FULL YEAR RESULTS ANNOUNCEMENT

International Consolidated Airlines Group (IAG) today (February 28, 2014) presented Group consolidated results for the year to December 31, 2013.

IAG period highlights on results:

- Fourth quarter operating profit €113 million (2012: operating loss of €40 million) before exceptional items
- At constant currency and excluding Vueling and one-offs, fourth quarter passenger unit revenue up 2.7 per cent, and non-fuel unit costs down 2.7 per cent
- Operating profit for the year to December 31, 2013 of €770 million (2012: operating loss of €23 million) before exceptional items
- Revenue for the year up 3.1 per cent to €18,675 million and passenger unit revenue for the year up 0.6 per cent (3.7 per cent at constant currency)
- Fuel costs for the year down 2.5 per cent to €5,951 million (2012: €6,101 million). Fuel unit costs down 5.0 per cent at constant currency
- Non-fuel costs before exceptional items for year down 0.7 per cent at €11,954 million. Non-fuel unit costs down 5.6 per cent, down 2.7 per cent at constant currency
- Cash of €3,633 million at December 31, 2013 was up €724 million on 2012 year end (December 2012: €2,909 million).
- Adjusted gearing down 1 point to 50 per cent

Performance summary:

	Year to December 31		
Financial data € million	**2013[1]**	2012 (restated)[2]	Higher / (lower)
Passenger revenue	**16,264**	15,372	5.8 %
Total revenue	**18,675**	18,117	3.1 %
Operating profit/(loss) before exceptional items	**770**	(23)	
Exceptional items	**(243)**	(590)	
Operating profit/(loss) after exceptional items	**527**	(613)	
Profit/(loss) after tax	**151**	(658)	
Basic earnings/(loss) per share (€ cents)	**6.4**	(38.7)	
Operating figures	**2013**	2012	Higher / (lower)
Available seat kilometres (ASK million)	**230,573**	219,172	5.2 %
Revenue passenger kilometres (RPK million)	**186,304**	176,102	5.8 %
Seat factor (per cent)	**80.8**	80.3	0.5pts
Passenger yield per RPK (€ cents)	**8.73**	8.73	0.0 %
Passenger unit revenue per ASK (€ cents)	**7.05**	7.01	0.6 %
Non-fuel unit costs per ASK (€ cents)	**5.18**	5.49	(5.6)%
€ million	**At December 31, 2013**	At December 31, 2012	Higher / (lower)
Cash and interest-bearing deposits	**3,633**	2,909	24.9 %
Adjusted net debt[3]	**5,701**	5,345	6.7 %
Adjusted gearing[4]	**50%**	51%	(1pt)

[1] Includes Vueling's result from April 26, 2013.
[2] Restated for amendment to IAS 19 'Employee benefits' accounting standard.
[3] Adjusted net debt is net debt plus capitalised operating aircraft lease costs.
[4] Adjusted gearing is net debt plus capitalised operating aircraft lease costs, divided by net debt plus capitalised operating aircraft lease costs and adjusted equity.

Willie Walsh, IAG chief executive, said:

"In 2013, we strengthened the Group by acquiring Vueling, embarking on Iberia's transformation and enhancing British Airways' revenue performance. This has led to a strong financial recovery and return to profitability with a turnaround of nearly €800 million. Our operating profit was €770 million before exceptional items, with passenger revenue up 5.8 per cent and non-fuel costs down 0.7 per cent.

"British Airways continued its solid revenue performance this year and we're seeing cost improvements, resulting in an operating profit of €762 million. This is the first full year that it's benefited from the additional Heathrow slots and greater network flexibility created by bmi's integration. Both the A380 and Boeing 787 were introduced into the airline's fleet successfully. The new aircrafts' economic and environmental performance has been excellent and customers love them.

“Iberia has made huge progress on cost control as its restructuring takes shape and great credit should be given to all those involved. It has reduced its losses in the year, reporting an operating loss of €166 million. The recent pay and productivity agreements between Iberia and its pilot and cabin crew unions are key to reducing the airline’s costs further and providing the foundation for profitable growth.

“Vueling is a great asset and provides a new cultural dimension to IAG. The airline reported an operating profit of €168 million from April 2013, when we acquired it, and expanded its network across continental Europe. To increase capacity while improving profit margins is a tremendous achievement and underlines Vueling’s value to the Group.

“We have shown strong financial management this year. Despite buying Vueling and increasing our capital expenditure, cash was up €724 million versus last year and adjusted gearing was down 1 point to 50 per cent.

“Quarter 4 saw an improved financial performance from all our airlines and we are reporting an operating profit of €113 million before exceptional items. Passenger revenue was up 4.0 per cent and non-fuel costs were down 4.1 per cent”.

Trading outlook:
In 2014 we expect to make steady progress towards our 2015 Group operating profit target of €1.8 billion, with relatively flat unit revenue growth, and margin expansion driven by falling unit costs.

Forward-looking statements:
Certain statements included in this report are forward-looking and are subject to assumptions, risks and uncertainties that could cause actual results to differ materially from those expressed or implied by the forward-looking statements.

Forward-looking statements can typically be identified by the use of forward-looking terminology, such as “expects”, “may”, “will”, “could”, “intends”, “plans”, “predicts”, “envisages” or “anticipates” and include, without limitation, projections relating to results of operations and financial conditions and International Consolidated Airlines Group S.A. (the ‘Group’) plans and objectives for future operations, discussions of the Group’s Business Plan, expected future revenues, financing plans and expected expenditures and divestments. All forward-looking statements in this report are based upon information known to the Group on at the date of this report as well as the Group’s current expectations and beliefs concerning future events affecting the Group which involve a number of known and unknown risks and uncertainties. You are cautioned not to place any undue reliance on the forward-looking statements contained in this report which speak only as at 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, except as required by any applicable laws and regulations.

It is not reasonably possible to itemise all of the many factors and specific events that could cause the Group’s forward-looking statements to be incorrect or that could otherwise have a material adverse effect on the future operations or results of an airline operating in the global economy, though details of potential risks and uncertainties affecting the Group are described in the risk management and risk factors section of the report. Further information on the primary risks of the business and the risk management process of the Group is given in the Annual Report and Accounts 2012; these documents are available on www.iagshares.com.

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CONSOLIDATED INCOME STATEMENT

€ million	Before exceptional items 2013	Exceptional items	Total 2013	Before exceptional items 2012 (restated)	Exceptional items	Total 2012 (restated)[1]	Higher / (lower)
	Year to December 31						
Passenger revenue	**16,264**	(106)	16,158	15,372		15,372	5.8 %
Cargo revenue	**1,073**		1,073	1,217		1,217	(11.8)%
Other revenue	**1,338**		1,338	1,528		1,528	(12.4)%
Total revenue	**18,675**	(106)	18,569	18,117		18,117	3.1 %
Employee costs	**4,123**	98	4,221	4,341	238	4,579	(5.0)%
Fuel, oil costs and emissions charges	**5,951**	(6)	5,945	6,101		6,101	(2.5)%
Handling, catering and other operating costs	**1,932**		1,932	1,805		1,805	7.0 %
Landing fees and en-route charges	**1,422**		1,422	1,278		1,278	11.3 %
Engineering and other aircraft costs	**1,237**	15	1,252	1,285		1,285	(3.7)%
Property, IT and other costs	**922**	5	927	997	9	1,006	(7.5)%
Selling costs	**785**		785	830	7	837	(5.4)%
Depreciation, amortisation and impairment	**1,006**	8	1,014	1,071	343	1,414	(6.1)%
Aircraft operating lease costs	**482**	17	499	432	(7)	425	11.6 %
Currency differences	**45**		45	-		-	
Total expenditure on operations	**17,905**	137	18,042	18,140	590	18,730	(1.3)%
Operating profit/(loss)	**770**	(243)	527	(23)	(590)	(613)	
Net non-operating costs	**(283)**	(17)	(300)	(234)	73	(161)	
Profit/(loss) before tax from continuing operations	**487**	(260)	227	(257)	(517)	(774)	
Tax	**(57)**	(19)	(76)	72	44	116	
Profit/(loss) after tax from continuing operations	**430**	(279)	151	(185)	(473)	(658)	
Loss after tax from discontinued operations	**-**	(4)	(4)	-	(38)	(38)	
Profit/(loss) after tax for the year	**430**	(283)	147	(185)	(511)	(696)	

Operating figures	2013 [2]	2012 [2]	Higher / (lower)
Available seat kilometres (ASK million)	**230,573**	219,172	5.2 %
Revenue passenger kilometres (RPK million)	**186,304**	176,102	5.8 %
Seat factor (per cent)	**80.8**	80.3	0.5pts
Passenger numbers (thousands)	**67,224**	54,600	23.1 %
Cargo tonne kilometres (CTK million)	**5,653**	6,080	(7.0)%
Passenger yield per RPK	**8.73**	8.73	0.0 %
Passenger unit revenue per ASK	**7.05**	7.01	0.6 %
Cargo yield per CTK	**18.98**	20.02	(5.2)%
Total cost per ASK	**7.77**	8.28	(6.2)%
Fuel cost per ASK	**2.58**	2.78	(7.2)%
Total cost excluding fuel per ASK	**5.18**	5.49	(5.6)%
Aircraft in service	**431**	377	14.3 %
Average employee number	**60,089**	59,574	0.9 %

[1] Restated for amendment to IAS 19 'Employee benefits' accounting standard.
[2] Financial ratios are before exceptional items.

CONSOLIDATED INCOME STATEMENT

€ million	Three months to December 31, 2013 Before exceptional items	Exceptional items	Total	Three months to December 31, 2012 (restated) Before exceptional items	Exceptional items	Total	Higher / (lower)
Passenger revenue	**3,965**	(106)	3,859	3,812		3,812	4.0 %
Cargo revenue	**276**		276	329		329	(16.1)%
Other revenue	**321**		321	388		388	(17.3)%
Total revenue	**4,562**	(106)	4,456	4,529		4,529	0.7 %
Employee costs	**1,048**	(170)	878	1,183	204	1,387	(11.4)%
Fuel, oil costs and emissions charges	**1,476**	(1)	1,475	1,468		1,468	0.5 %
Handling, catering and other operating costs	**490**		490	457		457	7.2 %
Landing fees and en-route charges	**364**		364	304		304	19.7 %
Engineering and other aircraft costs	**261**		261	306		306	(14.7)%
Property, IT and other costs	**238**		238	259	34	293	(8.1)%
Selling costs	**176**		176	190	2	192	(7.4)%
Depreciation, amortisation and impairment	**262**		262	285	343	628	(8.1)%
Aircraft operating lease costs	**127**	(1)	126	110	(1)	109	15.5 %
Currency differences	**7**		7	7		7	
Total expenditure on operations	**4,449**	(172)	4,277	4,569	582	5,151	(2.6)%
Operating profit/(loss)	**113**	66	179	(40)	(582)	(622)	
Net non-operating costs	**(55)**		(55)	(104)	73	(31)	
Profit/(loss) before tax from continuing operations	**58**	66	124	(144)	(509)	(653)	
Tax	**(33)**	(17)	(50)	(96)	34	(62)	
Profit/(loss) after tax from continuing operations	**25**	49	74	(240)	(475)	(715)	
Loss after tax from discontinued operations	**-**	(4)	(4)	-	7	7	
Profit/(loss) after tax for the period	**25**	45	70	(240)	(468)	(708)	

Operating figures	**2013**	2012	Higher / (lower)
Available seat kilometres (ASK million)	**58,339**	53,607	8.8 %
Revenue passenger kilometres (RPK million)	**46,084**	42,168	9.3 %
Seat factor (per cent)	**79.0**	78.7	0.3pts
Passenger numbers (thousands)	**16,770**	13,117	27.8 %
Cargo tonne kilometres (CTK million)	**1,503**	1,561	(3.7)%
Passenger yield per RPK	**8.60**	9.04	(4.9)%
Passenger unit revenue per ASK	**6.80**	7.11	(4.4)%
Cargo yield per CTK	**18.36**	21.08	(12.9)%
Total cost per ASK	**7.63**	8.52	(10.4)%
Fuel cost per ASK	**2.53**	2.74	(7.7)%
Total cost excluding fuel per ASK	**5.10**	5.78	(11.8)%
Average employee number	**59,026**	59,506	(0.8)%

Financial review:

IAG capacity
In 2013, IAG increased capacity by 5.2 per cent primarily in its Domestic and European markets through the acquisition of Vueling, offset by a reduction in Latin America related to Iberia's Transformation Plan. At the Group level, Vueling contributed 7.6 per cent to the increase in capacity and Iberia a 3.9 per cent decrease. British Airways had a marginal capacity increase, 1.5 per cent at the Group level, reflecting changes in its fleet and network.

Year to December 31, 2013	% of total network in ASKs	ASKs higher/ (lower)	Passenger load factor	Higher/ (lower)
Domestic	6.1%	+39.8%	75.7	+1.0 pts
Europe	20.9%	+27.6%	77.8	+2.7 pts
North America	30.0%	+1.3%	84.6	+0.9 pts
Latin America	18.3%	(9.8)%	82.6	(1.3) pts
Africa, Middle East and South Asia	15.9%	+0.1%	77.2	+0.4 pts
Asia Pacific	8.8%	+3.1%	81.4	+1.6 pts
Total network	100%	+5.2%	80.8	+0.5 pts

Market segments
Across the network, passenger load factor improved 0.5 points while capacity increased in all regions, with the exception of Latin America. During 2013, we cancelled routes to Havana, San Juan, and Montevideo in line with Iberia's Transformation Plan. Although passenger load factor in this region of 82.6 per cent remains higher than the network average, it was lower than the previous year.

The acquisition of Vueling led to significant capacity increases in the Domestic and European markets. Apart from its main airport at Barcelona and 12 further bases in Spain, Vueling operates out of Amsterdam, Paris, Florence and Rome. While the Domestic and European markets continued to be very competitive, our passenger load factors improved in both regions. In the second half of the year, confidence in the UK market re-emerged, while Spain and the Eurozone exited recession.

Our North American market remains strong with the highest passenger load factor on the network at 84.6 per cent, up 0.9 points from last year. This market saw the introduction of British Airways' new fleet on some of its routes in 2013. The Boeing 787 flies to Newark and Toronto and the Airbus A380 to Los Angeles.

Africa, Middle East and South Asia capacity increase of 0.1 per cent reflects three main factors during the year. First the redeployment of historic bmi routes to the Domestic and European markets; second, the contribution of Vueling, with destinations in Morocco (Fez, Nador, Tangier and Casablanca) and new routes in Algeria (Algiers and Oran); and Iberia cancelled routes as part of its Transformation Plan.

In Asia Pacific, the capacity increase is driven by additional routes, such as Seoul and Chengdu; the Hong Kong route also sees more capacity reflecting the increase in gauge of the Airbus A380. Despite these capacity increases load factors have improved 1.6 points in relation to last year.

Acquisitions
The full year performance includes Vueling from April 26, 2013.

Revenue
Passenger revenue
Passenger revenue was up 5.8 per cent for the year. At constant currency (ccy) the increase was 9.1 per cent, with unit revenue improvement of 3.7 per cent. The improvement is due to the Group's disciplined approach to capacity in a global framework of industry constrained growth.

British Airways' available capacity increased 2.0 per cent with the introduction of two new aircraft types but was matched against market demands. Passenger load factor was 1.4 points higher, while yields also improved 2.7 per cent from the previous year, driven by solid performances in both the long and shorthaul non-premium cabins.

Iberia embarked on its Transformation Plan suspending unprofitable routes, reducing its fleet by 23 aircraft and decreasing available capacity by 14.0 per cent. Despite the capacity decrease, passenger load factor was down 2.4 points further impacted by weak demand in the Madrid market, competition and pricing policies aimed at yield improvements. Passenger yields were up 4.2 per cent benefiting from the strong performance over the North Atlantic and reflecting the impact of the market in South America.

Vueling's revenue for the period was €1,133 million or 6.1 per cent of the Group's total revenue. Vueling delivers premium and non-premium products and services, however its cabin split and exclusive focus on total passenger revenue earns lower revenue (and costs) per ASK than the Group. The adverse impact on IAG's total unit revenue performance at ccy for the year was 1.9 points and 0.6 points at passenger unit revenue level, but with a greater positive impact on the Group total unit costs per ASK.

Vueling also depends heavily on leisure traffic and remains more exposed to seasonality, driving deeper troughs and higher peaks in the Group's revenue and earnings cycle.

Cargo revenue
Cargo revenue was down 11.8 per cent or 9.2 per cent at constant currency due to weak demand and lower yields.

Other revenue
Other revenue was down 12.4 per cent. At constant currency other revenue is down 10.0 per cent or €153 million.

Other revenue has been adversely impacted by the industrial action in Spain. In the first quarter the Group suffered a loss of productivity in its maintenance and handling activities, followed by a loss of maintenance contracts from the second quarter onwards. The impact was a €60 million reduction in revenues and a reduction in costs. Other revenue has seen some improvements, such as in BA Holidays. The enhanced product offerings are increasing demand.

Through Iberia, the Group provides handling and maintenance, repair and other services (MRO) to Vueling. Prior to the acquisition the revenue was third party to the Group and reported as 'Other revenue'. From April 26 this trade was eliminated on consolidation, and the impact was approximately €100 million on revenues and expenses for the year.

At the total revenue level, there is a one-off benefit in the fourth quarter of 2012 and a one-off charge in the same quarter of 2013 with an adverse impact of approximately €130 million for the full year.

Expenditure before exceptional items
Employee costs
Employee costs are down 5.0 per cent. At constant currency employee costs are down 2.1 per cent and 7.1 per cent on a unit basis. The average number of employees increased 0.9 per cent with Vueling coming into the Group, offset by the Iberia Transformation Plan. Productivity improved 4.3 per cent.

British Airways maintained flat employee unit costs throughout the year, offsetting wage awards and tenure increases through improved productivity and efficiency initiatives. Iberia's restructuring saw 2,507 employees leave Iberia under a voluntary redundancy programme, salaries were reduced 11 – 18 per cent and tenure was held. Iberia employee costs were down 14.3 per cent for the year, with employee unit costs down 0.5 points; productivity was reduced temporarily by 6.6 per cent. Vueling's low cost structure and exclusive focus on passenger transportation produces a lower employee cost per ASK than IAG's base, leading to the Group's employee unit cost improvement for the year.

Fuel costs
Fuel costs are down 2.5 per cent. At constant currency fuel costs are down 0.2 per cent and 5.0 per cent on a unit basis. Fuel and oil costs have benefited from a lower average price and improvements in aircraft efficiency. The US dollar foreign exchange impact has been positive for the Group against the euro, but adverse against sterling. Fuel unit costs have also benefited from Vueling's lower cost per unit, with smaller aircraft, carrying passengers only and with a high seat density configuration.

Supplier costs
Supplier costs for the year have increased by 2.4 per cent on a capacity increase of 5.2 per cent. At constant currency and on a unit basis supplier costs are flat. This is due to two main factors, improvements in productivity and efficiency across the Group, and the impact of consolidating Vueling in the current year.

Excluding the growth in its BA Holidays business, British Airways supplier unit costs at ccy have been flat for the year, on a capacity increase of 2.0 per cent. Efficiencies have been gained from the further integration of bmi, and offsetting inflationary increases which were particularly high in areas such as landing fees.

As part of its Transformation Plan Iberia reduced activity in its passenger, MRO and handling businesses leading to decreases in the related variable costs, such as engineering, handling, landing and selling. Iberia's plan also targeted fixed supplier costs, one example is property rationalisation. While significant efficiencies have been achieved throughout the year the full impact has lagged behind the capacity cut which began in earnest in January 2013; capacity flown during the year was down 14.0 per cent. Supplier costs are down 13.4 per cent at Iberia, and supplier unit costs were up 3.0 per cent at ccy for the full year.

While Vueling contributed 7.2 per cent of the Group's ASKs for the year, it has a shorter stage length than both British Airways and Iberia. As a result it represented a higher proportion of the Group's sectors and passengers flown at 18 and 10 per cent respectively. With sectors and passengers as primary drivers for 'Handling, catering and other costs' and 'Landing fees and en-route charges', Vueling increased these unit costs (measured in ASKs) for the Group.

Ownership costs
The Group's ownership costs decreased 1.0 per cent and ownership unit costs by 2.9 per cent at ccy.

Ownership costs were down for both British Airways and Iberia. For British Airways ownership costs were down as a result of certain bmi costs in the base, and Iberia costs are down due to the Transformation Plan, including reducing the fleet. Vueling's ownership costs are primarily aircraft operating leases; on a unit cost basis Vueling is lower than the Group average due to its higher density aircraft.

Non-fuel unit costs
The Group's non-fuel unit costs at ccy improved 2.7 per cent and were flat excluding Vueling. British Airways non-fuel unit costs at ccy improved 0.5 per cent, while Iberia's cost cutting initiatives have not yet seen the full benefit in 2013 and were up 2.7 per cent at ccy.

Vueling operates a low cost structure, with a single aircraft model, high fleet utilisation and seat density, high crew productivity and short turnarounds. This level of efficiency and simplicity resulted in lower non-fuel costs per ASK for Vueling than for the Group, due to the nature of a short haul business and Vueling's high fleet utilisation. The benefit on the Group is 2.7 points.

Operating result
The Group's operating profit, before exceptional items, for the year was €770 million, a €793 million improvement from last year. The improvement is primarily driven by a solid revenue performance at British Airways, cost savings at Iberia and inorganic growth in domestic and European markets through Vueling.

British Airways' operating profit was £651 million, an improvement of £377 million over the prior year. British Airways strengthened its position with solid revenues and a continued focus on cost discipline. Revenues benefited from a full year of bmi, including the redeployment of those landing rights, and cycling over the Olympic impact felt in 2012.

Iberia's operating loss was €166 million, an improvement of €185 million over the prior year. Iberia has taken big steps with its focus on restructuring the business. This has led to significant cost savings during the year and modest improvements in unit revenues, however still affected by economic weakness in Spain.

Vueling operating profit was €137 million for the year, an improvement of €101 million. Vueling increased its flown capacity 21.9 per cent. Revenues improved by 28 per cent while its cost base grew broadly in line with capacity, leading to the strong year over year performance. Vueling operating profit from April 26th, was €168 million.

Exceptional items
For a full list of exceptional items, refer to note 5. Below is a summary of the significant current year exceptional items recorded at the operating profit level.

In 2012, management recorded a restructuring provision in line with its Transformation Plan and taking into consideration the labour laws in Spain and a prevailing lack of agreement with the unions at that time. In March 2013, Iberia accepted the appointed mediator's labour agreement proposal. As a result management recorded an additional €265 million related to employee restructuring costs and €47 million for costs associated with standing down owned aircraft and the return of leased aircraft.

The acquisition of Vueling has resulted in a number of exceptional items during the period; fuel cash flow hedges resulting in a €3 million credit, acquisition costs of €5 million and a step acquisition loss of €17 million. In 2013, as part of the transition of the Avios business, management changed how it recognised revenue under the frequent flyer programme. With the availability of new information, revenue was deferred until the passenger departed (rather than recognised on booking) giving rise to a timing difference with a current year reduction in passenger revenue of €106 million.

In 2013, the Group made changes to its US post-retirement benefits to align with national trends, reducing an employee benefit obligation and creating a one time gain in employee costs of €170 million.

Non-operating costs
Net non-operating costs after exceptional items were €300 million, up from €161 million last year. Net finance costs including pensions and derivatives not qualifying for hedging of €280 million were broadly in line with the prior year. Associate income was down €25 million as Vueling profits are no longer accounted for using the equity method. The remaining variance is primarily driven by a €90 million swing in non-operating cost exceptional items. In 2013 IAG recorded a €17 million loss on the step acquisition of Vueling; 2012 reflects a €73 million gain on the bargain purchase of bmi.

Taxation
The majority of the Group's operations are taxed either in the UK or Spain. In 2013, the reported tax rate in the UK decreased from 24 to 23 per cent (2012: from 26 to 24 per cent) resulting in the recognition of a €121 million credit (2012: €90 million credit). The Group did not recognise a deferred tax asset associated with the losses incurred by Iberia during 2013 or 2012. Excluding both of these impacts the Group's effective tax rate for the year is 8 per cent (2012: 30 per cent) and the tax charge was €76 million (2012: €116 million credit).

Profit after tax and earnings per share
The Group's profit after tax, after exceptional items, was €147 million, with earnings of 6.4 euro cents per share and 6.3 euro cents per fully diluted share.

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 transactional 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 below. At constant currency, the Group's operating profit before exceptional items would have been €843 million, €73 million higher than the reported operating profit.

	2013	**Higher/ (lower)**
Translation		
£ to €	1.19	(3.3%)
Transaction		
£ to €	1.18	(4.1%)
€ to $	1.33	3.1%
£ to $	1.56	(1.3%)

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

Vueling
Vueling's net assets on acquisition were approximately €250 million; €940 million in assets and €690 million in liabilities. Over 65 per cent of Vueling's assets and liabilities are current; primarily represented by working capital balances such as cash and sales in advance of carriage, included in other current assets and other current liabilities. Prior to obtaining control, the Group held a 45.85 per cent stake in its share capital representing an investment in associate of €144 million.

Property, plant and equipment
The increase in property, plant and equipment in 2013 is related to the Group's investment in aircraft. On balance sheet fleet increases €360 million, reflecting:

- Introduction of 12 new aircraft, including four Boeing 787s and three Airbus A380s;
- Pre-delivery payments related to future deliveries;
- Modifications of existing aircraft; offset by;
- The sale and leaseback of ten aircraft;
- Depreciation; and
- Adverse exchange on translation.

Intangible assets
The allocation of the purchase price to the fair value of the acquired assets and liabilities of Vueling has led to an increase in the Group's intangible assets, including €89 million for landing rights, €35 million for the Vueling Brand and €28 million of goodwill.

Shareholders' equity
In 2013, IAG issued ordinary shares to the bondholders of the £350 million British Airways convertible bond, increasing share capital €92 million and share premium €587 million, whilst decreasing other reserves by €266 million. The overall increase in other reserves reflects the movements in other comprehensive income, including decreases in the fair value of cash flow hedges and increases in the fair value of available-for-sale assets with a net benefit of €127 million, and the re-measurement of post-employment benefit obligations improvement of €521 million.

Other current liabilities
The restructuring provision recorded in 2012 for the employee redundancy programme was based on the expected payment in 2013 following the new Spanish labour law. Following the mediator agreement, the payment profile has changed and is now classified as non-current liabilities.

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

In 2013 cash generated from operations increased to €1,218 million from €339 million. The improvement is due to stronger operating results by both British Airways and Iberia, and the addition of Vueling during the period. The cash flows generated from operating activities is after payments made to pension schemes of €372 million, and after interest and tax payments of €197 million. The Group also made cash payments of €42 million for discontinued operations related to the 2012 acquisition of bmi.

Net cash flow from investing activities
The Group acquired €2,196 million in property, plant and equipment and intangible assets during the year. Cash obtained from the acquisition of Vueling was €293 million net of consideration. The remaining investment is primarily represented by fleet transactions, including:

- The delivery of 12 new aircraft (three Airbus A380s, three A320s, four Boeing 787s and two Boeing 777s);
- Pre-delivery payments related to future aircraft deliveries, and
- Modifications, engineering and inventory for aircraft.

In addition, seven Airbus A320 and three A330 aircraft were sold and leased back during the year, increasing both the sale and acquisition of property, plant and equipment.

At December 31, 2013, the Group's investment in interest-bearing deposits maturing after more than three months was €593 million higher than the previous year.

Net cash flow from financing activities
The Group's net cash inflow from financing activities was €838 million during the year. In May 2013 the Group issued a €390 million fixed rate convertible bond, with a coupon rate of 1.75 per cent, a conversion premium of 35 per cent and with a five year maturity. The bond was drawn down in full and used to fund the acquisition of Vueling, with the remaining balance improving the Group's overall cash position. In June 2013, the Group raised $927 million of funds through fully committed enhanced equipment trust certificates (EETC); out of which $496 million was drawn down by year end. This was a new type of financing for the Group and will be used to purchase new aircraft.

During the year, the Group repaid €677 million of borrowings and finance leases, in line with repayments made in 2012 of €669 million.

Cash, cash equivalents and interest-bearing deposits
At December 31 the Group's cash position improved by €724 million, from the issuance of the convertible bond and from Vueling. The net cash flows from operations covered the repayment of borrowings and of finance leases; funded the acquisition of non-fleet assets; and contributed to the current year increase in cash. The Group currently holds the equivalent of €217 million in funds in countries awaiting repatriation. The length of time to repatriate the cash varies, however €184 million relates to funds in Venezuela where the time taken to repatriate cash has increased to over 12 months in line with the rest of the industry.

Liquidity risk management
At December 31, 2013, the Group had undrawn general and committed aircraft financing facilities (primarily available in US dollar) in euro equivalent of €3,686 million (2012: €2,803 million). The Group also had undrawn overdraft facilities of €12 million (2012: €12 million) and undrawn uncommitted money market lines of €30 million (2012: €31 million).

Capital risk management
The Group's adjusted net debt at December 31, 2013 was €5,701 million, up €356 million, and adjusted gearing improved by 1 point to 50 per cent.

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 ratio, calculated based on net debt as a percentage of capital adjusted for aircraft operating leases and the pension restatement.

The Group's net cash increased €785 million during the year, due to improved cash flows from operations and through the acquisition of Vueling. The Group's financing increased €852 million which includes the issuance of IAG's convertible bond and the EETC. The Group's net debt improved by €400 million as a result of settlement of the 2009 British Airways £350 million convertible bond through the issuance of share capital. Although the Group's net debt improved for the year, adjusted net debt increased as a result of Vueling's off balance sheet operating leases.

IAG's equity position strengthened, reflecting the total comprehensive income after tax earned during the year (excluding the post-retirement remeasurement) and the increase in equity from the conversion of the 2009 British Airways convertible bond. The result of these factors on adjusted gearing was a 1 point improvement to 50 per cent.

The cash balance at December 31, 2013 comprised €2,206 million held by British Airways, €711 million held by Iberia, €495 million held by Vueling and €221 million held by the parent and holding companies.

Capital commitments and off balance sheet arrangements
Capital expenditure authorised and contracted amounted to €8,745 million (2012: €4,910 million) for the Group. The majority of this is in US dollar and includes commitments until 2021 for 69 Airbus A320s, 38 Boeing 787s, 18 Airbus A350s, nine Airbus A380s, and two Boeing 777s. Other capital commitments not provided for are estimated at €124 million (2012: €110 million).

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.

Strategic framework

Our mission is to be the leading international airline Group. This means we will:

- Win the customer through service and value across our global network;
- Deliver higher returns to our shareholders through leveraging cost and revenue opportunities across the Group;
- Attract and develop the best people in the industry;
- Provide a platform for quality international airlines, leaders in their markets, to participate in consolidation;
- Retain the distinct cultures and brands of individual airlines.

By accomplishing our mission, IAG will help to shape the future of the industry, set new standards of excellence and provide sustainability, security and growth.

IAG's six core strategic objectives are:

- Leadership in IAG's main cities;
- Leadership across the Atlantic;
- Stronger Europe-to-Asia position in critical markets;
- Grow share of Europe-to-Africa routes;
- Stronger intra-Europe profitability; and
- Competitive cost positions across our businesses.

Principal risk and uncertainties

The Directors of the Group believe that the risks and uncertainties described below and as detailed in the Annual Report and Accounts 2012 are the ones that may have the most significant impact on the long-term value of IAG. The list is not intended to be exhaustive. The Group carries out detailed risk management reviews to ensure that the risks are mitigated where possible.

Business and operational

Iberia transformation

The Transformation Plan requires permanent structural change in the Iberia business to enable it to return to profitability and growth. The plan is moving into its second year of execution and substantial progress has been made in reducing capacity, staff numbers and pay. However, risk still remains as changes in working practices leading to further reductions in staff numbers must be achieved if Iberia is to secure its future and grow.

The plan is managed by the Iberia Chief Executive Officer who reports regularly to the IAG Management Committee and Board.

On 13 February 2014 Iberia reached an agreement in principle with its pilots' union, SEPLA, to introduce permanent structural change and improve the airline's viability. This heralded a new positive working relationship between Iberia and SEPLA after years of conflict. The agreement, which is subject to approval by SEPLA's general assembly, facilitates fundamental productivity improvements and allows the growth of Iberia and Iberia Express.

Iberia's liquidity at December 2013 was strong with €711 million of cash and a general purpose facility secured on the shareholding in Amadeus. The financing requirement in 2014 is small with only two Airbus A320 aircraft requiring financing. There is a refinancing risk in 2014 as there are 16 Airbus A320 aircraft under operating leases which are required long-term in the fleet. Iberia expects to exercise a December 2014 fixed price purchase option on these aircraft at a cost of around US $460 million.

Although comfortable, the liquidity position needs to be carefully managed to ensure that it is spent on achieving the permanent structural change required to make the business cash positive, securing its future and growth.

Based on responses to our request for proposal, we are confident that we can refinance the 16 Airbus A320 aircraft before purchase but there is a risk of a shortfall between the purchase price and the financing achieved.

Landing fees and security charges

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.

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. Charges at our London hubs from April 2014 onwards are determined by the Civil Aviation Authority's ongoing Quinquennial 6 review. The CAA's decision issued in January 2014 allows Heathrow charges to increase in line with the Retail Price Index (RPI) – 1.5% - allowing the airport to continue to operate inefficiently and provide an artificially high return to investors. We mitigate this risk by constructive engagement in regulatory reviews of supplier pricing.

Failure of a critical IT system

We are 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. System controls, disaster recovery and business continuity arrangements exist to mitigate the risk of a critical system failure.

In 2014 British Airways expects to implement its new Customer Management system that provides passenger check-in and aircraft loading and, as such, 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.

Strategic

Airport handling

Iberia's third-party handling business is dependent on licences granted by Aena to operate in Spanish airports. These handling licences are subject to a tender process which has commenced with a tender for smaller airports. In addition to the competitive aspects of the tender, retaining licences will depend upon reducing costs through renegotiation of employment conditions with unions. If licences are lost, costs of withdrawing from the handling business are mitigated by staff being transferred to the successful bidder. However, this transfer could lead to industrial disputes with a risk to normal operations.

Airport fuel infrastructure

IAG is also dependent on the oil industry making sufficient investment in fuel supply infrastructure. Peak consumption at Heathrow and Gatwick airports is nearing the capacity of the pipe and rail infrastructure serving the airports and storage capacity at Heathrow is lower than at other international airports thereby increasing the risk of any disruption to supply impacting our operations. In order to mitigate this risk 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.

INTERNATIONAL CONSOLIDATED AIRLINES GROUP S.A.

Full year Condensed Consolidated Financial Statements
January 1, 2013 – December 31, 2013

CONSOLIDATED INCOME STATEMENT

€ million	Before exceptional items 2013	Exceptional items	Total 2013	Before exceptional items 2012 (restated)[1]	Exceptional items	Total 2012 (restated)[1]
	Year to December 31					
Passenger revenue	**16,264**	(106)	16,158	15,372		15,372
Cargo revenue	**1,073**		1,073	1,217		1,217
Other revenue	**1,338**		1,338	1,528		1,528
Total revenue	**18,675**	(106)	18,569	18,117		18,117
Employee costs	**4,123**	98	4,221	4,341	238	4,579
Fuel, oil costs and emissions charges	**5,951**	(6)	5,945	6,101		6,101
Handling, catering and other operating costs	**1,932**		1,932	1,805		1,805
Landing fees and en-route charges	**1,422**		1,422	1,278		1,278
Engineering and other aircraft costs	**1,237**	15	1,252	1,285		1,285
Property, IT and other costs	**922**	5	927	997	9	1,006
Selling costs	**785**		785	830	7	837
Depreciation, amortisation and impairment	**1,006**	8	1,014	1,071	343	1,414
Aircraft operating lease costs	**482**	17	499	432	(7)	425
Currency differences	**45**		45	-		-
Total expenditure on operations	**17,905**	137	18,042	18,140	590	18,730
Operating profit/(loss)	**770**	(243)	527	(23)	(590)	(613)
Finance costs	**(301)**		(301)	(264)		(264)
Finance income	**31**		31	53		53
Retranslation credits on currency borrowings	**12**		12	9		9
Gains/(losses) on derivatives not qualifying for hedge accounting	**43**		43	(12)		(12)
Net credit/(charge) relating to available-for-sale financial assets	**2**		2	(1)		(1)
Share of post-tax (losses)/profits in associates accounted for using the equity method	**(8)**		(8)	17		17
(Loss)/profit on sale of property, plant and equipment and investments	**(9)**	(17)	(26)	7		7
Net financing charge relating to pensions	**(53)**		(53)	(43)		(43)
Gain on bargain purchase	**-**		-	-	73	73
Profit/(loss) before tax from continuing operations	**487**	(260)	227	(257)	(517)	(774)
Tax	**(57)**	(19)	(76)	72	44	116
Profit/(loss) after tax from continuing operations	**430**	(279)	151	(185)	(473)	(658)
Loss after tax from discontinued operations	**-**	(4)	(4)	-	(38)	(38)
Profit/(loss) after tax for the year	**430**	(283)	147	(185)	(511)	(696)
Attributable to:						
Equity holder of the parent	**405**		122	(205)		(716)
Non-controlling interest	**25**		25	20		20
	430		147	(185)		(696)
Basic earnings/(loss) per share (€ cents)						
From continuing operations			6.6			(36.7)
From discontinued operations			(0.2)			(2.0)
From profit/(loss) for the year			6.4			(38.7)
Diluted earnings/(loss) per share (€ cents)						
From continuing operations			6.5			(36.7)
From discontinued operations			(0.2)			(2.0)
From profit/(loss) for the year			6.3			(38.7)

[1]Restated for amendment to IAS 19 'Employee benefits' accounting standard.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ million	2013	2012 (restated)
	Year to December 31	
Items that may be reclassified subsequently to net profit		
Cash flow hedges:		
Fair value movements in equity	**(203)**	36
Reclassified and reported in net profit	**36**	19
Changes in the fair value of available-for-sale financial assets	**294**	156
Currency translation differences	**(20)**	49
Items that will not be reclassified to net profit		
Remeasurements of post-employment benefit obligations	**521**	(902)
Total other comprehensive income for the year, net of tax	**628**	(642)
Profit/(loss) after tax for the year	**147**	(696)
Total comprehensive income for the year	**775**	(1,338)
Total comprehensive income is attributable to:		
Equity holders of the parent	**750**	(1,358)
Non-controlling interest	**25**	20
	775	(1,338)
Total comprehensive income attributable to equity shareholders arises from:		
Continuing operations	**754**	(1,320)
Discontinued operations	**(4)**	(38)

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

CONSOLIDATED BALANCE SHEET

€ million	**December 31, 2013**	December 31, 2012 (restated)	January 1, 2012 (restated)
Non-current assets			
Property, plant and equipment	**10,228**	9,926	9,584
Intangible assets	**2,196**	1,965	1,724
Investments in associates	**25**	180	165
Available-for-sale financial assets	**1,092**	684	466
Employee benefit assets	**485**	606	703
Derivative financial instruments	**35**	26	37
Deferred tax assets	**501**	450	497
Other non-current assets	**197**	113	71
	14,759	13,950	13,247
Current assets			
Non-current assets held for sale	**12**	3	18
Inventories	**411**	414	400
Trade receivables	**1,196**	1,149	1,175
Other current assets	**631**	481	445
Derivative financial instruments	**135**	70	119
Other current interest-bearing deposits	**2,092**	1,547	1,758
Cash and cash equivalents	**1,541**	1,362	1,977
	6,018	5,026	5,892
Total assets	**20,777**	18,976	19,139
Shareholders' equity			
Issued share capital	**1,020**	928	928
Share premium	**5,867**	5,280	5,280
Treasury shares	**(42)**	(17)	(17)
Other reserves	**(2,936)**	(3,513)	(2,179)
Total shareholders' equity	**3,909**	2,678	4,012
Non-controlling interest	**307**	300	300
Total equity	**4,216**	2,978	4,312
Non-current liabilities			
Interest-bearing long-term borrowings	**4,535**	4,128	4,304
Employee benefit obligations	**738**	2,129	1,497
Deferred tax liability	**884**	582	814
Provisions for liabilities and charges	**1,796**	1,250	1,244
Derivative financial instruments	**66**	95	55
Other long-term liabilities	**225**	250	384
	8,244	8,434	8,298
Current liabilities			
Current portion of long-term borrowings	**587**	670	579
Trade and other payables	**6,793**	6,013	5,377
Derivative financial instruments	**528**	66	64
Current tax payable	**11**	12	157
Provisions for liabilities and charges	**398**	803	352
	8,317	7,564	6,529
Total liabilities	**16,561**	15,998	14,827
Total equity and liabilities	**20,777**	18,976	19,139

CONSOLIDATED CASH FLOW STATEMENT

€ million	Year to December 31 2013	2012
Cash flows from operating activities		
Operating profit/(loss)	**527**	(613)
Depreciation, amortisation and impairment	**1,014**	1,414
Movement in working capital and other non-cash movements	**320**	312
Settlement of competition investigation	**(32)**	(70)
Cash payments to pension schemes (net of service costs)	**(372)**	(381)
Interest paid	**(163)**	(187)
Taxation	**(34)**	(4)
Net cash flows from operating activities from continuing operations	**1,260**	471
Net cash flows used in operating activities from discontinued operations	**(42)**	(132)
Net cash flows from operating activities	**1,218**	339
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	**(2,196)**	(1,239)
Sale of property, plant and equipment and intangible assets	**525**	46
Cash acquired on Business combination (net of consideration)	**293**	(1)
Interest received	**27**	43
(Increase)/decrease in other current interest-bearing deposits	**(593)**	246
Dividends received	**3**	14
Other investing movements	**6**	3
Net cash flows from investing activities	**(1,935)**	(888)
Cash flows from financing activities		
Proceeds from long-term borrowings	**1,529**	534
Proceeds from equity portion of convertible bond issued	**72**	-
Repayment of borrowings	**(275)**	(338)
Repayment of finance leases	**(402)**	(331)
Acquisition of own shares	**(42)**	-
Acquisition of non-controlling interest	**(24)**	-
Distributions made to holders of perpetual securities and others	**(20)**	(21)
Net cash flows from financing activities	**838**	(156)
Net increase/(decrease) in cash and cash equivalents	**121**	(705)
Net foreign exchange differences	**58**	90
Cash and cash equivalents at 1 January	**1,362**	1,977
Cash and cash equivalents at year end[1]	**1,541**	1,362
Interest-bearing deposits maturing after more than three months	**2,092**	1,547
Cash, cash equivalents and other interest-bearing deposits	**3,633**	2,909

[1]Included in the Group's cash balance are funds of €217 million equivalent of restricted cash, of which €184 million relates to funds which have been recognised by Venezuela's Central Bank, but not yet repatriated. This is common practice for airlines operating in Venezuela. Between February 2013 and December 2013 the time taken to repatriate cash has risen to 12 months.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the full year to December 31, 2013

€ million	Issued share capital	Share premium	Treasury shares	Other reserves[1]	Total shareholder equity	Non-controlling interest	Total equity
At January 1, 2013	928	5,280	(17)	(1,436)	**4,755**	300	**5,055**
Restatement	-	-	-	(2,077)	**(2,077)**	-	**(2,077)**
At January 1, 2013 (restated)	928	5,280	(17)	(3,513)	**2,678**	300	**2,978**
Total comprehensive income for the year (net of tax)	-	-	-	750	**750**	25	**775**
Cost of share-based payments	-	-	-	30	**30**	-	**30**
Exercise of share options	-	-	17	(9)	**8**	-	**8**
Acquisition of own 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	-	(266)	**413**	-	**413**
Distributions made to holders of perpetual securities	-	-	-	-	**-**	(20)	**(20)**
At December 31, 2013	**1,020**	**5,867**	**(42)**	**(2,936)**	**3,909**	**307**	**4,216**

[1]Closing balance includes a retained deficit of €814 million (excluding pensions restatement: retained earnings of €1,235 million).

For the full year to December 31, 2012 (restated)

€ million	Issued share capital	Share premium	Investment in own shares	Other reserves[1]	Total shareholder equity	Non-controlling interest	Total equity
At January 1, 2012	928	5,280	(17)	(805)	5,386	300	5,686
Restatement	-	-	-	(1,374)	(1,374)	-	(1,374)
At January 1, 2012 (restated)	928	5,280	(17)	(2,179)	4,012	300	4,312
Total comprehensive income for the year (net of tax) (restated)	-	-	-	(1,358)	(1,358)	20	(1,338)
Cost of share-based payments	-	-	-	24	24	-	24
Distributions made to holders of perpetual securities	-	-	-	-	-	(20)	(20)
At December 31, 2012	928	5,280	(17)	(3,513)	2,678	300	2,978

[1]Closing balance includes a retained deficit of €1,306 million (excluding pensions restatement: retained earnings of €743 million).

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

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 of the two companies to create a new leading European airline group. As a result of the merger, International Consolidated Airlines Group S.A. (hereinafter 'International Airlines Group', 'IAG' or the 'Group') was formed to hold the interests of both the existing airline groups. IAG is a Spanish company registered in Madrid and was incorporated on April 8, 2010.

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).

The Group's full year condensed consolidated financial statements for the year to December 31, 2013 were prepared in accordance with IAS 34 and authorised for issue by the Board of Directors on February 27, 2014. The condensed financial statements herein are not the Company's statutory accounts and are extracted from the audited financial statements for the year to December 31, 2013. 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 condensed financial statements.

The basis of preparation and accounting policies set out in the IAG Annual Report and Accounts for the year to December 31, 2012 have been applied in the preparation of these summary condensed consolidated financial statements, except as disclosed in note 2. IAG's financial statements for the year to December 31, 2012 have been filed with the Registro Mercantil de Madrid, and are in accordance with the International Financial Reporting Standards as endorsed by the European Union (IFRSs as endorsed by the EU) and with those of the Standing Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the International Accounting Standards Board (IASB). The report of the auditors on those financial statements was unqualified.

During the year, IAG increased its shareholding in Vueling Airlines, S.A. (Vueling) from 45.85 per cent to 99.36 per cent as a result of three transactions. The Group already indirectly owned 45.85 per cent of Vueling through its subsidiary Iberia. On April 26, 2013, the Group acquired a further 44.66 per cent of the issued share capital of Vueling totalling €124 million. On August 7, 2013, the Group acquired a further 7.01 per cent of the issued share capital of Vueling, for a total of €19 million, bringing the total IAG Group shareholding in Vueling to 97.52 per cent. During November and December 2013, the Group acquired a further 1.84 per cent of the issued share capital of Vueling for a total of €5 million, bringing the total IAG Group shareholding in Vueling to 99.36 per cent at December 31, 2013.

On May 14, 2013, the Group issued a €390 million fixed rate convertible bond, raising net proceeds of €386 million, which holds a coupon rate of 1.75 per cent and is 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.

On August 16, 2013 IAG announced that British Airways had exercised its option to redeem all of its outstanding £350 million 5.80 per cent convertible bonds. As an alternative to the redemption of the bonds, the bondholders had the option under the terms and conditions of the bonds to exchange bonds for ordinary shares in the Company. During August and September 2013, all bondholders exercised their option to exchange their convertible bonds for ordinary shares, resulting in the issue of 184,708,966 new shares.

2. ACCOUNTING POLICIES

The accounting policies and methods of calculation adopted are consistent with those of the annual financial statements for the year to December 31, 2012, as described in the financial statements of IAG, except as set out below:

Prior period restatement - Adoption of IAS 19 'Employee benefits' accounting standard

The Group has adopted the revised IAS 19 'Employee benefits' from January 1, 2013 and has retrospectively applied these changes to the comparative information.

The revised standard has eliminated the use of the corridor approach. This has resulted in recognition of all remeasurements of the defined benefit liability or asset including gains and losses in Other comprehensive income. Any deficits and surpluses of defined benefit plans are now recognised in full in the Balance sheet, subject to any restrictions on surpluses due to the asset ceiling requirements. Unrecognised cumulative gains in relation to Airways Pension Scheme (APS) will not be recognised as these will be fully restricted by the APS asset ceiling. At December 31, 2012 the net pensions liability has been increased to reflect previously unrecognised cumulative net losses, being an increase in the net liability of €2,697 million, partially offset by a decrease in the related deferred tax liability of €620 million. Total equity is restated at December 31, 2012 to reduce equity by €2,077 million to €2,978 million.

The amended standard also requires the Group to determine the net interest expense or income for the year on the net defined benefit liability or asset by applying the discount rate used at the beginning of the period to measure the defined benefit obligation to the net defined benefit liability or asset at the beginning of the year. This takes into account any changes in the net defined benefit liability or asset during the year as a result of contributions and benefit payments. Previously, the Group determined interest income on plan assets based on their long-term rate of expected return. Before adopting the amendment, the Group also had a finance charge or income in relation to amortisation of actuarial losses in excess of the corridor and the effect of the APS asset ceiling; following the adoption of the amended standard, all actuarial losses and gains have been recognised immediately in Other comprehensive income, as are changes in the APS asset ceiling.

The effect of the prior period restatement is a decrease in the net pensions finance charge for the year to December 31, 2012 of €223 million; €44 million for the elimination of financing charges for the amortisation of actuarial losses in excess of the corridor; and €179 million due to the effect of the asset ceiling restriction.

The amendment to IAS19 will not result in any change to the actuarial valuation for the "triennial valuation" nor will it impact the profile of the deficit funding contributions that are agreed with the scheme trustees.

The restatement recorded by the Group is summarised as follows:

Year to December 31, 2012

	Effect on the Income statement			Effect on Other comprehensive income			
€ million	Net financing (expense)/income relating to pensions	Tax	**Loss after tax**[1]	Remeasurements of post-employment benefits obligations	Other	**Other comprehensive income**	**Total comprehensive income**[1]
Amount previously reported for 2012	(266)	112	**(885)**	-	288	**288**	**(597)**
Restatement	223	4	**227**	(902)	(28)	**(930)**	**(703)**
Restated amount for 2012	(43)	116	**(658)**	(902)	260	**(642)**	**(1,300)**
Attributable to:							
Equity holder of the parent			**(678)**				**(1,320)**
Non-controlling interest			**20**				**20**
Restated amount for 2012			**(658)**				**(1,300)**

[1]Before discontinued operations.

2. ACCOUNTING POLICIES continued

At December 31, 2012

€ million	Employee benefit assets	Total non-current assets	**Total assets**	Employee benefit obligations	Deferred tax liability	Total non-current liabilities	**Total liabilities**	**Total equity**
Balance previously reported as at December 31, 2012	1,467	14,811	**19,837**	293	1,202	7,218	**14,782**	**5,055**
Cumulative effect for prior periods - restatement	(861)	(861)	**(861)**	1,836	(620)	1,216	**1,216**	**(2,077)**
Restated balance as at December 31, 2012	606	13,950	**18,976**	2,129	582	8,434	**15,998**	**2,978**

At December 31, 2011

€ million	Employee benefit assets	Total non-current assets	**Total assets**	Employee benefit obligations	Deferred tax liability	Total non-current liabilities	**Total liabilities**	**Total equity**
Balance previously reported as at December 31, 2011	1,317	13,861	**19,753**	277	1,274	7,538	**14,067**	**5,686**
Cumulative effect for prior periods - restatement	(614)	(614)	**(614)**	1,220	(460)	760	**760**	**(1,374)**
Restated balance as at December 31, 2011	703	13,247	**19,139**	1,497	814	8,298	**14,827**	**4,312**

The Group has adopted the following standards, interpretations and amendments for the first time in the year to December 31, 2013:

IFRS 7 (Amendment) 'Financial Instruments: Disclosures'; effective for periods beginning on or after January 1, 2013. The amendment includes multiple clarifications related to the disclosure of financial instruments. The standard requires a change in the presentation of the Group's notes to the financial statements but has no impact on reported profits.

IFRS 13 'Fair value measurement'; effective for periods beginning on or after January 1, 2013. The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The standard requires a change in the presentation of the Group's notes to the financial statements but has no impact on reported profits.

IAS 1 (Amendment) 'Financial statement presentation'; effective for periods beginning on or after July 1, 2012. This amendment requires companies to group together items within Other comprehensive income that may be reclassified to the profit or loss section of the income statement. Items in the Other comprehensive income should be presented as either a single statement or two consecutive primary statements.

Other amendments resulting from improvements to IFRSs did not have any impact on the accounting policies, financial position or performance of the Group. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

3. BUSINESS COMBINATIONS

On April 26, 2013, the Group acquired a further 44.66 per cent of the issued share capital of Vueling for €9.25 per share, therefore bringing the IAG Group shareholding in Vueling to 90.51 per cent. The Group already indirectly owned 45.85 per cent of Vueling through its subsidiary Iberia.

The acquisition will contribute to the geographic diversification of the Group. Through Vueling's leading position in Barcelona and growth in the rest of Europe, IAG expects incremental synergies primarily from purchasing and financing; additionally Vueling incorporates a low-cost platform for the Group.

Transaction costs related to the acquisition of Vueling totalling €5 million were recognised within Property, IT and other costs in the Income statement for the year to December 31, 2013.

From April 26, 2013, Vueling's contribution to the consolidated Group results was revenue of €1,130 million, and an operating profit of €168 million. Had Vueling been consolidated from January 1, 2013, the Group would have reported total revenue of €18,851 million and an operating profit after exceptional items of €496 million for the year to December 31, 2013.

The assets and liabilities arising from the acquisition are as follows:

€ million	**Fair value**
Property, plant and equipment	3
Intangible assets	
Brand	35
Landing rights[1]	89
Other	16
Other non-current assets	171
Cash and cash equivalents	417
Other current interest-bearing deposits	13
Trade receivables[2]	70
Other current assets	120
Trade and other payables	(436)
Provision for liabilities and charges	(223)
Deferred tax liability	(26)
Net identifiable assets/(liabilities) acquired	**249**

[1] Landing rights have been assessed as having indefinite lives and will be tested annually for impairment.
[2] The gross contractual amount for trade receivables is €70 million, 100 per cent which is expected to be collected.

The goodwill is recognised as follows:

€ million	
Cash consideration for obtaining control[1]	124
Fair value of pre-existing interest in Vueling	127
Purchase price representing IAG's 90.51 per cent ownership in Vueling	251
Non-controlling interest[2]	26
Fair value of identifiable net assets	249
Goodwill	**28**

[1] There is no deferred or contingent consideration.
[2] The non-controlling interest at April 26, 2013 has been valued at €9.25 per share.

None of the goodwill recognised is expected to be deductible for tax purposes.

Acquisition of additional interest in Vueling

Following obtaining control, the Group increased its ownership interest in Vueling. An increase in ownership of a subsidiary is recorded as a decrease in non-controlling interest with no impact on the original purchase price.

In the second half of the year, the Group acquired a further 8.85 per cent of the issued share capital of Vueling in three separate tranches, increasing its ownership from 90.51 per cent to 99.36 per cent. The total cost of purchasing the additional Vueling shares was €24 million, and all transactions were for €9.25 per share. The Group recognised a decrease in non-controlling interest of €24 million.

4. DISCONTINUED OPERATIONS

In 2012 through its subsidiary British Airways, the Group acquired bmibaby and bmi regional as part of the acquisition of British Midland Airways Limited. As bmibaby and bmi regional were not part of the Group's long term plans, they were presented as discontinued operations. bmi regional was sold to Sector Aviation Holdings Ltd in 2012. bmibaby ceased to trade in September 2012, with all 14 aircraft being stood down in advance of handback to lessors.

In 2013, no revenue (2012: €90 million) was earned with total expenditure on operations of €4 million (2012: €128 million), relating to additional costs incurred in handing back aircraft to lessors. There was no finance income, finance expense or taxation relating to the discontinued operations (2012: nil).

5. EXCEPTIONAL ITEMS

	Year to December 31	
€ million	**2013**	2012
Restructuring costs - employee[1]	**268**	202
Restructuring costs - aircraft[1]	**44**	-
Business combination costs[2]	**5**	87
Pre-acquisition cash flow hedge impact[3]	**(10)**	(7)
Revision in US past service cost benefits[4]	**(170)**	-
Frequent flyer programme change in estimate[5]	**106**	-
Settlement of competition investigation[6]	**-**	(35)
Intangible assets and goodwill impairment[7]	**-**	343
Recognised in expenditure on operations	**243**	590
Loss on step acquisition[8]	**17**	-
Loss on discontinued operations[9]	**4**	38
Gain on bargain purchase[10]	**-**	(73)
Total exceptional charge before tax	**264**	555

[1] *Restructuring costs*
A restructuring expense of €312 million has been recognised in relation to the Iberia Transformation Plan (2012: €202 million). Employee restructuring costs associated with the Transformation Plan of Iberia were recorded in 2012, calculated based on Management's expectation of the application of the new labour law in Spain. During the year, €265 million of additional employee restructuring costs have been 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 have also been recorded.

[2] *Business combination costs*
Transaction expenses of €5 million have been recognised in relation to Vueling in the year to December 31, 2013.

A restructuring expense of €25 million was recognised in relation to bmi mainline for the year to December 31, 2012, and transaction and integration expenses of €62 million. A related tax credit of €18 million was recognised.

[3] *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 within Other reserves 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 has resulted in a decrease in reported aircraft operating lease costs of €4 million (2012: decrease of €7 million), a decrease in reported fuel expense of €6 million and a related €3 million tax charge (2012: €2 million tax charge).

[4] *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, meaning that any reduction in benefit would result in a recognition of a past service gain when the plan amendment occurs. This change has resulted in a recognition of a one-off gain in employee cost of €170 million during the year, and a related deferred tax charge of €39 million.

[5] *Frequent flyer programme change in estimate*
During 2013, management revised estimates relating to the frequent flyer 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 frequent flyer programmes, reporting has been developed to better estimate the revenue that should be deferred to departure and so this new management information has been adopted during the year giving rise to a current year reduction in passenger revenue of €106 million, and a related tax credit of €23 million.

5. EXCEPTIONAL ITEMS continued

(6) *Provisions*

In April 2012, British Airways settled a fine with the Office of Fair Trading in the UK relating to investigations into passenger fuel surcharging dating back to 2004 through to 2006. The fine agreed was €70 million (£58.5 million), resulting in a €35 million release in the year to December 31, 2012 of the provision held. This provision release was considered exceptional due to its size, incidence and in line with the recognition of the original charge.

(7) *Intangible assets and goodwill impairment*

For the year to December 31, 2012, a charge of €343 million was recognised for the impairment of the Iberia cash generating unit. Goodwill of €249 million from the acquisition of was fully impaired, the Iberia Brand was partially impaired by €79 million and other intangible assets impaired by €15 million. The associated deferred taxes related to the impaired assets have been reversed, resulting in a tax credit of €28 million.

(8) *Loss on step acquisition*

As a result of Iberia's original investment in Vueling, the Business combination was achieved in stages. The Group revalued its original 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 within Exceptional items in the Income statement.

(9) *Discontinued operations*

The loss after tax from discontinued operations of bmibaby and bmi regional was €4 million for the year to December 31, 2013 (2012: €38 million).

(10) *Gain on bargain purchase*

The 2012 gain on bargain purchase related to the bmi acquisition of €73 million has been credited to Non-operating costs in the Income statement.

6. SEASONALITY

The Group's business is highly seasonal with demand strongest during the summer months. Accordingly higher revenues and operating profits are usually expected in the latter six months of the financial year than in the first six months.

7. SEGMENT INFORMATION

a. Business segments

British Airways, Iberia and Vueling are managed as individual operating companies. Each company 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 (2012: two) reportable operating segments for financial reporting purposes, reported as British Airways, Iberia and Vueling.

For the year to December 31, 2013			**2013**		
€ million	British Airways	Iberia	Vueling[1]	Unallocated	**Total**
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)[2]	**830**	**(482)**	**168**	**11**	**527**
Net non-operating costs					**(300)**
Profit before tax from continuing operations					**227**

[1]The Vueling performance is reported under the Group accounting policies and represents results from the acquisition date of April 26, 2013.

[2]The British Airways segment includes an exceptional credit of €170 million related to the revision in the US past service cost benefits and an exceptional charge of €102 million related to the frequent flyer programme change in estimate; the Iberia segment includes an exceptional charge of €312 million related to the Iberia Transformation Plan and an exceptional charge of €4 million related to the frequent flyer programme change in estimate; and the Unallocated segment includes an exceptional credit of €10 million associated with derivatives and financial instruments, and an exceptional charge of €5 million related to Business combination costs (note 5).

7 SEGMENT INFORMATION continued

a. Business segments continued

For the year to December 31, 2012 (restated)

€ million	2012 British Airways	Iberia	Unallocated	Total
Revenue				
External revenue	13,312	4,805	-	18,117
Inter-segment revenue	26	36	50	112
Segment revenue	13,338	4,841	50	18,229
Depreciation, amortisation and impairment	(886)	(169)	(16)	(1,071)
Goodwill and intangible asset impairment				
Goodwill	-	(249)	-	(249)
Intangible assets	-	(94)	-	(94)
Impairment charge on goodwill and intangible assets	-	(343)	-	(343)
Operating profit/(loss)[1]	295	(896)	(12)	(613)
Net non-operating costs				(161)
Loss before tax from continuing operations				(774)

[1]The British Airways segment includes an exceptional charge of €52 million related to provisions and business combination costs; the Iberia segment includes an exceptional charge of €202 million related to restructuring costs and a charge of €343 million related to impairment of intangible assets and the impairment of goodwill; and the Unallocated segment includes an exceptional credit of €7 million associated with derivatives and financial instruments (note 5).

b. Geographical analysis

Revenue by area of original sale

€ million	Year to December 31 2013	2012
UK	**6,085**	6,029
Spain	**2,839**	2,548
USA	**2,677**	2,647
Rest of world	**6,968**	6,893
	18,569	18,117

Assets by area

At December 31, 2013

€ million	Property, plant and equipment	Intangible assets
UK	**8,891**	**1,022**
Spain	**1,296**	**1,138**
USA	**34**	**5**
Unallocated	**7**	**31**
Total	**10,228**	**2,196**

At December 31, 2012

€ million	Property, plant and equipment	Intangible assets
UK	8,460	968
Spain	1,394	960
USA	61	5
Unallocated	11	32
Total	9,926	1,965

8. FINANCE COSTS AND INCOME

€ million	Year to December 31 2013	2012 (restated)
Finance costs		
Interest payable on bank and other loans, finance charges payable under finance leases	**(237)**	(226)
Unwinding of discount on provisions	**(51)**	(37)
Capitalised interest on progress payments	**4**	4
Change in fair value of cross currency swaps	**(7)**	1
Currency credits on financial fixed assets	**(10)**	(6)
Total finance costs	**(301)**	(264)
Finance income		
Interest on other interest-bearing deposits	**31**	53
Total finance income	**31**	53
Net charge relating to pensions		
Net financing charge relating to pensions	**(53)**	(43)
Net financing charge relating to pensions	**(53)**	(43)

9. TAX

The tax charge for the year to December 31, 2013 is €76 million (2012: €116 million credit (restated)).

The majority of the Group's operations are taxed in either Spain or the UK. The main rate of UK corporation tax reduced from 24 per cent to 23 per cent effective from April 1, 2013. Further reductions to the UK corporation tax rate were substantively enacted during the year to 21 per cent from April 1, 2014 and 20 per cent from April 1, 2015. The reduction in the UK corporation tax rate reduces the net deferred tax liability by €104 million with a €121 million credit recognised through the Income Statement.

Excluding the effect of tax assets not being recognised during the year of €179 million and the impact of the tax rate reductions, the effective tax rate for the year to December 31, 2013 was 8 per cent. This mainly reflects the impact of net losses incurred in Spain being taxed at a higher rate versus profits earned in the UK being taxed at a lower rate.

10. EARNINGS PER SHARE

Basic earnings per share for the year to December 31, 2013 are calculated on a weighted average of 1,905,717,206 ordinary shares and adjusted for shares held for the purposes of Employee Share Ownership Plans. Diluted earnings per share for the year to December 31, 2013 are calculated on a weighted average of 1,945,241,448 diluted ordinary shares (2012: 2,067,750,454).

During the year to December 31, 2013 the Company issued 184,708,966 ordinary shares as a result of the conversion of the British Airways £350 million 5.80 per cent convertible bond, resulting in a €92 million increase of Issued share capital and a €587 million increase in Share premium. The ordinary shares issued have the same rights as the other shares in issue. The number of shares in issue at December 31, 2013 was 2,040,078,523 ordinary shares with a par value of €0.50 each (2012: 1,855,369,557 ordinary shares of €0.50 each).

11. DIVIDENDS

The Directors propose that no dividend be paid for the year to December 31, 2013 (2012: €nil).

12. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

€ million	**Property, plant and equipment**	**Intangible assets**
Net book value at January 1, 2013	9,926	1,965
Additions	2,057	150
Acquired through Business combination	3	168
Disposals	(523)	(27)
Reclassifications	(15)	-
Depreciation, amortisation and impairment	(982)	(32)
Exchange movements	(238)	(28)
Net book value at December 31, 2013	**10,228**	**2,196**

12. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS continued

€ million	**Property, plant and equipment**	**Intangible assets**
Net book value at January 1, 2012	9,584	1,724
Additions	1,118	119
Acquired through Business combination	133	499
Disposals	(94)	(4)
Reclassifications	(3)	-
Depreciation, amortisation and impairment	(1,028)	(386)
Exchange movements	216	13
Net book value at December 31, 2012	9,926	1,965

Capital expenditure authorised and contracted for but not provided for in the accounts amounts to €8,745 million for the Group commitments (2012: €4,910 million). The majority of capital expenditure commitments are denominated in US dollars; as such the commitments are subject to the impact of changes in exchange rates.

13. 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**
2013					
Iberia					
At January 1, 2013	-	227	253	423	**903**
At December 31, 2013	-	227	253	423	**903**
British Airways					
At January 1, 2013	49	-	-	796	**845**
Additions	-	-	-	15	**15**
Exchange movements	(1)	-	-	(22)	**(23)**
At December 31, 2013	48	-	-	789	**837**
Vueling					
At January 1, 2013	-	-	-	-	**-**
Additions due to business combination	28	35	-	89	**152**
At December 31, 2013	28	35	-	89	**152**
At December 31, 2013	**76**	**262**	**253**	**1,301**	**1,892**

€ million	Goodwill	Brand	Customer loyalty programmes	Landing rights	Total
2012					
Iberia					
At January 1, 2012	249	306	253	423	1,231
Impairment charge recognised in the year	(249)	(79)	-	-	(328)
At December 31, 2012	-	227	253	423	903
British Airways					
At January 1, 2012	48	-	-	280	328
Additions	-	-	-	8	8
Additions due to business combination	-	-	-	499	499
Exchange movements	1	-	-	9	10
At December 31, 2012	49	-	-	796	845
At December 31, 2012	49	227	253	1,219	1,748

13. IMPAIRMENT REVIEW continued

Basis for calculating recoverable amount
Goodwill, brand and the Avios 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; through fair value less costs to sell; or through value-in-use.

Value-in-use is calculated using a discounted cash flow model. Value-in-use for brand is based on the royalty methodology. 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.

Annually the Group prepares and approves formal 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 under existing agreements reached with the unions.

Key assumptions
Key assumptions and growth rates are based on past performance and management's expectations of the market. The market conditions in which Iberia is currently operating remain challenging. The outlook for the economic environment in Spain has improved with a return to growth expected in 2014. However, this follows two years of negative GDP. The change in the discount rate from 2012 reflects movements in the government bond yields.

Iberia brand recoverable amount has been measured based on the royalty methodology, with a royalty rate of 0.60 per cent (2012: 0.60 per cent).

The Business plan assumed a fuel price of $100 per barrel (2012: $110 per barrel), US dollar exchange rate of 1.30 to the euro (2012: 1.25) and 1.56 to the pound sterling (2012: 1.57).

	2013			2012	
Per cent	British Airways	Iberia	Vueling	British Airways	Iberia
Pre-tax discount rate	**10.0**	**12.2**	**12.4**	10.0	11.7
Perpetual growth rate	**2.5**	**-**	**-**	2.5	-

Summary of results
In 2012, the impairment review of the Iberia brand resulted in an impairment of €79 million. This was based on the approved Business plan adjusted for restructuring approved by the Board, not requiring any further agreement. This plan included a capacity reduction of 15 per cent driving a reduction for forecasted revenue. In 2013, the Board approved the five year Business plan which included a small capacity growth in future years following Iberia's return to profitability. This plan supports the write back of a portion of the brand impairment, however when the sensitivities are applied, the headroom is more than eliminated. This latest Business plan is dependent on growth in the primary economies in which Iberia operates. Whilst the market has shown signs of improvement, 2013 overall GDP in Spain was negative. In light of these factors, management has concluded that the reversal of brand impairment would not be considered appropriate in 2013.

Impairment reviews over the carrying amount of Iberia's customer loyalty programme and landing rights with indefinite lives were also carried out. The results of those individual impairment reviews support the original carrying value of those assets.

As a result of the 2012 Iberia impairment review, goodwill was impaired by its full carrying amount of €249 million and franchise agreements impaired €15 million; both were recorded as exceptional charges within Depreciation, amortisation and impairment in the Income Statement.

Impairment reviews of the carrying amounts of intangible assets with indefinite life and goodwill have also been undertaken for British Airways and Vueling. Management has concluded that as a result of these reviews no impairment is required in respect of those assets.

Sensitivities
For the Iberia cash generating unit, additional sensitivities have been considered at the overall CGU level. A change of 0.50 percentage points in the post-tax discount rate would increase or decrease the recoverable amount of the CGU by approximately €170 million. A 4.9 per cent increase in the post-tax discount rate would reduce the recoverable amount to the carrying amount. A change of 0.50 percentage points in the perpetual growth rate would increase or decrease the recoverable amount by approximately €140 million.

No reasonable possible change in the key assumptions for the British Airways or Vueling cash generating units would cause the carrying amounts of goodwill to exceed recoverable amounts.

14. NON-CURRENT ASSETS HELD FOR SALE

The non-current assets held for sale of €12 million (2012: €3 million) represent four Boeing 737s and one Boeing 767 aircraft stood down (2012: property acquired as part of the bmi acquisition). These are presented within the British Airways operating segment and will exit the business within 12 months of December 31, 2013.

Property held for sale with a net book value of €3 million was disposed by the Group during the year to December 31, 2013 resulting in no gain or loss on disposal (2012: net book value of €31 million at no gain or loss).

15. FINANCIAL INSTRUMENTS

a. Financial assets and liabilities by category

The detail of the Group's financial instruments at December 31, 2013 and December 31, 2012 by nature and classification for measurement purposes is as follows:

At December 31, 2013	Financial assets						
€ million	Loans and receivables	Assets at FV through P&L	Derivatives used for hedging	Available for sale	Assets held to maturity	Non-financial assets	**Total carrying amount by balance sheet item**
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	1,744	-	-	-	348	-	**2,092**
Cash and cash equivalents	1,541	-	-	-	-	-	**1,541**

	Financial liabilities				
€ million	Loans and payables	Liabilities at FV through the P&L	Derivatives used for hedging	Non-financial liabilities	**Total carrying amount by balance sheet item**
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	3,176	-	-	3,617	**6,793**
Derivative financial instruments	-	-	528	-	**528**

At December 31, 2012	Financial assets						
€ million	Loans and receivables	Assets at FV through P&L	Derivatives used for hedging	Available for sale	Assets held to maturity	Non-financial assets	Total carrying amount by balance sheet item
Non-current assets							
Available-for-sale financial assets	-	-	-	684	-	-	684
Derivative financial instruments	-	-	26	-	-	-	26
Other non-current assets	92	-	-	-	4	17	113
Current assets							
Trade receivables	1,149	-	-	-	-	-	1,149
Other current assets	123	-	-	-	-	358	481
Derivative financial instruments	-	-	70	-	-	-	70
Other current interest-bearing deposits	1,543	-	-	-	4	-	1,547
Cash and cash equivalents	1,362	-	-	-	-	-	1,362

15. FINANCIAL INSTRUMENTS continued

a. Financial assets and liabilities by category continued

€ million	Financial liabilities				
	Loans and payables	Liabilities at FV through the P&L	Derivatives used for hedging	Non-financial liabilities	Total carrying amount by balance sheet item
Non-current liabilities					
Interest-bearing long-term borrowings	4,128	-	-	-	4,128
Derivative financial instruments	-	-	95	-	95
Other long-term liabilities	18	-	-	232	250
Current liabilities					
Current portion of long-term borrowings	670	-	-	-	670
Trade and other payables	3,378	-	-	2,635	6,013
Derivative financial instruments	-	-	66	-	66

b. Fair value of financial assets and financial liabilities

The fair values of the Group's financial instruments are disclosed in hierarchy levels depending 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;

Level 2: Inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

Level 3: Inputs for the asset or liability that are not based on observable market data.

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 loans and borrowings:					
Finance lease obligations	-	3,937	-	3,937	3,770
Fixed rate borrowings	452	585	-	1,037	931
Floating rate borrowings	13	408	-	421	421
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 option 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.

15. FINANCIAL INSTRUMENTS continued

b. Fair value of financial assets and financial liabilities continued

The carrying amounts and fair values of the Group's financial assets and liabilities at December 31, 2012 are set out below:

	Fair value				Carrying value
€ million	Level 1	Level 2	Level 3	Total	Total
Financial assets					
Available-for-sale financial assets	655	-	29	684	684
Aircraft lease hedges(1)	-	8	-	8	8
Forward currency contracts(1)	-	2	-	2	2
Fuel derivatives(1)	-	71	-	71	71
Currency option contracts(1)	-	15	-	15	15
Financial liabilities					
Interest-bearing loans and borrowings:					
Finance lease obligations	-	3,303	-	3,303	3,072
Fixed rate borrowings	794	389	-	1,183	1,036
Floating rate borrowings	14	676	-	690	690
Aircraft lease hedges(2)	-	34	-	34	34
Cross currency swaps(2)	-	2	-	2	2
Forward currency contracts(2)	-	30	-	30	30
Fuel derivatives(2)	-	22	-	22	22
Hedge of available-for-sale asset	-	52	-	52	52
Currency option contracts(2)	-	21	-	21	21

(1)Current portion of derivative financial assets is €70 million.

(2)Current portion of derivative financial liabilities is €66 million.

There were no transfers between Levels 1 and 2 during the year. Transfers between Levels 2 and 3 are addressed in the Level 3 reconciliation.

Out of the financial instruments listed in the table above, only the interest bearing loans and borrowings are not measured at fair value on a recurring basis.

The fair value of cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities 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:

Level 1
The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. 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 present actual and regularly occurring market transactions on an arm's length basis.

Instruments included in Level 1 comprise listed fixed asset investments classified as available-for-sale and interest-bearing borrowings, in particular euro-sterling notes and euro sterling bond 2016. These are stated at market value as at December 31, 2013.

Level 2
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.

Forward currency transactions and over-the-counter (OTC) 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 fair value of the Group's interest-bearing borrowings and loans including leases are determined by discounting the remaining contractual cash flows at the relevant market interest rates as at December 31, 2013.

15. FINANCIAL INSTRUMENTS continued

Fair value of financial assets and liabilities continued

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 which looks at the spot rate of the share price, the strike price, the stock volatility and the euro interest rate curve.

All resulting fair value estimates are included in Level 2 except for certain other investments which are explained below and classified as Level 3.

c. Level 3 financial assets reconciliation

The following table summarises key movements in Level 3 financial assets:

€ million	**December 31, 2013**	December 31, 2012
Opening balance	**29**	28
Gains/(losses) recognised in profit or loss [1]	**1**	1
Sales	**(2)**	(3)
Settlements	**(6)**	-
Fair value uplift upon disposal	**-**	3
Closing balance for the period	**22**	29

[1] Included in 'Net charge/(credit) relating to available-for-sale financial assets' in the Income statement.

During the year there were no material transfers into or out of Level 3 fair value measurements.

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.

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

	Year to December 31	
€ million	**2013**	2012
Decrease in cash and cash equivalents during the year (excluding Business combination)	**(114)**	(607)
Increase/(decrease) in other current interest-bearing deposits	**593**	(246)
Net funds/(debt) acquired through Business combination	**306**	(41)
Increase/(decrease) in cash net of exchange	**785**	(894)
Net cash outflow from repayments of debt and lease financing	**677**	669
New borrowings and finance leases	**(1,529)**	(534)
(Increase)/decrease in net debt resulting from financing cash flow	**(852)**	135
Exchange movements and other non-cash movements [1]	**467**	18
Decrease/(increase) in net debt during the year	**400**	(741)
Net debt at January 1	**(1,889)**	(1,148)
Net debt at December 31	**(1,489)**	(1,889)

[1] Including 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.

17. BORROWINGS

	December 31, 2013	December 31, 2012
Current		
Bank and other loans	**183**	235
Finance leases	**404**	435
	587	670
Non-current		
Bank and other loans	**1,169**	1,491
Finance leases	**3,366**	2,637
	4,535	4,128

The Group issued a €390 million fixed rate convertible bond in May 2013, raising net proceeds of €386 million, which holds a coupon rate of 1.75 per cent and is 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 is included in Other reserves. At December 31, 2013 and from issuance 91,758,228 options were outstanding.

In August 2009, British Airways issued a £350 million fixed rate 5.8 per cent convertible bond, convertible into ordinary shares at the option of the holder, before or on maturity in August 2014. The equity portion of the convertible bond issue was included in Other reserves. During August and September 2013, all bondholders exercised their options under the terms and conditions to exchange their convertible bonds for ordinary shares in the Company, resulting in the issue of 184,708,966 new shares.

In June 2013 the Group issued a $927 million fully committed EETC bond. At December 31, 2013, $496 million was drawn down.

The Group's finance lease for one 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 two of the covenants for the year to December 31, 2013. As a result of these covenant breaches, one finance lease has technically become repayable on demand and $84 million (€61 million) has been classified as current. These institutions have provided positive feedback and are expected to formally waive the breach in the first half of the year.

Three of the Group's 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 two of the covenants for the year to December 31, 2013. The remaining operating lease payments of $243 million (€176 million) will technically fall due within one year. The institutions have provided positive feedback and are expected to formally waive the breach in the first half of the year.

18. SHARE BASED PAYMENTS

During the year 8,995,886 conditional shares were awarded under the Group's Performance Share Plan (PSP) to key senior executives and selected members of the wider management team. No payment is due upon the vesting of the shares. The fair value of equity-settled share options granted is estimated as at the date of the award using the Monte-Carlo model, taking into account the terms and conditions upon which the options were awarded. The following are the inputs to the model for the PSP options granted in the period:

Expected share price volatility: 40 per cent
Expected life of options: 3 years
Weighted average share price: £2.69

The Group also made awards under the Incentive Award Deferral Plan (IADP) during the period, under which 2,753,837 conditional shares were awarded.

19. EMPLOYEE BENEFIT OBLIGATIONS

The Group operates two principal funded defined benefit pension schemes in the UK, the Airways Pension Scheme (APS) and the New Airways pension scheme (NAPS), both of which are closed to new members.

€ million	APS	NAPS	Other	**2013 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	(236)	-	-	**(236)**
Other employee benefit obligations	-	-	(13)	**(13)**
At 31 December 2013	479	(495)	(237)	**(253)**
Represented by:				
Employee benefit asset				**485**
Employee benefit obligation				**(738)**
				(253)

€ million	APS	NAPS	Other	2012 (restated) Total
Scheme assets at fair value	8,815	12,395	362	21,572
Present value of scheme liabilities	(7,911)	(14,031)	(842)	(22,784)
Net pension asset/(liability)	904	(1,636)	(480)	(1,212)
Effect of the asset ceiling	(298)	-	-	(298)
Other employee benefit obligations	-	-	(13)	(13)
At 31 December 2012	606	(1,636)	(493)	(1,523)
Represented by:				
Employee benefit asset				606
Employee benefit obligation				(2,129)
				(1,523)

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

	APS		NAPS	
Per cent per annum	**December 31, 2013**	December 31, 2012	**December 31, 2013**	December 31, 2012
Inflation (CPI)	**2.50**	2.10	**2.55**	2.15
Inflation (RPI)	**3.25**	2.85	**3.30**	2.90
Salary increases (as RPI)	**3.25**	2.85	**3.30**	2.90
Discount rate	**4.40**	4.10	**4.70**	4.50

Pension contributions for APS and NAPS were determined by actuarial valuation made as at March 31, 2012 using assumptions and methodologies agreed with the Trustees of each scheme.

20. PROVISIONS FOR LIABILITIES AND CHARGES

€ million	Employee leaving indemnities and other employee related provisions	Legal claims provisions	Restoration and handback provisions	Other provisions	**Total**
Net book value January 1, 2013	1,115	211	484	243	**2,053**
Provisions recorded during the year	316	13	175	49	**553**
Acquired through Business combination	-	9	208	6	**223**
Utilised during the year	(158)	(95)	(123)	(103)	**(479)**
Release of unused amounts and other movements	(21)	(40)	(56)	(53)	**(170)**
Unwinding of discount	24	7	17	3	**51**
Exchange differences	(2)	(4)	(21)	(10)	**(37)**
Net book value at December 31, 2013	**1,274**	**101**	**684**	**135**	**2,194**
Analysis:					
Current	157	25	140	76	398
Non-current	1,117	76	544	59	1,796

21. CONTINGENT LIABILITIES

There were contingent liabilities at December 31, 2013 in respect of guarantees and indemnities entered into as part of the ordinary course of the Group's business. No material losses are likely to arise from such contingent liabilities. A number of other lawsuits and regulatory proceedings are pending, the outcome of which in the aggregate is not expected to have a material effect on the Group's financial position or results of operations.

The Group has certain liabilities and commitments, which at December 31, 2013 amounted to €124 million (2012: €110 million).

22. RELATED PARTY TRANSACTIONS

The Group had the following transactions in the ordinary course of business with related parties.

Sales and purchases of goods and services:

€ million	**Year to December 31** **2013**	2012
Sales of goods and services		
Sales to associates	**78**	148
Sales to significant shareholders	**-**	-
Purchases of goods and services		
Purchases from associates	**61**	63
Purchases from significant shareholders	**-**	22

Year end balances arising from sales and purchases of goods and services:

€ million	**December 31, 2013**	December 31, 2012
Receivables from related parties		
Amounts owed by associates	**7**	35
Amounts owed by significant shareholders	**-**	31
Payables to related parties		
Amounts owed to associates	**6**	22
Amounts owed to significant shareholders	**-**	2

Vueling is no longer an associate of the Group since its acquisition on April 26, 2013 (note 3). Bankia, S.A. is no longer a significant shareholder at December 31, 2013.

For the year to December 31, 2013, the Group had not made any provisions for doubtful debts arising relating to amounts owed by related parties (2012: €nil).

In 2012 the Group entered into a hedging transaction at arm's length with Nomura International plc, 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 IT Holdings, S.A.

22. RELATED PARTY TRANSACTIONS continued

Board of Directors and Management Committee remuneration

Compensation received by the Group's key management personnel is as follows:

€ million	**2013**	2012
Base salary, fees and benefits		
Board of Directors' remuneration	**16**	6
Management Committee remuneration	**8**	4

The Company provides life insurance for all Executive Directors and the Management Committee. For the year to December 31, 2013 the Company's obligation was €34,000 (2012: €28,000).

At December 31, 2013 the transfer value of accrued pensions covered under defined benefit pension obligation schemes, relating to both the Board of Directors and the Management Committee totalled €5 million (2012: €5 million).

No loans or credit transactions were outstanding with Directors or officers of the Group at December 31, 2013 (2012: €nil).

STATEMENT OF DIRECTORS' RESPONSIBILITIES

LIABILITY STATEMENT OF COMPANY DIRECTORS FOR THE PURPOSES ENVISAGED UNDER ARTICLE 11.1.b OF SPANISH ROYAL DECREE 1362/2007 OF 19 OCTOBER (REAL DECRETO 1362/2007).

At a meeting held on February 27, 2014, the Directors of International Consolidated Airlines Group, S.A. confirmed that to the best of their knowledge the Condensed Consolidated Financial Statements for the year to December 31, 2013 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 Condensed Consolidated Management Report includes an accurate analysis of the required information also in accordance with the Financial Conduct Authority's DTR 4.1 including an indication of important events in the year, a description of the principle risks and material related party transactions.

February 27, 2014

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

José Pedro Pérez-Llorca y Rodrigo

Kieran Charles Poynter

Marjorie Morris Scardino

Alberto Terol Esteban

AIRCRAFT FLEET

Number in service with Group companies

	On balance sheet fixed assets	Off balance sheet operating leases[1]	**Total December 31, 2013**	Total December 31, 2012	Changes since December 31, 2012	Future deliveries	Options
Airbus A318	2	-	**2**	2	-	-	-
Airbus A319	31	30	**61**	63	(2)	-	-
Airbus A320	39	101	**140**	85	55	101	202
Airbus A321	18	17	**35**	36	(1)	-	-
Airbus A330	-	5	**5**	-	5	3	8
Airbus A340-300	4	3	**7**	13	(6)	-	-
Airbus A340-600	2	15	**17**	17	-	-	-
Airbus A350	-	-	**-**	-	-	18	34
Airbus A380	3	-	**3**	-	3	9	7
Boeing 737-400	15	-	**15**	19	(4)	-	-
Boeing 747-400	51	-	**51**	52	(1)	-	-
Boeing 757-200	1	2	**3**	3	-	-	-
Boeing 767-300	20	-	**20**	21	(1)	-	-
Boeing 777-200	41	5	**46**	46	-	-	-
Boeing 777-300	7	1	**8**	6	2	4	-
Boeing 787	4	-	**4**	-	4	38	16
Embraer E170	6	-	**6**	6	-	-	-
Embraer E190	8	-	**8**	8	-	3	15
Group total	**252**	**179**	**431**	377	54	**176**	**282**

As well as those aircraft in service the Group also holds 36 aircraft (2012: 37) not in service.

[1]A total of 66 aircraft under operating lease were acquired through Business combination in the year to December 31, 2013.