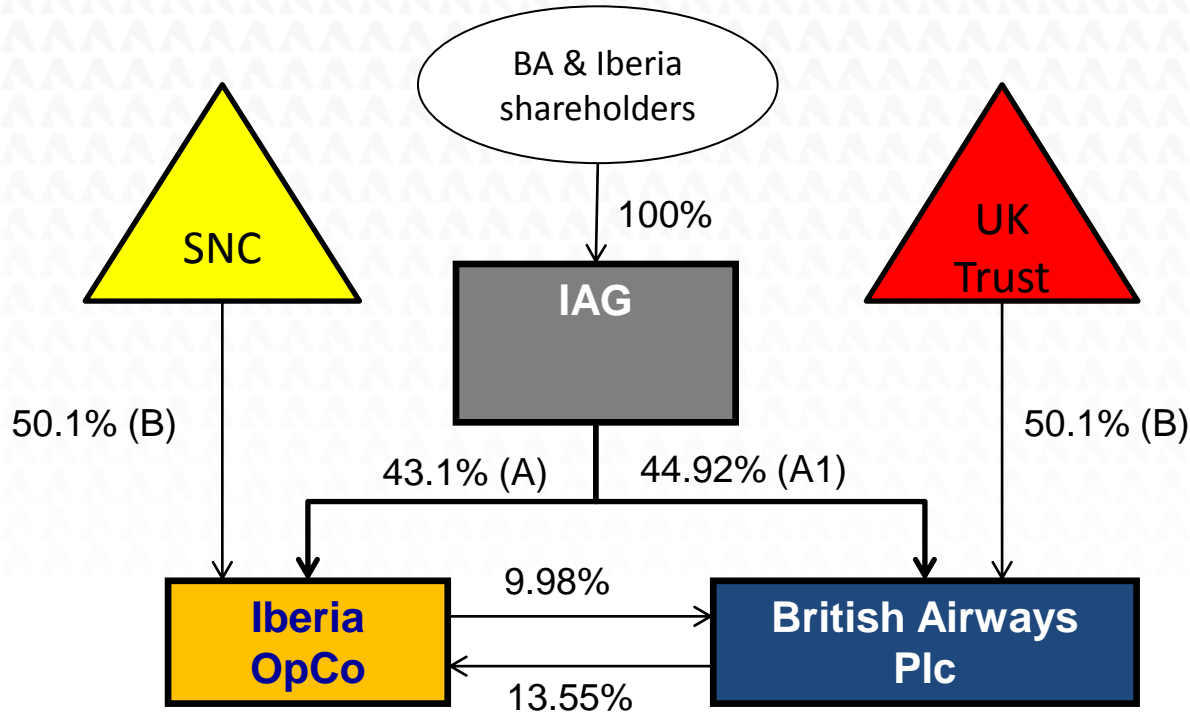


Overview of consolidation

IAG Legal Structure



- The National Control Structures have majority voting rights, however, 100% of the economic value of OpCos passes to IAG.
- Nationality structures in place in order to protect nationality agreements.
- Cross-holdings between BA and Iberia OpCos to remain in place after the merger.

Nationality Structures & Control

At Operating Company shareholder level, the UK Trust/SNC has a majority of votes, but the ability to exercise control is limited as follows:

- UK Trust/SNC votes limited to matters required by law (eg. approval of accounts); and
- UK Trust/SNC is obliged to vote as directed by IAG (subject to exceptions such as Assurances; Interests of national shareholders); and
- IAG has the right to refer disputes with the UK Trust/SNC to its shareholders for a 'magnified vote' (except for matters referring to Assurances).
- At IAG Board level, if IAG issues a recommendation/direction to any directors, relevant directors must follow that (subject to Assurances and fiduciary duties).

All economic value of the Operating Companies flows to IAG.

IAG acquisition accounting

The transaction is the merger of two equals, however International Financial Reporting Standards (IFRS) requires that an acquirer and acquiree are identified. We have concluded for this requirement British Airways is deemed to acquire Iberia;

As a result, the Group balance sheet of IAG will reflect:

- The book value net assets of BA , as they are currently reported, since BA is deemed acquirer.
- The net assets of Iberia at their fair values on the date of the transaction.
- The difference between the book value of net assets and the fair value of Iberia will be reflected as part of the purchase price allocation.

Volatility of earnings as a result of € reporting currency

The reporting currency of the IAG Group is the euro. BA will remain a sterling functional currency company and Iberia a euro functional currency company.

The Group's reported euro earnings and net assets, as consolidated from the functional currencies of the Opcos will be subject to reporting translation variations (initially from BA's sterling numbers being translated for reporting purposes to the euro).

Whilst specific detail is not yet finalised we will be providing substantial segmentation information of the Opcos financial performance to ensure functional currency of the Opcos will be easy to understand.

Please note also that as BA will retain listed debt on the London Stock Exchange, it will continue to publish financial reports to the UKLA.

Accounting implications of the merger steps

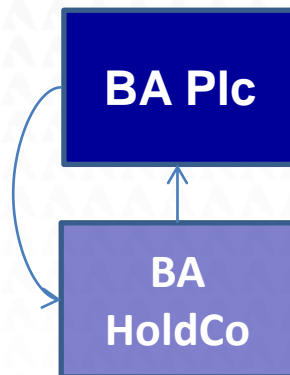
Today



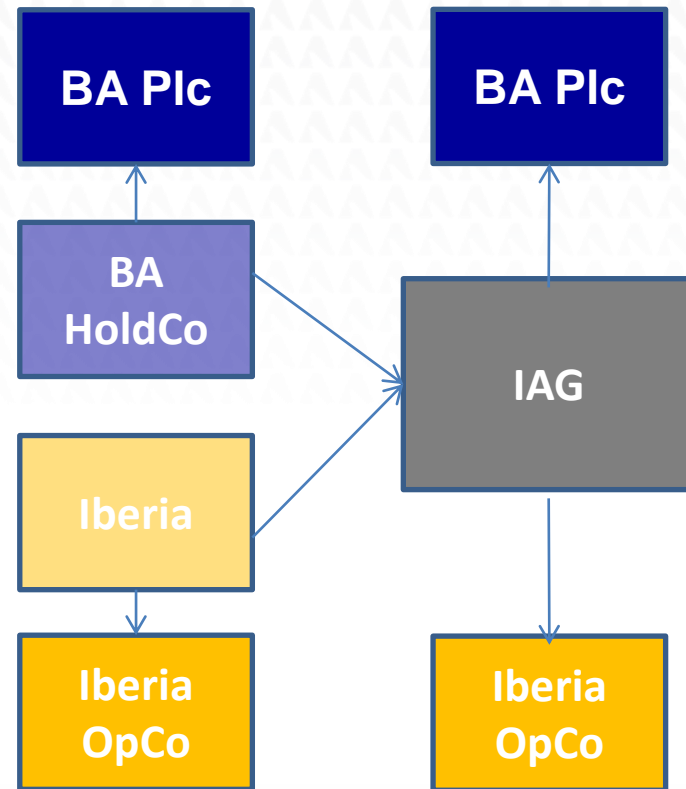
Step 1:
Iberia Hive
down to
Iberia Opco



Step 2:
Transfer BA
share capital
to BA
HoldCo.



Step 3: BA HoldCo and Iberia are
liquidated and assets & liabilities are
transferred to IAG.



British Airways & Iberia – Key balance sheet figures (at 30 June 2010)

Today

BA Plc

Iberia

Balance Sheet – British Airways Plc

	Grp.
Net assets	2,324
Share Capital & Sh. Premium	1,499
Other Reserves	825

Balance Sheet – Iberia

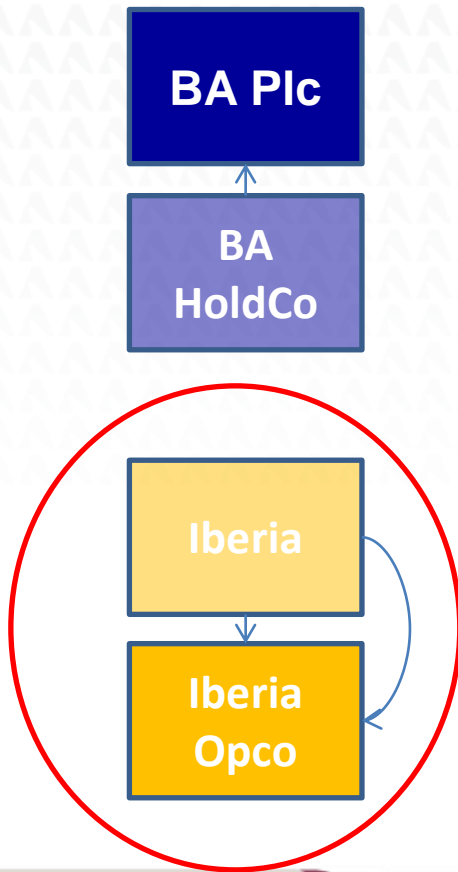
	Grp.
Net assets	1,954
Share Capital & Sh. Premium	863
Other Reserves	1,091

Determining the fair value of IAG

	millions
BA Shares in issue	1,154
BA Share price (example)	£3 per share
BA Fair Value (£3 x 1,154) =	£3,462
BA Fair Value (translated at 1.18)	€4,085
Less: Iberia's stake in BA (9.975%)	(€407)
Adjusted BA Fair Value	€3,678
BA weighting in IAG	56%
Deemed fair value of IAG (€3,678 x 100/56)	€6,567
IB weighting in IAG	44%
Iberia fair value/transaction purchase price (€6,597 x 44%)	€2,889

Step 1: Iberia hive down

- The net assets of Iberia are hived down to Iberia OpCo at its net book value in accordance with Spanish Legislation.
- For illustrative purposes, the book value at 30 June 2010 has been used. The actual hive down will be done at the transaction date book value



Balance Sheet – Iberia	
	Grp.
Net assets	1,954
Share Capital & Sh. Premium	863
Other Reserves	1,091

Balance Sheet – Iberia OpCo	
	Grp.
Net Assets	1,954
Reserves	863
Other Reserves	1,091

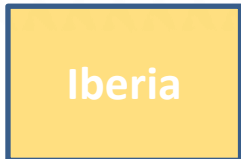
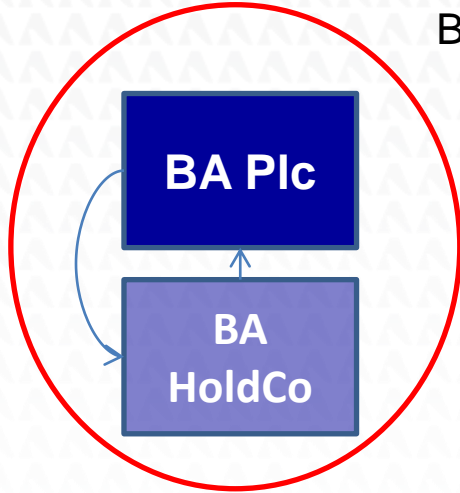


Hive down

- Net assets of Iberia Group are hived down to Iberia OpCo.

Step 2: Transfer of BA share capital to BA HoldCo

- BA Shares are transferred to BA HoldCo.
- The transfer of shares to BA HoldCo is done at the market value of BA at the date of the transaction.



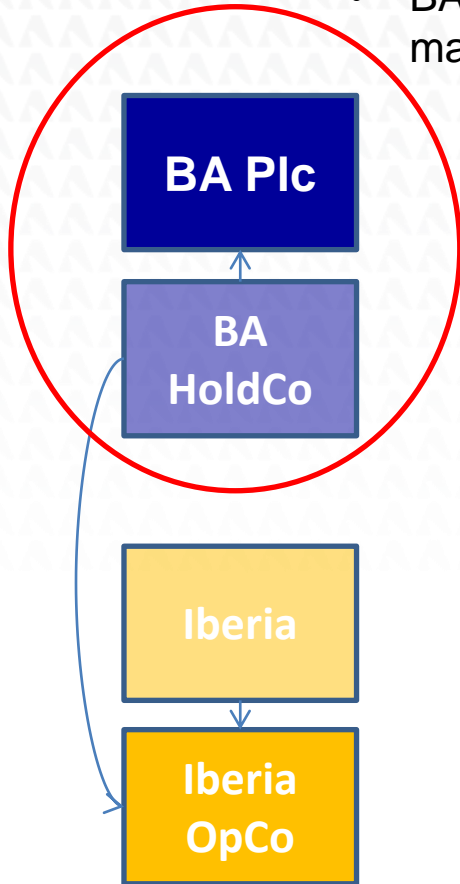
Balance Sheet – British Airways Plc		Grp.
Investment in Sub		2,324
Net assets		
Share Capital & Sh. Premium	1,499	
Other Reserves	825	

Balance Sheet – British Airways HoldCo		
	Cd	Grp.
Investment in BA Plc	4,085	
Investment in Iberia	-	
Net assets		2,324
Share Capital & Sh. Premium	4,085	4,085
Other Reserves	-	(1,761)

- BA HoldCo acquires BA Plc at fair value (market value) at date of the transaction.
- Illustrated here as €4,085 at £3 a share.
- However at BA HoldCo Group level BA Plc is brought in at book value (illustrated here at 30th June values). A negative reserve is created to reduce the net asset value to the book value of the BA Group.

Interim Step: BA HoldCo acquires 13.55% BA Plc investment in Iberia OpCo.

- BA HoldCo acquires from BA Plc it's 13.55% shares in Iberia at market value financed by a loan from the BA Group



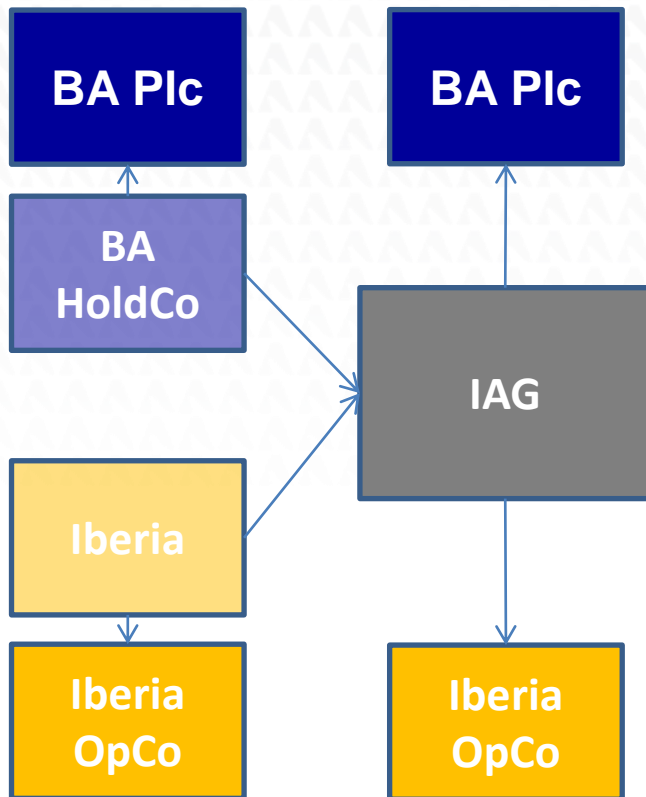
	Grp.
Net assets	2,324
Share Capital & Sh. Premium	1,499
Other Reserves	825

	Co.	Grp.
Investment in BA Plc	4,085	
Investment in Iberia	397	397
Other net assets		1,926
Share Capital & Sh. Premium	4,085	4,085
Other Reserves	-	(1,762)
Loan with BA	397	-

- The investment in Iberia is introduced, financed by a loan from the BA.

- 13,55% investment arises post the cancelation of the 2.92% Iberia treasury shares

Step 4: BA HoldCo and Iberia are liquidated, net assets transferred to form IAG.



- BA HoldCo and Iberia are liquidated, all their assets and liabilities (including their respective investments in BA & IB) are transferred *en bloc* to IAG.
- In exchange, IAG issues shares to the Custodian (holding on behalf of BA & Iberia former shareholders, in accordance with the merger ratio).

Step 4: BA HoldCo and Iberia are liquidated, net assets transferred to form IAG – the detail

Balance Sheet – British Airways HoldCo

	Co.	Grp.
Investment in BA Plc	4,085	
Investment in Iberia	397	397
Other net assets		1,926
Share Capital & Sh. Premium	4,085	4,085
Other Reserves	-	(1,762)
Loan from BA	397	-

Balance Sheet – Iberia

	Grp.
Net assets	1,954
Share Capital & Sh. Premium	863
Other Reserves	1,091

For IAG Stand-alone accounts, the investment in BA & IB is introduced at market value as follows:

BA Fair Value	€4,085m
Less: IB holding in BA	(€407m)
Investment in BA	€3,678m

IB Fair value	€2,889m
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Balance Sheet – IAG

	Co.
Investment in BA	3,678
Investment in IB	2,889
Net assets	
Share Cap & Prem	6,567

Step 4: BA HoldCo and Iberia are liquidated, net assets transferred to form IAG – the detail

The net assets of the Group are reflected as the book value of BA and the fair value of Iberia.

Balance Sheet – British Airways HoldCo		
	Co.	Grp.
Investment in BA Plc	4,085	
Investment in Iberia	397	397
Other net assets		1926
Share Capital & Sh. Premium	4,085	4,085
Other Reserves	-	(1,762)
Loan from BA	397	-

Fair value of Iberia	€2,889m
Book value of BA	€2,324m
Less: IB Holding in BA	(€407m)
Less: BA Holding in IB	(€397m)
Net assets of IAG Grp	€4,409m

Balance Sheet – Iberia	
	Grp.
Net assets	1,954
Share Capital & Sh. Premium	863
Other Reserves	1,091

Balance Sheet – IAG		
	Co.	Grp.
Investment in BA	3,678	
Investment in IB	2,889	
Net assets		4,409
Share Cap & Prem	6,567	6,567
Other Reserves		(2,158)

Accounting implications of the merger steps

Group and stand-alone balance sheet for IAG, British Airways and Iberia

Balance Sheet – IAG

	Co.	Grp.
Investment in BA	3,678	
Investment in IB	2,889	
Net assets		4,409
Share Cap & Prem	6,567	6,567
Other Reserves		(2,158)

Balance Sheet – Iberia OpCo

	Grp.
Net Assets	1,954
Reserves	863
Other Reserves	1,091

Balance Sheet – British Airways Plc

	Grp.
Net assets	2,324
Share Capital & Sh. Premium	1,499
Other Reserves	825

Purchase Price Allocation (Goodwill) per the prospectus

Purchase Price Allocation (Goodwill)

IFRS 3 requires that “as of the acquisition date, the acquirer shall recognise, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree”. Under IFRS, the acquisition date is the date at which the acquirer effectively obtains control of the acquiree (21st January 2011).

Recognised items reviewed

Analysis of the main assets already accounted for in each balance sheet line and identification of the applied valuation methodology

- Intangible assets
- Property, plant and equipment
- Investments in associates
- Non current assets
- Deferred tax assets
- Non current assets held for sale
- Inventories and receivables
- Current financial assets

Non Recognised items reviewed

Identification of potential assets, not recorded in the financial accounts, but subject to be included and which comply with IFRS requirements

- Slots
- Brands
- Code-share agreements
- Franchise agreements
- Frequent Flyer program
- Other relevant contracts
- Operating and financial leasing
- Other assets

PPA as at 30 June 2010 and included in prospectus

	€m
Acquisition price of Iberia (based on BA 30 th June Share price)	2,257
Book value of Iberia	1,954
Preliminary difference	<u>303</u>
PPA	
Tangible assets – buildings	36
Intangible assets – slots	135
Intangible assets – brand	216
Intangible assets – Franchisee agreement	90
Contingent Liabilities	(31)
Total PPA before deferred tax	<u>446</u>
Deferred tax	(143)
Total PPA Post deferred tax	<u>303</u>
Goodwill	<u>-</u>

Pro-forma statements

Pro-forma Statement requirements

The pro-formas were included in the Registration document to present to the shareholders what the new Group will look like.

6 month financial reporting to 30th June 2010.

The Prospectus included pro-forma Income Statement and Balance Sheet, plus disclosure notes.

The pro-forma information has been drawn from:

- BA's 30th June 2010 position (Quarter 1 – 2010/11) and the income statement from the 31st March 2010 three months (Quarter 4 - 2009/10). and the three months to 30 June 2010 (Quarter 1 – 2010/11).
- Iberia's six month financial statements as at 30 June 2010.

Key aspects of Pro-formas

BA's and IB's summary Income Statement for 6 months to 30th June 2010 and respective balance sheets at the same date.

Accounting policy alignment – only €124m reclassification in balance sheet

Preliminary PPA – Fair values for properties, slots, brand and franchise agreements total €303m same as calculated excess purchase price over book assets of Iberia hence zero goodwill.

Cross holding eliminations – as at 30th June, reduction of both investments against equity

Technical consolidation – Creation of IAG share capital increase and share premium and elimination of shares in BA and IB Opcos.

Certain reclassifications of Iberia line items in the Income Statement and Balance Sheet have been made to align to BA/IAG presentation.