IAG results presentation

Quarter Two 2016

29th July 2016

INTERNATIONAL AIRLINES GROUP

Q2 financial summary

OPERATING PROFIT	TOTAL UNIT REVENUE	PAX UNIT REVENUE
€487m (pre-Aer Lingus, pre-exceptional items)	-5.9% (pre-Aer Lingus, constant FX)	**-6.5%** (pre-Aer Lingus, constant FX)
€555m (reported, pre-exceptional items)	-6.4% (constant FX)	-6.2% (constant FX)
+€25m (reported change)	**-10.4%** (reported, €257m FX drag)	-10.2% (reported)

TRAFFIC/CAPACITY	TOTAL UNIT COST	EX-FUEL UNIT COST
ASKs: +3.2% (pre-Aer Lingus)	-8.1% (pre-Aer Lingus, constant FX)	**+1.3%** (pre-Aer Lingus, constant FX)
ASKs: +12.7% (reported)	-8.9% (constant FX)	+0.8% (constant FX)
RPKs: +12.9% (reported)	**-10.8%** (reported, €109m FX benefit)	-1.1% (reported)

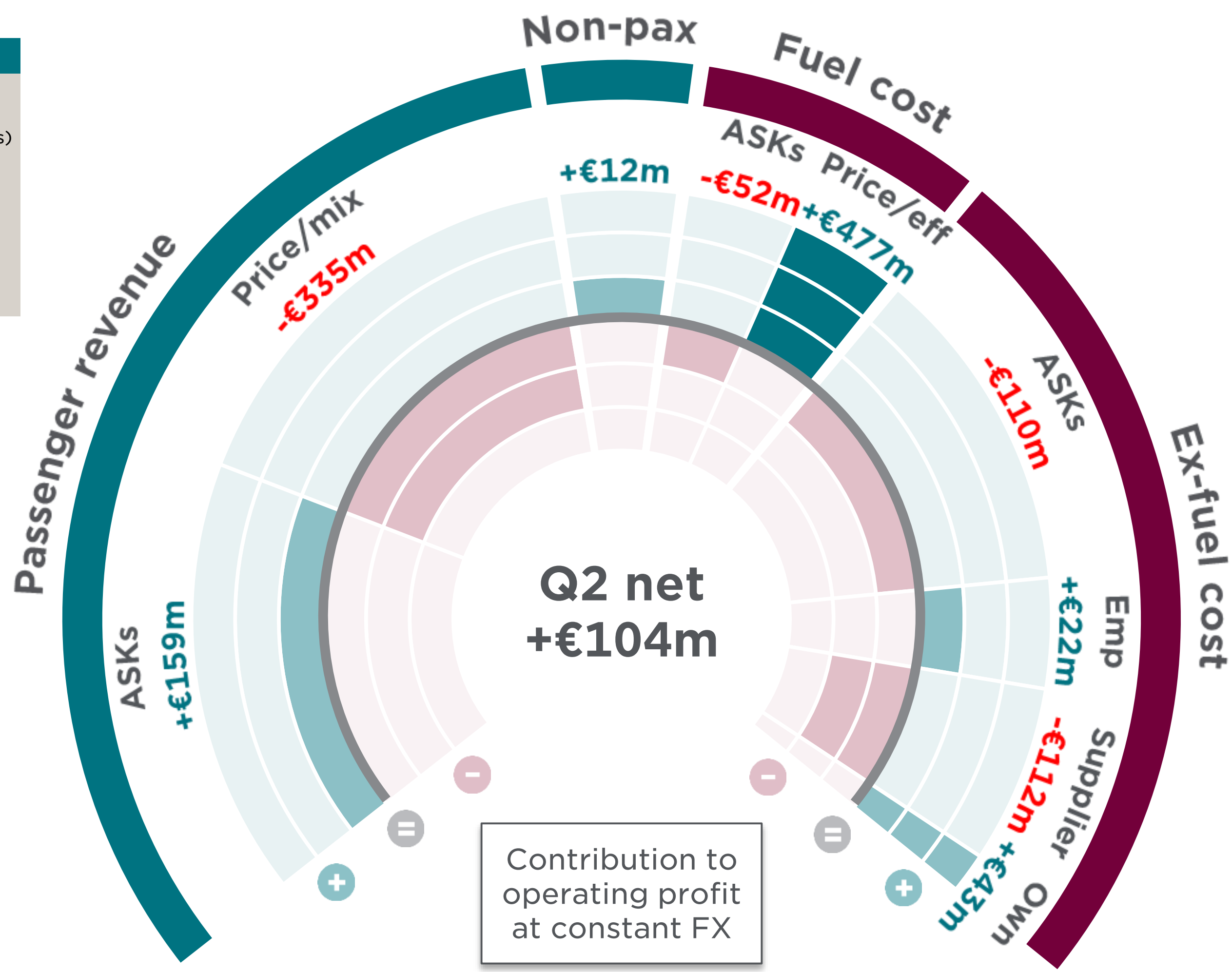
Q2 operating profit drivers

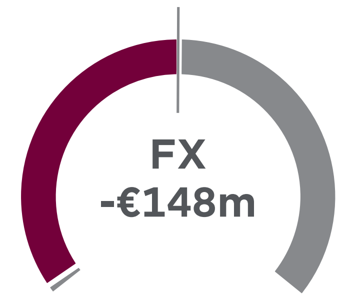
OPERATING PROFIT

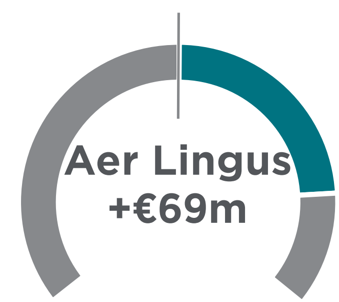
€487m
(pre-Aer Lingus, pre-exceptional items)

€555m
(reported, pre-exceptional items)

+€25m
(reported change)





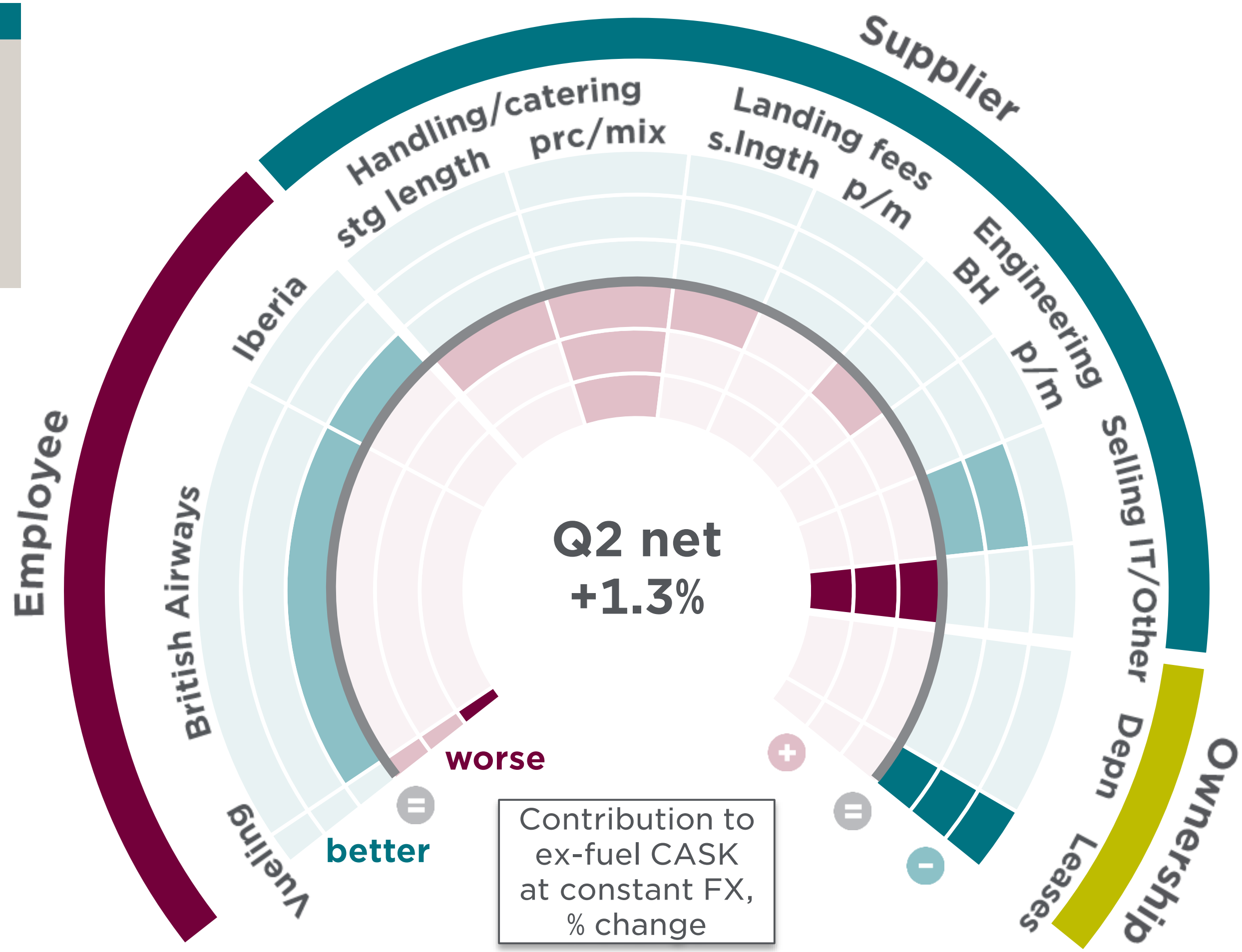


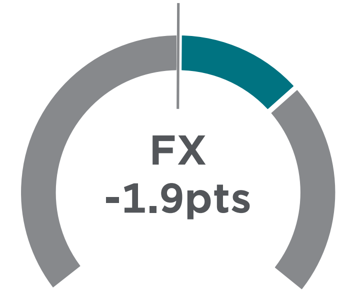
Q2 results

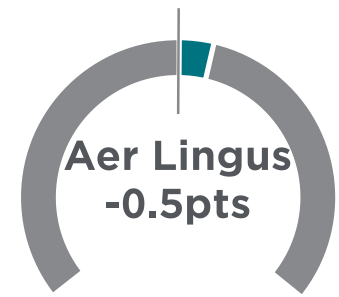
Cost	Ex-fuel cost	Fuel
Fleet	Capacity plan	Capacity changes
Network	ASK by region	RASK by region
Product	Revenue	Brands

Q2 ex-fuel unit cost: keeping last year's low base

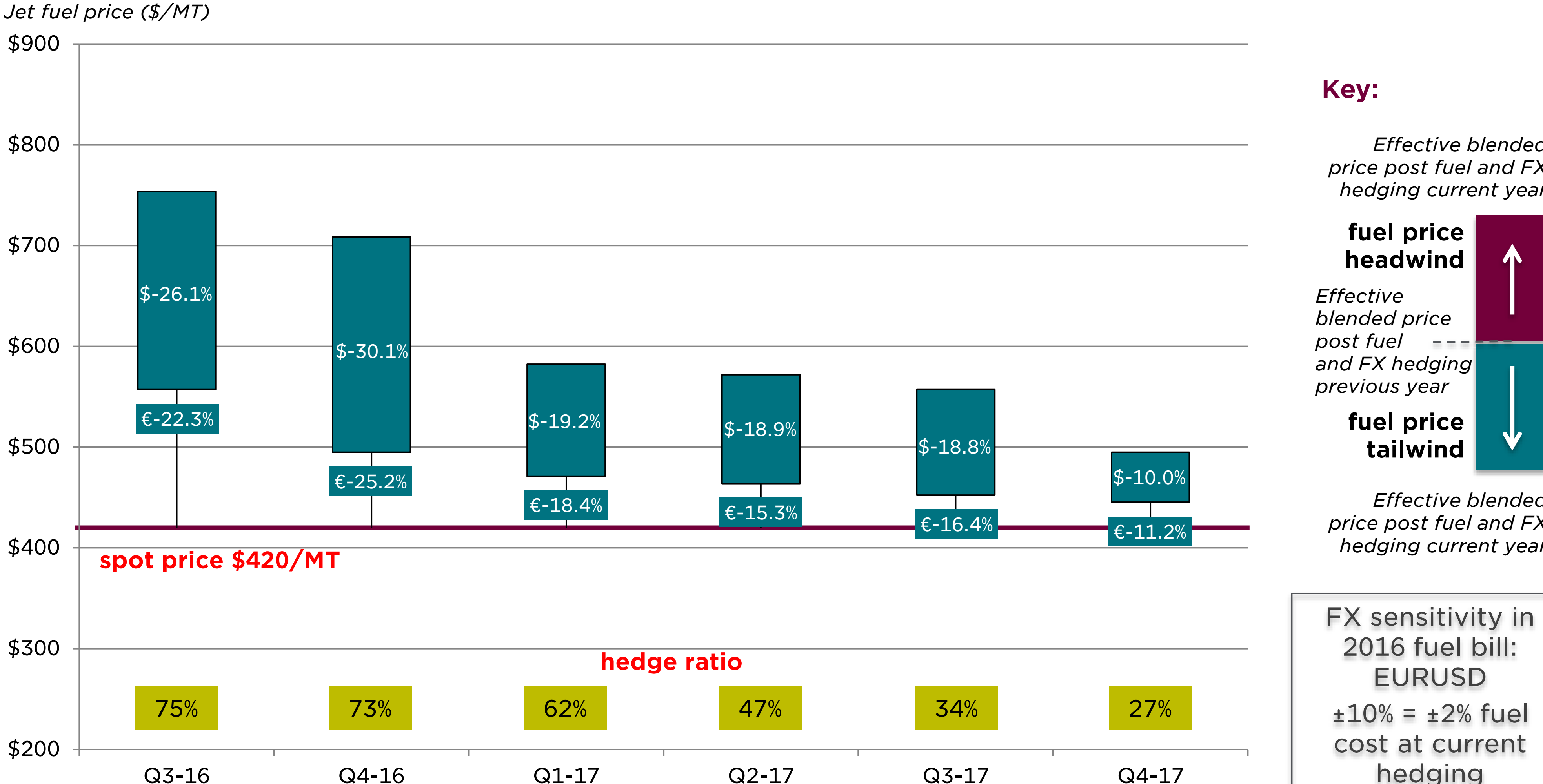
EX-FUEL UNIT COST
+1.3% (pre-Aer Lingus, constant FX)
+0.8% (constant FX)
-1.1% (reported)







Fuel scenario: detailed modelling in appendix



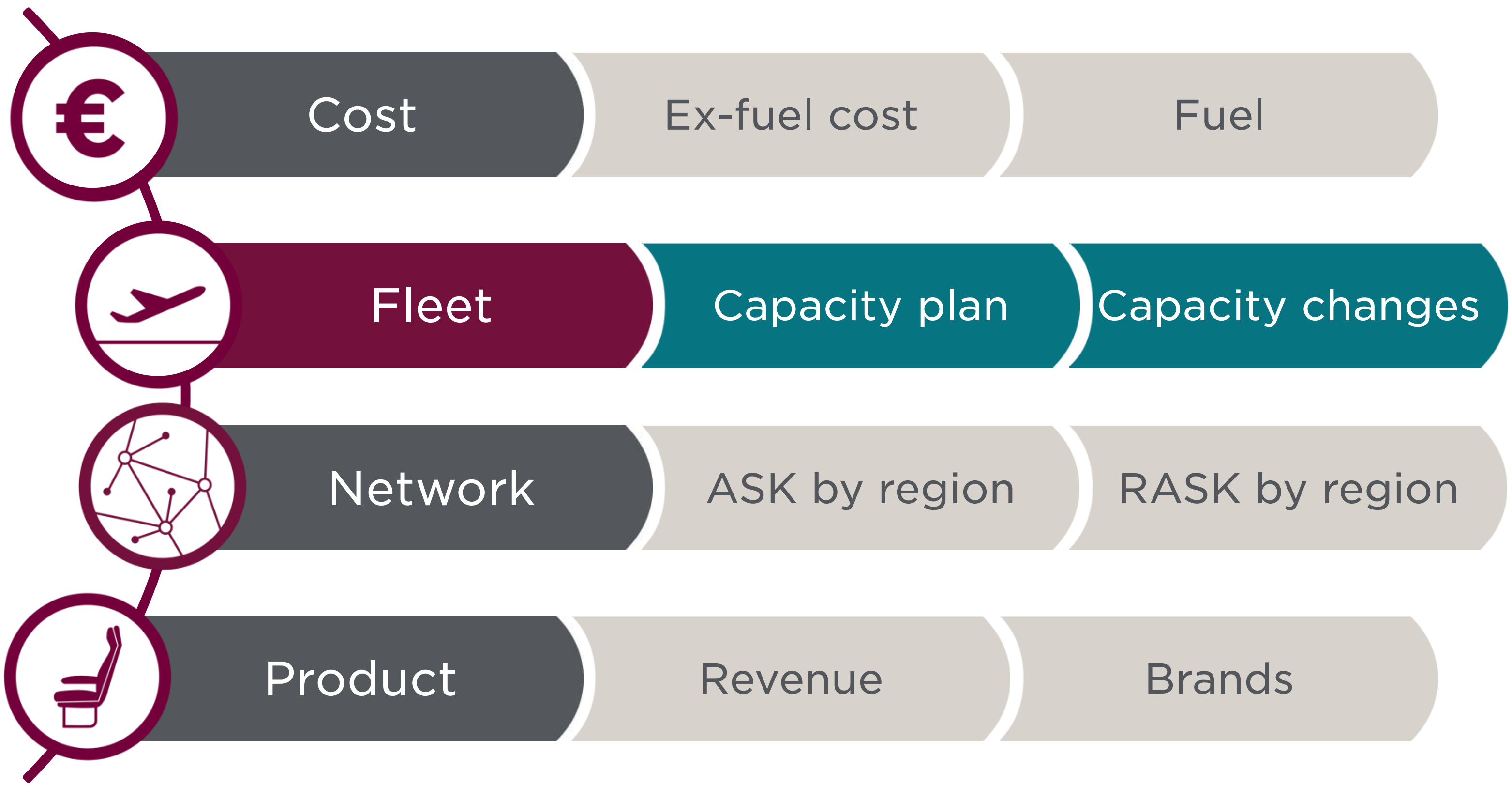
FX sensitivity in 2016 fuel bill: EURUSD

±10% = ±2% fuel cost at current hedging

2016 fuel bill scenario - €4.9bn (at $420/MT and 1.10$/€)

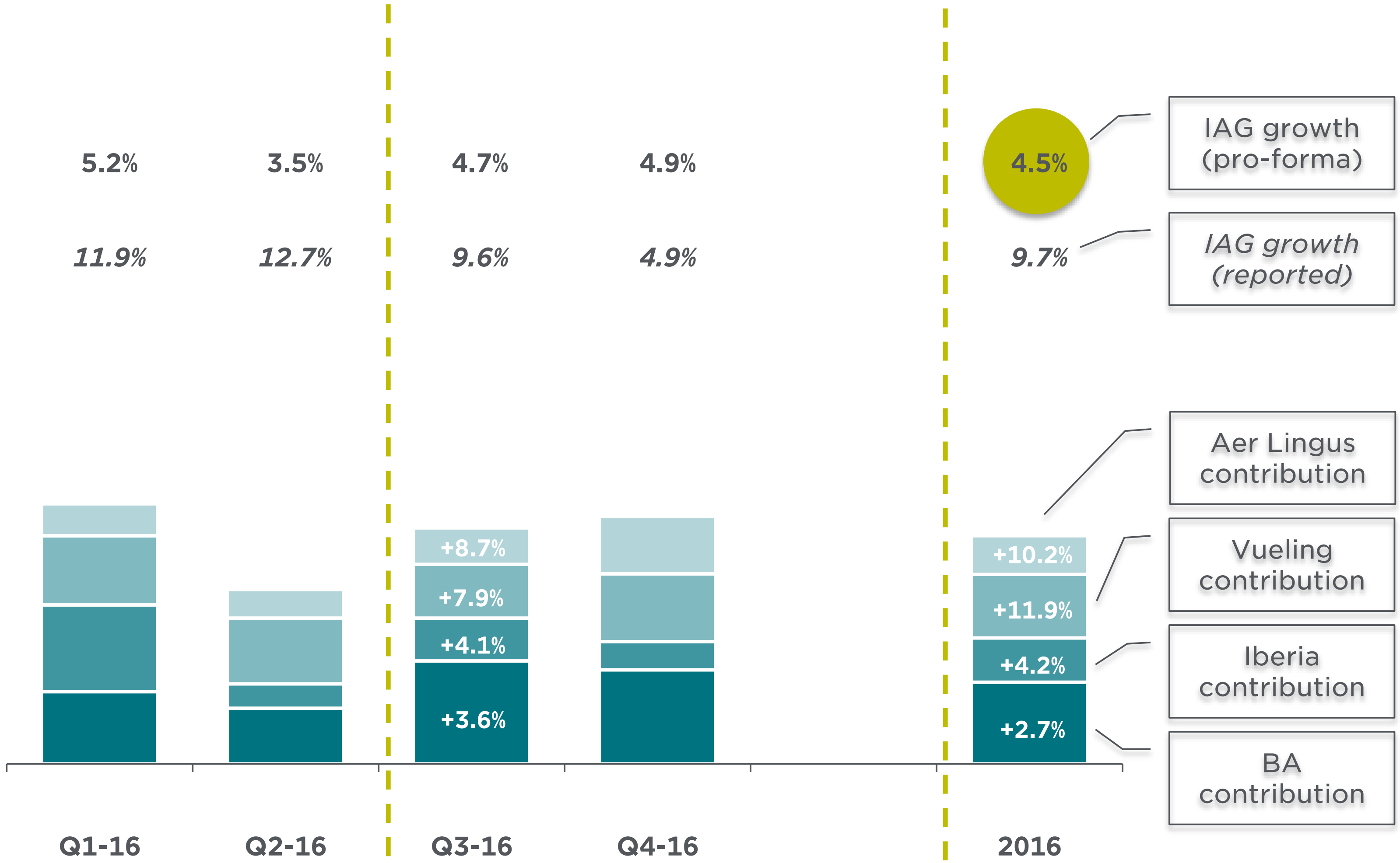
Forward numbers in this case include Aer Lingus

Q2 results


Cost
Ex-fuel cost
Fuel
Fleet
Capacity plan
Capacity changes
Network
ASK by region
RASK by region
Product
Revenue
Brands

2016 capacity growth and contributions

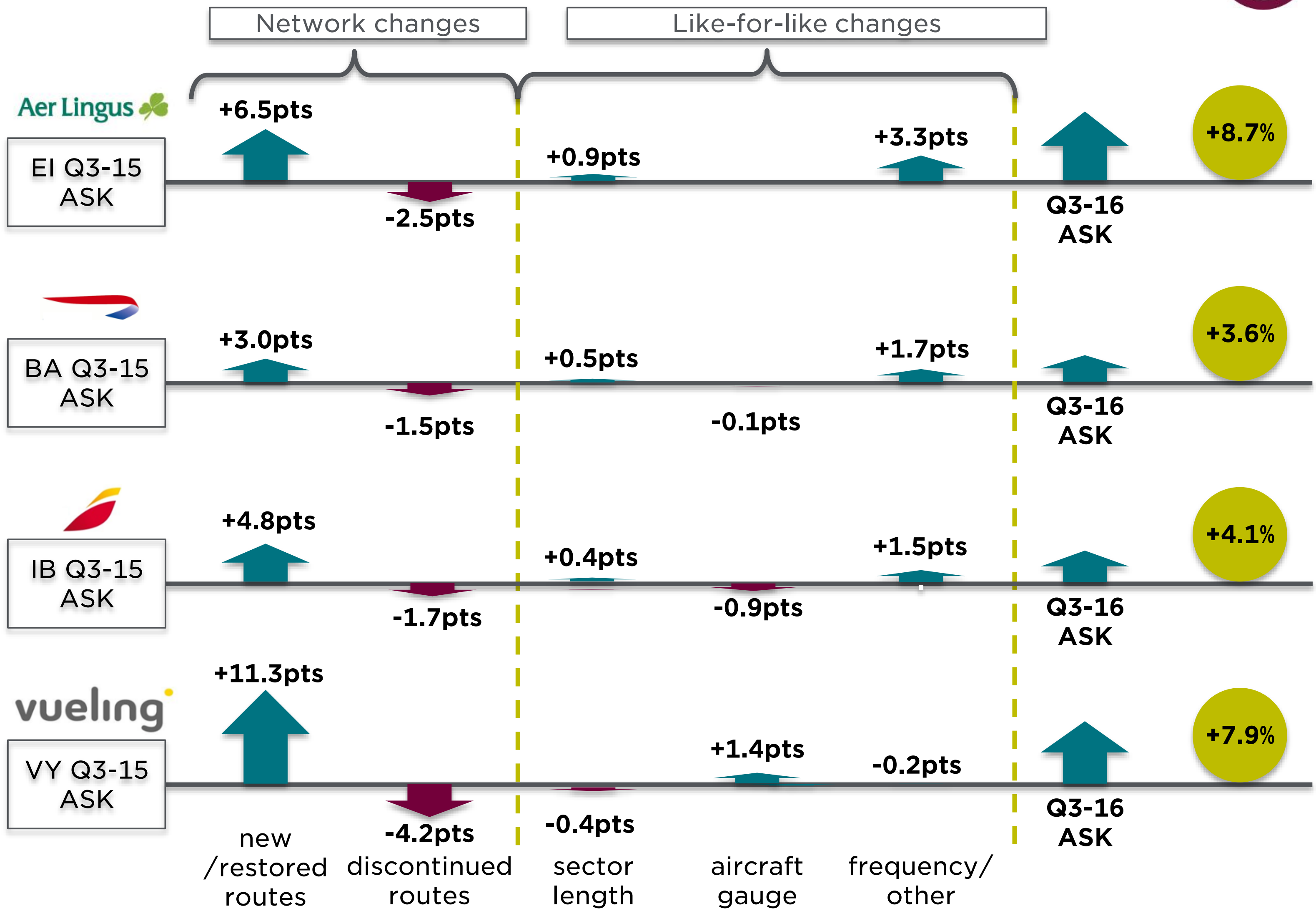
- **Aer Lingus:** Q3-16 and FY2016 capacity planned to be +8.7% and +10.2% respectively
- **Vueling:** Q3-16 and FY2016 capacity planned to be +7.9% and +11.9% respectively
- **Iberia:** Q3-16 and FY2016 capacity planned to be +4.1% and +4.2% respectively
- **BA:** Q3-16 and FY2016 capacity planned to be +3.6% and +2.7% respectively



Pro-forma numbers includes Aer Lingus in the base

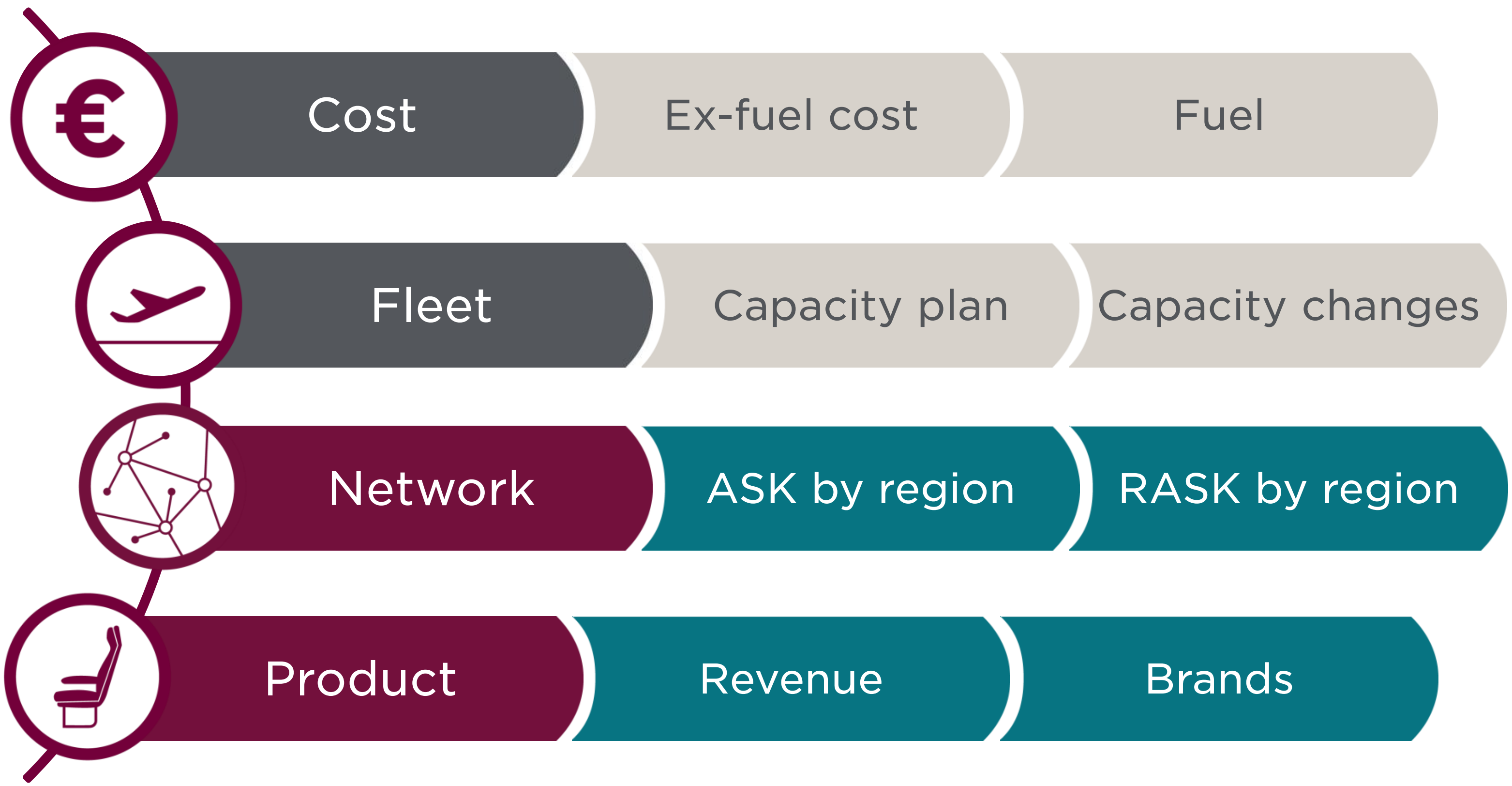
Q3-16 capacity growth drivers by airline

- New routes for EI driven by LAX
- IB restored/new routes driven by Shanghai, San Juan and Jo'burg
- New BA routes include: San Jose CA, LGWJFK, Lima and San Jose CR
- New routes for VY driven by FCO, CDG, and AMS
- BA frequency change driven by LHR-Las Vegas, Shanghai, Dubai
- IB frequency change driven by: Los Angeles, Montevideo



New routes are routes that were not operated for the whole period last year

Q2 results



Cost
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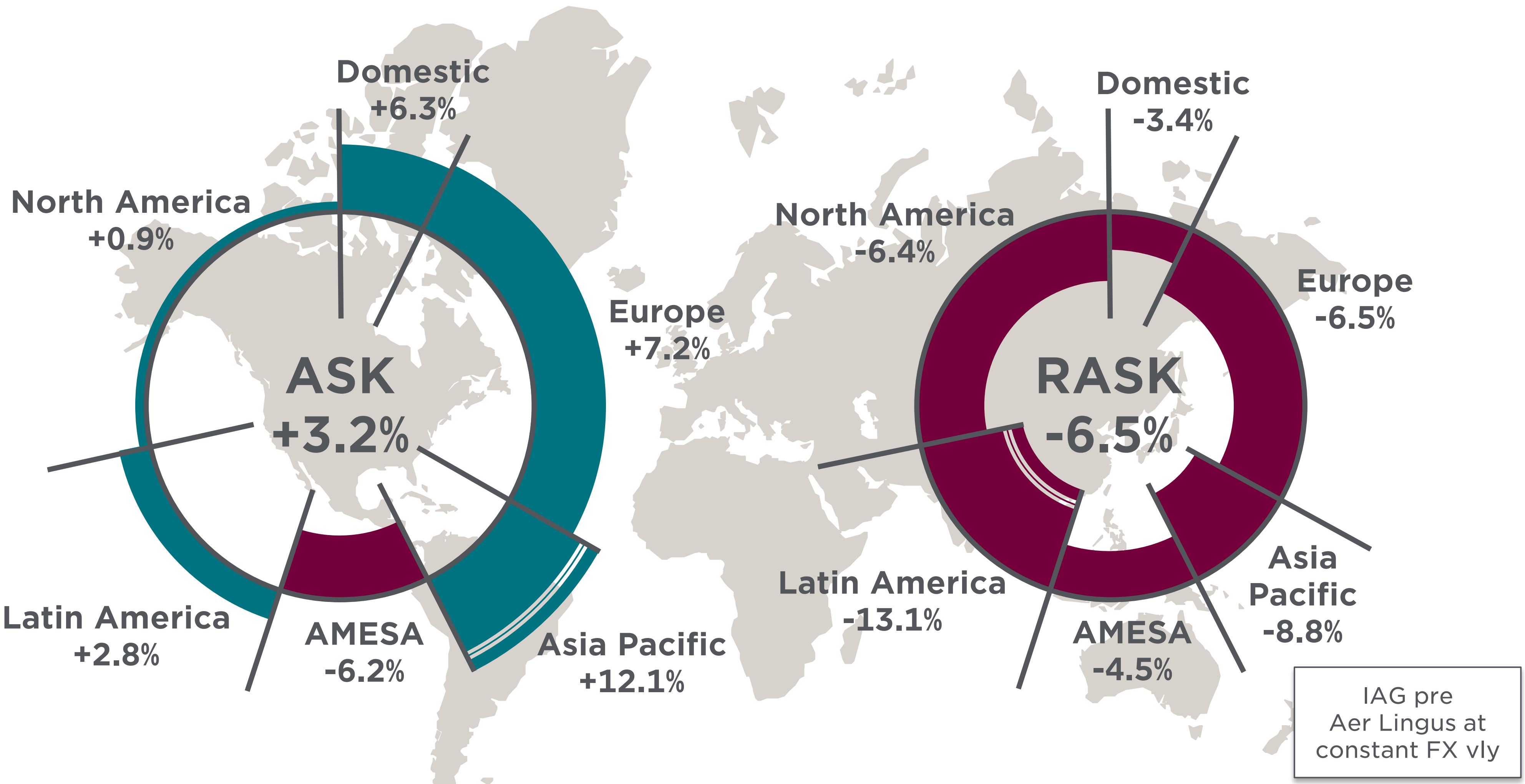
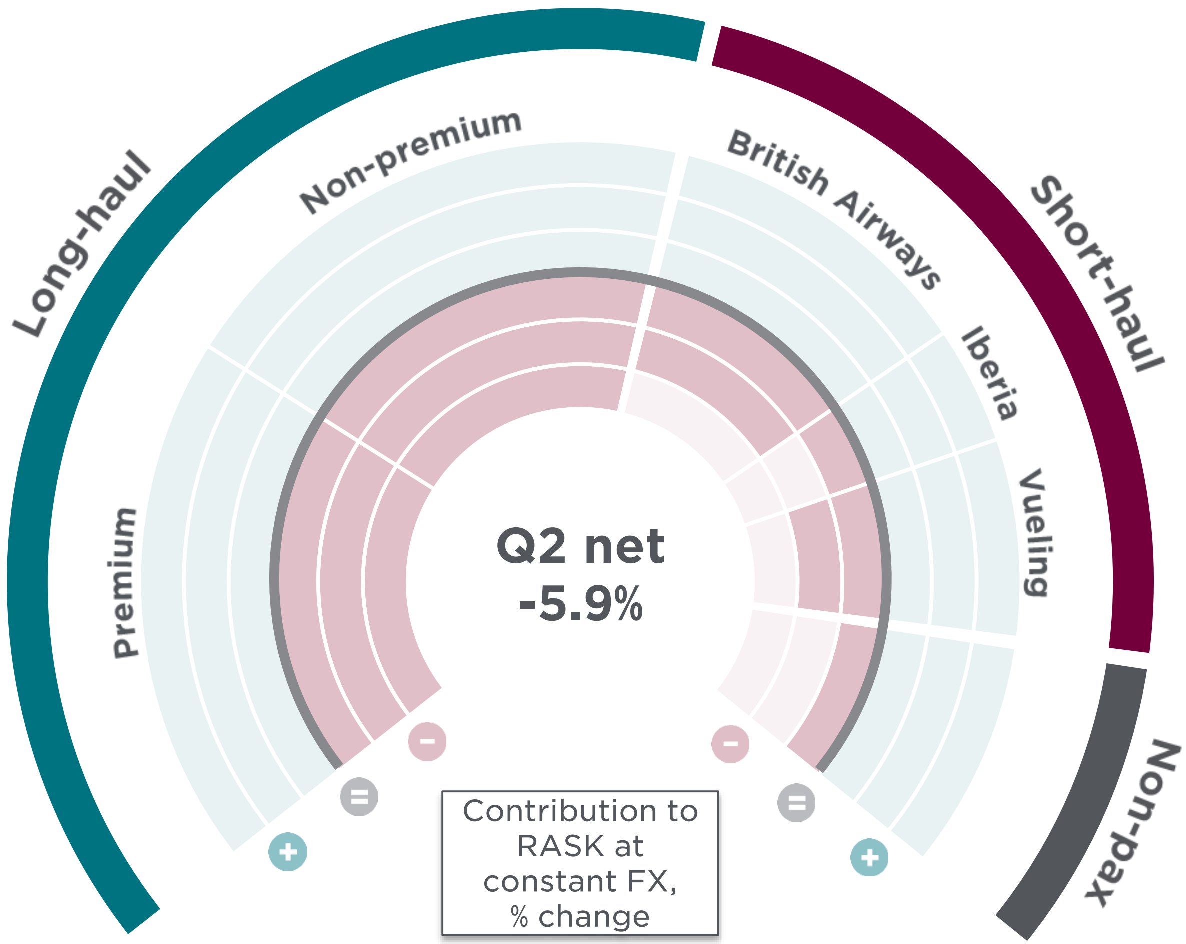
Q2 capacity and passenger unit revenue change

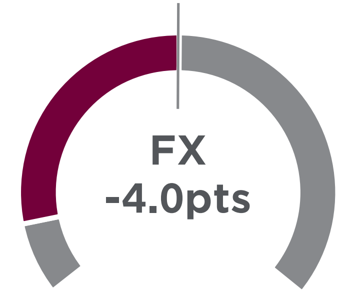


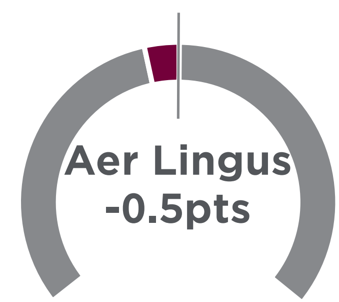
Data in the chart represents flown passenger revenue before transfer payments, Avios reconciliation and ancillaries

Q2 products: Brexit, geopolitics and ATC strikes

TOTAL UNIT REVENUE
-5.9% (pre-Aer Lingus, constant FX)
-6.4% (constant FX)
-10.4% (reported, €257m FX drag)







Financial performance by airline

	Aer Lingus H1 2016 (€m)	vly	British Airways H1 2016 (£m)	vly	Iberia H1 2016 (€m)	vly	Vueling H1 2016 (€m)	vly
Revenue	787	+2.8%	5,350	-1.7%	2,133	-2.2%	857	+9.1%
Cost	745	-2.1%	4,863	-4.7%	2,139	-2.7%	911	+15.2%
Operating result	42	+38	487	+146	-6	+10	-54	-49
Operating margin	5.4%	+4.8pts	9.1%	+2.8pts	-0.3%	+0.5pts	-6.3%	-5.6pts
Lease adjusted margin	6.5%	+4.5pts	9.5%	+2.9pts	1.3%	+0.1pts	-1.9%	-5.3pts
ASK (m)	10,659	+8.4%	87,603	+2.0%	29,643	+5.1%	15,010	+14.0%
RPK (m)	8,418	+9.3%	69,894	+2.4%	23,838	+6.6%	12,145	+18.0%
Sector length (kms)	1,654	+4.3%	3,092	-0.2%	2,721	-3.0%	991	+2.1%
RASK	7.39	-5.1%	6.11	-3.7%	7.20	-7.0%	5.71	-4.3%
CASK	6.99	-9.7%	5.55	-6.6%	7.22	-7.4%	6.07	+1.0%
CASK ex-fuel	5.56	-4.7%	4.15	+2.5%	5.55	-2.1%	4.56	+8.2%
Employee cost per ASK	1.53	-5.0%	1.41	-1.2%	1.77	-3.3%	0.69	+7.9%

Numbers stated as reported in local currency
2015 figures include Avios reorganisation on a comparable basis
Aer Lingus lease adjusted margin includes an adjustment for the ownership element of wet leases.

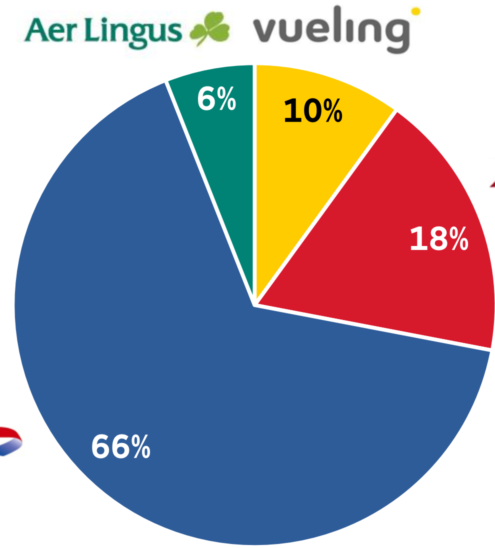
Financial target tracker: profitability trend by airline

Aer Lingus included for 12 months IAG

Op. margin: H1 2016	7.6%
Op. margin trend vly	1.5pts.
Nml. margin: last 4Qs	11.6%
RoIC: last 4Qs	13.9%

Aer Lingus excluded IAG

Op. margin: H1 2016	7.7%
Op. margin trend vly	1.3pts.
Nml. margin: last 4Qs	11.7%
RoIC: last 4Qs	13.8%



IAG capital allocation
H1 2016

vueling

Op. margin: H1 2016	-1.9%
Op. margin trend vly	-5.3pts.
Nml. margin: last 4Qs	9.7%
RoIC: last 4Qs	10.0%

Op. margin: H1 2016	1.3%
Op. margin trend vly	0.1pts.
Nml. margin: last 4Qs	6.5%
RoIC: last 4Qs	8.7%

Aer Lingus

Op. margin: H1 2016	6.5%
Op. margin trend vly	4.5pts
Nml. margin: last 4Qs	10.2%
RoIC: last 4Qs	16.0%

Op. margin: H1 2016	9.5%
Op. margin trend vly	2.9pts.
Nml. margin: last 4Qs	11.8%
RoIC: last 4Qs	12.2%

Notes:

Op. margin	Reported margin, lease adj.
Nml. margin	As above, adjusted for inflation, for comparability with Invested Capital
Invested Capital	Tangible fixed assets NBV, fleet inflation and leases adj.

From H1 2016 British Airways and Iberia figures do not include Avios.

Below the line

Below the line: significant growth in underlying EPS

€m	H1 2015	H1 2016
Operating profit (before exceptional items)	555	710
Net finance cost	-122	-135
Other	-21	+34
Profit before tax (before exceptional items)	412	609
Tax	-80	-120
Profit after tax (before exceptional items)	332	489
Fully diluted EPS, pre exceptional (€ cents)	15.4	22.7

Balance sheet

Balance sheet: adjusted gearing slightly down

€m	Mar 2016	Jun 2016
Adjusted equity	7,080	6,864
Gross debt	9,168	8,818
Cash, cash equivalents & interest bearing deposits	6,824	6,561
On balance sheet net debt	2,344	2,257
Gearing	25%	25%
Aircraft lease capitalisation (x8)	5,920	5,632
Adjusted net debt	8,264	7,889
Adjusted gearing	54%	53%
Adjusted net debt / EBITDAR	1.8x	1.7x

Excludes IAS 19 amendments
Numbers stated include Aer Lingus

Outlook

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Guidance for FY2016

We have continued to experience a weaker trading environment in our UK point-of-sale business, which represents around one third of total revenue. On top of this, continued pound sterling weakness would reduce pound sterling profits when translated into euros in what is traditionally the most profitable part of the year.

In addition, like other European airlines, our operations around Europe have recently suffered from significant weather and Air Traffic Control strike disruption, resulting in over a thousand flights having to be cancelled. We expect at least €80 million disruption costs to be booked in the second half of the year as a result, with the additional risk of revenue dilution. This will affect Vueling more than other operating companies, as IAG's short haul operations have had to bear the bulk of the disruption.

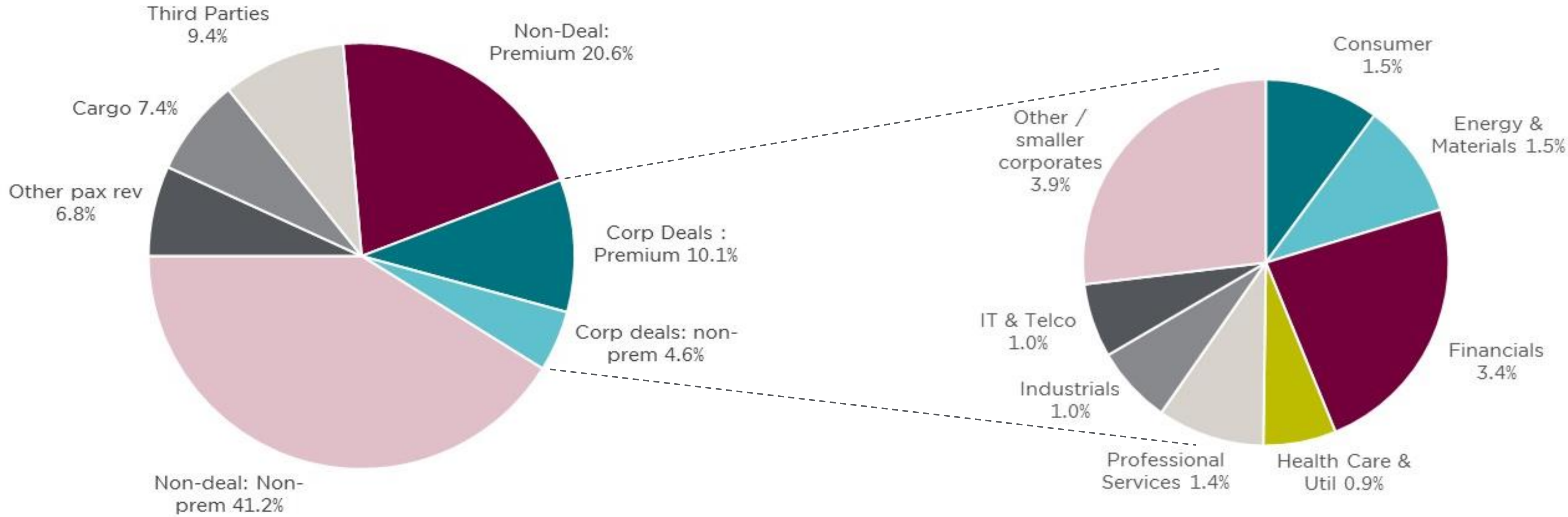
We continue to intensify our long-established cost control and capacity discipline. Cost initiatives currently in the planning stage will benefit our earnings from 2017. However, we also expect reductions in underlying non-fuel unit cost of around 1 per cent at constant currency in 2016 (the same as our previous guidance). This is on top of very significant fuel cost reductions as our historic hedges unwind. We have reduced our planned capacity growth for the second half of the year, and have 2017 capacity growth and capex under review.

Although visibility of revenue trends for quarter 4 remains low, we already have 74 per cent of our expected revenue booked for quarter 3. Based on current fuel price and currency levels, and given our high visibility over H2 cost reductions, we expect low double digit percentage growth in pre-exceptional operating profit in 2016.

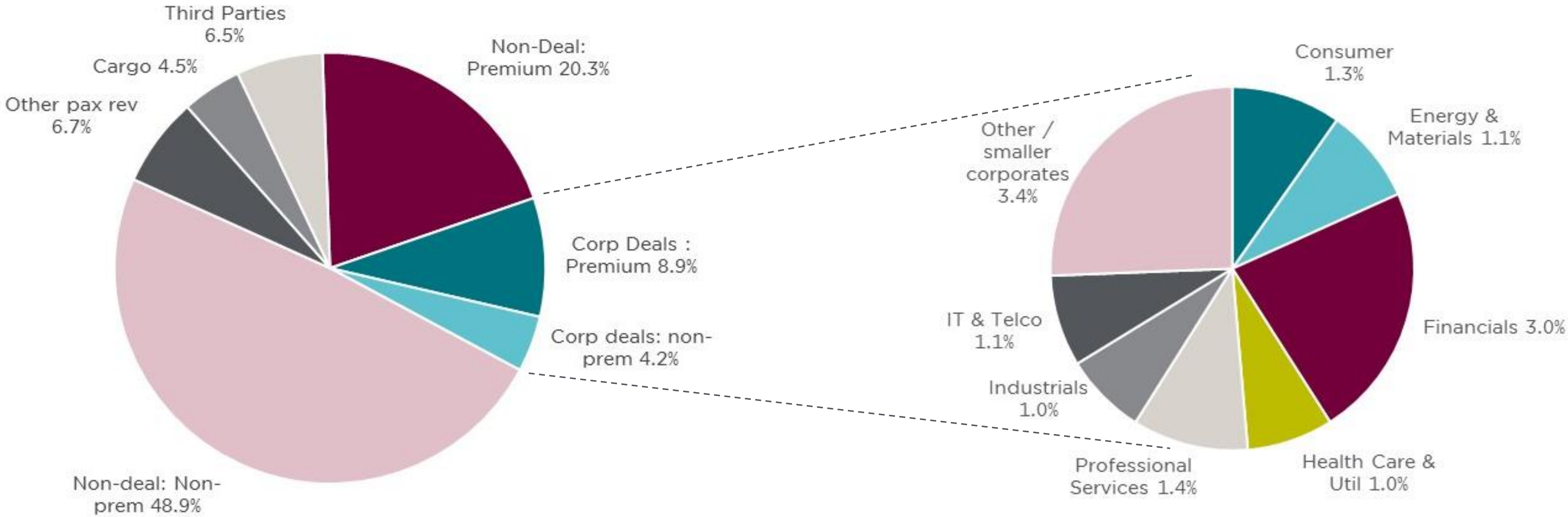
We expect full year equity free cash flow to be within our long-term €1.5 billion to €2.5 billion range. This provides a high degree of coverage for ongoing ordinary dividends.

Business overview

IAG revenue by product and industry 2010

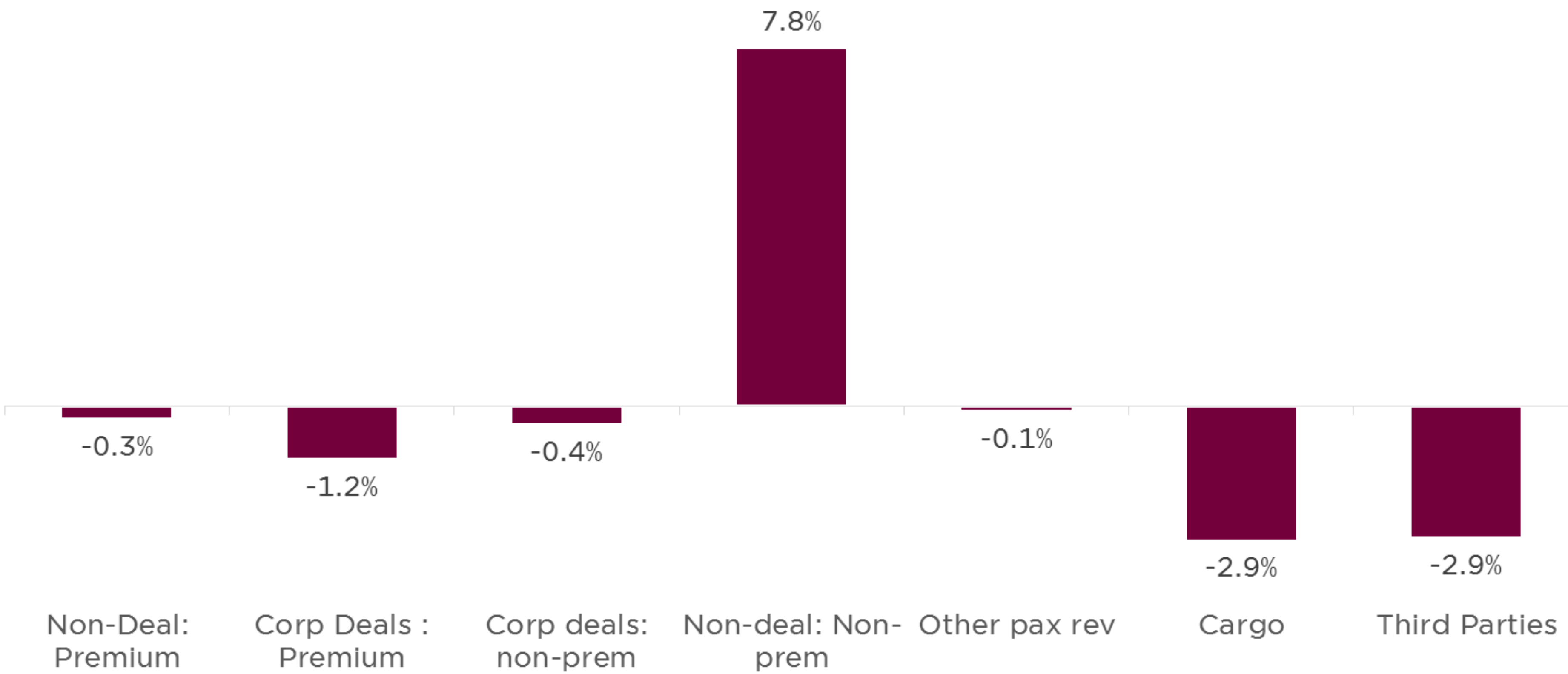


IAG revenue by product and industry 2015



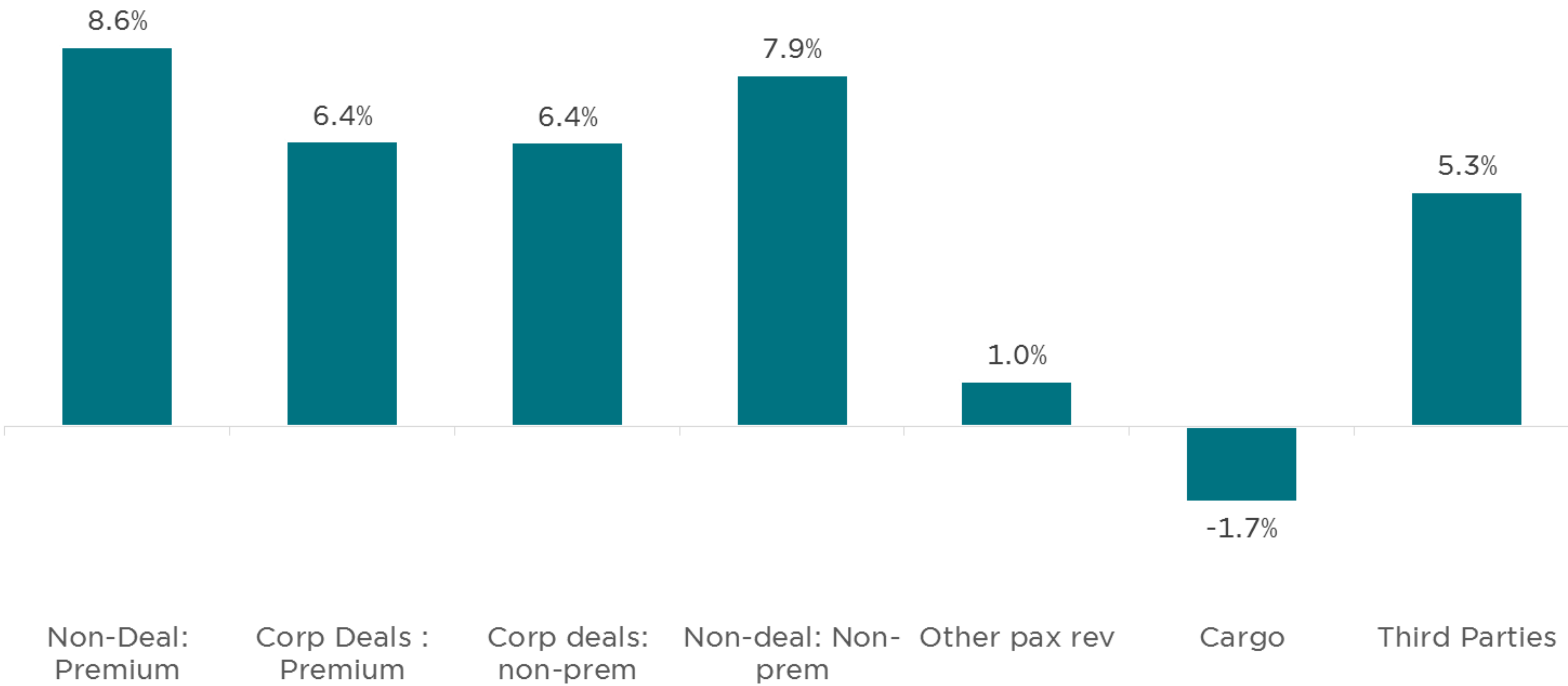
Revenue evolution – %pts of total IAG revenue

2015 vs. 2010



Revenue growth – BA and IB only (like-for-like)

2015 vs. 2010 CAGR



Appendix

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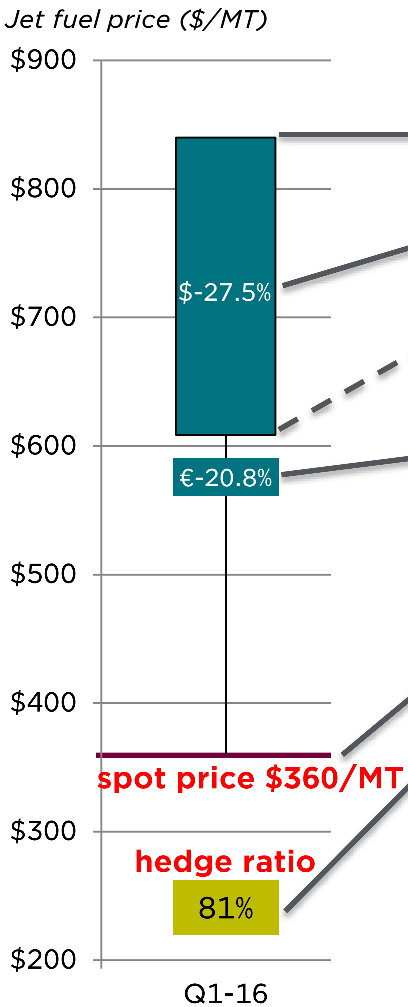
Fuel modelling

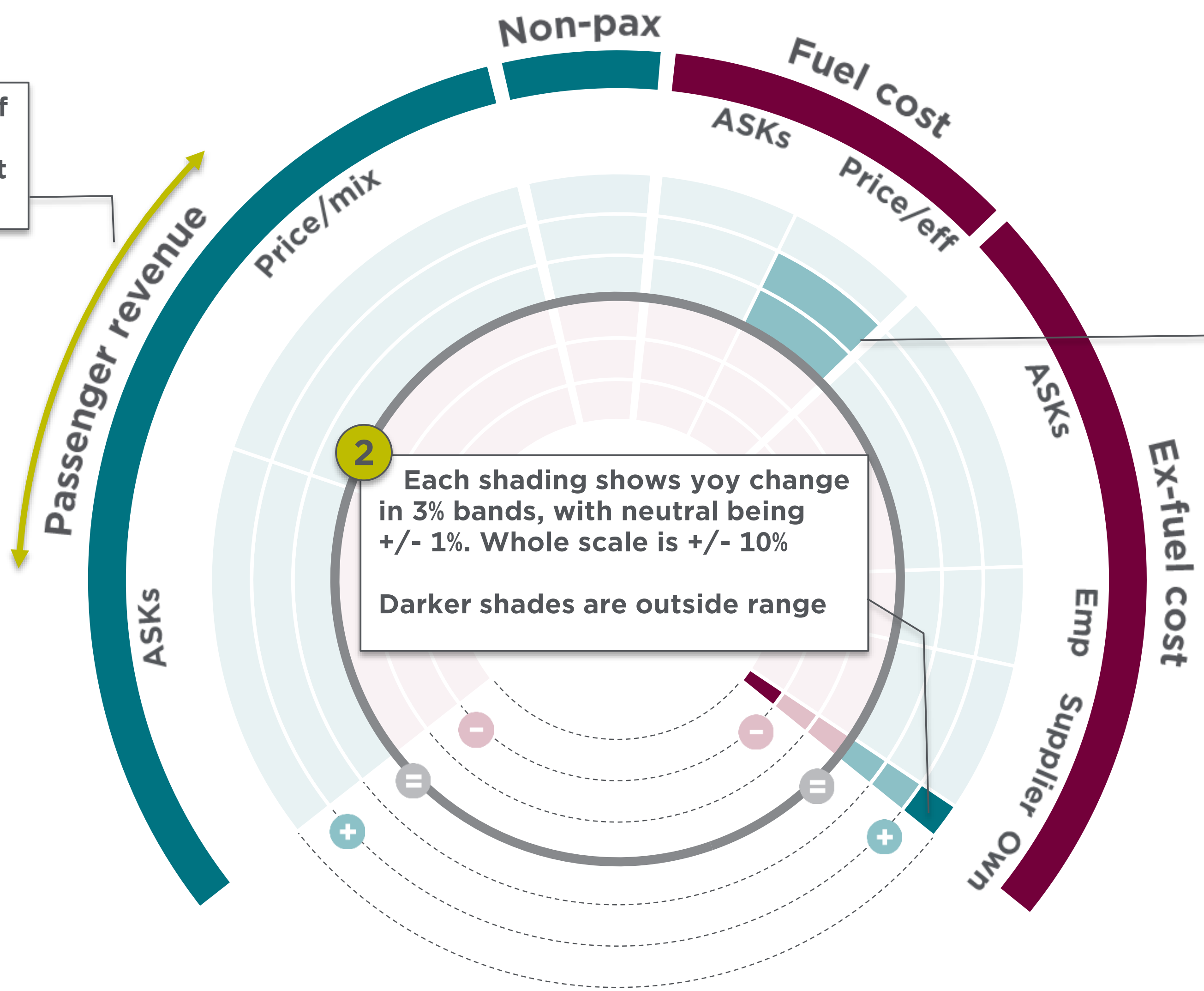


$ 50	A	intoplane costs
$ 840	B	Last year blended USD jet fuel price
(27.5%)	C	Latest guidance, current year USD jet fuel price benefit
$ 609	D	calc: D = B x (1 + C) [curr yr blended USD jet fuel price]
$ 1.10	E	Latest guidance EUR/USD scenario
€ 599	F	calc: F = (D + A) / E [curr yr blended EUR jet fuel price]
(20.8%)	G	Previous EUR jet fuel price benefit
€756	H	calc: H = F / (1 + G) [last yr implied EUR jet fuel price]
$ 360	I	Latest guidance jet fuel spot price scenario
81%	J	Current year % hedged
$ 667	K	calc: K = (D - (1 - J) x I) / J [implied hedge price]
$ 400	L	Your chosen modelling assumption for jet fuel spot
$ 617	M	calc: M = K x J + L x (1 - J) [modelled blended USD jet fuel price]
$ 1.15	N	Your chosen modelling assumption for EUR/USD
€ 580	O	calc: O = (M + A) / N [modelled all-in EUR fuel price]
(23.4%)	P	calc: P = O / H - 1 [modelled all-in EUR fuel price change vly]

2016 fuel bill scenario - €4.8bn (at $360/MT and 1.10$/€)

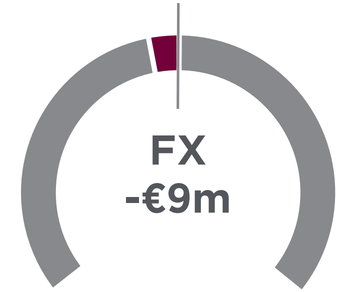
Contribution heat map – how it works

1 Weighting of item in current P&L at constant FX



2 Each shading shows yoy change in 3% bands, with neutral being +/- 1%. Whole scale is +/- 10%

Darker shades are outside range



3 Effective fuel price at constant currency decreased by 4-7%

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.