THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt in regard to the contents of this Prospectus or as to the action you should take, you should immediately consult an appropriately authorised professional adviser.

This document constitutes a simplified prospectus (the "**Prospectus**") for the purposes of Article 14 of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (the "**Prospectus Regulation**"), as amended, relating to International Consolidated Airlines Group, S.A. (the "**Company**" or "**IAG**" and, together with its subsidiaries, the "**Group**"). This Prospectus has been prepared in accordance with Annex 3 and 12 of Commission Delegated Regulation (EU) 2019/980 of 14 March 2019 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation (EC) No 809/2004 (the "**Delegated Regulation 2019/980**").

This Prospectus has been approved by Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*, "CNMV"), as competent authority under the Prospectus Regulation and its implementing measures and under the consolidated text of the Securities Market Act approved by Royal Legislative Decree 4/2015 of 23 October (*Texto refundido de la Ley del Mercado de Valores aprobado por el Real Decreto Legislativo 4/2015, de 23 de octubre*), on 10 September 2020. Such approval relates only to the offering of the Subscription Rights (as defined below) and the New Shares (as defined below) to be admitted to trading on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges (the "Spanish Stock Exchanges"), and the other stock exchanges on which the Company's shares are currently traded, all of which are regulated markets for the purposes of the EU Directive 2014/65/EU on markets in financial instruments, as amended ("MiFID II") and the CNMV only approves this prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by Regulation (EU) 2017/1129. Such approval should not be considered as an endorsement of the issuer that is the subject of this Prospectus or of the quality of the New Shares and/or the Subscription Rights that are the subject matter of this Prospectus. This Prospectus is valid for 12 months following its approval. However, as this Prospectus refers to the offering of New Shares, its validity will end upon the offering and the admission to trading of the New Shares, and once this Prospectus is no longer valid, the Company will have no obligation to publish a supplementary prospectus in case of significant new factors, material mistakes or material inaccuracies. This Prospectus is available on the CNMV's website (www.cnmv.es) and on the Company's website (www.iairgroup.com).

Investing in the New Shares and/or the Subscription Rights involves certain risks. Investors should read this Prospectus in its entirety and in particular the risk factors set out in the section of this Prospectus entitled "Risk Factors" and make their own assessment as to the suitability of investing in the New Shares and/or the Subscription Rights.

The distribution of this Prospectus, any other offering or publicity material relating to the Capital Increase (as defined below) and/or the transfer of the New Shares and/or the Subscription Rights into jurisdictions other than Spain and the United Kingdom, may be restricted by law or regulation, and therefore persons into whose possession this Prospectus and/or accompanying documents come should inform themselves about and observe any such restrictions. In particular, subject to certain exceptions, such documents should not be distributed in, forwarded to or transmitted in or into the United States or any other jurisdiction including, but not limited to, Australia, Canada, Hong Kong, Japan, New Zealand, Singapore, South Africa, Switzerland and the United Arab Emirates, where the extension or availability of the Capital Increase (and any other transaction contemplated thereby) would breach any applicable law or regulation (the "Excluded Territories"). Any failure to comply with these restrictions may constitute a violation of the securities laws or regulations of any such jurisdiction.

IAG INTERNATIONAL AIRLINES GROUP

INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

(*incorporated under the laws of the Kingdom of Spain and entered at the Madrid Mercantile Registry with registration number M-492129, Tax Identity Code number A-85845535 and LEI code 959800TZHQRUSH1ESL13*)

Proposed 3 for 2 Capital Increase of 2,979,443,376 New Shares at €0.92 per New Share

Joint Sponsors (as to Admission of Subscription Rights and Admission on the London Stock Exchange), Joint Global Coordinators and Joint Bookrunners

Goldman Sachs International **Morgan Stanley**

Joint Global Coordinator and Joint Bookrunner

Deutsche Bank

Joint Bookrunners

Banco Bilbao Vizcaya Argentaria S.A. **Banco Santander S.A.** **Barclays Bank PLC**

BofA Securities **Citigroup Global Markets Limited** **Credit Suisse**

Independent Financial Adviser to the Company

Rothschild & Co

This Prospectus relates to the offering of 2,979,443,376 ordinary new shares, each with a nominal value of €0.10 (the "**New Shares**"), of the Company pursuant to a capital increase (the "**Capital Increase**").

Subject to the terms and conditions set out herein, the Company is granting transferable pre-emptive subscription rights ("**Subscription Rights**" for the avoidance of doubt, includes the CDI Rights (as defined below)) to existing holders of the Company's ordinary shares (the "**Existing Shares**" or individually, a "**Existing Share**") who bought their shares on or before 11 September 2020, (the date of publication in the Official Gazette of the Mercantile Registry (the "**BORME**") — "**Last Trading Date**") and if they appear as shareholders in the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. ("**Iberclear**") at 23:59 (CEST) on 15 September 2020 (the "**Record Date**") (the "**Eligible Shareholders**"). Eligible Shareholders will be able to exercise the right to subscribe for a number of New Shares proportional to the nominal value of the shares they own. Each Eligible Shareholder will have one (1) Subscription Right for each Existing Share they own. The exercise of 2 Subscription Rights entitles the relevant Eligible Shareholder to subscribe for 3 New Shares in exchange for payment of a subscription price of €0.92 per New Share, which is referred to as the "**Subscription Price**".

If you sell or transfer, or have sold or otherwise transferred, all or some of your Existing Shares (other than ex-rights) before 8:00 (CEST) on 14 September 2020 (being the "**Ex-Rights Date**"), a claim transaction will automatically be generated by Iberclear or Euroclear UK & Ireland Limited, the operator of CREST, ("**Euroclear UK & Ireland**") which, on settlement, will transfer the appropriate number of Subscription Rights to the purchaser or transferee. The Existing Shares are listed on the Spanish Stock Exchanges and on the London Stock Exchange, where they are traded and settled in the form of CREST Depositary Interests ("**CDIs**"), whereby one CDI represents an entitlement to one Existing Share. A description of the procedures to be followed by a person on whose behalf the CDIs are held by the IAG Nominee is set out in the terms and conditions of the IAG Nominee Service. A person holding the CDIs through CREST will be able to transfer those CDIs in accordance with the relevant rules and practices of CREST (subject to any legal restrictions on any transfer in any jurisdiction).

The Existing Shares that are listed on the Spanish Stock Exchanges are quoted on the Automated Quotation System of the Spanish Stock Exchanges (*Sistema de Interconexión Bursátil or Mercado Continuo*) (the "**AQS**") under the symbol "IAG". The Company expects the Subscription Rights to be listed on the Spanish Stock Exchanges and to be traded on the AQS, and has applied to the FCA for the Subscription Rights in the form of CDI Rights to be admitted to listing on the Official List and trading on the main market for listed securities of the London Stock Exchange ("**Main Market**") and for the New Shares to be admitted to listing on the premium segment of the Official List and trading on the Main Market of the London Stock Exchange ("**Admission of Subscription Rights**"). The Company expects the Subscription Rights to be listed on the Spanish Stock Exchanges and to be traded on the AQS during the period from 9:00 (CEST) on 14 September 2020 to 17:30 (CEST) on 25 September 2020. The Company expects the Subscription Rights in the form of CDI Rights to be listed on the standard listing segment of the Official List and to be traded on the Main Market of the London Stock Exchange during the period from 8:00 (BST) on 14 September 2020 to 14:30 (BST) on 25 September 2020.

The Company will apply for admission to listing of the New Shares on the Spanish Stock Exchanges and quotation on the AQS. It is expected that dealings in the New Shares will commence at 9:00 (CEST) on 7 October 2020 on the Spanish Stock Exchanges and, in the form of CDIs, at 8:00 (BST) on 7 October 2020 on the Main Market.

The preferential subscription period will commence on the first calendar day following the publication of notice of the Capital Increase in the BORME and will last up to and including the 15th calendar day thereafter (the "**Pre-emptive Subscription Period**"). During the Pre-emptive Subscription Period, Eligible Shareholders will be able to sell all or part of their Subscription Rights or, alternatively, to subscribe, in whole or in part, for New Shares, subject to any applicable restrictions on transfer described in this Prospectus, while other investors may acquire Subscription Rights in the market in the required proportion and subscribe for the corresponding New Shares. Both Eligible Shareholders and other investors that acquire Subscription Rights and exercise their Subscription Rights in whole may also subscribe for additional New Shares during the additional allocation period (the allocation of additional New Shares is expected to take place by no later than 1 October 2020), as described in this Prospectus (the "**Allocation Period for Additional Shares**").

Subscription Rights not exercised within the Pre-emptive Subscription Period will expire without value. Assuming the New Shares are fully subscribed, they will represent approximately 59.9% of the Company's issued and paid-up share capital immediately following the Capital Increase.

For the avoidance of doubt, in line with Spanish market practice: (A) in the event that any Discretionary Allocation Shares are subscribed for during the Discretionary Allocation Period, any premium received from such subscribers shall not be distributed to Shareholders under rule 9.5.4 of the UK Listing Rules; and (B) there shall be no entitlement to fractional shares as part of the Capital Increase under rule 9.5.13 of the UK Listing Rules.

You should read the whole of this Prospectus, including the information incorporated by reference into this Prospectus. Shareholders and any other persons contemplating a purchase of the New Shares or the Subscription Rights should review the Risk Factors set out on pages 11 to 35 of this Prospectus for a discussion of certain risks and uncertainties that should be considered when deciding on what action to take in relation to the Capital Increase or deciding whether or not to subscribe for or purchase the New Shares and/or the Subscription Rights. In making an investment decision, each investor must carry out their own examination, analysis and enquiry of IAG and the terms of the Capital Increase, including the merits and risks involved.

Any New Shares that are not subscribed for during the Pre-emptive Subscription Period or the Allocation Period for Additional Shares may then be offered by the Underwriters in an underwritten international private placement to qualified investors during a discretionary allocation period (the discretionary allocation period is expected to begin at any time after the end of the Allocation Period for Additional Shares and expected to end no later than 11:00 (CEST) on 2 October 2020, the "**Discretionary Allocation Period**"). Any New Shares that remain unsold after such Discretionary Allocation Period will, subject to the terms of the Underwriting Agreement (as defined below), be acquired by the Underwriters at the Subscription Price in accordance with their respective underwriting commitments.

The latest time and date for acceptance and payment in full for the New Shares by holders of Subscription Rights is expected to be 17:30 (CEST) on 25 September 2020 on the Spanish Stock Exchanges and expected to be at 14:30 (BST) on 25 September 2020 on the London Stock Exchange. The procedures for delivery, acceptance and payment of Subscription Rights are set out in Part VII (*Terms and Conditions of the Capital Increase*) of this Prospectus.

The New Shares and the Subscription Rights have not been and will not be registered under the US Securities Act of 1933, as amended (the "**US Securities Act**"), or under the securities laws of any state or other jurisdiction of the United States and may not be offered, sold, pledged, taken up, resold, transferred or delivered, directly or indirectly, in or into the United States except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States or other jurisdiction. The New Shares and the Subscription Rights offered outside the United States are being offered in reliance on Regulation S under the US Securities Act. There will be no public offer of the New Shares or the Subscription Rights in the United States. Holders of American Depository Receipts ("**ADRs**") will not be permitted to exercise their Subscription Rights or subscribe for New Shares. Any entitlement under the Capital Increase in respect of the Existing Shares represented by ADRs will be governed by the terms of the Deposit Agreement and, as such, it is expected that they will, to the extent practicable, be sold by the Depositary, being Deutsche Bank Trust Company Americas, and the proceeds, if any, of that sale would be distributed to holders of ADRs. Distribution of such proceeds would be net of any distribution fees payable to the Depositary and other charges or expenses incurred by the Depositary, taxes and any other governmental charge.

The New Shares, the Subscription Rights and this Prospectus have not been recommended, approved or disapproved by the United States Securities and Exchange Commission (the "SEC"), any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the New Shares or the Subscription Rights, or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

Capitalised terms have the meanings ascribed to them in the schedule of this Prospectus entitled "Definitions".

The date of this Prospectus is 10 September 2020.

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SUMMARY

*This summary has been prepared in compliance with Article 7 of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC and relates to a simplified prospectus (the "**Prospectus**") on the offering of 2,979,443,376 ordinary new shares (the "**New Shares**"), each with a nominal value of €0.10, of International Consolidated Airlines Group, S.A. (the "**Capital Increase**") dated 10 September 2020.*

1. INTRODUCTION AND WARNINGS

1.1 Details of the issuer

The issuer is International Consolidated Airlines Group, S.A. (the "**Company**"), a public limited company (*sociedad anónima cotizada*) incorporated under the laws of Spain and registered at the Madrid Mercantile Registry under book volume 27,312, book 0, section 8, sheet 11, page M-492,129, with Tax Identity Code number A-85845535 and LEI Code 959800TZHQRUSH1ESL13.

The Company is domiciled in Spain and its registered office is at El Caserío, Iberia Zona Industrial nº 2 (La Muñoza), Camino de La Muñoza, s/n, 28042 Madrid, Spain. The principal place of business of the Company is Waterside (HAA2), Harmondsworth, PO Box 365, Speedbird Way, UB7 0GB, United Kingdom, with telephone number +44 208 564 2800.

1.2 Details of the securities

On Admission, the New Shares will be registered with an ISIN of ES0177542018 and a SEDOL of B5282K0 in Spain and B5M6XQ7 in the United Kingdom. The New Shares will be traded on the Spanish Stock Exchanges through the AQS and will be included in the accounting records of Iberclear and its authorised participant entities (the "**Participant Entities**"). The New Shares will also be traded and settled in the form of CREST Depository Interests ("**CDIs**") on the London Stock Exchange. The ISIN for the Subscription Rights (including the CDI Rights) will be ES0677542906 and the SEDOL will be BN785J1 for the Subscription Rights in Spain and BN78773 for the CDI Rights in the United Kingdom.

1.3 Details of the CNMV

The head office of the CNMV is at 4 Edison 28006, Madrid, Spain. Investors may contact the CNMV at the following telephone number: + 34 900 535 015. The Prospectus was approved by the CNMV on 10 September 2020 and will be passported to the United Kingdom.

1.4 Warnings

This summary should be read as an introduction to the Prospectus.

Any decision to invest in the New Shares and the Subscription Rights should be based on a consideration of the Prospectus as a whole by the investor. Any investor could lose all or part of their invested capital. Where a claim relating to the information contained in, or incorporated by reference into, the Prospectus is brought before a court, a plaintiff might, under Spanish law, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only where the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus, or where it does not provide, when read together with the other parts of the Prospectus, key information in order to aid in considering whether to invest in the New Shares and the Subscription Rights.

2. KEY INFORMATION ON THE ISSUER

2.1 Who is the issuer of the securities?

The Company was incorporated for an indefinite term on 17 December 2009 by means of a public deed granted before the Notary of Madrid, Mr. Ignacio Martínez-Gil Vich, with file number 3,886 and under the corporate name "Global Baibco, S.A.", then renamed to "International Consolidated Airlines Group, S.A.", a public limited company (*sociedad anónima cotizada*) incorporated under the laws of Spain and registered at the Madrid Mercantile Registry under book volume 27,312, book 0, section 8, sheet 11, page M-492,129, with Tax Identity Code number A-85845535 and LEI Code 959800TZHQRUSH1ESL13.

(A) Principal activity

In the year ended 31 December 2019, the Group was one of the world's largest airline groups by revenue(1), carrying over 118 million passengers to more than 275 destinations around the world. The Group consists of four core airline brands, based in the United Kingdom, Spain and Ireland: British Airways, Iberia, Vueling and Aer Lingus. These airlines each target different customer markets and geographies, providing choice across a broad spectrum of customer needs and travel occasions. As at 31 December 2019, the Group had more than 66,034 employees (based on average manpower equivalent), primarily in the United Kingdom, Spain and Ireland.

The Group's operations are supported by its common integrated platform, including IAG Cargo, IAG Loyalty, IAG Tech, IAG GBS and IAG Connect, which provides mainly common services and allows the Group's operations to benefit from cost reductions and synergies by leveraging the Group's scale.

The Shares are traded on the Spanish Stock Exchanges and in the form of CDIs on the London Stock Exchange's main market for listed securities ("**Main Market**"). The Company operates under Spanish company legislation, in particular the restated text of the Spanish Capital Companies Act, approved by Royal Decree 1/2010 of 2 July (*Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital*) (the "**Spanish Companies Act**") and to Royal Decree 4/2015, of 23 October, under which the Capital Markets Act is approved (*Real Decreto Legislativo 4/2015, de 23 de octubre, por el que se aprueba el texto refundido de la Ley del Mercado de Valores*) (the "**Capital Markets Act**").

(1) When compared to publicly available revenue information from other airline groups.

(B) Major shareholders

As at 9 September 2020 (the "**Latest Practicable Date**"), the Company had been notified of the following interests in its Existing Shares:

Name or corporate name of indirect Shareholder	Name or corporate name of direct Shareholder	Percentage of shares carrying voting rights(1)	Percentage of voting rights through financial instruments(1)	Percentage of total voting rights(1)
N/A	Qatar Airways Group Q.C.S.C.	25.10	-	25.10

Lansdowne Partners International Limited	Funds and accounts managed by Lansdowne Partners (UK) LLP	1.90	1.00	2.90
Invesco Ltd.	Mutual and pension funds managed by Invesco Limited and its subsidiaries	1.98	-	1.98

(1) Percentages are inclusive of treasury shares

(C) Directors

Name	Position
Antonio Vázquez	Chairman
Luis Gallego	Chief Executive Officer
Alberto Terol	Senior Independent Director
Margaret Ewing	Independent Non-Executive Director
Javier Ferrán	Independent Non-Executive Director
Steve Gunning	Chief Financial Officer
Deborah Kerr	Independent Non-Executive Director
Maria Fernanda Mejia	Independent Non-Executive Director
Emilio Saracho	Independent Non-Executive Director
Nicola Shaw	Independent Non-Executive Director
Giles Agutter	Non-Executive Proprietary Director
Robin Phillips	Non-Executive Proprietary Director

(D) Statutory auditor

The individual annual accounts of the Company and consolidated annual accounts of the Group for the years ended 31 December 2019 and 2018 have been audited by Ernst & Young. Ernst & Young has also carried out a limited review of the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2020 and 2019. Ernst & Young has its address for these purposes at C/ Raimundo Fernández Villaverde, 65 28003, Madrid, Spain and is registered with the Official Registry of Accounting Auditors (ROAC, *Registro Oficial de Auditores de Cuentas*) under the number S0530 and in the Madrid Commercial Registry under book 9,364, Section 3, Sheet 68, Page 87690-1051. It has no material interest in the Company or the Group.

2.2 What is the key financial information regarding the issuer?

The tables below set out selected key financial information for the Group for the six months ended 30 June 2020 and 2019 as well as the financial years ended 31 December 2019 and 2018. The financial information set out in the tables below has been extracted or derived from the Historical Financial Information.

Table 1: Consolidated income statement(1)

	Year ended 31 December		Six months ended 30 June	
€ million	**2019**	**2018 (restated)**(2)	**2020**	**2019 (restated)**(2)
Passenger revenue	22,468	21,401	4,151	10,586
Exceptional passenger revenue	-	-	*(38)*	-
Cargo revenue	1,117	1,173	615	556
Other revenue	1,921	1,684	560	884
Total revenue	**25,506**	**24,258**	**5,288**	**12,026**
Employee costs	4,962	4,812	1,890	2,492
Exceptional employee costs	*672*	*(460)*	-	-
Fuel, oil costs and emissions charges	6,021	5,283	1,313	2,936
Exceptional fuel, oil costs and emissions charges	-	-	*1,269*	-
Handling, catering and other operating costs	2,972	2,740	853	1,413
Landing fees and en-route charges	2,221	2,184	539	1,081
Engineering and other aircraft costs	2,092	1,828	766	1,031
Exceptional Engineering and other aircraft costs	-	-	*77*	-
Property, IT and other costs	811	918	406	380
Exceptional property, IT and other costs	-	*12*	*22*	-
Selling costs	1,038	1,046	268	551
Depreciation, amortisation and impairment	2,111	1,254	1,114	1,035
Exceptional depreciation, amortisation and impairment	-	-	*731*	-
Aircraft operating lease costs	-	890	-	-
Currency differences	(7)	73	77	12
Total expenditure on operations	22,893	20,580	9,325	10,931
Operating profit/(loss)	**2,613**	**3,678**	**(4,037)**	**1,095**
Finance costs	(611)	(231)	(342)	(281)
Finance income	50	41	23	22
Net financing credit relating to pensions	26	27	3	13
Net currency retranslation credits/(charges)	201	(19)	97	138
Other non-operating charges	(4)	(9)	50	20
Total net non-operating costs	(338)	(191)	(169)	(88)
Profit/(loss) before tax	**2,275**	**3,487**	**(4,206)**	**1,007**
Tax	(560)	(590)	400	(201)
Profit/(loss) after tax for the year	**1,715**	**2,897**	**(3,806)**	**806**
Attributable to:				
Equity holders of the parent	1,715	2,885	(3,806)	806
Non-controlling interest	-	12	-	-
	1,715	2,897	(3,806)	806
Basic earnings/(loss) per share (€ cents)(3)	86.4	142.7	(191.7)	40.6
Diluted earnings/(loss) per share (€ cents)(4)	84.3	137.4	(191.7)	39.2
Adjusted earnings/(loss) per share (€ cents)(5)	116.8	117.7	(99.0)	39.2

(1) The Group adopted IFRS 16 'Leases' for the financial year ended 31 December 2019. IFRS 16 has no cash flow or economic impact on the Group, but does have an impact on the way that expenditure is reported in the income statement, together with how assets and liabilities are reported on the balance sheet and how cash flows are classified in the cash flow statement.

(2) Restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. There is no change in operating profit. No adjustment has been made as a result of the adoption of IFRS 16 'Leases'.

(3) Basic earnings per share are based on results after exceptional items after tax, divided by the weighted average number of ordinary shares.

(4) Diluted earnings per share are based on results after exceptional items after tax, divided by the weighted average number of ordinary shares, adjusted for the dilutive impact of the assumed conversion of the bonds and

employee share schemes outstanding.
(5) Adjusted earnings per share are based on results before exceptional items after tax and adjusted for earnings attributable to equity holders and interest on convertible bonds, divided by the weighted average number of ordinary shares, adjusted for the dilutive impact of the assumed conversion of the bonds and employee share schemes outstanding. These are alternative performance measures ("**APMs**") as defined in the guidelines issued by the European Securities and Markets Authority on 5 October 2015 on alternative performance measures (the "**ESMA Guidelines**").

Table 2: Consolidated balance sheet(1)

	As at 31 December		As at 30 June	
€ million	**2019(2)**	**2018(2)**	**2020**	**2019(2)**
Non-current assets				
Property, plant and equipment	19,168	12,437	17,782	17,475
Intangible assets	3,442	3,198	3,330	3,258
Investments accounted for using the equity method	31	31	31	31
Other equity investments	82	80	71	76
Employee benefit assets	314	764	331	844
Derivative financial instruments	268	221	518	400
Deferred tax assets	546	667	724	684
Other non-current assets	273	309	247	309
	24,124	17,707	23,034	23,077
Current assets				
Inventories	565	509	418	506
Trade receivables	2,255	1,597	791	2,010
Other current assets	1,314	1,175	1,021	1,502
Current tax receivable	186	383	251	199
Derivative financial instruments	324	155	569	298
Other current interest-bearing deposits	2,621	2,437	1,320	3,227
Cash and cash equivalents	4,062	3,837	4,696	4,804
	11,327	10,093	9,066	12,546
Total assets	**35,451**	**27,800**	**32,100**	**35,623**
Shareholders' equity				
Issued share capital	996	996	996	996
Share premium	5,327	6,022	5,327	5,327
Treasury shares	(60)	(68)	(45)	(60)
Other reserves	560	(236)	(5,499)	311
Total shareholders' equity	**6,823**	**6,714**	**779**	**6,574**
Non-controlling interest	6	6	6	6
Total equity	**6,829**	**6,720**	**785**	**6,580**
Non-current liabilities				
Interest-bearing long-term borrowings	12,411	6,633	13,659	11,101
Employee benefit obligations	400	427	1,225	286
Deferred tax liability	290	81	59	79
Provisions	2,416	2,268	2,231	2,430
Derivative financial instruments	286	423	741	240
Other long-term liabilities	71	198	116	83
	15,874	10,030	18,031	14,219
Current liabilities				
Current portion of long-term borrowings	1,843	876	2,820	1,707
Trade and other payables	4,344	3,959	3,422	5,437
Deferred revenue on ticket sales	5,486	4,835	4,624	6,674
Derivative financial instruments	252	656	1,699	281
Current tax payable	192	165	-	167
Provisions	631	559	719	558
	12,748	11,050	13,284	14,824
Total liabilities	**28,622**	**21,080**	**31,315**	**29,043**
Total equity and liabilities	**35,451**	**27,800**	**32,100**	**35,623**

(1) The Group adopted IFRS 16 'Leases' for the financial year ended 31 December 2019. IFRS 16 has no cash flow or economic impact on the Group, but does have an impact on the way that expenditure is reported in the income statement, together with how assets and liabilities are reported on the balance sheet and how cash flows are classified in the cash flow statement.
(2) Restated to reclassify the presentation of assets and liabilities for employee benefits and deferred tax.

Table 3: Consolidated cash flow statement(1)

	Year ended 31 December		Six months ended 30 June	
€ million	**2019**	**2018**	**2020**	**2019**
Cash flows from operating activities				
Operating profit/(loss) after exceptional items	2,613	3,678	(4,037)	1,095
Depreciation, amortisation and impairment	2,111	1,254	1,845	1,035
Movement in working capital	(70)	(64)	447	1,579
Increase in trade receivables, prepayments, inventories and other current assets	*(935)*	*(650)*	*1,615*	*(609)*
Increase in trade and other payables, deferred revenue on ticket sales and current liabilities	*865*	*586*	*(1,168)*	*2,188*
Payments related to restructuring	(180)	(220)	(87)	(89)
Employer contributions to pension schemes	(870)	(898)	(182)	(368)
Pension scheme service costs	5	55	3	3
Provision and other non-cash movements	951	(114)	352	165
Unrealised loss on derecognition of fuel and foreign exchange hedges	-	-	621	-
Interest paid	(481)	(149)	(263)	(213)
Interest received	42	37	11	19
Tax paid	(119)	(343)	(6)	61
Net cash flows from operating activities	**4,002**	**3,236**	**(1,296)**	**3,287**
Cash flows from investing activities				
Acquisition of property, plant and equipment and intangible assets	(3,465)	(2,802)	(1,340)	(1,509)
Sale of property, plant and equipment and intangible assets	911	574	400	458
(Increase)/decrease in other current interest-bearing deposits	(103)	924	1,215	(799)
Other investing movements	(1)	61	(1)	(1)
Net cash flows from investing activities	**(2,658)**	**(1,243)**	**274**	**(1,851)**
Cash flows from financing activities				
Proceeds from long-term borrowings	2,286	1,078	2,709	441
Repayment of borrowings	(730)	(275)	(77)	(68)
Repayment of lease liabilities (2018 and 2017: repayment of finance leases)	(1,507)	(824)	(778)	(823)
Acquisition of treasury shares	-	(500)	-	-
Distributions made to holders of perpetual securities	-	(312)	-	-
Dividend paid	(1,308)	(577)	(52)	(52)
Net cash flows from financing activities	**(1,259)**	**(1,410)**	**1,802**	**(502)**
Net increase in cash and cash equivalents	85	583	780	934

Net foreign exchange differences	140	(38)	(146)	33
Cash and cash equivalents at 1 January	3,837	3,292	4,062	3,837
Cash and cash equivalents at year end	**4,062**	**3,837**	**4,696**	**4,804**
Interest-bearing deposits maturing after more than three months	**2,621**	**2,437**	**1,320**	**3,227**
Cash, cash equivalents and other interest-bearing deposits	**6,683**	**6,274**	**6,016**	**8,031**

(1) The Group adopted IFRS 16 'Leases' for the financial year ended 31 December 2019. IFRS 16 has no cash flow or economic impact on the Group, but does have an impact on the way that expenditure is reported in the income statement, together with how assets and liabilities are reported on the balance sheet and how cash flows are classified in the cash flow statement.

Table 4: Other key financial metrics

	Year ended 31 December		Six months ended 30 June	
	2019	**2018**	**2020**	**2019**
Year-on-year total revenue growth(1)	5.1%	6.7%	(56.0)%	7.9%
Operating profit margin(2)	12.9%	14.4%	(35.7)%	9.1%
Net financial debt(3)	€7,571 million	€6,430 million	€10,463 million	€7,571 million

(1) After exceptional items and using the revenue restated for IFRS 15 for the year ended 31 December 2018.

(2) Operating profit margin is the Group's operating profit/(loss) before exceptional items as a percentage of revenue, using the adjusted figures for the year ended 31 December 2018. This is an APM as defined in the ESMA Guidelines.

(3) Net financial debt is the Group's long-term borrowings (both current and non-current), less cash, cash equivalents and less other current interest-bearing deposits, using the adjusted figures for the year ended 31 December 2018. This is an APM as defined in the ESMA Guidelines.

In the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2020 (the "**2020 Half-Year Financial Statements**"), the Directors disclosed that the Group may require additional funds above those contractually committed as at 30 July 2020 should the impact of the COVID-19 pandemic be more severe than the Directors' expectations and that, as at 30 July 2020, a material uncertainty existed that may have cast significant doubt on the Group's ability to continue as a going concern. Ernst & Young's limited review report on the 2020 Half-Year Financial Statements drew attention to the Company's disclosure of this material uncertainty. Ernst & Young's conclusion was not modified in respect of this matter. The 2020 Half-Year Financial Statements did not take into account the proceeds of the Capital Increase.

2.3 What are the key risks that are specific to the issuer?

- The COVID-19 pandemic has had a material adverse effect on the Group's financial condition and results of operations in the six months ended 30 June 2020 and is likely to continue to have a material adverse effect on the Group's financial condition and results of operations in the future.
- The ultimate impact of the COVID-19 pandemic on the Group's business, financial condition, results of operations and prospects could be worse than forecast by the Group and require the Group to secure additional liquidity, without which the Company could face a liquidity shortfall in the medium-term and be forced to enter into insolvency, which represents a material uncertainty that could cast a significant doubt upon the Group's ability to continue as a going concern (*empresa en funcionamiento*).
- The operations, strategic initiatives, suppliers and behaviour of the Group's customers, as well as the general economic conditions in the markets in which the Group operates, have been and are likely to continue to be materially impacted by the COVID-19 pandemic or any future COVID-19 outbreak or other pandemic.
- The Group's cash obligations, leverage and associated inability to access new financing could have adverse effects on the Group's business, financial condition, results of operations and prospects.
- The Group is undertaking a number of restructuring and redundancy programmes which may not achieve their objectives, harm the Group's reputation and expose it to legal actions and disputes with its employees and trade unions.
- The Group operates in a highly competitive industry and the success of the Group depends on its ability to compete effectively with its competitors, some of whom are benefitting from state support or subsidies and/or may be subject to insolvency protection.
- The Group is subject to risks in relation to the uncertain future trading and regulatory relationship between the United Kingdom and the European Union resulting from the United Kingdom having withdrawn from membership of the European Union on 31 January 2020.
- The Group is reliant upon the resilience of its reservation and technology systems and is exposed to risks that relate to the poor performance or failure of these systems or that they are improperly accessed.
- The Company's wholly-owned subsidiary, IB OPCO Holding S.L., has signed an agreement to purchase Air Europa and this transaction, as well as other consolidation opportunities that the Group may pursue in the future, could expose the business to new risks.
- The Group's business is dependent on the strength of its brands, strategic alliances and bilateral cooperation agreements and the reputations of its counterparties and partners, damage to which could adversely impact the Group.

3. KEY INFORMATION ON THE SECURITIES

3.1 What are the main features of the securities?

(A) Type, class and ISIN of the securities

The New Shares will be fully paid ordinary shares traded on the Spanish Stock Exchanges, through the Spanish Stock Exchanges' Automated Quotation System (*Sistema de interconexión bursátil*) and also in the form of CDIs on the London Stock Exchange's Main Market.

The ISIN Code of the Company's ordinary shares is ES0177542018. The National Numbering Agency, an entity within the CNMV, has assigned the provisional ISIN Code ES0177542125 for the New Shares. On Admission, the New Shares will be registered with an ISIN of ES0177542018 and a SEDOL of B5282K0 in Spain and B5M6XQ7 in the United Kingdom. The ISIN for the Subscription Rights (including the CDI Rights) will be ES0677542906 and the SEDOL will be BN785J1 for the Subscription Rights in Spain and BN78773 for the CDI Rights in the United Kingdom.

(B) Currency of the securities

The New Shares are denominated in euros (€). The New CDIs will be denominated in sterling.

(C) Number of issued and fully paid securities

Pursuant to the Capital Increase, the Company will issue 2,979,443,376 New Shares. The Capital Increase will be made on the basis of 3 New Shares for every 2 Existing Shares in the Company.

As at the Latest Practicable Date, there were 1,992,032,634 Existing Shares in issue, of which 5,737,049 Existing Shares were held by the Company in treasury.

(D) Rights attaching to the securities

All New Shares will, when issued, rank *pari passu* in all respects with the Existing Shares, including the right to receive all dividends and other distributions made, paid or declared after the date of issue of the New Shares.

(E) Description of restrictions on free transferability of the securities

The New Shares are freely transferable and there are no restrictions on transfer of the New Shares, except for those restrictions set out in in the following articles of the Company's By-laws (the "**By-laws**"):

(i) article 6.4, under which, no person will be registered as a holder of any share in the Company (a "**Share**") (and therefore recognised as shareholder of the Company (a "**Shareholder**")) unless information relating to nationality of the person, and any person who is the beneficial owner of, or who has an interest in, such share, has been received by the Company;

(ii) article 7, which contains the rights and obligations to which Shareholders are subject, including, among others, an obligation for Shareholders to notify the Company of any acquisition or disposal of Shares, or of any interest in the Shares, that directly or indirectly entails the acquisition or disposal of a stake of more than 0.25% of the Shares, or of the voting rights corresponding thereto, expressly indicating the nationality of the transferor and/or the transferee, as well as the creation of any charges on Shares (or interests in Shares) or other encumbrances whatsoever, for the purposes of the exercise of the rights conferred by them;

(iii) article 10, which contains certain disclosure obligations that, if not complied with, may cause a transfer Shares not to be recognised; and

(iv) article 11, that authorises the Board of Directors to, among other things, determine a permitted maximum of Shares held by a person who is not resident in or a national of, or an entity which is not domiciled, registered or incorporated in, a state that from time to time is, or is deemed to be, a Member State for the purposes of Regulation 1008/2008 or the United Kingdom (a "**Non-Qualifying Person**") in order to protect the operating licenses of the Group, and to implement certain restrictions and measures to ensure the numbers of Shares held by Non-Qualifying Persons remains below such permitted maximum.

(F) Rank of securities in the Company's capital structure in the event of insolvency

The New Shares do not carry any rights to participate in a distribution of capital (including on a winding-up) other than those provided under Spanish law and the By-laws. The New Shares and the Existing Shares will rank *pari passu* in all respects.

(G) Dividend policy

As announced by the Company on 2 April 2020, as a result of the impact of the COVID-19 pandemic, the Board of Directors resolved to withdraw the proposal to the next shareholders' meeting to pay a final dividend of €0.17 per share and, instead, to propose the allocation of all the profit for the year ended 31 December 2019 (except the amount already paid as interim dividend) to the voluntary reserve. The Group recognises the importance of dividends, and although it has no fixed dividend policy, is determined to resume returning capital to Shareholders as soon as the operating environment and resulting financial performance of the Group permit. However, given the ongoing uncertainty resulting from the COVID-19 pandemic, it is not possible to provide accurate guidance as to when the Company will be able to resume returning capital to Shareholders.

3.2 Where will the securities be traded?

The New Shares will be traded on the Spanish Stock Exchanges, through the AQS, and traded in the form of CDIs on the Main Market of the London Stock Exchange, under the ticker symbol "IAG".

3.3 What are the key risks that are specific to the securities?

- The Underwriting Agreement between the Company and the Underwriters allows for the agreement to be terminated under certain circumstances, which may result in the Capital Increase being withdrawn and Investors who have acquired Subscription Rights losing such investment, and the underwriting commitment of the Underwriters is also subject to certain conditions.
- Shareholders will not be entitled to receive any premium and there is no entitlement to fractional shares as part of the Capital Increase.
- Shareholders who do not acquire New Shares in the Capital Increase will experience dilution in their ownership of the Company.
- Eligible Shareholders and Investors who exercise their Subscription Rights or request Additional Shares during the Pre-emptive Subscription Period will not be able to cancel their requests unless a supplementary prospectus is published.
- The market price of the New Shares and/or the Subscription Rights could be subject to significant fluctuations due to a change in sentiment in the market regarding these securities, particularly in light of the COVID-19 pandemic which has caused volatility in the Company's share price since the start of 2020, and/or may decline in the future.

4. KEY INFORMATION ON THE OFFER OF THE SECURITIES TO THE PUBLIC AND/ON THE ADMISSION TO TRADING ON A REGULATED MARKET

4.1 Under which conditions and timetable can I invest in this security?

Pursuant to the Capital Increase, New Shares will be offered by way of rights to Eligible Shareholders and Investors that acquire Subscription Rights on the market during the Pre-emptive Subscription Period on the terms and conditions set out in the Prospectus. The offer is to be made for a total of 2,979,443,376 New Shares, at €0.92 per New Share (nominal value of €0.10 plus a premium of €0.82) (the "**Subscription Price**"). The Subscription Price represents a discount of 58.3% to the closing price of €2.21 per Existing Share on 9 September 2020 (the last Business Day before the publication of the Prospectus), and a discount of 35.9% to the theoretical ex-rights price of €1.44 per Existing Share by reference to the closing price on the same basis.

In implementing the Capital Increase, the Company will grant Subscription Rights to the Eligible Shareholders. Consequently, each Existing Share (held at 23:59 (CEST) on 15 September 2020) will entitle its holder to one Subscription Right and 2 Subscription Rights are required to subscribe for 3 New Shares. If an Eligible Shareholder (those shareholders holding shares of the Company registered at Iberclear at 23:59 (CEST) on 15 September 2020) does not (or is not permitted to according to the Ownership and Control Requirement explained in the next paragraph) subscribe New Shares in the percentage it is entitled according to its Subscription Rights, such Eligible Shareholder's proportionate ownership and voting interests in the Company will be diluted by up to 59.9% as a result of the Capital Increase.

It is a requirement of European Union law that the IAG Airlines comply with the Ownership and Control Requirement. The Board of Directors has the power to adopt certain measures to ensure this requirement is complied with, including specifying the maximum number of Shares that may be held by any person who is not resident in or a national of, or an entity which is not domiciled, registered or incorporated in, a state that from time to time is, or is deemed to be, a Member State for the purposes of Regulation 1008/2008 or the United Kingdom (a "**Non-Qualifying Person**"). If there is an increase in the number of Subscription Rights and/or Shares held by Non-Qualifying Persons, the Board of Directors may impose such restriction. Any person who acquires Subscription Rights and/or Shares in breach of such restrictions will be required to sell such Subscription Rights or Shares. In addition, any person who acquires Subscription Rights in breach of such restrictions will not be able to exercise such Subscription Rights.

(A) Subscription of the New Shares: The start of the Subscription Period (1st round) (the "**Pre-emptive Subscription Period**") is 12 September 2020. It is expected that Admission of Subscription Rights will become effective, and dealing will commence at 9:00 (CEST) on 14 September 2020 on the Spanish Stock Exchanges in respect of the Subscription Rights, and at 8:00 (BST) on 14 September 2020 on the London Stock Exchange in respect of the Subscription Rights in the form of CDI Rights. The Pre-emptive Subscription Period is expected to end on 26 September 2020 (with the final day of trading in Subscription Rights being 25 September 2020 at 17:30 (CEST) on the Spanish Stock Exchanges and at 14:30 (BST) on the London Stock Exchange).

During the Pre-emptive Subscription Period, Eligible Shareholders or Investors may exercise or sell their Subscription Rights, in whole or in part, on the AQS and their CDI Rights on the Main Market and purchasers of such rights may subscribe for the corresponding number of New Shares, in each case, in compliance with applicable laws and regulations. Those having exercised their Subscription Rights in full may subscribe for additional New Shares in excess of their pro rata entitlement.

Those Eligible Shareholders that have exercised their Subscription Rights in full during the Pre-emptive Subscription Period can request, when they exercise such Subscription Rights, Additional Shares which will be allocated on 1 October 2020 (2nd round) ("**Allocation Period for Additional Shares**"). Provided there are unsubscribed New Shares once the Pre-emptive Subscription Period has ended, the New Shares available will be distributed on a pro-rata basis in proportion to the number of Additional Shares requested by each Eligible Shareholder.

Any New Shares that are not subscribed for during the Pre-emptive Subscription Period or the Allocation Period for Additional Shares may then be offered by the Underwriters in an underwritten international private placement to qualified investors during a discretionary allocation period (3rd round) (the "**Discretionary Allocation Period**"). If applicable, this is expected to commence on 1 October 2020 and end on 2 October 2020 at 11:00 (CEST). Admission of the New Shares is expected to become effective, and dealings in the New Shares are expected to commence at 9:00 (CEST) on 7 October 2020 on the Spanish Stock Exchanges, and expected at 8:00 (BST) on 7 October 2020 in the form of CDIs on the London Stock Exchange. Any New Shares that remain unsubscribed for will, subject to the terms and conditions of the Underwriting Agreement, be subscribed for by the Underwriters at the Subscription Price in accordance with their respective underwriting commitments. The termination of the Underwriting Agreement will cause the revocation of the requests of New Shares made during the Discretionary Allocation Period and will be considered a significant factor which requires the publication of a supplementary prospectus.

Holders of Subscription Rights who exercise their rights or request additional New Shares during the Pre-emptive Subscription Period will not be able to revoke the subscriptions made during that period, except where a supplementary prospectus is published, in which case holders that have exercised their Subscription Rights to subscribe for the New Shares or requested additional New Shares to be allocated during the Allocation Period for Additional Shares or, if applicable, the Discretionary Allocation Period will have the right, exercisable within two working days after publication of such supplementary prospectus, to withdraw their subscriptions or requests (free from charges), as applicable, provided that the new factor, mistake or inaccuracy to which the supplementary prospectus refers arises before the time of registration of the public deed relating to the Capital Increase in the Commercial Registry (*Registro Mercantil*), which is expected to take place on 5 October 2020 (and their payments will be refunded). In the event a supplementary prospectus is published, Eligible Shareholders and/or Investors who had acquired Subscription Rights in the market and revoke such subscription orders will lose such rights.

(B) Payment: The Subscription Price of each New Share subscribed for during the Pre-emptive Subscription Period must be paid up in full by the Eligible Shareholders and/or Investors when the New Shares are subscribed for (i.e. when the subscription order is placed), through Iberclear's Participant Entities through which the subscription orders are placed.

The Subscription Price of each New Share subscribed for during the Allocation Period for Additional Shares must be paid up in full no later than 10:00 (CEST) on 2 October 2020 (before the Company declares the Capital Increase executed and grants the corresponding Capital Increase deed before a Spanish public notary) through the Participant Entities with which their subscription orders for Additional Shares were placed. The Participant Entities may also be entitled to request a provision of funds for the Subscription Price of the New Shares requested during the Pre-emptive Subscription Period in respect of Additional Shares.

The Subscription Price of the Discretionary Allocation Shares must be paid up in full no later than the Settlement Date (in accordance with the planned timetable, on 8 October 2020).

(C) Expected timetable of principal events

Each of the times and dates in the table below is indicative only and may be subject to change.

Spain	
Approval and registration of the Prospectus with the CNMV and passporting of the prospectus to the FCA	10 Sept 2020
Other Relevant Information Notice announcing the registration of the Prospectus with the CNMV and the date of the commencement and end of the Subscription Period	10 Sept 2020
Publication of the notice of the Capital Increase in the BORME and last trading date of shares "with rights" ("**Last Trading Date**")	11 Sept 2020
Commencement of the Pre-emptive Subscription Period	12 Sept 2020
Initial trading date of the Company's existing shares "ex-rights" and first date of trading of the Subscription Rights	14 Sept 2020

United Kingdom	
Announcement of the Capital Increase and publication of the Prospectus	10 Sept 2020
Publication of the notice of the Capital Increase in the Official Bulletin of the Commercial Registry in Spain and last trading date of shares "with rights" on the London Stock Exchange	11 Sept 2020
Commencement of the Pre-emptive Subscription Period	12 Sept 2020
Existing Shares marked "ex-rights" by the London Stock Exchange and Spanish Stock Exchanges	14 Sept 2020
Admission of, and commencement of dealings in, Subscription Rights in the form of CDI Rights on the London Stock Exchange	14 Sept 2020

Record Date (the date on which those persons or entities registered in Iberclear as shareholders become entitled to receive Subscription Rights)	15 Sept 2020
Allocation date of the Subscription Rights by Iberclear to Eligible Shareholders	16 Sept 2020
End of trading of Subscription Rights	25 Sept 2020
End of the Pre-emptive Subscription Period and of the period to request Additional Shares	26 Sept 2020
If applicable, Allocation Period for Additional Shares (2nd round)	1 Oct 2020
Inside Information Notice announcing the New Shares subscribed	1 Oct 2020
Opening, if applicable, of the Discretionary Allocation Period (3rd round)	1 Oct 2020
Deadline for the Discretionary Allocation Period.	2 Oct 2020
Payment by Iberclear Participant Entities to the Agent of the New Shares subscribed	2 Oct 2020
Payment by the Pre-Funding Bank for the New Shares placed during the Discretionary Allocation Period or whose subscription corresponds to the Underwriters	2 Oct 2020
Resolution to execute Capital Increase deed	2 Oct 2020
Notarisation of the Capital Increase deed ("**Execution Date**")	2 Oct 2020
Registration of the notarised Capital Increase deed with the Mercantile Registry	5 Oct 2020
Registration of the New Shares with Iberclear	6 Oct 2020
Other Relevant Information Notice announcing the admission to trading of the New Shares	6 Oct 2020
Transfer of the Discretionary Allocation Shares by the Underwriters to the final investors	6 Oct 2020
Admission to trading of the New Shares by the CNMV and the Spanish Stock Exchanges	6 Oct 2020
Commencement of trading of the New Shares	7 Oct 2020
Settlement, if applicable, of the Special Stock Exchange Transaction	8 Oct 2020

Record Date for entitlements under the Capital Increase	15 Sept 2020
CDI Rights enabled in CREST	17 Sept 2020
CDI Rights credited to CREST accounts	17 Sept 2020
Deadline for CREST instructions in respect of the Capital Increase to be submitted	14:30 (BST) on 25 Sept 2020
End of trading of CDI Rights	14:30 (BST) on 25 Sept 2020
If applicable, Allocation Period for Additional Shares (2nd round)	1 Oct 2020
Announcement of the New Shares subscribed for during the Pre-emptive Subscription Period, and if applicable, during the Allocation Period for Additional Shares, and, if applicable, opening of the Discretionary Allocation Period	1 Oct 2020
Deadline for the Discretionary Allocation Period.	2 Oct 2020
Notarisation of the Capital Increase deed	2 Oct 2020
Registration of the notarised Capital Increase deed with the Mercantile Registry	5 Oct 2020
Announcement of registration of the public deed with the Commercial Registry and estimated date for admission to trading of the New Shares	5 Oct 2020
Admission to listing and trading in the New CDIs on the London Stock Exchange	7 Oct 2020
New CDIs credited to CREST accounts	7 Oct 2020

Notes: These times and dates are indicative only and may be adjusted by the Company in consultation with the Joint Global Coordinators and Joint Bookrunners, in which event details of the new times and dates will be notified to the CNMV, the London Stock Exchange, the Spanish Stock Exchanges and, where appropriate, Eligible Shareholders.

(D) Commitments from Shareholders and Directors: The Company has received an irrevocable undertaking from Qatar Airways Group Q.C.S.C. ("**Qatar Airways**") to subscribe for its pro rata entitlement for New Shares under the terms of the Capital Increase (750,000,000 New Shares), representing approximately 25.1% of the Existing Shares in issue (including treasury shares) on the Latest Practicable Date (the "**Qatar Airways Irrevocable**"). If Qatar Airways does not subscribe for its corresponding New Shares, this will be considered as a significant new factor that will require the publication of a supplementary prospectus and therefore applicants that have exercised their Subscription Rights to subscribe for New Shares or requested for Additional Shares will have the right, exercisable within two working days after publication of such supplementary prospectus, to withdraw their subscriptions or requests and the Capital Increase will be incomplete.

Each Director who is a Shareholder and who is able to participate in the Capital Increase has irrevocably undertaken to exercise in full or in part his or her Subscription Rights (the "**Director Irrevocables**"). In particular, Antonio Vázquez, Alberto Terol, Javier Ferrán, Maria Fernanda Mejia, Nicola Shaw and Giles Agutter, have confirmed their intention to take up in full their entitlement to subscribe for New Shares and Luis Gallego and Steve Gunning have confirmed their intention to take up in part their entitlement to subscribe for New Shares. In aggregate, the New Shares to be subscribed for by such Directors represents approximately 0.06% of the New Shares (1,771,636 New Shares) which will be subscribed for pursuant to the Capital Increase.

Willie Walsh and Kieran Poynter, who both stepped down from the Board of Directors with effect from 8 September 2020, have irrevocably undertaken to exercise in part and in full, respectively, their Subscription Rights. In aggregate, this represents approximately 0.02% of the New Shares (743,841 New Shares) which will be subscribed for pursuant to the Capital Increase.

4.2 Why is the prospectus being produced?

The Prospectus has been prepared in connection with the Capital Increase to be undertaken by the Company.

The purpose of the Capital Increase is to strengthen the Group's balance sheet by reducing financial leverage and increasing the Group's overall liquidity position. The Group believes that by taking this action it can provide greater financial certainty for the Group as it right-sizes the business for the future. The Group believes the Capital Increase, together with its quick response to the crisis, should enable the Group to emerge from the current pandemic in a strong position, with more resilience, greater flexibility and the ability to make the right operational and strategic decisions for the long-term benefit of all its stakeholders.

Through the issue of New Shares, the Company expects to raise gross proceeds of €2,741 million. The aggregate expenses of, or incidental to, the Capital Increase to be borne by the Company are estimated to be approximately €69 million. The Group is planning to allocate, when appropriate, the net proceeds of the Capital Increase to its operating companies in a disciplined manner and based on strict governance procedures. The Group is not planning to use the funds raised in the Capital Increase to fund the acquisition of Air Europa.

The Capital Increase is underwritten, except in respect of means the New Shares subject to: (i) the Qatar Airways Irrevocable; and (ii) the Director Irrevocables. As explained in section 4.1 above, any New Shares that remain unsubscribed for will, subject to the terms and conditions of the Underwriting Agreement, be subscribed for by the Underwriters at the Subscription Price in accordance with their respective underwriting commitments.

There are no material conflicts of interest pertaining to the Capital Increase.

PART I
RISK FACTORS

Any investment in the New Shares and/or Subscription Rights is subject to a number of risks and uncertainties. Accordingly, prior to any such investment in the New Shares and/or Subscription Rights, prospective investors should carefully consider the risks and uncertainties associated with any such investment, the Group's business and the industry in which it operates, together with all other information contained in this document, including, in particular, the risk factors described below.

Prospective investors should note that the risks and uncertainties summarised in the section of this document headed "Summary" are the risks that the Directors and the Company believe to be the most essential to an assessment by a prospective investor of whether to consider an investment in the New Shares and/or Subscription Rights. However, as the risks and uncertainties which the Group faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks and uncertainties summarised in the section of this document headed "Summary" but also, among other things, the risks and uncertainties described below.

The following is not an exhaustive list or explanation of all risks which prospective investors may face when making an investment in the New Shares and/or Subscription Rights and should be used as guidance only. Additional risks and uncertainties relating to the Group that are not currently known to the Group, or that the Directors and the Company currently deem immaterial, may individually or cumulatively also have a material adverse effect on the Group's business, financial condition, results of operations and prospects and, if any such risk should materialise, the price of the New Shares and/or Subscription Rights may decline and investors could lose all or part of their investment. Other generic risks may affect the Company, but have not been included below in accordance with Regulation (EU) 2017/1129 of the Parliament and the Council of 14 June 2017. Prospective investors should consider carefully whether an investment in the New Shares and/or Subscription Rights is suitable for them in the light of the information in this document and their personal circumstances.

1. RISKS RELATING TO THE GROUP'S BUSINESS

1.1. The COVID-19 pandemic has had a material adverse effect on the Group's financial condition and results of operations in the six months ended 30 June 2020 and is likely to continue to have a material adverse effect on the Group's financial condition and results of operations in the future

The COVID-19 pandemic has had a material adverse effect on the Group's financial condition and results of operations in the six months ended 30 June 2020. Differing and wide-ranging measures taken by governments around the world in an attempt to contain the spread of the virus have resulted in a severe and abrupt drop in demand for air travel across the Group's key markets and led to the Group reducing its capacity, expressed in available seat kilometres ("**ASKs**"), by 33.5%, 95.2%, 95.8%, 95.0%, 85.2% and 75.5% in March, April, May, June, July and August 2020, respectively, compared to the same periods in 2019. In the six months ended 30 June 2020, the Group carried 20,385,000 passengers, down 63.5% from 55,886,000, and operated 155,265 sectors (i.e. a one-way revenue flight), down 58.7% from 376,034, in each case compared to the same period in 2019. This resulted in a sudden and very significant decline in the Group's revenues and profitability from late February 2020, with revenues (including exceptional items) falling 56.0% from €12,026 million to €5,288 million and profit after tax falling from €806 million to a loss of €3,806 million in the six months ended 30 June 2020 compared to the same period in 2019.

The Group has also taken multiple actions to enhance liquidity and has had to, and is likely to continue to have to, draw on its financing facilities in order to meet its working capital requirements across the period in which the impact of the COVID-19 pandemic persists. Consequently, the Group's net debt has increased from €7.6 billion as at 31 December 2019 to €10.5 billion as at 30 June 2020. The Group's Net Debt to EBITDA ratio increased to 4.2x* (net debt to EBITDA is a non-IFRS alternative performance measure ("**APM**") which is reconciled in section 5 (*Alternative Performance Measures*) of Part IX (*Operating and Financial Review*)) over the six months ended 30 June 2020 from

1.4x* and the Group's total equity fell from €6,829 million to €785 million over the same period. Furthermore, the Group has had to re-assess the medium and long-term capacity and utilisation of its fleet in light of the substantial deterioration in demand for air travel caused by the COVID-19 pandemic and has recognised an exceptional impairment expense of €731 million related to fleet and other assets in the six months ended 30 June 2020.

While some countries have begun to lift the applicable government travel restrictions and advisories, there can be no certainty as to what extent they will be lifted or whether they will be reintroduced after they have been lifted as a result of a second wave of COVID-19 cases. There can also be no certainty as to the level of demand for the Group's services after any restrictions are lifted.

Current booking trends and forward revenue levels indicate that trading conditions will continue to be challenging and the Group anticipates that global passenger demand will not return to 2019 levels until at least 2023. The COVID-19 pandemic is therefore likely to continue to have a material adverse effect on the Group's financial condition and results of operations in the future, including as a result of increased borrowings and further impairments of the Group's assets.

1.2. The ultimate impact of the COVID-19 pandemic on the Group's business, financial condition, results of operations and prospects could be worse than forecast by the Group and require the Group to secure additional liquidity, without which the Company could face a liquidity shortfall in the medium-term and be forced to enter into insolvency, which represents a material uncertainty that could cast a significant doubt upon the Group's ability to continue as a going concern (*empresa en funcionamiento*)

Given the considerable uncertainty regarding the duration, extent and ultimate impact of the COVID-19 pandemic (or any future outbreak or recurrence following relaxation of the current public health measures), the Group could be impacted by more severe downside scenarios than those it has considered, including the stresses in relation to factors such as yield, capacity operated, cost mitigations achieved and fuel price variations. Whilst such scenarios are not considered likely, in the event that such a scenario were to occur, the Group will likely need to secure additional liquidity in the medium-term through, amongst other things, the renewal, increase or formalisation of new secured and/or unsecured credit facilities and loans. There can be no assurance as to the timing of any such additional medium-term financing or that such financing will be completed on favourable terms, or at all. Furthermore, there can also be no assurance that the incurrence of additional indebtedness will not result in significant covenants and restrictions to which the Group is not currently subject.

While the Group has taken proactive steps to reduce the negative financial and operational impacts of the COVID-19 pandemic as described in section 2.1(C) (*The Group's response to the COVID-19 pandemic*) in Part VI (*Background to and reasons for the Capital Increase*), there can be no certainty that any of the steps taken by the Group, or any future actions the Group may take, will continue to be effective. There can also be no certainty that government support initiatives will be available to the Group throughout the period during which the Group is impacted by the COVID-19 pandemic or that the existing initiatives will continue to be available in their current form.

If the Group is impacted by a more severe downside scenario and the Group is not able to obtain additional liquidity and/or the steps taken by the Group to reduce the negative financial and operational impacts of the COVID-19 pandemic are no longer effective, the Company could face a liquidity shortfall in the medium-term and be forced to enter into insolvency, which represents a material uncertainty that could cast a significant doubt upon the Group's ability to continue as a going concern (*empresa en funcionamiento*).

1.3. The operations, strategic initiatives, suppliers and behaviour of the Group's customers, as well as the general economic conditions in the markets in which the Group operates, have been and are

likely to continue to be materially impacted by the COVID-19 pandemic or any future COVID-19 outbreak or other pandemic

(A) *Operations*

As a result of the COVID-19 pandemic, those of the Group's flights that have been operating, have been impacted by the adoption of new operating measures to meet regulatory guidance and heightened cleanliness and hygiene standards. This has consequently increased the cost and/or complexity of the Group's operations by, for example, necessitating increased cleaning levels of aircraft and the implementation of other measures required by industry regulators and local governments. Future measures the Group may be required to implement could vary between countries and include, amongst other things, requirements for passengers to wear masks while traveling, have their temperatures checked or undergo tests or examinations prior to entering an airport, prior to boarding an airplane or on arrival at their destination, or measures which would limit the number of seats that can be occupied on an aircraft.

Differences in recovery profile across customer segments may necessitate changes to the Group's business model, including changes to the fleet profile, aircraft configuration, operating costs, load factor and pricing, each impacting airline profitability. For example, business travel, which is an important segment for the Group, may not recover at the pace anticipated or at all. While the Group's management has actively planned for such changes across all its airlines, there can be no certainty as to the effectiveness of these changes and their impact on demand outlook and profile.

(B) *Strategic initiatives*

As a result of the impact the COVID-19 pandemic has had on the Group's revenue and profitability, the Group has shifted its focus to strengthening its liquidity position and reducing operating expenses, which has in turn materially disrupted or delayed the implementation of the Group's strategic initiatives.

In recent years, the Group has launched several strategic initiatives, including increased investment in and improvement of customer touchpoints, such as the IAG Airlines' food and drink propositions, Wi-Fi provisioning across the IAG Airlines and the roll-out of British Airways' new Club Suite across a wider number of its longhaul aircraft. The Group also announced plans to grow capacity to build network depth in its core markets and to use its refreshed IT operating model to better transform legacy systems and processes within the Group. The COVID-19 pandemic has led to a reduction in capital and operating expenditures across the Group and a postponement of a number of initiatives, including fleet renewals and aircraft cabin upgrades, as well as significant reductions in procurement activities. The Group has reduced its planned capital expenditure in 2020 by €1.5 billion (from €4.2 billion to €2.7 billion), which includes the deferral of the delivery of 68 aircraft across the Group and €0.3 billion savings in non-fleet expenditure such as property, ground equipment and IT. The Group's planned capital expenditure over 2020, 2021 and 2022 has been halved, from an expected €14.2 billion to €7.0 billion. Even after the COVID-19 pandemic abates, it is likely that the financial resources to implement the Group's current strategic initiatives will be more constrained for a certain period of time as a result of the pandemic's financial impact on the Group.

The Group is also undertaking a number of initiatives to respond to the COVID-19 pandemic, including the restructuring and redundancy programmes (see, for example, "*1.5 – The Group is undertaking a number of restructuring and redundancy programmes which may not achieve their objectives, harm the Group's reputation and expose it to legal actions and disputes with its employees and trade unions*") below), which require focus from senior management and high levels of engagement to achieve the various objectives. Whilst these initiatives are supported by experienced personnel, the Group may fail to achieve the optimisation of its businesses and drive cost-efficiency due to the pace and scale of change required. The Group also faces significant constraints of resources with the appropriate expertise and skills to meet the demands of these programmes' timely implementation as a result of the COVID-19 pandemic in addition to the Group's ordinary course of business.

If any of the underlying assumptions of the Group's strategic initiatives prove to be incorrect or unreliable (including customer response thereto), if such initiatives become irrelevant or are superseded by more pressing demands, if such initiatives cannot be funded or if such initiatives are not effectively prioritised, managed, communicated or implemented, each as a result of the COVID-19 pandemic, the Group may not be able to realise the benefits it expects either at all or within its expected timeframes, any of which could result in lower revenues or higher than anticipated costs.

(C) *Suppliers*

The operations of the Group's suppliers have also been impacted by the COVID-19 pandemic, which has increased the risk of significant business interruption, delays or disruptions, such as a temporary suspension of operations, a lack of availability of labour to support supplier operations and/or longer-term problems in maintaining supply, whether as a result of suppliers entering insolvency or otherwise. This may lead to shortages of business-critical services such as aircraft components and/or increased costs to secure such supplies for the IAG Airlines, including after any reduction in the impact of the COVID-19 pandemic on the Group's own operations.

(D) *Impact on general economic conditions*

The Group's ticket sales (for business or leisure air travel) and resulting profitability have a strong correlation with gross domestic product, business confidence and consumer discretionary spending. Business spending and consumer discretionary spending on air travel is impacted by general economic conditions and the political climate, including economic performance, interest rates, currency exchange rates, political uncertainty, inflation, unemployment levels, availability of customer credit, taxation rates, stock market performance and consumer confidence.

For example, the outbreak of the COVID-19 pandemic and resultant economic effects of preventative measures taken across Europe have led to recessionary economic conditions and have negatively impacted GDP growth, employment rates, corporate earnings, consumer confidence and other economic indicators in the key markets where the Group operates. The European Commission expects GDP in the European Union to fall 8.3% in 2020 (Source: European Commission, "*Summer 2020 Economic Forecast*", 7 July 2020). The degree to which the COVID-19 pandemic will continue to impact the economic conditions in the Group's key markets in the medium to long-term, particularly the United Kingdom, Spain, Ireland and the United States, depends on future developments, including any future COVID-19 outbreaks following relaxation of the current public health measures, and any government measures and advisories imposed as a result, and how quickly and to what extent normal economic and operating conditions can resume. In the medium to long-term, if the impact of COVID-19 is prolonged, or further viruses emerge that give rise to similar government responses resulting in macro-economic effects, economic conditions will be adversely affected and there could be a further economic downturn in the Group's key markets across Europe and North America, and the global economy more broadly (which could be widespread, severe and long lasting). Should government travel restrictions and advisories remain in place or be re-imposed, economic conditions continue to deteriorate or political uncertainty increase, customers (for both leisure and business purposes) may choose to reduce their spending on air travel, which may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

(E) *Impact on consumer behaviour*

Even if the COVID-19 pandemic abates, its impact on consumer behaviour and their preferences may continue in the longer-term, as may continuing government restrictions and advisories or requirements for air travel. Such changes, without limitation, could include a disinclination to travel, whether as a result of the perception of increased risk of contagion in airport and aircraft, enhanced COVID-19 screening measures, the uncertainty created by the numerous and differing travel restrictions or otherwise, financial or budgetary constraints of the Group's customers or an increased preference for virtual meetings. They could also include a heightened sensitivity to cleanliness, hygiene standards and social distancing measures. Any changes in consumer preferences, tastes and purchasing habits could result in diminished demand for the Group's services, including if the Group cannot adapt its business accordingly.

Any of the foregoing, including a prolonged period of travel, commercial or other restrictions as a result of the current or a future outbreak or pandemic, as well as the negative current economic conditions or a future further deterioration or a long-term change in consumer behaviour, would have a further material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.4. The Group's cash obligations, leverage and associated inability to access new financing could have adverse effects on the Group's business, financial condition, results of operations and prospects

The Group has a significant amount of financial leverage from fixed obligations, including aircraft lease and debt financings, leases of airport property, secured loan facilities and other facilities, and other material cash obligations. In addition, the Group has substantial planned capital expenditures, including for the acquisition of new aircraft and related spare engines, amounting to €7.0 billion over 2020, 2021 and 2022 (although this has already been halved from the €14.2 billion which was planned over the same period before the COVID-19 pandemic). The Group's ability to finance ongoing operations and commitments is vulnerable to various factors including financial market conditions, its credit rating and financial institutions' appetite for secured aircraft financing and general lending to the airline industry. The Group has to balance relatively high business and operational risks inherent in its businesses with an appropriate level of financial risk.

The Group has, and will continue to have, interest-bearing debt service obligations. As at 30 June 2020, the Group had €16,479 million of debt outstanding, including right of use obligations, an increase from €14,254 million, €10,463 million net debt, an increase from €7,571 million, and a Net Debt to EBITDA ratio of 4.2x*, an increase from 1.4x*, in each case compared to 31 December 2019. The Group's debt service obligations include:

- two tranches of senior unsecured bonds of, in aggregate, €1 billion, €500 million at a fixed rate of 0.50% due 4 July 2023 and €500 million at a fixed rate of 1.50% due 4 July 2027, issued by the Company (the "**2019 Bonds**");
- €200 million fixed rate unsecured bonds between 3.5 to 3.75% coupon repayable between 2022 and 2027 issued by Iberia;
- €500 million 0.625% bonds due 17 November 2022, issued by the Company;
- €1,061 million mortgage loans for specific aircraft assets of the Group, repayable between 2020 and 2030;
- €12,465 million lease liabilities and asset financed liabilities repayable between 2020 and 2030;
- €18 million fixed rate unsecured euro loans with the Spanish State (Department of Industry) repayable between 2020 and 2028;
- British Airways' revolving credit facility (as discussed below);
- Iberia and Vueling's ICO Facility (as discussed below); and
- British Airways' CCFF programme (as discussed below).

In light of the COVID-19 pandemic, the Group has extended British Airways' revolving credit facility secured against aircraft assets (extending the US dollar secured revolving credit facility for one year from 23 June 2020 to 23 June 2021). The amount undrawn and, subject to available collateral, available under the facility was $588 million as at 30 June 2020. Additionally, British Airways has also been confirmed as an eligible issuer under the joint Bank of England

and HM Treasury lending facility, named the Covid Corporate Financing Facility (the "**CCFF**"). On 8 April 2020, British Airways established a commercial paper programme in order to be able to participate in the CCFF and, on 12 April 2020, British Airways issued £300 million (€332 million) commercial paper under the CCFF (its maximum issuer limit applied by the Bank of England and HM Treasury). On 30 April 2020, Iberia and Vueling entered into syndicated financing agreements for €750 million and €260 million, respectively, which are guaranteed by the *Instituto de Crédito Oficial* ("**ICO Facility**"). The financing arrangements have a five-year term, amortising from 30 April 2023, but are repayable at any time prior to this date on notice from the borrowers. The Group expects to continue to have a substantial amount of outstanding debt going forward, including any additional amounts that it may borrow through the period in which the impact of the COVID-19 pandemic on the Group continues.

The Group's leverage could have important consequences for its business and operations, including:

- delaying and/or limiting the ability of the Group to execute its strategy and invest in its business;

- increasing the Group's vulnerability to adverse general economic or industry conditions that are beyond its control;

- requiring the Group to dedicate a substantial proportion of its cash flow to payments of interest or other amounts due on its debt, which in turn reduces the funds available for other purposes;

- requiring the Group to encumber, sell or assign assets;

- further negatively impact the Group's credit ratings or share value, particularly if leverage is obtained through the issuance of convertible or other debt, equity or equity-linked instruments;

- limiting the Group's ability to borrow additional funds or raise equity capital in the future and increasing the costs of such additional financings;

- limiting the Company's operating subsidiaries from paying dividends to the Company, as is the case in the ICO Facility; and

- placing the Group at a competitive disadvantage compared to competitors that may have less debt.

A failure by the Group to meet its debt servicing obligations and fixed costs in the future, could lead to an acceleration of indebtedness which could trigger additional cross defaults under indebtedness in certain of the Group's other financing arrangements. In such situations, the Group may not be able to repay amounts then due and payable. Once default has occurred, the lenders under the relevant financing arrangements could enforce upon the assets of the relevant members of the Group to which they have recourse, which may include aircraft, which secure their obligations in accordance with the terms of the respective financing agreement.

The Group's financial position may also be adversely affected through the impact of its exposure to movements in interest rates on interest bearing monetary items. As at 31 December 2019, the sensitivity of the Group's interest rate exposure to a 50 basis points strengthening in euro and sterling interest rates on profit before tax was €(2) million and €2 million, respectively. The effect of such a change in euro and sterling interest rates on equity was €16 million and €0, respectively and such a change in US dollar interest rates would have no effect on profit before tax and equity.

Additionally, in the medium-term, the Group may need to refinance and such refinancing may be more expensive than current rates or otherwise more onerous or may be unavailable, in the amounts needed or at all. This could depend on the Group's prevailing credit profile, its credit rating (which was downgraded by S&P and Moody's in May 2020 to BB and Ba1, respectively. In September 2020, Moody's further downgraded the Company to Ba2. On both occasions, the rating agencies cited reductions in capacity due to the COVID-19 pandemic), the condition of financial markets at the time and other factors outside of the Group's control. The Group may be unable to obtain satisfactory financing in respect of its current commitments or future financing needs. To the extent that any of the Group's interest rate exposure remains unhedged, adverse movements in interest rates may have a material adverse impact on the Group's business, prospects, financial condition and/or results of operations.

1.5. The Group is undertaking a number of restructuring and redundancy programmes which may not achieve their objectives, harm the Group's reputation and expose it to legal actions and disputes with its employees and trade unions

As a result of the COVID-19 pandemic, the IAG Airlines are undertaking a number of restructuring and redundancy programmes. In April 2020, British Airways notified its trade unions of a proposed restructuring and redundancy programme and began consultation with employee representatives. Under those proposals it is expected that up to 13,000 employees could be made redundant and that most of British Airways' 38,000 UK-based employees could be affected by the restructuring. British Airways has concluded labour agreements with its pilots, engineers and Heathrow customer service staff. In regard to cabin crew, agreement in principle has been reached with Unite and a consultative ballot is expected to start shortly. Other consultation discussions continue, including with Heathrow ground handling services and cargo operations staff, UK contact centre employees and Gatwick based cabin crew. As at the end of August 2020, 8,236 British Airways employees have left the business as the restructuring process continues. In June 2020, Aer Lingus announced that it had issued a notification to the Irish Minister for Employment Affairs and Social Protection regarding the commencement of consultations with employee representatives on the proposed collective redundancies of up to 500 Aer Lingus employees, across four areas: cabin crew, maintenance, ground operations and support. Since the beginning of the COVID-19 pandemic, the Iberia and Vueling management teams have held regular meetings with the main labour representatives to inform them of the ongoing situation and the plans that the companies are developing to adapt their cost base to the new post-COVID capacity and demand environment. The LEVEL Europe management team has closed the base in Vienna, with 215 redundancies and a further 180 redundancies are proposed, and being consulted over, in relation to closure of the OpenSkies (LEVEL France) base in Paris. The Company expects to report restructuring charges of approximately €330 million in its 2020 results associated with employee redundancies.

There is a risk that these restructuring and redundancy programmes may harm the Group's and IAG Airlines' reputation due to negative government or media attention and impact the operations of the IAG Airlines. These restructuring and redundancy programmes may have a negative short-term impact on the Group's results, operations and financial condition and there can also be no guarantee that they will achieve their objectives.

The Group and its suppliers have a significant number of employees who are members of trade unions and also have key third party service providers whose employees are members of trade unions. The IAG Airlines and their suppliers regularly collectively bargain with a number of the unionised groups including airport and ramp staff, pilots, cabin crew, cargo, head office and engineering staff. Whilst collective bargaining and other agreements with these unions take place regularly, a breakdown in the bargaining process has in the past and could in the future lead to strikes or other industrial action being taken by the IAG Airlines' respective employees, or by the employees of key third party service providers who are facing similar restructuring activity, which could impact on the relevant IAG Airlines' ability to maintain its flight schedules and negatively impact its business, reputation and financial results.

For example, British Airways pilots who are members of the British Airline Pilots Association went on strike for two days in September 2019, leading to a total of 2,325 cancelled flights and significant disruption to the airline and its customers. The impact of this industrial action and Heathrow disruption in summer 2019 reduced the Group's operating profit by €170 million in the financial year ended 31 December 2019. As a result of these proposed restructuring and redundancy programmes, the Group may experience strikes or other industrial action in the near- to medium-term. Any such action would have an adverse operational impact on IAG Airlines and could have a negative financial and reputational cost on IAG Airlines and the Group.

There can be no assurance that the IAG Airlines will not experience strikes or other industrial action in the future. Any drawn out dispute, including the prospect of strikes or other industrial action, even if it does not ultimately result in strikes or other industrial action taking place, could have a material adverse effect on the Group's reputation, cause cancellations, increase costs and/or cause consumers to book flights with the IAG Airlines' competitors. Any such strike or other industrial action, or any threat of a strike or other industrial action, could have a material adverse effect on the Group's reputation, businesses, prospects, results of operations and financial condition.

1.6. The Group is reliant upon the resilience of its reservation and technology systems and is exposed to risks that relate to the poor performance or failure of these systems or that they are improperly accessed

The Group's business is dependent on the suitability, reliability and durability of its technology platforms, systems and processes, including automated systems and third-party infrastructure that support its businesses. In order for the Group's operations to work efficiently, its IT systems must be able to accommodate a high volume of traffic, maintain secure information, dispatch flights and deliver flight information, as well as issue electronic tickets and process critical financial information in a timely manner.

These systems could be exposed to damage or interruption from fire, natural disaster, loss of power or telecommunications failure. A lack of resilience and operational availability of these systems, whether provided by the Group or third-party technology providers, could lead to prolonged service disruption or outage. This could result in significant business interruption, an adverse impact on customer experience (both during the booking process and when a customer is travelling), negative publicity or loss of customer data, any of which could subsequently adversely impact Group revenues and/or reputation. The Group has been impacted by a number of failures of these systems over the past few years. For example, a loss of IT services at British Airways in August 2019 and May 2017 led to the cancellation of more than 100 and 500 flights, respectively.

The Group has experienced and is also exposed to the increasing risk that individuals or groups (including, in particular, criminals, foreign governments, competitors and new entrants to the travel market) attempt to disrupt the availability, confidentiality, integrity and resilience of its technology systems, which could disrupt key operations, such as the IAG Airlines' reservation systems, make it difficult to recover critical services, damage assets and compromise the integrity and security of both corporate and customer data. Such breaches have and could result in loss of trust from the Group's customers, employees and other stakeholders, reputational damage, legal or regulatory proceedings and direct or indirect financial loss. In particular, any disruption to or unavailability of the Group's system as a result of a cyber-security incident could remove or severely curtail the IAG Airlines' ability to process flights or reservations and could result in significant fines by regulators and reputational damage to the Group (and IAG Airline, in particular) and their respective brands.

Developments in data protection worldwide (including, in particular, the implementation of the General Data Protection Regulation ((EU) 2016/679) ("**GDPR**"), which entered into force on 24 May 2016 and has applied to all European Union member states from 25 May 2018) has also increased the financial and reputational implications for the Group following any significant breach of its IT systems or those of its third-party suppliers, with regulators imposing potentially significant fines or demanding remedial steps to be taken. The Group's operations involve the processing and storage of large quantities of personal data relating to its customers, employees and other parties and, as such, the Group is subject to significant obligations in respect of data protection legislation. The Group collects, stores and processes personal data from its customers, business contacts and employees as part of the operation of its business, including credit card numbers, booking and loyalty data and other personal information, and therefore it must comply with data protection and privacy laws.

In the event that the Group is unable to meet its obligations in respect of personal data, it may be subject to regulatory action, civil claims, fines and reputational and financial costs. The GDPR, together with Constitutional Act 3/2018, of December 5, on the Protection of Personal Data and Guarantee of Digital Rights permits national supervisory authorities to levy significant levels of fines for non-compliance of up to 4% of the Group's annual worldwide turnover in cases of significant non-compliance.

For example, on 6 September 2018, British Airways announced the theft of certain of its customers' personal data. Following an investigation into the theft, British Airways announced on 25 October 2018 that further personal data had potentially been compromised. On 4 July 2019, British Airways received a Notice of Intent from the Information Commissioner's Office ("**IC Office**") in which it informed the airline of its intention to fine it approximately £183 million (€205 million) under the UK Data Protection Act. As at the date of this Prospectus, no final penalty notice has been received from the IC Office. The Company has in the first six months of 2020 recorded an exceptional charge of €22 million with regard to this incident, which is management's best estimate of the amount of any penalty it may receive from the IC Office. The Group has also been exposed to litigation, including class action lawsuits, as a result of this theft of personal data.

The Group is currently engaged in a number of initiatives to modernise its IT systems, whilst also delivering an ongoing efficiency programme and upgrading its digital capability, customer propositions and core IT infrastructure and network where required. Some of these initiatives have been delayed or superseded by actions the Group is taking in light of the COVID-19 pandemic. There is a risk that such initiatives will not deliver what is required either on time or on budget, result in unexpected costs or not provide the performance levels required to support the current and future needs of the Group and its customers, especially given the scale and pace of the change required. Such initiatives may also expose the Group to additional risks, for example due to poor implementation or due to unexpected outcomes of new functionalities. The Group's systems are interdependent and a failure of any of its core systems may result in the failure of other systems. Any updates to the Group's systems and infrastructure to support its operations and growth and/or respond to changes in regulations and markets create implementation and integration risks and could have a material adverse effect on the Group's reputation, business, financial condition, results of operations and prospects.

1.7. The Company's wholly-owned subsidiary, IB OPCO Holding S.L., has signed an agreement to purchase Air Europa and this transaction, as well as other consolidation opportunities that the Group may pursue in the future, could expose the business to new risks

In November 2019, the Company announced the proposed acquisition by the Company's wholly-owned subsidiary, IB OPCO Holding S.L. ("**IB OPCO**"), of Air Europa from Globalia Corporación Empresarial, S.A. ("**Globalia**"), Spain's largest tourism group, for €1 billion to be satisfied in cash, subject to a closing accounts adjustment. While the Group will focus on obtaining competition clearance to complete the acquisition (which is currently anticipated to take place in the second half of 2020 or early 2021), there remains a risk that the relevant competition approvals will not be received. IB OPCO has agreed to pay Globalia a break fee of €40 million in the event that the transaction fails to receive the necessary regulatory approvals before May 2021 and either party elects to terminate the transaction agreement.

Upon completion of the acquisition, the Group will then prioritise the integration of Air Europa into the Group. However, in light of the significant impact of the COVID-19 pandemic on Air Europa's operations and finances, it cannot be assured that synergies and network growth opportunities anticipated by the proposed acquisition will be achieved as expected or at all. Consequently, the anticipated synergies of the proposed acquisition are being re-evaluated to reflect the changes in the industry and macro-economic environment and, as announced by the Company on 31 July 2020, IB OPCO and Globalia are engaged in active discussions regarding a potential restructuring of the proposed acquisition (including the amount of the purchase price and the ongoing funding for the Air Europa business) to take into account the impact of the COVID-19 pandemic. The proposed acquisition is expected to be concluded in the second half of 2020 or early 2021.

As part of its strategy, the Company regularly identifies and evaluates acquisition opportunities and may acquire additional businesses that it expects to complement or augment its existing operations. The Company may be limited in its ability to acquire companies depending on the concentration of ownership in specific markets, local ownership restrictions and the Company's relative market and financial position. Further, there is a risk that future acquisitions may not be fully integrated into the Group's operations and may not achieve the desired financial objectives.

In the context of its acquisitions (including Air Europa), the Company generally makes certain assessments and assumptions on, among other things, future revenues and earnings, and potential cost and revenue synergies, based on the Company's investigation of the respective businesses and other information available. The Company's assessment of, or assumptions regarding, opportunities and risks associated with acquisitions may prove to be incorrect and liabilities, contingencies or other risks (including those previously not known to the Company) may arise or have a greater negative impact than expected. In addition, such unanticipated risks, liabilities, contingencies, losses or issues, if realised, could have a material adverse effect on the Company's businesses, prospects, results of operations and financial condition.

While the Group will continue to prioritise its assessment of consolidation opportunities to further enhance its existing portfolio, and shape industry consolidation where strategically attractive targets are identified, this strategy could expose the business to new risks that it may not have the capability or the systems to manage. These risks include difficulties in staffing as well as inherent difficulties and delays in contract enforcement or a failure of internal controls and risk management.

If the Group's strategy leads to the Group entering new geographic markets, this could involve significant entry costs and would require local market experience and understanding, including the need to compete against competitors who have greater experience in the local market than the Group does. Even if these risks do not materialise, there can be no guarantee that any future opportunities identified by the Group will deliver the anticipated levels of profitability and cash flows.

Any of the foregoing may have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.8. The Group's business is dependent on the strength of its brands, strategic alliances and bilateral cooperation agreements and the reputations of its counterparties and partners, damage to which could adversely impact the Group

The Group's ability to attract bookings depends on the public recognition of the IAG Airlines' brands and their associated reputation. The IAG Airlines' brands are, and will continue to be, vulnerable to adverse market or customer perception. Reliability, including on time performance, is a key element of the brands and of each customer's experience. Unreliable operational performance and inability to react to customer expectations as a result of routine and ongoing disruption could negatively impact customer satisfaction and perception of the relevant brand.

If the IAG Airlines are unable to provide, on a consistent basis, valued, and quality services, both in terms of booking and in-flight experiences, for travellers, or if the Group cannot maintain high cleanliness and hygiene standards in response to the COVID-19 pandemic, this could result in an adverse impact on the reputation of the Group's brands. In addition, the reputation of the IAG Airlines' brands could be adversely impacted if the Group or any of the IAG Airlines fail to maintain high ethical, social or environmental sustainability practices, or if customers negatively perceive the Group's strategy or approach to environmental, social and governance issues, including greenhouse gas emissions, employee and union relations and general corporate responsibility. The value of the Group's brands could also be influenced by a number of external factors outside the Group's control, including changes in applicable regulations related to the aviation industry or changes in consumers' perceptions of the Group and its brands. The Group needs to continually invest in its businesses, operational excellence and safety procedures and brands in order to attract and retain customers. These levels of investment may be reduced, including in the current circumstances resulting from the COVID-19 pandemic, which could have a detrimental effect on the Group's brands and their attractiveness to customers.

The benefit to British Airways and Iberia of the oneworld global airline alliance and its bilateral cooperation agreements relies on the public recognition and associated reputation of the relevant membership and counterparty airlines. LATAM Airlines recently left oneworld alliance and no assurance can be given that oneworld will not lose other member airlines, whether as a result of one or more member airline terminating their membership, having their membership suspended or insolvency. Furthermore, no assurance can be given that oneworld will be able to attract the new members it might need to be successful in the future.

Certain IAG Airlines are party to joint business arrangements with other airlines, including the Atlantic Joint Business between American Airlines, British Airways, Finnair and Iberia. These arrangements enable the IAG Airlines to work more closely with other airlines to, for example, co-ordinate on pricing, capacity and networks to improve customer choice and offerings. The joint business arrangements are subject to inherent delivery risks such as realising planned synergies and agreeing the deployment of additional capacity within the joint business. There can be no assurance that IAG Airlines and partner airlines will perform in line with one another, which could result in significant variation in the amount of transfer payments or receipts between the airlines in the joint business arrangement. Furthermore, as part of the ongoing investigation of the Atlantic Joint Business between American Airlines, British Airways, Finnair and Iberia by the UK Competition and Markets Authority, the parties have offered to maintain the existing European Commission commitments for a further six IATA seasons. Certain IAG Airlines also have a number of franchise partners that feed traffic into hubs or major outstations.

To the extent a joint business partner or franchise partner airline's recognition or reputation is negatively impacted, there could be a material adverse effect on the strategic alliances or cooperation agreement, thereby having a material adverse effect on the Group.

1.9. The Group is exposed to price volatility of, and regulatory changes to, jet fuel

Fuel, oil costs and emissions charges constituted 26.3% of the Group's total operating expenses in the financial year ended 31 December 2019 (25.7% in 2018). Jet fuel can be subject to significant price volatility, as highlighted by the recent price falls as a result of the COVID-19 pandemic and an oil price war between Russia and Saudi Arabia. Furthermore, jet fuel prices can be influenced by a number of political and economic factors such as war or the threat of war, refining capacity, global downturns and sudden disruptions in supply. Substantial increases in jet fuel prices could, if they are not hedged, significantly impact the Group's jet fuel costs. If the Group is exposed to sustained significant price volatility and/or increases in jet fuel prices, there can be no assurance that it will be able to offset such volatility and/or increases by passing these costs on to customers and/or through fuel hedging arrangements (which it carries out through the purchase of oil derivatives in forward markets).

The Group employs a conservative approach to hedging but must ensure that it carefully monitors its hedging positions compared to competitors to ensure that it is not commercially disadvantaged by being over-hedged in favourable markets. Jet fuel prices fell by more than 50% in the first half of 2020, leading to significant losses for the Group's fuel hedging derivatives, which would normally be offset against lower costs for purchasing jet fuel. However, as a result of the capacity cuts implemented by the Group in light of the COVID-19 pandemic, the Group expects future capacity to be significantly lower than that anticipated when its fuel hedging derivatives were put in place. The reduced capacity forecast has led to an exceptional charge of €1,269 million relating to over-hedging, being the net of losses on fuel hedging derivatives and related gains on foreign currency derivatives maturing in 2020 for which there will be no matching volume of fuel purchased, calculated using the forward fuel curve and exchange rates at 30 June 2020.

The Group cannot predict the movement of either short-term or long-term jet fuel prices. Based on the Group's capacity planning scenario and assuming a 70% hedging profile for the next 12 months and a 35% profile for the following 12 months, a 20% price rise in fuel commodity cost from the start of 2021 would result in a total cost increase of approximately €550 million for 2021 and 2022 in aggregate. Any such price volatility, increases in prices for jet fuel and/or material misjudgements in hedging requirements could have a material adverse effect on the Group's businesses, prospects, results of operations and financial condition.

In addition, the introduction of regulation relating to sustainable aviation fuels could have a material adverse impact on the Group. The European Union and Spain have proposed to mandate a proportion of sustainable aviation fuels ("**SAF**") which would incentivise production. However, such regulatory intervention could force airlines to purchase SAF at a price premium compared with conventional jet fuel creating competitive distortion. If such regulations are not brought in at a global level, the Group may be significantly impacted in comparison with its competitors outside of the European Union.

1.10. The Group could experience significant disruption to its operations and is exposed to increases in charges, fees or other costs as a result of its dependence on key third-party suppliers

The Group has several critical supplier relationships for services covering a significant proportion of the IAG Airlines' operations and cost base (including airport operators, ground handlers, aircraft maintenance providers, IT call centres, catering providers and fuel suppliers). For example, in the year ended 31 December 2019, the Group's handling, catering and other operating costs amounted to €2,972 million. The Group is reliant upon those suppliers performing their obligations in accordance with the terms and conditions agreed between the Group and such suppliers and is exposed to any increases in the price these suppliers charge for their services. These key suppliers are therefore vetted and their performance is monitored closely by the Group.

Failure to adequately monitor and manage the performance of such service providers or the failure by such service providers to perform their obligations under the agreements entered into by them and the Group could adversely affect the Group and the IAG Airlines' reputation and their operational and financial performances. This risk is heightened by the COVID-19 pandemic and could continue to be heightened after the pandemic abates if suppliers face ongoing challenges that impact the quality and provision of their services. See "*1.3 – The operations, strategic initiatives, suppliers and behaviour of the Group's customers, as well as the general economic conditions in the markets in which the Group operates, have been and are likely to continue to be materially impacted by the COVID-19 pandemic or any future COVID-19 outbreak or other pandemic"* above.

The Group is also exposed to any increases in the price these suppliers charge for their services, especially if alternative suppliers are not available, including airport, transit and landing fees, along with changes in air security policies and air traffic security costs. For example, landing fees and en-route charges are a significant operating cost for the IAG Airlines, amounting to €2,221 million in the financial year ended 31 December 2019. There can be no assurance that such costs will not increase or that the IAG Airlines will not incur new costs in Spain, the United Kingdom, Ireland or elsewhere in Europe and in the jurisdictions in which they respectively operate. If an IAG Airline is not able to pass any increases in charges, fees or other costs on to its customers, these increases could have a material adverse effect on the Group's businesses prospects, results of operations and financial condition.

Any of the foregoing could cause reputational damage, disruption and result in significant costs associated with sourcing alternative arrangements (if they are available at all), among other things, which could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

1.11. The Group is dependent on new aircraft and engine performance

Each IAG Airline is dependent on the timely entry and availability of new aircraft and achieving expected engine performance standards in order to improve its operational efficiency, environmental impact and maintain its market position. Each IAG Airline is exposed to engine and fleet manufacturers' delay or complete failure of delivery, whether as a result of delays to certification process (particularly in light of the Boeing B737-MAX accidents and the additional certification process and regulatory scrutiny this has held to) or otherwise, which could impact its fleet plans. This has led to, and could in the future result in, significant disruption to such IAG Airline's operations as well as passengers forming a negative perception of such IAG Airline thereby reducing demand. Such disruption to operations and/or reduction in demand could have a material adverse effect on the Group.

In addition, fleet manufacturers and/or regulatory authorities may require mandatory or recommended modifications to be made across a particular fleet which may mean having to ground a particular type of aircraft. This may cause operational disruption to and impose significant costs on the IAG Airlines, as highlighted by the issues British Airways experienced with the Rolls-Royce Trent 1000 engines on its Boeing B787 aircraft between 2018 and 2020. These issues resulted in the airline having to ground several planes while Rolls-Royce redesigned and replaced some of the engine components. Similarly, regulatory authorities may from time to time issue directives and other regulations related to the maintenance and operation of aircraft that require significant expenditures or operational restrictions and can be issued with little or no notice, which could impact IAG Airline's ability to efficiently or fully utilise its aircraft. Furthermore, safety incidents involving an IAG Airline or another airline resulting from faulty aircraft or equipment, as well as potentially leading to loss of life, could impact passenger confidence and result in significant costs to the Group, including as a result of any legal proceedings against the Group. They could also have an adverse effect on the airline industry in general and, to the extent any IAG Airline was involved, such IAG Airline's reputation in particular, leading to reduced demand for that IAG Airline's (and potentially other IAG Airlines) services.

Any material defect in any of the IAG Airlines' aircraft maintenance or grounding of aircraft for any reason (including as a result of regulatory requirements) could result in low reliability, flight delays for technical reasons and unscheduled stops, catastrophic failure and/or damage the reputation of the IAG Airlines which, in each case, could have a material adverse effect on the Group's businesses, prospects, results of operations and financial condition.

1.12. The Group operates defined benefit pension schemes to which it is required to make future additional contributions

The Group provides retirement benefits to certain of its current and former employees through a number of pension arrangements. Certain IAG Airlines have in place defined benefit pension schemes for their staff, for which the IAG Airline is the ultimate sponsor for funding, whereby contribution requirements are generally assessed every three years as part of a full actuarial valuation, the next of which will take place on 31 March 2021. These include the Airways Pension Scheme ("**APS**") and the New Airways Pension Scheme ("**NAPS**"), both of which are in the United Kingdom and are closed to new members.

Pension contributions for APS and NAPS were determined by actuarial valuations made at 31 March 2018, using assumptions and methodologies agreed between the Group and trustee of each scheme. At the date of the actuarial valuation, the actuarial deficit of NAPS amounted to €2,736 million, while the surplus of APS amounted to €683 million. In order to address the deficit in NAPS, the Group committed to €1,683 million in deficit payments. Furthermore, until September 2022, if British Airways pays a dividend to the Company which is higher than 50% of pre-exceptional profit after tax, British Airways will either provide the scheme with a guarantee for the amount above 50% of pre-exceptional profit after tax or contribute half of such amount to the scheme as an additional cash contribution. Under a settlement agreement between British Airways and the trustee of APS, British Airways has ceased to pay further deficit recovery contributions since 1 January 2019, including cash sweep payments. British Airways has provided a €47 million indemnity, which is payable in full or in part as appropriate following the triennial valuation of the scheme as at 31 March 2027 if that valuation shows that the scheme is not able to pay pension increases in line with the United Kingdom's Retail Price Index for the remaining life of the scheme.

British Airways also provides certain additional post-retirement healthcare benefits to eligible employees in the US through the US Post-Retirement Medical Benefit plan (US PRMB) (which is considered to be a defined benefit scheme) and Aer Lingus operates certain defined benefit plans. The defined benefit schemes expose the Group to actuarial risks, such as longevity risk, interest rate risk, inflation risk and market (investment) risk, including currency risk and therefore funding risk.

The deficit of the Group's defined benefit schemes is dependent on the market value of the assets of that plan and on the value placed on its liabilities. If the market value of the assets declines and/or the value of the liabilities increases, as at the date of schemes respective actuarial funding valuations, the Group may be required to increase its contributions to the respective schemes. A variety of factors, including factors outside the Group's control, may adversely affect the value of the schemes' assets or liabilities, including interest rates, inflation rates, investment performance and investment strategy, exchange rates, life expectancy assumptions, actuarial data and adjustments, regulatory changes, and the strength of the employer covenant provided to the plan by the Group. If these or other internal and external factors were to become unfavourable, or more unfavourable than they currently are, the Group's required contributions to the relevant schemes and the costs and net liabilities associated with the schemes could increase substantially.

As with many defined benefit pension plans in the United Kingdom, the trustee has the power under the relevant scheme's governing documentation to wind-up such schemes in certain circumstances, including if the employer stops making payments or goes insolvent, which if exercised could accelerate and increase funding obligations to the plan.

1.13. The Group is reliant on, and exposed to, national and international infrastructure developments and impacted by disruptions and vulnerability from loss of key airports or landing slots

The Group is dependent on, and may be affected by, infrastructure decisions or changes in infrastructure policy by governments, regulators or other entities, which are often outside the Group's control including, for example, a decision to allow additional runway capacity at an airport or the construction of a new airport. The IAG Airlines operate from a number of key airports across Europe, some of which have no spare runway capacity, including London Heathrow. There is a risk that the costs of infrastructure projects, such as the third runway expansion proposal at London Heathrow, could be passed on to the IAG Airlines and there can be no guarantee that such projects will be completed on time or at all, which could impact the Group's operations.

Airports which operate at or near their maximum runway capacity, including Heathrow Airport and Gatwick Airport, require airlines to hold a slot to land and depart from such airports at a specific time. Airlines can lose their slots if they do not operate flights which use them; for example, slot controlled airports in the EU require airlines to use their slots at least 80% of the time. In light of the COVID-19 pandemic, aviation authorities around the world have issued slot waivers to prevent airlines from losing slots if they do not operate flights, which are currently set to expire on 24 October 2020. To the extent these waivers are not extended while the demand for air travel is impacted by the COVID-19 pandemic, the IAG Airlines may lose some of their slots or need to operate unprofitable flights to protect them. A loss of slots and/or the operation of unprofitable flights to protect slots could prevent the IAG Airlines from flying to key airports in the future and/or have material adverse effect on the Group's business, financial condition, results of operations and prospects.

In addition, the Group has been impacted by air traffic control management issues in the past, including the strikes by French air traffic controllers in 2019 which significantly impacted the Group's shorthaul operations. If such air traffic control and management issues occur and persist for a sustained period in the future, this may cause significant and widespread disruption to the IAG Airlines' network. The occurrence and timing of such events, together with the reaction of aviation authorities, cannot be predicted or controlled by the Company or the IAG Airlines and could weaken the demand for air travel and materially affect airline operations. Additionally, such events could require significant compensation to be paid, which could result in the disruption of the IAG Airline's respective operations and, subsequently, cause a material adverse effect on the IAG Airlines and, by extension, the Group's business, financial condition, results of operations and prospects.

1.14. The Group is exposed to foreign exchange rate risk

The Group (other than the subsidiaries: British Airways, IAG Loyalty, IAG Cargo, Global Business Services and IAG Connect) report their financial results in euro. British Airways, IAG Loyalty and IAG Connect report their financial results in pound sterling and a significant part of the Group's cost base, including aircraft and fuel, is in US dollars. Therefore the Group's principal exposure to currency exchange rates arises from fluctuations of the euro, pound sterling and US dollar, which impact their operating, financing and investing activities. The Group generates a surplus in most currencies in which it does business, except the US dollar, as capital expenditure, debt repayments and fuel purchases typically create a deficit which is managed and partially hedged. Overall, in 2019 the Group operating profit before exceptional items benefitted from €67 million of positive foreign exchange impacts.

The Group's financial results for each period may be affected by fluctuations in exchange rates. As at 31 December 2019, the sensitivity of the Group's foreign exchange rate exposure to a 10% strengthening in the US dollar, pound sterling and Japanese yen on profit before tax was €22 million, €(23) million and €(1) million, respectively. The effect on equity of such a strengthening in US dollar, pound sterling and Japanese yen was €388 million, €(178) million and €(58) million, respectively. As at the same date, the sensitivity of the Group's foreign exchange rate exposure to a 10% weakening in the US dollar, pound sterling and Japanese yen on profit before tax was €0, €20 million and €2 million, respectively. The effect on equity of such a weakening in US dollar, pound sterling and Japanese yen was €(365) million, €171 million and €58 million, respectively. Sustained adverse changes in exchange rates against the reporting currency could have a material adverse effect on the Group. Whilst the Group manages foreign currency risk through hedging activity which aims to reduce the impact of exchange rate volatility on the results and cash flows of the Group, there can be no assurance that such foreign currency risk management will be fully effective to minimise or eliminate the impact of exchange rate volatility.

If such foreign currency risk management is not effective, this could have a material adverse effect on the Group's results.

2. RISKS RELATING TO THE GROUP'S INDUSTRY

2.1. The Group operates in a highly competitive industry and the success of the Group depends on its ability to compete effectively with its competitors, some of whom are benefiting from state support or subsidies and/or may be subject to insolvency protection

The Group operates in a highly competitive industry and must compete with a wide variety of other airlines and other modes of transport. The Group's businesses compete with direct and indirect airline operators on the routes operated by the IAG Airlines, as well as from indirect flights, charter services and other modes of transport with respect to fare levels, onboard products, frequency and reliability of service, brand recognition, passenger amenities and the availability and convenience of other passenger services. Existing or new competitors may have, among other things, newer aircraft, lower operating costs, better airport facilities, better onboard products, more effective branding or marketing, more attractive catering propositions and more efficient operations. Failure to react quickly to competitor changes could have an impact on each IAG Airline's market share and brand strength and could result in a material adverse effect on the Group's businesses, prospects, results of operations and financial condition.

Competitor capacity growth in excess of demand, especially in light of the fall in demand due to the COVID-19 pandemic, could cause an oversupply in the marketplace, a shift in the competitive landscape and materially impact margins of the IAG Airlines, as could significant price discounting by competitors. A number of the Group's competitor airlines also benefit from state support and/or subsidies. The COVID-19 pandemic has resulted in a significant increase in such state support, with competitor airlines, including Air France, Alitalia, Delta Air Lines, KLM, Lufthansa and United Airlines, receiving government-backed loans, warrants and grants, some of which do not need to be repaid. This state support, and certain conditions related to this support, could enable these competitors to become more competitive as compared to the Group, which has only received limited state support, and distort the competitive landscape in the markets in which the Group operates.

Furthermore, some of the Group's competitors may be able to benefit from protection under insolvency laws in their jurisdictions, helping them to substantially reduce their cost structures and become more competitive, both while they are under creditor protection and thereafter. This is particularly relevant to US airlines benefiting from protection under Chapter 11 of the United States of America Bankruptcy Code as the transatlantic route is one of British Airways' most important markets. Chapter 11 offers companies temporary protection from creditors, and the ability to renegotiate contracts, to reject the terms of existing collective bargaining agreements (in certain situations), and restructure the business as a going concern. There have been numerous examples of US airlines filing for Chapter 11 protection in the past, including Avianca, Delta Air Lines, LATAM and United Airlines.

The Group does not enjoy the competitive advantages enjoyed by competitors both in terms of government-sponsored non-repayable loans, warrants and grants; or insolvency law provisions and mechanisms that allow less invasive restructurings and renegotiations.

Furthermore, technology disruptors may use tools to position themselves between the Group's brands and its customers. Such digital disruption may lead to competitors and new entrants to the aviation market that may use technology more effectively and disrupt the Group's business model. While the Group continues to look for new ways to innovate its airline proposition and its digital and technology platforms, if the Group fails to maintain attractive airline brands and consumer offerings to compete successfully against this wide range of competitors, the Group may fail to retain existing customers or attract new customers, which may have a material adverse effect on its business, financial condition, results of operations and prospects.

2.2. The Group is subject to risks in relation to the uncertain future trading and regulatory relationship between the United Kingdom and the European Union resulting from the United Kingdom having withdrawn from membership of the European Union on 31 January 2020

Under the terms of the EU Withdrawal Agreement, the United Kingdom withdrew from membership of the European Union ("**Brexit**") on 31 January 2020 and entered into a 'transition period' which is due to expire on 31 December 2020 (the "**Transition Period**"). During the Transition Period, the majority of rights and obligations associated with membership of the European Union, including the current aviation arrangements, continue to apply to the United Kingdom. The UK Government's intention is to negotiate a trade agreement with the European Union during the Transition Period which would include a comprehensive air transport agreement, but such a trade agreement may not be agreed in time or at all, which could impact the Group's operations and the economic environment in the markets in which it operates. For example, if a comprehensive air transport agreement is not agreed by the end of the Transition Period, the way some of the IAG Airlines operate, including the routes on which they can codeshare, may be impacted, which could result in reduced revenue for the IAG Airlines. Following the end of the Transition Period, there are likely to be changes in the legal rights and obligations of commercial parties across all industries, including aviation.

The uncertainty as to when and whether a trade agreement will be concluded between the United Kingdom and the European Union and what rights and obligations any such agreement will contain will continue to cause both regulatory and macro-economic uncertainty. Such uncertainty could negatively impact business and consumer confidence and the United Kingdom's economic environment. As 33% of the Group's revenue, based on the area of original sale, is from the United Kingdom in the financial year ended 31 December 2019 and British Airways, which accounted for more than 50% of the Group's capacity in the same financial year, is headquartered in the United Kingdom, the Group would be impacted by any such changes in the United Kingdom's macro-economic environment. This could include reduced demand for air travel which could, in turn, result in a material adverse effect on the Group.

Additionally, due to the size and importance of the United Kingdom's economy, the uncertainty and unpredictability concerning the United Kingdom's ongoing legal, political and economic relationship with the European Union may continue to be a source of instability in the international markets, create significant currency fluctuations, and/or otherwise adversely affect trading agreements or similar cross-border cooperation arrangements (whether aviation specific regulation, pertaining for example to traffic rights, aviation safety and access to routes for commercial air transport services, or broader economic, tax, fiscal, legal or regulatory factors) for the foreseeable future.

There are also multiple EU Directives and Regulations which determine how the Group and each IAG Airline operates. These include general business directives and regulations (for example, including relating to social security, consumers, competition and data protection) and aviation specific regulations relating to matters such as safety, security and operating licences. Any divergence in the rules under which the IAG Airlines are required to operate could result in additional operational and administrative complexities for the Group and increase its costs.

Of particular relevance to the Group is Regulation (EC) No 1008/2008 on common rules for the operation of air services in the Community ("**Regulation (EC) No 1008/2008**"). This provides that a member state may only licence an air carrier to operate airline services, and that such air carrier may only maintain the relevant licence, if the majority of its share capital is owned, and the carrier is effectively controlled by, member states of the EEA or their nationals (including ownership by Switzerland and/or Swiss nationals) or a person qualifying as such for the purpose of Article 4 of Regulation (EC) No 1008/2008 pursuant to an agreement with a third country to which the EU is a party (the "**Ownership and Control Requirement**") (see "*2.3 – IAG Airlines are required to maintain majority share ownership and control by European Economic Area member states or their nationals*" below). After 31 December 2020 (and assuming no extension to the Brexit transition period), UK nationals will cease to count towards the Ownership and Control Requirement, absent an agreement between the UK and EU that provides to the contrary. Without mitigating actions, and assuming no other changes in the composition of the Company's share register in the interim, this scenario could present a compliance risk for the Group because a majority of the Company's share capital may not be owned by EEA nationals.

In order to seek to mitigate the risk above, the Group has engaged extensively with the relevant authorities to ensure its views on post-Brexit aviation arrangements are understood and taken into account. This has included frequent dialogue with the United Kingdom, Spanish and Irish governments, as well as the European Commission and Members of the European Parliament. Among other things, the Group has advocated that a comprehensive air transport agreement should provide for the mutual recognition of share capital between the UK and EU. In addition, as required by the EU, each of the IAG Airlines which holds an EU operating licence (other than British Airways) has submitted plans on ownership and control to its applicable competent licensing authority (the "**Remedial Plans**"). British Airways was not required to submit a Remedial Plan to its competent licensing authority in the UK, the Civil Aviation Authority, as a result of existing arrangements in place under section 66 of the Civil Aviation Act 1982 which govern the retention charter and scheduled route licences (C/9 and S/9 respectively) that the company holds. Section 66 of the Civil Aviation Act 1982 requires that the holder of a route licence be either a United Kingdom national; or a body which is controlled by United Kingdom nationals. In order for UK airlines, including British Airways, to hold a UK operating licence following the end of the Transition Period, they will need to demonstrate that their principal place of business is in the UK and to hold a route licence. The Group's non-airline subsidiaries, such as IAG Loyalty, are not subject to any nationality requirements.

The Remedial Plans submitted by the IAG Airlines detail the measures to be taken to ensure such IAG Airlines' continued compliance with the Ownership and Control Requirement following the end of the Transition Period, if that occurs without a satisfactory air transport agreement being concluded between the European Union and United Kingdom. The Remedial Plans include seeking shareholder approval to amend the By-laws to include a requirement that the Board comprises a majority of independent directors who are EU nationals. Each applicable licensing authority has confirmed that, if implemented, the Remedial Plans would satisfy the Ownership and Control Requirement in the event that the UK and EU are unable to agree a satisfactory, or any, air transport agreement before 31 December 2020. The intention is that the Remedial Plans will be implemented before the end of 2020, if necessary.

The EU Commission has been notified about the Remedial Plans by the applicable competent licensing authorities. The Remedial Plans do not require EC approval but, as with all EU operating licences, the EC has the right under EU law to investigate and, where appropriate, request competent licensing authorities to implement corrective measures.

Any of the foregoing may have a material adverse effect on the Group's business, financial condition, results of operations and prospects in the short-term.

2.3. IAG Airlines are required to maintain majority share ownership and control by European Economic Area member states or their nationals

It is a requirement of European Union law that the IAG Airlines (but not the Group's non-airline operating companies) comply with the Ownership and Control Requirement. The air carrier must be able to demonstrate this requirement at any time and a failure to do so may result in revocation of the carrier's operating licence. Each of the IAG Airlines currently complies with the Ownership and Control Requirement. If an IAG Airline which holds an EU operating licence and European AOC fails to comply with the Ownership and Control Requirement, the relevant IAG Airline may temporarily or permanently lose the ability to operate airline services within the European Union or to markets on routes which are subject to open skies deals negotiated by the European Union, such as the United States. This could have a material adverse effect on such IAG Airline's business and, by extension, the Group's businesses, prospects, results of operations and financial condition.

The Company has measures in place to ensure the IAG Airlines comply with the Ownership and Control Requirement. If the nationality of the Shareholders, or any persons with an interest in the Shares, changes so that these requirements may no longer be complied with, the Board of Directors has the power to adopt certain measures, including specifying the maximum number of Shares that may be held by any person who is not resident in or a national of, or an entity which is not domiciled, registered or incorporated in, a state that from time to time is, or is deemed to be, a Member State for the purposes of Regulation 1008/2008 (a "**Member State**") or the United Kingdom (a "**Non-Qualifying Person**"), as provided for in Article 11 of the By-laws (the "**Permitted Maximum**"). For example, on 11 February 2019, the number of Shares owned by Non-Qualifying Persons reached 47.5%. As a result, the Board of Directors imposed a restriction on the acquisition of any further Shares by Non-Qualifying Persons until further notice. This restriction was subsequently removed on 17 January 2020 when the number of Shares held by Non-Qualifying Persons had fallen to 39.5%. If there is an increase in the number of Subscription Rights and/or Shares held by Non-Qualifying Persons, the Board of Directors may re-impose such restriction. Any person who acquires Subscription Rights and/or Shares in breach of such restrictions will be required to sell such Subscription Rights or Shares. In addition, any person who acquires Subscription Rights in breach of such restrictions will not be able to exercise such Subscription Rights.

The provisions of Article 11 of the By-laws may also be applied by the Company's Board in order to protect the continued right of the IAG Airlines to use certain rights under bilateral air service agreements.

These measures could limit the liquidity of the Shares and/or cause the price of the Shares to fall.

2.4. The aviation industry has been and will continue to be impacted by climate change, the limitation of greenhouse gas emissions and any changes to environmental legislation, and is exposed to risks associated with changes consumer attitudes

Vulnerability to the effects of global warming and climate change has the potential to affect the Group's operations and business. Climate change has resulted in more volatile weather, such as a greater frequency and intensity of storms, which could disrupt the IAG Airlines' operations by reducing handling capacity at airports, particularly airports such as London Heathrow (which, until the third runway expansion project is complete, operates at near-full runway capacity) and is British Airways' largest hub, and ground transport access. Any increase in delayed or cancelled flights could increase disruption compensation costs and reduce revenue (see "*2.6 – Regulations relating to passengers' compensation for certain flight delays and cancellations require the Group to make compensatory payments to affected passengers*" below), as well as have an adverse effect on the relevant IAG Airline's reputation. Changes in wind patterns and jet stream disruption as a result of climate change are also recognised as having the potential to increase en route turbulence which could cause operational disruption and increased costs which could negatively affect the IAG Airlines' customer satisfaction and retention.

The Group is also exposed to risks associated with the limitation of greenhouse gas emissions and environmental regulation and legislation, in addition to measures that may be introduced in the future. The European Union introduced the Emissions Trading Scheme (the "**EU ETS**") in 2003 to limit greenhouse gas emissions and the trading allowances which apply to certain industrial installations. The airline industry was incorporated into the ETS in 2009 and the first carbon credit surrender took place in 2012. Additionally, in October 2016, the International Civil Aviation Organisation agreed a Carbon Offsetting and Reduction Scheme for International Aviation ("**CORSIA**") to target carbon neutral growth for the airline sector, which is due to commence in 2021. CORSIA will require airlines to purchase carbon offsets from other industries to compensate for emission growth in the airline sector and the Group's cost may substantially increase as a consequence. Furthermore, in June 2020, the UK Government announced that it was intending to establish a UK Emissions Trading System ("**UK ETS**"), which would apply to the aviation sector, with Phase I running from 2021 to 2030, and that it was open to considering a link between a future UK ETS and the EU ETS if it suited the interests of both sides. The number of offsets required to be purchased under these schemes, and any increase in such number, could have an adverse impact upon demand for air travel and/or reduce the profit margin per ticket for the Group.

Further regulations on greenhouse gas emissions may be enacted in one or more of the countries in which the IAG Airlines operate. The emergence of a global patchwork of uncoordinated national and regional climate policies may lead to competitive distortion including potential carbon leakage and result in increased compliance costs while failing to effectively address aviation emissions. In addition, if the cost of carbon emission permits significantly increase in the future, and there is unequal application of carbon regulation or the cost of more efficient technologies significantly increases, the IAG Airlines may face a material financial risk. Additionally, increases in taxes on travel levied for environmental reasons, such as Air Passenger Duty applicable to flights leaving the United Kingdom and changes in VAT rates for air passenger transport proposed by the European Commission on 15 July 2020, could reduce domestic and international travel in the markets in which the Group operates and thereby reduce the demand for the IAG Airlines' flight tickets.

Customer attitudes to environmental and climate issues may also change and this may lead to a reduced demand for air travel or reputational consequences for less environmentally conscious airlines. It could also lead to customers choosing alternative means of transport, including trains, instead of shorthaul flights. The IAG Airlines, particularly Iberia and Vueling, compete with other modes of transport including train travel. The shorthaul operations of the IAG Airlines are concentrated across Europe where there is a significant and reliable rail network, particularly in continental Europe. If alternative modes of transport provide a more cost-effective and/or sustainable means of travel or there is a change in preference amongst airline travellers or government initiatives against using airlines in light of environmental factors, this could have a material adverse effect on the IAG Airlines and, by extension, the Group.

Furthermore, destinations may become unattractive for visitors. Extreme weather events and physical impacts of climate change such as flooding, drought, forest fires, heat waves, rising sea levels and reduced snow cover in ski destinations could make certain destinations less desirable and impact customer demand.

All of these factors may limit the IAG Airlines' operational flexibility, increase costs or reduce demand for air travel and therefore could have a material adverse effect on their and, by extension, the Group's respective businesses, prospects, results of operations and financial condition.

2.5. The aviation industry is exposed to the risk of events that adversely impact domestic or international travel, including aircraft crashes, security-related threats or attacks

The Group's business and operations have been, and in the future could be adversely affected by events such as aircraft crashes, security-related threats or attacks (including actual or threatened acts of terrorism), geo-political events, wars, pandemics, such as the COVID-19 pandemic, political upheaval, travel restrictions, travel-related industrial action, increased transportation and fuel costs, climate change policy and environmental lobbying, increased transport related taxes and natural disasters resulting in reduced domestic or international travel or other local factors impacting individual flight routes.

Furthermore, the complete or partial closure or temporary unavailability of any of the hubs, gateways or other airports from which the IAG Airlines operate, for instance due to weather conditions and other forces of nature (including fire, flooding, excessive snow and acts of God), a major air crash at the site, union activity and strike action, a terrorist or similar security incident, non-performance by third-party service providers (such as electric utility or telecommunications providers), failure of computer systems, lack of fuel supplies, or any other network disruption, could result in the disruption of any relevant IAG Airline's operations.

Aircraft crashes or other safety incidents involving an IAG Airline or another airline, as well as potentially leading to loss of life, could impact passenger confidence and have an adverse effect on the airline industry in general and lead to reduced demand for that IAG Airline's (and potentially other IAG Airlines) services. Such events could have a material adverse effect on the Group's reputation, businesses, prospects, results of operations and financial condition. Additionally, there can be no assurance that the amount of the Group's insurance coverage available in the event of such losses would be applicable or adequate to cover such losses (including any arising from claims, disputes or litigation), or that the Group would not be forced to bear substantial losses from such events regardless of its insurance cover. In particular, the Group's insurance policies generally do not cover consequential losses from being unable to operate. Such losses could have a severe material adverse effect on the Group both in terms of reputational and financial cost. Moreover, costs associated with the repair or replacement of damaged or lost aircraft, resulting in temporary or permanent loss from service of such damaged or lost aircraft and claims by affected passengers, owners and third parties may occur. Failure to prevent or respond promptly and effectively to such an incident could have a material adverse effect on the Group, its businesses, prospects, results of operations and financial condition.

A major event of the kind noted above, or failure to react immediately and effectively to such an event, could impact passenger confidence and, to the extent an IAG Airline is involved, have an adverse effect on such IAG Airline's reputation, leading to reduced demand for such IAG Airline's services (and potentially other IAG Airlines) which could in turn lead to a loss of revenues and a decline in profitability for such IAG Airline and, by extension, the Group. Additional adverse consequences of such events, and the threat of such events, could include a complete or partial closure of European airspace for certain periods, reduced demand for air travel, limitations on the applicability or availability of insurance coverage (as highlighted by the fact that the Group's insurance policies have generally not covered losses resulting from the COVID-19 pandemic), increased costs associated with security precautions, other flight restrictions and, to the extent an IAG Airline is involved, significant liability and litigation costs. Major security-related threats or attacks have the potential to adversely affect each IAG Airline's business regardless of the location or target of such threat or attack or whether an IAG Airline was involved. For example, terrorist incidents such as the events of 11 September 2001, the London bombings of July 2005 and the attacks in Paris (November 2015), Brussels (March 2016) and Barcelona (August 2017) significantly affected international travel and consequently global demand for air travel, including demand for the IAG Airlines.

The occurrence of the foregoing risks could materially adversely affect the Group's business, financial condition, results of operations and prospects.

2.6. Regulations relating to passengers' compensation for certain flight delays and cancellations require the Group to make compensatory payments to affected passengers

Under European legislation (EU Regulation (EC) No. 261/2004 ("**EU 261**")), airlines including the IAG Airlines are required to compensate passengers for certain flight delays and cancellations. The legislation provides for compensation in a cash amount equal to €250, €400 or €600 per passenger, depending on the length of the flight, with shorthaul flights typically subject to compensation in an amount equal to €250 per passenger where this is due. In addition, passengers may also be entitled to assistance, including meals, drinks and telephone calls, as well as hotel accommodation, depending on the length of the delay. In certain circumstances, the IAG Airlines must offer the option of a refund of the cost of the unused ticket.

The demand for refunds and compensation can have a significant impact on the IAG Airlines' cashflow. There can be no assurance that the airlines will be able to manage all circumstances which may give rise to such delays and/or cancellations. In such circumstances, the IAG Airlines may be required to make compensatory payments to affected passengers and may also suffer reputational damage from regulatory and media scrutiny. For example, British Airways was asked to provide evidence to the Transport Select Committee in the United Kingdom in May 2020 regarding, among other things, passenger refunds, and a number of media outlets in Spain featured stories about Iberia and its refund policies in May and June 2020. Although the IAG Airlines maintain and regularly assess their respective provisions for EU 261 compensation payable in respect of flight delays and cancellations, any such claims could have a material adverse effect on the relevant IAG Airline's and, by extension, the Group's businesses, prospects, results of operations and financial condition.

3. RISKS RELATING TO THE CAPITAL INCREASE

3.1. The Underwriting Agreement between the Company and the Underwriters allows for the agreement to be terminated under certain circumstances, which may result in the Capital Increase being withdrawn by the Company and Investors who have acquired Subscription Rights losing such investment, and the underwriting commitment of the Underwriters is also subject to certain conditions

The Underwriting Agreement signed by the Company and the Underwriters on 9 September 2020 in relation to the Capital Increase may be terminated until the time of registration of the public deed relating to the Capital Increase in the Commercial Registry (i.e. 5 October 2020, according to the timetable) (the "**Closing Time**") under certain circumstances provided for under the terms and conditions of the Underwriting Agreement (including in the event of the publication of a supplementary prospectus). In addition, the Underwriters' obligations under the Underwriting Agreement are subject to certain customary conditions. If these conditions are not fulfilled or waived, the Underwriting Agreement and the underwriting and pre-funding obligations of the Pre-Funding Bank will not take effect.

In the event of termination of the Underwriting Agreement, or if the underwriting and pre-funding obligations of the Pre-Funding Bank under the Underwriting Agreement do not come into force as a result of the failure to fulfil or the Joint Global Coordinators and Joint Bookrunners (acting on behalf of the Underwriters) refusal to waive any conditions, the Company could nevertheless decide to continue with the Capital Increase which could therefore be incomplete, which could have an adverse impact on the value of the Shares, the New Shares and the Subscription Rights. In addition, this will be considered a significant factor which requires the publication of a supplementary prospectus. In such event, holders of Subscription Rights that have subscribed for New Shares during the Subscription Period or the Allocation Period for Additional Shares will have the right, exercisable within two working days after publication of such supplementary prospectus, to withdraw their subscriptions or requests, as applicable. If the Underwriting Agreement is terminated and the Company decides to withdraw the Capital Increase, Eligible Shareholders or Investors who have acquired Subscription Rights in the secondary market will lose such investment and, as a result, suffer a loss, which may be significant. In such event, the Company, the Participant Entity or the Agent, where applicable, will be required to return the amount corresponding to the funds provided to said applicant, free of any expenses or fees, within the following two business days and, in any case in accordance with the procedures applicable to the relevant entity.

Furthermore, the agreement between the Company and Qatar Airways dated 31 July 2020, pursuant to which Qatar Airways agreed to vote in favour of the resolutions which were put to the 2020 Shareholders' Meeting and to take up in full its right to subscribe for New Shares pursuant to the Capital Increase (the "**Qatar Airways Irrevocable**") may be terminated by Qatar Airways if the Underwriting Agreement is terminated in accordance with its terms. If this were to occur (or if Qatar Airways were to not take up in full its right to subscribe for New Shares pursuant to the Capital Increase under the Qatar Airways Irrevocable), the Company could nevertheless decide to continue with the Capital Increase which could therefore be incomplete, which could have an adverse impact on the value of the Shares, the New Shares and the Subscription Rights. In addition, this will be considered a significant factor which requires the publication of a supplementary prospectus, which gives rise to a termination right for the Underwriters under the Underwriting Agreement.

3.2. Shareholders will not be entitled to receive any premium and there is no entitlement to fractional shares as part of the Capital Increase

The Company is incorporated under the laws of Spain and the Capital Increase is therefore being undertaken in accordance with Spanish law and in line with Spanish market practice. Spanish market practice may differ to market practice in other jurisdictions, including the United Kingdom. Consequently, in the event that any Discretionary Allocation Shares are subscribed for during the Discretionary Allocation Period, any premium over the Subscription Price received by the Company from such subscribers will not be distributed to Shareholders. In the United Kingdom, such premium would ordinarily be distributed to shareholders as required by rule 9.5.4 of the UK Listing Rules. In

Spain, however, there is no mechanism to do so and such shareholders are not legally entitled to such premium. Under Spanish law, in accordance with which the Capital Increase is being carried out, shareholders receive no compensation for subscription rights which have expired, such expiration occurring if shareholders do not either subscribe for new shares or sell their subscription rights. Furthermore, there will be no entitlement to fractional shares as part of the Capital Increase as would ordinarily be the case in the United Kingdom as required by rule 9.5.13 of the UK Listing Rules as a result of rights entitlements being tied to existing shares, rather than new shares, in line with Spanish market practice.

3.3. Shareholders who do not acquire New Shares in the Capital Increase will experience dilution in their ownership of the Company

Pursuant to Article 304 of the Spanish Companies Act, Eligible Shareholders may exercise, during the Pre-emptive Subscription Period, their right to subscribe a number of New Shares in proportion to the nominal value of the Shares they hold. Eligible Shareholders who do not exercise their Subscription Rights during the Pre-emptive Subscription Period described herein in the percentage to which their Subscription Rights entitle them will have their equity interest diluted by approximately 59.9% with respect to their interest in the Company's share capital on the Record Date assuming all of the New Shares are subscribed for in full by other Eligible Shareholders. Even where an Eligible Shareholder sells unexercised Subscription Rights prior to the expiration of the Pre-emptive Subscription Period, the consideration received by such Eligible Shareholder may not be sufficient to fully compensate such Eligible Shareholder for the dilution of their percentage ownership of the Shares that may result from the Capital Increase. Furthermore, after the Pre-emptive Subscription Period ends, Subscription Rights that have not been exercised will expire and holders that have not exercised those Subscription Rights will not receive compensation for any expired Subscription Rights.

3.4. Eligible Shareholders and Investors who exercise their Subscription Rights or request Additional Shares during the Pre-emptive Subscription Period will not be able to cancel their requests unless a supplementary prospectus is published

Holders of Subscription Rights who exercise their Subscription Rights during the Pre-emptive Subscription Period described herein or request Additional Shares to be allocated during the Allocation Period for Additional Shares described herein, will not be able to revoke the subscriptions made during that period, except where a supplementary prospectus is published, in which case holders that have exercised their Subscription Rights to subscribe for New Shares or requested for Additional Shares to be allocated during the Allocation Period for Additional Shares will have the right, exercisable within two working days after publication of such supplementary prospectus, to withdraw their subscriptions or requests, as applicable, provided that the significant new factor, material mistake or material inaccuracy to which the supplementary prospectus refers arises or is noted before the Closing Time (i.e. the time of registration of the public deed relating to the Capital Increase in the Commercial Registry, which is expected to take place on 5 October 2020).

Requests for subscription of Discretionary Allocation Shares in the Discretionary Allocation Period are deemed to be firm, irrevocable and unconditional, except where a supplementary prospectus has been issued, in which case Investors that have made such requests will have the right, exercisable within two business days after publication of such supplementary prospectus, to withdraw subscription requests made before the publication of such supplementary prospectus. In the event the Underwriting Agreement is terminated in accordance with its terms, the requests for subscription of Discretionary Allocation Shares in the Discretionary Allocation Period will be without effect.

3.5. The market price of the New Shares and/or the Subscription Rights could be subject to significant fluctuations due to a change in sentiment in the market regarding these securities, particularly in

light of the COVID-19 pandemic which has caused volatility in the Company's share price since the start of 2020, and/or may decline in the future

The market price of the New Shares and/or the Subscription Rights could be subject to significant fluctuations due to a change in sentiment in the market regarding these securities, particularly in light of the COVID-19 pandemic which has caused volatility in the Company's share price since the start of 2020 that, given the uncertainty regarding the duration and magnitude of the pandemic, may persist in the future. In the first half of 2020, the Company's share price fell by more than 60%, with daily share price movements of more than 10% on a number of days in this period. These fluctuations could result from national and global economic and financial conditions, market perceptions of the Group and its industry and various facts and events, including regulatory changes affecting the Group's operations, market appraisal of the Group's strategy and response to the COVID-19 pandemic, variations in the Group's operating results and/or business developments of the Group and/or its competitors. Furthermore, the Group's operating results and prospects from time to time may be below the expectations of market analysts and Investors. Any of these events, including a more prolonged downturn in demand for air travel as a result of the COVID-19 pandemic, could result in a decline in the market price of the New Shares and/or the Subscription Rights.

3.6. The price of the Shares may decline as a result of the Capital Increase and Shareholders may not be able to sell New Shares at a favourable price after the Capital Increase

The Capital Increase will be in respect of 2,979,443,376 New Shares at a Subscription Price of €0.92 per New Share, which represents a 35.9% discount to the theoretical ex-rights price ("**Theoretical Ex-Right Price**" or "**TERP**") based on the closing price of the Shares on 9 September 2020. As a result, the Capital Increase may result in a decline of the trading price of the Shares. Further, given that the trading price of the Subscription Rights depends on the price of the Shares, a significant decline in the public market trading price of the Shares would negatively affect the trading price of the Subscription Rights. In addition, there can be no assurance that the public market trading price of the Shares will not decline below the Subscription Price following such holders' exercise of their Subscription Rights. Should this occur, such holders will have committed to buy the New Shares at a price above the prevailing market price of the Company's Shares, and such holders will suffer an immediate unrealised loss as a result. In addition, there can be no assurance that, following the exercise of such Subscription Rights, holders of Subscription Rights will be able to sell their New Shares at a price equal to or greater than the Subscription Price.

Shareholders who decide not to exercise their Subscription Rights may also sell or transfer them in full or in part. If the public trading market price of the New Shares declines below the Subscription Price, Investors who have acquired any such Subscription Rights in the secondary market will suffer a loss as a result, which may be significant.

Although the Group has no current plans for a subsequent offering of Shares, it is possible that it may decide to undertake such an offering in the future. An additional offering could have an adverse effect on the market price of the outstanding New Shares.

3.7. The Company's ability to pay dividends is currently restricted and in the future is not guaranteed

As announced by the Company on 2 April 2020, in view of the impact of the COVID-19 pandemic, the Board of Directors has resolved to withdraw the proposal to the next Shareholders' Meeting to pay a final dividend of €0.17 per share and, instead, to propose the allocation of all the profit for fiscal year 2019 (except the amount already paid as interim dividend) to the voluntary reserve. Given the considerable uncertainty regarding the duration, extent and ultimate impact of the COVID-19 pandemic, it is not possible to predict when the Company will once again be able to pay a dividend to Shareholders.

Future dividends will also be subject to the financial condition of the Group. Under Spanish company law, a company can only pay cash dividends to the extent that it has distributable reserves and cash available for this purpose. As a holding company, the Company's ability to pay dividends in the future is affected by a number of factors, principally its ability to receive sufficient dividends from its subsidiaries. These requirements could limit the payment of dividends and distributions to the Company by its subsidiaries, which could in the future restrict the Company's ability to pay a dividend to Shareholders.

3.8. Overseas Shareholders may not be able to acquire New Shares in the Capital Increase

Securities laws of certain jurisdictions may restrict the Company's ability to allow participation by certain Shareholders in the Capital Increase. In particular, and subject to certain exceptions, Shareholders who are located in the Excluded Territories, which amount to approximately 8% of the Company's total share capital as at the Latest Practicable Date, may not be permitted to exercise their entitlements under the Capital Increase unless an exemption from the registration requirements is available under local securities laws. Securities laws of certain other jurisdictions may restrict the Company's ability to allow participation by Shareholders in such jurisdictions in any future issue of shares carried out by the Company.

Eligible Shareholders who have a registered address in or who are incorporated, registered, resident or located in countries other than Spain or the United Kingdom should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their Subscription Rights or acquire New Shares. Any Shareholder who is not entitled to participate in the Capital Increase carried out by the Company will suffer dilution. See "*3.5– Shareholders who do not acquire New Shares in the Capital Increase will experience dilution in their ownership of the Company*" above.

PART II
EXPECTED TIMETABLE OF PRINCIPAL EVENTS

1. Expected timetable of the Capital Increase in Spain

Each of the times and dates in the table below is indicative only and may be subject to change. Please read the notes to the timetable set out below.

Resolutions approving the Capital Increase	8 September 2020
Signing of the Underwriting Agreement	9 September 2020
Approval and registration of the Prospectus with the CNMV and passporting of the prospectus to the FCA	10 September 2020
Other Relevant Information Notice announcing the registration of the Prospectus with the CNMV and the date of the commencement and end of the Subscription Period	10 September 2020
Publication of the notice of the Capital Increase in the BORME and last trading date of shares "with rights" ("**Last Trading Date**")	11 September 2020
Commencement of the Subscription Period (1st round) (the "**Pre-emptive Subscription Period**")	12 September 2020
Initial trading date of the Company's existing shares "ex-rights" and first date of trading of the Subscription Rights	14 September 2020
Record Date (the date on which those persons or entities registered in Iberclear as shareholders become entitled to receive Subscription Rights)	15 September 2020
Allocation date of the Subscription Rights by Iberclear to Eligible Shareholders	16 September 2020
End of trading of Subscription Rights	25 September 2020
End of the Pre-emptive Subscription Period and of the period to request Additional Shares	26 September 2020
If applicable, Allocation Period for Additional Shares (2nd round)	1 October 2020
Inside Information Notice announcing the New Shares subscribed during the Pre-emptive Subscription Period, and, if applicable, during the Allocation Period for Additional Shares	1 October 2020
Opening, if applicable, of the Discretionary Allocation Period (3rd round)	1 October 2020

If applicable, deadline for the Discretionary Allocation Period. Should the Discretionary Allocation Period be opened, Inside Information Notice notifying the number of Discretionary Allocation Shares subscribed during the Discretionary Allocation Period	2 October 2020
Payment by Iberclear Participant Entities to Banco Santander (in its capacity as Agent) of the New Shares subscribed for during the Pre-emptive Subscription Period and, if applicable, during the Allocation Period for Additional Shares.	2 October 2020
If applicable, payment by the Pre-Funding Bank, in the name and on behalf of the Underwriters (acting in turn in the name and on behalf of the final investors), for the New Shares placed during the Discretionary Allocation Period ("pre-funding") or whose subscription corresponds to the Underwriters, in performance of their respective underwriting obligations	2 October 2020
Resolution to execute Capital Increase deed	2 October 2020
Notarisation of the Capital Increase deed ("**Execution Date**")	2 October 2020
Registration of the notarised Capital Increase deed with the Mercantile Registry	5 October 2020
Other Relevant Information Notice announcing the execution of the Capital Increase resolution, notarisation and registration of the public deed with the Mercantile Registry and estimated date for admission to trading of the New Shares	5 October 2020
Registration of the New Shares with Iberclear	6 October 2020
Other Relevant Information Notice announcing the admission to trading of the New Shares	6 October 2020
Execution, if applicable, of the special stock exchange transaction for the transfer of the Discretionary Allocation Shares by the Underwriters to the final investors (the "**Special Stock Exchange Transaction**")	6 October 2020
Admission to trading of the New Shares by the CNMV and the Spanish Stock Exchanges	6 October 2020
Commencement of trading of the New Shares	7 October 2020
Settlement, if applicable, of the Special Stock Exchange Transaction	8 October 2020

Notes:

1. The ability to participate in the Capital Increase and the crediting of stock accounts is subject to certain restrictions relating to Overseas Shareholders, details of which are set out in Part VII (*Terms and Conditions of the Capital Increase*) of this Prospectus.

2. These times and dates and those mentioned throughout this Prospectus are indicative only and may be adjusted by the Company in consultation with the Joint Global Coordinators and Joint Bookrunners, in which event details of the new times and dates will be notified to the CNMV, the FCA, the London Stock Exchange, the Spanish Stock Exchanges and, where appropriate, Eligible Shareholders.

3. References to times in this timetable are to Madrid time (CEST).

2. Expected timetable of the Capital Increase in the United Kingdom

Each of the times and dates in the table below is indicative only and may be subject to change. Please read the notes to the timetable set out below.

Resolutions approving the Capital Increase	8 September 2020
Signing of the Underwriting Agreement	9 September 2020
Announcement of the Capital Increase and publication of the Prospectus	10 September 2020
Publication of the notice of the Capital Increase in the Official Bulletin of the Commercial Registry in Spain and last trading date of shares "with rights" on the London Stock Exchange	11 September 2020
Commencement of the Pre-emptive Subscription Period	12 September 2020
Existing Shares marked "ex-rights" by the London Stock Exchange and Spanish Stock Exchanges	14 September 2020
Admission of, and commencement of dealings in, Subscription Rights in the form of CDI Rights on the London Stock Exchange	14 September 2020
Record Date for entitlements under the Capital Increase	15 September 2020
CDI Rights enabled in CREST	17 September 2020
CDI Rights credited to CREST accounts	17 September 2020
Deadline for CREST instructions in respect of the Capital Increase to be submitted*	14:30 (BST) on 25 September 2020
End of trading of CDI Rights	14:30 (BST) on 25 September 2020
If applicable, Allocation Period for Additional Shares (2nd round)	1 October 2020
Announcement of the New Shares subscribed for during the Pre-emptive Subscription Period, and if applicable, during the Allocation Period for Additional Shares, and, if applicable, opening of the Discretionary Allocation Period	1 October 2020
If applicable, deadline for the Discretionary Allocation Period. Should the Discretionary Allocation Period be opened, Inside Information Notice notifying the number of Discretionary Allocation Shares subscribed during the Discretionary Allocation Period	2 October 2020
Notarisation of the Capital Increase deed	2 October 2020

Registration of the notarised Capital Increase deed with the Mercantile Registry	5 October 2020
Announcement of registration of the public deed with the Commercial Registry and estimated date for admission to trading of the New Shares	5 October 2020
Admission to listing and trading in the New CDIs on the London Stock Exchange	7 October 2020
New CDIs credited to CREST accounts	7 October 2020

Notes:

1. The ability to participate in the Capital Increase and the crediting of stock accounts in CREST is subject to certain restrictions relating to Overseas Shareholders, details of which are set out in Part VII (*Terms and Conditions of the Capital Increase*) of this Prospectus.

2. These times and dates and those mentioned throughout this document are indicative only and may be adjusted by the Company in consultation with the Joint Global Coordinators and Joint Bookrunners, in which event details of the new times and dates will be notified to the CNMV, the London Stock Exchange, the Spanish Stock Exchanges and, where appropriate, Eligible Shareholders.

3. References to times in this timetable are to London time (BST).

4. *With regard to the final CREST deadline please refer to the CREST Graphical User Interface.

PART III
IMPORTANT NOTICES

1. GENERAL

The contents of this Prospectus are not to be construed as legal, business or tax advice. Each prospective investor should consult his or its own legal, financial or tax adviser for legal, financial or tax advice. In making an investment decision, each investor must carry out their own examination, analysis and enquiry of the Company and the terms of the Capital Increase, including the merits and risks involved. The Company has not authorised any other person to provide investors with any information that is not contained in this Prospectus. If anyone provides any investor with different or inconsistent information, such investor should not rely on it. Neither the delivery of this Prospectus nor any sale made hereunder shall imply that there has been no change in the Company's affairs, and investors should assume that the information appearing in this Prospectus is accurate only as of its date. The Company's business, results of operations, financial condition, cash flows, prospects and the information set forth in this Prospectus may have changed since the date of this Prospectus.

The investors also acknowledge that: (i) they have not relied on the Joint Global Coordinators and Joint Bookrunners (as defined below) or any person affiliated with the Joint Global Coordinators and Joint Bookrunners in connection with any investigation of the accuracy of any information contained in this Prospectus or their investment decision; (ii) they have relied only on the information contained in this Prospectus and (iii) no person has been authorised to give any information or to make any representation concerning the Company or its subsidiaries or the New Shares, the Subscription Rights or the Capital Increase (other than as contained in this Prospectus) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company or the Joint Global Coordinators and Joint Bookrunners.

Having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, as of the date of this Prospectus and to the best of the knowledge of the Directors and the Company, in accordance with the facts and contains no material omission likely to affect its import. Every significant new factor, material mistake or inaccuracy relating to the information included in this Prospectus which is capable of affecting the assessment of the securities and which arises or is noted between the time when this Prospectus is registered with the CNMV and the time when trading of the New Shares begins on the Spanish Stock Exchanges and the other stock exchanges on which the Company's Existing Shares are currently traded, namely the London Stock Exchange, through CDIs, shall be disclosed in a supplementary prospectus to be registered and published in the same manner as this Prospectus, but no obligation is assumed to publish additional information other than as required by the general rules for issuance of a supplementary prospectus, the publication of Inside Information Notices and the publication of Other Relevant Information Notices.

Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to the Prospectus Regulation, neither the publication of this Prospectus nor any distribution of New Shares shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Group taken as a whole since the date of this Prospectus or that the information contained herein is correct as of any time subsequent to its date.

No person has been authorised to give any information or make any representations other than those contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been so authorised by the Company, the Group, the Joint Global Coordinators and Joint Bookrunners or any other person involved in the preparation of this Prospectus. Any decision to invest in the New Shares should be based on a consideration of this Prospectus as a whole by the investor. No representation or warranty, express or implied, is made by the Company, the Group, the Joint Global Coordinators and Joint Bookrunners or any other person involved in the preparation of this Prospectus as to the accuracy or completeness of such information or representation. Nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by the Company, the Group, the Joint Global Coordinators and Joint Bookrunners or any other person involved in the preparation of this Prospectus as to the past, present or future.

2. JOINT SPONSORS, JOINT GLOBAL COORDINATORS AND JOINT BOOKRUNNERS

Each of Goldman Sachs International ("**Goldman Sachs**") and Morgan Stanley & Co. International plc ("**Morgan Stanley**") will act as joint sponsors under the UK Listing Rules as to Admission of Subscription Rights and Admission on the London Stock Exchange (the "**Joint Sponsors**"), and together with Deutsche Bank Aktiengesellschaft ("**Deutsche Bank**"), as joint global coordinators (the "**Joint Global Coordinators**"), and together with Banco Bilbao Vizcaya Argentaria S.A., Banco Santander S.A., Barclays Bank PLC, BofA Securities Europe SA, Citigroup Global Markets Limited and Credit Suisse Securities (Europe) Limited, as book runners (the "**Joint Bookrunners**") of the Capital Increase. Goldman Sachs and Morgan Stanley, Credit Suisse Securities (Europe) Limited, Citigroup Global Markets Limited and Barclays Bank PLC are authorised in the United Kingdom by the Prudential Regulation Authority ("**PRA**") and regulated in the United Kingdom by the FCA and the PRA. Deutsche Bank is authorised under German Banking Law (competent authorities: European Central Bank and German Federal Financial Supervisory Authority ("**BaFin**")). It is subject to supervision by the European Central Bank and the BaFin, and to limited supervision in the United Kingdom by the FCA and the PRA. BofA Securities Europe SA is governed by articles L. 531-1 and following of the monetary and financial code. BofA Securities Europe SA is authorised as an investment firm by the *Autorité de Contrôle Prudentiel et de Résolution* ("**ACPR**"), is regulated by the ACPR and the *Autorité des Marchés Financiers*, and is not a credit institution. Banco Bilbao Vizcaya Argentaria S.A. and Banco Santander S.A. are authorised by the Bank of Spain and are enrolled in the Administrative Register of the Bank of Spain with numbers 0182 and 0049, respectively. They are subject to supervision by the European Central Bank and by the Bank of Spain, and subject to limited regulation in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority. The Joint Global Coordinators and Joint Bookrunners are acting exclusively for IAG and are acting for no one else in connection with the Capital Increase and will not regard any other person as a client in relation to the Capital Increase and will not be responsible to anyone other than IAG for providing the protections afforded to their respective clients, nor for providing advice in connection with the Capital Increase or any other matter, transaction or arrangement referred to in this Prospectus.

The Joint Global Coordinators and Joint Bookrunners have given and not withdrawn their consent to the issue of this Prospectus with the inclusion of the references to their respective names in the form and context in which they are included.

Apart from the responsibilities and liabilities, if any, which may be imposed on the Joint Global Coordinators and Joint Bookrunners by the Capital Markets Act, FSMA or the regulatory regimes established thereunder, or under the regulatory regime of any other jurisdiction where exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of the Joint Global Coordinators and Joint Bookrunners, nor any of their respective affiliates, directors, officers, employees or advisers, accepts any responsibility or liability whatsoever for, or makes any representation or warranty, express or implied, as to contents of this Prospectus, including its accuracy, completeness or verification, or regarding the legality of any investment in the New Shares or the Subscription Rights by any person under the laws applicable to such person, or for any other statement made or purported to be made by the Company or on the Company's behalf, or by Goldman Sachs International, Morgan Stanley, Deutsche Bank, Banco Bilbao Vizcaya Argentaria S.A., Banco Santander S.A., Barclays Bank PLC, BofA Securities Europe SA, Citigroup Global Markets Limited and/or Credit Suisse Securities (Europe) Limited, or on behalf of Goldman Sachs International, Morgan Stanley, Deutsche Bank, Banco Bilbao Vizcaya Argentaria S.A., Banco Santander S.A., Barclays Bank PLC, BofA Securities Europe SA, Citigroup Global Markets Limited and/or Credit Suisse Securities (Europe) Limited in connection with IAG, the New Shares, the Subscription Rights or the Capital Increase, and nothing in this Prospectus is, or shall be relied upon as, a promise or representation in this respect, whether as to the past, present or future. To the fullest extent permitted by law, the Joint Global Coordinators and Joint Bookrunners and their respective affiliates, directors, officers, employees and advisers accordingly disclaim all and any duty, liability or responsibility whatsoever (whether direct or indirect and whether arising in contract, in tort, under statute or otherwise) which they might otherwise have in respect of this Prospectus or any such statement.

In the ordinary course of their various business activities, the Joint Bookrunners and their respective affiliates may hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) in the Company, the Group and their respective affiliates for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. In addition, certain of the Joint Bookrunners or their affiliates are, or may in the future be, lenders, and in some cases agents or managers for the lenders, under certain of the Group's credit facilities and other credit arrangements, or its respective affiliates. In their capacity as lenders, such lenders may, in the future, seek a reduction of a loan commitment to the Company or its respective affiliates, or impose incremental pricing or collateral requirements with respect to such facilities or credit arrangements, in the ordinary course of business. In addition, certain of the Banks or their affiliates that have a lending relationship with the Company may routinely hedge their credit exposure to the Company consistent with their customary risk management policies; a typical hedging strategy.

In connection with the Capital Increase, each of the Joint Global Coordinators and Joint Bookrunners and any of their respective affiliates may, in accordance with applicable legal and regulatory provisions, take up a portion of the New Shares and the Subscription Rights as a principal position and in that capacity may retain, purchase, sell, offer to sell or otherwise deal for their own account in the securities of the Company and related or other securities and instruments (including New Shares and Subscription Rights) and may offer or sell such securities other than in connection with the Capital Increase. Accordingly, references in this Prospectus to New Shares and Subscription Rights being offered should be read as including any offering of New Shares or Subscription Rights to any of the Joint Global Coordinators and Joint Bookrunners or any of their respective affiliates acting in such capacity. In addition, certain of the Joint Global Coordinators and Joint Bookrunners or their affiliates may enter into financing arrangements (including swaps, warrants or margin loans) with investors in connection with which such Joint Global Coordinators and Joint Bookrunners (or their affiliates) may from time to time acquire, hold or dispose of New Shares or Subscription Rights. Except as required by applicable law or regulation, the Joint Global Coordinators and Joint Bookrunners do not propose to make any public disclosure in relation to such transactions.

3. INDEPENDENT FINANCIAL ADVISER

N. M. Rothschild & Sons Limited ("**Rothschild & Co**"), which is authorised and regulated by the FCA in the United Kingdom is acting as independent financial adviser to IAG in connection with the Capital Increase. Rothschild & Co is acting exclusively for IAG and no one else in connection with the Capital Increase and will not regard any other person as a client in relation to the Capital Increase and will not be responsible to anyone other than IAG for providing the protections afforded to clients of Rothschild & Co, nor for providing advice in connection with the Capital Increase or any other matter, transaction or arrangement referred to in this Prospectus.

Apart from the responsibilities and liabilities, if any, which may be imposed on Rothschild & Co by the Capital Markets Act, FSMA or the regulatory regimes established thereunder, or under the regulatory regime of any other jurisdiction where exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of Rothschild & Co, nor any of its affiliates, directors, officers or employees, accepts any responsibility or liability whatsoever for, or makes any representation or warranty, express or implied, as to contents of this Prospectus, including its accuracy, completeness or verification, or regarding the legality of any investment in the New Shares or the Subscription Rights by any person under the laws applicable to such person, or for any other statement made or purported to be made by the Company or on the Company's behalf, or by Rothschild & Co or on behalf of Rothschild & Co in connection with the Company, the New Shares, the Subscription Rights or the Capital Increase, and nothing in this Prospectus is, or shall be relied upon as, a promise or representation in this respect, whether as to the past, present or future. To the fullest extent permitted by law, Rothschild & Co and its respective affiliates, directors, officers and employees accordingly disclaim all and any duty, liability or responsibility whatsoever (whether direct or indirect and whether arising in contract, in tort, under statute or otherwise) which they might otherwise have in respect of this Prospectus or any such statement.

4. NOTICE TO OVERSEAS SHAREHOLDERS

This Prospectus does not constitute an offer of, or a solicitation to subscribe for or purchase, any securities in any jurisdiction in which such offer or solicitation is unlawful or to any person to whom it is unlawful to make such offer or solicitation. The New Shares and the Subscription Rights have not been and will not be registered or qualified for distribution to the public under the relevant laws of any state, province or territory of the United States or any other jurisdiction including, but not limited to, Australia, Canada, Hong Kong, Japan, New Zealand, Singapore, South Africa, Switzerland and the United Arab Emirates, where the extension or availability of the Capital Increase (and any other transaction contemplated thereby) would breach any applicable law or regulation (the "**Excluded Territories**"), and may not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, in or into the United States or any other Excluded Territory or in any other jurisdictions where the extension and availability of the Capital Increase would breach any applicable law, except pursuant to an applicable exemption.

The New Shares and the Subscription Rights have not been and will not be registered under the US Securities Act of 1933, as amended (the "**US Securities Act**"), or under the securities laws of any state or other jurisdiction of the United States and may not be offered, sold, pledged, taken up, resold, transferred or delivered, directly or indirectly, in or into the United States except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States or other jurisdiction. The New Shares and the Subscription Rights offered outside the United States are being offered in reliance on Regulation S under the US Securities Act. There will be no public offer of the New Shares or the Subscription Rights in the United States. Holders of American Depository Receipts ("**ADRs**") will not be permitted to exercise their Subscription Rights or subscribe for New Shares. Any entitlement under the Capital Increase in respect of the Existing Shares represented by ADRs will be governed by the terms of the Deposit Agreement and, as such, it is expected that they will, to the extent practicable, be sold by the Depositary, being Deutsche Bank Trust Company Americas, and the proceeds, if any, of that sale would be distributed to holders of ADRs. Distribution of such proceeds would be net of any distribution fees payable to the Depositary and other charges or expenses incurred by the Depositary, taxes and any other governmental charge.

IAG, Goldman Sachs International, Morgan Stanley, Deutsche Bank, Banco Bilbao Vizcaya Argentaria S.A., Banco Santander S.A., Barclays Bank PLC, BofA Securities Europe SA, Citigroup Global Markets Limited and Credit Suisse Securities (Europe) Limited do not make any representation to any offeree, subscriber or acquirer of the New Shares or the Subscription Rights regarding the legality of an investment in the New Shares or the Subscription Rights by such offeree, subscriber or acquirer under the laws applicable to such offeree, subscriber or acquirer. Each investor should consult with their own advisers as to the legal, tax, business, financial and related aspects of an investment in the New Shares or the Subscription Rights.

The New Shares, the Subscription Rights and this Prospectus have not been recommended, approved or disapproved by the United States Securities and Exchange Commission (the "SEC"), any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the New Shares or the Subscription Rights, or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

EXCEPT AS OTHERWISE PROVIDED FOR HEREIN, THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF NEW SHARES OR SUBSCRIPTION RIGHTS TO ANY PERSON WITH A REGISTERED ADDRESS, OR WHO IS LOCATED OR RESIDENT, IN THE UNITED STATES OR ANY OF THE OTHER EXCLUDED TERRITORIES.

The Underwriters may arrange for any New Shares not taken up in the Capital Increase to be offered and sold only (i) outside the United States in "offshore transactions" as defined in and in reliance on Regulation S under the US Securities Act ("**Regulation S**") or (ii) inside the United States to persons reasonably believed to be "qualified institutional buyers" ("**QIBs**") as defined in Rule 144A under the US Securities Act ("**Rule 144A**") in reliance on an exemption from the registration requirements of the US Securities Act. Any such persons are notified that such offers may be made in reliance on an exemption from the registration requirements of the US Securities Act, including that provided by Rule 144A.

A QIB will be permitted to take up its entitlements to New Shares under the Capital Increase only if the QIB executes a QIB Investor Letter in the form provided by IAG and delivers it to IAG with a copy to the Joint Global Coordinators and Joint Bookrunners. The QIB Investor Letter will require each such QIB to represent and agree that, among other things, (i) it is a QIB and (ii) it will only offer, sell, transfer, assign, pledge or otherwise dispose of the New Shares in transactions exempt from the registration requirements of the US Securities Act and in compliance with applicable securities laws. The QIB Investor Letter contains additional written representations, agreements and acknowledgements relating to the transfer restrictions applicable to the New Shares.

In addition, until 40 days after Admission, an offer, sale or transfer of the New Shares and the Subscription Rights within the United States by a dealer (whether or not participating in the Capital Increase) may violate the registration requirements of Section 5 of the US Securities Act.

All Overseas Shareholders and any person (including, without limitation, a nominee or trustee) who has a contractual or legal obligation to forward this Prospectus or any other document to a jurisdiction outside the United Kingdom should read section 6 (*Overseas Shareholders*) of Part VII (*Terms and Conditions of the Capital Increase*) of this Prospectus. Prospective investors must comply with all applicable laws and regulations in force in any applicable jurisdiction, and must obtain any consent, approval or permission required for the purchase, offer or sale of the Subscription Rights and/or New Shares under the laws and regulations in force in the jurisdiction to which such prospective investor is subject or in which such prospective investor makes such purchase, offer or sale, and none of the Company, the Joint Global Coordinators and Joint Bookrunners or their respective employees, agents or representatives will have any responsibility therefor.

No representation has been, or will be, made by the Company or the Joint Global Coordinators and Joint Bookrunners as to the availability of Rule 144 under the US Securities Act or any other exemption under the US Securities Act or any applicable securities laws of any state or other jurisdiction of the United States for the reoffer, pledge or transfer of the New Shares.

Any person in the United States who obtains a copy of this Prospectus and who is not a QIB or acting on behalf of a QIB will be unable to purchase or acquire New Shares and/or Subscription Rights and is required to disregard this Prospectus.

5. DISTRIBUTION OF PROSPECTUS

Any reproduction or distribution of this Prospectus, in whole or in part, and any disclosure of its contents or use of any information contained in this Prospectus for any purpose other than considering an investment in the New Shares or the Subscription Rights is prohibited. By accepting delivery of this Prospectus, each offeree of the New Shares and the Subscription Rights agrees to the foregoing. The distribution of this Prospectus and/or the transfer of the New Shares or the Subscription Rights into jurisdictions other than Spain and the United Kingdom may be restricted by law. Persons into whose possession these documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws or regulations of any such jurisdiction. In particular, subject to certain exceptions, such documents should not be distributed, forwarded to or transmitted in or into the United States or any of the other Excluded Territories. The New Shares and the Subscription Rights are not transferable, except in accordance with, and the distribution of this Prospectus is subject to, the restrictions set out in section 6 (*Overseas Shareholders*) of Part VII (*Terms and Conditions of the Capital Increase*). No action has been taken by the Company or by the Joint Global Coordinators and Joint Bookrunners that would permit an offer of the New Shares or rights thereto or possession or distribution of this Prospectus or any other offering or publicity material or the Subscription Rights in any jurisdiction where action for that purpose is required, other than in Spain or the United Kingdom.

6. NOTICE TO DISTRIBUTORS

Solely for the purposes of the product governance requirements contained within: (a) EU Directive 2014/65/EU on markets in financial instruments, as amended ("**MiFID II**"); (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II; and (c) local implementing measures (together, the "**MiFID II Product Governance Requirements**"), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any "manufacturer" (for the purposes of the MiFID II Product Governance Requirements) may otherwise have with respect thereto, the securities that are the subject of the Capital Increase have been subject to a product approval process, which has determined that such securities are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II; and (ii) eligible for distribution through all distribution channels as are permitted by MiFID II (the "**Target Market Assessment**"). Notwithstanding the Target Market Assessment, distributors should note that: the price of the securities may decline and investors could lose all or part of their investment; the securities offer no guaranteed income and no capital protection; and an investment in the securities is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the Capital Increase. Furthermore, it is noted that, notwithstanding the Target Market Assessment, the Joint Global Coordinators and Joint Bookrunners will only procure investors who meet the criteria of professional clients and eligible counterparties.

For the avoidance of doubt, the Target Market Assessment does not constitute: (a) an assessment of suitability or appropriateness for the purposes of MiFID II; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the securities.

Each distributor is responsible for undertaking its own target market assessment in respect of the securities and determining appropriate distribution channels.

7. NO INCORPORATION OF WEBSITES

The contents of the Company's website (www.iairgroup.com), any website of any Group company and the contents of any website accessible from hyperlinks on such websites (other than the information set out in section 21 (*Documents incorporated by reference*) of Part XI (*Additional Information*)) do not form part of this Prospectus, have not been examined or approved by the CNMV, and should not be relied upon by anyone.

8. FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus relate to the future, including forward-looking statements relating to the Group's business, risks, opportunities, financial position and strategy. These statements, including the explanatory wording in this Prospectus in relation to the Company's working capital and those related to the future impact of the COVID-19 pandemic, relate to future events or the future performance of the Company but do not seek in any way to qualify the working capital statement given by the Company. In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms 'intend', 'aim', 'project', 'predict', 'anticipate', 'estimate', 'plan', 'believe', 'expect', 'may', 'seek', 'should', 'will', 'would', 'continue', 'forecast' or, in each case, their negative and other variations or other similar or comparable words and expressions. These statements discuss future expectations concerning the Group's results of operations or financial condition, or provide other forward-looking statements.

Forward-looking statements are not guarantees or predictions of future performance, and are subject to known and unknown risks, uncertainties and other factors, including the risk factors set out in the section entitled 'Risk Factors', many of which are beyond the Group's control, and which may cause the Group's actual results of operations, financial condition and the development of the business sectors in which the Group operates to differ materially from those suggested by the forward-looking statements contained in this Prospectus. In addition, even if the Group's actual results of operations, financial condition and the development of the business sectors in which it operates are consistent with the forward-looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods. Recipients of this Prospectus are cautioned not to put undue reliance on forward-looking statements.

Other than as required by English or Spanish law, none of the Company, its officers, advisers or any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Prospectus will actually occur, in part or in whole.

Additionally, statements of the intentions of the Board and/or Directors reflect the present intentions of the Board and/or Directors, respectively, as at the date of this Prospectus and may be subject to change as the composition of the Board alters, or as circumstances require.

The forward-looking statements speak only as at the date of this Prospectus. To the extent required by applicable law or regulation (including as may be required by the Prospectus Regulation, UK Listing Rules, MAR, Disclosure Guidance and Transparency Rules and FSMA), the Company will update or revise the information in this Prospectus. Otherwise, the Company as well as the Joint Global Coordinators and Joint Bookrunners expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this Prospectus to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

9. NO FORECASTS OR ESTIMATES

The Company has not published any profit forecasts or estimates that are still outstanding and valid. Furthermore, this Prospectus does not include profit forecasts or profit estimates or future results as defined in section Article 1 of the Delegated Regulation 2019/980. No statement contained herein should be interpreted to mean that earnings per share after Admission will necessarily be greater or less than the historical earnings or earnings per share of the Company.

Nothing in this Prospectus is intended as a profit forecast or estimate for any period and no statement in this Prospectus should be interpreted to mean that earnings or earnings per share or dividend per share for the Company for the current or future financial years would necessarily match or exceed the historical published earnings or earnings per share or dividend per share for the Company.

10. PRESENTATION OF FINANCIAL INFORMATION

Unless otherwise indicated, the historical and other financial information presented in this Prospectus has been derived from the audited financial statements of the Company for the financial year ended 31 December 2019 (the "**2019 Annual Financial Statements**") and the audited financial statements of the Company for the financial year ended 31 December 2018 (the "**2018 Annual Financial Statements**"), the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2020 (the "**2020 Half-Year Financial Statements**") and the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2019 (the "**2019 Half-Year Financial Statements**"), each incorporated by reference as set out in section 21 (*Documents incorporated by reference*) of Part XI (*Additional information*).

The 2019 Annual Financial Statements and the 2018 Annual Financial Statements are presented in euros and have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the European Union ("**IFRS-EU**"), in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and do not present differences with those issued by the International Accounting Standards Board. The 2020 Half-Year Financial Statements have been prepared in accordance with the requirements of the International Accounting Standards (IAS)

34. For further information on the basis of presentation of the Group's financial statements, see section 2.1 (*Basis of presentation*) of Part IX (*Operating and Financial Review*).

The financial information presented and incorporated by reference in this document was not prepared in accordance with US Generally Accepted Accounting Principles ("**US GAAP**") or audited in accordance with US Generally Accepted Auditing Standards ("**US GAAS**") or the standards of the Public Company Accounting Oversight Board ("**PCAOB Standards**"). No opinion or any other assurance with regard to any financial information was expressed under US GAAP, US GAAS or PCAOB Standards, and the financial information is not intended to comply with SEC reporting requirements. Compliance with such requirements would require the modification, reformulation or exclusion of certain financial measures contained in this document.

11. FUNCTIONAL AND PRESENTATION CURRENCY

Unless otherwise indicated, all references to the "Euro", "euro" or "€" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended. The Company prepares its financial statements in euro, although the functional currency of British Airways and IAG Loyalty is pounds sterling. All references in this document to "sterling", "pounds sterling", "GBP", "£" or "pence" are to the lawful currency of the United Kingdom. All references to "US dollars", "$" or "US$" are to the lawful currency of the United States. For more information, see note 2 of the Group audited consolidated financial statements for the year ended 31 December 2019.

Transactions in foreign currencies are initially recorded in the functional currency using the rate of exchange prevailing on the date of the transaction. Monetary foreign currency balances are translated into the functional currency at the rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at balance sheet exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except where hedge accounting is applied. Foreign exchange gains and losses arising on the retranslation of monetary assets and liabilities classified as non-current on the balance sheet are recognised within net currency retranslation (charges)/credits in the income statement. All other gains and losses arising on the retranslation of monetary assets and liabilities are recognised in operating profit.

The following table represents the main average and closing exchange rates used by the Group for the reporting periods.

	Average				Closing			
	Year ended 31 December		Six months ended 30 June		As at 31 December		As at 30 June	
Foreign exchange rate	**2019**	**2018**	**2020**	**2019**	**2019**	**2018**	**2020**	**2019**
Euro to pound sterling	1.13	1.13	1.15	1.14	1.18	1.11	1.11	1.18
US dollar to the euro	1.12	1.18	1.09	1.13	1.11	1.14	1.12	1.11
US dollar to pound sterling	1.27	1.33	1.26	1.29	1.31	1.26	1.24	1.31

12. ALTERNATIVE PERFORMANCE MEASURES

In addition to the financial information presented herein and prepared under IFRS-EU, the Company has included in this Prospectus a period-to-period comparison of certain non-IFRS financial measures which the Company regards as APMs as defined in the guidelines issued by the European Securities and Markets Authority on 5 October 2015 on alternative performance measures (the "**ESMA Guidelines**"). APMs used in this Prospectus have been marked with an asterisk.

For further information regarding these APMs, please see section 5 (*Alternative Performance Measures*) of Part IX (*Operating and Financial Review*).

13. ROUNDING

Certain numerical figures contained in this Prospectus, including financial information, market data and certain operating data, have been subject to rounding adjustments for ease of presentation. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables may not conform exactly to the total figure given for that column or row or the sum of certain numbers presented as a percentage may not conform exactly to the total percentage given.

14. ENFORCEMENT OF CIVIL LIABILITIES

The Company is a Spanish company and substantially all of its and the Group's assets are located in Spain, the United Kingdom, Ireland and other jurisdictions outside of the United States. In addition, the majority of its Directors and executive officers reside or are located outside the United States. As a result, investors may not be able to effect service of process outside these countries upon the Company or these persons or to enforce judgments obtained against the Company or these persons in foreign courts predicated solely upon the civil liability provisions of the United States.

Furthermore, there is doubt that a lawsuit based on US federal or state securities law, or the laws of any non-Spanish jurisdiction, could be brought in an original action in Spain and that a foreign judgment based upon such laws would be enforceable in Spain. There is also doubt as to the enforceability of judgments of this nature in several other jurisdictions in which the Company operates and where its assets are located.

15. MARKET AND INDUSTRY INFORMATION

Unless the source is otherwise stated, the market, economic and industry data in this Prospectus constitute the Company's estimates, using underlying data from independent third-parties. Market data and certain industry data and forecasts included in this Prospectus have been obtained from internal company surveys, market research, consultant surveys, publicly available information, reports of governmental agencies and industry publications and surveys.

The Company confirms that all third-party data contained in this Prospectus has been accurately reproduced and, so far as the Company is aware and able to ascertain from information published by that third-party, no facts have been omitted that would render the reproduced information inaccurate or misleading. Where third-party information has been used in this Prospectus, the source of such information has been identified. While industry surveys, publications, consultant surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, the accuracy and completeness of such information is not guaranteed. The Company has not independently verified any of the data from third-party sources, nor has the Company ascertained the underlying economic assumptions relied upon therein. Similarly, internal surveys, industry forecasts and market research, which the Company believes to be reliable based upon the Company's knowledge of the industry, have not been independently verified. Statements as to the Group's market position are based on recently available data.

Where the Company has compared its revenue to other airline groups in this Prospectus, such comparisons have been made using publicly available revenue information from other airline groups.

16. AVAILABLE INFORMATION

If, at any time, the Company is neither subject to Section 13 or Section 15(d) of the US Exchange Act of 1934, as amended (the "**US Exchange Act**") nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Company will furnish, upon request, to any holder or beneficial holder of Existing Shares, or any prospective purchaser designated by any such holder or beneficial owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the US Securities Act.

17. NO FRACTIONAL ENTITLEMENTS OR RETURN OF PREMIUM (IF ANY) TO SHAREHOLDERS

For the avoidance of doubt, in line with Spanish market practice: (A) in the event that any Discretionary Allocation Shares are subscribed for during the Discretionary Allocation Period, any premium received from such subscribers shall not be distributed to Shareholders under rule 9.5.4 of the UK Listing Rules; and (B) there shall be no entitlement to fractional shares as part of the Capital Increase under rule 9.5.13 of the UK Listing Rules.

PART IV
CAPITAL INCREASE STATISTICS

Shares in issue as at 9 September 2020 (the "**Latest Practicable Date**")	1,992,032,634 Existing Shares
Shares in issue as at the Latest Practicable Date (excluding treasury shares)	1,986,295,585 Existing Shares
Number of New Shares to be issued pursuant to the Capital Increase	2,979,443,376 New Shares
Basis of Capital Increase	3 New Shares for every 2 Existing Shares
Subscription Price (per New Share)	€0.92
Discount of the Subscription Price to the closing price of €2.21 per Existing Share on 9 September 2020	58.3%
Estimated gross proceeds of the Capital Increase	€2,741 million
Estimated net proceeds of the Capital Increase receivable by the Company, after deduction of commissions, fees and expenses	€2,672 million
New Shares as a percentage of IAG's enlarged issued share capital immediately following the Capital Increase (excluding treasury shares)	60.0%
Shares in issue immediately after the Capital Increase (excluding treasury shares)	4,965,738,961 Shares

PART V
DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Antonio Vázquez (*Chairman*) Luis Gallego (*Chief Executive Officer*) Alberto Terol (*Senior Independent Director*) Margaret Ewing *(Independent Non-Executive Director*) Javier Ferrán (*Independent Non-Executive Director*) Steve Gunning (*Chief Financial Officer*) Deborah Kerr (*Independent Non-Executive Director*) Maria Fernanda Mejia *(Independent Non-Executive Director*) Emilio Saracho *(Independent Non-Executive Director*) Nicola Shaw *(Independent Non-Executive Director*) Giles Agutter (*Non-Executive Proprietary Director*) Robin Phillips (*Non-Executive Proprietary Director*)
Non-Director Secretary	Álvaro López-Jorrín
Registered office	El Caserío Iberia Zona Industrial nº 2 (La Muñoza) Camino de La Muñoza s/n, 28042 Madrid Spain
Joint Sponsors (as to Admission of Subscription Rights and Admission on the London Stock Exchange), Joint Global Coordinators and Joint Bookrunners	**Goldman Sachs International** Plumtree Court 25 Shoe Lane London EC4A 4AU United Kingdom **Morgan Stanley & Co. International plc** 25 Cabot Square Canary Wharf London E14 4QA United Kingdom
Joint Global Coordinator and Joint Bookrunner	**Deutsche Bank Aktiengesellschaft** Taunusanlage 12 60325 Frankfurt am Main Germany
Joint Bookrunners	**Banco Bilbao Vizcaya Argentaria, S.A.** Calle Sauceda, 28 Edificio Oceanía, 2º Planta 28050 Madrid Spain **Banco Santander, S.A.** Edif. Marisma Planta1 28660 Boadilla del Monte, Madrid Spain **Barclays Bank PLC** 5 The North Colonnade Canary Wharf London E14 4BB United Kingdom **BofA Securities Europe SA**

	51 rue La Boétie 75008 Paris France
	Citigroup Global Markets Limited Citigroup Centre Canada Square London E14 5LB United Kingdom
	Credit Suisse Securities (Europe) Limited One Cabot Square London E14 4QJ United Kingdom
Independent Financial Adviser to the Company	**N M Rothschild & Sons Limited** New Court St. Swithin's Lane London EC4 8AL United Kingdom
Auditor	**Ernst & Young, S.L.** C/ Raimundo Fernández Villaverde, 65 28003, Madrid Spain
Legal advisers to the Company (as to English law)	**Slaughter and May** One Bunhill Row London EC1Y 8YY United Kingdom
Legal advisers to the Company (as to Spanish law)	**J&A Garrigues, S.L.P.** calle Hermosilla, 3 28001 Madrid Spain
Legal advisers to the Company (as to US law)	**Sullivan & Cromwell LLP** 1 New Fetter Lane Holborn London EC4A United Kingdom
Legal advisers to the Joint Global Coordinators and Joint Bookrunners (as to English, Spanish and US law)	**Linklaters LLP** One Silk Street London EC2Y 8HQ United Kingdom
Receiving agent for IAG Nominee Service	**Computershare Investor Services PLC** The Pavillions Bridgwater Road Bristol BS99 6ZZ United Kingdom
Agent	**Banco Santander, S.A.** Paseo de Pereda, 9-12 39004, Santander (Cantabria) Spain

PART VI
BACKGROUND TO AND REASONS FOR THE CAPITAL INCREASE

1. INTRODUCTION

Alongside the publication of its results for the six months ended 30 June 2020 on 31 July 2020, the Company announced its intention to raise up to €2.75 billion by way of a standby underwritten Capital Increase, subject to the approval of the Shareholders. Today the Company announces its intention to raise €2,741 million, for which approval to do so was given by Shareholders on 8 September 2020 at the General Meeting.

The purpose of this section is to (i) set out in further detail the background to, and reasons for, the Capital Increase and (ii) explain why the Board of Directors considers the Capital Increase to be in the best interests of the Shareholders.

2. BACKGROUND TO AND REASONS FOR THE CAPITAL INCREASE

2.1 The impact of the COVID-19 pandemic and the Group's response

(A) Impact of the COVID-19 pandemic on global aviation travel

In December 2019, an outbreak of a new strain of a coronavirus (now known as COVID-19) was identified in Wuhan, China, and has since spread globally, including in Europe where the Group's operations are primarily concentrated and across North America. This has led to governments around the world implementing numerous, differing and wide-ranging measures in an attempt to contain the spread of the virus, such as travel restrictions and advisories, curfews, quarantines, lockdowns and restrictions on non-essential services. These measures have resulted in severe economic downturns and rising unemployment levels in many countries and regions including in the United Kingdom, Spain, Ireland, the rest of Europe and the United States and an unprecedented decrease in the demand for both domestic and international air travel.

In the first week of April 2020, being when travel restrictions were at their greatest, 94% of countries tracked by IATA (the International Air Transport Association) had instituted significant travel restrictions. Of these, 80% had implemented complete entry bans, halting all inbound and outbound international flights, while the remaining 20% had entry bans to individuals arriving from certain countries or required individuals to undertake compulsory quarantine upon arrival. The COVID-19 pandemic and measures such as these have resulted in:

- **Declines of industry-wide passenger capacity** – In April 2020, the first full month in which the COVID-19 pandemic severely impacted demand for air travel around the world, industry-wide passenger capacity, measured by ASKs, decreased by 87% and passenger load factor (revenue passenger kilometres ("**RPKs**") expressed as a percentage of ASKs) fell from 83.2% to 36.6% (in each case compared to the same period in 2019).

- **Historic levels of contraction of industry-wide traffic** – Across the aviation industry, passenger demand, measured in RPKs shrank by 94.3% in April 2020 and 91.3% in May 2020 compared to the same periods in 2019, with the contraction in April 2020 being the largest since IATA's time series began in 1990.

- **Unprecedented declines in air passenger volumes** – All regions across the aviation industry recorded significant year-on-year contractions for air passenger volumes in April and May 2020, with domestic and international passenger demand, in terms of RPKs, shrinking by 86.9% and 98.4%, respectively, in April 2020 and by 79.2% and 98.3%, respectively, in May 2020, each compared to the same period in 2019.

- **All regions have been impacted** – International air travel has seen a reduction in capacity (ASKs) of between 87.7% and 97.0% in April 2020 compared to the same period in 2019. Domestic air travel has seen a smaller, but nonetheless significant, reduction in capacity, with domestic ASKs decreasing 72.1% on average compared to the same period in 2019.

- **Pace of recovery** – While the outlook is very uncertain (and noting that there continue to be localised increases in COVID-19 cases which have led to travel restrictions), recent booking and revenue intake data has shown early signs of demand recovery (albeit from a very low base and remaining significantly below 2019 levels) in markets where travel restrictions have been lifted. The Group currently plans for year-on-year ASK reductions of 78% and 60% in the next two quarters of 2020, respectively, and 27% in 2021, each compared to 2019. The Group does not anticipate a return in passenger volumes to 2019 levels until at least 2023.

- **Significant uncertainty regarding the future demand environment** – There is limited visibility into levels of potential demand for air travel in the short or medium-term once applicable government travel restrictions and advisories are fully lifted, in particular since such restrictions and advisories have in certain regions been, and may in the future in further regions be, reintroduced due to a second wave of COVID-19 cases, and given that many economies across the world are facing near-term significant economic downturns and recessions.

(B) *Impact of the COVID-19 pandemic on the Group*

As an owner of passenger airlines, the Group is dependent upon people travelling for a number of reasons, including business, leisure and to visit friends and relatives, and the COVID-19 pandemic and associated government travel restrictions and advisories have therefore had a very significant negative impact on the Group's business. As set out in section 4.1 (*Impact on financial results in the first and second quarter of 2020*), as a result of the COVID-19 pandemic, the Group has experienced a material reduction in revenues which negatively impacted profitability, resulting in pre-exceptional operating losses of €535 million and €1,365 million in the first two quarters of 2020 respectively. The pre-exceptional operating loss would have been significantly greater had the Group not taken swift action to reduce costs and preserve cash balances. The Group also implemented liquidity-enhancing measures to offset the refund of forward revenue from payments in advance of travel and cash operating costs exceeding cash receipts from revenue.

Government restrictions and advisories impacting the Group

The Group has been particularly impacted by government measures implemented in the Group's key 'home' markets.

- **United Kingdom** – In the United Kingdom a nationwide lockdown was implemented by the government on 23 March 2020, following which the UK Foreign Office advised UK nationals against all 'non-essential travel'. The lockdown in the United Kingdom has gradually been eased since May 2020 and the UK Foreign Office advisory remains in place for certain countries, primarily those outside Europe. During March and April 2020, airports in the United Kingdom significantly scaled back operations or closed completely and, on 8 June 2020, the UK Government introduced a mandatory 14-day quarantine period for arrivals from outside the United Kingdom or Ireland. From 10 July 2020, passengers arriving from certain countries, primarily in Europe, are exempt from having to quarantine. The countries which are exempt are subject to change at short notice, as shown by the reintroduction of quarantine measures for passengers arriving from, among others, Spain, France, Benelux, Switzerland and Czech Republic.

- **Spain** – The Spanish government declared a national state of alarm on 14 March 2020 with Spanish borders closing from 16 March 2020. The national state of alarm remained in place until 21 June 2020. The country has moved through a phased de-escalation of restrictions but some cross-border air travel remains restricted. A self-quarantine for passengers arriving in Spain was introduced on 15 May 2020 and remains in place for all arriving passengers other than, from 21 June 2020, those arriving from certain European countries. Certain parts of Spain have also experienced a resurgence of COVID-19 cases since July 2020, which has resulted in a number of localised lockdowns, especially in Aragon and Catalonia.

- **Ireland** – The Irish government introduced a nationwide lockdown on 12 March 2020 and, on 22 May 2020, it announced that all arriving passengers would be required to complete a passenger locator form and are asked to self-isolate for 14 days. The lockdown has been gradually eased since May 2020 and, from 22 July 2020, passengers arriving from certain countries on a "green list", primarily in Europe, are no longer required to self-isolate.

Governments in the other markets in which the Group operates (across the rest of Europe, the United States and beyond) have implemented a wide variety of differing travel restrictions and advisories. Most countries have implemented restrictions on entry that have resulted in material operational disruption to the Group, particularly the travel ban for all non-American travellers from Europe introduced by the United States in mid-March 2020, and the ongoing travel ban for all United States travellers coming into Europe. As the COVID-19 pandemic abates in parts of the world, some of these restrictions and advisories have started to be lifted. Governments are also increasingly tackling COVID-19 outbreaks in a more targeted manner, including using regional lockdowns and air bridges to countries with low infection rates rather than country-wide measures and complete travel bans. However, the Group continues to be impacted by travel restrictions and advisories, some of which are subject to change at short notice.

Operational disruption to the Group

The Group has suffered extensive network disruption, significantly affecting its operations. As the COVID-19 pandemic spread across Europe and the United States, the Group reduced its capacity, expressed in ASKs, by 33.5%, 95.2%, 95.8%, 95.0%, 85.2% and 75.5% in March, April, May, June, July and August 2020, respectively, compared to the same periods in 2019. While the Group has always maintained plans focused on operational resilience and recovery, the prolonged and global nature of the COVID-19 pandemic has led to a sudden and very significant decline in the Group's revenues, profitability and cash flow since late February 2020.

Any services which have been operated by the Group’s airlines (the “**IAG Airlines**”) have required heightened cleanliness and hygiene standards resulting from the COVID-19 pandemic, which are increasing the costs and/or complexity of the Group's operations by, for example, necessitating increased cleaning levels of aircraft and the implementation of other measures required by industry regulators and local governments, such as social distancing. Further, engagement with trade unions in relation to critical and essential restructuring and reductions in the workforce has diverted some management focus away from the Group's normal operations. The operations of the Group's suppliers have also been impacted by the COVID-19 pandemic, including as a result of temporary suspension of operations, a lack of availability of labour to support supplier operations or longer-term problems in maintaining supply of business-critical services. While supplier issues have impacted the Group, actions by the Group’s management have meant that such impact has not been material to date.

Expected future impact on the Group

Paired with the significant level of customer refunds of forward revenue from payments in advance of travel resulting from the COVID-19 pandemic, current booking trends and forward revenue levels indicate that trading conditions will continue to be challenging for the remainder of 2020 and into the early part of 2021. This has led, and is expected to continue to lead, to significant cash outflows for the Group. Beyond the uncertainty of the speed and scope of the easing of government restrictions and advisories (and their possible reintroduction), the Group expects that, even after the COVID-19 pandemic abates, its impact on consumer behaviour and their preferences may have longer term negative implications. Accordingly, the Group believes that global passenger demand will not return to 2019 levels until at least 2023. As the industry recovers from the COVID-19 pandemic, however, the Group may be presented with opportunities to capitalise on its strength and leadership positions.

Jet fuel prices fell by more than 50% in the first half of 2020. This resulted in significant losses on fuel hedging derivatives, which would normally be offset against lower costs for purchasing jet fuel. The impact of the COVID-19 pandemic has led to a significant reduction in the Group’s requirement to purchase jet fuel - the Group's ASKs were approximately 95% lower in the second quarter of 2020, and are forecast to be 78% and 60% lower in the third and fourth quarter of 2020, respectively, compared to the equivalent periods in 2019. As a consequence, the Group has recognised an exceptional charge for the first half of 2020 of €1,269 million relating to overhedging, being the losses on fuel hedging derivatives maturing in 2020 for which there will be no matching volume of fuel purchased, together with related foreign currency gains, calculated using the forward fuel curve and exchange rates at 30 June 2020.

(C) The Group's response to the COVID-19 pandemic

As an immediate response to the challenging market environment, the Group has acted quickly to mitigate the negative financial and operational impacts of the COVID-19 pandemic. The Group has focused on initiatives and measures to strengthen the liquidity position of the Group and reduce operating expenses, amongst other things, examples of which are set out below.

Capacity reduction saving variable costs

The Group took early action after the identification of a new strain of coronavirus in China in December 2019. British Airways suspended flights to and from China on 29 January 2020, followed by Iberia suspending its Shanghai route and British Airways further suspending most of its East Asian routes in early February 2020. Following the outbreak of COVID-19 in Italy on 22 February 2020, the Group reduced flights to, from and within Italy before suspending all such flights on 10 March 2020. In the first quarter of 2020, capacity in the Group was reduced by 10.5% compared with the same period in 2019.

As most European countries and the United States closed their borders to foreign visitors and implemented various forms of lockdowns, on 16 March 2020, the Group announced that it would reduce capacity, in terms of ASKs, by at least 75% for April and May 2020, which was subsequently increased to a reduction of approximately 90%, announced in April 2020. As of the end of March 2020, the Group grounded 70% of its fleet of 595 aircraft and in the second quarter of 2020, passenger capacity was approximately 95% lower than during the same period in 2019.

By reducing capacity, the Group made a substantial saving in variable costs in the first half of 2020, including a 55% reduction in fuel, oil costs and emissions charges from €2,936 million to €1,313 million (excluding the exceptional charge for overhedging noted above), a 40% reduction in handling, catering and other operating costs from €1,413 million to €853 million and a 50% reduction in landing fees and en-route charges from €1,081 million to €539 million, each compared to the same period in 2019.

Cost efficiency initiatives reducing fixed costs

The Group has undertaken a number of cost efficiencies to reduce fixed costs, including implementing voluntary leave options, temporarily suspending employment contracts, temporary reductions in pay and reducing working hours.

The Group has also made use of national employee support schemes by furloughing over 22,000 British Airways employees (over half the airline's workforce) under the United Kingdom's Coronavirus Job Retention Scheme (announced on 20 March 2020, allowing employers to furlough workers with the government paying a significant proportion of those workers' wages), accessing Spain's ERTE scheme (*Expediente de Regulación Temporal de Empleo*) for approximately 18,000 Iberia and Vueling employees, and using Ireland's Wage Subsidy Scheme (the temporary scheme, announced on 24 March 2020 by the Irish government, to allow employers to continue to pay their employees during the COVID-19 pandemic) in respect of approximately 4,000 Aer Lingus employees. Separately, British Airways reached agreement with all of its approximately 4,400 pilots to take four weeks' unpaid leave in April and May 2020. The Group has also implemented reductions in salaries for employees, including management, and fees for the Board of Directors.

Employee costs for the six months ended 30 June 2020 decreased by 24.2% from €2,492 million to €1,890 million compared with the same period in 2019. Approximately half of this reduction was as a result of the use of national employee support schemes referred to above, and equivalent temporary cost reduction schemes, with the rest resulting from reductions of either hours worked or pay in the second quarter of 2020. These measures affected all levels and all functions in the Group. Despite all these measures, including the reduction in employee costs in the first half of 2020 of 24.2% (compared to the same period in 2019), the reduction in passenger capacity increased employee unit costs in this period.

Normally the Group only operates passenger flights, which are able to carry cargo in the belly-hold of the aircraft. However, as a consequence of the COVID-19 pandemic, the Group has operated a number of cargo-only flights to meet some of the demand that remains in the cargo market, including for the transport of critical equipment and essential supplies. The Group operated approximately 1,875 additional cargo flights in the second quarter of 2020. Cargo revenue was 10.6% higher in the first half of 2020 than in the same period in 2019, of which the second quarter revenue was a record €369 million, up from €281 million in the same period in 2019.

These initiatives, combined with the capacity reduction to save variable costs described above, resulted in a 34% reduction in operating costs in the first half of 2020 to €7,226 million, with a 64% reduction in the second quarter of 2020 to €2,106 million, each before exceptional items and compared to the same period in 2019.

Reduction of capital spending, deferrals and reductions of aircraft deliveries and other initiatives reducing the size of the aircraft fleet to match demand

The Group has taken decisive actions to reduce its capital expenditure in 2020 by €1.5 billion from the amount planned at the start of the year (from €4.2 billion to €2.7 billion). Of this saving, €0.3 billion relates to non-fleet expenditure such as property, ground equipment and IT. The Group continues to seek opportunities to reduce this expenditure further. Planned capital expenditure over 2020, 2021 and 2022 has been halved, from an expected €14.2 billion to €7.0 billion.

Of the €2.7 billion committed capital expenditure for 2020, the Group has entered into financing agreements and commitments for 100% of the approximately €2.4 billion relating to fleet expenditure in 2020, as of the end of June 2020.

As part of its plans for right-sizing its businesses to match expected future demand, the Group has planned and begun to effect adjustments to its network and fleet capacity. The Group has secured deferrals from aircraft manufacturers, reducing the delivery of new aircraft by 68 (from 143 to 75) between 2020 and 2022. 38 aircraft are now scheduled for delivery in 2020, with 15 to follow in 2021 and 22 in 2022. These deferrals will significantly reduce the Group's planned capital expenditure for 2021 and 2022 to €1.9 billion and €2.4 billion from €4.3 billion and €5.7 billion, respectively, much of which is expected to be externally financed as aircraft are delivered. The Group continues to liaise with aircraft manufacturers regarding future deliveries.

As well as grounding a large number of aircraft across the IAG Airlines, the Group has also progressed acceleration of the retirement of older, less fuel-efficient, aircraft and returning aircraft on operating leases or as they expire which has, and will, enable the Group to retain flexibility over the size of its fleet, reducing it where it is deemed necessary. In July 2020, British Airways elected to retire its entire fleet of 32 Boeing 747-400s, and Iberia has decided to bring forward the retirement of its entire A340-600 fleet (15 aircraft) to the summer of 2020. Other older aircraft that could also be retired early without significant waste of useful operating life include more than 20 narrow body aircraft operated by various IAG Airlines. In respect of operating leases, the Group has focused on deferring near-term monthly rental payments and has secured deferrals of near-term monthly rental payments. The Group planned to return 20 aircraft to lessors in 2020 and these returns will go ahead. If deemed necessary, the Group could return a further 42 in 2021 and 54 in 2022.

Actions boosting cash and available liquidity from credit facilities

As at 30 June 2020, the Group had total cash liquidity of €8.1 billion, comprising of €6.0 billion cash, cash equivalents and interest-bearing deposits and €2.1 billion of undrawn general and committed aircraft finance facilities. This total cash liquidity is equivalent to 32% of the Group's 2019 revenue. This liquidity position is slightly lower than the Group's €8.6 billion cash liquidity (approximately 34% of 2019 annual revenue) as of 31 December 2019, but is before the approximately €380 million sale and leaseback of 5 aircraft completed in July and receipt of the approximately £750 million (€830 million) extension of the worldwide commercial partnership with American Express noted below.

Since February 2020, and in addition to the capacity reduction, cost reduction and capital expenditure reduction initiatives outlined above, the Group has taken multiple actions to enhance cash liquidity:

- in March 2020, British Airways extended its revolving credit facility by one year to June 2021, with $588 million undrawn and, subject to available collateral, available under this facility as at 30 June 2020;

- in April 2020, the Board of Directors withdrew the final dividend of €337 million for the year ended 31 December 2019; British Airways accessed £298 million (€330 million) (including £2 million fees) commercial paper through the Covid Corporate Financing Facility; Iberia and Vueling entered into and drew down a 5-year amortising facility for €750 million and €260 million, respectively, which are 70% guaranteed through the Spanish ICO (*Instituto de Credito Oficial*) program;

- in May 2020, the Company entered into two revolving credit facilities, of $50 million and €50 million, for a duration of 1 year, which remain undrawn as of 30 June 2020; British Airways entered into a $750 million facility with a syndicate of relationship banks, secured against 40 shorthaul and 9 longhaul aircraft, which was drawn as of 30 June 2020;

- in June 2020, Iberia entered into a mortgage loan of $228 million secured on future aircraft deliveries, of which $39 million was drawn as of 30 June 2020. The loan is repayable 12 months from the date of signing; and

- in July 2020, the Company completed the sale and lease back of five aircraft for approximately €380 million.

In addition, the Group has implemented various working capital initiatives to reduce trade receivables and entered into agreements to extend supplier payables (including in respect of aircraft lease payments and navigation charges), overall resulting in a net working capital inflow of €447 million in the first half of 2020.

The Group's cash position has also been improved by the recent renewal of multi-year agreements extending its worldwide commercial partnership with American Express, announced on 24 July 2020. Under the agreements, American Express made a payment to IAG Loyalty of approximately £750 million (€830 million), a significant part of which is a pre-purchase of Avios points that American Express will use in the UK and world-wide for its British Airways co-branded cards and membership rewards programme.

As at 30 June 2020, (and based in each case on the preceding 12 month period) the Group's leverage (net debt to EBITDA) was 4.2x*, compared to 1.4x* as at 31 December 2019, reflecting both the reduction in EBITDA generated in the period as a result of reduced passenger demand and the increase in financial debt raised to strengthen the Group's liquidity position.

Returning to service

The IAG Airlines have adapted their operating procedures to ensure that customers and employees continue to be properly protected on board aircraft and while at the airport as they start to travel again. The Group is also continuing to work with various regulatory bodies to comply with relevant regulations and guidelines. Each IAG Airline has also reduced or adjusted its flight network to focus on a narrower selection of appropriate routes to take account of current travel restrictions and prevalence of COVID-19 cases (for example, British Airways and Iberia have reduced their long haul schedules to Latin America, the United States and the Asia / Asia Pacific region).

Preparations for restructuring while substantially lower air travel demand is expected than in 2019

The IAG Airlines are consulting over and implementing restructuring plans as it prepares for the resumption of flights and operations as travel restrictions begin to lift and borders re-open, with a view to right-sizing its businesses to match expected future demand. Air travel demand is not expected to reach 2019 levels until at least 2023 and the Group expects that the various government furloughs and wage support schemes will come to an end before then.

British Airways notified its trade unions in April 2020 of a proposed restructuring and redundancy programme and began consultation with employee representatives. Under those proposals it is expected that up to 13,000 employees could be made redundant and that most of British Airways' 38,000 UK-based employees could be affected by the restructuring. British Airways has concluded labour agreements with its pilots, engineers and Heathrow customer service staff. In regard to cabin crew, agreement in principle has been reached with Unite and a consultative ballot is expected to start shortly. Other consultation discussions continue, including with Heathrow ground handling services and cargo operations staff, UK contact centre employees and Gatwick based cabin crew. As at the end of August 2020, 8,236 British Airways employees have left the business as the restructuring process continues. In June 2020, Aer Lingus announced that it had issued a notification to the Irish Minister for Employment Affairs and Social Protection commencing consultation processes with employee representatives regarding the proposed collective redundancies of up to 500 Aer Lingus employees across four areas, cabin crew, maintenance, ground operations and support.

On 18 June 2020, it was announced that Anisec Luftfahrt GmbH, which operated the Group’s shorthaul LEVEL Europe branded operations, was ceasing trading with immediate effect and entering insolvency, and on 8 July 2020 OpenSkies SAS, which operates longhaul LEVEL branded operations from Paris Orly, announced that it was notifying its works council about a proposed cessation of operations and the development of an employment safeguard plan. Since the beginning of the COVID-19 pandemic, the Iberia and Vueling management teams have held regular meetings with the main labour representatives to inform them of the ongoing situation and the plans that the companies are developing to adapt their cost base to the new post-COVID capacity and demand environment. The Company expects to report restructuring charges of approximately €330 million in its 2020 results associated with employee redundancies.

The Company is also reviewing all components of the Group, taking into consideration the Group's strategic priorities and ongoing initiatives, to determine whether any areas can be insourced, outsourced or divested to optimise the Group's portfolio and generate the most value for Shareholders in the long-term.

Senior management promotions deferred in order to focus on the crisis

In managing the impact of the COVID-19 pandemic, the Board of Directors believed that existing management, with existing knowledge and experience of their organisations, should remain in post at the outset of the outbreak to handle the Group’s initial response to the COVID-19 pandemic.

As a result, senior management promotions were deferred to ensure consistency at the outset of this challenging period. Until 8 September 2020, Willie Walsh remained Chief Executive Officer of the Company, Luis Gallego (now Chief Executive Officer of the Company) remained Chief Executive Officer of Iberia and Javier Sanchez (now Chief Executive Officer of Iberia) remained Chief Executive Officer of Vueling.

2.2 Strengths and long-term strategy

Please refer to section 4 (*Strengths and long-term strategy of the Group*) of Part VIII (*Business and Market Overview*) for a description of the Group’s strengths and long-term strategy.

2.3 Rationale for the Capital Increase

The purpose of the Capital Increase is to strengthen the Group’s balance sheet by reducing financial leverage and increasing the Group’s overall liquidity position. The Group believes that by taking this action it can provide greater financial certainty for the Group as it right-sizes the business for the future. The Group believes the Capital Increase, together with its quick response to the crisis, should enable the Group to emerge from the current pandemic in a strong position, with more resilience, greater flexibility and the ability to make the right operational and strategic decisions for the long-term benefit of all its stakeholders.

In light of the impact of the COVID-19 pandemic on the Group, the Board of Directors believes that enhancing the Group’s financial position is vital to ensuring that the Group has sufficient liquidity throughout a more prolonged downturn in air travel as it seeks to deliver on its strategy. As a result of the COVID-19 pandemic, the Group's liquidity position has decreased from €8.6 billion as at December 31, 2019 to €8.1 billion as at June 30, 2020 and its net debt has increased from €7.6 billion to €10.5 billion, respectively. The Capital Increase will enable the Group to strengthen its balance sheet, reduce leverage and enhance access to key funding markets while helping it to withstand a more prolonged downturn in air travel than is currently anticipated by the Group.

As part of its capacity planning, the Group developed a downside scenario in order to help assess the impact of a more prolonged and severe downturn in global air travel with a slower recovery in passenger demand when compared to its current capacity planning scenario.

When assessing the amount to be raised via the Capital Increase, the Board of Directors considered a range of financial and operating metrics. The Board of Directors believes that the Capital Increase and the announced management actions will not only reduce the Company's leverage but should also ensure that the Group has sufficient liquidity throughout its downside scenario.

The downside scenario reflects an overall reduction in passenger capacity of c.66% in 2020 (compared to the current capacity planning scenario of c.63%) and a slower recovery in passenger ASK in 2021 compared to the current capacity planning scenario with both scenarios only converging by the second half of 2022. The downside scenario also assumes reduced revenue from cargo and other activities as well as an adverse near-term working capital profile. These assumptions remain uncertain and subject to the continued easing of lockdowns and travel restrictions. To partially offset the negative impact of the cumulative assumptions in the downside scenario, the Group has identified a number of additional mitigating actions including a number of operating cost and non-fleet capital expenditure-related actions that could be implemented if required.

3. USE OF PROCEEDS

The net proceeds of the Capital Increase will be used to:

- strengthen the Group's balance sheet by reducing financial leverage and increasing the Group's overall liquidity position;
- help the Group withstand a more prolonged downturn in air travel based on its stressed, downside scenario planning; and
- provide the Group with the operational and strategic flexibility to take advantage of a recovery in demand for air travel.

The Group is planning to allocate, when appropriate, the net proceeds of the Capital Increase to its operating companies in a disciplined manner and based on strict governance procedures. The Group is not planning to use the funds raised in the Capital Increase to fund the acquisition of Air Europa.

4. CURRENT TRADING AND OUTLOOK

The Group's current trading and outlook are fundamentally impacted by the COVID-19 pandemic and associated government policy and customer responses. As outlined at section 2.1 (*The impact of the COVID-19 pandemic and the Group's response*) of Part VI (*Background to and Reasons for the Capital Increase*), the COVID-19 pandemic has led to a sudden and very significant decline in the Group's revenues, profitability and cash flow since late February 2020.

4.1 Impact on financial results in the first and second quarter of 2020

The COVID-19 pandemic began to affect the Group in the first quarter of 2020, resulting in pre-exceptional operating losses of €535 million and €1,365 million in the first two quarters of 2020 respectively, compared to €135 million and

€960 million pre-exceptional operating profit for the same periods the year before. The initial impact on the Group of the spread of COVID-19 was limited, with results for January and February 2020 broadly in line with those in 2019. However, the outbreak of COVID-19 in Italy in late February 2020 and the subsequent spread in Spain, Belgium, France and the United Kingdom, coupled with the decision of countries to close their international borders (including the United States' decision to do so on 11 March 2020), had a much larger impact on the Group. The Group's passenger volume in the first half of 2020 sharply declined to 20.4 million (down from 55.9 million in the first half of 2019), marking a reduction of 63.5% in this period compared to 2019. This resulted in almost all of the operating loss in the first quarter of 2020 occurring in March 2020.

The Group reported a significantly worse operating loss in the second quarter of 2020 than in the first quarter, driven by weekly operating cash costs of approximately €200 million and minimal revenue due to passenger capacity declining, in ASKs, by approximately 95%. In this period, the Group carried just 508,000 passengers, compared to 31.5 million for the same period in 2019. The Group reported a pre-exceptional operating loss for the second quarter of 2020 of €1,365 million compared to a profit of €960 million for this period last year. In addition, the Group recorded an exceptional impairment charge relating to fleet and other assets of €731 million due to the early retirement of aircraft, including 15 A340-600s and 32 Boeing 747-400s (see section 2.1(C) (*The Group's responses to the COVID-19 pandemic*) of Part VI (*Background to and Reasons for the Capital Increase*)). In addition, in the first half of 2020, the Group recorded an exceptional loss of €1,269 million on fuel and foreign currency hedges due to the significant reduction in expected capacity for the rest of 2020 and a sharp decline in fuel prices (see section 2.1(B) (*Impact of the COVID-19 pandemic on the Group*) of Part VI (*Background to and Reasons for the Capital Increase*)).

4.2 Focus on return to service despite highly uncertain outlook

While the Group has a focus in the near-term on maintaining its financial strength by optimising its cost structure and minimising cash burn, and in the longer term on executing its strategy, the COVID-19 pandemic means the short-term outlook remains highly uncertain. With airline capacity severely impacted, flights operating have predominantly been for essential travel, repatriation, and transport of essential goods and other cargo. While demand for cargo flights remains strong, it accounts for a small offset against the dramatic reduction in passenger activity. As outlined above in section 2.1(A) (*Impact of the COVID-19 pandemic on global aviation travel*) and section 2.1(B) (*Impact of the COVID-19 pandemic on the Group*) of Part VI (*Background to and Reasons for the Capital Increase*), there can be no certainty regarding levels of customer demand for air travel in the short or medium-term once applicable government travel restrictions and advisories have been eased and/or lifted. As a result, passenger demand may take time to return to pre-COVID-19 pandemic levels and current booking trends and forward revenue levels indicate that trading conditions will continue to be challenging for the remainder of 2020 and into the early part of 2021. The Group believes that global passenger demand will not return to 2019 levels until at least 2023.

The Group remains committed to taking actions for a return to service, further detail of which is set out at sections 2.1(C) (*The Group's responses to the COVID-19 pandemic*) of Part VI (*Background to and Reasons for the Capital Increase*).

4.3 Capacity plan for the financial year ending 31 December 2020

On 7 May 2020, the Group announced it was planning for a potential reduction in overall passenger capacity of approximately 50% in 2020 compared to 2019, but noted that such plans were highly uncertain and subject to the easing of lockdowns and travel restrictions. Subsequently, the UK Government introduced a 14-day mandatory quarantine on arrival to the United Kingdom, effective from 8 June 2020, and the Spanish government introduced a similar 14-day quarantine on all overseas arrivals which remained in place until late June 2020. The UK Government exempted passengers arriving from certain countries on 10 July 2020, primarily in Europe, but has since reinstated the 14-day quarantine for travellers returning from, among others, Spain, France, Benelux, Switzerland and Czech Republic. Given the ongoing uncertainty over health, social and economic issues, as well as continued and changeable travel restrictions and government actions, it is not possible to predict the trajectory of recovery across the global aviation industry.

On 31 July 2020, the Group outlined its latest passenger capacity planning scenario, which was for an overall reduction of ASKs of approximately 59% in 2020 compared to 2019. On a quarterly basis, passenger capacity (ASKs) reduced by approximately 95% in the second quarter of 2020 and was expected to reduce by 74% and 46% respectively in the third and fourth quarter of 2020, each compared to the equivalent periods in 2019. The Group indicated that these plans were highly uncertain and that the Group would continue to review its capacity planning in light of any changes to governments' travel restrictions, advisories and other measures taken in the markets in which the Group operates, as well as indications of customers' intentions to fly and the levels of demand experienced by the Group, noting that this could potentially impact the Group's capacity plan for the remainder of 2020 and therefore the Group's planning scenario for the whole year.

Since July 2020, the Group has experienced an overall levelling off of bookings. Shorthaul bookings have fallen slightly following the re-implementation of quarantine requirements by the UK and other European governments for travellers returning from specific countries including Spain. As anticipated, the Group has seen a delayed recovery of long-haul booking activity, impacted by the continued existence of travel restrictions to many longhaul destinations, including North and South America. Longhaul bookings have seen a modest increase since mid-August. Where travel markets have reopened without border restrictions and quarantine requirements, the Group has been encouraged by the apparent levels of pent-up demand, but there is no certainty as to when and which markets will re-open or whether travel restrictions will be re-imposed after they have been lifted. Since 31 July 2020, the ongoing review of capacity plans has led to an updated plan, with a reduction versus 2019 of 78% in the third quarter and 60% in the fourth quarter, bringing the total reduction for the year to 63%. The Board of Directors will monitor and evaluate these developments with the management team in order to understand the implications for the Group.

Despite a lower capacity in the fourth quarter of 2020 than under the previous planning scenario, the Group continues to expect that it will reach breakeven in terms of net cash flows from operating activities during the fourth quarter of 2020. This is as a result of mitigating actions taken to reduce operating expenses further and enhance working capital.

As a result of the ongoing uncertainty, directly and indirectly linked to the COVID-19 pandemic, the Group is not providing profit guidance for the full year 2020. Such guidance would depend on a number of external factors which remain uncertain, including the impact of government restrictions and advisories, duration of restrictions and lockdowns, demand reaction, competitors' reactions and fuel and foreign currency movements.

PART VII
TERMS AND CONDITIONS OF THE CAPITAL INCREASE

1. GENERAL

The Capital Increase will be in respect of 2,979,443,376 New Shares at a Subscription Price of €0.92 per New Share (nominal amount of €0.10 plus a premium of €0.82) which is equivalent to a total issue premium of €2,443,143,568.

The New Shares will be newly issued ordinary shares each with a nominal value of €0.10, of the same class and series as the Existing Shares, represented in book-entry form and registered in the accounting records of Iberclear, with registered office at Plaza de la Lealtad 1, 28014, Madrid, and of its participant entities (the "**Participant Entities**"). The Existing Shares are listed on the Spanish Stock Exchanges and are quoted on the AQS and in the form of CDIs on the London Stock Exchange.

The New Shares will be issued pursuant to the resolutions set out in section 4.5 (*Resolutions, authorisations and approvals by virtue of which the securities have been or will be created and/or issued*) of Part XI (*Additional Information*), which expressly contemplate the possibility of incomplete subscription. Therefore, and without prejudice to the fact that if the Underwriting Agreement is met in full the Capital Increase will be fully subscribed, if the Capital Increase is not fully subscribed within the established period, the share capital shall only be increased by the amount of actual subscriptions.

The Existing Shares are, and the New Shares will be, subject to the provisions of Spanish legislation. See section 4.4 (*Legislation under which the New Shares are created*) of Part XI (*Additional Information*). The Capital Increase, including the exercise of Subscription Rights, the request for Additional Shares and subscription requests for Discretionary Allocation Shares shall be governed and interpreted in accordance to Spanish legislation. By exercising Subscription Rights, requesting Additional Shares and requesting subscription for Discretionary Allocation Shares, shareholders and investors irrevocably and unconditionally accept that the Courts and Tribunals of the city of Madrid shall have exclusive jurisdiction to resolve any disputes that might arise in relation to the Capital Increase. Notwithstanding the foregoing, the Company and the Underwriters have agreed to submit any dispute which may arise under the Underwriting Agreement to the exclusive jurisdiction of the English courts.

The ISIN Code of the Existing Shares is ES0177542018. The National Numbering Agency, an entity directly dependent from the CNMV, has assigned the ISIN code ES0677542906 to the Subscription Rights. Notwithstanding the foregoing, once the New Shares are admitted to trading, these will be assigned the same ISIN code as the Existing Shares.

NOTICES:

The attention of Overseas Shareholders and any person (including, without limitation, custodians, nominees and trustees) who has a contractual or other legal obligation to forward this document into a jurisdiction other than Spain or the United Kingdom is drawn to section 6 (*Overseas Shareholders*). In particular, subject to certain exceptions, Eligible Shareholders with registered addresses in any of the Excluded Territories.

For any queries relating to the exercise of Subscription Rights, applicants should contact the office of the Participant Entity whose accounting records contain the Subscription Rights.

For any queries relating to the exercise of CDI Rights, applicants should contact Computershare on 0370 702 0110 (from inside the United Kingdom) from 8.30 (BST) to 17.30 (BST) Monday to Friday (excluding United Kingdom public holidays). Calls from outside the United Kingdom will be charged at the applicable international rate. Please note that, for legal reasons, the helpline will only be able to provide information contained in the Prospectus and will be unable to give advice on the merits of the Capital Increase or to provide financial, investment or taxation advice.

The contents of this Prospectus are not to be construed as legal, business or tax advice. Each Shareholder should consult their own legal, financial or tax adviser for financial, tax, investment or legal advice, respectively.

For terms and conditions for subscription of the Capital Increase in the United Kingdom, persons who are registered CDI Holders should refer to section 4 (*Characteristics of the offer and the CDI Rights in the United Kingdom*).

Note that the anticipated schedule is subject to change and, with regard to final CREST deadlines please refer to the CREST Graphical User Interface.

1.1 General terms of the Capital Increase

The Company is, pursuant to Spanish legislation, granting Subscription Rights to Eligible Shareholders, that is, those shareholders who acquired Shares on or before the Last Trading Date and they appear as Shareholders in respect of such Shares in the records of Iberclear at 23:59 (CEST) on the Record Date. Eligible Shareholders will receive one Subscription Right for every Existing Share held and registered in their name at close of business on the Record Date and otherwise on the terms set out in this Prospectus. The exercise of 2 Subscription Rights entitles the exercising holder to subscribe for 3 New Shares against payment of the Subscription Price in cash.

The Subscription Price, which must be paid in euros (except in respect of holders in the IAG Nominee Service, who should follow the instructions provided by the corporate nominee directly), is €0.92 and represents a discount of 58.3% on the price of the Shares at the close of the market on 9 September 2020, (€2.21), and a discount of 35.9% on the value arising from deducting the amount of the theoretical value of the pre-emptive subscription right from that share price (the Theoretical Ex-Right Price) (refer to section 3.1(A) (*Pre-emptive Subscription Period and request for Additional Shares (1st Round))* below).

The Capital Increase, if all the New Shares are fully subscribed, will result in an increase of 2,979,443,376 issued shares of the Company from 1,992,032,634 Existing Shares to 4,971,476,010 total Shares, corresponding to an increase of 149.6% before the Capital Increase and an increase of 59.9% following the Capital Increase.

At the end of the subscription period, the Board of Directors shall proceed to determine the effective amount of the Capital Increase, which shall be disclosed to the public as soon as possible, through notification of an Inside Information Notice to the CNMV. As described in section 10.2 (*Underwriting Agreement*) of Part XI (*Additional Information*), on 9 September 2020, the Company signed the Underwriting Agreement with the Underwriters and, as described in section 10.1 (*Irrevocable undertaking agreement with Qatar Airways*) of Part XI (*Additional Information*), on 31 July 2020, the Company agreed the Qatar Airways Irrevocable, which means the Capital Increase will, if the Underwriting Agreement becomes unconditional and is not terminated in accordance with its terms, be fully subscribed.

Eligible Shareholders who do not participate in the Capital Increase will have their ownership interest diluted. If none of the Company's current shareholders subscribe for New Shares in the percentage corresponding to them as a result of their Subscription Rights granted to them by the Company in proportion to the number of Existing Shares held by each of them in accordance with the records of Iberclear at 23:59 (CEST) on the Record Date, and assuming that the New Shares were fully subscribed by third parties, the ownership interest of the Company's current shareholders would represent 40.1% of the total number of Company shares, which would involve a dilution of 59.9% of the share capital and voting rights prior to the Capital Increase.

The expenses charged to the subscriber or purchaser of Subscription Rights will be those determined by their Participant Entity. The Participant Entities will charge, if applicable, fees in relation to the acquisition or transfer of Subscription Rights as well as, if applicable, any fees for the custody of the New Shares, all in accordance with the tariff brochures published by the Participant Entities, which are available at the Bank of Spain and the CNMV.

1.2 Subscription Rights

The Capital Increase provides Eligible Shareholders with Subscription Rights to subscribe for New Shares in order to, among other things, maintain their current level of ownership in the Company, if they so choose. The Subscription Rights are exercisable options to subscribe for the New Shares and may be sold, subject to applicable laws and the restrictions set forth herein, to third parties, which the Company refers to as purchasers of Subscription Rights or "**Investors**". The Subscription Rights will be transferable on the same terms as the Existing Shares (and therefore, subject to the restrictions set out in the By-laws and summarised at section 4.2 (*Restrictions on the free transferability of the Shares*) of Part XI (*Additional Information*)). Eligible Shareholders may therefore subscribe for New Shares at the Subscription Price and/or sell their Subscription Rights, subject, in each case, to applicable laws and the restrictions set forth herein or a combination of both.

The Subscription Rights to subscribe for New Shares offered hereby do not have an established trading market. Although the Subscription Rights offered hereby will be admitted to listing on the Spanish Stock Exchanges for trading through the AQS during the Pre-emptive Subscription Period described herein, the Company cannot assure holders of Subscription Rights that an active trading market will develop for these rights on Spanish Stock Exchanges or that any over-the-counter trading market in the Subscription Rights will develop or that there will be sufficient liquidity for such rights during such period.

Pursuant to article 304 of the Spanish Companies Act, during the Pre-emptive Subscription Period, Eligible Shareholders may exercise their right to subscribe for New Shares in proportion to the number of Existing Shares they hold. Eligible Shareholders who do not exercise their Subscription Rights during the Pre-emptive Subscription Period described herein in the percentage to which their Subscription Rights entitle them will have their equity interest diluted by approximately 59.9% with respect to their ownership interest in the Company's share capital on the Record Date (the date on which those persons or entities registered in Iberclear as Shareholders become Eligible Shareholders), assuming all of the New Shares are subscribed for in full by other Eligible Shareholders or Investors. Even where an Eligible Shareholder sells unexercised Subscription Rights prior to the expiration of the Pre-emptive Subscription Period, the consideration received by such Eligible Shareholder may not be sufficient to fully compensate such Eligible Shareholder for the dilution of their percentage ownership of the Existing Shares that may result from the Capital Increase.

Subscription Rights as independent securities, will be freely tradeable (except for those restrictions set out in the By-laws and summarised at section 4.2 (*Restrictions on the free transferability of the Shares*) of Part XI (*Additional Information*)) during the Pre-emptive Subscription Period, as defined herein.

Nevertheless, as described above, Subscription Rights will be transferable on the same terms as the Existing Shares and, in particular, provisions of articles 6, 7, 10 and 11 of the By-laws shall apply, *mutatis mutandis*, to the transfer or acquisition of the Subscription Rights, with the corresponding adjustments or specialities that, from time to time, the Board of Directors may establish according to the nature of the Subscription Rights. As a result, if, as described in section 6.4 (*Ownership and Control Requirement*) of Part XI (*Additional Information*), the Board of Directors decides at any given time and, in any event, before the end of the Pre-emptive Subscription Period, to specify a Permitted Maximum, the restrictions on the acquisition of Shares by a Non-Qualifying Person after the publication of the relevant announcement set out in Article 11 of the By-laws, that is, the prohibition of further acquisitions of Shares by Non-Qualifying Persons, will also apply to the acquisition of the Subscription Rights.

In the event the Permitted Maximum is in place and a Non-Qualifying Person acquires Subscription Rights (or Shares) breaching the Permitted Maximum (the "**Affected Rights**"), the Company may serve an Affected Rights Notice (in accordance with the provisions of article 11.9 of the By-laws): (i) requiring such Non-Qualifying Person to sell the Affected Rights to a Qualifying Person; and (ii) reiterating that such Non-Qualifying Person will not be allowed to exercise the Affected Rights.

After the Pre-emptive Subscription Period ends, Subscription Rights that have not been exercised will expire and holders that have not exercised those Subscription Rights will not receive compensation for any expired Subscription Rights.

With regard to the direct and indirect portfolio of treasury shares, as at the Latest Practicable Date, the Company held 5,737,049 treasury shares, representing approximately 0.29% of its share capital. Pursuant to article 148 of the Spanish Companies Act, treasury shares do not generate pre-emptive subscription rights. The rights that would have accrued to these treasury shares, accrue directly to the other Shareholders. So as not to alter the calculation of the Subscription Rights needed for the subscription of the New Shares, the Company shall hold the same number of treasury shares from the registration date of this Prospectus until 23:59 (CEST) on the date of publication of the announcement of the Capital Increase in the BORME.

The calculations performed to determine the number of Subscription Rights necessary in order to subscribe for the New Shares are set out below:

- Total number of Existing Shares prior to the Capital Increase: 1,992,032,634.

- Number of treasury shares as of the date of this Prospectus: 5,737,049.

- Number of Existing Shares with Subscription Rights (excluding one Subscription Right which one member of the Company's management team has undertaken not to exercise or sell in order for the exchange ratio for the Capital Increase to consist of whole numbers): 1,986,295,584.

- Number of New Shares: 2,979,443,376.

- Number of Existing Shares with Subscription Rights / New Shares = 1,986,295,584/2,979,443,376=0.67.

Eligible Shareholders will be entitled to one Subscription Right per Existing Share they hold. For every 2 Subscription Rights, Eligible Shareholders will be entitled to subscribe for 3 New Shares. Therefore, at least 2 Subscription Rights must be held to subscribe for 3 New Shares in exercising the Subscription Rights at the Subscription Price. Eligible Shareholders with fewer than 2 Shares at 23:59 (CEST) on the Record Date will need to acquire additional Subscription Rights in order to subscribe for New Shares in the Capital Increase.

Each New Share subscribed for in exercising the Subscription Rights must be subscribed and paid up at the Subscription Price, i.e. €0.92.

For the avoidance of doubt, in accordance with clause 6.B. (iv) of the terms and conditions of the 2022 Bonds, the holders of such bonds shall not be entitled to receive Subscription Rights unless they are Eligible Shareholders. However, the conversion price of the 2022 Bonds will be adjusted in accordance with clause 6.B. (iv) of their terms and conditions, once the Capital Increase is executed.

1.3 New Shares

For information on the New Shares please section 4 (*Information about the New Shares*) of Part XI (*Additional Information*).

2. EXPECTED TIMETABLE FOR THE CAPITAL INCREASE

Please see Part II (*Expected Timetable of Principal Events*) above.

The Company expects to announce the Capital Increase and, therefore, the commencement of the Capital Increase on 11 September 2020 in the BORME. The Company will communicate significant developments in the Capital

Increase via regulatory information notices (Inside Information Notices or Other Relevant Information Notices, as applicable) through the CNMV website in accordance with Spanish law. Information will also be made available on the Company's website (www.iairgroup.com).

3. SUBSCRIPTION OF NEW SHARES

3.1 Subscription periods

(A) Pre-emptive Subscription Period and request for Additional Shares (1st Round)

The pre-emptive subscription period will last 15 calendar days, beginning on the first calendar day following the publication of the notice of the Capital Increase in the BORME (the "**Pre-emptive Subscription Period**"). The Pre-emptive Subscription Period is expected to begin on 12 September 2020 and end on 26 September 2020, both inclusive. The Subscription Rights will be traded on the Spanish Stock Exchanges during the trading sessions taking place between these dates, the first being on 14 September 2020 and the last on 25 September 2020 (for information of the trading of the CDI Rights on the London Stock Exchange, see section 4 (*Characteristics of the Offer and the CDI Rights in the United Kingdom*) below). Eligible Shareholders that own at least 2 Subscription Rights during the Pre-emptive Subscription Period, as well as Investors who acquire at least that many Subscription Rights, will be entitled to either exercise the Subscription Rights in the proportion necessary to subscribe for the New Shares.

At any time (including during the Pre-emptive Subscription Period), if the Board of Directors considers that the Ownership and Control Requirements may be breached by the acquisition of Subscription Rights by Eligible Shareholders and/or Investors that are Non-Qualifying Persons (or the acquisition of Shares by Eligible Shareholders and/or Investors that are Non-Qualifying Persons), it may specify a Permitted Maximum through the issuance of a relevant announcement including the maximum percentage of Subscription Rights and/or Shares that may be owned by Non-Qualifying Persons (which, in any case, may not be less than 40% as set out in article 11 of the By-laws and shall be below 50%) to maintain the Ownership and Control Requirement. After the publication of such relevant announcement as set out in article 11 of the By-laws, further acquisitions of Subscription Rights and/or Shares by Non-Qualifying Persons shall be prohibited. In such circumstances, the Company may serve an Affected Rights Notice on a Non-Qualifying Person acquiring Affected Rights (Subscription Rights acquired in breach of the Permitted Maximum) and/or Shares: (i) requiring such Non-Qualifying Person to sell the Affected Rights and/or Shares to a Qualifying Person; and (ii) in the case of Affected Rights, reiterating that such Non-Qualifying Person will not be allowed to exercise the Affected Rights.

Any Subscription Rights not exercised will be automatically extinguished at the end of the Pre-emptive Subscription Period.

To exercise the Subscription Rights, the Eligible Shareholders and/or Investors may contact the office of the Participant Entity whose accounting records contain the Subscription Rights (which in the case of the Eligible Shareholders will be the Participant Entities with which the Shares granting the Subscription Rights are held), in order to place subscription orders to exercise their relevant Subscription Rights and subscribe for New Shares.

Those Eligible Shareholders and/or Investors who have deposited their Subscription Rights in Banco Santander, will be able to issue their subscription orders using the Agent's branch and, alternatively, through the remote banking service. Digitally, they will automatically access the Summary set out in this Prospectus and this Prospectus. By telephone, they will confirm that they have had access to that information on the CNMV's website (www.cnmv.es) or on the Company's website (www.iairgroup.com). However, Eligible Shareholders and/or Investors who wish to request Additional Shares will have to do so through the branch where they have deposited their Subscription Rights (see (v) below).

The subscription orders placed by Eligible Shareholders and/or Investors to exercise the Subscription Rights must include a declaration by such Eligible Shareholder and/or Investor confirming their nationality and, in the event a

Permitted Maximum is set by the Company's Board of Directors, that the Subscription Rights have not been subscribed for in breach of such Permitted Maximum.

The subscription orders placed by Eligible Shareholders and/or Investors to exercise the Subscription Rights may not be revoked or modified by holders of Subscription Rights, unless a supplementary prospectus is published, in which case Eligible Shareholders and/or Investors who have already placed subscription orders to subscribe for New Shares will have the right, exercisable within two working days after publication of such supplementary prospectus, to withdraw their subscription orders for New Shares in exercise of Subscription Rights and to withdraw their request, if applicable, for Additional Shares, provided that the significant new factor, material mistake or material inaccuracy to which the supplementary prospectus refers arises or is noted before the Closing Time (i.e. the time of registration of the public deed relating to the Capital Increase in the Commercial Registry, which is expected to take place on 5 October 2020). In the event a supplementary prospectus is published, Eligible Shareholders and/or Investors who had acquired Subscription Rights in the market and revoke such subscription orders will lose such Subscription Rights.

During the Pre-emptive Subscription Period, Eligible Shareholders who have exercised all of their Subscription Rights, and Investors who acquire Subscription Rights and exercise them in full, may request the subscription of additional New Shares (the "**Additional Shares**") when they exercise their Subscription Rights, through the Participant Entity with which they are held, in the event that any New Shares remain unsubscribed for following the expiration of the Pre-emptive Subscription Period (the "**Excess Shares**") and, therefore, the maximum amount to be subscribed in this Capital Increase is not covered.

The orders relating to the request for Additional Shares must be placed for a certain number of Additional Shares or for a certain amount, with no quantitative limit to the number or amount that can be requested within the total number of New Shares. The orders made for a certain amount shall be considered placed for the number of Additional Shares resulting from dividing the amount requested in euros by the Subscription Price and rounding down to the nearest whole number of Additional Shares.

In the event a Permitted Maximum is in place at any given time (including during the Pre-emptive Subscription Period), orders for Additional Shares made by Eligible Shareholders and/or Investors who are Non-Qualifying Persons, shall not be taken into account by the Agent in accordance with the instructions set forth by the Company in so far as the Permitted Maximum would be surpassed. However, orders for Additional Shares made by Eligible Shareholders and/or Investors who are Non-Qualifying Persons made before the Permitted Maximum is announced will be valid and such Eligible Shareholders and/or Investors will be entitled to receive the Additional Shares in the terms established in accordance with section (B) (*Allocation Period for Additional Shares (2nd round)*).

The Participant Entities shall be responsible for the verification of the exercise of all of the respective Subscription Rights, deposited at the time with the relevant Participant Entities, of each Eligible Shareholder and/or Investor requesting Additional Shares.

Notwithstanding the fact that they may not be met in full, orders relating to requests for Additional Shares shall be considered final, irrevocable and unconditional, unless a supplementary prospectus is published before the closing of the public offer (see section 3.2 (*Withdrawal and termination*) below).

During the Pre-emptive Subscription Period, the Participant Entities shall notify Banco Santander, which will act as the Agent in the Capital Increase (the "**Agent**"), on a daily basis no later than 17:00 (CEST) and by e-mail, of the total number of New Shares subscribed for through exercise of Subscription Rights, the overall total number of Additional Shares requested, in cumulative terms since the beginning of the Pre-emptive Subscription Period and the information contained in the declarations made by Eligible Shareholders and/or Investors when placing subscription orders regarding their nationality and the confirmation that the Subscription Rights being exercised have not been purchased in breach of the Permitted Maximum (in order for the Agent to ensure that the Ownership and Control Requirements are not breached and, if applicable, the Permitted Maximum is not surpassed).

Participant Entities must notify the Agent, through its issuing parties and, where applicable, on their own behalf, of the total number of New Shares subscribed for with them following the exercise of the Subscription Rights by Eligible Shareholders and/or Investors and, separately, of the total volume of requests for Additional Shares placed with them, no later than 10:00 (CEST) on, what is expected to be, the fourth trading day following the end of the Pre-emptive Subscription Period (expected to be 1 October 2020), in accordance with the operating instructions established by the Agent for this purpose.

Lastly, Participant Entities must send the Agent the files with the information on the New Shares subscribed during the Pre-emptive Subscription Period and the Additional Shares requested, which must comply with the specifications indicated in the Practical Guide for Corporate Events prepared by the Spanish Banking Association and the Spanish Confederation of Savings Banks and published by Iberclear on 1 September 2017, no later than 10:00 (CEST) on, what is expected to be, the fourth trading day following the end of the Pre-emptive Subscription Period (expected to be 1 October 2020). The files must be received by the Agent with the breakdown of investors described in the aforementioned Practical Guide and the information contained in the declarations made by Eligible Shareholders and/or Investors when placing subscription orders regarding their nationality and that the Subscription Rights being exercised have not been purchased in breach of the Permitted Maximum (if any), without the Agent being responsible under any circumstances for verifying the integrity and accuracy of the data provided by the Participant Entities. Only the Participant Entities will be responsible for errors or omissions in the information provided by Participant Entities, defects in the files or electronic transmissions sent and, in general, any failure on the part of the Participant Entities to comply with the provisions of this section, without the Agent assuming any responsibility in this regard. Notwithstanding the foregoing, Participant Entities will not be responsible for any errors or omissions in the information contained in the declarations made by Eligible Shareholders and/or Investors when placing subscription orders regarding their nationality and the confirmation that the Subscription Rights being exercised have not been purchased in breach of the Permitted Maximum (if any).

The Agent may choose not to accept those communications from Participant Entities that have been sent at a time or date subsequent to that indicated, or those that do not meet any of the requirements or instructions required for these communications in this Prospectus or in applicable legislation in force, without the Agent assuming any responsibility and without prejudice to any possible liability that may be incurred by the infringing Participant Entity with regard to the holders of the orders placed within the period with such Participant Entity.

The Subscription Price of the New Shares subscribed for during the Pre-emptive Subscription Period must be paid up in full in accordance with the provisions of section 3.6 (*Method and time limits for paying up the securities*) below.

(B) Allocation Period for Additional Shares (2nd round)

In the event that any Excess Shares exist at the end of the Pre-emptive Subscription Period, a process for the allocation of Additional Shares will be opened. In this period, the Excess Shares will be distributed, among the Eligible Shareholders and/or Investors who applied to subscribe for Additional Shares, in the manner indicated below.

The Additional Shares will be allocated on, what is expected to be, the fourth trading day following the date on which the Pre-emptive Subscription Period ends (the "**Allocation Period for Additional Shares**"). The Additional Shares are expected to be allocated on 1 October 2020.

It is expected that, on 1 October 2020, the Agent will determine the number of Excess Shares and allocate them, ensuring that the Ownership and Control Requirements are not breached and, where applicable, that the Permitted Maximum is not surpassed, to those Eligible Shareholders and/or Investors who have applied for Additional Shares. Under no circumstances will Eligible Shareholders and/or Investors be awarded more Additional Shares than they applied for. The award of Additional Shares is subject to the existence of Excess Shares following the Pre-emptive Subscription Period.

If the number of Additional Shares requested to be subscribed for in the Allocation Period for Additional Shares is equal to or less than the number of Excess Shares, they will be allocated to the applicants with no special preference, as long as the Permitted Maximum is not in place and in so far as the Ownership and Control Requirements are not breached, until the requests are covered in full. In the event that the Ownership and Control Requirements would be breached as a result of the allocation with no special preference amongst applicants, the Additional Shares will be awarded to the applicants that are Qualifying Persons with no limitation and to the applicants that are Non-Qualifying Persons on a pro rata basis relating to the volume of request amongst such applicants until the Ownership and Control Requirements would be surpassed. The calculation of the Additional Shares to be awarded to the applicants that are Qualifying Persons and to the Non-Qualifying Persons will be done prior to the allocation of such Additional Shares. Such Additional Shares will be allocated at the same time to both Qualifying Persons and Non-Qualifying Persons (on, what is expected to be, the fourth trading day following the date on which the Pre-emptive Subscription Period ends).

Additionally, if the Company specifies a Permitted Maximum before the end of the Pre-emptive Subscription Period and the number of Additional Shares requested to be subscribed for in the Allocation Period for Additional Shares is equal to or less than the number of Excess Shares, such Additional Shares will be awarded on, what is expected to be, the fourth trading day following the date on which the Pre-emptive Subscription Period ends to the applicants that are Qualifying Persons with no limitation and to the applicants that are Non-Qualifying Persons on a pro rata basis relating to the volume of request amongst such applicants until the Permitted Maximum would be surpassed.

If, following the allocation of Additional Shares amongst Eligible Shareholders and/or Investors any excess Additional Shares remain unsubscribed for, such Additional Shares shall not be allocated to Eligible Shareholders and/or Investors that are Non-Qualifying Persons in so far as the Ownership and Control Requirements would be breached or, if in place, the Permitted Maximum would be surpassed and they shall be allocated in the Discretionary Allocation Period in accordance with the rules described in section 3.1(C) (*Discretionary Allocation Period (3rd round)*) below.

If the number of Additional Shares requested to be subscribed for is greater than the Excess Shares, the Agent will allocate them on a pro-rata basis, ensuring that the Ownership and Control Requirements or, if in place, the Permitted Maximum are not breached, in accordance with the following rules:

- The Excess Shares will be awarded in proportion to the volume of Additional Shares requested, using the percentage that the Additional Shares requested by each subscriber represent with respect to the overall total Additional Shares requested by Eligible Shareholders and/or Investors. The Agent will calculate the percentage, which will be rounded down to three decimals, of the number of additional New Shares a given holder of Pre-emptive Subscription Rights has requested, divided by the aggregate of additional New Shares requested (for example, 0.56983% will be rounded down to 0.569%).

- The Agent will then allocate to the holders of Pre-emptive Subscription Rights the number of additional New Shares that this percentage represents on the additional New Shares available, rounded down to the nearest whole number of additional New Shares.

- If, after applying the provisions of the paragraphs above, there are Excess Shares that were not awarded due to the rounding effect, such Excess Shares will be distributed one by one in order from the largest to smallest request and, if the requests are the same, in alphabetical order of the Eligible Shareholders and/or Investors according to the first position (or, if they are the same, the following position) in the "Name and Surnames or Company Name" field, regardless of its content, that appears in the electronic transmissions sent by the Participant Entities, starting with the letter "A".

If during the process of allocation of the Additional Shares by the Agent, the Ownership and Control Requirements are at risk of being breached and therefore the Permitted Maximum is established, the Agent will carry out the calculation of the allocation of any Additional Shares (i) first to Eligible Shareholders and/or Investors that are Qualifying Persons in accordance with the above-described rules; and (ii) then to Eligible Shareholders and/or

Investors that are Non-Qualifying Persons on a pro rata basis relating to the volume of request amongst such Eligible Shareholders and/or Investors until the Permitted Maximum would be surpassed. The allocation of New Shares to both Qualifying Persons and Non-Qualifying Persons in the Allocation Period for Additional Shares will take place at the same time (on, what is expected to be, the fourth trading day following the date on which the Pre-emptive Subscription Period ends).

Alternatively, if during the process of allocation of the Additional Shares by the Agent, the Permitted Maximum is not in place but, in the Company's and the Joint Global Coordinators and Joint Bookrunners' assessment (acting in good faith), the Ownership and Control Requirements are at risk of being breached, the Agent will carry out the calculation of the allocation of any Additional Shares: (i) first to Eligible Shareholders and/or Investors that are Qualifying Persons in accordance with the above-described rules; and (ii) secondly to Eligible Shareholders and/or Investors that are Non-Qualifying Persons on a pro rata basis relating to the volume of request amongst such Eligible Shareholders and/or Investors that are Non-Qualifying Persons so as to ensure that the Ownership and Control Requirements are not breached. The allocation of New Shares to both Qualifying Persons and Non-Qualifying Persons in the Allocation Period for Additional Shares will take place at the same time (on the fourth trading day following the date on, what is expected to be, which the Pre-emptive Subscription Period ends).

The Agent will notify the Participant Entities through which the respective requests for Additional Shares were made of the number of Excess Shares allocated to those Eligible Shareholders and/or Investors requesting Additional Shares on, what is expected to be, the fourth trading day following the date on which the Pre-emptive Subscription Period ends. The aforementioned notice is expected to be sent by the Agent to the Participant Entities on 1 October 2020.

The Excess Shares allocated to those Eligible Shareholders and/or Investors requesting Additional Shares will be deemed to be subscribed for during the Allocation Period for Additional Shares.

The Subscription Price of the Excess Shares allocated during the Allocation Period for Additional Shares must be paid up in full in accordance with the provisions of section 3.6 (*Method and time limits for paying up the securities*) below.

(C) Discretionary Allocation Period (3rd round)

Once the Allocation Period for Additional Shares ends, if the Shares subscribed for during the Pre-emptive Subscription Period, together with the Additional Shares requested by the Eligible Shareholders and/or Investors, are not sufficient to cover all of the New Shares subject to this Capital Increase (the Shares resulting from the difference between the total New Shares and those subscribed in the Pre-emptive Subscription Period and in the Allocation Period for Additional Shares will be known as the "**Discretionary Allocation Shares**"), the Company and Banco Santander, as the Agent, will notify the Joint Global Coordinators, as the entities in charge of keeping the records, no later than 17:00 (CEST) on, what is expected to be, the fourth trading day following the end of the Pre-emptive Subscription Period (expected to be 1 October 2020).

The discretionary allocation period is expected to begin, where applicable, any time following the end of the Allocation Period for Additional Shares and to end no later than 11:00 (CEST) on 2 October 2020 (the "**Discretionary Allocation Period**"), without prejudice to the ability of the Joint Global Coordinators and Joint Bookrunners (acting on behalf of the Underwriters) to terminate it prior to such time. If the Discretionary Allocation Period is opened, the Company will notify the CNMV by way of an Inside Information Notice.

If all of the New Shares are subscribed for during the Pre-emptive Subscription Period and the Allocation Period for Additional Shares, there will be no Discretionary Allocation Period. The Agent will notify the Participant Entities of this no later than 18:00 (CEST) on 1 October 2020.

During the Pre-emptive Subscription Period, the Allocation Period for Additional Shares and the Discretionary Allocation Period, the Underwriters will actively carry out marketing and promotional activities to generate subscription requests for the New Shares, where applicable, from potential Spanish and foreign investors (in countries where this is permitted under local legislation, but not in the Excluded Territories other than the United States in accordance with applicable law and regulation).

In the hypothetical case that no New Shares are subscribed by Eligible Shareholders and/or Investors during the Pre-emptive Subscription Period and/or the Allocation Period for Additional Shares, the number of Discretionary Allocation Shares will be equal to the number of New Shares less the Irrevocable Shares. Under the terms of the Underwriting Agreement (unless it does not become unconditional and/or it has been terminated in accordance with its terms), the Underwriters shall use reasonable endeavours to procure subscribers for such Discretionary Allocation Shares. See section 10.2 (*Underwriting Agreement*) of Part XI (*Additional Information*).

During the Discretionary Allocation Period, those persons considered qualified investors in Spain, as this term is defined in Article 2 of the Prospectus Regulation, those considered professional clients within the meaning set forth in Article 205 of the Capital Markets Act, those considered eligible counterparties within the meaning set forth in Article 207 of the Capital Markets Act, and those considered qualified investors outside of Spain in accordance with the legislation applicable in each jurisdiction, such that pursuant to applicable legislation, the subscription and payment of the New Shares does not require any registration or approval other than that expected to be obtained in the foreign countries where the Shares are traded or are not restricted by securities markets regulations in the respective jurisdiction, may submit proposals for subscribing the Discretionary Allocation Shares with any of the Underwriters.

Once submitted, the subscription proposals for Discretionary Allocation Shares may not be revoked or modified by investors (except (i) where a supplementary prospectus is published, in which case such investors will have the right, exercisable within two working days after publication of such supplementary prospectus, to withdraw subscription requests made before the publication of such supplementary prospectus or (ii) the Underwriting Agreement is terminated in which case the subscription proposals for Discretionary Allocation Shares will be automatically revoked), and will include the number of Discretionary Allocation Shares that each investor is willing to subscribe for at the Subscription Price and details of the nationality of such investors. In the event the Underwriting Agreement is terminated, requests for subscription of New Shares in the Discretionary Allocation Period will be without effect. For more information on the terms of the Underwriting Agreement see section 10.2 (*Underwriting Agreement*) of Part XI (*Additional Information*).

The Joint Global Coordinators and Joint Bookrunners will notify the Company of the final volume of subscription proposals for Discretionary Allocation Shares received on or before 11:00 (CEST) on the day corresponding to the end of the Discretionary Allocation Period (estimated to be 2 October 2020). In addition, for the purposes of ensuring that the Ownership and Control Requirements are not breached and that, if in place, the Permitted Maximum is not surpassed, the Joint Global Coordinators and Joint Bookrunners must also notify the Company of the nationality of each of the investors that has submitted subscription proposals for Discretionary Allocation Shares and the total volume of subscription proposals from Non-Qualifying Persons.

If there is excess demand for Discretionary Allocation Shares, the Joint Global Coordinators and Joint Bookrunners will determine the final allocation of the Discretionary Allocation Shares among the applicants as soon as possible, having consulted with the Company with respect to such allocations, which shall ensure that the Ownership and Control Requirements are not breached and that, if in place, the Permitted Maximum is not surpassed.

Once the allocations of Discretionary Allocation Shares are reported to investors and such investors confirm their acceptance, their proposals will automatically become final subscription orders, unless the Underwriting Agreement is terminated or a supplementary prospectus is published, in which case they will be revoked.

As detailed in section 10.2 (*Underwriting Agreement*) of Part XI (*Additional Information*), on 9 September 2020, the Company entered into an Underwriting Agreement with the Underwriters, with regard to the underwriting of the Capital Increase.

For operational purposes, to allow the admission of the New Shares to listing to take place as soon as possible, by virtue of the Underwriting Agreement, Morgan Stanley (the "**Pre-Funding Bank**") has agreed to subscribe for and pre-fund in full the subscription monies corresponding to the Discretionary Allocation Shares allocated to subscribers during the Discretionary Allocation Period or otherwise to be acquired by the Underwriters pursuant to their underwriting commitments, subject to the satisfaction or waiver of the conditions contained in the Underwriting Agreement.

Consequently:

(i) The Pre-Funding Bank undertakes, acting in the name and on behalf of the Underwriters in proportion to their underwriting commitment, which in turn act in the name and on behalf of the final investors, to pre-fund the number of Discretionary Allocation Shares that may be subject to placement during the Discretionary Allocation Period under the terms envisaged in section 3.6 (*Method and time limits for paying up the securities*) below.

(ii) If, once the Discretionary Allocation Period has ended, the sum of the New Shares subscribed for by the Eligible Shareholders and/or Investors in the Pre-emptive Subscription Period and in the Allocation Period for Additional Shares and, where applicable, by qualified Spanish or foreign investors in the Discretionary Allocation Period (together the "**Subscribed Shares**"), is less than the total number of New Shares (the total number of New Shares less the Subscribed Shares being the "**Unsubscribed Shares**"), the Underwriters undertake to subscribe for and pay up the Unsubscribed Shares (save to the extent such Unsubscribed Shares represent Irrevocable Shares) (the "**Relevant Underwritten Shares**"), in accordance with their respective underwriting obligations.

The Subscription Price of each New Share subscribed for during the Discretionary Allocation Period must be paid up in full in accordance with the provisions of section 3.6(C) (*Method and time limits for paying up the securities*) below, in particular in relation to the execution, if applicable, of the special stock exchange transaction for the transfer of the Discretionary Allocation Shares by the Underwriters to the final investors (the "**Special Stock Exchange Transaction**").

Notwithstanding the above, if there are Discretionary Allocation Shares once the Allocation Period for Additional Shares has ended, the Joint Global Coordinators may decide not to open the Discretionary Allocation Period or to close it early, in which case the Underwriters will subscribe for the Relevant Underwritten Shares at the Subscription Price in accordance with their respective underwriting obligations.

3.2 Withdrawal and termination

No grounds for termination or revocation of the Capital Increase that is the subject matter of this Prospectus are envisaged other than those that may arise from the application of law or compliance with a court or administrative ruling or as per set out below.

The Underwriting Agreement may be terminated (thereby terminating the envisaged underwriting and pre-funding obligations), if, at any time between 9 September 2020 and the Closing Time any grounds for termination arise in accordance with the terms and conditions set out in the Underwriting Agreement and described in section 10.2 (*Underwriting Agreement*) of Part XI (*Additional Information*) below, with the consequences described therein.

Furthermore, if the Underwriting Agreement is terminated and the Company decides to withdraw the Capital Increase, the Company, the Participant Entity or the Agent, where applicable, will be required to return the amount corresponding to the funds provided to said applicant, free of any expenses or fees, within the following two business days and, in any case in accordance with the procedures applicable to the relevant entity.

The underwriting obligations of the Underwriters and the pre-funding obligations of the Pre-Funding Bank under the Underwriting Agreement are subject to compliance with certain conditions, which are customary in such transactions and which must be satisfied or waived before the Capital Increase deed is registered with the Commercial Registry. Otherwise, the underwriting and pre-funding obligations of the Pre-Funding Bank shall not be effective.

If any such conditions are not satisfied or waived, or any of the specified circumstances arises, or the Underwriting Agreement is otherwise terminated, then the subscription of Discretionary Allocation Shares during the Discretionary Allocation Period by investors or the Underwriters, as applicable, will not occur and requests for the subscription of such Discretionary Allocation Shares will be without effect. In such a case, any amounts funded in advance by the Pre-Funding Bank for the New Shares will be returned by the Company, free of any expenses or fees.

If there is a delay in returning the funds, the Company will be obliged to pay a late payment interest at the legal interest rate in force, which will accrue from the date on which the funds should have been returned until the effective refund takes place.

If the Underwriting Agreement is terminated in accordance with its terms, such termination will be announced by the Company through the publication of an Inside Information Notice or Other Relevant Information Notice, as the case may be, in the CNMV's website (www.cnmv.es) as soon as possible.

In addition, in case that the Underwriting Agreement is terminated or if the underwriting and pre-funding obligations of the Pre-Funding Bank under the Underwriting Agreement do not come into force as a result of the failure to fulfil or waive any conditions precedent, such events will be considered a significant factor which requires the publication of a supplementary prospectus.

Moreover, should a significant new event occur between the date the Prospectus is registered with the CNMV and the Closing Time (including, among others, as indicated in Part I (*Risk Factors*) if the Underwriting Agreement is terminated in accordance with its terms as described in section 10.2 (*Underwriting Agreement*) of Part XI (*Additional Information*)) the Company will publish a supplementary prospectus.

In such event, within two working days from publication of such supplementary prospectus, the Eligible Shareholders and/or Investors will be able to revoke the subscription order according to article 23.2 of the Prospectus Regulation, as specified in section 3.5 (*Withdrawal of applications*) below, and the Participant Entity or the Agent, where applicable, will be required to return the amount corresponding to the funds provided to said applicant, free of any expenses or fees, within the following two business days and, in any case in accordance with the procedures applicable to the relevant entity. If there is a delay in returning the funds, the Participant Entity or the Agent, where applicable, will be obliged to pay a late payment interest at the legal interest rate in force, which will accrue from the date on which the funds should have been returned until the effective refund takes place. Investors who had acquired Preferential Subscription Rights in the market and revoke such subscriptions will lose such investment.

Where the New Shares have already been paid for by the Pre-Funding Bank, the principal consequence of the publication of a supplementary prospectus due to the termination of the Underwriting Agreement is that the Company would be obligated to return the proceeds paid at the Offering Price (if any) in respect of the New Shares by the Pre-Funding Bank, together with interest accrued from the date on which they paid for the New Shares until the date on which the Company repays the Offering Price.

In addition, in the event of publication of a supplementary prospectus, subscriptions made during the Discretionary Allocation Period may be revoked. However, as previously indicated, in the event the Underwriting Agreement is terminated in accordance with its terms, the subscriptions made during the Discretionary Allocation Period will be without effect.

3.3 Reduction of subscriptions and refund of excess amounts

The possibility of reducing subscription orders already submitted in the Pre-emptive Subscription Period has been envisaged only in respect of orders related to additional Subscription Rights acquired by Eligible Shareholders and/or Investors that are Non-Qualifying Persons and exclusively in the event that their exercise would cause the Ownership and Control Requirements to be breached or, where specified, the Permitted Maximum to be surpassed. The maximum number of Additional Shares that may be subscribed for by the Eligible Shareholders and/or Investors will depend on the number of Excess Shares and the rules for allocating Excess Shares described in section 3.1 (*Subscription periods*) above.

As specified in section 3.6 (*Method and time limits for paying up the securities*) below, the Participant Entities may request that subscribers provide funds for the amount corresponding to the Subscription Price of the Additional Shares. In any case, if the number of Additional Shares finally allocated to each applicant is less than the number of Additional Shares requested thereby, including the event in which the allocation of Additional Shares requested by Eligible Shareholders and/or Investors that are Non-Qualifying Persons is not taken into account or not met in full by the Agent by virtue of the Ownership and Control Requirements being breached or, if specified, the Permitted Maximum being reached*,* the relevant Participant Entity will be required to return the amount corresponding to the funds provided, or the amount corresponding to the excess not awarded, to said applicant, free of any expenses or fees, in accordance with the procedures applicable to these entities. If there is a delay in returning the funds, the relevant Participant Entity will be obliged to pay a late payment interest at the legal interest rate in force, which will accrue from the date on which the funds should have been returned until the effective refund takes place.

Nevertheless, investors may revoke their subscription orders in those cases and under the terms indicated in section 3.2 (*Withdrawal and termination*) above.

3.4 Minimum and maximum amount of applications

The amount of New Shares that may be subscribed during the Pre-emptive Subscription Period by the Eligible Shareholders and/or Investors will be that resulting from applying a ratio of 3 New Shares for every 2 Subscription Rights, with one Subscription Right corresponding to every Existing Share.

In addition, those Eligible Shareholders and/or Investors subscribing for New Shares that submit requests for Additional Shares during the Pre-emptive Subscription Period may subscribe for Additional Shares under the terms indicated in section 3.1 (*Subscription periods*) above. The effective maximum number of Additional Shares that may be subscribed for by Eligible Shareholders and/or Investors will depend on the number of Excess Shares and the rules for allocating Excess Shares described in section 3.1 (*Subscription periods*) above.

The Discretionary Allocation Period will not have any minimum or, within the limits of the number of New Shares (excluding any New Shares that represent Irrevocable Shares) being offered by virtue of the Capital Increase that have not been subscribed for before the start of the Discretionary Allocation Period, maximum number for the subscription proposals submitted by the investors in question. The effective number of Discretionary Allocation Shares that may be subscribed for during the Discretionary Allocation Period will depend on the number of New Shares (excluding any New Shares that represent Irrevocable Shares) that have not been subscribed following the Pre-emptive Subscription Period and the Allocation Period for Additional Shares, as well as on the application for Discretionary Allocation Shares carried out by Non-Qualifying Persons in the event the Ownership and Control Requirements would be breached or the Permitted Maximum is in place and/or would be surpassed.

3.5 Withdrawal of applications

New Share subscription orders placed during the Pre-emptive Subscription Period and, where applicable, subscription requests in the Allocation Period for Additional Shares, will be considered final subscription orders and, therefore, will be irrevocable, without prejudice to the fact that the aforementioned requests for Additional Shares may not be met in full in accordance with the rules applied for allocating Excess Shares described in section 3.1 (*Subscription periods*) above and unless a supplementary prospectus is published before the closing of the public offer.

In this regard, in the event that the Underwriting Agreement terminates in accordance with its terms (see section 10.2 (*Underwriting Agreement*) below), this will be considered a significant factor which requires the publication of a supplementary prospectus. In such event, Eligible Shareholders and/or Investors who have subscribed for New Shares in exercise of Subscription Rights and Additional Shares will have the right, exercisable within two working days after publication of such supplementary prospectus, to withdraw their subscriptions or requests, as applicable, if such significant factor arises before the Closing Time.

Once submitted, the subscription proposals for Discretionary Allocation Shares may not be revoked or modified by investors, except (i) where a supplementary prospectus is published, in which case such investors will have the right, exercisable within two working days after publication of such supplementary prospectus, to withdraw subscription requests made before the publication of such supplementary prospectus or (ii) the Underwriting Agreement is terminated in which case the subscription proposals for Discretionary Allocation Shares will be automatically revoked.

3.6 Method and time limits for paying up the securities

(A) New Shares subscribed in the Pre-emptive Subscription Period (1st Round)

The Subscription Price of each New Share subscribed for during the Pre-emptive Subscription Period must be paid up in full by the Eligible Shareholders and/or Investors when the New Shares are subscribed for (i.e. when the subscription order is placed), through Iberclear's Participant Entities through which the subscription orders are placed. If the relevant Participant Entity has not received full payment of the Subscription Price for each New Share on or before the expiration date of the Pre-emptive Subscription Period, the Subscription Rights whose exercise was intended will, in the same manner as any other Subscription Rights not exercised on such date (including those Affected Rights acquired by a non-EEA investor in breach of the prohibition and not sold to a Qualifying Person), expire and holders of such Subscription Rights will not receive compensation.

According to the proposed timetable, the Participant Entities with which subscription orders for New Shares are placed will pay the amounts corresponding to the payment for the New Shares subscribed during the Pre-emptive Subscription Period in an account with the Agent through the channels made available by Iberclear, such that they are received by the Agent no later than 10:00 (CEST) on 2 October 2020 (before the Company declares the Capital Increase executed and grants the corresponding Capital Increase deed before a Spanish public notary), with the value date being the same day.

(B) New Shares subscribed in the Allocation Period for Additional Shares (2nd Round)

The Subscription Price of each New Share subscribed for during the Allocation Period for Additional Shares must be paid up in full no later than 10:00 (CEST) on 2 October 2020 (before the Company declares the Capital Increase executed and grants the corresponding Capital Increase deed before a Spanish public notary) through the Participant Entities with which their subscription orders for Additional Shares were placed. Requests for Additional Shares that are not paid up in accordance with the terms indicated will not be considered to have been placed.

Nevertheless, Participant Entities may require subscribers to advance the funds corresponding to the Subscription Price of the Additional Shares requested. If a holder requesting Additional Shares is required to prefund such New Shares, if the number of Additional Shares finally allocated to such holder is less than the number of Additional Shares requested and prefunded, the Participant Entity will be required to return the amount corresponding to the advanced funds, or to the excess not awarded, to said holder, free of any expenses or fees, with a value date of the business day following the end of the Allocation Period for Additional Shares, in accordance with the procedures applicable to these Participant Entities. If there is a delay in returning the funds, the Participant Entity will be obliged to pay a late payment interest at the legal interest rate in force, which will accrue from the date on which the funds should have been returned until the effective refund takes place.

The Participant Entities with which subscription orders for Additional Shares are placed will pay the amounts corresponding to the payment for such Additional Shares in an account with the Agent through the channels made available by Iberclear, such that they are received by the Agent no later than 10:00 (CEST) on 2 October 2020 (before the Company declares the Capital Increase executed and grants the corresponding Capital Increase deed before a Spanish public notary), with the value date being the same day.

(C) New Shares subscribed in the Discretionary Allocation Period

The Subscription Price of the Discretionary Allocation Shares must be paid up in full by the final investors awarded the New Shares no later than the Settlement Date (as this term is defined below in this section), without prejudice to the pre-funding envisaged in this section.

For operational reasons, and in order for the New Shares to be admitted to trading on the Spanish Stock Exchanges as soon as possible, prior to executing and registration of the public deed relating to the Capital Increase in the Mercantile Registry, the Pre-Funding Bank, acting in the name and on behalf of the Underwriters in proportion to their underwriting commitment, which in turn act in the name and on behalf of the final investors, have undertaken to make a prepayment for the amount corresponding to the number of Discretionary Allocation Shares subscribed during the Discretionary Allocation Period that does not exceed the number of Relevant Underwritten Shares (the "**Shares Subject to Pre-funding**"), within the limits indicated in section 10.2 (*Underwriting Agreement*) below, and to subscribe and pay these Shares Subject to Pre-funding for the amount and in the proportion envisaged in the Underwriting Agreement. The pre-funding amount must be received by the Agent, without deducting any fees or expenses, no later than the Pre-funding Time (11:00 (CEST) on 2 October 2020).

This payment must be made all at once on the same value date through a funds transfer order. The total amount corresponding to the payment of the Shares Subject to Pre-funding will be deposited in the bank account open in the name of the Company in the Agent.

(D) Registration, Delivery and Admission of the New Shares

Once the Capital Increase is paid up and the certificate or certificates are issued accrediting the deposit of the funds corresponding to all New Shares subscribed, the Capital Increase will be declared closed and subscribed by the Board of Directors or, by substitution or delegation, by the person(s) appointed thereby, and the Company will execute the corresponding Capital Increase deed, which will be subsequently submitted to and registered with the Mercantile Registry of Madrid.

Once this registration is carried out, which is expected to take place on 5 October 2020, the Capital Increase deed will be delivered to the CNMV, Iberclear and the Spanish Stock Exchanges. The Company shall also request the admission to trading of the New Shares on the Spanish Stock Exchanges. The New Shares issued as a result of the exercise of Subscription Rights or allocation rights during the Allocation Period for Additional Shares or the Discretionary Allocation Period will be registered with Iberclear as soon as possible following the registration of the Capital Increase deed with the Mercantile Registry of Madrid.

Iberclear will provide the Eligible Shareholders and/or Investors with the book entries references corresponding to their respective positions for the New Shares subscribed during the Pre-emptive Subscription Period and the Allocation Period for Additional Shares through Iberclear's members and Participant Entities. Iberclear will also provide the Pre-Funding Bank with the corresponding book entries references relating to the Shares Subject to Pre-funding paid by each of them, where applicable.

The Pre-Funding Bank will transfer the Shares Subject to Pre-funding to the final investors or, where applicable, to the other Underwriters in proportion to their underwriting obligation through the execution of the Special Stock Market Transaction, as these types of transactions are defined in Royal Decree 1464/2018, of 21 December.

The Special Stock Market Transaction described is expected to take place on 6 October 2020. In turn, the Underwriters must send the Agent files with the information on the final investors for the shares corresponding to the Discretionary Allocation Period, which must comply with the specifications indicated in the Practical Guide for Corporate Events prepared by the Spanish Banking Association and the Spanish Confederation of Savings Banks published by Iberclear on 10 March 2016, no later than 18:00 (CEST) on the day the corresponding to the execution of the aforementioned Special Stock Market Transaction takes place.

The New Shares are expected to be admitted to trading on the Spanish Stock Exchanges, in accordance with the timetable, on 6 October 2020 through the AQS, whereby the first day of trading of the New Shares is expected to be 7 October 2020 and, if necessary, the New Shares awarded during the Discretionary Allocation Period (through the Special Stock Market Transaction) is expected to be settled, in accordance with the planned timetable, on 8 October 2020 (the "**Settlement Date**").

After the Underwriters transfer the New Shares allocated during the Discretionary Allocation Period to the final investors, the Agent will report to Iberclear, through the Spanish Stock Exchanges, the information relating to the entities that were allocated the New Shares such that the registration is carried out in accordance with the information provided by the Joint Global Coordinators and Joint Bookrunners.

Nevertheless, the aforementioned periods indicated in this section may not be met and, therefore, there may be a delay in executing the transactions described.

Each of the subscribers of the New Shares will have the right to obtain a signed copy of the subscription form with the contents required by Article 309 of the Spanish Companies Act from the Participant Entity with which the subscription was placed.

The New Shares will be registered with Iberclear's central registry once the Capital Increase is registered with the Mercantile Registry. On the same day as the registration with Iberclear's central registry takes place, the Participant Entities will carry out the corresponding registrations in their accounting records in favour of the investors who subscribed for the New Shares.

The subscribers of the New Shares will have the right to obtain the certificates of ownership corresponding to their Shares from the Participant Entities in which the New Shares are registered, in accordance with the provisions of Royal Decree 878/2015, of 2 October, on the clearing, settlement and registration of book-entry securities, on the legal regime for central securities depositories and central counterparties and on transparency requirements for issuers of securities admitted to trading on an official secondary market (*Real Decreto 878/2015, de 2 de octubre, sobre compensación, liquidación y registro de valores negociables representados mediante anotaciones en cuenta, sobre el régimen jurídico de los depositarios centrales de valores y de las entidades de contrapartida central y sobre requisitos de transparencia de los emisores de valores admitidos a negociación en un mercado secundario official*) (the "**RD 878/2015**"). Participant Entities must issue these certificates prior to the end of the trading day following that on which they were requested by the subscribers.

3.7 Publication of the results of the Capital Increase

The Company will make the following events public to the market through Inside Information Notices or Other Relevant Information Notices, as the case may be, on the website of the CNMV (www.cnmv.es):

(i) On or around 10 September 2020, announcement of the Capital Increase and approval and registration of the Prospectus by the CNMV.

(ii) On or around 1 October 2020, after the end of the Pre-emptive Subscription Period, the number of New Shares subscribed for during that period and, where applicable, the number of Additional Shares allotted during the Allocation Period for Additional Shares, indicating whether the Capital Increase has been fully covered, whether pro rata allocation of Additional Shares has been applied or whether the Discretionary Allocation Period has started.

(iii) On or around 2 October 2020, after the end of the Discretionary Allocation Period, the result of the Capital Increase, reflecting the number of New Shares subscribed for in each period.

(iv) On or around 2 October 2020, granting of the public deed of the Capital Increase.

(v) On or around 5 October 2020, the registration of the public deed of the Capital Increase with the Commercial Registry of Madrid and the expected date of admission to trade.

(vi) On or around 6 October 2020, the verification of the admission requirements by the CNMV and the admission to trading of the New Shares.

3.8 Procedure for the exercise of any pre-emption right

Eligible Shareholders and/or Investors who hold Subscription Rights for the New Shares acquired during the Pre-emptive Subscription Period shall be entitled to pre-emptive subscription in so far as the Permitted Maximum is not in place.

If the Board of Directors sets a Permitted Maximum, further acquisitions of Subscription Rights by non-EEA Eligible Shareholders and/or Investors from the time at which the Permitted Maximum is specified would be prohibited. As a result, Non-Qualifying Persons that bought the Subscription Rights in breach of the Permitted Maximum may be served an Affected Rights Notice and will be required to transfer such Subscription Rights to a Qualifying Person and will not be able to exercise such Subscription Rights and receive New Shares as part of the Capital Increase. See section 1.2 (*Subscription Rights*) of above.

On the trading day following the Record Date (the "**Payment Date**"), which is expected to be 16 September 2020, Iberclear will credit the Subscription Rights corresponding thereto in the accounts of the Participant Entities, sending them the related communications such that they can in turn credit these to the accounts of the Eligible Shareholders.

3.9 Negotiability of Subscription Rights

Subscription Rights are transferable under the same conditions as the New Shares, to which they relate, in accordance with the provisions of Article 306.2 of the Spanish Companies Act, and must be traded on the Spanish Stock Exchanges.

In particular, provisions of articles 6, 7, 10 and 11 of the By-laws shall apply, *mutatis mutandi*, to the transfer of the Subscription Rights, therefore, if the Board of Directors decides at any given time and, in any event, before the end of the Pre-emptive Subscription Period, to set a Permitted Maximum, the restrictions on the acquisition of the Shares by a Non-Qualifying Person after the publication of the relevant announcement set out in article 11 of the By-laws, that is, the prohibition of acquisitions of Shares by Non-Qualifying Persons will also apply to the acquisition of the Subscription Rights. See section 1.2 (*Subscription Rights*) above and section 6.4 (*Ownership and Control Requirement*) of Part XI (*Additional Information*).

3.10 Treatment of unexercised Subscription Rights

Any Subscription Rights not exercised (including those Affected Rights acquired by a Non-Qualifying Person in breach of the prohibition and not sold to a Qualifying Person) will automatically expire at the end of the Pre-emptive

Subscription Period and will no longer hold any value. Holders that have not exercised those Subscription Rights will not receive compensation for any expired Subscription Rights

3.11 Underlying carrying amount of Subscription Rights

Using the value of the Shares prior to the Capital Increase, amounting to €2.21 per share (closing price of the Company's shares on the Madrid stock exchange on the Latest Practicable Date), the underlying carrying amount of each Subscription Right of the New Shares would be €0.77, which is the result of applying the following formula:

$$UCA = \frac{(CPS — SPE) \times MSI}{PNS + MSI}$$

Where:

- **UCA**: Underlying carrying amount of each Subscription Right.
- **CPS**: Closing price of the Shares on the continuous market on 9 September 2020 (i.e. €2.21 per Share).
- **SPE**: Subscription Price (€0.92).
- **PNS**: Number of Shares prior to the Capital Increase (1,992,032,634 Shares).
- **MSI**: Maximum number of New Shares to be issued in the Capital Increase (2,979,443,376 Shares).

However, Subscription Rights will be freely tradeable and it is therefore impossible to anticipate their future market value.

4. CHARACTERISTICS OF THE OFFER AND THE CDI RIGHTS IN THE UNITED KINGDOM

Persons who hold their Shares in a securities account with a participant in Iberclear should refer to section 3 (*Subscription of New Shares*) above.

EC Nominees Limited is the registered shareholder of the New Shares to which CDI Holders are entitled. As a result of the Capital Increase, EC Nominees Limited will receive Subscription Rights to acquire New Shares by virtue of its current shareholding in the Company. It is expected that such rights will be transferred for the account of Euroclear Bank on behalf of CDI Holders.

The CDI rights are expected to commence trading on the Main Market of the LSE on 14 September 2020. All trades in the CDI Rights executed on 14 September 2020 will be subject to deferred settlement and are expected to settle on a T+3 basis on 17 September 2020, in order that settlement coincides with the expected date of accreditation of CDI Rights in CREST. Trades in CDI rights executed on all other days apart from 14 September 2020 is expected to settle on a T+2 basis. CDI Rights trading will cease at 14:30 (BST) on 25 September 2020.

Note that the anticipated schedule is subject to change and, with regard to final CREST deadlines please refer to the CREST Graphical User Interface.

4.1 Allocation of CDI Rights

In order to allow CDI Holders to participate in the Capital Increase, Euroclear UK & Ireland will arrange for the stock accounts of registered CDI Holders to be credited with CDI Rights to acquire New CDIs. Euroclear UK & Ireland will arrange for the credit of CDI Rights to the CREST accounts of those persons who are registered holders of CDIs as at 23:59 (CEST) on the Record Date as soon as practicable following the date of publication of the announcement of the Capital Increase in the BORME (each a "**CDI Rights Holder**"). The BORME announcement is expected to be published on 11 September 2020. If any transfer of CDIs has not settled by that time and date, the transferor, not the transferee, will be considered the CDI Holder for the purposes of the Capital Increase.

4.2 Subscription rights

For each existing CDI, the CDI Rights Holder will be entitled to one CDI Right, and 2 CDI Rights will be required to subscribe for 3 New CDIs. In accordance with the terms and conditions of the Capital Increase, each New CDI must be subscribed for in exercising the CDI Rights and paid up at the Subscription Price, i.e., €0.92 per New CDI and in accordance with the procedure set out in section 4.5 (*Procedure for exercise of CDI Rights through CREST*) below. Eligible Shareholders with fewer than 2 CDIs at 23:59 (CEST) on the Record Date will need to acquire additional CDI Rights in order to subscribe for New CDIs in the Capital Increase.

At the end of the Pre-emptive Subscription Period, CDI Rights that have not been exercised will expire and holders that have not exercised those CDI Rights will receive no compensation for any such expired CDI Rights.

For the avoidance of doubt: (A) in the event that any Discretionary Allocation Shares are subscribed for during the Discretionary Allocation Period, any premium received from such subscribers shall not be distributed to Shareholders under rule 9.5.4 of the UK Listing Rules; and (B) there shall be no entitlement to fractional shares as part of the Capital Increase under rule 9.5.13 of the UK Listing Rules.

If the Underwriting Agreement is terminated and the Company decides to withdraw the Capital Increase, Eligible Shareholders or Investors who have acquired CDI Rights in the secondary market will lose such investment and, as a result, suffer a loss, which may be significant. (see "*3.1 – The Underwriting Agreement between the Company and the Underwriters allows for the agreement to be terminated under certain circumstances, which may result in the Capital Increase being withdrawn by the Company and Investors who have acquired Subscription Rights losing such investment, and the underwriting commitment of the Underwriters is also subject to certain conditions*" of Part I (*Risk Factors*)).

4.3 Transferability of CDI Rights

The CDI Rights will be transferable under the same conditions as the Subscription Rights to which they attach and therefore transferability may be restricted if the Company specifies a Permitted Maximum in accordance with its By-laws.

CDI Rights will be freely transferable on the same terms as the New CDIs in respect of which they are exercisable and, in particular, provisions of articles 6, 7, 10 and 11 of the By-laws shall apply, *mutatis mutandis*, to the transfer or acquisition of the CDI Rights, with the corresponding adjustments or specialities that, from time to time, the Board of Directors may establish according to the nature of the CDI Rights. As a result, if, as described in section 6.4 (*Ownership and Control Requirement*) of Part XI (*Additional Information*), the Board of Directors decides at any given time (including before the end of the Pre-emptive Subscription Period) to specify a Permitted Maximum, the restrictions on the acquisition of Shares (including CDIs) by a Non-Qualifying Person after the publication of the relevant announcement set out in Article 11 of the By-laws, that is, the prohibition of further acquisitions of Shares (including CDIs) by Non-Qualifying Persons, will also apply to the acquisition of the CDI Rights.

In the event the Permitted Maximum is in place and a Non-Qualifying Person acquires CDI Rights (or CDIs) breaching the Permitted Maximum, such CDI Rights (or CDIs) will constitute Affected Rights and the Company may serve an Affected Rights Notice (in accordance with the provisions of article 11.9 of the By-laws): (i) requiring such Non-Qualifying Person to sell the Affected Rights to a Qualifying Person; and (ii) reiterating that such Non-Qualifying Person will not be allowed to exercise the Affected Rights.

The Subscription Rights will be admitted to trading in the form of CDI Rights on the London Stock Exchange at 8:00 (BST) on 14 September 2020 until 14:30 (BST) on 25 September 2020 (inclusive). Trades in CDI Rights which are carried out prior to the crediting of CDI Rights to CDI Rights Holders, expected to take place on 17 September 2020, will only be registered in CREST once the relevant CDI Rights have been credited to the eligible CDI Rights Holders.

4.4 Request for additional CDIs

During the Pre-emptive Subscription Period, CDI Rights Holders may, at the time of exercising their CDI Rights, in addition and on an unconditional and irrevocable basis request to subscribe for additional CDIs representing New Shares ("**Additional CDIs**") in contemplation of the possibility that, at the expiration of the Pre-emptive Subscription Period, there are Excess Shares and therefore, the total amount of this Capital Increase has not been covered. The process for request for Additional CDIs is set out in section 4.6 (*Procedure to request additional CDIs through CREST*) below.

In no event will CDI Rights Holders receive more New CDIs than requested by them. The allocation of Additional CDIs is subject to: (i) the existence of Excess Shares after the exercise of all Subscription Rights and CDI Rights; and (ii) the allotment of Additional Shares to Euroclear Bank. In circumstances where Euroclear Bank is not allocated sufficient Additional Shares to issue the total number of Additional CDIs requested, Euroclear UK & Ireland is expected to arrange for the issue of Additional CDIs to CDI Rights Holders pro rata to the number of Additional CDIs for which each CDI Rights Holder has made a valid request (i.e. using the same formula used for Additional Shares set out in section 3.1(B) (*Allocation Period for Additional Shares (2nd round)* above).

4.5 Procedure for exercise of CDI Rights through CREST

In order to exercise the CDI Rights, CDI Rights Holders must send (or, if they are CREST sponsored members, procure that their CREST sponsor sends) an Unmatched Stock Event instruction (a "**USE Instruction**") to Euroclear UK & Ireland which, on its settlement, will have the following effect: (i) the crediting of a stock account of Euroclear Bank under the participant ID and member account ID specified below, with the number of CDI Rights taken up; and (ii) the creation of a settlement bank obligation (as this term is defined in the CREST Manual), in accordance with the RTGS payment mechanism (as this term is defined in the CREST Manual), in favour of the RTGS settlement bank of Euroclear Bank in respect of the full amount payable on acceptance in respect of the CDI Rights referred to in (i) above.

As soon as practicable following the issue of the New Shares to Euroclear Bank (and subject to full reconciliation having been completed by Euroclear Bank), the stock account of the accepting CDI Rights Holder (being an account under the same participant ID and member account ID as the account from which the CDI Rights were debited on settlement of the USE Instruction) will be credited with the number of CDIs to which the CDI Rights Holder is entitled as a result of the holder exercising their CDI Rights referred to in sub-paragraph (i) above.

The USE Instruction must be properly authenticated in accordance with Euroclear UK & Ireland's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- the number of CDI Rights to which the acceptance relates (which must be a number divisible by 2);
- the participant ID of the accepting CDI Rights Holder;
- the member account ID of the accepting CDI Rights Holder from which the CDI Rights are to be debited;
- the participant ID of Euroclear Bank, in its capacity as a CREST receiving agent. This is RECEC;
- the member account ID of Euroclear Bank, in its capacity as a CREST receiving agent, which will be available in the CREST Graphical User Interface;
- the amount payable by means of the CREST assured payment arrangements on settlement of the USE Instruction. This must be the full amount payable on acceptance in respect of the number of CDIs to which the acceptance relates;

- the intended settlement date (which must be on or before the expected deadline of 14:30 (BST) on 25 September 2020);
- the CDI Right ISIN Number. This will be available by viewing the relevant corporate action details in CREST; and
- the Corporate Action Number for the Capital Increase. This will be available by viewing the relevant corporate action details in CREST.

A USE Instruction complying with each of the requirements as to authentication and contents set out above will constitute a valid acceptance where the USE Instruction settles by not later than the expected deadline of 14:30 (BST) on 25 September 2020.

CDI Rights Holders who make a valid acceptance in accordance with this section will be deemed to represent, warrant and undertake to the Company that they have taken (or procured to be taken), and they will take (and will procure to be taken), whatever action is required to be taken by them or by their CREST sponsor (as appropriate) to ensure that: (i) at all time their acceptance is made in accordance with the terms of the Capital Increase set out in this Prospectus; and (ii) the USE Instruction concerned is capable of settlement not later than the expected deadline of 14:30 (BST) on 25 September 2020 (or such later time and date as Euroclear UK & Ireland may determine). In particular, CDI Rights Holders, warrant and undertake that at the intended time and date of settlement of the USE Instruction, there will be sufficient Headroom within the Cap (as those terms are defined in the CREST Manual) in respect of the cash memorandum account to be debited with the amount payable on acceptance to permit the USE Instruction to settle. CREST sponsored members should contact their CREST sponsor if they are in any doubt. CDI Rights Holder should note that Euroclear UK & Ireland does not make available special procedures in CREST for any particular corporate action. Normal system timings and limitations will therefore apply in relation to the input of a USE Instruction and its settlement in connection with the Capital Increase. It is the responsibility of the CDI Rights Holder concerned to take (or, if the CDI Rights Holder is a CREST sponsored member, to procure that their CREST sponsor takes) the action necessary to ensure that a valid acceptance is received as stated above by the expected deadline of 14:30 (BST) on 25 September 2020. In connection with this, CDI Rights Holder are referred in particular to those sections of the CREST Manual concerning the practical limitations of the CREST system and timings.

CDI Rights Holders who make a valid acceptance in accordance with the procedures set out above: (a) undertake to pay to Euroclear Bank, or procure the payment to Euroclear Bank of, the amount payable in euros on acceptance in accordance with the above procedures or in such other manner as Euroclear Bank may require (it being acknowledged that, where payment is made by means of a RTGS payment mechanism (as defined in the CREST Manual) the creation of a RTGS settlement bank payment obligation in euros in favour of Euroclear Bank's RTGS settlement bank (as defined in the CREST Manual), in accordance with the RTGS payment mechanism shall, to the extent of the obligation so created, discharge in full the obligation of the CDI Rights Holder to pay to Euroclear Bank the amount payable on acceptance); and (b) requests that the New CDIs, to which they will become entitled, be issued to them on the terms set out in this Prospectus.

Euroclear UK & Ireland may: (a) reject any acceptance constituted by a USE Instruction, which is otherwise valid, in the event of breach of any of the representations, warranties and undertakings set out above; (b) treat as valid (and binding on the CDI Rights Holder) an acceptance which does not comply in all respects with the requirements as to validity set out or referred to in this section; (c) accept an alternative properly authenticated dematerialised instruction from a CDI Rights Holder or (where applicable) a CREST sponsor as constituting a valid acceptance in substitution for, or in addition to, a USE Instruction and subject to such further terms and conditions as Euroclear UK & Ireland may determine; (d) treat a properly authenticated dematerialised instruction (in this subparagraph the "**first instruction**") as not constituting a valid acceptance if, at the time at which Euroclear UK & Ireland receives a properly dematerialised instruction giving details of the first instruction, Euroclear UK & Ireland has received actual notice of any matters specified in Regulation 35(5)(a) of the CREST Regulations in relation to the first instruction. The matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and (e) accept an alternative instruction or notification form from a CDI Rights Holder or (where applicable) a CREST sponsor, or extend the time for acceptance and/or settlement of a USE Instruction or any alternative instruction or notification if, for reasons or due to circumstances outside the control of any CDI Rights Holder or CREST sponsor, the CDI Rights Holder is unable to validly take up all of part of his CDI Rights by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of facilities and/or systems operated by Euroclear UK & Ireland in connection with CREST.

Where an acceptance is made as described in this section which is otherwise valid, and the USE Instruction concerned fails to settle by the expected deadline of 14:30 (BST) on 25 September 2020 (or by such later time as Euroclear UK & Ireland may determine), Euroclear UK & Ireland shall be entitled to assume, for the purposes of its right to reject an acceptance as described in this section, that there has been a breach of the representations, warranties and undertakings set out or referred to in this section.

4.6 Procedure to request additional CDIs through CREST

In order to request Additional CDIs, CDI Rights Holders must submit (or, if they are a CREST sponsored member, procure that their CREST sponsor submits) a cash-only USE Instruction in respect of the Subscription Price of the Additional CDIs requested. In addition, they should also ensure that the ‘shared note’ field (on the ‘shared’ tab) is populated with the number of Additional CDIs that they wish to subscribe for. If the amount of Additional CDIs specified in the ‘shared note’ field does not reconcile with the cash consideration received then the election will be deemed to be invalid and will be returned to the CDI Rights Holders with no further communication.

In the event that the ‘shared note’ field is not populated with the amount of Additional CDIs requested then the full amount of cash will be returned to the CDI Rights Holders with no action being taken by Euroclear UK & Ireland. Further, no communication will be made by Euroclear UK & Ireland to inform the CDI Rights Holders of the invalid election.

If the number of Additional CDIs credited to the account of a CDI Rights Holder is lower than the number of Additional CDIs requested, Euroclear UK & Ireland will reimburse the excess over the subscription price of the Additional CDIs that had been credited, free of fees and expenses (but, for the avoidance of doubt, Euroclear UK & Ireland will not be liable for any losses made in any related currency conversion to or from euros).

The cash-only USE Instruction submitted must create a settlement bank obligation (as this term is defined in the CREST Manual), in accordance with the RTGS payment mechanism (as this term is defined in the CREST Manual), in favour of the RTGS settlement bank of Euroclear Bank in respect of the full amount payable for the Additional CDIs requested. Following the issue of the Additional Shares to Euroclear Bank, the stock account of the CDI Rights Holder who submitted a request for Additional CDIs (being an account under the same participant ID and member account ID as the account detailed in the USE Instruction) will, subject to the rules on allocation set out in section 4.4 (*Request for additional CDIs*) above, be credited with the number of Additional CDIs requested.

The cash-only USE Instruction must be properly authenticated in accordance with Euroclear UK & Ireland’s specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- the number of Additional CDIs requested;
- the participant ID of the CDI Rights Holder submitting the request;
- the member account ID of the CDI Rights Holder to which the Additional CDIs are to be credited;
- the participant ID of Euroclear Bank, in its capacity as a CREST receiving agent. This is RECEC;
- the member account ID of Euroclear Bank, in its capacity as a CREST receiving agent, which will be available in the CREST Graphical User Interface;
- the amount payable by means of the CREST assured payment arrangements on settlement of the cash-only USE Instruction. This must be the full amount payable in respect of the number of Additional CDIs requested; and

- the intended settlement date (which must be on or before the expected deadline of 14:30 (BST) on 25 September 2020).

A cash-only USE Instruction complying with each of the requirements as to authentication and contents set out above will constitute a valid acceptance where the cash-only USE Instruction settles by not later than the expected deadline of 14:30 (BST) on 25 September 2020.

CDI Rights Holders who make a valid request in accordance with this section will be deemed to represent, warrant and undertake to the Company that they have taken (or procured to be taken), and they will take (and will procure to be taken), whatever action is required to be taken by them or by their CREST sponsor (as appropriate) to ensure that: (i) at all time their request for Additional CDIs is made in accordance with the terms of the Capital Increase set out in this Prospectus; and (ii) the cash-only USE Instruction concerned is capable of settlement not later than the expected deadline of 14:30 (BST) on 25 September 2020 (or such later time and date as Euroclear UK & Ireland may determine). In particular, CDI Rights Holders warrant and undertake that at the intended time and date of settlement of the cash-only USE Instruction there will be sufficient Headroom within the Cap (as those terms are defined in the CREST Manual) in respect of the cash memorandum account to be debited with the amount payable on submitting the request to permit the cash-only USE Instruction to settle. CREST sponsored members should contact their CREST sponsor if they are in any doubt. CDI Rights Holders should note that normal system timings and limitations will apply in relation to the input of a cash-only USE Instruction and its settlement in connection with the Capital Increase. It is the responsibility of the CDI Rights Holder concerned to take (or, if the CDI Rights Holder is a CREST sponsored member, to procure that their CREST sponsor takes) the action necessary to ensure that a valid request is received as stated above by the expected deadline of 14:30 (BST) on 25 September 2020. In this connection, CDI Rights Holders are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

CDI Rights Holders who make valid requests in accordance with the procedures set out above: (a) undertake to pay to Euroclear Bank, or procure the payment to Euroclear Bank of, the amount payable in euros on submission of the request in accordance with the above procedures or in such other manner as Euroclear Bank may require (it being acknowledged that, where payment is made by means of a RTGS payment mechanism (as defined in the CREST Manual) the creation of a RTGS settlement bank payment obligation in euros in favour of Euroclear Bank's RTGS settlement bank (as defined in the CREST Manual), in accordance with the RTGS payment mechanism shall, to the extent of the obligation so created, discharge in full the obligation of the CDI Rights Holder to pay to Euroclear Bank the amount payable on submission of the request); and (b) request that any Additional CDIs, to which they may become entitled, be issued to them on the terms set out in this Prospectus. Euroclear UK & Ireland may: (a) reject any request constituted by a cash-only USE Instruction, which is otherwise valid, in the event of breach of any of the representations, warranties and undertakings set out above; (b) treat as valid (and binding on the CDI Rights Holder) a request which does not comply in all respects with the requirements as to validity set out or referred to in this section; (c) accept an alternative properly authenticated dematerialised instruction from a CDI Rights Holder or (where applicable) a CREST sponsor as constituting a valid request in substitution for, or in addition to a cash-only USE Instruction and subject to such further terms and conditions as Euroclear UK & Ireland may determine; (d) treat a properly authenticated dematerialised instruction (in this sub-paragraph the "first instruction") as not constituting a valid request if, at the time at which Euroclear UK & Ireland receives a properly dematerialised instruction giving details of the first instruction, Euroclear UK & Ireland has received actual notice of any matters specified in Regulation 35(5)(a) of the CREST Regulations in relation to the first instruction. The matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and (e) accept an alternative instruction or notification form from a CDI Rights Holder or (where applicable) a CREST sponsor, or extend the time for requesting Additional CDIs and/or settlement of a cash-only USE Instruction or any alternative instruction or notification if, for reasons or due to circumstances outside the control of any CDI Rights Holder or CREST sponsor, the CDI Rights Holder is unable to validly submit a request by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of facilities and/or systems operated by Euroclear UK & Ireland in connection with CREST. Where a request is made as described in this section which is otherwise valid, and the cash only USE Instruction concerned fails to settle by the expected deadline of 14:30 (BST) on 25 September 2020 (or by such later time as Euroclear UK & Ireland may determine), Euroclear UK & Ireland shall be entitled to assume, for the purposes of its right to reject a request as described in this section, that there has been a breach of the representations, warranties and undertakings set out or referred to in this section.

Requests for Additional CDIs will be deemed to be made on a firm, irrevocable and unconditional basis, even though they may not be met in their entirety by application of the rules for allocation of the Excess Shares described in section 3.1(B) (*Allocation Period for Additional Shares (2nd round)*) and section 4.4 (*Request for additional CDIs*) above.

The allocation of Additional CDIs is subject to: (i) the existence of Excess Shares after the exercise of all Subscription Rights and CDI Rights; and (ii) the allocation of Additional Shares to Euroclear Bank. In circumstances where Euroclear Bank is not allocated sufficient Additional Shares to issue the total number of Additional CDIs requested, Euroclear UK & Ireland is expected to arrange for the issue of Additional CDIs to CDI Rights Holders pro rata to the number of Additional CDIs each CDI Rights Holder requested (i.e. using the same formula used for Additional Shares set out in section 3.1(B) (*Allocation Period for Additional Shares (2nd round)*).

4.7 Procedure for exercise and request through Iberclear (cancellation and transfer to participant in Iberclear)

CDI Holders will, at their option, be able to cancel their CDI Rights and effect the transfer of the underlying Subscription Rights in accordance with the rules and practices of CREST (subject to any legal restrictions on transfer in any jurisdiction) from their existing account to a shareholding account with a participant in Iberclear.

If the underlying Subscription Rights are transferred into a shareholding account with a depositary financial institution which is a participant of Iberclear, the applicant will be able to exercise their Subscription Rights (which, prior to the transfer to the participant in Iberclear, were held in CDI form) under the Capital Increase in accordance with section 3.1(A) (*Pre-emptive Subscription Period and request for Additional Shares (1st Round)*) and request Additional Shares in accordance with section 3.1(B) (*Allocation Period for Additional Shares (2nd round)*).

To transfer Subscription Rights to a shareholding account with a participant in Iberclear, CDI Holders must settle a cross border delivery transaction through CREST, in accordance with the rules and practices of CREST. Instructions regarding completion of the transaction message can be accessed by CDI Holders in the International Service description on the Euroclear website. These instructions set out the details regarding the cross border settlement and how to populate the transaction message. Certain transfer fees will generally be payable by a CDI Holder that makes such a transfer. Details of how CDIs and New CDIs can be cancelled and transferred are set out at section 4.10 (*Transfers of New CDIs*) of Part XI (*Additional Information*).

4.8 Holdings through the corporate nominee service

Persons who hold CDIs through the IAG Nominee Service operated by Computershare will be contacted by the IAG Nominee directly.

5. DILUTION

5.1 Amount and percentage of immediate dilution

As mentioned in section 1.2 (*Subscription Rights*) above, the Company's shareholders have a Subscription Right on the New Shares subject to the Capital Increase and, therefore, if the aforementioned right is fully exercised, there will be no dilution of their ownership interest in the Company's share capital.

5.2 Immediate dilution for shareholders not subscribing the new offer

If none of the Company's current shareholders subscribe for New Shares in the percentage corresponding thereto pursuant to their Subscription Rights, and assuming that the New Shares are fully subscribed by third parties (i.e. issuing a total of 2,979,443,376 New Shares), the ownership interest of the Shareholders as at the date of this Prospectus would represent 40.1% of the total number of the Shares, which would involve a dilution of 59.9% of the share capital and voting rights prior to the Capital Increase.

The net asset value per Existing Share as of 30 June 2020 (the date of the latest balance sheet before the Capital Increase takes place) was €0.39 and the Subscription Price amounts to €0.92.

6. OVERSEAS SHAREHOLDERS

This document has been approved by the CNMV, being the competent authority in Spain.

The offer of Subscription Rights and New Shares to persons resident in, or who are citizens of, or who have registered addresses in, a jurisdiction other than Spain or the United Kingdom may be affected by the laws of the relevant jurisdiction.

6.1 General

The offer of Subscription Rights and/or New Shares and the distribution of this Prospectus or any other document relating to the Capital Increase to persons located or resident in, or who are citizens of, or who have a registered address in a jurisdiction other than Spain or the United Kingdom or which are corporations, partnerships or other entities organised under the laws of countries other than Spain or the United Kingdom, or to persons who are nominees of or custodians, trustees or guardians for any such persons or entities, may be affected by the laws of the relevant jurisdiction. Those persons should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their rights. It is the responsibility of all persons outside Spain or the United Kingdom (including, without limitation, custodians, nominees and trustees) receiving this Prospectus and/or a Subscription Right wishing to take up rights under the Capital Increase to satisfy themselves as to full observance of the laws of the relevant territory, including obtaining all necessary governmental or other consents which may be required, compliance with all other requisite formalities and the payment of any issue, transfer or other taxes due in such territory. The comments set out in this section 6 (*Overseas Shareholders*) are intended as a general guide only and any Overseas Shareholder who is in doubt as to his, her or its position should consult his, her or its independent professional adviser without delay.

Having considered the circumstances, the Directors have formed the view that:

(i) it is necessary or expedient to restrict the ability of Eligible Shareholders in the United States to take up their rights under the Capital Increase (and not reasonably possible to facilitate corresponding arrangements for participating holders of ADSs) due to the time and costs involved in the registration of this Prospectus and/or compliance with the relevant local legal or regulatory requirements in the United States or under the relevant depositary arrangements; and

(ii) it is necessary or expedient to restrict the ability of Eligible Shareholders in the other Excluded Territories to take up their rights under the Capital Increase due to the time and costs involved in the registration of this Prospectus and/or compliance with the relevant local legal or regulatory requirements in those jurisdictions.

Subscription Rights will not be credited to accounts of Excluded Shareholders (except, however, where the Company and the Joint Global Coordinators and Joint Bookrunners are satisfied that such action would not result in the contravention of any registration or other legal or regulatory requirement in such jurisdiction) and their Subscription Rights will be treated as if such Subscription Rights were not exercised in the Pre-emptive Subscription Period and were thereby extinguished at the end of such period.

No person receiving a copy of this Prospectus in any territory other than Spain or the United Kingdom and/or a Subscription Right may treat the same as constituting an invitation or offer to them, nor should they in any event deal a Subscription Right unless, in the relevant territory, such an invitation or offer could lawfully be made to them and the Subscription Right could lawfully be dealt without contravention of any registration or other legal or regulatory requirements. In such circumstances, this Prospectus is to be treated as sent for information only and should not be copied or redistributed.

Accordingly, except under certain legally permissible circumstances, persons receiving a copy of this Prospectus and/or who are entitled to a Subscription Right should not, in connection with the Capital Increase, distribute or send the same in or into, or transfer, a Subscription Right to any person in the United States or any other Excluded Territory. If a Subscription Right is received by any person in any such territory, or by their agent or nominee, that person must not seek to exercise or transfer a Subscription Right unless the Company and the Joint Global Coordinators and Joint Bookrunners determine that such actions would not violate applicable legal or regulatory requirements. Any person who does forward this Prospectus or transfers a Subscription Right into any such territories (whether under a contractual or legal obligation or otherwise) should draw the recipient's attention to the contents of this section 6 (*Overseas Shareholders*).

The Company and the Joint Global Coordinators and Joint Bookrunners may (in their absolute discretion) treat as invalid, and the Company will not be bound to allot or issue any New Shares in respect of, any exercise or purported exercise of a Subscription Right which appears to the Company, the Joint Global Coordinators and Joint Bookrunners or their respective agents to have been exercised in a manner which may involve a breach of the laws or regulations of any jurisdiction or if it believes or they believe that the same may violate applicable legal or regulatory requirements, unless the Company and the Joint Global Coordinators and Joint Bookrunners are satisfied that such action would not result in the contravention of any registration or other legal or regulatory requirements. The attention of Overseas Shareholders with registered addresses in or who are located in the United States is drawn to sections 6.2 (*Offering restrictions relating to the United States*) and 6.3 (*US transfer restrictions*) respectively.

Despite any other provision of this Prospectus, the Company and the Joint Global Coordinators and Joint Bookrunners reserve the right to permit any Eligible Shareholder to take up their rights if the Company and the Joint Global Coordinators and Joint Bookrunners in their absolute discretion are satisfied that the transaction in question is exempt from or not subject to the legislation or regulations giving rise to the restriction in question.

Those Shareholders who wish, and are permitted, to exercise their Subscription Rights should note that payments must be made as described in this Part VII (*Terms and Conditions of the Capital Increase*).

Overseas Shareholders who do not or are unable to take up New Shares for which they have a right to subscribe by way of Subscription Right will be treated as Shareholders that have not taken up their entitlement and any Subscription Rights not exercised will automatically expire at the end of the Pre-emptive Subscription Period and will no longer hold any value. Such Shareholders shall not be entitled to any compensation in respect of the Subscription Rights which have not been exercised.

6.2 Offering restrictions relating to the United States

For the avoidance of doubt, in this section references to New Shares include New Shares in the form of CDIs and references to Subscription Rights include Subscription Rights in the form of CDI Rights.

The New Shares and the Subscription Rights have not been and will not be registered under the US Securities Act or under any relevant securities laws of any state or other jurisdiction of the United States and may not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, within the United States absent registration or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in compliance with state securities laws. There will be no public offering in the United States.

Accordingly, subject to certain limited exceptions, no offering is being made in the United States and this document does not constitute or will constitute an offer, or an invitation to apply for, or an offer or invitation to acquire any New Shares or Subscription Rights in the United States.

Subject to certain limited exceptions, all persons acquiring New Shares must provide an address for registration of the New Shares issued upon exercise of Subscription Rights outside the United States.

Subject to certain limited exceptions, any person who acquires New Shares or Subscription Rights will be deemed to have declared, warranted and agreed, by accepting delivery of this document and delivery of the New Shares or Subscription Rights, that it is not, and that at the time of acquiring the New Shares or Subscription Rights it will not be, in the United States.

Notwithstanding the foregoing, the Subscription Rights may be offered and delivered to, and the Subscription Rights and the New Shares may be offered to and acquired by, a limited number of persons in the United States reasonably believed to be Qualified Institutional Buyers or QIBs in offerings exempt from registration under the US Securities Act. Any person reasonably believed to be a QIB to whom New Shares are offered and by whom New Shares are acquired will be required to execute and deliver an investor letter substantially in the form in section 6.3 (*US transfer restrictions*) and may be required to make certain certifications for the Subscription Rights.

The Company and the Joint Global Coordinators and Joint Bookrunners may in their absolute discretion treat as invalid any instruction which appears to the Company and the Joint Global Coordinators and Joint Bookrunners to have been despatched from the United States.

Any person in the United States who obtains a copy of this document and who is not a QIB or acting on behalf of a QIB is required to disregard it.

Until 40 days after the commencement of the Capital Increase an offer, sale or transfer of the New Shares or Subscription Rights within the United States by a dealer (whether or not participating in the Capital Increase) may violate the registration requirements of the Securities Act.

6.3 US transfer restrictions

For the avoidance of doubt, in this section references to New Shares include New Shares in the form of CDIs and references to Subscription Rights include Subscription Rights in the form of CDI Rights.

The offering and delivery of the Subscription Rights, and the offering and acquisition of the Subscription Rights or New Shares in the United States to and by, a limited number of persons reasonably believed to be QIBs is being made in reliance on an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. None of the Subscription Rights or New Shares have been or will be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and, accordingly, may not be offered, sold, pledged or otherwise transferred or delivered except pursuant to an exemption from, or in a transaction not subject to, registration under the US Securities Act.

Each acquirer of Subscription Rights or New Shares in the United States will be required to execute and deliver to the Company and/or one or more of its designees an investor letter in the appropriate form setting out certain restrictions and procedures regarding the New Shares, which will contain the following representations:

(i) it is an institution which has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of its investment in the Subscription Rights and the New Shares and it, and any accounts for which it is acting, is each able to bear the economic risk of such investment, and is able to sustain a complete loss of any investment in the Subscription Rights and the New Shares;

(ii) its purchase will be made pursuant to an investor letter and the terms and conditions of the Capital Increase which is governed by the laws of Spain as described in this document prior to exercising the Subscription Rights or taking up the New Shares, it received and read a copy of this document. If the acquirer has had any queries regarding the acquisition of the Subscription Rights, the New Shares, the Company and its affairs or the terms of the Subscription Rights or New Shares, it has had the opportunity to ask and has asked those questions of and received answers satisfactory to it from the representatives of the Company. In making any acquisition of the Subscription Rights or the New Shares, it is relying on this document and not any other information or representation concerning the Company. It agrees that it has not duplicated, distributed, forwarded, transferred or otherwise transmitted this document or any other presentational or other materials concerning the Capital Increase (including electronic copies thereof) to any persons within the United States, and agrees that such materials shall not be duplicated, distributed, forwarded, transferred or otherwise transmitted by it. It has made its own assessment concerning the relevant tax, legal and other economic considerations relevant to its investment in the Subscription Rights and the New Shares;

(iii) it acknowledges that the Existing Shares are listed on the Spanish Stock Exchanges, on the premium listing segment of the Official List of the UK Listing Authority and admitted to trading on London Stock Exchange in the form of CDIs, that the Company is therefore required to publish certain business and financial information in accordance with the rules and practices of the Spanish Stock Exchanges, the FCA and the London Stock Exchange, and that the acquirer is able to access such information without undue difficulty; and it acknowledges that neither the Company nor any of its affiliates has made any representation to the acquirer with respect to the Company, other than the information contained in this document; and it further acknowledges that neither the Joint Global Coordinators and Joint Bookrunners nor any of their affiliates has made any representation with respect to the Company, the Subscription Rights or the New Shares, and that the Joint Global Coordinators and Joint Bookrunners are acting solely for the Company and no-one else and, in particular, none of the Joint Global Coordinators and Joint Bookrunners nor any of their affiliates are providing any service, recommendation or advice regarding the suitability of any transactions it may enter into to subscribe or buy any Subscription Rights or New Shares or providing advice to it in relation to the Capital Increase of the Subscription Rights, New Shares or the Company. To the extent it deems necessary, it will make its own independent investigation and appraisal of, and satisfy itself with, the business, results, financial condition, prospects, creditworthiness, status and affairs of the Company and will make its own investment decision to exercise its Subscription Rights and/or to acquire the Subscription Rights or New Shares. It understands that this document has been prepared in accordance with European format, style and content, which differs from US format, style and content;

(iv) it is, and at the time of the acquisition of the securities will be, a QIB, that if it is acquiring the Subscription Rights or New Shares as a fiduciary or agent for one or more investor accounts, each such account is, and at the time of the acquisition of the securities will be, a QIB, it has investment discretion with respect to each such account, and has full power and authority to make the acknowledgements, representations and agreements herein on behalf of each such account (in which case it hereby makes such acknowledgements, representations and agreements on behalf of such QIBs as well);

(v) it is acquiring the Subscription Rights or New Shares for its own account (or the account of a QIB as to which it has full investment discretion) for investment purposes, and not with a view to distribution within the meaning of the US securities laws;

(vi) it understands and acknowledges that the Subscription Rights and the New Shares are being offered in a transaction not involving any public offering in the United States within the meaning of the US Securities Act and that the Subscription Rights and the New Shares have not been and will not be registered under the US Securities Act or any state securities laws. It agrees that the Subscription Rights and the New Shares may not be re-offered, sold, pledged or otherwise transferred, and that it will not, directly or indirectly, re-offer, sell, pledge or otherwise transfer the Subscription Rights or the New Shares except (a) in an offshore transaction in accordance with Rules 903 or 904 of Regulation S (and not in a pre-arranged transaction resulting in the resale of such Subscription Rights or New Shares into the United States), (b) to another QIB in accordance with Rule 144A under the US Securities Act, (c) with respect to the New Shares only pursuant to Rule 144 under the US Securities Act (if available), or (d) in a transaction pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act, and in each case, in accordance with any applicable securities laws of any state or other jurisdiction of the United States and that, in each case, such offer, pledge or transfer must and will be made in accordance with any applicable securities laws of any state or other jurisdiction of the United States;

(vii) it understands that no representation has been made as to the availability of Rule 144 under the US Securities Act or any other exemption under the US Securities Act or any state securities laws for the re-offer, pledge or transfer of the New Shares;

(viii) it understands that the New Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the US Securities Act and that, for so long as they remain “restricted securities”, they may not be deposited into any unrestricted depositary facility established or maintained by a depositary bank, and that such shares will not trade or settle through the facilities of DTCC or any other US clearing system;

(ix) it has not acquired the Subscription Rights or the New Shares as a result of any general solicitation or general advertising, including advertisements, articles, notices or other communications published in any newspaper, magazine or similar media or broadcast over radio or television or as a result of any seminar or meeting whose attendees have been invited by general solicitation or general advertising; and

(x) it understands that the foregoing acknowledgements, representations and agreements are required in connection with US securities laws and that the Company, the Joint Global Coordinators and Joint Bookrunners and their affiliates will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and it irrevocably authorises the Company and the Joint Global Coordinators and Joint Bookrunners to produce the investor letter and this document to any interested party in any administrative or legal proceedings or official inquiry with respect to the matters covered herein.

6.4 Other Excluded Territories

Due to restrictions under the securities laws of the other Excluded Territories (i.e. other than the United States), subject to certain exceptions, this Prospectus will not be sent to any other Excluded Territories. The New Shares, and Subscription Rights have not been and will not be registered under the relevant laws of any other Excluded Territory or any state, province or territory thereof and may not be offered, sold, resold, transferred, delivered or distributed, directly or indirectly, in or into any other Excluded Territory or to, or for the account or benefit of, any person with a registered address in, or who is resident or located in (as applicable), any other Excluded Territory except pursuant to an applicable exemption. Accordingly, subject to certain exceptions, the Capital Increase is not being made in any other Excluded Territory and this Prospectus does not constitute or will not constitute an offer or an invitation to apply for, or an offer or an invitation to subscribe for or acquire, any New Shares or Subscription Rights in any other Excluded Territory.

6.5 Overseas territories other than the Excluded Territories

If you are in any doubt as to your eligibility to accept the offer of New Shares or to deal Subscription Rights, you should contact your appropriate professional adviser as soon as possible.

(A) Member States of the EEA (other than Spain)

In relation to each member state of the European Economic Area (except Spain) (each, a Relevant State), no New Shares or Subscription Rights have been offered or will be offered pursuant to the Capital Increase to the public in that Relevant State prior to the publication of a prospectus in relation to the New Shares and Subscription Rights which has been approved by the competent authority in that Relevant State or, where appropriate, approved in another Relevant State and notified to the competent authority in that Relevant State, all in accordance with the Prospectus Regulation, except that the Company may make an offer to the public in that Relevant State of any New Shares and Subscription Rights at any time under the following exemptions under the Prospectus Regulation:

(i) to any legal entity which is a qualified investor as defined in the Prospectus Regulation;

(ii) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation), subject to obtaining the prior consent of the Joint Sponsors and Joint Global Coordinators and Joint Bookrunners for any such offer; or

(iii) in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of New Shares or Subscription Rights shall require the Company or the Joint Global Coordinators and Joint Bookrunners to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or a supplementary prospectus pursuant to Article 23 of the Prospectus Regulation.

For the purposes of this selling restriction, the expression an “offer of New Shares or Subscription Rights to the public” in relation to any New Shares or the Subscription Rights in any Relevant State means the communication in any form and by any means of sufficient information on the terms of the offer and any Shares to be offered so as to enable an investor to decide to purchase or subscribe for any New Shares or Subscription Rights.

In the case of the New Shares or the Subscription Rights being offered to a financial intermediary, as that term is used in the Prospectus Regulation, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the New Shares or the Subscription Rights acquired by it have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any New Shares or Subscription Rights to the public other than their offer or resale in a relevant EU Member State to “qualified investors” within the meaning of Article 2(e) of the Prospectus Regulation. The Company, the Joint Global Coordinators and Joint Bookrunners and their respective affiliates will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement.

(B) State of Qatar

This Prospectus is provided on an exclusive basis to the specifically intended recipient, upon that person's request and initiative, and for the recipient's personal use only and is not intended to be available to the public.

Nothing in this Prospectus constitutes, is intended to constitute, shall be treated as constituting or shall be deemed to constitute, any offer or sale of securities in the State of Qatar or in the Qatar Financial Centre or the inward marketing of an investment fund or an attempt to do business, as a bank, an investment company or otherwise in the State of Qatar or in the Qatar Financial Centre.

This Prospectus and the underlying instruments have not been reviewed, approved, registered or licensed by the Qatar Central Bank, The Qatar Financial Centre Regulatory Authority, The Qatar Financial Markets Authority or any other regulator in the State of Qatar.

Any distribution of this prospectus by the recipient to third parties in Qatar or the Qatar Financial Centre beyond these terms is not authorised and shall be at the liability of the recipient.

6.6 Representations and warranties relating to overseas territories other than the United States and the other Excluded Territories

A Shareholder who makes a valid exercise of Subscription Rights in accordance with the procedures set out in section 3 (*Subscription of New Shares*) or section 4 (*Characteristics of the offer and the CDI Rights in the United Kingdom*) above represents and warrants to the Company and the Joint Global Coordinators and Joint Bookrunners that, except where proof has been provided to the satisfaction of the Company and the Joint Global Coordinators and Joint Bookrunners that such person's exercise will not result in the contravention of any applicable legal requirement in any jurisdiction: (i) such person is not within the United States or any of the other Excluded Territories; (ii) such person is not in any territory in which it is unlawful to make or accept an offer to subscribe for New Shares or acquire Subscription Rights or New Shares; (iii) such person is not acting on a non-discretionary basis for a person located within the United States or any other Excluded Territory or any territory referred to in (ii) above at the time the instruction to accept was given; and (iv) such person is not subscribing for or acquiring Subscription Rights or New Shares with a view to the offer, sale, pledge, resale, transfer, delivery or distribution, directly or indirectly, of any such Subscription Rights or New Shares into the United States or any other Excluded Territory or any territory referred to in (ii) above.

The Company and the Joint Global Coordinators and Joint Bookrunners may treat as invalid any instruction which appears to the Company and the Joint Global Coordinators and Joint Bookrunners to have been despatched from the United States or any of the other Excluded Territories or otherwise in a manner which may involve a breach of the laws of any jurisdiction or if they or their agents believe the same may violate any applicable legal or regulatory requirement or purports to exclude the warranty required by this section.

6.7 Waiver

The provisions of this section 6 (*Overseas Shareholders*) and of any other terms of the Capital Increase relating to Overseas Shareholders may be waived, varied or modified as regards specific Shareholder(s) or on a general basis by the Company and the Joint Global Coordinators and Joint Bookrunners in their absolute discretion. Subject to this, the provisions of this section 6 (*Overseas Shareholders*) supersede any terms of the Capital Increase inconsistent herewith. References in this section 6 (*Overseas Shareholders*) to Shareholders shall include references to the person or persons holding or exercising Subscription Rights and, in the event of more than one person holding Subscription Rights, the provisions of this section 6 (*Overseas Shareholders*) shall apply jointly to each of them.

7. TAXATION

Certain information on taxation in Spain, the United Kingdom and the United States with regard to the Capital Increase and the holding of New Shares is set out in Part X (*Taxation*) of this Prospectus. The information contained in Part X (*Taxation*) is intended only as a general guide to certain aspects of the current tax position in Spain, the United Kingdom and the United States and Eligible Shareholders in Spain, the United Kingdom and the United States should consult their own tax advisers regarding the tax treatment of the Capital Increase and the holding of New Shares in light of their own circumstances. **Eligible Shareholders who are in any doubt as to their tax position or who are subject to tax in any other jurisdiction should consult an appropriate professional adviser as soon as possible.**

Eligible Shareholders should note that the tax legislation of their jurisdiction of tax residence may, for example, have an impact on the tax treatment of any dividends which they receive in respect of New Shares.

8. TIMES AND DATES

The Company shall in its discretion and after consultation with the Joint Global Coordinators and Joint Bookrunners be entitled to amend the dates that the Pre-emptive Subscription Period commences or dealings in Subscription Rights commence and amend or extend the latest date for acceptance under the Capital Increase and all related dates set out in this Prospectus and in such circumstances shall announce such amendment via a Regulatory Information Service and notify the CNMV and, if appropriate, the Eligible Shareholders. Eligible Shareholders may not therefore receive any direct further written communication of any such amendment.

If a supplementary prospectus is issued by the Company two or fewer Business Days prior to the date specified in this Prospectus as the latest date for acceptance and payment in full under the Capital Increase (or such later date as may be agreed between the Company and the Joint Global Coordinators and Joint Bookrunners), the latest date of acceptance under the Capital Increase shall be extended to the date which is three Business Days after the date of issue of the supplementary prospectus (or such later date as may be agreed between the Company and the Joint Global Coordinators and Joint Bookrunners), and the dates and times of principal events due to take place following such date shall be extended accordingly.

9. SHARE PLANS

In accordance with the rules of the applicable Share Plans, outstanding options and awards, and any applicable performance conditions, may be adjusted to take account of the Capital Increase. Participants in the applicable Share Plans will be notified of any adjustment separately.

10. EMPLOYEE SHAREHOLDERS

To the extent that employees are also Shareholders, their Shares will be treated in the same way in the Capital Increase as Shares held by any other Shareholder. Such treatment is detailed in this Prospectus.

If employee Shareholders hold their Shares through a nominee arrangement, they may need to instruct the nominee, for example, whether or not to exercise the rights attaching to the employee's Shares. Employee Shareholders will be contacted in due course in this regard.

11. GOVERNING LAW

The terms and conditions of the Capital Increase as set out in this Prospectus shall be governed by, and construed in accordance with, the laws of Spain (including, without limitation, any non-contractual obligations arising out of or in connection with the Capital Increase).

12. JURISDICTION

The courts of Spain are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Capital Increase or this Prospectus (including, without limitation, disputes relating to any non-contractual obligations arising out of or in connection with the Capital Increase or this Prospectus). By accepting rights under the Capital Increase in accordance with the instructions set out in this Prospectus, Eligible Shareholders irrevocably submit to the jurisdiction of the courts of Spain (including, without limitation, in relation to any disputes relating to any non-contractual obligations arising out of or in connection with the Capital Increase or this Prospectus) and waive any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum.

PART VIII
BUSINESS AND MARKET OVERVIEW

1. OVERVIEW

In the year ended 31 December 2019, the Group was one of the world's largest airline groups by revenue, carrying over 118 million passengers to more than 275 destinations around the world. The Group consists of four core airline brands, based in the United Kingdom, Spain and Ireland: British Airways, Iberia, Vueling and Aer Lingus. These airlines each target different customer markets and geographies, providing choice across a broad spectrum of customer needs and travel occasions. As at 31 December 2019, the Group had more than 66,034 employees (based on average manpower equivalent), primarily in the United Kingdom, Spain and Ireland.

The Group’s operations are supported by its common integrated platform, including IAG Cargo, IAG Loyalty, IAG Tech, IAG GBS and IAG Connect, which provides mainly common services and allows the Group’s operations to benefit from cost reductions and synergies by leveraging the Group’s scale.

The Company is a public limited company (*sociedad anónima cotizada*) registered with the Madrid Commercial Registry (*Registro Mercantil*). The Company’s Shares are traded on the Spanish Stock Exchanges through the Automated Quotation System of the Spanish Stock Exchanges (*Sistema de Interconexión Bursátil or Mercado Continuo*) and in the form of CDIs on the London Stock Exchange’s Main Market.

In the year ended 31 December 2019, the Group generated total revenues of €25,506 million (up 5.1% from €24,258 million (restated) in the year ended 31 December 2018) and an operating profit of €3,285 million from continuing operations before exceptional items (down 5.7% from €3,485 million (adjusted) in the year ended 31 December 2018). As at 31 December 2019, the Group’s cash and cash equivalents and other interest-bearing deposits to revenue was 26.2%.

In the six months ended 30 June 2020, the Group generated total pre-exceptional revenues of €5,326 million (down 55.7% from €12,026 million for the same period in 2019), with an operating loss of €1,900 million before exceptional items (against an operating profit before exceptional items of €1,095 million for the same period in 2019). After exceptional items of €2,137 million, which is comprised of a charge on derecognition of fuel and foreign exchange hedges, an impairment of fleet and other items, the Group made an operating loss of €4,037 million in the first half of 2020. As at 30 June 2020, the Group had cash of €6,016 million (down €667 million on 31 December 2019), with committed and undrawn general and aircraft facilities of €2.1 billion, bringing total liquidity to €8.1 billion. For the six months ending 30 June 2020, the Group carried 20.4 million passengers (down 63.5% against the same period in 2019), with ASKs of 71,625 million as at June 30 (a decrease of 56.2% for the same period in 2019).

2. DEVELOPMENT OF THE GROUP

The Company was incorporated on 17 December 2009. On 21 January 2011, British Airways and Iberia merged (the “**Merger**”). As a result of the Merger, the Company became the parent company of British Airways and Iberia, with British Airways and Iberia remaining as separate legal and operating subsidiaries.

British Airways can trace its roots back to 1919. The privatisation of British Airways was completed in 1987 and it announced the formation of a new global alliance – ‘oneworld’ – which included Iberia, Qantas and American Airlines in 1999. Iberia was founded in June 1927. In the 1950s, Iberia surpassed the half-million passenger mark and began flights between Spain and New York. In 2001, Iberia’s privatisation process was completed and its shares were listed for the first time on the Spanish Stock Exchanges.

In 2012, the Group made its first acquisition when it acquired British Midlands Airways Limited, which was fully integrated into British Airways. In 2013, the Group acquired further shares in Vueling, a Spanish low-cost carrier based in Barcelona, to take its ownership of the airline to 99.5% (it previously owned 45.9% through Iberia) and, in

2015, the Group acquired the Dublin-based airline, Aer Lingus. To continue its growth and to meet under-served demand, in 2017, the Group launched LEVEL, a low-cost airline brand which provides services across the Atlantic. In November 2019, the Company announced the proposed acquisition by the Company's wholly-owned subsidiary, IB OPCO, of Air Europa from Globalia for €1 billion to be satisfied in cash, subject to a closing accounts adjustment. The completion of the transaction is subject to the achievement of the necessary authorisations. In light of the significant impact of the COVID-19 pandemic on Air Europa's operations and finances, IB OPCO and Globalia are engaged in active discussions regarding a potential restructuring of the acquisition.

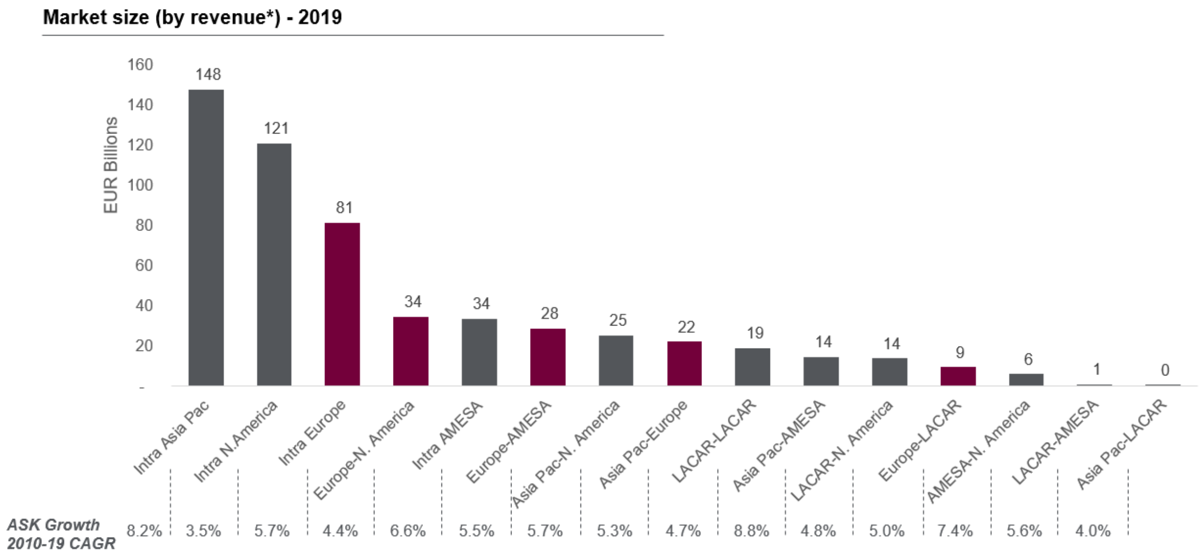
3. MARKET OVERVIEW

The IAG Airlines operate a global passenger and cargo network, carrying passenger and cargo volumes to Europe; North America; Africa, Middle East and South Asia ("**AMESA**"); Asia Pacific; and Latin America and the Caribbean ("**LACAR**").

3.1 Global Passenger Airline Industry Overview

In 2019, the global passenger aviation market generated an estimated €556 billion of revenue (based on 1.12 average 2019 EUR / USD FX rate). The largest markets (on a revenue basis), were the intra-regional markets of Asia Pacific (€148 billion) and North America (€121 billion) followed by intra-Europe (€81 billion) and Europe to North America (€34 billion) (see Exhibit 1 below). Between 2010 and 2019, the global passenger aviation market has seen demand (in RPKs) grow at a compound annual growth rate ("**CAGR**") of 6.4% while capacity (in ASKs) has grown at a CAGR of 5.8%. The markets that have witnessed the fastest rates of growth between 2010 and 2019, measured in ASKs, are the Asia-Pacific–AMESA and intra-Asia Pacific markets, which have grown at a CAGR of 8.8% and 8.2% respectively. Over the same period, the Europe-AMESA market, Europe-LACAR market and Europe–North American market have also shown strong growth, growing at a CAGR of 5.5%, 5.0%, and 4.4% respectively (see Exhibit 1 below).

Exhibit 1: Market size by revenue and growth in capacity (ASKs) of major passenger aviation markets between 2010 and 2019



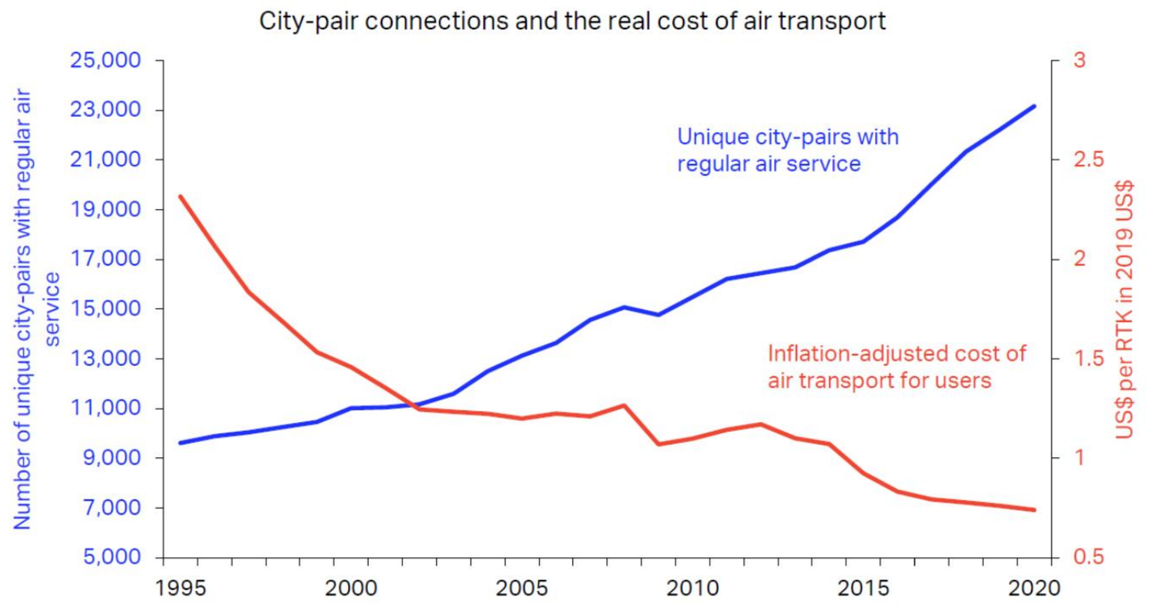
Source: DDS, using industry revenue assumptions – will not align to actual performance

**Revenue ex intra-Europe includes both outbound and return flights revenue (two-way). Ex [country] includes [country] domestic traffic. North America includes Mexico and Puerto Rico. The purple bars denote the Group's principal markets.*

Global growth in passenger demand (in RPKs) has historically closely tracked growth in global gross domestic product ("**GDP**") and in recent years has outpaced GDP (see Exhibit 3 below). Economic growth and the associated improvement in standards of living have driven an increasing propensity to travel. Advancements in aircraft and engine technologies have allowed airlines to introduce capacity into the market at a lower cost of production. Alongside this, liberalisation and deregulation of aviation markets, such as the European Union's third package of deregulation in 1993, which fully opened the aviation market between member states, and the European Union-United States open skies agreement in 2007, which opened the transatlantic market, have increased competition in the market, also leading to greater levels of capacity at lower prices (see Exhibit 2 below).

<u>Exhibit 2: Growth in air transport capacity and the declining cost of air travel for consumers between 1995 and 2020</u>

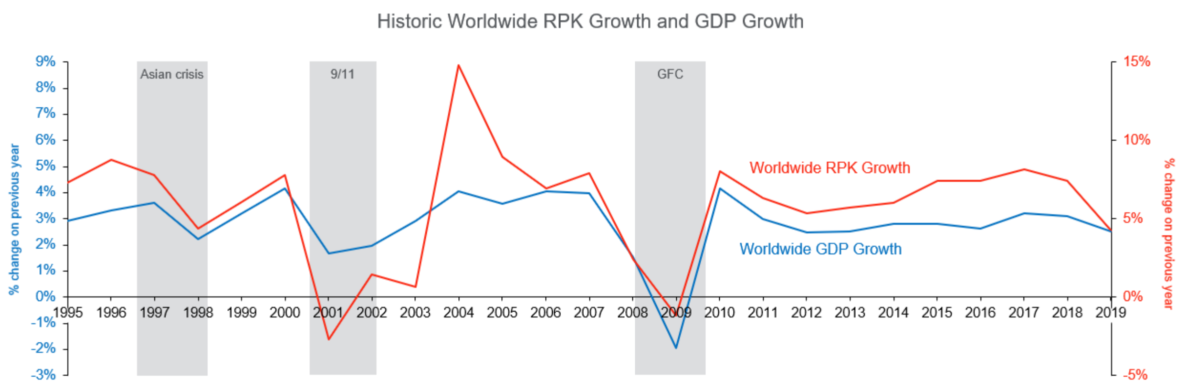
This Exhibit shows the city-pair connections (which are the routes between a departure city and an arrival city comprising a flight segment or an itinerary) and the real cost of air transport, demonstrating that, over the last ten years, air transport connected more cities at a lower cost



Source: IATA Economic Performance of the Airline Industry, End-Year 2019

Passenger traffic growth has also demonstrated an ability to withstand significant demand shocks. While the impacts of the Asian currency crisis, 9/11 terrorist attacks and the global financial crisis of 2008 have been significant, growth in passenger traffic has repeatedly rebounded and recovered (see Exhibit 3 below).

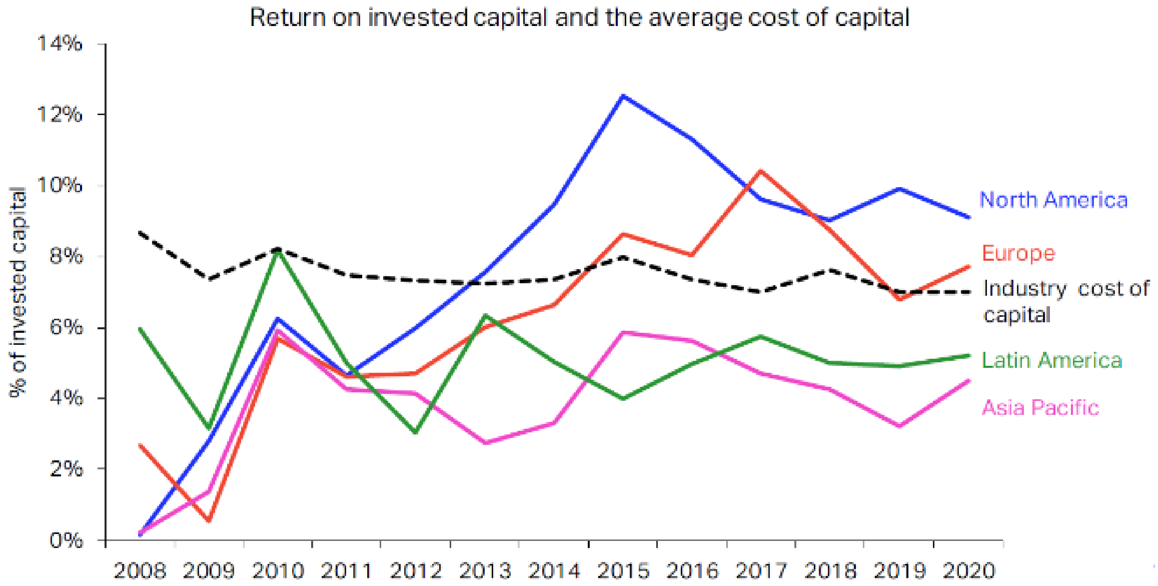
<u>Exhibit 3: Worldwide RPK growth and GDP growth against percentage growth in demand for air travel from 1995 to 2019</u>



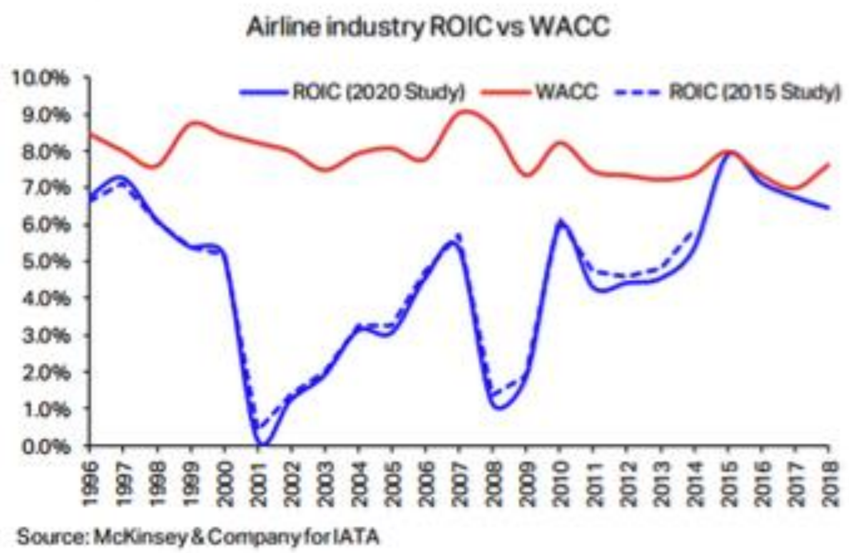
Source: IATA Economics using data from ICAO, IATA Statistics, IMF and IATA forecasts and IATA data tables

According to IATA, despite the growth in demand, the industry as a whole has failed to generate a return in excess of its weighted average cost of capital. However, this is not the case at a regional level, where carriers based in North America and Europe have managed to generate returns that exceed their cost of capital since 2013 and 2015 respectively (see Exhibit 4). Notwithstanding the level of return across the industry as a whole, the Group has delivered strong returns on invested capital, reaching 16.9%* in 2018 and 14.7%* (return on invested capital is an APM which is reconciled in section 5 (*Alternative Performance Measures*) of Part IX (*Operating and Financial Review*)) in 2019.

Exhibit 4: Return on invested capital against cost of capital for the airline industry by region and industry-wide



Source: IATA (including regional ROIC forecasts by IATA for 2020 pre-COVID-19 pandemic)



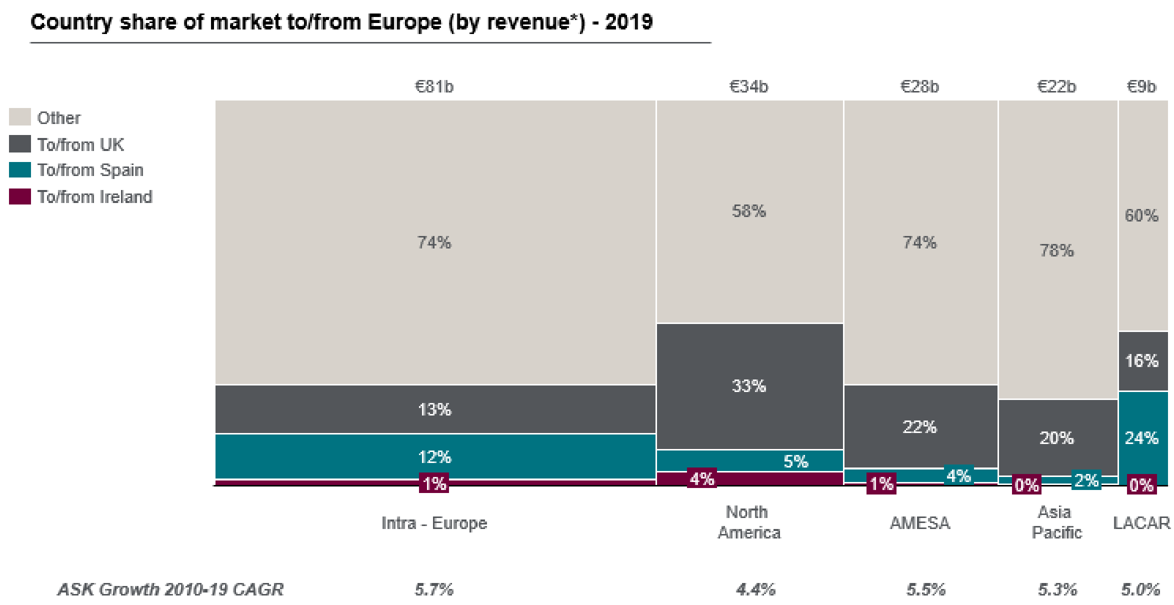
As outlined in section 2.1(A) (*Impact of the COVID-19 pandemic on global aviation travel*) of Part VI (*Background to and Reasons for the Capital Increase*), the global spread of COVID-19 has led to an unprecedented decrease in the demand for both domestic and international air travel and the shape of recovery remains uncertain (see "*1.1 – The COVID-19 pandemic has had a material adverse effect on the Group's financial condition and results of operations in the six months ended 30 June 2020 and is likely to continue to have a material adverse effect on the Group's financial condition and results of operations in the future*" and "*1.2 – The ultimate impact of the COVID-19 pandemic on the Group's business, financial condition, results of operations and prospects could be worse than forecast by the Group and require the Group to secure additional liquidity, without which the Company could face a liquidity shortfall in the medium-term and be forced to enter into insolvency, which represents a material uncertainty that could cast a significant doubt upon the Group's ability to continue as a going concern (empresa en funcionamiento).*" of section 1 (*Risks relating to the Group's business*) of Part I (*Risk Factors*)).

3.2 The Group's principal markets

The IAG Airlines are based in the United Kingdom, Spain and Ireland. Consequently, the Group defines its principal markets as being those markets where passenger traffic originates and/or concludes journeys ('origin and destination') in Europe (the "**European O&D Market**"). In 2019, the combined industry revenue generated from the European O&D Market was €175 billion, or 31.5% of the global passenger aviation market. Within the European O&D Market, capacity in the internal and international global passenger aviation markets experienced growth with a CAGR of between 4.4% and 5.7% over the period of 2010 to 2019 (see Exhibit 1 above), compared to the global average CAGR of 5.8%.

Within the European O&D Market, IAG also has a disproportionate exposure to passenger traffic in its 'home' markets: the United Kingdom, Spain and Ireland.

Exhibit 5: Country share of market to/from Europe by revenue* in 2019



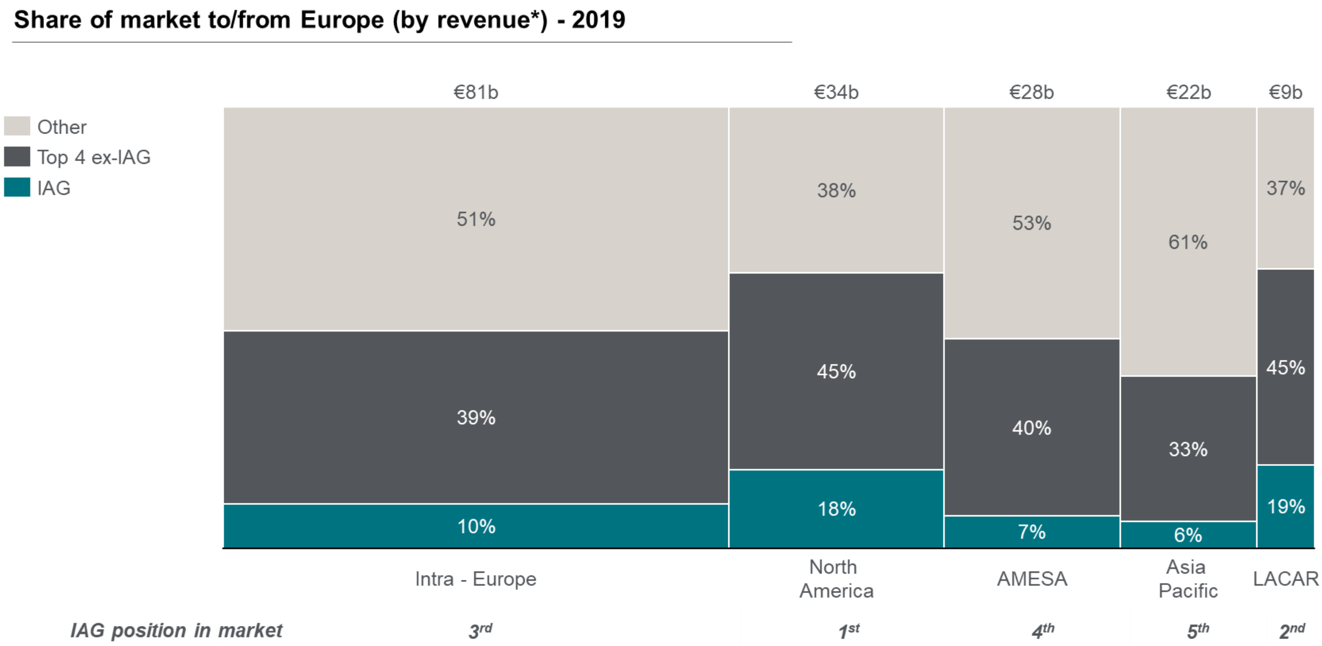
Source: DDS, using industry revenue assumptions – will not align to actual performance

**Country share within intra-Europe only includes outbound flights (e.g. revenue between Spain – UK is split 50:50 between Spain and UK) and North America includes Mexico and Puerto Rico.*

3.3 The Group's positioning within its principal markets

The Group holds an attractive position in each of its principal markets. It was the largest airline group by revenue in the North America to Europe market, accounting for 18% of the total respective market revenue in 2019 (see Exhibit 6). In that year, it was the second largest airline group by revenue in the LACAR-Europe market with 19% of total respective market revenue and the third largest airline group by revenue in the intra-European market with a share of 10% of total respective market revenue. In other principal markets, in 2019, the Group was within the top five airline groups as is illustrated in Exhibit 6.

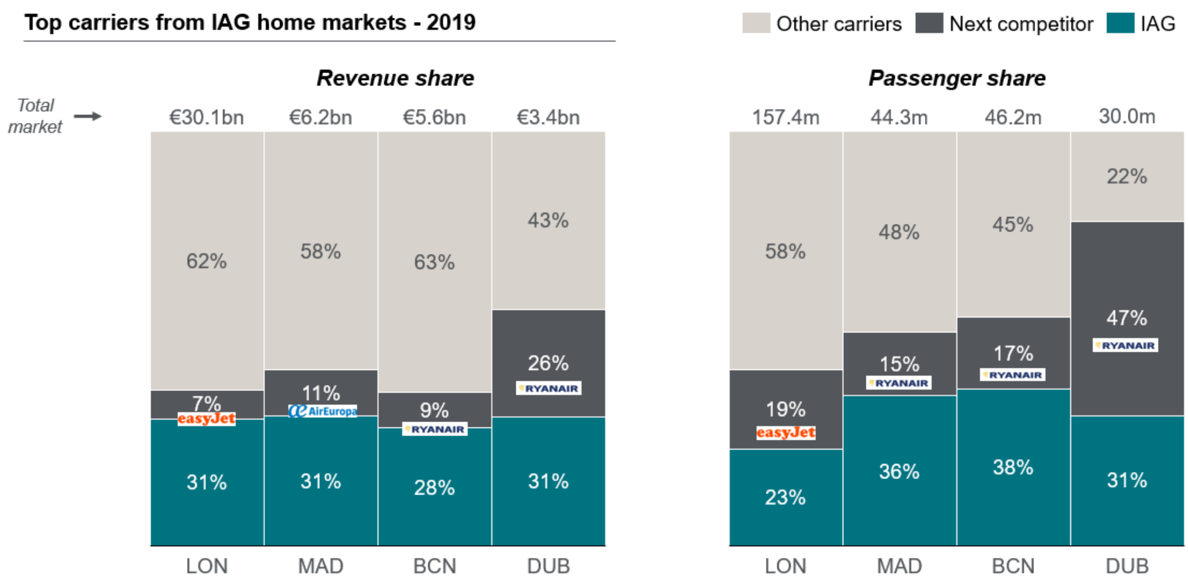
Exhibit 6: Top 5 European carriers' share of market to/from Europe by revenue* in 2019



Source: DDS, using industry revenue assumptions – will not align to actual performance. North America includes Mexico and Puerto Rico. The other four carriers are Ryanair, easyJet, Lufthansa Group and Air France-KLM.

In each of the Group's 'home' cities, the Group holds a revenue share leadership position (as shown in Exhibit 7).

Exhibit 7: Top carriers from the Group's 'home' markets in 2019



Source: DDS

As outlined in section 2.1(A) (*Impact of the COVID-19 pandemic on global aviation travel*) of Part VI (*Background to and Reasons for the Capital Increase*), the global spread of COVID-19 has led to an unprecedented decrease in the demand for both domestic and international air travel and the shape of recovery remains uncertain. Given the country-by-country and regional specific impacts of the COVID-19 pandemic, there is no certainty that the relative size of the principal markets that the Group competes in, including the relative size of its 'home' markets, will remain the same as it was prior to the COVID-19 pandemic.

3.4 Airline business models

The four main categories of passenger airlines are: full-service network carriers, low-cost carriers, regional carriers and charter airlines/tour operators. The majority of the Group's revenue is generated from full-service network carriers and low-cost carriers:

(A) Full-service network carriers are generally located in primary airports, from which they operate a hub and spoke network model. These carriers tend to have greater complexity in their business models, which is partially offset through higher yields generated by the products and services that are part of that business model. Full-service carriers account for the majority of ASKs in the airline industry.

(B) Value and low-cost carriers tend to compete in the segment of the market that is the most price sensitive. By focusing on removing the complexity associated with full-service network models, for example by operating a point-to-point network with a standardised fleet, they are able to reduce their cost of production which in turn results in lower ticket prices relative to full-service carriers. These business models have tended to operate in shorthaul markets, mostly in Europe and Asia Pacific. However, carriers such as JetStar and Air Asia also operate low-cost longhaul business models in Asia Pacific, where the low-cost longhaul business model is more mature than other regions of the world. The low-cost longhaul business model has started to expand into Europe in recent years, where the business model was first introduced by Norwegian Air Shuttle in 2013.

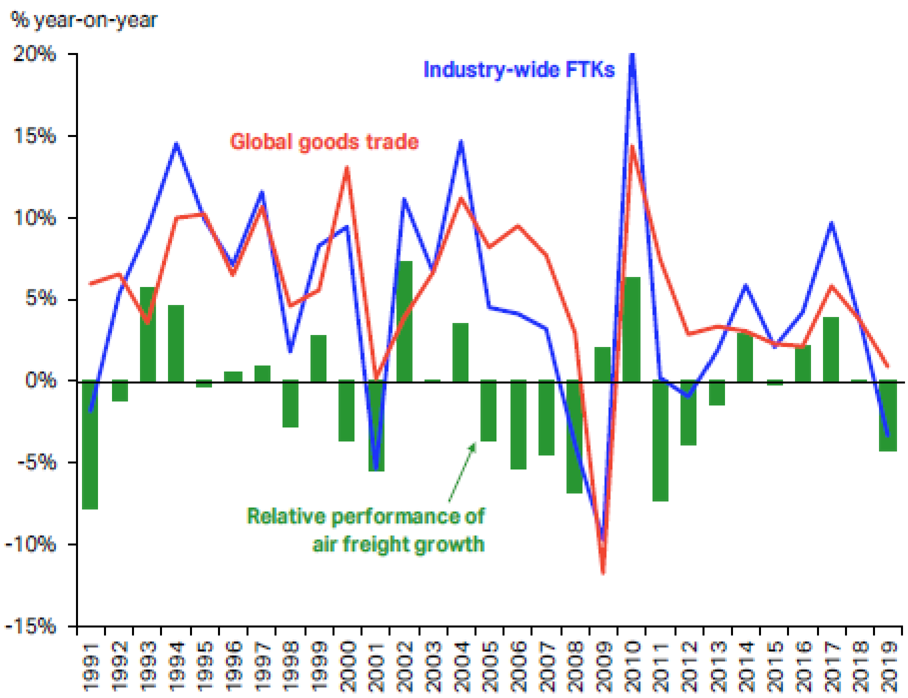
(C) Regional carriers operate smaller-capacity fleets, and tend to focus on providing passenger air service to in-country areas without sufficient demand to attract the mainline services.

(D) Charter airlines/tour operators operate mostly unscheduled flights, which are primarily leisure based.

3.5 Overview of aviation cargo market

In 2019, the global cargo aviation market generated revenues of $102 billion with 61.3 million freight tonnes transported, though total air freight volumes (measured in freight tonne kilometres ("**FTKs**")) decreased by 3.3% in 2019 compared to 2018. Historically, air cargo demand growth has closely linked to growth in global goods trade (see Exhibit 8). The declines in 2019 were driven by a number of factors including global trade wars, weaker GDP growth in manufacturing intensive economies and softer business and consumer confidence.

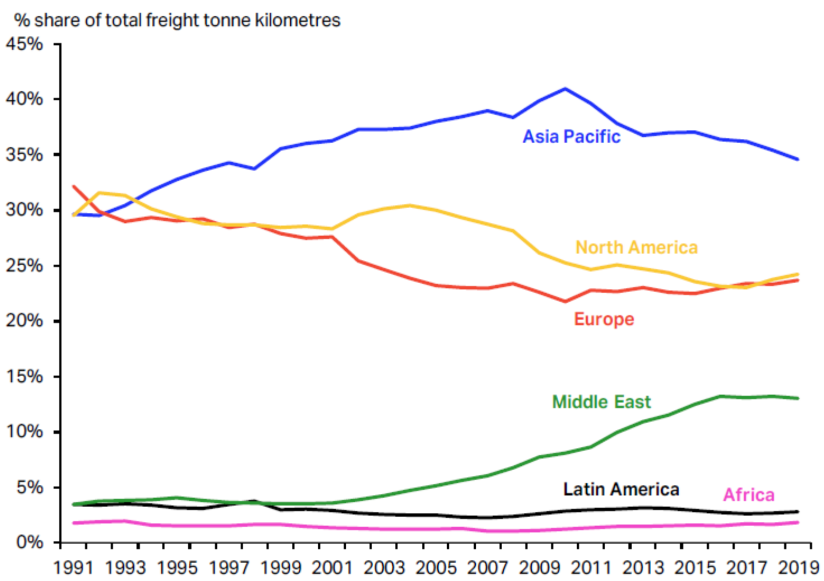
Exhibit 8: Growth in global goods trade and FTKs



Source: IATA Air Freight Monthly analysis, December 2019

In recent history, Asia Pacific has consistently had the world's largest share of FTKs, accounting for 34.6% of global FTKs in 2019, followed by North America and Europe with 24.2% and 23.7% respectively (see Exhibit 9).

Exhibit 9: Regional share of FTKs

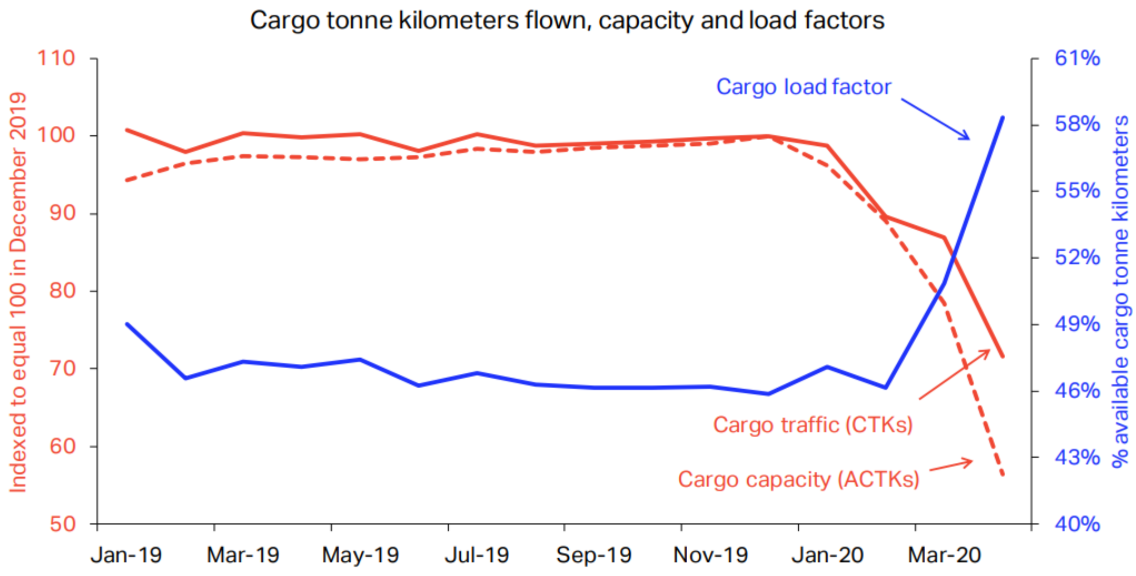


Source: IATA air freight monthly analysis, December 2019

Cargo revenue contributed €1.1 billion in revenue to the Group in 2019, 4.4% of the Group's total revenue. The Group's freight network consists of 'belly-hold' network flights between key airports across Europe, North America, Asia Pacific, AMESA and LACAR, additional freighter capacity (operated by partner airlines) on key cargo routes and also a significant trucking network.

During the COVID-19 pandemic, cargo demand has continued to perform strongly. Disappearance of 'belly-hold' capacity on passenger flights created shortages and significantly increased load factors and revenues, as shown in Exhibit 10, partially offsetting reduction in passenger revenues. During this period the Company utilised cargo-only flights to maximise revenue opportunities.

Exhibit 10: Demand for air cargo services



Source: IATA Statistics

4. STRENGTHS AND LONG-TERM STRATEGY OF THE GROUP

4.1 Strengths

The Group has a strong track record of delivering value to shareholders through an agile and resilient business model leveraging its strengths to advance its strategic priorities with a view to becoming the world's leading airline group. This objective is delivered primarily through the core strengths of the Group which are set out below.

(A) Unique operating model that drives growth and innovation to generate strong shareholder returns

The Group has a unique operating model based on an independent corporate parent company which owns a portfolio of world-class brands and operations and a common integrated platform to service its operations. The Group's operating model drives synergies between businesses in its portfolio.

The Company actively engages and works collaboratively with its operating companies to drive synergies and maximise their performance. The Company makes decisions about capital allocations to its airlines based on strict return criteria and exerts influence across the Group to maximise returns.

The Company is also responsible for setting the long-term vision for the Group. Its independence from the operating companies allows for objective, flexible and rapid decision-making and enables the Company to implement a cohesive long-term vision for the Group.

Each of the IAG Airlines is a standalone profit centre, with an independent credit identity and its own management team and board of directors. As a result, each of the IAG Airlines retains its own brand and individual cultural identity as it focuses on meeting the needs of its target customers and differentiating itself from its competitors.

The composition of the Group is continually reviewed by the Company (including as part of its acquisition and divestment strategy) to ensure that it has the right balance of brands, businesses and provision of services through the common integrated platform in order to maximise long-term value creation for Shareholders. The Board of Directors believes that this operating model remains appropriate for the Group currently and once the COVID-19 pandemic has abated.

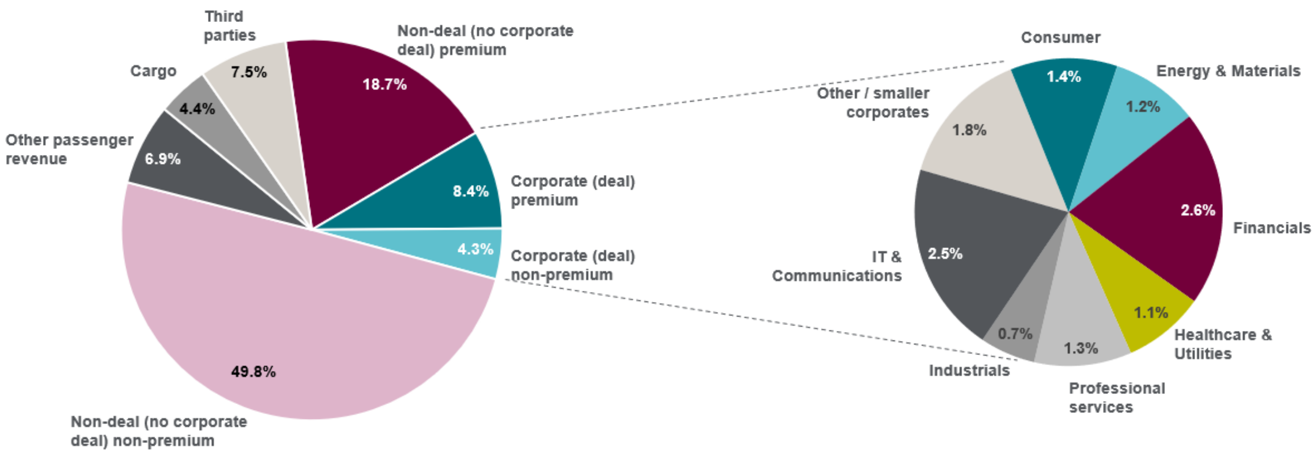
(B) Portfolio of world class brands and operations

The Group has a portfolio of highly recognised, well regarded and complementary brands which are each focused on delivering to a specific set of customer needs in their target demand spaces and geographies, using customer data across the Group to ensure delivery of a targeted and differentiated customer experience with an increasing focus on personalisation. The Group's brands include full-service network carriers and value and low-cost carriers. This is in contrast to many other carriers (such as some of those in the United States) that attempt to service all customer demand spaces with a single brand. The Company believes that having different brands focused on specific demand segments (rather than diluting a brand by trying to have it serve all market segments and customer needs) allows the Group to better address the needs of customers, and in turn, generating additional value for its Shareholders.

Customers travel for different reasons and will have different needs depending on the travel occasion. The Group operates across all demand spaces and has a diversified mix of premium versus non-premium and leisure/non-corporate versus corporate demand and revenue. The corporate revenue also varies between demand linked to corporate deals (i.e. where there is a sales/dealing arrangement in place with a particular company) and those which have no corporate deal (i.e. where they purchase normal commercial tickets) (see Exhibit 11).

Exhibit 11: Group revenue by product and industry (full year 2019)

This Exhibit shows the Group's revenue by product on the left hand side and further breaks this down by industry on the right hand side for the corporate premium and corporate non-premium product types.

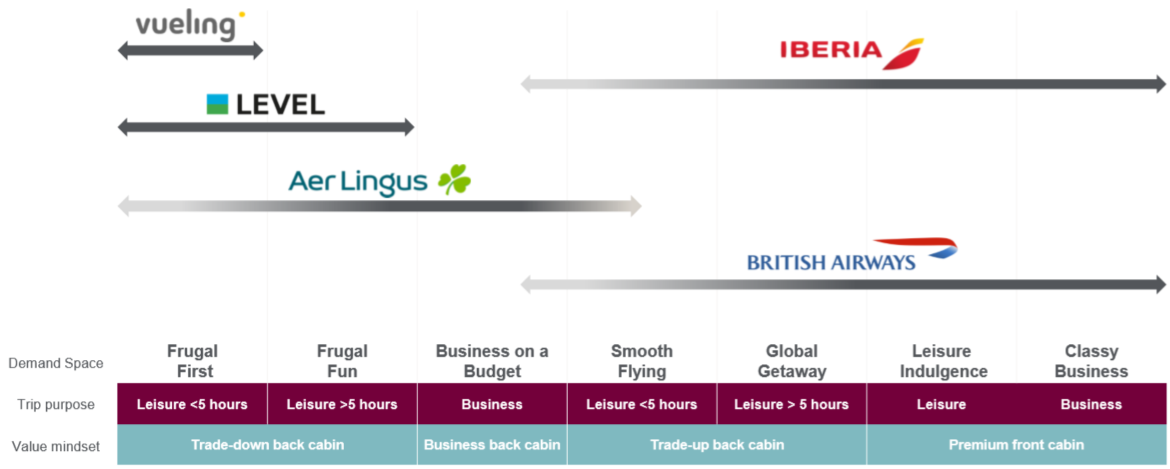


Source: Internal Group data

The Group's portfolio of brands, along with network proposition and price levers, enables customers to choose between brands in the Group depending on their travel occasion. IAG Loyalty's comprehensive loyalty services develop strong, long-term relationships with the Group's customers and allow the IAG Airlines to deliver tailored frequent flyer programmes focused on the needs of their target demand space. The common loyalty currency, Avios, also encourages customers to choose to travel with brands in the Group whatever their travel occasion. The IAG Airlines and the customers they target is summarised in Exhibit 12 below and further detail on the IAG Airlines is set out in section 5 (*Business Overview*).

Exhibit 12: The Group's portfolio brands against specific needs of target customers

This Exhibit shows the IAG Airlines against their respective target markets' needs, ranging from 'Frugal First' and 'Frugal Fun' (cost conscious travellers who prioritise low-cost travel) to 'Leisure Indulgence' and 'Classy Business' (travellers who are able and willing to spend a premium on their air travel). Value mindsets range from those customers who will choose the cheapest available option (i.e. trade-down back cabin), business travellers on a budget (i.e. business back cabin), customers who may choose slightly more expensive flights based on factors such as airport location or flight time (i.e. trade-up back cabin) and those who prioritise the premium flight experience (i.e. premium front cabin).



Recent key investments of the Group have focused on delivering customer satisfaction and differentiating the IAG Airlines' product and service offering against their competitors, including through new aircraft and cabin upgrades. This has helped deliver improved customer satisfaction with the Net Promoter Score (NPS) for the Group increasing to 25.8 in 2019 from 16.8 in 2017.

Across its portfolio, the Group's employees also play a pivotal role in the unique cultural identity of each of the brands, while at the same time providing safe and reliable operations, further detail of which is set out at section 5.9 (*Employees and labour relations*).

(C) Global leadership positions in each of its 'home' markets

The IAG Airlines occupied leadership positions by revenue (in 2019) in each of their 'home' markets: London, Madrid, Barcelona and Dublin (as shown in Exhibit 7 above, for full year 2019). Their respective positions in these markets ensures that the Group benefits from, and can maximise its offering to, passenger traffic at airports in those cities. The Group was also a leader by revenue (in 2019) in the trans-Atlantic market. The Company believes that leadership at a city/market/route level, is a key driver of overall and relative performance and is continually looking to strengthen and protect its leadership positions.

The Group has a strong track record of successful consolidation and integration which has grown and enhanced its leadership positions. These skills will also be relevant to capture potential opportunities in the future, once the COVID-19 pandemic has abated. The Group's leadership positions are further strengthened by a number of antitrust immunised joint businesses (the Atlantic joint business with American Airlines and Finnair, the Siberian joint business with Japan Airlines and Finnair, the Qatar Airways joint business and the China Southern joint business) which enable commercial cooperation in areas such as network, code sharing and reciprocal frequent flyer benefits and strategic alliances ('oneworld') which allow it to expand its network coverage and better align customer propositions.

For further detail on the Group's investment in strengthening and maintaining leadership positions, its leverage of market leadership positions and its network of joint businesses and strategic alliances, see detail set out in section 4.2(B) (*Growing sustainable global leadership positions)*.

(D) *Platform, synergies and innovation*

The Group's common integrated platform provides a shared set of services that can be utilised by the operating companies, avoiding duplication of non-airline specific functions. This drives greater efficiency in the organisational structure and cost base of the Group as well as unlocking synergies. This platform is made up of strong businesses which support the airline operating companies. These include: IAG Loyalty, which is focused on improving the Group's loyalty programmes, driving greater customer engagement, diversifying its partnerships and leveraging data to become the loyalty partner of choice for travel; IAG Cargo, which sells global cargo space with a strategic focus on customer service, growth, data, technology and operations, to become the carrier of choice worldwide; IAG Tech, which brings together the Group's IT and digital capabilities with the focus of driving digital transformation, innovation and the agile use of technology and data across the Group; and IAG GBS which provides a centralised procurement and core finance function for the Group, leveraging the Group's scale to deliver synergies. Some of these businesses, such as IAG Cargo and IAG Loyalty, also have significant third party business which have experienced ongoing demand for their services despite the COVID-19 pandemic and contributed additional revenue for the Group. For example, IAG Cargo has supported the sale of additional cargo space for the operation of a number of cargo only flights and, as announced on 24 July 2020, IAG Loyalty has signed a multi-year renewal, extending its worldwide commercial partnership with American Express, pursuant to which American Express made a payment to IAG Loyalty of approximately £750 million (€830 million), a significant part of which is a pre-purchase of Avios points that American Express will utilise in the United Kingdom and worldwide for its British Airways co-branded cards and Membership Rewards Programme.

The centralised digital innovation function within IAG Tech drives efficiencies across the business and has already delivered significant improvements such as: introducing the use of automated aircraft pushback devices, Mototoks, which have reduced airside emissions and fuel consumption; achieving the New Distribution Capability (NDC) at scale certification for both British Airways and Iberia allowing them to better deal with complex bookings and interactions as well as lowering costs through their distribution channels; and driving faster innovation in the business through its Hangar51 digital accelerator programme which works with start-ups and innovation partners to bring new thinking and the latest technologies to the industry. The Company believes that digital transformation will be critical to the Group as the global aviation industry recovers from the impact of the COVID-19 pandemic.

The Group also has a history of achieving cost efficiencies through restructuring programmes and continuous improvement (for example, Iberia's Plan de Futuro). With this continued focus, on an index basis, non-fuel unit costs have been reduced by 10.7% since the formation of the Group (to September 2019). As the Group undertakes restructuring measures in response to the impact of the COVID-19 pandemic, the Group will continue to analyse viable cost efficiencies.

The Group believes that each of the IAG Airlines was competitively positioned against its peers going into the COVID-19 pandemic and, in response to the challenging market environment, the Group has taken proactive steps to reduce the negative financial and operational impacts of the COVID-19 pandemic. For further detail on the reduction of variable costs, short-term cost efficiency initiatives reducing fixed costs, reduction of capital spending and deferral of aircraft deliveries, see section 2.1(C) (*The Group's response to the COVID-19 pandemic*) of Part VI (*Background to and reasons for the Capital Increase*).

(E) *Leading sustainability commitment*

As an airline group, climate change is the Group's most material sustainability issue. The Group is committed to minimising its CO_2 emissions impact and non-CO_2 impacts on the world. With the aim to align financial, environmental and customer sustainability, the Group has integrated sustainability into its business planning, including fleet purchasing, network, customer decisions and management incentives.

The Group has led the industry by announcing its commitment to achieve net zero carbon emissions by 2050. This commitment, made in October 2019, is backed by a comprehensive action programme ('Flightpath net zero') and ambitious, yet achievable, targets. As part of this programme, the Group reviews and monitors its aircraft fleet, retiring older, less efficient, aircraft where possible to cut its carbon emissions of greenhouse gases. Other airlines have subsequently followed the Group's lead in this area and made similar sustainability commitments. The Group's approach to sustainability is set out in more detail in section 5.6 (*Environment*).

(F) *Experienced management teams with proven growth and restructuring capabilities across the Group*

Management teams across the Group have extensive experience in the aviation industry with strong track records of driving value and delivering attractive shareholder returns. The management teams have implemented significant structural changes since the Group was formed in 2011. Luis Gallego assumed the role of Group Chief Executive Officer of the Company on 8 September 2020. Luis, in his previous role as Chairman and Chief Executive Officer of Iberia, led the turnaround that airline, overseeing its Plan de Futuro transformation programme since 2014. Luis will lead the restructuring of the Group as the global aviation industry recovers from the impact of the COVID-19 pandemic as the leader of a management team with a strong track record in the industry, including Chief Financial Officer, Steve Gunning, who previously served as Chief Financial Officer of British Airways. Luis succeeds Willie Walsh, who delayed his retirement from the role of Group Chief Executive to provide management stability while the Group responded to the initial impact of the COVID-19 pandemic. The Board of Directors believes that the management teams have the knowledge and expertise to be able to adapt the Group to a potentially changed environment once the industry recovers from the impact of the COVID-19 pandemic.

(G) *Track record of strong financial performance*

The strengths of the Group outlined above have resulted in strong financial performance, which in turn have driven strong shareholder returns since the Group started returning capital in 2015. The Group has also delivered industry-leading operating margins and returns on invested capital in the period since its inception. Within only six years of its formation in 2011, the Group demonstrated its ability to deliver returns on invested capital in line with, or in excess of, its target of 15%.

The Group's policy is to allocate capital to its operating companies to ensure that they are focused on sustainable investment that generates returns in excess of the cost of capital. The Group is also committed to returning, in time, to ordinary dividend payments and returning surplus cash to Shareholders if no value accretive growth opportunities exist. In addition, the common integrated platform provides the Group's operating companies with opportunities to benefit from cost reductions and synergies by leveraging the Group's scale and removing duplicated functions (see section 4.2(B) (*Enhancing the Group's common integrated platform*)). It should be noted that the Group's ability to follow this approach in the current financial year, has, to date, been impacted by the COVID-19 pandemic.

The Group has had market-leading margins, achieving operating margins of 12.9%* and 14.4%* (operating margin is an APM which is reconciled in section 5 (*Alternative Performance Measures*) of Part IX (*Operating and Financial Review*)) for the years ended 31 December 2019 and 2018 respectively (against an industry average (IATA) operating profit margin of 5.7% in 2018 and 5.2% in 2019). The performance in previous years has enabled historically strong returns to be delivered to Shareholders by the Company in a financially responsible manner without negatively impacting its balance sheet. The Company returned €4.1 billion to Shareholders between 2015 and 2019, comprised of €2.4 billion of ordinary dividends, €1.0 billion in share buybacks (announced in 2016 and 2017) and €0.7 billion by way of a special dividend (in 2018). While the Company does not have a fixed dividend policy, ordinary dividends have historically been a 25% pay out of pre-exceptional profit after tax, with the exception of the dividend in respect of the year ended 31 December 2019 (12.1% due to the withdrawal of the final dividend due to the negative impact of the COVID-19 pandemic on the Group's cash).

Historically, the Company has only paid out shareholder returns where debt leverage was supportive. Net debt/EBITDA at the end of 2019 was 1.4x*, well within the Company's target ceiling of 1.8x. As of the end of 2019, the Company had long-term investment grade credit ratings assigned by S&P and Moody's. In May 2020, S&P and Moody's downgraded the Company to BB and Ba1, respectively, and in September 2020, Moody's further downgraded the Company to Ba2. On both occasions, the rating agencies cited reductions in capacity due to the COVID-19 pandemic.

As a result of strong free cash flow generation historically, and disciplined liquidity management, the Group has achieved a high level of cash and liquidity. As at 31 December 2019, the Group had a total cash liquidity position of €8.6 billion, comprising of €6.7 billion cash, cash equivalents and interest-bearing deposits and €1.9 billion of undrawn general and committed aircraft finance facilities. This total cash was equivalent to 34% of the Group's 2019 revenue, which was significantly higher than the Group's treasury policy target of 20%. As at 30 June 2020, the Group had a total cash liquidity position of €8.1 billion, comprising cash and interest-bearing deposits of €6.0 billion and €2.1 billion of committed and undrawn general and aircraft facilities.

The strong balance sheet and liquidity position, with which the Group entered 2020, has supported the Group in the challenging environment resulting from the COVID-19 pandemic. For further detail on the Group's liquidity position and funding measures, cash burn and efficiency measures and information on how the Capital Increase will strengthen the resilience and competitive position of the Group as the global aviation industry recovers from the impact of the COVID-19 pandemic, see section 2.1 (*The impact of the COVID-19 pandemic and the Group's response*) of Part VI (*Background to and Reasons for the Capital Increase*).

(H) Track record of value creation through consolidation

The Group has demonstrated its ability to create value from participating in consolidation and inorganic growth opportunities. Since its formation, acquisitions across the Group have included the purchase of bmi (2012), Vueling (2013), Aer Lingus (2015) and Monarch slots (2017). The Group has also strengthened its Atlantic joint business with American Airlines (entered into by British Airways and Iberia in 2010) with the addition of Finnair in 2013 and established joint businesses with JAL (2012, to which Finnair joined in 2014 and Iberia joined in 2016), Qatar Airways (2016) and China Southern (2019). These transactions have enhanced the IAG Airlines' position in their home markets, helped create positions in new markets and generated meaningful cost and revenue synergies across the Group.

4.2 Long-term strategy

The Group leverages its strengths (as outlined in section 4.1 (*Strengths*)) to advance its strategic priorities and enable sustainable value creation, with a view to becoming the world's leading airline group. In the current environment, the Group is focused on securing financial strength so that, as the industry recovers from the impact of the COVID-19 pandemic, it is well positioned to execute its strategy.

The Group does not expect the fundamentals that create value in the airline industry to change as the industry recovers from the impact of the COVID-19 pandemic. The Board of Directors believes that, given the capital intensive nature of the airline business and the high proportion of fixed costs, relative to other industries, scale will continue to matter and the Group will continue to be in a position to benefit from this. The Group's model, with its portfolio of brands and operations, will continue to drive commercial and operational synergies, benefitting from economies of scale, shared infrastructure, common IT investment and centralisation of corporate functions.

As a result, the Group's long-term strategy is not expected to change due to the impact of the COVID-19 pandemic. The Group does, however, envisage the potential for changes in the industry overall (for example, changes in levels of demand by customer segment and geographical changes, with certain markets becoming more desirable than others), but these are yet to be evidenced. The Group continually monitors industry developments and will adapt and adjust its strategy if necessary (in particular, in light of the ongoing uncertainties relating to the impact of the COVID-19 pandemic).

(A) *Near-term focus of the Group*

In the near-term, the Group is focused on maintaining and improving its financial strength through the COVID-19 pandemic and beyond by optimising its cost structure and minimising cash burn and has acted quickly to do so. The Group's businesses are taking steps to adjust their operations further to reflect the change in demand and to reduce costs. The Group is reducing and deferring capital expenditure, cutting non-essential and non-cyber security related IT spend, freezing recruitment and discretionary spending, implementing voluntary leave options, temporarily suspending employment contracts and making temporary reductions in pay and reducing working hours. It is also making capacity reductions to save variable costs and reducing capital spending, deferring aircraft deliveries (with the deferral of 68 new aircraft due 2020-2022 secured as at 30 June 2020), retiring legacy aircraft early (including 32 Boeing 747s and 15 Airbus 340-600s), entering into agreements to extend supplier payables (including in respect of aircraft lease payments and navigation charges) to make costs more variable, and introducing restructuring and redundancy programmes across the Group. For further detail on these initiatives, see section 2.1 (*The impact of the COVID-19 pandemic and the Group's response*) of Part VI (*Background to and Reasons for the Capital Increase*).

As the global aviation industry recovers from the impact of the COVID-19 pandemic, the Group's priority is to have the IAG Airlines well positioned to be able to return to long-term sustainable value creation and with increased flexibility through a more variable cost base, and to capitalise on the opportunities the COVID-19 pandemic may provide across the airline industry. The Group may also need to change the balance of its businesses and composition of its portfolio to ensure that the Group is meeting customer needs and maximising shareholder value. The Capital Increase is intended, alongside the other actions being taken by the Group (summarised in section 2.1 (*The impact of the COVID-19 pandemic and the Group's response*) of Part VI (*Background to and Reasons for the Capital Increase*)), to support this positioning.

(B) *Strategic priorities of the Group*

The Group's vision is to be the world's leading airline group, maximising sustainable value creation for its shareholders, customers and other stakeholders. In order to realise this objective, the Group's long-term strategy has three key priorities:

Strengthening a portfolio of world class brands and operations

The Group is focused on strengthening the customer centricity of its world class brands and operations, aiming to ensure its businesses deliver an unrivalled customer proposition that can adapt and meet changing customer expectations to drive improved levels of customer satisfaction. The Group will continue to deepen its understanding of changes in needs and expectations of different customer types over time, in particular as a result of the COVID-19 pandemic. The brands will adapt their products, services and differentiation against their competitors in order to win greater share of the relevant demand spaces.

The Group anticipates that the size and shape of certain demand spaces may change as a result of the COVID-19 pandemic, such as the balance between leisure and business travel, and there may be a greater focus on health and well-being from customers and regulatory requirements to introduce and maintain additional procedures (for example, in relation to cleanliness and health). The portfolio model enables, over the longer term, the balance of the brands to be adjusted to respond to more structural changes in demand. The Group regularly reviews its mix of brands and operations to ensure that it has the right brands focused on the right sections of the market. As part of this, the Group has the potential to deploy multi-brand strategies to target multiple demand segments in a given market. In parallel, the Group also assesses whether it has the right number of brands operating in its key geographies.

Beyond its airlines, the Group has other strong businesses in its diverse portfolio, including IAG Loyalty, IAG Cargo, IAG Tech and IAG GBS. Across its businesses (subject to the Group's announcement on 16 March 2020 that all non-essential and non-cyber related IT spending has been reduced in light of the COVID-19 pandemic), the Group will continue to focus investment on products and services across the Group that will improve customer experience and increase levels of customer satisfaction both standalone and relative to key competitors and enable it to be a leader in terms of brand fit in its target demand spaces.

Growing sustainable global leadership positions

The Group's priority is to invest in strengthening and maintaining its leadership positions in each of its 'home' markets, either organically or inorganically. The Group is also focused on developing new leadership positions beyond its 'home' markets. As the global aviation industry recovers from the impact of the COVID-19 pandemic, opportunities may be presented to capture new leadership positions. For example, if the impact of the COVID-19 pandemic results in economic downturns as anticipated, this may provide an opportunity for the Group's low-cost / value businesses to grow and strengthen their leadership positions due to trade down behaviours as challenging economic conditions impact consumer spending. Further, the Group expects to benefit from its ability to leverage its existing market leading positions, enabling it to manage and optimise networks through a combination of increased frequency of flights, new routes and aircraft with a larger capacity on longhaul routes.

As the industry recovers from the impact of the COVID-19 pandemic, the Company will continue to review organic and inorganic growth opportunities to strengthen and maintain existing leadership positions and develop new leadership positions to deliver value accretive and sustainable growth. The priority for the Group is ensuring that it is well-positioned to continue to invest, as and when appropriate. In Europe, the Group considers that the aviation market would benefit from further consolidation and believes that there are likely to be opportunities to further consolidate as the industry recovers. Beyond Europe, to the extent ownership and control rules are relaxed and new opportunities open up, the Group will again seek to participate where consolidation opportunities are value accretive and are in accordance with its portfolio model. In addition, the Group will continue to leverage its existing joint businesses, alliance and partnerships and where appropriate form new joint businesses (see section 4.1(C) (*Global leadership positions in each of its 'home' markets*)).

Enhancing the Group's common integrated platform

The Group is of the view that the aviation industry will remain capital intensive, scale will continue to matter and additional value can be unlocked through strengthening the linkages between the IAG Airlines and between the Group's other businesses.

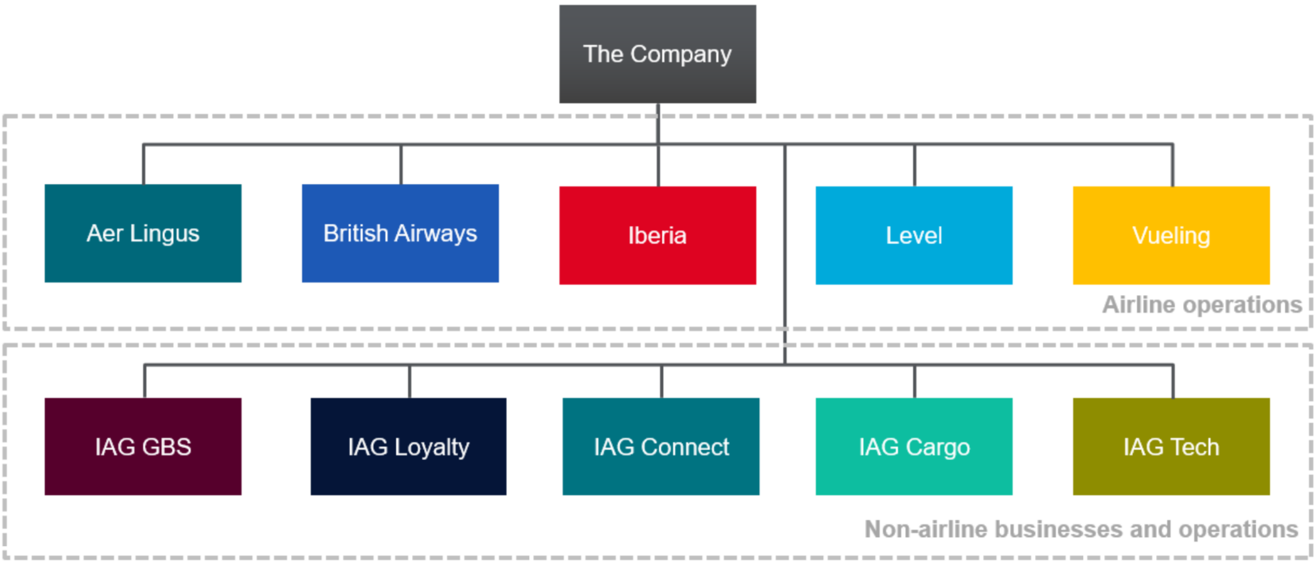
The Group believes there is potential to create more value and deliver further synergies by bringing other parts of the operations and functions of the IAG Airlines and the Group's businesses onto the Group common integrated platform. Such areas include talent, loyalty, fleet planning and procurement and some commercial areas such as pricing and revenue management. As the Group undertakes restructuring measures in response to the impact of the COVID-19 pandemic, the Group will continue to analyse these options with a view to determining whether such centralisation should be accelerated.

The common integrated platform also leverages the Group's scale to drive innovation and improve quality. Investment in technology is intended to deliver operational efficiency, enhance commercial capabilities and an improved customer experience and the technology part of the Group's platform, IAG Tech, is expected to continue to invest more than €200 million a year in 2021 and 2022 respectively. As part of this, the Group will continue to focus on removing legacy systems and improving its technology offering. For example, the Group has introduced 'marketplace' initiatives, such as Zenda and Routestack, to identify and explore new revenue streams for the Group's businesses. Maximising use of digital channels and technological innovation will allow the Group to increase shareholder value, accelerate business performance, enable employees, provide resilience and protect the Group's business (including through cyber security) while, at the same time, improving customer satisfaction.

As part of the Group's vision to be the world's leading airline group, maximising sustainable value creation for its customers and Shareholders, the sustainability of the Group's business underpins all its strategic priorities. In particular, the Group's commitment to be the leading airline group on sustainability has ensured environmental considerations are integrated into the business strategy at every level including as part of our customer proposition. For further information on the Group's sustainability programme, see section 5.6 (*Environment*).

5. BUSINESS OVERVIEW

In the year ended 31 December 2019, the Group was one of the world's largest airline groups by revenue, carrying over 118 million passengers to more than 275 destinations around the world. The Group consists of four core airline brands, based in the United Kingdom, Spain and Ireland: British Airways, Iberia, Vueling and Aer Lingus. The Group's operations are supported by its common integrated platform and services which include IAG GBS, IAG Loyalty, IAG Connect, IAG Cargo and the Group's MRO activities, allowing the Group's operations to benefit from cost reductions and synergies by leveraging the Group's scale. The following chart shows the Group's main businesses, brands and services as at the date of this Prospectus.



5.1 Airline operations

The majority of the Group's revenue is generated from full-service network carriers and low-cost carriers.

(A) British Airways

British Airways is a full-service airline which can trace its roots back to 1919. In 2019, British Airways was awarded the title of Airline of the Year 2019 by the Centre for Aviation. British Airways' principal place of business is London with a significant presence at Heathrow and operations at other London airports. British Airways, together with its wholly-owned subsidiary BA CityFlyer and joint business and codeshare partners, operates an extensive international scheduled airline route network flying to more than 200 destinations in 80 different countries, with a fleet of 302 aircraft, as at 31 December 2019. In January 2019, British Airways announced a £6.5 billion (€7.3 billion) investment in new aircraft, new cabins, new catering, new lounges, Wi-Fi, and new routes. As a result of the COVID-19 pandemic, these initiatives have generally been put on hold, except committed new aircraft deliveries and essential IT investment. See section 2.1(C) (*The Group's response to the COVID-19 pandemic*) in Part VI (*Background to and reasons for the Capital Increase*).

British Airways manages several complementary businesses in addition to its passenger and cargo operations, including maintenance, repair and general overhauls for engines, aircraft and components for the British Airways fleet, other IAG Airlines and third-party airlines.

Supporting British Airways, British Airways Holidays Limited ("**BA Holidays**") is the airlines' in-house tour operator with a profitable and growing business. BA Holidays provides British Airways with an enhanced distribution capability and product offering by selling package holidays and modular add-ons, such as hotel accommodation and other travel related products to support the sale of British Airways' flights.

In the year ended 31 December 2019, British Airways had an operating margin of 14.5%*. Over this period, British Airways carried approximately 47.7 million passengers and generated revenues of £13,290 million (€15,106 million) (up 2.5% from 31 December 2018) and an operating profit of £1,921 million (€2,182 million) from continuing operations before exceptional items (down 1.6% from 31 December 2018). The decrease in operating profit reflects the impact of the pilot strike at British Airways in 2019.

The COVID-19 pandemic and associated government travel restrictions and advisories have had a very significant negative effect on British Airways' business. The resulting capacity reductions mean that the airline only flew to 29 destinations, with a fleet of 267 aircraft operating as at 30 June 2020 (see section 5.3 (*Fleet*)). Consequently, in the first half of 2020, British Airways carried 8.73 million passengers, a decrease of 62.2% against the same period in 2019. Its capacity, measured in ASKs, was 41,655 million as at 30 June 2020 a decrease of 54.8% compared to 30 June 2019. In the six months ended 30 June 2020, British Airways generated a loss after exceptional items of €2,454 million (down from an operating profit of €873 million for the same period in 2019) and an operating loss of €1,094 million from continuing operations before exceptional items. For further detail on the impact of the COVID-19 pandemic on the Group's businesses, see "*1.1 – The COVID-19 pandemic has had a material adverse effect on the Group's financial condition and results of operations in the six months ended 30 June 2020 and is likely to continue to have a material adverse effect on the Group's financial condition and results of operations in the future"* and *"1.3 – The operations, strategic initiatives, suppliers and behaviour of the Group's customers, as well as the general economic conditions in the markets in which the Group operates, have been and are likely to continue to be materially impacted by the COVID-19 pandemic or any future COVID-19 outbreak or other pandemic.*" of Part I (*Risk Factors*).

Some of British Airways' key performance measures from the last two financial years are shown below and further detail is set out in section 2.2(F) (*Financial performance by Brand*) of Part IX (*Operating and Financial Review*).

	2018	***2019***
Operating Profit before exceptional items (£m)	1,952	1,921
(€m)	2,207	2,182
ASK growth per annum	2.5%	0.9%

(B) *Iberia*

Iberia is a full-service airline founded in 1927. Its hub is at Madrid Barajas Adolfo Suárez Airport and, together with its wholly-owned subsidiary Iberia Express, Iberia flew to 118 destinations in 46 different countries, with a fleet of 107 aircraft, as at 31 December 2019. In 2014, Iberia launched its *Plan de Futuro* (restructuring plan) which focused on implementing structural change across its business and restraining growth until structural cost savings and productivity improvements were achieved. Following the completion of the initial phase of the restructuring plan, Iberia has started implementing the next phase of its *Plan de Futuro*, which includes several projects and initiatives to strengthen its brand, customer, digitalisation and operational offering while maintaining focus on cost-efficiency. As a result of the COVID-19 pandemic, these initiatives have generally been put on hold, except committed new aircraft deliveries and essential IT investment. See section 2.1(C) (*The Group's response to the COVID-19 pandemic*) in Part VI (*Background to and reasons for the Capital Increase*).

Iberia manages several complementary businesses in addition to its passenger and cargo operations, including maintenance, repair and general overhauls for engines, aircraft and components for the Iberia fleet, other IAG Airlines and third-party airlines. Iberia also manages Spain's largest airport handling operator providing passenger, baggage and aircraft services at 29 airports in Spain.

In the year ended 31 December 2019, Iberia (including Iberia Express and Iberia Regional Air Nostrum) had an operating margin of 8.8%. Over this period, Iberia carried approximately 22.4 million passengers and generated revenues of €5,645 million (up 9.2% from 31 December 2018) and an operating profit of €497 million from continuing operations before exceptional items (up 13.8% from 31 December 2018).

The COVID-19 pandemic and associated government travel restrictions and advisories have had a very significant effect on Iberia's business. The resulting capacity reductions mean that the airline only flew to 16 destinations, with a fleet of 103 aircraft (four of which were operating for LEVEL) operating as at 30 June 2020 (see section 5.3 (*Fleet*)). Consequently, in the first half of 2020, Iberia carried 4.27 million passengers, a decrease of 60% against the same period in 2019. Its capacity, measured in ASKs, was 15,414 million as at 30 June 2020 a decrease of 55.7% compared to 30 June 2019. In the six months ended 30 June 2020, Iberia generated post-exceptional losses of €867 million (down from an operating profit of €109 million in the same period for 2019) and an operating loss of €359 million from continuing operations before exceptional items. For further detail on the impact of the COVID-19 pandemic on the Group's businesses, see "*1.1 – The COVID-19 pandemic has had a material adverse effect on the Group's financial condition and results of operations in the six months ended 30 June 2020 and is likely to continue to have a material adverse effect on the Group's financial condition and results of operations in the future"* and *"1.3 – The operations, strategic initiatives, suppliers and behaviour of the Group's customers, as well as the general economic conditions in the markets in which the Group operates, have been and are likely to continue to be materially impacted by the COVID-19 pandemic or any future COVID-19 outbreak or other pandemic.*" of Part I (*Risk Factors*).

Some of Iberia's key performance measures from the last two financial years are shown below and further detail is set out in section 2.2(F) (*Financial performance by Brand*) of Part IX (*Operating and Financial Review*).

	2018	***2019***
Operating profit before exceptional items (€m)	437	497
ASK growth per annum	7.1%	7.6%

(C) Vueling

In 2019, Vueling was one of Europe's leading low-cost airlines by passenger numbers. In 2019, Vueling flew to more than 100 destinations, with a fleet of 123 aircraft, as at 31 December 2019.

Vueling's main base is Barcelona with 12 million passengers departing annually from this base on Vueling flights. As Vueling continues to expand across Europe, it has also developed bases in Paris and Rome. Vueling further serves 27 cities in Spain, of which 14 are operational bases. In 2016, Vueling launched the NEXT Transformation Program to build operation resilience and improve financial performance. The NEXT Transformation Program focuses on making continued investments in customer experience, improving operations resilience, and also includes projects relating to cost reduction and digital innovation. As a result of the COVID-19 pandemic, these initiatives have generally been put on hold, except committed new aircraft deliveries and essential IT investment. See section 2.1(C) (*The Group's response to the COVID-19 pandemic*) in Part VI (*Background to and reasons for the Capital Increase*).

In the year ended 31 December 2019, Vueling had an operating margin of 9.8%. Over this period, Vueling carried approximately 34.6 million passengers and generated revenues of €2,455 million (up 5.0% from 31 December 2018) and an operating profit of €240 million from continuing operations before exceptional items (up 19.7% from 31 December 2018).

The COVID-19 pandemic and associated government travel restrictions and advisories have had a very significant effect on Vueling's business. The resulting capacity reductions mean that the airline only flew to 14 destinations, with a fleet of 127 aircraft (five of which were operating for LEVEL) operating as at 30 June 2020 (see section 5.3 (*Fleet*)).

Consequently, in the first half of 2020, Vueling carried 5.2 million passengers, a decrease of 67.2% against the same period in 2019. Its capacity, measured in ASKs, was 6,114 million as at 30 June 2020, a decrease of 66.2% compared to 30 June 2019. In the six months ended 30 June 2020, Vueling generated losses of €386 million after exceptional items (down from an operating profit of €5 million for the same period in 2019) and an operating loss of €268 million from continuing operations before exceptional items. For further detail on the impact of the COVID-19 pandemic on the Group's businesses, see "*1.1 – The COVID-19 pandemic has had a material adverse effect on the Group's financial condition and results of operations in the six months ended 30 June 2020 and is likely to continue to have a material adverse effect on the Group's financial condition and results of operations in the future"* and *"1.3 – The operations, strategic initiatives, suppliers and behaviour of the Group's customers, as well as the general economic conditions in the markets in which the Group operates, have been and are likely to continue to be materially impacted by the COVID-19 pandemic or any future COVID-19 outbreak or other pandemic.*" of Part I (*Risk Factors*).

Some of Vueling's key performance measures from the last two financial years are shown below and further detail is set out in section 2.2(F) (*Financial performance by Brand*) of Part IX (*Operating and Financial Review*).

	2018	***2019***
Operating profit before exceptional items (€m)	200	240
ASK growth per annum	8.9%	2.7%

(D) Aer Lingus

Aer Lingus was founded in 1936. In addition to Dublin, its base, and other airports in Ireland, Aer Lingus operates from central airport locations in the United Kingdom, Continental Europe and North America. Aer Lingus flew to more than 70 destinations in 19 different countries, with a fleet of 57 aircraft, as at 31 December 2019.

In the year ended 31 December 2019, Aer Lingus had an operating margin of 13.0%. Over this period, Aer Lingus carried approximately 11.6 million passengers and generated revenues of €2,125 million (up 5.8% from 31 December 2018) and an operating profit of €276 million from continuing operations before exceptional items (down 9.5% from 31 December 2018).

The COVID-19 pandemic and associated government travel restrictions and advisories have had a very significant effect on Aer Lingus' business. The resulting capacity reductions mean that the airline only flew to 22 destinations, with a fleet of 49 aircraft operating as at 30 June 2020 (see section 5.3 (*Fleet*)). Consequently, in the first half of 2020, Aer Lingus carried 1.7 million passengers, a decrease of 68.3% against the same period in 2019. Its capacity, measured in ASKs, was 6,113 million as at 30 June 2020, a decrease of 56.9% compared to 30 June 2019. In the six months ended 30 June 2020, Aer Lingus generated losses of €316 million after exceptional items (down from an operating profit of €78m for the same period in 2019) and an operating loss of €189 million from continuing operations before exceptional items. For further detail on the impact of the COVID-19 pandemic on the Group's businesses, see "*1.1 – The COVID-19 pandemic has had a material adverse effect on the Group's financial condition and results of operations in the six months ended 30 June 2020 and is likely to continue to have a material adverse effect on the Group's financial condition and results of operations in the future"* and *"1.3 – The operations, strategic initiatives, suppliers and behaviour of the Group's customers, as well as the general economic conditions in the markets in which the Group operates, have been and are likely to continue to be materially impacted by the COVID-19 pandemic or any future COVID-19 outbreak or other pandemic.*" of Part I (*Risk Factors*).

An overview of Aer Lingus' key performance measures from the last two financial years are shown below and further detail is set out in section 2.2(F) (*Financial performance by Brand*) of Part IX (*Operating and Financial Review*).

	2018	2019
Operating profit before exceptional items (€m)	305	276
ASK growth per annum	10.0%	4.2%

(E) LEVEL

LEVEL is a low-cost airline brand which commenced operations in June 2017 with two aircraft flying from Barcelona to San Francisco (Oakland), Los Angeles, Punta Cana and Buenos Aires and subsequently expanded its operations to include a new long haul base from Paris. LEVEL flew to 23 destinations in 10 different countries, with a fleet of 13 aircraft, as at 31 December 2019.

The COVID-19 pandemic and associated government travel restrictions and advisories have had a very significant effect on LEVEL's business. On 19 June 2020, LEVEL Europe, the Group's Austria-based shorthaul operator (separate from the Group's longhaul operators), announced that it was entering insolvency and that it had ceased trading following all flights being grounded as of March 2020. The Group subsequently announced that it was notifying its works council and undertaking consultations about a proposed cessation of longhaul operations from Paris Orly and the development of an employment safeguard plan (which began on 15 July 2020 and are expected to continue for three months in respect of that part of the LEVEL workforce). The longhaul operations of LEVEL based in Barcelona remain operational. In the first half of 2020, LEVEL carried 0.44 million passengers, a decrease of 43.1% against the same period in 2019. Its capacity, measured in ASKs, was 2,329 million as at 30 June 2020, a decrease of 44.2% compared to 30 June 2019. For further detail on the impact of the COVID-19 pandemic on the Group's businesses, see "*1.1 – The COVID-19 pandemic has had a material adverse effect on the Group's financial condition and results of operations in the six months ended 30 June 2020 and is likely to continue to have a material adverse effect on the Group's financial condition and results of operations in the future"* and *"1.3 – The operations, strategic initiatives, suppliers and behaviour of the Group's customers, as well as the general economic conditions in the markets in which the Group operates, have been and are likely to continue to be materially impacted by the COVID-19 pandemic or any future COVID-19 outbreak or other pandemic.*" of Part I (*Risk Factors*).

LEVEL is not a material part of the Group's business and the financial contribution of LEVEL to the Group is minimal. The insolvency of LEVEL Europe and proposed cessation of longhaul operations from Paris Orly are not expected to have a material impact on the Group's accounts.

(F) Air Europa

In early November, the Company announced the proposed acquisition by Iberia from Globalia, Spain's largest tourism group, of Air Europa which operates scheduled domestic and international flights to 69 destinations, including domestic, European and longhaul routes to Latin America, the United States, the Caribbean and North Africa. The acquisition, which remains subject to approval from competition authorities, would result in customers benefiting from increased choice and schedule flexibility, with more opportunities to earn and redeem air miles. Completion remains subject to satisfaction of all conditions to the acquisition. Active discussions are ongoing with Globalia regarding a potential restructuring of the acquisition, taking into account the impact of the COVID-19 pandemic.

5.2 Non-airline businesses and operations

(A) IAG Cargo

IAG Cargo is part of the Group that was created in 2011 from the integration of British Airways World Cargo and Iberia Cargo following the Merger. IAG Cargo operates from hubs located at London, Madrid and Dublin. IAG Cargo uses the IAG Airlines' and partner airlines' 'belly-hold' capacity and cargo assets to transport goods around the globe. It does not manage its own fleet, relying on the IAG Airlines and partner airlines to provide capacity on key cargo routes. By managing the airlines' cargo capacity as a unified network, IAG Cargo enables the Group to leverage its scale when transacting with freight forwarders.

IAG Cargo launched a digitalisation and innovation programme in 2019 to improve commercial capacity and efficiencies. This programme included: (i) adoption of an integrated Customer Relationship Management tool and the application of machine learning to improve pricing; (ii) investment in IAGCargo.com, such that the website accounted for approximately 30% of bookings at the beginning of 2020; (iii) implementation of a single Cargo Revenue Accounting system, bringing improved process efficiencies; and (iv) continued investment in start-ups through the Group's Hangar 51 tech start-up programme. While some of these initiatives are ongoing, as a result of the COVID-19 pandemic, others have been put on hold. See section 2.1(C) (*The Group's response to the COVID-19 pandemic*) in Part VI (*Background to and reasons for the Capital Increase*).

The global aviation cargo market experienced a difficult year in 2019, with a combination of trade tariffs, the intensification of trade relations between China and the United States, and market uncertainty, affecting air cargo flows across almost every region and leading to an industry average decline in revenues of 11.7%. IAG Cargo revenues for the year ended 31 December 2019 were €1,117 million, down 4.8% compared to revenues of €1,173 million for the year ended 31 December 2018. IAG Cargo cargo tonne kilometres ("**CTKs**") for the year ended 31 December 2019 were 5,577 million, down 2.4% compared to CTKs of 5,713 million for the year ended 31 December 2018.

The COVID-19 pandemic and associated government travel restrictions and advisories have had a less negative effect on the IAG Cargo business than on the Group's airline businesses. IAG Cargo's revenues for the six months ending 30 June 2020 were €615 million (up 10.6% on the same period in 2019) but it carried 1,751 million CTKs, a decrease of 37.5% compared to the same period in 2019.

(B) IAG Loyalty

IAG Loyalty operates Avios, the Group's loyalty currency, which combines the IAG Airlines' loyalty programmes and enhances members' ability to collect and spend Avios. IAG Loyalty is operated by Avios Group (AGL) Limited, an indirect subsidiary of the Company.

Members of the IAG Airlines' frequent flyer programmes can collect Avios when they fly, spend on certain credit cards, hire a car or book a hotel stay, purchase certain items and shop at the Group's online e-stores. Members can use their Avios to fly with the IAG Airlines, oneworld and Avios partner airlines, to obtain discounts on relevant airline fares and to purchase travel and leisure experiences. IAG Loyalty aims to be the benchmark of excellence for loyalty partnerships, customer data and liability management, and offers a wide a range of loyalty services. These include the Avios currency, customer programmes, loyalty management tools, and data and customer insights. Through its loyalty services, IAG Loyalty offers commercial and airline partners ways to attract, acquire and retain customers through using the Avios rewards currency and other data services. The Group has been strategically growing its commercial Avios collection partnerships across the finance, retail and travel sectors.

In 2019, the Group implemented a new Global Loyalty Platform, which intends to bring together customer data from the IAG Airlines into a single integrated Group platform. Loyalty itself drives significant value to the Group with a growing proportion of the Group's business coming from loyalty programme members. For example, as at 31 December 2019, for British Airways and Iberia, 34% of passenger journeys were made by programme members and 46% of flight revenue came from members over that period. In addition to this, the Group's collection partners add breadth to the loyalty programmes and bring cash into the Group, with 49% of Avios collected in the year to March 2020 coming through 'everyday spending'.

IAG Loyalty's e-store platform is an online portal which featured over 1,000 retailers at the end of 2019. This value is returned back to the Group through spend on travel rewards, with 92 billion Avios spent on travel and experiences and eight million reward flights being taken in the year to March 2020.

IAG Loyalty has more than 36 million members globally of which 7.4 million were active as at 31 July 2020. During the financial year ended 2019, these members collected 119 billion Avios and redeemed 95 billion Avios. The impact of the COVID-19 pandemic on IAG Loyalty has seen a slowdown in both Avios collection and redemption, particularly those linked to travel. As revenue and profit for IAG Loyalty is driven by the collection and redemption of Avios points, both of these have been negatively impacted. However, whilst the second quarter of 2020 was the most adversely impacted period, IAG Loyalty remained profitable and driving cash generation for the group.

As announced on 24 July 2020, IAG Loyalty signed a multi-year renewal, extending its worldwide commercial partnership with American Express, pursuant to which American Express made a payment to IAG Loyalty of approximately £750 million (€830 million), a significant part of which is a pre-purchase of Avios points that American Express will utilise in the United Kingdom and worldwide for its British Airways co-branded cards and Membership Rewards Programme.

(C) IAG Global Business Services

IAG GBS, established in 2014, is made up of IAG GBS Limited, an English limited company with branches in Spain and Ireland, and its subsidiary, IAG GBS Poland sp. z o.o., a Polish limited company. IAG GBS provides centralised core finance and procurement functions for the Group, including British Airways, Iberia, Aer Lingus and Vueling. IAG GBS is able to leverage the combined Group's scale to deliver synergies and aims to identify and implement process improvements, streamlining, standardising and automating processes across the IAG Airlines wherever possible.

The Group procurement team is focused on simplifying the end-to-end supply chain from sourcing through to payments; a standardised workflow for all operating companies; and improved supplier spend analytics across the Group to identify potential savings. It also manages supplier engagement with approximately 27,000 suppliers on behalf of the Group.

IAG GBS finance is focused on simplifying, harmonising and automating finance processes for the Group. A common finance system has been introduced to streamline processes in the Group and deliver further synergies.

IAG GBS constantly evaluates opportunities for cost savings in the Group including procurement and financing insourcing, outsourcing and onshoring and offshoring opportunities.

(D) IAG Connect

Inflight Wi-Fi and connectivity are becoming increasingly critical services for passengers and are important in driving passenger loyalty. Accordingly, in 2015, the Company established IAG Connect which is tasked with bringing scale and efficiency to the IAG Airlines' in-flight connectivity through an e-commerce platform. The Group's in-flight connectivity portal '.air', which has been installed and operates on all Wi-Fi enabled aircraft across the Group, offers entertainment, shopping and Wi-Fi allowing customers to pair their smartphones or tablet to the seatback screen to pay for on-board purchases. At the rate of expansion seen as at 31 December 2019, the Group was on track to achieve 90% of aircraft enabled with Wi-Fi by the second half of 2020. However, as a result of the COVID-19 pandemic, some of these initiatives have been put on hold. See section 2.1(C) (*The Group's response to the COVID-19 pandemic*) in Part VI (*Background to and reasons for the Capital Increase*).

(E) IAG Tech

IAG Tech drives digital transformation across all areas of the business with a specific focus on: customer and commercial, operations, MRO, back office, data and AI, integration and automation, and core infrastructure, whilst safeguarding the Group's business through improved cyber security. Since September 2019, the Group's IAG Tech business has been responsible for expanding digital innovations that can be utilised across the IAG Airlines. IAG Tech brings together over 1,500 digital and IT professionals across the Group to pursue "Technology Excellence" in order to increase shareholder value, accelerate business and employee performance, and improve customer experience whilst safeguarding the Group's business through improved cyber security. The importance of digital and IT to the future of the Group's business was recognised by the creation of the Group's first Chief Information Officer role, which oversees the operation of IAG Tech.

The areas that IAG Tech focuses on are important to improve the overall operations of the Group and drive new potential sources of revenue. While, in line with the Group's announcement on 16 March 2020, all non-essential and non-cyber security related IT spending has been reduced in light of the COVID-19 pandemic, IAG Tech has delivered over 280 different initiatives relating to the COVID-19 pandemic to generate additional revenue, protect existing revenue and cash, and reduce costs for the Group. It is expected that more than €200 million will be invested in IAG Tech in each of 2021 and 2022.

IAG Tech is focused on underpinning the Group's strategic ambition, delivering value, enabling environmental sustainability, driving the implementation and adoption of the Group's common integrated platform, and, in the current environment, also supporting the Group in responding to the COVID-19 pandemic and restructuring activities. To achieve this, IAG Tech has a comprehensive digital strategy that provides a three year vision and prioritised roadmap that drives digital transformation across all areas of the business.

IAG Tech drives innovation, digital and agile cultures across the Group. As an example, the IAG Tech start-up accelerator, Hangar51, is recognised as an industry leading innovation, incubation and investment programme. IAG Tech attracts, and works with, leading digital talent globally including strategic partnerships with major technology suppliers.

The Group has also introduced 'marketplace' initiatives, such as LEVEL, Zenda and Routestack, to identify and explore new revenue streams for the Group's businesses. Further, automation projects aim to improve operation safety, enhance customer satisfaction and drive efficiency across the Group.

(F) MRO (maintenance, repair and overhaul)

The Group's MRO businesses provide maintenance, repair and overhaul services to the IAG Airlines and to third-party airlines. These services include scheduled and unscheduled maintenance work on aircraft. The focus of the MRO work is to improve the cost competitiveness of services to the IAG Airlines, while maintaining high quality.

In 2019, the Group made significant progress in the transformation of its MRO activities, including:

- completion of outsourcing of inventory management and repair activities for British Airways' narrow-bodied fleet including the transfer of asset ownership to the supplier;
- consolidation of line maintenance suppliers across regions to leverage Group volume;
- transformation of the wide-body airframe maintenance division through the roll-out of a new organisation and implementation of further lean practices to improve quality and cost performance; and
- continued optimisation of the supply chain together with IAG GBS.

5.3 Fleet

As at 30 June 2020, the Group had a fleet of 548 aircraft with an average age of 11.7 years. The Group operates a fleet comprising Airbus, Boeing and Embraer aircraft and includes both owned aircraft and those subject to a right of use (‘right of use’ includes finance leased aircraft since the adoption of IFRS 16). Due to the Group’s capacity reductions in response to the COVID-19 pandemic and the associated government travel restrictions and advisories, the Group had 70 aircraft not in service as at 30 June 2020 which includes 55 impaired aircraft and 15 aircraft grounded but not disposed of.

The table below contains further detail about the Group’s fleet as at 30 June 2020.

	Owned	Right of use	**Total 30 June 2020**	Total 31 December 2019	Changes since 31 December 2019	Future deliveries	Options
Airbus A318	1	-	**1**	1	-	-	-
Airbus A319	13	39	**52**	57	(5)	-	-
Airbus A320	58	192	**250**	254	(4)	27	76
Airbus A321	20	50	**70**	66	4	43	14
Airbus A330-200	4	17	**21**	24	(3)	-	-
Airbus A330-300	4	14	**18**	16	2	-	-
Airbus A340-600	4	-	**4**	15	(11)	-	-
Airbus A350	10	5	**15**	9	6	28	52
Airbus A380	2	10	**12**	12	-	-	-
Boeing 747-400	-	-	**-**	32	(32)	-	-
Boeing 777-200	35	8	**43**	46	(3)	-	-
Boeing 777-300	2	10	**12**	12	-	4	-
Boeing 777-9	-	-	**-**	-	-	18	24
Boeing 787-8	-	12	**12**	12	-	-	-
Boeing 787-9	1	17	**18**	18	-	-	-
Boeing 787-10	-	-	**-**	-	-	10	-
Embraer E170	2	-	**2**	6	(4)	-	-
Embraer E190	9	9	**18**	18	-	-	-
Group total	**165**	**383**	**548**	**598**	**(50)**	**130**	**166**

The Group continues to focus on the modernisation and harmonisation of its fleet. Increased commonality across the fleet allows the IAG Airlines to realise cost efficiencies in areas including maintenance, cabin configuration and flight and cabin crew. The Group has a centralised fleet management function, Fleet Investments, that places orders direct from manufacturers and liaises with lessors. This team works closely with the IAG Airlines to understand their fleet requirements whilst ensuring that capital is deployed across the Group in the most effective way. It also ensures that common aircraft types across the Group are harmonised to the greatest extent possible to allow for a smooth transition of aircraft between the Group airlines if required.

Each of the IAG Airlines has been transitioning to new generation aircraft, which have improved fuel efficiency and environmental credentials compared to the previous generation of aircraft. The new generation of narrowbody aircraft introduced to the IAG Airlines are the Airbus A320NEO family, while the widebody aircraft are the Boeing B787, Airbus A350, Airbus A380 and the order for the Boeing B777-9. Additionally, on 18 June 2019, the Company announced that it had signed a non-binding letter of intent with Boeing to purchase 200 B737-MAX aircraft powered by CFM Leap engines to join the Group’s fleet. The letter of intent remains subject to formal agreement and does not oblige the Group to complete any purchases.

IAG Airlines have significant flexibility to reduce the size of their fleets in the event of a decline in air travel demand, which it has experienced as a result of the COVID-19 pandemic. This flexibility is enabled by a significant portion of aircraft on operating lease and a number of owned aircraft without associated financing approaching the end of their lives.

The Group pursues a fleet ownership policy of a balanced mix of owned aircraft and aircraft on operating lease in order to enable flexibility to increase or decrease capacity at relatively short notice. Approximately half of the Group’s fleet of 598 aircraft at the end of 2019 were on what was previously categorised as operating leases, the majority of which were shorthaul aircraft. A typical operating lease would be for a period of up to 12 years, approximately half the useful life of an aircraft. Each year a significant portion of these aircraft on operating lease have lease expiry dates, which the Group can use in order to reduce the size of its aircraft fleet and capacity. In 2020, the Group has returned or plans to return 20 aircraft on operating lease to aircraft lessors. There are 42 aircraft on operating leases which expire in 2021 and 54 aircraft on operating leases which expire in 2022.

As of the beginning of 2020, the Group owned 67 aircraft approaching the end of their useful lives. These aircraft comprised of 23 shorthaul aircraft, primarily Airbus A320 family aircraft, and 44 longhaul aircraft, primarily Boeing 777-200 and Boeing 747-400 aircraft.

Given the impact of the COVID-19 pandemic on the demand for air travel, the IAG Airlines have adjusted their fleet plans to match the forecast level of demand over the next few years. In addition to a combination of bringing forward the retirement of owned Airbus A340-600, Boeing 747-400 and other aircraft and a reduction in the number of lease extensions, the Group has deferred a significant number of aircraft deliveries.

The Group has significant flexibility on its longhaul and shorthaul fleet orders including:

- purchase options for future aircraft;
- type flexibility within an order, for example changing an A320neo to an A321neo;
- ability to vary allocation between IAG Airlines; and
- rescheduling rights.

Overall, the delivery of 68 aircraft has been deferred in the six months ending 30 June 2020 as the Group seeks to reduce its spending (see section 2.1 (*The impact of the COVID-19 pandemic and the Group's response*) of Part VI (*Background to and Reasons for the Capital Increase*)).

(A) British Airways

British Airways' fleet comprised 267 aircraft as at 30 June 2020. The airline has taken delivery of 12 Airbus A320 NEO and 10 Airbus A321 NEO shorthaul aircraft since deliveries started in March 2018 and will continue to modernise its shorthaul fleet with a further 10 Airbus A320 NEO aircraft and three Airbus A321 NEO aircraft on order as at 30 June 2020. British Airways has also taken delivery of six Airbus A350-1000 and 32 Boeing B787 longhaul aircraft over the past five years and orders for an additional 12 Airbus A350-1000 aircraft, plus 36 additional options, and an additional 10 Boeing B787 aircraft. In the first quarter of 2019, British Airways reached an agreement with Boeing to purchase eighteen Boeing B777-9 aircraft for delivery between 2022 and 2025. The acquisition of these aircraft allows British Airways to retire the remainder of its B747-400 fleet and achieve operational savings from the more efficient aircraft type. The new aircraft will also deliver environmental improvements versus the older B747-400. As a result of the COVID-19 pandemic, British Airways has brought forward the retirement of its entire fleet of B747-400 aircraft.

(B) Iberia

Iberia's fleet comprised 103 aircraft as at 30 June 2020 (four of which were operating for LEVEL). The airline currently operates an all Airbus fleet comprising both narrow and wide-body aircraft and has orders with Airbus for four A320 NEO aircraft and one A321 NEO aircraft as part of a modernisation of its shorthaul fleet, as well as eight A321 NEO XLR aircraft for future long haul growth. It has also taken delivery of nine Airbus A350-900 longhaul aircraft since June 2018 and has a further 11 A350-900 aircraft on order as at 30 June 2020, with 16 additional options. The A350-900 will replace older A340-600 aircraft, lowering the average fleet age and improving operational efficiency through the application of newer technology and more efficient aircraft. As a result of the COVID-19 pandemic, Iberia has brought forward the retirement of all its Airbus A340-600 aircraft.

(C) Vueling

Vueling's fleet comprised 127 aircraft as at 30 June 2020 (five of which were operating for LEVEL). The airline currently operates an all Airbus fleet and as at 30 June 2020 has orders with Airbus for 22 aircraft comprising eight A320 NEO aircraft and 14 A321 NEO aircraft. The deliveries will support Vueling's future network growth and replace older aircraft that will leave the fleet.

(D) Aer Lingus

Aer Lingus' fleet comprised 49 aircraft as at 30 June 2020. The airline currently also operates an all Airbus fleet and recently took delivery of its first of eight new A321 NEO Long Range aircraft with all deliveries scheduled to complete by the beginning of 2021. These new aircraft plus a further order for six A321XLR aircraft will be used to meet the longhaul network growth and replace previous leased Boeing B757 aircraft. Aer Lingus also took delivery of two new A330-300 aircraft in late 2019 and early 2020. The A330 is a core component of LEVEL's, Iberia's and Aer Lingus' fleets allowing the airlines to benefit from its low ownership costs.

(E) LEVEL

LEVEL's fleet comprised three aircraft as at 30 June 2020 (plus nine aircraft operated by Iberia and Vueling). The airline currently flies a fleet of A330-200 aircraft for its transatlantic flights.

5.4 Regulatory environment

The international and strategic importance of the airline industry, along with its safety and security critical requirements, means that it will always be subject to a wide range of regulatory controls. The Company and each IAG Airline monitor and, where possible, contribute to global, regional and national regulatory developments where they affect their respective businesses.

The regulatory environment has a significant impact on the Group, in particular the legislative framework set out by the European Union, United Kingdom, Ireland and Spain. As at the time of this Prospectus, all IAG Airlines have the relevant and required operating licences and AOCs to operate their respective networks.

(A) International regulation

The International Civil Aviation Organisation is an agency of the United Nations and was established by the 1944 Chicago Convention on International Civil Aviation (the "**Convention**"). The Convention established the process of coordinating and regulating international air services through bilateral air services agreements ("**ASAs**") between sovereign states. ASAs are international bilateral treaties between states, with government-negotiated terms and conditions covering all aspects of commercial scheduled air services between the two countries. An exception to this is the single aviation market arrangement which applies within the EU and the multilateral agreements between the EU and third countries.

(B) European Union regulation

The Group is and will continue to be affected by a wide range of EU laws and regulations. These include safety, security, aircraft operations, airline ownership, airport slot allocations, ground handling, competition, airport charges, consumer protection, insurance, environmental protection, air traffic control and general data protection. In March 2020, the European Commission announced that it was granting a temporary suspension until 24 October 2020 of the rules regulating airport slots which require airlines to operate at least 80% of allocated slots. It is currently unknown whether this suspension will be extended when the current period ends.

Since April 1997, EU air carriers have been able to provide passenger services on routes between and within EU Member States (and outside their ‘home’ country of operations) without restrictions on capacity, frequencies and fares. The European Free Trade Association states and a number of other neighbouring countries are also parties to a multilateral agreement known as the European Common Aviation Area.

Regulation (EC) No 1008/2008 sets nationality requirements for the holding of operating licences issued by EU Member States. Regulation (EC) No 1008/2008 requires that: (i) an air carrier must be owned and continue to be owned directly or through majority ownership by EEA states and/or nationals of EEA states (for the purposes of Regulation (EC) No 1008/2008, this includes also ownership by Switzerland and/or Swiss nationals) or a person qualifying as such for the purpose of Article 4 of Regulation (EC) No 1008/2008 pursuant to an agreement with a third country to which the EU is a party; and (ii) the air carrier must at all times be effectively controlled by such state or person

(C) Spanish regulation

Spanish aviation regulation is implemented primarily by the Spanish Aviation Safety Agency (“**AESA**”) and the Civil Aviation General Direction (“**DGAC**”), both within the Ministry for Development. AESA has responsibility for licensing Spanish airlines, subject to the requirements of EU law. It issues operating licences under the provisions of Regulation (EC) No 1008/2008.

At the same time, the DGAC is responsible for deciding maximum airport charges at all AENA´s Spanish airports. AESA, for its part, is responsible for the enforcement of EU legislation requiring compensation of airline passengers who have been denied boarding on a flight for which they hold a valid ticket or have had a flight delayed or cancelled (Regulation (EC) No. 261/2004).

AESA is primarily responsible for the operational and regulatory function and services relating to the safety, security and technical aspects of aviation in Spain. To operate in the EU, a Spanish air carrier is required to hold an AOC granted by AESA attesting to the air carrier’s operational and technical competence to conduct airline services with specified types of aircraft. However, AESA has broad authority to amend or revoke the AOC, with each Spanish air carrier’s ability to continue to hold its AOC being subject to ongoing compliance with applicable statutes, rules and regulations pertaining to the airline industry, including any new rules and regulations that may be adopted in the future. AESA also reviews each Spanish air carrier audits, including flight audits, training audits, returned flight document audits, and quality audits.

AESA is also responsible for overseeing and regulating the operations of Spanish air carriers. Matters within the scope of the AESA´s regulatory authority include: air safety; aircraft certification; personnel licensing and training; maintenance, manufacture, repair, airworthiness, and operation of aircraft; implementation of EU legislation; aircraft noise; aviation security and ground services. Spanish air carriers’ aircraft are required to have a Certificate of Airworthiness, which is issued by AESA. The validity of Certificates of Airworthiness is subject to review by AESA. Spanish air carriers’ flight personnel, flight and emergency procedures, aircraft, and maintenance facilities are subject to periodic inspections by AESA. AESA has broad regulatory and enforcement powers, including the authority to require reports; inspect the books, records, premises, and aircraft of a carrier; and investigate and institute enforcement proceedings. Failure to comply with AESA regulations can result in revocation of the AOC.

The DGAC is also responsible for implementation of certain EU and Spanish legislation and international standards relating to air transport.

(D) United Kingdom regulation

The Civil Aviation Authority (the "**CAA**") is responsible for overseeing and regulating air carriers in the United Kingdom. The CAA is responsible for licensing UK airlines through the issue of operating licences, route licenses and AOC, subject to the requirements of EU and UK law. An operating licence is an authorisation permitting the holder to commercially transport passengers, mail or cargo by air. The criteria for granting an operating licence includes, inter alia, an air carrier's financial fitness, the adequacy of its insurance and the fitness of the persons who will manage the air carrier and possession of an appropriate AOC.

The CAA currently issues operating licences in the UK under the provisions of Regulation (EC) No 1008/2008 which sets nationality requirements as described above in respect of the European Union. The Civil Aviation Act 1982, provides further that a carrier must hold (and comply with the terms of) a relevant "route licence" to operate aircraft on flights involving the commercial carriage of passengers or cargo outside the EU or to or from a point outside the EU for consideration. Such licences are granted by the CAA and can only be granted where the applicant holds a valid operating licence.

The CAA is also responsible for the operational and regulatory function and services relating to the safety, security and the technical aspects of aviation in the United Kingdom. To operate commercially a UK air carrier is required to hold an AOC granted by the CAA attesting to the air carrier's operational and technical competence to conduct airline services with specified types of aircraft. The CAA is also the designated UK enforcement body for a range of passenger legislation including Regulation (EC) 261/2004

The UK Department for Transport is responsible for overall air transport policy and, in particular, relations with third countries including the negotiation of bilateral ASAs, which govern airline market access.

The Air Passenger Duty Regulations 1994 and its more recent amendments also impose a duty levied on the carriage of passengers from a UK airport (subject to limited exceptions). The duty is payable by operating carriers (both those based in the UK and foreign carriers) with the amount payable being calculated by reference to the passenger's final destination and the class of travel.

The Group anticipates that there could be a change in UK regulation in response to Brexit. The Group expects that, at the end of the Transition Period, the majority of new UK regulation will be a conversion of existing EU regulation into domestic law. Provided this is the case, the Group expects the regulatory impact in the United Kingdom to be minimised by the fact that: (i) UK regulation will be aligned with existing EU regulation, and (ii) the United Kingdom has negotiated bilateral air service arrangements with a number of countries that will apply from that point (including the United States and Canada). However, over time, there may be some divergence in the approaches of the United Kingdom and the EU, resulting in an increased volume of regulation with which the Group must comply. The Group has established a Brexit Working Group in order to understand, plan and mitigate risks that could impact the Group's business.

(E) Irish regulation

Irish aviation regulation is implemented primarily by the Commission for Aviation Regulation ("**CAR**"), the Irish Aviation Authority ("**IAA**") and the Department of Transport, Tourism and Sport ("**DTTAS**"). The CAR has responsibility for licensing Irish airlines, subject to the requirements of EU law. It issues operating licences under the provisions of Regulation (EC) No 1008/2008.

The CAR is also responsible for deciding maximum airport charges at Dublin Airport, and for the enforcement of EU legislation requiring compensation of airline passengers who have been denied boarding on a flight for which they hold a valid ticket (Regulation (EC) No. 261/2004).

The IAA is primarily responsible for the operational and regulatory function and services relating to the safety, security and technical aspects of aviation in Ireland. To operate in the EU, an Irish air carrier is required to hold an AOC granted by the IAA attesting to the air carrier's operational and technical competence to conduct airline services with specified types of aircraft.

The IAA is also responsible for overseeing and regulating the operations of Irish air carriers. Matters within the scope of the IAA's regulatory authority include: air safety; aircraft certification; personnel licensing and training; maintenance, manufacture, repair, airworthiness, and operation of aircraft; implementation of EU legislation; aircraft noise; aviation security and ground services.

The DTTAS is responsible for implementation of certain EU and Irish legislation and international standards relating to air transport.

(F) Other National Regulation

The Group and the IAG Airlines are subject to an array of health, safety and environmental regulations (including regulations promulgated and enforced by local, national, European and international authorities). These regulations include passenger and employee safety, security, ground handling, airport charges, consumer protection, passenger taxes, environmental protection and air traffic control. The Group is also subject to regulations in the jurisdictions in which it operates regarding the use of personal data, particularly the GDPR in the United Kingdom and the European Union (see section 5.7 (*Data protection*)).

5.5 Safety and security

The safety and security of the Group's customers and employees are fundamental values for the Group. The Group is committed to operating in a healthy, safe and secure way in compliance with all applicable laws, regulations, company policies and industry standards. Each IAG Airline has robust governance in place which is led by the safety committees in each of the IAG Airlines.

The responsibility for safety and security lies with each IAG Airline which is assessed and monitored in accordance with each IAG Airline's applicable standards. Each IAG Airline holds the relevant and required operating licences and AOCs and appoints its own required post holders at the IAG Airline level. However, the Safety Committee of the Board of Directors exercises a high-level overview of safety activities across the IAG Airlines to ensure compliance with the minimum Group standard and that common safety issues and best-practices are shared. The Safety Committee is chaired by the Group Chief Executive Officer and monitors all matters in relation to the operational safety of the IAG Airlines as well as the systems and resources dedicated to safety activities across the Group.

5.6 Environment

(A) Sustainability

Sustainability forms part of the Group's business strategy and is fundamental to the Group's long-term growth. As the first airline group worldwide to commit to carbon neutrality, achieving net zero carbon emissions of greenhouse gases, by 2050, the Group is committed to becoming the leading airline group on sustainability, whereby environmental sustainability underpins the creation of value across the IAG Airlines.

The Group is committed to minimising its environmental impact and to driving global improvements in the aviation industry's sustainability performance. The Group has aligned its sustainability programmes with the Group's strategic priorities and value propositions and measures its progress against its strategic aims and targets, as further detailed below.

The Group measures progress against five strategic aims:

- clear and ambitious targets relating to the Group's most material issues;
- low-carbon transition pathway embedded in business strategy;
- management incentives aligned to delivering low-carbon disclosures;
- leadership in carbon disclosures; and
- accelerating progress in sustainable aviation fuels, future aircraft and low carbon technologies.

(B) Climate change and global agreements

In 2015, 195 countries agreed to limit global warming to 2°C in the Paris Accord. As a result of the greater sense of urgency since the Paris Accord, the Intergovernmental Panel on Climate Change ("**IPCC**") published a report at the end of 2018 calling for a 1.5°C limit to the increase in the average global temperature by 2050. This would mean that global CO_2 emissions would have to reduce by 55% by 2030 compared to 2018 and that the world would attain net zero emissions by 2050 (whereby as much CO_2 produced must be absorbed or captured). 70 countries and 85 companies have, as of 2019, committed to 'net zero' by 2050 and the United Kingdom and France have committed to this target in law.

Transport contributes 22% of all CO_2 emissions. Aviation currently contributes approximately 2.4% and maritime approximately 2% to the emission of greenhouse gases. Therefore, most of transport's contribution comes from road and rail. Around 60% of aviation emissions come from international flights and 40% from domestic flights. Also, more than 85% of aviation emissions are from journeys of over 1,500 kilometres, where there is no viable alternative. The aviation industry's contribution is expected to rise, compared to other transport providers, as decarbonisation is a bigger challenge for the industry than for some others that have alternatives to fossil-fuels. However, the aviation industry has responded to these challenges and has set up ambitious targets to mitigate greenhouse gas emissions from air transport. The aviation industry was the first industry to agree a global commitment to reduce its emissions and is the only sector to have agreed a global carbon pricing mechanism to enable it to meet this commitment.

(C) Emissions Trading Scheme and CORSIA

Under the United Nations Framework Convention on Climate Change and the Kyoto Protocol, certain contracting states entered into obligations to control and reduce the emission of greenhouse gases.

To comply with its obligations under public international law, the EU introduced the Emissions Trading Scheme ("**ETS**") in 2003 to limit greenhouse gas emissions and the trading allowances which apply to certain industrial installations. It is the world's largest "cap-and-trade" scheme, covering approximately 45% of the European Union's greenhouse gas emissions. The airline industry was incorporated into the ETS in 2009 and the first carbon credit surrender took place in 2012. Civil aviation intra-EEA flights have been included since 2012, which has led to over 17 million tonnes of CO_2 being reduced per year in other sectors.

In October 2016, the International Civil Aviation Organisation ("**ICAO**") adopted CORSIA to target carbon neutral growth from 2020 and 50% net reduction by 2050 for the airline sector. It is the only example of a global industry mechanism to reduce CO_2. CORSIA will enable the aviation industry to cut emissions by 2.5 billion tonnes in the next 15 years, through a $40 billion investment in verified carbon reduction projects. The Group is committed to supporting the search for a global solution to climate change. For this reason, the Group is participating, amongst other things, in the new United Nation's aviation offsetting scheme which allows the industry to invest in carbon reduction in other sectors. The Group's airlines each have CORSIA Emission Monitoring Plans and baseline monitoring has now begun. For the moment, it appears that CORSIA will run in tandem with ETS for the initial years of the scheme.

The Group worked with the IATA and ICAO to help finalise the rules governing the CORSIA scheme as it views environmental sustainability to be key to the continuance of the aviation industry. The Group contributed 3.2 million tonnes of carbon reductions in 2019 through its compliance with the ETS, bringing down its net carbon dioxide emissions to 27.6 million tonnes.

(D) The Group's climate change plan and targets

The Group believes that the aviation industry has a full part to play in the global reduction of CO_2 given that, by its very nature, the airline industry is a significant emitter of greenhouse gases. Therefore, the Group has a pathway to achieve its targets, based on a multi-faceted approach, which is also underpinned by exploring innovative technologies to reduce the Group's carbon footprint.

The Group is committed to IATA's industry targets, which are:

- 1.5% per annum fuel efficiency improvement until 2020 (the Group averaged 1.6% per annum improvements between 2011 and 2019);
- carbon-neutral growth from 2020 onwards; and
- 50% reduction in net CO_2 emissions by 2050 against a 2005 baseline.

The Group was the first airline group worldwide to commit to carbon neutrality, achieving net zero carbon emissions of greenhouse gases, by 2050. This is in line with the United Nations science requirements to keep global average temperatures below a 1.5 °C rise and contributes to the United Kingdom government's goal of a net zero carbon economy by 2050.

To achieve these targets the Group is taking a wide range of actions, including reviewing aircraft fleets (including the possible retirement of older, less efficient, aircraft), investing in sustainable fuel and offsetting carbon. The carbon neutrality commitment, made in October 2019, is backed by a comprehensive action programme ('Flightpath net zero'). As part of the Flightpath net zero programme, the Group set new short and medium-term targets. These ambitious targets include improving carbon efficiency by 10% to 80 gCO_2/pkm by 2025 and reducing net emissions by 20% to 22 million tonnes by 2030.

The Group relies on four areas to achieve its Flightpath net zero 2050 programme:

- Operational efficiency: This means changing the way the Group flies and operates its aircraft, reducing CO_2, saving fuel.
- Fleet modernisation: This means investing in new aircraft and engines as well as upgrading existing aircraft. Some of the new aircraft the Group will introduce in the coming years include A320neo and A350, which are up 25 to 40% more efficient than the aircraft they replace.
- Sustainable aviation fuels: SAF are made from materials which have previously absorbed carbon, such as organic waste and food items. These are chemically almost identical to jet fuel from fossil fuels but over their recent life cycle emit 70 to 100% less CO_2.
- Structured schemes to deliver carbon reductions in other sectors: These can be achieved through market-based measures and offsets. The Group purchases verified carbon reduction units to offset its emissions growth which include contributing to emissions reduction in Europe through the ETS and through the CORSIA scheme for international flights. Other measures which can achieve this goal include voluntarily purchasing offsets for emissions from specific groups of flights, events and staff activities and offering customers the

option to fund carbon reduction projects to make their flights carbon neutral. The Group is also currently exploring the prospect of investing in technology to capture CO_2 out of the air and storing it underground.

The Group has created a detailed carbon reduction roadmap to quantify the impact of each aspect of its plan. Compared with a scenario of growth at today's efficiency, 39% of reductions in 2050 will come from new aircraft and operations, 43% from market-based measures and carbon removal projects such as carbon capture, utilisation and storage (CCUS) technology and 18% from sustainable aviation fuels. The Group also expects 30% of its fuel in 2050 will be from sustainable aviation fuels. The Group regularly reviews this roadmap to account for policy and technology changes and new insight. Over the next 20 years, the Group intends to invest US$400 million in sustainable aviation fuels, including British Airways' joint venture with Velocys to build Europe's first household-waste-to-jet-fuel plant. Furthermore, the Group has introduced management incentives to encourage senior executives to act to reduce emissions.

The Group's direct greenhouse gas emissions in the year ending 31 December 2019 were 30.78 million tonnes, compared to 29.99 million tonnes in the year ending 31 December 2018. The increase in overall emissions was due to the growth in the Group's capacity by 4%, although the improvement in flight only emissions intensity of 1.8% has limited growth in overall emissions to 2.6%. In 2019, the Group achieved flight-only emissions intensity of 89.8gCO_2/pkm, down from 91.5gCO_2/pkm in 2018. The improvement of 1.8% is due to a more efficient fleet and higher load factors.

Progress to date has included the Group's digitisation programme which has saved over 20,000 kg/month of paper waste and avoided approximately 482 tonnes of CO_2 during the 2019 financial year. The Group continues to make progress with the adoption of the IATA Environmental Assessment programme ("**IEnvA**"). IEnvA is the airline industry version of ISO14001 tailored specifically for airlines and fully certified by the International Standards Organisation ("**ISO**"). British Airways achieved Stage 1 certification in 2019 and all other IAG Airlines are progressing on Stage 1 certification in 2020.

(E) Other environmental impacts of the business

While the Group's focus remains on climate change, it is committed to addressing a range of other sustainability issues. While the Group continues to make progress in recycling and reducing plastic, glass, metal cans, paper and food waste, the use of single-use plastics is an important issue and one which the Group is actively addressing.

Noise is very important as it can have an impact on the local environment, which affects the quality of life for communities where the Group operates. As a result, minimising the noise impact of the Group's aircraft remains an important focus of the Group's sustainability programme, as well as the impact of this aircraft on air quality.

In terms of supply chain management, the Group aims to do business and build relationships with suppliers who share the Group's values: acting with honesty and integrity in all business dealings, reducing the supply chain environmental footprint, improving safety, and strengthening contributions to building better societies, locally and globally.

5.7 Data protection

The Group is subject to significant obligations in respect of data protection legislation. In 2018, the Group's focus on cyber security was brought to the fore following the attack on British Airways' customer data. On 6 September 2018, British Airways announced the theft of certain of its customers' personal data. Following an investigation into the theft, British Airways announced on 25 October 2018 that further personal data had potentially been compromised. On 4 July 2019, British Airways received a Notice of Intent from the IC Office in which it informed the airline of its intention to fine it approximately £183 million (€205 million) under the UK Data Protection Act. As at the date of this Prospectus, no final penalty notice has been received from the IC Office. The Company has in the first six months of 2020 recorded an exceptional charge of €22 million with regard to this incident, which is management's best estimate of the amount of any penalty it may receive from the IC Office.

IAG Tech, since its creation in September 2019, has played a key role in protecting the Group's business through the innovative and agile use of technology and data, with a key focus on cyber security and ensuring the Group's compliance with external regulations including data protection legislation.

The Group has leveraged the expertise of strategic global partners to help ensure early detection of future threats through an enhanced 24/7 Security Operations Centre. Relevant testing and scans for all IAG Airlines to support Payment Card Industry compliance and fulfil the Group's requirements for implementation of the GDPR, which came into effect in May 2018, have been deployed. The Group has been negatively impacted by cyber security breaches and the cyber security threat is a reality for all businesses today and requires constant vigilance. The Company works closely with the world's leading experts to take steps to ensure the Group's systems and processes are robust and cyber security risk is a key priority for 2020 and beyond and has continued to be a key area of focus and investment during the COVID-19 pandemic.

In addition to data protection legislation such as GDPR, some of the Group's airlines are also subject to the requirements of the National Information Security Directive with varied approaches taken by the different member states as they apply those requirements.

5.8 Insurance

The Group has insurance coverage which it believes is consistent with industry standards. Broadly, the Group's insurance coverage includes:

- hull (all risks) and liabilities insurance (including spares);
- property damage insurance;
- employer's liability insurance;
- directors and officers insurance;
- public and product liability insurance; and
- cyber and network interruption insurance (to cover cyber disruption and/or loss of key systems).

However, there can be no assurance that the amount of the Group's insurance coverage available in the event of a catastrophic loss, major safety or operational incident would be applicable or adequate to cover such losses (including any arising from claims, disputes or litigation) (see "*2.5 – The aviation industry is exposed to the risk of events that adversely impact domestic or international travel, including aircraft crashes, security-related threats or attacks*" of Part I (*Risk Factors*)).

Council Regulation (EC) No. 2027/97, as amended by Council Regulation (EC) No. 889/2002, governs air carrier liability. This legislation provides for unlimited liability of an air carrier in the event of death or bodily injuries suffered by passengers, implementing the Warsaw Convention of 1929 for the Unification of Certain Rules Relating to Transportation by Air, as amended by the Montreal Convention of 1999. The Company's liability insurance has been designed to meet the appropriate requirements of this legislation.

5.9 Employees and labour relations

(A) The workforce

Across its portfolio, the Group's employees play a pivotal role in the unique cultural identity of each of the Group's brands, while at the same time providing safe and reliable operations. The Group has a good track record of retaining and promoting talent. The Group focuses on leveraging employee expertise and ensuring the development of talent, with succession planning in place to ensure that the best people are moved across the various businesses. Each operating company in the Group is responsible for ensuring its employees complete mandatory training, with the majority of training being provided to cabin crew and pilots. In 2019, the average hours of training completed per employee was 48.4 average hours per year showing the Group's investment into training its employees.

At 31 December 2019, the average manpower equivalent was 66,034 compared to 64,734 in 2018. As at 31 December 2019, the Group employed 72,268 employees with 26% employed in a part-time capacity (as opposed to in a full-time capacity) and 94% employed in a permanent capacity (as opposed to in a temporary capacity). The number of employees employed by the Group has since fallen in light of the redundancy and restructuring programmes detailed in section 5.9(B). The breakdown of employees across the Group is shown in the below table.

	As at 31 December 2019	**As at 31 December 2018**
Cabin Crew	35%	35%
Pilots	11%	11%
Airport	26%	26%
Maintenance	11%	10%
Corporate	17%	18%

The Group has a large proportion of employees who are members of their respective trade unions. The Group has well established mechanisms for negotiation and dialogue with the unions who represent their employees. Each operating company in the Group has its own human resources department and is responsible for the management of its employees. As such, collective bargaining takes place on a regular basis with the IAG Subsidiaries' human resources departments (and not as a single group unit). The Group has a European Works Council ("**EWC**") which brings together representatives from the different EEA countries in which the Group has operations, covering 95% of the Group's total workforce. EWC representatives are informed and consulted about matters which may impact the Group's employees in two or more EEA countries.

(B) National wage subsidy schemes, redundancy and restructuring

In light of the Group's announcement on 2 April 2020 to reduce flight capacity, expressed in terms of ASKs, by approximately 90% in April 2020 and May 2020 compared to the same period in 2019, the Group started furloughing a significant number of employees in early April 2020.

At the height of the COVID-19 pandemic in the first half of 2020, more than 25,000 British Airways cabin crew and ground-based employees were furloughed. The United Kingdom Coronavirus Job Retention Scheme is to operate until the end of October 2020. Until the end of July 2020, the UK Government paid 80% of wages up to a cap of £2,500 (€2,875) per month for the hours an employee is on furlough, as well as employer national insurance and pension contributions. Since August 2020, the level of grant has been reduced as follows:

- for August, the UK Government paid 80% of wages up to a cap of £2,500 (€2,875) for the hours an employee is on furlough and employers paid employer national insurance and pension contributions;

- for September, the UK Government will pay 70% of wages up to a cap of £2,187.50 (€2,515) for the hours an employee is on furlough and employers will pay employer national insurance and pension contributions and top up employees' wages to ensure they receive 80% of their wages up to a cap of £2,500 (€2,875); and

- for October, the UK Government will pay 60% of wages up to a cap of £1,875 (€2,156) for the hours an employee is on furlough and employers will pay employer national insurance and pension contributions and top up employees' wages to ensure they receive 80% of their wages up to a cap of £2,500 (€2,875).

The Group has also accessed Spain's ERTE scheme (*Expediente de Regulación Temporal de Empleo*) providing affected employees with around 70% of their salaries up to a cap of €1,098 per month for employees with no children, €1,255 for employees with one child and €1,412 for employees with two or more children) for approximately 17,000 Iberia and Vueling employees and used Ireland's Temporary Wage Subsidy Scheme (TWSS) providing covering up to a maximum of €410 per week of wage costs for eligible Aer Lingus employees depending on their individual average net weekly pay. The TWSS ended in Ireland on 31 August 2020 and has been replaced by the Employment Wage Subsidy Scheme. With effect from 1 September 2020, Aer Lingus can claim a flat rate subsidy of up to €203 for eligible employees in the form of a rebate of payroll costs.

As at 30 June 2020, 74% of British Airways', 70% of Iberia's, 94% of Vueling's and 83% of Aer Lingus' respective workforces have been subject to the respective national temporary wage schemes relating to the COVID-19 pandemic. The total amount of relief received by the Group under the UK and Irish schemes amounted to €155 million, and the use of ERTE for Vueling and Iberia prevented the Group from incurring employee costs of €127 million as at 30 June 2020.

Furthermore British Airways notified its trade unions in April 2020 of a proposed restructuring and redundancy programme and began consultation with employee representatives. Under those proposals it is expected that up to 13,000 employees could be made redundant and that most of British Airways' 38,000 UK-based employees could be affected by the restructuring. British Airways has concluded labour agreements with its pilots, engineers and Heathrow customer service staff. In regard to cabin crew, agreement in principle has been reached with Unite and a consultative ballot is expected to start shortly. Other consultation discussions continue, including with Heathrow ground handling services and cargo operations staff, UK contact centre employees and Gatwick based cabin crew. As at the end of August 2020, 8,236 British Airways employees have left the business as the restructuring process continues. In June 2020, Aer Lingus announced that it had issued a notification to the Irish Minister for Employment Affairs and Social Protection commencing a process of consultations with employee representatives regarding the proposed collective redundancies of up to 500 Aer Lingus employees across four areas: cabin crew, maintenance, ground operations and support. Since the beginning of the COVID-19 pandemic, the Iberia and Vueling management teams have held regular meetings with the main labour representatives to inform them of the ongoing situation and the plans that each of the companies is developing to adapt its cost bases to the new post-COVID capacity and demand environment.

5.10 Pensions

The Group provides retirement benefits to certain of its current and former employees through a number of pension arrangements.

(A) Defined contribution schemes

The Group operates a number of defined contribution schemes for its employees, which includes the British Airways Pension Plan ("**BAPP**"). Costs recognised in respect of defined contribution pension plans in Spain, UK and Ireland for the year ended 31 December 2019 were €262 million (2018: €214 million).

(B) Defined benefit schemes

The Group operates two principal funded defined benefit pension schemes: Airways Pension Scheme (“**APS**”) and New Airways Pensions Scheme (“**NAPS**”). Both schemes are domiciled in the UK and are closed to new members. As at 31 December 2019, the APS and NAPS, respectively, had: 16,137 and 24,635 pensioners in payment, 6,101 and 4,315 dependant pensioners, 748 and 35,182 deferred pensioners, and 264 and zero active members. Pension contributions for APS and NAPS were determined by actuarial valuations made at 31 March 2018, using assumptions and methodologies agreed between the Group and trustee of each scheme. At the date of the actuarial valuation, the actuarial deficit of NAPS amounted to €2,736 million, while the surplus of APS amounted to €683 million. In order to address the deficit in NAPS, the Group committed to €1,683 million in deficit payments. Furthermore, until September 2022, if British Airways pays a dividend to the Company which is higher than 50% of pre-exceptional profit after tax, British Airways will either provide the scheme with a guarantee for the amount above 50% of pre-exceptional profit after tax or contribute half of such amount to the scheme as an additional cash contribution. Under a settlement agreement between British Airways and the trustee of APS, British Airways has ceased to pay further deficit recovery contributions since 1 January 2019, including cash sweep payments. British Airways has provided a €47 million indemnity, which is payable in full or in part as appropriate following the triennial valuation of the scheme as at 31 March 2027 if that valuation shows that the scheme is not able to pay pension increases in line with the United Kingdom’s Retail Price Index for the remaining life of the scheme.

Total payments for the year ended 31 December 2019 net of service costs were €865 million (2018: €843 million), which included payments made under transitional arrangements in the closure of NAPS to future accrual in 2018 of €182 million.

APS has been closed to new members since 1984. British Airways closed NAPS to future accrual and the British Airways Retirement Plan (“**BARP**”) to future contributions from 31 March 2018. The schemes have been replaced by BAPP, a flexible defined contribution scheme. The changes resulted in a one-off reduction of the NAPS IAS 19 defined benefit liability of €872 million and associated transitional arrangement cash costs of €192 million through employee costs (recognised as an exceptional item). After the closure of NAPS, British Airways agreed to make certain additional transition payments to NAPS members if the deficit had reduced more than expected at either the 2018 or 2021 valuations. No additional payment has been triggered as at the Latest Practicable Date.

Under a settlement agreement between British Airways and the Trustee Directors of APS, British Airways has ceased to pay further deficit recovery contributions since 1 January 2019, including cash sweep payments. British Airways has provided a €47 million indemnity, which is payable in full or in part as appropriate following the triennial valuation of the scheme as at 31 March 2027 if that valuation shows that the scheme is not able to pay pension increases at RPI for the remaining life of the scheme. The APS actuarial valuations as at 31 March 2015 and 31 March 2018 were completed in November 2019. The 31 March 2018 actuarial valuation resulted in a surplus of €683 million.

(C) International schemes

British Airways provides certain additional post-retirement healthcare benefits to eligible employees in the US through the US Post-Retirement Medical Benefit plan which is considered to be a defined benefit scheme. In addition, Aer Lingus operates certain defined benefit plans, both funded and unfunded.

6. DIVIDENDS AND DIVIDEND POLICY

In 2019, the Company paid the following dividends: (i) a final dividend of €0.165 per share in respect of the year ended 31 December 2018; (ii) a special dividend of €0.035 per share; and (iii) an interim dividend of €0.145 per share in respect of the year ended 31 December 2019.

As announced by the Company on 2 April 2020, as a result of the impact of the COVID-19 pandemic, the Board of Directors resolved to withdraw the proposal to the next Shareholders’ meeting to pay a final dividend of €0.17 per share and, instead, to propose the allocation of all the profit for the year ended 31 December 2019 (except the amount already paid as interim dividend) to the voluntary reserve.

The Group is proud of its track record of returning capital to Shareholders and recognises the importance of dividends (although it has no fixed dividend policy). Since 2015, the Group has returned €4.1 billion to Shareholders in the form of dividends and share buybacks, and it is determined to resume actions to maintain that record as soon as the operating environment and resulting financial performance of the Group permit. However, given the ongoing uncertainty resulting from the COVID-19 pandemic, it is not possible to provide accurate guidance as to when the Company will be able to resume returning capital to Shareholders. For additional detail, see section 4.1(G) (*Track record of strong financial performance*).

PART IX
OPERATING AND FINANCIAL REVIEW

The following discussion should be read in conjunction with the Group's audited consolidated financial statements for the years ended 31 December 2019 and 2018, and the unaudited consolidated interim financial statements for the six months ended 30 June 2020, which are incorporated by reference in this prospectus.

This discussion and analysis contains forward-looking statements that reflect the Group's current views with respect to future events and its financial performance. The Group's actual results may differ materially from those anticipated in these forward-looking statements as a result of any number of factors, including those set forth under Part I (Risk Factors) and section 7 (Forward-Looking Statements) of Part III (Important Notices).

1. FINANCIAL OVERVIEW

The Group is one of the world's largest airline groups with a fleet of 548 aircraft as at 30 June 2020, carrying 118 million passengers to more than 275 destinations around the world in the year ended 31 December 2019. The Group consists of four core airline brands in the United Kingdom, Spain and Ireland: British Airways, Iberia, Vueling and Aer Lingus. As at 31 December 2019, the Group had more than 66,034 employees (based on average manpower equivalent), based primarily in the United Kingdom, Spain and Ireland.

The Group's operations are supported by its common integrated platform which includes IAG Cargo, IAG Loyalty, IAG GBS and IAG Connect which provide mainly common services and allow the Group's operations to benefit from cost reductions and synergies by leveraging the Group's scale.

In the year ended 31 December 2019, the Group generated total revenues of €25,506 million (up 5.1% from €24,258 million (restated) in the year ended 31 December 2018) and an operating profit of €3,285 million from continuing operations before exceptional items (down 5.7% from €3,485 million (adjusted) in the year ended 31 December 2018).

As an owner of passenger airlines, the Group is dependent upon its customers travelling for a number of reasons, including business, leisure and to visit friends and relatives, and the COVID-19 pandemic and associated government travel restrictions and advisories have therefore had a very significant negative effect on the Group's business. The Group introduced significant capacity reductions from March 2020 onwards as the pandemic impacted Asia, Europe and the United States. Consequently, in the first half of 2020, the Group carried 20.4 million passengers, a decrease of 63.5% compared to the same period in 2019. Its ASKs were 71,625 million for the six months to 30 June 2020, a decrease of 56.2% compared to the same period in 2019.

This has resulted in a very significant decline in the Group's revenues, profitability and cash flow since 31 December 2019. In the first half of 2020, the Group generated revenues of €5,326 million before exceptional items (down 55.7% from €12,026 million in the same period in 2019) and an operating loss of €1,900 million from continuing operations before exceptional items (an operating profit of €1,095 million was made in the same period in 2019).

As at 30 June 2020, the Group had a fleet of 548 aircraft with an average age of 11.7 years. Due to the Group's capacity reductions in response to the COVID-19 pandemic and the associated government travel restrictions and advisories, the Group had 70 aircraft not in service as at 30 June 2020, which includes 55 impaired aircraft and 15 aircraft grounded but not impaired. Given the impact of the COVID-19 pandemic on the demand for air travel, the IAG Airlines have adjusted their fleet plans to match the forecast level of demand over the next few years. In addition to a combination of bringing forward the retirement of owned Airbus A340-600, Boeing 747-400 and other aircraft and a reduction in the number of lease extensions, the Group has deferred a significant number of aircraft deliveries. Overall, the delivery of 68 aircraft has been deferred in the six months ending 30 June 2020 as the Group seeks to reduce its spending.

For further discussion and information regarding the impact of the COVID-19 on global aviation travel, the resulting operational disruption to the Group and the anticipated future impact of the pandemic on the Group, as well as the Group's response to the COVID-19 pandemic and preparations for a return to meaningful service and its restructuring plans, please see Part VI (*Background to and Reasons for the Capital Increase*).

For information regarding the Group's recent investments in technology, innovation and improvements in customer experience, environmental and sustainability programmes, employees and restructuring plans, pension arrangements and regulatory environment, please see section *5* (*Business Overview*) of Part VIII (*Business and Market Overview*).

2. RESULTS OF OPERATIONS

The tables below set out the Group's consolidated income statement for the six months ended 30 June 2020 and 2019 and the financial years ended 31 December 2019 and 2018, and the Group's consolidated balance sheet as of 30 June 2020 and 31 December 2019.

Consolidated income statement[1]

€ million	Year to 31 December		Six months to 30 June	
	2019	**2018 (restated)[2]**	**2020**	**2019 (restated)[2]**
Passenger revenue	22,468	21,401	4,151	10,586
Exceptional items	-	-	*(38)*	-
Cargo revenue	1,117	1,173	615	556
Other revenue	1,921	1,684	560	884
Total revenue	**25,506**	**24,258**	**5,288**	**12,026**
Employee costs	4,962	4,812	1,890	2,492
Exceptional employee costs	*672*	*(460)*	-	-
Fuel, oil costs and emissions charges	6,021	5,283	1,313	2,936
Exceptional fuel, oil costs and emissions charges	-	-	*1,269*	-
Handling, catering and other operating costs	2,972	2,740	853	1,413
Landing fees and en-route charges	2,221	2,184	539	1,081
Engineering and other aircraft costs	2,092	1,828	766	1,031
Exceptional Engineering and other aircraft costs	-	-	*77*	-
Property, IT and other costs	811	918	406	380
Exceptional property, IT and other costs	-	*12*	*22*	-
Selling costs	1,038	1,046	268	551
Depreciation, amortisation and impairment	2,111	1,254	1,114	1,035
Exceptional depreciation, amortisation and impairment charges			*731*	
Aircraft operating lease costs	-	890	-	-
Currency differences	(7)	73	77	12
Total expenditure on operations	22,893	20,580	9,325	10,931
Operating profit/(loss)	**2,613**	**3,678**	**(4,037)**	**1,095**
Finance costs	(611)	(231)	(342)	(281)
Finance income	50	41	23	22
Net financing credit relating to pensions	26	27	3	13
Net currency retranslation credits/(charges)	201	(19)	97	138
Other non-operating charges	(4)	(9)	50	20
Total net non-operating costs	(338)	(191)	(169)	(88)
Profit/(loss) before tax	**2,275**	**3,487**	**(4,206)**	**1,007**
Tax	(560)	(590)	400	(201)
Profit/(loss) after tax for the period	**1,715**	**2,897**	**(3,806)**	**806**
Attributable to:				
Equity holders of the parent	1,715	2,885	(3,806)	806
Non-controlling interest	-	12	-	-
	1,715	2,897	(3,806)	806
Basic earnings/(loss) per share (€ cents)[3]	86.4	142.7	(191.7)	40.6
Diluted earnings/(loss) per share (€ cents)[4]	84.3	137.4	(191.7)	39.2
Adjusted earnings/(loss) per share (€ cents)[5]	116.8	117.7	(99.0)	39.2

1 The Group adopted IFRS 16 'Leases' for the financial year ended 31 December 2019. IFRS 16 has no cash flow or economic impact on the Group, but does have an impact on the way that expenditure is reported in the income statement, together with how assets and liabilities are reported on the balance sheet and how cash flows are classified in the cash flow statement. See "-Basis of presentation".

2 Restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. There is no change in operating profit. See "-Basis of presentation".

3 Basic earnings per share are based on results after exceptional items after tax, divided by the weighted average number of ordinary shares.

4 Diluted earnings per share are based on results after exceptional items after tax, divided by the weighted average number of ordinary shares, adjusted for the dilutive impact of the assumed conversion of the bonds and employee share schemes outstanding.

5 Adjusted earnings per share are based on results before exceptional items after tax and adjusted for earnings attributable to equity holders and interest on convertible bonds, divided by the weighted average number of ordinary shares, adjusted for the dilutive impact of the assumed conversion of the bonds and employee share schemes outstanding. Adjusted earnings per share is an APM.

Consolidated balance sheet[1]

€ million	30 June 2020	31 December 2019 (restated)[2]	Higher/(lower)	31 December 2018 (restated)[2]
Non-current assets				
Property, plant and equipment	17,782	19,168	(7.2)%	12,437
Intangible assets	3,330	3,442	(3.3)%	3,198
Investments accounted for using the equity method	31	31	0.0%	31
Other equity investments	71	82	(13.4)%	80
Employee benefit assets	331	314	5.4%	764
Derivative financial instruments	518	268	93.3%	221
Deferred tax assets	724	546	32.6%	667
Other non-current assets	247	273	(9.5)%	309
	23,034	24,124	(4.5)%	17,707
Current assets				
Inventories	418	565	(26.0)%	509
Trade receivables	791	2,255	(64.9)%	1,597
Other current assets	1,021	1,314	(22.3)%	1,175
Current tax receivable	251	186	34.9%	383
Derivative financial instruments	569	324	75.6%	155
Other current interest-bearing deposits	1,320	2,621	(49.6)%	2,437
Cash and cash equivalents	4,696	4,062	15.6%	3,837
	9,066	11,327	(20.0)%	10,093
Total assets	**32,100**	35,451	(9.5)%	**27,800**
Shareholders' equity				
Issued share capital	996	996	0.0%	996
Share premium	5,327	5,327	0.0%	6,022
Treasury shares	(45)	(60)	(25.0)%	(68)
Other reserves	(5,499)	560	nm	(236)
Total shareholders' equity	**779**	6,823	(88.6)%	**6,714**
Non-controlling interest	6	6	0.0%	6
Total equity	**785**	6,829	(88.5)%	**6,720**
Non-current liabilities				
Interest-bearing long-term borrowings	13,659	12,411	10.1%	6,633
Employee benefit obligations	1,225	400	206.3%	427
Deferred tax liability	59	290	(79.7)%	81
Provisions	2,231	2,416	(7.7)%	2,268
Derivative financial instruments	741	286	159.1%	423
Other long-term liabilities	116	71	63.4%	198
	18,031	15,874	13.6%	10,030
Current liabilities				
Current portion of long-term borrowings	2,820	1,843	53.0%	876
Trade and other payables	3,422	4,344	(21.2)%	3,959
Deferred revenue on ticket sales	4,624	5,486	(15.7)%	4,835
Derivative financial instruments	1,699	252	574.2%	656
Current tax payable	-	192	nm	165
Provisions	719	631	13.9%	559
	13,284	12,748	4.2%	11,050
Total liabilities	**31,315**	28,622	9.4%	**21,080**
Total equity and liabilities	**32,100**	35,451	(9.5)%	**27,800**

1 The Group adopted IFRS 16 'Leases' for the financial year ended 31 December 2019. IFRS 16 has no cash flow or economic impact on the Group, but does have an impact on the way that expenditure is reported in the income statement, together with how assets and liabilities are reported on the balance sheet and how cash flows are classified in the cash flow statement. See "—Basis of presentation".

2 Restated to reclassify the presentation of assets and liabilities for employee benefits and deferred tax. See "—Basis of presentation".

2.1 Basis of presentation

Each of the Group's audited consolidated financial statements for the years ended 31 December 2019 and 2018 and the 2020 Half-Year Financial Statements, has been prepared in accordance with IFRS-EU. The preparation of these financial statements requires the Group to make various estimates and assumptions that affect the reported results. Such estimates or assumptions are based on the Group's historical experience and currently available information, including expectations of future events that it believes are reasonable under the circumstances. Actual results may differ significantly from such estimates and assumptions in light of the uncertainty surrounding the conditions upon which they are based. There are certain significant accounting policies determined on the basis of such estimates and assumptions for which changes during a financial period could involve a significant risk of material change in the carrying amount of assets and liabilities. For information regarding the Group's significant accounting policies, please see note 2 to the audited consolidated financial statements for the year ended 31 December 2019, and note 2 to the 2020 Half-Year Financial Statements.

In the 2020 Half-Year Financial Statements, the Group noted that it may require additional funds above those contractually committed as at 30 July 2020 should the impact of the COVID-19 pandemic be more severe than the Directors' expectations and that, as at 30 July 2020, a material uncertainty existed that may have cast significant doubt on the Group's ability to continue as a going concern. For more information, please see note 1 to the 2020 Half-Year Financial Statements. The 2020 Half-Year Financial Statements did not take into account the proceeds of the Capital Increase.

In September 2019, the IFRS Interpretations Committee ('IFRIC') clarified that under IFRS 15 compensation payments for flight delays and cancellations form compensation for passenger losses and accordingly should be recognised as variable compensation and deducted from revenue. This clarification had led the Group to change its accounting policy, which previously classified this compensation as an operating expense. Accordingly, the Group restated the 2018 and the half year 2019 results to reflect €148 million and €63 million of compensation costs as a deduction from Passenger revenue and a corresponding reduction within Handling, catering and other operating costs. The revenue component of segmental reporting has accordingly been restated. Further details are given in note 33 of the Group audited consolidated financial statements for the year ended 31 December 2019 and in note 1 of the 2020 Half-Year Financial Statements.

The Group's restated balance sheet as at 31 December 2019 reflects the reclassification of deferred tax assets arising on the restriction of surpluses to reflect minimum funding requirements of the British Airways APS and NAPS defined benefit schemes (as detailed in note 15 of the 2020 Half-Year Financial Statements), previously recognised within Employee benefit assets in the Balance sheet at 31 December 2019, to be presented net within Deferred tax liabilities at both 31 December 2019 and 1 January 2019 to conform to the current period presentation. At 31 December 2019, the reclassification had the effect of reducing Deferred tax liabilities by €282 million, reducing the Employee benefit assets by €210 million and increasing the Employee benefit obligations by €72 million. At 30 June 2019, the reclassification had the effect of reducing Deferred tax liabilities by €447 million, increasing Deferred tax assets by €82 million and reducing the Employee benefit assets by €529 million. At 31 December 2018, the reclassification had the effect of reducing Deferred tax liabilities by €372 million, increasing Deferred tax assets by €131 million, reducing the Employee benefit assets by €365 million and increasing the Employee benefit obligations by €138 million. There is no impact to Profit after tax for the period, Other comprehensive income for the period, Net assets or the Statement of changes in equity in any period presented. Further details are given in note 1 of the 2020 Half-Year Financial Statements.

The Group adopted the accounting standard IFRS 16 'Leases' from 1 January 2019 and used the modified retrospective transition approach and did not restate comparatives. IFRS 16 eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. On the balance sheet, obligations to make future payments under leases, previously classified as operating leases, are recognised as debt with the associated right of use (ROU) assets. In the income statement, the operating lease costs are replaced with depreciation (within operating expenditure) and lease interest expense (within non-operating expenditure). For further information see note 33 of the Group audited consolidated financial statements for the year ended 31 December 2019.

Adjusted results for 2018 within this Prospectus are the Group's restated 2018 results with an adjustment to reflect the estimated impact of IFRS 16 from 1 January 2018, and have been prepared using the same assumptions used for the IFRS 16 transition adjustment at 1 January 2019 (set out in note 33 of the Group financial statements for the year ended 31 December 2019) adjusted for any new aircraft leases entered into during 2018 and using the incremental borrowing rates at 1 January 2019. The IFRS 16 adjustments for aircraft lease liabilities are based on

US dollar exchange rates at the transition date. A reconciliation from the reported Consolidated income statement to the adjusted results for 2018 is included in section 5 (*Reconciliation of Alternative Performance Measures*) below.

2.2 Six months ended 30 June 2020 versus six months ended 30 June 2019

(A) Revenue

€ million	30 June 2020	30 June 2019[2]	Higher/(lower) Period over period	Period over period at ccy*
Passenger revenue[1]	**4,113**	10,586	(61.1)%	(62.6)%
Cargo revenue	**615**	556	10.6%	11.0%
Other revenue	**560**	884	(36.7)%	(39.0)%
Total revenue	**5,288**	12,026	(56.0)%	(57.5)%

1 Passenger revenue for the six months to 30 June 2020 includes an exceptional expense of €38 relating to the derecognition of hedges of the associated fuel derivatives and the foreign currency derivatives on forecast revenue and fuel consumption.

2 The 2019 results have been restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to a handling, catering and other operating expense. See "—Basis of presentation".

Passenger revenue

Passenger revenue for the six months to 30 June 2020, fell 61.1% from the previous year, with the second quarter of 2020 down 97.3%. Before exceptional items, passenger revenue for the six months to 30 June 2020 fell 60.8% from the previous year. Passenger unit revenue (defined as passenger revenue divided by ASKs) decreased 14.7% at constant currency ('ccy')*, due primarily to lower yields (defined as passenger revenue divided by RPKs) and lower passenger load factors (defined as RPKs expressed as a percentage of ASKs) from March onwards, associated with the impact of COVID-19.

For further information regarding the measures used in this section, such as ASK, RPK, passenger load factors, passenger unit revenue and ccy, please see section 5.1 (*Reconciliation of Alternative Performance Measures*) and section 5.2 (*Other Operating and Financial Statistics*).

Cargo revenue

Cargo revenue was 10.6% higher than in 2019 and was up 11.0% at constant currency, with cargo revenue boosted significantly by the additional flights operated for moving medical equipment and supplies, with an additional 1,875 cargo flights operated in the second quarter of 2020. Cargo revenue for the second quarter of 2020 was a (quarterly) record €369 million, up from €281 million in the second quarter of 2019. Cargo carried for the six months to 30 June 2020, measured in cargo tonne kilometres (CTKs), fell by 37.5%, due to the reduction in passenger schedules, but yields were significantly higher, as the additional flights carried no passengers and had no associated passenger revenue and hence the cost of operating such flights had to be met entirely from cargo revenue.

Other revenue

Other revenue fell by 36.7% and by 39.0% at ccy*, as the growth of the Group's non-airline businesses was also impacted by COVID-19 from March.

Total revenue

Total revenue for the six months to 30 June 2020 fell 56.0% from the previous year and by 57.5% at ccy*, driven by the impact of COVID-19.

Revenue by area of original sale

€ million	30 June 2020	30 June 2019[1]
UK	1,739	4,047
Spain	1,024	2,030
USA	750	2,111
Rest of world	1,775	3,838
Total revenue	**5,288**	12,026

1 The 2019 results have been restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to a handling, catering and other operating expense. See "—Basis of presentation".

(B) Expenditure on operations

			Higher/(lower)	
€ million	**30 June 2020**	**30 June 2019[1]**	**Period over period**	**Period over period at ccy***
Employee costs	1,890	2,492	(24.2)%	(25.0)%
Fuel, oil costs and emissions charges[2]	2,582	2,936	(12.1)%	(13.8)%
Total supplier costs[3]	3,008	4,468	(32.7)%	(36.0)%
Total ownership costs[4]	1,845	1,035	78.3%	77.6%
Total expenditure on operations	9,325	10,931	(14.7)%	(16.8)%
of which exceptional items	2,099	-	-	n/a
Total expenditure on operations before exceptional items	7,226	10,931	(33.9)%	(36.0)%

1 The 2019 results have been restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to a handling, catering and other operating expense. See "—Basis of presentation".

2 Fuel costs for the first six months of 2020 included an exceptional charge of €1,269 million, relating to overhedging, being the losses on fuel hedging derivatives maturing in 2020 for which there will be no matching volume of fuel purchased, together with related foreign currency gains, calculated using the forward fuel curve and exchange rates at 30 June 2020.

3 Total supplier costs for the first six months of 2020 included an exceptional expense of €77 million with respect to Engineering and other aircraft costs, consisting of an inventory write down expense of €71 million and a charge relating to contractual lease provisions of €6 million, and an exceptional expense of €22 million with respect to Property, IT and other costs, which represents management's best estimate of the amount of any penalty issued by the IC Office in the United Kingdom, relating to the theft of customer data at British Airways in 2018.

4 Ownership costs for the first six months of 2020 included an exceptional impairment expense of €731 million, represented by an impairment of fleet assets of €729 million and an impairment of other assets of €2 million. The impairment expense has arisen from the substantial deterioration in current and forecast demand for air travel caused by the COVID-19 outbreak, which has led the Group to re-assess the medium and long-term capacity and utilisation of the fleet.

Employee costs

Employee costs for the six months to 30 June 2020 decreased by €602 million compared with 2019. Approximately half of this reduction was as a result of furlough and equivalent temporary cost reduction schemes, together with reductions to either hours worked or pay in the second quarter of 2020. Reductions were made at all levels and in all functions within the Group. Despite all these measures, the reduction in employee costs of 24.2% was outweighed by the 56.2% reduction in passenger capacity and as a consequence employee unit costs at ccy* rose 71.1%.

	Higher/(lower)	
	30 June 2020	Period over period
Average manpower equivalent	63,501	(2.3)%

Fuel, oil costs and emissions charges

Fuel costs reduced by 12.1% compared with 2019 (excluding the exceptional charge of €1,269 million relating to overhedging, fuel costs reduced by 55.3%), reflecting the reduced capacity operated. Pre-exceptional fuel unit costs at ccy* were down 1.9% on 2019, linked to continued efficiencies and the net impact of commodity prices across the period and hedging losses versus the previous year.

Supplier costs

Total supplier costs comprise (i) handling, catering and other operating costs, (ii) landing fees and en-route charges, (iii) engineering and other aircraft costs, (iv) property, IT and other costs (v) selling costs and (vi) currency differences.

€ million	30 June 2020	30 June 2019[1]	Higher/(lower) Period over period
Handling, catering and other operating costs	853	1,413	(39.6)%
Landing fees and en-route charges	539	1,081	(50.1)%
Engineering and other aircraft costs[2]	843	1,031	(18.2)%
Property, IT and other costs[3]	428	380	12.6%
Selling costs	268	551	(51.4)%
Currency differences	77	12	Nm
Total supplier costs	3,008	4,468	(32.7)%

1 The 2019 results have been restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to a handling, catering and other operating expense. See "—Basis of presentation".

2 Engineering and other aircraft costs for the six months to 30 June 2020 includes an exceptional expense of €77 million, consisting of an inventory write down expense of €71 million and a charge relating to contractual lease provisions of €6 million.

3 Property, IT and other costs for the six months to 30 June 2020 includes an exceptional expense of €22 million, which represents management's best estimate of the amount of any penalty issued by the IC Office in the United Kingdom, relating to the theft of customer data at British Airways in 2018.

Supplier costs by supplier cost category:

Handling, catering and other operating costs were €853 million for the first six months of 2020, a decrease of €560 million from the previous year, driven by the significantly lower capacity operated, due to COVID-19.

Landing fees and en-route charges were €539 million for the first six months of 2020, a decrease of €542 million from the previous year, driven by the significantly lower capacity operated, due to COVID-19.

Engineering and other aircraft costs were €843 million for the first six months of 2020, a decrease of €188 million, also driven by reduce flying associated with COVID-19. Excluding exceptional items, engineering and other aircraft costs were €766 million, a decrease of €265 million from the previous year.

Property, IT and other costs were €428 million for the first six months of 2020, an increase of €48 million. Excluding exceptional items, property, IT and other costs were €406 million, an increase of €26 million from the previous year, principally as a result of a one-off supplier compensation received in the prior year period.

Selling costs were €268 million for the first six months of 2020, a decrease of €283 million, reflecting lower sales in *light of COVID-19.*

Total supplier costs:

Supplier costs decreased by 32.7% compared with 2019 (and by 34.9% before exceptional items), linked to volume-related savings due to the lower capacity operated, together with a reduction in non-essential expenditure as a result of COVID-19. The savings were lower than the reduction in volume, reflecting fixed costs and the rapid escalation of the virus in March, which led to capacity falling at a greater level than it was possible to reduce costs.

Pre-exceptional supplier unit costs for the six months to 30 June 2020, were up 41.0% at ccy*.

Ownership costs

			Higher/(lower)	
€ million	**30 June 2020**	**30 June 2019**	**Period over period**	**Period over period at ccy***
Depreciation, amortisation and impairment[1]	1,845	1,035	78.3%	77.6%
Total ownership costs	1,845	1,035	78.3%	77.6%

1 Depreciation, amortisation and impairment for the first six months of 2020 included an exceptional impairment expense of €731 million, represented by an impairment of fleet assets of €729 million and an impairment of other assets of €2 million. The impairment expense has arisen from the substantial deterioration in current and forecast demand for air travel caused by the COVID-19 outbreak, which has led the Group to re-assess the medium and long-term capacity and utilisation of the fleet.

Ownership costs for the first six months of 2020 increased 78.3% on the previous year. Excluding exceptional items, ownership costs increased 7.6% on the previous year, in line with the fleet replacement programme. The number of aircraft in service decreased from 598 as at 31 December 2019 to 548 as at 30 June 2020, with the reduction mainly reflecting the retirement of the Boeing 747s in British Airways and Airbus A340-600s in Iberia, which will lead to a reduction in depreciation in future quarters, following the impairments described below. The majority of the in-service fleet was grounded from March. Ownership costs before exceptional items on a unit basis and at ccy* were up 144% on 2019, as the grounded aircraft continue to have depreciation charged.

Number in fleet	**30 June 2020**	**Higher/(lower)[1]**
Shorthaul	384	(17)
Longhaul	164	(33)
Total	**548**	**(50)**

1 Basis of comparison is 31 December 2019.

Aircraft deliveries	**30 June 2020**	**30 June 2019**
Airbus A320 family	9	19
Airbus A330	1	0
Airbus A350	5	3
Boeing 787	2	0

Embraer E190	0	1
Total	**17**	**23**

(C) Non-fuel unit costs

The Group monitors airline unit costs (per ASK) as a means of tracking operating efficiency of the core airline businesses. As fuel costs can vary with commodity prices, the Group monitors fuel and non-fuel costs individually. Non-fuel costs is defined as total operating expenditure before exceptionals, less fuel, oil costs and emission charges. Airline non-fuel costs is defined as non-fuel costs less non-flight specific costs (which are the costs associated with generating 'Other revenue', representing the costs of handling and maintenance for other airlines, non-flight products in BA Holidays and costs associated with other miscellaneous non-flight revenue streams). Airline non-fuel unit costs* is defined as airline non-fuel costs divided by ASKs. For further information regarding these measures, as well as a reconciliation of airline non-fuel unit costs to the nearest equivalent IFRS measure, see Section 5.1(D) (*Airline non-fuel unit costs*) below.

Overall airline pre-exceptional non-fuel unit costs at ccy* were up 66.3% versus a year ago, from €4.43 cents to €7.36 cents, linked to the significant capacity reduction.

(D) Exchange impact before exceptional items

Exchange rate impacts are calculated by retranslating current year results at prior year exchange rates. The reported revenues and expenditures are impacted by the translation of currencies other than euro to the Group's reporting currency of euro, primarily related to British Airways and Avios (which are in pounds sterling). From a transaction perspective, the Group's performance is impacted by the fluctuation of exchange rates, primarily exposure to the pound sterling, euro and US dollar. The Group generates a surplus in most currencies in which it does business, except the US dollar, as capital expenditure, debt repayments and fuel purchases are typically in US dollars and create a deficit which is managed and partially hedged. Overall, in the first six months of 2020 the Group operating result before exceptional items was impacted by €52 million of adverse foreign exchange impacts.

The Group hedges its economic exposure from transacting in foreign currencies. The Group does not hedge the translation impact of reporting in euro.

€ million Favourable/(adverse)	**Translation impact**	**Transaction impact**	**30 June 2020 Total exchange impact**
Total exchange impact on revenue	124	51	175
Total exchange impact on operating expenditures	(108)	(119)	(227)
Total exchange impact on operating profit	**16**	**(68)**	**(52)**

(E) Operating loss before exceptional items

€ million	**30 June 2020**	**30 June 2019**	**Higher/(lower) Year over year**
Total revenue	5,288	12,026	(56.0)
Total expenditure on operations	9,325	10,931	(14.7)%
Operating profit/(loss)	(4,037)	1,095	nm
Exceptional items	(2,137)	-	nm
Operating profit/(loss) before exceptional items	**(1,900)**	1,095	nm

The Group's operating loss before exceptional items for the six months to 30 June 2020 was €1,900 million (2019: operating profit of €1,095 million), representing a deterioration of €2,995 million versus 2019, driven by the impact of the COVID-19 pandemic.

(F) *Operating profit and loss performance of operating companies*

	British Airways[1]			Aer Lingus[1] € million		Iberia[1] € million		Vueling[1] € million		Other Group Companies[2] € million		Total € million	
	30 June 2020 £ million	30 June 2020 **€ million**	Higher/ (lower)[3]	**30 June 2020**	Higher/ (lower)[3]	**30 June 2020**	Higher/ (lower)[3]	**30 June 2020**	Higher/ (lower)[3]	**30 June 2020**	Higher/ (lower)[3]	**30 June 2020**	Higher/ (lower)[3]
ASKs	41,655	-	(54.8)%	6,113	(56.9)%	15,414	(55.7)%	6,114	(66.2)%	2,329	(44.2)%	71,625	(56.2)%
Load factor (%)	71.5%	-	(10.6)pts	55.9	(23.3)pts	80.4%	(5.9)pts	83.3%	(1.7)pts	89.6%	8.2pts	73.7%	(9.3)pts
Passenger revenue	2,235	2,636	(61.2)%	315	(66.2)%	784	(57.4)%	317	(69.9)%	99	n/a	4,151	(60.8)%
Cargo revenue	394	450	10.9%	60	nm	107	(14.4)%	-	nm	(2)	n/a	615	10.6%
Other revenue	144	169	(53.0)%	2	nm	482	(27.5)%	(4)	nm	(89)	n/a	560	(36.7)%
Total revenue	2,773	3,255[4]	(56.8)%	377	(61.1)%	1,373	(47.8)%	313	(70.5)%	8	n/a	5,326	(55.7)%
Fuel, oil costs and emissions charges	722	850	(54.8)%	108	(49.4)%	238	(58.8)%	85	(67.6)%	32	n/a	1,313	(55.3)%
Employee costs	970	1,125	(24.9)%	132	(31.5)%	445	(22.3)%	105	(25.0)%	83	n/a	1,890	(24.2)%
Supplier costs	1,462	1,702	(34.4)%	258	(39.0)%	853	(27.5)%	252	(52.7)%	(156)	n/a	2,909	(34.9)%
EBITDA	(381)	(422)	nm	(121)	nm	(163)	nm	(129)	nm	49	n/a	(786)	nm
Ownership costs	585	672	7.3%	68	8.4%	196	2.6%	139	15.8%	39	n/a	1,114	7.6%
Operating profit/(loss) before exceptional items	(966)	(1,094)	nm	(189)	nm	(359)	nm	(268)	nm	10	n/a	(1,900)	nm
Exceptional items	(1,176)	(1,360)	nm	(127)	nm	(508)	nm	(118)	nm	(24)	n/a	(2,137)	nm
Operating loss after exceptional items	(2,142)	(2,454)	nm	(316)	nm	(867)	nm	(386)	nm	(14)	n/a	(4,037)	nm
*Operating margin**	(34.9)%	-	(46.7)pts	(50.0)%	(58.1)pts	(26.1)%	(30.3)pts	(85.7)%	(86.2)pts	n/a	n/a	(35.7)%	(44.8)pts

1 Results for operating companies are presented before eliminations related to inter-segment transactions required for Group consolidation.

2 Other Group Companies includes eliminations related to inter-segment transactions within the Group as well as IAG Loyalty and other Platform and Head Office entities.

3 Compared to the restated 2019 results. 2019 results have been restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. See "—Basis of presentation".

4 Total revenue for British Airways is presented before exceptional expenses of €32 million relating to the derecognition of hedges of the foreign currency derivatives on forecast revenue.

(G) *Financial performance by Brand*

Capacity (for the six months ended 30 June 2020)

	Capacity (ASKs)
British Airways	58.2%
Aer Lingus	8.5%
Iberia	21.5%
Vueling	8.5%
Other Group Companies	3.3%
Total	100.0%

British Airways

British Airways' operating loss before exceptional items for the six months to 30 June 2020 was £966 million (€1,094 million), compared to an operating profit before exceptional items of £761 million (€873 million) in the prior year period. Capacity for the first six months of 2020 was down 54.8% compared to the prior year, as a result of the impact of the COVID-19 pandemic.

Iberia

Iberia's operating loss before exceptional items for the six months to 30 June 2020 was €359 million, compared to an operating profit before exceptional items of €109 million in the prior year period. Capacity for the first six months of 2020 was down 55.7% compared to the prior year, as a result of the impact of the COVID-19 pandemic.

Vueling

Vueling's operating loss before exceptional items was €268 million, compared to an operating profit of €5 million in the prior year period. Capacity for the first six months of 2020 was down 66.2% compared to the prior year, as a result of the impact of the COVID-19 pandemic

Aer Lingus

Aer Lingus' operating loss before exceptional items was €189 million, compared to an operating profit of €78 million in the prior year period. Capacity for the first six months of 2020 was down 56.9% compared to the prior year, as a result of the impact of the COVID-19 pandemic.

(H) Exceptional items

Exceptional items are detailed in note 3 to the 2020 Half-Year Financial Statements. Exceptional items have been recognised in respect of the impact of overhedging in respect of the COVID-19 related capacity reductions, being the net of fuel and foreign currency overhedging (a loss of €1,269 million), and passenger revenue (a loss of €38 million). In additional there is an exceptional impairment expense of €731 million related to fleet and other assets, together with an associated inventory impairment expense of €71 million and expenses relating to contractual end of lease payments also in respect of surplus aircraft of €6 million. An exceptional expense of €22 million has been recorded in respect of a provision, which represents management's best estimate of the amount of a penalty issued by the IC Office, relating to the theft of customer data at British Airways in 2018.

There were no exceptional items in the six months to 30 June 2019.

(I) Non-operating costs and taxation

The Group's net non-operating costs for the six months to 30 June 2020, were €169 million compared with €88 million in 2019, mainly relating to arrangement fees and interest for new debt and facilities and costs associated with restructuring certain derivative contracts, for which the cashflows have been deferred to 2021 or later.

The tax credit for the period was €104 million before exceptional items (2019: tax charge of €201 million), with an effective tax rate for the Group of 5% (2019: 20%). The effective tax rate in the period was different to expected rate of 20% due to not recognising tax credits in respect of certain current and prior period losses and deductible temporary differences, and due to the cancellation of the UK rate reduction and its impact on UK deferred tax balances.

(J) Profit after tax

The loss after tax and exceptional items for the six months to 30 June 2020 was €3,806 million (2019: profit after tax €806 million), driven by the impact of COVID-19 on operating profit, together with the exceptional items relating to the overhedged position on fuel and the impairment of fleet assets, which were also the result of COVID-19.

2.3 Year ended 31 December 2019 vs. year ended 31 December 2018

(A) Revenue

€ million	2019	2018 (restated)[1]	Higher/(lower) Year over year	Year over year at ccy*
Passenger revenue	**22,468**	21,401	5.0%	3.5%
Cargo revenue	**1,117**	1,173	(4.8)%	(7.2)%
Other revenue	**1,921**	1,684	14.1%	11.3%
Total revenue	**25,506**	24,258	**5.1%**	**3.5%**

1 The 2018 results have been restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. See "—Basis of presentation".

Passenger revenue

Passenger revenue for the Group was €22,468 million, an increase of €1,067 million or 5.0% versus the prior year, with 1.5 points of positive currency impact. Capacity increased by 4.0%, mainly reflecting additional frequencies and increased aircraft gauge on longhaul routes and the full-year impact of network changes in 2018 by British Airways, Aer Lingus and Iberia as well as growth in LEVEL. New routes were added at Aer Lingus, connecting Dublin with Minneapolis; at British Airways, with new routes such as London Heathrow to Charleston, Pittsburgh, Islamabad and Osaka; and Iberia, with a new service from Madrid to Guayaquil. Vueling's capacity grew through additional domestic frequencies, with expansion in the Balearic and Canary Islands. IAG's shorthaul network also saw increases from the new LEVEL base in Amsterdam.

At ccy*, passenger unit revenue decreased 0.5% as a result of lower yields (passenger revenue divided by RPKs), down 2.0%, but with an increase in passenger load factor of 1.3 points from 83.3 points to 84.6 points. At the airline level, passenger unit revenue at constant currency increased in British Airways and Vueling, was flat in Aer Lingus and decreased in Iberia.

The Group carried over 118 million passengers in 2019, an increase of 4.7% from 2018.

For further information regarding the measures used in this section, such as ASK, RPK, passenger load factors, passenger unit revenue and ccy, please see section 5.1 (*Reconciliation of Alternative Performance Measures*) and section 5.2 (*Other Operating and Financial Statistics*).

Cargo revenue

Cargo revenue for the Group was €1,117 million, a decrease of €56 million or 4.8% versus the prior year, down (7.2)% at constant currency*.

2019 was a difficult year for global airfreight, with industry-wide volumes down 3.3% versus 2018. The reduction in demand reflected US-China trade tensions and weaker manufacturing in Europe, notably in Germany. IAG Cargo's performance was better than the market overall, reflecting its strategy to focus on premium products. IAG volumes were down 2.4%, with cargo yield down 4.9% at constant currency, leading to a decrease in Cargo revenue of 7.2% at constant currency. Premium products, including Constant Climate (pharmaceutical and life science products) and Critical (IAG Cargo's highest-priority service with a dedicated customer service team, providing 24/7 support and updates), performed better than general freight, with a growth in the Constant Fresh (a service designed for the shipment of temperature sensitive perishable products) perishable movements, particularly out of Latin America and Africa. Industry sectors such as automotive parts were significantly down. IAG Cargo launched a new temperature-controlled facility in Madrid, which gained Good Distribution Practice certification in February.

Other revenue

Other revenue for the Group was €1,921 million in 2019, an increase of 14.1% versus 2018 (€1,684 million) and an increase of 11.3% at constant currency*. Revenues grew at Iberia's third party maintenance (MRO) business, assisted by greater engine overhaul activity. BA Holidays continued to grow, benefitting from marketing and a focus on IT improvements, resulting in higher conversions into bookings. Other revenue was also boosted by IAG Loyalty, which increased the sale of Avios points to its partners.

Total revenue

Total revenue for the Group was €25,506 million in 2019, an increase of 5.1% versus 2018 (€24,258 million (restated)) and an increase of 3.5% at ccy*.

Revenue by area of original sale

€ million	2019	2018 (restated)[1]
UK	8,362	7,945
Spain	4,399	4,027
USA	4,379	4,074
Rest of world	8,366	8,212
Total revenue	**25,506**	24,258

1 The 2018 results have been restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. See "—Basis of presentation".

(B) Expenditure on operations

€ million	2019	2018 (restated)[1]	Higher/(lower) Year over year	2018 (adjusted)[2]	Higher/(lower) Year over year[2]	Higher/(lower) Year over year at ccy*[2]
Employee costs[3]	5,634	4,352	29.5%	4,352	29.5%	28.9%
Fuel oil costs and emissions charges	6,021	5,283	14.0%	5,283	14.0%	10.0%
Total supplier costs	9,127	8,801	3.7%	8,694	5.0%	4.1%
Total ownership costs	2,111	2,144	(1.5)%	1,996	5.8%	5.4%
Total expenditure on operations	**22,893**	**20,580**	**11.2%**	**20,325**	**12.6%**	**11.0%**
of which exceptional items	*672*	*(448)*	—	*(448)*	—	*(448)*
Total expenditure on operations before exceptional items	**22,221**	**21,028**	**5.7%**	**20,773**	**7.0%**	**5.4%**

1 The 2018 results have been restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. See "—Basis of presentation".

2 Adjusted results for 2018 are the Group's restated 2018 results with an adjustment to reflect the estimated impact of IFRS 16 from 1 January 2018. See "—Basis of presentation."

3 Employee costs in 2019 include an exceptional expense of €672 million and employee costs in 2018 include an exceptional net credit of €448 million.

Employee costs

In 2019, employee costs for the Group were €5,634 million, an increase of €1,282 million versus the prior year on an IFRS-EU reported basis. However, employee costs in 2019 include an exceptional expense of €672 million relating to the past service cost of the APS settlement agreement, and employee costs in 2018 include an exceptional net credit of €460 million, reflecting a €678 million credit resulting from the closure of British Airways' NAPS to future accrual and British Airways' BARP to future contributions from 31 March 2018, offset by exceptional expenses of €136 million relating to the implementation of British Airways' restructuring program which started in July 2016 and was completed in 2018 and €94 million relating to the cost of equalising the effects of Guaranteed Minimum Pension benefits. Each of these exceptional items is further described below under "—Exceptional Items".

Before such exceptional items, employee costs for the Group in 2019 were €4,962 million, an increase of €150 million or 3.1% versus the prior year, and an increase of 2.6% on a ccy* basis. At constant currency, employee unit costs improved 1.4% primarily linked to management initiatives, productivity improvements, the impact of strikes at British Airways on bonus payments and the final quarter of year-on-year benefit from the NAPS closure at British Airways in March 2018. This was partially offset by pay increases at all airlines, generally linked to price inflation. For further information regarding employee unit costs, please see section 5.2 (*Other Operating and Financial Statistics*).

Overall, the average manpower equivalent number of employees rose by 2.0% for the Group in 2019, bringing the average workforce to 66,034. Productivity, measured as ASKs per manpower equivalent, increased 1.9% with improvements at British Airways, Iberia, Vueling and Aer Lingus.

	Higher/(lower)	
	2019	**Year over year**
Productivity	5,115	1.9%
Average manpower equivalent	66,034	2.0%

See note 7 in the audited consolidated financial statements for the year ended 31 December 2019 for more information on the employee costs and numbers.

Fuel oil costs and emissions charges

Fuel oil costs and emissions charges were €6,021 million, an increase of €738 million, or 14.0% in 2019, primarily due to hedging profits in 2018 not repeated in 2019, partially offset by a weaker US dollar and operational efficiencies. On a constant currency basis*, fuel oil costs and emissions charges were 10.0% higher. The Group hedges its fuel purchases in advance, typically gradually building its cover over three years. This hedging programme smooths the effects of rising (or falling) prices and 2018 benefitted particularly from prices locked in at lower rates in previous years. The Group also gained fuel efficiencies from new generation aircraft and fuel consumption was further reduced by improved operational procedures implemented across the airlines. At ccy* and on a unit basis, fuel oil costs and emissions charges were 5.7% higher.

See note 25 in the audited consolidated financial statements for the year ended 31 December 2019 and " – Liquidity and Capital Resources – Hedging" below for more information on the Group's hedging policy.

Supplier costs

Total supplier costs comprise (i) handling, catering and other operating costs, (ii) landing fees and en-route charges, (iii) engineering and other aircraft costs, (iv) property, IT and other costs (v) selling costs and (vi) currency differences.

					Higher/(lower)	
€ million	**2019**	**2018 (restated)[1]**	**Higher/(lower) Year over year**	**2018 (adjusted)[2]**	**Year over year[2]**	**Year over year at ccy*[2]**
Handling, catering and other operating costs	2,972	2,740	8.5%	2,733	8.7%	7.4%
Landing fees and en-route charges	2,221	2,184	1.7%	2,184	1.7%	0.8%
Engineering and other aircraft costs	2,092	1,828	14.4%	1,857	12.7%	8.5%
Property, IT and other costs	811	930	(12.8)%	801	1.2%	1.9%
Selling costs	1,038	1,046	(0.8)%	1,046	(0.8)%	(2.8)%
Currency differences	(7)	73	nm	73	nm	nm
Total supplier costs	**9,127**	**8,801**	**3.7%**	**8,694**	**5.0%**	**4.1%**

1 The 2018 results have been restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to a handling, catering and other operating expense. See "—Basis of presentation".

2 Adjusted results for 2018 are the Group's restated 2018 results with an adjustment to reflect the estimated impact of IFRS 16 from 1 January 2018. See "—Basis of presentation."

Supplier costs by supplier cost category:

Handling, catering and other operating costs were €2,972 million for 2019, an increase of €232 million. Adjusting 2018 costs to reflect a reduction of €7 million as a result of the impact of IFRS 16 (Leases), handling, catering and other operating costs rose 8.7%, excluding currency up 7.4%. More than half of this increase was linked to higher capacity, with 4.7% additional passengers carried in the year and higher activity at BA Holidays, with the corresponding increase in Other revenue. Costs also rose from the impact of disruption caused by the pilots' strike at British Airways and price increases in supplier contracts. The Group continued its focus on improving the customer proposition by investing in lounges, catering and service delivery.

Landing fees and en-route charges were €2,221 million for 2019, an increase of €37 million or 1.7%, excluding currency up 0.8%*. Costs rose primarily from higher activity, with flying hours up 3.0% and sectors flown up 2.8%, offset by reductions of en-route charges at Vueling and Aer Lingus, and London Gatwick airport rebates at British Airways.

Engineering and other aircraft costs were €2,092 million for 2019, an increase of €264 million or 14.4%, excluding currency up 10.2%*. Adjusting 2018 costs to reflect an increase of €29 million as a result of the impact of IFRS 16 (Leases), engineering and other aircraft costs increased 12.7%, excluding currency up 8.5%*. Increases were driven by increased flying hours, up 3.0%, contractual price escalation on maintenance contracts, additional component costs at Aer Lingus and higher costs associated with Iberia's third-party maintenance business. Cost increases were partly offset by negotiated improvements in 'pay-as-you-go' contracts and compensation received from manufacturers linked to aircraft availability issues.

Property, IT and other costs were €811 million for 2019, a decrease of €119 million or 12.8% after exceptional items, excluding currency down 12.5%*. Adjusting 2018 costs to reflect a reduction of €129 million as a result of the impact of IFRS 16 (Leases), property, IT and other costs were up 2.8%, excluding currency up 1.9%*. The increase is due to higher capacity, with lower costs on a unit basis. The improvement reflects the impact of one-off supplier compensation received from the impact of the IT failure in 2017 at British Airways, partially offset by investing in resilience and IT infrastructure and from inflation increases on rent and rates.

Selling costs were €1,038 million for 2019, a reduction of €8 million or 0.8%, excluding currency down 2.8%*. Selling costs benefited from reduced commissions, linked to growth of the new distribution model, together with benefits from the mix of selling channels, with an increase in direct sales. British Airways benefited from an initiative to reduce credit card costs. Iberia achieved efficiencies from targeted marketing spend, which was partially offset by British Airways' investment in its centenary year and new uniform development.

Total supplier costs:

Adjusting 2018 costs to reflect a net reduction of €107 million as a result of the impact of IFRS 16 (Leases), total supplier costs for the year increased 5.1% with 0.9 points of adverse currency impact.

Supplier unit costs is defined as total supplier costs divided by total ASKs. At ccy* and on a unit basis, supplier costs rose 0.2%.

Ownership costs

The Group's ownership costs comprise (i) depreciation, amortisation and impairment and (ii) prior to the adoption of IFRS 16 (Leases), aircraft operating lease costs.

€ million	2019	2018 (restated)	Higher/(lower) Year over year	2018 (adjusted)[1]	Higher/(lower) Year over year [1]	Higher/(lower) Year over year at ccy*[1]
Depreciation, amortisation and impairment	2,111	1,254	nm	1,996	5.8%	5.4%
Aircraft operating lease costs	—	890	nm	—	—	—
Total ownership costs	**2,111**	**2,144**	**(1.5)%**	**1,996**	**5.8%**	**5.4%**

1 Adjusted results for 2018 are the Group's restated 2018 results with an adjustment to reflect the estimated impact of IFRS 16 from 1 January 2018. See "—Basis of presentation."

Ownership costs were €2,111 million for 2019 compared to €2,144 million (including €890 million of aircraft operating lease costs) in 2018 on an IFRS-EU basis. Adjusting 2018 costs as a result of the impact of IFRS 16 (Leases) to reflect a reduction of €890 million from the removal of aircraft operating lease costs, partly offset by an increase to depreciation, amortisation and impairment of €742 million, the Group's ownership costs were up 5.8%, excluding currency up 5.4%. The increase reflects additional depreciation on new aircraft, as well as depreciation on densification and connectivity investments and from the renovation of the First and Club lounges at New York JFK Terminal 7. The increase in ownership costs was partially offset by a reduction in engine overhauls in line with retirement of the Boeing 747 fleet at British Airways. New aircraft are contributing to lower carbon emissions and reduced fuel costs.

Number in fleet	**2019**	**Higher/(lower) Year over year**
Shorthaul	**394**	3.7%
Longhaul	**204**	*5.7%*
	598	*4.4%*

Aircraft deliveries	**2019**	**2018**
Airbus A320 family	**32**	28
Airbus A330	**3**	6
Airbus A350	**8**	2
Boeing 787	**-**	5
Embraer E190	**2**	1
Total	**45**	42

(C) Non-fuel unit costs

The Group monitors airline unit costs (per ASK) as a means of tracking operating efficiency of the core airline businesses. As fuel costs can vary with commodity prices, the Group monitors fuel and non-fuel costs individually. Non-fuel costs is defined as total operating expenditure before exceptionals, less fuel, oil costs and emission charges. Airline non-fuel costs is defined as non-fuel costs less non-flight specific costs (which are the costs associated with generating 'Other revenue', representing the costs of handling and maintenance for other airlines, non-flight products in BA Holidays and costs associated with other miscellaneous non-flight revenue streams). Airline non-fuel unit costs* is defined as airline non-fuel costs divided by ASKs. For further information regarding these measures, as well as a reconciliation of airline non-fuel unit costs to the nearest equivalent IFRS measure, see Section 5.1(D) (*Airline non-fuel unit costs*) below.

At constant currency, total non-fuel unit costs improved 0.1% in 2019 as compared to the prior year, from €4.32 cents to €4.29 cents. Airline non-fuel unit costs* improved 0.9% over the same period. Airline non-fuel unit costs* improved at a Group level from cost-saving initiatives and efficient growth, with Vueling's investment in resilience and disruption handling reducing passenger assistance costs linked to continuing Air Traffic Control issues in Europe.

(D) *Exchange impact before exceptional items*

Exchange rate impacts are calculated by retranslating current year results at prior year exchange rates. The reported revenues and expenditures are impacted by the translation of currencies other than euro to the Group's reporting currency of euro, primarily related to British Airways and Avios (which are in pounds sterling). From a transaction perspective, the Group's performance is impacted by the fluctuation of exchange rates, primarily exposure to the pound sterling, euro and US dollar. The Group generates a surplus in most currencies in which it does business, except the US dollar, as capital expenditure, debt repayments and fuel purchases are typically in US dollars and create a deficit which is managed and partially hedged. Overall, in 2019 the Group operating profit before exceptional items benefitted from €67 million of positive foreign exchange impacts.

The Group hedges its economic exposure from transacting in foreign currencies. The Group does not hedge the translation impact of reporting in euro.

€ million Favourable/(adverse)	**Translation impact**	**Transaction impact**	**2019 Total exchange impact**
Total exchange impact on revenue	68	325	393
Total exchange impact on operating expenditures	(58)	(268)	(326)
Total exchange impact on operating profit	**10**	**57**	**67**

The exchange rates for the Group were as follows:

Translation – Balance sheet	**2019**	**2018**	**Higher/(lower)**
€ to £	1.18	1.11	6.3%
Translation - Income statement (weighted average)			
€ to £	1.13	1.13	–
Transaction (weighted average)			
€ to £	1.13	1.13	–
$ to €	1.12	1.18	(5.1)%
$ to £	1.27	1.33	(4.5)%

(E) *Operating profit before exceptional items*

					Higher/(lower)	
€ million	**2019**	**2018 (restated)[1]**	**Higher/(lower) Year over year**	**2018 (adjusted)[2]**	**Year over year[2]**	**Year over year at ccy*[2]**
Total revenue	25,506	24,258	5.1%	24,258	5.1%	3.5%
Total expenditure on operations	22,893	20,580	11.2%	20,325	12.6%	11.0%
Operating profit	**2,613**	**3,678**	**(29.0)%**	**3,933**	**(33.6)%**	(35.3)%
Exceptional items	(672)	448	—	448	—	—
Operating profit before exceptional items	**3,285**	**3,230**	**1.7%**	**3,485**	**(5.7)%**	(7.7%)

1 The 2018 results have been restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. See "—Basis of presentation".

2 Adjusted results for 2018 are the Group's restated 2018 results with an adjustment to reflect the estimated impact of IFRS 16 from 1 January 2018. See "—Basis of presentation."

The Group's operating profit before exceptional items for 2019 was €3,285 million, a €200 million decrease from 2018 (after adjusting 2018 costs to reflect the impact of IFRS 16 (Leases) described above). The Group's operating margin* on the same basis was lower by 1.5 points at 12.9%. These results reflect the industrial action at British

Airways and other disruption at London Heathrow in September 2019, which had an estimated adverse impact of approximately €170 million. In the second half of the year, weakness and disruption faced by the Group’s low-cost segments had an estimated further adverse impact of approximately €45 million.

(F) *Operating profit and loss performance of operating companies*

	British Airways[1]				**Aer Lingus**[1] **€ million**			**Iberia**[1] **€ million**			**Vueling**[1] **€ million**			**Other Group Companies**[2] **€ million**			**Total € million**		
	2019 £ million	**2019 € million**	Higher/ (lower)[3]	*Higher/ (lower)*[4]	**2019**	Higher/ (lower)[3]	*Higher/ (lower)*[4]	**2019**	Higher/ (lower)[3]	*Higher/ (lower)*[4]	**2019**	Higher/ (lower)[3]	*Higher/ (lower)*[4]	**2019**	Higher/ (lower)[3]	*Higher/ (lower)*[4]	**2019**	Higher/ (lower)[3]	*Higher/ (lower)*[4]
ASKs	186,170	-	0.9%	0.9%	30,255	4.2%	4.2%	73,354	7.6%	7.6%	38,432	2.7%	2.7%	9,543	n/a	n/a	337,754	4.0%	4.0%
Load factor (%)	83.6	-	1.1pts	1.1pts	81.8	0.8pts	0.8pts	87.2	1.7pts	1.7pts	86.9	1.5pts	1.5pts	n/a	n/a	n/a	84.6 pts	1.3pts	1.3pts
Passenger revenue	11,899	13,522	2.9%	2.9%	2,060	6.1%	6.1%	4,053	7.3%	7.3%	2,437	5.2%	5.2%	396	n/a	n/a	22,468	5.0%	5.0%
Cargo revenue	711	808	(7.6)%	(7.6)%	54	0.6%	0.6%	291	5.8%	5.8%	–	–		(36)	n/a	n/a	1,117	(4.8%)	(4.8)%
Other revenue	680	776	7.6%	7.6%	11	(16.8)%	(16.8)%	1,301	16.2%	16.2%	18	(14.8)%	(14.8)%	(185)	n/a	n/a	1921	14.1%	14.1%
Total revenue	**13,290**	15,106	2.5%	2.5%	**2,125**	5.8%	5.8%	**5,645**	9.2%	9.2%	**2,455**	5.0%	5.0%	175	n/a	n/a	25,506	5.1%	5.1%
Fuel, oil costs and emissions charges	3,237	3,679	10.6%	10.6%	460	20.6%	20.6%	1,202	17.6%	17.6%	548	12.1%	12.1%	132	n/a	n/a	6,021	14.0%	14.0%
Employee costs	2,529	2,877	(0.2)%	(0.2)%	405	8.8%	8.8%	1,164	6.7%	6.7%	301	8.2%	8.2%	215	n/a	n/a	4,962	3.1%	3.1%
Supplier costs	4,497	5,110	2.0%	(0.7)%	854	5.9%	11.9%	2,392	10.5%	10.6%	1,116	3.3%	1.5%	(345)	n/a	n/a	9,127	5.1%	3.8%
EBITDA	3,027	3,440	(2.1)%	1.8%	406	(9.6)%	(17.3)%	887	(0.5)%	(0.9)%	490	0.0%	4.0%	173	n/a	n/a	5,396	(1.6)%	0.4%
Ownership costs	1,106	1,258	3.7%	8.5%	130	(5.5)%	(30.1)%	390	8.8%	(14.8)%	250	10.6%	(7.7)%	83	n/a	n/a	2,111	5.8%	(1.5)%
Operating profit before exceptional items	1,921	2,182	(5.1)%	(1.6)%	276	(11.4)%	(9.5)%	497	(6.7)%	13.8%	240	(9.3)%	19.7%	90	n/a	n/a	3,285	(5.7)%	1.7%
Exceptional items	(583)	(672)	nm	nm	-	-	-	-	-	-	-	-	-	-	-	-	(672)	nm	nm
Operating profit after exceptional items	1,338	1,510	(43.0)%	**(**43.1)%	**276**	(11.4)%	(9.5)%	**497**	(6.7)%	13.8%	**240**	(9.3)%	19.7%	90	n/a	n/a	2,613	(33.6)%	(29.0)%
*Operating margin**	14.5%	-	(1.1)pts	(0.6)pts	13.0%	(2.5)pts	(2.2)pts	8.8%	(1.5)pts	0.4pts	9.8%	(1.5)pts	1.4pts	n/a	n/a	n/a	12.9%	(1.5) pts	(0.4) pts
Pence/€ cents																			
Passenger yield per RPK	7.65	-	0.6%	0.6%	8.32	0.8%	0.8%	6.33	(2.3)%	(2.3)%	7.30	0.7%	0.7%	n/a	n/a	n/a	7.86	(0.6)%	(0.6)%
Passenger revenue per ASK	6.39	-	2.0%	2.0%	6.81	1.8%	1.8%	5.52	(0.3)%	(0.3)%	6.34	2.4%	2.4%	n/a	n/a	n/a	6.65	1.0%	1.0%
Total revenue per ASK	7.14	-	1.6%	1.6%	7.02	1.5%	1.5%	7.69	1.5%	1.5%	6.39	2.3%	2.3%	n/a	n/a	n/a	7.55	1.1%	1.1
Fuel cost per ASK	1.74	**-**	9.6%	9.6%	1.52	15.6%	15.6%	1.64	9.3%	9.3%	1.43	9.2%	9.2%	n/a	n/a	n/a	1.78	(9.6)%	(9.6)%
Non–fuel costs per ASK	4.37	-	0.6%	(0.3)%	4.59	1.2%	0.8%	5.38	1.4%	(1.2)%	4.34	2.5%	(1.5)%	n/a	n/a	n/a	4.8	(0.6)%	1.1
Total cost per ASK	6.11	-	3.0%	2.3%	6.11	4.5%	4.2%	7.02	3.2%	1.1%	5.76	4.1%	0.9%	n/a	n/a	n/a	6.58	(2.9)%	(1.6)%

1 Results for operating companies are presented before eliminations related to inter-segment transactions required for Group consolidation.

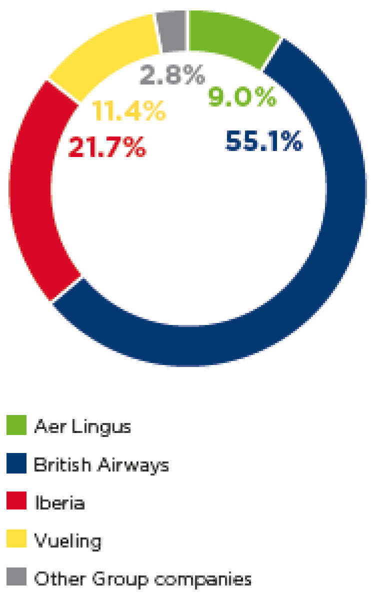
2 Other Group Companies includes eliminations related to inter-segment transactions within the Group as well as IAG Loyalty and other Platform and Head Office entities.

3 Compared to adjusted results for 2018, which are the Group's restated 2018 results with an adjustment to reflect the estimated impact of IFRS 16 from 1 January 2018. See "—Basis of presentation."

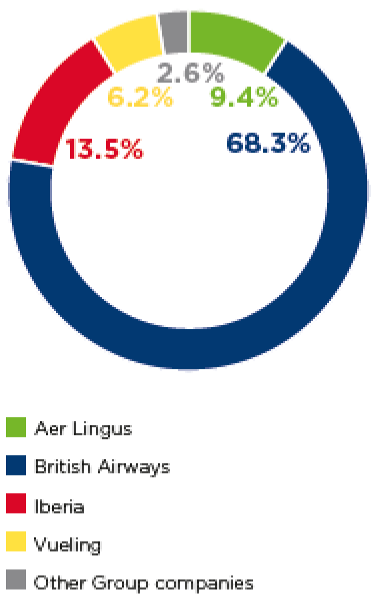
4 Compared to the restated 2018 results. 2018 results have been restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. See "—Basis of presentation".

(G) Financial performance by Brand

Capacity (measured in ASKs) (for the year ended 31 December 2019)



Operating profit before exceptionals (for the year ended 31 December 2019)



The narrative below is based on the restated results for the financial year ended 31 December 2018.

British Airways

British Airways' operating profit was £1,921 million (€2,182 million), excluding exceptional items, down £104 million (€106 million) over the prior year on a capacity increase of 0.9% and achieving an operating margin* of 14.5% (compared to 15.6% in 2018, as adjusted to reflect the estimated impact of IFRS 16).

Passenger unit revenues were up for the year, with higher yields, from strong performance in the North American premium sector (First, Club World and Premium Economy cabins), and an increase in load factor.

Non-fuel unit costs were up for the year, due to the growth of BA Holidays. Excluding the impact of BA Holidays, non-fuel unit costs decreased, driven by management initiatives and supplier compensation partly offset by customer investment and contractual price increases.

British Airways' supplier unit costs at ccy* were up due to investment in customer (catering and lounges), incremental BA Holidays costs (impacting handling, catering and other operating costs) and inflation, partially offset by one-off compensation received in relation to an IT failure in 2017, aircraft delivery delays and engine issues and from cost saving initiatives.

Iberia

Iberia's operating profit before exceptional items was €497 million, down by €36 million versus 2018, achieving an operating margin* of 8.8% (compared to 10.3% in 2018, as adjusted to reflect the estimated impact of IFRS 16). Capacity for 2019 was up 7.6%, with a slight reduction in passenger unit revenue from lower yields partially offset by higher passenger load factor.

Iberia's total unit cost performance was up but improved at constant currency. Higher costs were mainly from CPI related price increases and higher maintenance works performed by Iberia's third-party MRO business, as well as higher fuel costs. This was partially offset by decreases in selling costs from direct channel growth and other marketing cost saving initiatives.

Employee unit costs continued to improve, with strong increases in productivity through efficiency initiatives.

Iberia supplier unit costs at ccy* were up from increased Engineering and other aircraft costs related to its third-party MRO business, with a corresponding increase in other revenue, partially offset by lower selling costs due to direct channel growth and continued cost saving initiatives.

In 2019, Iberia's Other revenue also increased by 16.2%, primarily from its MRO business.

Vueling

Vueling's operating profit was €240 million, a decrease of €24 million (as compared to adjusted results for 2018). Its operating margin* of 9.8% was 1.5 points down versus 2018.

Vueling adjusted its capacity to offset demand slowdown, however the impact of incidents in Barcelona and strikes impacted revenues. A new disruption protection plan was put in place, contributing to higher costs but offset by Vueling's action plan to identify saving opportunities to cope with demand slowdown. Further cost increases came from a higher fuel bill and inflation-linked price increases in supplier costs.

Vueling invested in an Air Traffic Control protection plan to safeguard its operations from the impact of future disruption in line with its NEXT strategy and in order to reduce possible future disruption related costs, such as compensation, and impact to revenues.

Aer Lingus

Aer Lingus' operating profit was €276 million, a decrease of €35 million over 2018. Capacity increased 4.2% from the addition of a new route connecting Dublin and Minneapolis and increases in capacity to San Francisco, Seattle and Philadelphia.

Aer Lingus' operating margin* was 2.5 points lower than 2018 at 13.0%. Passenger unit revenues were up, with strong longhaul performance and positive retail performance, despite challenging European market conditions.

Aer Lingus supplier unit costs at ccy* were up from increased maintenance and handling costs, partially offset by continued cost saving initiatives and efficient growth.

Aer Lingus non-fuel unit costs were up, primarily driven by increased maintenance and handling costs as well as pay inflation increases, partially offset by continued cost saving initiatives and efficient growth. Fuel unit costs were up versus 2018, reflecting higher market fuel prices, with favourable hedge positions having unwound during the year.

(H) *Exceptional items*

For a full list of exceptional items, refer to note 4 of the financial statements for the year ended 31 December 2019. Below is a summary of the significant exceptional items recorded in 2018 and 2019.

Following British Airways reaching a settlement agreement with the Trustee Directors of its APS pension scheme, the Group recognised an exceptional non-cash net operating charge of €672 million in the year to 31 December 2019, reflecting the associated increased IAS 19 defined benefit liability of APS. The settlement, approved by the High Court in November 2019, puts an end to a legal dispute over pension increases, which started in 2013.

In 2018 British Airways closed its NAPS pension scheme to future accrual and its BARP pension scheme to future contributions, replacing them with a new defined contribution scheme. The changes led to an exceptional net credit of €678 million. British Airways also reflected the cost of equalising the effects of Guaranteed Minimum Pensions, leading to €94 million charge to employee costs and had restructuring costs of €136 million.

(I) *Non-operating costs and taxation*

Net non-operating costs after exceptional items were €338 million in 2019, down from €521 million in 2018. The translation of non-hedged balance sheet items and movement on US dollar denominated aircraft debt and hedging resulted in a net credit. This was partially offset by higher finance costs due to accelerated bond redemption and interest accrued on bonds issued in 2019.

See note 8 in the audited consolidated financial statements for the year ended 31 December 2019 for more on non-operating costs.

(J) *Taxation*

The substantial majority of the Group's activities are taxed where the main operations are based, UK, Spain and Ireland, with corporation tax rates during 2019 of 19%, 25% and 12.5% respectively. The Group's effective tax rate for 2019 before exceptional items was 19% (2018: 18%) and the income statement tax charge was €560 million (2018: €542 million).

There is no associated Income statement tax credit linked to the 2019 exceptional item, as the value of the accounting surplus is net of 35% tax at source.

See note 9 in the audited consolidated financial statements for the year ended 31 December 2019 for more information on tax.

(K) *Profit after tax and Earnings per share (EPS)*

Profit after tax before exceptional items* was €2,387 million in 2019, down 3.8% (restated 2018: €2,481 million), and down 1.4% after adjusting 2018 costs to reflect the impact of IFRS 16 (Leases) described above. The decrease reflects a lower operating profit from the effect of the pilot strike at British Airways and from significantly higher fuel costs, partially offset by continued cost saving initiatives and capacity adjustments in the face of slower demand. Adjusted earnings per share before exceptional items* is a key performance indicator and decreased by 0.8% in 2019 to 116.8 cents per share (2018 restated: 117.7 cents per share), with an increase of 1.7% after adjusting for 2018 costs to reflect the impact of IFRS 16 (Leases) described above, reflecting the lower operating profit, offset by a lower share base, following the share buyback programme in 2018 and convertible bond redemption in 2019.

Profit after tax and exceptional items was €1,715 million (2018 adjusted: €2,838 million, 2018 restated: €2,897 million), down 39.6% as compared to 2018 (adjusted), due to the exceptional pension charge in 2019 versus an exceptional net gain in 2018.

See note 10 of the audited consolidated financial statements for the year ended 31 December 2019 for more information on EPS.

3. LIQUIDITY AND CAPITAL RESOURCES

3.1 Overview

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 to reduce the cost of capital and to provide sustainable returns to shareholders. In November 2018, S&P and Moody's assigned IAG with a long-term investment grade credit rating with stable outlook. In May 2020, S&P and Moody's downgraded the Company to BB and Ba1, respectively, and in September 2020, Moody's further downgraded the Company to Ba2. On both occasions, the rating agencies cited reductions in capacity due to the COVID-19 pandemic.

As at 30 June 2020, the Group had total cash liquidity of €8.1 billion, comprising of €6.0 billion cash, cash equivalents and interest-bearing deposits and €2.1 billion of undrawn general and committed aircraft finance facilities. This total cash liquidity is equivalent to 32% of the Group's 2019 revenue. This liquidity position is slightly lower than the Group's €8.6 billion cash liquidity (approximately 34% of 2019 annual revenue) as of 31 December 2019, but is before the approximately €380 million sale and leaseback of 5 aircraft completed in July and receipt of the approximately £750 million (€830 million) extension of the worldwide commercial partnership with American Express.

The Group monitors capital using net debt to EBITDA*. Net debt is defined as long-term borrowings (both current and non-current and including lease liabilities), less cash, cash equivalents and other current interest-bearing deposits. EBITDA is defined as operating result before exceptional items, interest, taxation, depreciation, amortisation and impairment.

As at 30 June 2020, (and based in each case on the preceding 12 month period) the Group's leverage (net debt to EBITDA) was 4.2x, compared to 1.4x as at 31 December 2019, reflecting both the reduction in EBITDA generated in the period as a result of reduced passenger demand and the increase in financial debt raised to strengthen the Group's liquidity position.

As at 30 June 2020, the Group was in compliance with all financial covenants contained in its facility agreements.

3.2 Financing Activities

As of 30 June 2020 and 31 December 2019, the Group's long-term borrowing comprised the following:

Current

€ million	**30 June 2020**	**31 December 2019**	**31 December 2018**
Bank and other loans	1,113	75	153
Asset financed liabilities	103	74	–
Lease liabilities (2018: Finance lease obligations)	1,604	1,694	723
Interest-bearing long-term borrowings	2,820	1,843	876

Non-current

€ million	**30 June 2020**	**31 December 2019**	**31 December 2018**
Bank and other loans	2,901	1,879	1,428
Asset financed liabilities	1,771	1,180	–
Lease liabilities (2018: Finance lease obligations)	8,987	9,352	5,205
Interest-bearing long-term borrowings	13,659	12,411	6,633

Banks and other loans are repayable up to the year 2028. Bank and other loans of the Group amounted to €1,367 million (31 December 2019: €266 million, 31 December 2018: €354 million) are secured on fleet assets with a net book value of €1,557 million (31 December 2019: €325 million, 31 December 2018: €467 million).

Asset financing liabilities are all secured on the associated aircraft or property, plant and equipment.

While the Group believes that there is currently no risk of the Group defaulting on its debt obligations, a failure by the Group to meet its debt servicing obligations and fixed costs in the future, could lead to an acceleration of indebtedness and further downgrade of its credit ratings, which could trigger additional cross defaults under indebtedness in certain of the Group's other financing arrangements. See "*1.4 – The Group's cash obligations, leverage and associated inability to access new financing could have adverse effects on the Group's business, financial condition, results of operations and prospects*" in Part I (*Risk Factors).*

Total long-term borrowings

€ million	**30 June 2020**	**31 December 2019**	**31 December 2018**
Current portion of Interest-bearing long-term borrowings	2,820	1,843	876
Non-current portion of Interest-bearing long-term borrowings	13,659	12,411	6,633
Interest-bearing long-term borrowings	16,479	14,254	7,509

Bank and other loans

€ million	**30 June 2020**	**31 December 2019**	**31 December 2018**
Floating rate ICO guaranteed loan[1]	998	–	–
Floating rate US dollar mortgage loans secured on aircraft[2]	701	–	–
€500 million fixed rate 1.50% bond 2027[3]	500	496	–
€500 million fixed rate 0.50% bond 2023[3]	498	497	–
€500 million fixed rate 0.625% convertible bond 2022[4]	475	470	460
CCFF pound sterling commercial paper[5]	330	–	–
Floating rate euro mortgage loans secured on aircraft[6]	214	226	252
€200 million fixed rate unsecured bonds[7]	134	136	175
Fixed rate unsecured US dollar mortgage loan[8]	114	71	43
Fixed rate Chinese yuan mortgage loans secured on aircraft[9]	32	40	53
Fixed rate unsecured euro loans with the Spanish State (Department of Industry)[10]	18	18	13
€500 million fixed rate 0.25% convertible bond 2020[11]	–	–	482
Floating rate euro syndicate loan secured on investments[12]	–	–	99
Floating rate pound sterling mortgage loans secured on aircraft[13]	–	–	4
	4,014	1,954	1,581
Less current instalments due on bank and other loans	(1,113)	(75)	(153)
	2,901	1,879	1,428

1 On 30 April 2020, Iberia and Vueling entered into floating rate syndicated financing agreements of €750 million and €260 million respectively. The loans are repayable between 2023 and 2025.The ICO in Spain guarantees 70% of the value of loans. The loans contain a number of non-financial covenants to protect the position of the banks involved, including restrictions on the upstreaming of cash to the rest of the IAG companies. For further details regarding the terms of the loans, please see section 10.6 (*ICO Facility for Iberia and Vueling*) of Part XI (*Additional Information*).

2 On 19 May 2020, British Airways entered into a floating rate syndicated mortgage loan of €667 million ($750 million) secured on specific aircraft, maturing in May 2021. At 30 June, 2020 this loan had been fully drawn and hence the aircraft collateral available for the British Airways RCF (as defined below) was reduced. On 10 June 2020, Iberia entered into a floating rate mortgage loan of €203 million ($228 million) secured on specific aircraft, maturing in June 2021. As at 30 June, 2020, €167 million ($189 million) remained undrawn.

3 In July 2019, the Group issued two tranches of senior unsecured bonds for an aggregate principal amount of €1 billion, €500 million due July 4, 2023 and €500 million due July 4, 2027. The bonds bear a fixed rate of interest of 0.5% and 1.5% per annum annually payable in arrears, respectively. The bonds were issued at 99.417% and 98.803% of their principal amount, respectively, and, unless previously redeemed or purchased and cancelled, will be redeemed at 100% of their principal amount on their respective maturity dates.

4 Senior unsecured bond convertible into ordinary shares of IAG was issued by the Group in November 2015; €500 million fixed rate 0.625% raising net proceeds of €494 million and due in 2022. The Group holds an option to redeem the convertible bond at its principal amount, together with accrued interest, no earlier than two years prior to the final maturity date.
5 On 12 April 2020, British Airways availed itself of the Coronavirus Corporate Finance Facility (CCFF) implemented by the Government of the United Kingdom. Under the CCFF, British Airways issued commercial paper to the government of the United Kingdom of £300 million (€ 332 million). This loan is repayable in April 2021 for a principal value of £300 million. For further details regarding the terms of the commercial paper programme, please see section 10.7 (*CCFF CP Programme*) of Part XI (*Additional Information*).
6 Floating rate euro mortgage loans are secured on specific aircraft assets of the Group and bear interest of between 1.09 and 1.11%. The loans are repayable between 2024 and 2027.
7 Total of €200 million fixed rate unsecured bonds between 3.5 to 3.75% coupon repayable between 2022 and 2027.
8 Fixed rate unsecured US dollar mortgage loans bearing interest between 1.38 to 2.86%. The loans are repayable from 2023 to 2026.
9 Fixed rate Chinese yuan mortgage loans are secured on specific aircraft assets of the Group and bear interest of 5.20%. The loans are repayable in 2022.
10 Fixed rate unsecured euro loans with the Spanish State (Department of Industry) bear interest of between nil and 5.68% and are repayable between 2020 and 2028.
11 Senior unsecured bond convertible into ordinary shares of IAG issued in November 2015; €500 million fixed rate 0.25% raising net proceeds of €494 million and due in 2020. The Group held an option to redeem the bond at its principal amount, together with accrued interest, no earlier than two years prior to the final maturity date. The Group exercised its option to early redeem the bond in July 2019 with no conversion to ordinary shares.
12 Floating rate euro syndicate loan secured on specific investment assets of the Group and bore interest of 1.375% above 3 month EURIBOR. The loan was repaid in 2019.
13 Floating rate pound sterling mortgage loans were secured on specific aircraft assets of the Group and bore interest of 0.81%. The loans were repaid in 2019.

In addition to the long-term borrowings described in the table above, on 30 March 2020, British Airways extended its US dollar secured Revolving Credit Facility (“RCF”) for one year from 23 June 2020 to 23 June 2021. The amount available under the extended facility was €1.23 billion ($1.38 billion) at the time of exercising the extension. As at 30 June 2020, €523 million ($588 million) of the facility remains undrawn and available.

Total loans, asset financed liabilities and lease liabilities

€ million	**30 June 2020**	**2019**	**2018**
Loans			
Bank:			
US dollar	$915	$79	$49
Euro	€1,229	€380	€364
Pound sterling	£298	–	£4
Chinese yuan	CNY 233	CNY 314	CNY 422
	€2,406	€491	€465
Fixed rate bonds:	€1,608	€1,463	€1,116
Euro	€1,608	€1,463	€1,116
Asset financed liabilities			
US dollar	$1,534	$996	–
Euro	€469	€319	–
Japanese Yen	¥4,820	¥4,867	–
	€1,874	€1,254	–
Lease liabilities (2018: finance leases)			
US dollar	$8,199	$8,408	$3,259
Euro	€1,995	€2,142	€2,308
Japanese Yen	¥75,672	¥77,984	¥77,379
Pound sterling	£609	£597	£134
	€10,591	€11,046	€5,928
	€16,479	€14,254	€7,509

3.3 Cash flow and Net Debt

(A) *Cash flow*

€ million	30 June 2020	30 June 2019	Movement	31 December 2019	31 December 2018	Movement
Cash flows from operating activities[1]						
Operating profit after exceptional items	(4,037)	1,095	(5,132)	2,613	3,678	(1,065)
Depreciation, amortisation and impairment	1,845	1,035	810	2,111	1,254	857
Movement in working capital	447	1,579	(1,132)	(70)	(64)	(6)
Increase in trade receivables, prepayments, inventories and other current assets	*1,615*	*(609)*	2,224	*(935)*	*(650)*	(285)
Increase in trade and other payables, deferred revenue on ticket sales and current liabilities	*(1,168)*	*2,188*	(3,356)	*865*	*586*	279
Payments related to restructuring	(87)	(89)	2	(180)	(220)	40
Employer contributions to pension schemes	(182)	(368)	186	(870)	(898)	28
Pension scheme service costs	3	3	0	5	55	(50)
Provision and other non-cash movements	352	165	187	951	(114)	1,065
Unrealised loss on derecognition of fuel and foreign exchange hedges	621	-	621	-	-	-
Interest paid	(263)	(213)	(50)	(481)	(149)	(332)
Interest received	11	19	(8)	42	37	5
Tax paid	(6)	61	(67)	(119)	(343)	224
Net cash flows from operating activities	**(1,296)**	**3,287**	(4,583)	**4,002**	**3,236**	766
Cash flows from investing activities						0
Acquisition of property, plant and equipment ("PPE") and intangible assets	(1,340)	(1,509)	169	(3,465)	(2,802)	(663)
Sale of property, plant and equipment and intangible assets	400	458	(58)	911	574	337
(Increase)/decrease in other current interest-bearing deposits	1,215	(799)	2,014	(103)	924	-1,027
Other investing movements	(1)	(1)	0	(1)	61	(62)
Net cash flows from investing activities	**274**	**(1,851)**	2,125	**(2,658)**	**(1,243)**	-1,415
Cash flows from financing activities						0
Proceeds from long-term borrowings	2,709	441	2,268	2,286	1,078	1,208
Repayment of borrowings	(77)	(68)	(9)	(730)	(275)	(455)
Repayment of lease liabilities (2018 and 2017: repayment of finance leases)	(778)	(823)	45	(1,507)	(824)	(683)
Acquisition of treasury shares	-	-	-	-	(500)	500
Distributions made to holders of perpetual securities	-	-	-	-	(312)	312
Dividend paid	(52)	(52)	0	(1,308)	(577)	(731)
Net cash flows from financing activities	**1,802**	**(502)**	2,304	**(1,259)**	**(1,410)**	151
Net increase in cash and cash equivalents	780	934	(154)	85	583	(498)
Net foreign exchange differences	(146)	33	(179)	140	(38)	178
Cash and cash equivalents at 1 January	4,062	3,837	225	3,837	3,292	545
Cash and cash equivalents at period end	**4,696**	**4,804**	(108)	**4,062**	**3,837**	225
Interest-bearing deposits maturing after more than three months	**1,320**	**3,227**	(1,907)	**2,621**	**2,437**	184
Cash, cash equivalents and other interest-bearing deposits	**6,016**	**8,031**	(2,015)	**6,683**	**6,274**	409

1 The Group adopted IFRS 16 'Leases' for the financial year ended 31 December 2019. IFRS 16 has no cash flow or economic impact on the Group, but does have an impact on the way that expenditure is reported in the income statement, together with how assets and liabilities are reported on the balance sheet and how cash flows are classified in the cash flow statement. See "-Basis of Presentation".

The Group's cash inflow for the first half of 2020 was €780 million and after net foreign exchange differences, the increase in cash net of exchange was €634 million, primarily driven by a decrease in interest bearing deposits of €1,215 million.

- The decrease in net cash flows was driven by the reduction in operating profit, which reduced for the six months by €5,132 million from an operating profit of €1,095 million in the first six months of 2019 to an operating loss of €4,037 million in the first six months of 2020, partly offset by depreciation, amortisation and impairment €810 million higher, leading to a reduction in EBITDA for the first six months of €4,322 million. Working capital inflow of €447 million was €1,132 million worse than prior year driven by lower advance bookings and despite the positive impact from trade receivables driven by higher closing balances in December 2019.

- Total gross capital expenditures of €1,340 million (€169 million lower compared to the prior year) includes €1,165 million of fleet related to 16 aircraft delivered: 5x A350s (two asset financed, one sale and leaseback and two cash), 2x B787s cash (one financed via bridge facility), 3x A321s (two sale and leaseback and one cash financed via bridge facility), 5x A320neos (four cash, one asset financed) and 1x A330-300 asset financed. In addition, the group invested €133 million in intangibles and €42 million in other PPE. The Group also took delivery of 1x A321neo LR as direct lease.

- Proceeds from sale of assets of €400 million include sale and lease back transactions: three A321neos for British Airways (one of the aircraft was delivered in 2019), one A350-900 for Iberia and one A320neo for Vueling, together with other disposal proceeds.
- Proceeds from long-term borrowings of €2,709 million include $750 million (€667 million) drawn against a syndicated loan facility and £298 million (€330 million) (including £2 million fees) for the UK's CCFF commercial paper issue, €1,010 million for ICO-backed loans for Iberia and Vueling and aircraft finance leases including relating three A350-1000 aircraft (one delivered in 2019), one B787 and one A320neo at British Airways and financing for two A330-300 aircraft at Aer Lingus.

The Group's cash inflow for 2019 was €188 million and after net foreign exchange differences, the increase in cash was €409 million compared to 2018. Levered free cash flow* for the period increased by €760 million. This was driven by the impact of ICAG new bonds issued and the early redemption of the 2020 convertible bond (result in a €483 million net inflow), the one off payment in 2018 of British Airways perpetual securities (€300 million) and the positive operating flows driven by tax refunds, offset by higher capital expenditures. The Group anticipates certain tax benefits to continue into future periods, including expected refunds in Spain from operational losses incurred in 2020. The Group has also deferred various taxes incurred in the United Kingdom that it expected for prior periods into 2020.

- Cash flow from operating activities of €4,002 million in 2019 was €766 million higher than in 2018, primarily driven by IFRS 16 restatement resulting in increased depreciation. Excluding IFRS 16 impacts, the movement was driven by the benefit of a one-off tax repayment and a refund to ICAG (€224 million benefit), offset by lower EBITDA (€85 million) and other operating movements (€40 million).
- Acquisition of PPE and intangible assets of €3,465 million in 2019 was €663 million higher than in 2018, and relates to 37 aircraft deliveries from manufactures (19 x A320 Neo, 7x A321 Neo, 4x A350-900, 4x A350-1000, 2x A330-200, 1x A330-300) and includes €540 million of property, equipment and intangible capex. During 2019 there were 8 additional aircraft delivered as direct leases.
- Proceeds from long-term borrowings in 2019 includes €987 million inflow from two issuances of €500 million bonds. The redemption of the 2020 convertible bond (€500 million) is included within the repayments of long-terms borrowings.
- Shareholder returns reflect cash payments for dividends, buyback programmes and special dividends. Shareholder returns were €231 million higher in 2019 than in 2018, and included the payment of the special dividend (€695 million) as well as the withholding tax on December interim dividend (€52 million), 2018 final dividend (€327 million) and 2019 interim dividend net of withholding tax of €234 million.
- Tax cash flows were €224 million lower in 2019 than in 2018 principally reflecting the early receipt in Spain of a refund for a previous tax deposit, and the receipt in the UK of a one-off repayment following the reassessment of Avios' deferred revenue upon adoption of IFRS 15 'Revenue recognition'.
- Pensions and restructuring reflect payments made to the British Airways APS and NAPS pension plan schemes and restructuring payments for British Airways' and Iberia's transformation plans. Deficit payments to the APS plan ceased effective from 1 January 2019, following an out-of-court settlement which put an end to litigation regarding pension increases that had started in 2013. The full triennial valuation for the NAPS plan, based on the position at 31 March 2018, was agreed during the year, with deficit payments set at €532 million per annum, an overfunding protection mechanism and an increased dividend mitigation threshold, whereby, up to September 2022, if British Airways pays dividends in excess of 50% of after-tax profits (previously 35%) additional pension contributions will be made, or a guarantee provided.

The following table presents cash and deposits held by the Group's operating companies as at the dates indicated below:

€ million	30 June 2020	30 June 2019	Higher/ (lower)	31 December 2019	31 December 2018	Higher/ (lower)
British Airways	2,344	3,682	(36.3)%	**3,055**	2,780	9.9%
Iberia	1,272	1,121	13.5%	**1,121**	1,191	(5.8)%
Aer Lingus	499	849	(41.2)%	**580**	891	(34.9)%
Vueling	888	887	0.1%	**820**	564	45.4%
IAG and other Group companies	1,013	1,492	(32.1)%	**1,107**	848	30.5%
Cash and deposits	**6,016**	8,031	(25.1)%	**6,683**	6,274	6.5%

In 2019, the implementation of IFRS 16, whilst not changing cash, altered where certain items appear on the cash flow statement, notably resulting in higher depreciation, higher interest paid and higher repayment of borrowings. On a like-for-like basis, depreciation in 2019 was up approximately €115 million, interest paid unchanged and repayment of borrowings up €471 million, mainly linked to the repayment of the IAG 2020 convertible bond.

(B) Net debt

€ million	30 June 2020	31 December 2019	Higher/ (lower)	31 December 2018 (statutory)	Higher/ (lower)
Debt	**14,254**	**7,509**	6,745	7,331	178
Cash and cash equivalents and interest-bearing deposits	**(6,683)**	**(6,274)**	(409)	(6,676)	402
Net debt at start of period	**7,571**	**1,235**	6,336	655	580
Adoption of IFRS 16 1 January 2019	**-**	**5,195**	-	-	5,195
Net debt at 1 January after adoption of IFRS 16	**7,571**	**6,430**	1,141	655	5,775
(Increase)/decrease in cash net of exchange	**667**	**(409)**	1,076	402	(811)
Net cash outflow from repayments of borrowings and lease liabilities	**(855)**	**(2,237)**	1,382	(1,099)	(1,138)
Net cash inflow from new borrowings	**2,709**	**2,286**	423	1,078	1,208
New leases	**323**	**1,199**	(876)	-	1,199
(Increase)/decrease in net debt from regular financing	**2,177**	**1,248**	929	(21)	1,269
Exchange and other non-cash movements	**48**	**302**	(254)	199	103
Net debt at end of period	**10,463**	**7,571**	2,892	1,235	6,336
Capitalised aircraft for lease costs	**-**	**-**	**-**	7,120	(7,120)
Adjusted net debt at end of period	**10,463**	**7,571**	2,892	8,355	(784)

In the first six months of 2020, the Group's net debt position of €10,463 million increased by €2,892 million from 31 December 2019, mainly due to increased borrowings as a result of the COVID-19 pandemic. The Group's net debt position after the adoption of IFRS 16 increased by €1.1 billion in 2019, from €6,430 million at 1 January 2019 to €7,571 million at the end of the year, mainly due to increased capital expenditure as the Group invested in new fuel-efficient fleet.

3.4 Capital commitments and off-balance sheet financing

Since the date of the last published financial statements, the Company has not made any material investments.

Capital expenditure authorised and contracted for but not provided for in the accounts (committed capital expenditure, which may extend beyond 2022) amounts to €11,306 million as of 30 June 2020 (30 June 2019: €14,126 million).

The majority of capital expenditure commitments are denominated in US dollars, and as such are subject to changes in exchange rates. Committed capital expenditure amounted to €12,830 million in 2019 (2018: €10,831 million) for the Group, and included €12,673 million of commitments until 2025 for 79 aircraft from the Airbus A320 family, 12 Boeing 787s, 22 Boeing 777s, 33 Airbus A350s, and one Airbus A330.

(A) *Reduction* of capital spending, deferrals and reductions of the size of the aircraft fleet

The Group has taken decisive actions to reduce its capital expenditure in 2020 by €1.5 billion from the amount planned at the start of the year (from €4.2 billion to €2.7 billion). Of this saving, €0.3 billion relates to non-fleet expenditure such as property, ground equipment and IT (the planned capital expenditure reduction in IAG Tech does not relate to cyber security-related expenditures). The Group continues to seek opportunities to reduce this expenditure further. Planned capital expenditure over 2020, 2021 and 2022 has been reduced, from an expected €14.2 billion to €7.0 billion (of which €4.4 billion is committed capital expenditure). Planned capital expenditure includes the expected investment in IAG Tech of more than €200 million in each of 2021 and 2022.

Of the €2.7 billion planned capital expenditure for 2020, the Group has entered into financing agreements and commitments for 100% of the approximately €2.4 billion relating to fleet expenditure in 2020, as of the end of June 2020.

As part of its plans for right-sizing its businesses to match expected future demand, the Group has planned and begun to effect adjustments to its network and fleet capacity. The Group has secured deferrals from aircraft manufacturers, reducing the delivery of new aircraft by 68 (from 143 to 75) between 2020 and 2022. There are now 38 aircraft scheduled for delivery in 2020, with 15 to follow in 2021 and 22 in 2022. These deferrals will significantly reduce the Group's planned capital expenditure for 2021 and 2022 to €1.9 billion (of which 80% relates to fleet expenditures) and €2.4 billion (of which 86% relates to fleet expenditures) from €4.3 billion and €5.7 billion, respectively, much of which is expected to be externally financed as aircraft are delivered. The Group continues to liaise with aircraft manufacturers regarding future deliveries.

Overall, the Group maintains flexibility in its fleet plans with the ability to defer, to exercise options and to negotiate different renewal terms. IAG does not have any off-balance sheet financing arrangements.

As well as grounding a large number of aircraft across the IAG Airlines, the Group has also progressed acceleration of the retirement of older, less fuel-efficient, aircraft and returning aircraft on operating leases or as they expire which has, and will, enable the Group to retain flexibility over the size of its fleet, reducing it where it is deemed necessary. In July 2020, British Airways elected to retire its entire fleet of 32 Boeing 747-400s, and Iberia has decided to bring forward the retirement of its entire A340-600 fleet (15 aircraft) to the summer of 2020. Other older aircraft that could also be retired early without significant waste of useful operating life include more than 20 narrow body aircraft operated by various IAG Airlines. In respect of operating leases, the Group has focused on deferring near-term monthly rental payments and has secured deferrals of near-term monthly rental payments. The Group planned to return 20 aircraft to lessors in 2020 and these returns will go ahead. If deemed necessary, the Group could return a further 42 in 2021 and 54 in 2022.

(B) *Capital expenditure funding*

The Group funds its capital expenditure commitments through diversified funding sources including operating leases, finance leases and Enhanced Equipment Trust Certificates ("**EETC**") combined with Japanese Operating Leases with Call Options ("**JOLCO**"). For a further description of the terms of the Group's outstanding EETCs, please see Section 10 (*Material Contracts*) of Part X (*Taxation*). Debt is denominated in US Dollars, Euros, Japanese Yen and Chinese yuan.

In the six months to 30 June 2020, the Group financed seven new aircraft delivered during the first half of the year, using a range of aircraft specific financing instruments. To finance four aircraft, British Airways drew down on the 2019 British Airways EETC bonds combined with JOLCO. Three aircraft were financed via sale and leaseback transactions.

In 2019 the Group financed 41 of the new aircraft delivered during the year, using a range of aircraft-specific financing instruments, including an EETC bond issue by British Airways of $806 million, which were combined with JOLCO as in previous years, bringing the total financing raised to $1,120 million. The Group redeemed outstanding convertible bonds of €500 million and in July 2019 issued its first unsecured bonds for an aggregate principal amount of €1 billion, split into two tranches of €500 million due in 2023 and 2027.

2020 fleet capital expenditure is covered with committed financing with financial institutions providing finance leases and with lessors providing either operating leases or sale and lease back financing. Moreover, the group liquidity was boosted by actions including accessing Spain's ICO facility and the CCFF.

The committed 2021 and 2022 investments are going to be financed through a combination of finance leases, operating leases, sale and lease back, all of which are yet to be contracted, and available group liquidity. The committed financing arrangements will be dependent on market conditions and are likely to be obtained no further than a year from the target delivery date.

4. HEDGING

4.1 Fuel price risk

The Group is exposed to fuel price risk. The Group's fuel price risk management strategy aims to provide protection against sudden and significant increases in fuel prices while ensuring that the Group is not competitively disadvantaged in the event of a substantial fall in the price. The Group Treasury Policies determine the list of approved over the counter (OTC) derivative instruments that can be contracted with approved counterparties.

The Group strategy is to hedge a proportion of fuel consumption up to three years within the approved hedging profile.

The following table demonstrates the sensitivity of financial instruments to a reasonable possible change in fuel prices, with all other variables held constant, on result before tax and equity:

2019			**2018**		
Increase/(decrease) in fuel price%	Effect on result before tax € million	Effect on equity € million	Increase/(decrease) in fuel price%	Effect on result before tax € million	Effect on equity € million
30	**–**	**1,774**	30	–	1,613
(30)	**–**	**(1,824)**	(30)	(3)	(1,695)

During the six months to 30 June 2020, following a substantial fall in the global price of crude oil and associated products, the fair value of such net liability derivative instruments was €2,047 million at 30 June 2020, representing a loss of €1,936 million since 1 January 2020, which was recognised in Other comprehensive income. In addition, with the substantial decline in demand for air travel and the grounding of the majority of the fleet during the second quarter of 2020, a significant proportion of the associated hedge relationships were no longer expected to occur and subsequently fuel hedges were derecognised. As a result of this derecognition, €1,372 million of the losses were reclassified to the Income statement and recognised within Fuel, oil costs and emission costs. The loss arising from the derecognition of fuel hedges has been recorded as an exceptional item.

The determination of the number of hedge relationships to derecognise fuel hedges is a critical judgement and is highly dependent on assumptions regarding the duration of the grounding of the majority of the fleet as well as the period over which the recovery of demand will occur.

4.2 Foreign currency risk

The Group presents its consolidated financial statements in euros, has subsidiaries with functional currencies in euro and pound sterling, and conducts business in a number of different countries. Consequently the Group is exposed to currency risk on revenue, purchases and borrowings that are denominated in a currency other than the functional currency of the entity. The currencies in which these transactions are denominated are primarily euro, US dollar and pound sterling. The Group generates a surplus in most currencies in which it does business. The US dollar is an exception as fuel purchases, maintenance expenses and debt repayments denominated in US dollars typically create a deficit.

The Group has a number of strategies to hedge foreign currency risk. The operational US dollar short position is subject to the same governance structure as the fuel hedging strategy set out above. The Group strategy is to hedge a proportion of up to three years within the approved hedging profile.

Each operating company hedges those of its net balance sheet assets and liabilities that are denominated in US dollars through a rolling hedging programme using a number of derivative instruments to minimise the profit and loss volatility arising from revaluation of these items into its functional currency. British Airways utilises its euro, Japanese yen and Chinese yuan debt repayments as a hedge of future euro, Japanese yen and Chinese yuan revenues.

The following table demonstrates the sensitivity of the Group's principal foreign exchange exposure to a reasonable possible change in the US dollar, pound sterling and Japanese yen exchange rates, with all other variables held constant, on result before tax and equity:

	Strengthening/(weakening) in US dollar rate%	Effect on result before tax € million	Effect on equity € million	Strengthening/(weakening) in pound sterling rate %	Effect on result before tax € million	Effect on equity € million	Strengthening/(weakening) in Japanese yen rate %	Effect on result before tax € million	Effect on equity € million
2019	**10**	**22**	**388**	**10**	**(23)**	**(178)**	**10**	**(1)**	**(58)**
	(10)	**–**	**(365)**	**(10)**	**20**	**171**	**(10)**	**2**	**58**
2018	10	(16)	(9)	10	(40)	262	10	(6)	(54)
	(10)	18	91	(10)	41	(273)	(10)	1	54

At 30 June 2020, the fair value of foreign currency net asset derivatives instruments were €706 million, representing a gain of €597 million, since 1 January 2020, which was recognised in Other comprehensive income. As per the fuel price risk above, a significant proportion of the hedge relationships associated with fuel foreign currency derivatives and revenue foreign currency derivatives were no longer expected to occur and subsequently derecognised. As a result of this derecognition, €103 million of the gains associated with the fuel foreign currency derivatives and €38 million of the losses associated with the revenue foreign currency derivatives were reclassified to the Income statement and recognised within Fuel, oil costs and emission costs and within Passenger revenue, respectively.

4.3 Interest rate risk

The Group is exposed to changes in interest rates on debt and on cash deposits.

Interest rate risk on floating rate debt is managed through interest rate swaps, cross currency swaps and interest rate collars. After taking into account the impact of these derivatives, 88% of the Group's borrowings were at fixed rates and 12% were at floating rates at 31 December 2019. As at 30 June 2020, after taking into account the aforementioned derivatives, 52% of the Group's borrowings were at fixed rates and 48% were at floating rates.

All cash deposits are generally on tenors less than one year. The interest rate is predominantly fixed for the tenor of the deposit.

The following table demonstrates the sensitivity of the Group's interest rate exposure to a reasonable possible change in the US dollar, euro and sterling interest rates, on result before tax and equity:

	Strengthening/(weakening) in US interest rate Basis points	Effect on result before tax € million	Effect on equity € million	Strengthening/(weakening) in euro interest rate Basis points	Effect on result before tax € million	Effect on equity € million	Strengthening/(weakening) in sterling interest rate Basis points	Effect on result before tax € million	Effect on equity € million
2019	50	–	19	50	(2)	16	50	2	–
	(50)	–	(19)	(50)	2	(13)	(50)	(2)	–
2018	50	(1)	20	50	2	16	50	2	–
	(50)	1	(20)	(50)	(2)	(25)	(50)	(2)	–

4.4 Counterparty risk

The Group is exposed to the non-performance by its counterparties in respect of financial assets receivable. The Group has policies and procedures to monitor the risk by assigning limits to each counterparty by underlying exposure and by operating company. The underlying exposures are monitored on a daily basis and the overall exposure limit by counterparty is periodically reviewed by using available market information.

The financial assets recognised in the financial statements, net of impairment losses (if any), represent the Group's maximum exposure to credit risk, without taking account of any guarantees in place or other credit enhancements.

At 31 December 2019 the Group’s credit risk position, allocated by region, in respect of treasury managed cash and derivatives was as follows:

	Mark-to-market of treasury controlled financial instruments allocated by geography	
Region	**2019**	**2018**
United Kingdom	41%	42%
Spain	3%	–
Ireland	3%	3%
Rest of Eurozone	30%	33%
Rest of world	23%	22%

4.5 Liquidity risk

The Group invests cash in interest-bearing accounts, time deposits and money market funds, choosing instruments with appropriate maturities or liquidity to retain sufficient headroom to readily generate cash inflows required to manage liquidity risk. The Group also has committed revolving credit facilities.

At 30 June 2020, the Group had €18 million of general cash overdraft facilities.

At 31 December 2019 the Group had undrawn overdraft facilities of €13 million (2018: €11 million). The Group held undrawn uncommitted money market lines of €0 (2018: €28 million).

At 30 June 2020, the Group held €2.1 billion of undrawn general and committed aircraft facilities:

	30 June 2020	
Million	**Currency**	**€ equivalent**
Euro facilities expiring between September 2020 and April 2021	**€221**	**221**
US dollar facilities expiring between July and November 2023	**$1,251**	**1,112**
US dollar facility expiring June 2021[1]	**$588**	**523**
US dollar aircraft bridge facility expiring June 2021[2]	**$189**	**168**
US dollar secured aircraft facility expiring September 2020[3]	**$50**	**45**
US dollar facility expiring May 2021	**$50**	**45**

1 In March 2020, the Group extended the US dollar secured revolving credit facility for one year from 23 June 2020 to 23 June 2021.

2 This facility relates to the $228 million mortgage loan for Iberia secured on specific aircraft.

3 This undrawn facility relates to the 2019 EETC and was drawn in July 2020. The maturity date of the facility once drawn is 2034.

Key changes to undrawn facilities during the six months to 30 June 2020 were as follows:

- Extension of the $1.38 billion British Airways RCF to June 2021, of which $588 million was available to the Group at 30 June 2020;
- A $228 million secured bridge facility for Iberia, of which $189 million was undrawn at 30 June 2020; and
- Additional Euro and US dollar credit lines.

As at 31 December 2019 and 2018, the Group held the following undrawn general and committed aircraft financing facilities:

	2019	
Million	**Currency**	**€ equivalent**
Euro facilities expiring between February and October 2020	**€129**	**129**
US dollar facility expiring December 2021	**$652**	**587**
US dollar facility expiring June 2020[1]	**$1,330**	**1,196**

In March 2020, the Group extended the US dollar secured revolving credit facility for one year from 23 June 2020 to 23 June 2021

	2018	
Million	**Currency**	**€ equivalent**
Euro facilities expiring between January and June 2020	€131	131
US dollar facility expiring December 2021	$1,164	1,024

US dollar facility expiring June 2022	$1,044	918

The following table analyses the Group's (outflows) and inflows in respect of financial liabilities and derivative financial instruments into relevant maturity groupings based on the remaining period at 30 June 2020 to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and include interest.

€ million	Within 6 months	6-12 months	1-2 years	2-5 years	More than 5 years	**Total 30 June 2020**
Interest-bearing loans and borrowings:						
Asset finance obligations	(71)	(72)	(145)	(462)	(1,442)	**(2,192)**
Lease liabilities	(957)	(930)	(1,714)	(4,391)	(5,867)	**(13,859)**
Fixed rate borrowings	(35)	(398)	(136)	(1,114)	(593)	**(2,276)**
Floating rate borrowings	(45)	(705)	(61)	(1,194)	(54)	**(2,059)**
Trade and other payables	(2,824)	-	-	-	-	**(2,824)**
Derivative financial instruments (assets):						**-**
Aircraft lease hedges	-	-	-	-	-	**-**
Interest rate derivatives	-	-	-	1	-	**1**
Foreign exchange contracts	279	182	280	234	-	**975**
Fuel derivatives	107	5	4	-	-	**116**
Derivative financial instruments (liabilities):						**-**
Aircraft lease hedges	(9)	(9)	(19)	(12)	-	**(49)**
Interest rate derivatives	(39)	(4)	(8)	(13)	(2)	**(66)**
Foreign exchange contracts	(41)	(54)	(40)	(8)	-	**(143)**
Fuel derivatives	(1,073)	(710)	(663)	(80)	-	**(2,526)**
At 30 June 2020	**(4,708)**	**(2,695)**	**(2,502)**	**(7,039)**	**(7,958)**	**(24,902)**

4.6 Offsetting financial assets and liabilities

The Group enters into derivative transactions under ISDA (International Swaps and Derivatives Association) documentation. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding are aggregated into a single net amount that is payable by one party to the other.

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

30 June 2020 **€ million**	**Gross value of financial instruments**	**Financial instruments that are offset under netting agreements**	**Net amounts of financial instruments in the balance sheet**	**Related amounts not offset in the balance sheet**	**Net amount**
Financial assets					
Derivative financial assets	964	123	1,087	(14)	1,073
Financial liabilities					
Derivative financial liabilities	2,563	(123)	2,440	(14)	2,426

31 December 2019 € million	Gross value of financial instruments	Financial instruments that are offset under netting agreements	Net amounts of financial instruments in the balance sheet	Related amounts not offset in the balance sheet	Net amount
Financial assets					
Derivative financial assets	550	42	592	(9)	583
Financial liabilities					
Derivative financial liabilities	580	(42)	538	(9)	529

31 December 2018 € million	Gross value of financial instruments	Financial instruments that are offset under netting agreements	Net amounts of financial instruments in the balance sheet	Related amounts not offset in the balance sheet	Net amount
Financial assets					
Derivative financial assets	363	13	376	(7)	369
Financial liabilities					
Derivative financial liabilities	1,092	(13)	1,079	(7)	1,072

5. ALTERNATIVE PERFORMANCE MEASURES

In addition to the financial information presented herein and prepared under IFRS-EU, the following discussion contains a period-to-period comparison of certain non-IFRS financial measures which the Company regards as non-IFRS alternative performance measures as defined in the guidelines issued by the ESMA Guidelines.

The following APMs are used by the Group.

- Operating margin and profit after tax before exceptional items;
- Basic earnings per share before exceptional items and adjusted earnings per share (the latter APM is a key performance indicator for the Group);
- Airline non-fuel unit costs;
- Levered free cash flow (this APM is a key performance indicator for the Group);
- Net debt to EBITDA (this APM is a key performance indicator for the Group);
- Return on invested capital ("**RoIC**"); and
- Results on a constant currency (ccy) basis.

See section 5.1 (*Reconciliation of Alternative Performance Measures*) below for definitions of these measures and a discussion of how they are used by the Group to monitor its performance.

These APMs are derived from the Group's consolidated income statements, consolidated balance sheet statements of financial position, consolidated statements of cash flows or its accounting records. The Company believes that the presentation of the APMs included herein complies with the ESMA Guidelines and with the indications and clarifications included in its "Q&A on Alternative Performance Measures Guidelines" published in October 2017.

The Group has presented these APMs, which are audited with respect to the APMs derived from the 2018 Annual Financial Statements and 2019 Annual Financial Statements and unaudited with respect to the APMs derived from the Half-yearly Financial Statements of those years, as supplemental information because they are used by the Group's management in making financial, operational and planning decisions, and they provide useful financial information that should be considered in addition to the financial statements prepared in accordance with the applicable accounting regulations (IFRS-EU), in assessing the Group's performance. In addition, the Group believes that the APMs presented herein may contribute to a better understanding of its results of operations by providing additional information on what the Group considers to be some of the drivers of its financial performance, and because these APMs are in line with the main indicators used by the majority of the community of analysts and investors in capital markets.

APMs are not defined under, and have not been prepared in accordance with, IFRS-EU. APMs should not be considered in isolation and investors should not consider such information as alternatives to revenue, profit before tax or cash flows from operations calculated in accordance with IFRS, as indications of operating performance or as measures of the Group's profitability or liquidity. Such financial information must be considered only in addition to, and not as a substitute for or superior to, financial information prepared in accordance with IFRS-EU included elsewhere in this Part VII and in the Prospectus.

Investors are cautioned not to place undue reliance on these APMs and are also advised to review them in conjunction with the 2018 Annual Financial Statements, the 2019 Annual Financial Statements and the Half-yearly Financial Statements of those years each incorporated by reference as set out in section 21 (*Documents incorporated by reference*) of Part XI (*Additional information*), as they may be presented on a different basis to these statements. Reconciliations for these APMs to the nearest available IFRS measures, where relevant, are contained in Section 5.1 (*Reconciliation of Alternative Performance Measures*) below. In addition, the APMs presented may differ significantly from information reported by other companies in the airline industry under similar or analogous titles, and may not always be comparable with them. The definition and determination of the APMs herein included and their calculation has been validated (and audited, with respect to the APMs derived from the 2018 Annual Financial Statements and 2019 Annual Financial Statements) by EY.

5.1 Reconciliation of Alternative Performance Measures

(A) IFRS 16 adjusted financial information

The Group elected to apply the modified retrospective approach on transition to IFRS 16 to reduce complexity on transition arising from the volume and nature of the leases held by the Group. The modified transition approach does not allow restatement of comparatives. To aid users of the financial statements, the Group has provided adjusted information for 2018 to provide a consistent basis for comparison with 2019 results.

The Group's restated 2018 results reflect the reclassification of the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to a handling, catering and other operating expense. See Section 2.1 (*Basis of presentation*) for further details.

Adjusted results for 2018 are the Group's restated statutory results with an adjustment to reflect the estimated impact of IFRS 16 as if it had applied from 1 January 2018, and have been prepared using the same assumptions used for the IFRS 16 transition adjustment at 1 January 2019 (set out in note 33) adjusted for any new aircraft leases entered into during 2018 and using the incremental borrowing rates at 1 January 2019. The IFRS 16 adjustments for aircraft lease liabilities are based on US dollar exchange rates at the transition date. There is no adjustment to the 2019 financial information.

The following table provides a reconciliation from the reported Consolidated income statement to the adjusted financial information for 2018.

Consolidated income statement 2018 € million	**2018 Before exceptional items**	**Exceptional items**	**2018 Reported**	**Adjustment**	**Restated 2018**	**IFRS 16 Adjustment**	**2018 Adjusted**
Passenger revenue	21,549		21,549	(148)	21,401		21,401
Cargo revenue	1,173		1,173		1,173		1,173
Other revenue	1,684		1,684		1,684		1,684
Total revenue	24,406		24,406	(148)	24,258		24,258
Employee costs	4,812	(460)	4,352		4,352		4,352
Fuel, oil costs and emissions charges	5,283		5,283		5,283		5,283
Handling, catering and other operating costs	2,888		2,888	(148)	2,740	(7)	2,733
Landing fees and en-route charges	2,184		2,184		2,184		2,184
Engineering and other aircraft costs	1,828		1,828		1,828	29	1,857
Property, IT and other costs	918	12	930		930	(129)	801
Selling costs	1,046		1,046		1,046		1,046
Depreciation, amortisation and impairment	1,254		1,254		1,254	742	1,996
Aircraft operating lease costs	890		890		890	(890)	–
Currency differences	73		73		73		73
Total expenditure on operations	21,176	(448)	20,728	(148)	20,580	(255)	20,325
Operating profit	3,230	448	3,678	–	3,678	255	3,933
Net finance costs	(182)		(182)		(182)	(330)	(512)
Other non-operating charges	(9)		(9)		(9)		(9)
Profit before tax	3,039	448	3,487	-	3,487	(75)	3,412
Tax	(558)	(32)	(590)		(590)	16	(574)
Profit after tax	2,481	416	2,897	-	2,897	(59)	2,838
Attributable to:							
Equity holders of the parent	2,469	416	2,885		2,885	(59)	2,826
Non-controlling interest	12		12		12		12
	2,481	416	2,897	–	2,897	(59)	2,838

(B) Operating margin and profit after tax before exceptional items

Operating margin is the Group (or airline) operating result before exceptional items as a percentage of revenue. The Group uses this indicator to measure the efficiency and profitability of its business and improvement in the financial performance of the Group and its airline brands.

	British Airways				**Aer Lingus € million**		**Iberia € million**		**Vueling € million**		**Group € million**	
	2019 £ million	**2018 (restated)[1]**	**2019 € million**	**2018 (restated)[1]**	**2019**	**2018 (restated)[1]**	**2019**	**2018 (restated)[1]**	**2019**	**2018 (restated)[1]**	**2019**	**2018 (restated)[1]**

		£ million		€ million								
Total Revenue	13,290	12,965	15,106	14,673	2,125	2,009	5,645	5,171	2,455	2,338	25,506	24,258
Operating profit/(loss) before exceptional items	1,921	1,952	2,182	2,207	276	305	497	437	240	200	3,285	3,230
Operating Margin	**14.5%**	**15.1%**	**14.5%**	**15.1%**	**13.0%**	**15.2%**	**8.8%**	**8.4%**	**9.8%**	**8.4%**	**12.9%**	**13.3%**

1 The 2018 results have been restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. See "—Basis of presentation".

	British Airways				**Aer Lingus**		**Iberia**		**Vueling**		**Group**	
					€ million		**€ million**		**€ million**		**€ million**	
						Six months to 30 June						
	2020	**2019[1]**	**2020**	**2019[1]**	**2020**	**2019[1]**	**2020**	**2019[1]**	**2020**	**2019[1]**	**2020**	**2019[1]**
	£ million	**£ million**	**€ million**	**€ million**								
Total Revenue	2,773	6,424	3,255	7,334	377	968	1,373	2,629	313	1060	5,326	12,026
Operating profit/(loss) before exceptional items	(966)	761	(1,094)	873	(189)	78	(359)	109	(268)	5	(1,900)	1,095
Operating Margin	(34.9)%	11.9%	(34.9)%	11.9%	(50.0)%	**8.0%**	(26.1)%	**4.2%**	(85.7)%	**0.5%**	(35.7)%	**9.1%**

1 The 2019 results have been restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. See "—Basis of presentation".

Profit/(loss) after tax before exceptional items

€ million	**30 June 2020**	**30 June 2019**	**31 December 2019**	**31 December 2018 Reported**	**31 December 2018 Adjusted[1]**
Profit/(loss) after tax	(3,806)	806	1,715	2,897	2,838
Exceptional items	1,841	-	672	(416)	(416)
Profit/(loss) after tax before exceptional items	(1,965)	806	2,387	2,481	2,422

1 Adjusted results for 2018 are the Group's restated 2018 results with an adjustment to reflect the estimated impact of IFRS 16 from 1 January 2018. See "—IFRS 16 adjusted financial information."

Exceptional items are those that in management's view need to be separately disclosed by virtue of their size or incidence. In identifying and quantifying adjusting items, the Group consistently applies a policy that defines criteria that are required to be met for an item to be classified as exceptional.

Management believes that these additional measures are useful as they exclude the impact of exceptional items in profit from operations, which have less bearing on the routine operating activities of the Group, thereby enhancing users' understanding of underlying business performance.

The details of these exceptional items are given in Note 4 to the Group's audited consolidated financial statements for the year ended 31 December 2019 and Note 3 to the 2020 Half-Year Financial Statements, and on the face of the consolidated income statement.

(C) Basic earnings per share before exceptional items and adjusted earnings per share (KPI)

Earnings per share are based on results before exceptional items after tax and adjusted for earnings attributable to equity holders and interest on convertible bonds, divided by the weighted average number of ordinary shares, adjusted for the dilutive impact of the assumed conversion of the bonds and employee share schemes outstanding.

Management believes that these additional measures are useful as they exclude the impact of exceptional items, which have less bearing on the routine operating activities of the Group, thereby enhancing users' understanding of the underlying profitability of the business and reflecting the core elements of value creation for the Group's shareholders.

€ million	30 June 2020	30 June 2019	31 December 2019	31 December 2018 Reported	31 December 2018 Adjusted[1]
Earnings attributable to equity holders of the parent	(3,806)	806	1,715	2,885	2,826
Exceptional items	1,841	-	672	(416)	(416)
Earnings attributable to equity holders of the parent before exceptional items	(1,965)	806	2,387	2,469	2,410
Interest expense on convertible bonds[2]	-	9	26	18	18
Adjusted earnings	(1,965)	815	2,413	2,487	2,428
Weighted average number of shares used for basic earnings per share	1,986	1,984	1,984	2,022	2,022
Weighted average number of shares used for diluted earnings per share	1,986	2,080	2,066	2,113	2,113
Adjusted earnings per share (€ cents)	(99.0)	39.2	116.8	117.7	114.9
Basic earnings per share before exceptional items (€ cents)	(99.0)	40.6	120.3	122.1	119.2

1 Adjusted results for 2018 are the Group's restated 2018 results with an adjustment to reflect the estimated impact of IFRS 16 from 1 January 2018. See "—IFRS 16 adjusted financial information."

2 The effect of the assumed conversion of the IAG €500 million convertible bond 2022 is antidilutive for the six months to 30 June 2020, and therefore has not been included in the diluted earnings per share calculation.

(D) Airline non-fuel unit costs

The Group monitors airline unit costs (per ASK, a standard airline measure of capacity) as a means of tracking operating efficiency of the core airline businesses. As fuel costs can vary with commodity prices, the Group monitors fuel and non-fuel costs individually. Within non-fuel costs are the costs associated with generating other revenue, which typically do not represent the costs of transporting passengers or cargo and instead represent the costs of handling and maintenance for other airlines, non-flight products in BA Holidays and costs associated with other miscellaneous non-flight revenue streams. Airline non-fuel costs per ASK is defined as total operating expenditure before exceptional items, less fuel, oil costs and emission charges and less non-flight specific costs divided by total available seat kilometres (ASKs), and is shown on a constant currency basis.

Unit measures have been rendered much less meaningful than usual by the significant reduction in capacity operated, particularly in the second quarter of 2020, however unit measures for the six months to 30 June 2020 have been included in this Part VIII for completeness.

The comparative information for 2018 has been presented on an adjusted basis due to the Group adopting IFRS 16 from 1 January 2019. See "– IFRS 16 adjusted financial information" above for further information.

€ million	30 June 2020 Reported	ccy adjustment	30 June 2020 ccy	30 June 2019 Reported
Total operating expenditure before exceptionals	**7,226**	**(227)**	**6,999**	10,931
Less: Fuel, oil costs and emission charges	**(1,313)**	**51**	**(1,262)**	(2,936)
Non-fuel costs	**5,913**		**5,737**	7,995
Less: Non-flight specific costs	**(482)**	**18**	**(464)**	(761)
Airline non-fuel costs	**5,431**		**5,273**	7,234

Available seat kilometres (ASK million)	**71,625**		**71,625**	163,431
Airline non-fuel unit costs (€ cents)	**7.58**		**7.36**	4.43

€ million	**31 December 2019 Reported**	**ccy adjustment**	**31 December 2019 ccy**	**31 December 2018 Adjusted[1]**
Total operating expenditure before exceptionals	**22,221**	**(325)**	**21,896**	20,773
Less: Fuel, oil costs and emission charges	**6,021**	**(212)**	**5,809**	5,283
Non-fuel costs	**16,200**	**(113)**	**16,087**	15,490
Less: Non-flight specific costs	**1,654**	**(40)**	**1,614**	1,450
Airline non-fuel costs	**14,546**		**14,473**	14,040
Available seat kilometres (ASK million)	**337,754**		**337,754**	324,808
Airline non-fuel unit costs (€ cents)	**4.31**		**4.29**	4.32

1 Adjusted results for 2018 are the Group's restated 2018 results with an adjustment to reflect the estimated impact of IFRS 16 from 1 January 2018. See "—IFRS 16 adjusted financial information."

(E) Levered free cash flow

Levered free cash flow represents the cash generating ability of the underlying businesses before shareholder returns and is defined as the net increase in cash and cash equivalents taken from the Cash flow statement, adjusting for movements in Other current interest-bearing deposits and adding back the cash outflows associated with dividends paid and the acquisition of treasury shares. The Group believes that this measure is useful to the users of the financial statements in understanding the underlying cash generating ability of the Group that is available to return to shareholders, to improve leverage and/or to undertake inorganic growth opportunities.

€ million	**30 June 2020**	**30 June 2019**	**31 December 2019**	**31 December 2018**
Net Increase in cash and cash equivalents	**780**	934	**85**	583
Add / less: Increase/(decrease) in other current interest-bearing deposits	**(1,215)**	799	**103**	(924)
Add: Acquisition of treasury shares			**–**	500
Add: Dividends paid	**52**	52	**1,308**	577
Levered free cash flow	**(383)**	1,785	**1,496**	736

(F) Return on invested capital

The Group monitors return on invested capital (RoIC) as it gives an indication of the Group's capital efficiency relative to the capital invested as well as the ability to fund growth and to pay dividends. In 2019 RoIC is defined as EBITDA, less fleet depreciation adjusted for inflation, depreciation of other property, plant and equipment, and amortisation of software intangibles, divided by average invested capital and is expressed as a percentage.

Invested capital is defined as the average of property, plant and equipment and software intangible assets between the opening and closing net book values. The fleet aspect of property, plant and equipment is inflated over the average age of the fleet to approximate the replacement cost of the associated assets.

€ million	31 December 2019
EBITDA	5,396
Less: Fleet depreciation multiplied by inflation adjustment	(2,040)
Less: Other property, plant and equipment depreciation	(259)
Less: Software intangible amortisation	(131)
	2,966
Invested capital	
Average fleet book value[2]	15,598
Less: Average progress payments[3]	(1,297)
Fleet book value less progress payments	14,301
Inflation adjustment[1]	1.19
	17,065
Average net book value of other property, plant and equipment[4]	2,448
Average net book value of software intangible assets[5]	603
Total invested capital	20,116
Return on invested capital	14.7%

1 Presented to two decimal places and calculated using a 1.5% inflation rate over the weighted average age of the fleet (2019: 12 years).

2 The average net book value of owned aircraft excluding progress payments is calculated from an amount of €13,451 million at 1 January 2019 and €15,150 million at 31 December 2019.

3 The average net book value of progress payments is calculated from an amount of €1,069 million at 1 January 2019 and €1,525 million at 31 December 2019.

4 The average net book value of other property, plant and equipment is calculated from an amount of €2,402 million at 1 January 2019 and €2,493 million at 31 December 2019.

5 The average net book value of software intangible assets is calculated from an amount of €539 million at 31 December 2018 and €666 million at 31 December 2019.

(G) 2018 RoIC

For 2018 RoIC is defined as EBITDAR (being operating profit before depreciation, amortisation and rental charges), less adjusted aircraft operating lease costs, fleet depreciation charge adjusted for inflation, and the depreciation charge for other property, plant and equipment, divided by invested capital. It is expressed as a percentage.

The lease adjustment reduces aircraft operating lease costs to 0.67 of the annual reported charge. The inflation adjustment is applied to the fleet depreciation charge and is calculated using a 1.5% inflation rate over the average age of the fleet to allow for inflation and efficiencies of new fleet.

Invested capital is the fleet net book value at the balance sheet date, excluding progress payments for aircraft not yet delivered and adjusted for inflation, plus the net book value of the remaining property, plant and equipment plus annual aircraft operating lease costs multiplied by 8. Intangible assets are excluded from the calculation.

The table below shows the reconciliation to derive the RoIC measure for 2018, including the change in methodology as described for 2019 and adjusting for IFRS 16. As the Group adopted IFRS 16 from 1 January 2019, the comparative RoIC inputs for 2018 have been adjusted to reflect the impact of this change in the 2018 Income statement for the year to 31 December 2018 and for the balance sheets at 1 January 2018 and 31 December 2018:

€ million	2018 Reported	Change in methodology	IFRS 16 adjustments	2018 Adjusted
EBITDAR / EBITDA	5,374	–	107	5,481
Less: Aircraft operating lease costs multiplied by 0.67	(596)	596	–	–

€ million	2018 Reported	Change in methodology	IFRS 16 adjustments	2018 Adjusted
Less: Depreciation charge for fleet assets multiplied by inflation adjustment				
Depreciation charge for fleet assets	*(984)*	–	*(634)*	*(1,618)*
Inflation adjustment[1]	*1.22*	–	*1.15*	*1.19*
	(1,205)	–	(726)	(1,931)
Less: Depreciation charge for other property, plant and equipment	(138)	–	–	(138)
Less: Depreciation charge for other ROU assets		–	(108)	(108)
Less: Amortisation charge for software intangibles		(123)	–	(123)
	3,435	473	(727)	3,181
Invested capital				
Fleet closing/average book value excluding progress payments[2]	9,721	(223)	3,757	13,255
Inflation adjustment[1]	1.22	1.22	1.12	1.19
	11,902	(273)	4,194	15,823
Closing/average book value of other property, plant and equipment[3]	1,647	(17)	813	2,443
Aircraft operating lease costs multiplied by 8	7,120	(7,120)	–	–
Average book value of software intangible assets		506	–	506
Total invested capital	20,669	(6,904)	5,007	18,772
Return on invested capital	16.6%			16.9%

1 Presented to two decimal places and calculated using a 1.5% inflation rate over the weighted average age of the fleet (11.9 years).

2 The change in methodology to calculate the average net book value of owned aircraft excluding progress payments is calculated from an amount of €9,275 million at December 31, 2017 and €9,721 million at 31 December 2018. The average pro forma net book value of owned and ROU aircraft excluding progress payments is calculated from an amount of €13,058 million at December 31, 2017 and €13,451 million at 31 December 2018.

3 The change in methodology to calculate the average net book value of other property, plant and equipment is calculated from an amount of €1,613 million at December 31, 2017 and €1,647 million at 31 December 2018. The average pro forma net book value of owned and ROU other property plant and equipment is calculated from an amount of €2,483 million at December 31, 2017 and €2,402 million at 31 December 2018.

(H) Net debt to EBITDA

To supplement total borrowings as presented in accordance with IFRS, the Group monitors net debt to EBITDA to assess its level of net debt in comparison to the underlying earnings generated by the Group in order to evaluate the underlying business performance of the Group. This measure is used to monitor the Group's leverage and to assess financial headroom.

Net debt is defined as long-term borrowings (both current and non-current), less cash, cash equivalents and other current interest-bearing deposits. The definition of Net debt remains unchanged from 2018, however with the adoption of IFRS 16 from 1 January 2019, total borrowings have significantly increased due to the recognition of the lease liabilities. Accordingly, the comparative figures for 2018 have been adjusted to reflect the impact of such a change at 31 December 2018.

EBITDA is defined as the rolling four quarter operating result before exceptional items, interest, taxation, depreciation, amortisation and impairment. The Group believes that this additional measure, which is used internally to assess the Group's financial capacity, is useful to the users of the financial statements in helping them to understand how the Group's financial capacity has changed over the year. It is a measure of the profitability of the Group and of the core operating cash flows generated by the business model.

€ million	30 June 2020	31 December 2019	31 December 2018 (adjusted)[1]
Interest-bearing long-term borrowings	**16,479**	**14,254**	12,704
Less: Cash and cash equivalents	**(4,696)**	**(4,062)**	(3,837)
Less: Other current interest-bearing deposits	**(1,320)**	**(2,621)**	(2,437)
Net debt	**10,463**	**7,571**	6,430
Operating profit before exceptionals	**290**	**3,285**	3,485
Add: Depreciation, amortisation and impairment	**2,190**	**2,111**	1,996
EBITDA	**2,480**	**5,396**	5,481
Net debt to EBITDA	**4.2**	**1.4**	1.2

1 Adjusted results for 2018 are the Group's restated 2018 results with an adjustment to reflect the estimated impact of IFRS 16 from 1 January 2018. See "—IFRS 16 adjusted financial information."

(l) EBITDA by airline

EBITDA is defined as the rolling four quarter operating result before exceptional items, interest, taxation, depreciation, amortisation and impairment. The Group believes that this additional measure, which is used internally to assess the financial capacity of the Group's airlines, is useful to the users of the financial statements in helping them to understand how the financial capacity of the Group's airlines has changed over the year. It is a measure of the profitability of the Group's airlines and of the core operating cash flows generated by the business model.

	British Airways				Aer Lingus € million		Iberia € million		Vueling € million	
	2019 £ million	2019 € million	2018 (adjusted)[1] £ million	2018 (adjusted)[1] € million	2019	2018 (adjusted)[1]	2019	2018 (adjusted)[1]	2019	2018 (adjusted)[1]
Operating profit before exceptionals	1,921	2,182	2,025	2,288	276	311	497	533	240	264
Add: Depreciation, amortisation and impairment	1,106	1,258	1,066	1,204	130	138	390	358	250	226
EBITDA	**3,027**	3,440	**3,091**	3,492	**406**	**449**	**887**	**891**	**490**	**490**

1 Adjusted results for 2018 are the Group's restated 2018 results with an adjustment to reflect the estimated impact of IFRS 16 from 1 January 2018. See "—IFRS 16 adjusted financial information." The results have been restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. See "—Basis of presentation".

	British Airways				Aer Lingus € million		Iberia € million		Vueling € million	
	Six months to 30 June									
	2020 £ million	2020 € million	2019[1] £ million	2019[1] € million	2020	2019[1]	2020	2019[1]	2020	2019[1]
Operating profit before exceptionals	(966)	(1,094)	761	873	(189)	78	(359)	109	(268)	5

Add: Depreciation, amortisation and impairment[2]	585	672	545	621	68	63	196	191	139	120
EBITDA	(381)	(422)	1306	1,494	-121	141	(163)	300	(129)	125

1 The 2019 results have been restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. See "—Basis of presentation".

2 Excluding exceptional items.

(J) Results on a constant currency (ccy) basis

Movements in foreign exchange rates impact the Group's financial results. The Group reviews the results, including revenue and operating costs at constant rates of exchange (abbreviated to 'ccy'). The Group calculates these financial measures at constant rates of exchange based on a re-translation, at prior year exchange rates, of the current year's results of the Group. Although the Group does not believe that these measures are a substitute for IFRS measures, the Group does believe that such results excluding the impact of currency fluctuations year-on-year provide additional useful information to investors regarding the Group's operating performance on a constant currency basis. Accordingly, the financial measures at constant currency within the discussion of the Group Financial review should be read in conjunction with the information provided in the Group financial statements.

The following table represents the main average and closing exchange rates for the reporting periods. Where 2019 figures are stated at a constant currency basis, they have applied the 2018 rates stated below. Where 2020 figures are stated at a constant currency basis, they have applied the 2019 rates stated below.

Foreign exchange rates	**Average**				**Closing**		
	30 June 2020	**30 June 2019**	**2019**	**2018**	**30 June 2020**	**2019**	**2018**
Euro to pound sterling	**1.15**	**1.14**	**1.13**	1.13	**1.11**	**1.18**	1.11
US dollar to euro	**1.09**	**1.13**	**1.12**	1.18	**1.12**	**1.11**	1.14
US dollar to pound sterling	**1.26**	**1.29**	**1.27**	1.33	**1.24**	**1.31**	1.26

5.2 Other Operating and Financial Statistics

€ million		30 June 2020	30 June 2019	31 December 2019	31 December 2018 (adjusted)[1]
Available seat kilometres (ASKs)	million	71,625	163,431	337,754	324,808
Revenue passenger kilometres (RPKs)	million	52,772	135,678	285,745	270,657
RPKs expressed as a percentage of ASKs (passenger load factor)	%	73.7	83.0	84.6	83.3
Cargo tonne kilometres (CTKs)	million	1,751	2,801	5,577	5,713
Passenger revenue per ASK (passenger unit revenue)	€cents	5.80	6.52	6.65	6.59
Passenger revenue per RPK (passenger yield)	€cents	7.87	7.85	7.86	7.91
Cargo revenue per CTK (cargo yield)	€cents	35.12	19.85	20.03	20.53
Fuel cost per ASK (fuel unit costs)	€cents	1.83	1.80	1.78	1.63
Supplier costs per ASK (supplier unit costs)	€cents	4.06	2.77	2.70	2.67

[1] Adjusted results for 2018 are the Group's restated 2018 results with an adjustment to reflect the estimated impact of IFRS 16 from 1 January 2018. See "—IFRS 16 adjusted financial information."

PART X
TAXATION

PART A: SPANISH TAXATION

1. GENERAL

The following section is a general description of certain Spanish tax implications of the acquisition, ownership and disposal of the Shares by Spanish and non-Spanish tax resident shareholders. The information provided below does not purport to be a complete summary of tax law and practice currently applicable in the Kingdom of Spain and is subject to any changes in law and its interpretation and application. This summary does not address all tax considerations that may be relevant to all categories of potential purchasers, some of whom may be subject to special rules (for instance, EU pension funds and EU harmonized collective investment institutions).

*In particular, this tax section does not address the Spanish tax consequences applicable to "look-through" entities, that may be subject to a specific tax regime applicable under the consolidated text of the Spanish Non-Resident Income Tax Law, approved by Royal Legislative Decree 5/2004, of 5 March (texto refundido de la Ley del Impuesto sobre la Renta de no Residentes, aprobado por Real Decreto Legislativo 5/2004, de 5 de marzo) ("**NRIT Law**") or under the Spanish Personal Income Tax Law 35/2006, of 28 November (Ley 35/2006, de 28 de noviembre, del Impuesto sobre la Renta de las Personas Físicas y de modificación parcial de las leyes de los Impuestos sobre Sociedades, sobre la Renta de no Residentes y sobre el Patrimonio) ("**PIT Law**") or similar legislation applicable, as the case may be. This analysis does not cover all possible tax consequences of the transactions applicable to all categories of shareholders, some of which (e.g., financial institutions, collective investment schemes, cooperatives, etc.) may be subject to special rules. Furthermore, this summary does not take into account the regional tax regimes in force applicable in the Historical Territories of the Basque Country and the Historical Autonomous Region of Navarre, or the regulations adopted by the Spanish Autonomous Regions.*

The description of Spanish tax laws set forth below is based on law currently in effect in Spain as at the date of this Prospectus, and on the administrative interpretations thereof made public to date. As a result, this description is subject to any changes in such laws or interpretations occurring after the date hereof, including changes having retroactive effect.

Potential shareholders should consult their own tax advisors concerning the specific Spanish, state, regional and local tax consequences of the acquisition, ownership and disposition of the Shares in light of their particular circumstances as well as any consequences arising under the laws of any other taxing jurisdiction.

2. INDIVIDUAL SHAREHOLDERS TAX RESIDENT IN SPAIN

2.1 Taxation of dividends

In accordance with the PIT Law, income received by an individual shareholder, who is resident in Spain for tax purposes, in the form of dividends, shares in profits, consideration paid for attendance at shareholders' meetings, income from the creation or assignment of rights of use or enjoyment of the Shares and any other income received in his or her capacity as shareholder is subject to tax as capital income.

Gross capital income shall be reduced by any administration and custody expenses, but not by those incurred in individualised portfolio management. The net amount shall be included in the relevant Spanish shareholder's savings taxable base. The general savings taxable base rates for the tax year 2020 are currently 19% for taxable income up to €6,000, 21% for taxable income between €6,001 and €50,000, and 23% for taxable income exceeding €50,000.

Spanish shareholders shall be subject to a PIT withholding on capital income at the then-applicable tax rate (currently 19%) on the gross income obtained. Such withholding tax is creditable from the PIT payable; and if the amount of tax withheld is greater than the amount of the net PIT payable, the taxpayer is entitled to a refund of the excess withheld in accordance with the PIT Law.

2.2 Taxation of capital gains

Gains or losses generated by any individual who is tax resident in Spain resulting from the transfer of the Shares qualify for the purposes of the PIT Law as capital gains or losses and are subject to taxation according to the general rules applicable to capital gains. The amount of capital gains or losses shall be the difference between the Shares' acquisition value (plus any fees or taxes incurred) and the transfer value, which is the listed value of the Shares as of the transfer date or, if higher, the agreed transfer price, less any fees or taxes incurred.

Where the taxpayer owns other securities of the same kind, the acquisition price of the transferred shares is based on the principle that those acquired first are sold first (FIFO).

Capital gains or losses arising from the transfer of the Shares by an individual, who is tax resident in Spain, are included in such shareholder's capital income, corresponding to the period when the transfer takes place. Any gain resulting from the compensation between such gains and losses is taxed currently at a rate of 19% for the first €6,000, 21% between €6,001 and €50,000 and 23% for any amount in excess of €50,000.

Capital gains arising from the transfer of the Shares are not subject to withholding tax on account of PIT. Losses arising from the transfer of shares admitted to trading on certain official stock exchanges (including the Spanish Stock Exchanges) will not be treated as capital losses if securities of the same kind have been acquired during the period between two months before and two months after the date of the transfer which originated the loss. In these cases, the capital losses are included in the taxable base upon the transfer of the remaining shares of the taxpayer.

2.3 Taxation of Subscription Rights

Distributions to shareholders tax resident in Spain of Subscription Rights to subscribe for New Shares are not treated as income under Spanish law. The exercise of such Subscription Rights is not considered a taxable event under Spanish law.

The proceeds obtained by a PIT taxpayer from a transfer of pre-emptive rights derived from shares admitted to trading on specific official stock exchanges (including the Spanish Stock Exchanges), such as the Company's shares, will be regarded as a capital gain and subject to the PIT corresponding to the period when the transfer takes place (in the manner described under "*Taxation of capital gains*" above). The amount received in the transfer of pre-emptive rights will be subject to Spanish withholding tax on account of PIT at the then-applicable tax rate (currently 19%), to be levied by the depositary entity (or, in its absence, by the corresponding financial intermediary or notary public that intervenes in the transfer).

2.4 Taxation of share premium distributions

A distribution of share premium will not in itself constitute a taxable income but will instead reduce the acquisition value of the Shares to the extent that they are admitted to trading on certain official stock exchanges (including the Spanish Stock Exchanges). If the amount of the share premium received exceeds the acquisition value of the shares held by a Spanish shareholder, such excess would constitute a taxable income (as capital income) subject to a flat rate of 19% for the first €6,000, 21% between €6,001 and €50,000 and 23% for any amount in excess of €50,000. Generally, no withholding tax would be applicable upon such distribution.

2.5 Spanish Wealth Tax

Individual shareholders who are tax resident in Spain are subject to Spanish Wealth Tax on all their total net wealth at 31 December, each year (such as the Shares), irrespective of where their assets might be located or rights might be exercised.

Spanish Wealth Tax Law 19/1991, of 6 June (*Ley 19/1991, de 6 de junio, del Impuesto sobre el Patrimonio*) provides that the first €700,000 of net wealth owned by an individual resident in Spain will be exempt from taxation, while the rest of the net wealth will be taxed at a rate ranging between 0.2% and 2.5%. However, this may vary depending on the autonomous region of residency of the taxpayer. As such, prospective shareholders should consult their own tax advisors.

A shareholder who is required to file a Spanish Wealth Tax return should value the Shares at their average trading price in the last quarter of the year. The Spanish Ministry of Finance and Public Administration publishes such average trading price on an annual basis.

As of the date of this Prospectus, all these provisions corresponding to Spanish Wealth Tax will remain applicable to tax year 2020. However, in accordance with article 1 of the Royal Decree-Law 13/2011, of 16 September, as amended by Royal Decree-law 18/2019, of December 27, as from year 2021, a full exemption on Spanish Wealth Tax would apply (*bonificación del 100%*), and therefore from year 2021 Spanish individual holders would be released from formal and filing obligations in relation to this Spanish Wealth Tax, unless the application of such exemption is postponed again (as it occurred for tax periods 2011-2020 by means of the corresponding Spanish General Budget Acts and the Royal Decree-Law 27/2018, of December 28 and Royal Decree Law 18/2019, of December 27).

2.6 Spanish Inheritance and Gift Tax

Individuals resident in Spain for tax purposes who acquire the Shares by inheritance or gift will be subject to the Spanish Inheritance and Gift Tax ("**IGT**") in accordance with the IGT Law 29/1987, of 18 December (*Ley 29/1987, de 18 de diciembre, del Impuesto sobre Sucesiones y Donaciones*) ("**IGT Law**"), without prejudice to the specific legislation applicable in each autonomous region. The applicable general tax rate as of the date of this Prospectus range between 7.65% and 34%. However, after applying certain relevant factors (such as the specific regulations imposed by each Spanish autonomous region, the amount of the pre-existing assets of the taxpayer and the degree of kinship with the deceased or donor), the final effective tax rate may range from 0% to 81.6%. Some tax benefits could reduce the effective tax rate (bearing in mind the autonomous regions provisions).

2.7 Spanish Transfer Tax

The acquisition and transfers of the Shares will be exempt from Transfer Tax (*Impuesto sobre Transmisiones Patrimoniales*) and Value Added Tax. Additionally, no Stamp Duty is levied on such acquisition and transfers.

3. CORPORATE SHAREHOLDERS TAX RESIDENT IN SPAIN

3.1 Taxation of dividends

Dividends from a share of the Company's profits received by corporate shareholders resident in Spain for tax purposes, as a consequence of the ownership of the Shares are included in the Corporate Income Tax ("**CIT**") base according to the Spanish Corporate Income Tax Law 27/2014, of 27 November (*Ley 27/2014, de 27 de noviembre, del Impuesto sobre Sociedades*) ("**CIT Law**"). The general CIT rate is currently 25%.

However, CIT taxpayers will be entitled to apply a participation exemption regime for dividends received from Spanish companies if certain requirements are met: (i) participation, directly or indirectly, of at least 5% in the Company's share capital (or acquisition cost exceeding €20 million) and (ii) provided such participation is held uninterrupted for at least one year prior to the relevant distribution date or it commits to hold the participation for the time needed to complete such one-year holding period (and provided that other requirements that need to be analyzed on a case by case basis are fulfilled).

In the case that more than 70% of the Company's revenue derives from dividends and capital gains arising from transfers of its subsidiaries' shares, the application of the participation exemption is subject to particularly complex restrictions, substantially requiring that the Spanish tax resident Corporate shareholder holds an indirect participation of at least 5% in the share capital of the Company's subsidiaries, unless these subsidiaries meet the conditions referred to in article 42 of the Spanish Commercial Code to form part of the same group of companies of the direct subsidiary and prepare consolidated financial statements. Shareholders are urged to consult their tax advisors regarding compliance with the requirements for application of the aforesaid participation exemption.

Generally, dividends will be subject to withholding tax on account of the shareholder's final CIT at the then-applicable rate (currently 19%). However, no withholding tax will apply on dividends payable to a shareholder who is entitled to apply the participation exemption regime mentioned above and who is able to provide the necessary documentation to attest its eligibility to the application of this exemption. If the amount of tax withheld is greater than the amount of the net CIT payable, the taxpayer will be entitled to a refund of the excess withheld in accordance with the CIT Law and regulations.

3.2 Taxation of capital gains

The gain derived from the transfer of the Shares is included in the tax base of CIT taxpayers; and such gain is taxed generally at the then-applicable rate (currently 25%). As regards losses resulting from the transfer of the Shares, the CIT deductibility of the losses may be subject to certain temporary or permanent restrictions (for instance, if the capital gains potentially obtained on such transfer would have been entitled to benefit from the Spanish participation exemption regime, indicated below). Shareholders who are CIT taxpayers must consult their tax advisors regarding the CIT impact for them of these rules.

However, CIT taxpayers will be entitled to apply a participation exemption regime for capital gains arising on the transfer of Spanish companies shares if (i) the shareholding, directly or indirectly, amounts to at least 5% of the company (or the acquisition cost exceeds €20 million) and (ii) such participation is held uninterrupted for at least one year prior to the transfer (and provided that other requirements that need to be analysed on a case by case basis are fulfilled).

In the case that more than 70% of the Company's revenue comes from dividends and capital gains deriving from the transfer of its subsidiaries' shares, the application of the participation exemption is subject to particularly complex restrictions, substantially requiring that the Spanish Corporate shareholder holds an indirect participation of at least 5% in the share capital of the Company's subsidiaries, unless these subsidiaries meet the conditions referred to in article 42 of the Spanish Commercial Code to form part of the same group of companies of the direct subsidiary and prepare consolidated financial statements. Shareholders are urged to consult their tax advisors regarding compliance of the requirements for application of the aforesaid participation exemption.

The impairment of the Shares will not be deductible for the purposes of the CIT.

Capital gains deriving from the disposal of the Shares will not be subject to withholding tax on account of CIT.

3.3 Taxation of Subscription Rights

Distributions to CIT taxpayers of Subscription Rights to subscribe for New Shares are not treated as income under Spanish law either. The exercise of such Subscription Rights is not considered a taxable event under Spanish law. However, if a CIT taxpayer transfers these Subscription Rights, any accounting income that may arise from the transfer will be subject to the general CIT tax rate, currently of 25%. Shareholders who are CIT taxpayers must consult their tax advisors regarding the possibility to apply the Spanish participation exemption on this income.

3.4 Taxation of share premium distributions

A distribution of share premium will not in itself constitute taxable income but will instead reduce the acquisition value of the Shares. If the amount of the share premium received exceeds the acquisition value of the Shares held by a CIT taxpayer, such excess would constitute a taxable income, generally subject to the general CIT tax rate of 25%. Shareholders who are CIT taxpayers must consult their tax advisors regarding the possibility to apply the Spanish participation exemption on this income. In any event, no withholding would be applicable upon such distribution.

3.5 Spanish Wealth Tax

Legal entities subject to CIT are not subject to Wealth Tax.

3.6 Spanish Inheritance and Gift Tax

In the event of acquisition of the Shares free of charge by a CIT taxpayer, the income generated by the latter will be taxed according to the CIT rules. Legal entities do not pay Inheritance and Gift Tax.

3.7 Spanish Transfer Tax

The acquisition and transfers of the Shares will be exempt from Transfer Tax (*Impuesto sobre Transmisiones Patrimoniales*) and Value Added Tax. Additionally, no Stamp Duty is levied on such acquisition and transfers.

4. SHAREHOLDERS WHO ARE NOT RESIDENT FOR TAX PURPOSES IN SPAIN

Ownership of the Shares by shareholders who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

The tax regime described herein is general in nature, and the specific circumstances of each taxpayer should be considered in light of the applicable Treaties entered into by Spain to avoid double taxation.

4.1 Non-Spanish tax resident shareholders acting through a permanent establishment in Spain

(A) Taxation of dividends

If the Shares form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Shares are the same as those set out for corporate Shareholders with tax residence in Spain described in the preceding section, without prejudice to which is established by the Treaties entered into by Spain to avoid double taxation.

The withholding tax procedure will be also the same as provided for such entities.

(B) Taxation of capital gains

If the Shares form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to capital gains deriving from such Shares are the same as those set out for corporate Shareholders with tax residence in Spain described in the preceding section.

4.2 Non-Spanish tax resident shareholders not acting through a permanent establishment in Spain

(A) Taxation of dividends

Dividends paid to non-Spanish tax resident shareholders not acting through a permanent establishment in Spain are subject to Spanish non-resident income tax ("**NRIT**"), at the general withholding tax rate (currently 19%). This taxation can be eliminated or reduced as per the application of (i) the NRIT exemption implementing the EU Parent-Subsidiary Directive or (ii) the benefits of a Treaty for the avoidance of double taxation ("**DTT**").

Under the EU Parent-Subsidiary Directive exemption, no Spanish withholding taxes should be levied on the dividends distributed by a Spanish subsidiary to its EU parent company, to the extent that the following requirements are met:

(i) the EU parent company maintains a direct or indirect holding in the capital share of the Spanish subsidiary of at least 5% or its acquisition cost exceeds €20 million. The holding must have been maintained uninterruptedly during the year prior to the date on which the distributed profit is due or, failing that, be maintained for the time required to complete such period (in the latter case, the withholding tax must be levied, although it would be refundable once the year has been completed);

(ii) the EU parent company is incorporated under the laws of an EU member state, under one of the corporate forms listed in Annex I, Part A, of the EU Parent-Subsidiary Directive, and is subject to a Member State Corporate Income Tax (as listed in Annex I, Part B, of the EU Parent-Subsidiary Directive), without the possibility of being exempt; and

(iii) the dividends distributed do not derive from the subsidiary's liquidation.

The aforesaid exemption will not be applicable if the dividend is obtained through a territory that is defined as a tax haven by Spanish regulations.

The aforesaid exemption will be applicable, subject to the compliance of such requirements, to dividends distributed by a Spanish subsidiary to its EEA parent company provided that there is an effective exchange of tax information with such EEA parent company's country. The exemption should also apply to UK tax resident parent companies until 31 December 2020 (or, if later, the end of the Brexit Transition Period), but UK companies may lose the benefits of the Directive thereafter.

However, the exemption includes an anti-abuse provision by virtue of which the withholding tax exemption will not be applicable where the majority of the voting rights of the parent company are held directly or indirectly by individuals or entities not resident in the EU or the EEA with which there is a an effective exchange of tax information in the terms set forth in Law 36/2006, of 29 November (*Ley 36/2006, de 29 de noviembre, de medidas para la prevención del fraude fiscal*), or the equivalent regional legislation applicable, except where the EU or EEA parent company proves that its incorporation and its operative responds to valid economic reasons and to substantive business activities.

Shareholders resident in certain countries may be entitled to the benefits of a DTT in force between Spain and their country of tax residence. Such shareholders may benefit from a reduced tax rate under an applicable DTT with Spain, subject to the satisfaction of any conditions specified in the relevant DTT, including providing evidence of tax residency by means of a certificate of tax residence duly issued by the tax authorities of the country of tax residence of the shareholder, making express reference to the shareholders' entitlement to the benefits of such DTT or, as the case may be, the equivalent document specified in the Spanish Order which further supplements the applicable DTT. Tax residence certificates issued by a foreign tax authority (or equivalent documents) are generally valid for Spanish tax purposes for one year as from their date of issuance.

In this regard, under the double taxation treaty ratified between the United Kingdom and Spain (the "**UK-Spain Treaty**") a UK shareholder who satisfies all of the relevant procedural formalities should be entitled to a reduced rate of withholding tax, normally at a maximum of 10% (the "**Reduced Rate**"). Subject to certain limitations, credit for Spanish withholding tax on any dividend should generally be available under UK tax law against any UK income tax or corporation tax to which the holder of the New Shares is liable in respect of such dividend, with a credit covering a maximum of 10% of the gross dividend (see further section 3 (*Taxation of Dividends*) of Part B (*United Kingdom Taxation*) of this Part X (*Taxation*)).

According to the Order of the Ministry of Finance and Taxation of 13 April 2000, upon distribution of a dividend, the Company or its paying agent will withhold an amount equal to the tax amount required to be withheld according to the general rules set forth above, transferring the resulting net amount to the depositary. For this purpose, the depositary is the financial institution with which the non-Spanish tax resident shareholder has entered into a contract of deposit or management with respect to the Shares held by such shareholders. If the corresponding depositary in Spain provides timely evidence of the non-Spanish tax resident shareholder's right to obtain the DTT-reduced rate or the exemption in the manner set out in the Order of the Ministry of Economy and Competitiveness of 13 April 2000, it will immediately receive the surplus amount withheld, which will be credited to the non-Spanish tax resident shareholder (the "**Quick Refund Procedure**").

For these purposes, the non-Spanish tax resident shareholder shall provide the applicable depositary, before the tenth day following the end of the month in which the dividends were paid, with the relevant certificate of residence (or equivalent DTT form) stating that the non-Spanish tax resident shareholder is a resident of such country within the meaning of the DTT. The Quick Refund Procedure will only be applicable to the extent that the depositary of the Shares held by the non-Spanish tax resident shareholder is resident, domiciled or represented in Spain.

If this certificate of tax residence, or as the case may be, the equivalent document referred to above, is not provided to the relevant Spanish depository within this time period, the relevant non-Spanish tax resident shareholder shall be subject to the general withholding tax rate (currently 19%) and may subsequently be entitled to claim a refund of the amount withheld in excess from the Spanish tax authorities, following the standard refund procedure established by the NRIT Regulation, approved by Royal Decree 1776/2004 of 30 July 2004 (*Reglamento del Impuesto sobre la Renta de no Residentes, aprobado por Real Decreto 1776/2004, de 30 de julio*), and the Order of the Ministry of Finance and Taxation EHA/3316/2010, of 17 December, that approves forms 210, 211 and 213 or the equivalent regional provisions applicable. A UK resident Shareholder is entitled to request from the Spanish tax authority a refund of an amount equal to the difference between the tax withheld and tax at the Reduced Rate. Where the Reduced Rate is 10%, this amounts to 9% of the pre-tax dividend. To pursue the refund claim, the non-Spanish shareholder is required to file:

(i) the corresponding Spanish Tax Form (currently, Form 210);

(ii) the certificate of tax residence or equivalent document referred to above (in case of UK resident shareholders, a certificate obtained from HMRC stating that, at the time when the dividend was declared or paid, the relevant shareholder was tax resident in the UK for the purposes of the UK-Spain Treaty);

(iii) a certificate issued by the withholding agent stating that Spanish NRIT was withheld with respect to such non-Spanish tax resident shareholder;

(iv) a proof of beneficial ownership; and

(v) documentary evidence of the bank account in which the excess amount withheld should be paid.

The Form 210 must be filed no earlier than 1 February of the calendar year following the calendar year in which the dividend is due and payable or paid, whichever takes place first. The refund claim must be filed within four years of the date on which the withheld tax was collected by the Spanish tax authorities (the 20th date of the month following the dividend payment). Shareholders will not be required to file a Spanish tax return in respect of dividends received on the New Shares from which tax is withheld as described in the preceding paragraphs.

For further details, prospective investors should consult their own tax advisors.

(B) Taxation of capital gains

Capital gains arising to a non-Spanish tax resident shareholder as a consequence of transferring shares of Spanish company are subject to Spanish NRIT (currently at the tax rate of 19%), although no withholding taxes will be imposed on capital gains. Capital gains and losses will be calculated separately for each transaction. It is not possible to offset losses against capital gains.

However, capital gains derived from the Shares will be exempt from taxation in Spain in any of the following cases:

(i) Capital gains derived from the transfer of the Shares carried out on an official Spanish secondary stock market (such as the Spanish Stock Exchanges) by any non-Spanish tax resident shareholder who is tax resident in a country that has entered into a DTT with Spain containing an "exchange of information" clause. This exemption is not applicable to capital gains obtained by a non-Spanish tax resident shareholder through a country or territory that is defined as a tax haven by Spanish regulations.

(ii) Capital gains arising directly to any non-Spanish tax resident shareholder which is resident of another EU member state or indirectly through a permanent establishment of such non-Spanish tax resident shareholder in an EU member state other than Spain. This exemption is not applicable to capital gains arising through a country or territory that is defined as a tax haven by Spanish regulations. Additionally, this exemption will not apply:

    (a) if the Company's assets mainly consist of, directly or indirectly, real estate property located in Spain;

    (b) if the non-resident transferor is an individual that during the preceding 12 months has held a direct or indirect interest of at least 25% in the Company's capital or net equity; and

    (c) if the non-resident transferor is an entity and the transfer of the Shares does not comply with the requirements to apply the CIT domestic participation exemption regime (see "*Taxation of capital gains- Spanish Corporate Resident Shareholders*").

    The exemption should also apply to UK tax resident shareholders until 31 December 2020 (or, if later, the end of the Brexit Transition Period), but UK companies may lose the benefits of the Directive thereafter.

(iii) Capital gains realized by non-Spanish tax resident shareholders who benefit from a DTT entered into by their country of tax residence and Spain that provides for taxation of capital gains only in such non-resident shareholder's country of residence. For the applicability of this exemption to UK tax resident Shareholders, see section 2.3 (*Interaction with Spanish taxation of capital gains*) of Part B (*United Kingdom Taxation*) of this Part X (*Taxation*).

Non-Spanish tax resident shareholders must submit a Spanish Tax Form (currently, Form 210) within the time periods set out in the applicable Spanish regulations to pay the corresponding tax or qualify for an exemption. In order for the exemptions mentioned above to apply, a non-Spanish tax resident shareholder must provide a certificate of tax residence issued by the tax authority of its country of residence (which, if applicable, must state that, to the best knowledge of such authority, the non-Spanish tax resident shareholder is resident of such country within the meaning of the relevant DTT) or equivalent document meeting the requirements of the Order which further develops the applicable DTT, together with the Spanish Tax Form 210. This form and an accompanying certificate of tax residence must be filed by 20 January of the following calendar year. The non-Spanish tax resident shareholder's tax representative in Spain and the depositary of the Shares are also entitled to carry out such filing.

The certificate of tax residence mentioned above will be generally valid for a period of one year after its date of issuance.

No Form 210 is required to be filed in respect of a disposal which gives rise to a loss. However, gains and losses may not be offset against each other under current Spanish law applicable to non- residents.

Where a shareholder is required to file a Form 210 a failure to do so in due course can give rise to a €100 fine which may increase to €200 for each Form 210 which is not filed before a demand has been issued by the Spanish tax authority.

Shareholders should consult their own tax advisors to obtain detailed information regarding NRIT filings they may be required to make before the Spanish Tax Authorities.

(C) Taxation of Subscription Rights

Distributions to non-Spanish tax resident shareholders of Subscription Rights to subscribe for new shares are not treated as income under Spanish NRIT Law. The exercise of such pre-emptive rights is not considered a taxable event under Spanish NRIT Law either.

The proceeds derived from a transfer of pre-emptive rights by a NRIT taxpayer (without permanent establishment in Spain) will be regarded as a capital gain and subject to Spanish NRIT in the manner described in section 3.2(B) (*Taxation of capital gains*) above.

(D) Taxation of share premium distributions

A distribution of dividends out of the share premium will not in itself constitute taxable income but will instead reduce the acquisition value of the Shares to the extent that they are admitted to trading on certain official stock exchanges (including the Spanish Stock Exchanges). If the amount of the share premium received exceeds the acquisition value of the Shares held by a non-resident shareholder, such excess would constitute a taxable income subject to NRIT (currently at a flat rate of 19%), unless otherwise provided by a DTT (although this income would not be subject to withholding tax in Spain).

(E) Spanish Wealth Tax

Non-Spanish tax resident individuals are subject to the Spanish Wealth Tax on the assets or rights that are located or can be exercised in Spain on 31 December each year. Spanish Wealth Tax Law provides that the first €700,000 of assets or rights owned in Spain by non-Spanish tax resident individuals will be exempt from taxation, while the rest of the Spanish wealth will be taxed at a rate ranging between 0.2% and 2.5%. For Spanish Wealth Tax valuation purposes, the Shares should be valued at their average trading price during the last quarter of such year. Such average trading price is published on an annual basis by the Spanish Ministry of Finance and Public Administration.

Non-Spanish tax resident individuals who benefit from a DTT that provides that net wealth taxation is only applicable in the shareholder's country of residence will not be subject to Spanish Wealth Tax.

From 1 January 2015, non-Spanish tax resident individuals who are resident in an EU or EEA member state may apply the rules approved by the autonomous region where the assets and rights with more value are located, can be exercised or must be fulfilled.

As of the date of this Prospectus, all these provisions corresponding to Spanish Wealth Tax will remain applicable to tax year 2020. However, in accordance with article 1 of the Royal Decree-Law 13/2011, of 16 September, as amended by Royal Decree-law 18/2019, of December 27, as from year 2021, a full exemption on Spanish Wealth Tax would apply (*bonificación del 100%*), and therefore from year 2021 Non-Spanish tax resident individuals would be released from formal and filing obligations in relation to this Spanish Wealth Tax, unless the application of such exemption is postponed again (as it occurred for tax periods 2011-2020 by means of the corresponding Spanish General Budget Acts and the Royal Decree-Law 27/2018, of December 28 and Royal Decree Law 18/2019, of December 27).

As such, prospective investors should consult their own tax advisors. Non-Spanish resident legal entities are not subject to Wealth Tax.

(F) Spanish Inheritance and gift tax

Unless otherwise provided under an applicable DTT, transfers of the Shares as a result of the death of the owner or by gift to non-Spanish tax resident individuals are subject to Spanish IGT if such Shares are located (registered for regulation purposes) in Spain at the time of death or gift regardless of the residence of the heir or the beneficiary. The applicable tax rates as at the date of this Prospectus range between 7.65% and 34%. However, from 1 January 2015, after applying certain relevant factors (such as the specific regulations imposed by each Spanish autonomous region, if possible, the amount of the pre-existing assets of the taxpayer and the degree of kinship with the deceased or donor), the final effective tax rate may range from between 0% and 81.6%.

Generally, non-Spanish tax resident individuals are subject to Spanish IGT according to the rules set forth in the IGT Law. However, if the deceased, heir or the donee is resident in an EU or EEA member state, depending on certain circumstances, the applicable rules may be those corresponding to the relevant autonomous region. As such, prospective shareholders should consult their own tax advisors.

Also, as a consequence of the Judgements of 19 February, 21 March and 22 March 2018, the Supreme Court has declared that the application of state regulations when the deceased, heir or donee is resident outside of a EU Member State or the European Economic Area violates Community law to the free movement of capital, so even in that case it would be appropriate to defend the application of regional regulations in the same cases as if the deceased, heir or donee was resident in a EU Member State.

Gifts granted to non-Spanish tax resident corporations are not subject to IGT but are subject to NRIT as capital gains under the general rules, currently at a 19% rate on the fair market value of such Shares.

If the non-Spanish tax resident corporation receiving the gift is resident in a country with which Spain has entered into a DTT, the provisions of such DTT will apply. In general, DTTs provide for the taxation of this type of income in the country of residence of the beneficiary.

(G) Spanish Transfer Tax

The acquisition and transfers of the Shares will be exempt from Transfer Tax (*Impuesto sobre Transmisiones Patrimoniales*) and Value Added Tax. Additionally, no Stamp Duty is levied on such acquisition and transfers.

5. SPANISH FINANCIAL TRANSACTIONS TAX

On 30 July 2020, a draft bill proposing a Spanish financial transactions tax on the transfer of securities ("**Spanish FTT**") was approved by the Spanish Congress of Deputies. If the bill is finally approved in its current form, the proposed Spanish FTT would impose a charge of 0.2% to certain acquisitions of listed shares issued by Spanish companies whose market capitalisation exceeds EUR 1 billion (such as the Company), regardless of the jurisdiction of residence of the parties involved in the transaction.

The current wording of the draft bill includes certain exemptions from Spanish FTT, which will apply to acquisitions derived from the issuance of shares and those performed in the context of a public offering made within the meaning of section 35.1 of the Spanish Royal Legislative Decree 4/2015 (*Ley del Mercado de Valores*).

Prospective holders of the New Shares are advised to seek their own professional advice in relation to Spanish

FTT.

PART B: UNITED KINGDOM TAXATION

1. GENERAL

The following statements do not constitute tax advice and are intended to apply only as a general guide to the position under current United Kingdom tax law and the published practice of HMRC as at the date of this Prospectus, either of which is subject to change at any time (possibly with retrospective effect). They relate only to certain limited aspects of the United Kingdom taxation treatment of Eligible Shareholders and are intended to apply only to Eligible Shareholders who are resident and (in the case of individuals) domiciled in (and only in) the United Kingdom for United Kingdom tax purposes (unless the context otherwise requires) and to whom split-year treatment does not apply, who hold their Shares as investments (other than in an individual savings account, self-invested personal pension or as carried interest), and who are the absolute beneficial owners of their Shares. They may not apply to certain classes of Eligible Shareholders such as, for example, dealers in securities, trustees, insurance companies, collective investment schemes and Eligible Shareholders who have (or who are deemed to have) acquired their Shares by virtue of an office or employment.

Any person who is in any doubt as to their tax position or who may be subject to tax in any jurisdiction other than the United Kingdom, Spain or the United States (for which, see Parts A and C respectively of this Part X (Taxation)) should consult an appropriate professional tax adviser as soon as possible. Eligible Shareholders should also refer to sections 4 (Shareholders who are not resident for tax purposes in Spain) and 5 (Spanish Financial Transactions Tax) of Part A (Spanish Taxation) of this Part X (Taxation) above in respect of certain Spanish tax consequences of the Capital Increase and the New Shares for Eligible Shareholders who are not tax resident in Spain.

Except where the context requires otherwise (in particular, in section 4 (Stamp Duty and SDRT) below), references below to Shares, New Shares, Existing Shares and Subscription Rights include references to CDIs issued in respect of those Shares, New Shares, Existing Shares and Subscription Rights, references to Eligible Holders include references to CDI Holders (including, for this purpose, those persons who are the beneficial owners of CDIs held through the IAG corporate nominee services operated by Computershare) and it is assumed that a holder of New CDIs is the absolute beneficial owner of the underlying New Shares.

2. TAXATION OF CHARGEABLE GAINS

2.1 Capital Increase

(A) Issue of New Shares

For the purposes of United Kingdom taxation of chargeable gains, it is expected that HMRC will treat the issue of New Shares by the Company to an Eligible Shareholder who takes up their rights under the Capital Increase, up to the maximum entitlement arising from that Eligible Shareholder's Subscription Rights, as a reorganisation of the Company's share capital. On that basis, the Eligible Shareholder should not be treated as making a disposal of any part of their Existing Holding by reason of taking up all or part of their entitlement to acquire New Shares under the Subscription Rights. Accordingly, no liability to United Kingdom taxation on chargeable gains should arise in respect of the issue of New Shares if an Eligible Shareholder takes up their full entitlement to New Shares under their Subscription Rights. For the purposes of the taxation of chargeable gains, if an Eligible Shareholder takes up all or any of their rights to the New Shares under their Subscription Rights, their Existing Shares and their New Shares should be treated as the same asset, acquired at the time they acquired their Existing Holding. The amount of subscription money paid for the New Shares will be added to the base cost of their Existing Shares when computing any gain or loss on any subsequent disposal.

Any New Shares acquired in excess of an Eligible Shareholder's maximum entitlement under their Subscription Rights (i.e. any acquisition of Additional Shares) should be treated as if it were a separate acquisition of those shares in the open market.

(B) Disposal or lapse of rights to acquire New Shares

If an Eligible Shareholder sells or otherwise disposes of all or some of their rights to subscribe for New Shares, the proceeds should generally be treated as a capital distribution to that Eligible Shareholder by the Company, the Eligible Shareholder shall be treated as if they had disposed of a part of their Existing Holding and the Eligible Shareholder may, depending on their circumstances, incur a liability to taxation on any chargeable gains. However, if the proceeds resulting from a disposal of rights to subscribe for New Shares are "small" as compared with the market value (on the date of disposal) of that Eligible Shareholder's Existing Holding, such an Eligible Shareholder should not generally be treated as making a disposal for the purposes of the taxation of chargeable gains. The proceeds will instead reduce the base cost of that Eligible Shareholder's Existing Shares used to compute any chargeable gain or allowable loss on a subsequent disposal. This treatment will not apply where such proceeds are greater than the base cost of that Eligible Shareholder's Existing Shares.

The current practice of HMRC is to treat proceeds as "small" where either (i) the proceeds of the disposal of rights do not exceed 5% of the market value (at the date of the disposal) of the Existing Holding in respect of which the rights arose or (ii) the amount of the proceeds is £3,000 or less, regardless of whether the 5% test is satisfied. Whether proceeds are small needs to be considered on a case-by-case basis having regard to the circumstances of each case.

The lapse of an Eligible Shareholder's rights to subscribe for New Shares should not generally incur a liability to taxation on any chargeable gains, since Eligible Shareholders are not entitled to receive any compensation in respect of lapsed rights. If an Eligible Shareholder were to receive any proceeds in respect of lapsed rights, these proceeds should generally be treated as a capital distribution in the same way as the disposal proceeds described above.

2.2 Subsequent disposals of New Shares

(A) Individual Eligible Shareholders

A disposal of New Shares may, depending on the circumstances and subject to any available exemption or relief, give rise to a chargeable gain (or an allowable loss) for the purposes of UK capital gains tax.

An individual Eligible Shareholder who is resident in the UK for UK tax purposes and whose total taxable gains and income in a given tax year, including any gains made on the disposal or deemed disposal of his or her New Shares, are less than or equal to the upper limit of the income tax basic rate band applicable to him or her in respect of that tax year (the "**Band Limit**") will generally be subject to capital gains tax at the flat rate of 10% in respect of any gain arising on a disposal or deemed disposal of his or her New Shares.

An individual Eligible Shareholder who is resident in the UK for UK tax purposes and whose total taxable gains and income in a given tax year, including any gains made on the disposal or deemed disposal of his or her New Shares, are more than the Band Limit will generally be subject to capital gains tax at the flat rate of 10% in respect of any gain arising on a disposal or deemed disposal of his or her New Shares (to the extent that, when added to the Eligible Shareholder's other taxable gains and income in that tax year, the gain is less than or equal to the Band Limit) and at the flat rate of 20% in respect of the remainder.

No indexation allowance will be available to an individual Eligible Shareholder in respect of any disposal of New Shares. However, most individuals have an annual exemption, such that capital gains tax is chargeable only on gains arising from all sources during the tax year in excess of this figure. The annual exemption is £12,300 for the tax year 2020 - 2021.

Individuals who are temporarily non-resident may, in certain circumstances, be subject to tax in respect of gains realised while they are not resident in the UK.

(B) *Corporate Eligible Shareholders*

Where an Eligible Shareholder is within the charge to UK corporation tax, a disposal of New Shares may, depending on the circumstances and subject to any available exemption or relief, give rise to a chargeable gain (or an allowable loss) for the purposes of corporation tax.

Corporation tax is charged on chargeable gains at the rate of corporation tax applicable to that company. It should be noted for the purposes of calculating any indexation allowance available on a disposal of New Shares that generally the expenditure incurred in acquiring the New Shares will be treated as incurred only when the Eligible Shareholder made, or became liable to make, payment, and not at the time those shares are otherwise deemed to have been acquired. For disposals on or after 1 January 2018, indexation allowance will be calculated only up to and including December 2017, irrespective of the date of disposal of New Shares.

2.3 Interaction with Spanish taxation of capital gains

Eligible Shareholders who: (i) are resident in the United Kingdom for the purposes of United Kingdom tax law and the UK-Spain Treaty (being the double taxation treaty ratified between the United Kingdom and Spain); (ii) are entitled to the benefits of the UK-Spain Treaty; (iii) (in the case of individuals) are domiciled in the United Kingdom; (iv) are the absolute beneficial owners of the New Shares; and (v) do not carry on business through a permanent establishment in Spain with which their holding of New Shares is effectively connected (each, a "**UK Eligible Shareholder**"), should qualify for the benefits of a DTT (in this case, the UK-Spain Treaty), as described in section 4.2(B) (Taxation of capital gains) of Part A (Spanish Taxation) of this Part X (Taxation). The UK-Spain Treaty provides for the taxation of capital gains in respect of assets such as the New Shares only in the UK for UK Eligible Shareholders.

If any UK Eligible Shareholder were to be subject to Spanish tax on capital gains in respect of the New Shares, no credit for such Spanish tax would be available in the UK, given the terms of the UK-Spain Treaty described above. Eligible Shareholders who are not UK Eligible Shareholders or who are in any doubt as to their tax position should consult an appropriate professional tax adviser.

3. TAXATION OF DIVIDENDS

An Eligible Shareholder who is resident for tax purposes in the United Kingdom (or who is carrying on a trade, profession or vocation in the United Kingdom through a branch or agency or, in the case of a corporate Eligible Shareholder, a permanent establishment, in connection with which the New Shares are held) will, in general, be subject to UK income tax or corporation tax (as the case may be) on the gross amount of dividends paid on the New Shares, rather than on the amount actually received net of any Spanish withholding tax (further details of which can be found in section 4 (*Shareholders who are not resident for tax purposes in Spain*) of Part A (*Spanish Taxation*) of this Part X (*Taxation*)).

3.1 Individual Eligible Shareholders within the charge to UK income tax

(A) *General*

The general tax treatment of dividends paid by the Company to Eligible Shareholders who are individuals is as follows:

- Dividends paid by the Company do not carry a tax credit.
- The Company will not be required to withhold amounts on account of United Kingdom tax at source when paying a dividend.

- All dividends received by an individual Eligible Shareholder from the Company (or from other sources) will, except to the extent that they are earned through an ISA, self-invested pension plan or other regime which exempts the dividends from tax, form part of that Eligible Shareholder's total income for income tax purposes and will represent the highest part of that income.

- A nil rate of income tax applies to the first £2,000 of taxable dividend income received by an individual Eligible Shareholder in a tax year (the "**Nil Rate Amount**"), regardless of what tax rate would otherwise apply to that dividend income.

- Any taxable dividend income received by an individual Eligible Shareholder in a tax year in excess of the Nil Rate Amount is taxed at a special rate, as set out below.

(B) Dividend Income in excess of the Nil Rate Amount

Where an individual Eligible Shareholder's taxable dividend income for a tax year exceeds the Nil Rate Amount, the excess amount (the "**Relevant Dividend Income**") will be subject to income tax:

- at the rate of 7.5%, to the extent that the Relevant Dividend Income falls below the threshold for the higher rate of income tax;

- at the rate of 32.5%, to the extent that the Relevant Dividend Income falls above the threshold for the higher rate of income tax but below the threshold for the additional rate of income tax; and

- at the rate of 38.1%, to the extent that the Relevant Dividend Income falls above the threshold for the additional rate of income tax.

In determining whether and, if so, to what extent the Relevant Dividend Income falls above or below the threshold for the higher rate of income tax or, as the case may be, the additional rate of income tax, the Eligible Shareholder's total taxable dividend income for the tax year in question (including the part within the Nil Rate Amount) will, as noted above, be treated as the highest part of the Eligible Shareholder's total income for income tax purposes.

As noted above, dividends received by an Eligible Shareholder from their Shares will generally be subject to withholding tax in Spain. However, credit should generally be available for Spanish tax required to be deducted or withheld from the dividends paid on the New Shares against UK income tax or corporation tax to which the holder of the Shares is liable, with the credit covering a maximum of 10% of the gross dividend and being broadly limited to the amount of the Eligible Shareholder's UK income tax or corporation tax liability attributable to the dividends.

As a result, individual Eligible Shareholders who are chargeable to UK income tax on any Relevant Dividend Income and who claim that Spanish withholding tax credit through their UK tax return should be able to offset the amount of the available credit against their income tax liability. Any Eligible Shareholder whose taxable dividend income for the year does not exceed the Nil Rate Amount or who is otherwise not chargeable to income tax on all or any portion of the dividends will be unable to claim a UK credit in respect of Spanish withholding tax on those dividends.

Details of the Spanish withholding tax (currently at 19%, which may be subject to certain reliefs or exemptions) which will be applied to dividends paid on the New Shares may be found in section 4.2(A) (*Taxation of dividends*) of Part A (*Spanish Taxation*) of this Part X (*Taxation*).

In particular, UK Eligible Shareholders (see section 2.3 (*Interaction with Spanish taxation of capital gains*) above) should qualify for the benefits of a DTT (in this case, the UK-Spain Treaty), as described in section 4.2(A) (*Taxation of dividends*) of Part A (*Spanish Taxation*) of this Part X (*Taxation*). Accordingly, a UK Eligible Shareholder who satisfies all of the relevant procedural formalities should be entitled under the UK-Spain Treaty to a reduced rate of withholding tax, normally at a maximum of 10%.

3.2 Corporate Eligible Shareholders within the charge to UK corporation tax

Eligible Shareholders within the charge to corporation tax which are “small companies” (for the purposes of UK taxation of dividends) will not generally be subject to UK tax on dividends from the Company.

The Company will not be required to withhold amounts on account of United Kingdom tax at source when paying a dividend.

Other Eligible Shareholders within the charge to corporation tax will not be subject to UK tax on dividends from the Company so long as the dividends fall within an exempt class and certain conditions are met. Dividends paid on non-redeemable shares that do not carry any present or future preferential rights to dividends or to the relevant company’s assets on its winding up, and dividends paid to a person holding less than 10% of the issued share capital of the payer (or any class of that share capital), are examples of dividends that should fall within an exempt class.

Eligible Shareholders who are chargeable to corporation tax on the dividends and who claim a credit for Spanish withholding tax should generally be able to offset the amount of the available credit against their corporation tax liability as described in section 3.1 (*Individual Eligible Shareholders within the charge to UK income tax*) above. Corporate Eligible Shareholders that are also UK Eligible Shareholders who have satisfied all of the relevant procedural formalities should also be entitled under the UK-Spain Treaty to a reduced rate of withholding tax, normally at a maximum of 10% as described in section 3.1 (*Individual Eligible Shareholders within the charge to UK income tax*) above and section 4.2(A) (*Taxation of* Dividends) of Part A (*Spanish Taxation*) of this Part X (*Taxation*).

4. STAMP DUTY AND SDRT

4.1 Issue of New Shares and issue or crediting of rights to New Shares

No SDRT will generally be payable, and no liability to stamp duty will generally arise, on the issue or crediting of CDI Rights, on the crediting of Subscription Rights or on the issue of New Shares or of CDIs representing New Shares.

4.2 Purchase of rights to New Shares

Persons who purchase (or are treated as purchasing) rights to New Shares represented by CDI Rights, on or before the latest time for registration of renunciation, will not generally be liable to pay stamp duty or SDRT.

4.3 Subsequent dealings in New Shares

No SDRT will be payable in respect of any transfer of, or agreement to transfer, the New Shares or a CDI representing New Shares (including pursuant to any Special Stock Exchange Transaction) so long as:

(i) the Company is not centrally managed and controlled in the United Kingdom;

(ii) the New Shares are not registered in a register kept in the United Kingdom by or on behalf of the Company; and

(ii) the New Shares are of the same class as shares in the Company which are listed on a recognised stock exchange (which currently includes the Spanish Stock Exchanges and the London Stock Exchange).

No stamp duty will be payable in respect of the paperless transfer of a CDI representing New Shares within CREST, or in respect of any other paperless transfer of an interest in the New Shares in dematerialised form, for example by way of book entry transfer through the Iberclear system. Provided that any instrument of transfer is executed outside the United Kingdom and does not relate to any property situate, or to any matter or thing done or to be done, in the United Kingdom, no stamp duty will be payable in respect of other transfers of the New Shares.

PART C: US TAXATION

1. UNITED STATES TAX CONSIDERATIONS

This section describes the material U.S. federal income tax consequences of the receipt and subsequent disposition or exercise of Subscription Rights, the issuance of New Shares to the holders of the Subscription Rights and the ownership and disposition of New Shares. It applies to you only if you are a U.S. Holder (as defined below), acquire the Subscription Rights pursuant to the Capital Increase, acquire New Shares through exercise of the Subscription Rights or acquire New Shares pursuant to the concurrent offering, and hold those Subscription Rights or New Shares as capital assets for U.S. federal income tax purposes. This discussion addresses only U.S. federal income taxation and does not discuss all of the tax consequences that may be relevant to you in light of your individual circumstances, including foreign, state or local tax consequences, estate and gift tax consequences, and tax consequences arising under the Medicare contribution tax on net investment income or the alternative minimum tax. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

- a dealer in securities;
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;
- a tax-exempt organization;
- a life insurance company;
- a person that actually or constructively owns 10% or more of the combined voting power of our voting stock or of the total value of our stock;
- a person that holds Subscription Rights or New Shares as part of a straddle or a hedging or conversion transaction;
- a person deemed to sell Subscription Rights or New Shares under the constructive sale provisions of the Internal Revenue Code of 1986, as amended (the “**Code**”);
- a person that acquires or sells Subscription Rights or New Shares as part of a wash sale for tax purposes; or
- a U.S. Holder whose functional currency is not the U.S. dollar.

This section is based on the Code, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect, as well as on the Convention Between the United States of America and Spain (the “**Treaty**”). These authorities are subject to change, possibly on a retroactive basis.

If an entity or arrangement that is treated as a partnership for U.S. federal income tax purposes holds the Subscription Rights or the New Shares, the U.S. federal income tax treatment of a partner in such partnership, will generally depend on the status of the partner and the activities of the partnership. A partnership holding the Subscription Rights or the New Shares should consult its tax adviser regarding the U.S. federal income tax consequences to it and their partners of an investment in the Subscription Rights or the New Shares.

You should consult your own tax advisor regarding the United States federal, state, and local tax consequences of receiving, owning and disposing of Subscription Rights or New Shares in your particular circumstances.

2. CHARACTERIZATION OF THE ISSUANCE OF SUBSCRIPTION RIGHTS

Based on the facts and circumstances relating to this Capital Increase, we believe and intend to take the position that the issuance of Subscription Rights should be treated as a non-taxable event for recipients of such Subscription Rights for U.S. federal income tax purposes, and the discussion below so assumes. However, the treatment of the issuance of the Subscription Rights to shareholders pursuant to this Capital Increase as a non-taxable transaction for U.S. federal income tax purposes is not free from doubt, and it is possible that the U.S. Internal Revenue Service (the “IRS”) may take the position that the issuance of Subscription Rights is a taxable event for recipients of such Subscription Rights.

3. US HOLDERS

You are a U.S. Holder if you are, for U.S. tax purposes, a beneficial owner of Subscription Rights or New Shares and you are:

- a citizen or resident of the United States;
- a domestic corporation or other entity treated as a domestic corporation for United States federal tax purposes;
- an estate whose income is subject to United States federal income tax regardless of its source; or
- a trust if a United States court can exercise primary supervision over the trust’s administration and one or more United States persons are authorized to control all substantial decisions of the trust.

If you are not a U.S. Holder, this subsection does not apply to you and you should refer to “—Non-U.S. Holders” below.

3.1 Taxation in Respect of Subscription Rights

(A) Receipt of Subscription Rights

As described above, while not free from doubt, you should not recognize gain or loss upon the receipt of Subscription Rights.

(B) Basis and Holding Period of Subscription Rights

Your basis in the Subscription Rights you receive should be zero, unless either (i) the fair market value of the Subscription Rights on the date such Subscription Rights are distributed equals 15% or more of the aggregate fair market value of your Existing Shares or (ii) you elect to allocate to the Subscription Rights a portion of your basis in the Existing Shares with respect to which you will have received the Subscription Rights. If either of these situations applies, basis will be allocated in proportion to the relative fair market value of such Existing Shares and the Subscription Rights distributed thereon on the date the Subscription Rights are distributed. If you wish to make the election to allocate a portion of your basis in the Existing Shares to the Subscription Rights, you must attach a statement to this effect to your U.S. federal income tax return for the tax year in which you receive the Subscription Rights. The election will apply to all Subscription Rights you receive pursuant to this Capital Increase and, once made, will be irrevocable.

In the event that the value of the Subscription Rights is less than 15% of the aggregate fair market value of the Existing Shares, you should consult your own tax advisors regarding the advisability of making such an election.

Your holding period with respect to the Subscription Rights will include your holding period in the Existing Shares with respect to which the Subscription Rights are distributed.

(C) *Sale or Other Disposition of Subscription Rights*

Subject to the PFIC rules described below, you will recognize capital gain or loss on the sale or other disposition of Subscription Rights in an amount equal to the difference between the amount realized on the disposition and your tax basis, determined in U.S. dollars, in the Subscription Rights. Capital gain of a non-corporate U.S. Holder is generally taxed at the same rates as ordinary income if the holder has a holding period of one year or less. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. Your ability to deduct any capital losses may be subject to significant limitations.

The amount realised on a sale or other disposition of the Subscription Rights for an amount in a currency other than the U.S. dollar (a "foreign currency") will be the U.S. dollar value of this amount on the date of sale or disposition. To the extent the amount realized differs from the U.S. dollar value of the foreign currency received on the settlement date, you will recognize ordinary gain or loss. If you are a cash basis taxpayer and sell Subscription Rights that are traded on an established securities market (or an accrual basis taxpayer that so elects), the amount realized will be based on the exchange rate in effect on the settlement date for the sale. If you are an accrual basis taxpayer and wish to make such election, you must apply it consistently from year to year and cannot revoke it without the consent of the IRS.

(D) *Lapse of Subscription Rights*

If you allow your Subscription Rights to lapse without selling or exercising them and do not receive any proceeds, you will not recognize any loss upon expiration of the Subscription Rights. If you had allocated to such Subscription Rights a portion of your tax basis in your Existing Shares, that basis should be re-allocated to the Existing Shares.

(E) *Exercise of Subscription Rights*

You will not realize gain or loss upon the receipt of New Shares pursuant to the exercise of Subscription Rights. Your basis in such New Shares will equal the sum of (i) the U.S. dollar value of the share subscription price determined at the spot rate on the date of exercise and (ii) your basis, if any, in the Subscription Rights exercised to obtain such shares. Your holding period in each New Share acquired through the exercise of a Right will begin with and include the date of exercise.

3.2 Taxation in Respect of New Shares

(A) *Distributions*

Subject to the PFIC rules described below, the gross amount of any distributions with respect to New Shares that we pay out of our current or accumulated earnings and profits (as determined for U.S. federal income tax purposes), other than certain pro-rata distributions of our shares, will be treated as a dividend that would generally be taxable under U.S. federal income tax law. If you are a noncorporate U.S. holder, dividends that constitute qualified dividend income will be taxable to you at the preferential rates applicable to long-term capital gains provided that you hold the New Shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends we pay with respect to the New Shares generally will be qualified dividend income. We expect that dividends will be qualified dividend income provided that, in the year that you receive the dividend, we are eligible for the benefits of the Treaty. We believe that we are currently eligible for the benefits of the Treaty and we therefore expect that dividends on the New Share will be qualified dividend income.

You must include any Spanish tax withheld from the dividend payment in this gross amount even though you do not in fact receive it. The dividend is taxable to you when you receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a U.S. Holder will be the U.S. dollar value of the Euro payments made, determined at the spot Euro / U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for U.S. federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the New Shares and thereafter as capital gain. However, we do not expect to calculate earnings and profits in accordance with U.S. federal income tax principles. Accordingly, you should expect to generally treat distributions with respect to New Shares as dividends.

Subject to certain limitations, the Spanish tax withheld and paid over to Spain, if any, will be creditable or deductible against your U.S. federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to preferential rates. To the extent a refund of the tax withheld is available to you under Spanish law, the amount of tax withheld that is refundable will not be eligible for credit against your U.S. federal income tax liability. The rules governing foreign tax credits are complex, and U.S. holders should consult their tax advisors regarding the creditability of foreign taxes in their particular circumstances.

Dividends will generally be income from sources outside the United States and will generally be “passive” income for purposes of computing the foreign tax credit allowable to you.

(B) *Capital Gains*

Subject to the PFIC rules described below, if you are a U.S. Holder and you sell or otherwise dispose of your New Shares, you will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your New Shares. Capital gain of a non-corporate U.S. holder is generally taxed at preferential rates where the property is held for more than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

3.3 Passive Foreign Investment Company (“PFIC”) rules

We believe that Subscription Rights and New Shares should not currently be treated as stock of a PFIC for U.S. federal income tax purposes, and we do not expect to become a PFIC in the foreseeable future. However, this conclusion is a factual determination that is made annually and thus may be subject to change. It is therefore possible that we could become a PFIC in a future taxable year. If we were to be treated as a PFIC, unless you elect to be taxed annually on a mark-to-market basis with respect to your Subscription Rights or New Shares, the following rules would apply. With certain exceptions, your Subscription Rights or New Shares would be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your Subscription Rights or New Shares.

Any “excess distributions,” which would include any distributions during a taxable year that are greater than 125% of the average annual distributions received by you in respect of the Subscription Rights or New Shares during the three preceding taxable years or, if shorter, your holding period for the Subscription Rights or New Shares, and any gain realized on the sale or other disposition of your Subscription Rights or New Shares would be allocated ratably over your holding period for the Right or New Shares and would be taxed at the highest tax rate in effect for each such year to which the gain was allocated, together with an interest charge in respect of the tax attributable to each such year. Any gain recognized would not be treated as capital gain.

If you own Subscription Rights or New Shares in a PFIC that are treated as marketable stock, you may make a mark-to-market election. If you make this election, you will not be subject to the PFIC rules described above. Instead, in general, you will include as ordinary income each year the excess, if any, of the fair market value of your Subscription Rights or New Shares at the end of the taxable year over your adjusted basis in your Subscription Rights or New Shares. You will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of your Subscription Rights or New Shares over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Your basis in the Subscription Rights or New Shares will be adjusted to reflect any such income or loss amounts. Any gain that you recognize on the sale or other disposition of your New Shares would be ordinary income and any loss would be an ordinary loss to the extent of the net amount of previously included income as a result of the mark-to-market election and, thereafter, a capital loss.

In addition, notwithstanding any election you make with regard to the Subscription Rights or New Shares, dividends that you receive from us would not be eligible for the special tax rates applicable to qualified dividend income if we are treated as a PFIC with respect to you either in the taxable year of the distribution or the preceding taxable year, but instead would be taxable at rates applicable to ordinary income.

3.4 Information with Respect to Foreign Financial Assets

Owners of “specified foreign financial assets” with an aggregate value in excess of $50,000 (and in some circumstances, a higher threshold) may be required to file an information report with respect to such assets with their tax returns. “Specified foreign financial assets” may include financial accounts maintained by foreign financial institutions, as well as the following, but only if they are held for investment and not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-U.S. persons, such as the Subscription Rights and New Shares, (ii) financial instruments and contracts that have non-U.S. issuers or counterparties, and (iii) interests in foreign entities. U.S. Holders are urged to consult their tax advisors regarding the application of this reporting requirement to their ownership of the Subscription Rights or New Shares.

3.5 Backup Withholding and Information Reporting

If you are a non-corporate U.S. Holder, information reporting requirements, on IRS Form 1099, generally will apply to dividend payments or other taxable distributions made to you within the United States, and the payment of proceeds to you from the sale of Subscription Rights or New Shares effected at a United States office of a broker.

Additionally, backup withholding may apply to such payments if you fail to comply with applicable certification requirements or (in the case of dividend payments) are notified by the IRS that you have failed to report all interest and dividends required to be shown on your federal income tax returns.

Payment of the proceeds from the sale of Subscription Rights or New Shares effected at a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, a sale effected at a foreign office of a broker could be subject to information reporting in the same manner as a sale within the United States (and in certain cases may be subject to backup withholding as well) if (i) the broker has certain connections to the United States, (ii) the proceeds or confirmation are sent to the United States or (iii) the sale has certain other specified connections with the United States.

You generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed your income tax liability by filing a refund claim with the IRS.

PART XI
ADDITIONAL INFORMATION

1. RESPONSIBILITY STATEMENT

The Directors, whose names appear on page 52 of this Prospectus, and the Company, being represented by Luis Gallego by virtue of the special power of attorney granted by the resolutions of the Board of Directors dated 9 September 2020, accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Directors and the Company, the information contained in this Prospectus is factually correct and this Prospectus makes no omission likely to affect its import.

2. INCORPORATION AND ACTIVITY OF THE COMPANY

2.1 Legal and commercial name of the issuer

The corporate name of the Company is “International Consolidated Airlines Group, S.A.”. The Company operates under the commercial name “International Airlines Group” and has done so since its incorporation.

2.2 Registry details of the issuer and Legal Entity Identifier (LEI)

The Company, with tax identity number (NIF) A-85845535, is registered at the Madrid Commercial Registry, under volume 27,312, book 0, section 8, sheet 11, page M-492,129.

Its Legal Entity Identifier (LEI Code) is 959800TZHQRUSH1ESL13.

2.3 Date of incorporation and period of activity of the issuer

The Company was incorporated in the Kingdom of Spain for an indefinite term on 17 December 2009 by way of a public deed granted before the Notary of Madrid, Mr. Ignacio Martínez-Gil Vich with file number 3,886 and under the corporate name “Global Baibco, S.A.”.

The Company is the ultimate holding company of the Group which consists of four core airline brands based in the United Kingdom, Spain and Ireland: British Airways, Iberia, Vueling and Aer Lingus.

The By-Laws can be accessed on the Company’s corporate website.

2.4 Domicile and legal form of the Company, the legislation under which the Company operates, its country of incorporation, the address and telephone number of its registered office and website of the issuer

The Company has its registered office at El Caserío, Iberia Zona Industrial nº 2 (La Muñoza), Camino de La Muñoza, s/n, 28042, Madrid, Spain. The principal place of business of the Company is Waterside (HAA2), PO Box 365, Harmondsworth, Speedbird Way UB7 0GB, United Kingdom, with telephone number +44 208 564 2800.

The Company was incorporated under Spanish legislation as a public limited company (*sociedad anónima cotizada*). The Company is subject to, among others, the Spanish Companies Act and the Capital Markets Act.

The corporate website of the Company is www.iairgroup.com.

The information available on the Company’s website (as well as any other information available on other websites referred to in this Prospectus), other than the information which has been incorporated by reference to this Prospectus pursuant to section 21 (*Documents Incorporated by Reference*), does not form part of this Prospectus and has not been reviewed nor approved by the Company or the CNMV.

3. SHARE CAPITAL OF THE COMPANY

3.1 Share capital

The capital reduction of the Company that took place on 9 September 2020 reduced the issued share capital of the Company to €199,203,263.40, comprising 1,992,032,634 Existing Shares of €0.10 nominal value each, each of a single class, carrying one vote and fully paid (or credited as fully paid).

The Existing Shares are listed on and admitted to trading on the Spanish Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia, through the Automated Quotation System of the Spanish Stock Exchanges (*Sistema de Interconexión Bursátil or Mercado Continuo*) and on the premium listing segment of the Official List and admitted to trading in the form of CDIs on the London Stock Exchange's Main Market. Shareholders holding Existing Shares via the Madrid Stock Exchange receive shares and Shareholders holding via the London Stock Exchange receive CDIs. The Company also has an ADR programme in the United States that trades in the OTC market, administered by Deutsche Bank.

As at the Latest Practicable Date, the Company held 5,737,049 Existing Shares in treasury.

The issued and fully paid share capital of the Company (including treasury shares) immediately following completion of the Capital Increase, assuming that the maximum number of New Shares is issued and that no Shares are issued as a result of the exercise of any options between the Latest Practicable Date and the completion of the Capital Increase, is expected to be as follows:

	Number	**Aggregate nominal value (€)**
Shares	4,971,476,010	497,147,601

3.2 Information about and terms of any acquisition rights and/or obligations over authorised but unissued capital or an undertaking to increase the capital

Pursuant to the Spanish Companies Act and the By-Laws, shareholders have pre-emptive rights to subscribe for newly issued shares in consideration for cash contributions or newly issued notes that are convertible into shares. Such pre-emptive rights may be waived under special circumstances by a resolution passed by the general shareholders' meeting or the Board of Directors (in the event the general shareholders' meeting of a listed company delegates to the board of directors the decision to increase the company's capital stock or issue convertible notes and exclude pre-emptive rights), in accordance with the provisions of the Spanish Companies Act. In such cases, the resolution authorising the waiver of pre-emptive rights will only be valid if, amongst other requirements: (i) a report is issued by an independent expert appointed by the Commercial Registry (*Registro Mercantil*) stating, amongst other things, the reasonable market value (*valor razonable*) of the shares (the quotation price in the case of listed companies, unless other arrangements can be justified) and determining the theoretical value (*valor teórico*) of the pre-emptive rights and, in case of listed companies, also the net book value (*valor neto patrimonial*) of the shares; and (ii) the nominal value and issue premium of the newly issued shares is equivalent to the reasonable value assigned to such shares in the aforementioned independent expert's report, provided, however, that pursuant to article 505 of the Spanish Companies Act, listed companies are entitled to issue shares at a value equal or higher than their net book value, as determined by the independent expert's report.

Furthermore, pre-emptive rights will not be exercisable by shareholders in case of a capital stock increase that is required for the purposes of issuing convertible notes, completing a merger, acquiring all or part of another company's assets in which shares are issued as consideration or capital increases against non-cash contribution (*ampliaciones de capital no dinerarias*) or capitalising of credit rights. Subscription rights are transferable, may be traded on the

SIBE (*Sistema de interconexión bursátil*) and may be of value to existing shareholders since new shares may be offered for subscription at prices lower than prevailing market prices.

As of the date of this Prospectus, there are no acquisition rights and/or obligations over authorised but unissued capital of the Company or an undertaking to increase the capital of the Company.

In the United Kingdom, the Company remains subject to the continuing obligations of the UK Listing Rules with regard to the issue of securities for cash.

Pursuant to the Capital Increase, 2,979,443,376 New Shares will be issued at a price of €0.92 per New Share. This will result in the issued ordinary Share capital of the Company (including Existing Shares held in treasury) increasing by approximately 149.6%. Eligible Shareholders who take up their pro rata entitlement in full will suffer no dilution to their interests in the Company as a result of the Capital Increase. Shareholders who do not or are not permitted to take up any of their rights to acquire the New Shares will be diluted by 59.9% as a result of the Capital Increase (assuming no Shares are issued due to the vesting or exercise of any awards under the Share Plans between the Latest Practicable Date and the completion of the Capital Increase).

The New Shares, which are the subject of the Capital Increase, will be provisionally allotted as Subscription Rights to all Shareholders on the register at close of business on the Record Date by a resolution of the Board of Directors and created in accordance with the laws of Spain.

On Admission, the New Shares will be registered with an ISIN of ES0177542018 and a SEDOL of B5282K0 in Spain and B5M6XQ7 in the United Kingdom. The ISIN for the Subscription Rights (including the CDI Rights) will be ES0677542906 and the SEDOL will be BN785J1 for the Subscription Rights in Spain and BN78773 for the CDI Rights in the United Kingdom. The CDI Rights, and their associated ISIN, will be cancelled and will cease to be traded on the London Stock Exchange at the end of the trading period.

4. INFORMATION ABOUT THE NEW SHARES

4.1 Description and type of securities

(A) New Shares

The New Shares will be fully paid ordinary shares with a nominal value of €0.10 each. On Admission, the New Shares will be registered with an ISIN of ES0177542018 and a SEDOL of B5282K0 in Spain and B5M6XQ7 in the United Kingdom. The New Shares will be traded on the Spanish Stock Exchanges, through the AQS, and traded on the Main Market of the London Stock Exchange where they will be represented by CDIs, under the ticker symbol "IAG". It is expected that admission of the Subscription Rights will become effective and that dealings on the Spanish Stock Exchanges in the Subscription Rights are expected to commence at 9:00 (CEST) on 14 September 2020 and dealings of CDI Rights on the London Stock Exchange are expected to commence at 8:00 (BST) on 14 September 2020.

The New Shares will be issued under the restated text of the Spanish Companies Act.

All New Shares will, when issued and fully paid, rank *pari passu* in all respects with the Existing Shares, including the right to receive all dividends and other distributions made, paid or declared after the date of issue of the New Shares. The New Shares do not carry any rights to participate in a distribution of capital (including on a winding-up) other than those that exist as a matter of law.

On Admission, the number of New Shares in issue will be 2,979,443,376. The New Shares will be freely transferable and there will be no restrictions on the transfer of New Shares, except for those restrictions set out in the By-laws and summarised at section 4.2 (*Restrictions on the free transferability of the Shares*). The Company expects the New Shares issued in the Capital Increase to start trading on the Spanish Stock Exchanges from on or about 7 October 2020.

(B) *Issue of CDIs representing entitlements to New Shares*

Trades in New Shares, being Spanish securities, are not capable of being settled through CREST. Accordingly, the Company will issue New CDIs to enable investors to settle New Shares in CREST in the form of CDIs which will be traded in sterling. New CDIs will represent entitlements to New Shares. For each existing CDI, the CDI Holder will be entitled to 1 CDI Right, and 2 CDI Rights will be required to subscribe for 3 New CDIs.

4.2 Restrictions on the free transferability of the Shares

Notwithstanding that: (i) the By-laws do not contain any restriction on the free transferability of the Shares and (ii) the Shares will be freely transferable under applicable law, the By-laws establish a series of special obligations concerning disclosure of ownership of the Shares ownership as well as certain limits on shareholdings, taking into account the ownership and control restrictions provided for in applicable legislation and bilateral air transport treaties signed by Spain and the United Kingdom.

Certain articles of the By-laws establishing such special obligations have been amended as approved by Shareholders on 8 September 2020. As indicated in the relevant report issued by the Board of Directors, which is still available on the Company's website (www.iairgroup.com), the main aim of such amendments was (among others) to adapt the By-laws to the United Kingdom's withdrawal from the European Union. For such reason, it was proposed to include certain technical improvements as well as to amend certain definitions. The terms and references made to the By-laws through the Prospectus correspond to the most updated and current version of the By-laws.

The articles establishing the above-mentioned special obligations are detailed below.

As per article 6.4 of the By-laws, no person will be registered as a holder of any share in the Company (and therefore recognised as a shareholder of the Company) unless the relevant information relating to nationality of the holder and any person who is the beneficial owner of, or who has an interest in, such share has been received.

In accordance with Article 7 of the By-laws, Shareholders must notify IAG of any acquisition or disposal of Shares or of any interest in the Shares that directly or indirectly entails the acquisition or disposal of a stake of over 0.25% of the Company's share capital, or of the voting rights corresponding thereto, expressly indicating the nationality of the transferor and/or the transferee obliged to notify, as well as the creation of any charges on Shares (or interests in Shares) or other encumbrances whatsoever, for the purposes of the exercise of the rights conferred by them.

In addition, pursuant to Article 10 of the By-laws, the Company may require any Shareholder or any other person with a confirmed or apparent interest in Shares to disclose to the Company in writing such information as the Company may request in relation to the beneficial ownership of or any interest in the Shares in question as lies within the knowledge of such Shareholder or other person (supported, if the Company so requires, by a statutory or notarial declaration and/or by independent evidence), including any information that the Company deems necessary or appropriate in order to determine whether the nationality of the holders of said Shares or other person could adversely affect the operating rights of the operating companies of the Group and to adopt the measures provided for in the By-laws and in the applicable legislation in order to protect such operating rights. The By-laws define operating rights as all or any part of any authority, permission, licence or privilege, whether granted or enjoyed pursuant to an air services agreement or otherwise, which enables an air service to be operated.

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

(A) the Shareholder is not themselves in default as regards supplying the information required; and

(B) the transfer is of part only of the Shareholder's holding and when presented for registration is accompanied by a certificate by the Shareholder in a form satisfactory to the Board of Directors to the effect that after due and careful enquiry, the member is satisfied that none of the Shares the subject of the transfer is a Share whose holder has not complied with their relevant information obligations.

The Company shall maintain, in addition to the registered Shares book, a separate register of Shares held by non-EEA or United Kingdom Shareholders, a separate register of Shares held by Spanish nationals and a register of Shares held by United Kingdom nationals (in all cases as defined in the By-laws). The Board of Directors shall periodically publish the number of Shares registered on the share register that are held by non-EEA Shareholders.

In the event that the Board of Directors deems it necessary or appropriate to adopt measures to protect an operating rights of the Group, in light of the nationality of the Shareholders or any persons with an interest in the Shares, it may adopt any of the measures provided for such purpose in Article 11 of the By-laws, including the determination of a Permitted Maximum, that is, a maximum number of Shares that may be held by any non-EEA shareholders, which may not be less than 40% of the Company's share capital under any circumstances.

When the Board of Directors adopts such a measure, it must communicate the measure adopted to the CNMV and the regulatory bodies of the other securities markets in which the Shares are listed, where appropriate, so that such institutions may notify such measure to any investment services firms and credit institutions authorised to provide investment services. Such measures must also be notified to the Spanish Ministry of Development (*Ministerio de Fomento*) through the DGAC, the CAA and the other competent authorities regarding any operating rights held or enjoyed by the Group.

Such event will also be announced by the Company in such manner as is prescribed for the making of announcements under the rules and regulations of the relevant regulators and each stock exchange on which Shares or securities evidencing the right to receive Shares are, at the instigation of the Company, listed, quoted or dealt in as at the date of making of such resolution. For example, on 11 February 2019, the share register of the Company showed that ownership of the Shares by non-EEA Shareholders had at that time reached 47.5%. As a result, the Board of Directors decided that it was necessary to specify a maximum aggregate number of Shares held by non-EEA Shareholders in accordance with its By-laws. This permitted maximum was subsequently removed on 17 January 2020 when the register of Shareholders showed that 39.5% of the Shares were held by non-EEA Shareholders.

Once such a measure has been duly disclosed, no acquisitions or transfers of Shares with or between Non-Qualifying Persons may take place unless accompanied by a certificate issued by the Board of Directors evidencing that the acquisition or transfer does not exceed the permitted maximum determined by it, which (as stated above) shall not be less than 40% of the Company's share capital.

The Board of Directors may also: (i) agree on the suspension of voting and other political rights of the holder of the relevant Shares, and (ii) request that the holders dispose of the corresponding Shares so that no Non-Qualifying Person may directly or indirectly own such Shares or have an interest in the same. If such transfer is not performed on the terms provided for in the By-laws, the Company may acquire the corresponding Shares (for their subsequent redemption) pursuant to applicable legislation. This acquisition must be performed at the lower of the following prices: (a) the book value of the corresponding Shares according to the latest published audited balance sheet of the Company; and (b) the middle market quotation for a Share as derived from the London Stock Exchange's daily list for the Business Day on which they were acquired by the relevant Non-Qualifying Person.

When deciding to which Shares the penalties provided for in the preceding paragraph can be applied, the Board of Directors shall take into consideration the chronological order in which the Shares held by Non-Qualifying Persons have or ought to have been registered on the corresponding Company share register, except in circumstances in which the application of this criterion is unfair or there is a possibility, for whatever reason, that the powers of the

Board of Directors deriving from Article 11 of the By-laws become illegal or unenforceable, in which case, the Board of Directors shall apply the criterion or criteria it considers appropriate, at its sole discretion.

4.3 Form and currency of the New Shares

The New Shares will be registered and represented by book entries and shall be recorded in the relevant accounting records by Iberclear and its Participating Entities, with registered office at Plaza de la Lealtad, 1 (28014 - Madrid).

The New Shares are, and on Admission to the Spanish Stock Exchanges will be, denominated in euros (€) and, on admission to the London Stock Exchange, in the form of CDIs, will be denominated in sterling.

The registrar of the Company, in respect of the New Shares on the Spanish Stock Exchanges, is Banco Santander and, on the London Stock Exchange where they will be represented by CDIs, is Euroclear UK & Ireland.

No share certificates will be issued in respect of New Shares. No temporary documents of title have been or will be issued in respect of the New Shares.

The New CDIs will be admitted to CREST, the computerised, paperless system for settlement of sales and purchases of shares in the London securities market, with effect immediately upon admission and the commencement of dealings on the London Stock Exchange.

4.4 Legislation under which the New Shares are created

The New Shares are subject to the same legal provisions of Spanish legislation as the Existing Shares and, in particular, the provisions included under the Spanish Companies Act and Capital Markets Act, as well as RD 1310/2005 and RD 878/2015. The issue and Admission of the New Shares does not require any authorisation or administrative pronouncement other than the general provisions on the CNMV's approval and registration of this Prospectus, and the registration of the public deed of capital increase with the Commercial Registry of Madrid, according to the provisions established in the Capital Market Act and its implementing regulations, and the Spanish Companies Act.

The Capital Increase and the offer for the subscription of the New Shares issued pursuant to the Capital Increase, including the exercise of the Subscription Rights, the request for Additional Shares and subscription requests for Discretionary Allocation Shares, will be governed by and interpreted in accordance with applicable Spanish Law. However, the acquisition, exercise and holding of Subscription Rights and New Shares by an investor may be affected by legal or regulatory requirements of its own jurisdiction, which may include restrictions on the free transferability of such securities.

4.5 Resolutions, authorisations and approvals by virtue of which the securities have been or will be created and/or issued

The New Shares are created and issued by virtue of the following resolutions:

(A) Resolution 15 of the General Shareholders' Meeting of the Company of 8 September 2020, by virtue of which a capital increase up to an amount of €2,750,000,000 was approved and the authority to execute the Capital Increase, including the date and the specific conditions not included in the General Shareholders' Meeting resolution, was delegated to the Board of Directors, in accordance with the provisions of Article 297.1(a) of the Spanish Companies Act.

(B) Resolution 1 of the Company's Board of Directors, of 9 September 2020 executing the Capital Increase of the Company's share capital for a nominal amount of €297,944,338, through the issuance of 2,979,443,376 New Shares each with a nominal value of €0.10, of the same type, class and series as the Existing Shares and represented by book entries. The total amount corresponding to the issue premium of the New Shares and the amount of the Capital Increase is €2,741,087,906.

4.6 Rights attached to the New Shares

In accordance with the By-laws, approved on 7 November 2018 and registered with the Commercial Registry of Madrid on 14 November 2018, the New Shares being admitted to trading are Shares, of the same class and series and conferring their holders the same voting and economic rights as the Existing Shares, as set forth under the Spanish Companies Act and the By-laws.

The New Shares will be registered to the name of the corresponding Shareholders in the book-keeping records of Iberclear and its Participating Entities. The expenses of the initial registration of the New Shares will be satisfied by the Company in their entirety.

(A) *Dividend Rights*

Holders of the Shares have the right to participate in distributions of profits and proceeds from liquidation, proportionally to their paid-up share capital. However, there is no right to receive a minimum dividend.

Payment of dividends is generally proposed by the Board of Directors and must be authorised by the Shareholders at a Shareholders' general meeting. Shareholders have the right to participate in such dividends from the date agreed by the Shareholders at a Shareholders' general meeting. Additionally, interim dividends (*dividendo a cuenta*) may also be distributed among Shareholders directly upon approval by the Board of Directors provided that: (i) the Board of Directors drafts the corresponding accounting statement reflecting that there is sufficient liquidity to pay the interim dividend; and (ii) the amount distributed by way of interim dividend does not exceed the amount resulting from deducting the following from the earnings booked since the end of the previous year: (a) the sum of previous years' losses, (b) the amounts earmarked for the legal or By-laws' reserves, and (c) the estimated tax due on the aforesaid earnings. The Spanish Companies Act requires that every company allocates at least 10% of its net income each year to a legal reserve until the balance of such reserve is equivalent to at least 20% of such company's issued share capital. A company's legal reserve is not available for distribution to its shareholders except upon such company's liquidation and, until such legal reserve reaches 20% of the company's share capital, it may only be used to compensate losses if no other reserve is available for such purposes. As of 31 December 2019, the Company's legal reserve amounted to €205,799,000, which is above the limit of 20% of the Company's aforementioned share capital.

According to the Spanish Companies Act, dividends may only be paid out of profits or distributable reserves (after the compulsory allocation to mandatory reserves, including the legal reserve) and only if the value of the Company's net worth is not, and as a result of distribution will not become, less than its share capital.

In addition, no profits may be distributed unless the amount of distributable reserves is at least equal to the amount of the research and development expenses recorded as an asset on the Company's statement of financial position. Accordingly, the Company's ability to make a distribution to Shareholders will depend on its ability to generate net profits in future periods in order to achieve sufficient distributable reserves.

In accordance with Article 947 of the Spanish Commercial Code (*Código de Comercio*), the right to a dividend lapses and reverts to the Company if it is not claimed within five years after it becomes payable.

The Company's ability to distribute dividends in the near future will depend on a number of factors, including (but not limited to) the amount of its distributable profits and reserves, its investment plans, earnings, level of profitability, cash flow generation, restrictions on payment of dividends under local applicable law, compliance with covenants in the Company's debt arrangements, restrictions in place on the ability of operating companies to make dividends to the Company, and such other factors as the Board of Directors or the shareholders may deem relevant from time to time.

(B) *Rate of dividend or method of its calculation, periodicity and cumulative or non-cumulative nature of payments*

As with the Shares, the New Shares will not give their holders any right to receive a minimum dividend, as they are all Shares. Therefore, the right to a dividend for these Shares shall only arise from the moment that the General Shareholders' Meeting or Board of Directors, as the case may be, agrees a distribution of earnings.

4.7 Dividend restrictions and procedures for non-resident holders

The Company is not aware of any restriction on the collection of dividends by Shareholders who are not resident in Spain or the United Kingdom. All Shareholders will receive dividends through Iberclear and its Participating Entities, without prejudice to potential withholdings on account of the Non-Resident Income Tax that may apply.

4.8 Rights attaching to the CDIs representing the New Shares

The holders of New CDIs will have an entitlement to the New Shares but will not be the registered holders thereof. Accordingly, the holders of New CDIs will be able to enforce and exercise the rights relating to the New Shares described in section 4.9 (*Holders of New CDIs will be subject to the applicable CDI arrangements*). The New CDIs being admitted to trading are CDIs, of the same class and series and conferring their holders the same voting and economic rights as the CDIs in issue as at the date of this Prospectus. As a result of certain aspects of Spanish law which govern New Shares, the holders of New CDIs will not be able directly to enforce or exercise certain rights, including voting and pre-emption rights but, instead, will be entitled to enforce them indirectly via Euroclear Nominees. Holders of New CDIs (including, for this purpose, those persons holding New CDIs through the IAG Nominee Service) will, at their option, be able to effect the cancellation of their New CDIs in CREST and receive the underlying New Shares to which they are entitled into a shareholding account with a depository financial institution which is a participant in Iberclear.

The New CDIs will be created and issued on the same terms and under the same applicable Euroclear requirements as the CDIs in issue as at the date of this Prospectus (the "**CREST Regulations**"), which govern the relationship between the CREST Depository and CDI Holders. The terms and conditions of the IAG Nominee Service provide that the persons on whose behalf the IAG Nominee holds New CDIs shall be entitled to all rights attaching to such New CDIs. Rights attaching to the New CDIs which are described below as being exercisable by holders of New CDIs are, in the case of New CDIs held on trust by the IAG Nominee, exercisable by the persons on whose behalf the New CDIs are held through the New Nominee.

In order to allow the holders of New CDIs to exercise rights relating to the New Shares, the Company has in place, in respect of existing CDIs, arrangements pursuant to which all holders of New CDIs will be able to exercise rights relating to the New Shares represented thereby, and in particular:

(A) will receive notices, in English, of all Shareholders' meetings of the Company (to the extent that Shareholders receive such notices);

(B) will be able to appoint the New CDI holder, or any other person, as proxy in respect of the New Shares to which that holder's New CDIs relate to attend and vote at Shareholder meetings of the Company;

(C) will be able to give directions as to voting at all Shareholders' meetings of the Company;

(D) will be sent copies of the annual report and accounts of the Company (to the extent that copies are sent to Shareholders) and all of the documents issued by the Company to the holders of New Shares (in each case, in English); and

(E) will be treated in the same manner as registered holders of New Shares in respect of all other rights attaching to New Shares without prejudice to the limitations described herein, in each case, so far as possible in accordance with applicable CREST Regulations, the By-laws, and applicable law.

However, it should be noted that in order to vote or exercise other Shareholder rights in person at a Shareholders' meeting of the Company, holders of New CDIs will have to appoint a proxy in respect of the New Shares to which that holder is entitled. New CDI holders will, however, be entitled to appoint any person, including the relevant New CDI holder or the Chairman of the Company, as proxy to attend and speak at Shareholder meetings of the Company and to vote the underlying New Shares to which such holder is entitled in accordance with such holder's directions. It should also be noted that in order to be valid the proxy form will usually be required to set out how votes must be cast on each resolution contained in the relevant notice of meeting and the relevant proxy (unlike Shareholder who can make their decisions at the relevant meeting) can therefore not vote in a different way to that set out in the proxy form with respect to those resolutions. It is also likely that a proxy appointment by a New CDI holder will need to be made earlier than a proxy appointment by a holder of Shares.

New CDI holders wishing to use the voting rights attached to the New Shares represented by their New CDIs personally in their capacity as a Shareholder (and not as proxy), by attending a Shareholders' meeting of the Company, will first have to effect the cancellation of their New CDIs for their underlying New Shares so that such shares are held by such holder or such holder's nominee in Iberclear in time for the record date of the relevant Shareholders' meeting. On so doing, they will, subject to and in accordance with the By-laws, be able to attend and vote in person at the relevant Shareholders' meeting. Details of how such cancellation can be effected will be obtainable by contacting Computershare on 0370 702 0110 (from inside the United Kingdom) from 8.30 (BST) to 17.30 (BST) Monday to Friday (excluding United Kingdom public holidays). Calls from outside the United Kingdom will be charged at the applicable international rate.

The operator of the IAG Nominee Service will send to each person on whose behalf New CDIs are held by the IAG Nominee, a statement of their entitlements in New CDIs shortly following the admission of the New CDIs to trading on the London Stock Exchange and at least once a year afterwards, for so long as such person retains entitlements to some New CDIs in the account of the IAG Nominee Services.

4.9 Holders of New CDIs will be subject to the applicable CDI arrangements

As the New Shares are Spanish securities, they are not eligible to be settled directly within CREST. CREST is the electronic settlement system for UK and Irish securities operated by Euroclear which allows trades in securities listed on the Official List to be settled. In order to enable settlement in CREST, the Company will issue New CDIs to enable investors to hold and settle New Shares in CREST in the form of dematerialised CDIs. CDIs represent entitlements to underlying non-United Kingdom shares (in this case, the Shares). The New CDIs will represent entitlements to the New Shares and each New CDI will represent an entitlement to one New Share.

Holders of New CDIs will only be able to exercise their rights attached to New CDIs by instructing CREST Depositary Limited, as issuer of the New CDIs, to exercise these rights on their behalf, and, therefore, the process for exercising rights attached to New CDIs (including the right to vote at general meetings and the right to subscribe for new shares of the Company on a pre-emptive basis) will take longer for holders of New CDIs than for holders of New Shares. For this reason, a deadline will be set by CREST Depositary Limited by which it must receive instructions from all holders of New CDIs in respect of the relevant corporate action of the Company and holders of New CDIs may have shorter periods to exercise rights attached to the New CDIs than holders of New Shares will have to exercise rights attached to New Shares. CREST Depositary Limited will not exercise voting rights with regard to any New CDI for which it does not receive voting instructions by the deadline.

4.10 Transfers of New CDIs

As with CDIs, holders of New CDIs will, at their option, be able to effect the cancellation of their New CDIs in CREST and receive the underlying New Shares to which they are entitled into a shareholding account with a depository financial institution which is a participant in Iberclear. New CDI Holders who wish to cancel their New CDIs may do so by sending an instruction to CREST to that effect and follow the rules and practices of CREST (subject to any legal restrictions on transfer in any jurisdiction) (in the case of those persons holding New CDIs through the IAG

Nominee they should follow the procedures set out in the IAG Nominee Services terms and conditions). Certain transfer fees will generally be payable by a holder of New CDIs (including, for this purpose, a person holding New CDIs through the New Nominee) who makes such a transfer. Further details will be set out in the terms and conditions of CREST or, if applicable, the IAG Nominee Service.

4.11 Shareholders' rights

(A) Voting and attendance rights

Each Share entitles the Shareholder to one vote. Any Shareholder may attend Shareholders' meetings, whether in person or by proxy, provided that their Shares are registered in their name on the corresponding register of book entries five days in advance of the date scheduled for the Shareholders' meeting, as evidenced by the pertinent attendance card or certificate issued by one of the Participant Entities of the agency which manages said accounting register, or in any other manner permitted by applicable legislation.

All Shareholders entitled to attend a Shareholders' meeting may be represented at the Shareholders' meeting by any person (whether or not such person is a Shareholder), using the means of delegation provided for by the Company for each Shareholders' meeting, which shall be recorded on the attendance card, in accordance with the Spanish Companies Act. The proxy attendance card must be in the possession of the Company before the date scheduled for the Shareholders' meeting, within the time period stipulated in the call notice for the Shareholder meeting.

Unless otherwise indicated by the Shareholder granting the proxy, in the event that the proxy-holder is subject to a conflict of interest, it shall be deemed that the Shareholder granting the proxy has also appointed as proxy-holders, jointly and severally and successively, the Chairman of the Shareholders' meeting and, if such Chairman is also subject to a conflict of interest, the Company Secretary for the Shareholders' meeting and, if such Company Secretary is also subject to a conflict of interest, the Company Deputy Secretary, if any.

(B) Pre-emptive rights and Increases of share capital

Pursuant to the Spanish Companies Act and the By-laws, Shareholders have pre-emptive rights to subscribe for any new shares issued against monetary contributions and for any new bonds convertible into shares. Such pre-emptive rights may be excluded when so required by the corporate interest of the Company under special circumstances by a resolution passed at a Shareholders' meeting or by the Board of Directors (when the company is listed and the Shareholders at the Shareholders' meeting delegate to the board of directors the right to increase the capital stock or issue convertible bonds and exclude pre-emptive rights), in accordance with Articles 308, 417, 504, 505, 506 and 511 of the Spanish Companies Act. Other than the €500,000,000 0.625% bonds due 17 November 2022, the Company has neither convertible nor exchangeable bonds outstanding and has not issued any warrants over its shares.

Shareholders also have the right of free allotment recognised in the Spanish Companies Act in the event of capital increase against reserves.

Furthermore, the pre-emptive rights, in any event, will not be available in an increase in share capital against non-cash contributions, by means of capitalisation of credit rights, or to honour the conversion into shares of convertible bonds or in a merger in which shares are issued as consideration.

Pre-emptive rights are transferable, may be traded on the AQS and may be of value to existing shareholders because new shares may be offered for subscription at prices lower than prevailing market prices.

The Board of Directors is authorised until the 2021 Annual Shareholders Meeting or, if earlier, once fifteen months have elapsed from the 2020 Annual Shareholders Meeting (held on 8 September 2020) by the Shareholders at the Shareholders' general meeting to issue New Shares up to 50% of the Company's share capital on the date of approval of this Prospectus. The Board of Directors may also be authorised to exclude pre-emptive rights in connection with up to 5% of the share capital of the Company after the Capital Increase pursuant to the aforementioned authorisation, provided that such exclusion is in its corporate interest.

(C) *Share in the issuer's profits*

All of the Shares grant their owners the right to share in the Company's profits, in proportion to their nominal value.

(D) *Liquidation rights*

In the event of the Company's liquidation, Shareholders would be entitled to receive a liquidation settlement in proportion to their stake, after payment of the Company's debts and all applicable taxes and expenses.

5. FRUSTRATING ACTIONS

The Company is subject to the regulations on takeover bids contained in the Capital Markets Act and its implementing regulations, currently Royal Decree 1066/2007 of 27 July on the rules governing takeover bids (*Real Decreto 1066/2007, de 27 de julio, sobre el régimen de las ofertas públicas de adquisición de valores*). Other than as provided by in the foregoing, there are no rules or provisions under the law of the Kingdom of Spain relating to mandatory bids and/or squeeze-out and sell-out rules relating to the Shares.

No takeover bids over the Shares have taken place during the current or previous financial year.

6. MAJOR SHAREHOLDERS AND OWNERSHIP AND CONTROL REQUIREMENTS

6.1 Major Shareholders

As at the Latest Practicable Date, the Company had been notified of the following interests in its issued share capital:

Name or corporate name of indirect Shareholder	Name or corporate name of direct Shareholder	Percentage of shares carrying voting rights(1)	Percentage of voting rights through financial instruments(1)	Percentage of total voting rights(1)
N/A	Qatar Airways Group Q.C.S.C.	25.10	-	25.10
Lansdowne Partners International Limited	Funds and accounts managed by Lansdowne Partners (UK) LLP	1.90	1.00	2.90
Invesco Ltd.	Mutual and pension funds managed by Invesco Limited and its subsidiaries	1.98	-	1.98

(1) Percentages are inclusive of treasury shares

All relevant information regarding any significant interests in the capital of the Company is available at the CNMV's website (www.cnmv.es).

None of the Company's major Shareholders has different voting rights from any other Shareholder.

All of the Company's Existing Shares are of the same class and series, with the same voting and economic rights. Each Existing Share gives the Shareholder a right to one vote. There are no privileged shares or shares otherwise having special voting rights attached to them in existence. To the best knowledge of the Company, as of the date of the Prospectus, there is no arrangement that may result in a change of control of the Company.

6.2 Irrevocable undertaking

The Company has agreed the Qatar Airways Irrevocable pursuant to which Qatar Airways has agreed to subscribe for its pro rata entitlement for New Shares under the terms of the Capital Increase, representing approximately 25.1% of the Existing Shares in issue (including treasury shares) on the Latest Practicable Date. For further information on the Qatar Airways Irrevocable, see section 10.1 (*Irrevocable undertaking agreement with Qatar Airways*).

6.3 Directors' intentions

Each Director who is a Shareholder and who is able to participate in the Capital Increase has irrevocably undertaken to exercise in full or in part his or her Subscription Rights. In particular, Antonio Vázquez, Alberto Terol, Javier Ferrán, Maria Fernanda Mejia, Nicola Shaw and Giles Agutter, have confirmed their intention to take up in full their entitlement to subscribe for New Shares and Luis Gallego and Steve Gunning have confirmed their intention to take up in part their entitlement to subscribe for New Shares. In aggregate, this represents approximately 0.06% of the New Shares (1,771,636 New Shares) which will be subscribed for pursuant to the Capital Increase.

Willie Walsh and Kieran Poynter, who both stepped down from the Board of Directors with effect from 8 September 2020, have irrevocably undertaken to exercise in part and in full, respectively, their Subscription Rights. In aggregate, this represents approximately 0.02% of the New Shares (743,841 New Shares) which will be subscribed for pursuant to the Capital Increase. For the avoidance of doubt, the New Shares to be subscribed for by Willie Walsh and Kieran Poynter do not form part of the Director Irrevocables.

6.4 Ownership and Control Requirement

As described in section 5.4(B) (*European Union regulation*) of Part VIII (*Business and Market Overview*), Regulation (EC) No 1008/2008 sets the Ownership and Control Requirement, which consist on the following that: (i) an air carrier must be owned and continue to be owned directly or through majority ownership (more than 50% of the undertaking) by EEA states and/or nationals of EEA states (for the purposes of Regulation (EC) No 1008/2008, this includes also ownership by Switzerland and/or Swiss nationals) or a person qualifying as such for the purpose of Article 4 of Regulation (EC) No 1008/2008 pursuant to an agreement with a third country to which the EU is a party; and (ii) the air carrier must at all times be effectively controlled by such state or national.

To ensure compliance with the Ownership and Control Requirement, the Board of Directors, may, at any given time specify a Permitted Maximum to establish a permitted maximum number of Shares held by Non-Qualifying Persons in accordance with Article 11 of the By-laws, which may not be less than 40% of the Company's share capital under any circumstances. Once the information regarding the Permitted Maximum has been duly disclosed through the corresponding announcement, further acquisitions of Shares or Subscription Rights by Non-Qualifying Persons would be prohibited. If the Permitted Maximum has been introduced during the Pre-emptive Subscription Period, the prohibition will affect acquisitions of Shares and Subscription Rights taking into account the exact time when the Permitted Maximum is specified. Any acquisition of Subscription Rights made by both Qualifying Persons and Non-Qualifying Persons before the Permitted Maximum is established will be valid and such Eligible Shareholders and/or Investors will be entitled to receive the corresponding New Shares. If the Permitted Maximum is announced between end of Allocation Period for Additional Shares and the Discretionary Allocation Period, the prohibition will only affect the Discretionary Allocation Shares.

In the event that the Board of Directors decides to impose a Permitted Maximum, such resolution shall be immediately communicated to the CNMV as Inside Information Notice and the regulatory bodies of the other securities markets in which the Shares and the Subscription Rights are listed, where appropriate, so that such institutions may notify such measure to any investment services firms and credit institutions authorised to provide investment services. The Permitted Maximum shall also be notified to the Spanish Ministry of Development (*Ministerio de Fomento*) through the DGAC, the CAA and the other competent authorities regarding any operating rights held or enjoyed by the Group.

7. BOARD OF DIRECTORS AND SENIOR MANAGEMENT

7.1 Board of Directors

The Board of Directors consists of ten Non-Executive Directors and two Executive Directors (the "**Directors**") who are elected at the Shareholders' general meeting for a period of one year.

The Directors and their principal functions within the Company, together with a brief description of their management experience and expertise and principal business activities outside the Company, are set out below. The business address of each of the Directors (in such capacity) is, in the United Kingdom, Waterside (HAA2), PO Box 365, Speedbird Way, Harmondsworth, UB7 0GB and, in Spain, El Caserío, Iberia Zona Industrial nº 2 (La Muñoza), Camino de La Muñoza, s/n, 28042, Madrid.

Name	Date first appointed	Last re-election date	Term expires	Position and category
Antonio Vázquez	25 May 2010	8 September 2020	2021 Shareholders' Meeting although Antonio Vázquez has announced his intention to retire in early January 2021	Chairman Independent Director Member of the Safety Committee
Luis Gallego	8 September 2020	8 September 2020	2021 Shareholders' Meeting	Chief Executive Officer Executive director Chair of the Safety Committee
Margaret Ewing	20 June 2019	8 September 2020	2021 Shareholders' Meeting	Independent director Chair of the Audit and Compliance Committee
Javier Ferrán	20 June 2019	8 September 2020	2021 Shareholders' Meeting	Independent director Chair of the Nominations Committee and Member of the Remuneration Committee and of the Safety Committee
Steve Gunning	20 June 2019	8 September 2020	2021 Shareholders' Meeting	Chief Financial Officer Executive director
Deborah Kerr	14 June 2018	8 September 2020	2021 Shareholders' Meeting	Independent director Chair of the Remuneration Committee and Member of the Audit and Compliance Committee and of the Nominations

				Committee
María Fernanda Mejía	27 February 2014	8 September 2020	2021 Shareholders' Meeting	Independent director Member of the Audit and Compliance Committee and of the Remuneration Committee
Emilio Saracho	16 June 2016	8 September 2020	2021 Shareholders' Meeting	Independent director Member of the Nominations Committee and of the Remuneration Committee
Nicola Shaw	1 January 2018	8 September 2020	2021 Shareholders' Meeting	Independent director Member of the Safety Committee and the Remuneration Committee
Alberto Terol	20 June 2013	8 September 2020	2021 Shareholders' Meeting	Senior independent director Member of the Audit and Compliance Committee and the Nominations Committee
Giles Agutter	8 September 2020	8 September 2020	2021 Shareholders' Meeting	Non-executive proprietary director
Robin Phillips	8 September 2020	8 September 2020	2021 Shareholders' Meeting	Non-executive proprietary director

Giles Agutter and Robin Phillips were nominated by Qatar Airways, the Company's largest Shareholder, as non-executive proprietary directors of the Company.

The Secretary non-director of the Board of Directors is Mr. Álvaro López-Jorrín. Set out below is a brief biography of each Director.

(A) *Antonio Vázquez*

Antonio joined the Company in 2011 from Iberia where he held a number of leadership roles, serving as Chairman and CEO from 2009 to 2011 and Director from 2005 to 2007. Prior to this, Antonio was Chairman and CEO of Altadis Group for three years (having held various positions at Altadis since 1993). He was also Chairman of the distribution business, Logista, from 2005 to 2008. Antonio began his professional career in consultancy at Arthur Andersen & Co.

(B) *Luis Gallego*

Luis was appointed Chief Executive Officer of the Company and Group on 8 September 2020. Previously, Luis was Chairman and Chief Executive Officer of Iberia from January 2014 and, prior to that, he was Chief Executive Officer of Iberia from March 2013. In his time at Iberia, Luis implemented a transformation of the business, restoring profitability and ensuring the future viability of the Spanish airline, as well as improving Iberia's efficiency and customer service. Previously Luis launched Iberia Express, where he was Chief Executive from January 2012. From

2006 to 2009, Luis was one of the founders of Clickair, the low-cost airline. Until its merger with Vueling, Clickair was the fastest growing European airline. Between 1997 and 2006, Luis held various positions at the regional Spanish carrier Air Nostrum. He started his career at BDE, an engineering and services company.

(C) *Margaret Ewing*

Margaret joined the Company in 2019 as a Non-Executive Independent Director. Prior to this, Margaret held directorships at Standard Chartered Plc, Whitbread Plc and the Confederation of British Industry. Margaret was a Vice Chairman, Managing Partner of Public Policy, Quality and Risk and London Practice Senior Partner at Deloitte LLP from 2007 to 2012. She also has previous sector experience from her four years as Chief Financial Officer at BAA PLC. She is currently a Non-Executive Independent Director and Chair of the Audit and Risk Committees of ITV plc and ConvaTec Group plc.

(D) *Steve Gunning*

Stephen was appointed Chief Financial Officer of the Company in 2019, joining from his role as the Chief Financial Officer of British Airways. Stephen has also held other leadership roles within the Group (including director of IAG GBS from 2017 to 2019, Chief Executive Officer of IAG Cargo from 2012 to 2015 and Pension Trustee of British Airways from 2006 to 2011). He currently also serves as a Non-Executive Director for FirstGroup Plc.

(E) *María Fernanda Mejía*

María joined the Company in 2014. Her previous roles include, from 2011 to 2019, being a member of The Kellogg Company Executive Leadership Team, the Senior Vice President of The Kellogg Company and President of Kellogg Latin America. María has also held senior leadership roles at Colgate-Palmolive and she is currently a board member of the Council of the Americas.

(F) *Deborah Kerr*

Deborah's background and expertise is in technology, digital, marketing, operations, software and services. She joined the Company in 2018 having previously worked as Executive Vice President and Chief Product and Technology Officer at SABRE Corporation and as Director of DH Corporation. Between 2007 and 2009, Deborah was Vice President and Chief Technology Officer at HP Enterprise Services and, prior to this, Vice President Business Technology Optimization at Hewlett-Packard Software. Deborah has also held senior leadership roles with NASA's Jet Propulsion Laboratory, including Mission Operations Manager, US Space VLBI, NASA Jet Propulsion Laboratory.

(G) *Emilio Saracho*

Emilio has been a Non-Executive Director of the Company for four years. He has a strong corporate finance and investment banking background having worked at Goldman Sachs International and Santander Investment (UK) prior to holding a number of senior leadership roles at JP Morgan. Emilio is currently a Senior Advisor at Altamar Capital Partners and a Non-Executive Director at Inditex.

(H) *Javier Ferrán*

Javier joined the Company in 2019. Prior to this, Javier was a Non-Executive Director of Associated British Foods plc for 13 years and has also held the position of Non-Executive Director at SABMiller plc, Desigual S.A. and Chupa Chups S.A. Javier was a partner at Lion Capital LLC between 2005 and 2018 and has held management positions at Bacardi Group including tenures as Regional President EMEA and President and Chief Executive Officer. Alongside his role at the Company, Javier currently serves as Chairman of Diageo Plc and Non-Executive Director of Coca Cola European Partners Plc.

(I) *Nicola Shaw*

Nicola joined the Company in 2018. She has extensive expertise across the transport sector, having worked for the Office of the Rail Regulator, as Deputy Director and Deputy Chief Economist, and at the Strategic Rail Authority, as Director of Operations. Subsequent to this, between 2005 and 2010, Nicola held the positions of Director and Managing Director of the Bus Division at FirstGroup plc. She has experience in public policy and regulatory affairs having been a member of the Department for Transport's Rail Franchising Advisory Panel for three years and she joined Aer Lingus as a Non-Executive Director in 2010. Nicola is currently an Executive Director of National Grid plc and a Director of Energy Networks Association and Energy UK.

(J) *Alberto Terol*

Alberto joined the Company in 2013. Between 2017 and 2019 he served as Chairman of the Supervisory Board of Senvion GmbH and Chairman of the Audit Committee of Senvion S.A. Prior to this, Alberto was a director of OHL from 2010 to 2016, a director of Aktua from 2013 to 2016 and a director of N+1 from 2014 to 2015. He was International Senior Advisor to BNP Paribas from 2011 to 2014. Alberto has a background in professional services having been a member of the Global Executive Committee of Deloitte and a Managing Partner of EMEA Deloitte from 2007 to 2009. He is currently the Vice Chairman, Leading Independent Director and Chairman of the Nominations, Remuneration and Corporate Governance Committee at Indra Sistemas and International Senior Advisor to Centerbridge.

(K) *Giles Agutter*

Giles joined the Company in 2020. He is the owner and Chief Executive Officer of Southern Sky Ltd, an airline consultant company specialising in airline strategy, fleet planning, aircraft acquisition and aircraft financing. Giles is a Director of JSX Air, and was previously a Director of LATAM Airlines Group S.A. and Air Italy SpA, since 2017.

(L) *Robin Phillips*

Robin joined the Company in 2020. Robin retired from HSBC at the end of July 2019 having been in charge of Global Banking – the bank's corporate and investment banking arm – since 2006. During this tenure he was based in Hong Kong from 2011 to 2014 where additionally he was responsible for HSBC's Asian markets business.

Previous to HSBC, Robin occupied positions at Citigroup and UBS, where he was involved in a significant number of aviation-related mergers, privatisations and capital raisings. Robin was globally responsible for the transportation and infrastructure investment banking business at Citigroup between 1999 and 2003.

Today Robin is chairman of the foundation board of Pancreatic Cancer UK and Chairman of Affordable Infrastructure UK.

7.2 Senior Managers

The Senior Managers, in addition to the Executive Directors listed above, are as follows:

Name	Position
Julia Simpson	Chief of Staff Board Member of British Airways Board Member of Iberia

Christopher Haynes	General Counsel Director of Avios Group (AGL) Limited
Alistair Hartley	Director of Strategy
Javier Sanchez-Prieto	Chairman and Chief Executive Officer of Iberia
Alex Cruz	Chairman and Chief Executive Officer of British Airways
Sean Doyle	Chairman and Chief Executive Officer of Aer Lingus
Marco Sansavini	Chairman and Chief Executive Officer of Vueling
Adam Daniels	CEO of IAG Loyalty
Lynne Embleton	Chief Executive Officer of IAG Cargo
John Gibbs	Chief Information Officer

Set out below is a brief biography of each Senior Manager. Other than as described below and in section 7.3 (*Directorships and partnerships outside the Group*), the Senior Managers do not undertake any additional principal activities outside the Group.

(A) Julia Simpson

Julia was previously Head of Corporate Communications at British Airways since 2007. Prior to this, Julia was adviser to the UK Prime Minister. She held a number of key positions in the UK government and the public sector, including Director, Home Office and Department for Education and Employment; Assistant Chief Executive at the London Borough of Camden; and Head of Communications at the Communication Workers Union. Julia is on the Boards of British Airways, Iberia and the London Chamber of Commerce.

(B) Chris Haynes

Chris joined the Company in 2011 from British Airways where he had been the senior commercial lawyer and head of its Mergers and Acquisitions team, including during the merger between British Airways and Iberia. Before joining British Airways, he worked as a lawyer for the law firm Ashurst.

(C) Alistair Hartley

Alistair joined the Company in 2015 as Head of Group Strategy and Development and became the Company's Director of Strategy in June 2019. Previously, Alistair has worked for a number of airlines including Jetstar Group, Virgin Atlantic and TACA International Airlines. Before moving into aviation, he worked as a management consultant for the strategy consulting firm Bain & Company.

(D) Javier Sanchez-Prieto

Javier became Chairman and Chief Executive Officer of Iberia in 2020, after holding the role of Chairman and Chief Executive Officer of Vueling since 2016. Previously he had been Strategic Planning and Finance Director of Iberia.

Between 2003 and 2012 Javier carried out directing positions for several departments at Grupo Uralita. Javier started his career in the aviation industry as Deputy Director of Strategic Planning at Air Nostrum in 2001.

(E) *Alex Cruz*

Alex became Chairman and Chief Executive Officer of British Airways in April 2016. In 2006 he co-founded Clickair. As CEO, Alex drove the airline's fast European growth, culminating in the 2009 merger with Vueling, turning the new Vueling into one of the most profitable airlines in Europe. From 2000 to 2006, Alex was a partner at Arthur D. Little and later at Accenture as its head of aviation. As a consultant, Alex has directed projects with airlines and travel industry companies around the world. Prior to consulting, Alex worked for American Airlines for ten years supporting its airport planning and operations department and working alongside other partner airlines. Alex is a visiing professor at IESE business school in Barcelona.

(F) *Sean Doyle*

Sean was appointed as Chief Executive Officer and Executive Director of Aer Lingus with effect from 1 January 2019. Prior to this, Sean had served as Director of Network and Alliances at British Airways, and a member of the Management Committee since 2016. In addition to overseeing Network and Alliances, Sean has acted as Chairman of British Airways' London City subsidiary BA CityFlyer and oversaw the airlines operations at London Gatwick airport. Prior to this, Sean was Executive Vice President Americas from 2013 to 2015, overseeing British Airways' commercial business in the United States, Canada and Latin America. Sean joined British Airways in 1998.

(G) *Marco Sansavini*

Marco was appointed as Chief Executive Officer and Chairman of Vueling in 2020. Prior to this, Marco was the Commercial Director at Iberia from 2012 to 2020. He has also previously worked in a number of senior commercial and strategic positions at Alitalia, as Director of Strategy and Vice President of Sales, and Air France-KLM, as Commercial Director for Europe and North Africa, and Vice President of Business.

(H) *Adam Daniels*

Having joined in 1992 on the BA Graduate scheme. Adam worked in Operations and Airport Customer Services at British Airways before moving to Commercial. Adam joined Avios in October 2018 as Chief Commercial Officer. Prior to joining Avios, Adam was Chief Commercial Officer at British Airways from 2015 to 2018. In that role Adam oversaw British Airways' worldwide commercial activity including marketing, pricing and revenue management, distribution strategy, website, call centres and digital strategy, the worldwide sales force and the Frequent Flyer Programme. He also held positions of Chairman of BA Holidays, board member of City Flyer and a board member of Avios Group Ltd.

(I) *Lynne Embleton*

Lynne became Chief Executive of IAG Cargo in April 2017, having previously been Managing Director, Gatwick, at British Airways. Prior to this, Lynne was Director of Strategy at British Airways from 2011 and was Chairman of BA CityFlyer from 2011 to 2017. Lynne has over 25 years of experience working within the airline industry. Lynne is currently on the board of British Airways and is a Non-Executive Director of Ofgem, the UK energy regulator.

(J) *John Gibbs*

John became Chief Information Officer in September 2019. He is responsible for the Group's IT and digital activity including cyber security and data. John was previously Group Chief Information Officer for Rolls-Royce and has over 30 years IT experience performing roles throughout the IT lifecycle across several industries.

7.3 Directorships and partnerships outside the Group

The details of those companies and partnerships outside the Group of which the Directors and Senior Managers are currently directors or partners, or have been directors or partners at any time during the five years prior to the publication of this document, are as follows:

Name	Current directorships and partnerships	Previous directorships and partnership
Directors		
Antonio Vázquez	Cooperation Board of Loyola University (directorship)	-
Luis Gallego	Member of the Board of the Chair Committee of IATA (directorship)	-
Margaret Ewing	ConvaTec Group Plc (directorship) ITV Plc (directorship) Great Ormond Street Hospital Children's Charity (directorship)	-
Steve Gunning	FirstGroup Plc (directorship)	-
María Fernanda Mejía	Council of the Americas (directorship)	The Kellogg Company (directorship) Kellogg Latin America (directorship)
Deborah Kerr	NetApp Inc. (directorship) Chico's FAS. Inc. (directorship) ExlService Holdings, Inc. (directorship) Warburg Pincus (directorship)	SABRE Corporation (directorship) DH Corporation (directorship)
Emilio Saracho	Inditex (directorship)	Banco Popular Español (Chairman) (directorship) JP Morgan Ltd (Chairman) (directorship) Altamar Capital Partners (directorship) Cintra (directorship) Ono (directorship) JPMorgan Suisse (directorship)
Javier Ferrán	Diageo Plc (directorship) Coca Cola European Partners Plc (directorship)	Associated British Foods plc (directorship) SABMiller plc (directorship) Agrolimen SA (directorship) Board Picard Surgeles (directorship)
Nicola Shaw	National Grid plc (directorship) Major Projects Association (directorship) Energy Networks Association and Energy UK (directorship)	English Heritage (directorship) Ellevio AB (directorship) HS1 Ltd (directorship)
Alberto Terol	Indra Sistemas (directorship) Broseta Abogados (directorship/partnership) Centerbridge (directorship) Schindler España (directorship)	Senvion GmbH (directorship) Senvion S.A (directorship) OHL (directorship) Aktua (directorship) N+1 (directorship)
Giles Agutter	Southern Sky Ltd (partnership and directorship) JSX Air (directorship)	LATAM Airlines Group S.A. (directorship) Air Italy (directorship)
Robin Phillips	Development Funding Board, Pancreatic Cancer UK (Chairman) (directorship)	Global Head of Banking for HSBC (directorship)

	Affordable Infrastructure UK (Chairman) (directorship)	
Senior Managers		
Julia Simpson	London Chamber of Commerce	-
Chris Haynes	-	-
Alistair Hartley	-	-
Javier Sanchez-Prieto	-	-
Alex Cruz	-	-
Sean Doyle	-	-
Marco Sansavini	-	-
Adam Daniels	-	-
Lynne Embleton	-	-
John Gibbs	-	CFMS Limited

7.4 Corporate Governance Code for listed Companies

During 2019, the Company complied with all the applicable recommendations of the Spanish Corporate Governance Code in force during such year, with the sole exception of the rules on the composition and operation of non-mandatory Board committees. The Company was partially non-compliant with these rules as its Safety Committee is chaired by an executive director, the Group Chief Executive, and not by an independent director as recommended by the Corporate Governance Code. The Board believes this is appropriate, taking into consideration that the Company is not an airline but the Group's parent company and that the Safety Committee exercises a high-level supervisory role within the Group. Consistent with legal requirements, responsibility for safety matters remains with each IAG Airline, and the technical nature of the safety issues and the fact that each IAG Airline has its own particular characteristics makes it beneficial that the Group's top executive leads this committee and coordinates the reporting of the different airlines.

In June 2020, CNMV approved certain amendments to the Corporate Governance Code for listed companies which are being analysed by the Company to assess whether it is in the best interests of Shareholders to comply with such amendments or explain why they are not complied with.

7.5 Conflicts of interest

The Company has no knowledge of the existence of any significant interest or conflict of interest that is material to the issue of securities, apart from the involvement in the admission to trade of the Shares of the entities described in Part V (*Directors, Company Secretary, Registered Office and Advisers*) of this Prospectus. In addition, there are:

(A) no actual or potential conflicts of interest between the duties owed by the Directors or the Senior Managers to the Company and their private interests and/or other duties that they may also have; and

(B) other than Giles Agutter and Robin Phillips who were nominated by Qatar Airways, the Company's largest Shareholder, as non-executive proprietary directors of the Company, no arrangements or understandings with major Shareholders, customers, suppliers or others, pursuant to which any Director or Senior Manager was selected.

Each of the Directors has a statutory duty under Article 229 of the Spanish Companies Act to avoid conflicts of interests with the Company and to disclose the nature and extent of any such interest to the Board of Directors. Directors should refrain from voting on matters in which they may have a personal interest, whether directly or indirectly. As permitted by the Spanish Companies Act, the Board of Directors or (if applicable) the Shareholders at a Shareholders' meeting may authorise any matter which would otherwise involve a Director breaching this statutory duty, and may attach to any such authorisation such conditions and/or restrictions as the Board of Directors or (if applicable) the Shareholders deem appropriate, in accordance with the Spanish Companies Act, the By-laws and the Board of Directors' Regulation.

7.6 Directors' and Senior Managers' confirmations

(A) As at the date of this document, no Director or Senior Manager has during the last five years:

(i) had any convictions in relation to fraudulent offences;

(ii) been associated with any bankruptcy, receivership, liquidation or companies put into administration, while acting in the capacity of a member of the administrative, management or supervisory body or of a senior manager of any company;

(iii) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authority (including any designated professional body); or

(iv) been disqualified by a court from acting as a member of the administrative, management or supervisory body of a company, or from acting in the management or conduct of the affairs of any company.

Notwithstanding the foregoing, Mr. Emilio Saracho is currently subject to a preliminary inquiry in relation to Banco Popular Español, S.A. together with those that, like Mr. Emilio Saracho, had been members of its board of directors. Although the court's preliminary inquiry is ongoing, Mr. Emilio Saracho has not formally been accused (*encausado*) of any wrongdoing. This preliminary inquiry does not relate to the role of Mr. Saracho as director of the Company and the Company is fully confident in the ability of such individual to carry out his duties with the Company with integrity.

(B) Other than Giles Agutter and Robin Phillips who were nominated by Qatar Airways, the Company's largest Shareholder, as non-executive proprietary directors of the Company, no Director or Senior Manager was selected to act in such capacity pursuant to any arrangement or understanding with any shareholder, consumer, supplier or any other person having a business connection with the Group.

(C) There are no family relationships between any of the Directors and/or the Senior Managers.

(D) There are no outstanding loans or guarantees granted or provided by any member of the Group for the benefit of any of the Directors or Senior Managers.

7.7 Share plans

The Directors' remuneration policy of the Company provides, among other elements of remuneration package, an Incentive Award Deferral Plan ("**IADP**") to align the interests of executives with Shareholders and a Performance Share Plan (the "**PSP**") targeted at key senior executives and managers of the Group who directly influence shareholder value.

The IADP operates over 50% of the annual incentive award. It aligns the interests of executives with Shareholders by providing a proportion of the annual incentive in deferred shares. The relevant Shares will be subject to forfeiture if the executive leaves during the three-year deferral period, unless the executive is granted "good leaver" status in accordance with the plan's rules. On vesting, executives will receive the benefit of any dividends paid over the deferred period in the form of dividend equivalents.

The PSP consists of an award of Shares which vests subject to the achievement of pre-defined performance conditions, which are designed to reflect the creation of long-term value within the business. These performance conditions are measured over a performance period of three financial years. No payment is required from individuals when the relevant Shares are awarded or when they vest. The Board of Directors, after considering the recommendation of the Company's Remuneration Committee, retains the discretion to prevent any PSP award payments if, in its opinion, the underlying financial performance of the Company has not been satisfactory in the circumstances. Following the performance period, there is an additional holding period of two years.

Additionally, the Board of Directors, following the advice of the Company's Remuneration Committee, has authority under the malus provisions of the PSP and the IADP to reduce or cancel awards before they vest, and authority under the claw-back provisions of the PSP to recover payments during the additional holding period, if certain special circumstances exist. These special circumstances include: fraud; material breach of any law, regulation or code of practice; misstatement of results; misconduct; failure of risk management; or any other circumstances in which the Board of Directors considers it to be in the interests of Shareholders for the award to lapse or be adjusted. For the PSP, claw-back provisions apply during the two year holding period. For the IADP, there will be three years from the date of award in which shares can be withheld, i.e. the entire period from the date of the award until vesting.

Additionally, in order that the interests of the relevant Executive Directors are aligned with those of Shareholders, each Executive Director is required to build up and maintain a minimum personal shareholding in the Company. Under the Group's shareholding guidelines, the Chief Executive is required to build up and maintain a shareholding of 350% of annual salary. Other Executive Directors are required to build up and maintain shareholdings of 200% of annual salary. They are required to retain the entire 100% of shares (net of tax) which vest from share plans until their respective shareholding requirements are attained. As of this date, both Executive Directors are above the shareholding requirement.

7.8 Lock-up agreements

The Company has agreed to certain lock-up arrangements which are further detailed in section 10.1 (*Irrevocable undertaking agreement with Qatar Airways*) and section 10.2 (*Underwriting Agreement*) below.

8. HISTORICAL FINANCIAL INFORMATION

8.1 Financial statements

The: (i) 2020 Half-Year Financial Statements and 2019 Half-Year Financial Statements; and (ii) 2019 Annual Financial Statements and 2018 Annual Financial Statements and the audit reports on such consolidated historical financial information, are incorporated by reference into this Prospectus (see section 20 (*Documents Incorporated by Reference*)).

The figures reflected in the consolidated financial statements have been: (i) formulated in accordance with the legal framework applicable to the Group, which conforms to the provisions of the Commercial Code (*Código de Comercio*), other applicable commercial legislation and the IFRS adopted by the European Union, IFRS-EU**,** and, where appropriate, with UK and Spanish Generally Accepted Accounting Practice; and (ii) audited by Ernst & Young, with the last auditor's report dated 3 March 2020. Ernst & Young has issued unqualified audit opinions on the audited consolidated historical financial information relating to the Group referenced above.

8.2 Auditing of annual financial information

The individual annual accounts of the Company and consolidated annual accounts of the Group for the years ended 31 December 2019 and 2018 have been audited by Ernst & Young. Ernst & Young has also carried out a limited review of the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2020 and 2019.

The Company's auditors have not reviewed any other information contained in this Prospectus.

9. RELATED PARTY TRANSACTIONS

No member of the Group entered into any related party transactions (which for these purposes are those set out in the standards adopted according to the Regulation (EC) No 1606/2002) between 30 June 2020 and the Latest Practicable Date.

10. MATERIAL CONTRACTS

The contracts listed below have been entered into by the Company or another member of the Group: (i) within the two years immediately preceding publication of this Prospectus and which are material to the Company or any member of the Group; or (ii) at any time and contain any provision under which the Company or any member of the Group has any obligation or entitlement which is material to the Company or any member of the Group as at the date of this Prospectus, in each case not including contracts entered into in the ordinary course of business.

10.1 Irrevocable undertaking agreement with Qatar Airways

On 31 July 2020, the Company entered into an agreement with Qatar Airways, pursuant to which Qatar Airways agreed to vote in favour of the resolutions which were put to the 2020 Shareholders' Meeting, and to take up in full its right to subscribe for New Shares pursuant to the Capital Increase (750,000,000 New Shares). Qatar Airways has fulfilled its obligation to vote in favour of the resolutions put to the 2020 Shareholders' Meeting.

As well as agreeing to exercise all the Subscription Rights granted to it pursuant to the Capital Increase, Qatar Airways has further agreed to a standstill provision under which it will not subscribe for any other Shares in the Company (including pursuant to the oversubscription mechanism, or any rump or other placing, as part of the Capital Increase) until 31 March 2021 (other than pursuant to a subscription for an issuance of Shares or other securities by the Company other than the Capital Increase). The Company has agreed not to issue any further Shares for a period of ninety (90) days following completion of the Capital Increase (save to satisfy employee share awards or as part of other pre-emptive issuances).

To ensure that Qatar Airways' proportional shareholding in the Company is maintained at its current level, the Company and Qatar Airways have agreed that, in the event one or more Joint Global Coordinators and Joint Bookrunners defaults on their obligations to subscribe for Shares under the Underwriting Agreement (which will require the publication of a supplementary prospectus), the number of New Shares to be taken up by Qatar Airways pursuant to the Qatar Airways Irrevocable will be reduced to 25.1% if such event were to cause Qatar Airways' proportional shareholding (both direct and indirect, including treasury shares) to surpass this level following completion of the Capital Increase. Such reduction will be done in the framework of the revocations to which Eligible Shareholders and Investors are entitled if a supplementary prospectus is published. See section 3.5 (*Withdrawal of applications*) of Part VII (*Terms and Conditions of the Capital Increase*). As for other Eligible Shareholders and/or Investors withdrawing subscriptions of New Shares, Qatar Airways will be entitled to the refund of any payments made by it with the aforementioned limitation, in accordance with the procedure established in section 3.5 (*Reduction of subscriptions and refund of excess amounts*) of Part VII (*Terms and Conditions of the Capital Increase*).

The Qatar Airways Irrevocable shall terminate immediately if the Capital Increase is withdrawn or terminated and it may be terminated by Qatar Airways if Qatar Airways gives notice in writing to the Company if the Underwriting Agreement is terminated in accordance with its terms (see "*3.1 - The Underwriting Agreement between the Company and the Underwriters allows for the agreement to be terminated under certain circumstances, which may result in the Capital Increase being withdrawn and Investors who have acquired Subscription Rights losing such investment, and the underwriting commitment of the Underwriters is also subject to certain conditions*" of Part I (*Risk Factors*). This will be considered a significant factor which requires the publication of a supplementary prospectus.

10.2 Underwriting Agreement

On 9 September 2020, the Company and the Underwriters entered into the Underwriting Agreement, pursuant to which, amongst other things, the Company has appointed Goldman Sachs International and Morgan Stanley as Joint Sponsors and Goldman Sachs International, Morgan Stanley, and Deutsche Bank as Joint Global Coordinators and, together with Banco Bilbao Vizcaya Argentaria S.A., Banco Santander S.A., Barclays Bank PLC, BofA Securities Europe SA, Citigroup Global Markets Limited and Credit Suisse Securities (Europe) Limited, as Joint Bookrunners in connection with the Capital Increase.

If the Underwriters' underwriting obligation (the terms and conditions of which are described below) does not take effect or is rendered null and void and if all of the New Shares are not subscribed in full during the Pre-emptive Subscription Period and the Allocation Period for Additional Shares, the Company's share capital would only be increased by the amount of the subscriptions made and, therefore, a situation of incomplete subscription as set forth in Article 311 of the Spanish Companies Act would arise.

The main terms and conditions of the Underwriting Agreement are as follows:

(A) Underwriting obligation

Subject to the terms and conditions of the Underwriting Agreement, the Underwriters (as agents of the Company) have severally (each in accordance with their due proportion, being: (i) in the case of Goldman Sachs International 25%; in the case of Morgan Stanley 25%; in the case of Deutsche Bank 18.5%; in the case of Citigroup Global Markets Limited 8.5%; in the case of Credit Suisse Securities (Europe) Limited 8.5%; in the case of BofA Securities Europe SA 5.5%; in the case of Barclays Bank PLC 3%; in the case of Banco Bilbao Vizcaya Argentaria, S.A. 3%; and in the case of Banco Santander, S.A. 3% (the "**Due Proportions**")) agreed to use reasonable endeavours to procure subscribers during the Discretionary Allocation Period for the New Shares which are not subscribed and paid-up during the Pre-emptive Subscription Period and the Allocation Period for Additional Shares).

Underwriter	**Due Proportions**	**Maximum New Shares underwritten under the Underwriting Agreement**
Goldman Sachs International	25%	556,917,935
Morgan Stanley	25%	556,917,935
Deutsche Bank	18.5%	412,119,272
Citigroup Markets Limited	8.5%	189,352,098
Credit Suisse Securities (Europe) Limited	8.5%	189,352,098
BofA Securities Europe, S.A.	5.5%	122,521,946
Barclays Bank PLC	3%	66,830,152
Banco Bilbao Vizcaya Argentaria, S.A.	3%	66,830,152

Banco Santander, S.A. 3	3%	66,830,152
Total	**100%**	**2,227,671,740**

No Underwriter shall have any liability or obligation in respect of any default by any other Underwriter, but the Underwriting Agreement shall continue in force with respect the rest of Underwriters. The Underwriters may arrange sub-underwriting for some, all or none of the Underwritten Shares.

If and to the extent that the Underwriters are unable to procure subscribers on the basis outlined in the previous paragraph, the Underwriters (each in their Due Proportion) have agreed to subscribe for any remaining New Shares at the Subscription Price as principal. This obligation for the Underwriters to subscribe (each in their Due Proportion) is in respect of all New Shares other than those that are subject to irrevocable undertakings (i.e. the irrevocable undertakings provided by each Director who is a Shareholder on the date of this Prospectus (1,771,636 New Shares) and the Qatar Airways Irrevocable as set out in section 10.1 (*Irrevocable undertaking agreement with Qatar Airways*) (750,000,000 New Shares) which are not subject to the Underwriting Agreement.

(B) *Fees*

In consideration for their services under the Underwriting Agreement, and subject to their obligations under the Underwriting Agreement having become unconditional and the Underwriting Agreement not having been terminated, the Underwriters will be paid a base underwriting commission equal to 2.00% of the gross amount raised from the issue of the Underwritten Shares in the Capital Increase (the "**Underwriting Fee**"), to be distributed among the Underwriters in the Due Proportions. Out of such commission payable to the Underwriters, the Underwriters shall pay or procure the payment of sub-underwriting commissions payable to such persons (if any) as the Underwriters may procure to acquire Underwritten Shares.

In addition to the Underwriting Fee, the Company may, in its absolute discretion, pay to the Underwriters:

(i) a discretionary fee of up to 0.10% of the gross amount raised from the issue of the Underwritten Shares in the Capital Increase, to be distributed among the Joint Global Co-ordinators at the Company's absolute discretion; and

(ii) an additional discretionary fee of up to 0.15% of the gross amount raised from the issue of the Underwritten Shares in the Capital Increase, to be distributed among the Underwriters at the Company's absolute discretion.

The underwriting fees are set out, in aggregate, at section 17 (*Expenses*).

The Company has also agreed, regardless of whether the Underwriters' obligations under the Underwriting Agreement become unconditional or the Underwriting Agreement is terminated, that the Company shall bear any reasonable out-of-pocket expenses incurred by the Underwriters in connection with the Underwriting Agreement and the Capital Increase (subject to certain caps).

(C) *Conditions and grounds for termination*

The obligations of the Underwriters under the Underwriting Agreement are subject to certain conditions including, among others:

(i) the representations and warranties given by the Company in the Underwriting Agreement being true and accurate and not misleading on the dates on which they are given or repeated, save to the extent such breach, in the opinion of the Joint Global Coordinators and Joint Bookrunners acting jointly and in good faith (on behalf of the Underwriters), is not materially adverse in the context of the Capital Increase (excluding certain fundamental warranties and disregarding any materiality qualifiers in the other warranties for the purpose of this determination);

(ii) the Company having complied with its material obligations under the Underwriting Agreement, the terms and conditions of the Capital Increase and certain related agreements, which fall to be performed before Closing Time, save to the extent such non-compliance (other than a breach of certain fundamental warranties), in the opinion of the Joint Global Coordinators and Joint Bookrunners acting jointly and in good faith (on behalf of the Underwriters), is not materially adverse in the context of the Capital Increase;

(iii) there being no event or circumstance in relation to the information included in this Prospectus arising between the time of publication of this Prospectus and prior to the Closing Time which gives rise to the obligation for a supplementary prospectus to be approved, filed, published and made available in accordance with the Prospectus Regulation;

(iv) the delivery to the Underwriters of certain customary comfort letters and other documents (to the extent they fall to be delivered at or prior to the Closing Time) at or before the times and/or dates specified in the Underwriting Agreement;

(v) there not having occurred certain material adverse changes concerning the Company, or certain material adverse changes in the key financial markets and jurisdictions in which the Company operates, in each case since the date of the Underwriting Agreement;

(vi) Admission of Subscription Rights occurring no later than 14 September 2020 (or such later time and/or date as may be agreed between the Company and the Underwriters); and

(vii) prior to the Closing Time, the Company and/or the Joint Global Coordinators and Joint Bookrunners not having received definitive notice, or any reasonable basis to believe it is likely, that Admission will not occur by 16 October 2020 (or such later time and/or date as may be agreed between the Company and the Underwriters).

If any of the conditions is not satisfied (unless unanimously waived by the Joint Global Coordinators and Joint Bookrunners (on behalf of the Underwriters) in their absolute discretion in accordance with the Underwriting Agreement), or becomes incapable of being satisfied, by the required time and date then, save for certain exceptions, the parties' obligations under the Underwriting Agreement (including the Underwriters' underwriting obligations described above) shall cease and terminate, without prejudice to any liability for any prior breach of the Underwriting Agreement. The Underwriters' obligations under the Underwriting Agreement will not be capable of cessation, determination, termination or rescission at any time after the Closing Time.

In addition, the Underwriters, acting unanimously, are entitled to terminate the Underwriting Agreement in certain circumstances, at any time until the Closing Time, including, among others:

(i) the Company breaches any of its material obligations or undertakings under the Underwriting Agreement, save in any respect which, in the opinion of the Joint Global Coordinators and Joint Bookrunners acting jointly and in good faith (on behalf of the Underwriters), is not materially adverse in the context of the Capital Increase;

(ii) any of the conditions to the Underwriting Agreement become incapable of satisfaction, save in any respect which, in the opinion of the Joint Global Coordinators and Joint Bookrunners acting jointly and in good faith (on behalf of the Underwriters), is not materially adverse in the context of the Capital Increase and the Joint Global Coordinators and Joint Bookrunners (on behalf of the Underwriters) have notified the Company in writing that they will not waive such condition(s);

(iii) any of the representations and warranties contained in the Underwriting Agreement, was untrue, inaccurate, incorrect or misleading as at the date it was given, save to the extent such breach (other than a breach of certain fundamental warranties) in the opinion of the Joint Global Coordinators and Joint Bookrunners acting jointly and in good faith (on behalf of the Underwriters), is not materially adverse in the context of the Capital Increase (disregarding any materiality qualifiers in the other warranties for the purpose of this determination;

(iv) there occurs certain material adverse changes concerning the Company, or certain material adverse changes in the key financial markets and jurisdictions in which the Company operates;

(v) an event referred to in Article 23 of the Prospectus Regulation has arisen which gives rise to the obligation for a supplementary prospectus to be approved, filed, published and made available before the Closing Time; or

(vi) the Company and/or the Joint Global Coordinators and Joint Bookrunners receive definitive notice, or have any reasonable basis to believe it is likely, that Admission will not occur by 16 October 2020 (or such later time and/or date as may be agreed between the Company and the Underwriters).

For the avoidance of doubt, the Underwriters are not entitled to exercise any right of termination, and no right of termination applies, once the Closing Time has occurred.

Termination of the Underwriting Agreement will be considered a significant factor which requires the publication of a supplementary prospectus.

Termination of the Qatar Airways Irrevocable, or a default occurring under the Qatar Airways Irrevocable, is not, in itself, a circumstance in which the Underwriting Agreement may be terminated. However, termination of the Qatar Airways Irrevocable will be considered a significant factor which requires the publication of a supplementary prospectus, a circumstance in which the Underwriting Agreement may be terminated.

(D) Restrictions applicable to the Company

The Company has given certain customary representations, warranties and undertakings to the Underwriters, and certain customary indemnities to the Underwriters and to certain persons connected with them. The liabilities of the Company thereunder are unlimited as to time and amount.

The Company has also undertaken that it will not, until 90 days after the date on which proceeds from the Capital Increase have been received by the Company, without having consulted with each of the Underwriters and obtained the prior written consent of at least two of the Underwriters (such consent not to be unreasonably withheld or delayed) directly or indirectly:

(i) issue, offer, lend, mortgage, assign, charge, pledge, sell, contract to sell or issue, sell any option or contract to purchase, purchase any option or contract to sell or issue, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, directly or indirectly, any shares or any interest in shares or any securities convertible into or exercisable or exchangeable for, or substantially similar to, shares or any interest in shares;

(ii) enter into any swap or other agreement or transaction that transfers, in whole or in part, any of the economic consequences of ownership of the shares, whether any such swap or transaction described is to be settled by delivery of the Shares or such other securities, in cash or otherwise; or

(iii) make any announcement or other publication of the intention to do any of the foregoing or make any filing with respect thereto.

This undertaking does not apply to: (A) the issue and offer by or on behalf of the Company of the New Shares; (B) the issue of any shares or options or the grant of any right to acquire shares pursuant to any existing employees' share schemes; and (C) the issue of any shares pursuant to the exercise of conversion rights in accordance with the terms of conditions of the Company's convertible bonds.

In addition to the lock-up described in the above paragraph, the Company has agreed to certain consultation and consent rights in favour of the Underwriters in respect of material departures from disclosures or expressions of policy or intention contained in this Prospectus, entry into commitments which would be material in the context of the Group taken as a whole and/or the Capital Increase and the making of certain announcements.

10.3 Standby Underwriting Letter

On 31 July 2020, the Company and the Joint Global Coordinators and Joint Bookrunners entered into a standby underwriting letter (the "**Standby Underwriting Letter**"), pursuant to which the Joint Global Coordinators and Joint Bookrunners agreed to underwrite the Capital Increase on the terms of the Underwriting Agreement, subject to the satisfaction of certain conditions precedent set out in the Standby Underwriting Letter. On 9 September 2020, the Standby Underwriting Letter terminated in accordance with its terms as a result of the Company and the Underwriters entering into the Underwriting Agreement.

In connection with the Standby Underwriting Letter, the Company agreed to pay the Joint Global Coordinators and Joint Bookrunners an aggregate commitment fee of approximately €5 million, such fee to be paid within 30 Business Days of the termination of the Standby Underwriting Letter and apportioned between the Joint Global Coordinators and Joint Bookrunners in accordance with the terms of the Standby Underwriting Letter.

10.4 Air Europa Sale and Purchase Agreement

On 4 November 2019, the Company announced that definitive transaction agreements had been signed with Globalia, under which the Company's wholly-owned subsidiary, IB OPCO, agreed to acquire the entire issued share capital of Air Europa for €1 billion to be satisfied in cash at completion and subject to a closing accounts adjustment. The completion of the transaction is subject to the achievement of the necessary authorisations.

IB OPCO has agreed to pay Globalia a break fee of €40 million in the event that the transaction fails to receive the necessary regulatory approvals before May 2021 and either party elects to terminate the transaction agreement.

In light of the significant impact of the COVID-19 pandemic on Air Europa's operations and finances, the anticipated synergies of the proposed acquisition are being re-evaluated to reflect the changes in the industry and macro-economic environment, IB OPCO and Globalia are engaged in active discussions regarding a potential restructuring of the acquisition (including the amount of the purchase price and the ongoing funding for the Air Europa business) to take into account the impact of the COVID-19 pandemic. The net proceeds of the Capital Increase are not planned to be used to fund the acquisition.

The proposed acquisition is expected to be concluded in the second half of 2020 or early 2021.

10.5 American Express Global Partnership Agreement

On 24 July 2020, the Company announced that IAG Loyalty had signed a multi-year renewal, extending its worldwide commercial partnership with American Express, pursuant to which American Express made a payment to IAG Loyalty of approximately £750 million (€830 million), a significant part of which is a pre-purchase of Avios points that American Express will utilise in the United Kingdom and worldwide for its British Airways co-branded cards and Membership Rewards Programme.

10.6 BA 2013-1 Pass Through Trusts, Series 2013-1

On 5 July 2013, two classes of British Airways Pass Through Certificates, Series 2013-1 (each an EETC) were offered in an offering memorandum by British Airways Plc: Class A Certificates and Class B Certificates (as defined in the offering memorandum, and collectively the "**2013 Certificates**").

A separate trust was established to issue each class of 2013 Certificates (the "**BA 2013-1 Pass Through Trusts**") and each 2013 Certificate represents a fractional undivided interest in one of the trusts. The BA 2013-1 Pass Through Trusts are English law legal relationships created by a settlor when assets are placed under the control of a trustee for the benefit of a beneficiary. The key characteristic of a trust is that it permits the separation of legal ownership and beneficial interest: the trustees become the owners of the trust property as far as third parties are concerned, and the beneficiaries are entitled to expect that the trustees will manage the trust property for their benefit. The trustee in relation to the BA 2013-1 Pass Through Trusts is Wilmington Trust Company (as "Trustee" and "Controlling Party"), a provider of international corporate and institutional services, investment management and private banking.

The offering was made in connection with the financing of six new Airbus A320-200 aircraft, two new Boeing 777-300ER aircraft and six new Boeing 787-8 aircraft (each, a "**2013 Aircraft**"). The proceeds from the sale of the 2013 Certificates were used by the BA 2013-1 Pass Through Trusts to acquire a related series of equipment notes issued by Speedbird 2013 Limited, which retains the aircraft on balance sheet, in connection with separate operating leases and/or finance leases, with respect to each 2013 Aircraft, under which British Airways Plc is the lessee of the 2013 Aircraft (the "**2013 Equipment Notes**"). These are the assets of the BA 2013-1 Pass Through Trusts.

The Class A Certificates have an aggregate face amount of $721,610,000, and are subject to a final maturity date of 20 December 2025. The Class B Certificates have an aggregate face amount of $205,372,000, issued in minimum denominations of $2,000, and are subject to a final maturity date of 20 December 2021.

Each of the 2013 Equipment Notes is redeemable under certain circumstances, including, without limitation, if a total loss occurs in respect of any of the 2013 Aircraft and the exercise of certain early termination options by British Airways Plc in relation to mortgage-financed 2013 Aircraft.

Certain categorised events of default apply, including, without limitation, indenture events of default, which upon occurrence, grant the Trustee the right to direct Wilmington Trust Company (in its capacity as "Subordination Agent") as the holder of 2013 Equipment Notes issued under such indenture, to accelerate and sell all of the relevant notes, or sell the collateral under such indenture to any person, subject to certain limitations.

The indenture events of default include:

- Any of certain specified lease event of defaults, including in respect of (i) non-payment of amounts under the lease, (ii) failure to insure the relevant 2013 Aircraft, (iii) breach of British Airways Plc's other obligations if such breach remains outstanding for more than 365 days, and (iv) breach of certain financing-related representations and warranties.

- The failure by Speedbird 2013 Limited to pay any amount, when due, under such indenture or under any 2013 Equipment Note issued thereunder that continues for more than ten business days, in the case of principal, interest or make-whole premium, and, in all other cases, ten business days after Speedbird 2013 Limited receives written notice from the related trustee.

- The failure of Speedbird 2013 Limited to remove any lien it is required to remove for a period of 30 days after Speedbird 2013 Limited receives written notice from the related trustee or any noteholder of such lien.

- Any representation or warranty made by Speedbird 2013 Limited in such indenture or certain related documents furnished to Wilmington Trust Company or any holder of a 2013 Equipment Note pursuant thereto being false or incorrect in any material respect when made that continues to be material and adverse to the interests of Wilmington Trust Company or noteholders and remains unremedied after notice and specified cure periods.

- Failure by Speedbird 2013 Limited to perform or observe any covenant or obligation for the benefit of Wilmington Trust Company or holders of 2013 Equipment Notes under such indenture or certain related documents that continues after notice and specified cure periods.

- The occurrence of an indenture event of default under any other indenture, other than where such other indenture event of default is attributable to a lease event of default in connection with an unremedied breach of covenant, if certain conditions are met.

- The occurrence of certain events of bankruptcy, reorganization or insolvency of Speedbird 2013 Limited.

The holders of a majority in principal amount of the outstanding 2013 Equipment Notes issued with respect to any 2013 Aircraft, by notice to Wilmington Trust Company, may on behalf of all the holders waive any existing default and its consequences under the indenture with respect to such 2013 Aircraft, except a default in the payment of the principal of, or premium or interest on any such 2013 Equipment Notes or a default in respect of any covenant or provision of such indenture that cannot be modified or amended without the consent of each holder of 2013 Equipment Notes.

The 2013 Certificates are governed by English law.

10.7 BA 2018-1 Pass Through Trusts, Series 2018-1

On 14 March 2018, two classes of British Airways Pass Through Certificates, Series 2018-1 (each an EETC) were offered in an offering memorandum by British Airways Plc: Class AA Certificates and Class A Certificates (as defined in the offering memorandum, and collectively the "**2018 Certificates**").

A separate trust was established to issue each class of 2018 Certificates (the "**BA 2018-1 Pass Through Trusts**") and each 2018 Certificate represents a fractional undivided interest in one of the trusts. The BA 2018-1 Pass Through Trusts are English law legal relationships created by a settlor when assets are placed under the control of a trustee for the benefit of a beneficiary. The key characteristic of a trust is that it permits the separation of legal ownership and beneficial interest: the trustees become the owners of the trust property as far as third parties are concerned, and the beneficiaries are entitled to expect that the trustees will manage the trust property for their benefit. The trustee in relation to the BA 2018-1 Pass Through Trusts is Wilmington Trust Company (as "Trustee" and "Controlling Party"), a provider of international corporate and institutional services, investment management and private banking.

The offering was made in connection with the financing of seven new Airbus A320neo aircraft, two new Boeing 787-8 aircraft and two new Boeing 787-9 aircraft (each, a "**2018 Aircraft**"). The proceeds from the sale of the 2018 Certificates were used by the BA 2018-1 Pass Through Trusts to acquire a related series of equipment notes issued by Dalwhinnie Limited, which retains the aircraft on balance sheet, on a limited recourse basis in connection with separate operating leases and/or finance leases, with respect to each 2018 Aircraft under which British Airways Plc is the lessee of the 2018 Aircraft (the "**2018 Equipment Notes**"). These are the assets of the BA 2018-1 Pass Through Trusts.

The Class AA Certificates have an aggregate face amount of $409,783,000, issued in minimum denominations of $2,000, and are subject to a final maturity date of 20 March 2033. The Class A Certificates have an aggregate face amount of $198,768,000, issued in minimum denominations of $2,000, and are subject to a final maturity date of 20 March 2033.

Each of the 2018 Equipment Notes is redeemable under certain circumstances, including, without limitation, if a total loss occurs in respect of any of the 2018 Aircraft and the exercise of certain early termination options by British Airways Plc in relation to mortgage-financed 2018 Aircraft.

Certain categorised events of default apply, including, without limitation, indenture events of default, which upon occurrence, grant the Trustee the right to direct Wilmington Trust Company (in its capacity as “Subordination Agent”) as the holder of 2018 Equipment Notes issued under such indenture, to accelerate and sell all of the relevant notes, or sell the collateral under such indenture to any person, subject to certain limitations.

The indenture events of default include:

- Any of certain specified lease event of defaults, including in respect of (i) non-payment of amounts under the lease, (ii) failure to insure the relevant 2018 Aircraft, (iii) breach of British Airways Plc's other obligations if such breach remains outstanding for more than 365 days, and (iv) breach of certain financing-related representations and warranties.

- The failure by Dalwhinnie Limited to pay any amount, when due, under such indenture or under any 2018 Equipment Note issued thereunder that continues for more than ten business days, in the case of principal, interest or make-whole premium, and, in all other cases, ten business days after Dalwhinnie Limited receives written notice from the related trustee.

- The failure of Dalwhinnie Limited to remove any lien it is required to remove for a period of 30 days after Dalwhinnie Limited receives written notice from the related trustee or any noteholder of such lien.

- Any representation or warranty made by Dalwhinnie Limited in such indenture or certain related documents furnished to Wilmington Trust Company or any holder of a 2018 Equipment Note pursuant thereto being false or incorrect in any material respect when made that continues to be material and adverse to the interests of Wilmington Trust Company or noteholders and remains unremedied after notice and specified cure periods.

- Failure by Dalwhinnie Limited to perform or observe any covenant or obligation for the benefit of Wilmington Trust Company or holders of 2018 Equipment Notes under such indenture or certain related documents that continues after notice and specified cure periods.

- The occurrence of an indenture event of default under any other indenture, other than where such other indenture event of default is attributable to a lease event of default in connection with an unremedied breach of covenant, if certain conditions are met.

- The occurrence of certain events of bankruptcy, reorganization or insolvency of Dalwhinnie Limited.

The holders of a majority in principal amount of the outstanding 2018 Equipment Notes issued with respect to any 2018 Aircraft, by notice to Wilmington Trust Company, may on behalf of all the holders waive any existing default and its consequences under the indenture with respect to such 2018 Aircraft, except a default in the payment of the principal of, or premium or interest on any such 2018 Equipment Notes or a default in respect of any covenant or provision of such indenture that cannot be modified or amended without the consent of each holder of 2018 Equipment Notes.

The 2018 Certificates are governed by English law.

10.8 BA 2019-1 Pass Through Trusts, Series 2019-1

On 15 July 2019, two classes of British Airways Pass Through Certificates, Series 2019-1 (each an EETC) were offered in an offering memorandum by British Airways Plc: Class AA Certificates and Class A Certificates (as defined in the offering memorandum, and collectively the "**2019 Certificates**").

A separate trust was established to issue each class of 2019 Certificates (the "**BA 2019-1 Pass Through Trusts**") and each 2019 Certificate represents a fractional undivided interest in one of the trusts. The BA 2019-1 Pass Through Trusts are English law legal relationships created by a settlor when assets are placed under the control of a trustee for the benefit of a beneficiary. The key characteristic of a trust is that it permits the separation of legal ownership and beneficial interest: the trustees become the owners of the trust property as far as third parties are concerned, and the beneficiaries are entitled to expect that the trustees will manage the trust property for their benefit. The trustee in relation to the BA 2019-1 Pass Through Trusts is Wilmington Trust Company (as "Trustee" and "Controlling Party"), a provider of international corporate and institutional services, investment management and private banking.

The offering was made in connection with the financing of two new Airbus A320neo aircraft and six new Airbus A350-1000 aircraft (each, a "**2019 Aircraft**"). The proceeds from the sale of the 2019 Certificates were used by the BA 2019-1 Pass Through Trusts to acquire a related series of equipment notes issued by Gorllwyn Limited, which retains the aircraft on balance sheet, on a limited recourse basis in connection with separate operating leases and/or finance leases, with respect to each 2019 Aircraft under which British Airways Plc is the lessee of the 2019 Aircraft (the "**2019 Equipment Notes**"). These are the assets of the BA 2019-1 Pass Through Trusts.

The Class AA Certificates have an aggregate face amount of $542,971,000, issued in minimum denominations of $2,000, and are subject to a final maturity date of 15 June 2034. The Class A Certificates have an aggregate face amount of $263,195,000, issued in minimum denominations of $2,000, and are subject to a final maturity date of 15 December 2030.

Each of the 2019 Equipment Notes is redeemable under certain circumstances, including, without limitation, if a total loss occurs in respect of any of the 2019 Aircraft and the exercise of certain early termination options by British Airways Plc in relation to mortgage-financed 2019 Aircraft.

Certain categorised events of default apply, including, without limitation, indenture events of default, which upon occurrence, grant the Trustee the right to direct Wilmington Trust Company (in its capacity as "Subordination Agent") as the holder of 2019 Equipment Notes issued under such indenture, to accelerate and sell all of the relevant notes, or sell the collateral under such indenture to any person, subject to certain limitations.

The indenture events of default include:

- Any of certain specified lease event of defaults, including in respect of (i) non-payment of amounts under the lease, (ii) failure to insure the relevant 2019 Aircraft, (iii) breach of British Airways Plc's other obligations if such breach remains outstanding for more than 365 days, and (iv) breach of certain financing-related representations and warranties.

- The failure by Gorllwyn Limited to pay any amount, when due, under such indenture or under any 2019 Equipment Note issued thereunder that continues for more than ten business days, in the case of principal, interest or make-whole premium, and, in all other cases, ten business days after Gorllwyn Limited receives written notice from the related trustee.

- The failure of Gorllwyn Limited to remove any lien it is required to remove for a period of 30 days after Gorllwyn Limited receives written notice from the related trustee or any noteholder of such lien.

- Any representation or warranty made by Gorllwyn Limited in such indenture or certain related documents furnished to Wilmington Trust Company or any holder of a 2019 Equipment Note pursuant thereto being false or incorrect in any material respect when made that continues to be material and adverse to the interests of Wilmington Trust Company or noteholders and remains unremedied after notice and specified cure periods.

- Failure by Gorllwyn Limited to perform or observe any covenant or obligation for the benefit of Wilmington Trust Company or holders of 2019 Equipment Notes under such indenture or certain related documents that continues after notice and specified cure periods.

- The occurrence of an indenture event of default under any other indenture, other than where such other indenture event of default is attributable to a lease event of default in connection with an unremedied breach of covenant, if certain conditions are met.

- The occurrence of certain events of bankruptcy, reorganization or insolvency of Gorllwyn Limited.

The holders of a majority in principal amount of the outstanding 2019 Equipment Notes issued with respect to any 2019 Aircraft, by notice to Wilmington Trust Company, may on behalf of all the holders waive any existing default and its consequences under the indenture with respect to such 2019 Aircraft, except a default in the payment of the principal of, or premium or interest on any such 2019 Equipment Notes or a default in respect of any covenant or provision of such indenture that cannot be modified or amended without the consent of each holder of 2019 Equipment Notes.

The 2019 Certificates are governed by English law.

10.9 ICO Facility for Iberia and Vueling

On 30 April 2020, Iberia and Vueling, both subsidiaries of the Company, entered into two separate financing facilities: (i) a syndicated financing agreement for €750 million granted to Iberia (the "**Iberia ICO Facility**") and (ii) a syndicated financing agreement for €260 million for Vueling (the "**Vueling ICO Facility**" and, together with the Iberia ICO Facility, the "**ICO Facilities**"). The payment obligations under each of the ICO Facilities are guaranteed by the Ministry of Economic Affairs and Digital Transformation under the guarantee line managed by the Spanish ICO (*Instituto de Crédito Oficial*) pursuant to the guarantees line established by the Spanish government in the framework of the stimulus measures put forward under *Royal Decree-Law 8/2020 of 17 March*.

The ICO Facilities have a five-year term, but are repayable at any time on notice from the respective borrower. In this respect, the repayment calendar of each of the ICO Facilities establishes a 15% repayment of outstanding principal on April 30, 2023, a 25% repayment of outstanding principal on April 30, 2024 and the remaining 60% on the final termination date (i.e. on April 30, 2025).

Both ICO Facilities contain a number of non-financial covenants established to protect the position of the lenders and restricting the upstream of cash to the rest of the Group's companies; these covenants include a negative pledge undertaking, customary information undertakings, limitations to CAPEX investments save for the ones in the ordinary course of business of the borrowers and provided that they are made in market conditions, prohibitions to sell assets in certain cases, as well as to incur in financial indebtedness and the granting of securities unless expressly permitted under each ICO Facility.

The Iberia ICO Facility is guaranteed by Iberia Express. Additionally, any other subsidiary of Iberia which subsequently qualifies as a material subsidiary (excluding Vueling and British Airways Plc) must also become a guarantor under the Iberia ICO Facility. The Vueling ICO Facility does not have a guarantor on the date that this prospectus is filed but any subsidiary of Vueling which subsequently qualifies as a material subsidiary must become a guarantor under the Vueling ICO Facility. Neither of the two ICO Facilities is subject to cross-guarantees and no securities *in rem* (pledges or mortgages) of any type have been granted to guarantee the obligations established under them.

Both ICO Facilities include specific terms for the accession of additional lenders to the financing subject, of course, of those lenders obtaining a new ICO-managed guarantee or other equivalent to that managed by ICO under the mentioned Royal Decree-Law 8/2020 of 17 March. Until this date one additional lender has adhered to the ICO Facilities in the same terms and conditions as the initial lenders by means of an accession agreement dated 30 June 2020. This accession increased the amounts of each ICO Facility to: € 758 million for the Iberia ICO Facility and € 262 million for the ICO Vueling Facility. As of the date of this prospectus, all amounts under each of the ICO Facilities have been fully drawn down.

The ICO Facility is subject to mandatory and voluntary prepayment terms and conditions. Voluntary prepayment is only permitted if ICO provides its authorisation. Upon prepayment the relevant borrower must pay the proportional ICO Guarantee costs which are the proportional amount of the annual fees which are paid to the Spanish Ministry for maintaining the guarantees managed by ICO.

Both ICO Facilities are subject to customary events of default, including: (i) payment default; (ii) default of other covenants and obligations assumed under the ICO Facilities, (iii) change of control - understood as the loss of control of IAG over Iberia and/or Vueling, as the case may be; (iv) breach of representations; (v) relevant change in the business or activities of Iberia or Vueling; (vi) loss of the ICO managed guarantee; (vii) cross-default regarding both commercial and financial obligations subject to certain thresholds, as well as the existence of certain judicial, non-judicial or administrative proceedings resulting in eviction or enforcement above to certain amounts; and (viii) any material adverse change (excluding any consequence derived from the COVID-19 pandemic).

Both ICO Facilities are governed by Spanish common civil law and any disputes derived from them must be brought before the courts of the city of Madrid.

10.10 CCFF CP Programme

British Airways Plc has been confirmed as an eligible issuer under the CCFF. On 8 April 2020, British Airways Plc established a commercial paper programme in order to be able to participate in the CCFF and, on 12 April 2020, British Airways Plc issued £300 million (€332 million) commercial paper under the CCFF, which has a maximum aggregate limit of £300 million (€332 million) applied by the Bank of England and HM Treasury.

Under the terms of the CCFF CP Programme, British Airways Plc (as issuer) can issue notes in denominations of £100,000 (or integral multiples thereof), with a tenor of not less than one day nor greater than 364 days, with that tenor being calculated from (and including) the issue date (but excluding) the maturity date of the relevant note.

The CCFF CP Programme is governed by English law.

10.11 2019 Bonds

On 4 July 2019, the Company issued €500,000,000 0.50% bonds due 4 July 2023 (the "**Series A Bonds**") and €500,000,000 1.50% bonds due 4 July 2027 (the "**Series B Bonds**"). Each of the 2019 Bonds were issued in registered form in denominations of €100,000. The terms and conditions of both the Series A Bonds and Series B Bonds are set out in a prospectus published by the Company dated 1 July 2019 (the "**2019 Unsecured Bonds Prospectus**").

The 2019 Bonds are unsecured and constitute unsubordinated obligations of the Company, ranking *pari passu* without any preference among themselves.

Each of the 2019 Bonds include a right for the Company to optionally redeem the 2019 Bonds during the period commencing on (and including) the day that is 90 days prior to the relevant final maturity date at their principal amount together with accrued interest (if any), or, if it elects to redeem the 2019 Bonds at any time, at a price equal to the principal amount of the relevant 2019 Bonds plus a make-whole amount.

The 2019 Bonds contain certain events of default (subject, in certain cases, to grace periods and materiality thresholds), including, without limitation, with respect to failure to make payments of interest under the 2019 Bonds or default by the Company in the performance of any obligation or provision under the 2019 Bonds. Upon the occurrence of an event of default the holder of any of the 2019 Bonds may give written notice to the Company and the Fiscal Agent (as defined in the 2019 Unsecured Bonds Prospectus) at its specified office, such that the relevant 2019 Bond is immediately repayable.

The 2019 Bonds are governed by English law.

10.12 Convertible Bonds

On 17 November 2015, the Company issued €500,000,000 0.25% bonds due 17 November 2020 (the "**2020 Bonds**") and €500,000,000 0.625% bonds due 17 November 2022 (the "**2022 Bonds**") (together, the "**Convertible Bonds**"). Each of the Convertible Bonds were issued in registered form, serially numbered, in principal amounts of €100,000. The terms and conditions of both the Series A Bonds and Series B Bonds are set out in a terms and conditions published by the Company on or about 17 November 2015 (the "**Convertible Bonds Terms and Conditions**").

In July 2019, the 2020 Bonds were fully redeemed by the Company.

Title to the 2022 Bonds passes by transfer and registration, as set out in the Convertible Bonds Terms and Conditions, and the 2022 Bonds constitute direct, unconditional, senior, unsubordinated and unsecured obligations of the Company, ranking *pari passu*.

The 2022 Bonds entitle the holder the right to convert such bond into new ordinary shares in the capital of the Company with a par value of €0.10 (following the reduction of the capital of the Company on 9 September 2020) each as at the date of the Convertible Bonds Terms and Conditions (the "**Ordinary Shares**"), determined by dividing the principal amount of the relevant bond(s) to be converted by the relevant conversion price in effect on the relevant conversion date. The conversion date in respect of the 2022 Bond is the London and Madrid business day immediately following the date of the delivery of the relevant bond and the conversion notice and payment of any other amount payable by the relevant bond holder (the "**Conversion Date**"). Holders of the 2022 Bonds can deliver the conversion notice any time until 10 November 2022, being the date which is seven calendar days before the final maturity date of the 2022 Bonds.

The 2022 Bonds entitle the holder to convert 2022 Bonds into new Ordinary Shares, credited as fully paid (a "**Conversion Right**"). The number of Ordinary Shares to be issued or delivered on exercise of a Conversion Right shall be determined by dividing the principal amount of the 2022 Bonds to be converted by the relevant conversion price (the "**Conversion Price**") in effect on the relevant Conversion Date. The relevant Conversion Price in respect of the 2022 Bonds is subject to adjustment if (i) there is a consolidation, reclassification or subdivision of the Ordinary Shares; (ii) there is a bonus issue of Ordinary Shares; (iii) there are non-cash dividends or extraordinary dividends in respect of the Ordinary Shares; (iv) there are any rights issues or similar; (v) there is an issue of other securities (other than Ordinary Shares) as a class by way of rights or similar; (vi) there is an issue of Ordinary Shares at a discount; (vii) there is an issue of convertible securities; (viii) there is any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any securities; (ix) there is an offer of securities to shareholders; (x) there is a change of control of the Company; or (xi) the Company determines that an adjustment should be made as a result of circumstances not otherwise covered above. The Conversion Price as at the Latest Practicable Date is €13.8088.

On giving not less than 45 or more than 60 days' notice to the bond holders, the Company may redeem all the 2022 Bonds at their principal amount, together with accrued but unpaid interest to such date: (i) at any time on or after 8 December 2020, if at the relevant times the volume weighted average price of an Ordinary Share was at least 130% of the relevant Conversion Price in effect on such dealing day; or (ii) at any time, if Conversion Rights have been exercised and/or purchases (and corresponding cancellations) and/or redemptions effected in respect of 85% or more in principal amount of the 2022 Bonds originally issued.

The Convertible Bonds Terms and Conditions contain the following events of default (subject, in certain cases, to grace periods and materiality thresholds):

- there is default for more than 15 days in the payment of any interest due in respect of the 2022 Bonds or if there is default for more than seven days in the payment of any principal due in respect of the 2022 Bonds;

- there is default in the performance or observance by the Company of any obligation or provision under the 2022 Bonds (other than any obligation for the payment of any principal or interest in respect of the 2022 Bonds), in each case which continues for more than 45 days after written notice is given to the Company by any bondholder;

- as a result of default by the Company or British Airways Plc, either entity becomes bound to repay prematurely any of its indebtedness for borrowed moneys; and/or any such indebtedness for borrowed moneys is not, when due, repaid;

- a resolution is passed, or a final order of a court is made, and, where possible, not discharged or stayed within a period of 60 days, that the Company or British Airways Plc be wound up or dissolved;

- an encumbrancer takes possession or a receiver, administrative receiver, administrator manager, judicial manager or other similar person is appointed over the whole or a substantial part of the assets or undertaking of the Company or British Airways Plc;

- a distress, execution or seizure before judgment is levied or enforced upon or sued out against a substantial part of the assets or undertaking of the Company or British Airways Plc and is not discharged, dismissed or stayed within 60 days thereof;

- the Company ceases or threatens to cease to carry on all or substantially all of its business; or

- the Company or British Airways Plc makes an assignment for the benefit of creditors generally or is unable or admits in writing its inability to pay its debts generally as they become due or takes corporate action in furtherance of any such action or stops payment to creditors generally.

Upon the occurrence of an event of default any holder of the 2022 Bonds may give written notice to the Company and BNP Paribas Securities Services, Luxembourg Branch (as fiscal agent) at its specified office, such that such 2022 Bond is immediately repayable. While any Conversion Right remains exercisable, the Company must, save with the approval of an extraordinary resolution of the bondholders, issue, allot and deliver Ordinary Shares on exercise of Conversion Rights and at all times keep available for issue free from pre-emptive or other similar rights such number of Ordinary Shares as would enable the Conversion Rights and all other rights of subscription and exchange for and conversion into Ordinary Shares to be satisfied in full.

The 2022 Bonds are governed by English law.

10.13 IAG – Boeing agreement in respect of Boeing 777-9 aircraft for British Airways

On 28 February 2019, the Company entered into an agreement with Boeing, pursuant to which Boeing agreed to supply 18 Boeing 777-9 aircraft to British Airways and also granted 24 options for Boeing 777-9 aircraft in favour of British Airways. All such aircraft will be equipped with General Electric GE9X engines.

The list price for each Boeing 777-9 is €442.2 million and, pursuant to the agreement, the Group negotiated a significant discount per aircraft. The list price is the sum of: (i) the airframe list price; (ii) engine option list price; and (iii) the price of certain assumed specification change notices against which price concessions are made.

Under the agreement, Boeing provided the Company with a set of warranties on the Boeing 777-9 aircraft (including warranties against defects in design, materials or workmanship) and guarantees relating to the performance and operational reliability of the aircraft.

If any scheduled delivery of an aircraft is delayed by Boeing for any reason other than “excusable delay” (which comprises of delay of aircraft delivery due to causes outside of Boeing’s control), Boeing will pay liquidated damages to the Company at a fixed daily rate limited to a maximum agreed amount. If any such delay lasts for more than an agreed period, the Company has the right to terminate the agreement with respect to the affected aircraft.

Either party will be able to terminate the agreement if the other party becomes insolvent or subject to insolvency proceedings. The agreement also generally provides that the rights and obligations of the parties may not, subject to certain exceptions, be assigned or transferred without the prior written consent of the non-transferring party.

11. REGULATORY DISCLOSURES

Below is a summary of the information disclosed in accordance with the Company’s obligations under MAR over the last 12 months, which is relevant as at the date of this Prospectus:

11.1 Board disclosures

On 9 January 2020, the Company announced that Willie Walsh had decided to retire as Group Chief Executive, and would be succeeded by Luis Gallego (chief executive of Iberia).

On 7 May 2020, the Company announced that Luis Gallego will succeed Willie Walsh as Group Chief Executive on 24 September 2020.

On 31 July 2020, the Company announced that the Board of Directors had approved the succession plan for its Chairman, Antonio Vázquez, unanimously approving the appointment of independent director Javier Ferrán as his successor.

11.2 COVID-19-related disclosures

On 16 March 2020, the Company announced that although the Group had a strong balance sheet and substantial cash liquidity, COVID-19 and the associated travel restrictions were having a significant and increasingly negative impact on demand for travel across almost all routes operated by the Company's airlines. Further, given the continued uncertainty on the potential impact of COVID-19, it was not possible for the Company to give accurate profit guidance for the full year 2020. The Company also outlined the following steps that it was taking to address the financial impact of COVID-19:

- taking actions to reduce operating expenses and improve cash flow, including grounding surplus aircraft, reducing and deferring capital spending, cutting non-essential and non-cyber security related IT spend and freezing recruitment and discretionary spending; and

- delaying the retirement of Group Chief Executive Willie Walsh, in order to provide management stability.

On 2 April 2020, the Company announced that it had decided to reduce capacity (expressed in terms of ASKs) to an approximately 90% reduction in April and May compared to last year. The Company also outlined the following steps that had been taken in respect of employees:

- applying the UK's Government's Coronavirus Job Retention Scheme to 30,000 British Airways cabin crew and ground-based employees placed on furlough, in April and May;

- reaching agreement with 4,000 British Airways pilots to take four weeks of unpaid leave, in April and May;

- procuring similar job retention and wage support schemes for the Company's other airlines, applicable to more than 17,000 employees in Spain; and

- seeking similar support in Ireland.

On 2 April 2020, the Company announced that it was withdrawing its 2019 proposed final dividend of €0.17 per share and was proposing to allocate the profit for fiscal year 2019 to the voluntary reserve.

11.3 Major transactions disclosure

On 4 November 2019, the Company announced that it had reached agreement to acquire, through the Company's wholly-owned subsidiary, IB OPCO., the entire issued share capital of Air Europa for €1 billion, to be satisfied in cash at completion and subject to a closing accounts adjustment. The proposed acquisition is expected to be concluded in the second half of 2020 or early 2021.

On 24 July 2020, the Company announced that it had signed a multi-year renewal extending its worldwide commercial partnership with American Express. Under the agreements, American Express will make a payment to IAG Loyalty of approximately £750 million (€830 million), a significant part of which is a pre-purchase of Avios points that American Express will utilise in the UK and world-wide for its British Airways co-branded cards and Membership Rewards Programme.

11.4 Other corporate actions disclosure

On 17 January 2020, the Company announced that it was removing the limit of 47.5% on the maximum aggregate ownership of the Company's issued shares by non-EU based Shareholders which had been introduced on 11 February 2019.

12. LITIGATION

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), during a period covering at least the 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on the Company's and/or the Group's financial position or profitability.

13. CAPITALISATION AND INDEBTEDNESS

The following table shows the capitalisation of the Group as at 30 June 2020.

	30 June 2020 €m
Shareholder's equity	
Ordinary share capital	996

Share premium	5,327
Treasury shares	(45)
Other reserves	(5,499)
Total equity attributable to shareholders of the Company	**779**
Non-controlling interests	**6**
Total shareholder's equity	**785**

The following table shows the indebtedness of the Group as at 30 June 2020:

	30 June 2020 **€m**
Current liabilities	
Borrowings	2,820
Trade and other payables	3,422
Deferred revenue on ticket sales	4,624
Derivative financial instruments	1,699
Provisions for liabilities and charges	719
Total current liabilities	**13,284**
Non-current liabilities	
Interest-bearing long-term borrowings	13,659
Employee benefit obligations	1,225
Deferred tax liability	59
Provisions for liabilities and charges	2,231
Derivative financial instruments	741
Other long-term liabilities	116
Total non-current liabilities	**18,031**
Total indebtedness	**31,315**

The following table sets out the Group's net indebtedness at 30 June 2020:

	30 June 2020 **€m**
Cash	1,935
Cash equivalents	2,761
Trading securities	1,320
Liquidity	**6,016**
Current financial receivables	**29**
Current bank debt	(764)
Current portion of non-current debt	(1,726)
Other current financial debt	(330)
Current financial debt	**(2,820)**
Net current financial indebtedness	**3,225**
Non-current bank loans	(1,295)
Bonds issued	(1,593)
Other non-current debt	(10,771)
Non-current financial indebtedness	**(13,659)**
Net financial indebtedness	**(10,434)**

With respect to the above tables, the Company does not collect and disclose indebtedness information on a guaranteed/secured and unguaranteed basis. Furthermore, some of the Company's debt falls into more than one of the above-mentioned categories, which means it is not possible provide a meaningful split of the information in this way. In any event, the Company believes that its indebtedness disclosure above is more useful for investors as it clearly shows the different types of indebtedness the Company has and the amount of such indebtedness.

As at 30 June 2020, the Group has no direct or contingent indebtedness.

As at 30 June 2020, the Group's current and non-current lease liabilities amounted to €1,604 million and €8,987 million, respectively.

In July 2020, the Company completed the sale and lease back of five aircraft for approximately €380 million. In addition, the Group extended its worldwide commercial partnership with American Express, as announced on 24 July 2020. Under the agreements, American Express made a payment to IAG Loyalty of approximately £750 million (€830 million), a significant part of which is a pre-purchase of Avios points that American Express will use in the UK and world-wide for its British Airways co-branded cards and membership rewards programme. There has otherwise been no material change in the Company's capitalisation and indebtedness position since 30 June 2020.

14. WORKING CAPITAL

In the opinion of the Company, the working capital available to the Group is sufficient for its present requirements (that is, for at least 12 months following the date of this Prospectus).

In reaching this opinion, the Company has taken into account the net proceeds of the Capital Increase (being approximately €2,672 million, after deduction of estimated commissions, fees and expenses and which is fully underwritten, except for the entitlement that is subject to the Irrevocable Shares).

15. NO SIGNIFICANT CHANGE

There has been no significant change in the financial position or performance of the Group in the period from 30 June 2020, being the date to which the Historical Financial Information was prepared, to the date of publication of this Prospectus.

16. 2020 HALF-YEAR FINANCIAL STATEMENTS

In the 2020 Half-Year Financial Statements, the Directors disclosed that the Group may require additional funds above those contractually committed as at 30 July 2020 should the impact of the COVID-19 pandemic be more severe than the Directors' expectations and that, as at 30 July 2020, a material uncertainty existed that may have cast significant doubt on the Group's ability to continue as a going concern. Ernst & Young's limited review report on the 2020 Half-Year Financial Statements drew attention to the Company's disclosure of this material uncertainty. Ernst & Young's conclusion was not modified in respect of this matter. The 2020 Half-Year Financial Statements did not take into account the proceeds of the Capital Increase.

The wording in relation to this materiality uncertainty as at 30 July 2020 has been extracted below from the 2020 Half-Year Financial Statements without amendment:

> "*As detailed in the Financial Review at June 30, 2020, the Group has cash of €6.0 billion and a further €2.1 billion of committed and undrawn general and aircraft facilities. Liquidity was boosted by, amongst other actions, accessing Spain's Instituto de Crédito Oficial (ICO) facility and the UK's Coronavirus Corporate Finance Facility (CCFF). In addition, one-year bridge financing facilities for old and new aircraft were agreed. These actions raised an additional €2.2 billion of liquidity in the period. The Group also has a large and valuable portfolio of airport landing rights. Nevertheless, given the economic uncertainty of the COVID-19 pandemic, the Group has modelled two scenarios in its assessment of going concern over the period to December 31, 2021, referred to below as the Base Case and the Downside Case.*

The Base Case takes into account the Board's and management's views on the anticipated impact and recovery from the COVID-19 pandemic on the Group's operating companies and overall business across the going concern period. The key inputs and assumptions underlying the Base Case include:

- *capacity recovery modelled regionally (and in certain regions, by key destinations), with capacity (measured versus 2019) gradually increasing from the reduction of 95 per cent reported in quarter 2 to 46 per cent lower for quarter 4 2020 and still down 24 per cent on average for 2021;*

- *passenger unit revenue per ASK, although recovering is expected to remain at levels below those of 2019 over the going concern period, which is dependent on, amongst others, the weighting of shorthaul versus longhaul, business versus leisure and premium versus economy; and*

- *the Group has forecast securing 80 per cent of the financing required that is currently uncommitted to align with the timing and payments for aircraft deliveries. This is a conservative assumption against the level of financing the Group has been able to achieve recently, including over the course of the COVID-19 pandemic to date.*

The Downside Case applies further stress to the Base Case to model a more prolonged downturn, with a deeper and more gradual recovery relative to the Base Case. The Downside Case is representative of a second wave of outbreaks of COVID19 on a regional basis, which models a more acute impact on the longhaul sector, with the domestic and European shorthaul sector recovering faster than longhaul. In the Downside Case capacity would be 67 per cent lower than 2019 in quarter 4 2020 and 35 per cent lower averaged across 2021, with the first two quarters of 2021 approximately down a further 25 per cent versus 2019 than in the Base Case. In reviewing the Downside Case the Directors have also considered further sensitivities for adverse experience and external factors. The Directors consider the Downside Case to be a severe but plausible scenario.

The Group has modelled the impact of mitigating actions to offset further deteriorations in demand and capacity, including reductions in operating expenditure and capital expenditure. The Group expects to be able to continue to secure financing for future aircraft deliveries and in addition has further potential mitigating actions it would pursue in the event of adverse liquidity experience.

Furthermore, to add resilience to the liquidity position of the Group, including for the period beyond the next 12 months, the Directors have resolved to undertake a Rights Issue during the second half of 2020 for an amount of up to €2.75 billion, which is expected to be fully covered by underwriting and irrevocable commitments. The Rights Issue will be subject to approval at the Company's Annual General Meeting on September 8, 2020 and would be expected to be completed by the end of September.

Having reviewed the Base Case, Downside Case and additional sensitivities, the Directors have a reasonable expectation that the Group has sufficient liquidity to continue in operational existence for the foreseeable future and hence continue to adopt the going concern basis in preparing the interim financial statements.

Due to the uncertainty created by COVID-19 and potential for future waves of the pandemic and the impact on travel restrictions and/or demand, the Group is not able to provide certainty that there could not be more severe downside scenarios than those it has considered, including the stresses it has considered in relation to factors such as the impact on yield, capacity operated, cost mitigations achieved and fuel price variations. Whilst such scenarios are not considered likely, in the event that such a scenario were to occur the Group will likely need to secure additional funding over and above that which is contractually committed at July 30, 2020. Sources of additional funding are expected to include regular financing arrangements for aircraft, an extension of the CCFF commercial paper until March 2022, and the Rights Issue referred to above.

However, if such funding were not secured against aircraft, the UK Government withdrew its CCFF programme or if the Rights Issue were not approved and executed as anticipated, the occurrence of a more severe downside scenario and the Group's ability to then obtain additional funding represents a material uncertainty at July 30, 2020 that could cast significant doubt upon the Group's ability to continue as a going concern.

The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern."

Without prejudice to the going concern emphasis included in the 2020 Half-Year Financial Statements, the Company has included a clean working capital statement in section 14 (*Working Capital*) as this takes into account the net proceeds of the Capital Increase.

17. EXPENSES

The total costs and expenses payable by the Company in connection with the Capital Increase (including the listing fees of the Spanish Stock Exchanges and the London Stock Exchange, professional fees and expenses and the costs of printing and distribution of documents) are estimated to amount to approximately €69 million. These estimates are for information purposes only, given the difficulty of determining their final exact amount at the date of this Prospectus:

Expenses	**Estimated Amount (€)**
Taxes (ITP and AJD - *modalidad operaciones societarias*), Notary and Commercial Registry fees.	60,000
Tariffs and fees of Iberclear and the Spanish Stock Exchanges.	354,000
CNMV fees.	71,000
Tariffs and fees of the FCA and the London Stock Exchange.	506,000
Other expenses (legal, marketing, printing, auditors, etc.).	16,000,000
Underwriting fees.	52,000,000
TOTAL	**68,991,000**

Based on the estimated amounts set out in the table above, the expenses of the Capital Increase represent approximately 2.6% of the gross amount that the Company would raise if the New Shares are fully subscribed for at the Subscription Price and the Agent will receive estimated funds, net of expenses, of €2,672 million.

Each New Share is expected to be issued at a premium of €0.82 to its nominal value of €0.10.

18. AUDITOR

The individual annual accounts of the Company and consolidated annual accounts of the Group for the years ended 31 December 2019 and 2018 have been audited by Ernst & Young. Ernst & Young has also carried out a limited review of the consolidated accounts of the Group for the six months ended 30 June 2020 and 2019.

Ernst & Young has its address for these purposes at C/ Raimundo Fernández Villaverde, 65 28003, Madrid, Spain and is registered with the Official Registry of Accounting Auditors (ROAC, *Registro Oficial de Auditores de Cuentas*) under the number S0530 and in the Madrid Commercial Registry under book 9,364, Section 3, Sheet 68, Page 87690-1051. It has no material interest in the Company or the Group.

19. CONSENTS

Each of the Joint Global Coordinators and Joint Bookrunners has given and not withdrawn their consent to the inclusion in this Prospectus of their name in the form and in the context in which they appear.

20. THIRD PARTY INFORMATION

Where third-party information has been used in this document, the source of such information has been identified. The Company confirms that such information has been accurately reproduced and, so far as the Company is aware and has been able to ascertain from information published by such third-parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Company has not independently verified any of the data from third-party sources, nor has the Company ascertained the underlying economic assumptions relied upon therein. Similarly, internal surveys, industry forecasts and market research, which the Company believes to be reliable based upon the Directors' knowledge of the industry, have not been independently verified. Statements as to the Group's market position are based on recently available data.

21. DOCUMENTS INCORPORATED BY REFERENCE

The table below sets out the documents of which certain parts are incorporated by reference into, and form part of, this Prospectus. Only the parts of the documents identified in the table below are incorporated into, and form part of, this Prospectus. The parts of these documents which are not incorporated by reference are either not relevant for investors or are covered elsewhere in this Prospectus. To the extent that any information incorporated by reference itself incorporates any information by reference, either expressly or by implication, such information will not form part of this Prospectus for the purposes of the Prospectus Regulation, except where such information is stated within this Prospectus as specifically being incorporated by reference or where the document is specifically defined as including such information.

Any statement contained in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein (or in a later document which is incorporated by reference herein) modifies or supersedes such earlier statement (whether expressly, by implication or otherwise).

No.	Source	Document information incorporated by reference (pages)	Web link
1.	Unaudited interim results of the Group for the six months ended 30 June 2020	All	https://www.iairgroup.com/~/media/Files/I/IAG/documents/interim-management-statement-for-the-six-months-to-june-30-2020.pdf

2.	Unaudited interim results of the Group for the six months ended 30 June 2019	All	https://www.iairgroup.com/~/media/Files/I/IAG/Interim%20Management%20Report%20for%20six%20months%20to%20June%2030%202019.pdf
3.	Company's 2019 annual report	Auditor's report on the financial statements (pages 198 to 204) Consolidated income statement (page 132) Consolidated statement of other comprehensive income (page 133) Consolidated statement of changes in equity (pages 136 to 137) Consolidated balance sheet (page 134) Consolidated cash flow statement (page 135) Notes to the consolidated financial statements (pages 138 to 186)	https://www.iairgroup.com/~/media/Files/I/IAG/documents/IAG%20Annual%20report%20and%20accounts%202019.pdf
4.	Company's 2018 annual report	Auditor's report on the financial statements (pages 177 to 182) Consolidated income statement (page 116) Consolidated statement of other comprehensive income (page 117) Consolidated statement of changes in equity (pages 120 to 121) Consolidated balance sheet (page 118) Consolidated cash flow statement (page 119) Notes to the consolidated financial statements (pages 122 to 171)	https://www.iairgroup.com/~/media/Files/I/IAG/annual-reports/iag-annual-reports/en/annual-report-and-accounts2018-en.pdf

22. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents can be inspected on the Company's website at www.iairgroup.com from the date of publication of this Prospectus:

- the By-laws;
- the documents incorporated by reference into this Prospectus, as described in section 21 (*Documents Incorporated by Reference*); and
- a copy of this Prospectus.

For the purposes of the Prospectus Regulation, this Prospectus will be published in printed form and available free of charge, during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of 12 months following Admission at the Company's registered office, being El Caserío, Iberia Zona Industrial nº 2 (La Muñoza), Camino de La Muñoza, s/n, 28042 Madrid, Spain. In addition, this Prospectus and the documents incorporated by reference into this Prospectus, as described in section 21 (*Documents Incorporated by Reference*) will remain publicly available in electronic form on the Company's website at www.iairgroup.com for at least 10 years after the publication of the Prospectus.

SCHEDULE
DEFINITIONS

"**2018 Annual Financial Statements**"	means the audited financial statements of the Company for the financial year ended 31 December 2018;
"**2019 Annual Financial Statements**"	means the audited financial statements of the Company for the financial year ended 31 December 2019;
"2019 Bonds"	means the Series A Bonds and the Series B Bonds, as detailed in section 10.11 of Part XI (*Additional Information*);
"**2019 Half-Year Financial Statements**"	means the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2019;
"2020 Bonds"	means the €500,000,000 0.25% bonds due 17 November 2020 issued by the Company on 17 November 2015;
"**2020 Half-Year Financial Statements**"	means the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2020;
"2022 Bonds"	means the €500,000,000 0.625% bonds due 17 November 2022 issued by the Company on 17 November 2015;
"Air Europa"	means Air Europa Líneas Aéreas, S.A.U, the airline operated by Globalia Corporacion Empresarial, S.A. as at the date of this Prospectus;
"Air Passenger Duty"	means air passenger duty, a tax on passenger flights from UK airports;
"**Additional CDIs**"	refers to those additional New Shares in the form of CDIs that Eligible Shareholders and Investors may request subscription of (subject to the terms and conditions set out in this Prospectus) in the event that there are Excess Shares;
"Additional Shares"	refers to those additional New Shares that Eligible Shareholders and Investors may request subscription of (subject to the terms and conditions set out in this Prospectus) in the event that there are Excess Shares (and, unless expressly stated, includes Additional CDIs);
"**Admission**"	means admission of the New Shares to listing on the Spanish Stock Exchanges with quotation on the AQS (and, unless expressly stated, includes admission of the New CDIs to the premium listing segment of the Official List and to trading on the London Stock Exchange's Main Market);
"Aer Lingus"	means Aer Lingus Limited, an operating company of the Group;
"**ADRs**"	means American Depositary Receipts;

“AESA”	means the Spanish Aviation Safety Agency;
“Affected Rights”	means Subscription Rights acquired in breach of any Permitted Maximum (and, unless expressly stated, includes CDI Rights acquired in breach of the Permitted Maximum);
“AOC”	means an Air Operator Certificate required for an operator to perform specific operations of commercial air transport;
“**Agent**”	means Banco Santander;
“**Allocation Period for Additional Shares**”	means the period in which Additional Shares requested by Investors and Eligible Shareholders will be allocated, such period only arising in the event that Excess Shares exist at the end of the Pre-emptive Subscription Period (1 October 2020);
“**AMESA**”	means Africa, Middle East and South Asia;
“**APMs**”	means alternative performance measures that are not defined or recognised under IFRS, but which are consistent with the Group’s internal assessment of performance;
“**AQS**”	means the Automated Quotation System of the Spanish Stock Exchanges (*Sistema de Interconexión Bursátil or Mercado Continuo*)
“**ASKs**” (“**AKO**” in Spanish)	means available seat kilometres, being the number of seats available for sale multiplied by the distance flown;
“**Auditor**”	means Ernst & Young, S.L.;
“APS”	means the Airways Pension Scheme;
“ASA”	means air services agreement;
“average manpower equivalent”	means the mean of the Manpower Equivalent captured quarterly to reflect seasonality;
“**Bank of England**”	means The Governor and Company of the Bank of England and, save as the context otherwise requires, a reference to the Bank includes a reference to the Bank acting on its own behalf and as agent or custodian for Covid Corporate Financing Facility Limited;
“**BAPP**”	means the British Airways Pension Plan;
“**BARP**”	means the British Airways Retirement Plan;
“**Board**” or “**Board of Directors**”	means the board of directors of the Company from time to time;

“BORME”	means the *Boletín Oficial del Registro Mercantil de España* (Official Gazette of the Mercantile Registry);
“**Business Day**”	means any day on which banks are generally open in London or Madrid, as the case may be, for the transaction of business other than a Saturday or Sunday or public holiday;
“Brexit”	refers to the United Kingdom’s withdrawal from membership of the European Union, which occurred on 31 January 2020;
“British Airways”	means British Airways Plc, an operating company of the Group;
“**By-laws**”	means the by-laws of the Company from time to time;
“CAA”	means the UK Civil Aviation Authority;
“Capital Increase”	means the offer by way of transferable subscription rights to Eligible Shareholders to subscribe for New Shares, on the terms and conditions set out in this Prospectus;
“Capital Markets Act”	means the Capital Markets Act approved under Royal Decree 4/2015 of 23 October (*Real Decreto Legislativo 4/2015, de 23 de octubre, por el que se aprueba el texto refundido de la Ley del Mercado de Valores)*
“**CTKs**”	means cargo tonne kilometres, being the number of tonnes of cargo carried that generate revenue (freight and mail) multiplied by the distance flown;
“**cargo yield**”	means cargo revenue divided by CTKs;
“**CCFF**” or “**CCFF CP Programme**”	means the joint Bank of England and HM Treasury’s lending facility, named the Covid Corporate Financing Facility, under which the Bank of England, acting through an entity named Covid Corporate Financing Facility Limited, may acquire commercial paper which is issued by a participating eligible company with a term of between one week and 12 months;
“CDIs”	means CREST depositary interests issued by CREST Depository in respect of the Shares from time to time;
“**CDI Holders**”	means the holder(s) of CDIs from time to time and “**CDI Holder**” means any one of them;
“CDI Rights”	means the transferable pre-emptive subscription rights that the Company is granting in the form of CDIs, subject to the terms and conditions of this Prospectus, to holders of Existing CDIs pursuant to the Capital Increase;
“**CDI Rights Holders**”	means: (a) the registered CDI Holder as at 23:59 (CEST) on the date of publication of the announcement of the Capital Increase in

	the BORME; and/or (b) Investors, and "**CDI Rights Holder**" means any one of them;
"**Chairman**"	means the chairman of the Company;
"**CIT**" and "**CIT Law**"	means Corporate Income Tax in Spain, as detailed in Part A (*Spanish Taxation*) of Part X (*Taxation*);
"**Closing Time**"	means the time of registration of the public deed relating to the Capital Increase in the Commercial Registry (*Registro Mercantil*), which is expected to take place on 5 October 2020);
"CNMV"	means the *Comisión Nacional del Mercado de Valores* (the Spanish Securities Markets Commission);
"Code"	the International Revenue Code of 1986, as referred to in Part C (*US Taxation*) of Part X (*Taxation*);
"**Company**" or **"IAG"**	means International Consolidated Airlines Group, S.A.;
"**Company Deputy Secretary**"	means the deputy company secretary of the Company from time to time;
"**Company Secretary**"	means the company secretary of the Company from time to time;
"**Convention**"	means the 1944 Chicago Convention on International Civil Aviation;
"**Coronavirus Job Retention Scheme**"	means the UK government's scheme, announced on 20 March 2020, allowing employers to furlough workers with the government paying a proportion of those workers' wages;
"**CORSIA**"	means the Carbon Offsetting and Reduction Scheme for International Aviation;
"**CREST**"	means the system for the paperless settlement of trades in securities and the holding of uncertificated securities in accordance with the CREST Regulations operated by Euroclear UK & Ireland;
"**CREST Depository**"	CREST Depository Limited;
"**CREST Regulations**"	means the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended from time to time;
"**Delegated Regulation 2019/980"**	means Commission Delegated Regulation (EU) 2019/980 of 14 March 2019 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market;
"**Depositary**"	means Deutsche Bank Trust Company Americas;

"**Deposit Agreement**"	means the deposit agreement entered into between the Company, the Depositary and the holders and beneficial owners of ADSs establishing an American depositary receipt facility with the Depositary to provide for the deposit of certain Ordinary Shares and the creation of ADSs representing the Ordinary Shares so deposited;
"**Deutsche Bank**"	means Deutsche Bank Aktiengesellschaft;
"DGAC"	means the Civil Aviation General Direction;
"**Directors**"	means the directors of the Company as at the date of this Prospectus, and "**Director**" means any one of them;
"**Director Irrevocables**"	means the irrevocable undertakings provided by each Director who is a Shareholder on the date of this Prospectus;
"Directors' Remuneration Policy"	has the meaning given to it in section 7.7 (*Share Plans)* of Part XI (*Additional Information*);
"**Disclosure Guidance and Transparency Rules**"	means the disclosure guidance and transparency rules made under Part VI of FSMA (as set out in the FCA Handbook), as amended;
"Discretionary Allocation Period"	means the period, which may arise if all of the New Shares are not subscribed for during the Pre-emptive Subscription Period and the Allocation Period for Additional Shares, in which the Discretionary Allocation Shares would be allocated, as detailed in full in section 3.1(C) (*Discretionary Allocation Period (3rd round)*) of Part VII (*Terms and Conditions of the Capital Increase)*;
"Discretionary Allocation Shares"	means the shares resulting from the difference between the total number of New Shares and those subscribed in the Pre-emptive Subscription Period and in the Allocation Period for Additional Shares (if any), as detailed in full in section 3.1(C) (*Discretionary Allocation Period (3rd round)*) of Part VII (*Terms and Conditions of the Capital Increase*);
"**DTT**"	has the meaning given to it in section 4.2(A) (*Taxation of Dividends*) of Part A (*Spanish Taxation*) of Part X (*Taxation*);
"**EEA**"	means the European Economic Area;
"Eligible Shareholders"	means holders of the Existing Shares who bought their shares on or before 11 September 2020, provided they appear as shareholders in Iberclear at 23:59 (CEST) on the Record Date (and, unless expressly stated, includes holders of the Existing CDIs at 23:59 (CEST) on the Record Date);
"**employee unit costs**"	means total employee costs divided by total ASKs;
"**EPS**"	means earnings per share;

"ESMA Guidelines"	means the guidelines issued by the European Securities and Markets Authority on 5 October 2015 on alternative performance measures;
"**EU**" or "**European Union**"	means the European Union first established by the treaty made at Maastricht on 7 February 1992;
"**EU Member State**"	means a member state of the European Union;
"**Euroclear Bank**"	Euroclear Bank S.A./N.V.;
"**Euroclear UK & Ireland**"	means Euroclear UK & Ireland Limited, the operator of CREST;
"**European O&D Market**"	means those aviation markets where passenger traffic originates and/or concludes in Europe;
"**Excess Shares**"	means those New Shares that remain unsubscribed following the Pre-emptive Subscription Period;
"**Excluded Shareholders**"	means, subject to certain exceptions, Shareholders or CDI holders who have registered addresses in, who are incorporated in, registered in, or otherwise resident or located in, any Excluded Territory;
"**Excluded Territories**"	means the United States of America, Australia, Canada, Hong Kong, Japan, New Zealand, Singapore, South Africa, Switzerland, United Arab Emirates or any other jurisdiction where the extension or availability of the Capital Increase (and any other transaction contemplated thereby) would breach any applicable law or regulation and "**Excluded Territory**" means any one of them;
"Execution Date"	means the date upon which the Capital Increase deed will be notarised;
"**Executive Directors**"	means the executive directors of the Company as at the date of this Prospectus, which is set out in section 7.1 (*Board of Directors*) of Part XI (*Additional Information*), and "**Executive Director**" means any one of them;
"**Existing Holding**"	means a Eligible Shareholder's holding of Shares on the Record Date (and, unless expressly stated, includes holdings of Existing CDIs by CDI Holders on the Record Date);
"**Existing Shares**" or individually, an **"Existing Share"**	means the existing Shares in issue immediately preceding the Capital Increase (and, unless expressly stated, includes existing CDIs in issue immediately preceding the Capital Increase);
"**FATCA**"	means the US Foreign Account Tax Compliance Act of 2010;
"**FCA**"	means the Financial Conduct Authority;

“**FCA Handbook**”	means the FCA’s Handbook of Rules and Guidance, as amended from time to time;
“**FSMA**”	means the Financial Services and Markets Act 2000 of England and Wales, as amended from time to time;
“**GDP**”	means gross domestic product;
“**GDPR**”	means the EU General Data Protection Regulation (Regulation (EU) 2016/679);
“**Group**”	means the Company together with all the companies belonging to its group from time to time pursuant to article 42 of the Spanish Commercial Code, as amended;
“**HMRC**”	means HM Revenue and Customs;
“**HM Treasury**”	means Her Majesty’s Treasury, the UK government’s economic and finance ministry;
“IADP”	means the Incentive Award Deferral Plan provided under the Director’s remuneration policy of the Company;
“IAG Airlines”	means the operating companies of the Group from time to time (being British Airways, Iberia, Aer Lingus, Vueling and LEVEL as at the date of this Prospectus);
“IAG Cargo”	means IAG Cargo Limited;
“IAG Connect”	means IAG Connect Limited;
“IAG GBS”	means IAG Global Business Services;
“IAG Loyalty”	means the loyalty business of the Group operated by Avios Group (AGL) Ltd, a subsidiary of the Company;
“IAG Nominee”	means Computershare Company Nominees Limited;
“IAG Nominee Service”	means the corporate-sponsored nominee service in respect of certain of the CDIs which is operated by Computershare Investor Services PLC and pursuant to which the IAG Nominee holds certain CDIs as corporate nominee on behalf of the participants on behalf of the participants thereof;
“IAG Tech”	means the technology division of the Group;
“**IATA**”	means the International Air Transport Association;
“Iberia”	means Iberia Lineas Aereas De España, SA Operadora, Unipersonal, an operating company of the Group;

"Iberia ICO Facility"	means the €750 million syndicated financing agreement entered into by Iberia on 30 April 2020, as more particularly described at section 10.9 (*ICO Facility for Iberia and Vueling*) of Part XI (*Additional Information*);
"Iberclear"	means the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U;
"IB OPCO"	means IB OPCO Holding S.L.;
"ICAO"	means the International Civil Aviation Organisation;
"IC Office"	means the Information Commissioner's Office, a non-departmental public body in the United Kingdom responsible for upholding information rights and promoting data privacy;
"ICO Facility"	means the syndicated financing agreements signed by Iberia and Vueling on 30 April 2020 for €750 million and €260 million respectively, which are guaranteed by the *Instituto de Credito Oficial*, as more particularly described at section 10.9 (*ICO Facility for Iberia and Vueling*) of Part XI (*Additional Information*);
"**IGT**"	the Spanish Inheritance and Gift Tax, as detailed in Part A (*Spanish Taxation*) of Part X (*Taxation*) and "**IGT Law**" means the IGT Law 29/1987;
"Inside Information Notice"	means the public disclosure of inside information (*Comunicación de Información Privilegiada*) which must be released pursuant to article 226 of the Capital Markets Act and article 17 of MAR, as amended;
"Investors"	means those third-party investors that acquire Subscription Rights on the market during the Pre-emptive Subscription Period;
"Ireland's Wage Subsidy Scheme"	means the temporary COVID-19 Wage Subsidy Scheme, announced on 24 March 2020 by the Irish government, to allow employers to continue to pay their employees during the COVID-19 pandemic;
"Irrevocable Shares"	means the New Shares subject to: (i) the irrevocable undertaking agreement between the Company from Qatar Airways dated 31 July 2020, as described in section 10.1 (*Irrevocable undertaking agreement with Qatar Airways*) of Part XI (*Additional Information*); and (ii) the Director Irrevocables;
"**IRS**"	means the United States Internal Revenue Service;
"**ISIN**"	means International Securities Identification Number;
"**Joint Bookrunners**"	means Morgan Stanley, Goldman Sachs International, Deutsche Bank, Banco Bilbao Vizcaya Argentaria S.A., Banco Santander S.A., Barclays Bank PLC, BofA Securities Europe SA, Citigroup

	Global Markets Limited and Credit Suisse Securities (Europe) Limited
“Joint Global Coordinators”	means Morgan Stanley, Goldman Sachs International, and Deutsche Bank;
“Joint Sponsors”	means Goldman Sachs International and Morgan Stanley, acting as sponsor to the Company under the UK Listing Rules as to Admission of Subscription Rights and Admission on the London Stock Exchange;
“**LACAR**”	means Latin America and the Caribbean;
“**Latest Practicable Date**”	means 9 September 2020, being the latest practicable date prior to publication of this Prospectus;
“Last Trading Date”	means the date of the notice of the Capital Increase in the Official Gazette of the Mercantile Registry;
“LEVEL”	means Flylevel, S.L., an operating company of the Group;
“**London Stock Exchange**”	means London Stock Exchange Group plc or its successor(s);
“**MAR**”	means Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse, as amended from time to time;
“**manpower equivalent**”	means the number of employees adjusted to include part-time workers, overtime and contractors;
“**Member State**”	means any state that from time to time is, or is deemed to be, a Member State for the purposes of Regulation 1008/2008, including (for the avoidance of doubt) any state that is from time to time a member state of the European Union and/or the EEA or that qualifies as a Member State for the purposes of Regulation 1008/2008 pursuant to an agreement with a third country to which the European Union is a party;
“Merger”	means the merging of British Airways and Iberia on 21 January 2011;
“**Morgan Stanley**”	means Morgan Stanley & Co. International plc;
“**MRO**”	means the Group’s maintenance, repair and overhaul operations;
“NAPS”	means the New Airways Pension Scheme, a defined benefit pension scheme operated by the Group in the UK.
“**New CDIs**”	means the New Shares in the form of CDIs;

“**New Shares”,** or, individually, a **“New Share”**	means the ordinary shares, each with a nominal value of €0.10, which are being offered to Eligible Shareholders, subject to the terms and conditions set out in this Prospectus, pursuant to the Capital Increase (and, unless expressly stated, includes the New CDIs or, individually, a New CDI);
“**Non-Executive Directors**”	means the non-executive directors of the Company, as at the date of this Prospectus, which is set out in section 7.1 (*Board of Directors*) of Part XI (*Additional Information*), and “**Non-Executive Director**” means any one of them;
“**Non-Qualifying Person**”	means a person who is not resident in or a national of, or an entity which is not domiciled, registered or incorporated in, a Member State or the United Kingdom;
“**Non-Resident Income Tax**”	means Non-Resident Income Tax (*Impuesto sobre la Renta de los No Residentes*) as defined in the NRIT Law;
“**NRIT Law**” and “**NRIT**”	mean the Non-Resident Income Tax Law, as detailed in Part A (*Spanish Taxation*) of Part X (*Taxation*));
“**Official List**”	means the official list maintained by the FCA pursuant to FSMA;
“**Other Relevant Information Notice**”	means the public disclosure of relevant, regulated and corporate information (*Comunicación de Otra Información Relevante*) which must be released pursuant to article 227 of the Capital Markets Act, as amended;
“**Overseas Shareholders**”	means Shareholders with registered addresses outside Spain or the United Kingdom or who are incorporated in, registered in, or otherwise resident or located in, countries outside Spain or the United Kingdom;
“**Ownership and Control Requirement**”	means the requirement of EU law (Regulation 1008/2008) that states that a Member State may only licence the operation of airline services if the majority of the air carrier’s share capital is owned (more than 50% of the voting rights), and the carrier is effectively controlled by, a Member State or their nationals;
“**Paris Accord**”	means the Paris Agreement, a global legal framework aiming to limit global warming to below 2°C and attempting to limit it to 1.5°C;
“Participant Entities”	means Iberclear’s authorised participant entities;
“**passenger load factor**”	means RPKs expressed as a percentage of ASKs;
“**passenger unit costs**”	means passenger revenue divided by ASKs;
“**passenger yield**”	means passenger revenue divided by RPKs;
“Payment Date”	means the trading day following the Record Date;

“**Permitted Maximum**”	means the maximum number of Shares and, at the relevant time, Subscription Rights, which may be held by Non-Qualifying Persons in order to ensure compliance with the mandatory rules on Ownership and Control Requirements (that is, the nationality requirements under Regulation (EC) No 1008/2008) as provided for in Article 11 of the By-laws;
“**PIT Law**”	means the Spanish Personal Income Tax Law, as detailed in Part A (*Spanish Taxation*) of Part X (Taxation);
“**PRA**” or “**Prudential Regulation Authority**”	means the Prudential Regulation Authority of the United Kingdom;
“Pre-emptive Subscription Period”	means the period of 15 calendar days, beginning on the first calendar day following the publication of the notice of the Capital Increase in the BORME, during which (i) Eligible Shareholders may exercise their right to subscribe for New Shares in proportion to their Existing Shares and (ii) the Subscription Rights may be traded;
“Pre-Funding Bank”	means Morgan Stanley;
“Pre-Funding Time”	means 11:00 (CEST) on the Execution Date;
“**productivity**”	means ASKs divided by average manpower equivalent;
“**Prospectus Regulation**”	means the Prospectus Regulation (EU) 2017/1129, as amended form time to time;
“PSP”	means the Performance Share Plan provided under the Director’s remuneration policy of the Company;
“**Qatar Airways**”	means Qatar Airways Group Q.C.S.C.;
“**Qatar Airways Irrevocable**”	means the agreement between the Company and Qatar Airways dated 31 July 2020, pursuant to which Qatar Airways agreed to vote in favour of the resolutions which were put to the 2020 Shareholders’ Meeting and to take up in full its right to subscribe for New Shares pursuant to the Capital Increase;
“**QIB**”	means a “qualified institutional buyer” within the meaning of Rule 144A;
“**QIB Investor Letter**”	means the letter executed by QIBs and delivered to the Company, certifying that, among other things: (i) it is a QIB and (ii) it will only offer, sell, transfer, assign, pledge or otherwise dispose of the New Ordinary Shares in transactions exempt from the registration requirements of the US Securities Act and in compliance with applicable securities laws;
“**Qualifying Person**”	means a person or an entity that is not a Non-Qualifying Person;

"**RD 878/2015**"	means Royal Decree 878/2015, of 2 October, on the clearing, settlement and registration of book-entry securities, on the legal regime for central securities depositories and central counterparties and on transparency requirements for issuers of securities admitted to trading on an official secondary market (*Real Decreto 878/2015, de 2 de octubre, sobre compensación, liquidación y registro de valores negociables representados mediante anotaciones en cuenta, sobre el régimen jurídico de los depositarios centrales de valores y de las entidades de contrapartida central y sobre requisitos de transparencia de los emisores de valores admitidos a negociación en un mercado secundario official*);
"**Record Date**"	means the date specified in the Expected Timetable of Principal Events on which a Shareholder must hold Shares to be an Eligible Shareholder;
"**Regulation (EC) No 1008/2008**"	means EU Regulation 1008/2008, which sets out nationality requirements for the holding of operating licences issued by Member States, such as the Ownership and Control Requirement;
"**Regulation S**"	means Regulation S under the US Securities Act;
"**Regulatory Information Service**"	has the meaning given to it in the FCA Handbook;
"**Relevant Underwritten Shares**"	has the meaning given in section 3.1(C) (*Discretionary Allocation Period (3rd round)*) of Part VII (*Terms and Conditions of the Capital Increase)*;
"**Resolutions**"	means the resolutions as defined in section 4.5 (*Resolutions, authorisations and approvals by virtue of which the securities have been or will be created and/or issued*) of Part XI (*Additional Information*);
"**RoIC**"	means return on invested capital;
"**RPKs**" ("**PKT**" in Spanish)	means revenue passenger kilometres, being the number of passengers that generate revenue carried multiplied by the distance flown;
"**Rule 144A**"	means Rule 144A under the US Securities Act;
"SDRT"	means stamp duty reserve tax;
"Safety Committee"	means the safety committee of the Board of Directors;
"**SEC**"	means the United States Securities and Exchange Commission;
"**SEDOL**"	means Stock Exchange Daily Official List;

"**Senior Managers**"	means the senior managers of the Company, as set out in section 7.2 (*Senior Managers*) of Part XI (*Additional Information*);
"**Settlement Date**"	has the meaning given to it in section 3.6(D) (*Registration, Delivery and Admission of the New Shares*) of Part VII (*Terms and Conditions of the Capital Increase*);
"**Share Plans**"	means the IADP and the PSP;
"Shares"	means the ordinary shares of €0.10 nominal value each in the share capital of the Company (and, unless expressly stated, includes the CDIs);
"**Shareholders**" or, individually, a "**Shareholder**"	means the holder(s) of Shares from time to time (and, unless expressly stated, includes the CDI Holders);
"Spanish Companies Act"	means the restated text of the Spanish Capital Companies Act, approved by Royal Decree 1/2010 of 2 July (*Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital*);
"Spanish Stock Exchanges"	means the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges;
"**Spanish Wealth Tax**"	means the Spanish Wealth Tax Law, as detailed in Part A (*Spanish Taxation*) of Part X (*Taxation*);
"**stock account**"	means an account within a member account in CREST to which a holding of a particular share or other security in CREST is credited;
"Subscription Price"	means the subscription price to be paid per New Share pursuant to the exercise of Subscription Rights by an Eligible Shareholder;
"Subscription Rights"	means the transferable pre-emptive subscription rights that the Company is granting, subject to the terms and conditions of this Prospectus, to holders of Existing Shares pursuant to the Capital Increase (and, unless expressly stated, includes the CDI Rights);
"**supplier unit costs**"	means total supplier costs divided by total ASKs;
"Transition Period"	means the period, currently due to expire on 31 December 2020, in which the UK is no longer an EU Member State, but remains subject to EU rules while the future relationship between the UK and the EU is negotiated;
"**Treaty**"	means the Convention Between the United States of America and Spain, as mentioned in Part C (*US Taxation*) of Part X (*Taxation*);
"**Underwriters**"	means each of the Joint Global Coordinators and Joint Bookrunners;

"**Underwriting Agreement**"	means the agreement concerning the underwriting of the Capital Increase dated 9 September 2020 between the Company and the Underwriters, further details of which can be found in section 10 (*Material Contracts*) of Part XI (*Additional Information*);
"**Underwritten Shares**"	the total number of New Shares less the Irrevocable Shares;
"**United Kingdom**" or "**UK**"	means the United Kingdom of Great Britain and Northern Ireland;
"**UK-Spain Treaty**"	means the double taxation treaty ratified between the United Kingdom and Spain;
"**UK Eligible Shareholder**"	has the meaning given in section 2.3 (*Interaction with Spanish taxation of capital gains*) of Part B (*United Kingdom Taxation*) of Part X (*Taxation*);
"**UK Listing Rules**"	means the listing rules made under Part VI of FSMA (as set out in the FCA Handbook), as amended;
"**United States**" or "**US**"	means the United States of America, its territories and possessions, any state of the United States and the District of Columbia;
"**United States Tax Withholding and Reporting**"	refers to the reporting and withholding regime, under FATCA, regarding certain US source payments and dividends and certain payments made by certain entities that are classified as financial institutions under FATCA;
"**U.S. Holder**"	has the meaning given to it in Part C (*US Taxation*) of Part X (*Taxation*);
"**US Securities Act**"	means the US Securities Act of 1933, as amended;
"**VAT**"	means value added tax;
"Vueling"	means Vueling Airlines, S.A., an operating company of the Group; and
"Vueling ICO Facility"	means the €260 million syndicated financing agreement entered into by Vueling on 30 April 2020, as more particularly described at section 10.9 (*ICO Facility for Iberia and Vueling*) of Part XI (*Additional Information*).