IAG results presentation

Quarter One 2012

11th May 2012

Operating loss despite strong revenue growth

- First quarter operating loss of €249 million before exceptional items; operating loss of €212 million after exceptional items
- Total reported unit revenue growth of 7.2%; passenger unit revenue up 8.5%. At constant FX total unit revenue up 6.0%; passenger unit revenue up 7.3%
- Revenue performance driven by strong premium revenue growth
- Increased operating loss driven by 24.9% fuel cost rise; fuel unit cost up 24.0%. Non-fuel unit costs up 5.1%, underlying rise of approximately 1% to 2%
- Performance also impacted by 10 days of strike by Iberia pilots, estimated cost of €25 million
- Q1 operating loss before exceptional items: Iberia - €170 million; British Airways - £62 million

Financial summary before exceptional items

€,m	Q1 2012	Q1 2011	vly	*Post-exceptionals* Q1 2012*
Revenue	3,919	3,636	+7.8%	3,919
Fuel costs	1,409	1,128	+24.9%	1,409
Non fuel costs	2,759	2,610	+5.7%	2,722
EBITDAR	102	248	-58.9%	137
Operating loss	**-249**	**-102**	**-147m**	**-212**
Operating margin	-6.4%	-2.8%	-3.6pts	-5.4%
Pre-tax loss	-300	-130		-263
Net loss	-183	-50		-146

*Includes €35m release of the provision held in respect of settlement of fine by BA with OFT

*Includes €2m reduction in operating lease costs for cash flow hedges that existed at 21st Jan 2011

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Revenue trends

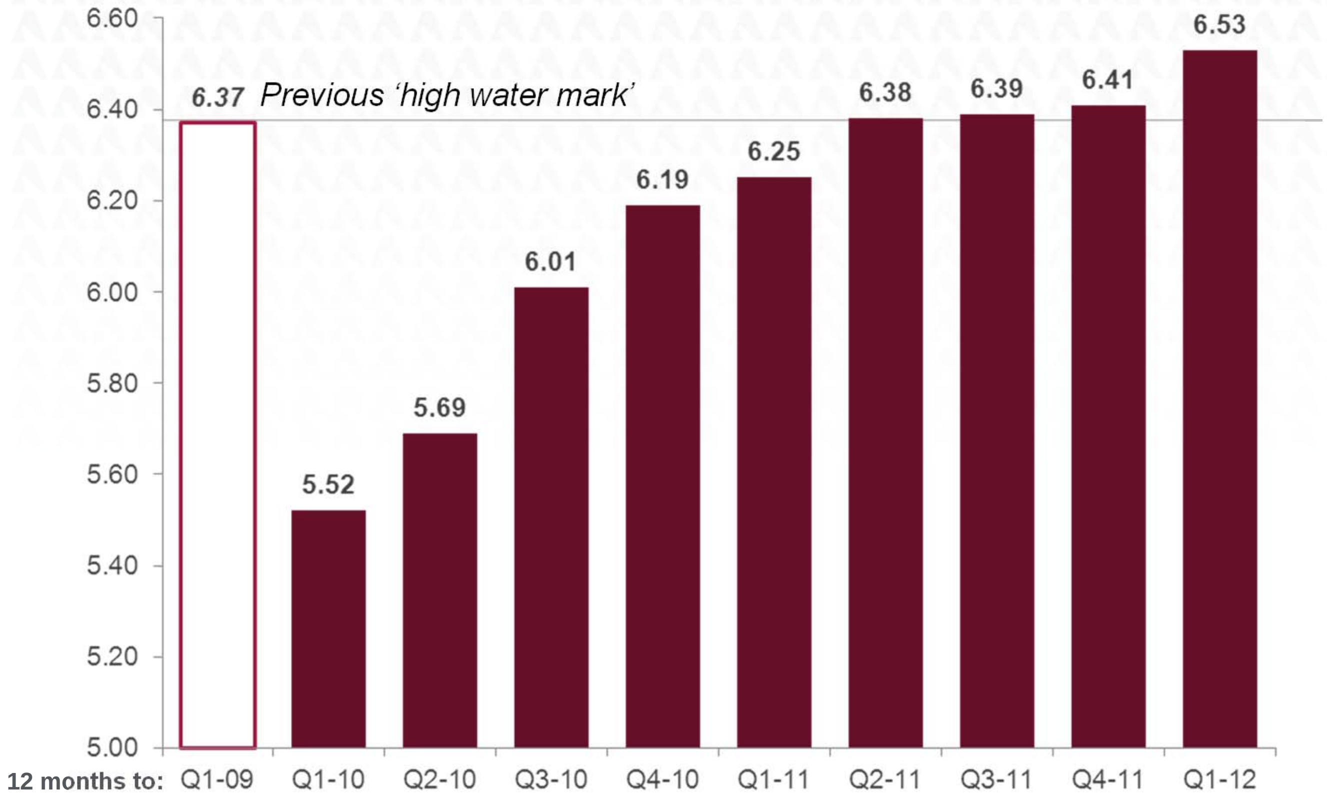
Unit revenue summary

€,m	Q1 2012	Q1 2011	vly
Passenger	3,290	3,018	*+9.0%*
Cargo	291	290	*+0.3%*
Other	338	328	*+3.0%*
TOTAL	**3,919**	**3,636**	***+7.8%***
ASK (m)	51,425	51,116	*+0.6%*
RPK (m)	39,140	37,767	*+3.6%*
Seat factor (pts)	76.1	73.9	*+2.2 pts*
Passenger Revenue per ASK	6.40	5.90	*+8.5%*
Revenue per RPK	8.41	7.99	*+5.3%*
Cargo Revenue per CTK	19.65	19.15	*+2.6%*

- Capacity flat due to strike impact: original planned ASKs +2.2%
- Strong unit revenue growth, against flat capacity
- Q1-12 sterling strength - constant FX: pax unit revenue +7.3%; pax yield +4.1%
- Cargo: unit revenue increase despite soft market

Rolling 12-month passenger unit revenue

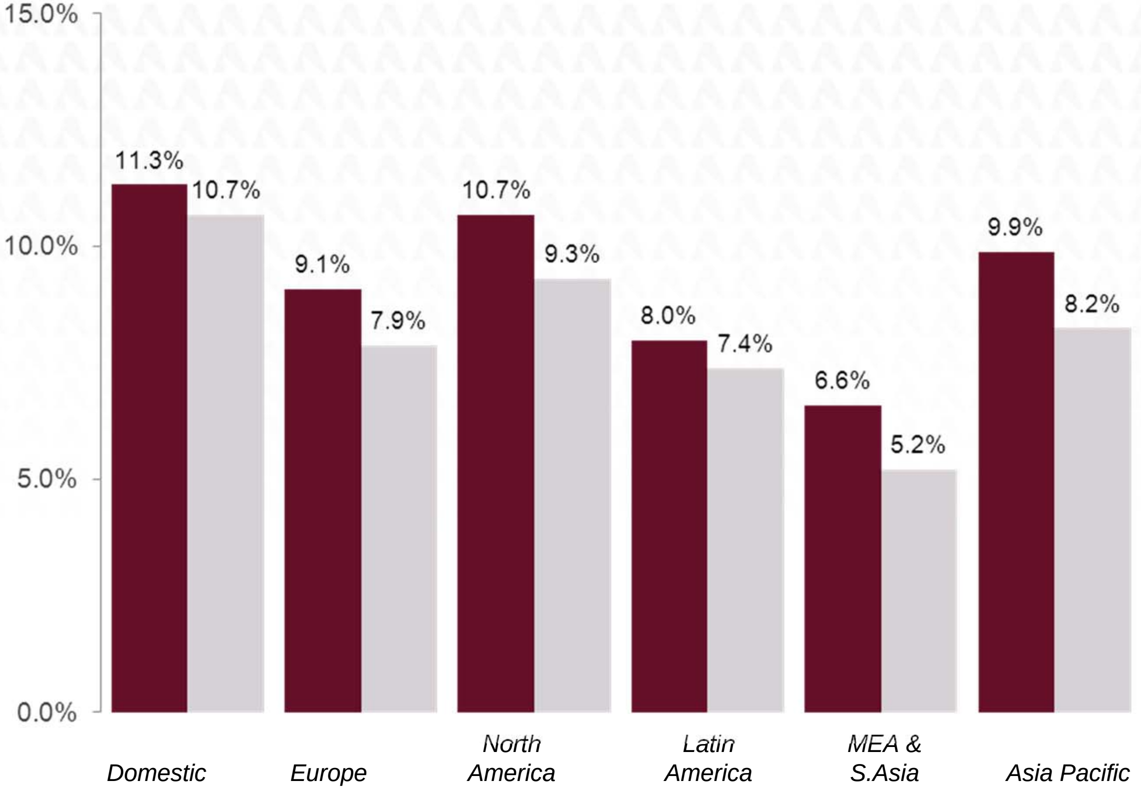
IAG passenger revenue per ASK, rolling 12 months, € cents



- Unit revenue level significantly higher than previous high water mark
- Significant unit revenue momentum still required to overcome fuel headwind through H1

Unit revenue growth across all regions

% change in IAG passenger revenue per ASK by region, Q1 '12 vs. Q1 '11

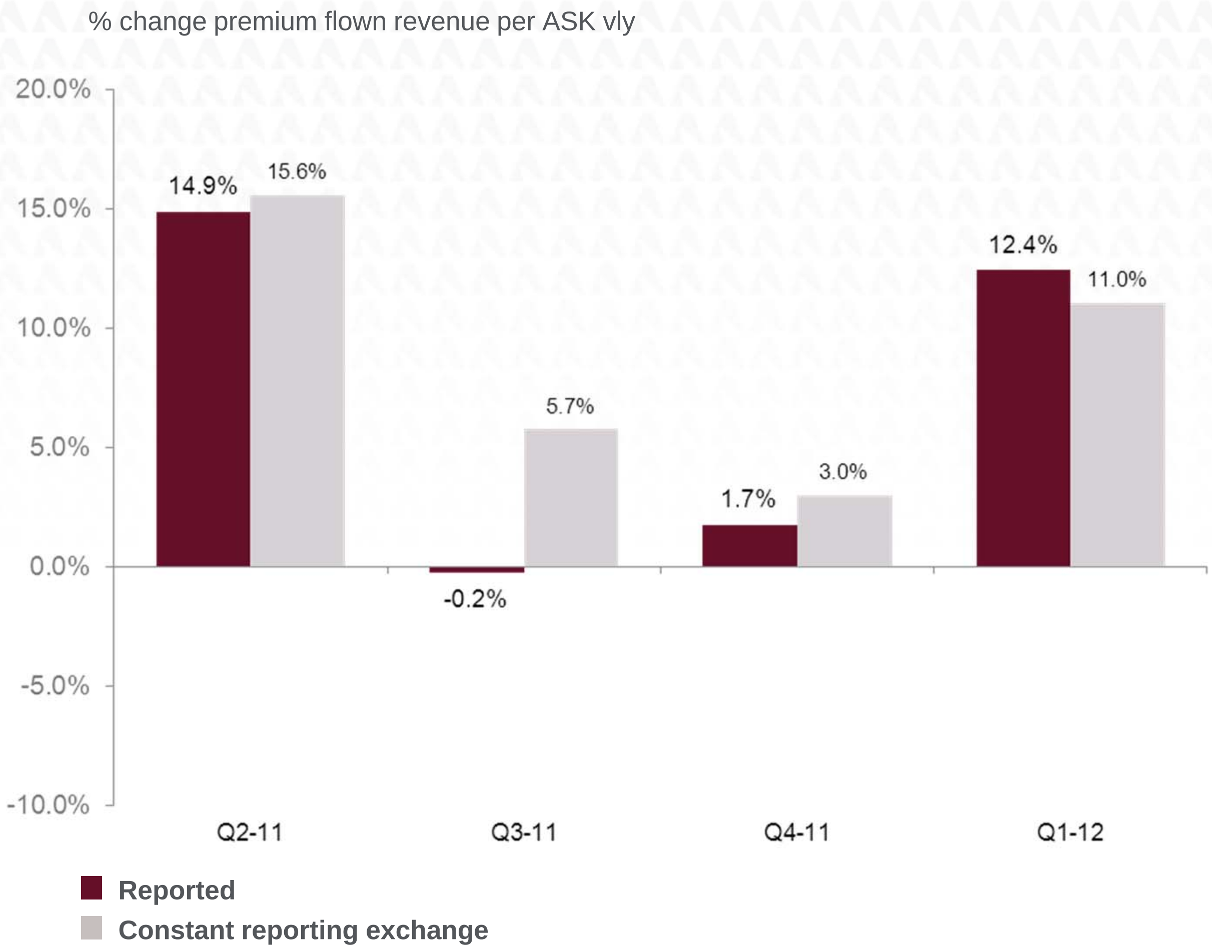


ASKs	-16.7%	-5.5%	+5.8%	+2.1%	+2.4%	-2.3%

Reported   Constant reporting exchange

- Strike impacts Spanish domestic and European services most significantly
- European unit revenues stabilising, Spanish domestic weakness remains
- North America growth continues, particularly in premium cabins
- Asia Pac improvement driven by China and Japan markets, and consolidation on BA:Qantas Joint Services routes
- Q2 tougher base comparison: Q2-11 regional growth mostly double digit

Premium growth continues



- Premium volumes up 4.8% outgrowing non-premium
- Non-premium unit revenues up 6.8%; constant reporting FX +7.7%; volumes up 3.4%
- Premium yields +6.8%; compared with a rise of 4.4% in the Q1-11 base
- Q2 tougher base comparison: Q2-11 premium unit revenue growth +15%

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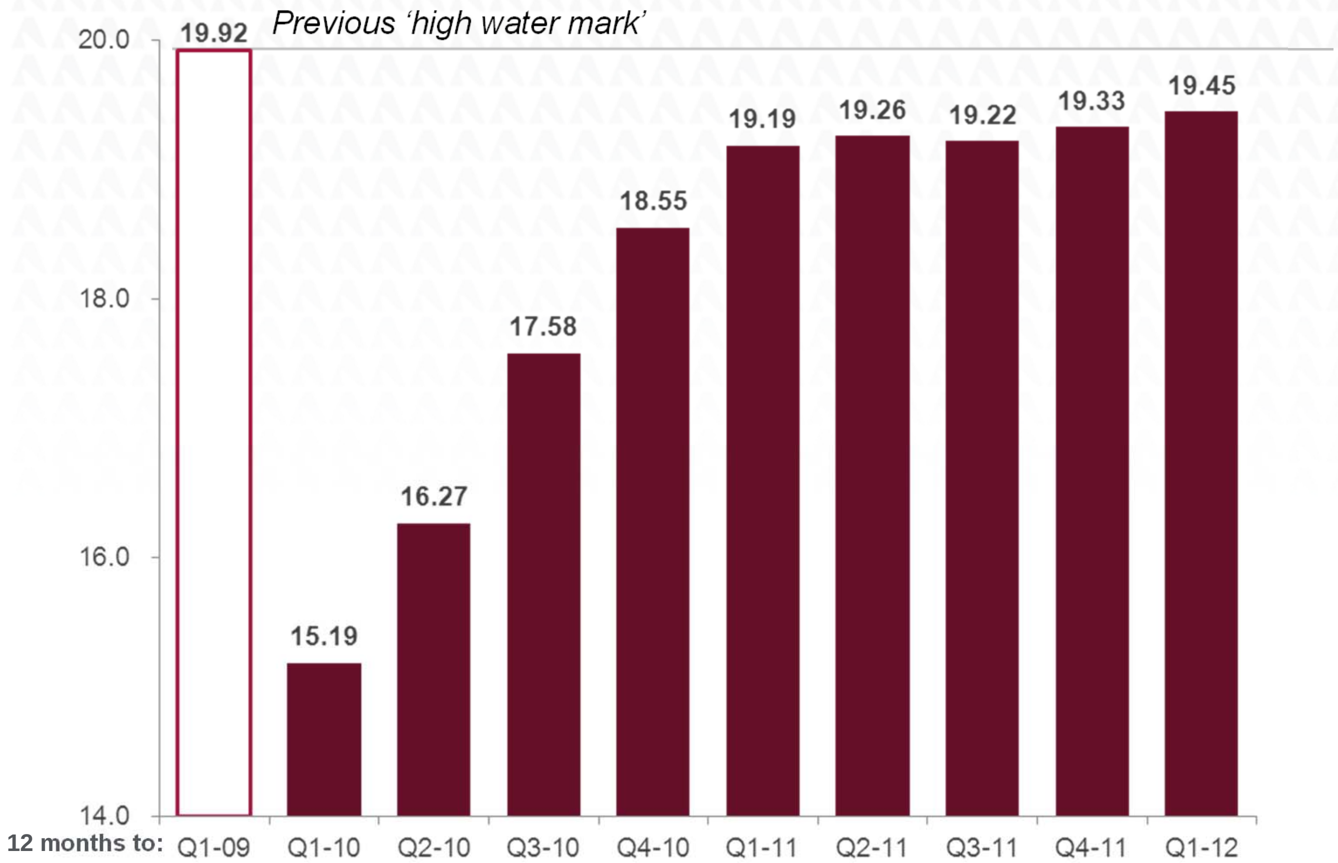
Cargo revenue remains at a plateau

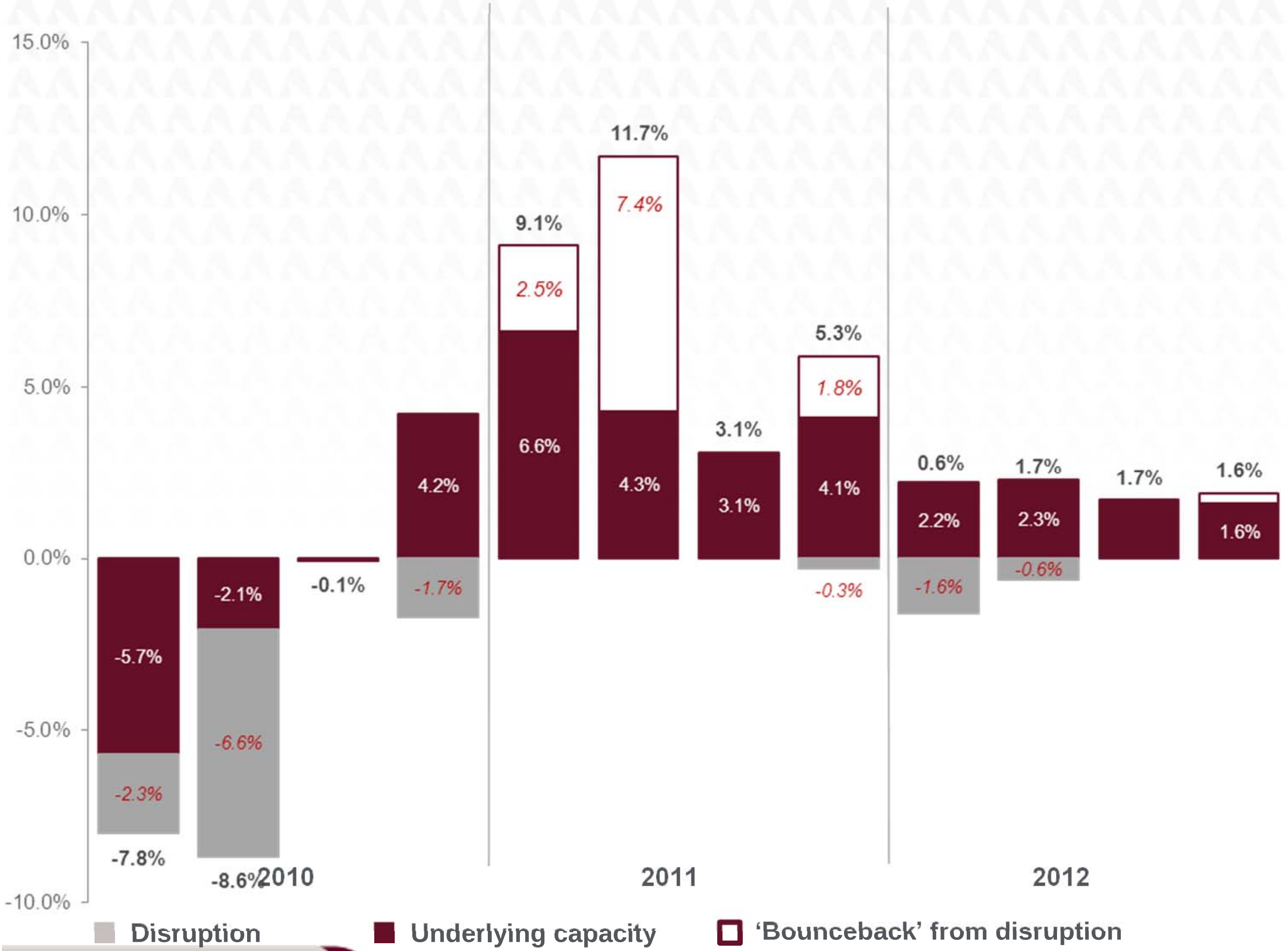
IAG cargo revenue per CTK, rolling 12 months, € cents



- Q1 cargo yield +2.6%; constant FX +1.2%
- Mixed regional performance, with ongoing softness in European consumer demand
- Capacity reductions, particularly freighter, having some stabilising effect
- IAG cargo synergies and stabilisation in Asia key to improvement

Capacity changes by quarter excluding BMI

ASKs change vly by quarter



- Overall 2012 planned growth to be approx. 2.0%; change due to schedule optimisation. Reported growth to be approx. +1.4%
- Iberia Express represents 1% of IAG capacity for 2012
- Iberia strike impact: Q1: 10 days; Q2: 7 days. Estimated 0.6 % ASK impact in 2012
- Balanced capacity has lead to load factor improvements across all regions

Network and fleet Summer 12 vs. Summer 11

Routes

Start

3 new African destinations in Iberia network

London-Moscow switch to long haul

Frequency increase on 30 routes

from Dec 2012 – London-Seoul

Stop

Madrid - Fortaleza, Recife, Córdoba and Johannesburg

Barcelona - Miami (JBA)

London - Montego Bay

Bangkok - Sydney

Frequency decrease on 18 routes

Fleet

In

3x B777-300 (since Winter 11)

~~1 x B747~~ Kept grounded

Progressive ramp up of Iberia Express fleet from Iberia

Out

3x A340-300

Comparison excludes BMI plans

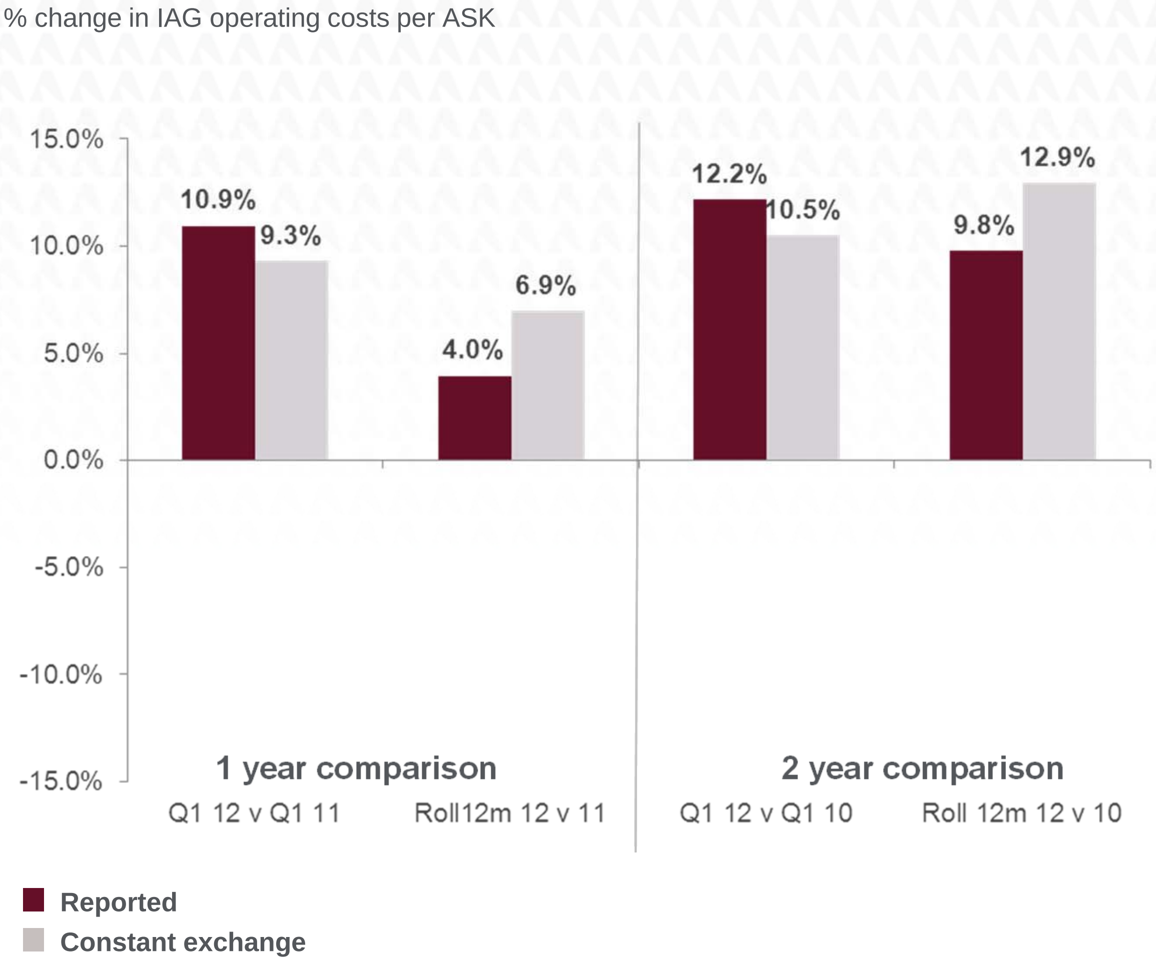
Current unit revenue environment

	direction	Short haul	direction	Long haul
non-premium	→	Competitive	→	Competitive
premium	→	Soft	→	Stable
cargo			↘	Soft

- Q2 forward bookings currently broadly in line with last year
- Short haul unit revenues stabilising, but fuel cost rises continue to outweigh
- Spanish market weakness
- London 2012 distorting booking patterns and mix
- Soft cargo price environment

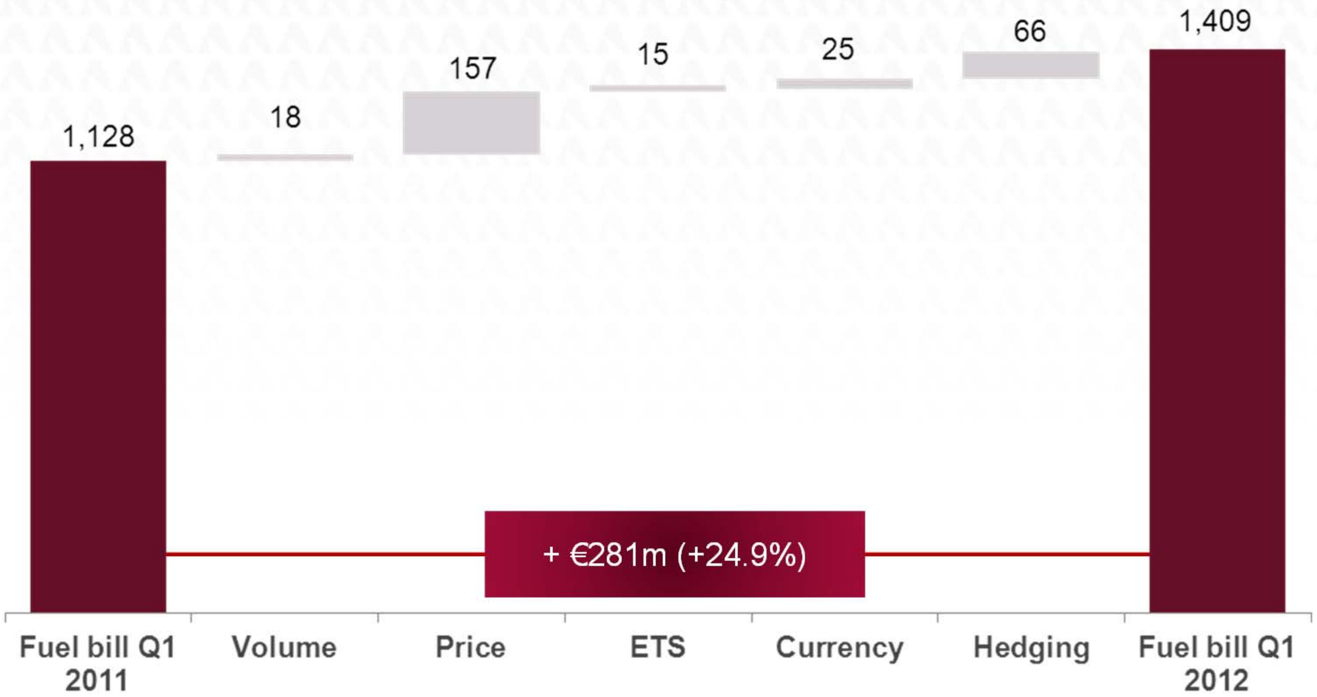
Cost and cash flow trends

Overall unit operating cost growth



- Significant fuel cost impact in Q1. Fuel unit cost increase +24.0%
- Non fuel unit cost increase: +5.1%; constant FX +3.7%
- Non fuel unit cost increase significantly lower on a like for like basis

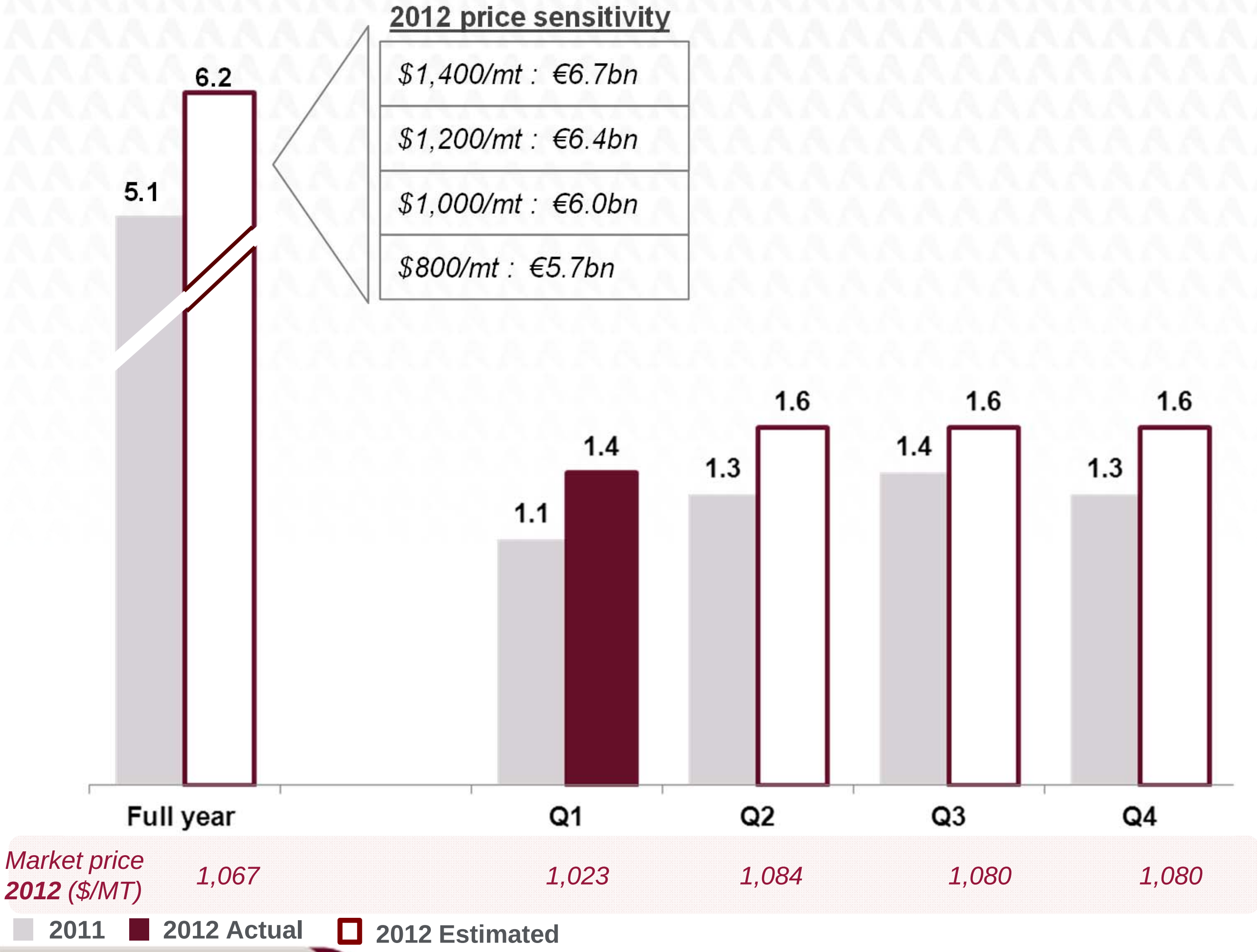
Drivers of change in fuel cost



- 81% of consumption hedged in Q1 and average spot rate of $1,021/mt
- Q1 average fuel price paid was $1,023/mt
- Q1 fuel consumption was 1.8m mt

Fuel cost guidance at current prices / FX

Fuel cost after hedging and pre exceptional items, € billion



- At a spot rate of $1,080/mt and current hedging cover this implies a 2012 fuel bill to be approx. €6.2 bn
- The estimated fuel bill in the chart is calculated from planned usage and a EUR USD rate of $1.30
- A strengthening of EUR USD rate to $1.34 would reduce the fuel bill by around €180m

2012 fuel hedging impact

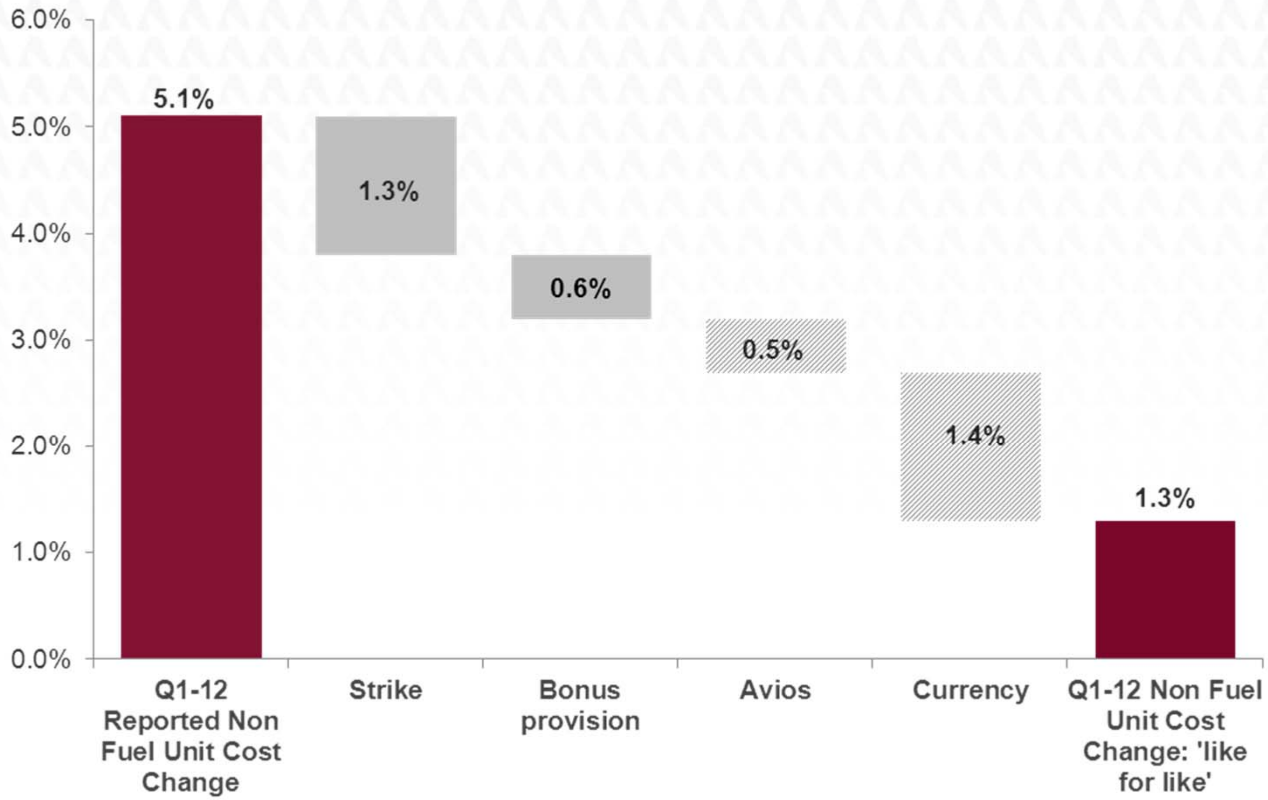
+/- $10/MT = +/- €17m cost approx

Hedging cover

Q2-12	Q3-12	Q4-12	Forward 12m
80%	69%	55%	55%

- 2012 hedging breakeven at $1,003/mt
- Q2 fuel bill expected to be €1.6bn at EUR USD rate of $1.30

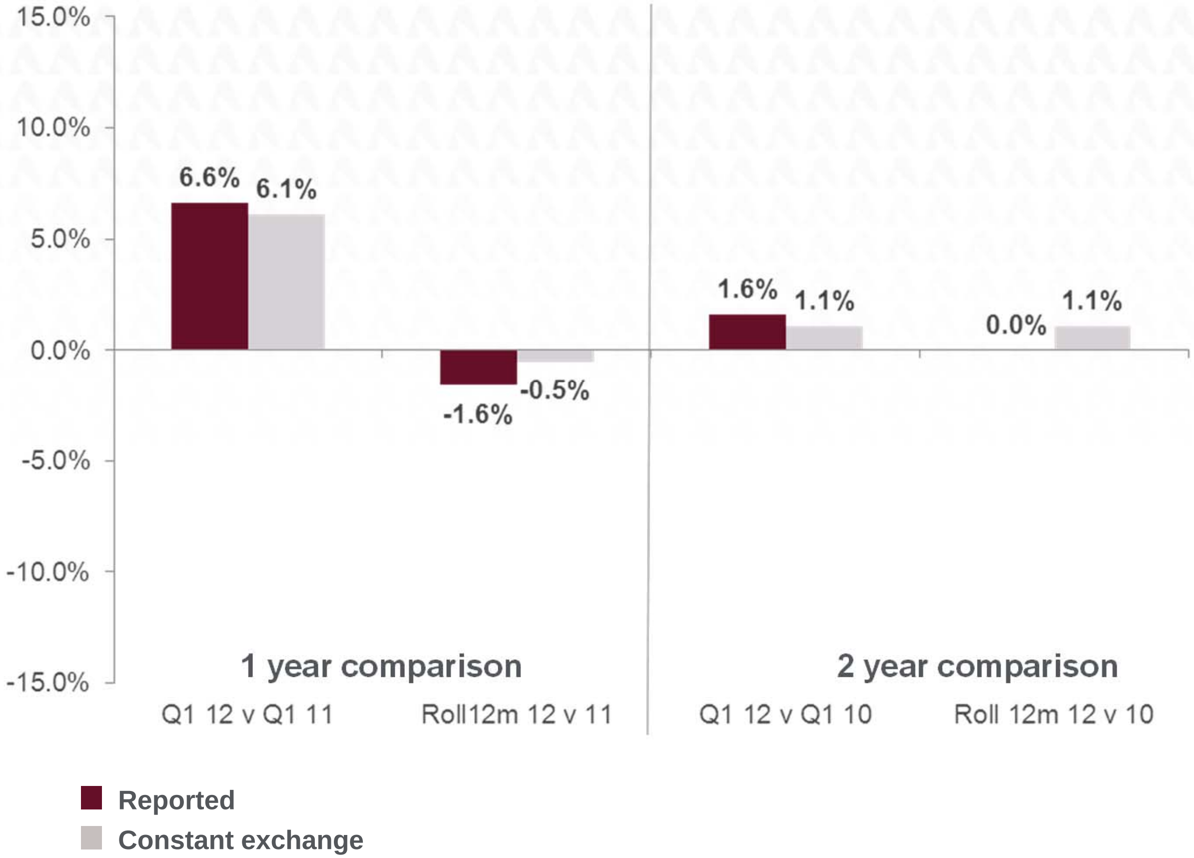
Impacts on non fuel unit cost



- Greatest impact on non fuel unit costs from strike action and FX
- BA employee bonus provision will smooth over H1: net neutral
- Full year underlying non fuel unit costs expected to be +1%

Employee costs

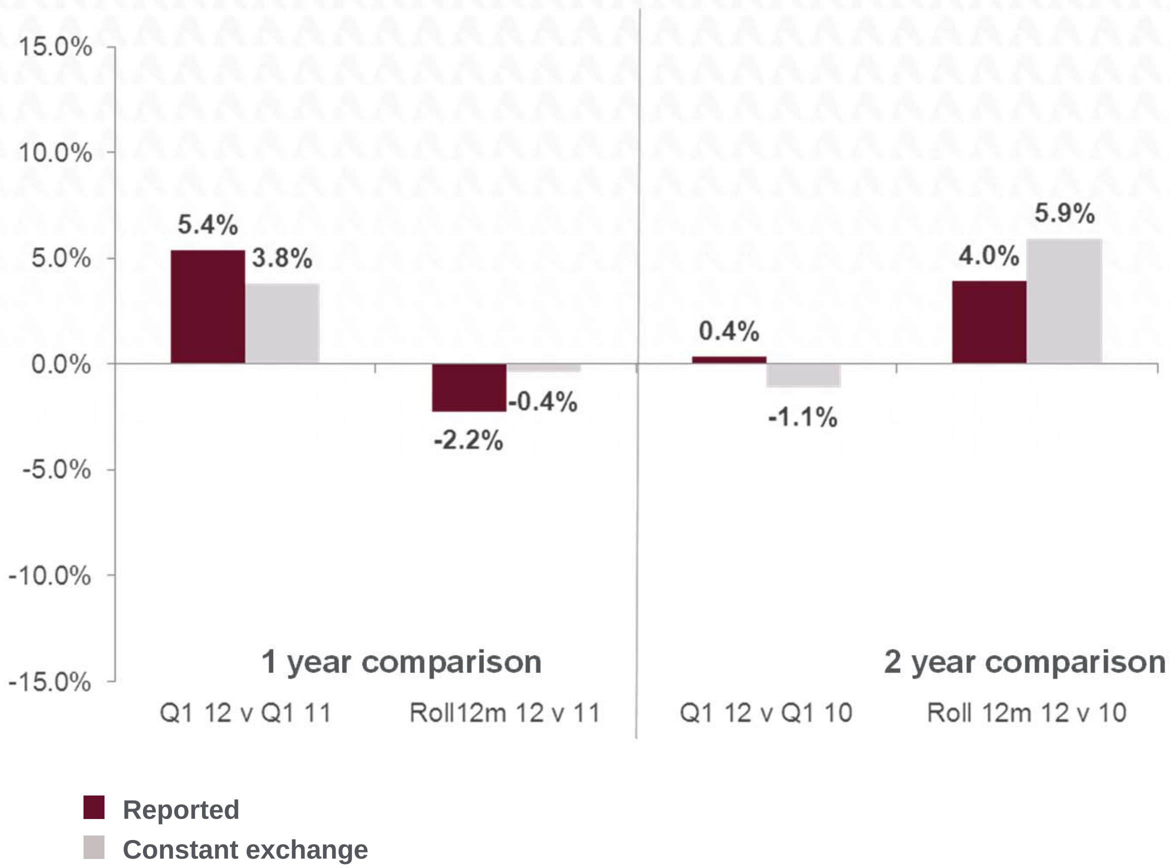
% change in IAG employee cost per ASK



- Average MPE up 0.7% against Q1 2011
- Strike impact distorts unit measures, estimated to account for almost +2%
- Comparison with Q1-11 distorted by BA all-employee bonus provision. Accounts for +1.7%. Net neutral over H1
- Underlying employee cost increase around +3%; at constant FX +2.5%

Supplier costs

% change in IAG supplier costs per ASK

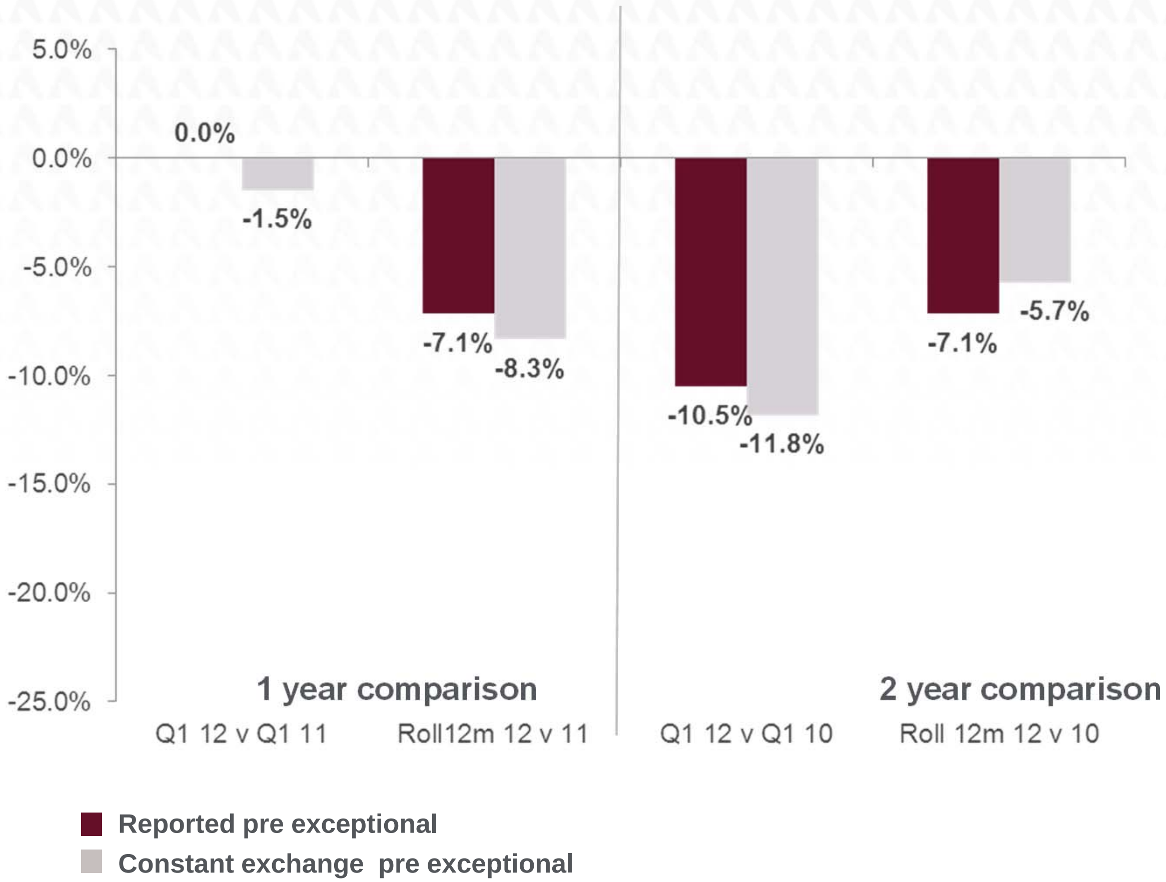


- Supplier costs impacted by strike and accounting changes
- Strike impact distorts unit measures, estimated to account for almost 1%
- Accounting changes related to Avios impact Q1 supplier unit costs by +0.8%
- Like for like supplier cost comparison around +3.8%; constant FX +2.2%

Supplier cost items:
Engineering, landing fees, handling, selling , other

Underlying ownership unit costs

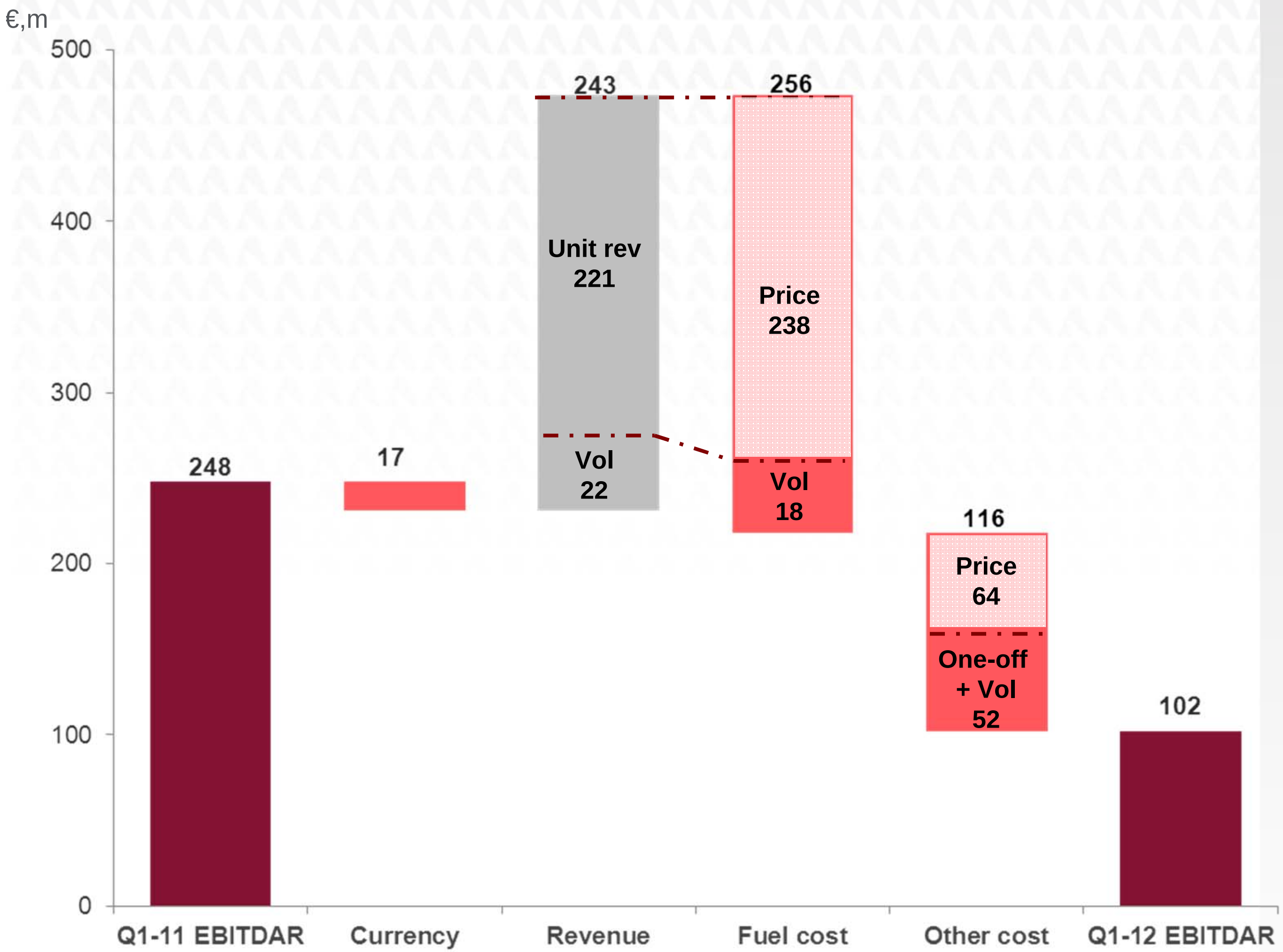
% change in IAG ownership costs per ASK



- Ownership costs benefitting from A340 exit and non-repeat of termination payment in base period
- Ownership costs expected to be flat for the year

Ownership cost items:
Aircraft operating lease, depreciation, amortisation & impairment

Profit bridge from Q1 2011



- Unit revenue increase covered approximately 75% of underlying price increases in fuel and non-fuel costs
- Gap created with one-off non-fuel items

Balance sheet summary

€,m	Mar 2012	Dec 2011	*Change*
Equity	**5,739**	**5,686**	53
Cash, cash equivalents and interest bearing deposits	3,574	3,735	(161)
Gross debt	4,703	4,883	(180)
On balance-sheet net debt	***1,129***	***1,148***	(19)
Gearing	**16%**	**17%**	
Aircraft lease cap (x8)	3,168	3,224	(56)
Adjusted net debt	***4,297***	***4,372***	(75)
Adjusted gearing	**43%**	**44%**	

- Cash position impacted by regular debt repayments; refinancing for B777 and A380 and funding of BMI pre-acquisition: Q1 €54m (£45m)
- Adjusted gearing improved and Group cash position remains strong

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Outlook for 2012 (1)

- The outlook for 2012 is subject to a number of uncertainties:
  - Demand in London remains strong, with a continuation of the encouraging trends we saw in H2 2011 in our long haul premium cabins, particularly on North Atlantic routes.
  - The Spanish and wider Eurozone macro economic background deteriorated in Q1, and this is reflected in a worsening commercial performance from our Madrid hub.
  - At the current oil price and Euro / US Dollar exchange rates, we would face a fuel cost increase this year of over €1bn; the year-over-year impact of this should be less severe in H2

Outlook for 2012 (2)

- We remain focused on maximising profits through efficiency improvements, and the recent launch of Iberia Express is a major step in that direction. Pilots' strike action associated with our pursuit of this strategy, which continued during the second quarter, has now been called off, but the speed of revenue recovery post-strike and the performance of the Spanish markets are unclear at this stage.

- The year one operating profit dilution from the acquisition and integration of bmi, completed during Q2, is expected to be in the order of €240m. This includes non-recurring, restructuring costs to be booked this year of approximately €90m.

- The above factors mean that IAG expects its operating result to be around the breakeven level for the full year, after exceptional items, including the non-recurring bmi restructuring cost.

Q&A

BMI acquisition update

11th May 2012

BMI acquisition - headlines

- Contributing more than €100 million operating profit by 2015; earnings accretive by 2014
- Transforming IAG Heathrow hub: long term growth
- Acquisition focused on bmi mainline – Regional sold subject to CAA approval; bmibaby in consultation with employees, preparation for potential closure
- Total consideration £172.5m, less significant reduction for closure of bmibaby: bmi comes debt-free, cash-free
- Increases IAG's portfolio by 56 daily slot pairs at Heathrow, less competition remedies of up to 14 pairs

BMI Group 2011- baseline financials

€m	**Full year 2011**	**April-Dec 2011**
Revenue	918	735
Employee costs	172	132
Fuel costs	240	195
Supplier costs	646	499
EBITDAR	**(139)**	**(91)**
Operating loss	**(200)**	**(136)**

Assumptions for rest of 2012:

- fuel headwind in line with overall IAG guidance
- small negative revenue drift
- low double-digit €m cost improvement during the year (anticipated redundancies weighted towards back end of period)

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Guidance: bmi impact

€,m	**2015**
Revenue benefit	>100m
Network contribution	>100m
Cost improvement	>100m
Total improvement	**>300m**
IAG operating contribution	**>100m**

- 2012: post-acquisition share of operating loss around €150m
- €90m of expected €115m restructuring cost to be booked in 2012
- >€300m turnaround benefits at operating level to be sequenced at broadly €100m per year, 2013-15

Transition approach, 2012 - 2015

Transition approach, 2012-2015

Integrate

- Rapid transfer of commercial activity
- Aircraft by aircraft operational transition
- Remove duplicate activity and costs
- Employee consultation

Optimise

- Begin optimisation of combined schedule
- Align and optimise procurement

Transform

- Network and fleet
- Long term productivity change

Integrate - commercial control

- bmi Heathrow Summer 2012 schedule retained
  - ✓ customers can book with confidence
- Flights to be sold as BA unless prohibited by Air Service Agreements
- Plan first tranche of BA sold flights from 23rd May, second tranche mid June
- Gives BA pricing control and integration into commercial systems and processes
- bmi flights become part of oneworld as they move to BA flight numbers

  Executive Club and Diamond Club interchangeable

Integrate – transfer to BA operations

- Aircraft, with crews, move to BA Air Operator Certificate aircraft by aircraft
- AOC transition planned to start end May 2012, first bmi crew rostered end April
- Aircraft and crew alignment with BA standard operating procedures
- BA livery installed as each aircraft is transferred
- Complete aircraft AOC transfer end 2012

UK employee integration

Integrate

	Current	Integrate*
Cabin crew	840	✓
Flight ops	350	✓
Ground staff	700	Partial
Engineering	350	Partial
Head office	250	✗
Commercial	150	✗
IT	50	✗
Current	**2,700**	
Future	**c.1,500**	

* Applies to majority

Transition approach

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A better offering for customers

Optimise the network

- Begin schedule optimisation Winter 2012
- Optimise network offering across Heathrow, Gatwick and London City
- Drive feed across the Heathrow hub
- Retime services, starting Winter 2012
- Add new destinations to BA network
- Add frequencies to strengthen existing BA routes
- Begin conversion of short haul slots to long haul use

In Winter 2012, bmi enables…

- 18 new routes for the BA London Heathrow network
  - 3 UK&I, 6 short haul and 9 mid/longhaul
  - 13 are currently operated by bmi, 1 will move from LGW

- Extra capacity on 8 existing BA London Heathrow routes
  - 3 UK&I, 3 short haul and 2 long haul
  - 3 are currently operated by bmi

- Timing improvements through schedule

- Winter schedule to be announced June

Transition approach

Integrate

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Transform

- Network and fleet
- Long term productivity

Long term network transformation - outline

- Long haul growth enabled by conversion of around one third slots from short haul to long haul over the medium term
- Growth and new route opportunities facilitated by B787 and A380 coming into BA fleet
- Conversion rate driven by market conditions and fleet

Heathrow vision: Europe’s hub of choice

BA will operate over three terminals initially, but look towards increasing co-location over time, working with BAA and other stakeholders

Next 5 – 10 year Heathrow development and funding plan now under consultation as part of Q6 regulatory review

Unique time for increased-scale BA / IAG / oneworld to contribute to building a pre-eminent hub for customers, serving UK and rest of world

Disclaimer

Certain information included in these statements is forward-looking and involves risks and uncertainties that could cause actual results to differ materially from those expressed or implied by the forward-looking statements.

Forward-looking statements include, without limitation, projections relating to results of operations and financial conditions and the Company's plans and objectives for future operations, including, without limitation, discussions of the Company's Business Plan, expected future revenues, financing plans and expected expenditures and divestments. All forward-looking statements in this report are based upon information known to the Company on the date of this report. All subsequent oral or written forward-looking statements attributable to IAG or any of its members, directors, officers, employees or any persons acting on its behalf are expressly qualified in their entirety by the cautionary statement above. The Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

It is not reasonably possible to itemise all of the many factors and specific events that could cause the Company's forward-looking statements to be incorrect or that could otherwise have a material adverse effect on the future operations or results of an airline operating in the global economy.

Further information on the primary risks of the business and the risk management process of the Group is given in the Annual Report and Accounts 2011; this document is available on www.iagshares.com.

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