Report of the Remuneration Committee

Dear Shareholder

I am pleased to set out the second Remuneration Report of IAG. The year in question has been a solid performance for the Company, against difficult trading conditions, building on the progress made in the first year in ensuring a robust governance regime is in place. The executive remuneration framework aims to underpin our business objectives and financial targets, and the remuneration policy is designed to deliver total remuneration which is market competitive with increased emphasis placed on pay for performance. The year has seen the matter of executive remuneration often in the news in both Spain and the UK. The so-called "shareholder spring" in the UK saw a number of companies receive significant challenges from shareholders on executive arrangements. Against this backdrop, I was delighted to see a 97 per cent vote in favour (96 per cent with abstentions) of the 2011 Remuneration Report at our Annual Shareholders Meeting. I saw this as a great vote of confidence in the fact that the Group has got a robust remuneration policy. This is in no small part due to the Chief Executive Officer of IAG leading by example in proposing restraint in executive packages, and proposing robust stretching targets for all IAG incentive plans. Government departments and investor bodies in both Spain and the UK will be proposing further changes to remuneration reporting and policy in 2013, and the Remuneration Committee will continue to watch developments very closely and act accordingly.

Overall summary of 2012

The continuing difficult global economic situation has meant that 2012 has been a difficult year. The financial targets for 2012 set at the beginning of the year were very stretching, and as such the two-thirds portion of IAG's annual incentive plan linked to operating results will pay out only 35 per cent of the maximum opportunity for 2012. However, the Group has achieved significant success in continuing to find synergies, and has outperformed against the second year cost and revenue synergy targets. These successes will be rewarded through the personal one-third portion of the annual incentive award. The Committee will continue to ensure that executive remuneration underpins the business strategy and is confident that the overall reward framework for 2013 is in the best interests of shareholders.

Members during the reporting period

During the reporting period, the members of the Committee have been César Alierta Izuel (Chairman), Baroness Kingsmill, José Manuel Fernández Norniella and John Snow.

Committee

During the year, the Committee performed an evaluation of its performance and concluded it is operating effectively. The Committee's terms of reference are available on the Company's website.

Beyond Executive Directors, the Committee has a responsibility to oversee the general application of the remuneration policy to the Senior Executives below the main board, and also has oversight on remuneration matters of the Senior Management, as well as the Executive Committee members of the operating companies.

Key activities during the year and stakeholder considerations

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

In February, the proposed changes to the performance measures for the 2012 Performance Share Plan award were adopted, following extensive consultation. In May, a methodology for dealing with remuneration aspects of mergers and acquisitions was approved. In December, the Chairman, and the Chief Executive Officer of Iberia, took a voluntary 25 per cent reduction in their fee/basic salary until further notice.

The 2012 report

The UK Government Department of Business, Innovation and Skills (BIS) is currently proposing changes to the layout and information required in Directors' Remuneration Reports. In order to align with their current requirements, IAG has chosen to early adopt these principles where appropriate. As such, this report is split into two sections. The first gives a summary of the 2012 remuneration outcomes, including the total remuneration (a 'single figure') of the Directors and variable pay awarded in the year. These regulations will apply to all UK companies listed on a major stock exchange with financial years ending on or after October 2013, and so the adoption of certain aspects of these regulations in this report is on a voluntary basis. The second section focuses on the policy set for 2013, including the objectives and operation of each element of pay, the context in which decisions for this policy were made, and service contract details. As in 2011, the full body of this report will be subject to an advisory vote at the Annual General Meeting.

Approved by the Board and signed on its behalf by

César Alierta Izuel
Chairman of the Remuneration Committee

Report of the Remuneration Committee continued

Committee and advisers

Introduction

This Report covers the period from January 1, 2012 to December 31, 2012 and provides details of the Remuneration Committee and remuneration policy for the Company.

The Report has been prepared in accordance with the provisions of article 61 'ter' of the Spanish Securities Market Law (Law 24/1998, of 28 July). In accordance with said article this report will be submitted to the consultative vote of the annual shareholders' meeting of the Company. The Remuneration Committee takes responsibility for the preparation of the report, which is approved by the Board.

The Report has also been prepared in accordance with the UK Listing Rules and, although there is no requirement as a Spanish company, the requirements of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

It is understood that Spanish remuneration reporting disclosure requirements may change in the near future. If this leads to a change in disclosure under Spanish Law the Committee may choose to change its approach to voluntary disclosure under UK regulation in order to prevent unnecessary duplication, which could potentially lead to confusion for shareholders.

Summary of 2012 remuneration outcomes

Role, membership and activities of the Committee

According to article 25 of the Board regulations the Remuneration Committee shall be made up of no less than three and no more than five Non-Executive Directors appointed by the Board, with the dedication, capacity and experience necessary to carry out their function. At least three of the members of the Remuneration Committee shall be Independent Directors. For the reporting period three of the members were considered Independent Non-Executive Directors of the Company. None of the members has any personal financial interest, other than as a shareholder, in the matters to be decided. There were four meetings held in the year. Cesar Alierta Izuel, José Manuel Fernandez Norniella and John Snow were unable to attend one meeting due to other commitments. The Terms of Reference of the Committee can be viewed on the Company's website.

Key topics covered at Remuneration Committee meetings

In 2012, the Committee met four times and discussed, amongst others, the following matters:

Meeting	Agenda items discussed
January	• Review and approval of Directors' basic salaries • Approval of 2012 Annual Incentive Plan • Approval of 2012 Performance Share Plan Awards
February	• Approval of 2012 Performance Share Plan measures and targets, following the shareholder consultation exercise • Approval of 2011 Annual Incentive Plan payments to Directors • Final review of 2011 Directors' Remuneration Report • Review of Directors' share ownership status • Review of the Committee's Terms of Reference
May	• Approval of methodology for dealing with remuneration aspects of mergers and acquisitions • Review of supporting material for the Annual General Meeting • Approval of the vesting outcome of the British Airways Performance Share Plan 2009 award • Approval of action plan following the performance evaluation of the Committee
September	• Review of Remuneration Committee Planner for 2013 • Update from the 2012 Annual General Meeting with voting outcomes • Full update on Spain and UK external market developments and corporate governance • Update on performance to date for the 2012 Annual Incentive Plan • Update on performance to date for the 2010, 2011, and 2012 Performance Share Plans • Approval of strategy for 2013 remuneration (salary, annual incentive and long-term incentive)

Advisers to the Committee

The Committee has not appointed external advisers. The Company obtained high-level headline remuneration survey data from a variety of sources. During the year, the Group Chief Executive Officer and Chief of Staff provided regular briefings to the Committee apart from when their own remuneration was being discussed.

Comparison of overall performance and pay

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

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

Single figure of remuneration for each Director

Subject to Audit

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

Director (€'000)	Base salary/ fees	Benefits	Pension, or cash in lieu	Annual incentive award – cash award	Incentive Award Deferral Plan (IADP)	Subtotal for year to December 31, 2012	Subtotal for year to December 31, 2011	British Airways Long Term Incentive vesting in year	Overall 2012 Total – the 'Single Figure' as per the draft BIS regulations
Executive Directors									
Willie Walsh (GBP)[2]	825	52	206	–	–	1,083	1,298	–	1,083
Willie Walsh (Euro)	1,015	65	254	–	–	1,334	1,494	–	1,334
Keith Williams (GBP)[2]	650	48	176	244	244	1,362	973	–	1,362
Keith Williams (Euro)	800	59	216	300	300	1,675	1,120	–	1,675
Rafael Sánchez-Lozano Turmo[1]	619	28	171	–	–	818	870	–	818
Non-Executive Directors									
Antonio Vázquez Romero[1]	632	53	–	–	–	685	921	–	685
Sir Martin Broughton	350	80	–	–	–	430	576	–	430
Baroness Kingsmill	120	19	–	–	–	139	129	–	139
James Lawrence	120	9	–	–	–	129	121	–	129
César Alierta Izuel	140	1	–	–	–	141	140	–	141
Patrick Cescau	120	19	–	–	–	139	136	–	139
José Manuel Fernández Norniella	120	4	–	–	–	124	115	–	124
José Pedro Pérez-Llorca	120	11	–	–	–	131	120	–	131
Kieran Poynter	140	15	–	–	–	155	144	–	155
Rodrigo de Rato y Figaredo[3]	70	25	–	-	–	95	139	–	95
John Snow	140	–	–	–	–	140	142	–	140
Manuel Lagares Gómez-Abascal	50	1	–	–	–	51	–	–	51
Aggregate emoluments (€'000)	**4,556**	**389**	**641**	**300**	**300**	**6,186**	**6,167**	**-**	**6,186**

1 Rafael Sánchez-Lorano Turmo and Antonio Vázquez Romero took a voluntary 25 per cent reduction in their basic salary/fee, effective December 1, 2012. For Rafael Sánchez-Lorano Turmo, his non-reduced salary is used to calculate his pension employer contribution, his annual incentive award, and his PSP award.
2 Willie Walsh and Keith Williams' remuneration is expressed in sterling pounds and also expressed in euros for information purposes only.
3 Fees corresponding to Rodrigo de Rato y Figaredo were paid to Bankia, S.A.

Note

Base salary/fees: Salary paid in year for Executive Directors and fees paid in year for Non-Executive Directors.

Benefits: Taxable benefits including personal travel and; where applicable, a Company car, driver, fuel and private health insurance.

Pension, or cash in lieu: Employer contribution to pension scheme, and/or cash in lieu of pension.

Annual Incentive Award: Annual incentive award cash payments for the period ended December 31, 2012 (accrued at December 31, 2012, but not paid until March 2013). The outcomes of the performance conditions which determined the award are described in the next section.

Incentive Award Deferral Plan (IADP): Half of the full annual incentive award is deferred into shares for three years. These will vest in April 2016.

Report of the Remuneration Committee continued

British Airways LTIP: The British Airways PSP granted on March 19, 2010 lapsed on May 10, 2012. The outcome of the performance condition which determined the vesting is described in the next section. The three-year performance period began on April 1 prior to the award date and ended on March 31, 2012. 0 per cent of the shares vested.

€:£ exchange rate applied is 1.2305.

Life Insurance
The company provides life insurance for all Directors. For the year to December 31, 2012 the Company paid contributions of €21,834.

Variable pay outcomes
Subject to Audit
2012 Annual Incentive Award
The targets that apply to the Annual Incentive Award are set by the Committee at the beginning of each year. These are set by reference to a number of factors including the business plan (as approved by the Board) and (for role specific objectives including synergy targets) the key targets for the individual and their specific areas of responsibility. The Committee retains the discretion to prevent any incentive award payments if, in its opinion, the underlying financial performance of the Company had not been satisfactory in the circumstances.

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

Measure		Chief Executive Officer of IAG	Chief Executive Officer of British Airways	Chief Executive Officer of Iberia
Operating profit (67 per cent)	Payout	Nil	€279,939 £227,500	Nil
	per cent of maximum awarded	Nil	35 per cent	Nil
Role-specific objectives (33 per cent)	Outcomes versus targets	Objectives based on setting the overall Group strategy, and Group financial performance including implementation of cost and revenue synergy savings across the operating companies.	Objectives based on BA financial performance including control of the cost base, synergy savings, customer satisfaction, and operational performance.	Objectives based on Iberia financial performance including developing a restructuring plan to restore profitability, synergy savings, customer satisfaction, and operational performance.
	per cent of maximum awarded	Nil	80 per cent	Nil
Details of any discretion exercised		See below	None	See below
Overall outcome		Nil	€599,869 £487,500	Nil

Half of this amount is payable in deferred shares in the Company vesting after three years (under the Incentive Award Deferral Plan).

IAG operating profit for 2012 (two-thirds of the annual incentive) has resulted in 35 per cent of the maximum paying out for this element of the incentive. This is between the threshold level and the on-target level. In 2011, IAG operating profit was below the threshold level, and there were no payments under that element of the annual incentive. For 2012, for the one-third portion based on personal objectives, the Chief Executive Officer of the Group has determined an outcome as above for the Chief Executive Officer of British Airways and the Chief Executive Officer of Iberia based on their performance against their role-specific objectives.

The CEO of Iberia has agreed to forgo his annual incentive payment for 2012.

Whilst the performance of the Group CEO would in the opinion of the Board have justified the payment of the annual incentive, after considering the financial performance of the Group, the Board has decided to exercise its discretion to withhold the payment of the annual incentive at this time.

British Airways LTIP 2009

The British Airways PSP granted on March 19, 2010 was tested at the end of the performance period, which began on April 1, 2009 and ended on March 31, 2012. The awards granted in 2010 were equivalent to 150 per cent of salary for both the Group CEO and the CEO of British Airways and 100 per cent for other members of the British Airways management team. At the time of the award, Willie Walsh (who at the time was CEO of British Airways) felt it appropriate to decline his award. The outcome of the performance condition was as follows:

Measure	Threshold	Maximum	Outcome	Vesting (as per cent award granted in 2010)
TSR performance against a group of airlines (100 per cent)[1]	Median (25 per cent of award vests)	Upper quintile or above (100 per cent of award vests)	12th	0 per cent
Details of any discretion exercised			None	None
Overall outcome				0 per cent

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

Variable pay awarded during the financial year

The IAG Performance Share Plan (PSP) is a discretionary plan targeted at key senior Group Executives and Managers who directly influence shareholder value. The Company granted an award under the PSP in August 2012. The table in this section sets out the key details of the award.

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

A key drawback of the ranked group measurement approach (used in 2011 and previous to that at British Airways) is that relatively small changes in TSR performance can lead to significant changes in vesting. The Committee approved the measurement of TSR relative to an index in order to rectify this shortcoming, and believes index measurement avoids the step effect associated with rank measurement.

In addition, the Committee considers use of the index approach against a recognised market index to be more objective. By using the MSCI European Transportation Index, automatic adjustments would be made when constituent companies delist or are subject to a corporate transaction, using a consistently applied and externally verified methodology.

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

PSP eligibility, metrics and targets

Type of award	Shares	
Basis of determination of the size of award	Awards only made to those executives who are consistently high-performing, and/or are in key roles, and/or whom the Company wishes to retain in the long term.	
Face value awarded (per cent of salary)	Chief Executive Officer of IAG– 200 per cent Other Executive Directors – 150 per cent	
Performance period	January 1, 2012 – December 31, 2014	
Performance conditions	EPS performance targets	TSR performance compared to the TSR performance of the MSCI European Transportation (large and mid cap) index
Weighting	50 per cent	50 per cent
Threshold	2014 EPS of €0.20 10 per cent vests	IAG's TSR performance equal to the index 25 per cent vests
Target (straight line vesting between threshold and maximum)	2014 EPS between €0.20 and €0.50	IAG's TSR performance between index return and 8 per cent per annum outperformance
Maximum	2014 EPS of €0.50 100 per cent vests	IAG's TSR performance exceeds index by 8 per cent per annum 100 per cent vests

The maximum vesting under the EPS performance condition only occurs if the Company achieves €0.50 (which at the time of the award was the forecast level for the 2015 business plan). This recognises the stretching goals the Company has set in its business plan. The Committee notes that the Company is currently not forecast to achieve this goal by the end of the performance period in 2014, but that it establishes a strong benchmark for EPS targeting.

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

Total pension entitlements

Subject to Audit

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

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

Keith Williams has opted to take cash in lieu of a pension, and during the reporting period he has received £175,625. This includes a back payment of one month for 2011.

Rafael Sánchez-Lozano Turmo opted to take cash in lieu of a pension up to August 31, 2012, and up until that date he had received €118,500. This includes a back payment of one month for 2011. Rafael joined the Company's pension scheme on September 1, 2012, and the Company paid contributions during the period September 1, 2012 to December 31, 2012 of €52,667. For pensionable pay purposes, Rafael's salary remains at €632,000 even after the voluntary reduction of 25 per cent, and Company contributions are calculated on that basis.

Keith Williams is a deferred member of the NAPS scheme, Keith was an active member of the scheme until the merger effective date. The transfer value of the accrued pension at December 31, 2012 is €2,821,711, the increase in benefits during the year is €280,022, of which, net of inflation is €156,812.

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

Exit payments made in year

Rodrigo de Rato y Figaredo left the Board on July 10, 2012. As a Non-Executive Director he was remunerated in fees only and received no exit payments.

Shareholder context

The table below shows the advisory vote on the 2011 remuneration report at the June 2012 Annual General Meeting:

Number of votes cast	For	Against	Abstentions
1,278,766,463	1,228,510,677 (96.1 per cent)	40,683,715 (3.2 per cent)	9,572,071 (0.7 per cent)

Share ownership of Executive Directors

Subject to Audit

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

Under the Group's shareholding guidelines, Executives are expected to build up and maintain a shareholding of 100 per cent of salary, and are expected to retain no fewer than 50 per cent of shares (net of tax) which vest from share plans until this shareholding requirement is attained.

The Committee has reviewed the guidelines and notes those have not yet been fulfilled. This is due to the fact that shareholding tends to be built up through the vesting of share awards, which have historically been fairly low in IAG compared to the market. The table below summarises current Directors' interests

Director	Shareholding requirement (per cent of salary)	Qualifying shareholding[1]	Qualifying shareholding (per cent of salary)
Willie Walsh	100 per cent	343,257	85
Keith Williams	100 per cent	255,420	87
Rafael Sánchez-Lozano Turmo	100 per cent	108,018	78

1 Unvested deferred bonus shares count towards meeting the shareholding guidelines.

Directors' beneficial interests in shares

Subject to Audit

	Total shares	Voting rights	Percentage of capital
Antonio Vázquez Romero	512,291	512,291	0.028
Sir Martin Broughton	69,090	69,090	0.004
Willie Walsh	298,915	298,915	0.016
César Alierta Izuel	1,000,000	1,000,000	0.054
Patrick Cescau	0	0	0.000
José Manuel Fernández Norniella	816	816	0.000
Manuel Lagares Gómez-Abascal	100	100	0.000
Baroness Kingsmill	2,000	2,000	0.000
James Lawrence[1]	50,000	50,000	0.003
José Pedro Pérez-Llorca	408	408	0.000
Kieran Poynter	0	0	0.000
Rafael Sánchez-Lozano Turmo	103,070	103,070	0.006
John Snow	0	0	0.000
Keith Williams	135,615	135,615	0.007
Total	**2,172,305**	**2,172,305**	**0.118**

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

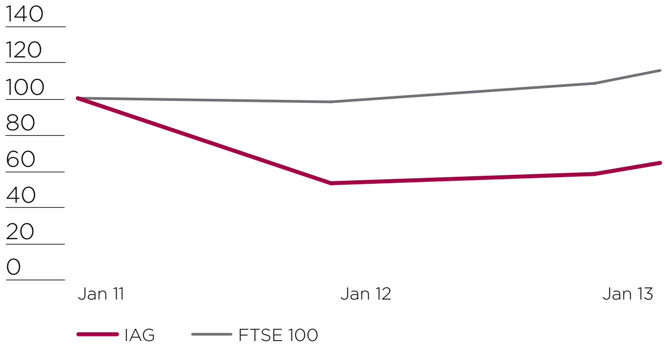
Sir Martin Broughton held two convertible bonds in British Airways Plc at December 31, 2012.

There have been no changes to the shareholdings set out above between December 31, 2012 and the date of this report.

Report of the Remuneration Committee continued

Performance graph
The chart shows the value by December 31, 2012 of a hypothetical £100 invested on listing compared with the value of £100 invested in the FTSE 100 index over the same period. A spot share price has been taken on the date of listing, and a three-month average has been taken prior to the year end. The FTSE 100 was selected because it is a broad equity index of which the Company is a constituent, and the index is widely recognised.

IAG's total shareholder return (TSR) performance compared to the FTSE 100



Source: Bloomberg

Summary of 2013 remuneration policy (This policy took effect on January 1, 2013)

Key elements of pay
The Company's remuneration policy is to provide total remuneration packages which are competitive with the market median, linked to the business strategy and take into account each individual's role, skills and contribution. The Company's primary comparator group is the FTSE 26 to 100 (excluding financial services), with a secondary reference to global airline companies where appropriate. The Committee is updated on the pay and conditions of employees within the Group, and takes these into account when determining the Executive Directors' remuneration.

The table below summarises the main elements of remuneration packages for the Executive Directors.

Purpose and link to strategy	Summary of policy	Opportunity, and performance conditions
Base salary Takes account of role, skills and contribution	The positioning of base salaries is set with reference to similar roles in the benchmarking comparator group (primarily the FTSE 26 to 100 excluding financial services), as well as the individual's skills and contribution. The Committee also considers levels of base salary increases in the rest of the Group, which for 2013 was zero to two per cent.	Chief Executive Officer of IAG: £825,000 (no increase from 2011 or 2012) (€1,015,163). Chief Executive Officer of British Airways: £650,000 (no increase from 2012) (€799,825). Chief Executive Officer of Iberia: €632,000, with a voluntary reduction of 25% to €474,000 effective December 1, 2012 until further notice.
Benefits	Life insurance, personal travel and; where applicable, a Company car, driver, fuel and private health insurance.	The Company will pay contributions in relation to life insurance.
Annual Incentive Award Incentivises annual corporate financial performance and role specific objectives	The targets that apply to the annual incentive award are set by the Committee at the beginning of each year. These are set by reference to a number of factors including the business plan (as approved by the Board) and (for role specific objectives including synergy targets) the key targets for the individual and their specific areas of responsibility. The Committee retains the discretion to prevent any incentive award payments if, in its opinion, the underlying financial performance of the Company had not been satisfactory in the circumstances.	Chief Executive Officer of IAG – 200 per cent of salary (100 per cent of salary for on-target performance). Other Executive Directors – 150 per cent of salary (75 per cent of salary for on-target performance). **Performance conditions** One-third measured by British Airways operating profit, one-third measured by Iberia's net cash flow, and one-third based on role specific objectives which are unchanged from 2012 as detailed earlier in this report.

Purpose and link to strategy	Summary of policy	Opportunity, and performance conditions
Incentive Award Deferral Plan (IADP) Aligns the interest of Executives and shareholders and provides a retention tool	The IADP is designed to align the interests of Executives with shareholders by providing half of the annual incentive in deferred shares. Other than on retirement or redundancy, the shares will be subject to forfeiture if the Executive leaves during the three-year deferral period. On vesting, Executives will receive the benefit of any dividends paid over the deferred period.	Half of any annual incentive award is deferred into shares for three years. **Performance conditions** Clawback provision applies. No other performance conditions apply because it is based on performance already delivered.
Performance Share Plan (PSP) Incentivises long-term shareholder value creation. Drives and rewards delivery of sustained TSR and financial performance	The PSP is a discretionary plan and is targeted at key senior Executives and managers of the Group who directly influence shareholder value. The PSP consists of an award of the Company's shares which vests subject to the achievement of pre-defined performance conditions in full or in part at the third anniversary of the date of the award. No payment is required from individuals when the shares are awarded or when they vest. The Committee retains the discretion to prevent any PSP award payments if, in its opinion, the underlying financial performance of the Company had not been satisfactory in the circumstances.	Chief Executive Officer of IAG – 200 per cent of salary. Other Executive Directors – 150 per cent of salary. The maximum individual award in any financial year is 300 per cent of base salary, unless the Committee considers that exceptional circumstances merit a larger award. **Performance conditions** These are measured over three years: 50 per cent based on IAG TSR performance relative to the MSCI European Transportation Index. This condition is considered appropriate because the companies in the index are subject to external influences impacting share price similar to those of the Group; 50 per cent based on EPS. This condition is considered appropriate because it provides a strong measure of the underlying financial performance of the business.
Pension Provides post-retirement remuneration and ensures total package is competitive	The Company operates a defined contribution scheme. Executives can opt instead to receive a salary supplement in lieu of a pension.	A defined contribution scheme providing 25 per cent of basic salary per annum. Chief Executive Officer of IAG and Chief Executive Officer of Iberia are members of the pension scheme. Chief Executive Officer of British Airways opted to receive salary supplement in lieu of a pension.

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

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

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

Report of the Remuneration Committee continued

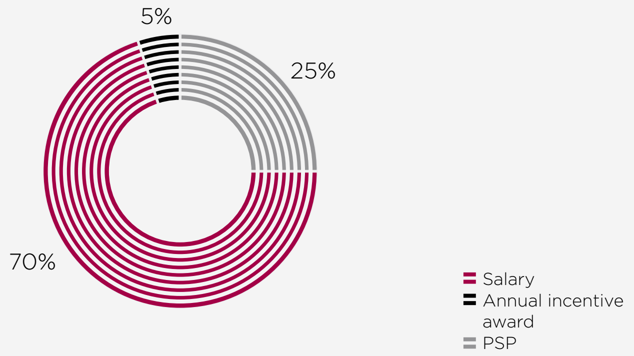
Remuneration scenarios

A significant portion of the Company's total remuneration package is variable, with emphasis placed on longer-term reward to align closely Executive Directors' and Senior Managers' interests with shareholder interests. The charts below show the composition of total remuneration at threshold, target and maximum performance for the Executive Directors.

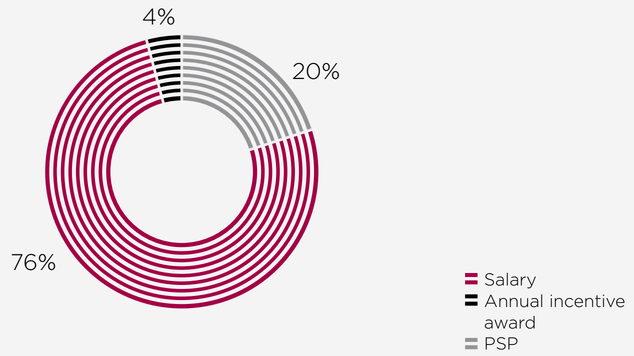
At threshold performance, the annual incentive pays out 5 per cent of the maximum opportunity for the financial measure (two-thirds of the incentive), and 0 per cent for role-specific objectives (one-third of the incentive). For the PSP at threshold performance, 25 per cent of the maximum opportunity vests for TSR performance and 10 per cent of the maximum opportunity vests for EPS performance.

At target performance, both the annual incentive and the PSP pay out 50 per cent of the maximum opportunity.

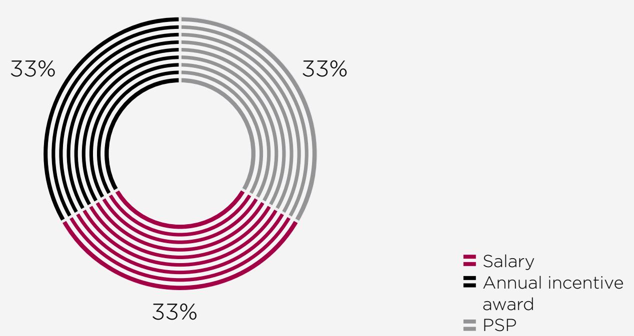
Group CEO – Threshold performance



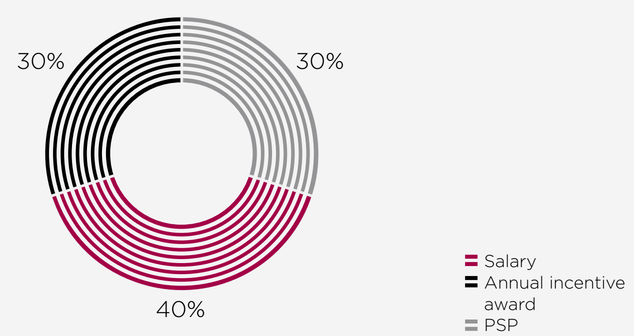
Other Executive Directors – Threshold performance



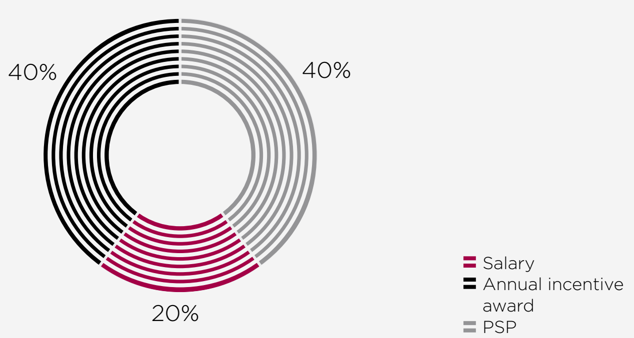
Group CEO – Target performance



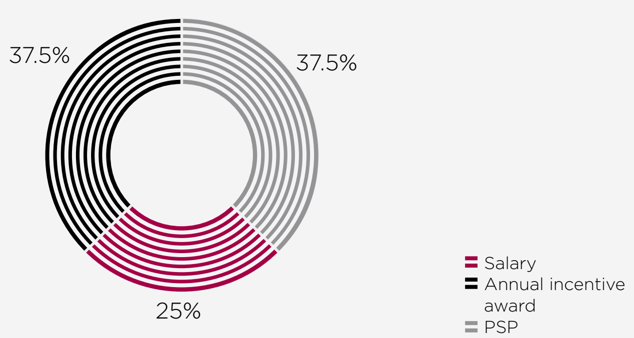
Other Executive Directors – Target performance



Group CEO – Maximum performance



Other Executive Directors – Maximum performance



Service contracts and exit payments

The following is a description of the key terms of the service contracts of Executive Directors.

Executive Director	Date of contract	Notice period
Willie Walsh	January 21, 2011	12 months
Keith Williams	January 21, 2011	12 months
Rafael Sánchez-Lozano Turmo	January 21, 2011	12 months

There are no express provisions in Executives' service contracts with the Company for compensation payable upon termination of those contracts, other than for payments in lieu of notice. The only exception to this is a lump-sum retirement benefit for the Chief Executive Officer of Iberia as noted below.

The period of notice required from the Executive is 26 weeks; the period of notice required from the Company is 52 weeks. Where the Company makes a payment in lieu of notice, a lump sum in lieu of the first 26 weeks, base salary is payable within 28 days of the date of termination of employment. A payment in respect of base salary for the second 26-week period only becomes payable if, in the Company's opinion, the Executive has taken reasonable steps to find alternative paid work and then only in six monthly instalments. The Company may reduce the sum payable in respect of any month by any amount earned by the Executive (including salary and benefits) referable to work done in that month.

In the event of an Executive's redundancy, compensation, whether in respect of a statutory redundancy payment or a payment in lieu of notice or damages for loss of office; is capped at an amount equal to 52 weeks, base salary.

As set out in the merger documentation, the Chief Executive Officer of Iberia will also continue to be entitled to a lump-sum retirement benefit in an amount of €1,168,000. The fund balance under the policy (including accrued interest) will be paid upon exit from the Company for any reason.

The Company may terminate an Executive's service contract with immediate effect and without compensation on a number of grounds including where the Executive is incapacitated for 130 days in any 12 month period, becomes bankrupt, fails to perform his duties to a reasonable standard, acts dishonestly, is guilty of misconduct or persistent breach of his duties, brings the Company into disrepute, is convicted of a criminal offence, is disqualified as a Director, refuses to agree to the transfer of his service contract where there is a transfer of the business in which he is working or ceases to be eligible to work in Spain or the UK (as applicable).

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

Report of the Remuneration Committee continued

Non-Executive Directors do not have service contracts. Their appointment is subject to the Board regulations, Nominations Committee and Board decision on Annual elections. The dates of the Chairman's and Non-Executive Directors' appointment, who served in the period; are as follows:

Non-Executive Director	Date of appointment	Date of election	Date of expiration of period – Shareholders Meeting to be held in:
Antonio Vázquez Romero	May 25, 2010	November 29, 2010	2015
Sir Martin Broughton	May 25, 2010	November 29, 2010	2013
Baroness Kingsmill	September 27, 2010	November 29, 2010	2014
James Lawrence	September 27, 2010	November 29, 2010	2015
César Alierta Izuel	September 27, 2010	November 29, 2010	2014
Patrick Cescau	September 27, 2010	November 29, 2010	2013
José Manuel Fernández Norniella	September 27, 2010	November 29, 2010	2013
José Pedro Pérez-Llorca	September 27, 2010	November 29, 2010	2014
Kieran Poynter	September 27, 2010	November 29, 2010	2014
John Snow	September 27, 2010	November 29, 2010	2013
Manuel Lagares Gómez-Abascal[1]	August 2, 2012		

1 Manuel Lagares Gómez-Abascal will seek election at the Shareholders Meeting in June 2013.

External Non-Executive Directorship

The Company's consent is required before an Executive can accept an External Non-Executive appointment and permission is only given in appropriate circumstances. During the reporting period in question the following Director held a directorship from which he retained a fee:

Director	Company	Fee £
Keith Williams	Transport for London	£24,000

Non-Executive Directors

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

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

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

In relation to the Chairman, as set out in the merger documentation, the conditions of the service contract with Iberia were taken into account at the time of the merger. This means that he will therefore continue to be entitled to a lump-sum retirement benefit in an amount of €2,800,000. The fund balance under the policy (including accrued interest) will be paid upon exit from the Company for any reason.

Additional information

Subject to Audit

Directors' share options

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

Director	Date of grant	Number of options at January 1, 2012	Exercise price	Options exercised during the year	Options lapsed during the year	Exercisable from	Expiry date	Number of options at December 31, 2012
Executive Director								
Keith Williams	July 1, 2002	91,160	181p	–	91,160	July 1, 2005	July 1, 2012	–
	June 25, 2003	114,649	157p	–	–	June 25, 2006	June 25, 2013	114,649
	June 25, 2004	72,480	262p	–	–	June 25, 2007	June 25, 2014	72,480
	June 23, 2005	69,927	276p	–	–	June 23, 2008	June 23, 2015	69,927
Total		**348,216**		–	**91,160**			**257,056**

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

Report of the Remuneration Committee continued

Directors' conditional awards

The following Directors held conditional awards over ordinary shares of the Company granted under the IAG PSP, the British Airways Long Term Incentive Plan 1996 (LTIP) and the British Airways PSP. The LTIP operated from 1996 to 2004 and was replaced by the British Airways PSP in 2005.

Director	Plan	Date of award	Number of awards at January 1, 2012	Awards vesting during the year	Awards lapsing during the year	Awards made during the year	Number of awards at December 31, 2012
Executive Directors							
Willie Walsh	British Airways PSP	September 17, 2010	469,148	–	–	–	469,148
	IAG PSP	March 31, 2011	714,285	–	–	–	714,285
	IAG PSP	August 3, 2012	–	–	–	1,024,844	1,024,844
Total			**1,183,433**	**–**	**–**	**1,024,844**	**2,208,277**
Keith Williams	LTIP	June 9, 2003	46,631	–	–	–	46,631
	LTIP	June 16, 2004	22,141	–	–	–	22,141
	British Airways PSP	March 19, 2010	325,123	–	325,123	–	–
	British Airways PSP	September 17, 2010	280,851	–	–	–	280,851
	IAG PSP	March 31, 2011	409,090	–	–	–	409,090
	IAG PSP	August 3, 2012	–	–	–	605,590	605,590
Total			**1,083,836**	**–**	**325,123**	**605,590**	**1,364,303**
Rafael Sánchez-Lozano Turmo	IAG PSP	March 31, 2011	359,990	–	–	–	359,990
	IAG PSP	August 3, 2012	–	–	–	486,990	486,990
Total			**359,990**	**–**	**–**	**486,990**	**846,980**

The vested LTIP awards disclosed above were subject to a performance condition that British Airways' TSR performance relative to the constituents of the FTSE 100 was median or above. Upon vesting of the LTIP awards and the Remuneration Committee having considered in both cases that underlying financial performance was satisfactory, participants were granted nil-cost options in accordance with the rules of the scheme. Options are exercisable for seven years from the date of vesting of the relevant LTIP award. No payment is due upon the exercise of these options.

The performance conditions for the PSP awards above will be tested to determine the level of vesting. For the September 2010 PSP award, 100 per cent of the award is subject to TSR performance measured against a comparator group of airlines. For the 2011 PSP award, 70 per cent of the award is subject to TSR performance measured against a comparator group of airlines, and 30 per cent is subject to performance against IAG synergy targets. For the 2012 PSP award, 50 per cent of the award is subject to TSR performance measured against an index, and 50 per cent is subject to EPS performance. In each case, the performance conditions will be measured over a single three year performance period, which began for the awards made under the British Airways Plans on April 1 prior to the award date, for the 2011 IAG award the merger effective date, and for the 2012 IAG award on January 1, 2012.

The award granted on March 19, 2010 was tested at the end of the performance period, and as a result none of the shares vested, as detailed earlier in this report in the section on Variable Pay Outcomes.

The value attributed to the Company's ordinary shares in accordance with the Plan rules on the date of the 2012 PSP award was 161 pence (2011: 231 pence; 2010 235 pence; 2009: 203 pence).

Incentive Award Deferral Plan

The following Directors held conditional awards over ordinary shares of the Company granted under the IAG IADP (awarded as a result of British Airways' performance for the period ended December 31, 2010, and IAG performance for the period ended December 31, 2011), and the British Airways DSP.

Director	Relates to incentive award earned in respect of performance	Date of award	Number of awards at January 1, 2012	Awards released during the year	Date of vesting	Awards lapsing during the year	Awards made during the year	Number of awards at December 31, 2012
Executive Directors								
Willie Walsh	2010	March 31, 2011	90,984	–	March 31, 2014	–	–	90,984
	2011	August 3, 2012	–	–	August 3, 2015	–	93,773	93,773
Total			**90,984**	**–**		**–**	**93,773**	**184,757**
Keith Williams	2009/10	September 17, 2010	70,999	–	June 30, 2013	–	–	70,999
	2010	March 31, 2011	44,904	–	March 31, 2014	–	–	44,904
	2011	August 3, 2012			August 3, 2015	–	58,695	58,695
Total			**115,903**	**–**		**–**	**58,695**	**174,598**
Rafael Sánchez-Lozano Turmo	2011	August 3, 2012	–	–	August 3, 2015	–	20,616	20,616
Total			**–**	**–**		**–**	**20,616**	**20,616**

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

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

Share scheme dilution limits

The Association of British Insurers (ABI) sets guidelines that restrict the issue of new shares under all the Company's share schemes in any ten-year period to 10 per cent of the issued ordinary share capital and restrict the issues under the Company's discretionary schemes to 5 per cent in any ten-year period. At the General Meeting in 2010 the Company was given authority to allocate up to 45,000,000 shares (2.43 per cent of the share capital) in 2011 and 2012. Of this a maximum of 5,100,000 shares could be allocated to Executive Directors under all IAG share plans for awards made during 2011 and 2012. At December 31, 2012, 1.59 per cent of the share capital had been allocated under the IAG share plans. At the Annual Shareholders Meeting in June 2013, further authority will be sought to allot shares for share awards in 2013 and 2014.

It will be proposed that the maximum number of ordinary IAG shares that could be allocated to Company share schemes for any award made in 2013 and 2014 is 45,000,000, of which 5,100,000 may be allocated to Executive Directors.

The highest and lowest close prices of the Company's shares during the period and the share price at December 31, 2012 were:

At December 31, 2012	185p
Highest in the period	190p
Lowest in the period	136p