



INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A.

(a company incorporated in the Kingdom of Spain whose registered office is at El Caserio, Iberia Zona Industrial No 2 (La Muñozza), Camino de La Muñozza, s/n, 28042 Madrid, Spain, with Spanish tax identification number A-85845535 and registered in the Madrid Mercantile Registry in volume 27,312, book 0, sheet 11, section 8, page number M-492,129)

Legal entity identifier (LEI): 959800TZHQRUSH1ESL13

€500,000,000 2.75 per cent. Senior Unsecured Bonds due 2025

€700,000,000 3.75 per cent. Senior Unsecured Bonds due 2029

The issue price of the €500,000,000 2.75 per cent. Senior Unsecured Bonds due 2025 (the “**Series A Bonds**”) of International Consolidated Airlines Group, S.A. (the “**Issuer**”) is 100 per cent. of their principal amount. The issue price of the €700,000,000 3.75 per cent. Senior Unsecured Bonds due 2029 (the “**Series B Bonds**”) of the Issuer is 100 per cent. of their principal amount. The Bonds will be issued by the Issuer on or about 25 March 2021 (the “**Issue Date**”).

The Series A Bonds will bear interest at their principal amount from (and including) the Issue Date at the rate of 2.75 per cent. per annum payable annually in arrear on 25 March in each year up to (and including) 25 March 2025 (the “**Series A Final Maturity Date**”). The Series B Bonds will bear interest at their principal amount from (and including) the Issue Date at the rate of 3.75 per cent. per annum payable annually in arrear on 25 March in each year up to (and including) 25 March 2029 (the “**Series B Final Maturity Date**”). Payments on the Bonds will be made without deduction or withholding for taxes imposed by the Kingdom of Spain to the extent and subject as described in “*Terms and Conditions of the Bonds*” herein (the “**Conditions**”).

References in this prospectus (“**Prospectus**”) to: (i) “**Bonds**” shall, so far as the context permits, be construed as a reference to the Series A Bonds and/or the Series B Bonds as appropriate, (ii) “**Bondholders**” shall, so far as the context permits, be construed as references to the holders of Series A Bonds and/or the Series B Bonds as appropriate, (iii) “**Final Maturity Date**” shall, so far as the context permits, be construed as a reference to the Series A Final Maturity Date in respect of the Series A Bonds and the Series B Final Maturity Date in respect of the Series B Bonds, (iv) “**Conditions**” shall, so far as the context permits, be construed as reference to the Conditions of the Series A Bonds and/or the Series B Bonds as appropriate and (v) “**Global Bond**” shall be construed as a reference to the Global Bond in respect of the Series A Bonds and/or the Series B Bonds as appropriate.

Unless previously redeemed or cancelled, the Bonds will be redeemed at their principal amount together with accrued interest (if any) on the relevant Final Maturity Date. The Bonds are subject to redemption in whole at the relevant Make-Whole Redemption Amount (as described in Condition 6(b) (*Make-Whole Redemption by the Issuer*)) together with accrued interest (if any) at the option of the Issuer at any time. During the period commencing on (and including) the day that is 90 days prior to the relevant Final Maturity Date and ending on (but excluding) the relevant Final Maturity Date, the Bonds are subject to redemption in whole at their principal amount together with accrued interest (if any) at the option of the Issuer. If, at any time, the outstanding

aggregate principal amount of the Series A Bonds is 20 per cent. or less than the aggregate principal amount of the Series A Bonds when issued, the Series A Bonds are subject to redemption in whole at their principal amount together with accrued interest (if any) at the option of the Issuer. If, at any time, the outstanding aggregate principal amount of the Series B Bonds is 20 per cent. or less than the aggregate principal amount of the Series B Bonds when issued, the Series B Bonds are subject to redemption in whole at their principal amount together with accrued interest (if any) at the option of the Issuer. The Bonds are also subject to redemption in whole at their principal amount together with accrued interest (if any) at the option of the Issuer at any time in the event of certain tax changes. In addition, a Bondholder may, by the exercise of the relevant option, require the Issuer to redeem such Bond at its principal amount, together with accrued interest (if any), following the occurrence of a Triggering Event as defined in Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*) below. See “*Terms and Conditions of the Bonds—Redemption and Purchase*”.

The Bonds will (subject as provided in Condition 1(c) (*Status*) and Condition 2 (*Negative Pledge*)) constitute direct, unsecured and unsubordinated obligations of the Issuer and will rank *pari passu* without any preference among themselves.

This Prospectus has been approved as a prospectus by the Central Bank of Ireland (the “**Central Bank**”), as competent authority under Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 (the “**Prospectus Regulation**”). The Central Bank only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such an approval should not be considered as an endorsement of the Issuer that is the subject of this Prospectus nor as an endorsement of the quality of the Bonds that are the subject of this Prospectus and investors should make their own assessment as to the suitability of investing in the Bonds. Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin, (“**Euronext Dublin**”) for the Series A Bonds and the Series B Bonds to be admitted to the Official List (the “**Official List**”) and to trading on the regulated market of Euronext Dublin (the “**Regulated Market**”). References in this Prospectus to Bonds being listed (and all date references) shall mean that the Series A Bonds or, as the case may be, the Series B Bonds have been admitted to trading on the Regulated Market. The Regulated Market is a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments (“**MiFiD II**”).

The Bonds have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”) or under the securities laws of any state or other jurisdiction of the United States. The Bonds are being offered outside the United States by the Managers (as defined below) in accordance with Regulation S under the Securities Act (“**Regulation S**”), 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

For a description of these and certain further restrictions on offers, sales and transfer of the Bonds and the distribution of the Prospectus, see “*Subscription and Sale*”.

The Series A Bonds and Series B Bonds will each be issued in registered form and represented on issue by a registered certificate in global form (each, a “**Global Bond**”) which will be registered in the name of a nominee for a common safekeeper (“**Common Safekeeper**”) for Euroclear Bank

SA/NV (“Euroclear”) and Clearstream Banking S.A. (“Clearstream, Luxembourg”) on or about the Issue Date. Bonds in definitive form (“**Definitive Registered Bonds**”) will be issued only in limited circumstances - see “*Overview of Provisions Relating to the Bonds While Represented by the Global Bond*”. The Bonds will be issued in denominations of €100,000.

The Series A Bonds have been rated B1 by Moody’s Investors Service Ltd (“**Moody’s**”) and BB by S&P Global Ratings Europe Limited (“**S&P**”). The Series B Bonds have been rated B1 by Moody’s and BB by S&P.

Moody’s is established in the United Kingdom and is registered in accordance with Regulation (EC) No. 1060/2009 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“**EUWA**”) (the “**UK CRA Regulation**”). Moody’s is not established in the European Union and has not applied for registration under Regulation (EC) No. 1060/2009, as amended (the “**EU CRA Regulation**”).

S&P is established in the European Economic Area (“**EEA**”) and registered under the EU CRA Regulation, and appears on the latest update of the list of registered credit rating agencies on the European Securities and Markets Authority (“**ESMA**”) website (<http://www.esma.europa.eu>) as of the date of this Prospectus. The ESMA website is not incorporated by reference into, nor does it form part of, this Prospectus.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

MIFID II PRODUCT GOVERNANCE – PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET – Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the securities has led to the conclusion that: (i) the target market of the securities is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for the distribution of the securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the securities (a “**distributor**”) should take into consideration the manufacturers’ target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the securities (by either adopting or refining the manufacturers’ target market assessment) and determining appropriate distribution channels. See “*MiFID II Product Governance / EU PRIIPs Regulation / UK PRIIPS Regulation*” and “*EU PRIIPs Regulation – Prohibition of Sales to EEA Retail Investors*” below for further information.

UK MIFIR PRODUCT GOVERNANCE – PROFESSIONAL INVESTORS AND ECPS ONLY TARGET MARKET – Solely for the purposes of each manufacturer’s product approval process, the target market assessment in respect of the Bonds has led to the conclusion that: (i) the target market for the Bonds is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (“**COBS**”), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of EUWA (“**UK MiFIR**”); and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Bonds (a “**UK distributor**”) should take into consideration the manufacturers’ target market assessment; however, a UK distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the “**UK MiFIR Product Governance Rules**”) is responsible for undertaking its own target market assessment in respect of the Bonds (by either adopting or refining the

manufacturers' target market assessment) and determining appropriate distribution channels. See "*MiFID II Product Governance / EU PRIIPs Regulation / UK PRIIPS Regulation*" and "*UK PRIIPs Regulation – Prohibition of Sales to UK Retail Investors*" below for further information.

This Prospectus will be valid until the admission of the Bonds to trading on the Regulated Market of Euronext Dublin. The Issuer shall, in the event of any significant new factor, material mistake or material inaccuracy relating to information included in this Prospectus which is capable of affecting the assessment of the Bonds, prepare a supplement to this Prospectus. The obligation to prepare a supplement to this Prospectus in the event of any significant new factor, material mistake or inaccuracy does not apply when the Bonds have been admitted to trading on the Regulated Market of Euronext Dublin.

Joint Global Coordinators and Joint Lead Bookrunners

Goldman Sachs Bank Europe SE

Morgan Stanley

BBVA

**Santander Corporate and Investment
Banking**

Passive Bookrunners

BofA Securities

Crédit Agricole CIB

Co-Managers

MUFG

NatWest Markets

Standard Chartered Bank

The date of this Prospectus is 19 March 2021.

IMPORTANT INFORMATION

This Prospectus comprises a prospectus for the purposes of the Prospectus Regulation and contains the necessary information which is material to an investor for making an informed assessment of: (i) the assets and liabilities, profits and losses, financial position, and prospects of the Issuer; (ii) the rights attaching to the Bonds; and (iii) the reasons for the issuance and its impact on the Issuer.

The Issuer accepts responsibility for the information contained in this Prospectus and declares that, to the best of their knowledge, the information contained in the prospectus is in accordance with the facts and that the Prospectus makes no omission likely to affect its import. The Issuer confirms that where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced and that so far as the Issuer is aware, and is able to ascertain from information published by such source, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where it is used.

This Prospectus is to be read in conjunction with all the documents which are incorporated herein by reference (see "*Documents Incorporated by Reference*"). The Prospectus should be read and construed on the basis that such documents are incorporated in, and form part of, the Prospectus. Other than in relation to the documents which are deemed to be incorporated by reference (see "*Documents Incorporated by Reference*"), the information on the websites to which this Prospectus refers does not form part of this Prospectus and has not been scrutinised or approved by the Central Bank.

The Issuer has confirmed to the Joint Global Co-ordinators, Joint Lead Bookrunners, Passive Bookrunners and Co-Managers (the "**Managers**") that this Prospectus contains all information regarding the Issuer and the Group (as defined below) and the Bonds which is (in the context of the issue of the Bonds) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer are honestly and reasonably held or made and are not misleading in any material respect; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer are honestly held or made and are not misleading in any material respect; this Prospectus does not contain any untrue statement of a material fact or omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Bonds other than as contained in this Prospectus or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Managers.

Neither the Managers nor Deutsche Bank AG, London Branch (the "**Fiscal Agent**") nor any of their respective affiliates have authorised the whole or any part of this Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Prospectus. Each Manager accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this Prospectus or any such statement. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Bond shall in any circumstances create any

implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer since the date of this Prospectus. The Managers and the Fiscal Agent expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Bonds or to advise any investor in the Bonds of any information coming to their attention.

This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Bonds. Neither this Prospectus nor any other information supplied in connection with the offering of the Bonds (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer and/or any of the Managers or the Fiscal Agent that any recipient of this Prospectus or any other information supplied in connection with the offering of the Bonds should purchase any Bonds. Each investor contemplating purchasing any Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer.

The distribution of this Prospectus and the offering, sale and delivery of Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer and the Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Bonds and on distribution of this Prospectus and other offering material relating to the Bonds, see "*Subscription and Sale*".

Prospective investors should also consult their own tax advisors as to the tax consequences of the purchase, ownership and disposition of the Bonds.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its own legal advisers to determine whether and to what extent: (1) the Bonds are legal investments for it; (2) the Bonds can be used as collateral for various types of borrowing; and (3) other restrictions apply to its purchase or pledge of any of the Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

Neither this Prospectus nor any other information supplied in connection with the offering of the Bonds constitutes an offer to sell or the solicitation of an offer to buy the Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Bonds may be restricted by law in certain jurisdictions. The Issuer, the Managers and the Fiscal Agent do not represent that this Prospectus may be lawfully distributed, or that the Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Managers or the Fiscal Agent which is intended to permit a public offering of the Bonds or the distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Bonds may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Bonds. In particular,

there are restrictions on the distribution of this Prospectus and the offer or sale of Bonds in the United States, the EEA and the United Kingdom (the “UK”). See “*Subscription and Sale*”.

The Bonds have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities reviewed or passed upon the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence.

The Bonds may not be a suitable investment for all investors. Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should consider, either on its own or with the help of financial and other professional advisers, whether it:

- (i) has sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Prospectus or any applicable supplement;
- (ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;
- (iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal and interest payments is different from the potential investor’s currency;
- (iv) understands thoroughly the terms of the Bonds and is familiar with the behaviour of any relevant financial markets; and
- (v) is able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Bonds are complex financial instruments and such instruments may be purchased by potential investors as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Bonds unless it has the expertise (either alone or with a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of the Bonds and the impact this investment will have on the potential investor’s overall investment portfolio.

Prior to making an investment decision, potential investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information contained in this Prospectus or incorporated by reference herein. Potential investors should not construe anything in this Prospectus as legal, tax, business or financial advice. Each investor should consult with his or her own advisers as to the legal, tax, business, financial and related aspects of a purchase of the Bonds.

EU PRIIPS REGULATION – PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of

Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2016/97 (the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Regulation. Consequently no key information document required by the EU PRIIPs Regulation for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

UK PRIIPS REGULATION – PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000, as amended (“**FSMA**”) and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of UK MiFIR or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA (the “**UK Prospectus Regulation**”). Consequently no key information document required by the UK PRIIPs Regulation for offering or selling the Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

RESTRICTIONS OF SALES TO U.S. PERSONS (AS DEFINED IN REGULATION S) – The Bonds have not been, nor will they be, registered under the United States Securities Act 1933, as amended (the “**Securities Act**”) or under the securities laws of any state or other jurisdiction of the United States. The Bonds are being offered and sold outside the United States by the Managers in accordance with Regulation S under the Securities Act (“**Regulation S**”), and may not be offered, sold, pledged, taken up, resold, transferred or delivered, directly or indirectly in or to the United States, or for the account or benefit of, U.S. persons (as defined in Regulation S) except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States or other jurisdiction.

PRESENTATION OF INFORMATION

In this Prospectus, all references to **euro, EUR** and **€** are to the currency introduced at the start of the third stage of the European economic and monetary union pursuant to the Treaty on the Functioning of the EU, as amended and all references to **sterling, GBP** and **£** are to the lawful currency of the UK.

ROUNDINGS

Percentages and certain amounts in this Prospectus, including financial, statistical and operating information, have been rounded. As a result, the figures shown as totals may not be the precise sum of figures that precede them.

PRESENTATION OF FINANCIAL INFORMATION

The financial statements relating to the Issuer, as incorporated by reference into this Prospectus in respect of the financial years ended 31 December 2020 and 31 December 2019, have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (“IFRS”).

FORWARD LOOKING STATEMENTS

This Prospectus contains certain forward-looking statements which are based on the Issuer's current expectations and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. These statements include forward-looking statements both with respect to the Issuer and its subsidiaries (the “Group”) and the markets in which the Group operates. A forward-looking statement is a statement that does not relate to historical facts and events. They are based on analyses or forecasts of future results and estimates of amounts not yet determinable or foreseeable and no assurance can be given that such results and estimates will occur, continue or be achieved. These forward-looking statements are identified by the use of terms and phrases such as “aim”, “anticipate”, “believe”, “continue”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “predict”, “project”, “seeks”, “target”, “will”, “would” and similar terms and phrases, including references and assumptions. This applies, in particular, to statements in this Prospectus containing information on future earning capacity, plans and expectations regarding the business and management, growth and profitability of, and general economic and regulatory conditions and other factors that affect, the Group.

By their nature, forward-looking statements involve unknown risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. The Group's actual results of operation, financial condition, prospects, growth, synergies, strategies and dividend policy and the development of the industry in which it operates may differ materially from the impression created by the forward-looking statements contained in this Prospectus. In addition, even if the results of operations, financial condition, prospects, growth, synergies, strategies and the dividend policy of the Issuer, and the development of the industry 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. These forward-looking statements are further qualified by the risk factors set out in this Prospectus.. The Group's business is also subject to a number of risks and uncertainties that could cause a forward-looking statement, estimate or prediction in this Prospectus to become inaccurate.

Furthermore, the outlook and objectives presented in this Prospectus do not constitute forecast data or estimates of consolidated profit but instead are based on the Group's strategic goals and action plans. These objectives are based on data, assumptions and estimates that the Group considers to be reasonable. These data, assumptions and estimates may change over time or be modified due to uncertainties related to the economic, financial, competitive and regulatory environment as well as other factors. Moreover, the achievement by the Group of the targets and forecasts presented in this Prospectus implies the success of the Group's strategy. In addition, if any of the risks described under section of this Prospectus entitled “Risk Factors” were to actually occur, they could have an impact on its businesses, prospects, results of operations, financial

condition and/or outlook, and could therefore jeopardize its ability to achieve the objectives presented in this Prospectus. The Group cannot give any assurance or guarantee that it will achieve the objectives described in this Prospectus.

Accordingly, investors are cautioned not to rely on the forward-looking statements, outlook and objectives presented in this Prospectus when evaluating an investment decision relating to the Bonds and are urged to read the following sections of this Prospectus: “*Overview*”, “*Risk Factors*” and “*Description of the Issuer and the Group*”. These sections include more detailed descriptions of factors that might have an impact on the Group’s business and the markets in which it operates. In light of these risks, uncertainties and assumptions, future events described in this Prospectus may not occur.

Each forward-looking statement speaks only as of the date of this Prospectus. Except as required by the rules of Euronext Dublin or by law, the Issuer expressly disclaims 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 the Issuer's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. All subsequent written and oral forward-looking statements attributable to any person involved in the preparation of this Prospectus or to persons acting on the Issuer's behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Prospectus.

Any forward-looking statement contained in this Prospectus based on past or current trends and/or activities of the Group should not be taken as a representation that such trends or activities will continue in the future. No statement in this Prospectus is intended to be a profit forecast or to imply that the earnings of the Group for the current year or future years will necessarily match or exceed the historical or published earnings of the Group.

STABILISATION

In connection with the issue of the Bonds, Morgan Stanley Europe SE (the “**Stabilising Manager**”) (or persons acting on behalf of the Stabilising Manager) may over allot Bonds or effect transactions with a view to supporting the price of the Bonds at a level higher than that which might otherwise prevail. However, stabilisation action may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Bonds is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Bonds and 60 days after the date of the allotment of the Bonds. Any stabilisation action or overallotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

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OVERVIEW

This overview must be read as an overview of certain of the principal features of the Bonds and any decision to invest in the Bonds should be based on a consideration of this Prospectus as a whole, including the documents incorporated by reference herein. Capitalised terms which are defined in “Terms and Conditions of the Bonds” have the same meaning when used in this overview.

The Issuer:	International Consolidated Airlines Group, S.A., a company incorporated in the Kingdom of Spain whose registered office is at El Caserio, Iberia Zona Industrial No 2 (La Muñoza), Camino de La Muñoza, s/n, 28042 Madrid, Spain, with Spanish tax identification number A-85845535 and registered in the Madrid Mercantile Registry in volume 27,312, book 0, sheet 11, section 8, page number M-492,129.
The Group:	The Issuer and its Subsidiaries.
Series A Bonds:	€500,000,000 2.75 per cent. Senior Unsecured Bonds due 2025.
Series B Bonds:	€700,000,000 3.75 per cent. Senior Unsecured Bonds due 2029.
Risk Factors:	There are certain factors that may affect the Issuer's ability to fulfil its obligations under the Bonds. These are set out under “ <i>Risk Factors</i> ” below, and include risks relating to the markets in which the Group operates generally, risks relating to the Group's business, strategic risks, financial risks, legal risks, regulatory and compliance risks and tax risks. In addition, there are certain factors set out under “ <i>Risk Factors</i> ” below which are material for the purpose of assessing the market risks associated with the Bonds, including there being no assurance that a trading market for the Bonds will develop or be maintained, that the Bonds may be redeemed prior to their maturity, the fact that the Bonds are subject to certain transfer restrictions and that the Issuer may rely on paying agents and clearing systems.
Joint Global Co-ordinators and Joint Lead Bookrunners:	Goldman Sachs Bank Europe SE, Morgan Stanley Europe SE, Banco Bilbao Vizcaya Argentaria, S.A. and Banco Santander, S.A.
Passive Bookrunners	BofA Securities Europe SA and Crédit Agricole Corporate and Investment Bank

Co-Managers	MUFG Securities (Europe) N.V., NatWest Markets N.V. and Standard Chartered Bank
Managers:	The Joint Global Co-ordinators, the Joint Lead Bookrunners, the Passive Bookrunners and the Co-Managers.
Fiscal Agent:	Deutsche Bank AG, London Branch
Paying Agent:	Deutsche Bank AG, London Branch
Listing Agent:	Deutsche Bank Luxembourg S.A.
Transfer Agent:	Deutsche Bank Luxembourg S.A.
Registrar:	Deutsche Bank Luxembourg S.A.
Issue Date:	25 March 2021.
Issue Price:	100% in respect of the Series A Bonds. 100% in respect of the Series B Bonds.
Use of Proceeds:	The proceeds of the Bonds will be used by the Issuer for its general corporate purposes (including but not limited to (i) strengthening the Group's balance sheet and increasing the Group's overall liquidity position; (ii) helping the Group withstand a more prolonged downturn in air travel; and (iii) providing the Group with the operational and strategic flexibility to take advantage of a recovery in demand for air travel).
Interest:	The Series A Bonds will bear interest on their principal amount from (and including) the Issue Date at a rate of 2.75 per cent. per annum payable annually in arrear on 25 March in each year up to (but excluding) the Series A Final Maturity Date. The Series B Bonds will bear interest on their principal amount from (and including) the Issue Date at a rate of 3.75 per cent. per annum payable annually in arrear on 25 March in each year up to (but excluding) the Series B Final Maturity Date.
Status:	The Bonds will (subject as provided in Condition 1(c) (<i>Status</i>) and Condition 2 (<i>Negative Pledge</i>)) constitute direct, unsecured and unsubordinated obligations of the Issuer and will rank <i>pari passu</i> without any preference among themselves.

Form and Denomination:

The Series A Bonds and Series B Bonds will each be in registered form and represented on issue by a registered Global Bond which will be registered in the name of a nominee for a Common Safekeeper for Euroclear and Clearstream, Luxembourg on or about the Issue Date. Save in limited circumstances, the Bonds in definitive form will not be issued in exchange for interests in the relevant registered Global Bond.

The Bonds are intended to be held in a manner which will allow for Eurosystem eligibility.

Depositing the Global Bonds with the Common Safekeeper does not necessarily mean that the Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.

The Bonds will be issued in denominations of €100,000.

Final Maturity Date:

The Series A Bonds will be redeemed in full at their principal amount together with accrued interest (if any) on 25 March 2025.

The Series B Bonds will be redeemed in full at their principal amount together with accrued interest (if any) on 25 March 2029.

Optional Redemption:

The Bonds are subject to redemption at the option of the Issuer at any time in whole at the relevant Make-Whole Redemption Amount together with accrued interest (if any), as further described in Condition 6(b) (*Make-Whole Redemption by the Issuer*).

During the period commencing on (and including) the day that is 90 days prior to the relevant Final Maturity Date and ending on (but excluding) the relevant Final Maturity Date, the Bonds are also subject to redemption at the option of the Issuer at their principal amount together with accrued interest (if any), as further described in Condition 6(c) (*Issuer Maturity Call Option*).

If, at any time, the outstanding aggregate principal amount of the Bonds is 20 per cent. or less than the aggregate principal amount of the Bonds when issued, the Bonds are subject to redemption at the option of the Issuer in whole at their principal amount together with accrued interest (if

any), as further described in Condition 6(d) (*Issuer Residual Call Option*).

In addition, the holder of a Bond may, by the exercise of the relevant option, require the Issuer to redeem such Bond at its principal amount together with accrued interest (if any) following the occurrence of a Triggering Event, as further described in Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*).

Tax Redemption:

The Bonds are subject to redemption in whole at their principal amount together with accrued interest (if any) at the option of the Issuer at any time in the event of certain tax changes, as further described in Condition 6(e) (*Redemption for Tax Reasons*).

Cross Default:

The Bonds will have the benefit of a cross default provision as described in Condition 9 (*Events of Default*).

Rating:

The Series A Bonds have been assigned ratings of B1 by Moody's and BB by S&P.

The Series B Bonds have been assigned ratings of B1 by Moody's and BB by S&P.

Moody's is established in the United Kingdom and is registered in accordance with the UK CRA Regulation.

S&P is established in the EU and is registered in accordance with the EU CRA Regulation.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the EEA and registered under the EU CRA Regulation unless (1) the rating is provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the EU CRA Regulation or (2) the rating is provided by a credit rating agency not established in the EEA which is certified under the EU CRA Regulation.

A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Withholding Tax:

All payments in respect of the Bonds will be made free and clear of withholding taxes imposed by Kingdom of Spain as provided in Condition 8 (*Taxation*) unless the

withholding is required by law. In that event, the Issuer will (subject as provided in Condition 8 (*Taxation*)) pay such additional amounts as will result in the Bondholder receiving such amounts as they would have received in respect of such Bonds had no such withholding been required.

Meetings of Bondholders:

The Conditions of the Bonds and the Fiscal Agency Agreement contain provisions for calling meetings of Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Bondholders, including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

Purchase:

Subject to certain conditions, the Issuer or any other member of the Group may at any time purchase Bonds in the open market or otherwise at any price. All Bonds purchased on behalf of the Issuer or any other member of the Group may be held, re-sold or reissued or, at the option of the relevant purchaser, surrendered for cancellation.

Governing Law:

Subject as provided below, the Bonds and the Fiscal Agency Agreement, and any non-contractual obligations arising out of or in connection therewith, will be governed by English law.

The status of the Bonds as described in Condition 1(c) (*Status*) is governed by, and shall be construed in accordance with, Spanish law.

Listing and Trading:

Applications have been made to Euronext Dublin for the Series A Bonds and the Series B Bonds to be admitted to the Official List and to trading on the Regulated Market. The Regulated Market of Euronext Dublin is a regulated market for the purposes of MiFID II.

Clearing Systems:

Euroclear and Clearstream, Luxembourg.

Selling Restrictions:

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. The Bonds may be sold in other jurisdictions only in compliance with applicable laws and regulations. See "*Subscription and Sale*" below.

**MiFID II Product Governance /
EU PRIIPs Regulation / UK
PRIIPS Regulation:**

Solely for the purposes of each manufacturer's product approval processes, the manufacturers have concluded that: (i) the target market for the Bonds is eligible counterparties and professional clients only; and (ii) all channels for distribution of the Bonds to eligible counterparties and professional clients are appropriate.

The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. No EU PRIIPs Regulation key information document has been prepared as the Bonds are not available to retail investors in the EEA.

The Bonds are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. No UK PRIIPs Regulation key information document has been prepared as the Bonds are not available to retail investors in the UK.

ISIN:

XS2322423455 in respect of the Series A Bonds.

XS2322423539 in respect of the Series B Bonds.

Common Code:

232242345 in respect of the Series A Bonds.

232242353 in respect of the Series B Bonds.

RISK FACTORS

Any investment in the Bonds is subject to a number of risks. Prior to investing in the Bonds, prospective investors should carefully consider risk factors associated with any investment in the Bonds, the Group's business and the industry in which the Group operates together with all other information contained in this Prospectus, including, in particular the risk factors described below. Unless the context requires otherwise, words and expressions defined in the "Terms and Conditions of the Bonds" below or elsewhere in this Prospectus have the same meanings in this section.

The following is not an exhaustive list or explanation of all risks which prospective investors may face when making an investment in the Bonds 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 Issuer currently deems immaterial based on information currently available to it or which it may not currently be able to anticipate, may individually or cumulatively also have a material adverse effect on the businesses, prospects, results of operations and/or financial condition of the Group and affect the ability of the Issuer to fulfil its obligations under the Bonds and, if any such risk should occur, the price of the Bonds may decline and investors could lose all or part of their investment. Other generic risks may affect the Issuer, but have not been included below in accordance with the Prospectus Regulation. Prospective investors should consider carefully whether an investment in the Bonds is suitable for them in light of the information in this Prospectus (including documents incorporated by reference herein) and their personal circumstances and investment objectives.

1. RISKS RELATING TO THE IMPACT OF THE COVID-19 PANDEMIC

1.1 *The COVID-19 pandemic has had a material adverse effect on the Group's financial condition and results of operations for the year ended 31 December 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 for the year ended 31 December 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 66.5% in the year ended 31 December 2020 compared with ASKs in the year ended 31 December 2019. In the year ended 31 December 2020, the Group carried 31,275,000 passengers, down 73.5% from 118,253,000, and operated 267,748 sectors (i.e. a one-way revenue flight), down 65.5% from 775,486, 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 69.4% from €25,506 million to €7,806 million and profit after tax falling from €1,715 million to a loss of €6,923 million for the year ended 31 December 2020 compared to the same period in 2019. IAG Cargo's revenues for the year ended 31 December 2020 were €1,306 million (up 16.9% on the same period in 2019) but it flew 3,399 million cargo tonne kilometres, a decrease of 39% 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 €7,571 million as at 31 December 2019 to €9,762 million as at 31 December 2020. Furthermore, the Group continued to 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. As a result, the Group has recognised an exceptional impairment expense of €837 million related to the early retirement and stand-down of a number of its fleet and an exceptional charge of €108 million related to a write-down of inventory and recognition of contractual end-of-lease provisions for the year ended 31 December 2020.

The uncertainty concerning the scope and duration of travel restrictions could further reduce demand for air travel. There can be no certainty as to what extent governmental restrictions on air travel and entry will be lifted or whether they will be reintroduced after they have been lifted as a result of further waves of COVID-19 cases. Additional restrictions or other measures that dissuade people from travelling by air may also be introduced in the future as a result of the COVID-19 pandemic, prolonging the negative effects of the COVID-19 pandemic on the Group's business. 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 around 2024. 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 potential 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 at present and may require the Group to secure additional liquidity, without which the Issuer 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. While such scenarios are not currently considered likely by the Group, 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 elsewhere in this prospectus, 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, including existing initiatives, will be available to the Group throughout the period during which the Group is impacted by the COVID-19 pandemic.

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 Issuer 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 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. If the Group implements further measures to ensure passenger safety, whether at its own volition or at the request or demand of national governments or regulatory bodies, passengers may be disinclined to travel with one or more of the IAG Airlines.

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 long-haul 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 to the delay or postponement of a number of initiatives, including fleet renewals and aircraft cabin upgrades. The Group reduced its capital expenditure in 2020 by a total of €2.3 billion (from a planned €4.2 billion to a total of €1.9 billion), which includes the deferral of the delivery of 68 aircraft across the Group and savings in non-fleet expenditure such as property, ground equipment and the deferral of various investments in the Group's IT systems. The Group's planned capital expenditure over 2020, 2021 and 2022 has been halved, from an expected €14.2 billion to below €7 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, "*The Group has undertaken, and 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 the euro area economy to have contracted by a total of 6.8% in 2020 before growing 3.8% in 2021 and 3.8% in 2022 (Source: European Commission, "*Winter 2021 Economic Forecast*", 11 February 2021). 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 UK, 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 it abates, the COVID-19 pandemic may have long-term negative effects on air travel demand and consumer behaviour due to, without limitation, potential changes in travellers' perception of the air travel experience, a general reluctance to travel by air or the uncertainty created by the numerous and differing travel restrictions or otherwise. Personal health precautions which are either imposed on passengers (such as temperature screening, limiting passengers' movement within the cabin during flights, the mandatory wearing of protective masks or other measures introduced at airports or on flights) or heightened sensitivity among passengers in relation to their health (such as heightened sensitivity to cleanliness, hygiene standards and social distancing measures) may make the air travel experience more burdensome or unattractive for passengers. This may result in lower demand even after the improvement of macroeconomic factors that would normally support consumer spending, and consequently impact the demand for air travel. The COVID-19 pandemic could also reduce the demand for air travel as a result of the increasing adoption of virtual and teleconferencing tools to replace business travel, or due to the perceived uncertainty relating to the current pandemic or other similar health threats in the future. 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. See also "*The aviation industry is exposed to the risk of events that adversely impact domestic or international travel, including aircraft crashes, epidemics, pandemics, natural or other disasters, security-related threats and terrorism*" below. These factors could have long-term or permanent negative effects on air travel demand, and consequently could lead to a slower recovery once travel restrictions are lifted.

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 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, are now expected to be below €7 billion over 2020, 2021 and 2022 (although this has already been halved from the €14.2 billion which was anticipated over the same period before the COVID-19 pandemic). As at 31

December 2020, capital expenditure authorised and contracted for but not provided for in the accounts amounts to €10,545 million (compared to €12,830 million at 31 December 2019).

The Group's ability to finance ongoing operations, plans 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 31 December 2020, the Group had €15,679 million of debt outstanding (an increase from €14,254 million), including right of use obligations, and €9,762 million net debt (an increase from €7,571 million), in each case compared to 31 December 2019. In 2020, due to the significant impact of COVID-19, EBITDA turned negative, rendering the net debt to EBITDA ratio much less meaningful than in normal times; the calculation for 2020 results in minus 4.3 times (2019: 1.4 times). The Group's debt service obligations include various financing obligations, including bond issuances, lease and asset financed liabilities, loans from commercial banks and financial institutions and short to medium-term COVID-19 relief facilities with governmental lenders.

As of 31 December 2020, and in light of the COVID-19 pandemic, the Group had significant total borrowings of €15,679 million, with additional financial capacity, which includes:

1. a British Airways US dollar revolving credit facility due to mature on 23 June 2021, the total available amount of which stands at €1.18 billion (\$1.38 billion) at the time of exercising the maturity extension option on 30 March 2020. The amount undrawn and, subject to available collateral, available under the facility was €643 million (\$786 million) as at 31 December 2020;
2. a total of €329 million (£298 million) in commercial paper issued by British Airways to the UK government under the terms of the Coronavirus Corporate Financing Facility, due for repayment in April 2021;
3. syndicated five-year financing agreements entered into by Iberia and Vueling for €750 million and €260 million, respectively, guaranteed by the *Instituto de Crédito Oficial* ("**ICO Facility**"); and
4. proceeds from the issuance of Enhanced Equipment Trust Certificates by British Airways in November 2020, amounting to €823 million (\$1,005 million) and drawable against recently delivered or soon to be delivered aircraft. At 31st December 2020, British Airways had drawn €472 million (\$577 million) in the form of finance leases, with further drawing expected in 2021 upon the delivery of remaining aircraft.

In December 2020, British Airways received commitments for a £2.0 billion term loan, which is partially guaranteed by the UK's export credit agency, UK Export Finance (the "**UKEF Facility**"), which was not recognised as at 31 December 2020. The UKEF Facility was fully drawn in March 2021.

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 Issuer's operating subsidiaries from paying dividends to the Issuer, as is the case in the ICO Facility and the UKEF 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. This could trigger additional cross defaults under indebtedness in certain of the Group's other financing arrangements, which could, in turn, result in an event of default or acceleration of indebtedness under such 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.

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 and the credit ratings of the Issuer and the IAG Airlines. 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.

The Issuer's credit rating was downgraded by S&P by one notch in March 2020 from BBB (stable outlook) to BBB- (negative outlook), and by a further two notches in May 2020 to BB- (negative outlook). Moody's downgraded the Issuer's credit rating by one notch in May 2020 from Baa3 (stable outlook) to Ba1 (negative outlook), and by a further one notch in September 2020 to Ba2 (negative outlook). On each occasion, 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. See "*–Risks Relating to Investing in the Bonds–Credit ratings assigned to the Issuer or any Bonds may not reflect all the risks associated with an investment in those Bonds*".

2. RISKS RELATING TO THE GROUP'S STRATEGY

2.1 *Dependency on key third party service providers and 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 2020, the Group's handling, catering and other operating costs amounted to €1,340 million (down from €2,972 million for the same period in 2019). 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. Furthermore, loss of such third party contracts or the inability to renew or negotiate favourable replacement contracts could have a material adverse effect on the IAG Subsidiaries' and/or the Issuer's businesses, prospects, results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

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 "*–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 €918 million in the financial year ended 31 December 2020 (€2,221 million for the same period in 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 UK, 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.

2.2 *Impacts from severe global economic and political conditions*

The Issuer's and the IAG Subsidiaries' respective businesses can be affected by macroeconomic conditions outside of their control, including weakening consumer confidence, inflationary pressure or economic instability. A number of governments revised gross domestic product growth forecasts for 2021 downward in response to the economic slowdown caused by the spread of COVID-19, and it is possible that the outbreak of COVID-19, among other economic and political factors, will cause a prolonged global economic crisis or recession, which may have a material adverse effect on the Group's financial condition and results of operations. While a number of governments have introduced and may introduce further support and relief measures in response to the COVID-19 pandemic, there is no assurance that such support packages will continue to be available or will be effective in improving the state of the local and global economy.

Furthermore, the Group's business consists substantially of carriage of passengers and freight globally. It will be affected if there is a widespread reduction in the demand for air travel arising from geo-political events that cause customers to reduce or avoid air travel, or that prevent the Group from delivering its services. Uncertain and unfavourable economic conditions and, in particular, future political and economic factors which have the effect of reducing expenditure for air travel and freight services, may materially and adversely affect the Group's business, financial condition and results of operations or prospects.

Neither the Issuer nor the IAG Subsidiaries have control over the impact of macroeconomic or geo-political conditions and there can be no assurance that any such issue will not have a material adverse effect on the Issuer's and/or the IAG Subsidiaries' respective businesses, prospects, results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

2.3 *The Group operates in a highly competitive industry and the success of the Group depends on its ability to compete effectively with its competitors, who may pursue consolidation strategies, benefit 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 various 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, on-board 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 on-board products, more effective branding or marketing, more attractive catering propositions and more efficient operations. The Group may fail to respond quickly to its competitors in a timely fashion for a number of reasons, including liquidity restraints caused by the COVID-19 pandemic, and such failure to react 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 and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

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 receiving government-backed loans, warrants and grants, some of which do not need to be repaid. This state support could enable these competitors to become more

competitive as compared to the Group 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.

Many of the Group's competitors benefit from insolvency law provisions and mechanisms that allow less invasive restructurings and renegotiations.

Likewise, industry consolidation could affect the competitive environment of the IAG Airlines in a number of different markets. Each IAG Airline's ability to retain its competitive advantage is dependent upon it remaining a key player in the relevant markets in which it operates. Consolidation by other key players in the airline industry could cause a loss of market position and erosion of revenue and could have a material adverse effect on the IAG Subsidiaries' and, by extension, the Issuer's, businesses, prospects, results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds. In addition, the airline industry competes with other modes of transport including train travel. The short-haul operations of the IAG Airlines are concentrated across Europe where there is a significant and reliable rail network. If alternative modes of transport provide a more cost-effective means of travel or there is a change in preference amongst airline travellers against using airlines this could have a material adverse effect on the IAG Subsidiaries' and, by extension, the Issuer's businesses, prospects, results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

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.

2.4 *The Group has undertook, and 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. The Issuer reported €313 million in its 2020 results associated with employee redundancies.

In 2020, both British Airways and Aer Lingus implemented longer-term restructuring, consistent with the expected multi-year impact of the COVID-19 pandemic on demand. The restructuring measures resulted in reductions at British Airways of approximately 10,000 employees (or one quarter of the workforce at June 2020) and 500 at Aer Lingus (or approximately 10 per cent. of the workforce at June 2020). The substantial majority of employees affected had left the Group by the end of 2020. British Airways has also introduced more flexibility in certain operational areas, in order to be able to better adjust employee numbers and cost to the level of capacity operated. In November 2020, the Unite union representing the Group's cargo handling business in the UK

balloted its members for industrial action in December 2020. An agreement was reached in January 2021 between the union and the cargo business.

Iberia also made reductions in management numbers, together with restructuring related to staff outside of Spain. Iberia and Vueling made use of the temporary redundancy arrangements in Spain under the *Expedientes de Regulación Temporal de Empleo* (“**ERTE**”) arrangements and hence did not incur restructuring costs in respect of non-managerial employees in Spain.

In June 2020, LEVEL Europe, the Group’s Austria-based short-haul operator, announced that it was entering insolvency and that it had ceased trading following all flights being grounded as of March 2020. The operations out of Vienna and Amsterdam were ceased and the base in Vienna was closed. In November, Openskies, the operator of LEVEL France, completed a consultation process on its proposed cessation of operations and the development of an Employment Safeguard Plan. Openskies has ceased its activities.

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. See “–*Exposure to legal actions and disputes with trade unions*”.

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. 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 the restructuring and redundancy programmes detailed in this section, 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. Further, 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. See also “–*Description of the Issuer and the Group–Business Overview–Employees and Labour Relations*”.

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.

Any of the foregoing could have a material adverse effect on the Group's reputation, businesses, prospects, results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

2.5 Dependency on the strength of its brands, strategic alliances and bilateral cooperation agreements and the reputations of its counterparties and partners

The Group's ability to attract bookings depends on the public recognition of the IAG Airlines' brands and their associated reputations. 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 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), or due to 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. No assurance can be given that *oneworld* will not lose 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, Iberia and Aer Lingus (the "**Atlantic Joint Business**"). These arrangements enable the IAG Airlines to work more closely with other airlines to, for example, share revenue, co-ordinate on pricing, capacity and networks to improve customer choice. 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 the 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 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. See also "*–Description of the Issuer and the Group–Business Overview–Atlantic Joint Business*".

To the extent a joint business partner or franchise partner airline's recognition or reputation is negatively affected, there could be a material adverse effect on the IAG Subsidiaries and, by extension, the Issuer's businesses, prospects, results of operations and financial condition which could affect the ability of the Issuer to fulfil its obligations under the Bonds.

2.6 The Issuer is a holding company

The Issuer is the holding company of Aer Lingus Limited ("**Aer Lingus**"), British Airways Plc ("**British Airways**"), Iberia Líneas Aéreas de España, S.A. Operadora, Unipersonal ("**Iberia**"), Vueling Airlines, S.A. ("**Vueling**") and Flylevel, S.L. ("**LEVEL**") and the indirect owner of BA Cityflyer Limited ("**British Airways Cityflyer**") and Compañía Operadora de Corto y Medio Radio Iberia Express, S.A. ("**Iberia Express**") (each being an "**IAG Airline**" and, together, the "**IAG Airlines**"). In addition, the Issuer is the holding company of IAG Cargo Limited ("**IAG Cargo**"), Avios Group (AGL) Limited ("**Avios**"), IAG GBS Limited ("**IAG GBS**") and IAG Connect Limited ("**IAG Connect**") (each being an "**IAG Platform Company**" and, together, "**IAG Platform Companies**", and the IAG Platform Companies together with IAG Airlines being the "**IAG Subsidiaries**"). The Issuer is therefore dependent on the earnings and cash flows of, and the distribution of funds from, the IAG Subsidiaries to meet its debt obligations, including its obligations with respect to the Bonds. Generally, creditors of an IAG Subsidiary, including trade creditors, secured creditors and creditors holding indebtedness and guarantees issued by an IAG Subsidiary, and preferred shareholders, if any, of an IAG Subsidiary, will be entitled to the assets of that IAG Subsidiary before any of those assets can be distributed to shareholders upon liquidation or winding up. As a result, the Issuer's obligations in respect of the Bonds will, to the extent described above, effectively be subordinated to the prior payment of all the debts and other liabilities of the IAG Subsidiaries, including the rights of trade creditors and preferred shareholders (if any), as well as contingent liabilities, all of which could be substantial.

Furthermore, the ability of the IAG Subsidiaries to make distributions, loans or advances to their respective parent companies may be limited by the laws of the relevant jurisdictions in which such subsidiaries are organised or located. In addition, as of the Issue Date of the Bonds, none of IAG Subsidiaries will guarantee the Bonds and, as a result, they will have no obligation to make payments with respect to the Bonds.

Each of the IAG Subsidiaries is a distinct legal entity and, under certain circumstances, legal and contractual restrictions may limit its ability to obtain cash from its subsidiaries. Applicable tax laws may also subject such payments to further taxation. While the terms and conditions of the Bonds limits the ability of IAG Subsidiaries to incur contractual restrictions on their ability to pay dividends or make other intercompany payments to the Issuer, these limitations are subject to certain significant qualifications and exceptions and do not cover contractual restrictions existing on the issue date of the Bonds. There can be no assurance that arrangements with IAG Subsidiaries, the funding permitted by the agreements governing existing and future indebtedness of the Group and the Group's results of operations and cash flow generally will provide the Issuer with sufficient dividends, distributions or loans to fund payments on the Bonds. In the event that the Issuer does not receive distributions or other payments from the IAG Subsidiaries, the Issuer may be unable to make required payments, including with respect to principal, interest and additional amounts, if any, on the Bonds.

2.7 Risks in the execution of its business strategy

The Issuer and the IAG Subsidiaries are undertaking a number of key projects and programmes to deliver key elements of their respective strategies, including planned upgrades to IT systems

and infrastructure. If one or more of these projects or programmes is delayed or fails to deliver the anticipated business benefits and costs savings planned, this could have a material adverse effect on the Issuer's and/or relevant IAG Subsidiary's respective businesses, prospects, results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

2.8 Dependency 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 and 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 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 IAG Subsidiaries' Group and, by extension, the Issuer's, businesses, prospects, results of operations and financial condition and therefore could affect the Company's ability of the Issuer to fulfil its obligations under the Bonds.

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 an 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 and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

2.9 Acquisition by the Group of Air Europa Líneas Aéreas, S.A.U ("Air Europa")

In November 2019, the Issuer announced the proposed acquisition by the Issuer's wholly-owned subsidiary, IB OPCO Holding S.L. ("**IB OPCO**"), of Air Europa from Globalia Corporación Empresarial, S.A. ("**Globalia**") for €1,000 million to be satisfied in cash, subject to a closing accounts adjustment. 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 January 2021, it was announced

that IB OPCO and Globalia had agreed to reduce the consideration payable for the acquisition of Air Europa by 50% to €500 million, deferred by six years from the completion date, due to the effects of the COVID-19 pandemic on Air Europa and the aviation industry generally. The revised terms in the Amendment Agreement are conditional on the satisfactory negotiation between Iberia and *Sociedad Estatal de Participaciones Industriales* (“SEPI”) regarding the non-financial terms associated with the financial support provided by SEPI to Air Europa during 2020. Assuming satisfaction of all conditions of the Amendment Agreement and the Acquisition, completion is expected to take place in the second half of 2021. The Acquisition is still subject to approval by the European Commission. While the Group will focus on obtaining competition clearance to complete the acquisition, there remains a risk that the relevant competition approvals will not be received.

Upon completion of the acquisition, the Group will then prioritise the integration of Air Europa into the Group. Significant costs may be incurred by the Group in the integration of Air Europa and, 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.

2.10 *Acquisitions and other consolidation opportunities that the Group may pursue in the future could expose the business to new risks*

As part of its strategy, the Issuer regularly identifies and evaluates acquisition opportunities and may acquire additional businesses that it expects to complement or augment its existing operations. The Issuer may be limited in its ability to acquire companies depending on the concentration of ownership in specific markets, local ownership and other consolidation restrictions and the Issuer’s relative market position and financial position. There is a risk that suitable acquisition candidates are not identified in the future or that the Issuer is not able to finance such acquisitions on favourable terms. Further, there is a risk that future acquisitions may not be fully integrated successfully into the Group’s operations and may not achieve the desired financial objectives.

In the context of its acquisitions, the Issuer generally makes certain assessments and assumptions on, among other things, future revenues and earnings and potential cost and revenue synergies, based on the Issuer’s investigation of the respective businesses and other information available. The Issuer’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 Issuer) 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 Issuer’s businesses, prospects, results of operations and financial condition and therefore may affect the Issuer’s ability to fulfil its obligations under the Bonds.

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 and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

3. RISKS RELATING TO THE GROUP'S BUSINESS AND OPERATIONS

3.1 *The aviation industry is exposed to the risk of events that adversely impact domestic or international travel, including aircraft crashes, epidemics, pandemics, natural or other disasters, security-related threats and terrorism*

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, epidemics, pandemics (including, but not limited to, 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, natural disasters and acts of God 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 (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 Subsidiaries') services. Such events could have a material adverse effect on the IAG Subsidiaries' and, by extension, the Issuer's, respective businesses, prospects, results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds. 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 (see also "*Description of the Issuer and the Group—Business Overview—Insurance*"). 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.

In addition, the outbreak of another contagious disease with human-to-human airborne or contact propagation effects (for example, a mutation of COVID-19 or an outbreak of diseases such as Avian Flu H5N1, Severe Acute Respiratory Syndrome ("SARS"), Ebola, Middle East respiratory syndrome coronavirus, etc.) that escalates into a regional or global epidemic or pandemic may

have an adverse impact on all airlines, including the IAG Airlines which may operate to or from such affected areas/regions. The demand for air travel may be severely reduced as international and national response plans, which may include tightening of border controls and closure or restriction of access to airspace or airports around the world, are put in place to address such contagion. Furthermore, natural disasters such as earthquakes, floods, volcanic eruptions or tsunamis may devastate destinations and significantly reduce travel to the affected areas for a period of time. Terrorism and war (and threats of terrorism and war) and civil/political strife may also contribute to a fear of travelling by air, or visiting particular destinations, resulting in a sharp fall in demand for air travel. These events may also result in the closure or restriction of access to airspace or airports. The IAG Airlines depend on the availability of these facilities and the general accessibility of destinations. The business and operations of the Group and, by extension, the Issuer's ability to fulfil its obligations under the Bonds as a whole could therefore be adversely affected by the occurrence of any such events.

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.

The occurrence of the foregoing risks, or any failure to prevent or respond promptly and effectively to such an incident could have a material adverse effect on the IAG Subsidiaries and, by extension, the Issuer, its businesses, prospects, results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

3.2 *Reliance on the uninterrupted operation and security of information technology systems*

The Group depends on automated information systems and technology, including its computerised airline reservation systems, its flight operations systems, its website, its telecommunication systems and other automated systems. Thus, the performance and the reliability of information technology are critical to each of the IAG Airlines' ability to attract and retain customers and for more widely the Group's ability to compete effectively and implement its commercial strategy. These initiatives will continue to have a direct impact on information technology and data security costs and, in addition, the development of the information system solutions and the information technology environment requires continuous investments. In addition, any internal error, failure or external interruption in information technology infrastructure the Group depends on, such as power, telecommunications or the internet, may also disrupt its information technology network. Any individual, sustained or repeated failure of information technology could impact the Group's customer service, and result in increased costs and damage to the brand of the Issuer or to one or more of the IAG Airlines. See also "*–Risks Relating to Regulatory Compliance–Reliance upon the Group's reservation and technology systems*" below.

In addition, the Group's cybersecurity measures may not detect or prevent all attempts to compromise its IT systems, including distributed denial-of-service attacks, ransomware, state-sponsored attacks, viruses, malicious software, break-ins, phishing attacks, social engineering, security breaches or other attacks and similar disruptions that may jeopardise the security of information stored in and transmitted by its IT systems or that the Group otherwise maintains. Breaches of the Group's cybersecurity measures could result in unauthorised access to its IT and other systems, misappropriation of information or data (including personal data), deletion or modification of client information, or a denial-of-service or other interruption to its business operations. While the Group has disaster recovery and business continuity plans in place, a lack of resilience and operational availability of these systems could lead to prolonged service disruption or outage resulting in the loss of important data and ticket sales, increased costs, and may materially and adversely affect its reputation and business through an adverse impact on customer experience, negative publicity or loss of customer data, any of which could subsequently adversely impact Group revenues and/or reputation.

Any interruption or failure of information technology systems or failure to adequately process and safeguard personal information may result in service disruptions and expose the Group to claims for damages and reputational harm. They may also result in the need to make additional investments to improve the resilience and functioning of systems, which may result in additional costs and reduced profitability. Any of these factors may have a material adverse effect on the Group, its businesses, prospects, results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

3.3 *Reliance upon, and exposure to, national and international infrastructure development, and 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. 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. 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. The slot waivers granted by the European Commission, originally set to expire on 24 October 2020, have been extended in the EU until the Summer 2021 season. The rule will be modified through the summer, with airlines required to use 50% of their take-off and landing slots in order to keep them for the following year.

On 29 January 2021, it was announced the UK (which, following its departure from the European Union ("EU"), can set its own national slot rules) would be extending its slot waivers to the Summer 2021 season (subject to certain conditions). 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 short-haul operations. If such air traffic control and management issues occur and persist for a sustained period in the future, and in particular during the recovery of the aviation industry from the effects of the COVID-19 pandemic, 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 Issuer 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 Subsidiaries Airlines' respective operations and, subsequently, have a material adverse effect on the IAG Subsidiaries' and, by extension, the Group's, businesses, prospects, results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

3.4 Impact of Climate Change

Vulnerability to the effects of global warming and climate change has the potential to affect the IAG Airlines' operations and broader business. In particular, if climate change results in more volatile weather, such as a greater frequency and intensity of storms, this could disrupt the IAG Airlines' operations by reducing handling capacity at airports and ground transport access. Any increase in delayed or cancelled flights could increase disruption compensation costs and reduce revenue, as well as have an adverse effect on the relevant IAG Airline's reputation, which may have an adverse effect on the relevant IAG Airline's and, by extension, certain other IAG Subsidiaries' and the Issuer's respective businesses, prospects, results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

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. 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. See also "*Description of the Issuer and the Group–Business Overview–Environment*".

3.5 Failure to perform contractual obligations

A failure by the Issuer or an IAG Subsidiary to comply with its contractual obligations or to pay its indebtedness and fixed costs, could result in a variety of material adverse consequences, including acceleration of indebtedness, the exercise of remedies by its creditors, lessors or other co-contracting parties, or termination of the relevant contract, and such defaults could trigger additional cross defaults under other indebtedness or agreements. In such situations, the Issuer or any relevant IAG Subsidiary may not be able to repay the accelerated indebtedness or fulfil its obligations under certain contracts, make required aircraft lease payments or otherwise cover its fixed costs. Once default has occurred, the lenders under such financing arrangements could enforce upon all or substantially all of the assets of the Issuer or the relevant IAG Subsidiary which secure its obligations in accordance with the terms of the agreement. Such failure to pay or resulting enforcement action could have a material adverse effect on the Issuer's or relevant

IAG Subsidiary's businesses, prospects, results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

3.6 *Size of certain IAG Subsidiaries' pension deficit and association commitments are substantial and subject to variation*

Certain IAG Subsidiaries, most notably British Airways, have in place defined benefit pension schemes for their staff, for which the IAG Subsidiary is the ultimate sponsor for funding, whereby contribution requirements are generally assessed every three years as part of a full actuarial valuation. The next actuarial valuations for these defined benefit pension schemes are expected to be conducted as at 31 March 2021. Significant negative movements in pension assets values and financial returns from these assets, major changes in actuarial assumptions used to assess the pension scheme funding position and changes in the rate of inflation and interest rates may lead to deficits in these defined benefit pension schemes, which in turn could require increased cash contributions from the relevant IAG Subsidiary and could have a material adverse effect on the relevant IAG Subsidiary's and, by extension the Issuer's, businesses, prospects, results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds. See "*–Description of the Issuer and the Group–Business Overview–Pensions*"

3.7 *Exposure to legal actions and disputes with trade unions*

The IAG Subsidiaries and their 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 Subsidiaries and their suppliers regularly negotiate with a number of the unionised groups including airport operators, pilots, cabin crew, ramp staff and engineering staff. Whilst collective bargaining and other agreements with these unions takes place regularly, a breakdown in the bargaining process could lead to strikes or other industrial action being taken by the IAG Subsidiaries' respective employees, or by the employees of key third party service providers, which could impact on the relevant IAG Subsidiary's ability to maintain its flight schedules. There can be no assurance that the IAG Subsidiaries 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 such IAG Subsidiary's reputation and cause consumers to book flights with such IAG Subsidiary's 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 such IAG Subsidiary's and, by extension the Issuer's, businesses, prospects, results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

3.8 *Challenges in recruiting and retaining talent*

The Group's current and future success depend upon the efforts, abilities and knowledge of their personnel, including the management team and other key financial, commercial and operating personnel. Competition for highly qualified personnel with diverse skillsets in the aviation industry is intense and the Issuer and each IAG Subsidiary is subject to the risk that talented employees will seek employment with the Group's competitors or in other industries. Failure to attract and/or retain key talent and management personnel of the Issuer or of any IAG Subsidiary, could lead to an adverse effect on the Issuer's and the IAG Subsidiaries' respective ability to deliver their strategic objectives and could have a material adverse effect on the Issuer's and the IAG Subsidiaries' respective businesses, prospects, results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

3.9 *Insufficient insurance cover*

The Issuer and each IAG Subsidiary believes that it has insurance in place consistent with its requirements. However, insurance policies are typically subject to a number of conditions and exclusions and must be renewed from time to time. In addition, similar insurance may be difficult to obtain subsequent to the occurrence of a safety incident. Any disaster or major disruption involving an IAG Airline or its aircraft could result in potential claims from injured passengers, third parties, crew or others. There may also be temporary or permanent loss of the aircraft from service, as well as repair and replacement costs. There can be no assurance that the amount or type of insurance cover currently held by the Issuer or the IAG Subsidiaries will be sufficient or adequate to cover all potential losses. If the Issuer's or an IAG Subsidiary's insurance policies exclude certain events or specific claims or if the amounts insured under such policies are insufficient, the Issuer or as the case may be, the relevant IAG Subsidiary may suffer significant costs. In addition, if the cost of insurance increases substantially, for example due to a terrorist incident, there may be a negative impact on the Issuer's or any relevant IAG Subsidiary's profits.

Any insurance claim, or the inability of the Issuer or any relevant IAG Subsidiary to renew or obtain adequate insurance could have a material adverse effect on the Issuer's or any relevant IAG Subsidiary's results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

4. RISKS RELATING TO THE GROUP'S FINANCES

4.1 *The Group is exposed to price volatility of, and regulatory changes to, jet fuel*

Fuel, oil costs and emissions charges constituted 24.5% of the Group's total operating expenses in the financial year ended 31 December 2020 (26.3% in 2019). 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. As a result of the significantly reduced flying programme, aircraft had to be temporarily grounded, with some retired early. Jet fuel consumption was significantly lower than that on which the Group's hedging programme was based, leading to the discontinuation of hedge accounting for the related derivative financial instruments. In addition, the commodity price of jet fuel fell sharply, leading to significant losses related to the hedging programme, which would normally be offset against lower costs for purchasing jet fuel. The reduced capacity forecast has led to an exceptional charge of €1,694 million relating to over-hedging, being the net of losses on fuel hedging derivatives and related gains on foreign currency derivatives. These values are calculated based on the fuel curve and foreign exchange rates as at December 31, 2020 and the anticipated capacity to be operated for 2021 and 2022.

In addition, the introduction of regulation relating to sustainable aviation fuels could have a material adverse impact on the Group. The EU 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 EU .

The Group cannot predict the movement of either short-term or long-term jet fuel prices. If the IAG Airlines are exposed to sustained significant price volatility and/or increases in jet fuel prices, there can be no assurance that they will be able to offset such volatility and/or increases by passing these costs on to customers and/or through fuel hedging arrangements. In addition, neither the Issuer nor the IAG Airlines can predict the movement of either short-term or long-term jet fuel prices. Any such price volatility and/or increases in prices for jet fuel could have a material adverse effect on the IAG Subsidiaries’ and, by extension, the Issuer’s, respective businesses, prospects, results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

4.2 *Liquidity risk*

Liquidity risk is the possibility of being unable to meet all present and future financial obligations as they become due and to cover material capital expenditures requirements. While the Issuer and the IAG Subsidiaries believe they have processes in place designed to deliver sufficient cash resources and the availability of funding as needed, there can be no assurance that such processes will be effective. Any business disruption as a result of not being able to meet all present and future financial obligations and capital expenditure requirements as they become due could have a material adverse effect on the Issuer and/or any relevant IAG Subsidiary’s respective businesses, prospects, results of operations and financial conditions and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

4.3 *Foreign exchange rate risk*

The Issuer and the IAG Subsidiaries (other than British Airways, Avios and IAG Connect) report their financial results in euro. British Airways, Avios and IAG Connect report their financial results in pounds sterling. Therefore the Issuer’s and each IAG Subsidiary’s principal exposure to currency exchange rates arise from fluctuations of the euro or pounds sterling, which impact their operating, financing and investing activities. The Issuer’s and/or the IAG Subsidiaries’ financial results for each period may be affected by fluctuations in exchange rates. Sustained adverse changes in exchange rates against the reporting currency could have a material adverse effect on the Issuer’s and the IAG Subsidiaries’ respective businesses, operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

Whilst the Issuer and the IAG Subsidiaries manage foreign currency risk through hedging activity which aims to reduce the impact of exchange rate volatility on the results and cash flows of the Issuer and the IAG Subsidiaries, 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 Issuer’s and/or the IAG Subsidiaries’ respective businesses, prospects, results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

4.4 *Interest rate risk*

The Issuer and the IAG Subsidiaries are exposed to movements on interest rates on interest bearing monetary items. The IAG Subsidiaries' ability to finance their respective operations and satisfy their financing commitments, together with future capital expenditure and financing requirements, is reliant on a number of factors including those outside of their control. In some cases, an IAG Subsidiary may need to refinance and such refinancing may be more expensive than current rates or may be unavailable depending on the Issuer's or, as the case may be, the relevant IAG Subsidiary's prevailing credit profile, the financial markets conditions at the time and other factors outside of the Issuer's or any IAG Subsidiary's control. Should the Issuer or an IAG Subsidiary be unable to obtain satisfactory financing in respect of its current commitments or future financing needs, this could have a material adverse effect on the Issuer and/or the relevant IAG Subsidiary's businesses, prospects, results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

4.5 Exposure to non-performance of counterparties

The Issuer and the IAG Subsidiaries are exposed to the credit risk of non-performance by its counterparties in respect of receivable financial assets, which include cash and money market deposits, derivative financial instruments, and trade and other receivables. The Issuer and the IAG Subsidiaries are also exposed to the credit risk of non-performance by, amongst others, its insurance and financial counterparties. Failure of any of its counterparties could have a material adverse effect on the Issuer's and/or the IAG Subsidiaries' respective businesses, prospects, results of operations and financial conditions and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

5. RISKS RELATING TO REGULATORY COMPLIANCE

5.1 Uncertainty around the impact of the withdrawal of the UK from the EU

There are multiple EU Directives and Regulations which determine how the Issuer and each IAG Airline shall operate. These range from specific aviation directives and regulations (for example, the regulation on the harmonisation of technical requirements and administrative procedures in the field of civil aviation (Council Regulation (EEC) No 3922/91, referred to as EU-OPS), the requirement to hold an air operator's certificate (an "AOC" or, "Aircraft Operating Certificate") and compliance with the rules and regulations of the European Aviation Safety Agency ("EASA")) through to more general business directives and regulations (for example, including relating to social security, shareholder ownership, competition and pricing).

On 23 June 2016, the UK held a referendum on its membership of the EU, the result of which favoured an exit from the EU, commonly referred to as "Brexit". On 29 March 2017, the UK Prime Minister notified the European Council, in accordance with Article 50 of the Treaty on EU, of the UK's intention to withdraw from the EU, triggering a two-year period of negotiation of the UK's withdrawal from the EU. Under the terms of the ratified Article 50 withdrawal agreement, a transition period was agreed which ended on 31 December 2020.

During that transition period, most EU rules and regulations continued to apply to the Group's operations in the UK. On 24 December 2020, it was announced that the UK and the EU had reached agreement in principle on the Trade and Cooperation Agreement setting out their future relationship. The transition period ended at 11pm GMT on 31 December 2020 and the Trade and Cooperation Agreement has governed the relationship between the UK and the EU since that time.

The Trade and Cooperation Agreement provides for a Specialised Committee on Air Transport to be established to address matters of aviation law and operations, which shall assist the governing body of the Trade and Cooperation Agreement in their approach to aviation matters. The Trade and Cooperation Agreement covers, among other things, 'fourth freedom' rights allowing for the operation of passenger and cargo flights between the UK and EU Member States (the "**Traffic Rights**"), wet leasing between UK and EU airlines without restriction, and the facilitation of recognition of UK and EU certificates, approvals and licenses related to airworthiness of aircraft and passenger safety. In addition, the UK has signed new air services agreements with various countries to replace existing EU-wide agreements once the UK, securing market access and regulatory arrangements for the future.

Despite the introduction of the Trade and Cooperation Agreement, it is still not possible to determine the impact that the UK's departure from the EU and/or any related matters may have on general economic conditions in the UK and/or on the business of the Group's operations in the UK. In particular, it remains unclear what effect the consequences of Brexit (for example, that the UK is now treated as a "third country" for EU purposes) and the COVID-19 pandemic may have on the Group, and on British Airways in particular.

While the Issuer's assessment remains that Brexit will have no significant long-term impact on its business, Brexit has caused and may continue to cause uncertainty and could have a material adverse effect on the Issuer's and/or any IAG Subsidiary's business, prospects, results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

5.2 Requirement to maintain majority share ownership and control by European Economic Area Member States or their nationals

Prior to the end of the transition period, it was unclear how requirements of EU law relating to the ownership and control of airlines would apply in the UK. It is a requirement of EU law that an EU Member State may only licence an air carrier to operate airline services 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) (the "**Ownership and Control Requirement**"). The Ownership and Control Requirement applies to each IAG Airline.

The Trade and Cooperation Agreement has clarified that airlines of the UK, including British Airways, that met the Ownership and Control Requirement as at 31 December 2020 may continue to operate air services between the UK and the EU by exercising the Traffic Rights. EU airlines must continue to comply with the Ownership and Control Requirements in order to access the benefit of the Traffic Rights.

Each of the IAG Airlines holds a European AOC from their respective regulators and currently complies with the Ownership and Control Requirement. However, if an IAG Airline which holds a 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 in the EU which could have a material adverse effect on such IAG Airline's and, by extension certain other IAG Subsidiaries' and the Issuer's, respective businesses, prospects, results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

5.3 Exposure to risks associated with the limitation of greenhouse gas emissions and related trading schemes or allowances and any changes to environmental legislation

The Group is also exposed to risks associated with the limitation of greenhouse gas emissions and related environmental regulation and legislation, such as the United Nations Framework Convention on Climate Change and the Kyoto Protocol, in addition to measures that may be introduced in the future. The EU 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 the early 2020s. CORSIA will require airlines to purchase carbon offsets from other industries to compensate for emission growth in the airline sector and the Group’s costs 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. 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. All of these factors may limit the IAG Airlines’ operational flexibility, increase costs and therefore could have a material adverse effect on their and, by extension, certain other IAG Subsidiaries’ and the Issuer’s, respective businesses, prospects, results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds. See “—*Description of the Issuer and the Group—Strengths and Long-Term of the Group—Strengths—Leading sustainability commitment*”.

5.4 Exposure to extensive and changing legislation and regulations at regional, national and international level

The Issuer and the IAG Subsidiaries, and the airline industry generally, are subject not only to English and Spanish laws and regulations but also to the laws and regulations of the EU and other nations in which they respectively operate outside the EU, together with international organisations and international, bilateral and multilateral treaties. The scope of such laws and regulations includes (among other things) infrastructure issues relating to slot capacity, route flying rights, environmental and security requirements, safety, licensing, competition, customer protection and tax as well as controlling capacity and restricting market entry. Additional laws, regulations, taxes and airport rates and charges and/or any relaxation or tightening of laws to which the Issuer and/or any IAG Subsidiary is subject whether at regional, national and/or internal level, may be proposed from time to time and could significantly increase the cost of the IAG Subsidiaries’ respective airline operations, reduce their revenues and/or impact the IAG Subsidiaries’ ability to compete with other airlines.

Changes to legislative and regulatory requirements occur frequently and may in addition occur as a result of the UK leaving the EU (see “—*Uncertainty around the impact of the withdrawal of the UK from the EU*” below). Each IAG Subsidiary is also exposed to legislative and regulatory oversight in all countries where it sells its product via local language websites. This will increase as the IAG Subsidiaries grow geographically and the number of local language websites

increases. New regulations could have a negative impact on the IAG Subsidiaries' respective costs and business models. For example, more safety and/or security requirements could impact on each IAG Airline's ability to manage quick turnarounds and therefore may compromise aircraft utilisation or may impose additional costs. Neither the Issuer nor the IAG Subsidiaries can anticipate all changes that may be made in the future including changes made in response to the UK leaving the EU, nor the possible adverse impact of such changes, including on each IAG Subsidiary's operations, financial condition or prospects. Any such new legislation or regulations, and the ability of the Issuer and each IAG Subsidiary to comply with such legislation or regulations, could have a material adverse effect on the IAG Subsidiaries' and, by extension the Issuer's, respective businesses, prospects, results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

5.5 Reliance upon the Group's reservation and technology systems

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. 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. See "*–Risks Relating to the Group's Business and Operations–Reliance on the uninterrupted operation and security of information technology systems*" above.

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 EU member states from 25 May 2018, and which continues to form part of domestic law in the UK by virtue of the European Union (Withdrawal) Act 2018 and the Data Protection Act 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 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 in which it informed the airline of its intention to fine it approximately £183 million (€205 million) under the UK Data Protection Act. On 16 October 2020 the Issuer received a fixed penalty notice of £20 million from the UK Information Commissioner's Office. The penalty was significantly reduced from the initial amount of £183 million. 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. See also "*Description of the Issuer and the Group–Business Overview–Data Protection*"

Any of the foregoing could have a material adverse effect on the Group's reputation, business, financial condition, results of operations and prospects and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

5.6 *Impact from passengers' compensation for certain flight delays and cancellations*

Under European legislation (EU Regulation (EC) No. 261/2004 ("**EU 261**"), which is also incorporated into the domestic law of the UK under the European Union (Withdrawal) Act 2018 and the Air Passenger Rights and Air Travel Organisers' Licencing (Amendment) (EU Exit) Regulations 2019), 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 short-haul 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. There can be no assurance that they 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. 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, certain other IAG Subsidiaries' and the Issuer's, respective businesses, prospects, results of operations and financial condition and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

5.7 *Non-compliance with competition, bribery, privacy laws and with internal regulations*

The Issuer and the IAG Subsidiaries each have company-wide anti-bribery and corruption policies, based on applicable laws, as well as a gifts and hospitality policy and an online register

to record all gifts and hospitality that are accepted by employees. There can be no assurance that violations of the Issuer's and/or the IAG Subsidiaries' respective internal corporate governance requirements will not occur. In the event violations do occur, they could have material adverse effects on the Issuer's and the IAG Subsidiaries' respective reputations and result in fines, which could in turn have a material adverse effect on the Issuer's and the IAG Subsidiaries' respective businesses, prospects, financial condition and results of operations and therefore could affect the ability of the Issuer to fulfil its obligations under the Bonds.

6. RISKS RELATED TO INVESTING IN THE BONDS

6.1 *The Issuer may redeem the Bonds prior to maturity*

In the event that the Issuer has or will become obliged to pay additional amounts in respect of the Bonds pursuant to Condition 8 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Kingdom of Spain or any political subdivision or authority therein or thereon having the power to tax, or any change in the general application or official interpretation of such laws or regulations, which becomes effective on or after the Issue Date and such obligations cannot be avoided by the Issuer taking reasonable measures available to it, the Issuer may redeem all outstanding Bonds in accordance with the Conditions, as described under Condition 6 (*Redemption and Purchase*). In addition, the Issuer may redeem all but not some only of the Bonds at the relevant Make-Whole Redemption Amount (together with accrued but unpaid interest) at any time, as described in Condition 6(b) (*Make-Whole Redemption by the Issuer*). The Issuer may also redeem all but not some only of the Bonds then outstanding on any Business Day which falls during the period commencing on (and including) the day that is 90 days prior to the relevant Final Maturity Date and ending on (but excluding) the relevant Final Maturity Date, at their principal amount, as described in Condition 6(c) (*Issuer Maturity Call Option*). If, at any time, the outstanding aggregate principal amount of the Series A Bonds is 20 per cent. or less of the aggregate principal amount of the Series A Bonds when issued, the Issuer may redeem all but not some only of the Series A Bonds then outstanding at their principal amount, as described in Condition 6(d) (*Issuer Residual Call Option*). If, at any time, the outstanding aggregate principal amount of the Series B Bonds is 20 per cent. or less of the aggregate principal amount of the Series B Bonds when issued, the Issuer may redeem all but not some only of the Series B Bonds then outstanding at their principal amount, as described in Condition 6(d) (*Issuer Residual Call Option*). If the Issuer calls and redeems the Bonds in the circumstances mentioned above, an investor may not be able to reinvest the redemption proceeds in securities offering a comparable yield.

6.2 *A Bondholder may require the Issuer to redeem its Bonds prior to the Final Maturity Date, including in the event of a change of control*

Each Bondholder may, upon the occurrence of a Triggering Event (as defined in Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*)) require the Issuer to redeem its Bonds at their principal amount outstanding together with accrued interest (if any), in accordance with Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*). This includes upon the occurrence of certain events constituting a Change of Control (as defined in Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*)). There can be no assurance that, at the time a Bondholder requires the Issuer to redeem its Bonds in accordance with Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*), the Issuer will have sufficient funds available to redeem the Bonds specified in the relevant Put Exercise Notice.

More generally, a change of control may also result in a mandatory prepayment under any of its existing borrowing facilities and agreements governing any future indebtedness and may result in the acceleration of such indebtedness (even if such change of control under any such borrowing facility may be deemed not to be a Change of Control for the purposes of the Bonds). Sufficient funds may not be available when necessary to make any required repurchases. See also “–*Risks Relating to the Impact of the COVID-19 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*” for an overview of the Group’s material financing arrangements.

6.3 Certain significant corporate events may not constitute a Change of Control

Certain events will not constitute a Change of Control. The Change of Control provision contained in Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*) may not necessarily afford investors protection in the event of certain significant corporate events, including a reorganisation, restructuring, merger, recapitalisation or other similar transaction that may adversely affect investors, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a Change of Control as defined in Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*). Except as described under Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*), the Terms and Conditions of the Bonds do not contain provisions that would require the Issuer, or that would enable the holders of the Bonds to require the Issuer, to offer to repurchase or redeem the Bonds in the event of a reorganisation, restructuring, merger, recapitalisation or similar transaction

6.4 The Bonds do not restrict the amount of debt which the Issuer may incur

The terms and conditions of the Bonds do not contain any restriction on the amount of indebtedness which the Issuer may from time to time incur. In the event of any insolvency or winding up of the Issuer, the Bonds will rank equally with the Issuer’s other unsecured senior indebtedness and, accordingly, any increase in the amount of the Issuer’s unsecured senior indebtedness in the future may reduce the amount recoverable by Bondholders. In addition, the Bonds are unsecured and, save as provided in Condition 2 (*Negative Pledge*), do not contain any restriction on the giving of security by the Issuer over present and future indebtedness. Where security has been granted over assets of the Issuer to secure indebtedness, in the event of any insolvency or winding-up of the Issuer, such indebtedness will rank in priority over the Bonds and other unsecured indebtedness of the Issuer in respect of such assets.

In relation to the assets and indebtedness of the Issuer’s subsidiaries, see also “–*Risks Relating to the Group’s Strategy–The Issuer is a holding company*” above.

6.5 The insolvency and administrative laws of the Issuer’s jurisdiction of incorporation may not be as favourable to creditors (including investors in the Bonds), as the insolvency laws of the jurisdictions with which investors are familiar, and may limit investors’ abilities to enforce their rights under the Bonds

The Issuer is incorporated under the laws of the Kingdom of Spain. There is a rebuttable presumption that the “centre of main interest” as defined in Regulation (EU) No. 2015/848 of the European Parliament and of the Council of 20 May 2015 on Insolvency Proceedings, as well as in the Royal Legislative Decree 1/2020 (*Texto Refundido de la Ley Concursal*) dated 5 May 2020

(the “**Spanish Insolvency Law**”), is the jurisdiction where the registered office of the Company is situated.

In the event that the Issuer experiences financial difficulties leading to a formal insolvency procedure, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings. Any enforcement of the terms and conditions of the Bonds against the Issuer after bankruptcy or an insolvency event will be subject to the insolvency laws of the Issuer’s jurisdiction of incorporation, and possibly other jurisdictions. The insolvency and other laws of Spain and other applicable jurisdictions may be materially different from, or in conflict with, the laws of the jurisdictions with which investors are familiar, including in the areas of rights of secured and other creditors, the ability to void preferential transfer, priority of governmental and other creditors, ability to obtain post-petition interest and duration of the proceedings. The application of these laws, or any conflict among them, could call into question whether any particular jurisdiction’s laws should apply, adversely affect investors’ ability to enforce their rights under the Bonds in these jurisdictions and limit any amounts that they may receive.

6.6 *Payments in respect of the Bonds may in certain circumstances be made subject to withholding or deduction of tax*

Under the regulations established by Royal Decree 1065/2007, as amended by Royal Decree 1145/2011, income paid in respect of the Bonds will not be subject to withholding tax in Spain provided certain reporting obligations are met, being, at the date hereof, the provision to the Issuer by the Fiscal Agent, in a timely manner, of a duly executed and completed Payment Statement. See “*Taxation—Taxation in Spain—Disclosure obligations in connection with payments on the Bonds*”.

The Fiscal Agent is expected to follow certain procedures to facilitate the timely provision by the Fiscal Agent to the Issuer of a duly executed and completed Payment Statement in connection with each payment of income under the Bonds. A description of those procedures is set out in a schedule to the Fiscal Agency Agreement and should be read together with the section of this Prospectus entitled “*Taxation—Taxation in Spain*”. If the procedures are not followed, the Issuer will withhold at the then applicable rate (being 19 per cent. at the date of this Prospectus) from any interest payment in respect of the Bonds, as well as from any income derived from the redemption of the Bonds. Such procedures may be revised from time to time in accordance with changes in the applicable Spanish laws and regulations or administrative interpretations thereof. In this case, the Issuer shall pay such additional amounts as will result in the receipt by the holders of the Bonds, after any withholding or deduction for or on account of such taxes, duties, assessments or charges, of such amounts as would have been received by them if no such withholding or deduction had been required. No such additional amounts, however, shall be payable if any of the exceptions referred to in Condition 8 (*Taxation*) of the Conditions of the Bonds applies. Bondholders entitled to receive income payments in respect of the Bonds free from Spanish withholding tax, but whose income payments have been made net of Spanish withholding tax, may apply directly to the Spanish tax authorities for any refund to which they may be entitled.

6.7 *Risks in relation to Bonds held by Spanish corporate entities*

Despite the Issuer's opinion that, due to the Bonds not being placed in Spain (on the basis that there will be no public offer into Spain, as contemplated in “*Subscription and Sale - Spain*”) there is a possible exemption from withholding tax on payments to Spanish corporate Bondholders, the Spanish tax authorities may determine that the Bonds have been placed, totally or partially, in

Spain and that such exemption does not apply to any of the Bonds (see “*Taxation – Taxation in Spain*”). If such determination were made, income derived from the transfer of the Bonds by Bondholders could be subject to withholding tax at the applicable rate which, as at the date of this Prospectus, is 19%. No additional amounts will be payable by the Issuer in such circumstances.

6.8 Change of law

All conditions of the Bonds are governed by English law, save for Condition 1(c) (*Status*) which is governed by Spanish law, in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English or Spanish law or administrative practice after the date of this Prospectus.

6.9 Credit ratings assigned to the Issuer or any Bonds may not reflect all the risks associated with an investment in those Bonds.

The Series A Bonds have been rated B1 by Moody’s and BB by S&P and the Series B Bonds have been rated B1 by Moody’s and BB by S&P. The assigned ratings to the Bonds may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Bonds. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating or the assignment of an unfavourable rating by another ratings agency could adversely affect the trading price for the Bonds.

In general, European regulated investors are restricted under the EU CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the EU CRA Regulation (and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the EU CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by ESMA on its website in accordance with the EU CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Prospectus.

6.10 As each registered Global Bond is held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer

The Series A Bonds and the Series B Bonds will each be represented by a registered Global Bond, except in certain limited circumstances described in the relevant registered Global Bond. Each Global Bond will be deposited with, and registered in the name of a nominee for, a Common Safekeeper for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the relevant registered Global Bond, investors will not be entitled to receive Definitive Registered Bonds. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the relevant Global Bond and, while the Bonds are represented by the relevant

registered Global Bond, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Bonds by making payments to the Common Safekeeper for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in the relevant registered Global Bond must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Bonds. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the relevant registered Global Bond.

6.11 *There may not be an active trading market for the Bonds*

The Bonds are new securities which may not be widely distributed and for which there is currently no active trading market. If the Bonds are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although applications have been made for the Bonds to be admitted to listing on the Official List of Euronext Dublin and to trading on the Regulated Market, there is no assurance that that such applications will be accepted, that Bonds will be so admitted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Bonds, which may affect a bondholder's ability to sell or transfer its holdings.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the following documents which shall be incorporated by reference in, and form part of, this Prospectus:

- (a) the audited consolidated financial statements of the Issuer as at and for the financial year ended 31 December 2020, together with the audit report thereon (the “**Issuer’s 2020 Annual Financial Statements**”), as included in the Issuer’s Annual Report and Accounts 2020.

The Issuer’s 2020 Annual Financial Statements appear on the following pages of the Issuer’s Annual Report and Accounts 2020:

Issuer’s 2020 Annual Financial Statements

Consolidated Income Statement	Page 142
Consolidated Statement of other Comprehensive Income	Page 143
Consolidated Balance Sheet	Page 144
Consolidated Cash Flow Statement	Page 145
Consolidated Statement of Changes in Equity	Page 146
Notes to the Consolidated Financial Statements	Pages 148 to 201
Audit Report	Pages 214 to 221

- (b) the audited consolidated financial statements of the Issuer as at and for the financial year ended 31 December 2019, together with the audit report thereon (the “**Issuer’s 2019 Annual Financial Statements**” and, together with the Issuer’s 2020 Annual Financial Statements, the “**Financial Statements**”), as included in the Issuers Annual Report and Accounts 2019.

The Issuer’s 2019 Annual Financial Statements appear on the following pages of the Issuer’s Annual Report and Accounts 2019:

Issuer’s 2019 Annual Financial Statements

Consolidated Income Statement	Page 132
Consolidated Statement of other Comprehensive Income	Page 133
Consolidated Balance Sheet	Page 134
Consolidated Cash Flow Statement	Page 135
Consolidated Statement of Changes in Equity	Pages 136 and 137
Notes to Consolidated Financial Statements	Pages 138 to 186
Audit Report	Pages 198 to 204

The above documents have been previously published or are published simultaneously with this Prospectus. Such documents shall be incorporated in, and form part of, this Prospectus, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

Those parts of the documents incorporated by reference in this Prospectus which are not specifically incorporated by reference in this Prospectus are either not relevant for prospective investors in the Bonds or the relevant information is included elsewhere in this Prospectus. Any documents themselves incorporated by reference in the documents incorporated by reference in this Prospectus shall not form part of this Prospectus.

Save for the information that has been expressly incorporated by reference into this Prospectus above, the information on any website mentioned in this Prospectus or any website directly or indirectly linked to these websites has not been verified and is not incorporated by reference into this Prospectus.

Copies of documents incorporated by reference in this Prospectus may be obtained (without charge) from the following website:

<https://www.iairgroup.com/en/investors-and-shareholders/results-and-reports>

and from the specified office of the Fiscal Agent for the time being in London.

TERMS AND CONDITIONS OF THE BONDS

The issue of the €500,000,000 2.75 per cent. Bonds due 2025 (the “**Series A Bonds**” which expression shall, unless otherwise indicated, include any relevant Further Bonds) and the €700,000,000 3.75 per cent. Bonds due 2029 (the “**Series B Bonds**” which expression shall, unless otherwise indicated, include any relevant Further Bonds) was (save in respect of any such Further Bonds) authorised by a resolution of the Board of Directors of International Consolidated Airlines Group, S.A. (the “**Issuer**”) passed on 3 March 2021. References in these Conditions to “**Bonds**” shall, so far as the context permits, be construed as a reference to the Series A Bonds or the Series B Bonds as appropriate and these Conditions shall be construed to apply separately to each of the Series A Bonds and the Series B Bonds.

A fiscal agency agreement dated on or about 25 March 2021 (the “**Fiscal Agency Agreement**”) has been entered into in relation to the Bonds between the Issuer, Deutsche Bank AG, London Branch as fiscal agent (the “**Fiscal Agent**”, which expression shall include any successor as fiscal agent under the Fiscal Agency Agreement) and the paying and transfer agents named therein (together with the Fiscal Agent and any other paying and transfer agents appointed pursuant to the Fiscal Agency Agreement for the time being, the “**Paying and Transfer Agents**”, which expression shall include their successors as paying and transfer agents under the Fiscal Agency Agreement) and Deutsche Bank Luxembourg S.A. as registrar (the “**Registrar**”, which expression shall include any successor as registrar under the Fiscal Agency Agreement).

Copies of the Fiscal Agency Agreement (which contain these terms and conditions of the Bonds (the “**Conditions**”)) are available for inspection during normal business hours at the specified office of the Fiscal Agent. The statements in these Conditions are summaries of, and are subject to, the detailed provisions of the Fiscal Agency Agreement, which includes the forms of the Bonds. The Bondholders are entitled to the benefit of, are bound by, and are deemed to have notice of those provisions applicable to them which are contained in the Fiscal Agency Agreement.

The Issuer, as required by Spanish law, has executed an *escritura pública* (the “**Public Deed**”) before a Spanish notary public in relation to the issue of the Bonds and will register the Public Deed with Madrid’s Mercantile Registry. The Public Deed contains, among other information, these Conditions.

Capitalised terms used but not defined in these Conditions shall have the meanings given to them in the Fiscal Agency Agreement unless, in any case, the context otherwise requires or unless otherwise stated.

1. Form, Denomination, Title and Status of the Bonds

(a) *Form and Denomination*

The Bonds are in registered form, serially numbered, in principal amounts of €100,000 each.

(b) *Title*

Title to the Bonds will pass by transfer and registration as provided in Condition 4 (*Registration and Transfer of Bonds*). The holder (as defined below) of any Bond will (except as otherwise required by law or as ordered by a court of

competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

(c) *Status*

The Bonds constitute direct, unconditional, senior, unsubordinated and, subject to Condition 2 (*Negative Pledge*), unsecured obligations of the Issuer and in the event of insolvency of the Issuer (unless they qualify as subordinated debts under article 281 of the Spanish Insolvency Law or equivalent legal provision which replaces it in the future and save for such exceptions as may be provided by applicable legislation and by provisions of law that are mandatory and of general application) will rank, according to the Spanish Insolvency Law, *pari passu*, without any preference among themselves, and equally with all other existing and future senior, unsecured and unsubordinated obligations of the Issuer.

Interest on the Bonds accrued but unpaid as at the commencement of any insolvency proceedings relating to the Issuer under Spanish law shall thereupon constitute subordinated obligations of the Issuer ranking below its unsecured and unsubordinated obligations. Under Spanish law, no further interest on the Bonds shall be deemed to accrue from the date of the declaration of any insolvency proceeding relating to the Issuer.

2. **Negative Pledge**

So long as any of the Bonds remains outstanding (as defined in the Fiscal Agency Agreement), the Issuer will not and will ensure that British Airways plc will not create or have outstanding any mortgage, charge, pledge, lien (other than arising by operation of law) or other security interest or form of encumbrance ("**Relevant Security**"), in each case, other than Permitted Security, on the whole or any part of its assets, revenues or uncalled capital, present or future, to secure any present or future Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness, unless, simultaneously with, or prior to, the creation of such Relevant Security, there shall be taken any and all action necessary to procure that (i) all amounts payable by the Issuer under the Bonds are secured equally and rateably with such Relevant Indebtedness or guarantee or indemnity; or (ii) that such other security, guarantee or arrangement is provided as the Bondholders may consider not materially less beneficial to their interests, as shall be approved by an Extraordinary Resolution of the Bondholders.

For the purposes of this Condition 2 (*Negative Pledge*):

- (i) "**Permitted Security**" means (a) any Relevant Security which directly or indirectly secures any aircraft or aircraft equipment of British Airways plc; or (b) any Relevant Security existing on property at the time of the acquisition thereof by the Issuer or British Airways plc, provided that such Relevant Security was not created in connection with or in contemplation of such acquisition and that the amount secured by such Relevant Security is not increased subsequently to the acquisition of the relevant property; and

- (ii) **“Relevant Indebtedness”** means any present or future indebtedness for borrowed money which is in the form of or represented by any bonds, notes, debentures, loan stock or other securities which with the consent of the issuer of the indebtedness are for the time being (or are intended to be) quoted, listed or ordinarily dealt in or on any recognised stock exchange, over the counter or other centrally organised or regulated securities market.

3. Definitions

In these Conditions, unless otherwise provided:

“Bondholder” and **“holder”** mean the person in whose name a Bond is registered in the Register.

“Business Day” means, in relation to any place, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets are open for business in that place.

“Calculation Agent” has the meaning provided in Condition 6(b) (*Make-Whole Redemption by the Issuer*).

“Change of Control” has the meaning provided in Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*).

“Change of Control Period” has the meaning provided in Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*).

“Change of Control Put Event” has the meaning provided in Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*).

“Code” means the US Internal Revenue Code of 1986, as amended.

“Control” has the meaning provided in Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*).

“Disposal Event” has the meaning provided in Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*).

“Euronext Dublin” means the Irish Stock Exchange plc trading as Euronext Dublin.

“Extraordinary Resolution” has the meaning provided in the Fiscal Agency Agreement.

“FATCA” means sections 1471 to 1474 of the Code (including any regulations or official interpretations issued, agreements (including, without limitation, intergovernmental agreements) entered into or non-US laws enacted with respect thereto).

“Final Maturity Date” means

- (a) in respect of the Series A Bonds, 25 March 2025; and

(b) in respect of the Series B Bonds, 25 March 2029.

“Further Bonds” means any further Bonds issued pursuant to Condition 15 (*Further Issues*) and consolidated and forming a single series with the then outstanding Bonds.

“Group” means the Issuer and its Subsidiaries taken as a whole.

“Interest Payment Date” has the meaning provided in Condition 5(a) (*Interest Rate*).

“Issue Date” means 25 March 2021.

“Make-Whole Redemption Amount” has the meaning provided in Condition 6(b) (*Make-Whole Redemption by the Issuer*).

“Make-Whole Redemption Date” has the meaning provided in Condition 6(b) (*Make-Whole Redemption by the Issuer*).

“Make-Whole Redemption Notice” has the meaning provided in Condition 6(b) (*Make-Whole Redemption by the Issuer*).

“Maturity Call Redemption Date” has the meaning provided in Condition 6(b) (*Make-Whole Redemption by the Issuer*).

“Maturity Call Redemption Notice” has the meaning provided in Condition 6(b) (*Make-Whole Redemption by the Issuer*).

“Negative Rating Event” has the meaning provided in Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*).

a **“person”** includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, unincorporated association, limited liability company, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity).

“Put Date” has the meaning provided in Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*).

“Put Exercise Notice” has the meaning provided in Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*).

“Put Period” has the meaning provided in Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*).

“Put Price” has the meaning provided in Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*).

“Rating Agency” has the meaning provided in Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*).

“Record Date” has the meaning given to it in Condition 7(c) (*Record Date*).

“Reference Bond” has the meaning provided in Condition 6(b) (*Make-Whole Redemption by the Issuer*).

“Reference Bond Price” has the meaning provided in Condition 6(b) (*Make-Whole Redemption by the Issuer*).

“Reference Market Maker Quotations” has the meaning provided in Condition 6(b) (*Make-Whole Redemption by the Issuer*).

“Reference Market Makers” has the meaning provided in Condition 6(b) (*Make-Whole Redemption by the Issuer*).

“Reference Rate” has the meaning provided in Condition 6(b) (*Make-Whole Redemption by the Issuer*).

“Register” has the meaning provided in Condition 4(a) (*Registration*).

“Relevant Announcement Date” has the meaning provided in Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*).

“Relevant Date” means, in respect of any Bond, whichever is the later of:

- (a) the date on which payment in respect of it first becomes due; and
- (b) if the full amount payable has not been received by the Fiscal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect is given to the Bondholders.

“Relevant Indebtedness” has the meaning provided in Condition 2 (*Negative Pledge*).

“Relevant Potential Change of Control Announcement” has the meaning provided in Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*).

“Relevant Security” has the meaning provided in Condition 2 (*Negative Pledge*).

“Residual Call Redemption Date” has the meaning provided in Condition 6(b) (*Make-Whole Redemption by the Issuer*).

“Residual Call Redemption Notice” has the meaning provided in Condition 6(b) (*Make-Whole Redemption by the Issuer*).

“Spanish Capital Companies Act” means the Royal Decree 1/2010, of July 2, approving the reinstated text of the Spanish Companies Act (*Real Decreto Legislativo 1/2010, de 2 de julio, por el que se aprueba el texto refundido de la Ley de Sociedades de Capital*) of the Kingdom of Spain.

“Subsidiary” means a company in respect of which another company:

- (a) holds or controls a majority of the voting rights;

- (b) is a member and has the right to appoint or remove a majority of its board of directors; or
- (c) is a member and controls alone, pursuant to an agreement with other members, a majority of the voting rights in it,

or which is a Subsidiary of a company that is itself a Subsidiary of that other company.

“**TARGET Business Day**” means a day on which the TARGET System is operating.

“**TARGET System**” means the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System.

“**Tax Redemption Date**” has the meaning provided in Condition 6(e) (*Redemption for Tax Reasons*).

“**Tax Redemption Notice**” has the meaning provided in Condition 6(e) (*Redemption for Tax Reasons*).

“**Triggering Event**” has the meaning provided in Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*).

“**Trust UK**” has the meaning provided in Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*).

“**€**” and “**euro**” means the single currency which was introduced at the start of the third stage of the European Economic and Monetary Union, pursuant to the Treaty establishing the European Community (as amended from time to time).

References to any act or statute or any provision of any act or statute shall be deemed also to refer to any statutory modification or re-enactment thereof or any statutory instrument, order or regulation made thereunder or under such modification or re-enactment.

4. **Registration and Transfer of Bonds**

(a) *Registration*

The Issuer will cause a register (the “**Register**”) to be kept at the specified office of the Registrar outside the UK, on which will be entered, among other things, the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers and redemptions of Bonds.

(b) *Transfer*

Bonds may, subject to the terms of the Fiscal Agency Agreement and to Conditions 4(c) (*Formalities Free of Charge*) and 4(d) (*Closed Periods*) be transferred by lodging the certificate representing the relevant Bond (with the form of application for transfer in respect thereof duly executed and duly stamped

where applicable) at the specified office of the Registrar or any Paying and Transfer Agent.

No transfer of a Bond will be valid unless and until it has been entered on the Register. A Bond may be registered only in the name of, and transferred only to, a named person (or persons, not exceeding four in number).

The Registrar will within seven Business Days (or such longer period as may be required for the Registrar to comply with any fiscal or other requirements, in the place of the specified office of the Registrar) of any duly made application for the transfer of a Bond enter the details of such transfer on the Register and deliver a new certificate representing the Bond to the transferee (and, in the case of a transfer of less than all the Bonds represented by any certificate, deliver a certificate for the untransferred balance of such Bonds to the transferor) at the specified office of the Registrar or (at the risk and, if mailed at the request of the transferee or, as the case may be, the transferor otherwise than by ordinary mail, at the expense of the transferee or, as the case may be, the transferor) mail the Bond by uninsured mail to such address as the transferee or, as the case may be, the transferor may request.

(c) *Formalities Free of Charge*

Such transfer will be effected without charge subject to: (i) the person making such application for transfer paying or procuring the payment of any taxes, duties and other governmental charges in connection therewith; (ii) the Registrar being satisfied with the documents of title and/or identity of the person making the application; and (iii) such reasonable regulations as the Issuer may from time to time agree with the Registrar.

(d) *Closed Periods*

Neither the Issuer nor the Registrar will be required to register the transfer of any Bond (or part thereof): (i) during the period of 15 days immediately prior to the relevant Final Maturity Date or any earlier date fixed for redemption of the Bonds pursuant to Condition 6(b) (*Make-Whole Redemption by the Issuer*), 6(c) (*Issuer Maturity Call Option*), 6(d) (*Issuer Residual Call Option*) or 6(e) (*Redemption for Tax Reasons*); (ii) in respect of which a holder has exercised its right to require redemption pursuant to Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*); or (iii) during the period of 15 days ending on (and including) any Record Date in respect of any payment of interest on the Bonds.

5. Interest

(a) *Interest Rate*

The Bonds bear interest from (and including) the Issue Date at the rate of 2.75 per cent. per annum in the case of the Series A Bonds and 3.75 per cent. per annum in the case of the Series B Bonds, calculated in each case by reference to the outstanding principal amount thereof and payable annually in arrear on 25 March in each year (each an “**Interest Payment Date**”), commencing with the

Interest Payment Date falling on 25 March 2022 and ending on the relevant Final Maturity Date.

The amount of interest payable in respect of a Bond in respect of any period which is shorter than an Interest Period shall be calculated on the basis of the number of days in the relevant period from (and including) the first day of such period to (but excluding) the last day of such period divided by the number of days from (and including) the immediately preceding Interest Payment Date (or, if none, the Issue Date) to (but excluding) the next Interest Payment Date.

“**Interest Period**” means the period beginning on (and including) the Issue Date and ending on (but excluding) the first Interest Payment Date and each successive period beginning on (and including) an Interest Payment Date and ending on (but excluding) the next succeeding Interest Payment Date.

(b) *Accrual of Interest*

Each Bond will cease to bear interest where such Bond is redeemed or repaid pursuant to Condition 6 (*Redemption and Purchase*) or Condition 9 (*Events of Default*), from the due date for redemption or repayment thereof unless, upon due presentation of the certificate representing the relevant Bond, payment of the principal in respect of the relevant Bond is improperly withheld or refused, in which event interest will continue to accrue at the rate specified in Condition 5(a) (*Interest Rate*) (both before and after judgment) until whichever is the earlier of: (A) the day on which all sums due in respect of such Bond up to that day are received by or on behalf of the relevant holder; and (B) the seventh day after the Fiscal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

6. **Redemption and Purchase**

(a) *Final Redemption*

Unless previously purchased and cancelled, or redeemed as herein provided, the Bonds will be redeemed at their principal amount on the relevant Final Maturity Date. The Bonds may only be redeemed at the option of the Issuer prior to the relevant Final Maturity Date in accordance with Conditions 6(b) (*Make-Whole Redemption by the Issuer*), 6(c) (*Issuer Maturity Call Option*), 6(d) (*Issuer Residual Call Option*) or 6(e) (*Redemption for Tax Reasons*).

(b) *Make-Whole Redemption by the Issuer*

Subject to Conditions 6(c) (*Issuer Maturity Call Option*) and 6(d) (*Issuer Residual Call Option*) below, on giving not less than 10 or more than 60 days' notice (an “**Make-Whole Redemption Notice**”) to the Bondholders in accordance with Condition 13 (*Notices*), the Issuer may redeem all but not some only of the Bonds then outstanding on the date (the “**Make-Whole Redemption Date**”) specified in the Make-Whole Redemption Notice at the Make-Whole Redemption Amount together with accrued but unpaid interest to such date.

In this Condition 6(b) (*Make-Whole Redemption by the Issuer*), “**Make-Whole Redemption Amount**” means: (i) the aggregate outstanding principal amount of the Bonds; or (ii) if higher, the sum, as determined by the Calculation Agent, of the present values of the remaining scheduled payments of principal and interest on the Bonds (not including any portion of such payments of interest accrued to the date of redemption and assuming, for such purpose, that the Bonds would be redeemed on the date falling 90 days prior to the relevant Final Maturity Date in accordance with Condition 6(c) (*Issuer Maturity Call Option*) below) discounted to the relevant Make-Whole Redemption Date on an annual basis at the Reference Rate plus the Redemption Margin, where:

- (i) “**Calculation Agent**” means a leading and independent investment, merchant or commercial bank appointed by the Issuer in good faith for the purposes of calculating the relevant Make-Whole Redemption Amount, and notified to the Bondholders in accordance with Condition 13 (*Notices*);
- (ii) “**Redemption Margin**” means, in respect of the Series A Bonds, 0.5 per cent. and, in respect of the Series B Bonds, 0.5 per cent.;
- (iii) “**Reference Bond**” means (i) in respect of the Series A Bonds, DBR 0.50% 02/2025 and, in respect of the Series B Bonds, DBR 0.25% 02/2029 or (ii) if the relevant Reference Bond is no longer outstanding at the relevant time, a German government bond selected by the Calculation Agent as having a maturity comparable to the remaining term of the Bonds to be redeemed and that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such Bonds, provided that if the Calculation Agent advises the Issuer that, at the time at which the relevant Make-Whole Redemption Amount is to be determined, for reasons of illiquidity or otherwise, the relevant security specified is not appropriate for such purpose, such other central bank or government security as the Calculation Agent may, after consultation with the Issuer and with the advice of Reference Market Makers, determine to be appropriate;
- (iv) “**Reference Bond Price**” means (i) the average of five Reference Market Maker Quotations for the relevant Make-Whole Redemption Date, after excluding the highest and lowest of such five Reference Market Maker Quotations (or, if there are two highest and/or two lowest quotations, excluding just one of such highest quotations and/or one of such lowest quotations, as the case may be), (ii) if the Calculation Agent obtains fewer than five, but more than one, such Reference Market Maker Quotations, the average of all such quotations, or (iii) if only one such Reference Market Maker Quotation is obtained, the amount of the Reference Market Maker Quotation so obtained;
- (v) “**Reference Market Maker Quotations**” means, with respect to each Reference Market Maker and the Make-Whole Redemption Date, the average, as determined by the Calculation Agent, of the bid and asked

prices for the Reference Bond (expressed in each case as a percentage of its nominal amount) quoted in writing to the Calculation Agent at 11.00 am London time on the third Business Day preceding the Make-Whole Redemption Date;

- (vi) **“Reference Market Makers”** means five brokers or market makers of securities such as the Reference Bond selected by the Calculation Agent or such other five persons operating in the market for securities such as the Reference Bond as are selected by the Calculation Agent in consultation with the Issuer; and
- (vii) **“Reference Rate”** means, with respect to any Make-Whole Redemption Date, the rate per annum equal to the equivalent yield to maturity of the Reference Bond, calculated using a price for the Reference Bond (expressed as a percentage of its nominal amount) equal to the Reference Bond Price for such Make-Whole Redemption Date.

(c) *Issuer Maturity Call Option*

On giving not less than 10 nor more than 60 days’ notice (a **“Maturity Call Redemption Notice”**) to the Bondholders in accordance with Condition 13 (*Notices*), the Issuer may redeem all but not some only of the Bonds then outstanding on the day (the **“Maturity Call Redemption Date”**) specified in the Maturity Call Redemption Notice which falls during the period commencing on (and including) the day that is 90 days prior to the relevant Final Maturity Date and ending on (but excluding) the relevant Final Maturity Date, at their principal amount together with accrued but unpaid interest to such date.

(d) *Issuer Residual Call Option*

If, at any time, the outstanding aggregate principal amount of the Bonds is 20 per cent. or less than the aggregate principal amount of the Bonds when issued, on giving not less than 10 or more than 60 days’ notice (a **“Residual Call Redemption Notice”**) to the Bondholders in accordance with Condition 13 (*Notices*), the Issuer may redeem all but not some only of the Bonds then outstanding on the date (the **“Residual Call Redemption Date”**) specified in the Residual Call Redemption Notice at their principal amount together with accrued but unpaid interest to such date.

Prior to the publication of any Residual Call Redemption Notice pursuant to this Condition 6(d) (*Issuer Residual Call Option*), the Issuer shall deliver to the Fiscal Agent, to make available at its specified office to the Bondholders, a certificate signed by an director of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the outstanding aggregate principal amount of the Bonds is 20 per cent. or less than the aggregate principal amount of the Bonds originally issued. The Fiscal Agent shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out above, in which event it shall be conclusive and binding on the Bondholders.

(e) *Redemption for Tax Reasons*

The Issuer may, at any time, having given not less than 10 or more than 60 days' notice (a "**Tax Redemption Notice**") to the Bondholders in accordance with Condition 13 (*Notices*), redeem all but not some only of the Bonds for the time being outstanding on the date (the "**Tax Redemption Date**") specified in the Tax Redemption Notice at their principal amount, together with accrued but unpaid interest up to (but excluding) the Tax Redemption Date, if:

- (i) the Issuer has or will become obliged to pay additional amounts pursuant to Condition 8 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the Kingdom of Spain or any political subdivision or authority therein or thereof having the power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the Issue Date; and
- (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Bonds then due.

On the relevant Tax Redemption Date, the Issuer shall (subject to the next following paragraph) redeem the Bonds at their principal amount, together with accrued but unpaid interest up to (but excluding) such Tax Redemption Date.

Prior to the publication of any Tax Redemption Notice pursuant to this Condition 6(e) (*Redemption for Tax Reasons*), the Issuer shall deliver to the Fiscal Agent (x) a certificate signed by a director of the Issuer stating that the Issuer is entitled to effect such redemption and stating that the obligation referred to in (i) above will apply and cannot be avoided by the Issuer taking reasonable measures available to it, and (y) an opinion of independent legal or tax advisers of recognised standing to the effect that such change or amendment has occurred and that the Issuer has or will become obliged to pay such additional amounts as a result thereof.

(f) *Redemption Notices*

Other than in the circumstance set out in the paragraph below, any Make-Whole Redemption Notice, Maturity Call Redemption Notice, Residual Call Redemption Notice or Tax Redemption Notice shall be irrevocable and shall specify: (i) the relevant Make-Whole Redemption Date, Maturity Call Redemption Date, Residual Call Redemption Date or, as the case may be, the relevant Tax Redemption Date, which shall be a London and Madrid Business Day, (ii) where applicable, the Make-Whole Redemption Amount and (iii) the amount of accrued interest payable in respect of each Bond on the relevant Make-Whole Redemption Date, Maturity Call Redemption Date, Residual Call Redemption Date or, as the case may be, the relevant Tax Redemption Date.

Any Make-Whole Redemption Notice, Maturity Call Redemption Notice or Residual Call Redemption Notice may, at the Issuer's discretion, be made subject to one or more conditions precedent, in which case such Make-Whole Redemption Notice, Maturity Call Redemption Notice or Residual Call Redemption Notice (as applicable) shall state that, in the Issuer's discretion, the Make-Whole Redemption Date, Maturity Call Redemption Date or Residual Call Redemption Date (as applicable) may be delayed until such time as any or all such conditions shall be satisfied (or waived by the Issuer in its sole discretion), and/or that such redemption may not occur and such Make-Whole Redemption Notice, Maturity Call Redemption Notice or Residual Call Redemption Notice (as applicable) may be rescinded in the event that any or all such conditions shall not have been satisfied (or waived by the Issuer in its sole discretion) by the Make-Whole Redemption Date, Maturity Call Redemption Date or Residual Call Redemption Date (as applicable) or by the Make-Whole Redemption Date, Maturity Call Redemption Date or Residual Call Redemption Date (as applicable) so delayed.

(g) *Redemption at the option of Bondholders following a Triggering Event*

If a Triggering Event occurs, the holder of each Bond will have the right (unless prior to the giving of the relevant Put Exercise Notice the Issuer has given notice of redemption under Conditions 6(b) (*Make-Whole Redemption by the Issuer*), 6(c) (*Issuer Maturity Call Option*), 6(d) (*Issuer Residual Call Option*) or 6(e) (*Redemption for Tax Reasons*) above) to require the Issuer to redeem that Bond on the Put Date at the Put Price, together with accrued interest to (but excluding) the Put Date.

To exercise such right, the holder of the relevant Bond must present the certificate representing such Bond at the specified office of any Paying and Transfer Agent during normal business hours, together with a duly completed and signed notice of exercise, in the form for the time being current and obtainable from the specified office of any Paying and Transfer Agent (a "**Put Exercise Notice**") at any time in the period (the "**Put Period**") commencing on the date upon which notice as required by Condition 6(f) (*Redemption Notices*) is given to Bondholders by the Issuer in connection with the Triggering Event and ending 30 days thereafter. The "**Put Date**" shall be the 14th calendar day after the expiry of the Put Period.

Payment in respect of any such Bond shall be made by transfer to a bank in a city in which banks have access to the TARGET System specified by the relevant Bondholder in the applicable Put Exercise Notice.

In these Conditions:

a "**Change of Control**" shall occur if, by any means, any person or persons acting together acquire Control of the Issuer.

"**Change of Control Period**" means the period commencing on the Relevant Announcement Date and ending 90 days after the Change of Control (or such longer period for which any Bonds are under consideration (such consideration

having been announced publicly within the period ending 90 days after the Change of Control) for rating review or, as the case may be, rating by a Rating Agency, such period not to exceed 60 days after the public announcement of such consideration).

a “**Change of Control Put Event**” will be deemed to occur if a Change of Control occurs and either on the Relevant Announcement Date the Bonds have:

- (i) been assigned at the invitation of the Issuer:
 - (a) an investment grade rating by any Rating Agency and, within the Change of Control Period, that credit rating is either downgraded to a non-investment grade rating or such Rating Agency ceases to assign a credit rating to the Bonds and, in each case, does not subsequently upgrade its credit rating assigned to the Bonds to an investment grade rating or re-assign an investment grade rating to the Bonds by the end of the Change of Control Period provided that a Change of Control Put Event shall not occur if the Bonds are assigned, at the invitation of the Issuer, an investment grade credit rating by at least one Rating Agency by the end of the Change of Control Period; or
 - (b) a non-investment grade rating by any Rating Agency and, within the Change of Control Period, that credit rating is either downgraded by one or more categories (by way of example, BB+ to BB being one rating category) or such Rating Agency ceases to assign a credit rating to the Bonds and, in each case, does not subsequently upgrade its credit rating assigned to the Bonds to, or re-assign a credit rating to the Bonds of, the category assigned to the Bonds on the Relevant Announcement Date or better by the end of the Change of Control Period,

provided that if on the Relevant Announcement Date the Bonds have been assigned at the invitation of the Issuer a credit rating from more than one Rating Agency, at least one of which is an investment grade rating, then paragraph (i) only will apply; or

- (ii) not been assigned a credit rating by any Rating Agency at the invitation of the Issuer and a Negative Rating Event also occurs within the Change of Control Period,

and, in making any decision to downgrade or cease to assign a credit rating pursuant to paragraphs (i)(a) and (b) above or not to award a credit rating of at least investment grade as described in paragraph (ii) of the definition of Negative Rating Event, the relevant Rating Agency announces publicly or confirms in writing to the Issuer that such decision(s) resulted, in whole or in part, from the occurrence of the Change of Control or the Relevant Potential Change of Control Announcement.

“Control” means:

- (i) the right to cast more than 50 per cent. of the votes which may ordinarily be cast on a poll at a general meeting of the Issuer or, as the case may be, British Airways plc; or
- (ii) the right to appoint and/or remove all or the majority of the members of the Issuer’s or, as the case may be, British Airways plc’s board of directors or other governing body, whether obtained directly or indirectly and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise.

a **“Disposal Event”** shall occur if:

- (i) the Issuer shall cease to Control, either alone or together with the Trust UK, British Airways plc; or
- (ii) British Airways plc and its Subsidiaries as a whole (the **“BA Group”**) shall cease to carry on or shall transfer or dispose of all or substantially all the business and assets of the BA Group as at the Issue Date.

an **“investment grade rating”** shall mean, in relation to S&P, a rating of BBB- or above, in relation to Moody’s, a rating of Baa3 or above, in relation to Fitch, a rating of BBB- or above (provided that, if the rating designations employed by a Rating Agency are changed from those referred to above, the Issuer shall determine, and promptly notify the Bondholders of the same in accordance with these Conditions, the rating designations of such Rating Agency as are most equivalent to the prior rating designations of such Rating Agency and these Conditions shall, on and from the date of such notice to the Bondholders, be read accordingly) and, in the case of any other Rating Agency, a comparable rating from that Rating Agency.

a **“Negative Rating Event”** shall be deemed to have occurred at any time if at such time there is no credit rating assigned to the Bonds by any Rating Agency at the invitation of the Issuer and (i) the Issuer does not, either prior to, or not later than 21 days after, the occurrence of the Change of Control seek, and thereafter throughout the Change of Control Period use all reasonable endeavours to obtain, a credit rating of the Bonds or (ii) if the Issuer does so seek and use such endeavours, it is unable to obtain a credit rating that is an investment grade rating by the end of the Change of Control Period;

a **“non-investment grade rating”** shall mean, in relation to S&P, a rating of BB+ or below, in relation to Moody’s, a rating of Ba1 or below, in relation to Fitch, a rating of BB+ or below (provided that, if the rating designations employed by a Rating Agency are changed from those referred to above, the Issuer shall determine, and promptly notify the Bondholders of the same in accordance with these Conditions, the rating designations of such Rating Agency as are most equivalent to the prior rating designations of such Rating Agency and these Conditions shall, on and from the date of such notice to the Bondholders, be read

accordingly) and, in the case of any other Rating Agency, a comparable rating from that Rating Agency.

“Put Price” means, in respect of a Bond, the principal amount of such Bond then outstanding.

“Rating Agency” means S&P Global Ratings Europe Limited (**“S&P”**), Fitch Ratings Ltd (**“Fitch”**) or Moody’s Investors Service Ltd (**“Moody’s”**), or any of their respective successors, or any other rating agency of international standing notified by the Issuer to the Bondholders from time to time in accordance with these Conditions.

“Relevant Announcement Date” means the date that is the earlier of (i) the date of the first public announcement of the relevant Change of Control, and (ii) the date of the earliest Relevant Potential Change of Control Announcement (if any).

“Relevant Potential Change of Control Announcement” means any public announcement or statement by the Issuer, any actual or potential bidder or any adviser acting on behalf of any actual or potential bidder relating to any potential Change of Control where within 180 days following the date of such announcement or statement, a Change of Control occurs.

“Triggering Event” means the occurrence of a Change of Control Put Event or a Disposal Event.

“Trust UK” means the trust established for the purpose of implementing the Group’s nationality structure for British Airways plc and in respect of which LDC (NCS) Limited, a wholly-owned subsidiary of The Law Debenture Corporation p.l.c., acts as trustee (as may be replaced from time to time).

(h) *Notice of Triggering Event*

Within 14 calendar days following the occurrence of a Triggering Event, the Issuer shall give notice thereof to the Bondholders in accordance with Condition 13 (*Notices*). Such notice shall contain a statement informing Bondholders of their entitlement to exercise their rights to require redemption of their Bonds pursuant to Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*).

Such notice shall also specify:

- (a) all information material to Bondholders concerning the Triggering Event;
- (b) the last day of the Put Period;
- (c) the Put Date; and
- (d) the Put Price.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem all Bonds the subject of Put Exercise Notices delivered as aforesaid on the relevant Put Date.

(i) *Purchase*

Subject to the requirements (if any) of any stock exchange on which the Bonds may be admitted to listing and trading at the relevant time and subject to compliance with applicable laws and regulations, the Issuer or any other member of the Group may at any time purchase any Bonds in the open market or otherwise at any price. The Bonds so purchased, while held by or on behalf of the Issuer or any such member of the Group, shall not entitle the holder to vote at any meetings of the Bondholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of the Bondholders or for the purposes of Condition 12(a) (*Bondholder Meetings*). Such Bonds may be held, re-sold or reissued or, at the option of the relevant purchaser, surrendered to any Paying and Transfer Agent for cancellation.

(j) *Cancellation*

All Bonds which are redeemed will be cancelled and may not be reissued or resold. Certificates representing Bonds purchased by the Issuer or any other member of the Group may be surrendered to the Principal Paying and Transfer Agent for cancellation and, if so surrendered, the relevant Bonds shall be cancelled.

(k) *Multiple Notices*

If more than one notice of redemption is given pursuant to this Condition 6 (*Redemption and Purchase*), the first of such notices to be given shall prevail.

7. **Payments**

(a) *Principal and Interest*

Payment of principal in respect of the Bonds and accrued interest payable on a redemption of the Bonds will be made to the persons shown in the Register at the close of business on the Record Date and subject to the surrender (or, in the case of partial payment only, endorsement) of the certificates representing relevant Bonds at the specified offices of the Registrar or of any of the Paying and Transfer Agents.

(b) *Other Amounts*

- (i) Subject to Condition 7(a) (*Principal and Interest*), payments of interest due on an Interest Payment Date will be made to the persons shown in the Register at close of business on the Record Date.
- (ii) Payments of all amounts other than as provided in Condition 7(a) (*Principal and Interest*) will be made as provided in these Conditions.

(c) *Record Date*

“**Record Date**” means the fifth Business Day, in the place of the specified office of the Registrar, before the due date for the relevant payment.

(d) *Payments*

Each payment in respect of the Bonds pursuant to Condition 7(a) (*Principal and Interest*) and 7(b) (*Other Amounts*) will be made by transfer to a euro account maintained by the payee with a bank in a city in which banks have access to the TARGET System.

(e) *Payments subject to fiscal laws*

Without prejudice to the provisions of Condition 8 (*Taxation*), all payments are subject in all cases to any applicable fiscal or other laws, regulations and directives in any jurisdiction (whether by operation of law or agreement of the Issuer or its agents). For the purposes of the preceding sentence, the phrase “fiscal or other laws, regulations and directives” shall include, without limitation, any withholding or deduction imposed or required by FATCA. No commission or expenses shall be charged to the Bondholders in respect of such payments.

(f) *Delay in payment*

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due as a result of the due date not being a TARGET Business Day or if the Bondholder is late in surrendering the certificate representing the relevant Bond (where such surrender is required pursuant to these Conditions as a precondition to any payment).

(g) *Paying and Transfer Agents, etc.*

In acting under the Fiscal Agency Agreement and in connection with the Bonds, the Paying and Transfer Agents and the Registrar act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Bondholders.

The initial Paying and Transfer Agents and the Registrar and their initial specified offices are listed below. The Issuer reserves the right under the Fiscal Agency Agreement at any time to vary or terminate the appointment of any Paying and Transfer Agent and/or the Registrar and appoint additional or other paying and transfer agents and/or appoint another registrar, provided that it will: (i) at all times maintain a fiscal agent and a registrar and (ii) if and for so long as the Bonds are, at the request of the Issuer, admitted to trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a paying and transfer agent in any particular place, maintain a paying and transfer agent having its specified office in the place required by such competent authority, stock exchange and/or quotation system. Notice of any change in the Paying and Transfer Agents and/or the Registrar or their specified

offices will promptly be given by the Issuer to the Bondholders in accordance with Condition 13 (*Notices*).

(h) *No charges*

None of the Paying and Transfer Agents shall make or impose on a Bondholder any charge or commission in relation to any payment in respect of the Bonds.

(i) *Fractions*

When making payments to Bondholders, if the relevant payment is not of an amount that is a whole multiple of the smallest unit of the relevant currency in which such payment is to be made, such payment will be rounded down to the nearest unit.

8. **Taxation**

All payments of principal and interest by or on behalf of the Issuer in respect of the Bonds shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom of Spain or any authority therein or thereof having the power to tax, unless such withholding or deduction is required by law.

In the event a withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature is finally imposed, levied, collected, withheld or assessed by or on behalf of the Kingdom of Spain or any authority therein or thereof having the power to tax being made by the Issuer in respect of a payment made by it, the Issuer shall pay such additional amounts as will result in the receipt by the holders of the Bonds, after any withholding or deduction for or on account of such taxes, duties, assessments or charges, of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Bond:

- (a) held by (or by a third party on behalf of) a holder of such Bond where such withholding or deduction is required by reason of the holder having some connection (whether past or present) with the Kingdom of Spain other than: (i) the mere holding of such Bond; or (ii) the receipt of principal, interest or any other amount in respect of such Bond; or
- (b) held by (or by a third party on behalf of) a holder of such Bond who could lawfully avoid (but has not so avoided) such withholding or deduction by making any statutory declaration concerning the nationality, residence or identity of the holder (or providing information, documentation or other evidence of the same) or other similar claim for exemption to the relevant tax authority or to (or on behalf of) the Issuer, where such declaration, provision or claim is required or imposed by Spanish tax regulations; or
- (c) where such withholding or deduction is imposed on payments made to individuals with tax residence in the Kingdom of Spain following the criteria applied by the

Spanish tax authorities in relation to Article 44.5, Royal Decree 1065/2007 of 27 July, as amended by Royal Decree 1145/2011 of 29 July; or

- (d) for or on account of any withholding or deduction arising under or in connection with FATCA.

9. Events of Default

If any of the events listed in paragraphs (a) to (j) of this Condition 9 (*Events of Default*) (each, an “**Event of Default**”) occurs, the holder of any Bond may give written notice to the Issuer and the Fiscal Agent at its specified office that such Bond is immediately repayable, whereupon such Bond shall become immediately due and repayable at its principal amount together with accrued interest as provided in these Conditions, without further formality.

The said events are that:

- (a) there is default for more than 15 days in the payment of any interest due in respect of the Bonds or if there is default for more than seven days in the payment of any principal due in respect of the Bonds;
- (b) there is default in the performance or observance by the Issuer of any obligation or provision under the Bonds (other than any obligation for the payment of any principal or interest in respect of the Bonds) which continues for more than 45 days after written notice thereof shall have been given to the Issuer by any Bondholder;
- (c) as a result of default by the Issuer or British Airways plc (other than a default arising due to compliance by the Issuer or, as the case may be, British Airways plc with any applicable law or directive or with any requirement, whether having the force of law or not, of any government or regulatory authority to which the Issuer or, as the case may be, British Airways plc is subject, unless such default results in the Issuer or, as the case may be, British Airways plc becoming bound to repay prematurely any of its indebtedness for borrowed moneys as described in (i) below (not being that in respect of which the default has occurred) and steps are taken to obtain repayment thereof):
 - (i) the Issuer or, as the case may be, British Airways plc becomes bound to repay prematurely any of its indebtedness for borrowed moneys and steps are taken to obtain repayment thereof; and/or
 - (ii) any such indebtedness for borrowed moneys or any guarantee or indemnity of the Issuer or, as the case may be, British Airways plc of any indebtedness for borrowed moneys of any person is not, when due, called or demanded, repaid or paid by the latest of its due date, the expiry of any applicable grace period and (if payment is prevented by any applicable law) 15 days after the first date on which payment is permitted,

provided that any such acceleration of maturity, default or failure to pay under this Condition 9(c), as the case may be, shall not constitute an event upon the

happening of which the outstanding Bonds may (subject as mentioned above) become immediately due and repayable so long as such indebtedness, guarantee or indemnity to which (i) and/or (ii) above applies, either alone or in aggregate, shall amount to an outstanding aggregate principal amount of not more than €100,000,000 or its equivalent in any other currency or currencies;

- (d) a resolution is passed, or a final order of a court in the Kingdom of Spain (in the case of the Issuer) or England and Wales (in the case of British Airways plc) is made, or an order of a court of competent jurisdiction outside the Kingdom of Spain or England and Wales (as the case may be) is made and, where possible, not discharged or stayed within a period of 60 days, that the Issuer or British Airways plc be wound up or dissolved, otherwise than for the purposes of a restructuring, amalgamation or merger the terms of which have previously been approved by an Extraordinary Resolution of the Bondholders;
- (e) an encumbrancer or secured party 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 Issuer or British Airways plc or an administration order is made in relation to the Issuer or British Airways plc and such taking of possession, appointment or order is not released, discharged or cancelled within 60 days;
- (f) 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 Issuer or British Airways plc and is not discharged, dismissed or stayed within 60 days thereof;
- (g) the Issuer (otherwise than for the purposes of a restructuring, amalgamation or merger the terms of which have previously been approved by an Extraordinary Resolution of the Bondholders) ceases or threatens to cease to carry on all or substantially all of its business;
- (h) the Issuer 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;
- (i) one or more judgment(s) or order(s) (which is not being disputed in good faith by appropriate proceedings) for the payment of any amount is rendered against the Issuer or British Airways plc and continue(s) unsatisfied and unstayed for a period of 60 days after the date(s) thereof, or, if later, the date therein specified for payment; or
- (j) if any event occurs in respect of the Issuer or British Airways plc which, under the laws of the Kingdom of Spain, has or may have an analogous effect to any of the events referred to in paragraphs (d) to (i) above.

10. Prescription

Claims in respect of principal and interest will become void unless presentation for payment is made as required by Condition 7 (*Payments*) within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

Claims in respect of any other amounts payable in respect of the Bonds shall be prescribed and become void unless made within 10 years following the due date for payment thereof.

11. Replacement of Bonds

If any Bond is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of any Paying and Transfer Agent subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Bonds must be surrendered before replacements will be issued.

12. Bondholder Meetings, Modification and Waiver

(a) *Bondholder Meetings*

The Fiscal Agency Agreement contains provisions for convening meetings of the Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Bonds or any of the provisions of the Fiscal Agency Agreement. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by Bondholders holding not less than 10 per cent. in principal amount of the Bonds for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than 50 per cent. in principal amount of the Bonds for the time being outstanding, or at any adjourned meeting one or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Bonds (including modifying the date of maturity of the Bonds or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Bonds or altering the currency of payment of the Bonds), the quorum shall be one or more persons holding or representing not less than two-thirds in principal amount of the Bonds for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in principal amount of the Bonds for the time being outstanding.

The Fiscal Agency Agreement provides that: (i) a resolution passed at a meeting duly convened and held in accordance with the Fiscal Agency Agreement by a majority consisting of not less than 75 per cent. of the votes cast on such resolution; (ii) a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in principal amount of the Bonds for the time being

outstanding; or (iii) consent given by way of electronic consents through the relevant clearing system(s) (in a form satisfactory to the Fiscal Agent) by or on behalf of the holders of not less than 75 per cent. in principal amount of the Bonds for the time being outstanding, shall, in each case, be effective as an Extraordinary Resolution of the Bondholders. Any resolution passed by the Bondholders will be binding on all the Bondholders, whether or not they are present at any meeting and whether or not they voted on the resolution.

(b) *Modification of Fiscal Agency Agreement*

The Issuer shall only permit any modification, waiver or authorisation of any breach or proposed breach or any failure to comply with the Fiscal Agency Agreement if to do so could not reasonably be expected to be prejudicial to the interests of the Bondholders.

(c) *Notification to the Bondholders*

Any modification, waiver or authorisation in accordance with this Condition 12 (*Bondholder Meetings, Modification and Waiver*) shall be binding on the Bondholders and shall be notified by the Issuer to the Bondholders as soon as practicable thereafter in accordance with Condition 13 (*Notices*).

13. Notices

Notices to Bondholders shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses in the Register or, if such publication is not practicable, in a leading English language newspaper having general circulation in Europe, or (for so long as the Bonds are listed and admitted to trading on Euronext Dublin) via the Companies Announcement Office of Euronext Dublin. The Issuer shall also ensure that all notices are duly published in a manner which complies with the applicable rules and regulations of any stock exchange, multilateral trading facility or other relevant authority on which the Bonds are for the time being listed at the request of the Issuer. Any such notice shall be deemed to have been given on the second Business Day after the date of mailing or, if such notices are published in a newspaper or via the Companies Announcement Office (as contemplated above), on the date of such publication (provided that if the Issuer is required to publish notices to Bondholders in more than one newspaper or in more than one manner, any such notice shall be deemed to have been given on the date of the first such publication in each required manner).

Notices to be given by any Bondholder shall be in writing and given by lodging the same, together (in the case of any Bond in definitive form) with the relevant Bond, with any Paying and Transfer Agent.

14. Spanish Capital Companies Act

In compliance with Condition 18(a) (*Governing Law*) a holder of Bonds:

- (a) will not benefit from any right as a holder of Bonds arising from Article 411 of the Spanish Capital Companies Act; and

- (b) will be deemed to have irrevocably instructed the Fiscal Agent to take any action and/or to sign or execute and deliver any documents or notices that may be necessary or desirable to comply with, and give effect to, paragraph (a) hereof.

15. Further Issues

The Issuer may from time to time without the consent of the Bondholders create and issue further securities, either having the same terms and conditions as the Bonds in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the Bonds or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Bonds include (unless the context requires otherwise) any other securities issued pursuant to this Condition 15 (*Further Issues*) and forming a single series with the Bonds.

16. Currency Indemnity

Euro is the sole currency of account and payment for all sums payable by the Issuer under or in connection with the Bonds, including damages. Any amount received or recovered in a currency other than euro (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or otherwise) by any Bondholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the euro amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that euro amount is less than the euro amount expressed to be due to the recipient under any Bond, the Issuer shall indemnify it against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase. For the purposes of this Condition 16 (*Currency Indemnity*), it will be sufficient for the Bondholder to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Bondholder and shall continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Bond or any other judgment or order.

17. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds under the Contracts (Rights of Third Parties) Act 1999.

18. Governing Law and Jurisdiction

- (a) *Governing Law*

The Fiscal Agency Agreement and the Bonds and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law. The status of the Bonds as described in

Condition 1(c) (*Status*) is governed by, and shall be construed in accordance with, Spanish law.

(b) *Jurisdiction*

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Bonds and accordingly any legal action or proceedings arising out of or in connection the Bonds (“**Proceedings**”) may be brought in such courts. The Issuer irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each of the Bondholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) *Agent for Service of Process*

The Issuer has appointed International Consolidated Airlines Group, S.A. at its branch office for the time being, currently at Waterside (HAA2), PO Box 265, Harmondsworth, Middlesex, UB7 0GB, as its agent in England to receive service of process of any Proceedings in England. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Bondholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

OVERVIEW OF PROVISIONS RELATING TO THE BONDS WHILE REPRESENTED BY THE GLOBAL BOND

The following is an overview of the provisions to be contained in the Fiscal Agency Agreement and in the relevant Global Bond which will apply to, and in some cases modify the effect of, the Conditions while the Bonds are represented by the relevant Global Bond

Initial Issue of Global Bond

Each Global Bond will be registered in the name of a nominee for a Common Safekeeper for Euroclear and Clearstream, Luxembourg and may be delivered on or prior to the Issue Date.

Upon the registration of the relevant Global Bond in the name of a nominee for the Common Safekeeper for Euroclear and Clearstream, Luxembourg and delivery of the relevant Global Bond to the Common Safekeeper, Euroclear or Clearstream, Luxembourg will credit each subscriber with a principal amount of Bonds equal to the principal amount thereof for which it has subscribed and paid.

The Bonds are intended to be held in a manner which will allow for Eurosystem eligibility.

Depositing the relevant Global Bond with the Common Safekeeper does not necessarily mean that the Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the European Central Bank being satisfied that Eurosystem eligibility criteria have been met.

Relationship of account holders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other clearing system (an “**Alternative Clearing System**”) as the holder of a Bond represented by the relevant Global Bond (an “**account holder**”) must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his or her share of each payment made by the Issuer to the holder of the relevant Global Bond and in relation to all other rights arising under the relevant Global Bond, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg, or such Alternative Clearing System (as the case may be). Subject as provided below, such persons shall have no claim directly against the Issuer in respect of payments due on the Bonds for so long as the Bonds are represented by the relevant Global Bond and such obligations of the Issuer will be discharged by payment to the holder of the relevant Global Bond in respect of each amount so paid.

Exchange of the Global Bond for Definitive Registered Bonds

Each Global Bond will become exchangeable in whole but not in part (free of charge to the Bondholder) for Definitive Registered Bonds if the relevant Global Bond is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system:

- (i) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise); or

- (ii) announces an intention permanently to cease business or does in fact do so,

by the Bondholder giving notice to the Issuer of its intention to exchange the relevant Global Bond for Definitive Registered Bonds on or after the Exchange Date specified in the notice. On or after the Exchange Date, the holder of the relevant Global Bond will surrender the relevant Global Bond to or to the order of the Registrar. In exchange for the relevant Global Bond, the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Registered Bonds printed in accordance with any applicable legal and stock exchange requirements to such persons or entities as the holder of the relevant Global Bond shall direct. For such purpose, “**Exchange Date**” means a day falling not less than 60 days after that on which the notice requiring exchange of the relevant Global Bond for Definitive Registered Bonds is given in accordance with the terms of the relevant Global Bond and on which banks are open for business in the city in which the specified office of the Registrar is located and in the cities in which Euroclear and Clearstream, Luxembourg or, if relevant, the Alternative Clearing System are located.

Conditions applicable to the Global Bond

Each Global Bond will contain provisions which modify the Conditions as they apply to the relevant Global Bond. The following is a summary of certain of those provisions:

Payments: all payments in respect of Bonds represented by a Global Bond will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the record date which (notwithstanding Condition 7) shall be on the Clearing System Business Day immediately prior to the date for payment, where “**Clearing System Business Day**” means Monday to Friday inclusive except 25 December and 1 January.

Notices: for so long as the Bonds are represented by the relevant Global Bond and such Global Bond is held on behalf of Euroclear, Clearstream, Luxembourg or an Alternative Clearing System, notices may be given to the Bondholders by delivery of the relevant notice to Euroclear, Clearstream, Luxembourg and/or such Alternative Clearing System (as applicable) for communication to their respective account holders in substitution for publication as required by the Conditions provided that, for so long as the Bonds are listed on the Regulated Market of Euronext Dublin or on any other stock exchange, notices will also be given in accordance with any applicable requirements of such stock exchange. Any notice shall be deemed to have been given on the date of delivery or publication which, in the case of communication through Euroclear, Clearstream, Luxembourg or an Alternative Clearing System, shall mean the date on which the notice is delivered to Euroclear, Clearstream, Luxembourg or such Alternative Clearing System (as the case may be).

For so long as all of the Bonds are represented by the relevant Global Bond and the relevant Global Bond is held on behalf of Euroclear, Clearstream, Luxembourg and/or an Alternative Clearing System, an account holder may give notice to the Issuer in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg and/or the Alternative Clearing System (which may include notice being given on his or her instructions by Euroclear, Clearstream, Luxembourg, the Alternative Clearing System or any common safekeeper for them to the Issuer or the Fiscal Agent (on behalf of the Issuer) by electronic means).

Prescription: claims in respect of principal, interest and other amounts payable in respect of the relevant Global Bond will become void unless it is presented for payment within a period of 10

years (in the case of principal) and five years (in the case of interest or any other amounts) from the appropriate Relevant Date (as defined in Condition 3 (*Definitions*)).

Meetings: the holder of the relevant Global Bond shall be treated as one person for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each €1,000 principal amount of Bonds for which the relevant Global Bond may be exchanged.

Events of Default: from time to time, the Bonds represented by the relevant Global Bond may be declared due and payable following an Event of Default in accordance with the Conditions by stating in a notice from the relevant Bondholder given to the Issuer the principal amount of Bonds to which any such notice relates.

If either (i) principal in respect of any Bonds is not paid when due and payable and, as a result thereof, an Event of Default occurs, as defined in Condition 9 (*Events of Default*) or (ii) the Issuer fails to deliver, or procure the delivery of, an aggregate principal amount of duly executed and authenticated Definitive Registered Bonds in exchange for the relevant Global Bond surrendered in accordance with the terms of such Global Bond, each account holder shall acquire against the Issuer, upon reduction of the Bonds represented by the relevant Global Bond by endorsement of an amount represented by such account holder's interest in the relevant Global Bond and entry in the Register of the relevant account holder's name and the principal amount represented by such account holder's interest in the relevant Global Bond, all rights which the relevant account holder would have had if, immediately before such non-payment of principal or such failure to deliver Definitive Registered Bonds (as applicable), it had been the holder of Definitive Registered Bonds in registered form issued on the Issue Date in an aggregate principal amount equal to such account holders interest in the relevant Global Bond.

Redemption at the Option of Bondholders: the option of the Bondholders provided for in Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*) may be exercised by the holder of any account holder giving notice to the Issuer within the time limits set out in Condition 6(g) (*Redemption at the option of Bondholders following a Triggering Event*), in accordance with the standard procedures for Euroclear and/or Clearstream, Luxembourg and/or any Alternative Clearing System (which may include notice being given on such account holder's instructions by Euroclear and/or Clearstream, Luxembourg and/or any Alternative Clearing System or any common safekeeper for them to the Issuer or the Fiscal Agent (on behalf of the Issuer) by electronic means) and in a form acceptable to Euroclear and/or Clearstream, Luxembourg and/or any Alternative Clearing System, stating the principal amount of the Bonds in respect of which the option is exercised.

USE OF PROCEEDS

The proceeds of the Bonds will be used by the Issuer for its general corporate purposes, (including but not limited to: (i) strengthening the Group's balance sheet and increasing the Group's overall liquidity position; (ii) helping the Group withstand a more prolonged downturn in air travel; and (iii) providing the Group with the operational and strategic flexibility to take advantage of a recovery in demand for air travel).

ALTERNATIVE PERFORMANCE MEASURES

The Issuer considers that the following metrics (which are set out below along with their reconciliation, to the extent that such information is not defined according to IFRS) referenced in or in connection with this Prospectus constitute Alternative Performance Measures (“APMs”) as defined in the ESMA Guidelines on Alternative Performance Measures published on 5 October 2015 by the European Securities and Markets Authority and which came into force on 3 July 2016. The Issuer considers that the APMs contained in this Prospectus comply with the ESMA Guidelines on Alternative Performance Measures. The APMs are calculated based on the Issuer’s or, as the case may be, the relevant IAG Airline’s annual reports and accounts.

The Issuer believes that these measures provide useful supplementary information to investors to enhance their understanding of the Issuer’s and the Group’s financial performance. However, investors should note that, since not all companies calculate financial measures, such as the APMs presented by the Issuer in this Prospectus, in the same manner, these are not always directly comparable to performance metrics used by other companies. Additionally, the APMs presented by the Issuer in this Prospectus are unaudited and have not been prepared in accordance with IFRS or any other accounting standards. Such APMs must be considered only in addition to, and not as a substitute for, or superior to, financial information prepared in accordance with IFRS and investors are advised to review these APMs in conjunction with the consolidated financial statements of the Issuer as of and for the years ended 31 December 2020 and 31 December 2019.

The Group has not adjusted its APMs policy for the impact of COVID-19. However, under the existing exceptional items definition, certain costs arising from the impact of COVID-19 have been classified as exceptional items.

During 2020, the Group has made two changes to its disclosures and treatment of APMs compared with those disclosed in the Annual Report and Accounts 2019:

- (Loss)/profit after tax before exceptional items – For the year to December 31, 2019, the Group presented exceptional items on the face of the Income statement using a three column approach to reflect the results of the Group on a pre and post exceptional basis to enable users to better understand the performance of the Group. During 2020, following the consideration of regulatory guidance, the Group has re-presented the Income statement to reflect a single column approach. Accordingly, for 2020, exceptional items and the associated narrative in the consolidated financial statements have been incorporated into this APM section of the consolidated financial statements. This disclosure has further been disaggregated by reportable operating segment to enable a greater understanding of the performance of each of the reportable operating segments of the Group; and
- Pro forma financial information - The Group adopted IFRS 16 'Leases' on January 1, 2019 and applied the modified retrospective transition approach. In doing so, the comparative figures for 2018 were not restated. Accordingly, to provide a consistent basis for comparison with 2019, the Group introduced Pro forma financial information for 2018. As comparative figures for 2018 are no longer required, this pro forma information is no longer required.

Operating profit before exceptional items and operating margin

Operating profit before exceptional items is the Group's or, as the case may be, the relevant IAG Airline's, operating result before the deduction of exceptional items.

Operating margin is the operating result before exceptional items as a percentage of total revenue. Operating margins are much less meaningful than in previous years, given the significant impact of COVID-19, but are included for completeness.

Group

€ million	2020	2019
Operating (loss)/profit before exceptional items	(4,365)	3,285
Total revenue before exceptional items	7,868	25,506
Operating margin	(55.5%)	12.9%

British Airways

£ million	2020	2019
Operating (loss)/profit before exceptional items	(2,327)	1,921
Total revenue before exceptional items	4,001	13,290
Operating margin	(58.2%)	14.5%

Iberia

€ million	2020	2019
Operating (loss)/profit before exceptional items	(759)	497
Total revenue before exceptional items	2,259	5,645
Operating margin	(33.6%)	8.8%

Vueling

€ million	2020	2019
Operating (loss)/profit before exceptional items	(623)	240
Total revenue before exceptional items	574	2,455
Operating margin	(108.5%)	9.8%

Aer Lingus

€ million	2020	2019
Operating (loss)/profit before exceptional items	(361)	276
Total revenue before exceptional items	470	2,125
Operating margin	(76.8%)	13.0%

EBITDA

EBITDA is defined as operating profit before exceptional items, interest, taxation, depreciation, amortisation and impairment.

Group

€ million	2020	2019
Operating (loss)/profit	(7,426)	2,613
Add: Exceptional items	3,061	672
Add: Depreciation, amortisation and impairment	2,099	2,111
EBITDA	(2,266)	5,396

British Airways

£ million	2020	2019
Operating (loss)/profit	(3,880)	1,338
Add: Exceptional items	1,553	583
Add: Depreciation, amortisation and impairment	1,076	1,106
EBITDA	(1,251)	3,027

Iberia

€ million	2020	2019
Operating (loss)/profit	(1,411)	497
Add: Exceptional items	652	-
Add: Depreciation, amortisation and impairment	370	390
EBITDA	(389)	887

Vueling

€ million	2020	2019
Operating (loss)/profit	(875)	240

Add: Exceptional items	252	-
Add: Depreciation, amortisation and impairment	277	250
EBITDA	(346)	490

<i>Aer Lingus</i>		
€ million	2020	2019
Operating (loss)/profit	(563)	276
Add: Exceptional items	202	-
Add: Depreciation, amortisation and impairment	133	130
EBITDA	(228)	406

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. 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. RoIC has not been included for the main airline operating companies, as with negative EBITDA the measure is less meaningful than in prior years. It has been included for the Group for completeness.

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.

<i>Group</i>		
€ million	2020	2019
EBITDA	(2,266)	5,396
Less: Fleet depreciation multiplied by inflation adjustment	(1,921)	(2,040)
Less: Other property, plant and equipment depreciation	(258)	(259)
Less: Software intangible amortisation	(151)	(131)
	(4,596)	2,966
Invested capital		
Average fleet value	16,020	15,598
Less: average progress payments	(1,117)	(1,297)
Fleet book value less progress payments	14,903	14,301
<i>Inflation adjustment</i>	1.18	1.19
	17,520	17,065
Average net book value of other property, plant and equipment	2,329	2,448

Average net book value of software intangible assets	652	603
Total invested capital	20,501	20,116
Return on invested capital	(22.4)%	14.7%

Net debt to EBITDA

To supplement total borrowings as presented in accordance with IFRS, the Group reviews 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 current interest-bearing deposits.

Net debt to EBITDA has not been included for the main airline operating companies, as with negative EBITDA the measure is less meaningful than in prior years. It has been included for the Group for completeness.

Group

€ million	2020	2019
Interest-bearing long-term borrowings	15,679	14,254
Less: Cash and cash equivalents	(5,774)	(4,062)
Less: Current interest-bearing deposits	(143)	(2,621)
Net debt	9,762	7,571
EBITDA	(2,266)	5,396
Net debt to EBITDA	(4.3)	1.4

Levered free cash flow

Levered free cash flow represents the cash generated by 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 Current interest-bearing deposits, less the cash inflows from the rights issue 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.

Group

€ million	2020	2019
Net increase in cash and cash equivalents	1,940	85
Less: (Decrease)/increase in current interest-bearing deposits	(2,366)	103
Less: Net proceeds from rights issue	(2,674)	-
Add: Dividends paid	53	1,308
Levered free cash flow	(3,047)	1,496

DESCRIPTION OF THE ISSUER AND THE GROUP

1. OVERVIEW

The Group consists of four core airline brands, based in the UK, 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 2020, the Group had 60,612 employees (based on average manpower equivalent), primarily in the UK, Spain and Ireland. For the year ending 31 December 2020, the Group carried about 31.3 million passengers (down 73.6% against the same period in 2019), with ASKs of 113,195 million as at 31 December 2020 (a decrease of 66.5% for the same period in 2019). 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. While the outbreak of the COVID-19 pandemic has had a significant impact on the Group, as it has on airlines across the globe, the Group remains a key player in the global aviation sector.

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 Issuer is a public limited company (*sociedad anónima cotizada*) registered with the Madrid Commercial Registry (*Registro Mercantil*). The Issuer'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 2020, the Group generated total revenues, before exceptional items, of €7,868 million (down 69.2% from €25,506 million for the same period in 2019), with an operating loss of €4,365 million before exceptional items (against an operating profit before exceptional items of €3,285 million for the same period in 2019). After exceptional items of €3,061 million, comprised principally of a charge on derecognition of fuel and foreign exchange hedges and an impairment of fleet and restructuring costs, the Group made an operating loss of €7,426 for the year ended 31 December 2020. As at 31 December 2020, the Group had cash, cash equivalents and interest-bearing deposits of €5,917 million (down €766 million on 31 December 2019), with committed and undrawn general and aircraft-related facilities of €2,142 million, bringing total liquidity to €8,059 million. Including the €2.2 billion UKEF facility committed in December 2020, which was agreed in February 2021 and fully drawn in March 2021, results in pro forma liquidity of €10.3 billion.

2. DEVELOPMENT OF THE GROUP

The Issuer was incorporated on 17 December 2009. On 21 January 2011, British Airways and Iberia merged (the "**Merger**"). As a result of the Merger, the Issuer 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 the creation of Handley Page Transport and Instone Air Line in 1919. The current airline was created following the merger of British Overseas Airways Corporation, British European Airways, Cambrian Airways and Northeast Airlines in 1974. The privatisation of British Airways was completed in 1987 and it announced the formation of a new global alliance – ‘oneworld’ – which initially included Iberia, Qantas, Cathay Pacific 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 Issuer announced the proposed acquisition by the Issuer’s wholly-owned subsidiary, IB OPCO, of Air Europa from Globalia for €1,000 million to be satisfied in cash, subject to a closing accounts adjustment. In January 2021, it was announced that IB OPCO and Globalia had agreed to reduce the consideration payable for the acquisition of Air Europa by 50% to €500 million, deferred by six years from the completion date, due to the effects of the COVID-19 pandemic on Air Europa and the aviation industry generally. As discussed in section 2.9 (*Acquisition by the Group of Air Europa Líneas Aéreas, S.A.U (“Air Europa”)*) in the section of this Prospectus entitled “*Risk Factors*”, there remains a risk that the necessary regulatory approvals will not be received. If the competition approvals are granted and the acquisition successfully completes, the Group will 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. The proposed acquisition is expected to be concluded in the second half of 2021.

3. STRENGTHS AND LONG-TERM STRATEGY OF THE GROUP

3.1 Strengths

The Group has a strong track record of delivering value 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

The Group has an 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 Issuer actively engages and works collaboratively with its operating companies to drive synergies and maximise their performance. The Issuer makes decisions about capital allocations

to its airlines based on strict return criteria and exerts influence across the Group to maximise returns.

The Issuer is also responsible for setting the long-term strategy for the Group. Its independence from the operating companies allows for objective, flexible and rapid decision-making and enables the Issuer to implement a cohesive strategy to deliver the 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 Issuer (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. The Board of Directors believes that this operating model remains appropriate for the Group currently and once the COVID-19 pandemic has abated.

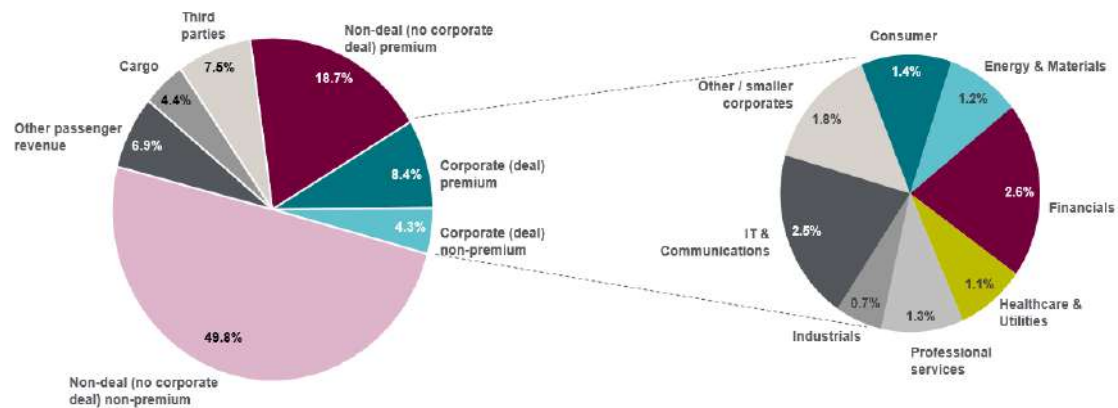
(B) Portfolio of world class brands and operations

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 Issuer 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.

Customers travel for different reasons and 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 1).

Exhibit 1: 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.



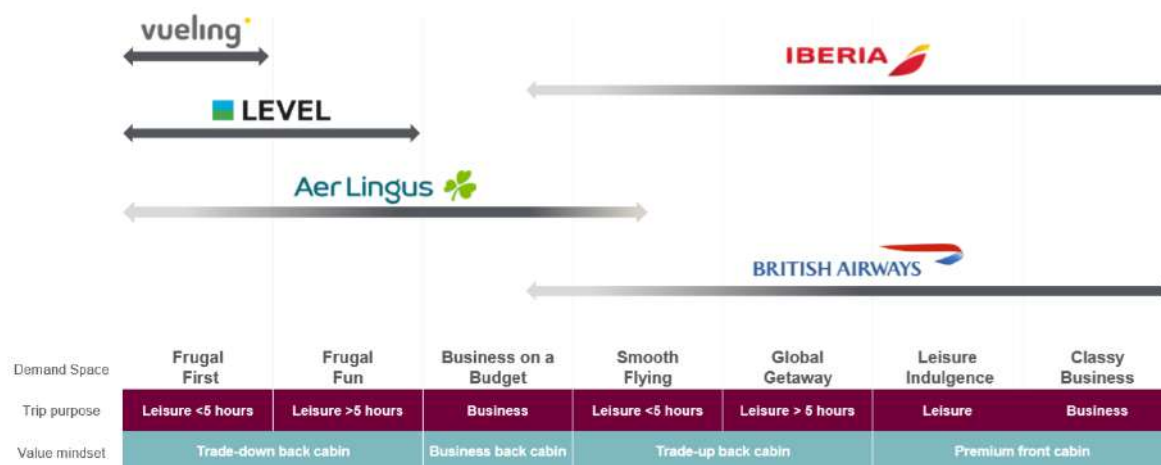
Source: Internal Group data

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 2 below and further detail on the IAG Airlines is set out in section 4.1 (*Airline operations*).

Exhibit 2: 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 contributed to improved customer satisfaction and, despite the wider impacts of the COVID-19 pandemic, the Group's Net Promoter Score (NPS) increased by 10.9 points to reach a score of 36.7 in 2020 compared to 25.8 in 2019, a record level of customer satisfaction for the Group. However, this score must be viewed in the context of the COVID-19 pandemic, which has altered customer expectations and demanded a significant change in the flying experience. The IAG Airlines have adapted the customer journey by introducing a range of reassurance measures to protect the safety and wellbeing of our customers, including revised service routines to promote social distancing, increased levels of aircraft cleaning and the provision of complimentary personal protection packs to all customers on board. The customer response to these and other reassurance measures has been overwhelmingly positive.

At the same time, the reduced flying schedule in 2020 has helped deliver improved on-time performance while the decrease in customer demand has contributed to lower load factors, both of which have historically been closely correlated with customer satisfaction.

The impact of the COVID-19 pandemic on the flying experience makes comparisons with prior and future periods challenging, however the Group's NPS performance in the first two months of 2020 (when customer demand was similar to that of the prior year) exceeded equivalent 2019 levels, suggesting a strong continuation of the positive customer satisfaction trends exhibited in recent years in the absence of the COVID-19 pandemic.

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 in section 4.9 (*Employees and Labour Relations*).

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

The IAG Airlines occupied leadership positions by revenue (in 2020 and 2019) in each of their 'home' markets: London, Madrid, Barcelona and Dublin). 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 Issuer 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.

In December 2020, the US Department of Transportation granted approval for Aer Lingus to join the Atlantic Joint Business with American Airlines, British Airways, Finnair and Iberia. While Aer Lingus is not a member of the *oneworld* alliance, the Irish carrier will cooperate with *oneworld* alliance on network planning, pricing and sales activities. The Group's leadership positions are further strengthened by a number of antitrust immunised joint businesses (the Atlantic Joint Business, the Siberian joint business with Japan Airlines and Finnair, the Qatar Airways joint business and the China Southern joint business) that enable commercial cooperation in areas such as network, code sharing and reciprocal frequent flyer benefits and strategic alliances 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 3.2(B)(ii) (*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: (i) 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; (ii) 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; (iii) 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 (iv) 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 €830 million (£754 million), a significant part of which is a pre-purchase of Avios points that American Express will utilise in the UK 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: (i) introducing the use of automated aircraft pushback devices, Mototoks, which have reduced airside emissions and fuel consumption; (ii) reaching a transformational agreement with Amadeus to distribute IAG Airlines' content via the New Distribution Capability (NDC) standard, allowing for an improved user selling experience and access to current and future personalised offers; and (iii) 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 Issuer 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 11.0% since the formation of the Group (to December 2019). As the Group undertakes restructuring measures in response to the impact of the COVID-19 pandemic, the Group continues 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 1.3(b) (*Strategic initiatives*) in the section of the this Prospectus entitled "*Risk Factors*".

(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 CO₂ emissions impact and non-CO₂ 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 4.6 (*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. 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 Issuer 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

Prior to the impact of the COVID-19 pandemic, the strengths of the Group outlined above have resulted in strong financial performance, which in turn have driven strong 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 in 2011. Within only six years of its formation, the Group demonstrated its ability to deliver sustainable 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. 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 3.2(B)(iii) (*Enhancing the Group's common integrated platform*)). It should be noted that the Group's ability to follow this approach in 2020 and 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 the section of this Prospectus entitled "*Alternative Performance Measures*") for the years ended 31 December 2019 and 2018, respectively (against an industry average (IATA) operating profit margin of 3.1% in 2019 and 4.1% in 2018). The Group did not realise an operating profit margin for the year to 31 December 2020, delivering an operating loss before exceptional items, as a result of being significantly impacted by the outbreak of COVID-19 and the subsequent effects of the pandemic on the aviation market globally. The 2020 results are not reflective of the underlying business strength or performance of the Group.

As of the end of 2019, the Issuer had long-term investment grade credit ratings assigned by S&P and Moody's. In May 2020, S&P downgraded the Issuer to BB and in September 2020, Moody's downgraded the Issuer to Ba2. On both occasions, the rating agencies cited reductions in capacity and the challenging operating environment created as a result of 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, comprised of €6.7 billion cash, cash equivalents and interest-bearing deposits and €1.9 billion of committed and undrawn general and 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 31 December 2020, the Group had a total cash liquidity position of €8.1 billion, comprising cash, cash equivalents and interest-bearing deposits of €5.92 billion and €2.14 billion of committed and undrawn general and aircraft finance 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.

(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 Aer Lingus in 2020, and has 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.

3.2 Long-term strategy

The Group leverages its strengths (as outlined in section 3.1 (*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 has reduced and deferred 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 has also made 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 31 December 2020), retiring legacy aircraft early (including 32 Boeing 747-400s 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.

Should the proposed acquisition of Air Europa successfully complete, the Group will also look to integrate Air Europa into the Group and produce cost savings from the realisation of synergies at the earliest opportunity. See “–Risk Factors–Risks Relating to the Group’s Strategy–Acquisition by the Group of Air Europa Líneas Aéreas, S.A.U (“Air Europa”)”.

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 value for its stakeholders.

(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:

(i) 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.

In the wake of the COVID-19 pandemic, the Group’s portfolio of brands focused on supporting the wider community in tackling the impacts of the pandemic. In order to aid the COVID-19 relief efforts, the Group has helped fly critical equipment and essential medical supplies across the world and each of the IAG Airlines offered repatriation flights to bring customers safely home after the introduction of COVID-19-related travel restrictions and borders closing. Each brand and operation also focused on supporting their local communities through charitable work such as volunteering at local hospitals, donating supplies and delivering care packages.

The IAG Airlines have adapted the customer journey by introducing a range of measures to support consumer confidence. With the COVID-19 pandemic resulting in variable and unpredictable travel rules, the Group’s airlines have implemented commercial reassurance measures for customers, such as extending flexible booking policies and guaranteeing flights that will operate. In addition, IAG supported the development of a COVID-19 insurance product aimed to support and protect customers against travel restrictions and health concerns. The Group has influenced and trialled industry guidelines for safe travel, such as the International Civil Aviation Organisation’s (“**ICAO**”) Council Aviation Recovery Taskforce ‘Take-off’ Guidance. IAG has also

been working with government and industry bodies to call for an effective COVID-19 testing procedure which could be used to reduce or remove quarantine requirements and enhance passenger safety onboard. In support of this, British Airways, together with its joint business partner American Airlines and the *oneworld* alliance, has trialled COVID-19 testing on routes from the US to London Heathrow Airport. All brands have also updated their customer communications to provide clear guidance on the new airport and onboard procedures, COVID-19 specific entry requirements for relevant destinations and an overview of the enhanced cleaning measures adopted by the airline.

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, 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. The Group has demonstrated its commitment to its brands by through the maintenance of its programme of cyber-related investments, despite the challenges to capital expenditure caused by the COVID-19 pandemic.

(ii) Growing sustainable global leadership positions

In 2020, the Group primarily focused on securing its financial position so that, as the industry recovers from the impact of the COVID-19 pandemic, it is well placed to maintain and bolster the existing leadership positions it holds in its home cities of Barcelona, Dublin, London, and Madrid. Despite challenging and changeable travel restrictions, the Group continually optimised its network to deploy aircraft on routes with the most demand and has worked closely with its joint business partners to ensure the relationships help support each other through the recovery and continue to provide choice and flexibility to customers.

In response to the drop in demand due to the COVID-19 pandemic, the Group took strong, decisive action to right-size its businesses, including grounding a large number of aircraft, accelerating the retirement of older less fuel-efficient aircraft and securing deferrals of future aircraft deliveries. Additionally, in October 2020, IAG successfully secured €2,740 million in funding through a capital increase which has helped strengthen the financial position of the Group's existing businesses. These actions will allow the Group to take advantage of opportunities for value accretive growth that may arise as it recovers from the pandemic.

In 2020, the Group primarily focused on securing its financial position so that, as the industry recovers from the impact of the COVID-19 pandemic, it is well-placed to maintain and bolster the existing leadership positions it holds in its home cities of Barcelona, Dublin, London, and Madrid

by managing and optimising its networks to meet demand. As the industry recovers from the impact of the COVID-19 pandemic, the Issuer will continue to review organic and inorganic growth opportunities to strengthen and maintain existing leadership positions in each of its home cities by managing and optimising its networks to meet demand.

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 “–*Strengths and Long-term Strategy of the Group–Strengths–Global leadership positions in each of its ‘home’ markets*”).

(iii) 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.

While the COVID-19 pandemic drastically reduced consumer demand, IAG’s common integrated platform helped to deliver necessary cost optimisation and improved efficiency through negotiations with third-party suppliers and also provided revenue support through its non-passenger airline businesses.

The IAG GBS procurement team helped negotiate agreements to extend supplier payables, defer deliveries, secure temporary discounts and amend payment terms, improving the Group’s cash position. In addition, the IAG GBS Finance Operations team rapidly established additional support to ensure a constant overview of working capital throughout the COVID-19 pandemic.

IAG Tech has continued its focus on enhancing new technology capabilities across the Group such as changes to the .com platforms to support bookings, improvements to contact centres and enhancements to disruption management solutions. Furthermore, IAG Tech has delivered initiatives to reduce operating costs and improve efficiency through process automation and workflow.

IAG Cargo and IAG Loyalty have experienced ongoing demand for their services despite the COVID-19 pandemic and contributed additional revenue for the Group. IAG Cargo supported the sale of additional cargo space for operation of a number of cargo-only flights. 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 €830 million (£754 million). It has also reached commercial agreements on several new partnerships, including a new banking relationship with Santander in Spain.

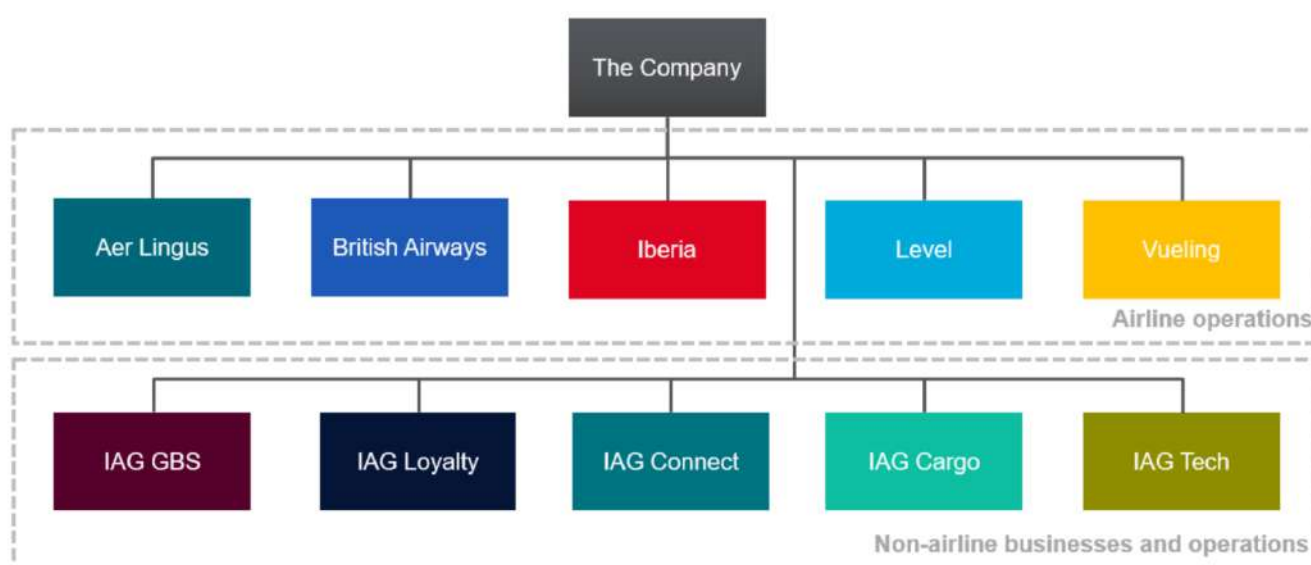
As the Group continues to undertake restructuring measures in response to the impact of the COVID-19 pandemic, it will continue to analyse these options with a view to determining whether such centralisation should be accelerated.

4. BUSINESS OVERVIEW

The Group consists of four core airline brands, based in the UK, 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. 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.

4.1 Airline operations

A significant portion 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. 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 as at 31 December 2019.

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 pre-exceptional 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 150 destinations between April and December 2020, with an in-service fleet of 277 aircraft operating as at 31 December 2020 (see section 4.3 (*Fleet*)). For the year ended 31 December 2020, British Airways carried 12.3 million passengers, a decrease of 74.3% against the same period in 2019. Its capacity, measured in ASKs, was 63,725 million as at 31 December 2020, a decrease of 65.8% compared to 31 December 2019. For the year ended 31 December 2020, British Airways generated a loss before exceptional items of £2,327 million (€2,600 million). For further detail on the impact of the COVID-19 pandemic on the Group's businesses, see "*–Risk Factors–Risks Relating to the Impact of the COVID-19 Pandemic*".

In light of the severe effects of the COVID-19 pandemic on the aviation industry, British Airways has acted decisively to ensure it can remain competitive in a structurally changed industry. To boost liquidity the airline has taken on new debt, including the issuance of Enhanced Equipment Trust Certificates to fund aircraft deliveries through 2020 and early 2021 and entry into and drawing of the UKEF Facility. Further opportunities to preserve the cash position have been implemented including management pay cuts, pilots unpaid leave, participation in the UK Coronavirus Job Retention Scheme, agreeing with HM Revenue and Customs to defer certain tax payments, the deferral of certain pension deficit payments and robust financial controls to ensure only business-critical spend is made.

In addition to temporary measures, British Airways implemented longer-term restructuring, consistent with the expected multi-year impact of COVID-19 on demand. The restructuring measures will result in reductions at British Airways of approximately 10,000 employees (or one quarter of the workforce at June 2020). The substantial majority of employees affected had left the British Airways by the end of 2020. British Airways has also introduced more flexibility in certain operational areas, in order to be able to better adjust employee numbers and cost to the level of capacity operated.

In response to the long-term impact and outlook of the COVID-19 pandemic on global aviation, British Airways is redesigning its destination network and fleet composition. The airline has retired older, less fuel-efficient aircraft, including two Airbus A318 aircraft, four Embraer E170 aircraft and its entire Boeing 747-400 fleet, as well as a number of spare engines, has resulted in a non-cash exceptional impairment charge of £399 million (€445 million) in the period. British Airways has taken delivery of new generation aircraft in 2020, including the first two Boeing 787-10s that were ordered prior to the onset of the COVID-19 pandemic. These new aircraft will help British Airways to meet the Flightpath Net Zero carbon reduction commitment, the Group's long-term goal to reach net zero CO₂ emissions by 2050. As part of the initiatives to preserve liquidity, the Group has worked with suppliers to defer aircraft deliveries and associated delivery payments.

The airline continues to operate in a time of great uncertainty, where continually changing global travel restrictions create significant challenges in network planning and scheduling. Travel to the United States, one of British Airways' key markets, from the UK has remained suspended to most travellers since March 2020. In January 2021, it was announced that all of the UK's 'travel corridors', which allowed travellers arriving in the UK from certain destinations to avoid a period of self-isolation following their arrival, would be closed. All travellers arriving into the UK must self-isolate for 10 days. From 15 February 2021, anyone permitted to enter the UK (which includes UK nationals, residents and Irish nationals) arriving from a country designated on the UK government's "red list", is required to quarantine at a government-recognised hotel facility at their own expense for a period of 10 days. Furthermore, on 22 February 2021, the UK government announced that all foreign leisure travel from the UK would remain suspended until at least 17 May 2021. Initiatives designed to replace quarantine periods and increase customer confidence to book and travel, such as pre-departure testing, air corridor and 'vaccine passport' arrangements, have not yet been fully adopted by governments, including the government of the UK. For further detail on the impact of the COVID-19 pandemic on the Group's businesses, see "Risk Factors—Risks Relating to the Impact of the COVID-19 Pandemic."

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) (section) of Part IX (Operating and Financial Review).

	2020	2019
Operating profit/(loss) before exceptional items (£m)	(2,327)	1,921
(€m)	(2,600)	2,182
ASK growth per annum	(65.8%)	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 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.

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.

For 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 83 destinations between April and December 2020, with an in-service fleet of 89 aircraft (excluding four of which were operating for LEVEL) operating as at 31 December 2020 (see section 4.3 (*Fleet*)). Consequently, in the year ended 31 December 2020, Iberia carried 6.8 million passengers, a decrease of 69.7% against the same period in 2019. Its capacity, measured in ASKs, was 25,314 million as at 31 December 2020 a decrease of 65.5% compared to 31 December 2019. For the year ended 31 December 2020, Iberia generated post-exceptional losses of €1,411 million (down from an operating profit of €497 million in the same period for 2019) and an operating loss of €759 million from continuing operations before exceptional items. For further detail on the impact of the COVID-19 pandemic on the Group's businesses, see "*Risks Relating to the Impact of the COVID-19 Pandemic*."

Iberia has actively reduced fixed costs availing itself of Spain's *Expediente de Regulacion Temporal de Empleo* scheme to reduce employee costs, negotiating deferrals in rental payments and reaching revised agreements with commercial suppliers. In May 2020, Iberia agreed a €750m syndicated five-year loan facility guaranteed by the *Instituto de Credito Oficial* ("**ICO**") providing significant additional liquidity.

	2020	2019
Operating profit/(loss) before exceptional items (€m)	(759)	497
ASK growth per annum	(65.5)%	7.6%

(C) *Vueling*

In 2019, Vueling was one of Europe's leading low-cost airlines by passenger numbers, flying to more than 100 destinations.

Vueling's main base is Barcelona with 12 million passengers (in 2019) departing annually from this base. 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.

For the year ended 31 December 2019, Vueling had an operating margin of 9.8% and carried approximately 34.6 million passengers, generating 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 74 destinations between April and December 2020, with an in-service fleet of 113 aircraft operating as at 31 December 2020 (see section 4.3 (*Fleet*)). Consequently, for the year ended 31 December 2020, Vueling carried 9.6 million passengers, a decrease of 72.1% against the same period in 2019. Its capacity, measured in ASKs, was 12,940 million as at 31 December 2020, a decrease of 66.3% compared to 31 December 2019. For the year ended 31 December 2020, Vueling generated losses of €875 million after exceptional items (down from an operating profit of €240 million for the same period in 2019) and an operating loss of €623 million from continuing operations before exceptional items. For further detail on the impact of the COVID-19 pandemic on the Group's businesses, see "*Risks Relating to the Impact of the COVID-19 Pandemic.*"

Vueling have sought to manage the impact of COVID by managing their cashflow, and their cost base, and detecting and stimulating demand where it has existed. Vueling have maximised working capital by, for example, renegotiating delivery and pre-delivery payment calendars and improving supplier and rental conditions. In May 2020, Vueling agreed a €260 million syndicated five-year loan facility guaranteed by the ICO providing significant additional liquidity. Similar to Iberia, Vueling has utilised Spain's ERTE scheme to reduce employee costs through the pandemic.

Some of Vueling's key performance measures from the last two financial years are shown below.

	2020	2019
Operating profit before exceptional items (€m)	(623)	240
ASK growth per annum	(66.3%)	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 UK, Continental Europe and North America. Aer Lingus flew to more than 70 destinations in 19 different countries as at 31 December 2019.

For the year ended 31 December 2019, Aer Lingus had an operating margin of 13.0% and carried approximately 11.6 million passengers, generating 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 42 destinations between April and December 2020, with an in-service fleet of 50 aircraft operating as at 31 December 2020 (see section 4.3 (*Fleet*)). Consequently, for the year ended 31 December 2020, Aer Lingus carried 2.1 million passengers, a decrease of 81.8% against the same period in 2019. Its capacity, measured in ASKs, was 8,741 million as at 31 December 2020, a decrease of 71.1% compared to 31 December 2019. For the year ended 31 December 2020, Aer Lingus generated losses of €563 million after exceptional items (down from an operating profit of €276 million for the same period in 2019) and an operating loss of €361

million from continuing operations before exceptional items. For further detail on the impact of the COVID-19 pandemic on the Group's businesses, see "*Risks Relating to the Impact of the COVID-19 Pandemic*."

An overview of Aer Lingus' key performance measures from the last two financial years are shown below.

	2020	2019
Operating profit before exceptional items (€m)	(361)	276
ASK growth per annum	(71.1%)	4.2%

(E) *Air Europa*

In November 2019, the Issuer 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 long-haul routes to Latin America, the United States, the Caribbean and North Africa. The acquisition, which remains subject to the completion of negotiations with *Sociedad Estatal de Participaciones Industriales* ("**SEPI**") in Spain and approval from the European Commission, would result in customers benefiting from increased choice and schedule flexibility, with more opportunities to earn and redeem air miles. For further detail on the acquisition see section 2 (*Development of the Group*).

4.2 Non-airline businesses and operations

(A) *IAG Cargo*

IAG Cargo 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. In 2020, prior to the onset of the COVID-19 pandemic, IAG Cargo transported a variety of goods to 350 destinations on 15,000 flights a week with a fleet of over 500 aircraft. By managing the airlines' cargo capacity as a unified network, IAG Cargo enables the Group to leverage its scale when transacting with freight forwarders.

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 year ended 31 December 2020 were €1,306 million (up 16.9% on the same period in 2019) but it flew 3,399 million cargo tonne kilometres, a decrease of 39.1% compared to the same period in 2019.

As passenger aircraft were grounded, IAG Cargo adapted its operating model to continue to play a crucial role in supporting global trade and the movement of essential goods. IAG Cargo established a network schedule of cargo-only flights using the Group's passenger aircraft. Utilising the most efficient aircraft in the Group's fleet, IAG Cargo identified markets most impacted by the reduction in air cargo supply, where demand would not be met by traditional

freighter services and that could support yields required to make cargo-only services financially attractive. IAG Cargo introduced flights to New York, Chicago and Toronto with a focus on ensuring cash positive contribution for the IAG Airlines and the Group. Cargo opportunities were increased by removing seats from five passenger aircraft and obtaining regulatory approvals to load cargo in the passenger cabins.

(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 Issuer.

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, for the year ended 31 December 2019, for British Airways and Iberia, approximately 34% of passenger journeys were made by programme members and approximately 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 approximately 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 approximately 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 approximately 5.5 million were active in 2020. During the financial year ended 2020, these members collected approximately 51 billion Avios and redeemed approximately 27 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.

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 €830 million (£754million), a significant part of which is a pre-purchase of Avios points that American Express will utilise in the UK and worldwide for its

British Airways co-branded cards and Membership Rewards Programme. In addition to the agreement with American Express, IAG Loyalty continued to agree new commercial relationships during 2020, including a new banking relationship in Spain with Santander.

(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. During 2020, IAG GBS focused on minimising the negative impact of the COVID-19 pandemic and drove further consolidation of the number of active suppliers from 27,033 in 2019 to 22,947 in 2020.

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 Issuer 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. During 2020 IAG Connect has continued to roll out Wi-Fi connectivity and at 31 December 2020, approximately 75% of the Group's aircraft were enabled with Wi-Fi. In January 2021, British Airways completed the rollout of Inmarsat's world leading inflight connectivity network on all its short-haul fleet. However, as a result of the COVID-19 pandemic, some IAG Connect initiatives have been put on hold.

(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.

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. IAG Tech operates with three priorities:

1) to ensure the Group's customers have a world class experience – IAG Tech led the enhancement of the .com platforms that support bookings and amendments, enabled voucher returns, implemented new communication channels such as WhatsApp, Amazon Alexa and Google voice assistant, improved disruption management, driven increased capacity in the IAG Airlines' centres and made modifications to the Group's customer relationship management solution. The safety of the Group's customers has remained a top priority as it invested in contactless technologies to make journeys more seamless, including changes at check-in, in lounges, at departure gates and on board. The Group has continued invest in systems to support boarded-passenger health data, testing and vaccination history in light of the COVID-19 pandemic;

2) to enable the Group's employees – IAG Tech enabled the switch to remote working with enhanced communication and collaboration while ensuring necessary compliance and regulatory controls remained effective. Other changes included wider deployment of automated workflow, enhanced operational planning, changes to pilot and crew systems and use of data and analytics to provide unique insights; and

3) to support the Group's financial performance – IAG Tech delivered capabilities to increase revenues, such as by driving additional ancillary sales, improving cost optimisation using robotic process automation and working with our supply chain partners to deliver a 30% reduction in operating costs of the IT and digital estate and a 25% improvement in project and product team efficiency.

While, in line with the Group's announcement on 16 March 2020 that all non-essential and non-cyber security related IT spending would be reduced in light of the COVID-19 pandemic, IAG Tech has continued to focus 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, supporting the Group in responding to the COVID-19 pandemic and related restructuring activities.

IAG Tech drives innovation, digital and agile cultures across the Group. For 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.

4.3 Fleet

As at 31 December 2020, the Group had an in-service fleet of 533 aircraft with an average age of 9.8 years (a decrease from 11.9 years in the year to 31 December 2019). 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 72 aircraft not in service as at 31 December 2020 which includes 63 impaired aircraft and 9 aircraft pending disposal.

The table below contains further detail about the Group's fleet as at 31 December 2020.

	Owned	Right of use	Total 31 December 2020	Total 31 December 2019	Changes since 31 December 2019	Future deliveries	Options
Airbus A318	-	-	-	1	(1)	-	-
Airbus A319	13	36	49	57	(8)	-	-
Airbus A320	60	172	232	254	(22)	26	76
Airbus A321	19	53	72	66	6	38	14
Airbus A330-200	2	17	19	24	(5)	-	-
Airbus A330-300	4	14	18	16	2	1	-
Airbus A340-600	-	-	-	15	(15)	-	-
Airbus A350	10	7	17	9	8	26	52
Airbus A380	2	10	12	12	-	-	-
Boeing 747-400	-	-	-	32	(32)	-	-
Boeing 777-200	36	7	43	46	(3)	-	-
Boeing 777-300	2	14	16	12	4	-	-
Boeing 777-9	-	-	-	-	-	18	24
Boeing 787-8	-	12	12	12	-	-	-
Boeing 787-9	1	17	18	18	-	-	-
Boeing 787-10	2	-	2	-	2	10	-
Embraer E170	1	-	1	6	(5)	-	-
Embraer E190	9	13	22	18	4	2	-
Group total	161	372	533	598	(65)	121	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 787, Airbus A350, Airbus A380 and the order for the Boeing 777-9.

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. 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.

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 long-haul and short-haul 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 due 2020-2022 were deferred in the year ending 31 December 2020 as the Group seeks to reduce its spending.

(A) British Airways

British Airways' in-service fleet comprised 277 aircraft as at 31 December 2020. The airline has taken delivery of 13 Airbus A320 NEO and 10 Airbus A321 NEO short-haul aircraft since deliveries started in March 2018 and will continue to modernise its short-haul fleet with a further 9 Airbus A320 NEO aircraft and 3 Airbus A321 NEO aircraft on order as at 31 December 2020. British Airways has also taken delivery of 8 Airbus A350-1000 and 32 Boeing 787 long-haul aircraft over the past five years and orders for an additional 10 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 18 Boeing B777-9 aircraft for delivery between 2024 and 2027. The acquisition of these aircraft will allow British Airways to achieve operational savings from the utilisation of more efficient and environmentally-friendly aircraft. As a result of the COVID-19 pandemic, on 17 July 2020 British Airways announced that it had brought forward the retirement of its entire fleet of 32 B747-400 aircraft. The final B747-400 in British Airways' fleet was retired on 25 October 2020.

(B) Iberia

Iberia's in-service fleet comprised 93 aircraft as at 31 December 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 9 A320 NEO aircraft and 4 A321 NEO aircraft as part of a modernisation of its short-haul fleet, as well as 8 A321 NEO XLR aircraft for future long haul growth. It has also taken delivery of 9 Airbus A350-900 long-haul aircraft since June 2018 and has a further 11 A350-900 aircraft on order as at 31 December 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 of its Airbus A340-600 aircraft.

(C) Vueling

Vueling's in-service fleet comprised 113 aircraft as at 31 December 2020. The airline currently operates an all Airbus fleet and as at 31 December 2020 has orders with Airbus for 22 aircraft

comprising 8 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' in-service fleet comprised 50 aircraft as at 31 December 2020. The airline currently also operates an all Airbus fleet and took delivery of its first of 8 new A321 NEO Long Range aircraft in 2019 with all deliveries scheduled to complete by the beginning of 2021. These new aircraft plus a further order for 6 A321XLR aircraft will be used to meet the long-haul network growth and replace previous leased Boeing B757 aircraft. Aer Lingus also took delivery of 2 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.

4.4 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 Issuer 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 EU, UK, 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) EU 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. The slot waivers, originally set to expire on 24 October 2020, have been extended in the EU until the Summer 2021 season. The rule will be modified through the summer, with airlines required to use 50% of their take-off and landing slots in order to keep them for the following year. 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.

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 Transport, Mobility and Urban Agenda, but organised as separate and independent entities among them.

AESA is primarily responsible for the operational and regulatory function and services relating to the safety, security and technical aspects of civil aviation in Spain. AESA has also 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. AESA is in charge of 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).

At the same time, the DGAC is responsible for designing aeronautical strategy and policy, and is in charge of deciding maximum airport charges at all AENA's Spanish airports. 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' aircrafts 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) UK regulation

The Civil Aviation Authority (the “**CAA**”) is responsible for overseeing and regulating air carriers in the UK. The CAA is responsible for licensing UK airlines through the issue of operating licences, route licenses and AOC, subject to the requirements of UK and retained EU 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 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 EEA or to or from a point outside the EEA 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 UK. 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.

On 24 December 2020, it was announced that the UK and the EU had reached agreement in principle on the Trade and Cooperation Agreement setting out their future relationship. The transition period ended at 23:00 GMT on 31 December 2020 and the UK left the EU aviation system. As such the UK is no longer part of EU aviation institutions. EU aviation law, as it applied to the UK on 31 December 2020, has been retained and is now part of UK domestic legislation under the EUWA. The Trade and Cooperation Agreement has governed the relationship between the UK and the EU since that time.

The Trade and Cooperation Agreement provides for a Specialised Committee on Air Transport to be established to address matters of aviation law and operations, which shall assist the governing body of the Trade and Cooperation Agreement in their approach to aviation matters. The Trade and Cooperation Agreement covers, among other things, Traffic Rights, wet leasing between UK and EU airlines without restriction, and the facilitation of recognition of UK and EU certificates,

approvals and licenses related to airworthiness of aircraft and passenger safety. In addition, the UK has signed new air services agreements with various countries to replace existing EU-wide agreements once the UK, securing market access and regulatory arrangements for the future. For further detail see “–Risk Factors–Risks Relating to Regulatory Compliance–Uncertainty around the Impact of the Withdrawal of the UK from the EU.”

(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 UK and the EU (see section 5.7 (*Data protection*)).

4.5 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 Board Committee for Safety, Environment and Corporate

Responsibility 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 Board Committee for Safety, Environment and Corporate Responsibility 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.

4.6 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 CO₂ 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 CO₂ produced must be absorbed or captured). 70 countries and 85 companies have, as of 2019, committed to 'net zero' by 2050 and the UK and France have committed to this target in law.

Transport contributes 22% of all CO₂ 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 EU’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 CO₂ being reduced per year in other sectors.

In October 2016, the 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 CO₂. 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 ICAO Council agreed to implement a safeguard adjustment to the 2021-2023 pilot phase to adjust the baseline in response to the sharp reduction in 2020 aviation operations, caused by the impact of COVID-19. The Group is committed to support the search for a global solution to climate change. The group has been lobbying for a global net zero target for aviation to be agreed at the ICAO General Assembly in 2022, allocating resources to engage with governments, trade associations, IATA and ICAO to help implement the CORSIA scheme with robust rules for monitoring and criteria for emissions reductions.

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 CO₂ 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 CO₂ 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 UK 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 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 gCO₂/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 CO₂, 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 to 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 CO₂.
- 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 CO₂ 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. For example, the Group has partnered with ZeroAvia to explore hydrogen-powered aircraft technology. 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, and its investment in a pioneering Lanzajet alcohol-to-jet-fuel plant in the USA. 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 2020 were 11.02 million tonnes, compared to 30.78 million tonnes in the year ending 31 December 2019, a

decrease of 64% which was driven by the impact of the COVID-19 pandemic. In 2020, the Group achieved flight-only emissions intensity of 106.2gCO₂/pkm, up from 89.8gCO₂/pkm in 2019. The worsening of fuel efficiency in 2020 was driven by much lower load factors. Passenger numbers dropped by 73.6% and load factors dropped 20.8 percentage points due to the COVID-19 pandemic.

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 CO₂ 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 and Vueling achieved Stage 1 certification since 2019 and are working towards Stage 2 certification, and all other IAG Airlines are progressing on Stage 1 certification in 2021.

(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.

4.7 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 UK Information Commissioner's Office in which it informed the airline of its intention to fine it approximately £183 million (€205 million) under the UK Data Protection Act. On 16 October 2020 the Issuer received a fixed penalty notice of £20 million from the Information Commissioner's Office. The penalty was significantly reduced from the initial amount of £183 million. As at the date of this Prospectus, British Airways also faces a group action privacy claim in respect of the data theft, which the Issuer does not believe will have a material impact on the Group's financial position.

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 Issuer 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 2021 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.

4.8 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 "*Risk Factors—Risks Relating to the Group's Business and Operations—Insufficient Insurance Cover*").

In the EU, 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 Issuer's liability insurance has been designed to meet the appropriate requirements of this legislation.

4.9 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.

At 31 December 2020, the average manpower equivalent was 60,612 compared to 66,034 in 2019. As at 31 December 2020, the Group employed 57,928 employees with 21% employed in a part-time capacity (as opposed to in a full-time capacity) and 97% employed in a permanent capacity (as opposed to in a temporary capacity). The decline in the number of employees employed by the Group since last year has fallen in light of the redundancy and restructuring programmes detailed in section 4.9(B) (*National wage subsidy schemes, redundancy and restructuring*). The breakdown of employees across the Group is shown in the below table.

	As at 31 December 2020	As at 31 December 2019
Cabin Crew	31%	35%
Pilots	13%	11%
Airport	25%	26%
Maintenance	11%	11%
Corporate	20%	17%

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. 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 that it anticipated reducing 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 during 2020, more than 25,000 British Airways cabin crew and ground-based employees were furloughed under the UK Coronavirus Job Retention Scheme (the "**Job Retention Scheme**"). The Job Retention Scheme is to operate until the end of September 2021.

For the period from March to July 2020, the UK Government paid 80% of wages up to a cap of £2,500 (€2,875) per calendar month for the hours an employee was on furlough, as well as

employer national insurance and pension contributions. From August 2020, the level of grant was 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 was on furlough and employers paid employer national insurance and pension contributions on the furlough pay;
- for September, the UK government paid 70% of wages up to a cap of £2,187.50 (€2,515) for the hours an employee was on furlough and employers paid employer national insurance and pension contributions on the furlough pay and topped up employees' wages to ensure they received 80% of their wages up to a cap of £2,500 (€2,875); and
- for October, the UK government paid 60% of wages up to a cap of £1,875 (€2,156) for the hours an employee was on furlough and employers paid employer national insurance and pension contributions on the furlough pay and topped up employees' wages to ensure they received 80% of their wages up to a cap of £2,500 (€2,875).

Since November 2020, the UK Government has paid 80% of wages up to a cap of £2,500 (€2,875) for the hours an employee is on furlough and employers have paid and will pay employer national insurance and pension contributions on the furlough pay.

As furloughed employees could return to work on a part-time basis from 1 July 2020, the grants and caps are reduced in proportion to the hours not worked by such employees. Employers are also required to continue to pay an employee for hours worked in the usual manner, including employer national insurance and pension contributions.

The Job Retention scheme is currently expected to be in place until the end of September 2021. In July 2021, employers will be expected to pay 10% of a furloughed worker's normal salary, rising to 20% in August and September 2021.

The Group has also accessed Spain's ERTE scheme for approximately 17,000 Iberia and Vueling employees, which provides affected employees with around 70% of their gross salaries, subject to monthly caps. Since 2021, the ERTE salaries caps have been set at €1,153 (for employees with no children), €1,318 (for employees with one child) and €1,483 (for employees with two or more children).

The Group also utilised Ireland's Temporary Wage Subsidy Scheme ("**TWSS**"), which provided up to a maximum of €410 per week of wage costs for eligible Aer Lingus employees depending on their individual average net weekly pay during 2020. The TWSS ended on 31 August 2020 and was replaced by the Employment Wage Subsidy Scheme. With effect from 20 October 2020, Aer Lingus can claim a subsidy of up to €350 per week for eligible employees in the form of a rebate of payroll costs.

The total amount of relief received by the Group under the UK and Irish schemes amounted to €344 million, and the use of ERTE prevented the Group from incurring employee costs of €214 million as at 31 December 2020.

In addition to temporary measures, both British Airways and Aer Lingus implemented longer-term restructuring, consistent with the expected multi-year impact of COVID-19 on demand. The restructuring measures will result in reductions at British Airways of approximately 10,000 employees (or one quarter of the workforce at June 2020) and 500 at Aer Lingus (or approximately 10 per cent of the workforce at June 2020). The substantial majority of employees affected had

left the Group by the end of 2020. British Airways has also introduced more flexibility in certain operational areas, in order to be able to better adjust employee numbers and cost to the level of capacity operated. In November 2020, the Unite union representing the Group's cargo handling business in the UK balloted its members for industrial action in December. An agreement was reached in January 2021 between the union and the cargo business. Iberia also made reductions in management numbers, together with restructuring related to staff outside of Spain. The total exceptional employee restructuring charges for the year included within employee costs were €319 million (comprising €313 million of employee severance pay and €6 million of associated legal costs).

4.10 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 2020 were €235 million (2019: €262 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. 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 €1,280 million in deficit payments. British Airways reached agreement with the Trustee of NAPS to defer monthly UK pension contributions that would otherwise have been due in the fourth quarter of 2020 to the value of €125 million, together with contributions of €375 million relating to the first three quarters of 2021. These payments are due to be added to the end of the schedule of deficit recovery contributions, which currently ends in March 2023. British Airways granted to the Trustee of NAPS security over certain property assets in respect of these deferred payments. British Airways has also agreed that it will not make dividend payments to IAG before the end of 2023 and, from 2024, dividends paid to IAG will be matched by a contribution to NAPS of 50 per cent. of such amounts until the deferred pension contributions have been paid in full.

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. NAPS and BARP 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.

Total payments for the year ended 31 December 2020 net of service costs were €313 million (2019: €865 million), which included payments made under transitional arrangements in the

closure of NAPS to future accrual in 2018 of €182 million and also reflects the deferral of pension deficit contributions for the final quarter of 2020. 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.

The next actuarial valuations for APS and NAPS are expected to be conducted as at 31 March 2021.

(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.

4.11 Atlantic Joint Business

In October 2010, British Airways commenced the Atlantic Joint Business with Iberia and American Airlines covering routes between North America and Europe. In July 2013, Finnair joined the Atlantic Joint Business. In September 2020, the UK Competition and Markets Authority (“**CMA**”) announced it had granted an extension to the existing Atlantic Joint Business until March 2024. In December 2020, Aer Lingus was granted antitrust immunity by US Department of Transportation to join the Atlantic Joint Business.

In 2010, following an investigation under EU competition law, the European Commission accepted commitments from the parties to the Atlantic Joint Business Agreement in relation to six routes to address potential competition concerns. These commitments were binding for ten years. On expiry of the parties’ commitments, due in 2020, the European Commission could re-assess the Atlantic Joint Business Agreement, however, as five of the six routes subject to commitments are from the UK, to prepare for the time when the European Commission may no longer have responsibility for competition law in the UK, CMA decided to review afresh the competitive impact of the Joint Atlantic Business Agreement. It launched its competition investigation into the Atlantic Joint Business Agreement on 11 October 2018 and, in line with the approach of the European Commission when it first investigated the Atlantic Joint Business Agreement during 2009 to 2010, the investigation is being conducted under the rules on agreements restrictive of competition which, for the UK, are in the Chapter I prohibition in the Competition Act 1998 and, to the extent applicable, Article 101 of the Treaty on the Functioning of the EU.

In May 2020, the CMA consulted on a new set of binding commitments offered by British Airways and American Airlines to try to resolve the CMA’s competition concerns. However, given the exceptional circumstances and uncertainty brought about by the COVID-19 pandemic, the CMA determined that it could not be confident that its assessment of competition concerns, and any remedies that might address them, would adequately reflect the post-pandemic state of competition in the longer term. It therefore decided not to accept the proposed ten-year binding commitments but instead to keep its investigation open and impose interim measures on 17

September 2020, effectively extending the terms of the 2010 commitments for an additional three years until March 2024, by which time it is expected that the airline sector should be in a more stable position. The CMA plans to complete its investigation prior to March 2024 and, if appropriate, put in place a longer-term remedy, before the interim measures expire. It will have responsibility for ensuring the ongoing implementation and enforcement of the measures during this period. As at the date hereof, no assumption can be made that the Atlantic Joint Business Agreement infringes competition law.

4.12 Legal Proceedings

Neither the Issuer nor any other member of the Group is involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer or the Group.

4.13 Recent Developments

Since 31 December 2020:

(A) *UKEF Facility*

British Airways has finalised the terms of, and has fully drawn, the UKEF Facility. As at 31 December 2020, commitments had been received but the terms of the UKEF Facility were not agreed, and accordingly the UKEF Facility was not recognised as that date. See “–*Risk Factors–Risks Relating to the Impact of the COVID-19 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*” for further details of the UKEF Facility;

(B) *Defined benefit schemes*

British Airways has deferred certain of its monthly UK pension contributions that would otherwise have been due in the fourth quarter of 2020 to the value of €125 million, together with contributions of €375 million relating to the first three quarters of 2021. See “–*Pensions–Defined benefit schemes*” in this section for further information; and

(C) *Air Europa*

In January 2021, the Issuer announced that an agreement (the “**Amendment Agreement**”) had been entered, amending the original agreement announced on 4 November 2019 under which Iberia agreed to acquire the entire issued share capital of Air Europa. Under the terms of the Amendment Agreement, the parties have agreed that the amount to be paid by Iberia for Air Europa will be reduced from an equity value of €1,000 million to €500 million with payment deferred until the sixth anniversary of completion of the acquisition. Completion is expected to occur in the second half of 2021. See “–*Description of the Issuer and the Group–Development of the Group*” and “–*Risk Factors–Risks Relating to the Group’s Strategy– Acquisition by the Group of Air Europa Líneas Aéreas, S.A.U (“Air Europa”)*” for further details.

5. DIRECTORS AND MAJOR SHAREHOLDERS

5.1 Board of Directors of the Issuer

The Issuer's Board of Directors consists of ten non-executive directors and one executive director members who are elected at the annual general meeting for a period of one year.

Details of the Issuer's Board of Directors as at the date of this Prospectus are as follows:

Name	Position	External roles	Shareholdings in the Issuer (No. of shares)
Luis Gallego	Chief Executive Officer	Member of the Board of Governors and Member of the Chair Committee, IATA	829,546
Giles Agutter	Proprietary	Chief Executive of Southern Sky Ltd., Director of JSX Airlines	625
Peggy Bruzelius	Non-Executive Director	Chair of Lancelot Holding AB, Non-executive director and Chair of the Audit Committee of Lundin Energy AB, Non-executive director and Chair of the Investment Committee of Skandia Mutual Life Insurance, Member of the Royal Academy of Engineering Sciences	0
Eva Castillo Sanz	Non-Executive Director	Non-executive director of Bankia, Non-executive director of Zardoya Otis, Member of the Council for Economy of the Holy See (Vatican), Member of the Comillas ICAI Foundation, Member of Entreculturas Foundation, Member of JAMS Foundation	0
Margaret Ewing	Non-Executive Director	Senior independent non-executive director and Chair of the Audit and Risk Committee, ConvaTec Group Plc, non-executive Director and Chair of the Audit and Risk Committee, ITV Plc	18,750
Javier Ferran	Non-Executive Director Chairman	Chairman of Diageo Plc, Senior Advisor to BlackRock Long Term Private Capital and director of investee company	774,750
Heather Ann McSharry	Non-Executive Director	Non-executive director, Chair of Remuneration Committee of CRH plc, Non-executive director, Chair of Nominations and Governance Committee of Jazz Pharmaceuticals Plc	0

Robin Phillips	Proprietary	Chairman of Development Funding Board for Pancreatic Cancer UK, Senior Advisor for Circadence Corporation (US), Board member of IR-Scientific (Canada)	0
Emilio Saracho	Non-Executive Director	Director of Altamar Capital Partners, Non-executive director of Inditex	0
Nicola Shaw	Non-Executive Director	Executive Director of National Grid plc, Director for Major Projects Association and Director of Energy Networks Association and Energy UK	4,285
Alberto Terol	Non-Executive Director	Vice Chairman, Leading Independent Director and Chairman of the Nominations, Remuneration and Corporate Governance Committee of Indra Sistemas, Director of Broseta Abogados, International Senior Advisor to Centerbridge, Non-executive Director of Schindler España, Independent Director of Varma SA, Patron of Fundación Telefonica and Executive Chairman of various family-owned companies	66,341

The business address for all members of the Board of Directors in the UK is Waterside (HAA2), PO Box 365, Speedbird Way, Harmondsworth, UB7 0GB and in Spain is El Caserío, Iberia Zona Industrial nº 2 (La Muñoza), Camino de La Muñoza, s/n, 28042, Madrid.

Interests of the Board of Directors

There are no actual or potential conflicts of interest between the duties of each member of the Board of Directors listed above to the Issuer and their private interests or other duties.

5.2 Management Committee of the Issuer¹

In addition to the Chief Executive Officer (as disclosed above), the Issuer's management committee includes the heads of the Issuer's business areas, its Chief of Staff and its General Counsel.

¹ Carolina Martinoli, Chief Culture, Talent and Sustainability Officer, will join the management committee on 1 April 2021.

Details of the Issuer's management committee as at the date of this Prospectus are as follows:

<i>Name</i>	<i>Position</i>	<i>Management roles</i>
Luis Gallego	IAG Management Committee Member	Chief Executive Officer
Stephen Gunning	IAG Management Committee Member	Chief Financial Officer
Julia Simpson	IAG Management Committee Member	Chief of Staff
Chris Haynes	IAG Management Committee Member	General Counsel
Javier Sanchez-Prieto	IAG Management Committee Member	Chairman and Chief Executive Officer of Iberia
Sean Doyle	IAG Management Committee Member	Chief Executive Officer of British Airways
Marco Sansavini	IAG Management Committee Member	Chairman and Chief Executive Officer of Vueling
Adam Daniels	IAG Management Committee Member	Chief Executive Officer of IAG Loyalty
Lynne Embleton²	IAG Management Committee Member	Chief Executive Officer of IAG Cargo
John Gibbs	IAG Management Committee Member	Chief Information Officer
Fernando Candela	IAG Management Committee Member	Chief Transformation Officer
David Podolsky	IAG Management Committee Member	Chief Strategy Officer

² Lynne Embleton has been appointed Chief Executive Officer of Aer Lingus as of 6 April 2021. Her replacement at IAG Cargo will be announced in due course.

Donal Moriarty³

IAG Management
Committee Member

Interim Chief Executive Officer of Aer
Lingus

The business address for all members of the management committee in the UK is Waterside (HAA2), PO Box 365, Speedbird Way, Harmondsworth, UB7 0GB and in Spain is El Caserío, Iberia Zona Industrial nº 2 (La Muñoza), Camino de La Muñoza, s/n, 28042, Madrid.

Interests of the Management Committee

There are no actual or potential conflicts of interest between the duties of each member of the management committee listed above to the Issuer and their private interests or other duties.

5.3 Major Shareholders of the Issuer

As at the date of this Prospectus, the Issuer's share capital, excluding shares held as treasury shares, was made up of 4,971,476,010 shares with a nominal value of €0.10 each and belonging to a single class and series. The Issuer's share capital is fully paid-up. No individual or legal entity controls the Issuer for the purposes of Article 42 of the Spanish Commercial Code (*Real Decreto de 22 de agosto de 1885, por el que se publica el Código de Comercio*). Its main shareholders as at 31 December 2020 are:

	Share capital, %
Qatar Airways (Q.C.S.C.)	25.14
Invesco Limited (owns said shares indirectly)	1.327
Lansdowne Partners International Limited (owns said shares indirectly)	1.255
Allan & Gill Gray Foundation (owns said shares indirectly)	1.100
<hr/>	
Total	28.82

5.4 Statutory Auditors

The Issuer has appointed Ernst & Young, S.L. with its registered office at C/ Raimundo Fernández Villaverde, 65, 28003, Madrid, Spain as its approved statutory auditor for the financial years commencing 1 January 2019 and 2020.

Ernst & Young, S.L. is registered in the Official Registry of Auditors (*Registro Oficial de Auditores de Cuentas*) under number S0530 and in the Madrid Commercial Registry under book 9,364, Section 3, Sheet 68, Page 87690-1051.

5.5 Financial Year

³ Donal Moriarty will continue as Interim Chief Executive Officer of Aer Lingus until 5 April 2021, after which he will resume his role as Chief Corporate Affairs Officer at Aer Lingus.

The Issuer's financial year is from 1 January to 31 December of each year. The Issuer has prepared consolidated financial statements as at and for the year ended 31 December 2019 and 2020, copies of which have been filed with Euronext Dublin and the Central Bank.

TAXATION

The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, hold or dispose of the Bonds, and does not purport to deal with the tax consequences applicable to all categories of investors, some of whom may be subject to special rules. Prospective investors who are in any doubt as to their position should consult with their own professional advisers.

Taxation in Spain

The following summary describes the main Spanish tax implications arising in connection with the acquisition, holding and disposal of the Bonds by individuals or entities who are the beneficial owners of the Bonds (the “**Bondholders**” and each a “**Bondholder**”).

This taxation summary solely addresses the principal Spanish tax consequences of the acquisition, the ownership and disposal of Bonds issued by the Issuer after the date hereof held by a holder of Bonds. It does not consider every aspect of taxation that may be relevant to a particular holder of Bonds under special circumstances or who is subject to special treatment under applicable law or to the special tax regimes applicable in the Basque Country and Navarra (*Territorios Forales*). Where in this summary English terms and expressions are used to refer to Spanish concepts, the meaning to be attributed to such terms and expressions shall be the meaning to be attributed to the equivalent Spanish concepts under Spanish tax laws. This summary assumes that each transaction with respect to the Bonds is at arm’s length.

All the tax consequences described in this section are based on the general assumption that the Bonds are initially registered for clearance and settlement in Euroclear and Clearstream, Luxembourg. Prospective purchasers of the Bonds should consult their own tax advisors as to the tax consequences, including those under the tax laws of the country of which they are resident, of purchasing, owning and disposing of Bonds.

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 the interpretation and application thereof, which could be made with retroactive effect.

1. Introduction

This information has been prepared in accordance with the following Spanish tax legislation in force at the date of this Prospectus:

- a) of general application, (i) First Additional Provision of Law 10/2014, of 26 June, on regulation, supervision and solvency of credit entities (“**Law 10/2014**”), as well as (ii) Royal Decree 1065/2007, of 27 July, approving the General Regulations of the tax inspection and management procedures and developing the common rules of the procedures to apply taxes (“**Royal Decree 1065/2007**”)
- b) for individuals resident for tax purposes in Spain who are Personal Income Tax (“**PIT**”) tax-payers, (i) Law 35/2006, of 28 November, on the PIT and on the partial amendment of the Corporate Income Tax Law, Non-Resident Income Tax Law and Wealth Tax Law (the “**PIT Law**”), and (ii) Royal Decree 439/2007, of 30 March approving the PIT Regulations which develop the PIT Law, along with (iii) Law 19/1991, of 6 June on Wealth

Tax (“**Wealth Tax Law**”), and (iv) Law 29/1987, of 18 December on Inheritance and Gift Tax (“**Inheritance and Gift Tax Law**”), as amended;

- c) for legal entities resident for tax purposes in Spain which are Corporate Income Tax (“**CIT**”) taxpayers, (i) Law 27/2014 of 27 November on Corporate Income Tax (the “**CIT Law**”), and (ii) Royal Decree 634/2015, of 10 July promulgating the CIT Regulations, as amended (the “**CIT Regulations**”); and
- d) for individuals and entities who are not resident for tax purposes in Spain which are Non-Resident Income Tax (“**NRIT**”) taxpayers, (i) Royal Legislative Decree 5/2004, of 5 March, promulgating the Consolidated Text of the NRIT Law, as amended (the “**NRIT Law**”), and (ii) Royal Decree 1776/2004, of 30 July, promulgating the NRIT Regulations, as amended along with Wealth Tax Law, and Inheritance and Gift Tax Law, as amended.

Whatever the nature and residence of the Bondholder, the acquisition and transfer of the Bonds will be exempt from indirect taxes in Spain, for example, exempt from Transfer Tax and Stamp Duty, in accordance with the consolidated text of such tax promulgated by Royal Legislative Decree 1/1993, of 24 September, and exempt from Value Added Tax, in accordance with Law 37/1992, of 28 December, regulating such tax.

2. Spanish tax resident individuals

2.1 Personal Income Tax (*Impuesto sobre la Renta de las Personas Físicas*)

Both interest periodically received and income deriving from the transfer of the Bonds constitute a return on investment obtained from the transfer of own capital to third parties in accordance with the provisions of Section 25.2 of the PIT Law, and must be included in the PIT savings taxable base of each investor and taxed, for the tax year 2021, at 19 per cent. for taxable income up to €6,000; 21 per cent. for taxable income between €6,000.01 and €50,000; 23 per cent. for taxable income between 50,000.01 and 200,000, and 26 per cent. for taxable income exceeding €200,000.

As a general rule, both types of income may be subject to the corresponding withholding tax on account of PIT, at the applicable tax rate (currently 19%).

However, article 44 of Royal Decree 1065/2007 establishes simplified information procedures applicable to debt instruments issued under Law 10/2014 under which interest payments will be paid by the Issuer to the Fiscal Agent free of withholding tax, provided that such information procedures are complied with, as described in “*Disclosure Obligations in connection with payments on the Bonds*”.

Nevertheless, withholding tax at the applicable rate (currently 19%) on interest payments may be deducted by other entities (such as depositaries or financial entities), provided that such entities are resident for tax purposes in Spain or have a permanent establishment in Spanish territory. Furthermore, in these cases, PIT taxpayers would be subject to withholding tax upon transferring the Bonds on the positive difference between the transfer price and the acquisition cost of those securities.

Amounts withheld, if any, may be credited by the relevant investors against their final PIT liability.

2.2 Wealth Tax (*Impuesto sobre el Patrimonio*)

According to Wealth Tax Law (subject to any exceptions provided under relevant legislation in each autonomous region (*Comunidad Autónoma*)), the net worth of any Spanish tax resident individuals in excess of €700,000 is subject to Wealth Tax in year 2021.

Therefore, investors who are Spanish tax resident individuals should take into account the value of the Bonds which they hold as at 31 December for the purposes of Spanish Wealth Tax, the applicable rates ranging between 0.2 per cent. and 3.5 per cent. (subject to any exceptions provided under relevant legislation in each autonomous region (*Comunidad Autónoma*)). Therefore, Spanish tax resident individuals holding Bonds should consult with their tax advisors when it comes to their specific situation.

2.3 Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)

Individuals resident in Spain for tax purposes who acquire ownership or other rights over any Bonds by inheritance, gift or legacy will be subject to the Inheritance and Gift Tax in accordance with the applicable Spanish regional or State rules (subject to any regional tax exemptions being available to them).

The applicable effective tax rates currently range between 0 per cent. (full exemption) and 81.6 per cent. (subject to any specific regional rules), depending on relevant factors.

3. Spanish tax resident legal entities

3.1 Corporate Income Tax (*Impuesto sobre Sociedades*)

Both interest periodically received and income deriving from the transfer of the Bonds must be included as taxable income of Spanish tax resident legal entities for CIT purposes in accordance with the rules for this tax, being typically subject to the standard rate of 25 per cent.

According to article 44 of Royal Decree 1065/2007 the Issuer is not obliged to withhold any tax amount on interest payments made under the Bonds provided that the new simplified information procedures (which do not require identification of the Bondholders) are complied with by the Fiscal Agent, as described in section "*Disclosure Obligations in connection with Payments on the Bonds*".

Income derived from the transfer of the Bonds shall not be subject to withholding tax (currently 19%) as provided by Section 61(s) of the Corporate Income Tax Regulations, to the extent that the Bonds are traded on organised markets in OECD countries. However, the Directorate General for Taxation's (*Dirección General de Tributos*) in consultation dated 27 July 2004, stated that in the case of issuances made by entities with tax residency in Spain (as in the case of the Issuer), application of this exemption requires that the Bonds be also placed outside Spain in another OECD country.

Amounts withheld, if any, may be credited by the relevant investors against their final CIT liability.

3.2 Wealth Tax (*Impuesto sobre el Patrimonio*)

Legal entities resident in Spain for tax purposes are not subject to Wealth Tax.

3.3 Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)

Legal entities resident in Spain for tax purposes which acquire ownership or other rights over the Bonds by inheritance, gift or legacy are not subject to the Inheritance and Gift Tax but must include the market value of the Bonds in their taxable income for Spanish CIT purposes.

4. Individuals and legal entities tax resident outside Spain

4.1 Non-Resident Income Tax (*Impuesto sobre la Renta de No Residentes*)

A. Acting through a permanent establishment in Spain

Ownership of the Bonds by investors who are not resident for tax purposes in Spain will not in itself create the existence of a permanent establishment in Spain.

If the Bonds 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 Bonds shall be, generally, the same as those previously set out for Spanish CIT taxpayers.

B. Not acting through a permanent establishment in Spain

Both interest payments periodically received and income deriving from the transfer, redemption or repayment of the Bonds, obtained by individuals or entities who are not resident in Spain for tax purposes, and who are NRIT taxpayers with no permanent establishment in Spain, are exempt from NRIT.

In order for the exemption to apply to interest payments, it is necessary to comply with certain information obligations relating to the Bonds, in the manner detailed under “*Disclosure obligations in connection with payments on the Bonds*” as laid down in Article 44 of Royal Decree 1065/2007. If these information obligations are not complied with in the manner indicated, the Issuer will withhold 19 per cent.

4.2 Wealth Tax (*Impuesto sobre el Patrimonio*)

Individuals resident in a country with which Spain has entered into a double tax treaty in relation to the Wealth Tax will not be generally subject to such tax on the Bonds. Otherwise, under current Wealth Tax regulations, non-Spanish resident individuals whose properties and rights located in Spain (or that can be exercised within the Spanish territory) exceed € 700,000 in respect of each year would be subject to Wealth Tax, the applicable rates ranging between 0.2 per cent. and 3.5 per cent., without prejudice to any other exemption that may be applicable.

Bondholders tax resident in a EU Member State or in the EEA may be entitled to apply the specific regulation of the autonomous community where their most valuable assets are located and which trigger this Spanish Wealth Tax due to the fact that they are located or are to be exercised within the Spanish territory.

To the extent that income derived from the Bonds is exempt from NRIT, individual Bondholders not resident in Spain for tax purposes who hold Bonds on the last day of any calendar year will be exempt from Wealth Tax.

Legal entities tax resident outside Spain are not subject to Spanish Wealth Tax.

4.3 Inheritance and Gift Tax (*Impuesto sobre Sucesiones y Donaciones*)

Individuals not tax resident in Spain who acquire ownership or other rights over the Bonds by inheritance, gift or legacy, and who are tax resident in a country with which Spain has entered into a double tax treaty in relation to Inheritance and Gift Tax will be subject to the relevant double tax treaty.

If the provisions of the foregoing paragraph do not apply, such individuals will be subject to Inheritance and Gift Tax in accordance with the applicable Spanish regional and State legislation described above.

However, if the deceased or the donee are resident in an EU or EEA Member State, the applicable rules will be those corresponding to the relevant autonomous regions according to the law.

Also, as a consequence of the Judgements of February 19, 2018 and March 21 and 22, 2018, the Supreme Court has declared that the application of state regulations when the deceased, heir or donee is resident outside of a Member State of the EU or the EEA violated EU 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 Member State of the EU. The General Directorate for Taxation has also ruled in accordance with those judgments (V3151-18 and V3193-18).

Legal entities not tax resident in Spain which acquire ownership or other rights over the Bonds by inheritance, gift or legacy are not subject to the Inheritance and Gift Tax. They will be subject to NRIT (as described above). If the entity is resident in a country with which Spain has entered into a double tax treaty, the provisions of such treaty will apply. In general, double tax treaties provide for the taxation of this type of income in the country of residence of the beneficiary.

5. Disclosure obligations in connection with payments on the Bonds

The Issuer is currently required by Spanish law to gather certain information relating to the Bonds. In accordance with Article 44 of Royal Decree 1065/2007 certain information with respect to the Bonds must be submitted by the Fiscal Agent to the Issuer at the time of each payment (or, alternatively, before the tenth calendar day of the month following the month in which the relevant payment is made).

Such information includes the following:

- a) Identification of the Bonds (as applicable) in respect of which the relevant payment is made;
- b) the date on which the relevant payment is made;
- c) total amount of income from the Bonds; and
- d) total amount of income (either from interest payments or redemption) corresponding to each clearing house located outside Spain.

In particular, the Fiscal Agent must certify the information above about the Bonds by means of a certificate (such certificate, the “**Payment Statement**”). In light of the above, the Issuer and the Fiscal Agent have arranged certain procedures to facilitate the collection of information concerning the Bonds by the close of business on the Business Day immediately preceding each relevant payment date. If, despite these procedures, the relevant information is not received by the Issuer on each payment date, the Issuer will withhold tax at the then-applicable rate (currently 19 per cent.) on the total amount of interest payable in respect of the relevant Bonds.

If, on or before the 10th calendar day of the month following the month in which the income is payable, the Fiscal Agent submits such statement to the Issuer, the Bondholders will be entitled to receive a payment of the amount so withheld.

If such statement is not submitted to the Issuer by that date, the Issuer will be obliged to pay to the Bondholders such additional amounts as will result in the receipt by the Bondholders, after the withholding, of such amounts as would have been received by the Bondholders if the withholding had not been required, except that no such additional amounts shall be payable if any of the exceptions referred to in Condition 8 (*Taxation*) of the Conditions of the Bonds applies. If any of those exceptions does apply, the relevant Bondholder will not be entitled to receive any additional amount to compensate him for such withholding having been made.

In the case of Spanish-resident Bondholders, the application for repayment of any amounts withheld may be made in such Bondholders’ Spanish income tax return filed in the year immediately following the year in which the relevant income is derived.

Non-Spanish-resident Bondholders may be entitled to claim repayment of any amounts withheld from the Spanish Treasury within four years following the last day on which the Issuer is obliged to pay any amounts withheld to the Spanish Treasury (which is generally the 20th calendar day of the month immediately following the relevant payment date) by filing with the Spanish tax authorities by February of the year following that in which the amount was withheld (i) the relevant Spanish tax form; (ii) proof of beneficial ownership; and (iii) a certificate of residency issued by the tax authorities of the country of tax residence of the relevant Bondholder, among other documents.

In the event that the currently applicable procedures were modified, amended or supplemented by, amongst others, a Spanish law, regulation, interpretation or ruling of the Spanish tax authorities, the Issuer will inform the Bondholders of such information procedures and of their implications, as the Issuer may be required to apply withholding tax on interest payments under the Bonds if the Bondholders would not comply with such information procedures. In such case, the Issuer will not pay additional amounts with respect to the Bonds as a result of the imposition of such withholding tax.

6. Other reporting obligations

Under the Eighteenth Additional Provision of the General Tax Law and Article 42 of Royal Decree 1065/2007, investors with tax residency in Spain (and who are therefore liable to pay Spanish taxes), holding securities deposited or located outside of Spain, will have to report them to the Spanish tax authorities provided that their value on 31 December exceeds €50,000.

Reporting is earned out through Tax Form 720 (approved by Order 72/2013 dated 30 January 2013). The Form will have to be filed before 31 March of the year following the acquisition (even

where the securities were transferred prior to year-end). A new filing is required if the value of the total assets held abroad by the investor increases by €20,000 with respect to the last filing.

This reporting obligation does not apply to Spanish resident legal entities or permanent establishments as long as the securities are duly booked in their accounting records on an individualised basis.

Where applicable, failure to comply with this obligation may give rise to tax penalties and other adverse tax consequences. Bondholders should consult their own tax adviser for further details.

7. The proposed financial transaction tax (the “FTT”)

On 14 February 2013, the European Commission published a proposal (the “**Commission’s Proposal**”) for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (each, other than Estonia, a participating Member State). However, Estonia has since ceased to participate.

The Commission’s Proposal has very broad scope and could, if introduced, apply to certain dealings in Bonds (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission’s Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in Bonds where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, “established” in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of Bonds are advised to seek their own professional advice in relation to the FTT.

With regard to the Spanish FTT, Law 5/2020, of 15th October, approving the Financial Transaction Tax (*Ley 5/2020, de 15 de octubre, del Impuesto sobre Transacciones Financieras*) (**Spanish FTT Law**) was published on the Spanish Official State Gazzete on October 16th, 2020. According to the terms of the Spanish FTT Law, this indirect tax will not apply to the acquisition of the Bonds.

SUBSCRIPTION AND SALE

The Managers have, pursuant to a Subscription Agreement dated 19 March 2021 (the “**Subscription Agreement**”) agreed to subscribe or procure subscribers for (i) the Series A Bonds at the issue price of 100 per cent. of the principal amount of the Series A Bonds and (ii) the Series B Bonds at the issue price of 100 per cent. of the principal amount of the Series B Bonds, upon the terms and subject to the conditions contained therein. The Issuer will pay a commission to the Managers and will reimburse the Managers in respect of certain of their expenses, and has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Bonds. The Subscription Agreement may be terminated in certain circumstances prior to payment being made to the Issuer.

United States

The Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S or pursuant to an exemption from the registration requirements of the Securities Act.

Each Manager represents that it has offered and sold the Bonds, and agrees that it will offer and sell the Bonds (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date only in accordance with Rule 903 of Regulation S. Accordingly, neither it, nor its affiliates, nor any persons acting on its or their behalf have engaged in any directed selling efforts with respect to the Bonds, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Manager agrees that, at or prior to the confirmation of sale of the Bonds, and that it will have sent to each distributor, dealer or person receiving a selling concession fee or other remuneration that purchases from it during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

United Kingdom

Prohibition of sales to UK Retail Investors

Each Manager has represented and warranted that:

- (a) it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds which are the subject of the offering contemplated by this Prospectus in relation thereto to any “retail investor” in the UK. For the purposes of this section:
- (b) the expression “**retail investor**” means a person who is one (or more) of the following:

- (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA;
 - (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of UK MiFIR; or
 - (iii) not a qualified investor as defined in Article 2 of the UK Prospectus Regulation; and
- (c) the expression an “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Bonds.

Other regulatory restrictions

Each Manager has represented and warranted that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (a) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the UK.

Consequently no key information document required by the UK PRIIPs Regulation for offering or selling the Bonds or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Spain

Each Manager has acknowledged that the Bonds must not be offered, sold or distributed in Spain, except in circumstances which do not require the registration of a prospectus in Spain or without complying with all legal and regulatory requirements under Spanish securities laws. Neither the Bonds nor the Prospectus have been registered with the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*, the “**CNMV**”) and, therefore, the Prospectus is not intended for any public offer of Bonds in Spain that would require the registration of a prospectus with the CNMV. The Bonds shall only be directed specifically at, or made to, professional clients (*clientes profesionales*) as defined in Article 205 of the Restated Spanish Securities Market Act approved by the Royal Legislative Decree 4/2015 of 23 October 2015 (*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 “**Spanish Securities Market Act**”) and Article 58 of Royal Decree 217/2008, of 15 February on the Legal Regime Applicable to Investment Services Companies (*Real Decreto 217/2008, de 15 de febrero, sobre el régimen jurídico de las empresas de servicios de inversión*

y de las demás entidades que prestan servicios de inversión), and eligible counterparties (*contrapartes elegibles*) as defined in Article 207 of the Spanish Securities Market Act.

EEA Retail Investors

Each Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Bonds to any “retail investor” in the EEA. For the purposes of this provision:

- (a) the expression “retail investor” means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of MiFID II;
 - (ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation; and
- (b) the expression an “offer” includes the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe for the Bonds.

Consequently no key information document required by the EU PRIIPs Regulation for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

General

No action has been or will be taken in any jurisdiction by the Managers or the Issuer that would to the best of their knowledge permit a public offering of the Bonds, or possession or distribution of this Prospectus, or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required. Accordingly, each Manager has represented, warranted and agreed that the Bonds have not been and or will not be offered, sold or publicly promoted or advertised by it in any jurisdiction in which offers or sales would (to the best of its knowledge and belief) be prohibited by applicable law.

GENERAL INFORMATION

1. The Issuer has obtained all necessary consents, approvals and authorisations in the Spain in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by resolutions of the Board of Directors of the Issuer, passed on 3 March 2021.
2. Subject to the disclosure included in this Prospectus under the heading '*Recent Developments*' on page 111, and the potential further impact of the COVID-19 pandemic as disclosed in the section of the Risk Factors headed '*Risk Factors Relating to the COVID-19 Pandemic*' on pages 7 – 14 and in Note 2 to the Issuer's 2020 Annual Financial Statements, there has been no significant change in the financial performance or financial trading position of the Issuer or the Group since 31 December 2020, and there has been no material adverse change in the prospects of the Issuer or the Group since 31 December 2020.
3. Neither the Issuer nor any other member of the Group is involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer or the Group.
4. The Series A Bonds have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records) with a Common Code of 232242345 and the Series B Bonds have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records) with a Common Code of 232242353. The International Securities Identification Number ("**ISIN**") for the Series A Bonds is XS2322423455 and the ISIN for the Series B Bonds is XS2322423539. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855 Luxembourg, Grand Duchy of Luxembourg.
5. The Classification of Financial Instrument ("**CFI**") Code for the Bonds is DBFNFR and the Financial Instrument Short Name ("**FISN**") Code for the Bonds is INTERNATIONAL C/BD 22001231, each as updated, as set out on the website of ANNA or alternatively sourced from the National Numbering Agency that assigned the ISIN.
6. For so long as the Bonds are outstanding (as defined in the Fiscal Agency Agreement), digital copies of the following documents will be available to view online at <https://www.iairgroup.com/en/investors-and-shareholders/debtholders/debt-home> and, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), physical copies will be available for inspection at the registered offices of each of the Issuer and the Fiscal Agent (Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom):
 - (a) the Fiscal Agency Agreement;
 - (b) the articles of association of the Issuer;

- (c) a copy of this Prospectus together with any supplement to this Prospectus or further Prospectus;
 - (d) the Issuer's 2020 Annual Financial Statements; and
 - (e) the Issuer's 2019 Annual Financial Statements.
7. This Prospectus will be published on the website of the Issuer (<https://www.iairgroup.com/en/investors-and-shareholders/debtholders/debt-home>) and the website of Euronext Dublin (www.ise.ie). A hyperlink to the dedicated section of the Issuer's website where the Prospectus is published will also be published on the website of the Central Bank of Ireland (www.centralbank.ie) for a period of 12 months from the date of this Prospectus.
 8. The Issuer's 2020 Annual Financial Statements and the Issuer's 2019 Annual Financial Statements have been audited by Ernst & Young, S.L., with its registered office at C/ Raimundo Fernández Villaverde, 65, 28003, Madrid, Spain, which are, incorporated by reference in, and which forms part of, this Prospectus (see "*Documents Incorporated by Reference*").
 9. An application has been made to Euronext Dublin to admit the Series A Bonds and the Series B Bonds to listing on the Official List and to have the Series A Bonds and the Series B Bonds admitted to trading on the Regulated Market of Euronext Dublin; however, no assurance can be given that such application will be accepted. It is expected that admission of the Series A Bonds and the Series B Bonds to the Official List and to trading on the Regulated Market of Euronext Dublin will be granted on or before the Issue Date, subject only to the issue of the Series A Bonds and the Series B Bonds (as applicable). The expenses in connection with the admission of the Series A Bonds and the Series B Bonds to the Official List and to trading on the Regulated Market of Euronext Dublin are expected to amount to approximately €5,140.
 10. On the basis of the issue price of the Series A Bonds of 100 per cent. of their principal amount, the gross yield of the Series A Bonds is 2.75 per cent. on an annual basis. On the basis of the issue price of the Series B Bonds of 100 per cent. of their principal amount, the gross yield of the Series B Bonds is 3.75 per cent. on an annual basis. The yield to maturity is calculated as at the pricing date on the basis of the Issue Price, the applicable interest rate of the Bonds, the redemption amount of the Bonds and the tenor of the Bonds. It is not an indication of future yield.
 11. Deutsche Bank Luxembourg S.A. is acting solely in its capacity as listing agent for the Issuer in relation to the Series A Bonds and the Series B Bonds and is not itself seeking admission of the Series A Bonds or the Series B Bonds to the Official List of Euronext Dublin or to trading on the Regulated Market.
 12. The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.
 13. The Managers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform

services for, the Issuer and their affiliates in the ordinary course of business. The Managers and their affiliates may have positions, deal or make markets in the Bonds, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In the ordinary course of their business activities, the Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer and their affiliates. Where the Managers or their affiliates have a lending relationship with the Issuer and/or its affiliates they may routinely hedge their credit exposure to those entities consistent with their customary risk management policies. Typically, the Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Bonds. Any such positions could adversely affect future trading prices of the Bonds. The Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments. The Managers will also receive fees for their role in the issuance.

THE ISSUER

International Consolidated Airlines Group, S.A.

El Caserío
Iberia Zona Industrial nº 2 (La Muñoza)
Camino de La Muñoza
s/n 28042 Madrid
Spain

FISCAL AGENT AND PAYING AGENT

Deutsche Bank AG, London Branch

Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

LEGAL ADVISERS

To the Issuer as to English law

Slaughter and May

One Bunhill Row
London EC1Y 8YY
United Kingdom

To the Issuer as to Spanish law

J&A Garrigues, S.L.P.

Hermosilla 3
28001 Madrid
Spain

To the Managers as to English and Spanish law

Linklaters, S.L.P.

Calle de Almagro, 40
28010 Madrid
Spain

AUDITOR TO THE ISSUER

Ernst & Young, S.L.

C/ Raimundo Fernández Villaverde, 65
28003, Madrid
Spain

JOINT GLOBAL COORDINATORS AND JOINT LEAD BOOKRUNNERS

Goldman Sachs Bank Europe SE

Marienturm
Taunusanlage 9-10
60329 Frankfurt am Main
Germany

Morgan Stanley Europe SE

Grosse Gallusstrasse 18
60312 Frankfurt am Main
Germany

Banco Bilbao Vizcaya Argentaria, S.A.

Ciudad BBVA
Edificio ASIA, Calle Saucedo, 28
28050 Madrid
Spain

Banco Santander, S.A.

C/ Juan Ignacio Luca de Tena 9-11
Edificio Magdalena planta 1
28027 Madrid
Spain

PASSIVE BOOKRUNNERS

BofA Securities Europe SA

51 rue la Boétie
75008 Paris
France

Crédit Agricole Corporate and Investment Bank

12 place des Etats-Unis
CS 70052 92
547 Montrouge Cedex
France

CO-MANAGERS

MUFG Securities (Europe) N.V.

World Trade Center
Tower H, 11th Floor
Zuidplein 98
1077 XV Amsterdam
The Netherlands

NatWest Markets N.V.

Claude Debussylaan 94
Amsterdam 1082 MD
The Netherlands

Standard Chartered Bank

1 Basinghall Avenue
London EC2V 5DD
United Kingdom

IRISH LISTING AGENT, TRANSFER AGENT AND REGISTRAR

Deutsche Bank Luxembourg S.A.

2 Boulevard Konrad Adenauer
L-1115 Luxembourg
Luxembourg

STABILISING MANAGER

Morgan Stanley Europe SE

Grosse Gallusstrasse 18

60312 Frankfurt am Main
Germany