

MERGER PROJECT

between

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

(Surviving Company)

IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A.

(Non-surviving Company)

and

BA HOLDCO, S.A.

(Non-surviving Company)

Madrid, June 2010

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**MERGER PROJECT OF IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A. AND
BA HOLDCO, S.A. WITH AND INTO INTERNATIONAL CONSOLIDATED
AIRLINES GROUP, S.A.**

Pursuant to articles 30, 31 and related articles of Law 3/2009, of April 3, on Structural Modifications to Companies (hereinafter, “**Law 3/2009**”), the undersigned directors of INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. (hereinafter “**IAG**”), IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A. (hereinafter, “**Iberia**”) and BA HOLDCO, S.A. (hereinafter, “**BA Holdco**”), hereby prepare this joint merger project (hereinafter, the “**Merger Project**” or the “**Project**”) of Iberia and BA HOLDCO (as non-surviving companies, hereinafter, jointly, the “**Non-surviving companies**” and each one of them, individually, a “**Non-surviving company**”) with and into IAG, to be submitted for approval to the Shareholders’ Meetings of Iberia, of BA Holdco and of IAG, as provided for in article 40 of Law 3/2009.

1. BACKGROUND INFORMATION AND REASONS FOR THE MERGER

1.1 Reasons for the intended merger

Iberia and BRITISH AIRWAYS Plc (“**British Airways**”) are both public companies. The shares of Iberia are listed on the Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia and are negotiated through the Spanish Stock Exchange Interconnection System – Continuous Market (*Sistema de Interconexión Bursátil - Mercado Continuo*), and the shares of British Airways are listed on the Official List of the UK Listing Authority and are admitted to trading on the London Stock Exchange.

Both companies are engaged directly and through their affiliates in the business of operating national and international airline services, as well as certain airline-related businesses.

In this respect, both companies commenced discussions aimed at implementing a close industrial, financial and operating combination between Iberia and British Airways. After an in-depth analysis of the capacities of both companies, Iberia and British Airways have reached the conclusion that there is a compelling strategic rationale for both entities and their shareholders to combine their respective businesses and operations. Such combination is expected to enhance

services to customers and generate substantial synergies, allowing both companies to create a new leading European airline group.

The ultimate aim of the combination is to build a new organization to meet the challenges of the current environment in the European market and worldwide by implementing a project which enables both companies to reach greater levels of financial robustness, profitability and efficiency, in the interest of both groups, their shareholders and other stakeholders.

In this regard, a merger between the two companies is considered to be the most adequate method for reaching the intended objectives. Such merger will be carried out on a basis that recognises the principle of parity at board and management level. For the purposes of the merger ratio, the respective economic values of the two companies has been taken into account, showing the utmost respect for the tradition, history, particularities and culture of each one.

1.2 Execution of a merger agreement

Accordingly, on 8 April 2010, Iberia and British Airways entered into a merger agreement (the “**Merger Agreement**”) whereby both parties agreed the terms and conditions of the combination of both companies on the basis of a merger whereby, subject to the nationality structures (as further described in section 1.4 below) and subject to the transactions relating to the cross shareholdings (as further described in section 1.3.3 below), IAG would become the holding company of both airlines, with the existing shareholders of Iberia and British Airways becoming shareholders of IAG thereby resulting in a single body of shareholders.

The combination of Iberia and British Airways is a complex operation consisting of various transactions designed to achieve the final purpose of combining the businesses of both companies, safeguarding the traffic rights and the essential interests of both airlines, which, for the purposes of their description and analysis, may be divided into two groups of transactions:

- (i) Merger of Iberia and British Airways, through the following structure:
 - a) All the assets and liabilities of Iberia will be transferred by virtue of a hive down through the transfer en bloc of its whole business to the Spanish company Iberia, Líneas Aéreas de España, Sociedad Anónima Operadora (“**Iberia Operadora**”) which is a wholly-owned subsidiary of Iberia (currently dormant). In consideration for such transfer Iberia will receive a further issue of shares in Iberia Operadora. Such transfer will include the entire stake held by Iberia in British Airways (the “**Iberia Shareholding**”). The Iberia Shareholding represents 9.975% of the share capital of British Airways as of the date of this

Project. Iberia Operadora will accordingly assume the entire business of Iberia and will continue it on the same conditions as it is currently conducted.

It should be noted that (i) the treasury stock of Iberia, currently represented by 27,898,271 ordinary shares representing 2.927% of its share capital, will not be hived down to Iberia Operadora as these treasury shares will be cancelled prior to the hive down and (ii) Iberia will retain its rights and obligations under the Merger Agreement.

- b) BA Holdco, currently dormant, will acquire all of the issued shares of British Airways (with the exception of the Iberia Shareholding) representing 90.025% of the issued share capital of British Airways as of the date of this Project.

This transaction will be effected through a scheme of arrangement subject to English law and sanctioned by the High Court of England and Wales. As part of the scheme of arrangement, the shareholders of British Airways with the exception of Iberia Operadora, BA Holdco and the holder of the special voting share that will be redeemed prior to the scheme of arrangement (the “**BA Shareholders**”), will receive one share in BA Holdco for each share held by them in British Airways. The remaining outstanding British Airways shares held by Iberia Operadora (as a result of the Hive Down) and not already held by BA Holdco will be converted into a separate class of A2 shares (“**A2 Shares**”) prior to the scheme of arrangement taking effect and will not be acquired by BA Holdco.

In addition, prior to the occurrence of the scheme of arrangement, BA Holdco will subscribe for one A2 Share and British Airways will use the proceeds of that subscription to redeem the special voting share in the capital of British Airways (which is currently held for the purposes of ensuring compliance with nationality requirements imposed by certain British Airways route licenses).

The scheme of arrangement, governed by part 26 of the English Companies Act 2006, must be approved by the shareholders of British Airways and involves the cancellation of the entire share capital of British Airways (with the exception of the A2 Shares held by Iberia Operadora and BA Holdco) and the simultaneous issuance by British Airways of such number of ordinary shares to BA Holdco as have an aggregate nominal value which is equal to the aggregate nominal value of the ordinary shares in British Airways which are cancelled. In consideration for the cancellation of their shares in British Airways, each BA Shareholder will receive one newly issued ordinary share of BA Holdco for each share held by it in British Airways.

As a result of said transactions, BA Holdco will become, prior to its merger with Iberia, a holding company which will hold all of the share capital of British Airways (with the exception of the Iberia Shareholding, that will be held by Iberia Operadora as a result of the hive down) which represents a 90.025% of the issued share capital of British Airways as of the date of this Project.

- c) Subsequently, the merger of Iberia and BA Holdco with and into IAG (currently dormant) will be carried out, as provided for in this Merger Project. As a consequence, Iberia and BA Holdco will be dissolved and, accordingly, their shares will be cancelled and their respective assets and liabilities will be transferred en bloc and by universal succession to IAG, which will simultaneously issue shares for the benefit of the shareholders of Iberia and BA Holdco (the latter being the former BA Shareholders) in accordance with the agreed merger ratio set out in section 3.2 of this Project.
- (ii) Establishment of a nationality structure in each of British Airways and Iberia Operadora after the merger.

Each of these groups of transactions is described in further detail below. It should be noted that references to the shareholders of IAG in this Merger Project also includes those persons who are to hold depositary interests representing beneficial ownership to the shares in IAG following completion of the merger described herein.

1.3 Combination of Iberia and British Airways

As explained above, the combination of Iberia and British Airways will be carried out through the merger of Iberia and BA Holdco with and into IAG (such merger being the subject matter of this Project), after the following preliminary transactions have been carried out (i) Iberia becoming the holding company of Iberia Operadora by hiving down its assets and liabilities to Iberia Operadora in return for a further issue of share capital by Iberia Operadora, which will become as a consequence successor of Iberia's entire business and (ii) BA Holdco becoming the holder of all of the share capital of British Airways with the exception of the Iberia Shareholding. As a result of the merger, the shareholders of both Iberia and British Airways will become shareholders of IAG, which, subject to the nationality structures (as further described in section 1.4 below) and subject to the transactions relating to the cross shareholdings (as further described in section 1.3.3 below) will become the holding company of Iberia Operadora and British Airways.

Thus, the preliminary transactions to be carried out prior to the merger, which is the subject matter of this Project, are:

1.3.1 Hive down of the business of Iberia to Iberia Operadora

As mentioned in section 1.2(i).a) above, as an initial step linked to the merger which is the subject matter of this Project, Iberia will hive down its entire business to Iberia Operadora. The hive down will be carried out, after the relevant administrative authorizations have been obtained and the conditions precedent contemplated in the project relating to the hive down (the “**Hive Down Project**”) have been fulfilled, through a transfer pursuant to article 71 of Law 3/2009 and on the terms of the Hive Down Project executed by Iberia and Iberia Operadora on 24 June 2010, whereby Iberia will transfer its entire business to Iberia Operadora as described above, making up a branch of activity for tax purposes, to its wholly owned subsidiary Iberia Operadora.

The hive down will be submitted for approval to the shareholders of Iberia and Iberia, in its capacity as the sole shareholder of Iberia Operadora, prior to or simultaneously with the merger which is the subject matter of this Project. In any event, the merger shall not be carried out until the hive down has been implemented and, accordingly, all the assets and liabilities linked to the business of Iberia have been transferred, as a whole, to Iberia Operadora.

As established above, it should be noted that (i) the treasury stock of Iberia, currently represented by 27,898,271 ordinary shares representing 2.927% of its share capital, are to be excluded from the transferred assets and liabilities, since such treasury stock of Iberia will be cancelled prior to the execution of the hive down and (ii) Iberia will retain its rights and obligations under the Merger Agreement.

1.3.2 Scheme of Arrangement and increase of capital in BA Holdco

As established in section 1.2.(i).b) above, prior to the merger which is the subject matter of this Project, under a scheme of arrangement sanctioned by the High Court of England & Wales, BA Holdco will become the holder of all of the share capital of British Airways with the exception of the Iberia Shareholding. In addition, the BA Shareholders shall (through a custodian), pursuant to the scheme of arrangement, become shareholders of BA Holdco, with BA Holdco issuing one share to each BA Shareholder for each share held by such shareholder in British Airways (with such shares in BA Holdco being held by a custodian on bare trust and as nominee for the BA Shareholders).

The scheme of arrangement will be implemented as described in section 1.2.(i).b) above.

For the purposes of issuing shares to BA Shareholders pursuant to the scheme of arrangement, BA Holdco will increase its share capital, currently established at 60,120 euros, divided into 60,120 shares, each with a nominal value of 1 euro, by issuing and placing in circulation new shares, each with a nominal value of 0.50 euros, with one such share in BA Holdco being issued to the BA Shareholders, for each share in British Airways held by them.

The new shares of BA Holdco will be fully subscribed for by the BA Shareholders and the capital increase will be fully paid up through the allocation to BA Holdco of all of the shares of British Airways (with the exception of the Iberia Shareholding and the A2 Share already held by BA Holdco), representing 90.025% of the issued share capital of British Airways as of the date of this Project. Simultaneously, the current share capital of BA Holdco, which is currently held by the initial subscriber shareholders (amounting to 60,120 euros, divided into 60,120 shares, each with a nominal value of 1 euro) will be fully cancelled, by returning the contributions made.

As a consequence of the above, the issued share capital of BA Holdco will be represented by the same number of shares in British Airways held by BA Shareholders prior to the effectiveness of the scheme of arrangement, each with a nominal value of 0.50 euros, fully subscribed for and paid up. As of the date of this Project, the number of shares in British Airways held by BA Shareholders amounts to 1,038,595,842 shares.

In any case, the merger will not be executed until the scheme of arrangement has become effective and, by virtue thereof, BA Holdco has become the holder of all of the share capital of British Airways with the exception of the Iberia Shareholding.

1.3.3 Transactions related to the cross shareholdings

Currently, Iberia and British Airways are holders of the following cross shareholdings:

- a) Iberia is the holder, directly, of 115,077,695 ordinary shares of British Airways each with a nominal value of 25 pence, representing 9.975% of its share capital.
- b) British Airways is the holder, indirectly, through wholly-owned subsidiaries, of 125,321,425 ordinary shares of Iberia each with a nominal value of 0.78 euros, representing 13.15% of its share capital.

It is the intention of the parties that these cross shareholdings be maintained or recreated following the performance of the merger, directly or indirectly, between the two operating companies, that is, Iberia Operadora and British Airways.

For this purpose, the shareholding of Iberia in British Airways, as mentioned above, will be converted into A2 Shares prior to the Scheme of Arrangement taking effect and will not be acquired by BA Holdco. This shareholding will be transferred to Iberia Operadora as a result of the hive down and will remain as an asset of Iberia Operadora.

In turn, the subsidiaries of British Airways will carry out the necessary transactions to transfer to BA Holdco their shareholding in Iberia prior to the merger. Thus, British Airways Holdings B.V., a wholly owned subsidiary of British Airways (“**BA Dutch Sub**”) will transfer to BA Holdco all of the shares held by it in Iberia. In order to finance the purchase of the shares in Iberia described in this paragraph, BA Dutch Sub will grant a loan to BA Holdco (the “**Intra-Group Loan**”).

As a result, such shareholding of British Airways in Iberia will then be held by BA Holdco, a non-surviving company participating in the merger and will be reclassified prior to the merger so that the shares held by BA Holdco in Iberia will form a different class. As a result of the cancellation of the treasury stock of Iberia described above, the 13.15% shareholding of BA Holdco in Iberia will become a 13.55% shareholding.

Pursuant to article 26 of Law 3/2009, shares of merging companies that are in the possession of either one of them or in the possession of other persons who act in their own name but for the account of such companies, shall not be exchanged for shares of the company resulting from the merger and, if appropriate, must be redeemed or cancelled. As a result of the above such shareholding of BA Holdco in Iberia (i.e., 13.55%) will not be exchanged for shares in IAG and will be cancelled as a result of the merger.

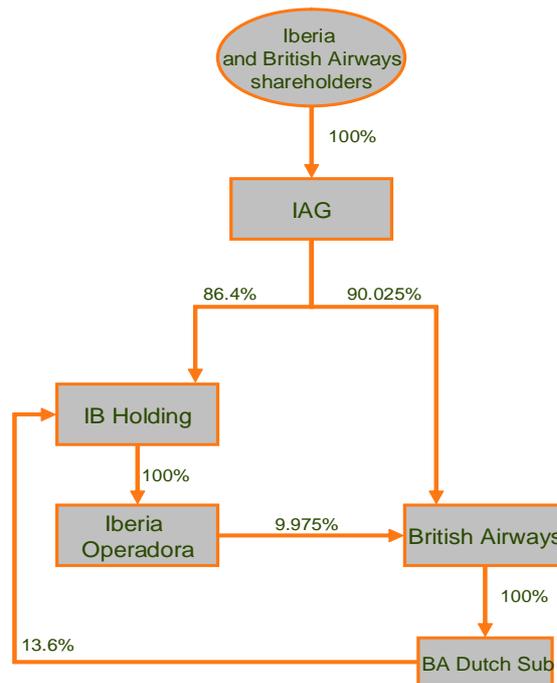
Accordingly, as a result of the merger, IAG will become the holder of 100% of the share capital of Iberia Operadora, as a result of the absorption of Iberia, and will become the debtor under the Intra-Group Loan granted by BA Dutch Sub, as a result of the absorption of BA Holdco.

After the merger is implemented, as part of establishment of the nationality structures as described in section 1.4 below, IAG will contribute its entire holding of shares in Iberia Operadora (i.e., 100% of the share capital of such company) to a Spanish limited liability company

named IB OPCO HOLDING S.L. (“**IB Holding**”) and will become the sole shareholder of such company.

In addition, the necessary transactions will be performed to ensure that BA Dutch Sub becomes the direct or indirect holder of a stake in Iberia Operadora approximately equal in economic terms to the stake it previously held in Iberia prior to the merger by way of the substitution of the Intra-Group Loan for shares or the repayment of the Intra-Group Loan and purchase or subscription of shares in IB Holding representing 13.6% of the economic rights of Iberia Operadora.

The final situation before implementing the nationality structures (described in section 1.4 below) will be as follows:



Notes:

1. Stake of BA Dutch Sub in IB Holding shown in the diagram (13.6%) represents the percentage of the economic rights owned by BA Dutch Sub. As described below, this stake will carry 6.8% of the voting rights.

1.4 Establishment of the nationality structures and assurances for the benefit of the airlines

As a result of the intended merger, and before the establishment of the nationality structures and the transfer of shares in IB Holding to BA Dutch Sub described in the last paragraph of section 1.3.3 is completed, IAG will be the holder of 100% of the share capital of Iberia Operadora and, directly or indirectly, of British Airways.

However, by virtue of certain arrangements made between Spain and the United Kingdom with certain States that are not members of the European Union, certain route licences in such States are subject to compliance by Iberia Operadora with a Spanish nationality clause and by British Airways with a UK nationality clause. It is accordingly necessary to establish a structure that permits compliance with the Spanish nationality and UK nationality clauses to be ensured to avoid jeopardizing the route licences of Iberia Operadora and of British Airways.

In addition, in the context of the merger between Iberia and British Airways, certain principles (the “**Assurances**”) have been agreed between such companies, which are to be observed for an initial period of five (5) years after the date on which the merger becomes effective (the “**Initial Period**”), for the benefit of each of the airlines, and it is also necessary to establish a procedure to monitor compliance with the Assurances. Therefore, a procedure for monitoring compliance with the Assurances at both board and shareholder level has been agreed between IAG, Iberia and British Airways and is set out in an Assurances Agreement (the “**Assurances Agreement**”). The shareholder structure which is to be put in place to preserve existing route licences will also assist in monitoring compliance with the Assurances. Such Assurances are:

- (i) Iberia Operadora and British Airways will continue to operate as airlines with their respective main bases in Spain and the UK and will retain separate operating licenses and air operator’s certificates and preserve their codes.
- (ii) Each of Iberia Operadora and British Airways will take all reasonable steps, consistent with the aim of maximising the profitability of the group resulting from the merger (consisting of IAG, IB Holding, Iberia Operadora and British Airways, and their respective subsidiaries and, when applicable, subsidiary undertakings, hereinafter, the “**Combined Group**”), to protect its slots and rights to operate to international destinations. To that aim, if the economic decision to cancel a certain service were to foreseeably result in the total or partial loss of any authorization and/or right to operate international routes, all the parties involved shall make reasonable endeavours to safeguard the relevant authorizations and rights, without jeopardizing the underlying economic decision.

- (iii) The existing “Iberia” and “British Airways” brands will be retained.
- (iv) The Combined Group’s network strategy will be developed in a way that reflects the importance of Madrid Barajas and London Heathrow, which shall remain as fundamental parts of the multi-centre strategy of the Combined Group as a whole and will take into account, among other things, the following:
- the need to satisfy customer needs and to service natural traffic flows;
 - the need to maximize the financial stability and profitability of the Combined Group;
 - a reasonable division of new opportunities between the two networks, taking into account the natural traffic flows and the economic conditions applicable to each airport;
 - the principle that there should be a balanced long-term development of the networks served from each airport;
 - the principle that the evolution of one of the centres should not be to the detriment of the other centre, its existing portfolio of key destinations and its potential of growth, except where such evolution is of material economic or other benefit to the Combined Group; consequently, there should not be a transfer of any destination from one airport to the other unless the transfer is of material economic or other benefit to the Combined Group;
 - the fact that current capacity constraints at London Heathrow may mean that there is more available capacity for growth at Madrid Barajas.
- (v) Recognizing the importance of employees to the success of the merger, all promotions within IAG, Iberia Operadora and British Airways and any employee restructuring activities in any company within the Combined Group shall be based purely on merit without any form of discrimination.
- (vi) All collective bargaining agreements and employment contracts relating to the employees of Iberia Operadora and British Airways shall continue to be negotiated and organized within Iberia Operadora and British Airways, respectively.
- (vii) IAG and Iberia Operadora will be managed and operated, and all transactions and dividends (or other distributions) between British Airways, on the one hand, and IAG and/or Iberia Operadora, on the other, will be structured and managed, in order to seek to avoid giving the Pensions Regulator in the United Kingdom established under section 1 of the

Pensions Act, 2004 (as amended) any grounds on which it would be reasonable for it to impose an obligation on either Iberia Operadora or IAG to make any payment to, or otherwise assume liability for, any pension scheme operated by British Airways (including, for example, a contribution notice or financial support direction as defined in the UK Pensions Act 2004).

- (viii) IAG and Iberia Operadora will not provide any guarantee to any pension scheme operated by British Airways or use any cash or credit facilities belonging or available to them to fund any such scheme.
- (ix) IAG and British Airways will not provide any guarantee to any pension scheme operated by Iberia Operadora or use any cash or credit facilities belonging or available to them to fund any such scheme.

The structure of ownership and governance (the “**Nationality Structure**”) which seeks to ensure the preservation of the current route licences of each of the airlines and the monitoring of compliance with the Assurances, shall be implemented in relation to each of the operator companies (Iberia Operadora and British Airways) shortly after the execution of the merger which is the subject matter of this Project, in the manner set forth below with respect to each of the airlines:

1.4.1 In relation to Iberia Operadora

The Nationality Structure of Iberia Operadora shall be as follows:

- (i) As explained above, two business days after completion of the merger, IAG will contribute its entire shareholding in Iberia Operadora (i.e., 100% of its share capital) to IB Holding and the appropriate transactions shall be performed to ensure that BA Dutch Sub becomes the holder of 13.6% of the economic rights and 6.8% of the voting rights of IB Holding (and, indirectly, of Iberia Operadora).
- (ii) The share capital of IB Holding will amount to 10,000 euros, divided into 499 class A shares and 501 class B Shares each with a par value of 10 euros, with the voting and economic rights described in paragraph (v) below. The difference between the value of the shares in Iberia Operadora which are contributed and the nominal value of the shares issued by IB Holding shall be allocated to the share premium account (*prima de asunción*) corresponding to the class A shares.
- (iii) As a result of the transactions described in section 1.4.1 (i) above, the share capital of IB Holding shall be distributed between IAG and BA Dutch Sub as follows: IAG shall be the holder of 431 class

A shares and 501 class B shares, and BA Dutch Sub shall be the holder of 68 class A shares.

- (iv) Subject to the allotment and issue described in section 1.4.1(i) and (ii) above having occurred, a Spanish limited liability company (the “**Nationality Company**” or “**NC**”) shall purchase from IAG, and IAG shall transfer to the NC, the 501 class B shares in consideration for the payment by the NC of a purchase price equal to their nominal value, i.e. €5,010, the payment of which shall be made simultaneously with the execution of the relevant share purchase agreement.
- (v) Upon completion of the transactions described in sections 1.4.1(i) to (iv) above, 100% of the share capital of Iberia Operadora will be held by IB Holding whose share capital, in turn, will be held as regards 49.9% by IAG and BA Dutch Sub (through their holdings of class A shares) and as regards 50.1% by the NC (through its holding of class B Shares).
- (vi) Each share of IB Holding will confer upon its holder the right to a number of votes proportional to its nominal value. Accordingly, each class A share and each class B share of IB Holding will have the same voting rights. As regards economic rights, class A shares will be preferred over class B shares, to the extent that they will confer on their holders more favourable economic rights. Specifically, the economic rights of class A shares and of class B shares will confer the following economic rights:
 - The right to a share in the corporate profits will be established in a manner such that class B shares shall have the right to a dividend equal to the lower of the following amounts, in each dividend distribution: (i) 1% of the total dividends that IB Holding decides to distribute; or (ii) €1 per each class B share. The rest of the dividends will be distributed to the holders of the class A shares.
 - The assets resulting from a liquidation of IB Holding will be distributed as follows: (i) firstly, the nominal value of class A shares will be refunded; (ii) should any surplus exist, it will be allocated to refund the nominal value of class B shares; and, (iii) should any surplus exist thereafter any balance will be distributed among the holders of the class A shares pro rata to the number of class A shares held by them.
- (vii) The Nationality Company will be a Spanish limited liability company, having as its sole purpose the holding, management and

administration of class B shares of IB Holding, with the sole objective of maintaining the route licences of Iberia Operadora and to assist with monitoring compliance with the Assurances.

- (viii) The shareholders of the Nationality Company will have Spanish nationality and shall be Caja de Ahorros y Monte de Piedad de Madrid, with a 87% stake, and El Corte Inglés, S.A., with a 13% stake. On exercising their voting rights in the Nationality Company, in IB Holding and, indirectly, in Iberia Operadora, the shareholders of the Nationality Company and the Nationality Company itself shall take into consideration the best interests of those persons who are shareholders of IAG who are Spanish nationals and whose shareholdings, or interests in shares, are recorded in the separate register maintained by IAG for such purpose.
- (ix) After the Initial Period has expired, each of IAG and the Nationality Company will have the option to remove the Nationality Structure with regard to Iberia Operadora. For such purposes, IAG may exercise at that time a call option against the Nationality Company over all the class B shares issued by IB Holding, at an exercise price equal to their nominal value. In turn, the Nationality Company may exercise at that time a put option against IAG over all the class B shares issued by IB Holding at an exercise price equal to their nominal value.

Additionally, whenever IAG or the Nationality Company is entitled to exercise the call option or the put option, it can, instead of requiring the sale and purchase of the class B shares pursuant to the relevant option, request the redemption of the class B shares by serving a notice in writing on the other shareholders and IB Holding, such redemption to be made in accordance with applicable law. The amount to be reimbursed to IB Holding pursuant to the redemption of the class B shares shall be equal to the nominal value of such shares.

In the event that IAG is exercising its call option, it may only do so if the termination of the Nationality Structure of British Airways described below has already occurred or is to occur at substantially the same time.

1.4.2 In relation to British Airways

The Nationality Structure of British Airways will be as follows:

- (i) Two business days after completion of the merger, IAG will lend £1,000,000 to a UK corporate trustee company which is a wholly

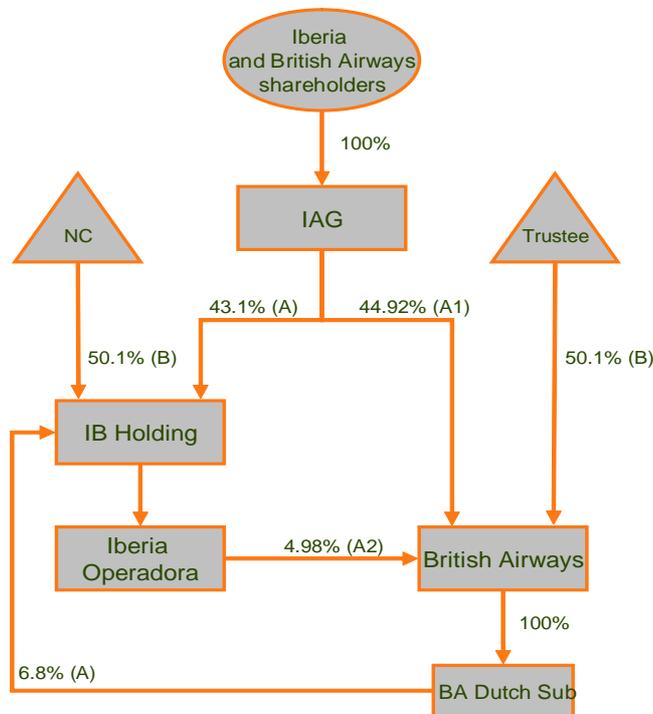
owned subsidiary of The Law Debenture Corporation p.l.c. (the “Trustee”). The Trustee will use such sum to subscribe for 1,000,000 class B Shares in the capital of British Airways. The 1,000,000 class B shares subscribed for by the Trustee will represent 50.1% of the total number of issued shares in the capital of British Airways. The shares held by IAG (44.92%) and Iberia Operadora (4.98%) in British Airways will be designated as class A1 and class A2 shares and will, together, represent 49.9% of the total number of issued shares in the capital of British Airways.

- (ii) The Trustee will hold the class B shares on trust with the trust property ultimately to be distributed on termination of the trust to a person selected by the Trustee (or in certain circumstances the Charity Commission for England and Wales) who is a UK charity or an entity or institution referred to, but not the entities or institutions named in, Schedule 3 of the UK Inheritance Tax Act 1984 (as amended or replaced from time to time). The Trustee will exercise the voting rights attaching to the class B shares in the interests of those persons who are shareholders in IAG who are UK nationals and whose shareholdings or interests in shares are recorded in a separate register maintained by IAG for such purpose. Any dividends, distributions, or other monies received by the Trustee in relation to the class B shares (including as a result of a redemption, buy-back, or transfer of such shares) must first be applied in repaying the amount loaned to it by IAG before any funds can be distributed to the beneficiaries of the trust.
- (iii) At the shareholder meetings of British Airways, holders of class A1, A2 and B shares will, on a poll, be entitled to one vote for each class A1, A2 or B share held, resulting in the holders of the B shares having 50.1% of the votes at those meetings.
- (iv) As regards economic rights, the class A1 and A2 shares will be preferred over the class B shares to the extent that they will confer on their holders more favourable economic rights. Specifically, the economic rights of the class A1, A2 and the class B shares will confer the following rights:
 - In respect of dividends and other distributions, the class B shares will be entitled to 1% of the total amount of any dividend declared by British Airways, provided that the aggregate amount of the dividends and distributions that the class B shares shall be entitled to shall be capped at £1 per class B share. The holders of the class A1 and A2 shares shall be entitled to the remaining portion of such dividend or

distribution pro rata to the number of such shares held by them. However, where the aggregate amount of any dividend or distribution which is made by British Airways is less than £1, the holders of the class A2 shares shall not be entitled to receive any amount of such dividend.

- On a return of capital, British Airways' assets will be applied as follows: (i) firstly, the nominal value of the class A1 and A2 shares will be repaid; (ii) should any surplus exist, it will be allocated to repay the nominal value of the class B shares; and (iii) should any surplus exist thereafter, any balance will be distributed to the holders of the class A1 and A2 shares pro rata to the number of such shares held by them.
- (v) After the Initial Period has expired, IAG will have the option to remove the Nationality Structure with regard to British Airways by either (a) requiring British Airways to redeem the class B shares held by the Trustee or (b) by requiring the Trustee to transfer the class B shares held by it either to IAG or to a third party, provided that the Nationality Structure of Iberia Operadora described above has previously been terminated or is to terminate at substantially the same time. The price at which the class B shares may be redeemed or, as the case may be, transferred will be equal to the nominal value of such shares.

Set forth below is a simplified structure diagram showing the merged Iberia/BA group following the implementation of the merger and the Nationality Structures.



Notes:

1. The percentages referred to are based on the number of shares and voting rights held by each party.
2. The shares held by NC and the Trustee will have minimal economic rights.

1.4.3 Management and administration of the operating airline companies (Iberia Operadora and British Airways).

Set out below is a summary description of the agreement which has been reached between IAG, Iberia, British Airways, the Nationality Company and the Trustee as to how each of Iberia Operadora and British Airways will be initially administered and managed once the merger has been implemented.

- (i) Iberia Operadora and British Airways will continue to operate as operating airline companies. Subject to, and within the parameters of, the overall strategy and governance arrangements of the Combined Group which will be set by the board of IAG, Iberia Operadora and British Airways will remain responsible for its own day to day commercial and operational management and will have control over their income and expenditure.

- (ii) Each operating company shall be managed and administered by a Board of Directors consisting of nine members, the majority of whom will have Spanish nationality (in the case of Iberia Operadora) or UK nationality (in the case of British Airways).
- (iii) The Board of Directors of Iberia Operadora will initially have the following composition:
 - a) Chairman. Initially, Mr. Antonio Vázquez Romero.
 - b) Chief Executive Officer of Iberia Operadora. Initially, Mr. Rafael Sánchez-Lozano.
 - c) Two executive Directors.
 - d) Chief Financial Officer of the Combined Group. Initially, Mr. Enrique Dupuy De Lome.
 - e) Chief Executive Officer of British Airways. Initially, Mr. Keith Williams.
 - f) Three Directors appointed at the request of the Nationality Company.

The Nationality Company will have power to replace any of the Directors which it is entitled to appoint at any time. Notwithstanding the above, where the Nationality Company proposes the appointment of any such Director, it shall have to consult firstly with IAG. In any event, the Nationality Company will have the final decision on any appointment of those Directors which it has the right to appoint.

- (iv) The initial composition of the Board of Directors of British Airways will be as follows:
 - a) Chairman. Initially, Mr. Martin Broughton.
 - b) Chief Executive Officer of British Airways. Initially, Mr. Keith Williams.
 - c) Two executive Directors.
 - d) Chief Financial Officer of the Combined Group. Initially, Mr. Enrique Dupuy De Lome.
 - e) Chief Executive Officer of Iberia Operadora. Initially, Mr. Rafael. Sánchez-Lozano.

- f) Three Directors appointed at the request of the Trustee.

The Trustee will have power to replace any of the Directors which it is entitled to appoint at any time. Notwithstanding the above, where the Trustee proposes the appointment of any such Director, it will have to consult firstly with IAG. In any event, the Trustee will have the final decision on any appointment of those Directors which it has the right to appoint.

- (v) In addition, in respect of each of Iberia Operadora and British Airways, IAG will have the power to appoint and remove 4 Directors provided that at all times one such Director shall be the chief executive officer of the other operating company, one such Director shall be the chief financial officer of IAG and two such Directors shall be executive Directors of the relevant operating company. Separate provisions will apply to the appointment and removal of the Chairman and Chief Executive Officer of each of Iberia Operadora and British Airways which are set out in further detail in section 1.4.3(viii) below.
- (vi) As a general rule, the Board of Directors of each of Iberia Operadora and British Airways will entrust the ordinary management of the company to the Chief Executive Officer and will focus its activity on the general function of supervision and on the consideration of those affairs that are of particular relevance for the company. In this regard, the Board of Directors of each of Iberia Operadora and British Airways will have the following matters reserved to it:
 - a) Reporting to the Shareholders' Meeting.
 - b) Drafting the terms of, and proposing to the Shareholders' Meeting, the approval of the annual accounts, the management report and the proposal for the application of profits for each financial year.
 - c) Appointment and dismissal of members of the safety review committee.
 - d) Approval of the business plan and annual budgets
 - e) Approval of the corporate social responsibility policy.

- f) Approval of the policy for overseeing and managing risks and the periodic monitoring of internal information and oversight systems.
 - g) Approval of directors' remuneration within such limits as may be determined by the Shareholders' Meeting.
 - h) Assessment of the quality and efficiency of the Board and the board safety review committee on the basis of the reports submitted by that committee.
 - i) Any matter which is required to be approved by the Board of Directors pursuant to (in the case of Iberia Operadora) clause 3.3(C) or (in the case of British Airways) clause 3.4(C) of the Assurances Agreement.
 - j) Supervision of the chief executive officer of the company.
 - k) Any other matters which the shareholders of the company empower the Board of Directors to determine.
- (vii) The decisions of the Boards of Directors of Iberia Operadora and British Airways shall be adopted by a simple majority, except (i) for those matters that are contrary to the Assurances, which shall require the vote in favour of, at least, seven of the nine Directors making up the Board and (ii) the decisions that, by applicable law, require a higher majority.
- (viii) It is expected that the Board of Directors of IAG will be able to issue recommendations to the Boards of Iberia Operadora and British Airways. Before issuing a recommendation, IAG will consult with the Board (or Chairman or Chief Executive Officer) of Iberia Operadora and of British Airways, as appropriate. Subject to their fiduciary duties as directors, the Directors of Iberia Operadora and of British Airways shall be required to vote in accordance with any recommendation made by the Board of IAG, provided that such recommendations are not contrary to the Assurances.
- (ix) As mentioned in sections 1.4.3(iii) and 1.4.3(iv) above, the Nationality Company and the Trustee will be entitled to appoint and remove three Directors of Iberia Operadora and British Airways respectively and IAG will be entitled to appoint and remove four Directors of each such company. The Chairman and of the Chief Executive Officer of Iberia Operadora and of British Airways (the **“Relevant Director”**), will be appointed and removed in accordance with the following procedure:

- a) IAG may at any time remove the Relevant Director. Prior to exercising such right, IAG shall consult with the director appointed by the Nationality Company (in respect of Iberia Operadora) and the Trustee (in respect of British Airways) who has been appointed as the senior director of those directors which are appointed by the Nationality Company or the Trustee, as applicable. Such senior director shall have the opportunity to make representations during such consultation prior to removing the Relevant Director.

The senior director mentioned above shall be the Deputy Chairman of each operating company.

- b) The nominations committee of Iberia Operadora or British Airways as appropriate (the “**Nominations Committee**”) shall consider who should be appointed to be the Relevant Director. Each of IAG, the Nationality Company (in respect of Iberia Operadora) and the Trustee (in respect of British Airways) shall be entitled to make nominations to the Nominations Committee of potential appointees. The Nominations Committee shall nominate a person to be the Relevant Director, provided that IAG has given its consent to such person being the Relevant Director.
- c) The Nationality Company (in respect of Iberia Operadora) and the Trustee (in respect of British Airways) will have a veto right over any person proposed by the Nominations Committee as the Relevant Director.
- d) In the event that such veto right is exercised, then the Nominations Committee may propose another person in respect of whom the Nationality Company (in respect of Iberia Operadora) or the Trustee (in respect of British Airways) may exercise again their veto right, and such Nominations Committee may continue proposing persons in relation to whom the Nationality Company or the Trustee, as appropriate, will have a veto right, unless IAG exercises the right described in section (e) below);
- e) If the appointment of any person proposed by the Nominations Committee is vetoed, IAG will also have the right to call a Shareholders’ Meeting of IAG to discuss consultatively whether or not to approve the appointment of the candidate proposed by the Nominations Committee. In such case, the voting rights of the shareholders of IAG who are Spanish nationals (if the proposal refers to the Chairman

or the Chief Executive Officer of Iberia Operadora) or who are UK nationals (if the proposal refers to the Chairman or the Chief Executive Officer of British Airways) will, if such shares do not carry a majority of the voting rights in IAG, be increased in a manner such that such shareholders will have a majority of the voting rights in IAG. The Nationality Company or the Trustee (as appropriate) and IAG will be obliged to act in accordance with the decision adopted consultatively by the shareholders of IAG in respect of the appointment of the proposed person as Chairman or, as the case may be, Chief Executive Officer of the relevant company.

- (x) The Nationality Company will be required to exercise its voting rights as directed by IAG, provided that the corresponding resolutions are not contrary to the Assurances nor would result in the corporate structure no longer meeting the requirements of the Nationality Structure relating to Iberia Operadora, with the exception of those cases in which the Nationality Company considers that to so vote would not be in the best interest of the Spanish national shareholders, of IAG. The Trustee will be required to exercise its voting rights in accordance with the recommendations made by IAG, provided that the corresponding resolutions are not contrary to the Assurances or would result in the corporate structure of British Airways no longer meeting the requirements of the Nationality Structure relating to British Airways, with the exception of those cases in which the Trustee considers that to so vote would not be in the interests of the UK national shareholders of IAG.

2. DESCRIPTION OF THE INTENDED MERGER TRANSACTION

The intended merger may be described as the merger of Iberia and BA Holdco (Non-surviving companies) with and into IAG (Surviving company), with the termination, through the dissolution without liquidation of the Non-surviving companies and the transfer en bloc of the assets and liabilities of the Non-surviving companies to the Surviving company, which acquires, by universal succession, the rights and obligations of the Non-surviving companies, on the terms and conditions established in this Project.

3. STATEMENTS REQUIRED BY ARTICLE 31 OF LAW 3/2009

3.1 Identification of the merging companies

3.1.1 IAG (Surviving company)

Name: INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

Registered office: for the time being, calle Pradillo, 5, bajo exterior, derecha, 28002 Madrid, Spain, provided that it may be amended before the effective date of the merger

Registered data: It is entered at the Madrid Mercantile Registry, on volume 27312, sheet 11, page number M-492.129.

Tax Identity Number: A-85845535

3.1.2 Iberia (Non-surviving company)

Name: IBERIA LÍNEAS AÉREAS DE ESPAÑA, S.A.

Registered office: calle Velázquez nº 130, 28006 Madrid

Registered data: It is entered at the Madrid Mercantile Registry, on volume 228, sheet 138, and page number M-4621.

Tax Identity Number: A-28/017648

3.1.3 BA Holdco (Non-surviving company)

Name: BA HOLDCO, S.A.

Registered office: calle Pradillo, 5, bajo exterior, derecha, 28002 Madrid, Spain

Registered data: It is entered at the Madrid Mercantile Registry, on volume 27312, sheet 1, page number M-492.128.

Tax Identity Number: A-85842797

3.2 Merger Ratio

The merger ratio which determines the basis on which the shares of the Non-surviving companies will be exchanged by the shareholders of the Non-Surviving

companies for shares of the Surviving company, which has been established on the basis of the value of the net assets (*valor real de su patrimonio*) of the Non-Surviving companies after the preliminary transactions described in section 1.3 above, is as set forth below:

- (i) The shareholders of Iberia will receive 1.0205 ordinary shares each with a nominal value of 0.5 euros of IAG for every ordinary share with a nominal value of 0.78 euros that they hold in Iberia.
- (ii) The shareholders of BA Holdco (which, as mentioned above, after the scheme of arrangement described in section 1.3.2 above has been performed, will be the BA Shareholders) will receive one ordinary share with a nominal value of 0.5 euros of IAG for every ordinary share with a nominal value of 0.5 euros that they hold in BA Holdco.

No cash consideration is to be paid to the shareholders of the Non-surviving companies as a result of the merger.

IAG will effect an increase of capital in the amount necessary for the exchange, through the issuance and placing in circulation of the necessary number of registered shares (*acciones nominativas*), each with a nominal value of 0.50 euros, of the same and single class and series, represented by book entries, the subscription for which is reserved to the holders of shares of Iberia and BA Holdco, with no preemptive subscription right existing, in compliance with article 159.4 of the Corporations Law (*Ley de Sociedades Anónimas*). The difference between the net book value of the equity received by IAG due to the merger and the nominal value of the new shares shall be allocated to share premium. Both the nominal value of the new shares and the respective share premium shall be fully paid up due to the transfer en bloc of the assets and liabilities of Iberia and of BA Holdco to IAG.

The admission to trading of the new shares to the Official List of the UK Listing Authority and to trading on the London Stock Exchange will be requested and the shares will be included in the FTSE UK Index Series. In addition, IAG will also be listed on the Spanish Stock Exchanges and traded through the Spanish Continuous Market.

The issuance and admission to listing of the new shares of IAG shall be recorded in a prospectus subject to approval and registration by the Spanish National Securities Market Commission (*Comisión Nacional del Mercado de Valores*).

The shares of Iberia indirectly held by British Airways (which, as described in section 1.3.3 above will become directly held by BA Holdco prior to the merger) will not be exchanged as provided for in article 26 of Law 3/2009 and will be cancelled.

In compliance with legislation in force, the merger ratio proposed by the directors of the merging companies will be submitted to verification by an independent expert designated by the Mercantile Registry and approved by the Shareholders' Meetings of said companies.

3.3 Exchange procedure

The procedure for the exchange of the shares of Iberia and BA Holdco for shares of IAG will be as set forth below:

3.3.1 Shares of Iberia

- (i) After the merger has been approved by the Shareholders' Meetings of the merging companies and the public deed of merger and consequent increase of capital of IAG has been registered at the Madrid Mercantile Registry, the shares of Iberia with a nominal value of 0.78 euros (other than the class of shares held by BA Holdco) will be exchanged for newly issued shares of IAG in accordance with the merger ratio through the entities of the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U ("**IBERCLEAR**"), depositories of the shares of Iberia, subject to the procedures established for the book entry system, pursuant to Royal Decree 116/1992, of February 14 and the Spanish Corporations Law where appropriate.
- (ii) Shareholders holding shares of Iberia that represent fractional entitlements to shares in accordance with the agreed merger ratio may group or transfer their shares to exchange them in accordance with such merger ratio. Iberia will appoint a share fractions broker (*agente de picos*) that will acquire fractional entitlements of shareholders in Iberia in order to group such fractional entitlements in order to receive a whole number of shares of IAG.
- (iii) As a result of the merger, the shares of Iberia will be cancelled.
- (iv) Article 59 of the Spanish Corporations Law will apply to those shares of Iberia that are not submitted to be exchanged within the established term.

3.3.2 Shares of BA Holdco

- (i) Pursuant to the execution of the scheme of arrangement described in section 1.3.2 above, all the newly issued shares of BA Holdco will be fully subscribed by a custodian to be designated by British

Airways in agreement with IAG (the “**Custodian**”), as nominee for the BA Shareholders.

- (ii) After the merger has been approved by the Shareholders’ Meetings of the merging companies and the public deed of merger and consequent increase of capital of IAG has been registered at the Madrid Mercantile Registry, the shares of BA Holdco with a nominal value of 0.50 euros (issued under the scheme of arrangement) will be exchanged for newly issued shares of IAG in accordance with the merger ratio.
- (iii) The exchange of shares will be carried out by submitting the public deed which will effect the capital increase of BA Holdco through the issue of new shares required in connection with the implementation of the scheme of arrangement described in section 1.3.2 above, duly registered by the Madrid Mercantile Registry (the “**BA Holdco Capital Increase Public Deed**”), before the entity participating in IBERCLEAR designated by IAG for these purposes.

Such participating entity, acting as agent, will receive the BA Holdco Capital Increase Public Deed and will carry out all the share exchange transactions relating to the allocation of the respective newly issued shares of IAG to the Custodian that will hold such shares as nominee for an entity that will act as the depositary who will, in turn, hold the newly issued shares of IAG on trust for the relevant shareholders. All the above as provided for in Royal Decree 116/1992, of February 14, and the Spanish Corporations Law where appropriate.

- (iv) By legal imperative, pursuant to article 26 of Law 3/2009 and legislation governing treasury stock, the shareholding of BA Holdco in Iberia at the date of conversion will not be exchanged for shares of IAG.
- (v) As a result of the merger, the shares of BA Holdco will be cancelled.
- (vi) Article 59 of the Spanish Corporations Law will apply to those shares of BA Holdco that are not submitted to be exchanged within the established term.

3.4 Effect of the merger on industry contributions (*aportaciones de industria*) or on ancillary contributions (*prestaciones accesorias*) in the extinguished companies

None of the shareholders of the merging companies is an industrial shareholder and thus, no industry contribution is to be made in the intended merger.

No ancillary contributions are inherent in the shares of the merging companies.

3.5 Rights to be granted in the Surviving company to persons holding special rights or securities other than those representing capital or the options offered to them

Except as provided below regarding the holders of convertible debentures of British Airways and the beneficiaries of plans for remuneration in shares of British Airways (i) no special shares or holders of special rights other than shares exist in the merging companies and (ii) no shares or special rights will be granted in IAG due to the merger.

3.5.1 Holders of convertible debentures of British Airways

On 13 August 2009 British Airways issued £350,000,000 5.80 per cent. convertible bonds due on 13 August 2014 (the “**Convertible Bonds**”). Pursuant to the terms and conditions of the Convertible Bonds, each Convertible Bond is convertible at the option of the holder into British Airways shares at an initial conversion price of £1.89 per share.

A structure will be put in place to ensure that, following the merger, the Convertible Bonds are exchangeable into IAG shares. IAG and British Airways will enter into a warrant instrument, under which IAG will grant warrants to British Airways that carry the right to subscribe for IAG shares. On receipt of a conversion notice from a bondholder, British Airways will exercise its right to call for the issue of IAG shares. The warrants will provide that, when IAG issues shares on British Airways exercising the warrant, IAG shall issue IAG shares to a third party nominated by British Airways (i.e., the relevant bondholder exercising a conversion notice).

Currently the maximum number of ordinary shares of British Airways that may be issued as a result of the conversion of all the Convertible Bonds at the initial conversion price described above is 185,185,185. Based on such calculation, the maximum number of IAG shares that may be issued as a result of the implementation of the structure described above at the initial conversion price described above is 185,185,185.

3.5.2 *Beneficiaries of plans for remuneration in shares of British Airways*

Currently British Airways has the following plans for remuneration in shares representing the share capital of such company (the “**BA Share Plans**”):

- British Airways Share Option Plan.
- British Airways Plc Long Term Incentive Plan 1996.
- British Airways Deferred Share Plan 2005.
- British Airways Performance Share Plan 2005.

British Airways and Iberia will procure that the options and awards held by participants under the BA Share Plans are, automatically or upon request, as appropriate, exchanged for options and awards, of equivalent value and on the same terms, to acquire shares representing the share capital of IAG, all in accordance with the rules of the relevant BA Share Plans.

Any exercise or vesting of such options and awards shall be satisfied, directly or indirectly, by the transfer of existing shares in IAG, either to be held by BA Employee Benefits Trust (Jersey) Limited (as the trustee of the BA employee benefit trust) or acquired in the market, and the cost of acquiring such shares will be borne by, or recharged to, British Airways (as applicable).

3.6 Benefits of any kind that will be granted in the Surviving company to the independent experts who are to participate in the Merger Project and to the directors of the Non-surviving companies or of the Surviving company.

No benefits of any kind will be granted in IAG to the independent expert who is to act in the merger process or to the directors of the Non-Surviving companies or to the directors of IAG as a result of the merger.

3.7 Date after which the holders of the new shares will be entitled to a share in the corporate profits

The new shares to be issued by IAG due to the merger will grant the right to share in its corporate profits after the date on which the public deed of merger is filed for entry before the Madrid Mercantile Registry, which is expected to take place on the date of its execution.

3.8 Date after which the merger will be effective for accounting purposes

The transactions of Iberia and of BA Holdco will be considered to have been made for accounting purposes for the accounts of IAG after the date on which the public deed of merger is filed for entry before the Madrid Mercantile Registry, which is expected to take place on the date of its execution.

3.9 Bylaws of the Surviving company

The bylaws of IAG, the Surviving company resulting from the merger, will be those attached to this Project as **Schedule 1**.

3.10 Information on the appraisal of the assets and liabilities making up the equity (*patrimonio*) of each company to be transferred to the Surviving company

As mentioned in section 1.3 above, following the preliminary transactions, Iberia will by universal succession under the merger transfer to IAG 100% of the share capital of Iberia Operadora (the company resulting from the hive down of the business of Iberia) and its rights and obligations under the Merger Agreement and, in turn, BA Holdco will by universal succession under the merger transfer to IAG all the shares of British Airways (with the exception of the Iberia Shareholding) which it will previously have acquired under the scheme of arrangement or subscribed for.

The main elements of the assets and liabilities of Iberia and British Airways are the following:

Iberia:

- Total value of the assets: 5,020 million euros.
- Total value of liabilities: 3,516 million euros.
- Net value of the assets and liabilities: 1,504 million euros.

The above figures correspond to the book value of the assets and liabilities to be transferred, as recorded on December 31, 2009.

British Airways:

- Total value of the assets: 10,677 million pounds sterling.
- Total value of liabilities: 8,564 million pounds sterling.
- Net value of the assets and liabilities: 2,113 million pounds sterling.

The above figures correspond to the book value of the assets and liabilities to be transferred, as recorded on March 31, 2010.

The assets and liabilities transferred by the Non-surviving companies to IAG shall be recorded in IAG at the net book value at which they were recorded in the books of the Non-surviving companies as of the date of the merger for accounting purposes, that is, the date on which the public deed of merger is filed for entry before the Madrid Mercantile Registry, which is expected to take place on the date of its execution, as set forth in section 3.8 above.

3.11 Dates of the accounts of the merging companies used to establish the conditions on which the merger is performed

The merger balance sheets, for the purposes of article 36.1 of Law 3/2009, will be those closed by the merging companies at December 31, 2009, which form part of their respective financial statements at said date.

3.12 Eventual consequences of the merger on employment and its eventual impact on gender with respect of the managing bodies and the effect that it may have on corporate liability.

The merger which is the subject matter of this Project will be performed between two holding companies, as Non-surviving companies (Iberia, currently the holder of 100% of the capital of Iberia Operadora, which will be the successor of its business, and BA Holdco, to become under the scheme of arrangement the holding company of British Airways) and a recently incorporated company, IAG, currently dormant as the surviving company, so that the intended merger will have no significant impact on employment with respect to BA Holdco and Iberia.

After the merger is implemented, the existing employment rights of the current employees of Iberia (whose employment will be transferred to Iberia Operadora as part of the hive down described in section 1.3.1 above) and of the current employees of British Airways will be respected in accordance with the law.

It is not expected that any significant changes will be made due to the merger to the structure to the managing body of the Surviving company from the point of view of gender distribution on the Boards of Directors of the Non-surviving companies.

Lastly, it is expected that the merger will not have any impact on the corporate social responsibility of the merging companies.

4. CORPORATE GOVERNANCE OF IAG

Set out below is a summary description of the agreement which has been reached between Iberia and British Airways regarding the corporate governance arrangements which it is intended will initially apply to IAG upon the implementation of the merger. Once the merger has been implemented, any changes to these corporate governance arrangements will be a matter for the directors or, as the case may be, the shareholders of IAG to determine from time to time.

It is intended that the majority of the meetings of IAG's Board of Directors and all its Shareholders' Meetings will be held in Madrid. No meetings will take place in the United Kingdom. Upon completion of the merger, IAG will have its tax residence in Spain.

IAG will be listed on the Official List of the UK Listing Authority and its ordinary shares will be admitted to trading on the main market of the London Stock Exchange and will be included on the FTSE UK Index Series. In addition, IAG will be secondarily listed on the Spanish Stock Exchanges and traded through the Spanish Continuous Market.

As a Spanish incorporated company, IAG will be subject to applicable Spanish legislation (particularly the Corporations Law). IAG will apply the provisions of the UK Combined Code on Corporate Governance published by the Financial Reporting Council in June 2008 (to the extent applicable) and the UK Corporate Governance published by the Financial Reporting Council in June 2010 (as such code may be amended or replaced from time to time, the "**UK Corporate Governance Code**"), save for the provisions that conflict with the provisions of this section 4 and will apply the statement of principles relating to the disapplication of pre-emption rights published by the Pre-Emption Group (as such statement of principles may be amended or replaced from time to time) to the extent required in order for IAG to be eligible for inclusion on the FTSE UK Index Series.

4.1 Board of Directors of IAG

The Board of Directors of IAG shall initially consist of 14 members, who shall be elected or re-elected at the Shareholders' Meeting of IAG at which the intended merger is approved, its having been agreed that such initial composition will be as follows:

- (i) Mr. Antonio Vázquez Romero - Chairman of the Combined Group
- (ii) Mr. William Walsh - Chief Executive Officer of the Combined Group
- (iii) Mr. Rafael Sanchez-Lozano – Chief Executive Officer of Iberia Operadora

- (iv) Mr Keith Williams - Chief Executive Officer of British Airways
- (v) Three non-executive Directors to be designated by Iberia.
- (vi) Three non-executive Directors to be designated by British Airways (of which one will be Mr. Martin Broughton who will also be designated as Deputy Chairman of the Combined Group).
- (vii) Two independent directors, neither of whom shall be a current director of either British Airways or Iberia, who will be designated by Iberia, one such director to be a United Kingdom national and the other to be any nationality (other than a United Kingdom national or a Spanish national).
- (viii) Two independent directors, neither of whom shall be a current director of either British Airways or Iberia, who will be designated by British Airways, one such director to be a Spanish national and the other to be any nationality (other than a United Kingdom national or a Spanish national).

It has been agreed that the Directors of IAG will stand for re-election initially after a period of either 2, 3 or 4 years. After the expiration of such initial period, each director will, if re-elected, be appointed for further periods of 3 years. In this way, all of the directors of IAG will (after the initial period) come up for re-election in any rolling 3 year period.

Any vacancies that arise on the Board of Directors shall be filled by the Directors of IAG as provided for in the corporate bylaws of IAG, the UK Corporate Governance Code and applicable Spanish legislation. In such event, the Nominations Committee shall, in accordance with the UK Corporate Governance Code, lead the process to fill the respective vacancy and will make the recommendations it deems advisable to the Board of Directors of IAG.

4.2 Offices on the Board

The Board of Directors will elect from among its members a Chairman and a Deputy Chairmen. Initially, the Chairman of the Board of Directors of IAG shall be Mr. Antonio Vázquez Romero and the Deputy Chairman shall be Mr. Martin Broughton.

The Board of Directors shall also elect from among its members a Chief Executive Officer. Initially, the Chief Executive Officer of IAG shall be Mr. William Walsh.

The Board of Directors, at the proposal of the Chairman, shall designate a Secretary and, if appropriate, a Deputy Secretary, who need not be Directors.

4.3 Chairman

The Chairman of the Board of Directors will be considered to be the Chairman of IAG. The office of Chairman, who will be the ultimate representative of IAG, will be deemed fundamental in order to reach, maintain and promote the efficient performance by the Board of Directors and its members of their tasks and responsibilities, and to ensure that the necessary conditions to do so exist, the Chairman being responsible for leading the Board of Directors and playing a key role in the development of the strategy of IAG (whilst respecting executive responsibility).

Initially, the Chairman of IAG shall be Mr. Antonio Vázquez Romero.

In addition to the powers corresponding to him pursuant to the Corporate Bylaws, the Shareholders' Meeting Regulations, the Board of Directors Regulations and applicable law, the Chairman shall exercise the following powers:

- (i) To call and chair meetings of the Board of Directors in the manner established in the Corporate Bylaws and the Board of Directors Regulations, establishing the meeting agenda and directing discussions and deliberations.
- (ii) To chair Shareholders' Meetings and direct the discussions and deliberations of same.
- (iii) To submit to the Board of Directors the proposals he deems appropriate for the sound running of IAG and, in particular, proposals corresponding to the functioning of the Board of Directors and other corporate bodies, and to propose the designation of the offices on the Board of Directors.
- (iv) To run the Board and set its agenda, taking full account of the issues and the concerns of all Board members.
- (v) To ensure that the members of the Board receive accurate, timely and clear information, in particular about IAG's performance, its strategy, challenges and opportunities in order to enable the Board to take sound decisions and monitor effectively IAG's performance.
- (vi) To ensure effective communication with shareholders and ensure that the members of the Board and IAG executives understand and address the concerns of investors.
- (vii) To ensure that the Board allocates sufficient and adequate time for the discussion of complex, sensitive or contentious issues, arranging, where appropriate, informal meetings beforehand with Board members, executives and advisers to enable the thorough preparation of Board meetings and discussions.

- (viii) To lead an induction program for new Board members that is comprehensive and tailored.
- (ix) To identify and address the development needs of individual Board members and the development needs of the Board of Directors as a whole, with a view to enhancing its overall effectiveness as a team.
- (x) To ensure that the performance of individual Board members and of the Board as a whole and its Committees is evaluated at least once a year.
- (xi) To encourage the active commitment by all of the members of the Board to the responsible, diligent and loyal performance of their functions.
- (xii) To lead Board discussions with a view to encouraging effective decision-making and a constructive debate on the performance of IAG, its growth strategy and commercial objectives.
- (xiii) To offer support and advice to the Chief Executive in relation to the strategy and operations of IAG, including in preparation for any Board discussion regarding matters of IAG strategy.
- (xiv) To monitor the correct implementation of the decisions adopted by the Board of Directors.
- (xv) Where appropriate, to act as the top representative of IAG before public agencies and external bodies.
- (xvi) To approve the corporate communications strategy for IAG.
- (xvii) In general, to promote the highest standards of corporate governance and ensure compliance by the Board of Directors.

4.4 Chief Executive Officer

The Board of Directors shall designate a Chief Executive Officer from among its members to whom it shall delegate some or all of its functions, save for those that cannot be delegated pursuant to the Board of Directors Regulation, the Corporate Bylaws or applicable law.

Initially, the Chief Executive Officer of IAG shall be Mr. William Walsh.

The Chief Executive is the top executive of IAG and, as such, shall take overall responsibility for the supervision and safe conduct of IAG's business and profitable operation in accordance with the policies, strategies and objectives established by the Board of Directors. In doing so, the Chief Executive Officer of IAG must:

- (i) Report to and be responsible and accountable to the Board of Directors for the management and profitable operation of IAG.
- (ii) Head IAG's management team, formulating clear business and financial strategies and policies, within the guidelines established by the Board of Directors, to promote growth, improve profitability and increase the value of IAG.
- (iii) Oversee the preparation of operational and commercial plans that ensure the highest standards of operational safety and security and which underpin the business policies and strategies of IAG.
- (iv) Develop an effective management strategy and put in place effective controls to ensure that proper business, financial safety and security practices exist which enable IAG to remain competent to secure the safe operation of the fleet.
- (v) Formulate clear environmental and social responsibility policies, develop an effective management strategy and put in place effective controls to ensure that IAG is aware of and discharges its social and environmental responsibilities.
- (vi) Adopt the necessary measures in order to achieve the objectives, strategies and policies of IAG.
- (vii) Co-ordinate the activities of all elements of the business so that together they achieve the corporate objectives.
- (viii) Report regularly to the Board on the running of the business so that the Board can measure performance against the policies, strategies and objectives established by the Board.
- (ix) Keep the Chairman informed on all matters of importance concerning the running of IAG and to consult with the Chairman in advance of each Board meeting regarding matters of IAG strategy which are to be discussed at such Board meeting.
- (x) Respond effectively to Board requests for assistance in matters relating to the IAG's business
- (xi) Recommend and seek approval of the Remuneration Committee of the Board for executive management remuneration and incentive programmes.
- (xii) Provide leadership advice and counsel to senior managers and supervise development programmes so as to achieve a superior performing company.

- (xiii) Where appropriate, to act as the senior executive representative of IAG before public agencies and external bodies.
- (xiv) To formulate the corporate communications strategy for IAG.

4.5 Board Advisory Committees

The Board of Directors shall initially have the following Committees:

- (i) Audit and Compliance Committee, which will initially be comprised of four people: two independent Directors (one of whom shall be Chairman of the committee), one designated by Iberia and one designated by British Airways.
- (ii) Nominations Committee, which will initially be comprised of four people: two independent Directors (one of whom shall be Chairman of the committee), one designated by Iberia and one designated by British Airways.
- (iii) Remunerations Committee, which will initially have the same composition as the Nominations Committee.
- (iv) Safety Committee which will initially be comprised of four people: one designated by Iberia, one designated by British Airways (who shall be Chairman of the committee), with the remaining two persons to be agreed between Iberia and British Airways.

4.6 Management team of IAG

IAG shall have a management team which shall be responsible for the day-to-day control and management of the Combined Group, in the ordinary course of business, including the delivery of the synergies expected from the merger and compliance with the first joint business plan. This management team will be responsible for implementing the resolutions approved by the Board of Directors of IAG.

The IAG management team will initially be comprised of the following persons:

- (i) Chief Executive Officer of the Combined Group. Initially, Mr. William Walsh.
- (ii) Chief Executive Officer of Iberia Operadora. Initially, Mr. Rafael Sánchez-Lozano.
- (iii) Chief Executive Officer of British Airways. Initially, Mr. Keith Williams.

- (iv) Chief Financial Officer of the Combined Group. Initially, Mr. Enrique Dupuy De Lome.
- (v) Revenue Synergies Officer. Initially, Mr. Robert Boyle.
- (vi) Cost Synergies Officer. Initially, Mr. Ignacio de Torres Zabala.

5. MISCELLANEOUS

5.1 Independent expert

Pursuant to article 34.1 of Law 3/2009, the directors of IAG, Iberia and BA Holdco will request the Madrid Mercantile Registry to designate a single independent expert to draw up a single report on this Merger Project and on the assets and liabilities transferred by Iberia and BA Holdco to IAG due to the merger.

5.2 Tax regime

The intended merger will avail itself of the tax regime envisaged in Chapter VIII of Part VII of the restated Spanish Corporate Income Tax Law approved by Royal Legislative Decree 4/2004 without prejudice that Iberia may exercise the waiving right set forth in section 84.2 of the Spanish Corporate Income Tax Law.

To such effect the above-mentioned tax regime will apply to this merger and, pursuant to article 96 of said Restated Law, the merger will be reported to the Ministry of Economy and Finance through the statutory procedure.

5.3 Conditions precedent and termination

The effectiveness of the intended merger will be subject to certain conditions precedent as described below.

The merger being the subject matter of this Project will be submitted for approval to the Shareholders' Meetings of Iberia, BA Holdco and IAG, as provided for in article 40 of Law 3/2009.

Nevertheless, such Shareholders' Meetings of the merging companies (as well as the Shareholders' Meeting of British Airways) will not be called until certain conditions precedent are satisfied, including:

- (i) The High Court of England and Wales having granted an order for the meeting of shareholders of British Airways to approve the scheme of arrangement described in section 1.3.2 above to be convened.
- (ii) This Merger Project and the Hive Down Project having been deposited with the Madrid Mercantile Registry.
- (iii) The independent experts appointed by the Madrid Mercantile Registry having issued the relevant reports in accordance with applicable law regarding the merger subject matter of this Project, the hive down described in section 1.3.1 above and the capital increase of BA Holdco described in section 1.3.2 above.
- (iv) The Financial Services Authority of the United Kingdom (in its capacity as competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 and in the exercise of its functions in respect of the admission of securities to the official list otherwise than in accordance with Part VI of the Financial Services and Markets Act 2000, the “UKLA”) having approved the circular in respect of the scheme of arrangement described in section 1.3.2 above to be dispatched to the BA Shareholders in accordance with the listing rules made under Part VI of the Financial Services and Markets Act 2000 (as set out in the FSA Handbook), as amended.
- (v) Iberia having delivered written confirmation to British Airways, that it will not exercise its right to terminate the Merger Agreement based on the final and binding agreement (the “**Pensions Agreement**”) reached by British Airways with the Trustees in relation to the technical provisions and deficit recovery plan attributable to the pension schemes of British Airways (with effect from 1 April 2009) on 21 June 2010, or such confirmation having been deemed to have been given pursuant to the terms of the Merger Agreement (as described below).

In this regard, Iberia is entitled to terminate the Merger Agreement if (i) the Pensions Agreement is challenged by the pensions regulator in the United Kingdom (the “**Pensions Regulator**”) in the maximum period of three (3) months (or such shorter period as Iberia considers appropriate in its absolute discretion) as from the moment it is submitted to the Pensions Regulator or, as at the last day of such three month period (or such shorter period as Iberia considers appropriate in its absolute discretion) (the “**Pensions End Date**”), Iberia reasonably considers that the Pensions Regulator is likely to challenge such agreement; (ii) the Pensions Agreement is not satisfactory in the reasonable opinion of Iberia because it implies a materially detrimental modification of the economic premises of the merger between Iberia and British Airways; or (iii) prior to 30 June 2010 British Airways has disclosed to Iberia any applications to the Pensions Regulator for clearance under

sections 42 and 46 of the Pensions Act 2004 which in Iberia's reasonable opinion would result in a materially detrimental modification of the economic premises of the merger or any liability has been imposed or threatened by the Pensions Regulator on British Airways or any member of the British Airways Group under sections 38 to 51 of the Pensions Act 2004.

In the event that Iberia does not exercise such termination right, then Iberia shall deliver to British Airways no later than five business days following the Pensions End Date written confirmation that it will not exercise its right to terminate the Merger Agreement. In the event that Iberia does not deliver such confirmation on or before the end of such five business day period or terminate the Merger Agreement pursuant to the immediately preceding paragraph, then Iberia will be deemed to have made such confirmation to British Airways and the condition set out in this section shall be deemed to have been satisfied.

- (vi) The European Commission having issued a decision under either Article 6 or Article 8 of Council Regulation (EC) n° 139/2004 of 20 January 2004 on the control of concentrations between undertakings (the EU Merger Regulation) (or having been deemed to have done so under such regulation), declaring either that the merger of Iberia and BA is compatible with the internal market, or that the merger is compatible with the internal market subject to such conditions or undertakings as are reasonably satisfactory to Iberia and British Airways.
- (vii) Regulatory clearance in respect of the merger having been obtained from the Federal Trade Commission under the Hart-Scott Rodino Antitrust Improvements Act 1976 subject to such conditions or undertakings as are reasonably satisfactory to each of the parties.

Once such conditions are satisfied and all corporate authorisations have been obtained, the effectiveness of the intended merger will be subject to the execution of the public deed of merger and subsequent registration of such public deed before the Madrid Mercantile Registry. In accordance with the terms of the Merger Agreement the execution of the public deed of merger and the subsequent filing of such public deed for registration before the Madrid Mercantile Registry will be subject to the following conditions precedent:

- (i) Approval of the scheme of arrangement described in section 1.3.2 above, by a majority in number of the BA Shareholders present and voting (and entitled to vote and, for the avoidance of doubt, excluding Iberia) either in person or by proxy representing not less than 75 per cent. in value of the British Airways shares held by such BA Shareholders, as well as the High Court of England and Wales having made an order sanctioning such scheme

of arrangement and such order having been filed with the Registrar of Companies for England and Wales.

- (ii) Approval of each of the general meeting resolutions (including the merger being subject matter of this Project) by the requisite majority at the general meetings of Iberia and British Airways, and of a separate class resolution by the requisite majority at a separate class meeting of British Airways shareholders, necessary or desirable to be passed in order to implement the merger in accordance with the terms of the Merger Agreement.
- (iii) Each of the creditor protection periods applicable, pursuant to Spanish law, to the merger subject matter of this Project and the hive down described in section 1.3.1 above, having expired without a creditor lodging an objection to the hive down or the merger which either by itself, or when taken together with any other objections to the hive down or the merger lodged by creditors, would, if the amounts to which such objections relate were guaranteed in accordance with Spanish law, in either Iberia's or British Airways' reasonable opinion result in a material financial cost to the Combined Group.
- (iv) The UKLA having agreed to admit the shares of IAG to be issued pursuant to the merger which is the subject matter of this Project to the official list of the UKLA; and the London Stock Exchange having agreed to admit such shares to trading on its market for listed securities.

This Merger Project will terminate automatically in the event that the Merger Agreement is terminated in accordance with its terms.

* * *

In witness whereof, for the appropriate legal purposes, the Directors of the merging companies have signed this Merger Project. It is expressly placed on record that Mr. Keith Williams and Mr. Roger Paul Maynard, proprietary directors of Iberia designated by British Airways, refrained from participating in the deliberation of the Board of Directors of Iberia on this Merger Project on grounds of a potential conflict of interest and, accordingly, have not signed it in their capacity as directors of Iberia.

Additionally, it is placed on record that Valoración y Control, S.L. , director of Iberia, has not signed the Merger Project as its natural person representative, Mr. José Manuel Serra Peris, was absent on the signing date of this document.

For INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. (Surviving company)

In Madrid, on 29 June 2010.

Mr. Antonio Vázquez Romero

Mr. Martin Faulkner Broughton

Mr. William Matthew Walsh

Mr. Rafael Sánchez-Lozano Turmo

For IBERIA, LÍNEAS AÉREAS DE ESPAÑA, S.A. (Non-surviving company)

In Madrid, on 24 June 2010, effective as of 29 June 2010.

Mr. Antonio Vázquez Romero

Mr. Rodrigo de Rato Figaredo

Mr. Rafael Sánchez-Lozano Turmo

Mr. Felipe Benjumea Llorente

Mr. José Manuel Fernández Norniella

Mr. José Pedro Pérez-Llorca

Inmogestión y Patrimonios, S.A.
Represented by Mr. Javier Gómez-
Navarro Navarrete

Mr. Antonio Masa Godoy

Mr. Jorge Pont Sánchez

Mr. José B. Terceiro Lomba

For BA HOLDCO, S.A. (Non-surviving company)

In Madrid, on 29 June 2010.

Mr. Martin Faulkner Broughton

Mr. William Matthew Walsh

Mr. Keith Williams

Mr. Roger Paul Maynard

SCHEDULE 1

IAG BYLAWS