IAG results presentation

Quarter Two 2012

3rd August 2012

Operating result summary

- Second quarter operating results: €46 million profit pre-bmi; €4 million loss after bmi trading; €42 million loss after bmi trading and exceptional items
- Reported passenger unit revenue up 9.3%. Like for like (pre-bmi at constant currency) passenger unit revenue growth of 3.6%
- Revenue performance driven by a good mix of premium and non-premium growth
- Reported fuel unit costs up 19.7%; on a like for like basis up 9.8%. Reported non-fuel unit costs up 8.3%; like for like non-fuel unit costs up 0.6%
- bmi trading losses and restructure costs approximately €90 million impact in the quarter
- Results impacted by worsening economic environment in Spain

Airline performance: first half 2012

	BRITISH AIRWAYS H1 2012* (£m)	vly	IBERIA H1 2012* (€m)	vly
Revenue	5,162	+9.8%	2,290	-3.2%
Costs	5,150	+14.0%	2,553	+2.9%
OPERATING RESULT	**12**	-169	**-263**	-147
Operating margin	+0.2%		-11.5%	
ASK (m)	77,864	+5.9%	29,411	-5.2%
RPK (m)	60,524	+9.1%	24,037	-3.6%
Seat factor	77.7%	+3.0pts	81.7%	+1.7pts
Sector length (kms)	3,439	-0.8%	2,945	+4.0%
Revenue per ASK	6.63	+3.8%	7.79	+2.1%
Cost per ASK	6.62	+7.5%	8.68	+8.5%
Ex-fuel costs per ASK	4.29	+3.4%	6.16	+3.2%

* includes bmi mainline. Post exceptional items

Financial summary

Reported

	Q2 2012 (€m)	Q2 2011 (€m)	*vly*
Revenue	4,613	4,137	*+11.5%*
Fuel costs	1,564	1,250	*+25.1%*
Ex-fuel costs	3,053	2,697	*+13.2%*
OPERATING RESULT	**- 4**	**190**	**-194**
Operating margin	-0.1%	4.6%	
OP. RESULT (post excptnl)	**-42**	**134**	**-176**
ASK (m)	55,851	53,427	*+4.5%*
CTK (m)	1,529	1,552	*-1.5%*
Seat factor	81.3%	79.8%	*+1.5pts*
Passenger rev per ASK	7.02	6.42	*+9.3%*
Cargo rev per CTK	19.56	19.46	*+0.5%*
Cost per ASK	8.27	7.39	*+11.9%*
Ex-fuel costs per ASK	5.47	5.05	*+8.3%*

'Pre bmi'

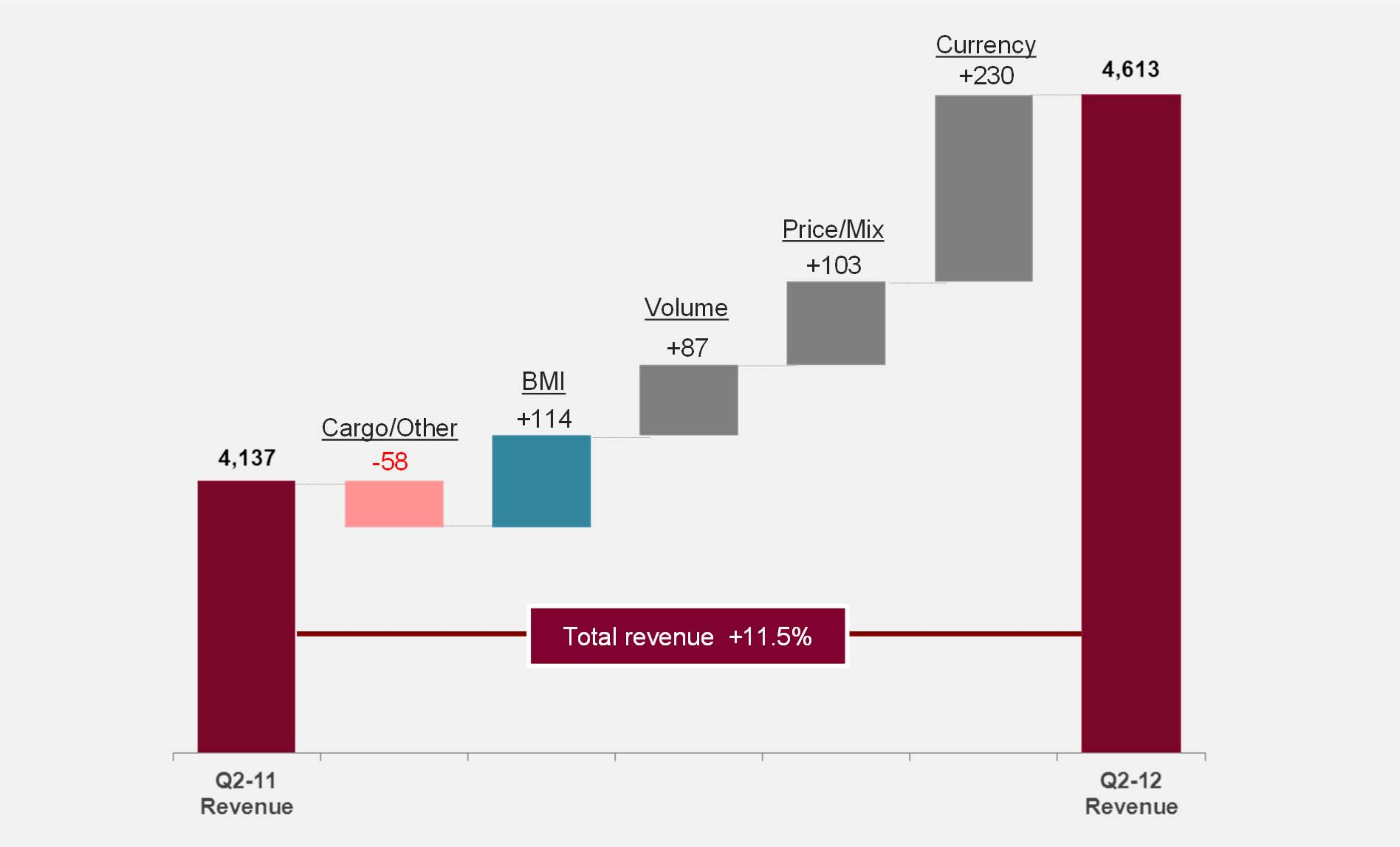
Q2 2012 (€m)	*vly*
4,499	*+8.8%*
1,526	*+22.1%*
2,927	*+8.5%*
46	**-144**
1.0%	

'Like for like'

Q2 2012	*vly*
6.65	*+3.6%*
18.49	*-5.0%*
7.66	*+3.7%*
5.08	*+0.6%*

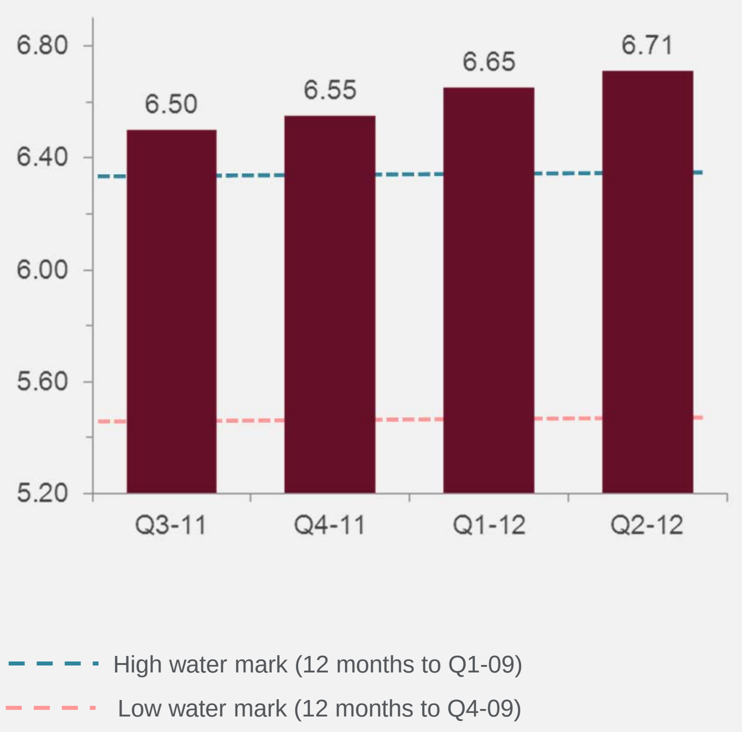
IAG Reported: Iberia + BA (incl bmi mainline). **IAG Pre BMI:** Iberia + BA pre BMI. **IAG LfL:** IAG pre BMI at constant FX

Revenue development

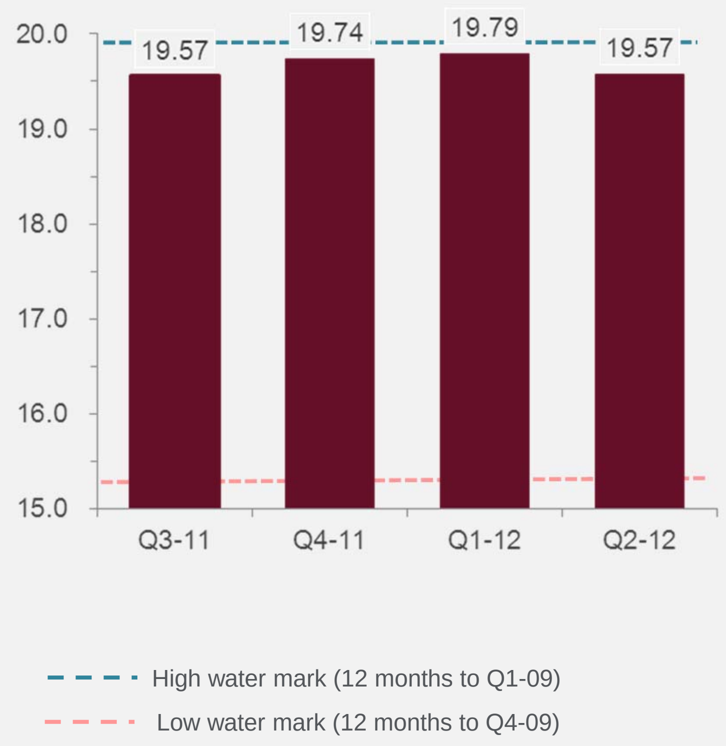


Passenger and cargo unit revenue

IAG like for like* passenger revenue per ASK,
rolling 12 months, € cents



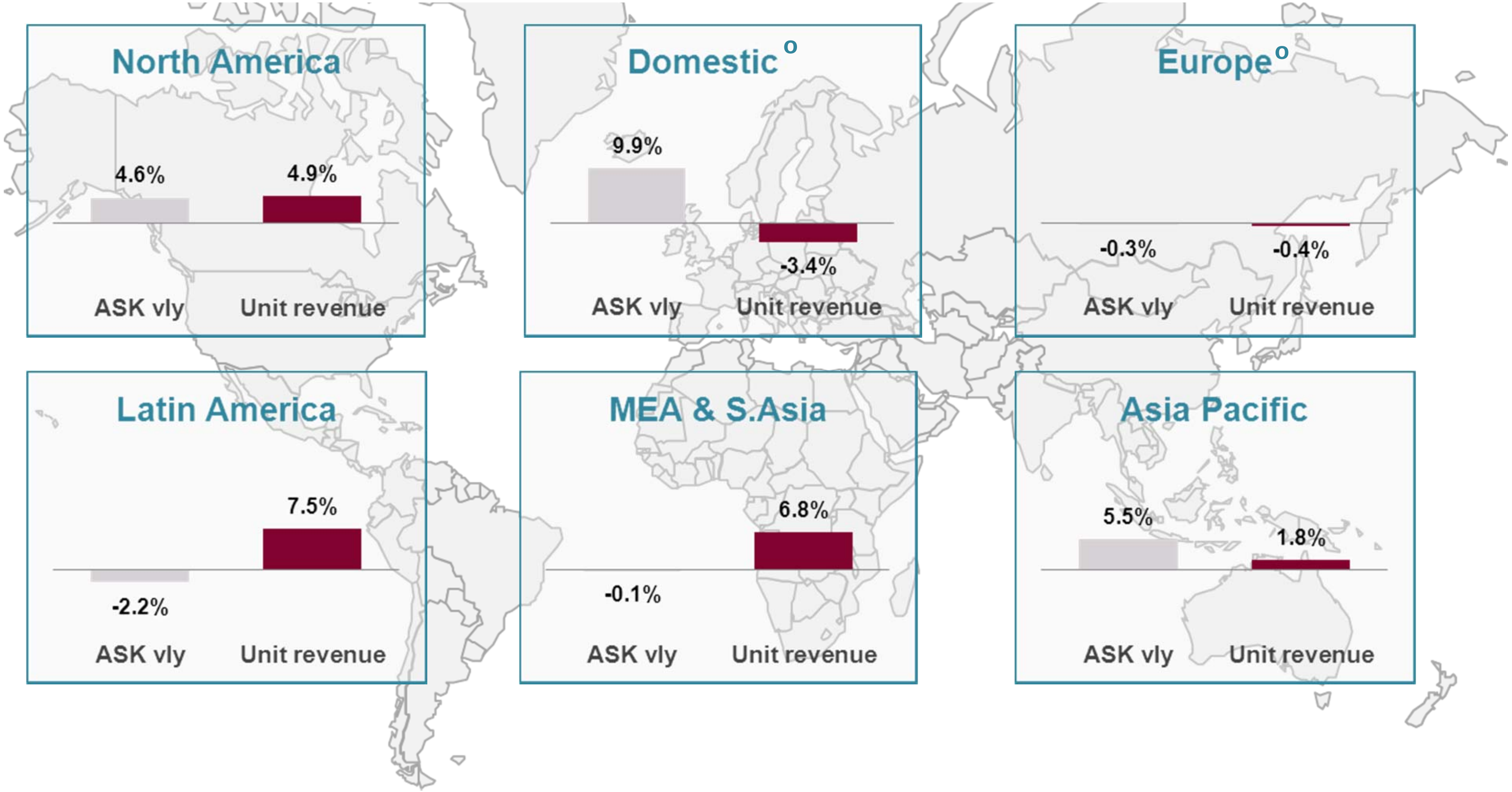
IAG like for like* cargo per CTK,
rolling 12 months, € cents



* Like for like: ‘pre bmi’ at constant currency

Unit revenue growth in long haul

% change in IAG like for like* passenger revenue per ASK

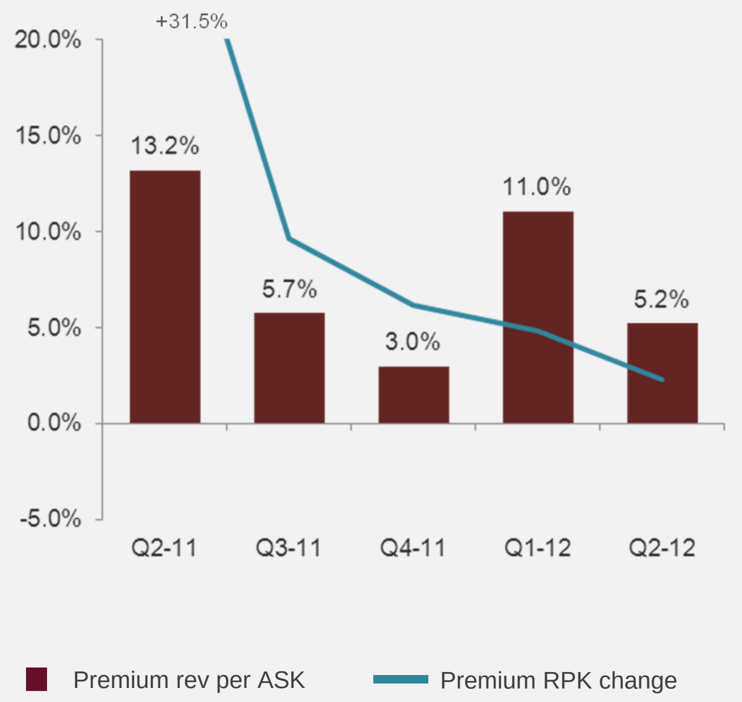


o Includes Iberia Express in 2012, previously outsourced to Air Nostrum and Vueling and therefore excluded from 2011 data

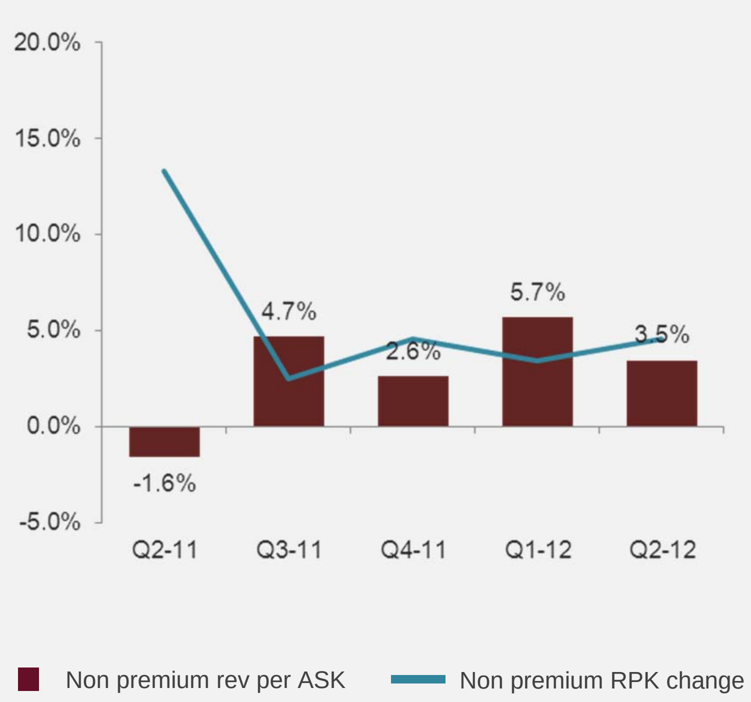
* Like for like: 'pre bmi' at constant currency

Cabin mix development

Like for like* premium revenue and volume : % vly

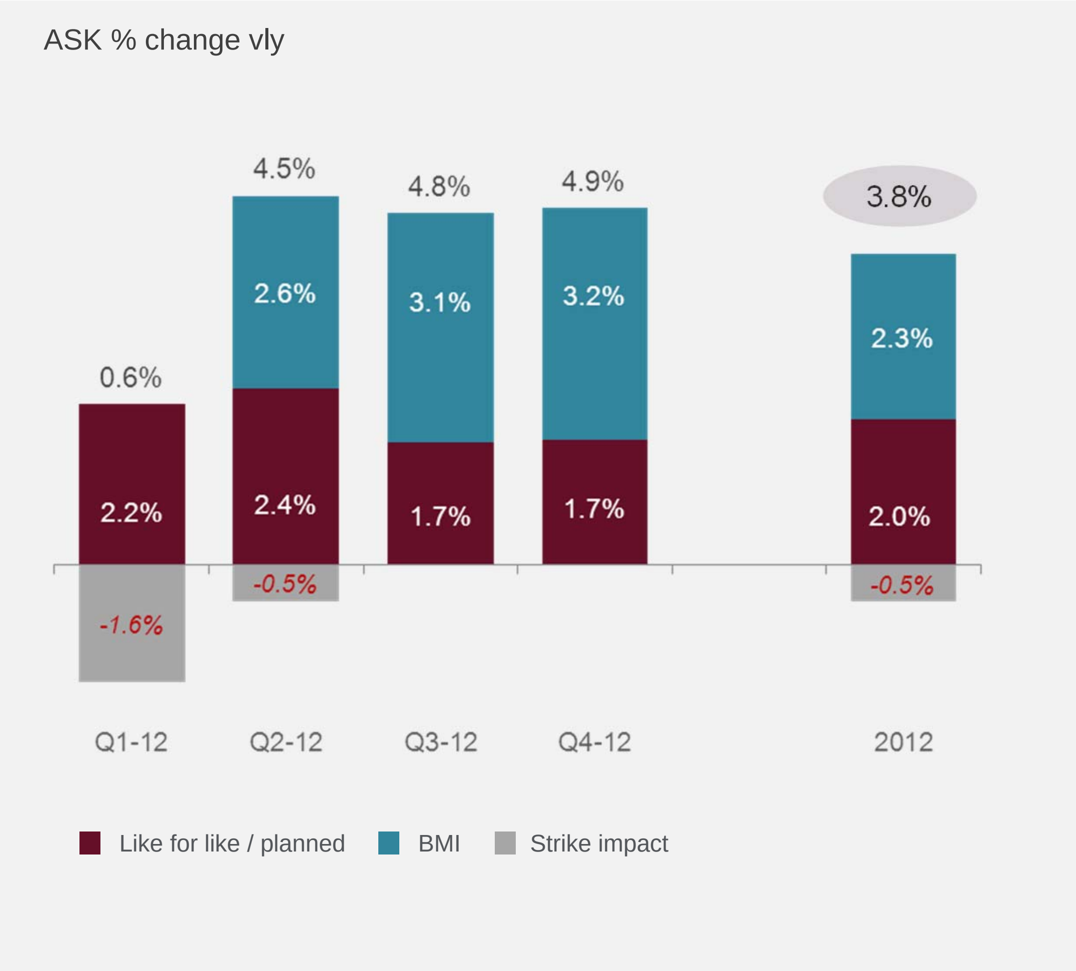


Like for like* non-premium revenue and volume: % vly



* Like for like: ‘pre bmi’ at constant currency

Capacity plan



- 2012 reported like for like +1.5%
- Overall 2012 planned growth including BMI +4.3%, disruption to reduce by 0.5%
- Iberia strike impact in Q2: 7 days.

Underlying unit revenue environment

	Short haul	Long haul
Non premium	Competitive	Competitive
Premium	Soft	Stable
Cargo		Weak

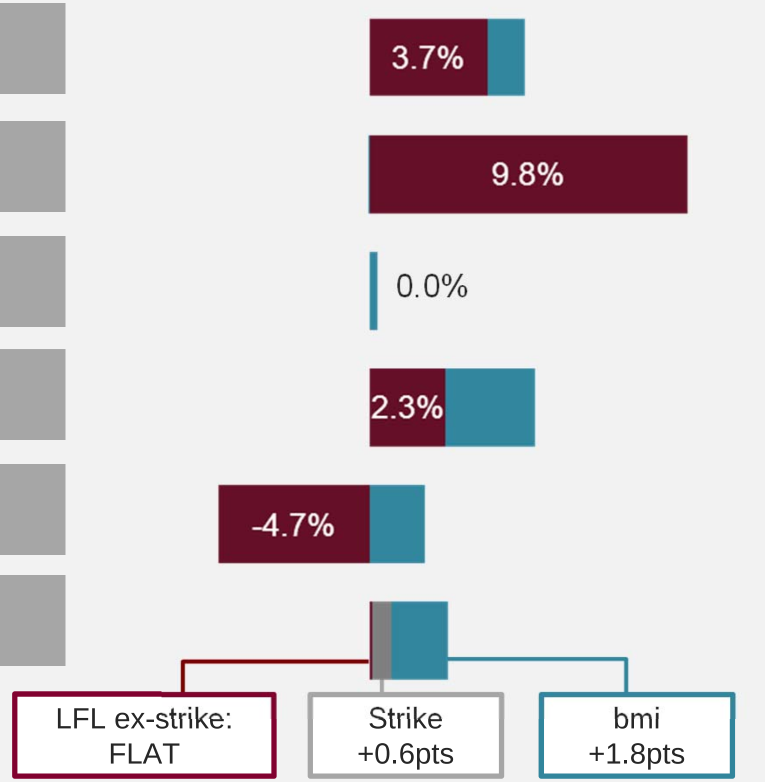
- Premium segment appears firm, despite distorted travel patterns caused by Olympic Games
- Spanish market weakness continues
- Deterioration in cargo outlook

Cost and cash flow trends

Overall unit operating cost growth

	Q2 12 vs Q2 11 €,m	**Q2 reported unit cost** % change vly
TOTAL	+670	+11.9%
Fuel	+314	+19.7%
Employee	+91	+4.9%
Supplier	+236	+12.1%
Ownership	+29	+3.1%
Non-fuel	+356	+8.3%

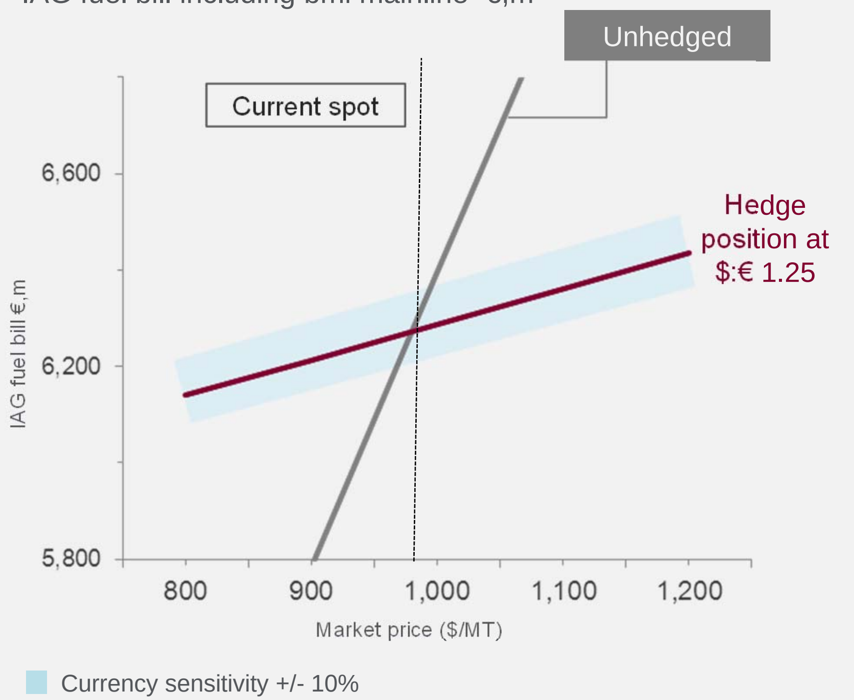
Q2 like for like unit cost
% change vly



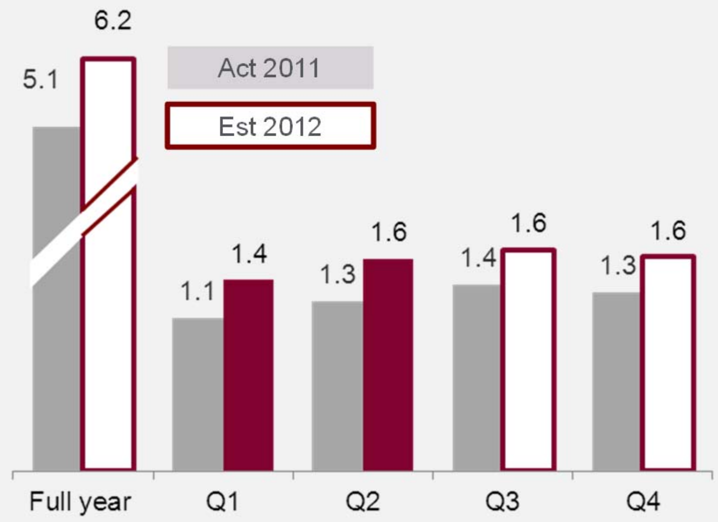
* Like for like: ‘pre bmi’ at constant currency

Fuel hedging & guidance

IAG fuel bill including bmi mainline €,m



IAG fuel bill including bmi mainline €,bn

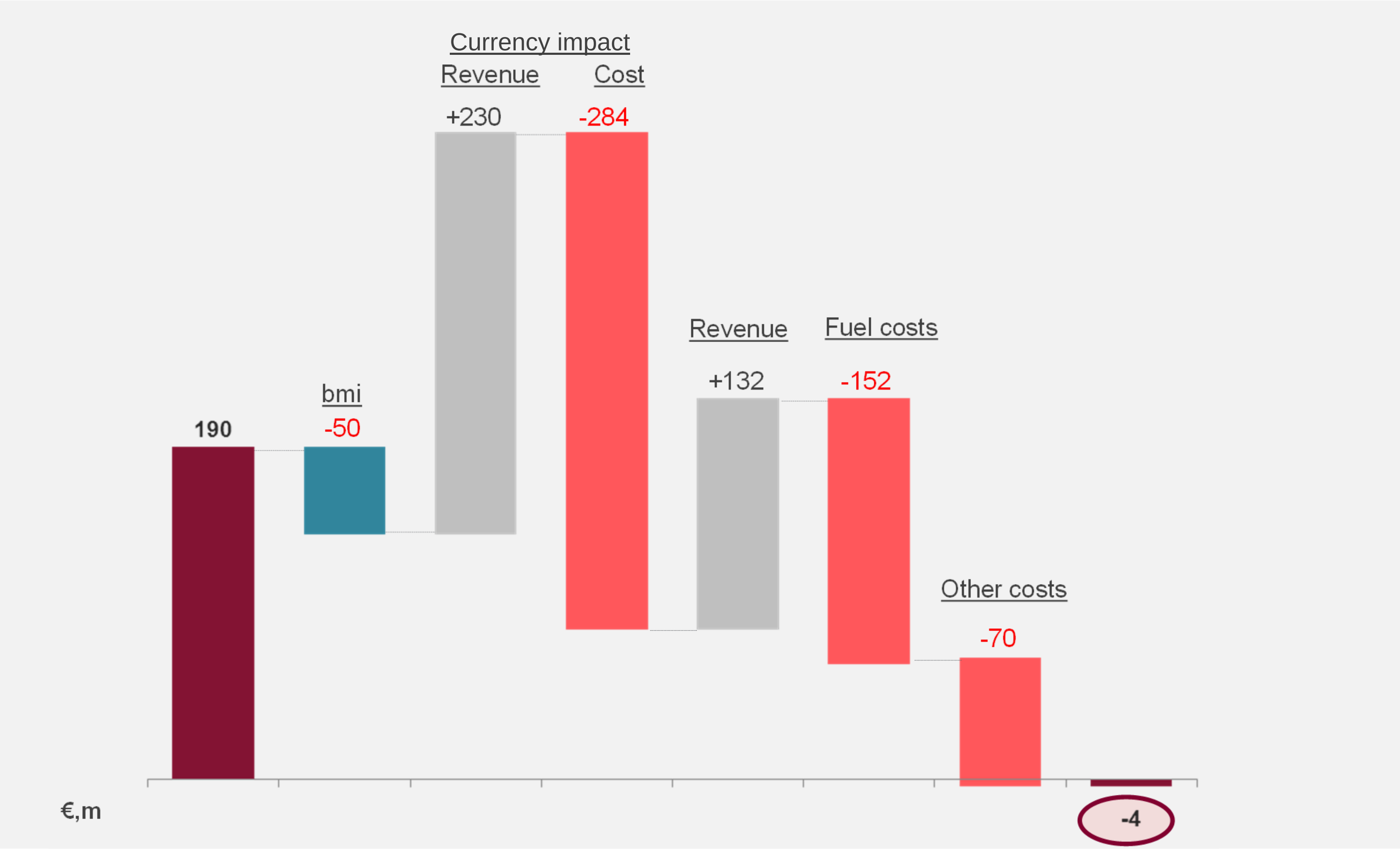


Current fuel hedging (%)	Q3-12	Q4-12	Q1-13	Forward 12m
	76%	77%	64%	66%

Blended price ($/MT)	Q1-12	Q2-12	Q3-12	Q4-12
	1,023	1,031	969	977

Estimates based on 1.25 $:€ and a spot rate of 980$/MT

Operating result evolution



Balance sheet summary

€,m	**Jun 2012**	**Dec 2011**	*Change*
Equity	**5,482**	**5,686**	-204
Cash, cash equivalents & interest bearing deposits	4,013	3,735	278
Gross debt	5,321	4,883	438
On balance-sheet net debt	***1,308***	***1,148***	160
Gearing	**19%**	**17%**	
Aircraft lease cap (x8)	3,344	3,224	+120
Adjusted net debt	***4,652***	***4,372***	+280
Adjusted gearing	**46%**	**44%**	

IAG

Business updates

BMI integration progress – first 100 days

Activity	Progress
Transfer commercial activity	All flights on BA selling systems. 80% of services moved to BA commercial control. Network flow benefits already apparent.
Near term schedule optimisation	Complete: New W12 schedule communicated 18th July. From winter each destination on combined network operates from single Heathrow terminal.
Transfer operations	87 pilots and 125 cabin crew TUPE transferred. 8 of 25 aircraft migrated onto the British Airways AOC & rebranded.
Remove duplicate activity	Over €100m of cost reductions identified, delivery started and on track.
bmi ancillary businesses	31st May: bmi regional sold. bmibaby flying reduced. Employee consultation process ended 1st Aug, business will cease operations on 9th September.

Integrate → Optimise → Transform

Iberia turnaround plan – Investor Day 2011 recap

- Profit improvement by 2015 was to centre on :

Project	Benefit	Status
Synergy benefits	> €200m	On target
Long haul fleet / product	> €100m	On target
Madrid hub project	> €100m	On target
Iberia Express	> €100m	On target, but potentially compromised by arbitration

- 2015 target - assumptions on external environment :

Factor	Assumption	Status
Baseline 2011 op loss	€98m	€263m loss in H1 2012
Competition	static	Competition set to intensify, with continued presence of LCCs, and legacy carriers looking to restructure
Macro environment	2011 fcsts	Significant deterioration in Spanish macro environment, further exacerbated by tax increases
Oil price	$120/bbl	Limited oil price easing, mostly offset by € weakness

Iberia Express – great start, arbitration risk

- Since its April launch, Iberia Express has successfully achieved the following:
  - ✓ Crew productivity and overall crew costs better than LCCs
  - ✓ Average punctuality at Madrid hub > 95%
  - ✓ 10 aircraft operational, crew secured for a further 4 for planned 2013 growth
  - ✓ Operating costs >10% better than expected, 30% better than IB like-for-like
  - ✓ Profitable in June in spite of macro headwinds
- Iberia Express and Vueling show that it is possible to make money in Spain – with the right cost base

HOWEVER:

- Labour arbitration in its current form unclear and difficult to implement – potentially puts a cap on cost competitiveness beyond 14 aircraft (close to original planned average for 2013); NB original plan calls for 40 aircraft by end 2015
- Legal hearing in appeal process scheduled for 11th October

Iberia – external environment substantially worse

- Although inbound Latin American demand remains strong, consensus GDP forecasts for Spain and Eurozone have deteriorated sharply – 2015 weighted GDP exposure is now c. 4.5% worse than 2011 expectations
- This creates a significant revenue gap in today's terms, exacerbated by tax increases in Spain
- The jet fuel price in Euros remains at its all-time high
- Iberia mainline remains chronically uncompetitive with the LCCs, faces a growing threat from strong Latin American carriers, and needs to move ahead of other network carriers in Europe
- In the light of these factors and the labour arbitration, we will carry out a restructuring of Iberia which will be broader and deeper than originally planned

New Iberia plan – remodelling and renewal

- We are currently working on a new restructuring plan for Iberia, to cover all aspects of the business model

- Key features of the new plan are likely to include:
  - Short-term downsizing to achieve long-term profitable growth
  - Re-shaping of the network to deliver higher unit revenues, retaining Iberia's leadership position on Europe to Latam routes
  - Re-evaluation every part of the business, to deliver cost competitiveness across the board

- To be finalised by end of September

- The aims of the new plan:
  - To contribute fully to the unchanged Group 2015 target operating profit of €1.6bn
  - To allow Iberia to deliver sustainably profitable growth

Outlook for 2012

A number of factors have improved over the past three months. Underlying British Airways trading conditions remain firm and bmi integration is on track, but any benefit from an easing of fuel prices has been more than offset by the deterioration in Spanish economic conditions.

We were previously targeting a break-even operating result this year, after the impact of restructuring costs and the short term earnings drag from the bmi acquisition. However, in the light of the Spanish macro headwind, we now expect to make a small operating loss in 2012.

The Iberia restructuring plan could lead to further restructuring costs in the latter part of the year.

Appendix

Comparison pre and post bmi

€,m	Q2 2012 Reported	Q2 2012 Pre-bmi	Q2 2012 Like for like	Unit change Reported	Unit change Pre-bmi	Unit change Like for like
Revenue	4,613	4,499	4,268	6.7%	6.7%	1.2%
Fuel costs	1,564	1,526	1,401	19.7%	19.7%	9.8%
Employee costs	1,076	1,047	1,002	4.9%	4.3%	0.0%
Supplier	1,607	1,528	1,434	12.1%	9.3%	2.3%
Ownership	370	352	331	3.1%	1.6%	-4.7%
OPERATING RESULT pre exceptional items	**- 4**	**46**	**100**			

ASK (m)	+4.5%	+1.9%	+1.9%
RPK (m)	+6.5%	+4.3%	+4.3%
CTK (m)	-1.5%	-2.4%	-2.4%

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.

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