

## **RELEVANT FACT**

### **BINDING AGREEMENT FOR BMI PURCHASE**

Following the announcement on November 4, 2011, International Airlines Group (IAG) and Deutsche Lufthansa AG (Lufthansa) have today reached a binding agreement for IAG to acquire British Midland Limited (bmi). The cost is £172.5 million in cash though the price is subject to significant reductions. bmi consists of three distinct business units – bmi mainline, bmi regional and bmibaby.

#### **Transaction highlights:**

- Acquisition of bmi for £172.5million in cash
- IAG's Heathrow slot portfolio to increase by up to 56 additional daily slot pairs
- Lufthansa to take on bmi's defined benefit pension scheme
- Lufthansa has the option to sell bmi regional and bmibaby before completion
- Significant price reduction if Lufthansa does not opt to sell bmibaby before completion
- Deal subject to competition clearance
- Earnings per share (EPS) accretive by 2014 at the latest
- 2015 operating profit target of €1.5 billion to increase by more than €100 million with consequent increase in EPS
- Underpins goal of 12 per cent return on capital employed by 2015
- Restructuring costs spread over three years and significantly lower in total than bmi's current annual losses

Willie Walsh, IAG chief executive, said: "Buying bmi's mainline business gives IAG a unique opportunity to grow at Heathrow, one of our key hub airports. Using the slot portfolio more efficiently provides the option to launch new longhaul routes to key trading nations while supporting our broad domestic and shorthaul network.

"This deal is good news for the UK as we will maintain a comprehensive domestic schedule including Belfast. Our plans to expand our longhaul network would guarantee growth by making Britain better able to compete on a global scale. It will also help maximise Heathrow's position as a world class hub airport.

"Customers will benefit from access to new destinations, more convenient schedules, enhanced frequent flyer benefits and greater investment than had been possible for loss-making bmi.

"Given the scale of bmi's losses, there is an urgent need to restructure the business. Unfortunately, this will mean some job losses but we will secure a significant number of high quality jobs here in the UK and create similar new jobs in the future. IAG's purchase of bmi will protect more British jobs than

if the airline had been closed and had its Heathrow slots sold off. There will be restructuring costs spread over three years but these will be significantly lower in total than bmi's current annual losses.

"bmi regional and bmibaby are not part of our plans and Lufthansa has the option to sell them before completion".

### **Financing**

IAG intends to finance the purchase from its own funds. £60 million of the purchase price will be paid in four instalments to Lufthansa pre-completion. This amount will be secured by Heathrow slots.

### **Pensions**

Lufthansa has agreed to take on bmi's defined benefit pension scheme.

### **Timetable and conditions**

It is hoped that the transaction will be completed during Q1 2012 subject to regulatory clearance from the European Commission and other bodies. There is a termination fee of £10 million which is only payable by IAG if phase 1 EU regulatory approval is not achieved by March 31, 2012 and either party elects to terminate the sales purchase agreement.

### **About bmi**

bmi mainline operates Airbus aircraft to destinations in the domestic UK market, Europe, CIS states, Middle East and Africa from London Heathrow. bmi regional operates an Embraer fleet and offers shorthaul flights within the UK and Europe from 7 regional airports. bmibaby operates Boeing aircraft and is a low-cost airline flying primarily out of East Midlands and Birmingham airports.

bmi reported gross assets of £284 million as at December 31, 2010 and a £153 million loss before tax on revenues of £777 million for the year 2010.

*ends*

*December 22, 2011*

Enrique Dupuy de Lome  
Chief Financial Officer

*In relation to the transaction, IAG has received financial advice from Barclays Capital.*

#### **Forwarding-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 the Company's 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 some of the most important risks in this regard is given in the shareholder documentation in respect of the merger issued on October 26, 2010 and in the Securities Note and Summary issued on January 10, 2011; these documents are available on [www.iagshares.com](http://www.iagshares.com)