose appointments?	X	
Does the Nomination Committee advise on dismissals?	X	
Do appointments have to be approved by the board in plenary session?	X	
Do dismissals have to be approved by the board in plenary session?	X	

Is the secretary of the board entrusted in particular with the function of overseeing corporate governance recommendations?

Yes

Remarks

In accordance with article 7 of the Board Regulations, the functions assigned to the Company Secretary shall be as follows, in addition to the functions assigned to him pursuant to the provisions of the applicable legislation and of the Bylaws:

a) To 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 the Bylaws, and ensure observance of the Company's corporate governance principles and standards and the provisions of the Board Regulations;

c) Verify compliance with provisions made by regulatory bodies and consideration, as the case may be, of their recommendations;

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; and

f) Act as Secretary for the Shareholders' Meeting.

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

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

The Board of Directors shall refrain from engaging any audit firm entitled to be paid by the Company for all the services rendered fees in an amount in excess of 10 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 that may jeopardise the independence of the auditors, for its examination by the Audit and Compliance Committee, and on any other matters relating to the audit process, as well as any other communications provided for in the audit legislation and audit regulations. In all cases, written confirmation of their independence vis-à-vis the entity or entities directly or indirectly related thereto must be received annually from the auditors or audit firms, as well as information on additional services of any kind provided to these entities by the aforementioned auditors or audit firms, or by persons or entities related to them pursuant to the provisions of Spanish Audit Law 19/1988, of July 12, 1988;

e) To issue on an annual basis, prior to the issue of the auditors' report, a report expressing an opinion on the independence of the auditors or audit firms. This report must also give an opinion regarding the provision of the additional services referred to in the preceding paragraph; and

f) To review the effectiveness of the external audit process.

During 2013, the Audit and Compliance Committee reviewed the work undertaken by the external auditors and assessed their independence, objectivity and performance. In doing so, it took into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services. The Audit and Compliance Committee monitored the auditors' compliance with relevant regulatory, ethical and professional guidance on the rotation of partners, and assessed its qualifications, expertise, resources and the effectiveness of the audit process, including a report from the external auditor on its own internal quality procedures. The Audit and Compliance Committee decided that it was in IAG Group's and Shareholders' interests to change the auditors of Iberia to align with the IAG Group auditors, Ernst & Young. In addition, it was determined not to tender the auditors for the Company and British Airways for fiscal year 2013.

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

On the other hand, the Board of Directors shall ensure timely compliance with current instructions in respect of relevant events pursuant to the provisions of the applicable law.

The Directors shall take such steps as may be required to ensure that any quarterly, semi-annual and annual financial information to be made available to securities markets and any other information that should be prudently provided thereto from time to time, shall be prepared in accordance with the same professional principles, standards and practices as those applied in the preparation of, and be as reliable as the annual financial statements. For the latter purpose, any such information shall be revised by the Audit and Compliance Committee.

The Board of Directors shall include in its annual public documentation appropriate information about the rules governing the administration of the Company and the level of compliance with applicable law. In the event that following any recommended guidelines is deemed to be inconvenient, the Directors shall explain the reasons for such a decision.

The Company maintains regular contact with its main institutional shareholders. Regular shareholder meetings were held with Executive Directors, the Chairman of the Board and with the investor relations team during 2013. The presentations of these events have been available to private shareholders on the Company's investor relations web page.

The annual Capital Markets day took place on November 15, 2013 with six Non–Executive Directors in attendance, giving major shareholders the opportunity to discuss corporate governance matters with members of the Board of Directors. All the presentations used were duly informed and included on the web page of the Company.

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

No

Outgoing auditor	Incoming auditor
–	–

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

No

Explanation of the disagreements
–

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

Yes

	Company	Group	Total
Amount of non-audit work (in thousands euros)	158	1,760	1,918
Amount of non-audit work as a % of the total amount billed by the audit firm	21%	37%	35%

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

No

Explanation of reasons
–

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

	Company	Group
Number of consecutive years	4	4

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

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

Yes

Procedures

In accordance with article 20 of the Board Regulations, in order to be assisted in the performance of his or her duties, any Director may request the hiring of legal, accounting, technical, financial, commercial or other expert advisors, whose services shall be paid for by the Company.

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

The request for an expert to be hired shall be channelled through the Chairman or the Company Secretary, who may 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) Where it is not necessary for the proper performance of the duties entrusted to the Directors;

b) Where the cost thereof is not reasonable in light of the significance of the issues and the assets and income of the Company;

c) Where the technical assistance sought may be adequately provided by the Company's own experts and technical personnel; or

d) Where it may entail a risk to the confidentiality of the information that must be made available to the expert.

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

Yes

Procedures

In accordance with article 9 of the Board Regulations, prior to the commencement of each fiscal year, the Board of Directors shall set a schedule for its ordinary meetings. This schedule may be modified by a resolution adopted by the Board of Directors or by a decision made by the Chairman, who shall 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 falls earlier.

Calls to Board of Directors meetings shall be made by letter, fax, email or any other means and shall be authorised with the signature of the Chairman, or the Secretary or Deputy Secretary of the Company, on the orders of the Chairman. Call notices shall be sent sufficiently in advance to ensure that Directors receive them no later than seven days before the date of the meeting, except in the case of meetings deemed urgent by the Chairman (or by the Deputy Chairman, in the event of absence, illness or inability of the Chairman). This notice period shall not apply to cases in which the Board Regulations stipulates 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 of Directors receive accurate, appropriate and clear information, in particular about the Company's performance, its strategy, challenges and opportunities in order to enable the Board of Directors to make sound decisions and monitor effectively the Company's performance and shall lead Board of Directors discussions with a view to encouraging effective decision-making and a constructive debate on the performance of the Company, its growth strategy and commercial objectives.

In accordance with article 22 of the Board Regulations, the Board Committees must receive appropriate and timely training, both in the form of induction programmes for new members and on an on-going basis for all members. The Board Committees shall also arrange for periodic evaluations of their own performance, conducted externally at least every three years.

In addition, in accordance with 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 and documents, to inspect its facilities, and to communicate with the senior managers of the Company. The exercise of such powers of information shall be channelled through the Chairman or the Company Secretary.

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

Yes

Details of rules

In accordance with article 18.3.f) of the Board Regulations, a Director must disclose to the Company any judicial, administrative or other proceedings brought against the Director which, because of their significance or characteristics, may seriously reflect upon the reputation of the Company and, in general, any fact or event that may be reasonably material to his or her conduct as a Director of the Company. In particular, in the event that a Director is prosecuted or a decision to commence a trial is rendered against him for the commission of any of the crimes contemplated in article 213 of the Spanish Companies Law, such Director shall disclose the same to the Company, through the Chairman. In such case, the Board of Directors shall review the case as soon as practicable and shall adopt the decisions it deems fit, taking into account the interests of the Company.

In addition, in accordance with article 16.2 of the Board Regulations, a Director must tender his or her resignation to the Board of Directors and formally resign from office when his or her remaining on the Board of Directors might affect the Company's credit or reputation in the market or otherwise jeopardise its interests.

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

No

Name of director	Criminal proceedings	Remarks
–	–	–

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

No

Decision/action taken	Justified explanation
–	–

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

The following significant agreements contain provisions entitling the counterparties to exercise the right to terminate or other rights in the event of a change of control of the Company, British Airways or Iberia, as the case may be:

a) The Joint Business with American Airlines and Finnair;

b) All of the Company's share schemes, with the exception of the Performance Share Plan, which is subject to the satisfaction of any performance conditions at that time;

c) Certain codeshare agreements;

d) oneworld membership agreements;

e) Certain contracts to sell Avios points;

f) Global distribution system contract with Amadeus IT Holding, S.A. for the marketing of Iberia flights;

g) The Joint Business with Japan Airlines;

h) The Terminal 7 lease at JFK Airport; and

i) Certain exchange and interest rate hedging contracts.

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

Number of beneficiaries	13
Type of beneficiary	Description of the resolution
Executive Directors and Managers (Executives)	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.
Chairman	Antonio Vázquez Romero has a specific agreement if his contract is terminated for whatever reason. Additional information in this agreement has been provided on the Annual Report on the Remuneration of the Directors.

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

	Board of Directors	Shareholders' Meeting
Body authorising clauses	X	

	Yes	No
Is the Shareholders' Meeting informed of such clauses?	X	

C.2 Board committees

C.2.1 Give details of all the board committees, their members and the proportion of proprietary and external independent directors.

EXECUTIVE OR DELEGATE COMMITTEE

Name	Position	Type
–	–	–
–	–	–

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

AUDIT COMMITTEE

Name	Position	Type
Kieran Poynter	Chairman	External Independent
Patrick Cescau	Member	External Independent
James Lawrence	Member	External Independent
Alberto Terol Esteban	Member	External Independent

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

NOMINATION AND REMUNERATION COMMITTEE

Name	Position	Type
–	–	–
–	–	–

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

NOMINATION COMMITTEE

Name	Position	Type
Antonio Vázquez Romero	Chairman	Other non-executive
Sir Martin Broughton	Member	External Independent
César Alierta Izuel	Member	External Independent
Baroness Kingsmill	Member	External Independent

% of executive directors	–
% of proprietary directors	–
% of external independent directors	75%
% of other non-executive directors	25%

REMUNERATION COMMITTEE

Name	Position	Type
Baroness Kingsmill	Chairman	External Independent
Dame Marjorie Scardino	Member	External Independent
Alberto Terol Esteban	Member	External Independent

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

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SAFETY COMMITTEE

Name	Position	Type
Willie Walsh	Chairman	Executive
Antonio Vázquez Romero	Member	Other non-executive
Sir Martin Broughton	Member	External Independent
Kieran Poynter	Member	External Independent

% of executive directors	25%
% of proprietary directors	–
% of external independent directors	50%
% of other non-executive directors	25%

C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years.

	Number of female directors							
	Year t		Year t-1		Year t-2		Year t-3	
	Number	%	Number	%	Number	%	Number	%
Executive Committee	–	–	–	–	–	–	–	–
Audit Committee	0	0	0		0		–	–
Nomination and Remuneration Committee	–	–	–	–	–	–	–	–
Nomination Committee	1	0.25	1	0.25	1	0.25	–	–
Remuneration Committee	2	0.67	1	0.25	1	0.25	–	–
Safety Committee	0	0	0	0	0	0	–	–

C.2.3 Indicate whether the Audit Committee is responsible for the following:

	YES	NO
Monitoring the preparation and integrity of financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter and the correct application of accounting principles.	X	
Reviewing internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed.	X	
Monitoring the independence and efficacy of the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verifying that senior management are acting on the findings and recommendations of its reports.	X	
Establishing and supervising a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.	X	
Making recommendations to the board for the selection, appointment, reappointment and removal of the external auditor, and the terms of their engagement.	X	
Receiving regular information from the external auditor on the progress and findings of the audit programme, and checking that senior management are acting on its recommendations.	X	
Monitoring the independence of the external auditor.	X	

C.2.4 Describe the organisational and operational rules and the responsibilities attributed 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 External Independent Directors. At least one member shall have recent and relevant financial experience. The Board of Directors shall designate an Audit and Compliance Committee Chairman from among the External 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 or her own initiative, or at the request of two or more of its members and at least once every three months and, in all cases, where the Board of Directors requests the issue of reports, the presentation of proposals or the adoption of resolutions within the scope of its functions.

b) Functions

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

The main functions of the Audit and Compliance Committee include:

i) To supervise the effectiveness of the internal control of the Company, the internal auditing, as the case may be, and the risk management systems;

ii) To supervise the process for the preparation and presentation of regulated financial information;

iii) To propose to the Board of Directors, for submission to the Shareholders' Meeting, the designation of the auditor or audit firms, in accordance with the provisions of the applicable legislation;

iv) 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;

v) To review the Company's accounts, monitor compliance with legal requirements and the correct application of generally accepted accounting principles;

vi) To review material financial reporting criteria in the Company's accounts;

vii) To monitor the functioning of the internal financial control procedures and manuals adopted by the Company, to verify compliance with them and review the designation and replacement of the persons responsible for them;

viii) To ensure the independence and efficiency of the internal audit function; to propose the selection, appointment, reappointment and removal of the head of the internal audit service; to propose the service's budget; to receive periodic information on its activities and to check that senior management takes the conclusions and recommendations contained in its reports into account;

ix) To periodically review the internal control and risk management systems to ensure that the principal risks are adequately identified, managed and made known;

x) To develop and implement a policy on the engagement of the external auditors to supply additional non-audit services;

xi) To establish the appropriate relationships with the auditors or audit firms;

xii) To review the effectiveness of the external audit process;

xiii) To review the systems by which IAG Group professionals may, in confidence, report possible irregularities in the area of financial reporting or other areas;

xiv) To report to the Board of Directors on the creation or acquisition of interests in special purpose entities or entities domiciled in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature that, due to their complexity, might undermine the transparency of the IAG Group; and

xv) To report to the Board of Directors on the steps taken by management to ensure that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

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 External Independent Directors. The Board of Directors shall designate a Nominations Committee Chairman from among the External Independent Directors of the Nominations Committee. The Company Secretary or his or her nominee shall act as Secretary to the Nominations Committee.

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

b) Functions

The main functions of the Nominations Committee include:

i) 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;

ii) To submit to the Board of Directors the proposed appointments of External Independent Directors for their designation by co-option or, as the case may be, for submission to the decision of the Shareholders' Meeting, as well as proposals for the re-election or removal of such Directors by the Shareholders' Meeting;

iii) To report on the proposals of the Board of Directors for the appointment of the remaining Directors for their designation by co-option or, as the case may be, for submission to the decision of the Shareholders' Meeting, as well as proposals for the re-election or removal of such Directors by the Shareholders' Meeting;

iv) To report on proposals for designation or removal of offices within the Board of Directors (including the Secretary and the Deputy Secretary) and propose to the Board of Directors the members that are to form each of the Board Committees;

v) To put in place plans for the succession of members of the Board of Directors and, in particular, the succession of the offices of Chairman and Chief Executive Officer;

vi) 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;

vii) To report to the Board of Directors on the appointment and/or removal of the senior Executives of the Company;

viii) To ensure that, on appointment to the Board of Directors, Non-Executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of dedication, service and involvement beyond Board of Directors meetings; and

ix) To identify members of the Board of Directors qualified to fill vacancies on any Board Committee (including the Nominations Committee).

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 three of the members of the Remuneration Committee shall be External Independent Directors. The Board of Directors shall designate a Remuneration Committee Chairman from among the External Independent Directors of the Remuneration Committee. The Chairman of the Board of Directors may not 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 or her own initiative, or at the request of two or more of its members and at least twice every year and, in all cases, where the Board of Directors requests the issue of reports, the presentation of proposals or the adoption of resolutions within the scope of its functions.

b) Functions

The main functions of the Remuneration Committee include:

i) To propose to the Board of Directors the system and amount of the annual remuneration for Directors, as well as the individual remuneration of the Executive Directors and the other terms of their contracts, pursuant in all cases to the provisions of the Bylaws;

ii) To report to the Board of Directors on the termination conditions of contracts, any compensation or indemnification that may be established in the case of removal of senior Executives, including Executive Directors, and to ensure that any payments made are fair to the individual and the Company, that poor performance is not rewarded and the duty to mitigate loss is fully recognised;

iii) To report to the Board of Directors on the senior Executive remuneration policy and the basic terms of their contracts;

iv) To report on incentive plans and pension agreements;

v) To periodically review the remuneration programmes, taking into account their suitability and performance and how they reflect and support the Company strategy;

vi) When determining the remuneration packages and plans indicated above, to follow the provisions of the applicable good governance codes, the applicable legislation, and the regulations and requirements imposed by any stock exchange on which the Company's securities are listed; and

vii) To ensure compliance with the transparency requirements established by the UK Listing Rules, by the applicable legislation and by the regulations and requirements imposed by any stock exchange on which the Company's securities are listed, including the Annual Report on Directors' Remuneration to be included in the Company's Annual 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 of Directors shall designate a Safety Committee Chairman from among the Directors of the Safety Committee.

b) Functions

The main functions of the Safety Committee include:

i) To receive material safety information about the Company and all the Company subsidiaries and any franchise, codeshare or wet-lease provider used by any member of the IAG Group;

ii) To exercise a high level overview of the safety activities and resources of the Company and all the Company subsidiaries and inform the Board of Directors as appropriate (recognising that responsibility for safety matters relating to each subsidiary falls to that subsidiary through its own resources); and

iii) To follow up on any safety related measures as determined by the Board of Directors.

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

The Board Committees are governed by the provisions of the Bylaws and the Board Regulations (article 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 Bylaws and the Board Regulations are available on the Company's website: www.iairgroup.com.

AUDIT AND COMPLIANCE COMMITTEE

On November 7, 2013, the Board of Directors approved the amendment of section 2 of article 23 of the Board Regulations in order to include new functions of the Audit and Compliance Committee.

Likewise, on December 19, 2013, the Board of Directors approved the amendment of section 1 of article 24.1 of the Board Regulations of the Company in order to eliminate the restriction that the Audit and Compliance Committee Chairman must necessarily be one of the External Independent Directors.

The Audit and Compliance Committee prepares an annual report on its activities.

NOMINATIONS COMMITTEE

On December 19, 2013, the Board of Directors, approved, among others, the amendment of article 24.1 of the Board Regulations in order to eliminate the restriction that the Committee Chairman must necessarily be one of the External Independent Directors.

The Nominations Committee prepares an annual report on its activities.

REMUNERATION COMMITTEE

The Remuneration Committee prepares an annual report on its activities.

SAFETY COMMITTEE

The Safety Committee prepares an annual report on its activities.

C.2.6 Indicate whether the composition of the executive committee reflects the participation within the board of the different types of directors.

No

If the answer is no, explain the composition of the executive or delegate committee.
There is not an executive or delegate committee in the Company.

D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Identify the competent body and explain, if applicable, the procedures for approving related-party or intragroup transactions.

Competent body
In accordance with article 28 of the Board Regulations, the competent body to approve all transactions carried out by the Company or the companies forming part of the IAG Group with Directors, or with shareholders that own a shareholding interest that is equal to or greater than that legally regarded as a significant 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, is the Board of Directors, upon a prior favourable report of the Audit and Compliance Committee.

Procedures for the approval related-party transactions
The Audit and Compliance Committee has, among other powers, the obligation to report on related transactions or transactions that entail or may entail a conflict of interest, which shall ensure, through the Audit and Compliance Committee, that transactions between the Company or the companies forming part of the IAG Group with the Directors, the 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 their respective related persons are carried out under arm's length conditions and with due observance of the principle of equal treatment of shareholders.

In the case of customary or recurring transactions in the ordinary course of business, it shall be sufficient to give a generic approval of the kind of transaction and of the conditions for performance thereof.

However, no authorisation of the Board of Directors shall be required in connection with transactions that simultaneously satisfy the following three conditions: (i) that they are conducted under contracts whose terms and conditions are standardised and apply en masse to a large number of clients; (ii) that they are conducted at prices or rates established generally by the party acting as supplier of the goods or services in question; and (iii) that the amount thereof does not exceed 1 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.

Explain if the authority to approve related-party transactions has been delegated to another body or person, including, in this case, the body or person to which it has been delegated.

Non applicable.

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

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (in thousands of euros)
BlackRock Inc.	BlackRock Investment Management (UK) Ltd.	Commercial	Interest received	2,053
BlackRock Inc.	BlackRock Investment Management (UK) Ltd.	Commercial	Cash deposits	208,635

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

Name or corporate name of director or senior manger	Name or corporate name of related party	Relationship	Type of transaction	Amount (in thousands of euros)
–	–	–	–	–

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

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

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

D.5 Indicate the amount involved in other related-party transactions.

The IAG Group's related-party transactions included total sales to associate companies of €78,645 thousand and total purchases from associate companies of €61,760 thousand.

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

The Directors shall refrain from attending the meetings and/or taking part in the discussions related to any kind of matters in which they could have a personal interest, direct or indirect. Specifically, the Directors affected by appointment, re-election and cease proposals shall refrain from taking part in the discussions and voting related to said aspects.

The Directors shall communicate the Board of Directors any conflict situation, direct or indirect, that could face against the Company's interest. In case of conflict, the affected Director shall refrain from being involved in the operation affected by the conflict.

In any case, the conflict situations in which the Directors shall become involved shall be reported in the Annual Corporate Governance Report.

In addition, in accordance with article 27.4 of the Board Regulations, all public requests for delegation of voting powers made in favour of any Director shall disclose, where applicable, the existence of a conflict of interest, and shall provide detailed reasons for the direction in which the representative shall vote in the event that no instructions are given by the shareholder, subject always to the provisions of applicable law.

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

No

Identify the listed subsidiaries in Spain

Listed subsidiaries

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

No

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

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

Mechanisms
–

E. RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Describe the risk management system in place at the company.

Enterprise risk management is led by the Management Committee and leverages established processes in British Airways and Iberia.

Due to the size of the business, existing Vueling Airlines, S.A. ("**Vueling**") risk management activity is not compatible with the IAG enterprise risk management process. However, Vueling do contribute to the overall review of IAG Group risks at the IAG Management Committee and we will implement an appropriate Vueling enterprise risk management process in 2014.

Enterprise risk management in British Airways and Iberia

Both British Airways and Iberia have well established enterprise risk management systems that ensure that:

a) Each risk is owned by a senior manager who is ultimately responsible for its management;

b) A central record is kept of all risks, their owners and mitigating actions on systems in both British Airways and Iberia. The two enterprise risk management systems allow risk owners to update risk records online and central risk management teams to monitor updates;

c) A risk map representing the likelihood and potential impact of each risk is reviewed at least every six months by the British Airways and Iberia Boards;

d) There are defined procedures for updating risks and the mitigating actions in place to manage those risks; and

e) There is active participation from both the Senior Managers managing the risks and the executive leadership teams in British Airways and Iberia.

Risks are classified by their source:

a) Strategic: risks arising from the competitive and regulatory environment, major projects and strategic decisions;

b) Business and operational: risks encompassing emergencies, information technology operations, major project implementation and airline operations;

c) Financial: risks including liquidity and financing;

d) Compliance and regulatory: risks associated with compliance with laws and regulation; and

e) Latent: low likelihood high impact risks such as terrorism, and fleet grounding.

Enterprise risk management in the Company

The IAG 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 of Directors. The core methodologies within British Airways and Iberia are harmonised, allowing consolidation of the IAG Group's risk position.

The role of the Company is to maintain the IAG Group-wide consolidated view of risk allowing challenge from the Board of Directors and Management Committee; determining the enterprise risk management methodology to be applied throughout the IAG Group; ensuring that best practice in risk mitigation is adopted.

E.2 Identify the bodies responsible for preparing and implementing the risk management system.

Within Iberia the Compliance and Corporate Risk Manager reports to the Director of Risk and Security, who reports to the Corporate Director who sits on the Iberia Management Committee.

Within British Airways the Head of Risk Management reports to the Director of Business Services who sits on the British Airways Leadership Team.

Risk maps are reviewed at the British Airways Leadership Team; the Iberia and IAG Management Committees; the IAG Audit and Compliance Committee; and the British Airways, Iberia and IAG Boards of Directors.

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The IAG Hedging Committee manages fuel and foreign exchange risk within the Financial Risk Management Policy approved by the Board of Directors.

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

The main risks classified by their source are listed below:

Strategic Risks

a) Competition

b) Airline industry consolidation and deregulation

c) Government intervention

d) Infrastructure constraints (airports)

Business and operational

a) Brand reputation

b) Economic conditions

c) Employee relations

d) Failure of a critical IT system

e) Execution of the Iberia transformation plan

f) Pandemic

g) Increases in landing fees and security charges

h) Safety/security incident

i) Event causing significant network disruption

Financial

a) Future availability of debt funding

b) Fuel price and currency fluctuation

Compliance and regulatory

a) Complexity of the IAG Group governance structure

b) Non-compliance by an individual or group of individuals with Competition, Anti-Bribery and Corruption Law

E.4 Identify if the company has a risk tolerance level

Risk tolerance is established during enterprise risk management reviews of individual risks such as establishing the maximum likely variations in cashflow arising from the combination of fuel and foreign exchange fluctuations and establishing the appetite of various elements of cyber risk on a scale of “Initial”, “Managed”, “Defined”, “Quantitatively Managed”, “Optimised”. Risk tolerance is also considered, but not necessarily quantified, in assessing the risk of new projects when presented to the Board of Directors for approval.

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

Risk that occurred during the fiscal year	Circumstances giving rise thereto	Performance of control systems
Economic conditions	Although the risk of a breakup of the Eurozone receded during the year, economic conditions in Spain and much of the Eurozone continued to be difficult.	Iberia responded through the execution of the first stages of the Transformation Plan with capacity reductions, staff reductions and wage reductions for all Iberia staff.
Employee relations	The implementation of the Iberia Transformation Plan led to deteriorating employee relations.	Risks around the Iberia Transformation Plan were continually and explicitly monitored by the IAG Management Committee. Contingency plans and security measures to deal with the run up to and the days of the strikes worked well.
Currency fluctuation	In 2013 the Venezuela Central Bank blocked the repatriation of funds leading to €184 million equivalent at the official exchange rate being held in Bolivar at the year end.	The increase in the time taken to convert and repatriate funds from Venezuela was identified on a timely basis. The commercial policy adopted in Venezuela was adjusted limiting the forward selling of tickets. The situation was regularly reviewed by the Iberia Management Committee, the IAG Management Committee and the IAG Audit and Compliance Committee.

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

Main Risk	Response and Monitoring Plans
Competition	The IAG Management Committee devotes one weekly meeting per month to strategy matters. The Company's Strategy Department reviews the performance of the network to determine where capacity should be allocated. Airline revenue management departments and systems optimise market share and yield through pricing and inventory management activity. The Company with a strong global market positioning, leadership in strategic markets, alliances, joint businesses and diverse customer base continues to address this risk. The Company also submits to continually review its product offerings and responds through initiatives such as hand baggage only fares in British Airways. In addition, the Company learns from Vueling on how to deliver a full service at a lower cost.
Airline industry consolidation and deregulation	The IAG Group maintains rigorous cost control and targeted product investment to remain competitive. The fact that the Company maintains a leading presence in oneworld and ensures the alliance attracts and retains the right members is key to safeguarding the network.
Government intervention	The IAG Group's Government Affairs departments monitor government initiatives, represent the IAG Group interest and forecast likely changes to laws and regulations.
Airports	British Airways participates in the slot trading market at Heathrow airport acquiring slots at reasonable prices when available.
Brand reputation	The IAG Group allocates substantial resources to safety, operational integrity, product and new aircraft to maintain its market position.
Economic conditions	The IAG Management Committee reviews the financial outlook of the IAG Group through the financial planning process and regular forecasts. These reviews are used to drive the IAG Group's financial performance through the management of capacity; the deployment of that capacity in geographic markets; together with cost control including management of capital expenditure and the reduction of operational leverage.
Employee relations	Human Resources departments within the airline engage in collective bargaining with the many trade unions representing the Company's staff.
Failure of a critical IT system	System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.
Execution of the Iberia Transformation Plan	The plan is managed by the Iberia Chief Executive Officer who reports regularly to the IAG Management Committee and Board of Directors.

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Main Risk	Response and Monitoring Plans
Pandemic	The Company has comprehensive pandemic business continuity plans.
Increases in landing fees and security charges	The Company is involved in constructive engagement in regulatory reviews of supplier pricing.
Safety/security incident	The Safety Committee satisfies itself that the airlines have appropriate safety resources and procedures, which include compliance with Air Operator Certificate requirements. Each airline has incident centres, which respond in a structured way in the event of a safety or security incident.
Event causing significant network disruption	IAG Management Committee has robust business continuity plans to mitigate these risks to the extent feasible.
Future availability of debt funding	The IAG Management Committee regularly reviews the IAG Group's financial position and financing strategy.
Financial risk	Fuel price risk is partially hedged through the purchase of oil derivatives in forward markets which can generate a profit or a loss. The IAG Group's Hedging Committee regularly reviews the IAG Group's fuel and currency positions. The results of these reviews are discussed with management and the appropriate action taken. The IAG 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 by the Audit and Compliance Committee during the year. The impact of rising interest rates is mitigated through structuring selected new debt and lease deals as fixed rate throughout their term. Financial counterparty credit risk is managed by the IAG Group Treasury department through a programme of credit limits and associated monitoring of balances and exposures.
Complexity of the IAG Group governance structure	The structure of the Boards of Directors is reviewed by the Nominations Committee.
Non-compliance by an individual or group of individuals with Competition, Anti-Bribery and Corruption Law	The Company has comprehensive policies to ensure compliance together with training schemes in place to educate staff in these matters.

F. INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

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

F.1 The entity's control environment

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

The IAG Board Regulations determine that the IAG Board of Directors is responsible for control policy and periodic monitoring of internal information and control systems. The Board of Directors Regulations also determine that the Chief Executive Officer is responsible for putting in place effective controls to ensure proper business, financial safety and security practices exist which enable the Company to remain competent to secure the safe operation of the fleet.

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

Board of Directors

The Board of Directors of IAG is ultimately responsible for the supervision of the existence and effectiveness of Internal Control Over Financial Reporting ("**ICFR**"). The Board of Directors, through the IAG Board Regulations, has delegated the responsibility of the development of effective controls to the Chief Executive Officer and the supervision of the effectiveness of these controls to the Audit and Compliance Committee. The Chief Executive Officer has issued an ICFR policy which requires the IAG Finance Committee to oversee ICFR throughout the IAG Group and delegates responsibility to the IAG Group, British Airways, Iberia and Vueling Chief Financial Officers.

Audit and Compliance Committee

The duties of the Audit and Compliance Committee are set out in section C.2.4 of this report. These duties include:

a) Review significant reporting judgements contained in the financial statements of the IAG Group;

b) To monitor the functioning of the internal financial control manuals and procedures adopted by the Company, to verify compliance with them and review the designation and replacement of the persons responsible for them; and

c) 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.

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

IAG Disclosure Committee

The IAG Disclosure Committee is chaired by the General Counsel and includes the Chief Financial Officer and the Head of Investor Relations. The Committee sits monthly (and on ad-hoc basis) and supports Senior Management and the Audit and Compliance Committee by carrying out the following duties related to ICFR:

a) Review matters discussed at the Management Committee and the Board of Directors to ensure that external disclosure is adequate; and

b) Review any financial regulatory disclosures (UK Regulatory Information Services or Spanish relevant facts) including the monthly route results before publication.

IAG Finance Committee

The IAG Finance Committee sits quarterly and is chaired by the IAG Chief Financial Officer and comprises of the IAG Head of IAG Group Financial Reporting and Control; the British Airways and Iberia and Vueling Chief Financial Officers; and the most senior accounting officers from IAG, British Airways, Iberia and Vueling. The Committee supports Senior Management and the Audit and Compliance Committee by carrying out the following duties related to ICFR:

a) Maintenance and approval of the IAG ICFR policy including delegation of ICFR process ownership to airline Chief Financial Officers, and where appropriate, to process owners in British Airways, Iberia and Vueling;

b) Review complex or judgemental accounting issues in the quarterly reports, emerging accounting issues, preparation for implementation of new accounting standards and issues raised by the external auditors;

c) Own the IAG Group Accounting Policies and approves any changes thereto; and

d) Coordinate and monitor ICFR framework implementation and maintenance.

British Airways Finance Committee

The British Airways Finance Committee oversees the implementation of IAG Group accounting policies and procedures within British Airways. It also approves the accounting treatment of proposed transactions and reviews the impact of emerging business issues on the accounts. The Committee is chaired by the British Airways Chief Financial Officer and includes the Head of British Airways Central Finance, the British Airways Treasurer, the IAG Head of Audit UK, and representatives from the British Airways reporting team.

Iberia Financial and Control Directorate

There are two groups within the Financial and Control Directorate having direct responsibility for elements of ICFR:

a) The Information Management Unit reviews and checks Iberia quarterly financial statements before submission to IAG; and

b) The Administration Sub Directorate ensures compliance with all legal requirements; and ensures the correct application of generally accepted accounting principles. The sub directorates jointly oversee the Iberia financial control manuals and procedures and ensure compliance.

IAG Group Financial Reporting and Control

The main responsibilities of the IAG Group Financial Reporting and Control Department, as part of the finance function, and reporting to the Chief Financial Officer, include:

a) The preparation of quarterly financial statements of the IAG Group and monthly internal management accounts;

b) Monitoring of accounting standard and regulatory developments; and

c) Propose changes in IAG Group accounting policy to the IAG Finance Committee.

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

- The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company.
- Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.
- 'Whistle-blowing' channel, for the reporting to the Audit Committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.
- Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.

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

The authorised structure, including job descriptions defining staff responsibilities, is ultimately controlled by the IAG Chief Executive Officer and delegated to the Chief Executive Officer of British Airways, Iberia and Vueling. The authorised structure is managed by the Chief of Staff's Human Resources Department in IAG, the Director of People, Legal and Government & Industry Affairs within British Airways, the Director of Human Resources within Iberia and the Director of Corporate Areas within Vueling. The authorised structure of the Company, British Airways, Iberia and Vueling is updated and reviewed on an adhoc basis and published on the respective intranet of each company.

The "Way of Business" IAG Group instruction sets out standards of conduct expected of staff and the support that will be available to the staff from the Executive Management team in maintaining the expected level of conduct. The IAG Group instruction also sets out IAG policy on supporting the communities in which it operates and sets out the IAG vision on Corporate Responsibility and the Environment.

The IAG Group instruction, "Way of Business", is cascaded down into British Airways, Iberia and Vueling through local policies available on the intranet of each company. Within British Airways this is achieved through British Airways Standing Instruction 2 "Way of Business". Within Iberia and Vueling their respective General Code of Conduct sets out principles and detailed rules governing how Board members, managers and employees should act. Minor breaches of the Codes of Conduct are investigated by Line Managers, more significant breaches are investigated by the Asset Protection team in British Airways, the Security Directorate in Iberia and by the Legal Counsel in Vueling. Disciplinary action is proposed and administered by Line Managers in accordance with the employment policies and standards applicable to the individual. The IAG Group Way of Business does not refer specifically to the financial reporting process and instead ICFR responsibilities and expectations are communicated through the IAG ICFR policy.

Under the IAG ICFR policy the IAG Chief Executive Officer delegates responsibility for ICFR to the IAG Chief Financial Officer with a requirement that the Chief Financial Officers of material subsidiaries fully support the IAG Chief Financial Officer. Chief Financial Officers are expected to delegate responsibility for ICFR for defined processes to a named senior manager within their own organisations.

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

The Company and Iberia use a third-party provider, Ethicspoint, who intakes cases on-line or over the phone on any matter causing concern to the staff member. Within the Company any such cases will be forwarded to the Head of Business Services and the Head of IAG Group Audit and Risk Management for investigation. Within Iberia the whistle-blowing channel is managed by the Iberia Compliance Department who report cases to a "Complaints Evaluation and Monitoring Group" which defines the response to the case. The IAG Group consists of the Director of Risks and Security; Head of Corporate Risks & Emergency Plan Coordination and Head of Legal Affairs. Additionally and according to the type of complaint, the participation of the Director of Labour Relations may be required.

British Airways use a third party provider, Safecall, who intakes cases over the phone on any matter causing concern to the staff members. Follow up of cases is the responsibility of the British Airways Director of People, Legal, Government and Industry Affairs who utilises a network of senior managers and Directors throughout the business, including the Director of Safety and Security, to investigate the concerns.

Within Vueling the whistle-blowing channel is managed by Legal Counsel and cases are analysed and investigated by Legal Counsel assisted by internal audit.

The Audit and Compliance Committee reviews the effectiveness of the whistle-blowing channels on an annual basis. This annual review is coordinated by the Head of IAG Group Audit and Risk Management and includes information on the volume of reports by category; timeliness of follow-up; responsibility for follow-up and any issues raised of significance to the financial accounts.

All Company staff have an annual individual training programme that sets out their technical and professional skills training requirements. Achievement of this training plan is monitored twice a year. Within British Airways training is offered on an as needed basis and as required by law or professional standards. Within Iberia there is an Annual Training Plan aimed at improving the performance of individuals and groups.

Basic finance and risk management training for IAG and British Airways staff is delivered through eLearning modules. IAG has also delivered classroom based lessons on airline finance basics and interpreting the IAG accounts to widen understanding beyond the finance team and train accountants joining from other industries. IAG offers finance staff sponsorship to studying for Master of Business Administration qualifications and targeted technical post graduate qualifications offered by leading business schools. IAG and British Airways offer study leave, financial support and appropriate work experience to staff studying for the Institute of Chartered Accountant, in England and Wales, the Chartered Institute of Management Accountants and the Association of Chartered Certified Accountants.

Iberia often uses external providers to develop financial training related with accounting rules, auditing, internal control and risk management. Managers receive a specific course called "Basic Business Finance" whose goal is to learn financial literacy for people who have little knowledge on the subject. Job specific training requirements are considered on a case by case basis and delivered to groups or individuals, often using external providers.

Within Vueling training courses are planned on a yearly basis including all the activities that have been budgeted for the following year made available to the business units. These activities include general skills training as well as more specific technical training including financial training. Specific training is also suggested by Corporate Finance Management whenever regulatory or accounting changes arise which impact the financial reporting.

Company finance staff received an average of three days training in 2013. Members of the IAG Internal Audit team have received between one and six days ICFR training from an external provider.

F.2 Risk assessment in financial reporting

Report at least:

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

- The process exists and is documented.
- The process covers all financial reporting objectives (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.
- A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies.
- The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.
- Which of the company's governing bodies is responsible for overseeing the process.

The IAG Group's Enterprise Risk Management ("**ERM**") process assesses the key business risks and mitigating actions facing the IAG Group. In compiling these risks and mitigating actions a close relationship is established between the British Airways and Iberia ERM teams and the finance functions. This involves the finance function feeding into the ERM process and reviewing the output of the process to ensure that the impact of emerging risks is properly captured within the financial statements. This review of the completeness of risks reflected in the financial statements is complemented by review of ERM risk maps at the British Airways and Iberia Boards of Directors and the IAG Audit and Compliance Committee. The ERM process is described fully in section E of this report.

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

a) A high level assessment of key risks to the financial statements focusing on judgemental areas and those susceptible to error; and

b) Identification of 17 key underlying business processes through a quantitative and qualitative risk assessment of the financial statements of material subsidiaries. The results of this process are set out in section E.3 and includes all financial reporting objectives.

The scope of the consolidation is addressed in two ways. Firstly the establishment of any Special Purpose Vehicles (SPVs) is approved by the IAG Audit and Compliance Committee, who will confirm the requirement for the SPV, consider the governing system of the SPV and consider how the SPV will be accounted for. Secondly, the determination of which entities will be consolidated is considered at the IAG, British Airways Group, Iberia Group and Vueling levels. The consolidation is recorded in a single spreadsheet at IAG but changes are determined by IAG, British Airways, Iberia and Vueling based on developments in the corporate structure during the year. IAG, British Airways and Iberia maintain consolidation hierarchies in their consolidation systems. These hierarchies are subject to access and change controls to ensure their continued integrity. Transactions or IAG

Group developments that require new group companies to be formed or acquired are considered at the IAG and British Airways Finance Committees so that the hierarchies can be updated.

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

Overall responsibility for coordinating British Airways response to fraud sits with the Head of Risk Management. This response includes an Anti-Fraud Policy backed by training and limited by appropriate detective procedures. In Iberia the Risks and Security Department is in charge of identifying fraud risk and implementing any necessary controls to reduce or eliminate the impact of this risk. Iberia's employees must comply with the provisions contained in all in-house regulations of the Company based on the applicable laws and, in particular, Compliance with Bribery Laws and the rules regarding Guidance for Corporate Hospitality, Gifts and Entertainment, published on the Iberia Intranet.

F.3 Control activities

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

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

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

The quarterly consolidation process is managed to a pre-agreed timetable and includes reviews and sign offs at key stages in the process. Within British Airways the Finance Business Partners, who are senior finance professionals responsible for each directorate in the business, review and approve consolidation packs listing the financial information required by the IAG consolidation. This information is then consolidated at the British Airways group level and is reviewed and approved by the British Airways Chief Financial Officer before final submission to IAG. Within Iberia the Accounting Department reviews and approves the financial information of the business units together with the business unit's responsible senior managers. This information is consolidated at the Iberia group level and reviewed and approved by the Iberia Chief Financial Officer before final submission to IAG. Within Vueling the Finance Department reviews and approves the financial information in conjunction with the other responsible department senior managers. This information is reviewed and approved by the Vueling Chief Financial Officer prior to final submission to IAG. These reviews across IAG will ensure that all material business risks have been properly recorded in the accounts, confirm the accounting treatment of judgemental areas and ensure the proper application of new accounting standards and guidance notes.

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

Critical judgements, estimates, evaluations and projections are, as far as possible reviewed before the year-end close process. Where appropriate, management obtains the support of internal or external specialists to conclude on any of these matters. The critical accounting estimates and assumptions include impairment of non-financial assets, pensions and other post-retirement benefits, passenger revenue recognition, income tax, the residual value of assets and the useful life of assets.

The scope of ICFR in IAG has been based on the material subsidiaries being British Airways, Iberia and Vueling. The IAG ICFR model contains a Finance Risk & Control Matrix for the IAG Group that includes entity level controls, IT general controls and 17 main business processes considered relevant to the preparation of the Financial Statements including:

a) Cargo Sales

b) Payroll

c) Passenger Sales – Ticket Sales

d) Passenger Sales – Travel

e) Passenger Sales – Billing/Interline Billing

f) Fixed Assets – Aircraft

g) Fixed Assets – Ground Assets

h) Fixed Assets – Engines and Engine Parts

i) Fixed & Current Asset Inventory – Engineering

j) Debtors & Invoicing

k) Fuel

l) Buying Goods and Services

m) User charges

n) Frequent Flyer

o) Treasury

p) Financial Statement Closing Process

q) Alliance Partner Arrangements

The design, implementation and maintenance of appropriate systems of ICFR is primarily the responsibility of management with process ownership identified and communicated to the Company, British Airways, Iberia and Vueling via the IAG ICFR Policy.

A total of 327 ICFR controls including 120 key ICFR controls have been defined across the 17 business processes in order to provide reasonable assurance as to the reliability of the financial information disclosed to the markets. Such controls can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud. As a result of differences in business processes across the material subsidiaries not all controls are required in all material subsidiaries.

A Risk & Control Matrix maintains a central source of the following ICFR information for each business process:

a) Financial reporting objective and associated assertions for each business process and sub-process covering completeness, existence, accuracy, valuation, rights & obligations and presentation & disclosure;

b) Risks affecting the reliability of financial reporting including a description of the possible event or action giving rise to the risk;

c) Control description of the control activities designed by management and incorporated into policy, procedures or practices to mitigate the identified risk. The controls are initially classified as key and/or fraud related with the following additional control characteristics identified; preventative or detective; manual or automated; the frequency of operation; and who performs the activity; and

d) Control testing and summary of periodic audit results, including action plan to rectify identified weaknesses.

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

The Company's IT systems are run on either British Airways, Iberia or Vueling systems and are subject to the control environments of the host company. The IAG IT General Controls matrix ("**ITGC Matrix**") defines the key IT General Controls (ITGC) in place across IAG Group over IT systems that support processes related to the preparation of financial information. The ITGC Matrix is based on the following four processes:

a) Data Centre and Operations;

b) Access Security;

c) System Change and Control;

d) Disaster Recovery.

A total of twenty four ITGC Matrix key controls have been defined across the four information technologies (IT) processes.

British Airways IT Systems

British Airways has established a framework of internal control for the management and administration of IT systems and processes. This framework includes the IT environment, architecture and infrastructure, and applications relevant to ICFR.

The British Airways framework includes documented baseline standards of control as well as IT policies, grouped under the following policy areas:

a) Organisation of Information Security

b) Policies and Controls Management

c) Risk Management

d) Information Asset Management

e) Personnel Security

f) Awareness and Training

g) Physical and Environmental Security

h) Security Operations

i) Access Control

j) Networks and Communications

k) Systems Development

l) Incident Management

m) Business Continuity Management

All applications and systems used by British Airways including those related to ICFR must adhere to the baseline standards as a minimum standard of internal control.

The documented policies and baseline standards for control activity, when taken together, provide clear direction concerning expectations for internal control that are required to cover the inherent risks in the following critical IT system management areas:

a) IT environment
   i) The IT department organisational structure and description of responsibilities
   ii) IT systems architecture and infrastructure
   iii) Environmental protection against physical damage, loss, theft, or abuse of IT systems and equipment

b) System operations
   i) Management of back-up files
   ii) Incident and problem management
   iii) Management of data interfaces and exchange
   iv) Service level management and reporting
   v) Management of external partners and third parties
   vi) Control of changes
   vii) Approval and authorisation of changes
   viii) Testing of changes
   ix) Release management

c) Continuity
   i) Disaster contingency and recovery plans for IT systems
   ii) Business resilience and contingency management arrangements
   iii) Fault-resilient system design

d) Physical and logical security
   i) Information security management
   ii) Systems access control
   iii) Security operations management
   iv) Physical security of data centres

e) Information security management

   An Information Security Department leads, manages and co-ordinates the dissemination and implementation of information security practice within British Airways. Information is protected based on its value, confidentiality, criticality to the company, and the risk of loss or compromise.

   Security measures and controls are implemented to support availability, integrity and confidentiality of information, and guard against its loss, unauthorised modification, destruction or disclosure. The degree of security protection reflects the value and sensitivity of the information, the nature of the possible threats, the vulnerability to these threats and the loss, harm, or embarrassment that could arise from them. These security measures and controls protect against misuse of British Airways' information resources, where this misuse could cause British Airways, its business partners, customers or employees loss, harm or embarrassment, or where it could lead to a criminal act such as fraud.

f) Secure access

Information, computer equipment, software and communications facilities are made available to those who require it in support of British Airways' business operations and access is restricted only to those authorised to do so. Resources are organised and the duties documented, to reduce the risk of unauthorised changes to information, error, theft or fraud and the operation of certain duties is separated to reduce the opportunities for single individuals to misuse data or services.

Access to infrastructure, platforms, and applications and is managed via clear segregation of duties and access control processes and platform, system and application owners are responsible to keep their systems free of unauthorised and inappropriate users and access.

External connections to an application are individually identified, verified, recorded and approved by the application owner and controls are established to maintain the security of British Airways' information and information processing facilities that are: accessed, processed, communicated to, or managed by external parties.

Iberia IT Controls

The Iberia framework of internal control over IT systems is based on compliance with data protection law and quality certifications over key IT control activities.

a) Demanded by Spanish Data Protection regulation in force

Controls are built around compliance with the Organic Law 15/1999 of December 13 on the Protection of Personal Data and Royal Decree 1720/2007, of December 21, which approves the regulation implementing Organic Law 15/1999 of December 13 on the Protection of Personal Data. The most important security measures implemented as a result of this legislation are:

i) Requirement to have personalised credentials for each user accessing the application. In particular, use of departmental or generic identifiers is forbidden;

ii) Obligation to establish access profiles based on need to access rule. Users will only have access to data and functionality required to carry out the tasks assigned to them by the company;

iii) Password must be complex;

iv) Passwords must expire periodically, and users must be able to change it at any time;

v) Passwords are blocked after a number of denied login attempts;

vi) Passwords are stored encrypted, in order to prevent viewing, and therefore the likelihood of an authorised user impersonation is minimal; and

vii) Finally, backups and recovery tests must be performed periodically, in order to be able to recover the information in case of an incident.

b) Demanded by Quality Certifications

ISO 9001: 2008 establishes a set of quality standards and continuous quality management, established by the International Organisation for Standardisation (ISO). These quality standards specify how a supervised company operates, its quality standards, delivery times and service levels. Iberia is ISO 9001: 2008 certified for:

i) Development and maintenance of information systems;

ii) Systems operation in data processing centre;

iii) Telecommunications network management; and

iv) Installation and maintenance of digital equipment.

In order to comply with its requirements, there are a number of controls in place in Iberia, aimed at ensuring the integrity of data:

i) Existence of a change management process to prevent uncontrolled changes in the systems;

ii) Existence of procedures to perform backup and recovery, in order to ensure business continuity after an incident;

iii) Existence of notification and incident response management procedures to ensure incidents resolution in the minimum time; and

iv) Existence of a critical incidents response protocol.

UNE-ISO/IEC 27001: 2007 (Requirements for Information Technology Security Techniques and Information Security Management Systems) specifies the requirements for establishing, implementing, maintaining and improving an information security management system. Iberia is certified in UNE-ISO/IEC 27001: 2007 for iberia.com; employee portal; and data processing centres.

In order to comply with its requirements, there are a number of controls in place in Iberia:

i) Existence of a published security policy, specifying (among others) passwords are personal and not transferable and the regulation for the use of corporate resources by staff;

ii) Segregation of duties and work environments;

iii) Training sessions for staff, in order to explain the security policy and their obligations under it;

iv) Obligation to limit users' access to minimal resources for the performance of their duties. This control is achieved by using:

  a. Network segmentation

  b. Installation of access control software on machines

  c. Applications profiles

v) Existence of a change management process to prevent uncontrolled changes in the systems; and

vi) Existence of a business continuity plan to ensure service in the event of an incident.

Both UNE-ISO/IEC 27001: 2007 and ISO 9001: 2008 certifications are subject to annual review by Iberia Head of Quality within the Corporate Affairs Directorate and AENOR, the independent quality certification body.

Vueling IT controls
Vueling control model over IT systems includes the following key processes:

a) Logical access control including procedures for adding, changing and deleting users;

b) Restriction of privileged access rights to application support teams;

c) Physical access control including restricting access to computer facilities to authorised individuals;

d) Systems development and change management including segregation of development, user acceptance and production environments together with production migration procedures ensuring that testing has been completed and emergency changes have been monitored; and

e) Operations practices including batch processing controls, incident resolution and back up.

IT disaster recovery planning requirements are currently being assessed.

The IT Department sits within the Corporate Services Directorate and includes seven managers responsible for IT delivery and business support.

F3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

The IAG Group has adopted a common framework of requirements for outsourced activities as part of the Global Business Service Project during 2013. For all outsourced processes, Service Level Agreements (SLA) are defined, agreed and signed in the contract with the vendor. As part of the Global Business Service Project both British Airways and Iberia are in the process of outsourcing or moving existing outsourced financial process support for head office and European operations to Accenture in Chennai. Both British Airways and Iberia Finance staff maintain a quarterly or half yearly review of outsourced accounts and reconciliations as well as ongoing monitoring of the operational status of outsourced processes.

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

a) British Airways outsource the derivation of pension scheme accounting, the proposed accounting treatment is subject to review and challenge by an in-house qualified accountant and pension risk management expert;

b) Iberia values the obligations to employees and restructuring plan costs by actuarial studies made by independent experts;

c) Vueling outsource the valuation of financial instruments and the effectiveness testing of derivatives; and

d) The IAG Group outsources the valuation of assets and liabilities as a part of business combinations.

F.4 Information and communication

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

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

IAG accounting policies are maintained by the IAG Group Financial Reporting and Control department.

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

The IAG Group Financial Reporting and Control Department issues reporting instructions at each quarter end.

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

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

F.5 Monitoring of the system operation

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

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

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

The Internal Audit Department adopts a risk based approach to planning which incorporates financial risk factors. The results of audits are discussed at the British Airways, Iberia and Vueling Boards of Directors and Management Committees and the IAG Audit and Compliance Committee. The implementation of actions to address weaknesses identified by the Internal Audit Department are tracked and follow up audits carried out whenever the overall rating of the original audit was judged to be "deficient" or "seriously deficient".

ICFR 2013 Scope

As previously stated, IAG's ICFR includes the Company, British Airways, Iberia and Vueling. In addition to Entity Level Controls and ITGC's, 17 business processes have been identified as having a major impact on financial reporting with 2 in-scope for the Company, 17 in-scope for British Airways, 17 in scope for Iberia and 3 in-scope for Vueling.

A total of 380 control activities have been defined, 327 of which relate to the 17 business processes and 53 relate to IT general control. Of the 327 business process controls and the 53 IT general controls, 120 and 24, respectively, have been classified as key controls.

During 2013 the Internal Audit department has tested the 24 key ITGCs in the Company, British Airways and Iberia as well as Entity Level Controls for the Company, 11 of 17 in-scope business processes for British Airways and one of two in-scope business processes for Vueling. Progress in Iberia has also been good with 7 of the 17 in-scope business processes documented and the design of the controls validated, we plan to test the majority of key controls in Iberia in 2014. Non-key controls will be tested on a rotational basis over a three-year period following the year the key controls are first tested.

No material weaknesses were detected. A total of one significant weakness and 42 weaknesses were detected. Action plans were put in place with process owners to address each internal control weakness and will be tracked by Iberia Internal Audit.

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

The Company's external auditors attend to the Audit and Compliance Committee meetings and report on significant control weaknesses identified during their work. No significant control weaknesses were identified by the external auditors in 2013.

The Head of IAG Group Audit and Risk Management also attends the Audit and Compliance Committee meetings and submits his report directly to the Audit and Compliance Committee. The Head of IAG Group Audit and Risk Management reports to the Chief Financial Officer, the Chairman of the Audit and Compliance Committee and the Chief Executive Officer. The implementation of internal audit recommendations is tracked by the Audit and Compliance Committee.

F.6 Other relevant information

None.

F.7 External auditor review

State whether:

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

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

G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the company's compliance with Corporate Governance recommendations.

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

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

   See sections: A.10, B.1, B.2, C.1.23 and C.1.24.

Complies

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

   a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;

   b) The mechanisms in place to resolve possible conflicts of interest.

   See sections: D.4 and D.7

Non applicable

3. Even when not expressly required under company law, any decisions involving a fundamental corporate change should be submitted to the Shareholders' Meeting for approval or ratification. In particular:

   a) The transformation of listed companies into holding companies through the process of "subsidiarisation", i.e. reallocating core activities to subsidiaries that were previously carried out by the originating firm, even though the latter retains full control of the former;

   b) Any acquisition or disposal of key operating assets that would effectively alter the company's corporate purpose;

   c) Operations that effectively add up to the company's liquidation.

   See section: B.6

Complies

4. Detailed proposals of the resolutions to be adopted at the Shareholders' Meeting, including the information stated in Recommendation 27, should be made available at the same time as the publication of the Meeting notice.

Complies

5. Separate votes should be taken at the General Meeting on materially separate items, so shareholders can express their preferences in each case. This rule shall apply in particular to:

   a) The appointment or ratification of directors, with separate voting on each candidate;

   b) Amendments to the by-laws, with votes taken on all articles or groups of articles that are materially different.

Complies

6. Companies should allow split votes, so financial intermediaries acting as nominees on behalf of different clients can issue their votes according to instructions.

Complies

7. The Board of Directors should perform its duties with unity of purpose and independent judgement, according all shareholders the same treatment. It should be guided at all times by the company's best interest and, as such, strive to maximise its value over time.

   It should likewise ensure that the company abides by the laws and regulations in its dealings with stakeholders; fulfils its obligations and contracts in good faith; respects the customs and good practices of the sectors and territories where it does business; and upholds any additional social responsibility principles it has subscribed to voluntarily.

Complies

8. The board should see the core components of its mission as to approve the company's strategy and authorise the organisational resources to carry it forward, and to ensure that management meets the objectives set while pursuing the company's interests and corporate purpose. As such, the board in full should reserve the right to approve:

   a) The company's general policies and strategies, and in particular:

      i) The strategic or business plans, management targets and annual budgets;

      ii) Investment and financing policy;

      iii) Design of the structure of the corporate group;

      iv) Corporate governance policy;

      v) Corporate social responsibility policy;

      vi) Remuneration and evaluation of senior officers;

      vii) Risk control and management, and the periodic monitoring of internal information and control systems;

      viii) Dividend policy, as well as the policies and limits applying to treasury stock.

   See sections: C.1.14, C.1.16 and E.2

   b) The following decisions:

      i) On the proposal of the company's chief executive, the appointment and removal of senior officers, and their compensation clauses.

      ii) Directors' remuneration, and, in the case of executive directors, the additional remuneration for their executive functions and other contract conditions.

      iii) The financial information that all listed companies must periodically disclose.

      iv) Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the Shareholders' Meeting;

      v) The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.

   c) Transactions which the company conducts with directors, significant shareholders, shareholders with board representation or other persons related thereto ("related-party transactions").

However, board authorisation need not be required for related-party transactions that simultaneously meet the following three conditions:

1ª. They are governed by standard form contracts applied on an across-the-board basis to a large number of clients;

2ª. They go through at market prices, generally set by the person supplying the goods or services;

3ª. Their amount is no more than 1% of the company's annual revenues.

It is advisable that related-party transactions should only be approved on the basis of a favourable report from the Audit Committee or some other committee handling the same function; and that the directors involved should neither exercise nor delegate their votes, and should withdraw from the meeting room while the board deliberates and votes.

Ideally the above powers should not be delegated with the exception of those mentioned in b) and c), which may be delegated to the Executive Committee in urgent cases and later ratified by the full board.

See sections: D.1 and D.6

Complies

9. In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise no fewer than five and no more than fifteen members.

See section: C.1.2

Complies

10. Non-executive directors, proprietary and external independent, should occupy an ample majority of board places, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

See sections: A.3 and C.1.3.

Complies

11. That among non-executive directors, the relation between proprietary members and external independents should match the proportion between the capital represented on the board by proprietary directors and the remainder of the company's capital.

This proportional criterion can be relaxed so the weight of proprietary directors is greater than would strictly correspond to the total percentage of capital they represent:

1º. In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested.

2º. In companies with a plurality of shareholders represented on the board but not otherwise related.

See sections: A.2, A.3 and C.1.3

Complies

12 The number of external independent directors should represent at least one third of all board members.

See section: C.1.3

Complies

13. The nature of each director should be explained to the General Meeting of Shareholders, which will make or ratify his or her appointment. Such determination should subsequently be confirmed or reviewed in each year's Annual Corporate Governance Report, after verification by the Nomination Committee. The said Report should also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 5% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

See sections: C.1.3 and C.1.8

Complies

14. When women directors are few or non existent, the Nomination Committee should take steps to ensure that:

a) The process of filling board vacancies has no implicit bias against women candidates;

b) The company makes a conscious effort to include women with the target profile among the candidates for board places.

See sections: C.1.2, C.1.4, C.1.5, C.1.6, C.2.2 and C.2.4.

Complies

15 The Chairman, as the person responsible for the proper operation of the Board of Directors, should ensure that directors are supplied with sufficient information in advance of board meetings, and work to procure a good level of debate and the active involvement of all members, safeguarding their rights to freely express and adopt positions; he or she should organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive, along with the chairmen of the relevant board committees.

See sections: C.1.19, and C.1.41.

Complies

16. When a company's Chairman is also its chief executive, an external independent director should be empowered to request the calling of board meetings or the inclusion of new business on the agenda; to coordinate and give voice to the concerns of non-executive directors; and to lead the board's evaluation of the Chairman.

See section: C.1.22

Non applicable

17. The Secretary should take care to ensure that the board's actions:

a) Adhere to the spirit and letter of laws and their implementing regulations, including those issued by regulatory agencies;

b) Comply with the company by-laws and the regulations of the Shareholders' Meeting, the Board of Directors and others;

c) Are informed by those good governance recommendations of the Unified Code that the company has subscribed to.

In order to safeguard the independence, impartiality and professionalism of the Secretary, his or her appointment and removal should be proposed by the Nomination Committee and approved by a full board meeting; the relevant appointment and removal procedures being spelled out in the board regulations.

See section: C.1.34

Complies

18. The board should meet with the necessary frequency to properly perform its functions, in accordance with a calendar and agendas set at the beginning of the year, to which each director may propose the addition of other items.

    See section: C.1.29

Complies

19. Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. When directors have no choice but to delegate their vote, they should do so with instructions.

    See sections: C.1.28, C.1.29 and C.1.30

Complies

20. When directors or the Secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, the person expressing them can request that they be recorded in the minute book.

Complies

21. The board in full should evaluate the following points on a yearly basis:

    a) The quality and efficiency of the board's operation;

    b) Starting from a report submitted by the Nomination Committee, how well the Chairman and chief executive have carried out their duties;

    c) The performance of its committees on the basis of the reports furnished by the same.

    See sections: C.1.19 and C.1.20

Complies

22. All directors should be able to exercise their right to receive any additional information they require on matters within the board's competence. Unless the by-laws or board regulations indicate otherwise, such requests should be addressed to the Chairman or Secretary.

    See section: C.1.41

Complies

23. All directors should be entitled to call on the company for the advice and guidance they need to carry out their duties. The company should provide suitable channels for the exercise of this right, extending in special circumstances to external assistance at the company's expense.

    See section: C.1.40

Complies

24. Companies should organise induction programmes for new directors to acquaint them rapidly with the workings of the company and its corporate governance rules. Directors should also be offered refresher programmes when circumstances so advise.

Complies

25. Companies should require their directors to devote sufficient time and effort to perform their duties effectively, and, as such:

    a) Directors should apprise the Nomination Committee of any other professional obligations, in case they might detract from the necessary dedication;

    b) Companies should lay down rules about the number of directorships their board members can hold.

    See sections: C.1.12, C.1.13 and C.1.17

Partially complies

In accordance with 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 by-laws 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, shall give notice thereof to the Audit and Compliance Committee, and, in general, he shall disclose any fact or event that may be reasonably material to his conduct as a Director of the Company.

The Nominations Committee shall also ensure that, on appointment to the Board, Non-Executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside Board of Directors meetings (article 24 of the Board Regulations).

The Board of Directors is satisfied that those rules are sufficient to ensure that the Directors are able to devote sufficient time and effort to perform their duties efficiently.

26. The proposal for the appointment or renewal of directors which the board submits to the Shareholders' Meeting, as well as provisional appointments by the method of co-option, should be approved by the board:

    a) On the proposal of the Nomination Committee, in the case of external independent directors.

    b) Subject to a report from the Nomination Committee in all other cases.

    See section: C.1.3

Complies

27. Companies should post the following director particulars on their websites, and keep them permanently updated:

    a) Professional experience and background;

    b) Directorships held in other companies, listed or otherwise;

    c) An indication of the director's classification as executive, proprietary or external independent; in the case of proprietary directors, stating the shareholder they represent or have links with.

    d) The date of their first and subsequent appointments as a company director, and;

    e) Shares held in the company and any options on the same.

Complies

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

    See sections: A.2, A.3 and C.1.2

Complies

29. The Board of Directors should not propose the removal of external independent directors before the expiry of their tenure as mandated by the Bylaws, except where just cause is found by the board, based on a proposal from the Nomination

Committee. In particular, just cause will be presumed when a director is in breach of his or her fiduciary duties or comes under one of the disqualifying grounds enumerated in Ministerial Order ECC/461/2013.

The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the company's capital structure, in order to meet the proportionality criterion set out in Recommendation 11.

See sections: C.1.2, C.1.9, C.1.19 and C.1.27

Complies

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

    The moment a director is indicted or tried for any of the crimes stated in article 213 of the Spanish Companies Law, the board should examine the matter and, in view of the particular circumstances and potential harm to the company's name and reputation, decide whether or not he or she should be called on to resign. The board should also disclose all such determinations in the Annual Corporate Governance Report.

    See sections: C.1.42 and C.1.43

Complies

31. All directors should express clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors unaffected by the conflict of interest should challenge any decision that could go against the interests of shareholders lacking board representation.

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

    The terms of this Recommendation should also apply to the Secretary of the board, director or otherwise.

Complies

32. 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. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.

    See section: C.1.9

Complies

33. Remuneration comprising the delivery of shares in the company or other companies in the group, share options or other share-based instruments, payments linked to the company's performance or membership of pension schemes should be confined to executive directors.

    The delivery of shares is excluded from this limitation when directors are obliged to retain them until the end of their tenure.

Complies

34. Non-executive directors' remuneration should sufficiently compensate them for the dedication, abilities and responsibilities that the post entails, but should not be so high as to compromise their independence.

Complies

35. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Non applicable

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

Complies

37. When the company has an Executive Committee, the breakdown of its members by director category should be similar to that of the board itself. The Secretary of the board should also act as secretary to the Executive Committee.

See sections: C.2.1 and C.2.6

Non applicable

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

Non applicable

39. In addition to the Audit Committee mandatory under the Securities Market Law, the Board of Directors should form a committee, or two separate committees, of Nomination and Remuneration.

The rules governing the make-up and operation of the Audit Committee and the committee or committees of Nomination and Remuneration should be set forth in the board regulations, and include the following:

a) The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each committee; discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first board plenary following each meeting;

b) These committees should be formed exclusively of non-executive directors and have a minimum of three members. Executive directors or senior officers may also attend meetings, for information purposes, at the Committees' invitation.

c) Committees should be chaired by an external independent director.

d) They may engage external advisors, when they feel this is necessary for the discharge of their duties.

e) Meeting proceedings should be minuted and a copy sent to all board members.

See sections: C.2.1 and C.2.4

Partially complies **Explain**

Following the recommendations of the UK Corporate Governance Code, the Board of Directors has appointed the Board Chairman as Chairman of the Nominations Committee, deeming it to be the most appropriate step in the interests of the Company. Although the Board Chairman is a Non-Executive Director, he is not an independent director pursuant to Spanish law since less than five years have elapsed since he stood down as Executive Chairman of Iberia prior to the merger with British Airways (although more than three years have elapsed). It is deemed that the fact that the abovementioned period of five years has not yet elapsed does not in any way impede the Chairman of the Board of Directors from discharging the office of Chairman of the Nominations Committee adequately and with sufficient independence, in defence of the corporate interests and in accordance with the provisions of the Bylaws and the Board Regulations.

40. The job of supervising compliance with internal codes of conduct and corporate governance rules should be entrusted to the Audit Committee, the Nomination Committee or, as the case may be, separate Compliance or Corporate Governance committees.

See sections: C.2.3 and C.2.4

Complies

41. Audit committee members, particularly the Chairman, are appointed in light of their knowledge and experience of accounting, audit or risk management.

Complies

42. Listed companies should have an internal audit function, under the supervision of the Audit Committee, to ensure the proper operation of internal reporting and control systems.

See section: C.2.3

Complies

43. The head of internal audit should present an annual work programme to the Audit Committee; report to it directly on any incidents arising during its implementation; and submit an activities report at the end of each year.

Complies

44. Control and risk management policy should specify at least:

   a) The different types of risk (operational, technological, financial, legal, reputational...) the company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks;

   b) The determination of the risk level the company sees as acceptable;

   c) Measures in place to mitigate the impact of risk events should they occur;

   d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

   See section: E

Complies

45. The Audit Committee's role should be:

   i. With respect to internal control and reporting systems:

      a) Review internal control and risk management systems on a regular basis, so the main risks are properly identified, managed and disclosed.

      b) Monitor the independence and efficacy of the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

      c) Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the company.

   ii. With respect of the external auditor:

      a) Receive regular information from the external auditor on the progress and findings of the audit programme, and check that senior management are acting on its recommendations.

      b) Monitor the independence of the external auditor, to which end:

         i) The company should notify any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

         ii) The Committee should investigate the issues giving rise to the resignation of any external auditor.

   See sections: C.1.36, C.2.3, C.2.4 and E.2

Complies

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

Complies

47. The Audit Committee should prepare information on the following points from Recommendation 8 for input to board decision-making:

    a) The financial information that all listed companies must periodically disclose. The Committee should ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.

    b) The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions 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, except where their scrutiny has been entrusted to some other supervision and control committee.

    See sections: C.2.3 and C.2.4

Complies

48. The Board of Directors should seek to present the annual accounts to the Shareholders' Meeting without reservations or qualifications in the audit report. Should such reservations or qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

    See section: C.1.38

Complies

49. The majority of Nomination Committee members – or Nomination and Remuneration Committee members as the case may be – should be external independent directors.

    See section: C.2.1

Complies

50. The Nomination Committee should have the following functions in addition to those stated in earlier Recommendations:

    a) Evaluate the balance of skills, knowledge and experience on the board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.

    b) Examine or organise, in appropriate form, the succession of the Chairman and chief executive, making recommendations to the board so the handover proceeds in a planned and orderly manner.

    c) Report on the senior officer appointments and removals which the chief executive proposes to the board.

    d) Report to the board on the gender diversity issues discussed in Recommendation 14 of this Code.

    See section: C.2.4

Complies

51. The Nomination Committee should consult with the company's Chairman and chief executive, especially on matters relating to executive directors.

    Any board member may suggest directorship candidates to the Nomination Committee for its consideration.

Complies

52. The Remuneration Committee should have the following functions in addition to those stated in earlier Recommendations:

a) Make proposals to the Board of Directors regarding:

i) The remuneration policy for directors and senior officers;

ii) The individual remuneration and other contractual conditions of executive directors;

iii) The standard conditions for senior officer employment contracts.

b) Oversee compliance with the remuneration policy set by the company.

See sections: C.2.4

Complies

53. The Remuneration Committee should consult with the Chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies

H OTHER INFORMATION OF INTEREST

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

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

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

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable identify the Code and date of adoption.

This annual corporate governance report was adopted by the Company's Board of Directors at its meeting held on February 27, 2014.

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

No

Name or corporate name of director	Reasons (voted against, abstention, non-attendance)	Explain the reasons

A. OWNERSHIP STRUCTURE OF THE COMPANY

A.2 Europacific Growth Fund delegated the voting rights of the IAG shares to Capital Research and Management Company, its investor advisor.

FIL Limited notified the National Securities Market Commission, through the communication of January 9, 2014, the transfer of voting rights that supposed a decrease to below 1 per cent of the voting rights of IAG.

Legal & General Investment Management Limited notified the National Securities Market Commission, through the communication of January 14, 2013, the acquisition of a number of voting rights over the 3 per cent, being the date of the compulsory notification January 21, 2011.

Lansdowne Developed Markets Master Fund LTD notified the National Securities Market Commission, through the communication of August 13, 2013, the acquisition of a number of voting rights over the 1 per cent, being the date of the compulsory notification February 2, 2012.

Templeton Global Advisors Limited notified the National Securities Market Commission, through the communication of January 29, 2014, the transfer of voting rights that supposed a decrease to below 5 per cent.

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:

Below is a breakdown of the information included in section A.3

a) Directors' share options

During 2013, the following Director included in the table below held options to purchase ordinary shares in the Company granted under the British Airways Share Option Plan 1999 ("**SOP 1999**"). As a result of the merger between Iberia and British Airways, all options under the SOP 1999 were automatically exchanged for options over shares of the Company.

The SOP 1999 provided for the grant of options to acquire ordinary shares in British Airways or the British Airways' American Depositary Shares at an option price not less than the market value of the shares on the date of grant. No payment was due upon the initial grant of options.

The SOP 1999 was closed after the final grant in 2005/06.

	Date of grant	Number of options at January 1, 2013	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, 2013
Keith Williams	June 25, 2003	114,649	157p	114,649	–	–	June 25, 2006	June 25, 2013	0
	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	–	257,056	–	114,649	–	–	–	–	142,407

b) Directors' conditional awards

During 2013, the following Directors included in the table below held conditional awards over ordinary shares of the Company granted under (i) the IAG Performance Share Plan ("**IAG PSP**"); (ii) the British Airways Long Term Incentive Plan 1996 ("**LTIP**"); and (iii) the British Airways Performance Share Plan ("**BA PSP**").

The LTIP operated from 1996 to 2004 and was replaced by the PSP in 2005. As a result of the merger between Iberia and British Airways, all options under the BA PSP were automatically exchanged for options over shares of the Company.

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the IAG PSP 2013 award was 241 pence.

	Plan	Date of award	Number of awards at January 1, 2013	Awards vesting during the year	Awards lapsing during the year	Awards made during the year	Number of awards at December 31, 2013
Willie Walsh	BA PSP	September 17, 2010	469,148	–	469,148	–	0
	IAG PSP 2011	March 31, 2011	714,285	–	–	–	714,285
	IAG PSP 2012	August 3, 2012	1,024,844	–	–	–	1,024,844
	IAG PSP 2013	March 6, 2013	–	–	–	684,647	684,647
Total	–	–	2,208,277	–	469,148	684,647	2,423,776

	Plan	Date of award	Number of awards at January 1, 2013	Awards vesting during the year	Awards lapsing during the year	Awards made during the year	Number of awards at December 31, 2013
Enrique Dupuy de Lôme Chávarri	IAG PSP 2011	March 31, 2011	249,350	–	–	–	249,350
	IAG PSP 2012	August 3, 2012	372,670	–	–	–	372,670
	IAG PSP 2013	March 6, 2013	–	–	–	248,963	248,963
Total	–	–	622,020	–	–	248,963	870,983

	Plan	Date of award	Number of awards at January 1, 2013	Awards vesting during the year	Awards lapsing during the year	Awards made during the year	Number of awards at December 31, 2013
Luis Gallego Martín	IAG PSP 2012	October 8, 2013[1]	–	–	–	102,741	102,741
	IAG PSP 2013	May 23, 2013	–	–	–	273,198	273,198
Total	–	–	–	–	–	375,939	375,939

	Plan	Date of award	Number of awards at January 1, 2013	Awards vesting during the year	Awards lapsing during the year	Awards made during the year	Number of awards at December 31, 2013
Keith Williams	LTIP	June 9, 2003	46,631	46,631[2]	–	–	0
	LTIP	June 16, 2004	22,141	–	–	–	22,141
	BA PSP	September 17, 2010	280,851	–	280,851	–	0
	IAG PSP 2011	March 31, 2011	409,090	–	–	–	409,090
	IAG PSP 2012	August 3, 2012	605,590	–	–	–	605,590
	IAG PSP 2013	March 6, 2013	–	–	–	404,564	404,564
Total	–	–	1,364,303	46,631	280,851	404,564	1,441,385

c) Incentive Award Deferral Plan

During 2013, the following Directors included in the table below held conditional awards over ordinary shares of the Company granted under the IAG IADP (Incentive Award Deferral Plan) (**IAG IADP**) and British Airways Deferred Share Plan (**BA DSP**).

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the IAG IADP 2013 award was 241 pence.

1 The award for IAG PSP 2012 was made in October 8, 2013 pending formalization as an Executive within the IAG Group.
2 Option surrendered and settled in cash.

	Plan	Date of award	Number of awards at January 1, 2013	Awards released during the year	Date of vesting	Awards lapsing during the year	Awards made during the year	Number of awards at December 31, 2013
Willie Walsh	IAG IADP 2011	March 31, 2011	90,984	–	March 31, 2014	–	–	90,984
	IAG IADP 2012	August 3, 2012	93,773	–	August 3, 2015	–	–	93,773
Total	–	–	184,757	–	–	–	–	184,757

	Plan	Date of award	Number of awards at January 1, 2013	Awards released during the year	Date of vesting	Awards lapsing during the year	Awards made during the year	Number of awards at December 31, 2013
Enrique Dupuy de Lôme Chavarri	IAG IADP 2012	August 3, 2012	37,267	–	August 3, 2015	–	–	37,267
	IAG IADP 2013	March 6, 2013	–	–	March 6, 2016	–	62,241	62,241
Total	–	–	37,267	–		–	62,241	99,508

	Plan	Date of award	Number of awards at January 1, 2013	Awards released during the year	Date of vesting	Awards lapsing during the year	Awards made during the year	Number of awards at December 31, 2013
Keith Williams	BA DSP	September 17, 2010	70,999	70,999	June 30, 2013	–	–	0
	IAG IADP 2011	March 31, 2011	44,904	–	March 31, 2014	–	–	44,904
	IAG IADP 2012	August 3, 2012	58,695	–	August 3, 2015	–	–	58,695
	IAG IADP 2013	March 6, 2013	–	–	March 6, 2016	–	101,141	101,141
Total	–	–	174,598	70,999	–	–	101,141	204,740

B. SHAREHOLDERS´MEETING

Pursuant to a resolution by the Board of Directors, the Shareholders' Meeting of the Company was called and was held in Madrid, in the Auditorio Sur de IFEMA, Feria de Madrid, Campo de las Naciones, on June 20, 2013, at 12 noon (CET) on second call.

Furthermore, pursuant to a resolution by the Board of Directors, the Shareholders' Extraordinary Meeting of the Company was called and was held in Madrid, Hotel Meliá Barajas, Avda. de Logroño, Madrid, on September 26, 2013, at 16:00 (CET), on second call.

The resolutions approved by the Shareholders' Meeting are included on the Company's website: www.iairgroup.com.

C. STRUCTURE OF THE COMPANY'S MANAGEMENT

C.1.2 Luis Gallego Martín and Keith Williams ceased as members of the Board of Directors with effect from January 1, 2014.

C.1.30 It is included the attendance by phone or videoconference.

C.1.37 Note that the fees indicated include services provided by Ernst & Young (as the Company's, British Airways' and Iberia's auditors).

C.1.39 Ernst & Young, S.L. were appointed as auditor firm of the Company and IAG Group on November 29, 2010 for the first time, and such auditor firm were re-appointed in 2013 for the FY 2013 audit.

Ernst & Young LLP have been auditors of British Airways since privatisation in 1987.

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

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

During the year the Company did not comply with the following provisions of the UK Corporate Governance Code:

a) The service contract for Antonio Vázquez Romero does not comply with the recommendation of the UK Corporate Governance Code, that notice periods should be set at one year or less so as to limit any payment on exit. Details can be found in the Directors' Remuneration Report.

b) At the time of the merger, transitional arrangements were agreed to ensure that the Company had continuity of leadership in the IAG Group's early days. These provide that the Directors in office at that time should resign and stand for re-election by shareholders in accordance with an agreed calendar, providing for a phased rotation of all Directors between 2013 and 2015. If re-elected Directors were to serve for a three-year term which is the period of office established in the Bylaws.

   However, following the recommendation of the Nominations Committee, the Board of Directors has reconsidered the existing arrangements and has decided that, starting this year, all Directors should stand for re-election annually at each Annual Shareholders' Meeting. Consequently, the relevant resolutions will be submitted to the Annual Shareholders' Meeting to be held this year, including a proposal to amend the Bylaws to reduce Directors' term of office to one year.

The Company believes that, notwithstanding the above exceptions, it has a robust governance structure.

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Building a better working world

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

In accordance with the request from the Board of Directors of International Consolidated Airlines Group, S.A. (hereinafter IAG) and our engagement letter dated January 9, 2014, we have performed certain procedures on the accompanying ICFR-related information of IAG, for the year 2013, which summarises the internal control procedures of IAG in relation to the annual financial information.

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

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

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

For the purpose of issuing this report, we exclusively applied the specific procedures described below and indicated in the Guidelines on the Auditors' report relating to information on the Internal Control over Financial Reporting on Listed Companies, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Given that the scope of these procedures was limited and substantially less than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or its design or operating effectiveness, in relation to IAG's annual financial information for 2013 described in the accompanying ICFR. Consequently, had we applied additional procedures to those established by the Guidelines mentioned above or had we carried out an audit or a review of the internal control over the regulated annual financial reporting information, other matters might have been disclosed which would have been reported to you.

Likewise, since this special engagement does not constitute an audit of the financial statements or a review in accordance with Royal Decree 1/2011, dated July 1, enacting the revised Audit Law, we do not express an audit opinion in the terms provided for therein.

The procedures applied were as follows:

1. *Read and understand the information prepared by IAG in relation to the ICFR -which is provided in the Annual Corporate Governance Report disclosure information included in the Directors' Report- and assess whether such information addresses all the required information which will follow the minimum content detailed in Section F, relating to the description of the ICFR, as per the IAG model established by CNMV Circular nº 5/2013 dated June 12, 2013.*
2. *Make enquiries of personnel in charge of preparing the information described in point 1 above in order to:*
   a. *Obtain an understanding of the process followed in its preparation*
   b. *Obtain information which will allow us to assess whether the terminology used is adapted to the definitions provided in the reference framework*
   c. *Obtain information on whether the control procedures described are implemented and in used by IAG*
3. *Review the explanatory documentation supporting the information described in point 1 above, which should basically include that which is provided directly to those responsible for preparing the ICFR descriptive information. In this respect, the aforementioned documentation includes related reports prepared by the Internal Audit Department, senior management, and other internal and external experts providing support to the Audit and Compliance Committee.*
4. *Compare the information described in point 1 above with IAG's ICFR knowledge obtained as a result of performing the external audit procedures within the framework of the audit of the financial statements.*
5. *Read the minutes of the meetings held by the Board of Directors, Audit and Compliance Committee and other IAG committees in order to assess the consistency between the ICFR issues addressed therein and the information provided in point 1 above.*
6. *Obtain the representation letter related to the work performed, duly signed by the personnel in charge of preparing the information discussed in point 1 above.*

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

This report was prepared exclusively within the framework of the requirements of Spanish Securities Market Law 24/1988, of July 28, amended by the Sustainable Economy Law 2/2011, of March 4, and by Circular nº 5/2013 of the Spanish National Securities Market Commission related to the description of the ICFR in the Annual Corporate Governance Report.

ERNST & YOUNG, S.L.

February 27, 2014

Rafael Páez Martínez

GROUP INVESTMENTS
At December 31, 2013

Subsidiaries

Name and address	Country of incorporation	Percentage of equity owned
Avios Group (AGL) Limited Atstral Towers, Betts Way, London Road, Crawley, West Sussex, RH10 9XY	England	100%
Avios South Africa Proprietary Limited 3rd Floor, Whitely Road Office Block, 34 Whitely Road, Melrose Arch North, Melrose Arch, Johannesburg	South Africa	100%
BA and AA Holdings Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
BA Call Centre India Private Limited (callBA) F-42, East of Kailash, New Delhi, 110065	India	100%
BA Cityflyer Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
BA European Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
BA Number One Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
BA Number Two Limited 13 Castle Street, St Helier, JE4 5UT	Jersey	100%
bmibaby Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
Binter Finance B.V. Prins Bernhardplein 200, 1097 JB, Amsterdam	Netherlands	100%
BritAir Holdings Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Airways (BA) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Airways Plc Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Airways (España) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Airways (European Operations at Gatwick) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Airways 777 Leasing Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Airways Associated Companies Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Airways Avionic Engineering Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Airways Capital Limited Queensway House, Hilgrove Street, St Helier, JE1 1ES	Jersey	100%
British Airways E-Jets Leasing Limited Canon's Court, 22 Victoria Street, Hamilton, HM 12	Bermuda	100%
British Airways Employee Benefit Trustee (Jersey) Limited Queensway House, Hilgrove Street, St Helier, JE1 1ES	Jersey	100%
British Airways Finance (Jersey) Limited Partnership 13 Castle Street, St Helier, JE4 5UT	Jersey	100%
British Airways Holdings B.V. Atrium, Strawinskylaan 3105, 1077 ZX Amsterdam.	Netherlands	100%
British Airways Holdings Limited 13 Castle Street, St Helier, JE4 5UT	Jersey	100%
British Airways Holidays Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%

Group investments continued

Subsidiaries continued

Name and address	Country of incorporation	Percentage of equity owned
British Airways Interior Engineering Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Airways Leasing Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Airways Maintenance Cardiff Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Airways (No 1) Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Airways Pension Trustees (No 2) Limited Whitelocke House, 2-4 Lampton Road, Hounslow, Middlesex, TW3 1HU	England	100%
British Airways Regional Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Caledonian Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Caledonian Group Limited Ground Floor, Bute Court, Glasgow Airport, Glasgow, PA3 2SW	Scotland	100%
British Midland Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
British Midland Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
Caledonian Aviation Investments Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
Campos Velázquez, S.A. Calle Velázquez 130, 28006 Madrid	Spain	100%
Cargosur, S.A. Calle Velázquez 130, 28006 Madrid	Spain	100%
Consultores Hansa, S.A. Calle Velázquez 130, 28006 Madrid	Spain	100%
Deutsche B A Holding GmbH Brienner Strasse 28, 80333 Munich	Germany	100%
Diamond Insurance Company Limited 1st Floor, Rose House, 51-59 Circular Road, Douglas, IM1 1RE	Isle of Man	100%
Flyline Tele Sales & Services GmbH Hermann Koehl-Strasse 3, 28199 Bremen	Germany	100%
IAG Cargo Limited Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, TW6 2JS	England	100%
Iberia Express, S.A. Calle Alcañiz 23, 28006 Madrid	Spain	100%
Iberia México, S.A. Ejército Nacional 436-9º	Mexico	100%
Iberia Tecnología, S.A. Calle Velázquez 130, 28006 Madrid	Spain	100%
Iberia Líneas Aéreas de España, S.A. Operadora Martínez Viuergas 49, 28027 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 3 Rue le Corbusier, 94150 Rungis	France	100%

Subsidiaries continued

Name and address	Country of incorporation	Percentage of equity owned
Overseas Air Travel Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
Remotereport Trading Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
Speedbird Cash Management Limited Canon's Court, 22 Victoria Street, Hamilton, HM 12	Bermuda	100%
Speedbird Insurance Company Limited Canon's Court, 22 Victoria Street, Hamilton, HM 12	Bermuda	100%
Speedwing International Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
Teleflight Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
The Plimsoll Line Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	100%
Veloz Holdco, S.L. Calle Velázquez 130, 28006 Madrid	Spain	100%
VIVA Vuelos Internacionales de Vacaciones, S.A. Calle Velázquez 130, 28006 Madrid	Spain	100%
Vueling Airlines, S.A. Parque de Negocios Mas Blau; Barcelona	Spain	99.36%
British Mediterranean Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB	England	99%
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. Torre Tarragona, PLT 15, Calle Tarragona 161, 08014 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%

Group investments continued

Associates

Name and address	Country of incorporation	Percentage of equity owned
Iber-América Aerospace, LLC 9800 Premier Parkway Miramar, Florida 33025, Miramar, FL	USA	65.33%
Handling Guinea Ecuatorial, S.A. (HANGESA) Malabo International Airport, Malabo	Equatorial Guinea	51%
Corjet Maintenance Europe S.L. Aeropuerto de Barajas Avda de la Hispanidad s/n 28042 Madrid	Spain	50%
Madrid Aerospace Services, S.L. Pol. Ind. Las Monjas, C/Verano, 9	Spain	50%
Empresa Logística de Carga Aérea, S.A. (ELCA) Aeropuerto Jose Martí, Ciudad de La Habana	Cuba	50%
Empresa Hispano Cubana de Mantenimiento de Aeronaves Ibeca, S.A. Aeropuerto Jose Martí, Ciudad de La Habana	Cuba	50%
Multiservicios Aeroportuarios, S.A. Avenida de Manoteras, 46; Madrid	Spain	49%
International Supply Management, S.L. Pozuelo de Alarcón; Madrid	Spain	49%
Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. José Ortega y Gasset, 22; Madrid	Spain	43.5%
Dunwoody Airline Services (Holdings) Limited Building 70, Argosy Road, East Midlands Airport, Castle Donnington, Derby, DE74 2SA	England	40%
Serpista, S.A. Marcelo Espínola, 1; Madrid	Spain	39%
Grupo Air Miles España, S.A. Avda. Bruselas 20, Alcobendas; Madrid	Spain	33.33%

Available-for-sale financial assets

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

	Information from latest financial statements				
Name and address	Country of incorporation	Percentage of equity owned	Currency	Shareholders' funds (million)	Profit/(loss) before tax (million)
Servicios de Instrucción de Vuelo, S.L. Camino Muñoza 2, 28042 Madrid	Spain	19.9%	Euro	50	2
The Airline Group Limited Brettenham House South 5th Floor, Lancaster Place, London, WC2N 7EN	England	16.7%	Pound sterling	157	9
Flybe Group plc Jack Walker House, Exeter International Airport, Exeter, Devon, EX5 2HL	England	14.6%	Pound sterling	48	(41)
Comair Limited 1 Marignane Drive, Bonaero Park, 1619	South Africa	9.6%	South African rand	1,021	331
Adquira España, S.A. Plaza Cronos, 1 – 4ª planta. 28037 Madrid	Spain	10%	Euro	6	1
Amadeus IT Holding, S.A. Calle Salvador Madariaga 1 p.c. 28027 Madrid	Spain	7.5%	Euro	1,883	668

STATEMENT OF DIRECTORS' RESPONSIBILITIES

LIABILITY STATEMENT OF COMPANY DIRECTORS FOR THE PURPOSES ENVISAGED UNDER ARTICLE 8.1.b OF SPANISH ROYAL DECREE 1362/2007 OF 19 OCTOBER (REAL DECRETO 1362/2007).

At a meeting held on February 27, 2014, the Directors of International Consolidated Airlines Group, S.A. confirmed that to the best of their knowledge the Consolidated Financial Statements for the year to December 31, 2013 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 Conduct Authority's DTR 4.1 including an indication of important events in the year, a description of the principle risks and material related party transactions.

February 27, 2014

Antonio Vázquez Romero
Chairman

Martin Faulkner Broughton
Deputy Chairman

William Matthew Walsh
Chief Executive Officer

César Alierta Izuel

Patrick Jean Pierre Cescau

Enrique Dupuy de Lôme Chávarri

Denise Patricia Kingsmill

James Arthur Lawrence

Marjorie Morris Scardino

José Pedro Pérez-Llorca y Rodrigo

Kieran Charles Poynter

Alberto Terol Esteban

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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, 2013, 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 2013 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, 2013, 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 2013 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 2013 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

February 27, 2014

OPERATING AND FINANCIAL STATISTICS

Total Group operations		2013[1]	2012[1]	2011[2]	2010[2]	2009[2]
Traffic and capacity						
Available seat km (ASK)	million	230,573	219,172	213,193	199,032	206,301
Revenue passenger km (RPK)	million	186,304	176,102	168,617	157,323	162,055
Cargo tonne km (CTK)	million	5,653	6,080	6,156	5,907	5,499
Passengers carried	'000	67,224	54,600	51,687	50,600	53,256
Tonnes of cargo carried	'000	928	1,011	1,050	1,019	963
Sectors	'000	538,644	453,100	437,411	437,500	472,613
Block hours	hours	1,573,900	1,419,601	1,388,514	1,329,767	1,372,145
Operations						
Average manpower equivalent		60,089	59,574	56,791	56,563	59,842
Aircraft in service at year end		431	377	348	352	345
Aircraft utilisation – Longhaul (average hours per aircraft per day)	hours	13.3	13.6	13.6	13.1	13.5
Aircraft utilisation – Shorthaul (average hours per aircraft per day)	hours	8.4	8.2	8.5	8.2	8.2
Punctuality – within 15 minutes	%	79.2	77.7	76.6	74.7	81.6
Regularity	%	99.0	99.0	99.0	95.4	98.8
Financial						
Passenger unit revenue per ASK	€ cents	7.05	7.01	6.41	6.19	5.43
Passenger revenue per RPK	€ cents	8.73	8.73	8.11	7.83	6.91
Cargo revenue per CTK	€ cents	18.98	20.02	19.33	18.55	15.17
Total traffic revenue per ATK	€ cents	57.1	53.59	49.47	47.93	41.68
Average fuel price	($ cents/US gallon)	314.15	320.33	289.04	224.93	246.27
Fuel cost per ASK	€ cents	2.58	2.78	2.38	1.96	1.95
Operating profit before depreciation, amortisation and rentals (EBITDAR)	€ million	2,258	1,480	1,867	1,692	487
Total operating expenditure excluding fuel per ASK	€ cents	5.18	5.49	5.06	5.36	5.01
Operating margin	%	4.1	(0.1)	3.0	1.5	(7.0)
Total operating expenditure per ASK	€ cents	7.77	8.28	7.44	7.32	6.96
Total operating expenditure per ATK	€ cents	58.97	58.60	52.76	52.05	49.74
Dividend cover	times	–	–	–	–	(11.79)
Interest cover*	times	2.80	(0.22)	4.69	1.50	n/a
Net debt	€ million	1,489	1,889	1,148	895	n/a
Equity*	€ million	4,216	2,978	4,312	4,670	n/a
Adjusted gearing	%	50	51	44	47	n/a

1 Financial data for the full year's to December 31, 2013 and 2012 is based on the consolidated results of the Group, before exceptional items.
2 The full year's data to December 31, 2011 and 2010 is based on the combined results of operations of British Airways Plc and Iberia Líneas Aéreas de España S.A Operadora. Prior to 2010, the figures are an accumulation of British Airways and Iberia.
* Restated for amendment to IAS19 'Employee benefits' accounting standard.
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
Block hours	Hours of service for aircraft, measured from the time that the aircraft leaves the gate at the departure airport to the time that it arrives at the gate at the destination airport
Cargo revenue per CTK	Cargo revenue divided by CTK
Cargo tonne kilometres (CTK)	The number of tonnes of cargo that generate revenue (freight and mail) carried multiplied by the distance flown
Dividend cover	The number of times profit for the year covers the dividends paid and proposed
EBITDAR	Operating profit before depreciation, amortisation and rental charges
Earnings per share (EPS)	Earnings are based on results after tax, adjusted for earnings attributable to equity holders for interest on the 1.75 per cent convertible bonds, if dilutive shares are based on the weighted average number of ordinary shares, adjusted for the dilutive impact of the assumed conversion of the bonds and employee share-based payments outstanding
Interest cover	The number of times profit before taxation and net interest expense and interest income covers the net interest expense and interest income
Manpower equivalent	Number of employees adjusted for part-time workers, overtime and contractors
Merger effective date	January 21, 2011, the date British Airways and Iberia signed a merger agreement to create International Airlines Group
Net debt	Current and long-term interest-bearing borrowings less other current interest-bearing deposits and cash and cash equivalents
Operating margin	Operating profit/(loss) as a percentage of total revenue
Overall load factor	RTK expressed as a percentage of ATK
Passenger load factor	RPK expressed as a percentage of ASK
Punctuality	The industry's standard, measured as the percentage of flights departing within 15 minutes of schedule
Regularity	The percentage of flights completed to flights scheduled, excluding flights cancelled for commercial reasons
Return on capital employed (RoCE)	Profit or loss before exceptional items, adjusted for aircraft leases, multiplied by 1 minus the Group standard tax rate, divided by tangible fixed assets on and off balance sheet plus working capital – excluding cash and cash equivalents and any current portion of non-current interest-bearing borrowings
Return on invested capital (RoIC)	Operating profit before exceptional items, divided by a notional half-life current cost of tangible fixed assets (calculated by multiplying gross tangible fixed asset cost by a cumulative inflation factor divided by two. An annual inflation factor of 2.5% is used over a period determined by dividing accumulated depreciation by the annual charge)
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
Sector	A one-way revenue flight
Total capital	Total equity plus net debt
Total Group revenue per ASK (RASK)	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
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El Caserío, Iberia Zona Industrial nº 2 (La Muñoza)
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Madrid Commercial Registrar
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C.I.F. A85845535

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London Heathrow Airport
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Registrar
Computershare Investor Services PLC

For enquiries relating to shares held through the Corporate Sponsored Nominee (UK share register):

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Email: web.queries@computershare.co.uk

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Private shareholders: shareholder.services@iairgroup.com

American Depositary Receipt program
IAG has a Sponsored Level 1 American Depositary Receipt (ADR) facility that trades on the OTC market in the US (see www.otcmarkets.com). Deutsche Bank is the ADR depositary bank.

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Financial calendar
Financial year end: December 31, 2013
Q1 results: May 9, 2014
Half year results: August 1, 2014
Q3 results: October 31, 2014

Other key dates can be found on our website:
www.iagshares.com

ShareGift
UK shareholders with a small number of shares may like to consider donating their shares to charity under ShareGift, administered by Orr Mackintosh Foundation. Details are available from the UK Registrar.

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