

RELEVANT FACT



Agreement for the acquisition of Air Europa for €1 billion

International Consolidated Airlines Group ("IAG") and Globalia ("Globalia") are pleased to announce that definitive transaction agreements have been signed under which IAG's wholly owned subsidiary, IB OPCO Holding S.L. ("Iberia"), has agreed to acquire the entire issued share capital of Air Europa ("Air Europa") for €1 billion to be satisfied in cash at Completion (the "Acquisition") and subject to a closing accounts adjustment.

Highlights

- Transforms IAG's Madrid hub into a true rival to Europe's four largest hubs: Amsterdam, Frankfurt, London Heathrow and Paris Charles De Gaulle.
- Re-establishes IAG as a leader in the highly attractive Europe to Latin America and Caribbean market.
- Offers significant synergy potential in terms of cost and revenue.
- EPS accretive in the first full year and accretive to IAG's return on invested capital by the fourth year after Completion.
- Completion is expected to take place in H2 2020 following receipt of relevant approvals.

Commenting on today's announcement, Willie Walsh, Chief Executive of IAG, said:

"Acquiring Air Europa would add a new competitive, cost effective airline to IAG, consolidating Madrid as a leading European hub and resulting in IAG achieving South Atlantic leadership, therefore generating additional financial value for our shareholders."

IAG has a strong track record of successful acquisitions, most recently with the acquisition of Aer Lingus in 2015 and we are convinced Air Europa presents a strong strategic fit for the group."

Javier Hidalgo, Chief Executive of Globalia, said:

"For Globalia, the incorporation of Air Europa to IAG implies the strengthening of the company's present and future that will maintain the path followed by Air Europa in the last years. We are convinced that the incorporation of Air Europa to a group such as IAG, who over all these years has demonstrated its support to the development of airlines within the group and the Madrid hub, will be a success"

Luis Gallego, Chief Executive of Iberia, said:

"This is of strategic importance for the Madrid hub, which in recent years has lagged behind other European hubs. Following this agreement, Madrid will be able to compete with other European hubs on equal terms with a better position on Europe to Latin America routes and the possibility to become a gateway between Asia and Latin America."

Strategic rationale

Air Europa is one of the leading private airlines in Spain, operating scheduled domestic and international flights to 69 destinations, including European and long-haul routes to Latin America, the United States of America, the Caribbean and North Africa. In 2018, Air Europa generated revenue of €2.1 billion and an operating profit of €100 million. It carried 11.8 million passengers in 2018 and ended the year with a fleet of 66 aircraft.

The Board of IAG believes that the transaction would:

- Increase the importance of IAG's Madrid hub, transforming it into a true rival to Europe's big four hubs: Amsterdam, Frankfurt, London Heathrow and Paris Charles De Gaulle;
- Unlock further network growth opportunities and re-establish IAG's South Atlantic leadership; and
- Result in significant customer benefits through providing increased choice and schedule flexibility and greater opportunities to earn and redeem miles.

The Air Europa brand will initially be retained and the company will remain as a standalone profit centre within Iberia run by Iberia CEO Luis Gallego. The managements of IAG and Iberia anticipate opportunities to unlock value through the Acquisition across three key areas:

- Integrating Air Europa into the existing Iberia hub structure at Madrid;
- Creating commercial links between Air Europa and other IAG operating companies, in addition to inclusion into IAG's joint businesses;
- Integrating Air Europa onto the IAG platform of common services.

Synergies and financial impact

The Acquisition is expected to generate cost synergies across selling, general and administrative expenses, procurement, handling and distribution costs with full run-rate synergies to be achieved by 2025. IAG expects implementation costs to be phased over the same period.

In addition, the Acquisition is expected to generate significant revenue synergies by 2025, including:

- Adding reciprocal intra-group codeshares across all connecting gateways;
- Adjusting timings to maximise connectivity through the Madrid hub;
- Aligning commercial policies and integrating sales forces in home markets;
- Integrating Air Europa into existing IAG joint businesses; and
- Integrating Air Europa into the Avios currency for loyalty.

The Acquisition is expected to be earnings accretive in the first full year following Completion and accretive to IAG's return on invested capital within four years after Completion.

Financing and expected timetable

The Acquisition will be funded by external debt. After Completion, IAG's net debt to EBITDA is expected to be 0.3 times higher as a result of the Acquisition compared to 1.2 times last reported at the end of Q3 2019.

Assuming satisfaction of all conditions to the Acquisition, Completion is expected to take place in 2H 2020.

IAG has agreed to pay Air Europa a break fee of €40 million in the event that the transaction fails to receive the necessary regulatory approvals and either party elects to terminate the transaction agreement.

The Acquisition constitutes a Class 2 transaction for the purposes of the UK Financial Conduct Authority's Listing Rules and, as such, does not require IAG's shareholders' approval. The gross assets of Air Europa at 31 December 2018 were €901 million. The pre-tax profits attributable to Air Europa for the year ended 31 December 2018 were €67 million.

Steve Gunning
Chief Financial Officer

4 November 2019

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This announcement contains inside information and is disclosed in accordance with the company's obligations under the Market Abuse Regulation (EU) No 596/2014.

Analyst and investor presentation

A conference call for analysts and investors will be held today, 4 November 2019, at 7:30am UK time (8:30am CET). An audio webcast of the presentation will be broadcast on the Investors and shareholders section of our website (<http://www.iairgroup.com>).

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