FULL YEAR RESULTS ANNOUNCEMENT

International Consolidated Airlines Group (IAG) today (February 28, 2013) presented Group consolidated results for the year to December 31, 2012. In addition, IAG presented combined results for the comparative year to December 31, 2011, including Iberia's first 21 days of January in 2011.

IAG period highlights on combined results:

- Operating loss for the year to December 31, 2012 of €23 million before exceptional items (2011: operating profit €485 million). After exceptional items operating loss for the year not including Iberia restructuring and impairment was €68 million, compared to our guidance in November of €120 million
- Before exceptional items, British Airways made an operating profit of €347 million in the year to December 31, 2012 and Iberia made an operating loss of €351 million
- Non-operating charges for the year were €384 million, including €266 million related to non-cash pensions accounting requirements
- Loss before tax for the year of €997 million (2011: profit before tax of €503 million), including restructuring charge of €202 million for the Iberia transformation plan and €343 million impairment of Iberia intangible assets
- Revenue for the year up 10.9 per cent to €18,117 million (2011: €16,339 million), including €872 million or 5.4 per cent currency impact. Passenger unit revenue for the year up 9.4 per cent, on top of volume increases of 2.8 per cent
- Fuel costs up 20.4 per cent to €6,101 million (2011: €5,068 million before exceptional items). Fuel unit costs up 16.8 per cent, or 8.4 per cent at constant currency
- Non-fuel costs before exceptional items, up 11.6 per cent at €12,039 million, including €543 million of adverse currency translation. Non-fuel unit costs up 8.5 per cent, or 3.8 per cent at constant currency
- Capital investment of €1,239 million (2011: €1,071 million) including over €400 million on pre-delivery payments for future aircraft
- Cash of €2,909 million at December 31, 2012 was down €826 million on 2011 year end (December 2011: €3,735 million). Group net debt up €741 million to €1,889 million (December 2011: €1,148 million)

Performance summary:

	Year to December 31			Consolidated Year to December 31,	
	Consolidated	**Combined**			
Financial data € million	**2012**	2011[1]	Higher / (lower)	2012	2011[2] *(excludes 21 days Iberia pre-merger)*
Passenger revenue	**15,372**	13,675	12.4 %	15,372	13,496
Total revenue	**18,117**	16,339	10.9 %	18,117	16,103
Operating (loss)/profit before exceptional items	**(23)**	485		(23)	522
Exceptional items	**(590)**	(78)		(590)	(78)
Operating (loss)/profit after exceptional items	**(613)**	407		(613)	444
(Loss)/profit before tax	**(997)**	503		(997)	542
(Loss)/profit after tax from continuing operations	**(885)**	555		(885)	582
Basic earnings per share (€ cents)				(51.0)	31.1

Operating figures	**2012**	2011[1]	Higher / (lower)
Available seat kilometres (ASK million)	219,172	213,193	2.8 %
Revenue passenger kilometres (RPK million)	176,102	168,617	4.4 %
Seat factor (per cent)	80.3	79.1	1.2pts
Passenger yield per RPK (€ cents)	8.73	8.11	7.6 %
Passenger unit revenue per ASK (€ cents)	7.01	6.41	9.4 %
Non-fuel unit costs per ASK (€ cents)	5.49	5.06	8.5 %

€ million	**At December 31, 2012**	At December 31, 2011[1]	Higher / (lower)
Cash and interest bearing deposits	**2,909**	3,735	(22.1)%
Net debt	**1,889**	1,148	64.5 %
Equity	**5,055**	5,686	(11.1)%
Adjusted gearing[3]	**51%**	44%	7pts

(1) This financial data is based on the combined results of operations of British Airways Plc ('BA'), Iberia Líneas Aéreas de España S.A. Operadora ('Iberia') and IAG the Company for the year to December 31, 2011. These combined financial statements eliminate cross holdings and related party transactions. Financial ratios are before exceptional items.

(2) The IAG December 31, 2011 comparative is the consolidated results of BA and IAG the Company for the year to December 31, 2011 and Iberia from January 22, 2011 to December 31, 2011.

(3) Adjusted gearing is net debt plus capitalised operating aircraft lease costs, divided by net debt plus capitalised operating aircraft lease costs and equity.

Willie Walsh, IAG chief executive, said:

Willie Walsh, IAG chief executive, said: "2012 has been a year of transformation for IAG - we bought bmi and integrated it into British Airways and initiated our restructuring of Iberia. Our operating performance was solid and the €23 million loss before exceptional items was better than our guidance to the market. However there was a significant impact on the results from exceptional and non-operating items leading to a pre-tax loss of €997 million. These items include provision for restructuring and impairment costs in Iberia and non-cash pension accounting requirements.

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

“We achieved synergies of €313 million in 2012, exceeding our €225 million target set at the beginning of the year. This is another excellent performance, in particular through higher than expected revenue synergies. However, we must not be complacent – while this trend must continue it needs to be hand-in-hand with structural change.

“The divergent financial performance of our airlines continued. British Airways made an operating profit of €347 million, including bmi losses, while Iberia made an operating loss of €351 million.

“We have embarked on a significant transformation programme in Iberia - and these results emphasise further that the airline must adapt to survive. It must stem its cash losses and adjust its cost base permanently if it is to compete with other airlines in all its strategic markets and lay the foundations for profitable growth in the future.

“Despite three months of negotiations between Iberia and its trade unions, no agreement was reached on an initial restructuring plan. Therefore, we have announced that Iberia will proceed with a 15 per cent cut in capacity and has started the formal collective redundancy process which will affect 3,807 jobs.

“British Airways, which is already seeing the benefit of permanent structural change, produced a solid financial performance in 2012, benefitting from a strong London market. The integration of bmi into British Airways was handled very effectively and, crucially, the airline remained focused on its overall business performance during this period. We look forward to extracting the full potential and financial benefits that the bmi acquisition brings us in years ahead.

“We are watching carefully as the UK CAA reviews Heathrow airport’s charges from 2014. It is critical that the airport’s shareholders are not over rewarded at the expense of customers.

“The year ended with a more positive trend as our Q4 operating loss of €40 million before exceptional items out-performed our expectations. This was due to a stronger BA performance, as the airline benefitted from the bmi integration earlier than anticipated, though this was offset by a weaker Iberia performance”.

Trading outlook

The outlook for 2013 will be impacted by the outcome of the Iberia transformation plan negotiations, and any associated costs and losses.

Subject to these, we would expect a better pre-exceptional operating result to the one achieved in 2011.

Forward-looking statements:

Certain information included in these statements is forward-looking and involves risks and uncertainties that could cause actual results to differ materially from those expressed or implied by the forward-looking statements.

Forward-looking statements include, without limitation, projections relating to results of operations and financial conditions and International Consolidated Airlines Group S.A. (the ‘Group’) plans and objectives for future operations, including, without limitation, discussions of the Company’s Business Plan, expected future revenues, financing plans and expected expenditures and divestments. All forward-looking statements in this report are based upon information known to the Company on the date of this report. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

It is not reasonably possible to itemise all of the many factors and specific events that could cause the Company’s forward-looking statements to be incorrect or that could otherwise have a material adverse effect on the future operations or results of an airline operating in the global economy. Further information on the primary risks of the business and the risk management process of the Group is given in the Annual Report and Accounts 2011; these documents are available on www.iagshares.com.

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COMBINED INCOME STATEMENT

€ million	Combined year to December 31, Before exceptional items 2012	Exceptional items	Total 2012 (1)	Before exceptional items 2011	Exceptional items	Total 2011 (1)	Higher / (lower) (1)
Passenger revenue	**15,372**		15,372	13,675		13,675	12.4 %
Cargo revenue	**1,217**		1,217	1,190		1,190	2.3 %
Other revenue	**1,528**		1,528	1,474		1,474	3.7 %
Total revenue	**18,117**		18,117	16,339		16,339	10.9 %
Employee costs	**4,341**	238	4,579	3,870		3,870	12.2 %
Fuel, oil costs and emissions charges	**6,101**		6,101	5,068	89	5,157	20.4 %
Handling, catering and other operating costs	**1,805**		1,805	1,545		1,545	16.8 %
Landing fees and en-route charges	**1,278**		1,278	1,200		1,200	6.5 %
Engineering and other aircraft costs	**1,285**		1,285	1,099		1,099	16.9 %
Property, IT and other costs	**997**	9	1,006	918		918	8.6 %
Selling costs	**830**	7	837	756		756	9.8 %
Depreciation, amortisation and impairment	**1,071**	343	1,414	979		979	9.4 %
Aircraft operating lease costs	**432**	(7)	425	403	(11)	392	7.2 %
Currency differences	**-**		-	16		16	
Total expenditure on operations	**18,140**	590	18,730	15,854	78	15,932	14.4 %
Operating (loss)/profit	**(23)**	(590)	(613)	485	(78)	407	
Net non-operating (costs)/income	**(457)**	73	(384)	13	83	96	
(Loss)/profit before tax from continuing operations	**(480)**	(517)	(997)	498	5	503	
Tax	**68**	44	112	29	23	52	
(Loss)/profit after tax from continuing operations	**(412)**	(473)	(885)	527	28	555	
Loss after tax from discontinued operations	**-**	(38)	(38)	-	-	-	
(Loss)/profit after tax for the year	**(412)**	(511)	(923)	527	28	555	

Operating figures	**2012 (1)**	2011 (1)	Higher / (lower) (1)
Available seat kilometres (ASK million)	**219,172**	213,193	2.8 %
Revenue passenger kilometres (RPK million)	**176,102**	168,617	4.4 %
Seat factor (per cent)	**80.3**	79.1	1.2pts
Passenger numbers (thousands)	**54,600**	51,687	5.6 %
Cargo tonne kilometres (CTK million)	**6,080**	6,156	(1.2)%
Passenger yield per RPK	**8.73**	8.11	7.6 %
Passenger unit revenue per ASK	**7.01**	6.41	9.4 %
Cargo yield per CTK	**20.02**	19.33	3.6 %
Total cost per ASK	**8.28**	7.44	11.3 %
Fuel cost per ASK	**2.78**	2.38	16.8 %
Total cost excluding fuel per ASK	**5.49**	5.06	8.5 %
Aircraft in service	**377**	348	8.3 %
Average employee number	**59,574**	56,791	4.9 %

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

See consolidated results for the year to December 31, 2012 and 2011 overleaf.

CONSOLIDATED INCOME STATEMENT

	Year to December 31,						
€ million	**Before exceptional items 2012**	**Exceptional items**	**Total 2012**(1)	Before exceptional items 2011	Exceptional items	Total 2011(1)	Higher / (lower) (1)
Passenger revenue	**15,372**		15,372	13,496		13,496	13.9 %
Cargo revenue	**1,217**		1,217	1,176		1,176	3.5 %
Other revenue	**1,528**		1,528	1,431		1,431	6.8 %
Total revenue	**18,117**		18,117	16,103		16,103	12.5 %
Employee costs	**4,341**	238	4,579	3,799		3,799	14.3 %
Fuel, oil costs and emissions charges	**6,101**		6,101	4,999	89	5,088	22.0 %
Handling, catering and other operating costs	**1,805**		1,805	1,522		1,522	18.6 %
Landing fees and en-route charges	**1,278**		1,278	1,175		1,175	8.8 %
Engineering and other aircraft costs	**1,285**		1,285	1,074		1,074	19.6 %
Property, IT and other costs	**997**	9	1,006	903		903	10.4 %
Selling costs	**830**	7	837	740		740	12.2 %
Depreciation, amortisation and impairment	**1,071**	343	1,414	969		969	10.5 %
Aircraft operating lease costs	**432**	(7)	425	386	(11)	375	11.9 %
Currency differences	**-**		-	14		14	
Total expenditure on operations	**18,140**	590	18,730	15,581	78	15,659	16.4 %
Operating (loss)/profit	**(23)**	(590)	(613)	522	(78)	444	
Net non-operating (costs)/income	**(457)**	73	(384)	15	83	98	
(Loss)/profit before tax from continuing operations	**(480)**	(517)	(997)	537	5	542	
Tax	**68**	44	112	17	23	40	
(Loss)/profit after tax from continuing operations	**(412)**	(473)	(885)	554	28	582	
Loss after tax from discontinued operations	**-**	(38)	(38)				
(Loss)/profit after tax for the year	**(412)**	(511)	(923)	554	28	582	
Basic (loss)/earnings per share (€ cents)			(51.0)			31.1	
Diluted (loss)/earnings per share (€ cents)			(51.0)			29.7	

(1) The IAG December 31, 2012 Income statement is the consolidated results of International Consolidated Airlines Group, S.A. for the year to December 31, 2012. The IAG December 31, 2011 comparative is the consolidated results of BA and IAG the Company for the year to December 31, 2011 and Iberia from January 22, 2011 to December 31, 2011.

CONSOLIDATED INCOME STATEMENT

€ million	Three months to December 31, 2012 Before exceptional items	 Exceptional items	 Total	Three months to December 31, 2011 Before exceptional items	 Exceptional items	 Total	 Higher / (lower)
Passenger revenue	**3,812**		3,812	3,414		3,414	11.7 %
Cargo revenue	**329**		329	310		310	6.1 %
Other revenue	**388**		388	352		352	10.2 %
Total revenue	**4,529**		4,529	4,076		4,076	11.1 %
Employee costs	**1,183**	204	1,387	1,014		1,014	16.7 %
Fuel, oil costs and emissions charges	**1,468**		1,468	1,317	13	1,330	11.5 %
Handling, catering and other operating costs	**457**		457	386		386	18.4 %
Landing fees and en-route charges	**304**		304	301		301	1.0 %
Engineering and other aircraft costs	**306**		306	259		259	18.1 %
Property, IT and other costs	**259**	34	293	241		241	7.5 %
Selling costs	**190**	2	192	189		189	0.5 %
Depreciation, amortisation and impairment	**285**	343	628	244		244	16.8 %
Aircraft operating lease costs	**110**	(1)	109	105	(3)	102	4.8 %
Currency differences	**7**		7	(14)		(14)	
Total expenditure on operations	**4,569**	582	5,151	4,042	10	4,052	13.0 %
Operating (loss)/profit	**(40)**	(582)	(622)	34	(10)	24	
Net non-operating (costs)/income	**(279)**	73	(206)	120	4	124	
(Loss)/profit before tax from continuing operations	**(319)**	(509)	(828)	154	(6)	148	
Tax	**(97)**	34	(63)	46	23	69	
(Loss)/profit after tax from continuing operations	**(416)**	(475)	(891)	200	17	217	
Loss after tax from discontinued operations	**-**	7	7	-		-	
(Loss)/profit after tax for the year	**(416)**	(468)	(884)	200	17	217	

Operating figures	2012	2011	Higher / (lower)
Available seat kilometres (ASK million)	**53,607**	52,989	1.2 %
Revenue passenger kilometres (RPK million)	**42,168**	41,192	2.4 %
Seat factor (per cent)	**78.7**	77.7	1.0pt
Passenger numbers (thousands)	**13,117**	12,325	6.4 %
Cargo tonne kilometres (CTK million)	**1,561**	1,596	(2.2)%
Passenger yield per RPK	**9.04**	8.29	9.0 %
Passenger unit revenue per ASK	**7.11**	6.44	10.4 %
Cargo yield per CTK	**21.08**	19.42	8.5 %
Total cost per ASK	**8.52**	7.63	11.7 %
Fuel cost per ASK	**2.74**	2.49	10.0 %
Total cost excluding fuel per ASK	**5.78**	5.14	12.5 %
Average employee number	**59,506**	56,782	4.8 %

Financial review:

Highlights

The results for 2012 reflect the post-acquisition losses and integration costs for bmi, the deteriorating losses at Iberia requiring structural change and the adverse impact of sustained high fuel prices through the year. We believe 2013 will not see a repeat of these headwinds. In addition, we also made a restructuring charge for the Iberia transformation plan and an impairment of some of the Iberia related intangible assets.

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

Business review

From the time our 2012 flying schedules were finalised in late 2011 we continued to see deteriorations in the global economic outlook, especially in our key markets: the UK, Spain and the Eurozone. We therefore adjusted our capacity downwards in light of these adverse macro-economic circumstances. Our initial growth plans for 2012 were to grow capacity by 2.5 per cent, but this was reduced to 1.7 per cent by Q1 2012 and as shown below we further reduced to just 0.7 per cent for the full year, before including the acquisition of bmi.

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

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

Full year to December 2012	Capacity ASKs	Traffic RPKs	Passenger seat factor	Cargo CTKs
IATA				
International	4.0%	6.0%	+1.5 pts	
Domestic	3.8%	4.0%	+0.2 pts	
Total Market	3.9%	5.3%	+1.0 pts	-1.5%
IAG – excluding bmi acquisition				
International	0.6%	2.5%	+1.5 pts	
Domestic	4.7%	6.4%	+1.2 pts	
Total Market	0.7%	2.6%	+1.5 pts	-1.8%

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

Net of hedging fuel price increases were the main cost hurdle to overcome during the year, as hedging benefits unwound through the year and market prices remained above the $100 a barrel basis for the year. Non-fuel unit costs were well controlled being up 2.8 per cent on a constant currency basis and excluding the impact of bmi joining the Group. Excluding a number of one-off impacts, at constant currency, on a 'like for like' basis, non-fuel unit costs were only up by 0.8 per cent.

bmi

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

Exchange rates

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

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

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

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

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

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

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

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

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

Passenger revenue

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

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

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

Market segments

Longhaul

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

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

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

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

Shorthaul

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

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

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

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

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

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

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

Expenditure before exceptional items

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

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

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

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

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

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

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

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

Operating profit and loss performance of operating companies

British Airways

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

Iberia

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

Exceptional items

Exceptional items mainly reflect:

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

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

Operating result after exceptional items

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

Non-operating items

Finance income and costs

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

Profit on sale of property, plant and equipment and investments

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

Net financing (charge)/credit relating to pensions

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

Gain on bargain purchase

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

(Loss)/profit before tax from continuing operations

IAG loss before tax was €997 million, compared to a profit of €503 million on a combined basis for 2011 and €542 million on a consolidated basis.

Taxation

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

(Loss)/profit after tax on continuing operations

IAG loss after tax was €885 million, compared to €555 million profit for 2011.

Loss after tax from discontinued operations

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

(Loss)/profit after tax for the year

IAG loss after tax was €923 million, compared to €555 million for 2011.

Earnings per share

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

Balance sheet

Property, plant and equipment

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

Intangible assets

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

Other non-current assets

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

Cash and cash equivalents

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

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

Trade and other payables

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

Net debt

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

Cashflow

Cashflow from operating activities

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

Cashflow from investing activities

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

Cashflow from financing activities

Cash outflows on financing decreased mainly due to increased proceeds on aircraft borrowings. In addition, in October 2012 IAG completed a three year revolving credit facility of $805 million with a syndicate of banks with collateral provided by unencumbered aircraft and engine assets.

Strategic framework

Our mission is to be the leading international airline Group. This means we will:

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

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

IAG's six core strategic objectives are:

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

Principal risks and uncertainties

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

The Directors of the Group believe that the risks and uncertainties described below and as detailed in the Annual Report and Accounts 2011 are the ones that may have the most significant impact on the long-term value of IAG. The list is not intended to be exhaustive. The Group carries out detailed risk management reviews to ensure that the risks are mitigated where possible.

Strategic

Government intervention

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

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

Business and operational

Economic conditions

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

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

Iberia transformation

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

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

INTERNATIONAL CONSOLIDATED AIRLINES GROUP S.A.

Full Year Condensed Consolidated Financial Statements
January 1, 2012 – December 31, 2012

CONSOLIDATED INCOME STATEMENT

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

Items in the consolidated Statement of comprehensive income above are disclosed net of tax.

CONSOLIDATED BALANCE SHEET

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

CONSOLIDATED CASH FLOW STATEMENT

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year to December 31, 2012

€ million	Issued share capital	Share premium	Investment in own shares	Other reserves[1]	Total shareholder equity	Non-controlling interest	Total equity
At January 1, 2012	928	5,280	(17)	(805)	**5,386**	300	**5,686**
Total comprehensive income for the year (net of tax)	-	-	-	(655)	**(655)**	20	**(635)**
Cost of share-based payments	-	-	-	24	**24**	-	**24**
Distributions made to holders of perpetual securities	-	-	-	-	**-**	(20)	**(20)**
At December 31, 2012	**928**	**5,280**	**(17)**	**(1,436)**	**4,755**	**300**	**5,055**

[1]Closing balance includes retained earnings of €743 million.

For the year to December 31, 2011

€ million	Issued share capital	Share premium	Investment in own shares	Other reserves[1]	Total shareholder equity	Non-controlling interest	Total equity
At January 1, 2011[2]	-	-	(4)	2,529	**2,525**	300	**2,825**
Total comprehensive income for the year (net of tax)	-	-	-	492	**492**	20	**512**
Shares issued during the year	928	5,280	(14)	(3,839)	**2,355**	-	**2,355**
Cost of share-based payments	-	-	-	18	**18**	-	**18**
Exercise of share options	-	-	1	(5)	**(4)**	-	**(4)**
Distributions made to holders of perpetual securities	-	-	-	-	**-**	(20)	**(20)**
At December 31, 2011	**928**	**5,280**	**(17)**	**(805)**	**5,386**	**300**	**5,686**

[1]Closing balance includes retained earnings of €1,662 million.

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

NOTES TO THE ACCOUNTS
For the year to December 31, 2012

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

On January 21, 2011 British Airways Plc and Iberia Líneas Aéreas de España S.A. Operadora (hereinafter 'British Airways' and 'Iberia' respectively) completed a merger transaction of the two companies to create a new leading European airline group. As a result of the merger, International Consolidated Airlines Group S.A. (hereinafter 'International Airlines Group', 'IAG' or the 'Group') was formed to hold the interests of both the existing airline groups. IAG is a Spanish company registered in Madrid and was incorporated on April 8, 2010.

IAG shares are traded on the London Stock Exchange's main market for listed securities and also on the stock exchanges of Madrid, Barcelona, Bilbao and Valencia (the 'Spanish Stock Exchanges'), through the Spanish Stock Exchanges Interconnection System (Mercado Continuo Español).

The Group's full year condensed consolidated financial statements for the year to December 31, 2012 were prepared in accordance with IAS 34 and authorised for issue by the Board of Directors on February 27, 2013. The condensed financial statements herein are not the Company's statutory accounts and are extracted from the audited financial statements for the year to December 31, 2012. The Directors consider that the Group has adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the condensed financial statements.

The basis of preparation and accounting policies set out in the IAG Annual Report and Accounts for the year to December 31, 2011 have been applied in the preparation of these summary consolidated financial statements. IAG's financial statements for the year to December 31, 2011 have been filed with the Registro Mercantil de Madrid, and are in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and with those of the Standing Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB). The report of the auditors on those financial statements was unqualified.

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

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

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

2. ACCOUNTING POLICIES

The accounting policies and methods of calculation adopted are consistent with those of the annual financial statements for the year to December 31, 2011, as described in the financial statements of IAG, except as discussed below.

There are no new standards that are effective for the first time for the financial year beginning on or after January 1, 2012 that would be expected to have a material impact on the Group.

The Group has adopted the following amendments from January 1, 2012:

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

Other amendments resulting from improvements to IFRSs did not have any impact on the accounting policies, financial position or performance of the Group. The Group has not early adopted any standard, interpretation or amendment that has been issued but not yet effective.

3. BUSINESS COMBINATIONS

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

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

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

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

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

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

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

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

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

4. DISCONTINUED OPERATIONS

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

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

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

5. EXCEPTIONAL ITEMS

€ million	Year to December 31, 2012	2011
Pre-acquisition cash flow hedge benefits[1]	**(7)**	78
Settlement of competition investigation[2]	**(35)**	-
Business combination costs[3]	**87**	-
Restructuring costs[4]	**202**	-
Intangible assets and goodwill impairment[5]	**343**	-
Recognised in expenditure on operations	**590**	78
Loss on discontinued operations[6]	**(38)**	-
Gain on bargain purchase[7]	**73**	-
Step acquisition[8]	-	(83)
Total exceptional charge/(credit) before tax	**625**	(5)

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

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

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

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

[4]*Restructuring costs*
A restructuring expense of €202 million has been recognised in relation to the Iberia transformation plan.

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

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

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

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

6. SEASONALITY

The Group's business is highly seasonal with demand strongest during the summer months. Accordingly higher revenues and operating profits are usually expected in the latter six months of the financial year than in the first six months.

7. SEGMENT INFORMATION

a. Business segments

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

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

[(1)]The British Airways segment includes an exceptional charge of €52 million related to provisions and business combination costs, the Iberia segment includes an exceptional charge of €202 million related to restructuring costs and a charge of €343 million related to impairment of intangible assets and the impairment of goodwill, and the Unallocated segment includes an exceptional credit of €7 million associated with derivatives and financial instruments (note 5).

For the year to December 31, 2011	2011			
€ million	British Airways	Iberia	Unallocated	Total
Revenue				
External revenue	11,483	4,620	-	16,103
Inter-segment revenue	9	16	36	61
Segment revenue	11,492	4,636	36	16,164
Depreciation, amortisation and impairment	(786)	(169)	(14)	(969)
Operating profit/(loss)[(2)]	592	(61)	(87)	444
Net non-operating income				98
Profit before tax				542

[(2)]The Unallocated segment includes an exceptional charge of €78 million (note 5) related to derivatives and financial instruments.

b. Geographical analysis

Revenue by area of original sale

	Year to December 31	
€ million	**2012**	2011
UK	**6,029**	5,124
Spain	**2,548**	2,168
USA	**2,647**	2,247
Rest of world	**6,893**	6,564
	18,117	16,103

7. SEGMENT INFORMATION continued
b. Geographical analysis continued

Assets by area
At December 31, 2012

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

At December 31, 2011

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

8. FINANCE COSTS AND INCOME

	Year to December 31,	
€ million	**2012**	2011
Finance costs		
Interest payable on bank and other loans, finance charges payable under finance leases	**(226)**	(198)
Unwinding of discount on provisions	**(37)**	(41)
Capitalised interest on progress payments	**4**	2
Change in fair value of cross currency swaps	**1**	1
Currency (charges)/credits on financial fixed assets	**(6)**	16
Total finance costs	**(264)**	(220)
Finance income		
Interest on other interest bearing deposits	**53**	85
Total finance income	**53**	85
Net (charge)/credit relating to pensions		
Net financing (expense)/income relating to pensions	**(43)**	72
Amortisation of actuarial losses in excess of the corridor	**(44)**	(30)
Effect of Airways pension scheme asset ceiling	**(179)**	142
Net financing (charge)/credit relating to pensions	**(266)**	184

9. TAX

The tax credit for the year to December 31, 2012 is €112 million (2011: €40 million).

The Group's subsidiaries are in Spain and the UK. Legislation was enacted during the year, reducing the main rate of UK corporation tax from 26 per cent to 24 per cent effective from April 1, 2012, and reducing the rate by an additional 1 per cent to 23 per cent by April 1, 2013. The reduction in the UK corporation tax rate reduces the deferred tax liability provided at December 31, 2012 by €90 million. Further planned reductions to the main rate of corporation tax by 2 per cent to 21 per cent by April 1, 2014 will be applied in the financial statements as the legislation is substantively enacted.

During the year, €204 million of deferred tax assets related to current year tax losses incurred have not been recognised.

Excluding the one-off adjustment arising from the reduction in the UK corporation tax rate, the non-taxable charge for the impairment of goodwill and the tax assets not recognised during the year, the effective tax rate for the year to December 31, 2012 was 30 per cent.

10. EARNINGS PER SHARE

Basic earnings per share for the year to December 31, 2012 are calculated on a weighted average of 1,848,452,648 ordinary shares and adjusted for shares held for the purposes of Employee Share Ownership Plans. Diluted earnings per share for the year to December 31, 2012 are calculated on a weighted average of 2,067,750,454 ordinary shares.

The number of shares in issue at December 31, 2012 was 1,855,369,557 ordinary shares of €0.50 each (2011: 1,855,369,557 ordinary shares of €0.50 each).

11. DIVIDENDS

The Directors propose that no dividend be paid for the year to December 31, 2012 (2011: €nil).

12. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

€ million	**Property, plant and equipment**	**Goodwill and intangible assets[1]**
Net book value at January 1, 2012	9,584	1,724
Additions	1,118	119
Acquired through business combination	133	499
Disposals	(94)	(4)
Reclassifications	(3)	-
Depreciation, amortisation and impairment	(1,028)	(386)
Exchange movements	216	13
Net book value at December 31, 2012	**9,926**	**1,965**
Net book value at January 1, 2011	8,080	336
Additions	952	97
Acquired through business combination	1,385	1,326
Disposals	(37)	-
Reclassifications	(14)	-
Depreciation, amortisation and impairment	(926)	(43)
Exchange movements	144	8
Net book value at December 31, 2011	9,584	1,724

[1] Includes goodwill and indefinite life intangible assets of €1,748 million, and definite life intangible assets of €217 million.

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to €4,910 million for the Group commitments (2011: €5,359 million). The majority of capital expenditure commitments are denominated in US dollars and are subject to fluctuations in exchange rates.

13. IMPAIRMENT REVIEW

The carrying amounts of intangible assets with indefinite life and goodwill for the two cash generating units of the Group are:

€ million	Goodwill	Brand	Customer loyalty programmes	Landing rights	**Total**
2012					
Iberia					
At January 1, 2012	249	306	253	423	1,231
Impairment charge recognised in the year	(249)	(79)	-	-	(328)
At December 31, 2012	-	227	253	423	903
British Airways					
At January 1, 2012	48	-	-	280	328
Additions	-	-	-	8	8
Additions due to business combination	-	-	-	499	499
Exchange movements	1	-	-	9	10
At December 31, 2012	49	-	-	796	845
At December 31, 2012	**49**	**227**	**253**	**1,219**	**1,748**

13. IMPAIRMENT REVIEW continued

€ million	Goodwill	Brand	Customer loyalty programmes	Landing rights	**Total**
2011					
Iberia					
At January 1, 2011	-	-	-	-	-
Additions due to business combination	249	306	253	423	1,231
At December 31, 2011	249	306	253	423	1,231
British Airways					
At January 1, 2011	47	-	-	237	284
Additions	-	-	-	39	39
Exchange movements	1	-	-	4	5
At December 31, 2011	48	-	-	280	328
At December 31, 2011	297	306	253	703	1,559

Basis for calculating recoverable amount
Goodwill, Brand and the Avios customer loyalty programme recoverable amounts have been measured based on their value-in-use.

Landing rights recoverable amount has been measured by reference to market transactions of similar assets less costs to sell; through fair value less costs to sell; or through value-in-use.

Value-in-use is calculated using a discounted cash flow model. Value-in-use for brand is based on the royalty methodology. Cash flow projections are based on the business plan approved by the Board covering a five year period. Cash flows extrapolated beyond the five year period are projected to increase on long-term growth rates. Cash flow projections are discounted using the cash generating unit's (CGU) pre-tax discount rate.

Annually the Group prepares and approves formal five year business plans. Business plans were approved in the fourth quarter of the year. The Iberia Business plan cash flows used in the value-in-use calculations have been adjusted to only reflect restructuring of the business which has been approved by the Board and can be executed by management without requiring any further agreement. Restructuring costs associated with the Iberia transformation plan of €202 million have been provided as an exceptional charge in employee costs in the current year Income statement.

Key assumptions
Key assumptions and growth rates are based on past performance and management's expectations of the market. The market conditions in which Iberia is currently operating have become more challenging. The outlook for the economic environment in Spain is pessimistic and is expected to remain so over the next 12 to 18 months. Based on these factors, coupled with Iberia's declining performance and the risk of industrial action; the key assumptions for the Iberia CGU have been revised to reflect contingencies in the execution of its Business plan. In addition, the discount rate applied to the Iberia CGU has been increased to reflect the persistently high Spanish government bond yields and the continued uncertainty arising from austerity measures, high unemployment and bank recapitalisation.

The Business plan assumed a fuel price of $110 per barrel (2011: $120 per barrel), US dollar exchange rate of 1.25 to the euro (2011: 1.40) and 1.57 to the pound sterling (2011: 1.60).

	2012		2011	
Per cent	British Airways	Iberia	British Airways	Iberia
Pre-tax discount rate	**10.0**	**11.7**	10.0	10.0
Perpetual growth rate	**2.5**	**-**	2.5	2.5

Iberia brand recoverable amount has been measured based on the royalty methodology, with a royalty rate of 0.60 per cent (2011: 0.64 per cent). The adjusted Business plan projects a 15 per cent reduction in capacity resulting in a decrease in revenues. The decrease in revenues and the increase in discount rate have led to a €79 million impairment of the Iberia brand, recorded as an exceptional charge within Depreciation, amortisation and impairment in the Income statement.

As a result of the Iberia impairment review, goodwill was impaired by its full carrying amount of €249 million and franchise agreements impaired €15 million, both recorded as exceptional charges within Depreciation, amortisation and impairment in the Income statement.

Sensitivities
Any further decline in estimated value-in-use of the Iberia cash generating unit is liable for an additional impairment of the brand, customer loyalty programmes or landing rights. A change of 0.50 percentage points in the post-tax discount rate would increase or decrease the recoverable amount by approximately €90 million. A change of 0.50 percentage points in the perpetual growth rate would increase or decrease the recoverable amount by approximately €65 million. A change of 15 per cent of revenues would increase or decrease the recoverable amount of brand by approximately €35 million.

No reasonable possible change in the key assumptions for the British Airways cash generating unit would cause the carrying amounts of goodwill to exceed the recoverable amounts.

14. NON-CURRENT ASSETS HELD FOR SALE

The non-current assets held for sale of €3 million represent property acquired as part of the bmi acquisition which is expected to be sold within 12 months (2011: €18 million in relation to three Boeing 757 aircraft).

Non-current assets held for sale with a net book value of €31 million were disposed of by the Group during the year to December 31, 2012 (2011: €35 million), resulting in no gain or loss on disposal (2011: loss of €7 million).

15. FINANCIAL INSTRUMENTS BY CATEGORY

The detail of the Group's financial instruments at December 31, 2012 and December 31, 2011 by nature and classification for measurement purposes is as follows:

At December 31, 2012

	Financial assets						
€ million	Loans and receivables	Assets at FV through P&L	Derivatives used for hedging	Available for sale	Assets held to maturity	Non-financial assets	**Total carrying amount by balance sheet item**
Non-current assets							
Available-for-sale financial assets	-	-	-	684	-	-	**684**
Derivative financial instruments	-	-	26	-	-	-	**26**
Other non-current assets	92	-	-	-	4	17	**113**
Current assets							
Trade receivables	1,149	-	-	-	-	-	**1,149**
Other current assets	123	-	-	-	-	358	**481**
Derivative financial instruments	-	-	70	-	-	-	**70**
Other current interest-bearing deposits	1,543	-	-	-	4	-	**1,547**
Cash and cash equivalents	1,362	-	-	-	-	-	**1,362**

	Financial liabilities				
€ million	Loans and payables	Liabilities at FV through the P&L	Derivatives used for hedging	Non-financial liabilities	**Total carrying amount by balance sheet item**
Non-current liabilities					
Interest-bearing long term borrowings	4,128	-	-	-	**4,128**
Derivative financial instruments	-	-	95	-	**95**
Other long-term liabilities	18	-	-	232	**250**
Current liabilities					
Current portion of long-term borrowings	670	-	-	-	**670**
Trade and other payables	3,378	-	-	2,635	**6,013**
Derivative financial instruments	-	-	66	-	**66**

At December 31, 2011

	Financial assets						
€ million	Loans and receivables	Assets at FV through P&L	Derivatives used for hedging	Available for sale	Assets held to maturity	Non-financial assets	Total carrying amount by balance sheet item
Non-current assets							
Available-for-sale financial assets	-	-	-	466	-	-	466
Derivative financial instruments	-	-	37	-	-	-	37
Other non-current assets	42	-	-	-	8	21	71
Current assets							
Trade receivables	1,175	-	-	-	-	-	1,175
Other current assets	203	-	-	-	-	242	445
Derivative financial instruments	-	-	119	-	-	-	119
Other current interest-bearing deposits	1,507	-	-	-	251	-	1,758
Cash and cash equivalents	1,977	-	-	-	-	-	1,977

15. FINANCIAL INSTRUMENTS BY CATEGORY continued

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

16. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

€ million	Year to December 31, **2012**	2011
(Decrease)/increase in cash and cash equivalents during the year	**(607)**	371
Net (debt)/funds acquired through business combination	**(41)**	1,402
Net cash outflow from repayments of debt and lease financing	**669**	653
Decrease in other current interest-bearing deposits	**(246)**	(843)
New loans and finance leases	**(534)**	(304)
(Increase)/decrease in net debt resulting from cash flow	**(759)**	1,279
Exchange movements and other non-cash movements	**18**	(73)
(Increase)/decrease in net debt during the year	**(741)**	1,206
Net debt at January 1	**(1,148)**	(2,354)
Net debt at December 31	**(1,889)**	(1,148)

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

17. BORROWINGS

	December 31, 2012	December 31, 2011
Current		
Bank and other loans	**235**	247
Finance leases	**435**	332
	670	579
Non-current		
Bank and other loans	**1,491**	1,625
Finance leases	**2,637**	2,679
	4,128	4,304

In August 2009, British Airways issued a £350 million fixed rate 5.8 per cent convertible bond, convertible into ordinary shares at the option of the holder, before or on maturity in August 2014. Under the terms of the merger, the bondholders are now eligible to convert their bonds into ordinary shares of IAG. Conversion into ordinary shares will occur at rate of £1.89 per share. The equity portion of the convertible bond issue is included in Other reserves. At December 31, 2012 184,708,995 options were outstanding (2011: 184,708,995).

The Group's finance lease for one A340-600 is subject to financial covenants which are tested annually. The Group has informed its lenders that it had failed to meet one of the covenants for the year to December 31, 2012. As a result of this covenant breach, one finance lease has technically become repayable on demand and $85 million (€64 million) has been reclassified from non-current to current. On February 14, 2013 the Group obtained a waiver from the lessors.

Three of the Group's A340-600 operating leases are also subject to financial covenants which are tested annually. The Group has informed its lenders that it had failed to meet one of the covenants for the year to December 31, 2012. The remaining operating lease payments of $239 million (€181 million) will technically fall due within one year.

The Group has received notice from the lessor that two of the eight lending institutions have waived the covenant breach. The remaining institutions have provided positive feedback and are expecting their risk committees to formally waive the breach.

It is expected for the lessor to issue a formal waiver by March 15, 2013.

18. SHARE BASED PAYMENTS

During the year 16,221,196 conditional shares were awarded under the Group's Performance Share Plan (PSP) to key senior executives and selected members of the wider management team. No payment is due upon the vesting of the shares. The fair value of equity-settled share options granted is estimated as at the date of the award using the Monte-Carlo model, taking into account the terms and conditions upon which the options were awarded. The following are the inputs to the model for the PSP options granted in the year:

Expected share price volatility: 45 per cent
Expected life of options: 3 years
Weighted average share price: £1.61

The Group also made awards under the bonus deferral plan (BDP) during the year, under which 973,504 conditional shares were awarded.

19. EMPLOYEE BENEFIT OBLIGATIONS

The Group operates two principal funded defined benefit pension schemes in the UK, the Airways pension scheme (APS) and the New Airways pension scheme (NAPS), both of which are closed to new members.

	APS		NAPS	
€ million	**December 31, 2012**	December 31, 2011	**December 31, 2012**	December 31, 2011
Fair value of scheme assets	**8,815**	8,285	**12,395**	10,895
Present value of scheme liabilities	**(7,911)**	(7,232)	**(14,031)**	(11,972)
Net pension asset/(liability)	**904**	1,053	**(1,636)**	(1,077)
Net pension asset/(liability) represented by:				
Net pension asset recognised	**606**	700	**852**	608
Restriction on APS surplus due to the asset ceiling	**179**	-	**-**	-
Cumulative actuarial gains/(losses) not recognised	**119**	353	**(2,488)**	(1,685)
Net pension asset/(liability)	**904**	1,053	**(1,636)**	(1,077)

At December 31, 2012 both APS and NAPS were recognised on the Balance sheet as employee benefit assets, representing €1,458 million of the €1,467 million disclosed (2011: €1,308 million of €1,317 million). The €293 million employee benefit obligations at December 31, 2012 relates to other schemes (2011: €277 million).

The accounting valuation was performed after updating key assumptions at December 31, 2012 as follows:

	APS		NAPS	
€ million	**December 31, 2012**	December 31, 2011	**December 31, 2012**	December 31, 2011
Per cent per annum:				
Inflation (CPI)	2.10	2.15	2.15	2.25
Inflation (RPI)	2.9	2.9	2.9	3.0
Salary increases (as RPI)	2.9	2.9	2.9	3.0
Discount rate	4.1	4.7	4.5	5.0

The triennial valuation exercise is currently being undertaken as at March 31, 2012 and will be agreed with the Trustees by June 30, 2013.

20. PROVISIONS FOR LIABILITIES AND CHARGES

€ million	Employee leaving indemnities and other employee related provisions	Legal claims provisions	Restoration and handback provisions	Other provisions	**Total**
Net book value January 1, 2012	916	253	329	98	**1,596**
Provisions recorded during the year	333	65	119	108	**625**
Acquired through business combination	11	19	103	99	**232**
Utilised during the year	(156)	(86)	(33)	(56)	**(331)**
Release of unused amounts and other movements	(12)	(49)	(41)	(7)	**(109)**
Unwinding of discount	22	6	7	2	**37**
Exchange differences	1	3	-	(1)	**3**
Net book value at December 31, 2012	**1,115**	**211**	**484**	**243**	**2,053**
Analysis:					
Current	426	140	129	108	803
Non-current	689	71	355	135	1,250

21. CONTINGENT LIABILITIES

There were contingent liabilities at December 31, 2012 in respect of guarantees and indemnities entered into as part of the ordinary course of the Group's business. No material losses are likely to arise from such contingent liabilities. A number of other lawsuits and regulatory proceedings are pending, the outcome of which in the aggregate is not expected to have a material effect on the Group's financial position or results of operations.

The Group has certain liabilities and commitments, which at December 31, 2012 amounted to €110 million (2011: €111 million).

22. RELATED PARTY TRANSACTIONS

The Group had the following transactions in the ordinary course of business with related parties for the financial years to December 31.

Sales and purchases of goods and services:

€ million	**Year to December 31, 2012**	2011
Sales of goods and services		
Sales to associates	**148**	163
Sales to significant shareholders	**-**	5
Purchases of goods and services		
Purchases from associates	**63**	66
Purchases from significant shareholders	**22**	21

Year end balances arising from sales and purchases of goods and services:

€ million	**December 31, 2012**	December 31, 2011
Receivables from related parties		
Amounts owed by associates	**35**	24
Amounts owed by significant shareholders	**31**	282
Payables to related parties		
Amounts owed to associates	**22**	19
Amounts owed to significant shareholders	**2**	-

For the year to December 31, 2012, the Group had not made any provisions for doubtful debts relating to amounts owed by related parties (2011: €nil).

During the year to December 31, 2012 the Group entered into a hedging transaction with Nomura International plc, a related party to IAG as there is a common Non-Executive Board member. The transaction is a risk management exercise to protect the value of the 33,562,331 ordinary shares the Group holds in Amadeus IT Holding S.A.

22. RELATED PARTY TRANSACTIONS continued

Board of Directors and Management Committee remuneration

Compensation received by the Group's key management personnel is as follows:

€ million	**2012**	2011
Base salary, fees and benefits		
Board of Directors' remuneration	**6**	7
Management Committee remuneration	**4**	3

The Company provides life insurance for Executive members of the Board and the Management Committee, and for the year to December 31, 2012 the Company's obligation was €28,000 (2011: €13,000).

At December 31, 2012 the transfer value of accrued pensions covered under defined benefit pension obligation schemes, relating to both the Board of Directors and the Management Committee totalled €5 million (2011: €4 million).

No loans or credit transactions were outstanding with Directors or officers of the Group at December 31, 2012 (2011: €nil).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

LIABILITY STATEMENT OF COMPANY DIRECTORS FOR THE PURPOSES ENVISAGED UNDER ARTICLE 11.1.b OF SPANISH ROYAL DECREE 1362/2007 OF 19 OCTOBER (REAL DECRETO 1362/2007).

At a meeting held on February 27, 2013, the Directors of International Consolidated Airlines Group, S.A. confirmed that to the best of their knowledge the Full Year Condensed Consolidated Financial Statements for the year to December 31, 2012 were prepared in accordance with IAS 34 as adopted by the European Union, offer a true and fair view of the assets, liabilities, financial situation and the results of International Consolidated Airlines Group, S.A. and of the companies that fall within the consolidated group taken as a whole, and the Full Year Condensed Consolidated Management Report includes an accurate analysis of the required information also in accordance with the Financial Services Authority's DTR 4.2.7R and DTR4.2.8R including an indication of important events in the year, a description of the principal risks and material related party transactions.

February 27, 2013

Antonio Vázquez Romero
Chairman

Martin Faulkner Broughton
Deputy Chairman

William Matthew Walsh
Chief Executive Officer

César Alierta Izuel

Patrick Jean Pierre Cescau

José Manuel Fernández Norniella

Denise Patricia Kingsmill

Manuel Lagares Gómez-Abascal

James Arthur Lawrence

José Pedro Pérez-Llorca y Rodrigo

Kieran Charles Poynter

Rafael Sánchez-Lozano Turmo

John William Snow

Keith Williams

AIRCRAFT FLEET

Number in service with Group companies

	On balance sheet fixed assets	Off balance sheet operating leases	**Total December 31, 2012**	Total December 31, 2011	Changes since December 31, 2011		Future deliveries	Options
					IAG fleet	bmi fleet[1]		
Airbus A318	2	-	**2**	2	-	-	-	-
Airbus A319	31	32	**63**	52	-	11	2	-
Airbus A320	44	41	**85**	70	8	7	17	31
Airbus A321	18	18	**36**	30	(1)	7	-	-
Airbus A330	-	-	**-**	-	-	-	8	8
Airbus A340-300	7	6	**13**	18	(5)	-	-	-
Airbus A340-600	2	15	**17**	17	-	-	-	-
Airbus A380	-	-	**-**	-	-	-	12	7
Boeing 737-400	19	-	**19**	19	-	-	-	-
Boeing 747-400	52	-	**52**	52	-	-	-	-
Boeing 757-200	1	2	**3**	3	-	-	-	-
Boeing 767-300	21	-	**21**	21	-	-	-	-
Boeing 777-200	41	5	**46**	46	-	-	-	-
Boeing 777-300	5	1	**6**	5	1	-	6	-
Boeing 787	-	-	**-**	-	-	-	24	28
Embraer E170	6	-	**6**	6	-	-	-	-
Embraer E190	8	-	**8**	7	1	-	-	15
Group total	**257**	**120**	**377**	**348**	**4**	**25**	**69**	**89**

[1] A total of 41 aircraft were acquired through acquisition, of which 16 have since been stood down.