

Capital Markets Day

4th November 2016



British Airways

Alex Cruz - Chairman and CEO

Sean Doyle - Director Fleet & Network

Steve Gunning - Chief Financial Officer

Key messages

Targeted customer investment / Maximising value of London airports

CUSTOMER

Material improvement in operational performance planned

OPERATIONS

Delivering a cost competitive platform and capital efficiency

EFFICIENCY

Developing a dynamic culture to drive the business further and faster

PEOPLE

IAG

British Airways

Introduction

BRITISH AIRWAYS 

#Plan4 – Changing the way we fly the world



Key metrics: ROIC EqFCF NPS RASK CASK

CUSTOMER

Invest & innovate where customers value it most

Service – Product - Revenue

OPERATIONS

Be safe, reliable and responsible

Safety – Reliability – CSR

EFFICIENCY

Improve capital efficiency and have competitive costs

Costs – Simplicity - Agility

PEOPLE

Unleash our true potential

Capability – Motivation – Speed

DIGITAL

IAG

British Airways

Strategy

BRITISH AIRWAYS 

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Customer

BRITISH AIRWAYS 

Customer investment across all cabins

Short-haul catering quality/choice upgraded in partnership with M&S



WIFI starts in 2017 – 90% long-haul fleet complete by 2019



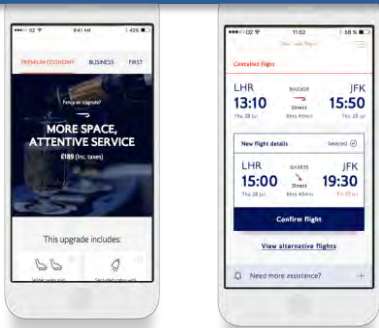
New premium facilities at Heathrow, Gatwick, JFK, Boston



52% of wide-body aircraft new or refurbished – from 35% in Q4 2015



New app will provide options to upgrade and manage disruptions



New First product on B787-9 and new First Wing at LHR



£400m investment in Club World

Ambition to create an experience that exceeds that of our key competitors

Transform food & drink

- Radical improvement in quality and presentation
- Increase choice through pre-order



Step change in service

- Premium service training
- Complete re-design of service routine
- Performance management



Best night's sleep

- New ambience to maximise sleep
- Better soft product including bedding
- New seat in development



Best ground service

- 'First Wing' opening at LHR T5 in 2017
- New LGW lounge opens Jan 2017
- New Boston lounge coming soon



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Customer

BRITISH AIRWAYS 

Opportunity to improve First and Traveller contribution

ROIC contribution	Cabin specific strategy	Cross cabin
<p>First </p>	<p>NPS high but paid load factor low</p> <ul style="list-style-type: none"> • Introduce 8 seat First cabins with higher spec (787-9) • Remove First from routes with limited demand 	<p>British Airways Brand</p> <p>Extensive route network</p> <p>Loyalty proposition</p> <p>Personalised service</p> <p>Operational reliability</p>
<p>Club </p>	<p>Club continues to perform well on long and short-haul</p> <ul style="list-style-type: none"> • Major investment in Club World planned • Club Europe to be introduced on UK domestic flights 	
<p>Traveller Plus </p>	<p>Highly popular with both business & leisure customers</p> <ul style="list-style-type: none"> • Increase capacity maintaining competitive seat density • Enhanced food & drink experience 	
<p>Traveller </p>	<p>Purchase decision driven by value for money</p> <ul style="list-style-type: none"> • Seat density/unbundling drive price competitiveness • Differentiate with brand, network, loyalty, service, reliability 	



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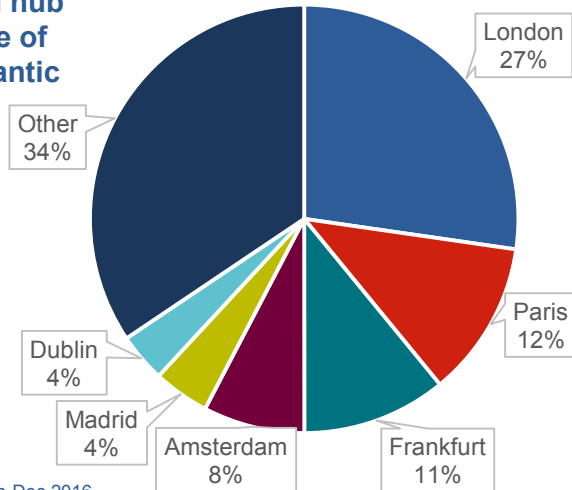
PEOPLE



Heathrow hub gives BA a competitive advantage

Europe's No.1 hub for transatlantic travel

European hub seat share of North Atlantic seats

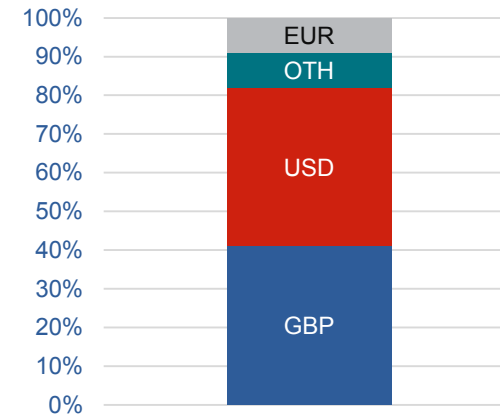


Source: OAG Jan-Dec 2016

- More than twice NATL passengers as Paris
- Strong European feed enables BA to start new routes (e.g. New Orleans)
- World's largest premium O&D – corporate & premium leisure

BA well positioned to take advantage of weak sterling

BA US routes currency mix

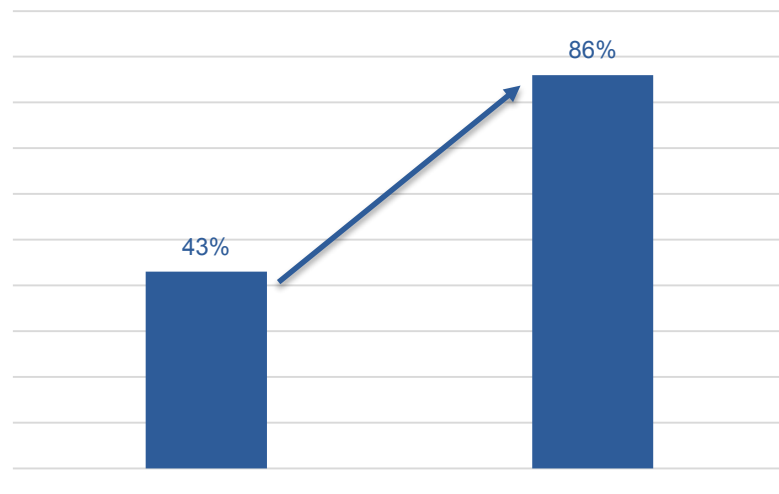


- 60% of long-haul pax sold outside UK
- 59% of US route revenue is non-Sterling
- Ability to increase mix of non-£ revenue:
 - Redeploy capacity
 - Optimise connecting flights
 - Increase availability of overseas seats

Short-haul: more dynamic peak season scheduling

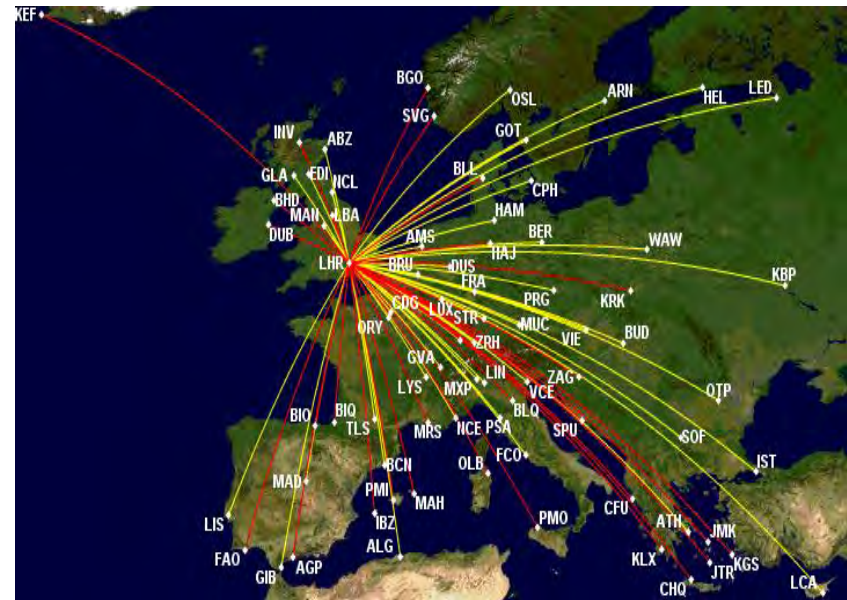
Business routes typically have low seat factors in peak summer months...

Aggregate seat factor of 3 rotations switched from business to leisure routes in summer '16



- Business routes provide BA with stable all year round short-haul contribution
- However, in peak summer months, leisure routes can provide higher contribution

..so we are growing Heathrow leisure in peak summer



- New summer-only Heathrow services for 2017:
 - Brindisi, Montpellier, Murcia, Nantes, Pula, Tallinn, Zakynthos

Long-haul: sustainable mid-cycle margin, growth ambition

Grow destination breadth

- 4 new routes added in last 12 months
- Further North Atlantic, Asia and Middle East opportunities in scope
- 25 787s fully deployable from 2017 for medium size route development



Strengthen network depth on key markets

- A380 now on 6 North Atlantic gateways
- 'Super Hi-J' on LHR JFK
- Fleet mix offers multiple up-gauge opportunities



Leverage alliance partnerships

- Asian hub and JV with Qatar Airways
- Codeshare with China Eastern
- Potential LATAM joint venture



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Network

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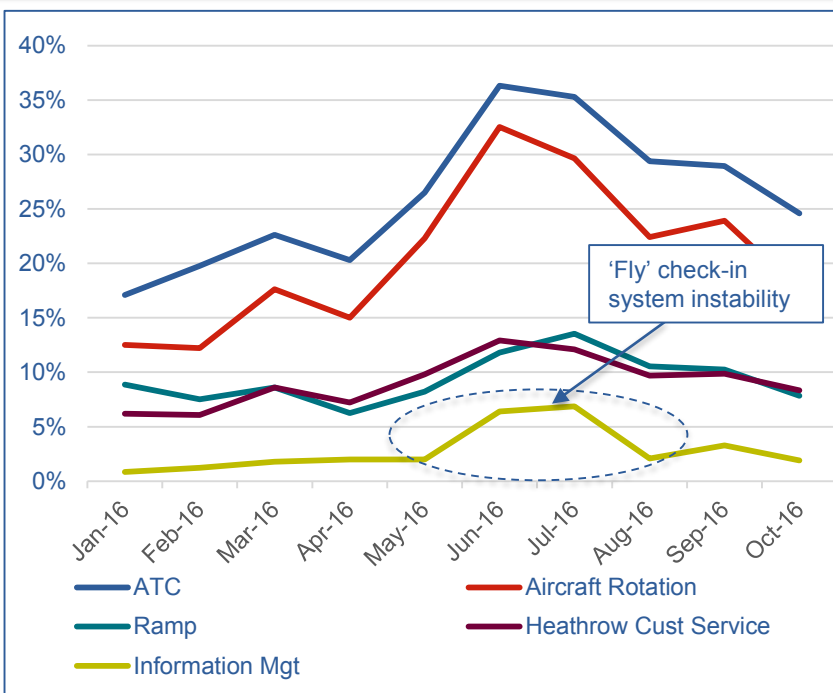
Developing a dynamic culture to drive the business further and faster

PEOPLE



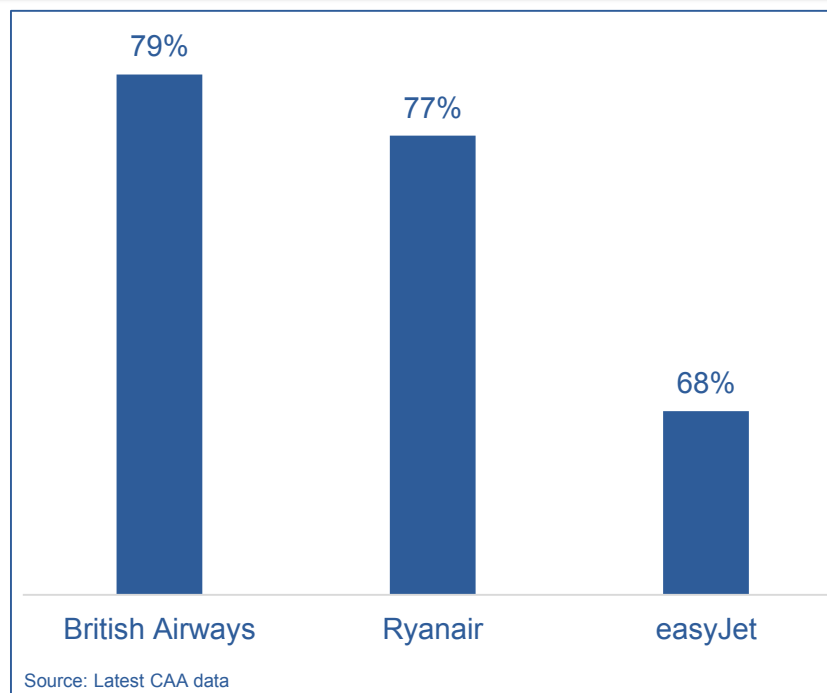
Operational reliability remains a key focus

ATC has been the major cause of delays



- 'Fly' performance continues to improve
- ATC remains the main cause of delays

British Airways is the most punctual major short-haul carrier in London



- BA more punctual than Ryanair & easyJet
- New resilience plan will drive higher punctuality / baggage performance in 2017

Increased resilience to counter external factors

Create a schedule with greater resilience

- Additional summer aircraft availability by re-timing retirements and planned maintenance
- Schedule A320 sub-fleets as a single fleet to improve flexibility

Improved delivery of the operational plan

- Greater focus on aircraft turnaround
- Contingency crews and additional flexibility in rostering
- Increase in Technical Dispatch Reliability

Focus on transfer baggage performance

- New integrated baggage system and increased baggage capacity
- Block time changes for flights with high transfer loads
- IT system fixes to improve baggage integration with other carriers

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Efficiency

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Operational efficiencies enabled by technology

New technology rolling out through 2017

Disruption

- Self-service rebooking
- Better service/ lower cost



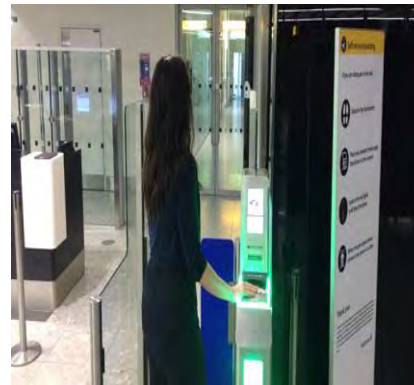
Check-in

- 72 self service bag-drop desks across LHR/LGW
- Auto document check



Departure

- Auto-boarding gates trials
- Automated connections gates



Ramp

- Remote control aircraft push-back
- Trials completed



Structural change programme has commenced

#Plan4 – changing the way we fly the world

Operations

- Technology to automate above and below aircraft wing
- Digital operations



Engineering

- Implement IAG MRO strategy
- Mobile automation



Cabin crew

- Voluntary redundancy programme Q3 2016
- Mixed fleet 42% of crew by end 2017 (35% today)



Head Office

- Streamline head office manpower
- Develop a dynamic culture



Sales force

- Technology to automate back-office
- SME sales team and flexible working



Call centre

- Review call centre strategy
- Modernise technology



Subject to consultation

IAG

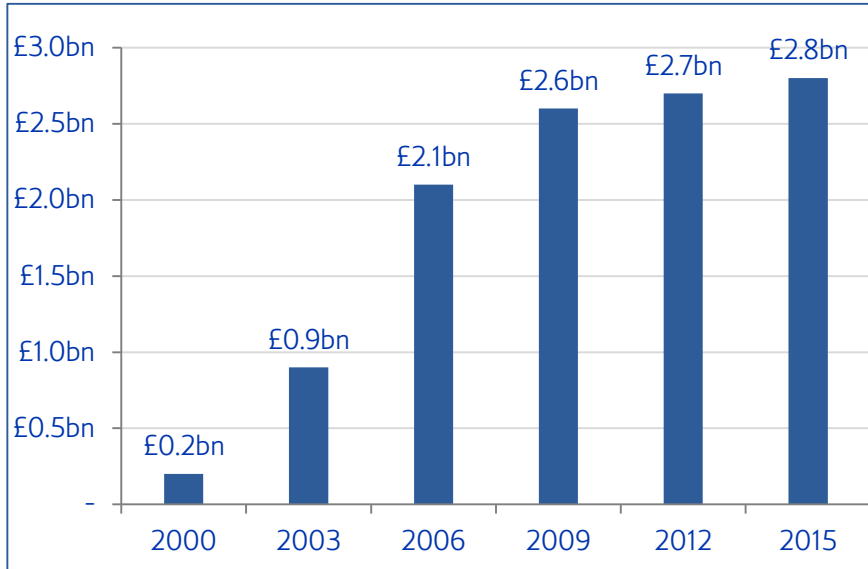
British Airways

Efficiency

BRITISH AIRWAYS 

Review of future pension provision has commenced

Agreement reached with trustees to address NAPS pension deficit



- Fixed pension repayments of £300m per annum until 2027 to close the deficit
- Freedom to pay dividends up to 35% of profit after tax

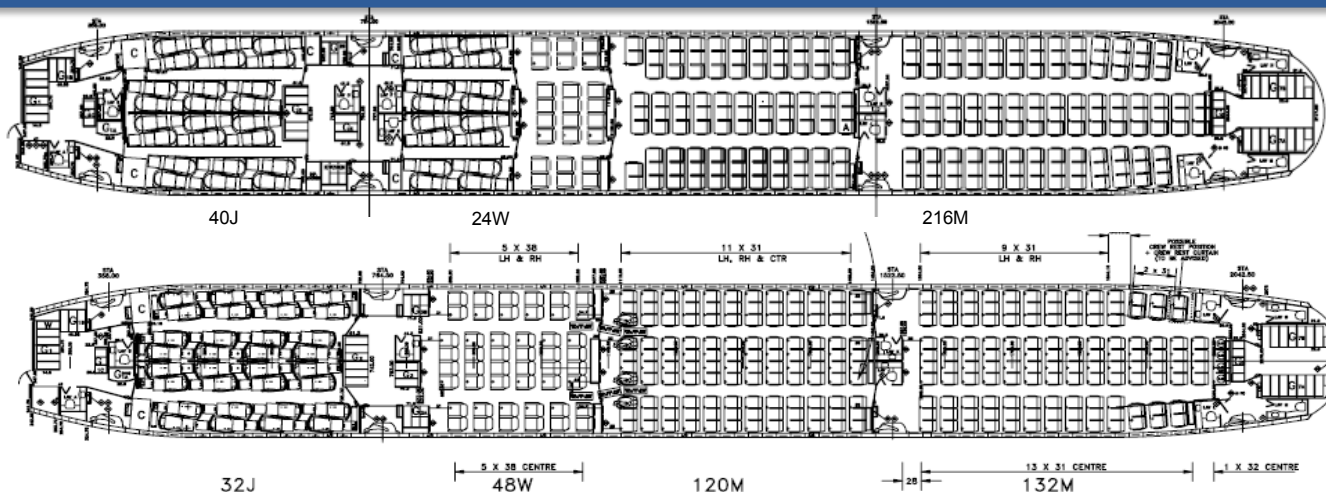
20 year Gilt yields at record lows



- Next step is to address future service cost
- We will be consulting colleagues, trustees and unions about future pension provision

Increasing capital efficiency

Gatwick's new B777 configuration will give a lower cost/e-seat than Norwegian B787



OLD CONFIGURATION

New Gatwick B777 configuration will increase seat count from 280 to 332

Arrives early 2018

NEW CONFIGURATION

Long-haul configuration efficiency

- B787-9s arriving with smaller F cabin
- 25 B777s will be converted to 10-abreast

Short-haul up-gauging & densification

- A319s reduce from 44 to 26 by 2021
- LHR A320s densified to 180 seats (from 168) W17
- LHR A321s densified to 218 seats (from 205) S18

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BRITISH AIRWAYS 

Growth drivers

		Growth contribution
North America	<ul style="list-style-type: none"> • Grow North Atlantic around 2.5% per annum • Strengthen key markets – A380 on Washington, San Francisco, Miami and Vancouver, Boston; Super Hi-J 747 on New York and Chicago • Growth to secondary cities – San Jose (Calif) and New Orleans 	●
LatAm	<ul style="list-style-type: none"> • Continued strong growth at Gatwick primarily leisure focussed • Flexibility to add back capacity into Brazil when economy recovers • New service to Santiago de Chile commencing Jan 17 	●
Short-haul	<ul style="list-style-type: none"> • Well positioned to hold business share and grow leisure • Further densification planned from 2018 (NEOs and CEOs) • Flexibility to up-gauge short-haul fleet at Gatwick • CityFlyer growing with flexibility to deploy fleet from several UK airports 	
Rest of world	<ul style="list-style-type: none"> • B787-9s deployed to Delhi, Seoul, Kuala Lumpur, Shanghai • China 2020 strategy: Develop airline partnerships • Africa – responsive to opportunities in key energy markets • A380 enables strategic growth in large markets (e.g. HKG, SIN, JNB) 	

Margin drivers

		Margin contribution
Unit revenue	<ul style="list-style-type: none"> Challenging macro environment Prudent forecast assumptions 	XXX
Fuel efficiency	<ul style="list-style-type: none"> 37% of 'new generation' fleet by Q4 2016 rising to 52% by 2021 11 B787-9 aircraft delivered in 2016 - total B787 fleet of 24 aircraft by Dec-16 2 A380 deliveries in 2016 bringing fleet to 12 	●
Employees	<ul style="list-style-type: none"> Streamlined head office by end 2018 Lower Heathrow handling costs enabled by technology Reduction in IT and Engineering costs enabled by IAG platform 	● ● ● ● ●
Suppliers	<ul style="list-style-type: none"> Focus on reducing overseas airport charges Ground handling tenders at outstations Engineering transformation via IAG maintenance strategy Simplification of aircraft fleet (long and short-haul) 	● ●



BA on track to meet IAG targets

	Rolling 12m	2016-2020
Lease adjusted operating margin (%)	12.9%	12-15%
Sustainable through the cycle RoIC (real terms)	12.5%	15%+
ASK growth per annum	2.3%	c.2%
Fleet (period end)	296	301

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Iberia

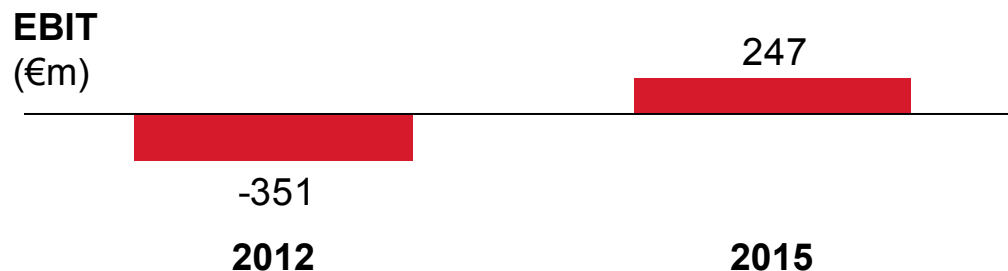
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Plan de Futuro has delivered on what we told two years ago

What we told you...

What we have achieved...

- 1** *Plan de Futuro will allow Iberia to reach **positive results in 2014** after 6 years of losses...*



- 2** *... provides Iberia with an **attractive strategic positioning** in core markets (specially Europe-LatAm)*

CASK ExFuel reduction
(2016E vs. 2012)

-13%

NPS improvement
(2016E vs. 2012)

+21.5 pp



- 3** *... sets the basis for **profitability and long-term growth***
- Margins in IAG target range from 2017 onwards
 - Strong growth prospects
 - Free cash generation from 2014

EBIT margin¹
(2016-2020)

8-13%

ASK CAGR
(2016-2020)

4%

Free cash flow
(from 2015)

positive



¹ Lease adjusted

IB has launched the second phase of Plan de Futuro

A more competitive context ...

- **Overcapacity** in core markets
- **Unstable** geopolitical and macroeconomic **environment** (specially Latam)
- But same **commitment to reach the targets** we set:
 - Keep **improving profitability**
 - **Achieve 15% ROIC**
 - Consolidate sustainable **cashflow generation**

Plan de Futuro Phase II

~€400m additional
EBIT

... a more ambitious approach

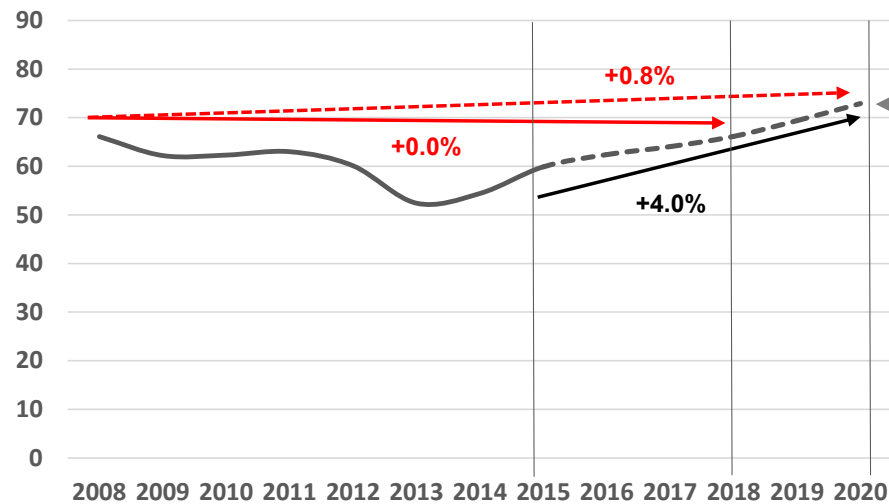
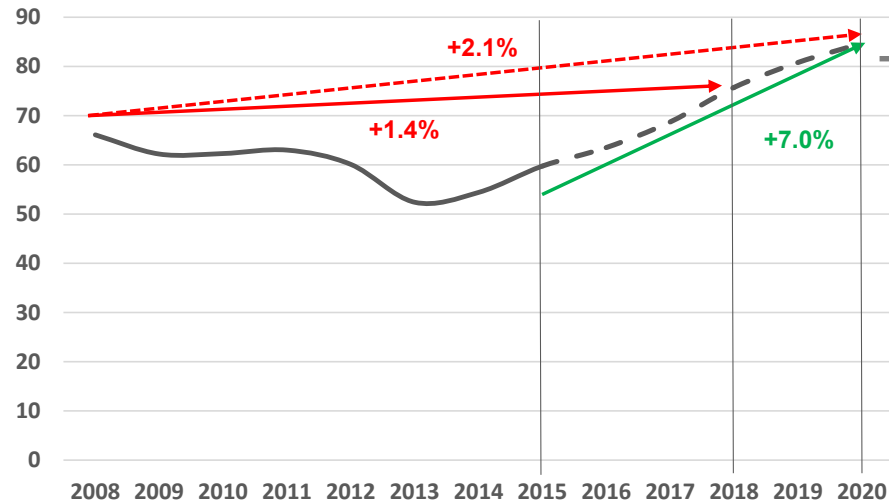
- **RASK optimization** through disruptive commercial initiatives and expanded JB model
- Achievement of **best-in-class CASK ex-fuel base**: focus on supplier costs and overheads
- Sustainable **profitability of non-core businesses** (MRO & HDL)
- **Capital efficiency**: capacity optimization and fleet **flexibility**

Adjusted capacity plans for a new environment

IB capacity plan at July 2015 (ASK bn)

- CAGR 2015-2020
- CAGR 2008-2018
- - - → CAGR 2008-2020
- New CAGR 2015-2020

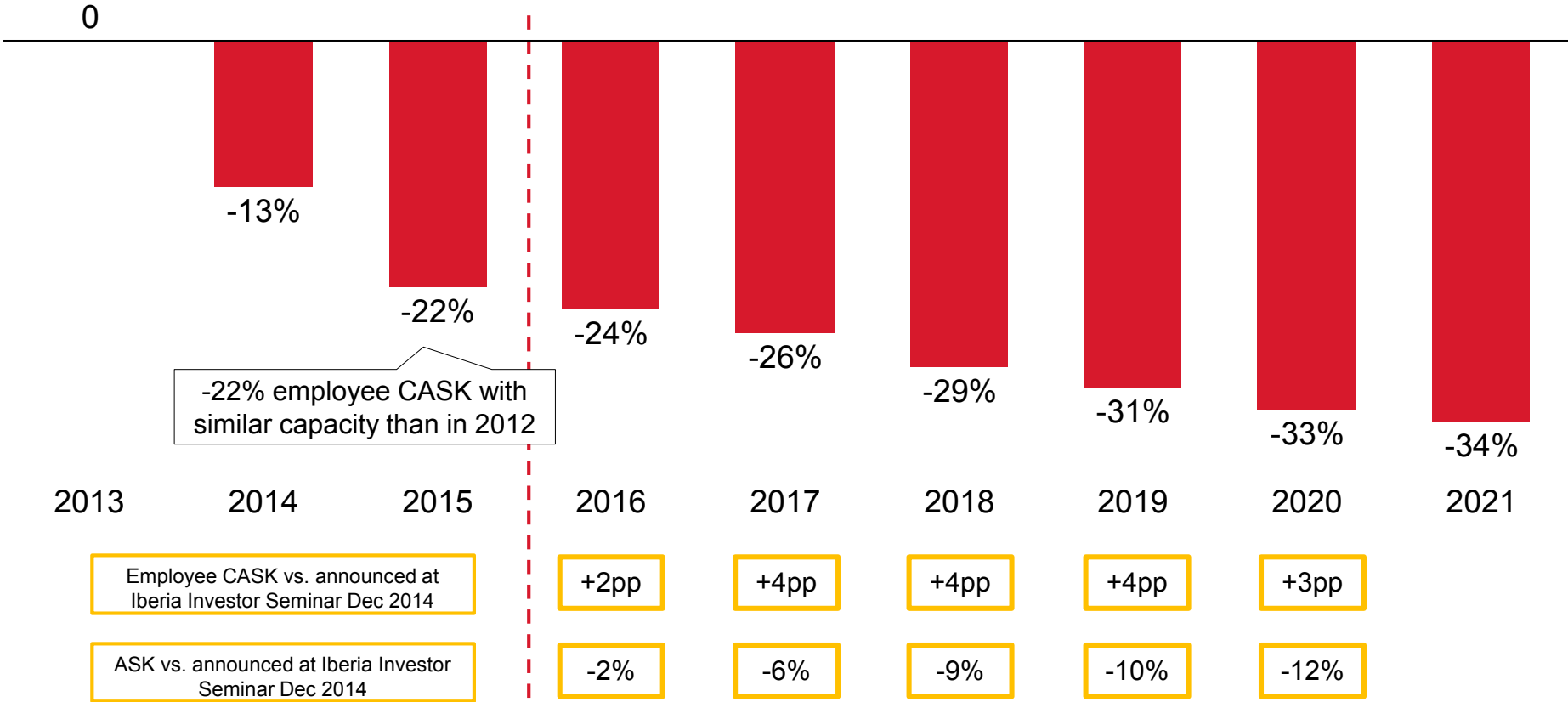
IB capacity plan at November 2016 (ASK bn)



2020 ASK
New plan vs. July 2015
-14%

Employee CASK savings

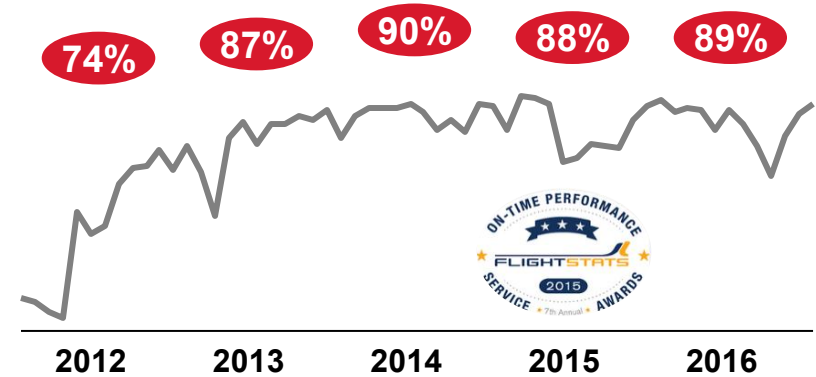
Expected employee CASK savings versus 2012 (%)



Consolidating new IB's customer proposition

Leading punctuality

- Iberia as most punctual Network Carrier in Europe and 2nd in the world¹
- Iberia Express as #1 most punctual NGC in the world¹
- Full commitment and alignment of all IB organization with **punctuality culture and operational excellence**



Competitive product

- New Long Haul product implemented in **100% of WB aircraft**
- Launch of new **Premium Economy product from 2017:**
 - New and more spacious seats
 - Only operator Spain- Latam
- **Slim seats in NB fleet** with proved **positive impact on customer satisfaction** (to be installed from 2017)



+7.2 ppt of NPS increase (Jan-Sep 2016 vs 2015)

¹ Source: Flightstats On-time performance report for the full year 2015 (published January 16)

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Customer experience

IBERIA

Increasing capital efficiency

NB & WB Densification

- **Slim seat densification on 12 aircraft of the A320 fleet** (from 171 to 180 seats): incremental revenues with same metal and better customer perception
- **Densification of WB fleet with new Premium Economy:** additional revenues
- **New aircraft** from Airbus already with optimum configuration



Optimised fleet size

- **LH fleet size adjusted vs. previous plan** to meet new capacity plans and market environment
- Similarly, **SMH fleet adjustment** towards optimum NB fleet mix
- **Continuous improvement of aircraft utilization**, through scheduling and fleet mix optimization



Further fleet flexibility

- Balanced fleet mix allowing **built-in flexibility to adapt**, upwards or downwards, to **potential market environment changes**
- **IAG fleet harmonization** of future A320NEO and A350 fleet to allow further flexibility within the group



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Iberia

Capital efficiency

IBERIA 

Growth drivers

		Growth contribution
North America	<ul style="list-style-type: none"> • Consolidation of new route to San Juan (launched May16) • Growth in profitable markets and use of Joint Business Agreement as lever • Entry of Premium Economy in key markets 	●
LatAm	<ul style="list-style-type: none"> • Capacity discipline in LatAm due to macro conditions • Selective growth in well-performing markets • Start of Premium Economy as a key differentiator 	
Short-haul	<ul style="list-style-type: none"> • Limited European growth to help sustain yields • Domestic growth focused on Spanish Islands • Joint optimization of routes also operated by other Group OpCos 	
Rest of World	<ul style="list-style-type: none"> • Consolidation of new route to Johannesburg (launched Aug16) • Consolidation of new routes to Shanghai (launched Jun16) and Tokyo (Oct16) • Limited growth in Africa SMH 	●

Margin drivers

		€ margin contribution
Unit revenue	<ul style="list-style-type: none"> • Minimum banking of benefits overall as much of the cost reduction is passed to the customer due to highly competitive environment • Lower growth limits the €m benefits compared to last year's prospect 	
Fuel efficiency	<ul style="list-style-type: none"> • 81% renewed LH fleet (A330 and A350) by 2020 • 20% of SMH fleet to be new-generation aircraft by 2020 • Continued execution of the operational efficiency program 	●
Employees	<ul style="list-style-type: none"> • Earlier than planned execution of current restructuring plans • Broader scope in restructuring plans from Plan de Futuro Phase II • Significant productivity improvements (mainly MRO and overheads) 	●
Suppliers	<ul style="list-style-type: none"> • Key focus of Plan de Futuro Phase II: review of all contract portfolio • Boost on the IAG Group synergies and expertise (GBS) • Lower growth reduces gross savings when compared to last year's estimate 	● ●

Iberia targets aligned with IAG targets

	Rolling 12m*	2016-2020
Lease adjusted operating margin (%)	6.7%	8-13%
Sustainable through the cycle RoIC (real terms)	7.4%	15%
ASK growth per annum	3.6%	4%
Fleet (period end)	99	106

* Rolling 12 months up to Q3 2016



In summary...

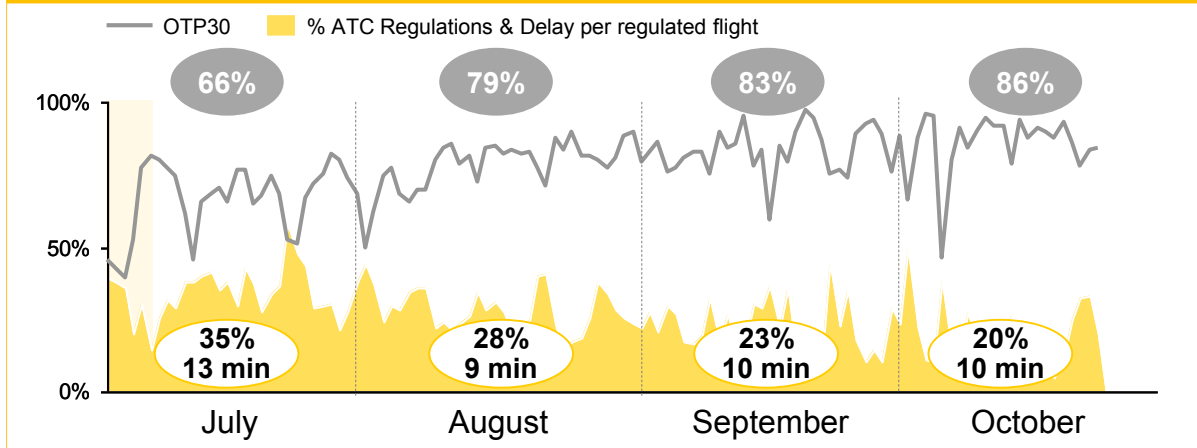
- **We have delivered** on what we promised: back to profitability, strategic positioning in core markets, and strong financials / growth
- **We have launched Plan de Futuro Phase II to adapt** to the current market conditions (**overcapacity and LatAm macro environment**), focusing in four areas:
 - Revenue and customer proposition to capture a market that is at hand
 - Costs to become a best-practice in the industry
 - Sustainable profitability of non-core businesses (MRO and HDL)
 - Improved capital efficiency and flexibility to adapt to market changes
- The transformation so far and the launch of Plan de Futuro Phase II places Iberia in the **right path to achieve IAG targets**

Vueling

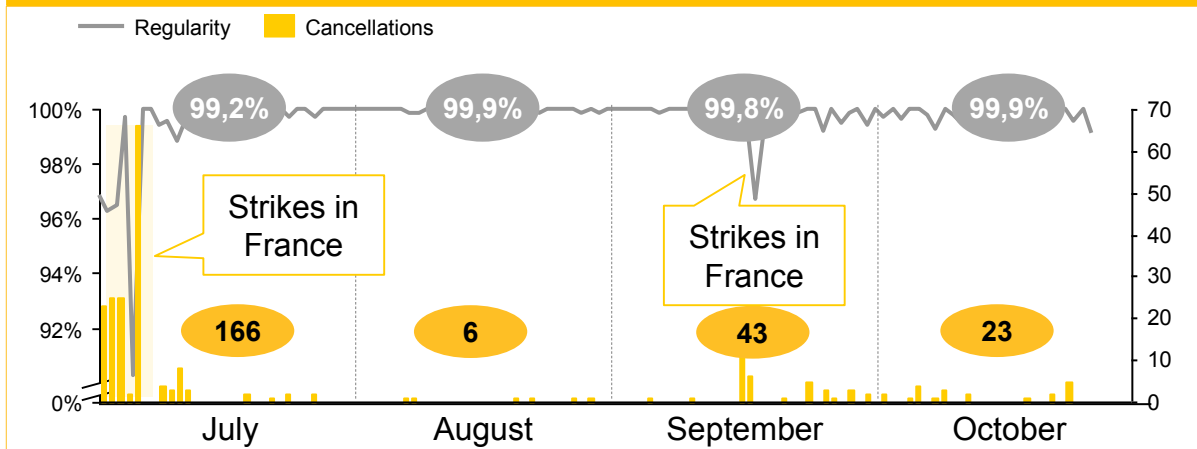
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Following a challenging Summer 16, Vueling has returned operations to normal levels

Vueling OTP improving



Vueling Regularity improving



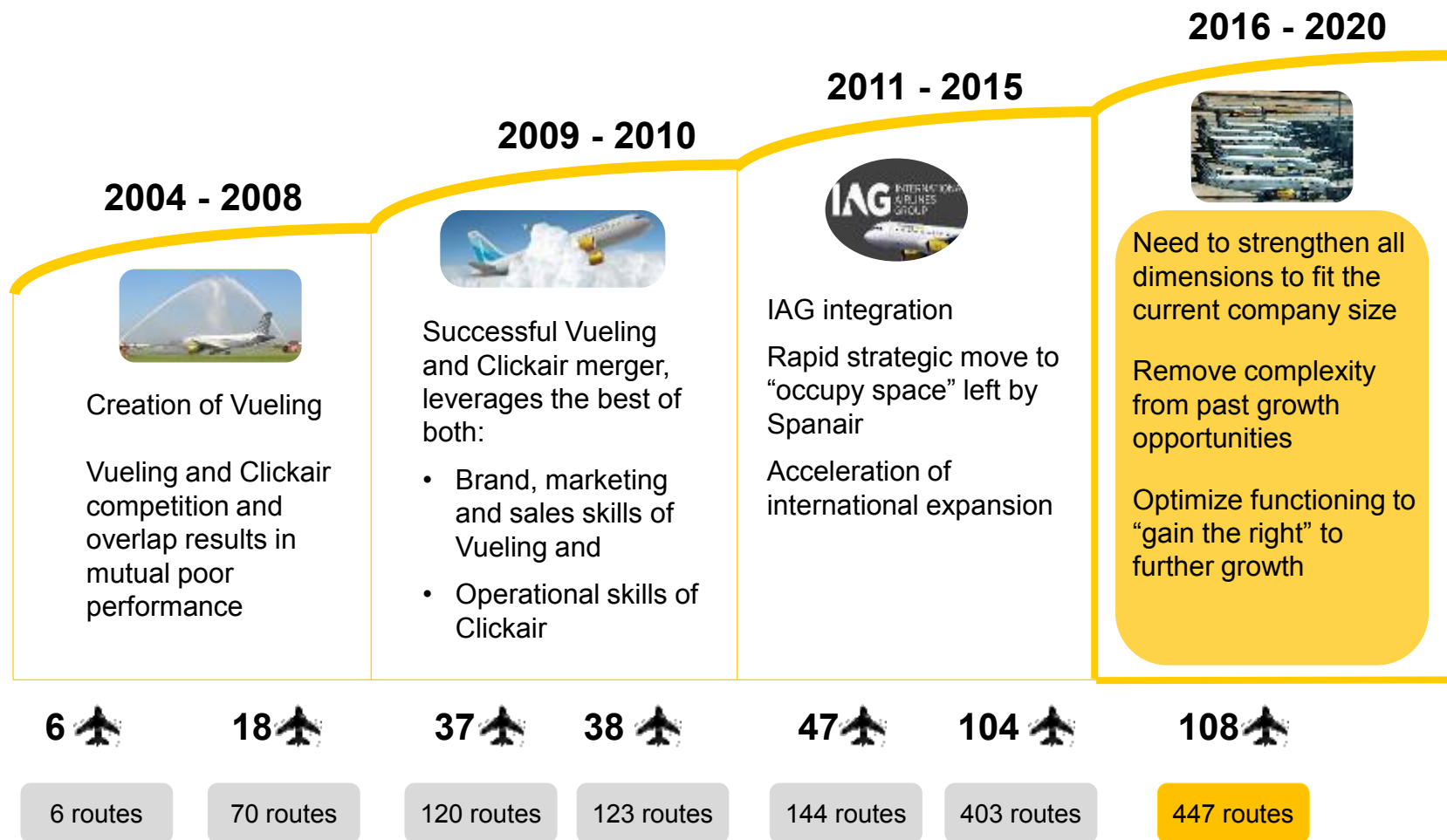
Challenging environment

- 14 strikes in France during summer period
- ATC restrictions reached 35% of flights, far above 2015 levels of 12%

Key improvement actions

- Increased operational resources: additional aircraft, additional crews and ground operations staff
- Incident management actions: more airport supervisors and resources for incident management
- Schedule modifications to minimize operational disruption

Vueling continues its evolution



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Vueling

NEXT

vueling

Vueling NEXT – The Vision



- Mix of leisure and business with different weights for different markets and seasons
- Tailor-made offer adapted to our main customer segments

- Price competitive (meaning cost discipline as a LCC)
- Reliable (punctuality, regularity)
- Easy to use

vueling



Vueling's value proposition as the customer's first choice in the markets it operates

Ciudades vueling



- Core results: Full coverage of domestic markets
- Ambition: Leadership in the traffic Spain-Europe
- Aspiration: Develop an international footprint

Vueling NEXT – The Plan

Operational excellence & cost discipline

- Remove operational complexity & waste
- Optimize processes: Standardise, automate and best practice tools and techniques
- Focus on utilisation, productivity and efficiency



Sustainable & profitable network

- Optimise Network:
 - Less seasonal
 - Less variable
 - Higher utilisation
- Leadership in core markets
- Optimal go-to-market and revenue management



Reliable customer proposition

- Best-in-class punctuality
- Deliver consistently on customer expectations
- Focus on product/offer alignment in each customer segment
- Leading edge innovation in Customer Experience



High performing organization

- Upgraded capabilities for new era
- Best-in-class processes, systems & tools
- High employee engagement



vueling®
next 

IAG

Vueling

NEXT

vueling®

Vueling NEXT – The organisation to deliver the plan

Upgraded skills

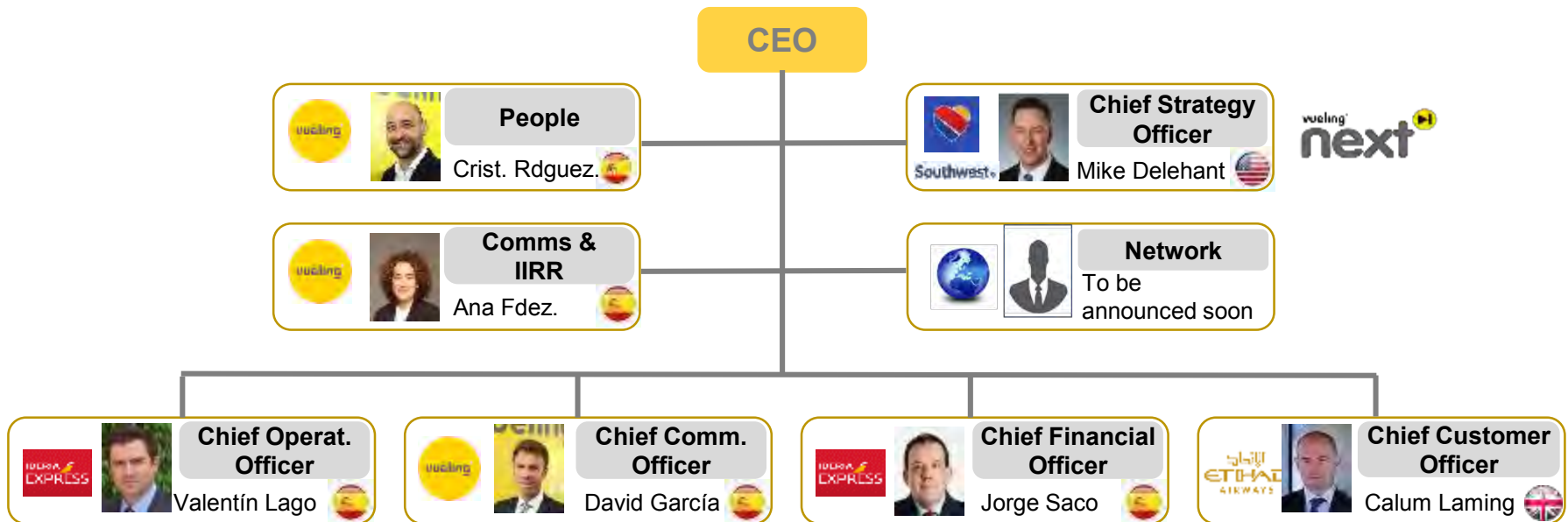
- Upgraded skills in key roles
- Deep industry experience with a more international profile

Customer focus

- Customer as the centre piece of our strategy
- Increase visibility of “Customer” in the organisation, generate customer orientation

Efficiency & business focus

- Direct contact of senior positions to front line: Reduce levels and “span-breakers”
- Avoid dispersion and increase clarity of responsibilities and deliverables of each unit



Vueling continues to drive innovations and continuing improvement to enhance the Customer Experience

Customer Experience

- Fleet interiors & seat configuration Standardisation
- WIFI on board
- USB power ports



Innovation

- New payment methods
- Purchase of extra seat
- Booking of pending passenger



Operations Continuous Improvement

- Operations Control Center (OCC) processes
- Crew Scheduling & Rostering
- EFB – Electronic Flight Bag



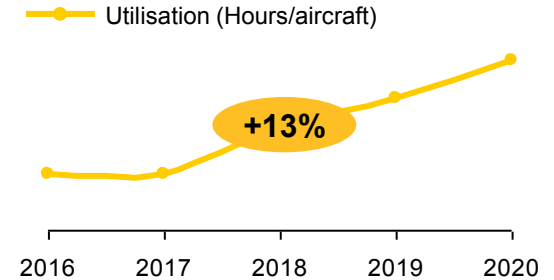
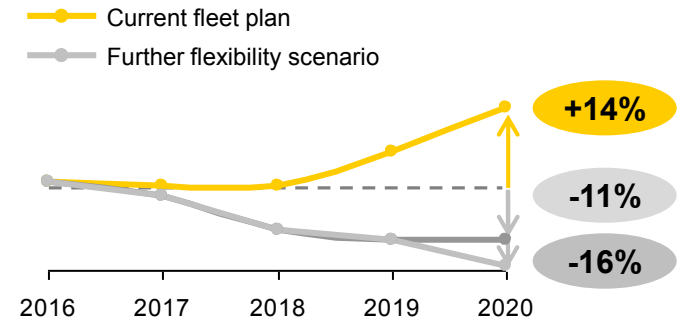
Increasing capital efficiency

Flexibility

- Flexibility through lease extensions
- Can adjust fleet size to market conditions
- Further flexibility possible via early lease terminations and Group aircraft assignments

Utilisation

- Increased utilisation in Winter schedules, mainly in Spain multi-frequency routes
- Reduced seasonality & day of week variation will lead to more stable and simple operations




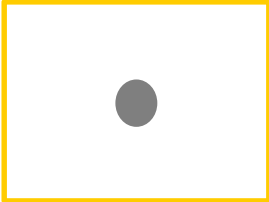


Growth drivers

Growth contribution



<p>Domestic Spain</p>	<ul style="list-style-type: none"> • Strengthen Spain as our top market in Europe • Focus in the leisure and business segments • Improved schedules and connectivity 	<p>●</p>
<p>Spain - Europe</p>	<ul style="list-style-type: none"> • Become the first choice in the flows Spain-Europe • Leadership in key cities from Spain to Europe and from Europe to Spain • Enhanced Go to Market and sales 	<p>●</p>
<p>Int'l</p>	<ul style="list-style-type: none"> • Replicate Vueling Barcelona model in Rome and Paris • Selective growth opportunities • Alignment with our strategy 	<p></p>

Margin drivers

		€ margin contribution
Unit revenue	<ul style="list-style-type: none">• Design changes that shift capacity to better performing markets• Increased utilisation through reduced complexity, seasonality and variability• Current assumption: no significant fuel benefits due to the expected highly competitive environment	
Fuel efficiency	<ul style="list-style-type: none">• Homogenisation of fleet profile, as a lever to reduce complexity• Adding further 5 A321 aircraft, to fully scale the cost and efficiency benefits• Fuel efficiencies on new aircraft entering the fleet from 2018 (A320-NEO)	
Employees	<ul style="list-style-type: none">• Improved employee productivity through the optimisation of resources and planning in crew• Synergies in other areas leveraging Group platform• Enhance employee engagement	
Suppliers	<ul style="list-style-type: none">• Supply-chain savings based on efficiency benefits• Fleet improvements, mainly in seats and cabin configurations, yields lower costs and better operational performance• IAG platform: Group leverage on purchasing, technology and innovation	

Vueling targets aligned with IAG targets

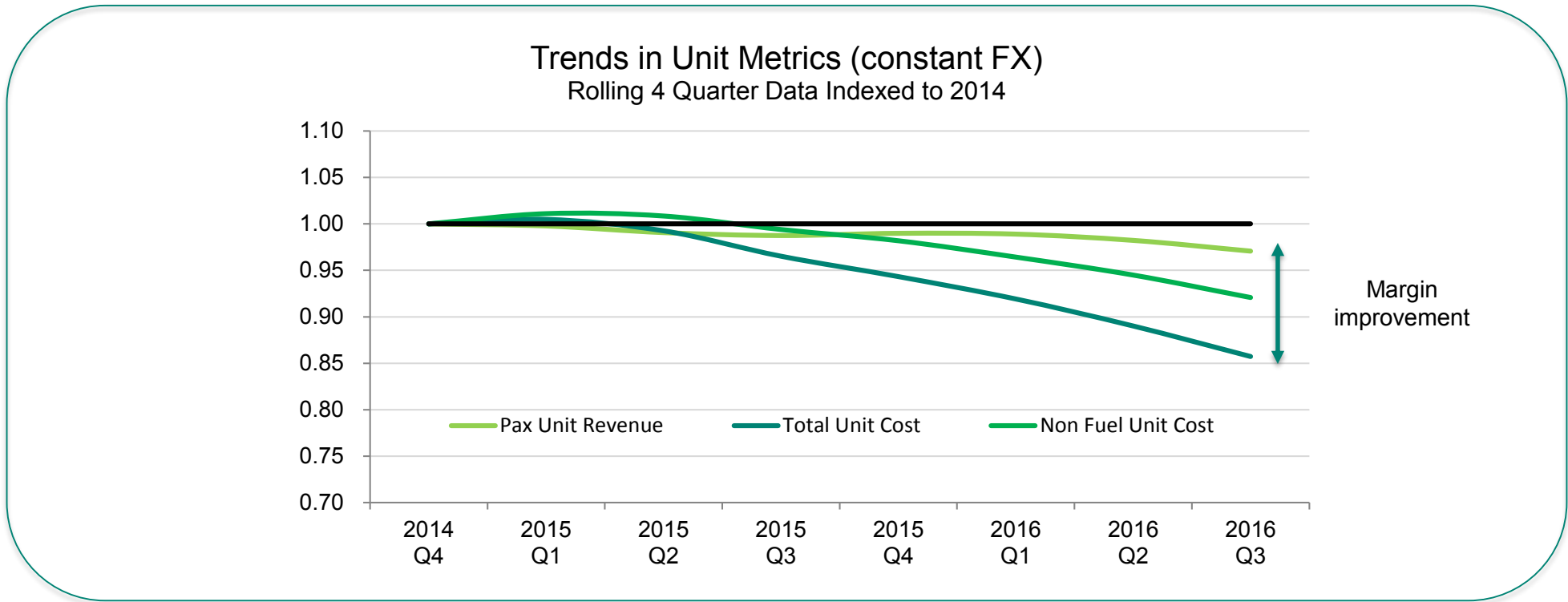
	Rolling 12m*	2016-2020
Lease adjusted operating margin (%)	6.2%	7-15%
Sustainable through the cycle RoIC (real terms)	6.9%	15%
ASK growth per annum	11%	7%
Fleet (period end)	109	130

* Rolling 12 months up to Q3 2016



Aer Lingus

Track record of cost control and profitable growth



Capacity growth of 12% has been profitable, with margins improved via load active & retail supporting unit revenues, and material productivity initiatives and fuel price reducing unit costs.

An ambitious strategy

Mission Statement

*“To be the leading **value carrier** across the North Atlantic...Enabled by a profitable and sustainable short-haul network...Supported by a guest focused, brand and digitally enabled value proposition...Delivering above average returns on invested capital for our IAG shareholders.”*



- Leveraging Dublin as a Gateway
- Managing our network, partners and organisation
- Creating a compelling connection proposition
- Growing in areas with further potential



- Achieving a competitive market share position
- Driving CASK in line with benchmarking

A **Demand Led Value** proposition centred on **COST**, **PRODUCT** and **SERVICE**

With an operating model that is simple by design

IAG

Aer Lingus

Strategy

Aer Lingus 

Built on fundamentals



Aer Lingus

Value Carrier



DublinAirport

Gateway



Voice of Guest



Service Delivery

With clear principles as to how we compete



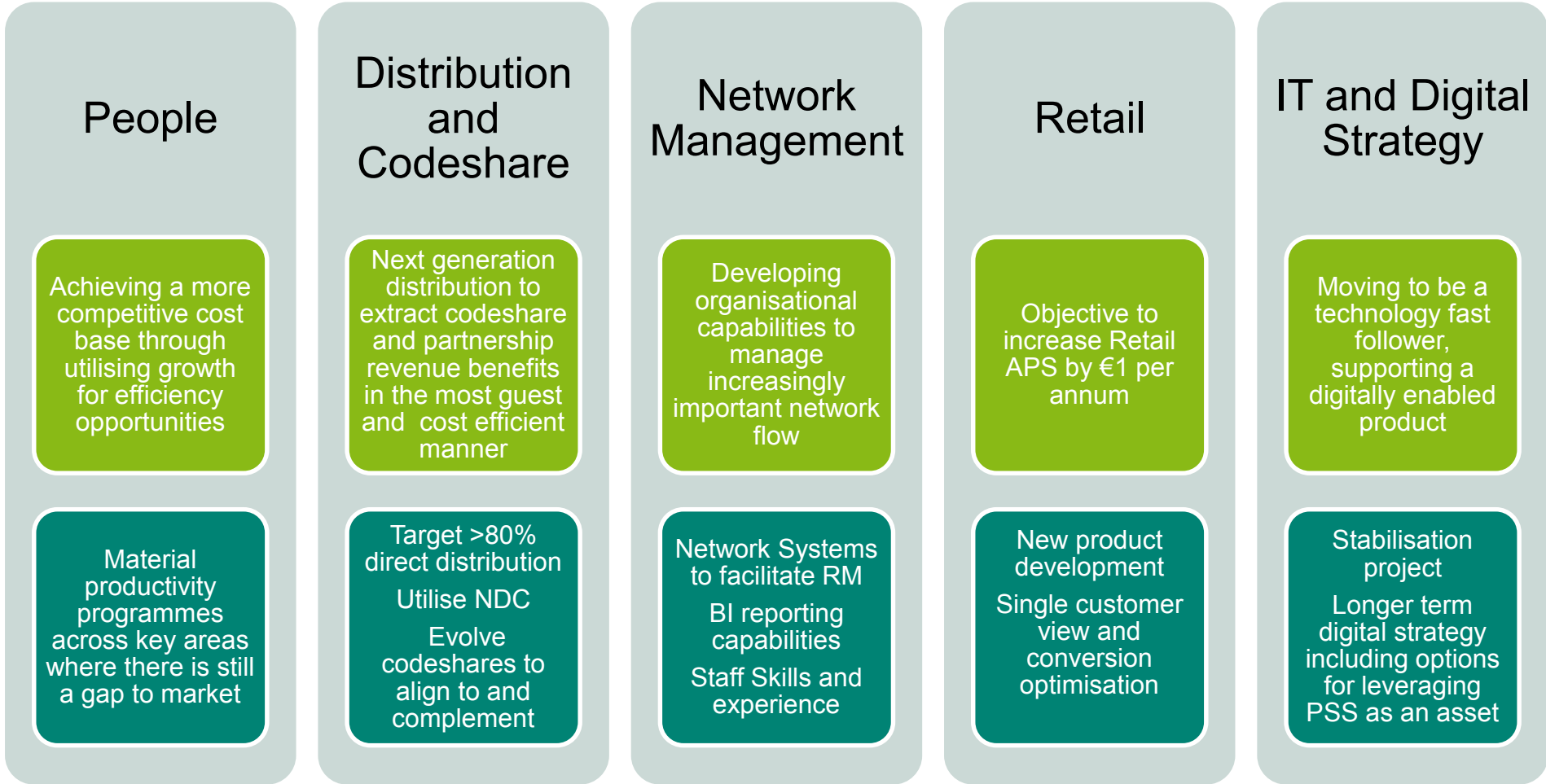
- Load active; building base load to allow yield active RPS bias
- Demand pipeline managed to provide position of demand greater than supply
- RASK by cabin benchmarked with NATL legacy peer group
- Cost leadership
- Leverage retail opportunity



- Load active RPS bias
- Leverage retail opportunity
- Command fare premium
- Cost proximity

No cross subsidisation

Enabled by priority projects

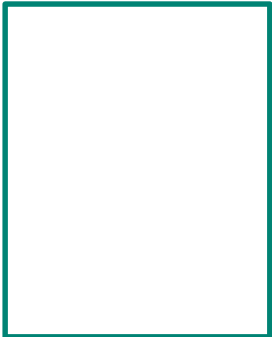


Growth drivers

Europe

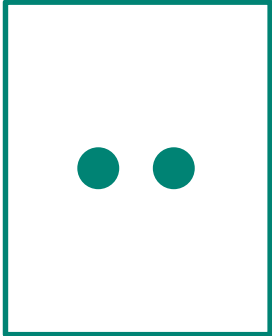
- Low single digit ASK growth – resourced through asset utilisation, load factor targeted before increased investment in fleet assets
- Retail average passenger spend (APS) growth with conversion improvements and new product launches
- Building Ireland London corridor
- Exploiting AerClub with Avios

Growth contribution



North Atlantic

- Double digit efficient A330 growth, enabling network breadth from new or restarted routes – LA, Newark, Bradley, and depth build-out
- Expanded partner cooperation
- Improved network revenue management
- CASK effective growth
- Longer term expansion enabled by new technology single aisle



Margin drivers

		€ margin contribution
Unit revenue	<ul style="list-style-type: none"> Digitally enabled retail initiatives Exploiting AerClub with Avios Developing Partner relationships 	X
Fuel efficiency	<ul style="list-style-type: none"> Fleet growth delivering reduced fuel CASK Load factor benefits for cost per passenger New technology single aisle NATL capability 	
Employees	<ul style="list-style-type: none"> Efficient ASK growth and asset utilisation Flow through of 2016 labour initiatives Containing investment in support activities, and leveraging IAG Group Services 	●
Suppliers	<ul style="list-style-type: none"> Utilising IAG leverage to reduce unit costs notably in catering and IT Airport user charges an important target area Network growth designed for efficient unit cost and drives economies of scale 	● ●

Aer Lingus targets aligned with IAG targets

	Rolling 12m*	2016-2020
Lease adjusted operating margin (%)	13.3%	15%+
Sustainable through the cycle RoIC (real terms)	20.6%	15%+
ASK growth per annum	7.8%	8%
Fleet (period end)	51	59

* Rolling 12 months up to Q3 2016

IAG

Aer Lingus

Targets

Aer Lingus 

Avios

IAG INTERNATIONAL
AIRLINES
GROUP

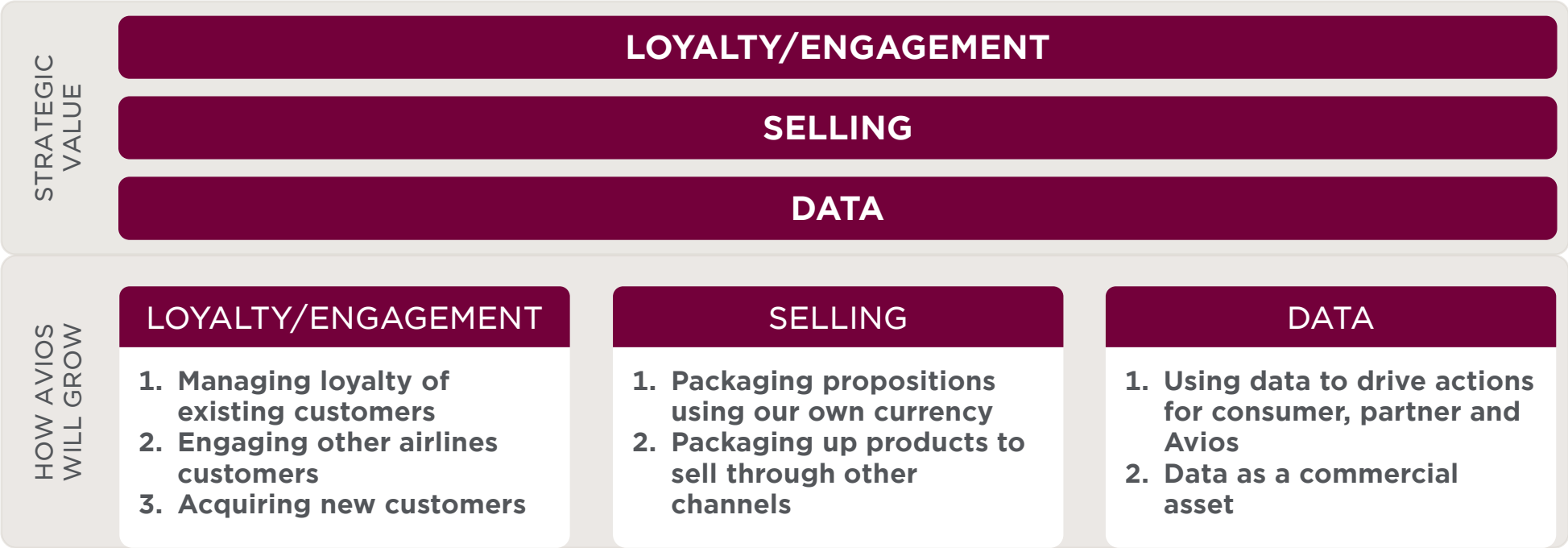
What Avios brings to IAG

The glue that connects customers for IAG airlines

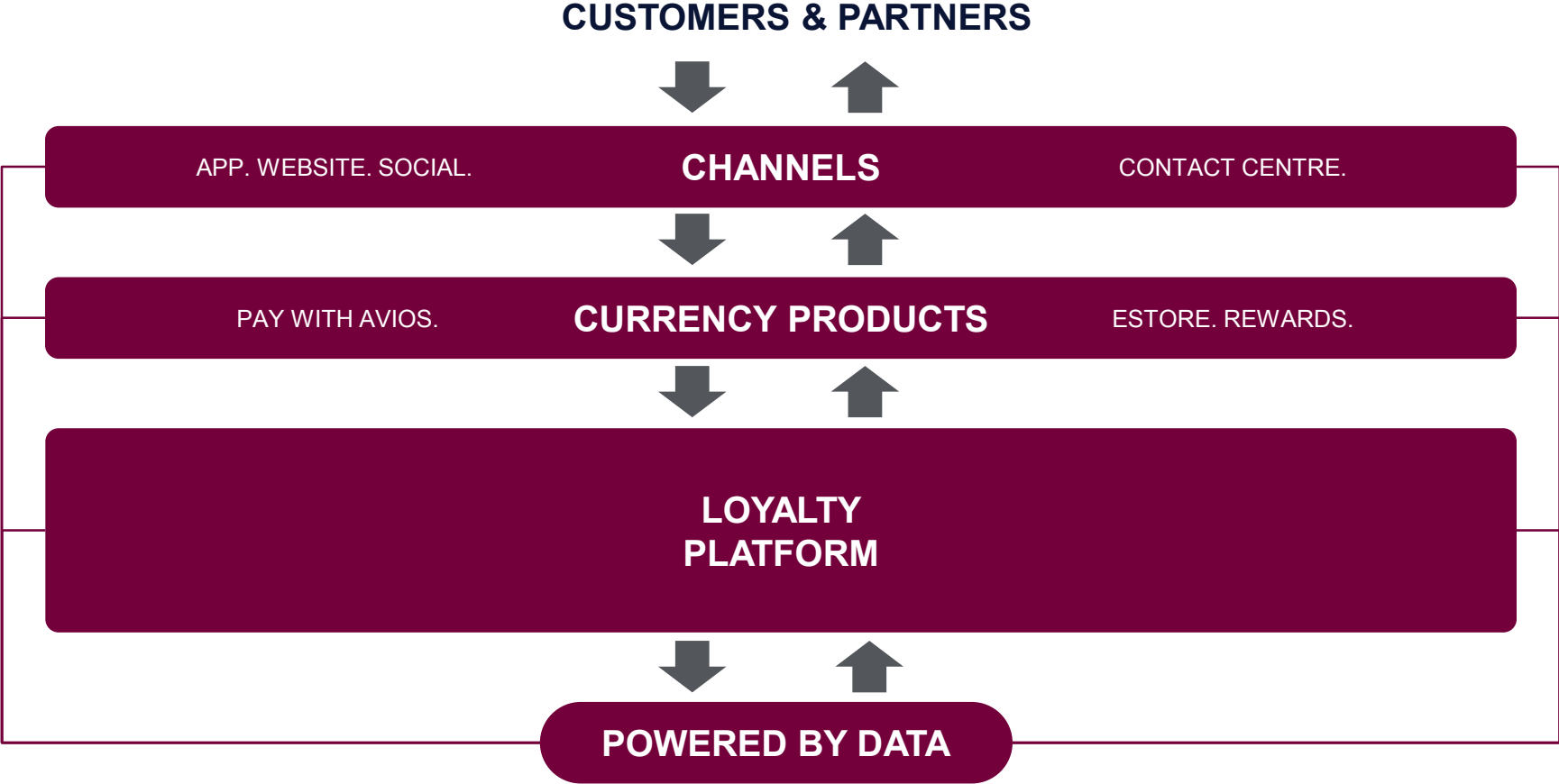
Vision:

WORLD'S LEADING AIRLINE GROUP

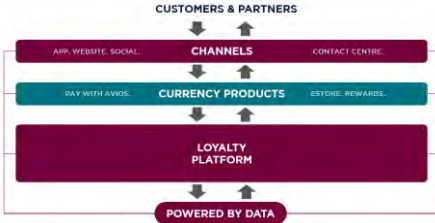
#1 or #2 customer choice for air travel in as many markets as possible



How we work



New products and digital experiences



SPEND

SPEND

CLASSIC REDEMPTION



SPEND

PAY with AVIOS



Create more ways to earn and spend.

COLLECT

COLLECT

eSTORE



COLLECT

PURCHASE



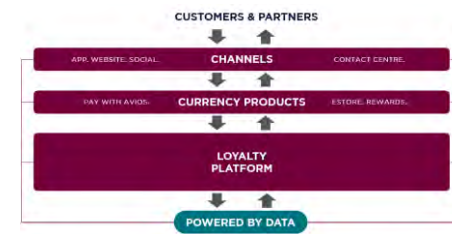
COLLECT

CARD COLLECT /WALLETS



New digital experiences

Data powers transformational outcomes



Data capability impacts simultaneously at three levels

IMPROVING EXISTING SERVICES

Excellent customer experience, show and increase value to Partners (consistency in the loyalty platform through IAG)



ENABLING NEW SERVICES

More opportunities for customers to collect & spend Avios, increasing engagement & value driven to partners



LAUNCHING DISRUPTIVE SERVICES

Expand Avios ecosystem by increasing customer reach & relevance (proactive, personalised approach)



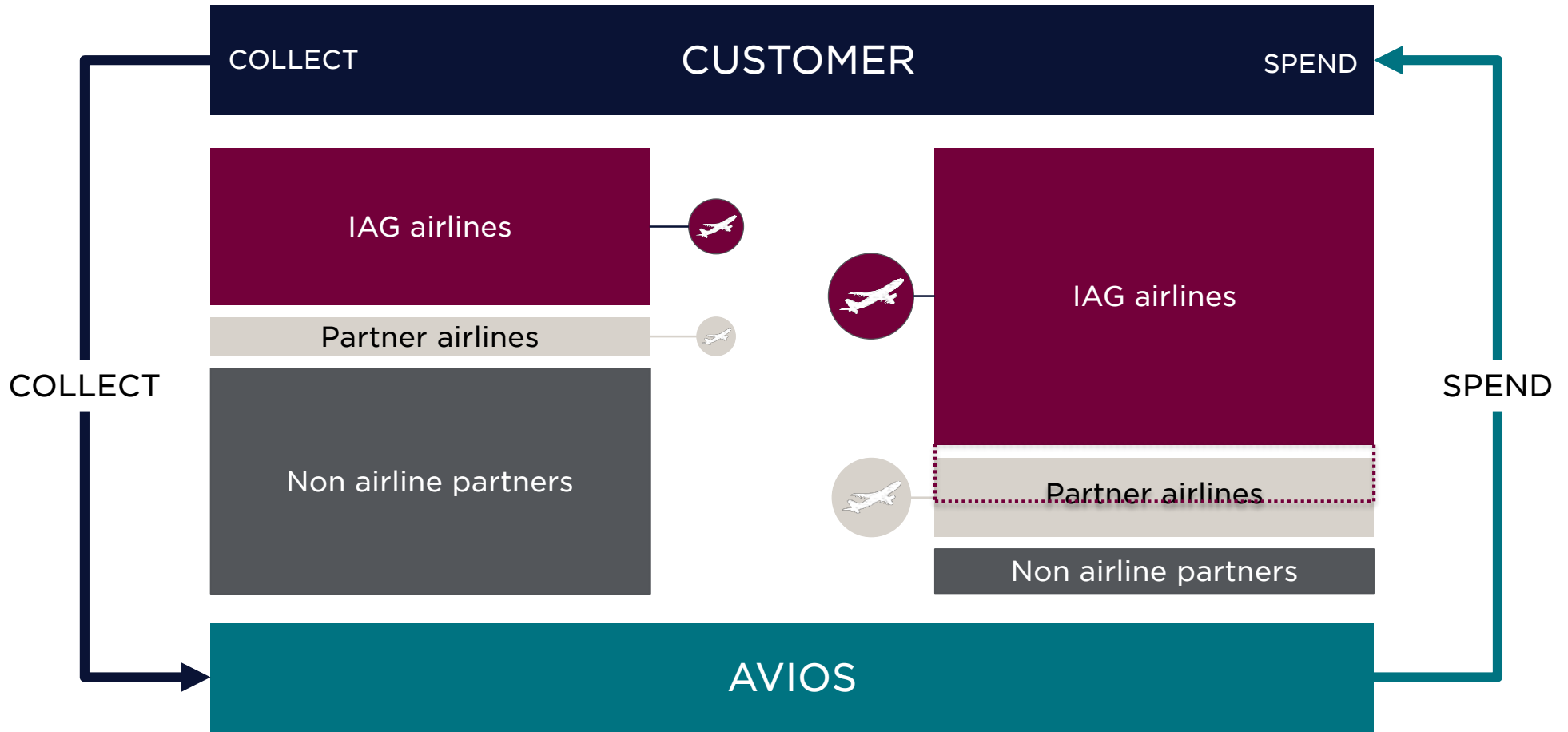
IAG

Avios

Data

The circle of life of an Avios

Customer buys airline and non-airline products



Expanding and evolving the ecosystem

Our portfolio is growing with a focus on deepening relationships



- MoU signed with Royal Air Maroc



- Aer Lingus Q42016
- Vueling Q1 2017



- Launching new spend products in UK & South Africa
- Launched Pay with Avios with FlyBe



- Developing Pay with Avios capability
- Partnering for Buy on Board
- Targeted brand promotion in UK and Spain



Performance highlights



STERLING ZONE

- Non airline partner enjoying robust growth
- Direct sales of Avios and eStore increasing
- Regional relevance significant and driving redemption



EURO ZONE

- Progress in Spanish home market through non-air partner growth
- Healthy pipeline of new non-air partners
- Expanding presence in France and Italy



DOLLAR ZONE

- Capitalising on dollar appreciation
- Successful Latam partnership model to focus on Argentina and Mexico



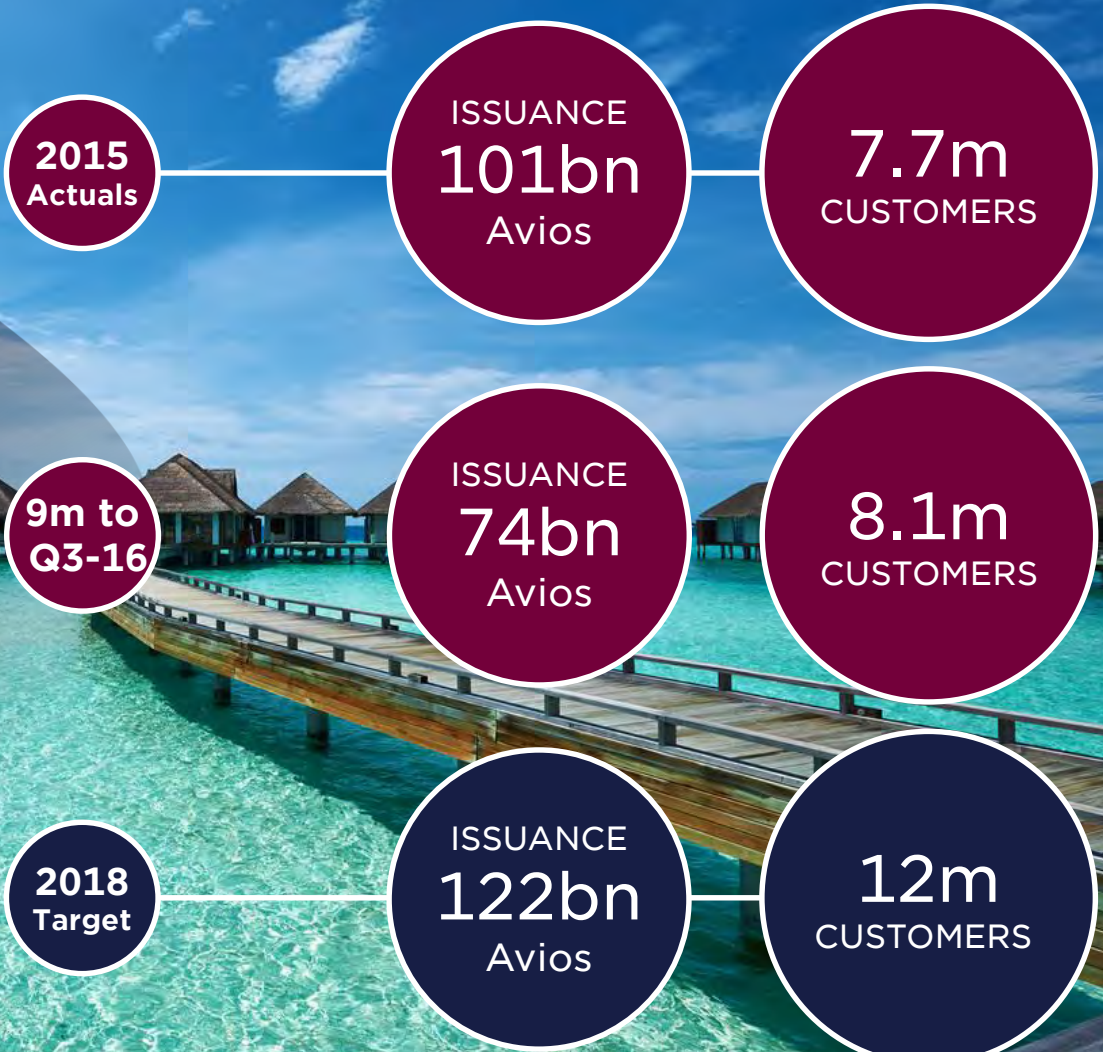
OTHER CURRENCIES

- Improving customer proposition with Kulula
- Avios global partnerships building on oneworld presence

On track to reach targets

Significant opportunity to grow through further optimising and expanding the ecosystem of existing airlines and partners

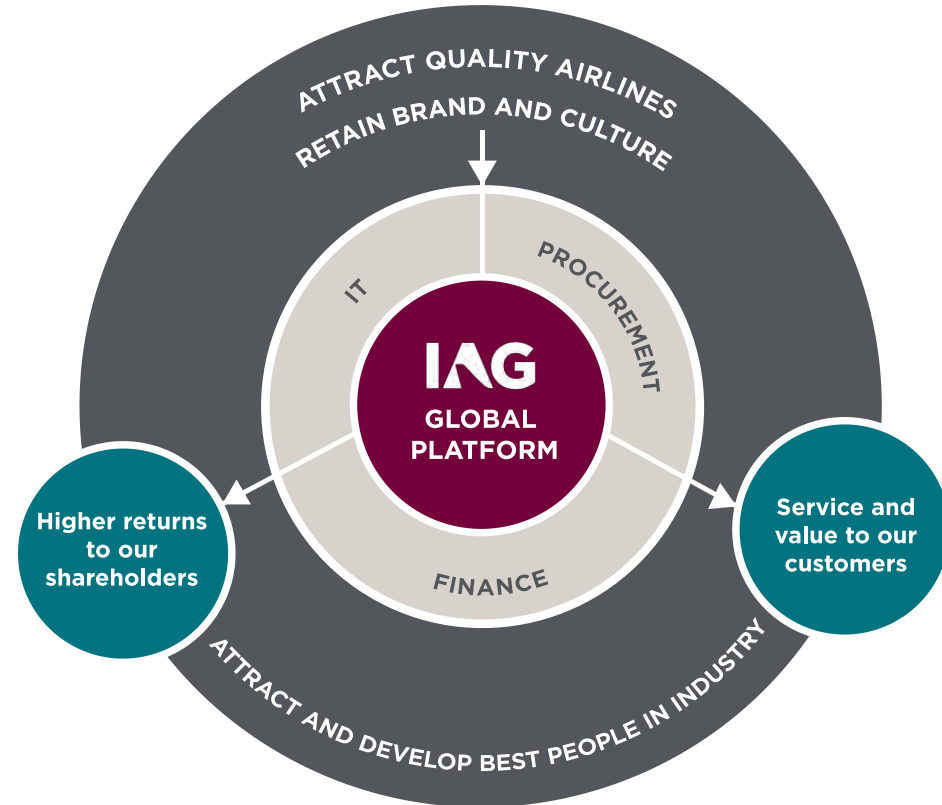
We are investing in platform and systems to optimise customer experience without increasing operating costs



Global Business Services

Global Business Services (GBS): IAG's back office platform

- GBS is the Group's common IT, Procurement, and Finance function
- GBS is creating a cost effective "plug & play" platform for the Group that is scalable for growth
- GBS is driving standardisation, simplification and efficiency across the Group
- GBS is attracting the best people and embracing a new culture
- **GBS is embedding modern working practices and delivering a higher quality of service**



The GBS model



Focus on Kraków

Focus on Kraków

80+ GBSs

Capgemini, Cathay Pacific, GE, Google, HSBC, IBM, Lufthansa, Motorola, Rolls Royce, Sabre, Samsung, Serco, Shell, Tesco, UBS

46,000

People Working in GBSs

48,000

Graduates with Relevant Qualifications

IAG GBS Demographics Kraków

250

People

80%

Millennials

46:54

Male Female Ratio

50%

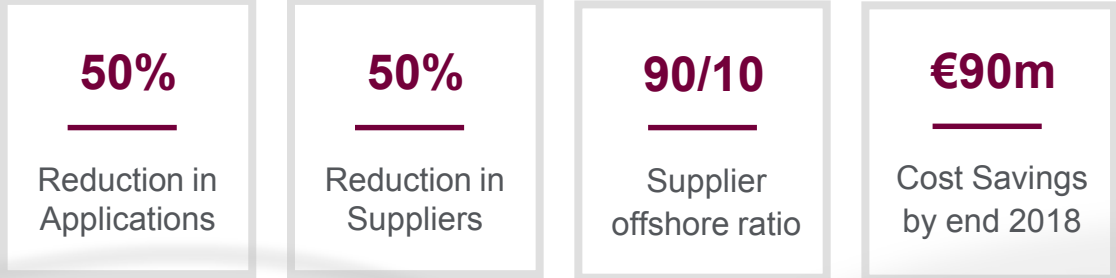
2+ Languages

25%

Speak Spanish

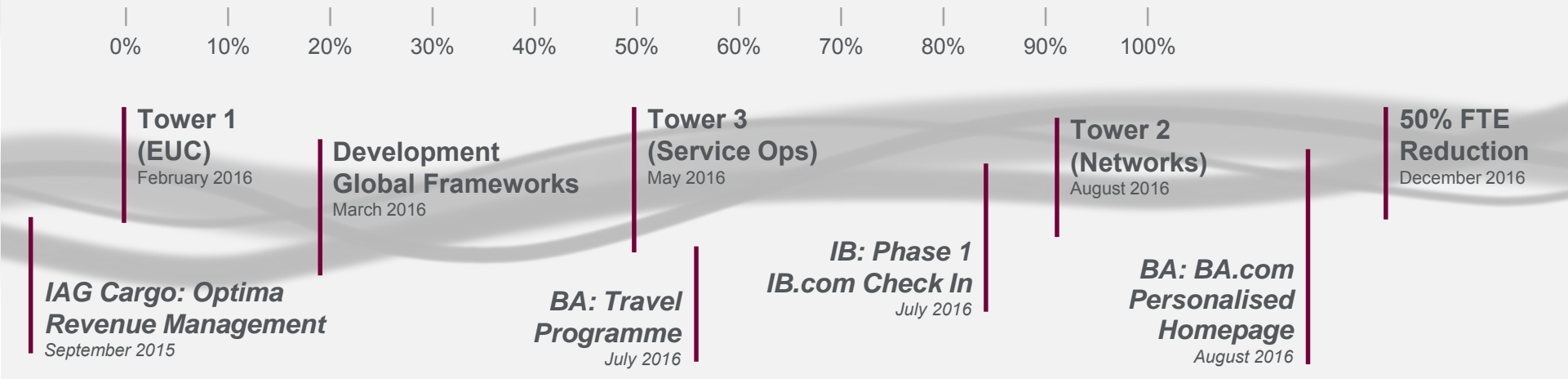
IT progress: to date

IT Targets



Original Scope 50% Complete

Aer Lingus



Procurement: progress to date

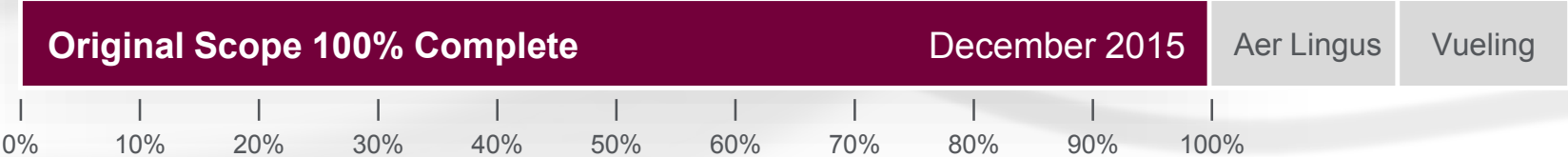
Procurement

Progress to date

80% Resource based in Krakow	€100s m Supplier Savings per year	Building on the past 2 years to deliver more
--	---	--

Achieved through:

- New partnerships
- Make vs. buy analysis
- Demand management
- Specification challenge
- Leveraging scale
- Harmonisation



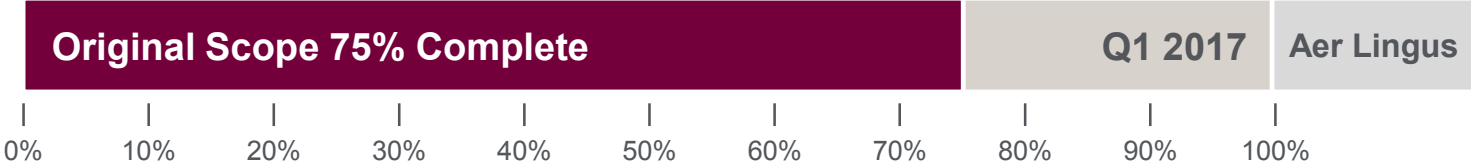
Finance Factory: progress to date

Finance Factory

Progress to date

30-35%

Functional cost improvement



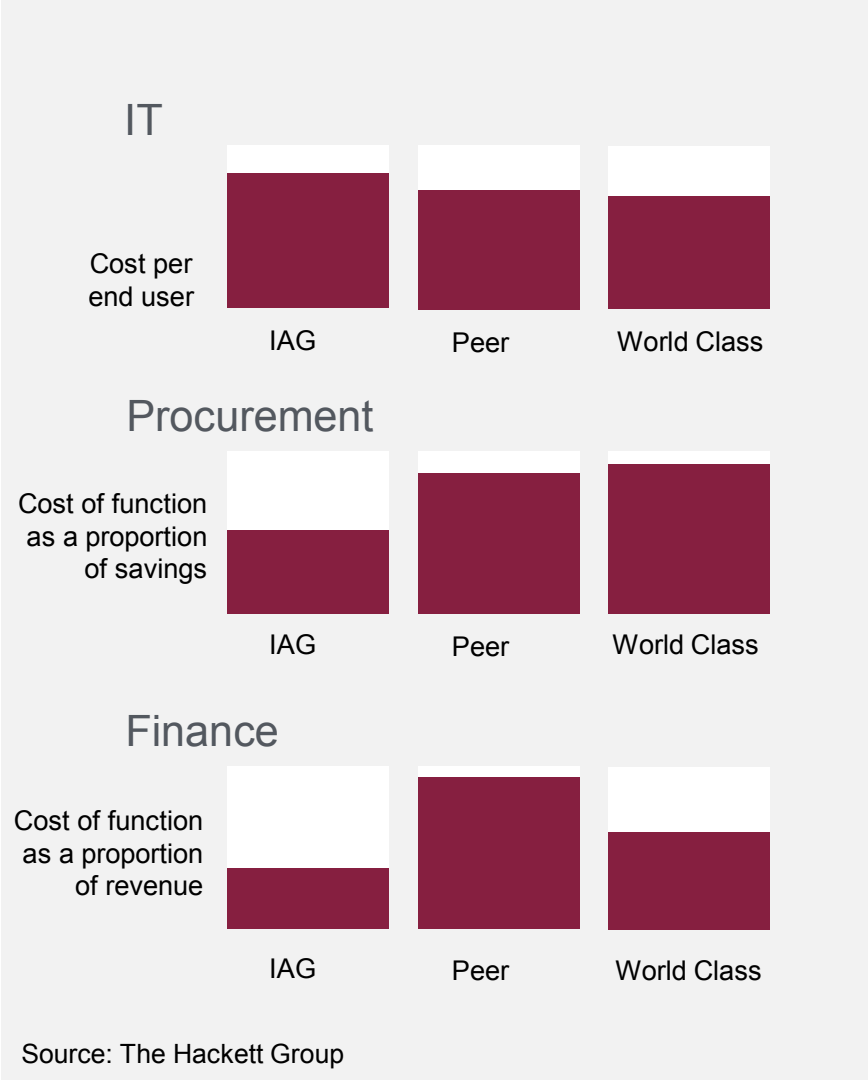
Financial Planning & Analysis

Global Transactions

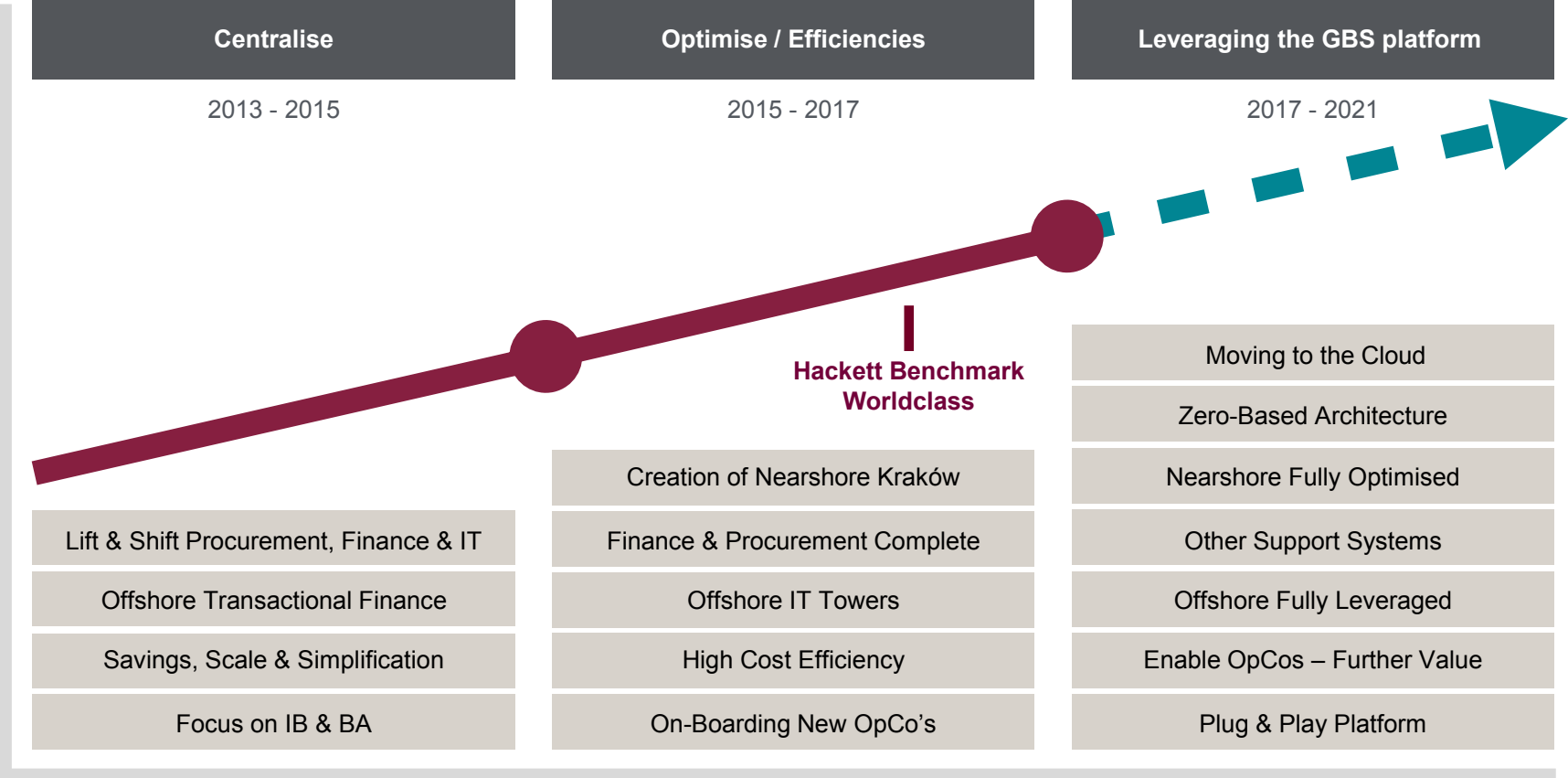
Tax Compliance

Treasury Operations

GBS external cost benchmarking



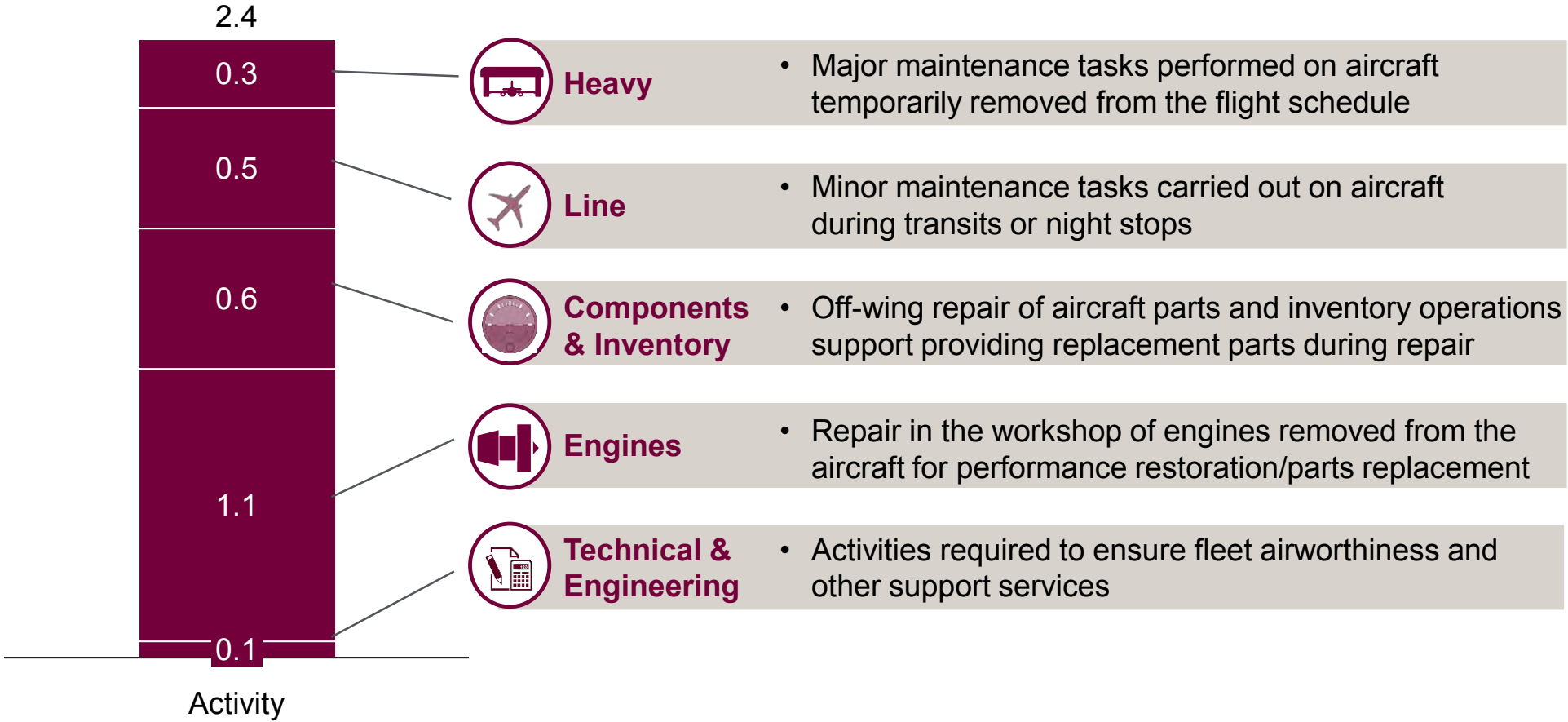
Our GBS Journey



Maintenance, repair and overhaul

Maintenance activities represented a cost of €2.4bn for the Group in 2015 (c.12% of Group's total operating cost)

IAG maintenance cost breakdown¹
 €bn, FY2015



¹ Includes cost related to providing maintenance services to 3rd party customers outside the Group

A significant part of the aircraft maintenance activities are performed in-house with a complex design

Aer Lingus 



DUB	312	A checks	C check 5 Bays NB 2 Bays WB
Worldwide¹	37		

**BRITISH AIRWAYS
ENGINEERING** 



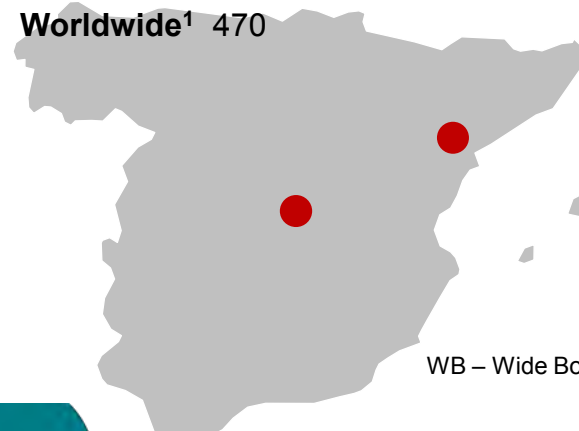
GLA	310	-	C/D check 2 Bays NB	-
LHR	3310	A check	B check 8 Bays NB 8 Bays WB	Mechanical
LGW	300	A check	B check 2 Bays NB 1 Bay WB	-
Wales	1250	-	C/D check 3 Bays WB	Avionics Safety Interiors
Worldwide¹	470			

IBERIA
MAINTENANCE 



BCN	292	A check	E check 4 Bays NB 2 Bays WB	-	-
MAD	2220	A check	E check 7 Bays NB 3 Bays WB	Mechanical, Interiors Pneumatic Avionics	Engine shop

Worldwide¹ 169



WB – Wide Body NB – Narrow Body

IAG

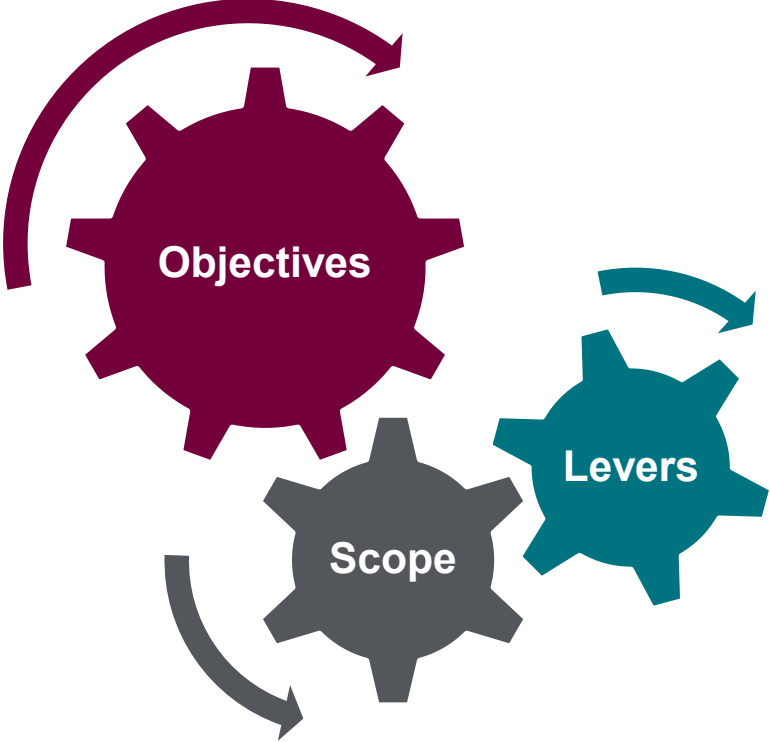
Maintenance

Overview

¹ Staff worldwide to perform line maintenance activities outside main bases

Group's strategy on maintenance is under review with all options evaluated to ensure maximised Group returns

- OpCos must have the best maintenance market price at the agreed quality and service level
- MROs should focus on those activities and facilities that can achieve IAG target profitability levels



- 1 IAG oversight to ensure best in class performance across all activities
- 2 Group consolidation
- 3 Externalisation of activities

Heavy Line Components & Inventory Engines Technical & Engineering

IAG Maintenance Objectives

What has happened since last year's CMD?

- A multidisciplinary team with subject matter experts from VY, EI, IB and BA has been set up
- All maintenance activities have been reviewed

- Ensure competitiveness of core maintenance activities by closing gap with the market and contributing to Group's ROIC targets
- Those activities for which the in-house model can't ensure competitiveness will be subject to outsource

- Activities have been classified between core and non-core activities








- MRO management accounts have been segregated by activity
- All costs incurred to perform a maintenance activity in-house have been identified

- Internal competitiveness have been assessed using market intelligence from existing outsourcing contracts within the Group and data of tenders won by Group MROs
- Ad-hoc Group RFPs have been launched to capitalise on Group Procurement leverage

- MRO Business Plans have been stretched to ensure best in class performance
- New top management at IB/BA MRO to ensure delivery of targets



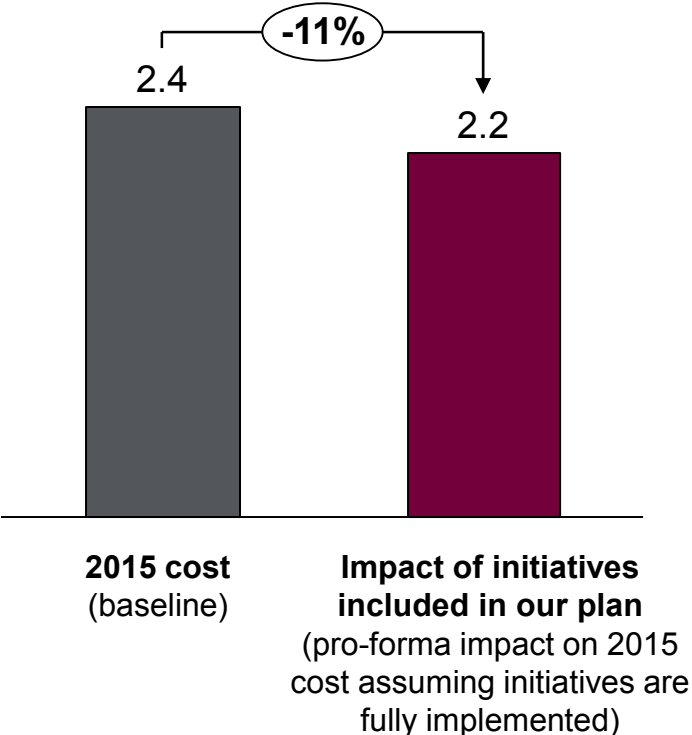
Gap with the market has been identified for each activity and specific strategies have been defined to ensure competitiveness

	Gap with best market levels	① Best in class performance	② Group consolidation	③ Externalisation of activities
 Heavy	● ● ●	<ul style="list-style-type: none"> • New union agreements under negotiation • World class productivity 		
 Line	● ●	<ul style="list-style-type: none"> • Footprint optimisation • Product portfolio redefinition based on profitability 		
 Components & inventory	● ● ●	<ul style="list-style-type: none"> • Inventory optimisation 	<ul style="list-style-type: none"> • Further benefits from consolidation of duplicated facilities and activities across different sites 	<ul style="list-style-type: none"> • Externalisation of activities for which a competitive internal model can not be achieved
 Engines	● ●	<ul style="list-style-type: none"> • Harmonisation of specifications and planning 		
 Technical & engineering	●	<ul style="list-style-type: none"> • Dedicated IAG Procurement organisation to leverage Group volume on supplier spend 		

Strategies included in our plan are expected to achieve a 11% cost reduction when fully developed, but there is more to come...

Impact of maintenance initiatives

€bn, FY2015



Next steps

- The strategy design phase is almost complete and we are moving into execution
- Further benefits from Group consolidation and supplier spend initiatives to be defined throughout the execution phase
- Final decisions on externalisation subject to the level of transformation and competitiveness that can be achieved in-house (outcome of consultations with the unions)

DIGITAL BUSINESS TRANSFORMATION

IAG



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HANGAR

51



ACCELERATE



INCUBATE



INVEST

YESTERDAY

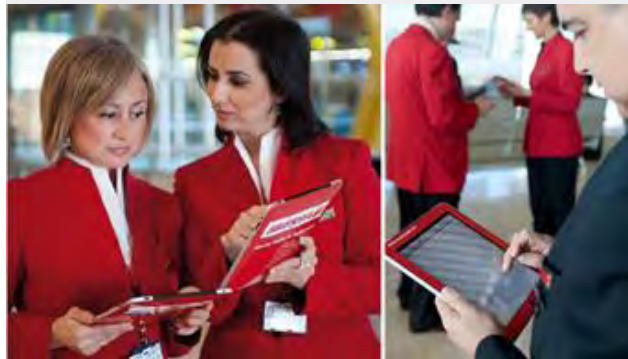
.com

First airline to move to .com and selling in 1995



Mobile

First airline app and using mobile to improve customer experience



Open APIs

Opening data for deeper, revenue generating experiences



TODAY

Distribution

Transforming the distribution landscape

New Distribution Capability (NDC)

KAYAK



43%

marketing spend through digital channels

Personalisation

Delivering measureable results (over €190M already delivered)



Know ME



Engage ME



Reward ME



53M

marketable customers

Ancillaries

Driving group cross-selling, up-selling and share of travel wallet



+6%

VLV

TODAY

Airport

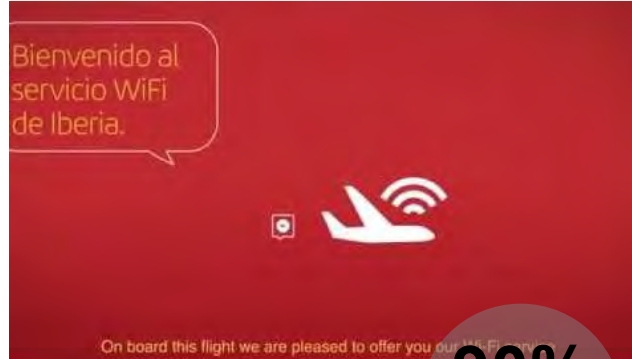
Creating a seamless and frictionless customer experience



75%
shorter queues

In-flight

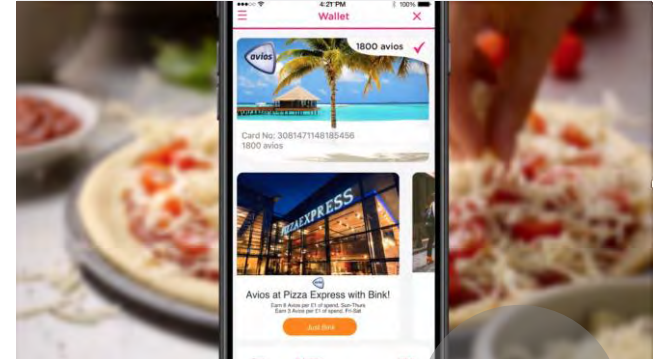
Creating a new merchandising opportunity in the air



90%
connectivity
early 2019

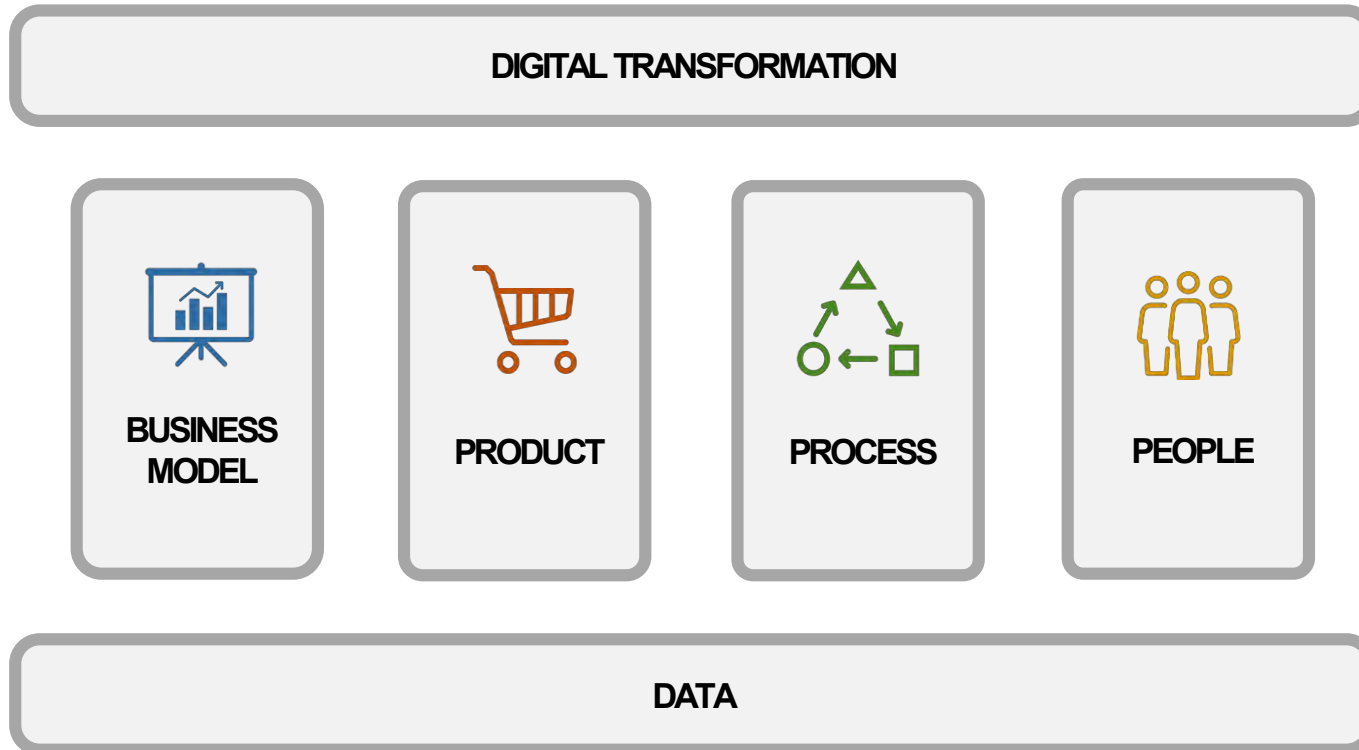
Loyalty

Creating a digital ecosystem



54
new APIs

CREATING DIGITAL TRANSFORMATION



Create **new products** that can be tested and adjusted at speed

Create **new processes** that enable rapid change

Prepare our **business models** for the new world.

Recruit and educate staff to ensure that we have the right digital skills

Exploit **data** to drive better decision making



TOMORROW



BUSINESS MODEL

Digital platforms
Ticketless (IATA ONE Order)



PRODUCT

Ancillaries expansion
Artificial intelligence and
blockchain applications



PROCESS

Business processes
Dev ops and continuous
integration



PEOPLE

Create a digital mindset internally
and learn with the network
externally



DATA

Transform our business with
data-driven decisions

INSPIRE. INNOVATE. TRANSFORM.

Creating built-in digital transformation

IAG



Financial strategy

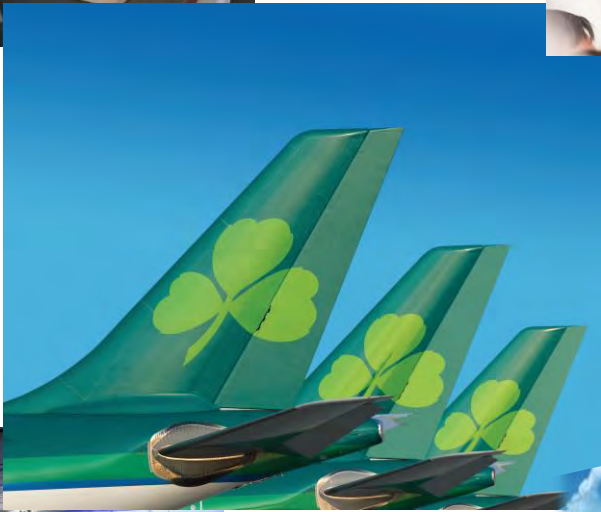
The investment case for IAG

IAG creates investment returns in a low growth environment

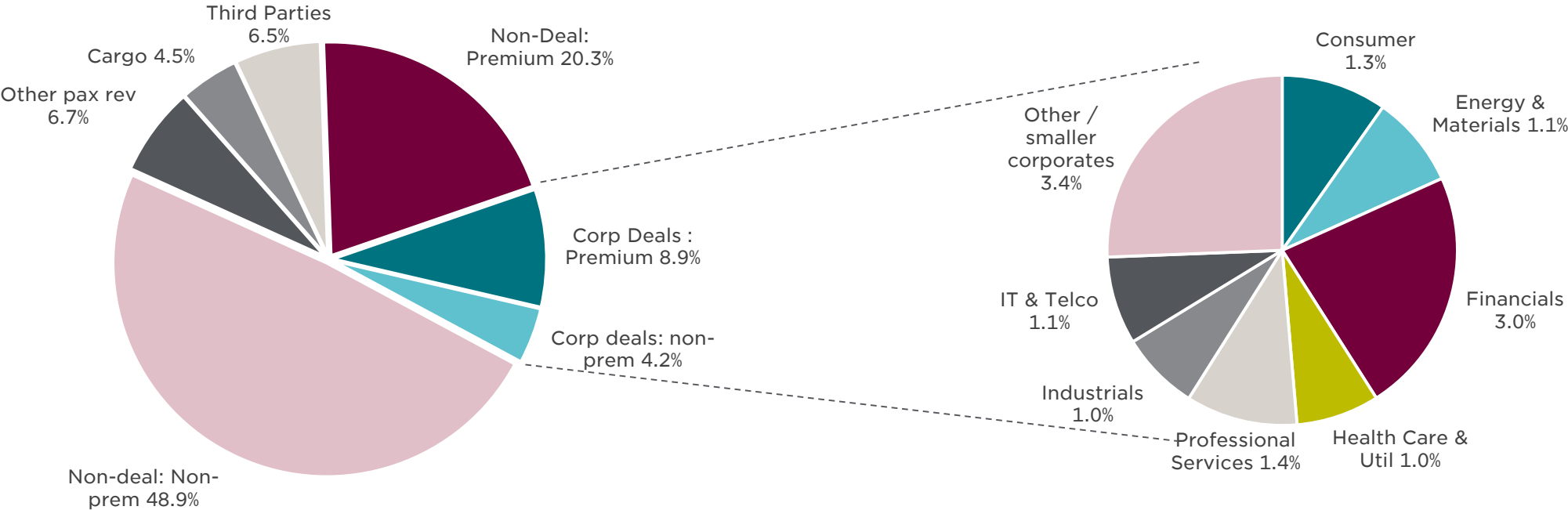
The Z-flation (low inflation, low growth) guide:

1. Invest in **strong brands and geographic diversification** - ensures maximum customer relevance, gives maximum probability to access growth when certain countries / regions are experiencing growth difficulties
2. Focus on **continual efficiency improvement** - continually redesigning the business, not cost cutting (which could harm the strength of the brands)
3. Focus on **capital flexibility** - the ability for both the balance sheet and the business to scale back quickly and absorb shocks without excessive cost
4. Maintain **strong balance sheet** - to ensure sustainability of dividend in down periods, and ability to take advantage of inorganic growth opportunities where appropriate
5. Focus on **equity free cash flow** - avoiding low-return uses of equity, exploiting high-return opportunities rapidly, maintaining strong cash returns to investors

Strong brands

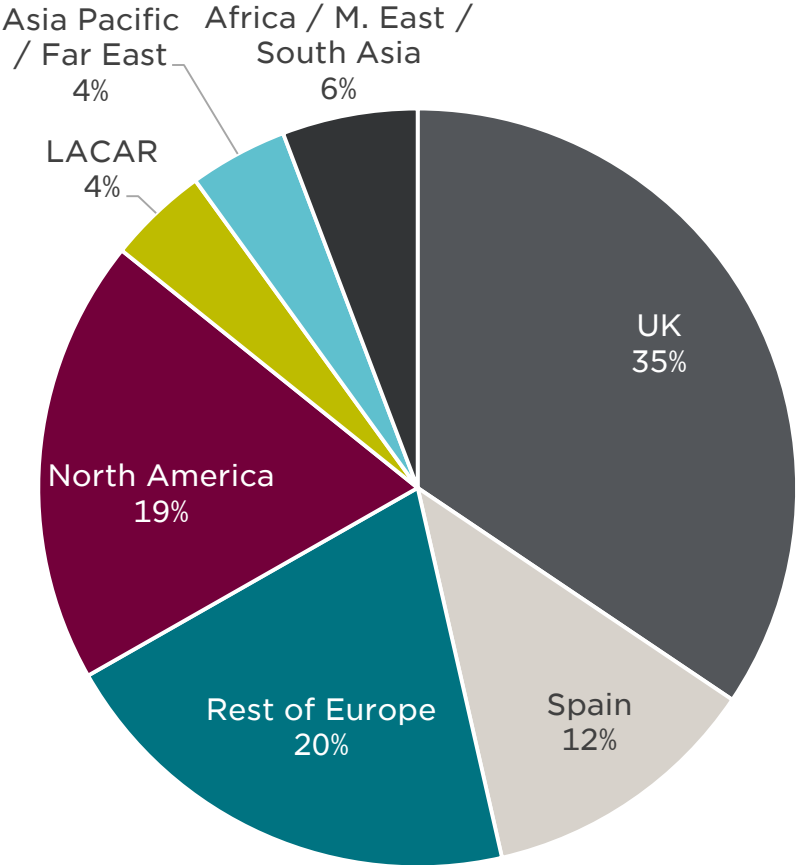


IAG revenue by product and industry 2015



IAG diversified point-of-sale

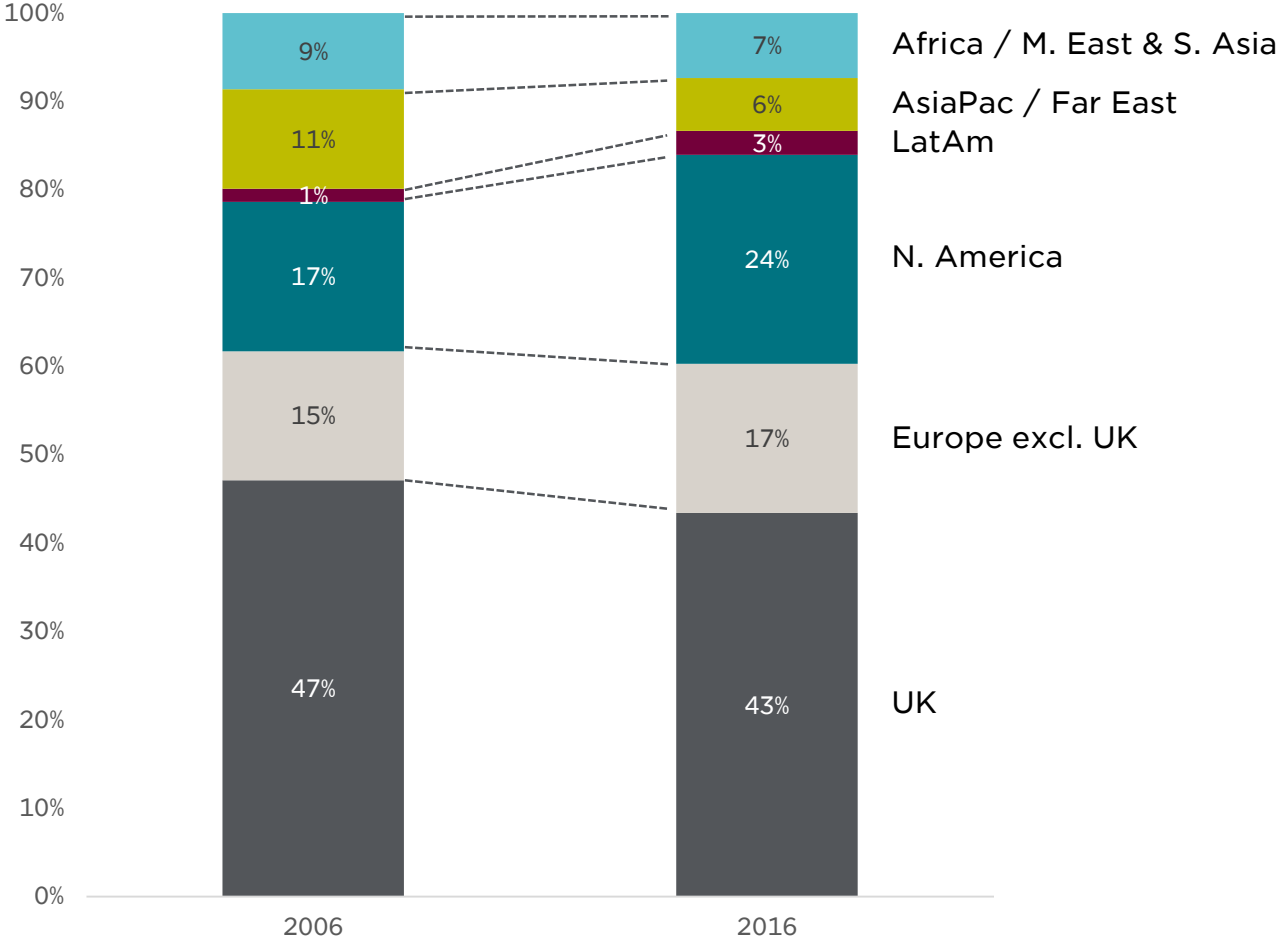
IAG passenger revenue by point-of-sale



12 months to Sept 16

BA point-of-sale

BA revenue by point-of-sale region



Beyond synergies

Continually redesigning the business

OpCo plug and play for efficiency and higher quality systems



BRITISH AIRWAYS



vueling

Aer Lingus

IAG margin expansion

95% complete

Cargo

45% complete

Avios

40% complete

GBS
(Procurement + F&A)

25% complete

GBS
(IT)

5% complete

MRO / Fleet

5% complete

Digital



flybe.

accenture



CHASE

TATA
CONSULTANCY
SERVICES

Growth opportunities

Attracting partners for future growth

IAG

Financial targets

IAG Platform

Beyond synergies

Continually redesigning the business

OpCo plug and play for efficiency and higher quality systems



BRITISH AIRWAYS



vueling

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IAG margin expansion

95% complete

Cargo

100% complete

Avios

90% complete

GBS
(Procurement + F&A)

50% complete

GBS
(IT)

60% defined

MRO / Fleet
5% executed

30% complete

Digital



flybe.

accenture



Growth opportunities

Attracting partners for future growth

CHASE

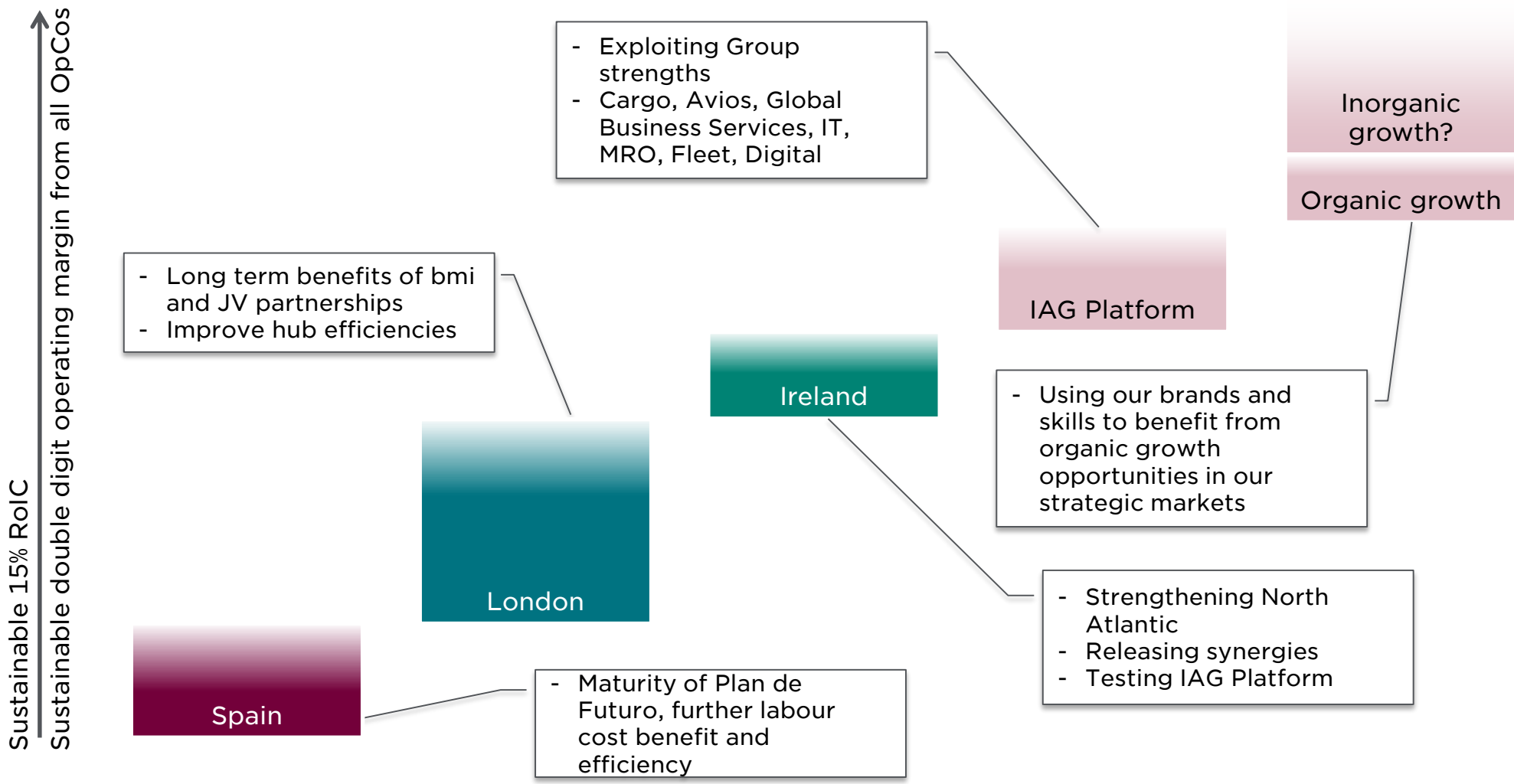
TATA
CONSULTANCY
SERVICES

IAG

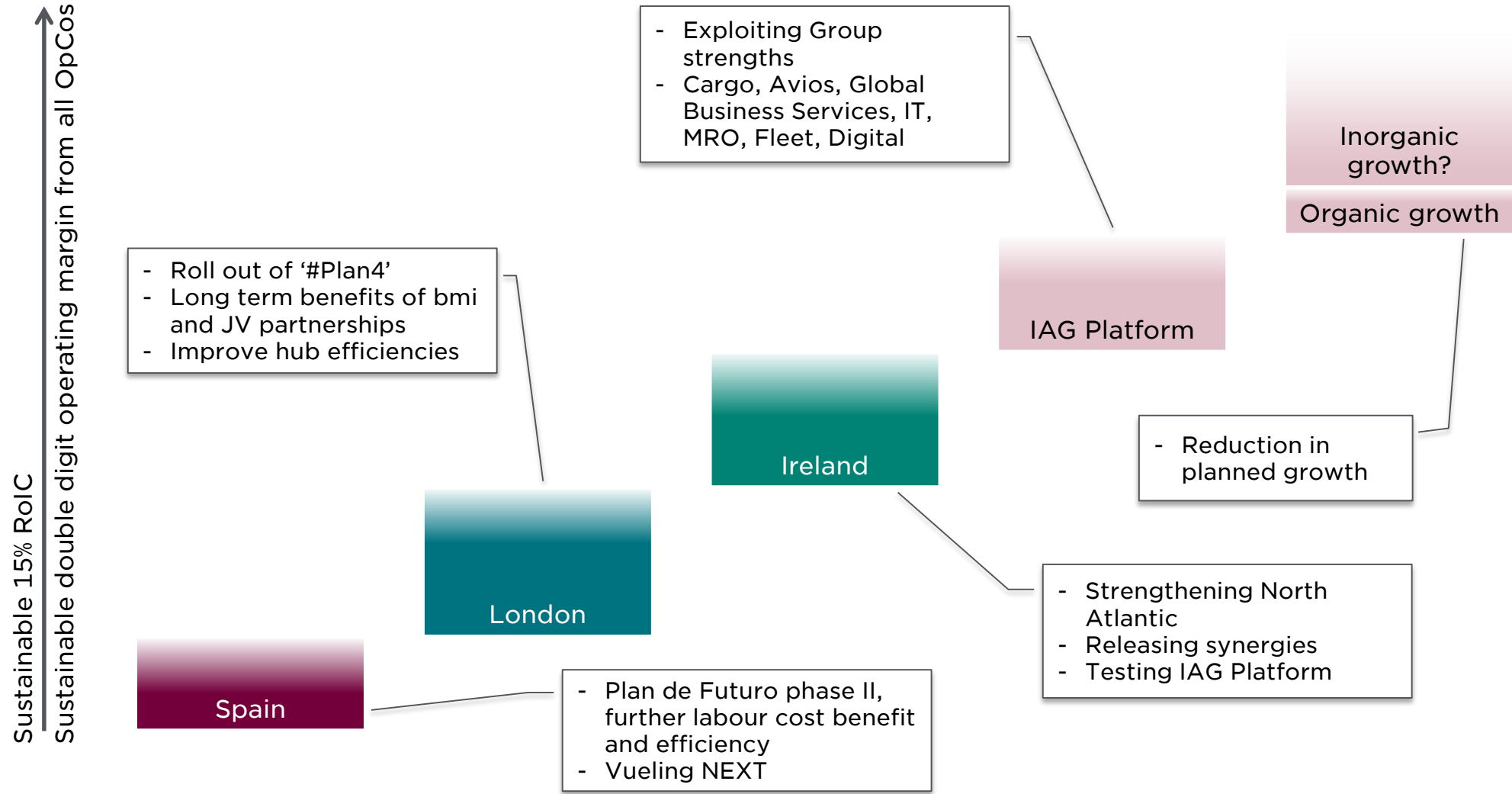
Financial targets

IAG Platform

2016 - 2020 planning framework: last year

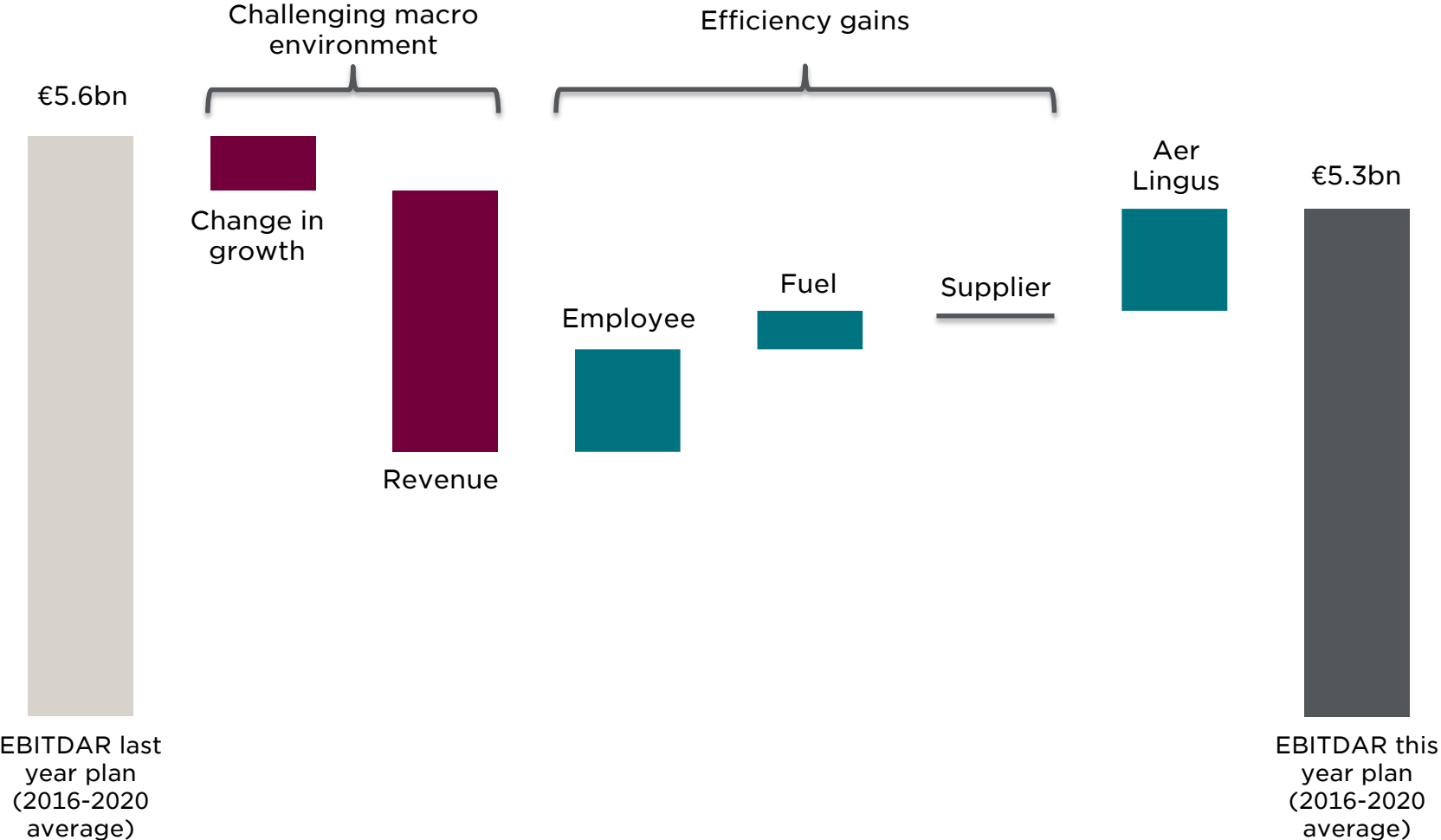


2016 - 2020 planning framework: this year



Challenging macro environment offset by efficiency gains

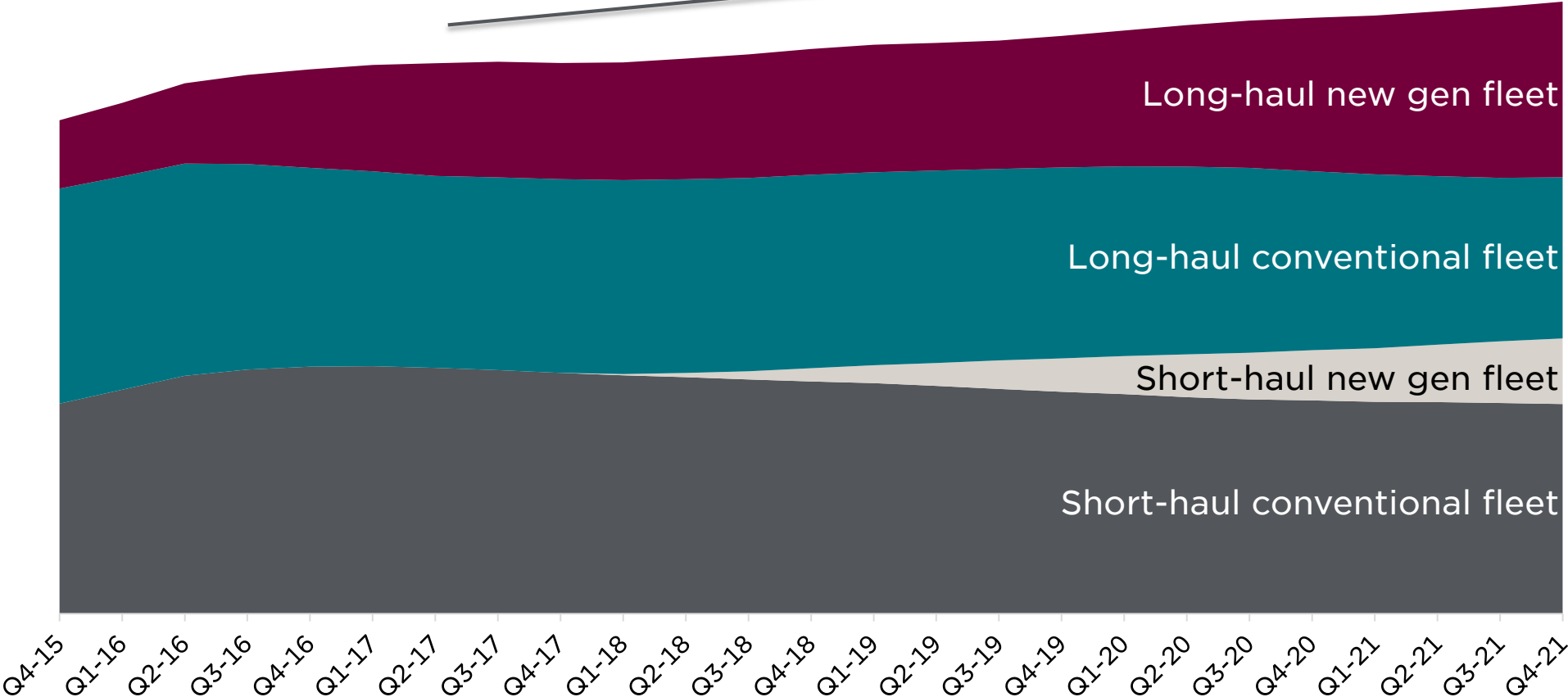
EBITDAR bridge 2016-2020 average



Fleet plan 2016 - 2021 ASKs

Average age range through plan: 11-12 years

longer term ASK CAGR: 3% (~1%pt reduction)



Fleet plan detail

Aircraft	2016 year end	2017 year end	2020 last year plan	2020 current plan	Difference	Outstanding orders post 2020	Current further + rolling options
A330	27	30	32	31	-1		1+4
A340	17	14	11	7	-4		Renegotiation of A330 delivery
A380	12	12	12	12	-		7+0
B747	36	36	19	23	+4		Hand backs of A340s
B767	1	1	-	-	-		B747 life extension
B777	58	58	58	58	-		
B787 / A350	24	25	63	<i>Under review</i>		<i>Under review</i>	
Other	14	14	21	22	+1		
Total long-haul	189	190	216				
A320 family	336	324	396	362	-34	27	66+62
Other	29	30	25	26	+1		A320 reduction
Total short-haul	365	354	421	388	-33		
Total fleet	554	544	637				

Options exercised, but no new orders since CMD 2015

Renegotiation of A330 delivery

Hand backs of A340s

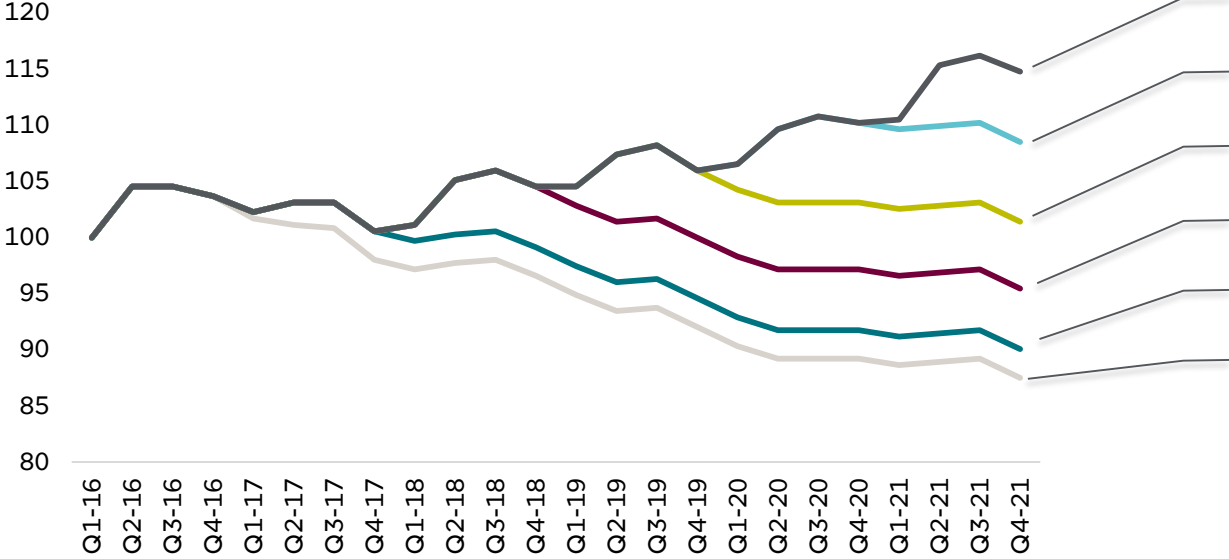
B747 life extension

Under review

A320 reduction

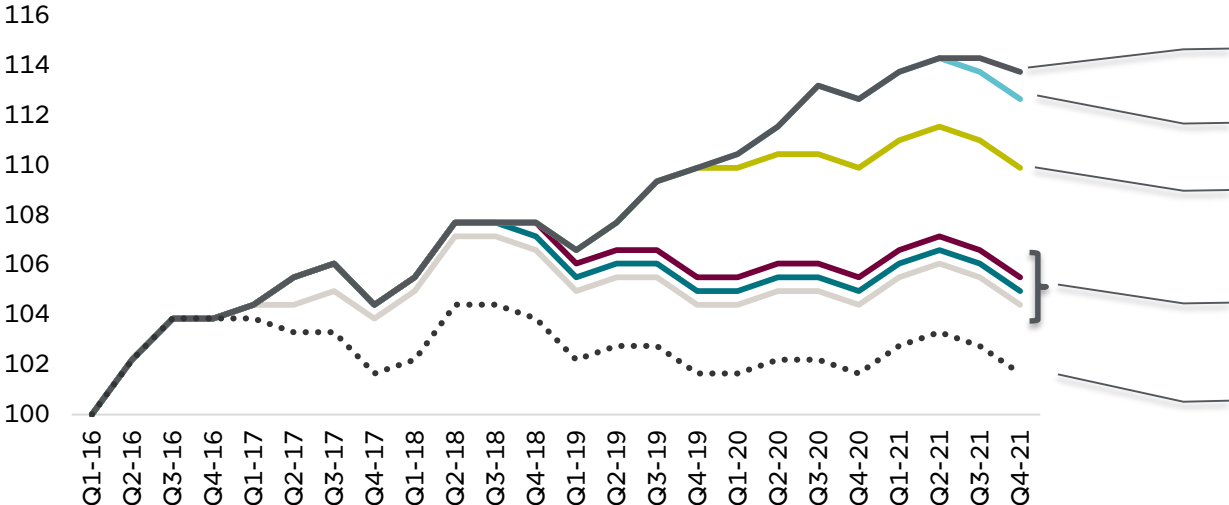
Fleet plan flexibility

Short-haul (indexed)



- Current plan
 - Flexibility from 2021
 - Flexibility from 2020
 - Flexibility from 2019
 - Flexibility from 2018
 - Flexibility from 2017
- Flexibility is contractual deliveries minus planned retirements and lease breaks**

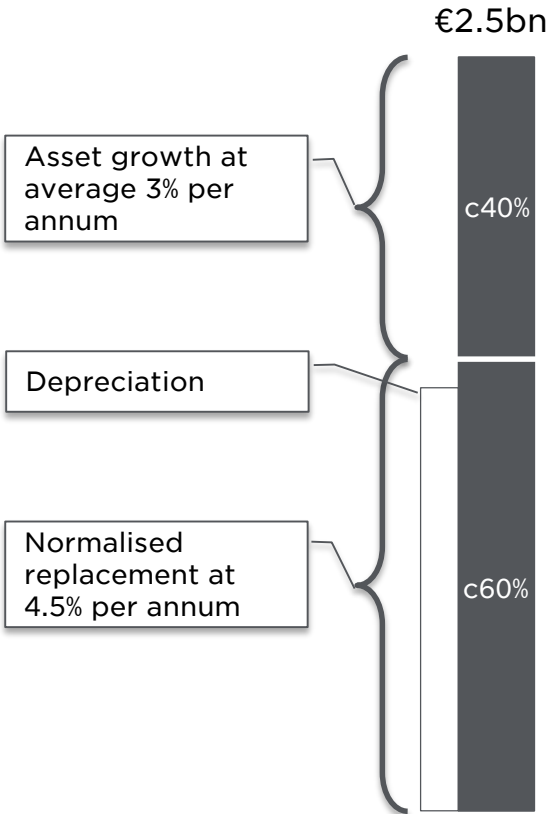
Long-haul (indexed)



- Current plan
- Flexibility from 2021
- Flexibility from 2020
- Flexibility from 2017-2019
- Maximum flexibility (accelerated retirement of 747)

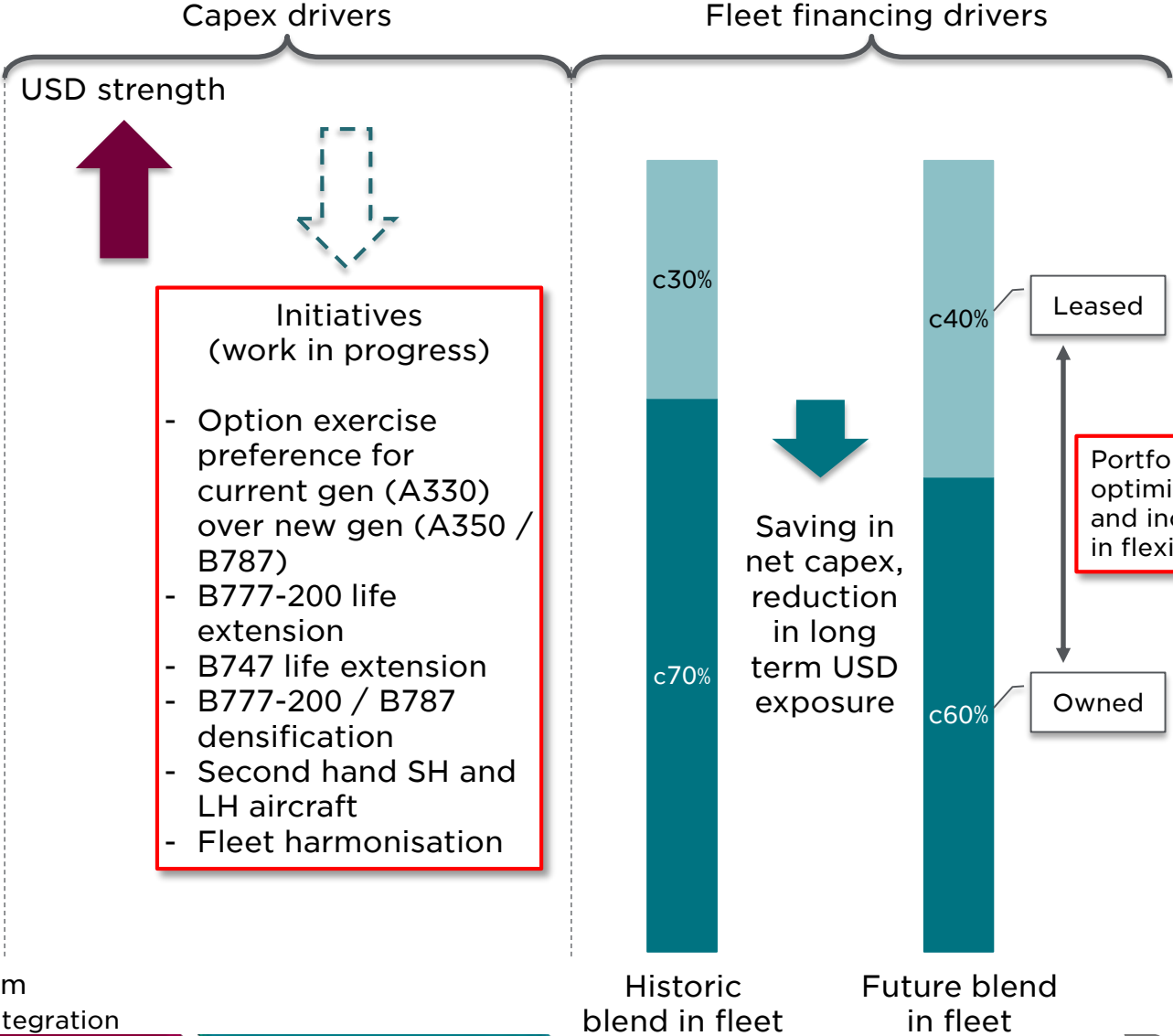
This is what we said last year: capex plan 2016 - 2020

Annual capex to be less than €2.5bn, of which c80% will be fleet-related



2016-20 annual maximum

IAG Financial targets before Aer Lingus integration



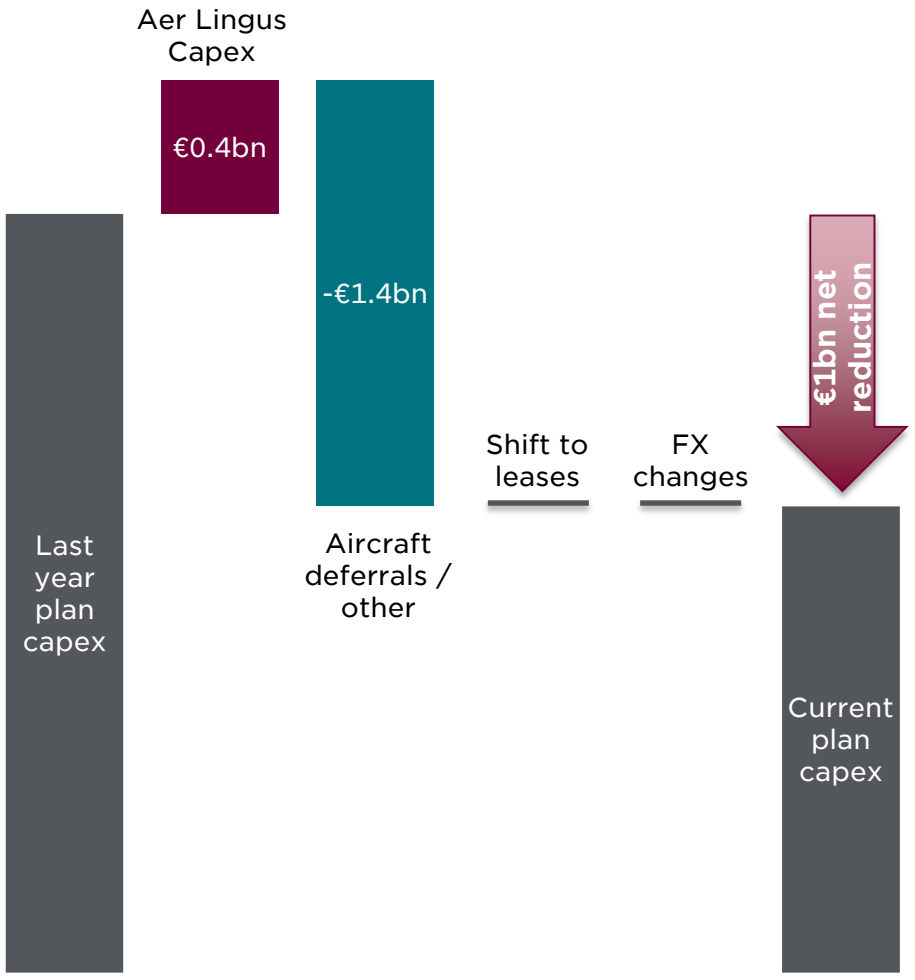
What we're planning now: capex plan 2016 - 2020

	Year	CAPEX last year plan	CAPEX current plan
Maximum	2018	€2.5bn	€1.9bn
Average	2016-20	€1.9bn	€1.7bn
Minimum	2017	€1.3bn	€1.3bn

This year's key target

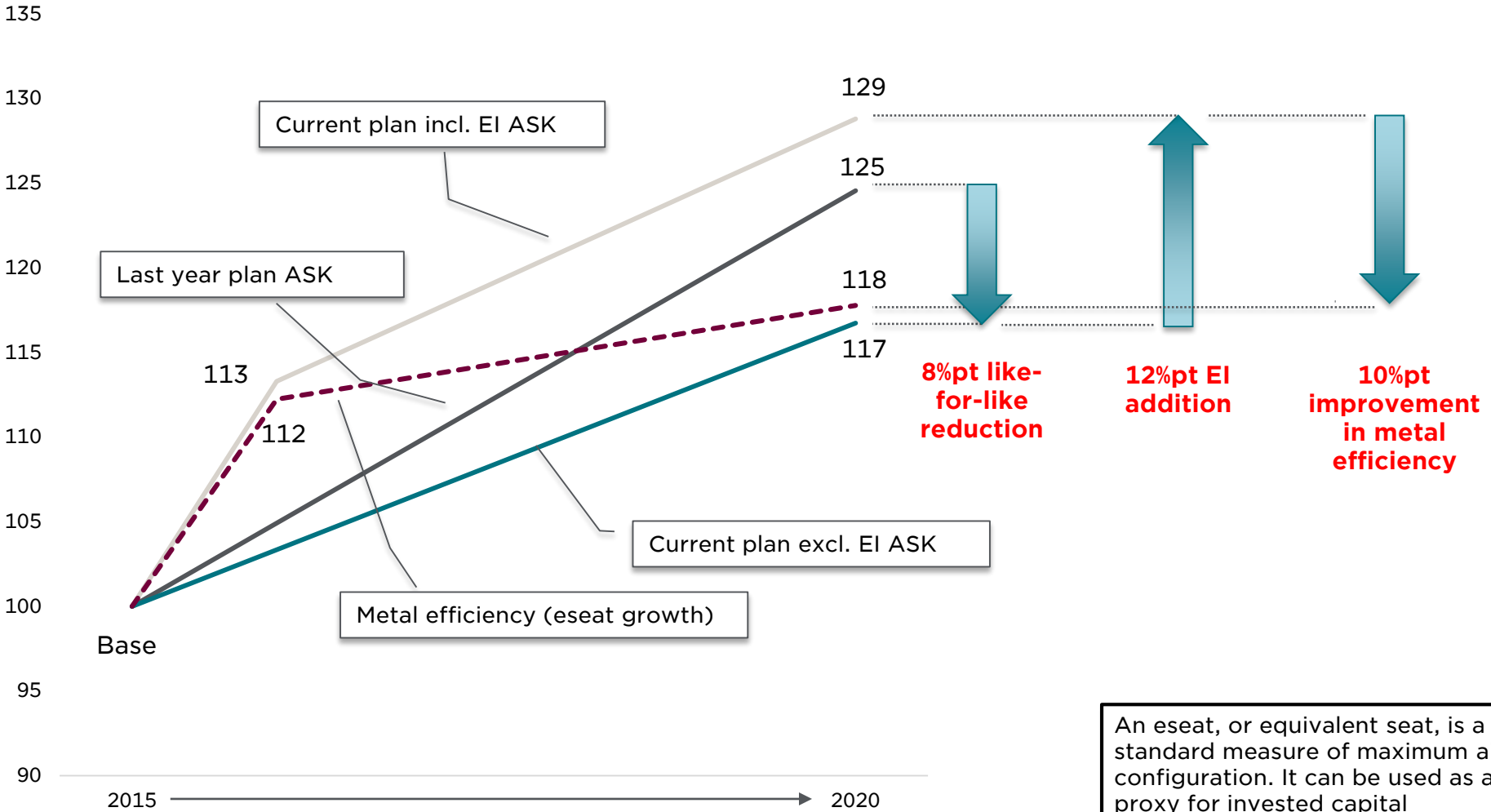
What we gave you last year

Total cut in plan since last year = **€1bn**



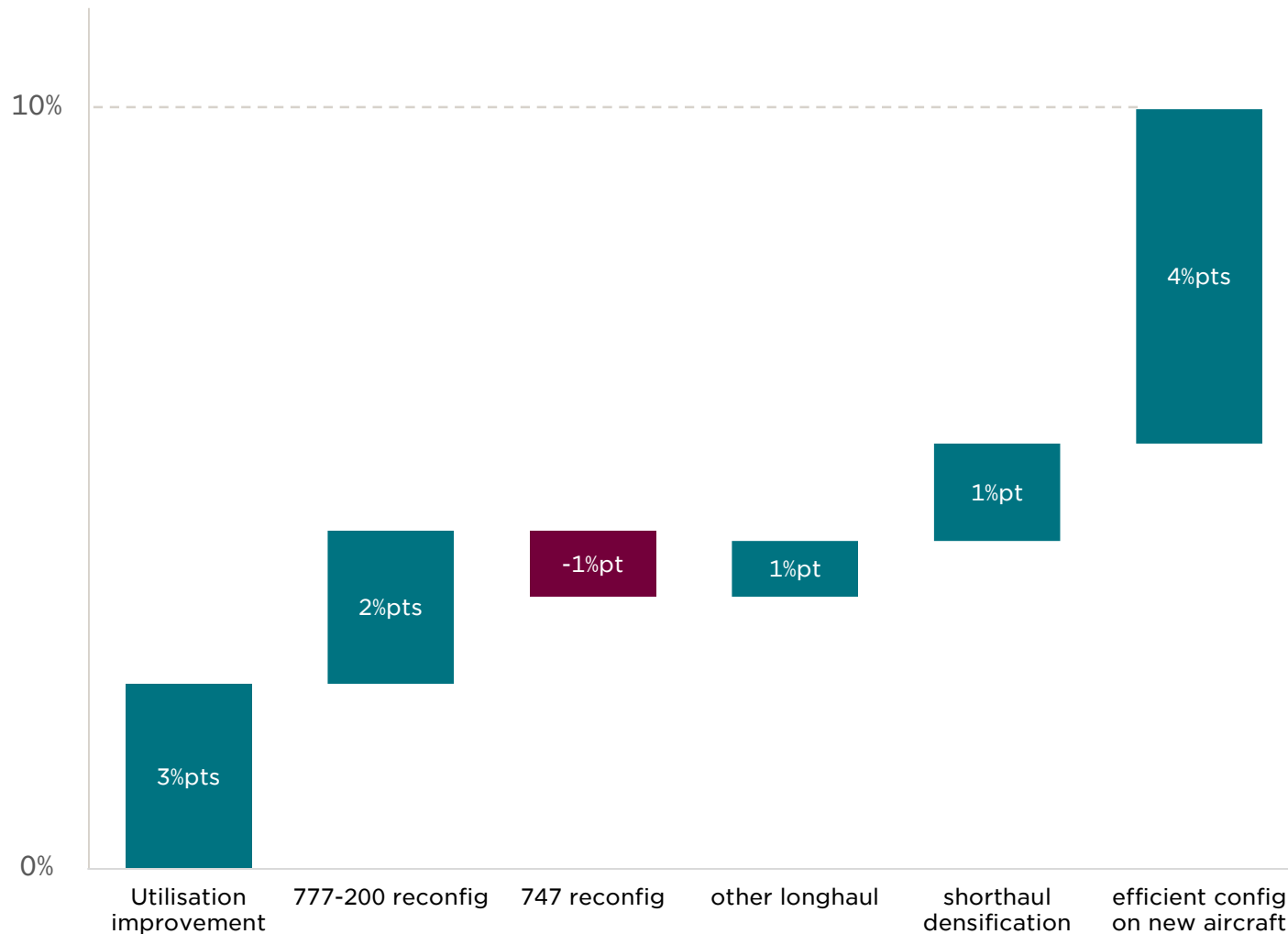
Change in capacity growth plan vs. last year

Capacity indexed



An eseat, or equivalent seat, is a standard measure of maximum aircraft configuration. It can be used as a proxy for invested capital

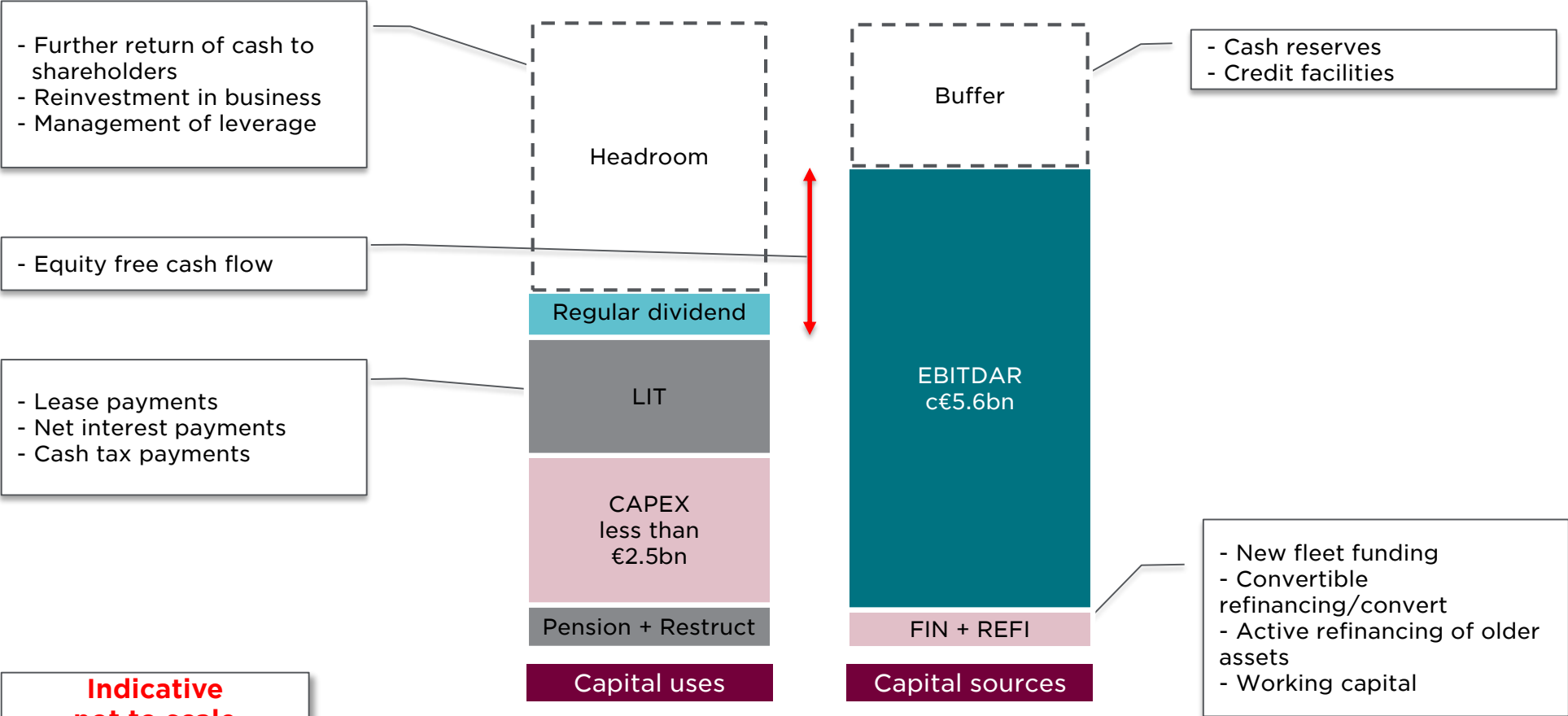
We have achieved 10%pt / €2bn structural capex saving



Initiatives

- ✓ Option exercise preference for current gen (A330) over new gen (A350 / B787)
- ✓ B777-200 life extension
- ✓ B747 life extension
- ✓ B777-200 / B787 densification
- (✓) Second hand SH and LH aircraft
- ✓ Fleet harmonisation

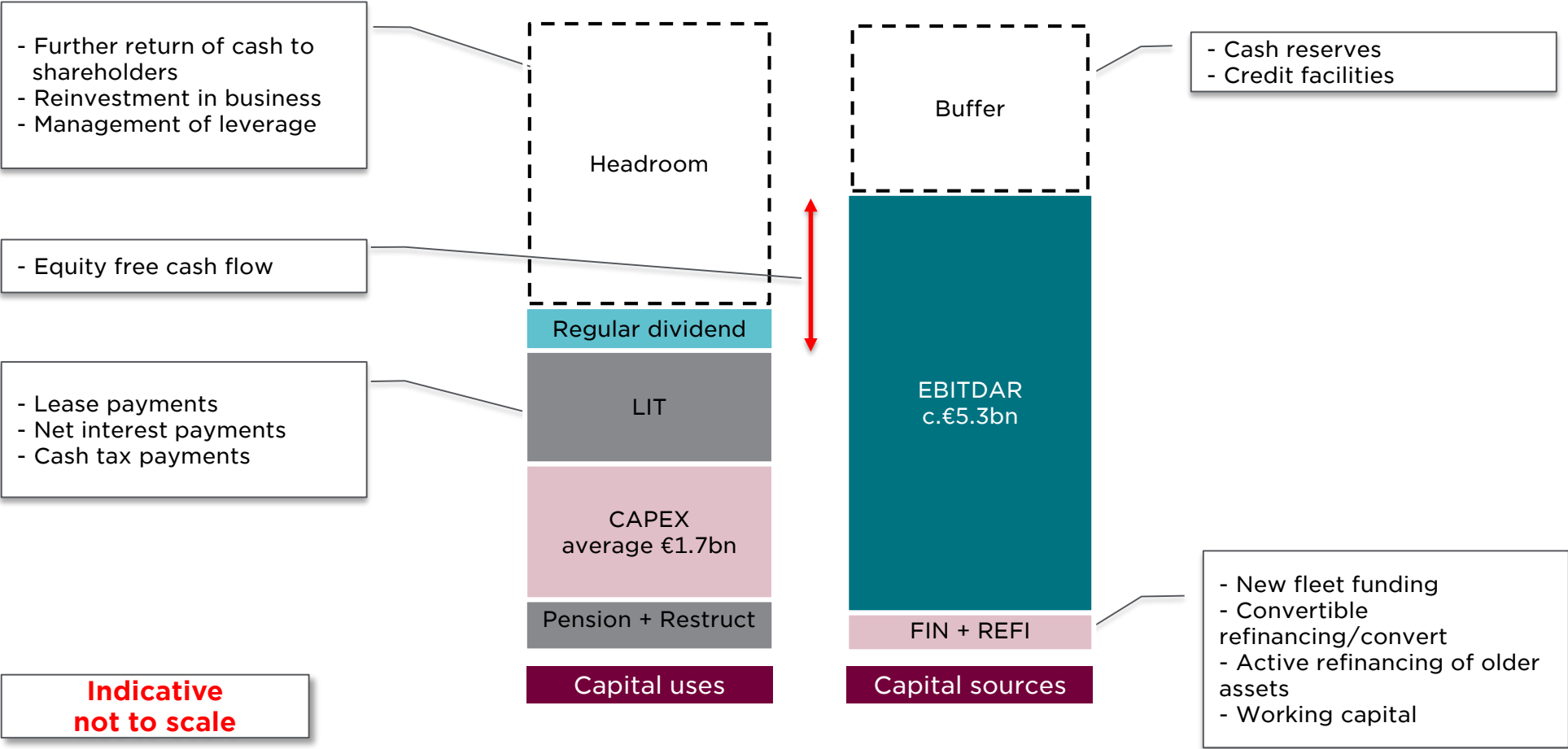
Last year plan: IAG corporate finance strategy 2016-2020



Indicative not to scale

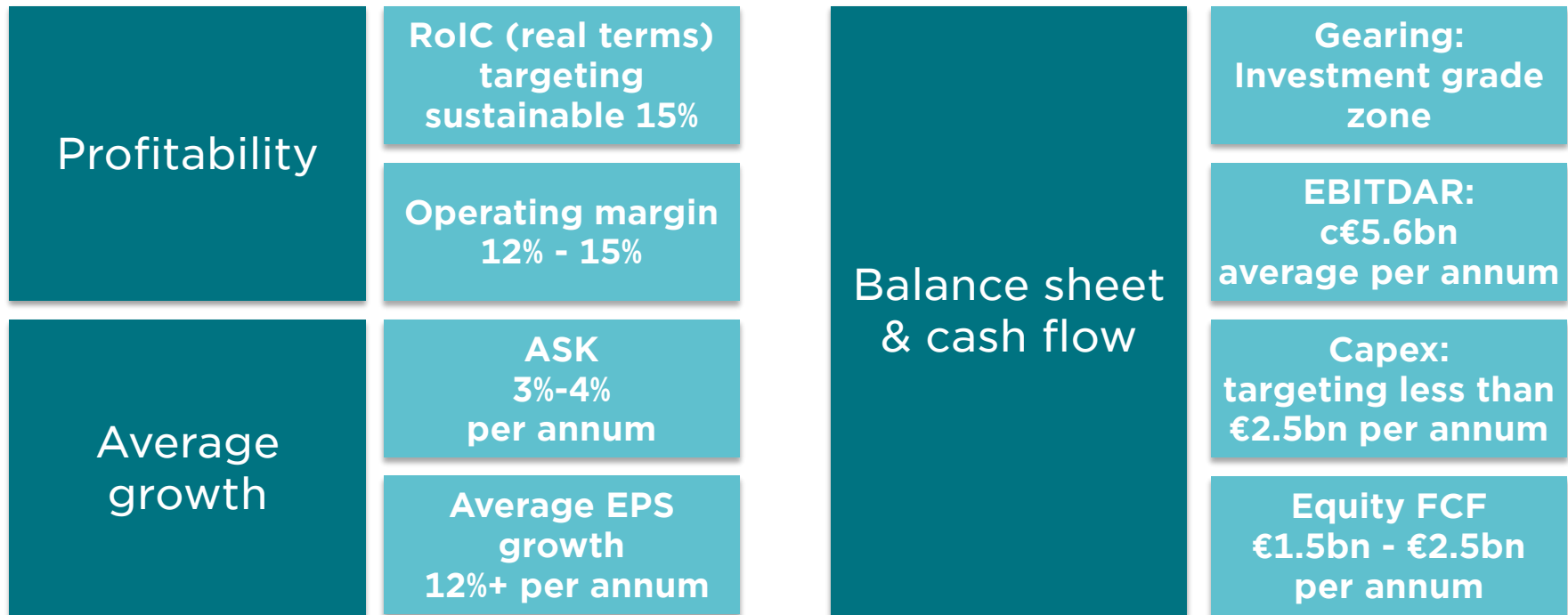
IAG Financial targets before Aer Lingus integration

Current plan: IAG corporate finance strategy 2016-2020



Long term planning goals 2016 - 2020

IAG financial targets before Aer Lingus integration

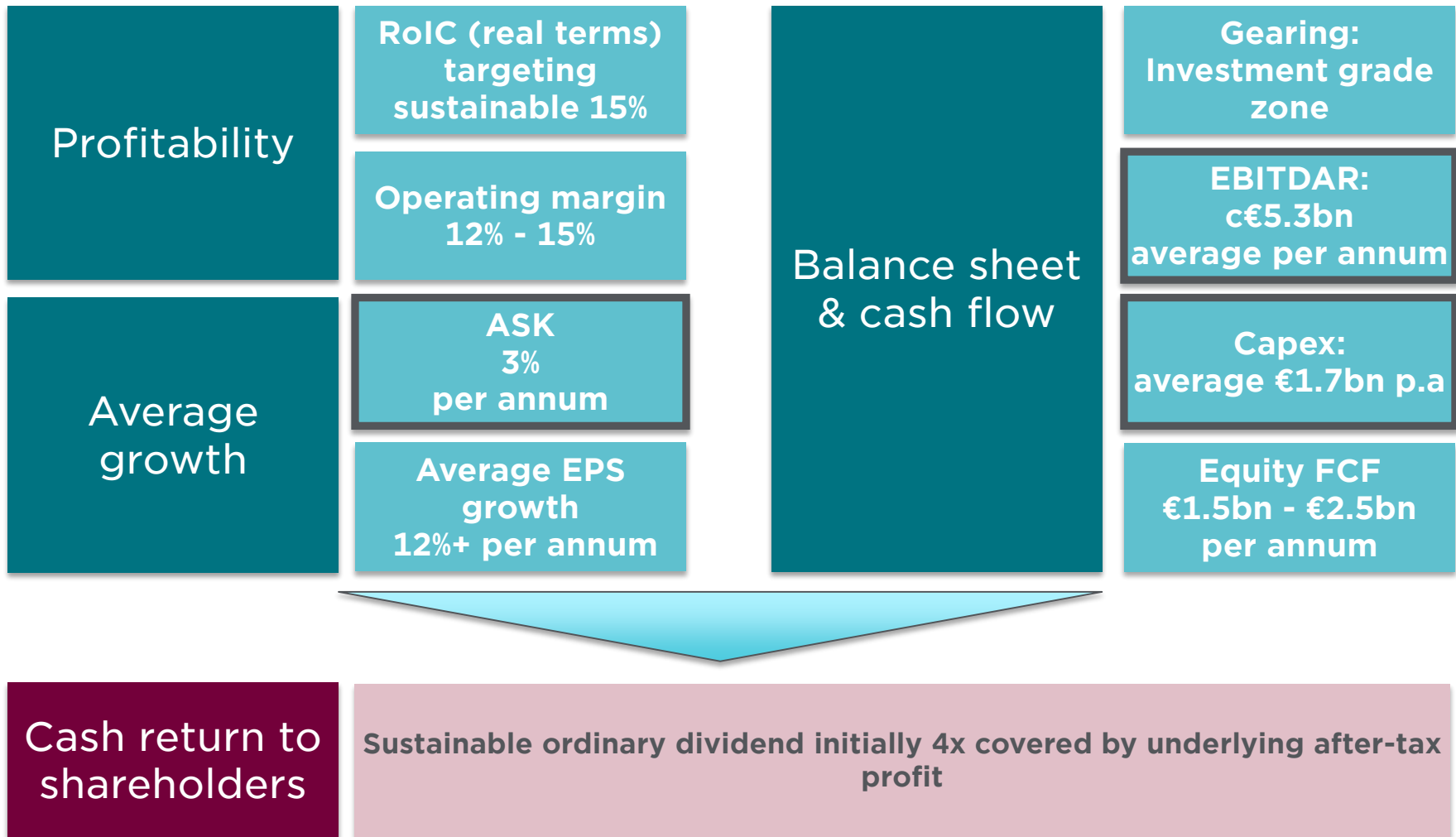


Cash return to shareholders

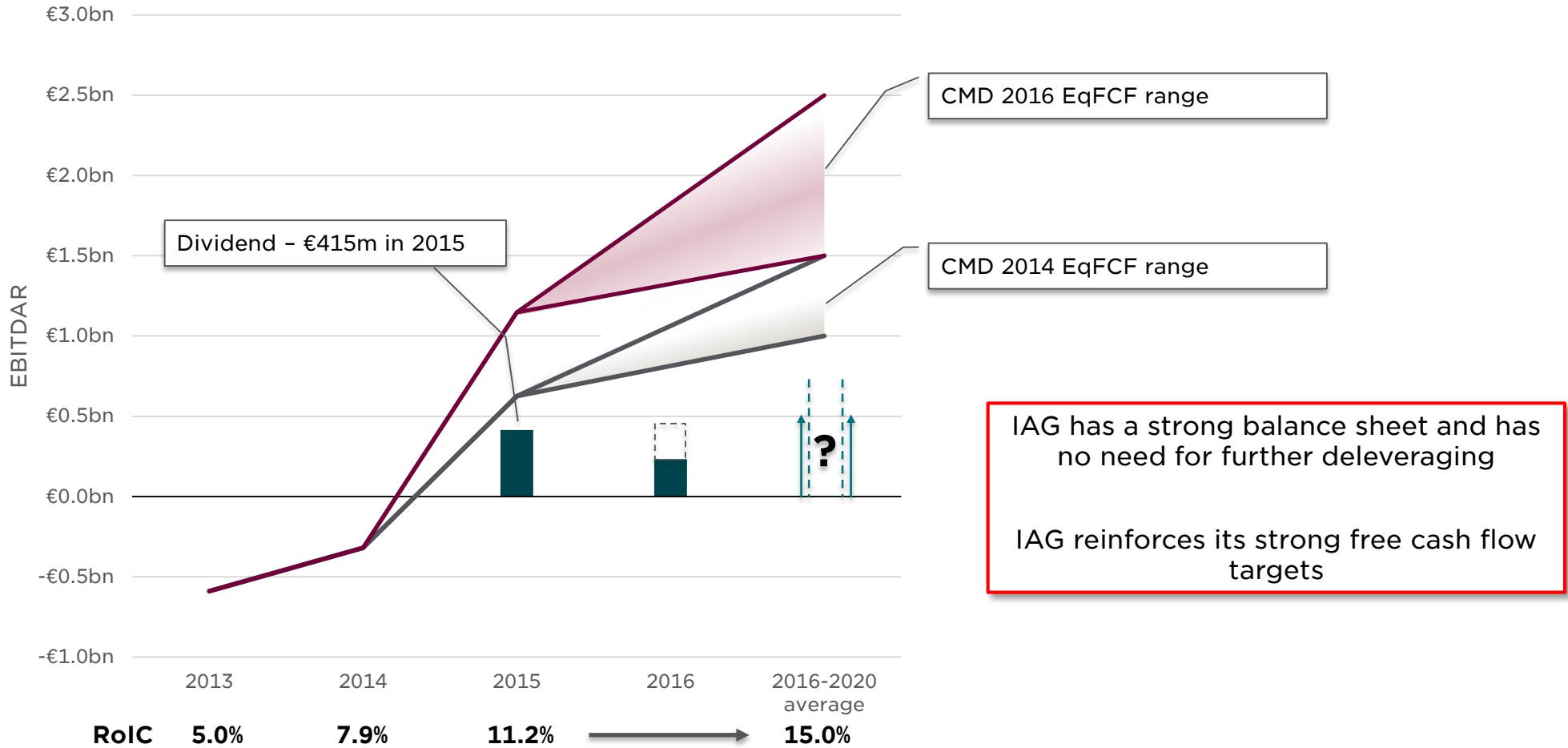
Sustainable ordinary dividend initially 4x covered by underlying after-tax profit

Long term planning goals 2016 - 2020

IAG financial targets



Significantly increased shareholder cash potential



Disclaimer

Certain statements included in this report are forward-looking and involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such forward-looking statements.

Forward-looking statements can typically be identified by the use of forward-looking terminology, such as “expects”, “may”, “will”, “could”, “should”, “intends”, “plans”, “predicts”, “envisages” or “anticipates” and include, without limitation, any projections relating to 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 expenditures and divestments relating to the Group and discussions of the Group’s Business plan. All forward-looking statements in this report are based upon information known to the Group on the date of this report. The Group 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 forward-looking statements in this report 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 2015; these documents are available on www.iagshares.com.

The IAG logo consists of the letters "IAG" in a bold, white, sans-serif font, positioned on the left side of a horizontal bar. The bar is divided into three segments: a grey segment on the left, a maroon segment in the middle, and a teal segment on the right. The segments are separated by white curved lines that create a sense of motion or a stylized 'C' shape.

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