

THREE MONTHS RESULTS ANNOUNCEMENT

International Consolidated Airlines Group (IAG) today (May 10, 2019) presented Group consolidated results for the three months to March 31, 2019.

IAG period highlights on results:

- First quarter operating profit €135 million before exceptional items (2018 pro forma¹: €340 million)
- Passenger unit revenue for the quarter down 0.8 per cent, down 1.4 per cent at constant currency
- Non-fuel unit costs before exceptional items for the quarter up 0.8 per cent, down 0.6 per cent at constant currency on a pro forma¹ basis
- Fuel unit costs for the quarter up 15.8 per cent, up 11.1 per cent at constant currency
- Net foreign exchange operating profit impact for the quarter adverse €61 million
- Cash of €7,481 million at March 31, 2019 was up €1,207 million on December 31, 2018 and net debt to EBITDA improved by 0.2 to 1.0 times
- Profit after tax before exceptional items €70 million down 62.6 per cent, and adjusted earnings per share down 57.5 per cent on a pro forma¹ basis

Performance summary:

	Three months to March 31			Statutory	
	Statutory	Pro forma	Higher / (lower)	2019	2018 ²
Highlights € million	2019	2018 ¹	Higher / (lower)	2019	2018 ²
Passenger revenue	4,646	4,415	5.2 %	4,646	4,415
Total revenue	5,318	5,022	5.9 %	5,318	5,022
Operating profit before exceptional items	135	340	(60.3)%	135	280
Exceptional items	-	639	(100.0)%	-	639
Operating profit after exceptional items	135	979	(86.2)%	135	919
Available seat kilometres (ASK million)	75,423	71,093	6.1 %		
Passenger revenue per ASK (€ cents)	6.16	6.21	(0.8)%		
Non-fuel costs per ASK (€ cents)	5.06	5.02	0.8 %		

Alternative performance measures	2019	2018 ¹	Higher / (lower)
Profit after tax before exceptional items (€ million)	70	187	(62.6)%
Adjusted earnings per share (€ cents)	3.7	8.7	(57.5)%
Net debt (€ million) ^{3,4}	5,225	6,430	(18.7)%
Net debt to EBITDA ^{3,4}	1.0	1.2	(0.2x)

Statutory results € million	2019	2018	Higher / (lower)
Profit after tax and exceptional items	70	794	(91.2)%
Basic earnings per share (€ cents)	3.7	38.5	(90.4)%
Cash and interest-bearing deposits	7,481	7,442	0.5 %
Interest-bearing long-term borrowings	12,706	6,953	82.7 %

For definitions refer to the IAG Annual report and accounts 2018.

¹ Pro forma financial information is based on the Group's statutory results with an adjustment for IFRS 16 'Leases' from January 1, 2018. A reconciliation of the pro forma financial information to the Group's statutory results is available on the Company's website.

² March 31, 2018 comparatives are the Group's statutory results as reported.

³ Net debt is long-term borrowings less cash and cash equivalents and other interest-bearing deposits. EBITDA is operating profit before exceptional items and depreciation, amortisation and impairment.

⁴ The prior year comparative is pro forma December 31, 2018. The December 31, 2018 as reported was adjusted net debt of €8,355 million, and adjusted net debt to EBITDAR of 1.6 times.

Willie Walsh, IAG Chief Executive Officer, said:

“In a quarter when European airlines were significantly affected by fuel and foreign exchange headwinds, market capacity impacting yield and the timing of Easter, we remained profitable and are reporting an operating profit of €135 million.

“At constant currency, non-fuel unit costs were down 0.6 per cent while passenger unit revenue decreased by 1.4 per cent.”

Trading outlook

At current fuel prices and exchange rates, IAG expects its 2019 operating profit before exceptional items to be in line with 2018 pro forma. Passenger unit revenue is expected to be flat at constant currency and non-fuel unit cost is expected to improve at constant currency. We expect passenger unit revenue at constant currency to improve for the remainder of the year.

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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.

Enrique Dupuy, Chief Financial Officer

Forward-looking statements:

Certain statements included in this announcement are forward-looking. These statements can be identified by the fact that they do not relate only to historical or current facts. By their nature, they involve risk and uncertainties because they relate to events and depend on circumstances that will occur in the future. Actual results could differ materially from those expressed or implied by such forward-looking statements.

Forward-looking statements can typically be identified by the use of words such as “expects”, “may”, “will”, “could”, “should”, “intends”, “plans”, “predicts”, “envisages” or “anticipates” or other words of similar meaning. They include, without limitation, any and all projections relating to the results of operations and financial conditions of International Consolidated Airlines Group S.A. and its subsidiary undertakings from time to time (the ‘Group’), as well as plans and objectives for future operations, expected future revenues, financing plans, expected expenditure and divestments relating to the Group and discussions of the Group’s business plan. All forward-looking statements in this announcement are based upon information known to the Group on the date of this announcement and speak as of the date of this announcement. Other than in accordance with its legal or regulatory obligations, the Group does not undertake to update or revise any forward-looking statement to reflect any changes in events, conditions or circumstances on which any such statement is based.

It is not reasonably possible to itemise all of the many factors and specific events that could the forward-looking statements in this announcement to be incorrect or 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 Group’s risk management process is set out in the ‘Risk management and principal risk factors’ section in the Annual Report and Accounts 2018; these documents are available on www.iagshares.com. All forward-looking statements made on or after the date of this document and attributable to IAG are expressly qualified in their entirety by the primary risks set out in that section.

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CONSOLIDATED INCOME STATEMENT

€ million	Three months to March 31					Statutory	
	Statutory	Pro forma			Higher/ (lower)	2019	2018 ²
	Total 2019	Before exceptional items 2018 ¹	Exceptional items	Total 2018 ¹			
Passenger revenue	4,646	4,415		4,415	5.2 %	4,646	4,415
Cargo revenue	275	276		276	(0.4)%	275	276
Other revenue	397	331		331	19.9 %	397	331
Total revenue	5,318	5,022		5,022	5.9 %	5,318	5,022
Employee costs	1,204	1,154	(644)	510	4.3 %	1,204	510
Fuel, oil costs and emissions charges	1,366	1,112		1,112	22.8 %	1,366	1,112
Handling, catering and other operating costs	687	643		643	6.8 %	687	645
Landing fees and en-route charges	485	472		472	2.8 %	485	472
Engineering and other aircraft costs	485	388		388	25.0 %	485	391
Property, IT and other costs	169	176	5	181	(4.0)%	169	212
Selling costs	281	271		271	3.7 %	281	271
Depreciation, amortisation and impairment	515	485		485	6.2 %	515	307
Aircraft operating lease costs	-	-		-	-	-	202
Currency differences	(9)	(19)		(19)	(52.6)%	(9)	(19)
Total expenditure on operations	5,183	4,682	(639)	4,043	10.7 %	5,183	4,103
Operating profit	135	340	639	979	(60.3)%	135	919
Finance costs	(137)	(132)		(132)	3.8 %	(137)	(48)
Finance income	10	14		14	(28.6)%	10	14
Net financing credit relating to pensions	6	3		3	100.0 %	6	3
Net currency retranslation credits	70	21		21	233.3 %	70	21
Other non-operating credits/(charges)	2	(24)		(24)	(108.3)%	2	(24)
Total net non-operating costs	(49)	(118)		(118)	(58.5)%	(49)	(34)
Profit before tax	86	222	639	861	(61.3)%	86	885
Tax	(16)	(35)	(51)	(86)	(54.3)%	(16)	(91)
Profit after tax for the period	70	187	588	775	(62.6)%	70	794

Operating figures	2019	2018 ¹	Higher/ (lower)
Available seat kilometres (ASK million)	75,423	71,093	6.1 %
Revenue passenger kilometres (RPK million)	60,878	57,220	6.4 %
Seat factor (per cent)	80.7	80.5	0.2pts
Cargo tonne kilometres (CTK million)	1,391	1,356	2.6 %
Passenger numbers (thousands)	24,382	22,954	6.2 %
Sold cargo tonnes (thousands)	174	170	2.5 %
Sectors	169,010	162,091	4.3 %
Block hours (hours)	501,362	480,145	4.4 %
Average manpower equivalent	63,751	62,238	2.4 %
Aircraft in service	582	551	5.6 %
Passenger revenue per RPK (€ cents)	7.63	7.72	(1.1)%
Passenger revenue per ASK (€ cents)	6.16	6.21	(0.8)%
Cargo revenue per CTK (€ cents)	19.77	20.35	(2.9)%
Fuel cost per ASK (€ cents)	1.81	1.56	15.8 %
Non-fuel costs per ASK (€ cents)	5.06	5.02	0.8 %
Total cost per ASK (€ cents)	6.87	6.59	4.3 %

¹ Pro forma financial information is based on the Group's statutory results with an adjustment for IFRS 16 'Leases' from January 1, 2018. A reconciliation of the pro forma financial information to the Group's statutory results is available on the Company's website.

² The 2018 statutory results for the Group are the consolidated results including the impact of the exceptional items. There are no exceptional items in the three months to March 31, 2019.

FINANCIAL REVIEW

Strategic overview

IAG announced that it did not intend to make an offer for Norwegian Air Shuttle ASA and consequently sold its 3.93 per cent shareholding.

IAG placed an order for 18 Boeing 777-9 aircraft, plus 24 options, for British Airways, to replace 14 Boeing 747-400 and four Boeing 777-200 between 2022 and 2025. Each aircraft will be fitted with 325 seats in four cabins.

British Airways will move to a new location in Terminal 8 at John F. Kennedy airport and is investing in the new terminal with American Airlines as part of a significant reinvestment by the Port Authority of New York and New Jersey. Changes will include additional aircraft stands, enhanced state-of-the-art baggage systems, new lounges, premium check-in areas and upgraded concessions.

British Airways unveiled its new Club Suite which will feature direct-aisle access, a suite door and flat-bed seats in a 1-2-1 configuration. The new 56-seat Club World cabin will be launched on the airline's first A350 aircraft in July 2019 which also will also feature the latest World Traveller Plus cabin.

LEVEL announced Amsterdam Schiphol as its second European shorthaul base, and flights started on April 6, 2019. Three Airbus A321 aircraft are based at Schiphol, with four A321 aircraft already based in Vienna.

Basis of preparation

The Group has adopted the new accounting standard IFRS 16 'Leases' from January 1, 2019, and has used the modified retrospective transition approach. IFRS 16 eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model. On the Balance sheet, obligations to make future payments under leases, previously classified as operating leases, are recognised as right of use assets (ROU) with the associated debt. In the Income statement, the operating lease costs are replaced with depreciation (within operating expenditure) and lease interest expense (within non-operating expenditure). For further information see pages 170 to 171 of the 2018 Annual Report and Accounts.

The following review is against a pro forma basis for 2018, which provides a consistent basis for comparison with 2019 results. Pro forma results for 2018 are the Group's statutory results with an adjustment for IFRS 16 from January 1, 2018, and have been prepared using the same assumptions used for the IFRS 16 transition adjustment at January 1, 2019 (set out in note 33 of IAG's 2018 Annual Report and Accounts) adjusted for any new aircraft leases entered into during 2018 and using the incremental borrowing rates at January 1, 2019. The IFRS 16 adjustments for aircraft lease liabilities are based on US dollar exchange rates at the transition date.

Principal risks and uncertainties

The Group has continued to maintain and operate its structure and processes to identify, assess and manage risks. The principal risks and uncertainties affecting the Group, detailed on pages 30 to 36 of the 2018 Annual Report and Accounts, remain relevant.

Operating and market environment

Average commodity fuel prices for the quarter were slightly lower than in the same period last year, although effective fuel prices were higher than in 2018, principally due to hedging profits in 2018 not repeated in 2019 and the strengthening of the US dollar.

The US dollar was stronger against both the euro and pound sterling, whilst the average euro to pound sterling exchange rate was at similar levels to quarter one 2018.

IAG's results are impacted by exchange rates used for the translation of British Airways' and Avios' financial results from sterling to the Group's reporting currency of euro. For the three months, the net impact of translation was €2 million favourable.

From a transactional perspective, the Group's financial performance is impacted by fluctuations in exchange rates, primarily from the US dollar, euro and pound sterling. The Group generates a surplus in most currencies in which it does business, except for the US dollar, as capital expenditure, debt repayments and fuel purchases typically create a deficit. The Group hedges a portion of its transaction exposures. The net transaction impact on operating profit was adverse by €63 million for the period, increasing revenues by €46 million and costs by €109 million.

The net impact of translation and transaction exchange for the Group was €61 million adverse.

Capacity

In the first three months of 2019, IAG capacity, measured in available seat kilometres (ASKs) was higher by 6.1 per cent, with increases across all regions. The increases were mainly driven by Iberia, up 11.1 per cent on the previous year, the expansion of LEVEL shorthaul and longhaul and Aer Lingus, up 14.2 per cent. Vueling and British Airways also increased capacity over the previous year, up 4.0 per cent and 1.5 per cent respectively. Passenger load factor rose 0.2 points to 80.7 per cent. The Group carried 24,382 thousand passengers during the quarter, an increase of 6.2 per cent versus last year.

Revenue

Passenger revenue rose 5.2 per cent from the previous year. Passenger unit revenue (passenger revenue per ASK) decreased 1.4 per cent at constant currency ('ccy'), due to lower yields (passenger revenue per revenue passenger kilometre), with a small offset from the increase in passenger load factor. The decrease in passenger unit revenue was due in part to Easter being later than in 2018, particularly impacting leisure travel, together with market capacity and increased average stage length.

Cargo revenue was 0.4 per cent lower than in 2018 and 2.5 per cent down at constant currency, impacted by market conditions in the Asia Pacific region, partially offset by volume. Cargo carried, measured in cargo tonne kilometres (CTKs), rose by 2.6 per cent, with yields at ccy down 5.0 per cent on 2018.

Other revenue increased by 19.9 per cent and by 16.3 per cent at ccy, mainly driven by increased revenues from Iberia's third party maintenance business and higher revenue at BA Holidays.

Costs

Employee costs increased 4.3 per cent compared to last year. On a unit basis and at ccy, employee unit costs improved 1.9 per cent with salary awards, primarily inflation-linked, more than offset by efficiency initiatives achieved across the Group and the closure of the British Airways NAPS pension scheme to future accrual on March 31, 2018. The average number of employees was 2.4 per cent higher than 2018, reflecting the growth in capacity, with productivity, measured as ASKs per average manpower equivalent, up 3.6 per cent for the Group.

Fuel costs increased 22.8 per cent, with fuel unit costs up 11.1 per cent at ccy from higher average fuel prices net of hedging, mainly due to hedging profits in 2018 not repeated in 2019. The introduction of new fleet continued to drive efficiencies.

Supplier costs increased by 8.6 per cent, although on a unit basis at ccy were broadly flat on the previous year.

Ownership costs increased 6.2 per cent on the previous year, with the number of aircraft in service growing from 551 to 582. Ownership costs on a unit basis and at ccy were broadly in line with 2018.

Overall non-fuel unit costs at ccy were down 0.6 per cent versus a year ago, with the impact of growth and efficiency measures across the Group more than offsetting price increases and the additional costs incurred to grow Iberia's MRO and BA Holidays' revenues.

Operating profit

The Group's operating profit for the period was €135 million, a decrease of €205 million versus 2018, and down €144 million at ccy, driven mainly by fuel headwinds, market capacity impacting yield and the timing of Easter.

Exceptional items

There were no exceptional items in the quarter. In 2018, the Group recognised an exceptional gain of €678 million, due to the closure of British Airways' NAPS and BARP pension schemes, and an exceptional charge of €39 million related to the continuation of British Airways' transformation initiatives.

Net non-operating costs, taxation and profit after tax

The Group's net non-operating costs for the quarter were €49 million in 2019, compared with €118 million in 2018. The change was primarily from the net retranslation of debt and hedging instruments, resulting in a credit of €70 million in 2019, compared with €21 million in the previous year.

The tax charge for the period was €16 million before exceptional items, with an effective tax rate for the Group of 19 per cent (2018: 16 per cent). The rate in 2018 was impacted by the recognition of withholding tax on the closure of the British Airways NAPS pension scheme.

The profit after tax for the quarter was €70 million (2018: €775 million after exceptional items), a decrease of €705 million versus last year, principally driven by the reduction in pension liabilities in 2018 associated with the closure of the British Airways NAPS pension scheme to future accrual.

Cash and leverage

The Group's cash position of €7,481 million was broadly in line with March 31, 2018. Net debt at the end of the quarter, including the debt associated with right of use assets, was €5.2 billion and net debt to EBITDA was 1.0 times.