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BRITISH AIRWAYS AND IBERIA AGREE MOU FOR PROPOSED MERGER OF EQUALS

British Airways' and Iberia's boards have today agreed a binding memorandum of understanding (MoU) setting out the basis for a proposed merger of the two companies to create a new, leading European airline group that recognises the principle of parity at board and management level.

The new airline group would have 419 aircraft and fly to 205 destinations. In 2008, British Airways and Iberia carried 62 million passengers and, in their last financial years, their joint revenues are approximately € 15 billion.

The airlines believe there is a compelling strategic rationale for the transaction, which is expected to generate annual synergies of approximately €400 million, and benefit both companies' shareholders, customers and employees. The new group will combine the two companies' leading positions in the UK and Spain and enhance their strong presence in the international longhaul markets, while retaining the individual brands and current operations of each airline.

The merger is expected to be completed in late 2010.

Principal terms of the proposed merger

The proposed merger will result in the creation of a new holding company (TopCo) that will own both the existing airlines and whose shareholders will be the current British Airways and Iberia shareholders. Under the terms of the proposed merger, British Airways shareholders will receive one new ordinary share in TopCo for every existing British Airways ordinary share held by them and Iberia shareholders will receive 1.0205 new ordinary shares for every existing Iberia ordinary share held by them. On the basis of this exchange ratio, and after cancellation of the treasury shares held by Iberia and prior to the cancellation of the cross-shareholdings held by British Airways and Iberia in each other, British Airways shareholders will hold 55 per cent of TopCo and Iberia's shareholders will hold 45 per cent.

TopCo will be a Spanish incorporated company registered in Madrid, Spain. The majority of board meeting and all shareholders meetings will take place in Madrid. As at completion of the merger, TopCo will be tax resident in Spain. The operating and financial headquarters of the combined group will be located in London, which shall contain the principal management functions of the combined group. A further management office will be located in Madrid.

The TopCo board will comprise 14 directors with seven designated by each airline.

Antonio Vázquez, Chairman and CEO of Iberia, said: "It has been a long process where many people, both at British Airways and Iberia, have worked very hard to reach this agreement. But in the end it was worth it. This agreement is a giant step in the history of both Iberia and British Airways. We are laying the foundations of what will be one of the most important airlines in the world, a real global airline. I believe that, thanks to this transaction, which is the most important in the European airline industry in recent years, we are more prepared than ever to face future challenges."

Willie Walsh, British Airways chief executive, said: "The merger will create a strong European airline well able to compete in the 21st century. Both airlines will retain their brands and heritage while achieving significant synergies as a combined force."

Benefits of the proposed merger

The British Airways and Iberia boards believe that the principal benefits of the merger include:

Significant customer benefits

- Enhanced customer benefits with a larger combined network for passengers and cargo and continued investment in new customer products and services.
- The combined group will offer its customers connections to 205 destinations and strengthen the **oneworld** alliance. British Airways' customers will gain access to up to 59 new destinations, of which 13 will be in Latin America, while Iberia's customers will gain up to 98 new destinations across the British Airways network. They will also be offered better frequencies and connections, more competitive prices, access to more VIP lounges and enhanced frequent flyer benefits.

Improved strategic position within the global aviation sector

- Highly complementary network fit worldwide, in particular combining British Airways' strong presence in North America, Asia-Pacific and Africa with Iberia's strong Latin American presence.
- Greater potential for future growth by optimising the dual hubs of London and Madrid.
- Enhanced scale and ability to compete with other major airlines and participate in future industry consolidation.

Significant synergy potential

- Annual synergies of approximately €400m at budgeted exchange rates are expected by the end of the fifth year after the completion of the merger at a cash cost of up to €350m. The synergies will be incremental to the existing value from the airlines' joint business between the UK and Spain. Approximately one third of the synergies are expected to be revenue related (joint selling, network and revenue management benefits) with the balance coming from cost synergies in areas such as IT, fleet, maintenance and back office functions.
- Strong group management team to maximize the combined group's earnings potential and deliver synergy benefits while maintaining localised operational focus and accountability.

Group structure and governance

TopCo

TopCo will have its primary listing on the Official List of the UK Listing Authority and its ordinary shares will be traded on the main market of the London Stock Exchange and included in FTSE's UK Index Series. It will comply with the Combined Code and the Pre-Emption Guidelines of the Association of British Insurers and, to the extent that it is legally able to do so, the UK City Code on Takeovers and Mergers. If possible, TopCo will also have a secondary listing in the Spanish Stock Exchanges (Mercado Continuo español). If there is no such secondary listing, the regulation of takeovers in respect of TopCo will be subject to split jurisdiction between the UK Takeover Panel and Spanish Comisión Nacional del Mercado de Valores ("CNMV") otherwise, the CNMV will regulate takeover activity in respect of TopCo.

The TopCo Board will comprise 14 directors, including the group CEO and the CEOs of both OpCos and 11 non executive directors. Antonio Vázquez will be group chairman and Martin Broughton will be deputy group chairman. British Airways and Iberia will each designate three non-executive directors to the TopCo Board (of which one will be Martin Broughton) and four new independent directors will be appointed.

Operating Companies (Iberia and British Airways)

An ownership and governance structure ("National Control Structure") has been developed to ensure that the existing route licences and traffic rights of both British Airways and Iberia are retained. For the first five years following completion of the transaction, the majority of the voting shares in British Airways and Iberia will be owned by special UK and Spanish bodies respectively ("National Bodies"). These shares will have minimal economic rights.

The National Bodies will be represented on the respective OpCo boards where their role will be to protect existing route licences and traffic rights and to ensure compliance with the Assurances (as defined below). The bodies will enter into shareholder agreements with TopCo to ensure that TopCo can manage the combined group as a single economic entity.

The British Airways and Iberia OpCos will retain profit and loss accountability and will implement a joint business plan and synergy plan to be developed by the group management team. Each operating company will retain its respective Air Operators Certificate and remain responsible for its own day to day commercial and operational management.

Each OpCo will have a board comprising nine directors, of whom five will be executives (including both OpCo CEOs and the group CFO). Antonio Vázquez will remain chairman of the Iberia OpCo board and Martin Broughton will also remain chairman of the British Airways OpCo board. Three non-executive directors will be appointed by the respective UK and Spanish National Bodies under the National Control Structure. The decisions of the OpCo boards will be made by simple majority, except for matters which, if effected, would be contrary to the Assurances, which will require the approval of at least seven directors.

Group management

The combined business will be led by the group CEO, Willie Walsh, and a management team chosen equally from each airline. It will comprise of the group chief executive officer and group chief financial officer, the chief executives of the each airline (OpCo), a revenue synergies officer and a cost synergies officer. The group management team will be responsible for the overall direction and strategy of the combined business, delivery of synergies and co-ordination of central functions.

The group management team will initially comprise:

- Willie Walsh, Group CEO
- Rafael Sánchez-Lozano, CEO of Iberia OpCo
- Keith Williams, CEO of British Airways OpCo
- Enrique Dupuy De Lôme, Group CFO
- Robert Boyle, Revenue Synergies Officer

- José Maria Fariza, Cost Synergies Officer

Assurances

To protect the specific interests of British Airways and Iberia and their respective stakeholders both parties will agree to give certain Assurances (“Assurances”) that will last for five years from completion of the merger. The Assurances include:

- Both airlines to keep their main base in their home country with their own licenses, certificates, codes and brands.
- Slot and destinations will be protected for the benefit of the combined group.
- The group’s network strategy will be developed in a way that reflects the importance of both London and Madrid hubs.
- There will be a balanced long-term development of the networks served from each of the Madrid and London hubs and there will be a reasonable division of opportunities between the two networks.
- Labour relations will be handled locally.
- Iberia or TopCo will not provide any guarantee or use any cash or credit facilities to fund the BA pension schemes.

Pre-conditions and conditions

The signing of a definitive merger agreement, which is expected to occur in the first quarter of 2010, remains subject to a small number of pre-conditions including:

- Appropriate confirmations from the Spanish and UK Civil Aviation Authorities as to the suitability of the UK and Spanish bodies and from the CNMV as to the suitability and implementation of the structure. In particular that it does not impose any conditions that would prevent TopCo from having its primary listing in the UK and being included in the FTSE UK Index series.
- Limited confirmatory due diligence.

It has been agreed that the merger agreement will be subject to the following conditions:

- Appropriate antitrust and other regulatory clearances having been received.
- Approval from British Airways' and Iberia's shareholders.
- Admission of TopCo shares to a UK listing.
- Iberia will be entitled to terminate the merger agreement if the outcome of the discussions between British Airways and its pension trustees is not, in Iberia's reasonable opinion, satisfactory because it is materially detrimental to the economic premises of the proposed merger.

Under the terms of the MOU the parties have agreed that a break fee of €20million will be paid in certain circumstances. The break fee provisions will also be reflected in the merger agreement.

Shareholder approval process and timetable

British Airways and Iberia expect to present the transaction for shareholder approval at the latest in early November 2010 with completion expected to occur approximately one month following such approval.

Further details of the transaction and the joint business plan to be developed by the combined management team will be communicated following execution of the merger agreement.

The proposed merger will not be subject to the UK Takeover Code.

Ends

November 12, 2009

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Neither this announcement nor any copy of it may be taken or transmitted, directly or indirectly, into the Australia, Canada, Japan, New Zealand or the Republic of South Africa or any other jurisdiction where to do so would constitute a violation of the relevant laws of such jurisdiction. Any failure to comply with this restriction may constitute a violation of the securities laws of Australia, Canada, Japan, New Zealand or the Republic of South Africa. The distribution of this announcement in other jurisdictions may be restricted by law and persons into who possession this announcement comes should inform themselves about, and observe, any such restrictions.

UBS is acting as financial adviser to British Airways and no one else in connection with the proposed merger and will not be responsible to anyone other than British Airways for providing the protections afforded to the clients of UBS nor for providing advice in relation to the proposed merger or any other matter referred to herein.

Morgan Stanley are acting as financial advisers to Iberia and no one else in connection with the Proposed Merger and will not be responsible to anyone other than Iberia for providing the protections afforded to the clients of Morgan Stanley nor for providing advice in relation to the Proposed Merger or any other matter referred to herein.

CAUTIONARY NOTE CONCERNING FACTORS THAT MAY AFFECT FUTURE RESULTS

This press release includes forward-looking statements, such as British Airways' and Iberia's beliefs and expectations regarding the proposed combination of the two businesses. These statements are based on certain assumptions and reflect British Airways' and Iberia's current expectations. Forward-looking statements also include statements about British Airways' and Iberia's beliefs and expectations related to the Proposed Merger, benefits that would be afforded to customers, benefits to the combined business that are expected to be obtained as a result of the Proposed Merger, as well as the parties' ability to enhance shareholder value through, among other things, the delivery of expected synergies. There can be no assurance that the Proposed Merger will be consummated or that the anticipated benefits will be realised. The Proposed Merger is subject to various regulatory approvals and the fulfilment of certain conditions, and there can be no assurance that any such approvals will be obtained and/or such conditions will be met. All forward-looking statements in this press release are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. These risks and uncertainties include: the ability to achieve the cost savings and synergies contemplated through the Proposed Merger; the failure of British Airways and Iberia shareholders to approve the Proposed Merger; the effect of regulatory conditions, if any, imposed by regulatory authorities; the reaction of British Airways' and Iberia's customers, employees and suppliers to the Proposed Merger; the ability to promptly and effectively integrate the businesses of British Airways and Iberia; and the diversion of management time on merger-related issues. Additional factors that could cause actual results or events to differ materially from current expectations are discussed in British Airways' and Iberia's respective materials filed with the securities regulatory authorities in the United Kingdom and the Spain (as the case may be) from time to time including Iberia's 2007-2008 Annual Report and British Airways 2008-2009 Annual Report. Any forward-looking statements made by or on behalf of British Airways or Iberia speak only as of the date they are made. British Airways and Iberia each disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

There will be a webcast of the analyst slide presentation relating to this announcement available on 13 November 2009 through our website www.bashares.com.