

OFFERING CIRCULAR DATED 14 MAY 2013



International Consolidated Airlines Group, S.A.

*(a company incorporated under the laws of the Kingdom of Spain
and entered at the Madrid Mercantile Registry with registration number M-492129
and with Tax Identity Code number A-85845535)*

€390,000,000

1.75 per cent. Convertible Bonds due 2018

Issue Price: 100 per cent.

Joint Bookrunners and Joint Lead Managers

**BANCO
SANTANDER**

BARCLAYS

**DEUTSCHE
BANK**

MORGAN STANLEY

**UBS INVESTMENT
BANK**

This Offering Circular (the “**Offering Circular**”) comprises listing particulars given in compliance with the listing rules (the “**Listing Rules**”) made under Section 73A of the Financial Services and Markets Act 2000 (the “**FSMA**”) by the UK Listing Authority (the “**UKLA**”). Applications have been made for the €390,000,000 1.75 per cent. convertible bonds due 2018 (the “**Bonds**”) of International Consolidated Airlines Group, S.A. (the “**Issuer**”) to be admitted to the official list maintained by the UKLA for the purposes of Part VI of the FSMA (the “**Official List**”) and to be admitted to trading on the Professional Securities Market of the London Stock Exchange plc (the “**London Stock Exchange**”). The Professional Securities Market is an unregulated market for the purposes of Directive 2004/39/EC (the “**Markets in Financial Instruments Directive**”). The Issuer has undertaken to apply to have the ordinary shares of the Issuer (the “**Ordinary Shares**”) issuable upon conversion of the Bonds admitted to the Official List and admitted to trading on the Regulated Market of the London Stock Exchange and to trading on the Madrid, Barcelona, Bilbao and Valencia stock exchanges (the “**Spanish Stock Exchanges**”). This Offering Circular is to be read in conjunction with all the documents which are incorporated by reference herein (see “*Presentation of Information – Documents incorporated by reference*”).

The Issuer accepts responsibility for the information contained in this Offering Circular. To the best of the knowledge of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer, the Bonds or the Ordinary Shares other than as contained in this Offering Circular or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by or on behalf of the Issuer or the Joint Lead Managers (as defined in “*Subscription and Sale*”).

This Offering Circular is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Issuer or the Joint Lead Managers that any recipient of this Offering Circular should purchase any of the Bonds. Each investor contemplating purchasing Bonds should make its own independent investigation of the financial condition and affairs of, and its own appraisal of the creditworthiness of, the Issuer. None of the Issuer, the Joint Lead Managers or any of their respective representatives, is making any representation to any offeree or purchaser of the Bonds regarding the legality of an investment in the Bonds by such offeree or purchaser under the laws applicable to such offeree or purchaser. 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.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of the Bonds shall in any circumstances constitute a representation or create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the affairs or condition (financial or otherwise) of the Issuer since the date of this Offering Circular or that the information contained in this Offering Circular is correct as at any time subsequent to its date.

In making an investment decision, each investor must rely on its own examination, analysis and enquiry of the Issuer and the terms of the offering of the Bonds, including the merits and risks involved.

This Offering Circular does not constitute an offer to sell, or a solicitation of an offer to buy, or an invitation by or on behalf of the Issuer or the Joint Lead Managers to subscribe or purchase, any Bonds or Ordinary Shares.

The Bonds and the Ordinary Shares have not been, and will not be, registered under the United States Securities Act of 1933 (the “**Securities Act**”). Subject to certain exceptions, Bonds may not be offered, sold or delivered within the United States (the “**US**”). For a description of further restrictions on the offering and sale of the Bonds and on the distribution of this document, see “*Subscription and Sale*”.

The Bonds will be issued on 31 May 2013 (the “**Closing Date**”) and will initially be represented by a registered global bond (the “**Global Bond**”), without interest coupons, which will be registered in the name of a nominee of and deposited with a common depository on behalf of the Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”) and Euroclear Bank S.A./N.V. (“**Euroclear**”) systems. The Global Bond will be exchangeable for definitive Bonds in registered form in the denomination of €100,000 each in the limited circumstances set out in it. See “*Summary of Provisions relating to the Bonds in Global Form*”.

The distribution of this Offering Circular and the offering, sale and delivery of the Bonds in certain jurisdictions may be restricted by law. No action has been or will be taken by the Issuer or the Joint Lead Managers to permit a public offering of the Bonds or the possession or distribution of this document (or any other offering or publicity materials relating to the Bonds) (i) in the United Kingdom (“**UK**”), other than to (a) persons who have professional experience in matters relating to investments who fall within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”), (b) high net worth entities and other persons to whom it may otherwise lawfully be communicated falling within Article 49(1) of the Order, or (c) persons to whom it may otherwise lawfully be communicated or (ii) in any other jurisdiction, where action for that purpose may be required. Accordingly, neither this document nor any advertisement or any 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 Offering Circular comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This Offering Circular does not constitute, and may not be used for or in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised, or to any person to whom it is unlawful to make such offer or solicitation. For a description of certain restrictions on offers, sales and deliveries of Bonds and on distribution of this Offering Circular and other offering material relating to the Bonds, see “*Subscription and Sale*”.

The Bonds are subject to restrictions on transferability and resale and may not be transferred or resold, except as permitted under applicable securities laws and regulations. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

In connection with the offering of the Bonds, each Joint Lead Manager and/or its affiliates may act as an investor for their own account or the accounts of others and may take up Bonds in the offering and in that capacity may retain, purchase or sell for their own account or the accounts of others such securities and any securities of the Issuer or related investments and may offer or sell such securities or other related investments otherwise than in connection with the offering or placement. Accordingly, references herein to the Bonds being offered or placed should be read as including any offering of Bonds to such Joint Lead Manager and/or its affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Joint Lead Managers have not separately verified the information contained in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility is accepted by the Joint Lead Managers as to the accuracy, completeness or verification of the information contained in this Offering Circular or any other information supplied in connection with the Bonds or the Ordinary Shares and nothing contained in this Offering Circular is or shall be relied upon as a promise or representation in this respect, whether as to the past or the future. Each Joint Lead Manager accordingly disclaims, to the fullest extent permitted by applicable law, any and all liability whether arising in tort, contract or otherwise which it might otherwise be found to have in respect of this Offering Circular or any other information supplied in connection with the Bonds or the Ordinary Shares. Each person receiving this Offering Circular acknowledges that such person has: (i) not relied on any Joint Lead Manager in connection with any investigation of the accuracy of any information contained in this Offering Circular or its investment decision and each person must rely on its own examination of the Issuer and the merits and risks involved in investing; and (ii) relied only on the information contained in this Offering Circular, and that no person has been authorised to give any information or to make any representation concerning the Issuer, the Bonds or the Ordinary Shares (other than as contained in this Offering Circular) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer or the Joint Lead Managers.

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:

- (i) have 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 Offering Circular or any applicable supplement;
- (ii) have 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 such investment will have on its overall investment portfolio;
- (iii) understand thoroughly the terms of the Bonds and be familiar with the behaviour of financial markets in which they participate; and
- (iv) be 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.

All references in this Offering Circular to “\$”, “US\$” or “US Dollars” are to the lawful currency of the United States of America, all references to “€”, “Euro” or, as the context may require, “cents” are to 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 the “Eurozone” are to those Member States of the European Union which have adopted the Euro, all references to “£”, “Sterling”, “pounds sterling” and “pence” are to the lawful currency of the United Kingdom and all references to “¥” or “Yen” are to the lawful currency of Japan.

The Issuer may from time to time without the consent of holders of the Bonds (“**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 the first date on which

such bonds may be converted into Ordinary Shares (“**Further Bonds**”) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Bonds) or upon such terms as the Issuer may determine at the time of their issue. This Offering Circular relates only to the admission of the Bonds (and not any Further Bonds) to the Official List and to trading on the Professional Securities Market of the London Stock Exchange. The Issuer will prepare and publish a further listing particulars to admit any such Further Bonds to the Official List and to trading on the Professional Securities Market of the London Stock Exchange or such other offering documentation as required by the listing rules of the market to which any such Further Bonds are to be admitted to trading.

In connection with the issue of the Bonds, UBS Limited (the “**Stabilising Manager**”) (or any persons acting on behalf of the Stabilising Manager) may over-allot Bonds or effect transactions to support the market price of the Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action, if begun, may be ended at any time, but it must be brought to an end after a limited period. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

Any individual intending to invest in any investment described in this Offering Circular should consult his or her professional adviser and ensure that he or she fully understands all the risks associated with making such an investment and has sufficient financial resources to sustain any loss that may arise from it.

Prospective investors should read the entire document and, in particular, the section headed “*Risk Factors*”, when considering an investment in the Issuer.

The Joint Lead Managers are acting exclusively for the Issuer and no-one else in connection with the offering of the Bonds. None of the Joint Lead Managers will regard any other person (whether or not a recipient of this Offering Circular) as its client in relation to the offering of the Bonds and will not be responsible to anyone other than the Issuer for providing the protections afforded its clients nor for giving advice in relation to the offering of the Bonds or any transaction or arrangement referred to herein.

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PRESENTATION OF INFORMATION

Presentation of financial information

Unless otherwise stated, all financial information relating to the Issuer incorporated by reference in this Offering Circular has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (the “EU”) and in Euro (as defined).

Documents incorporated by reference

This Offering Circular should be read and construed in conjunction with:

- (1) the audited consolidated annual financial statements of the Issuer as at and for the year ended 31 December 2012 (together with the audit report thereon) appearing on pages 85 to 219 of the Annual Report and Accounts 2012 of the Issuer (the “**Annual Report and Accounts 2012**”);
- (2) the audited consolidated annual financial statements of the Issuer as at and for the year ended 31 December 2011 (together with the audit report thereon) appearing on pages 81 to 199 of the Annual Report and Accounts 2011 of the Issuer;
- (3) the unaudited financial results of the Issuer for the three-month period ended 31 March 2013; and
- (4) the sections in the RNS announcement of the Issuer dated 8 May 2013, relating to traffic and capacity statistics of the Group for the month of April 2013, entitled “April 2013 – Group Traffic and Capacity Statistics” and “Group Performance”,

each of which has been previously published or is published simultaneously with this Offering Circular and has been approved by the UKLA or filed with it. Such documents shall be incorporated in, and form part of, this Offering Circular, save that any statement contained in a document which is incorporated by reference herein shall be modified or superseded for the purpose of this Offering Circular 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 Offering Circular.

Where documents incorporated by reference themselves incorporate information by reference, such information does not form part of this Offering Circular.

Any information contained in a document incorporated by reference in this Offering Circular which is not incorporated in, and does not form part of, this Offering Circular either is not relevant for investors or is contained elsewhere in this Offering Circular.

Copies of documents incorporated by reference in this Offering Circular may be obtained (without charge) from the registered office of the Issuer or at the Investor Relations section of the Issuer’s website at www.iairgroup.com. Any information contained on this website shall not form part of this Offering Circular.

Forward-looking statements

Some of the statements in this Offering Circular include forward-looking statements which reflect the Issuer's current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the products and services of the Issuer and its subsidiaries (the "**Group**")). These statements include forward-looking statements with respect to the Group and the sectors and industries in which the Group operates. Statements which include the words "expects", "intends", "plans", "believes", "projects", "anticipates", "will", "targets", "aims", "may", "would", "could", "continue" and similar statements are of a future or forward-looking nature.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause the Group's actual results to differ materially from those indicated in these statements. These factors include but are not limited to those described in the part of this Offering Circular entitled "*Risk Factors*", which should be read in conjunction with the other cautionary statements that are included in this Offering Circular. Any forward-looking statements in this document reflect the Issuer's current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the Group's operations, results of operations, strategy and liquidity. Given these uncertainties investors are cautioned not to place any undue reliance on such forward-looking statements.

These forward-looking statements speak only as of the date of this document. Subject to any obligations under the Listing Rules, or as otherwise required by law, the Issuer undertakes no obligation to publicly update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward-looking statements attributable to the Group or individuals acting on behalf of the Group are expressly qualified in their entirety by this paragraph. Prospective investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision.

RISK FACTORS

Prospective investors should consider carefully the risks set forth below and the other information contained in this Offering Circular prior to making any investment decision with respect to the Bonds. Each of the risks highlighted below could have a material adverse effect on the business, operations, financial condition or prospects of the Issuer, which, in turn, could have a material adverse effect on the amount of principal and interest which investors will receive in respect of the Bonds. In addition, each of the risks highlighted below could adversely affect the trading price of the Bonds or the Ordinary Shares or the rights of investors under the Bonds or the Ordinary Shares and, as a result, investors could lose some or all of their investment.

Prospective investors should note that the risks described below are not the only risks the Issuer faces. The Issuer has described only those risks relating to its operations that it considers to be material. There may be additional risks that it currently considers not to be material or of which it is not currently aware, and any of these risks could have the effects set forth above.

Prospective investors should read the entire Offering Circular, together with the documents incorporated by reference herein. Words and expressions defined in the “Terms and Conditions of the Bonds” below or elsewhere in this Offering Circular have the same meanings in this section.

Investing in the Bonds involves certain risks. An investment in the Bonds is suitable only for sophisticated investors who have sufficient financial resources to sustain any losses from such investment and who are in a position to commit funds for a considerable period of time. Prospective investors should consider, among other things, the following:

Risks relating to the Issuer

The Issuer is a holding company.

As a holding company, the Issuer is dependent on the business operations of its principal subsidiaries, British Airways Plc and Iberia, Líneas Aéreas de España, S.A. Operadora (respectively, “BA” and “Iberia”). Consequently, the Issuer’s value derives from the revenue and cashflows generated in BA and Iberia. BA is currently subject to a binding agreement that limits the payment of dividends, which in some circumstances could limit the Issuer’s ability to service payments to investors. See “*The size of the Group’s and, in particular, BA’s pension deficit and associated commitments are substantial and subject to variation*” risk factor for further details.

A material adverse event affecting the Group could have a material adverse effect on the Issuer’s financial condition and results of operations.

Damage to the Group’s reputation or brand names could have a material adverse effect on its business.

The Group’s brands have significant commercial value. Damage to them, and to their wider reputations, could have a material adverse effect on the Group’s financial position and results of operations: for example, BA and Iberia rely on positive brand recognition to attract customers and investors. Any damage to BA’s or Iberia’s reputation, brand image or brand name through either a single event or a series of events could have a material adverse effect on the Group’s ability to market these brands’ services and attract and retain customers.

The airline industry is highly competitive and the Issuer faces competition from other airlines as well as from alternative means of transportation.

The airline industry is highly competitive as a result of airlines continually entering the market, the expansion of existing airlines, routes and frequency of flights and consolidation between, or formation of alliances between, airlines. A number of the Issuer's competitor airlines have a lower cost structure than, for example, BA or Iberia and can offer flights at lower prices.

While competitive intensity varies across different routes depending on the number and nature of competitors operating on the route and the applicable regulatory environment and associated barriers to entry (such as operating licences, capital requirements and availability of slots), the percentage of routes on which the Group competes with airlines having lower operating costs has grown significantly over the past decade and such competition is likely to increase further. Though the Issuer is focused on improving the cost structure of the Group, thereby mitigating the impact of any such competition, there can be no assurance that further growth of competitor airlines will not impair the Issuer's future growth or cause it to lose market share.

Some of the Issuer's competitor airlines are wholly or partially state-owned, which could give these airlines access to larger and less expensive sources of funding, thereby helping them to become more competitive. The impact of the current financial crisis might also induce governments to unilaterally grant subsidies or other public aid to one or more of the Issuer's competitors, which could distort markets and have an adverse impact on the Issuer's competitive position. Though this risk is limited to non-EU countries (given that EU Treaty provisions on state aid prohibit all EU-based airlines, including the Group's airlines, from receiving any such state aid), it could still have a material adverse effect on the Issuer's financial condition and results of operations. A number of the Issuer's competitor airlines may also be able to benefit from protection under insolvency laws, helping them to substantially reduce their cost structures and become more competitive, both while they are under creditor protection and thereafter. This is particularly relevant to US airlines benefiting from protection under Chapter 11 of the US Bankruptcy Code, as transatlantic routes are some of BA's more important markets. Chapter 11 offers companies temporary protection from creditors, the ability to renegotiate contracts, to reject the terms of existing collective bargaining agreements, subject to certain conditions, and restructure the business as a going concern. Therefore, businesses which have been through Chapter 11 can enjoy competitive advantages over their competitors, mainly as a result of their ability to renegotiate contracts, reduce costs and restructure their debts. There have been numerous examples of US airlines filing for Chapter 11 protection, including some of the largest US airlines such as Delta Airlines, United Airlines, American Airlines and US Airways. If the Issuer's competitors are able to offer their services at lower prices on a continuous basis or to increase their market share to the detriment of the Group, this could have a material adverse effect on the Group's financial condition and results of operations.

In addition, the Issuer faces competition from alternative forms of transport such as rail travel (in particular, the high-speed train Alta Velocidad Española in Spain (the "AVE"); the rest of Spain's high-speed rail network; and high speed rail travel elsewhere in Europe, such as the Eurostar in the UK and France) and from alternative forms of communication technology, such as video-conferencing. Competitive pressure from alternative forms of transport and technology is likely to increase and could result in a loss of air passengers, in particular non-leisure air passengers, to rail transport and other modes of transportation or communication.

Global economic conditions could severely impact the Issuer's financial position and the Group's business.

The Group's revenue is highly sensitive to economic conditions in the markets in which it operates. Demand for air travel depends on economic conditions, employment levels, consumer and business confidence and the availability of consumer credit. The airline industry tends to experience significant adverse financial results during economic downturns as travellers often choose to reduce their transportation or reduce the price they pay for such transportation. In addition, an economic downturn also tends to result in a decrease in air cargo revenue, as international trade decreases and businesses look to run down their inventories and send freight by more economical routes.

Deterioration in either the domestic and/or global economy may therefore have a material impact on the Issuer's financial position and the Group's business. For example, 15 per cent. of the Group's revenue is generated in the US and, as a result, it is exposed to any contraction in the economy resulting from management of the US fiscal deficit and debt ceiling issues. Through Iberia's Spanish base and, to a lesser extent, the BA route network, the Group has a high exposure to Eurozone countries going through economic recession. Iberia provides 27 per cent. of the Group's external turnover, approximately half of this coming from Spain. There is uncertainty over how the Spanish economy will perform in 2013, with recovery not expected until 2014. BA only derives about 6 per cent. of its revenue on routes to Italy, Spain, Portugal, Cyprus and Greece, all of which are expected to experience economic contraction in 2013.

An increasing number of insolvencies among customers as a result of a deterioration of the economic conditions in the markets in which the Group operates could therefore have a negative impact on its margins and result in a material adverse effect on the Group's financial condition and results of operations.

Moreover, the Group is exposed to the credit risk of and is dependent on the performance of obligations by third party service and facility providers, as explained in the risk factor entitled "*Exposure to credit risk of counterparties and dependence on third party service and facility providers*" below. Although the Group has in place a counterparty risk policy to monitor credit risk, non-performance of obligations by such third party service or facility providers, in particular payment obligations owed to financial institutions acting as hedge counterparties, as a result of deteriorating economic or market conditions could result in losses which could have a material adverse effect on the Issuer's financial condition and results of operations.

The airline industry is exposed to macroeconomic factors, governmental policy changes or decisions.

Macroeconomic decisions may impact taxes, duties or other charges to which the Group is subject which could have a material adverse effect on the Group's financial condition and results of operations. This is particularly relevant in the current economic climate where the focus is on reducing government deficits, including by raising taxes.

For example, the decision by the UK to increase air passenger duty significantly and the potential for other environmental taxes to be imposed by other jurisdictions, could have an adverse impact on demand for air travel and/or reduce the profit margin per ticket. Furthermore, certain of these proposals could benefit the Group's non-UK competitors, who operate a lower proportion of routes into, out of or within the UK, to the Group's detriment. By way of a further example, aviation fuel for international commercial aviation is untaxed. There can be no assurance that this tax exemption will

be maintained and any change to this exemption could lead to a substantial increase in the industry's aviation fuel costs, as well as the Group's aviation fuel costs.

Certain markets in which the Group operates are subject to government regulation controlling capacity and/or restricting market entry: relaxation of such restrictions, while creating growth opportunities for the Group, could impact competition and therefore have a negative impact on its margins and result in a material adverse effect on the Group's financial condition and results of operations.

The Group is dependent on good relations with employees and their trade unions.

Within the Group, BA and Iberia are both large employers and many of BA's and Iberia's staff members are represented by a range of different trade unions, as is usual in the airline industry. While collective bargaining and other agreements between the companies and those unions takes place regularly, a breakdown in the bargaining process could lead to industrial action, which could disrupt operations and have a material adverse effect on the Group's business performance.

BA regularly negotiates with the following five main unionised groups via their National Sectional Panels: pilots (BALPA); cabin crew (Unite/BASSA); passenger group and head office administration staff (Unite/GMB); ramp and cargo staff (Unite/GMB) and engineering (Unite/GMB). There can be no assurance that BA will not experience strikes or other industrial action. Any drawn out industrial dispute including the prospect of industrial action, even if it does not ultimately result in strikes taking place, could have a material adverse effect on BA's reputation and cause customers to book with BA's competitors if there is a prospect of an industrial dispute. For example, cabin crew strikes in March, May and June 2010 are estimated by the Group to have cost BA £185 million in revenue and additional costs (an amount that represents 2.3 per cent. of BA's total revenue for the financial year ended 31 March 2010).

Iberia has regular contact with the following main unionised groups, who have representatives sitting on various Iberia committees: pilots (SEPLA); cabin crew (STAVLA; CTA-VUELO; SITCPLA; UGT; and CC.OO) and ground staff (UGT; CC.OO; USO; CTA-TIERRA; CGT; ASETMA; CESH; SITA and CIG). Recently, Iberia has experienced certain difficulties and internal capacity constraints as a result of the existing work patterns of its pilots and other personnel. Though Iberia currently has collective employment agreements in place with its ground staff, pilots and crew members, there can be no guarantee that any negotiations surrounding the renewal of such collective labour agreements will be negotiated satisfactorily or that such negotiations will be concluded within a specified time. If negotiations break down, there is a risk of industrial action.

The Group is also exposed to the risk of individual employees or groups of employees acting unethically, resulting in fines or losses to the Group. The Group considers that it has comprehensive policies in place designed to ensure compliance, together with training schemes in place to educate staff on such matters.

The Group faces risks in its execution of Iberia's 'Transformation Plan'.

In view of Iberia's financial situation, with operating losses (before exceptional items of €545 million) of €351 million in 2012, the Issuer and Iberia announced in November 2012 the 'Transformation Plan' (the "Plan") to introduce permanent structural change across all areas of Iberia and return it to profitable growth. The objective of the Plan, more specifically, is in the short term for the transformation to focus on stemming the losses and creating a profitable route network. This will

include suspending loss-making routes and frequencies and ensuring there is effective feed for profitable long-haul flights. The Plan also requires comprehensive productivity improvements and permanent salary adjustments to achieve a competitive and flexible cost base. Proposals by a mediator – appointed following the failure of negotiations between Iberia and the unions in early 2013 – were accepted by the Group and unions representing 93 per cent. of Iberia staff.

Although agreement with the mediator's proposals represents a good starting point in restoring profitability and the future viability of Iberia, implementation risks remain high and include delay of the Plan resulting from widespread labour conflict, operational disruption, legal risk around testing new labour reforms, a failure to obtain consent from certain union groups and a lack of employee focus. In addition, there is a risk that the Plan's comprehensive productivity improvements and salary adjustments will not result in Iberia achieving the competitive and flexible cost base which the Group intends. The occurrence of one or more of these risks would impact upon the implementation of the Plan, which in turn could have a material adverse effect on the Group's financial condition and results of operations.

The Group has substantial financing needs (primarily fleet) in the longer term.

The airline industry is capital intensive and as a result the Group has incurred indebtedness (primarily with respect to aircraft) to finance its ongoing operations and to cover material capital expenditure requirements. A substantial portion of existing borrowings is secured on BA's and Iberia's assets. The Group's ability to finance ongoing operations, committed aircraft orders and future fleet growth plans are vulnerable to various factors including financial market conditions.

At 31 December 2012, BA's borrowings included outstanding finance lease and hire purchase commitments totalling £2,320 million and other loans secured on specific aircraft, property and equipment totalling £811 million. The resulting secured borrowings totalled £3,131 million. In the case of Iberia, the part of its borrowings secured by assets relates to the financial leases which at 31 December 2012 amounted to €222 million.

At 31 December 2012, BA had outstanding firm order commitments totalling £3,874 million (€4,747 million) in respect of 50 aircraft, and had undrawn (therefore off-balance sheet) committed facilities in place for aircraft purchases of US\$1,966 million and a revolving credit facility of US\$805 million. For Iberia, on the basis of catalogue prices, the total cost of outstanding firm order commitments for 17 aircraft was approximately €1,621 million at 31 December 2012. Iberia operates most of its fleet on operating lease agreements, and therefore those are not included on the balance sheet, nor are the amounts paid in respect of the leases. Iberia finances its capital expenses from operating cash flow, additional loans and off-balance sheet financing transactions (operating leases). Normally, agreements between airlines and manufacturers contain a sale and purchase commitment for various aircraft over a period of time which, in most cases, is between four and six years, and, therefore, it is important to anticipate with enough time the fleet requirements of the company. BA and Iberia have backstop agreements in place with the manufacturers for various future deliveries.

In addition, the Issuer announced on 3 April 2013 that it had reached an agreement with Boeing for new long-haul aircraft for the Group's fleet. The Issuer plans to convert 18 existing Boeing 787 aircraft options into firm orders for BA. They will be used to replace some of BA's Boeing 747-400 aircraft between 2017 and 2021. Furthermore, on 22 April 2013, the Issuer announced that it is ordering Airbus A350 aircraft for the Group's long-haul fleet. For BA, there are 18 A350-1000 firm orders, plus 18 options. For Iberia, the Issuer also reached agreement with Airbus, as well as Boeing, to secure commercial terms and delivery slots that could lead to firm orders for Airbus A350s and/or

Boeing 787s. Firm orders will only be made when Iberia has restructured and reduced its cost base and is in a position to grow profitably (see “*The Group faces risks in its execution of Iberia’s ‘Transformation Plan’*” above for further details).

Some of BA’s and Iberia’s existing borrowings will need to be refinanced. Given the current economic situation, there can be no assurance that any refinancing will not become more difficult, more expensive or even fail entirely in the longer term. In addition, any change in the credit profile of BA or Iberia may affect BA’s or Iberia’s access to the debt markets or their borrowing rates. This could have a material adverse effect on the Group’s financial condition and results of operations.

Exposure to credit risk of counterparties and dependence on third party service and facility providers.

The Group is exposed to the credit risk of non-performance by its counterparties in respect of receivable financial assets. Treasury activities, which include placing money market deposits, fuel hedging and foreign currency transactions, could lead to a concentration of different credit risks on the same counterparty. The Group is also exposed to the credit risk of non-performance by its insurance counterparties. Failure of any of its counterparties could have a material adverse effect on the Group’s financial condition and results of operations.

The Group is also exposed to the failure of a number of third parties for certain principal material business services – which, in the current economic climate, is an increased risk – such as airport operators, airport authorities, aircraft lessors, airframe and engine manufacturers, aircraft fuel providers, aircraft maintenance providers, global distribution systems (“**GDS**”), air traffic controllers, ground handlers, caterers, security personnel, check-in staff, baggage handlers and distributors as well as other general airport services and the availability of the requisite airport infrastructure. In the current economic climate, the Group’s suppliers are potentially at increased risk of business failure. If one or more of these third party services were restricted or temporarily unavailable as a result of events such as strikes or technical problems or were permanently unavailable or were only available on un-commercial terms or if lessors and airframe and engine manufacturers were to delay delivery of aircraft, make scheduled deliveries of aircraft late, or to deliver goods which did not meet the standards and specifications contracted for, this could have a material adverse effect on the Group’s business. For example, the infrastructure that provides jet fuel to London Heathrow airport and other airports from which the Group operates is critical to its operations. Any breakdown in this infrastructure and/or contamination of the fuel supply would have a significant impact on operations and could have a material adverse effect on the Group’s financial condition and results of operations. Moreover, contracts with third parties, including airport operators and GDS, will need to be renewed in the future, which could have higher cost implications.

The size of the Group’s and, in particular, BA’s pension deficit and associated commitments are substantial and subject to variation.

The Group, particularly BA, has substantial pension obligations under pension schemes for its employees. The funding obligations of the Group’s pension schemes will be affected by the investment performance of the pension funds’ investments, changes in actuarial assumptions used to assess the pension schemes’ funding position, changes in the rate of inflation and interest rates, the Group’s financial position, as well as changes in economic conditions. Changes in the Group’s funding obligations, including the continuation of restrictions on BA’s ability to make dividend payments to the Issuer, could have a material adverse effect on the business, financial condition or results of operations of the Group.

The Group operates a variety of post-employment benefit arrangements, covering both defined contribution and defined benefit schemes. For Iberia, the main pension scheme for its employees is the Montepío de Previsión Social Loreto defined contribution scheme (though this pension scheme is completely independent and separate from Iberia). For BA, the three main pension schemes for its employees are the Airways Pension Scheme (the “**APS**”), the New Airways Pension Scheme (the “**NAPS**”) and the BA Retirement Plan (the “**BARP**”). See “*Description of the Issuer – Employees and pension schemes*” for further information. The APS and the NAPS are both final salary-based defined benefit schemes offering benefits in relation to a formula based on salary and length of service.

The terms of the APS trust deed establishing the scheme provides that trustees (with the approval of at least two-thirds of the trustees’ votes) may approve amendments the APS, including the benefit structure, without the consent of BA. In 2010, the trustees of the APS granted themselves a discretionary power to review annual pension increases paid to pensioners, with the aim of being able to award pension increases in excess of the Consumer Prices Index (“**CPI**”) inflation measure, when appropriate. CPI replaced the Retail Prices Index (“**RPI**”) as the default measure from April 2011, as a consequence of UK government changes to indexation for public sector pensions; generally CPI is forecast to be lower than RPI. To date, no discretionary increases have been awarded and pension increases paid in 2011, 2012 and 2013 have been based on CPI. However, there can be no certainty that the trustees will not seek to award pension increases in excess of CPI in the future, or make other changes to the scheme.

To address deficits in the APS and the NAPS, a funding agreement was reached in June 2010 between BA and the respective pensions trustees (which was approved by the UK Pensions Regulator), under which BA committed to make contributions to the APS until 2023 and to the NAPS until 2026. Taken together with future service costs, BA expects to make cash contributions to the APS and the NAPS of approximately €405 million per year. In addition, BA has agreed to provide further financial support to the APS in the form of guarantees in amounts of €283 million (in 2007) and a further €307 million (in 2010), which are callable by the pension trustee on an insolvency of BA. BA also agreed with the pensions trustees to a restriction on the payment by it of any dividend to the Issuer.

The deficit payment plans are agreed with the pension trustees of the APS and the NAPS every three years based on a triennial actuarial valuation. BA has commenced the triennial valuation exercise in respect of the APS and the NAPS for the three-year period to 31 March 2012 and discussions with the pensions trustees regarding the two schemes are on-going. The aim is to reach agreement with the pension trustees on or before 30 June 2013. While discussions to date have been constructive, there can be no certainty that agreement will be reached by this date, at which point discussions would continue with the involvement of the UK Pension Regulator. Furthermore, while BA is not expecting to pay a dividend in the short term, there can be no certainty that these discussions will result in the pension trustees of the APS or the NAPS agreeing to remove the dividend restriction on BA. Moreover, there can be no assurance that the pension trustees of the APS or the NAPS will not require an increase to BA’s funding obligations.

Furthermore, the UK Pensions Regulator has wide ranging statutory powers under the Pensions Act 2004 (as amended), including the ability to impose, in certain circumstances, obligations against employers with defined benefit pension schemes or persons connected to or associated with such employers (such as the Issuer or Iberia), issuing contribution notices or financial support directions requiring a payment to be made or additional financial support to be given to the pension scheme. The UK Pensions Regulator can also issue contribution notices if it is of the opinion that a company

has taken actions or failed to take actions deliberately designed to avoid meeting its pension promises or which are materially detrimental to the scheme's ability to meet its pension promises.

Although the Issuer and Iberia are independent from the BA pension schemes, there can be no certainty that the UK Pensions Regulator would not consider a decision or action taken by the Issuer or Iberia or their relationship with BA to constitute sufficient grounds for imposing an obligation on either the Issuer or Iberia to make any payment to, or otherwise assume liability for, any pension scheme operated by BA.

Failure of critical IT system/dependence on uninterrupted operation of processing systems.

BA's and Iberia's ability to manage their ticket sales (a large proportion of which are electronic tickets), receive and process reservations, manage their network and perform other critical business operations is dependent on the efficient and uninterrupted operation of the computer, internet and communication systems used by BA and Iberia, as well as the systems used by third parties in the course of their interaction with and/or provision of services to BA and Iberia (such as Amadeus). As computer and communication systems are vulnerable to disruption, power outages, acts of sabotage, computer viruses, fires and other events, there can be no assurance of efficient and uninterrupted operation of these systems.

Any disruption to computer and communication systems used by the Group could significantly impair its ability to operate its business efficiently and could have a material adverse effect on the Group's financial condition and results of operations.

The airline industry is exposed to international political instability, including acts of terrorism and military conflicts.

The airline industry is exposed to the instability of foreign governments in a number of different countries and markets for example, BA suspended flights between London and Tripoli between February 2011 and May 2012 as a result of the Arab Spring uprisings. Thus local, regional and international political conditions in markets that are material to the Group's strategy could affect the Group's business.

More specifically, terrorist attacks and military conflicts worldwide have in the past had a significant adverse effect on both BA's and Iberia's businesses and no assurance can be given that similar events will not happen in the future. An atmosphere of uncertainty could continue for the foreseeable future and could intensify drastically if further terrorist attacks were to occur, especially if they were targeted against aircraft or tourist destinations. The adverse consequences of such events, and the threat of such events, could include reduced demand for air travel, limitations on the availability of insurance coverage, increased costs associated with security precautions and flight restrictions over war zones. Such events could have an ongoing material adverse effect on the Group's financial condition and results of operations and could make it difficult, or even impossible, for the Group to obtain new credit lines or other financing instruments, or to pay off existing ones.

The airline industry is exposed to risks associated with the limitation of greenhouse gas emissions and related trading schemes or allowances and any changes to environmental legislation.

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 System (the “ETS”) in 2003 to limit greenhouse gas emissions and the trading of allowances which applies to certain industrial installations. The ETS was introduced in 2012 for intra-EU flights with the intention to extend the scheme outside the EU in 2014. Further increases or the extension of the ETS to flights outside the EU, could have an adverse impact upon demand for air travel and/or reduce the profit margin per ticket. These taxes may also benefit the Issuer’s competitors by reducing the relative cost of doing business from their hubs.

Due to the European focus of the scheme, BA and Iberia, like all European airlines, might also face competitive disadvantages in comparison with non-European air carriers who operate a lower proportion of routes into, out of or within the EU. The EU is, as far as the Issuer is aware, the only area that has implemented an emissions trading scheme which applies on a mandatory basis to international aviation authorities. There is uncertainty regarding the implementation of the ETS in 2013. A decision on its implementation is still being negotiated and it is unlikely that such a decision will be reached on this until the end of the year.

Further increases, or the extension of the EU’s ETS to flights outside the EU, could have an adverse impact upon demand for air travel and/or reduce the profit margin per ticket. These taxes may also benefit our competitors by reducing the relative cost of doing business from their hubs.

Moreover, further regulations on greenhouse gas emissions might be enacted in one or more of the countries in which the Group operates. All of these factors may limit the Group’s operational flexibility, increase costs and therefore may have a material adverse effect on its financial condition and results of operations. Customer attitudes to environmental and climate issues may also change and this may lead to a reduced demand for air travel.

The airline industry is exposed to volatile aviation fuel prices.

Aviation fuel has been, and is expected to remain, subject to significant price volatility. Prices for aviation fuel are strongly correlated to the price of petroleum and are influenced by a number of factors, including fluctuations in the Euro/US Dollar exchange rate, political events, war or the threat of war and the coordinated pricing decisions of the Organization of Petroleum Exporting Countries producer cartel.

The Group used approximately 7.4 million tonnes of jet fuel in 2012. Volatility in the price of oil and petroleum products can have a material impact on its operating results. For the financial years ended 31 December 2012 and 31 December 2011, fuel, oil costs and emissions charges amounted to 35.2 per cent. and 34.3 per cent. of BA’s recurring operating expenses, respectively. For the full year ended 31 December 2012 and 31 December 2011, fuel, oil costs and emissions charges amounted to 29.7 per cent. and 26.8 per cent. of Iberia’s recurring operating expenses, respectively.

These price risks are partially hedged through the purchase of oil derivatives in forward markets, which can generate a profit or a loss.

BA’s fuel-hedging results included in the fuel cost, in the two financial years ended 31 December 2012 and 31 December 2011, were £77 million profit and £282 million profit, respectively. BA’s net hedging result for the three years ended 31 December 2012 was a profit of £323 million. Iberia’s fuel-hedging results included in the fuel cost item, in the three financial years ended 31 December 2012, 31 December 2011 and 31 December 2010, were €0.2 million profit, €162 million profit and €10 million profit, respectively.

If the Group is exposed to significant price volatility and/or increases in prices for aviation fuel, there can be no assurance that the Group will be able to offset such volatility and increases by passing these costs on to customers (including through fuel surcharges) and/or cost reductions and/or through fuel hedging, nor can BA and Iberia predict the movement of either short-term or long-term aviation fuel prices.

Fluctuations in currency exchange rates could have a material adverse effect on the Group.

Given the international nature of the Group's business, a significant proportion of the Group's revenues, costs and borrowings are denominated in currencies other than Sterling (in the case of BA) and Euro (in the case of Iberia) and, as the Group reports its financial results in Euro, the results for each period are affected by fluctuations in exchange rates. The principal currencies to which the Group is exposed are US Dollars, Euro, Sterling and Yen. An adverse change in exchange rates against Sterling or Euro could have a material adverse effect on the Group's business, operations, financial condition and results of operations.

At 31 December 2012, BA's gross on-balance sheet debt was £3,692 million. Included in this total is US\$2,482 million (£1,522 million) of US Dollar-denominated debt, representing 41 per cent. of BA's gross debt at that date. At 31 December 2012, Iberia's gross on-balance sheet debt (bank borrowings and finance leases) was €250 million. Included in this total is US\$230 million (€175 million) of US Dollar-denominated debt, representing 70 per cent. of Iberia's gross debt at that date. For the financial year 2012, US Dollar revenue represented a material proportion of BA's and Iberia's respective revenue and a significant proportion of BA's and Iberia's respective operating expenditure.

As such, for BA and Iberia, the main risk at present is a strengthening of the US Dollar against Sterling and the Euro, as both operating companies have more expenses than income in US Dollars. The Group seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency and actively managing the surplus or shortfall through treasury hedging operations.

The airline industry is exposed to changes to regional, national or international law or regulations.

Airlines are subject to extensive regulatory requirements. The Group is subject not only to English and Spanish laws and regulations but also to the laws and regulations of the EU and other nations (such as the US) and 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 and route flying rights, environmental and security requirements, safety, licensing, competition, customer protection and tax. Additional laws, regulations, taxes and airport rates and charges have been proposed from time to time that could significantly increase the cost of airline operations or reduce revenues. Furthermore, while the Group cannot fully anticipate all changes that may be made in the future, nor the possible adverse impact of such changes, its ability to comply with such regulations is key to maintaining its operational and financial performance.

Fluctuations in interest rates could have a material adverse effect on the Group.

The Group is exposed to increases in interest rates when its floating rate debt in a particular currency exceeds floating rate cash deposits in that currency.

BA's adjusted net debt stood at £2,495 million at 31 December 2012 and £2,250 million at 31 December 2011. At 31 December 2012, 60 per cent. of BA's bank borrowings was fixed rate and 40 per cent. was floating rate. As such, BA is exposed to increases in interest rates.

Iberia's adjusted net debt stood at €1,856 million at 31 December 2012 and €1,309 million at 31 December 2011. At 31 December 2012, 65 per cent. of Iberia's bank borrowings was at a fixed rate and the remaining 35 per cent. at a floating rate. For this reason, Iberia is also exposed to increases in interest rates in the currencies in which its debt is denominated.

Slot allocations can affect the competitiveness and financial condition of airlines.

Slot allocations can affect the competitiveness and financial condition of airlines. Airport slots are rights allocated annually for each relevant season (winter season and summer season) to an entity by an airport or government agency granting the slot owner the right to schedule a landing or departure during a specific time period. The slots may be traded at certain airports.

In the EU, air carriers must generally use an allocated slot for a minimum of 80 per cent. of the time during the period for which the slot was assigned. If BA or Iberia were not to use certain slots on a temporary or long-term basis, whether for commercial or other reasons, BA or Iberia might lose those slots which were insufficiently utilised. If an adequate number of slots were not made available to BA or Iberia, or BA or Iberia were unable to secure appropriately timed takeoff and landing slots, BA or Iberia might be forced to change their flight schedules or reduce their aircraft utilisation rate. This may adversely affect the Group's financial condition and results of operations.

In terms of non-EU members, the International Air Transport Association ("IATA") has guidelines in place setting out best industry practice (based on such criteria as environmental issues or appropriate use of slots) and a policy for worldwide application in relation to slot allocation and coordination, which are broadly mirrored in applicable EU slots legislation. However, where local regulation and legislation exists, that will override IATA's guidelines.

Moreover, there can be no assurance that BA's or Iberia's current slots will be appropriate in the future or that BA or Iberia will be able to secure appropriate slots in the future. The ability of BA or Iberia to add additional flights to their existing schedules will be constrained, in part, by the availability of slots at relevant airports. For example, the Group has taken steps to enhance its capacity at London Heathrow, such as BA's recent purchase of bmi, which resulted in an increase of 42 slots being available to BA. The total number of slots held by BA increased from 290 to 344 from 2011 to 2013 and BA now holds over 50 per cent. of the slots at London Heathrow, including 42 early morning slots (i.e. arrivals before 8 a.m.) which are preferred by long-haul customers. However, a failure by the Group to maintain appropriate slots or add additional flights to its existing schedules may adversely affect the Group's financial condition and results of operations.

Airlines are exposed to increases in airport, transit and landing fees, along with changes in air security policies and air traffic security costs.

Airlines are exposed to increases in airport, transit and landing fees, along with changes in air security policies and air traffic security costs. Airport, transit and landing fees and security charges or initiatives represent a significant operating cost to BA and Iberia and have an impact on operations.

In the financial year to 31 December 2012, the total airport charges (fees for landing, aircraft parking, airbridge use and other airport services) and air navigation charges (en route and approach)

represented 6.9 per cent. of BA's recurring operating expenses and 7.15 per cent. of Iberia's recurring operating expenses.

There can be no assurance that such costs will not increase or that the Group will not incur new costs in the UK, Spain or elsewhere, particularly in the US, specifically in the event of terrorist attacks. By way of an example, implementation of the policy restricting liquids carried in passengers' hand luggage had a considerable impact on the operations and costs of the airline industry, as did the advance passenger information system implemented by the US. If the Group 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 financial condition and results of operations.

On 30 April 2013, the UK Civil Aviation Authority ("**CAA**") published, pursuant to its ongoing 'Quinquennial 6' review (the "**Review**"), initial proposals on increases to airport charges at London airports for the five years from 2014. The CAA has proposed London Heathrow increase passenger charges at a rate of inflation minus 1.3 per cent., while, at London Gatwick, the CAA has proposed a cap on increases to passenger charges of inflation plus 1 per cent. Though this does not represent the CAA's final determination on the matter (this being planned for September 2013, with the CAA's final decision on licence conditions to be made in January 2014), there is nevertheless a risk that charges and development plans agreed as a result of the Review will significantly increase the cost of operating at BA's London hubs, or commit to future infrastructure investment in a way that benefits other airport users ahead of the Group's interests. BA remains constructively engaged in the review process. If the Review results in commitments to future infrastructure investments which ultimately benefit the Group's rivals, or if the Group is unable to pass any Review-sanctioned increases in operational costs on to its customers, these decisions and increases could have a material adverse effect on the Group's financial condition and results of operations.

Epidemics, pandemics, severe weather conditions, natural disasters or other 'Acts of God' could have a material adverse effect on operations and the demand for air travel.

Several possible events may cause a significant network disruption. Epidemics and pandemics (such as avian influenza), natural disasters, severe weather conditions or other 'Acts of God' (whether on a regional or global scale) could have a material adverse effect on the airline industry and result in substantial reductions in and/or cancellations of, bookings and flights not only to or from the affected region but also more generally, thereby reducing demand for BA's and Iberia's services.

If an event or circumstance were to weaken the demand for air travel or materially affect airline operations during that period (for instance, an 'Act of God' or severe weather conditions), this could have a disproportionate effect on the Group's results for the relevant financial year. Therefore, the occurrence and timing of such events, together with the reaction of aviation authorities to such events, cannot be predicted or controlled by the Group.

The outbreak or occurrence of any of the above events could result in the disruption of the Group's operations and could have a material adverse effect on the Group's business and financial condition.

Insurance cover in the event of natural and/or man-made disasters, including the loss of an aircraft, may not be sufficient.

The Group's ability to manage its airline business with an adequate level of insurance coverage against risk of losses from man-made and natural disasters is dependent on, among other things, insurance policies. These policies stipulate a number of conditions under which the insurers may

terminate policies. In addition, the policies must be renewed at regular intervals. There can be no assurance that the amount of insurance cover, if any, available to the Group upon the occurrence of a man-made or natural disaster, including the loss of one or more of its aircraft for any reason, would be adequate to cover the resulting losses. The Group could be obliged to bear substantial costs if (i) insurance policies do not cover a specific claim; (ii) the amounts insured under such policies are insufficient; or (iii) an insurer is not able to pay the insured amounts.

An accident or incident involving aircraft belonging to any of the Group's brands could involve significant potential claims by injured passengers or others, in addition to the repair or replacement of damaged aircraft and consequential temporary or permanent loss of the aircraft from service. Substantial claims resulting from an accident in excess of the Group's related insurance coverage could harm the Group's business and financial results. In addition, any aircraft accident or incident, even if fully insured, could cause a public perception that the Group's brands were less safe or reliable than other airlines, which would harm the Group's reputation and, in turn, its business.

Furthermore, the airline industry is exposed to the risk of insurance coverage for aviation air traffic risks becoming too expensive or too difficult to obtain, in the event, for example, of future terrorist attacks, acts of sabotage and other incidents, particularly ones that were specifically directed against air traffic. The Group insures its aircraft fleets according to the practices followed by other major carriers in the industry and pursuant to applicable legislation as regards the payment of compensation. Though the Group considers that, based on such criteria, the coverage of such insurance is sufficient to run their business activities, the occurrence of such man-made events, particularly ones that were specifically directed against air traffic, would result in the disruption of the Group's operations and could have a material adverse effect on its business, operations, financial condition and results of operations.

The Group faces risks from its strategic alliances and bilateral cooperation arrangements.

The maintenance and development of alliances and other strategic relations is critical to the Group's business.

BA and Iberia are members of the **oneworld** alliance, a brand marketing and services alliance between BA, Iberia and, among others, American Airlines, Cathay Pacific and Qantas. The **oneworld** alliance is a brand marketing designed to maximise the offering to customers by providing greater network coverage and benefits. Through the alliance, customers have increased options in terms of the routes available to them, stop-overs and fare types, greater access to lounges and opportunities to earn more frequent flyer points. These customer benefits make the member airlines more attractive to customers, giving members the opportunity to optimise their load factors, traffic and revenue. No assurance can be given that the **oneworld** alliance will not lose member airlines, whether as a result of one or more member airlines terminating their membership or having their membership suspended, for example, due to being wound up in the context of insolvency proceedings. Furthermore, no assurance can be given that the **oneworld** alliance will be able to attract the new members it may need to be successful in the future. In addition, the success of the **oneworld** alliance depends in part on the actions, brands and strategic plans of other airlines over which BA and Iberia have little control. If the **oneworld** alliance were to lose its appeal as a result of changes in its membership or the actions of another member or if the **oneworld** alliance were to dissolve, this could negatively affect, among other things, the network of flights that BA and Iberia are able to offer their customers.

The Group also has a number of bilateral cooperation arrangements with other airlines, including American Airlines – with whom BA and Iberia launched a joint business on 1 October 2010, in relation to flights between, and flight connections originating in, European and North American destinations (the “**Joint Business**”) – and Japan Airlines. The merger of US Airways and American Airlines is expected to enhance connectivity within **oneworld** and the Joint Business. The implementation and development of the Joint Business is currently being revised and reviewed as a result of this recent merger. Any failure of Joint Business or franchise partners could adversely affect the businesses of BA and/or Iberia.

The airline industry relies upon and is exposed to national and international infrastructure development.

The Issuer 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. For example, London Heathrow is BA’s most important traffic hub. Due to the traffic density at this airport, it has no spare runway capacity and has operated on the same two main runways since it opened over 60 years ago. As a result, BA is vulnerable to short-term operational disruption. The Issuer continues to promote the timely conclusion of the South East airport capacity debate and the expansion of the airport to create cost effective extra capacity and reduce delays, enabling London Heathrow to compete more effectively against European hubs such as Paris, Amsterdam and Frankfurt. Similarly, any infrastructure decision that is made in respect of the AVE may have an effect on Iberia’s business and operations. Consequently, such exposure to infrastructure developments renders the Group vulnerable to short-term operational restrictions, which, if persistent, could have a material adverse effect on its financial condition and results of operations.

The Group is vulnerable to the loss of key airport capacity.

As its most important traffic hubs, the Group is exposed to the loss of capacity at London Heathrow and New York John F. Kennedy (“**JFK**”) airports and Madrid Barajas airport. Factors affecting such capacity, on either a short-term or long-term basis, could have a material adverse effect on the Group’s financial condition and results of operations.

London Heathrow Terminal 5 building is leased by BA from Heathrow Airport Holdings Limited and is used by BA as the hub of its global passenger network. The lease over certain accommodation within Terminal 5 expires on 31 March 2020. There is no automatic extension of the lease and the parties will discuss renewal options nearer the relevant time. BA also occupies Terminal 7 of New York JFK airport. It is sub-leased by BA from the Port Authority of New York and New Jersey and the sub-lease expires on 30 November 2015. If this sub-lease is not renewed beyond November 2015 – the date on which its lease on Terminal 7 at New York JFK airport is due to expire – US\$200 million of debt financing would become payable by BA to the Port Authority of New York and New Jersey. As such, failure to secure satisfactory operational arrangements in respect of New York JFK airport beyond 30 November 2015 could have a material adverse effect on BA’s business, operations and, more widely, the Group’s financial condition and results of operations.

Furthermore, the London Heathrow to New York JFK route is one of BA’s most important routes, accounting for approximately 6.5 per cent. of BA’s passenger revenue in the financial year ended 31 December 2012. In the financial year ended 31 December 2012, BA operated routes to 20 US destinations. The routes to New York JFK contributed 20 per cent. of total revenue on all these 20 routes (London Heathrow and London City to JFK). Therefore the complete or partial loss or temporary closure of either London Heathrow Terminal 5 or Terminal 7 at New York JFK airport – for

instance due to fire, collapse of the building, major air crash at the site, a terrorist or similar security incident or to strikes – would result in the disruption of BA's operations and could have a material adverse effect on BA's, and the wider Group's, business, operations, financial condition and results of operations.

The Terminal 4 building of Madrid Barajas airport is Iberia's flight distribution hub but it is not used exclusively by Iberia. Iberia has a right of use over Terminal 4 under Spanish Administrative Law. In addition, Iberia has many lease agreements in that Terminal. The Issuer considers that the automatic renewal of the current lease is expected after the end of the current contract. Consequently the complete or partial loss or temporary closure of the Madrid Barajas Terminal 4 building, for instance due to fire, collapse of the building, major air crash at the site, a terrorist or similar security incident or to strikes by AENA employees, would result in a disruption to Iberia's operations and could have a material adverse effect on the Group's business, operations, financial condition and results of operations.

Safety incidents within the airline industry as a whole and any failure by the Group in particular to prevent or respond to a major safety incident could have a material adverse effect.

Aircraft crashes or similar incidents involving another airline could impact general passenger confidence and lead to reduced demand for air travel adversely affecting the Group, particularly if the crash or incident were due to a fault in a type of aircraft used by it in one of its brands' fleet. Furthermore, an aircraft crash or similar incident involving a *oneworld* alliance member or another airline with which the Group has a codeshare arrangement might be associated with the Group in public perceptions, with the Group potentially suffering reputational damage (and associated losses) as a result, even if none of its aircraft was involved. Such associated losses may involve not only the costs associated with the repair or replacement of damaged or lost aircraft and its or their consequent temporary or permanent loss from service, but also claims by affected passengers, owners and third parties as well as possible reputational damage (and associated losses). Failure to prevent or respond effectively to a major safety or security incident may have a material adverse effect on the Group's financial condition and results of operations.

The Group is exposed to the risk of aircraft fleet modifications and the risk of incidents due to defects in aircraft maintenance.

From time to time, the respective fleets of the Group's brands require regular maintenance work, which may cause operational disruption. On occasion, airframe manufacturers and/or regulatory authorities 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 Group. For example, in January 2013 the US Federal Aviation Administration grounded the Boeing 787 fleet leading to groundings by all national aviation authorities.

Any defect in the Group's aircraft maintenance could result in low reliability, flight delays for technical reasons, unscheduled stops and AOG (Aircraft on Ground) status. In an extreme case, aircraft incidents could occur which, regardless of whether or not they relate to a defect in BA's or Iberia's maintenance or modification programmes for the aircraft fleet, could have a material adverse effect on the Group's operations and financial performance.

The Issuer is exposed to a decrease in passenger traffic demand.

Passenger transportation services represent a fundamental aspect of the Group's revenue stream. If, for whatever reason, demand for such services were to decrease, this could have a material adverse effect on the Issuer's financial condition and results of operations.

High fixed costs mean that the airline industry is vulnerable to relatively small changes in the number of passengers and/or the fares paid.

Although the split between variable and fixed costs has changed over time, the nature of the Group's business is such that a substantial percentage of a carrier's operating expenses are fixed costs that do not vary proportionally based on its productivity. The Group has to incur such fixed costs regardless of whether its productivity – measured, for example, by reference to available seat kilometre (“ASK”) and available tonne kilometre (passenger and cargo capacity) – is high or low. These costs include the costs of aircraft and employee costs, including the costs of specialist workers such as pilots. Therefore, a relatively small change in Iberia's or BA's unit revenues, for example, by ASK – whether caused by load factor changes, yield fluctuations or any other material factor referred to in these risk factors – could adversely impact the profitability of Iberia or BA respectively, which, in turn, could have a material adverse effect on the Group's operations and financial performance.

The Group faces risks from current investigations, legal and arbitration proceedings and any future investigations

The Group is involved in lawsuits and claims, most of which arise as a consequence of the normal course of its business and out of its relationships with employees, staff, public bodies, customers, suppliers, as well as out of industrial activities. For example, during the year ended 31 December 2012, BA reached an early resolution with the UK Office of Fair Trading (the “OFT”), pursuant to which it has paid a fine of £58.5 million, concluding the OFT's investigation into passenger fuel surcharges for the period prior to March 2006. As a result of the OFT's investigation and the European Commission's prior investigation into anti-competitive behaviour in relation to BA's and other airlines' cargo operations (for which BA was fined €104 million in November 2010), BA is subject to related litigation in various jurisdictions. At the date of this Offering Circular, the Issuer is unable to quantify the amount of damages which BA may be required to pay in settlement of such litigation.

The results of such lawsuits and claims can be uncertain and cannot therefore be precisely determined. No assurance can be given that any provisions made in relation to any ongoing investigations, legal and/or arbitration proceedings will be sufficient should any of the investigations or proceedings have a negative outcome. A negative outcome in any investigation or claim could have a material adverse effect on the Group's financial condition and results of operations.

The Issuer's reported financial position and results will be affected by changes in financial reporting requirements.

The Group's financial statements are prepared in accordance with current International Financial Reporting Standards (“IFRS”). Any changes or modification to IFRS accounting policies may require a change in the future reported results or a restatement of reported results.

Changes to IFRS, which the Group adopted for financial periods beginning on or after 1 January 2013, will have an impact on its accounting policies, financial position or results of the Group in future periods.

For example, an amendment to the way in which the Group reports for employees benefits under International Accounting Standard (“IAS”) 19 ‘Employee Benefits’ will result in the recognition of all re-measurements of defined benefit liabilities or assets, including gains and losses, in the Group’s financial statements. At 31 December 2012, the Group’s net pension liability was €2,116 million and its net pension asset was €904 million (the net pension asset being restricted in the Group’s reported financial statements to €606 million as a result of the ‘asset ceiling’ applied to the APS). However, had previously unrecognised cumulative gains and losses been recognised under the amended IAS 19, which the Group has now adopted, for the financial year ended 31 December 2012, the Group’s reported ‘Total equity’ would have been reduced by €2,077 million to recognise €2,697 million of previously unrecognised cumulative actuarial losses and gains (the figure of €2,697 million being partially offset by an increase in a related deferred tax asset of €620 million).

Similarly, the IAS Exposure Draft 2010/9 ‘Leases’ proposes that lessees should apply a ‘right-of-use’ model in accounting for all leases, other than leases of biological and intangible assets, leases to explore for or use natural resources, and leases of some investment properties. This would require the Issuer to recognise aircraft and property assets, currently accounted for as operating leases, on its balance sheet.

Corporate governance of the Group.

One of the principal reasons for the merger between BA and Iberia (the “**Merger**”) was to enhance the earnings potential beyond a level that either BA or Iberia could have achieved on its own, thereby improving shareholder returns.

However, the governance structure of the Group that was put in place at the time of the Merger has a number of complex features, including nationality structures to protect BA’s and Iberia’s respective route and operating licenses (the “**Nationality Structures**”) and assurances to preserve the specific interests of each entity (the “**Assurances**”). The Nationality Structures were established to preserve BA and Iberia traffic rights and existing route licences under bilateral agreements entered into by the UK and Spain with non-EU Member States. Such structures will ensure that UK nationals hold at least 50.1 per cent. of the voting rights of BA and Spanish nationals hold at least 50.1 per cent. of the voting rights in Iberia. The Assurances are safeguards to preserve specific interests of BA and Iberia and their shareholders and the interests of the Group. Although complex, the Issuer considers that the structure worked well during 2011 and 2012 with synergy targets being exceeded. However, there can be no assurance that the governance structure of the Group that has been put in place will continue to be effective.

The agreement governing the Assurances will automatically terminate five years after the merger effective date (21 January 2011), independently from the termination or renewal of the Nationality Structures. The Nationality Structures will initially be in place for the first five years following the Merger, after which the Issuer will have the right to terminate the Nationality Structures. The termination of Iberia’s Nationality Structure and BA’s Nationality Structure must take place at substantially the same time.

Furthermore, the operation of the Assurances may constrain the Group’s ability to put in place the sort of intra-group guarantee arrangements commonly used within corporate group structures, to

maximise the financial benefits that can be obtained from the combined balance sheet strength of the individual companies in the Group. This might mean that the Issuer is not able to leverage the balance sheets of BA and Iberia for Group purposes as effectively as might otherwise be the case.

Risks relating to the Bonds

The Bonds may be redeemed prior to maturity.

The Terms and Conditions of the Bonds provide that the Bonds are redeemable prior to maturity at the Issuer's option in certain limited circumstances and accordingly the Issuer may choose to redeem the outstanding Bonds at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Bonds.

Modification, waivers and substitution.

The Fiscal Agency Agreement contains 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.

The Terms and Conditions of the Bonds provide that the Issuer may, with the consent of the Fiscal Agent and the Commissioner (as defined therein), but without the consent of the holders of the Bonds, amend the Terms and Conditions of the Bonds insofar as they may apply to the Bonds to correct a manifest error, where amendments are of a formal, minor or technical nature or to comply with mandatory provisions of law. Subject to the aforesaid, no other modification or waiver of any breach or proposed breach of these Conditions may be made, except with the sanction of a resolution of the Syndicate of Bondholders (as defined therein).

Risks attached to the exercise of Conversion Rights.

At any point when the Bonds are outstanding, depending on the performance of the Ordinary Shares, the value of the Ordinary Shares may be substantially lower than when the Bonds were initially purchased. In addition, because there will be a delay between when Conversion Rights are exercised and when Ordinary Shares are delivered, the value of the Ordinary Shares to be delivered may vary substantially between the date on which Conversion Rights are exercised and the date on which such Ordinary Shares are delivered.

Risks relating to restrictions in the Issuer's By-laws.

Bondholders exercising their Conversion Rights should be aware that, as a holder of Ordinary Shares, they will be subject to restrictions contained in the Issuer's by-laws (the "**By-laws**") which ensure that the ownership of the Issuer satisfies certain conditions which give it the right to operate air services.

The Issuer, directly or indirectly through BA and Iberia, holds a number of authorities, permissions, licences and privileges which give it the right to operate air services (the "**Operating Rights**"). Some of these Operating Rights are conditional on the Issuer, BA or Iberia being owned or controlled, to varying degrees, by UK, Spanish or EU Member State nationals. Therefore, the By-laws contain provisions which place certain limitations on the ownership of the Issuer's Ordinary Shares by granting the board of directors of the Issuer various powers which ensure that the ownership of the

Issuer satisfies the conditions attached to the Operating Rights. Among these powers, the board of directors of the Issuer is able, in certain circumstances, to serve notice upon the holders of Ordinary Shares which may place either prohibitions or additional obligations on those shareholders.

In the event that the shareholding maximum thresholds established in the By-laws are exceeded, Bondholders exercising their Conversion Rights may be prohibited, as holders of Ordinary Shares, from exercising certain rights attaching to the Ordinary Shares or required by the Issuer to sell their shares within a specified period of time with the purpose of protecting the Operating Rights of the Group.

Pursuant to the above, the board of directors of the Issuer may adopt measures prescribed in the By-laws necessary or appropriate to protect an Operating Right belonging to the Group, including the determination of a maximum number of Ordinary Shares that may be held by any non-EU shareholders. If any such measure is adopted, the Issuer must communicate it to the relevant stock exchanges, Spain's National Securities Market Commission (*Comisión Nacional del Mercado de Valores*) ("**CNMV**") and the regulatory bodies of the other securities markets in which the Ordinary Shares are listed and to the Spanish Ministry of Development, the UK Civil Aviation Authority and the other competent authorities regarding any operating rights held or enjoyed by the Group. Once such a measure has been duly disclosed, no acquisitions or transfers of Ordinary Shares with or between non-EU persons may take place, unless accompanied by a certificate issued by the board of directors of the Issuer evidencing that the acquisition or transfer does not exceed its permitted maximum non-EU shareholding. The board of directors of the Issuer may also agree on the suspension of voting and other shareholder rights of a holder of the Ordinary Shares and/or request that the holder(s) dispose of the relevant Ordinary Shares so that no non-EU person may directly or indirectly own Ordinary Shares or have an interest in the same. If such disposal is not performed on the terms provided for in the By-laws, the Issuer may acquire the relevant Ordinary Shares at the lower of (i) the book value of the relevant Ordinary Shares according to the latest published audited balance sheet of the Issuer; and (ii) the middle market quotation for an Ordinary Share as derived from the London Stock Exchange's Daily List for the business day on which they were acquired by the relevant non-EU person.

The enforcement by the Issuer's board of directors of the measures (indicated above) to preserve the Operating Rights requires that the Issuer is able to track the nationality of the shareholders of the Issuer as is detailed in the By-laws. As a result, at the time that the Bondholders exercise their Conversion Rights, they are required to deliver a duly completed nationality declaration (a "**Nationality Declaration**") to any Paying, Transfer and Conversion Agent, together with such other information (if any) as specified in the Nationality Declaration as the Issuer may require to prove the title of the person exercising the Conversion Right or as to the matters referred to in the Nationality Declaration.

The Bonds will be redeemed at the Final Maturity Date unless previously converted into Ordinary Shares or purchased and cancelled or redeemed.

A Bondholder will, subject as more fully described herein under "*Terms and Conditions of the Bonds*", have the right to convert its Bonds into Ordinary Shares (the "**Conversion Rights**"). Conversion Rights may be exercised, at the option of the holder thereof, at any time (subject to any applicable fiscal or other laws or regulations and as hereinafter provided) from and including 41 days after the Closing Date (being 11 July 2013) until the close of business (at the place where the relevant Bond is delivered for conversion) on the date falling seven calendar days prior to the Final Maturity Date (both days inclusive) or, if such Bond is to be redeemed pursuant to Condition 7(b) prior to the Final

Maturity Date, then up to (and including) the close of business (at the place aforesaid) on the seventh calendar day before the date fixed for redemption thereof pursuant to Condition 7(b), subject as more fully described herein under “*Terms and Conditions of the Bonds*”.

If the Conversion Rights are not exercised by Bondholders during the period described above, the Bonds will be redeemed at their principal amount on the Final Maturity Date, unless the Bonds are previously purchased and cancelled or redeemed in accordance with the Conditions.

Bondholders have limited anti-dilution protection.

The Conversion Price at which the Bonds may be converted into Ordinary Shares will be adjusted if there is a consolidation, reclassification or subdivision of the Ordinary Shares, capitalisation of profits or reserves, payment or making of dividends, rights issue or grant of other subscription rights or other adjustment, including a spin-off event, which affects the Ordinary Shares, but only in the situations and only to the extent provided under Condition 6 (see “*Terms and Conditions of the Bonds – Conversion of Bonds*”). There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Ordinary Shares. Events in respect of which no adjustment is made may adversely affect the value of the Ordinary Shares and, therefore, adversely affect the value of the Bonds.

Bondholders will bear the risk of fluctuation in the price of the Ordinary Shares.

The market price of the Bonds is expected to be affected by fluctuations in the market price of the Ordinary Shares and it is impossible to predict whether the price of the Ordinary Shares will rise or fall. Trading prices of the Ordinary Shares will be influenced by, among other things, the financial position of the Issuer, its results of operations, its future prospects and political, economic, financial and other factors. Any decline in the market price of the Ordinary Shares may have an adverse effect on the market price of the Bonds.

The future issue of Ordinary Shares by the Issuer or the disposal of Ordinary Shares by any substantial shareholders of the Issuer or the perception that such issues or sales may occur may significantly affect the trading price of the Bonds and the Ordinary Shares. The Issuer has agreed to certain restrictions on its ability to issue or dispose of Ordinary Shares or related securities for 90 days after the date of the Subscription Agreement. Except for such restrictions and the undertakings of the Issuer described in Condition 11 (see “*Terms and Conditions of the Bonds – Undertakings of the Issuer*”) there is no restriction on the Issuer’s ability to issue Ordinary Shares, and there can be no assurance that the Issuer will not issue Ordinary Shares or that any substantial shareholder will not dispose of, encumber or pledge its Ordinary Shares or related securities.

Holders of CREST Depository Interests will be subject to applicable CREST Depository Interest arrangements.

Bondholders may elect, on conversion of their Bonds, to receive dematerialised CREST Depository Interests (“**CDIs**”) representing the Ordinary Shares into the dematerialised securities trading system operated by Euroclear UK & Ireland Limited, known as CREST, to be held in a CREST account.

Holders of CDIs will only be able to exercise their rights attaching to the CDIs by instructing CREST Depository Limited to exercise these rights on their behalf, and, therefore, the process for exercising rights (including the right to vote at general meetings and the right to subscribe for new Ordinary Shares on a pre-emptive basis) will take longer for holders of CDIs than for holders of Ordinary

Shares. Consequently, CREST Depository Limited will set a deadline for receiving instructions from all holders of CDIs in relation to any particular corporate event of the Issuer. The holders of CDIs may be granted shorter periods in which to exercise the rights attaching to the CDIs than the holders of Ordinary Shares have in which to exercise equivalent rights attaching to Ordinary Shares held in the Iberclear system.

CREST Depository Limited will not exercise voting rights in respect of CDIs for which it has not received voting instructions within the established timeframe.

The Global Bond is held by or on behalf of Euroclear and Clearstream, Luxembourg.

The Bonds will be represented by the Global Bond. The Global Bond will be registered in the name of a nominee of and deposited with a common depository for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Global Bond, investors will not be entitled to receive Bonds in definitive form. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Bond. While the Bonds are represented by the Global Bond, investors will be able to trade their beneficial interests in the Global Bond only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Bonds by making payments to the common depository for Euroclear and Clearstream, Luxembourg for distribution to their accountholders. A holder of a beneficial interest in the 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 Global Bond.

No 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, the Group's financial position, results of operations and future prospects and the market price of the Ordinary Shares. Although applications have been made for the Bonds to be admitted to the Official List of the UKLA and to trading on the Professional Securities Market of the London Stock Exchange, there is no assurance that such applications will be accepted or that an active trading market will develop. Accordingly, there can be no assurance as to the development or liquidity of any trading market for the Bonds.

EU Savings Directive.

Under Directive 2003/48/EC on the taxation of savings income (the "**Directive**"), each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by a person for, an individual resident, or certain limited types of entity established, in that other Member State. However, for a transitional period, certain Member States are instead required to apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent., unless during such period they elect otherwise. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of non-EU countries and territories have agreed to adopt similar measures (either provision of information or transitional withholding). The European

Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

Risks related to procedures for collection of certain documentation from the fiscal agent.

Under the regulations established by Royal Decree 1065/2007, 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 — Spanish Tax Considerations — Compliance with certain reporting obligations in connection with income payments*”.

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 “*Taxation — Spanish Tax Considerations*”.

If the procedures are not followed, the Issuer will withhold at the then applicable rate (currently 21 per cent., but expected to be 19 per cent. as of 1 January 2014) 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.

However, no such additional amounts shall be payable if any of the exceptions referred to in Condition 9 of the Terms and 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.

The Bonds are effectively subordinate to subsidiary debt.

The Bonds rank *pari passu* with all other existing and future senior, unsecured and unsubordinated obligations of the Issuer. However, given that the Issuer is a holding company, the Bonds will effectively be subordinated to all creditors of the Issuer’s subsidiaries. Generally, claims of creditors of the Issuer’s subsidiaries, including trade creditors, secured creditors and creditors holding indebtedness and guarantees issued by the subsidiaries, will have priority with respect to the assets and earnings of the subsidiary, over the claims of creditors of the Issuer. Any right of the Issuer to receive assets of any of its subsidiaries upon the insolvency or liquidation of that subsidiary (and the consequent rights of the holders of the Bonds to participate in those assets) will be effectively subordinated to the claims of the subsidiary’s creditors, except to the extent the Issuer’s claims do not arise from its shareholding, in which case their claims would still be subordinated with respect to any assets of the subsidiary pledged to secure other indebtedness, and any indebtedness of the subsidiary senior to that held by the Issuer.

US Foreign Account Tax Compliance Act (“FATCA”).

Legislation incorporating provisions referred to as FATCA was passed in the US on 18 March 2010. This description is based on guidance issued to date by the US Internal Revenue Service (the “**IRS**”), including proposed regulations. Future guidance may affect the application of FATCA to the Bonds.

It is possible that, in order to comply with FATCA, the Issuer (or, if the Bonds are held through another financial institution, such other financial institution) may be required (pursuant to an agreement with the IRS or under applicable law) to (a) request certain information from Bondholders, which information may be provided to the IRS and (b) withhold US tax on some portion of payments made after 31 December 2016 with respect to Bonds if such information is not provided or if payments are made to certain foreign financial institutions that have not entered into a similar agreement with the IRS (and are not otherwise required to comply with the FATCA regime under applicable law).

If the Issuer or any other person is required to withhold amounts under or in connection with FATCA from any payments made in respect of Bonds, the Bondholders will not be entitled to receive any gross-up or additional amounts under Condition 9 of the Bonds to compensate them for such withholding.

TERMS AND CONDITIONS OF THE BONDS

The issue of the €390,000,000 1.75 per cent. Convertible Bonds due 2018 (the “**Bonds**”, which expression shall, unless otherwise indicated, include any 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 9 May 2013, and resolutions of the Ordinary General Meeting of Shareholders of the Issuer on 21 June 2012. A fiscal, transfer and conversion agency agreement dated on or about 31 May 2013 (the “**Fiscal Agency Agreement**”) has been entered into in relation to Bonds between the Issuer, the temporary Commissioner, 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 principal paying, transfer and conversion agent (the “**Principal Paying, Transfer and Conversion Agent**” and, together with the Fiscal Agent and any other paying, transfer and conversion agents for the time being, the “**Paying, Transfer and Conversion Agents**”, which expression shall include their successors as paying, transfer and conversion 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 and these terms and conditions (the “**Conditions**”) are available for inspection during normal business hours at the specified office of each of the Paying, Transfer and Conversion Agents and the Registrar. 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 has registered 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 provided 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 nominal amounts of €100,000 each.

(b) *Title*

Title to the Bonds will pass by transfer and registration as provided in Condition 4. 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, unsecured obligations of the Issuer ranking *pari passu*, without any preference among themselves, and equally with all other existing and future senior, unsecured and unsubordinated obligations of the Issuer, save for such exceptions as may be provided by applicable legislation and by provisions of law that are mandatory and of general application, and subject to Condition 2.

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 create or have outstanding any mortgage, charge, pledge, lien (other than arising by operation of law) or other security interest ("**Relevant 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 of the Issuer or to secure any guarantee or indemnity by the Issuer in respect of any Relevant Indebtedness or to secure any present or future Relevant Indebtedness of a third party, unless, simultaneously with, or prior to, the creation of such Relevant Security, there shall be taken any and all action necessary to procure that such Relevant Security is extended equally and rateably to all amounts payable by the Issuer under the Bonds or that such other security and/or guarantee is provided as the Bondholders may consider not materially less beneficial to their interests, as shall be approved by a resolution of the Syndicate of Bondholders.

For the purposes of this Condition 2, "**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 are, for the time being, or are intended by the Issuer to be or are capable of being with the consent of the Issuer, quoted or listed on or dealt in or traded on any recognised stock exchange or other centrally organised or regulated securities market.

3. **Definitions**

In these Conditions, unless otherwise provided:

"**Additional Ordinary Shares**" has the meaning provided in Condition 6(c).

"**Bondholder**" and "**holder**" mean the person in whose name a Bond is registered in the Register (as defined below).

"**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.

a “**Change of Control**” shall occur if, by any means, other than as a result of a Tender Offer, any person or persons acting together acquire Control of the Issuer.

“**Change of Control Notice**” has the meaning provided in Condition 6(l).

“**Change of Control Period**” means the period commencing on the occurrence of a Change of Control and ending 60 calendar days following the date on which a Change of Control Notice is given to Bondholders as required by Condition 6(l).

“**Closing Date**” means 31 May 2013.

“**CNMV**” means Spain’s National Securities Market Commission (*Comisión Nacional del Mercado de Valores*).

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

“**Control**” means:

- (a) 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
- (b) 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.

“**Commissioner**” has the meaning provided in Condition 14.

“**Conversion Date**” has the meaning provided in Condition 6(g).

“**Conversion Notice**” has the meaning provided in Condition 6(g).

“**Conversion Period**” has the meaning provided in Condition 6(a).

“**Conversion Price**” has the meaning provided in Condition 6(a).

“**Conversion Right**” has the meaning provided in Condition 6(a).

“**Current Market Price**” means, in respect of an Ordinary Share at a particular date, the average of the daily Volume Weighted Average Price of an Ordinary Share on each of the five consecutive dealing days ending on the dealing day immediately preceding such date (or if there have not yet been five dealing days in respect of the Ordinary Shares ending on the dealing day immediately preceding such date, the average of the daily Volume Weighted Average Price of an Ordinary Share on each dealing day that there has been and, if there has been only one dealing day immediately preceding such date, the daily Volume Weighted Average Price of an Ordinary Share on such date); provided that if at any time during the said five dealing-day (or other) period the Volume Weighted Average Price shall have been based on a price ex-Dividend (or ex- any other entitlement) and during some other part of

that period the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement), then:

- (a) if the Ordinary Shares to be issued and/or delivered do not rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price cum-Dividend (or cum- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of first public announcement of such Dividend or entitlement (excluding any associated tax credit and excluding the tax (if any) falling to be withheld or deducted on payment thereof to any holder of Ordinary Shares); or
- (b) if the Ordinary Shares to be issued and/or delivered do rank for the Dividend (or entitlement) in question, the Volume Weighted Average Price on the dates on which the Ordinary Shares shall have been based on a price ex-Dividend (or ex- any other entitlement) shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of first public announcement of such Dividend or entitlement (excluding any associated tax credit and excluding the tax (if any) falling to be withheld or deducted on payment thereof to any holder of Ordinary Shares),

and provided further that if on each of the said five (or other) dealing day(s) the Volume Weighted Average Price shall have been based on a price cum-Dividend (or cum- any other entitlement) in respect of a Dividend (or other entitlement) which has been declared or announced but the Ordinary Shares to be issued and delivered do not rank for that Dividend (or other entitlement), the Volume Weighted Average Price on each of such date(s) shall for the purposes of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date of first public announcement of such Dividend or entitlement, in any such case, excluding any associated tax credit and excluding the tax (if any) falling to be withheld or deducted on payment thereof to any holder of Ordinary Shares,

and provided further that, if the Volume Weighted Average Price of an Ordinary Share is not available on one or more of the said five (or other) dealing day(s) (disregarding for this purpose the proviso to the definition of Volume Weighted Average Price), then the average of such Volume Weighted Average Prices which are available in that five dealing-day (or other) period shall be used (subject to a minimum of two such prices) and if only one, or no, such Volume Weighted Average Price is available in the relevant period, the Current Market Price shall be determined in good faith by an Independent Adviser.

“dealing day” means a day on which the Relevant Stock Exchange or relevant market is open for business and on which Ordinary Shares, Securities or Spin-Off Securities (as the case may be) may be dealt in (other than a day on which the Relevant Stock Exchange or relevant market is scheduled to or does close prior to its regular weekday closing time).

“Depositary Interests” has the meaning provided in Condition 6(g).

“**Dividend**” means any dividend or distribution to Shareholders (including a Spin-Off), whether of cash, assets or other property, and however described and whether payable out of the share premium account, profits, retained earnings or any other capital or revenue reserve or account, and including a distribution or payment to holders upon or in connection with a reduction of capital (and for these purposes a distribution of assets includes without limitation an issue of Ordinary Shares or other Securities credited as fully or partly paid up by way of capitalisation of profits or reserves), provided that:

- (a) where:
 - (i) a cash Dividend is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the issue or delivery of Ordinary Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the payment of cash, then the Dividend in question shall be treated as a cash Dividend of an amount equal to the greater of (A) the Fair Market Value of such cash amount and (B) the Current Market Price of such Ordinary Shares as at the first date on which the Ordinary Shares are traded ex- the relevant Dividend on the Relevant Stock Exchange or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or, as the case may be, the Fair Market Value of such other property or assets as at the date of first public announcement of such Dividend or capitalisation or, in any such case, if later, the date on which the number of Ordinary Shares (or amount of such other property or assets, as the case may be) which may be issued or delivered is determined; or
 - (ii) there shall be any issue of Ordinary Shares by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) where such issue is or is expressed to be in lieu of a Dividend (whether or not a cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Dividend in question shall be treated as a cash Dividend of an amount equal to the Current Market Price of such Ordinary Shares as at the first date on which the Ordinary Shares are traded ex- the relevant Dividend on the Relevant Stock Exchange or, as the case may be, the record date or other due date for establishment of entitlement in respect of the relevant capitalisation or, in any such case, if later, the date on which the number of Ordinary Shares to be issued and delivered is determined;
- (b) any issue of Ordinary Shares falling within Condition 6(b)(ii) below shall be disregarded;
- (c) a purchase or redemption or buyback of share capital of the Issuer by or on behalf of the Issuer or any other member of the Group shall not constitute a Dividend unless, in the case of a purchase or redemption or buyback of Ordinary Shares by or on behalf of the Issuer or any other member of the Group, the weighted average price per Ordinary Share (before expenses) on any one day (a “**Specified Share Day**”) in respect of such purchases or redemptions or buybacks (translated, if not in the Relevant Currency, into the Relevant Currency at the Prevailing Rate on such

day) exceeds by more than 5 per cent. the average of the closing prices of the Ordinary Shares on the Relevant Stock Exchange (as published by or derived from the Relevant Stock Exchange) on the five dealing days immediately preceding the Specified Share Day or, where an announcement (excluding, for the avoidance of doubt for these purposes, any general authority for such purchases, redemptions or buybacks approved by a general meeting of Shareholders or any notice convening such a meeting of Shareholders) has been made of the intention to purchase, redeem or buyback Ordinary Shares at some future date at a specified price or where a tender offer is made, on the five dealing days immediately preceding the date of such announcement or the date of first public announcement of such tender offer (and regardless of whether or not a price per Ordinary Share, a minimum price per Ordinary Share or a price range or formula for the determination thereof is or is not announced at such time), as the case may be, in which case such purchase, redemption or buyback shall be deemed to constitute a Dividend in the Relevant Currency to the extent that the aggregate price paid (before expenses) in respect of such Ordinary Shares purchased, redeemed or bought back by the Issuer or, as the case may be, any other member of the Group (translated where appropriate into the Relevant Currency as provided above) exceeds the product of (i) 105 per cent. of the average closing price of the Ordinary Shares determined as aforesaid and (ii) the number of Ordinary Shares so purchased, redeemed or bought back;

- (d) if the Issuer or any other member of the Group shall purchase, redeem or buy back any depository or other receipts or certificates representing Ordinary Shares, the provisions of paragraph (c) above shall be applied in respect thereof in such manner and with such modifications (if any) as shall be determined in good faith by an Independent Adviser;
- (e) where a dividend or distribution is paid or made to Shareholders pursuant to any plan implemented by the Issuer to enable Shareholders to elect, or which may require Shareholders, to receive dividends or distributions in respect of the Ordinary Shares held by them from another person or person other than (or in addition to) the Issuer, such dividend or distribution shall for the purposes of these Conditions be treated as a dividend or distribution made or paid to Shareholders by the Issuer, and the foregoing provisions of this definition, and the provisions of these Conditions shall be construed accordingly; and
- (f) where a dividend in cash is declared which provides for payment by the Issuer to Shareholders in the Relevant Currency, whether at the option of Shareholders or otherwise, it shall be treated as a Cash Dividend in the amount of such Relevant Currency and, in any other case, it shall be treated as a Cash Dividend in the amount and in the currency in which it is payable by the Issuer.

“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).

“Fair Market Value” means, with respect to any property on any date, the fair market value of that property as determined in good faith by an Independent Adviser, provided that (a) the Fair Market Value of a cash Dividend shall be the amount of such cash Dividend; (b) the Fair Market Value of any other cash amount shall be the amount of such cash; (c) where

Securities, Spin-Off Securities, options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined in good faith by an Independent Adviser), the Fair Market Value (i) of such Securities or Spin-Off Securities shall equal the arithmetic mean of the daily Volume Weighted Average Prices of such Securities or Spin-Off Securities and (ii) of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights, in the case of both (i) and (ii) during the period of five dealing days on the relevant market commencing on such date (or, if later, the first such dealing day such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded) or such shorter period as such Securities, Spin-Off Securities, options, warrants or other rights are publicly traded; (d) where Securities, Spin-Off Securities, options, warrants or other rights are not publicly traded (as aforesaid), the Fair Market Value of such Securities, Spin-Off Securities, options, warrants or other rights shall be determined in good faith by an Independent Adviser, on the basis of a commonly accepted market valuation method and taking account of such factors as it considers appropriate, including the market price per Ordinary Share, the dividend yield of an Ordinary Share, the volatility of such market price, prevailing interest rates and the terms of such Securities, Spin-Off Securities, options, warrants or other rights, including as to the expiry date and exercise price (if any) thereof. Such amounts shall be translated into the Relevant Currency (if expressed in a currency other than the Relevant Currency) at the Prevailing Rate on that date. In addition, in the case of (a) and (b) above, the Fair Market Value shall be determined on a gross basis and disregarding any withholding or deduction required to be made for or on account of tax, and disregarding any associated tax credit.

“Final Maturity Date” means 31 May 2018.

“Further Bonds” means any further Bonds issued pursuant to Condition 17 and consolidated and forming a single series with the then outstanding Bonds.

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

“Iberclear” means the Spanish clearing and settlement system (*Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal*),

“Independent Adviser” means an independent institution or adviser appointed by the Issuer at its own expense from time to time and whenever required by these Conditions.

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

“London Stock Exchange” means the London Stock Exchange plc.

“Nationality Declaration” has the meaning provided in Condition 6(g).

“Optional Redemption Date” has the meaning provided in Condition 7(b).

“Optional Redemption Notice” has the meaning provided in Condition 7(b).

“Ordinary Shares” means ordinary shares in the capital of the Issuer with a par value of €0.50 each as at the date hereof.

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).

“Prevailing Rate” means, in respect of any currencies on any day, the spot rate of exchange between the relevant currencies prevailing as at or about 12 noon (London time) on that date as appearing on or derived from the Relevant Page or, if such a rate cannot be determined at such time, the rate prevailing as at or about 12 noon (London time) on the immediately preceding day on which such rate can be so determined, or if such rate cannot be so determined by reference to the Relevant Page, the rate determined in such other manner as an Independent Adviser shall prescribe.

“Put Date” has the meaning provided in Condition 7(e).

“Put Exercise Notice” has the meaning provided in Condition 7(e).

“Put Period” has the meaning provided in Condition 7(e).

“Put Price” has the meaning provided in Condition 7(e).

“Reference Date” means, in relation to a Retroactive Adjustment, the date as of which the relevant Retroactive Adjustment takes effect or, in any such case, if that is not a dealing day, the next following dealing day.

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

“Relevant Currency” means Sterling or, if at the relevant time or for the purposes of the relevant calculation or determination, the London Stock Exchange is not the Relevant Stock Exchange, the currency in which the Ordinary Shares are quoted or dealt in on the Relevant Stock Exchange at such time.

“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 Principal Paying, Transfer and Conversion Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders.

“Relevant Indebtedness” has the meaning provided in Condition 2.

“Relevant Page” means the relevant page on Bloomberg or such other information service provider that displays the relevant information.

“Relevant Security” has the meaning provided in Condition 2.

“Relevant Stock Exchange” means the London Stock Exchange or, if at the relevant time the Ordinary Shares are not at that time listed and admitted to trading on the London Stock

Exchange, as the case may be, the principal stock exchange or securities market on which the Ordinary Shares are then listed, admitted to trading or quoted or accepted for dealing.

“**Retroactive Adjustment**” has the meaning provided in Condition 6(c).

“**Securities**” means any securities including, without limitation, shares in the capital of the Issuer, or options, warrants or other rights to subscribe for or purchase or acquire shares in the capital of the Issuer.

“**Share Record Date**” has the meaning provided in Condition 6(g).

“**Shareholders**” means the holders of Ordinary Shares.

“**Spanish Capital Companies Act**” means the Stock Companies Act 2010 (*Real Decreto Legislativo 14/2010, de 2 de julio, por el que se aprueba el Texto Refundido de la Ley de Sociedades de Capital*) of the Kingdom of Spain.

“**Spanish Stock Exchanges**” means the Madrid, Barcelona, Bilbao and Valencia stock exchanges and the automated quotation system thereof.

“**Specified Date**” has the meaning provided in Condition 6(b)(vii) and (viii).

“**Spin-Off**” means:

- (a) a distribution of Spin-Off Securities by the Issuer to Shareholders as a class; or
- (b) any issue, transfer or delivery of any property or assets (including cash or shares or Securities of or in or issued or allotted by any entity) by any entity (other than the Issuer) to Shareholders as a class, pursuant to any arrangements with the Issuer or any other member of the Group involving a transfer of assets to such entity or other person.

“**Spin-Off Securities**” means equity share capital of an entity other than the Issuer or options, warrants or other rights to subscribe for or purchase equity share capital of an entity other than the Issuer.

“**Sterling**” means the lawful currency for the time being of the United Kingdom.

“**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.

“**Syndicate of Bondholders**” has the meaning provided in Condition 14.

“**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 7(c).

“**Tax Redemption Notice**” has the meaning provided in Condition 7(c).

“**Tender Offer**” means a tender offer (including a competing tender offer) made in accordance with applicable Spanish laws and regulations following approval from the CNMV.

“**Tender Offer Triggering Event**” has the meaning provided in Condition 7(e).

“**Tender Offer Value**” has the meaning provided in Condition 7(e).

“**Triggering Event**” has the meaning provided in Condition 7(e).

“**UK Listing Authority**” means the UK Listing Authority of the Financial Conduct Authority acting under Part VI of the Financial Services and Markets Act 2000.

“**Volume Weighted Average Price**” means, in respect of an Ordinary Share, Security or, as the case may be, a Spin-Off Security on any dealing day, the order book volume weighted average price of an Ordinary Share, Security or, as the case may be, a Spin-Off Security published by or derived (in the case of an Ordinary Share) from Bloomberg page IAG LN Equity HP (setting weighted average) or (in the case of a Security (other than Ordinary Shares) or Spin-Off Security) from the principal stock exchange or securities market on which such Securities or Spin-Off Securities are then listed or quoted or dealt in, if any or, in any such case, such other source as shall be determined in good faith to be appropriate by an Independent Adviser on such dealing day, provided that if on any such dealing day such price is not available or cannot otherwise be determined as provided above, the Volume Weighted Average Price of an Ordinary Share, Security or Spin-Off Security, as the case may be, in respect of such dealing day shall be the Volume Weighted Average Price, determined as provided above, on the immediately preceding dealing day on which the same can be so determined, or as an Independent Adviser might otherwise determine in good faith to be appropriate and, provided that, for the purposes of Condition 7(b)(i), if on any such dealing day the Ordinary Shares shall have been quoted cum-Dividend or cum-any other entitlement, the Volume Weighted Average Price of an Ordinary Share on such dealing day shall be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share (as at the first date on which the Ordinary Shares trade ex- such Dividend or entitlement on the Relevant Stock Exchange) translated, if not in the Relevant Currency, into the Relevant Currency at the Prevailing Rate on such dealing day.

“**€**” 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 “**ordinary share capital**” shall mean, in relation to a company, all of the company’s issued share capital (however described), other than issued share capital the holders of which have a right to a Dividend at a fixed rate but have no other right to share in the company’s profits and “**equity share capital**” shall mean, in relation to a company, all of the company’s issued share capital excluding any part of that issued share capital that, neither as respects dividends nor as respects capital, carries any right to participate beyond a specified amount in a distribution.

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.

References to any issue or offer or grant to Shareholders or Existing Shareholders “**as a class**” or “**by way of rights**” shall be taken to be references to an issue or offer or grant to all or substantially all Shareholders or Existing Shareholders, as the case may be, other than Shareholders or Existing Shareholders, as the case may be, to whom, by reason of the laws of any territory or requirements of any recognised regulatory body or any other stock exchange or securities market in any territory or in connection with fractional entitlements, it is determined not to make such issue or offer or grant.

In making any calculation or determination of Current Market Price or Volume Weighted Average Price, such adjustments (if any) shall be made as an Independent Adviser determines in good faith appropriate to reflect any consolidation or sub-division of the Ordinary Shares or any issue of Ordinary Shares by way of capitalisation of profits or reserves, or any like or similar event.

For the purposes of Condition 6(b) and Condition 11 only, (a) references to the “**issue**” of Ordinary Shares or Ordinary Shares being “**issued**” shall include the transfer and/or delivery of Ordinary Shares, whether newly issued and allotted or previously existing or held by or on behalf of the Issuer or any other member of the Group, and (b) Ordinary Shares held by or on behalf of the Issuer or any other member of the Group (and which, in the case of Conditions 5(b)(iv) and 5(b)(vi), do not rank for the relevant right or other entitlement) shall not be considered as or treated as “**in issue**” or “**issued**” or entitled to receive any Dividend, right or other entitlement.

References in these Conditions to listing on the London Stock Exchange (or like or similar references) shall be construed as admission to the Official List of the UK Listing Authority and admission to trading on the EEA Regulated Market of the London Stock Exchange and references to “**EEA Regulated Market**” means a market as defined by Article 4.1 (14) of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

References in these Conditions to listing on the Spanish Stock Exchanges (or like or similar references) shall be construed as admission to the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges through the Spanish Automatic Quotation System (SIBE).

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 the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers, redemptions and conversions of Bonds.

(b) *Transfer*

Bonds may, subject to the terms of the Fiscal Agency Agreement and to Conditions 4(c) and 4(d), be transferred by lodging 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, Transfer and Conversion Agent.

No transfer of a Bond will be valid unless and until 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 deliver a new 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 Final Maturity Date or any earlier date fixed for redemption of the Bonds pursuant to Condition 7(b); (ii) in respect of which a Conversion Notice has been delivered in accordance with Condition 6(g); (iii) in respect of which a holder has exercised its right to require redemption pursuant to Condition 7(e); or (iv) 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 Closing Date at the rate of 1.75 per cent. per annum calculated by reference to the principal amount thereof and payable semi-annually in arrear in equal instalments on 31 May and 30 November in each year (each an “**Interest Payment Date**”), commencing with the Interest Payment Date falling on 30 November 2013.

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 product of the number of days from (and including) the immediately preceding Interest Payment Date (or, if none, the Closing Date) to (but excluding) the next Interest Payment Date and the number of Interest Periods normally ending in any year.

“**Interest Period**” means the period beginning on (and including) the Closing 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 (i) where the Conversion Right shall have been exercised by a Bondholder, from the Interest Payment Date immediately preceding the relevant Conversion Date or, if the Conversion Date falls on or prior to the first Interest Payment Date, from the Closing Date (subject, in any such case, as provided in Condition 6(i)) or (ii) where such Bond is redeemed or repaid pursuant to Condition 7 or Condition 10, from the due date for redemption or repayment thereof unless, upon due presentation thereof, payment of the principal in respect of the Bond is improperly withheld or refused, in which event interest will continue to accrue at the rate specified in Condition 5(a) (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 day seven days after the Principal Paying, Transfer and Conversion 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. Conversion of Bonds

(a) *Conversion Right*

Each Bond shall entitle the holder to convert such Bond into new Ordinary Shares, credited as fully paid (a “**Conversion Right**”).

The number of Ordinary Shares to be issued or delivered on exercise of a Conversion Right shall be determined by dividing the principal amount of the Bonds to be converted by the conversion price (the “**Conversion Price**”) in effect on the relevant Conversion Date.

The initial Conversion Price is €4.2503 per Ordinary Share. The Conversion Price is subject to adjustment in the circumstances described in Condition 6(b).

A Bondholder may exercise the Conversion Right in respect of a Bond by delivering such Bond, together with a Conversion Notice and a Nationality Declaration, to the specified office of any Paying, Transfer and Conversion Agent in accordance with Condition 6(g) and making any payment required to be made as provided in Condition 6(g), whereupon the Issuer shall procure the delivery to or as directed by the relevant Bondholder of Ordinary Shares credited as paid-up in full as provided in this Condition 6.

Subject to and as provided in these Conditions, the Conversion Right in respect of a Bond may be exercised, at the option of the holder thereof, at any time (subject to any applicable fiscal or other laws or regulations and as hereinafter provided) from (and including) 11 July 2013 up to (and including) the close of business (at the place where the relevant Bond is delivered for conversion) on the date falling seven calendar days prior to the Final Maturity Date (both days inclusive) or, if such Bond is to be redeemed pursuant to Condition 7(b) prior to the Final Maturity Date, then up to (and including) the close of business (at the place aforesaid) on the seventh calendar day before the date fixed for redemption thereof pursuant to Condition 7(b), unless there shall be a default in making payment in respect of such Bond on such date fixed for redemption, in which event the Conversion Right shall extend up to (and including) the close of business (at the place aforesaid) on the date on which the full amount of such payment becomes available for payment and notice of such availability has been duly given in accordance with Condition 15 or, if earlier, the Final Maturity Date or, if the Final Maturity Date is not a London and Madrid business day, the immediately preceding London and Madrid business day; provided that, in each case, if such final date for the exercise of Conversion Rights is not a London and Madrid business day, then the period for exercise of Conversion Rights by Bondholders shall end on the immediately preceding London and Madrid business day.

Conversion Rights may not be exercised in respect of a Bond (i) which has become due and payable pursuant to Condition 10 or (ii) in respect of which the holder has exercised its right to require the Issuer to redeem that Bond pursuant to Condition 7(e).

The period during which Conversion Rights may (subject as provided below) be exercised by a Bondholder is referred to as the “**Conversion Period**”.

Conversion Rights may only be exercised in respect of the whole of the principal amount of a Bond.

Fractions of Ordinary Shares will not be issued or delivered on the exercise of Conversion Rights or pursuant to Condition 6(c) and no cash payment or other

adjustment will be made in lieu thereof. However, if a Conversion Right in respect of more than one Bond is exercised at any one time such that Ordinary Shares to be issued or delivered on the exercise of Conversion Rights or pursuant to Condition 6(c) are to be registered in the same name, the number of Ordinary Shares to be issued or delivered in respect thereof shall be calculated on the basis of the aggregate principal amount of such Bonds, and rounded down to the nearest whole number of Ordinary Shares. The Issuer will procure that Ordinary Shares to be issued or delivered on exercise of Conversion Rights will be issued or delivered to the relevant person specified in the relevant Conversion Notice. Such Ordinary Shares will be deemed to be issued on or as of the relevant Share Record Date. Any Additional Ordinary Shares to be issued pursuant to Condition 6(c) will be deemed to be issued on or as of the relevant Reference Date.

(b) *Adjustment of Conversion Price*

Upon the happening of any of the events described below, the Conversion Price shall be adjusted as follows:

- (i) If and whenever there shall be a consolidation, reclassification or subdivision in relation to the Ordinary Shares, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to such consolidation, reclassification or subdivision by the following fraction:

$$\frac{A}{B}$$

where:

- A is the aggregate number of Ordinary Shares in issue immediately before such consolidation, reclassification or subdivision, as the case may be; and
- B is the aggregate number of Ordinary Shares in issue immediately after, and as a result of, such consolidation, reclassification or subdivision, as the case may be.

Such adjustment shall become effective on the date the consolidation, reclassification or subdivision, as the case may be, takes effect.

- (ii) If and whenever the Issuer shall issue any Ordinary Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve) other than (1) where any such Ordinary Shares are or are to be issued instead of the whole or part of a Dividend in cash which the Shareholders would or could otherwise have elected to receive, (2) where the Shareholders may elect to receive a Dividend in cash in lieu of such Ordinary Shares or (3) where any such Ordinary Shares are or are expressed to be issued in lieu of a Dividend (whether or not a cash Dividend equivalent or amount is announced or would otherwise be payable to Shareholders, whether at their election or otherwise), the Conversion Price shall be adjusted by multiplying

the Conversion Price in force immediately prior to such issue by the following fraction:

$$\frac{A}{B}$$

where:

A is the aggregate number of Ordinary Shares in issue immediately before such issue; and

B is the aggregate number of Ordinary Shares in issue immediately after such issue.

Such adjustment shall become effective on the date of issue of such Ordinary Shares.

- (iii) If and whenever the Issuer shall pay or make any Dividend to Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the Effective Date; and

B is the portion of the Fair Market Value of the aggregate Dividend attributable to one Ordinary Share, with such portion being determined by dividing the Fair Market Value of the aggregate Dividend by the number of Ordinary Shares entitled to receive the relevant Dividend (or, in the case of a purchase, redemption or buyback of Ordinary Shares or any depository or other receipts or certificates representing Ordinary Shares by or on behalf of the Issuer or any Subsidiary of the Issuer, by the number of Ordinary Shares in issue immediately following such purchase, redemption or buyback, and treating as not being in issue any Ordinary Shares, or any Ordinary Shares represented by depository or other receipts or certificates, purchased, redeemed or bought back).

Such adjustment shall become effective on the Effective Date or, if later, the first date upon which the Fair Market Value of the relevant Dividend is capable of being determined as provided herein.

For the purposes of the above, Fair Market Value shall (subject as provided in paragraph (a) to the definition of "Dividend" and the definition of "Fair Market Value") be determined as at the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(iii), the first date on which the Ordinary Shares are traded ex-the relevant Dividend on the Relevant Stock Exchange or, in the case of a purchase, redemption or buyback of Ordinary Shares or any depositary or other receipts or certificates representing Ordinary Shares, the date on which such purchase, redemption or buyback is made or, in the case of a Spin-Off, on the first date on which the Ordinary Shares are traded ex-the relevant Spin-Off on the Relevant Stock Exchange.

- (iv) If and whenever the Issuer shall issue Ordinary Shares to Shareholders as a class by way of rights, or shall issue or grant to Shareholders as a class by way of rights, any options, warrants or other rights to subscribe for or purchase Ordinary Shares, or any Securities which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, any Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued), in each case, at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the Effective Date, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A+B}{A+C}$$

where:

- A is the number of Ordinary Shares in issue on the Effective Date;
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the Ordinary Shares issued by way of rights, or for the Securities issued by way of rights, or for the options or warrants or other rights issued by way of rights and for the total number of Ordinary Shares deliverable on the exercise thereof, would purchase at such Current Market Price per Ordinary Share; and
- C is the number of Ordinary Shares to be issued or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights or upon conversion or exchange or exercise of rights of subscription or purchase in respect thereof at the initial conversion, exchange, subscription or purchase price or rate.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(iv), the first date on which the Ordinary Shares are traded ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange.

- (v) If and whenever the Issuer shall issue any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase any

Ordinary Shares) to Shareholders as a class by way of rights or grant to Shareholders as a class by way of rights any options, warrants or other rights to subscribe for or purchase any Securities (other than Ordinary Shares or options, warrants or other rights to subscribe for or purchase Ordinary Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the Current Market Price of one Ordinary Share on the Effective Date; and

B is the Fair Market Value on the Effective Date of the portion of the rights attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(v), the first date on which the Ordinary Shares are traded ex- the relevant Securities or ex-rights, ex-options or ex-warrants on the Relevant Stock Exchange.

- (vi) If and whenever the Issuer shall issue (otherwise than as mentioned in paragraph (b)(iv) above) wholly for cash or for no consideration any Ordinary Shares (other than Ordinary Shares issued on conversion of the Bonds or on the exercise of any rights of conversion into, or exchange or subscription for or purchase of, Ordinary Shares) or issue or grant (otherwise than as mentioned in paragraph (b)(iv) above) wholly for cash or for no consideration any options, warrants or other rights to subscribe for or purchase any Ordinary Shares (other than the Bonds, which term shall for this purpose include any Further Bonds), in each case, at a price per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of such issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Ordinary Shares in issue immediately before the issue of such Ordinary Shares or the grant of such options, warrants or rights;

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the issue of such Ordinary Shares or, as the case may be, for the issue or grant of such

options, warrants or rights and for the Ordinary Shares to be issued or otherwise made available upon the exercise of any such options, warrants or rights, would purchase at such Current Market Price per Ordinary Share; and

C is the number of Ordinary Shares to be issued pursuant to such issue of such Ordinary Shares or, as the case may be, the maximum number of Ordinary Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue of such options, warrants or rights.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(vi), the date of issue of such Ordinary Shares or, as the case may be, the grant of such options, warrants or rights.

(vii) If and whenever the Issuer or any other member of the Group or (at the direction or request of or pursuant to any arrangements with the Issuer or any other member of the Group) any other company, person or entity (otherwise than as mentioned in paragraph (b)(iv), (b)(v) or (b)(vi) above) shall issue wholly for cash or for no consideration any Securities (other than the Bonds, which term for this purpose shall exclude any Further Bonds) which by their terms of issue carry (directly or indirectly) rights of conversion into, or exchange or subscription for, Ordinary Shares (or shall grant any such rights in respect of existing Securities so issued) or Securities which by their terms might be redesignated as Ordinary Shares, and the consideration per Ordinary Share receivable upon conversion, exchange, subscription or redesignation is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the terms of issue of such Securities (or the terms of such grant), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

A is the number of Ordinary Shares in issue immediately before such issue or grant (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for Ordinary Shares which have been issued, purchased or acquired by the Issuer or any other member of the Group (or at the direction or request or pursuant to any arrangements with the Issuer or any other member of the Group) for the purposes of or in connection with such issue, less the number of such Ordinary Shares so issued, purchased or acquired);

B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the issue of such Securities (or, as the case may be, the grant of any such rights) and for

the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription attached to such Securities or, as the case may be, for the Ordinary Shares to be issued or to arise from any such redesignation would purchase at such Current Market Price per Ordinary Share; and

C is the maximum number of Ordinary Shares to be issued or otherwise made available upon conversion or exchange of such Securities or upon the exercise of such right of subscription attached thereto at the initial conversion, exchange or subscription price or rate or, as the case may be, the maximum number of Ordinary Shares which may be issued or arise from any such redesignation,

provided that if at the time of issue of the relevant Securities or date of grant of such rights (as used in this paragraph (b)(vii), the “**Specified Date**”) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription are exercised or, as the case may be, such Securities are redesignated or at such other time as may be provided), then for the purposes of this paragraph (b)(vii), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition or, as the case may be, redesignation had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(vii), the date of issue of such Securities or, as the case may be, the grant of such rights.

(viii) If and whenever there shall be any modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to any such Securities (other than the Bonds, which term shall for this purpose include any Further Bonds) as are mentioned in paragraph (b)(vii) above (other than in accordance with the terms (including terms as to adjustment) applicable to such Securities upon issue) so that following such modification the consideration per Ordinary Share receivable has been reduced and is less than 95 per cent. of the Current Market Price per Ordinary Share on the date of the first public announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately prior to the Effective Date by the following fraction:

$$\frac{A + B}{A + C}$$

where:

- A is the number of Ordinary Shares in issue immediately before such modification (but where the relevant Securities carry rights of conversion into or rights of exchange or subscription for, or purchase or acquisition of, Ordinary Shares which have been issued, purchased or acquired by the Issuer or any other member of the Group (or at the direction or request or pursuant to any arrangements with the Issuer or any other member of the Group) for the purposes of or in connection with such Securities, less the number of such Ordinary Shares so issued, purchased or acquired);
- B is the number of Ordinary Shares which the aggregate consideration (if any) receivable for the issue of such Securities (or, as the case may be, the grant of any such rights) and for the Ordinary Shares to be issued or otherwise made available upon conversion or exchange or upon exercise of the right of subscription, purchase or acquisition attached to the Securities so modified would purchase at such Current Market Price per Ordinary Share or, if lower, the existing conversion, exchange, subscription, purchase or acquisition price or rate of such Securities; and
- C is the maximum number of Ordinary Shares which may be issued or otherwise made available upon conversion or exchange of such Securities, as so modified, or upon the exercise of such rights of subscription, purchase or acquisition attached thereto at the modified conversion, exchange, subscription, purchase or acquisition price or rate but giving credit in such manner as an Independent Adviser shall consider appropriate for any previous adjustment under this paragraph (b)(viii) or paragraph (b)(vii) above,

provided that if at the time of such modification (as used in this paragraph (b)(viii), the “**Specified Date**”) such number of Ordinary Shares is to be determined by reference to the application of a formula or other variable feature or the occurrence of any event at some subsequent time (which may be when such Securities are converted or exchanged or rights of subscription, purchase or acquisition are exercised or at such other time as may be provided), then for the purposes of this paragraph (b)(viii), “C” shall be determined by the application of such formula or variable feature or as if the relevant event occurs or had occurred as at the Specified Date and as if such conversion, exchange, subscription, purchase or acquisition had taken place on the Specified Date.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(viii), the date of modification of the rights of conversion, exchange, subscription, purchase or acquisition attaching to such Securities.

- (ix) If and whenever the Issuer or any other member of the Group or (at the direction or request of or pursuant to any arrangements with the Issuer or any other member of the Group) any other company, person or entity shall offer any Securities in connection with which Shareholders as a class are entitled to participate in arrangements whereby such Securities may be acquired by them (except where the Conversion Price falls to be adjusted under paragraph (b)(ii), (b)(iii), (b)(iv), (b)(vi) or (b)(vii) above or (b)(x) below (or would fall to be so adjusted if the relevant issue or grant was at less than 95 per cent. of the Current Market Price per Ordinary Share on the relevant dealing day) or under paragraph (b)(v) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the Effective Date by the following fraction:

$$\frac{A-B}{A}$$

where:

- A is the Current Market Price of one Ordinary Share on the Effective Date; and
- B is the Fair Market Value on the Effective Date of the portion of the relevant offer attributable to one Ordinary Share.

Such adjustment shall become effective on the Effective Date.

“**Effective Date**” means, in respect of this paragraph (b)(ix), the first date on which the Ordinary Shares are traded ex-rights on the Relevant Stock Exchange.

- (x) If a Change of Control shall occur, then, upon any exercise of Conversion Rights where the Conversion Date falls during the Change of Control Period, the Conversion Price shall be as set out below, but in each case adjusted, if appropriate, under the foregoing provisions of this Condition 6(b):

Conversion Date	Conversion Price (€)
On or before 31 May 2014	3.1484
Thereafter, but on or before 31 May 2015	3.3204
Thereafter, but on or before 31 May 2016	3.5124
Thereafter, but on or before 31 May 2017	3.7286
Thereafter, and until the Final Maturity Date	3.9724

- (xi) If the Issuer determines in its absolute discretion that an adjustment should be made to the Conversion Price as a result of one or more circumstances not referred to above in this paragraph (b) (even if the relevant circumstance is specifically excluded from the operation of paragraphs (b)(i) to (x) above), the Issuer may, at its own expense and acting reasonably,

request an Independent Adviser to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof and the date on which such adjustment (if any) should take effect and upon such determination such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that an adjustment shall only be made pursuant to this paragraph (b)(xi) if such Independent Adviser is so requested to make such a determination not more than 21 days after the date on which the relevant circumstance arises and if the adjustment would result in a reduction to the Conversion Price.

Notwithstanding the foregoing provisions:

- (a) where the events or circumstances giving rise to any adjustment pursuant to this Condition 6(b) have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of any other events or circumstances which have already given or will give rise to an adjustment to the Conversion Price or where more than one event which gives rise to an adjustment to the Conversion Price occurs within such a short period of time that, in the opinion of the Issuer, a modification to the operation of the adjustment provisions is required to give the intended result, such modification shall be made to the operation of the adjustment provisions as may be determined in good faith by an Independent Adviser to be in its opinion appropriate to give the intended result;
- (b) such modification shall be made to the operation of these Conditions as may be determined in good faith by an Independent Adviser to be in its opinion appropriate (i) to ensure that an adjustment to the Conversion Price or the economic effect thereof shall not be taken into account more than once and (ii) to ensure that the economic effect of a Dividend is not taken into account more than once;
- (c) in circumstances where an adjustment would fall to be made pursuant to paragraph (b)(viii) where the initial issue of the relevant Securities or grant of rights in respect of existing Securities shall have given rise to an adjustment to the Conversion Price pursuant to paragraph (b)(vii) or where there has previously been an adjustment to the Conversion Price pursuant to paragraph (b)(viii) in respect of the relevant Securities, such modification shall be made to the operation of paragraph (b)(viii) for such purposes as may be determined in good faith by an Independent Adviser to be in its opinion appropriate to give the intended result; and
- (d) for the purposes of paragraphs (b)(v) and (ix), there shall be taken into account in determining the Fair Market Value of the portion of the rights attributable to one Ordinary Share or, as the case may be, the Fair Market Value of the portion of the relevant offer attributable to one Ordinary Share, any consideration paid or payable for the relevant Securities, options, warrants or other rights and for the Securities to be issued or otherwise made available upon the exercise of any such options, warrants or other rights.

For the purpose of any calculation of the consideration receivable or price pursuant to paragraphs (b)(iv), (b)(vi), (b)(vii) and (b)(viii), the following provisions shall apply:

- (a) the aggregate consideration receivable or price for Ordinary Shares issued for cash shall be the amount of such cash;
- (b) (x) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the conversion or exchange of any Securities shall be deemed to be the consideration or price received or receivable for any such Securities and (y) the aggregate consideration receivable or price for Ordinary Shares to be issued or otherwise made available upon the exercise of rights of subscription attached to any Securities or upon the exercise of any options, warrants or rights shall be deemed to be that part (which may be the whole) of the consideration or price received or receivable for such Securities or, as the case may be, for such options, warrants or rights which are attributed by the Issuer to such rights of subscription or, as the case may be, such options, warrants or rights or, if no part of such consideration or price is so attributed, the Fair Market Value of such rights of subscription or, as the case may be, such options, warrants or rights as at the relevant date of first public announcement as referred to in paragraph (b)(vi), (b)(vii) or (b)(viii), as the case may be, plus in the case of each of (x) and (y) above, the additional minimum consideration receivable or price (if any) upon the conversion or exchange of such Securities, or upon the exercise of such rights or subscription attached thereto or, as the case may be, upon exercise of such options, warrants or rights and (z) the consideration receivable or price per Ordinary Share upon the conversion or exchange of, or upon the exercise of such rights of subscription attached to, such Securities or, as the case may be, upon the exercise of such options, warrants or rights shall be the aggregate consideration or price referred to in (x) or (y) above (as the case may be) divided by the number of Ordinary Shares to be issued upon such conversion or exchange or exercise at the initial conversion, exchange or subscription price or rate;
- (c) if the consideration or price determined pursuant to (a) or (b) above (or any component thereof) shall be expressed in a currency other than the Relevant Currency, it shall be converted into the Relevant Currency at the Prevailing Rate on the relevant Effective Date (in the case of (a) above) or the relevant date of first public announcement (in the case of (b) above);
- (d) in determining the consideration or price pursuant to the above, no deduction shall be made for any commissions or fees (howsoever described) or any expenses paid or incurred for any underwriting, placing or management of the issue of the relevant Ordinary Shares or Securities or options, warrants or rights, or otherwise in connection therewith; and
- (e) the consideration or price shall be determined as provided above on the basis of the consideration or price received, receivable, paid or payable regardless of whether all or part thereof is received, receivable, paid or payable by or to the Issuer or another entity.

(c) *Retroactive Adjustments*

If the Share Record Date in relation to the conversion of any Bond shall be after the record date in respect of any reclassification or sub-division as is mentioned in paragraph (b)(i) above, or after the record date or other due date for the establishment of entitlement for any such issue, distribution, grant or offer (as the case may be) as is mentioned in paragraph (b)(ii), (b)(iii), (b)(iv), (b)(v) or (b)(ix) above, or after the date of the first public announcement of the terms of any such issue or grant as is mentioned in paragraph (b)(vi) and (b)(vii) above or of the terms of any such modification as is mentioned in paragraph (b)(viii) above, where the relevant Conversion Date falls before the relevant adjustment to the Conversion Price becomes effective under paragraph (b) above (such adjustment, a “**Retroactive Adjustment**”), then the Issuer shall (conditional upon the relevant adjustment becoming effective) procure that there shall be issued to the converting Bondholder, in accordance with the instructions contained in the relevant Conversion Notice, such additional number of Ordinary Shares (if any) (the “**Additional Ordinary Shares**”) as, together with the Ordinary Shares issued on conversion of the relevant Bonds (together with any fraction of an Ordinary Share not so issued), is equal to the number of Ordinary Shares which would have been required to be issued on such conversion if the relevant adjustment to the Conversion Price had been made and become effective immediately prior to the relevant Conversion Date.

(d) *Decision of an Independent Adviser*

If any doubt shall arise whether an adjustment falls to be made to the Conversion Price or as to the appropriate adjustment to the Conversion Price, and following consultation between the Issuer and an Independent Adviser, a written determination of such Independent Adviser in respect thereof shall be conclusive and binding on all parties, save in the case of manifest error.

(e) *Share or Option Schemes, Dividend Reinvestment Plans*

No adjustment will be made to the Conversion Price where Ordinary Shares or other Securities (including rights, warrants and options) are issued, offered, exercised, allotted, purchased, appropriated, modified or granted to, or for the benefit of, employees or former employees (including Directors holding or formerly holding executive or non-executive office or the personal service company of any such person) or their spouses or relatives, in each case, of the Issuer or any other member of the Group or any associated company or to a trustee or trustees to be held for the benefit of any such person, in any such case pursuant to any share or option scheme or pursuant to any dividend reinvestment plan or similar plan or scheme.

(f) *Rounding Down and Notice of Adjustment to the Conversion Price*

On any adjustment, the resultant Conversion Price, if not an integral multiple of €0.0001, shall be rounded down to the nearest whole multiple of €0.0001. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than 1 per cent. of the Conversion Price then in

effect. Any adjustment not required to be made and/or any amount by which the Conversion Price has been rounded down, shall be carried forward and taken into account in any subsequent adjustment, and such subsequent adjustment shall be made on the basis that the adjustment not required to be made had been made at the relevant time and/or, as the case may be, that the relevant rounding down had not been made.

Notice of any adjustments to the Conversion Price shall be given by the Issuer to Bondholders in accordance with Condition 15 promptly after the determination thereof.

The Conversion Price shall not in any event be reduced to an amount which is less than the nominal value of the Ordinary Shares or, where the nominal value of the Ordinary Shares is expressed in a currency other than Euro, an amount which, when converted into the currency in which the nominal value of the Ordinary Shares is expressed at the spot rate for exchanging Euro for such currency on the date on which the Conversion Price would otherwise be reduced, is less than the nominal value of the Ordinary Shares. The Issuer undertakes that it shall not take any action, and shall procure that no action is taken, which would otherwise result in an adjustment to the Conversion Price to below such amount or any minimum level permitted by applicable laws or regulations.

(g) *Procedure for exercise of Conversion Rights*

Conversion Rights may be exercised by a Bondholder during the Conversion Period by delivering the relevant Bond to the specified office of any Paying, Transfer and Conversion Agent, during its usual business hours, accompanied by (i) a duly completed and signed notice of conversion (a “**Conversion Notice**”) in the form (for the time being current) obtainable from any Paying, Transfer and Conversion Agent and (ii) a duly completed and signed nationality declaration (a “**Nationality Declaration**”) in the form prescribed from time to time by the Issuer and obtainable from any Paying, Transfer and Conversion Agent. Conversion Rights shall be exercised subject, in each case, to any applicable fiscal or other laws or regulations applicable in the jurisdiction in which the specified office of the relevant Paying, Transfer and Conversion Agent to whom the relevant Conversion Notice is delivered is located.

If the delivery of the relevant Bond, Conversion Notice and Nationality Declaration as described in the foregoing paragraph is made after the end of normal business hours or on a day which is not a business day in the place of the specified office of the relevant Paying, Transfer and Conversion Agent, such delivery shall be deemed for all purposes of these Conditions to have been made on the next following such business day.

Each Bondholder exercising Conversion Rights will be required to provide such other information (if any) specified in the Nationality Declaration as is required by the Issuer to prove the title of the person exercising the Conversion Right or as to the matters referred to in the Nationality Declaration.

Any determination as to whether any Conversion Notice or any Nationality Declaration has been duly completed and properly delivered shall be made by the relevant Paying, Transfer and Conversion Agent and shall, save in the case of manifest error, be conclusive and binding on the Issuer, the Paying, Transfer and Conversion Agents and the relevant Bondholder.

A Conversion Notice, once delivered, shall be irrevocable.

The conversion date in respect of a Bond (the “**Conversion Date**”) shall be the London and Madrid business day immediately following the date of the delivery of the relevant Bond and the Conversion Notice as provided in this Condition 6(g) and payment of any other amount payable by the relevant Bondholder pursuant to the following paragraph of this Condition 6(g).

A Bondholder exercising Conversion Rights must pay directly to the relevant authorities any taxes and capital, stamp, issue, registration and transfer taxes and duties arising on conversion (other than any capital, stamp, issue, registration and transfer taxes and duties payable in the UK or the Kingdom of Spain in respect of the allotment or issue of any Ordinary Shares in respect of such exercise (including any Additional Ordinary Shares), which shall be paid by the Issuer). If the Issuer shall fail to pay any capital, stamp, issue, registration and transfer taxes and duties payable for which it is responsible as provided above, the relevant holder shall be entitled to tender and pay the same and the Issuer as a separate and independent stipulation, covenants to reimburse and indemnify each Bondholder in respect of any payment thereof and any penalties payable in respect thereof.

The Paying, Transfer and Conversion Agents shall not be responsible for determining whether such taxes or capital, stamp, issue, registration and transfer taxes and duties are payable or the amount thereof and shall not be responsible or liable for any failure by the Issuer or any Bondholder to pay such taxes or capital, stamp, issue, registration and transfer taxes and duties.

Such Bondholder must also pay all taxes, if any, imposed on it and arising by reference to any disposal or deemed disposal of a Bond or any interest therein in connection with the exercise of Conversion Rights by it.

Ordinary Shares to be issued on exercise of Conversion Rights (including any Additional Ordinary Shares) will be documented in a public deed granted by the Issuer before a Spanish notary public to be filed and registered by the Issuer with the Mercantile Registry of the Issuer’s registered office from time to time and, following such registration, filed with Iberclear for the purpose of delivering the Ordinary Shares to either:

- (i) the Iberclear proprietary account of the relevant Bondholder (in circumstances where such Bondholder is a participant entity in Iberclear) or the securities account specified by the relevant Bondholder in the relevant Conversion Notice held with a participant entity in Iberclear (in circumstances where such Bondholder is not a participant entity in Iberclear), in either case, as specified by the relevant Bondholder in the relevant Conversion Notice; or

- (ii) the Iberclear account of a depository (or its nominated custodian) appointed by the Issuer who will (A) hold the Ordinary Shares for the benefit of the relevant Bondholder and (B) issue and deliver dematerialised depository interests representing the Ordinary Shares (“**Depository Interests**”) into the dematerialised securities trading system operated by Euroclear UK & Ireland Limited, known as CREST, to be held in the CREST account specified by the relevant Bondholder in the relevant Conversion Notice,

as the relevant Bondholders may specify in the relevant Conversion Notice.

A Bondholder can either elect in the Conversion Notice to hold Ordinary Shares (including any Additional Ordinary Shares) directly in Iberclear (subject to such Bondholder (or its nominee) being a participant entity in Iberclear or, failing which, having a securities account with a participant entity in Iberclear) or elect in the Conversion Notice to hold Depository Interests through CREST. In the absence of any such explicit election in the Conversion Notice, a Bondholder shall be deemed to have elected to hold Depository Interests, which, as soon as practicable following notification thereof by the relevant Bondholder, shall be credited to such CREST account as notified by the Bondholder.

The date upon which the public deed documenting the issuance of new Ordinary Shares is granted before a Spanish notary or the date upon which the Issuer instructs the relevant depository entity to transfer the existing Ordinary Shares to be delivered to the relevant account of the relevant Bondholder will be the date upon which the Bonds are converted into Ordinary Shares (the “**Share Record Date**”). On and from the Share Record Date, subject to the next following sentence, the relevant Bondholder will become entitled to the economic rights of a holder of Ordinary Shares for the purposes of dividend entitlement and otherwise. However, the relevant Bondholder will not be able to transfer Ordinary Shares until they have been registered in Iberclear as provided below.

The Issuer may, at its own discretion, elect to perform its obligation in connection with any Conversion Notice, by the transfer of existing Ordinary Shares or the allotment and issue of new Ordinary Shares, subject to Condition 6(h) and provided that the Issuer shall treat all Bondholders converting their Bonds on the same Conversion Date equally.

The Issuer will procure that the Share Record Date occurs on the first day of each calendar month or, if such day is not a London and Madrid business day, the following London and Madrid business day, in relation to the Conversion Notices in respect of which the Conversion Dates occurred at least seven London and Madrid business days prior to such day. Where the Conversion Date falls after the seventh London and Madrid business day prior to the first day of a calendar month or if such day is not a London and Madrid business day, the following London and Madrid business day, the Issuer will procure that the Share Record Date occurs on the first day of the immediately following calendar month or, if such day is not a London and Madrid business day, the following Madrid business day.

Notwithstanding the provisions of the preceding paragraph, in the case of Conversion Notices delivered in respect of which the Conversion Date falls after the

seventh London and Madrid business day prior to the month in which the Final Maturity Date falls or the Optional Redemption Date falls or the last day of the Change of Control Period falls (as the case may be), the Issuer will procure that the Share Record Date occurs on the London and Madrid business day prior to the Final Maturity Date, Optional Redemption Date or last day of the Change of Control Period (as the case may be).

The Issuer will procure that the public deed documenting the issue of the Ordinary Shares is filed for registration with the Mercantile Registry of the Issuer's registered office as soon as reasonably practicable and, in any event, no later than five London and Madrid business days after the Share Record Date.

The Issuer will use its reasonable endeavours to procure that, as soon as reasonably practicable after the public deed documenting the issue of the Ordinary Shares has been recorded with the Mercantile Registry of the Issuer's registered office but in any event no later than 15 Madrid business days after the relevant Share Record Date, the Ordinary Shares are:

- (i) registered with Iberclear and either:
 - (A) credited to the Iberclear proprietary account of the relevant Bondholder (in circumstances where such Bondholder is a participant entity in Iberclear) or the securities account specified by the relevant Bondholder in the relevant Conversion Notice held with a participant entity in Iberclear (in circumstances where such Bondholder is not a participant entity in Iberclear), in either case, as specified by the relevant Bondholder in the relevant Conversion Notice; or
 - (B) credited to the Iberclear account of a depository (or its nominated custodian) appointed by the Issuer who will (i) hold the Ordinary Shares for the benefit of the relevant Bondholder and (ii) issue and deliver Depository Interests into CREST, to be held in the CREST account specified by the relevant Bondholder in the relevant Conversion Notice; and
- (ii) listed on the Official List of the UK Listing Authority and admitted to trading on the London Stock Exchange and on the Spanish Stock Exchanges (as the case may be) as soon as practicable thereafter.

On or as soon as reasonably practicable after the Share Record Date with respect to any Bonds in respect of which the Conversion Right has been exercised, the Issuer, through the relevant Paying, Transfer and Conversion Agent, will notify the relevant Bondholder of the Share Record Date and the number of Ordinary Shares to be issued and/or delivered upon such conversion. On or as soon as reasonably practicable after the date that the Ordinary Shares are registered with Iberclear (the "**Registry Date**"), the Issuer, through the relevant Paying, Transfer and Conversion Agent, will notify the relevant Bondholder of the Registry Date and of the date of listing of the new Ordinary Shares issued.

Notwithstanding delivery by a Bondholder of a Conversion Notice with respect to any Bonds, such Bondholder shall remain a Bondholder for the purposes of these Conditions until the relevant Conversion Date, provided that, subject to this Condition 6(g), once Conversion Rights with respect to a Bond have been exercised, such Bond will not be redeemable on the Final Maturity Date or pursuant to Condition 7 or Condition 10.

(h) *Ordinary Shares*

- (i) Ordinary Shares (including any Additional Ordinary Shares) issued and/or delivered upon exercise of Conversion Rights will be fully paid and will in all respects rank *pari passu* with the fully paid Ordinary Shares in issue on the relevant Share Record Date or, in the case of Additional Ordinary Shares, on the relevant Reference Date, except in any such case for any right excluded by mandatory provisions of applicable law and except that such Ordinary Shares or, as the case may be, Additional Ordinary Shares will not rank for (or, as the case may be, the relevant holder shall not be entitled to receive) any rights, distributions or payments the record date or other due date for the establishment of entitlement for which falls prior to the relevant Share Record Date or, as the case may be, the relevant Reference Date.
- (ii) Save as provided in Condition 6(i), no payment or adjustment shall be made on exercise of Conversion Rights for any interest which otherwise would have accrued on the relevant Bonds since the last Interest Payment Date preceding the Share Record Date relating to such Bonds.

(i) *Interest on Conversion*

If any notice requiring the redemption of the Bonds is given pursuant to Condition 7(b) on or after the 15th London and Madrid business day prior to a record date which has occurred since the last Interest Payment Date in respect of any Dividend or distribution payable in respect of the Ordinary Shares where such notice specifies a date for redemption falling on or prior to the date which is 14 days after the Interest Payment Date next following such record date, interest shall accrue at the rate provided in Condition 4(a) on Bonds in respect of which Conversion Rights shall have been exercised and in respect of which the Conversion Date falls after such record date and on or prior to the Interest Payment Date next following such record date in respect of such Dividend or distribution, in each case from and including the preceding Interest Payment Date to but excluding such Conversion Date. The Issuer shall pay any such interest by not later than 14 days after the relevant Conversion Date by transfer to a Euro account with a bank in a city in which banks have access to the TARGET System in accordance with instructions given by the relevant Bondholder in the relevant Conversion Notice.

(j) *Purchase or Redemption of Ordinary Shares*

The Issuer or any other member of the Group may exercise such rights as it may from time to time enjoy to purchase or redeem or buyback any shares of the Issuer (including Ordinary Shares) or any depository or other receipts or certificates representing the same without the consent of the Bondholders.

(k) *No Duty to Monitor*

The Commissioner shall not be under any duty to monitor whether any event or circumstance has happened or exists which may require an adjustment to be made to the Conversion Price or as to the amount of any adjustment actually made, and will not be responsible or liable to the Bondholders for any loss arising from any failure by it to do so.

(l) *Change of Control*

Within 14 calendar days following the occurrence of a Change of Control, the Issuer shall give notice thereof to the Commissioner and to the Bondholders in accordance with Condition 15 (a “**Change of Control Notice**”). The Change of Control Notice shall contain a statement informing Bondholders of their entitlement to exercise their Conversion Rights as provided in these Conditions and their entitlement to exercise their rights to require redemption of their Bonds pursuant to Condition 7(e).

The Change of Control Notice shall also specify:

- (i) all information material to Bondholders concerning the Change of Control;
- (ii) the Conversion Price immediately prior to the occurrence of the Change of Control and the Conversion Price applicable pursuant to Condition 6(b)(x) during the Change of Control Period on the basis of the Conversion Price in effect immediately prior to the occurrence of the Change of Control;
- (iii) the closing price of the Ordinary Shares as derived from the Relevant Stock Exchange as at the latest practicable date prior to the publication of the Change of Control Notice;
- (iv) the last day of the Change of Control Period;
- (v) the Put Date; and
- (vi) such other information relating to the Change of Control as the Commissioner may require.

The Commissioner shall not be required to take any steps to monitor or ascertain whether a Change of Control or any event which could lead to a Change of Control has occurred or may occur and will not be responsible or liable to Bondholders or any other person for any loss arising from any failure by it to do so.

(m) *Merger*

Without prejudice to Condition 6(b)(x) or Condition 7(e), in the case of any merger according to Spanish Law 3/2009 of 3 April on structural changes, as amended from time to time, of the Issuer with any other corporation (other than a merger in which the Issuer is the continuing corporation), the Issuer shall forthwith notify the Bondholders of such event and take such steps as shall be required to ensure that each Bond then outstanding will (during the period in which Conversion Rights may

be exercised) be converted into the class and amount of shares and other securities property and cash receivable upon such merger by a holder of the number of Ordinary Shares which would have become liable to be issued or delivered if the Conversion Rights had been exercised immediately prior to such merger. The above provisions of this Condition 6(m) will apply, *mutatis mutandis*, to any subsequent merger.

7. Redemption and Purchase

(a) *Final Redemption*

Unless previously purchased and cancelled, redeemed or converted as herein provided, the Bonds will be redeemed at their principal amount on the Final Maturity Date. The Bonds may only be redeemed at the option of the Issuer prior to the Final Maturity Date in accordance with Condition 7(b).

(b) *Redemption at the Option of the Issuer*

On giving not less than 45 or more than 60 days' notice (an "**Optional Redemption Notice**") to the Commissioner and to the Bondholders in accordance with Condition 15, the Issuer may redeem all but not some only of the Bonds on the date (the "**Optional Redemption Date**") specified in the Optional Redemption Notice at their principal amount, together with accrued but unpaid interest to such date:

- (i) at any time on or after 21 June 2016, if on each of at least 20 dealing days in any period of 30 consecutive dealing days ending not earlier than seven dealing days prior to the giving of the relevant Optional Redemption Notice, the Volume Weighted Average Price of an Ordinary Share (translated into Euro at the Prevailing Rate on such dealing day) shall have been at least 130 per cent. of the Conversion Price in effect on each such dealing day; or
- (ii) at any time, if, prior to the date the relevant Optional Redemption Notice is given, Conversion Rights shall have been exercised and/or purchases (and corresponding cancellations) and/or redemptions effected in respect of 85 per cent. or more in principal amount of the Bonds originally issued (which shall for this purpose include any Further Bonds).

For the purposes of Condition 7(b)(i), if on any dealing day in such 30 dealing day period the Volume Weighted Average Price of an Ordinary Share on such dealing day shall have been quoted cum-Dividend (or cum-any other entitlement), the Volume Weighted Average Price of an Ordinary Share on such dealing day shall be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of any such Dividend or entitlement per Ordinary Share as at the date (or, if that is not a dealing day, the immediately preceding dealing day) of first public announcement of such Dividend (or entitlement).

(c) *Redemption for Tax Reasons*

The Issuer may, at any time, having given not less than 45 or more than 60 days' notice (a "**Tax Redemption Notice**") to the Commissioner and to the Bondholders in

accordance with Condition 15, 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 9 as a result of any change in, or amendment to, the laws or regulations of the Kingdom of Spain or any 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 Closing 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 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) the Tax Redemption Date.

If the Issuer gives a Tax Redemption Notice, each Bondholder will have the right to elect that its Bonds shall not be redeemed pursuant to the Tax Redemption Notice and that the provisions of Condition 9 shall not apply to any payment of principal or interest to be made on such Bonds by the Issuer falling due after the Tax Redemption Date, whereupon no additional amounts shall be payable by the Issuer in respect thereof pursuant to Condition 9 and (without prejudice to Condition 8) payment in respect of all amounts of principal and interest on such Bonds shall be made subject to the deduction or withholding of Kingdom of Spain tax required to be withheld or deducted. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying, Transfer and Conversion Agent a duly completed and signed notice of election, in the form for the time being current (and obtainable from the specified office of any Paying, Transfer and Conversion Agent), together with the relevant Bonds, on or before the day falling 10 days prior to the Tax Redemption Date.

(d) *Optional Redemption and Tax Redemption Notices*

Any Optional Redemption Notice or Tax Redemption Notice shall be irrevocable. Any such notice shall specify (i) the Optional Redemption Date or, as the case may be, the Tax Redemption Notice, which shall be a London and Madrid business day, (ii) the Conversion Price, the aggregate principal amount of the Bonds outstanding and the closing price of the Ordinary Shares as derived from the Relevant Stock Exchange, in each case, as at the latest practicable date prior to the publication of the Optional Redemption Notice or, as the case may be, the Tax Redemption Notice, (iii) the last day on which Conversion Rights may be exercised by Bondholders and (iv) the amount of accrued interest payable in respect of each Bond on the Optional Redemption Date.

The Issuer shall not give an Optional Redemption Notice or Tax Redemption Notice at any time during a Change of Control Period or a Tender Offer Period or which specifies a date for redemption falling in a Change of Control Period or a Tender Offer Period or the period of 21 days following the end of a Change of Control Period or a Tender Offer Period (whether or not the relevant notice was given prior to or during such Change of Control Period or Tender Offer Period), and any such notice shall be invalid and of no effect (whether or not given prior to the relevant Change of Control Period or Tender Offer Period) and the relevant redemption shall not be made.

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

If a Triggering Event occurs, the holder of each Bond will have the right 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 such Bond at the specified office of any Paying, Transfer and Conversion Agent, 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, Transfer and Conversion Agent (a "**Put Exercise Notice**") at any time in the period (the "**Put Period**") of 60 days commencing on the occurrence of the relevant Triggering Event (as defined below) and ending 60 days following the date upon which notice as required by Condition 7(f) is given to Bondholders by the Issuer. 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:

"**Determination Date**" means the last day of the Tender Offer Period.

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 Closing Date;

"**Put Price**" means in respect of a Bond:

- (i) in the case of a Change of Control or a Disposal Event, the principal amount of such Bond; and
- (ii) in the case of a Tender Offer Triggering Event, the greater of:

- (A) the principal amount of such Bond; and
- (B) the Tender Offer Value in respect of such Bond.

“Tender Offer” means a tender offer (including a competing tender offer) made in accordance with applicable Spanish laws and regulations following approval from the CNMV.

“Tender Offer Consideration” means the consideration (on a per Ordinary Share basis, as the case may be) receivable by holders of Ordinary Shares in respect of the relevant Tender Offer, provided that:

- (i) if the consideration is comprised solely of cash or there is alternative consideration that is comprised solely of cash, the Tender Offer Consideration shall be the amount of such cash;
- (ii) if the consideration is comprised solely of consideration other than cash, the Tender Offer Consideration shall be determined by an Independent Adviser as the Fair Market Value of such consideration as at the Determination Date;
- (iii) if the consideration is comprised partly of cash and partly of consideration other than cash, the Tender Offer Consideration shall be determined by an Independent Adviser as the aggregate of (x) the relevant cash amount and (y) the Fair Market Value of such non-cash consideration as at the Determination Date;
- (iv) if there is alternative consideration that the shareholders may elect to receive, neither of which alternative consideration is comprised solely of cash, the Tender Offer Consideration shall be determined by an Independent Adviser as the consideration having the highest value, based on (x) any cash amount comprised in any alternative consideration and (y) the Fair Market Value of the non-cash consideration comprised in any alternative consideration as at the Determination Date; and
- (v) if the Tender Offer Consideration as determined as provided above is in a currency other than Euro, it shall be translated, if necessary, into Euro at the Prevailing Rate on the Determination Date.

“Tender Offer Period” means the period during which Shareholders are able to tender Ordinary Shares pursuant to the relevant Tender Offer.

a **“Tender Offer Triggering Event”** shall occur where a Tender Offer is made to all (or as nearly as may be practicable all) holders of Ordinary Shares (or all (or as nearly as may be practicable all) such shareholders other than the offeror and/or any person or persons acting together with the offeror) to acquire all or any of the issued Ordinary Shares of the Issuer and where, immediately following completion of the Tender Offer, the offeror and/or any person or persons acting together with offeror has Control of the Issuer.

“**Tender Offer Value**” in respect of a Bond means an amount in cash in Euro per Bond calculated by multiplying the quotient of the principal amount of such Bond divided by the Conversion Price prevailing on the Determination Date (with the Conversion Price for this purpose being calculated by reference to the schedule in Condition 6(b)(x) and as if references therein to Conversion Date were references to the Determination Date and references to the Change of Control Period were references to the Put Period), by the Tender Offer Consideration (with the result rounded, if necessary, to the nearest €0.01, with €0.005 being rounded down).

“**Triggering Event**” means a Tender Offer Triggering Event or the occurrence of a Change of Control 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).

(f) *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 15. Such notice shall contain a statement informing Bondholders of their entitlement to exercise their rights to require redemption of their Bonds pursuant to Condition 7(e).

Such notice shall also specify:

- (a) all information material to Bondholders concerning the Triggering Event;
- (b) the Conversion Price immediately prior to the occurrence of the Triggering Event;
- (c) the closing price of the Ordinary Shares as derived from the Relevant Stock Exchange as at the latest practicable date prior to the publication of the relevant notice;
- (d) the last day of the Put Period;
- (e) the Put Date; and
- (f) 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.

(g) *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. Such Bonds may be held, re-sold or reissued or, at the option of the relevant purchaser, surrendered to any Paying, Transfer and Conversion Agent for cancellation.

(h) Cancellation

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

(i) Multiple Notices

If more than one notice of redemption is given pursuant to this Condition 7, the first of such notices to be given shall prevail.

8. Payments

(a) Principal and Interest

Payment of principal and interest in respect of the Bonds will be made to the persons shown in the Register at the close of business on the Record Date.

(b) Other Amounts

Payments of all amounts other than as provided in Condition 8(a) 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 8(a) and 8(b) 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 9, all payments in respect of the Bonds are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment.

Without prejudice to the provisions of Condition 9, 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), the Issuer will not be required to pay any additional amounts on account of a

withholding or deduction for, or on account of, any taxes or duties of whatever nature imposed or levied by such laws, regulations, directives or agreements and the Issuer shall be acquitted and discharged of so much money as is represented by any such withholding or deduction as if such sum had been actually paid to the holders of the Bonds. 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 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.

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

The initial Paying, Transfer and Conversion Agents 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, Transfer and Conversion Agent and appoint additional or other paying, transfer and conversion agents, provided that it will (i) maintain a principal paying, transfer and conversion agent, (ii) maintain a paying, transfer and conversion agent (which may be the principal paying, transfer and conversion agent) with a specified office in a European Union Member State that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive (to the extent that at least one Member State does not require a paying, transfer and conversion agent with an office in that Member State to so withhold or deduct amounts for or on account of tax, whether pursuant to European Council Directive 2003/48/EC, under the laws of that Member State or otherwise) and (iii) maintain a paying, transfer and conversion agent with a specified office in at least two major European cities (which may, for the avoidance of doubt, be the same Paying, Transfer and Conversion Agent maintained for the purposes of (ii)). Notice of any change in the Paying, Transfer and Conversion Agents or their specified offices will promptly be given by the Issuer to the Bondholders in accordance with Condition 15.

(h) *No charges*

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

The Bonds, on issue, will be represented by a global Bond (the “Global Bond”) registered in the name of, and held by a nominee on behalf of, a common depository for Euroclear Bank S.A./N.V. and/or Clearstream Banking, société anonyme. All payments in respect of Bonds represented by the Global Bond will be made to, or to the order of, the person whose name is entered in the Register at the close of business on the Clearing System Business Day immediately prior to the date of payment, where “Clearing System Business Day” means Monday to Friday inclusive except 24 December and 1 January.

9. 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 of a 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 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 complying (or procuring that a third party complies) with any statutory requirements in force at the present time or in the future or by making (or procuring that a third party makes) a declaration of non-residence or other claim or filing for exemption; or
- (c) held by (or by a third party on behalf of) a holder of such Bond who would not be liable or subject to such withholding or deduction by making a 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

- (d) 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
- (e) where such withholding or deduction is required to be made pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council Meeting of 26 and 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, any such directive, or any agreement entered into by a Member State with (i) any other state; or (ii) any relevant dependant or associated territory of any Member State providing for measures equivalent to, or the same as, those provided for by any such directive; or
- (f) held by (or by a third party on behalf of) a holder of such Bond who would be able to avoid such withholding or deduction by presenting the Bond to a Paying, Transfer and Conversion Agent in another state, country or territory; or
- (g) for or on account of any withholding or deduction arising under or in connection with FATCA.

10. Events of Default

If any of the events listed in paragraphs (a) to (h) of this Condition 10 (each, an “**Event of Default**”) occurs, then the outstanding Bonds, upon written notice being given to the Fiscal Agent at its specified office by (i) the Commissioner acting upon a resolution of the Syndicate of Bondholders, in respect of all Bonds or (ii) unless there has been a resolution to the contrary by the Syndicate of Bondholders, any Bondholder in respect of such Bonds, shall become immediately due and repayable at their 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) or failure to perform or observe any obligation under Condition 11 which would, but for the provisions of applicable law, be a breach thereof, in each case which continues for more than 45 days after written notice thereof shall have been given to the Issuer by the Commissioner, acting upon a resolution of the Syndicate of Bondholders, or any Bondholder, as the case may be;

(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 10(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 €60,000,000 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 a resolution of the Syndicate of Bondholders;
- (e) an encumbrancer takes possession or a receiver, administrative receiver, administrator manager, judicial manager or other similar person is appointed over the whole or a substantial part of the assets or undertaking of the 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 a resolution of the Syndicate of Bondholders) ceases or threatens to cease to carry on all or substantially all of its business; or
- (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.

11. Undertakings of the Issuer

While any Conversion Right remains exercisable, the Issuer will, save with the approval of a resolution of the Syndicate of Bondholders:

- (a) issue, allot and deliver Ordinary Shares on exercise of Conversion Rights and at all times keep available for issue free from pre-emptive or other similar rights such number of Ordinary Shares as would enable the Conversion Rights and all other rights of subscription and exchange for and conversion into Ordinary Shares to be satisfied in full;
- (b) not issue or pay up any Securities, in either case by way of capitalisation of profits or reserves, other than:
 - (i) by the issue of fully paid Ordinary Shares or other Securities to the Shareholders and other holders of shares in the capital of the Issuer which by their terms entitle the holders thereof to receive Ordinary Shares or other Securities on a capitalisation of profits or reserves;
 - (ii) by the issue of Ordinary Shares paid up in full out of profits or reserves (in accordance with applicable law) and issued wholly, ignoring fractional entitlements, in lieu of the whole or part of a cash dividend;
 - (iii) by the issue of fully paid equity share capital (other than Ordinary Shares) to the holders of equity share capital of the same class and other holders of shares in the capital of the Issuer which by their terms entitle the holders thereof to receive equity share capital (other than Ordinary Shares); or
 - (iv) by the issue of Ordinary Shares or any equity share capital to, or for the benefit of, any employee or former employee, director or executive holding or formerly holding executive office of the Issuer or any of its Subsidiaries or any associated company or to trustees or nominees to be held for the benefit of any such person, in any such case pursuant to an employee, director or executive share or option scheme whether for all employees, Directors, or executives or any one or more of them,

unless, in any such case, the same constitutes a Dividend or otherwise gives (or, in the case of an issue or payment up of Securities in connection with a Change of Control, will give) rise (or would, but for the provisions of Condition 6(f) relating to roundings or the carry forward of adjustments, give rise) to an adjustment to the

Conversion Price or is (or, in the case of any issue or payment of Securities in connection with a Change of Control, will be) otherwise taken into account to determine if such an adjustment should be made;

- (c) not in any way modify the rights attaching to the Ordinary Shares with respect to voting, dividends or liquidation and not issue any other class of equity share capital carrying any rights which are more favourable than such rights attaching to the Ordinary Shares but nothing in this Condition 11(c) shall prevent:
- (i) the issue of any equity share capital to employees (including Directors holding or formerly holding executive or non-executive office or the personal service company of any such person) whether of the Issuer or any of the Issuer's Subsidiaries or associated companies by virtue of their office or employment pursuant to any scheme or plan approved by the Issuer or which is established pursuant to such a scheme or plan which is or has been so approved;
 - (ii) any consolidation, reclassification or subdivision of the Ordinary Shares or the conversion of any Ordinary Shares into stock or vice versa;
 - (iii) any modification of such rights which is not, in the determination in good faith of an Independent Adviser, materially prejudicial to the interests of the holders of the Bonds;
 - (iv) any alteration to the By-laws of the Issuer made in connection with the matters described in this Condition 11 or which is supplemental or incidental to any of the foregoing (including any amendment made to enable or facilitate procedures relating to such matters and any amendment dealing with the rights and obligations of holders of Securities, including Ordinary Shares, dealt with under such procedures);
 - (v) any issue of equity share capital where the issue of such equity share capital results or would, but for the provisions of Condition 6(f) relating to roundings or the carry forward of adjustments or, where comprising Ordinary Shares, the fact that the consideration per Ordinary Share receivable therefore is at least 95 per cent. of the Current Market Price per Ordinary Share on the relevant date, otherwise result, in an adjustment to the Conversion Price;
 - (vi) any issue of equity share capital or modification of rights attaching to the Ordinary Shares where prior thereto the Issuer shall have instructed an Independent Adviser to determine in good faith what (if any) adjustments should be made to the Conversion Price as being fair and reasonable to take account thereof and such Independent Adviser shall have determined in good faith either that no adjustment is required or that an adjustment to the Conversion Price is required and, if so, the new Conversion Price as a result thereof and the basis upon which such adjustment is to be made and, in any such case, the date on which the adjustment shall take effect (and so that the adjustment shall be made and shall take effect accordingly); or

- (vii) without prejudice to Condition 6(b)(x) or Condition 7(e), the amendment of the By-laws of the Issuer following a Change of Control to ensure that any Bondholder exercising its Conversion Right after the occurrence of a Change of Control will receive the same consideration for the Ordinary Shares arising on conversion as it would have received had it exercised its Conversion Right at the time of the occurrence of the Change of Control;
- (d) except as part of any employee, director or executive share or option or incentive scheme, procure that no Securities (whether issued by the Issuer or any other member of the Group or procured by the Issuer or any other member of the Group to be issued) issued without rights to convert into, or exchange or subscribe for, Ordinary Shares shall subsequently be granted such rights exercisable at a consideration per Ordinary Share which is less than 95 per cent. of the Current Market Price per Ordinary Share at the close of business on the last dealing day preceding the date of the first public announcement of the proposed inclusion of such rights unless the same gives rise (or would, but for the provisions of Condition 6(f) relating to roundings or the carry forward of adjustments, give rise) to an adjustment to the Conversion Price and that at no time shall there be in issue Ordinary Shares of differing nominal values, save where such Ordinary Shares have the same economic rights;
- (e) not make any issue, grant or distribution or take or omit to take any other action if the effect thereof would be that, on conversion of the Bonds, Ordinary Shares could not, under any applicable law then in effect, be legally issued as fully paid;
- (f) not reduce its issued share capital, share premium account or capital redemption reserve or any uncalled liability in respect thereof except (i) pursuant to the terms of issue of the relevant share capital or (ii) by means of a purchase or redemption of share capital of the Issuer or (iii) an increase of its share capital out of its share premium account by way of issuing bonus shares to Existing Shareholders as a class as permitted by Article 303 of the Spanish Capital Companies Act or (iv) where the reduction does not involve any distribution of assets to Shareholders or (v) solely in relation to a change in the currency in which the nominal value of the Ordinary Shares is expressed or (vi) to create distributable reserves by way of transfer to reserves as permitted under applicable law or (vii) where the reduction is permitted by applicable law and the Commissioner is advised by an Independent Adviser, acting as an expert, that the interests of the Bondholders will not be materially prejudiced by such reduction or (viii) where the reduction is permitted by applicable law and results (or, in the case of a reduction in connection with a Change of Control, will result) in (or would, but for the provisions of Condition 6(f) relating to roundings or the carry forward of adjustments, result in) an adjustment to the Conversion Price or is (or, in the case of a reduction in connection with a Change of Control, will be) otherwise taken into account to determine if such an adjustment should be made, provided that, without prejudice to the other provisions of these Conditions, the Issuer may exercise such rights as it may from time to time be entitled pursuant to applicable law to purchase, redeem or buy back its Ordinary Shares and any depositary or other receipts or certificates representing Ordinary Shares without the consent of Bondholders;

- (g) if any offer or Tender Offer is made to all (or as nearly as may be practicable, all) Shareholders (or all (or as nearly as may be practicable, all) such Shareholders other than the offeror and/or any person or persons acting together with the offeror(s)) to acquire all or a majority of the issued ordinary share capital of the Issuer, give notice of such offer to the Bondholders at the same time as any notice thereof is sent to its Shareholders (or as soon as practicable thereafter) that details concerning such offer may be obtained from the specified offices of the Paying, Transfer and Conversion Agents and, where such an offer has been recommended by the Board of Directors of the Issuer, or where such an offer has become or been declared unconditional in all respects, use its reasonable endeavours to procure that a like offer is extended to the holders of any Ordinary Shares issued during the period of the offer arising out of the exercise of the Conversion Rights by the Bondholders and/or to the holders of the Bonds (which like offer in respect of such Bondholders shall entitle any such Bondholder to receive the same type and amount of consideration it would have received had it held the number of Ordinary Shares to which such Bondholder would be entitled assuming he were to exercise his Conversion Rights in the relevant Change of Control Period);
- (h) use its reasonable endeavours to ensure that the Ordinary Shares issued upon conversion of the Bonds will as soon as practicable be admitted to the Official List of the UK Listing Authority and admitted to trading by the London Stock Exchange and to the Spanish Stock Exchanges in accordance with their respective rules and will be listed, quoted or accepted for dealing as soon as practicable on any other stock exchange or securities market on which the Ordinary Shares may then be listed or quoted or dealt in;
- (i) at all times keep available for issue free from pre-emptive rights out of its authorised but unissued capital a sufficient number of Ordinary Shares to enable Conversion Rights, and all other rights and subscription and exchange for Ordinary Shares to be satisfied in full; and
- (j) ensure that it keeps available a mechanism to enable the Conversion Rights and all other rights of subscription and exchange for and conversion into Ordinary Shares required under these Conditions to be satisfied in full.

12. Prescription

Claims in respect of principal and interest will become void unless presentation for payment is made as required by Condition 8 within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date, subject as otherwise provided in Conditions 6(g) and 8(c).

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.

13. Replacement of Bonds

If any Bond is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of any Paying, Transfer and Conversion 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.

14. **Syndicate of Bondholders, Modification and Waiver**

(a) *Syndicate of Bondholders*

Bondholders shall meet in accordance with the regulations governing the Syndicate of Bondholders (the “**Regulations**”). The Regulations contain the rules governing the Syndicate of Bondholders and the rules governing its relationship with the Issuer and are attached to the Public Deed (as defined in the introduction to these Conditions) and are included in the Fiscal Agency Agreement.

BNP Paribas Securities Services, Sucursal En España has been appointed as a temporary Commissioner for the Bondholders. Bondholders shall, by virtue of purchasing and/or holding Bonds, be deemed to have agreed to: (i) the appointment of the temporary Commissioner; and (ii) become a member of the Syndicate of Bondholders. Upon the subscription of the Bonds, the temporary Commissioner will call a general meeting of the Syndicate of Bondholders to ratify or reject the acts of the temporary Commissioner, confirm its appointment or appoint a substitute Commissioner for it and to ratify the Regulations. Bondholders shall, by virtue of purchasing and/or holding Bonds, be deemed to have granted to the Fiscal Agent full power and authority to take any action and/or to execute and deliver any document or notices to attend on behalf of the Bondholders the first meeting of the Syndicate of Bondholders called to confirm the appointment of the temporary Commissioner, approve its actions and ratify the Regulations contained in the Fiscal Agency Agreement and the Public Deed, and vote in favour of each of those resolutions.

Provisions for meetings of the Syndicate of Bondholders are contained in the Regulations and in the Fiscal Agency Agreement. Such provisions shall have effect as if incorporated herein.

The Issuer may, with the consent of the Fiscal Agent and the Commissioner, but without the consent of the holders of the Bonds, amend these Conditions insofar as they may apply to the Bonds to correct a manifest error or which amendments are of a formal, minor or technical nature or to comply with mandatory provisions of law. Subject as aforesaid, no other modification may be made to or waiver of any breach or proposed breach of, these Conditions except with the sanction of a resolution of the Syndicate of Bondholders.

For the purposes of these Conditions:

“**Commissioner**” means the *comisario* within the meaning of the Spanish Capital Companies Act of the Syndicate of Bondholders.

“**Syndicate of Bondholders**” means the *sindicato* as this term is described under the Spanish Capital Companies Act.

In accordance with Spanish law, a general meeting of the Syndicate of Bondholders shall be validly constituted upon first being convened provided that Bondholders holding or representing two-thirds of the outstanding Bonds attend. If the necessary quorum is not achieved at the first meeting, a second general meeting may be reconvened to meet one month after the first general meeting and shall be validly constituted regardless of the number of Bondholders who attend. A resolution shall be passed by holders holding an absolute majority in nominal amount of the Bonds present or duly represented at any properly constituted meeting.

(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 14 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 15.

15. Notices

Notices to holders of the Bonds shall be mailed to the holders at their respective addresses in the Register and deemed to have been given on the second business day after the date of mailing. The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of any stock exchange, multilateral trading facility or other relevant authority on which the Bonds are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if required to be published in more than one newspaper or in more than one manner, on the date of the first such publication in each required manner.

16. Spanish Capital Companies Act

In compliance with Condition 19(a), a holder of Bonds:

- (a) will not benefit from any right as a holder of Bonds arising from Articles 410 and 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.

In respect of Article 418 of the Spanish Capital Companies Act, the conversion regime established therein shall be replaced for all purposes with the regime established in these Conditions.

17. 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 the first date on which Conversion Rights may be exercised) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including 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 17 and forming a single series with the Bonds.

18. 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.

19. 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) and the provisions of Condition 14 relating to the appointment of the Commissioner and constitution and functioning of the Syndicate of Bondholders are 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 with 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 2 World Business Centre, Newall Road, London Heathrow Airport, Hounslow, Middlesex TW6 2SF, 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.

REGULATIONS OF THE SYNDICATE OF BONDHOLDERS

The following are the Regulations of the Syndicate of Bondholders referred to in the terms and conditions of the Bonds which will be incorporated by reference into the Global Bond and endorsed on the Bonds in definitive form. The use of the word "conversion" (and related terms) in the following shall be construed as encompassing the exchange of Bonds for new and/or existing Ordinary Shares. The Spanish version of the Regulations of the Syndicate of Bondholders is the legally binding version. The English translation provided below is direct and accurate and for information purposes only.

REGLAMENTO

A continuación se recoge el reglamento del sindicato de bonistas (los "Bonistas") de la emisión de bonos convertibles y canjeables de International Consolidated Airlines Group, S.A. mayo 2013 (los "Bonos"). Las menciones que en este reglamento se realicen al término "conversión" (y demás términos relacionados) serán interpretadas como referidas al canje de los Bonos por acciones existentes y a la conversión de los Bonos por acciones de nueva emisión. En caso de discrepancia la versión española prevalecerá.

TÍTULO I

CONSTITUCIÓN, DENOMINACIÓN, OBJETO, DOMICILIO Y DURACIÓN DEL SINDICATO DE LOS TITULARES DE LOS BONOS

ARTÍCULO 1º.- CONSTITUCIÓN

Con sujeción a lo dispuesto en el Capítulo IV, Título XI de la Ley de Sociedades de Capital, quedará constituido, una vez inscrita en el Registro Mercantil la escritura pública relativa a la emisión, el sindicato de los titulares de los Bonos (el "Sindicato").

El Sindicato se regirá por este reglamento y por la Ley de Sociedades de Capital y demás disposiciones legales vigentes.

ARTÍCULO 2o.- DENOMINACIÓN

El Sindicato se denominará "SINDICATO DE TITULARES DE BONOS DE LA EMISIÓN DE BONOS CONVERTIBLES Y CANJEABLES DE INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. MAYO 2013".

ARTÍCULO 3o.- OBJETO

El Sindicato tendrá por objeto la representación y defensa de los

REGULATIONS

The regulations that follow correspond to the Syndicate of bondholders (the "**Bondholders**") of the issue of convertible and exchangeable bonds of International Consolidated Airlines Group, S.A. May 2013 (the "**Bonds**"). The use of the word "**conversion**" (and its related terms) in these regulations shall be construed as encompassing the exchange of Bonds for existing shares and the conversion of Bonds for new shares. In case of discrepancy, the Spanish version shall prevail.

TITLE I

INCORPORATION, NAME, PURPOSE, ADDRESS AND DURATION FOR THE SYNDICATE OF BONDHOLDERS

ARTICLE 1º.- INCORPORATION

In accordance with the provisions of Chapter IV of Section XI of the Spanish Companies Act, there shall be incorporated, once the Public Deed of the Issue has been filed with the Commercial Registry, the syndicate of the owners of the Bonds (the "**Syndicate**").

The Syndicate shall be governed by these regulations and by the Spanish Companies Act and other applicable legislation.

ARTICLE 2o.- NAME

The Syndicate shall be named "**SYNDICATE OF BONDHOLDERS OF THE ISSUE OF CONVERTIBLE AND EXCHANGEABLE BONDS OF INTERNATIONAL CONSOLIDATED AIRLINES GROUP, S.A. MAY 2013**".

ARTICLE 3o.- PURPOSE

This Syndicate is formed for the purpose of representing and protecting the lawful

legítimos intereses de los Bonistas frente a la sociedad emisora, mediante el ejercicio de los derechos que le reconocen las Leyes por las que se rigen y este reglamento, para ejercerlos y conservarlos de forma colectiva y bajo la representación que se determina en estas normas.

ARTÍCULO 4o.- DOMICILIO

El domicilio del Sindicato se fija en la calle Velázquez, 130, Madrid.

La asamblea general de Bonistas podrá, sin embargo, reunirse, cuando se considere oportuno, en otro lugar de la ciudad de Madrid, expresándose así en la convocatoria.

ARTÍCULO 5o.- DURACIÓN

El Sindicato estará en vigor hasta que los Bonistas se hayan reintegrado de cuantos derechos por principal, intereses o cualquier otro concepto les corresponda, o se hubiese procedido a la conversión de la totalidad de los Bonos de acuerdo con los términos y condiciones de emisión.

TÍTULO II

RÉGIMEN DEL SINDICATO

ARTÍCULO 6o.- ÓRGANOS DEL SINDICATO

El gobierno del Sindicato corresponderá a:

- a) *La asamblea general de Bonistas (la "Asamblea General").*
- b) *El comisario de la Asamblea General (el "Comisario").*

ARTÍCULO 7o.- NATURALEZA JURÍDICA

La Asamblea General, debidamente convocada y constituida, es el órgano de expresión de la voluntad de los Bonistas, con sujeción a este reglamento, y sus acuerdos vinculan a todos los Bonistas en la forma establecida por la Ley.

ARTÍCULO 8o.- CONVOCATORIA

La Asamblea General será convocada por el Consejo de Administración de la

interest of the Bondholders before the issuer, by means of the exercise of the rights granted by the applicable laws and the present Regulations, to exercise and preserve them in a collective way and under the representation determined by these regulations.

ARTICLE 4o.- ADDRESS

The address of the Syndicate shall be located at calle Velázquez, 130, Madrid.

However, the Bondholders general assembly is also authorized to hold a meeting, when considered convenient, in any other place in Madrid, that is specified in the notice convening the meeting.

ARTICLE 5o.- DURATION

This Syndicate shall be in force until the Bondholders have been reimbursed for any rights they may hold for the principal, interest or any other concept, or until all of the Bonds have been converted into shares as set forth in the terms and conditions of issue.

TITLE II

SYNDICATE'S REGIME

ARTICLE 6°.- SYNDICATE MANAGEMENT BODIES

The Management bodies of the Syndicate are:

- a) The general assembly of Bondholders (the "**General Assembly**").
- b) The commissioner of the General Assembly of Bondholders (the "**Commissioner**").

ARTICLE 7o.- LEGAL NATURE

The General Assembly, duly called and constituted, is the body of expression of the Bondholders' will, subject to the provisions of these Regulations, and its resolutions are binding for all the Bondholders in the way established by the Law.

ARTICLE 8o.- CALLING

The General Assembly shall be convened by the Board of Directors of

sociedad emisora o por el Comisario, siempre que cualquiera de ellos lo estime conveniente.

No obstante, el Comisario deberá convocarla cuando lo soliciten por escrito, y expresando el objeto de la convocatoria, Bonistas que representen, por lo menos, la vigésima parte del importe nominal total de la Emisión que no esté amortizada. En este caso, la Asamblea General deberá convocarse para ser celebrada dentro de los cuarenta y cinco días siguientes a aquél en que el Comisario hubiere recibido una solicitud válida al efecto.

ARTÍCULO 9o.- FORMA DE CONVOCATORIA

La convocatoria de la Asamblea General se hará, por lo menos quince días antes de la fecha fijada para su celebración, mediante (i) anuncio que se publicará en el "Boletín Oficial del Registro Mercantil" y, si se estima conveniente, en uno o más periódicos de difusión nacional o internacional o (ii) notificación a los Bonistas de conformidad con los términos y condiciones de los Bonos.

Cuando la Asamblea General sea convocada para tratar o resolver asuntos relativos a la modificación de los términos y condiciones de emisión de los Bonos u otros de trascendencia análoga, a juicio del Comisario, deberá ser convocada en la forma establecida en la Ley de Sociedades de Capital sin perjuicio de que, en todo caso, el anuncio se publicará, por lo menos, un mes antes de la fecha fijada para su celebración, en : (i) el "Boletín Oficial del Registro Mercantil" y (ii) en la página web de la Sociedad o, en el caso de que LA Sociedad no tenga página web, en uno de los diarios de mayor circulación en la provincia en que esté situado el domicilio social de la Sociedad. En todo caso, se expresará en el anuncio el lugar y la fecha de reunión, los asuntos que hayan de tratarse y la forma de acreditar la titularidad de los Bonos para tener derecho de asistencia a la Asamblea General.

ARTÍCULO 10o.- DERECHO DE ASISTENCIA

Tendrán derecho de asistencia a la Asamblea General los Bonistas que lo sean con cinco días de antelación, por lo menos, a aquél en que haya de celebrarse la reunión.

the Issuer or by the Commissioner, whenever they may deem it convenient.

Nevertheless, the Commissioner shall convene a General Assembly when Bondholders holding at least the twentieth of the non-amortized entire nominal amount of the Issue, request it by writing. In such case, the General Assembly shall be held in the following forty-five days of receipt by the Commissioner of a valid notice for this purpose.

ARTICLE 9o.- PROCEDURE FOR CONVENING MEETINGS

The General Assembly shall be convened at least fifteen days before the date set for the meeting, by (i) notice published in the Official Gazette of the Commercial Registry and, if considered convenient, in one or more newspapers of significant national or international circulation or (ii) notice to the Bondholders in accordance with the terms and conditions of the Bonds.

When the General Assembly is convened to consider or resolve matters relating to the amendment of the terms and conditions of issue of the Bonds or any others matters considered to be of similar relevance by the Commissioner, it should be convened in the manner set out in the Spanish Companies Act without prejudice to the fact that, in any event, the notice shall be published, at least, one month before the date set for the meeting, in (i) the Official Gazette of the Commercial Registry and on (ii) the website of the company or, in case the company does not have a website, in one of the newspapers of major circulation in the province where the company has its registered address. In any case, the notice shall state the place and the date for the meeting, the agenda for the meeting and the way in which the ownership of the Bonds shall be proved in order to have the right to attend the meeting.

ARTICLE 10o.- RIGHT TO ATTEND MEETINGS

Bondholders who have been so at least five days prior to the date on which the meeting is scheduled, shall have the right to attend the meeting.

The members of the board of directors

Los consejeros de la sociedad emisora tendrán derecho de asistencia a la Asamblea General aunque no hubieren sido convocados.

ARTÍCULO 11°.- DERECHO DE REPRESENTACIÓN

Todo Bonista que tenga derecho de asistencia a la Asamblea General podrá hacerse representar por medio de otra persona. La representación deberá conferirse por escrito y con carácter especial para cada Asamblea General.

ARTÍCULO 12°.- QUÓRUM DE ASISTENCIA Y ADOPCIÓN DE ACUERDOS

La Asamblea General podrá adoptar acuerdos siempre que los Bonistas asistentes a la misma o debidamente representados en la misma representen al menos las dos terceras partes del importe total de los Bonos en circulación de la Emisión, debiendo adoptarse estos acuerdos por mayoría absoluta de los Bonistas asistentes o debidamente representados.

Cuando no se lograre la concurrencia de las dos terceras partes del importe total de los Bonos en circulación, podrá ser nuevamente convocada la Asamblea General para su celebración un mes después de su primera reunión, quedando en este caso válidamente constituida con independencia del número de Bonistas que asistan o estén debidamente representados en la misma, y pudiendo entonces tomarse los acuerdos por mayoría absoluta de los Bonistas asistentes o debidamente representados.

No obstante, la Asamblea General quedará válidamente constituida para tratar de cualquier asunto de la competencia del Sindicato, siempre que estén presentes o debidamente representados los Bonistas titulares de todos los Bonos en circulación y los asistentes acepten por unanimidad la celebración de la Asamblea General.

ARTÍCULO 13°.- DERECHO DE VOTO

En las reuniones de la Asamblea General cada Bono, presente o representado, conferirá derecho a un voto.

Asimismo, en cada convocatoria podrán habilitarse medios de comunicación a distancia y/o telemáticos a través de los

of the issuer shall have the right to attend the meeting even if they have not been requested to attend.

ARTICLE 11°.- RIGHT TO BE REPRESENTED

All Bondholders having the right to attend the meetings also have the right to be represented by another person. Appointment of a proxy must be in writing and only for each particular meeting.

ARTICLE 12°.- QUORUM FOR MEETINGS AND TO PASS RESOLUTIONS

The General Assembly shall be entitled to pass resolutions if Bondholders representing at least two thirds of the outstanding Bonds are present or duly represented at the meeting, and these resolutions shall be approved by an absolute majority of the Bondholders present or duly represented at the meeting.

Where two thirds of the outstanding Bonds are not present or duly represented at the first meeting of the General Assembly, then the General Assembly may be reconvened to meet a month after the first meeting of the General Assembly, and will be validly constituted regardless of the number of Bondholders present or duly represented, and the resolutions may be passed by an absolute majority of the Bondholders present or duly represented at the meeting.

Nevertheless, the General Assembly shall be deemed validly constituted to transact any business within the remit of the Syndicate if Bondholders representing all the outstanding Bonds are present or duly represented and provided that they unanimously approve the holding of such meeting.

ARTICLE 13°.- VOTING RIGHTS

In the meetings of the General Assembly, each Note, present or represented, shall have the right to one vote.

Likewise, each time a meeting is convened, remote and/or electronic means may be enabled so that the

cuales, los Bonistas podrán emitir su voto. Tales medios garantizarán suficientemente la identificación del Bonista y, en su caso, su debida representación. En caso de que tales medios se pongan a disposición de los Bonistas, la convocatoria de la Asamblea General deberá contener las instrucciones precisas para el ejercicio del derecho de voto o, alternativamente, designar una página web y/o dirección de correo electrónico en la que dichas instrucciones y los formularios u otros medios necesarios para la formulación del voto puedan obtenerse.

ARTÍCULO 14°.- PRESIDENCIA DE LA ASAMBLEA GENERAL

La Asamblea General estará presidida por el Comisario, quien dirigirá los debates, dará por terminadas las discusiones cuando lo estime conveniente y dispondrá que los asuntos sean sometidos a votación.

ARTÍCULO 15°.- LISTA DE ASISTENCIA

El Comisario formará, antes de entrar a discutir el orden del día, la lista de los asistentes, expresando el carácter y representación de cada uno y el número de Bonos propios o ajenos con que concurren.

ARTÍCULO 16°.- FACULTADES DE LA ASAMBLEA GENERAL

La Asamblea General podrá acordar lo necesario para la mejor defensa de los legítimos intereses de los mismos frente a la sociedad emisora; modificar, de acuerdo con la misma, las condiciones establecidas para la emisión de Bonos; destituir o nombrar al Comisario; ejercer, cuando proceda, las acciones judiciales correspondientes y aprobar los gastos ocasionados por la defensa de los intereses de los Bonistas.

ARTÍCULO 17°.- IMPUGNACIÓN DE LOS ACUERDOS

Los acuerdos de la Asamblea General podrán ser impugnados por los Bonistas conforme a lo dispuesto en el Capítulo IX del Título V de la Ley de Sociedades de Capital.

Bondholders may exercise their voting rights. Such means shall sufficiently give evidence of the identification of the Bondholders, and if the case may be, of its representation. In the case of remote and/or electronic means being used, the notice for convening the meeting shall include precise instructions for exercising the voting rights by the Bondholders, or, alternatively, reference to a website and/or and e-mail address including these instructions, as well as the relevant forms or any documentation or other means that may be required to be completed.

ARTICLE 14°.- PRESIDENT OF THE GENERAL ASSEMBLY

The Commissioner shall be the president of the General Assembly and shall chair the discussions and shall have the right to bring the discussions to an end when he considered it convenient and shall arrange for matters to be put to the vote.

ARTICLE 15°.- ATTENDANCE LIST

Before discussing the agenda for the meeting, the Commissioner shall form the attendance list, stating the nature and representation of each of the Bondholders present and the number of Bonds at the meeting, both directly owned and/or represented.

ARTICLE 16°.- POWER OF THE GENERAL ASSEMBLY

The General Assembly may pass resolutions necessary for the best protection of Bondholders' lawful interest before the issuer; to modify, in accordance with it, the terms and conditions of the issue of the Bonds; dismiss or appoint the Commissioner; to exercise, when appropriate, the corresponding legal claims and to approve the expenses caused by the defense of the Noteholder's interest.

ARTICLE 17°.- CHALLENGE OF RESOLUTIONS

The resolutions of the General Assembly may be challenged by the Bondholders in accordance with Chapter IX of Title V of the Spanish Law on Capital Companies ("**Ley de Sociedades de Capital**").

ARTÍCULO 18°.- ACTAS

El acta de la sesión podrá ser aprobada por la propia Asamblea General, acto seguido de haberse celebrado ésta, o, en su defecto, y dentro del plazo de quince días, por el Comisario y, al menos, un Bonista designado al efecto por la Asamblea General.

ARTÍCULO 19°.- CERTIFICACIONES

Las certificaciones de las actas de los acuerdos de la Asamblea General serán expedidas por el Comisario.

ARTÍCULO 20°.- EJERCICIO INDIVIDUAL DE ACCIONES

Los Bonistas sólo podrán ejercitar individualmente las acciones judiciales o extrajudiciales que corresponda cuando no contradigan los acuerdos adoptados previamente por el Sindicato, dentro de su competencia, y sean compatibles con las facultades que al mismo se hubiesen conferido.

TITULO III

DEL COMISARIO

ARTÍCULO 21°.- NATURALEZA JURÍDICA DEL COMISARIO

Incumbe al Comisario ostentar la representación legal del Sindicato y actuar de órgano de relación entre éste y la sociedad emisora.

ARTÍCULO 22°.- NOMBRAMIENTO Y DURACIÓN DEL CARGO

Sin perjuicio del nombramiento inicial del Comisario provisional, que deberá ser ratificado por la Asamblea General, esta última tendrá facultad para nombrar al Comisario y ejercerá su cargo en tanto no sea destituido por la Asamblea General.

ARTÍCULO 23°.- FACULTADES

Serán facultades del Comisario:

1º Tutelar los intereses comunes de los Bonistas.

2º Convocar y presidir las Asambleas Generales.

3º Informar a la sociedad emisora de los acuerdos del Sindicato.

ARTICLE 18°.- MINUTES

The minutes of the meeting may be approved by the General Assembly, after the meeting has been held, or, if not, and within a fifteen days term, by the Commissioner and, at least one Noteholder appointed for such purpose by the General Assembly.

ARTICLE 19°.- CERTIFICATES

The certificates of the minutes of the resolutions of the General Assembly shall be issued by the Commissioner.

ARTICLE 20°.- INDIVIDUAL EXERCISE OF ACTIONS

The Bondholders will only be entitled to individually exercise judicial or extra judicial claims in case such claims do not contradict the resolutions previously adopted by the Syndicate, within its powers, and are compatible with the faculties conferred upon the Syndicate.

TITLE III

THE COMMISSIONER

ARTICLE 21°.- NATURE OF THE COMMISSIONER

The Commissioner shall bear the legal representation of the Syndicate and shall be the body for liaison between the Syndicate and the issuer.

ARTICLE 22°.- APPOINTMENT AND DURATION OF THE OFFICE

Notwithstanding the initial appointment of the provisional Commissioner, which will require the ratification of the General Assembly, this latter shall have the faculty to appoint the Commissioner and he shall exercise his office while he is not dismissed by the General Assembly.

ARTICLE 23°.- POWERS

The Commissioner shall have the following powers:

1º To protect the common interest of the Bondholders.

2º To call and act as president of the General Assembly.

3º To inform the issuer of the resolutions passed by the Syndicate.

4º Vigilar el pago de los intereses y del principal.

5º Llevar a cabo todas las actuaciones que estén previstas realice o pueda llevar a cabo el Comisario en los términos y condiciones de los Bonos.

6º Ejecutar los acuerdos de la Asamblea General.

7º Ejercitar las acciones que correspondan al Sindicato.

8º En general, las que le confiere la Ley y este reglamento.

4º To control the payment of the principal and the interest.

5º To carry out all those actions provided for in the terms and conditions of the Bonds to be carried out or that may be carried out by the Commissioner.

6º To execute the resolutions of the General Assembly.

7º To exercise the actions corresponding to the Syndicate.

8º In general, the ones granted to him in the Law and the present Regulations.

TITULO IV

DISPOSICIONES ESPECIALES

ARTÍCULO 24º.- SUMISIÓN A FUERO

Para cuantas cuestiones se deriven de este reglamento, los Bonistas, por el solo hecho de serlo, se someten de forma exclusiva, con renuncia expresa a cualquier otro fuero que pudiera corresponderles, a la jurisdicción de los juzgados y tribunales de la ciudad de Madrid.

TITLE IV

SPECIAL DISPOSITIONS

ARTICLE 24º.- JURISDICTION

For any dispute arising from these Regulations, the Bondholders, by the own fact of being so, shall submit to the exclusive jurisdiction of the courts and tribunals of the city of Madrid.

SUMMARY OF PROVISIONS RELATING TO THE BONDS IN GLOBAL FORM

The Global Bond contains provisions which apply to the Bonds while they are in global form, some of which will modify the effect of the Conditions of the Bonds. The following is a summary of certain of those provisions.

1. Exchange

The Global Bond is exchangeable in whole but not in part (free of charge to the holder) for definitive Bonds in registered form if the Global Bond is held on behalf of Euroclear or Clearstream, Luxembourg or such other clearing system as shall have been approved by the Fiscal Agent (an “**Alternative Clearing System**”) and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so. Thereupon, the holder may give notice to the Fiscal Agent of its intention to exchange the Global Bond for definitive Bonds in registered form on or after the Exchange Date (as defined below) specified in the notice.

On or after the Exchange Date, the holder of the Global Bond may surrender the Global Bond to or to the order of the Registrar. In exchange for the Global Bond, the Issuer shall deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated definitive Bonds, printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 1 to the Fiscal Agency Agreement.

“**Exchange Date**” means a day falling not less than 60 days after that on which the notice requiring exchange is given 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.

2. Payments

Payments of amounts falling due in respect of Bonds represented by the Global Bond will be made to the nominee of Euroclear, Clearstream Luxembourg and/or any Alternative Clearing System as the registered holder(s) of the Global Bond. Neither the Issuer nor the Fiscal Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Bond or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

All payments in respect of Bonds represented by the Global Bond will be made to, or to the order of, the person whose name is entered in the Register at the close of business on the Clearing System Business Day immediately prior to the date of payment, where “**Clearing System Business Day**” means Monday to Friday inclusive except 24 December and 1 January.

The Holder of the Global Bond shall be the only person entitled to receive payments in respect of the Global Bond and the Issuer will be discharged by payment to or to the order of the Holder of such Global Bond in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg and/or any Alternative Clearing

System as the beneficial holder of a particular nominal amount of the Bonds represented by the Global Bond must look solely to Euroclear, Clearstream, Luxembourg and/or any Alternative Clearing System, as the case may be, for his share of each payment so made by the Issuer to or to the order of the Holder of the Global Bond.

3. Notices

So long as the Bonds are represented by the Global Bond and the Global Bond is held on behalf of Euroclear or Clearstream, Luxembourg or any Alternative Clearing System, notices to Bondholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System, for communication by it to entitled accountholders in substitution for publication as required by the Conditions, in which case such notices shall be deemed to have been given to Bondholders on the date of delivery to Euroclear and Clearstream, Luxembourg or, as the case may be, the Alternative Clearing System.

4. Prescription

Claims against the Issuer in respect of principal, interest and other amounts payable in respect of the Bonds while the Bonds are represented by the 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).

5. Meetings

The holder of the 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 Global Bond may be exchanged.

6. Purchase and Cancellation

Cancellation of any Bond represented by the Global Bond which is required by the Conditions to be cancelled following its purchase will be effected by reduction in the principal amount of the Global Bond on its presentation to or to the order of the Principal Paying, Transfer and Conversion Agent.

7. Conversion

For so long as the Global Bond is held on behalf of any one or more of Euroclear, Clearstream, Luxembourg or the Alternative Clearing System, Conversion Rights (as defined in the Conditions) may be exercised at any time during the Conversion Period by the presentation to or to the order of the Principal Paying and Conversion Agent of a Global Bond for appropriate notation, together with one or more Conversion Notices duly completed by or on behalf of a holder of a book-entry interest.

8. Redemption at the Option of Bondholders upon a Change of Control

The option of the Bondholders provided for in Condition 6(d) may be exercised by the holder of the Global Bond giving notice to the Principal Paying and Conversion Agent within the time limits relating to the deposit of Bonds as set out in Condition 6(d), substantially in the form of the Change of Control Put Exercise Notice available from the Principal Paying and Conversion Agent and stating the principal amount of Bonds in respect of which the option is exercised and at the same time presenting the Global Bond to the Principal Paying and Conversion Agent for annotation accordingly.

USE OF PROCEEDS

The net proceeds of the issue of the Bonds, after deduction of fees and commissions, are expected to be approximately €386,500,000. The net proceeds from the issue of the Bonds will be used by the Issuer for the general corporate purposes of the Issuer, including the re-financing of an intercompany loan entered into by the Group and a term loan entered into with Banco Santander, S.A. to finance the acquisition of Vueling Airlines, S.A ("**Vueling**").

DESCRIPTION OF THE ISSUER

1. General Information

The Issuer is a corporation (*sociedad anónima*) organised under the laws of the Kingdom of Spain and entered at the Madrid Mercantile Registry with registration number M-492129 and with Tax Identity Code number A-85845535. Its registered office is calle Velázquez 130, 28006 Madrid, Kingdom of Spain. The principal place of business of the Issuer is 2 World Business Centre, Newall Road, London Heathrow Airport, Hounslow, Middlesex TW6 2SF, UK.

The Issuer was incorporated for the purpose of becoming the holding company of BA and Iberia and their respective subsidiaries. This transaction was carried out by means of a merger (the “**Merger**”) in which the Issuer was the surviving company and was entered at the Madrid Mercantile Registry on 21 January 2011.

The Issuer’s financial year begins on 1 January and ends on 31 December of each year.

The Issuer’s corporate purpose, as stated in Article 2 of its By-laws, includes the holding of shares in its subsidiaries, the operation of airlines for passenger and cargo transport and the operation of various ancillary businesses relating to aviation and tourism. The By-laws permit the activities to be carried on anywhere in the world, either directly by the Issuer or indirectly through its subsidiaries.

As a Spanish company, the Issuer and its Directors will be subject to Spanish companies legislation, in particular the restated text of the Spanish Capital Companies Act, approved by Royal Decree 1/2010 (the “**Spanish Capital Companies Act**”) and because, the Issuer is listed on the Spanish Stock Exchange, Title XIV of the Spanish Capital Companies Act.

2. Share Capital

As at 31 December 2012, the Issuer’s share capital was made up of 1,855,369,557 fully paid-up registered ordinary shares of a single class and series, each having a par value of €0.50. The shares of the Issuer have been admitted to a premium listing on the Official List of the UKLA and are settled through CREST via depository interests (the “**CDIs**”) representing shares of the Issuer. They are traded on the EEA Regulated Market of the London Stock Exchange and on the Spanish Stock Exchanges. They have been integrated into the Spanish Automated Quotation System (SIBE).

As they are Spanish securities, the shares of the Issuer cannot be deposited and settled within the CREST system (the clearing and settlement system of the London Stock Exchange). For this reason, the Issuer applied for CREST depository interests to be issued with respect to the Issuer’s securities. The CDIs are listed in pounds sterling on the London Stock Exchange. CDIs represent rights to underlying shares in the Issuer.

In August 2009, BA issued convertible bonds which were originally convertible into shares of BA and, pursuant to the amendment of the original terms and conditions within the framework of the Merger, into ordinary shares of the Issuer, for an amount of £350 million. The bonds are convertible into shares of the Issuer at a conversion price of £1.89 (subject to

adjustment in accordance with their terms) and are due to be redeemed by the Issuer on 14 August 2014.

The Issuer has a sponsored level 1 American Depositary Receipt (“**ADR**”) facility that trades on the over-the-counter market in the US. Each ADR is equivalent to five ordinary shares in the Issuer and each ADR holder is entitled to the economic rights attaching to the shares through the ADR depository, Deutsche Bank Trust Company Americas, which is the registered holder in Iberclear. As at 31 December 2012, the equivalent of 17,183,000 shares were held in ADR form.

The By-laws of the Issuer contain a number of provisions relating to the transfer and holding of shares and the notification of acquisitions to ensure that the Issuer is able to comply with nationality conditions imposed on licences, authorisations and other consents necessary to operate air services (for further information on these provisions, see “*Description of the Ordinary Shares*”).

3. Major shareholders

No individual or legal entity controls the Issuer for the purposes of Section 42 of the Spanish Commercial Code 1885, nor does any entity hold a controlling stake in voting rights for the purposes of Section 4 of Royal Decree 1066/2007. Its main shareholders as at 8 April 2013 are:

Name	Number of shares			Total percentage of voting rights
	Held directly	Held indirectly	Total	
Banco Financiero y de Ahorros, S.A. ¹	–	224,253,769	224,253,769	12.087
Templeton Global Advisors Limited ²	–	92,969,270	92,969,270	5.011
Majedie Asset Management Limited	–	92,332,612	92,332,612	4.977
BlackRock Inc. ³	–	91,539,438	91,539,438	4.934
Legal and General Investment Management Limited	53,761,392	6,076,987	59,838,379	3.226
Total			560,933,468	30.235

¹ Banco Financiero y de Ahorros, S.A. holds its interest in the Issuer through Bankia, S.A.

² Templeton Global Advisors Limited is a collective investment undertaking management entity that exercises voting rights relating to the Issuer’s shares held by certain collective investment undertakings. Templeton Global Advisors Limited is indirectly controlled by the holding company, Franklin Resources Inc., although this entity does not interfere in any way with the exercise by Templeton Global Advisors Limited of the voting rights held by the collective investment undertakings managed by Templeton Global Advisors Limited.

³ BlackRock Inc. holds its interest in the Issuer through BlackRock Investment Management (UK) Ltd.

4 Organisational Structure

Introduction

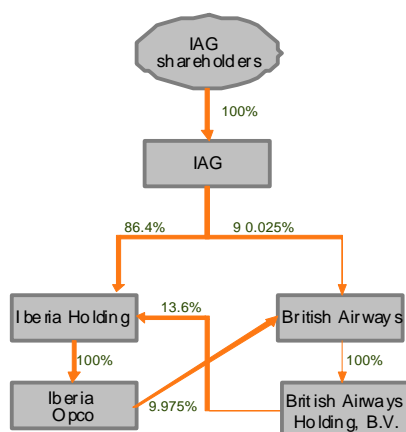
The main activities of the Group, principally BA and Iberia, are the operation of international and domestic scheduled air services for the carriage of passengers, freight and mail and the provision of ancillary services.

The Merger created the third largest airline group in Europe operating 380 aircraft as at 31 December 2012. For the financial year ended 31 December 2012, the separate businesses of BA and Iberia flew more than 54 million passengers to 200 destinations worldwide.

In addition to being part of the same Group, BA and Iberia are members of the oneworld alliance and have been operating a joint venture on routes between London Heathrow and Madrid Barajas since 2005. The Issuer brings together BA's and Iberia's leading positions in the UK and Spain while preserving the individual brands and current operations of each airline.

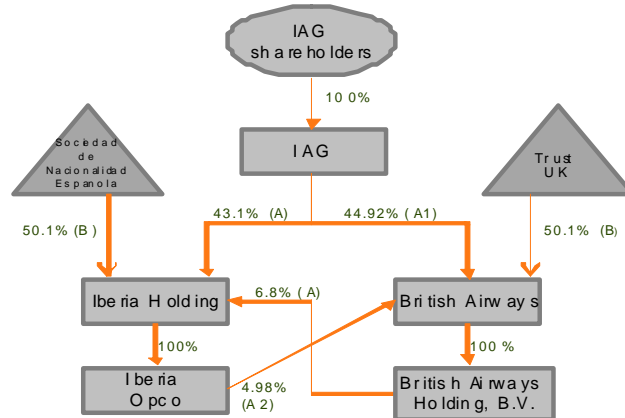
Structure Diagram

The structure of the Group is shown in the diagram below:



The Group also has nationality structures in place to preserve BA and Iberia traffic rights and route licences under bilateral agreements with non-EU Member States (see “*Regulation*” for further information). These structures ensure that UK nationals hold at least 50.1 per cent. of the voting rights of BA and Spanish nationals hold at least 50.1 per cent. of the voting rights in Iberia.

The nationality structure is further explained in the diagram below:



Garanair, S.L., a Spanish company (Sociedad de Nacionalidad Española, or the “**Spanish Nationality Company**”), has been incorporated for the purposes of implementing the Iberia nationality structure. It holds 50.1 per cent. of both the total nominal share capital and the total number of voting rights in Iberia Holding (as identified in the diagram above). The Spanish Nationality Company is required to exercise its voting rights at a general meeting of Iberia Holding as directed by the Issuer, subject to certain conditions agreed by the Issuer and the Spanish Nationality Company. The shares in Iberia Holding held by the Spanish Nationality Company carry minimal economic rights. The shareholders of the Spanish Nationality Company are Bankia, S.A. (which owns 87 per cent. of the issued share capital) and El Corte Inglés, S.A. (which owns 13 per cent. of the issued share capital).

A UK trust (the “**Trust UK**”) has been established for the purposes of implementing the BA nationality structure. The Trust UK (through its trustee) holds 50.1 per cent. of both the total nominal share capital and the total number of voting rights in BA (as identified in the diagram above). The Trust UK is required to exercise its voting rights at a general meeting of BA as directed by the Issuer, subject to certain conditions agreed by the Issuer and the Trust UK. The shares in BA held by the Trust UK carry minimal economic rights and are held on trust for certain beneficiaries (including those shareholders in the Issuer who, from time to time, have notified the Issuer in writing that they have British nationality).

5 Business Overview

The Group conducts its activities in the aviation industry and its main business areas are the operation of scheduled international and domestic passenger and cargo air transport services. In addition, the Group offers supplemental services that include loyalty programmes, fleet maintenance, repair and overhaul services, and passenger and aircraft handling at airports.

The Issuer combines two of the leading airlines in the UK and Spain – BA and Iberia, respectively – enabling them to enhance their presence in the aviation market. The Issuer is able to build on the airlines’ strengths and leadership in their respective markets – BA in North America and Iberia in Latin America – and jointly strengthen their position in Europe

and Africa. The airlines have complementary networks and the Merger has enabled the Issuer to improve the planning of future capacity by optimising the network across its two hub airports, London Heathrow and Madrid Barajas.

The Group has the following lines of business which are described in further detail below: (a) passenger transportation; (b) cargo transport; (c) ancillary services; (d) loyalty programmes and other non-passenger businesses; and (e) strategic alliance and cooperation agreements.

(a) *Passenger Transportation*

In the passenger air transport market, the Group offers a wide variety of travel classes, as well as customer loyalty programmes and support for passenger connections with other airlines.

Iberia

Iberia is an international air transportation group with more than 80 years' experience. Today, it flies to 78 destinations in 45 countries and, under code-sharing arrangements with other carriers, is able to reach a further 200 cities.

The Iberia group's principal business line is passenger air transport which it operates through an extensive network of scheduled flights, most of which connect with Madrid Barajas airport. Iberia's main networks are the domestic network, the medium-haul network (mainly flights to Europe and to some destinations in Africa and the Middle East) and the long-haul network, mainly focused on Latin America and the US.

Iberia's hub airport is Madrid Barajas, the main international airport serving Madrid and Spain. Located within city limits, Madrid Barajas is designed to handle 70 million passengers annually and Iberia is the leading airline operating at the airport. In terms of the total number of international passengers, Madrid Barajas is the 10th largest airport in the world. Iberia operates out of Madrid Barajas Terminal 4, the airport's newest terminal and one of the world's largest.

Madrid is a key gateway from Europe to Latin America. It is the destination of six of the 10 largest markets between Europe and Latin America, with one other being London. Despite withdrawing from certain markets, Iberia has retained a leading market share position in 2012 in each of the top five Spanish-speaking economies in Latin America (except Colombia, where Iberia holds the number two position). The Issuer is the largest airline group flying to Latin America, with a market share exceeding 25 per cent. In addition, Iberia offers its customers the Madrid-Barcelona Puente Aéreo ("air shuttle"), a walk-on shuttle service connecting Spain's two most important cities.

Iberia's subsidiary, Iberia Express, which started operating in March 2012, operates short-haul and medium-haul routes. The new airline provides point-to-point traffic in addition to feeding Iberia's long-haul network to/from its Madrid hub and offers the same customer benefits and quality of service as Iberia. Iberia Express, which is based in Madrid, began operations with four aircraft Airbus A320 and flights between

Madrid and Alicante, Malaga, Seville or Palma de Majorca. It offers both economy and business class seats. By 31 December 2102, Iberia Express had grown to 14 aircraft serving 18 domestic and European destinations.

Air Nostrum, a franchise partner of Iberia, was founded on 23 May 1994. It was the first private project for regional aviation in Spain. In May 1997, it became Iberia's franchise partner as Iberia Regional/Air Nostrum. Today, it flies to about 60 destinations in Spain, Europe and North Africa.

Vueling is a Barcelona-based new generation airline, which has since July 2009 been partially owned by Iberia which holds a 45.85 per cent. stake in the company. At 31 December 2012, the low-cost airline had a fleet of 54 aircraft serving 150 medium-haul and short-haul routes to 53 destinations mostly in Spain and Europe. Vueling and Iberia offer flights under a code sharing agreement (IB5000), which means that more Iberia customers can fly directly to more European cities, with greater frequency. For the financial year ended 31 December 2012, Vueling flew 15 million passengers, making it Spain's second largest airline.

Vueling, as a new generation airline, also offers value-added services, such as the possibility of choosing seats and obtaining boarding cards prior to check-in and also the chance to earn and redeem points in the Iberia Plus loyalty programme.

In November 2012, Veloz Holdco, S.L. ("**Veloz Holdco**"), a Spanish subsidiary of the Issuer, launched a cash tender offer for the 16,193,297 shares of the low-cost carrier not already owned by Iberia representing 54.15 per cent. of the share capital of Vueling (the "**Offer**") and on 27 February 2013, following authorisation of the Offer by the Spanish National Securities Markets Commission, the Offer prospectus was published. The acceptance period for taking up the Offer was originally due to lapse on 8 April 2013.

On 27 March 2013, Veloz Holdco announced its decision to increase the consideration offered in the Offer from €7 per share of Vueling to €9.25 per share. Furthermore, the Offer acceptance period was extended from 39 to 48 calendar days, and the Offer's minimum acceptance condition was reduced from 90 per cent. of those Vueling voting rights not owned by Iberia to 1,244,029 Vueling shares, which represents 4.16 per cent. of Vueling's share capital. The improved Offer was authorised by the Spanish National Securities Markets Commission on 4 April 2013 and a supplement to the Offer prospectus was published.

On 23 April 2013, the Issuer announced that Vueling would become part of the Group after the majority of Vueling shareholders accepted the Issuer's cash tender offer for the airline, following recommendation by the Vueling board of directors.

The Spanish National Securities Market Commission announced on 23 April 2013 that 82.48 per cent. of the remaining Vueling shareholders had accepted the Issuer's offer of €9.25 per share. Therefore, the Group will own 90.51 per cent. of Vueling. The cost of purchasing the Vueling shares is €123.5 million.

The acquisition completed on 26 April 2013.

The acquisition will provide the Group with a low-cost platform to grow intra-Europe capacity outside Madrid and London while providing geographic diversification through Vueling's leading position in Barcelona, the fourth largest origin and destination market in Europe. Vueling will come under the Issuer's umbrella as a third stand-alone operation alongside BA and Iberia. Vueling has a strong management team that has managed to achieve rapid, profitable growth. Operating independently within the Group, the management team can continue to target market segment with far greater growth potential than the Group's traditional network business. Vueling's chief executive, Alex Cruz, will report into the Issuer's chief executive, Willie Walsh.

BA

Passenger transport is also the principal business of BA which offers its customers a broad range of services for domestic (UK) and international (short-haul and long-haul) flights serving a large geographical area. The principal destinations offered by BA are the Americas (mainly the US), Europe, Africa, the Middle East, South Asia and the Asia-Pacific region.

BA's main hub is at London Heathrow where it operates from Terminals 1, 3 and 5. Most of BA's operations are based at Terminal 5, the newest terminal opened in 2008. BA also operates from London City Airport (where its wholly-owned subsidiary, BA CityFlyer, is based) and London Gatwick (which has a greater leisure focus than London Heathrow and London City), as well as other UK regional airports.

London Heathrow is the busiest airport in the UK and the third busiest in the world in terms of total passenger traffic-handling more international passengers than any other airport in the world. It meets the demands of over 1,300 flights and 191,000 passengers a day across its five terminals. London's position as a global financial and business centre attracts strong flows of point-to-point traffic to and from London Heathrow. Furthermore, its geographical position at the edge of Europe has made London Heathrow a strong hub airport with a broad range of connections, particularly for passengers travelling from North America.

On average, 34 per cent. of passengers at London Heathrow are connecting passengers and as a result, constitute a key part of BA's business enabling BA to operate routes and frequencies that local demand alone could not support. Capacity at London Heathrow is limited, with a maximum of 480,000 air traffic movements per annum. London Heathrow has been operating very close to official full capacity for several years and there are currently no plans to expand runway capacity at London Heathrow by building a third runway. Passenger traffic has however increased due to the larger capacity of aircraft using the airport. The Group has also taken steps to enhance its capacity at London Heathrow, such as BA's recent purchase of bmi, which resulted in an increase of 42 slots being available to BA. The total number of slots held by BA increased from 290 to 344 from 2011 to 2013 and BA now holds over 50 per cent. of the slots at London Heathrow, including 42 early morning slots (i.e. arrivals before 8 a.m.) which are preferred by long-haul customers.

Outside the UK, John F. Kennedy Airport in the US is BA's main international base of operations. BA sub-leases Terminal 7 from the Port Authority of New York and New Jersey. The route between London Heathrow and John F. Kennedy Airport is the main source of revenue for the Joint Business (for further information on the Joint Business, see "*Strategic alliance and cooperation agreements*").

BA has franchise agreements and bilateral agreements with a number of other airlines. In February 2012, the Issuer announced that BA and Japan Airlines would participate in a joint business agreement covering applicable flights between Europe and Japan. Further details of BA's other franchise agreements and bilateral agreements are contained in the paragraph entitled "*Strategic alliance and cooperation agreements*" below. BA also operates Open Skies which is a wholly-owned subsidiary of BA launched in 2008. It is based in Paris and its routes are included in the Joint Business.

(b) Cargo Transport

IAG Cargo Ltd ("**IAG Cargo**"), created from the integration of British Airways World Cargo ("**BAWC**") and Iberia Cargo Ltd ("**Iberia Cargo**") is a business unit of the Group and is responsible for optimising value from the Issuer's 'bellyhold' capacity and cargo assets. IAG Cargo was incorporated on 18 May 2012, and started its operations on 1 December 2012. It established a single commercial platform through which all IAG Cargo capacity across the Group's cargo-carrying airlines is managed on a single system, sold by a single sales force across a single set of distribution channels under the IAG Cargo brand. As the world's seventh largest international freight carrier, Issuer cargo-generated revenues are shared between the operating companies, based on the carrier operating the relevant flight. As at 31 December 2012, cargo revenue was up €27 million or 2.3 per cent. to €1,217 million for the year reflecting volume decrease (cargo tonne kilometres) of 1.2 per cent. (set against an industry volume reduction of 1.5 per cent.) and yield increases of 3.6 per cent.

While IAG Cargo is the commercial heart of the Group's cargo transport business, selling cargo capacity and products on behalf of Iberia and BA, BAWC continues to manage operations at the UK hub at London Heathrow and Iberia Cargo continues to manage operations across the Spanish hubs at Madrid, Barcelona and Las Palmas and a number of hubs across South America. The integration of BAWC and Iberia Cargo under the IAG Cargo brand was a key focus in 2012.

IAG Cargo's three new Boeing 747-8 Freighters continue to act as strong support for the extensive 'bellyhold' network, delivering extra capacity and expanded route options for customers at an improved unit cost.

Iberia Cargo

Iberia Cargo is the Iberia unit in charge of air freight and mail carried in the 'bellyhold' of Iberia's aircraft as well as dedicated cargo planes and a fleet of ground delivery vehicles. Through its Cacesa subsidiary, Compañía Auxiliar al Cargo Expres, S.A., it also provides an express parcel service. Iberia Cargo is a pioneer in the use of the most advanced technologies and in September 2007, Iberia Cargo became the first company of its kind to introduce simplified all-electronic, paperless procedures for air shipment operations. The Iberia freight division is certified for quality by Spain's AENOR standards bureau (ISO 9000:2001).

BAWC

BAWC is one of the leading cargo airlines in the world carrying freight, mail and courier traffic to 200 destinations in more than 80 countries. The BA network and the BAWC freighter programme make it one of the largest single carrier networks with a reliable

schedule, same day connections between most destinations and extensive road connections.

BAWC's portfolio of products has been designed to provide its customers with straightforward freighting solutions that are simple to use, easy to understand and focused on their key requirements of reliability and proactive communication. All of its products have clearly defined, globally consistent standards and specifications, supported by a unique recovery promise and are designed to work with its extensive mainline and freighter networks.

(c) Ancillary services

The Issuer offers maintenance and ground handling services through Iberia and BA.

Iberia

Aircraft maintenance is one of Iberia's three business units, along with passenger and freight transportation and airport handling. Currently, the General Maintenance and Engineering Department of Iberia ("**Iberia Maintenance**") offers maintenance, repair and overhaul services for engines, aircraft and components of the Iberia fleet and those of other airlines. Iberia Maintenance carries out both scheduled and unscheduled (*ad hoc repairs in situ*) maintenance work.

Iberia Maintenance provides the following ground services at Spanish airports to both third party companies as well as to Iberia itself: passenger services, ramp services, coordination, cargo assistance and flight services. Iberia Maintenance is certified by civil aviation authorities, including (i) the Spanish Civil Aviation Agency; (ii) the European Air Safety Agency ("**EASA**"); and (iii) the Federal Aviation Administration of the US. Iberia Maintenance is also accredited by Spain's AENOR standards bureau for Environmental Management (ISO 14001:2004). Maintenance and repair activities are carried out in seven hangars and numerous workshops and bench-testing facilities on a 2.5 million square metre site adjoining Madrid Barajas Airport. Iberia Maintenance's staff comprises nearly 4,000 highly qualified engineers and specialist technicians.

Iberia is Spain's largest airport handling company, servicing aircraft, handling baggage and serving passengers. It operates in most of Spain's airports and is Spain's only full-service airport handling company. The handling division has approximately 7,700 employees as well as Spain's largest fleet of ground vehicles: a total of approximately 7,000. It is accredited by Spain's AENOR standards bureau for quality and environmental management (ISO 9001:2000 and ISO 14001:2004).

In addition, Iberia's systems unit provides IT and telecommunications services to the airline and external clients while also supplying technical assistance services as required. The quality of these services is accredited by Spain's AENOR standards bureau under ISO 9000:2000, covering (i) IT Systems Development Processes; (ii) Maintenance of IT Systems and Data Processing Centres; (iii) User Care and Support; and (iv) Management of Procurement of IT Products and Services.

BA

BA's maintenance business ("**British Airways Engineering**") provides maintenance, repair and overhaul services within BA and its wholly-owned subsidiaries. It also provides engineering services to a number of other airlines alongside BA's mainline operations (excluding BA CityFlyer). British Airways Engineering has over 80 years' experience in providing maintenance, repair and overhaul services to BA and other customers. It has invested in state-of-the-art aircraft maintenance, avionics, interiors and mechanical workshop facilities. British Airways Engineering's core capabilities are focused on Boeing 737, 747, 757, 767, 777, 787 and Airbus 318, 319, 320 and it has line maintenance capabilities for Airbus 330, 340 and 380 aircraft types. British Airways Engineering's has been certified in accordance with EASA requirements or as required by the customer's regulatory authority. BA also provides ground handling services to other airlines at various airports.

(d) Loyalty programmes and other non-passenger businesses

BA operates the Executive Club loyalty programme, while Iberia runs Iberia Plus. Following the Merger, management of the frequent flyer programmes of BA and Iberia (Executive Club and Iberia Plus respectively) have been consolidated into the Avios programme, which allows customers to obtain more benefits from both airlines as well as their partners (including *oneworld* partners).

Avios points are the currency of the loyalty programmes. Customers can collect Avios when they fly with BA, Iberia and their partner airlines (including *oneworld* partners). Customers can also collect Avios on hotel stays, holidays and car rental, and even when shopping, through deals with a wide range of partners. Avios can then be spent on flights and upgrades, and on holidays and car rental depending on location.

Awareness of the currency has increased throughout 2012 across the Group's markets. As at 31 December 2012, there were 5.87 million active members who had collected 93.6 billion Avios over the past 12 months, increasing the Group's revenues from partners by 8 per cent. compared with 2011, despite a challenging economy. Members of the bmi Diamond Club have been successfully integrated into the programme and have converted destination miles into Avios.

The Group has achieved credit card revenue growth with partners in the UK, North America and globally, and expanded the number of partners with whom members can earn Avios internationally. The Group has also opened an Avios office in Madrid and continues to explore options to expand into new markets to support its vision of becoming global leaders in travel rewards by 2020.

Due to the Joint Business, AAdvantage, Iberia Plus and Executive Club members are also able to earn and redeem frequent flyer miles in the US. This change ensures that all three airlines' frequent flyer members now have more consistent benefits on transatlantic routes. The three airlines continue to work together to provide customers with more opportunities to earn more miles in a more consistent fashion.

In addition to operating the Executive Club loyalty programme through Avios Group (AGL) Limited (formerly The Mileage Company Limited), BA also operates other businesses such as BA Holidays (which operates package holidays) and Speedbird (which provides insurance

services to other members of the BA group). As at 31 December 2012, the BA group earned approximately £591 million from other activities such as non-passenger income earned by subsidiaries (including BA Holidays and Avios Group (AGL) Limited).

(e) Strategic alliance and cooperation agreements

oneworld

The Group, through Iberia and BA, is a member of the ***oneworld*** alliance, along with Airberlin, American Airlines, Cathay Pacific, Finnair, Japan Airlines, LAN, Qantas, Royal Jordanian, S7 Airlines, Malaysia Airlines and selected affiliated airlines. In 2012 Qatar Airways and SriLankan Airlines accepted invitations to join the global alliance. Qatar Airways is a fast-growing Middle Eastern carrier with particular strength in India and Asia and is expected to become a full alliance member in late 2013. Malaysia Airlines officially joined the alliance in early 2013 after having accepted an invitation in 2011. These three airlines will significantly increase the ability of the Group to provide a broad Asian offering to its customers.

The ***oneworld*** alliance is designed to maximise the offering to customers by providing greater network coverage and benefits. Through the alliance, customers have increased options in terms of the routes available to them, stop-overs and fare types, greater access to airport lounges and opportunities to earn more frequent flyer points. Members have the opportunity to increase their load factors, traffic and revenues.

Joint Business

Pursuant to the Joint Business, BA, Iberia and American Airlines agree to share revenues and certain expenses on all flights between North America (Canada, the US and Mexico) and Europe (the EU, Switzerland and Norway). The Joint Business allows BA, Iberia and American Airlines to work more closely together on flights between North America and Europe.

Between 2010 and 2012, total revenue in the Joint Business grew 23 per cent. on an 11 per cent. increase in capacity and a 10 per cent. increase in unit revenue. This led to a 1.6 per cent. market share increase in premium traffic and 1.0 per cent. increase in non-premium traffic. In 2012, the Joint Business accounted for 21 per cent. of seat capacity between Europe and North America and 48 per cent. of seat capacity between the UK and Spain to North America.

Through the Joint Business, BA, Iberia and American Airlines operate approximately 100 daily flights with an extensive network built around the key strategic hubs of London, Madrid, New York, Miami, Dallas and Chicago. The Joint Business has gone from strength to strength with revenues growing to US\$8.5 billion and market share growing in both the premium and the non-premium segments. In 2012, 70 per cent. of capacity on the North Atlantic route was part of the Joint Business. In 2012, North America capacity increased by 3.3 per cent., while traffic improved by 6.1 per cent., resulting in a seat factor increase of 2.2 points to 83.7 per cent.

Additionally, American Airlines' recent decision to merge with US Airways will further improve, not only the Joint Business, but also its contribution to the oneworld alliance.

Passengers from the airlines will benefit from improved services, more destinations, an enhanced fleet, greater access to lounges and better connections. This will provide for continued investment in technology, products and services for the Joint Business.

Joint business agreement with Japan Airlines

The Group announced in February 2012 that BA and Japan Airlines would participate in a joint business agreement covering applicable flights between Europe and Japan. This joint business brings together two major international long-haul airlines and links the UK more strongly to the world's third largest economy. The joint business covers revenue-sharing on non-stop flights operated by BA or Japan Airlines between Japan and Europe. The new venture heralds a bigger and better service for BA customers and the promise of greater cooperation in the future.

The joint business with Japan Airlines ties in with the Group's focus on improving its presence in Asia and in line with this approach, BA re-launched operations to Seoul and announced a new route to Chengdu in mainland China to be launched in 2013.

Other affiliations

The Group has a joint business agreement between Iberia and LAN with respect to Peru and Ecuador. BA has also signed an extensive codeshare deal with Westjet to improve its network in Canada.

The agreement between BA and Qantas in respect of flights between the UK/Continental Europe and Southeast Asia/Australia terminated on 31 March 2013 in accordance with the relevant deed published on 6 September 2012 (register no. 173156). Despite this, BA and Qantas retain a codeshare relationship. BA is furthermore in discussion on potential partnerships to strengthen connectivity throughout Asia and support Australian routes.

BA and Iberia have franchise agreements and bilateral agreements with a number of other airlines, some of which are also members of the **oneworld** alliance. Iberia has a franchise agreement with Air Nostrum (see "*Passenger Transportation*" for further information) and BA and Iberia also maintain many codeshare agreements with other airlines. In 2012, over two million passengers used the flexibility of the 36 codeshares, fare combinability and cross-selling between BA and Iberia selling channels that cover most long-haul destinations in the Americas, Africa, the Middle East and South Asia.

5 Fleet and Aircraft

(a) Fleet

As at 31 December 2012, the Group had 380 aircraft in service. The aircraft in service with the Group are set out in the table below.

Aircraft		2012
Iberia	A330/340	30
BA	B747	55 ⁴
	B767	14
	B777	52
	B787	-
	A380	-
	A318	2
Total Long-haul		153
Iberia	A320 family	74
British Airways	A320 family	110
	Other	43
Total Short-haul		227
Total Fleet		380

In addition, as a result of the acquisition by the Group of Vueling (see “*Business Overview – (a) Passenger Transportation – Iberia*” for further details), the Group will have 54 additional short-haul A320 family aircraft in service.

(b) Aircraft Acquisitions

The Group continues to invest in new aircraft and, as at 31 December 2012, had contracted for the delivery of 69 aircraft and negotiated 89 further options and purchase rights. These are set out in the table below.

Aircraft		Post-2012 Deliveries	Further Options
Iberia	A330/340	8	8
BA	B747	-	-
	B767	-	-
	B777	6	-
	B787	24	28
	A380	12	7
	A318	-	-
Total Long haul		50	43
Iberia	A320 family	9	-
BA	A320 family	10	31
	Other	-	15
Total Short haul		19	46
Total Fleet		69	89

These aircraft deliveries can either serve to grow the fleet or as replacements for older fleet aircraft. Where they are intended as replacement aircraft, the new aircraft are expected to be significantly more fuel efficient than the aircraft they are replacing. For example, Iberia will take delivery of new Airbus A330s in 2013 which will use 15 per cent. less fuel per passenger than the Airbus A340s they are replacing. It is also true for BA’s long-haul deliveries, where Boeing 787-8 and Airbus A380 aircraft are expected to deliver

⁴ Of the 55 747s in service, 3 are 747-8 freighters.

approximately £150 million in fuel savings in 2015 when compared with 2012 (assuming US\$110 per barrel). This is in addition to a variety of other benefits which these aircraft will bring to the Group's customers. These benefits include greater noise reduction and improved environmental performance, as well the optimisation of BA's operating schedule as a result of the size of these aircraft and the greater frequency with which they will be able to service BA's routes.

On 3 April 2013, the Issuer reached an agreement with Boeing for new long-haul aircraft for the Group's fleet. The Issuer plans to convert 18 existing Boeing 787 aircraft options into firm orders for BA. Furthermore, on 22 April 2013, the Issuer announced that it is ordering Airbus A350 aircraft for the Group's long-haul fleet. For BA, there are 18 A350-1000 firm orders, plus 18 options. These are in addition to 18 Boeing 787 options which the Issuer announced previously that it plans to convert into firm orders. The A350 and Boeing 787 firm orders will be used to replace some of BA's Boeing 747-400 aircraft between 2017 and 2023, while the options can be used to replace aircraft or provide opportunities for growth.

For Iberia, the Issuer also reached agreement with Airbus, as well as Boeing, to secure commercial terms and delivery slots that could lead to firm orders for Airbus A350s and/or Boeing 787s. Firm orders will only be made when Iberia is in a position to grow profitably, having restructured and reduced its cost base.

The fleet order is subject to approval by the Issuer's shareholders.

(c) Aircraft financing

Future aircraft acquisitions will be financed through a variety of funding alternatives. The Issuer's financing strategy for the financing of new aircraft can be summarised as follows: (i) traditional asset backed loans advanced by financial banking institutions; (ii) Export Credit Agency ("ECA") supported funding; (iii) manufacturer backstop facilities; (iv) operating leases; and (v) through the capital markets and, in particular, through the Enhanced Equipment Trust Certificate ("EETC") market.

Asset backed loans

BA maintains good relationships with Chinese and Japanese banks. Following the global financial crisis, Japanese and Chinese banks are stepping to the forefront in creating the market for aircraft financing and BA is well-placed to access this market.

ECA-backed financings

The Group intends to access ECA-backed financing for two Airbus A380 aircraft to be delivered later in 2013. The purchase of the aircraft will be funded by a loan for approximately 85 per cent. of the purchase price, which, in turn, will be guaranteed in full by the ECAs. The balance of the purchase price will be funded through equity contributions from Japanese investors.

Airbus and Boeing backstop facilities

The Group has access to finance for aircraft deliveries through manufacturer backstop facilities. The Group has backstop financing available up to a total amount of €1.1 billion.

Operating leases

The Group intends to access the operating lease market in order to finance the interim fleet (being the fleet that bridges the gap between the current fleet and the time when it receives delivery of all the new generation aircraft). Operating lessors provide flexibility in managing the Group's exposure to residual value risk.

Capital markets

The Group continues to explore opportunities to diversify its funding base through obtaining aircraft financing in the capital markets, one area of which is the EETC market. The EETC is a long-established market used by US carriers and the Group is well placed to take advantage of funding opportunities in this market.

6 Regulation

The airline industry is subject to a high degree of international, UK, Spanish and European government regulation covering most aspects of airline operations.

(a) International Regulation

The 1944 Chicago Convention on International Civil Aviation (the "**Convention**"), to which nearly all countries are parties, established the International Civil Aviation Organisation as an agency of the UN, and established the process of coordinating and regulating international air services through bilateral air services agreements between sovereign states. Most air services worldwide are still governed by such Air Services Agreements ("**ASAs**"). 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.

(b) UK Regulation

Air Services Agreements

In contrast to some other EU Member States, who favour restricting their bilateral agreements to single designations, the UK government has consistently sought multi-designation in all its bilateral ASAs where the third country concerned agrees. The UK has consistently sought to secure EU designation, rather than UK national designation clauses in all of its bilateral ASAs and, as a result, designation under the UK's ASAs is not restricted to UK majority-owned and controlled airlines. The UK also has a long held policy of securing as many frequencies as possible for each party. Where the other party does not agree to such a policy and keeps capacity restricted, the UK government has a clear and transparent process for allocating scarce frequencies between UK carriers which is administered by the CAA under the Civil Aviation (Allocation of Scarce Capacity) Regulations 2007.

Other laws and restrictions

The Civil Aviation Act 1982 provides that an EU carrier must hold (and comply with the terms of) a relevant "route licence" to operate aircraft on flights involving the carriage of passengers or cargo outside the EU or to or from a point outside the EU for consideration.

Such licences are granted by the CAA (which also has powers to grant exemptions from this requirement) and can only be granted where the applicant holds a valid operating licence. The Civil Aviation Act 1982 also provides that the CAA must balance a number of objectives in making air transport or route licensing decisions where applications to operate a particular route are contested.

The Air Passenger Duty Regulations 1994 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 UK and foreign) with the amount payable being calculated by reference to the passenger's final destination and the class of travel.

Regulation (EC) No. 1008/2008 directs the UK government's policy towards pricing. It does not require any airline operating to, from or within the UK to file prices for notification or for approval, imposes no caps on fares, and, to the Issuer's knowledge, does not enforce mandatory surcharging. The CAA would only challenge fares if it thought an airline was acting anti-competitively through price dumping or charging excessive fares due to no available competition.

(c) Spanish Regulation

Pursuant to the Air Navigation Act and Regulation (EC) No. 1008/2008, there are certain transfer and ownership restrictions relating to the nationality of shareholders of Spanish carriers. Accordingly, any Spanish carriers holding an operating licence must be majority-owned by EU Member States or nationals of those Member States.

Air Services Agreements

There are no longer bilateral ASAs between EU Member States, including Spain. Consequently any EU-owned and controlled airline may operate air services between and within any Member States without any restrictions on capacity, frequencies and fares.

Other laws and restrictions

When ASAs which are signed by Spain stipulate that the appointed carrier must be under Spanish ownership and/or effective control, restrictions may also be imposed on that carrier's exercise of air services (deriving from the same ASAs).

Section 86 of Royal Decree 14/2000 imposes certain restrictions on foreign persons acquiring shares in Spanish carriers in order to protect a carrier's operating licence and ability to continue to provide its air services under the relevant ASAs. For further information on the position of the Issuer in relation to its shares and shareholders, see "*Description of the Ordinary Shares - Restrictions on the free transferability of the Shares*".

(d) EU Regulation

Multilateral Air Transport Agreements

As highlighted above, there are no longer ASAs between EU Member States. The European Free Trade Association states and a number of other neighbouring countries are also party to a multilateral agreement known as the European Open Aviation Area. In addition, the EU

has negotiated a multilateral ASA with the US, the “EU-US Open Skies Agreement”, permitting EU carriers to fly between any point in the EU to any point in the US with no restrictions on capacity, with the possibility of flying from any point in the US towards third countries (although not to another US point). A similar agreement has since been ratified with Canada and a third has been signed but not yet ratified with Brazil.

Other Laws and Restrictions

The Group is affected by wider EU policies, laws and regulation, particularly in relation to competition, environmental protection, airports and air traffic control.

7 Administrative, Management and Supervisory Bodies

In accordance with its By-laws, the board of directors of the Issuer will be made up of a minimum of nine and a maximum of 14 members. The members of the board of directors of the Issuer (the “**Board of Directors**”) as the date hereof are listed below:

Name	Position	Classification⁵
Mr. Antonio Vázquez Romero	Chairman	Other external
Sir Martin Faulkner Broughton	Deputy Chairman	Independent
Mr. William Matthew Walsh	Chief Executive	Executive
Mr. César Alierta Izuel	Director	Independent
Mr. Patrick Jean-Pierre Cescau	Director	Independent
Mr. José Manuel Fernández Norniella	Director	Other external
Baroness Denise Patricia Kingsmill	Director	Independent
Mr. Manuel Lagares Gómez–Abascal ⁶	Director	Proprietary
Mr. James Arthur Lawrence	Director	Independent
Mr. José Pedro Pérez–Llorca y Rodrigo	Director	Independent
Mr. Kieran Charles Poynter	Director	Independent
Mr. Luis Gallego Martín	Director	Executive
Mr. John William Snow	Director	Independent
Mr. Keith Williams	Director	Executive

The business address of each member of the Board of Directors is IAG’s registered office, calle Velázquez 130, Madrid 28006, Kingdom of Spain.

⁵ In accordance with the definitions set out in the Spanish Unified Good Governance Code.

⁶ Mr. Manuel Lagares Gómez–Abascal is a proprietary director appointed at the proposal of Banco Financiero y de Ahorros, S.A. He was appointed on 2 August 2012 to fill the vacancy created by the resignation of Mr. Rodrigo Rato Figaredo and his position is subject to shareholder approval at the next general meeting of the Issuer.

A short biography of each member of the Board of Directors of the Issuer is set out below, including their principal appointments outside the Group:

Antonio Vázquez Romero
Chairman

Antonio Vázquez Romero became Chairman of Iberia in 2009 and was Chief Executive Officer from 2009 to January 2011. He served as a Director of the Iberia Board between 2005 and 2008. He is a member of the advisory board of Telefónica Latam. He was chief executive officer of Altadis group and chairman of the board of Logista from 2005 to 2008, having held various positions within the Altadis group from 1993.

Sir Martin Broughton
Deputy Chairman

Sir Martin Broughton became Chairman of BA in 2004, having been a Board member since 2000. He served as president of the CBI from 2007 until 2009, and chaired the British Horseracing Board from 2004 to 2007. Prior to that he was chairman of British American Tobacco, a role he took on in 1998, having previously been group chief executive and deputy chairman. He is chairman of Sports Investment Partners.

Willie Walsh
Chief Executive Officer

Willie Walsh was Chief Executive Officer of BA from October 2005 to the date on which the Merger became effective. At BA, Willie guided the company to its first-ever 10 per cent. operating margin in 2007/2008 and introduced permanent changes across the airline to bring it through the worst recession in aviation history in 2008/2009. He secured the airline's long-term strategic objective to establish a transatlantic Joint Business with American Airlines and Iberia and set up the merger with Iberia that led to the formation of IAG. He was chief executive officer of Aer Lingus, a position he was appointed to in the aftermath of 9/11 having joined Aer Lingus in 1979 as a cadet pilot. In 1998, he was appointed chief executive officer of Futura, Aer Lingus' Spanish charter airline. He returned to Dublin with Aer Lingus in 2000 where he took up the role of chief operating officer and was subsequently appointed chief executive officer.

Keith Williams
Executive Director

Keith Williams became Chief Executive Officer of BA in January 2011. Previously he was Chief Financial Officer of BA for over five years. In this position, he played a leading role in the airline's achievement of a record operating margin in 2007/2008, before steering it through the worst recession in its history and masterminding a solution to its long-standing pension deficit. Keith joined the airline in 1998 from Reckitt and Coleman where he was head of tax. After training in accountancy with Arthur Andersen in the early 1980s, he held a variety of senior management roles, becoming treasurer for Apple Computer Europe, based in Paris between 1991 and 1996. He is also a non-executive board member and chair of the audit committee of Transport for London.

Luis Gallego Martín
Executive Director

Luis Gallego was appointed Chief Executive Officer of Iberia in March 2013. He was previously chief executive of Iberia Express from January 2012. Before that, Luis Gallego was chief operating officer at Vueling from 2009, when the airline merged with Clickair. At Vueling, Luis Gallego was responsible for flight operations, training, quality and safety, maintenance and ground handling operations with a fleet of 47 aircraft and more than 1600 employees. Under his leadership, Vueling achieved one of the best standards in punctuality in Spanish commercial aviation. Prior to joining Vueling, he was one of the original members of the management team of Clickair, the low-cost airline in which Iberia had a stake. Until its merger with Vueling, Clickair was the fastest growing European airline. Between 1997 and 2006, Luis Gallego held various positions at the regional Spanish carrier Air Nostrum. He started his career at BDE, an engineering and services company.

César Alierta Izuel
Independent Non-Executive Director

César Alierta Izuel has been the executive chairman of Telefónica since July 2000, and is a member of the boards of directors of China Unicom and Telecom Italia. He is a member of the Colombia Business School Board of Overseers and chairman of the social board of the UNED. He was the chairman and founder of Beta Capital, which he combined from 1991 with his post as chairman of the Spanish Financial Analysts' Association. He was a member of the board of directors and standing committee of the Madrid Stock Exchange. In 1996, he became chairman of Tabacalera and then served as chairman of Altadis group until July 2000 when he was appointed chairman of Telefónica, having been a board member since 1997.

Patrick Cescau
Independent Non-Executive Director

Patrick Cescau joined the board of InterContinental Hotels Group PLC as chairman on 1 January 2013. He has been a non-executive director of Tesco PLC since February 2009 and was appointed the company's senior independent director in July 2010. He was group chief executive officer of Unilever from 2005 to 2009, having previously been chairman of Unilever PLC and deputy chairman of Unilever NV. He is a trustee of the Leverhulme Trust

and chairman of the St Jude Children's Charity. Patrick Cescau was appointed a Chevalier de la Légion d'Honneur in 2005.

José Manuel Fernández Norriella
Other External Non-Executive Director

José Manuel Fernández Norriella was a Non-Executive Director of Iberia from 2003. He has held several executive positions in Électromécanique and Alfa Laval (1972-1982) and Boveri and ABB (1981-1993). He has served as a director in RTVE, Argentaria, Enagas, Endesa, Televent, Campos Chilenos, IANSA, as deputy chairman of Chilectra (Chile) and as a member of the advisory boards of Abengoa and Accenture. He was elected MP for Madrid in 1993 and appointed secretary of state for trade, tourism and SMEs, representing Spain, as deputy director, in the WBI, the IBD and the BERD. He has also served as chairman of the Council of Spanish Chambers of Commerce, executive deputy chairman of Aldesa and executive chairman of Ebro Puleva (2000-2005). He is currently director of Telesp (Brazil). He has been deputy chairman of Caja Madrid and director of BFA and Bankia. He has been awarded the Grand Cross of Isabella the Catholic (Spain), the Order of Bernardo O'Higgins (Chile), the Verdienstkreuz mit Stern (Germany) and the Order of Merit (Poland). On 9 May 2013, José Manuel Fernández Norriella notified the board of directors of the Issuer of his intention not to stand for re-election at the Issuer's next Annual General Meeting.

Manuel Lagares Gómez-Abascal
Proprietary Non-Executive Director

Manuel Lagares Gómez-Abascal has a degree in Economic Science and Business Studies from Universidad Pontificia de Comillas (ICADE) and a Master's degree in Public Finance and Tax from Universidad de Alcalá de Henares. He has worked as a tax inspector, government comptroller and auditor. He was chief executive officer of the Neinver Group, joining in 2004 as general manager. He was manager of affiliated companies of Bankia and from October 2011 he was the general manager of Banco Financiero y de Ahorros. He was also the executive chairman of the European Retail Property Fund (IRUS). Currently, he is also vice-president of Indra and the director of Iberdrola and Mapfre S.A.

Baroness Denise Kingsmill
External Independent Director

Baroness Kingsmill was a Non-Executive Director of BA from November 2004 until the date on which the Merger became effective. She entered the House of Lords in 2006. Until December 2003 she chaired the Department of Trade and Industry's Accounting for People task force, and was deputy chairman of the Competition Commission. She is a senior independent non-executive director of APR Energy plc and a member of the supervisory board of E.ON SE. She is deputy chair of the PricewaterhouseCoopers LLP advisory board. Baroness Kingsmill is a member of the international advisory board of IESE and is a member of the influential House of Lords Economic Affairs Committee.

James Lawrence
Independent Non-Executive Director

James Lawrence was a Non-Executive Director of BA from November 2006 until the date on which the Merger became effective. He has been chairman of Rothschild North America

since June 2010. He was at Unilever from 2007 as chief financial officer and as executive director on the boards of Unilever NV and PLC. He was chief financial officer of General Mills from 1998 to 2007. Since 1990, he has served on the boards of 15 public companies.

José Pedro Pérez-Llorca
Independent Non-Executive Director

José Pedro Pérez-Llorca was a Non-Executive Director of Iberia from 2000 until the date on which the Merger became effective. He was a career diplomat and a member of the Parliamentary Counsel. He is a former Cabinet Minister of the Presidency, Parliamentary Relations, Regional Government and Foreign Affairs Ministry. He is a former member of the board of Telefónica and of the Madrid Stock Exchange Council. He was recently appointed president of the board of trustees of the Prado Museum. He is the founding partner and chairman of the law firm Pérez-Llorca.

Kieran Poynter
Independent Non-Executive Director

Kieran Poynter is a Non-Executive Director of British American Tobacco, Nomura International and F&C Asset Management, having been appointed to those roles in July 2010, November 2009 and June 2009 respectively. He spent 37 years with PricewaterhouseCoopers LLP in various roles including eight years as chairman and senior partner before retiring in 2008. He served as a member of the president's committee of the CBI from 2000 to 2008 and in 2009-2010 served as a member of the advisory committee for the Chancellor of the Exchequer on the competitiveness of the UK's financial services sector. He is also a member of the board of The Royal Automobile Club.

John Snow
Independent Non-Executive Director

John Snow is president of JWS Associates LLC. He served as the 73rd United States Secretary of the Treasury under President George W. Bush from February 2003 to June 2006. Prior to this he served as chairman, president and chief executive officer of CSX Corporation. John Snow served in several senior roles at the US Department of Transportation under President Ford. His public service also includes his appointment by President Clinton as board chairman of the organisation established by Congress to oversee the air traffic control system in the US. He currently serves on the boards of Marathon Petroleum Corporation and Cerberus Capital Management LP where he is non-executive Chairman.

All Directors are subject to retirement every three years and are eligible for re-election by the shareholders. There are no potential conflicts of interest between any duties of any member of the Board of Directors of the Issuer and their private interests or other duties.

Within the Issuer's Board of Directors, an audit and compliance committee, a nominations committee, a remuneration committee and a safety review committee have been created.

Audit and compliance committee

The audit and compliance committee has an oversight role which includes, among other things, supervising the preparation and presentation of regulated financial information and supervising the effectiveness of the internal control and risk management systems of the Issuer. It also recommends the appointment of the auditors to the Board of Directors and acts as a channel of communication between the auditors and the Board of Directors.

Nominations committee

The role of the nominations committee includes, among other things, submitting proposed appointments of independent directors to the Board of Directors and reporting on the Board of Directors' proposals for the appointment of other board members, as well as, in each case, proposals for the re-appointment or removal of directors. It also reports on the criteria for composition of the Board of Directors and establishes guidelines for the appointment, promotion and dismissal of senior executives and succession plans for the Chairman and Chief Executive.

Remuneration committee

The role of the remuneration committee includes, among other things, annually proposing the overall amount of remuneration for the Board of Directors, the individual remuneration for executive board members and reporting on various matters including incentive plans, pension arrangements and provisions for termination.

Safety review committee

The safety review committee has among its responsibilities a high-level overview of the safety activities and resources of the Group. It receives material safety information about members of the Group, and other entities related to the business of the Group, and follows up on safety-related measures as instructed by the Board of Directors.

8 Employees and pension schemes

At 31 December 2012, the Group's "Average Manpower Equivalent" was 59,574.

Iberia operates the Montepío de Previsión Social Loreto defined contribution scheme for its employees. Iberia is however completely independent and separate from this pension scheme.

BA operates three main pension schemes for its employees: (i) the Airways Pension Scheme (the "APS"), which was closed to new staff in 1984 and is mainly composed of pensioners (about 90 per cent.); (ii) the New Airways Pension Scheme (the "NAPS"), which closed to new staff in 2003; (iii) and an open defined contribution scheme, the BA Retirement Plan (the "BARP"), which has for the last 10 years been the default scheme for all new staff over the age of 18 employed by BA and certain subsidiary undertakings in the UK who want to become members. The APS and NAPS schemes are both final salary-based defined benefit schemes offering benefits in relation to a formula based on salary and length of service and are still open to future accrual by legacy members. The BARP scheme is a defined contribution scheme in which each member contributes a fixed percentage of their salary.

The BARP scheme has been running since April 2003 and now has approximately 12,000 members.

Every three years, actuarial valuations of the APS and the NAPS are conducted under the UK Pension Regulator's funding scheme in order to ensure that the schemes are sufficiently funded. The latest actuarial valuations were made at 31 March 2009 and completed in June 2010 (under the applicable regulations, companies have 15 months to agree a valuation with pension trustees); see note 32 to the Issuer's Annual Report and Accounts 2012. At 31 March 2009, the market values of the assets of the APS and the NAPS were €6,340 million and €6,472 million respectively, representing 85.2 per cent. and 69.4 per cent. of the value of € vs. £ the benefits that had accrued to members of the APS and the NAPS respectively (after allowing for assumed increases in earnings).

In order to address the deficits in the APS and the NAPS, a funding agreement was reached in June 2010 between BA and the respective pensions trustees (which was approved by the UK Pensions Regulator), under which BA committed to make financial contributions to the APS until 2023 and to the NAPS until 2026. Taken together with future service costs, BA will make cash contributions to the APS and the NAPS of approximately €405 million per year. In addition, BA has agreed to provide further financial support to the APS in the form of guarantees in amounts of €283 million (in 2007) and a further €307 million (in 2010), which are callable by the pension trustee of the APS on an insolvency of BA. BA also agreed with the pensions trustees to a restriction on the payment by it of any dividend to the Issuer.

The deficit payment plans are agreed with the pension trustees of the APS and the NAPS every three years based on a triennial actuarial valuation, the last of which was completed on 31 March 2009 with the deficit payment plan agreed in June 2010. BA has already commenced the triennial valuation exercise in respect of the APS and the NAPS for the three year period to 31 March 2012 and discussions with the pension trustees regarding the APS and the NAPS are ongoing, including in relation to the current restriction imposed on BA preventing the payment of any dividend to the Issuer. The Issuer expects these discussions to be concluded on or before 30 June 2013. If no agreement has been reached by BA with the pension trustees of the APS and the NAPS by 30 June 2013, negotiations and discussions will continue with the involvement of the UK Pensions Regulator, who will facilitate the process.

9 Legal and arbitration proceedings

Except as provided in the paragraph immediately below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) during the 12 months before the date of this Offering Circular, which may have, or have had in the recent past, significant effects on the Issuer's and/or the Group's financial position or profitability.

During the financial year ended 31 December 2012, BA reached an early resolution with the OFT, pursuant to which it paid a fine of £58.5 million concluding the OFT's investigation into passenger fuel surcharges for the period prior to March 2006. As a result of the OFT's investigation and the European Commission's previous investigation into anti-competitive behaviour in relation to BA's and other airlines' cargo operations (for which BA was fined €104 million in November 2010), BA is subject to related litigation in various jurisdictions. At

the date of this Offering Circular, the Issuer is unable to quantify the amount of damages which BA may be required to pay in settlement of such litigation.

10 Dividends

It is the intention of the Issuer to distribute regular dividends to its shareholders in the medium term and long term of an amount appropriate to market conditions depending on a number of factors, including but not limited to, the earnings of the company, financial conditions, cash requirements and prospects and legal requirements.

The Issuer is a holding company and its primary source of funds are therefore the dividends it receives from its subsidiaries. Unless it generates its own profit, the Issuer will rely on the intra-group dividends received from its subsidiaries to be able to distribute cash dividends to its shareholders.

11 Employee share schemes and other share options

As at 2 May 2013, the Issuer had the following approved and unapproved employee share schemes:

- The British Airways Share Option Plan 1999 (with 696,167 approved options and 4,144,237 unapproved options outstanding);
- The British Airways Deferred Share Plan 2005 (with 4,559,739 shares under award);
- The British Airways Long Term Incentive Plan 1996 (with 285,099 options outstanding);
- The British Airways Performance Share Plan 2005 (with 6,123,714 shares under award);
- The IAG Incentive Award Deferral Plan (with 4,619,477 shares under award); and
- The IAG Performance Share Plan (with 29,025,204 shares under award).

As at 2 May 2013, the total number of options outstanding and shares under award was 49,453,637.

12 Recent Developments

Acquisition of Vueling

In November 2012, Veloz Holdco launched a cash tender offer for the 16,193,297 shares of Vueling not already owned by Iberia, representing 54.15 per cent. of the share capital of Vueling; and, on 27 February 2013, following authorisation of the Offer by the Spanish National Securities Markets Commission, the Offer prospectus was published. The acceptance period for taking up the Offer was originally due to lapse on 8 April 2013.

On 27 March 2013, Veloz Holdco announced its decision to increase the consideration offered in the Offer from €7 per share of Vueling to €9.25 per share. Furthermore, the Offer acceptance period was extended from 39 to 48 calendar days, and the Offer's minimum

acceptance condition was reduced from 90 per cent. of those Vueling voting rights not owned by Iberia to 1,244,029 Vueling shares, which represents 4.16 per cent. of Vueling's share capital. The improved Offer was authorised by the Spanish National Securities Markets Commission on 4 April 2013 and a supplement to the Offer prospectus was published.

On 23 April 2013, the Issuer announced that Vueling would become part of the Group after the majority of Vueling shareholders accepted the Issuer's cash tender offer for the airline, following recommendation by the Vueling board of directors.

The Spanish National Securities Market Commission announced on 23 April 2013 that 82.48 per cent. of the remaining Vueling shareholders had accepted the Issuer's offer of €9.25 per share. Therefore, the Group will own 90.51 per cent. of Vueling. The cost of purchasing the Vueling shares is €123.5 million.

Vueling will be a standalone company within the Group, with its chief executive, Alex Cruz, reporting into the Issuer's chief executive, Willie Walsh.

The acquisition completed on 26 April 2013.

For further information on the proposed acquisition of Vueling by the Group, see "*Business Overview – (a) Passenger Transportation – Iberia*".

Iberia Transformation Plan (the "Plan")

During the course of 2012, the Issuer has moved forward in addressing Iberia's critical financial performance and announced plans to restructure the airline so that it can grow profitably in the future.

Iberia's financial situation is no longer sustainable, having taken on operating losses (before exceptional items of €545 million) of €351 million and a cash loss of €1.9 million per day in the financial year ended 31 December 2012. As a result, Iberia needs urgent restructuring. While the Spanish and European economic crisis has affected Iberia, it also lacks competitiveness. Iberia has to modernise and adapt to the new competitive environment as its legacy cost base is significantly higher than those of its main competitors in Spain, Europe and Latin America.

In order to address these issues, in November 2012, the Issuer and Iberia announced a comprehensive Plan to restructure Iberia and return it to profitability. The aim of the Iberia Plan is to introduce permanent structural change across all areas of the airline to stem financial losses and enable it to grow profitably in the future.

After failure to reach agreement on the proposals it made in November 2012 by 31 January 2013, the Issuer and Iberia pressed ahead with the capacity reductions of 15 per cent. for 2013 it announced as part of the proposals. In addition, the Issuer and Iberia commenced complementary plans to return Iberia to break-even, in terms of operating cash flow, by the second half of 2013 and restore Iberia to an acceptable level of profitability by 2015. In practical terms this initially involves reducing network capacity by 15 per cent. for 2013, suspending loss making routes and frequencies and ensuring there is effective feed for profitable long-haul flights. In addition, Iberia's fleet will be downsized by 25 aircraft

(comprising five long-haul and 20 short-haul aircraft) and there will be a reduction of 3,807 jobs.

The objective of the Plan is to transform Iberia's short-haul and medium-haul operation to compete effectively with low cost carriers who have successfully established themselves in Iberia's home market. The Plan requires permanent salary adjustments to achieve a competitive and flexible cost base.

In addition, there are new commercial initiatives to boost unit revenues, including increasing ancillary sales and website redesign. The Plan also involves discontinuing non-profitable third party maintenance and ground handling services outside Madrid. All funding for the Plan will be from Iberia's internal resources. The Issuer remains confident that a restructured Iberia will have an important future and can grow profitably. It has many advantages including an excellent geographical position to serve Latin America, along with historical ties to that region, a strong brand and the ability to grow long term at its Madrid hub. The Issuer wants Iberia to be successful and the Plan remains critical for Iberia and Spain. A restructured Iberia could create jobs and boost tourism, a key driver in Spain's economic recovery.

Proposals by a mediator – appointed following the failure of negotiations between Iberia and the unions in early 2013 – were accepted by the Group and unions representing 93 per cent. of Iberia staff. The Issuer's acceptance of the mediator's proposals is considered a good starting point for restoring the profitability and, consequently, the future viability of Iberia.

CAA review of UK airport charges

On 30 April 2013, the CAA published its initial proposals on increases to airport charges at London airports for the five years from 2014. The CAA has proposed London Heathrow increase passenger charges at a rate of inflation minus 1.3 per cent., while, at London Gatwick, the CAA has proposed a cap on increases to passenger charges of inflation plus 1 per cent. The CAA will make its final proposals in September 2013, with a decision on the licence conditions to be made in January 2014.

DESCRIPTION OF THE ORDINARY SHARES

The following summary provides information concerning the Issuer's share capital and briefly describes certain significant provisions of its By-laws, General Meeting Regulations and Spanish corporate law. This summary does not purport to be complete and is qualified in its entirety by reference to the relevant corporate regulations and Spanish corporate law. Copies of the By-laws and shareholders' meeting regulations are available at its principal administrative office and web page.

1. General

The authorised share capital of the Issuer amounts to €927,684,778.50 divided into 1,855,369,557 fully paid-up ordinary shares (hereinafter, "**Shares**") of the same class and series and with a nominal value of €0.50 each.

On 21 June 2012, the General Meeting of the Issuer passed a resolution authorising the Board of Directors to increase the share capital pursuant to the provisions of article 297.1(b) of the Spanish Capital Companies Act and to issue securities (including warrants) convertible into and/or exchangeable for Shares, up to a maximum limit of €1,000,000,000. The resolution authorised the Board of Directors to exclude pre-emptive rights in connection with the capital increase and the issuance of convertible or exchangeable securities and to issue: (i) bonds, simple debentures and other fixed-income securities of a similar nature (other than notes) up to a maximum amount of €1,000,000,000; and (ii) notes up to a maximum amount of €500,000,000.

The International Securities Identification Number ("**ISIN**") of the Shares is ES0177542018. Information relating to the Shares including their past performance and volatility, can be obtained at the Investor Relations section of the Issuer's website at www.iairgroup.com. Any information contained on this website shall not form part of this Offering Circular.

2. Dividend and liquidation rights

Payment of dividends is proposed by the Board of Directors and must then be authorised by a General Meeting. Holders of Shares participate in dividends for each year from the date such dividends are agreed by General Meeting. Spanish law requires companies to contribute at least 10 per cent. of their profit for the year to a legal reserve on an annual basis until the balance of such reserve is equivalent to at least 20 per cent. of a company's issued share capital. A company's legal reserve is not available for distribution to shareholders except upon the company's liquidation. According to Spanish law, dividends may only be distributed out of earnings for the financial year or out of distributable reserves (provided the shareholders' equity disclosed in the accounts is not, as a result of the distribution, reduced to less than the share capital of the company). If there are any losses from prior financial years that reduce shareholders' equity below the amount of the share capital, these earnings shall first be used to offset such losses. Likewise, dividends may not be distributed unless the distributable reserves match the amount of research and development expenses that were entered in the asset side of the balance sheet. In accordance with Section 947 of the Spanish Commercial Code, the right to a dividend lapses and reverts to the Issuer if it is not claimed within five years after it becomes due.

The Issuer is a holding company and therefore its primary source of funds will be the dividends it receives from its subsidiaries. Unless it generates its own profit, the Issuer will rely on the dividends it receives from its subsidiaries to be able to distribute cash dividends to its shareholders. See "**Risk**

Factors – Risks relating to the Issuer – The Issuer is a holding company". This limitation does not apply to other types of payment in kind to the shareholder such as share buyback plans and bonus share issues, among others.

Dividends payable by the Issuer to non-residents of Spain are subject to Spanish withholding tax at a rate of 21 per cent. However, residents of certain countries will be entitled to the benefits of a double taxation convention. See "*Taxation – Spanish Tax Considerations – Certain tax considerations - Shares*".

Upon its liquidation, the shareholders would be entitled to receive *pro rata* any assets remaining after the payment of the company's debts, taxes and liquidation expenses.

3. General Meetings and voting rights

Pursuant to the By-laws, the General Meeting Regulations and Spanish corporate law, the Ordinary General Meeting of the shareholders of the Issuer is to be held during the first six months of each financial year on a date fixed by the Board of Directors. Extraordinary General Meetings may be called by the Board of Directors whenever it deems appropriate or at the request of shareholders representing at least 5 per cent. of the issuer's share capital.

Action is taken at Ordinary General Meetings on the following matters: (i) the approval of the management of the Group by the Board of Directors during the previous financial year; (ii) the approval of the annual accounts from the previous financial year; and (iii) the application of the previous financial year's income or loss. Any other matters may be considered at either an Extraordinary General Meeting or an Ordinary General Meeting if the matter is within the authority of the meeting and is included on the agenda.

Each Share entitles the holder to one vote. Under Spanish corporate law, shareholders who voluntarily pool their shares so that their share capital when aggregated is equal to or greater than the result of dividing the total share capital by the number of members of the Board of Directors have the right to appoint a corresponding proportion of the members of the Board of Directors (disregarding fractions). Shareholders who exercise this right may not vote on the appointment of other directors.

The General Meeting, whether ordinary or extraordinary, shall be validly established with the minimum quorum required by applicable legislation in effect at any time⁷, taking into account the matters appearing in the agenda and if the meeting is held upon first or second call.

⁷ Pursuant to the Spanish Capital Companies Act, there will be a quorum present in public limited companies at a general meeting of shareholders on first call when the shareholders present or represented hold at least 25 per cent. of the voting rights of the company. On second call, there will be a quorum present at the meeting whatever the capital present or represented thereat, unless the by-laws require a specific quorum which will necessarily be lower than that stated in the by-laws or required by law for meetings on first call.

In addition, in order for the ordinary or extraordinary general meeting to validly resolve on an increase or reduction of capital, any other amendment of the by-laws, an issue of bonds, the elimination or limitation of pre-emption rights in respect of new shares, the transformation, merger or demerger of the company, the global transfer of assets and liabilities or relocation of the registered office outside Spain, it will be necessary, on first call, for shareholders holding

A resolution passed in a General Meeting is binding on all shareholders, unless such resolution is: (i) contrary to Spanish law or the By-laws; or (ii) prejudicial to the interest of the company and beneficial to one or more shareholders or third parties. In the case of resolutions contrary to Spanish law, the right to contest is extended to all shareholders, directors and interested third parties. In any other case, such right is extended to shareholders who attended the General Meeting and recorded their opposition in the minutes of the meeting, to shareholders who were absent and to those unlawfully prevented from casting their vote as well as to directors. In certain circumstances (such as a modification of corporate purpose, change of the corporate form, transfer of domicile to a foreign country, intra-EU merger with transfer of domicile to another EU country or incorporation of a limited liability European holding company), Spanish corporate law gives dissenting or absent shareholders the right to withdraw from the company. If this right were exercised, the company would be obliged to purchase the relevant shareholding(s) at prices determined in accordance with established formula or criteria relating to the average price of the shares in the Spanish Stock Exchanges by reference to certain periods of time.

Shareholder lawsuits

Under Spanish corporate law, directors are liable to shareholders for illegal acts, acts that violate a company's by-laws and for failure to carry out their legal duties with due diligence. Shareholders are not required to submit these actions to arbitration. Under Spanish law, shareholders must generally bring actions against a company in the province where the company is domiciled (in the case of the Issuer, currently Madrid, Spain).

4. Registration and transfer

(a) Form of the Shares

The Shares are held in uncertificated electronic form and represented by book entries within Iberclear, the clearance and settlement system in Spain. Iberclear's registry is made up of accounts held by a number of financial institutions, who are participants in Iberclear. Those financial institutions in Iberclear, in turn, hold accounts in the name of each individual shareholder or through such shareholder's accredited financial intermediary. The Shares are denominated in Euro.

The Shares are governed by Spanish law and, specifically, by the Spanish Capital Companies Act and Royal Decree 24/1988 on the securities market (hereinafter, the "**Securities Market Act**") and the provisions implementing them.

As the Issuer is a Spanish company that is admitted to the Official List of the UKLA, the Issuer is regulated by both the Spanish National Securities Market Commission (the "**CNMV**") and the UKLA.

at least 50 per cent. of the voting rights of the company to be present in person or by proxy. On second call, the presence of holders of 25 per cent. of the company's voting rights will suffice.

(b) CREST Depository Interests

Trading in the Shares (being Spanish securities) is not capable of being settled within the CREST system (the system in the UK for the paperless settlement of trades in securities and the holding of uncertificated securities operated by Euroclear in accordance with the Uncertificated Securities Regulations 2001). Accordingly, in order to allow settlement within CREST, the Issuer has entered into depository arrangements which enable investors to hold Shares in the form of dematerialised CREST Depository Interests (“CDIs”). CDIs represent entitlements to underlying shares in companies not incorporated in the UK (in this case CDIs represent entitlements to the Shares) and each CDI represents an entitlement to one Share. The CDIs are denominated in Sterling.

In addition, for persons who cannot or do not want to hold CDIs directly (or through their own nominees) the Issuer has arranged for their CDIs to be held by a nominee who is a member of CREST in a nominee service on their behalf. This nominee service (the “**Nominee Service**”) is administered by Computershare Investor Services PLC (the “**Nominee**”) and is provided free of charge, save for transaction fees, fees for providing duplicates and fees to cancel the CDIs. The Issuer has not issued share certificates to individual shareholders - instead holders, through the Nominee Service, receive a statement of entitlement from the Issuer’s Nominee, setting out details of the CDIs held on their behalf.

(c) Rights that the Shares confer upon their holders

All of the Shares representing the share capital of the Issuer are of a single class and series with the same voting and economic rights as provided for by the By-laws. In particular, the Shares confer on their holders the following rights, in accordance with the Spanish Capital Companies Act and the By-laws:

The right to a share in profits

The Shares confer the right to a share in the profits of the Issuer. However, a shareholder’s right to a dividend arises only once the distribution of dividend is approved at a General Meeting. The Shares do not confer the right to receive a minimum dividend.

The right to a share in the assets resulting from liquidation

The Shares confer on their holders the right to a share in the assets resulting from the liquidation of the company.

A pre-emptive subscription right in the issue of the Shares

Pursuant to the relevant provisions of the Spanish Capital Companies Act, all of the Shares enjoy pre-emption rights in relation to capital increases involving the issue of new Shares, ordinary or preferred, and, the issue of bonds convertible into Shares, with a charge to monetary contributions. These rights may be excluded pursuant to a resolution of the General Meeting or by the Board of Directors on the terms provided for in Articles 308, 417 and 504 to 506 of the Spanish Capital Companies Act and other cases provided for in the Spanish Capital Companies Act where pre-emptive subscription rights do not apply.

As the Issuer has a premium listing on the Official List of the UKLA and is admitted to trading on the London Stock Exchange, if the Issuer intends to sell Shares held in treasury for cash (other than to or

for the purposes of the employee share schemes of the Issuer or the Group), such Shares shall first be offered to existing shareholders in proportion to the nominal value of the Shares held by them and the provisions of Article 14 of the By-laws shall apply (to the extent applicable) *mutatis mutandis*.

Holders shall also be entitled to receive Shares as of right (without payment) under the Spanish Capital Companies Act in the event of a capital increase effected by a charge to reserves.

The right to attend and vote at General Meetings and challenge corporate resolutions

All of the Shares confer the right to vote. Holders of the Shares have the right to attend and vote at General Meetings and to challenge resolutions, pursuant to the governance regime established in the Spanish Capital Companies Act and subject to the By-laws. All shareholders may attend a General Meeting. Each Share shall confer the right to one vote and there are no limits on the maximum number of votes that may be cast by a single shareholder or related shareholders, for example companies belonging to the same corporate group.

The right to information

Holders of the Shares shall enjoy the general rights to information contained in Article 93(d) of the Spanish Capital Companies Act together with specific rights set out in Article 197. They also benefit from provisions concerning the right to information in the articles of the Spanish Capital Companies Act in the case of amendment of the By-laws, the increase or reduction of share capital, the approval of financial statements, the issue of debentures which may or may not be convertible into Shares, a change in legal form, merger or demerger, en bloc transfer of assets and liabilities, re-domiciling abroad, the dissolution and liquidation of a company, among other corporate transactions or acts.

(d) Rights attaching to the CDIs

The holders of CDIs have an interest in the Shares but they are not the registered holders thereof. Accordingly, holders of CDIs are able to enforce and exercise the rights relating to the Shares only in accordance with the arrangements described below. As a result of certain aspects of Spanish law which govern the Shares, the holders of CDIs are not able directly to enforce or exercise certain rights, including voting and pre-emption rights but instead are entitled to enforce them indirectly via Euroclear Nominees Limited. Holders of CDIs (including, for this purpose, those persons holding CDIs through the Issuer's Nominee Service) are, at their discretion, able to effect the cancellation of their CDIs in CREST and receive the underlying Shares to which they are entitled into a shareholding account with a depository financial institution which is a participant in Iberclear.

The CDIs were created and issued pursuant to the terms of the Global Deed Poll and the relevant Euroclear requirements applicable to the Issuer, as described in the CREST glossary of terms issued by Euroclear (the "**CREST Requirements**") and the Uncertificated Securities Regulations 2001 or Companies (Uncertificated Securities) (Jersey) Order 1999, as amended from time to time (as applicable) (the "**CREST Regulations**"), which govern the relationship between the CREST Depository and CDI holders. The terms and conditions of the Issuer's Nominee Service provide that the persons on whose behalf the Issuer's Nominee holds CDIs shall be entitled to all rights attaching to such CDIs.

In order to enable the holders of the CDIs to exercise their rights relating to the Shares, the Issuer has entered into arrangements pursuant to which all holders of the CDIs are able to exercise ordinary shareholder rights and in particular to:

- (a) receive notices, in English, of all General Meetings (to the extent that shareholders are entitled to receive such notices);
- (b) appoint the CDI holder, or any other person, as proxy in respect of the Shares to which that holder's CDIs relate and to attend and vote at General Meetings;
- (c) give directions to a proxy as to voting at all General Meetings;
- (d) receive copies of the annual report and accounts (to the extent that copies are sent to shareholders) and all of the documents issued to the holders of the Shares (in each case, in English); and
- (e) be treated in the same manner as registered shareholders in respect of all other rights attaching to the Shares subject to the limitations described herein.

However, it should be noted that in order to vote or exercise other shareholder rights in person at a General Meeting, CDI holders have to appoint a proxy in respect of the Shares to which they are entitled. CDI holders will, however, be entitled to appoint any person, including the relevant CDI holder or the Chairman of the Issuer, as proxy to attend and speak at General Shareholders' Meetings and to vote in respect of the underlying Shares in accordance with such holder's directions. It should also be noted that in order to submit a valid proxy form, CDI holders will usually be required to set out how their votes must be cast on each resolution contained in the relevant notice of meeting and the relevant proxy (unlike a shareholder who can make his decision at the relevant meeting) can therefore not vote in a different way to that set out in the proxy form with respect to those resolutions.

CDI holders who wish to exercise the voting rights attached to the Shares represented by their CDIs personally in their capacity as a shareholder (and not as a proxy), by attending a General Meeting, will first have to effect the cancellation of their CDIs in respect of the underlying Shares so that such Shares are held by such holder or such holder's nominee in Iberclear in time for the record date of the relevant General Meeting. On so doing, they will, subject to and in accordance with the By-laws, be able to attend and vote in person at the relevant General Meeting⁸.

The Issuer's Nominee Service will send to each person on whose behalf CDIs are held, a statement of their holding in CDIs at least once a year, for so long as such person retains entitlements to some CDIs in the account of the Issuer's Nominee Service. The terms and conditions of the Issuer's Nominee Service (which include, among others, a description of the procedure to be followed for cancelling CDIs and effecting the transfer of the underlying Shares and provisions relating to the exclusion of the Nominee's liability vis-à-vis CDI holders) are available to all holders of the CDIs.

In addition, the arrangements referred to above also include provisions dealing with the payment of amounts in respect of dividends (including a provision to the effect that the CDI holders will, for so long as Euroclear continues to provide such a service, elect to receive any amounts in respect of

⁸ Details of how such cancellation can be effected will be obtainable by contacting the Nominee on +44(0) 870 702 0110.

dividends paid on the Shares represented by the CDIs held through the Nominee Service, in Sterling).

Holders of CDIs held in CREST, while Euroclear continues to provide such service, will be able, if they so wish, to have amounts in respect of dividends paid on Shares in Euro by the Issuer converted into, and paid to them in Sterling, or any other CREST currency, if desired (without foreign exchange commission) by the CREST Depository.

The CDIs have the same security code (ISIN) as the underlying Shares and do not have a separate listing on the Official List. CDIs are capable of being credited to the same member account as all other CREST investments of any particular investor. This means that, from a practical point of view, CDIs representing the Shares will be held and transferred in the same way as other companies' shares participating in CREST.

(e) Transfers of CDIs

Cancellation of CDIs for underlying Shares

Holders of CDIs will, at their option, be able to effect the cancellation of their CDIs in CREST and receive the underlying Shares to which they are entitled into a shareholding account with a depository financial institution which is a participant in Iberclear. CDI holders who wish to cancel their CDIs may do so by sending an instruction to CREST to that effect and following the rules and practices of CREST (subject to any legal restrictions on transfer in any jurisdiction and in the case of those persons holding CDIs through the Nominee Service they should follow the procedures set out in the Nominee Service terms and conditions). Certain transfer fees will generally be payable by a holder of CDIs (including, for this purpose, a person holding CDIs through the Nominee Service) who makes such a transfer.

In order to assist CDI holders who wish to cancel their CDIs and hold Shares directly, the Issuer has made arrangements to facilitate their opening an individual Share custody account with Banco Santander, S.A., which holds the Shares on their behalf within Iberclear.

Shareholders who hold their Shares through Iberclear and who wish to hold CDIs through the CREST system should contact the Issuer's Nominee Service on +44(0) 870 702 0110.

(f) Territories excluded from the Issuer's Nominee Service

The Nominee Service is authorised to offer custody services in the Issuer's Nominee Service Permitted Territories, which are the following: Argentina, Austria, Belgium, Botswana, Brazil, Bulgaria, Chile, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Guinea, Hungary, Iceland, Indonesia, Ireland, Isle of Man, Italy, Korea, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Mexico, Namibia, The Netherlands, Norway, Poland, Paraguay, Peru, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Taiwan and the UK.

(g) Restrictions on the free transferability of the Shares

The By-laws do not contain any restriction on the transferability of the Shares. The Shares will be freely transferable pursuant to the Spanish Capital Companies Act, the Securities Market Act and other legislation in force.

Notwithstanding the above, the By-laws establish a series of special obligations concerning the disclosure of Share holdings as well as certain limits on holdings, taking into account the ownership and control restrictions provided for in applicable legislation and ASAs signed by Spain and the UK.

Disclosure obligations

In accordance with the By-laws, shareholders must notify the Issuer of any acquisition or disposal of Shares or of any interest in the Shares that directly or indirectly involves the acquisition or disposal of a stake of more than 0.25 per cent. of the Issuer's share capital, or of the voting rights of the Issuer. The notice must disclose the nationality of the transferor and the transferee as well as the creation of any charges on the Shares (or interests in the Shares) or other encumbrances whatsoever, that affect the exercise of the rights conferred by them.

In addition, pursuant to Article 10 of the By-laws, the Issuer may require any shareholder or any other person with a confirmed or apparent interest in the Shares to disclose to the Issuer in writing such information, including any information that the Issuer deems necessary or appropriate in order to determine whether the nationality of the holders of such Shares or other persons could adversely affect the operating rights of the Issuer or the operating affiliates⁹ and to adopt the measures provided for in the By-laws and in the applicable legislation in order to protect such operating rights.

In the event of the breach of these obligations by a shareholder or any other person with a confirmed or apparent interest in the Shares, the Board of Directors may suspend their shareholder rights including their voting rights. If the Shares with respect to which the above-mentioned obligations have been breached represent at least 0.25 per cent. of the share capital in nominal value, the Board of Directors may also direct that no transfer of any such Shares shall be registered unless:

- (a) the shareholder is not himself in default as regards supplying the information required; and
- (b) the transfer is of part only of the shareholder's holding and when presented for registration is accompanied by a certificate by the shareholder in a form satisfactory to the Board of Directors to the effect that, after due and careful enquiry, the member is satisfied that none of the Shares which are the subject of the transfer is a Share in respect of which holder has not complied with his/her relevant information obligations.

The Issuer shall maintain separately, in addition to the register of shareholders, (i) a register of Shares held by non-EU shareholders; (ii) a register of Shares held by Spanish nationals; and (iii) a register of Shares held by UK nationals (in all cases as defined in the By-laws).

⁹ Iberia, Líneas Aéreas de España, Sociedad Anónima Operadora, IB Opco Holding S.L., British Airways plc and any other operating company which is a subsidiary or a subsidiary undertaking of the Issuer (the "**Operating Affiliates**").

The Board of Directors shall periodically publish the number of Shares registered on the register of non-EU shareholders.

Limitations on ownership of the Shares

If the Board of Directors deems it necessary or appropriate to adopt measures to protect an operating right of the Issuer or of the Operating Affiliates, in light of the nationality of its shareholders or any persons with an interest in the Shares, it may adopt any of the measures provided for such purpose in Article 11 of the By-laws, including the determination of a maximum number of Shares that may be held by any non-EU shareholders, which in no case may be higher than 40 per cent. of the share capital of the Issuer.

When the Board of Directors adopts such a measure, it must communicate the measure adopted to the relevant stock exchanges, the CNMV and the regulatory bodies of the other securities markets in which the Shares are listed, where appropriate, so that such institutions may notify such measure to any investment services firms and credit institutions authorised to provide investment services. Such measures must also be notified to the Spanish Ministry of Development, the CAA and the other competent authorities regarding any operating rights held or enjoyed by the Operating Affiliates.

Such event will also be announced by the Issuer in such manner as is prescribed for the making of announcements under the rules and regulations of the relevant regulators and each stock exchange on which Shares or depositary interests are, at the decision of the Issuer, listed, quoted or dealt in as at the date of making of such resolution.

Once such a measure has been duly disclosed, no acquisitions or transfers of the Shares with or between non-EU persons may take place unless accompanied by a certificate issued by the Board of Directors evidencing that the acquisition or transfer does not exceed its permitted maximum non-EU shareholding.

The Board of Directors may also (i) agree on the suspension of voting and other shareholder rights of the holder of the relevant Shares, and (ii) request that the holder(s) dispose of the relevant Shares so that no non-EU person may directly or indirectly own such Shares or have an interest in the same. If such transfer is not performed on the terms provided for in the By-laws, the Issuer may acquire the relevant Shares (for their subsequent redemption) pursuant to applicable legislation. This acquisition must be performed at the lower of the following prices: (a) the book value of the relevant Shares according to the latest published audited balance sheet of the Issuer; and (b) the middle market quotation for an ordinary Share as derived from the London Stock Exchange's Daily List for the business day on which they were acquired by the relevant non-EU person.

When deciding to which Shares the measures provided for in the preceding paragraph shall be applied, the Board of Directors shall take into consideration the chronological order in which the Shares held by non-EU persons have or ought to have been registered on the relevant Share register, except in circumstances in which the application of this criterion is unfair or there is a possibility, for whatever reason, that the powers of the Board of Directors deriving from Article 11 of the By-laws become illegal or unenforceable, in which case, the Board of Directors shall apply the criterion or criteria it considers appropriate, at its sole discretion.

(h) Pre-emptive rights and increases of share capital

Pursuant to the Spanish Capital Companies Act, only shareholders have pre-emptive rights to subscribe for any new shares issued by the company for cash consideration and/or for any new bonds or other securities (i.e. warrants) convertible into, or carrying rights to subscribe for, shares for a period of at least 15 calendar days from the publication of the notice of the issue of the securities in the Spanish Commercial Registry's Official Gazette. Such pre-emptive rights may be waived under special circumstances by a resolution passed at a General Meeting or by the Board of Directors (where the General Meeting grants to the Board of Directors authorisation to increase the share capital and waive pre-emptive rights), in accordance with Articles 308, 506 and 511 of the Spanish Capital Companies Act (as applicable).

Pre-emptive rights are transferable, may be traded on the Automated Quotation System and may be of value to existing shareholders because new shares may be offered for subscription at prices lower than prevailing market prices.

These pre-emptive rights, in any event, will not be available in respect of an increase in share capital to meet the requirements of a convertible bond issue or a merger in which shares are issued as consideration.

5. Reporting requirements

Pursuant to Royal Decree 1362/2007, any individual or legal entity who, by whatever means, purchases or transfers shares which grant voting rights in a company for which Spain is listed as the Country of Origin (as defined therein) and which is listed on a secondary official market or other regulated market in the EU, must notify the Issuer and the CNMV if, as a result of such transaction, the proportion of voting rights held by that individual or legal entity reaches, exceeds or falls below a three per cent. threshold of the company's total voting rights. The notification obligations are also triggered at thresholds of five per cent. and multiples thereof (excluding 55 per cent., 65 per cent., 85 per cent., 95 per cent. and 100 per cent.).

The individual or legal entity obliged to carry out the notification must serve the notification by means of the standard form approved by the CNMV from time to time, within four business days from the date on which the transaction is acknowledged (the Royal Decree deems a transaction to be acknowledged within two business days from the date on which such transaction is entered into).

The reporting requirements apply not only to the purchase or transfer of shares, but also to those transactions in which, without purchase or transfer, the proportion of voting rights held by an individual or legal entity reaches, exceeds or falls below the threshold that triggers the obligation to report as a consequence of a change in the total number of voting rights of a company on the basis of the information reported to the CNMV by a company and disclosed by it.

Regardless of the actual ownership of the shares, any individual or legal entity with a right to acquire, transfer or exercise voting rights granted by the shares, and any individual or legal entity who owns, acquires or transfers, whether directly or indirectly, other securities or financial instruments which grant a right to acquire shares with voting rights, will also have an obligation to notify the company and the CNMV of the holding of a significant stake in accordance with the regulations.

Should the individual or legal entity effecting the transaction be resident in a tax haven (as defined under Royal Decree 1080/1991), the threshold that triggers the obligation to disclose the acquisition or disposal of the Shares is reduced to one per cent. (and any multiples thereof).

The Issuer will be required to report to the CNMV any acquisition of its own Shares which, when aggregated together with all other acquisitions since the last notification, reaches or exceeds one per cent. of the share capital (irrespective of whether the Issuer has sold any of its own Shares in the same period). In such cases, the notification must include, among other things, the number of Shares acquired since the last notification (detailed by transaction), the number of Shares sold (detailed by transaction) and the resulting net holding of treasury shares.

All members of the Board of Directors must report to both the Issuer and the CNMV the percentage and number of voting rights in the Issuer held by them at the time of becoming or ceasing to be a member of the Board of Directors. Furthermore, all members of the Board of Directors must report any change in the percentage of voting rights they hold, regardless of the amount, as a result of any acquisition or disposal of the Shares, voting rights or financial instruments which carry a right to acquire or dispose of Shares which have voting rights attached, including any share-based compensation that they may receive pursuant to any of the Issuer's remuneration schemes.

Members of the Issuer's senior management must also report any share-based compensation that they may receive pursuant to any of the Issuer's remuneration schemes or any subsequent amendment to such schemes. Royal Decree 1362/2007 refers to the definition provided by Royal Decree 1333/2005 implementing the Securities Market Act, regarding market abuse, which defines directors as those "high-level employees in positions of responsibility with regular access to insider information related, directly or indirectly, to the issuer and that, furthermore, are empowered to adopt management decisions affecting the future development and business perspectives of the issuer".

In addition, pursuant to Royal Decree 1333/2005 (implementing Directive 2004/72/EC), any member of the Issuer's Board of Directors and any of the Issuer's senior management or any parties closely related to any of them, as such terms are used therein, must report to the CNMV any transactions carried out with respect to Shares, derivatives or other financial instruments relating to the Shares within five business days of the transaction. The notification of the transaction must include particulars of the name of the relevant manager or director (or of the person linked with him or her), the reason behind the obligation to notify, the name of the issuer, the description of the financial instrument, the type of transaction, the date of the transaction, the market in which the transactions were carried out, the number of shares traded and the price paid or received.

The Securities Market Act and the Spanish Capital Companies Act require parties to disclose certain types of shareholders' agreements which concern the exercise of voting rights at a general meeting or contain restrictions or conditions on the transferability of shares or bonds that are convertible or exchangeable into shares. If the shareholders enter into such agreements with respect to Shares, they must disclose the execution, amendment or extension of such agreements to the Issuer and the CNMV and file such agreements with the appropriate commercial registry. Failure to comply with these disclosure obligations renders any such shareholders' agreement unenforceable and constitutes a violation of the Securities Market Act.

6. Share buybacks

Pursuant to the Spanish Capital Companies Act, but subject to certain exceptions, an Issuer may only buy back its own Shares within certain limits and in compliance with the following requirements:

- (a) the buyback must be authorised by a shareholders' resolution at a general meeting establishing the parameters of the buy back, the maximum number of Shares to be acquired, the minimum and maximum acquisition price and the duration of the authorisation, which may not exceed five years from the date of the resolution;
- (b) the aggregate nominal value of the Shares repurchased, together with the aggregate nominal value of the Shares already held by the Issuer and its subsidiaries, must not exceed 10 per cent. of the share capital;
- (c) the buyback may not lead to net equity being lower than the share capital plus undistributable reserves; and
- (d) the Shares bought back must be fully paid and must not have "ancillary contributions" attached.

Directive 2003/6/EC on insider dealing and market manipulation established rules to ensure the integrity of EU financial markets and to enhance investor confidence in those markets. Article 8 of the Directive establishes an exemption from the market manipulation rules regarding share buyback programmes by companies on the stock exchange of an EU Member State.

Regulation (EC) No. 2273/2003 (the "**Regulation**") implemented the Directive in respect of exemptions for buyback programmes. Article 3 of the Regulation states that in order to benefit from the exemption provided for in Article 8 of the Directive, a buyback programme must comply with certain requirements established under the Regulation and the sole purpose of the buyback programme must be to reduce the share capital of an issuer (in value or in number of shares) or to meet obligations arising from either:

- (a) debt financial instruments exchangeable into equity instruments; or
- (b) employee share option schemes or other allocations of shares to employees of the issuer or an associated company.

In addition, the CNMV has issued Circular 4/2007 which sets out the requirements to be met by liquidity contracts entered into by issuers with financial institutions for the management of its treasury shares which would constitute acceptable market practice and therefore allow an Issuer to rely on the safe harbour provisions for the purposes of the market abuse regulations.

7. Tender offers

Tender offers are governed in Spain by the Securities Market Act (as amended) 6/2007) and Royal Decree 1066/2007 which implement Directive 2004/25/EC.

Tender offers in Spain may qualify as either mandatory or voluntary offers.

Mandatory public tender offers must be launched in respect of all the shares of the target company and any other securities that might directly or indirectly give the right of subscription thereto or acquisition thereof (including convertible and exchangeable bonds) at an equitable price when any person acquires control of a Spanish company listed on the Spanish Stock Exchanges, whether such control is obtained:

- (a) by means of the acquisition of shares or other securities that directly or indirectly give the right to subscribe for or acquire voting shares in such company;
- (b) through agreements with shareholders or other holders of voting shares; or
- (c) as a result of other situations of equivalent effect as provided in the regulations (i.e., indirect control acquired through mergers, share capital reduction, treasury stock fluctuations or securities exchange or conversion, etc.).

A person is deemed to have obtained the control of a target company, individually or jointly with concert parties, whenever:

- (a) it acquires directly or indirectly a percentage of voting rights equal to or greater than 30 per cent.; or
- (b) it has acquired a percentage of less than 30 per cent. of the voting rights and appoints, in the 24 months following the date of acquisition, a number of directors that, together with those already appointed, if any, represent more than one-half of the members of the target company's board of directors. Regulations also set forth certain situations where directors are deemed to have been appointed by the bidder or persons acting in concert therewith unless evidence to the contrary is provided.

For the purposes of calculating the percentages of voting rights acquired, the regulations establish the following rules:

- (a) percentages of voting rights corresponding to (i) companies belonging to the same group as the bidder; (ii) members of the board of directors of the bidder or of companies in its group; (iii) persons acting in concert with or for the account of the bidder; (iv) voting rights exercised freely and over an extended period by the bidder under proxy granted by the actual holders or owners of such rights, in the absence of specific instructions with respect thereto; and (v) shares held by a nominee, such nominee being treated as a third party whom the bidder totally or partially covers against the risks inherent in acquisitions or transfers of the shares or the possession thereof, will be deemed to be held by the bidder;
- (b) both the voting rights arising from the ownership of shares and those enjoyed under a usufruct, pledge or upon any other title of a contractual nature will be counted towards establishing the number of voting rights held;
- (c) the percentage of voting rights shall (i) be calculated based on the entire number of shares carrying voting rights, even if the exercise of such rights has been suspended; (ii) treasury shares held directly or indirectly by the target company as per the information available on the date of calculation of the percentage of voting rights shall be excluded; (iii) and non-voting shares shall be taken into consideration only when they carry voting rights pursuant to applicable law; and

- (d) acquisitions of securities or other financial instruments giving the right to the subscription, conversion, exchange or the acquisition of shares which carry voting rights will not result in the obligation to launch a tender offer until any such subscription, conversion, exchange or acquisition occurs.

Notwithstanding the above, upon the terms established in the regulations, the CNMV will conditionally waive the obligation to launch a mandatory bid when another person or entity not in concert with the potential bidder directly or indirectly holds an equal or greater percentage of voting rights in the target company.

The price of the mandatory tender offer is deemed equitable when it is at least equal to the highest price paid by the bidder or by any person acting in concert therewith for the same securities during the 12 months prior to the announcement of the tender offer. Other rules to calculate an equitable price are set forth in the regulations. However, the CNMV may change the price so calculated in certain circumstances (because of extraordinary events affecting the price, evidence of market manipulation, etc.).

Mandatory offers must be launched within one month following the acquisition of control of the target company.

Voluntary tender offers may be launched when a mandatory offer is not required. Voluntary offers are subject to the same rules established for mandatory offers except for the following:

- (a) they may be made subject to certain conditions (such as successful amendment to the By-laws, the adoption of certain resolutions by the target company, acceptance of the offer by a minimum number of shareholders, approval of the offer by the general meeting of the bidder, or any others deemed by the CNMV to be in accordance with the law), provided that such conditions can be met before the end of the acceptance period of the offer; and
- (b) they must be launched at an equitable price.

Spanish regulations on tender offers set forth further provisions, including:

- (a) subject to shareholder approval, within 18 months from the date of announcement of the tender offer, the board of directors of a target company will be exempt from the rule prohibiting frustrating action against a foreign bidder whose board of directors is not subject to an equivalent poison pill rule;
- (b) defensive measures included in a listed company's by-laws and transfer and voting restrictions included in agreements among a listed company's shareholders will remain in place whenever the company is the target of a tender offer, unless the shareholders resolve otherwise (in which case any shareholders whose rights are diluted or otherwise adversely affected will be entitled to compensation at the target company's expense); and
- (c) squeeze-out and sell-out rights will apply provided that following a mandatory tender offer (or as a result of a voluntary offer for all the target's share capital) the bidder holds securities representing at least 90 per cent. of the target company's voting rights and the tender offer has been accepted by the holders of securities representing at least 90 per cent. of the voting rights other than those held by the bidder prior to the offer.

TAXATION

SPANISH TAX CONSIDERATIONS

The following summary is made solely in reference to certain Spanish tax consequences relating to the Bonds and Shares. It does not purport to be a complete analysis of all Spanish tax consequences relating to the Bonds and the Shares and does not purport to deal with the Spanish tax consequences applicable to all categories of investors, some of which might be subject to special rules.

Prospective investors should consult their own tax advisers as to the consequences under the tax laws of the country in which they are resident for tax purposes and the tax laws of Spain of acquiring, holding, converting and disposing of Bonds or Shares and receiving any payments under the Bonds or Shares.

This summary is based upon the law as in effect on the date of this Offering Circular and is subject to any change in law that may take effect after such date. References in this section to holders of the Bonds or Shares (the "**Holders**") include the beneficial owners of the Bonds and Shares. As CDIs represent entitlements to underlying non-UK shares, references to Shares should be understood as equivalent to CDIs.

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

- (a) of general application, the Second Additional Provision of Law 13/1985 on investment ratios, own funds and information obligations of financial intermediaries as amended by, among others, (i) Law 19/2003 on legal rules governing foreign financial transactions, capital movements and various money laundering prevention measures; (ii) Law 23/2005 on certain tax measures to promote productivity; (iii) Law 4/2008 which abolishes Net Wealth Tax (as defined therein), provides for a monthly Value Added Tax refund system and introduces other amendments to Spanish tax legislation; (iv) Law 6/2011 which modifies Law 13/1985; (v) Law 24/1988 on the Securities Exchange; (vi) Royal Decree 1298/1986 on the adaptation of the current law concerning financial entities to the law of the EU; and (vii) Royal Decree 1065/2007, as amended by Royal Decree 1145/2011, ("**Royal Decree 1145/2011**");
- (b) for individuals resident for tax purposes in Spain who are subject to the Personal Income Tax ("**PIT**") Law 35/2006, (i) the partial amendment of the Corporate Income Tax Law; (ii) the Non-Residents Income Tax Law; (iii) Royal Decree 439/2007 enacting the PIT Regulations; (iv) Law 19/1991 on Net Wealth Tax, as amended by Law 4/2008 abolishing Net Wealth Tax providing for a monthly Value Added Tax refund system and introducing other amendments to Spanish tax legislation; (v) Royal Decree 13/2011; (vi) Law 16/2012 which re-established, temporarily, the Net Wealth Tax; and (vii) Law 29/1987 on Inheritance and Gift Tax;
- (c) for legal entities resident for tax purposes in Spain which are subject to Corporate Income Tax ("**CIT**"), (i) Royal Decree 4/2004 promulgating the Consolidated Text of the CIT Law; (ii) Royal Decree 1777/2004 promulgating the CIT Regulations; and (iii) Ministry Order dated 22 December 1999; and
- (d) for individuals and entities not resident for tax purposes in Spain who are subject to the Non-Resident Income Tax ("**NRIT**"), (i) Royal Decree 5/2004 promulgating the Consolidated Text

of the NRIT Law; (ii) Law 19/1991 on Net Wealth Tax, as amended by Law 4/2008, which abolishes Net Wealth Tax, provides for a monthly Value Added Tax refund system and introduces other amendments to Spanish legislation; (iii) Royal Decree 13/2011; (iv) Law 16/2012 which re-established temporarily Net Wealth Tax; (v) Royal Decree 1776/2004 promulgating the NRIT Regulations; (vi) Law 29/1987 on Inheritance and Gift Tax; and (vii) Ministry Order dated 13 April 2000.

Certain tax considerations – Bonds

Taxation in Spain depends on the type of Bondholder:

1 Individuals with Tax Residency in Spain

(a) Personal Income Tax

Interest as well as any income derived from the transfer, redemption or conversion of the Bonds received by individuals tax resident in Spain constitutes a return on investment obtained from the transfer of a person's own capital to third parties in accordance with the provisions of Article 25 of PIT Law. Therefore, they will form part of the savings income tax base pursuant to the provisions of PIT and will be subject to the following taxes: (i) income up to €6,000 will be taxed at a flat rate of 21 per cent.; (ii) income between €6,001 and €24,000 will be taxed at a flat rate of 25 per cent.; and (iii) the excess over €24,000 will be subject to a flat rate of 27 per cent. From 1 January 2014 onwards the applicable rates on this type of income are expected to be 19 per cent. for taxable income up to €6,000 and 21 per cent. for any taxable income in excess of €6,000.

(b) Withholding Tax

For Spanish withholding tax purposes, the rules vary depending on how the income is accrued.

No withholding tax will be imposed on interest or income derived from the redemption of the Bonds by investors subject to PIT if the Fiscal Agent complies with the conditions referred to in the section "*Compliance with certain reporting obligations in connection with income payments*" below. Additionally, no withholding tax will be imposed for PIT purposes on income obtained upon conversion of the Bonds into Shares. On the contrary, PIT taxpayers would be subject to withholding tax upon transferring the Bonds on the difference between the transfer price and the acquisition cost of those securities.

Where applicable, the withholding tax rate is currently 21 per cent., but is expected to be 19 per cent. as of 1 January 2014 and will have to be deducted out of the gross interest or income.

Bondholders may credit the withholding tax against their final PIT liability for the relevant fiscal year. Any excess will be refundable.

(c) Net Wealth Tax

Individuals with tax residency in Spain may be subject to Net Wealth Tax depending on the amount of their net wealth and the Autonomous Region where they reside. This tax is levied on the net wealth of an individual's assets and rights to the extent that their overall net wealth exceeds €700,000. Spanish tax resident individuals whose overall net wealth is above €700,000 and who hold Bonds on

the last day of any fiscal year could therefore be subject to Net Wealth Tax for that year at marginal rates varying between 0.2 per cent. and 2.5 per cent.

(d) Inheritance and Gift Tax

Individuals with tax residency in Spain who acquire ownership or other rights over any Bonds by inheritance, gift or legacy may be subject to Spanish Inheritance and Gift Tax in accordance with applicable Spanish regional and State rules. The applicable tax rates may range between 7.65 per cent. and 81.6 per cent., depending on the value of the Bonds, the nature of the relationship between transferor and transferee and the transferee's net wealth before the inheritance, gift or legacy.

2 Legal Entities with Tax Residence in Spain

(a) Corporate Income Tax ("CIT")

In the case of legal entities tax resident in Spain and thus subject to CIT, interest on the Bonds as well as any gains derived from the transfer, redemption or conversion of the Bonds, will be included in their taxable income and will be taxed at the general tax rate of 30 per cent. in accordance with applicable tax law. Special rates may apply in respect of certain types of entities.

(b) Withholding Tax

As mentioned above, for Spanish withholding tax purposes, the rules vary depending on how the income is accrued.

No withholding tax will be imposed on interest or income derived from the redemption of the Bonds by investors subject to CIT if the Fiscal Agent complies with the conditions referred to in the section entitled "*Compliance with certain reporting obligations in connection with income payments*" below. Withholding tax will also not be imposed for CIT purposes on income obtained upon conversion of the Bonds into Shares.

Income derived from the transfer of the Bonds should also not be subject to withholding tax for CIT taxpayers to the extent that the Bonds satisfy the requirements laid down by the Directorate General for Taxes in its ruling dated 27 July 2004. This ruling determined that, in the case of issuances made by entities with tax residency in Spain (as in the case of the Issuer), the Bondholder may benefit from a withholding tax exemption if the Bonds are both placed and traded outside Spain in another OECD country. The Bonds referred to in this Offering Circular are expected to satisfy these requirements.

Where applicable, withholding tax is currently 21 per cent., but is expected to fall to 19 per cent. as of 1 January 2014 and will have to be deducted out of the gross interest or income.

Bondholders may credit the withholding tax against their final CIT liability for the relevant fiscal year. Any excess will be refundable.

(c) Net Wealth Tax

Legal entities are not subject to Net Wealth Tax.

(d) Inheritance and Gift Tax

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 Spanish Inheritance and Gift Tax but must include the market value of the acquired Bonds in their taxable income for Spanish CIT purposes.

3 Individuals and Legal Entities who are not Tax Resident

(a) Non-Resident Income Tax (“NRIT”) – Non-resident investors acting through a permanent establishment in Spain

Non-Spanish tax resident investors acting, with respect to the Bonds, through a permanent establishment in Spain will be subject to NRIT.

Furthermore, 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 are, generally, the same as those previously set out for Spanish CIT taxpayers. See “*Certain Taxation Considerations – Bonds – Legal Entities with Tax Residency in Spain – Corporate Income Tax*”.

(b) Non-Resident Income Tax – Non-resident investors not acting through a permanent establishment in Spain

Any interest or income derived from the Bonds or the transfer, redemption or conversion of the Bonds received by individuals or entities who are not tax residents of Spain and which do not act, with respect to the Bonds, through a permanent establishment in Spain, are exempt from NRIT as, for tax purposes, Law 13/1985 links any interest or income they receive to that derived from Spanish public debt (which is tax exempt in Spain).

(c) Withholding Tax

As discussed above, for Spanish withholding tax purposes, the rules vary depending on how the income is accrued.

No withholding tax will be imposed on interest or income derived from the redemption of the Bonds by investors subject to NRIT if the Fiscal Agent complies with the conditions referred to in the section “*Compliance with certain reporting obligations in connection with income payments*” below. Withholding tax will also not be imposed for NRIT purposes on income obtained upon conversion of the Bonds into Shares. NRIT taxpayers would also not be subject to Spanish withholding taxes on the transfer of the Bonds. As stated above, these securities would be linked to Spanish public debt, which is not subject to withholding tax in Spain.

Where applicable, withholding tax is currently 21 per cent., but expected to fall to 19 per cent. as of 1 January 2014 and will be deducted from gross interest or income.

Bondholders acting through a permanent establishment in Spain may credit the withholding tax against their final NRIT liability for the relevant fiscal year. Bondholders not resident in Spain for tax purposes and not acting through a Spanish permanent establishment and entitled to an exemption from NRIT but who have been subject to Spanish withholding tax, may obtain a refund of the amount withheld.

(d) Net Wealth Tax

Individuals not resident in Spain could also be subject to Net Wealth Tax in Spain. However, individuals resident in Tax Treaty countries are not normally subject to this tax. Spanish non-resident tax individuals are subject to Spanish Net Wealth Tax, which imposes a tax on property and rights in excess of €700,000 that are located in Spain, or can be exercised within the Spanish territory, on the last day of any calendar year. Therefore, non-Spanish tax resident individuals whose net wealth relates to property located or rights that can be exercised in Spain above €700,000 and who hold Bonds on the last day of any year could therefore be subject to Spanish Net Wealth Tax for such year at marginal rates varying between 0.2 per cent. and 2.5 per cent.

Non-resident legal entities are not subject to Net Wealth Tax.

(e) Inheritance and Gift Tax

Individuals not resident in Spain for tax purposes who acquire ownership or other rights over Bonds by inheritance, gift or legacy may be subject to Spanish Inheritance and Gift Tax in accordance with the applicable Spanish rules. Where the individual is tax resident in a country with which Spain has entered into a treaty for the avoidance of double taxation in relation to inheritance tax, the provisions of the relevant treaty would have to be examined.

Non-Spanish tax resident entities which acquire ownership or other rights over Bonds by inheritance, gift or legacy are not subject to Spanish Inheritance and Gift Tax. Such acquisitions will be subject to NRIT (as described above), subject to the provisions of any applicable double taxation treaty entered into by Spain and the investor's country of residence. In general, double taxation treaties provide for the exclusive taxation in respect of this type of income in the country of residence of the beneficiary.

4. Compliance with certain reporting obligations in connection with income payments

Article 44 of Royal Decree 1065/2007 as amended by Royal Decree 1145/2011 sets out the reporting obligations applicable to preference shares and debt instruments (such as the Bonds referred to in this Offering Circular) issued under the Second Additional Provision of Law 13/1985 ("**Law 13/1985**"). The procedures apply to income deriving from preference shares and debt instruments to which Law 13/1985 refers, including debt instruments issued at a discount for a period equal to, or less than, 12 months.

The procedures described in this section for the provision of information required by Spanish law and regulation is a summary only and is subject to further clarification from the Spanish tax authorities regarding such laws and regulations. Neither the Issuer nor the Joint Lead Managers assume any responsibility for the contents thereof. In this respect, please see "*Annex I – Form of payment statement to be delivered by the Fiscal Agent*".

According to Article 44.5 of Royal Decree 1065/2007 as amended by Royal Decree 1145/2011, income derived from securities originally registered with entities that manage clearing systems located outside of Spain that are recognised by Spanish law or by the law of another OECD country (including DTC, Euroclear or Clearstream) will be paid free from Spanish withholding tax, provided that the Fiscal Agent submits a statement to the Issuer which includes the following information:-

- (i) identification of the Bonds and the relevant payment date;

- (ii) total amount of income to be paid on the relevant payment date; and
- (iii) total amount of income corresponding to each clearing house located outside of Spain.

In accordance with Article 44 of Royal Decree 1065/2007 as amended by Royal Decree 1145/2011, the Fiscal Agent should provide the Issuer with the statement on the business day immediately prior to each payment date. The statement must reflect the situation at the close of business on that same day. If, on that date, the Fiscal Agent fails to provide the statement to the Issuer, the Issuer or the Fiscal Agent on its behalf will be obliged to make a withholding at the general rate (currently 21 per cent., but expected to be 19 per cent. as of 1 January 2014) on the total amount of income otherwise payable on the relevant Bonds on the relevant payment date. 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 9 of the Terms and 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 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.

The Issuer, and the financial entities resident in Spain acting as depositaries of the Bonds, will be obliged to report to the Spanish tax authorities the identity of Bondholders who are resident in Spain for tax purposes or non-Spanish-resident Bondholders acting, with respect to the Bonds, through a permanent establishment in Spain. As at the date of this Offering Circular, the Issuer is in discussions with a Tax Certification Agent to establish a procedure for the disclosure of information regarding such Bondholders. Such information will be provided, if necessary, to the Spanish tax authorities by the Issuer.

Certain tax considerations – Shares

1 Individuals with Tax Residence in Spain

(a) *Personal Income Tax*

Dividends

Once the Bonds are converted into Shares, dividends earned by Spanish tax resident individuals from these Shares will form part of their savings income tax base pursuant to the provisions of PIT Law. The savings income tax base will be subject to the following tax rates: (i) income up to €6,000 will be taxed at a flat rate of 21 per cent.; (ii) income between €6,001 and €24,000 will be taxed at a flat rate of 25 per cent.; and (iii) the excess over €24,000 will be subject to a flat rate of 27 per cent. From 1 January 2014 onwards the applicable rates on this type of income are expected to be 19 per cent. for taxable income up to €6,000 and 21 per cent. for any taxable income in excess of €6,000.

However, the first €1,500 of any dividends received annually by an individual deriving from the Shares will be exempt from PIT, save if the Shares are acquired within the two-month period preceding the distribution date if within the two-month period following that date the relevant holder transfers the same securities.

Capital gains

Upon the disposal of the Shares, Spanish tax resident individuals will realise a capital gain or loss of an amount equal to the difference between the transfer value and the acquisition value of their Shares calculated in accordance with the provisions set out in PIT Law. Costs and expenses effectively incurred on the acquisition and/or disposal of the Shares may be taken into account for this calculation, provided that they can be duly evidenced.

Capital gains arising from the transfer of Shares that have been held by Spanish tax resident individuals for more than one year shall be included in the savings taxable base relating to the period in which the transfer takes place and any gain resulting from such compensation will be subject to the following tax rates: (i) a flat rate of 21 per cent. on the first €6,000; (ii) 25 per cent. on income between €6,001 and €24,000; and (iii) 27 per cent. on any amount in excess of €24,000 regardless of when the gain arose. From 1 January 2014 onwards, the applicable rates on this type of income are expected to be 19 per cent. for taxable gains up to €6,000 and 21 per cent. for any taxable gains in excess of €6,000. Capital gains arising from the transfer of Shares that have been held by Spanish tax resident individuals for one year or less shall be included in the general taxable base and subject to the standard progressive rates, ranging up to 56 per cent., depending on the Autonomous Region of residence of the taxpayer.

Capital losses resulting from the disposal of Shares, when other Shares are acquired within the two months preceding or following their disposal, will not be considered for tax purposes until the Shares are transferred.

Withholding taxes on dividends and transfers derived from Shares

Under Spanish law, dividends on Shares held by Spanish tax resident individuals are subject to withholding tax at the source on the gross amount payable, currently at a tax rate of 21 per cent. Note, however, that for these purposes, the above-mentioned €1,500 exemption for individuals will not be taken into account.

Amounts withheld may be credited against the final holder's PIT liability. If the amount of tax withheld is greater than the amount of net PIT payable, the taxpayer will be entitled to a refund of the excess in accordance with PIT Law.

Capital gains deriving from Shares will not be subject to withholding tax in Spain.

(b) Net Wealth Tax

Individuals with tax residency in Spain may be subject to Net Wealth Tax depending on the level of their net wealth and the Autonomous Region in which they reside. This tax is levied on the net wealth of an individual's assets and rights to the extent that their net wealth, in aggregate, exceeds €700,000. Hence, Spanish tax resident individuals whose net worth is above €700,000 and who hold Shares on the last day of any year could therefore be subject to Net Wealth Tax for such year at marginal rates varying between 0.2 per cent. and 2.5 per cent. of the value of the Shares.

(c) Inheritance and Gift Tax

Individuals with tax residency in Spain who acquire ownership or other rights over any Shares by inheritance, gift or legacy may be subject to Spanish Inheritance and Gift Tax in accordance with applicable Spanish regional and State rules. The applicable tax rates range between 7.65 per cent. and 81.6 per cent., depending on the value of the Shares, the nature of the relationship between transferor and transferee and the transferee's net wealth before the inheritance, gift or legacy.

2 Legal Entities with Tax Residence in Spain

(a) Corporate Income Tax

Dividends

Dividends from Shares obtained by legal entities which are resident for tax purposes in Spain, less any expenses incurred by holding the Shares, will be included in the CIT taxable base income. The general CIT rate is currently 30 per cent. Special rates may apply in respect of certain types of entity.

CIT taxpaying entities will be entitled to a tax credit of 50 per cent. of the gross tax due which corresponds to the taxable income derived from the relevant dividends. The taxable income derived from dividends will be the gross amount thereof. The tax credit will be 100 per cent. of the gross tax due which corresponds to the taxable income derived from the relevant dividends when they hold, directly or indirectly, an interest of at least 5 per cent. (which may be reduced to 3 per cent. under certain conditions) of the Issuer for at least one-year by the time of the relevant distribution date or they commit to hold the Shares for at least one-year.

These tax credits will not apply if dividends correspond to Shares acquired within the two month period prior to the distribution date if, within the two-month period following such date, the Holder transfers the same Shares.

Capital gains

Spanish tax resident legal entities will realise a capital gain or loss of an amount equal to the difference between the transfer value and the acquisition value of the transferred Shares. Capital gains will be included in the CIT taxable base and subject to CIT at a rate of approximately 30 per cent. Holders of at least 5 per cent. of the share capital of the Issuer for one year or more without interruption will be entitled to a tax credit generally equal to 30 per cent. thereafter of the retained earnings of the Issuer which correspond to their participation and which have been accumulated during their holding period, to the extent that such retained earnings have effectively been taxed at the level of the Issuer. Alternatively (or as far as the excess which has not benefited from the above-mentioned tax credit is concerned), holders of at least 5 per cent. of the share capital of the Issuer may benefit from a reinvestment tax credit of, generally, 12 per cent., if certain conditions are met.

Withholding taxes on dividends and transfers derived from Shares

Under Spanish law, dividends derived from Shares held by Spanish tax resident entities are subject to withholding tax at the source on the gross amount of the dividend, currently at a rate of 21 per cent. However, no withholding tax will generally apply on dividends payable to a CIT taxpayer who is entitled to the 100 per cent. tax credit mentioned above. Amounts withheld may be credited against the final Holder's CIT liability. If the amount of tax withheld is greater than the amount of the net CIT payable, the taxpayer will be entitled to a refund of the excess in accordance with CIT Law.

Capital gains deriving from Shares will not be subject to withholding tax in Spain.

(b) Net Wealth Tax

Legal entities are not subject to Net Wealth Tax.

(c) Inheritance and Gift Tax

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

3 Individuals and Legal Entities with no Tax Residence in Spain

(a) ***Non-Resident Income Tax – Non-resident investors acting through a permanent establishment in Spain***

Income derived from Shares by non-resident individuals and legal entities who hold the Shares through a permanent establishment in Spain will be subject to NRIT, in accordance with the applicable rules set out in the relevant law and regulations which, in general terms, are the same as those applicable to CIT payers.

If the Shares form part of the assets of a permanent establishment in Spain of a person or legal entity who is not resident in Spain for tax purposes, the tax rules applicable to income deriving from such Shares are generally the same as those previously set out for Spanish CIT taxpayers. See "*Certain Tax Considerations - Shares – Legal Entities with Tax Residence in Spain – Corporate Income Tax*".

(b) ***Non-Resident Income Tax – Non-resident investors not acting through a permanent establishment in Spain***

Dividends and withholding taxes

Where the recipient of the dividend is, on the other hand, a non-Spanish tax resident not acting, with respect to the Shares, through a permanent establishment in Spain, the dividend is subject to NRIT, withheld at the source on the gross amount, currently at a tax rate of 21 per cent. From 1 January 2014 onwards the applicable rate on this type of income is expected to be 19 per cent.

However, the first €1,500 of any dividends received annually by individual Holders who are not acting through a tax haven (as defined by Royal Decree 1080/1991 (as amended) and who are resident for tax purposes (i) in an EU Member State or (ii) in a territory or country that has entered into an agreement with Spain that includes an effective exchange of fiscal information clause, will be tax exempt. However, NRIT will be withheld by the Issuer without taking into account this €1,500 exemption and Holders will have to seek a refund of such withholding taxes from Spanish tax authorities by following the ordinary Spanish refund procedure described below.

In addition, Holders resident in countries that have entered into a double taxation treaty with Spain (a "**Tax Treaty**") may benefit from a lower tax rate or exemption, if any, specified in the Treaty for this class of income, subject to due accreditation of tax residence in the manner established in prevailing laws and regulations.

To this end, there is currently a special procedure, approved by Order of the Spanish Ministry of Economy and Finance dated 13 April 2000, for withholding from non-resident shareholders at the applicable rate or for waiving the withholding, if the payment process involves financial entities domiciled, resident or represented in Spain that are custodians or manage the collection of the income on those securities.

In accordance with these rules, at the time the dividend is distributed, the Issuer will withhold 21 per cent. (expected to be 19 per cent. as of 1 January 2014) and transfer the net amount to the custodians. The custodians who, in turn, demonstrate in the required manner their

customers' entitlement to the application of lower rates or to exemption from withholding (for which purpose the customers must provide the custodian, before the 10th day of the month following the month of distribution of the dividend, a certificate of tax residence issued by the competent tax authority of their country of residence, which will be valid for one year from the issue date, with an express indication, if applicable, that the shareholder is a resident within the meaning of the applicable Tax Treaty; or, in those cases in which a tax limit applies under the Tax Treaty that is implemented via an order establishing the use of a specific form, the said form instead of the certificate), will immediately receive the surplus amount withheld for payment to their customers.

If an exemption applies or, by virtue of a Tax Treaty, the withholding rate is less than the domestic rate and the shareholder was not able to demonstrate the right to taxation at a reduced rate or an exemption from withholding within the term set out in the above paragraph, the shareholder may apply to the tax authority for a refund of the surplus withholding subject to the procedure and using the form provided for in the Ministerial Order dated 17 December 2010.

Once the NRIT withholding has been made or the certification of an exemption acknowledged, non-resident shareholders will not be obliged to file an NRIT return in Spain.

Capital gains

In the case of non-residents without a permanent establishment in Spanish territory, the capital gain or loss will be calculated as the difference between the transfer value and the acquisition value of their Shares calculated in accordance with the provisions set out in PIT Law. Capital gains and losses will be calculated separately for each transaction. Generally, it is not possible to offset capital losses against capital gains.

Capital gains derived from the transfer of Shares are taxable in Spain at the rate of 21 per cent. From 1 January 2014 onwards the applicable rate on this type of income is expected to be 19 per cent.

However, Spanish tax law provides a domestic exemption for capital gains realised upon the transfer of securities which are listed in a Spanish official secondary market, such as the Shares, for residents in countries with which Spain has signed a Tax Treaty containing an "exchange of information" clause (currently all Tax Treaties entered into by Spain contain such an "exchange of information" clause), as long as they do not hold the relevant securities either through a permanent establishment in Spain or through a tax haven (as defined under Spanish law).

In addition, there are other exemptions on capital gains available for holders of Shares who are resident (i) in Tax Treaty countries, where capital gains will not normally be taxed in Spain pursuant to the provisions of such Tax Treaties, or (ii) in a Member State (other than Spain), if certain conditions are met.

Capital gains deriving from the Shares will not be subject to withholding tax in Spain. The Holder must file with the Spanish tax authorities a "210 Form" together with a certificate of tax residence (or such other document or form required by the relevant Tax Treaty) from such Holder's local tax authority stating that the Holder is a resident of the Tax Treaty

jurisdiction within the meaning of the relevant Tax Treaty. Under Spanish law, a certificate of residence is generally valid for one year after issue.

(c) Net Wealth Tax

Individuals not resident in Spain could also be subject to Net Wealth Tax in Spain. However, individuals resident in Tax Treaty countries would not normally be subject to this tax. Spanish non-resident tax individuals who are not resident in a country with which Spain has a Tax Treaty, are subject to Net Wealth Tax, which imposes a tax on property and rights in excess of €700,000 that are located in Spain or can be exercised within Spanish territory, on the last day of any year with marginal rates varying between 0.2 per cent. and 2.5 per cent.

Non-resident legal entities are not subject to Net Wealth Tax.

(d) Inheritance and Gift Tax

Individuals not resident in Spain for tax purposes who acquire ownership or other rights over Shares by inheritance, gift or legacy, may be subject to Spanish Inheritance and Gift Tax in accordance with applicable Spanish rules. Where the individual is tax resident in a country with which Spain has entered into a Tax Treaty including provisions relating to inheritance tax, these provisions would have to be examined.

Non-Spanish tax resident entities who acquire ownership or other rights over Shares by inheritance, gift or legacy are not subject to Spanish Inheritance and Gift Tax. Such acquisitions will be subject to NRIT (as described above), subject to the provisions of any applicable Tax Treaty. In general, treaties for the avoidance of double taxation provide for exclusive taxation of this type of income in the country of residence of the beneficiary.

4. Indirect taxation

Whatever the nature and residence of the Holder, the acquisition and transfer of Bonds and Shares will be exempt from indirect taxes in Spain, i.e. exempt from Transfer Tax and Stamp Duty, in accordance with Royal Decree 1/1993, and exempt from Value Added Tax, in accordance with Law 37/1992.

5. EU Savings Directive

Under Directive 2003/48/EC on the taxation of savings income (the “**Directive**”), each Member State is required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to, or collected by a person for, an individual resident, or certain limited types of entity established, in that other Member State. However, for a transitional period, certain Member States are instead required to apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent., unless during such period they elect otherwise. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. A number of non-EU countries and territories have agreed to adopt similar measures (either provision of information or transitional withholding). The European Commission has proposed certain amendments to the Directive which may, if implemented, amend or broaden the scope of the requirements described above.

6. Other reporting obligations

Under the Eighteenth Additional Provision of the General Tax Law and Article 42 of Royal Decree 1065/2007, investors liable to Spanish tax 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 carried 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.

On a literal interpretation of these rules, holders of Bonds or Shares deposited or situated out of Spain, who are liable to Spanish tax, may be obliged to file this form if the €50,000 threshold is exceeded. However, the obligation is unclear at the time of this Offering Circular for those Bondholders who have been reported under the procedure described in the last paragraph of section “*Compliance with certain reporting obligations in connection with income payments*” above. Future guidance could be provided by the Spanish tax authorities clarifying this obligation.

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

Annex I

FORM OF PAYMENT STATEMENT TO BE DELIVERED BY THE FISCAL AGENT

(English translation provided for information purposes only)

Don (nombre), con número de identificación fiscal (1) (...), en nombre y representación de (entidad declarante), con número de identificación fiscal (1) (...) y domicilio en (...) en calidad de Agente de Pago designado por el Emisor:

Mr. (name), with tax identification number (1) (...), in the name and on behalf of (declaring entity), with tax identification number (1) (...), with domicile in (address) acting in its capacity as Fiscal Agent appointed by the Issuer,

Formula la siguiente declaración, de acuerdo con lo que consta en sus propios registros:

Files the following statement, in accordance with the information set forth in its own registers:

- **Identificación de los valores**
- Identification of the securities
- **Fecha de pago de los rendimientos (o de reembolso si son valores emitidos al descuento o segregados)**
- Date on which payment will be made (or reimbursement date in the case of securities issued at a discount or segregated securities)
- **Importe total de los rendimientos (o importe total a reembolsar si son valores emitidos al descuento o segregados)**
- Total amount of payment (or total amount to be reimbursed, if, in the case of securities issued at a discount or segregated securities)
- **Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero A**
- Amount of payment corresponding to clearing and settlement entity "A" ¹⁰ located outside Spain
- **Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero B**

¹⁰ References to A, B and C, respectively, shall be replaced by the complete denomination of the relevant foreign clearing and settlement entity (such as Euroclear and Clearstream, Luxembourg).

- Amount of payment corresponding to clearing and settlement entity “B” located outside Spain
- **Importe correspondiente a la entidad que gestiona el sistema de compensación y liquidación de valores con sede en el extranjero C**
- Amount of payment corresponding to clearing and settlement entity “C” located outside Spain

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I declare the above in [location] on the [day] of [month] of [year].

(1) En caso de personas, físicas o jurídicas, no residentes sin establecimiento permanente se hará constar el número o código de identificación que corresponda de conformidad con su país de residencia.

(1) In the case of individuals or corporations that are not resident in Spain and do not act through a permanent establishment in Spain, please include the identification number or code that corresponds in accordance with the laws of their country of residence.

¹¹ To be completed as appropriate if the relevant payment of income is made through more than three different clearing and settlement entities located outside Spain.

SUBSCRIPTION AND SALE

Barclays Bank PLC, Deutsche Bank AG, London Branch, Morgan Stanley & Co International plc, Banco Santander, S.A. and UBS Limited (together, the “**Joint Lead Managers**”) have entered into a subscription agreement dated 14 May 2013 with the Issuer (the “**Subscription Agreement**”). Upon the terms and subject to the conditions contained therein, the Joint Lead Managers have severally agreed to subscribe or procure subscribers for the aggregate principal amount of the Bonds at the issue price of 100 per cent. of their principal amount (the “**Issue Price**”).

The Subscription Agreement may be terminated in certain circumstances prior to the issue of the Bonds.

The Issuer has also agreed to reimburse the Joint Lead Managers for certain of their expenses incurred in connection with the management of the issue of the Bonds. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Bonds.

The Issuer has undertaken that during the period commencing on the date of the Subscription Agreement and ending 90 days thereafter (both dates inclusive), that it will not, and the Issuer has undertaken to procure that none of its subsidiaries will, without the prior written consent of the Joint Lead Managers, (i) directly or indirectly, issue, offer, pledge, sell, contract to issue or sell any option or contract to purchase, purchase any option or contract to issue or sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, any Ordinary Shares or Relevant Securities or any securities convertible into or exercisable or exchangeable for Ordinary Shares or Relevant Securities or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, any of the economic consequences of ownership of Ordinary Shares or Relevant Securities, whether any such swap or transaction described in paragraph (i) or (ii) above is to be settled by delivery of Ordinary Shares or Relevant Securities or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (a) the issue of the Bonds or (b) any Ordinary Shares issued pursuant to the conversion of the Bonds or (c) the issue of Ordinary Shares pursuant to any options, warrants or other rights existing on the date of the Subscription Agreement and described in this Offering Circular or (d) the issue of Ordinary Shares pursuant to any employee share schemes existing on the date of the Subscription Agreement and described in this Offering Circular or (e) the issue of any Ordinary Shares pursuant to the terms of the £350,000,000 5.80 per cent. Convertible Bonds due 2014 issued by British Airways Plc on 13 August 2009. For the purposes of this paragraph “**Relevant Securities**” shall include any participation certificates and any depositary or other receipt, instrument, rights or entitlement representing Ordinary Shares.

The Joint Lead Managers and their respective affiliates have, in the past, performed investment banking and advisory services for the Issuer and the Group for which they have received customary fees and expenses. The Joint Lead Managers and their respective affiliates may, from time to time, engage in further transactions with, and perform services for, the Issuer and the Group in the ordinary course of their respective businesses.

Purchase of Bonds

The Bonds are a new issue of securities with no established trading market. Accordingly, the Issuer cannot assure investors of the liquidity of the trading market for the Bonds.

Purchasers who purchase Bonds may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the Issue Price.

In connection with the offering of the Bonds, each Joint Lead Manager and/or its affiliates may act as an investor for its own account and may take up Bonds in the offering and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Issuer or related investments and may offer or sell such securities or other investments otherwise than in connection with the offering. Accordingly, references herein to the Bonds being offered should be read as including any offering of Bonds to the Joint Lead Managers and/or their affiliates acting in such capacity. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

United States

The Bonds and the Ordinary Shares have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Joint Lead Manager represents that it has not offered and sold the Bonds, and agrees that it will not offer or sell any Bonds constituting part of its allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act. Accordingly, neither it, its affiliates, nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts in the United States with respect to the Bonds and the Ordinary Shares to be issued or delivered on conversion of the Bonds.

Terms used in this paragraph have the meanings given to them by Regulation S.

United Kingdom

Each Joint Lead Manager has represented, warranted and agreed that:

- (a) it has only communicated or caused to be communicated, and will only communicate or cause to be communicated, any 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
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Bonds in, from or otherwise involving the UK.

Spain

Each Joint Lead Manager has represented and agreed the Bonds may not be offered or sold in Spain by means of a public offer as defined and construed in Chapter I of Title III of the Spanish Securities Market Act of 28 July 1998 (Ley 24/1998, de 28 de Julio, del Mercado de Valores) and Royal Decree 1310/2005 of 4 November 2005 (Real Decreto 1310/2005, de 4 de noviembre), each, as amended and restated. The Offering Circular has not been registered with the Spanish Stock Exchange Commission and is not therefore intended to be used for any public offer of Bonds in Spain.

Switzerland

Each Joint Lead Manager represents that the Bonds may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither the Offering Circular nor any other offering or marketing material relating to the Bonds constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland and neither the Offering Circular nor any other offering or marketing material relating to the Bonds may be publicly distributed or otherwise made publicly available in Switzerland.

General

No action has been or will be taken in any jurisdiction by the Joint Lead 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 Offering Circular or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required. Each Joint Lead Manager has represented, warranted and agreed that the Bonds have not been and will not be offered, sold or publicly promoted or advertised by it in any other jurisdiction in which offers or sales would (to the best of its knowledge and belief) be prohibited by applicable law.

GENERAL INFORMATION

1. Listing

Application has been made to the UKLA for the Bonds to be admitted to the Official List and to the London Stock Exchange for the Bonds to be admitted to trading on the Professional Securities Market. It is expected that admission of the Bonds to the Official List of the UKLA and admission to trading of the Bonds on the Professional Securities Market of the London Stock Exchange will be granted on or around 31 May 2013. It is expected that dealings in the Bonds will commence on 3 June 2013.

The Issuer has undertaken to apply to have the Ordinary Shares issuable upon conversion of the Bonds admitted to the Official List of the UKLA and admitted to trading on the London Stock Exchange's Regulated Market and admitted to trading on the Spanish Stock Exchanges.

2. Authorisation

The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds. The creation and issue of the Bonds has been authorised by a resolution of the Board of Directors of the Issuer dated 9 May 2013.

At a general meeting of the Issuer held on 21 June 2012, the Directors were authorised to allot relevant securities convertible into ordinary shares with an aggregate nominal amount of up to €1,000,000,000.

3. Expenses

The Issuer estimates that the amount of expenses related to the admission to trading of the Bonds will be approximately £10,695.

4. Clearing

The Bonds have been accepted for clearance through the Clearstream, Luxembourg and Euroclear systems. The Common Code for the Bonds is 093355695. The International Securities Identification Number for the Bonds is XS0933556952. The address of Euroclear is 1 Boulevard du Roi Albert I, Brussels B-1210, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855, Luxembourg.

5. Yield

The yield to maturity of the Bonds is 1.75 per cent. per annum, payable semi-annually in equal instalments in arrear. The yield is calculated as at the Closing Date and on the basis of the Issue Price. It is not an indication of future yield.

6. Financial and Trading Position

There has been no material adverse change in the prospects of the Issuer or of the Issuer and its subsidiaries taken as a whole since 31 December 2012.

There has been no significant change in the financial or trading position of the Issuer or of the Issuer and its subsidiaries taken as a whole since 31 March 2013.

7. Financial Information

The consolidated financial statements of the Issuer have been audited without qualification as at and for the years ended 31 December 2011 and 31 December 2012 by Ernst & Young SL, who are registered at the Registro Oficial de Auditores de Cuentas de Espana (with registration number SO530) to carry out audit work.

8. Principal Objects

The Issuer's By-laws provide that the Issuer's corporate purpose comprises, among other things: (i) the management and administration of the securities representing the equity of resident and non-resident entities in the territory of Spain by the relevant organisation of material and human resources, (ii) the operation of services for the transportation by air of passengers, cargo of any kind whatsoever and mail, (iii) the operation of aircraft, passenger, cargo and mail technical, operational and commercial handling services, (iv) the operation of technological assistance and consultancy services relating to aeronautics, airports and air transportation and (v) other ancillary services related to the operation of an airline company.

The By-laws of the Issuer expressly establish that the activities comprising the corporate purpose of the Issuer may be pursued in Spain, the UK and elsewhere in the world, and may be pursued directly, in whole or in part, by the Issuer or indirectly through the holding of shares or interests in companies or other legal entities, whether incorporated in Spain or in any other jurisdiction, with an identical or similar purpose. In particular, the Issuer shall pursue its activities through the holding, directly or indirectly, of shares in the airlines Iberia and BA.

A copy of the By-laws of the Issuer is fully accessible at the webpage of the Issuer (<http://www.es.iairgroup.com/phoenix.zhtml?c=240950&p=irol-govreg>) and they may also be obtained from the Spanish Madrid Mercantile Register.

9. Third Party Information

Where information in this Offering Circular has been sourced from third parties, this information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of the third party information has been identified where used.

10. Material Contracts

The following contracts directly concerning the issue of the Bonds will, shortly after the date of this Offering Circular, be, or have already been, entered into by the Issuer and are, or may be, material to the Issuer's ability to meet its obligation to Bondholders in respect of the Bonds:

- (1) the Fiscal Agency Agreement to be dated 31 May 2013 between the Issuer, Deutsche Bank AG, London Branch and others setting out, *inter alia*, the terms of appointment and duties of Deutsche Bank AG, London Branch in its capacity as Principal Paying, Transfer and

Conversion Agent and under which such fees in respect of the services of the agents as shall be agreed between them and the Issuer are to be paid; and

- (2) the Subscription Agreement dated 14 May 2013 between the Issuer and the Joint Lead Managers, under which the Joint Lead Managers have agreed to subscribe for the aggregate principal amount of the Bonds at the issue price of 100 per cent. of their principal amount.

11. Documents on Display

Copies of the following documents may be inspected during normal business hours at the offices of the Principal Paying, Transfer and Conversion Agent (currently at 1 Great Winchester Street, London EC2N 2DB, UK) during the 12 months starting on the date on which this Offering Circular is made available to the public:

- (a) the By-laws of the Issuer;
- (b) the audited consolidated annual financial statements of the Issuer as at and for the years ended 31 December 2011 and 31 December 2012, together, in each case, with the audit report thereon, and the unaudited financial results of the Issuer for the three months ended 31 March 2013; and
- (c) the Fiscal Agency Agreement.

In addition, this Offering Circular is also available at the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com.

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