

# IAG results presentation

Quarter Two 2014

*1<sup>st</sup> August 2014*



# Q2 financial summary

## OPERATING PROFIT

€350m

(pre-Vueling, pre-exceptional items)

€380m

(reported)

**+€135m**

(reported change)

## TOTAL UNIT REVENUE

-0.2%

(pre-Vueling, constant FX)

-2.3%

(constant FX)

-3.7%

(reported, €74m FX drag)

## PAX UNIT REVENUE

**+0.1%**

(pre-Vueling, constant FX)

-0.4%

(constant FX)

-1.8%

(reported)

## TRAFFIC/CAPACITY

ASKs: +6.3%

(pre-Vueling)

ASKs: +10.8%

(reported)

RPKs: +10.0%

(reported)

## TOTAL UNIT COST

-3.3%

(pre-Vueling, constant FX)

-4.8%

(constant FX)

-6.1%

(reported, €65m FX benefit)

## EX-FUEL UNIT COST

**-2.5%**

(pre-Vueling, constant FX)

-4.4%

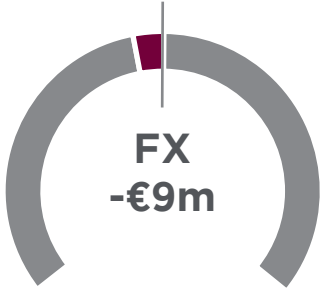
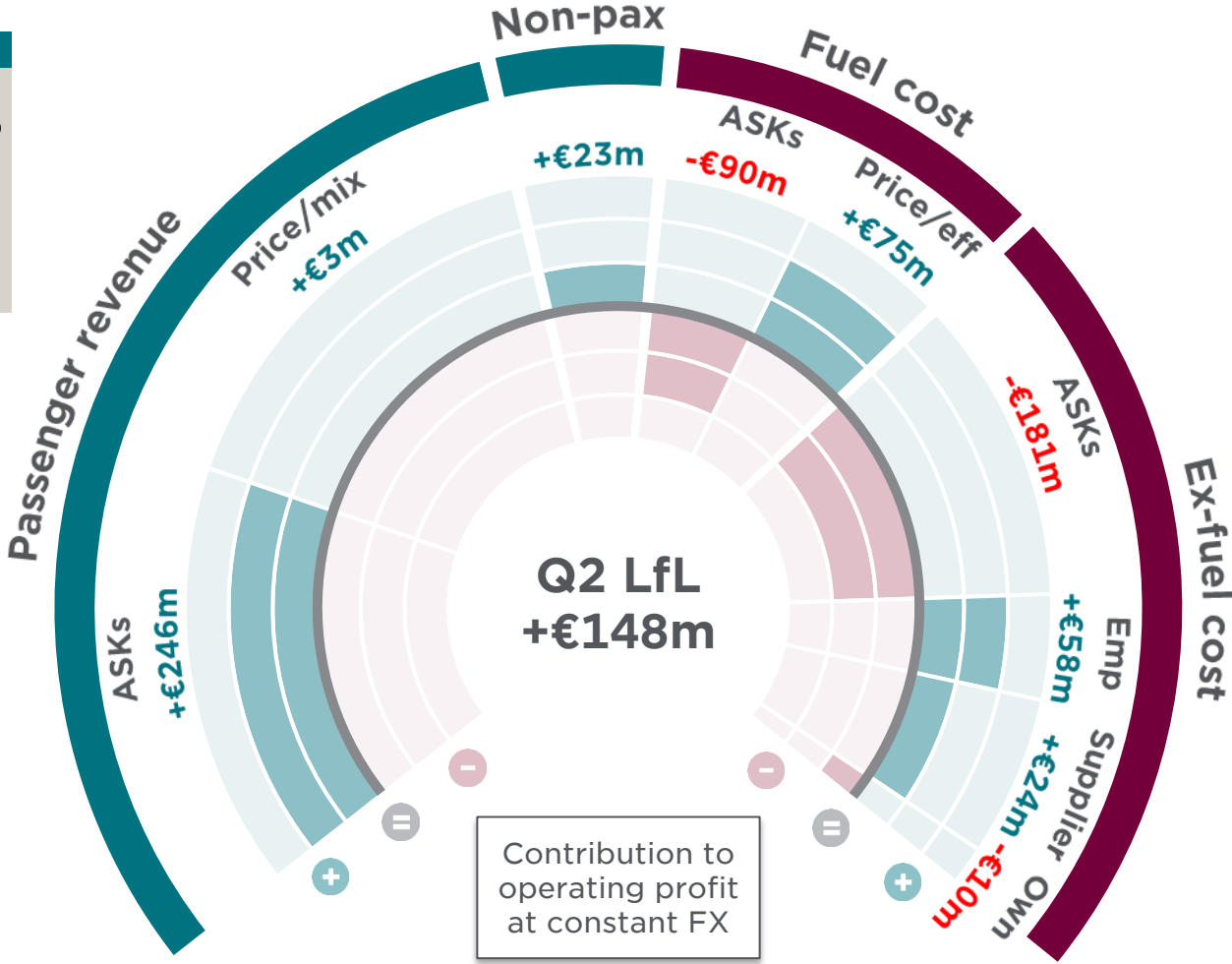
(constant FX)

-4.4%

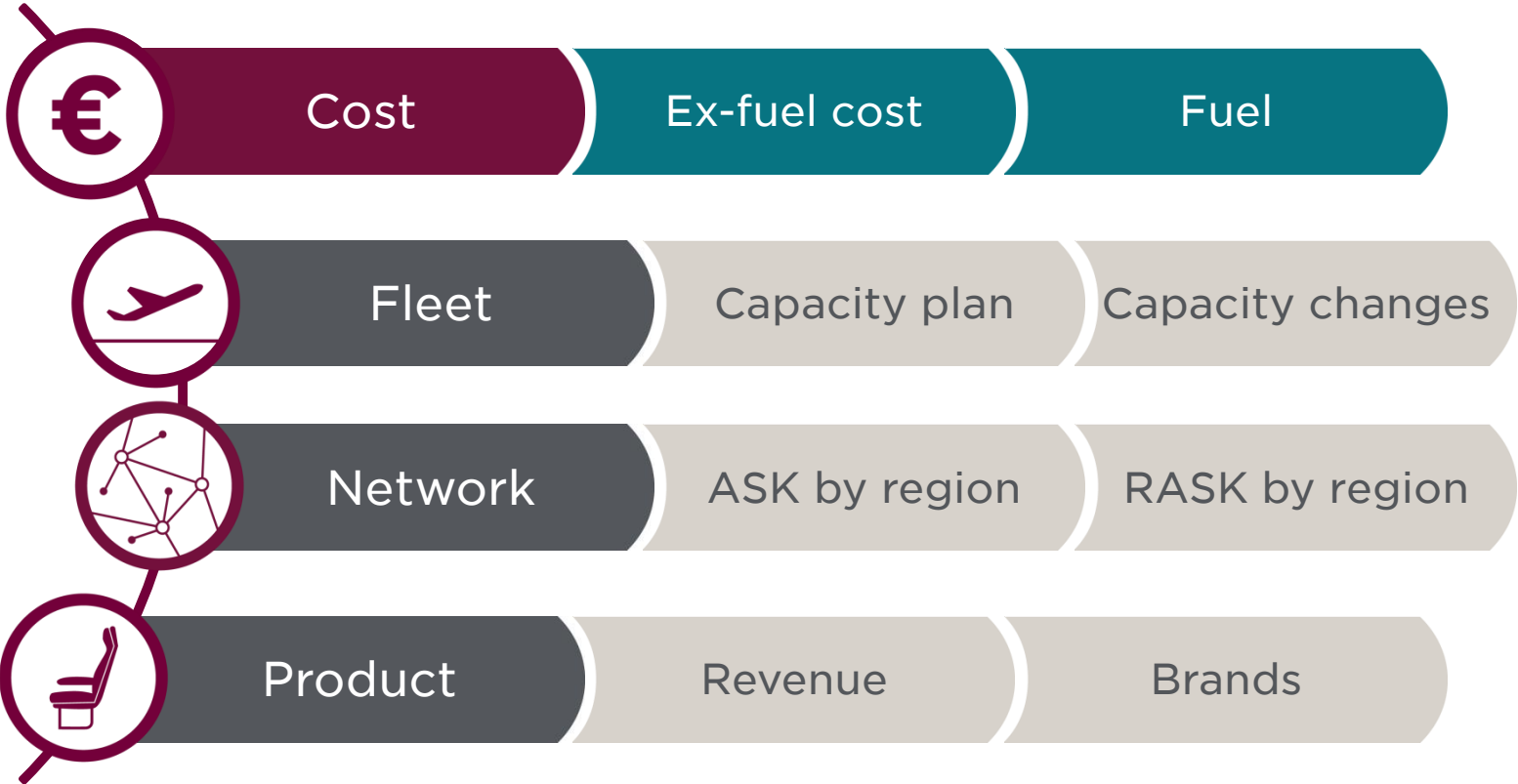
(reported)

# Q2 operating profit drivers

OPERATING PROFIT	
€350m	(pre-Vueling, pre-exceptional items)
€380m	(reported)
<b>+€135m</b>	(reported change)



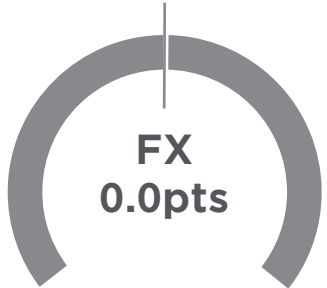
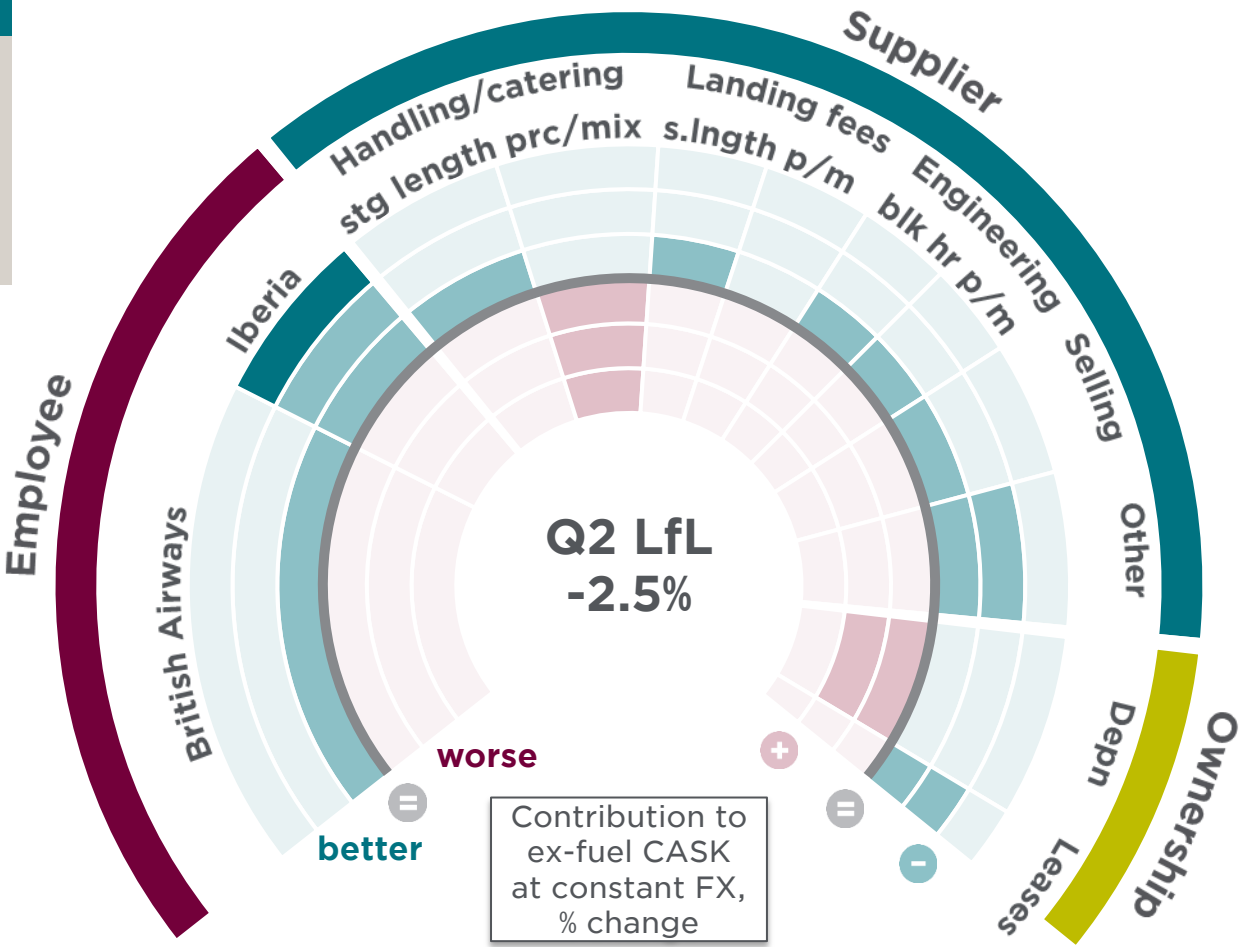
# Q2 results



# Q2 ex-fuel unit cost: continued IB transformation



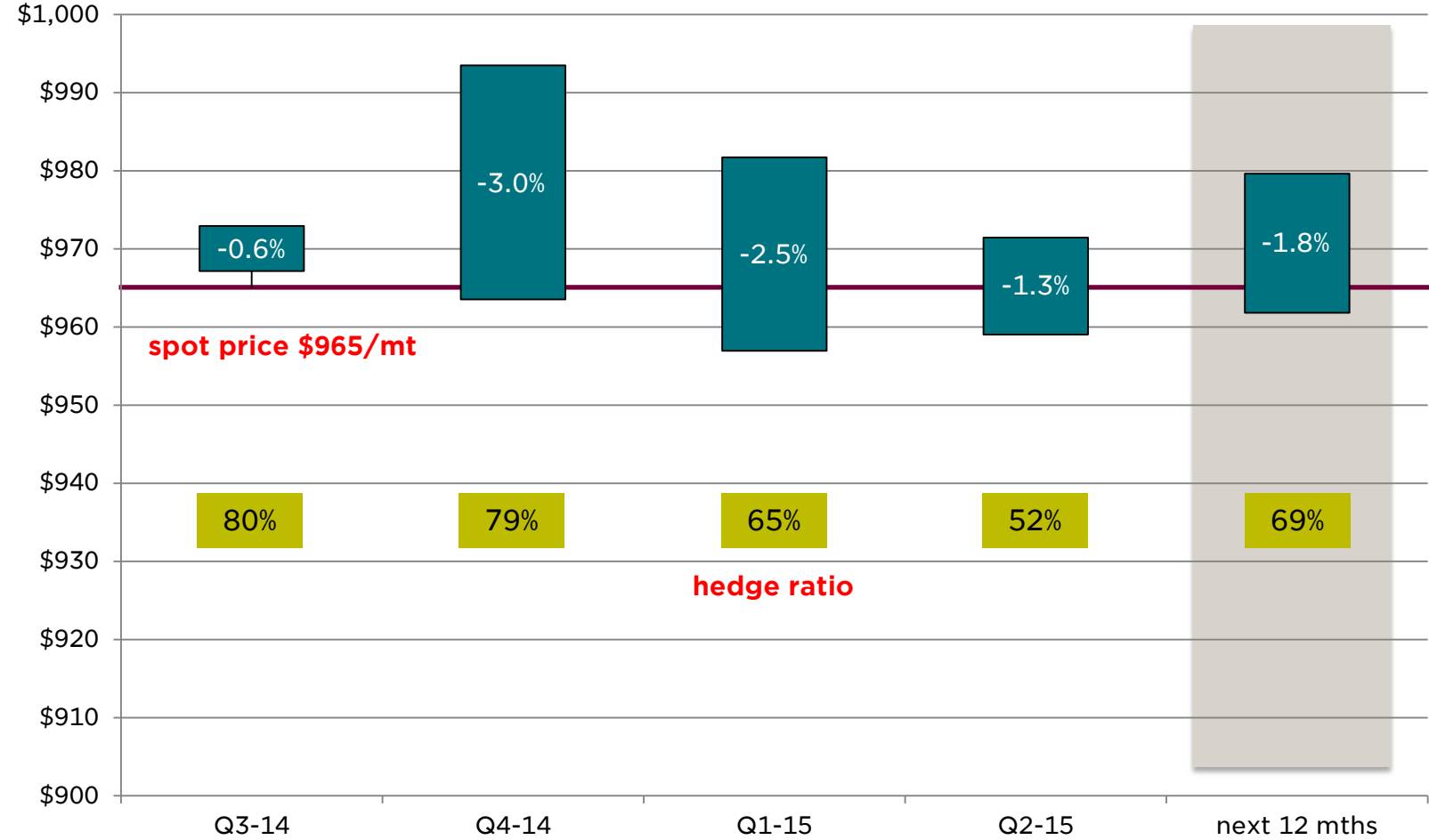
EX-FUEL UNIT COST	
-2.5%	(pre-Vueling, constant FX)
-4.4%	(constant FX)
-4.4%	(reported)



# Fuel: relatively stable spot price - some tailwind

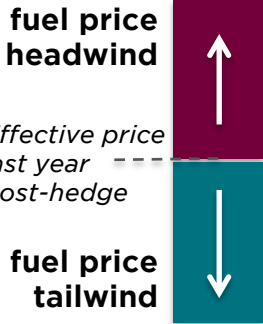


Jet fuel price (\$/mt)



**Key:**

Current spot / hedge blended price

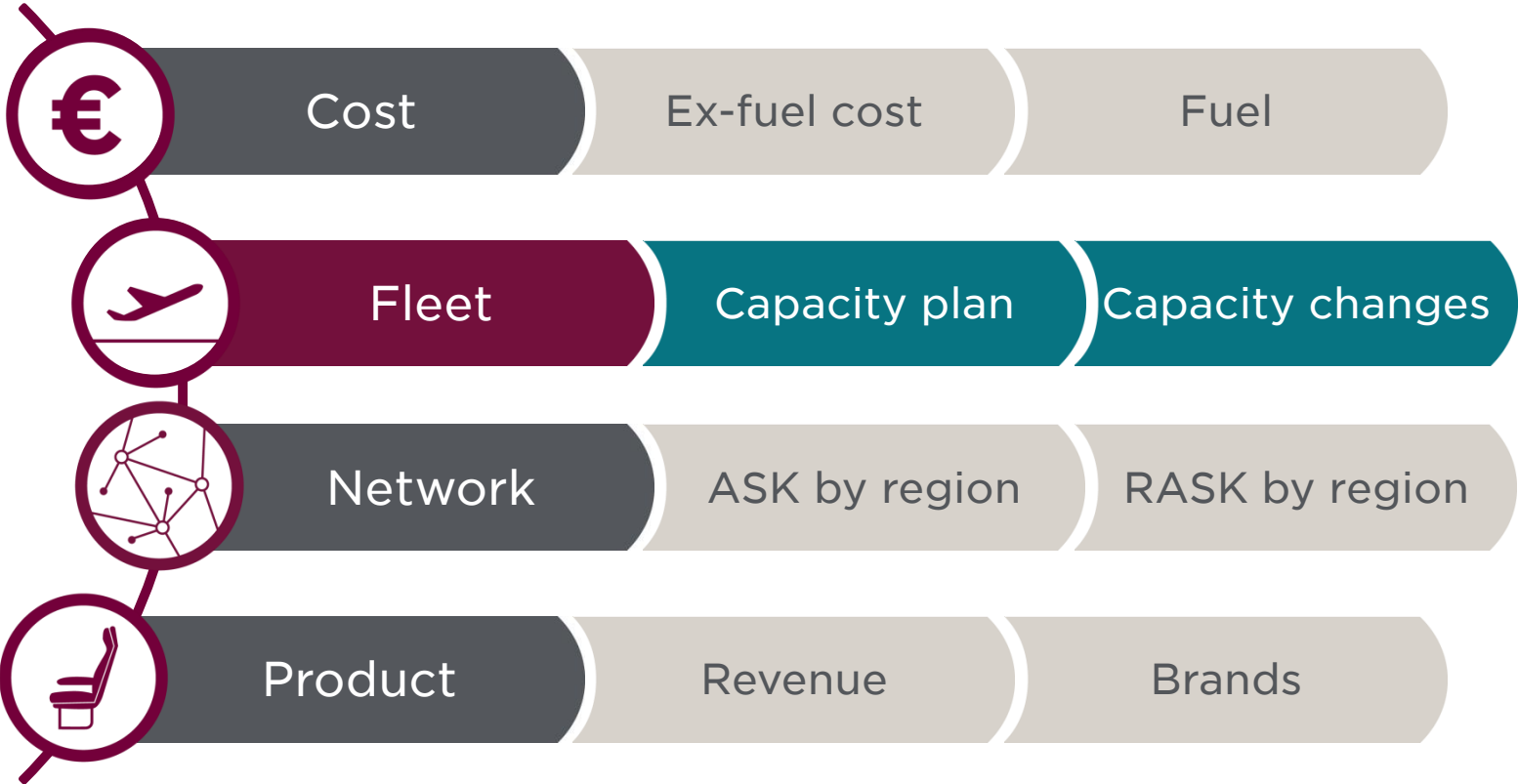


Effective price last year post-hedge

Current spot / hedge blended price

2014 fuel bill scenario - €6.0bn (at \$965mt and 1.34\$/€)

# Q2 results



# 2014 capacity growth and contributions

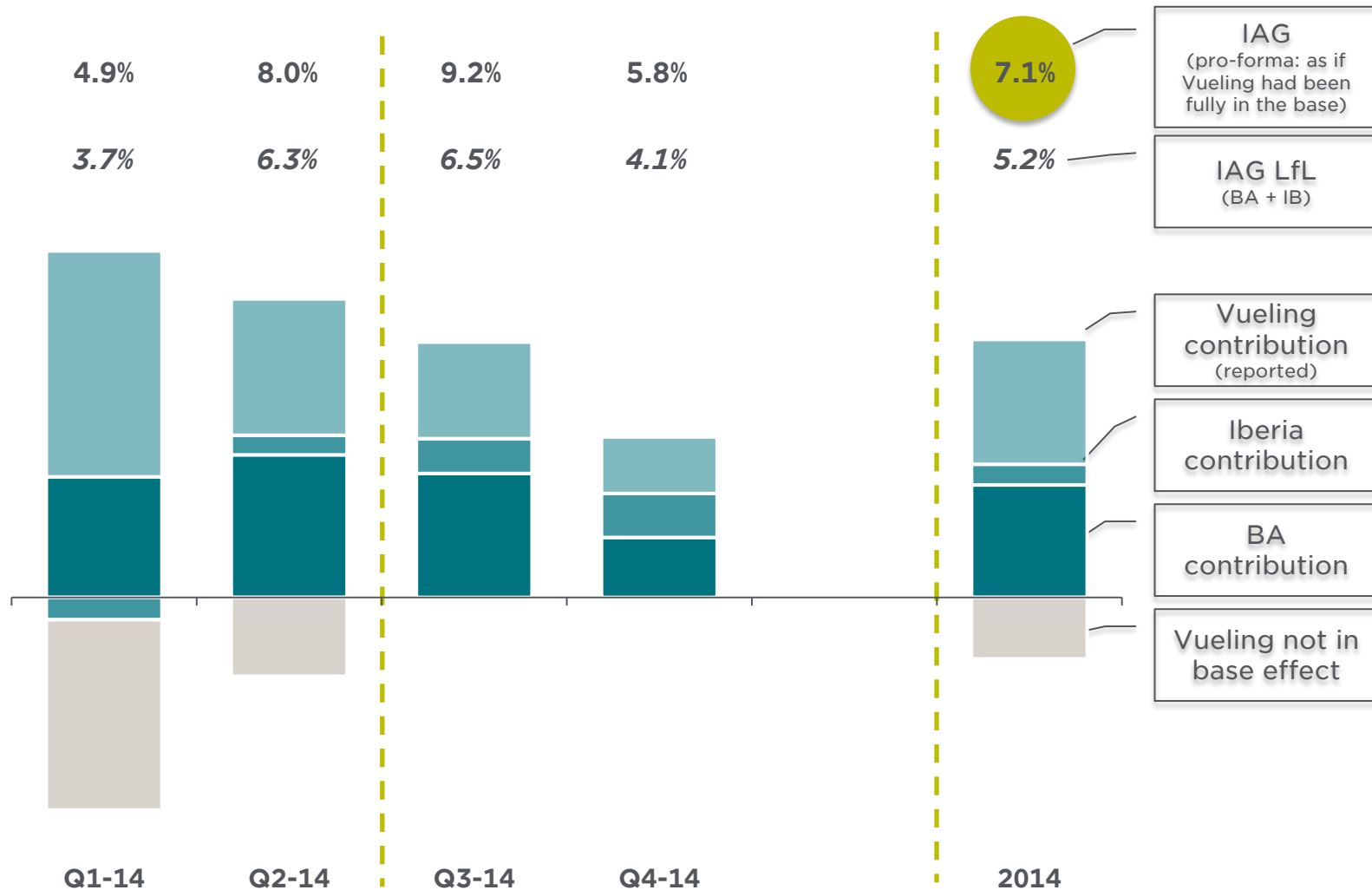


• **Capacity trim:** Q4-14 Group capacity growth expected to move from +8.7% (as at May-14) to +5.8%

• **BA:** Q3-14 and FY2014 capacity planned to be +6.8% and +5.8% respectively

• **Iberia:** Q3-14 and FY2014 capacity planned to be +5.6% and +3.3% respectively

• **Vueling:** Q3-14 and FY2014 capacity planned to be +30.0% and +26.1% respectively

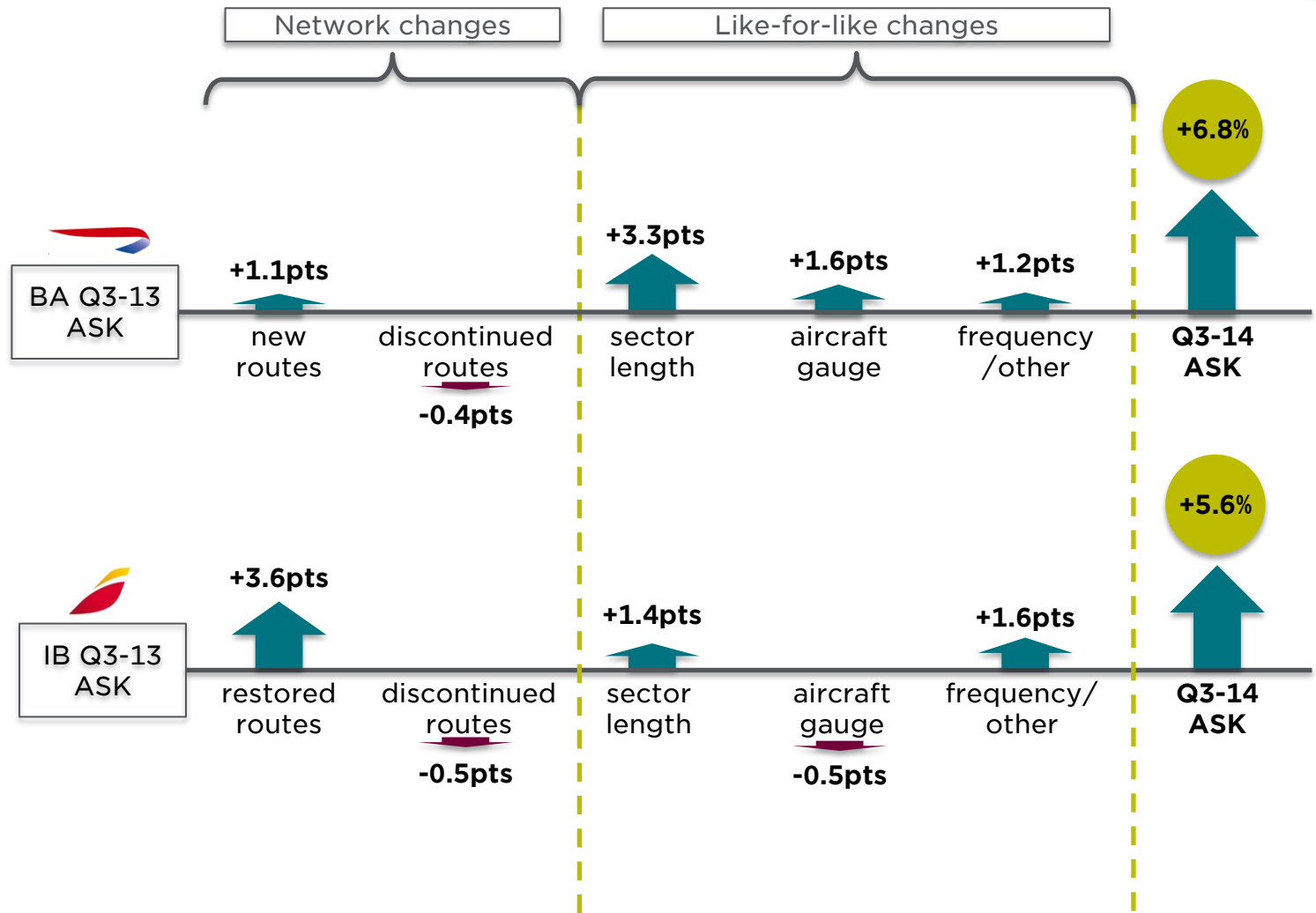




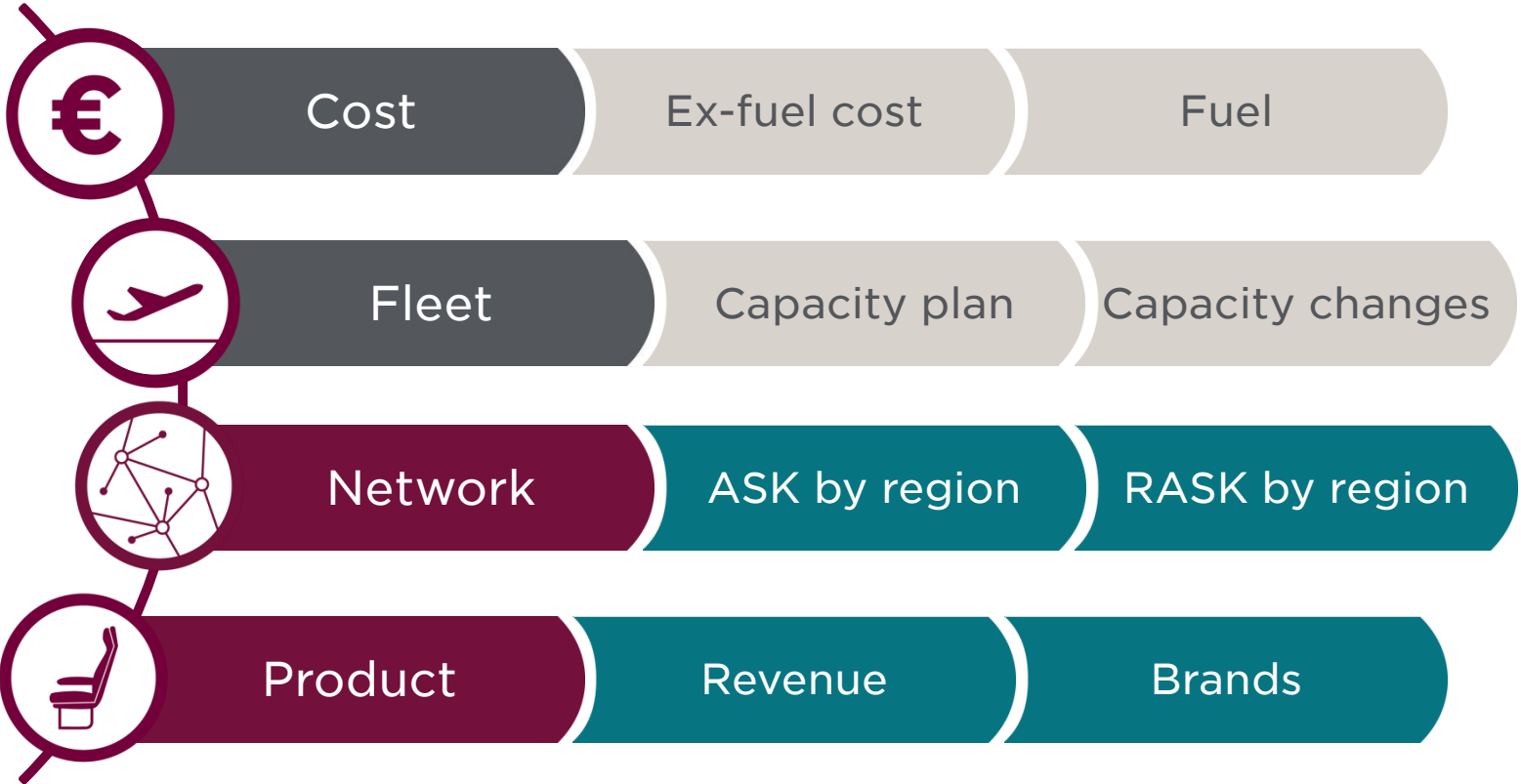
# Q3 changes: BA sector length, IB restored routes



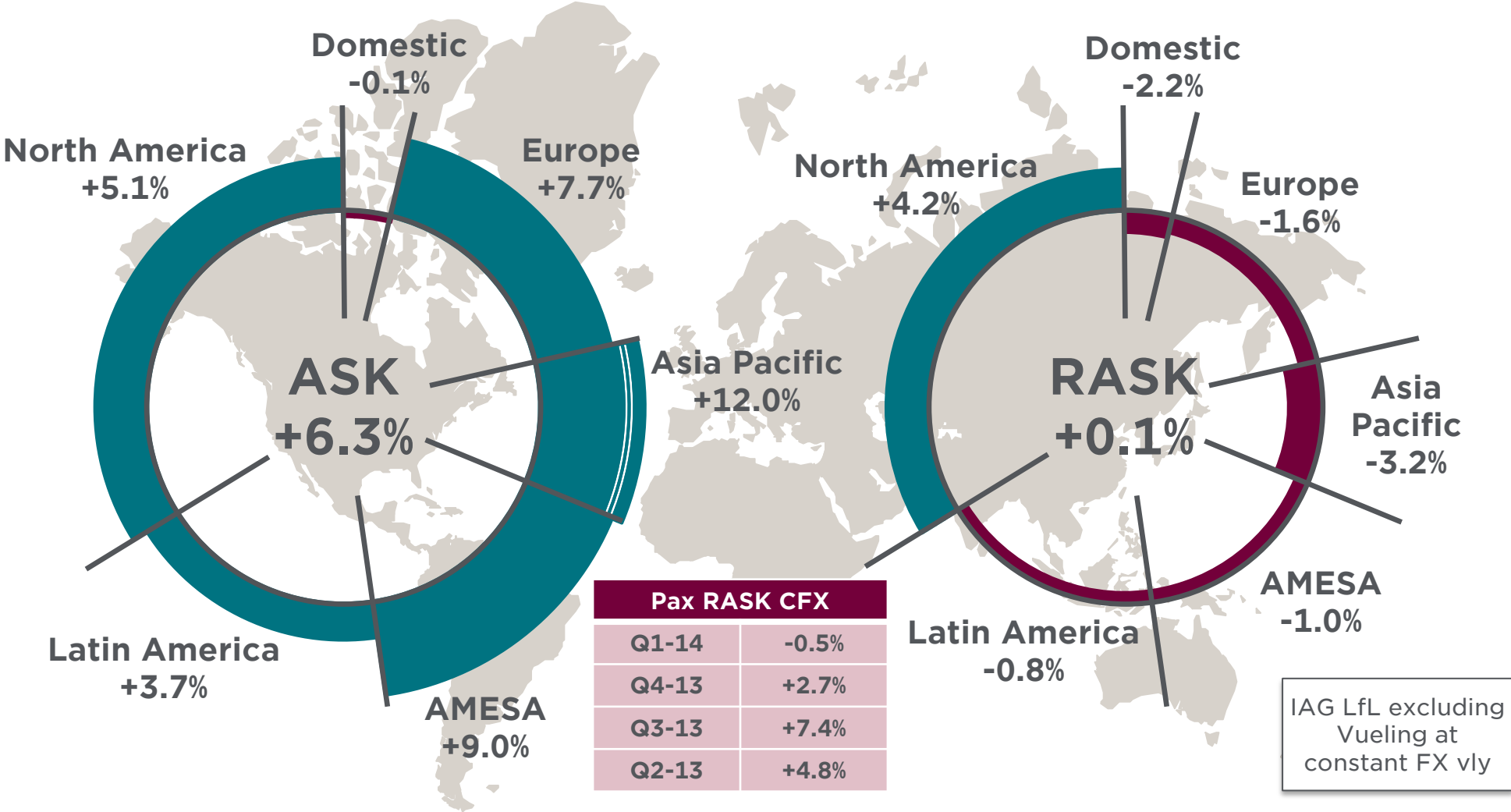
- New routes for BA are Austin, LHR leisure destinations and new CityFlyer routes
- Restored routes for Iberia include Amsterdam, Montevideo, Istanbul, Santo Domingo, Berlin
- Main discontinued BA route is Lusaka
- BA frequency change driven by New York, Cape Town, and Seattle
- IB frequency change driven by Mexico City, Chicago and Panama City



# Q2 results



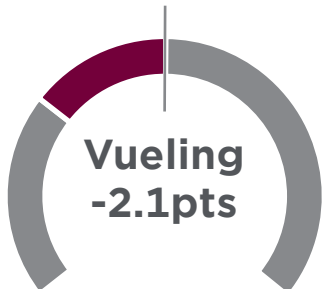
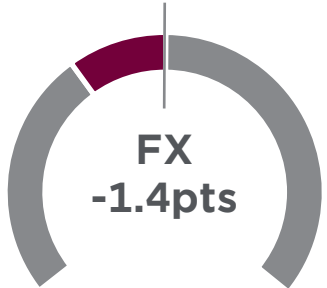
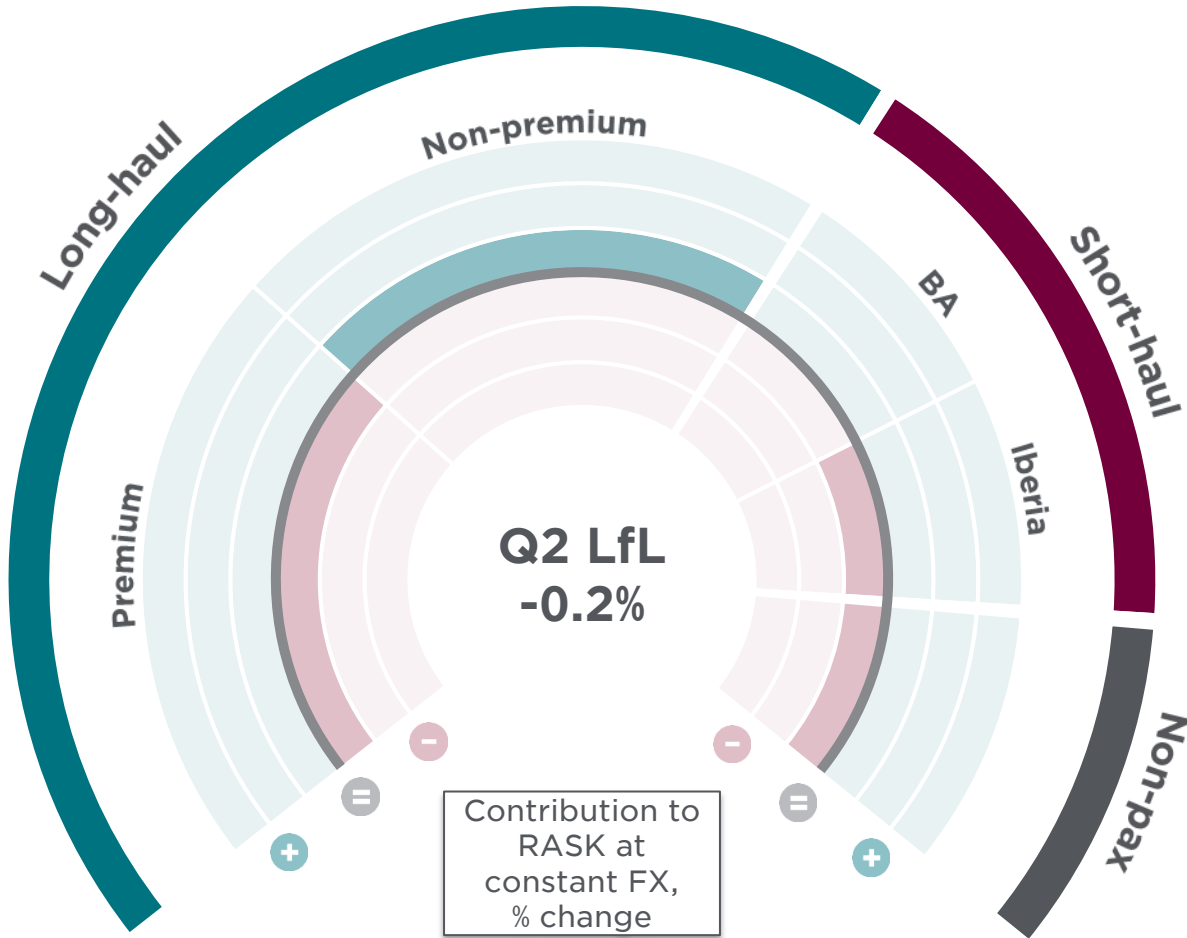
# Q2 capacity and passenger unit revenue change



# Q2 products: Easter, World Cup affect mix






TOTAL UNIT REVENUE	
-0.2%	(pre-Vueling, constant FX)
-2.3%	(constant FX)
-3.7%	(reported, €74m FX drag)



# Financial performance by brand



	BRITISH AIRWAYS 		IBERIA 		vueling 	
	Q2 2014 (€m)	v/y	Q2 2014 (€m)	v/y	Q2 2014 (€m)	v/y
Revenue	2,996	+1.9%	1,071	-0.5%	457	+24.5%
Cost	2,723	-0.3%	1,055	-5.0%	427	+24.9%
<b>Operating result</b>	<b>273</b>	<b>+63</b>	<b>16</b>	<b>+51</b>	<b>30</b>	<b>+5</b>
Operating margin	9.1%	<b>+2.0pts</b>	1.5%	<b>+4.7pts</b>	6.6%	<b>-0.2pts</b>
ASK (m)	43,719	+7.4%	13,570	+3.1%	7,287	+23.6%
RPK (m)	35,641	+6.2%	10,713	+3.1%	5,757	+27.1%
Sector length (kms)	3,119	+2.4%	2,757	+2.2%	1,012	+3.5%
RASK	6.85	-5.1%	7.89	-3.5%	6.27	+0.6%
CASK	6.23	-7.1%	7.78	-7.9%	5.86	+1.0%
CASK ex-fuel	4.17	-4.7%	5.67	-6.8%	4.05	+2.8%
Employee cost per ASK	1.42	<b>-4.1%</b>	1.93	<b>-10.5%</b>	0.52	<b>+2.0%</b>

# Balance sheet

# Balance sheet: gearing marginally down






- Excludes IAS 19 amendments
- Gross debt increase as result of new fleet deliveries in BA
- Cash: BA £2.5bn (Dec 13: £1.9bn), Iberia €0.8bn (Dec 13: €0.7bn), Vueling €0.8bn (Dec 13: €0.5bn)

€m	Dec 2013	Jun 2014
Adjusted equity	5,772	6,126
Gross debt	5,122	5,673
Cash, cash equivalents & interest bearing deposits	3,633	4,904
On balance sheet net debt	1,489	769
Gearing	21%	11%
Aircraft lease capitalisation (x8)	4,212	4,480
Adjusted net debt	5,701	5,249
Adjusted gearing	50%	46%

# Outlook



# Current trading: no underlying change

	Short-haul	Long-haul
Non-premium	 Stable	 Stable
Premium	 Stable	 Stable
Cargo		 Stabilising

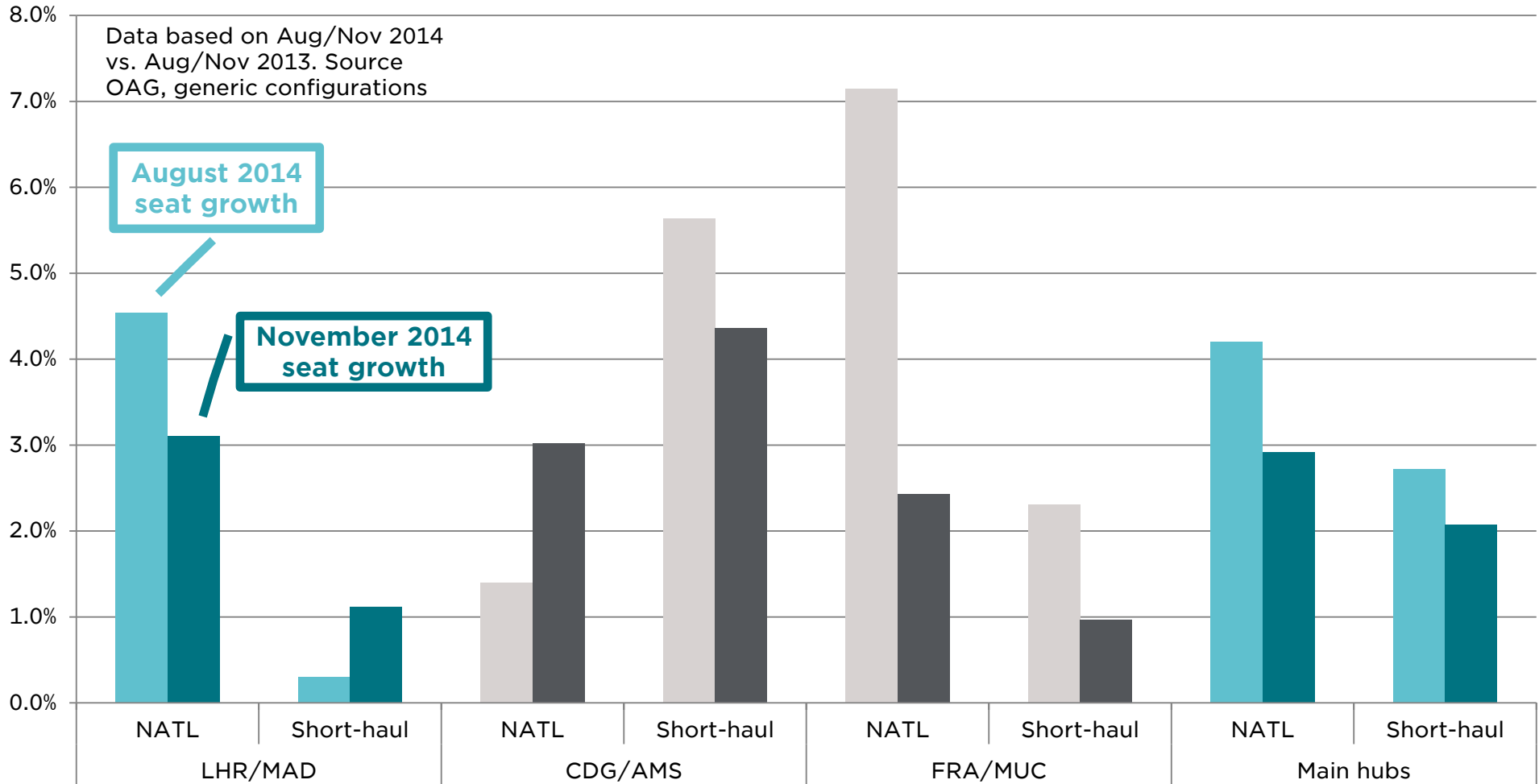
# Guidance for FY2014 including Vueling

Operating profit (base = €770m)	Improvement of at least €500m	
Passenger unit revenue	flat	Reported, at current exchange rates
Ex-fuel unit cost	down	
Fuel bill scenario	€6.0bn (\$965/MT and 1.34\$/€)	
ASK	+9.3% (reported)	+7.1% (pro-forma)

# Strategic update

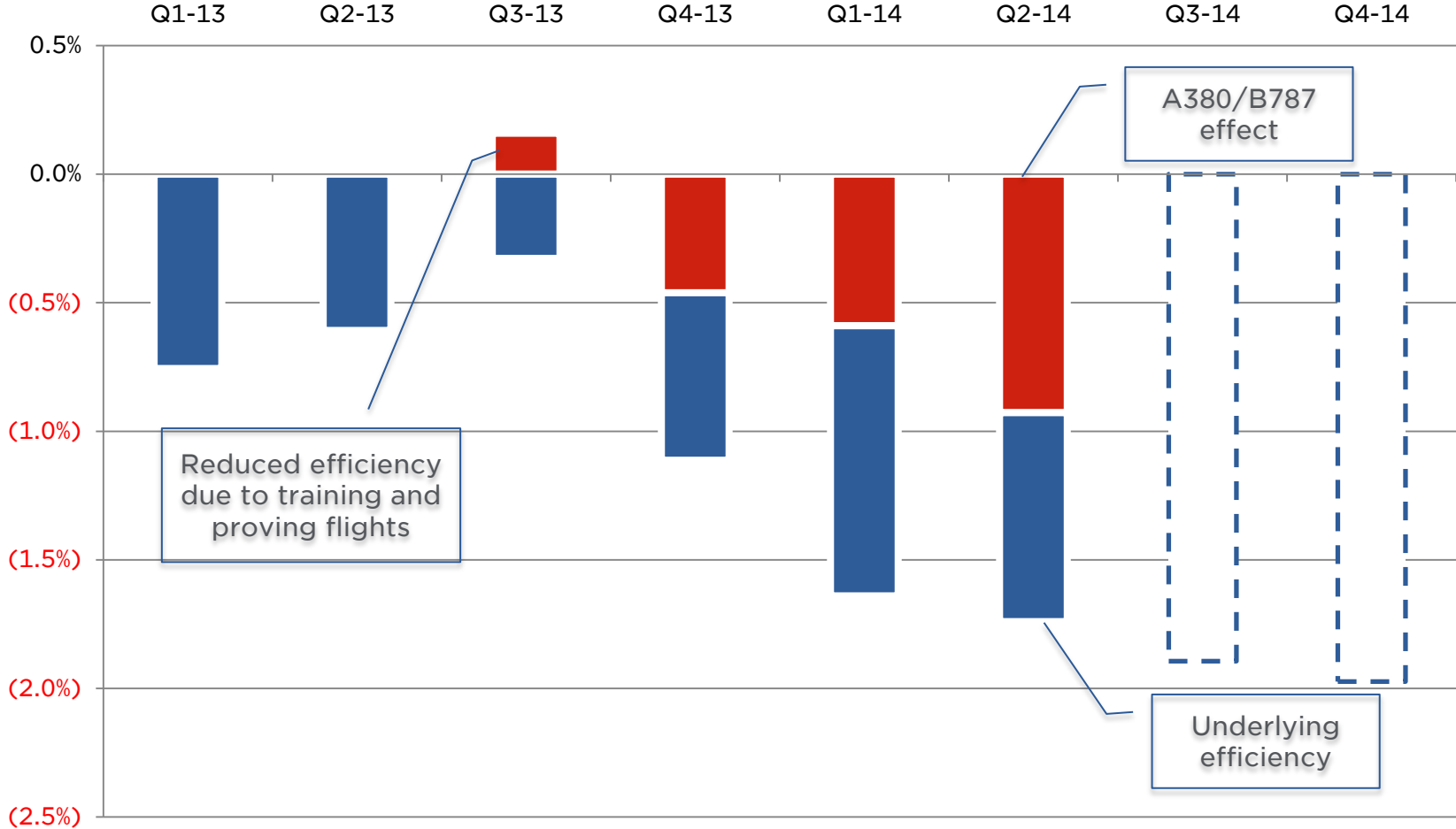
# Short term seat capacity: major hubs, major markets

Capacity growth peaking in Q3, then expected to decline in winter season



# BA - new fleet benefits starting to show through

Change in fuel burn per ASK versus last year

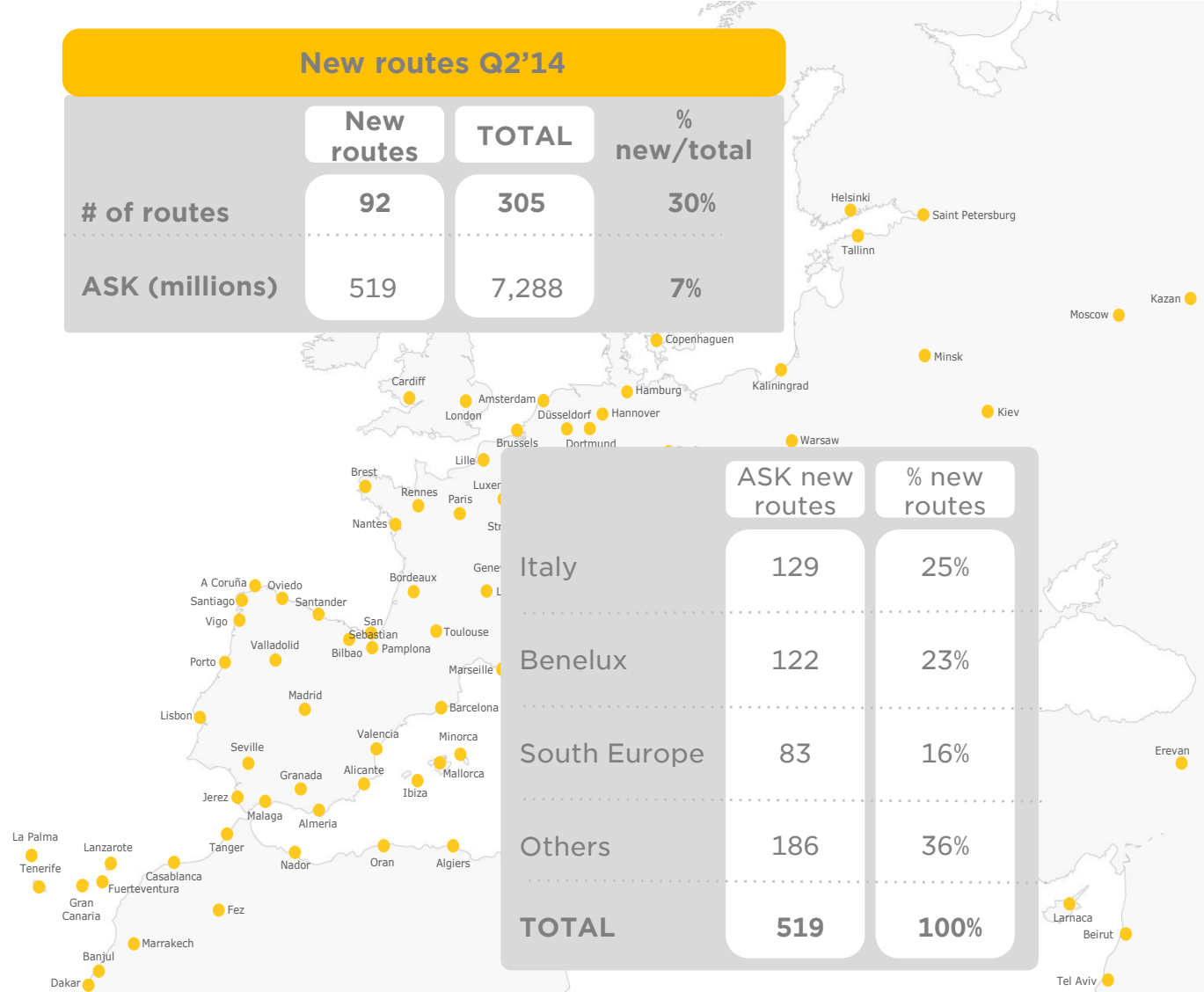


# Vueling - how growth capacity was allocated in Q2

- More than 90 new routes in Q2'14 vs last year, focusing on European markets and Italian domestic market
- New routes represent 7% of total ASKs in Q2'14
- Traffic performance of new routes is in line with expectations

## New routes Q2'14

	New routes	TOTAL	% new/total
# of routes	92	305	30%
ASK (millions)	519	7,288	7%



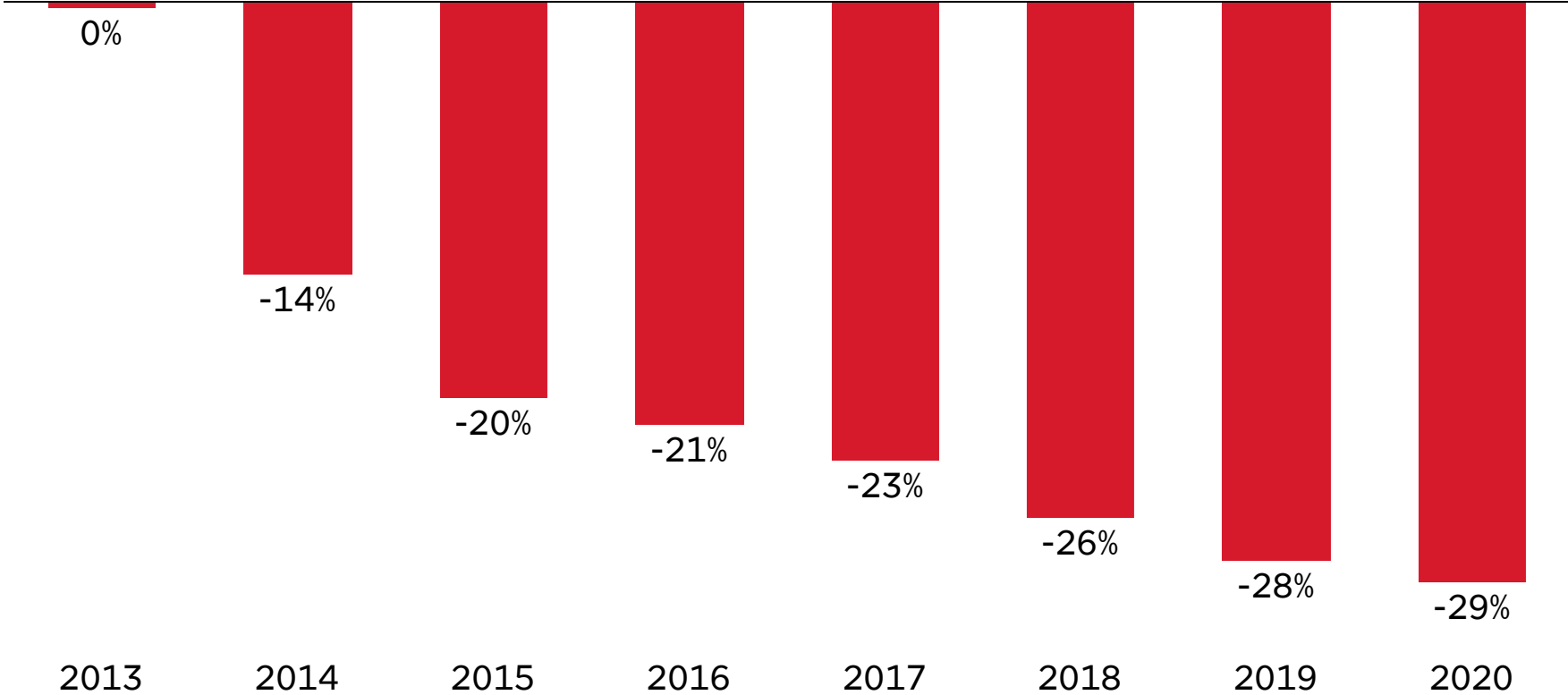
	ASK new routes	% new routes
Italy	129	25%
Benelux	122	23%
South Europe	83	16%
Others	186	36%
<b>TOTAL</b>	<b>519</b>	<b>100%</b>

# IB union agreements - outline

	Mediation Agreement (March 2013)	Follow-on agreement (Feb / March 2014)	Final agreement (July 2014)
Productivity improvements		<ul style="list-style-type: none"> <li>Crew flying hours in line with competitors</li> <li>Changes in crew composition</li> <li>More flexibility in shifts and schedules adapting to workloads for ground staff</li> <li>Overall increase in the # of duty days</li> </ul>	
Salary conditions	<ul style="list-style-type: none"> <li>Salary reduction (14% crew, 7% ground staff) and additional 4% if productivity not agreed</li> <li>Salaries frozen until 2015, after that date subject to profitability</li> </ul>	<ul style="list-style-type: none"> <li>Salary reduction (14% crew, 7% ground staff) maintained</li> <li>Additional 4% cut returned</li> <li>Salaries remain frozen until 2015</li> </ul>	
New pay scales		<ul style="list-style-type: none"> <li>Establishment of caps in seniority scales</li> <li>New entry level crew cost to company (e.g. €35k for SH pilots, €20k for cabin crew)</li> <li>Technical changes in calculating seniority and promotion levels</li> <li>Limits to promotion depending on skills</li> <li>No demarcation in maintenance</li> </ul>	
Redundancy potential	<ul style="list-style-type: none"> <li>Exiting 258 pilots, 627 cabin crews, 2,256 ground staff</li> <li>Other exits and international: 526</li> <li>Maintenance attrition: 367</li> </ul>		<ul style="list-style-type: none"> <li>Voluntary Plan for ground staff and pilots (1,427 employees)</li> </ul>
Other		<ul style="list-style-type: none"> <li>Maintenance and handling: no segregation until 2015: after then subject to profitability</li> <li>IB Express can grow to 25 aircraft by 2017</li> </ul>	

# IB union agreements - long term structural change

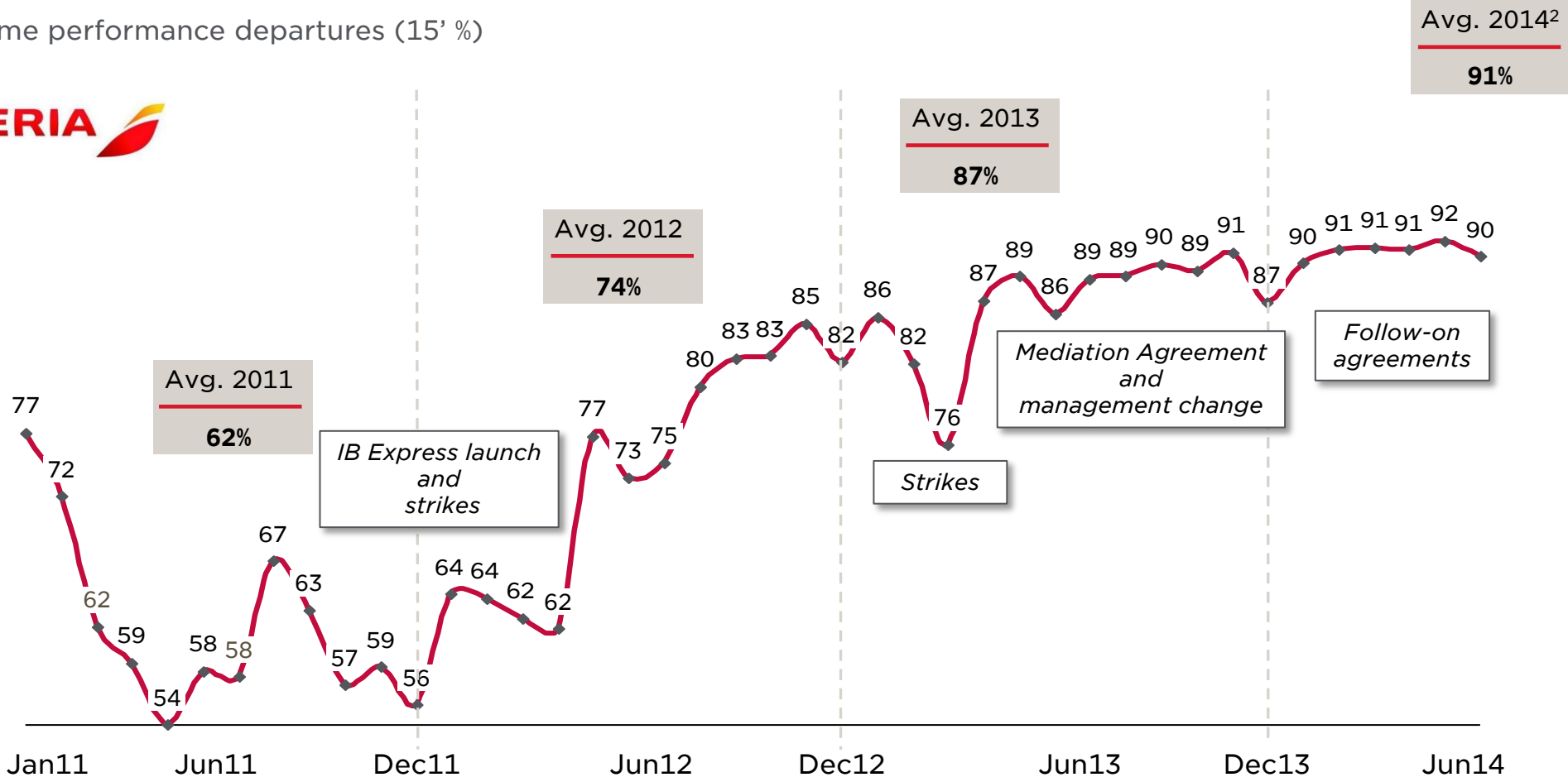
Expected employee CASK savings (versus 2012)





# IB operational transformation: world-leading punctuality

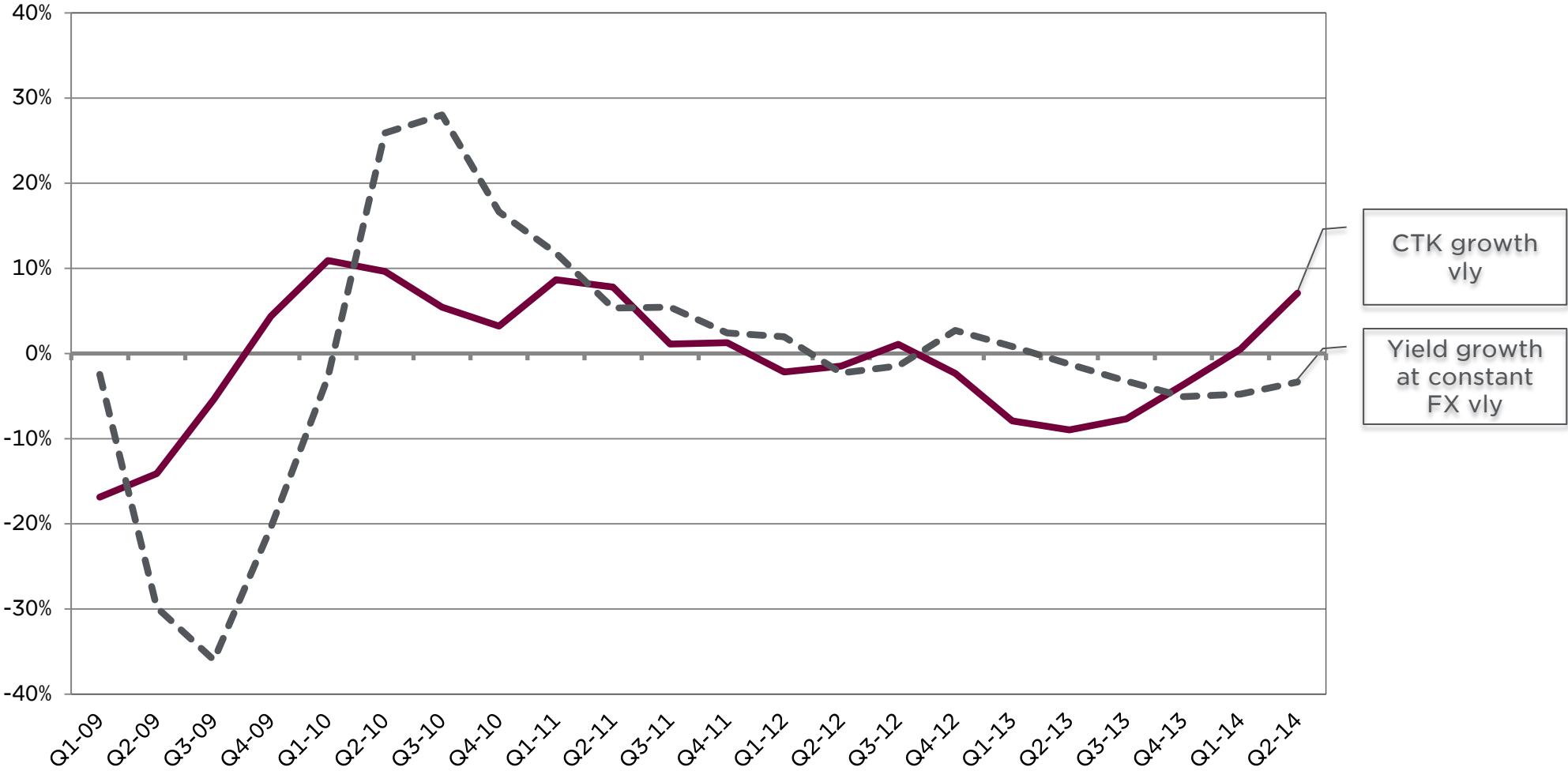
On time performance departures (15' %)



<sup>1</sup> March-December 2012  
<sup>2</sup> January-June 2014

IBERIA EXPRESS	Avg. 2012 <sup>1</sup>	Avg. 2013	Avg. 2014 <sup>2</sup>
	93%	96%	97%

# IAG cargo - negative momentum is slowing

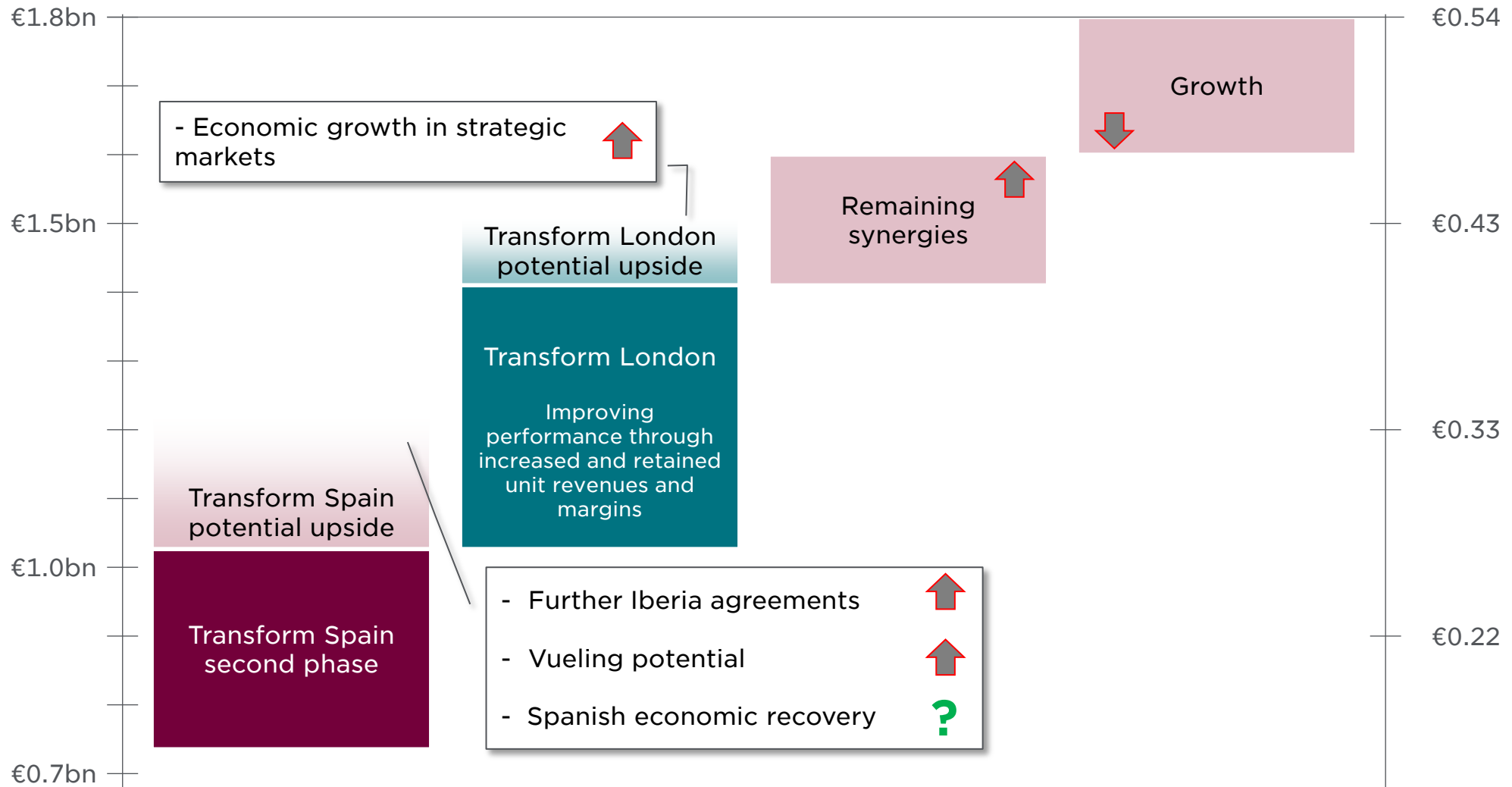


Note Q2 2014 volumes VLY adjusted for LH Freighter Change

# Steady progress towards 2015 financial targets

Operating profit range 2013-15, as originally presented at Capital Markets Day November 2013

FD EPS



# Appendix

# 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 2013; these documents are available on [www.iagshares.com](http://www.iagshares.com).

# Contribution heat map - how it works

