

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about the contents of this Circular or the action you should take, you are recommended to seek your own financial or professional advice immediately from your stockbroker, bank, solicitor, accountant, fund manager or other appropriate independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial or professional adviser.

If you sell or have sold or otherwise transferred all of your Shares before September 20, 2013, please forward this Circular and the accompanying documentation as soon as possible to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee. If you sell or have sold or otherwise transferred only part of your holding of Shares, you should retain this Circular and the accompanying documentation, and you should consult with the bank, stockbroker or other agent through whom the sale or transfer was effected.

Any person (including, without limitation, custodians, nominees and trustees) who may have a contractual or legal obligation or may otherwise intend to forward this Circular to any jurisdiction outside Spain or the UK should seek appropriate advice before taking any such action. The distribution of this Circular and any accompanying documents into jurisdictions other than Spain or the UK may be restricted by law. Any person not in Spain or the UK into whose possession this Circular and any accompanying documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.



International Consolidated Airlines Group, S.A.

(a company incorporated under the laws of the Kingdom of Spain and entered at the Madrid Mercantile Registry with registration number M-492129 and with Tax Identity Code number A-85845535)

**Proposed Purchase of 18 Boeing 787 aircraft by British Airways
Proposed Purchase of 18 Airbus A350 aircraft by British Airways
Proposed Purchase of 30 Airbus A320ceo aircraft and 32 Airbus A320neo
aircraft by Vueling**

Circular to Shareholders and Notice of Shareholders' Meeting

Your attention is drawn to the letter to Shareholders from the Chairman of IAG, which is set out in Part I (Letter from the Chairman of IAG) of this Circular. This letter contains the recommendation of the Board of IAG that you vote in favour of each of the Resolutions to be proposed at the Shareholders' Meeting. Please read the whole of this Circular. In particular, your attention is drawn to the risk factors set out in Part II (Risk factors) of this Circular.

A Notice convening the Shareholders' Meeting of the Company called to be held at Hotel Meliá Barajas, Avda. de Logroño 305, 28042 Madrid, Spain on September 25, 2013 at 1600 (CET), on first call, and on the following day, September 26, 2013, at the same time and venue, on second call, is set out at the end of this Circular. Shareholders are informed that the Shareholders' Meeting will be held

on second call. On or around August 21, 2013, the Company will send an Attendance, Proxy and Remote Vote Card, along with all other necessary documents relating to the Shareholders' Meeting, to the address or electronic address of each Shareholder, as it appears on the Company's share register book, for use in connection with the Shareholders' Meeting.

If you are a Shareholder and wish to attend and vote at the Shareholders' Meeting, please present: (i) a completed and signed Attendance, Proxy and Remote Voting Card or a certificate issued by one of the participating entities of the agency which manages said accounting register or any other evidence of shareholding permitted by Spanish legislation in force; and (ii) an identity card, passport or any other equivalent official document evidencing your identity, at the entrance to the building where the Shareholders' Meeting is to be held. Alternatively, you may appoint someone else as your proxy (or proxies) or vote prior to the Shareholders' Meeting: (i) by sending the original Attendance, Proxy and Remote Voting Card, with the relevant sections duly completed and signed, to the Company at the registered address: calle Velázquez, 130, 28006 Madrid, Spain – Shareholder Office (IAG); or (ii) on the Company's website, www.iairgroup.com, by following the instructions given and using your electronic DNI (DNLe) or your digital signature based on a recognised and valid certificate issued by the Spanish Public Certification Entity (CERES) attached to *Fábrica Nacional de Moneda y Timbre*, in each case by no later than midnight (CET) on September 25, 2013.

If you are a registered holder of CDIs or hold an interest in CDIs through the IAG Nominee Service and you wish to attend and vote in relation to the underlying Shares at the Shareholders' Meeting, please complete and return the relevant form of instruction to Computershare Investor Services PLC at The Pavillions, Bridgwater Road, Bristol, BS99 6ZZ by no later than 1500 (BST) on September 20, 2013, in order to appoint yourself as a proxy in relation to the underlying Shares. On or around August 21, 2013, Computershare will send the relevant form of instruction, along with all other necessary documents relating to the Shareholders' Meeting, to the address or electronic address held by Computershare for each registered holder of CDIs and each holder of an interest in CDIs through the IAG Nominee Service. You will also need to present an identity card, passport or any other equivalent official document evidencing your identity at the entrance to the building where the Shareholders' Meeting is to be held. CREST members may also appoint a proxy (or proxies) through the CREST electronic proxy appointment service by using the procedures described in the CREST Manual (which is available via www.euroclear.com/CREST). In order for a proxy appointment or instruction made using the CREST electronic proxy appointment service to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear's specifications, and must contain the information required for such instruction as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Computershare (ID number: 3RA50) by the close of business on September 19, 2013. Alternatively, you may appoint someone else as your proxy (or proxies) or give voting instructions in relation to the underlying Shares prior to the Shareholders Meeting: (i) by completing and returning the relevant form of instruction to Computershare Investor Services PLC at The Pavillions, Bridgwater Road, Bristol, BS99 6ZZ; or (ii) by following the instructions given on the website, www.eproxyappointment.com, by no later than 1500 (BST) on September 20, 2013.

A summary of the action to be taken by Shareholders and holders of CDIs (including, for this purpose, those persons holding interests in CDIs through the IAG Nominee Service) is set out in paragraph 9 of Part I (Letter from the Chairman of IAG) of this Circular and in the Notice of Shareholders' Meeting. Completion and return of the original Attendance, Proxy and Remote Voting Card appointing a proxy or an electronic registration of a proxy appointment will not preclude you from voting remotely prior to the Shareholders' Meeting or attending and voting in person at the Shareholders' Meeting if you wish to do so. Attendance at the Shareholders' Meeting by you as the represented Shareholder, whether in person or by having voted using remote means, will revoke the appointment of your proxy, regardless of the date of the proxy appointment.

This document is a circular relating to the Proposed Purchases which has been prepared in accordance with the Listing Rules and approved by the Financial Conduct Authority.

No person has been authorised to give any information or make any representations other than those contained in this Circular and, if given or made, such information or representations must not be relied

on as having been so authorised. The delivery of this Circular shall not, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this Circular or that the information in it is correct as of any subsequent time.

Barclays, which is authorised and regulated in the United Kingdom by the FCA, is acting exclusively for IAG as Sponsor in relation to this Circular and will not be responsible to anyone other than IAG for providing the protections afforded to its clients or for providing advice in relation to the matters described in this Circular.

Capitalised terms have the meaning ascribed to them in Part VIII (Definitions) of this Circular.

Dated August 19, 2013

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Forward-looking statements

This Circular contains forward-looking statements which are subject to assumptions, risks and uncertainties associated with, among other things, the economic and business circumstances occurring from time to time in the countries, sectors and business segments in which the Group operates. These factors include, but are not limited to, those discussed in Part II (Risk factors) of this Circular. These and other factors could affect the results, strategy and prospects of the Group.

Forward-looking statements can be typically identified by the use of forward-looking terminology such as “expects”, “may”, “will”, “could”, “should”, “intends”, “plans”, “predicts”, “envisages” or “anticipates”, as well as the negatives of such words and other words of similar meaning in connection with discussions of future operating or financial performance or of strategy that involve risks and uncertainties.

The forward-looking statements in this Circular are made based upon the Company's expectations and beliefs concerning future events affecting the Group and therefore involve a number of known and unknown risks and uncertainties. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which it will operate, which may not prove to be accurate. The Company cautions that these forward-looking statements are not guarantees, and that actual results could differ materially from those expressed or implied in these forward-looking statements.

You are cautioned not to place any undue reliance on the forward-looking statements contained in this Circular which speak only as at the date of this Circular. Neither the Company nor any member of the Group undertakes any obligation to update or revise any forward-looking statements publicly, whether as a result of new information, future events or otherwise except as required by any applicable laws and regulations, including the Prospectus Rules, the Listing Rules, the Disclosure and Transparency Rules and the Financial Services and Markets Act 2000.

The statements in this section should not in any way be construed as a qualification to the opinion of the Company as to the Group's working capital set out in paragraph 10 of Part VI (Additional information) of this Circular.

Corporate details and advisers

Company Secretary and registered office

Fernando Vives
International Consolidated Airlines Group, S.A.
calle Velázquez, 130
28006 Madrid
Spain

Legal adviser to the Company (as to English law)

Slaughter and May
One Bunhill Row
London EC1Y 8YY
United Kingdom

Auditor

Ernst & Young S.L.
Torre Picasso
Plaza Pablo Ruiz Picasso, 1
28020 Madrid
Spain

Registrar in respect of IAG Nominee Service

Computershare Investor Services PLC
The Pavillions
Bridgwater Road
Bristol BS99 6ZZ
United Kingdom

Sponsor

Barclays Bank PLC
5 The North Colonnade
Canary Wharf
London E14 4BB
United Kingdom

Legal adviser to the Company (as to Spanish law)

J&A Garrigues, S.L.P.
calle Hermosilla, 3
28001 Madrid
Spain

Registrar in respect of Shares

Santander Investment, S.A.
Ciudad Grupo Santander Edif. Encinar 1a Pta.
Avenida de Cantabria s/n
Boadilla del Monte
28660 Madrid
Spain

Expected timetable of principal events

<u>Event</u>	<u>Time and date</u>
Latest time and date for receipt of forms of instruction from registered holders of CDIs and holders of interests in CDIs through the IAG Nominee Service for the Shareholders' Meeting	1500 (BST) on September 20, 2013
Record date for entitlement to vote at the Shareholders' Meeting (this date being five days prior to the date of the Shareholders' Meeting)	September 20, 2013
Latest time and date for postal receipt of the original Attendance, Proxy and Remote Vote Cards and electronic receipt of proxy appointments and remote voting from Shareholders for the Shareholders' Meeting	midnight (CET) on September 25, 2013
Shareholders' Meeting	1600 (CET) on September 26, 2013 (second call)
Announcement of results of the Shareholders' Meeting	September 26 or September 27, 2013

Notes:

The above dates are indicative only and are subject to change by the Company, in which event details of the new times and dates will be notified to the FCA and, where appropriate, to Shareholders, registered holders of CDIs and holders of interests in CDIs through the IAG Nominee Service.

Part I

(Letter from the Chairman of IAG)

(a company incorporated under the laws of the Kingdom of Spain and entered at the Madrid Mercantile Registry with registration number M-492129 and with Tax Identity Code number A-85845535)

Directors

Antonio Vázquez Romero (Chairman)
Sir Martin Broughton (Deputy Chairman)
Willie Walsh (Chief Executive Officer)
César Alierta Izuel (Director)
Patrick Cescau (Director)
Luis Gallego Martín (Director)
Baroness Denise Kingsmill (Director)
James Lawrence (Director)
José Pedro Pérez-Llorca (Director)
Kieran Poynter (Director)
John Snow (Director)
Alberto Terol Esteban (Director)
Keith Williams (Director)

Registered office

calle Velázquez, 130
28006 Madrid
Spain

August 19, 2013

To the Shareholders and holders of CDIs (including, for this purpose, those persons holding interests in CDIs through the IAG Nominee Service) and, for information only, holders of options and awards granted under, and other participants in, the IAG Share Schemes

Dear Sir,

Proposed purchase of 18 Boeing 787 aircraft by British Airways

Proposed purchase of 18 Airbus A350 aircraft by British Airways

Proposed purchase of 30 Airbus A320ceo aircraft and 32 Airbus A320neo aircraft by Vueling

Notice of Shareholders' Meeting

1. Introduction

On April 3, 2013, British Airways reached a conditional agreement with Boeing to exercise the Boeing Option in respect of 18 new Boeing 787 aircraft for delivery between 2017 and 2021. This Proposed Purchase of 18 Boeing 787 aircraft is of sufficient size relative to the size of the Company to constitute a Class 1 transaction under the Listing Rules and is, therefore, conditional upon the approval of Shareholders. In addition, Boeing has agreed to grant British Airways the rights to elect to purchase up to 18 additional Boeing 787 aircraft. The exercise of any such options by British Airways in the future may, depending on its size relative to the size of the Company at that time, become subject to a separate approval of the Shareholders.

On August 2, 2013, British Airways also entered into the 2013 Airbus Long-haul Contract pursuant to which it has conditionally agreed to purchase 18 new Airbus A350 aircraft for delivery between 2018 and 2021. This Proposed Purchase of 18 Airbus A350 aircraft is of sufficient size relative to the size of the Company to constitute a Class 1 transaction under the Listing Rules and is, therefore, conditional upon the approval of the Shareholders. In addition, the 2013 Airbus Long-haul Contract grants British Airways the rights to elect to purchase up to 36 additional Airbus A350 aircraft subject to terms and conditions therein, and the Company has reached agreement with Airbus to secure commercial terms and delivery slots that could lead to further firm orders for Airbus A350 aircraft under a separate contract. The exercise of any such options by British Airways or firm orders resulting from the Company's agreement with Airbus in the future may, depending on its/their size relative to the size of the Company at that time, become in each case subject to a separate approval of the Shareholders.

On April 26, 2013, Vueling became part of the Group. On August 14, 2013, Vueling entered into the 2013 Airbus Short-haul Contract pursuant to which it has conditionally agreed to purchase 30

new Airbus A320 aircraft with a “current engine option” (“**Airbus A320ceo aircraft**”) and 32 new Airbus A320 aircraft with a “new engine option” (“**Airbus A320neo aircraft**”) for delivery between 2015 and 2020. The designations “current engine option” and “new engine option” refer to current and future versions of the Airbus A320 aircraft, with the main difference between them being the technology and efficiency of the engines fitted on the relevant aircraft. This Proposed Purchase of 30 Airbus A320ceo aircraft and 32 Airbus A320neo aircraft is of sufficient size relative to the size of the Company to constitute a Class 1 transaction under the Listing Rules and is, therefore, conditional upon the approval of Shareholders. In addition, the 2013 Airbus Short-haul Contract grants Vueling the rights to elect to purchase up to 58 additional Airbus A320 aircraft subject to terms and conditions therein, and the Company has reached agreement with Airbus to secure commercial terms and delivery slots (on an annual basis) that could lead to further firm orders for Airbus A320neo aircraft under separate contracts for any of the Company’s subsidiaries. The exercise of any options or firm orders resulting from the Company’s agreement with Airbus in the future may, depending on its size relative to the size of the Company at that time, become subject to a separate approval of the Shareholders.

The approval of each of the Proposed Purchases will be sought at the Shareholders’ Meeting called to be held at Hotel Meliá Barajas, Avda. de Logroño 305, 28042 Madrid, Spain on September 25, 2013 at 1600 (CET), on first call, and on the following day, September 26, 2013, at the same time and venue, on second call. Shareholders are informed that the Shareholders’ Meeting will be held on second call.

Notice of the Shareholders’ Meeting and the full text of the Resolutions are set out at the end of this Circular. The Resolutions being proposed seek approval for the completion of each Proposed Purchase and the appointment of Mr. Enrique Dupuy de Lôme Chávarri to the Board of Directors. A summary of the action you should take is set out in paragraph 9 of this letter.

The Directors recommend that you vote in favour of each of the Resolutions, as they intend to do in respect of their own holdings of Shares, being in aggregate 2,153,855 Shares, which represent approximately 0.12 per cent. of the Company’s issued share capital as at August 15, 2013, the latest practicable date prior to publication of this Circular.

The purpose of this Circular is to provide you with information on each of the Proposed Purchases, to explain the background to and reasons for the Proposed Purchases and why the Directors believe each of the Proposed Purchases is in the best interests of the Company’s Shareholders taken as a whole and to recommend that you vote in favour of each of the Resolutions.

You should read the whole of this Circular and not rely solely on the summarised information set out in this letter.

You will find definitions for capitalised terms used in this letter and the rest of this Circular in Part VIII (Definitions) of this Circular.

2. Summary of the Proposed Purchases

Exercise of Boeing Option

On December 21, 2007, British Airways entered into the 2007 Boeing Contract pursuant to which it purchased 24 new Boeing 787 aircraft, and was granted options to elect to purchase up to 18 additional Boeing 787 aircraft.

Subject to the conditions detailed below, British Airways has reached an agreement with Boeing to exercise the Boeing Option in respect of 18 Boeing 787 aircraft for delivery between 2017 and 2021. Following the recent launch of the Boeing 787-10 aircraft type by Boeing, British Airways intends that at least 12 of these 18 Boeing aircraft to be purchased under the Exercise of Boeing Option are the Boeing 787-10 aircraft, and the remainder the Boeing 787-9 aircraft. Each of these 18 Boeing aircraft will be equipped with two Rolls-Royce Trent 1000 engines manufactured by Rolls-Royce. Boeing has also agreed to grant British Airways the rights to elect to purchase up to 18 additional Boeing 787 aircraft, the exercise of which rights may, depending on its size relative to the size of the Company at that time, become subject to a separate approval of the Shareholders.

Subject to obtaining Shareholder approval, the Exercise of Boeing Option will be effected by way of a Supplemental Agreement in respect of the 2007 Boeing Contract to be executed by British Airways and Boeing. The execution of the Supplemental Agreement is subject to satisfaction of a condition, which is outstanding as at the latest practicable date prior to the publication of the Circular, that the parties agree a set of performance guarantees relating to the Boeing 787-10 aircraft.

In the event that the Supplemental Agreement is not executed by British Airways and Boeing, the Exercise of Boeing Option will not be effected and British Airways will not purchase the 18 new Boeing 787 aircraft that are the subject of the Exercise of Boeing Option.

On January 7, 2013, the lithium ion auxiliary power unit battery of a Boeing 787 aircraft parked at Boston's General Edward Lawrence Logan International Airport caught fire and emitted heavy smoke. After a similar incident in Japan, on January 16, 2013, the FAA issued a grounding order requiring operators of US-registered Boeing 787 aircraft to temporarily cease flights, which was followed by grounding orders from other regulatory authorities around the world. Boeing has completed a series of test flights to demonstrate the effectiveness of the remedial measures taken in respect of these lithium ion battery issues. On April 26, 2013, the FAA lifted its grounding order, with the other regulatory authorities around the world subsequently following suit. Boeing is carrying out rectification work on the Boeing 787 aircraft which have been already delivered to customers. New production aircraft (including the aircraft already delivered to British Airways pursuant to the 2007 Boeing Contract) are being built incorporating the necessary modification.

On July 12, 2013, a fire event occurred on another operator's Boeing 787-8 aircraft at London Heathrow Airport. At the time of the event the aircraft was parked, unoccupied and electrically unpowered. Given the significant nature of the incident, an investigation led by the UK Air Accidents Investigation Branch ("**AAIB**") supported by other regulatory agencies in Europe, USA, and Canada has been initiated. The airframe and equipment manufacturers have also been engaged in this activity. The investigation is ongoing. However, via a Special Bulletin, the AAIB have advised that investigation of the fire-affected area has focused on the Fixed Emergency Location Transmitter unit ("**ELT**"). The AAIB have made an initial safety recommendation regarding continued operations of the Boeing 787 aircraft. The recommendation has been adopted by the US Federal Aviation Administration and an Airworthiness Directive ("**AD**"), directed at the ELT, has been published. Compliance with the AD is mandatory. Boeing 787-8 operations and deliveries continue following compliance with these requirements. Upon conclusion of the investigation, further regulatory action is anticipated. Given that the Proposed Purchase of the Boeing 787 aircraft do not start delivering until 2017, it is expected that any further requirements to comply with any such regulatory action would be incorporated into the aircraft prior to delivery.

The Boeing 787 aircraft first entered revenue service in 2011 in the form of the 787-8 model, and offers a step change in fuel economy compared with the Boeing 767 aircraft due to its lighter carbon-fibre airframe material, more advanced aerodynamic design and improvements in engine efficiency. Some 50 Boeing 787-8 aircraft were delivered by Boeing to customers around the world prior to the grounding orders imposed by the FAA and other regulatory authorities around the world in early 2013. These grounding orders have now been lifted. It is expected that the first Boeing 787-9 aircraft will be delivered to its launch customer in the first half of 2014. As at May 31, 2013, Boeing had received orders for 890 Boeing 787 aircraft from customers around the world.

The aggregate base price of each aircraft to be purchased under the Exercise of Boeing Option (the "**Boeing Aircraft Base Price**"), which is the sum of: (i) the airframe list price; (ii) the price of the Rolls-Royce Trent 1000 engines; (iii) the price of certain optional aircraft features as agreed between British Airways and Boeing; (iv) the estimated price of "buyer-furnished" equipment (such as premium seats); and (v) the estimated price of "in-flight entertainment" costs, is estimated to be approximately \$224.5 million for each Boeing 787-9 aircraft and \$264.9 million for each Boeing 787-10 aircraft, stated in July 2011 US Dollar terms. Certain components of the Boeing Aircraft Base Price, namely the airframe list price, the price of the Rolls-Royce Trent 1000 engines and the price of certain optional aircraft features as agreed between British Airways and Boeing, will be subject to price escalation to reflect inflation.

Boeing has granted to British Airways certain price concessions with regard to the Boeing 787-9 aircraft and the Boeing 787-10 aircraft to be purchased pursuant to the Exercise of Boeing Option. These concessions will take the form of credit memoranda provided to British Airways, which British Airways may apply towards payments in respect of the purchase of the aircraft under the Exercise of Boeing Option or towards the purchase of other goods and services from Boeing. In addition, Rolls-Royce, the manufacturer of the Rolls Royce Trent 1000 engines to be installed on the 18 new Boeing 787 aircraft, has granted to British Airways certain credits in respect of the aircraft engines, which will have the effect of further reducing the amount payable by British Airways to Boeing in respect of the relevant aircraft. Such price concessions will reduce the effective price of each aircraft significantly below the Boeing Aircraft Base Price.

Further details relating to the Exercise of Boeing Option are contained in Part III (Principal terms of the Exercise of Boeing Option) of this Circular.

2013 Airbus Long-haul Contract

British Airways has conditionally agreed to purchase 18 new Airbus A350 aircraft for delivery between 2018 and 2021, all of which will be of the A350-1000 model. Each of these 18 Airbus A350 aircraft will be equipped with two Rolls-Royce XWB 97 engines manufactured by Rolls-Royce. The 2013 Airbus Long-haul Contract also grants British Airways the rights to elect to purchase up to 36 additional Airbus A350 aircraft subject to terms and conditions therein, the exercise of which rights may, depending on its size relative to the size of the Company at that time, become subject to a separate approval of the Shareholders. In the event that the 2013 Airbus Long-haul Contract is not approved by the Shareholders, it will terminate and be without further force and effect.

The Airbus A350 aircraft are currently being developed by Airbus and will benefit from the use of new airframe materials and improvements in engine efficiency. There are three models of the Airbus A350 aircraft: the A350-800, A350-900 and A350-1000 models (the smallest aircraft being the A350-800 model and the largest being the A350-1000 model). The first Airbus A350 aircraft (which is of the A350-900 model) completed its maiden test flight on June 14, 2013. As at May 31, 2013, Airbus had received orders for 613 Airbus A350 aircraft from customers around the world, 110 of which are of the A350-1000 model.

The aggregate base price of each Airbus A350-1000 aircraft to be purchased under the 2013 Airbus Long-haul Contract (the **“Long-haul Aircraft Base Price”**), which is the sum of: (i) the base price of the aircraft as listed in its specification document (which is inclusive of the price of the Rolls-Royce XWB 97 engines); (ii) the base price of any and all Specification Change Notices agreed by the parties that customise the standard Airbus specifications for such aircraft (**“SCNs”**); (iii) the estimated price of any equipment manufactured by certain Airbus-contracted suppliers (**“ACSSs”**) which British Airways requests Airbus to purchase and install on the aircraft; and (iv) the estimated price of the “buyer-furnished” equipment (such as premium seats), is estimated to be approximately \$326.2 million, stated in January 2012 US Dollar terms. Certain components of the Long-haul Aircraft Base Price, namely the base price of the aircraft as listed in its specification document and the base price of the SCNs, are subject to price escalation to reflect inflation.

Airbus has granted to British Airways certain price concessions with regard to the Airbus A350 aircraft to be purchased under the 2013 Airbus Long-haul Contract. These concessions take the form of credit memoranda provided to British Airways, which British Airways may apply towards payments in respect of the purchase of the Airbus A350 aircraft under the 2013 Airbus Long-haul Contract or towards the purchase of other goods and services from Airbus. Such price concessions will reduce the effective price of each aircraft significantly below the Long-haul Aircraft Base Price.

Further details relating to the 2013 Airbus Long-haul Contract are contained in Part IV (Principal terms of the 2013 Airbus Long-haul Contract) of this Circular.

2013 Airbus Short-haul Contract

Vueling has conditionally agreed to purchase 30 new Airbus A320ceo aircraft and 32 new Airbus A320neo aircraft for delivery between 2015 and 2020. The 2013 Airbus Short-haul Contract also grants Vueling the rights to elect to purchase up to 58 additional Airbus A320 aircraft subject to terms and conditions therein, the exercise of which rights may, depending on its size relative to the size of the Company at that time, become subject to a separate approval of the Shareholders. In the event that the 2013 Airbus Short-haul Contract is not approved by the Shareholders, it will terminate and be without further force and effect.

Airbus has been producing the Airbus A320 family of aircraft since 1988. As at May 31, 2013, a total of 5,597 Airbus A320 family of aircraft had been delivered to customers around the world.

In December 2010, Airbus launched the Airbus A320neo aircraft, with such “new engine option” to be also made available to the A319 and the A321 versions. Each Airbus A320neo aircraft will be equipped with two “new generation” engines, either CFM LEAP-X engines currently being developed by CFM or Pratt & Whitney PW1000G engines currently being developed by Pratt &

Whitney, as well as new “Sharklet” wingtip devices (“Sharklet” wingtip devices will also be fitted on the 30 new Airbus A320ceo aircraft to be purchased under the 2013 Airbus Short-haul Contract). Airbus expects that the Airbus A320neo aircraft will offer improvements in fuel economy and lower engine noise and nitrogen oxide emissions in comparison with the Airbus A320ceo aircraft. It is expected that the first Airbus A320neo aircraft will be delivered to its launch customer in late 2015. As at December 2012, Airbus received orders for 1,734 Airbus A320neo aircraft from customers around the world.

Each of the 30 Airbus A320ceo aircraft will be equipped with two currently available engines, either CFM56-5B engines manufactured by CFM or IAE V2500 engines manufactured by IAE. Vueling will make engine choices with regard to the 30 new Airbus A320ceo aircraft and the 32 new Airbus A320neo aircraft by 2015.

The aggregate base price of each aircraft to be purchased under the 2013 Airbus Short-haul Contract (the “**Short-haul Aircraft Base Price**”), which is the sum of: (i) the base price of the relevant airframe; (ii) the base price of any and all SCNs; (iii) the relevant reference price of the engines to be installed on the relevant aircraft; and (iv) the estimated price for “buyer-furnished” equipment, is estimated to be up to \$83.1 million for each Airbus A320ceo aircraft and up to \$93.2 million for each Airbus A320neo aircraft, stated in January 2012 US Dollar terms. These amounts will be subject to adjustment depending on the choice of the engines to be made by Vueling. In addition, certain components of the Short-haul Aircraft Base Price, namely the base price of the airframe, the relevant reference price of the engines to be installed on the relevant aircraft and the base price of the SCNs, are subject to price escalation to reflect inflation.

Airbus has granted to Vueling certain price concessions with regard to the Airbus A320ceo aircraft and the Airbus A320neo aircraft to be purchased under the 2013 Airbus Short-haul Contract. These concessions take the form of credit memoranda provided to Vueling, which Vueling may apply towards the purchase of goods and services from Airbus or towards final payments in respect of the purchase of the Airbus A320ceo aircraft and/or the Airbus A320neo aircraft under the 2013 Airbus Short-haul Contract. Such price concessions will reduce the effective price of each aircraft significantly below the Short-haul Aircraft Base Price.

Further details relating to the 2013 Airbus Short-haul Contract are contained in Part V (Principal terms of the 2013 Airbus Short-haul Contract) of this Circular.

3. Background to and reasons for the Proposed Purchases

Exercise of Boeing Option and 2013 Airbus Long-haul Contract

An aircraft typically has a useful life of approximately 20 to 25 years, and an airline would typically expect to replace approximately 4 per cent. to 5 per cent. of its fleet in a given year. In order to facilitate their businesses, the airlines operated by the Group, in common with other airlines, periodically make substantial orders for replacement aircraft well in advance of required delivery, in order to secure slots on the relevant aircraft manufacturers’ production lines which can often be scarce.

The 18 new Boeing 787 aircraft and the 18 new Airbus A350 aircraft to be purchased pursuant to the Exercise of Boeing Option and the 2013 Airbus Long-haul Contract respectively will help replace British Airways’ existing fleet of 52 Boeing 747 aircraft (all of which are of the 747-400 model), which are currently in service on British Airways’ long-haul network. As a Boeing 747-400 aircraft is bigger and has more capacity than any Boeing 787 aircraft or any Airbus A350 aircraft, it is projected that the 18 new Boeing 787 aircraft will replace 14 existing Boeing 747 aircraft, and that the 18 new Airbus A350 aircraft will replace 16 existing Boeing 747 aircraft. It is expected that these new aircraft, together with aircraft to be delivered from previous orders made by British Airways and exercise of some additional options granted in connection with the Proposed Purchases, will allow for complete replacement of the 52 existing Boeing 747 aircraft by the end of 2022. The Company therefore considers that the value to British Airways of the new aircraft proposed to be purchased under each of the Exercise of Boeing Option and the 2013 Airbus Long-haul Contract justifies the price and terms upon which the new aircraft are to be acquired.

The Company further expects that these aircraft will contribute towards the Group’s strategic aim of growing long-haul operations in emerging markets such as Asia and South America.

2013 Airbus Short-haul Contract

As at June 30, 2013, Vueling's fleet consists of 70 Airbus A320 family aircraft which are being used to deliver its low-cost, short-haul operation. All of these aircraft are currently on operating leases from a number of lessors.

The Company believes that the low-cost airline business has proven itself as a successful model in Europe, and that Vueling's track record as a low-cost airline has been successful in the past and continues to have robust growth potential. In order to meet the anticipated increase in demand for low-cost air travel, Vueling needs to continue to grow its capacity whilst minimising its total fleet operating costs.

The latest business plan of Vueling forecasts growth in its fleet to 125 aircraft by the summer season of 2021. Over the period between 2013 and 2021, it is projected that 59 of the existing fleet will be re-delivered to the relevant lessors as the existing operating leases will come to the end of their terms. Firm orders for 30 A320ceo aircraft and 32 A320neo aircraft will both help replace the existing 59 aircraft to be re-delivered and meet Vueling's additional fleet requirements during the relevant period, while the remaining requirements are expected to be satisfied via new operating leases which will provide flexibility in terms of Vueling's fleet management. Vueling also estimates that firm orders for new aircraft, as compared to extension of operating leases for existing aircraft whose leases have expired (which will be, on average, approximately 12 years old), would result in a reduction in operating costs, on a per aircraft basis. The Company therefore considers that the value to Vueling of the new aircraft proposed to be purchased under the 2013 Airbus Short-haul Contract justifies the price and terms upon which the new aircraft are to be acquired.

For the reasons stated above, the Board of Directors considers that each of the Proposed Purchases would be of significant benefit to the Company.

4. Financing

Exercise of Boeing Option and 2013 Airbus Long-haul Contract

British Airways intends to retain flexibility in determining the method of financing of the relevant purchase(s) of the new aircraft, and will seek to implement one or more of a variety of cost-effective financing options closer to the delivery dates of the new aircraft between 2017 and 2021. While it is impossible to predict at this stage the actual source(s) of financing for the purchase of these aircraft, the most likely options include cash held by British Airways (together with cash flow generated from its operations), bank debt, leases, bond issues (such as the Enhanced Equipment Trust Certificates issued by British Airways, the sale of which was closed on July 3, 2013) and similar forms of aircraft financing common in the airline industry.

2013 Airbus Short-haul Contract

Vueling will seek to implement one or more of a variety of cost-effective financing options closer to the delivery dates of the new aircraft between 2015 and 2020. Given that the Airbus A320ceo version of aircraft is near the end of its production run, it is most likely that the financing for the purchase of these aircraft will take the form of sale and leaseback transactions. With regard to the Airbus A320neo aircraft, while it is impossible to predict at this stage the actual source(s) of financing for the purchase of these aircraft, the most likely options include cash held by Vueling (together with cash flow generated from its operations), bank debt, leases, bond issues (such as the Enhanced Equipment Trust Certificates issued by British Airways, the sale of which was closed on July 3, 2013) and similar forms of aircraft financing common in the airline industry. Cash held by Vueling, together with cash flow generated from its operations, will also be used to part finance the purchase of the aircraft under the 2013 Airbus Short-haul Contract.

5. Financial effects of the Proposed Purchases

Exercise of Boeing Option and 2013 Airbus Long-haul Contract

The key operating costs relating to aircraft are fuel, depreciation, salaries and maintenance. The new Boeing 787 aircraft and the new Airbus A350 aircraft to be purchased pursuant to the Exercise of Boeing Option and the 2013 Airbus Long-haul Contract are expected to offer

significant improvements in fuel economy. British Airways estimates that the replacement of: (i) 14 existing Boeing 747 aircraft with the 18 new Boeing 787 aircraft; and (ii) 16 existing Boeing 747 aircraft with the 18 new Airbus A350 aircraft, would result in a significant reduction in operating costs of a typical British Airways long-haul route.

In addition, the Company believes that the addition of these aircraft to the fleet of British Airways will provide opportunities for British Airways to open new routes and increase frequency on certain existing routes. This in turn is expected to enable British Airways to increase revenues.

The effect of the purchase of the new Boeing 787 aircraft and the new Airbus A350 aircraft on the assets and liabilities of British Airways will depend on the financing method and ownership structure in respect of the relevant aircraft which British Airways at the time decides to undertake.

2013 Airbus Short-haul Contract

As noted in paragraph 3 above, Vueling estimates that firm orders for new Airbus A320 aircraft, as compared to extension of operating leases for existing aircraft whose leases have expired, would result in a reduction in operating costs, on a per aircraft basis. Such reduction in operating costs would be largely attributable to lower fuel consumption due to the “Sharklet” wingtip devices and less engine performance degradation as a result of engine age.

Vueling also estimates that the Airbus A320neo aircraft, when available, would result in a further reduction in operating costs, on a per aircraft basis, in comparison with the Airbus A320ceo aircraft. Vueling anticipates that such reduction in operating costs would mainly consist of a reduction in fuel costs and airport fees (due to lower aircraft noise).

The effect of the purchase of the new Airbus A320ceo aircraft and the new Airbus A320neo aircraft on the assets and liabilities of Vueling will depend on the financing method and ownership structure in respect of the relevant aircraft which Vueling at the time decides to undertake.

6. Current trading and prospects of the Group

On August 2, 2013, the Company published its consolidated unaudited interim accounts, noting that current trading is in line with recent trends. For 2013, the Company expects to grow Group capacity by 5.2 per cent. The Company should see a reduction in the Group’s non-fuel unit cost.

In July 2013, Group traffic measured in Revenue Passenger Kilometres was 18,062 million (July 2012: 16,937 million) and Group capacity measured in Available Seat Kilometres was 21,441 million (July 2012: 19,769 million). The figures for July 2012 exclude Vueling data whereas the figures for July 2013 include Vueling data. For Vueling, in July 2013, traffic measured in Revenue Passenger Kilometres was 2,078 million and capacity measured in Available Seat Kilometres was 2,530 million.

Group premium traffic for the month of July increased by 0.4 per cent. compared to the previous year, on falling capacity.

Traffic in long-haul for July was still influenced by the Group policy to improve unit revenues through yield, rather than load, as well as by the timing of Ramadan.

Underlying market conditions remain unchanged from those described at the publication of quarter two results on August 2, 2013.

7. Risk factors

For a discussion of the risks and uncertainties which you should take into account when considering whether to vote in favour of each of the Resolutions, please refer to Part II (Risk factors) of this Circular.

8. Shareholders’ Meeting

The Notice convening the Shareholders’ Meeting called to be held at Hotel Meliá Barajas, Avda. de Logroño 305, 28042 Madrid, Spain on September 25, 2013 at 1600 (CET), on first call, and on the following day, September 26, 2013, at the same time and venue, on second call, is set out at the end of this Circular. Shareholders are informed that the Shareholders’ Meeting will be held on second call.

As a Class 1 transaction (owing to the size of each of the Proposed Purchases relative to the size of the Company), the Company requires the approval of Shareholders to proceed with each of the Proposed Purchases. Completion of each of the Proposed Purchases is, therefore, conditional on the passing of the relevant Resolution at the Shareholders' Meeting of the Company.

In summary, each of the Resolutions, to be proposed as a resolution at the Shareholders' Meeting, seeks the approval of the Shareholders in respect of the relevant Proposed Purchase. For each Resolution to be approved, a majority of votes cast on the relevant Resolution must be in favour. The full text of the Resolutions is also set out at the end of this Circular.

9. Action to be taken

On or around August 21, 2013, the Company will send an Attendance, Proxy and Remote Vote Card, along with all other necessary documents relating to the Shareholders' Meeting, to the address or electronic address of each Shareholder, as it appears on the Company's share register book, for use in connection with the Shareholders' Meeting.

The Attendance, Proxy and Remote Vote Card, along with all other necessary documents relating to the Shareholders' Meeting, can also be found on the Company's website, www.iairgroup.com.

If you are a Shareholder

If you wish to attend and vote at the Shareholders' Meeting, please present: (i) a completed and signed Attendance, Proxy and Remote Voting Card or a certificate issued by one of the participating entities of the agency which manages said accounting register or any other evidence of shareholding permitted by Spanish legislation in force; and (ii) an identity card, passport or any other equivalent official document evidencing your identity, at the entrance to the building where the Shareholders' Meeting is to be held. If you wish to attend and vote at the Shareholders' Meeting as a person acting on behalf of an institutional Shareholder, please also present a copy of a valid power of attorney evidencing your powers to sign the Attendance, Proxy and Remote Voting Card as attorney on behalf of the relevant institutional Shareholder.

If you are unable to attend and vote at the Shareholders' Meeting, you may appoint someone else as your proxy (or proxies) or vote prior to the Shareholders' Meeting by using the following remote means of communication:

- (A) **By post:** by sending the original Attendance, Proxy and Remote Voting Card, with the relevant sections duly completed and signed, to the Company at the registered address: calle Velázquez, 130, 28006 Madrid, Spain – Shareholder Office (IAG); or
- (B) **Electronically:** on the Company's website, www.iairgroup.com, by following the instructions given and using your electronic DNI (DNle) or your digital signature based on a recognised and valid certificate issued by the Spanish Public Certification Entity (CERES) attached to *Fábrica Nacional de Moneda y Timbre*,

in each case by no later than **midnight (CET) on September 25, 2013**.

The Company will deem proxies appointed or remote votes cast after the relevant date and time above to be invalid, except that a proxy will still be entitled to attend and vote at the Shareholders' Meeting by presenting: (i) the relevant completed and signed Attendance, Proxy and Remote Voting Card in paper form; and (ii) an identity card, passport or any other equivalent official document evidencing his identity, at the entrance to the building where the Shareholders' Meeting is to be held.

Completion and return of the original Attendance, Proxy and Remote Voting Card appointing a proxy or an electronic registration of a proxy appointment will not preclude you from voting remotely prior to the Shareholders' Meeting or attending and voting in person at the Shareholders' Meeting if you wish to do so. Attendance at the Shareholders' Meeting by you as the represented Shareholder, whether in person or by having voted using remote means, will revoke the appointment of your proxy, regardless of the date of the proxy appointment.

Details of the relevant procedures are also set out in the Notice of Shareholders' Meeting and the Company's website at www.iairgroup.com.

If you are a registered holder of CDIs

If you are a registered holder of CDIs and you wish to attend and vote in relation to the underlying Shares at the Shareholders' Meeting, please complete and return a form of instruction to Computershare Investor Services PLC at The Pavillions, Bridgwater Road, Bristol, BS99 6ZZ by no later than **1500 (BST) on September 20, 2013**, in order to appoint yourself as a proxy in relation to the underlying Shares. On or around August 21, 2013, Computershare will send the relevant form of instruction, along with all other necessary documents relating to the Shareholders' Meeting, to the address or electronic address held by Computershare for each registered holder of CDIs. You will also need to present an identity card, passport or any other equivalent official document evidencing your identity at the entrance to the building where the Shareholders' Meeting is to be held.

CREST members may also appoint a proxy (or proxies) through the CREST electronic proxy appointment service by using the procedures described in the CREST Manual (which is available via www.euroclear.com/CREST). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST electronic proxy appointment service to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear's specifications, and must contain the information required for such instruction as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Computershare (ID number: 3RA50) by the close of business on **September 19, 2013**.

If you are unable to attend and vote at the Shareholders' Meeting, you may appoint someone else as your proxy (or proxies) or give voting instructions in relation to the underlying Shares prior to the Shareholders' Meeting by using the CREST electronic proxy appointment service as described above (if applicable) or by using the following remote means of communication:

- (A) **By post:** by completing and returning the relevant form of instruction to Computershare Investor Services PLC at The Pavillions, Bridgwater Road, Bristol, BS99 6ZZ; or
- (B) **Electronically:** by following the instructions given on the website, www.eproxyappointment.com,

in each case by no later than **1500 (BST) on September 20, 2013**.

A proxy so appointed cannot vote in a different way to that set out in the relevant form of instruction.

If you hold an interest in CDIs through the IAG Nominee Service

If you hold an interest in CDIs through the IAG Nominee Service and you wish to attend and vote in relation to the underlying Shares at the Shareholders' Meeting, please complete and return a form of instruction to Computershare Investor Services PLC at The Pavillions, Bridgwater Road, Bristol, BS99 6ZZ by no later than **1500 (BST) on September 20, 2013**, in order to appoint yourself as a proxy in relation to the underlying Shares. On or around August 21, 2013, Computershare will send the relevant form of instruction, along with all other necessary documents relating to the Shareholders' Meeting, to the address or electronic address held by Computershare for each holder of an interest in CDIs through the IAG Nominee Service. You will also need to present an identity card, passport or any other equivalent official document evidencing your identity at the entrance to the building where the Shareholders' Meeting is to be held.

If you are unable to attend and vote at the Shareholders' Meeting, you may appoint someone else as your proxy (or proxies) or give voting instructions in relation to the underlying Shares prior to the Shareholders' Meeting by using the following remote means of communication:

- (A) **By post:** by completing and returning the relevant form of instruction to Computershare Investor Services PLC at The Pavillions, Bridgwater Road, Bristol, BS99 6ZZ; or

(B) **Electronically:** by following the instructions given on the website, www.eproxyappointment.com,

in each case by no later than **1500 (BST) on September 20, 2013**.

A proxy so appointed cannot vote in a different way to that set out in the relevant form of instruction.

For further information on participating in the Shareholders' Meeting, registered holders of CDIs or holders of interests in CDIs through the IAG Nominee Service may contact Computershare on +44 870 702 0110 during 0900 to 1700 (BST) from Monday to Friday.

10. Further information

Your attention is drawn to the further information set out in Part II (Risk factors) to Part VI (Additional information) of this Circular. You should read the whole of this Circular and, in particular, the risks and uncertainties set out in Part II (Risk factors).

11. Recommendation

The Board of Directors considers that each Resolution to be proposed at the Shareholders' Meeting is in the best interests of the Shareholders of the Company taken as a whole and recommends that Shareholders vote in favour of each of such Resolutions, as the Directors intend to do in respect of their own holdings of Shares, being in aggregate 2,153,855 Shares, which represent approximately 0.12 per cent. of the Company's issued share capital as at August 15, 2013, the latest practicable date prior to publication of this Circular.

Yours faithfully,

Antonio Vázquez Romero
Chairman

Part II

(Risk factors)

Prior to voting on each of the Proposed Purchases, Shareholders should carefully consider the risks and uncertainties described in this Part II (Risk factors).

The risks and uncertainties described below represent those known to the Directors as at the date of this Circular which the Directors consider to be material risks relating to the Proposed Purchases, as well as material risks to the Group which will result from, or will be impacted by, the Proposed Purchases. However, these risks and uncertainties are not the only ones which, following completion of the Proposed Purchases, the Group will face; additional risks and uncertainties that do not currently exist or that are not currently known to the Directors, or that the Directors currently consider to be immaterial, or which the Directors consider to be material but which are not related to or will not result from or be impacted by the Proposed Purchases, could also have a material adverse effect on the Group's business, results of operations, financial position or prospects.

The risk factors in this Circular set out the necessary disclosure in accordance with the Listing Rules, and do not seek to cover all of the material risks which generally affect the Group. If you would like to have further information on the material risks which generally affect the Group, please refer to pages 78 to 81 (inclusive) of the 2012 Annual Report.

If any or a combination of the events described below actually occurs, the Proposed Purchases, business, results of operations, financial position or prospects of the Group could be materially and adversely affected.

These risks and uncertainties should be read in conjunction with all other information contained in this Circular.

1. Risks relating to the Proposed Purchases

(i) *The relevant Proposed Purchase may not proceed*

Completion of each of the Proposed Purchases is conditional upon approval by Shareholders. In addition, there is a condition precedent which is outstanding in respect of the Exercise of Boeing Option, the satisfaction of which cannot be controlled by the Group. If the relevant Resolution is not passed or the relevant condition precedent is not satisfied, the relevant member(s) of the Group will not be able to complete the relevant Proposed Purchase.

If any of the Proposed Purchases does not become effective, the Company believes that the relevant member of the Group would need to find alternative arrangements to purchase or lease aircraft to fulfil its fleet requirements. This may require the relevant member of the Group to negotiate ad hoc deals with aircraft manufacturers and/or lessors. However, there can be no assurance that the relevant member of the Group will be able to obtain the required number and/or type of aircraft at commercially favourable rates or delivery dates.

(ii) *Each of the Proposed Purchases requires substantial payments by the relevant members of the Group, and the relevant members of the Group need sources of financing to meet its payment obligations*

If approved by the Shareholders, each of the Proposed Purchases requires substantial payments by the relevant member of the Group until the delivery of the final aircraft pursuant to the relevant Proposed Purchase.

The ability of each relevant member of the Group to meet its respective payment obligations under any Proposed Purchase depends on the level of its own cash resources and its ability to access the relevant method of financing such as bank debt, leases, bond issues or other suitable financing on commercially acceptable terms. To date, members of the Group have not yet secured financing commitments in respect of payment obligations under the Proposed Purchases which become due after the period of 12 months from the date of this Circular. The Company believes that such methods of financing are now available, or are likely to be available, to the relevant members of the Group. However, whether the relevant members of the Group will be successful in

obtaining financing in the longer term (that is, beyond the period of 12 months from the date of this Circular, for which the Group has assessed whether it has sufficient working capital for its present requirements) on commercially acceptable terms or at all, will depend on a range of factors, including, among other things, general interest rates, the credit profile or credit rating of members of the Group, the inclination of financial institutions to the financing of commercial aircraft and the general state of the global capital markets. There can be no assurance that such methods of financing or other suitable financing will not become more difficult, more expensive or even fail entirely in the longer term (that is, beyond 12 months from the date of this Circular). This could have a material adverse effect on the Group's business, financial position and prospects.

This risk factor does not apply to the Group's obligations in the 12 months from the date of this Circular (including payment obligations under the Proposed Purchases which are due within the period of 12 months from the date of this Circular) and does not qualify the statement made in paragraph 10 of Part VI (Additional information) of this Circular.

(iii) *The Group is exposed to risks relating to late delivery and quality of aircraft*

Although contractual protections have been granted to the relevant member(s) of the Group, there can be no assurance that the relevant airframe and engine manufacturers in respect of each of the Proposed Purchases will not delay delivery of aircraft and/or engines or deliver aircraft and/or engines which do not meet the quality standards and specifications contracted for, which could cause disruption on the operations of the Group's airlines.

Defects in the aircraft to be purchased pursuant to any of the Proposed Purchases could result in, among other things, low reliability, flight delays for technical reasons, unscheduled stops and "Aircraft on Ground" status. In an extreme scenario, an accident or safety incident could occur which, regardless of whether the Group's airlines properly carried out the appropriate maintenance or modification programmes, could have a material adverse effect on the Group's business, reputation, financial position and prospects.

(iv) *The Group is exposed to risks relating to the types of aircraft to be purchased under the Proposed Purchases*

On April 26, 2013, the FAA lifted its grounding order requiring operators of US-registered Boeing 787 aircraft to temporarily cease flights, with the other regulatory authorities around the world subsequently following suit. Although Boeing is carrying out rectification work on the Boeing 787 aircraft which have been already delivered to customers and new production aircraft (including the aircraft already delivered to British Airways pursuant to the 2007 Boeing Contract) are being built incorporating the necessary modification, it may be too early at present to make an accurate assessment of the long-term use, safety and operation of these aircraft following such rectification or modification work.

Moreover, neither of the Boeing 787-10 aircraft, the Airbus A350-1000 aircraft and the Airbus A320neo aircraft have yet been built or tested. There can be no assurance that the respective development schedule and/or programme relating to the Boeing 787-10 aircraft, the Airbus A350-1000 aircraft and the Airbus A320neo aircraft will be adhered to. In addition, there is at present very little (if any) experience and/or data on which to make an accurate assessment of the long-term use, safety and operation of these aircraft. There is a risk that the new engine design and/or the new materials used in the aircraft or the engines may be found to be less efficient, durable or reliable than expected over time, thereby leading to higher than anticipated maintenance and repair costs and/or higher risk of safety incidents. A key incentive for the purchase of these new generation aircraft is the expected improved fuel efficiency. If the engines fitted to these aircraft do not deliver the anticipated fuel efficiency improvements or their efficiency significantly degrades over time, the anticipated savings in fuel costs may not materialise or may be lower than expected.

2. *Risks relating to the Group which will result from, or will be impacted by, the Proposed Purchases*

(i) *The airline industry is highly competitive and the Group faces competition from other airlines*

The airline industry is highly competitive as a result of airlines continually entering the market, expansion by existing airlines of their routes and frequency of flights and consolidation or

formation of alliances between airlines. A number of the Group's competitor airlines may have cost structures that are lower than British Airways and Vueling and can offer flights at lower prices.

While competitive intensity varies across different routes depending on the number and nature of competitors operating on any route, the applicable regulatory environment and associated barriers to entry (such as operating licences, capital requirements and availability of slots), the percentage of routes on which the Group's airlines compete with airlines having lower operating costs has grown significantly over the past decade and such competition is likely to increase further.

Some of the Group's competitor airlines are wholly or partially state-owned, which could give these airlines access to larger and less expensive sources of funding, thereby helping them to become more competitive. The impact of the current position of the global economy might also induce governments to unilaterally grant subsidies or other public aid to one or more of the Group's competitor airlines, which could distort markets and have an adverse impact on the competitive position of the Group's airlines. A number of the Group's competitor airlines may also be able to benefit from protection under insolvency laws, helping them to substantially reduce their cost structures and become more competitive, both while they are under creditor protection and thereafter. The Group's airlines do not have that advantage.

If the competitive position of the Group's airlines deteriorates as a result of factors described above, this could lead to reduced customer demand for the services provided by the Group's airlines. However, the relevant members of the Group would still be committed to purchase the aircraft under the relevant Proposed Purchases, which could adversely affect their ability to adjust capacity in response to any such reduced customer demand. This could have a material adverse effect on the Group's business, results of operations, financial position and prospects.

(ii) *The Group is highly sensitive to domestic and/or global economic conditions*

The Group's revenue is highly sensitive to economic conditions in the markets in which it operates. Demand for air travel depends on economic conditions, employment levels, consumer and business confidence and availability of consumer credit. The airline industry in general tends to experience significant adverse financial results during economic downturns as travellers often choose to reduce their transportation or reduce the price they pay for such transportation. In addition, premium services could become less desirable during a significant economic downturn, which could disproportionately affect the revenues of British Airways. Further, an economic downturn tends to result in a decrease in air cargo revenue, as international trade decreases and businesses look to run down their inventories and send freight by more economical routes.

Deterioration in either the domestic and/or global economy may therefore have a material impact on the Group's business and financial position. In addition, the Group is exposed to any contraction in the US economy resulting from management of the US fiscal deficit and debt ceiling issues, which could have a substantial impact on the business and results of operations of British Airways. Through Vueling's Spanish bases and, to a lesser extent, the route network of British Airways, the Group also has a high exposure to Eurozone countries going through economic recession. The risk of a Eurozone break-up has decreased over the last year due to the increased determination from the European Central Bank and the European Council to support weaker Eurozone countries and their banks. The more likely risk is of poor or deteriorating market conditions within an intact Eurozone. Approximately 44 per cent. of Vueling's revenue are derived from domestic Spanish routes. The Spanish economy is expected to continue to contract in 2013, followed by around zero per cent. growth in 2014. British Airways derives approximately 6 per cent. of its revenue on routes to Italy, Spain, Portugal, Cyprus and Greece, all of which are expected to experience economic contraction in 2013.

If the domestic and/or global economic conditions deteriorate in the manner described above, this could lead to reduced customer demand for the services provided by the Group's airlines. However, the relevant members of the Group would still be committed to purchase the aircraft under the relevant Proposed Purchases, which could adversely affect their ability to adjust capacity in response to any such reduced customer demand. This could have a material adverse effect on the Group's business, results of operations, financial position and prospects.

(iii) *Failure by the Group to prevent or respond to accidents or safety incidents could have a material adverse effect on the Group*

The Group's airlines are exposed to the risk of accidents or safety incidents involving one or more of their aircraft. Failure to prevent or respond effectively to an accident or safety incident will damage the Group's reputation and have an adverse impact on attracting customers. Such associated losses may involve not only the costs associated with the repair or replacement of damaged or lost aircraft and its or their consequent temporary or permanent loss from service, but also claims by affected passengers, owners and third parties.

Moreover, an aircraft accident or safety incident involving another airline could impact general passenger confidence and lead to a reduced demand for air travel and have an adverse impact on the Group's airlines, particularly if the relevant accident or safety incident was caused by any fault in the type of aircraft used by the Group's airlines. Furthermore, an aircraft accident or safety incident involving any member of the **oneworld** alliance or any other airline with which the Group's airlines have code-share arrangements might cause the public to associate such accident or safety incident with the Group's airlines, even if none of their aircraft were involved, and potentially cause the Group's airlines to suffer reputational damage (and associated losses).

If the Group's airlines become involved or associated with any accidents or safety incidents in the manner described above, this could lead to reduced customer demand for the services provided by the Group's airlines. However, the relevant members of the Group would still be committed to purchase the aircraft under the relevant Proposed Purchases, which could adversely affect their ability to adjust capacity in response to any such reduced customer demand. This could have a material adverse effect on the Group's business, results of operations, financial position and prospects.

(iv) *The Group is exposed to events outside of its control*

Events such as, among other things, governmental policy changes or decisions, strikes or other industrial action affecting the Group's airlines or any third party suppliers of the Group, mandatory or recommended groundings of aircraft (such as the FAA's grounding order dated January 16, 2013 requiring operators of US-registered Boeing 787 aircraft to temporarily cease flights), prolonged disruption to the computer and communication systems used by the Group, insolvency or performance failure of third parties providing material business services to the Group, international political instability, terrorist attacks, military conflicts, war (or the threat of war), epidemics and pandemics (such as avian influenza and SARS-type viruses), man-made or natural disasters (such as volcanic ash), severe weather conditions or other "Acts of God" (whether on a regional or global scale) could result in substantial reductions in and/or cancellations of, bookings and flights that are not solely confined to the region(s) directly affected. The occurrence and timing of such events, together with the reaction of any relevant authorities to such events, cannot be predicted by the Group and are often outside of the Group's control.

If any such events were to occur, or if the Group were to be perceived as not taking all reasonable precautions to protect its customers or to react appropriately to such events, the Group's ability to attract customers may be adversely affected and this could in turn lead to reduced customer demand for the services provided by the Group's airlines. However, the relevant members of the Group would still be committed to purchase the aircraft under the relevant Proposed Purchases, which could adversely affect their ability to adjust capacity in response to any such reduced customer demand. This could have a material adverse effect on the Group's business, results of operations, financial position and prospects.

(v) *The Group is exposed to risks associated with aviation fuel price trends*

Aviation fuel has been, and is expected to remain, subject to significant price volatility. The price of aviation fuel is strongly correlated to the price of petroleum and is influenced by a number of factors, including political events, war (or the threat of war) and the co-ordinated pricing decisions of the Organization of Petroleum Exporting Countries producer cartel.

The Group's airlines used approximately 7.4 million tonnes of aviation fuel in 2012. Volatility in the price of oil and petroleum products can have a material impact on the Group's results of operations. For the financial years ended December 31, 2012 and December 31, 2011, fuel and oil

costs amounted to approximately 35.2 per cent. and 34.3 per cent. of British Airways' recurring operating costs, respectively. For the full year ended December 31, 2012 and December 31, 2011, fuel, oil costs and emissions charges amounted to 29.7 per cent. and 26.8 per cent. of Iberia's recurring operating costs, respectively. For the financial year ended 31 December, 2012, fuel and oil costs amounted to 31.9 per cent. of Vueling's recurring operating costs.

These price risks are partially hedged by the Group through the purchase of oil derivatives in forward markets, which can generate a profit or a loss.

The Group cannot predict the movement of either short-term or long-term prices of aviation fuel. If the Group is exposed to significant volatility and/or increases in the price of aviation fuel, there can be no assurance that the Group will be able to adequately offset such volatility and increases by passing a portion of these costs on to customers (including through fuel surcharges) and/or cost reductions and/or through fuel hedging. A very significant long-term increase in the price of aviation fuel could also lead to reduced customer demand for the services provided by the Group's airlines. However, the relevant members of the Group would still be committed to purchase the aircraft under the relevant Proposed Purchases, which could adversely affect their ability to adjust capacity in response to any such reduced customer demand. This could have a material adverse effect on the Group's business, results of operations, financial position and prospects.

(vi) ***The Group is exposed to fluctuations in currency exchange rates***

The Group is exposed to currency risk on revenue, purchases and borrowings that are denominated in currencies other than Pound Sterling (in the case of British Airways) and Euro (in the case of Iberia) and, as the Group reports its financial results in Euro, the results for each period are affected by fluctuations in exchange rates. For example, the price of each aircraft to be purchased under each of the Proposed Purchases is denominated in US Dollars. The principal currencies to which the Group is exposed are US Dollars, Euro, Pound Sterling and Yen.

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. Surpluses of convertible currencies are sold, either spot or forward, for US Dollars, Euro, Pound Sterling or Yen. In addition to forward sale of currencies, currency options are used to cover near-term future revenues and operating payments in a variety of currencies. However, there can be no assurance that such hedging activity will adequately protect the Group from all financial consequences of fluctuations in currency values. Any adverse movements in currency exchange rates, to the extent not hedged by the Group, could have a material adverse effect on the Group's results of operations and financial position.

Part III

(Principal terms of the Exercise of Boeing Option)

1. Introduction

On December 21, 2007, British Airways entered into the 2007 Boeing Contract under which it purchased 24 new Boeing 787 aircraft, and was granted options to elect to purchase up to 18 additional such aircraft.

On April 3, 2013, British Airways reached a conditional agreement with Boeing to exercise the Boeing Option in respect of 18 new Boeing 787 aircraft for delivery between 2017 and 2021. Following the recent launch of the Boeing 787-10 aircraft type by Boeing, British Airways intends that at least 12 of these 18 Boeing aircraft to be purchased under the Exercise of Boeing Option are the Boeing 787-10 aircraft, and the remainder the Boeing 787-9 aircraft.

Each of these 18 Boeing 787 aircraft will be equipped with two Rolls-Royce Trent 1000 engines manufactured by Rolls-Royce, the maintenance of which will be carried out under the terms of a the Rolls-Royce Trent Contract with Rolls-Royce (as amended) which were originally agreed on or around the time of the 2007 Boeing Contract. British Airways has agreed the Rolls-Royce MOU with Rolls-Royce relating to the maintenance of such engines, and intends to amend the existing Rolls-Royce Trent Contract on the basis of the Rolls-Royce MOU.

The Exercise of Boeing Option is of sufficient size to constitute a Class 1 transaction for the Company under the Listing Rules and is, therefore, conditional upon Shareholder approval. Subject to obtaining Shareholder approval, the Exercise of Boeing Option will be effected by way of a Supplemental Agreement in respect of the 2007 Boeing Contract to be executed by British Airways and Boeing.

Boeing has also agreed to grant British Airways the rights to elect to purchase up to 18 additional Boeing 787 aircraft. The exercise of any such options by British Airways in the future may, depending on its size relative to the size of the Company at that time, become subject to a separate approval of the Shareholders.

2. Condition

The execution of the Supplemental Agreement, which will effect the Exercise of Boeing Option, shall take place no later than March 31, 2014 and is subject to satisfaction of a condition, which is outstanding as at the latest practicable date prior to the publication of the Circular, that the parties agree a set of performance guarantees relating to the Boeing 787-10 aircraft.

If this remaining condition has not been met in full by midnight (GMT) on March 30, 2014, then neither British Airways nor Boeing will be obliged to execute the Supplemental Agreement. In the event that the Supplemental Agreement is not executed by British Airways and Boeing, the Exercise of Boeing Option will not be effected and British Airways will not purchase the 18 new Boeing 787 aircraft that are the subject of the Exercise of Boeing Option.

On January 7, 2013, the lithium ion auxiliary power unit battery of a Boeing 787 aircraft parked at Boston's General Edward Lawrence Logan International Airport caught fire and emitted heavy smoke. After a similar incident in Japan, on 16 January 2013, the FAA issued a grounding order requiring operators of US-registered Boeing 787 aircraft to temporarily cease flights, which was followed by grounding orders from other regulatory authorities around the world. Boeing has completed a series of test flights to demonstrate the effectiveness of the remedial measures taken in respect of these lithium ion battery issues. On April 26, 2013, the FAA lifted its grounding order, with the other regulatory authorities around the world subsequently following suit. Boeing is carrying out rectification work on the Boeing 787 aircraft which have been already delivered to customers. New production aircraft (including the aircraft already delivered to British Airways pursuant to the 2007 Boeing Contract) are being built incorporating the necessary modification.

On July 12, 2013, a fire event occurred on another operator's Boeing 787-8 aircraft at London Heathrow Airport. At the time of the event the aircraft was parked, unoccupied and electrically un-powered. Given the significant nature of the incident, an investigation led by the UK Air Accidents Investigation Branch ("AAIB") supported by other regulatory agencies in Europe, USA, and Canada has been initiated. The airframe and equipment manufacturers have also been engaged

in this activity. The investigation is ongoing. However, via a Special Bulletin, the AAIB have advised that investigation of the fire-affected area has focused on the Fixed Emergency Location Transmitter unit ("ELT"). The AAIB have made an initial safety recommendation regarding continued operations of the Boeing 787 aircraft. The recommendation has been adopted by the US Federal Aviation Administration and an Airworthiness Directive ("AD"), directed at the ELT, has been published. Compliance with the AD is mandatory. Boeing 787-8 operations and deliveries continue following compliance with these requirements. Upon conclusion of the investigation, further regulatory action is anticipated. Given that the Proposed Purchase of the Boeing 787 aircraft do not start delivering until 2017, it is expected that any further requirements to comply with any such regulatory action would be incorporated into the aircraft prior to delivery.

Notwithstanding the remaining condition, if Boeing is unable to deliver two Boeing 787-8 aircraft pursuant to the terms of the 2007 Boeing Contract and as a result British Airways loses its existing financing commitment in respect of such aircraft, British Airways will not be obliged to execute the Supplemental Agreement unless British Airways and Boeing come to a mutually agreeable solution in respect of financing for such two Boeing 787-8 aircraft.

3. Delivery timetable

Subject to execution of the Supplemental Agreement, British Airways is scheduled to take delivery of the first Boeing 787 aircraft (787-9 model) in September 2017, with the proposed delivery timetable as follows:

<u>Year of delivery</u>	<u>Number of Boeing 787-9 aircraft to be delivered</u>	<u>Number of Boeing 787-10 aircraft to be delivered</u>
2017	1	0
2018	5	0
2019	0	5
2020	0	6
2021	0	1
Total	6	12

Subject to the terms of the Supplemental Agreement, British Airways will have the right to convert the model of any Boeing 787-9 aircraft to Boeing 787-10 or Boeing 787-8. Price adjustments, purchase incentives and credit memoranda similar to those given in respect of the Boeing 787-9 aircraft (which are described in paragraph 4 below) will also apply to such conversion.

4. Price

The Boeing Aircraft Base Price, which is the sum of: (i) the airframe list price; (ii) the price of the Rolls-Royce Trent 1000 engines; (iii) the price of certain optional aircraft features as agreed between British Airways and Boeing; (iv) the estimated price of "buyer-furnished" equipment (such as premium seats); and (v) the estimated price of "in-flight entertainment" costs, is estimated to be approximately \$224.5 million for each Boeing 787-9 aircraft and \$264.9 million for each Boeing 787-10 aircraft, stated in July 2011 US Dollar terms. Payment of the Boeing Aircraft Base Price, other than the price of the "buyer-furnished" equipment and "in-flight entertainment" costs which will be payable to the relevant suppliers, is to be made to Boeing.

Certain components of the Boeing Aircraft Base Price, namely the airframe list price, the price of the Rolls-Royce Trent 1000 engines and the price of certain optional aircraft features as agreed between British Airways and Boeing, will be subject to price escalation by applying relevant formulae reflecting increases in the relevant labour and material indices as published by the US Department of Labor, Bureau of Labor Statistics during an agreed period preceding the delivery of the relevant aircraft. British Airways is also responsible for the payment of taxes on the aircraft to be purchased under the Exercise of Boeing Option, other than certain US taxes which are payable by Boeing.

Boeing has granted to British Airways certain price concessions with regard to the Boeing 787-9 aircraft and the Boeing 787-10 aircraft to be purchased under the Exercise of Boeing Option. These concessions will take the form of credit memoranda provided to British Airways, which

British Airways may apply towards payments in respect of the purchase of the aircraft under the Exercise of Boeing Option or towards the purchase of other goods and services from Boeing. In addition, Rolls-Royce has granted to British Airways certain credits in respect of the Rolls-Royce Trent 1000 engines, which will have the effect of further reducing the amount payable by British Airways to Boeing in respect of the relevant aircraft. Such price concessions will reduce the effective price of each aircraft significantly below the Boeing Aircraft Base Price.

5. Payment terms

British Airways will be required to make an advance payment to Boeing of one per cent. of the Advance Payment Base Price (as defined below) of each Boeing 787-9 aircraft and two per cent. of the Advance Payment Base Price of each Boeing 787-10 aircraft at the time of execution of the Supplemental Agreement, as well as periodic advance payments of the Advance Payment Base Price for each aircraft during the period preceding the delivery of each aircraft. Advance Payment Base Price for the purposes of the Exercise of Boeing Option is the sum of the airframe list price and the price of the Rolls-Royce Trent 1000 engines and the price of certain optional aircraft features as agreed between British Airways and Boeing, adjusted as per applicable price escalation formulae.

As a result of these required advance payments, British Airways will have paid up to 30 per cent. of the Advance Payment Base Price of each aircraft prior to its delivery (including the escalated amounts and before deduction of any credit memoranda and other applicable concessions), with the balance being due at the time of delivery. The following table sets out when such advance payments are due, and the percentage of the Advance Payment Base Price of each aircraft (including the escalated amounts and before deduction of any credit memoranda and other applicable concessions) being payable when such advance payment obligations arise:

Timing	Percentage of Advance Payment Base Price* payable in respect of each Boeing 787-9 aircraft	Percentage of Advance Payment Base Price* payable in respect of each Boeing 787-10 aircraft
Execution of Supplemental Agreement	1	2
24 months pre-delivery	4	4
21 months pre-delivery	5	4
18 months pre-delivery	5	5
12 months pre-delivery	5	5
9 months pre-delivery	5	5
6 months pre-delivery	5	5
Total	30	30

* Including the escalated amounts and before deduction of any credit memoranda and other applicable concessions.

6. Maintenance and support

In addition to manufacturing and delivering the aircraft, the 2007 Boeing Contract (as amended and supplemented by the Supplemental Agreement) will require Boeing to provide various ancillary goods and services to British Airways both prior to delivery of the aircraft to be purchased pursuant to the Exercise of Boeing Option and throughout the period when such aircraft are operated by British Airways. These ancillary goods and services include operations and field services engineering, technical support and training, spare parts support, training of British Airways' flight crews in the operation of aircraft and a complete set of technical manuals, software and other materials (including subsequent revisions) with respect to each aircraft.

Under the 2007 Boeing Contract (as amended and supplemented by the Supplemental Agreement), Boeing will provide British Airways with a set of warranties on the aircraft to be purchased pursuant to the Exercise of Boeing Option (including warranties against defects in design, materials or workmanship) and guarantees relating to the performance and operational reliability of the aircraft.

Under the terms of the Rolls-Royce Trent Contract (as amended pursuant to the Rolls-Royce MOU), Rolls-Royce will provide certain warranties relating to the Rolls-Royce Trent 1000 engines to be installed on the 18 new Boeing 787 aircraft as well as engine maintenance and overhaul services (including the supply of spare engines in certain agreed circumstances).

7. Delay, termination and assignment

If any scheduled delivery of an aircraft is delayed by Boeing for any reason other than “excusable delay” (which comprises of delay of aircraft delivery due to causes outside of Boeing’s control), Boeing will pay liquidated damages to British Airways at a fixed daily rate limited to a maximum agreed amount. If any such delay lasts for more than 360 days, British Airways has the right to terminate the 2007 Boeing Contract (as amended and supplemented by the Supplemental Agreement) with respect to the affected aircraft.

Either party will be able to terminate the 2007 Boeing Contract (as amended and supplemented by the Supplemental Agreement) if the other party becomes insolvent or subject to insolvency proceedings. The 2007 Boeing Contract (as amended and supplemented by the Supplemental Agreement) will also generally provide that the rights and obligations of the parties may not, subject to certain exceptions, be assigned or transferred without the prior written consent of the non-transferring party.

8. Options on additional aircraft

The Supplemental Agreement will also grant British Airways the rights to elect to purchase up to 18 additional Boeing 787 aircraft (the “**New Option Aircraft**”) for delivery between 2017 and 2023. It will be possible for British Airways to transfer its rights to elect to purchase 12 of the New Option Aircraft (“**Block 2 New Option Aircraft**”, the other six New Option Aircraft being “**Block 1 New Option Aircraft**”) to Iberia or another operating company of the Group subject to the terms as agreed with Boeing.

British Airways may exercise its option no later than 24 months prior to the scheduled delivery month of the relevant New Option Aircraft.

The final purchase price of each New Option Aircraft will be determined in accordance with the provisions of the 2007 Boeing Contract (as amended and supplemented by the Supplemental Agreement) at the time the relevant option is exercised.

In the event that the Supplemental Agreement is not executed by British Airways and Boeing, the rights to elect to purchase the New Option Aircraft will be without further force and effect.

9. Financing

At June 30, 2013, British Airways held €2,116 million of cash which, together with cash flow generated from its operations, will be used to part finance the purchase of the aircraft under the Exercise of Boeing Option and to pay the deposit payable in respect of the Boeing Option Aircraft.

British Airways expects its first delivery of aircraft pursuant to the Exercise of Boeing Option in September 2017, and will seek to implement one or more of a variety of cost-effective financing options closer to the first delivery date. While it is impossible to predict at this stage the actual source(s) of financing for the purchase of aircraft pursuant to the Exercise of Boeing Option, the most likely options (in addition to the cash resources) include bank debt, leases, bond issues (such as the Enhanced Equipment Trust Certificates issued by British Airways, the sale of which was closed on July 3, 2013) and similar forms of aircraft financing common in the airline industry.

Part IV

(Principal terms of the 2013 Airbus Long-haul Contract)

1. Introduction

On August 2, 2013, British Airways entered into the 2013 Airbus Long-haul Contract pursuant to which it has conditionally agreed to purchase 18 new Airbus A350 aircraft for delivery between 2018 and 2021, all of which will be of the A350-1000 model.

Each of these 18 Airbus A350 aircraft will be equipped with two Rolls-Royce XWB 97 engines manufactured by Rolls-Royce. British Airways has agreed the Rolls-Royce MOU with Rolls-Royce relating to the maintenance of such engines, and intends to negotiate a contract with Rolls-Royce on the basis of the Rolls-Royce MOU.

The Proposed Purchase under the 2013 Airbus Long-haul Contract is of sufficient size to constitute a Class 1 transaction for the Company under the Listing Rules and is, therefore, conditional upon Shareholder approval.

The 2013 Airbus Long-haul Contract also grants British Airways the rights to elect to purchase up to 36 additional Airbus A350 aircraft subject to terms and conditions therein. The exercise of any such options by British Airways in the future may, depending on its size relative to the size of the Company at that time, become subject to a separate approval of the Shareholders.

2. Delivery timetable

British Airways is scheduled to take delivery of the first two Airbus A350 aircraft in the third quarter of 2018, with the proposed delivery timetable as follows:

<u>Year of delivery</u>	<u>Number of Airbus A350 aircraft to be delivered</u>
2018	4
2019	4
2020	5
2021	5
Total	<u>18</u>

Subject to the terms of the 2013 Airbus Long-haul Contract, British Airways will have the right to convert the model of any aircraft scheduled for delivery from 2021 onwards from A350-1000 to A350-900. Price adjustments, purchase incentives and credit memoranda similar to those given in respect of the Airbus A350-1000 aircraft (which are described in paragraph 3 below) will also apply to such conversion.

3. Price

The Long-haul Aircraft Base Price, which is the sum of: (i) the base price of the aircraft as listed in its specification document (which is inclusive of the price of the Rolls-Royce XWB 97 engines); (ii) the base price of any and all SCNs; (iii) the estimated price of any equipment manufactured by certain ACSs which British Airways requests Airbus to purchase and install on the aircraft; and (iv) the estimated price of the “buyer-furnished” equipment (such as premium seats), is estimated to be approximately \$326.2 million, stated in January 2012 US Dollar terms. Payment of the Long-haul Aircraft Base Price, other than the price of the “buyer-furnished” equipment which will be payable to the relevant suppliers, is to be made to Airbus.

Certain components of the Long-haul Aircraft Base Price, namely the base price of the aircraft as listed in its specification document and the base price of the SCNs, are subject to price escalation by applying a formula reflecting increases in the relevant labour and material indices as published by the US Department of Labor, Bureau of Labor Statistics during an agreed period preceding the delivery of the relevant aircraft. British Airways is also responsible for the payment of any taxes (including VAT) relating to the aircraft except for taxes relating to the manufacture of the aircraft, sale and delivery, services, instructions and data delivered or furnished under the 2013 Airbus Long-haul Contract, which are payable by Airbus.

Airbus has granted to British Airways certain price concessions with regard to the Airbus A350 aircraft to be purchased under the 2013 Airbus Long-haul Contract. These concessions take the form of credit memoranda provided to British Airways, which British Airways may apply towards payments in respect of the purchase of the Airbus A350 aircraft under the 2013 Airbus Long-haul Contract or towards the purchase of other goods and services from Airbus. Such price concessions will reduce the effective price of each aircraft significantly below the Long-haul Aircraft Base Price.

4. Payment terms

Under the 2013 Airbus Long-haul Contract, British Airways is required to make periodic advance payments to Airbus of the pre-delivery payment reference price ("PDPRP") for each aircraft during the period preceding the delivery of each aircraft. PDPRP for the purposes of the 2013 Airbus Long-haul Contract is calculated by applying a formula which takes into account the base price of the aircraft as listed in its specification document and the estimated budgetary price of equipment manufactured by ACSs as per the 2013 Airbus Long-haul Contract.

On execution of the 2013 Airbus Long-haul Contract, British Airways made an advance payment to Airbus of three per cent. of the PDPRP (before deduction of any credit memoranda and other applicable concessions) for each aircraft.

As a result of these required advance payments, British Airways will have paid up to 30 per cent. of the PDPRP of each aircraft prior to its delivery (before deduction of any credit memoranda and other applicable concessions), with the balance being due at the time of delivery. The following table sets out when such advance payments are due, and the percentage of the PDPRP of each aircraft (before deduction of any credit memoranda and other applicable concessions) being payable when such advance payment obligations arise:

Timing	Percentage of PDPRP* payable in respect of each Airbus A350 aircraft
Execution of 2013 Airbus Long-haul Contract	3
12 months after execution of 2013 Airbus Long-haul Contract	1
24 months after execution of 2013 Airbus Long-haul Contract	1
48 months pre-delivery	5
36 months pre-delivery	5
30 months pre-delivery	5
24 months pre-delivery	5
12 months pre-delivery	5
Total	30

* Before deduction of any credit memoranda and other applicable concessions.

5. Maintenance and support

In addition to manufacturing and delivering the aircraft, the 2013 Airbus Long-haul Contract requires Airbus to provide various ancillary goods and services to British Airways both prior to delivery of the aircraft to be purchased under the 2013 Airbus Long-haul Contract and throughout the period when such aircraft are operated by British Airways. These ancillary goods and services include operations and field services engineering, technical support and training, spare parts support, training of British Airways' flight crews in the operation of aircraft and a complete set of technical manuals, software and other materials (including subsequent revisions) with respect to each aircraft.

Under the 2013 Airbus Long-haul Contract, Airbus has also provided British Airways with a set of warranties on the aircraft (including warranties against defects in design, materials or workmanship) and certain guarantees relating to the aircraft performance.

British Airways envisages that a contract with Rolls-Royce on the basis of the Rolls-Royce MOU, if finalised, would include certain warranties relating to the Rolls-Royce XWB97 engines to be installed on the 18 new Airbus A350 aircraft, and would provide for engine maintenance and overhaul services (including the supply of spare engines).

6. Delay, termination and assignment

In the event that the 2013 Airbus Long-haul Contract is not approved by the Shareholders, it will terminate and be without further force and effect.

If any scheduled delivery of an aircraft is delayed by Airbus for a reason other than “excusable delay” (which comprises of delay of aircraft delivery due to causes outside of Airbus’s control) or a total loss of the aircraft, Airbus will pay liquidated damages to British Airways at a fixed daily rate limited to a maximum agreed amount. If any such delay lasts for more than 12 months and the parties have not renegotiated the delivery date, British Airways has the right to terminate the 2013 Airbus Long-haul Contract with respect to the affected aircraft.

Either party may terminate the 2013 Airbus Long-haul Contract if the other party becomes insolvent or subject to insolvency proceedings. The 2013 Airbus Long-haul Contract also provides that subject to certain exceptions, the rights and obligations of the parties may not be assigned or transferred without the prior written consent of the non-transferring party.

7. Options on additional aircraft

The 2013 Airbus Long-haul Contract also grants British Airways the rights to elect to purchase up to 18 additional Airbus A350 aircraft (the “**Long-haul Option Aircraft**”) for delivery between 2020 and 2023. In addition, Airbus has agreed that if British Airways exercises its rights to purchase a Long-haul Option Aircraft, it will grant British Airways the rights to elect to purchase another Airbus A350 aircraft (the “**Long-haul Rolling Option Aircraft**”) subject to certain terms and conditions. The maximum number of the Long-haul Rolling Option Aircraft will therefore be 18.

In respect of any Long-haul Option Aircraft or any Long-haul Rolling Option Aircraft, British Airways may exercise its option within the relevant time periods as agreed with Airbus under the 2013 Airbus Long-haul Contract.

Airbus has agreed to provide a delivery timetable for the Long-haul Rolling Option Aircraft at the time when it confirms the grant of the relevant option.

The final purchase price of each Long-haul Option Aircraft and each Long-haul Rolling Option Aircraft will be determined in accordance with the terms of the 2013 Airbus Long-haul Contract at the time the relevant option is exercised.

8. Financing

At June 30, 2013, British Airways held €2,116 million of cash which, together with cash flow generated from its operations, will be used to part finance the purchase of the aircraft under the 2013 Airbus Long-haul Contract and to pay the commitment fees payable in respect of the Long-haul Option Aircraft and the Long-haul Rolling Option Aircraft.

British Airways expects its first delivery of aircraft pursuant to the 2013 Airbus Long-haul Contract in the third quarter of 2018, and will seek to implement one or more of a variety of cost-effective financing options closer to the first delivery date. While it is impossible to predict at this stage the actual source(s) of financing for the purchase of aircraft pursuant to the 2013 Airbus Long-haul Contract, the most likely options (in addition to the cash resources) include bank debt, leases, bond issues (such as the Enhanced Equipment Trust Certificates issued by British Airways, the sale of which was closed on July 3, 2013) and similar forms of aircraft financing common in the airline industry.

Part V

(Principal terms of the 2013 Airbus Short-haul Contract)

1. Introduction

On April 26, 2013, Vueling became part of the Group.

On August 14, 2013, Vueling entered into the 2013 Airbus Short-haul Contract pursuant to which it has conditionally agreed to purchase 30 new Airbus A320ceo aircraft and 32 new Airbus A320neo aircraft for delivery between 2015 and 2020.

Each of the 30 Airbus A320ceo aircraft will be equipped with two currently available engines, either CFM56-5B engines manufactured by CFM or IAE V2500 engines manufactured by IAE. Each of the 32 Airbus A320neo aircraft will be equipped with two “new generation” engines, either CFM LEAP-X engines currently being developed by CFM or Pratt & Whitney PW1000G engines currently being developed by Pratt & Whitney. Vueling will make engine choices with regard to the 30 Airbus A320ceo aircraft and the 32 Airbus A320neo aircraft by 2015.

The Proposed Purchase under the 2013 Airbus Short-haul Contract is of sufficient size to constitute a Class 1 transaction for the Company under the Listing Rules and is, therefore, conditional upon Shareholder approval.

The 2013 Airbus Short-haul Contract also grants Vueling the rights to elect to purchase up to 58 additional Airbus A320 aircraft subject to terms and conditions therein. The exercise of any such options by Vueling in the future may, depending on its size relative to the size of the Company at that time, become subject to a separate approval of the Shareholders.

2. Delivery timetable

Vueling is scheduled to take delivery of the first Airbus A320ceo aircraft in February 2015 and the first four Airbus A320neo aircraft in the second half of 2017, with the proposed delivery timetable for the Airbus A320ceo aircraft and the Airbus A320neo aircraft as follows:

<u>Year of delivery</u>	<u>Number of Airbus A320ceo aircraft to be delivered</u>	<u>Number of Airbus A320neo aircraft to be delivered</u>
2015	10	0
2016	10	0
2017	10	4
2018	0	12
2019	0	10
2020	0	6
Total	<u>30</u>	<u>32</u>

The 2013 Airbus Short-haul Contract also provides for delivery date flexibility in that it allows either party to modify the timing of certain scheduled deliveries of Airbus A320ceo aircraft and/or A320 neo aircraft, subject to appropriate notice and conditions.

Subject to the terms of the 2013 Airbus Short-haul Contract, Vueling will have the right to convert the model of certain Airbus A320ceo aircraft and/or Airbus A320neo aircraft to A319 and/or A321. Price adjustments, purchase incentives and credit memoranda similar to those given in respect of the Airbus A320ceo aircraft and/or Airbus A320neo aircraft (which are described in paragraph 3 below) will also apply to such conversion.

3. Price

The Short-haul Aircraft Base Price, which is the sum of: (i) the base price of the relevant airframe; (ii) the base price of any and all SCNs; (iii) the relevant reference price of the engines to be installed on the relevant aircraft; and (iv) the estimated price for “buyer-furnished” equipment, is estimated to be up to \$83.1 million for each Airbus A320ceo aircraft and up to \$93.2 million for each Airbus A320neo aircraft, stated in January 2012 US Dollar terms. Payment of the Short-haul Aircraft Base Price, other than the price of the “buyer-furnished” equipment which will be payable to the relevant suppliers, is to be made to Airbus.

The amounts of the Short-haul Aircraft Base Price as described above will be subject to adjustment depending on the choice of the engines to be made by Vueling. In addition, certain components of the Short-haul Aircraft Base Price, namely the base price of the airframe, the relevant reference price of the engines to be installed on the relevant aircraft and the base price of the SCNs, are subject to price escalation by applying relevant formulae reflecting increases in the relevant labour and material indices as published by the US Department of Labor, Bureau of Labor Statistics during the relevant agreed period preceding the delivery of the relevant aircraft. Vueling is also responsible for the payment of any taxes (including VAT) relating to the aircraft except for taxes relating to the manufacture of the aircraft, sale and delivery, services, instructions and data delivered or furnished under the 2013 Airbus Short-haul Contract, which are payable by Airbus.

Airbus has granted to Vueling certain price concessions with regard to the Airbus A320ceo aircraft and the Airbus A320neo aircraft to be purchased under the 2013 Airbus Short-haul Contract. These concessions take the form of credit memoranda provided to Vueling, which Vueling may apply towards the purchase of goods and services from Airbus or towards final payments in respect of the purchase of the Airbus A320ceo aircraft and/or the Airbus A320neo aircraft under the 2013 Airbus Short-haul Contract. Such price concessions will reduce the effective price of each aircraft significantly below the sum of the Short-haul Aircraft Base Price.

4. Payment terms

Under the 2013 Airbus Short-haul Contract, Vueling is required to make periodic advance payments to Airbus of the PDPRP during the period preceding the delivery of each aircraft. PDPRP for the purposes of the 2013 Airbus Short-haul Contract is calculated by applying a formula which takes into account the base price of the relevant airframe and the relevant base price of the engines to be installed on the relevant aircraft as per the 2013 Airbus Short-haul Contract.

On execution of the 2013 Airbus Short-haul Contract, Vueling made an advance payment to Airbus of three per cent. of the PDPRP (before deduction of any credit memoranda and other applicable concessions) for each Airbus A320ceo aircraft/Airbus A320neo aircraft to be purchased under the 2013 Airbus Short-haul Contract.

As a result of these required advance payments, Vueling will have paid up to 30 per cent. of the PDPRP of each aircraft prior to its delivery (before deduction of any credit memoranda and other applicable concessions), with the balance being due at the time of delivery. The following table sets out when such advance payments are due, and the percentage of the PDPRP of each aircraft (before deduction of any credit memoranda and other applicable concessions) being payable when such advance payment obligations arise:

<u>Timing</u>	<u>Percentage of PDPRP* payable in respect of each Airbus A320ceo aircraft /Airbus A320neo aircraft</u>
Execution of 2013 Airbus Short-haul Contract	3
12 months after execution of 2013 Airbus Short-haul Contract	2
36 months pre-delivery	5
30 months pre-delivery	5
24 months pre-delivery	5
18 months pre-delivery	5
12 months pre-delivery	5
Total	30

* Before deduction of any credit memoranda and other applicable concessions.

5. Maintenance and support

In addition to manufacturing and delivering the aircraft, the 2013 Airbus Short-haul Contract requires Airbus to provide various ancillary goods and services to Vueling both prior to delivery of the aircraft to be purchased under the 2013 Airbus Short-haul Contract and throughout the period when such aircraft are operated by Vueling. These ancillary goods and services include operations

and field services engineering, technical support and training, spare parts support, training of Vueling's flight crews in the operation of aircraft and a complete set of technical manuals, software and other materials (including subsequent revisions) with respect to each aircraft.

Under the 2013 Airbus Short-haul Contract, Airbus has also provided Vueling with a set of warranties on the aircraft (including warranties against defects in design, materials or workmanship) and certain guarantees relating to the aircraft performance.

Vueling will arrange for the engine maintenance and overhaul services in respect of the 30 new Airbus A320ceo aircraft and the 32 new Airbus A320neo aircraft nearer the time of its engine selection.

6. Delay, termination and assignment

In the event that the 2013 Airbus Short-haul Contract is not approved by the Shareholders, it will terminate and be without further force and effect.

If any scheduled delivery of an aircraft is delayed by Airbus for a reason other than "excusable delay" (which comprises of delay of aircraft delivery due to causes outside of Airbus's control) or a total loss of the aircraft, Airbus will pay liquidated damages to Vueling at a fixed daily rate limited to a maximum agreed amount. If any such delay lasts for more than 12 months and the parties have not renegotiated the delivery date, either party has the right to terminate the 2013 Airbus Short-haul Contract with respect to the affected aircraft.

Either party may terminate the 2013 Airbus Short-haul Contract if the other party becomes insolvent or subject to insolvency proceedings. The 2013 Airbus Short-haul Contract also provides that subject to certain exceptions, the rights and obligations of the parties may not be assigned or transferred without the prior written consent of the non-transferring party.

7. Options on additional aircraft

The 2013 Airbus Short-haul Contract also grants Vueling the rights to elect to purchase the following aircraft, subject to certain terms and conditions therein:

- (A) up to 20 additional Airbus A320ceo aircraft for delivery between 2015 and 2017. Vueling may exercise these options, on or before certain agreed dates, in two batches of up to 10 Airbus A320ceo aircraft each;
 - (B) up to 16 additional Airbus A320neo aircraft for delivery between 2021 and 2023. Vueling may exercise these options, on or before certain agreed dates, in two batches of up to eight Airbus A320neo aircraft each;
 - (C) if Vueling has exercised one or more of its options under (B), up to a further 16 Airbus A320neo aircraft on a matching number basis. The decision dates and the delivery periods in respect of the exercise of these options shall be agreed by the parties at the time when the parties document the exercise of the options under (B); and
 - (D) if Vueling has exercised all of its options under (B), up to a further six Airbus A320neo aircraft. The decision dates and the delivery periods in respect of the exercise of these options shall be agreed by the parties at the time when the parties document the exercise of the second batch of options under (B),
- ((A) to (D) together, the **"Short-haul Option Aircraft"**).

The final purchase price of each Airbus Short-haul Option Aircraft will be determined in accordance with the terms of the 2013 Airbus Short-haul Contract at the time the relevant option is exercised.

8. Financing

At June 30, 2013, Vueling held €549 million of cash which, together with cash flow generated from its operations, will be used to part finance the purchase of the aircraft under the 2013 Airbus Short-haul Contract and to pay the commitment fees payable in respect of the Short-haul Option Aircraft.

Vueling will seek to implement one or more of a variety of cost-effective financing options closer to the delivery dates of the new aircraft between 2015 and 2020. Given that the Airbus A320ceo version of aircraft is near the end of its production run, it is most likely that the financing for the purchase of these aircraft will take the form of sale and leaseback transactions. With regard to the Airbus A320neo aircraft, while it is impossible to predict at this stage the actual source(s) of financing for the purchase of these aircraft, the most likely options (in addition to the cash resources) include bank debt, leases, bond issues (such as the Enhanced Equipment Trust Certificates issued by British Airways, the sale of which was closed on July 3, 2013) and similar forms of aircraft financing common in the airline industry.

Part VI

(Additional information)

1. Responsibility statement

The Company and the Directors, whose names appear in paragraph 2 of this Part VI (Additional information), accept responsibility for the information contained in this Circular. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. The Company and the Directors

The Company

The Company was incorporated under the laws of Spain and entered at the Madrid Mercantile Registry with registration number M-492129 and with Tax Identity Code number A-85845535. The Company is domiciled in Spain and its registered head office is at calle Velázquez, 130, 28006 Madrid, Spain. The principal place of business for the Company is 2 World Business Centre, Newall Road, London Heathrow Airport, Hounslow, Middlesex TW6 2SF, United Kingdom, with telephone number +44 208 564 2800. The business address of each of the Directors is the Company's registered head office, calle Velázquez, 130, 28006 Madrid, Spain.

The principal legislation under which the Company operates is the restated text of the Spanish Companies Law (Ley de Sociedades de Capital) approved by Royal Legislative Decree 1/2010, of 2 July. Furthermore, since the Company is listed on the Stock Exchanges, it is also subject to the UK Listing Rules, the UK Disclosure and Transparency Rules and the Spanish Securities Market Law.

Directors

The names and principal functions of the Directors of the Company are as follows:

Directors	Position	Classification¹
Antonio Vázquez Romero	Chairman	Other external
Sir Martin Broughton	Deputy Chairman	Independent
Willie Walsh	Chief Executive Officer	Executive
César Alierta Izuel	Director	Independent
Patrick Cescau	Director	Independent
Luis Gallego Martín	Director	Executive
Baroness Denise Kingsmill	Director	Independent
James Lawrence	Director	Independent
José Pedro Pérez-Llorca	Director	Independent
Kieran Poynter	Director	Independent
John Snow	Director	Independent
Alberto Terol Esteban	Director	Independent
Keith Williams	Director	Executive

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

3. Directors' and Senior Managers' interests

As at the Reference Date, the interests of each Director and Senior Manager in Shares by way of share ownership, including interests arising pursuant to any transaction notified to the Company pursuant to rule 3.1.2 of the Disclosure and Transparency Rules, are as follows:

Directors	Position	Number of Shares	Percentage of issued Shares
Antonio Vázquez Romero	Chairman	512,291	0.028
Sir Martin Broughton	Deputy Chairman	49,545 (direct interest)	0.004 (direct interest)
		19,545 (indirect interest) ²	0.001 (indirect interest)
Willie Walsh	Chief Executive Officer	298,915	0.016
César Alierta Izuel	Director	1,000,000	0.054
Patrick Cescau	Director	-	-
Alberto Terol Esteban	Director	-	-
Luis Gallego Martín	Director	100	0.000
Baroness Denise Kingsmill	Director	2,000	0.000
James Lawrence	Director	50,000 ³	0.003
José Pedro Pérez-Llorca	Director	408	0
Kieran Poynter	Director	-	-
John Snow	Director	-	-
Keith Williams	Director	221,051	0.010

² Sir Martin Broughton holds such shares indirectly through Jocelyn Broughton.

³ Held as IAG ADSs (one IAG ADS equals five IAG Shares).

Sir Martin Broughton holds two convertible bonds in British Airways as at the Reference Date.

Senior Managers	Position	Number of Shares	Percentage of issued Shares
Robert Boyle	Director of Strategy	85,104	0.000
Enrique Dupuy De Lome Chávarri	Chief Financial Officer	100	0.000
Chris Haynes	General Counsel	4,430	0.000
Julia Simpson	Chief of Staff	19,935	0.000
Ignacio de Torres Zabala	Director of Global Services	-	-
Alex Cruz	Chief Executive Officer, Vueling	-	-

In addition to the interests noted above, certain of the Directors and Senior Managers have interests in Shares as a result of share options and awards made pursuant to the IAG Share Schemes. Details of the options and awards as at the Reference Date are set out below:

<u>Directors</u>	<u>Plan</u>	<u>Date of grant / award</u>	<u>Exercise Price (pence)</u>	<u>Earliest exercise/ vesting date</u>	<u>Expiry date</u>	<u>Shares under option/ within award</u>
Willie Walsh	IADP 2011	March 31, 2011	n/a	March 31, 2014	n/a	90,984
Willie Walsh	PSP 2011	March 31, 2011	n/a	Subject to satisfaction of performance conditions	n/a	714,285
Willie Walsh	IADP 2012	August 3, 2012	n/a	August 3, 2015	n/a	93,773
Willie Walsh	PSP 2012	August 3, 2012	n/a	Subject to satisfaction of performance conditions	n/a	1,024,844
Willie Walsh	PSP 2013	March 6, 2013	n/a	Subject to satisfaction of performance conditions	n/a	684,647
Luis Gallego Martín	PSP 2013	May 23, 2013	n/a	Subject to satisfaction of performance conditions	n/a	273,198
Keith Williams	LTIP	June 16, 2004	n/a	June 16, 2007	June 16, 2014	22,141
Keith Williams	SOP	June 25, 2004	262p	June 25, 2007	June 25, 2014	72,480
Keith Williams	SOP	June 23, 2005	276p	June 23, 2008	June 23, 2015	69,927
Keith Williams	IADP 2011	March 31, 2011	n/a	March 31, 2014	n/a	44,904
Keith Williams	PSP 2011	March 31, 2011	n/a	Subject to satisfaction of performance conditions	n/a	409,090
Keith Williams	IADP 2012	August 3, 2012	n/a	August 3, 2015	n/a	58,695
Keith Williams	PSP 2012	August 3, 2012	n/a	Subject to satisfaction of performance conditions	n/a	605,590
Keith Williams	IADP 2013	March 6, 2013	n/a	March 6, 2016	n/a	101,141
Keith Williams	PSP 2013	March 6, 2013	n/a	Subject to satisfaction of performance conditions	n/a	404,564

<u>Directors</u>	<u>Plan</u>	<u>Date of grant / award</u>	<u>Exercise Price (pence)</u>	<u>Earliest exercise/ vesting date</u>	<u>Expiry date</u>	<u>Shares under option/ within award</u>
Robert Boyle	SOP	June 25, 2004	262p	June 25, 2007	June 25, 2014	78,244
Robert Boyle	SOP	June 23, 2005	276p	June 23, 2008	June 23, 2015	74,275
Robert Boyle	IADP 2011	March 31, 2011	n/a	March 31, 2014	n/a	28,915
Robert Boyle	PSP 2011	March 31, 2011	n/a	Subject to satisfaction of performance conditions	n/a	212,987
Robert Boyle	IADP 2012	August 3, 2012	n/a	August 3, 2015	n/a	42,400
Robert Boyle	PSP 2012	August 3, 2012	n/a	Subject to satisfaction of performance conditions	n/a	324,223
Robert Boyle	IADP 2013	March 6, 2013	n/a	March 6, 2016	n/a	61,369
Robert Boyle	PSP 2013	March 6, 2013	n/a	Subject to satisfaction of performance conditions	n/a	216,598
Enrique Dupuy De Lome Chávarri	PSP 2011	March 31, 2011	n/a	Subject to satisfaction of performance conditions	n/a	249,350
Enrique Dupuy De Lome Chávarri	IADP 2012	August 3, 2012	n/a	August 3, 2015	n/a	37,267
Enrique Dupuy De Lome Chávarri	PSP 2012	August 3, 2012	n/a	Subject to satisfaction of performance conditions	n/a	372,670
Enrique Dupuy De Lome Chávarri	IADP 2013	March 6, 2013	n/a	March 6, 2016	n/a	62,241
Enrique Dupuy De Lome Chávarri	PSP 2013	March 6, 2013	n/a	Subject to satisfaction of performance conditions	n/a	248,963
Chris Haynes	SOP	June 25, 2004	262p	June 25, 2007	June 25, 2014	11,450
Chris Haynes	SOP	June 23, 2005	276p	June 23, 2008	June 23, 2015	14,492
Chris Haynes	IADP 2011	March 31, 2011	n/a	March 31, 2014	n/a	5,649

<u>Directors</u>	<u>Plan</u>	<u>Date of grant / award</u>	<u>Exercise Price (pence)</u>	<u>Earliest exercise/ vesting date</u>	<u>Expiry date</u>	<u>Shares under option/ within award</u>
Chris Haynes	PSP 2011	March 31, 2011	n/a	Subject to satisfaction of performance conditions	n/a	95,238
Chris Haynes	IADP 2012	August 3, 2012	n/a	August 3, 2015	n/a	22,751
Chris Haynes	PSP 2012	August 3, 2012	n/a	Subject to satisfaction of performance conditions	n/a	171,428
Chris Haynes	IADP 2013	March 6, 2013	n/a	March 6, 2016	n/a	30,539
Chris Haynes	PSP 2013	March 6, 2013	n/a	Subject to satisfaction of performance conditions	n/a	114,523
Julia Simpson	IADP 2011	March 31, 2011	n/a	March 31, 2014	n/a	14,038
Julia Simpson	PSP 2011	March 31, 2011	n/a	Subject to satisfaction of performance conditions	n/a	106,060
Julia Simpson	IADP 2012	August 3, 2012	n/a	August 3, 2015	n/a	17,119
Julia Simpson	PSP 2012	August 3, 2012	n/a	Subject to satisfaction of performance conditions	n/a	188,571
Julia Simpson	IADP 2013	March 6, 2013	n/a	March 6, 2016	n/a	29,394
Julia Simpson	PSP 2013	March 6, 2013	n/a	Subject to satisfaction of performance conditions	n/a	125,975
Ignacio de Torres Zabala	PSP 2011	March 31, 2011	n/a	Subject to satisfaction of performance conditions	n/a	212,987
Ignacio de Torres Zabala	IADP 2012	August 3, 2012	n/a	August 3, 2015	n/a	25,465

<u>Directors</u>	<u>Plan</u>	<u>Date of grant / award</u>	<u>Exercise Price (pence)</u>	<u>Earliest exercise/ vesting date</u>	<u>Expiry date</u>	<u>Shares under option/ within award</u>
Ignacio de Torres Zabala	PSP 2012	August 3, 2012	n/a	Subject to satisfaction of performance conditions	n/a	313,043
Ignacio de Torres Zabala	IADP 2013	March 6, 2013	n/a	March 6, 2016	n/a	48,797
Ignacio de Torres Zabala	PSP 2013	March 6, 2013	n/a	Subject to satisfaction of performance conditions	n/a	209,129

Save as disclosed in this paragraph 3, none of the Directors or Senior Managers have any interest, beneficial or non-beneficial, in the share capital of the Company or any of its subsidiaries.

4. Directors' service contracts and appointments

Executive Directors: service contracts

Details relating to the terms and notice periods of the Executive Directors' service contracts are set out below:

	<u>Commencement date</u>	<u>Notice period from Company</u>	<u>Notice period from Director</u>
Willie Walsh	January 21, 2011	52 weeks	26 weeks
Luis Gallego Martín	March 27, 2013	52 weeks	26 weeks
Keith Williams	January 21, 2011	52 weeks	26 weeks

There are no express provisions in the Executive Directors' service contracts with the Company for compensation payable upon termination of those contracts, other than for payments in lieu of notice. For benefits payable to employees of the Group on termination of an employment contract generally, please refer to page 95 of the 2012 Annual Report.

The Executive Directors who are former directors of British Airways or Iberia, Líneas Aéreas de España, S.A., upon termination of their appointments with the Company, will have the benefits applicable to former directors of British Airways or Iberia, Líneas Aéreas de España, S.A. regarding tickets in the airlines of the Group.

Save as disclosed above, there are no agreements in existence between the Executive Directors and any member of the Group which provide for any payments or benefits upon termination of their service contracts other than accrued benefits as at the date of termination and payments in respect of notice periods.

Non-Executive Directors: appointment

Non-Executive Directors, including the Non-Executive Chairman, do not hold service contracts and each of the Non-Executive Directors has been appointed pursuant to the relevant resolution of the shareholders' meeting of the Company or the Board. The appointments continue until the expiry dates set out below, without prejudice to the ability of a Shareholders' meeting to remove such persons as a Board member at any moment according to applicable law.

	Effective date of latest appointment or re-election	Expiry date
Antonio Vázquez Romero	January 21, 2011	January 21, 2015
Sir Martin Broughton	June 20, 2013	June 20, 2016
César Alierta Izuel	January 21, 2011	January 21, 2015
Patrick Cescau	June 20, 2013	June 20, 2016
Luis Gallego Martín	March 27, 2013	January 21, 2015
Baroness Denise Kingsmill	January 21, 2011	January 21, 2015
James Lawrence	January 21, 2011	January 21, 2015
José Pedro Pérez-Llorca	January 21, 2011	January 21, 2015
Kieran Poynter	January 21, 2011	January 21, 2015
Alberto Terol Esteban	June 20, 2013	June 20, 2016
John Snow	June 20, 2013	June 20, 2016

The Non-Executive Directors of the Company are not entitled to any compensation payable upon termination of the appointments, other than in respect of Mr. Antonio Vázquez Romero. The conditions of Mr. Antonio Vázquez Romero's service contract with Iberia were taken into account at the time of appointment to the Company and he is therefore entitled to a lump-sum retirement benefit in an amount of €2.8 million. The fund balance under this policy, including accrued interest, will be paid upon exit from the Company for any reason.

The Non-Executive Directors who are former directors of British Airways or Iberia, Líneas Aéreas de España, S.A., upon termination of their appointments with the Company, will have the benefits applicable to former directors of British Airways or Iberia, Líneas Aéreas de España, S.A. regarding tickets in the airlines of the Group.

Save as disclosed above, there are no agreements in existence between the Non-Executive Directors and any member of the Group which provide for any payments or benefits upon termination of their appointments other than accrued benefits as at the date of termination.

In accordance with Spanish law and the By-Laws of the Company, once a Director's term of office has expired, his or her appointment as a director shall end when, following such expiry, the next Shareholders' meeting has been held or the legal term in which to hold a Shareholders' meeting to approve the accounts of the Company for the previous year has expired.

Notwithstanding the provisions for the expiry of Directors' service contracts and appointments as outlined above, the Board regulations contain a provision which establishes that the following Directors will resign and stand for re-election in accordance with the dates set out below, without prejudice to the ability of a Shareholders' meeting to remove such persons as a Board member at any moment according to applicable law:

- (A) Willie Walsh, César Alierta Izuel, Baroness Denise Kingsmill, José Pedro Pérez-Llorca and Kieran Poynter shall stand for re-election at the annual ordinary Shareholders' meeting to be held in 2014; and
- (B) Antonio Vázquez Romero, James Lawrence and Keith Williams shall stand for re-election at the annual ordinary Shareholders' meeting to be held in 2015.

5. Major interests in Shares

Set out in the table below are the names of those persons, other than the Directors, who, so far as is known to the Company, directly or indirectly have an interest in the Company's capital or voting rights which is notifiable under Spanish law as at the Reference Date.

Name	Number of Shares	Approximate percentage of the voting rights attached to the issued share capital as at the Reference Date
Templeton Global Advisors Limited	92,969,270	5.011
Majedie Asset Management Limited	92,332,612	4.98
Blackrock Inc	91,539,438	4.934
Legal and General Group Plc	59,838,379	3.226
FIL Limited	19,100,006	1.029

Save as disclosed above, the Company is not aware of any person who either:

(A) is interested, whether directly or indirectly, in the Shares of the Company to the extent notifiable under Spanish law; or

(B) holds voting rights attaching to the Shares which are notifiable under Spanish law.

6. Related party transactions

Save as disclosed in: (i) note 33 on pages 138-139 and page 167 of the 2011 Annual Report; (ii) note 34 on pages 143 to 144 and page 176 of the 2012 Annual Report; and (iii) note 21 on page 28 of the consolidated unaudited interim accounts of the Company and its subsidiaries for the six months to June 30, 2013, each incorporated by reference into this Circular, the Group did not enter into any related party transactions (which, for these purposes, are those set out in the standards adopted according to Regulation (EC) 1606/2002) during any of the financial years ended December 31, 2011 and December 31, 2012, or between January 1, 2013 and June 30, 2013.

7. Material contracts

Save for the Exercise of Boeing Option as described in Part III (Principal terms of the Exercise of Boeing Option), the 2013 Airbus Long-haul Contract described in Part IV (Principal terms of the 2013 Airbus Long-haul Contract) and the 2013 Airbus Short-haul Contract described in Part V (Principal terms of the 2013 Airbus Short-haul Contract) of this Circular, having had regard as to whether information about material contracts entered into by any member of the Group (other than contracts entered into in the ordinary course of business) is information which a Shareholder would reasonably require for the purpose of making a properly informed assessment about the way in which to vote in relation to the Resolutions, no contracts have been entered into (other than contracts entered into in the ordinary course of business) by any member of the Group either: (i) within the period of two years immediately preceding the date of this Circular, which are or may be material to the Group; or (ii) at any time, which contain any provisions under which any member of the Group (as relevant) has any obligation or entitlement which is, or may be, material to the Group (as relevant) as at the date of this Circular.

8. Legal and arbitration proceedings

During the financial year ended December 31, 2012, British Airways reached an early resolution with the OFT, pursuant to which it paid a fine of £58.5 million concluding the OFT's investigation into passenger fuel surcharges for the period prior to March 2006.

British Airways was one of several airlines which was fined by a number of Competition regulators as a result of investigations into alleged anti-competitive behaviour in relation to the air cargo sector. This includes the EC which fined BA €104 million in November 2010. This decision has been appealed by the addressee airlines, including British Airways. British Airways has been sued in related claims in a number of jurisdictions by (or on behalf of) users or purchasers of air cargo services who claim to have suffered damages as a result of the alleged anti-competitive behaviour. On May 20, 2011, British Airways settled claims in the US for \$89,512,000 but claims are ongoing in the UK, Australia, Canada, Israel and the Netherlands. It is currently not possible to ascertain British Airways' potential financial exposure in relation to these claims with any degree of certainty, given that: (i) in certain jurisdictions, the claimants have yet to fully particularise their

alleged losses; (ii) the basis and scope of the alleged liability and the claimants' alleged losses is unclear; (iii) most of the proceedings are in their early stages; and (iv) such losses would in any event be for the account of the various airlines (on a joint and several liability basis) which have been, or may be, brought into the litigation.

Save as set out above, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), nor have there been any such proceedings during the 12 months prior to the date of this Circular which may have or have had in the recent past, a significant effect on the financial position or profitability of the Company and/or the Group.

9. Significant change

There has been no significant change in the financial or trading position of the Group since June 30, 2013 (being the date to which the Group's unaudited interim results have been prepared).

10. Working capital

The Company is of the opinion that the working capital available to the Group is sufficient for its present requirements, that is, for at least the next 12 months following the date of publication of this Circular.

11. Consent

Barclays Bank PLC has given, and not withdrawn, its consent to the inclusion in this Circular of the references to its name in the form and context in which they are included.

12. Documents available for inspection

Copies of the following documents will be available for inspection at the registered office of the Company at calle Velázquez, 130, 28006 Madrid, Spain and at the offices of Slaughter and May at One Bunhill Row, London EC1Y 8YY and at the offices of J&A Garrigues S.L.P., calle Hermosilla, 3, 28001 Madrid, Kingdom of Spain during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) up to and including the date of the Shareholders' Meeting:

- (A) the By-Laws of the Company;
- (B) the consolidated audited accounts of the Company and its subsidiaries for the two financial years ended December 31, 2011 and December 31, 2012 respectively;
- (C) the consolidated unaudited interim accounts of the Company and its subsidiaries for the six months to June 30, 2013;
- (D) the consent referred to in paragraph 11 above;
- (E) the 2007 Boeing Contract;
- (F) the letter agreements between British Airways and Boeing relating to the Exercise of Boeing Option;
- (G) the 2013 Airbus Long-haul Contract;
- (H) the 2013 Airbus Short-haul Contract; and
- (I) this Circular.

Part VII

(Information incorporated by reference)

The table below sets out the various information incorporated by reference into this Circular, so as to provide the information required pursuant to the Listing Rules. These documents are also available on the Company's website at www.iairgroup.com.

Information incorporated by reference into this Circular	Document and page(s) reference	Location of incorporation in this Circular	Page number(s) in this Circular
Details of employee benefits on termination of employment contracts	2012 Annual Report (page 95)	Part VI (Additional information), paragraph 4 (Directors' service contracts and letters of appointment)	39 and 40
Details of related party transactions entered into since incorporation of the Company	2011 Annual Report (note 33 on pages 138-139 and page 167)	Part VI (Additional information), paragraph 6 (Related party transactions)	41
Details of related party transactions entered into since incorporation of the Company	2012 Annual Report (note 34 on pages 143-144 and page 176)	Part VI (Additional information), paragraph 6 (Related party transactions)	41
Details of related party transactions entered into since incorporation of the Company	Consolidated unaudited interim accounts of the Company and its subsidiaries for the six months to June 30, 2013 (note 21 on page 28)	Part VI (Additional information), paragraph 6 (Related party transactions)	41

The documents incorporated by reference in this Circular have been incorporated in compliance with Listing Rule 13.1.6.

Information that is itself incorporated by reference or referred or cross-referred to in these documents is not incorporated by reference into this Circular. Except as set forth above, no other portions of these documents are incorporated by reference into this Circular.

Part VIII

(Definitions)

The following definitions apply throughout this Circular unless the context requires otherwise:

2007 Boeing Contract	means the agreement dated December 21, 2007 between British Airways and Boeing relating to the purchase of 24 new Boeing 787 aircraft and the Boeing Option, as amended and supplemented from time to time;
2011 Annual Report	means the audited and consolidated annual report and financial statements (including relevant accounting policies and notes) of the Group and audit report thereon for the financial year ended December 31, 2011;
2012 Annual Report	means the audited and consolidated annual report and financial statements (including relevant accounting policies and notes) of the Group and audit report thereon for the financial year ended December 31, 2012;
2013 Airbus Long-haul Contract	means the agreement dated August 2, 2013 between British Airways and Airbus relating to the purchase of 18 new Airbus A350 aircraft and incorporating an option to purchase up to 36 additional such aircraft, as amended and supplemented from time to time;
2013 Airbus Short-haul Contract	means the agreement dated August 14, 2013 between Vueling and Airbus relating to the purchase of 30 new Airbus A320ceo aircraft and 32 new Airbus A320neo aircraft and incorporating an option to purchase up to 58 additional such aircraft, as amended and supplemented from time to time;
AAIB	means the UK Air Accidents Investigation Branch;
ACSSs	have the meaning given to them in paragraph 2 of Part I (Letter from the Chairman of IAG) of this Circular;
AD	means an Airworthiness Directive issued by the US Federal Aviation Administration;
Airbus	means Airbus S.A.S;
Airbus A320ceo aircraft	has the meaning given to it in paragraph 1 of Part I (Letter from the Chairman of IAG) of this Circular;
Airbus A320neo aircraft	has the meaning given to it in paragraph 1 of Part I (Letter from the Chairman of IAG) of this Circular;
Attendance, Proxy and Remote Vote Card	means the attendance, proxy and remote vote card for use by Shareholders in connection with the Shareholders' Meeting;
Barclays or Sponsor	means Barclays Bank PLC of 5 The North Colonnade, Canary Wharf, London E14 4BB;
Board of Directors or Board	means the board of Directors of the Company from time to time;
Boeing	means The Boeing Company;
Boeing Aircraft Base Price	has the meaning given to it in paragraph 2 of Part I (Letter from the Chairman of IAG) of this Circular;

Boeing Option	means the rights granted to British Airways pursuant to the 2007 Boeing Contract to elect to purchase up to 18 additional Boeing 787 aircraft;
British Airways	means British Airways Plc, a subsidiary of the Group;
BST	means British Summer Time;
By-laws	mean the corporate by-laws of the Company;
CDIs	mean CREST depositary interests issued by CREST Depositary in respect of the Shares, each representing an entitlement to one Share, and a “ CDI ” means any one of them;
CET	means Central European Time;
CFM	means CFM International Engines;
Circular	means this document;
Computershare	means Computershare Investor Services PLC of The Pavillions, Bridgwater Road, Bristol, BS99 6ZZ;
CREST	means the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by Euroclear in accordance with the CREST Regulations;
CREST Depositary	means CREST Depositary Limited;
CREST Manual	means the manual, as amended from time to time, produced by Euroclear describing the CREST system and supplied by Euroclear to users and participants thereof;
CREST member	means a person who has been admitted by Euroclear as a system-member (as defined in the CREST Regulations);
CREST personal member	means a CREST member admitted to CREST as a personal member;
CREST Proxy Instruction	the instruction(s) whereby CREST members send a CREST message appointing a proxy for the Shareholders’ Meeting and instructing the proxy how to vote and containing the information set out in the CREST Manual;
CREST Regulations	means the UK’s Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended from time to time;
CREST sponsor	means a CREST participant admitted to CREST as a CREST sponsor;
CREST sponsored member	means a CREST member admitted to CREST as a sponsored member;
Directors	mean the directors of the Company, whose names are set out in paragraph 2 of Part VI (Additional information) of this Circular (or, where the context requires, the directors of the Company from time to time);

Disclosure and Transparency Rules	mean the FCA's Disclosure and Transparency Rules, as amended from time to time;
ELT	means the Emergency Location Transmitter unit;
EU or European Union	means the European Union first established by the treaty made at Maastricht on February 7, 1992;
Euro or EUR or €	are references to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the treaty establishing the European Community, as amended from time to time;
Euroclear	means Euroclear UK & Ireland Limited;
Eurozone	means the subset of European countries who have adopted the Euro;
Executive Directors	mean the executive directors of the Company as at the date of this Circular, and an “ Executive Director ” means any one of them;
Exercise of Boeing Option	means the exercise by British Airways of the Boeing Option granted to it pursuant to the 2007 Boeing Contract, electing to purchase 18 new Boeing 787 aircraft, to be effected by way of the Supplemental Agreement;
FAA	means the Federal Aviation Administration of the US;
FCA or Financial Conduct Authority	means the Financial Conduct Authority of the UK or any successor authority or authorities;
GMT	means Greenwich Mean Time;
Group	means the Company and its subsidiaries taken as a whole from time to time;
IADP	means the IAG Incentive Award Deferral Plan;
IAE	means International Aero Engines;
IAG or Company	means International Consolidated Airlines Group, S.A., a company incorporated under the laws of Spain and entered at the Madrid Mercantile Registry with registration number M-492129 and with Tax Identity Code number A-85845535, whose registered office is at calle Velázquez, 130, 28006 Madrid, Spain;
IAG Nominee Service	means the corporate sponsored nominee service in respect of CDIs which is operated by Computershare and pursuant to which Computershare Company Nominee Limited, a member of Computershare's group, holds CDIs as corporate nominee on behalf of the participants thereof;
IAG Share Schemes	mean SOP, LTIP, PSP and IADP;

Iberia	means Iberia, Líneas Aéreas de España, S.A. Operadora, a subsidiary of the Group;
Listing Rules	mean the FCA's Listing Rules, as amended from time to time;
Long-haul Aircraft Base Price	has the meaning given to it in paragraph 2 of Part I (Letter from the Chairman of IAG) of this Circular;
LTIP	means the British Airways Long Term Incentive Plan 1996;
Non-Executive Directors	mean the non-executive directors of the Company as at the date of this Circular, and a "Non-Executive Director" means any one of them;
Notice	means the notice of the Shareholders' Meeting set out at the end of this Circular;
OFT	means the UK's Office of Fair Trading;
PDPRP	has the meaning given to it in: (i) paragraph 4 of Part IV (Principal terms of the 2013 Airbus Long-haul Contract); or (ii) paragraph 4 of Part V (Principal terms of the 2013 Airbus Short-haul Contract), as the context requires;
Pound Sterling or £ or pence	are references to the lawful currency of the United Kingdom;
Proposed Purchases	mean: (A) the proposed purchase of 18 new Boeing 787 aircraft by British Airways pursuant to the Exercise of Boeing Option; (B) the proposed purchase of 18 new Airbus A350 aircraft by British Airways under the 2013 Airbus Long-haul Contract; and (C) the proposed purchase of 30 new Airbus A320ceo aircraft and 32 new Airbus A320neo aircraft by Vueling under the 2013 Airbus Short-haul Contract, and a "Proposed Purchase" means any one of them;
Prospectus Rules	mean the FCA's Prospectus Rules, as amended from time to time;
PSP	means the IAG Performance Share Plan;
Reference Date	means August 15, 2013, being the latest practicable date prior to the publication of this Circular;
Resolutions	mean the resolutions to be proposed at the Shareholders' Meeting in connection with the Proposed Purchases and the appointment of Mr. Enrique Dupuy de Lôme Chávarri to the Board of Directors set out at the end of this Circular;
Rolls-Royce	means Rolls-Royce Plc;

Rolls-Royce MOU	means the memorandum of understanding dated August 2, 2013 between British Airways and Rolls-Royce relating to, among others, the intention of the parties: (i) to amend the existing Rolls-Royce Trent Contract; and (ii) to negotiate a contract relating to the maintenance of the Rolls-Royce XWB 97 engines in respect of the 18 new Airbus A350 aircraft to be purchased pursuant to the 2013 Airbus Long-haul Contract;
Rolls-Royce Trent Contract	means the agreements between British Airways and Rolls-Royce relating to the maintenance of the Rolls-Royce Trent 1000 engines in respect of the 18 new Boeing 787 aircraft to be purchased pursuant to the Exercise of Boeing Option, as amended and supplemented from time to time;
SCNs	have the meaning given to them in paragraph 2 of Part I (Letter from the Chairman of IAG) of this Circular;
Senior Managers	mean the senior managers of the Company as set out in paragraph 3 of Part VI (Additional information) of this Circular; and a “ Senior Manager ” means any one of them;
Shares	mean the ordinary shares of €0.50 each in the share capital of the Company, and a “Share” means any one of them;
Shareholders	mean the holders of Shares from time to time, and a “ Shareholder ” means any one of them;
Shareholders’ Meeting	means the extraordinary shareholders’ meeting of the Company called to be held at Hotel Meliá Barajas, Avda. de Logroño 305, 28042 Madrid, Spain on September 25, 2013 at 1600 (CET), on first call, and on the following day, September 26, 2013, at the same time and venue, on second call or any adjournment thereof, Notice of which is set out at the end of this Circular;
Short-haul Aircraft Base Price	has the meaning given to it in paragraph 2 of Part I (Letter from the Chairman of IAG) of this Circular;
SOP	means the British Airways Share Option Plan 1999;
Spain	means the Kingdom of Spain;
Stock Exchanges	mean the London Stock Exchange and the Madrid, Barcelona, Bilbao and Valencia stock exchanges;
subsidiary	means a company in respect of which another company: (A) holds a majority of the voting rights; (B) is a member and has the right to appoint or remove a majority of its board of directors; or (C) is a member and controls alone, pursuant to an agreement with other members, a majority of the voting rights in it;
Supplemental Agreement	means a supplemental agreement to the 2007 Boeing Contract to be executed by British Airways and Boeing in respect of, among other things, the Exercise of Boeing Option;
United Kingdom or UK	means the United Kingdom of Great Britain and Northern Ireland;

US	means the United States of America;
US Dollar or USD or \$	are references to the lawful currency of the US;
VAT	means: (A) within the European Union, any tax imposed by any member state in conformity with the Directive of the Council of the European Union on the common system of value added tax (2006/112/EC); and (B) outside the European Union, any tax corresponding to, or substantially similar to, the common system of value added tax referred to in (A) above;
Vueling	means Vueling Airlines, S.A.; and
Yen	is a reference to the lawful currency of Japan.

Notice of Shareholders' Meeting

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. Shareholders' Meeting

Pursuant to a resolution by the Board of Directors, the Shareholders' Meeting of International Consolidated Airlines Group, S.A. (the "Company") is called to be held in Madrid, at Hotel Meliá Barajas, Avda. de Logroño 305, 28042 Madrid, on September 25, 2013 at 1600 hours (CET), on first call and on the following day, September 26, 2013, at the same time and venue, on second call. Shareholders are informed that the Shareholders' Meeting will be held on second call.

The Shareholders' Meeting is called in accordance with the following

AGENDA

- 1.- Approval of the proposed purchase of 18 Boeing 787 aircraft by British Airways Plc.
- 2.- Approval of the proposed purchase of 18 Airbus A350 aircraft by British Airways Plc.
- 3.- Approval of the proposed purchase of 30 Airbus A320ceo aircraft and 32 Airbus A320neo aircraft by Vueling Airlines, S.A.
- 4.- Appointment of Mr. Enrique Dupuy de Lôme Chávarri as a director, classified as executive director.
- 5.- Delegation of powers to formalise and execute all resolutions adopted by the shareholders at this Shareholders' Meeting.

BOARD RECOMMENDATION

The Board of Directors considers that each resolution to be proposed at the Shareholders' Meeting is in the best interests of the shareholders of the Company taken as a whole and recommends that shareholders vote in favour of each of such resolutions, as the directors intend to do in respect of their own holdings of shares.

RIGHT TO PROPOSE RESOLUTIONS

Shareholders representing at least five per cent. of the capital stock may submit reasoned proposals for resolutions on items already included or to be included on the agenda. This right must be exercised by serving duly authenticated notice (including the relevant documentation evidencing shareholder status) which must be received at the registered office (calle Velázquez, 130, 28006 Madrid), marked for the attention of the Shareholder Office (IAG) within five days after the publication of this call notice.

RIGHT TO INFORMATION

The following documents are available on the Company's website (www.iairgroup.com) both in Spanish and English.

- the complete wording of the proposed resolutions prepared by the Board of Directors in relation to the items on the agenda, including the following information in relation to item 4 on the agenda: professional profile and biographical data of the director whose appointment is proposed to the Shareholders' Meeting and the shares of the Company, and derivative financial instruments whose underlying assets are shares of the Company, held by such person; and
- the circular to shareholders prepared by the Company relating to the proposed resolutions under items 1, 2 and 3 on the agenda and dated August 19, 2013.

Until the seventh day before the scheduled date for holding the Shareholders' Meeting, that is, until September 19, 2013, considering that the Shareholders' Meeting will be held on second call, shareholders may request any information or clarification they consider necessary, or submit in writing any questions they consider should be asked, concerning the items on the agenda or any publicly available information provided by the Company to the CNMV (the Spanish Securities Market Commission) since the holding of the last Shareholders' Meeting, i.e. since June 20, 2013. Any requests for information or clarification and the submission of questions

must be sent in writing and handed in directly at the registered office (calle Velázquez, 130, Madrid – Shareholder Office (IAG), Monday to Friday, from 0900 to 1700 (CET)) or sent by post (to the above address) or by e-mail (to the e-mail address: shareholder.services@iairgroup.com (English) or accionistas@iairgroup.com (Spanish)), mentioning the name of the shareholder making the request and the address for the purpose of replying.

RIGHT TO ATTEND AND RIGHT OF REPRESENTATION

Shareholders who have shares entered in their name on the relevant record of book entries at least five days before the date scheduled for the Shareholders' Meeting, that is, not later than September 20, 2013, considering that the Shareholders' Meeting will be held on second call, and evidence this by producing the appropriate attendance, proxy and remote vote card or certificate issued by one of the participating entities of the agency which manages said accounting register or in any other manner permitted by legislation in force, will be entitled to attend the Shareholders' Meeting in a speaking and voting capacity.

Holders of CREST Depository Interests (CDI) representing shares in the Company will not be entitled to attend or vote or exercise other shareholder rights at the Shareholders' Meeting unless they have been appointed as proxy to attend and speak at the Shareholders' Meetings and to vote the underlying shares to which such holder is entitled. Further information on the requirements for CDI holders to appoint proxies is set out in this call notice.

All shareholders authorised to attend the Shareholders' Meeting may appoint any other person to represent them by fulfilling the requirements and formalities laid down to this end.

Attendance, proxy and remote vote cards, along with all other necessary documents relating to the Shareholders' Meeting, will be issued and sent out by the Company to the addresses or electronic addresses of the shareholders, as they appear on the Company's share register book. Attendance, proxy and remote vote card forms, along with all other necessary documents relating to the Shareholders' Meeting, will also be available on the Company's website (www.iairgroup.com).

In order for the proxy to be valid, it must be accepted by the proxy-holder. Save for the provisions regarding remote proxies, proxy-holders must record their acceptance on the attendance, proxy and remote vote card that has been signed as required by the proxy-holder. This notwithstanding, all of the Board members have stated their personal decision to accept and carry out all proxies conferred on them, meaning that it will not be necessary for them to sign each individual attendance, proxy and remote vote card appointing them as proxies in order to leave record of their acceptance.

PROXIES AND VOTING BY REMOTE MEANS

Shareholders may appoint proxies or cast their vote prior to the Shareholders' Meeting using the following remote means of communication:

- a) By post: by sending their original attendance, proxy and remote vote card, with the relevant section duly completed and signed, to the Company at the registered office: calle Velázquez, 130, 28006 Madrid – Shareholder Office (IAG).
- b) Electronically: on the Company's website (www.iairgroup.com), by following the instructions given and using their electronic DNI (DNIe) or their digital signature based on a recognised and valid certificate issued by the Spanish Public Certification Entity (CERES) attached to Fábrica Nacional de Moneda y Timbre.

Proxies appointed or remote votes cast using any of the remote means set out above must be received by the Company not later than midnight on the day immediately preceding the date scheduled for the Shareholders' Meeting that is, not later than midnight (CET) September 25, 2013, considering that the Shareholders' Meeting will be held on second call. Otherwise, proxies will be considered not to have been appointed for the meeting or remote votes will be considered not issued.

Attendance at the Shareholders' Meeting by the represented shareholder, whether in person or by having voted using remote means, will revoke the appointment of a proxy, regardless of the date of the proxy appointment.

The Company will not be liable for any loss caused to shareholders as a result of malfunctions, overloads, line failures, connection failures or any other contingency of the same or a similar nature, beyond the control of the Company, that prevent the use of electronic mechanisms. The Company also reserves the right to modify, suspend, cancel or restrict the procedures for electronic voting and/or proxies where technical or security reasons make this necessary or obligatory. It is exclusively the responsibility of shareholders to keep their electronic certificates safe. The Company will not be liable for any loss caused to shareholders as a result of failures or delays caused by deficiencies in the postal service beyond the control of the Company.

CDI holders may issue instructions for the appointment of proxies in accordance with the instructions set out in this notice.

CDI HOLDERS

CDI holders who wish to attend the Shareholders' Meeting and vote the underlying shares to which such holder is entitled must complete and return a form of instruction to Computershare Investor Services PLC ("Computershare"), by 1500 (BST) on September 20, 2013, to appoint themselves as a proxy. Persons who hold an interest in CDIs through the IAG Nominee Service operated by Computershare Company Nominees Limited and who wish to attend the Shareholders' Meeting must complete and return a form of instruction to Computershare, by 1500 (BST) on September 20, 2013, to appoint themselves as a proxy. Computershare shall send a form of instruction, along with all other necessary documents relating to the Shareholders' Meeting, to the registered address or electronic address held by Computershare for each person who holds CDIs or an interest in CDIs through the IAG Nominee Service. Further information is available for CDI holders or persons who hold an interest in CDIs through the IAG Nominee Service from Computershare on + 44 87 0702 0110, Monday to Friday, from 0900 to 1700 (BST).

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via www.euroclear.com/CREST). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by Computershare (ID number 3RA50) by the close of business on September 19, 2013. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which Computershare is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

SHAREHOLDERS' ELECTRONIC FORUM

Pursuant to the legislation in force, the Company has set up on its website (www.iairgroup.com) a Shareholders' Electronic Forum, which will be used in keeping with its legal purpose and the safeguards and operating rules established by the Company, and may be accessed by all appropriately authorised shareholders and shareholders' associations.

DATA PROTECTION

Any personal data that the shareholders may provide to the Company (when exercising or delegating their rights to information, attendance, and representation and to vote at the Shareholders' Meeting) or that may be provided by the depository institutions or custodians for the shares of the shareholders or the institutions required by securities market legislation to keep records of securities represented by book entries, will be processed by the Company for the purpose of managing the performance, fulfilment and monitoring of shareholder relations (including but not limited to, calling and holding Shareholders' Meetings and relaying them). For these purposes, the data will be included in filing systems controlled by the Company. The data will be provided to the notary's office for the purposes of drawing up the notarised minutes of the Shareholders' Meeting.

Data subjects will have the right to access, rectify, object to and cancel the data collected by the Company in all cases and where legally permitted. These rights may be exercised, on the terms and in accordance with, the requirements established for this purpose in the legislation in force, by applying in writing to the registered office (calle Velázquez, 130, 28006 Madrid – Shareholder Office (IAG)).

Where the attendance, proxy and remote vote card contains personal data concerning other individuals, the shareholder must inform them of the terms set out in the preceding paragraphs and fulfil any other requirements that may be applicable for the correct disclosure of the personal data to the Company, without the Company having to perform any further steps.

ADDITIONAL INFORMATION

In order to obtain additional information on this Shareholders' Meeting, shareholders may contact the Shareholder Office (IAG) located at calle Velázquez, 130, Madrid in person, by phone on +34 915 878 974 between 0900 and 1700 (CET), Monday to Friday, or by e-mail at the following addresses: institutional investors: investor.relations@iairgroup.com and private shareholders: shareholder.services@iairgroup.com (English) or accionistas@iairgroup.com (Spanish).

PRESENCE OF A NOTARY AT THE SHAREHOLDERS' MEETING

The Board of Directors has resolved to request the presence of a notary to draw up the minutes of the Shareholders' Meeting, in accordance with the provisions of Article 203 of the Companies Law.

Madrid, August 19, 2013. The Secretary of the Board of Directors, Mr Fernando Vives Ruiz.

Resolutions

RESOLUTIONS PROPOSED BY THE BOARD OF DIRECTORS OF INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. TO THE 2013 EXTRAORDINARY SHAREHOLDERS' MEETING

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt about the action you should take, you are recommended to seek your own financial or professional advice immediately from your stockbroker, bank, solicitor, accountant, fund manager or other appropriate independent financial adviser.

If you sell or have sold or otherwise transferred all of your shares in International Consolidated Airlines Group, S.A. before September 20, 2013, please forward this document and any accompanying documentation as soon as possible to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee. If you sell or have sold or otherwise transferred only part of your holding of shares, you should retain this document and the accompanying documentation, and you should consult with the bank, stockbroker or other agent through whom the sale or transfer was effected.

**1. APPROVAL OF THE PROPOSED PURCHASE OF 18 BOEING 787 AIRCRAFT BY BRITISH AIRWAYS PLC.
PROPOSED RESOLUTION:**

RESOLUTION 1

“To approve the proposed purchase of 18 Boeing 787 aircraft by British Airways Plc on the terms and conditions described in the circular dated August 19, 2013.”

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**2. APPROVAL OF THE PROPOSED PURCHASE OF 18 AIRBUS A350 AIRCRAFT BY BRITISH AIRWAYS PLC.
PROPOSED RESOLUTION:**

RESOLUTION 2

“To approve the proposed purchase of 18 Airbus A350 aircraft by British Airways Plc on the terms and conditions described in the circular dated August 19, 2013.”

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3. APPROVAL OF THE PROPOSED PURCHASE OF 30 AIRBUS A320ceo AIRCRAFT AND 32 AIRBUS A320NEO AIRCRAFT BY VUELING AIRLINES, S.A.

PROPOSED RESOLUTION:

RESOLUTION 3

“To approve the proposed purchase of 30 Airbus A320ceo aircraft and 32 Airbus A320neo aircraft by Vueling Airlines, S.A. on the terms and conditions described in the circular dated August 19, 2013.”

* * *

4. APPOINTMENT OF MR. ENRIQUE DUPUY DE LÔMÉ CHÁVARRI AS A DIRECTOR, CLASSIFIED AS EXECUTIVE DIRECTOR.

EXPLANATION:

In this resolution the Board of Directors proposes to the Shareholders' Meeting the appointment of Mr. Enrique Dupuy de Lôme Chávarri as a director, classified as executive director, upon proposal of the Nominations Committee. Mr. Enrique Dupuy de Lôme Chávarri is the Chief Financial Officer of the Company.

- Professional profile and biographical data of Mr. Enrique Dupuy de Lôme Chávarri:

Enrique Dupuy became chief financial officer of IAG in January 2011, joining from Iberia where he was chief financial officer from 1990. He is responsible for the company's financial strategy and development, investor relations, treasury and financial risk management, group investments, accounting and audit.

As Iberia's chief financial officer he led areas such as finance, investment and procurement. Between 2007 and 2009, he also played a leading part in Iberia's strategic planning.

He currently sits on the boards of Amadeus, British Airways and Iberia, as well as being chairman of Iberia Cards.

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

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

- Shares of the Company and derivative financial instruments whose underlying assets are shares of the Company held by the director: Mr. Enrique Dupuy de Lôme Chávarri owns 100 shares in IAG. In addition, he has interests in shares as a result of share options and awards made pursuant to the IAG share schemes as detailed below:

Plan	Date of grant / award	Exercise Price	Earliest exercise/ vesting date	Expiry date	Shares under option/ within award
PSP 2011	March 31, 2011	n/a	Subject to satisfaction of performance conditions	n/a	249,350
IADP 2012	August 3, 2012	n/a	August 3, 2015	n/a	37,267
PSP 2012	August 3, 2012	n/a	Subject to satisfaction of performance conditions	n/a	372,670
IADP 2013	March 6, 2013	n/a	March 6, 2016	n/a	62,241
PSP 2013	March 6, 2013	n/a	Subject to satisfaction of performance conditions	n/a	248,963

PROPOSED RESOLUTION:

RESOLUTION 4

"To appoint Mr. Enrique Dupuy de Lôme Chávarri as a director for the by-law mandated three-year term, upon proposal of the Nominations Committee, with the status of executive director."

* * *

5. DELEGATION OF POWERS TO FORMALISE AND EXECUTE ALL RESOLUTIONS ADOPTED BY THE SHAREHOLDERS AT THIS SHAREHOLDERS' MEETING.

PROPOSED RESOLUTION:

RESOLUTION 5

“To confer authority on, and to delegate powers to, the Board of Directors, with the express power of substitution, to the fullest extent permitted by law, to execute the foregoing resolutions, including: (i) to do all such things and procure that all such things are done, as may be necessary or expedient to complete or give effect to, or otherwise in connection with, the proposed purchases approved in the previous resolutions, and any other agreements or arrangements ancillary or incidental to them; and (ii) to agree to such modifications, variations, revisions, waivers or amendments to the proposed purchases approved in the previous resolutions provided such modifications, variations, waivers or amendments are not material, in either such case as it may in its absolute discretion think fit.”

* * *

August 2013

