

RESULTS ANNOUNCEMENT

Period January 1, 2010 – December 31, 2010 (Unaudited)

IAG PRO-FORMA RESULTS

International Airlines Group today (February 25) presented results to December 31, 2010. These comprise combined IAG three month and full year results, Iberia's full year results and British Airways' nine month results. The results are for the period before the two airlines merged in January 2011.

IAG period highlights:

- Operating profit for the quarter to December 31, 2010 of €6 million (2009: Operating loss €114 million)
- Excluding disruption and a number of non-recurring items, the quarterly profit would have been €196 million
- Profit before tax for the quarter of €21m (2009: loss before tax of €208m)
- Revenue for the quarter rose by 13.4 per cent to €3,812 million (2009: €3,362 million)
- Fuel costs were up 5.2 per cent to €989 million
- Other operating costs were up 11.1 per cent (€281 million) at €2,817 million, including adverse currency translation of €103 million. Other costs included non-recurring items of €119 million and a €43 million year-end bonus provision.
- Year over year cash and cash equivalents up €811 million to €4,352 million.
- Group net debt at December 31, 2010 was down by €430 million to €895 million (2009: €1,325 million)

International Airlines Group chief executive, Willie Walsh, said: "The combined group figures for the final quarter of 2010 show a return to profitability, versus last year, with a good revenue performance based on strong yields and a small capacity increase.

"The quarterly profit was affected by severe weather in the UK and a Spanish air traffic controllers' strike which disrupted the airlines' operations and reduced revenue by €71 million. There were also a number of non-recurring costs totalling €119 million including provision for Iberia restructuring costs, impairment charges associated with the decision to scrap two British Airways Boeing 747 aircraft and merger completion costs. In addition, there was a €43 million bonus provision after performance criteria were met.

"Both airlines' cargo businesses continued to perform well with revenue up 28.2 per cent based on strong yields and volume increases.

"The current political instability in the Middle East and its impact on fuel prices is being monitored closely".

International Airlines Group chairman, Antonio Vázquez, said: "Following the completion of the merger last month, IAG is today presenting its airlines' results for 2010 on a pro-forma and individual basis.

"Last year, the IAG airlines recovered from the previous years' losses and returned to profit despite a number of significant external events. The combined operating profit was €225 million with revenue up by 10 per cent while capacity levels were down. IAG's cash position remains very strong at €4,352 million with net debt falling by €430 million to €895 million.

"We are confident that we are on track to deliver our synergy targets".

Financial review:

Revenue for the 3 months to December 31, 2010 rose by 13.4 per cent to €3,812 million (2009: €3,362 million). Passenger revenue was up 15.6 per cent on capacity growth (ASKs) of 2.7 per cent and improved unit passenger revenues (€cents per ASK) of 12.7 per cent. At constant exchange rates total revenue was up 7.5 per cent, or €253 million with passenger revenue up 9.6 per cent and unit passenger revenues up 6.8 per cent.

Cargo revenue for the quarter was up 28.2 per cent with continued strong yields and volume increases.

Operating costs for the quarter were up 9.5 per cent to €3,806 million influenced by several non-recurring items, a bonus provision, as well as increases due to currency changes of 6.3 per cent. Excluding these items other operating costs were up 2.3 per cent year over year on increased capacity of 2.7 per cent. Fuel costs were up 5.2 per cent or €49 million in the quarter.

Non-recurring costs include impairment costs related to the scrapping of two Boeing 747 aircraft costing €19 million and merger completion costs of €26 million. A €43 million bonus provision was included for the airlines.

Non-operating results for the quarter improved by €109 million, mainly due to reduced expenses relating to pensions of €47 million and the profit on disposal of 1.5 per cent of Amadeus by Iberia for a profit €90 million.

The UK Government has now decided to use the Consumer Price Index (CPI) to set each Annual Review Orders (AROs). Based on this change, British Airways has seen a reduction in the present value of its two main defined benefit pension scheme liabilities of £770 million (€915 million). The overall decrease in the net pension deficit is approximately £1.3 billion (€1.5 billion).

Profit before tax for the quarter was €21 million, up €229 million on last year.

The tax for the quarter reflects deferred tax adjustments related to the IFRIC 14 adjustment on the APS surplus increase as at December 31, 2010.

The Group's cash position remains very strong with cash and cash equivalents up by €811 million of €4,352 million. The net debt of the Group has fallen by €430 million to €895 million compared to December 31 2009. Adjusted gearing (including off balance sheet leases) at December 31, 2010 had improved by 8 points to 47 per cent.

The Directors of British Airways and Iberia have decided to apply all the post-tax distributable profits for the period ended December 31, 2010 to reserves.

Principal risk and uncertainties

Both British Airways and Iberia continued to maintain and operate structures and processes to identify, assess and manage risks. The principal risks and uncertainties affecting the group are detailed in the annual reports of both British Airways and Iberia.

The risks include brand reputation, competition, consolidation/deregulation, debt funding, economic conditions, employee relations, events causing long-term network disruption, failure of a critical IT system, fuel price and currency fluctuation, fuel supply, government intervention, Heathrow operational constraints, key supplier risk, pandemic, pensions and safety/security incident.

Related parties

Related party disclosures are given in note 18 of the British Airways condensed consolidated financial information.

Trading Outlook

Our longhaul business remains strong, particularly in the premium sector, but the shorthaul European market continues to be highly competitive. We are monitoring the impact of the current Middle East instability on fuel prices and have the flexibility to change our capacity plans if necessary.

ends

February 25, 2011

IAG O4

Note to Editors:

There will be a webcast of the analyst slide presentation at 0900 (UK)/1000 (Spain) available through our website www.iagshares.com.

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.

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International Consolidated Airlines Group S.A.
Combined* income statement for the three months ended 31 December 2010 (unaudited)

| | 2010 | 2009 | Higher | / (Lower) |
|---|---------------------|---------------------|-------------------|----------------------|
| € million | | | | |
| Traffic revenue | | | | |
| Passenger | 3,179 | 2,751 | 428 | 15.6% |
| Cargo | 300 | 234 | 66 | 28.2% |
| | <u>3,479</u> | <u>2,985</u> | <u>494</u> | <u>16.5%</u> |
| Other revenue | 330 | 332 | (2) | 0.1% |
| Non-recurring revenue | 3 | 45 | (42) | (93.3)% |
| Revenue | <u>3,812</u> | <u>3,362</u> | <u>450</u> | <u>13.4%</u> |
| Employee costs | 979 | 882 | 97 | 11.0% |
| Fuel and oil costs | 989 | 940 | 49 | 5.2% |
| Handling charges, catering and other operating costs | 408 | 372 | 36 | 9.6% |
| Landing fees and en-route charges | 289 | 271 | 18 | 6.5% |
| Engineering and other aircraft costs | 268 | 234 | 34 | 14.5% |
| Accommodation, ground equipment and IT costs | 165 | 163 | 2 | 1.2% |
| Selling costs | 178 | 152 | 26 | 17.1% |
| Depreciation, amortisation and impairment | 268 | 246 | 22 | 8.9% |
| Aircraft operating lease costs | 101 | 102 | (1) | (0.8)% |
| Property lease costs | 47 | 48 | (1) | (2.1)% |
| Currency differences | (5) | (4) | (1) | (25.0)% |
| Non-recurring | 119 | 70 | 49 | nm |
| Total expenditure on operations | <u>3,806</u> | <u>3,476</u> | <u>330</u> | <u>9.5%</u> |
| Operating profit / (loss) | <u>6</u> | <u>(114)</u> | <u>120</u> | <u>nm</u> |
| Finance costs including fuel derivative losses | (44) | (39) | (5) | 12.8% |
| Finance income | 21 | 13 | 8 | 61.5% |
| Net financing expense relating to pensions | (15) | (62) | 47 | (76.0)% |
| Retranslation (charges) / credits on currency borrowings | (20) | 5 | (25) | nm |
| Loss on sale of property, plant and equipment and investments | - | (11) | 11 | nm |
| Share of post-tax profits in associates accounted for using equity method | (1) | - | (1) | nm |
| Net credit relating to available for sale financial assets | 74 | - | 74 | nm |
| Profit / (loss) before tax | <u>21</u> | <u>(208)</u> | <u>229</u> | <u>110.0%</u> |
| Tax | 69 | 78 | (9) | (11.5)% |
| Profit / (loss) after tax | <u>90</u> | <u>(130)</u> | <u>220</u> | <u>nm</u> |
| millions | | | | |
| ASKs | 50,417 | 49,111 | 1,306 | 2.7% |
| RPKs | 39,305 | 38,445 | 860 | 2.2% |
| Seat factor | 78.0% | 78.3% | (0.3)pts | nm |
| CTKs | 1,578 | 1,529 | 49 | 3.2% |
| Passenger unit revenue per ASK | 6.31 | 5.60 | 0.71 | 12.6% |
| Passenger yield | 8.09 | 7.15 | 0.94 | 13.1% |
| Cargo yield | 19.0 | 15.3 | 3.7 | 24.2% |
| Total cost per ASK | 7.55 | 7.08 | 0.47 | 6.6% |
| Fuel cost per ASK | 1.96 | 1.92 | 0.04 | 2.1% |
| Total cost excluding fuel per ASK | 5.59 | 5.16 | 0.43 | 8.3% |
| Aircraft in service | 352 | 348 | 4 | 1.1% |
| Average employee number | 56,243 | 57,563 | (1,320) | (2.3)% |

***IAG Note 1:** The combined financial statements have been prepared for information purposes only. These financial statements have been combined based on the actual results of operations of British Airways and Iberia for the three and twelve month periods ended 31 December 2010 and 2009, the balance sheets as at 31 December 2010 and 2009 and the cash flows for the twelve months ended 31 December 2010 and 2009. These combined financial statements eliminate cross holdings and related party transactions, however they do not reflect any adjustments required to account for the merger transaction.

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British Airways
Information is set out on pages 9 to 30

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BRITISH AIRWAYS RESULTS ANNOUNCEMENT

RETURN TO PROFITABILITY

Nine month period April 1, 2010 - December 31, 2010

British Airways today (February 25) presented its preliminary results for the nine months ended December 31, 2010.

All of this information was contained within the Interim Management Report issued by International Consolidated Airlines Group S.A. ("IAG") earlier this morning.

As a consequence of the merger we have changed our accounting reference date to a calendar year and are therefore reporting the results for the nine months ended December 31, 2010.

Period highlights:

- Operating profit for the nine months to December 31, 2010 of £342 million (12 months to March 31, 2010: Operating loss £231 million)
- Profit before tax for the nine months of £157 million (12 months to March 31, 2010: loss before tax of £531 million)
- Revenue for the nine months was £6,683 million (12 months to March 31, 2010: £7,994 million)
- Fuel costs were £1,869 million (12 months to March 31, 2010: £2,372 million)
- Other operating costs were £4,472 million, (12 months to March 31, 2010: £5,853 million)
- Cash and cash equivalents increased by £238 million to £1,952 million from March 31, 2010
- Net debt at December 31, 2010 was down by £287 million to £2,001 million compared to March 31, 2010

British Airways' chief executive Keith Williams, said: "We are pleased to report significant progress for the nine month period to December 31, 2010 despite a period of considerable disruption.

"During the nine months, our business was adversely affected by three sources of disruption: the closure of UK airspace following the eruption of the volcano in Iceland in April; severe winter weather in the UK, Europe and North America in December; and industrial action by Unite cabin crew in May and early June. The estimated cost to our business of these three major sources of disruption is some £300 million.

"On January 21, 2011, we completed our merger with Iberia to create a new, leading European airline group, IAG.

"Our transatlantic joint business with American Airlines and Iberia, which started in October, has provided customers with smoother and more convenient connections, better access to a global network of more than 400 destinations and greater rewards for frequent flyers.

"We have emerged from the deepest recession since the 1930s in good shape. The actions that we have taken to re-engineer our business and position ourselves for further industry consolidation are starting to pay off. We are investing in new products and services for our customers and we are confident that British Airways has a great future as part of IAG."

Financial review:

Following the change in our accounting reference date to a calendar year, our financial review focuses on the nine months to December for both 2010 and 2009. For the Balance Sheet we are comparing our December 31, 2010 position with that of March 31, 2010.

Our Annual Report and Accounts will include the 12 months to March 31, 2010 as the comparative period.

Revenue for the nine months to December 31, 2010 rose by 8.8 per cent to £6,683 million (December 2009: £6,140 million). Passenger revenue was up 8.8 per cent on capacity reduction (ASKs) of 3.9 per cent and improved passenger yield revenues (pence per RPK) of 15.0 per cent.

Cargo revenue for the nine months increased by 32.1 per cent with continued strong yields and volume increases.

Operating costs for the nine months were up 1.8 per cent to £6,341 million, with fuel costs up 3.1 per cent or £56 million in the period.

Non-fuel costs increased by 1.3 per cent or £59 million in the period. The exceptional items amounted to £65 million and included £16 million for the scrapping of two Boeing 747 aircraft which had previously been stood down and merger completion costs of £31 million.

Non-operating expenditure for the nine months improved by £71 million, mainly due to reduced expenses relating to pensions of £101 million.

Profit before tax for the nine months was £157 million.

The tax credit for the nine months of £13 million consists of a current tax charge of £6 million and a deferred tax credit of £19 million.

Profit after tax for the nine months was £170 million.

The cash position remains very strong with cash and cash equivalents up £238 million since March 31, 2010 to £1,952 million. The net debt has decreased by £287 million to £2,001 million compared to March 31, 2010.

Reserves at December 31, 2010 were £978 million, an increase of £286 million from March 2010. This increase is primarily driven by the profit for the period.

No dividend will be paid for the period ending December 31, 2010.

Principal risk 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 the Group remain those detailed in our March 31, 2010 Annual Report and Accounts.

The risks include brand reputation, competition, consolidation/deregulation, debt funding, economic conditions, employee relations, events causing long-term network disruption, failure of a critical IT system, fuel price and currency fluctuation, fuel supply, government intervention, Heathrow operational constraints, key supplier risk, pandemic, pensions and safety/security incidents.

Ends

February 25, 2011

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FINANCIAL RESULTS 2010

OPERATING AND FINANCIAL STATISTICS

| | | Nine months to 31 December | 12 months to 31 March |
|--|----|---------------------------------------|--------------------------|
| | | 2010 | 2010 |
| Revenue | £m | 6,683 | 7,994 |
| Operating profit/(loss) before restructuring | £m | 348 | (146) |
| Operating profit/(loss) | £m | 342 | (231) |
| Profit/(loss) before tax | £m | 157 | (531) |
| Profit/(loss) after tax | £m | 170 | (425) |
| <hr/> | | | |
| Basic earnings/(loss) per share | p | 13.6 | (38.5) |

| | | Nine months to 31 December | 12 months to 31 March |
|--|--|---------------------------------------|--------------------------|
| | | 2010 | 2010 |

TOTAL GROUP OPERATIONS

TRAFFIC AND CAPACITY

| | | | |
|--|--|---------|---------|
| Revenue passenger kilometres (RPK) (m) | | 81,971 | 110,851 |
| Available seat kilometres (ASK) (m) | | 104,415 | 141,178 |
| Passenger load factor (%) | | 78.5 | 78.5 |
| Cargo tonne kilometres (CTK) (m) | | 3,478 | 4,537 |
| Revenue tonne kilometres (RTK) (m) | | 11,736 | 15,588 |
| Available tonne kilometres (ATK) (m) | | 15,973 | 21,278 |
| Overall load factor (%) | | 73.5 | 73.3 |
| Passengers carried (000) | | 24,088 | 31,825 |
| Tonnes of cargo carried (000) | | 570 | 760 |

FINANCIAL

| | | | |
|---|--|--------|--------|
| Operating margin (%) | | 5.1 | (2.9) |
| Passenger revenue per RPK (p) | | 7.11 | 6.30 |
| Passenger revenue per ASK (p) | | 5.58 | 4.94 |
| Cargo revenue per CTK (p) | | 15.27 | 12.12 |
| Total traffic revenue per RTK (p) | | 54.21 | 48.31 |
| Total traffic revenue per ATK (p) | | 39.83 | 35.39 |
| Total expenditure on operations per RTK (p) | | 54.03 | 52.76 |
| Total expenditure on operations per ATK (p) | | 39.70 | 38.65 |
| Average fuel price before fuel hedging (US cents/US gallon) | | 222.64 | 189.24 |

TOTAL AIRLINE OPERATIONS (Note 1)

OPERATIONS

| | | | |
|-----------------------------------|--|--------|--------|
| Average Manpower Equivalent (MPE) | | 35,778 | 37,595 |
| ATKs per MPE (000) | | 446.4 | 566.0 |
| Aircraft in service at year end | | 240 | 238 |

Note 1: Excludes non-airline activity companies, principally The Mileage Company Limited, BA Holidays Limited and Speedbird Insurance Company Limited.

CONSOLIDATED INCOME STATEMENT

| £ million | Nine months to 31 December | 12 months to 31 March |
|---|-------------------------------|--------------------------|
| | 2010 | 2010 |
| Traffic revenue | | |
| Passenger | 5,831 | 6,980 |
| Cargo | 531 | 550 |
| | 6,362 | 7,530 |
| Other revenue | 321 | 464 |
| REVENUE | 6,683 | 7,994 |
| Employee costs | 1,547 | 1,998 |
| Restructuring | 6 | 85 |
| Depreciation, amortisation and impairment | 570 | 732 |
| Aircraft operating lease costs | 51 | 69 |
| Fuel and oil costs | 1,869 | 2,372 |
| Engineering and other aircraft costs | 412 | 505 |
| Landing fees and en route charges | 464 | 608 |
| Handling charges, catering and other operating costs | 765 | 997 |
| Selling costs | 235 | 290 |
| Currency differences | (1) | (2) |
| Accommodation, ground equipment and IT costs | 423 | 571 |
| | 6,341 | 8,225 |
| TOTAL EXPENDITURE ON OPERATIONS | 6,341 | 8,225 |
| OPERATING PROFIT/ (LOSS) | 342 | (231) |
| Fuel derivative (losses)/gains | (2) | 15 |
| Finance costs | (125) | (157) |
| Finance income | 18 | 20 |
| Net financing expense relating to pensions | (49) | (116) |
| Retranslation charges on currency borrowings | (12) | (14) |
| Loss on sale of property, plant and equipment and investments | (3) | (16) |
| Share of post-tax profits/(losses) in associates accounted for using the equity method | 6 | (32) |
| Net charge relating to available-for-sale financial assets | (18) | |
| | 157 | (531) |
| PROFIT/(LOSS) BEFORE TAX | 157 | (531) |
| Tax | 13 | 106 |
| | 170 | (425) |
| PROFIT/(LOSS) AFTER TAX | 170 | (425) |
| Attributable to: | | |
| Equity holders of the parent | 157 | (443) |
| Non-controlling interest | 13 | 18 |
| | 170 | (425) |
| EARNINGS/(LOSS) PER SHARE | | |
| Basic | 13.6p | (38.5)p |
| Diluted | 13.6p | (38.5)p |

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

| £ million | Nine months to 31 December | 12 months to 31 March |
|---|-------------------------------|--------------------------|
| | 2010 | 2010 |
| Net profit/(loss) for the period | 170 | (425) |
| Other comprehensive income: | | |
| Exchange losses | (8) | (18) |
| Net gains on cash flow hedges | 84 | 587 |
| Share of other movements in reserves of associates | 48 | 34 |
| Net gain on available-for-sale financial assets | | 22 |
| | 294 | 200 |
| Total comprehensive income for the period (net of tax) | 294 | 200 |
| Attributable to: | | |
| Equity holders of the parent | 281 | 182 |
| Non-controlling interest | 13 | 18 |
| | 294 | 200 |

CONSOLIDATED BALANCE SHEET

| £ million | <u>31 December</u> 2010 | <u>31 March</u> 2010 |
|---|----------------------------|-------------------------|
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | | |
| <i>Fleet</i> | 5,758 | 5,739 |
| <i>Property</i> | 885 | 920 |
| <i>Equipment</i> | 221 | 245 |
| | 6,864 | 6,904 |
| Intangibles | | |
| <i>Goodwill</i> | 40 | 40 |
| <i>Landing rights</i> | 209 | 202 |
| <i>Software</i> | 37 | 27 |
| | 286 | 269 |
| Investments in associates | 244 | 197 |
| Available-for-sale financial assets | 65 | 76 |
| Employee benefit assets | 575 | 483 |
| Derivative financial instruments | 19 | 27 |
| Prepayments and accrued income | 40 | 17 |
| TOTAL NON-CURRENT ASSETS | 8,093 | 7,973 |
| NON-CURRENT ASSETS HELD FOR SALE | 33 | 30 |
| CURRENT ASSETS AND RECEIVABLES | | |
| Inventories | 98 | 98 |
| Trade receivables | 384 | 499 |
| Other current assets | 260 | 289 |
| Derivative financial instruments | 132 | 74 |
| Other current interest-bearing deposits | 1,173 | 928 |
| Cash and cash equivalents | 779 | 786 |
| | 1,952 | 1,714 |
| TOTAL CURRENT ASSETS AND RECEIVABLES | 2,826 | 2,674 |
| TOTAL ASSETS | 10,952 | 10,677 |
| SHAREHOLDERS' EQUITY | | |
| Issued share capital | 288 | 288 |
| Share premium | 937 | 937 |
| Investment in own shares | (3) | (4) |
| Other reserves | 978 | 692 |
| TOTAL SHAREHOLDERS' EQUITY | 2,200 | 1,913 |
| NON-CONTROLLING INTEREST | 200 | 200 |
| TOTAL EQUITY | 2,400 | 2,113 |
| NON-CURRENT LIABILITIES | | |
| Interest-bearing long-term borrowings | 3,496 | 3,446 |
| Employee benefit obligations | 219 | 208 |
| Provisions for deferred tax | 788 | 774 |
| Other provisions | 164 | 159 |
| Derivative financial instruments | 4 | 5 |
| Other long-term liabilities | 306 | 232 |
| TOTAL NON-CURRENT LIABILITIES | 4,977 | 4,824 |
| CURRENT LIABILITIES | | |
| Current portion of long-term borrowings | 457 | 556 |
| Trade and other payables | 2,815 | 2,910 |
| Derivative financial instruments | 10 | 12 |
| Current tax payable | 10 | 2 |
| Short-term provisions | 283 | 260 |
| TOTAL CURRENT LIABILITIES | 3,575 | 3,740 |
| TOTAL EQUITY AND LIABILITIES | 10,952 | 10,677 |

CONSOLIDATED CASH FLOW STATEMENT

| £ million | Nine months to 31 December | 12 months to 31 March |
|---|-------------------------------|--------------------------|
| | 2010 | 2010 |
| CASH FLOW FROM OPERATING ACTIVITIES | | |
| Operating profit/(loss) | 342 | (231) |
| Depreciation, amortisation and impairment | 570 | 732 |
| Operating cash flow before working capital changes | 912 | 501 |
| Movement in inventories, trade and other receivables | 12 | (181) |
| Movement in trade and other payables and provisions | (28) | 241 |
| Payments in respect of restructuring | (14) | (81) |
| Payments in settlement of competition investigation | (3) | (19) |
| Cash generated from operations | 879 | 461 |
| Interest paid | (87) | (136) |
| Taxation | | 6 |
| NET CASH GENERATED FROM OPERATING ACTIVITIES | 792 | 331 |
| CASH FLOW FROM INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (510) | (492) |
| Purchase of intangible assets | (35) | (13) |
| Purchase of available-for-sale financial assets | (10) | |
| Purchase of subsidiary (net of cash acquired) | | (9) |
| Proceeds from sale of available-for-sale financial assets | 1 | |
| Proceeds from sale of non-current assets held for sale, property, plant and equipment | 43 | 102 |
| Proceeds received from loan notes | 4 | 7 |
| Interest received | 17 | 17 |
| (Increase)/decrease in other current interest-bearing deposits | (245) | 51 |
| NET CASH USED IN INVESTING ACTIVITIES | (735) | (337) |
| CASH FLOW FROM FINANCING ACTIVITIES | | |
| Proceeds from long-term borrowings | 368 | 1,053 |
| Proceeds from equity portion of convertible bond | | 84 |
| Repayments of borrowings | (100) | (160) |
| Payment of finance lease liabilities | (349) | (609) |
| Distributions made to holders of perpetual securities | (13) | (18) |
| NET CASH FLOW FROM FINANCING ACTIVITIES | (94) | 350 |
| Net (decrease)/increase in cash and cash equivalents | (37) | 344 |
| Net foreign exchange differences | 30 | 40 |
| Cash and cash equivalents at 1 April | 786 | 402 |
| CASH AND CASH EQUIVALENTS AT PERIOD END | 779 | 786 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 31 December 2010

| £ million | Issued capital | Share premium | Investment in own shares | Other reserves * | Total share-holders' equity | Non-controlling interest | Total equity |
|--|----------------|---------------|--------------------------|------------------|-----------------------------|--------------------------|--------------|
| At 1 April 2010 | 288 | 937 | (4) | 692 | 1,913 | 200 | 2,113 |
| Total comprehensive income for the period (net of tax) | | | | 281 | 281 | 13 | 294 |
| Cost of share-based payment | | | | 6 | 6 | | 6 |
| Exercise of share options | | | 1 | (1) | | | |
| Distributions made to holders of perpetual securities | | | | | | (13) | (13) |
| At 31 December 2010 | 288 | 937 | (3) | 978 | 2,200 | 200 | 2,400 |

* Closing balance includes retained earnings of £891 million.

For the year ended 31 March 2010

| £ million | Issued capital | Share premium | Investment in own shares | Other * reserves | Total share-holders' equity | Non-controlling interest | Total equity |
|---|----------------|---------------|--------------------------|------------------|-----------------------------|--------------------------|--------------|
| At 1 April 2009 | 288 | 937 | (9) | 430 | 1,646 | 200 | 1,846 |
| Total comprehensive income for the year (net of tax) | | | | 182 | 182 | 18 | 200 |
| Equity portion of convertible bond** | | | | 84 | 84 | | 84 |
| Cost of share-based payment | | | | 1 | 1 | | 1 |
| Exercise of share options | | | 5 | (5) | | | |
| Distributions made to holders of perpetual securities | | | | | | (18) | (18) |
| At 31 March 2010 | 288 | 937 | (4) | 692 | 1,913 | 200 | 2,113 |

* Closing balance includes retained earnings of £741 million.

** After deduction of transaction costs of £2 million.

NOTES TO THE ACCOUNTS

For the nine months ended 31 December 2010

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

In April 2010, British Airways and Iberia signed a merger agreement to create a new leading airline group. The merger was completed on 21 January 2011. IAG was formed and shares in IAG started trading on the London Stock Exchange, with a secondary listing in Spain, on 24 January 2011. As a consequence, the British Airways Group (the Group) has changed its reporting period to a 31 December year end. This set of summary consolidated financial statements has been prepared for the nine months ended 31 December 2010. The comparative results are the Group's published consolidated financial statements for the year ended 31 March 2010.

The Group's summary consolidated financial statements for the nine months ended 31 December 2010 were authorised for issue by the Board of Directors on 24 February 2011, and the balance sheet signed on the Board's behalf by Keith Williams and Sir Martin Broughton. British Airways Plc (the Company) is a public limited company incorporated and domiciled in England and Wales. The summary consolidated financial statements herein are not the Company's statutory accounts. The Group's auditors issued an unqualified audit report, containing no statements under Section 498(2) of the Companies Act 2006, on the Group's annual financial statements on 24 February 2011. The Group and Company's financial statements have not been lodged with the Registrar as at 24 February 2011. The Company's ordinary shares ceased being traded on the London Stock Exchange on 21 January 2011.

The basis of preparation and accounting policies set out in the Report and Accounts for the nine months ended 31 December 2010 have been applied in the preparation of these summary consolidated financial statements. These are in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs)* as adopted by the European Union (EU) and with those of the Standing Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB). References to 'IFRS' hereafter should be construed as references to IFRSs as adopted by the EU.

*For the purposes of these statements IFRS also includes International Accounting Standards.

2. ACCOUNTING POLICIES

The accounting policies and methods of calculation adopted are consistent with those of the annual financial statements for the year ended 31 March 2010, as described in those annual financial statements, except as discussed below.

IFRS 3 (Revised), 'Business Combinations'; effective for periods beginning on or after 1 July 2009. The revised standard introduces changes to the accounting for business combinations, including the expensing of acquisition costs through the income statement as they are incurred and permitting a choice, on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree's net assets at fair value or at the non-controlling interest's proportionate share of the net assets of the acquiree. Contingent considerations are required to be valued at the date of acquisition, with all subsequent revaluations recorded in the income statement.

IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations'; effective for periods beginning on or after 1 January 2010. The amendment provides clarification on disclosures required in respect of non-current assets held for sale or discontinued operations, particularly that the IAS 1 'Presentation of financial statements' requirements of 'fair presentation' and 'sources of estimation uncertainty' still apply in the case of non-current assets held for sale.

IAS 7 (Amendment), 'Cash flow statements'; effective for periods beginning on or after 1 January 2010. The amendment clarifies that only expenditures that result in the recognition of an asset are eligible for classification as investing activities in the cash flow statement.

IAS 17 (Amendment), 'Leases'; effective for periods beginning on or after 1 January 2010. The amendment requires that when a lease includes both land and buildings, an entity should assess the classification of each element separately to determine whether it should be classified as a finance lease or an operating lease.

IAS 27 (Revised), 'Consolidated and separate financial statements'; effective for periods beginning on or after 1 July 2009. The revised standard requires that all transactions with non-controlling interests be recorded in equity, provided that these transactions do not result in a change in control and do not result in goodwill or gains and losses. The amendment provides additional guidance on the accounting treatment when control is lost.

NOTES TO THE ACCOUNTS continued

For the nine months ended 31 December 2010

2. ACCOUNTING POLICIES continued

IAS 36 (Amendment), 'Impairment of assets'; effective for periods beginning on or after 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill can be allocated for the purposes of impairment review, is an operating segment as defined by IFRS 8 'Operating segments'.

IAS 38 (Revised), 'Intangible assets'; effective for periods beginning on or after 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and allows the grouping of assets into a single asset if each asset has a similar economic life.

IAS 38 (Amendment), 'Intangible assets'; effective for periods beginning on or after 1 January 2010. The amendment provides additional guidance on the valuation techniques to be used in measuring the fair value of intangible assets acquired in business combinations that are traded in active markets.

IAS 39 (Amendment), 'Financial instruments: Recognition and measurement'; effective for periods beginning on or after 1 January 2010. The amendment makes changes to the scope exemption excluding contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date. The amendment adds additional conditions for the exemption to apply.

See the Report and Accounts for the nine months ended 31 December 2010 for disclosure of new standards, amendments and interpretations not yet effective as well as those that were adopted during the year but which do not have a significant impact on the accounting policies and methods of calculation used in the current financial statements.

NOTES TO THE ACCOUNTS continued

For the nine months ended 31 December 2010

3. SEGMENT INFORMATION

a. Business segments

The Group's network passenger and cargo operations are managed as a single business unit. The Management Team makes resource allocation decisions based on route profitability, which considers aircraft type and route economics, based primarily by reference to passenger economics with limited reference to cargo demand. The objective in making resource allocation decisions is to optimise consolidated financial results. While the operations of OpenSkies SASU and BA Cityflyer Limited are considered to be separate operating segments, their activities are considered to be sufficiently similar in nature to aggregate the two segments and report them together with the network passenger and cargo operations. 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 only one reportable operating segment for financial reporting purposes, reported as the 'airline business'.

Financial results from other operating segments are below the quantitative threshold for determining reportable operating segments and consist primarily of The Mileage Company Limited, British Airways Holidays Limited and Speedbird Insurance Company Limited.

For the nine months ended 31 December 2010

| £ million | Airline business | All other segments | Unallocated | Total |
|---|---------------------|-----------------------|-------------|--------|
| Revenue | | | | |
| Sales to external customers | 6,524 | 159 | | 6,683 |
| Inter-segment sales | 57 | | | 57 |
| Segment revenue | 6,581 | 159 | | 6,740 |
| Segment result | 323 | 19 | | 342 |
| Other non-operating expense | (20) | | | (20) |
| Profit before tax and finance costs | 303 | 19 | | 322 |
| Net finance costs | (31) | | (137) | (168) |
| Loss on sale of assets | (3) | | | (3) |
| Share of associates' profits | 6 | | | 6 |
| Tax | | | 13 | 13 |
| Profit/(loss) after tax | 275 | 19 | (124) | 170 |
| Assets and liabilities | | | | |
| Segment assets | 10,585 | 123 | | 10,708 |
| Investment in associates | 244 | | | 244 |
| Total assets | 10,829 | 123 | | 10,952 |
| Segment liabilities | 3,424 | 377 | | 3,801 |
| Unallocated liabilities* | | | 4,751 | 4,751 |
| Total liabilities | 3,424 | 377 | 4,751 | 8,552 |
| Other segment information | | | | |
| Property, plant and equipment - additions (note 11) | 561 | 2 | | 563 |
| Non-current assets held for sale - transfers in (note 11) | 47 | | | 47 |
| Intangible assets - additions (note 11) | 35 | | | 35 |
| Depreciation, amortisation and impairment | 569 | 1 | | 570 |
| Impairment of available-for-sale financial assets - including Flybe | 18 | | | 18 |
| Exceptional items: | | | | |
| Restructuring (note 4) | 6 | | | 6 |
| Costs associated with the Iberia merger | 31 | | | 31 |
| Impairment of OpenSkies assets | 12 | | | 12 |
| Impairment of property, plant and equipment | 16 | | | 16 |

* Unallocated liabilities consist of current taxes of £10 million, deferred taxes of £788 million and borrowings of £3,953 million which are managed on a Group basis

NOTES TO THE ACCOUNTS continued

For the nine months ended 31 December 2010

3. SEGMENT INFORMATION continued

a. Business segments continued

For the year ended 31 March 2010

| £ million | Airline business | All other segments | Unallocated | Total |
|---|---------------------|-----------------------|--------------|---------------|
| Revenue | | | | |
| Sales to external customers | 7,802 | 192 | | 7,994 |
| Inter-segment sales | 52 | | | 52 |
| Segment revenue | 7,854 | 192 | | 8,046 |
| Segment result | | | | |
| Other non-operating income | 15 | 21 | | 15 |
| (Loss)/profit before tax and finance costs | (237) | 21 | | (216) |
| Net finance costs | (96) | | (171) | (267) |
| Loss on sale of assets | (16) | | | (16) |
| Share of associates' losses | (32) | | | (32) |
| Tax | | | 106 | 106 |
| (Loss)/profit after tax | (381) | 21 | (65) | (425) |
| Assets and liabilities | | | | |
| Segment assets | 10,364 | 116 | | 10,480 |
| Investment in associates | 197 | | | 197 |
| Total assets | 10,561 | 116 | | 10,677 |
| Segment liabilities | 3,413 | 373 | | 3,786 |
| Unallocated liabilities * | | | 4,778 | 4,778 |
| Total liabilities | 3,413 | 373 | 4,778 | 8,564 |
| Other segment information | | | | |
| Property, plant and equipment - additions (note 11) | 553 | 1 | | 554 |
| Non-current assets held for sale (note 7) | 30 | | | 30 |
| Intangible assets - additions | 13 | | | 13 |
| Depreciation, amortisation and impairment | 731 | 1 | | 732 |
| Exceptional items: | | | | |
| Restructuring (note 4) | 85 | | | 85 |

* Unallocated liabilities consist of current taxes of £2 million, deferred taxes of £774 million and borrowings of £4,002 million which are managed on a Group basis.

NOTES TO THE ACCOUNTS continued

For the nine months ended 31 December 2010

3. SEGMENT INFORMATION continued

b. Geographical segments - by area of original sale

| £ million | Nine months to 31 December | 12 months to 31 March |
|--|----------------------------------|--------------------------|
| | 2010 | 2010 |
| Europe: | 3,906 | 4,891 |
| UK | 2,943 | 3,636 |
| Continental Europe | 963 | 1,255 |
| The Americas: | 1,493 | 1,651 |
| USA | 1,334 | 1,473 |
| The rest of the Americas | 159 | 178 |
| Africa, Middle East and Indian sub-continent | 727 | 731 |
| Far East and Australasia | 557 | 721 |
| Revenue | 6,683 | 7,994 |

Total of non-current assets excluding available-for-sale financial assets, employee benefit assets, prepayments and accrued income and derivative financial instruments located in the UK is £7,063 million (31 March 2010: £7,060 million) and the total of these non-current assets located in other countries is £370 million (31 March 2010: £340 million).

4. OPERATING PROFIT/(LOSS)

The operating result for the nine-month period ended 31 December 2010 includes restructuring charges of £6 million mainly relating to lease exit costs (March 2010: £85 million restructuring charges mainly relating to severance).

5. FINANCE COSTS AND INCOME

| £ million | Nine months to 31 December | 12 months to 31 March |
|---|----------------------------------|--------------------------|
| | 2010 | 2010 |
| Finance costs: | | |
| Interest payable on bank and other loans and finance charges payable under finance leases and hire purchase contracts | (114) | (141) |
| Unwinding of discounting on provisions* | (13) | (19) |
| Capitalised interest | 1 | 1 |
| Change in fair value of cross currency swaps | 1 | 2 |
| Total finance costs | (125) | (157) |
| Finance income: | | |
| Bank interest receivable | 18 | 20 |
| Total finance income | 18 | 20 |
| Pensions financing: | | |
| Net financing income/(expense) relating to pensions | 2 | (164) |
| Amortisation of actuarial losses in excess of the corridor | (62) | (37) |
| Immediate recognition of net actuarial gains (APS) | 84 | |
| Effect of the APS asset ceiling | (73) | 85 |
| Total financing expense relating to pensions | (49) | (116) |
| Retranslation charges on currency borrowings | (12) | (14) |

* Unwinding of discount on the competition investigation provision and restoration and handback provisions.

NOTES TO THE ACCOUNTS continued

For the nine months ended 31 December 2010

6. LOSS ON SALE OF NON-CURRENT ASSETS

| £ million | Nine months to 31 December | 12 months to 31 March |
|--|----------------------------------|--------------------------|
| | 2010 | 2010 |
| Net loss on sale of non-current assets held for sale | 3 | |
| Net loss on sale of property, plant and equipment | | 16 |
| Loss on sale of non-current assets | 3 | 16 |

7. NON-CURRENT ASSETS HELD FOR SALE

In April 2009, the Group agreed to the sale of 11 Boeing 757 aircraft, these aircraft will exit the business between June 2010 and January 2012. Aircraft which are due to exit the business within 12 months are classified as non-current assets held for sale.

Non-current assets held for sale with a net book value of £44 million were disposed of by the Group during the nine month period ended 31 December 2010 (31 March 2010: £nil) resulting in a net loss on disposal of £3 million (March 2010: £nil).

8. TAX

The tax credit for the nine months ended 31 December 2010 is £13 million (31 March 2010: £106 million). This consists of a current tax charge of £6 million (31 March 2010: credit £2 million) and a deferred tax credit of £19 million (31 March 2010: £104 million). Excluding prior year adjustments, the effect of IFRIC 14 pension accounting and the effect of the tax rate change to 27% from April 2011, the tax rate for the year would have been 46 per cent (31 March 2010: 27 per cent).

9. EARNINGS PER SHARE

Basic earnings per share for the nine months ended 31 December 2010 are calculated on a weighted average of 1,152,634,000 ordinary shares (31 March 2010: 1,152,088,000) and adjusted for shares held for the purposes of Employee Share Ownership Plans. Diluted earnings per share for the nine months ended 31 December 2010 are calculated on a weighted average of 1,346,377,000 ordinary shares (31 March 2010: 1,274,083,000).

The number of shares in issue at 31 December 2010 was 1,153,689,000 (31 March 2010: 1,153,674,000) ordinary shares of 25 pence each.

10. DIVIDENDS

The Directors declare that no dividend be paid for the nine months ended 31 December 2010 (31 March 2010: £nil).

11. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLES AND INVESTMENTS

During the nine months ended 31 December 2010, the Group acquired property plant and equipment assets with a cost of £563 million (March 2010: £554 million). Included in the acquisition of assets are the delivery of three Airbus A320 aircraft, two Boeing 777-300 aircraft and four Embraer E-jets aircraft.

Intangible assets of £35 million were acquired, £18 million relating to the purchase of two slots from Czech Airlines and £17 million from software additions (March 2010: £13 million).

Investments of £10 million made during the period, include an additional investment of £9 million in Flybe Plc.

Assets with a net book value of £47 million were transferred to non-current assets held for sale during the nine months ended 31 December 2010 (March 2010: £30 million).

Property, plant and equipment with a net book value of £2 million was disposed of by the Group during the nine months ended 31 December 2010 (March 2010: £118 million) resulting in no gain or loss (March 2010: loss of £16 million).

Disposal of investments with a net book value of £1 million (March 2010: £nil) resulted in no gain or loss on disposal (March 2010: £nil).

NOTES TO THE ACCOUNTS continued

For the nine months ended 31 December 2010

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

| £ million | Nine months to 31 December 2010 | 12 months to 31 March 2010 |
|--|--|-------------------------------------|
| (Decrease)/increase in cash and cash equivalents during the period | (37) | 344 |
| Net cash outflow from decrease in debt and lease financing | 449 | 769 |
| Increase/(decrease) in other current interest-bearing deposits | 245 | (51) |
| New loans and finance leases taken out and hire purchase arrangements made | (368) | (1,053) |
| Decrease in net debt resulting from cash flow | 289 | 9 |
| Exchange movements and other non-cash movements | (2) | 85 |
| Decrease in net debt during the period | 287 | 94 |
| Net debt at 1 April | (2,288) | (2,382) |
| Net debt at period end | (2,001) | (2,288) |

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

13. LONG-TERM BORROWINGS

| £ million | 31 December 2010 | 31 March 2010 |
|----------------------------|---------------------|------------------|
| a Current | | |
| Bank and other loans | 177 | 139 |
| Finance leases | 217 | 129 |
| Hire purchase arrangements | 63 | 288 |
| | 457 | 556 |
| b Non-current | | |
| Bank and other loans* | 1,434 | 1,345 |
| Finance leases | 2,044 | 2,077 |
| Hire purchase arrangements | 18 | 24 |
| | 3,496 | 3,446 |

The Group issued a £350 million fixed rate convertible bond in August 2009, raising cash of £341 million (net of issue costs), which holds a coupon rate of 5.8 per cent and is convertible into ordinary shares at the option of the holder before or upon maturity in August 2014 (note 20). Conversion into ordinary shares will occur at a premium of 38 per cent on the Group's share price on the date of issuance. The Group hold an option to redeem the convertible bond at its principal amount, together with accrued interest, upon fulfilment of certain pre-determined criteria. The equity portion of the convertible bond issue is included in other reserves.

14. SHARE OPTIONS

During the period, the Group made awards under the Performance Share Plan (PSP) to key senior executives and selected members of the wider management team, under which 6,757,537 conditional shares were awarded. No payment is due upon vesting the shares. The fair value of equity-settled share options granted is estimated as at the date of award using the Monte-Carlo model, taking into account the terms and conditions upon which the options were awarded. The following are the inputs to the model for the PSP options granted in the period:

Expected share price volatility 56%
 Historical volatility 56%
 Expected life of options three years
 Weighted average share price £2.35

For further details of the plan, refer to the Report and Accounts for the nine months ended 31 December 2010.

NOTES TO THE ACCOUNTS continued

For the nine months ended 31 December 2010

15. PENSION COSTS

The Company operates two funded principal 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 results of the accounting valuation at 31 December 2010 are summarised below:

| | APS | | NAPS | |
|---|----------------|----------|----------------|----------|
| | 31 December | 31 March | 31 December | 31 March |
| | 2010 | 2010 | 2010 | 2010 |
| Fair value of scheme assets | 6,385 | 6,443 | 8,632 | 8,024 |
| Present value of scheme liabilities | (5,853) | (6,247) | (9,633) | (9,969) |
| Net pension asset/(liability) | 532 | 196 | (1,001) | (1,945) |
| Net pension asset/(liability) represented by: | | | | |
| Net pension asset recognised | 363 | 317 | 204 | 158 |
| Restriction on APS surplus due to the asset ceiling | 123 | 50 | | |
| Cumulative actuarial gains/(losses) not recognised | 46 | (171) | (1,205) | (2,103) |
| Net pension asset/(liability) | 532 | 196 | (1,001) | (1,945) |

At 31 December 2010 both APS and NAPS were recognised on the balance sheet as employee benefit assets, representing £567 million of the £575 million disclosed (31 March 2010: £475 million of the £483 million). The £219 million employee benefit obligations at 31 December 2010 relates to other schemes (31 March 2010: £208 million).

The accounting valuation was performed after updating key assumptions at 31 December 2010 as follows:

| | APS | | NAPS | |
|---------------------------|-------------|----------|-------------|----------|
| | 31 December | 31 March | 31 December | 31 March |
| | 2010 | 2010 | 2010 | 2010 |
| Per cent per annum | | | | |
| Inflation (CPI) | 2.9 | | 3.0 | |
| Inflation (RPI) | 3.4 | 3.6 | 3.5 | 3.7 |
| Salary increases (as RPI) | 3.4 | 3.6 | 3.5 | 3.7 |
| Discount rate | 5.5 | 5.5 | 5.5 | 5.6 |

16. PROVISIONS FOR LIABILITIES AND CHARGES

Litigation

There are ongoing investigations into the Group's passenger and cargo surcharges by the European Commission and other jurisdictions. These investigations are likely to continue for some time. The Company is also subject to related class action claims. The final amount required to pay the remaining claims and fines is subject to uncertainty.

Restructuring

The Group recognised a restructuring provision of £20 million at 31 December 2010 (March 2010: £28 million) in respect of items including targeted voluntary severance schemes previously announced. This provision is expected to be paid during the next financial year.

NOTES TO THE ACCOUNTS continued

For the nine months ended 31 December 2010

17. CONTINGENT LIABILITIES

There were contingent liabilities at 31 December 2010 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 borrowings, liabilities and commitments, which at 31 December 2010 amounted to £391 million (31 March 2010: £119 million).

18. RELATED PARTY TRANSACTIONS

The Group had transactions in the ordinary course of business during the year under review with related parties.

| £ million | Nine months to 31 December | 12 months to 31 March |
|---------------------------|---------------------------------------|--------------------------|
| | 2010 | <i>2010</i> |
| Associates: | | |
| Sales to associates | 37 | 36 |
| Purchases from associates | 42 | 47 |

| £ million | 31 December | 31 March |
|----------------------------|--------------------|-------------|
| | 2010 | <i>2010</i> |
| Amounts owed by associates | 1 | 1 |
| Amounts owed to associates | 7 | 2 |

Associates

Iberia, Lineas Aéreas de España S.A. (Iberia)

The Group has a 13.15 per cent investment in Iberia. Areas of opportunity for cooperation have been identified and work continues to pursue and implement these. Sales and purchases between related parties are made at normal market prices and outstanding balances are unsecured and interest free. Cash settlement is expected within the standard settlement terms specified by the IATA Clearing House.

During the year the Company contracted with Iberia to purchase ten new Airbus A320 aircraft, the commitment arising has been included in capital expenditure commitments (note 19).

As at 31 December 2010 the net trading balance owed to Iberia by the Group amounted to £6 million (31 March 2010: £1 million).

Other associates

There was a remaining net trading balance under £1 million as at 31 December 2010 due to transactions between the Group and Dunwoody Airline Services (Holdings) Limited (31 March 2010: under £1 million).

Directors' and officers' loans and transactions

No loans or credit transactions were outstanding with Directors or officers of the Company at 31 December 2010 or arose during the year that need to be disclosed in accordance with the requirements of Sections 412 and 413 to the Companies Act 2006.

In addition to the above, the Group also has transactions with related parties that are conducted in the normal course of airline business. These include the provision of airline and related services.

The Group has not provided or benefited from any guarantees for any related party receivables or payables. During the nine months ended 31 December 2010 the Group has not made any provision for doubtful debts relating to amounts owed by related parties (March 2010: £nil).

NOTES TO THE ACCOUNTS continued

For the nine months ended 31 December 2010

19. CAPITAL EXPENDITURE COMMITMENTS

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to £4,104 million for the Group commitments (March 2010: £4,267 million). The majority of capital expenditure commitments are denominated in US dollars, as such the commitments are subject to exchange movements.

The outstanding commitments include £4,074 million for the acquisition of one Boeing 777 (in 2012), 24 Boeing 787s (from 2012 to 2016), 14 Airbus A320s (from 2011 to 2014), 12 Airbus A380s (from 2013 to 2016) and two Embraer E-jets (both in 2011).

20. POST BALANCE SHEET EVENTS

On 21 January 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 known as IAG was formed to hold the interests of both the existing airline groups. IAG is a Spanish company registered in Madrid incorporated on 8 April 2010.

IAG has a premium listing on the FTSE's UK index series. 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 Espanol).

The group is expecting to generate annual synergies of approximately €400 million by the end of its fifth year and benefit shareholders, customers and employees. IAG 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 operations of both airlines.

Principal terms

Under the terms of the merger, British Airways ordinary shareholders received one new ordinary share of IAG for every existing British Airways ordinary share and Iberia shareholders received 1.0205 new ordinary shares for every existing Iberia ordinary share. Upon completion of the transaction, British Airways' shareholders held 56 per cent of IAG and Iberia's shareholders 44 per cent.

Prior to 21 January 2011, British Airways owned 13.15 per cent of the issued share capital of Iberia and Iberia owned 9.98 per cent of the issued share capital of British Airways. Subsequent to the merger, the cross holdings between British Airways and Iberia were maintained or recreated with the same economic and voting rights.

For the purposes of accounting British Airways is deemed to be the acquirer of Iberia. IAG's value was determined based on British Airways' fair value, calculated from British Airways quoted market price at the close of business on 20 January 2011 of €3.346 (or £2.825) for its 1,154 million outstanding ordinary shares. The purchase price of Iberia was calculated based on the agreed merger ratios and IAG's value on the transaction date.

NOTES TO THE ACCOUNTS continued

For the nine months ended 31 December 2010

20. POST BALANCE SHEET EVENTS continued

For the purposes of accounting British Airways is deemed to be the acquirer of Iberia. IAG's value was determined based on British Airways' fair value, calculated from British Airways quoted market price at the close of business on 20 January 2011 of €3.346 (or £2.825) for its 1,154 million outstanding ordinary shares. The purchase price of Iberia was calculated based on the agreed merger ratios and IAG's value on the transaction date.

| € million | 21 January 2011 |
|---|----------------------------|
| IAG value | |
| British Airways fair value | 3,862 |
| Iberia stake in British Airways | (385) |
| | 3,477 |
| British Airways ownership in IAG (per cent) | 56 |
| IAG value | 6,209 |
| Purchase price | |
| IAG value | 6,209 |
| Iberia ownership in IAG (per cent) | 44 |
| | 2,732 |
| British Airways stake in Iberia at market value | 370 |
| Purchase price | 3,102 |

The purchase price allocation has not yet been finalised. It is expected to be completed within 12 months of the date of the merger in accordance with the period allowed to review estimations under IFRS.

IAG will consolidate and report the first results of the IAG group for the three months ended 31 March 2011. IAG's first quarter results will include British Airways results for the three months ended 31 March 2011 and Iberia's results from the merger effective date.

Convertible bond

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 instead of shares in British Airways. In order to facilitate the issuing of IAG equity, a guarantee was issued from IAG to British Airways whereby IAG have guaranteed the payment of the principal and interest to the bondholders. In addition, IAG issued a written call option to British Airways whereby British Airways will pay for shares in IAG on behalf of the bondholders in the event of a conversion, at a predetermined price of £1.89 to allow British Airways to meet the conversion obligation.

As a result, the equity portion of the convertible bond will be reclassified as a derivative financial liability. It represents British Airways' obligation to deliver a fixed number of shares in IAG to the bondholders, and as such, represents a derivative financial liability with an underlying value driven by the share price of IAG.

NOTES TO THE ACCOUNTS continued

For the nine months ended 31 December 2010

21. OTHER EVENTS

Joint Business Agreement with American Airlines and Iberia

In October 2010, British Airways launched the joint business agreement, a new venture with American Airlines and Iberia covering flights between Europe and North America. The joint business commencement follows clearance from EU and the grant by the US Department of Transportation of anti trust immunity similar to that enjoyed by rival SkyTeam and Star Alliances. By working together the three airlines can enhance customer choice by sustaining or adding new routes to our network that would otherwise be economically unviable for individual airlines.

The joint business network is built around the key strategic hubs of London, Dallas, New York, Madrid, Chicago, Miami and Los Angeles. There are approximately 100 joint business flights per day across the transatlantic in addition to 122 new destinations offered to British Airways customers through expanded codeshare arrangements. The combined frequent flyer base of 70 million members will benefit from reciprocal earn and burn arrangements across the three carriers networks. Our corporate and leisure customers will benefit from greater convenience through an increase in scheduled services, greater choice of timings and improved flexibility through combinable fares.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors of British Airways Plc, who are listed in the Group's Report and Accounts for the nine months ended 31 December 2010, confirm that, to the best of each person's knowledge:

- The condensed set of consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU, IFRIC interpretation and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and profit/(loss) of the Company and Group taken as a whole.
- The management report contained in this report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Keith Williams
Chief Executive

Sir Martin Broughton
Chairman

24 February 2011

AIRCRAFT FLEET

Number in service with Group companies at 31 December 2010

| | On Balance Sheet Fixed Assets | Off Balance Sheet Operating Leases | Total December 2010 | Total March 2010 | Changes Since March 2010 | Future deliveries (Note 9) | Options |
|------------------------------------|--|---|---------------------------|------------------------|-----------------------------------|----------------------------------|-----------|
| AIRLINE OPERATIONS (note 1) | | | | | | | |
| Airbus A318 | 2 | | 2 | 2 | | | |
| Airbus A319 | 31 | 2 | 33 | 33 | | | |
| Airbus A320 (Note 2) | 25 | 15 | 40 | 38 | 2 | 14 | 31 |
| Airbus A321 | 11 | | 11 | 11 | | | |
| Airbus A380 | | | | | | 12 | 7 |
| Avro RJ85 (Note 3) | | | | 2 | (2) | | |
| Avro RJ100 (Note 4) | | | | 1 | (1) | | |
| Boeing 737-400 | 19 | | 19 | 19 | | | |
| Boeing 747-400 (Note 5) | 50 | | 50 | 49 | 1 | | |
| Boeing 757-200 (Note 6) | 2 | 2 | 4 | 9 | (5) | | |
| Boeing 767-300 | 21 | | 21 | 21 | | | |
| Boeing 777-200 | 41 | 5 | 46 | 46 | | | |
| Boeing 777-300 (Note 7) | 2 | 1 | 3 | | 3 | 3 | 4 |
| Boeing 787 | | | | | | 24 | 28 |
| Embraer E170 | 6 | | 6 | 6 | | | |
| Embraer E190 (Note 8) | 5 | | 5 | 1 | 4 | 2 | 16 |
| GROUP TOTAL | 215 | 25 | 240 | 238 | 2 | 55 | 86 |

Note:

1. Includes those operated by British Airways Plc, BA Cityflyer Limited and OpenSkies SASU.
2. Includes three Airbus A320 aircraft deliveries and excludes two returned to Lessor, one of which had previously been stood down. Certain future Airbus deliveries and options include reserved delivery positions, and may be taken as any A320 family aircraft.
3. Two RJ85 aircraft stood down and returned to Lessor.
4. One Avro RJ100 aircraft stood down and returned to Lessor. Excludes six Avro RJ100 aircraft sub-leased to Swiss.
5. Excludes seven Boeing 747-400 aircraft, five temporarily stood down out of service and two permanently stood down. One Boeing 747-400 returned to service.
6. Excludes seven Boeing 757-200 aircraft stood down in advance of sale to a cargo carrier. Four Boeing 757-200 aircraft sold during the period.
7. Three Boeing 777-300 aircraft delivered and entered into service.
8. Four Embraer E190 aircraft delivered and entered into service at London City Airport.
9. Future deliveries have decreased by three as three Airbus A320 aircraft, three Boeing 777 and four Embraer E190 aircraft were delivered during the period, two options for Embraer 190 and five Iberia A320 options were taken up.

APPENDIX
CONSOLIDATED INCOME STATEMENT

| £ million | Nine months to 31 December | | Better/ (Worse) |
|--|----------------------------|--------------|--------------------|
| | 2010 | 2009 | |
| Traffic revenue | | | |
| <i>Passenger</i> | 5,831 | 5,357 | 8.8 % |
| <i>Cargo</i> | 531 | 402 | 32.1 % |
| | 6,362 | 5,759 | 10.5 % |
| <i>Other revenue</i> | 321 | 381 | (15.7) % |
| REVENUE | 6,683 | 6,140 | 8.8 % |
| Employee costs | 1,547 | 1,523 | (1.6) % |
| Restructuring | 6 | 62 | nm |
| Depreciation, amortisation and impairment | 570 | 544 | (4.8) % |
| Aircraft operating lease costs | 51 | 52 | 1.9 % |
| Fuel and oil costs | 1,869 | 1,813 | (3.1) % |
| Engineering and other aircraft costs | 412 | 372 | (10.8) % |
| Landing fees and en route charges | 464 | 467 | 0.6 % |
| Handling charges, catering and other operating costs | 765 | 772 | 0.9 % |
| Selling costs | 235 | 210 | (11.9) % |
| Currency differences | (1) | (3) | nm |
| Accommodation, ground equipment and IT costs | 423 | 414 | (2.2) % |
| TOTAL EXPENDITURE ON OPERATIONS | 6,341 | 6,226 | (1.8) % |
| OPERATING PROFIT / (LOSS) | 342 | (86) | nm |
| Fuel derivative (losses) / gains | (2) | 11 | nm |
| Finance costs | (125) | (110) | (13.6) % |
| Finance income | 18 | 16 | 12.5 % |
| Net financing expense relating to pensions | (49) | (150) | 67.3 % |
| Retranslation (charges) / gains on currency borrowings | (12) | 13 | nm |
| Loss on sale of property, plant and equipment and investments | (3) | (16) | 81.3 % |
| Share of post-tax profits/(losses) in associates accounted for using the equity method | 6 | (21) | nm |
| Net (charge)/income relating to available-for-sale financial assets | (18) | 1 | nm |
| PROFIT / (LOSS) BEFORE TAX | 157 | (342) | nm |
| Tax | 13 | 97 | nm |
| PROFIT / (LOSS) AFTER TAX | 170 | (245) | nm |

nm: Not meaningful

**APPENDIX
CONSOLIDATED BALANCE SHEET**

| £ million | 31 December 2010 | 31 December 2009 |
|---|---------------------|---------------------|
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | | |
| <i>Fleet</i> | 5,758 | 5,778 |
| <i>Property</i> | 885 | 936 |
| <i>Equipment</i> | 221 | 238 |
| | 6,864 | 6,952 |
| Intangibles | | |
| <i>Goodwill</i> | 40 | 40 |
| <i>Landing rights</i> | 209 | 202 |
| <i>Software</i> | 37 | 24 |
| | 286 | 266 |
| Investments in associates | 244 | 203 |
| Available-for-sale financial assets | 65 | 64 |
| Employee benefit assets | 575 | 397 |
| Derivative financial instruments | 19 | 29 |
| Prepayments and accrued income | 40 | 24 |
| TOTAL NON-CURRENT ASSETS | 8,093 | 7,935 |
| NON-CURRENT ASSETS HELD FOR SALE | 33 | 36 |
| CURRENT ASSETS AND RECEIVABLES | | |
| Inventories | 98 | 95 |
| Trade receivables | 384 | 372 |
| Other current assets | 260 | 246 |
| Derivative financial instruments | 132 | 44 |
| Other current interest-bearing deposits | 1,173 | 1,065 |
| Cash and cash equivalents | 779 | 522 |
| | 1,952 | 1,587 |
| TOTAL CURRENT ASSETS AND RECEIVABLES | 2,826 | 2,344 |
| TOTAL ASSETS | 10,952 | 10,315 |
| SHAREHOLDERS' EQUITY | | |
| Issued share capital | 288 | 288 |
| Share premium | 937 | 937 |
| Investment in own shares | (3) | (6) |
| Other reserves | 978 | 856 |
| TOTAL SHAREHOLDERS' EQUITY | 2,200 | 2,075 |
| NON-CONTROLLING INTEREST | 200 | 200 |
| TOTAL EQUITY | 2,400 | 2,275 |
| NON-CURRENT LIABILITIES | | |
| Interest-bearing long-term borrowings | 3,496 | 3,365 |
| Employee benefit obligations | 219 | 204 |
| Provisions for deferred tax | 788 | 787 |
| Other provisions | 164 | 245 |
| Derivative financial instruments | 4 | 7 |
| Other long-term liabilities | 306 | 201 |
| TOTAL NON-CURRENT LIABILITIES | 4,977 | 4,809 |
| CURRENT LIABILITIES | | |
| Current portion of long-term borrowings | 457 | 532 |
| Trade and other payables | 2,815 | 2,486 |
| Derivative financial instruments | 10 | 45 |
| Current tax payable | 10 | 6 |
| Short-term provisions | 283 | 162 |
| TOTAL CURRENT LIABILITIES | 3,575 | 3,231 |
| TOTAL EQUITY AND LIABILITIES | 10,952 | 10,315 |

Iberia
Information is set out on pages 33 to 48

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IBERIA GROUP

CONSOLIDATED MANAGEMENT REPORT

2010

Main figures

| Financial data (€ million) | 2010 | 2009 | % (*) |
|--|--------|--------|---------|
| Operating revenue (a) | 4,770 | 4,409 | 8.2 |
| Operating costs (a) | 4,773 | 4,872 | -2.0 |
| EBITDAR (a) | 493 | 62 | n.m. |
| Recurring EBIT (a) | -3 | -463 | 99.3 |
| Adjusted EBIT (a) (b) | 101 | -352 | 128.7 |
| Profit (loss) from operations (c) | -26 | -475 | 94.8 |
| Profit (loss) before tax | 95 | -436 | 122.0 |
| Profit (loss) after tax | 89 | -273 | 132.7 |
| Non-current assets | 3,066 | 2,362 | 29.8 |
| Current financial investments, cash & cash equivalents (d) | 2,073 | 1,919 | 7.9 |
| Equity | 2,132 | 1,551 | 37.5 |
| In-balance sheet net debt (e) | -1,488 | -1,417 | 4.2 |
| Adjusted net debt x 8 (f) | 1,022 | 1,241 | -16.8 |
| EBITDAR margin (%) (a) | 10.3 | 1.4 | 8.9 p. |
| EBIT margin (%) (a) | -0.1 | -10.5 | 10.4 p. |
| Operating revenue / ASK (€ cent) (a) | 7.65 | 7.09 | 7.9 |
| Operating expense / ASK (€ cent) (a) | 7.66 | 7.84 | -2.3 |

| Operating figures | | | |
|--|--------|--------|--------|
| ASK (million) | 62,312 | 62,158 | 0.2 |
| RPK (million) | 51,242 | 49,612 | 3.3 |
| Load factor (%) | 82.2 | 79.8 | 2.4 p. |
| Yield (g) | 6.54 | 6.32 | 3.4 |
| Passenger revenue / ASK (€ cent) (g) | 5.38 | 5.05 | 6.5 |
| Annual average headcount | 20,103 | 20,671 | -2.7 |
| No. of aircraft at year-end | 112 | 109 | 2.8 |
| Average fleet utilisation (block hours / aircraft / day) | 10.5 | 10.3 | 2.1 |

n.m: not meaningful.

(*) The percentage variations are calculated with complete numbers in euros.

(a) Only recurring items.

(b) Excluding 33% of operating leases (100% of dry leases + 50% of wet lease) equivalent to the implicit financial interest of the aircraft rentals.

(c) Includes non-recurring items.


(d) Excluding the value of hedging instruments.

(e) In-balance sheet net debt: (Bank borrowings and obligations under finance leases) - (Current financial investments + cash and cash equivalents).

(f) Adjusted net debt: In-balance sheet net debt + Aircraft rentals annualised x 8.

(g) Calculated with passenger revenues generated during the period, excluding revenues from the cancellation of customer advances as well as other minor accounting regularisations.

- Iberia Group reported consolidated income after taxes of €89 million for 2010, compared with the €273 million losses posted in 2009. Consolidated income before taxes was €95 million, an improvement of €531 million on the 2009 loss.
- EBITDAR amounted to €493 million, up €431 million on 2009. The 2010 EBITDAR margin widened 8.9 percentage points year-on-year to 10.3%. EBIT amounted to a loss of €3 million, which represents a €460 million improvement on the 2009 figure. This figure would have been comfortably in the black had it not been for the exceptional operational disruption caused by the ash cloud from the Icelandic volcano in April and May, and the air traffic controller dispute that began in May and culminated in the two-day closure of Spanish air space in December.
- Operating revenue increased by 8.2% on 2009, rising faster in the second half year (13.4%) and across all business segments. Passenger and cargo revenue climbed 8.9%, driven by traffic growth in the long-haul segment.
- Passenger revenue per ASK was up 6.5% year-on-year, the load factor improved by 2.4 points to 82.2% and the yield rose by 3.4%, despite the impact of the increase in average stage length (7.8%).
- Unit operating costs narrowed 2.3% on 2009, due mostly to lower fuel expenses and the cost control measures implemented.
- Average headcount decreased by 2.7% year-on-year, while average fleet utilisation improved 2.1% to 10.5 block hours per aircraft per day. Workforce productivity, in ASK per employee, improved by 3.1%.
- At 31 December 2010, equity stood at €2,132 million, up 37.5% on the previous year-end figure, due partly to the revaluation of the investment in Amadeus IT Holding, S.A. following its IPO, to the revaluation of the investment in British Airways and to the improved result. Adjusted net debt narrowed by 16.8%, reflecting the decrease in fleet lease expense and the increase in current financial investments, and cash and cash equivalents.
- Iberia, American Airlines and British Airways signed the definitive joint business agreement, thereby enabling them to cooperate on transatlantic flights from October 2010.
- On 8 October, the Parent sold a total of 6.71 million shares in Amadeus, representing 1.5% of this investee's share capital. The shares were placed on the open market at €13.50 each. The Group obtained a gross gain of €90 million from this transaction. Following this sale, Parent's ownership stake in Amadeus stands at 7.5%.
- In 2010 the various steps required for formalising the merger between Iberia and British Airways were completed. The framework guidelines for the merger were established in the binding letter of intent entered into in November 2009 and were developed subsequently in the definitive agreement signed on 8 April 2010. Ownership of both airlines passed to a newly created holding company, International Consolidated Airlines Group, S.A. (IAG). On 27 October, the Spanish National Securities Market Commission (CNMV) and its UK counterpart, the Financial Services Authority (FSA), approved the registration document. On 29 November, the transaction was approved by both airlines' shareholders at their respective Annual General Meetings. Lastly, the integration process was completed on 24 January 2011 on the first day of trading of IAG shares on the London Stock Exchange and the Spanish Stock Exchanges, replacing the shares of Iberia and British Airways, which traded until 20 January.


Operating statistics of the transport business

| Operating Statistics (a) | 2010 | 2009 | % (*) |
|----------------------------------|---------------|---------------|---------------|
| Passenger | | | |
| ASK (million) | 62,312 | 62,158 | 0.2 |
| Domestic | 7,703 | 8,492 | -9.3 |
| Medium haul | 14,690 | 15,641 | -6.1 |
| Europe | 12,586 | 13,586 | -7.4 |
| Africa and Middle East (b) | 2,103 | 2,055 | 2.3 |
| Long haul | 39,919 | 38,025 | 5.0 |
| RPK (million) | 51,242 | 49,612 | 3.3 |
| Domestic | 5,709 | 6,091 | -6.3 |
| Medium haul | 11,242 | 11,823 | -4.9 |
| Europe | 9,638 | 10,314 | -6.5 |
| Africa and Middle East (b) | 1,604 | 1,509 | 6.3 |
| Long haul | 34,291 | 31,699 | 8.2 |
| Load factor (%) | 82.2 | 79.8 | 2.4 p. |
| Domestic | 74.1 | 71.7 | 2.4 p. |
| Medium haul | 76.5 | 75.6 | 0.9 p. |
| Europe | 76.6 | 75.9 | 0.7 p. |
| Africa and Middle East (b) | 76.3 | 73.4 | 2.8 p. |
| Long haul | 85.9 | 83.4 | 2.5 p. |
| Cargo | | | |
| ATK (million) | 1,876 | 1,684 | 11.4 |
| RTK (million) | 1,314 | 1,021 | 28.7 |
| Load factor (%) | 70.0 | 60.7 | 9.4 p. |
| Passenger Revenues (c) | | | |
| Passenger revenues (€ million) | 3,351 | 3,137 | 6.8 |
| Passenger revenue / ASK (€ cent) | 5.38 | 5.05 | 6.5 |
| Passenger revenue / RPK (€ cent) | 6.54 | 6.32 | 3.4 |

(*) The percentage variations are calculated with complete numbers in euros.

(a) Parent Commercial.

(b) Except South Africa, which is included in "Long Haul".

(c) Passenger revenues include only those revenues generated during the period. Therefore, revenues from the cancellation of customer advances as well as other minor accounting regularisations are excluded.

ASK: Available Seat-Kilometres; RPK: Revenue Passenger Kilometres;

ATK: Available Ton Kilometres; RTK: Revenue Ton Kilometres.

Year-on-year variation in Load Factor expressed in percentage points.

2010 was a year of recovery for the industry. According to the latest International Air Transport Association (IATA) forecasts, the number of passengers increased by 8.9% on 2009 and cargo traffic was up 18.5%. Airline companies' returns were also enhanced by the recovery in the number of passengers travelling in first and business class. According to the latest IATA data (Route Tracker, November 2010) international passenger traffic in first and business class in the year to November was up 9.3% year-on-year.

In December, IATA forecast profits for the airline industry in 2010 of \$15,100 million (€11,220 million). This upturn was due primarily to the improvement in economic conditions, despite the European crisis, which drove more robust market growth. However, regional differences persisted in 2010, notably in Europe where the airline industry's profits were forecast to be \$400 million (€297 million) in 2010. Asia-Pacific posted the highest profits: \$7,700 million (€893 million). US airline profits amounted to \$5,100 million (€3,973 million), thanks to the cuts in capacity applied in 2008, and in Latin America airlines posted profits of \$1,200 million (€893 million). Companies in the Middle East recorded profits of \$700 million (€520 million).

The Group performed very positively in the Spain-Latin America market, which grew by 0.3%, by registering growth of 4.7 percentage points. Iberia increased its share of supply (ASK) together with Air Europa and LAN. The Europe-Latin America market grew significantly (4.7%) and Iberia obtained similar growth. Its share reached 20.7%, thus maintaining and reinforcing its leadership position in this market.

Overall, **across its network**, the Group's traffic, measured in revenue passenger kilometres (RPK), advanced 3.3% on the previous year, with capacity, measured in available seat-kilometres (ASK), increasing by 0.2%. The increases in demand (8.2%) and capacity (5.0%) in long-haul flights were partially offset by the contractions in RPK (-5.4%) and ASK (-7.2%) in the domestic and medium-haul segments. Efficient capacity management drove up the load factors of all segments, taking the average load factor for the total network up by 2.4 percentage points to 82.2%.

Air traffic staged a recovery in the markets in 2010 and, as a result, the company gradually increased its capacity by incorporating higher-capacity aircraft, increasing frequencies on certain routes, and adding new destinations. Accordingly, at the end of March, the Group resumed direct flights to Washington and added new destinations to its international network: Amman (Jordan) and Damascus (Syria) from July; Oran (Algeria) from September; and Córdoba (Argentina) and San Salvador (El Salvador) from October. It also started operating direct flights between Madrid and Panama from October and between Tenerife and Paris from November. The table below details the year-on-year changes in capacity and traffic in each quarter for the network as a whole:

| Var. 2010/2009 | January - March | April - June | July - September | October - December |
|----------------|-----------------|--------------|------------------|--------------------|
| ASK (%) | -6.6 | -2.2 | 3.4 | 6.4 |
| RPK (%) | -1.2 | -0.7 | 7.7 | 7.0 |

In 2Q10, the company's air traffic was affected when aircraft across Europe were grounded temporarily because of the volcanic ash cloud from Iceland (883 flights cancelled in April and May). Air traffic was also hit in December by the closure of Spanish air space due to the air traffic controllers' strike and the cold weather and snowstorms affecting Europe.

The **long-haul segment** accounted for 64.1% of total capacity offered by the Group in 2010 (+2.9 percentage points year-on-year) and 66.9% of total traffic (+3.0 percentage points). Due to the increased importance of the long-haul segment, the average stage length for the total network rose by 7.8% on 2009 to 2,559 kilometres. The company widened its offering considerably in some of its major destinations in Central America (Mexico, Peru and Colombia) and in South Africa, and there was a general increase in demand. As a result, the load factor for the long-haul segment rose by 2.5 percentage points to 85.9%.

In 2010, the load factor in the **international medium-haul segment** improved by 0.9 percentage point year-on-year, to 76.5%. Full year supply and demand fell by 6.1% and 4.9% respectively although the reduction was less in the second half year (-3.1% for both indicators). These declines were partly due to the latest adjustments made to point-to-point routes in 2009. Taking into consideration only the flights originating or landing at Madrid-Barajas airport, ASK and RPK fell by 3.3% and 2.3% on 2009.

In the **domestic segment**, the load factor was 74.1%, up 2.4 percentage points on 2009, with a 9.3% reduction in capacity and a 6.3% reduction in traffic. In flights between Barcelona and Madrid, demand was up 2.8%, ASK were down 15% and the load factor rose by 11.8% percentage points to 68.2%.

Cargo traffic, measured in RTK, was 28.7% higher than in 2009 for the network as a whole, with significant growth in all the international segments and a 9.4 percentage point increase in the load factor to 70%.


Consolidated income statement (unaudited)

| € million | 2010 | 2009 | % (*) |
|---|--------------|--------------|-------------|
| Profit (loss) from operations (a) | -26 | -475 | 94.8 |
| Operating revenue | 4,837 | 4,458 | 8.5 |
| Revenue | 4,582 | 4,231 | 8.3 |
| Passenger revenue (b) | 3,594 | 3,342 | 7.5 |
| Cargo revenue | 302 | 234 | 28.8 |
| Handling revenue | 271 | 266 | 1.7 |
| Technical assistance to airlines | 334 | 310 | 8.0 |
| Other revenue | 81 | 79 | 2.5 |
| Other operating income | 255 | 227 | 12.2 |
| Recurring | 188 | 178 | 5.6 |
| Non-recurring | 67 | 49 | 34.0 |
| Operating costs | 4,847 | 4,930 | -1.7 |
| Procurements | 1,342 | 1,410 | -4.8 |
| Aircraft fuel | 1,071 | 1,184 | -9.6 |
| Aircraft spare parts | 237 | 191 | 24.2 |
| Catering materials | 20 | 19 | 2.6 |
| Other purchases | 14 | 16 | -12.5 |
| Employee costs | 1,332 | 1,348 | -1.2 |
| of which: Non-recurring | 38 | 51 | -25.5 |
| Depreciation and amortisation | 174 | 176 | -1.1 |
| Other operating costs | 1,999 | 1,998 | 0.0 |
| Aircraft leases | 322 | 349 | -7.9 |
| Fleet maintenance (subcontracts) | 200 | 202 | -0.8 |
| Commercial costs | 167 | 150 | 10.5 |
| Traffic services and expenses relating to stopovers and incidents | 397 | 397 | -0.1 |
| Navigation charges | 252 | 252 | -0.3 |
| In-flight services | 71 | 66 | 6.5 |
| Booking systems | 136 | 134 | 1.6 |
| Other costs | 454 | 446 | 1.8 |
| of which: Non-recurring | 36 | 8 | n.m. |
| Impairment losses and net gains on disposals of non-current assets | -16 | -3 | n.m. |

(a) Profit/Loss from operations includes operating income, non-recurring revenues and costs, as well as net gains on disposals of non-current assets and impairment losses.

(b) Passenger revenues include issued but unused tickets, previously recognised in current liabilities as customer advances, together with other minor adjustments.

| € million | 2010 | 2009 | % (*) |
|--|--------------|---------------|--------------|
| Financial results | 98 | 32 | 213.1 |
| Finance income | 27 | 64 | -57.8 |
| Finance cost | 34 | 40 | -15.0 |
| Currency differences | 6 | -17 | n.m. |
| Other revenues and expenses | 99 | 25 | 295.3 |
| Share of profits (losses) of associates | 23 | 8 | 196.2 |
| Profit (loss) before tax | 95 | -436 | n.m. |
| Income tax | -6 | 162 | n.m. |
| Profit (loss) after tax | 89 | -273 | n.m. |
| Attributable to shareholders of the Parent | 89 | -273 | n.m. |
| Minority interests | 0 | -0 | n.m. |
| Basic earnings per share (euros) | 0.096 | -0.295 | n.m. |

n.m: not meaningful

(*) The percentage variations are calculated with complete numbers in euros.

Average weighted n° of shares outstanding from January to December: 925,204,966 in 2010 and 925,204,737 in 2009.

Revenue from operations

Passenger revenues - Total passenger revenues in 2010 increased by €252 million year-on-year, €214 million of which related to revenue from used tickets in the period. The €38.6 million increase in “Other passenger revenues” was driven mainly by the cancellation of customer advances for unused tickets, customer loyalty programmes (Iberia Plus and frequent-flyer agreements with other airlines) and revenue from luggage charges.

| Passenger revenues | Revenues (€ million) | | | Rev./RPK | Rev./ASK |
|------------------------------|----------------------|--------------|------------|-------------|-------------|
| | 2010 | 2009 | Var. % | Var. % | Var. % |
| Long haul | 1,809 | 1,538 | 17.6 | 8.8 | 12.1 |
| International medium haul | 878 | 890 | -1.4 | 3.7 | 5.0 |
| Domestic | 664 | 709 | -6.4 | -0.1 | 3.2 |
| Total network (a) | 3,351 | 3,137 | 6.8 | 3.4 | 6.5 |
| Other passenger revenues (b) | 243 | 205 | 18.9 | n.a. | n.a. |
| Total (b) | 3,594 | 3,342 | 7.5 | n.a. | n.a. |

n.a: not applicable.

(a) Corresponds to revenue generated from flights operated during the period.

(b) Includes revenues from issued but unused tickets, from frequent flyer agreements and other less significant accounting adjustments.

Passenger revenues from used tickets in 2010 was up 6.8% across the network, driven by the considerable rise in revenue from long-haul flights, a segment in which the company increased supply and obtained a very favourable response in terms of demand.

The yield for the network as a whole increased by 3.3% on 2009 which, combined with the improvement in the load factor (+2.4 points), led to a 6.5% rise in revenue per ASK. Of this increase, 2.0 points related to the positive effect of the appreciation of the US dollar and other currencies against the euro. The sharp growth in average stage length (+7.8%) is estimated to have eroded the growth in yield and unit revenue by around 3.6 percentage points.

Revenue from the long-haul segment jumped 17.6% year-on-year, due to 8.2% rise in traffic and the 8.8% increase in the yield for this segment. Revenue per ASK was up 12.1% year-on-year (9.2% stripping out the effect of euro depreciation), in part driven by the increase in Business Plus passengers (8.2%).

Revenue per ASK was also up by 5.0% in the international medium-haul segment and by 3.2% in the domestic segment, the latter having been driven by the improved load factor.

Cargo - Revenues amounted to EUR 301.5 million in 2010, up 28.8% year-on-year, due mainly to the increase in cargo traffic, against a backdrop of a strong recovery in demand in the international markets following the downturn recorded in the first half of 2009. The cargo yield (revenue per RTK) increased by 18.3% on 2009, primarily as a result of the improvement in the cargo load factor (+9.4 points). The yield performed positively since the beginning of 2010 and was up 2.3% for the full year. Cargo revenues accounted for one percentage point more of total operating revenues in 2010 (6.2%).

Handling - Revenue from third-party handling was up 1.7% on 2009. Iberia Airport Services (excluding the temporary JVs in which the company invests) obtained 1.6% growth in third-party handling, measured in terms of notional aircraft handled, led by increased activity for Vueling. Adding in operations for Iberia itself, the total number of notional aircraft handled in 2010 reached 343,186 (-1% year-on-year), while the number of passengers handled amounted to 74.1 million (+1.6%).

Maintenance - Revenue from third-party maintenance rose 8.0% on 2009 to €334 million, driven mainly by higher revenue from engine inspections and other workshop services and compounded by the appreciation of dollar in the second half of the year.

Other revenues - This heading, which includes revenue from the use of booking systems, revenue generated at cargo terminals, revenue net of points awarded from affiliate companies of the Iberia Plus frequent-flyer programme and revenue from miscellaneous and training services, increased by 2,5% year-on-year to €81 million.

Other operating revenues - The recurring portion of this heading (commissions, rents, own work capitalised and sundry other revenue) totalled €188 million in 2010, up 5.6% on 2009. This figure includes €24 million in reversals of provisions for major fleet repair work, €14 million more than the amount recognised in this connection in 2009. The non-recurring portion amounted to €67 million in 2010 (2009: €49 million), including €33 million from the reversal of provisions as a result of four Supreme Court rulings absolving the Group from payment of various settlements of customs duties for the period from 1998 to 2000. The other non-recurring revenue relates mainly to the partial reversal of pilot pension fund provisions.

Operating costs

Fuel - Fuel costs for the Iberia Group, which represent 22.4% of total operating costs, amounted to €1,071 million in 2010, 9.6% less than the amount recognised in 2009, due primarily to the decline in average prices after hedges, partially offset by the impact of the depreciation of the euro against the US dollar, which pushed costs up by 5.7% compared with 2009. The cost of fuel per ASK increased by 9.8% in 2010 year-on-year.

Market jet kerosene prices (JET CIF NEW) fluctuated between \$630 and \$780 per tonne in the first half of 2010 and held relatively steady at around \$700 in the third quarter. They then started to climb to around \$830 per tonne at the end of December, the average price for the fourth quarter being \$788. As a result, the average market price for aviation fuel in 2009 was \$724 per tonne, up 28% on the average price in 2009. Throughout 2010, prices tracked above those of 2009 although the gap narrowed in the third quarter.

Personnel - Recurring costs fell by 0.2% in 2010, thanks to the 2.7% reduction in the Group's average equivalent headcount to 20,103 employees and to the wage freeze agreed with over 90% of the workforce. Average technical and cabin crew headcount declined by 2.6% and 4.7%, respectively. Non-recurring personnel costs amounted to €38 million in 2010, of which €35 million related to an extraordinary provision aimed at rationalising and optimising the number and the unit cost of employees within the framework of the redundancy programme in force. Personnel costs per ASK narrowed 0.4% on 2009.

| Equivalent headcount (a) | 2010 | 2009 | % |
|--------------------------|---------------|---------------|-------------|
| Ground staff | 14,986 | 15,336 | -2.3 |
| Flight staff | 5,117 | 5,335 | -4.1 |
| Total | 20,103 | 20,671 | -2.7 |

(a) Sum of average headcount: measured in terms of full-time equivalents, at the Parent (including the personnel transferred to the JVs), CACESA, ALAER and Binter Finance

Aircraft leases - Lease expense declined 7.9% year-on-year in 2010. Some of the savings (€15 million) relate to the use of wet lease arrangements in 2009 (an average of 1.3 A340 aircraft), which was discontinued in August 2009. Passenger aircraft operating lease expense was €9 million lower due to differences arising from hedging transactions. The expense for seats hired from third party carriers fell by almost €2 million and cargo aircraft lease expense was down by €1 million. Unit lease expense narrowed 8.1% on 2009 to 0.52 euro cents per ASK.

Depreciation and amortisation - This heading was down 1.1% in 2010, mostly due to lower depreciation charges for aircraft, IT equipment, airport equipment and vehicles. In unit terms, the aggregate of aircraft lease and depreciation and amortisation charges fell by 5.8% to 0.79 euro cents per ASK.

The table below provides a breakdown of Group's operating fleet:

| Operating fleet (a) | December | December |
|---------------------------------|------------|------------|
| | 2010 | 2009 |
| Long haul | 35 | 32 |
| Owned | 6 | 6 |
| Finance lease | 3 | 1 |
| Operating lease | 26 | 25 |
| Wet lease | 0 | 0 |
| Domestic and medium haul | 77 | 77 |
| Owned | 3 | 2 |
| Finance lease | 10 | 10 |
| Operating lease | 64 | 65 |
| Wet lease | 0 | 0 |
| Total | 112 | 109 |
| Owned | 9 | 8 |
| Finance lease | 13 | 11 |
| Operating lease | 90 | 90 |
| Wet lease | 0 | 0 |

(a) Reflects the number of passenger aircraft in operation at each close, excluding aircraft temporarily idle or grounded.

In 2010, the Group resumed its aircraft renewal programme, which had been on hold for over a year following the capacity reduction measure adopted to deal with the crisis. Three Airbus A340/300 under operating lease, which were in service at year-end 2009, were returned, and five Airbus A340/600 aircraft were brought on stream (one in March, one in April, two in June and the other in July), of which three were under operating leases and two under finance leases at 31 December. As a result, the airline has boosted potential capacity in its long-haul fleet, because the A340/600 has 342 seats as currently configured, compared to 254 seats on the Airbus 300. In addition, at 31 December 2010 there were grounded, pending for return, an aircraft A-320 and an aircraft A-340-300 under operating lease.

As for domestic and medium-haul aircraft, in February an owned A320 aircraft that had been idle since October 2009 was added, while two new A319 aircraft under operating leases were included in March, replacing an A319 and an A320 that had been returned to their owner at the end of the lease period.

Aircraft maintenance- The aggregate cost of outsourced fleet maintenance expense, spare parts used and provisions recognised for major repair work increased by 11.3% on 2009 to €437 million as a result of, in addition to the impact of the €/€ exchange rate, higher volumes of maintenance work which in turn drove a significant increase, above all, in CFM56 engines parts used.

Commercial costs - Commissions and bonus payments to travel agencies rose by 10.5% in 2010 due to the growth in passenger revenue and the shift in mix of sales sourcing (faster growth in foreign markets, primarily Latin America, entailing higher commissions). The media advertising spend also increased, following the drastic cutbacks made in 2009 to adjust costs to the serious crisis affecting income and results.

Traffic services, layover and incident related expenses - This heading hardly changed with respect to 2009 since it is closely related to air traffic volumes which, measured in ASK, rose a mere 0.1%. Costs per ASK declined by 0.3% in 2010.

Navigation charges - These costs declined by 0.3% in 2010 as the positive impact of lower activity (in terms of number of take-offs) was greater than the negative effect generated by higher prices. Navigation charges per ASK fell 0.5% year-on-year.

In-flight services - These costs increased by €5 million, i.e. 6.5%, on 2009, as a result of higher in-flight meal costs, due primarily to the 7.3% growth in passengers on long-haul flights, as well as the stronger class mix across the overall network.

Booking systems - These expenses increased by 1.6% in 2010 due to higher average prices and, to a lesser extent, to the appreciation of the dollar. Taking into consideration the increase in revenue from the use of booking systems (6.7%), the net expense was down 1.5% on 2009.

Other costs - Recurring costs fell by €20 million (-4.6%) year-on-year, primarily as a result of the implementation of the initiatives designed within the framework of the Cost Reduction Plan. Meanwhile, €36 million of other non-recurring costs were recognised in 2010, relating mainly to independent professional services required by corporate transactions, together with certain provisions.

Financial and other non-operating results

Impairment losses and net gains on disposals of non-current assets - This item presented a negative balance of €16 million in 2010, due to extraordinary expenses in connection with aircraft returns and impairment losses on the fleet, which were partially offset by gains arising from the sale of non-current assets, mainly fleet assets. A negative balance of €3 million was recognised in 2009, due primarily to losses arising from the derecognition of rotables.

Financial results - This item amounted to €98 million in 2010, almost €66 million more than the balance recognised in 2009. Finance income totalled €27 million, down €37 million on 2009 mainly as a result of the decline in income from short-term deposits which were affected by falling interest rates. This reduction in finance income was largely offset by a €6 million drop in financial expenses and a €23 million improvement in net exchange differences.

Financial results also comprises "Other revenues and expenses" (gains on disposals of financial instruments and changes in the fair value of hedges not deemed effective for hedge accounting purposes) which presented a balance of €99 million in 2010, compared with a balance of €25 million in 2009. The sale of 6.71 million shares of Amadeus IT Holdings, S.A. in October 2010 generated a gross gain of €90 million. In 2009, the balance of "Other revenues and expenses" included a €20.5 million gain on the share exchange between Clickair and Vueling following the merger of the two companies.

Share of results of associates - This heading showed a profit of €23 million in 2010, €15 million more than a year earlier, essentially reflecting earnings growth at Vueling, an airline in which Iberia holds a 45.85% stake since July 2009.



Consolidated statement of financial position

| € million | 31-Dec-2010 | 31-Dec-2009 | % (*) |
|--|--------------|--------------|-------------|
| ASSETS | 6,013 | 5,046 | 19.2 |
| Non-current assets | 3,066 | 2,362 | 29.8 |
| Intangible assets | 46 | 50 | -7.8 |
| Property, plant and equipment | 1,145 | 1,046 | 9.4 |
| Investments in associates | 157 | 134 | 17.2 |
| Financial assets | 1,121 | 497 | 125.9 |
| Deferred tax assets | 597 | 635 | -6.0 |
| Current assets | 2,947 | 2,684 | 9.8 |
| Assets held for sale | 0 | 9 | -100.0 |
| Inventories | 215 | 215 | -0.2 |
| Trade receivables | 561 | 478 | 17.4 |
| Current financial assets | 1,285 | 1,088 | 18.1 |
| Accruals and other assets | 11 | 9 | 25.5 |
| Cash and cash equivalents | 875 | 886 | -1.2 |
| EQUITY AND LIABILITIES | 6,013 | 5,046 | 19.2 |
| Equity | 2,132 | 1,551 | 37.5 |
| Shareholders' equity | 2,129 | 1,548 | 37.5 |
| Minority interests | 3 | 3 | 1.5 |
| Non-current liabilities | 1,958 | 1,732 | 13.0 |
| Provisions | 1,122 | 1,209 | -7.2 |
| Borrowings and other financial liabilities | 435 | 301 | 44.4 |
| Deferred tax liabilities | 191 | 7 | n.m. |
| Long-term accruals | 210 | 215 | -2.2 |
| Current liabilities | 1,923 | 1,763 | 9.1 |
| Borrowings / Other financial liabilities | 251 | 295 | -15.0 |
| Customer prepayments | 451 | 389 | 15.9 |
| Trade and other payables | 1,209 | 1,075 | 12.3 |
| Other liabilities | 12 | 4 | 180.0 |

n.m.: not meaningful

(*) The percentage variations are calculated with complete numbers in euros.

Equity – At 31 December 2010, equity stood at €2,132 million, €581 million more than at year-end 2009. This increase primarily reflects the revaluation at 31 December 2010 of the Group's 7.5% shareholding in Amadeus IT Holding, S.A. following this company's IPO in May 2010. It also includes the revaluation of the Group's investment in British Airways, whose share price rose by 45.8% in 2010.

Current financial investments and Cash and cash equivalents – This aggregate stood at €2,160 million at 31 December 2010, up 9.3% year-on-year. Excluding the valuation of hedging instruments recognised under current financial investments, this item amounted to €2,073 million, up 8.1% on the balance at 31 December 2009.

In-balance sheet net debt – This balance at 31 December 2010 remained negative; i.e. the balance of current financial assets (excluding the valuation of hedging instruments) exceeded the total balance of interest-bearing

debt, in an amount of €1,488 million, but was 4.8% lower than at year-end 2009. In-balance sheet interest-bearing debt increased by €83 million year-on-year, due mainly to the finance leases of two new A340/600 aircraft.

Adjusted net debt – This heading fell by 16.8% due to the reduction in capitalised fleet lease expenses and, to a lesser extent, the increase in current financial investments and cash and cash equivalents. Leverage at 31 December 2010 was 11.9 percentage points lower than at 31 December 2009.

The table below depicts the trend in the key capital management metrics:

| Iberia Group (€ million) | 31-Dec-2010 | 31-Dec-2009 | Var. % |
|---|---------------|---------------|----------------|
| Current financial investments and Cash and cash equivalents (a) | 2,073 | 1,919 | 8.0 |
| In-balance sheet interest bearing borrowings (b) | 585 | 502 | 16.5 |
| In-balance sheet net debt | -1,488 | -1,417 | 4.8 |
| Aircraft lease capitalisation (x8) (c) | 2,510 | 2,658 | -5.6 |
| Adjusted net debt | 1,022 | 1,229 | -16.8 |
| Leverage (d) | 32.4% | 44.3% | -11.9 p |

(*) The percentage variations are calculated with complete numbers in euros.

(a) Current financial investments, cash and cash equivalents and excluding the fair value of hedging instruments (€87 million as at 31 December 2010 and €55 million at year-end 2009).

(b) Includes current and non-current bank debt and finance lease obligations.

(c) Operating lease (dry leases at 100% and the rest at 50%) annualised and capitalised at x 8.

(d) Adjusted net debt / (equity + adjusted net debt).

Major risks and uncertainties

On 24 January 2011, the shares of **International Consolidated Airlines Group, S.A. (IAG)**, the holding company for Iberia and British Airways, began trading. Following completion of the merger, the two companies are beginning a new stage in their history while at the same time retaining their respective brands and operations. The integration represents an excellent growth opportunity, places the group in a better strategic position within an extremely competitive industry, strengthens its financial position, and provides it with greater investment power and more risk diversification options.

The performance of the **airline industry** is directly tied to economic growth. Accordingly, one of the Group's major risks is its dependence on a consolidated recovery in demand for air travel in its strategic markets, which in turn depends on levels of employment, consumer and business confidence, the availability of credit and growth in trade. Business travel is particularly sensitive to trends in economic conditions.

2010 confirmed the expectations of an overall, but regionally uneven, economic recovery, featuring strong development in emerging economies and a slow upturn in OECD countries. According to the International Monetary Fund, the two-speed recovery is likely to continue in 2011. Emerging markets will continue to post significant growth but will have to manage the risks of overheating and of a strong influx of capital, while advanced economies will grow moderately and barely enough to combat unemployment. A group of European countries, including Spain, face a long and difficult macroeconomic adjustment. IMF forecasts point to world economic growth of 4.2% in 2011 (compared with an estimated 4.8% for 2010), the euro zone to grow at 1.5%, Spanish GDP growth of 0.7% and economic growth of 2% in the UK, 2.3% in the US and 4% in Latin America and the Caribbean.

These prospects for uneven economic growth are reflected in the forecast trend in **air transport demand**. The International Air Transport Association (IATA) forecasts that, in 2011, passenger traffic will increase by 5.2% in the commercial airline industry as a whole (compared with the estimate of 8.9% in 2010) and that cargo traffic

will grow by 5.5% (it registered an 18.5% rebound in 2010). The major emerging economies in the Middle East, Asia-Pacific and Latin America will continue to post the highest growth rates. In contrast, European airlines will probably generate lower traffic growth, which will continue to be affected by the weak recovery in internal demand in Europe and by the uncertainty surrounding the high indebtedness of certain countries. European operators will probably set their sights on developing intercontinental traffic to offset the weakness of their own markets.

Air transport demand might also be affected by possible terrorist attacks, armed conflict, natural disasters, epidemics, pandemics or harsh weather conditions. The airline industry is also sensitive to political decisions, regulatory changes and tax increases. IAG's extensive flight network and robust financial health enable it to mitigate the impact that a local or regional event might have on its finances.

Airlines' profits depend on finding the right **balance between supply and demand** in the market. Current forecasts point to higher growth in capacity supply in 2011 than in the previous year, which may possibly have an impact on load factors and revenue per ASK. Passenger revenues in 2011 are likely to register similar levels to those of 2010.

Profitability is also highly sensitive to other factors, such as the trend in fuel prices and in currency movements, particularly the US dollar. Average jet kerosene prices (JET CIF NEW) were around \$830 per tonne in December 2010, which represents a 24% increase on the average price in 2009. There is uncertainty as to the trend in fuel prices.

According to the latest IATA forecasts (published in December 2010), the airline industry will obtain a net profit of around \$9,100 million in 2011, somewhat below the estimated profit for 2010 (\$15,100 million), taking into consideration the difficulties faced by certain European economies and the upward trend in fuel prices. IATA forecasts the average price of a barrel of Brent at \$84 dollars in 2011 (around 6% more than 2010).

The Group carries out a broad range of actions to control and manage risks, putting in place systems that allow it to identify, measure, manage and mitigate the main risks affecting its various businesses. As for financial risks, the Group has a management programme to control and reduce the potential impact of fluctuations in fuel prices, exchange rates and interest rates on its earnings and to preserve sufficient cash for working capital and investments. The Group has kerosene hedges on 56% of planned consumption in 2011.

IAG's main strategic objectives are to increase benefits for the customers of Iberia and British Airways, reinforce its leadership position at its major hubs (London Heathrow and Madrid Barajas) and in transatlantic routes, enhance its position in the routes connecting Europe with Africa and Asia, and to have competitive costs. In addition, IAG has set itself the objective of obtaining synergies of approximately €400 million p.a. (before tax) as from the end of the fifth year following the execution of the merger, with a maximum cash cost of €269 million throughout the five-year period. Approximately 40% of the synergies are forecast to be generated by higher income and 60% by cost savings. The initial target for 2011 is to obtain synergies of €60 million - €65 million.

The Group intends to increase the number of **long-haul** flights it offers by 15% in 2011, in keeping with its strategic objectives and based on positive trend in demand in these markets. The Group plans to open new routes: from Madrid to Los Angeles (USA) and to Fortaleza and Recife (Brazil); and from Barcelona to Miami (USA) and to Sao Paulo (Brazil).

In October 2010 the important **Joint Business Agreement** between Iberia, American Airlines and British Airways (the three members of the **oneworld** alliance) was launched, enabling them to operate transatlantic flights jointly. The development of the Agreement will be finalised in 2011 in order to provide customers with more flight options and simpler connections, thereby placing the three companies in a stronger strategic position.

The objective for the domestic and medium-haul network is to launch a new operating model to feed the intercontinental network in a more efficient and profitable manner.

Meanwhile, the Group will continue to implement initiatives aimed at enhancing product quality and customer service. Improvements in punctuality will be a key factor in this connection.

In April, the 19th Collective Bargaining Agreement covering ground staff at the Parent was signed, with effect from 1 January 2009 until 31 December 2012. In December 2010, management of the Parent and the representatives of the passenger cabin crew on the Flight Workers' Committee signed the 16th Collective Bargaining Agreement, also with effect until 31 December 2012. Management is still in talks with representatives

of technical crew workers over the terms of their Collective Bargaining Agreement, which expired in December 2009.

Resources

The Group's main resources are its aircraft and personnel.

In 2010 and 2009, the distribution of the workforce, measured as average headcount, by professional category, was as follows:

| | Number of employees | |
|----------------------------------|---------------------|--------|
| | 2010 | 2009 |
| Senior executives | 10 | 10 |
| Ground staff: | | |
| Managers and other line staff | 1.110 | 1.145 |
| Clerical staff | 5.181 | 5.394 |
| Ancillary services | 4.633 | 4.697 |
| Aircraft maintenance technicians | 2.922 | 2.930 |
| Other | 1.130 | 1.160 |
| | 14.976 | 15.326 |
| Flight staff: | | |
| Technical crew | 1.548 | 1.590 |
| Cabin crew | 3.569 | 3.745 |
| | 5.117 | 5.335 |
| | 20.103 | 20.671 |

Research and development activities

In 2010 the Group made no investments in research and development activities.

Environmental management

In 2010 Iberia Group continued to work on a number of measures aimed at improving the Group's environmental track record on an ongoing basis, as a core component of its corporate citizenship policy.

This year, Iberia Group has implemented a new environmental management system to comply with the European regime on emission rights. The aim of the system is to reduce greenhouse gas emissions. This market mechanism sets a maximum cap for total emissions by the sector. Airline operators that exceed their quota for emissions have to buy emission rights from other operators or installations that are already subject to the regulations. In this way, the market provides an economic incentive for the cleanest operators and penalises the biggest polluters. Iberia, through a dedicated internal working group, has adapted its procedures to comply with the regulations and is ready to comply as from 2012.

As regards flight operations, measures such as the renewal of less fuel-efficient aircraft, the adoption of new operational measures and matching the flight program to new demand enabled the Group last year to again reduce noise and emissions associated with climate change. Here it is also worth noting the airline's participation in the pan-European SESAR (Single European Sky ATM Research) R&D program, an initiative sponsored by the European Commission and Eurocontrol with a view to easing air congestion and make flying more environmentally friendly. The new air traffic management system will reduce fuel consumption, thereby slashing carbon emissions by between 6% and 12%.

In terms of its activities on the ground, over the period the Group made major environmental improvements via the ISO 14001/AENOR certified environmental management systems in place in the handling and maintenance divisions.

In September 2010 the Parent was selected, for the fifth year running, for inclusion in the prestigious Dow Jones Sustainability Index, which tracks the performance of the companies with the world's best records on economic, social and environmental practice. This puts the airline in prestigious company as only two airlines belong to this index. Iberia earned maximum points for environmental protection.

Iberia share price

| | |
|--|-------------|
| Share price at 31 December 2010 | 3.195 |
| Share price at 31 December 2009 | 1.899 |
| Annual change | 68.2% |
| Average annual share price | 2.625 |
| Maximum | 3.321 |
| Minimum | 1.961 |
| Average daily volume (number of shares) | 4,921,306 |
| Number of shares | 953,103,008 |
| <i>All share prices are expressed in euros</i> | |

The Ibex-35 lost 17.43% in 2010, dragged down by banking, which was one of the industries affected most by the market tensions caused by the lack of confidence in the economic recovery. While the credit rating agencies' decisions to downgrade Spanish debt aggravated the situation, positive macroeconomic data from the US and the positive results of Spanish banks in the stress tests published in the summer provided a boost for the Spanish market and higher losses were thus avoided.

Air traffic staged a recovery in the markets in 2010, leading to a clear improvement in revenues and a higher load factor. European airlines' share prices performed well in the year.

Noteworthy among these was Iberia, whose share price gained 68.2%, driven by the merger process with British Airways, which was finalised in 2011 and by the joint business agreement with British Airways and American Airlines approved in July 2010.

Share price graph not reproduced in UKLA production, please refer to iairgroup.com.



Treasury shares

In 2010, Iberia, Líneas Aéreas de España, S.A. Operadora (Sole Shareholder Company) did not trade in treasury shares. However, Iberia, Líneas Aéreas de España, S.A. sold 688 treasury shares, having cancelled all the treasury shares it held previously to its merger with BA Holdco, S.A. and IAG.



Subsequent event

On 21 January 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 (IAG) was formed to hold the interests of both the existing airline groups. IAG is a Spanish company registered in Madrid incorporated 8 April 2010.

IAG has a premium listing on the FTSE's UK index series. 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 Espanol).

The group is expecting to generate annual synergies of approximately €400 million by the end of its fifth year and benefit shareholders, customers and employees. IAG will combine the two companies leading positions in the UK and Spain and enhance their strong presence in the international long haul markets, while retaining the individual brands and operations of both airlines.

Principal terms

Under the terms of the merger, British Airways ordinary shareholders received one new ordinary share of IAG for every existing British Airways ordinary share and Iberia shareholders received 1.0205 new ordinary shares for every existing Iberia ordinary share. Upon completion of the transaction, British Airways' shareholders held 56 per cent of IAG and Iberia's shareholders 44 per cent.

Prior to 21 January 2011, British Airways owned 13.15 per cent of the issued share capital of Iberia and Iberia owned 9.99 per cent of the issued share capital of British Airways. Subsequent to the merger, the cross holdings between British Airways and Iberia were maintained or recreated with the same economic and voting rights.

For the purposes of accounting British Airways was deemed to be the acquirer of Iberia. IAG's value was determined based on British Airways' fair value, calculated from British Airways quoted market price at the close of business on 20th January 2011 of €3.346 (or £2.825) for its 1,154million outstanding shares. The purchase price of Iberia was calculated based on the agreed merger ratios and IAG's value on the transaction date.

| | € million |
|---|---------------------|
| IAG Value: | |
| British Airways fair value | 3,862 |
| Iberia stake in British Airways | (385) |
| | <u>3,477</u> |
| British Airways ownership in IAG | <u>56%</u> |
| IAG value | <u><u>6,209</u></u> |
| | |
| Purchase price | |
| IAG value | 6,209 |
| Iberia's ownership in IAG | 44% |
| | <u>2,732</u> |
| British Airways stake in Iberia at market value | <u>370</u> |
| Purchase price | <u><u>3,102</u></u> |

The purchase price allocation has not yet been finalised. It is expected to be completed within 12 months of the date of the merger date in accordance with the period allowed to review estimations under IFRS.

IAG will consolidate and report the first results of the IAG group for the three months ended 31 March 2011. IAG's first quarter results will include British Airways results for the three months ended 31 March 2011 and Iberia's results from the date of the merger.

IAG Combined results publication

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International Consolidated Airlines Group S.A.
Combined* income statement for the 12 months ended 31 December 2010 (unaudited)

| | 2010 | 2009 | Higher / (Lower) | % |
|---|----------------------|-----------------------|---------------------|---------------------|
| € million | | | | |
| Traffic revenue | | | | |
| Passenger | 12,318 | 11,202 | 1,116 | 10.0% |
| Cargo | 1,096 | 834 | 262 | 31.4% |
| | <u>13,414</u> | <u>12,036</u> | <u>1,378</u> | <u>11.4%</u> |
| Other revenue | 1,317 | 1,370 | (53) | (3.9)% |
| Non-recurring revenue | 67 | 50 | 17 | 34% |
| Revenue | <u>14,798</u> | <u>13,456</u> | <u>1,342</u> | <u>10.0%</u> |
| Employee costs | 3,725 | 3,661 | 64 | 1.7% |
| Fuel and oil costs | 3,908 | 4,016 | (108) | (2.7)% |
| Handling charges, catering and other operating costs | 1,571 | 1,557 | 14 | 0.9% |
| Landing fees and en-route charges | 1,162 | 1,147 | 15 | 1.3% |
| Engineering and other aircraft costs | 1,069 | 928 | 141 | 15.2% |
| Accommodation, ground equipment and IT costs | 633 | 632 | 1 | 0.2% |
| Selling costs | 681 | 630 | 51 | 8.0% |
| Depreciation, amortisation and impairment | 1,025 | 976 | 49 | 5.0% |
| Aircraft operating lease costs | 401 | 427 | (26) | (6.1)% |
| Property lease costs | 184 | 192 | (8) | (4.2)% |
| Currency differences | (1) | 41 | (42) | (102.4)% |
| Non-recurring | 215 | 159 | 56 | 35.2% |
| Total expenditure on operations | <u>14,573</u> | <u>14,366</u> | <u>207</u> | <u>1.4%</u> |
| Operating profit / (loss) | <u>225</u> | <u>(910)</u> | <u>1,135</u> | <u>nm</u> |
| Finance costs including fuel derivative losses | (201) | (156) | (45) | 29.0% |
| Finance income | 53 | 96 | (43) | (44.7)% |
| Net financing expense relating to pensions | (38) | (197) | 159 | (80.7)% |
| Retranslation (charges) / credit on currency borrowings | (55) | 6 | (61) | nm |
| Loss on sale of property, plant and equipment and investments | - | (17) | 17 | nm |
| Share of post-tax profits in associates accounted for using equity method | 20 | 8 | 12 | nm |
| Net credit relating to available for sale financial assets | 80 | 12 | 68 | nm |
| Profit / (loss) before tax | <u>84</u> | <u>(1,158)</u> | <u>1,242</u> | <u>nm</u> |
| Tax | 16 | 381 | (365) | nm |
| Profit / (loss) after tax | <u>100</u> | <u>(777)</u> | <u>877</u> | <u>nm</u> |

| | 2010 | 2009 | Higher / (Lower) | |
|-----------------------------------|---------|---------|------------------|--------|
| Millions | | | | |
| ASKs | 199,228 | 206,301 | (7,073) | (3.4)% |
| RPKs | 157,380 | 162,055 | (4,675) | (2.9)% |
| Seat factor | 79.0% | 78.6% | 0.4pts | nm |
| CTKs | 5,886 | 5,499 | 387 | 7.0% |
| Passenger unit revenue per ASK | 6.18 | 5.43 | 0.75 | 13.9% |
| Passenger yield | 7.83 | 6.91 | 0.92 | 13.8% |
| Cargo yield | 18.61 | 15.2 | 3.41 | 22.4% |
| Total cost per ASK | 7.31 | 6.96 | 0.35 | 5.0% |
| Fuel cost per ASK | 1.96 | 1.95 | 0.01 | 0.5% |
| Total cost excluding fuel per ASK | 5.35 | 5.01 | 0.34 | 6.8% |
| Aircraft in service | 352 | 348 | 4 | 1.1% |
| Average employee number | 56,563 | 59,842 | (3,279) | 5.5% |

***IAG Note 1:** The combined financial statements have been prepared for information purposes only. These financial statements have been combined based on the actual results of operations of British Airways and Iberia for the three and twelve month periods ended 31 December 2010 and 2009, the balance sheets as at 31 December 2010 and 2009 and the cash flows for the twelve months ended 31 December 2010 and 2009. These combined financial statements eliminate cross holdings and related party transactions, however they do not reflect any adjustments required to account for the merger transaction.

International Consolidated Airlines Group S.A.
Combined* balance sheet at 31 December 2010 (unaudited)

| € million | 2010 | 2009 |
|---|---------------|---------------|
| Non-current assets | | |
| Property plant and equipment | | |
| Fleet | 7,600 | 7,196 |
| Property | 1,097 | 1,099 |
| Equipment | 527 | 537 |
| | 9,224 | 8,832 |
| Intangibles: | | |
| Goodwill | 47 | 45 |
| Landing rights | 246 | 227 |
| Software | 90 | 77 |
| | 383 | 349 |
| Investments in associates | 157 | 134 |
| Available for sale financial assets | 984 | 330 |
| Deferred tax assets | 597 | 444 |
| Employee benefit assets | 677 | 36 |
| Derivative financial instruments | 38 | 635 |
| Other non-current assets | 247 | 261 |
| | 2,700 | 1,840 |
| Total non-current assets | 12,307 | 11,021 |
| Current assets | | |
| Non-current assets held for sale | 39 | 49 |
| Current assets and receivables | | |
| Inventories | 330 | 321 |
| Trade receivables | 970 | 849 |
| Other current assets | 378 | 488 |
| Derivative financial instruments | 243 | 104 |
| Other current interest-bearing deposits | 2,560 | 2,070 |
| Cash and cash equivalents | 1,792 | 1,471 |
| Total current assets | 6,312 | 5,352 |
| Total assets | 18,619 | 16,373 |
| Shareholders' equity | | |
| Issued share capital | 1,082 | 1,067 |
| Share premium | 1,863 | 1,169 |
| Investment in own shares | (4) | (71) |
| Other reserves | 1,490 | 1,481 |
| Total shareholders' equity | 4,431 | 3,646 |
| Non controlling interests | 239 | 227 |
| Total equity | 4,670 | 3,873 |
| Non-current liabilities | | |
| Interest bearing long term borrowings | 4,497 | 4,019 |
| Employee benefit obligations | 258 | 228 |
| Provisions for deferred tax | 1,119 | 888 |
| Other provisions | 1,315 | 1,485 |
| Derivative financial instruments | 39 | 57 |
| Other long term liabilities | 590 | 441 |
| Total non-current liabilities | 7,818 | 7,118 |
| Current liabilities | | |
| Current portion of long-term borrowings | 750 | 847 |
| Trade and other payables | 4,844 | 4,170 |
| Derivative financial instruments | 30 | 78 |
| Current tax payable | 137 | 105 |
| Short-term provisions | 370 | 182 |
| Total current liabilities | 6,131 | 5,382 |
| Total equity and liabilities | 18,619 | 16,373 |

*See IAG Note 1

International Consolidated Airlines Group S.A.
Combined* cash flow summary for the 12 months ended 31 December 2010 (unaudited)

| € million | <u>2010</u> | <u>2009</u> |
|--|--------------|--------------|
| Cash flow from operating activities | | |
| Operating profit / (loss) | 225 | (910) |
| Depreciation, amortisation and impairment | 1,058 | 976 |
| Operating cash flow before working capital changes | <u>1,283</u> | <u>66</u> |
| Net movement in working capital | 244 | (323) |
| Cash generated / (used) from operations | <u>1,527</u> | <u>(257)</u> |
| Interest paid | (179) | (166) |
| Taxation | 6 | 22 |
| Other receipts | (9) | (41) |
| Net cash generated / (used) from operating activities | <u>1,345</u> | <u>(442)</u> |
| Net cash used in investing activities | <u>(557)</u> | <u>(652)</u> |
| Cash (used) / generated from financing | <u>(134)</u> | <u>490</u> |
| Net increase / (decrease) in cash, cash equivalents and interest bearing deposits | <u>654</u> | <u>(604)</u> |
| Net foreign exchange differences | 157 | 250 |
| Cash, cash equivalents and interest bearing deposits at beginning of the period | <u>3,541</u> | <u>3,895</u> |
| Cash, cash equivalents and interest bearing deposits at end of the period | <u>4,352</u> | <u>3,541</u> |

*See IAG Note 1