

**REPORT BY THE BOARD OF DIRECTORS OF INTERNATIONAL  
CONSOLIDATED AIRLINES GROUP, S.A. REGARDING THE PROPOSED  
REDUCTION IN SHARE CAPITAL BY MEANS OF THE CANCELLATION OF OWN  
SHARES REFERRED TO IN ITEM ELEVEN ON THE AGENDA FOR THE 2017  
ANNUAL SHAREHOLDERS' MEETING**

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The Board of Directors of International Consolidated Airlines Group, S.A. (the “**Company**”) issues this report on the proposed capital reduction that is submitted to the Shareholders’ Meeting for approval under item eleven on the agenda.

Pursuant to the Companies Law, any proposal to reduce capital, as it involves amending the By-Laws, requires an explanatory report from the Board of Directors in order to be approved.

## **1. Introduction**

In this section, and in compliance with articles 286 and 318 of the Companies Law, the Board explains and justifies in detail, for the purposes of the applicable legislation, the proposed reduction in share capital by means of the cancellation of shares acquired in the manner indicated below, which is submitted to the Shareholders’ Meeting for approval under item eleven on the agenda.

The shares subject to the proposed capital reduction will be acquired by the Company through a share buy-back programme announced on March 6, 2017 in accordance with the resolution adopted by the Board of Directors at its meeting on February 23, 2017 (the “**Buy-back Programme**”).

In this respect, the own shares will be acquired subject to such terms as to price and volume as are established in article 5 of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and in Commission Delegated Regulation (EU) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures.

Under the Buy-back Programme, the Company may acquire a maximum of 190,000,000 shares, each with a nominal value of 0.50 euro, representing 8.9 per cent. of the share capital of the Company as of the date of approval of this report, to be held in treasury for subsequent cancellation thereof.

## **2. Justification of the proposal**

During the disclosure of the 2016 annual results, on February 24, 2017, the Company announced its intention to carry out a share buy-back of up to 500,000,000 euro during the course of 2017, as an additional mechanism to increase cash returns to the Company’s shareholders.

The launch of the Buy-back Programme was announced on March 6, 2017 in which its main terms were disclosed:

- Purpose: the reduction of the capital of the Company, subject to its approval by the General Shareholders’ Meeting.

- Regulated market: the shares will be purchased on both the London Stock Exchange and the Spanish Stock Exchanges.
- Maximum pecuniary amount allocated to the programme: 500,000,000 euro.
- Maximum number of shares to be acquired: up to 190,000,000 shares, which represent 8.9 per cent. of the Company's share capital.
- Maximum consideration per share: the shares will be purchased at a maximum price of the higher of the price of the last independent trade and the highest current independent purchase bid on the relevant Exchange.
- Maximum volume: no more than 25 per cent. of the average daily volume of the shares traded on the relevant Exchange in the 20 trading days preceding the date of purchase.
- Duration: the Buy-back Programme started on March 6, 2017 and end no later than December 29, 2017.

As a result of the implementation of the Buy-back Programme and for the purposes of complying with its objectives, it is proposed to the Shareholders' Meeting to cancel the shares acquired by the Company under the Buy-back Programme, within one month from the expiration of the Programme (which shall not be later than December 29, 2017).

It is placed on record that, as of the date of approval of the call of the Shareholders' Meeting, the number of ordinary shares acquired by the Company under the Buy-back Programme amounts to a total of 18,515,715 shares, each with a nominal value of 0.5 euro.

### **3. Main terms and conditions of the capital reduction**

The maximum amount of the capital reduction will be equal to the number of shares acquired under the Buy-back Programme multiplied by 0.50 euro per share, by means of the cancellation of the shares, subject to a maximum of 95,000,000 euros, corresponding to the nominal value of the maximum number of own shares to be acquired under the Buy-back Programme (190,000,000 ordinary shares each with a nominal value of 0.50 euro).

However, pursuant to article 340.3 of the Companies Law, if the Company fails to acquire the maximum number of 190,000,000 shares, under the Buy-back Programme, the share capital will be reduced by the sum of the amount corresponding to the shares effectively acquired under the Buy-back Programme.

In this regard it is proposed to delegate to the Board of Directors the necessary powers required to set the final amount of the capital reduction in accordance with the procedure described above.

The proposed capital reduction does not entail a return of contributions because the Company itself is the holder of the cancelled shares and it will be carried out with a charge to unrestricted reserves by funding a retired capital reserve in an amount equal to the nominal value of the retired shares, and such

reserve could only be used by complying with the same requirements as those applicable to a reduction in share capital, as provided by article 335 c) of the Companies Law.

Accordingly, pursuant to article 335 c) of the Companies Law, the creditors will not have the right of objection provided for in article 334 of the Companies Law.

It is also proposed that the Shareholders' Meeting delegate to the Board of Directors the necessary powers to implement the capital reduction resolution (with the express power of substitution pursuant to article 249.2 of the Companies Act) within a period not to exceed one month following the expiration of the Buy-back Programme, also delegating the powers necessary to determine any terms that are not expressly set forth in the resolution approving the reduction or that are a consequence thereof and to approve the resolutions, publish the announcements, take the steps, and execute the public or private documents that may be required or appropriate for the fullest implementation of the capital reduction.

It is proposed to authorise the Board of Directors to take such steps and carry out such formalities as may be required or appropriate so that, once the capital reduction resolution has been implemented, it may amend the article of the By-Laws setting the share capital so that it reflects the new share capital figure and the new number of outstanding shares (once the shares have been cancelled and deducted) and so that the cancelled shares are delisted from the relevant stock exchanges and are removed from the corresponding book-entry registers.

#### **4. Proposed resolution**

The wording of resolution number eleven proposed to the Shareholders' Meeting regarding the capital reduction is as follows:

**11.- APPROVAL OF A REDUCTION IN SHARE CAPITAL BY MEANS OF THE CANCELLATION OF UP TO 190,000,000 SHARES (8.9 PER CENT. OF THE SHARE CAPITAL). DELEGATION OF POWERS FOR THE IMPLEMENTATION THEREOF.**

#### **RESOLUTION 11**

*"To reduce the share capital by way of the cancellation of shares of the Company acquired through the Buy-back Programme for the cancellation thereof as authorised by the Board of Directors at its meeting on February 23, 2017 and announced on March 6, 2017 (the "**Buy-back Programme**") and which will be in force until no later than December 29, 2017, in the following terms:*

*1.- Amount and form of the capital reduction.- The nominal amount of the capital reduction of the Company will be equal to the number of shares acquired under the Buy-back Programme multiplied by 0.5 euro per share, through the cancellation of such shares, up to a maximum of 95,000,000 euros, corresponding to the nominal value of the maximum number of own shares to be acquired under the Buy-back Programme (190,000,000 ordinary shares each with a nominal value of 0.50 euro).*

*In accordance with the provisions below, the final amount of the capital reduction will be set by the Board of Directors according to the final number of shares acquired within the framework of the Buy-back Programme.*

2.- Procedure for acquisition of the shares that will be cancelled under the Buy-back Programme.- The shares to be cancelled will be acquired by the Company under the Buy-back Programme, which will be in force until no later than December 29, 2017 and which will be carried out subject to such terms as to price and volume as are established in article 5 of Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and in Commission Delegated Regulation (EU) No 2016/1052 of 8 March 2016 supplementing Regulation (EU) No 596/2014 of the European Parliament and of the Council with regard to regulatory technical standards for the conditions applicable to buy-back programmes and stabilisation measures.

In accordance with the foregoing, pursuant to article 340.3 of the Companies Law, if the Company fails to acquire the maximum number of 190,000,000 shares, each with a nominal value of 0.5 euro, under the Buy-back Programme, it will be understood that the share capital is reduced by the sum of the amount corresponding to the shares effectively acquired within the framework of the Buy-back Programme.

3.- Procedure for the reduction and reserves with a charge to which it is carried out.- Pursuant to the provisions of article 342 of the Companies Law, the capital reduction must be implemented within one month following the expiration of the Buy-back Programme.

The capital reduction does not entail a return of contributions to shareholders because the Company itself is the holder of the shares being cancelled, and it will be carried out with a charge to unrestricted reserves by funding a retired capital reserve in an amount equal to the nominal value of the cancelled shares; such reserve may only be used by complying with the same requirements as those applicable to a reduction in share capital, as provided by article 335 c) of the Companies Law.

Therefore, in accordance with the provisions of such article, creditors of the Company will not be entitled to assert the right of objection contemplated by article 334 of the Companies Law in connection with the capital reduction.

4.- Delegation of powers.- To delegate to the Board of Directors, with express powers of substitution, the powers necessary to implement this resolution within a period not to exceed one month following the expiration of the Buy-back Programme, with authority to establish any terms that are not expressly set forth in this resolution or that are a consequence hereof. In particular, and by way of example only, the following powers are delegated to the Board of Directors, with express powers of substitution:

- a) To modify the maximum number of shares that may be bought back by the Company, within the limits set in this resolution and by law, as well as any other terms and conditions of the Buy-back Programme, all in accordance with the applicable legislation.
- b) To perform any acts, make any statements, or take any steps that may be required in connection with the public communication of the Buy-back Programme and with the formalities, if any, that must be carried out at Spanish and foreign regulatory agencies and Stock Exchanges; negotiate, agree to, and sign all contracts, agreements, commitments, or instructions that may be necessary or appropriate for the successful completion of the

*Buy-back Programme and the capital reduction.*

- c) *To cause all announcements required by law to be published, acquire the shares under the Buy-back Programme, and, within one month following the expiration of the Buy-back Programme, cancel the shares in accordance with the terms approved herein.*
- d) *To declare the approved capital reduction to be completed and implemented, establishing, for such purpose, the final number of shares that must be cancelled and, as a result, the amount by which the share capital of the Company must be reduced in accordance with the rules specified in this resolution.*
- e) *To set the final amount of the capital reduction based on the provisions of this resolution and establish any other terms that may be required to implement it, all in accordance with the terms and conditions set forth above.*
- f) *To amend the article of the By-Laws setting the share capital such that it reflects the amount of share capital and the number of outstanding shares resulting from the implementation of the capital reduction.*
- g) *To take such steps and carry out such formalities as may be required or appropriate and submit such documents as may be necessary to the competent bodies such that, once the shares of the Company have been cancelled and the notarial instrument for the capital reduction has been executed and registered with the Commercial Registry, the cancelled shares are delisted from the relevant stock exchanges and are removed from the corresponding book-entry registers.*
- h) *To perform all acts that may be necessary or appropriate to implement and formalise the capital reduction before any Spanish or foreign public or private entities and agencies, including acts for purposes of representation, supplementation, or correction of defects or omissions that might prevent or hinder the full effectiveness of the foregoing resolutions.*

*Pursuant to the provisions of article 249.2 of the Companies Law, the Board of Directors is expressly authorised to further delegate the powers referred to in this resolution."*

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Madrid, May 4, 2017.