SIX MONTHS RESULTS ANNOUNCEMENT

International Consolidated Airlines Group (IAG) today (August 3, 2012) presented Group consolidated results for the six months ended June 30, 2012 and 2011. In addition, IAG presented combined results for the six months comparative period ended June 30, 2011, including Iberia's first 21 days of January in 2011.

IAG period highlights on combined results:

- Second quarter operating loss of €4 million, before exceptional items (2011: operating profit €190 million)
- Operating loss for the half year of €253 million before exceptional items (2011: operating profit €88 million)
- British Airways made an operating profit, after exceptional items, of €13 million in the half year to June 30, 2012 and Iberia made an operating loss of €263 million
- Loss before tax for the half year of €390 million (2011: profit before tax of €39 million)
- Revenue for the half year up 9.8 per cent to €8,532 million (2011: €7,773 million), including €278 million or 3.6 per cent currency impact
- Passenger unit revenue for the half year up 8.9 per cent, on top of capacity increases of 2.6 per cent
- Fuel costs up 25.0 per cent to €2,973 million (2011: €2,378 million before exceptional items)
- Non fuel costs before exceptional items, up 9.5 per cent at €5,812 million, including €198 million of adverse currency impact. Non-fuel unit costs up 6.7 per cent, or 3.0 per cent at constant currency
- Cash of €4,013 million at June 30, 2012 was up €278 million on 2011 year end (December 2011: €3,735 million)
- Group net debt up €160 million to €1,308 million (December 2011: €1,148 million)

Performance summary:

	Six months to June 30			Consolidated Six months to June 30	
	Consolidated	Combined			
Financial data € million (unaudited)	**2012**	2011[1]	Higher / (lower)	2012	2011[2] *(excludes 21 days Iberia pre-merger)*
Passenger revenue	**7,210**	6,448	11.8 %	7,210	6,269
Total revenue	**8,532**	7,773	9.8 %	8,532	7,537
Operating (loss)/profit before exceptional items	**(253)**	88		(253)	125
Exceptional items	**(1)**	(56)		(1)	(56)
Operating (loss)/profit after exceptional items	**(254)**	32		(254)	69
(Loss)/profit before tax	**(390)**	39		(390)	78
(Loss)/profit after tax	**(231)**	71		(231)	98
Basic earnings per share (€ cents)				*(13.6)*	*4.7*
Operating figures	**2012**	2011[1]	Higher / (lower)		
Available seat kilometres (ASK million)	107,276	104,543	2.6 %		
Revenue passenger kilometres (RPK million)	84,561	80,403	5.2 %		
Seat factor (per cent)	78.8	76.9	1.9pts		
Passenger yield per RPK (€ cents)	8.53	8.02	6.4 %		
Passenger unit revenue per ASK (€ cents)	6.72	6.17	8.9 %		
Non-fuel unit costs per ASK (€ cents)	5.42	5.08	6.7 %		
€ million (unaudited)	**At June 30, 2012**	At December 31, 2011[1]	Higher / (lower)		
Cash and interest bearing deposits	**4,013**	3,735	7.4 %		
Net debt	**1,308**	1,148	13.9 %		
Equity	**5,482**	5,686	(3.6)%		
Adjusted gearing[3]	**46%**	44%	2pts		

(1) This financial data is based on the combined results of operations of British Airways Plc ('BA'), Iberia Líneas Aéreas de España S.A. ('Iberia') and IAG the Company for the six month period ended June 30, 2011. These combined financial statements eliminate cross holdings and related party transactions. Financial ratios are before exceptional items.

(2) The IAG June 30, 2011 comparative is the consolidated results of BA and IAG the Company for the six month period ended June 30, 2011 and Iberia from January 22, 2011 to June 30, 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.

nm = not meaningful

Willie Walsh, IAG chief executive, said:
"We made an operating loss of €4 million in the quarter, including €50 million of bmi losses, before exceptional items. While our revenue performance was good, up 11.5 per cent, this was countered by an increased fuel bill of €314 million, a rise of 25.1 per cent.

"For the half year, we made an operating loss of €253 million, before exceptional items, with revenue up 9.8 per cent and fuel costs up 25.0 per cent.

"Our synergies programme continues apace and we remain on track to deliver our 2012 targets and €500 million annual benefits by 2015.

"While we have made specific investments for longer term commercial benefits such as the Olympic sponsorship and Master brand advertising at British Airways and the development of our Avios frequent flyer currency, we remain focused on stringent cost control across the Group.

"bmi restructuring costs accounted for most of the €38 million of exceptional items. These costs and the airline's losses are in line with our expectations. The integration of bmi mainline into British Airways is going well with completion due by the year end.

"There remains a stark difference in the performance of our subsidiaries. British Airways made an operating profit despite rising fuel prices while Iberia's losses deepened.

"Iberia's problems are deep and structural and the economic environment reinforces the need for permanent structural change. We are currently working on a restructuring plan for Iberia which we anticipate will be finalised by the end of September. This is likely to include short term downsizing, network reshaping to deliver higher unit revenues and a re-evaluation of all aspects of the business to deliver competitive costs and service to enable long-term profitable growth. Inevitably, we will not be able to avoid job losses as part of this process.

"There has been an excellent start made by Iberia's new cost effective subsidiary Iberia Express, which was profitable in its third full month of operation in June and has established an exemplary operating performance from Madrid Barajas."

Trading outlook:

A number of factors have improved over the past three months. Underlying British Airways trading conditions remain firm and bmi integration is on track, but any benefit from an easing of fuel prices has been more than offset by the deterioration in Spanish economic conditions.

We were previously targeting a break-even operating result this year, after the impact of restructuring costs and the short term earnings drag from the bmi acquisition. However, in the light of the Spanish macro headwind, we now expect to make a small operating loss in 2012.

The Iberia restructuring plan could lead to further restructuring costs in the latter part of the year.

IAG Investor Relations
2 World Business Centre Heathrow
Newall Road, London Heathrow Airport
HOUNSLOW TW6 2SF

Tel: +44 (0)208 564 2900
Investor.relations@iairgroup.com

COMBINED INCOME STATEMENT

	Six months to June 30, 2012			Six months to June 30, 2011			
€ million (unaudited)	**Before exceptional items**	Exceptional items	Total [1]	Before exceptional items	Exceptional items	Total [1]	Higher / (lower) [1]
Passenger revenue	**7,210**		7,210	6,448		6,448	11.8 %
Cargo revenue	**590**		590	592		592	(0.3)%
Other revenue	**732**		732	733		733	(0.1)%
Total revenue	**8,532**		8,532	7,773		7,773	9.8 %
Employee costs	**2,070**	32	2,102	1,909		1,909	8.4 %
Fuel, oil costs and emissions charges	**2,973**		2,973	2,378	61	2,439	25.0 %
Handling, catering and other operating costs	**851**		851	759		759	12.1 %
Landing fees and en-route charges	**628**		628	589		589	6.6 %
Engineering and other aircraft costs	**635**		635	553		553	14.8 %
Property, IT and other costs	**470**	(30)	440	445		445	5.6 %
Selling costs	**423**	3	426	359		359	17.8 %
Depreciation, amortisation and impairment	**512**		512	491		491	4.3 %
Aircraft operating lease costs	**209**	(4)	205	200	(5)	195	4.5 %
Currency differences	**14**		14	2		2	
Total expenditure on operations	**8,785**	1	8,786	7,685	56	7,741	14.3 %
Operating (loss)/profit	**(253)**	(1)	(254)	88	(56)	32	
Net non-operating (costs)/income	**(136)**		(136)	(76)	83	7	79 %
(Loss)/profit before tax from continuing operations	**(389)**	(1)	(390)	12	27	39	
Tax	**150**	9	159	32		32	
(Loss)/profit after tax from continuing operations	**(239)**	8	(231)	44	27	71	
Loss after tax from discontinued operations	**-**	(10)	(10)	-		-	
(Loss)/profit after tax for the period	**(239)**	(2)	(241)	44	27	71	

Operating figures	**2012 [1]**	2011 [1]	Higher / (lower) [1]
Available seat kilometres (ASK million)	**107,276**	104,543	2.6 %
Revenue passenger kilometres (RPK million)	**84,561**	80,403	5.2 %
Seat factor (per cent)	**78.8**	76.9	1.9pts
Passenger numbers (thousands)	**25,731**	24,809	3.7 %
Cargo tonne kilometres (CTK million)	**3,010**	3,066	(1.8)%
Passenger yield per RPK	**8.53**	8.02	6.4 %
Passenger unit revenue per ASK	**6.72**	6.17	8.9 %
Cargo yield per CTK	**19.60**	19.31	1.5 %
Total cost per ASK	**8.19**	7.35	11.4 %
Fuel cost per ASK	**2.77**	2.27	22.0 %
Total cost excluding fuel per ASK	**5.42**	5.08	6.7 %
Aircraft in service	**398**	348	14.4 %
Average employee number	**58,476**	56,404	3.7 %

(1) This financial data is based on the combined results of operations of British Airways Plc (‘BA’), Iberia Líneas Aéreas de España S.A. (‘Iberia’) and IAG the Company for the six month period ended June 30, 2012 and 2011. These combined financial statements eliminate cross holdings and related party transactions. Financial ratios are before exceptional items.

See consolidated results for the six month period ended June 30, 2012 overleaf.

CONSOLIDATED INCOME STATEMENT

€ million (unaudited)	Six months to June 30, 2012			Six months to June 30, 2011			
	Before exceptional items	Exceptional items	Total (1)	Before exceptional items	Exceptional items	Total (1)	Higher / (lower) (1)
Passenger revenue	**7,210**		7,210	6,269		6,269	15.0 %
Cargo revenue	**590**		590	578		578	2.1 %
Other revenue	**732**		732	690		690	6.1 %
Total revenue	**8,532**		8,532	7,537		7,537	13.2 %
Employee costs	**2,070**	32	2,102	1,838		1,838	12.6 %
Fuel, oil costs and emissions charges	**2,973**		2,973	2,309	61	2,370	28.8 %
Handling, catering and other operating costs	**851**		851	736		736	15.6 %
Landing fees and en-route charges	**628**		628	564		564	11.3 %
Engineering and other aircraft costs	**635**		635	528		528	20.3 %
Property, IT and other costs	**470**	(30)	440	430		430	9.3 %
Selling costs	**423**	3	426	343		343	23.3 %
Depreciation, amortisation and impairment	**512**		512	481		481	6.4 %
Aircraft operating lease costs	**209**	(4)	205	183	(5)	178	14.2 %
Currency differences	**14**		14	-		-	
Total expenditure on operations	**8,785**	1	8,786	7,412	56	7,468	18.5 %
Operating (loss)/profit	**(253)**	(1)	(254)	125	(56)	69	
Net non-operating (costs)/income	**(136)**		(136)	(74)	83	9	84 %
(Loss)/profit before tax from continuing operations	**(389)**	(1)	(390)	51	27	78	
Tax	**150**	9	159	20		20	
(Loss)/profit after tax from continuing operations	**(239)**	8	(231)	71	27	98	
Loss after tax from discontinued operations	**-**	(10)	(10)	-		-	
(Loss)/profit after tax for the period	**(239)**	(2)	(241)	71	27	98	
Basic (loss)/earnings per share (€ cents)			(13.6)			4.7	
Diluted (loss)/earnings per share (€ cents)			(13.6)			4.3	

(1) The IAG June 30, 2012 Income statement is the consolidated results of BA, Iberia and IAG the Company for the six month period ended June 30, 2012. The IAG June 30, 2011 comparative is the consolidated results of BA and IAG the Company for the six month period ended June 30, 2011 and Iberia from January 22, 2011 to June 30, 2011.

CONSOLIDATED INCOME STATEMENT

€ million (unaudited)	Three months to June 30, 2012 Before exceptional items	Exceptional items	Total	Three months to June 30, 2011 Before exceptional items	Exceptional items	Total	Higher / (lower)
Passenger revenue	**3,920**		3,920	3,430		3,430	14.3 %
Cargo revenue	**299**		299	302		302	(1.0)%
Other revenue	**394**		394	405		405	(2.7)%
Total revenue	**4,613**		4,613	4,137		4,137	11.5 %
Employee costs	**1,076**	32	1,108	985		985	9.2 %
Fuel, oil costs and emissions charges	**1,564**		1,564	1,250	61	1,311	25.1 %
Handling, catering and other operating costs	**456**		456	376		376	21.3 %
Landing fees and en-route charges	**341**		341	301		301	13.3 %
Engineering and other aircraft costs	**334**		334	275		275	21.5 %
Property, IT and other costs	**235**	5	240	230		230	2.2 %
Selling costs	**220**	3	223	180		180	22.2 %
Depreciation, amortisation and impairment	**260**		260	245		245	6.1 %
Aircraft operating lease costs	**110**	(2)	108	96	(5)	91	14.6 %
Currency differences	**21**		21	9		9	
Total expenditure on operations	**4,617**	38	4,655	3,947	56	4,003	17.0 %
Operating (loss)/profit	**(4)**	(38)	(42)	190	(56)	134	
Net non-operating (costs)/income	**(85)**		(85)	(48)		(48)	77 %
(Loss)/profit before tax from continuing operations	**(89)**	(38)	(127)	142	(56)	86	
Tax	**33**	9	42	(48)		(48)	
(Loss)/profit after tax from continuing operations	**(56)**	(29)	(85)	94	(56)	38	
Loss after tax from discontinued operations	**-**	(10)	(10)	-		-	
(Loss)/profit after tax for the period	**(56)**	(39)	(95)	94	(56)	38	

Operating figures	**2012**	2011	Higher / (lower)
Available seat kilometres (ASK million)	**55,851**	53,427	4.5 %
Revenue passenger kilometres (RPK million)	**45,421**	42,636	6.5 %
Seat factor (per cent)	**81.3**	79.8	1.5pts
Passenger numbers (thousands)	**14,347**	13,281	8.0 %
Cargo tonne kilometres (CTK million)	**1,529**	1,552	(1.5)%
Passenger yield per RPK	**8.63**	8.04	7.3 %
Passenger unit revenue per ASK	**7.02**	6.42	9.3 %
Cargo yield per CTK	**19.56**	19.46	0.5 %
Total cost per ASK	**8.27**	7.39	11.9 %
Fuel cost per ASK	**2.80**	2.34	19.7 %
Total cost excluding fuel per ASK	**5.47**	5.05	8.3 %
Average employee number	**60,418**	56,649	6.7 %

Financial review:

The consolidated results include Iberia from the acquisition date - January 21, 2011. The combined results for 2011 reflect Iberia results from January 1, 2011.

The consolidated performance (comparing IAG with Iberia only from January 21, 2011) shows revenue up €995 million to €8,532 million and costs up €1,373 million to €8,785 million principally reflecting the full half year performance in 2012 and growth in the business compared to last year. Line by line comparatives are not meaningful due to the Iberia acquisition date. Therefore this financial review comments on the full six months consolidated performance to June 30, 2012 of IAG compared to the combined performance of IAG for the prior year.

FULL SIX MONTHS PERFORMANCE OF IAG TO PRIOR YEAR SIX MONTHS

Economic background

The half year has seen significant volatility in fuel prices, foreign exchange rates and the European economic outlook has declined following the escalation of the Eurozone crisis. As such our continental European demand has been lower than we had expected at the beginning of the year. North and South America, together with Asia, although having slightly lower economic outlooks than expected are still showing growth opportunities for our business.

Exchange rates

For the six months the translation of British Airways from sterling functional currency into Euro reporting currency has resulted in a €263 million year over year benefit to revenue and a €256 million adverse impact on operating costs, mainly reflecting 4.0 per cent weakening of the euro against sterling.

The transactional exchange rate impacts across the Group for the half year saw a positive impact on revenue of €15 million and an adverse impact on costs of €94 million.

Therefore the net adverse impact on the half year loss was €72 million, including €278 million favourable impact on revenues and €350 million adverse on costs.

bmi

The six month performance to June 30th 2012 includes bmi from the 20th April. Bmi accounted for 1.3 per cent of the first half capacity growth; 1.5 per cent of the total revenue growth of 9.8 per cent and 2.1 per cent of total cost increases of 14.3 per cent.

Passenger revenue

Passenger revenue increased by €762 million or 11.8 per cent compared to the prior year six months. This reflected increased capacity (ASKs) up 2.6 per cent and increased traffic (RPKs) of 5.2 per cent. The translation impact at the Group level from British Airways' revenue accounted for 3.6 per cent of the total increase and at constant exchange rates passenger revenue would have been up 8.0 per cent.

Unit passenger revenue (per ASK) was up 8.9 per cent and passenger yield (per RPK) was up 6.4 per cent. At constant exchange rates unit passenger revenue was up 5.2 per cent and passenger yield up 2.7 per cent.

The focus for 2012 has been sustainable yield and unit revenue growth in light of high oil prices and restrained capacity growth to match market demands. Overall capacity grew by 2.6 per cent in the first six months of the year and traffic grew by 5.2 per cent, achieving a 1.9 points improvement in seat factors to 78.8 per cent. This included the addition of bmi into the Group and on a like for like basis, excluding bmi, capacity was up 1.3 per cent and traffic was up 4.0 per cent, leading to seat factors growing by 2.1 points.

Longhaul

North America capacity increased by 5.2 per cent, whilst traffic improved by 8.9 per cent, resulting in a seat factor increase of 2.8 points to 81.6 per cent.

Latin America and Caribbean capacity declined by 0.1 per cent and traffic increased by 1.8 per cent such that seat factor increased 1.5 points to 84.0 per cent.

Africa, Middle East and South Asia saw capacity increases of 6.9 per cent (cut backs in capacity in North Africa from the 'Arab Spring' of 2011 were in the base), traffic increased by 9.7 per cent leading to a seat factor increase of 1.9 points to 75.3 per cent.

Asia Pacific capacity grew by 1.6 per cent, whilst traffic grew by 1.2 per cent, which resulted in a seat factor decline of 0.3 points to 77.8 per cent.

Shorthaul

The European market has continued to be very competitive particularly in the southern Europe region. Iberia Express was successfully launched in March 2012 and bmi was acquired into the Group from late April 2012.

Europe saw capacity reduced by 1.1 per cent and traffic improved 1.3 per cent leading to a seat factor increase of 1.7 points to 72.4 per cent.

Domestic capacity decreased by 0.7 per cent and traffic was up 3.3 per cent leading to a seat factor improvement of 2.8 points to 74.0 per cent.

Premium

Premium traffic (RPKs) continued to increase in the half year, with a positive mix impact on unit revenues and yields.

Cargo

Cargo revenue was down €2 million or 0.3 per cent for the half year, reflecting volume decreases (Cargo Tonne Kilometres) of 1.8 per cent and yield increases of 1.5 per cent.

Other revenue

Other revenue decreased by €1 million or 0.1 per cent. The 2011 first half included a benefit of €35 million in respect of a change in estimate on some elements of deferred revenue.

Costs

Total costs excluding exceptional items were up €1,100 million or 14.3 per cent to €8,785 million from capacity increases of 2.6 per cent. Total unit costs were up 11.4 per cent mainly as a result of increased fuel unit costs. Non-fuel unit costs were up 6.7 per cent, and 3.0 per cent at constant exchange rates. Increases in non-fuel unit costs arose from exchange rate impact of the weaker euro, principally against sterling and the US dollar, higher prices and certain changes resulting from the Avios customer proposition.

Fuel costs represented 33.8 per cent (2011: 30.9 per cent) of total costs reflecting primarily the unit commodity price increase of 6.2 per cent. Fuel costs were up €595 million or 25.0 per cent to €2,973 million and fuel unit costs were up 22.0 per cent, as a result of increased price, reduced year over year hedging benefits and adverse exchange rates due to the weakening of the euro against the dollar. Fuel unit costs were up 15.9 per cent at constant exchange rates.

Employee costs before exceptional items rose by 8.4 per cent to €2,070 million, reflecting wage awards and increased volumes. Volume and wage increases accounted for more than 5.0 points of this increase, with exchange rates a further 2.8 points. A provision of €8 million in respect of British Airways' restructuring including Gatwick operation is also included in the first half. Employee unit costs at constant currency were up 2.7 per cent, partially reflecting a reduction in productivity (ASKs per average employee number) of 1.0 per cent, which would have been flat excluding bmi.

Handling, catering and other operating costs were up 12.1 per cent to €851 million. During the half year exchange rates had a 3.8 per cent adverse impact and volume and price increases accounted a further 3.6 per cent with the majority of the further cost increase being changes in accounting treatment as a result of our investment in Avios.

Landing fees and en-route charges rose by 6.6 per cent to €628 million, partly as a result of increased volume, but also price increases which outstripped inflation, particularly at London Heathrow. Currency had a 2.6 per cent adverse impact.

Engineering and other aircraft costs were up 14.8 per cent to €635 million. This includes adverse currency impact of 4.6 per cent and volume and price increases but also increased materials for the Maintenance, Repair and Overhaul (MRO) business.

Property, IT and other costs before exceptional items were up 5.6 per cent to €470 million, adverse currency impact was 2.6 per cent and inclusion of bmi central costs accounted for most of the remaining increase.

Selling costs increased by 17.8 per cent to €423 million. The 11.8 per cent growth in passenger revenue drove up much of this cost together with currency impact of 4.1 per cent and investment in Masterbrand and Olympic advertising at British Airways.

Depreciation, amortisation and impairment costs were up 4.3 per cent to €512 million, which was mostly currency related.

Aircraft operating lease costs before exceptional items rose by 4.5 per cent to €209 million, reflecting increased operating leased aircraft, mainly Boeing 777-300s in the British Airways fleet.

Adverse currency differences increased by €12 million to a charge of €14 million.

Exceptional items

Exceptional items mainly reflect 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 costs associated with the restructuring of the bmi acquired mainline business which amounted to €40 million in quarter 2, including €8 million of transaction and integration costs for the bmi acquisition. In addition, there was an exceptional credit of €4 million in the half year related to aircraft leases hedges acquired upon the Iberia acquisition that are not allowed to be recognised by IAG.

Operating (loss)/profit

IAG operating loss for the six months was €253 million, excluding the exceptional items, compared to a profit of €88 million for the first half of 2011. The consolidated Operating loss after exceptional items was €254 million (2011: operating profit of €69 million).

Non-operating items

Finance costs

Cost for the half year net finance costs were €92 million, up from €82 million in the prior year, mainly reflecting the increase in net debt.

Other non-operating items

In 2011 the step acquisition of Iberia resulted in €83 million profit arising as an exceptional non-cash gain, not repeated in 2012. The net financing charge relating to pensions was €43 million for the first six months of 2012 compared to a credit of €14 million for the same period last year.

(Loss)/profit before tax

IAG loss before tax was €390 million for the six months, compared to a €39 million profit on a combined basis in 2011 and a profit of €78 million in 2011 on a consolidated basis.

Taxation

There was a €159 million tax credit for the first six months due tax on the losses for the period together with a rate reduction of corporation tax in the UK (2011: tax credit of €32 million).

(Loss)/profit after tax on a continuing basis

IAG loss after tax on a continuing basis was €231 million, compared to a profit of €71 million on a combined basis in 2011 and a profit of €98 million on a consolidated basis for 2011.

Discontinued operations

Included within discontinued operations is the post tax loss for the period of bmi regional and bmibaby. bmi regional was sold during the period and bmibaby will cease operating during quarter 3 of 2012.

Cash

Cash at June 30, 2012 was €4,013 million, up €278 million from December 31, 2011. The cash balance at June 30, 2012 comprised €2,826 million held by British Airways, €1,164 million held by Iberia and €23 million held by IAG.

Net debt

The net debt of the Group has increased by €160 million in this half of the year and stands at €1,308 million. Adjusted gearing has increased by 2 points to 46 per cent, from 44 per cent at December 2011.

Business review

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.

Our 6 key aims...

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

Synergies

We have continued to make significant progress in the delivery of synergies to deliver our five year target of €500 million of revenue and cost synergy benefits. Key areas achieved in the first six months of 2012 include:

- Iberia has moved into Heathrow terminal 5, providing a more seamless customer experience and reducing costs of operation
- iagcargo.com went live and is in use
- Avios España now open and operating in Spain
- Three new codeshares introduced (Bogota, Luanda and Entebbe)
- Argentina and Swiss Sales teams co-located
- Further joint supply contracts have benefited areas such as Catering and Insurance and fuel purchasing in a number of stations
- Ongoing benefit of the synergy initiatives implemented in 2011

Principal risks and uncertainties

During the period we have continued to maintain and operate our structure and processes to identify, assess and manage risks. The principal risks and uncertainties affecting us, detailed on pages 76 and 77 of the December 31, 2011 Annual Report and Accounts, remain relevant for the remaining six months of the year.

Since the year end the following additional risks and uncertainties have arisen:

Eurozone Crisis
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. Iberia provides 27 per cent of the Group's external turnover, approximately half of this coming from Spain. Deterioration in the Spanish economy together with continued competition from lower cost competitors in the short, medium and longhaul markets has resulted in a loss in Iberia for first six months of 2012. After growing slowly in 2011, the Spanish economy is expected to contract in both 2012 and 2013. We are currently assessing the impact of this depressed outlook on Iberia and are considering a re-evaluation of all aspects of the business. British Airways only derives around 5 per cent of its revenue on routes to Italy, Spain, Portugal and Greece.

The IAG Management Committee and Board regularly consider Eurozone risk and the initiatives underway to manage, as far as practicable, their impact on the Group. These initiatives include establishing a Eurozone crisis management group that meets every two weeks 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 commencement of a Spain Euro exit roadmap project which considers the commercial, administrative, systems and people issues to be addressed.

The Group's cash reserves and hedging operations lead to substantial counterparty exposure with banks around the world, including those in the Eurozone. Exposure to individual counterparties is controlled by credit rating based limits within Iberia and British Airways. In addition, the Group Hedging Committee monitors concentration of exposure to individual counterparties across the Group. Through application of these policies, the proportion of the Group's bank counterparty exposure with Spanish banks has decreased from 27 per cent at December 31, 2011 to 3 per cent at June 30, 2012. The Group's exposure to Italian, Irish, Portuguese and Greek banks was less than €1 million, consisting of cash to meet day to day operating needs.

Government Intervention
Airport departure taxes at Iberia's main Madrid and Barcelona bases were doubled on July 1, 2012. Iberia will not apply the higher rates to customers who purchased their tickets before that date which will result in a cost of €20 million in the second half of 2012. Looking forward, passing this additional cost onto customers will result in decreased demand or further discounting of the underlying fare.

INTERNATIONAL CONSOLIDATED AIRLINES GROUP S.A.

Unaudited Consolidated Condensed Interim Financial Statements
January 1, 2012 – June 30, 2012

CONSOLIDATED INCOME STATEMENT

€ million (unaudited)	Six months to June 30					
	Before exceptional items 2012	Exceptional items	Total 2012	**Before exceptional items 2011**	Exceptional items	Total 2011
Passenger revenue	**7,210**		7,210	6,269		6,269
Cargo revenue	**590**		590	578		578
Other revenue	**732**		732	690		690
Total revenue	**8,532**		8,532	7,537		7,537
Employee costs	**2,070**	32	2,102	1,838		1,838
Fuel, oil costs and emissions charges	**2,973**		2,973	2,309	61	2,370
Handling, catering and other operating costs	**851**		851	736		736
Landing fees and en-route charges	**628**		628	564		564
Engineering and other aircraft costs	**635**		635	528		528
Property, IT and other costs	**470**	(30)	440	430		430
Selling costs	**423**	3	426	343		343
Depreciation, amortisation and impairment	**512**		512	481		481
Aircraft operating lease costs	**209**	(4)	205	183	(5)	178
Currency differences	**14**		14	-		-
Total expenditure on operations	**8,785**	1	8,786	7,412	56	7,468
Operating (loss)/profit	**(253)**	(1)	(254)	125	(56)	69
Finance costs	**(119)**		(119)	(117)		(117)
Finance income	**27**		27	35		35
Retranslation charge on currency borrowings	**-**		-	20		20
Fuel derivative gains	**2**		2	1		1
Net charge relating to available-for-sale financial assets	**-**		-	(16)		(16)
Share of post-tax losses in associates accounted for using the equity method	**-**		-	(12)		(12)
(Loss)/profit on sale of property, plant and equipment and investments	**(3)**		(3)	1	83	84
Net financing (charge)/credit relating to pensions	**(43)**		(43)	14		14
(Loss)/profit before tax from continuing operations	**(389)**	(1)	(390)	51	27	78
Tax	**150**	9	159	20		20
(Loss)/profit after tax from continuing operations	**(239)**	8	(231)	71	27	98
Loss after tax from discontinued operations	**-**	(10)	(10)	-		-
(Loss)/profit after tax for the period	**(239)**	(2)	(241)	71	27	98
Attributable to:						
Equity holder of the parent	**(249)**		(251)	61		88
Non-controlling interest	**10**		10	10		10
	(239)		(241)	71		98
Basic (loss)/earnings per share						
From continuing operations			(13.0)			4.7
From discontinued operations			(0.6)			-
From (loss)/profit for the period			(13.6)			4.7
Diluted (loss)/earnings per share						
From continuing operations			(13.0)			4.3
From discontinued operations			(0.6)			-
From (loss)/profit for the period			(13.6)			4.3

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ million (unaudited)	**2012**	2011
(Loss)/profit after tax for the period	**(241)**	98
Cash flow hedges:		
Fair value movements in equity	**(173)**	35
Reclassified and reported in net profit	**10**	38
Changes in the fair value of available-for-sale financial assets	**97**	(10)
Exchange gains	**105**	7
Total comprehensive income net of tax	**(202)**	168
Total comprehensive income is attributable to:		
Equity holders of the parent	**(212)**	158
Non-controlling interest	**10**	10
	(202)	168
Total comprehensive income attributable to equity shareholders arises from:		
Continuing operations	**(202)**	158
Discontinued operations	**(10)**	-

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

CONSOLIDATED BALANCE SHEET

€ million (unaudited)	June 30, 2012	December 31, 2011
Non-current assets		
Property, plant and equipment	**10,105**	9,584
Intangible assets and excess of purchase price over carrying value	**2,081**	1,724
Investments in associates	**159**	165
Available-for-sale financial assets	**607**	466
Employee benefit assets	**1,562**	1,317
Derivative financial instruments	**44**	37
Deferred tax assets	**573**	497
Other non-current assets	**113**	71
	15,244	13,861
Current assets		
Non-current assets held for sale	**-**	18
Inventories	**430**	400
Trade receivables	**1,547**	1,175
Other current assets	**606**	445
Derivative financial instruments	**89**	119
Other current interest-bearing deposits	**1,910**	1,758
Cash and cash equivalents	**2,103**	1,977
	6,685	5,892
Total assets	**21,929**	19,753
Shareholders' equity		
Issued share capital	**928**	928
Share premium	**5,280**	5,280
Investment in own shares	**(17)**	(17)
Other reserves	**(1,009)**	(805)
Total shareholders' equity	**5,182**	5,386
Non-controlling interest	**300**	300
Total equity	**5,482**	5,686
Non-current liabilities		
Interest-bearing long-term borrowings	**4,612**	4,304
Employee benefit obligations	**294**	277
Deferred tax liability	**1,201**	1,274
Provisions for liabilities and charges	**1,268**	1,244
Derivative financial instruments	**100**	55
Other long-term liabilities	**347**	384
	7,822	7,538
Current liabilities		
Current portion of long-term borrowings	**709**	579
Trade and other payables	**7,261**	5,377
Derivative financial instruments	**234**	64
Current tax payable	**11**	157
Provisions for liabilities and charges	**410**	352
	8,625	6,529
Total liabilities	**16,447**	14,067
Total equity and liabilities	**21,929**	19,753

CONSOLIDATED CASH FLOW STATEMENT

€ million (unaudited)	Six months to June 30 2012	2011
Cash flows from operating activities		
Operating (loss)/profit	**(254)**	69
Depreciation, amortisation and impairment	**512**	481
Movement in working capital	**688**	488
Settlement of competition investigation	**(70)**	(168)
Cash payments to pension scheme	**(99)**	(157)
Other non-cash movements	**(18)**	25
Interest paid	**(99)**	(102)
Taxation	**(5)**	(4)
Net cash used in operating activities from discontinued operations	**(64)**	-
Net cash flows from operating activities	**591**	**632**
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	**(664)**	(358)
Sale of property, plant and equipment	**27**	23
Cash acquired on business combination (net of proceeds)	**(19)**	689
Interest received	**23**	28
Increase in other current interest-bearing deposits	**(88)**	(338)
Acquisition of own shares	**-**	(19)
Dividends received	**6**	-
Other investing movements	**-**	310
Proceeds from sale of business	**5**	-
Net cash flows from investing activities	**(710)**	**335**
Cash flows from financing activities		
Proceeds from long-term borrowings	**433**	218
Repayment of borrowings	**(131)**	(175)
Repayment of finance leases	**(116)**	(218)
Distributions made to holders of perpetual securities	**(10)**	(10)
Net cash flows from financing activities	**176**	**(185)**
Net increase in cash and cash equivalents	**57**	782
Net foreign exchange differences	**69**	(25)
Cash and cash equivalents at 1 January	**1,977**	917
Cash and cash equivalents at period end	**2,103**	**1,674**
Interest bearing deposits maturing after more than three months	**1,910**	**2,517**
Cash, cash equivalents and other interest bearing deposits	**4,013**	**4,191**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months to June 30, 2012

€ million (unaudited)	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 period (net of tax)	-	-	-	(212)	**(212)**	10	**(202)**
Cost of share-based payments	-	-	-	8	**8**	-	**8**
Exercise of share options	-	-	-	-	-	-	-
Distributions made to holders of perpetual securities	-	-	-	-	**-**	(10)	**(10)**
At June 30, 2012	**928**	**5,280**	**(17)**	**(1,009)**	**5,182**	**300**	**5,482**

[1]Closing balance includes retained earnings of €1,422 million.

For the six months to June 30, 2011

€ million (unaudited)	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 period (net of tax)	-	-	-	158	**158**	10	**168**
Shares issued during the period	928	5,280	(14)	(3,839)	**2,355**	-	**2,355**
Cost of share-based payments	-	-	-	8	**8**	-	**8**
Exercise of share options	-	-	-	(4)	**(4)**	-	**(4)**
Distributions made to holders of perpetual securities	-	-	-	-	**-**	(10)	**(10)**
At June 30, 2011	**928**	**5,280**	**(18)**	**(1,148)**	**5,042**	**300**	**5,342**

[1]Closing balance includes retained earnings of €1,201 million.

[2]The Issued share capital and Share premium at January 1, 2011 have 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.

NOTES TO THE ACCOUNTS (unaudited)
For the six months to June 30, 2012

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

On January 21, 2011 British Airways Plc and Iberia Líneas Aéreas de España S.A. (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 summary condensed consolidated interim financial statement for the six months ended June 30, 2012 were prepared in accordance with IAS 34 and authorised for issue by the Board of Directors on August 2, 2012. The condensed financial statements herein are not the Company's statutory accounts and are unaudited.

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. 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 interim 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).

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 standards 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 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 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 are not part of the Group's longer term plans, having been acquired exclusively with a view to subsequent disposal and so are included as a discontinued operation in the Income statement.

Provisional fair value

At June 30, 2012 the fair values of acquired assets, liabilities and goodwill have been determined on a provisional basis, pending the finalisation of the valuations of the tangible and intangible assets and the related deferred taxes. The excess of the purchase price over the carrying value of the assets has been included within Intangible assets and excess of purchase price over carrying value in the Balance sheet. This value is shown net of the applicable deferred taxes.

3. BUSINESS COMBINATIONS continued

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

€ million	**Provisional fair value**[(2)]
Cash and cash equivalents	73
Trade receivables[(1)]	55
Other current assets	127
Property, plant and equipment	103
Intangible assets and excess of purchase price over carrying value[(2)]	313
Trade and other payables	(397)
Current provision for liabilities and charges	(33)
Current portion of long-term borrowings	(6)
Non-current provisions for liabilities and charges	(89)
Interest bearing long-term borrowings	(23)
Other long-term liabilities	(21)
Net identifiable (liabilities)/assets acquired[(3)]	102

[(1)] The gross contractual amount for trade receivables is €60 million, 94% which is expected to be collected.

[(2)] Provisional fair values have not yet been finalised. The carrying values of the assets and liabilities have been adjusted to align bmi to Group accounting policies with the exception of the frequent flyer programme.

[(3)] The purchase consideration is provisional at June 30, 2012 and is subject to final closing adjustments.

Transaction costs related to the acquisition of bmi totalling €5 million were recognised in the Income statement for the six months to June 30, 2012 (full year to December 31, 2011: €4 million) within Property, IT and other costs.

Following the acquisition of bmi, certain activities have been integrated into the Group and so the full impact of the acquisition on the Group cannot be accurately identified. Further, the fair values have not yet been finalised and the frequent flyer programme has not been aligned. As such the impact of the acquisition had it occurred on January 1, 2012 cannot be calculated.

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 have been pursued. Both businesses were acquired exclusively with a view to their disposal.

There were no discontinued operations in the six months to June 30, 2011.

5. EXCEPTIONAL ITEMS

Provisions

In April, 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, recognised within Exceptional items in the Income statement in 2012.

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 six months to June 30, 2012 this has resulted in a decrease in reported aircraft operating lease costs of €4 million (six months to June 30, 2011: Increase in reported fuel expense of €61 million and a decrease in reported aircraft operating lease costs of €5 million).

Discontinued operations and restructuring expenses

From the date of acquisition, the loss after tax from discontinued operations of bmibaby and bmi regional is €10 million for the six months to June 30, 2012. A restructuring expense of €32 million has been recognised in relation to bmi mainline for the six months to June 30, 2012, and transaction and integration expenses of €8 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 passenger and cargo operations as a single business unit. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the IAG Management Committee. The IAG Management Committee makes resource allocation decisions based on network profitability, primarily by reference to the markets in which the operating companies serve. The objective in making resource allocation decisions is to optimise consolidated financial results. Therefore, based on the way the Group treats the network passenger and cargo operations, 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 six months to June 30, 2012	**2012**			
€ million	British Airways	Iberia	Unallocated	**Total**
Revenue				
External revenue	6,242	2,290	-	**8,532**
Inter-segment revenue	12	19	22	**53**
Segment revenue	6,254	2,309	22	**8,585**
Depreciation, amortisation and impairment	(419)	(84)	(9)	**(512)**
Operating profit/(loss)[1]	**13**	**(263)**	**(4)**	**(254)**
Net non-operating costs				**(136)**
Loss before tax from continuing operations				**(390)**

[1]The British Airways segment includes an exceptional charge of €5 million, and the Unallocated segment includes an exceptional credit €4 million (note 5).

For the six months to June 30, 2011	2011			
€ million	British Airways	Iberia	Unallocated	Total
Revenue				
External revenue	5,443	2,094	-	7,537
Inter-segment revenue	(18)	34	14	30
Segment revenue	5,425	2,128	14	7,567
Depreciation, amortisation and impairment	(395)	(81)	(5)	(481)
Operating profit/(loss)[2]	210	(78)	(63)	69
Net non-operating income				9
Profit before tax				78

[2]The Unallocated segment includes an exceptional charge of €56 million (note 5).

b. Geographical analysis

Revenue by area of original sale € million	**Six months to June 30, 2012**	Six months to June 30, 2011
UK	**2,874**	2,571
Spain	**1,245**	1,003
USA	**1,316**	1,157
Rest of world	**3,097**	2,806
	8,532	7,537

7. SEGMENT INFORMATION continued

b. Geographical analysis continued

Assets by area

€ million	Property, plant and equipment	Intangible assets
As at June 30, 2012		
UK	8,534	738
Spain	1,495	1,305
USA	68	5
Unallocated	8	33
Total	**10,105**	**2,081**
As at December 31, 2011		
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

€ million	**Six months to June 30, 2012**	Six months to June 30, 2011
Finance costs		
Interest payable on bank and other loans, finance charges payable under finance leases and hire purchase contracts	**(117)**	(96)
Unwinding of discount on provisions	**(17)**	(1)
Capitalised interest on progress payments	**2**	1
Change in fair value of cross currency swaps	**2**	(2)
Currency credits/(charges) on financial fixed assets	**11**	(19)
Total finance costs	**(119)**	(117)
Finance income		
Interest on other interest bearing deposits	**27**	35
Total finance income	**27**	35
Net (charge)/credit relating to pensions		
Net financing (expense)/income relating to pensions	**(21)**	29
Amortisation of actuarial losses in excess of the corridor	**(22)**	(15)
Net financing (charge)/credit relating to pensions	**(43)**	14

9. TAX

The tax credit for the six months to June 30, 2012 is €159 million (six months to June 30, 2011: €20 million). Legislation was substantively enacted by March 31, 2012 reducing the main rate of UK corporation tax from 25 per cent to 24 per cent from April 1, 2012. The reduction in the UK corporation tax rate reduces the deferred tax liability provided at June 30, 2012 by €44 million. Proposals to reduce the UK corporation tax rate by an additional 1 per cent per annum to 23 per cent by April 1, 2013 have not yet been substantively enacted at the balance sheet date. The effect of the proposed reduction is expected to be included in the full year financial statements and would reduce the deferred tax balance by a further €36 million.

Excluding the one-off adjustment arising from the reduction in the UK corporation tax rate, the effective tax rate for the six months to June 30, 2012 was 29 per cent.

10. EARNINGS PER SHARE

Basic earnings per share for the six months to June 30, 2012 are calculated on a weighted average of 1,848,407,345 ordinary shares and adjusted for shares held for the purposes of Employee Share Ownership Plans. Diluted earnings per share for the six months to June 30, 2012 are calculated on a weighted average of 2,050,822,515 ordinary shares.

The number of shares in issue at June 30, 2012 was 1,855,369,557 ordinary shares of €0.50 each (December 31, 2011: 1,855,369,557 ordinary shares of €0.50 each).

11. DIVIDENDS

The Directors declare that no dividend be paid for the six months to June 30, 2012 (June 30, 2011: €nil).

12. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

€ million	**Property, plant and equipment**	**Intangible assets**
Net book value as at January 1, 2012	9,584	1,724
Additions	616	48
Acquired through business combination	103	313
Disposals	(11)	-
Reclassifications	(8)	(3)
Depreciation, amortisation and impairment	(489)	(23)
Exchange movements	310	22
Net book value as at June 30, 2012	**10,105**	**2,081**
Net book value as at January 1, 2011	8,080	336
Additions	353	1,012
Acquired through business combination	1,264	45
Disposals	(7)	-
Depreciation, amortisation and impairment	(462)	(19)
Exchange movements	(377)	(14)
Net book value as at June 30, 2011	8,851	1,360

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to €5,440 million for the Group commitments (December 31, 2011: €5,359 million). The majority of capital expenditure commitments are denominated in US dollars and are subject to the impact of changes in exchange rates.

13. IMPAIRMENT REVIEW

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 18-24 months.

The operating loss for Iberia for the first half of the year was €263 million, representing a significant decline in performance from its existing Business plan and versus prior year results. This decline in performance is partially attributed to industrial action of employees, higher fuel prices, the negative impact of exchange rates and increased economic weakness in Spain. Iberia is currently forecasting further losses for the remainder of 2012.

Annually the Group prepares and approves formal five year business plans. At half year, this process is still on-going. Management has tested the goodwill and indefinite life intangible assets using consistent methodologies from year end as disclosed in the Annual report and accounts. The prior year business plan cash flows were updated with the 2012 revised full year forecast for this exercise. Based on these assumptions, management considers the carrying values to continue to be supported as at June 30 2012. However, in light of Iberia's performance, headrooms have been reduced. If Iberia's current performance is not addressed in the new five year plan, an impairment of Iberia goodwill would be required. Depending on the nature and extent of underperformance, an impairment of Iberia's indefinite life intangible assets would also be required.

A reduction in Iberia's cash flows of approximately 30 per cent over the period of the Business plan and into perpetuity would reduce the headroom on Iberia goodwill, landing rights and frequent flyer programme to nil. The recoverable amount of each indefinite life intangible asset is also dependent on its individual cash flows.

The Group's goodwill and indefinite life intangible assets will be re-tested for impairment in the second half of the year. This test will be based on the approved cash flows from the new Business plans and the actions that Management will be undertaking to reverse the current performance and achieve financial targets.

14. NON-CURRENT ASSETS HELD FOR SALE

There were no non-current assets held for sale as at June 30, 2012 (December 31, 2011: €18 million).

Non-current assets held for sale with a net book value of €19 million were disposed of by the Group during the six months to June 30, 2012 (six months to June 30, 2011: €21 million), resulting in a net loss on disposal of €nil (six months to June 30, 2011: €6 million).

15. FINANCIAL INSTRUMENTS BY CATEGORY

The detail of the Group's financial instruments as at June 30, 2012 and December 31, 2011 by nature and classification for measurement purposes is as follows:

As at June 30, 2012

€ million	Financial assets: Loans and receivables	Assets at FV through P&L	Derivatives used for hedging	Available for sale	Assets held to maturity	Non-financial assets	**Total carrying amount by balance sheet item**
Non-current financial assets							
Available-for-sale financial assets	-	-	-	607	-	-	**607**
Derivative financial instruments	-	-	44	-	-	-	**44**
Other non-current assets	88	-	-	-	7	18	**113**
Current financial assets							
Trade receivables	1,547	-	-	-	-	-	**1,547**
Other current assets	215	-	-	-	-	391	**606**
Derivative financial instruments	-	-	89	-	-	-	**89**
Other current interest-bearing deposits	1,906	-	-	-	4	-	**1,910**
Cash and cash equivalents	2,103	-	-	-	-	-	**2,103**

€ 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 financial liabilities					
Interest-bearing long term borrowings	4,612	-	-	-	**4,612**
Derivative financial instruments	-	-	100	-	**100**
Other long-term liabilities	13	-	-	334	**347**
Current financial liabilities					
Current portion of long-term borrowings	709	-	-	-	**709**
Trade and other payables	3,494	-	-	3,767	**7,261**
Derivative financial instruments	-	-	234	-	**234**

As at December 31, 2011

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

15. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

As at December 31, 2011

€ 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 financial liabilities					
Interest-bearing long term borrowings	4,304	-	-	-	4,304
Derivative financial instruments	-	-	55	-	55
Other long-term liabilities	11	-	-	373	384
Current financial liabilities					
Current portion of long-term borrowings	579	-	-	-	579
Trade and other payables	3,116	-	-	2,261	5,377
Derivative financial instruments	-	-	64	-	64

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

€ million	**Six months to June 30, 2012**	Six months to June 30, 2011
Increase in cash and cash equivalents during the period	**76**	93
Net (debt)/funds acquired through business combination	**(48)**	1,402
Net cash outflow from repayments of debt and lease financing	**247**	393
Increase in other current interest-bearing deposits	**88**	338
New loans and finance leases taken out and hire purchase arrangements made	**(433)**	(218)
(Increase)/decrease in net debt resulting from cash flow	**(70)**	2,008
Exchange movements and other non-cash movements	**(90)**	(134)
(Increase)/decrease in net debt during the period	**(160)**	1,874
Net debt at January 1	**(1,148)**	(2,354)
Net debt at June 30	**(1,308)**	(480)

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

	June 30, 2012	December 31, 2011
Current		
Bank and other loans	**287**	247
Finance leases	**408**	317
Hire purchase arrangements	**14**	15
	709	579
Non-current		
Bank and other loans	**1,624**	1,625
Finance leases	**2,988**	2,673
Hire purchase arrangements	**-**	6
	4,612	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 June 30, 2012 184,708,995 options were outstanding (December 31, 2011: 184,708,995).

18. SHARE BASED PAYMENTS

During the six months to June 30, 2012 there were no conditional shares awarded under the Group's Performance Share Plan nor under the Incentive Award Deferral Plan.

19. 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 period	72	7	56	36	**171**
Acquired through business combination	2	28	77	15	**122**
Utilised during the period	(61)	(83)	(29)	(6)	**(179)**
Release of unused amounts and other movements	(7)	(38)	(15)	(4)	**(64)**
Unwinding of discount	11	3	3	-	**17**
Exchange differences	1	5	6	3	**15**
Net book value at June 30, 2012	**934**	**175**	**427**	**142**	**1,678**
Analysis:					
Current	174	62	115	59	410
Non-current	760	113	312	83	1,268

20. 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. The Group did not perform an interim valuation as at June 30, 2012 as there had been no significant movement in assumptions.

21. CONTINGENT LIABILITIES

There were contingent liabilities at June 30, 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 guaranteed certain liabilities and commitments, which at June 30, 2012 amounted to €400 million (December 31, 2011: €411 million).

22. RELATED PARTY TRANSACTIONS

The Group had the following transactions in the ordinary course of business with related parties for the financial periods ended June 30.

Sales and purchases of goods and services:

	Six months to June 30	
€ million	**2012**	2011
Sales of goods and services		
Sales to associates	**72**	60
Sales to significant shareholders	**-**	-
Purchases of goods and services		
Purchases from associates	**27**	26
Purchases from significant shareholders	**12**	11

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

€ million	**June 30, 2012**	December 31, 2011
Receivables from related parties		
Amounts owed by associates	**29**	24
Amounts owed by significant shareholders	**10**	282
Payables to related parties		
Amounts owed to associates	**41**	19
Amounts owed to significant shareholders	**-**	-

22. RELATED PARTY TRANSACTIONS (continued)

Bankia S.A. (Bankia) has guaranteed €27 million (December 31, 2011: €40 million) of payables on aircraft, aircraft lease payments and returns on financial investments. At June 30, 2012 Bankia had fleet financing transactions supporting aircraft that Iberia currently has under operating leases to the value of €106 million (December 31, 2011: €107 million)

For the six months to June 30, 2012, the Group had not made any provisions for doubtful debts relating to amounts owed by related parties (six months to June 30, 2011: €nil).

Board of Directors and Management Committee remuneration

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

	Six months to June 30	
€ million	**2012**	2011
Base salary, fees and benefits		
Board of Directors' remuneration	**3**	3
Management Committee remuneration	**1**	1

The Company provides life insurance for all members of the Management Committee. For the six months to June 30, 2012 the Company paid contributions of €14,000 (six months to June 30, 2011: €7,000).

At June 30, 2012 the transfer value of accrued pensions covered under defined benefit pension obligation schemes, relating to both the Board of Directors and the Senior Management Committee totalled €4 million (December 31, 2011: €4 million).

No loans or credit transactions were outstanding with Directors or officers of the Group at June 30, 2012 (2011: €nil) that require disclosure in accordance with the requirements of Article 260 of Ley de Sociedades de Capital.

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 August 2, 2012, the Directors of International Consolidated Airlines Group, S.A. confirmed that to the best of their knowledge the Consolidated Condensed Interim Financial Statements for the six months to June 30, 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 Consolidated Condensed Interim 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 period, a description of the principle risks for the remaining six months of the financial year and material related party transactions.

August 2, 2012

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

James Arthur Lawrence

José Pedro Pérez-Llorca y Rodrigo

Kieran Charles Poynter

Rafael Sánchez-Lozano Turmo

John William Snow

Keith Williams

REVIEW REPORT ON THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS

To the Shareholders of International Consolidated Airlines Group S.A. at the request of Management:

1. We have carried out a review of the accompanying condensed consolidated interim financial statements (hereinafter the interim financial statements) of International Consolidated Airlines Group S.A. (hereinafter the Parent Company) and subsidiaries (hereinafter the Group), which comprise the consolidated balance sheet at June 30, 2012, the consolidated income statement, consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto, all of them condensed for the six-month period then ended. The Parent Company's directors are responsible for the preparation of said interim financial statements in accordance with the requirements established by IAS 34, 'Interim Financial Reporting', as adopted by the European Union for the preparation of interim condensed financial reporting as per article 12 of Royal Decree 1362/2007 and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority. Our responsibility is to conclude on these interim financial statements based on our review.

2. Our review was performed in accordance with the International Standard on Review Engagements 2410, 'Review of Interim Financial Reporting Performed by the Independent Auditor of the Entity'. A review of the interim financial statements consists of making inquiries, primarily of personnel responsible for financial and accounting matters, and applying certain analytical and other review procedures. The scope of a review is substantially smaller than that of an audit and therefore, it is not possible to provide assurance that all the significant matters that could be identified in an audit have come to our attention. Therefore, we do not express an audit opinion on the accompanying interim financial statements.

3. During the course of our review, which under no circumstances can be considered an audit of financial statements, no matter came to our attention which would lead us to conclude that the accompanying interim financial statements for the six-month period ended June 30, 2012 have not been prepared, in all material respects, in accordance with the requirements established by International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union in conformity with article 12 of Royal Decree 1362/2007 for the preparation of condensed interim financial statements and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

4. Without qualifying our opinion, we draw attention to accompanying explanatory Note 1 to the interim financial statements, where it is stated that the abovementioned interim financial statements do not include all the information that would be required for complete consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, and therefore the accompanying interim financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2011.

5. The accompanying interim consolidated management report for the six-month period ended June 30, 2012 contains such explanations as the Parent Company's directors consider necessary regarding the events which occurred during said period and their effect on the interim financial statements, of which it is not an integral part, as well as on the information required in conformity with article 15 of Royal Decree 1362/2007. We have checked that the accounting information included in the report mentioned above agrees with the interim financial statements for the six months period ended June 30, 2012. Our work is limited to verifying the management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the accounting records of the consolidated companies.

6. This report has been prepared at the request of Management with regard to the publication of the half-year financial report required by article 35 of Securities Market Law 24/1988, of July 28, further developed by Royal Decree 1362/2007, of October 19 and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

ERNST & YOUNG, S.L.

____

Rafael Páez Martínez

August 2, 2012

AIRCRAFT FLEET

Number in service with Group companies

Airline operations	On balance sheet fixed assets	Off balance sheet operating leases	Fleet acquired through acquisition	**Total June 30, 2012**	Total December 31, 2011	Changes since December 31, 2011	Future deliveries	Options
Airbus A318	2	-	-	**2**	2	-	-	-
Airbus A319	31	21	11	**63**	52	11	2	-
Airbus A320	45	33	7	**85**	70	15	27	31
Airbus A321	16	14	7	**37**	30	7	-	-
Airbus A330	-	-	2	**2**	-	2	8	8
Airbus A340-300	7	10	-	**17**	18	(1)	-	-
Airbus A340-600	2	15	-	**17**	17	-	-	-
Airbus A380	-	-	-	**-**	-	-	12	7
Boeing 737-300	-	-	12	**12**	-	12	-	-
Boeing 737-400	19	-	-	**19**	19	-	-	-
Boeing 737-500	-	-	2	**2**	-	2	-	-
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	4	-
Boeing 787	-	-	-	**-**	-	-	24	28
Embraer E170	6	-	-	**6**	6	-	-	-
Embraer E190	7	-	-	**7**	7	-	1	15
SAAB 2000	-	1	-	**1**	-	1	-	-
Group total	**255**	**102**	**41**	**398**	**348**	**50**	**78**	**89**

As well as those aircraft in service the Group also holds 18 aircraft (2011: 30) which are not in service, which includes 3 sub-leased aircraft (2011: 5).