

FLYING

International Airlines Group

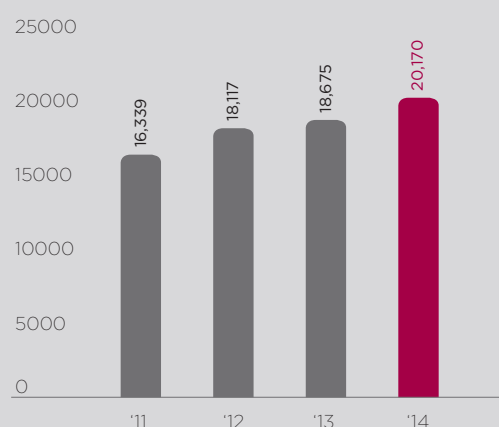
2014 HIGHLIGHTS

Our aim is to be the world's best airline group

REVENUE

+7.1%

at constant currency

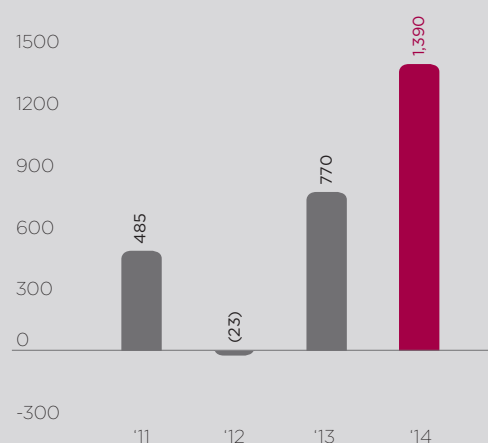


OPERATING PROFIT

(before exceptional items)

€1,390m

up €620m



NON-FUEL UNIT COSTS

-3.9%

at constant currency

This is a measure of how we manage costs, which to a large extent are under our control. It is total non-fuel costs divided by capacity (Available Seat Kilometres 'ASKs').

PRODUCTIVITY

+10.4%

This measures the amount of capacity (ASKs) that our employees deliver on average each year (ASKs divided by average number of employees).

PASSENGERS CARRIED

+15%

In 2014, IAG's airlines carried 77 million passengers, 10 million more than 2013.

PASSENGER UNIT REVENUE

-0.4%

at constant currency

Passenger revenue divided by capacity (ASKs). This reflects both the changes in prices we charge and the change in volume of our sales.

Visit us online at
iairgroup.com

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Strategic report

The Companies Act 2006 (Strategic Report and Directors' Report) The Regulations require all companies that are not small to prepare a strategic report which contains a fair and balanced analysis, consistent with the size and complexity of the business, of: a) the development and performance of the company's business during the financial year; b) the position of the company at the end of the year; and, c) a description of the principal risks and uncertainties facing the company. The strategic report replaces the business review and will be presented as a separate section of the annual report, outside of the directors' report. As far as possible the Company has complied with these requirements voluntarily. The Strategic report is contained in the following sections:

- 13 Business model and strategy
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Management report

Additionally, IAG is required to prepare a Management Report in accordance with Article 262 of the Spanish Companies Act and Article 49 of the Spanish Commercial Code. Pursuant to this legislation, this management report must contain a fair review of the progress of the business and the performance of the company, together with a description of the principal risks and uncertainties that it faces. In the preparation of this report, IAG has taken into consideration the guide published in 2013 by the Spanish National Securities Market Commission (CNMV) which establishes a number of recommendations for the preparation of management reports of listed companies. The Management Report is contained in the following sections:

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IAG is **ADVANCING** its business to meet its 2015 financial targets through capacity discipline, flexibility, cost control and thus ability to grow profitably.

The significant progress made so far gives IAG the confidence to anticipate making a dividend declaration in 2015 as the first step towards introducing a sustainable dividend payment.



GROUP OVERVIEW

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CHAIRMAN'S LETTER

Building a platform for further growth



"A very warm welcome to the latest edition of International Airlines Group's Annual Report, covering our fourth year as a global airline Group and a period of very significant progress for the Company."

Antonio Vázquez
Chairman

2014 has been, quite simply, a very good year for the business, reflected in a strong set of financial results with operating profits of €1,390 million (an increase of €620 million over 2013) on Group revenues of €20.2 billion. It's a result that we are proud of, but one which we see as a stepping-stone to further growth in 2015 and beyond. There is still a great deal more to do.

In the pages that follow we describe in detail where IAG has come from in the four years since we created the business with the merger of British Airways and Iberia and where we want to be in years to come. I hope you can agree that the vision we set for the Company, backed by our unique business model, has already borne real fruit. I assure you many exciting developments still lie ahead for all the stakeholders in the business.

A year of achievement

2014 was a year of achievements right across IAG. A major highlight was the continued deep transformation of Iberia and its return to profitability – a position that, only two years ago, looked a very distant prospect. Although we need to boost Iberia's profitability further, the turnaround represents the new normal for the airline, providing it with a solid financial base from which to modernise its fleet and launch new long and short-haul routes.

Vueling, our premium low-cost brand serving European markets, has continued to expand, opening new bases in both Rome and Brussels and also benefitting from the addition of new aircraft to its fleet. At British Airways, the introduction of Airbus A380s and Boeing 787s, much loved by customers, has also underpinned continued progress. All three airlines

continue to work to very demanding targets for the future; which will allow them to expand further provided that we maintain our strict discipline on costs and capacity, as we fully intend to do.

Other parts of the business have also made important steps in their evolution, notably our Cargo business and the Avios customer loyalty programme.

The global context

The aviation industry is clearly in a much better place today than it has been for a very long time. Recent figures from the International Air Transport Association suggest the industry will post combined net profits of \$19.9 billion in 2014, rising to \$25 billion in 2015. Crucially, the return on invested capital achieved by airlines is expected to climb from an estimate of 6.1 per cent in 2014 to 7 per cent this year placing it close to the cost of capital, where it needs to be. In the past, failure to achieve that target has been one of the biggest failings of our industry.

Regional differences abound, of course. The US, following a period of deep consolidation, is looking extremely strong, while in Europe, with its much more complex regulatory and tax environment and increasingly fierce competition, it is much harder to attain those levels of profitability. In that context our own results look strong. Thanks to the groundwork we did in British Airways some years ago and more recently in Iberia, we are, frankly, ahead of the average network carrier in this region.

And the promising news is that this healthier economic environment looks likely to be sustained as more and more airlines realise the importance of imposing greater financial discipline. Opportunities for further cross-border consolidation remain limited for the time being, but our unique business model – allowing Group airlines to

operate independently while benefitting from significant synergy savings – means we are well placed to lead any further consolidation that might occur. In the meantime, international alliances remain key in terms of improving connectivity and enlarging global networks, and we are pleased with the performance and growth of the **one**world alliance.

Corporate Governance

We continue to fine-tune the Corporate Governance structure of the Group, to refresh the Board and to adjust to changing standards, as we must this year in response to new Governance Codes in both the UK and Spain.

Succession has been a major focus this year. We carried out a deep analysis of our future needs both in terms of Non-Executive Directors and the Management Team. We will revisit these plans periodically and, as far as management is concerned, we will continue fostering our internal talent. Another priority in 2014 for the Board was diversity. We are now close to our 25 per cent target for the representation of women on the Board, following the appointment of María Fernanda Mejía as a third female Non-Executive.

We are lucky to have a Board that is packed with international experience and expertise drawn from across sectors. It's a group that works well together and is hungry to find better ways to support our great Management Team. I'm satisfied that a Board evaluation carried out in 2014 produced excellent feedback from all of our Non-Executives.

Environment and Community

As you know, we have always maintained a strong commitment to community programmes and to managing our environmental impact, irrespective of the prevailing economic conditions. We continue to do so.

The highlight this year was our achievements in terms of fuel optimisation and efficiency. Helped by bringing new aircraft into service and changes to flight operations, we reduced our overall emissions by 2.2 per cent during the year – a very good result, which we look to improve on constantly. But the commitment goes much wider. We continue to play a lead role in bringing commercially viable bio-fuels to the market, not least through our joint business relationship with Solena. We also continue to agitate for a global agreement on emissions trading, fully supporting the UN's efforts to reach one through its agency, the International Civil Aviation Organisation. Such an agreement is vital to the sustainability of our industry.

All our airlines operate their own Corporate Responsibility programmes allowing us to support key programmes in their domestic markets and in locations to which they fly.

Dividend

It's been our stated intention from the start to make dividend payments to our shareholders in the medium and long-term. Thanks to the good progress we made in 2014, we are confident of meeting our 2015 financial targets, which we see as a trigger for dividend payments. We anticipate making a declaration in 2015.

We will be much clearer about our dividend intentions in the months ahead, but I want to stress very clearly that we are committed to making any such payments both consistent and sustainable, backed by a new series of demanding targets for the business.

Outlook

It's a particular pleasure to be able to write such a positive letter at the start of this year's report.

I think we can be very pleased with where the Company stands today. We started with a clear vision and have achieved, and often exceeded, the targets we set for ourselves. People across the business are working very hard to deliver that vision and to build on it for the future. Our shareholders, I sense, also have growing confidence in the Group, the Management Team and in our powerful business model.

I am especially pleased to see how cohesive the Group is. We have dealt with the majority of the legacy issues that came with our airlines and there is a growing sense of united purpose across IAG. In a phrase, it boils down to this: when we work together, we deliver.

Antonio Vázquez
Chairman

CHIEF EXECUTIVE OFFICER'S QUESTIONS & ANSWERS

Firmly establishing our role as a leading airline group



Chief Executive Officer Willie Walsh homes in on some of the key questions on the minds of IAG stakeholders at the end of 2014.

For more detailed information on these issues, please follow the links to other sections of the report.

Watch the full interview
on our website
www.iairgroup.com



Q Can you give us a brief overview of the year for IAG in 2014?

2014 was a very good year for IAG. All of our business areas made significant strides forward and have contributed really well to the overall progress we have made as a Group. So I'm delighted with the way the year has gone. I think our shareholders should be really pleased about everything we have achieved and I'm looking forward to an even more exciting 2015.

 *See page 13 for more about our strategy*

Q What impact will lower oil prices have on your capital and capacity discipline?

The reduction in the oil price is not going to have any impact on either our capital or our capacity discipline. I think it's very important for the industry – and for IAG within the industry – to demonstrate that we will continue to be very disciplined even in an environment where the oil price has fallen below \$100 per barrel. And it's important to recognise that although the oil price is around \$60 per barrel today, it has been extremely volatile and some of the benefit of the lower oil price has been wiped out by changes in currency. The euro and sterling have both weakened against the dollar, which is the currency we use to buy fuel. So in this volatile environment we need to remain very focused and IAG will continue to do just that.

 *See page 74 for more about our market and operating environment*

Q How does IAG fit into consolidation within the aviation industry?

IAG has demonstrated that consolidation is a positive trend the airline industry can benefit from. We've been able to bring together different airlines performing in different markets with different challenges and opportunities, and we've done that extremely well. We'll continue to demonstrate the benefits of

consolidation and we'll continue to look for opportunities to expand the Group – but we will only do that where we believe new additions to the Group can improve our performance and profitability and bring real benefits to our shareholders.

 *See page 13 for more about our business model*


Q What were the main drivers of Iberia's financial turnaround?

The turnaround in Iberia has been truly fantastic. It's a great credit to all of them, not just the new management team under the leadership of Luis Gallego, but to everybody in the airline. Because what they've done is help themselves. They've recognised the scale of the challenges they face and they've pulled together. And what you've seen as a result is the emergence of a new business, with new energy and new determination. The brand has been rejuvenated and the people are rejuvenated. They've done extremely well and to be back in profit is a fantastic achievement. They need to build on that, of course, and I'm absolutely sure they will do so in 2015.

 *See page 19 for more about Iberia*

Q How is IAG changing its structure internally?

We constantly challenge ourselves to see if the structure we have is appropriate for the business and is as efficient as it can possibly be. We make subtle changes from time to time. But a significant change in 2014 was the development of our back offices centralised area – what we call GBS. We've taken the routine transactional activity that went on in our operating companies, and put it together so that we can be much more efficient. It's all part of this constant effort to look for ways to operate in the best, most efficient way.

 *See page 16 for more information about our synergies*

Q Can you sustain 2014's good financial performance?

I believe not only that we can sustain it but that we can build and improve on it. And we've set very challenging long-term goals for the business. We've talked about an operating margin in the order of 10 to 14 per cent; and returns on invested capital of 12 per cent or more, for example. These targets are beyond what we achieved in 2014, and they are designed to make sure we can start to pay a dividend to shareholders and sustain that payment. These are targets we will achieve, but they are the sort of targets the industry as a whole can aim for if it demonstrates good discipline, determination, clear focus and strong management. So, absolutely – 2015 should be better for IAG than 2014, and 2016 should be better again.

 *See page 76 for our Financial Review*

Q What have been the environmental highlights of the year?

We're always looking to improve our environmental performance. At IAG it's something that we very much want to do. We've been leaders in the industry in terms of the need to improve and address our environmental impact and we've made good progress in 2014. Initiatives we've started – like the joint business with Solena to develop a truly sustainable bio-fuel from household waste – will make even greater progress in 2015. I think it's critical, in an environment where the oil price has fallen, that we show that we are still looking to improve our environmental performance. Some people are sceptical about the industry's commitment and expect us to row back. We will not do that. We will build on the progress to date, honour the commitments we've made and make new efforts to improve performance still further.

 *See page 24 for more about our approach to corporate responsibility*

OUR BRANDS AND NETWORKS

Connecting people to the world

IAG combines the leading airlines in the UK and Spain.

The airlines' customers benefit from a larger combined network for both passenger and cargo.

BRITISH AIRWAYS



British Airways is the UK's largest international airline and one of the world's leading global premium carriers. Its principal place of business is London, the world's largest premium travel market, with significant presence at London Heathrow, London Gatwick and London City airports.

 See page 18 for more about British Airways

IBERIA



Iberia is the leading airline between Europe and Latin America as well as Spain's largest air transport company. From its world class hub in Madrid it also serves a wide range of destinations in North America, Europe, Africa and the Middle East.

 See page 19 for more about Iberia

vueling

Vueling joined the Group in April 2013 and is leading at Barcelona – El Prat and Rome – Fiumicino airports. It offers a wide network to Spain, Italy, Europe, the Middle East and Africa and is focused on providing a premium service at a low cost.

 See page 20 for more about Vueling



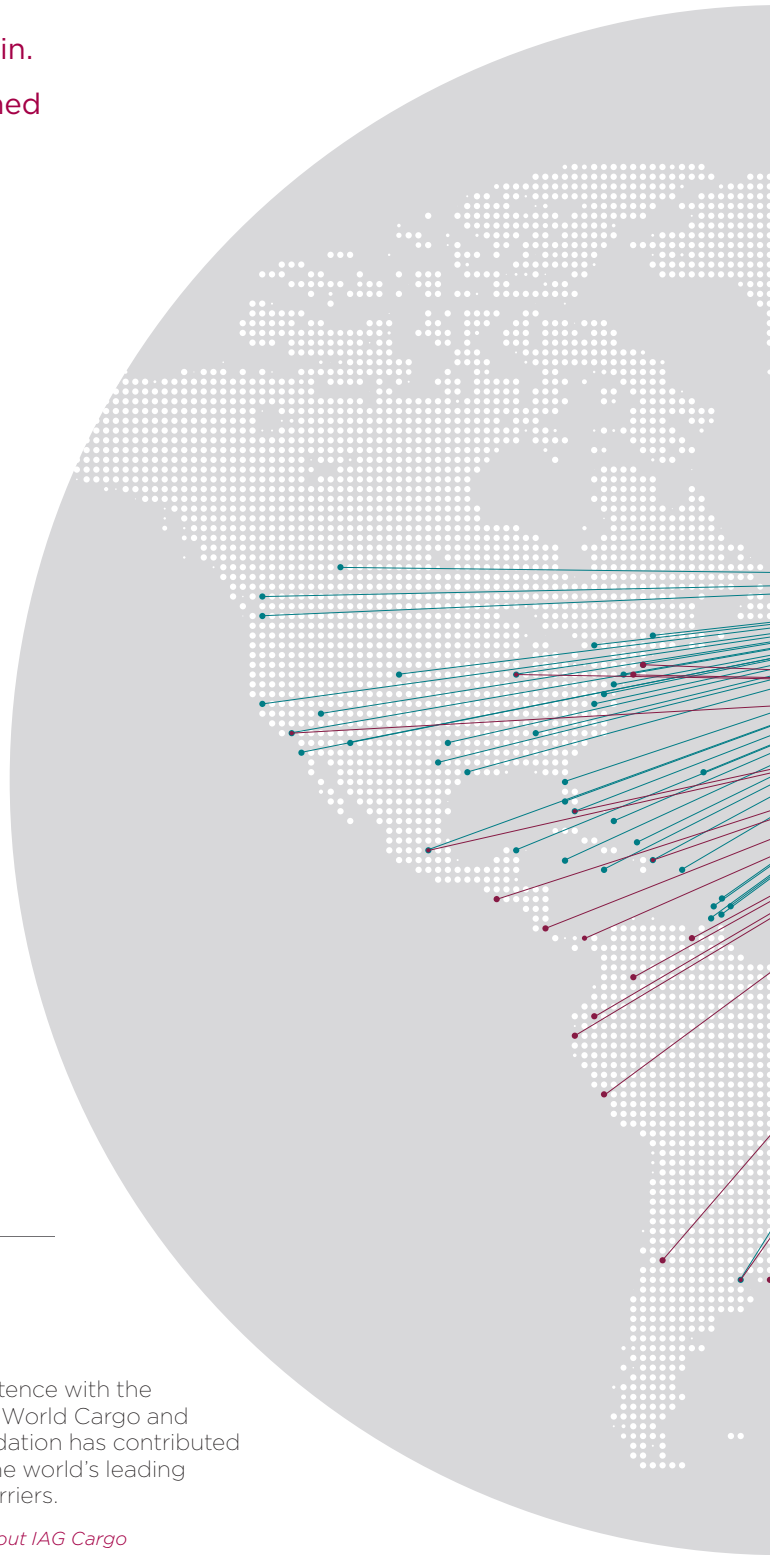
Avios is our shared global reward currency used by IAG reward programmes: the Avios Travel Rewards Programme in UK and South Africa, British Airways Executive Club, and Iberia Plus.

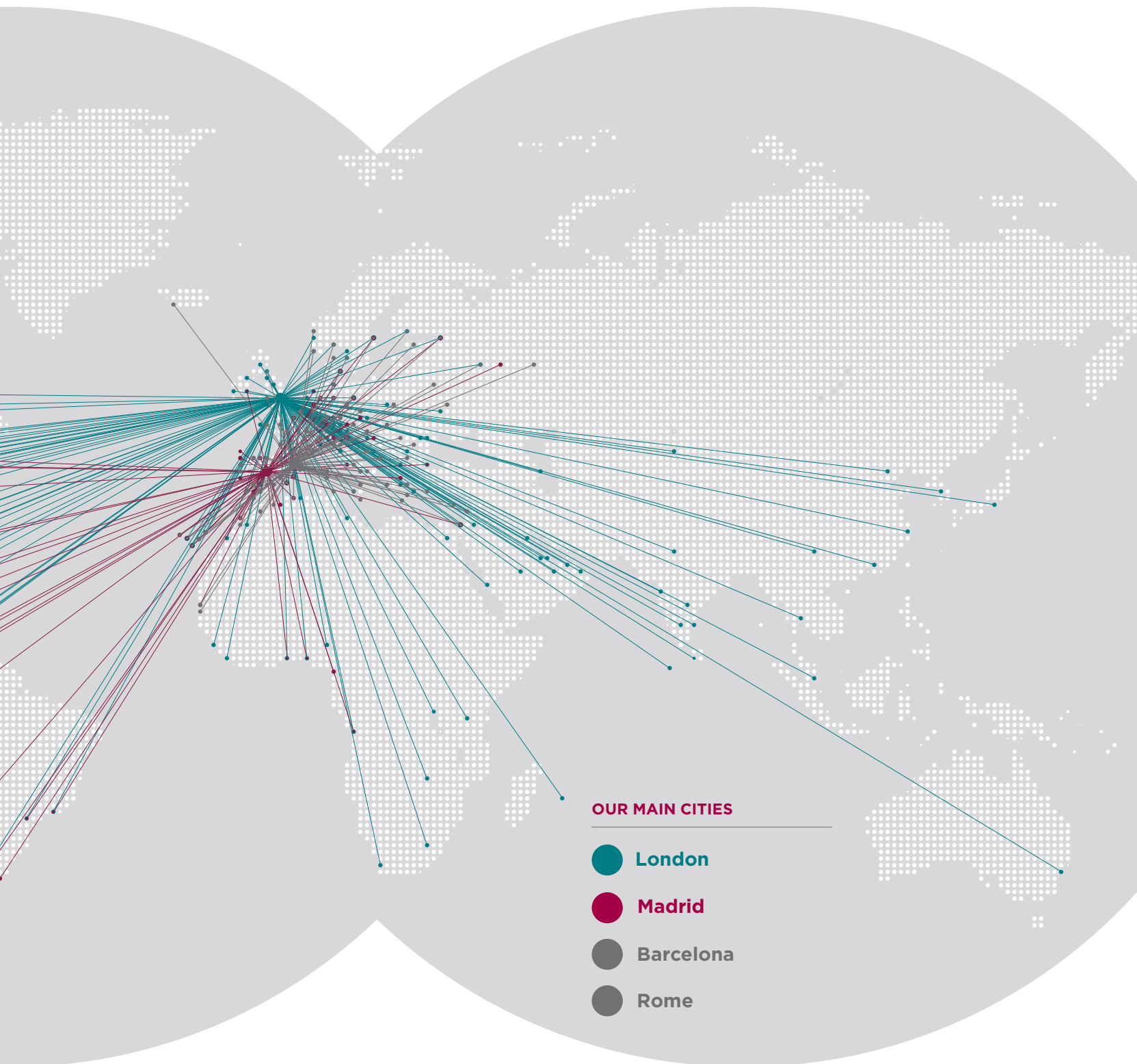
 See page 21 for more about Avios

IAG Cargo

IAG Cargo came into existence with the merger of British Airways World Cargo and Iberia Cargo. This consolidation has contributed to its position as one of the world's leading international air freight carriers.

 See page 21 for more about IAG Cargo





CHIEF EXECUTIVE OFFICER'S REVIEW

2014 saw a shift in attitude to our industry and to IAG

"2014 was a year of really significant progress right across International Airlines Group and 2015 will see us build on that success."

Willie Walsh
Chief Executive Officer



Our aim last year was to clearly demonstrate that our initial plans for the business, set out in 2011, had not only been achieved but stood as a really solid foundation for further growth in 2015 and beyond.

We did that very convincingly and, looking back, I am really pleased with the progress we made during the year.

All three of our airline brands – British Airways, Iberia and Vueling – made significant strides forward despite all facing very different challenges and opportunities. It was particularly pleasing to see the turnaround at Iberia and its return to profitability.

We also improved the competitiveness of our Cargo business and strengthened our Avios customer loyalty programme. Work to improve the overall efficiency of the Group continued as well, not least with the establishment of our centralised back office function, Global Business Services (GBS) at a new centre in Krakow, Poland.

All this puts us in a very strong position and we move into our fifth year of operation firmly established as a truly global airline business. I'm delighted to say 2015 promises to be even more exciting than the year just gone.

Stretching targets

Some doubted the wisdom of setting out very clear targets for the business when we held our inaugural Capital Markets day in Madrid in 2011. But, despite some initial scepticism, the targets have gathered growing credibility as we've put our plans into action.

With increasing support from investors and shareholders, we raised the 2015 operating profit target by €300 million to €1.8 billion at the end of 2013 and I was very pleased to announce, along with our annual results in February, that we've raised the figure again. We now expect to achieve in excess of €2,200 million operating profit this year.

We have also set a series of longer-term targets for the business, including our goal to achieve an operating margin of between 10 and 14 per cent and a return on invested capital of not less than 12 per cent between 2016 and 2020. We've done this to support our long-held ambition to make sustainable dividend payments to our shareholders, as the Chairman has already described.

We made these stretching targets public to let the market know how we expect the business to perform over the coming years. Achieving them will

require unwavering discipline. But we are absolutely confident we can deliver.

The targets represent a challenge not just to IAG, but to the industry as a whole. Those airlines aiming for lower returns in years to come may well struggle to win investor support. They will be challenged in the future in a way the industry should have been challenged in the past.

Having said that, I believe the industry is in a much healthier financial position today than it has ever been, nowhere more strikingly than in the US. Other airline groups, like IAG, are determined to debunk the myth that this is an industry that can only make decent returns in good economic times. More and more airlines are looking to sustain margins through the economic cycle and I'm convinced the old pattern of boom and bust can be eradicated. Consolidation is playing its part in this, but so too is the arrival of a new generation of industry leaders focused on imposing real financial discipline.

Our unique model

The IAG business model – with a parent company overseeing independent airline brands – is standing the test of time and, if anything, increasingly sets us apart from competitors.

What makes it unique is the way we give our individual airline brands autonomy to manage their different challenges. We control the business where necessary, but otherwise leave the airlines free to move forward without becoming overly bureaucratic. It's a model that works extremely well and it's encouraging that competitors increasingly see it as one they would like to copy.

Operating in this way has also allowed us to extract significant and growing synergy savings, through the smart integration of the business and working collaboratively where it makes sense. I'm delighted to say we exceeded our €600 million target for synergy savings in 2014, eventually achieving gross savings of €633 million.

Many of the initial savings have come from fairly predictable economies of scale. But as we progress we are finding new ways to extract value from the business. A great example is the work

we are doing on common procurement of aircraft for the airlines in the Group. Starting with the Airbus A320, we are going beyond just selecting common airframes to looking at detailed specifications within the aircraft that offer us the chance to save cost and weight, improving both our financial and environmental performance.

Other airlines outside the Group are watching this work carefully and some have asked to join us in common procurement programmes. Whether that makes sense remains to be seen. However, we are keen in 2015 to explore such a programme with Qatar Airways, not only a valued **oneworld** alliance partner but also now a significant shareholder in IAG, with a near 10 per cent stake.

GBS is another example of smarter and more efficient working. Bringing together the routine transactional activities of the operating companies makes clear economic sense but also underlines the fact that we are a truly international Group – able to operate from anywhere, but determined only to work from places that are efficient. We have also created a dedicated digital team to serve the whole Group. Its job is to keep us abreast of rapid developments in this area while foraging for systems and platforms that might make a real difference to our airlines.

Our airlines

All three of our existing airline brands performed very well in 2014.

The turnaround at Iberia has been truly remarkable and it reflects great credit on everyone at the airline, under the

leadership of Luis Gallego Martín. While we've provided Group support for the restructuring, we've always argued that it would only be achieved if the people within Iberia did it for themselves. They've taken the initiative, tackled the challenges head on and have every right to feel incredibly proud of their achievements.

This is not just a financial turnaround. It's a transformation in terms of operations, quality of service, attitude, culture and confidence. The subtle rebranding of Iberia has also proved hugely popular with customers. The level of profitability is nowhere near where it needs to be yet, but they have made the first important step and we are convinced Iberia, as it pursues its *Plan de Futuro*, will contribute significantly to the long-term goals and value of IAG.

The people advancing our business

The day-to-day management of the IAG Group is carried out by the IAG Management Committee led by the Group Chief Executive Officer Willie Walsh. The Committee is responsible for the overall direction and strategy of the Group, the delivery of synergies and co-ordination of central functions.

Not pictured Executive Directors: **Willie Walsh**, Chief Executive Officer; **Enrique Dupuy de Lôme Chávarri**, Chief Financial Officer. See page 34 for our Board of Directors.

For full biographies of each member please visit iairgroup.com/govmanage



Keith Williams,
Executive Chairman of
British Airways



Luis Gallego Martín,
Chairman and Chief Executive
Officer of Iberia



Alex Cruz,
Chairman and Chief
Executive Officer of Vueling



Steve Gunning,
Chief Executive Officer
of IAG Cargo



Robert Boyle,
Director of Strategy



Ignacio de Torres Zabala,
Director of Global Services



Julia Simpson,
Chief of Staff



Chris Haynes,
General Counsel

Chief Executive Officer's review continued

Starting from very different positions, British Airways and our dynamic low-cost brand, Vueling, have also both made great progress in 2014. New aircraft have helped both to improve their performance, not least the A380s and Boeing 787s that entered service with British Airways during the year. We will continue to add to the three fleets in 2015 under our significant fleet expansion plans.

But what is significant is that all three airlines recognise they have much more to do. None of them is complacent and all three are focused on achieving new, more challenging targets in 2015 and beyond.

IAG Cargo – formed through the merger of British Airways' and Iberia's cargo businesses – also had a momentous year, beginning with the decision to stop operating dedicated, but loss-making, Boeing 747-8 freighter aircraft on global trunk routes. Instead we have now entered a profitable relationship with Qatar Airways, which has a sizeable freighter fleet offering us capacity on key routes, notably Hong Kong to Europe. The new arrangement has worked well in a volatile market, and we expect further progress in 2015.

I am really pleased too with the growing strength of our loyalty scheme, Avios, which is available to all the airlines in the Group and a number of other outside operators. Avios has gained great traction with customers and is firmly established as Europe's number one loyalty programme and one of the biggest in the world. While each airline in the Group remains the face of the scheme for its customers, extending it across the Group has transformed it into a first class, professionally managed scheme, with very significant scale and buying power.

Consolidation

We set up IAG with the express purpose of playing a lead role in the consolidation of our industry. Consolidation remains mostly focused within geographic regions and is likely to remain that way while ownership controls in some markets remain in place. We are a long way from the fully deregulated global industry I would like to see. It is also worrying to see protectionism rearing its head again,

notably in the US where some carriers complain the Open Skies arrangements are benefitting non-US airlines, most particularly the Gulf carriers.

We continue to look for opportunities, nonetheless, and our success to date has given us the confidence to look at adding a new airline brand to the business, namely Aer Lingus. Following its own restructuring, the Irish carrier has made impressive progress and it has built a particularly interesting Trans-Atlantic network, using Dublin as a hub. We think its business model fits very neatly with IAG and being part of the Group would, we believe, bring big benefits for both Aer Lingus and our shareholders.

Oil prices

On the face of it, lower oil prices should be a real benefit to our industry particularly at a time of continued growth in demand. It's certainly a big contrast to the last time they were this low, when the world was gripped by real worries about global GDP.

We've seen volatility in the price, which remained at around \$100 a barrel until September last year before dropping to around \$60 at the year end. That volatility has been made worse by currency fluctuations, with both the euro and sterling falling against the dollar, the currency we use to buy fuel. This has offset some of the benefit of lower oil prices. But taken together the situation is broadly positive for IAG.

However, it's essential we remain focused on profitability and on recovering some of the historic cost of higher prices. We will continue to offer customers great value for money, but that does not mean we will automatically pass on all the benefit we get because some of that return must go to shareholders who have supported us through tougher times and a period of significant investment in new aircraft.

It is, we think, unlikely that airlines will use the excuse of lower prices to extend the life of old aircraft or to bring grounded planes back into service, not least because of the significant maintenance costs that it would involve. Nor do we see any evidence of carriers throwing huge

amounts of extra capacity onto the market, as they have done in the past. The current sharp dip in prices is likely to be relatively short-lived and we must continue to control costs and capacity.

Environment

It's equally important that we continue to reduce our environmental impact. Some sceptics think the industry uses low oil prices as an excuse to row back on commitments. That cannot happen.

As a Group we are tackling our impacts, not just because we have to, but because we want to. I was delighted to see that we reduced our emissions last year by 2.2 per cent, thanks to the introduction of new, more fuel-efficient aircraft and improved operating procedures. We will continue to work hard at these commitments and other important initiatives, such as British Airways' joint business with Solena to create a truly sustainable bio-fuel.

Looking ahead

IAG is in very good shape at the beginning of 2015. But, as our long-term targets clearly indicate, we have much more to do to get the business to where we want and need it to be.

I'm absolutely confident we can do that, thanks to the tremendous skill and dedication of people right across IAG. We have a fantastic team within the Group and are adding new talent from outside where and when we need to. And we have a business model that is proving both successful and highly resilient. We can afford to feel confident as we go forward.



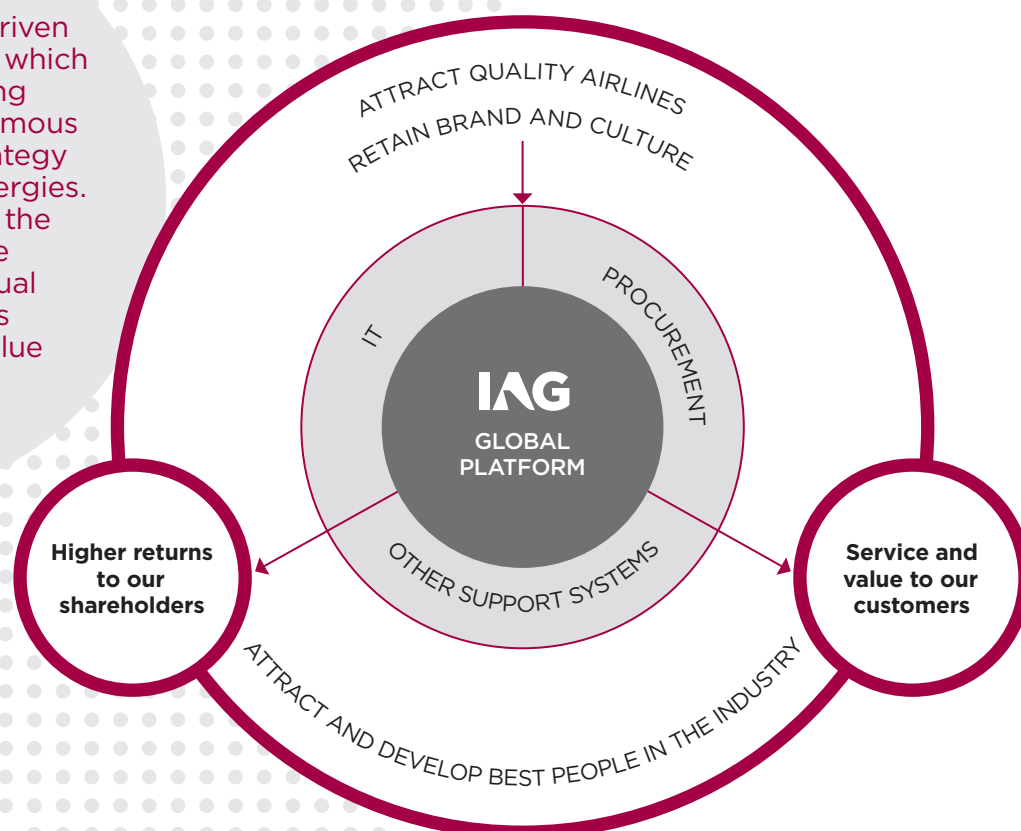
Willie Walsh

Chief Executive Officer

BUSINESS MODEL AND STRATEGY

Creating value across the whole portfolio

IAG's performance is driven by its unique structure which supports each operating company as an autonomous unit, whilst leading strategy and driving Group synergies. This approach enables the Group to be responsive to the needs of individual markets and customers whilst capturing the value of group scale.



Consolidation continues to gather pace:

- Increasing concentration through mergers, acquisitions and joint ventures is evident, especially in mature markets
- The leading players are progressively demonstrating superior financial results
- A half dozen or so airline groups have sufficiently diversified exposure to various regions to be considered global
- Some airline groups are successfully incorporating diverse business models and multiple brands, offering choice to customers and catering to a broader market
- Cost advantages increasingly apparent from scale

IAG's structure balances profit accountability for operating companies with group added value:

- Revenue synergies programme continues to exceed the targets
- Cost synergies transitioning to a higher level of ambition; in particular through procurement and central business services
- Flexible capital deployment a priority: already executed for incoming narrow-body fleet through a common specifications programme
- Opportunity to drive customer loyalty across a portfolio of relevant brands
- The governance model and lean parent company structure retains flexibility and facilitates further acquisitions

IAG's philosophy remains that retaining the core assets of brands and products in each of its operating airlines is important to leveraging customer loyalty. A disciplined approach to evaluating future inorganic growth opportunities has been maintained. IAG's six core strategic objectives remain in place and progress is evident across the board.



See page 17 for more about
Fleet Harmonisation



IAG continues to believe that retaining and nurturing the core assets of brands and products in each of its operating airlines is important to maintaining valuable customer loyalty.



See page 8 for more about
our brands and networks

Leadership in IAG's main cities

British Airways and Iberia have strengthened their leadership in London and Madrid respectively. British Airways added five destinations and grew capacity above market by 5.9 per cent over the year. Iberia, in the middle of its Transformation Plan, added eight new destinations and increased capacity by 3.6 per cent. Of Iberia's expansion, one-third was from its fast-growing new generation operating entity, Iberia Express. In 2014, Vueling grew by just under 13 per cent out of its main base, Barcelona, and added 33 destinations. Vueling has become the second carrier in Rome with nine aircraft and more than 40 destinations.

Leadership across the Atlantic

The merger between American Airlines and US Airways provided significant capacity growth to the Atlantic Joint Business (AJB) in 2014. The addition of two major connecting hubs at Philadelphia and Charlotte provides the Group's customers with even more destinations and routing options. In total, revenue growth in the AJB was 20 per cent, growing North Atlantic seat capacity share from 22 per cent in 2013 to 26 per cent in 2014. Iberia's rebranding and return to growth have borne fruit. IAG capacity share to South America increased from 21 per cent to 22 per cent. The order for Airbus A330-200 aircraft signalled Iberia's intention to grow frequency into current markets and to enter new markets in its core longhaul region. IAG remains the leading transatlantic airline group.

Stronger Europe-to-Asia position in critical markets

In 2014, IAG continued to benefit from the recent addition of Qatar Airways, Malaysia Airlines and SriLankan to **oneworld**. British Airways and Iberia now provide their customers a far wider network into Asia. These new partners' passengers now have access to the Madrid and London hubs for travel into Europe, North Africa and across the Atlantic. British Airways announced Kuala Lumpur as a new destination for 2015 and the Airbus A380 was deployed on Singapore and increased frequency on Hong Kong. Timings to Tokyo Haneda have been improved. Finally, the addition of the Boeing 787 has allowed British Airways to increase Hyderabad and Chennai services to a daily frequency. Finally, IAG Cargo let go of the Group's remaining freighter capacity and has broadened reach into Asian markets, at lower risk, with an innovative partnership with Qatar Airways Cargo.

Grow share of Europe-to-Africa routes

During 2014, IAG responded to volatility in Africa, flexing capacity in response to market and competitive conditions. British Airways added capacity into Accra, Nairobi and Johannesburg. In parallel, it suspended operations to Freetown and Monrovia. Looking ahead, British Airways will consolidate the daily Airbus A380 to Johannesburg and will improve the schedule of its service to Mauritius. Iberia also adjusted its network, ceasing operations to Cairo and Rabat whilst introducing a wide body product to Luanda with the new Airbus A330-300. In 2014, Vueling increased its African routes from 10 to 13 and further announced Rome – Marrakech and Mallorca – Algiers for 2015.

Stronger intra-Europe profitability

With Vueling in the portfolio, IAG grew the number of passengers carried on its intra-European network from 47 million in 2013 to 57 million in 2014. IAG's narrow body aircraft fleet of 284 continues to grow; primarily in the two low cost entities, Vueling and Iberia Express. IAG made significant progress in 2014 in the performance of its more traditional shorthaul networks out of London and Madrid. In 2014, IAG completed its narrow body fleet harmonisation programme. Starting

in 2015, incoming Airbus A320 family aircraft will share almost all core specifications across airlines. This will not only reduce procurement and maintenance costs significantly but also add flexibility to delivery schedules and facilitate the movement of capacity and capital within the Group.

Competitive cost positions across our businesses

The growth of Vueling and Iberia Express in 2014 coupled with strong Group initiatives to reduce future

narrow body operation costs provides IAG with one of the leading shorthaul cost structure among Europe's network carriers. In longhaul, the new generation aircraft in British Airways and the growth in Airbus A330 capacity at Iberia are reducing unit costs. Continued steady wide body fleet changes in 2015 and beyond will continue to have a positive effect. The synergy programme led by IAG continues to exceed its targets in terms of cost reductions.



OUR SYNERGIES

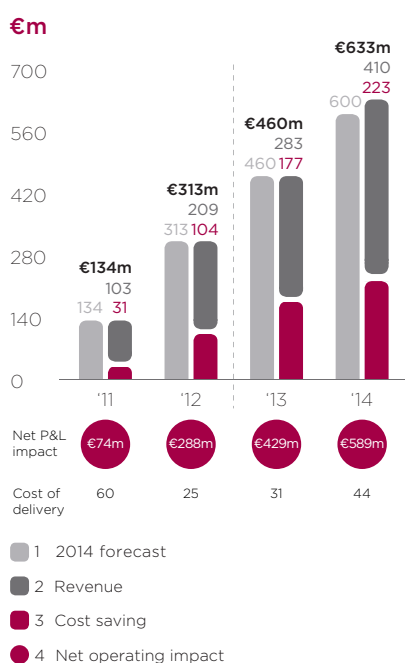
Creating value for our stakeholders

In 2014 the synergy teams have continued to focus on delivery of many core projects whilst advancing with longer-term changes under our Global Business Services (GBS) banner, covering areas such as IT, Financial Services and Procurement.

IAG SYNERGY PROGRAMME

€589m

2014 net operating impact



IAG's forecast for 2014 of €600 million gross synergies has been exceeded, with synergies reaching €633 million or €173 million year over year increase. The Group also increased its 2015 target from €650 million to €700 million.

Passenger revenue

A wider choice of trip combinations introduced for passengers, and sales teams integrated to increase revenue generation.

- Completed sales force integration in France, Germany, Italy, and Brazil
- Introduced a Group approach to selling in Italy, capturing benefits for British Airways, Iberia and Vueling
- Introduced further codeshares across the Group
- Launched new generation selling, using internal automated digital application
- Concluded Global Distribution Systems (GDS) deals with three major providers
- Enhanced combinability, leveraging IAG network and selling optimisation through all channels
- Implemented additional revenue management best practices
- Commenced new joint ancillaries and extended loyalty combined products (Hold for Booking, Pay with Avios)

Maintenance

The focus of the work has been to improve cost competitiveness of services to the Group's airlines, while maintaining high quality.

- Commenced the insourcing of the engine overhaul business (V2500)
- Signed a Group-wide landing gear contract
- Using internal resources to optimise heavy checks and painting on shorthaul across British Airways and Iberia

Global Business Services

IAG established GBS as a separate business in 2014, including initially the three areas of IT, finance services and procurement.

IT

- Simplified the IT structure, centralised IT and commenced a transformation plan
- Standardised the server estate
- Implemented new selling solution for IAG Cargo
- Reviewed all areas of IT to begin to consider strategies for greater leverage

Finance services

- Completed transfer of finance transactional services to a Business Process Outsourcing (BPO) partner based in Chennai and Bucharest
- Concluded the target operating model design to improve the efficiency and effectiveness of other finance processes including tax, treasury and decision support
- Recruited the first Krakow Operating Centre finance teams, who will have a global process remit

Procurement

- Created a centralised Procurement Leadership team
- Established Group Procurement Operations Centre in Krakow, where the Group will centralise day-to-day procurement operational and transactional activities
- Launched specification review across contracts
- Creating single sourcing contracts in areas such as catering, call centres, in flight entertainment and ground handling

Fleet

- Created a single specification for the Airbus A320 family and Airbus A350 across the Group to reduce lifetime costs of maintenance and inventory holdings. This creates the opportunity to move aircraft easily and quickly across the Group airlines
- During 2014 IAG has again secured firm orders and options for new and replacement aircraft; and has benefited from a reduction to list prices based on the size and scale of the order

FLEET HARMONISATION

Low operation cost, lean and flexible capital expenditure

IAG has defined a common Airbus A320 specification across its airlines. The programme's key objective was to harmonise the shorthaul fleet in all areas of cabin and systems configuration.



IAG's A320 fleet

IAG currently operates a large family of Airbus A320 aircraft at multiple airport bases. Having secured a future narrow body order of around 200 units, this provides a clear path towards common specification within the Group.

This process of harmonising the shorthaul fleet will take between seven and ten years, from 2015. The common specification was defined initially for the Airbus A320 but is also being extended where possible to sub-fleet models which include the Vueling Airbus A321s and any future Airbus A319s that the Group may select.

Changes

From an avionics and systems point of view, the fleet initially consisted of 150 items across 108 categories which are either weight (e.g. component) or cost driven (e.g. software upgrade). All items were shared by two or by all operating companies within the categories. Post harmonisation, all are shared as IAG either removed unnecessary items or aligned to the lowest basic item.

From a cabin point of view, IAG has harmonised the front and rear galley, the entrance areas, flooring and the cabin attendant seats and coverings. All lavatories and their respective interiors and the cabin are now identical and all signage has been harmonised and where possible pictograms used. Emergency equipment locations are also being aligned to simplify transferability. Additional items were only added provided they did not impact the interoperability needs of the Group.

Procurement savings

Aircraft purchase cost has been reduced by between €0.5 million and €1 million of which 40 per cent is due to the removal of avionics and systems, 30 per cent due to cabin definition simplification and the remainder through the procurement process.

Ongoing advantages

Weight reduction:

- In terms of weight each aircraft will be between 220 and 470 kilograms lighter where roughly 100 kilograms is due to removed items and the remainder due to lighter generation seats. This translates into ongoing savings of up to €45,000 per aircraft per year in reduced fuel burn and reduces emissions.

Reduced capital intensity:

- Maintenance activities required with fewer items selected and ongoing operational performance.
- Decrease conversion time: harmonisation of the aircraft configuration will reduce future modification requirements, with strategically placed items reducing the effort required to convert an aircraft to an operating company's individual specification.
- IAG estimates that the time to move aircraft between airlines is between seven and eleven days.

Greater flexibility:

- The ability to shift capital between operating companies with minimum time and expense is the main objective where specification differences are brand related, with the exception of a few key items which are necessary for specific operations.

IAG'S A320 FLEET



CONSOLIDATING BRITISH AIRWAYS' POSITION

Continued growth trajectory to £1.3 billion and beyond

Overview

British Airways' business plan targets £1.3 billion of operating profit in 2015 (c.10 per cent margin), with 2016-2020 profitability consistent with IAG's long-term planning goal of 10 to 14 per cent margin. This is underpinned by:

- structural improvements to the cost base and synergy benefits;
- fuel efficiency improvements;
- customer satisfaction and operational performance;
- focus on shorthaul profitability;
- opportunities to grow the longhaul network profitably;
- expansion of and greater co-operation within our alliance relationships; and
- initiatives to improve revenue.



"Customer numbers in 2014 were the highest for more than 10 years and our brand continued to strengthen. We are creating a good platform for further profitable growth in the future."

Keith Williams,
Executive Chairman of
British Airways

Cost improvements

To ensure British Airways continues to be financially robust and able to respond quickly to the ever-changing industry, management is committed to delivering significant structural change to the cost base. Reductions in non-fuel unit costs will come from all areas of the business including better ways of working and improved services from our suppliers. This will be supplemented by leveraging the potential of IAG including centralising certain back office functions and procurement savings, for example through joint contract tenders and rationalising to single specifications where possible. Management aims to reduce unit costs in each year until 2020.

Fuel efficiency improvements

British Airways continues to take delivery of new wide-bodied aircraft to replace its current fleet. This advanced technology is set to unlock significant fuel cost savings by 2020, whilst also contributing to British Airways' continued efforts to minimise its environmental impact. British Airways also targets fuel burn reductions through innovative methods of saving weight.

Customer satisfaction and operational performance

The customer remains at the heart of British Airways as we continue to optimise customer satisfaction and operational performance through service improvements, investments which matter most to the customer and the use of technology to enhance their journey. British Airways has invested in its Customer Response Team to better manage and recover from disruption. Punctuality improved in 2014 to 78 per cent (industry-standard within 15 minutes) and management aims to improve this further. Regularity rose to 99.3 per cent from 98.6 per cent.

Shorthaul profitability

British Airways is placing more emphasis on increasing revenue and profit contributions from shorthaul across the Heathrow, Gatwick and London City bases, to ensure the shorthaul business delivers a sustainable return on its own merit. Improvements include seat

densification which increases capacity by 6 per cent and a new interior that has resulted in improved customer satisfaction scores. Active management of the shorthaul network also contributes, with new off-peak leisure destinations replacing weaker business routes where this improves profitability. Consolidation to two terminals at Heathrow in 2015 will allow scheduling efficiencies and increased aircraft utilisation.

Longhaul growth

British Airways has the capability to grow the longhaul network, in part as a result of the 2012 bmi acquisition, but also through other slot purchases that can be used to provide additional resources for longhaul. Kuala Lumpur will be launched in 2015 and there are further opportunities for future growth. British Airways has also deployed B787s on routes to India; the smaller aircraft allows for greater frequencies and a more competitive schedule.

Alliance Joint businesses

The Atlantic Joint Business (AJB) now incorporates the merged American Airlines and US Airways, adding 27 transatlantic routes and nine European destinations to the AJB's network. Since March 2014, the AJB has offered a flatbed guarantee in business class from London to New York, putting it on a strong competitive footing. British Airways will continue to seek to deepen other partnerships through the extension of codeshare relationships and development of joint businesses. The airline is committed to the future development of the **oneworld** alliance, which welcomed TAM in 2014.

Revenue

The airline continues to invest in technology, which is a key element of revenue growth, allowing British Airways to better understand and respond to the customer's needs throughout the customer journey. In 2014, British Airways expanded hand-baggage only and Avios part payment fares to offer customers a greater range of fare options, and strengthened its business proposition for small and medium enterprises.

THE IBERIA OF THE FUTURE

Iberia is taking off. Get on board

Background

Iberia is recovering well from a critical situation caused by a challenging economic environment as well as Iberia's own structural issues. This combination resulted in a performance gap to our peers and financial losses since year 2008.

Iberia's turnaround started with the launch of a Transformation Plan in November 2012 to stop Iberia's operating cash burn and achieve a competitive cost base.

Plan de Futuro

Iberia launched the new *Plan de Futuro*, the next step in its turnaround, to build a sustainable and profitable future. *Plan de Futuro* comprised 30 initiatives across all key areas of the company, built around five principles:

- solid revenue base;
- simplicity and flexibility in order to reach a best-in-class cost position;
- sustainable competitive positioning;
- profitable complementary businesses, and
- new company culture.

Plan de Futuro initiatives have allowed Iberia to reach a positive operating profit in 2014, as well as enabling to resume and launch services to Athens, Istanbul, Amsterdam, Stockholm, Stuttgart, Hannover, Montevideo, and Santo Domingo after the reduction of capacity made in 2012.

Moreover, all of this was achieved whilst improving the company's operational performance, becoming the world's third most punctual airline in 2014¹.

Commercial transformation

Within the context of *Plan de Futuro*, Iberia continued with its brand, product and service transformation leading to a radical change in customer's perception, translated into a NPS² improvement above 10pp.

Iberia also upgraded its revenue management operations with the implementation of industry best-practices as well as developing complementary flight services including the introduction of a new fare structure for domestic and European flights.

Structural labour agreements

During the first quarter of 2014, long-term labour agreements were reached with all employee groups achieving productivity and flexibility levels in line with best in-class competitors. Following these agreements, a new Redundancy Plan³ was signed with the unions in July 2014 that allows 1,427 exits additional to the 3,141 exits from the March 2013 Mediation Agreement.

Including all the available exit mechanisms, it is expected an overall headcount reduction of up to 5,471⁴ employees of which 71 per cent has been achieved during 2014 and the remainder is expected to be completed during 2015⁵.

The agreements are well above the initial targets envisioned in the November 2012 Transformation Plan and ensure a positive labour environment that provides a strong foundation for a sustainable profitable growth and should allow Iberia to reduce its employee unit cost by approximately 35 per cent in the medium-term.

Fleet renewal

On the back of the new *Plan de Futuro* cost base, Iberia launched in July 2014 the renewal of its longhaul fleet, aimed to increase flexibility and capture significant fuel savings.

Iberia ordered eight new-generation Airbus A350 and eight Airbus A330 aircraft to be delivered between 2015 and 2020 to replace its Airbus A340 fleet. Iberia also received in 2014 five new aircraft, three Airbus A330 and two Airbus A320 from previous orders.

The Iberia of the future

Iberia's 2014 *Plan de Futuro* represents a fundamental transformation towards a more competitive, sustainable and profitable business model. *Plan de Futuro* will strengthen Iberia's advantage as the leading carrier to Latin America and allow exploring opportunities in other high growth markets, building on Iberia's strengths:

- leadership in Madrid hub and Spain;
- efficient shorthaul for both connecting and point-to-point traffic;
- simple and cost-effective operations;



"Plan de Futuro is delivering now and setting the basis of the Iberia of the future".

Luis Gallego Martín,
Chairman and Chief
Executive Officer of Iberia

- competitive product and customer experience;
- and the operating, financial and strategic benefits of being part of IAG.

Following the return to profitability, 2015 and 2016 will see the full benefits from the productivity improvements which is just the first step towards achieving Iberia's and IAG's ambitious long-term targets:

- solid margins from 2017 onwards (10 to 14 per cent lease adjusted operating margin, 12 per cent plus return on invested capital);
- significant equity free cash flow (€200 million to €300 million from 2017), and
- strong growth prospects (6.5 per cent annual growth rate⁶).

- 1 According to Flightstats Global Airlines ranking.
- 2 Net Promoter Score measures difference between promoters (9-10 grade) and detractors (0-6 grade).
- 3 Expediente de Regulación de Empleo, (ERE), voluntary basis; 1,427 represents the maximum number of exits.
- 4 Comprises 3,141 exits from the Mediation Agreement, up to 1,427 from the new Redundancy Plan and 903 other exits
- 5 Audiencia Nacional ruling on 9 December, 2014 confirmed Iberia's new ERE but limited its application period to 31 December 2015
- 6 Projected annual ASK growth for period 2015-2020.

VUELING

IAG's profitable shorthaul growth tool



"Vueling team continues to deliver a strong performance in an ultra-competitive environment"

Alex Cruz,
Chairman and Chief
Executive Officer
of Vueling

LOW-COST

- Single aircraft model
- High crew productivity
- High fleet utilisation
- Short turnarounds
- Low cost base
- No crew night-stops
- High punctuality
- Ancillary revenue

vueling

HIGH-SERVICE

- Excellence class: VIP lounge, free catering, empty middle seat
- Connecting flights
- Frequent flyer program
- Codeshare agreements
- Flexible fares
- Multiple daily frequencies

Vueling remains a high growth profitable tool for IAG. Vueling has increased capacity by 24 per cent in 2014 and continues to see profitable opportunities for growth in 2015. Vueling is well positioned to deliver a positive performance, based on its competitive advantages which are cost discipline, premium service and flexibility.

Cost discipline

Vueling is committed to maintaining its cost structure, which is one of the lowest among short and medium haul European carriers. The airline has developed a sustainable model, implementing an ongoing annual saving programme of cost reduction initiatives that contributes to offsetting inflation and other price increases. Moreover, Vueling is now taking steps to introduce new cost reductions in co-operation with IAG in the following areas:

- **Maintenance.** Opportunity to reach a better maintenance, repair and other services (MRO) service scenario
- **Purchasing.** Joint purchasing processes with IAG are contributing to improve efficiency
- **Fleet.** New aircraft order will reduce Vueling's fleet costs. IAG's size enhanced Vueling's aircraft deal.
- **Handling.** *Aeropuertos Españoles y Navegación Aérea* (AENA) ground handling license renewals offer an opportunity to improve costs

Premium service and network

Vueling is ahead of its competitors in offering a premium service. The airline already offers a number of premium services to its passengers. Vueling's product offers value-added services:

- **Transfer passengers.** Since 2010 Vueling is connecting flights in Barcelona airport and in 2014 Vueling started offering connecting flights in Rome Fiumicino
- **Frequent flyer programme.** Vueling currently has its own Frequent Flyer Programme (Punto) and offers Avios to Iberia Plus members.
- **Interline agreements.** Vueling has interline agreements with several airlines and in 2014 signed with Qatar Airways
- **Codeshare agreements.** Vueling has codeshare agreements with Iberia and from 2014 with British Airways
- **Excellence class.** Vueling offers premium services in its Excellence class, including, empty middle seat, access to VIP lounges, free catering, and exclusive check-in counter.
- **Onboard Wi-Fi.** Vueling will start introducing Wi-Fi on-board in 2015.

Furthermore, Vueling plans to continue improving its premium service by introducing a premium area in the four front rows. This premium area will include more legroom and priority boarding.

In 2015 Vueling will continue strengthening its leadership in Barcelona, where it has the largest shorthaul network in Europe, by operating more than 150 routes. Vueling will continue expanding its activity in Rome-Fiumicino, where it will offer more than 60 domestic and international destinations in 2015.

Flexibility

Vueling has flexibility to deal with a challenging environment. Vueling's fleet plan is designed to allow flexibility and to improve efficiency. Vueling manages seasonality with flexibility in fleet, maintenance planning and route scheduling. The new pilot collective agreement signed in 2014 increases flexibility while ensuring a high productivity level.

AVIOS AND IAG CARGO

Delivering benefits for our customers

Avios

In 2014 Avios, IAG's single reward currency reached an important new milestone in welcoming Meridiana and Flybe to the Avios ecosystem as the first non-IAG airlines to issue Avios as part of their own programmes. Customers can now collect and redeem Avios with these airlines which add complementary new routes to the existing Avios network and bring greater market relevance.

Avios continues to innovate with new ways for customers to use their Avios and bring value to airlines; one example of this is through the successful 'Pay with Avios' product. This option accounts for an increasing proportion of the flight redemption activity and provides an attainable way for members to discount flights using Avios. Due to the popularity of 'Pay with Avios' on shorthaul routes, the option has also been extended to selected longhaul routes.

Avios has focused on developing collection opportunities for customers in ecommerce. Comparison websites are an important element of this with Rocketmiles and Topcashback introduced as new collection options. New digital travel partnerships include Hailo and Zipcar, which increase Avios' share of travel spend.



"The Avios currency won 'Best Loyalty Programme of the Year - Travel' at the Loyalty Awards in June 2014, in recognition of its continued success."

Gavin Halliday,
Managing Director of Avios

Avios also launched the Avios Flight Finder app for iOS, which clearly and quickly displays the British Airways reward flight availability from London over the following 355 days. This enables customers to book on their mobile or tablet and strengthens Avios' digital proposition.

For more information go online:
www.avios.com

IAG Cargo

In 2014, IAG Cargo focused on the rollout of its strategy to be the leading air cargo network following the successful integration of the British Airways, Iberia and bmi air freight businesses. Building on the foundation of a new business operating model which includes a single commercial platform and a unified network, the business was able to increase its focus on exploiting the bellyhold capacity of the IAG passenger aircraft.

A strategic review acknowledged the importance of growth in premium products and services (such as express and temperature sensitive goods), aggressive cost efficiency and the need to deliver against regionally differentiated strategies.

The review also reinforced the need for a disciplined approach to capacity. The lease agreement for three Boeing 747-8F aircraft was terminated and in order to retain IAG Cargo's strategic position on the Hong Kong to London trade lane, a ground breaking freighter capacity agreement was entered into with Qatar Airways. New aircraft added valuable cargo capacity and provided advanced bellyhold technology.

A critical element of ensuring the optimal return across the IAG network is a fully integrated revenue and capacity management function. To this end, a new revenue management system, Optima, was successfully implemented through 2014 which has enabled IAG Cargo to allocate capacity and set price more efficiently thereby optimising contribution.

Further development of our Partner Plus programme offered customers access to an even greater network



"IAG Cargo goes from strength to strength; industry-leading innovation resulting in strong contribution performance."

Steve Gunning,
Chief Executive Officer
of IAG Cargo

through partner airlines. The number of members in the programme grew in 2014 with the addition of Finnair, continued expansion is planned for 2015.

In November, EuroConnector 24 and 48 was launched, offering customers time-definite options for shipping freight from, into and around Europe hence increasing the utilisation of the extensive narrow body fleets of British Airways, Iberia and Vueling.


IAG Cargo also invested in products in order to meet the needs of a wide variety of industries, from pharmaceuticals to perishables and fashion. This included a number of significant infrastructure upgrades to Premia, the Heathrow premium freight handling facility and to the Constant Climate network, enabling the transportation of temperature-sensitive air cargo such as vaccines and insulin to over 100 certified stations.

In 2014, the merger integration of IAG Cargo was completed. The business grew its bottom line contribution and developed its customer offering, positioning it well for the future.

For more information go online:
www.iagcargo.com

KEY PERFORMANCE INDICATORS

Advancing on our targets to achieve our goals



IAG uses clear and objective financial targets across our operating companies to support the delivery of our long-term goals.

IAG established long-term planning goals for the Group with the aim to deliver sustainable cash returns to its shareholders. These long-term planning goals are summarised in three categories:

- **Improving profitability** – Measured through EBITDAR generation, target operating margins and ultimately return on invested capital.
- **Efficient growth** – Balancing capacity (ASK) increases and earnings per share growth.
- **Managing cash flow** – Maintaining appropriate equity free cash flow levels, balancing capital expenditure and improving our gearing rating to achieve investment grade; and

The long-term planning goals are determined as part of the Group's Business plan process with a focus on progressing in our strategic markets. See page 13. The Business plan is based on a number of assumptions relevant to our industry, including economic growth in our strategic markets, fuel price and foreign currency. The goals and targets of the Group are therefore subject to risk. For a list of the risks to our business, see page 87.

To support the delivery of the long-term goals, IAG sets stretching financial targets annually for each operating company. The combination of the targets and long-term planning goals

drive the Key Performance Indicators (KPIs) used by the Group to monitor progress against its aims.

The Group's performance against the KPIs is measured on a regular basis by the Management Committee and their remuneration reward is linked to the achievement of the targets and long-term planning goals. In 2014, the financial element of the annual incentive award was based on IAG's operating profit performance, while the performance share plan which is used to incentivise long-term shareholder value creation was based on EPS performance and on total shareholder return relative to the MSCI European Transportation Index. See page 51.

The operating companies set non-financial KPIs, such as punctuality and customer satisfaction, which are used to measure their operating performance. The non-financial KPIs are reviewed regularly by the management teams of each of the operating companies, and by exception by the IAG Management Committee.

Changes to KPIs

From 2011 to 2013, the Group also considered the delivery of its synergies programme as a key performance indicator. As the Group matures the synergies have become embedded in the results of the operating companies and are no longer monitored separately.

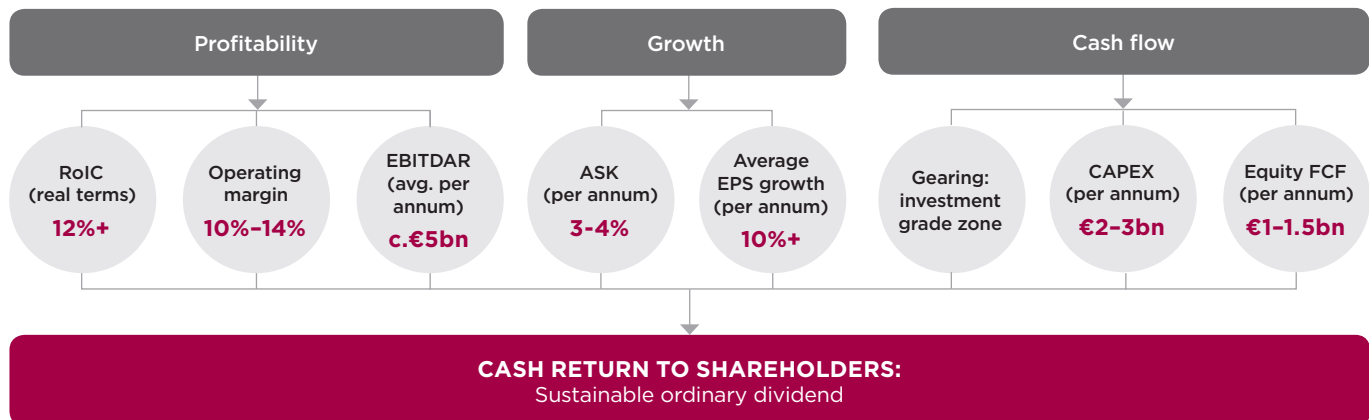


See page 51 for more about Shareholder Returns



See page 87 for more about Risk

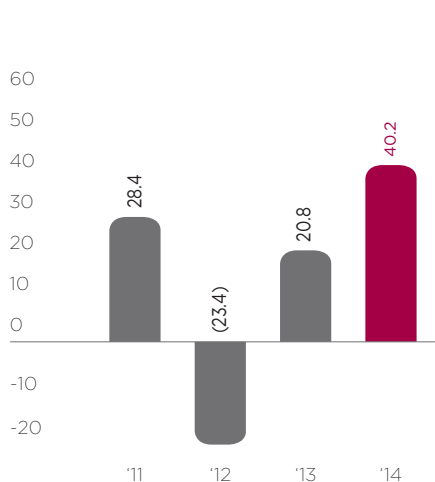
LONG-TERM PLANNING GOALS 2016 - 2020



EPS

40.2 €cents

Up 93.3% from 2013

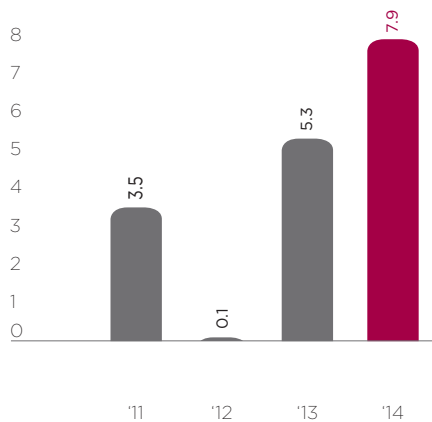


Profit before exceptional items, after tax adjusted for earnings attributable to equity holders for interest on the 2018 convertible bonds, if dilutive. IAG has continued to use EPS and RoIC as its key financial targets reflecting the core elements of value creation for its shareholders. Shares are based on the weighted average number of ordinary shares, adjusted for the dilutive impact of the assumed conversion of the bonds and employee share-based payment schemes outstanding.

RoIC

7.9%

Up from 5.3% in 2013

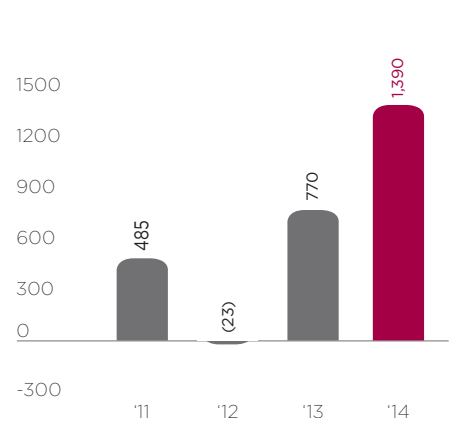


ROIC calculation: EBITDAR less adjusted depreciation divided by invested capital. Adjusted depreciation is calculated as reported depreciation multiplied by an inflation factor $((1 + \text{asset inflation})^{\text{asset age}})$ plus adjusted aircraft operating lease costs (adjusted aircraft operating lease costs multiplied by 0.67). Invested capital is calculated as depreciation multiplied by remaining asset life.

OPERATING PROFIT

€1,390m

6.9% operating margin



Group operating result before exceptional items.

CORPORATE RESPONSIBILITY

Managing our business in a responsible way



"The Group will continue to work collaboratively with the rest of the industry and with governments to ensure this sector has a sustainable future."

Air transport plays a vital role in global economic development and as a Group we are determined to make a significant contribution to that while operating in a responsible way for all our stakeholders and the environment. The Group will continue to work collaboratively with the rest of the industry and with governments to ensure this sector has a sustainable future. In 2014 we stepped up efforts across the Group on fuel optimisation. Helped by the introduction of 38 new aircraft and more efficient operating procedures, we saw an improvement in fuel efficiency compared with 2013. We continue to lead calls for a global deal to tackle aviation emissions and are working on several promising projects that will lead to the development of commercially viable sustainable fuels. Our consolidated group procurement function also continues to focus on procuring goods and services responsibly. We have always taken our duty to operate responsibly very seriously. As we grow, we will continue to do so.

Antonio Vázquez
Chairman

Role of aviation in society

As one of the largest airline groups in the world, IAG contributes to global economic prosperity connecting people, places, communities, and cultures. The connectivity airlines provide, which cannot be met by alternative means of transport, contributes to increased productivity and prosperity by encouraging investment, innovation and efficiency.

In 2014 IAG transported over 77 million customers and delivered 5,456 million tonnes of cargo kilometres. Total revenue was €20,178 million and the Group employed 59,484 people (average manpower equivalent).

Governance of Corporate Responsibility at IAG

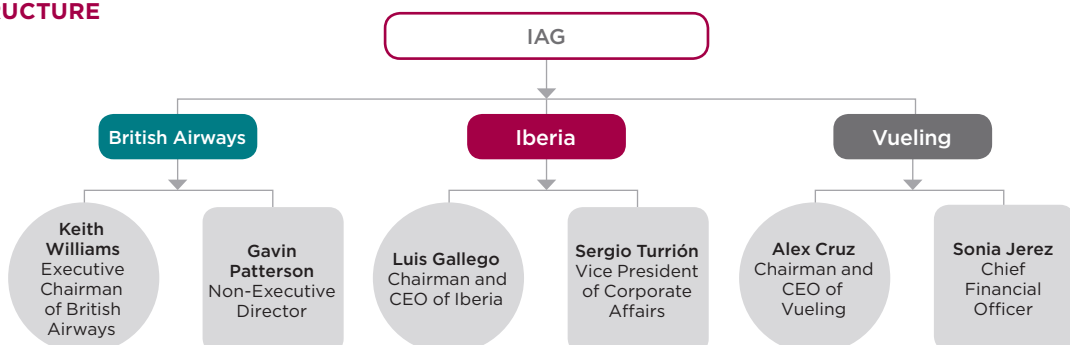
Strategic sustainability matters are reviewed through IAG's Board. Corporate Responsibility programmes are maintained under the control of each airline and their Boards. The IAG risk management process (see page 87 of this report) provides both assessment and action on risks in the area of Corporate Responsibility, such as climate change regulation, noise, waste and labour relations.

The management structure of Corporate Responsibility programmes across the Group is presented in the table below.

CORPORATE RESPONSIBILITY MANAGEMENT STRUCTURE

● Management

■ Direction and implementation



Stakeholder engagement

IAG maintains a dialogue with key stakeholders including shareholders, the investment community and governments. The Group has identified and engaged with relevant stakeholders, including customers, in a variety of ways. These include gathering customer insight, maintaining a dialogue with industry associations such as the International Air Transport Association (IATA), influencing policy makers and participating in local community engagement.

A specific example of our engagement approach is climate change regulation where IAG is at the forefront of efforts to secure a global climate deal for aviation with appropriate incentives for sustainable fuels, working through industry associations and with governments. IAG participates in the industry delegation to the International Civil Aviation Organization (ICAO) work programme on a global climate deal and will positively engage in the next phase of this process, concluding at the ICAO General Assembly in 2016.

Climate change

Climate change is the most urgent sustainability challenge facing our industry and IAG is determined to find solutions to address aviation emissions. In 2014 IAG's direct greenhouse gas emissions were 25.2 million tonnes of carbon dioxide equivalent (CO₂e). Our approach to climate change focuses on improving fuel efficiency, development of sustainable low carbon fuels and support for positive economic measures to achieve global emissions reduction targets. IAG's climate action programme supports its strategic objectives for long term sustainable growth.

The Group advocates carbon pricing through global carbon markets as the most cost effective mechanism to tackle aviation's emissions and this message was reiterated by the Group's Chief Executive Officer at the UN Climate Change Summit that took place in New York in September 2014. The Group calls on governments to introduce a global policy to cap growth in net aviation emissions from 2020. The Group is focussed on all avenues for carbon mitigation, including investment in new aircraft technology, operational fuel saving initiatives, development of sustainable low-carbon fuels, and direct assistance in climate research.

Fuel efficiency

Fuel efficiency and other environmental performance attributes were important factors in selecting the 38 new aircraft that entered the IAG fleet during 2014, including three Airbus A330s, four Boeing 787s and five Airbus A380s. These aircraft are significantly cleaner and quieter than the aircraft they replace. In 2014 the IAG combined carbon efficiency, expressed in grammes of carbon dioxide per passenger kilometre (g CO₂/pkm), was 98.2 g CO₂/pkm. This improvement, representing 2.2 per cent over 2013, was largely driven by fleet renewal.

IAG continues to improve coordination across the Group on operational fuel saving initiatives through a dedicated team of pilots and experts. In January, Iberia formed the Support Fuel Efficiency Group (GSEC), which is a platform for employees from across the company to discuss, develop and disseminate fuel-saving schemes throughout the operation. These range from the prevention of early auxiliary power unit (APU) start-ups to the continued pursuit of aircraft weight reduction. The GSEC's findings were published at the end of the year in the comprehensive Fuel Economy Guide.

Aircraft fleet – current and forecast

| | 2014 | 2013 | Future deliveries | Options |
|--------------------|------------|------------|-------------------|------------|
| Airbus A320 family | 271 | 238 | 93 | 182 |
| Airbus A330 | 8 | 5 | 8 | 14 |
| Airbus A340 | 24 | 24 | - | - |
| Airbus A350 | - | - | 26 | 60 |
| Airbus A380 | 8 | 3 | 4 | 7 |
| Boeing 747 | 43 | 51 | - | - |
| Boeing 767 | 14 | 20 | - | - |
| Boeing 777 | 58 | 54 | - | - |
| Boeing 787 | 8 | 4 | 34 | 28 |
| Other | 25 | 32 | - | 15 |
| Total fleet | 459 | 431 | 165 | 306 |

Corporate responsibility continued

2014 also saw the introduction of a dedicated fuel efficiency team within British Airways, which includes Flight Operations, Network Operations and Engineering.

British Airways and Iberia have started to implement a procedure whereby aircraft taxi out to the departure runway using one engine, with the

second engine being started just prior to take-off, reducing fuel consumption and emissions. Vueling has had the procedure in place since 2010. This is particularly effective at congested airports where taxi times can exceed 20 minutes. At British Airways, the first stage of the Electronic Flight Bag project is now complete, meaning that charts and maps are in a full electronic

format with all paper copies removed. This reduces on-board weight, as well as paper consumption. The Electronic Flight Bag project is also being implemented at Vueling.

The diagram below illustrates the range of CO₂ sources relevant to IAG.

OUR CARBON FOOTPRINT: SOURCES OF EMISSIONS IN OUR SUPPLY CHAIN



Sustainable low carbon fuels

IAG is committed to the development of sustainable fuels that provide tangible greenhouse gas emission reductions. The Group supports a range of projects with the IAG Fuel Procurement team working collaboratively with the respective airlines. During 2014, there has been steady progress on a number of projects and on our work with governments to introduce more supportive policies for sustainable aviation fuels.

In the UK, British Airways has participated in the development of the Sustainable Aviation¹ UK Road-Map outlining the potential for sustainable aviation fuels manufacturing and deployment. This work has identified that with the right policy and investment framework, UK aviation can reduce its CO₂ emissions by up to 24 per cent by 2050 through the deployment of sustainable alternative fuels.

The British Airways Solena Greensky project announced its chosen site to manufacture sustainable fuels from residual waste otherwise destined for landfill. Coryton, on the Thames estuary, was previously a fossil fuel refinery and the location has excellent transport and distribution links. The project is expected to begin construction next year with fuel production starting in 2017.

In Spain, Iberia participates in the Spanish government's collaborative programme "Bioqueroseno" which brings together fuel producers, government departments, airports and airlines to support the development of a Spanish sustainable fuels industry for aviation.

One of the most promising areas of fuel development involves the conversion of waste gases into fuels. Iberia's project with AlgaEnergy to develop

Sustainable fuels: Solena GreenSky project

Solena GreenSky is British Airways' flagship project to construct an advanced fuels facility that will convert around 500,000 tonnes each year of waste normally destined for landfill into 50,000 tonnes of sustainable low-carbon jet fuel, 50,000 tonnes of biodiesel and 20,000 tonnes of bio-naphtha. The process uses waste that is left over once all recyclable material has been removed and is usually sent either to landfill or to incineration. British Airways has committed to buying the jet fuel produced by the plant for eleven years. Through an off-take agreement, equating to US\$550 million at today's prices, we will also be an investor in the project. The British Airways off-take agreement represents the largest advanced biofuel commitment made to date by an airline. The British Airways and Solena partnership represents a significant investment in new green technology in the UK. It will provide an innovative sustainable green energy and low-carbon fuel solution for the UK's aviation sector.



a new fuel from microalgae is an example of the use of waste gases as a feedstock for sustainable fuels. The project is at a development stage and is using waste gases from Iberia's engine testing facility.

Climate research

Iberia is directly assisting in the EU climate science project, In-service Aircraft for a Global Observing System (IAGOS). The project involves fitting longhaul aircraft with scientific instruments to collect data about

chemical atmospheric composition, aerosols, cloud particles, and air quality at different altitudes and locations around the world. In March 2014, Iberia finished the installation of the measuring equipment on one of its Airbus A340-300 aircraft. During this year the plane made 270 flights mainly to Central and South America collecting data that is used by the scientific community to improve understanding of aircraft emissions. For example, INTA (Spanish National Institute of Aerospace) has applied for

¹ Sustainable Aviation is a UK industry coalition promoting initiatives towards the sustainable development of air transport.

Corporate responsibility continued

a project related to gas-aerosol interactions. A work package will focus on Boundary Layer effects around the Madrid Airports (Barajas and Torrejón). There are plans for a second package to be installed to measure other aspects of atmospheric chemistry such as NO_x, aerosols and greenhouse gases (CO₂, CH₄).

Noise and air quality

IAG continues to minimise the noise and ground emissions produced by its operations. IAG is achieving this in the short-term through use of best practice operational techniques, and in the long-term through fleet investment and collaborating with industry partners on operational and technological innovation. Operational techniques that have been adopted include the use of continuous descent approaches, and optimised approach flap settings as well as minimising aircraft ground emissions through reduced engine taxiing and minimising use of APUs.

In 2014, the noise and air quality performance of IAG's aircraft fleet improved, with 99 per cent of aircraft meeting the ICAO Chapter 4 technology standard for noise, and 92 per cent meeting the ICAO CAEP4 technology standard for Oxides of Nitrogen (NO_x).

During 2014 British Airways collaborated with Airbus, Heathrow Airport and air traffic control provider NATS on the Quieter Flying Partnership. New procedures for low noise departures and arrivals have been developed by the partnership, to be carried out in 2015. These test flights will demonstrate how advanced operational techniques, such as steeper segmented approaches can reduce noise under the flight path and are safe

and practical within London Heathrow's constrained airspace.

Waste and recycling

IAG aims to minimise waste, reduce disposal to landfill, and increase reuse and recycling. Where the Group cannot prevent the creation of waste as part of its operations, it will aim to manage its disposal responsibly, recovering energy and resources wherever possible.

Representatives of IAG are members of IATA's Cabin Waste Working Group, which aims to share best practice and continuous improvement, and to promote the recycling and reuse of this class of waste. As part of this group, British Airways participated in a detailed study of aircraft waste at London Heathrow in 2014. Iberia have also set up a task force to implement changes in the segregation and recycling practices on catering waste.

IAG airlines operate a range of initiatives to reduce waste and increase recycling. Initiatives include the Vueling collaboration with the non-profit organisation Nutrition Without Borders on a project to retrieve some items from crew meals (fruit, coffee, water) for redistribution in community kitchens, and the British Airways on-board recycling project whereby plastic bottles and aluminium cans are segregated on-board for recycling on certain flights.

Responsible procurement

IAG is committed to procuring goods and services from suppliers who can demonstrate ethical principles in the way they conduct their business. IAG engages with suppliers on standards of quality, safety, environmental responsibility and human rights. The established tender process includes a Corporate Social Responsibility (CSR)

questionnaire, our related policies and labour standards, to be reviewed by the contracting buyer.

In 2014, procurement activity within IAG and its companies was centralised.

IAG conducts business and builds relationships with suppliers who are committed to improving supply chain standards.

IAG also continues to strengthen its partnership with Sedex, a non-profit organisation dedicated to driving improvements in responsible and ethical business practices in global supply chains.

Safety

Each IAG airline received EASA Air Operators Certificates in October 2014 as part of the transition between EU Ops and EASA Ops. EASA Ops is designed to bring a common standard across European airlines and support a drive for continuous improvement.

British Airways, Iberia and Vueling are working closely to identify opportunities to standardise operating procedures and decrease risk which applies across all areas of the business. Examples include, the alignment of dangerous goods policies, as well as plans to align ground handling standards by the end of 2015 and working to standardise compliance monitoring synergies. Where it has not been immediately possible to align procedures across the Group, performance data and safety learning are actively shared.

In 2014 Vueling developed a risk mitigation system based on their studies of complicated airports. This new method of calculation, which was shared with other operators at the Flight Safety Conference 2014 in

London, aims to prevent incidents and has helped improve safety. As a way to increase cabin safety and improve the service for blind passengers, safety instructions on-board Vueling flights are now also available in braille.

Diversity

IAG is committed to creating a supportive and inclusive environment for all employees, as well as to ensuring equal development opportunities. The Board monitors and reports on diversity at all levels across the Group. In particular, diversity has been a key consideration in planning the long-term composition of the Board itself. The Board diversity policy is described on the Company's website, where the gender diversity figures are also disclosed and have been included in the graph below.

Society and community

IAG actively contributes to the development and support of local communities, including flight destinations and areas where the

Groups works. IAG aims to be a responsible neighbour, and limit the impact of its operations on these communities.

In 2014 an agreement was signed with Iberia, Unicef and Amadeus on micro-donations through iberia.com. The three companies have joined forces to implement a micro-donations platform at iberia.com, to collect funds for Unicef projects for disadvantaged children's survival.

Vueling has established a microfunding project whereby all passengers who buy a ticket from its website are invited to donate one additional euro towards a charity project. The beneficiary charity will be changing every few months so the donation can reach a range of causes.

In 2014 British Airways contributed £7.2 million in direct and indirect donations to the charities it supports (2013: £7.5 million). A total of 30 community and conservation

organisations also benefited from flight bursaries, financial bursaries, excess baggage allowances, cargo space and fundraising events. Flying Start, British Airways' corporate charity partnership with Comic Relief has raised funds since 2010 to support charity projects both in the UK and overseas.

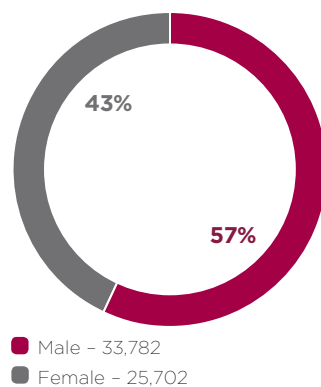
British Airways is providing guidance to flight crew and cabin crew to support the UK Border Agency initiative to reduce human trafficking. Awareness of this issue is now part of the normal cabin crew training. This is in addition to general cabin observation for unusual behaviour on board which is standard procedure across the Group's airlines.

Foreign branches

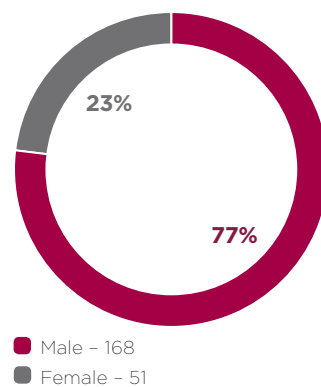
We fly to a number of destinations around the world (see page 8). In addition to the foreign branches we have established in many of these countries, we have branches in countries to which we do not fly.

GENDER DIVERSITY

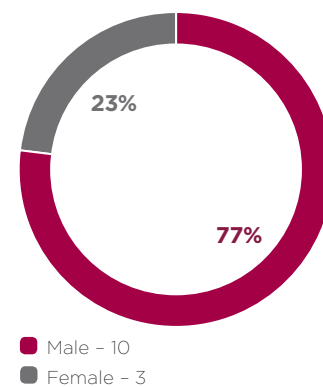
Group



Senior management



Board



Corporate responsibility continued

CORPORATE RESPONSIBILITY INDICATORS

| Indicator | Units | 2014 | 2013 | 2012 | Year over year (2014-2013) |
|---|--------------------------|-------------------|------------|------------|-------------------------------|
| Total energy consumption from jet fuel, gas and electricity | Megawatt hours | 96,712,371 | 91,062,826 | 89,350,479 | 6.2% |
| Greenhouse gas (GHG) emissions ^{1 2 3 4} | | | | | |
| Direct (Scope 1) | Tonnes CO ₂ e | 25,219,827 | 23,664,495 | 23,249,641 | 6.6% |
| Indirect (Scope 2) | Tonnes CO ₂ e | 113,833 | 118,036 | 132,610 | (3.6%) |
| Other indirect (Scope 3) | Tonnes CO ₂ e | 5,179,537 | 4,871,126 | n/a | 6.33% |
| GHG emissions intensity (grammes of carbon dioxide per passenger kilometre) ^{1 2 4} | gCO ₂ /pkm | 98.2 | 100.4 | 101.2 | (2.2%) |
| Percentage of aircraft fleet that meet ICAO Chapter 4 technology standard for noise ^{5 6} | Percentage | 98.7% | 93.1% | 90.9% | 5.6pts |
| Percentage of aircraft fleet that meet ICAO CAEP 4 technology standard for Oxides of Nitrogen (NO _x) emissions ^{5 6} | Percentage | 91.7% | 89.7% | 87.5% | 2.0pts |
| Percentage of aircraft fleet that meet ICAO CAEP 6 technology standard for Oxides of Nitrogen (NO _x) emissions ^{5 6} | Percentage | 61.7% | 56.1% | 48.0% | 5.6pts |
| Water consumption at main sites ¹⁰ | Cubic metres | 501,219 | n/a | n/a | n/a |
| Waste produced at main sites excluding suppliers ^{7 10} | Tonnes | 9,932 | n/a | n/a | n/a |
| Average age of aircraft fleet | Years | 10.5 | 11.1 | 11.8 | (5.4%) |
| Number of new permanent hires in calendar year | Number | 3,670 | 2,647 | 4,389 | 38.6% |
| Average hours of training per year, per employee | Hours | 37.3 | 35.6 | 35.0 | 4.8% |
| Monetary value of significant fines for non-compliances with laws and regulations ^{8 10} | Euros | 392,359 | n/a | n/a | n/a |
| Total customer and colleague direct and in-kind donations to charity ⁹ | Euros | 13,515,678 | 15,058,811 | 20,139,797 | (10.2%) |

Notes

- 1 GHG indicators represent the most accurate figures available at date of publication. The IAG Investor CDP report available later in the year will contain the finalised data.
- 2 IAG has reported all GHG emissions sources required under the 2006 Companies Act (Strategic and Directors' Reports) Regulations 2013. IAG uses the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (revised edition), applying an operational control boundary.
- 3 The GHG emissions are split into Scope 1 (direct, burning jet fuel and natural gas), Scope 2 (indirect, electricity), and Scope 3 (indirect, upstream fossil fuel production).
- 4 The emissions data was calculated by applying the UK Government's GHG conversion factors for Company Reporting (2012, 2013, 2014).
- 5 The International Civil Aviation Organization's Committee on Aviation Environmental Protection (CAEP) establishes international standards for aircraft noise and engine emissions. Oxides of Nitrogen (NO_x) emissions are relevant to local air quality around airports. The ICAO CAEP 4 and 6 NO_x standards were applicable for engines first manufactured after December 31, 2003 and December 31, 2007 respectively. The ICAO CAEP Chapter 4 technology standard for aircraft noise is applicable for new aircraft certified on or after January 1, 2006.
- 6 Noise and NO_x indicators have been improved this year to include the combined performance of all airlines in the Group. Historic values have been revised in line with this and therefore are different to those shown in previous reports.
- 7 Waste figures relate to British Airways and Iberia only.
- 8 Figures referring to monetary fines relate to British Airways and Iberia only. Figures converted into euros based on conversion rates on December 31, 2014. Significant is defined as fines over the value of US dollar 20,000. The fines incurred by British Airways in 2014 were: (1) a fine of US dollar 112,500 was paid to the US DOT for a tarmac delay, (2) the FAA penalized the airline for the non-disclosure of hazardous substances, resulting in a US dollar 175,000 fine, and (3) Canadian dollar 46,000 was paid to the CTA for an issue related to advertising violations in Canada. The fines incurred by Iberia in 2014 were: (1) a fine for inspections labour risk prevention irregularities of €30,000, (2) two fines for delays in payment of taxes and charges, equating to US dollar 29,102.63 and US dollar 46,354.64, (3) a fine for cargo custom duties of US dollar 22,899.23 and (4) a fine related to an issue involving a judicial process in Brazil which amounted to US dollar 20,188.03.
- 9 Figures referring to charity donations for 2013 and 2012 relate to British Airways and Iberia only. Figures converted into euros based on conversion rates on December 31, 2014, 2013 and 2012 respectively.
- 10 These indicators are being disclosed for the first time in 2014, in these instances historic data is unavailable.



GOVERNANCE

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CHAIRMAN'S INTRODUCTION TO CORPORATE GOVERNANCE



Antonio Vázquez
Chairman

From a corporate governance perspective, 2014 has been a year of consolidation. After these first years, and following the changes made during 2013, I am satisfied with how our corporate governance structure has gradually settled in and embedded itself. The corporate governance platform we now have will help us lead the Group's strategy for the coming years and effectively support the management team as it both implements this strategy and runs the Group's operations, day to day.

During 2013, we made several fundamental changes to the composition of the Board and its Committees and to the Group's corporate governance structure. These changes have proved very beneficial, helping us to refresh, refocus and streamline both Board and management responsibilities within the Group.

Board composition

During 2014, María Fernanda Mejía joined as a Non-Executive Director, completing the Board refreshment process initiated in 2013 and bringing greater expertise to the Board in terms of consumer facing goods and services. In addition, her appointment brought the proportion of female directors on IAG's Board closer to the 25 per cent target that we have set for 2015. The current composition of the

Board combines a healthy diversity of perspectives and professional experience. We are lucky to have a high number of Directors with first class executive experience and a notable and welcome variety of nationalities and backgrounds.

As far as the Committees' composition is concerned, the Nominations Committee recommended two changes in 2014 that were approved by the Board in October. First, we appointed María Fernanda Mejía to the Remuneration Committee, reinforcing its composition by adding a fourth Independent Director. Secondly, as required by Spanish law, after four years it was mandatory to appoint a new Chair of the Audit and Compliance Committee. I would like to take this opportunity to thank the former Chairman of the Audit and Compliance Committee, Kieran Poynter, for his remarkable contribution, and to welcome James Lawrence as the new Chairman of this Committee.

Board evaluation

During the Board's evaluation process, I was pleased to see that all Directors shared the view that we have made good progress against the action plan for improving the performance of the Board. The plan, agreed in 2014, was drawn up following an external performance review in 2013.

MANAGEMENT STRUCTURE



In 2015, we want to continue improving our work and our organisation while maintaining the right balance between the leadership and oversight of the Group and the freedom our individual operating companies have to manage their day-to-day operations. At the same time, we want to ensure that the value and benefits of belonging to the IAG family remain as strong as ever for each of the airlines – that remains a unique characteristic of our Group. From this perspective, and as far as the Board of Directors is concerned, we want to keep building on what we have already achieved. That means a continuous effort to improve our work and to live up to the expectations that come from working alongside what is a challenging and highly professional executive team.

Diversity and succession planning

The Board has this year approved a new Diversity Policy, which, as I've said, commits us to ensuring that 25 per cent of our Board Directors are women by the end of 2015. We see this as a very important commitment and one that will bring our approach in line with the recommendations of the Davies Review. We value diversity as an essential element in planning the composition of the Board, although we also always tailor appointments to fit and enrich the specific needs of the Group.

As promised last year, we have also devoted significant time and effort in 2014 to succession planning at both Board and management level. The Board, under the leadership of the Nominations Committee, undertook a review of its composition and its refreshment time line, as well as succession planning for the different Board and Committee roles.

As far as executive succession planning is concerned, the work has been mainly focused on the development of talent within the Group. Our Chief Executive Officer has led this work. The outcome was reviewed in detail by the Nominations Committee in September, and subsequently presented to and discussed by the Board in October.

I am satisfied that we have built the basis and the principles for an adequate system to plan our resources effectively. More importantly, we now have a very solid approach to developing and managing talent within the Group.

Regulatory and Corporate Governance developments

As a company listed on both the Spanish and London stock exchanges, IAG has to meet both Spanish and UK listing requirements and take into consideration both markets' corporate governance standards. During 2015, the Company will need to adapt to the new Corporate Governance Codes published in the UK in September 2014, and in Spain in February 2015. We will embrace these new best practices and standards as we have always done, convinced that they will help us further improve our performance for the benefit of our shareholders.

As an example of how we balance our various commitments, we have prepared IAG's Directors' remuneration information complying with and reconciling both the Spanish and UK requirements in the best possible way. We've done this, even though, as a Spanish incorporated company, we are not obliged to follow UK legal standards in this respect. We are happy to prepare this additional disclosure for the benefit of our UK shareholders and investors. As it is now a requirement of Spanish law, IAG's remuneration policy will be presented for approval at the 2015 Annual Shareholders' Meeting.

Shareholder engagement

Both the Committees and the Board are kept fully informed of shareholders opinions and concerns. Executive Directors regularly communicate with investors through meetings and conference calls. This year, in addition to my contacts and regular roadshow as Chairman of the Board covering a range of different topics, the Chairwoman of the Remuneration Committee has also been communicating directly with investors in relation to remuneration matters.

Looking ahead

In my first report to you in 2011, I said that we had created a uniquely flexible business model, allowing our different airlines to preserve their identity, culture and brand while benefitting from the efficiencies that come from being part of one group with a first-class management team and a robust system of corporate governance.

Four years on, I believe we remain true to that ambition and that those words are as relevant today as then. I am immensely proud of what we have achieved so far, and eager, with my colleagues, to confront the many challenges and opportunities that lie ahead in 2015, which we think will be a decisive year for the Group.

Antonio Vázquez
Chairman

BOARD OF DIRECTORS



1 Antonio Vázquez Romero, Chairman



First appointed:

May 2010. Re-elected June 2014

Key areas of prior experience:

consumer, sales/marketing, finance, governance

Current external appointments:

Member, Advisory Board of Telefónica Latam. Member, Advisory Board of the Franklin Institute. Member, Advisory Board of Loyola University.

Previous relevant experience:

Chairman, Iberia 2009-2013. Chairman and CEO, Altadis Group 2005-2008. Chairman, Board of Directors of Logista 2005-2008. Non-Executive Director, Iberia 2005-2007. Chief Operating Officer and other various positions, Cigar Division of Altadis Group 1993-2005. Various positions at Osborne 1978-1983 and Domecq 1983-1993.

2 Sir Martin Broughton, Deputy Chairman



First appointed:

May 2010. Re-elected June 2014

Key areas of prior experience:

consumer, finance, governance

Current external appointments:

Chairman, Sports Investment Partners

Previous relevant experience:

Chairman, British Airways 2004-2013. Director, British Airways since 2000. President, Confederation of British Industry 2007-2009. Chairman, Liverpool FC 2010. Chairman, British Horseracing Board 2004-2007. Chairman, British American Tobacco 1997-2004 following its demerger from BAT Industries, previously Chief Executive Officer, BAT Industries 1993-1997 and member of the Board since 1988. Other executive positions at British American Tobacco 1971-1993.

3 Willie Walsh, Chief Executive Officer



First appointed:

May 2010. Re-elected June 2014

Key areas of prior experience:

Airline industry

Current external appointments:

Chairman of the Ireland State Debt Agency

Previous relevant experience:

Chief Executive Officer, British Airways 2005-2011. Chief Executive Officer, Aer Lingus 2001-2005. Chief Operating Officer, Aer Lingus 2000-2001. Chief Executive Officer, Futura (Aer Lingus' Spanish Charter airline) 1998-2000. Joined Aer Lingus as cadet pilot in 1979.

4 Enrique Dupuy de Lôme Chávarri, Chief Financial Officer

First appointed:

June 2013. Re-elected June 2014

Key areas of prior experience:

finance, airline industry

Current external appointments:

Chairman, Iberia Cards.

Previous relevant experience:

Chief Financial Officer, Iberia 1990-2011. Head of finance and deputy director of financial resources, Instituto Nacional de Industria (INI) and Teneo financial group, 1985-1989. Head of subsidiaries at Enadimsa (INI Group), 1982-1985. Chairman IATA finance committee.

5 César Alierta Izuel, Non-Executive Director



First appointed:

September 2010. Re-elected June 2014

Key areas of prior experience:

finance, telecommunications, consumer

Current external appointments:

Executive Chairman, Telefónica Group. Non-Executive Director, China Unicom. Member, Columbia Business School Board of Overseers. Chairman, Social Board of the Spanish UNED.

Previous relevant experience:

Non-Executive Director, Telefónica 1997-2000. Executive Chairman, Altadis Group 1996-2000. Member of the Board, Telecom Italia 2007-2013. Member of the Board, Madrid Stock Exchange 1991-1996. Chairman, Spanish Financial Analysts' Association 1991-1996. Chairman and founder, Beta Capital 1985-1996.

6 Patrick Cescau, Non-Executive Director



First appointed:

September 2010. Re-elected June 2014

Key areas of prior experience:

consumer, finance, sales/marketing, governance

Current external appointments:

Non-Executive Chairman, InterContinental Hotel Group. Senior Independent and Non-Executive Director, Tesco. Trustee, LeverHulme Trust.

Previous relevant experience:

Group Chief Executive, Unilever 2005-2008. Chairman, Unilever PLC. Deputy Chairman, Unilever NV. Finance Director and other executive positions (including a number of Unilever major operating companies and divisions in the USA, Indonesia and Portugal), having joined the Unilever Group in 1973. Senior Independent Director and Non-Executive Director, Pearson PLC 2002-2012. Director, INSEAD 2009-2013.

7 Baroness Kingsmill CBE, Non-Executive Director



First appointed:

September 2010. Re-elected June 2014

Key areas of prior experience:

government, legal and regulatory affairs

Current external appointments:

Non-Executive Director, EON Supervisory Board. Vice Chair and Senior Independent Director, and Chairman of Nominations and Ethics Committees, APR Energy. Non-Executive Director, Telecom Italia. Member of the International Advisory Board, IESE Business School. Member of the House of Lords since 2006.

Previous relevant experience:

Non-Executive Director, British Airways 2004-2010. Deputy Chairman, Competition Commission 1997-2003. Chairman, Department of Trade and Industry's Accounting for People task force 2003.

Committee Membership Key

A Audit Committee

S Safety Committee

N Nominations Committee

R Remuneration Committee



8 James Lawrence, Non-Executive Director

First appointed:

September 2010. Re-elected June 2014

Key areas of prior experience:

finance, consumer, corporate governance

Current external appointments:

Chairman, Rothschild North America.

Previous relevant experience:

Non-Executive Director, British Airways 2006-2010. CEO, Rothschild North America and Co-Head of Global Investment Banking 2010-2012. Executive Director and Chief Financial Officer, Unilever 2007-2010. Vice Chairman, Chief Financial Officer and Head of International, General Mills 1998-2007. Executive Vice President and Chief Financial Officer, Northwest Airlines 1996-1998. Executive Vice President and other executive positions, Pepsi-Cola 1992-1996. Chairman and Co-Founder, LEK Consulting 1983-1992. Partner, Bain & Company 1977-1983.

9 María Fernanda Mejía Campuzano, Non-Executive Director

First appointed:

February 2014. Re-elected June 2014

Key areas of prior experience:

consumer, customer development, strategic planning, supply chain, innovation and marketing communications

Current external appointments:

Senior Vice President and President of Kellogg Latin America, Corporate Officer and member of Kellogg's Global Leadership Team. Board Member of the Council of the Americas.

Previous relevant experience:

Colgate-Palmolive Co. – Vice-President and General Manager Global Personal Care and Corporate Fragrance Development 2010-2011, Vice-President Marketing and Innovation Europe/South Pacific Division 2005-2010, President and CEO Spain and Spain Holding Company 2003-2005, General Manager Hong Kong and a Director Greater China Management team 2002-2003, Marketing Director Venezuela 2000-2002, Marketing Director Ecuador 1998-2000.

10 José Pedro Pérez-Llorca, Non-Executive Director

First appointed:

September 2010. Re-elected June 2014

Key areas of prior experience:

diplomacy, legal services, government affairs

Current external appointments:

Founding Partner, Pérez-Llorca law firm. International arbitrator. Chairman, Board of Trustees of the Prado Museum. Member of the Board of Hispania Activos Inmobiliarios, S.A.

Previous relevant experience:

Chairman, AEG Ibérica 1983-1991. Chairman, Urquijo Leasing 1983-1990. Non-Executive Director, Telefónica 1996-2001. Member, Governing Council for the Madrid Stock Exchange 1986-1991. Minister with cabinet rank in several departments, including Foreign Affairs 1979-1983. Founding member of the UCD party and President of Centrist Parliamentary Group in the Congress of Deputies. Chairman, INVEX 1974-1977. Career diplomat and congressional attorney. He is one of the seven framers of the current Spanish Constitution.

11 Kieran Poynter, Non-Executive Director

First appointed:

September 2010. Re-elected June 2014

Key areas of prior experience:

professional services, finance services

Current external appointments:

Chairman, F&C Asset Management PLC. Chairman, Nomura International PLC. Non-Executive Director and Chairman of the Audit Committee, British American Tobacco.

Previous relevant experience:

Member, Advisory Committee for the Chancellor of the Exchequer on the competitiveness of the UK financial services sector 2009-2010. Member, President's committee of the CBI 2000-2008. Chairman and Senior Partner, PricewaterhouseCoopers 2000-2008. Managing Partner, PricewaterhouseCoopers 1998-2000 and other executive positions at PricewaterhouseCoopers 1982-1998.

12 Dame Marjorie Scardino, Non-Executive Director

First appointed:

December 2013. Re-elected June 2014

Key areas of prior experience:

communications, digital and media, legal services

Current external appointments:

Non-Executive Director, Twitter, Inc. Member, charitable boards including The MacArthur Foundation, Oxfam Great Britain (Chairman), and The Carter Center. Member, Board of the Royal College of Art. Member, Advisory Council of the Massachusetts Institute of Technology Media Lab. Member, Board of Bridge Schools (Kenya).

Previous relevant experience:

Chief Executive Officer, Pearson PLC 1997-2012. Chief Executive Officer, The Economist Group from 1993-1996. President, The Economist Group US 1985-1993. Lawyer practising in the US 1975-1985.

13 Alberto Terol Esteban, Non-Executive Director

First appointed:

June 2013. Re-elected June 2014

Key areas of prior experience:

finance, professional services, information technology, hospitality industry

Current external appointments:

Non-Executive Director and Chairman of the Audit Committee, Indra. Non-Executive Director and Chairman of the Audit Committee, OHL. Non-Executive Director and Chairman of the Audit Committee, AKTUA. Non-Executive Director and Chairman of the Audit Committee, N+1.

Previous relevant experience:

Member, Global Executive Committee Deloitte 2007-2009. Managing Partner, EMEA Deloitte 2007-2009. Managing Partner, Global Tax & Legal Deloitte 2007-2009. Member, Global Management Committee Deloitte 2003-2007. Managing Partner, Latin America Deloitte 2003-2007. Managing Partner, Integration Andersen Deloitte 2002-2003. Managing Partner, Europe Arthur Andersen 2001-2002. Managing Partner, Global Tax & Legal Arthur Andersen 1997-2001. Managing Partner, Garrigues 1997-2000. International Senior Advisor BNP Paribas 2011-2014.

CORPORATE GOVERNANCE

UK Corporate Governance Code Compliance

As a company incorporated and listed in Spain, IAG is subject to applicable Spanish legislation and to the Spanish corporate governance framework. At the same time, as it has a listing on the London Stock Exchange, IAG is also subject to the UK Listing Rules, including the requirement to explain whether it complies with the UK Corporate Governance Code published by the UK Financial Reporting Council as amended from time to time (a copy of which is available from www.frc.org.uk).

This Corporate Governance section (the UK Corporate Governance Report) includes an explanation regarding the Company's application of the main principles of the UK Corporate Governance Code. In addition, the Company prepares an Annual Corporate Governance Report according to Spanish legal requirements which includes information regarding compliance with the Spanish Unified Good Governance Code, included on pages 159 to 222.

During the year the Company considers it has complied with all the provisions of the UK Corporate Governance Code 2012 but for the following matter: The service contract for Antonio Vázquez does not comply with the recommendation that notice periods should be set at one year or less so as to limit any payment on exit. The terms of Antonio Vázquez's service contract as Executive Chairman of Iberia were considered at the time of the merger between British Airways and Iberia, and it was determined that an entitlement to lump-sum retirement benefits in excess of one year's salary should be carried over into his IAG service contract. It was thought necessary to continue the Iberia benefits in order to retain this key Director and, as such, complying with the UK Corporate Governance Code's principle of only offering a remuneration package sufficient to retain this Director. Details can be found in the Directors' Remuneration Report.

The Company complies with the provisions of the Spanish Unified Good Governance Code, with the exceptions described in the Spanish Annual Corporate Governance Report.

The Company believes that, notwithstanding the above exception, it has a robust governance structure. The Company's UK Corporate Governance Report is available on the Company's website.

The Board

The Board provides strategic leadership of the Group within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board sets the Group's strategic aims, ensures that the necessary financial and human resources are in place for the Group to meet its objectives, and reviews management performance. The Board sets the Group's values and standards and ensures that its obligations to its shareholders and others are understood and met. The duties of the Board are set out in the Board Regulations, available on the Group's website.

At the end of 2013, we undertook an internal governance restructuring which streamlined and reinforced the different roles of the Group corporate bodies, with a clear and effective division of responsibilities between the Board and the

Management Committee. Both the Chairman and Deputy Chairman are now exclusively focused on their roles on the IAG Board, having stepped down as Chairman of Iberia and British Airways, respectively. The Board currently comprises eleven Non-Executive Directors and two Executive Directors, IAG's Chief Executive Officer and Chief Financial Officer.

The Management Committee, led by IAG's Chief Executive Officer, includes IAG's senior executives, the Executive Chairmen of the three Group's airlines as well as the Chief Executive Officer of the cargo business. This new structure facilitates the planning and execution of the Group's strategy and the extraction of synergies, and allows the co-ordination as well as the exchange of experience and knowledge within the Group.

The Board has created advisory committees to assist it with certain of its functions, as detailed within this Report. The Board of the Group physically met eleven times during the reporting period to consider all matters relating to the overall control, business performance and strategy of the Group.

The Board Regulations contain in article 3.4 a schedule of matters exclusively reserved for Board decision. In particular the Board has retained for itself:

- the annual budget and Business Plan;
- the financing policy and structure;
- the risk management and control policy; and
- the approval of investment and divestment decisions greater than €20 million including significant contracts and capital commitments.

The Board is led by the Chairman. The Chairman is responsible for setting the Board's agenda and ensuring that adequate time is available. Working with the Board Secretary, he ensures that Directors receive accurate, timely and clear information.

The Non-Executive Directors analyse the performance of management in meeting agreed goals and objectives and monitor the reporting of performance. They have satisfied themselves as to the integrity of financial information and that financial controls and systems of risk management are robust.

Papers for Board and Committee meetings are typically distributed in the week prior to the relevant meeting. All Board members have access to the Board Secretary and the Group General Counsel for any further information they require. If any of the Non-Executive Directors has any concerns about the running of the Group, they discuss these concerns with one of the Executive Directors, the Group General Counsel or the Chairman. If their concerns cannot be resolved in this way, then they are recorded in the Board minutes. No such concerns arose during the reporting period.

Directors were offered the possibility to update and refresh their knowledge of the business and any technical related matter on an ongoing basis to enable them to continue fulfilling their responsibilities effectively. Moreover, Directors were consulted about their training and development needs, and they were also given the opportunity to discuss training and

development matters as part of their annual individual performance evaluation. During 2014, training included a number of briefings in relation to issues such as cybersecurity and corporate governance developments. In addition to this, Non-Executive Directors held special sessions in relation to Iberia in Madrid and regarding digital business with British Airways' commercial team in London.

Independent professional advice is also available to Directors in appropriate circumstances at the Company's expense. No such advice was requested during the reporting period.

New Directors receive a tailored induction programme, including one-to-one meetings with management both at IAG level and throughout the Group offering them a complete overview of the Group businesses, and also the opportunity to visit the Group's key sites. The induction also covers governance and directors' duties according to both the Spanish and the UK frameworks.

During the reporting period the Chairman and the Non-Executive Directors met twice without the Executives present. The Chairman met each Non-Executive Director individually to discuss their contribution to the Board and the Senior Independent Director met with the other Non-Executive Directors to discuss the performance of the Chairman.

Board Committees

The Board has established four specific committees to assist it in the effective fulfilment of its responsibilities: Audit and Compliance, Nominations, Remuneration and Safety. The role and responsibilities of each of these committees are set out in the Board Regulations, available on IAG's website.

Meetings attended by each Director of the Board of Directors and the Committees during the reporting period are shown in the table below:

| Director | Board meetings ¹ | Audit and Compliance Committee meetings | Nominations Committee meetings | Remuneration Committee meetings | Safety Committee meetings |
|-----------------------------------|-----------------------------|---|--------------------------------|---------------------------------|---------------------------|
| Total in the period | 11 | 7 | 5 | 4 | 2 |
| Antonio Vázquez | 11 | – | 5 | – | 2 |
| Sir Martin Broughton | 9 | – | 4 | – | 2 |
| Willie Walsh | 11 | – | – | – | 2 |
| César Alierta | 7 | – | 1 | – | – |
| Patrick Cescau | 8 | 7 | – | – | – |
| Enrique Dupuy de Lôme | 11 | – | – | – | – |
| Baroness Kingsmill | 9 | – | 5 | 4 | – |
| James Lawrence | 10 | 7 | – | – | – |
| María Fernanda Mejía ² | 6 | – | – | – | – |
| José Pedro Pérez-Llorca | 9 | – | – | – | – |
| Kieran Poynter | 10 | 6 | – | – | 2 |
| Dame Marjorie Scardino | 10 | – | – | 3 | – |
| Alberto Terol | 11 | 7 | – | 4 | – |

¹ In 2014, the Board held nine ordinary meetings and two extraordinary meetings. In addition to this, some changes had to be introduced to the 2014 Board calendar. This explains some of the absences occurred during the year.

² María Fernanda Mejía was appointed as a Director of the Company on February 27, 2014. At the time of her appointment, she advised the Company that she would not be able to attend Board meetings in March and May due to prior personal and professional commitments. This was acknowledged and accepted by the Board and it was agreed to use this time to progress her induction program.

Board and Committees evaluation

Following last year's external review, the Board and Committees' performance evaluation was conducted internally in 2014. The review took the format of a self-assessment survey designed to test Directors' opinions and views on a number of matters including: role and organisation of the Board, Board composition, organisation of meetings, quality of the Board debate, knowledge and experience, relationship with management, and progress made against 2014 action plan.

The Board Secretary prepared a report on the performance evaluation of the Board and each of the Committees. Each of these reports and the results of the questionnaires were then considered by the different chairs and discussed at the Board and the different Committees' meetings held in January 2015. The review concluded that the Board was effectively fulfilling its responsibilities during 2014. Beyond this general conclusion, Directors openly discussed how the Board should approach and improve its work.

Corporate governance continued

Progress made in 2014 was unanimously recognised by the Board. Directors noted the progress made in succession planning at both Board and management level. As agreed, the Board's agenda for the year included more presentations from the operating companies and their management teams. A two-day strategy meeting was held in September 2014, and it has been also included in the Board calendars for 2015 and 2016.

In 2015, the work on executive succession planning and talent development needs to be consolidated and developed across the Group. At the same time, the Nominations Committee will continue to focus on the Board's long-term composition. A number of actions have been agreed to help improve Board effectiveness, including: the review and redefinition of the Board agenda for 2015 in order to reinforce strategic discussions across the year; the refinement of the information being sent and presented to the Board; the organisation of Non-Executive sessions with the operating companies as a way to deepen the Board's knowledge of the business and to increase its exposure to executives within the Group in line with those held in 2014.

Board diversity

The IAG Board diversity policy was reviewed and updated in June 2014. This policy recognises the value of diversity as a tool to enrich its discussions and decision-making process.

Taking this into account, it is the Board's objective to create a Board whose composition ensures a healthy diversity of opinions, perspectives, skills, experiences, backgrounds and orientations. Specifically, this will include an appropriate gender ratio, as well as including diversity in other senses, subject to the overriding principle of merit and suitability mentioned above. This will be done over time, taking account of the valuable knowledge and experience of the present Board members and the value of a more diverse board. Accordingly, the Board aims to achieve a board composition of which 25 per cent are women by the end of 2015.

The Board, through its Nominations Committee, regularly reviews the percentage of women that sit on the Board and on the Company's Management Committee, as well as the number of women in the Group's workforce worldwide. This information is included on page 29 of this report.

Directors' conflict of interests

Directors must disclose to the Board any situation of direct or indirect conflict that they may have with the interests of the Company. In the event of conflict, the affected Directors must abstain from participating in the transaction referred to by the conflict. The definition of conflict of interests is set out in the Board Regulations on the Company's website.

Directors' and Officers' liability insurance

The Company has purchased insurance against Directors' and Officers' liability for the benefit of the Directors and Officers of the Company and its subsidiaries.

Share issues, buy-backs and treasury shares

The Annual General Meeting held on June 18, 2014 authorised the Board, with the express power of substitution, for a term ending at the 2015 Annual General Meeting (or, if earlier, 15 months from June 18, 2014), to:

- (i) increase the share capital pursuant to the provisions of Article 297.1.b) of the Spanish Companies Law, by:
 - (a) up to one-third of the aggregate nominal amount of the Company's issued ordinary share capital as at the date of passing such resolution (such amount to be reduced by the amount that the share capital has been increased by and the maximum amount that the share capital may need to be increased by on the conversion or exchange of any securities issued by the Board under the relevant authorisation); and
 - (b) up to a further one-sixth of the aggregate nominal amount of the Company's issued ordinary share capital as at the date of passing such resolution in connection with an offer by way of rights issue (such amount to be reduced by the amount that the share capital has been increased by and the maximum amount that the share capital may need to be increased by on the conversion or exchange of any securities issued by the Board under the relevant authorisation).
- (ii) issue securities (including warrants) convertible into and/or exchangeable for shares of the Company, up to a maximum limit of one billion euros or the equivalent thereof in another currency, provided that the aggregate share capital that may need to be increased on the conversion or exchange of all such securities may not be higher than: (a) one-third of the aggregate nominal amount of the Company's issued ordinary share capital as at the date of passing such resolution (such amount to be reduced by the amount that the share capital has been increased by the Board under the relevant authorisation); and (b) a further one-sixth of the aggregate nominal amount of the Company's issued ordinary share capital as at the date of passing such resolution in connection with an offer by way of rights issue (such amount to be reduced by the amount that the share capital has been increased by the Board under the relevant authorisation).

- (iii) exclude pre-emptive rights in connection with the capital increases and the issuances of convertible or exchangeable securities that the Board may approve under the previous authorities for the purposes of allotting ordinary shares or convertible or exchangeable securities in connection with a rights issue or in any other circumstances for the purposes of allotting ordinary shares or convertible or exchangeable securities subject to an aggregate maximum nominal amount of the ordinary shares so allotted or that may be allotted on conversion or exchange of such securities of five per cent of the aggregate nominal amount of the Company's issued ordinary share capital as at June 18, 2014.
- (iv) carry out the acquisition of its own shares directly by the Company or indirectly through its subsidiaries, subject to the following conditions: (a) the maximum aggregate number of ordinary shares which is authorised to be purchased shall be the lower of the maximum amount permitted by the law and such number as represents 10 per cent of the aggregate nominal amount of the Company's issued ordinary share capital on June 18, 2014, date of passing the resolution; (b) the minimum price which may be paid for an ordinary share is zero; (c) the maximum price which may be paid for an ordinary share is the highest of:

- (i) an amount equal to 5 per cent above the average of the middle market quotations for the ordinary shares as taken from the relevant stock exchange for the five business days immediately preceding the day on which that ordinary share is contracted to be purchased; and
- (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out at the relevant time; in each case, exclusive of expenses.

The shares acquired pursuant to this authorisation may be delivered directly to the employees or Directors of the Company or its subsidiaries or as a result of the exercise of option rights held thereby.

Under the above-mentioned authority, the Company purchased 4,400,000 shares with a nominal value of €0.50. All the shares purchased will be used to satisfy awards under the IAG Share Plans. For further details see note 30 to the financial statements.

The Securities Code of Conduct of the Company contains the treasury stock transactions code of the Company. This can be accessed on the Company's website.

Corporate governance continued

Capital structure and shareholder rights

The share capital of the Company amounts to 1,020,039,261.50 euros (2013: 1,020,039,261.50 euros), divided into 2,040,078,523 ordinary shares (2013: 2,040,078,523 ordinary shares) of the same class and series and with a nominal value of 0.50 euros each, fully subscribed and paid.

As of December 31, 2014 the Company owns 1,204,593 shares as treasury shares.

Each share in the Company confers on its legitimate holder the status of shareholder and the rights recognised by applicable law and the Company's Bylaws.

The Company has a Sponsored Level 1 American Depositary Receipt (ADR) facility that trades on the over-the-counter market in the US. Each ADR is equivalent to five ordinary shares and each ADR holder is entitled to the financial rights attaching to such shares, although the ADR depositary, Deutsche Bank, is the registered holder. As at December 31, 2014 the equivalent of 23.3 million shares was held in ADR form (2013: 25.7 million IAG shares).

The significant shareholders of the Company at December 31, 2014 were:

| Name of Shareholder | Number of direct shares | Number of indirect shares | Total shares | Percentage of capital |
|---|-------------------------|---------------------------|--------------|-----------------------|
| Standard Life Investment (Holding) Ltd | 60,639,188 | 61,942,109 | 122,581,297 | 6.008% |
| Europacific Growth Fund | 107,329,400 | – | 107,329,400 | 5.261% |
| Capital Research and Management Company | – | 102,997,951 | 102,997,951 | 5.049% |
| Templeton Global Advisors Limited | – | 99,005,819 | 99,005,819 | 4.853% |
| BlackRock Inc | – | 91,539,438 | 91,539,438 | 4.487% |
| Legal & General Investment Management Limited | 54,407,837 | 11,611,554 | 66,019,391 | 3.236% |
| Causeway Capital Management LLC | – | 61,256,070 | 61,256,070 | 3.003% |
| Lansdowne Partners International Limited | – | 44,707,522 | 44,707,522 | 2.191% |
| INVESCO Limited | – | 22,064,264 | 22,064,264 | 1.082% |
| Lansdowne Developed Markets Master Fund Ltd | – | 20,676,395 | 20,676,395 | 1.014% |

The above-referred indirect shareholdings were held through:

| Name of direct holder | Number of direct shares | Percentage of capital |
|--|-------------------------|-----------------------|
| Standard Life Investments Limited and Ignis Investment Services Limited | 61,942,109 | 3.036% |
| Collective investment institutions managed by Capital Research and Management Company | 102,997,951 | 5.049% |
| Collective investment institutions managed by Templeton Global Advisors Limited | 99,005,819 | 4.853% |
| BlackRock Investment Management (UK) Ltd. | 91,539,438 | 4.487% |
| Legal & General (Unit Trust Managers) Limited | 11,611,554 | 0.569% |
| Chase Nominees Ltd, Mellon Bank N.A. Northern Trust Co. AVFC, London State Street Bank & Trust Co. The Bank of New York Mellon SA/NV | 61,256,070 | 3.003% |
| Collective investment institutions managed by Lansdowne Developed Markets Master Fund Ltd | 44,707,522 | 2.191% |
| Pension funds and mutual benefit societies managed by Invesco Limited and its subsidiaries | 22,064,264 | 1.082% |
| Lansdowne Partners (UK) LLP | 20,676,395 | 1.014% |

The following notifications have been received by the Company since December 31, 2014: On January 19, 2015 Causeway Capital Management LLC notified that their shareholding had fallen below 3 per cent. On January 23, 2015 Templeton Global Advisors Limited notified that their shareholding had fallen below 3 per cent. On January 28, 2015 BlackRock, Inc. notified that their shareholding had fallen below 3 per cent. On January 30, 2015 Qatar Airways (Q.C.S.C.) notified the acquisition of a shareholding of 9.99%.

Disclosure obligations

The Company's Bylaws establish a series of special obligations concerning disclosure of share ownership as well as certain limits on shareholdings, taking into account the ownership and control restrictions provided for in applicable legislation and bilateral air transport treaties signed by Spain and the UK.

In accordance with article 7.2 b) of the Company's Bylaws, shareholders must notify the Company of any acquisition or disposal of shares or of any interest in the shares of the Company that directly or indirectly entails the acquisition or disposal of a stake of over 0.25 per cent of the Company's share capital, or of the voting rights corresponding thereto, expressly indicating the nationality of the transferor and/or the transferee obliged to notify, as well as the creation of any charges on shares (or interests in shares) or other encumbrances whatsoever, for the purposes of the exercise of the rights conferred by them.

In addition, pursuant to article 10 of the Company's Bylaws, the Company may require any shareholder or any other person with a confirmed or apparent interest in shares of the Company to disclose to the Company in writing such information as the Company shall require relating to the beneficial ownership of or any interest in the shares in question, as lies within the knowledge of such shareholder or other person, including any information that the Company deems necessary or desirable in order to determine the nationality of the holders of said shares or other person with an interest in the Company's shares or whether it is necessary to take steps in order to protect the operating rights of the Company or its operating affiliates.

In the event of the breach of these obligations by a shareholder or any other person with a confirmed or apparent interest in the Company's shares, the Board may suspend at any time the voting or other political rights of the relevant person. If the shares with respect to which the aforementioned obligations have been breached represent at least 0.25 per cent of the Company's share capital in nominal value, the Board may also direct that no transfer of any such shares shall be registered.

Limitations on ownership of IAG shares

In the event that the Board deems it necessary or appropriate to adopt measures to protect an operating right of the Company or of its operating subsidiaries, in light of the nationality of its shareholders or any persons with an interest in the Company's shares, it may adopt any of the measures provided for such purpose in article 11 of the Company's Bylaws, including the determination of a maximum number of shares that may be held by non-EU shareholders provided that such maximum may not be lower than 40 per cent of the Company's share capital.

The Board may also (i) agree on the suspension of voting and other political rights of the holder of the relevant shares, and (ii) request that the holders dispose of the corresponding shares so that no non-EU person may directly or indirectly own such shares or have an interest in the same. If such transfer is not performed on the terms provided for in the Company's Bylaws, the Company may acquire the corresponding shares (for their subsequent redemption) pursuant to applicable legislation. This acquisition must be performed at the lower of the following prices: (a) the book value of the corresponding shares according to the latest published audited balance sheet of the Company; and (b) the middle market quotation for an ordinary share of the Company as derived from the London Stock Exchange's Daily Official List for the business day on which they were acquired by the relevant non-EU person.

Corporate governance continued

Relations with shareholders

The Company has established regular contact with its major institutional shareholders. Regular shareholder meetings were held with Executive Directors, the Chairman of the Board and with the investor relations team during 2014.

The Company undertook investor roadshows, investor conferences and company presentations. During February 2014, the Chairman of the Board consulted with major institutional shareholders on a range of topics.

The annual Capital Markets day took place on November 7, 2014, and two additional sessions in relation to Cargo and Iberia were held on November 14 and December 12, 2014, respectively. Several Non-Executive Directors attended these meetings giving major shareholders and investors the opportunity to discuss corporate governance matters with members of the Board.

The Board has regular updates on shareholder views from the Executive Directors and Group Head of Investor Relations. Private shareholders may contact the Company through a dedicated website, via email and directly by phone.

Impact of change of control

In takeover bids, or public tender offers, certain licences and authorisations, top management contracts and some supplier or financial agreements would, as the case may be, require an amendment. The following significant agreements contain provisions entitling the counterparties to exercise the right to terminate or other rights in the event of a change of control of the Company, British Airways or Iberia as the case may be:

- The Joint Business with American Airlines and Finnair;
- All of the Company's share schemes, with the exception of the Performance Share Plan, which is subject to the satisfaction of any performance conditions at that time;

- Certain codeshare agreements;
- **oneworld** membership agreements;
- Certain contracts to sell Avios points;
- Global distribution system contract with Amadeus IT Holding, S.A. for the marketing of Iberia flights;
- The Joint Business with Japan Airlines;
- The Terminal 7 lease at JFK Airport; and
- Certain exchange and interest rate hedging contracts.

Merger assurances

As part of the merger agreement, the Company, British Airways and Iberia gave certain assurances to protect the specific interests of British Airways and Iberia and their respective stakeholders (Assurances) (page 127 of the Registration Document available on the IAG website). The observance and enforcement of those Assurances is carried out via the mechanisms that have been put in place for this purpose and that are described on pages 129 and 130 of the Registration Document. Any disputes relating to the Assurances are determined by an Assurance Committee. No matters were referred to the Assurance Committee during 2014.

Post balance sheet events

No material adjusting post balance sheet events occurred after December 31, 2014.

Board of Directors

As set out in the Company's Bylaws the Board of Directors shall comprise a minimum of nine and a maximum of 14 members.

The Board Secretary is Álvaro López-Jorrín, partner of the Spanish law firm J&A Garrigues, S.L.P. and the Deputy Secretary is Lucila Rodríguez.

As of December 31, 2014 the Board composition was:

| Name of Board Member | Position | Nature ¹ |
|-------------------------|-------------------------|---|
| Antonio Vázquez | Chairman | Other External ² |
| Sir Martin Broughton | Deputy Chairman | Non-Executive Independent and Senior Independent director |
| Willie Walsh | Chief Executive Officer | Executive |
| César Alierta | Director | Non-Executive Independent |
| Patrick Cescau | Director | Non-Executive Independent |
| Enrique Dupuy de Lôme | Director | Executive |
| Baroness Kingsmill | Director | Non-Executive Independent |
| James Lawrence | Director | Non-Executive Independent |
| María Fernanda Mejía | Director | Non-Executive Independent |
| José Pedro Pérez-Llorca | Director | Non-Executive Independent |
| Kieran Poynter | Director | Non-Executive Independent |
| Dame Marjorie Scardino | Director | Non-Executive Independent |
| Alberto Terol | Director | Non-Executive Independent |

¹ In accordance with the definitions set forth in the Spanish Companies Act.

² Mr. Antonio Vázquez was, until the execution of the merger between British Airways and Iberia, the Executive Chairman of Iberia.

Internal control

The Directors are responsible for maintaining, and for reviewing the effectiveness of the Company's system of internal control including internal financial control. This is designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorised use or disposition and the maintenance of proper accounting records and the reliability of financial information used within the business or for publication. This process is in accordance with the Financial Reporting Council's Guidance to Directors and the CNMV's Internal Control over Financial Reporting (ICFR). These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Company has in place internal control and risk management systems in relation to the Company's financial reporting process and the Group's process for the preparation of consolidated financial statements.

A risk-based audit plan for the Group was approved by the Audit and Compliance Committee. The Audit and Compliance Committee considered control matters raised by management and both the internal and external auditors and reported its findings to the Board. The CNMV standard requires the disclosure of material weaknesses in ICFR, no such weaknesses were identified during the year under review or up until the date of approval of this report.

REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE



James
Lawrence

Dear Shareholder

Kieran Poynter stood down as Chairman of the Audit and Compliance Committee in November 2014 having reached the four-year maximum tenure set out in the Spanish Securities Market Law. During those four years Kieran has overseen the establishment and development of the Committee which plays a key role in advocating strong internal control, risk management and compliance practices across the Group. I am delighted that he has agreed to continue to serve on the Committee.

The Committee continues to ensure that developments in internal control and compliance keep pace with changes in the business. We also have continued to “deep dive” into key issues such as the commercial and accounting impact of cash trapped in Venezuela and the reorganisation of the Group’s Avios travel rewards programme.

As I look forward to 2015, I believe we are in a good position to comply with the risk management and internal control guidance in the 2014 UK Corporate Governance Code and we will be working closely with the Management Team and the rest of the Board to meet the new requirements.

James Lawrence

Audit and Compliance Committee Chairman

Committee membership and meetings

The Audit and Compliance Committee comprises four members: James Lawrence (Chairman), Kieran Poynter, Patrick Cescau and Alberto Terol Esteban. All the Committee members have recent and relevant financial experience for the purposes of the UK Corporate Governance Code.

In addition to the Secretary and Deputy Secretary, regular attendees at Committee meetings included the Chairman, the Chief Executive Officer, Chief Financial Officer, the Head of Group Audit and Risk Management, the Head of Group Reporting and Control and the Group Consolidation Senior Manager plus representatives from the external auditors.

The Committee met seven times during 2014. Each year the Committee also holds closed meetings and meets privately with both the external and internal auditors.

The Audit and Compliance Committee’s responsibilities

The Committee’s principal responsibilities and activities during the year were:

- review of financial statements and announcements relating to the financial performance and governance of the Group;
- review the effectiveness of the internal control system, provide assurance on the risk management process and review the principal risks facing the Group;
- review and agreement of the internal audit programme, level of staffing, effectiveness and resolution of issues raised; and
- recommending the appointment of external auditors and reviewing of their effectiveness, fees, terms of reference and independence.

During the year, the Committee performed an evaluation of its performance and concluded it is operating effectively. The Committee also updated its terms of reference to reflect how it supports the Board in its assessment that the Annual Report and Accounts are fair, balanced and understandable.

The full terms of reference of the Committee are shown in section C.2.4 of the Spanish Corporate Governance Report.

Other items reviewed

Anti-bribery compliance

The Committee reviewed developments in anti-bribery compliance which is now led by an Anti-Bribery Compliance Steering Group chaired by the IAG General Counsel. The anti-bribery compliance programme within Vueling has been aligned with Group standards and the steering group has sponsored the implementation of a Group-wide internal investigations process ensuring proper co-ordination throughout the Group. We challenged the roll out programme of the new Iberia anti-bribery training during the year and were pleased to note the good progress made by year end when 82 per cent of relevant employees had taken computer based training and 255 individuals in higher risk positions had undergone tailored classroom training. The Committee endorsed the appointment of a Head of Compliance in IAG to further enhance cross-Group co-ordination and to manage the compliance programmes for centralised activities.

Competition law compliance

The Group competition law compliance programme has been extended to replace the local Vueling programme and 97 per cent of relevant Vueling staff have now been trained by the IAG Head of Competition Law. The Committee reviewed the Group competition law risk map and ensured that training continued to be appropriately comprehensive and targeted.

Venezuela cash

Risks around the devaluation of funds held in Venezuela were monitored on a quarterly basis. The Committee noted that Iberia took timely pragmatic commercial decisions to manage capacity limiting the growth in unrepatriated cash. The Committee reviewed Management's decision to apply SICAD II rate for the funds held in Venezuela and agreed it was the rate which best reflected the economic reality. Details can be found in note 20 of the financial statements.

Accounting issues

Throughout the year, the Committee considers the implications of new accounting standards, reviews complex accounting transactions, and considers the key estimates and judgements used in the preparation of the Group financial statements. In 2014, these included the residual value of the Boeing 747 fleet, the recognition of Iberia deferred tax assets, the reversal of the Iberia Brand impairment, the Iberia restructuring charge and accounting for the reorganisation of the Avios travel rewards programme, including the impact on management's estimates of the fair value of a point and the breakage rate.

British Airways has now retired 7 of its original fleet of 57 Boeing 747 aircraft. The aircraft are being broken up for their parts value and, as a result, we can now more accurately forecast the income that will be received as we retire the whole fleet. This led to a reduction in the estimated residual value of the Boeing 747 fleet and an increase in the depreciation charge in 2014 of €81 million.

Following the successful turnaround of Iberia, the original Iberia Brand impairment of €79 million was reversed and €306 million of deferred tax assets related to prior year losses were recognised.

The reversal of the impairment and recognition of the assets were supported by the Iberia Business plan. Iberia exceeded its 2014 target and has demonstrated its ability to deliver on its Transformation Plan.

Elements of the existing British Airways and Iberia frequent flyer programmes, together with the existing Avios loyalty programme, have been brought into a single legal entity, the Avios Group Limited (AGL). AGL has arm's length contracts with the airlines for the sale of points, which the airline will then issue to the customer, and the purchase of flights from the airlines which AGL will then use to fulfil customer redemptions.

This new transparency, together with an increase in availability of seats to customers using Avios, offset by an increase in the number of points required for some flight redemptions provided additional information to support the annual review of breakage rates and the fair value of an Avios point. The Committee has reviewed the new governance arrangements and the accounting impact of the changes.

The Committee reviews the going concern basis for preparation of the accounts including consideration of the downturn scenarios on cash positions.

IT risk

British Airways' implementation of a new system controlling the worldwide check-in and the aircraft loading processes had been planned for 2014. However, the implementation was delayed as it was identified that, given the system's scale and operational criticality, planned upgrades to networks, the server infrastructure and system management capability would be necessary in advance of implementation. The Committee reviewed the programme of assurance activities which are planned for 2015 as the project enters its implementation phase.

Treasury policy and financial risk management

The Group's treasury policies were refreshed in 2014 with the Committee requesting a new focus on identifying strategic principles that are approved by the Board and detailed policies that are approved by the Management Committee. The strategic principles set out objectives and principles that constrain and guide the treasury departments and are used to develop the detailed policies. The detailed policies cover a set of rules controlling day-to-day operations.

The Committee continued to review the Group's fuel and foreign exchange hedging positions on a quarterly basis, ensuring that the approved hedging profile was being adhered to and continued to be appropriate.

Tax policy

The Committee reviewed a new Group tax policy that sets out principles ensuring the values of the internal tax function are aligned to the Group's overall strategy. The policy also provides a consistent framework to achieve effective and efficient decision making on tax issues and manage the Group's tax risk appropriately.

Report of the audit and compliance committee continued

Internal control over financial reporting

The Group completed its Internal Control over Financial Reporting (ICFR) project which has seen a thorough analysis of risks in financial reporting, the documentation of accounting processes and testing of internal controls. ICFR, a Spanish corporate governance requirement, has been implemented at British Airways, Iberia and Vueling, and no material weaknesses were identified. A full description of ICFR is set out in Section F of the Spanish Corporate Governance Report on page 200.

The Committee considers whether the Annual Report and Accounts are fair, balanced and understandable. This review is supported by a process whereby all sections of the Annual Report and Accounts are allocated to senior managers and members of the Management Committee who attest that the sections are fair, balanced and understandable. The Committee also reviews disclosure throughout the year through receiving a quarterly report from the IAG Disclosure Committee outlining all the matters they discuss.

External audit

The Group's external auditors, EY, were appointed as auditors of Vueling for 2014 in line with the Committee's policy of having one auditor for the Group. The Committee works closely with EY, with their UK and Spain-based partners attending all seven meetings during the year. The Committee reviewed the engagement letter, fees and the audit plan which included EY's assessment of risk areas within the financial statements. Audit results were reviewed during three meetings; for the half year, for the findings from interim audits, and for the year-end matters.

In assessing the effectiveness and independence of the external auditors, the Committee considered relevant professional and regulatory requirements and the relationship with the auditors as a whole. The Committee monitored the auditors' compliance with relevant regulatory, ethical and professional guidance on the rotation of partners, and assessed their qualifications, expertise, resources and the effectiveness of the audit process, including a report from the external auditor on its own internal quality procedures. The assessment included a detailed questionnaire completed by key directors, managers and a sample of accounting staff throughout the Group. Having reviewed EY's performance during 2014, the Committee concluded it was in the Group's and shareholders' interests not to tender the audit in 2015 and recommends their re-appointment.

The Group audit was last tendered on the incorporation of the IAG parent company in 2010. The Company intends to comply with the UK Corporate Governance Code requirement to tender the external audit at least every ten years and the transition arrangements that would require the audit to be tendered for the year 2020 at the latest. Subject to its implementation in Spain and the UK, the new EU Regulation regarding the statutory audit of public interest entities will require us to change auditors in 2020.

Non-audit services provided by the external auditors are subject to a Board approved policy that prohibits certain categories of work and controls the overall level of expenditure. The Committee reviews the nature and volume of projects undertaken by the external auditors on a quarterly basis and the Committee Chairman pre-approves projects over €100,000 or of an unusual nature. The overall volume of work is addressed by a target maximum of €1,300,000 recognising that large projects where EY are uniquely placed to carry out the work may be considered in addition to the target maximum. Spend in 2014 was below the target maximum at €761,000. Details of the fees paid to the external auditors during the year can be found in note 7 to the financial statements.

Whistleblowing

The Committee reviewed procedures whereby staff across the Group can raise confidential concerns regarding accounting, internal control, auditing and other matters. Third-party providers are used to provide whistleblowing channels so that all staff across the Group can report concerns to senior management in their company. The Committee also reviewed the volume and nature of cases reported and noted that there were no significant financial or compliance issues raised.

REPORT OF THE NOMINATIONS COMMITTEE



Antonio Vázquez

Dear Shareholder

I am pleased to present this report on the work of the Nominations Committee during 2014.

As it was agreed last year, the focus and attention of the Committee during 2014 was heavily on succession planning for the Board, the Management Committee and for the operating companies' leadership teams. I am satisfied with the progress made in this area. At the same time, the Committee as well as our Chief Executive are absolutely conscious that we will need to revisit and follow up on the work done on a routine basis.

Diversity, in its broader sense; as in terms of gender, has been a fundamental element when planning the long-term composition of the Board, and will continue to be monitored within the Group.

In 2015, in addition to succession planning, the Committee will review and enhance the induction and training programmes for Non-Executive Directors. Furthermore, in a year where developments in Corporate Governance had taken place in both the UK and Spain, the Committee will need to examine these changes so as to ensure that the Company is aligned with the best corporate governance standards.

Antonio Vázquez

Nominations Committee Chairman

Committee membership

The composition, competencies and operating rules of the Nominations Committee are regulated by article 24 of the Board Regulations. A copy of these Regulations can be found on the Company's website. These Regulations state that the Nominations Committee shall be made up of no less than three and no more than five Non-Executive Directors appointed by the Board, with the dedication, capacity and experience necessary to carry out its function. At least two of the members of the Nominations Committee must be Independent Directors.

During 2014, the Committee comprised four members: Antonio Vázquez (Chairman), Sir Martin Broughton, César Alierta and Baroness Kingsmill. All members are Non-Executive Directors, and three of them are considered independent. In line with UK corporate governance best practice, the Chairman of the Board also chairs this Committee.

The Nominations Committee's responsibilities

The Committee's terms of reference are contained in the IAG Board of Directors' Regulations referred to above. The Committee's principal responsibilities can be summarised as follows:

- reviewing the criteria for the composition of the Board and the selection of candidates;
- submitting proposed appointments of independent Board members to the Board for approval;
- reporting to the Board on the proposed appointment of other Board members;
- reporting to the Board on the proposed designations of officers on the Board and proposing membership of Board committees;
- succession planning for Board members, including the Chairman and the Chief Executive Officer;
- establishing guidelines for the appointment, recruitment, career, promotion and dismissal of senior executives;
- reporting to the Board on the appointment and removal of senior executives;
- ensuring that Non-Executive Directors receive induction programmes; and
- identifying Board members to fill vacancies on Board committees.

Meetings and attendance

During 2014 the Nominations Committee met five times. Directors' attendance at these meetings is shown on page 37.

Report of the Nominations committee continued

The Committee's activities during the year

The Committee dealt with the following significant issues during 2014:

- change to annual re-election of Directors;
- Board succession planning;
- succession planning for the Group Chief Executive Officer, IAG Management Committee and leadership teams of the Group operating companies;
- performance evaluation of the Chairman and the Chief Executive Officer;
- review of appointments on the Group subsidiary Boards;
- induction and refresher programmes for Non-Executive Directors;
- update on diversity trends and Group diversity reporting; and
- evaluation of the Committee's performance.

Directors' annual elections

After three years following the merger between British Airways and Iberia, the Committee reviewed the existing arrangements relating to election of Directors whereby over a phased period of time Directors sought re-election by shareholders. Once the Company successfully overcame this initial phase, it was considered to be the appropriate time to align IAG with UK corporate governance best practice. The Committee therefore recommended to the IAG Board that all Directors should stand for annual re-election.

Board and Board Committee composition

There were a number of changes in the composition of the Board during 2014 and the Committee reviewed these changes before making recommendations to the Board. These were:

- On January 23, the Committee submitted to the Board the appointment of María Fernanda Mejía as a Non-Executive Director. María Fernanda brings significant consumer facing experience, which was one of the skills the Board considered important to enhance, bringing at the same time a deep understanding of the Latin American market.
- On October 30, the Committee endorsed the appointment of James Lawrence to replace Kieran Poynter as Chairman of the Audit and Compliance Committee, as well as the addition of María Fernanda Mejía as a member to the Remuneration Committee.

The recruitment process undertaken for the appointment of María Fernanda Mejía was formal, transparent and rigorous. Within this process, candidates from a wide range of backgrounds were considered with due regard to diversity, including gender. Spencer Stuart, which has no other connections with IAG, was engaged to carry out the search.

Committee evaluation

The Committee's performance was evaluated internally this year as part of the annual Board evaluation process. The Committee was found to be operating effectively. Committee members are satisfied with the general conditions under which this Committee is functioning, including the number of ordinary meetings held, the information provided for the meetings, as well as the level of debate and challenge within the Committee meetings. The Committee acknowledges the progress made against the objectives agreed in the external evaluation carried out in 2013.

Diversity

During 2014 the Nominations Committee continued reviewing gender diversity on the Board, at senior management levels and amongst the Group's worldwide employees.

The appointment of María Fernanda Mejía as Non-Executive Director on February 27, 2014, together with the addition of Dame Marjorie Scardino in December 2013, represent significant steps in improving gender diversity at Board level.

Beyond gender diversity, the Committee believes that the combination of different backgrounds, personalities, skills and knowledge enriches Board performance and improves its effectiveness. In this sense, the succession planning discussions and analysis carried out this year aim to ensure the existence of this kind of diversity on the Board, always aligned with the Company's business and strategy.

The Committee has also reviewed this year the IAG Board diversity policy, which was approved by the Board on June 18, 2014. In support of this policy, IAG only engages external search consultants who have signed up to the UK Voluntary Code of Conduct on gender diversity for Executive Search Firms or an international equivalent. The Board diversity policy is described on the Company's website and further information concerning diversity within the IAG Group is available on page 29.

Succession planning

As agreed last year, succession planning was a key area of focus for the Committee in 2014. Following the recommendations of the 2013 independent Board evaluation, both Board and Management succession plans were reviewed and considered in depth. Led by its Chairman, the Committee analysed and debated over Board composition, its refreshment timeline, as well as over possible successor candidates for the different positions within the Board and its committees.

As far as management is concerned, the Chief Executive Officer led the necessary arrangements for succession planning of key executive positions at IAG as well as at the operating companies' leadership teams, identifying potential successors for crisis, medium and long-term timescales. Beyond this, management succession planning has been used as a key tool to foster internal development.

Last but certainly not least, the Committee considered succession planning for the role of the Chief Executive Officer. This was done in a consistent manner with key executives' succession and development plans. In addition to short and medium term considerations, the Committee satisfied itself that the required contingency plans to cover the Chief Executive Officer position are in place.

Induction of Directors

Two Directors followed tailored induction programs this year. Pursuant to the 2013 refreshed program, both Directors were provided with a comprehensive pack of information about the Group and its operations delivered over time following their appointment. These induction programs involved meetings with other Board members, including the Board Secretary and Deputy Secretary, with Management Committee members as well as with the Group Head of Investor Relations.

New Directors were invited to attend key corporate events such as the IAG investors events held in 2014. The program also comprised visits to major sites, including the head offices of the Group's operating companies in London, Madrid and Barcelona, as well as airport terminals, cargo premises and maintenance hangars.

REPORT OF THE SAFETY COMMITTEE



Willie
Walsh

Dear Shareholder

I am pleased to present this report on the work of the Safety Committee during 2014.

The Safety Committee has continued with its usual responsibilities, monitoring all matters relating to the operational safety of IAG's airline companies, as well as to the systems and resources dedicated to safety activities across the Group.

I am satisfied with how this Committee is operating and with the progress made to date, as we are beginning to see the benefits of its existence in terms of learnings between the different operating companies of the Group. The conclusions of the Committee performance evaluation carried out this year back up these remarks.

If I have to highlight something with respect to this year's performance I would refer to the progress made on the consistency of the information prepared for this Committee and, consequently, on the cooperation in this security area between the different operating companies.

Willie Walsh

Safety Committee Chairman

Committee membership

Composition, competencies and operating rules of the Committee are regulated by article 26 of the Board of Directors' Regulations. The Committee shall be made up of no fewer than three and no more than five Directors appointed by the IAG Board, with the dedication, capacity and experience necessary to carry out their function.

The Committee comprises four members: Willie Walsh (Chairman), Antonio Vázquez, Sir Martin Broughton and Kieran Poynter. In addition, senior managers with responsibility for safety matters are invited to attend and to report in the Committee meetings as and when necessary. During 2014, Roberto Alcover Diaz from Iberia, Captain Tim Steeds from British Airways and Fernando Val Martinez from Vueling attended the Safety Committee meetings.

The Safety Committee's responsibilities

Responsibility for safety matters belongs to the Group's airlines. IAG, through its Safety Committee, will have an overall view of each airline's safety performance and of any important issues that may affect the industry.

The Safety Committee also has visibility on the Group's airlines resources and procedures. Responsibility for performing detailed and technical assessments remains with each operating airline.

The Committee's duties include:

- to receive significant safety information about IAG's subsidiaries, franchise, codeshare or wet-lease provider used by any member of the Group;
- to exercise a high-level overview of the safety activities and resources of IAG and its subsidiaries;
- inform the Board as appropriate (recognising that responsibility for resources and safety matters falls to each subsidiary);
- to follow up on any safety-related matters as determined by the Board; and
- to carry out any other safety-related functions assigned by the Board.

The Safety Committee reports any relevant information and a summary of its activity to the IAG Board, and follows up on any safety-related measures as determined by the IAG Board.

The Committee's activities during the year

During 2014, the Committee held two meetings, attended by all four Committee members. The key topics discussed included relevant industry issues and the safety review reports of British Airways, Iberia and Vueling.

REPORT OF THE REMUNERATION COMMITTEE



Baroness
Kingsmill

Dear Shareholder,

I am pleased to set out the Remuneration Report of IAG for 2014.

This report is split into two sections. The first section is the Company's proposed future remuneration policy, including the objectives and operation of each element of pay, the context in which decisions for this policy were made, and service contract details. The second section gives the detail of the implementation of the 2014 remuneration policy including the total remuneration (a 'single figure') of the Directors, and variable pay awarded in the year. It also gives details on how 2015 remuneration policy will be implemented.

In the terms that I describe below, at the Company's Annual General Meeting, the Directors' future remuneration policy will be subject to a binding vote by shareholders, and the annual remuneration report will be subject to an advisory vote by shareholders.

General overview

IAG's executive remuneration framework aims to underpin our business objectives and financial targets, and the remuneration policy is designed to deliver total remuneration which is market competitive with increased emphasis placed on pay for performance. Our performance shows continued improvement despite difficult trading conditions. Both the long term incentive plan and the annual incentive plan had stretching targets set, and there has been solid progress against these targets.

We very much valued your comments and support for our 2013 Remuneration Report submitted to shareholders' consideration at our Annual Shareholders' Meeting. I saw this as a great vote of confidence in the fact that the Group has got a robust remuneration policy. Once again, the Chief Executive of IAG has continued to lead by example in proposing restraint in executive packages, and proposing robust stretching targets for all IAG incentive plans.

Overall summary of 2014

2014 has seen continued improvement of our performance, with profitability much increased compared to 2013, and a continuing growth in the share price. The performance share plan awarded to executives in 2012 reached the end of its performance period in December 2014, and has vested at 85 per cent of the maximum. This is a great success story, and shows a great turnaround in the Group's performance over the last three years.

The financial targets for the 2014 annual incentive plan set at the beginning of the year were stretching, but strong performance means that the two-thirds portion linked to financial performance will pay out 97 per cent of the maximum opportunity. The Group has achieved significant success in continuing to find synergies, and has outperformed against cost and revenue synergy targets. These successes will be rewarded to those involved through the personal one-third portion of the annual incentive award. The Committee will continue to ensure that executive remuneration underpins the business strategy and is confident that the overall reward framework for 2015 and beyond is in the best interests of shareholders.

Comparison of overall performance and pay

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

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

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

2015 new features

One of the key activities for the Committee during 2014 has been reviewing the remuneration strategy, and one of the results of this will see a further strengthening of the alignment between executives and shareholders. This has partly been driven by feedback from investors and revisions to the UK Corporate Governance Code.

Report of the Remuneration Committee continued

The new features introduced in the 2015 implementation of the remuneration policy are as follows:

- A new metric (Return on Invested Capital (RoIC)) has been introduced in the long term incentive plan, in addition to the existing metrics of EPS and relative TSR.
- Introduction of an additional holding period in the long term incentive plan.
- A strengthening of the shareholding guidelines. The CEO of IAG is required to build up and maintain a shareholding of 250 per cent of basic salary (previously 100 per cent of basic salary), and other Executive Directors are required to build up and maintain a shareholding of 150 per cent of basic salary (previously 100 per cent of basic salary). Executives will be required to retain the entire 100 per cent of shares (net of tax) (previously 50 per cent) which vest from share plans until their respective shareholding requirement is attained.
- A strengthening of the malus and clawback provisions.

IAG's regulatory framework

IAG, as a Spanish incorporated company, is subject to Spanish corporate law. The Spanish legal regime regarding directors' remuneration has been recently modified. Law 31/2014, of December 3, amending the Companies Act to improve corporate governance, published on December 4, establishes a legal framework substantially parallel to that of the UK as far as directors' remuneration disclosure and approval requirements are concerned.

Spanish companies will continue to prepare their Directors' Remuneration Report in accordance with Circular 4/2013 of the Spanish *Comisión Nacional del Mercado de Valores* until the relevant regulations are adjusted pursuant to this new law. The Spanish Directors' Remuneration Report (the Spanish DRR) is also available on the Company's website.

Having said this, it is the Company's intention once again to comply voluntarily with all reporting aspects of the UK legislation of 2013 and to follow best practice UK standards, for the benefit of our key institutional shareholders and our UK shareholder base. Therefore, the Company has prepared a Directors' Remuneration Report in accordance with UK legislation (the UK DRR).

Additionally, bearing in mind that our annual Shareholders' meeting is subject to Spanish corporate law, we have ensured that both reports, the Spanish DRR and the UK DRR, are totally consistent. At the Company's next AGM, the vote on the remuneration policy will be binding and the vote on the remuneration implementation report will be advisory.

Approved by the Board and signed on its behalf by

Baroness Kingsmill

Chair of the Remuneration Committee

Introduction

In addition to the Remuneration Committee Chairman's statement, this Directors' Remuneration Report contains two different sections:

- The first section, the Directors' Remuneration Policy contains details of the components of the remuneration packages of the Company's Directors and how they are linked to the business strategy.
- The second section, the Annual Remuneration Report covers the information on Directors' remuneration paid in the reported year.

The Remuneration Committee takes responsibility for the preparation of the report, which is approved by the Board.

The Report has been prepared in accordance with the UK Listing Rules and, although there is no requirement as a Spanish company, the requirements of Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) (amendment) Regulations 2013.

Directors' Remuneration Policy

Key elements of pay

Executive Directors

The Company's remuneration policy is to provide total remuneration packages which are market competitive, linked to the business strategy and take into account each individual's role, skills and contribution.

The Company's primary comparator group is the FTSE 26 to 100 (excluding financial services), with a secondary reference to IBEX 35 and global airline companies where appropriate. The Committee is updated on pay and conditions of the employees within the Group, and takes this into account when considering Executive Directors' remuneration.

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

| Purpose and link to strategy | Operation of element of policy | Maximum opportunity | Performance metrics |
|---|---|--|---|
| Base salary To attract and retain talent to help achieve our strategic objectives | Takes account of role, skills and contribution. The positioning of base salaries is set with reference to market positioning (primarily the FTSE 26 to 100 excluding financial services) as well as the individual's skills and contribution. Basic salaries are reviewed annually, to take effect on January 1 each year. | Although there is no formal maximum, basic salaries are reviewed annually by the Remuneration Committee by taking into account the following factors: company affordability, the value and worth of the executive, retention risks, and the size of pay increases generally across the whole group of companies. | Individual and business performance are considered in reviewing and setting base salary. |
| Annual incentive award Incentivises annual corporate financial performance and the delivery of role specific objectives | The Board, on a recommendation from the Committee, sets the financial targets that apply to the Annual Incentive Award (two-thirds of the annual incentive) at the beginning of each year. These are set by reference to a number of factors including the Business Plan (as approved by the Board) For the one-third portion based on personal objectives, the Remuneration Committee, on the proposal of the Chairman, will consider the Chief Executive Officer performance against his role-specific objectives; and the Remuneration Committee, on the proposal of the Chief Executive Officer, will consider the Chief Financial Officer performance against his role-specific objectives. Both performance evaluations will be submitted to the Board for final approval. The Board, on a recommendation from the Committee, retains the discretion to prevent any incentive award payments if, in its opinion, the underlying financial performance of the Company had not been satisfactory in the circumstances. Malus and clawback provisions apply – see below. | The maximum opportunity in the incentive plan is 200 per cent of salary. 50 per cent of this will be awarded for on-target performance, and there will be no payment at all until financial and personal performance has reached the threshold level of the target range. | Two-thirds of the annual incentive is subject to a financial measure (e.g. IAG operating profit), and one-third is based on role specific objectives. |
| Incentive Award Deferral Plan (IADP) Aligns the interest of executives and shareholders and provides a retention tool | The IADP operates over 50 per cent of the annual incentive award. It is designed to align the interests of Executives with shareholders by providing a proportion of the annual incentive in deferred shares. The shares will be subject to forfeiture if the Executive leaves during the three year deferral period, except if the Executive is granted Good Leaver status. This is covered in the section below on exit payment policy. On vesting, Executives will receive the benefit of any dividends paid over the deferred period. On vesting, in line with the rules of the IADP and IAG's philosophy to encourage and facilitate employee shareholding, participants may elect to self-fund any tax due rather than sell a portion of their share award to meet tax liabilities. Malus provision applies – see below. | Half of any annual incentive plan pay-out is deferred into shares. | No other performance conditions apply because it is based on performance already delivered. |

Report of the Remuneration Committee continued

| Purpose and link to strategy | Operation of element of policy | Maximum opportunity, | Performance metrics |
|---|--|--|---|
| Performance Share Plan (PSP) Incentivises long-term shareholder value creation. Drives and rewards delivery of sustained TSR and financial performance | <p>The PSP is a discretionary plan targeted at key senior executives and managers of the Group who directly influence shareholder value. The PSP consists of an award of the Company's shares which vests subject to the achievement of pre-defined performance conditions which are designed to reflect the creation of long term value within the business.</p> <p>These performance conditions are measured over a performance period of at least three financial years. No payment is required from individuals when the shares are awarded or when they vest.</p> <p>The Board, after considering the recommendation of the Remuneration Committee, retains the discretion to prevent any PSP award payments if, in its opinion, the underlying financial performance of the Company had not been satisfactory in the circumstances.</p> <p>On vesting, in line with the rules of the PSP and IAG's philosophy to encourage and facilitate employee shareholding, participants may elect to self-fund any tax due rather than sell a portion of their share award to meet tax liabilities.</p> <p>Following the performance period, there is an additional holding period of two years.</p> <p>Malus and clawback provisions apply – see below.</p> | <p>The face value of awards will not normally exceed 200 per cent of salary in respect of any financial year of the Company (with the Board having the discretion to award up to 300 per cent of salary in exceptional circumstances). At the threshold level of the performance target range, either 10 per cent or 25 per cent will vest depending on which performance measure is being tested.</p> | <p>Any PSP award made will be measured over at least three years.</p> <p>Each year, the Board, following the advice of the Committee, will determine appropriate performance conditions, with appropriate and stretching target ranges. These will take into account market conditions and also ensure alignment with shareholder interests. At least one condition is likely to be a measure of Group share performance compared with an index of other companies who are subject to external influences impacting share price similar to those of the Group.</p> <p>One or more measures will provide a strong measure of the underlying financial performance of the business.</p> |
| Benefits Ensures total package is competitive | <p>Life insurance, personal travel and where applicable, a company car, fuel, occasional chauffeur services, and private health insurance.</p> <p>Where appropriate, benefits may include relocation and international assignment costs.</p> | <p>Although there is no formal maximum, the Company determines benefits policy by taking into account company affordability, and with reference to the external market.</p> | |
| Pension Provides post-retirement remuneration and ensures total package is competitive | <p>The Company operates a defined contribution scheme as a percentage of salary.</p> <p>Executives can opt instead to receive a salary supplement in lieu of a pension.</p> <p>The CEO of IAG and the Chief Financial Officer of IAG are members of the pension scheme.</p> | <p>The level of employer contribution is 25 per cent of basic salary.</p> | |

Shareholding Requirements

In order to increase alignment with shareholders, Executives are required to build up a minimum personal shareholding equal to a set percentage of base salary. The CEO of IAG is required to build up and maintain a shareholding of 250 per cent of basic salary, and other Executive Directors are required to build up and maintain a shareholding of 150 per cent of basic salary.

Executives will be required to retain the entire 100 per cent of shares (net of tax) which vest from share plans until their respective shareholding requirement is attained.

Malus and Clawback Provisions

The Board, following the advice of the Committee, has authority under the malus provisions of the Performance Share Plan and the Incentive Award Deferral Plan to reduce or cancel awards before they vest, and authority under the clawback provisions of the Performance Share Plan to recover payments during the additional holding period, if special circumstances exist. These special circumstances include fraud; material breach of any law, regulation or code of practice; misstatement of results; misconduct; failure of risk management; or any other circumstances in which the Board considers it to be in the interests of shareholders for the award to lapse or be adjusted.

For the PSP, clawback provisions apply during the two years' additional holding period. For the IADP, there will be three years from the date of award in which shares can be withheld, i.e. the entire period from the date of the award until vesting. For the cash element of the annual incentive plan, clawback provisions apply for three years from the date of payment. The proportion of an award to be withheld or recovered will be at the discretion of the Board, upon consideration of the Committee, taking into account all relevant matters.

Report of the Remuneration Committee continued

Non-Executive Directors

The table below summarises the main elements of remuneration for Non-Executive Directors:

| Purpose and link to strategy | Operation of element of policy | Maximum opportunity. |
|--|---|--|
| Basic Fees Fees are set to take into account the level of responsibility, experience, abilities and dedication required. | Fees are set with reference to market positioning (primarily the IBEX 35 and the FTSE 26 to 100, excluding financial services). To acknowledge certain key roles at Board level, fees are set separately for the Non-Executive Chairman, and the Non-Executive Deputy Chairman. There is also an additional fee paid to any Non-Executive Director for holding a Committee Chairmanship. There is no additional fee for Committee membership. Non-Executive Director fees will take into account external market conditions to ensure it is possible to attract and retain the necessary talent. There is no specific review date set, but it is the Company's intention to review fees from time to time. There has been no change to fee levels since IAG came into existence in 2011. | The maximum annual aggregate gross remuneration (including annual basic fees and benefits, including travel benefits) payable to Directors shall not exceed €3,500,000 as approved by the Company's Sole Shareholder Meeting on October 19, 2010, in accordance with article 37.3 of the Company's Bylaws. |
| Taxable Benefits | Non-Executive Directors (including the Chairman and Deputy Chairman) are entitled to use air-tickets of the airlines of the Company or related to the Company in accordance with the applicable travel scheme. As foreseen under article 37.8 of the Company's Bylaws this benefit may also be provided to Non-Executive Directors after they have vacated office in accordance with the applicable travel scheme. | The maximum total annual gross amount of the personal travel benefit is €500,000 for all Non-Executive Directors taken together (including any former Non-Executive Director who may enjoy this benefit at any given time). |

Remuneration Policy below Director Level

IAG employees at all levels participate in the discretionary Annual Incentive Plan. Both the size of award and weighting of performance conditions vary by level, with some business unit specific measures incorporated where relevant. The financial targets are the aggregate of the financial targets of the Group's companies, ensuring alignment between the Group's head office and the Group's companies.

All senior managers across the Group participate in the IADP (currently 50 per cent of any annual incentive payment deferred in IAG shares for three years) and certain selected senior managers in the PSP in line with the Executive Directors. Employees below senior manager level do not participate in either.

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

Managers at the airlines in the Group participate in their own airline short-term incentive plans. These all have performance measures specific to their airline, and are typically financial, operational, and customer service measures. Most companies within the Group have profit share schemes, designed to give employees below manager level an opportunity to share in the success of their company within the Group.

Notes on the above forward-looking policy tables

Notwithstanding the forward-looking policy detailed herein, and always in compliance with applicable law, the Company will make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) where the terms of the payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a director of the Company and, in the opinion of the Board, the payment was not in consideration for the individual becoming a director of the Company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are "agreed" at the time the award is granted which may include different performance measures to those outlined in the forward-looking policy table above.

Remuneration scenarios

A significant portion of the Company's total remuneration package is variable, with emphasis placed on longer-term reward to align closely Executive Directors' and senior managers' interests with shareholder interests. The charts below show, for 2015 and for each Executive Director, the minimum remuneration receivable, the remuneration receivable if the Director performs in line with the Company's expectations, and the maximum remuneration receivable. Share price appreciation during the performance period is not taken into consideration in these scenarios.

Chief Executive Officer of IAG

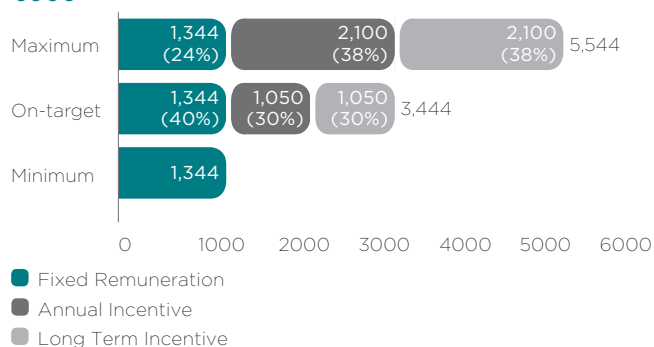
Fixed remuneration is basic salary (2015 level of €1,050,000), plus taxable benefits (2014 actual of €32,000) plus pension related benefits (2014 actual of €262,000).

The annual incentive amount is zero at the minimum remuneration level, €1,050,000 at the on-target level (50 per cent of the maximum opportunity of 200 per cent of salary), and €2,100,000 at maximum (200 per cent of salary).

The long term incentive amount is zero at the minimum remuneration level, €1,050,000 at the on-target level (50 per cent of the maximum opportunity of 200 per cent of salary) and €2,100,000 at maximum (200 per cent of salary).

All amounts are actually paid in sterling, and are shown here in euro at the €:£ exchange rate of 1.2356

€000



Chief Financial Officer of IAG

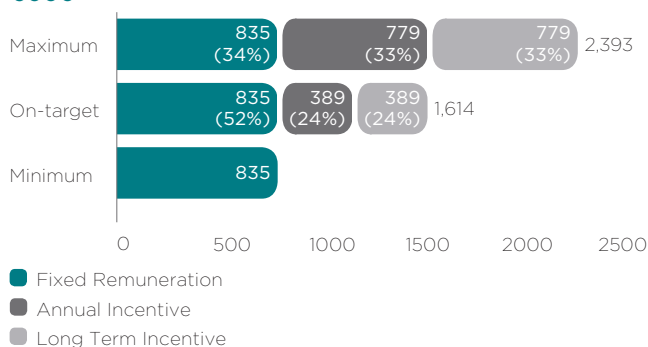
Fixed remuneration is basic salary (2015 level of €649,000), plus taxable benefits (2014 actual of €27,000) plus pension related benefits (2014 actual of €159,000).

The annual incentive amount is zero at the minimum remuneration level, €389,400 at the on-target level (50 per cent of the maximum opportunity of 120 per cent of salary), and €778,800 at maximum (120 per cent of salary).

The long term incentive amount is zero at the minimum remuneration level, €389,400 at the on-target level (50 per cent of the maximum opportunity of 120 per cent of salary) and €778,800 at maximum (120 per cent of salary).

All amounts are actually paid in sterling, and are shown here in euro at the €:£ exchange rate of 1.2356

€000



Report of the Remuneration Committee continued

Service contracts and exit payments policy Executive Directors

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

The contracts of Executive Directors are for an indefinite period.

There are no express provisions in Executives' service contracts with the Company for compensation payable upon termination of those contracts, other than for payments in lieu of notice.

| Executive Director | Date of contract | Notice period |
|-----------------------|------------------|---------------|
| Willie Walsh | January 21, 2011 | 12 months |
| Enrique Dupuy de Lôme | January 21, 2011 | 12 months |

The period of notice required from the Executive is six months; the period of notice required from the Company is 12 months. Where the Company makes a payment in lieu of notice, a lump sum in lieu of the first six months base salary is payable within 28 days of the date of termination of employment. A payment in respect of base salary for the second six month period only becomes payable if, in the Company's opinion, the Executive has taken reasonable steps to find alternative paid work and then only in six monthly instalments. The Company may reduce the sum payable in respect of any month by any amount earned by the Executive (including salary and benefits) referable to work done in that month.

In the event of an Executive's redundancy, compensation, whether in respect of a statutory redundancy payment or a payment in lieu of notice or damages for loss of office is capped at an amount equal to 12 months base salary.

The Company will honour the contractual entitlements of a terminated Director; however, the Company may terminate an Executive's service contract with immediate effect and without compensation on a number of grounds including where the

Executive is incapacitated for 130 days in any 12 month period, becomes bankrupt, fails to perform his duties to a reasonable standard, acts dishonestly, is guilty of misconduct or persistent breach of his duties, brings the Company into disrepute, is convicted of a criminal offence, is disqualified as a Director, refuses to agree to the transfer of his service contract where there is a transfer of the business in which he is working or ceases to be eligible to work in Spain or the UK (as applicable).

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

In the event of an Executive Director's termination from the Company, they must not be employed by, or provide services to, a restricted business (i.e. an airline or travel business that competes with the Company) for a period of six months.

Non-Executive Directors

Non-Executive Directors (including the Chairman and Deputy Chairman) do not have service contracts. Their appointment is subject to the Board regulations and the Company's Bylaws. Directors do not have the right to any compensation in the event of termination as directors. Board members shall hold office for a period of one (1) year. The dates of the Chairman's and current Non-Executive Directors' appointments are as follows:

| Non-Executive Director | Date of the first appointment | Date of last re-election |
|-------------------------|-------------------------------|--------------------------|
| Antonio Vázquez | May 25, 2010 | June 18, 2014 |
| Sir Martin Broughton | May 25, 2010 | June 18, 2014 |
| Baroness Kingsmill | September 27, 2010 | June 18, 2014 |
| James Lawrence | September 27, 2010 | June 18, 2014 |
| César Alierta | September 27, 2010 | June 18, 2014 |
| Patrick Cescau | September 27, 2010 | June 18, 2014 |
| José Pedro Pérez-Llorca | September 27, 2010 | June 18, 2014 |
| Kieran Poynter | September 27, 2010 | June 18, 2014 |
| Alberto Terol | June 20, 2013 | June 18, 2014 |
| Dame Marjorie Scardino | December 19, 2013 | June 18, 2014 |
| María Fernanda Mejía | February 27, 2014 | June 18, 2014 |

External Non-Executive Directorship

The Company's consent is required before an Executive can accept an external Non-Executive appointment and permission is only given in appropriate circumstances.

Approach to recruitment remuneration

The remuneration for new Executive Directors will be in line with the policy for current Executive Directors as far as possible, as expressed in the policy table earlier in this report. On appointment, new Executive Directors will have their basic salary set by taking into account the external market, their peers, and their level of experience. New Executive Directors will participate in the annual and long term incentives on the same basis as existing Directors.

The Board, after considering the recommendation of the Remuneration Committee, retains the discretion to deviate from the stated remuneration policy as necessary to ensure the hiring of candidates of the appropriate calibre with due regard to the best interests of shareholders. For example, to facilitate recruitment, the Board, after considering the recommendation of the Committee, may make one-off awards to "buy out" variable pay or contractual rights forfeited on leaving a previous employer. Generally, such buy-out awards will be made on a comparable basis to those forfeited giving due regard to all relevant factors (including value, performance targets, the likelihood of those targets being met and vesting periods). In such circumstances, shareholders will be provided with full details and rationale in the next published remuneration report.

Excluding the value of any potential buy-out, the maximum value of variable remuneration offered at recruitment to any new executive director will be 500 per cent of base salary, in line with the stated policy.

In the case of an internal promotion to Executive Director, the Company will continue to honour any commitments made before promotion. Other than that, the remuneration arrangements on recruitment will be as above.

Non-Executive Directors will be recruited in line with the Company's remuneration policy principles outlined before.

Consideration of employment conditions elsewhere in the Group

The pay of employees across all companies in IAG is taken into account when determining the level of any increase in the annual salary review of Directors. This takes place each year at the January Committee meeting.

When determining the PSP awards for Executive Directors, the Committee takes note of the eligibility criteria and the potential size of awards for executives below Director level in all companies within IAG.

At the operating company level, the company consults with employee representative bodies, including trade unions and works councils. This will include consultation on company strategy, the competitive environment, and employee terms and conditions. In addition, some of the operating companies run employee opinion surveys in order to take into consideration employee views on a variety of subjects, including leadership, management, and pay and benefits.

Consideration of shareholder views

The Committee discusses at its October meeting each year the issues and outcomes from the annual Shareholders' meeting held in June, and determines any appropriate action required as a result.

The Company consults regularly with its major investors on all matters relating to executive remuneration. The Company will engage in an extensive investor consultation exercise whenever there are any significant changes to remuneration policy.

Report of the Remuneration Committee continued

Annual Remuneration Report

Committee terms of reference

The Committee's composition, competencies and operating rules are regulated by article 25 of the IAG Board of Directors' Regulations. A copy of these Regulations is available on the Company's website.

Beyond Executive Directors, the Committee oversees the general application of the remuneration policy to the IAG Management Committee, and also remuneration matters of senior managers generally across the Group.

Remuneration Committee membership and activity

According to article 25 of the Board Regulations the Remuneration Committee shall be made up of no less than three and no more than five Non-Executive Directors appointed by the Board, with the dedication, capacity and experience necessary to carry out their function. At least two of the members of the Remuneration Committee shall be Independent Directors. During the reporting period, the members of the Committee were Baroness Kingsmill (Chair), Dame Marjorie Scardino, Alberto Terol, and since October 30, 2014, María Fernanda Mejía. For the reporting period all members were considered Independent Non-Executive Directors of the Company and none of the members has any personal financial interest, other than as a shareholder, in the matters to be decided.

Key topics covered at Remuneration Committee meetings

In 2014, the Committee met four times and discussed, amongst others, the following matters:

| Meeting | Agenda items discussed |
|----------|---|
| January | – Review of IAG Executive Committee members' basic salaries |
| February | – 2013 annual incentive plan payments to IAG Executive Committee members – Vesting outcome of the Performance Share Plan 2011 award – Final review of 2013 Directors' Remuneration Report |
| June | – Review of incentive arrangements for the CEO of Iberia |
| October | – Spain and UK executive remuneration market update – Remuneration strategy for 2015 – First update on the 2014 Directors' Remuneration Report |

Advisers to the Committee

In February 2014, the Committee appointed Towers Watson as its external advisers. The decision to appoint Towers Watson was made by the Committee following a tender process. Towers Watson report directly to the Committee. The fees paid to Towers Watson for advice provided to the Remuneration Committee were €65,487 for 2014.

The Company obtained high-level headline remuneration survey data from a variety of sources. During the year, the CEO of IAG provided regular briefings to the Committee apart from when his own remuneration was being discussed.

Single total figure of remuneration for each Director

Subject to full audit

Non-Executive Directors

| Director (€'000) | Fees | Taxable benefits | Total for year to December 31, 2014 | Fees | Taxable benefits | Total for year to December 31, 2013 |
|-----------------------------------|--------------|---------------------|---|--------------|---------------------|---|
| Antonio Vázquez ¹ | 484 | 19 | 503 | 484 | 12 | 496 |
| Sir Martin Broughton ² | 350 | 44 | 394 | 350 | 88 | 438 |
| César Alierta | 120 | – | 120 | 140 | – | 140 |
| Patrick Cescau | 120 | 20 | 140 | 120 | 19 | 139 |
| José Manuel Fernández | – | – | – | 57 | – | 57 |
| Baroness Kingsmill | 140 | 22 | 162 | 120 | 19 | 139 |
| Manuel Lagares | – | – | – | 62 | 3 | 65 |
| James Lawrence | 123 | 23 | 146 | 120 | 13 | 133 |
| María Fernanda Mejía | 100 | 4 | 104 | – | – | – |
| José Pedro Pérez-Llorca | 120 | 3 | 123 | 120 | 1 | 121 |
| Kieran Poynter | 137 | 14 | 151 | 140 | 21 | 161 |
| Dame Marjorie Scardino | 120 | 38 | 158 | 4 | – | 4 |
| John Snow | – | – | – | 135 | – | 135 |
| Alberto Terol | 120 | 29 | 149 | 64 | 28 | 92 |
| Total (€'000) | 1,934 | 216 | 2,150 | 1,916 | 204 | 2,120 |

¹ Antonio Vázquez took a voluntary 25 per cent reduction in his fee, effective December 1, 2012.

² From January 1, 2014, the Non-Executive Deputy Chairman will no longer have the service of a car, fuel card and personal chauffeur.

Additional explanations in respect of the single total figure table

Each Director has confirmed in writing that they have not received any other items in the nature of remuneration other than those already disclosed in the table above.

Fees

Fees paid in year for Non-Executive Directors.

Taxable Benefits

Taxable benefits including personal travel.

For the year to 31 December 2014, €:£ exchange rate applied is 1.2356

For the year to 31 December 2013, €:£ exchange rate applied is 1.1790

Executive Directors

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

2014

| Director ('000) | Base salary | Taxable benefits | Pension related benefits | Annual incentive award | Long-term incentive vesting | Total for year to December 31 2014 |
|--|--------------|---------------------|--------------------------------|------------------------------|-----------------------------------|--|
| Executive Directors | | | | | | |
| Willie Walsh (GBP) ¹ | 850 | 26 | 212 | 1,662 | 3,640 | 6,390 |
| Willie Walsh (euro) | 1,050 | 32 | 262 | 2,054 | 4,498 | 7,896 |
| Enrique Dupuy de Lôme (GBP) ¹ | 515 | 22 | 129 | 553 | 1,324 | 2,543 |
| Enrique Dupuy de Lôme (euro) | 636 | 27 | 159 | 683 | 1,636 | 3,141 |
| Total (€'000) | 1,686 | 59 | 421 | 2,737 | 6,134 | 11,037 |

Report of the Remuneration Committee continued

2013

| Director (‘000) | Base salary | Taxable benefits | Pension related benefits | Termination payment | Annual incentive award | Long-term incentive vesting | Total for year to December 31, 2013 |
|--|--------------|---------------------|--------------------------------|------------------------|------------------------------|-----------------------------------|---|
| Executive Directors | | | | | | | |
| Willie Walsh (GBP) ¹ | 825 | 47 | 206 | | 1,299 | 2,594 | 4,971 |
| Willie Walsh (euro) | 973 | 55 | 243 | | 1,532 | 3,058 | 5,861 |
| Keith Williams (GBP) ¹ | 650 | 41 | 163 | | 670 | 1,485 | 3,009 |
| Keith Williams (euro) | 766 | 48 | 192 | | 790 | 1,751 | 3,547 |
| Rafael Sánchez-Lozano ^{2,3} | 115 | 6 | 40 | 1,642 | | 1,027 | 2,803 |
| Luis Gallego | 412 | 8 | 121 | | – | | 541 |
| Enrique Dupuy de Lôme (GBP) ^{1,3} | 132 | 5 | 33 | | 117 | 905 | 1,192 |
| Enrique Dupuy de Lôme (euro) ³ | 156 | 6 | 39 | | 138 | 1,067 | 1,406 |
| Total (€'000) | 2,422 | 123 | 635 | 1,642 | 2,460 | 6,903 | 14,185 |

1 Willie Walsh, Keith Williams and Enrique Dupuy de Lôme remuneration is paid in sterling and expressed in euro for information purposes only.

2 Rafael Sánchez-Lozano took a voluntary 25 per cent reduction in his basic salary, effective December 1, 2012. His non-reduced salary was used to calculate his pension employer contribution, his annual incentive award, and his PSP award. Luis Gallego Martin took a voluntary reduction of approximately 15 per cent in his basic salary, effective March 27, 2013. His non-reduced salary was used to calculate his pension employer contribution, his annual incentive award, and his PSP award.

3 Rafael Sánchez-Lozano received payments in lieu of notice in accordance with his termination agreement during 2013. He was granted Good Leaver status, and therefore received the IAG PSP 2011 award pro-rated according to the proportion of the performance period that he was employed by the Company.

4 Enrique Dupuy de Lôme remuneration covers only the period since he became Executive Director.

Additional explanations in respect of the single total figure table for 2014

Each Director has confirmed in writing that they have not received any other items in the nature of remuneration other than those already disclosed in the table above.

Base salary

Salary paid in year for Executive Directors.

Taxable Benefits

Taxable benefits including personal travel and where applicable, a company car, fuel, occasional chauffeur services and private health insurance.

Pension, or cash in lieu

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

Annual Incentive Award

Annual incentive award cash payments for the period ended December 31, 2014 (accrued at December 31, 2014, but not paid until March 2015). The outcomes of the performance conditions which determined the award are described in the next section. Half of the full annual incentive award is deferred into shares for three years (Incentive Award Deferral Plan (IADP)). For the 2014 annual incentive plan, these are expected to vest in March 2018.

Long Term Incentive Vesting

This relates to the IAG PSP 2012 award based on performance measured to 31 December 2014, although the shares vested will not be delivered until August 2015. For the purposes of this table, the award has been valued using the average share price to the three months to 31 December 2014 of 416.4 pence. 61 per cent of the value of awards vesting under the 2012 PSP cycle was the result of share price appreciation, reflecting the significant increase in shareholder value created over the period. The outcomes of the performance conditions which determined vesting are described below.

For the year to 31 December 2014, €:£ exchange rate applied is 1.2356

For the year to 31 December 2013, €:£ exchange rate applied is 1.1790

Life Insurance

The Company provides life insurance for all Executive Directors. For the year to December 31, 2014 the Company paid contributions of €15,648. (2013: €21,541).

Variable pay outcomes

Subject to audit

2014 Annual Incentive Award

At the beginning of 2014, the Board, upon a recommendation by the Committee, set IAG operating profit as the financial target to be applied to the two-thirds of the Annual Incentive Award for that year. The operating profit was considered to be the best financial measure in aligning shareholder interests with the Company and individual performance. In relation to the one-third portion based on personal objectives, the Remuneration Committee, on the proposal of the Chairman, considered the Chief Executive Officer performance against his role-specific objectives; and the Remuneration Committee, on the proposal of the Chief Executive Officer, considered the Chief Financial Officer performance against his role-specific objectives. Both performance evaluations were submitted to the Board for final approval on February 26, 2015.

The maximum award for the Chief Executive Officer of IAG was 200 per cent of salary (100 per cent of salary for on-target performance), and for the Chief Financial Officer of IAG 120 per cent of salary (60 per cent of salary for on-target performance).

The outcomes of the performance conditions were as follows:

| Measure | | Chief Executive Officer of IAG | Chief Financial Officer of IAG |
|---|-----------------------------|---|---|
| IAG Operating Profit (67 per cent) | Payout | €1,353,668 £1,095,556 | €492,098 £398,267 |
| | per cent of maximum awarded | 97 per cent | 97 per cent |
| Role-specific objectives (33 per cent) | Outcomes versus targets | €700,173 £566,667 The award is based on the successful implementation of the Group's strategy, the sustained improvement in financial performance, improvements in return on investment, and the successful supervision of the transformation programmes at the airlines. | €190,900 £154,500 The award is based on the successful achievement of cost saving targets, monitoring and challenging Operating Companies financial performance, the delivery of financial synergies objectives, and delivery of the Business Plan. |
| | per cent of maximum awarded | 100 per cent | 75 per cent |
| Details of any discretion exercised | | | |
| Overall outcome | | €2,053,842 £1,662,222 | €682,998 £552,767 |

Half of the overall outcome of the annual incentive detailed above is payable in deferred shares in the Company vesting after three years (under the Incentive Award Deferral Plan). IAG operating profit for 2014 (two-thirds of the annual incentive) has resulted in 97 per cent of the maximum paying out for this element of the incentive. This is between the on-target level and the stretch target level of the target range (2013: 68.125 per cent). The target range for 2014 was as follows: the threshold level at which payments would begin was €1,100m, the on-target level at which 50 per cent of the maximum would pay out was €1,250m, and the stretch target level at which the maximum would pay out was €1,400m. There was a straight line sliding scale between threshold and on-target, and between on-target and stretch target.

Report of the Remuneration Committee continued

IAG PSP Award 2012

The IAG PSP award granted on August 3, 2012 was tested at the end of the performance period which began on January 1, 2012 and ended on December 31, 2014. The awards were equivalent to 200 per cent of salary for the Chief Executive Officer of IAG and 120 per cent of salary for the Chief Financial Officer of IAG.

50 per cent of the award was subject to achievement of the Company's EPS targets and 50 per cent subject to a TSR performance condition measured against an index. The vesting of any award was subject to the Committee, and the Board, being satisfied that the Group's underlying financial performance was satisfactory in the circumstances prevailing over the three year period.

The outcome of the performance condition was as follows:

| Measure | Threshold | Maximum | Outcome | Vesting (as per cent award granted in 2012) |
|--|---|--|--|---|
| TSR performance compared to the TSR performance of the MSCI European Transportation (large and mid-cap) index (50 per cent) | IAG's TSR performance equal to the index (25 per cent of award vests) | IAG's TSR performance exceeds index by 8 per cent p.a. (100 per cent of award vests) | Performance exceeded index by 20 per cent p.a. | 100 per cent |
| Earnings per Share (EPS) | 2014 EPS of 20 €cents (10 per cent of award vests) | 2014 EPS of 50 €cents (100 per cent of award vests) | 2014 EPS 40.2 €cents | 70.6 per cent |
| Details of any discretion exercised | | | | |
| Overall outcome | | | | 85.3 per cent |

IAG PSP Award 2011

The IAG PSP award granted on March 31, 2011 was tested at the end of the performance period which began in January 2011 and ended on December 31, 2013. The awards were equivalent to 200 per cent of salary for the Chief Executive Officer of IAG and 120 per cent of salary for the Chief Financial Officer of IAG.

30 per cent of the award was subject to achievement of the Company's synergy targets and 70 per cent subject to a TSR performance condition measured against a group of comparator airlines. The vesting of any award was subject to the Committee being satisfied that the Group's underlying financial performance was satisfactory in the circumstances prevailing over the three year period.

The outcome of the performance condition was as follows:

| Measure | Threshold | Maximum | Outcome | Vesting (as per cent award granted in 2011) |
|--|--|---|------------------------------------|---|
| TSR performance against a group of airlines¹ (70 per cent) | Median (25 per cent of award vests) | Upper quartile or above (100 per cent of award vests) | 5 th out of 17 airlines | 100 per cent |
| IAG synergy € targets (30 per cent) | Achievement of year 1 synergy target of €72 million will trigger 5 per cent. | | €134m | 100 per cent |
| | Achievement of year 2 synergy target of €166 million will trigger 5 per cent. | | €313m | 100 per cent |
| | Achievement of year 3 synergy target of €279 million will trigger 5 per cent. | | €460m | 100 per cent |
| | The 15 per cent balance will trigger if the year 3 synergy target is exceeded by more than 20 per cent (> €335 million). | | €460m | 100 per cent |
| Details of any discretion exercised | – | | – | – |
| Overall outcome | | | | 100 per cent |

¹ Group of airlines: Air Berlin, Air France/KLM, Air New Zealand, All Nippon Airlines, American Airlines, Cathay Pacific Airlines, Delta Airlines, easyJet, LAN, Lufthansa, Qantas Airways, Ryanair, SAS, Singapore Airlines, United Airlines, US Airways. Air Canada delisted during the performance period (24 April 2012) and was removed from the group. American Airlines was retained in the group and following its merger with US Airways, both the respective TSR figures tracked forward from the merger date in line with the TSR of the new company, American Airlines Group.

Scheme interests awarded during the financial year

Subject to Audit

The IAG Performance Share Plan (PSP) is a discretionary plan targeted at key senior Group executives and managers who directly influence shareholder value. The Company granted an award under the PSP on March 6, 2014. The table in this section sets out the key details of the award.

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

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

PSP - eligibility, metrics, and targets

| Type of award | Shares | |
|---|--|--|
| Basis of determination of the size of award | Awards only made to those executives who are consistently high-performing, and/or are in key roles, and/or whom the Company wishes to retain in the long term. | |
| Face-value awarded (per cent of salary) | CEO of IAG – 200 per cent | Other Executive Directors – 120 per cent |
| Grant price | £4.35 | |
| Performance period | January 1, 2014 – December 31, 2016 | |
| Performance conditions | EPS performance targets | TSR performance compared to the TSR performance of the MSCI European Transportation (large and mid-cap) index |
| Weighting | 50 per cent | 50 per cent |
| Threshold | 2016 EPS of 34 €cents 10 per cent vests | IAG's TSR performance equal to the index 25 per cent vests |
| Target | 2016 EPS between 34€cents and 56 €cents (straight line vesting between threshold and maximum) | IAG's TSR performance between index return and 8 per cent p.a. outperformance (straight line vesting between threshold and maximum) |
| Maximum | 2016 EPS of 56 €cents 100 per cent vests | IAG's TSR performance exceeds index by 8 per cent p.a. 100 per cent vests |

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

Total pension entitlements

Subject to Audit

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

Willie Walsh is a member of the Company's pension scheme and the Company paid contributions during the reporting period of £42,460, plus cash in lieu of pension of £170,037.

Enrique Dupuy de Lôme is a member of the Company's pension scheme and the Company paid contributions during the reporting period of £12,359, plus cash in lieu of a pension of £116,392.

Payments for loss of office

No Executive Directors have left office during 2014.

Payments to past directors

Rafael Sánchez-Lozano stood down from the Board of Directors on March 27, 2013. During the reporting period, he received his final payments of €52,667 monthly in each of January 2014, February 2014, and March 2014, the Company being satisfied in its reasonable opinion that he had complied with his obligations to find alternative paid work under his termination agreement.

Report of the Remuneration Committee continued

He was granted Good Leaver status, and therefore received 239,993 shares (€1,191,161, €:£ exchange rate applied is 1.1724) from the 2011 Performance Share Plan (PSP) award on March 31, 2014, pro-rated to take into account the proportion of the performance period that he was employed by the Company. In addition to this, he will receive 20,616 deferred shares in August 2015 from the 2012 IADP award (relating to performance in the 2011 Annual Incentive Plan).

Statement of Voting

The table below shows the advisory vote on the 2013 remuneration report at the June 2014 annual Shareholders' Meeting:

| Number of votes cast | For | Against | Abstentions |
|----------------------|-------------------------------|----------------------------|-------------------------------|
| 1,138,228,932 | 978,994,710 (86.010 per cent) | 9,988,689 (0.878 per cent) | 149,245,533 (13.112 per cent) |

Statement of Directors' Shareholding and Share Interests

Subject to Audit

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

Under the Group's shareholding guidelines, which were in force until the end of 2014, Executives were expected to build up and maintain a shareholding of 100 per cent of salary, and were expected to retain no fewer than 50 per cent of shares (net of tax) which vest from share plans until this shareholding requirement is attained. The Committee reviewed this guideline, and determined that it should be amended from 2015 onwards. The CEO of IAG is now expected to build up and maintain a shareholding of 250 per cent of salary, and other Executive Directors are expected to build up and maintain a shareholding of 150 per cent of salary. In addition, the CEO of IAG and other Executive Directors are expected to retain the entire 100 per cent of shares (net of tax) which vest from share plans until this shareholding requirement is attained. The Committee has reviewed Executive Directors' progress against the requirements and notes that both Executive Directors are well above the 2014 shareholding requirement, one is well above the new 2015 requirement, and one is close to the new 2015 requirement. During 2014, there was a significant improvement in shareholding for the executive directors (98 per cent to 337 per cent for the CEO of IAG, and 22 per cent to 138 per cent for the CFO of IAG). This was mainly as a result of the 2011 PSP award vesting in March 2014 at the maximum vesting level, but also as a result of the deferred shares award from the 2013 annual incentive plan.

Shares which count towards the guideline include shares already held by the executive, vested and exercised shares, vested and unexercised shares, and unvested deferred annual incentive shares. The table below summarises current Executive Directors' interests as of December 31, 2014:

| Executive Director | Shareholding requirement | Shares owned | Shares already vested from performance share plans | Shares already vested from deferred annual incentive plans | Unvested shares from deferred annual incentive plans | Total qualifying shareholding |
|-----------------------|--|--------------|--|--|--|----------------------------------|
| Willie Walsh | 100 per cent of salary From 2015: 250 per cent of salary | 22,000 | 631,144 | 77,054 | 128,857 | 859,055 (337 per cent of salary) |
| Enrique Dupuy de Lôme | 100 per cent of salary From 2015: 150 per cent of salary | 100 | 113,537 | – | 79,696 | 193,333 (138 per cent of salary) |

External Non-Executive Directorship

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

| Director | Company | Fee |
|-----------------------|---------|------------------|
| Enrique Dupuy de Lôme | Amadeus | €84,410 for 2014 |

Enrique Dupuy de Lôme stepped down from the Board of Amadeus on October 16, 2014.

Willie Walsh is a Non-Executive Director of the Irish National Treasury Management Agency, for which he has declined a fee.

Non-Executive Directors

Non-Executive Directors are paid a flat fee each year. The Non-Executive Chairman's fee is €645,000, voluntarily reduced by 25 per cent to €483,750 with effect from December 1, 2012 until further notice. The Non-Executive Deputy Chairman has a fee of €350,000. Other Non-Executive Directors have a fee of €120,000. The additional fee for holding a Committee Chairmanship is €20,000.

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

Directors' interests in shares

Subject to audit

| | Total shares and voting rights | Percentage of capital |
|-----------------------------|--------------------------------|-----------------------|
| Antonio Vázquez | 512,291 | 0.025 |
| Sir Martin Broughton | 174,910 | 0.009 |
| Willie Walsh | 730,198 | 0.036 |
| Cesar Alierta | 1,000,000 | 0.049 |
| Patrick Cescau | 0 | 0.000 |
| Enrique Dupuy de Lôme | 113,637 | 0.006 |
| Baroness Kingsmill | 2,000 | 0.000 |
| James Lawrence ¹ | 216,500 | 0.011 |
| María Fernanda Mejía | 100 | 0.000 |
| José Pedro Pérez-Llorca | 408 | 0.000 |
| Kieran Poynter | 0 | 0.000 |
| Dame Marjorie Scardino | 100 | 0.000 |
| Alberto Terol | 9,200 | 0.000 |
| Total | 2,759,344 | 0.136 |

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

There have been no changes to the shareholdings set out above between December 31, 2014 and the date of this report.

Share scheme dilution limits

The Investment Association sets guidelines that restrict the issue of new shares under all the Company's share schemes in any ten year period to 10 per cent of the issued ordinary share capital and restrict the issues under the Company's discretionary schemes to 5 per cent in any ten year period. At the annual Shareholders' meeting on June 20, 2013 the Company was given authority to allocate up to 67,500,000 shares (3.31 per cent of the share capital) in 2013, 2014 and 2015. Of this a maximum of 7,650,000 shares could be allocated to Executive Directors under all IAG share plans for awards made during 2013, 2014 and 2015. At December 31, 2014, 2.37 per cent of the share capital had been allocated under the IAG share plans.

The highest and lowest close prices of the Company's shares during the period and the share price at December 31, 2014 were:

| | |
|-----------------------|------|
| At December 31 2014 | 486p |
| Highest in the period | 487p |
| Lowest in the period | 316p |

Report of the Remuneration Committee continued

Company performance graph and Chief Executive Officer of IAG 'single figure' table

The chart shows the value by December 31 2014 of a hypothetical £100 invested on listing compared with the value of £100 invested in the FTSE 100 index over the same period. A spot share price has been taken on the date of listing, and a three month average has been taken prior to the year ends. The FTSE 100 was selected because it is a broad equity index of which the Company is a constituent, and the index is widely recognised.

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



The table below shows the CEO 'single total figure' of remuneration for each year since the creation of IAG in January 2011:

| | 2011 | 2012 | 2013 | 2014 |
|--|---|--|---|---|
| Chief Executive Officer of IAG – 'total single figure' of remuneration | £1,550,000 | £1,083,000 | £4,971,000 | £6,390,000 |
| Annual incentive | The above 'total single figure' includes £302,000 annual incentive (18 per cent of maximum). | No annual incentive payment. | Includes annual incentive payment of £1,299,375 (78.75 per cent of maximum). | Includes annual incentive payment of £1,662,222 (97.78 per cent of maximum). |
| Long term incentive | The above 'total single figure' includes £251,594 value of long term incentives vesting (35 per cent of maximum). | Zero vesting of long term incentives. | The above 'total single figure' includes £2,593,569 value of long term incentives vesting (100 per cent maximum). | The above 'total single figure' includes £3,640,135 value of long term incentives vesting (85 per cent of maximum). |
| Notes | The above 'total single figure' includes 20 days of remuneration (in January 2011) paid by British Airways. | Whilst the performance of the CEO of IAG would in the opinion of the Board have justified the payment of the annual incentive, after considering the financial performance of the Group, the Board decided to exercise its discretion to withhold the payment of the annual incentive. | 70 per cent of the value of awards vesting under the 2011 PSP was the result of share price appreciation, reflecting the significant increase in shareholder value created over the period. | 61 per cent of the value of awards vesting under the 2012 PSP was the result of share price appreciation, reflecting the significant increase in shareholder value created over the period. |

Single total figure of remuneration includes basic salary, taxable benefits, pension related benefits, annual incentive award, and long term incentive vesting.

Percentage change in remuneration of the Chief Executive Officer of IAG compared to employees

The table below shows how the remuneration of the Chief Executive Officer of IAG has changed for 2014 compared to 2013. This is then compared to a group of appropriate employees. It has been determined that the most appropriate group of employees are all UK employees in the Group, comprising around 41,000 employees in total. To make the comparison between the CEO of IAG and employees as meaningful as possible, it was determined that a large a group as possible of employees should be chosen. The selection of all UK employees in the Group (roughly two-thirds of the entire Group's employees) meets this criteria. The majority of the 41,000 UK employees in the Group are employed by BA, but there are also a number of employees from all other companies in the Group based in the UK. It was determined that employees outside the UK would not be considered for the comparison, as very different employment market conditions exist in other countries. This is a change from the comparator group in the 2013 Directors' Remuneration Report, which was IAG Head Office employees (99 employees in total). Although this was determined to be a meaningful comparator group, being the CEO of IAG's place of employment, it was deemed to be too small a comparator group, hence the change to all UK employees in the Group.

| | Chief Executive Officer of IAG | UK employees |
|------------------|---|--|
| Basic salary | 3 per cent basic salary increase for 2014, his first pay increase for 3 years. The CEO decided to give this salary increase to a charity of his choice. | Basic salary awards in 2014 at UK companies in the Group varied from 2.5 per cent average to 3 per cent average. The vast majority (BA non-management) received 2.7 per cent, but in addition over half of this group also received increases on their incremental scale, worth between 1 and 2 per cent. Generally, UK employees are well paid when compared to external market norms. |
| Annual incentive | Increase from £1,299,375 in March 2014 (covering the 2013 performance period) to £1,662,222 in March 2015 (covering the 2014 performance period). This represents a 28 per cent increase. | Changes in overall annual incentive payments for 2014 vs. 2013 varied considerably around the Group, depending on the incentive design, financial performance, and non-financial performance at each individual company. Generally, payments against financial metrics improved, in line with the improvement in individual companies' and Group performance. Payments against non-financial metrics were more varied. |
| Taxable benefits | No change in benefits policy. Actual payments decreased to £26,000 in 2014 from £47,000 in 2013. | No change in benefits policy. No change in overall costs 2014 vs. 2013. |

Relative importance of spend on pay

The table below shows, for 2014 and 2013, total remuneration costs, operating profit, and dividends for the Company.

An extra row, showing IAG Operating Profit, has been added to the table below as it is believed that this will be useful extra information for shareholders.

| | 2014 | 2013 |
|---|-----------------------|----------------|
| Total employee costs, IAG | €4,325,000,000 | €4,123,000,000 |
| Total remuneration, Directors (including Non-Executive Directors) | €13,187,000 | €16,305,000 |
| IAG Operating Profit (before exceptional items) | €1,390,000,000 | €770,000,000 |
| Dividends | - | - |

Report of the Remuneration Committee continued

Implementation of remuneration policy for 2015

Basic Salary

Basic salaries for Executive Directors are reviewed on January 1 each year. After careful consideration of company affordability, the value and worth of each executive, retention risks, and the size of pay increases generally across the Group for 2015 (which varied across the Group from 1.6 per cent to 2.6 per cent), the Board, following the recommendation of the Remuneration Committee, approved the following:

| Executive Director | Basic salary review |
|--------------------------------|--|
| Chief Executive Officer of IAG | £850,000 (€1,050,000) (no increase from 2014 ¹). |
| Chief Financial Officer of IAG | £525,300 (€649,000) (in UK sterling terms, an increase of 2% from 2014). |

¹ The Remuneration Committee agreed to offer the Chief Executive Officer a salary increase in line with that applied to other executives, however it was respectfully declined by him.

2015 annual incentive plan

The Board, after considering the recommendation of the Committee, has approved a stretching target range for IAG operating profit for 2015 at the threshold, on-target and maximum levels. At threshold, there will be a zero pay-out, 50 per cent of the maximum will pay out at the on-target level, and 100 per cent of the maximum will only pay out once the stretch target has been achieved. There will be a straight line sliding scale between threshold and on-target, and on-target and the stretch target. For commercial reasons, the target range will not be disclosed until after the end of the performance year. It will be disclosed in next year's Remuneration Report.

2015 Performance Share Plan award

The Board, on the Committee's recommendation, has approved a PSP award for 2015, with a performance period of January 1, 2015 to December 31, 2017.

For 2015, the face value of awards for the Chief Executive Officer will be 200 per cent of salary and for the Chief Financial Officer 120 per cent of salary.

The Board has approved the use of three performance conditions, each with a one-third weighting. These are the same two performance conditions that have been used since 2012 (with a 50 per cent weighting each in the past) plus one new performance condition.

The first is based on IAG TSR performance relative to the MSCI European Transportation Index. This condition is considered appropriate because the companies in the index are subject to external influences impacting share price similar to those of the Group. The target range is identical to 2014, and is outlined earlier in this report.

The second performance condition is based on EPS. This condition is considered appropriate because it provides a strong measure of the underlying financial performance of the business. The Board and the Committee have agreed that the earnings per share (EPS) target range for the 2015 PSP award should be increased. This is to reflect the fact that the Company is one year further on in the recovery outlined in the Business Plan. It also reflects the continued improvement in the financial performance of the Group, and ensures that the target remains appropriately stretching. The EPS measure will be as follows:

| Weighting | One-third |
|-----------|--|
| Threshold | 2017 EPS of 70 €cents 10 per cent vests |
| Target | 2017 EPS between 70 €cents and 100 €cents (straight line vesting between threshold and maximum) |
| Maximum | 2017 EPS of 100 €cents 100 per cent vests |

The third performance condition is Return on Invested Capital (RoIC). This is a financial measure that quantifies how well a company generates cash flow relative to the capital it has invested in its business, and is considered an appropriate measure because it also provides a strong measure of the underlying financial performance of the business. The RoIC measure will be as follows:

| | |
|-----------|--|
| Weighting | One-third |
| Threshold | 2017 RoIC of 12 per cent 10 per cent vests |
| Target | 2017 RoIC between 12 per cent and 15 per cent (straight line vesting between threshold and maximum) |
| Maximum | 2017 RoIC of 15 per cent 100 per cent vests |

There will be an additional holding period of two years. This means that Executives will be required to retain the shares for a minimum of two years following the end of the performance period. This is to strengthen the alignment between Executives and shareholders.

Non-Executive Director Fees

Non-Executive Director Fees remain unchanged for 2015. The fees have remained unchanged since 2011.

Supplementary Information

Directors' conditional awards

The following Directors held conditional awards over ordinary shares of the Company granted under the IAG PSP.

| Director | Plan | Date of award | Number of awards at January 1, 2014 | Awards vested during the year | Awards lapsed during the year | Awards made during the year | Number of awards at December 31, 2014 |
|----------------------------|--------------|----------------|-------------------------------------|-------------------------------|-------------------------------|-----------------------------|---------------------------------------|
| Executive Directors | | | | | | | |
| Willie Walsh | IAG PSP 2011 | March 31, 2011 | 714,285 | 714,285 | - | - | - |
| | IAG PSP 2012 | August 3, 2012 | 1,024,844 | - | - | - | 1,024,844 |
| | IAG PSP 2013 | March 6, 2013 | 684,647 | - | - | - | 684,647 |
| | IAG PSP 2014 | March 6, 2014 | - | - | - | 379,310 | 379,310 |
| Total | | | 2,423,776 | 714,285 | - | 379,310 | 2,088,801 |
| | | | | | | | |
| Enrique Dupuy de Lôme | IAG PSP 2011 | March 31, 2011 | 249,350 | 249,350 | - | - | - |
| | IAG PSP 2012 | August 3, 2012 | 372,670 | - | - | - | 372,670 |
| | IAG PSP 2013 | March 6, 2013 | 248,963 | - | - | - | 248,963 |
| | IAG PSP 2014 | March 6, 2014 | - | - | - | 137,931 | 137,931 |
| Total | | | 870,983 | 249,350 | - | 137,931 | 759,564 |

The performance conditions for the 2012 PSP awards above were tested by the Remuneration Committee, and reported to the Board, in their meetings held in February 2015. The performance conditions for the 2013 and 2014 PSP awards above will be tested to determine the level of vesting. For these awards, 50 per cent of the award is subject to TSR performance measured against an index, and 50 per cent is subject to EPS performance. In each case, the performance conditions will be measured over a single three year performance period, which all begin on January 1 of the relevant year.

The award granted on March 31, 2011 was tested at the end of the performance period, and as a result 100 per cent of the award vested, as detailed earlier in this report in the section on Variable Pay Outcomes.

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2014 PSP award was 435 pence (2013: 241 pence; 2012: 161 pence; 2011: 231 pence).

Report of the Remuneration Committee continued

Incentive Award Deferral Plan

The following Directors held conditional awards over ordinary shares of the Company granted under the IAG IADP (awarded as a result of IAG performance for the periods that ended December 31, 2011; December 31, 2012 and December 31, 2013).

| Director | Year of performance | Date of award | Number of awards at January 1, 2014 | Awards released during the year | Date of vesting | Awards lapsed during the year | Awards made during the year | Number of awards at December 31, 2014 |
|----------------------------|---------------------|----------------|-------------------------------------|---------------------------------|-----------------|-------------------------------|-----------------------------|---------------------------------------|
| Executive Directors | | | | | | | | |
| Willie Walsh | 2010 | March 31, 2011 | 90,984 | 90,984 | March 31, 2014 | - | - | - |
| | 2011 | August 3, 2012 | 93,773 | - | August 3, 2015 | - | - | 93,773 |
| | 2013 | March 6, 2014 | - | - | March 6, 2017 | - | 149,353 | 149,353 |
| Total | | | 184,757 | 90,984 | | - | 149,353 | 243,126 |
| | | | | | | | | |
| Enrique Dupuy de Lôme | 2011 | August 3, 2012 | 37,267 | - | August 3, 2015 | - | - | 37,267 |
| | 2012 | March 6, 2013 | 62,241 | - | March 6, 2016 | - | - | 62,241 |
| | 2013 | March 6, 2014 | - | - | March 6, 2017 | - | 50,862 | 50,862 |
| Total | | | 99,508 | - | | - | 50,862 | 150,370 |

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

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2014 IADP award was 435 pence (2013: 241 pence; 2012: 161 pence; 2011: 231 pence).

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the 2011 IADP award was 231 pence. The share price on the date of the vesting of this award (March 31, 2014) was 423.3 pence. The money value of the shares received was the share price on the date of the vesting multiplied by the number of shares in respect of the award vested.



FINANCIAL OVERVIEW

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OPERATING AND MARKET ENVIRONMENT

Summary

Global GDP came in below expectations in 2014, with growth of 3.3 per cent. This compares to 3.3 per cent in 2013 and 3.4 per cent in 2012. The IMF expects growth in the global economy to accelerate in 2015, forecasting GDP growth of 3.8 per cent, with a rebound in growth for both advanced economies and emerging markets.

UK

The UK economy continued recovering at a strong pace relative to other G7 economies throughout 2014. The economy grew by 2.4 per cent in the first quarter, 2.6 per cent in the second quarter, 2.6 per cent in the third quarter, and 2.7 per cent in the last quarter. The recovery was consumer led with increasing levels of confidence. Over the course of the year, the GfK UK Consumer Confidence Index increased from -13 in December 2013 to -4 in 2014. The index remained significantly above 2012 at -29. Whilst there was much debate around interest rate increases by the Bank of England, the official bank rate remained unchanged at 0.5 per cent in 2014 with current expectations that rates will begin to increase in the second half of 2015. Unemployment continued to fall in 2014, with the rate at the end of the year at 5.7 per cent compared to 7.2 per cent in 2013. However, wage inflation lagged the growth in employment for most of the year. The Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF) currently forecast UK Real GDP growth of 2.7 per cent in 2015, compared to 2.7 per cent in 2014.

Eurozone

Economic performance in the Eurozone remained weak in 2014, with growth of 1.1 per cent in the first quarter, followed by 0.8 per cent for the remainder of 2014. However, like 2013, there remains a divergence in performance between the different member states. Spain's economic performance strengthened through the year, reporting a +2.0 per cent year-on-year rise in real GDP in the fourth quarter of 2014, recovering the 1.2 per cent decrease for 2013. Whilst Italy reported negative year-on-year growth on average of -0.4 per cent in 2014. In January, the EU consumer confidence indicator for the Eurozone surpassed its long-term average for the first time since July 2011. Consumer confidence continued to improve until May when the indicator started to worsen, although an improvement in December saw the year finish slightly higher than the start. Inflation steadily fell over the course of 2014, from 0.88 per cent in December 2013, with the Eurozone falling into deflation in December 2014, negative inflation rate of -0.17 per cent, which was the lowest level since October 2009. Over the year the European Central Bank (ECB) took several steps to loosen monetary policy, although market focus remains on if or when the ECB will deliver a public Quantitative Easing (QE) programme in 2015. The OECD and IMF currently forecast Eurozone Real GDP growth of 1.1 per cent and 1.2 per cent respectively in 2015, compared to +0.8 per cent in 2014.

North America

The US macro environment got off to a difficult start in 2014 as economic data was clouded by the harsh winter weather which saw quarter one real GDP growth dip to 1.9 per cent, compared to 3.1 per cent in the fourth quarter of 2013. However, the economy picked up from there with 2.6 per cent growth in the second quarter, 2.7 per cent growth in the third quarter and 2.5 per cent growth in the last quarter. The labour market gained momentum throughout the year, with the unemployment rate dropping to 5.7 per cent at the end of 2014 compared to 7.0 per cent at the end of 2013. Consumer confidence also rose, with the University of Michigan Consumer Sentiment Index rising from 82.5 in December 2013 to 93.6 in December 2014. The economy also benefited from fewer obstacles from US Government related issues, such as debt limit shutdowns, spending cuts and tax increases, all of which weighed on growth in previous years. Monetary policy remained in focus in 2014, with the US Federal Reserve (US Fed) ending its QE programme in October, although the US Fed's 0 per cent to 0.25 per cent target rate for the Federal Funds rate remained unchanged in 2014. Current expectations are for the first US interest rate rise in quarter three of 2015. The OECD and IMF currently forecast US Real GDP growth of 3.1 per cent in 2015, compared to 3.6 per cent in 2014.

Latin America

2014 was a difficult year for Latin America, with real GDP growth of 1.2 per cent compared to 2.7 per cent in 2013. Growth was weakest in South America, with real GDP growth of 0.7 per cent compared to 3.2 per cent in 2013. Whilst both Argentina and Venezuela slipped into recession in 2014, the rate of growth, compared with 2013, declined in every country in South America with the exception of Colombia. External factors played a role as exports fell short of expectations early in the year, but domestic factors such as limited investment, high interest rates and political instability also played a role. The IMF downgraded its forecast for Latin America in January 2015, citing the impact of lower oil and other commodities prices on the terms of trade and real incomes. The IMF currently forecast Latin America Real GDP growth of 1.3 per cent in 2015, compared to 1.2 per cent in 2014.

Industry outlook

Trading conditions

IATA is forecasting industry operating margins of 6.0 per cent in 2015, building on operating margins of 5.1 per cent in 2014. IATA forecast industry seat capacity to increase by 5.5 per cent compared to 5 per cent in 2014, with ASKs increasing ahead of this by 7.3 per cent compared to 5.5 per cent in 2014. Passenger load factors are forecast to slip slightly to 79.6 per cent in 2015 from 79.7 per cent in 2014, with return fares per passenger forecast to decline 5.1 per cent in 2015. This is higher than the -3.0 per cent decline in 2014. North America is once again forecast by IATA to generate the highest net post-tax margin in 2015 of 6.0 per cent, which would exceed the peak margin of the late 1990's. IATA attribute this performance to consolidation which is helping to raise load factors, and ancillary revenue generation.

As in the past two years, IATA forecast Africa to generate the lowest net post-tax margin in 2015 of 1.1 per cent, although this is an improvement on 2014. IATA notes that whilst breakeven load factors are relatively low, few airlines in this region are able to achieve adequate load factors.

For Europe, IATA forecast net post-tax margins of 1.8 per cent, the second worst performing region. IATA notes that breakeven load factors are highest in Europe with low yields due to the competitive open aviation area, and high regulatory costs.

Changes in the industry

There continues to be positive change in the industry, with many airlines, IAG's airlines included, undertaking multi-year programmes aimed at reducing their operating costs to sustainable levels for the medium and long-term. Air France-KLM's "Perform 2020" and Lufthansa's "SCORE" programmes are two such examples.

IAG issued a dividend policy statement and announced its long-term planning goals for 2016-2020 which included a Return on Invested Capital (real terms) of +12 per cent, an operating profit margin of 10 per cent to 14 per cent, and average earnings per share growth of +10 per cent per annum.

Iberia launched their *Plan de Futuro*, a comprehensive plan comprised of 30 initiatives across key areas of the company, which aims to deliver margins in the IAG target range from 2017 onwards. British Airways made good progress towards its goals, and Vueling continued its growth across Europe, opening new bases in Rome-Fiumicino and Brussels airports during 2014.

In the wider aviation industry, American Airlines Group continued its integration of American Airlines and US Airways with US Airways joining American Airlines, British Airways, Iberia and Finnair in the Atlantic Joint Business. The **oneworld** alliance welcomed US Airways, TAM Airlines and SriLankan Airlines during 2014.

Regulatory controls

Aviation remains one of the most regulated industries in the world. During the year there have been important regulatory developments that had a major impact on the industry.

Air Passenger Duty (APD)

APD is the highest aviation tax anywhere in the world and has outstripped other UK taxes on petrol, road, alcohol and insurance premiums over the last two decades. In total, air passengers in the UK have paid more than £26 billion in APD since 1994.

During the year the Government announced a re-banding of APD removing the two highest rates on flights to countries over 4,000 miles from Britain including China, India and Brazil. This is a minor change and will only benefit about 9 per cent of total passengers.

The Government also announced the removal of APD on child fares from 2015. Scrapping APD for children might be popular with some voters and will benefit families travelling on their summer holidays, but it will not improve the UK economy.

Following the independence referendum in Scotland, the Smith Commission recommended that power to charge APD on passengers leaving Scottish airports be devolved to the Scottish Parliament. IAG believes APD must be axed across the UK, not just in Scotland, to avoid a domino effect across the country.

VISA policy

The current visa regime is not fit for purpose and as a result the UK has lost significant ground to its European competitors in recent years. During the year the process to obtain visas has been streamlined and simplified. These changes go in the right direction but fundamental reform will be required if we are to make the UK competitive with the 26 European countries that form part of Schengen, and which passengers can travel across with a single visa.

European Union's emissions trading scheme (EU ETS)

In 2012, the European Union (EU) launched an emissions trading scheme. Following international opposition, the EU reduced the coverage of the scheme to flights within the EU, and to allow time for the development of a global market-based approach by the International Civil Aviation Organisation (ICAO).

The ICAO General Assembly in October 2013 agreed to develop a global market based measure by 2016. As a result of this progress at ICAO, the EU introduced a Regulation to continue with intra-EU scope of the ETS until 2016. This reduced scope will be reviewed after the ICAO General Assembly in October 2016 when a decision will be made about its future scope.

UK Aviation Policy

An independent commission led by Sir Howard Davies into airport capacity and connectivity in the UK shortlisted three options including a 3,500 metre runway to the northwest of Heathrow, a proposal to extend the existing northern runway to create two 3,000 metre runways, and a new runway at Gatwick to the south of the existing runway. An option to develop a proposal on the Isle of Grain was ruled out in September 2014.

To date there have been seven discussion papers and four public evidence sessions. A public consultation concluded on February 3, 2015. The final recommendation will be made to Government after the general election in 2015.

FINANCIAL REVIEW



Enrique
Dupuy
de Lôme
Chávarri

IAG had a very strong year in 2014 with an operating profit before exceptional items¹ of €1,390 million, which is better than our guidance. British Airways achieved an operating profit of £975 million based on solid revenues and a strong cost performance, whilst improving on its operational goals. Iberia's operating profit was €50 million driven by the leadership of its management team and the commitment of its employees to the *Plan de Futuro*. Vueling's operating profit was €141 million as it continues to invest in its future by expanding its network, operations and fleet.

The Group took delivery of 15 aircraft during the year, investing €2.6 billion in its capex programme, funded through additional borrowings of €1.4 billion and from operating cash flows. In addition, the Group's cash position has improved €1,311 million reflecting the cash generated from operations and the divestment of Amadeus.

Despite a strong profit after tax, of €1,003 million, the Group's adjusted equity position weakened slightly taking into consideration the current mark-to-market position of the Group's hedging book, primarily based on its fuel cash flow hedges. Taken together with an increase in adjusted net debt, adjusted gearing rose one point to 51 per cent, although our adjusted net debt to EBITDAR improved by 0.6 to 1.9 times.

¹ For a description of the Group's exceptional items see note 5 of the Financial statements.

We intend to build on the significant progress made during the year, and for 2015 we expect to generate an operating profit in excess of €2,200 million for the Group, based on current oil prices and exchange rates. In addition, the Group disclosed its long-term planning goals in November 2014 as part of our Capital Markets Day presentation. We have set for the Group, and each of its airline companies, financial targets including operating margins of 10-14 per cent and a ROIC in real terms of 12 per cent or greater. These financial targets are stretching, but form part of the Group's key performance indicators and the Management Committee's remuneration, to ensure the Group's commitment to return cash to its shareholders through a sustainable dividend policy. As indicated in November, it is our stated intention to declare a dividend policy in 2015.

Enrique Dupuy de Lôme Chávarri
Chief Financial Officer

IAG period highlights on results:

- Fourth quarter operating profit €260 million (2013: operating profit of €113 million) before exceptional items
- Revenue for the quarter up 9.9 per cent to €5,015 million, up 5.8 per cent at constant currency
- Non-fuel unit costs at constant currency for the quarter down 0.8 per cent at constant currency
- Operating profit for the year to December 31, 2014 of €1,390 million (2013: operating profit of €770 million) before exceptional items
- Revenue for the year up 8.0 per cent to €20,170 million and passenger unit revenue for the year down 0.4 per cent at constant currency
- Fuel unit costs for the year down 7.8 per cent also down 7.8 per cent at constant currency
- Non-fuel unit costs before exceptional items for the year down 1.9 per cent, down 3.9 per cent at constant currency
- Cash of €4,944 million at December 31, 2014 was up €1,311 million on 2013 year end
- Adjusted gearing up 1 point to 51 per cent and adjusted net debt to EBITDAR improved 0.6 to 1.9 times

IATA market growth

In 2014 industry passenger load factor reached 79.7 per cent supported by stronger growth in demand rather than capacity increases. International load factors have displayed a downward trend throughout the year, particularly as a result of solid capacity expansion in Asia Pacific carriers. In addition, there has been a gradual easing in business confidence towards the end of 2014 which has weighed on some international travel in certain markets.

| Year to December 31, 2014 | Capacity ASKs | Traffic RPKs | Passenger load factor | Higher/ (lower) |
|------------------------------|------------------|-----------------|--------------------------|--------------------|
| International | 6.4% | 6.1% | 79.2 | (0.1) pts |
| Domestic | 4.3% | 5.4% | 80.6 | +0.7 pts |
| Total market | 5.6% | 5.9% | 79.7 | +0.2 pts |

IAG capacity

IAG increased capacity in 2014, measured in available seat kilometres (ASKs), by 9.3 per cent. The increase was across all regions, reflecting the full year impact of Vueling, the restoration of routes as part of Iberia's *Plan de Futuro* and changes to the British Airways network including up gauging related to new fleet and additional flying from more efficient replacement aircraft. Across the network, passenger load factor for the year was 80.4 per cent; although a decrease of 0.4 points compared to last year, it remains higher than IATA industry average of 79.7 per cent.

| Year to December 31, 2014 | % of total network in ASKs | ASKs higher/ (lower) | Passenger load factor | Higher/ (lower) |
|---------------------------------------|----------------------------------|----------------------------|-----------------------------|--------------------|
| Domestic | 6.8% | +21.6% | 77.3 | +1.6 pts |
| Europe | 22.1% | +18.6% | 78.1 | +0.5 pts |
| North America | 29.2% | +6.0% | 83.1 | (1.5) pts |
| Latin America and Caribbean | 17.4% | +4.1% | 81.4 | (1.2) pts |
| Africa, Middle East and South Asia | 15.8% | +5.3% | 77.9 | +0.4 pts |
| Asia Pacific | 8.7% | +8.1% | 82.1 | +0.7 pts |
| Total network | 100% | +9.3% | 80.4 | (0.4) pts |

Market segments

In 2014, the IAG **Domestic and European** market capacity increases reflect:

- Full year impact of Vueling forming part of the IAG Group and its year-over-year network growth;
- Additional frequencies and new destinations for Iberia as part of the *Plan de Futuro*; and
- More efficient replacement aircraft for British Airways at London Gatwick and London City, increasing frequencies and introducing new routes.

While the Domestic and European markets were very competitive our passenger load factors improved in both regions, but remain lower than the European average reported by IATA, influenced by the growing presence of the low cost carriers.

North America continues to represent the largest part of the IAG network and with the highest passenger load factor. At British Airways, capacity increased primarily from up gauging aircraft with the Airbus A380 flying to Washington D.C. and Los Angeles, and the Boeing 787 on routes such as Newark, Philadelphia and Toronto. At Iberia the increased capacity reflects additional frequencies to Chicago and New York. IAG passenger load factor for North America was down 1.5 points, consistent with the year-over-year decrease reported by IATA. Despite the decrease in volume our unit revenues improved.

Latin America and Caribbean capacity increase reflects additional frequencies to Brazil and Mexico by both British Airways and Iberia. As part of the *Plan de Futuro* Iberia has also restored routes such as Santo Domingo and Montevideo and increased frequencies to Panama. Passenger load factor in this region decreased but overall remains high at 81.4 per cent.

Africa, Middle East and South Asia capacity increase primarily reflects the up gauging of aircraft to the Airbus A380 on the Johannesburg route and additional frequencies to Accra. Flying has been reduced in North and West Africa by British Airways and Iberia due to weakening demand resulting from the Ebola crisis and political unrest. Passenger load factor improved 0.4 points.

In **Asia Pacific**, the capacity increase is driven by the full year impact of routes added last year and the introduction of the Airbus A380 to Hong Kong. In 2014, the Hyderabad and Chennai routes see more capacity reflecting the up gauge to the Boeing 787. Passenger load factors increased to 82.1, the second highest region on the IAG network.

Acquisitions

The 2014 performance includes Vueling for the full year, however the comparative period only includes Vueling results from the acquisition date April 26, 2013.

Revenue

Passenger revenue

Passenger revenue for the Group increased 9.6 per cent for the year on a capacity increase of 9.3 per cent. At constant currency the increase was 8.7 per cent, with a unit revenue decrease of just 0.4 per cent. The Group carried 77 million passengers, up 15 per cent from 2013.

At the Group level passenger revenue performance was based on flat passenger yields (passenger revenue/revenue passenger kilometre) at constant currency and a marginal decrease in load factor of 0.4 points. The passenger yield performance was stronger out of London, up 1.6 per cent benefitting from the continued recovery of the UK economy, which grew by 2.6 per cent. Passenger yields in Madrid and Barcelona were down by approximately 3 per cent for the year, but with improvements in the fourth quarter as Spain's economy started to strengthen.

Financial review continued

From a market perspective, our revenue performance was strongest in North America reflecting consumer confidence. Meanwhile Europe and Domestic markets saw marginal declines in unit revenues reflecting competition and IAG capacity changes. The World Cup, political unrest, Ebola and the redeployment of Venezuela capacity had a mildly dilutive effect on Latin America and Africa and Middle East revenues.

Cargo revenue

In April 2014, IAG Cargo exited its longhaul freighter business and formed a partnership with Qatar Airways to purchase capacity on its air cargo freighters. While the new operating model reduces total cargo revenue reported, it is more flexible and generates better margins whilst maintaining the key trade lane between Hong Kong and Europe. Cargo revenue for the year was down 7.5 per cent or 6.6 per cent at constant currency. Excluding the longhaul freighter business, volume measured in cargo tonne kilometres (CTK) is up 6.7 per cent but with excess capacity in the market the underlying yield per CTK is down 3.2 per cent at constant currency.

Other revenue

Other revenue includes the BA Holidays programme, third party maintenance and handling revenues, and aspects of the Avios customer loyalty programme. Excluding the adverse impact on the Group's handling and maintenance revenues due to the consolidation of Vueling, other revenue increases approximately 10 per cent. Half of this improvement is related to growth at BA Holidays, with the remainder primarily from recovery of Iberia's maintenance and handling activities. The Avios customer loyalty programme performance is also increasing, benefitting from the increase in the fair value of a point and an underlying improvement. A €67 million one-off charge was recorded in the fourth quarter of 2013 at the total revenue level.

Expenditure before exceptional items

Employee costs

Employee costs are up 4.9 per cent. At constant currency, total employee costs are up 2.2 per cent and down 6.7 per cent on a unit basis. On average the Group employed 59,484 people (measured in average manpower equivalents 'MPE') a decrease of 1.0 per cent versus last year driven by headcount reductions flowing through from the Mediation Agreement reached by Iberia last year.

In 2014, Iberia reached further long-term labour agreements with all its employee groups, resulting in an additional employee restructuring charge of €260 million included as an exceptional item. The new agreement allows 1,427 exits, in addition to the original 3,141 from the Mediation Agreement. At British Airways efficiency initiatives were implemented, including mixed fleet and other productivity improvements. Vueling has increased productivity through its growth however has incurred certain unit cost increases, such as overnight expenses on international routes and salary inflation under its new crew collective agreement. Productivity increased 10.4 per cent for the Group, with improvements at each airline.

Fuel, oil and emissions costs

Total fuel costs are up 0.6 per cent and up 0.9 per cent at constant currency, on a 9.3 per cent capacity increase. Fuel unit costs are down 7.8 per cent at constant currency (ccy), benefitting from more efficient aircraft, improved operating procedures and lower fuel prices net of hedging.

Lower fuel consumption per ASK has contributed to half of the unit cost improvement for the year. This was driven by the fleet replacement programme with the more efficient fleet types, such as the Airbus A380, A320 family and Boeing 787. In addition, British Airways and Iberia have implemented procedures during take-off and landing which has lowered fuel consumption.

The US dollar foreign exchange impact on fuel costs net of hedging for the first nine months has been positive for the Group against the sterling and the euro. However, the strengthening of the US dollar towards the end of the year has resulted in a net adverse foreign currency impact on fuel for the fourth quarter.

Supplier costs

Total supplier costs for the year have increased by 6.0 per cent. At constant currency and on a unit basis supplier costs were reduced by 4.4 per cent. This is due to two main factors, productivity and efficiency improvements across the Group, and the final effects of consolidating Vueling in the Group (c. 2 points).

The Group's supplier unit cost performance was solid with improvements at British Airways and Iberia, while Vueling was flat. Through cost initiatives, joint procurement and the continued benefit of the synergies programme, savings have been achieved, including catering costs, lounge synergies and maintenance.

By supplier cost category:

Handling, catering and other operating costs increased 6.8 per cent, with 1.5 points of adverse currency. The discontinuation of the Cargo freighters reduced current year costs by c. 1.5 points. The BA Holidays business raised costs by c. 3 points with improvements in Other revenues. The underlying increase is related to the additional capacity.

Landing fees and en-route charges were higher by 9.4 per cent, with 1 point of adverse currency. The inflationary increase was on average 2.5 per cent across the Group while the discontinuation of Cargo freighters improved costs by c. 1 point. The remaining increase is driven by higher capacity.

Engineering and other aircraft costs were up 3.2 per cent, with 1 point of adverse currency. The discontinuation of freighters and the effect of Vueling consolidation improved the costs by c. 8 points. In the fourth quarter a €28 million (c. 2 points) provision for the obsolescence of spare parts was recorded. The remaining underlying increase reflects more aircraft and higher flying hours, increases in third party maintenance and inflation.

Property, IT and other costs are up 0.5 per cent but are down excluding currency reflecting the Group's commitment to cost control. Selling costs increased 9.4 per cent, with 1 point of adverse currency impact, primarily from a higher number of passenger bookings.

Ownership costs

The Group's ownership costs were up 17.4 per cent, with 3 points of adverse currency. The increase is related to a higher depreciation charge related to the Boeing 747s due to a reduction in estimated useful life, with a year-over-year impact of €81 million (c. 6 points). The underlying rise in ownership costs reflects inflation and an increase in owned and leased aircraft, up 6.5 per cent.

Operating result

The Group's operating profit, before exceptional items, for the year was €1,390 million, a €620 million improvement from last year. This improvement reflects the Group's approach to dealing with significant capacity increases related to the delivery of new aircraft and market opportunities, with a minimal negative impact on unit revenues (at ccy) while benefitting from productivity improvements, non-fuel cost savings and fuel cost reductions net of hedging.

Non-operating costs

Net non-operating costs after exceptional items were €201 million, down from €300 million last year. The decrease is related to:

- Lower net finance costs since the conversion of the £350 million bond, reducing costs by €60 million;
- Reduction in net finance charges for pensions of €49 million, due to lower deficit;
- Increase in gain on the sale of the available for sale financial assets of €91 million, primarily Amadeus;

Offset by:

- Losses not qualifying for hedges and retranslation charges on borrowings, a swing of €131 million over the prior year's credit position.

Financial review continued

Income statement

| | | | Higher/(lower) | |
|--|---------|---------|----------------|------------------------------|
| € million | 2014 | 2013 | Year over year | Per ASK at constant currency |
| Traffic statistics | | | | |
| ASKs (million) | 251,931 | 230,573 | 9.3% | |
| Passenger load factor (per cent) | 80.4 | 80.8 | (0.4) pts | |
| Revenue | | | | |
| Passenger revenue | 17,825 | 16,264 | 9.6% | (0.4)% |
| Cargo revenue | 992 | 1,073 | (7.5)% | |
| Other revenue | 1,353 | 1,338 | 1.1% | |
| Total revenue | 20,170 | 18,675 | 8.0% | (2.0)% |
| Expenditure | | | | |
| Fuel, oil costs and emissions charges | 5,987 | 5,951 | 0.6% | 7.8% |
| Employee costs | 4,325 | 4,123 | 4.9% | 6.7% |
| Supplier costs: | | | | 4.4% |
| Handling, catering and other operating costs | 2,063 | 1,932 | 6.8% | |
| Landing fees and en-route charges | 1,555 | 1,422 | 9.4% | |
| Engineering and other aircraft costs | 1,276 | 1,237 | 3.2% | |
| Property, IT and other Costs | 927 | 922 | 0.5% | |
| Selling costs | 859 | 785 | 9.4% | |
| Currency differences | 41 | 45 | | |
| EBITDAR | 3,137 | 2,258 | | |
| Ownership costs | 1,747 | 1,488 | 17.4% | (3.1)% |
| Operating profit before exceptional items | | | | |
| Operating profit before exceptional items | 1,390 | 770 | | |
| Exceptional items | (361) | (243) | | |
| Operating profit after exceptional items | | | | |
| Operating profit after exceptional items | 1,029 | 527 | | |
| Non-operating costs | (201) | (300) | | |
| Profit before tax | | | | |
| Profit before tax | 828 | 227 | | |
| Tax | 175 | (76) | | |
| Profit after tax from continuing operations | | | | |
| Profit after tax from continuing operations | 1,003 | 151 | | |
| Loss after tax from discontinued operations | - | (4) | | |
| Profit after tax for the year | | | | |
| Profit after tax for the year | 1,003 | 147 | | |

Taxation

The majority of the Group's operations are taxed in the UK or Spain. In 2014, the corporate tax rate in the UK decreased to 21 per cent (2013: decreased from 24 to 23 per cent) while the corporate tax rate in Spain was 30 per cent (2013: 30 per cent).

Excluding the impact of the tax rate change in Spain and the recognition of a deferred tax asset related to prior period losses, the Group's effective tax rate for the year is 22 per cent (2013: 8 per cent). The tax credit was €175 million (2013: €76 million charge).

Profit after tax and earnings per share

The Group's profit after tax and after exceptional items was €1,003 million (2013: €147 million), with earnings of 48.2 euro cents per share (2013: 6.4) and 46.4 euro cents per fully diluted share (2013: 6.3).

Exceptional items

For a full list of exceptional items, refer to note 5 of the Financial statements. Below is a summary of the significant exceptional items recorded.

In 2014, net exceptional charges at the operating profit level were €361 million (2013: €243 million). The exceptional charges for the year include €260 million employee restructuring costs related to Iberia's labour agreements, currency differences charge of €180 million related to funds held in Venezuela, partially offset by the reversal of the Iberia Brand impairment of €79 million.

A non-operating exceptional item was recognised on the gain on sale of Amadeus of €83 million and for the recognition of deferred tax assets, net of all other tax impacts on exceptional items, of €413 million.

In 2013, exceptional charges included employee restructuring costs at Iberia of €268 million, partially offset by reduced US employee benefit obligations at British Airways of €170 million. Iberia also recorded restructuring costs for aircraft of €44 million. The Group recognised net business combination credits of €5 million related to Iberia and Vueling. In addition, there was a charge to revenue of €106 million for the timing of the recognition of deferred revenue. A non-operating loss on acquisition was recognised of €17 million.

Exchange rates

Exchange rate movements are calculated by retranslating current year results as though they had been generated at prior year exchange rates. The reported results are impacted by translation currency from converting British Airways' results from sterling to the Group's reporting currency of euro. British Airways represents approximately 70 per cent of the Group's revenues and operating expenses which causes a significant variation year-over-year. From a transaction perspective, the Group performance is impacted by the fluctuation of exchange rates; primarily sterling, euro and US dollar. The Group exchange rates used and the estimated impact of translation and transaction exchange rates on operating profit before exceptional items are set out as follows. At constant currency, the Group's operating profit before exceptional items would have been €1,459 million, €69 million higher than the reported operating profit.

Exchange impact before exceptional items

€ million Higher/(lower)

Reported revenue

| | |
|---|------------|
| Translation impact | 688 |
| Transaction impact | (523) |
| Total exchange impact on revenue | 165 |

Reported operating expenditure

| | |
|--|--------------|
| Translation impact | (612) |
| Transaction impact | 378 |
| Total exchange impact on operating expenditures | (234) |

Reported operating profit

| | |
|--|-------------|
| Translation impact | 76 |
| Transaction impact | (145) |
| Total exchange impact on operating profit | (69) |

| | 2014 | Higher/(lower) |
|--------------------|-------------|----------------|
| Translation | | |
| £ to € | 1.27 | 6.7% |
| Transaction | | |
| £ to € | 1.24 | 5.1% |
| € to \$ | 1.34 | 0.8% |
| £ to \$ | 1.65 | 5.8% |

Financial review continued

Financial performance by Brand

British Airways operating profit was £975 million, a £324 million improvement over prior year. British Airways continued its fleet replacement programme, with the delivery of five additional Airbus A380s and four Boeing 787s. The increase in gauge of these aircraft is contributing in part to the 5.9 per cent rise in capacity for the year. British Airways' strong result is based on increasing revenues and a strong cost performance.

Iberia operating profit was €50 million, a €216 million improvement over prior year. Iberia has made significant progress during the year, resuming services and launching new routes. Capacity for the year was up 3.6 per cent with a flat revenue performance reflecting the competitiveness of the market. On the cost side, Iberia has reduced costs in employee, fuel and supplier reflecting the progress of its *Plan de Futuro* with its 30 initiatives across all key areas.

Vueling operating profit was €141 million, a €2 million improvement over prior year. Vueling's focus in 2014 was on flexible growth with capacity up 24 per cent, new bases in Brussels and Rome, and a new collective agreement with crew. Vueling introduced 20 additional aircraft by year end with a total fleet of 88. Revenue was up 22.0 per cent and operating margin was 8.2 per cent.

| | British Airways £ million | | Iberia € million | | Vueling € million | |
|--|------------------------------|--------------------|---------------------|--------------------|----------------------|--------------------|
| | 2014 | Higher/ (lower) | 2014 | Higher/ (lower) | 2014 | Higher/ (lower) |
| ASKs | 170,917 | 5.9% | 54,328 | 3.6% | 26,686 | 24.2% |
| Seat factor (per cent) | 81.0 | (0.3) pts | 78.6 | (0.5) pts | 80.4 | 0.8 pts |
| Passenger revenue | 10,452 | 3.2% | 3,178 | (0.7)% | 1,725 | 22.0% |
| Cargo revenue | 598 | (13.2)% | 253 | (3.1)% | – | – |
| Other revenue | 669 | 10.9% | 837 | 8.3% | – | – |
| Total revenue | 11,719 | 2.6% | 4,268 | 0.8% | 1,725 | 22.0% |
| Fuel, oil costs and emissions charges | 3,515 | (6.4)% | 1,156 | (4.8)% | 488 | 20.5% |
| Employee costs | 2,461 | 2.9% | 1,035 | (9.9)% | 156 | 31.1% |
| Supplier costs | 3,857 | 1.1% | 1,575 | (1.1)% | 755 | 23.8% |
| EBITDAR | 1,886 | 29.4% | 502 | 80.6% | 326 | 16.4% |
| Ownership costs | 911 | 12.9% | 452 | 1.8% | 185 | 31.2% |
| Operating profit before exceptional items | 975 | 49.8% | 50 | 130.1% | 141 | 1.4% |
| Passenger yield (pence or cents/RPK) | 7.55 | (2.1)% | 7.45 | (3.4)% | 8.04 | (2.8)% |
| Unit passenger revenue (pence or cents/ASK) | 6.12 | (2.4)% | 5.85 | (4.1)% | 6.46 | (1.8)% |
| Total unit revenue (pence or cents/ASK) | 6.86 | (3.0)% | 7.86 | (2.7)% | 6.46 | (1.8)% |
| Fuel unit cost (pence or cents/ASK) | 2.06 | (11.6)% | 2.13 | (8.2)% | 1.83 | (2.9)% |
| Non-fuel unit costs (pence or cents/ASK) | 4.23 | (2.7)% | 5.64 | (7.2)% | 4.11 | 1.3% |
| Total unit cost (pence or cents/ASK) | 6.29 | (5.7)% | 7.76 | (7.5)% | 5.94 | – |

Balance sheet

Property, plant and equipment and intangible assets

The increase in property, plant and equipment in 2014 is mostly related to the Group's investment in aircraft. On balance sheet fleet includes:

- Delivery of 15 new aircraft, including five Airbus A380s, four Boeing B787s, two Boeing B777-300s, three Airbus A320s and one Embraer E190;
- Pre-delivery payments related to future deliveries;
- Positive translation exchange; offset by
- The sale and leaseback of three aircraft; and
- Depreciation.

The intangible asset increase is primarily related to software additions and the reversal of the Brand impairment.

Other non-current assets

British Airways' defined benefit pension plan assets increased by €400 million from higher interest rates, offset by the sale of Iberia's investment in Amadeus.

Shareholders' equity

In 2014, shareholders' equity decreased €424 million from movements in other reserves. Profit after tax for the Group was €1,003 million offset by adverse movements in the fair value of cash flow hedges of approximately €1,235 million primarily related to lower fuel prices, a net decrease mainly related to the sale of Amadeus recycled to the income statement, an increase in post-employment obligations of €400 million from a decrease in corporate bond rates and a currency translation benefit of €168 million from the weaker euro.

Other non-current liabilities

Non-current liabilities are up due to the increase in the British Airways defined benefit obligation, higher net derivative liabilities from lower fuel prices and an increase in provisions for Iberia's current year restructuring charge. These impacts were partially offset by a reduction in the deferred tax liability balance from the recognition of Iberia's deferred tax asset.

In respect of cash, cash equivalents and interest-bearing deposits and interest-bearing long-term borrowings, see Liquidity and capital resources.

Balance sheet

| € million | 2014 | 2013 | Higher/ (lower) |
|---|---------------|---------------|--------------------|
| Non-current assets | | | |
| Property, plant and equipment | 11,784 | 10,228 | 1,556 |
| Intangible assets | 2,438 | 2,196 | 242 |
| Other non-current assets | 2,003 | 2,335 | (332) |
| | 16,225 | 14,759 | 1,466 |
| Current assets | | | |
| Cash and cash equivalents and interest-bearing deposits | 4,944 | 3,633 | 1,311 |
| Other current assets | 2,483 | 2,385 | 98 |
| | 7,427 | 6,018 | 1,409 |
| Total assets | 23,652 | 20,777 | 2,875 |
| Shareholders' equity | | | |
| Issued share capital and share premium | 6,887 | 6,887 | - |
| Other reserves | (3,402) | (2,978) | (424) |
| | 3,485 | 3,909 | (424) |
| Non-controlling interest | 308 | 307 | 1 |
| Total equity | 3,793 | 4,216 | (423) |
| Non-current liabilities | | | |
| Interest-bearing long-term borrowings | 5,904 | 4,535 | 1,369 |
| Other non-current liabilities | 4,154 | 3,709 | 445 |
| | 10,058 | 8,244 | 1,814 |
| Current liabilities | | | |
| Interest-bearing borrowings | 713 | 587 | 126 |
| Trade and other payables | 3,281 | 3,297 | (16) |
| Deferred revenue on ticket sales | 3,933 | 3,496 | 437 |
| Other current liabilities | 1,874 | 937 | 937 |
| | 9,801 | 8,317 | 1,484 |
| Total liabilities | 19,859 | 16,561 | 3,298 |

Financial review continued

Liquidity and capital resources

The primary source of the Group's liquidity over the past two years has been cash generated from operations.

In 2014 cash generated from operations increased to €1,862 million from €1,218 million. The improvement in the year is proportionate to the increase in operating results achieved by the Group. The cash flows generated from operating activities is after payments made to pension schemes of €409 million, and after interest and tax payments of €277 million.

Net cash flow from investing activities

The Group invested €2.6 billion in fixed assets during the year, primarily represented by fleet transactions and increased its current interest-bearing deposits by €1.4 billion. The sale of Iberia's investment in Amadeus generated net proceeds of €572 million.

Net cash flow from financing activities

The Group's proceeds from long term borrowings relates to aircraft delivery in the year, and includes \$431 million drawn down from the Enhanced Equipment Trust Certificates (EETC) issued in 2013. In addition, debt repayments of €1 billion were made during the year.

Cash, cash equivalents and interest-bearing deposits

At December 31 the Group's cash position improved by €1,311 million, generated from the Group's operating activities and the sale of Amadeus. The net cash flows from operations covered the repayment of borrowings including finance leases; funded the acquisition of some fleet and all non-fleet assets; and contributed to the current year increase in cash.

Liquidity risk management

Adequate cash levels are maintained by each operating company. The cash balance at December 31, 2014 comprised €3,206 million held by British Airways, €870 million held by Iberia, €651 million held by Vueling and €217 million held by the parent and other Group companies.

In addition, the Group had undrawn general and committed aircraft financing facilities (primarily available in US dollars) in euro equivalent of €2,975 million (2013: €3,686 million). The Group also had undrawn overdraft facilities of €13 million (2013: €12 million) and undrawn uncommitted money market lines of €32 million (2013: €30 million).

Cash flow

| € million | 2014 | 2013 | Higher/ (lower) |
|--|----------------|---------|--------------------|
| Operating profit | 1,029 | 527 | 502 |
| Depreciation, amortisation and impairment | 1,117 | 1,014 | 103 |
| Other operating cash movements | (269) | (281) | 12 |
| Net cash flows from operating activities from continuing operations | 1,877 | 1,260 | 617 |
| Net cash flows used in discontinued operations | (15) | (42) | 27 |
| Net cash flows from operating activities | 1,862 | 1,218 | 644 |
| Acquisitions of property, plant and equipment and intangible assets | (2,622) | (2,196) | (426) |
| Cash acquired on Business combination (net of consideration) | – | 293 | (293) |
| Net proceeds from sale of investments | 589 | – | 589 |
| Increase in other current interest-bearing deposits | (1,352) | (593) | (759) |
| Other investing cash movements | 455 | 561 | (106) |
| Net cash flows from investing activities | (2,930) | (1,935) | (995) |
| Proceeds from long-term borrowings | 2,009 | 1,529 | 480 |
| Repayments of borrowings | (1,009) | (677) | (332) |
| Other financing cash movements | (43) | (14) | (29) |
| Net cash flows from financing activities | 957 | 838 | 119 |
| Net (decrease)/increase in cash and cash equivalents | (111) | 121 | (232) |
| Net foreign exchange differences | 98 | 58 | 40 |
| Cash and cash equivalents at 1 January | 1,541 | 1,362 | 179 |
| Cash and cash equivalents at year end | 1,528 | 1,541 | (13) |
| Interest-bearing deposits maturing after more than three months | 3,416 | 2,092 | 1,324 |
| Cash and cash equivalents and other interest-bearing deposits | 4,944 | 3,633 | 1,311 |

Financial review continued

Capital risk management

IAG's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to maintain an optimal capital structure in order to reduce the cost of capital, and to prepare the Group to provide future returns to shareholders. The Group monitors capital using the adjusted gearing and adjusted net debt to EBITDAR.

The Group's cash increased €1,311 million during the year due to improved cash flows from operations. Net financing was up €1,000 million and reflects the draw down on the remaining EETC and refinancing of the Iberbond. Including adverse exchange and other non-cash movements of €495 million, the Group's net debt was €184 million higher. Adjusted net debt was up €380 million reflecting the increase in net debt and the additional off balance sheet operating leases.

Excluding the remeasurement of employment benefit obligations, IAG's total adjusted shareholders equity for the year was broadly flat, with the profit after tax offset by the fair value movements on cash flow hedges. Combined with the increase in adjusted net debt, this drives adjusted gearing up 1 point to 51 per cent. Adjusted net debt to EBITDAR improves 0.6 to 1.9 times.

Net debt

| € million | 2014 | 2013 | Higher/ (lower) |
|---|----------------|----------------|--------------------|
| Decrease in cash and cash equivalents during the year (excluding Business combination) | (13) | (114) | 101 |
| Increase in other current interest-bearing deposits | 1,324 | 532 | 792 |
| Net funds acquired through Business combination | - | 306 | (306) |
| Increase in cash net of exchange | 1,311 | 724 | 587 |
| Net cash outflow from repayments of debt and lease financing | 1,009 | 677 | 332 |
| New borrowings and finance leases | (2,009) | (1,529) | (480) |
| Increase in net debt resulting from financing cash flows | (1,000) | (852) | (148) |
| Exchange movements and other non-cash movements | (495) | 528 | (1,023) |
| (Increase)/decrease in net debt during the year | (184) | 400 | (584) |
| Net debt at January 1 | (1,489) | (1,889) | 400 |
| Net debt at December 31 | (1,673) | (1,489) | (184) |

Capital commitments and off balance sheet arrangements

Capital expenditure authorised and contracted for amounted to €9,027 million (2013: €8,745 million) for the Group. The majority of this is in US dollars and includes commitments until 2021 for 88 aircraft from the Airbus A320 family, 34 Boeing 787s, 26 Airbus A350s, eight Airbus A330s and four Airbus A380s.

IAG does not have any other off-balance sheet financing arrangements that currently have or are reasonably likely to have a material future effect on the Group's financial condition, changes in financial condition, results of operations, liquidity, capital expenditure or capital resources.

RISK MANAGEMENT AND RISK FACTORS

The Board has overall responsibility for ensuring that IAG has appropriate risk management and internal controls in place and that they continue to work effectively. There is a comprehensive process and methodology in place for the review and consideration of risk.

This process is led by the Management Committee and supported by Head of Group Audit and Risk Management. A risk management process was implemented in Vueling in 2014 and integrated into the Group framework. Best practices are shared throughout the Group.

The risk management process includes multiple opportunities for discussion and debate to assess the relative profile of each risk. The outputs include risk maps for both the Group and the airlines. The risk maps plot each critical risk on an impact and probability scale. For each critical risk, mitigating actions exist and are actively managed. This process is iterative and refreshed on a regular basis. Within British Airways, the Leadership Team reviews the risk map on a quarterly basis with their Head of Corporate Risk and Compliance to ensure that all new and emerging risks are appropriately evaluated and any further actions identified. The Head of Corporate Risk and Compliance also provides guidance to those responsible for managing the individual risks and to the departmental risk leaders. In addition, during 2014 the British Airways board carried out quarterly risk reviews.

Within Iberia, the Iberia management committee reviews the risk map on a half-yearly basis and ensures that all new and emerging risks are appropriately evaluated and any further actions identified. Guidance to those responsible for managing the individual risks and to the departmental risk leaders is provided by the central risk management team. Iberia implemented a new web based risk management system in 2014 allowing risk owners throughout the business to keep the central team updated on risks and mitigating actions. The Iberia board carried out full reviews of risk on a half-yearly basis.

The Vueling risk map was developed by the Vueling management committee together with the Head of Group Audit and Risk Management. Each risk is allocated to a member of the management committee and they are responsible for assessing and mitigating the risk. The Vueling risk map is used to inform the Group risk position and will be discussed at the Vueling management committee on a six-monthly basis.

The IAG Management Committee reviewed the Group risk map twice during the year in advance of reviews by the Audit and Compliance Committee of the Board in accordance with the June 2012 UK Corporate Governance Code and the Spanish Unified Good Governance Code of Listed Companies recommendations. The IAG Board discussed risk at a number of meetings including a full review of the Group risk map and discussions around strategy and the business plan.

The highly regulated and commercially competitive environment, together with operational complexity, leaves the Group exposed to a number of significant risks. We remain focused on mitigating these risks at all levels in the business although many remain outside our control; for example, changes in government regulation, adverse weather, pandemics, fuel prices and foreign exchange.

Risks are grouped into strategic; business and operational; financial; and compliance and regulatory risks. Guidance is provided below on our risk appetite within these groups, including the individual risks and uncertainties that may have the most significant impact on the long-term value of IAG. The list is not intended to be exhaustive.

Risk management and risk factors continued

Strategic risks

Open competition and markets are in the long-term best interests of the airline industry and we have a high appetite for continued deregulation and rational consolidation. We seek to minimise the risk that government intervention or the regulation of monopoly suppliers disadvantages us. In general the Group's strategic risk reduced during the year, as the economy in our home markets improved, uncertainty over the EU Emissions Trading scheme was reduced and a good working relationship was forged with the new American Airlines management team.

Business and operational risks

The safety and security of our customers is a fundamental value to us. The Group balances the resources we devote to building resilience into operations and the impact of disruption on customers. In 2014 British Airways completed a contingency planning investment programme allowing it to recover from disruption at its London Heathrow hub. We are prepared to accept the risk of strikes as we negotiate sustainable agreements with our staff, 2014 has seen some improvements in this area as Iberia has made good progress in implementing its *Plan de Futuro*. British Airways has also made good progress as agreements have been reached with key bargaining groups for 2015.

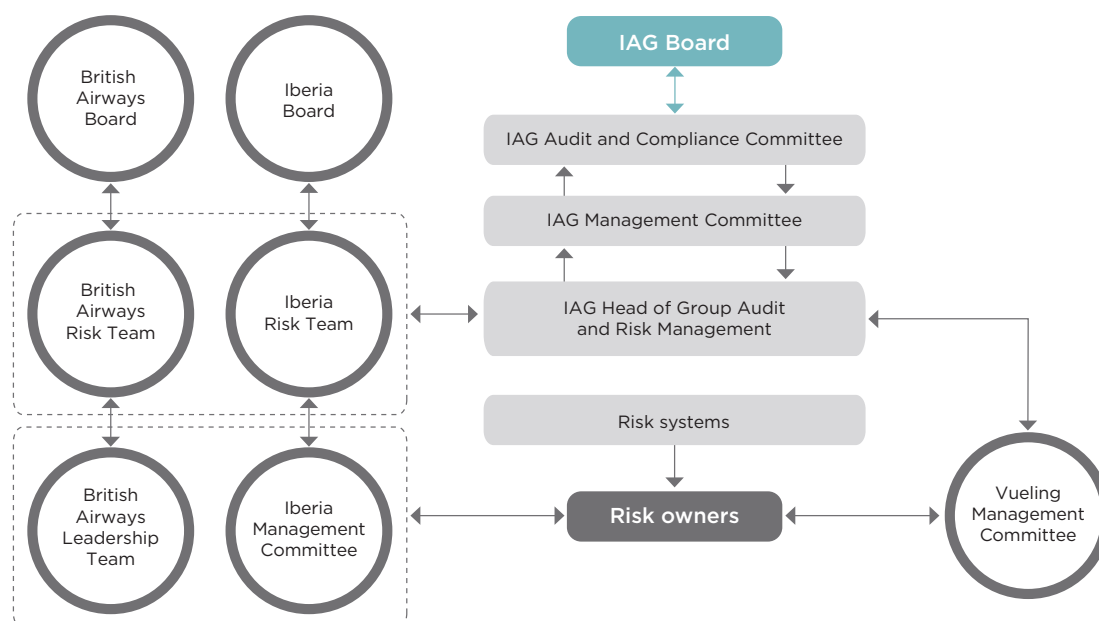
Financial risks

IAG balances the relatively high business and operational risks inherent in our business through adopting a low appetite for financial risk. This conservative approach involves maintaining high cash balances and substantial committed financing facilities. Policies around fuel price and currency risk explicitly consider our appetite for fluctuations in cash positions resulting from market movements. However, we are also careful to understand our hedging positions compared to our competitors to ensure that we are not commercially disadvantaged by being over-hedged in a favourable market. In 2014 we updated our treasury policies ensuring a consistent approach to financial risk management in advance of the implementation of a Group-wide treasury system in 2015. The treasury policies consider the debt funding, fuel, currency, interest rate and counterparty risks set out below. The new treasury policies also set out responsibility for monitoring the capital structure of the Group; determine how banking relationships and bank account infrastructure will be managed; establish short-term liquidity requirements; set out principles for investment management balancing preservation of capital, yield and liquidity; and require segregation of duties and timely accounting for transactions.

Compliance and regulatory

The Group has no tolerance for breaches of legal and regulatory requirements in the markets in which IAG operates.

RISK MANAGEMENT FRAMEWORK



| Risk | Impact | Mitigation |
|--------------------------------|--|--|
| Strategic | | |
| Competition | The markets in which we operate are highly competitive. The Group faces direct competition from other airlines on our routes, as well as from indirect flights, charter services and other modes of transport. Competitor capacity growth in excess of demand growth could materially impact our margins. Some competitors have cost structures that are lower than ours or have other competitive advantages such as being supported by government intervention or benefitting from insolvency protection. The low cost model is being extended into longhaul by our competitors with some early success. | <p>The IAG Management Committee devotes one weekly meeting per month to strategic issues. The Board dedicates two days per year to Group strategy. The Group strategy team supports the Management Committee by identifying where resources can be devoted to exploit profitable opportunities. Airline revenue management departments and systems optimise market share and yield through pricing and inventory management activity.</p> <p>The Group's strong global market positioning, leadership in strategic markets, alliances, joint businesses, cost competitiveness and diverse customer base continue to address this risk. The Group is continually reviewing its product offerings and responds through initiatives, such as investing in new seats across the Group's shorthaul fleet.</p> |
| Consolidation and deregulation | The airline market is competitive and still needs to rationalise given current market conditions in some major markets such as Europe. Failing airlines can be rescued by government support delaying the opportunity for rational airlines to capture market share and expand. Mergers and acquisitions amongst competitors have the potential to adversely affect our market position and revenue. | <p>The Group maintains rigorous cost control and targeted product investment to remain competitive.</p> <p>The Group has the flexibility to react to market opportunities arising from weakened competitors. Vueling gives us additional flexibility in this regard as it can deploy capacity at short notice across Europe.</p> |
| | Joint business arrangements such as the agreements with American Airlines and JAL include delivery risks such as realising planned synergies and agreeing the deployment of additional capacity within the joint business. Any failure of joint business partners could adversely impact our business. | British Airways and Iberia are developing a strong working relationship with the management team of the merged American Airlines and US Airways. |
| | Failure of a franchise partner will reduce traffic feed into our hubs or major outstations. | We regularly review franchisee performance and risks. 2014 saw the third party recapitalisation of Iberia's franchise partner Air Nostrum, securing feed into the Madrid hub. |
| | The airline industry is increasingly dependent on alliances and IAG is no exception to this. | Maintaining a leading presence in oneworld and ensuring the alliance attracts and retains the right members is key to safeguarding the network. |
| | Some of the markets in which the Group operates remain regulated by governments, in some instances controlling capacity and/or restricting market entry. Relaxation of such restrictions, whilst creating growth opportunities for the Group, may have a negative short-term impact on our margins. | The Group's government affairs departments monitor government initiatives, represent our point of view and forecast likely changes to laws and regulations. |

Risk management and risk factors continued

| Risk | Impact | Mitigation |
|----------------------------|---|--|
| Strategic continued | | |
| Government intervention | Regulation of the airline industry covers many of our activities including route flying rights, airport landing rights, departure taxes, security and environmental controls. Excessive taxes or increases in regulation may impact on our operational and financial performance. | The Group's ability to comply with and influence changes to regulations is key to maintaining operational and financial performance. We continue to talk to the UK Government about the negative effect the imposition of APD has on the UK economy. Whilst we welcome the reduction in APD on certain longer longhaul flights in 2015 and its removal on child fares by 2016, the core APD problem remains. |
| Airports | <p>IAG is dependent on and may be affected by infrastructure decisions or changes in infrastructure policy by governments, regulators or other entities outside the Group's control. London Heathrow has no spare runway capacity and has operated on the same two main runways since it opened over 60 years ago. As a result, British Airways is vulnerable to short-term operational disruption.</p> | <p>The Group continues to promote the timely conclusion of the Airports Commission's work on additional runway capacity at London Gatwick and London Heathrow airports. Action should be taken on the findings with equitable imposition of the costs on airlines. British Airways participates in the slot trading market at Heathrow airport; acquiring slots at reasonable prices when available.</p> |
| | <p>IAG is also dependent on the oil industry making sufficient investment in fuel supply infrastructure. Peak consumption at London Heathrow and London Gatwick airports is nearing the capacity of the pipe and rail infrastructure serving the airports and storage capacity at London Heathrow is lower than at other international airports thereby increasing the risk of any disruption to supply impacting our operations.</p> | <p>British Airways enters into long-term contracts with fuel suppliers wherever this can secure fuel supply at a reasonable cost.</p> <p>Short-term fuel shortages are addressed by contingency plans.</p> |
| | <p>IAG is also dependent on the performance of suppliers of airport services such as airport operators, border control and caterers.</p> | <p>These risks are mitigated by active supplier management and contingency plans.</p> |

| Risk | Impact | Mitigation |
|-----------------------------------|---|---|
| Business and operational | | |
| Brand reputation | The Group's brands have significant commercial value. Erosion of the brands, through either a single event or a series of events, may adversely impact our leadership position with customers and ultimately affect our future revenue and profitability. | The Group allocates substantial resources to safety, operational integrity, and new aircraft to maintain its market position. In 2014 we backed our commitment to making Iberia competitive by ordering eight Airbus A330-200 aircraft and eight Airbus A350-900 aircraft. |
| Economic conditions | <p>IAG's revenue is highly sensitive to economic conditions in the markets in which we operate. Deterioration in either the domestic or the global economy may have a material impact on our financial position.</p> <p>Economic conditions in the Group's main markets; the UK (34 per cent of Group revenue) and Spain (16 per cent of Group Revenue); have improved over the year with good growth in the UK and a return to growth in Spain. However, concerns remain over the economy in the rest of the Eurozone where more widespread low inflation and low growth are holding back demand. Conditions in the USA (14 per cent of Group revenue) have been stable as tapering of the US Federal Reserve bond buying programme, management of fiscal deficit and debt ceiling issues are being safely negotiated.</p> | <p>The Board and the Management Committee review the financial outlook and business performance of the Group through the financial planning process and regular reforecasts. These reviews are used to drive the Group's financial performance through the management of capacity and the deployment of that capacity in geographic markets; together with cost control; including management of capital expenditure and the reduction of operational and financial leverage.</p> <p>External economic outlook, fuel prices, exchange rates are carefully considered when developing strategy and plans and regularly reviewed by the Management Committee and Board as part of monitoring of financial and business performance.</p> |
| Employee relations | The Group has a large unionised workforce represented by a number of different trade unions. Collective bargaining takes place on a regular basis and breakdowns in the bargaining process disrupt operations and adversely affect business performance. | Human resource departments within the airlines engage in collective bargaining with the many trade unions representing our staff. |
| Failure of a critical IT system | <p>IAG is dependent on IT systems for most of our principal business processes. The failure of a key system may cause significant disruption to our operation and/or lost revenue.</p> <p>In 2015 British Airways expects to commence implementation of its new customer management system that provides passenger check-in and aircraft loading. As such it is a critical operational system.</p> | <p>System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.</p> <p>The project has a strong risk management workstream designed to minimise, but not eliminate, the risk of disruption during implementation.</p> |
| Pandemic | If there is a significant outbreak of infectious disease such as swine flu, staff absence will increase which may seriously impact the operation. Leisure customers may cancel trips and key corporate clients may discourage travel, significantly impacting sales. | The Group has comprehensive pandemic business continuity plans. |
| Landing fees and security charges | <p>Airport, transit and landing fees and security charges represent a significant operating cost to the airlines and have an impact on operations. Whilst certain airport and security charges are passed on to passengers by way of surcharges, others are not.</p> <p>There can be no assurance that such costs will not increase or that the Group will not incur new costs in the UK, Spain or elsewhere. However, 2014 saw the conclusion of the Quinquennial 6 review which determined a RPI -1.5 per cent indexation of prices at London Heathrow until 2019.</p> | The Group engages in regulatory reviews of supplier pricing. |

Risk management and risk factors continued

| Risk | Impact | Mitigation |
|--|--|---|
| Business and operational continued | | |
| Safety/security incident | The safety and security of our customers and employees are fundamental values for the Group. Failure to prevent or respond effectively to a major safety or security incident may adversely impact our operations and financial performance. | The corresponding safety committees of each of the airlines of the Group, satisfies itself that they have appropriate resources and procedures which include compliance with Air Operator Certificate requirements. Their incident centres respond in a structured way in the event of a safety or security incident. |
| Event causing significant network disruption | Several possible events may cause a significant network disruption. Example scenarios include a major failure of the public transport system; the complete or partial loss of the use of terminals; adverse weather conditions such as snow, fog or volcanic ash; widespread or coordinated air traffic control industrial action; war; civil unrest or terrorism. Such a disruption may result in lost revenue and additional cost. | Management has robust business continuity plans to mitigate these risks to the extent feasible. |
| Financial | | |
| Debt funding | The Group has substantial debt that will need to be repaid or refinanced. The Group's ability to finance ongoing operations, committed aircraft orders and future fleet growth plans are vulnerable to various factors including financial market conditions and financial institutions' appetite for secured aircraft financing. | <p>The IAG Management Committee regularly reviews the Group's financial position and financing strategy.</p> <p>The Group has multiple sources of debt financing with British Airways benefitting from the most diverse sources in recent years. These sources include bank debt, export credit agency support, asset backed bonds and operating leases. Vueling and Iberia are diversifying their funding by exploring opportunities in the bank debt and export credit agency markets. IAG itself has proven access to the debt capital markets as demonstrated by its 2013 convertible bond issue.</p> <p>The Group's high cash reserves and committed financing facilities mitigates the risk of short-term interruptions to the aircraft financing market.</p> |
| Financial risk | <p>We used approximately 7.9 million tonnes of jet fuel in 2014. Volatility in the price of oil and petroleum products can have a material impact on our operating results.</p> <p>The Group is exposed to currency risk on revenue, purchases and borrowings in foreign currencies.</p> | <p>This price risk is partially hedged through the purchase of oil derivatives in forward markets which can generate a profit or a loss. The objective of the hedging programme is to increase the predictability of cash flows whilst maintaining alignment with our competitors. The Group regularly reviews its fuel and currency positions. The results of these reviews are discussed with management and the appropriate action taken.</p> <p>The Group seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency and actively managing the surplus or shortfall through treasury hedging operations. The approach to financial risk management is set out in note 26 to the financial statements.</p> |

| Risk | Impact | Mitigation |
|---|---|---|
| Financial continued | | |
| Financial risk | <p>The Group is exposed to currency devaluation of cash held in currencies other than the airlines' local currencies of euro and sterling. This risk is minimised by holding cash in euro and sterling wherever possible but exchange controls in some markets will from time to time delay conversion and repatriation of funds. Delays are generally modest but the Venezuelan government continues to block the repatriation of Iberia's funds. The Venezuelan cash balances are set out in note 20 of the Financial statements. Iberia and the Spanish government are working with the Venezuelan authorities to determine a solution in order for Iberia to continue operating to Venezuela.</p> | <p>When there are delays in the repatriation of cash coupled with the risk of devaluation, risk is mitigated by the review of commercial policy for the route. This may involve capacity reductions and rebalancing the point of sale away from the local market towards the airline's home market and renegotiating supplier contracts to allow payment in local currencies.</p> |
| | <p>Interest rate risk arises on floating rate debt and floating rate leases which are typically linked to London Interbank Offered Rates (LIBOR). This exposure is partially offset by the reinvestment of cash deposits which are all of less than one year in tenor.</p> | <p>The impact of rising interest rates is mitigated through structuring selected new debt and lease deals at fixed rate throughout their term. The approach to interest rate risk management and proportions of fixed and floating debt is set out in note 26 of the Financial statements.</p> |
| | <p>The Group is exposed to non-performance of financial contracts by counterparties, for activities such as money market deposits, fuel and currency hedging. Failure of counterparties may result in financial losses.</p> | <p>The approach to credit risk management and the Group's cash exposure by geography is set out in note 26 of the Financial statements.</p> |
| | <p>The Group is exposed to systemic tax risks arising from either changes to tax legislation or a challenge by tax authorities on interpretation of tax legislation. The Group seeks to comply with the law, act with integrity in all tax matters and maintain an open relationship with regulators; however, there is a reputational risk that the Group's tax affairs are questioned by the media.</p> | <p>The Group complies with the tax policy approved by the IAG Management Committee and tax risk is managed by the IAG tax department.</p> |
| Compliance and regulatory | | |
| Governance | <p>The governance structure the IAG Group put in place at the time of the merger has a number of complex features, including nationality structures to protect British Airways' and Iberia's routes and operating licences and assurances to preserve the specific interests of those companies.</p> | <p>The governance structure continues to work well. It has been enhanced by changes made in 2013 which successfully drew a clearer distinction between the roles of the IAG Board, the IAG Management Committee and the operating company boards.</p> |
| Non-compliance with competition, bribery and corruption law | <p>The Group is exposed to the risk of individual employees' or groups of employees' unethical behaviour resulting in fines or losses to the Group.</p> | <p>The Group has comprehensive policies designed to ensure compliance, together with training schemes in place to educate staff in these matters.</p> |

The Spanish Corporate Governance Report within the Financial statements section of this annual report forms part of the Management Report.

Information related to any significant subsequent events is included within the Financial statements.



FINANCIAL STATEMENTS

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**Statement of Directors'
Responsibilities**
Independent Auditors' Report

CONSOLIDATED INCOME STATEMENT

| | | Year to December 31 | | | | | |
|---|------|-------------------------------|-------------------|---------------|-------------------------------|-------------------|------------|
| € million | Note | Before exceptional items 2014 | Exceptional items | Total 2014 | Before exceptional items 2013 | Exceptional items | Total 2013 |
| Passenger revenue | | 17,825 | | 17,825 | 16,264 | (106) | 16,158 |
| Cargo revenue | | 992 | | 992 | 1,073 | | 1,073 |
| Other revenue | | 1,353 | | 1,353 | 1,338 | | 1,338 |
| Total revenue | 3 | 20,170 | | 20,170 | 18,675 | (106) | 18,569 |
| Employee costs | 8 | 4,325 | 260 | 4,585 | 4,123 | 98 | 4,221 |
| Fuel, oil costs and emissions charges | | 5,987 | | 5,987 | 5,951 | (6) | 5,945 |
| Handling, catering and other operating costs | | 2,063 | | 2,063 | 1,932 | | 1,932 |
| Landing fees and en-route charges | | 1,555 | | 1,555 | 1,422 | | 1,422 |
| Engineering and other aircraft costs | | 1,276 | | 1,276 | 1,237 | 15 | 1,252 |
| Property, IT and other costs | | 927 | | 927 | 922 | 5 | 927 |
| Selling costs | | 859 | | 859 | 785 | | 785 |
| Depreciation, amortisation and impairment | 6 | 1,196 | (79) | 1,117 | 1,006 | 8 | 1,014 |
| Aircraft operating lease costs | 6 | 551 | | 551 | 482 | 17 | 499 |
| Currency differences | | 41 | 180 | 221 | 45 | | 45 |
| Total expenditure on operations | | 18,780 | 361 | 19,141 | 17,905 | 137 | 18,042 |
| Operating profit | 3 | 1,390 | (361) | 1,029 | 770 | (243) | 527 |
| Finance costs | 9 | (237) | | (237) | (301) | | (301) |
| Finance income | 9 | 32 | | 32 | 31 | | 31 |
| Retranslation (charges)/credits on currency borrowings | | (27) | | (27) | 12 | | 12 |
| (Losses)/gains on derivatives not qualifying for hedge accounting | | (49) | | (49) | 43 | | 43 |
| Net gain related to available-for-sale financial assets | 18 | 10 | 83 | 93 | 2 | | 2 |
| Share of post-tax profits/(losses) in associates | 17 | 2 | | 2 | (8) | | (8) |
| Loss on sale of property, plant and equipment and investments | | (11) | | (11) | (9) | (17) | (26) |
| Net financing charge relating to pensions | 9 | (4) | | (4) | (53) | | (53) |
| Profit before tax from continuing operations | | 1,106 | (278) | 828 | 487 | (260) | 227 |
| Tax | 10 | (238) | 413 | 175 | (57) | (19) | (76) |
| Profit after tax from continuing operations | | 868 | 135 | 1,003 | 430 | (279) | 151 |
| Loss after tax from discontinued operations | | - | | - | - | (4) | (4) |
| Profit after tax for the year | | 868 | 135 | 1,003 | 430 | (283) | 147 |
| Attributable to: | | | | | | | |
| Equity holders of the parent | | 847 | | 982 | 405 | | 122 |
| Non-controlling interest | | 21 | | 21 | 25 | | 25 |
| | | 868 | | 1,003 | 430 | | 147 |
| Basic earnings per share (€ cents) | | | | | | | |
| From continuing operations | | 41.6 | | 48.2 | 21.3 | | 6.6 |
| From discontinued operations | | - | | - | - | | (0.2) |
| From profit for the year | | 41.6 | | 48.2 | 21.3 | | 6.4 |
| Diluted earnings per share (€ cents) | | | | | | | |
| From continuing operations | | 40.2 | | 46.4 | 20.8 | | 6.5 |
| From discontinued operations | | - | | - | - | | (0.2) |
| From profit for the year | | 40.2 | | 46.4 | 20.8 | | 6.3 |

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

| € million | | Year to December 31 | |
|---|------|---------------------|------------|
| | Note | 2014 | 2013 |
| <i>Items that may be reclassified subsequently to net profit</i> | | | |
| Cash flow hedges: | | | |
| Fair value movements in equity | 31 | (1,235) | (203) |
| Reclassified and reported in net profit | 31 | 357 | 36 |
| Available-for-sale financial assets: | | | |
| Fair value movements in equity | 31 | 29 | 297 |
| Reclassified and reported in net profit | 31 | (359) | (3) |
| Currency translation differences | 31 | 168 | (20) |
| <i>Items that will not be reclassified to net profit</i> | | | |
| Remeasurements of post-employment benefit obligations | 31 | (394) | 521 |
| Total other comprehensive income for the year, net of tax | | (1,434) | 628 |
| Profit after tax for the year | | 1,003 | 147 |
| Total comprehensive income for the year | | (431) | 775 |
| Total comprehensive income is attributable to: | | | |
| Equity holders of the parent | | (452) | 750 |
| Non-controlling interest | 31 | 21 | 25 |
| | | (431) | 775 |
| Total comprehensive income attributable to equity shareholders arises from: | | | |
| Continuing operations | | (452) | 754 |
| Discontinued operations | | - | (4) |

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

CONSOLIDATED BALANCE SHEET

| € million | Note | December 31, 2014 | December 31, 2013 |
|---|------|----------------------|----------------------|
| Non-current assets | | | |
| Property, plant and equipment | 13 | 11,784 | 10,228 |
| Intangible assets | 16 | 2,438 | 2,196 |
| Investments in associates | 17 | 27 | 25 |
| Available-for-sale financial assets | 18 | 84 | 1,092 |
| Employee benefit assets | 32 | 855 | 485 |
| Derivative financial instruments | 27 | 80 | 35 |
| Deferred tax assets | 10 | 769 | 501 |
| Other non-current assets | 19 | 188 | 197 |
| | | 16,225 | 14,759 |
| Current assets | | | |
| Non-current assets held for sale | 15 | 18 | 12 |
| Inventories | | 424 | 411 |
| Trade receivables | 19 | 1,252 | 1,196 |
| Other current assets | 19 | 611 | 631 |
| Derivative financial instruments | 27 | 178 | 135 |
| Other current interest-bearing deposits | 20 | 3,416 | 2,092 |
| Cash and cash equivalents | 20 | 1,528 | 1,541 |
| | | 7,427 | 6,018 |
| Total assets | | 23,652 | 20,777 |
| Shareholders' equity | | | |
| Issued share capital | 28 | 1,020 | 1,020 |
| Share premium | 28 | 5,867 | 5,867 |
| Treasury shares | 29 | (6) | (42) |
| Other reserves | 31 | (3,396) | (2,936) |
| Total shareholders' equity | | 3,485 | 3,909 |
| Non-controlling interest | 31 | 308 | 307 |
| Total equity | | 3,793 | 4,216 |
| Non-current liabilities | | | |
| Interest-bearing long-term borrowings | 23 | 5,904 | 4,535 |
| Employee benefit obligations | 32 | 1,324 | 738 |
| Deferred tax liability | 10 | 278 | 884 |
| Provisions for liabilities and charges | 25 | 1,967 | 1,796 |
| Derivative financial instruments | 27 | 359 | 66 |
| Other long-term liabilities | 22 | 226 | 225 |
| | | 10,058 | 8,244 |
| Current liabilities | | | |
| Current portion of long-term borrowings | 23 | 713 | 587 |
| Trade and other payables | 21 | 3,281 | 3,297 |
| Deferred revenue on ticket sales | | 3,933 | 3,496 |
| Derivative financial instruments | 27 | 1,313 | 528 |
| Current tax payable | | 57 | 11 |
| Provisions for liabilities and charges | 25 | 504 | 398 |
| | | 9,801 | 8,317 |
| Total liabilities | | 19,859 | 16,561 |
| Total equity and liabilities | | 23,652 | 20,777 |

CONSOLIDATED CASH FLOW STATEMENT

| € million | Note | Year to December 31 | |
|--|------|---------------------|----------------|
| | | 2014 | 2013 |
| Cash flows from operating activities | | | |
| Operating profit ¹ | | 1,029 | 527 |
| Depreciation, amortisation and impairment | | 1,117 | 1,014 |
| Movement in working capital and other non-cash movements ¹ | | 426 | 320 |
| Settlement of competition investigation | | (9) | (32) |
| Employer contributions to pension schemes | 32 | (612) | (577) |
| Pension scheme service costs | 32 | 203 | 205 |
| Interest paid | | (159) | (163) |
| Taxation | | (118) | (34) |
| Net cash flows from operating activities from continuing operations | | 1,877 | 1,260 |
| Net cash flows used in operating activities from discontinued operations | | (15) | (42) |
| Net cash flows from operating activities | | 1,862 | 1,218 |
| Cash flows from investing activities | | | |
| Acquisition of property, plant and equipment and intangible assets | | (2,622) | (2,196) |
| Sale of property, plant and equipment and intangible assets | | 404 | 525 |
| Net proceeds from sale of investments | | 589 | - |
| Cash acquired on Business combination (net of consideration) | | - | 293 |
| Interest received | | 37 | 27 |
| Increase in other current interest-bearing deposits | | (1,352) | (593) |
| Dividends received | | 2 | 3 |
| Other investing movements | | 12 | 6 |
| Net cash flows from investing activities | | (2,930) | (1,935) |
| Cash flows from financing activities | | | |
| Proceeds from long-term borrowings | | 2,009 | 1,529 |
| Proceeds from equity portion of convertible bond issued | | - | 72 |
| Repayment of borrowings | | (223) | (275) |
| Repayment of finance leases | | (786) | (402) |
| Acquisition of treasury shares | | (23) | (42) |
| Acquisition of non-controlling interest | | - | (24) |
| Distributions made to holders of perpetual securities | | (20) | (20) |
| Net cash flows from financing activities | | 957 | 838 |
| Net (decrease)/increase in cash and cash equivalents | | (111) | 121 |
| Net foreign exchange differences | | 98 | 58 |
| Cash and cash equivalents at 1 January | | 1,541 | 1,362 |
| Cash and cash equivalents at year end | 20 | 1,528 | 1,541 |
| Interest-bearing deposits maturing after more than three months¹ | 20 | 3,416 | 2,092 |
| Cash, cash equivalents and other interest-bearing deposits | 20 | 4,944 | 3,633 |

1 A charge of €180 million has been recorded in the year related to Venezuela funds (note 20).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year to December 31, 2014

| € million | Issued share capital | Share premium | Treasury shares (note 29) | Other reserves | Retained earnings | Total shareholders' equity | Non-controlling interest (note 31) | Total equity |
|---|----------------------|---------------|---------------------------|----------------|-------------------|----------------------------|------------------------------------|--------------|
| January 1, 2014 | 1,020 | 5,867 | (42) | (2,122) | (814) | 3,909 | 307 | 4,216 |
| Profit for the year | – | – | – | – | 982 | 982 | 21 | 1,003 |
| Other comprehensive income for the year: | | | | | | | | |
| Cash flow hedges reclassified and reported in net profit: | | | | | | | | |
| Passenger revenue | – | – | – | 5 | – | 5 | – | 5 |
| Fuel and oil costs | – | – | – | 47 | – | 47 | – | 47 |
| Currency differences | – | – | – | 34 | – | 34 | – | 34 |
| Investments | – | – | – | 271 | – | 271 | – | 271 |
| Net change in fair value of cash flow hedges | – | – | – | (1,235) | – | (1,235) | – | (1,235) |
| Available-for-sale assets reclassified and reported in net profit | – | – | – | (359) | – | (359) | – | (359) |
| Net change in fair value of available-for-sale financial assets | – | – | – | 29 | – | 29 | – | 29 |
| Currency translation differences | – | – | – | 168 | – | 168 | – | 168 |
| Remeasurement of post-employment benefit obligations | – | – | – | – | (394) | (394) | – | (394) |
| Cost of share-based payments | – | – | – | – | 38 | 38 | – | 38 |
| Vesting of share-based payment schemes | – | – | 59 | – | (46) | 13 | – | 13 |
| Acquisition of treasury shares | – | – | (23) | – | – | (23) | – | (23) |
| Distributions made to holders of perpetual securities | – | – | – | – | – | – | (20) | (20) |
| December 31, 2014 | 1,020 | 5,867 | (6) | (3,162) | (234) | 3,485 | 308 | 3,793 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year to December 31, 2013

| € million | Issued share capital | Share premium | Treasury shares (note 29) | Other reserves | Retained earnings | Total shareholders' equity | Non- controlling interest (note 31) | Total equity |
|---|----------------------------|------------------|---------------------------------|-------------------|----------------------|----------------------------------|--|-----------------|
| January 1, 2013 | 928 | 5,280 | (17) | (2,179) | 743 | 4,755 | 300 | 5,055 |
| Restatement | - | - | - | (28) | (2,049) | (2,077) | - | (2,077) |
| January 1, 2013 (restated) | 928 | 5,280 | (17) | (2,207) | (1,306) | 2,678 | 300 | 2,978 |
| Profit for the year | - | - | - | - | 122 | 122 | 25 | 147 |
| Other comprehensive income for the year: | | | | | | | | |
| Cash flow hedges reclassified and reported in net profit: | | | | | | | | |
| Passenger revenue | - | - | - | 46 | - | 46 | - | 46 |
| Fuel and oil costs | - | - | - | (17) | - | (17) | - | (17) |
| Currency differences | - | - | - | 7 | - | 7 | - | 7 |
| Net change in fair value of cash flow hedges | - | - | - | (203) | - | (203) | - | (203) |
| Available-for-sale assets reclassified and reported in net profit | - | - | - | (3) | - | (3) | - | (3) |
| Net change in fair value of available- for-sale financial assets | - | - | - | 297 | - | 297 | - | 297 |
| Currency translation differences | - | - | - | (20) | - | (20) | - | (20) |
| Remeasurements of post- employment benefit obligations | - | - | - | - | 521 | 521 | - | 521 |
| Cost of share-based payments | - | - | - | - | 30 | 30 | - | 30 |
| Exercise of share options | - | - | 17 | - | (9) | 8 | - | 8 |
| Acquisition of treasury shares | - | - | (42) | - | - | (42) | - | (42) |
| Equity portion of convertible bond issued | - | - | - | 72 | - | 72 | - | 72 |
| Non-controlling interest arising on Business combination | - | - | - | - | - | - | 26 | 26 |
| Acquisition of non-controlling interest | - | - | - | - | - | - | (24) | (24) |
| Issue of ordinary shares related to conversion of convertible bond | 92 | 587 | - | (94) | (172) | 413 | - | 413 |
| Distributions made to holders of perpetual securities | - | - | - | - | - | - | (20) | (20) |
| December 31, 2013 | 1,020 | 5,867 | (42) | (2,122) | (814) | 3,909 | 307 | 4,216 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Background and general information

International Consolidated Airlines Group S.A. (hereinafter 'International Airlines Group', 'IAG' or the 'Group') is a leading European airline group, formed to hold the interests of airline and ancillary operations. IAG is a Spanish company registered in Madrid and was incorporated on April 8, 2010. On January 21, 2011 British Airways Plc and Iberia Líneas Aéreas de España S.A. Operadora (hereinafter 'British Airways' and 'Iberia' respectively) completed a merger transaction becoming the first two airlines of the Group. Vueling Airlines S.A. ('Vueling') was acquired on April 26, 2013.

IAG shares are traded on the London Stock Exchange's main market for listed securities and also on the stock exchanges of Madrid, Barcelona, Bilbao and Valencia (the 'Spanish Stock Exchanges'), through the Spanish Stock Exchanges Interconnection System (Mercado Continuo Español).

2 Summary of significant accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union (IFRSs as endorsed by the EU). The consolidated financial statements are presented in euros, rounded to the nearest million unless otherwise stated. These financial statements have been prepared on a historical cost convention except for certain financial assets and liabilities, including derivative financial instruments and available-for-sale financial assets that are measured at fair value. The carrying value of recognised assets and liabilities that are subject to fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged. The financial statements for the prior year include reclassifications that were made to conform to the current year presentation. The amendments have no material impact on the financial statements.

The Group's financial statements for the year to December 31, 2014 were authorised for issue, and approved by the Board of Directors on February 26, 2015.

The Directors have considered the business activities as set out on pages 8 to 15, the Group's principal risks and uncertainties as set out on pages 87 to 93, and the Group's financial position, including cash flows, liquidity position and available committed facilities. The Directors consider that the Group has adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements.

Consolidation

The Group financial statements include the financial statements of the Company and its subsidiaries, each made up to December 31, together with the attributable share of results and reserves of associates, adjusted where appropriate to conform to the Group's accounting policies.

Subsidiaries are consolidated from the date of their acquisition, which is the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Group applies the acquisition method to account for business combinations. The consideration paid is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries that are not held by the Group and are presented separately within equity in the consolidated Balance sheet. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the Income statement.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed.

All intra-group account balances, including intra-group profits, are eliminated in preparing the consolidated financial statements.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Segmental reporting

Operating segments are reported in a manner consistent with how resource allocation decisions are made by the chief operating decision-maker. The chief operating decision-maker, who is responsible for resource allocation and assessing performance of the operating segments, has been identified as the IAG Management Committee.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies continued

Foreign currency translation

a Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the functional currency, being the currency of the primary economic environment in which the entity operates. The Group's consolidated financial statements are presented in euros, which is the Group's presentation currency.

b Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency using the rate of exchange prevailing on the date of the transaction. Monetary foreign currency balances are translated into the functional currency at the rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income statement, except where hedge accounting is applied.

c Group companies

The net assets of foreign operations are translated into euros at the rate of exchange ruling at the balance sheet date. Profits and losses of such operations are translated into euros at average rates of exchange during the year. The resulting exchange differences are taken directly to a separate component of equity until all or part of the interest is sold, when the relevant portion of the cumulative exchange is recognised in the Income statement.

Property, plant and equipment

Property, plant and equipment is held at cost. The Group has a policy of not revaluing property, plant and equipment. Depreciation is calculated to write off the cost less the estimated residual value on a straight-line basis, over the economic life of the asset. Residual values, where applicable, are reviewed annually against prevailing market values for equivalently aged assets and depreciation rates adjusted accordingly on a prospective basis.

a Capitalisation of interest on progress payments

Interest attributed to progress payments, and related exchange movements on foreign currency amounts, made on account of aircraft and other qualifying assets under construction are capitalised and added to the cost of the asset concerned.

All other borrowing costs are recognised in the Income statement in the year in which they are incurred.

b Fleet

All aircraft are stated at the fair value of the consideration given after taking account of manufacturers' credits. Fleet assets owned or held on finance leases are depreciated at rates calculated to write down the cost to the estimated residual value at the end of their planned operational lives on a straight-line basis.

Cabin interior modifications, including those required for brand changes and relaunches, are depreciated over the lower of five years and the remaining life of the aircraft.

Aircraft and engine spares acquired on the introduction or expansion of a fleet, as well as rotatable spares purchased separately, are carried as property, plant and equipment and generally depreciate in line with the fleet to which they relate.

Major overhaul expenditure, including replacement spares and labour costs, is capitalised and amortised over the average expected life between major overhauls. All other replacement spares and other costs relating to maintenance of fleet assets (including maintenance provided under 'pay-as-you-go' contracts) are charged to the Income statement on consumption or as incurred respectively.

c Other property, plant and equipment

Provision is made for the depreciation of all property, plant and equipment. Property, with the exception of freehold land, is depreciated over its expected useful life over periods not exceeding 50 years, or in the case of leasehold properties, over the duration of the lease if shorter, on a straight-line basis. Equipment is depreciated over periods ranging from 4 to 20 years.

d Leased assets

Where assets are financed through finance leases, under which substantially all the risks and rewards of ownership are transferred to the Group, the assets are treated as if they had been purchased outright. The amount included in the cost of property, plant and equipment represents the aggregate of the capital elements payable during the lease term. The corresponding obligation, reduced by the appropriate proportion of lease payments made, is included in borrowings.

The amount included in the cost of property, plant and equipment is depreciated on the basis described in the preceding paragraphs on fleet and the interest element of lease payments made is included as an interest expense in the Income statement.

Total minimum payments, measured at inception, under all other lease arrangements, known as operating leases, are charged to the Income statement in equal annual amounts over the period of the lease. In respect of aircraft, certain operating lease arrangements allow the Group to terminate the leases after a limited initial period, without further material financial obligations. In certain cases the Group is entitled to extend the initial lease period on predetermined terms; such leases are described as extendable operating leases.

Intangible assets

a Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration paid over the net fair value of the identifiable assets and liabilities of the acquiree. Where the net fair value of the identifiable assets and liabilities of the acquiree is in excess of the consideration paid, a gain on bargain purchase is recognised immediately in the Income statement.

For the purposes of assessing impairment, goodwill is grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Goodwill is tested for impairment annually and whenever indicators exist that the carrying value may not be recoverable.

b Brands

Brands arising on the acquisition of subsidiaries are initially recognised at fair value at the acquisition date. Long established brands that are expected to be used indefinitely are not amortised but assessed annually for impairment.

c Customer loyalty programmes

Customer loyalty programmes arising on the acquisition of subsidiaries are initially recognised at fair value at the acquisition date. A customer loyalty programme with an expected useful life is amortised over the expected remaining useful life. Customer loyalty programmes with an indefinite life are not amortised but assessed annually for impairment.

d Landing rights

Landing rights acquired in a business combination are recognised at fair value at the acquisition date. Landing rights acquired from other airlines are capitalised at cost.

Capitalised landing rights based outside the EU are amortised on a straight-line basis over a period not exceeding 20 years. Capitalised landing rights based within the EU are not amortised, as regulations provide that these landing rights are perpetual.

e Contract based-intangibles

Contract based intangibles acquired in a business combination are recognised initially at fair value at the acquisition date and amortised over the remaining life of the contract.

f Software

The cost to purchase or develop computer software that is separable from an item of related hardware is capitalised separately and amortised on a straight-line basis over a period not exceeding five years.

g Emissions allowances

Purchased emissions allowances are recognised at cost. Emissions allowances are not revalued or amortised but are tested for impairment whenever indicators exist that the carrying value may not be recoverable.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the value by which the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value-in-use. Non-financial assets other than goodwill that were subject to an impairment are reviewed for possible reversal of the impairment at each reporting date.

a Property, plant and equipment

The carrying value is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable and the cumulative impairment losses are shown as a reduction in the carrying value of property, plant and equipment.

b Intangible assets

Intangible assets are held at cost and are either amortised on a straight-line basis over their economic life, or they are deemed to have an indefinite economic life and are not amortised. Indefinite life intangible assets are tested annually for impairment or more frequently if events or changes in circumstances indicate the carrying value may not be recoverable.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies continued

Investments in associates

An associate is an undertaking in which the Group has a long-term equity interest and over which it has the power to exercise significant influence. The Group's interest in the net assets of associates is included in Investment in associates in the Balance sheet and its interest in their results is included in the Income statement, below operating result. The attributable results of those companies acquired or disposed of during the year are included for the periods of ownership. Where the Group can not exercise control over an entity in which it has a shareholding greater than 51 per cent, the equity interest is treated as an associated undertaking.

Financial instruments

a Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets not classified as loans and receivables and include listed and unlisted investments, excluding interests in associates. After initial recognition, available-for-sale financial assets are measured at fair value, with changes in fair value recognised in Other comprehensive income until the investment is sold or becomes impaired, at which time the cumulative gain or loss previously reported in equity is recognised in the Income statement.

The fair value of quoted investments is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using valuation techniques. Where fair value cannot be reliably estimated, assets are carried at cost.

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset is considered impaired if objective evidence indicates that one or more events that have occurred since the initial recognition of the asset have had a negative impact on the estimated future cash flows of that asset. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative gain or loss previously reported in Other comprehensive income is included in the Income statement.

An impairment loss in respect of a financial asset carried at amortised cost is calculated as the difference between its carrying value and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

b Trade and other receivables

Trade and other receivables are stated at cost less allowances made for doubtful receivables, which approximates fair value given the short dated nature of these assets. A provision for impairment of trade receivables (allowance for doubtful receivables) is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. Loans to third parties are initially measured at the fair value of the consideration given plus any directly attributable transaction costs, and measured thereafter at amortised cost.

c Other current interest-bearing deposits

Other current interest-bearing deposits, principally comprising funds held with banks and other financial institutions, are carried at amortised cost using the effective interest method.

d Derivative financial instruments and hedging activities

Derivative financial instruments, comprising interest rate swap agreements, foreign exchange derivatives and fuel hedging derivatives (including options, swaps and futures) are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss arising from revaluation depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged (as detailed below under cash flow hedges). The gains or losses related to derivatives not used as effective hedging instruments are recognised in the Income statement.

Exchange gains and losses on monetary investments are taken to the Income statement unless the item has been designated and is assessed as an effective hedging instrument. Exchange gains and losses on non-monetary investments are reflected in equity until the investment is sold when the cumulative amount recognised in equity is recognised in the Income statement.

Long-term borrowings are recorded at amortised cost, including leases which contain interest rate swaps that are closely related to the underlying financing and as such are not accounted for as an embedded derivative.

e Cash flow hedges

Changes in the fair value of derivative financial instruments are reported through operating income or financing according to the nature of the instrument, unless the derivative financial instrument has been designated as a hedge of a highly probable expected future cash flow. Gains and losses on derivative financial instruments designated as cash flow hedges and assessed as effective for the year, are recorded in equity. Gains and losses recorded in equity are reflected in the Income statement when either the hedged cash flow impacts income or the hedged item is no longer expected to occur.

Certain loan repayment instalments denominated in US dollars, euro and Japanese yen are designated as cash flow hedges of highly probable future foreign currency revenues. Exchange differences arising from the translation of these loan repayment instalments are recorded in equity and subsequently reflected in the Income statement when either the future revenue impacts income or its occurrence is no longer expected to occur.

f Convertible debt

Convertible bonds are classified as compound instruments, consisting of a liability and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt, and is subsequently recorded at an amortised cost basis using the effective interest method until extinguished on conversion or maturity of the bonds, and is recognised within Interest-bearing borrowings. The difference between the proceeds of issue of the convertible bond and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in Equity portion of convertible bond in Other reserves and is not subsequently remeasured.

Issue costs are apportioned between the liability and equity components of the convertible bonds where appropriate based on their relative carrying values at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the effective interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this value and the interest paid is added to the carrying amount of the liability.

Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised when the contract that gives rise to it has been settled, sold, cancelled or has expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts are recognised in the Income statement.

Employee benefit plans

a Pension obligations

The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior years.

Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value, and the fair value of any plan assets are deducted. The discount rate is the yield on AA-rated corporate bonds of the appropriate currency that have durations approximating those of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the net obligation calculation results in an asset for the Group, the recognition of an asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan ('the asset ceiling'). The fair value of the plan assets is based on market price information and, in the case of quoted securities, is the published bid price.

Current service costs are recognised within operating expenses in the year in which they arise. Past service costs are recognised at the earlier of the plan amendment or curtailment occurring, and when the Group recognises the related restructuring costs or termination benefits. The net interest is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability or asset, taking into account any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest and other expenses related to the defined benefit plans are recognised in the Income statement. Remeasurements, comprising of actuarial gains and losses, the effect of the asset ceiling (excluding interest) and the return on plan assets (excluding interest), are recognised immediately in Other comprehensive income. Remeasurements are not reclassified to the Income statement in subsequent periods.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies continued

b Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Other employee benefits are recognised when there is deemed to be a present obligation.

Taxation

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted at the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries or associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the Income statement.

Non-current assets held for sale

Non-current assets are classified as held for sale when their carrying value is to be recovered principally through sale as opposed to continuing use. The sale must be considered to be highly probable and to be achieved within 12 months. Held for sale assets are carried at the lower of carrying value and fair value less costs to sell. Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortised.

Inventories

Inventories, including aircraft expendables, are valued at the lower of cost and net realisable value. Such cost is determined by the weighted average cost method. Inventories include mainly aircraft spare parts, repairable aircraft engine parts and fuel.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand and deposits with any qualifying financial institution repayable on demand or maturing within three months of the date of acquisition and which are subject to an insignificant risk of change in value.

Treasury shares

Shares in the Company purchased and held directly by the Company are classified as Treasury shares, and shown as deductions from Shareholders' equity at cost. Shares in the Company held by the British Airways Plc Employee Share Ownership Trust are classified as Investments in own shares, and shown as deductions from Shareholders' equity at cost.

Consideration received for the sale of such shares is also recognised in equity, with any difference between the proceeds from the sale and the original cost being taken to reserves. No gain or loss is recognised in the Income statement on the purchase, sale, issue or cancellation of equity shares.

Share-based payments

The Group operates a number of equity-settled, share-based payment plans, under which the Group awards equity instruments of the Group for services rendered by employees. The fair value of the share-based payment plans is measured at the date of grant using an appropriate valuation model. The resulting cost, as adjusted for the expected and actual level of vesting of the plan, is charged to the Income statement over the period in which the options vest. At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions, of the number of equity instruments that will ultimately vest. The movement in the cumulative expense since the previous balance sheet date is recognised in the Income statement with a corresponding entry in equity.

Provisions

Provisions are made when a future obligation exists for a present liability in respect of a past event and where the amount of the obligation can be reliably estimated.

Employee leaving indemnities and other employee provisions are recorded for flight crew who, meeting certain conditions, have the option of being placed on reserve or of taking early retirement. The Group is obligated to remunerate these employees until they reach the statutory retirement age. The calculation is performed by independent actuaries using the projected unit credit method.

Other employee related provisions are recognised for direct expenditures of business reorganisation (restructuring provisions) where plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken at the balance sheet date.

If the effect is material, expected future cash flows are discounted using a rate that reflects, where appropriate, the risks specific to the provision. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Revenue recognition

Passenger and cargo revenue is recognised when the transportation service has been provided. Passenger tickets net of discounts are recorded as current liabilities as deferred revenue on ticket sales until the customer has flown. Unused tickets are recognised as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and statistical analysis of historical trends.

Other revenue including maintenance; handling; hotel and holiday and commissions is recognised at the time the service is provided in accordance with the invoice or contract.

Customer loyalty programmes

The Group operates four loyalty programmes: Executive Club, Iberia Plus, Avios, and Punto. The principal customer loyalty programmes award travellers Avios points to redeem for various rewards primarily redemption travel, including flights, hotels and car hire. In accordance with IFRIC 13 'Customer loyalty programmes', the fair value attributed to the awarded Avios points is deferred as a liability and recognised as revenue on redemption of the points and provision of service to the participants to whom the Avios points are issued.

In addition, Avios points are sold to commercial partners to use in loyalty activity. The fair value of the Avios points sold is deferred and recognised as revenue on redemption of the Avios points by the participants to whom the Avios points are issued. The cost of the redemption of the Avios points is recognised when the Avios points are redeemed.

The Group estimates the fair value of Avios points by reference to the fair value of the awards for which they could be redeemed and is reduced to take into account the proportion of award credits that are not expected to be redeemed based on the results of statistical modelling. The fair value of the Avios point reflects the fair value of the range of available awards.

Exceptional items

Exceptional items are those that in management's view need to be separately disclosed by virtue of their size or incidence. The exceptional items recorded in the Income statement includes items such as significant restructuring; the impact of business combination transactions that do not contribute to the ongoing results of the Group; and the impact of the sale, disposal or impairment of an investment in a business.

Business combination transactions include cash items such as the costs incurred to effect the transaction and non-cash items such as accounting gains or losses recognised through the Income statement, such as bargain purchase gains and step acquisition losses.

Critical accounting estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Actual results in the future may differ from estimates upon which financial information has been prepared. These underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if these are also affected. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed as follows.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies continued

a Employee benefit obligations, employee leaving indemnities, other employee related provisions and restructuring

The cost of employee benefit obligations, employee leaving indemnities and other employee related provisions is determined using actuarial valuations. Actuarial valuations involve making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future increases. Due to the long-term nature of these schemes, such estimates are subject to significant uncertainty. The assumptions relating to these schemes are disclosed in notes 32 and 25. The Group exercises its judgement in determining the assumptions to be adopted, in discussion with its independent external actuaries.

Restructuring provisions are estimates of future obligations. The Group exercises judgement in determining the expected direct expenditures of reorganisation based on plans which are sufficiently detailed and advanced.

b Revenue recognition

Passenger revenue is recognised when the transportation is provided. Ticket sales that are not expected to be used for transportation ('unused tickets') are recognised as revenue using estimates regarding the timing of recognition based on the terms and conditions of the ticket and historical trends.

In respect of customer loyalty programmes the fair value attributed to awarded points is deferred as a liability and is recognised as revenue on redemption of the points and provision of service to the participants to whom the points are issued. The fair value of the award credits is estimated by reference to the fair value of the awards for which the points could be redeemed and is reduced to take into account the proportion of award credits that are not expected to be redeemed by customers. The Group exercises its judgement in determining the assumptions to be adopted in respect of the number of points not expected to be redeemed through the use of statistical modelling and historical trends and in determining the mix and fair value of the award credits.

c Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

The Group recognises deferred income tax assets only to the extent that it is probable that the taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised. Management consider the operating performance in the current year and the future projections of performance laid out in the approved business plan in order to assess the profitability of recoverability. The Business plan relies on the use of assumptions, estimates and judgements in respect of future performance and economics.

d Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and intangible assets with indefinite economic lives are tested for impairment annually and at other times when such indicators exist. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates as disclosed in note 16.

Other non-financial assets are tested for impairment annually or when there are indicators that the carrying amounts may not be recoverable.

e Residual values and useful lives of assets

The Group exercises judgement to determine useful lives and residual values of property and plant and equipment. The assets are depreciated to their residual values over their estimated useful lives.

f Foreign currency – transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency using the rate of exchange prevailing on the date of the transaction. Monetary foreign currency balances are translated into the functional currency at the rates ruling at the balance sheet date.

Where more than one exchange rate for a particular currency exists, judgement is required in order to determine which rate should be used based on entity specific facts and circumstances. Consideration is given to the Group's intention and ability to use specific mechanisms and whether that use is probable. Where exchangeability is lacking across mechanisms the published legally available rate that best reflects the economics of the Group's activities is considered.

g Lease classification

A lease is classified as a finance lease when substantially all the risks and rewards of ownership are transferred to the Group. In determining the appropriate classification, the substance of the transaction rather than the form is considered. Factors considered include but are not limited to the following: whether the lease transfers ownership of the asset to the lessee by the end of the lease term; the lessee has the option to purchase the asset at the price that is sufficiently lower than the fair value on exercise date; the lease term is for the major part of the economic life of the asset; and the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

Changes in accounting policy and disclosures

a New and amended standards adopted by the Group

The Group has adopted the following standards, interpretations and amendments for the first time in the year to December 31, 2014:

IFRS 10 'Consolidated financial statements', IFRS 11 'Joint arrangements' and IFRS 12 'Disclosure of interest in other entities'; effective for periods beginning on or after January 1, 2014. IFRS 10 replaces the guidance on control and consolidation in IAS 27 and SIC 12 'Consolidation-special purpose entities'. IFRS 11 requires joint arrangements to be accounted for as a joint operation or as a joint venture depending on the rights and obligations of each party to the arrangement. IFRS 12 requires enhanced disclosure of the nature, risk and the financial effects associated with the Group's interest in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they were a single entity remains unchanged, as do the mechanics of consolidation. The application of these standards have no impact on the Group's net result or net assets.

IAS 32 (Amendment) 'Financial instruments: Presentation'; effective for periods beginning on or after January 1, 2014. The amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The application of this standard has no significant impact on the Group's net result or net assets.

IAS 36 (Amendment) 'Impairment of assets'; effective for periods beginning on or after January 1, 2014. The amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The standard requires a change in the presentation of the Group's notes to the financial statements but has no impact on the Group's net result or net assets.

IAS 39 (Amendment) 'Financial instruments: Recognition and measurement'; effective for periods beginning on or after January 1, 2014. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specific criteria. The application of this standard has no impact on the Group's net result or net assets.

Other amendments resulting from improvements to IFRSs or to standards did not have any impact on the accounting policies, financial position or performance of the Group.

b New standards, amendments and interpretations not yet effective

The IASB and IFRIC issued the following standards, amendments and interpretations with an effective date after the year end of these financial statements which management believe could impact the Group in future periods. Unless otherwise stated, the Group plans to adopt the following standards, interpretations and amendments:

IFRS 15 'Revenue from contracts with customers' (not yet endorsed by the EU); effective for periods beginning on or after January 1, 2017. The standard establishes a new five-step model that will apply to revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue. This is a converged standard on revenue recognition which replaces IAS 18 'Revenue', IAS 11 'Construction contracts' and related interpretations. The Group is currently assessing the impact of the new standard.

IAS 19 (Amendment) 'Employee benefits'; effective for periods beginning on or after February 1, 2015. The amendment applies to contributions from employees or third parties to defined benefit plans and clarifies the treatment of such contributions. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example employee contributions that are calculated according to a fixed percentage of salary. Entities with plans that require contributions that vary with service will be required to recognise the benefit of those contributions over employee's working lives. It is anticipated that the application of this amendment will have no significant impact on the Group's net profit or net assets.

IFRIC 21 'Levies'; effective for periods beginning on or after June 17, 2014. IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. It is anticipated that the application of this amendment will have no significant impact on the Group's net profit or net assets.

Notes to the consolidated financial statements continued

2 Summary of significant accounting policies continued

Changes in accounting policy and disclosures continued

b New standards, amendments and interpretations not yet effective continued

IFRS 9 'Financial instruments' (not yet endorsed by the EU); effective for periods beginning on or after January 1, 2018. The standard removes the multiple classification and measurement models for financial assets required by IAS 39 and introduces a model that has only two classification categories: amortised cost and fair value. Classification is driven by the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The accounting and presentation for financial liabilities and for derecognising financial instruments is relocated from IAS 39 without any significant changes. IFRS 9 (2010) introduces additional changes relating to financial liabilities. IFRS 9 adds new requirements to address the impairment of financial assets and hedge accounting. The Group has not yet completed its evaluation of the effects of the adoption.

There are no other standards and interpretations in issue but not yet adopted that the Directors anticipate will have a material effect on the reported income or net assets of the Group.

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

3 Segment information

a Business segments

British Airways, Iberia and Vueling are managed as individual operating companies. Each airline operates its network operations as a single business unit. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments, and has been identified as the IAG Management Committee. The IAG Management Committee makes resource allocation decisions based on network profitability, primarily by reference to the passenger markets in which the companies operate. The objective in making resource allocation decisions is to optimise consolidated financial results. Therefore, based on the way the Group treats its businesses, and the manner in which resource allocation decisions are made, the Group has three (2013: three) reportable operating segments for financial reporting purposes, reported as British Airways, Iberia and Vueling.

For the year to December 31, 2014

| € million | 2014 | | | | Total |
|---|-----------------|--------------|--------------|-----------------------|----------------|
| | British Airways | Iberia | Vueling | Other Group companies | |
| Revenue | | | | | |
| External revenue | 14,456 | 3,989 | 1,725 | – | 20,170 |
| Inter-segment revenue | 37 | 279 | – | 107 | 423 |
| Segment revenue | 14,493 | 4,268 | 1,725 | 107 | 20,593 |
| Depreciation, amortisation and impairment | (1,027) | (76) | (11) | (3) | (1,117) |
| Operating profit/(loss) before exceptional items | 1,215 | 50 | 141 | (16) | 1,390 |
| Exceptional items (note 5) | – | (361) | – | – | (361) |
| Operating profit/(loss) after exceptional items | 1,215 | (311) | 141 | (16) | 1,029 |
| Net non-operating costs | | | | | (201) |
| Profit before tax from continuing operations | | | | | 828 |

For the year to December 31, 2013

| € million | 2013 | | | | Total |
|--|-----------------|--------|---------|-----------------------|---------|
| | British Airways | Iberia | Vueling | Other Group companies | |
| Revenue | | | | | |
| External revenue | 13,337 | 4,102 | 1,130 | – | 18,569 |
| Inter-segment revenue | 18 | 128 | 3 | 84 | 233 |
| Segment revenue | 13,355 | 4,230 | 1,133 | 84 | 18,802 |
| Depreciation, amortisation and impairment | (851) | (154) | (5) | (4) | (1,014) |
| Operating profit/(loss) before exceptional items | 762 | (166) | 168 | 6 | 770 |
| Exceptional items (note 5) | 68 | (316) | – | 5 | (243) |
| Operating profit/(loss) after exceptional items | 830 | (482) | 168 | 11 | 527 |
| Net non-operating costs | | | | | (300) |
| Profit before tax from continuing operations | | | | | 227 |

b Geographical analysis

Revenue by area of original sale

| € million | 2014 | 2013 |
|---------------|---------------|--------|
| UK | 6,931 | 6,085 |
| Spain | 3,203 | 2,839 |
| USA | 2,893 | 2,677 |
| Rest of world | 7,143 | 6,968 |
| | 20,170 | 18,569 |

Assets by area

December 31, 2014

| € million | Property, plant and equipment | Intangible assets |
|---------------|-------------------------------|-------------------|
| UK | 10,131 | 1,184 |
| Spain | 1,624 | 1,218 |
| USA | 24 | 12 |
| Rest of world | 5 | 24 |
| | 11,784 | 2,438 |

December 31, 2013

| € million | Property, plant and equipment | Intangible assets |
|---------------|-------------------------------|-------------------|
| UK | 8,891 | 1,022 |
| Spain | 1,296 | 1,138 |
| USA | 34 | 5 |
| Rest of world | 7 | 31 |
| | 10,228 | 2,196 |

4 Discontinued operations

In 2014, there was no revenue and no expenditure on operations relating to discontinued operations (2013: total expenditure on operations of €4 million, related to additional costs incurred in handing back bmibaby aircraft to lessors).

Notes to the consolidated financial statements continued

5 Exceptional items

| € million | 2014 | 2013 |
|--|--------------|------------|
| Foreign currency loss ¹ | 180 | - |
| Restructuring costs – employee ² | 260 | 268 |
| Restructuring costs – aircraft ² | - | 44 |
| Reversal of Iberia Brand impairment ³ | (79) | - |
| Business combination costs ⁴ | - | 5 |
| Pre-acquisition cash flow hedge impact ⁵ | - | (10) |
| Revision in US past service cost benefits ⁶ | - | (170) |
| Customer loyalty programme change in estimate ⁷ | - | 106 |
| Recognised in expenditure on operations | 361 | 243 |
| Gain on sale of available-for-sale asset ⁸ | (83) | - |
| Loss on step acquisition ⁹ | - | 17 |
| Total exceptional charge before tax | 278 | 260 |
| Loss on discontinued operations ¹⁰ | - | 4 |
| Tax on exceptional items | (144) | 19 |
| Net deferred tax credit ¹¹ | (269) | - |
| Total exceptional (credit)/charge after tax | (135) | 283 |

1 Foreign currency loss

A charge of €180 million has been recorded in the year related to Venezuela funds (note 20). A related tax credit of €54 million was recognised.

2 Restructuring costs

In the year to December 31, 2014, a restructuring expense of €260 million has been recognised in relation to the Iberia Transformation Plan and the agreement on collective redundancies for pilots and ground staff. A related tax credit of €78 million was recognised.

In the year to December 31, 2013, a restructuring expense of €312 million was recognised in relation to the Iberia Transformation Plan. €265 million of additional employee restructuring costs were charged to reflect the increased cost of the severance as proposed by the mediator agreement. Restructuring costs of €47 million associated with the return of leased aircraft and standing down owned aircraft were also recorded in the comparative period. No deferred tax was recognised.

3 Reversal of Iberia Brand impairment

In 2014 the partial impairment of the Iberia Brand of €79 million was reversed (note 16). This follows Iberia's return to profitability and the approval of Iberia's Business plan. A related tax charge of €24 million was recognised.

4 Business combination costs

Transaction expenses of €5 million were recognised in relation to the Vueling Business combination in the year to December 31, 2013.

5 Derivatives and financial instruments

On January 21, 2011, Iberia had a portfolio of cash flow hedges with a net mark-to-market charge of €67 million recorded within Other reserves on the Balance sheet. On April 26, 2013, Vueling had a portfolio of cash flow hedges with a net mark-to-market charge which rounds to nil recorded within Other reserves in the Balance sheet. As these cash flow hedge positions unwind, Iberia and Vueling will recycle the impact from Other reserves through their respective Income statement.

The Group does not recognise the pre-acquisition cash flow hedge net position on the Balance sheet, resulting in fuel and aircraft operating lease costs being gross of the pre-acquisition cash flow hedge positions. For the year to December 31, 2013 this resulted in a decrease in reported aircraft operating lease costs of €4 million, a decrease in reported fuel expense of €6 million and a related €3 million tax charge.

6 Revision in US past service cost benefits

The Group made changes to the US PRMB (Post-Retirement Medical Benefits) during 2013 to bring the level of benefits in line with national trends in the US. This scheme is accounted for in a similar way to a defined benefit plan. Any reduction in benefits provided would result in a recognition of a past service gain when the plan amendment occurs. This change resulted in a recognition of a one-off gain in employee costs of €170 million during the year to December 31, 2013, and a related deferred tax charge of €39 million.

7 Customer loyalty programme change in estimate

During 2013, management revised estimates relating to the customer loyalty programme revenue, recognised on redemption. Historically, management information systems have provided a constraint on the reliability of revenue recognition at the point of departure. As part of a Group-wide exercise to review the existing customer loyalty programmes, reporting has been developed to better estimate the revenue that should be deferred to departure and so this new management information was adopted during the year to December 31, 2013 giving rise to a reduction in passenger revenue of €106 million, and a related tax credit of €23 million.

8 Gain on sale of available-for-sale asset

During the third quarter of 2014, Iberia entered into an agreement to settle its hedging transaction over its ownership interest in Amadeus IT Holding S.A. ('Amadeus') and sell its entire shareholding. The derivative transaction comprised a collar arrangement on Iberia's Amadeus shareholding of 33,562,331 ordinary shares.

The settlement of the derivative contract commenced in August 2014 and the Group's shareholding in Amadeus has been sold in equal instalments over a 100 trading day period. At December 31, 2014 Iberia had settled 99 per cent of the transaction and the resulting €83 million gain was recognised in the Net gain related to available-for-sale financial assets line. A related €36 million tax credit was also recognised.

9 Loss on step acquisition

As a result of Iberia's initial investment in Vueling, the Business combination was achieved in stages. The Group revalued its initial investment in Vueling to fair value at the acquisition date resulting in a non-cash loss of €17 million recognised in the Loss on sale of property, plant and equipment and investments line in the year to December 31, 2013.

10 Loss on discontinued operations

The loss after tax from discontinued operations of bmibaby and bmi regional was €4 million for the year to December 31, 2013.

11 Net deferred tax credit

In the year, the Group recognised a €306 million deferred tax asset relating to losses incurred by Iberia from 2013 and 2012. Recognition is based on Management's expectation of the recoverability of these losses against future profits. Recoverability was based on the improved operating performance in the current year and from the projections included within the Business plan.

During 2014, the Spanish government enacted a number of changes as part of the Spanish Tax Reform, including the phased reduction of corporation tax rate from 30 per cent to 25 per cent and a change in loss utilisation rules. A related tax charge of €37 million was also recognised.

6 Expenses by nature

Operating profit is after charging/(crediting)

Depreciation, amortisation and impairment of non-current assets:

| € million | 2014 | 2013 |
|--|-------|-------|
| Owned assets | 810 | 699 |
| Finance leased aircraft | 277 | 206 |
| Other leasehold interests | 57 | 58 |
| Impairment charge on property, plant and equipment | 8 | 19 |
| Amortisation of intangible assets | 44 | 32 |
| Impairment reversal on intangible assets | (79) | - |
| | 1,117 | 1,014 |

Operating lease costs:

| € million | 2014 | 2013 |
|----------------------------|------|------|
| Minimum lease rentals | | |
| – aircraft | 551 | 499 |
| – property and equipment | 187 | 186 |
| Sub-lease rentals received | (54) | (38) |
| | 684 | 647 |

Cost of inventories:

| € million | 2014 | 2013 |
|---|-------|-------|
| Cost of inventories recognised as an expense, mainly fuel | 5,377 | 5,819 |

Notes to the consolidated financial statements continued

7 Auditors' remuneration

The fees for audit and non-audit services provided by the auditor of the Group's consolidated financial statements and of certain individual financial statements of the consolidated companies, Ernst & Young S.L., and by companies belonging to Ernst & Young's network, as well as fees for services billed in 2013 to Vueling by Deloitte S.L., and by companies belonging to Deloitte's network, being the auditors of Vueling in 2013, were as follows:

| €'000 | 2014 | 2013 | |
|--|---------------|---------------|---------------|
| | Ernst & Young | Ernst & Young | Other auditor |
| Fees payable for the audit of the Group and individual accounts | 2,806 | 2,717 | - |
| Fees payable for other services: | | | |
| Audit of the Group's subsidiaries pursuant to legislation | 535 | 622 | 145 |
| Other services pursuant to legislation | 349 | 274 | - |
| Other services relating to taxation | 269 | 314 | - |
| Other assurance services | 359 | 399 | 16 |
| Services relating to information technology | 30 | 50 | - |
| Services relating to corporate finance transactions ¹ | - | 1,139 | - |
| | 4,348 | 5,515 | 161 |

¹ This mainly included services in relation to the fleet order circular for 2013.

The audit fees payable are approved by the Audit and Compliance Committee and have been reviewed in the context of other companies for cost effectiveness. A description of the work of the Audit and Compliance Committee is set out in the Report of the Audit and Compliance Committee and includes an explanation of how objectivity and independence is safeguarded when non-audit services are provided.

8 Employee costs and numbers

a Employee costs

| € million | 2014 | 2013 |
|---|--------------|-------|
| Wages and salaries | 3,194 | 3,041 |
| Social security costs | 447 | 423 |
| Costs related to pension scheme benefits ¹ | 285 | 124 |
| Other post-retirement benefit costs | - | 3 |
| Share-based payment charge | 29 | 30 |
| Other employee costs ² | 630 | 600 |
| | 4,585 | 4,221 |

¹ The 2013 figure includes an exceptional gain of €170 million related to revision in US past service cost benefits (note 5).

² Other employee costs include allowances and accommodation for crew.

The average number of employees during the year was as follows:

| | 2014 | | 2013 | |
|-------------------|-----------------------------|---------------------|-----------------------------|---------------------|
| | Average number of employees | Percentage of women | Average number of employees | Percentage of women |
| Senior executives | 219 | 23% | 251 | 24% |
| Ground employees: | | | | |
| Managerial | 2,379 | 40% | 2,476 | 40% |
| Non-managerial | 32,527 | 36% | 33,509 | 36% |
| Technical crew: | | | | |
| Managerial | 5,694 | 10% | 5,431 | 9% |
| Non-managerial | 18,665 | 67% | 18,422 | 67% |
| | 59,484 | | 60,089 | |

b Directors' remuneration

| € million | 2014 | 2013 |
|-----------------------------------|------|------|
| Board of Directors' remuneration | 13 | 16 |
| Management Committee remuneration | 18 | 8 |

There were three female Directors on the Board at December 31, 2014 (2013: two).

The Report of the Remuneration Committee discloses further details of Directors' remuneration.

The Group provides life insurance for the Executive Directors of the Board, and for the year to December 31, 2014 the Group's obligation was €16,000 (2013: €22,000). At December 31, 2014, none of the Executive Directors were members of defined benefit pension schemes. The total transfer value of accrued pensions covered under defined benefit pension schemes at December 31, 2013 totalled €3 million.

In relation to article 229 of the Spanish Companies Act, all IAG Directors have confirmed that they have no conflict with the Company's interests.

Notwithstanding the above, and although this situation does not entail any conflict of interest whatsoever, Willie Walsh, CEO of IAG, advised the Board of Directors at its meeting held on October 30, 2014 that he is a small shareholder of Aer Lingus Group Plc (10,616 shares that represent 0.002 per cent of the company's share capital) and a beneficiary of an Aer Lingus pension plan.

9 Finance costs and income

a Finance costs

| € million | 2014 | 2013 |
|--|-------|-------|
| Interest expense on: | | |
| Bank borrowings | (26) | (22) |
| Finance leases | (111) | (85) |
| Provisions: unwinding of discount | (39) | (51) |
| Other borrowings | (74) | (130) |
| Capitalised interest on progress payments | 2 | 4 |
| Change in fair value of cross currency swaps | (5) | (7) |
| Currency credits/(charges) on financial fixed assets | 16 | (10) |
| | (237) | (301) |

b Finance income

| € million | 2014 | 2013 |
|---|------|------|
| Interest on other interest-bearing deposits | 32 | 31 |

c Net financing charge relating to pensions

| € million | 2014 | 2013 |
|---|------|------|
| Net financing charge relating to pensions | (4) | (53) |

Notes to the consolidated financial statements continued

10 Tax

a Tax on profit on ordinary activities

Tax (credit)/charge in the Income statement

| € million | 2014 | 2013 |
|---|--------------|-----------|
| Current tax | | |
| Tax on profits | 228 | 108 |
| Adjustments in respect of prior years | 19 | (8) |
| Total current tax charge | 247 | 100 |
| Deferred tax arising on the differences between the accounting and tax treatment of: | | |
| Property, plant and equipment | (7) | (24) |
| Employee benefit plans | (49) | 35 |
| Employee leaving indemnities and other employee related provisions | (14) | - |
| Foreign exchange | (2) | (13) |
| Fuel derivative losses | (10) | - |
| Available-for-sale financial assets | (146) | - |
| Tax losses utilised and created | 47 | 60 |
| Advance corporation tax | 99 | - |
| Tax credits | (27) | - |
| Previously unrecognised tax assets | (306) | - |
| Other items | (12) | 32 |
| Adjustments in respect of prior years | (36) | 7 |
| Effect of tax rate changes | 41 | (121) |
| Total deferred tax credit | (422) | (24) |
| Total tax (credit)/charge in the Income statement | (175) | 76 |

Tax (credited)/charged directly to Other comprehensive income and Statement of changes in equity

| € million | 2014 | 2013 |
|--|--------------|------------|
| Current tax relating to items charged directly to Other comprehensive income | | |
| Employee benefit plans | (79) | (65) |
| Deferred tax relating to items charged directly to Other comprehensive income | | |
| Foreign exchange | (7) | 32 |
| Cash flow hedges | (230) | (121) |
| Available-for-sale financial assets | (163) | 121 |
| Employee benefit plans | (111) | 266 |
| Effect of tax rate changes | 46 | 19 |
| | (465) | 317 |

Current tax relating to items charged directly to Statement of changes in equity

| | | |
|-----------------------------|-----|-----|
| Share-based payment schemes | (8) | (1) |
|-----------------------------|-----|-----|

Deferred tax relating to items charged directly to Statement of changes in equity

| | | |
|-------------------------------|-----|-----|
| Share-based payments in issue | (6) | (4) |
|-------------------------------|-----|-----|

| | | |
|--|--------------|------------|
| Total tax (credit)/charge relating to items included in Other comprehensive income and equity | (558) | 247 |
|--|--------------|------------|

In 2014 the effect of tax rate changes on items that will not be reclassified to the Income statement was a charge of €7 million (2013: €19 million), and the effect on items that may be reclassified to the Income statement was a charge of €39 million (2013: nil).

b Reconciliation of the total tax (credit)/charge

The tax (credit)/charge is calculated at the domestic rates applicable to profits or losses in the main countries of operation. The tax credit (2013: charge) on the profit for the year to December 31, 2014 is lower (2013: higher) than the notional tax charge (2013: charge).

The differences are explained below:

| € million | 2014 | 2013 |
|--|--------------|-----------|
| Accounting profit before tax | 828 | 227 |
| Tax calculated at 30 per cent in Spain (2013: 30 per cent) and 21.5 per cent in the UK (2013: 23.3 per cent) | 162 | 28 |
| Effects of: | | |
| Non-deductible expenses | - | 6 |
| Employee benefit plan accounting | (5) | (5) |
| Euro preferred securities accounted for as non-controlling interests | (5) | (5) |
| Disposal and write down of investments | (2) | - |
| Investment credit | (61) | - |
| Net impact of accounting for Business combinations | - | (1) |
| Current year tax assets not recognised | 9 | 179 |
| Previously unrecognised tax assets | (306) | - |
| Other items | 8 | (4) |
| Adjustments in respect of prior years | (17) | (1) |
| Tax rate changes | 42 | (121) |
| Tax (credit)/charge in the Income statement | (175) | 76 |

c Net deferred tax (asset)/liability

The net deferred tax (asset)/liability included in the Balance sheet is as follows:

| € million | 2014 | 2013 |
|---|--------------|------------|
| Difference between the accounting and tax treatment of: | | |
| Property, plant and equipment | 1,126 | 1,217 |
| Employee benefit plans | (248) | (132) |
| Employee leaving indemnities, restructuring and other employee related provisions | (492) | (292) |
| Exchange differences on funding liabilities | 8 | 17 |
| Fair value losses recognised on cash flow hedges | (324) | (130) |
| Fair value profits recognised on available-for-sale financial assets | - | 313 |
| Share-based payment schemes | (22) | (14) |
| Deferred revenue in relation to customer loyalty programmes | (17) | (19) |
| Advance corporation tax | - | (118) |
| Tax losses carried forward | (396) | (404) |
| Tax assets in relation to tax credits and deductions | (89) | (44) |
| Other items | (37) | (11) |
| Deferred tax (asset)/liability | (491) | 383 |

Notes to the consolidated financial statements continued

10 Tax continued

c Net deferred tax (asset)/liability continued

Movement in provision

| € million | 2014 | 2013 |
|---|--------------|------------|
| Balance at beginning of the year | 383 | 132 |
| Acquired through Business combinations | - | (31) |
| Deferred tax credit relating to Income statement | (422) | (24) |
| Deferred tax (credit)/charge taken to Statement of other comprehensive income | (465) | 317 |
| Deferred tax credit taken to Statement of changes in equity | (6) | (4) |
| Exchange movements | 19 | (7) |
| Deferred tax (asset)/liability | (491) | 383 |

d Other taxes

The Group also contributed tax revenues through payment of transaction and payroll related taxes. A breakdown of these other taxes paid is as follows:

| € million | 2014 | 2013 |
|-----------------------|--------------|--------------|
| UK Air Passenger Duty | 813 | 723 |
| Other ticket taxes | 1,290 | 1,171 |
| Payroll related taxes | 423 | 419 |
| | 2,526 | 2,313 |

e Factors that may affect future tax charges

In 2014, net deferred tax assets totalling €491 million were recognised, primarily related to Iberia's prior period losses, as it is considered probable that the Group will have future taxable profits against which the tax asset will be realised.

The Group has overseas tax losses of €145 million (2013: €138 million) that are carried forward for offset against suitable future taxable profits. No deferred tax asset has been recognised in respect of these losses as their utilisation is not currently anticipated.

The Group has unrecognised capital losses carried forward of €225 million at December 31, 2014 (2013: €202 million). These losses are available for offset against future chargeable gains in the UK. Deferred tax arising on UK chargeable gains by rollover and holdover relief claims reduced the tax basis of fixed assets by €88 million (2013: €82 million). No deferred tax liability has been recognised in respect of the crystallisation of these chargeable gains as they can be offset against capital losses carried forward. The Group also has an unrecognised UK deferred tax asset of €65 million (2013: €61 million) arising from temporary differences in respect of future capital losses if certain properties are realised at their residual value.

During 2014 changes were made to the Spanish corporate income tax regime including the removal of the expiry of certain tax assets and changes to the corporate income tax rate. Reductions in the corporate income tax rate were enacted, reducing the rate from 30 per cent to 28 per cent with effect from January 1, 2015 and 25 per cent from January 1, 2016. The provision for deferred tax arising in Spain at December 31, 2014 was calculated at the rate at which it is expected to reverse in future periods. Reductions in the corporate income tax rate in the UK were enacted during 2013, reducing the rate from 23 per cent to 21 per cent with effect from April 1, 2014 and 20 per cent from April 1, 2015. The provision for deferred tax arising in the UK at December 31, 2014 was calculated at 20 per cent. The difference arising on the movement in the 3 months to April 1, 2015 is not expected to be material.

11 Earnings per share

| € million | 2014 | 2013 |
|---|--------------|------|
| Earnings from continuing operations attributable to equity holders of the parent for basic earnings | 982 | 126 |
| Loss from discontinued operations attributable to equity holders of the parent for basic earnings | - | (4) |
| Interest expense on €390 million fixed rate 1.75 per cent convertible bond | 21 | - |
| Diluted earnings attributable to equity holders of the parent for the effect of dilution | 1,003 | 122 |

| | Number '000 | Number '000 |
|--|------------------|----------------|
| Weighted average number of ordinary shares outstanding | 2,036,121 | 1,905,717 |
| Assumed conversion of €390 million fixed rate 1.75 per cent convertible bond | 91,758 | - |
| Dilutive employee share-based payments outstanding | 33,883 | 39,524 |
| Weighted average number of ordinary shares in issue for the effect of dilution | 2,161,762 | 1,945,241 |

In 2013, the effect of the assumed conversion of the €390 million fixed rate 1.75 per cent convertible bond was antidilutive, and therefore was not included in the diluted earnings per share calculation.

| | 2014 | 2013 |
|--------------------------------------|-------------|-------|
| Basic earnings per share (€ cents) | | |
| From continuing operations | 48.2 | 6.6 |
| From discontinued operations | - | (0.2) |
| From profit for the year | 48.2 | 6.4 |
| Diluted earnings per share (€ cents) | | |
| From continuing operations | 46.4 | 6.5 |
| From discontinued operations | - | (0.2) |
| From profit for the year | 46.4 | 6.3 |

12 Dividends

The Directors propose that no dividend be paid for the year to December 31, 2014 (2013: nil).

Notes to the consolidated financial statements continued

13 Property, plant and equipment

| € million | Fleet | Property | Equipment | Total |
|---|---------------|--------------|--------------|---------------|
| Cost | | | | |
| Balance at January 1, 2013 | 17,277 | 2,093 | 1,291 | 20,661 |
| Additions | 1,916 | 47 | 94 | 2,057 |
| Acquired through Business combination | - | - | 3 | 3 |
| Disposals | (902) | (2) | (17) | (921) |
| Reclassifications | (156) | - | - | (156) |
| Exchange movements | (462) | (53) | (27) | (542) |
| Balance at December 31, 2013 | 17,673 | 2,085 | 1,344 | 21,102 |
| Additions | 2,316 | 57 | 126 | 2,499 |
| Disposals | (888) | (3) | (22) | (913) |
| Exchange movements | 1,125 | 120 | 67 | 1,312 |
| December 31, 2014 | 20,226 | 2,259 | 1,515 | 24,000 |
| Depreciation and impairment | | | | |
| Balance at January 1, 2013 | 9,122 | 817 | 796 | 10,735 |
| Charge for the year | 807 | 76 | 80 | 963 |
| Impairment charge recognised during the year ¹ | 19 | - | - | 19 |
| Disposals | (388) | (2) | (8) | (398) |
| Reclassifications | (141) | - | - | (141) |
| Exchange movements | (261) | (24) | (19) | (304) |
| Balance at December 31, 2013 | 9,158 | 867 | 849 | 10,874 |
| Charge for the year | 984 | 77 | 83 | 1,144 |
| Impairment charge recognised during the year ¹ | 8 | - | - | 8 |
| Disposals | (492) | (2) | (15) | (509) |
| Exchange movements | 594 | 57 | 48 | 699 |
| December 31, 2014 | 10,252 | 999 | 965 | 12,216 |
| Net book values | | | | |
| December 31, 2014 | 9,974 | 1,260 | 550 | 11,784 |
| December 31, 2013 | 8,515 | 1,218 | 495 | 10,228 |
| Analysis at December 31, 2014 | | | | |
| Owned | 4,290 | 1,173 | 411 | 5,874 |
| Finance leased | 5,398 | 5 | 32 | 5,435 |
| Progress payments | 286 | 82 | 107 | 475 |
| Property, plant and equipment | 9,974 | 1,260 | 550 | 11,784 |
| Analysis at December 31, 2013 | | | | |
| Owned | 4,274 | 1,153 | 422 | 5,849 |
| Finance leased | 3,789 | 5 | 48 | 3,842 |
| Progress payments | 452 | 60 | 25 | 537 |
| Property, plant and equipment | 8,515 | 1,218 | 495 | 10,228 |

¹ The impairment charge of €8 million (2013: €19 million) relates to one Airbus A340-300 aircraft written down to its realisable value (2013: two Boeing 747-400 aircraft which were permanently written down to their realisable value).

The net book value of property comprises:

| € million | 2014 | 2013 |
|---|--------------|--------------|
| Freehold | 542 | 535 |
| Long leasehold improvements | 359 | 321 |
| Short leasehold improvements ¹ | 359 | 362 |
| Property | 1,260 | 1,218 |

¹ Short leasehold improvements relate to leasehold interests with duration of less than 50 years.

Property, plant and equipment with a net book value of €404 million (including sale and leaseback transactions) were disposed of by the Group during the year (2013: €523 million) resulting in a loss of €17 million (2013: loss of €8 million).

At December 31, 2014, bank and other loans of the Group are secured on fleet assets with a cost of €1,169 million (2013: €2,497 million) and letters of credit of €292 million in favour of the British Airways Pension Trustees are secured on certain aircraft (2013: €274 million).

14 Capital expenditure commitments

Capital expenditure authorised and contracted but not provided for in the accounts amounts to €9,027 million (2013: €8,745 million). The majority of capital expenditure commitments are denominated in US dollars, and as such are subject to changes in exchange rates.

The outstanding commitments include €8,970 million for the acquisition of 71 Airbus A320s (from 2015 to 2020), 17 Airbus A321s (from 2015 to 2019), eight Airbus A330s (from 2015 to 2018), 26 Airbus A350s (from 2018 to 2021), four Airbus A380s (from 2015 to 2016) and 34 Boeing 787s (from 2015 to 2021).

15 Non-current assets held for sale

The non-current assets held for sale of €18 million (2013: €12 million) represent €11 million for the remaining investment of 0.075 per cent in Amadeus representing one settlement day outstanding, and €7 million representing six Boeing 737 engines (2013: four Boeing 737s and one Boeing 767 aircraft stood down). These are presented within the Iberia and British Airways operating segments respectively and will exit the business within 12 months of December 31, 2014.

Assets held for sale with a net book value of €3 million were disposed of by the Group during the year to December 31, 2014 resulting in a loss of €2 million on disposal (2013: property with a net book value of €3 million disposed of at no gain or loss).

Notes to the consolidated financial statements continued

16 Intangible assets and impairment review

a Intangible assets

| € million | Goodwill | Brand | Customer loyalty programmes | Landing rights ¹ | Other ² | Total |
|---------------------------------------|------------|------------|-----------------------------|-----------------------------|--------------------|--------------|
| Cost | | | | | | |
| Balance at January 1, 2013 | 298 | 306 | 253 | 1,307 | 470 | 2,634 |
| Additions | – | – | – | 15 | 135 | 150 |
| Additions due to Business combination | 28 | 35 | – | 89 | 16 | 168 |
| Disposals | – | – | – | – | (28) | (28) |
| Exchange movements | (1) | – | – | (24) | (10) | (35) |
| Balance at December 31, 2013 | 325 | 341 | 253 | 1,387 | 583 | 2,889 |
| Additions | – | – | – | 1 | 137 | 138 |
| Exchange movements | 3 | – | – | 54 | 29 | 86 |
| December 31, 2014 | 328 | 341 | 253 | 1,442 | 749 | 3,113 |
| Amortisation and impairment | | | | | | |
| Balance at January 1, 2013 | 249 | 79 | – | 73 | 268 | 669 |
| Charge for the year | – | – | – | 1 | 31 | 32 |
| Disposals | – | – | – | – | (1) | (1) |
| Exchange movements | – | – | – | (2) | (5) | (7) |
| Balance at December 31, 2013 | 249 | 79 | – | 72 | 293 | 693 |
| Charge for the year | – | – | – | 1 | 43 | 44 |
| Impairment reversal | – | (79) | – | – | – | (79) |
| Exchange movements | – | – | – | 4 | 13 | 17 |
| December 31, 2014 | 249 | – | – | 77 | 349 | 675 |
| Net book values | | | | | | |
| December 31, 2014 | 79 | 341 | 253 | 1,365 | 400 | 2,438 |
| December 31, 2013 | 76 | 262 | 253 | 1,315 | 290 | 2,196 |

¹ The net book value includes non-EU based landing rights of €13 million (2013: €14 million) that have a definite life.

² Other intangible assets consist primarily of software with a net book value of €353 million (2013: €253 million), and also include purchased emissions allowances.

b Impairment review

The carrying amounts of intangible assets with indefinite life and goodwill for the three cash generating units of the Group are:

| € million | Goodwill | Brand | Customer loyalty programmes | Landing rights | Total |
|--------------------------|-----------|------------|-----------------------------|----------------|--------------|
| 2014 | | | | | |
| Iberia | | | | | |
| January 1, 2014 | – | 227 | 253 | 423 | 903 |
| Impairment reversal | – | 79 | – | – | 79 |
| December 31, 2014 | – | 306 | 253 | 423 | 982 |
| British Airways | | | | | |
| January 1, 2014 | 48 | – | – | 789 | 837 |
| Additions | – | – | – | 1 | 1 |
| Exchange movements | 3 | – | – | 50 | 53 |
| December 31, 2014 | 51 | – | – | 840 | 891 |
| Vueling | | | | | |
| January 1, 2014 | 28 | 35 | – | 89 | 152 |
| December 31, 2014 | 28 | 35 | – | 89 | 152 |
| December 31, 2014 | 79 | 341 | 253 | 1,352 | 2,025 |

| € million | Goodwill | Brand | Customer loyalty programmes | Landing rights | Total |
|---------------------------------------|----------|-------|-----------------------------|----------------|-------|
| 2013 | | | | | |
| Iberia | | | | | |
| January 1, 2013 | – | 227 | 253 | 423 | 903 |
| December 31, 2013 | – | 227 | 253 | 423 | 903 |
| British Airways | | | | | |
| January 1, 2013 | 49 | – | – | 796 | 845 |
| Additions | – | – | – | 15 | 15 |
| Exchange movements | (1) | – | – | (22) | (23) |
| December 31, 2013 | 48 | – | – | 789 | 837 |
| Vueling | | | | | |
| January 1, 2013 | – | – | – | – | – |
| Additions due to Business combination | 28 | 35 | – | 89 | 152 |
| December 31, 2013 | 28 | 35 | – | 89 | 152 |
| December 31, 2013 | 76 | 262 | 253 | 1,301 | 1,892 |

Basis for calculating recoverable amount

Goodwill, Brand and the customer loyalty programme recoverable amounts have been measured based on their value-in-use.

Landing rights recoverable amount has been measured by reference to market transactions of similar assets less costs to sell, or through value-in-use.

Value-in-use is calculated using a discounted cash flow model. Cash flow projections are based on the Business plan approved by the Board covering a five year period. Cash flows extrapolated beyond the five year period are projected to increase on long-term growth rates. Cash flow projections are discounted using the cash generating unit's (CGU) pre-tax discount rate.

Notes to the consolidated financial statements continued

16 Intangible assets and impairment review continued

b Impairment review continued

Annually the Group prepares and approves five year Business plans. Business plans were approved in the fourth quarter of the year. The Iberia Business plan cash flows used in the value-in-use calculations reflect all restructuring of the business that has been approved by the Board and which can be executed by Management under existing agreements reached with the unions.

Key assumptions

The key assumptions used in the value-in-use calculations for each of the CGU's are as follows. In addition, where there has been an impairment loss in a CGU, the recoverable amount is also disclosed.

| | 2014 | | |
|---|-----------------|--------|---------|
| | British Airways | Iberia | Vueling |
| Long-term growth rate (per cent) ¹ | 2.5 | 2.2 | 2.2 |
| Pre-tax discount rate (per cent) ² | 10.0 | 10.2 | 12.5 |
| Recoverable amount of the CGU (million) | n/a | €6,400 | n/a |

| | 2013 | | |
|---|-----------------|--------|---------|
| | British Airways | Iberia | Vueling |
| Long-term growth rate (per cent) ¹ | 2.5 | – | – |
| Pre-tax discount rate (per cent) ² | 10.0 | 12.2 | 12.4 |

1 The long-term growth rate is calculated for each CGU based on the forecasted weighted average exposure in each primary market using gross domestic product (GDP). This is amended from time-to-time to reflect specific market risk. This was last the case in 2013, when Management assessed the outlook for the economic environment in Spain as challenging following two years of negative GDP.

2 Pre-tax discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and underlying risks of its primary market. The discount rate calculation is based on the circumstances of the airline industry, the Group and its CGU. It is derived from the weighted average cost of capital (WACC). The WACC takes into consideration both debt and equity available to airlines. The cost of equity is derived from the expected return on investment by airline investors and the cost of debt is broadly based on the Group's interest-bearing borrowings. CGU specific risk is incorporated by applying individual beta factors which are evaluated annually based on available market data. The pre-tax discount rate reflects the timing of future cash flows.

Summary of results

In 2014, Management reviewed the recoverable amount of each of the CGUs and concluded the recoverable amounts exceeded the carrying values.

Following the impairment review of the Iberia CGU in 2012, goodwill and a franchise agreement were impaired by their full carrying amount and the Iberia Brand was written down by €79 million. The impairment of goodwill cannot be reversed and the franchise agreement has since expired. The original impairment of the Iberia Brand has been reassessed in the current year given the excess of the Iberia CGU recoverable amount over its carrying value. The reassessment included testing the Iberia Brand recoverable amount using the royalty methodology, with a royalty rate of 0.60 per cent (2013: 0.60 per cent). Individually and in combination, the value-in-use tests of the Iberia CGU and of the Iberia Brand support the reversal of the original €79 million impairment. This has been recorded as an exceptional credit within Depreciation, amortisation and impairment in the Income statement.

Sensitivities

For the Iberia cash generating unit, additional sensitivities have been considered at the overall CGU level. A 16 point increase in the post-tax discount rate would reduce the recoverable amount to the carrying amount. A 7 point reduction in the operating margin in each year of the Business plan, and extrapolated beyond the plan would reduce the recoverable amount to the carrying amount.

No reasonable possible change in the key assumptions for the British Airways or Vueling CGUs would cause the carrying amounts of goodwill to exceed the recoverable amounts.

17 Investments

a Investments in subsidiaries

The Group's principal subsidiaries at December 31, 2014 are listed in the Group investments note.

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly do not differ from the proportion of ordinary shares held.

There have been no significant changes in ownership interests of subsidiaries during the year. During 2013, the Group increased its shareholding in Vueling from 45.85 per cent to 99.36 per cent. As a result Vueling has been accounted for as a subsidiary since April 26, 2013.

The total non-controlling interest at December 31, 2014 is €308 million which largely comprises €300 million of 6.75 per cent fixed coupon euro perpetual preferred securities issued by British Airways Finance (Jersey) L.P. (note 31).

British Airways Employee Benefit Trustee (Jersey) Limited, a wholly-owned subsidiary of British Airways, governs the British Airways Plc Employee Share Ownership Trust (the Trust). The Trust is not a legal subsidiary of IAG; however, it is consolidated within the Group results.

b Investments in associates

The share of the assets, liabilities, revenue and profit of the Group's associates, which are included in the Group's financial statements, are as follows:

| € million | 2014 | 2013 |
|---|-------------|------|
| Total assets | 79 | 92 |
| Total liabilities | (53) | (66) |
| Revenue ¹ | 96 | 224 |
| Profit/(loss) for the year ¹ | 2 | (8) |

¹ Includes the Group's share of Vueling as an associate from January 1, 2013 to April 26, 2013.

The detail of the movement in Investment in associates is shown as follows:

| € million | 2014 | 2013 |
|--|------------|-------|
| At beginning of year | 25 | 180 |
| Amounts derecognised as a result of the Business combination | - | (144) |
| Share of retained profits/(losses) | 2 | (8) |
| Exchange movements | 2 | - |
| Dividends received | (2) | (3) |
| | 27 | 25 |

There are no individually significant investments in associates. At December 31, 2014 there are no restrictions on the ability of associates to transfer funds to the parent and there are no related contingent liabilities.

At December 31, 2014 there are two investments exceeding 50 per cent equity ownership by the Group, Iber-América Aerospace, LLC (65.33 per cent) and Handling Guinea Ecuatorial, S.A. (51 per cent), which are treated as associates as the local partner controls their activities.

Notes to the consolidated financial statements continued

18 Available-for-sale financial assets

In 2014, Iberia entered into an agreement to settle its hedging transaction over its ownership interest in Amadeus and sell its entire shareholding. The derivative transaction comprised a collar arrangement on Iberia's Amadeus shareholding of 33,562,331 ordinary shares.

The settlement of the derivative contract commenced in August 2014 and the Group's shareholding in Amadeus has been sold in equal instalments over a 100 trading day period. At December 31, 2014 Iberia had settled 99 per cent of the transaction and the resulting €83 million gain was recognised in the Net gain related to available-for-sale financial assets line. The remaining 0.075 per cent investment in Amadeus of €11 million is included in Non-current assets held for sale, which represents one settlement day outstanding.

Available-for-sale financial assets include the following:

| € million | 2014 | 2013 |
|----------------------------|-----------|-------|
| Listed securities | | |
| Comair Limited | 19 | 12 |
| Flybe Group Plc | - | 14 |
| Amadeus IT Holding, S.A. | - | 1,044 |
| Unlisted securities | 65 | 22 |
| | 84 | 1,092 |

The Net gain relating to available-for-sale financial assets was €93 million (2013: gain of €2 million) which mainly related to the Amadeus settlement transaction.

19 Trade receivables and other assets

| € million | 2014 | 2013 |
|--|--------------|-------|
| Amounts falling due within one year | | |
| Trade receivables | 1,349 | 1,285 |
| Provision for doubtful receivables | (97) | (89) |
| Net trade receivables | 1,252 | 1,196 |
| Prepayments and accrued income | 441 | 364 |
| Loans to third parties | - | 30 |
| Other non-trade debtors | 170 | 237 |
| | 1,863 | 1,827 |
| Amounts falling due after one year | | |
| Prepayments and accrued income | 119 | 136 |
| Loans to third parties | - | 2 |
| Other non-trade debtors | 69 | 59 |
| | 188 | 197 |

Loans to third parties related to three loans to fleet finance lessors were repaid in 2014.

Movements in the provision for doubtful receivables were as follows:

| € million | 2014 | 2013 |
|---|-----------|------|
| At beginning of year | 89 | 54 |
| Provision for doubtful receivables | 47 | 40 |
| Unused amounts reversed | (21) | (1) |
| Receivables written off during the year | (18) | (4) |
| | 97 | 89 |

The ageing analysis of net trade receivables is as follows:

| € million | 2014 | 2013 |
|------------------------------------|--------------|-------|
| Neither past due date nor impaired | 939 | 1,063 |
| < 30 days | 205 | 47 |
| 30 – 60 days | 69 | 28 |
| > 60 days | 39 | 58 |
| Net trade receivables | 1,252 | 1,196 |

Trade receivables are generally non-interest-bearing and on 30 day terms (2013: 30 day terms).

20 Cash, cash equivalents and other current interest-bearing deposits

a Cash, cash equivalents and other current interest-bearing deposits

| € million | 2014 | 2013 |
|---|--------------|-------|
| Cash at bank and in hand | 1,223 | 1,138 |
| Short-term deposits falling due within three months | 305 | 403 |
| Cash and cash equivalents | 1,528 | 1,541 |
| Other current interest-bearing deposits maturing after three months | 3,416 | 2,092 |
| Cash, cash equivalents and other interest-bearing deposits | 4,944 | 3,633 |

Cash at bank is primarily held in AAA money market funds and bank deposits. Short-term deposits are made for periods up to three months depending on the cash requirements of the Group and earn interest based on the floating deposit rates.

At December 31, 2014 the Group had no outstanding bank overdrafts (2013: nil).

Other current interest-bearing deposits are made for periods in excess of three months with maturity typically within 12 months and earn interest based on the market rates available at the time the deposit was made.

Venezuela funds

Since December 2012 repatriation of funds from Venezuela has been limited. Throughout 2013, Iberia recognised net sales at 6.3 bolívars (CADIVI) to the US dollar. The unrepatriated cash at the end of 2013 was €184 million.

From February to October 2014, Iberia recognised net sales at 11 bolívars to the US dollar (SICAD I) since this was the official rate at which Iberia was authorised by the Venezuelan government to repatriate cash. In the third quarter of 2014, Iberia received funds for February to June 2014 at SICAD I and given the ongoing negotiations, the €184 million of unrepatriated funds from 2013 and January 2014 were also revalued to SICAD I. An exceptional charge of €82 million was recognised.

Iberia has been unable to repatriate any further funds earned prior to February 2014 or subsequent to June 2014. Given this and combined with the lack of liquidity in Venezuela, the decrease in the Brent barrel price and a government recognised inflation rate of 65 per cent, Iberia has determined that SICAD I can no longer be considered available in practice, for the repatriation of the funds. The next alternative rate available at December 31, 2014 was the SICAD II rate of 50 bolívars to the US dollar which Iberia considers to better reflect the economic reality. This rate has been applied since November 2014. All remaining funds, which approximately amount to Bs1.7 billion were revalued to SICAD II resulting in an additional exceptional charge of €98 million. The cash balance at December 31, 2014 is €18 million.

In February 2015 the Venezuelan government has approved changes to the country's currency exchange systems through new foreign exchange regulations. These changes include replacing SICAD II with SIMADI, a new mechanism to trade US dollars through private brokers that is expected to compete with the illegal parallel market. Using the new SIMADI rates would represent a further write down. Iberia has not used SIMADI rates since these were not available at the balance sheet date.

Notes to the consolidated financial statements continued

20 Cash, cash equivalents and other current interest-bearing deposits continued

b Reconciliation of net cash flow to movement in net debt

| € million | 2014 | 2013 |
|---|----------------|----------------|
| Decrease in cash and cash equivalents during the year (excluding Business combinations) | (13) | (114) |
| Net increase in other current interest-bearing deposits | 1,324 | 532 |
| Net funds acquired through Business combinations | - | 306 |
| Increase in cash | 1,311 | 724 |
| Net cash outflow from repayments of debt and lease financing | 1,009 | 677 |
| New borrowings and finance leases | (2,009) | (1,529) |
| Increase in net debt resulting from financing cash flows | (1,000) | (852) |
| Exchange movements and other non-cash movements ¹ | (495) | 528 |
| (Increase)/decrease in net debt during the year | (184) | 400 |
| Net debt at January 1 | (1,489) | (1,889) |
| Net debt at December 31 | (1,673) | (1,489) |

¹ 2013 included the non-cash effect of the conversion of the British Airways €350 million convertible bond of €372 million.

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

21 Trade and other payables

| € million | 2014 | 2013 |
|------------------------------------|--------------|--------------|
| Trade creditors | 1,869 | 1,992 |
| Other creditors | 927 | 763 |
| Other taxation and social security | 129 | 131 |
| Accruals and other deferred income | 356 | 411 |
| | 3,281 | 3,297 |

The average period for payment to suppliers in commercial transactions was 40 days during the year (2013: 40 days).

22 Other long-term liabilities

| € million | 2014 | 2013 |
|------------------------------|------------|------------|
| Non-current trade creditors | 2 | 2 |
| Other creditors | - | 6 |
| Accruals and deferred income | 224 | 217 |
| | 226 | 225 |

23 Long-term borrowings

a Current

| € million | 2014 | 2013 |
|----------------------|------------|------------|
| Bank and other loans | 164 | 183 |
| Finance leases | 549 | 404 |
| | 713 | 587 |

b Non-current

| € million | 2014 | 2013 |
|----------------------|--------------|--------------|
| Bank and other loans | 1,069 | 1,169 |
| Finance leases | 4,835 | 3,366 |
| | 5,904 | 4,535 |

Banks and other loans are repayable up to the year 2026. Bank and other loans of the Group amounting to €540 million (2013: €661 million) are secured on aircraft. Finance leases are all secured on aircraft or property, plant and equipment.

c Bank and other loans

Bank and other loans comprise the following:

| € million | 2014 | 2013 |
|---|--------------|--------------|
| €390 million fixed rate 1.75 per cent convertible bond 2018 ¹ | 335 | 321 |
| £250 million fixed rate 8.75 per cent unsecured Eurobonds 2016 ² | 316 | 297 |
| Fixed rate US dollar mortgage loans are secured on specific aircraft ³ | 173 | 152 |
| Floating rate pound sterling mortgage loans are secured on specific aircraft ⁴ | 125 | 142 |
| Fixed rate pound sterling mortgage loans are secured on specific aircraft ⁵ | 116 | 126 |
| Floating rate Japanese yen mortgage loans are secured on specific aircraft ⁶ | - | 100 |
| Floating rate US dollar mortgage loans are secured on specific aircraft ⁷ | 67 | 77 |
| Floating rate euro mortgage loan is secured on specific aircraft ⁸ | 60 | 62 |
| Fixed rate unsecured euro loans with the Spanish State (Department of Industry) ⁹ | 20 | 26 |
| European Investment Bank pound sterling loans are secured on certain property ¹⁰ | 10 | 18 |
| Floating rate unsecured euro loan ¹¹ | 11 | 13 |
| Floating rate US dollar mortgage loans are secured on certain plant and equipment ¹² | - | 18 |
| | 1,233 | 1,352 |
| Less: current instalments due on bank loans | (164) | (183) |
| | 1,069 | 1,169 |

1 €390 million fixed rate 1.75 per cent convertible bond issued by the Group, in May 2013, raising net proceeds of €386 million, convertible into ordinary shares at the option of the holder before or upon maturity in May 2018. The conversion price was set at a premium of 35 per cent on the Group's share price on the date of issuance. The Group holds 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 of €72 million is included in Other reserves (note 31).

A total of 91,758,228 options related to this bond were outstanding from issuance and at December 31, 2014.

2 £250 million fixed rate 8.75 per cent unsecured Eurobonds 2016 are repayable in one instalment in 2016.

3 Fixed rate US dollar mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 3.81 per cent and 4.76 per cent and are repayable between 2021 and 2026.

4 Floating rate pound sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 1.08 per cent and 1.25 per cent above LIBOR. The loans are repayable between 2015 and 2019.

5 Fixed rate pound sterling mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 6.1 per cent and 6.3 per cent. The loans are repayable between 2016 and 2018.

6 Floating rate Japanese yen mortgage loans were secured on specific aircraft assets of the Group and were repaid in 2014.

7 Floating rate US dollar mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 1.22 per cent and 2.73 per cent. The loans are repayable between 2015 and 2017.

8 The floating rate euro mortgage loan is secured on specific aircraft assets of the Group and bears interest of 0.59 per cent. The loan is repayable in 2024.

9 Fixed rate unsecured euro loans with the Spanish State (Department of Industry) bear an interest of 1.14 per cent and are repayable between 2015 and 2026.

10 European Investment Bank pound sterling loan is secured on certain property assets of the Group and bears interest of 0.69 per cent. The loan is repayable in 2017.

11 The floating rate unsecured euro loan bears interest of 0.0225 per cent above EURIBOR. The loan is repayable in 2015.

12 Floating rate US dollar mortgage loans were secured on certain plant and equipment of the Group and were repaid in 2014.

Notes to the consolidated financial statements continued

23 Long-term borrowings continued

d Total loans and finance leases

| Million | 2014 | 2013 |
|-----------------------|---------------|---------|
| Loans | | |
| Bank: | | |
| US dollar | \$295 | \$338 |
| Euro | €90 | €101 |
| Japanese yen | - | ¥14,259 |
| Pound sterling | £198 | £240 |
| | €581 | €734 |
| Fixed rate bonds: | | |
| Euro | €335 | €321 |
| Pound sterling | £249 | £249 |
| | €652 | €618 |
| Finance leases | | |
| US dollar | \$3,772 | \$2,935 |
| Euro | €1,084 | €456 |
| Japanese yen | ¥37,105 | ¥18,557 |
| Pound sterling | £771 | £874 |
| | €5,384 | €3,770 |
| | €6,617 | €5,122 |

As of December 31, 2014, the full amount of \$927 million had been drawn down against the Enhanced Equipment Trust Certificate bonds (December 31, 2013: \$496 million had been drawn). The transaction included Class A and Class B Certificates, with an annual coupon of 4.625 per cent and 5.625 per cent respectively. The underlying collateral pool is made up of six new Boeing 787-8 aircraft, two new Boeing 777-300 ER aircraft and six new Airbus A320-200 aircraft, delivered during 2013 and 2014.

e Obligations under finance leases

The Group uses finance leases principally to acquire aircraft. These leases have both renewal options and purchase options, at the option of the Group. Future minimum lease payments under finance leases are as follows:

| € million | 2014 | 2013 |
|---|-------|-------|
| Future minimum payments due: | | |
| Within one year | 676 | 492 |
| After more than one year but within five years | 2,463 | 1,893 |
| In five years or more | 3,100 | 1,858 |
| | 6,239 | 4,243 |
| Less: Finance charges | (855) | (473) |
| Present value of minimum lease payments | 5,384 | 3,770 |
| The present value of minimum lease payments is analysed as follows: | | |
| Within one year | 549 | 404 |
| After more than one year but within five years | 2,079 | 1,650 |
| In five years or more | 2,756 | 1,716 |
| | 5,384 | 3,770 |

The Group's finance lease for one Airbus A340-600 is subject to financial covenants which are tested annually. The lease is part of a syndicate family. The Group has informed the syndicate that it had failed to meet the covenants for the year to December 31, 2014. As a result of these covenant breaches, the finance lease has technically become repayable on demand and \$79 million (€65 million) has been classified as current. The institutions formally waived the breach on February 25, 2015.

24 Operating lease commitments

The Group has entered into commercial leases on certain properties, equipment and aircraft. These leases have durations ranging from less than one year for aircraft to 132 years for ground leases. Certain leases contain options for renewal.

The aggregate payments, for which there are commitments under operating leases, fall due as follows:

| € million | 2014 | | | 2013 | | |
|----------------------------|-------|-------------------------------|-------|-------|-------------------------------|-------|
| | Fleet | Property, plant and equipment | Total | Fleet | Property, plant and equipment | Total |
| Within one year | 712 | 171 | 883 | 543 | 156 | 699 |
| Between one and five years | 1,580 | 325 | 1,905 | 1,537 | 383 | 1,920 |
| Over five years | 934 | 2,027 | 2,961 | 1,009 | 1,958 | 2,967 |
| | 3,226 | 2,523 | 5,749 | 3,089 | 2,497 | 5,586 |

Sub-leasing

Subleases entered into by the Group relate to surplus rental properties and aircraft assets held under non-cancellable leases to third parties. These leases have remaining terms of one to 23 years and the assets are surplus to the Group's requirements. Future minimum rentals receivable under non-cancellable operating leases are as follows:

| € million | 2014 | | | 2013 | | |
|----------------------------|-------|-------------------------------|-------|-------|-------------------------------|-------|
| | Fleet | Property, plant and equipment | Total | Fleet | Property, plant and equipment | Total |
| Within one year | 2 | 12 | 14 | - | 9 | 9 |
| Between one and five years | - | 6 | 6 | - | 14 | 14 |
| Over five years | - | 2 | 2 | - | 3 | 3 |
| | 2 | 20 | 22 | - | 26 | 26 |

Three of the Group's Airbus A340-600 operating leases are also subject to financial covenants which are tested annually. The Group has informed the syndicate that it had failed to meet the covenants for the year to December 31, 2014. The remaining operating lease payments of \$156 million (€128 million) will technically fall due within one year. The institutions have provided positive feedback and are expected to formally waive the breach in March 2015.

Notes to the consolidated financial statements continued

25 Provisions for liabilities and charges

| € million | Employee leaving indemnities and other employee related provisions | Restructuring | Legal claims provisions | Restoration and handback provisions | Other provisions | Total |
|---|--|---------------|-------------------------|-------------------------------------|------------------|--------------|
| Net book value January 1, 2014 | 592 | 682 | 101 | 684 | 135 | 2,194 |
| Provisions recorded during the year | 14 | 313 | 56 | 236 | 48 | 667 |
| Utilised during the year | (17) | (137) | (31) | (176) | (49) | (410) |
| Release of unused amounts and other movements | (52) | 25 | 5 | (27) | (26) | (75) |
| Unwinding of discount | 14 | 11 | 3 | 9 | 2 | 39 |
| Exchange differences | 1 | 1 | 1 | 45 | 8 | 56 |
| Net book value December 31, 2014 | 552 | 895 | 135 | 771 | 118 | 2,471 |
| Analysis: | | | | | | |
| Current | 26 | 219 | 4 | 183 | 72 | 504 |
| Non-current | 526 | 676 | 131 | 588 | 46 | 1,967 |
| | 552 | 895 | 135 | 771 | 118 | 2,471 |

Employee leaving indemnities and other employee related provisions

This provision includes employee leaving indemnities relating to staff under various contractual arrangements.

The Group recognises a provision relating to flight crew who meet certain conditions and therefore have the option of being placed on reserve and retaining their employment relationship until reaching the statutory retirement age, or taking early retirement. The Group is required to remunerate these employees until they reach the statutory retirement age, and an initial provision was recognised based on an actuarial valuation. The provision at December 31, 2014 was reviewed by Management with the use of independent actuaries using the projected unit credit method, based on a discount rate of 1.9 per cent and a 2 per cent annual increase in the Consumer Price Index (CPI). This provision is a long-term provision.

Restructuring

The Group recognised a provision for targeted voluntary severance schemes previously announced. Part of this provision relates to a collective redundancy programme, which provides for payments to affected employees until they reach the statutory retirement age. The amount provided for has been determined by an actuarial valuation made by independent actuaries, and was based on the same assumptions as those made to determine the provisions for obligations to flight crew above, with the exception of the discount rate, which in this case was 0.54 per cent. The payments related to this provision will continue over five years.

During the year the Group has recognised an additional provision in relation to the restructuring plans at Iberia (note 5). The payments related to this provision will continue over ten years.

Legal claims provisions

This provision primarily relates to multi-party claims from groups or employees on a number of matters related to its operations, including claims for additional holiday pay and for age discrimination. During the year, settlements were reached with regards to some of these claims. The final amount required to pay the remaining claims and fines is subject to uncertainty.

Also included are provisions related to investigations by a number of competition authorities in connection with alleged anti-competitive activity concerning the Group's passenger and cargo businesses.

Restoration and handback provisions

The provision for restoration and handback costs is maintained to meet the contractual return conditions on aircraft held under operating leases. The provision also included an amount relating to leased land and buildings where restoration costs are contractually required at the end of the lease. Where such costs arise as a result of capital expenditure on the leased asset, the restoration costs are capitalised. The provision is a long-term provision, typically covering the life of the aircraft and is expected to be utilised over 35 years.

Other provisions

Other provisions includes:

- Amounts for passengers whose flights were significantly delayed and are entitled to receive compensation. This provision is largely a current provision and is expected to have amounts both utilised and provided for each year;
- A provision for the Emissions Trading Scheme is also included that represents the excess of CO₂ emitted on flights within the EU in excess of the EU Emission Allowances granted;
- Unfavourable fleet contracts, and the onerous portion of leases related to properties leased by subsidiaries of the Group that are either sub-leased to third parties at a lower rate or vacant with no immediate intention to utilise the property. This provision is a long-term provision, likely to continue until 2027; and
- Tax assessment related provisions.

Provisions released during the year mainly include sales and marketing tax claims and amounts for onerous leases no longer required.

26 Financial risk management objectives and policies

The Group is exposed to a variety of financial risks: market risk (including fuel price risk, foreign currency risk and interest rate risk), counterparty risk, liquidity risk and capital risk. The Group's Financial Risk Management programme focuses on the unpredictability of financial markets and defines the amount of risk that the Group is prepared to retain.

Financial Risk Management is managed in two tiers under the overall oversight of the Group treasury department. The first tier comprises fuel price fluctuations, euro-US dollar volatility and sterling-US dollar volatility which represent the largest financial risks facing the Group. The Board approves the level of risk retention. The IAG Management Committee approves the hedging levels and the degree of flexibility in applying the levels that are delegated to the Group Treasury Committee. The Group Treasury Committee meets monthly and includes representatives from Group treasury, British Airways, Iberia and Vueling. The Committee approves a mandate for British Airways, Iberia and Vueling treasury teams to place hedging cover in the market for their respective companies, the mandate includes the instruments to be used. Second tier risks such as interest rate movements, emissions and minor currency pairs are managed separately by British Airways, Iberia and Vueling under authority delegated by their Boards to their treasury departments.

a Fuel price risk

The Group is exposed to fuel price risk. The Group's fuel price risk management strategy aims to provide the Group with protection against sudden and significant increases in oil prices while ensuring that the Group is not competitively disadvantaged in the event of a substantial fall in the price of fuel. The current Group strategy, as approved by the IAG Management Committee, is to hedge:

- Between 70 per cent and 100 per cent of fuel consumption for the next quarter;
- An average of 45 per cent between quarters two and five (with an average flexibility of plus 15/minus 10 per cent);
- 10 per cent between quarters six and eight (with flexibility of plus 20 percent/minus 10 per cent); and
- Flexibility to hedge up to 20 per cent in quarters nine to twelve.

The Group Treasury Committee provides a quarterly report on the hedging position to the IAG Management Committee and the Audit and Compliance Committee. The Board reviews the strategy, including the risk retained, once a year.

Within the strategy, the Financial Risk Management programme allows for the use of a number of derivatives available on over-the-counter (OTC) markets with approved counterparties.

The following table demonstrates the sensitivity of financial instruments to a reasonable possible change in fuel prices, with all other variables held constant, on result before tax and equity:

| 2014 | | | 2013 | | |
|--|---|-------------------------------|--|---|-------------------------------|
| Increase/(decrease) in fuel price per cent | Effect on result before tax € million | Effect on equity € million | Increase/(decrease) in fuel price per cent | Effect on result before tax € million | Effect on equity € million |
| 30 | (8) | 972 | 30 | 6 | 1,089 |
| (30) | 9 | (989) | (30) | (35) | (994) |

Notes to the consolidated financial statements continued

26 Financial risk management objectives and policies continued

b Foreign currency risk

The Group presents its consolidated financial statements in euros, has functional entities in euro and sterling, and conducts its business in a number of different countries. Consequently the Group is exposed to currency risk on revenue, purchases and borrowings that are denominated in a currency other than the functional currency of the entity. The currencies, in which these transactions are primarily denominated are euro, US dollar, pound sterling and Japanese yen. The Group generates a surplus in most currencies in which it does business. The US dollar is an exception as capital expenditure, debt repayments and fuel purchases denominated in US dollars typically create a deficit.

The Group has a number of strategies to hedge foreign currency risks. The operational US dollar short position is subject to the same governance structure as the fuel hedging strategy set out above. The current Group strategy, as approved by the IAG Management Committee, is to hedge an average of 60 per cent of the first year's US dollar short position; 40 per cent of the second year's exposure and flexibility to hedge up to 30 per cent of the third year's exposure. The Group Treasury Committee targets to operate within plus or minus 20 per cent of the policy in years one and two and provides a quarterly report on the hedging position to the IAG Management Committee and Audit and Compliance Committee. The Board reviews the strategy, including the risk retained, once a year. Foreign exchange swaps and options are used to implement the strategy.

Operational cash flows in minor currency pairs are hedged by British Airways, Iberia and Vueling under the control of their Boards.

Aircraft operating leases denominated in US dollars are either treated as part of the operational US dollar short position or are subject to separate cross currency swaps, individually approved by the IAG Management Committee, for the life of the lease.

Iberia's balance sheet assets and liabilities in US dollars are hedged through a rolling programme of swaps that eliminate the profit and loss volatility arising from revaluation of these items into euros. British Airways utilises its US dollar, euro and Japanese yen debt repayments as a hedge of future US dollar, euro and Japanese yen revenues. Vueling's position in US dollar is managed using derivative financial instruments.

The following table demonstrates the sensitivity of financial instruments to a reasonable possible change in the exchange rates, with all other variables held constant, on result before tax and equity:

| | Strengthening/ (weakening) in US dollar rate per cent | Effect on result before tax € million | Effect on equity € million | Strengthening/ (weakening) in pound sterling rate per cent | Effect on result before tax € million | Effect on equity € million | Strengthening/ (weakening) in Japanese yen rate per cent | Effect on result before tax € million | Effect on equity € million |
|-------------|--|--|----------------------------------|--|--|----------------------------------|--|--|----------------------------------|
| 2014 | 10 | (1) | (136) | 10 | (1) | 152 | 10 | (2) | (24) |
| | (10) | - | 115 | (10) | 1 | (161) | (10) | 2 | 24 |
| 2013 | 10 | 12 | 46 | 10 | 2 | 138 | 10 | (4) | (21) |
| | (10) | (10) | (15) | (10) | (2) | (129) | (10) | 4 | 21 |

c Interest rate risk

The Group is exposed to changes in interest rates on floating rate debt and on cash deposits.

Interest rate risk on floating rate debt is managed through interest rate swaps, floating to fixed cross currency swaps and interest rate collars. After taking into account the impact of these derivatives, 80 per cent of the Group's borrowings were at fixed rates and 20 per cent were at floating rates.

All cash deposits are on tenors less than one year. The interest rate is predominantly fixed for the tenor of the deposit.

The following table demonstrates the sensitivity of financial instruments to a reasonable possible change in the interest rates, on result before tax and equity:

| | Strengthening/ (weakening) in US interest rate Basis points | Effect on result before tax € million | Effect on equity € million | Strengthening/ (weakening) in euro interest rate Basis points | Effect on result before tax € million | Effect on equity € million | Strengthening/ (weakening) in sterling interest rate Basis points | Effect on result before tax € million | Effect on equity € million |
|-------------|--|--|----------------------------------|---|--|----------------------------------|---|--|----------------------------------|
| 2014 | 50 | (2) | (1) | 50 | (5) | (5) | 50 | 1 | 1 |
| | (50) | 2 | 1 | (50) | 5 | 5 | (50) | (1) | (1) |
| 2013 | 50 | (2) | – | 50 | (2) | (1) | 50 | 4 | 4 |
| | (50) | 2 | – | (50) | 2 | 1 | (50) | (4) | (4) |

d Counterparty risk

The Group is exposed to counterparty risk to the extent of non-performance by its counterparties in respect of financial assets receivable. The Group has policies and procedures in place to minimise the risk by placing credit limits on each counterparty. These policies and procedures are coordinated through the Group Treasury Committee that reviews their application by British Airways, Iberia and Vueling. The Group monitors counterparty credit limits and defaults of counterparties, incorporating this information into credit risk controls. Treasury activities include placing money market deposits, fuel hedging and foreign currency transactions, which could lead to a concentration of different credit risks with the same counterparty. This risk is managed by the allocation of exposure limits by the counterparty to British Airways, Iberia and Vueling. Exposures at the activity level are monitored on a daily basis and the overall exposure limit for the counterparty is reviewed at least monthly in the light of available market information such as credit ratings. Sovereign risk is also monitored, country concentration and sovereign credit ratings are reviewed at every hedging committee meeting.

Each operating company invests surplus cash in interest-bearing accounts, time deposits, money market deposits, and marketable securities, choosing instruments with appropriate maturities or liquidity to provide sufficient headroom. At the reporting date the operating companies held money market funds and other liquid assets that are expected to readily generate cash inflows for managing liquidity risk.

The financial assets recognised in the financial statements, net of impairment losses, represent the Group's maximum exposure to credit risk, without taking account of any guarantees in place or other credit enhancements. The Group does not hold any collateral to mitigate the exposure, but only transacts with counterparties of sufficient credit rating to reasonably assure the recoverability of financial assets. Counterparty risks arising from acting as guarantor are disclosed in note 33.

At December 31, 2014 the Group's credit risk position, allocated by region, in respect of treasury managed cash and derivatives was as follows:

| Region | Marked-to-market of treasury controlled financial instruments allocated by geography |
|----------------------------------|--|
| United Kingdom | 20% |
| Spain | 9% |
| Italy, Greece, Portugal, Ireland | – |
| Rest of Eurozone | 39% |
| Rest of world | 32% |

Notes to the consolidated financial statements continued

26 Financial risk management objectives and policies continued

e Liquidity risk

Liquidity risk management includes maintaining sufficient cash and interest-bearing deposits, the availability of funding from an adequate amount of credit facilities and the ability to close out market positions. Due to the volatile nature of the underlying business, Group treasury maintains flexibility in funding by maintaining availability under committed credit lines.

At December 31, 2014 the Group had undrawn overdraft facilities of €13 million (2013: €12 million). The Group held undrawn uncommitted money market lines of €32 million at December 31, 2014 (2013: €30 million). The Group had the following undrawn general and committed aircraft financing facilities:

| Million | 2014 | |
|--|----------|--------------|
| | Currency | € equivalent |
| Euro facility expiring between January and November 2015 | €335 | 335 |
| US dollar facility expiring between January and October 2015 | \$805 | 655 |
| Renminbi facility expiring November 2015 | RMB 750 | 99 |
| Euro facility expiring January 2016 | €3 | 3 |
| US dollar facility expiring between September and October 2016 | \$1,153 | 937 |
| US dollar facility expiring December 2021 | \$1,164 | 946 |

| Million | 2013 | |
|--|----------|--------------|
| | Currency | € equivalent |
| Euro facility expiring between January and September 2014 | €76 | 76 |
| US dollar facility expiring between February and December 2014 | \$952 | 695 |
| Euro facility expiring December 2014 | €520 | 520 |
| US dollar facility expiring October 2015 | \$805 | 587 |
| US dollar facility expiring September and October 2016 | \$1,314 | 959 |
| US dollar facility expiring December 2021 | \$1,164 | 849 |

The following table analyses the Group's financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period at December 31 to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest.

| € million | Within 6 months | 6 - 12 months | 1 - 2 years | 2 - 5 years | More than 5 years | Total 2014 |
|--|-----------------|---------------|----------------|----------------|-------------------|-----------------|
| Interest-bearing borrowings: | | | | | | |
| Finance lease obligations | (320) | (356) | (574) | (1,889) | (3,100) | (6,239) |
| Fixed rate borrowings | (41) | (53) | (441) | (532) | (77) | (1,144) |
| Floating rate borrowings | (48) | (69) | (79) | (43) | (42) | (281) |
| Trade and other payables | (3,017) | - | - | - | - | (3,017) |
| Derivative financial instruments | | | | | | |
| Aircraft lease hedges (asset) | 7 | 7 | 11 | 5 | - | 30 |
| Forward currency contracts (asset) | 78 | 61 | 51 | 2 | - | 192 |
| Fuel derivatives (asset) | - | - | - | - | - | - |
| Currency options (asset) | 14 | 10 | 4 | - | - | 28 |
| Aircraft lease hedges (liability) | (1) | (1) | - | - | - | (2) |
| Cross currency swaps (liability) | - | - | (1) | - | - | (1) |
| Forward currency contracts (liability) | (1) | - | - | - | - | (1) |
| Fuel derivatives (liability) | (806) | (518) | (332) | - | - | (1,656) |
| Currency options (liability) | - | - | - | - | - | - |
| Hedge of available-for-sale asset | (5) | - | - | - | - | (5) |
| December 31, 2014 | (4,140) | (919) | (1,361) | (2,457) | (3,219) | (12,096) |

| € million | Within 6 months | 6 – 12 months | 1 – 2 years | 2 – 5 years | More than 5 years | Total 2013 |
|--|-----------------|---------------|-------------|-------------|-------------------|------------|
| Interest-bearing borrowings: | | | | | | |
| Finance lease obligations | (185) | (307) | (551) | (1,342) | (1,858) | (4,243) |
| Fixed rate borrowings | (40) | (48) | (85) | (508) | (81) | (762) |
| Floating rate borrowings | (87) | (53) | (133) | (117) | (51) | (441) |
| Trade and other payables | (2,971) | – | – | – | – | (2,971) |
| Derivative financial instruments | | | | | | |
| Aircraft lease hedges (asset) | 1 | – | 1 | 1 | – | 3 |
| Forward currency contracts (asset) | 2 | 1 | – | – | – | 3 |
| Fuel derivatives (asset) | 95 | 46 | 25 | – | – | 166 |
| Aircraft lease hedges (liability) | (8) | (7) | (12) | (7) | – | (34) |
| Cross currency swaps (liability) | – | – | (1) | (1) | – | (2) |
| Forward currency contracts (liability) | (42) | (28) | (18) | (5) | – | (93) |
| Fuel derivatives (liability) | (1) | – | – | – | – | (1) |
| Currency options (liability) | (7) | (5) | (3) | – | – | (15) |
| Hedge of available-for-sale asset | – | (436) | – | – | – | (436) |
| December 31, 2013 | (3,243) | (837) | (777) | (1,979) | (1,990) | (8,826) |

f Offsetting financial assets and liabilities

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

The Group enters into derivative transactions under master netting agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding are aggregated into a single net amount that is payable by one party to the other. In certain circumstances, for example, when a credit event such as a default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single amount is payable in settlement of all transactions.

December 31, 2014

| € million | Gross value of financial instruments | Financial instruments that are offset under netting agreements | Net amounts of financial instruments in the balance sheet | Related amounts not set off in the balance sheet | Net amount |
|----------------------------------|--------------------------------------|--|---|--|--------------|
| Financial assets | | | | | |
| Derivative financial assets | 263 | (5) | 258 | – | 258 |
| Financial liabilities | | | | | |
| Derivative financial liabilities | 1,677 | (5) | 1,672 | – | 1,672 |

Notes to the consolidated financial statements continued

26 Financial risk management objectives and policies continued

f Offsetting financial assets and liabilities continued

December 31, 2013

| € million | Gross value of financial instruments | Financial instruments that are offset under netting agreements | Net amounts of financial instruments in the balance sheet | Related amounts not set off in the balance sheet | Net amount |
|----------------------------------|--------------------------------------|--|---|--|------------|
| Financial assets | | | | | |
| Derivative financial assets | 196 | (26) | 170 | (3) | 167 |
| Financial liabilities | | | | | |
| Derivative financial liabilities | 620 | (26) | 594 | (3) | 591 |

g Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern to maintain an optimal capital structure, to reduce the cost of capital and to provide returns to shareholders.

The Group monitors capital on the basis of the adjusted gearing ratio (adjusted net debt as a percentage of total capital adjusted for aircraft operating leases) and adjusted net debt to EBITDAR. Net debt comprises the current and non-current portions of long-term borrowings, less cash and cash equivalents and other current interest-bearing deposits. Total capital is defined as the total of capital, reserves, adjusted for the 2013 pensions restatement and former remeasurements, non-controlling interest and net debt.

27 Financial instruments

a Financial assets and liabilities by category

The detail of the Group's financial instruments at December 31, 2014 and December 31, 2013 by nature and classification for measurement purposes is as follows:

December 31, 2014

| | Financial assets | | | Non-financial assets | Total carrying amount by balance sheet item |
|---|-----------------------|------------------------------|--------------------|----------------------|---|
| € million | Loans and receivables | Derivatives used for hedging | Available-for-sale | | |
| Non-current assets | | | | | |
| Available-for-sale financial assets | - | - | 84 | - | 84 |
| Derivative financial instruments | - | 80 | - | - | 80 |
| Other non-current assets | 167 | - | - | 21 | 188 |
| Current assets | | | | | |
| Trade receivables | 1,252 | - | - | - | 1,252 |
| Other current assets | 244 | - | - | 367 | 611 |
| Non-current assets held for sale | - | - | 11 | 7 | 18 |
| Derivative financial instruments | - | 178 | - | - | 178 |
| Other current interest-bearing deposits | 3,416 | - | - | - | 3,416 |
| Cash and cash equivalents | 1,528 | - | - | - | 1,528 |

| | Financial liabilities | | | Total carrying amount by balance sheet item |
|---|-----------------------|------------------------------|---------------------------|---|
| € million | Loans and payables | Derivatives used for hedging | Non-financial liabilities | |
| Non-current liabilities | | | | |
| Interest-bearing long-term borrowings | 5,904 | – | – | 5,904 |
| Derivative financial instruments | – | 359 | – | 359 |
| Other long-term liabilities | 7 | – | 219 | 226 |
| Current liabilities | | | | |
| Current portion of long-term borrowings | 713 | – | – | 713 |
| Trade and other payables | 3,017 | – | 264 | 3,281 |
| Deferred revenue on ticket sales | – | – | 3,933 | 3,933 |
| Derivative financial instruments | – | 1,313 | – | 1,313 |

December 31, 2013

| | Financial assets | | | | Total carrying amount by balance sheet item |
|---|-----------------------|------------------------------|--------------------|----------------------|---|
| € million | Loans and receivables | Derivatives used for hedging | Available-for-sale | Non-financial assets | |
| Non-current assets | | | | | |
| Available-for-sale financial assets | – | – | 1,092 | – | 1,092 |
| Derivative financial instruments | – | 35 | – | – | 35 |
| Other non-current assets | 182 | – | – | 15 | 197 |
| Current assets | | | | | |
| Trade receivables | 1,196 | – | – | – | 1,196 |
| Other current assets | 270 | – | – | 361 | 631 |
| Derivative financial instruments | – | 135 | – | – | 135 |
| Other current interest-bearing deposits | 2,092 | – | – | – | 2,092 |
| Cash and cash equivalents | 1,541 | – | – | – | 1,541 |

| | Financial liabilities | | | Total carrying amount by balance sheet item |
|---|-----------------------|------------------------------|---------------------------|---|
| € million | Loans and payables | Derivatives used for hedging | Non-financial liabilities | |
| Non-current liabilities | | | | |
| Interest-bearing long-term borrowings | 4,535 | – | – | 4,535 |
| Derivative financial instruments | – | 66 | – | 66 |
| Other long-term liabilities | 7 | – | 218 | 225 |
| Current liabilities | | | | |
| Current portion of long-term borrowings | 587 | – | – | 587 |
| Trade and other payables | 2,971 | – | 326 | 3,297 |
| Deferred revenue on ticket sales | – | – | 3,496 | 3,496 |
| Derivative financial instruments | – | 528 | – | 528 |

Notes to the consolidated financial statements continued

27 Financial instruments continued

b Fair value of financial assets and financial liabilities

The Group's financial instruments are disclosed in hierarchy levels based on the nature of the inputs used in determining the fair values as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis;

Level 2: Inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. The fair value of financial instruments that are not traded in an active market is determined by valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates; and

Level 3: Inputs for the asset or liability that are not based on observable market data.

The fair value of cash and cash equivalents, other current interest-bearing deposits, trade receivables, other current assets, trade and other payables, and deferred revenue on ticket sales approximate their carrying value largely due to the short-term maturities of those instruments.

The following methods and assumptions were used by the Group in estimating its fair value disclosures for financial instruments:

Instruments included in Level 1 comprise listed asset investments classified as available-for-sale and interest-bearing borrowings which are stated at market value at the balance sheet date.

Instruments included in Level 2 included derivatives and interest-bearing borrowings.

Forward currency transactions and over-the-counter fuel derivatives are entered into with various counterparties, principally financial institutions with investment grade ratings. These are measured at the market value of instruments with similar terms and conditions at the balance sheet date using forward pricing models. Counterparty and own credit risk is deemed to be not significant.

The hedge of the available-for-sale asset takes the form of an equity collar. The valuation of this collar is based on a Black Scholes valuation model using share price spot rate, strike price, stock volatility and the euro interest rate curve.

The fair value of the Group's interest-bearing borrowings including leases are determined by discounting the remaining contractual cash flows at the relevant market interest rates at the balance sheet date.

All resulting fair value estimates are included in Level 2 except for certain other investments which are classified as Level 3.

The carrying amounts and fair values of the Group's financial assets and liabilities at December 31, 2014 are set as follows:

| € million | Fair value | | | | Carrying value |
|---|------------|---------|---------|-------|----------------|
| | Level 1 | Level 2 | Level 3 | Total | Total |
| Financial assets | | | | | |
| Available-for-sale financial assets | 19 | – | 65 | 84 | 84 |
| Aircraft lease hedges ¹ | – | 38 | – | 38 | 38 |
| Forward currency contracts ¹ | – | 191 | – | 191 | 191 |
| Fuel derivatives ¹ | – | – | – | – | – |
| Currency option contracts ¹ | – | 29 | – | 29 | 29 |
| Financial liabilities | | | | | |
| Interest-bearing borrowings | | | | | |
| Finance lease obligations | – | 5,681 | – | 5,681 | 5,384 |
| Fixed rate borrowings | 881 | 313 | – | 1,194 | 960 |
| Floating rate borrowings | 11 | 262 | – | 273 | 273 |
| Aircraft lease hedges ² | – | 10 | – | 10 | 10 |
| Cross currency swaps ² | – | 1 | – | 1 | 1 |
| Forward currency contracts ² | – | 1 | – | 1 | 1 |
| Fuel derivatives ² | – | 1,654 | – | 1,654 | 1,654 |
| Hedge of available-for-sale asset | – | 5 | – | 5 | 5 |
| Currency option contracts ² | – | 1 | – | 1 | 1 |

1 Current portion of derivative financial assets is €178 million

2 Current portion of derivative financial liabilities is €1,313 million

The carrying amounts and fair values of the Group's financial assets and liabilities at December 31, 2013 are set out below:

| € million | Fair value | | | | Carrying value |
|---|------------|---------|---------|-------|----------------|
| | Level 1 | Level 2 | Level 3 | Total | Total |
| Financial assets | | | | | |
| Available-for-sale financial assets | 1,070 | – | 22 | 1,092 | 1,092 |
| Aircraft lease hedges ¹ | – | 4 | – | 4 | 4 |
| Forward currency contracts ¹ | – | 3 | – | 3 | 3 |
| Fuel derivatives ¹ | – | 158 | – | 158 | 158 |
| Currency option contracts ¹ | – | 5 | – | 5 | 5 |
| Financial liabilities | | | | | |
| Interest-bearing borrowings: | | | | | |
| Finance lease obligations | – | 3,937 | – | 3,937 | 3,770 |
| Fixed rate borrowings | 789 | 304 | – | 1,093 | 922 |
| Floating rate borrowings | 13 | 417 | – | 430 | 430 |
| Aircraft lease hedges ² | – | 37 | – | 37 | 37 |
| Cross currency swaps ² | – | 2 | – | 2 | 2 |
| Forward currency contracts ² | – | 94 | – | 94 | 94 |
| Fuel derivatives ² | – | 2 | – | 2 | 2 |
| Hedge of available-for-sale asset | – | 437 | – | 437 | 437 |
| Currency options contracts ² | – | 22 | – | 22 | 22 |

1 Current portion of derivative financial assets is €135 million.

2 Current portion of derivative financial liabilities is €528 million.

Notes to the consolidated financial statements continued

27 Financial instruments continued

b Fair value of financial assets and financial liabilities continued

There have been no transfers between levels of fair value hierarchy during the year.

Out of the financial instruments listed in the previous table, only the interest-bearing borrowings are not measured at fair value on a recurring basis.

c Level 3 financial assets reconciliation

The following table summarises key movements in Level 3 financial assets:

| € million | December 31, 2014 | December 31, 2013 |
|---|----------------------|----------------------|
| Opening balance for the year | 22 | 29 |
| Gains recognised in profit or loss ¹ | 1 | 1 |
| Gains recognised in Other comprehensive income ² | 48 | - |
| Sales | - | (2) |
| Settlements | (7) | (6) |
| Exchange movements | 1 | - |
| Closing balance for the year | 65 | 22 |

¹ Included in Net credit relating to available-for-sale financial assets in the consolidated Income statement

² Included in Available-for-sale financial assets - Fair value movements in equity in the consolidated Statement of other comprehensive income.

The fair value of Level 3 financial assets cannot be measured reliably; as such these assets are stated at historic cost less accumulated impairment losses with the exception of the Group's investment in The Airline Group Limited. This unlisted investment had previously been valued at nil, since the fair value could not be reasonably calculated. During the year to December 31, 2014 other shareholders disposed of a combined holding of 49.9 per cent providing a market reference from which to determine a fair value. The revaluation resulted in a gain of €48 million recognised in Other comprehensive income. The investment remains classified as a Level 3 financial asset due to the valuation criteria applied not being observable, with the resultant fair value uplift being non-recurring in nature.

d Hedges

i Cash flow hedges

Hedge accounting is applied on the following cash flow hedges.

At December 31, 2014 the Group had six principal risk management activities that were designated as hedges of future forecast transactions. These were:

- A proportion of future revenue receipts in foreign currency and future debt repayments in foreign currency, hedging future foreign currency risk;
- Future jet fuel purchases by forward crude, gas oil and jet kerosene derivative contracts hedging future fuel price risk;
- Future aircraft operating lease cash outflows hedging future foreign currency and interest rate risk with cross currency swaps;
- Certain revenue receipts hedging future foreign currency risk with foreign exchange contracts;
- Certain foreign currency operational payments by hedging future foreign currency risk with forward currency contracts; and
- Future cash flows from the sale of available-for-sale assets; hedging future share price volatility.

To the extent that the hedges were assessed as highly effective, a summary of the amounts included in equity, the notional principal amounts and the years to which the related cash flows are expected to occur are summarised below:

December 31, 2014

| Financial instruments designated as hedging instruments € million | Cash flows hedged | | | | | Total December 31, 2014 |
|---|--------------------|---------------|-------------|-------------|----------------------|-------------------------------|
| | Within 6 months | 6 – 12 months | 1 – 2 years | 2 – 5 years | More than 5 years | |
| Debt repayments to hedge future revenue | 15 | 7 | 15 | 49 | (45) | 41 |
| Forward contracts to hedge future payments | (87) | (71) | (62) | (6) | – | (226) |
| Hedges of future fuel purchases | 751 | 605 | 369 | – | – | 1,725 |
| Hedges of future aircraft operating leases | 1 | 1 | (1) | (1) | – | – |
| Currency options to hedge future payments | (12) | (6) | (4) | – | – | (22) |
| Available-for-sale asset hedge ¹ | 5 | – | – | – | – | 5 |
| | 673 | 536 | 317 | 42 | (45) | 1,523 |
| Related deferred tax charge | | | | | | (330) |
| Total amount included within equity | | | | | | 1,193 |

December 31, 2014

| Million | Notional principal amounts (in local currency) |
|--|---|
| To hedge future currency revenues against US dollars | \$730 |
| To hedge future operating payments in US dollars | \$2,928 |
| To hedge future operating payments in euros | €325 |
| Hedges of future fuel purchases | \$4,799 |
| Hedges of future share price volatility on available-for-sale assets | €11 |
| Cross Currency swaps: | |
| – Floating to fixed (euro) | €360 |
| – Fixed to fixed (euro) | €204 |
| Debt repayments to hedge future revenue: | |
| – US dollars | \$3,307 |
| – Euro | €1,130 |
| – Japanese yen | ¥34,335 |

Notes to the consolidated financial statements continued

27 Financial instruments continued d Hedges continued

December 31, 2013

| Financial instruments designated as hedging instruments € million | Cash flows hedged | | | | | Total December 31, 2013 |
|---|--------------------|---------------|-------------|-------------|----------------------|-------------------------------|
| | Within 6 months | 6 – 12 months | 1 – 2 years | 2 – 5 years | More than 5 years | |
| Debt repayments to hedge future revenue | 15 | 8 | 15 | 28 | (69) | (3) |
| Forward contracts to hedge future payments | 43 | 31 | 22 | 8 | – | 104 |
| Hedges of future fuel purchases | (78) | (39) | (25) | – | – | (142) |
| Hedges of future aircraft operating leases | 6 | 6 | 9 | 4 | – | 25 |
| Currency options to hedge future payments | 5 | 2 | 1 | – | – | 8 |
| Available-for-sale asset hedge ¹ | – | 437 | – | – | – | 437 |
| | (9) | 445 | 22 | 40 | (69) | 429 |
| Related deferred tax charge | | | | | | (131) |
| Total amount included within equity | | | | | | 298 |

December 31, 2013

| Million | Notional principal amounts (in local currency) |
|--|--|
| To hedge future currency revenues against US dollars | \$1,225 |
| To hedge future operating payments in US dollars | \$3,096 |
| To hedge future operating payments in euros | €428 |
| Hedges of future fuel purchases | \$4,543 |
| Hedges of future share price volatility on available-for-sale assets | €1,044 |
| Cross currency swaps | – Floating to fixed (euro) €399 |
| | – Fixed to fixed (euro) €311 |
| Debt repayments to hedge future revenue: | – US dollars \$2,832 |
| | – Euro €480 |
| | – Japanese yen ¥30,177 |

¹ At December 31, 2014 the Group had an investment representing of 0.075 per cent (2013: 7.5 per cent) of the share capital of Amadeus (note 18). On August 7, 2012 the Group entered into a derivative transaction with Nomura International Plc (Nomura) on its entire ownership interest in Amadeus. The transaction takes the form of a 'collar' with two 'European' options. During the year Iberia entered into an agreement to settle the hedging transaction in equal instalments over a 100 trading day period. At December 31, 2014 Iberia had settled 99 per cent of the transaction.

The notional principle amount of the cash flow hedge is €11 million (2013: €1,044 million). The change in the fair value of the cash flow hedge of €432 million decrease (2013: €385 million increase) has been accounted for as €43 million decrease (2013: €407 million increase) directly in equity, net of deferred tax; €387 million (2013: nil) release from equity, net of deferred tax to the Income statement (as a result of the partial settlement); and the time value credit of €2 million (2013: €22 million) recognised in the Income statement.

The ineffective portion recognised in the Income statement during the year related to future fuel purchase hedges was a loss of €51 million (2013: profit of €22 million).

ii. Fair value hedges

The Group has no significant fair value hedges at December 31, 2014 and 2013.

iii. Net investments in foreign operations

The Group has no such hedges at December 31, 2014 and 2013.

28 Share capital and share premium

| Allotted, called up and fully paid | Number of shares '000s | Ordinary share capital € million | Share premium € million |
|--|---------------------------|--|----------------------------|
| January 1, 2014: Ordinary shares of €0.50 each | 2,040,079 | 1,020 | 5,867 |
| December 31, 2014 | 2,040,079 | 1,020 | 5,867 |

29 Treasury shares

The treasury shares balance consists of shares held directly by the Group. During the year to December 31, 2014, the Group purchased directly 4.4 million shares at a weighted average share price of €5.29 per share totalling €23 million, which are held as Treasury shares. 12.2 million shares were issued to employees during the year as a result of vesting of employee share schemes. At December 31, 2014 the Group held 1.2 million shares, which represented 0.06 per cent of the Issued share capital of the Company.

Investment in own shares consists of shares held by the British Airways Plc Employee Share Ownership Trust (the Trust). The Trust is governed by British Airways Employee Benefit Trustee (Jersey) Limited which is a wholly-owned subsidiary of British Airways. The Trust is not a legal subsidiary of IAG; however, it is consolidated within the Group results. 1.8 million shares were issued to employees during the year as a result of employee share scheme exercises. At December 31, 2014 the Group held no shares (2013: 1.8 million) through the Trust.

30 Share-based payments

The Group operates share-based payment schemes as part of the total remuneration package provided to employees. These schemes comprise both share option schemes where employees acquire shares at an option price and share award plans whereby shares are issued to employees at no cost, subject to the achievement by the Group of specified performance targets.

a Share Option Plan

The British Airways Share Option Plan 1999 (SOP) granted options to qualifying employees based on performance at an option price which was not less than the market price of the share at the date of the grant (or the nominal value if shares are to be subscribed and this value is greater than the market value). The options are subject to a three year vesting period with the exception of grants made during the year to March 31, 2005, when there was a single re-test after a further year which measured performance of British Airways over the four year period from the date of grant. Upon vesting, options may be exercised at any time until the 10th anniversary of the date of grant. No further grants of options under the SOP have been made since 2005.

b Long Term Incentive Plan

The British Airways Long Term Incentive Plan 1996 (LTIP) awarded options to senior executives conditional upon British Airways' achievement of a performance condition measured over three financial years. If granted, all options may be exercised at any time until the seventh anniversary of the date of grant and no payment is due upon exercise of the options. No further awards under the LTIP have been made since 2004. At December 31, 2014 there are no awards outstanding.

c Deferred Share Plan

The British Airways Deferred Share Plan 2005 (DSP) was granted to qualifying employees based on performance and service tests. It will be awarded when an incentive award is triggered subject to the employee remaining in employment with the Group for three years after the grant date. The relevant population received a percentage of their incentive award in cash and the remaining percentage in shares through the DSP. The maximum deferral is 50 per cent.

Notes to the consolidated financial statements continued

30 Share-based payments continued

d IAG Performance Share Plan

In 2011 the Group introduced the IAG Performance Share Plan, granted to senior executives and managers of the Group who are most directly involved in shaping and delivering business success over the medium to long term. A conditional award of shares is subject to the achievement of a variety of performance conditions, which will vest after three years subject to the employee remaining employed by the Group. The award made in 2011 will vest based 70 per cent on meeting Total Shareholder Return (TSR) performance conditions over three financial years, and 30 per cent on achievement of IAG synergy targets. The awards made between 2012 and 2013 will vest based 50 per cent on meeting IAG's TSR performance relative to the MSCI European Transportation Index, and 50 per cent based on achievement of earnings per share targets. No payment is required from individuals when the shares are awarded.

e IAG Incentive Award Deferral Plan

In 2011 the Group introduced the IAG Incentive Award Deferral Plan (IADP), granted to qualifying employees based on performance and service tests. It will be awarded when an incentive award is triggered subject to the employee remaining in employment with the Group for three years after the grant date. The relevant population will receive 50 per cent of their incentive award up front in cash, and the remaining 50 per cent in shares after three years through the IADP.

Prior to the merger, awards were made under schemes operated by British Airways and represented rights over its ordinary shares. Awards which were outstanding prior to the merger will be settled through shares in the Company. Subsequent to the merger, awards have only been made under the IAG Performance Share Plan and IAG Incentive Award Deferral Plan, operated by the Company, and represent rights over its ordinary shares.

f Share-based payment schemes summary

| | Outstanding at January 1, 2014 '000s | Granted number '000s | Lapsed number '000s | Exercised number '000s | Outstanding at December 31, 2014 '000s | Exercisable at December 31, 2014 '000s |
|---|---|----------------------------|---------------------------|------------------------------|---|---|
| Share Option Plan | 3,021 | – | 7 | 2,072 | 942 | 942 |
| Long Term Incentive Plan | 147 | – | – | 147 | – | – |
| Performance Share Plans | 34,599 | 5,717 | 1,420 | 10,936 | 27,960 | 43 |
| Deferred Share Plans and Incentive Award Deferral Plans | 4,606 | 2,080 | 158 | 879 | 5,649 | 21 |
| | 42,373 | 7,797 | 1,585 | 14,034 | 34,551 | 1,006 |
| Weighted average exercise price of Share Option Plans (£) | 2.71 | – | 2.69 | 2.68 | 2.76 | 2.76 |

During the year to December 31, 2014 a total of 2,072,000 (2013: 1,961,000) shares related to the Share Option Plan were exercised at a weighted average market share price of £4.13 (2013: £3.02).

Range of exercise prices at December 31, 2014 for Share Option Plans:

| | Number of shares '000s | Weighted average contractual life (years) |
|--------------------------|---------------------------|--|
| Range of exercise prices | | |
| £2.76 | 942 | 0.48 |
| December 31, 2014 | 942 | 0.48 |

Range of exercise prices at December 31, 2013 for Share Option Plans:

| | Number of shares '000s | Weighted average contractual life (years) |
|--------------------------|---------------------------|--|
| Range of exercise prices | | |
| £2.62 | 1,142 | 0.48 |
| £2.76 | 1,879 | 1.48 |
| December 31, 2013 | 3,021 | 1.10 |

The fair value of equity-settled share-based payment plans determined using the Monte-Carlo model, taking into account the terms and conditions upon which the plans were granted, used the following weighted average assumptions:

| | December 31, 2014 | December 31, 2013 |
|---|----------------------|----------------------|
| Weighted average fair value (£) | 2.35 | 2.08 |
| Expected share price volatility (per cent) | 35 | 40 |
| Expected comparator group volatility (per cent) | 25 | 25 |
| Expected comparator correlation (per cent) | 65 | 69 |
| Expected life of options (years) | 3 | 3 |
| Weighted average share price at date of grant (£) | 4.33 | 2.69 |

Volatility was calculated with reference to the Group's weekly pound sterling share price volatility. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome. The fair value of the PSP and the IAG Performance Share Plan also takes into account a market condition of total shareholder returns as compared to strategic competitors. No other features of share-based payment plans granted were incorporated into the measurement of fair value.

The Group recognised a share-based payment charge of €29 million for the year to December 31, 2014 (2013: €30 million).

Notes to the consolidated financial statements continued

31 Other reserves and non-controlling interests

Year to December 31, 2014

| € million | Other reserves | | | | | Total other reserves | Non-controlling interests ⁵ |
|---|-------------------|--|-----------------------------------|---|-----------------------------|----------------------|--|
| | Retained earnings | Unrealised gains and losses ¹ | Currency translation ² | Equity portion of convertible bond ³ | Merger reserve ⁴ | | |
| January 1, 2014 | (814) | 122 | 151 | 72 | (2,467) | (2,936) | 307 |
| Profit for the year | 982 | - | - | - | - | 982 | 21 |
| Other comprehensive income for the year: | | | | | | | |
| Cash flow hedges reclassified and reported in net profit: | | | | | | | |
| Passenger revenue | - | 5 | - | - | - | 5 | - |
| Fuel and oil costs | - | 47 | - | - | - | 47 | - |
| Currency differences | - | 34 | - | - | - | 34 | - |
| Investments | - | 271 | - | - | - | 271 | - |
| Net change in fair value of cash flow hedges | - | (1,235) | - | - | - | (1,235) | - |
| Available-for-sale assets reclassified and reported in net profit | - | (359) | - | - | - | (359) | - |
| Net change in fair value of available-for-sale financial assets | - | 29 | - | - | - | 29 | - |
| Currency translation differences | - | - | 168 | - | - | 168 | - |
| Remeasurements of post-employment benefit obligations | (394) | - | - | - | - | (394) | - |
| Cost of share-based payments | 38 | - | - | - | - | 38 | - |
| Vesting of share-based payment schemes | (46) | - | - | - | - | (46) | - |
| Distributions made to holders of perpetual securities | - | - | - | - | - | - | (20) |
| December 31, 2014 | (234) | (1,086) | 319 | 72 | (2,467) | (3,396) | 308 |

Year to December 31, 2013

| € million | Other reserves | | | | | Total other reserves | Non-controlling interests ⁵ |
|--|-------------------|--|-----------------------------------|---|-----------------------------|----------------------|--|
| | Retained earnings | Unrealised gains and losses ¹ | Currency translation ² | Equity portion of convertible bond ³ | Merger reserve ⁴ | | |
| January 1, 2013 | 743 | (5) | 199 | 94 | (2,467) | (1,436) | 300 |
| Restatement | (2,049) | – | (28) | – | – | (2,077) | – |
| January 1, 2013 (restated) | (1,306) | (5) | 171 | 94 | (2,467) | (3,513) | 300 |
| Profit for the year | 122 | – | – | – | – | 122 | 25 |
| Other comprehensive income for the year: | | | | | | | |
| Cash flow hedges reclassified and reported in net profit: | | | | | | | |
| Passenger revenue | – | 46 | – | – | – | 46 | – |
| Fuel and oil costs | – | (17) | – | – | – | (17) | – |
| Currency differences | – | 7 | – | – | – | 7 | – |
| Net change in fair value of cash flow hedges | – | (203) | – | – | – | (203) | – |
| Available-for-sale assets reclassified and reported in net profit | – | (3) | – | – | – | (3) | – |
| Net change in fair value of available-for-sale financial assets | – | 297 | – | – | – | 297 | – |
| Currency translation differences | – | – | (20) | – | – | (20) | – |
| Remeasurements of post-employment benefit obligations | 521 | – | – | – | – | 521 | – |
| Cost of share-based payments | 30 | – | – | – | – | 30 | – |
| Exercise of share options | (9) | – | – | – | – | (9) | – |
| Equity portion of convertible bond issued | – | – | – | 72 | – | 72 | – |
| Non-controlling interest arising on Business combination | – | – | – | – | – | – | 26 |
| Acquisition of non-controlling interest | – | – | – | – | – | – | (24) |
| Issue of ordinary shares related to conversion of convertible bond | (172) | – | – | (94) | – | (266) | – |
| Distributions made to holders of perpetual securities | – | – | – | – | – | – | (20) |
| December 31, 2013 | (814) | 122 | 151 | 72 | (2,467) | (2,936) | 307 |

1 The unrealised gains and losses reserve records fair value changes on available-for-sale investments and the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

2 The currency translation reserve records exchange differences arising from the translation of the financial statements of foreign subsidiaries and associates.

3 The equity portion of convertible bond reserve represents the equity portion of convertible bond issued. At December 31, 2014 and 2013, this related to the €390 million fixed rate 1.75 per cent convertible bond (note 23).

4 The merger reserve records the difference between the fair value of the shares acquired and the nominal value of the shares issued from the original merger of British Airways and Iberia.

5 Non-controlling interests largely comprise €300 million of 6.75 per cent fixed coupon euro perpetual preferred securities issued by British Airways Finance (Jersey) LP. The holders of these securities have no rights against Group undertakings other than the issuing entity and, to the extent prescribed by the subordinated guarantee, British Airways Plc. In the event of a dividend paid by the Company, the coupon payment is guaranteed. The effect of the securities on the Group as a whole, taking into account the subordinate guarantee and other surrounding arrangements, is that the obligations to transfer economic benefits in connection with the securities do not go beyond those that would normally attach to preference shares issued by a UK company.

Notes to the consolidated financial statements continued

32 Employee benefit obligations

The Group operates a variety of post-employment benefit arrangements, covering both defined contribution and defined benefit schemes. The Group also has a scheme for flight crew who meet certain conditions and therefore have the option of being placed on reserve and retaining their employment relationship until reaching the statutory retirement age, or taking early retirement (note 25).

Defined contribution schemes

IAG, British Airways and Iberia all have defined contribution schemes.

Total employer contributions to defined contribution pension plans both in Spain and the UK for the year to December 31, 2014 were €82 million (2013: €92 million).

Defined benefit schemes

The principal funded defined benefit pension schemes within the Group are the Airways Pension Scheme (APS) and the New Airways Pension Scheme (NAPS), both of which are in the UK and are closed to new members. APS has been closed to new members since 1984 and NAPS closed to new members in 2003.

Benefits provided under APS are based on final average pensionable pay and, for the majority of members, are subject to inflationary increases in payment in line with the Annual Review Orders (ARO) issued by the British Government, which is based on the Consumer Price Index (CPI). Benefits provided under NAPS are based on final average pensionable pay reduced by an amount (the abatement) not exceeding one and a half times the Government's lower earnings limit. NAPS pension increases are also linked to the ARO and increases are capped at a maximum of five per cent in any one year. In NAPS, annual pensionable pay increases for active members are capped at RPI.

APS and NAPS are governed by separate Trustee Boards. Although separate, much of the business of the two schemes is common. Most main Board and committee meetings are held in tandem although each Trustee Board reaches its decisions independently. There are three committees which are separately responsible for the governance, operation and investments of each scheme. British Airways Pension Trustees Limited holds the assets of both schemes on behalf of their respective Trustees.

Deficit payment plans are agreed with the Trustees of each scheme every three years based on the actuarial valuation (triennial valuation) rather than the IAS 19 accounting valuation. The latest deficit recovery plan was agreed at March 31, 2012 (note 32i). The actuarial valuations performed at March 31, 2012 are different to the valuation performed under IAS 19 'Employee benefits' at December 31, 2014 mainly due to timing differences of the measurement dates and to the scheme specific assumptions used in the actuarial valuation versus IAS guidance used in the accounting valuation assumptions.

The defined benefit plans expose the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk and market (investment) risk.

Most employees of British Airways engaged outside the UK are covered by appropriate local arrangements. British Airways provides certain additional post-retirement healthcare benefits to eligible employees in the US through the US Post-Retirement Medical Benefit plan (US PRMB) which is considered to be a defined benefit scheme.

Cash payments to pension schemes comprise normal employer contributions by the Group; deficit contributions based on the agreed deficit payment plan with APS and NAPS; and cash sweep payments relating to additional payments made conditional on the level of cash in British Airways. Total payments for the year to December 31, 2014 net of service costs were €409 million (2013: €372 million) being the employer contributions of €612 million (2013: €577 million) less the current service cost of €203 million (2013: €205 million) (note 32b).

a Employee benefit schemes recognised on the Balance sheet

| € million | 2014 | | | |
|--|------------|--------------|--------------------|-----------------|
| | APS | NAPS | Other ¹ | Total |
| Scheme assets at fair value | 9,542 | 16,201 | 424 | 26,167 |
| Present value of scheme liabilities | (8,191) | (17,134) | (795) | (26,120) |
| Net pension asset/(liability) | 1,351 | (933) | (371) | 47 |
| Effect of the asset ceiling ² | (502) | – | – | (502) |
| Other employee benefit obligations | – | – | (14) | (14) |
| December 31, 2014 | 849 | (933) | (385) | (469) |
| Represented by: | | | | |
| Employee benefit assets | | | | 855 |
| Employee benefit obligations | | | | (1,324) |
| | | | | (469) |
| € million | 2013 | | | |
| | APS | NAPS | Other ¹ | Total |
| Scheme assets at fair value | 8,250 | 13,847 | 384 | 22,481 |
| Present value of scheme liabilities | (7,535) | (14,342) | (608) | (22,485) |
| Net pension asset/(liability) | 715 | (495) | (224) | (4) |
| Effect of the asset ceiling ² | (236) | – | – | (236) |
| Other employee benefit obligations | – | – | (13) | (13) |
| December 31, 2013 | 479 | (495) | (237) | (253) |
| Represented by: | | | | |
| Employee benefit assets | | | | 485 |
| Employee benefit obligations | | | | (738) |
| | | | | (253) |

1 The present value of scheme liabilities for the US PRMB was €83 million at December 31, 2014 (2013: €69 million).

2 APS has an accounting surplus under IAS 19, which would be available to the Group as a refund upon wind up of the scheme. This refund is restricted due to withholding taxes that would be payable by the trustees.

b Amounts recognised in the Income statement

Pension costs charged to operating result:

| € million | 2014 | 2013 |
|---|------------|-------|
| Defined benefit plans: | | |
| Current service cost | 203 | 205 |
| Past service cost ¹ | – | (170) |
| | 203 | 35 |
| Defined contribution plans | 82 | 92 |
| Pension costs recorded as employee costs | 285 | 127 |

1 The credit to past service costs of €170 million in 2013 was treated as an exceptional item (note 5).

Pension costs charged as finance costs:

| € million | 2014 | 2013 |
|--|----------------|-------|
| Interest income on scheme assets | 1,058 | 892 |
| Interest expense on scheme liabilities | (1,051) | (933) |
| Interest expense on asset ceiling | (11) | (12) |
| Net financing charge relating to pensions | (4) | (53) |

Notes to the consolidated financial statements continued

32 Employee benefit obligations continued

c Remeasurements recognised in the Statement of other comprehensive income

| € million | 2014 | 2013 |
|---|--------------|------------|
| Return on plan assets excluding interest income | 1,338 | 822 |
| Remeasurement of plan liabilities from changes in financial assumptions | (1,837) | (138) |
| Remeasurement of experience gains/(losses) | 171 | (7) |
| Remeasurement of the APS asset ceiling | (232) | 64 |
| Exchange movements | (17) | – |
| Pension remeasurements | (577) | 741 |

d Fair value of scheme assets

A reconciliation of the opening and closing balances of the fair value of scheme assets is set out below:

| € million | 2014 | 2013 |
|---|---------------|---------------|
| January 1 | 22,481 | 21,572 |
| Interest income | 1,058 | 892 |
| Return on plan assets excluding interest income | 1,338 | 822 |
| Employer contributions ¹ | 596 | 564 |
| Employee contributions | 106 | 101 |
| Benefits paid | (944) | (841) |
| Exchange movements | 1,532 | (629) |
| December 31 | 26,167 | 22,481 |

¹ Includes employer contributions to APS of €83 million (2013: €74 million) and to NAPS of €489 million (2013: €467 million), of which deficit funding payments represented €75 million for APS (2013: €65 million) and €229 million for NAPS (2013: €245 million).

Scheme assets at December 31 comprise:

| € million | 2014 | 2013 |
|--|---------------|---------------|
| Return seeking investments – equities | | |
| UK | 2,499 | 2,520 |
| Rest of world | 6,467 | 5,382 |
| | 8,966 | 7,902 |
| Return seeking investments – other | | |
| Private equity | 769 | 692 |
| Property | 1,812 | 1,546 |
| Alternative investments | 928 | 775 |
| | 3,509 | 3,013 |
| Liability matching investments | | |
| UK fixed bonds | 3,578 | 2,738 |
| Rest of world fixed bonds | 205 | 253 |
| UK index-linked bonds | 6,212 | 4,731 |
| Rest of world index-linked bonds | 139 | 432 |
| | 10,134 | 8,154 |
| Other | | |
| Cash and cash equivalents | 1,336 | 1,018 |
| Derivatives | (255) | 29 |
| Insurance contract | 1,867 | 1,677 |
| Longevity swap | (47) | (51) |
| Other | 657 | 739 |
| | 26,167 | 22,481 |

All equities and bonds have quoted prices in active markets.

d Fair value of scheme assets continued

For APS and NAPS, the composition of the scheme assets is:

| € million | December 31, 2014 | | December 31, 2013 | |
|---|-------------------|---------------|-------------------|---------------|
| | APS | NAPS | APS | NAPS |
| Return seeking investments | 1,713 | 10,552 | 1,664 | 9,047 |
| Liability matching investments | 5,661 | 4,367 | 4,614 | 3,448 |
| | 7,374 | 14,919 | 6,278 | 12,495 |
| Insurance contract and related longevity swap | 1,798 | - | 1,605 | - |
| Other | 370 | 1,282 | 367 | 1,352 |
| Fair value of scheme assets | 9,542 | 16,201 | 8,250 | 13,847 |

For both APS and NAPS, the trustees have ultimate responsibility for decision making on investments matters, including the asset-liability matching strategy. The latter is a form of investing designed to match the movement in pension plan assets with the movement in the projected benefit obligation over time. The trustees' investment committee adopts an annual business plan which sets out investment objectives and work required to support achievement of these objectives. The committee also deals with the monitoring of performance and activities, including work on developing the strategic benchmark to improve the risk return profile of the scheme where possible, as well as having a trigger based dynamic governance process to be able to take advantage of opportunities as they arise. The investment committees review the existing investment restrictions, performance benchmarks and targets, as well as continuing to develop the de-risking and liability hedging portfolio.

The strategic benchmark for asset allocations differentiate between 'return seeking assets' and 'liability matching assets'. Given the respective maturity of each scheme, the proportion for APS and NAPS vary. At December, 2014, the benchmark for APS was 21.2 per cent (2013: 23.7 per cent) in return seeking assets and 78.8 per cent (2013: 76.3 per cent) in liability matching investments; and for NAPS the benchmark was 68 per cent (2013: 68 per cent) in return seeking assets and 32 per cent (2013: 32 per cent) in liability matching investments. Bandwidths are set around these strategic benchmarks that allow for tactical asset allocation decisions, providing parameters for the investment committee and their investment managers to work within.

In addition to this, APS has an insurance contract with Rothesay Life which now covers 24 per cent (2013: 24 per cent) of the pensioner liabilities for an agreed list of members. The insurance contract is based on future increases to pensions in line with RPI inflation and will match future obligations on that basis for that part of the scheme. The insurance contract can only be used to pay or fund employee benefits under the scheme. APS has also secured a longevity swap contract with Rothesay Life, which covers an additional 20 per cent (2013: 20 per cent) of the pensioner liabilities for the same members covered by the insurance contract above. The value of the contract is based on the difference between the value of the payments expected to be received under this contract and the pensions payable by the scheme under the contract.

The fair value of insurance policies which exactly match the amount and timing of some or all benefits payable under the scheme are deemed to be the present value of the related obligations. Longevity swaps are measured at their fair value.

Both schemes use derivative instruments for investment purposes and to manage exposures to financial risks, such as interest rate, foreign exchange and liquidity risks arising in the normal course of business. Exposure to interest rate risk is managed through the use of Inflation-Linked Swap contracts. Foreign exchange forward contracts are entered into to mitigate the risk of currency fluctuations. For NAPS, a strategy exists to provide protection against the equity market downside risk by reducing some of the upside participation.

The asset-liability matching strategy in respect of the Group's other schemes have been determined in accordance with best local practice.

Notes to the consolidated financial statements continued

32 Employee benefit obligations continued

e Present value of scheme liabilities

A reconciliation of the opening and closing balances of the present value of the defined benefit obligations is set out below:

| € million | 2014 | 2013 |
|--|---------------|--------|
| January 1 | 22,485 | 22,784 |
| Current service cost | 203 | 205 |
| Past service cost | - | (170) |
| Interest expense | 1,051 | 933 |
| Remeasurements – financial assumptions | 1,837 | 138 |
| Remeasurements – demographic assumptions | (171) | 7 |
| Benefits paid | (944) | (841) |
| Employee contributions | 106 | 101 |
| Exchange movements | 1,553 | (672) |
| December 31 | 26,120 | 22,485 |

The defined benefit obligation comprises €95 million (2013: €80 million) arising from unfunded plans and €26,025 million (2013: €22,405 million) from plans that are wholly or partly funded.

f Effect of the asset ceiling

A reconciliation of the effect of the asset ceiling representing the IAS 19 irrecoverable surplus in APS is set out below:

| € million | 2014 | 2013 |
|--------------------|------------|------|
| January 1 | 236 | 298 |
| Interest expense | 11 | 12 |
| Remeasurements | 232 | (64) |
| Exchange movements | 23 | (10) |
| December 31 | 502 | 236 |

g Actuarial assumptions

The principal assumptions used for the actuarial valuations were as follows:

| Per cent per annum | 2014 | | | 2013 | | |
|--|-------------|-------------|------------------|------|------|---------------|
| | APS | NAPS | Other schemes | APS | NAPS | Other schemes |
| Discount rate | 3.45 | 3.80 | 3.4 – 4.1 | 4.40 | 4.70 | 4.5 – 4.9 |
| Rate of increase in pensionable pay ¹ | 2.85 | 2.95 | 3.5 – 4.0 | 3.25 | 3.30 | 3.5 – 4.3 |
| Rate of increase of pensions in payment | 1.85 | 1.95 | 1.5 – 3.5 | 2.50 | 2.55 | 1.5 – 3.3 |
| RPI rate of inflation ² | 2.85 | 2.95 | 3.0 – 3.1 | 3.25 | 3.30 | 3.0 – 3.5 |
| CPI rate of inflation ² | 1.85 | 1.95 | 2.1 – 3.0 | 2.50 | 2.55 | 2.5 – 3.0 |

¹ Rate of increase in pensionable pay is assumed to be in line with the RPI rate of inflation.

² The inflation rate assumptions for NAPS and APS are based on the difference between the yields on index-linked and fixed-interest long-term government bonds. The inflation assumptions are used to determine the rate of increase for pensions in payment and the rate of increase in deferred pensions where there is such an increase.

Rate of increase in healthcare costs is based on medical trend rates of 7.5 per cent grading down to 5.0 per cent over five years (2013: 8.0 per cent to 5.0 per cent over six years).

In the UK, mortality rates are calculated using the standard SAPS mortality tables produced by the CMI for APS and NAPS. The standard mortality tables were selected based on the actual recent mortality experience of members and were adjusted to allow for future mortality changes. The current longevities underlying the values of the scheme liabilities were as follows:

| Mortality assumptions | 2014 | 2013 |
|----------------------------------|-------------|------|
| Life expectancy at age 60 for a: | | |
| – male currently aged 60 | 28.3 | 28.3 |
| – male currently aged 40 | 29.8 | 29.7 |
| – female currently aged 60 | 29.8 | 29.7 |
| – female currently aged 40 | 32.3 | 32.2 |

At December 31, 2014, the weighted-average duration of the defined benefit obligation was 12 years for APS (2013: 12 years) and 19 years for NAPS years (2013: 19 years).

For the US PRMB, mortality rates were based on the RP-14 mortality tables.

h Sensitivity analysis

Reasonable possible changes at the reporting date to significant actuarial assumptions, holding other assumptions constant, would have affected the present value of scheme liabilities by the amounts shown:

| € million | Increase in net pension liability |
|--|-----------------------------------|
| Discount rate (decrease of 10 basis points) | 423 |
| Future salary growth (increase of 10 basis points) | 78 |
| Future pension growth (increase of 10 basis points) | 325 |
| Future mortality rate – one year increase in life expectancy | 708 |

Although the analysis does not take into account the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

i Funding

Pension contributions for APS and NAPS were determined by actuarial valuations made at March 31, 2012 using assumptions and methodologies agreed between the Group and the Trustees of each scheme. At the date of the actuarial valuation, the actuarial deficits of APS and NAPS amounted to €864 million and €3,380 million respectively. In order to address the deficits in the schemes, the Group has also committed to the following undiscounted deficit payments:

| € million | APS | NAPS |
|---|------------|--------------|
| Within one year | 70 | 44 |
| Between two and five years | 280 | 909 |
| Between five and ten years | 227 | 1,698 |
| More than 10 years | - | 488 |
| Total expected deficit payments for APS and NAPS | 577 | 3,139 |

The Group has determined that the minimum funding requirements set out above for APS and NAPS will not be restricted. The present value of the contributions payable is expected to be available as a refund or a reduction in future contributions after they are paid into the plan. This determination has been made independently for each plan.

Deficit payments in respect of local arrangements outside of the UK have been determined in accordance with best local practice.

In total, the Group expects to pay €315 million in employer contributions and deficit payments to its post-retirement benefit plans in 2015. This includes expected employer contributions of €79 million to APS (of which €70 million relates to the funding shortfall) and €213 million to NAPS (of which €44 million relates to the funding shortfall). This excludes any additional deficit contributions which may be required if British Airways declares a dividend.

Notes to the consolidated financial statements continued

33 Contingent liabilities and guarantees

There were contingent liabilities at December 31, 2014 in respect of guarantees and indemnities entered into as part of the normal course of the Group's business. No material losses are likely to arise from such contingent liabilities and guarantees. The Group also has the following claims:

Cargo

The Group is party to a number of legal proceedings in the English courts relating to a decision by the European Commission in 2010 which fined British Airways and ten other airline groups for participating in a cartel in respect of air cargo prices. The European Commission's decision is currently the subject of appeal, but has led to a large number of claimants seeking, in proceedings brought in the English courts and elsewhere, to recover damages from British Airways and the other airlines which they claim arise from the alleged cartel activity. It is not possible at this stage to predict the outcome of the proceedings, which British Airways will vigorously defend. British Airways has, or will, join in to the proceedings the other airlines alleged to have participated in cartel activity to obtain a contribution to such damages, if any, awarded.

The Group is also party to similar litigation in a number of other jurisdictions, including Germany, the Netherlands, Israel and Canada, together with a number of other airlines. At present, the outcome of the proceedings is unknown. In each case, the precise effect, if any, of the alleged cartelising activity on the claimants will need to be assessed.

On the basis of latest information obtained and advice from legal counsel, we are currently unable to determine whether the Group has an existing obligation as a result of the past event.

Tax

The Group files income tax returns in many jurisdictions throughout the world. Various tax authorities are currently examining the Group's income tax returns. Tax returns contain matters that could be subject to differing interpretations of applicable tax laws and regulations and the resolution of tax positions through negotiations with relevant tax authorities, or through litigation, can take several years to complete. While it is difficult to predict the ultimate outcome in some cases, the Group does not anticipate that there will be any material impact on the Group's financial position or results of operations.

Other

The Group has certain contingent liabilities and guarantees, which at December 31, 2014 amounted to €138 million (2013: €124 million).

The Group has contingent liabilities in respect of certain claims and litigation in the normal course of business, which if realised are not expected to have a material adverse effect on the Group's consolidated financial position, results of operations or cash flows. The Group recognises provisions for liabilities when it is more likely than not that a settlement will be required and the value of such a payment can be reliably measured.

34 Related party transactions

The following transactions took place with related parties for the financial years to December 31:

Sales and purchases of goods and services

| € million | 2014 | 2013 |
|---|------|------|
| Sales of goods and services | | |
| Sales to associates | 16 | 78 |
| Sales to significant shareholders | - | - |
| Purchases of goods and services | | |
| Purchases from associates | 59 | 61 |
| Purchases from significant shareholders | - | - |

Year end balances arising from sales and purchase of goods and services

| € million | 2014 | 2013 |
|--|------|------|
| Receivables from related parties | | |
| Amounts owed by associates | 6 | 7 |
| Amounts owed by significant shareholders | - | - |
| Payables to related parties | | |
| Amounts owed to associates | 6 | 6 |
| Amounts owed to significant shareholders | - | - |

Vueling is no longer an associate of the Group since the acquisition on April 26, 2013.

During the year to December 31, 2014 British Airways met certain costs of administering its retirement benefit plans, including the provision of support services to the Trustees. Costs borne on behalf of the retirement benefit plans amounted to €6 million (2013: €6 million) in relation to the costs of the Pension Protection Fund levy.

In 2012 the Group entered into a hedging transaction at arm's length with Nomura, a related party to IAG as there is a common Non-Executive Board member. The transaction was a risk management exercise to protect the value of the 33,562,331 ordinary shares that the Group holds in Amadeus. During the third quarter of 2014, the Group entered into an agreement to settle the hedging transaction over its ownership interest in Amadeus and sell its entire shareholding. At December 31, 2014 the Group had settled 99 per cent of the transaction.

The Group has transactions with related parties that are conducted in the normal course of the airline business, which include the provision of airline and related services. All such transactions are carried out on an arm's length basis.

For the year to December 31, 2014, the Group has not made any provision for doubtful debts arising relating to amounts owed by related parties (2013: nil).

Further details of the main transactions between the Group, associates and significant shareholders are provided as follows.

Associates

Total sales to associates of €16 million during the year (2013: €78 million) consisted primarily of sales for airline related services to Dunwoody Airline Services (Holding) Limited ('Dunwoody') of €12 million (2013: €12 million) and services to Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. ('Medios de Pago') of €2 million (2013: €2 million). 2013 included pre-acquisition sales to Vueling of €61 million.

Purchases from associates totalling €59 million (2013: €61 million) mainly included €26 million of airport auxiliary services purchased from Multiservicios Aeroportuarios, S.A. (2013: €30 million), €11 million of handling services provided by Dunwoody (2013: €10 million), €7 million of maintenance services received from Serpista, S.A. (2013: €8 million), €7 million of services received from International Supply Management, S.L. (2013: €7 million) and €5 million of maintenance services received from Madrid Aerospace Services, S.L. (2013: €5 million).

The Group had amounts owed by associates at December 31, 2014 for airline related services rendered, that included balances with Iber-América Aerospace, LLC of €2 million (2013: €2 million), Medios de Pago of €1 million (2013: €2 million), Madrid Aerospace Services of €1 million (2013: €1 million) and Dunwoody of €1 million (2013: €1 million).

At December 31, 2014 amounts owed to associates consisted primarily of €3 million to Multiservicios Aeroportuarios (2013: €3 million), €1 million due to Dunwoody (2013: €1 million) and €1 million to Serpista (2013: €1 million).

Significant shareholders

In this instance significant shareholders are those parties who have the power to participate in the financial and operating policy decisions of the Group, as a result of their shareholdings in the Group, but who do not have control over these policies.

There were no sales to and no purchases from significant shareholders during the year (2013: nil). There were also no purchases from significant shareholders during the year (2013: nil).

The Group had no receivables balance and no payables balance with significant shareholders at December 31, 2014 (2013: nil).

In addition to the above, during the year, the Group had transactions with shareholders holding a participation of 3 to 5 per cent of less than €1 million (2013: €2 million). At December 31, 2014 the Group had cash deposit balances with shareholders, holding a participation of between 3 to 5 per cent, of €65 million (2013: €209 million).

On January 30, 2015 Qatar Airways announced that it has acquired a 9.99 per cent shareholding in IAG.

Notes to the consolidated financial statements continued

34 Related party transactions continued

Board of Directors and Management Committee remuneration

Compensation received by the Group's key management personnel, which includes the Board of Directors and Management Committee, in 2014 and 2013 is as follows:

| € million | December 31, 2014 | December 31, 2013 |
|---------------------------------------|----------------------|----------------------|
| Base salary, fees and benefits | | |
| Board of Directors' remuneration | 13 | 16 |
| Management Committee remuneration | 18 | 8 |
| | 31 | 24 |

The Board of Directors includes remuneration for two Executive Directors (2013: four Executive Directors).

The Management Committee includes remuneration for eight members (2013: six members).

The Company provides life insurance for all Executive Directors and the Management Committee. For the year to December 31, 2014 the Company's obligation was €48,000 (2013: €37,000).

At December 31, 2014 the transfer value of accrued pensions covered under defined benefit obligation schemes, relating to the Management Committee totalled €7 million (2013: €5 million).

No loans or credit transactions were outstanding with Directors or officers of the Group at December 31, 2014 (2013: nil).

35 Post balance sheet events

On January 27, 2015 IAG submitted a proposal to make an offer for Aer Lingus Group plc of €2.55 per share, structured as a cash payment of €2.50 per share, payable upon completion, in addition to an ordinary dividend of €0.05 per share. The proposal is subject to certain pre-conditions.

SPANISH CORPORATE GOVERNANCE REPORT

According to the provisions of Article 540 of the Spanish Companies Act, the Company's presents the Spanish Corporate Governance Report, which provides a detailed explanation of the structure of its governance and its operation. This report has been prepared following the model established by the Comisión Nacional del Mercado de Valores for this purpose.

In this section

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SPANISH CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

A OWNERSHIP STRUCTURE

A.1 Complete the following table on the company's share capital:

| Date of last modification | Share capital (€) | Number of shares | Number of voting rights |
|---------------------------|-------------------|------------------|-------------------------|
| October 7, 2013 | 1,020,039,261.50 | 2,040,078,523 | 2,040,078,523 |

Indicate whether different types of shares exist with different associated rights:

No

| Type | Number of shares | Nominal amount | Nominal amount of voting rights | Other rights |
|------|------------------|----------------|---------------------------------|--------------|
|------|------------------|----------------|---------------------------------|--------------|

A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding directors:

| Name or corporate name of shareholder | Number of direct voting rights | Indirect voting rights | | % of total voting rights |
|---|--------------------------------|--|-------------------------|--------------------------|
| | | Name of direct holder | Number of voting rights | |
| Standard Life Investments (Holdings) Limited | 60,639,188 | Standard Life Investments Limited and Ignis Investment Services Limited | 61,942,109 | 6.008% |
| Europacific Growth Fund | 107,329,400 | - | - | 5.261% |
| Capital Research and Management Company | - | Collective investment institutions managed by Capital Research and Management Company | 102,997,951 | 5.049% |
| Templeton Global Advisors Limited | - | Collective investment institutions managed by Templeton Global Advisors Limited | 99,005,819 | 4.853% |
| BlackRock Inc. | - | BlackRock Investment Management (UK) Ltd. | 91,539,438 | 4.487% |
| Legal & General Investment Management Limited | 54,407,837 | Legal & General (Unit Trust Managers) Limited | 11,611,554 | 3.236% |
| Causeway Capital Management LLC | - | Chase Nominees Ltd., Mellon Bank N.A., Northern Trust Co. AVFC, London State Street Bank & Trust Co. The Bank of New York Mellon SA/NV | 61,256,070 | 3.003% |
| Lansdowne Partners International Limited | - | Collective investment institutions managed by Lansdowne Developed Markets Master Fund Ltd. | 44,707,522 | 2.191% |
| Invesco Limited | - | Mutual benefit societies and pension funds managed by Invesco Limited and its subsidiaries | 22,064,264 | 1.082% |
| Lansdowne Developed Markets Master Fund Ltd. | - | Lansdowne Developed Markets Master Fund Ltd. | 20,676,395 | 1.014% |

Indicate the most significant movements in the shareholder structure during the year:

| Name or corporate name of shareholder | Date of the transaction | Description of the transaction |
|--|-------------------------|---|
| Templeton Global Advisors Limited | January 21, 2014 | Decrease to below 5% of the share capital |
| Causeway Capital Management, LLC | June 5, 2014 | Increase to above 3% of the share capital |
| Invesco Limited | February 1, 2014 | Increase to above 1% of the share capital |
| Standard Life Investments (Holdings) Limited | August 8, 2014 | Increase to above 5% of the share capital |
| FIL Limited | January 8, 2014 | Decrease to below 1% of the share capital |
| Lansdowne Partners International Limited | July 1, 2014 | Increase to above 2% of the share capital |

A.3 Complete the following tables on company directors holding voting rights through company shares:

| Name or corporate name of director | Number of direct voting rights | Indirect voting rights | | % of total voting rights |
|------------------------------------|--------------------------------|------------------------|-------------------------|--------------------------|
| | | Name of direct holder | Number of voting rights | |
| Antonio Vázquez Romero | 512,291 | - | - | 0.025% |
| Sir Martin Broughton | 155,365 | Jocelyn Broughton | 19,545 | 0.009% |
| Willie Walsh | 730,198 | - | - | 0.036% |
| César Alierta Izuel | 1,000,000 | - | - | 0.049% |
| Patrick Cescau | - | - | - | 0.000% |
| Enrique Dupuy de Lôme Chávarri | 113,637 | - | - | 0.006% |
| Baroness Kingsmill | 2,000 | - | - | 0.000% |
| James Lawrence | 216,500 | - | - | 0.011% |
| María Fernanda Mejía Campuzano | 100 | - | - | 0.000% |
| José Pedro Pérez-Llorca | 408 | - | - | 0.000% |
| Kieran Poynter | - | - | - | 0.000% |
| Dame Marjorie Scardino | 100 | - | - | 0.000% |
| Alberto Terol Esteban | 9,200 | - | - | 0.000% |

% of total voting rights held by the Board of Directors: 0.136%

Complete the following tables on company's share rights held by the company's directors:

| Name or corporate name of director | Number of direct rights | Indirect rights | | Number of equivalent shares | % of total voting rights |
|------------------------------------|-------------------------|-----------------|-------------------------|-----------------------------|--------------------------|
| | | Direct holder | Number of voting rights | | |
| Willie Walsh | 2,331,927 | - | - | 2,331,927 | 0.114% |
| Enrique Dupuy de Lôme Chávarri | 909,934 | - | - | 909,934 | 0.045% |

Spanish corporate governance report continued

- A.4** Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:

| Related-party name or corporate name | Type of relationship | Brief description |
|---|----------------------|-------------------|
| - | - | - |

- A.5** Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:

| Related-party name or corporate name | Type of relationship | Brief description |
|--|----------------------|---|
| BlackRock Investment Management (UK) Ltd. | Commercial | Cash deposits invested as part of liquidity fund portfolio |

- A.6** Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Spanish Companies Law. Provide a brief description and list the shareholders bound by the agreement, as applicable:

No

| Parts bound by agreement | % of share capital affected | Brief description of agreement |
|--------------------------|-----------------------------|--------------------------------|
| - | - | - |

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

No

| Shareholders involved in concerted action | % of share capital affected | Brief description of concerted action |
|---|-----------------------------|---------------------------------------|
| - | - | - |

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year:

Non applicable.

- A.7** Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company in accordance with article 4 of the Securities' Market Law: If so, identify:

No

| Name or corporate name |
|------------------------|
| - |
| Remarks |
| - |

A.8 Complete the following tables on the company's treasury stock:

At year-end:

| Number of shares held directly | Number of shares held indirectly (*) | % of total share capital |
|--------------------------------|--------------------------------------|--------------------------|
| 1,204,593 | 0 | 0.0590 % |

(*) Through:

| Name or corporate name of direct stake | Number of shares held directly |
|--|--------------------------------|
| - | - |
| Total | - |

Give details of any significant changes during the year, pursuant to Royal Decree 1362/2007:

| Date of notification | Total number of direct shares acquired | Total number of indirect shares acquired | % of total share capital |
|----------------------|--|--|--------------------------|
| - | - | - | - |

A.9 Give details of the applicable conditions and time periods governing any resolutions of the Shareholders' Meeting to issue, buy back and/or transfer treasury stock.

The Annual Shareholders' Meeting held on June 18, 2014, granted authorisation to the Board of Directors of International Consolidated Airlines Group, S.A. ("IAG" or the "Company") for the derivative acquisition of shares of the Company in the context of the provisions of article 146 of the Spanish Companies Law, according to the applicable laws and subject to the following conditions:

- a) Acquisitions shall be made directly by IAG or indirectly through its subsidiaries, on the same terms.
- b) Acquisitions may be made by means of sale and purchase, exchange or any other legally permitted transaction.
- c) The maximum aggregate number of ordinary shares that may be acquired shall be the lower of the maximum amount permitted by law and 10% of the amount of the issued ordinary share capital of the Company as of June 18, 2014.
- d) The minimum price which may be paid for an ordinary share is zero.
- e) The maximum price which may be paid for an ordinary share is the highest of:
 - i) an amount equal to the result of increasing by 5 per cent the average share price of the ordinary shares on the relevant stock exchange for the five business days immediately preceding the day on which the ordinary share is contracted to be purchased; and
 - ii) the higher of the price of the last independent trade and the highest current independent bid the trading platforms at the time the purchase is made;

on

in each case, exclusive of expenses.
- f) The authorisation was granted until the next Annual Shareholders' Meeting to be held on 2015 (or for a period of fifteen months as from June 18, 2014, if earlier).

The resolution of the Annual Shareholders' Meeting held on June 18, 2014, places expressly on record that for the purposes of provisions of article 146 of the Spanish Companies Law, the shares acquired pursuant to the authorisation mentioned before may be delivered directly to the employees or Directors of the Company or its subsidiaries, or as a result of the exercise of option rights held thereby.

A.10 Give details of any restriction on the transfer of securities or voting rights. Indicate, in particular, the existence of any restrictions on the takeover of the company by means of share purchases on the market.

Yes

Description of restrictions

The By-laws establish a series of special obligations concerning disclosure of share ownership as well as certain limits on shareholdings, taking into account the ownership and control restrictions provided for in applicable legislation and bilateral air transport treaties signed by Spain and the UK.

Disclosure obligations

In accordance with article 7.2 b) of the By-laws, shareholders must notify the Company of any acquisition or disposal of shares or of any interest in the shares of the Company that directly or indirectly entails the acquisition or disposal of a stake equal to or over 0.25 per cent of the Company's capital stock, or of the voting rights corresponding thereto, as well as the creation of any charges on shares (or interests in shares) or other encumbrances whatsoever, for the purposes of the exercise of the rights conferred by them.

In addition, in accordance with article 10.1 of the By-laws, the Company may require any shareholder or any other person with a confirmed or apparent interest in shares of the Company to disclose to the Company in writing such information as the Company shall require relating to the beneficial ownership of or any interest in the shares in question, as lies within the knowledge of such shareholder or other person, including any information that the Company deems necessary or desirable in order to determine the nationality of the holders of said shares or other person with an interest in the Company's shares, or whether it is necessary to take steps in order to protect the operating rights of the Company or its operating affiliates.

In the event of the breach of these obligations by a shareholder or any other person with a confirmed or apparent interest in the Company's shares, the Board of Directors may suspend at any time the voting and other political rights of the relevant person in respect of the shares in relation to which the default has occurred and the relevant shareholder will not be entitled to exercise any voting rights or any political rights at any Shareholders' Meeting. If the shares with respect to which the aforementioned obligations have been breached represent a percentage equal to or greater than 0.25 per cent of the Company's capital stock, the Board of Directors may also direct that no transfer of any such shares shall be registered.

Limitations on ownership of the Company shares

In the event that the Board of Directors deems it necessary or appropriate to adopt measures to protect an operating right of the Company or of its operating subsidiaries, in light of the nationality of its shareholders or any persons with an interest in the Company's shares, it may adopt any of the measures provided for such purpose in article 11 of the By-laws, including the determination of a maximum number of shares that may be held by non-EU shareholders, which may not be less than 40 per cent of the Company's capital stock under any circumstances. At December 31, 2014, 36.6 per cent of the ordinary shares of the Company were held by non-EU shareholders.

In the event that the Board has specified a maximum number of shares that may be held by non-EU shareholders, and identified those shares the holding of which gave rise or contributed to such a determination, the Board may also (i) agree on the suspension of voting and other political rights of the holder of the relevant shares, and (ii) request that the holders dispose of the corresponding shares so that no non-EU person may directly or indirectly own such shares or have an interest in the same. If such transfer is not performed on the terms provided for in the By-laws, the Company may acquire the corresponding shares (for their subsequent redemption) pursuant to applicable legislation. This acquisition must be performed at the lower of the following prices: (a) the book value of the corresponding shares according to the latest published audited balance sheet of the Company; and (b) the middle market quotation for an ordinary share of the Company as derived from the London Stock Exchange's Daily Official List for the business day on which they were acquired by the relevant non-EU person.

A.11 Indicate whether the shareholders' meeting has agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Law 6/2007.

No

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

Non applicable

A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

No

If so, identify the various classes of shares and, for each class of shares, the rights and obligations they confer.

Non applicable

B SHAREHOLDERS' MEETING

B.1 Indicate, and as applicable, describe the difference in relation to the minimum rules established in the Spanish Companies Law (LSC) regarding the quorum required for constitution of the shareholders' meeting.

No

| | Quorum % other than that established in article 193 of the LSC for general cases | Quorum % other than that established in article 194 of the LSC for the special cases described in article 194 |
|---------------------------------|--|---|
| Quorum required for first call | – | – |
| Quorum required for second call | – | – |

Description of differences

–

B.2 Indicate and, as applicable, describe any differences in relation to the rules established in the Spanish Companies Law (LSC) regarding the system of adopting corporate resolutions:

Yes

Describe how they differ from the rules established in the LSC.

| | Qualified majority other than that established in article 201.2 of the LSC for general cases described in 194.1 of the LSC | Other cases requiring a qualified majority |
|---|--|--|
| % set by company for adopting corporate resolutions | – | Affirmative vote of more than half of the voting shares present in person or by proxy at the Shareholders' Meeting |

Describe the differences

Article 201.1 of the Corporate Enterprises Law, as amended by the law 31/2014, December 3, amending the Corporate Enterprises Law in order to enhance corporate governance, establishes that in public limited companies corporate resolutions will be adopted by simple majority of the votes of shareholders present at the meeting in person or by proxy, a resolution being understood to have been adopted when it obtains more favourable than unfavourable votes of the capital present in person or by proxy.

Article 31.2 of the Company's By-Laws and article 32.2 of the Shareholders' Meeting Regulations establish that the approval of resolutions shall require the affirmative vote of more than half of the voting shares present in person or by proxy at the Shareholders' Meeting, without prejudice to cases in which these Corporate Bylaws or the applicable law requires a greater majority.

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- B.3** Indicate the rules governing amendments to the company's by-laws. In particular, indicate the majorities required to amend the by-laws and, if applicable, the rules for protecting shareholders' rights when changing the by-laws.

The procedure for amending the By-laws and the applicable rules for protecting shareholders' rights when changing the By-laws are governed by the provisions established in the Corporate Enterprises Law.

- B.4** Indicate the attendance figures for the shareholders' meetings held during the year corresponding to this report and for the previous year.

| Date of shareholders' meeting | Attendance data | | | | |
|-------------------------------|-----------------------|------------|------------------|--------|---------|
| | % attending in person | % by proxy | % remote voting | | Total |
| | | | Electronic means | Other | |
| June 18, 2014 | 0.123% | 52.873% | 0.005% | 2.792% | 55.793% |
| September 26, 2013 | 0.056% | 57.735% | 0.005% | 0.618% | 58.414% |
| June 20, 2013 | 0.078% | 64.480% | 0.003% | 3.296% | 67.857% |

- B.5** Indicate whether the by-laws impose any minimum requirement on the number of shares required to attend the shareholders' meetings:

No

Number of shares required to attend the shareholders' meetings

—

- B.6** Indicate whether decisions involving a fundamental corporate change ("subsidiarisation", acquisitions/disposals of key operating assets, operations that effectively entail the company's liquidation) must be submitted to the shareholders' meeting for approval or ratification even when not expressly required under company Law.

Yes

- B.7** Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on shareholders' meetings which must be made available to shareholders on the website.

The Company corporate governance information is available on the Company's website: www.iairgroup.com on section "Corporate Governance".

C COMPANY MANAGEMENT STRUCTURE

C.1 Board of Directors

- C.1.1** List the maximum and minimum number of directors included in the by-laws:

| | |
|-----------------------------|----|
| Maximum number of directors | 14 |
| Minimum number of directors | 9 |

C.1.2 Complete the following table with board members:

| Name or corporate name of director | Representative | Position on the board | Date of first appointment | Date of last appointment | Election procedure |
|------------------------------------|----------------|-------------------------|---------------------------|--------------------------|-------------------------------------|
| Antonio Vázquez Romero | - | Chairman | May 25, 2010 | June 18, 2014 | Voting at the Shareholders' Meeting |
| Sir Martin Broughton | - | Deputy Chairman | May 25, 2010 | June 18, 2014 | Voting at the Shareholders' Meeting |
| Willie Walsh | - | Chief Executive Officer | May 25, 2010 | June 18, 2014 | Voting at the Shareholders' Meeting |
| César Alierta Izuel | - | Director | September 27, 2010 | June 18, 2014 | Voting at the Shareholders' Meeting |
| Patrick Cescau | - | Director | September 27, 2010 | June 18, 2014 | Voting at the Shareholders' Meeting |
| Enrique Dupuy de Lôme Chávarri | - | Director | September 26, 2013 | June 18, 2014 | Voting at the Shareholders' Meeting |
| Baroness Kingsmill | - | Director | September 27, 2010 | June 18, 2014 | Voting at the Shareholders' Meeting |
| James Lawrence | - | Director | September 27, 2010 | June 18, 2014 | Voting at the Shareholders' Meeting |
| María Fernanda Mejía Campuzano | - | Director | February 27, 2014 | June 18, 2014 | Voting at the Shareholders' Meeting |
| José Pedro Pérez-Llorca | - | Director | September 27, 2010 | June 18, 2014 | Voting at the Shareholders' Meeting |
| Kieran Poynter | - | Director | September 27, 2010 | June 18, 2014 | Voting at the Shareholders' Meeting |
| Dame Marjorie Scardino | - | Director | December 19, 2013 | June 18, 2014 | Voting at the Shareholders' Meeting |
| Alberto Terol Esteban | - | Director | June 20, 2013 | June 18, 2014 | Voting at the Shareholders' Meeting |

Total number of directors: 13

Indicate any board members who left the board during this information period:

| Name or corporate name of director | Status of the director at the time of leaving | Leaving date |
|------------------------------------|---|-----------------|
| Luis Gallego Martín | Executive director | January 1, 2014 |
| Keith Williams | Executive director | January 1, 2014 |

C.1.3 Complete the following tables on board members and their respective categories.

EXECUTIVE DIRECTORS

| Name or corporate name of director | Committee proposing appointment | Position held in the company organization chart |
|------------------------------------|---------------------------------|---|
| Willie Walsh | Nominations Committee | Chief Executive Officer |
| Enrique Dupuy de Lôme Chávarri | Nominations Committee | Chief Financial Officer |

Total number of executive directors 2

% of the total of the board 15.38%

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PROPRIETARY DIRECTORS

| Name or corporate name of director | Committee proposing appointment | Name or corporate name of significant shareholder represented or proposing appointment |
|---------------------------------------|---------------------------------|--|
| – | – | – |
| Total number of proprietary directors | | – |
| % of the total of the board | | – |

EXTERNAL INDEPENDENT DIRECTORS

| Individual or corporate name of Director | Profile |
|--|--|
| Sir Martin Broughton | <p><u>Key areas of prior experience:</u> consumer, finance, governance.</p> <p><u>Current external appointments:</u> Chairman, Sports Investment Partners.</p> <p><u>Previous relevant experience:</u> Chairman, British Airways 2004-2013. Director, British Airways since 2000. President, Confederation of British Industry 2007-2009. Chairman, Liverpool FC 2010. Chairman, British Horseracing Board 2004-2007. Chairman, British American Tobacco 1997-2004 following its demerger from BAT Industries, previously Chief Executive Officer, BAT Industries 1993-1997 and member of the Board since 1988. Other executive positions at British American Tobacco 1971-1993.</p> |
| César Alierta Izuel | <p><u>Key areas of prior experience:</u> finance, telecommunications, consumer.</p> <p><u>Current external appointments:</u> Executive Chairman, Telefónica Group. Non-Executive Director, China Unicom. Member, Columbia Business School Board of Overseers. Chairman, Social Board of the Spanish UNED.</p> <p><u>Previous relevant experience:</u> Non-Executive Director, Telefónica 1997-2000. Executive Chairman, Altadis Group 1996-2000. Member of the Board, Telecom Italia 2007-2013. Member of the Board, Madrid Stock Exchange 1991-1996. Chairman, Spanish Financial Analysts' Association 1991-1996. Chairman and founder, Beta Capital 1985-1996.</p> |
| Patrick Cescau | <p><u>Key areas of prior experience:</u> consumer, finance, sales/marketing, governance.</p> <p><u>Current external appointments:</u> Non-Executive Chairman, InterContinental Hotel Group. Senior Independent and Non-Executive Director, Tesco. Trustee, LeverHulme Trust.</p> <p><u>Previous relevant experience:</u> Group Chief Executive, Unilever 2005-2008. Chairman, Unilever PLC. Deputy Chairman, Unilever NV. Finance Director and other executive positions (including a number of Unilever major operating companies and divisions in the USA, Indonesia and Portugal), having joined the Unilever Group in 1973. Senior Independent and Non-Executive Director, Pearson Plc 2002-2012. Director, INSEAD in 2009-2013.</p> |
| Baroness Kingsmill | <p><u>Key areas of prior experience:</u> government, legal and regulatory affairs.</p> <p><u>Current external appointments:</u> Non-Executive Director, EON Supervisory Board. Vice Chair and Senior Independent Director, and Chairman of Nominations and Ethics Committees, APR Energy. Non-Executive Director, Telecom Italia. Member of the International Advisory Board, IESE Business School. Member of the House of Lords since 2006.</p> <p><u>Previous relevant experience:</u> Non-Executive Director, British Airways 2004-2010. Deputy Chairman, Competition Commission 1997-2003. Chairman, Department of Trade and Industry's Accounting for People task force 2003.</p> |

| Individual or corporate name of Director | Profile |
|--|---|
| James Lawrence | <p><u>Key areas of prior experience:</u> finance, consumer, corporate governance.</p> <p><u>Current external appointments:</u> Chairman, Rothschild North America.</p> <p><u>Previous relevant experience:</u> Non-Executive Director, British Airways 2006-2010. CEO, Rothschild North America and Co-Head of Global Investment Banking 2010-2012. Executive Director and Chief Financial Officer, Unilever 2007-2010. Vice Chairman, Chief Financial Officer and Head of International, General Mills 1998-2007. Executive Vice President and Chief Financial Officer, Northwest Airlines 1996-1998. Executive Vice President and other executive positions, Pepsi-Cola 1992-1996. Chairman and Co-Founder, LEK Consulting 1983-1992. Partner, Bain & Company 1977-1983.</p> |
| María Fernanda Mejía Campuzano | <p><u>Key areas of prior experience:</u> Consumer, customer development, strategic planning, supply chain, innovation and marketing communications.</p> <p><u>Current external appointments:</u> Senior Vice President and President of Kellogg Latin America, Corporate Officer and member of Kellogg's Global Leadership Team. Board Member of the Council of the Americas.</p> <p><u>Previous relevant experience:</u> Colgate-Palmolive Co. – Vice-President and General Manager Global Personal Care and Corporate Fragrance Development 2010-2011, Vice-President Marketing and Innovation Europe/South Pacific Division 2005-2010, President and CEO Spain and Spain Holding Company 2003-2005, General Manager Hong Kong and a Director Greater China Management team 2002-2003, Marketing Director Venezuela 2000-2002, Marketing Director Ecuador 1998-2000.</p> |
| José Pedro Pérez-Llorca | <p><u>Key areas of prior experience:</u> diplomacy, legal services, government affairs.</p> <p><u>Current external appointments:</u> Founding Partner, Pérez-Llorca law firm. International arbitrator. Chairman, Board of Trustees of the Prado Museum. Member of the Board of Hispania Activos Inmobiliarios, S.A.</p> <p><u>Previous relevant experience:</u> Chairman, AEG Ibérica 1983-1991. Chairman, Urquijo Leasing 1983-1990. Non-Executive Director, Telefónica 1996-2001. Member, Governing Council for the Madrid Stock Exchange 1986-1991. Minister with cabinet rank in several departments, including Foreign Affairs 1979-1983. Founding member of the UCD party and President of the Parliamentary Group of the Centrist Parliamentary Group in the Congress of Deputies. Chairman, INVEX 1974-1977. Career diplomat and congressional attorney. He is one of the seven framers of the current Spanish Constitution.</p> |
| Kieran Poynter | <p><u>Key areas of prior experience:</u> professional services, finance services.</p> <p><u>Current external appointments:</u> Chairman, F&C Asset Management PLC. Chairman, Nomura International PLC. Non-Executive Director and Chairman of the Audit Committee, British American Tobacco.</p> <p><u>Previous relevant experience:</u> Member, Advisory Committee for the Chancellor of the Exchequer on the competitiveness of the UK financial services sector 2009-2010. Member, President's committee of the CBI 2000-2008. Chairman and Senior Partner, PricewaterhouseCoopers 2000-2008. Managing Partner, PricewaterhouseCoopers 1998-2000 and other executive positions at PricewaterhouseCoopers 1982-1998.</p> |

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| Individual or corporate name of Director | Profile |
|--|--|
| Dame Marjorie Scardino | <p><u>Key areas of prior experience:</u> communications, digital and media, legal services.</p> <p><u>Current external appointments:</u> Non-Executive Director, Twitter, Inc. Member, charitable boards including The MacArthur Foundation, Oxfam Great Britain (Chairman), and The Carter Center. Member, Board of the Royal College of Art. Member, Advisory Council of the Massachusetts Institute of Technology Media Lab. Member, Board of Bridge Schools (Kenya).</p> <p><u>Previous relevant experience:</u> Chief Executive Officer, Pearson PLC 1997- 2012. Chief Executive Officer, The Economist Group from 1993-1996. President, The Economist Group US 1985-1993. Lawyer practising in the US 1975-1985.</p> |
| Alberto Terol Esteban | <p><u>Key areas of prior experience:</u> finance, professional services, information technology, hospitality industry.</p> <p><u>Current external appointments:</u> Non-Executive Director and Chairman of the Audit Committee, Indra. Non-Executive Director and Chairman of the Audit Committee, OHL. Non-Executive Director and Chairman of the Audit Committee, AKTUA. Non-Executive Director and Chairman of the Audit Committee, N+1,</p> <p><u>Previous relevant experience:</u> Global Executive Committee Deloitte 2007-2009. Managing Partner, EMEA Deloitte 2007-2009. Managing Partner, Global Tax & Legal Deloitte 2007-2009. Member, Global Management Committee Deloitte 2003-2007. Managing Partner, Latin America Deloitte 2003-2007. Managing Partner, Integration Andersen Deloitte 2002-2003, Managing Partner, Europe Arthur Andersen 2001-2002. Managing Partner, Global Tax & Legal Arthur Andersen 1997-2001. Managing Partner, Garrigues 1997-2000. International Senior Advisor BNP Paribas 2011 – 2014.</p> |
| Total number of external independent directors | 10 |
| % of the board | 76.92% |

List any external independent directors who receive from the company or group any amount or payment other than standard director remuneration or who maintain or have maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained the said relationship.

No

If applicable, include a justified statement from the board detailing the reasons why the said director may carry on their duties as an external independent director.

| Name or corporate name of director | Description of the relationship | Justified statement |
|------------------------------------|---------------------------------|---------------------|
| - | - | - |

OTHER NON-EXECUTIVE DIRECTORS

| Name or corporate name of director | Committee notifying or proposing appointment |
|------------------------------------|--|
| Antonio Vázquez Romero | Nomination Committee |

| | |
|---|-------|
| Total number of other non-executive directors | 1 |
| % of the total of the board | 7.69% |

List the reasons why these cannot be considered proprietary or external independent directors and detail their relationships with the company, its executives or shareholders.

| Name or corporate name of director | Reasons | Company, executive or shareholder with whom the relationship is maintained |
|------------------------------------|---|--|
| Antonio Vázquez Romero | He was until the merger between British Airways and Iberia effective date (January 21, 2011) the Executive Chairman of Iberia | - |

List any changes in the category of each director which have occurred during the year.

| Name or corporate name of director | Date of change | Previous category | Current category |
|------------------------------------|----------------|-------------------|------------------|
| - | - | - | - |

C.1.4 Complete the following table on the number of female directors over the past four years and their category.

| | Number of female directors | | | | % of total directors of each type | | | |
|----------------------|----------------------------|----------|----------|----------|-----------------------------------|----------|----------|----------|
| | Year t | Year t-1 | Year t-2 | Year t-3 | Year t | Year t-1 | Year t-2 | Year t-3 |
| Executive | - | - | - | - | - | - | - | - |
| Proprietary | - | - | - | - | - | - | - | - |
| External Independent | 3 | 2 | 1 | 1 | 30% | 22.22% | 12.5% | 12.5% |
| Other non-executive | - | - | - | - | - | - | - | - |
| Total | 3 | 2 | 1 | 1 | 23.08% | 14.29% | 7.14% | 7.14% |

C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female directors on the board to guarantee an even balance between men and women.

Explanation of measures

The IAG Board diversity policy was reviewed and updated in June 2014. This policy recognises the value of diversity as a tool to enrich its discussions and decision-making process.

Taking this into account, it is the Board's objective to create a Board whose composition ensures a healthy diversity of opinions, perspectives, skills, experiences, backgrounds and orientations. Specifically, this will include an appropriate gender ratio, as well as including diversity in other senses, subject to the overriding principle of merit and suitability mentioned above. This will be done over time, taking account of the valuable knowledge and experience of the present Board members and the value of a more diverse board. Accordingly, the Board aims to achieve a board composition of which 25 per cent are women by the end of 2015.

The Board, through its Nominations Committee, regularly reviews the percentage of women that sit on the Board and on the Company's Management Committee, as well as the number of women in the Group's workforce worldwide.

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- C.1.6 Explain the measures taken, if applicable, by the nomination committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors, and whether the company makes a conscious effort to search for female candidates who have the required profile.**

Explanation of measures

The Board of Directors is fully committed to the objective of creating bodies with diverse membership candidates from a wide variety of backgrounds and different vital experiences. In particular, the Board of Directors policy is to consider candidates from a wide variety of backgrounds, without discrimination based on gender, race, colour, age, social class, beliefs, religion, sexual orientation, disability or other factors.

An overriding principle is that all appointments to the Board of Directors will be based upon merit and the suitability of the candidate to the particular role being filled. Subject to this overriding principle, the Board of Directors will always have regard to the need to consider candidates from different backgrounds.

The Nominations Committee has reviewed this year the IAG Board Diversity Policy, which was approved by the Board on June 18, 2014. This Diversity Policy establishes the objective of increasing the number of female members of the Board of Directors of the Company to 25 per cent by the end of 2015.

In support of this policy, IAG only engages external search consultants who have signed up to the UK Voluntary Code of Conduct on gender diversity for executive search firms or an international equivalent.

When, despite the measures taken, there are few or no female directors, explain the reasons.

Explanation of reasons

–

- C.1.7 Explain how shareholders with significant holdings are represented on the board.**

There are no significant shareholders with representation on the Board of Directors.

- C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 5% of the share capital.**

Name or corporate name of shareholder

Reason

–

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained.

No

Name or corporate name of shareholder

Explanation

–

C.1.9 Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board their reasons and through which channel. If made in writing to the whole board, list below the reasons given by that director.

| Name of Director | Reasons for resignation |
|---------------------|--|
| Luis Gallego Martín | Reorganization of the Company's Board so that the Chief Executives of the Group's airlines are not members of the Company's Board. |
| Keith Williams | Reorganization of the Company's Board so that the Chief Executives of the Group's airlines are not members of the Company's Board. |

C.1.10 Indicate what powers, if any, have been delegated to the chief executive officer(s).

| Name or corporate name of director | Brief description |
|------------------------------------|---|
| Willie Walsh | All of the powers of the Board of Directors have been permanently delegated to the Chief Executive Officer of the Company for their exercise on jointly and severally, save for those which cannot be delegated pursuant to the By-laws, the Board Regulations or the applicable legislation. |

C.1.11 List the directors, if any, who hold office as directors or executives in other companies belonging to the listed company's group:

| Individual or corporate name of Director | Corporate name of entity within the Group | Position |
|--|---|----------|
| Enrique Dupuy de Lôme Chávarri | Iberia Cards | Chairman |

C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets, insofar as these have been disclosed to the company.

| Individual or corporate name of Director | Name of listed company | Position |
|--|-------------------------------|---|
| César Alierta Izuel | Telefónica, S.A. | Chairman |
| César Alierta Izuel | China Unicom | Non-Executive Director |
| Patrick Cescau | Tesco, Plc. | Senior Independent and Non-Executive Director |
| Patrick Cescau | Intercontinental Hotels Group | Non-Executive Chairman |
| Baroness Kingsmill | APR Energy | Vice Chair and Senior Independent Director |
| Baroness Kingsmill | Telecom Italia | Non-Executive Director |
| Baroness Kingsmill | E.ON | Member of the Supervisory Board |
| Kieran Poynter | British American Tobacco | Non-Executive Director |
| Dame Marjorie Scardino | Twitter, Inc. | Non-Executive Director |
| Alberto Terol Esteban | Indra Sistemas, S.A. | Non-Executive Director |
| Alberto Terol Esteban | Obrascon Huarte Lain, S.A. | Non-Executive Director |

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C.1.13 Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its directors may sit.

No

Explanation of rules

-

C.1.14 Indicate the company's general policies and strategies that are reserved for approval by the board in plenary session.

| | YES | NO |
|--|-----|----|
| Investment and financing policy | X | |
| Design of the structure of the corporate group | X | |
| Corporate governance policy | X | |
| Corporate social responsibility policy | X | |
| Strategic or business plans, management targets and annual budgets | X | |
| Remuneration and evaluation of senior officers performance | X | |
| Risk control and management, and the periodic monitoring of internal information and control systems | X | |
| Dividend policy, as well as the policies and limits applying to treasury stock | X | |

C.1.15 List the total remuneration of the board:

| | |
|---|--------|
| Board remuneration (thousands of euros) | 11,133 |
| Amount of total remuneration corresponding to accumulated pension rights (thousands of euros) | 253 |
| Total board remuneration (thousands of euros) | 11,386 |

C.1.16 List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year.

| Name or corporate name | Position(s) |
|--------------------------|---------------------------------------|
| Keith Williams | Executive Chairman of British Airways |
| Luis Gallego Martín | Executive Chairman of Iberia |
| Robert Boyle | Director of Strategy |
| Alejandro Cruz | Vueling Chief Executive Officer |
| Ignacio de Torres Zabala | Director of Global Services |
| Christopher Haynes | General Counsel |
| Julia Simpson | Chief of Staff |
| Steve Gunning | IAG Cargo Chief Executive Officer |

Total remuneration received by senior management (thousands of euros)

14,280

C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies.

| Name or corporate name of director | Name or corporate name of significant shareholder | Position |
|------------------------------------|---|----------|
| - | - | - |

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the board with significant shareholders and/or their group companies.

| Name or corporate name of director | Name or corporate name of significant shareholder | Relationship |
|------------------------------------|---|--------------|
| - | - | - |

C.1.18 Indicate whether any amendments have been made to the board regulations during the year.

Yes

Description of amendments

The meeting of the Board of Directors held on July 31, 2014, approved the amendment of section 4 of article 3 (Powers of the Board of Directors), section 3 of article 13 (Appointment of directors), section 1 and 2 of article 15 (Re-election of directors), section 2 of article 16 (Resignation and dismissal of directors) and the elimination of the transitional provision of the Board Regulations of the Company. The new wording of the referred articles is the following:

"Article 3. Powers of the Board of Directors

4. *Without prejudice to Article 2 of these Board Regulations or to the legal powers, if any, of delegation and proxy-granting for the implementation of any particular resolutions adopted, the Board of Directors shall directly exercise the following powers, acting upon its own initiative or at the proposal of the corresponding internal decision-making body:*
 - a) *Preparation of the Company's annual accounts, management report and proposed allocation of profit/loss, as well as the consolidated annual accounts, management report and the financial information which, due to its status as a listed company, the Company is periodically required to disclose.*
 - b) *Appointment of Board members by co-option and submission of proposals to the Shareholders' Meeting for the appointment, ratification, re-election or removal of Board members following the requirements described in Articles 13.3 and 15.2 below.*
 - c) *Appointment and removal of the secretary of the Board of Directors of the Company (the "Company Secretary") and the deputy secretary of the Board of Directors.*
 - d) *Designation and renewal of internal offices on the Board of Directors and of the members and offices of the Board Committees.*
 - e) *Establishment, pursuant to the Corporate Bylaws, of the remuneration policy and remuneration of Board members.*
 - f) *Authorisation for directors' conflicts or potential conflicts of interest.*
 - g) *Decisions concerning the appointment and removal, at the proposal of the Chief Executive, of the Company's senior executives (members of the Management Committee), as well as the establishment and review of the basic terms of their contracts, including their remuneration and any compensation in the event of their removal, also at the proposal of the Chief Executive Officer.*
 - h) *Determination of the policy on shareholders' remuneration (including dividends) and submission of proposed resolutions to the Shareholders' Meeting concerning the allocation of profit/loss, as well as decisions regarding interim dividends.*
 - i) *Submission of proposals to the Shareholders' Meeting regarding any amendments to the Corporate Bylaws or the Shareholders' Meeting Regulations.*
 - j) *Approval and amendment of these Board of Directors Regulations in accordance with Article 2.2 above.*
 - k) *Preparation of the annual corporate governance report, which forms part of the Company's annual report.*
 - l) *Calls to the Shareholders' Meeting and preparation of proposed resolutions, including the proposed appointment or re-election of the auditor of the Company and its Group.*
 - m) *Implementation of the resolutions approved by the Shareholders' Meeting and exercise of any functions entrusted to it by the Shareholders' Meeting.*
 - n) *Definition of the structure of the general powers of the Company to be granted by the Board of Directors or by its delegate governing bodies.*
 - o) *Approval of the strategy and general policy lines of the Company and its Group, preparation of the programs and establishment of objectives for the performance of the corporate purpose, as well as promotion and supervision of Company management and compliance with the established objectives. In particular, approval of: (i) the annual budget and business plan; (ii) financing policy and structure; (iii) risk management and control policy and periodic monitoring of internal information and control systems; (iv) corporate social responsibility policy.*

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- p) *Approval of contractual commitments entered into by any member of the Group of more than five (5) years in duration with an aggregate value, expenditure or potential liability exceeding €20 million except where a specific delegation has been given by the Board.*
- q) *Approval of any asset acquisition, including option exercise and leases by capital value or investment by the Company or any other member of the Group of a value of more than €20 million and operating leases with an aggregate rental exceeding €20 million.*
- r) *Approval of any disposal of assets including leases by capital value by any member of the Group where the greater of book value or gross sales proceeds exceeds €20 million, or disposal of assets including leases by capital value by any member of the Group where, as a result of any disposal the Group would be forced to consider a write-off to the profit and loss account in excess of €20 million.*
- s) *Approval of any disposal of slots at Heathrow Airport or Madrid Barajas Airport which have the benefit of grandfather rights.*
- t) *Approval of capital expenditure projects costing any member of the Group more than €20 million and the delegation of authority to approve capital expenditure projects of €20 million or below. In addition, the Board of Directors shall approve any further capital expenditure in relation to any project previously approved where it is anticipated that the capital expenditure in relation to such project will exceed 25% of the expenditure so approved by the Board of Directors or, if less, by €10 million.*
- u) *Approval of any termination, replacement or significant changes to the treasury governance policy of the Group or the Company, including the maximum limits for foreign currency transactions involving forward purchase of currencies.*
- v) *Approval of (i) any banking arrangements for the Group, bank borrowing or other loan facilities exceeding €20 million, (ii) any loan other than to a member of the Group, (iii) open ended funding commitments for any purpose, and (iv) uncapped guarantees other than in relation to obligations of members of the Group and any guarantee of the obligations of any entity or person (other than a member of the Group) where the aggregate liability of the Group may exceed €20 million.*
- w) *Approval to initiate or settle any litigation where the value in question or risk to the Company exceeds or may exceed €20 million except, in the case of settlement, where the risk is insured or, in case of urgency, in which case approval may be sought from the Chairman together with the Chief Executive or the Chief Financial Officer.*
- x) *Approval of any equity investment or divestment where the consideration or equity to be subscribed is in excess of €20 million.*
- y) *Approval of material changes to the Group's corporate structure and approval of the creation or acquisition of interests in special purpose entities or entities registered in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature that, due to the complexity thereof, might detract from the transparency of the Group.*
- z) *Approval of the introduction or termination of major alliance partnership or the introduction or termination or material variation of any significant revenue or profit sharing arrangement.*
- aa) *Approval of the introduction of and any major changes to any employee share schemes affecting any member of the Group.*
- bb) *Approval of the allocation of shares in a member of the Group for the purposes of a long term incentive plan or share option plan in relation to such member (unless already approved by the Remuneration Committee) to the extent legally possible.*
- cc) *Approval of any political donations to be made by any member of the Group and the Company's policy on charitable donations.*
- dd) *Approval of the appointment of individuals to, or the removal of individuals from, the boards of the principal subsidiaries and/or investee companies of the Group (as determined by the Board from time to time) and the appointment of their Chairmen and Chief Executives.*
- ee) *Definition of the policy regarding information given to shareholders and to the markets in general.*
- ff) *Decisions on any matters which, falling within its competencies, are considered in the opinion of the Board of Directors to be in the Company's interests or which are reserved pursuant to these Board of Directors Regulations to the plenary session of the Board of Directors."*

"Article 13. Appointment of directors

3. *The proposal for the appointment of directors which the Board of Directors submits to the Shareholders' Meeting, as well as provisional appointments by the method of cooption, must be approved, (i) on the proposal of the Nominations Committee, in the case of independent Board of Directors members, and (ii) subject to a report from the Nominations Committee in all other cases."*

"Article 15. Re-election of directors

1. *At the end of their appointment's term, Board members may be re-elected one or more times for periods of equal duration to that indicated in Article 14.1 above.*
2. *The proposals for re-election of directors that the Board of Directors resolves to submit to the decision of the shareholders at the Shareholders' Meeting shall be approved, (i) on the proposal of the Nominations Committee, in the case of independent Board of Directors members, and (ii) subject to a report from the Nominations Committee in all other cases. The proposal or report of the Nominations Committee shall be prepared having given due regard to the performance, commitment and ability of the director to continue to contribute to the Board in the light of knowledge, skills and experience required."*

"Article 16. Resignation and dismissal of directors

2. *A director shall tender his resignation to the Board of Directors and formally resign from his position in the following cases:*
 - a) *When he ceases to hold the executive positions to which his appointment as director is linked, or when the reasons for which he was appointed no longer exist;*
 - b) *When he shall become prohibited by law from acting as a director;*
 - c) *If requested to do so by the Board of Directors as a result of a determination having been made under Article 11.7 of the Corporate Bylaws to the extent that such determination is due to the fact that such director is a Board member;*
 - d) *When his remaining on the Board might affect the Company's credit or reputation in the market or otherwise jeopardizes its interests."*

C.1.19 Indicate the procedures for selection, appointing, re-electing, evaluating and removing directors. List the competent bodies, procedures and criteria used for each of these procedures.

Appointment of Directors

The Shareholders' Meeting or, if applicable, the Board of Directors itself shall be entitled to designate the members of the Board of Directors subject to the current law provisions.

Any vacancies may be covered by the Board of Directors by means of co-option, according to the applicable law, on an interim basis until the next Shareholders' Meeting is held, which shall ratify, as the case may be, the appointments or appoint the persons that are to replace any Directors not ratified, or eliminate any vacant positions.

Proposals for the appointment of Directors put to the Shareholders' Meeting for consideration by the Board of Directors and decisions on appointments made by the Board of Directors using the powers of co-option legally attributed to it, shall be in respect of persons that satisfy the legal and Bylaw requirements to hold office as Director, enjoy great prestige and have appropriate professional skills, experience and knowledge for the exercise of the functions and duties of such office.

Proposals for the appointment or renewal of Directors submitted to the Shareholders' Meeting by the Board of Directors, as well as provisional appointments by means of co-option, must be approved by the Board of Directors following a recommendation by the Nominations Committee and, in any event, (i) on the proposal of the Nominations Committee, in the case of External Independent Directors, and (ii) subject to a report from the Nominations Committee in all other cases.

Directors shall hold office for the period set forth in the By-laws (one year) unless the Shareholders' Meeting resolves on their removal from office or dismissal, or they stand down from office.

Directors' selection

In identifying suitable candidates, the Nominations Committee may use open advertising or the services of external advisers to facilitate the search, and consider candidates from a wide range of backgrounds with due regard to diversity, including gender as well as other forms of diversity. Selection will be based on merit and against objective criteria, as well as taking account of the candidates' ability to commit sufficient time to the role. In particular, the Nominations Committee has a policy of only engaging external search consultants who have signed up to the UK Voluntary Code of Conduct for Executive Search Firms, or an international equivalent.

Spanish corporate governance report continued

Re-election of Directors

Once a Director's term of office has expired, his or her appointment as a Director shall end when the next Shareholders' Meeting has been held or the legal term for the holding of the Shareholders' Meeting that is to approve the annual accounts for the previous year has expired.

At the end of their term of office, Directors may be re-elected one or more times for periods of equal duration to that indicated above.

Proposals for re-election of Directors that the Board of Directors resolves to submit to the Shareholders' Meeting shall be subject to a formal preparation process, which must include a proposal made by the Nominations Committee containing an evaluation of the quality of the work performed and the dedication to office shown by the proposed Directors during the preceding term of office. For such purposes, the Directors sitting on the Nominations Committee shall be evaluated by the Nominations Committee itself, and each of them shall abstain from participating in any debate or vote that may affect them.

In the 2014 Annual Shareholders' Meeting held on June 18, among other resolutions, it was decided to approve the Board of Directors' proposal to amend the By-laws to reduce Directors' term of office to one year.

Evaluation of Directors

Under the Chairman leadership, the performance of individual directors, the Board of Directors as a whole and the Board Committees is evaluated at least once a year.

During the reporting period, the Chairman met each Non-Executive Director individually to discuss their contribution to the Board. In addition to this, the Senior Independent Director met with the other Non-Executive Directors to discuss the performance of the Chairman, and the outcome of this evaluation was reported and considered by the Nominations Committee and by the Board as a whole.

Removal of Directors

Directors shall cease to hold office upon expiration of the term of office for which they were appointed or when so resolved by the Shareholders' Meeting in the exercise of the powers conferred on it by the applicable legislation, the By-laws and the Board Regulations.

Directors who stand down before the end of their term of office, due to resignation or for any other reason, must state their reasons in a letter to be sent to all members of the Board of Directors. Without prejudice to the notification of such vacation of office as a relevant fact, the reasons for same must be explained in the Annual Corporate Governance Report.

The Nominations Committee has the power to submit proposals to the Board of Directors for the removal of External Independent Directors by the Shareholders' Meeting and to report on such proposals for removal by the Shareholders' Meeting with respect to any other type of Board member.

C.1.20 Indicate whether the board has evaluated its performance during the year:

Yes

Explain, if applicable, to what extent this evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of amendments

Following the 2013 external review, the Board and Committees' performance evaluation was conducted internally in 2014. The review took the format of a self-assessment survey designed to test Directors' opinions and views on a number of matters including: role and organisation of the Board, Board composition, organisation of meetings, quality of the Board debate, knowledge and experience, relationship with management, and progress made against 2014 action plan.

The Board Secretary prepared a report on the performance evaluation of the Board and each of the Committees. Each of these reports and the results of the questionnaires were then considered by the different chairs and discussed at the Board and the different Committees' meetings held in January 2015. The review concluded that the Board was effectively fulfilling its responsibilities during 2014.

C.1.21 Indicate the cases in which directors must resign.

In accordance with article 16.2 of the Board Regulations, a Director shall tender his or her resignation to the Board of Directors and formally resign from office in the following cases:

- a) When he ceases to hold the executive positions to which his or her appointment as Director is linked, or when the reasons for which he was appointed no longer exist.
- b) When he is prohibited by law from acting as a Director.
- c) If requested to do so by the Board of Directors as a result of a determination made in accordance with the provisions of article 11.7 of the By-laws, to the extent that such determination arises as a result of his or her membership of the Board of Directors.
- d) When his or her remaining on the Board of Directors might affect the Company's credit or reputation in the market or otherwise jeopardise its interests.

C.1.22 Indicate whether the duties of the chief executive officer fall upon the chairman of the board. If so, describe the measures taken to limit the risk of powers being concentrated in a single person:

No

Measures for limiting risk

–

Indicate, and if necessary, explain whether rules have been established that enable any of the external independent directors to convene board meetings or include new items on the agenda, to coordinate and voice the concerns of non-executive directors and oversee the evaluation by the board.

Yes

Explanation of rules

In accordance with the article 9 of the Board Regulations, any Director may submit a request to the Chairman of the Board of Directors for the inclusion of matters in the agenda and the latter shall be required to include them when such request has been made not less than three days in advance of the date set for the meeting.

Additionally, in 2013 the Board of Directors appointed Sir Martin Broughton as External Independent Director and Deputy Chairman as Senior Independent Director.

C.1.23 Are qualified majorities other than those prescribed by law required for any type of decision?

No

If applicable, describe the differences.

Description of differences

–

C.1.24 Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed chairman of the board:

No

Description of requirements

–

C.1.25 Indicate whether the chairman has the casting vote:

No

Matters where the Chairman has the casting vote

–

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C.1.26 Indicate whether the by-laws or the board regulations set an age limit for directors.

No

C.1.27 Indicate whether the by-laws or the board regulations set a limited term of office for external independent directors different from the one established in the applicable law.

No

Maximum number of years in office

–

C.1.28 Indicate whether the by-laws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether only one director of the same category may be appointed as a proxy. If so, give brief details.

In accordance with article 40 of the By-laws and 10 of the Board Regulations, Directors shall make every effort to attend Board meetings. Notwithstanding the above, all Directors may cast their vote through, and grant a proxy to another Director. Proxies must be granted in writing, addressed to the Chairman or to the Company Secretary and must be granted specifically for each meeting, and no Director may hold more than three proxies, with the exception of the Chairman, who shall not be subject to such limit but may not represent the majority of the Board of Directors. The Director granting the proxy shall endeavour, where possible, to include voting instructions in the proxy letter. For such purposes, a message addressed to the Chairman or the Company Secretary by letter, fax, telegram or email shall be valid.

C.1.29 Indicate the number of board meetings held during the year and how many times the board has met without the Chairman's attendance. Attendance will also include proxies appointed with specific instructions.

| | |
|---|----|
| Number of board meetings | 11 |
| Number of board meetings held without the Chairman's attendance | – |

Indicate the number of meetings of the various board committees held during the year.

| | |
|---|---|
| Number of meetings of the Executive or Delegated Committee | – |
| Number of meetings of the Audit and Compliance Committee | 7 |
| Number of meetings of the Nomination and Remuneration Committee | – |
| Number of meetings of the Nomination Committee | 5 |
| Number of meetings of the Remuneration Committee | 4 |
| Number of meetings of the Safety Committee | 2 |

C.1.30 Indicate the number of board meetings held during the year with all members in attendance.

Attendance will also include proxies appointed with specific instructions.

| | |
|--|--------|
| Directors' attendance | 2 |
| % of attendances of the total votes cast during the year | 89.36% |

C.1.31 Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the board are certified previously:

Yes

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior to their approval by the board.

| Name | Position |
|--------------------------------|-------------------------|
| Willie Walsh | Chief Executive Officer |
| Enrique Dupuy de Lôme Chávarri | Chief Financial Officer |

C.1.32 Explain the mechanisms, if any, established by the board to prevent the individual and consolidated financial statements it prepares from being laid before the shareholders' meeting with a qualified audit report.

In accordance with article 30.4 of the Board Regulations, the Board of Directors shall draw up the Company's financial statements so that such financial statements do not give rise to a qualified certificate issued by the auditors. However, if the Board of Directors deems it appropriate to draw up financial statements such that a qualified opinion is issued by the auditors, the Directors shall publicly explain the reason why the Company's auditors have issued their report with qualifications.

The Audit and Compliance Committee has the duty to review the Company's annual financial statements, monitor compliance with legal requirements and the correct application of generally accepted accounting principles, as well as reviewing significant financial reporting judgements in the annual Company's accounts.

C.1.33 Is the secretary of the board also a director?

No

C.1.34 Explain the procedures for appointing and removing the secretary of the board, indicating whether their appointment and removal have been notified by the nomination committee and approved by the board in plenary session.

Appointment and removal procedure

The appointment and removal of the Secretary of the Board of Directors of the Company, who may or may not be a Director, is a matter reserved to the Board of Directors.

The appointment of the Secretary of the Board of Directors shall be made at the proposal of the Chairman.

The Nominations Committee has to report on the proposed designation or cease of the Secretary of the Board of Directors.

| | YES | NO |
|--|-----|----|
| Does the Nomination Committee propose appointments? | X | |
| Does the Nomination Committee advise on dismissals? | X | |
| Do appointments have to be approved by the board in plenary session? | X | |
| Do dismissals have to be approved by the board in plenary session? | X | |

Is the secretary of the board entrusted in particular with the function of overseeing corporate governance recommendations?

Yes

Remarks

Article 7 of the Board Regulations, among the functions assigned to the Company Secretary, establishes the following:

- a) Ensure the formal and substantive legality of all action taken by the Board of Directors and its representative decision-making bodies as well as compliance with regulations and the By-laws, and ensure observance of the Company's corporate governance principles and standards and the provisions of the Board Regulations; and
- b) Verify compliance with provisions made by regulatory bodies and consideration, as the case may be, of their recommendations.

C.1.35 Indicate and explain, where applicable, the mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

The relations of the Board of Directors with the Company's auditors shall be channelled through the Audit and Compliance Committee.

The Board of Directors shall refrain from engaging any audit firm entitled to be paid by the Company for all the services rendered fees in an amount in excess of 10 per cent of such firm's total revenue of the previous year.

In this regard, the Audit and Compliance Committee has, among others, the following powers:

- a) To propose to the Board of Directors, for submission to the Shareholders' Meeting, the designation of the auditor or audit firms, as envisaged by applicable law, and, as the case may be, the terms of its engagement, its remuneration, the scope of its professional mandate and the revocation or renewal of its appointment. To oversee compliance with the audit agreement, ensuring that opinions concerning the annual accounts and principal content of the audit report are drafted in a clear and precise manner;

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- b) To serve as a channel for communication between the Board of Directors and the auditors, to assess the results of each audit and the response by the management team to their recommendations, and to mediate in the event of disputes between the auditors and the management team in relation to the principles and methods used in preparing the annual accounts;
- c) To develop and implement a policy on the engagement of the external auditors to supply additional non-audit services pursuant to the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council;
- d) To establish the appropriate relationships with the auditors or audit firms in order to receive information on matters that may jeopardise the independence of the auditors, for its examination by the Audit and Compliance Committee, and on any other matters relating to the audit process, as well as any other communications provided for in the audit legislation and audit regulations. In all cases, written confirmation of their independence vis-à-vis the entity or entities directly or indirectly related thereto must be received annually from the auditors or audit firms, as well as information on additional services of any kind provided to these entities by the aforementioned auditors or audit firms, or by persons or entities related to them pursuant to the provisions of Spanish Audit Law 19/1988, of July 12, 1988;
- e) To issue on an annual basis, prior to the issue of the auditors' report, a report expressing an opinion on the independence of the auditors or audit firms. This report must also give an opinion regarding the provision of the additional services referred to in the preceding paragraph; and
- f) To review the effectiveness of the external audit process.

During 2014, the Audit and Compliance Committee reviewed the work undertaken by the external auditors and assessed their independence, objectivity and performance. In doing so, it took into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services. The Audit and Compliance Committee monitored the auditors' compliance with relevant regulatory, ethical and professional guidance on the rotation of partners, and assessed its qualifications, expertise, resources and the effectiveness of the audit process, including a report from the external auditor on its own internal quality procedures. The Audit and Compliance Committee decided not to tender the audit for the Company for the fiscal year 2015.

The Audit and Compliance Committee receives a quarterly report on compliance with the Group's External Auditor Services Policy, which restricts the volume and types of non-audit services that Ernst & Young can provide throughout IAG Group.

On the other hand, the Board of Directors shall ensure timely compliance with current instructions in respect of relevant events pursuant to the provisions of the applicable law.

The Directors shall take such steps as may be required to ensure that any quarterly, semi-annual and annual financial information to be made available to securities markets and any other information that should be prudently provided thereto from time to time, shall be prepared in accordance with the same professional principles, standards and practices as those applied in the preparation of, and be as reliable as the annual financial statements. For the latter purpose, any such information shall be revised by the Audit and Compliance Committee.

The Board of Directors shall include in its annual public documentation appropriate information about the rules governing the administration of the Company and the level of compliance with applicable law. In the event that following any recommended guidelines is deemed to be inconvenient, the Directors shall explain the reasons for such a decision.

The Company has established regular contact with its major institutional shareholders. Regular shareholder meetings were held with Executive Directors, the Chairman of the Board and with the investor relations team during 2014.

The Company undertook investor roadshows, investor conferences and company presentations. During February 2014, the Chairman of the Board consulted with major institutional shareholders on a range of topics.

The annual Capital Markets day took place on November 7, 2014. Several Non-Executive Directors attended these meetings giving major shareholders and investors the opportunity to discuss corporate governance matters with members of the Board.

In any case, all the abovementioned activities are carried out in accordance with the principle of equality of treatment with shareholders that are in identical circumstances and avoiding any exchange of information that could place them in a privilege or advantageous position vis-à-vis other shareholders or that could be detrimental to the Company's interest.

C.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor.

No

Outgoing auditor

–

Incoming auditor

–

Explain any disagreements with the outgoing auditor and the reasons for the same.

No

Explanation of the disagreements

–

C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group.

Yes

| Date of last modification | Company | Group | Total |
|--|---------|-------|-------|
| Amount of non-audit work (in thousands euros) | 40 | 721 | 761 |
| Amount of non-audit work as a % of the total amount billed by the audit firm | 7% | 19% | 17% |

C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

No

Explanation of reasons

–

C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited.

| | Company | Group |
|--|---------|-------|
| Number of consecutive years | 5 | 5 |
| | Company | Group |
| Number of years audited by current audit firm/Number of years the company's financial statements have been audited (%) | 100% | 100% |

C.1.40 Indicate and give details of any procedures through which directors may receive external advice.

Yes

Procedures

In accordance with article 20 of the Board Regulations, in order to be assisted in the performance of his or her duties, any Director may request the hiring of legal, accounting, technical, financial, commercial or other expert advisors, whose services shall be paid for by the Company.

The assignment must deal with specific issues of certain significance and complexity arising during the performance of the Director's duties.

The request for an expert to be hired shall be channelled through the Chairman or the Company Secretary, who may subject it to the prior approval of the Board of Directors. Such approval may be denied in well-founded instances, including the following circumstances:

- a) Where it is not necessary for the proper performance of the duties entrusted to the Directors;
- b) Where the cost thereof is not reasonable in light of the significance of the issues and the assets and income of the Company;
- c) Where the technical assistance sought may be adequately provided by the Company's own experts and technical personnel; or
- d) Where it may entail a risk to the confidentiality of the information that must be made available to the expert.

C.1.41 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies.

Yes

Procedures

Calls to Board of Directors meetings always include, unless justify cause, the meeting agenda and shall be accompanied, as the case may be, with the information deemed necessary. Call notices shall be sent sufficiently in advance to ensure that Directors receive them no later than the seven days before the date of the meeting, except in case of meetings deemed urgent by the Chairman (or by the Deputy Chairman, in the event of absence, illness or inability of the Chairman). This notice period shall not apply to cases in which the Board Regulations stipulates a specific call period.

In addition, in accordance with article 9 of the Board Regulations, prior to the commencement of each fiscal year, the Board of Directors shall set a schedule for its ordinary meetings. This schedule may be modified by a resolution adopted by the Board of Directors or by a decision made by the Chairman, who shall report the modification to the Directors not less than five days in advance of the date originally set for the meeting or of the new date set in lieu thereof, if the latter date falls earlier.

Papers for Board meetings are typically distributed to the Board members in the week prior to the relevant meeting.

In this regard, the Chairman shall ensure that the members of the Board of Directors receive accurate, appropriate and clear information, in particular about the Company's performance, its strategy, challenges and opportunities in order to enable the Board of Directors to make sound decisions and monitor effectively the Company's performance and shall lead Board of Directors discussions with a view to encouraging effective decision-making and a constructive debate on the performance of the Company, its growth strategy and commercial objectives.

In accordance with article 19 of the Board Regulations, a Director shall have the broadest powers to obtain information regarding any aspect of the Company, to examine its books, records and documents, to inspect its facilities, and to communicate with the senior managers of the Company. The exercise of such powers of information shall be channelled through the Chairman or the Company Secretary.

In addition, all Board members have access to the Board Secretary and the Group General Counsel for any further information they require. If any of the Non-Executive Directors has any concerns about the running of the Group, they discuss these concerns with one of the Executive Directors, the Group General Counsel or the Chairman. If their concerns cannot be resolved in this way, then they are recorded in the Board minutes. No such concerns arose during the reporting period.

In accordance with article 22 of the Board Regulations, the Board Committees must receive appropriate and timely training, both in the form of induction programmes for new members and on an on-going basis for all members. The Board Committees shall also arrange for periodic evaluations of their own performance, conducted externally at least every three years.

Papers for Committees are typically distributed to their members in the week prior to the relevant meeting.

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be.

Yes

Details of rules

In accordance with article 18.3.f) of the Board Regulations, a Director must disclose to the Company any judicial, administrative or other proceedings brought against the Director which, because of their significance or characteristics, may seriously reflect upon the reputation of the Company and, in general, any fact or event that may be reasonably material to his or her conduct as a Director of the Company. In particular, in the event that a Director is prosecuted or a decision to commence a trial is rendered against him for the commission of any of the crimes contemplated in article 213 of the Spanish Companies Law, such Director shall disclose the same to the Company, through the Chairman. In such case, the Board of Directors shall review the case as soon as practicable and shall adopt the decisions it deems fit, taking into account the interests of the Company.

In addition, in accordance with article 16.2 of the Board Regulations, a Director must tender his or her resignation to the Board of Directors and formally resign from his or her position when he or her ceases to hold the executive positions to which his appointment as director is linked, or when the reasons for which he was appointed no longer exist; when he or her shall become prohibited by law from acting as a director; if requested to do so by the Board of Directors as a result of a determination having been made under Article 11.7 of the Corporate Bylaws to the extent that such determination is due to the fact that such director is a Board member and when his remaining on the Board might affect the Company's credit or reputation in the market or otherwise jeopardizes its interests.

C.1.43 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the Spanish Companies Law.

No

| Name of director | Criminal proceedings | Remarks |
|------------------|----------------------|---------|
| – | – | – |

Indicate whether the board has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.

No

| Decision/action taken | Justified explanation |
|-----------------------|-----------------------|
| – | – |

C.1.44 List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

The following significant agreements contain provisions entitling the counterparties to exercise the right to terminate or other rights in the event of a change of control of the Company, British Airways or Iberia, as the case may be:

- a) The Joint Business with American Airlines and Finnair;
- b) All of the Company's share schemes, with the exception of the Performance Share Plan, which is subject to the satisfaction of any performance conditions at that time;
- c) Certain codeshare agreements;
- d) **oneworld** membership agreements;
- e) Certain contracts to sell Avios points;
- f) Global distribution system contract with Amadeus IT Holding, S.A. for the marketing of Iberia flights;
- g) The Joint Business with Japan Airlines;
- h) The Terminal 7 lease at JFK Airport; and
- i) Certain exchange and interest rate hedging contracts.

Spanish corporate governance report continued

C.1.45 Identify, in aggregate form and provide detailed information on agreements between the company and its officers, executives and employees that provide indemnities, guarantee or “golden parachute” clauses for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other type of transaction.

| Number of beneficiaries | | 13 |
|---|---|----|
| Type of beneficiary | Description of the resolution | |
| Executive Directors and Senior Executives | <p>There are no express provisions in Executive Directors and Senior Executives service contracts with the Company for compensation payable upon termination of those contracts, other than for payments in lieu of notice. The period of notice required from the Executive Directors and Senior Executives is six months; the period of notice required from the Company is twelve months.</p> <p>Where the Company makes a payment in lieu of notice, a lump sum in lieu of the six months basic salary is payable within 28 days of the date of termination of employment. A payment in respect of basic salary for the second six months period only becomes payable if, in the Company's reasonable opinion, the Executive Directors and Senior Executives have taken reasonable steps to find alternative paid work and then only in six monthly instalments. The Company may reduce the sum payable in respect of any month by any amount earned by the Executive Director and Senior Executive (including salary and benefits) referable to work done in that month.</p> | |
| Chairman | <p>Antonio Vázquez Romero has a specific agreement if his contract is terminated for whatever reason. Additional information in this agreement has been provided on the Annual Report on the Remuneration of the Directors.</p> | |

Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group.

| | Board of Directors | Shareholders' Meeting |
|--|--------------------|-----------------------|
| Body authorising clauses | X | |
| | Yes | No |
| Is the Shareholders' Meeting informed of such clauses? | X | |

4. Board committees

C.2.1 Give details of all the board committees, their members and the proportion of proprietary and external independent directors.

EXECUTIVE OR DELEGATE COMMITTEE

| Name | Position | Type |
|------|----------|------|
| - | - | - |
| - | - | - |

| | |
|-------------------------------------|---|
| % of executive directors | - |
| % of proprietary directors | - |
| % of external independent directors | - |
| % of other non-executive directors | - |

AUDIT COMMITTEE

| Name | Position | Type |
|-----------------------|----------|----------------------|
| James Lawrence | Chairman | External Independent |
| Patrick Cescau | Member | External Independent |
| Kieran Poynter | Member | External Independent |
| Alberto Terol Esteban | Member | External Independent |

| | |
|-------------------------------------|------|
| % of executive directors | - |
| % of proprietary directors | - |
| % of external independent directors | 100% |
| % of other non-executive directors | - |

NOMINATION AND REMUNERATION COMMITTEE

| Name | Position | Type |
|------|----------|------|
| – | – | – |
| – | – | – |

| | |
|-------------------------------------|---|
| % of executive directors | – |
| % of proprietary directors | – |
| % of external independent directors | – |
| % of other non-executive directors | – |

NOMINATION COMMITTEE

| Name | Position | Type |
|------------------------|----------|----------------------|
| Antonio Vázquez Romero | Chairman | Other non-executive |
| Sir Martin Broughton | Member | External Independent |
| Cesar Alierta Izuel | Member | External Independent |
| Baroness Kingsmill | Member | External Independent |

| | |
|-------------------------------------|-----|
| % of executive directors | – |
| % of proprietary directors | – |
| % of external independent directors | 75% |
| % of other non-executive directors | 25% |

REMUNERATION COMMITTEE

| Name | Position | Type |
|--------------------------------|----------|----------------------|
| Baroness Kingsmill | Chairman | External Independent |
| Dame Marjorie Scardino | Member | External Independent |
| Alberto Terol Esteban | Member | External Independent |
| María Fernanda Mejía Campuzano | Member | External Independent |

| | |
|-------------------------------------|------|
| % of executive directors | – |
| % of proprietary directors | – |
| % of external independent directors | 100% |
| % of other non-executive directors | – |

SAFETY COMMITTEE

| Name | Position | Type |
|------------------------|----------|----------------------|
| Willie Walsh | Chairman | Executive |
| Antonio Vázquez Romero | Member | Other non-executive |
| Sir Martin Broughton | Member | External Independent |
| Kieran Poynter | Member | External Independent |

| | |
|-------------------------------------|-----|
| % of executive directors | 25% |
| % of proprietary directors | – |
| % of external independent directors | 50% |
| % of other non-executive directors | 25% |

Spanish corporate governance report continued

C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years.

| | Number of female directors | | | | | | | |
|---------------------------------------|----------------------------|----|----------|----|----------|----|----------|----|
| | Year t | | Year t-1 | | Year t-2 | | Year t-3 | |
| | Number | % | Number | % | Number | % | Number | % |
| Executive Committee | – | – | – | – | – | – | – | – |
| Audit Committee | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Nomination and Remuneration Committee | – | – | – | – | – | – | – | – |
| Nomination Committee | 1 | 25 | 1 | 25 | 1 | 25 | 1 | 25 |
| Remuneration Committee | 3 | 75 | 2 | 67 | 1 | 25 | 1 | 25 |
| Safety Committee | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

C.2.3 Indicate whether the Audit Committee is responsible for the following:

| | YES | NO |
|--|-----|----|
| Monitoring the preparation and integrity of financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter and the correct application of accounting principles. | X | |
| Reviewing internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed. | X | |
| Monitoring the independence and efficacy of the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verifying that senior management are acting on the findings and recommendations of its reports. | X | |
| Establishing and supervising a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm. | X | |
| Making recommendations to the board for the selection, appointment, reappointment and removal of the external auditor, and the terms of their engagement. | X | |
| Receiving regular information from the external auditor on the progress and findings of the audit programme, and checking that senior management are acting on its recommendations. | X | |
| Monitoring the independence of the external auditor. | X | |

C.2.4 Describe the organisational and operational rules and the responsibilities attributed to each of the board committees.

Name of the committee: AUDIT AND COMPLIANCE COMMITTEE

a) Rules of organisation and operation

The Audit and Compliance Committee shall be made up of no less than three and no more than five Non-Executive Directors appointed by the Board of Directors, with the dedication, capacity and experience necessary to carry out its function. At least two of the members of the Audit and Compliance Committee shall be External Independent Directors. At least one member shall have recent and relevant financial experience. The Board of Directors shall designate an Audit and Compliance Committee Chairman from among the External Independent Directors of the Audit and Compliance Committee, who must be replaced at least every four years and may stand for re-election one year after vacating office. The Company Secretary or his or her nominee shall act as Secretary to the Audit and Compliance Committee.

The Audit and Compliance Committee shall meet whenever convened by its Chairman, at his or her own initiative, or at the request of two or more of its members and at least once every three months and, in all cases, where the Board of Directors requests the issue of reports, the presentation of proposals or the adoption of resolutions within the scope of its functions.

b) Functions

The key function of the Audit and Compliance Committee is to assist the Board of Directors in oversight and control of the IAG Group, regularly checking compliance with the legal provisions and internal regulations applicable to the IAG Group.

The main functions of the Audit and Compliance Committee include:

- i) To supervise the effectiveness of the internal control of the Company, the internal auditing, as the case may be, and the risk management systems;
- ii) To supervise the process for the preparation and presentation of regulated financial information;
- iii) To propose to the Board of Directors, for submission to the Shareholders' Meeting, the designation of the auditor or audit firms, in accordance with the provisions of the applicable legislation;
- iv) To serve as a channel for communication between the Board of Directors and the auditors, to assess the results of each audit and the response by the management team to their recommendations, and to mediate in the event of disputes between the auditors and the management team in relation to the principles and methods used in preparing the annual accounts;
- v) To review the Company's accounts, monitor compliance with legal requirements and the correct application of generally accepted accounting principles;
- vi) To review material financial reporting criteria in the Company's accounts;
- vii) To monitor the functioning of the internal financial control procedures and manuals adopted by the Company, to verify compliance with them and review the designation and replacement of the persons responsible for them;
- viii) To ensure the independence and efficiency of the internal audit function; to propose the selection, appointment, reappointment and removal of the head of the internal audit service; to propose the service's budget; to receive periodic information on its activities and to check that senior management takes the conclusions and recommendations contained in its reports into account;
- ix) To periodically review the internal control and risk management systems to ensure that the principal risks are adequately identified, managed and made known;
- x) To develop and implement a policy on the engagement of the external auditors to supply additional non-audit services;
- xi) To establish the appropriate relationships with the auditors or audit firms;
- xii) To review the effectiveness of the external audit process;
- xiii) To review the systems by which IAG Group professionals may, in confidence, report possible irregularities in the area of financial reporting or other areas;
- xiv) To report to the Board of Directors on the creation or acquisition of interests in special purpose entities or entities domiciled in countries or territories regarded as tax havens, as well as any other transactions or operations of a similar nature that, due to their complexity, might undermine the transparency of the IAG Group; and
- xv) To report to the Board of Directors on the steps taken by management to ensure that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

Name of the committee: **NOMINATIONS COMMITTEE**

a) Rules of organisation and operation

The Nominations Committee shall be made up of no less than three and no more than five Non-Executive Directors appointed by the Board of Directors, with the dedication, capacity and experience necessary to carry out its function. At least two of the members of the Nominations Committee shall be External Independent Directors. The Board of Directors shall designate a Nominations Committee Chairman from among the members of the Nominations Committee. The Company Secretary or his or her nominee shall act as Secretary to the Nominations Committee.

The Nominations Committee shall meet whenever convened by its Chairman, at his or her own initiative, or at the request of two or more of its members and at least once every year and, in all cases, where the Board of Directors requests the issue of reports, the presentation of proposals or the adoption of resolutions within the scope of its functions.

b) Functions

The main functions of the Nominations Committee include:

- i) To report on and review the criteria to be followed for the composition of the Board of Directors and the selection of candidates, defining the necessary functions and skills and evaluating the time and dedication required to correctly fulfil its remit;
- ii) To submit to the Board of Directors the proposed appointments of External Independent Directors for their designation by co-option or, as the case may be, for submission to the decision of the Shareholders' Meeting, as well as proposals for the re-election or removal of such Directors by the Shareholders' Meeting;
- iii) To report on the proposals of the Board of Directors for the appointment of the remaining Directors for their designation by co-option or, as the case may be, for submission to the decision of the Shareholders' Meeting, as well as proposals for the re-election or removal of such Directors by the Shareholders' Meeting;
- iv) To report on proposals for designation or removal of offices within the Board of Directors (including the Secretary and the Deputy Secretary) and propose to the Board of Directors the members that are to form each of the Board Committees;
- v) To put in place plans for the succession of members of the Board of Directors and, in particular, the succession of the offices of Chairman and Chief Executive Officer;
- vi) To oversee and establish guidelines relating to the appointment, recruitment, career, promotion and dismissal of senior Executives in order to ensure that the Company has the highly-skilled personnel required for its management;
- vii) To report to the Board of Directors on the appointment and/or removal of the senior Executives of the Company;
- viii) To ensure that, on appointment to the Board of Directors, Non-Executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of dedication, service and involvement beyond Board of Directors meetings; and
- ix) To identify members of the Board of Directors qualified to fill vacancies on any Board Committee (including the Nominations Committee).

Name of the committee: REMUNERATION COMMITTEE**a) Rules of organisation and operation**

The Remuneration Committee shall be made up of no less than three and no more than five Non-Executive Directors appointed by the Board of Directors, with the dedication, capacity and experience necessary to carry out its function. At least three of the members of the Remuneration Committee shall be External Independent Directors. The Board of Directors shall designate a Remuneration Committee Chairman from among the External Independent Directors of the Remuneration Committee. The Chairman of the Board of Directors may not be appointed as Remuneration Committee Chairman. The Company Secretary or his or her nominee shall act as Secretary to the Remuneration Committee.

The Remuneration Committee shall meet whenever convened by its Chairman, at his or her own initiative, or at the request of two or more of its members and at least twice every year and, in all cases, where the Board of Directors requests the issue of reports, the presentation of proposals or the adoption of resolutions within the scope of its functions.

b) Functions

The main functions of the Remuneration Committee include:

- i) To propose to the Board of Directors the system and amount of the annual remuneration for Directors, as well as the individual remuneration of the Executive Directors and the other terms of their contracts, pursuant in all cases to the provisions of the By-laws;
- ii) To report to the Board of Directors on the termination conditions of contracts, any compensation or indemnification that may be established in the case of removal of senior Executives, including Executive Directors, and to ensure that any payments made are fair to the individual and the Company, that poor performance is not rewarded and the duty to mitigate loss is fully recognised;
- iii) To report to the Board of Directors on the senior Executive remuneration policy and the basic terms of their contracts;
- iv) To report on incentive plans and pension agreements;
- v) To periodically review the remuneration programmes, taking into account their suitability and performance and how they reflect and support the Company strategy;
- vi) When determining the remuneration packages and plans indicated above, to follow the provisions of the applicable good governance codes, the applicable legislation, and the regulations and requirements imposed by any stock exchange on which the Company's securities are listed; and
- vii) To ensure compliance with the transparency requirements established by the UK Listing Rules, by the applicable legislation and by the regulations and requirements imposed by any stock exchange on which the Company's securities are listed, including the Annual Report on Directors' Remuneration to be included in the Company's Annual Accounts.

Name of the committee: SAFETY COMMITTEE

- a) Rules of organisation and operation

The Safety Committee shall be made up of no less three and no more than five Directors appointed by the Board of Directors, with the dedication, capacity and experience necessary to carry out its function. The Board of Directors shall designate a Safety Committee Chairman from among the Directors of the Safety Committee.

- b) Functions

The main functions of the Safety Committee include:

- i) To receive material safety information about the Company and all the Company subsidiaries and any franchise, codeshare or wet-lease provider used by any member of the IAG Group;
- ii) To exercise a high level overview of the safety activities and resources of the Company and all the Company subsidiaries and inform the Board of Directors as appropriate (recognising that responsibility for safety matters relating to each subsidiary falls to that subsidiary through its own resources); and
- iii) To follow up on any safety related measures as determined by the Board of Directors.

C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.

The Board Committees are governed by the provisions of the By-laws and the Board Regulations (article 23 of the Board Regulations for the Audit and Compliance Committee, article 24 for the Nominations Committee, article 25 for the Remuneration Committee and article 26 for the Safety Committee). Where no specific provision is made, the Board Committees shall be governed, by analogy and where applicable, by the provisions applicable to the Board of Directors of the Company. These articles of the Board Regulations have not been modified during the 2014 exercise.

The By-laws and the Board Regulations are available on the Company's website: www.iairgroup.com.

AUDIT AND COMPLIANCE COMMITTEE

The Audit and Compliance Committee prepares an annual report on its activities, which are available on the Company's website as part of the Annual Report and Accounts.

NOMINATIONS COMMITTEE

The Nominations Committee prepares an annual report on its activities, which are available on the Company's website as part of the Annual Report and Accounts.

REMUNERATION COMMITTEE

The Remuneration Committee prepares an annual report on its activities, which are available on the Company's website as part of the Annual Report and Accounts.

SAFETY COMMITTEE

The Safety Committee prepares an annual report on its activities, which are available on the Company's website as part of the Annual Report and Accounts.

C.2.6 Indicate whether the composition of the executive committee reflects the participation within the board of the different types of directors.

No

If the answer is no, explain the composition of the executive or delegate committee.

There is not an executive or delegate committee in the Company.

D. RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Identify the competent body and explain, if applicable, the procedures for approving related-party or intragroup transactions.

Competent body

In accordance with article 28 of the Board Regulations, the competent body to approve all transactions carried out by the Company or the companies forming part of the IAG Group with Directors, or with shareholders that own a shareholding interest that is equal to or greater than that legally regarded as a significant shareholding interest at any time or which have proposed the appointment of any of the Directors of the Company, or with the respective related persons, is the Board of Directors, upon a prior favourable report of the Audit and Compliance Committee.

Procedures for the approval related-party transactions

The Audit and Compliance Committee has, among other powers, the obligation to report on related transactions or transactions that entail or may entail a conflict of interest, which shall ensure, through the Audit and Compliance Committee, that transactions between the Company or the companies forming part of the IAG Group with the Directors, the shareholders that own a shareholding interest that is equal to or greater than that legally regarded as a relevant shareholding interest at any time or which have proposed the appointment of any of the Directors of the Company or their respective related persons are carried out under arm's length conditions and with due observance of the principle of equal treatment of shareholders.

In the case of customary or recurring transactions in the ordinary course of business, it shall be sufficient to give a generic approval of the kind of transaction and of the conditions for performance thereof.

However, no authorisation of the Board of Directors shall be required in connection with transactions that simultaneously satisfy the following three conditions: (i) that they are conducted under contracts whose terms and conditions are standardised and apply in masse to a large number of clients; (ii) that they are conducted at prices or rates established generally by the party acting as supplier of the goods or services in question; and (iii) that the amount thereof does not exceed 1 per cent of the consolidated annual income of the Company, as reflected in the audited annual financial statements for the most recent fiscal year closed prior to the date of the transaction in question.

The Company shall report the transactions mentioned in this article in accordance with applicable law.

Explain if the authority to approve related-party transactions has been delegated to another body or person, including, in this case, the body or person to which it has been delegated.

Non applicable.

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders.

| Name or corporate name of significant shareholder | Name or corporate name of the company or its group company | Nature of the relationship | Type of transaction | Amount (in thousands of euros) |
|---|--|----------------------------|---------------------|-----------------------------------|
| BlackRock Inc. | BlackRock Investment Management (UK) Ltd. | Commercial | Interest received | 474 |
| BlackRock Inc. | BlackRock Investment Management (UK) Ltd. | Commercial | Cash deposits | 64,785 |

D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors.

| Name or corporate name of director or senior manager | Name or corporate name of related party | Relationship | Type of transaction | Amount (in thousands of euros) |
|--|---|--------------|---------------------|-----------------------------------|
| - | - | - | - | - |

Spanish corporate governance report continued

D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens.

| Corporate name of the group company | Brief description of the transaction | Amount (in thousands of euros) |
|-------------------------------------|--------------------------------------|--------------------------------|
| - | - | - |
| - | - | - |

D.5 Indicate the amount involved in other related-party transactions.

The IAG Group's related-party transactions included total sales to associate companies of €16,243 thousand of euros and total purchases from associate companies of €59,322 thousand of euros.

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

The Directors shall refrain from attending the meetings and/or taking part in the discussions related to any kind of matters in which they could have a personal interest, direct or indirect. Specifically, the Directors affected by appointment, re-election and cease proposals shall refrain from taking part in the discussions and voting related to said aspects.

The Directors shall communicate the Board of Directors any conflict situation, direct or indirect, that could face against the Company's interest. In case of conflict, the affected Director shall refrain from being involved in the operation affected by the conflict.

In any case, the conflict situations in which the Directors shall become involved shall be reported in the Annual Corporate Governance Report.

In addition, in accordance with article 27.4 of the Board Regulations, all public requests for delegation of voting powers made in favour of any director shall disclose, where applicable, the existence of a conflict of interest, and shall provide detailed reasons for the direction in which the representative shall vote in the event that no instructions are given by the shareholder, subject always to the provisions of applicable law.

D.7 Is more than one group company listed in Spain?

No

Identify the listed subsidiaries in Spain

Listed subsidiaries

-

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;

No

Business dealings between the parent and listed subsidiary, as well as between the subsidiary and other group companies

-

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies.

Mechanisms

-

E. RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Describe the risk management system in place at the company.

Enterprise risk management is led by the Management Committee, which takes into account established risk management processes in British Airways and Iberia.

An enterprise risk management process has been implemented within Vueling, adapting the groupwide process to a smaller airline. A central record of risks is maintained and each risk is owned by a director. The central records contain mitigating actions and how the Vueling management committee receives assurance on the risk. Risk is reported to and discussed with the Vueling management committee on a six monthly basis.

Enterprise risk management in British Airways and Iberia

Both British Airways and Iberia have well established enterprise risk management systems that ensure that:

- a) Each risk is owned by a Senior Manager who is ultimately responsible for its management;
- b) A central record is kept of all risks, their owners and mitigating actions on systems in both British Airways and Iberia. The two enterprise risk management systems allow risk owners to update risk records online and central risk management teams to monitor updates;
- c) A risk map representing the likelihood and potential impact of each risk is reviewed at least every six months by the British Airways and Iberia Boards;
- d) There are defined procedures for updating risks and the mitigating actions in place to manage those risks; and
- e) There is active participation from both the Senior Managers managing the risks and the executive leadership teams in British Airways and Iberia.

Risks are classified by their source in:

- a) Strategic: risks arising from the competitive and regulatory environment, major projects and strategic decisions;
- b) Business and operational: risks encompassing emergencies, information technology operations, major project implementation and airline operations;
- c) Financial: risks including liquidity and financing;
- d) Compliance and regulatory: risks associated with compliance with laws and regulation; and
- e) Latent: low likelihood high impact risks such as terrorism, and fleet grounding.

Enterprise risk management in the Company

The IAG Group leverages the well-developed enterprise risk management structures and processes in British Airways and Iberia. These have been maintained under the control of the respective Boards of Directors. The core methodologies within British Airways, Iberia and Vueling are harmonised, allowing consolidation of the IAG Group's risk position.

The role of the Company is to maintain the IAG Group-wide consolidated view of risk allowing challenge from the Board of Directors and Management Committee; determining the enterprise risk management methodology to be applied throughout IAG; ensuring that best practice in risk mitigation is adopted.

E.2 Identify the bodies responsible for preparing and implementing the risk management system.

Within Iberia the Compliance and Corporate Risk Manager reports to the Director of Risk and Security, who reports to the Corporate Director who sits on the Iberia Management Committee.

Within British Airways the Head of Risk Management reports to the Director of People and Legal who sits on the British Airways Leadership Team.

Within Vueling the enterprise risk management process is facilitated by the IAG Head of Group Audit and Risk Management and is owned by the Vueling management committee.

Risk maps are reviewed at the British Airways Leadership Team; the Iberia, Vueling and IAG Management Committees; the IAG Audit and Compliance Committee; and the British Airways, Iberia and IAG Boards of Directors.

The IAG Group Treasury Committee manages fuel and foreign exchange risk within the Financial Risk Management Policy approved by the Board of Directors.

Spanish corporate governance report continued

E.3 Indicate the main risks which may prevent the company from achieving its targets.

The main risks classified by their source are listed below:

Strategic Risks

- a) Competition
- b) Airline industry consolidation and deregulation
- c) Government intervention
- d) Airport infrastructure and suppliers

Business and operational

- a) Brand reputation
- b) Economic conditions
- c) Employee relations
- d) Failure of a critical IT system
- e) Pandemic
- f) Increases in landing fees and security charges
- g) Safety/security incident
- h) Event causing significant network disruption

Financial

- a) Future availability of debt funding
- b) Fuel price and currency fluctuation
- c) Changes to tax legislation or challenge from tax authorities on the interpretation of legislation

Compliance and regulatory

- a) Complexity of the IAG Group governance structure
- b) Non-compliance by an individual or group of individuals with Competition, Anti-Bribery and Corruption Law

E.4 Identify if the company has a risk tolerance level

Risk tolerance is established for the broad risk classifications; strategic risk; business and operational risk; financial risks and compliance and regulatory risks. More granular analysis is carried out in relation to individual risks such as establishing the maximum likely variations in cashflow arising from fuel price fluctuations and confirming the continued appropriateness of the hedging strategy. Risk tolerance is also considered, but not necessarily quantified, in assessing the risk of new projects when presented to the Board of Directors for approval.

E.5 Identify any risks which have occurred during the year.

| Risk that occurred during the fiscal year | Circumstances giving rise thereto | Performance of control systems |
|---|--|--|
| Currency fluctuation | The IAG Group is exposed to currency devaluation of cash held in currencies other than the airlines' local currencies of euro and sterling. This risk is minimised by holding cash in euro and sterling wherever possible but exchange controls in some markets will from time to time delay conversion and repatriation of funds. Delays are generally modest but the Venezuelan government continues to block the repatriation of Iberia's funds. The Venezuelan cash balances are set out in note 20 of the financial statements. Iberia and the Spanish government are working with the Venezuelan authorities to determine a solution in order for Iberia to continue operating to Venezuela. | The commercial policy for selling tickets in Venezuela and the frequency of services was kept under regular review at the IAG Management Committee together with the Audit and Compliance Committee during the year. The growth in Venezuelan cash balances during the year was small. |

Spanish corporate governance report continued

E.6 Explain the response and monitoring plans for the main risks the company is exposed to.

| Main risk | Response and Monitoring Plans |
|---|--|
| Competition | <p>The IAG Management Committee devotes one weekly meeting per month to strategy issues. The IAG Group strategy team supports the Management Committee by identifying where resources can be devoted to exploit profitable opportunities. Airline revenue management departments and systems optimise market share and yield through pricing and inventory management activity.</p> <p>Our strong global market positioning, leadership in strategic markets, alliances, joint businesses, cost competitiveness and diverse customer base continue to address this risk. We also continually review our product offering and respond through initiatives such as investing in new seats across our shorthaul fleet</p> |
| Airline industry consolidation and deregulation | <p>The IAG Group maintains rigorous cost control and targeted product investment to remain competitive.</p> <p>The IAG Group has the flexibility to react to market opportunities arising from weakened competitors. Vueling gives additional flexibility in this regard as it can deploy capacity at short notice across Europe.</p> <p>Maintaining a leading presence in one world and ensuring the alliance attracts and retains the right members is key to safeguarding the network.</p> |
| Government intervention | <p>The IAG Group's government affairs departments monitor government initiatives, represent the point of view of the IAG Group and forecast likely changes to laws and regulations.</p> <p>The ability of IAG Group to comply with and influence any changes in regulations is key to maintaining our operational and financial performance.</p> <p>We continue to talk to the UK Government about the negative effect the imposition of Air Passenger Duty (APD) has on the UK economy. Whilst we welcome the reduction in APD on longer haul flights in 2015 and its removal for children by 2016, the core APD problem remains.</p> |
| Airport infrastructure and suppliers | <p>British Airways participates in the slot trading market at Heathrow airport, acquiring slots at reasonable prices when available.</p> <p>Supplier performance risk is mitigated by active supplier management and contingency plans. We enter into long-term contracts with fuel suppliers wherever this can secure fuel supply at a reasonable cost. Short-term fuel shortages are addressed by contingency plans.</p> |
| Brand reputation | <p>The IAG Group allocates substantial resources to safety, operational integrity, and new aircraft to maintain its market position.</p> |
| Economic conditions | <p>The IAG Board and Management Committee review the financial outlook and business performance of the IAG Group through the financial planning process and regular reforecasts. These reviews are used to drive the IAG Group's financial performance through the management of capacity and the deployment of that capacity in geographic markets; together with cost control; including management of capital expenditure and the reduction of operational leverage.</p> |

| Main risk | Response and Monitoring Plans |
|---|--|
| Failure of a critical IT system | <p>System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.</p> <p>In 2015 British Airways expects to commence implementation of its new customer management system that provides passenger check-in and aircraft loading. As such it is a critical operational system. The project has a strong risk management workstream designed to minimise, but not eliminate, the risk of disruption during implementation.</p> |
| Pandemic | The Company has comprehensive pandemic business continuity plans. |
| Increases in landing fees and security charges | The IAG Group engages in regulatory reviews of supplier pricing. |
| Safety/security incident | The corresponding safety committee of each of the airlines of the IAG Group satisfies itself that the airlines have appropriate safety resources and procedures, which include compliance with Air Operator Certificate requirements. Each airline has incident centres, which respond in a structured way in the event of a safety or security incident. |
| Event causing significant network disruption | Management has robust business continuity plans to mitigate these risks to the extent feasible. |
| Future availability of debt funding | The IAG Management Committee regularly reviews the IAG Group's financial position and financing strategy. |
| Financial risk | <p>Fuel price risk is partially hedged through the purchase of oil derivatives in forward markets which can generate a profit or a loss. The IAG Management Committee regularly reviews its fuel hedging positions.</p> <p>The IAG Group seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency and actively managing the surplus or shortfall through treasury hedging operations. The IAG Management Committee regularly reviews its currency positions.</p> <p>When there are delays in the repatriation of cash from overseas locations, devaluation risk is mitigated by the review of commercial selling practices that seek to shift the point of sale away from the market subject to delay and limit future sales where these sales might be subject to devaluation before the customer flies.</p> <p>The approach to fuel and currency financial risk management was reviewed by the Audit and Compliance Committee during the year.</p> |
| Changes to tax legislation or challenge from tax authorities on the interpretation of legislation. | The IAG Group complies with a tax policy approved by the IAG Management Committee and tax risk is managed by the IAG tax department. |
| Complexity of the IAG Group governance structure | The structure of the Boards of Directors is reviewed by the Nominations Committee. |
| Non-compliance by an individual or group of individuals with competition, anti-bribery and corruption Law | The Company has comprehensive policies to ensure compliance together with training schemes in place to educate staff in these matters. |

F. INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms which comprise the Internal Control over Financial Reporting (ICFR) risk control and management system at the company.

F.1 The entity's control environment

F.1.1 The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

The IAG Board Regulations determine that the IAG Board of Directors is responsible for control policy and periodic monitoring of internal information and control systems. The Board of Directors Regulations also determine that the Chief Executive Officer is responsible for putting in place effective controls to ensure proper business, financial safety and security practices exist which enable the Company to remain competent to secure the safe operation of the fleet.

The referred control policy and monitoring is designed to produce reasonable, but not absolute, assurance regarding the safeguarding of assets against unauthorised use or disposition and the maintenance of proper accounting records and the reliability of financial information used throughout the business or for publication. These controls are designed to manage rather than eliminate the risk of failure to achieve business objectives due to circumstances which may reasonably be foreseen and can only provide reasonable but not absolute assurance against material misstatement, errors, losses or fraud.

Board of Directors

The Board of Directors of IAG is ultimately responsible for the supervision of the existence and effectiveness of Internal Control over Financial Reporting ("ICFR"). In accordance with the Board Regulations, the responsibility of the development of effective controls corresponds to the Chief Executive Officer and the supervision of the effectiveness of these controls to the Audit and Compliance Committee. The Chief Executive Officer has issued an ICFR policy which requires the IAG Finance Committee to oversee ICFR throughout the IAG Group and delegates responsibility to the IAG Group, British Airways, Iberia and Vueling Chief Financial Officers.

Audit and Compliance Committee

The duties of the Audit and Compliance Committee are set out in section C.2.4 of this report. These duties include:

- a) Review significant reporting judgements contained in the financial statements of the IAG Group;
- b) To monitor the functioning of the internal financial control manuals and procedures adopted by the Company, to verify compliance with them and review the designation and replacement of the persons responsible for them; and
- c) To supervise the effectiveness of the internal control of the Company, the internal auditing, as the case may be, and the risk management systems, and to discuss with the auditors or audit firms any significant weaknesses in the internal control systems detected in the course of the audit.

Audit and Compliance Committee members are appointed based on their knowledge and experience of accounting, auditing, risk management and compliance experience. They regularly receive updates on developments and regulatory changes in these areas. The Audit and Compliance Committee also receives regular updates on the IAG Group's ICFR project.

IAG Disclosure Committee

The IAG Disclosure Committee is chaired by the General Counsel and includes the Chief Financial Officer and the Head of Investor Relations. The Committee sits monthly (and on ad-hoc basis) and supports Senior Management and the Audit and Compliance Committee by carrying out the following duties related to ICFR:

- a) Review matters discussed at the Management Committee and the Board of Directors to ensure that external disclosure is adequate; and
- b) Review any financial regulatory disclosures (UK Regulatory Information Services or Spanish relevant facts) including the monthly route results before publication.

IAG Finance Committee

The IAG Finance Committee sits quarterly and is chaired by the IAG Chief Financial Officer and comprises of the IAG Head of Group Financial Reporting and Control; the British Airways, Iberia and Vueling Chief Financial Officers; and the most senior accounting officers from IAG, British Airways, Iberia and Vueling. The Committee supports Senior Management and the Audit and Compliance Committee by carrying out the following duties related to ICFR:

- a) Maintenance and approval of the IAG ICFR policy including delegation of ICFR process ownership to airline Chief Financial Officers, and where appropriate, to process owners in British Airways, Iberia and Vueling;
- b) Review complex or judgemental accounting issues in the quarterly reports, emerging accounting issues, preparation for implementation of new accounting standards and issues raised by the external auditors;
- c) Own the IAG Group Accounting Policies and approves any changes thereto; and
- d) Coordinate and monitor ICFR framework implementation and maintenance.

British Airways Finance Committee

The British Airways Finance Committee oversees the implementation of IAG Group accounting policies and procedures within British Airways. It also approves the accounting treatment of proposed transactions and reviews the impact of emerging business issues on the accounts. The Committee is chaired by the British Airways Chief Financial Officer and includes the Head of British Airways Central Finance, the British Airways Treasurer, the IAG Head of Audit UK, and representatives from the British Airways reporting team.

Iberia Financial and Control Directorate

There are two groups within the Financial and Control Directorate having direct responsibility for elements of ICFR:

- a) The Information Management Unit reviews and checks Iberia quarterly financial statements before submission to IAG; and
- b) The Administration Sub Directorate ensures compliance with all legal requirements; and ensures the correct application of generally accepted accounting principles. The sub directorates jointly oversee the Iberia financial control manuals and procedures and ensure compliance.

IAG Group Financial Reporting and Control

The main responsibilities of the IAG Group Financial Reporting and Control Department, as part of the finance function, and reporting to the Chief Financial Officer, include:

- a) The preparation of quarterly financial statements of the IAG Group and monthly internal management accounts;
- b) Monitoring the changes of accounting standard and regulatory developments; and
- c) Propose changes in IAG Group accounting policy to the IAG Finance Committee.

F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:

- The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company.
- Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.
- 'Whistle-blowing' channel, for the reporting to the Audit Committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.
- Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management.

The Board of Directors is responsible for designating the Company's Chief Executive from among its members, approval of the appointment or removal of individuals to or from the Boards of Directors of the principal subsidiaries of the IAG Group and the appointment of their Chairmen and Chief Executives. The Board of Directors is also responsible for decisions concerning the appointment and removal of the Company's senior Executives. Significant changes to the organisation structure are reviewed and approved by the IAG Management Committee.

The authorised structure, including job descriptions defining staff responsibilities, is ultimately controlled by the IAG Chief Executive Officer and delegated to the Chief Executive Officer' of British Airways, Iberia and Vueling. The authorised structure is managed by the Chief of Staff's Human Resources Department in IAG, the Director of People and Legal and Government within British Airways, the Director of Human Resources within Iberia and the Director of Corporate Areas within Vueling. The authorised structure of the Company, British Airways, Iberia and Vueling is updated and reviewed on an adhoc basis and published on the respective intranet of each company.

The "Way of Business" IAG Group instruction sets out standards of conduct expected of staff and the support that will be available to the staff from the Executive Management team in maintaining the expected level of conduct. The IAG Group instruction also sets out IAG policy on supporting the communities in which it operates and sets out the IAG vision on Corporate Responsibility and the Environment.

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The IAG Group instruction, "Way of Business", is cascaded down into British Airways, Iberia and Vueling through local policies available on the intranet of each company. Within British Airways this is achieved through British Airways Standing Instruction 2 "Way of Business". Within Iberia and Vueling their respective General Code of Conduct sets out principles and detailed rules governing how Board members, managers and employees should act. Minor breaches of the Codes of Conduct are investigated by Line Managers, more significant breaches are investigated by the Asset Protection team in British Airways, the Security Directorate in Iberia and by the Legal Counsel in Vueling. Disciplinary action is proposed and administered by Line Managers in accordance with the employment policies and standards applicable to the individual. The IAG Group Way of Business does not refer specifically to the financial reporting process and instead ICFR responsibilities and expectations are communicated through the IAG ICFR policy.

Under the IAG ICFR policy the IAG Chief Executive Officer delegates responsibility for ICFR to the IAG Chief Financial Officer with a requirement that the Chief Financial Officers of material subsidiaries fully support the IAG Chief Financial Officer. Chief Financial Officers are expected to delegate responsibility for ICFR for defined processes to a named senior manager within their own organisations.

There are whistle-blowing channels available throughout the IAG Group where concerns can be raised on a confidential basis. The Audit and Compliance Committee reviews the effectiveness of whistle-blowing channels on an annual basis. This annual review reviews the volume of reports by category; timeliness of follow-up; responsibility for follow-up and any issues raised of significance to the financial accounts. The annual review is coordinated by the IAG Head of Group Audit and Risk Management.

The Company and Iberia use a third-party provider, Ethicspoint, who intakes cases on-line or over the phone on any matter causing concern to the staff member. Within the Company any such cases will be forwarded to the Head of Business Services and the Head of IAG Group Audit and Risk Management for investigation. Within Iberia the whistle-blowing channel is managed by the Iberia Compliance Department who report cases to a "Complaints Evaluation and Monitoring Group" which defines the response to the case. This group consists of the Director of Risks and Security; Head of Corporate Risks & Emergency Plan Coordination and Head of Legal Affairs. Additionally and according to the type of complaint, the participation of the Director of Labour Relations may be required.

British Airways use a third party provider, Safecall, who intakes cases over the phone on any matter causing concern to the staff members. Follow up of cases is the responsibility of the British Airways Director of People, Legal, Government and Industry Affairs who utilises a network of senior managers and Directors throughout the business, including the Director of Safety and Security, to investigate the concerns.

Within Vueling the whistle-blowing channel is managed by Legal Counsel and cases are analysed and investigated by Legal Counsel assisted by internal audit.

The Audit and Compliance Committee reviews the effectiveness of the whistle-blowing channels on an annual basis. This annual review is coordinated by the Head of IAG Group Audit and Risk Management and includes information on the volume of reports by category; timeliness of follow-up; responsibility for follow-up and any issues raised of significance to the financial accounts.

All Company staff have an annual individual training programme that sets out their technical and professional skills training requirements. Achievement of this training plan is monitored twice a year. Within British Airways training is offered on an as needed basis and as required by law or professional standards. Within Iberia there is an Annual Training Plan aimed at improving the performance of individuals and groups.

Basic finance and risk management training for IAG and British Airways staff is delivered through eLearning modules. IAG has also delivered classroom based lessons on airline finance basics and interpreting the IAG accounts to widen understanding beyond the finance team and train accountants joining from other industries. IAG offers finance staff sponsorship to studying for Master of Business Administration qualifications and targeted technical post graduate qualifications offered by leading business schools. IAG and British Airways offer study leave, financial support and appropriate work experience to staff studying for the Institute of Chartered Accountant, in England and Wales, the Chartered Institute of Management Accountants and the Association of Chartered Certified Accountants.

Iberia often uses external providers to develop financial training related with accounting rules, auditing, internal control and risk management. Managers receive a specific course called "Basic Business Finance" whose goal is to learn financial literacy for people who have little knowledge on the subject. Job specific training requirements are considered on a case by case basis and delivered to groups or individuals, often using external providers.

Within Vueling training courses are planned on a yearly basis including all the activities that have been budgeted for the following year made available to the business units. These activities include general skills training as well as more specific technical training including financial training. Specific training is also suggested by Corporate Finance Management whenever regulatory or accounting changes arise which impact the financial reporting.

Company finance staff received an average of three days training in 2014. Members of the IAG Internal Audit team have received between one and three days ICFR training.

F.2 Risk assessment in financial reporting

Report at least:

F.2.1 The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

- The process exists and is documented.
- The process covers all financial reporting objectives (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.
- A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies.
- The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.
- Which of the company's governing bodies is responsible for overseeing the process.

The IAG Group's enterprise risk management ("**ERM**") process assesses the key business risks and mitigating actions facing the IAG Group. In compiling these risks and mitigating actions a close relationship is established between the British Airways and Iberia ERM teams and the finance functions. This involves the finance function feeding into the ERM process and reviewing the output of the process to ensure that the impact of emerging risks are properly captured within the financial statements. This review of the completeness of risks reflected in the Financial Statements is complemented by review of ERM risk maps at the British Airways and Iberia Boards of Directors and the IAG Audit and Compliance Committee. Within Vueling the output of the enterprise risk management process is reviewed by the Chief Financial Officer. The ERM process is described fully in section E of this report.

The financial risk assessment is the responsibility of the IAG Finance Committee and is updated and documented annually. The assessment provides management with a mechanism for the identification of risks and associated controls relevant to the preparation of the financial report. The risk assessment has two main elements, both of which are reviewed annually by the IAG Finance Committee:

- a) A high level assessment of key risks to the financial statements focusing on judgemental areas and those susceptible to error; and
- b) Identification of the key underlying business processes through a quantitative and qualitative risk assessment of the financial statements of material subsidiaries. The results of this process are set out in section E.3 and includes all financial reporting objectives.

The scope of the consolidation is addressed in two ways. Firstly the establishment of any Special Purpose Vehicles (SPVs) is approved by the IAG Audit and Compliance Committee, who will confirm the requirement for the SPV, consider the governing system of the SPV and consider how the SPV will be accounted for. Secondly, the determination of which entities will be consolidated is considered at the IAG, British Airways group, Iberia group and Vueling levels. The consolidation is recorded in a single spreadsheet at IAG but changes are determined by IAG, British Airways, Iberia and Vueling based on developments in the corporate structure during the year. IAG, British Airways and Iberia maintain consolidation hierarchies in their consolidation systems. These hierarchies are subject to access and change controls to ensure their continued integrity. Transactions or IAG Group developments that require new group companies to be formed or acquired are considered at the IAG and British Airways Finance Committees so that the hierarchies can be updated.

Fraud risk at the Company level is most significant in individual projects, generally acquisitions and disposals. This fraud risk is managed through the individual projects which are staffed with senior professionals from appropriate departments, always including finance, and third party advisors from leading law firms. As the Company is a holding company with no commercial transactions outside individual projects, the risk of a significant fraud in the day to day transactions of the Company is reduced.

Overall responsibility for coordinating British Airways response to fraud sits with the Head of Corporate Risk and Compliance. This response includes an Anti-Fraud Policy backed by training and limited by appropriate detective procedures. In Iberia the Risks and Security Department is in charge of identifying fraud risk and implementing any necessary controls to reduce or eliminate the impact of this risk. Iberia's employees must comply with the provisions contained in all in-house regulations of the Company based on the applicable laws and, in particular, Compliance with Bribery Laws and the rules regarding Guidance for Corporate Hospitality, Gifts and Entertainment, published on the Iberia Intranet.

F.3 Control activities

Indicate the existence of at least the following components, and specify their main characteristics:

F.3.1 Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

The Company's Management Committee reviews the financial performance of the IAG Group on a monthly basis. This review examines the previous month's performance, the forecast for the following quarter and the forecast for the full year against Finance Plan and the prior year. Movements in key performance indicators such as unit revenue and unit cost statistics are analysed together with the impact of foreign exchange and fuel commodity costs. The analysis is carried out on the IAG Group's three main operating units, these are, British Airways, Iberia, and Vueling. Consistency of these management accounts with the published quarterly IAG Group accounts leads to a high degree of confidence in the integrity of the published accounts.

The quarterly consolidation process is managed to a pre-agreed timetable and includes reviews and sign-offs at key stages in the process. Within British Airways the Finance Business Partners, who are senior finance professionals responsible for each directorate in the business, review and approve consolidation packs listing the financial information required by the IAG consolidation. This information is then consolidated at the British Airways Group level and is reviewed and approved by the British Airways Chief Financial Officer before final submission to IAG. Within Iberia the Accounting Department reviews and approves the financial information of the business units together with the business unit's responsible senior managers. This information is consolidated at the Iberia group level and reviewed and approved by the Iberia Chief Financial Officer before final submission to IAG. Within Vueling the Finance Department reviews and approves the financial information in conjunction with the other responsible department senior managers. This information is reviewed and approved by the Vueling Chief Financial Officer prior to final submission to IAG. These reviews across IAG will ensure that all material business risks have been properly recorded in the accounts, confirm the accounting treatment of judgemental areas and ensure the proper application of new accounting standards and guidance notes.

The IAG consolidation process involves a critical review of British Airways group, Iberia group and Vueling submissions. For specialist areas, such as treasury, consolidated information is reviewed by subject specialists to identify anomalies, inconsistencies with management accounting information and any inconsistent interpretation of instructions within the IAG Group. The final accounts are reviewed by the IAG Group Head of Reporting and Control together with the Chief Financial Officer. A peer review is also carried out by an experienced finance manager that has not been involved in the latter stages of the consolidation process.

Critical judgements, estimates, evaluations and projections are, as far as possible reviewed before the year-end close process. Where appropriate, management obtains the support of internal or external specialists to conclude on any of these matters. The critical accounting estimates and assumptions include impairment of non-financial assets, pensions and other post-retirement benefits, passenger revenue recognition, income tax, the residual value of assets and the useful life of assets.

The scope of ICFR in IAG has been based on the material subsidiaries being British Airways, Iberia and Vueling. The IAG ICFR model contains a Finance Risk & Control Matrix for the IAG Group that includes entity level controls, IT general controls and 19 main business processes considered relevant to the preparation of the Financial Statements including:

- a) Cargo Sales
- b) Payroll
- c) Passenger Sales – Ticket Sales
- d) Passenger Sales – Travel
- e) Passenger Sales – Billing/Interline Billing
- f) Fixed Assets – Aircraft
- g) Fixed Assets – Ground Assets
- h) Fixed Assets – Engines and Engine Parts
- i) Fixed & Current Asset Inventory – Engineering
- j) Debtors & Invoicing
- k) Fuel
- l) Buying Goods and Services

- m) User charges
- n) Customer loyalty programme
- o) Treasury
- p) Financial Statement Closing Process
- q) Alliance Partner Arrangements
- r) Tax
- s) Other Revenue

The design, implementation and maintenance of appropriate systems of ICFR is primarily the responsibility of management with process ownership identified and communicated to the Company, British Airways, Iberia and Vueling via the IAG ICFR Policy.

A total of 576 ICFR controls including 271 key ICFR controls have been defined across the 19 business processes in order to provide reasonable assurance as to the reliability of the financial information disclosed to the markets. Such controls can only provide reasonable and not absolute assurance against material misstatement, errors, losses or fraud. As a result of differences in business processes across the material subsidiaries not all controls are required in all material subsidiaries.

A Risk & Control Matrix maintains a central source of the following ICFR information for each business process:

- a) Financial reporting objective and associated assertions for each business process and sub-process covering completeness, existence, accuracy, valuation, rights & obligations and presentation & disclosure;
- b) Risks affecting the reliability of financial reporting including a description of the possible event or action giving rise to the risk;
- c) Control description of the control activities designed by management and incorporated into policy, procedures or practices to mitigate the identified risk. The controls are initially classified as key and/or fraud related with the following additional control characteristics identified; preventative or detective; manual or automated; the frequency of operation; and who performs the activity; and
- d) Control testing and summary of periodic audit results, including action plan to rectify identified weaknesses.

F.3.2 Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

The Company's IT systems are run on either British Airways, Iberia or Vueling systems and are subject to the control environments of the host company. The IAG IT General Controls matrix ("ITGC Matrix") defines the key IT General Controls (ITGC) in place across IAG Group over IT systems that support processes related to the preparation of financial information. The ITGC Matrix is based on the following four processes:

- a) Data Centre and Operations;
- b) Access Security;
- c) System Change and Control;
- d) Disaster Recovery.

A total of 24 ITGC Matrix key controls have been defined across the four information technologies (IT) processes.

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British Airways IT Systems

British Airways has established a framework of internal control for the management and administration of IT systems and processes. This framework includes the IT environment, architecture and infrastructure, and applications relevant to ICFR.

The British Airways framework includes documented baseline standards of control as well as IT policies, grouped under the following policy areas:

- a) Organisation of Information Security
- b) Policies and Controls Management
- c) Risk Management
- d) Information Asset Management
- e) Personnel Security
- f) Awareness and Training
- g) Physical and Environmental Security
- h) Security Operations
- i) Access Control
- j) Networks and Communications
- k) Systems Development
- l) Incident Management
- m) Business Continuity Management

All applications and systems used by British Airways including those related to ICFR must adhere to the baseline standards as a minimum standard of internal control.

The documented policies and baseline standards for control activity, when taken together, provide clear direction concerning expectations for internal control that are required to cover the inherent risks in the following critical IT system management areas:

- a) IT environment
 - i) The IT department organisational structure and description of responsibilities
 - ii) IT systems architecture and infrastructure
 - iii) Environmental protection against physical damage, loss, theft, or abuse of IT systems and equipment
- b) System operations
 - i) Management of back-up files
 - ii) Incident and problem management
 - iii) Management of data interfaces and exchange
 - iv) Service level management and reporting
 - v) Management of external partners and third parties
 - vi) Control of changes
 - vii) Approval and authorisation of changes
 - viii) Testing of changes
 - ix) Release management
- c) Continuity
 - i) Disaster contingency and recovery plans for IT systems
 - ii) Business resilience and contingency management arrangements
 - iii) Fault-resilient system design

- d) Physical and logical security
 - i) Information security management
 - ii) Systems access control
 - iii) Security operations management
 - iv) Physical security of data centres

e) Information security management

An Information Security Department leads, manages and co-ordinates the dissemination and implementation of information security practice within British Airways. Information is protected based on its value, confidentiality, criticality to the company, and the risk of loss or compromise.

Security measures and controls are implemented to support availability, integrity and confidentiality of information, and guard against its loss, unauthorised modification, destruction or disclosure. The degree of security protection reflects the value and sensitivity of the information, the nature of the possible threats, the vulnerability to these threats and the loss, harm, or embarrassment that could arise from them. These security measures and controls protect against misuse of British Airways' information resources, where this misuse could cause British Airways, its business partners, customers or employees loss, harm or embarrassment, or where it could lead to a criminal act such as fraud.

f) Secure access

Information, computer equipment, software and communications facilities are made available to those who require it in support of British Airways' business operations and access is restricted only to those organised to do so. Resources are organised and the duties documented, to reduce the risk of unauthorised changes to information, error, theft or fraud and the operation of certain duties is separated to reduce the opportunities for single individuals to misuse data or services.

Access to infrastructure, platforms, and applications and is managed via clear segregation of duties and access control processes and platform, system and application owners are responsible to keep their systems free of unauthorised and inappropriate users and access.

External connections to an application are individually identified, verified, recorded and approved by the application owner and controls are established to maintain the security of British Airways' information and information processing facilities that are: accessed, processed, communicated to, or managed by external parties.

Iberia IT Controls

The Iberia framework of internal control over IT systems is based on compliance with data protection law and quality certifications over key IT control activities.

a) Demanded by Spanish Data Protection regulation in force

Controls are built around compliance with the Organic Law 15/1999 of December 13 on the Protection of Personal Data and Royal Decree 1720/2007, of December 21, which approves the regulation implementing Organic Law 15/1999 of December 13 on the Protection of Personal Data. The most important security measures implemented as a result of this legislation are:

- i) Requirement to have personalised credentials for each user accessing the application. In particular, use of departmental or generic identifiers is forbidden;
- ii) Obligation to establish access profiles based on need- to access rule. Users will only have access to data and functionality required to carry out the tasks assigned to them by the company;
- iii) Password must be complex;
- iv) Passwords must expire periodically, and users must be able to change it at any time;
- v) Passwords are blocked after a number of denied login attempts;
- vi) Passwords are stored encrypted, in order to prevent viewing, and therefore the likelihood of an authorised user impersonation is minimal; and
- vii) Finally, backups and recovery tests must be performed periodically, in order to be able to recover the information in case of an incident.

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b) Demanded by Quality Certifications

ISO 9001: 2008 establishes a set of quality standards and continuous quality management, established by the International Organisation for Standardisation (ISO). These quality standards specify how a supervised company operates, its quality standards, delivery times and service levels. Iberia is ISO 9001: 2008 certified for:

- i) Development and maintenance of information systems;
- ii) Systems operation in data processing centre;
- iii) Telecommunications network management; and
- iv) Installation and maintenance of digital equipment.

In order to comply with its requirements, there are a number of controls in place in Iberia, aimed at ensuring the integrity of data:

- i) Existence of a change management process to prevent uncontrolled changes in the systems;
- ii) Existence of procedures to perform backup and recovery, in order to ensure business continuity after an incident;
- iii) Existence of notification and incident response management procedures to ensure incidents resolution in the minimum time; and
- iv) Existence of a critical incidents response protocol.

UNE-ISO/IEC 27001: 2007 (Requirements for Information Technology Security Techniques and Information Security Management Systems) specifies the requirements for establishing, implementing, maintaining and improving an information security management system. Iberia is certified in UNE-ISO/IEC 27001: 2007 for iberia.com; employee portal; and data processing centres.

In order to comply with its requirements, there are a number of controls in place in Iberia:

- i) Existence of a published security policy, specifying (among others) passwords are personal and not transferable and the regulation for the use of corporate resources by staff;
- ii) Segregation of duties and work environments;
- iii) Training sessions for staff, in order to explain the security policy and their obligations under it;
- iv) Obligation to limit users' access to minimal resources for the performance of their duties. This control is achieved by using:
 - Network segmentation
 - Installation of access control software on machines
 - Applications profiles
- v) Existence of a change management process to prevent uncontrolled changes in the systems; and
- vi) Existence of a business continuity plan to ensure service in the event of an incident.

Both UNE-ISO/IEC 27001: 2007 and ISO 9001: 2008 certifications are subject to annual review by Iberia Head of Quality within the Corporate Affairs Directorate and AENOR, the independent quality certification body

Vueling IT controls

Vueling control model over IT systems includes the following key processes:

- a) Logical access control including procedures for adding, changing and deleting users;
- b) Restriction of privileged access rights to application support teams;
- c) Physical access control including restricting access to computer facilities to authorised individuals;
- d) Systems development and change management including segregation of development, user acceptance and production environments together with production migration procedures ensuring that testing has been completed and emergency changes have been monitored; and
- e) Operations practices including batch processing controls, incident resolution and back up.

IT disaster recovery planning requirements are currently being assessed.

The IT Department sits within the Corporate Services Directorate and includes seven managers responsible for IT delivery and business support.

F.3.3 Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

The IAG Group has adopted a common framework of requirements for outsourced activities as part of the Global Business Service Project in 2013. For all outsourced processes, Service Level Agreements (SLA) are defined, agreed and signed in the contract with the vendor. As part of the Global Business Service Project both British Airways and Iberia are in the process of outsourcing or moving existing outsourced financial process support for head office and European operations to Accenture in Chennai. Both British Airways and Iberia Finance staff maintain a quarterly or half yearly review of outsourced accounts and reconciliations as well as ongoing monitoring of the operational status of outsourced processes.

When the IAG Group outsources relevant processes for the preparation of financial information to an independent expert, it ensures the professional's technical and legal competence. The IAG Group has identified four processes outsourced to independent experts relevant to financial reporting.

- a) British Airways outsource the derivation of pension scheme accounting, the proposed accounting treatment is subject to review and challenge by an in-house qualified accountant and pension risk management expert;
- b) Iberia values the obligations to employees and restructuring plan costs by actuarial studies made by independent experts;
- c) Vueling outsource the valuation of financial instruments and the effectiveness testing of derivatives; and
- d) The IAG Group outsources the valuation of assets and liabilities as a part of business combinations.

F.4 Information and communication

Indicate the existence of at least the following components, and specify their main characteristics:

F.4.1 A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the company's operating units.

IAG accounting policies are maintained by the IAG Group Financial Reporting and Control department.

F.4.2 Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

The IAG Group Financial Reporting and Control Department issues reporting instructions at each quarter end.

These instructions establish a timetable for key closing activities such as agreeing intragroup balances, submitting the main accounting results and detailed disclosures. Assumptions to be used for accounting tests such as Weighted Average Cost of Capital and percentage sensitivities on derivative transactions are also determined centrally and included in the instructions. The format of information to be submitted and the entities expected to submit the information is determined within the consolidation system which also includes validation tests for completeness and internal consistency.

Disclosures relating to ICFR are validated by senior accounting professionals identified by the Chief Financial Officers of IAG, British Airways, Iberia and Vueling.

F.5 Monitoring of the system operation

Indicate the existence of at least the following components, describing their main characteristics:

- F.5.1 The ICFR monitoring activities undertaken by the Audit Committee and an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.**

The Audit and Compliance Committee reviews all disclosures relating to ICFR and validates the IAG Group's approach to complying with the CNMV's ICFR recommendations. In this respect the Audit and Compliance Committee has been careful to achieve an appropriate balance between the CNMV's ICFR recommendations and the UK Corporate Governance Code approach.

The Internal Audit Department adopts a risk based approach to planning which incorporates financial risk factors. The results of audits are discussed at the British Airways, Iberia and Vueling Boards of Directors and Management Committees and the IAG Audit and Compliance Committee. The implementation of actions to address weaknesses identified by the Internal Audit Department are tracked and follow up audits carried out whenever the overall rating of the original audit was judged to be "deficient" or "seriously deficient".

ICFR 2014 Scope

As previously stated, IAG's ICFR includes the Company, British Airways, Iberia and Vueling. In addition to Entity Level Controls and ITGC's, 19 business processes have been identified as having a major impact on financial reporting with 2 in-scope for the Company, 18 in-scope for British Airways, 16 in scope for Iberia and 4 in-scope for Vueling.

A total of 714 control activities have been defined, 576 of which relate to the 19 business processes and 138 relate to IT general control. Of the 576 business process controls and the 138 IT general controls, 271 and 57, respectively, have been classified as key controls.

During 2014 the Internal Audit department has tested the 57 key ITGCs in British Airways, Iberia and Vueling as well as Entity Level Controls for the Company, British Airways, Iberia and Vueling, 18 of 18 in-scope business processes for British Airways, 9 of 16 in-scope processes for Iberia and 2 of 4 in-scope business processes for Vueling. As part of the Group's ICFR implementation project, the remaining 7 in-scope processes for Iberia and two in-scope processes for Vueling were tested during the period from October 2013 through December 2014. Non-key controls are being tested on a rotational basis over a three-year period following the year. Now that the ICFR implementation project is complete, from 2015 onwards all in-scope processes will be tested annually.

No material weaknesses were detected. A total of 4 significant weakness and 55 weaknesses were detected.

Action plans were put in place with process owners to address each internal control weakness and will be tracked by Internal Audit.

- F.5.2 A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its Audit Committee or Board of Directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.**

The Company's external auditors attend to the Audit and Compliance Committee meetings and report on significant control weaknesses identified during their work. No significant control weaknesses were identified by the external auditors in 2014.

The Head of IAG Group Audit and Risk Management also attends the Audit and Compliance Committee meetings and submits his report directly to the Audit and Compliance Committee. The Head of IAG Group Audit and Risk Management reports to the Chief Financial Officer, the Chairman of the Audit and Compliance Committee and the Chief Executive Officer. The implementation of internal audit recommendations is tracked by the Audit and Compliance Committee.

F.6 Other relevant information

None.

F.7 External auditor review

State whether:

- F.7.1 The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.**
The ICFR information supplied to the market has been reviewed by the external auditors, and their auditor report is at the end of this Annual Corporate Governance Report.

G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the company's compliance with Corporate Governance recommendations.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

1. The by-laws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

See sections: A.10, B.1, B.2, C.1.23 and C.1.24.

Complies

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:
 - a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;
 - b) The mechanisms in place to resolve possible conflicts of interest.

See sections: D.4 and D.7.

Not applicable

3. Even when not expressly required under company law, any decisions involving a fundamental corporate change should be submitted to the Shareholders' Meeting for approval or ratification. In particular:
 - a) The transformation of listed companies into holding companies through the process of "subsidiarisation", i.e. reallocating core activities to subsidiaries that were previously carried out by the originating firm, even though the latter retains full control of the former;
 - b) Any acquisition or disposal of key operating assets that would effectively alter the company's corporate purpose;
 - c) Operations that effectively add up to the company's liquidation.

See section: B.6.

Complies

4. Detailed proposals of the resolutions to be adopted at the Shareholders' Meeting, including the information stated in Recommendation 27, should be made available at the same time as the publication of the meeting notice.

Complies

5. Separate votes should be taken at the Shareholders' Meeting on materially separate items, so shareholders can express their preferences in each case. This rule shall apply in particular to:
 - a) The appointment or ratification of directors, with separate voting on each candidate;
 - b) Amendments to the by-laws, with votes taken on all articles or groups of articles that are materially different.

Complies

6. Companies should allow split votes, so financial intermediaries acting as nominees on behalf of different clients can issue their votes according to instructions.

Complies

7. The Board of Directors should perform its duties with unity of purpose and independent judgement, according all shareholders the same treatment. It should be guided at all times by the company's best interest and, as such, strive to maximise its value over time.

It should likewise ensure that the company abides by the laws and regulations in its dealings with stakeholders; fulfils its obligations and contracts in good faith; respects the customs and good practices of the sectors and territories where it does business; and upholds any additional social responsibility principles it has subscribed to voluntarily.

Complies

Spanish corporate governance report continued

8. The board should see the core components of its mission as to approve the company's strategy and authorise the organisational resources to carry it forward, and to ensure that management meets the objectives set while pursuing the company's interests and corporate purpose. As such, the board in full should reserve the right to approve:

- a) The company's general policies and strategies, and in particular:
 - i) The strategic or business plans, management targets and annual budgets;
 - ii) Investment and financing policy;
 - iii) Design of the structure of the corporate group;
 - iv) Corporate governance policy;
 - v) Corporate social responsibility policy;
 - vi) Remuneration and evaluation of senior officers;
 - vii) Risk control and management, and the periodic monitoring of internal information and control systems;
 - viii) Dividend policy, as well as the policies and limits applying to treasury stock.

See sections: C.1.14, C.1.16 and E.2.

- b) The following decisions:
 - i) On the proposal of the company's chief executive, the appointment and removal of senior officers, and their compensation clauses.
 - ii) Directors' remuneration, and, in the case of executive directors, the additional remuneration for their executive functions and other contract conditions.
 - iii) The financial information that all listed companies must periodically disclose.
 - iv) Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the Shareholders' Meeting.
 - v) The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.
- c) Transactions which the company conducts with directors, significant shareholders, shareholders with board representation or other persons related thereto ("related-party transactions").

However, board authorisation need not be required for related-party transactions that simultaneously meet the following three conditions:

1. They are governed by standard form contracts applied on an across-the-board basis to a large number of clients;
2. They go through at market prices, generally set by the person supplying the goods or services;
3. Their amount is no more than 1% of the company's annual revenues.

It is advisable that related-party transactions should only be approved on the basis of a favourable report from the Audit Committee or some other committee handling the same function; and that the directors involved should neither exercise nor delegate their votes, and should withdraw from the meeting room while the board deliberates and votes.

Ideally the above powers should not be delegated with the exception of those mentioned in b) and c), which may be delegated to the Executive Committee in urgent cases and later ratified by the full board.

See sections: D.1 and D.6.

Complies

9. In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise no fewer than five and no more than fifteen members.

See section: C.1.2.

Complies

10. Non-executive directors, proprietary and external independent, should occupy an ample majority of board places, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

See sections: A.3 and C.1.3.

Complies

11. That among non-executive directors, the relation between proprietary members and external independents should match the proportion between the capital represented on the board by proprietary directors and the remainder of the company's capital.

This proportional criterion can be relaxed so the weight of proprietary directors is greater than would strictly correspond to the total percentage of capital they represent:

1. In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested.
2. In companies with a plurality of shareholders represented on the board but not otherwise related.

See sections: A.2, A.3 and C.1.3.

Complies

12. The number of external independent directors should represent at least one third of all board members.

See section: C.1.3.

Complies

13. The nature of each director should be explained to the Shareholders' Meeting of, which will make or ratify his or her appointment. Such determination should subsequently be confirmed or reviewed in each year's Annual Corporate Governance Report, after verification by the Nomination Committee. The said Report should also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 5% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

See sections: C.1.3 and C.1.8.

Complies

14. When women directors are few or non existent, the Nomination Committee should take steps to ensure that:

- a) The process of filling board vacancies has no implicit bias against women candidates;
- b) The company makes a conscious effort to include women with the target profile among the candidates for board places.

See sections: C.1.2, C.1.4, C.1.5, C.1.6, C.2.2 and C.2.4.

Complies

15. The Chairman, as the person responsible for the proper operation of the Board of Directors, should ensure that directors are supplied with sufficient information in advance of board meetings, and work to procure a good level of debate and the active involvement of all members, safeguarding their rights to freely express and adopt positions; he or she should organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive, along with the chairmen of the relevant board committees.

See sections: C.1.19, and C.1.41.

Complies

16. When a company's Chairman is also its chief executive, an external independent director should be empowered to request the calling of board meetings or the inclusion of new business on the agenda; to coordinate and give voice to the concerns of non-executive directors; and to lead the board's evaluation of the Chairman.

See section: C.1.22.

Not applicable

Spanish corporate governance report continued

17. The Secretary should take care to ensure that the board's actions:

- a) Adhere to the spirit and letter of laws and their implementing regulations, including those issued by regulatory agencies;
- b) Comply with the company by-laws and the regulations of the Shareholders' Meeting, the Board of Directors and others;
- c) Are informed by those good governance recommendations of the Unified Code that the company has subscribed to.

In order to safeguard the independence, impartiality and professionalism of the Secretary, his or her appointment and removal should be proposed by the Nomination Committee and approved by a full board meeting; the relevant appointment and removal procedures being spelled out in the board regulations.

See section: C.1.34.

Complies

18. The board should meet with the necessary frequency to properly perform its functions, in accordance with a calendar and agendas set at the beginning of the year, to which each director may propose the addition of other items.

See section: C.1.29.

Complies

19. Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. When directors have no choice but to delegate their vote, they should do so with instructions.

See sections: C.1.28, C.1.29 and C.1.30.

Complies

20. When directors or the Secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, the person expressing them can request that they be recorded in the minute book.

Complies

21. The board in full should evaluate the following points on a yearly basis:

- a) The quality and efficiency of the board's operation;
- b) Starting from a report submitted by the Nomination Committee, how well the Chairman and chief executive have carried out their duties;
- c) The performance of its committees on the basis of the reports furnished by the same.

See sections: C.1.19 and C.1.20.

Complies

22. All directors should be able to exercise their right to receive any additional information they require on matters within the board's competence. Unless the by-laws or board regulations indicate otherwise, such requests should be addressed to the Chairman or Secretary.

See section: C.1.41.

Complies

23. All directors should be entitled to call on the company for the advice and guidance they need to carry out their duties. The company should provide suitable channels for the exercise of this right, extending in special circumstances to external assistance at the company's expense.

See section: C.1.40.

Complies

24. Companies should organise induction programmes for new directors to acquaint them rapidly with the workings of the company and its corporate governance rules. Directors should also be offered refresher programmes when circumstances so advise.

Complies

25. Companies should require their directors to devote sufficient time and effort to perform their duties effectively, and, as such:
- a) Directors should apprise the Nomination Committee of any other professional obligations, in case they might detract from the necessary dedication;
 - b) Companies should lay down rules about the number of directorships their board members can hold.
- See sections: C.1.12, C.1.13 and C.1.17.

Partially complies

In accordance with article 17 of the Board Regulations, the Directors, in the performance of their duties, shall act in good faith and shall comply with the duties prescribed by applicable law, the By-laws and the Board Regulations, acting in furtherance of the corporate interests of the Company.

On the other hand, article 18 of the Board Regulations establishes that a Director shall disclose all positions that he holds and services he provides to other companies or entities, as well as his other professional commitments and, before accepting office as Director or manager in another company or entity, shall give notice thereof to the Audit and Compliance Committee. In general, he shall disclose any fact or event that may be reasonably material to his conduct as a director of the Company.

In accordance with article 24 of the Board Regulations the Nominations Committee shall also ensure that, on appointment to the Board, Non-Executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside Board of Directors meetings.

The Board of Directors is satisfied that those rules are sufficient to ensure that the Directors are able to devote sufficient time and effort to perform the duties of their position effectively.

26. The proposal for the appointment or renewal of directors which the board submits to the Shareholders' Meeting, as well as provisional appointments by the method of co-option, should be approved by the board:
- a) On the proposal of the Nomination Committee, in the case of external independent directors.
 - b) Subject to a report from the Nomination Committee in all other cases.
- See section: C.1.3.

Complies

27. Companies should post the following director particulars on their websites, and keep them permanently updated:
- a) Professional experience and background;
 - b) Directorships held in other companies, listed or otherwise;
 - c) An indication of the director's classification as executive, proprietary or external independent; in the case of proprietary directors, stating the shareholder they represent or have links with.
 - d) The date of their first and subsequent appointments as a company director, and;
 - e) Shares held in the company and any options on the same.

Complies

28. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.
- See sections: A.2, A.3 and C.1.2.

Complies

Spanish corporate governance report continued

29. The Board of Directors should not propose the removal of external independent directors before the expiry of their tenure as mandated by the by-laws, except where just cause is found by the board, based on a proposal from the Nomination Committee. In particular, just cause will be presumed when a director is in breach of his or her fiduciary duties or comes under one of the disqualifying grounds enumerated in Ministerial Order ECC/461/2013.

The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the company's capital structure, in order to meet the proportionality criterion set out in Recommendation 11.

See sections: C.1.2, C.1.9, C.1.19 and C.1.27.

Complies

30. Companies should establish rules obliging directors to inform the board of any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the crimes stated in article 213 of the Spanish Companies Law, the board should examine the matter and, in view of the particular circumstances and potential harm to the company's name and reputation, decide whether or not he or she should be called on to resign. The board should also disclose all such determinations in the Annual Corporate Governance Report.

See sections: C.1.42 and C.1.43.

Complies

31. All directors should express clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors unaffected by the conflict of interest should challenge any decision that could go against the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next Recommendation.

The terms of this Recommendation should also apply to the Secretary of the board, director or otherwise.

Complies

32. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.

See section: C.1.9.

Complies

33. Remuneration comprising the delivery of shares in the company or other companies in the group, share options or other share-based instruments, payments linked to the company's performance or membership of pension schemes should be confined to executive directors.

The delivery of shares is excluded from this limitation when directors are obliged to retain them until the end of their tenure.

Complies

34. Non-executive directors' remuneration should sufficiently compensate them for the dedication, abilities and responsibilities that the post entails, but should not be so high as to compromise their independence.

Complies

35. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Not applicable

36. In the case of variable awards, remuneration policies should include technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, atypical or exceptional transactions or circumstances of this kind.

Complies

37. When the company has an Executive Committee, the breakdown of its members by director category should be similar to that of the board itself. The Secretary of the board should also act as secretary to the Executive Committee.
- See sections: C.2.1 and C.2.6.

Not applicable

38. The board should be kept fully informed of the business transacted and decisions made by the Executive Committee. To this end, all board members should receive a copy of the Committee's minutes.

Not applicable

39. In addition to the Audit Committee mandatory under the Securities Market Law, the Board of Directors should form a committee, or two separate committees, of Nomination and Remuneration.

The rules governing the make-up and operation of the Audit Committee and the committee or committees of Nomination and Remuneration should be set forth in the board regulations, and include the following:

- a) The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each committee; discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first board plenary following each meeting.
- b) These committees should be formed exclusively of non-executive directors and have a minimum of three members. Executive directors or senior officers may also attend meetings, for information purposes, at the Committees' invitation.
- c) Committees should be chaired by an external independent director.
- d) They may engage external advisors, when they feel this is necessary for the discharge of their duties.
- e) Meeting proceedings should be minuted and a copy sent to all board members.

See sections: C.2.1 and C.2.4.

Partially complies

Explain

Following the recommendations of the UK Corporate Governance Code, the Board of Directors has appointed the Board Chairman as Chairman of the Nominations Committee, deeming it to be the most appropriate step in the interests of the Company. Although the Board Chairman is a Non-Executive Director, he is not an independent director pursuant to Spanish law since less than five years have elapsed since he stood down as Executive Chairman of Iberia prior to the merger with British Airways (although more than four years have elapsed from the date of issuance of this report). It is deemed that the fact that the abovementioned period of five years has not yet elapsed does not in any way impede the Chairman of the Board of Directors from discharging the office of Chairman of the Nominations Committee adequately and with sufficient independence, in defence of the corporate interests and in accordance with the provisions of the By-laws and the Board Regulations.

40. The job of supervising compliance with internal codes of conduct and corporate governance rules should be entrusted to the Audit Committee, the Nomination Committee or, as the case may be, separate Compliance or Corporate Governance committees.

See sections: C.2.3 and C.2.4

Complies

41. Audit committee members, particularly the Chairman, are appointed in light of their knowledge and experience of accounting, audit or risk management.

Complies

Spanish corporate governance report continued

42. Listed companies should have an internal audit function, under the supervision of the Audit Committee, to ensure the proper operation of internal reporting and control systems.

See section: C.2.3.

Complies

43. The head of internal audit should present an annual work programme to the Audit Committee; report to it directly on any incidents arising during its implementation; and submit an activities report at the end of each year.

Complies

44. Control and risk management policy should specify at least:

- a) The different types of risk (operational, technological, financial, legal, reputational...) the company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks;
- b) The determination of the risk level the company sees as acceptable;
- c) Measures in place to mitigate the impact of risk events should they occur;
- d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

See section: E.

Complies

45. The Audit Committee's role should be:

- i) With respect to internal control and reporting systems:

- a) Review internal control and risk management systems on a regular basis, so the main risks are properly identified, managed and disclosed.
- b) Monitor the independence and efficacy of the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.
- c) Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the company.

- ii) With respect of the external auditor:

- a) Receive regular information from the external auditor on the progress and findings of the audit programme, and check that senior management are acting on its recommendations.
- b) Monitor the independence of the external auditor, to which end:
 - i) The company should notify any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
 - ii) The Committee should investigate the issues giving rise to the resignation of any external auditor.

See sections: C.1.36, C.2.3, C.2.4 and E.2.

Complies

46. The Audit Committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies

47. The Audit Committee should prepare information on the following points from Recommendation 8 for input to board decision-making:
- a) The financial information that all listed companies must periodically disclose. The Committee should ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.
 - b) The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.
 - c) Related-party transactions, except where their scrutiny has been entrusted to some other supervision and control committee.

See sections: C.2.3 and C.2.4.

Complies

48. The Board of Directors should seek to present the annual accounts to the Shareholders' Meeting without reservations or qualifications in the audit report. Should such reservations or qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

See section: C.1.38.

Complies

49. The majority of Nomination Committee members – or Nomination and Remuneration Committee members as the case may be – should be external independent directors.

See section: C.2.1.

Complies

50. The Nomination Committee should have the following functions in addition to those stated in earlier Recommendations:
- a) Evaluate the balance of skills, knowledge and experience on the board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.
 - b) Examine or organise, in appropriate form, the succession of the Chairman and chief executive, making recommendations to the board so the handover proceeds in a planned and orderly manner.
 - c) Report on the senior officer appointments and removals which the chief executive proposes to the board.
 - d) Report to the board on the gender diversity issues discussed in Recommendation 14 of this Code.

See section: C.2.4.

Complies

51. The Nomination Committee should consult with the company's Chairman and chief executive, especially on matters relating to executive directors.

Any board member may suggest directorship candidates to the Nomination Committee for its consideration.

Complies

Spanish corporate governance report continued

52. The Remuneration Committee should have the following functions in addition to those stated in earlier Recommendations:
- a) Make proposals to the Board of Directors regarding:
 - i) The remuneration policy for directors and senior officers;
 - ii) The individual remuneration and other contractual conditions of executive directors;
 - iii) The standard conditions for senior officer employment contracts.
 - b) Oversee compliance with the remuneration policy set by the company.
- See sections: C.2.4.

Complies

53. The Remuneration Committee should consult with the Chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies

H OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.
2. You may include in this section any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.
3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable identify the Code and date of adoption.

This annual corporate governance report was adopted by the company's Board of Directors at its meeting held on February 26, 2015.

List whether any directors voted against or abstained from voting on the approval of this Report.

No

| Name or corporate name of director | Reasons (voted against, abstention, non-attendance) | Explain the reasons |
|------------------------------------|--|---------------------|
| - | - | - |

A. OWNERSHIP STRUCTURE OF THE COMPANY

A.2 Causeway Capital Management LLC, through the communication of January 15, 2015, notified the National Securities Market Commission the transfer of voting rights on January 14, 2015 that supposed a decrease to below 3 per cent.

BlackRock, Inc., through the communication of January 27, 2015, notified the National Securities Market Commission the transfer of voting rights on January 23, 2015 that supposed a decrease to below 3 per cent.

Templeton Global Advisors Limited, through the communication of January 21, 2015, notified the National Securities Market Commission the transfer of voting rights on January 19, 2015 that supposed a decrease to below 3 per cent.

Qatar Airways (Q.C.S.C.), through the communication of January 30, 2015, notified the National Securities Market Commission the acquisition of voting rights on January 27, 2015 that supposed an increase to above 5 per cent.

A.3 Further detail of the information regarding members of the Board of Directors who have rights attaching to shares of the Company follows:

Below is a breakdown of the information included in table of section A.3

a) Directors' conditional awards

During 2014, Willie Walsh y Enrique Dupuy de Lôme Chávarri held conditional awards over ordinary shares of the Company granted under the Company's Performance Share Plan ("IAG PSP")

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the IAG PSP 2014 award was 435 pence.

| Director | Plan | Date of award | Number of awards at January 1, 2014 | Awards vesting during the year | Awards lapsed during the year | Awards made during the year | Number of awards at December 31, 2014 |
|--------------|--------------|----------------|-------------------------------------|--------------------------------|-------------------------------|-----------------------------|---------------------------------------|
| Willie Walsh | IAG PSP 2011 | March 31, 2011 | 714,285 | 714,285 | 0 | 0 | 0 |
| | IAG PSP 2012 | August 3, 2012 | 1,024,844 | - | 0 | 0 | 1,024,844 |
| | IAG PSP 2013 | March 6, 2013 | 684,647 | - | 0 | 0 | 684,647 |
| | IAG PSP 2014 | March 6, 2014 | - | - | 0 | 379,310 | 379,310 |
| Total | - | - | 2,423,776 | 714,285 | 0 | 379,310 | 2,088,801 |

| Director | Plan | Date of award | Number of awards at January 1, 2014 | Awards vesting during the year | Awards lapsed during the year | Awards made during the year | Number of awards at December 31, 2014 |
|--------------------------------|--------------|----------------|-------------------------------------|--------------------------------|-------------------------------|-----------------------------|---------------------------------------|
| Enrique Dupuy de Lôme Chávarri | IAG PSP 2011 | March 31, 2011 | 249,350 | 249,350 | - | - | 0 |
| | IAG PSP 2012 | August 3, 2012 | 372,670 | 0 | - | - | 372,670 |
| | IAG PSP 2013 | March 6, 2013 | 248,963 | 0 | - | - | 248,963 |
| | IAG PSP 2014 | March 6, 2014 | 0 | 0 | - | 137,931 | 137,931 |
| Total | - | - | 870,983 | 249,350 | - | 137,931 | 759,564 |

Spanish corporate governance report continued

B INCENTIVE AWARD DEFERRAL PLAN

During 2014, Willie Walsh y Enrique Dupuy de Lôme Chávarri held conditional awards over ordinary shares of the Company granted under the IADP (Incentive Award Deferral Plan) ("IAG IADP").

The value attributed to the Company's ordinary shares in accordance with the plan rules on the date of the IAG IADP 2014 award was 435 pence.

| Director | Plan | Date of award | Number of awards at January 1, 2014 | Awards released during the year | Date of vesting | Awards lapsed during the year | Awards made during the year | Number of awards at December 31, 2014 |
|--------------|---------------|----------------|-------------------------------------|---------------------------------|-----------------|-------------------------------|-----------------------------|---------------------------------------|
| Willie Walsh | IAG IADP 2011 | March 31, 2011 | 90,984 | 90,984 | March 31, 2014 | 0 | - | - |
| | IAG IADP 2012 | August 3, 2012 | 93,773 | - | August 3, 2015 | - | - | 93,773 |
| | IAG IADP 2014 | March 6, 2014 | - | - | March 6, 2017 | - | 149,353 | 149,353 |
| Total | - | - | 184,757 | 90,984 | - | 0 | 149,353 | 243,126 |

| Director | Plan | Date of award | Number of awards at January 1, 2014 | Awards released during the year | Date of vesting | Awards lapsed during the year | Awards made during the year | Number of awards at December 31, 2014 |
|--------------------------------|---------------|----------------|-------------------------------------|---------------------------------|-----------------|-------------------------------|-----------------------------|---------------------------------------|
| Enrique Dupuy de Lôme Chavarri | IAG IADP 2012 | August 3, 2012 | 37,267 | - | August 3, 2015 | - | - | 37,267 |
| | IAG IADP 2013 | March 6, 2013 | 62,241 | - | March 6, 2016 | - | - | 62,241 |
| | IAG IADP 2014 | March 6, 2014 | - | - | March 6, 2017 | - | 50,862 | 50,862 |
| Total | - | - | 99,508 | - | - | - | 50,862 | 150,370 |

For the year to 31 December 2014, €:£ exchange rate applied is 1.2356.

G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

The Company considers that it complies with recommendation number 1 of the Unified Code in that the bylaw restrictions on the ownership of the Company's shares (see section A.10) derive directly from the ownership and control restrictions set out in the applicable law or in the bilateral air transport treaties signed by Spain and the United Kingdom and are not simply determined discretionarily by the Company.

Moreover, those restrictions do not relate only to the voting rights, but also to the ownership of the shares (i.e., they do not restrict the number of votes a same shareholder can cast even if it has a higher ownership interest) and only relate to shareholders from countries outside the European Union, according to the applicable legislation on the operating licenses of the Company's airlines.

ADDITIONAL INFORMATION AS A RESULT OF THE COMPANY ALSO BEING LISTED ON THE LONDON STOCK EXCHANGE

The Company is subject to the UK Listing Rules, including the requirement to explain whether it complies with the UK Corporate Governance Code published by the UK Financial Reporting Council as amended from time to time.

During the year the Company considers it has complied with all the provisions of the UK Corporate Governance Code 2012 but for the following matter: The service contract for Antonio Vázquez Romero does not comply with the recommendation of the UK Corporate Governance Code, that notice periods should be set at one year or less so as to limit any payment on exit. Details can be found in the Directors' Remuneration Report.

The Company believes in accordance with the UK Corporate Governance Code that, notwithstanding the above exception, it has a robust governance structure.



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AGREED UPON PROCEDURES REPORT

To the Directors of International Consolidated Airlines Group, S.A.

In accordance with the request from the Board of Directors of International Consolidated Airlines Group, S.A. (hereinafter IAG) and our engagement letter dated February 11, 2015, we have performed certain procedures on the accompanying ICFR-related information of IAG, for the year 2014, which summarises the internal control procedures of IAG in relation to the annual financial information.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system as well as developing improvements to that system, and preparing and establishing the content of the accompanying ICFR-related information.

It should be noted that irrespective of the quality of the design and operability of the internal control system adopted by IAG in relation to its annual financial information, it can only provide reasonable, rather than absolute assurance with respect to the objectives pursued, due to the inherent limitations to any internal control system.

In the course of our audit work on the financial statements and pursuant to the Technical Auditing Standards, the sole purpose of our assessment of IAG internal control was to enable us to establish the scope, nature, and timing of the audit procedures to be applied to the IAG financial statements. Therefore, our assessment of the internal control performed for the purposes of the audit of the financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness on the internal control over the regulated annual financial information.

For the purpose of issuing this report, we exclusively applied the specific procedures described below and indicated in the Guidelines on the Auditors' report relating to information on the Internal Control over Financial Reporting on Listed Companies, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Given that the scope of these procedures was limited and substantially less than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or its design or operating effectiveness, in relation to IAG's annual financial information for 2014 described in the accompanying ICFR. Consequently, had we applied additional procedures to those established by the Guidelines mentioned above or had we carried out an audit or a review of the internal control over the regulated annual financial reporting information, other matters might have been disclosed which would have been reported to you.

Likewise, since this special engagement does not constitute an audit of the financial statements or a review in accordance with Royal Decree 1/2011, dated July 1, enacting the revised Audit Law, we do not express an audit opinion in the terms provided for therein.

The procedures applied were as follows:

1. Read and understand the information prepared by IAG in relation to the ICFR -which is provided in the Annual Corporate Governance Report disclosure information included in the Directors' Report- and assess whether such information addresses all the required information which will follow the minimum content detailed in Section F, relating to the description of the ICFR, as per the IAGC model established by CNMV Circular nº 5/2013 dated June 12, 2013.
2. Make enquiries of personnel in charge of preparing the information described in point 1 above in order to:
 - a. Obtain an understanding of the process followed in its preparation
 - b. Obtain information which will allow us to assess whether the terminology used is adapted to the definitions provided in the reference framework
 - c. Obtain information on whether the control procedures described are implemented and in used by IAG
3. Review the explanatory documentation supporting the information described in point 1 above, which should basically include that which is provided directly to those responsible for preparing the ICFR descriptive information. In this respect, the aforementioned documentation includes related reports prepared by the Internal Audit Department, senior management, and other internal and external experts providing support to the Audit Committee.
4. Compare the information described in point 1 above with IAG's ICFR knowledge obtained as a result of performing the external audit procedures within the framework of the audit of the financial statements.
5. Read the minutes of the meetings held by the Board of Directors, Audit Committee and other IAG committees in order to assess the consistency between the ICFR issues addressed therein and the information provided in point 1 above.
6. Obtain the representation letter related to the work performed, duly signed by the personnel in charge of preparing the information discussed in point 1 above.

As a result of the procedures applied, no inconsistencies or issues were detected that might have an impact on ICFR-related information.

This report was prepared exclusively within the framework of the requirements of Spanish Securities Market Law 24/1988, of July 28, amended by the Sustainable Economy Law 2/2011, of March 4, and by Circular nº 5/2013 of the Spanish National Securities Market Commission related to the description of the ICFR in the Annual Corporate Governance Report.

ERNST & YOUNG, S.L.

Rafael Pérez Martínez

March 4, 2015

GROUP INVESTMENTS

Subsidiaries

| Name and address | Principal activity | Country of Incorporation | Percentage of equity owned |
|--|----------------------|--------------------------|----------------------------|
| Avios Group (AGL) Limited* Astral Towers, Betts Way, London Road, Crawley, West Sussex, RH10 9XY | Airline marketing | England | 100% |
| Avios South Africa Proprietary Limited 34 Whitley Road, Unit B, 3rd Floor, Melrose Arch, Melrose North, Johannesburg | | South Africa | 100% |
| BA and AA Holdings Limited* Waterside, PO Box 365, Harmondsworth, UB7 OGB | Holding company | England | 100% |
| BA Call Centre India Private Limited (callBA) F-42, East of Kailash, New-Delhi, 110065 | | India | 100% |
| BA Cityflyer Limited* Waterside, PO Box 365, Harmondsworth, UB7 OGB | Airline operations | England | 100% |
| BA European Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB | | England | 100% |
| BA Number One Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB | | England | 100% |
| BA Number Two Limited 13 Castle Street, St Helier, JE4 5UT | | Jersey | 100% |
| bmibaby Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB | | England | 100% |
| Binter Finance B.V. Prins Bernhardplein 200, Amsterdam, 1097 JB | | Netherlands | 100% |
| BritAir Holdings Limited* Waterside, PO Box 365, Harmondsworth, UB7 OGB | Holding company | England | 100% |
| British Airways Plc* Waterside, PO Box 365, Harmondsworth, UB7 OGB | Airline operations | England | 100% |
| British Airways (BA) Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB | | England | 100% |
| British Airways (España) Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB | | England | 100% |
| British Airways (European Operations at Gatwick) Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB | | England | 100% |
| British Airways (No 1) Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB | | England | 100% |
| British Airways 777 Leasing Limited* Waterside, PO Box 365, Harmondsworth, UB7 OGB | Aircraft financing | England | 100% |
| British Airways Associated Companies Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB | | England | 100% |
| British Airways Avionic Engineering Limited* Waterside, PO Box 365, Harmondsworth, UB7 OGB | Aircraft maintenance | England | 100% |
| British Airways Capital Limited Queensway House, Hilgrove Street, St Helier, JE1 1ES | | Jersey | 100% |
| British Airways E-Jets Leasing Limited* Canon's Court, 22 Victoria Street, Hamilton, HM 12 | Aircraft financing | Bermuda | 100% |
| British Airways Employee Benefit Trustee (Jersey) Limited Queensway House, Hilgrove Street, St Helier, JE1 1ES | | Jersey | 100% |
| British Airways Finance (Jersey) Limited Partnership 13 Castle Street, St Helier, JE4 5UT | | Jersey | 100% |

* Principal subsidiaries

| Name and address | Principal activity | Country of Incorporation | Percentage of equity owned |
|--|------------------------|--------------------------|----------------------------|
| British Airways Holdings B.V. Atrium, Strawinskylaan 3105, Amsterdam, 1077 ZX | | Netherlands | 100% |
| British Airways Holdings Limited* 13 Castle Street, St Helier, JE4 5UT | Airline finance | Jersey | 100% |
| British Airways Holidays Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB | Package holidays | England | 100% |
| British Airways Interior Engineering Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB | Aircraft maintenance | England | 100% |
| British Airways Leasing Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB | Aircraft financing | England | 100% |
| British Airways Maintenance Cardiff Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB | Aircraft maintenance | England | 100% |
| British Airways Pension Trustees (No 2) Limited Whitelocke House, 2-4 Lampton Road, Hounslow, Middlesex, TW3 1HU | | England | 100% |
| British Airways Regional Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB | | England | 100% |
| British Caledonian Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB | | England | 100% |
| British Caledonian Group Limited Ground Floor, Bute Court, Glasgow Airport, Glasgow, PA3 2SW | | Scotland | 100% |
| British Midland Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB | | England | 100% |
| British Midland Airways Limited* Waterside, PO Box 365, Harmondsworth, UB7 0GB | Airline operations | England | 100% |
| Caledonian Aviation Investments Limited Waterside, PO Box 365, Harmondsworth, UB7 0GB | | England | 100% |
| Campos Velázquez, S.A. Calle Martínez Villergas 49, Madrid, 28027 | | Spain | 100% |
| Cargosur, S.A. Calle Martínez Villergas 49, Madrid, 28027 | | Spain | 100% |
| Consultores Hansa, S.A. Calle Martínez Villergas 49, Madrid, 28027 | | Spain | 100% |
| Deutsche BA Holding GmbH Brienner Strasse 28, Munich, 80333 | | Germany | 100% |
| Diamond Insurance Company Limited 1st Floor, Rose House, 51-59 Circular Road, Douglas, IM1 1RE | | Isle of Man | 100% |
| Flyline Tele Sales & Services GmbH Hermann Koehl-Strasse 3, Bremen, 28199 | | Germany | 100% |
| IAG Cargo Limited* Carrus Cargo Centre, PO Box 99, Sealand Road, London Heathrow Airport, Hounslow, TW6 2JS | Air freight management | England | 100% |
| IAG GBS Limited 2 World Business Centre, Newall Road, London Heathrow Airport, Hounslow, TW6 2SF | | England | 100% |
| IAG GBS Poland sp z o.o. ul. Żłota 59, Warsaw, 00-120 | | Poland | 100% |
| Iberia Express, S.A.* Calle Alcañiz 23, Madrid, 28006 | Airline operations | Spain | 100% |

* Principal subsidiaries

Group investments continued

| Name and address | Principal activity | Country of Incorporation | Percentage of equity owned |
|---|------------------------------------|--------------------------|----------------------------|
| Iberia México, S.A.* Ejército Nacional 436, 9th Floor, Colonia Chapultepec-Morales, Mexico City, 11570 | Storage and custody services | Mexico | 100% |
| Iberia Tecnología, S.A.* Calle Martínez Villergas 49, Madrid, 28027 | Aircraft maintenance | Spain | 100% |
| Iberia Líneas Aéreas de España, S.A. Operadora* Calle Martínez Villergas 49, Madrid, 28027 | Airline operations and maintenance | Spain | 100% |
| Illiad Inc Suite 1300, 1105 N Market Street, PO Box 8985, Wilmington, Delaware, 19899 | | USA | 100% |
| Openskies Aviation Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB | | England | 100% |
| Openskies SASU* 3 Rue le Corbusier, Rungis, 94150 | Airline operations | France | 100% |
| Overseas Air Travel Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB | | England | 100% |
| Remotereport Trading Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB | | England | 100% |
| Speedbird Cash Management Limited Canon's Court, 22 Victoria Street, Hamilton, HM 12 | | Bermuda | 100% |
| Speedbird Insurance Company Limited* Canon's Court, 22 Victoria Street, Hamilton, HM 12 | Insurance | Bermuda | 100% |
| Speedwing International Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB | | England | 100% |
| Teleflight Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB | | England | 100% |
| The Plimsoll Line Limited* Waterside, PO Box 365, Harmondsworth, UB7 OGB | Holding company | England | 100% |
| Veloz Holdco, S.L. Pla de l'Estany 5, Parque de Negocios Mas Blau II, El Prat de Llobregat, Barcelona, 08820 | | Spain | 100% |
| VIVA Vuelos Internacionales de Vacaciones, S.A. Calle Martínez Villergas 49, Madrid, 28027 | | Spain | 100% |
| Vueling Airlines, S.A.* Pla de l'Estany 5, Parque de Negocios Mas Blau II, El Prat de Llobregat, Barcelona, 08820 | Airline operations | Spain | 99.47% |
| British Mediterranean Airways Limited Waterside, PO Box 365, Harmondsworth, UB7 OGB | | England | 99% |
| Compañía Auxiliar al Cargo Exprés, S.A.* Centro de Carga Aérea, Parcela 2-5 Nave 6, Madrid, 28042 | Cargo transport | Spain | 75% |
| Iberia Desarrollo Barcelona, S.L.* Torre Tarragona, Planta 15, Calle Tarragona 161, Barcelona, 08014 | Airport infrastructure development | Spain | 75% |
| Sociedad Auxiliar Logística Aeroportuaria, S.A.* Centro de Carga Aérea, Parcela 2-5 Nave 6, Madrid, 28042 | Cargo transport | Spain | 75% |

* Principal subsidiaries

Associates

| Name and address | Country of incorporation | Percentage of equity owned |
|---|--------------------------|----------------------------|
| Iber-América Aerospace, LLC 9800 Premier Parkway, Miramar, 33025, Florida | USA | 65.33% |
| Handling Guinea Ecuatorial, S.A. Malabo Bioko Norte International Airport, Apartado de Correos 92, Malabo | Equatorial Guinea | 51% |
| Empresa Hispano Cubana de Mantenimiento de Aeronaves, Ibeca, S.A. Avenida de Vantroi y Final, Aeropuerto de Jose Martí, Ciudad de la Habana | Cuba | 50% |
| Empresa Logística de Carga Aérea, S.A. Carretera de Wajay km 15, Aeropuerto de Jose Martí, Ciudad de la Habana | Cuba | 50% |
| Madrid Aerospace Services, S.L. Calle Verano 9, Polígono Industrial Las Monjas, Torrejón de Ardoz, 28850, Madrid | Spain | 50% |
| International Supply Management, S.L. Edificio Foro de Somosaguas, Pozuelo de Alarcón, 28223, Madrid | Spain | 49% |
| Multiservicios Aeroportuarios, S.A. Avenida de Manoteras 46, 2nd Floor, 28050, Madrid | Spain | 49% |
| Dunwoody Airline Services (Holdings) Limited Building 70, Argosy Road, East Midlands Airport, Castle Donnington, Derby, DE74 2SA | England | 40% |
| Sociedad Conjunta para la Emisión y Gestión de Medios de Pago EFC, S.A. José Ortega y Gasset 22, 3rd Floor, 28006, Madrid | Spain | 43.50% |
| Serpista, S.A. Cardenal Marcelo Spínola 10, 28016, Madrid | Spain | 39% |
| Grupo Air Miles España, S.A. Avenida de Bruselas 20, Alcobendas, 28108, Madrid | Spain | 25% |

Available-for-sale financial assets

The Group's principal available-for-sale financial assets are as follows:

| Name and address | Information from latest financial statements | | | | |
|--|--|----------------------------|--------------------|-------------------------------|------------------------------------|
| | Country of incorporation | Percentage of equity owned | Currency | Shareholder's funds (million) | Profit/(loss) before tax (million) |
| Servicios de Instrucción de Vuelo, S.L. Camino de la Muñoza 2, Madrid, 28042 | Spain | 19.90% | Euro | 37 | 2 |
| The Airline Group Limited Brettenham House South, 5th Floor, Lancaster Place, London, WC2N 7EN | England | 16.68% | Pound sterling | 157 | 9 |
| Comair Limited 1 Marignane Drive, Bonaero Park, 1619, Johannesburg | South Africa | 12.26% | South African Rand | 1,067 | 374 |
| Adquira España, S.A. Plaza Cronos, 1 - 4th Floor, Madrid, 28037 | Spain | 10% | Euro | 6 | 1 |
| Amadeus IT Holding, S.A. Calle Salvador Madariaga 1, Madrid, 28027 | Spain | 0.075% | Euro | Not available | |

STATEMENT OF DIRECTORS' RESPONSIBILITIES

LIABILITY STATEMENT OF COMPANY DIRECTORS FOR THE PURPOSES ENVISAGED UNDER ARTICLE 8.1.b OF SPANISH ROYAL DECREE 1362/2007 OF 19 OCTOBER (REAL DECRETO 1362/2007).

At a meeting held on February 26, 2015, the Directors of International Consolidated Airlines Group, S.A. confirmed that to the best of their knowledge the Consolidated Financial Statements for the year to December 31, 2014 were prepared in accordance with International Financial Reporting Standards ('IFRS'), as adopted by the European Union, and other provisions in the regulatory framework applicable to the Group, offer a true and fair view of the assets, liabilities, financial situation, cash flows and the results of International Consolidated Airlines Group, S.A. and of the companies that fall within the consolidated group taken as a whole, and the Consolidated Management Report includes an accurate analysis of the required information also in accordance with the Financial Conduct Authority's DTR 4.1 (English regulation) including an indication of important events in the year, a description of the principal risks and uncertainties and a list of material related party transactions.

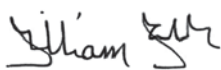
February 26, 2015



Antonio Vázquez Romero
Chairman



Martin Faulkner Broughton
Deputy Chairman



William Matthew Walsh
Chief Executive Officer



César Alierta Izuel



Patrick Jean Pierre Cescau



Enrique Dupuy de Lôme Chávarri



Denise Patricia Kingsmill



James Arthur Lawrence



María Fernanda Mejía Campuzano



José Pedro Pérez-Llorca y Rodrigo



Kieran Charles Poynter



Marjorie Morris Scardino



Alberto Terol Esteban



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INDEPENDENT AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of International Consolidated Airlines Group, S.A.:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of International Consolidated Airlines Group, S.A. (the parent company) and its subsidiaries (the Group), which comprise consolidated balance sheet at December 31, 2014, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto for the year then ended.

Directors' responsibility for the consolidated financial statements

The directors of the parent company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the consolidated equity and consolidated financial position and the consolidated results of International Consolidated Airlines Group, S.A. and its subsidiaries, in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying consolidated financial statements based on our audit. We conducted our audit in accordance with prevailing audit regulations in Spain. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of consolidated financial statements by the directors of the parent company in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of International Consolidated Airlines Group, S.A. and its subsidiaries at December 31, 2014, and its consolidated results and consolidated cash flow for the year then ended, in accordance with IFRS, as adopted by the EU, and other provisions in the regulatory framework for financial information applicable in Spain.

Report on other legal and regulatory requirements

The accompanying consolidated 2014 management report contains such explanations as the directors of the parent company consider appropriate concerning the situation of the Group, the evolution of its business and other matters; however, it is not an integral part of the consolidated financial statements. We have checked that the accounting information included in the aforementioned consolidated management report agrees with the 2014 consolidated financial statements. Our work as auditors is limited to verifying the consolidated management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the accounting records of International Consolidated Airlines Group, S.A. and its subsidiaries.

We have nothing to report in respect of our requirement to review, under the United Kingdom Listing Rules, the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for your review.

ERNST & YOUNG, S.L.

Rafael Pérez Martínez

March 4, 2015

OPERATING AND FINANCIAL STATISTICS

| Total Group operations | | 2014 ¹ | 2013 ¹ | 2012 ¹ | 2011 ² | 2010 ² |
|---|----------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Traffic and capacity | | | | | | |
| Available seat km (ASK) | million | 251,931 | 230,573 | 219,172 | 213,193 | 199,032 |
| Revenue passenger km (RPK) | million | 202,562 | 186,304 | 176,102 | 168,617 | 157,323 |
| Cargo tonne km (CTK) | million | 5,453 | 5,653 | 6,080 | 6,156 | 5,907 |
| Passengers carried | '000 | 77,334 | 67,224 | 54,600 | 51,687 | 50,600 |
| Tonnes of cargo carried | '000 | 897 | 928 | 1,011 | 1,050 | 1,019 |
| Sectors | '000 | 599,624 | 538,644 | 453,100 | 437,411 | 437,500 |
| Block hours | hours | 1,712,506 | 1,573,900 | 1,419,601 | 1,388,514 | 1,329,767 |
| Operations | | | | | | |
| Average manpower equivalent | | 59,484 | 60,089 | 59,574 | 56,791 | 56,563 |
| Aircraft in service at year end | | 459 | 431 | 377 | 348 | 352 |
| Aircraft utilisation – Longhaul (average hours per aircraft per day) | hours | 13.5 | 13.3 | 13.6 | 13.6 | 13.1 |
| Aircraft utilisation – Shorthaul (average hours per aircraft per day) | hours | 8.8 | 8.4 | 8.2 | 8.5 | 8.2 |
| Punctuality – within 15 minutes | % | 80.9 | 79.2 | 77.2 | 76.6 | 74.7 |
| Regularity | % | 99.5 | 99.0 | 99.0 | 99.0 | 95.4 |
| Financial | | | | | | |
| Passenger unit revenue per ASK | €cents | 7.08 | 7.05 | 7.01 | 6.41 | 6.19 |
| Passenger revenue per RPK | €cents | 8.80 | 8.73 | 8.73 | 8.11 | 7.83 |
| Cargo revenue per CTk | €cents | 18.19 | 18.98 | 20.02 | 19.33 | 18.55 |
| Total traffic revenue per ATK | €cents | 60.45 | 57.1 | 53.59 | 49.47 | 47.93 |
| Average fuel price (\$cents/ US gallon) | | 300.16 | 314.15 | 320.33 | 289.04 | 224.93 |
| Fuel cost per ASK | €cents | 2.38 | 2.58 | 2.78 | 2.38 | 1.96 |
| Operating profit before depreciation, amortisation and rentals (EBITDAR) | €million | 3,137 | 2,258 | 1,480 | 1,867 | 1,692 |
| Total operating expenditure excluding fuel per ASK | €cents | 5.08 | 5.18 | 5.49 | 5.06 | 5.36 |
| Operating margin | % | 6.9 | 4.1 | (0.1) | 3.0 | 1.5 |
| Total operating expenditure per ASK | €cents | 7.45 | 7.77 | 8.28 | 7.44 | 7.32 |
| Total operating expenditure per ATK | €cents | 60.33 | 58.97 | 58.60 | 52.76 | 52.05 |
| Dividend cover | times | - | - | - | - | - |
| Interest cover* | times | 6.40 | 2.80 | (0.22) | 4.69 | 1.50 |
| Net debt | €million | 1,673 | 1,489 | 1,889 | 1,148 | 895 |
| Equity* | €million | 3,793 | 4,216 | 2,978 | 4,312 | 4,670 |
| Adjusted gearing | % | 51 | 50 | 51 | 44 | 47 |
| Adjusted net debt to EBITDAR | % | 1.9 | 2.5 | 3.6 | 2.3 | 2.4 |

¹ Financial data for the full year to December 31, 2014, 2013 and 2012 is based on the consolidated results of the Group, before exceptional items.

² The full year to December 31, 2011 and 2010 is based on the combined results of operations of British Airways Plc and Iberia Líneas Aéreas de España S.A Operadora.

* Restated for amendment to IAS 19 'Employee benefits' accounting standard.

GLOSSARY

| | |
|--|--|
| Adjusted aircraft operating leases | Aircraft operating lease costs multiplied by 0.67 |
| Adjusted gearing | Adjusted net debt, divided by adjusted net debt and adjusted equity |
| Adjusted net debt | Net debt plus capitalised operating aircraft lease costs |
| Available seat kilometres (ASK) | The number of seats available for sale multiplied by the distance flown |
| Available tonne kilometres (ATK) | The number of tonnes of capacity available for the carriage of load (passenger and cargo) multiplied by the distance flown |
| Block hours | Hours of service for aircraft, measured from the time that the aircraft leaves the gate at the departure airport to the time that it arrives at the gate at the destination airport |
| Cargo revenue per CTK | Cargo revenue divided by CTK |
| Cargo tonne kilometres (CTK) | The number of tonnes of cargo that generate revenue (freight and mail) carried multiplied by the distance flown |
| Dividend cover | The number of times profit for the year covers the dividends paid and proposed |
| EBITDAR | Operating profit before depreciation, amortisation and rental charges |
| Earnings per share (EPS) | Earnings are based on results after tax, adjusted for earnings attributable to equity holders for interest on the 1.75 per cent convertible bonds, if dilutive shares are based on the weighted average number of ordinary shares, adjusted for the dilutive impact of the assumed conversion of the bonds and employee share-based payments outstanding |
| Equity free cash flow | EBITDAR less aircraft operating lease costs less interest and cash tax less capital expenditure |
| Interest cover | The number of times profit before taxation and net interest expense and interest income cover the net interest expense and interest income |
| Lease adjusted operating margin | Operating result less aircraft operating lease cost plus adjusted aircraft operating lease costs divided by revenue |
| Manpower equivalent | Number of employees adjusted for part-time workers, overtime and contractors |
| Merger effective date | January 21, 2011, the date British Airways and Iberia signed a merger agreement to create International Airlines Group |
| Net debt | Current and long-term interest-bearing borrowings less other current interest-bearing deposits and cash and cash equivalents |
| Operating margin | Operating profit/(loss) as a percentage of total revenue |
| Overall load factor | RTK expressed as a percentage of ATK |
| Passenger load factor | RPK expressed as a percentage of ASK |
| Punctuality | The industry's standard, measured as the percentage of flights departing within 15 minutes of schedule |
| Regularity | The percentage of flights completed to flights scheduled, excluding flights cancelled for commercial reasons |
| Return on invested capital (RoIC) | EBITDAR less adjusted depreciation divided by invested capital. Adjusted depreciation is calculated as reported depreciation multiplied by an inflation factor $((1 + \text{asset inflation})^{\text{asset age}})$ plus adjusted aircraft operating lease costs. Invested capital is calculated as depreciation multiplied by remaining asset life |
| Revenue passenger kilometres (RPK) | The number of passengers that generate revenue carried multiplied by the distance flown |
| Passenger unit revenue per ASK | Passenger revenue divided by ASK |
| Passenger revenue per RPK (yield) | Passenger revenue divided by RPK |
| Revenue tonne kilometres (RTK) | The revenue load in tonnes multiplied by the distance flown |
| Sector | A one-way revenue flight |
| Total capital | Total equity plus net debt |
| Total Group revenue per ASK (RASK) | Total group revenue divided by ASK |
| Total operating expenditure excluding fuel per ASK | Total operating expenditure excluding fuel divided by ASK |
| Total operating expenditure per ASK | Total operating expenditure divided by ASK |
| Total traffic revenue per ATK | Revenue from total traffic (passenger and cargo) divided by ATK |

SHAREHOLDER INFORMATION

Registered office

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Madrid Commercial Registrar
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C.I.F. A85845535

UK Branch registered address

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London Heathrow Airport
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Registrar

Computershare Investor Services PLC

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Private shareholders: shareholder.services@iairgroup.com

American Depositary Receipt program

IAG has a Sponsored Level 1 American Depositary Receipt (ADR) facility that trades on the OTC market in the US (see www.otcm Markets.com). Deutsche Bank is the ADR depository bank.

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Financial calendar

Financial year end: December 31, 2014

Q1 results: April 30, 2015

Half year results: July 31, 2015

Q3 results: October 30, 2015

Other key dates can be found on our website:
www.iagshares.com

ShareGift

UK shareholders with a small number of shares may like to consider donating their shares to charity under ShareGift, administered by Orr Mackintosh Foundation. Details are available from the UK Registrar.

Certain statements included in this report are forward-looking and involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such forward-looking statements.

Forward-looking statements can typically be identified by the use of forward-looking terminology, such as "expects", "may", "will", "could", "should", "intends", "plans", "predicts", "envisages" or "anticipates" and include, without limitation, any projections relating to results of operations and financial conditions of International Consolidated Airlines Group S.A. and its subsidiary undertakings from time to time (the '**Group**'), as well as plans and objectives for future operations, expected future revenues, financing plans, expected expenditures and divestments relating to the Group and discussions of the Group's business plan. All forward-looking statements in this report are based upon information known to the Group on the date of this report. The Group 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 forward-looking statements in this report 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 the primary risks of the business and the risk management process of the Group is set out in the risk management and risk factors section of the report.



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