International Consolidated Airlines Group, S.A.

Independent expert's Special Report on the issue of convertible and/or exchangeable bonds, excluding pre-emptive subscription rights pursuant to the provisions of articles 414, 417 and 511 of the Capital Companies Act

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Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.

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INDEPENDENT EXPERT'S SPECIAL REPORT ON THE ISSUE OF CONVERTIBLE AND/OR EXCHANGEABLE BONDS, EXCLUDING PRE-EMPTIVE SUBSCRIPTION RIGHTS PURSUANT TO THE PROVISIONS OF ARTICLES 414, 417 AND 511 OF THE CAPITAL COMPANIES ACT

To the attention of the General Shareholders' Meeting of International Consolidated Airlines Group, S.A.

We issue this Special Report in accordance with the assignment received from International Consolidated Airlines Group, S.A. and by appointment of Mr. Ignacio Palacios Gil de Antuñano, Company and Property Registrar of Madrid, who appointed Deloitte, S.L. (hereinafter, "Deloitte") on 1 December 2020 as the auditor for the preparation of the mandatory Special Report. This Special Report was requested to analyze the issuance of convertible bonds, excluding shareholders' pre-emptive rights (hereinafter, the "Issue" or the "Bonds") of the company, and the analysis of the reasonableness of the directors' report (the "Directors' Report"). This Special Report will also include the suitability of the conversion ratio and, if applicable, its adjustment formulas, to offset the possible dilution of the shareholders´ equity, in accordance with articles 414, 417 and 511 of the Spanish Capital Companies Act (hereinafter, the "Capital Companies Act").

1. Background

International Consolidated Airlines Group S.A. ("International Airlines Group", "IAG", "the Company" or the "Group") is a leading European airline group established to hold equity interests in airlines and other ancillary businesses. IAG is a Spanish company, registered in Madrid and incorporated on 17 December 2009. On 21 January 2011, British Airways Plc and Iberia Líneas Aéreas de España, S.A. Operadora ("British Airways" and "Iberia" respectively) completed a merger transaction by which they became the first two airlines of the Group. Vueling Airlines, S.A. ("Vueling") was acquired on 26 April 2013 and Aer Lingus Group Plc ("Aer Lingus") on 18 August 2015. The Group holds other interests and investments related to its core business.

IAG shares trade on the London Stock Exchange's main market for listed securities, as well as on the Madrid, Barcelona, Bilbao and Valencia stock exchanges ("the Spanish Stock Exchanges", the "Stock Exchange") through the Spanish Stock Exchange Interconnection System ("Mercado Continuo Español").

As at the date of this Report, the Company's share capital amounts to 497,147,601 euros, represented by 4,971,476,010 ordinary shares with a nominal value of 0.10 euros per share, all belonging to the same class, fully subscribed and paid in. The Ordinary General Shareholders' Meeting of IAG held on 8 September 2020 agreed, under items thirteen and fourteen on the agenda, to authorise the Board of Directors, with powers of substitution, to issue, among other instruments, bonds convertible and/or exchangeable into shares of the Company for a period of seven years and up to a maximum nominal amount of one billion five hundred euros (EUR 1,500,000,000), also delegating the power to exclude pre-emptive subscription rights in accordance with the provisions of articles 417 and 511 of the Capital Companies Act.

By virtue of this delegation, the Board of Directors of IAG has prepared the mandatory Directors' Report describing the bases and modalities of the conversion and the proposed exclusion of pre-emptive subscription rights. The principal terms and conditions of the Directors' Report attached hereto as Appendix I are as follows:

- Objective: The purpose of the Issue referred to in this Report is to raise funds to cover the general financing needs of IAG, strengthening its financial structure, extending the average term of corporate debt and reinforcing its liquidity position.

- Nature of the Bonds: Bonds convertible into and/or exchangeable for newly issued or outstanding ordinary shares of the Issuer, denominated in euros. The Bonds will be unsecured and unsubordinated ordinary obligations of the Issuer and will rank pari passu among themselves and as regards the other

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existing or future unsecured and unsubordinated ordinary obligations of the Issuer, except as regards such obligations as may have priority as provided in mandatory laws of general application.

- Amount of the Issue: Up to a maximum of 1,500,000,000 euros, being expressly provided that the Issue may be partially subscribed (incomplete). Each Bond will have a minimum unit face value of 100,000 euros.
- Issue price: At par, that is, one hundred percent of face value.
- Maturity date: The Bonds will have a term of seven years from the closing date of the Issue.
- Governing Law: The terms and conditions of the Bonds will be governed by English law, with the exception of provisions regarding the ranking of the Bonds, which will be governed by Spanish law.

Likewise, the Board of Directors confirms that the disapplication measure is in accordance with the due proportionality that must exist between the advantages obtained by the Company and such inconvenience as may be caused to the shareholders that have their expectations diminished by reason of such dilution as may be involved (based on how the share price evolves) in any issue of convertible bonds with disapplication of pre-emption rights.

2. Purpose of our engagement

The objectives of our engagement were:

- To state, after application of the procedures established in the Technical Standard for the preparation of the Special Report on Convertible Securities under Article 414 of the Capital Companies Act, whether the Directors' Report contains the required information, as compiled in the aforementioned technical standard, including an explanation of the basis and modalities of the conversion for the Bonds.
- To issue a technical opinion on the reasonableness of the data provided in the Directors' Report on the issuance of the convertible Bonds excluding the pre-emptive subscription rights, and on the suitability of the ratio of conversion of the convertible Bonds and the formulas for adjustment to offset any dilution of the shareholders' economic interest, in accordance with Article 417 of the Capital Companies Act. Our opinion was to be based, by analogy and to the applicable extent, on the Technical Standard published in the ICAC Resolution of 16 June 2004 on the preparation of the Special Report on the exclusion of pre-emptive subscription rights.
- Verification that the maximum number of shares into which the bonds may be converted on the basis of their minimum conversion ratio does not exceed twenty per cent of the number of shares comprising the share capital at the time of authorisation, and verification that the notice of the General Shareholders' Meeting of 8 September 2020 expressly includes the proposal to exclude pre-emptive subscription rights, all in accordance with the provisions of article 511 of the LSC.

The financial and accounting information used for this engagement was obtained from IAG's annual consolidated financial statements of 31 December 2020, audited by Ernst & Young, S.L. that issued its audit report on 2 March 2021, expressing an unqualified opinion.

3. Procedures of our engagement

We carried out the following procedures to perform our engagement:

- Collection and review of the following information:
  - Appointment of an auditor designated by the Commercial and Personal Property Registrar of IAG on 1 December 2020;
  - Annual reports of the Company for the fiscal years ended 31 December 2018, 2019 and 2020, together with their respective audit reports;
  - Certificate of the General Meeting of Shareholders dated 8 September 2020;

- Certificate of the Board of Directors of the Company dated 6 May 2021 to which the Directors' Report is attached as an appendix;
- Directors' Report approved by the Board of Directors on 6 May 2021, in relation to the Company's share capital increase;
- Minutes of IAG Shareholders and Board of Directors Meetings for the last twelve months;
- Certification of the Madrid Stock Exchange Governing Body in relation to: (i) the simple change in the daily weighted average changes in the daily trading of IAG shares for the three-month period prior to 6 May 2021, inclusive (hereinafter, the "Calculation Reference Date"), (ii) the weighted average change in the trading of the aforementioned shares as at the Calculation Reference Date, and (iii) the closing price of the shares on the day prior to the date of the Board of Directors' meeting, attached in Appendix II;
- Asking the Company's management (hereinafter, the "Management") about important events that may significantly affect the value of the Company and, where applicable, verifying such information.

- Verification that the Directors' Report contains the necessary and sufficient information, including the information indicated in the Resolution of the Institute of Accounting and Auditing of Accounts on 16 June 2004. In particular, we have executed the following procedures in the Directors' Report:
  - Verification of the calculations of the valuation methods used in the Directors' Report in determining the bases and methods for the conversion and other rights, if any, guaranteed to the subscribers of the convertible and/or exchangeable bonds;
  - Verification that the issue price of the convertible bonds is not below their own nominal value or below the nominal value of the shares for which they are to be converted;
  - Verification that the Directors' Report justifies the elimination of the shareholders' pre-emptive subscription rights of the perpetual securities convertible into shares of the Company;
  - Check that the accounting information in the Directors' Report agrees with the accounting data of the Company that served as the basis for the preparation of the consolidated annual audited accounts;
  - Verification that, according to the Directors' Report, there are no significant subsequent events that could affect the Issue.
- Analysis of the adequacy of the conversion ratio and, where appropriate, its adjustment formulae to compensate for any dilution of the shareholders' economic interest;
- Obtained a letter signed by a representative of the Company confirming that they have provided us with all relevant assumptions, data and information, as well as all information necessary for the preparation of our Report, and that there have been no events subsequent to the approval of the Directors' Report up to the issuance of this Report, which have not been brought to our attention and which could have a material effect on the results of our work;
- Study of the evolution of the listed value of the Company's shares and determination of the average listed value of these shares during the last representative trading period prior to the date of the Report as indicative values of the fair value of IAG;
- Confirmation that the conversion price proposed by the Directors is higher than the underlying net book value per share obtained from the last audited consolidated annual report or audited consolidated financial statements of IAG, for the twelve-month period ended 31 December 2020;

- Confirmation that the maximum number of shares into which the bonds may be converted on the basis of their minimum conversion price does not exceed twenty per cent of the number of shares comprising the share capital at the time of authorisation;
- Determination of the theoretical value of the pre-emptive subscription rights, the exercise of which it is proposed to abolish, calculated by reference to the average listed price for the last representative period, the last listed price of the Company prior to the date of the Report and the Group's underlying book value;
- We held meetings with the management of IAG and/or their legal advisers for this transaction seeking clarification on issues detected in the course of our engagement and other useful information;
- Obtaining a letter from the auditors of IAG up to the financial year 2020 in which they confirm that they have not become aware of any facts subsequent to the date of issue of the audited financial statements as at 31 December 2020 that could have a significant impact on the Issue and a letter from the Company's auditors from the financial year 2021 confirming that they have not commenced planning their work as at the date of issue of this Report;
- Obtaining a letter from the attorneys of IAG confirming that they are not aware of the existence of any contingent liabilities, claims, lawsuits or litigation, either not initiated, in progress or sentenced from 31 December 2020 to the present day that could impact the Group.

The purpose of our work is not to certify the Conversion Price, but to exclusively express, by application of the procedures established in the Technical Standard for the preparation of special reports on Issuance of Convertible Obligations in the case of articles 414, 417 and 511 of the restated text of the Capital Companies Act, if the Directors' Report contains the required information set forth in the said Technical Standard, which includes the explanation of the bases and modalities of the conversion; analyze the reasonableness of the Directors' Report and the suitability of the conversion ratio and its adjustment formulas, as applicable.

These analyses and verifications do not aim to verify compliance with any legal or formal obligation and have been carried out using information provided by the Company, so we assume no responsibility for the veracity of the data that has been used in the Directors' Report other than those covered by the purpose of this Special Report.

Our work does not correspond to an audit of financial statements, it has not include the necessary procedures by the generally accepted professional standards for the performance of an audit of accounts and, therefore, we do not express a professional opinion about the financial information that we have been provided for the issuance of this Special Report. If we had conducted an audit of the financial statements in accordance with generally accepted professional standards or if we had performed additional procedures or with a different scope, additional aspects of interest that we would have reported.

Additionally, it should be considered that the scope of our work has not included a review and evaluation of the fiscal, environmental, legal, regulatory or labour situation of the companies involved in the proposed operation. Therefore, any risks arising from such situations have not been considered in this Special Report.

Our work is of an independent nature and, therefore, does not imply any recommendation to the Company's management or to third parties as to the position they should take with respect to the proposed convertible and/or exchangeable bond issue or other transactions involving the Company. Our work is not intended to analyse the suitability of the Company's current or past business strategies or its investees, nor the reasons for the operation, nor analyse any potential business decision involving the Company or its investees.

The analyses and checks performed have not been aimed at verifying the compliance with any other legal or formal obligation (approval, presentation of documents, advertising, deadlines, etc.) other than those already mentioned in section 1 of this Report and pursuant to the requirements of articles 414, 417 and 511 of the LSC. For this reason, as independent experts, we do not give an opinion on these matters, as they are not under the scope of our work.

4. Justification for disapplication of pre-emption rights

Under the delegation from the General Meeting of shareholders of IAG held on 8 September 2020, under point fourteen of the agenda thereof, the Board of Directors has resolved to disapply the pre-emption rights that would correspond to the shareholders of IAG regarding the issue of Bonds, in accordance with article 511 of the Capital Companies Act together with article 417 of that act. To comply with the provisions of the aforesaid articles and, ultimately, demonstrate compliance with the legal requirements in the adoption of the resolution to disapply pre-emption rights for the issue of the Bonds, the Directors' Report incorporates as advantages of the exclusion of pre-emptive subscription rights, that it will be carried out among qualified investors (within the meaning of article 39 of Royal Decree 1310/2005, of 4 November), that it will allow the placement of the Issue using bookbuilding techniques in a very short period of time and taking advantage of the status of the international markets and that it will decreases the coupon payable on the Bonds, improving conversion and interest ratios.

5. Evaluation of the conversion ratio and the adjustment formulae

The report prepared by the Directors proposes that the conversion price and the interest rate of the Issue will be based on the stock market price of the shares of IAG on the date of launch of the Issue, payable semi-annually as the coupon on the bonds convertible into new shares and / or swappable for existing shares in IAG are fixed over the entire life of the Issue.

The Conversion Price will be determined based on market conditions at the time of launching the Issue, using the customary book building procedures. According to the Directors' Report the Conversion Price will be based on the stock market price of the shares of IAG on the launching date of the Issue, with a premium of not less than 42.5% over that price, establishing that it shall not be reduced to an amount which is less than the nominal value of the issued shares of the Issuer, following with what is contained within the article 59.2 of the Capital Companies Act.

The exercise of the conversion right by the Bondholders will not breach the limitation to the issuance of new shares in exchange of convertible instruments authorised by the General Shareholders' Meeting Authorization, established at 5% of the issued share capital of the Issuer after the capital reduction and increase approved by the General Shareholders' Meeting Authorization. Thus, the number of ordinary shares that will be delivered to the Bondholders exercising their exchange or conversion rights will be the result of dividing the face amount of the corresponding Bond or Bonds by the Conversion Price in effect at that time corresponding to the Issue up to the limit of 5% of the issued share capital of the Issuer after the capital reduction and increase approved by the General Shareholders' Meeting Authorization and in any event, in application of the right of the Issuer to deliver ordinary shares and/or cash to the Bondholders, in order to ensure that the Bonds are converted in cash if no additional ordinary shares can be issued as a result of the limitation to the issuance of shares established by the General Shareholders' Meeting Authorization.

We have calculated the theoretical value of the pre-emptive subscription rights by assimilating the conversion date and the date on which the terms of the Issue were fixed with the date of issue of this Report.

The value of equity, excluding minority interests of IAG, amounts to 0.42 euros per share as at 31 December 2020, according to IAG's consolidated annual accounts for the year ended 31 December 2020 audited by Ernst & Young, S.L., which is lower than the listed values indicated above and the Conversion Price as defined in the Directors' Report.

The Conversion Price agreed in the Directors' Report has no theoretical dilutive effect on the quoted price per share on the day preceding the date of issue of this report (5 May 2021) nor on the 3 month period ending 5 May 2021, or on the audited underlying book value as at 31 December 2020.

Anti-dilution mechanisms will be established regarding the Conversion Price in accordance with customary practices for this kind of transaction, as determined in the final terms and conditions of the Issue, to ensure that, if corporate transactions are implemented or resolutions are adopted that may result in dilution for the holders of the Bonds, those transactions or resolutions will equally affect the shareholders and the holders of the Bonds or, if appropriate, the holders of the Bonds will be compensated for the loss of expectation of conversion and/or exchange of the Bonds to shares due to such supervening circumstances as may affect the Issuer. The anti-dilution mechanisms must take account of the fact that the Conversion Price in no case may be less than the par value of the shares of the Issuer at the time of the conversion.

In view of the foregoing, there would be no economic dilution for IAG shareholders as the theoretical value of the pre-emptive subscription rights proposed to be removed would be zero as the Conversion Price would be estimated on the basis of the higher of (i) the stock market price of the IAG shares on the date of launch of the Issue with a premium of not less than 42.5% over such value, adjusted if applicable, for the anti-dilution mechanisms referred to in the Directors' Report and (ii) the nominal value of the outstanding IAG shares.

We believe that a conversion ratio of convertible securities into shares and, if applicable, their adjustment formulas, to compensate for a possible dilution of the economic participation of shareholders, is appropriate if the issue is made on market conditions, taking into account the particular characteristics of the company, its strategies and plans for future action, the market situation and other aspects that could affect the proposed issue, given that it is these conditions that determine the aforementioned conversion ratio.

6. Engagement challenges

Both the interpretation of what is required in articles 414, 417 and 511 of the Capital Companies Act, and the opinions expressed in this Special Report imply, in addition to objective factors, other subjective factors that require judgement. Therefore, it is not possible to ensure that third parties are necessarily in agreement with the interpretation and judgements expressed in this Special Report.

The information required to carry out our work has been provided to us by IAG´s Management, or it has been obtained from public sources.

The appearance of the SARS-CoV-2 Coronavirus (COVID-19), its global spread and its classification by the World Health Organisation as a pandemic, caused the main stock markets worldwide to plummet, generating a climate of uncertainty and volatility. The COVID-19 impact on the air transport sector has been particularly heavy, in a report published in November 2020, International Air Transport Association (“IATA”) estimated the global impact on the industry at approximately $118,500 million and calculated that global traffic will not reach 2019 levels until around 2024.

COVID-19 has disrupted a number of the Company's short-term strategic plans, and there are risks to its business, operating results and financial condition associated with the execution of its long-term strategic plans. In developing its plans, the Company makes certain assumptions, including but not limited to assumptions regarding customer demand, competition, market consolidation and the global economy. Actual economic, market and other conditions have been and may continue to be different from the Group's historical assumptions.

The full extent of the continuing impact of COVID-19 on the Company's long-term operating and financial performance will depend on future events, many of which are beyond the Company's control, including the duration and spread of COVID-19 and related travel advisories and restrictions, the impact of the pandemic on the overall long-term demand for air travel, on the financial health and operations of the Company's business partners, and future governmental actions, all of which are highly uncertain and cannot be predicted.

The Company has undertaken a number of measures in response to the decline in demand and EU flight restrictions, including grounding a portion of its fleet, reducing flight schedules and operating expenses, through the postponement of projects deemed not critical to the Company's operations, implementing restructuring and freezing recruitment and discretionary spending, and renegotiating contractual terms and conditions (including salaries) with staff, airports and suppliers. The Company has also taken additional steps to improve its financial position, including measures to improve liquidity, the most notable being a EUR 2.74 billion capital increase which was successfully secured in October 2020 which has helped strengthen the financial position of the Group’s existing businesses.

In these circumstances, the Company's management has assessed that the proper development of its activity in the future depends on its current capacity to meet its liquidity needs in this new scenario, and that the business, results, prospects or financial, economic or equity situation of the Company could be negatively affected if the financing objectives described in this Report are not achieved.

Consequently, the Company's management has taken various measures in order to protect its liquidity, improve its financial flexibility and support its cash generation in a scenario in which the current tough market conditions prevail for a prolonged period of time. Thus, in addition to the already mentioned cancellation of the proposed final dividend distribution and the reduction of the share buy-back programme related to the share-based employee remuneration plans, a broad package of actions to reduce fixed costs and investments were added, which will be re-evaluated periodically in the coming quarters, depending on the evolution of the current business environment. British Airways received commitments for a 2.0 billion pounds five-year loan facility, partly guaranteed by UK Export Finance along with a 300 million pounds loan from the Bank of England. The Company drew down additional debt of 1.01 billion euros for their Spanish airlines as part of the Instituto de Crédito Oficial (ICO) facility. These are all commercial loans, even if some are partially underwritten by governments.

On the other hand, and as an additional measure to the Issue, and simultaneously, on October 2 2020, the Group raised 2,741 million euros through a rights issue of 2,979,443 thousand ordinary shares at a price of 92 euro cents per share on the basis of 3 shares for every 2 existing shares, resulting in an increase of Share capital of 298 million euros and an increase in Share premium of 2,443 million euros.

In any case, it must be considered that airlines compete primarily in terms of fare levels, frequency and reliability of service, name recognition, passenger amenities (such as access to frequent flyer programmes “Avios” in the case of the IAG Group), and the availability and convenience of other passenger services. In addition, the airline industry is highly susceptible to price discounts. The industry also faces competition from ground (including high-speed rail systems) and maritime transport alternatives. Environmental concerns have put additional pressure on pricing strategy, as some governments have begun to introduce "green taxes" and there is an attractive move towards short-haul rail transport, which has had a negative impact on passenger volumes, especially given the current situation as a result of the COVID-19 pandemic.

Furthermore, it should be borne in mind that operations were disrupted and personnel costs, which include pilots and ground crew, have been covered by the various governmental instruments available, and the final outcome of this situation could have an impact on the Company's operations that cannot be predicted at this stage.

As and when the global aviation industry starts to recover from the impact of the COVID-19 pandemic, the Group’s priority will be to invest in strengthening and maintaining its leadership positions in each of its home cities by managing and optimising its networks to meet demand. IAG relies on the positive brand recognition of its airlines, among other factors, to attract customers. The brand and consumer confidence may be negatively affected in the future by a number of factors, such as concerns about safety, service quality, data breaches and security, reliability and/or punctuality, even if unfounded.

Consequently, and if applicable, it should be noted that significant changes or additional new information on economic conditions, market conditions or the Company's operations that may arise as a result of the measures that may be adopted to manage the crisis caused by this disease could potentially mean a future change in the valuation conclusions included in this Report, the impact of which cannot be assessed at this time.

Since the Conversion Ratio is based on a Conversion Price whose value will be determined when the future event of the Issue occurs, it is not possible to determine the value according to that future event and we are not obligated to update our Report because of facts that may occur after the date of issuance. The content of this Report must be understood by referring to all of the information received on events that occurred prior to the date of the Report.

We have assumed that all the authorizations and records that may be relevant in Spain and in the other jurisdictions in which IAG is present for the effectiveness of the projected transaction and that significantly affect our analysis, will be obtained without any adverse effect for the transaction that is the subject of our analysis.

7. Conclusion

Based on the work performed, the scope described in the preceding paragraphs, and subject to the relevant issues to be considered in the interpretation of our findings, and considering that our work has been performed for the sole purpose of complying with the requirements set out in articles 414, 417 and 511 of the Capital Companies Act, in our opinion as independent experts:

- The Directors' Report approved by the Board of Directors of IAG on 6 May 2021, hereby attached, on the resolution to issue convertible and/or exchangeable securities into shares, excluding the shareholders' pre-emptive subscription rights, contains the information required by the Technical Standard for the Preparation of Special Reports on the issue of convertible securities under article 414 of the Consolidated Text of the Capital Companies Act and the information contained in the aforementioned Directors' Report is reasonable as it is adequately documented and set out, and
- the conversion ratio of the bonds to IAG shares excluding the preferential subscription right and the proposed adjustment formulae to offset any possible dilution of the stake held by shareholders are suitable for compensating for a potential dilution of the shareholders' financial interest.

This Special Report and the information contained in it have been exclusively prepared for the purposes of articles 414, 417 and 511 of the Capital Companies Act and, therefore, it should not be used for any other purpose.

DELOITTE, S.L.

(Signed in the original Spanish version)