IAG results presentation

Quarter Four 2013

28th February 2014

INTERNATIONAL
AIRLINES
GROUP

2013 full year financial summary

OPERATING PROFIT	TOTAL UNIT REVENUE	PAX UNIT REVENUE
€602m (pre-Vueling, pre-exceptional items)	+2.9% (pre-Vueling, constant FX)	**+4.3%** (pre-Vueling, constant FX)
€770m (reported)	+1.0% (constant FX)	+3.7% (constant FX)
+€793m (reported change)	-2.1% (reported, €570m FX drag)	+0.6% (reported)

TRAFFIC/CAPACITY	TOTAL UNIT COST	EX-FUEL UNIT COST
ASKs: -2.4% (pre-Vueling)	-1.1% (pre-Vueling, constant FX)	**0.0%** (pre-Vueling, constant FX)
ASKs: +5.2% (reported)	-3.6% (constant FX)	-2.7% (constant FX)
RPKs: +5.8% (reported)	-6.2% (reported, €497m FX benefit)	-5.6% (reported)

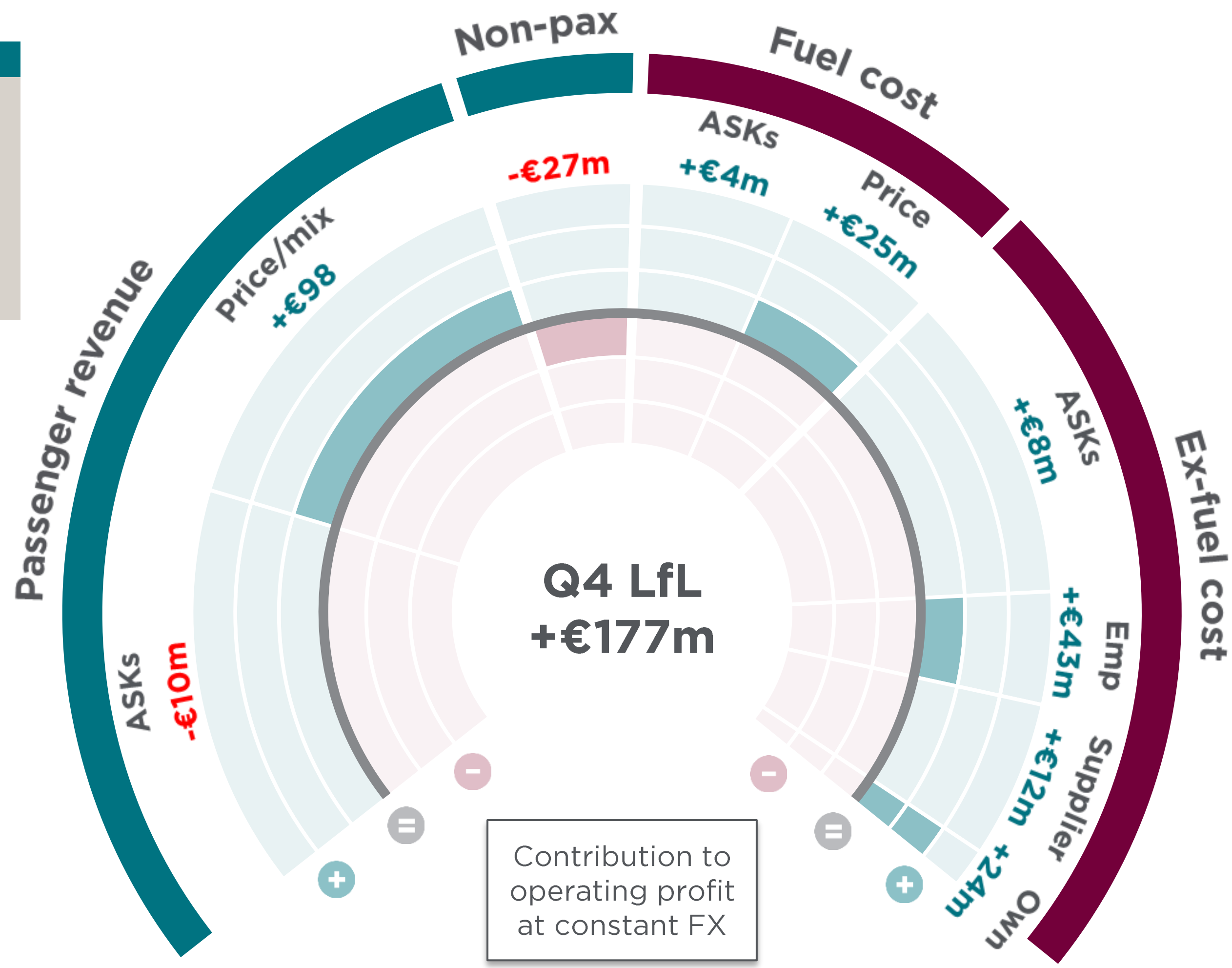
Q4 financial summary

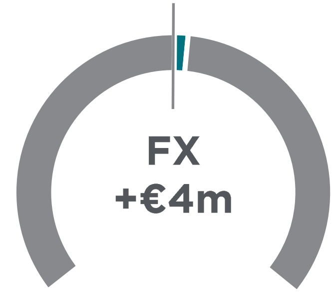
OPERATING PROFIT	TOTAL UNIT REVENUE	PAX UNIT REVENUE
€111m (pre-Vueling, pre-exceptional items)	+1.7% (pre-Vueling, constant FX, pre one-offs)	**+2.7%** (pre-Vueling, constant FX, pre one-offs)
€113m (reported)	-4.3% (constant FX)	-1.3% (constant FX)
+€153m (reported change)	-7.5% (reported, €156m FX drag)	-4.4% (reported)

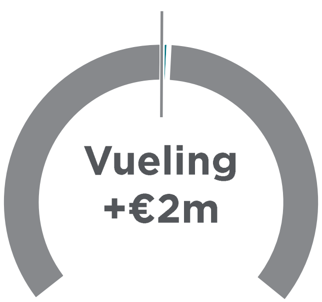
TRAFFIC/CAPACITY	TOTAL UNIT COST	EX-FUEL UNIT COST
ASKs: -0.3% (pre-Vueling)	-2.4% (pre-Vueling, constant FX, pre one-offs)	**-2.7%** (pre-Vueling, constant FX, pre one-offs)
ASKs: +8.8% (reported)	-7.3% (constant FX)	-8.7% (constant FX)
RPKs: +9.3% (reported)	-10.4% (reported, €160m FX benefit)	-11.8% (reported)

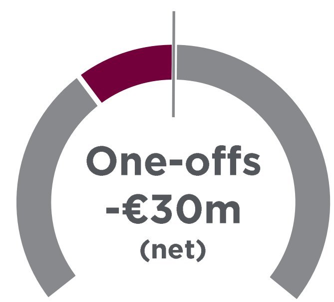
Q4 operating profit drivers: equally cost and revenue

OPERATING PROFIT
€111m (pre-Vueling, pre-exceptional items)
€113m (reported)
+€153m (reported change)







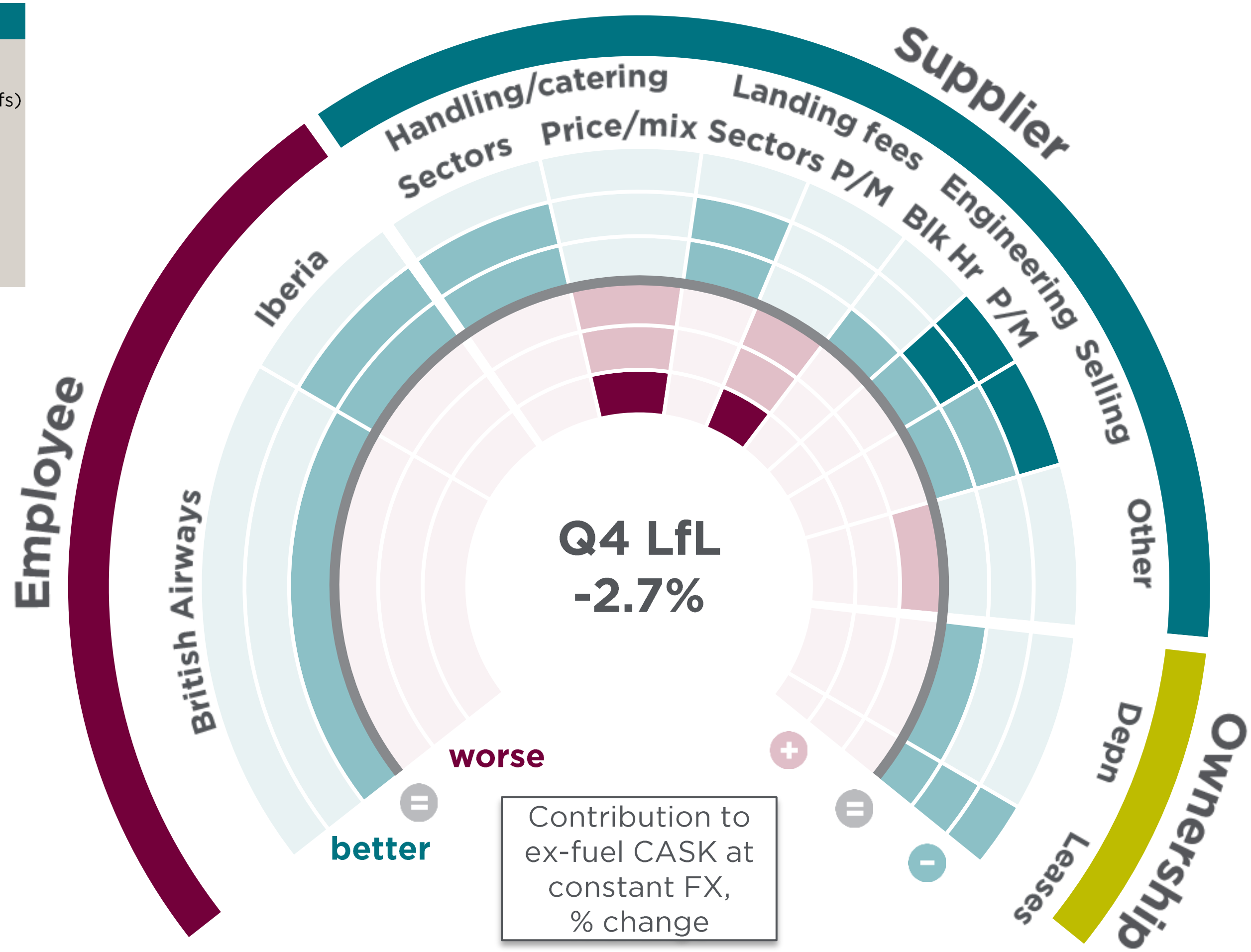


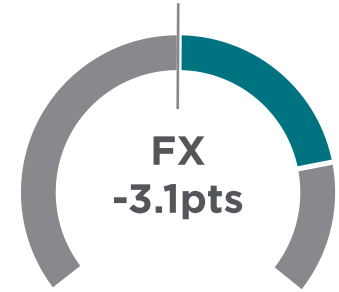
Q4 results

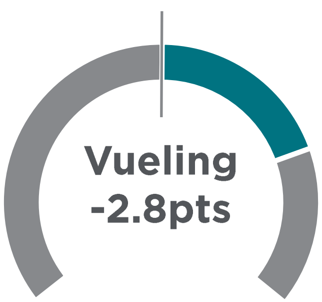
Cost	Ex-fuel cost	Fuel
Fleet	Capacity plan	Capacity changes
Network	ASK by region	RASK by region
Product	Revenue	Brands

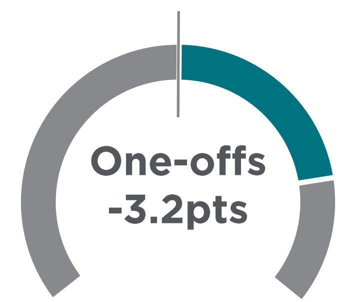
Q4 ex-fuel unit cost: further employee cost progress

EX-FUEL UNIT COST
-2.7% (pre-Vueling, constant FX, pre one-offs)
-8.7% (constant FX)
-11.8% (reported)

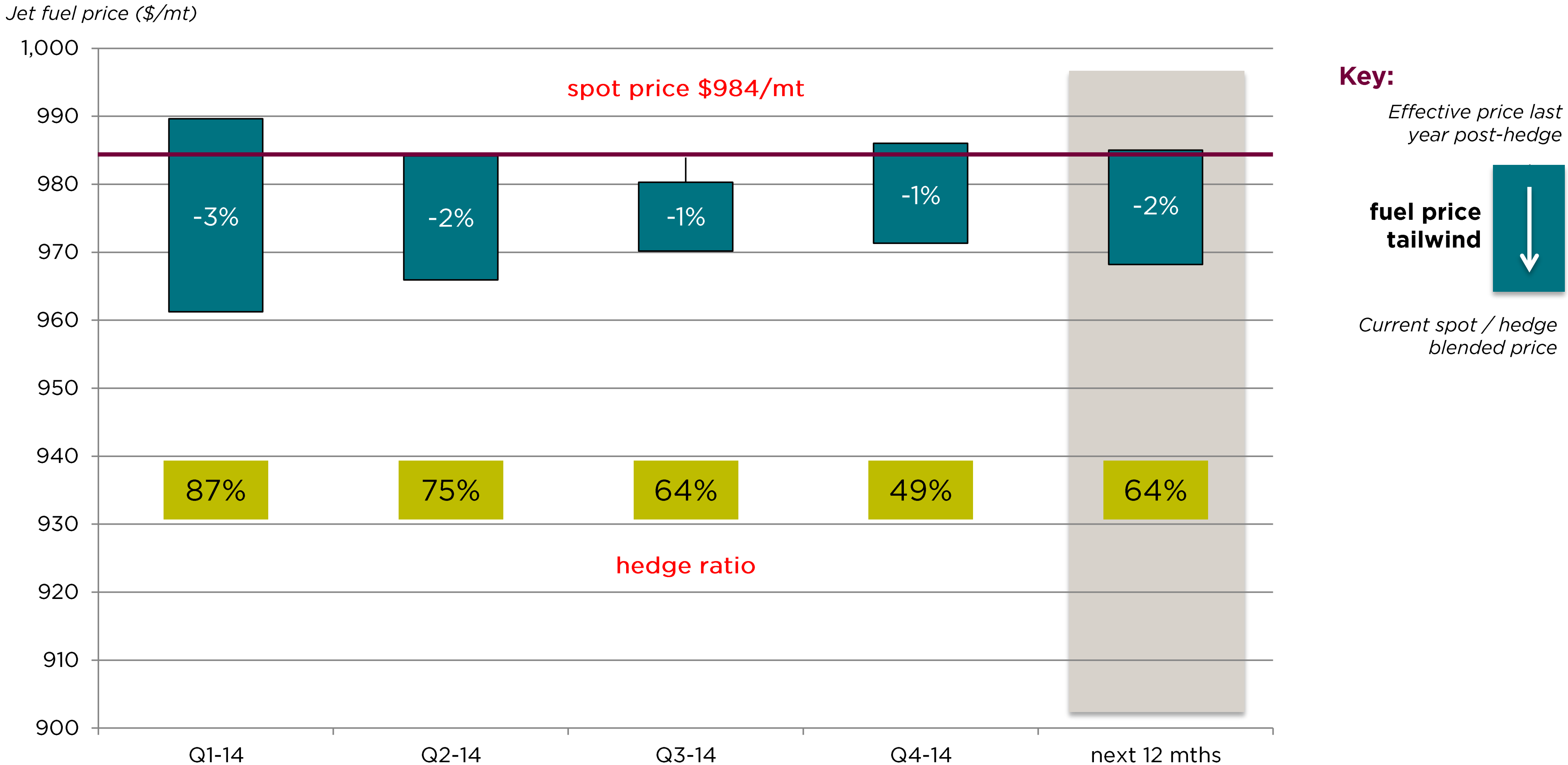








Fuel: spot price stable, slight hedge advantage



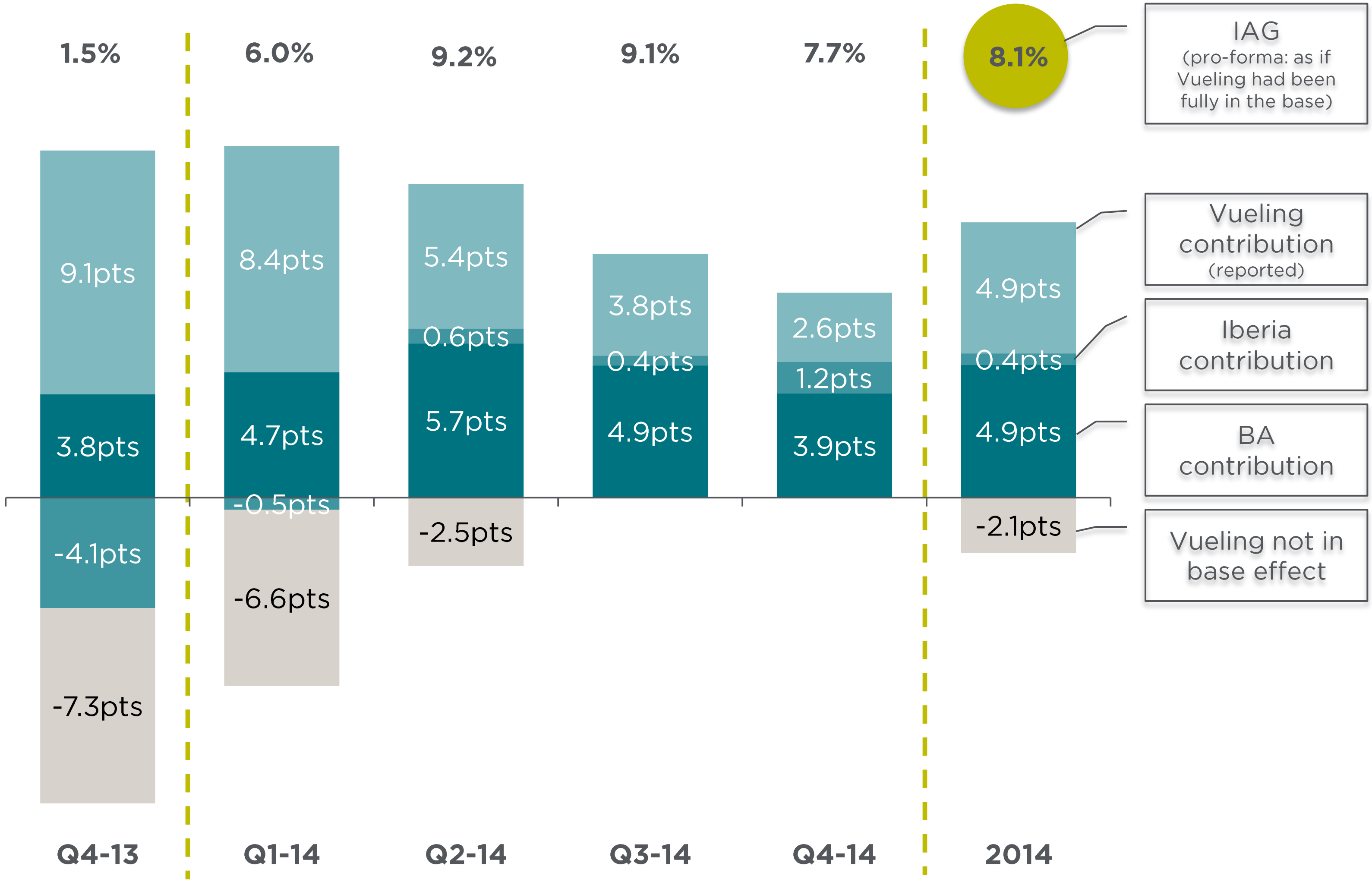
2014 fuel bill scenario - €6.1bn (at $1,000mt and 1.35$/€)

Q4 results

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

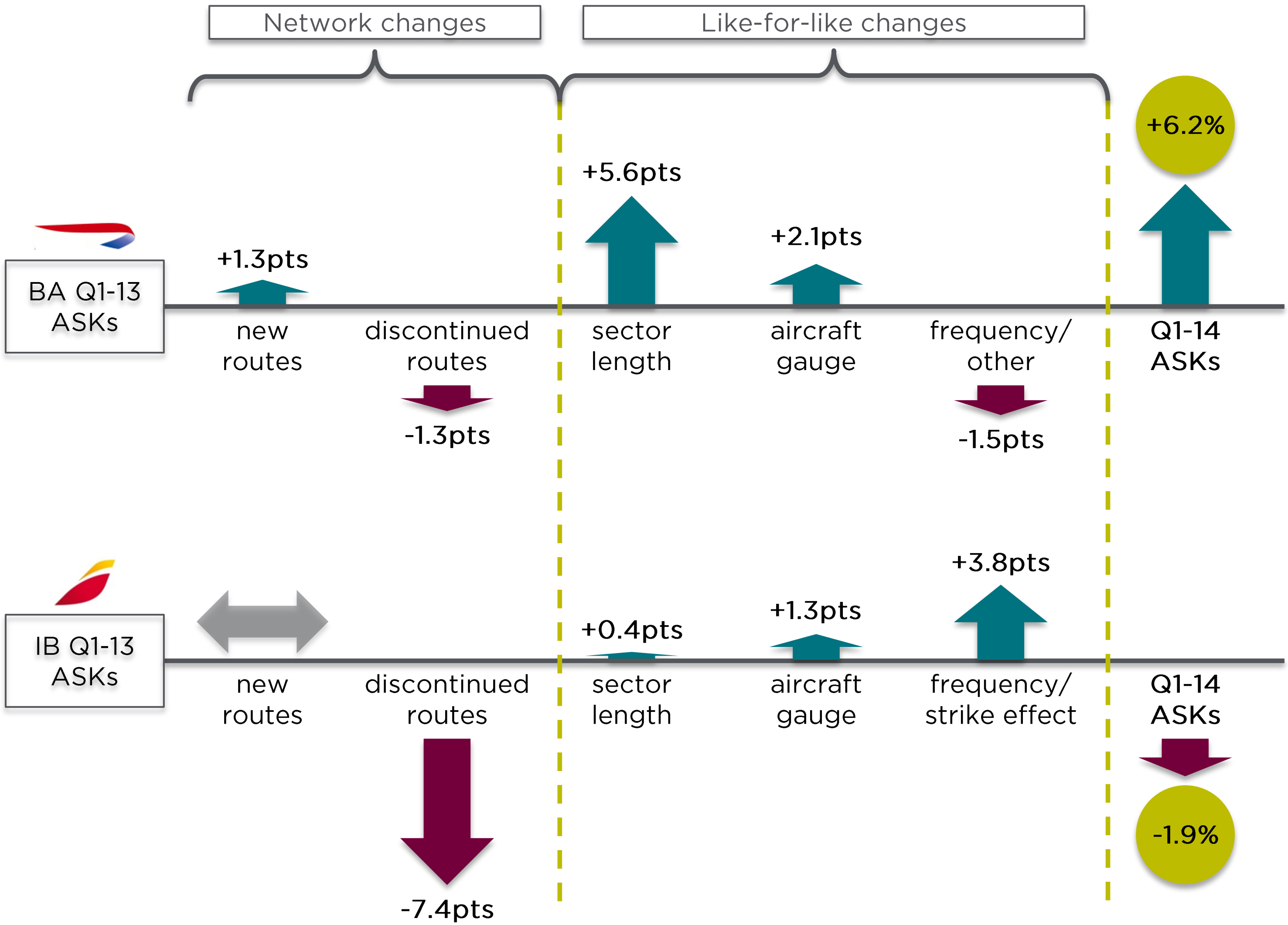
2014 capacity: Vueling growth and base effects

- **BA:** Q1-14 and FY2014 capacity planned to be +6.2% and +6.9% respectively.
- **Iberia:** Q1-14 and FY2014 capacity planned to be -1.9% and +1.9% respectively.
- **BA + IB:** Q1-14 and FY2014 capacity planned to be +4.2% and +5.7% respectively.
- **Vueling:** Q1-14 and FY2014 capacity planned to be +27.0% and +30.1% (+67.4% reported) respectively.

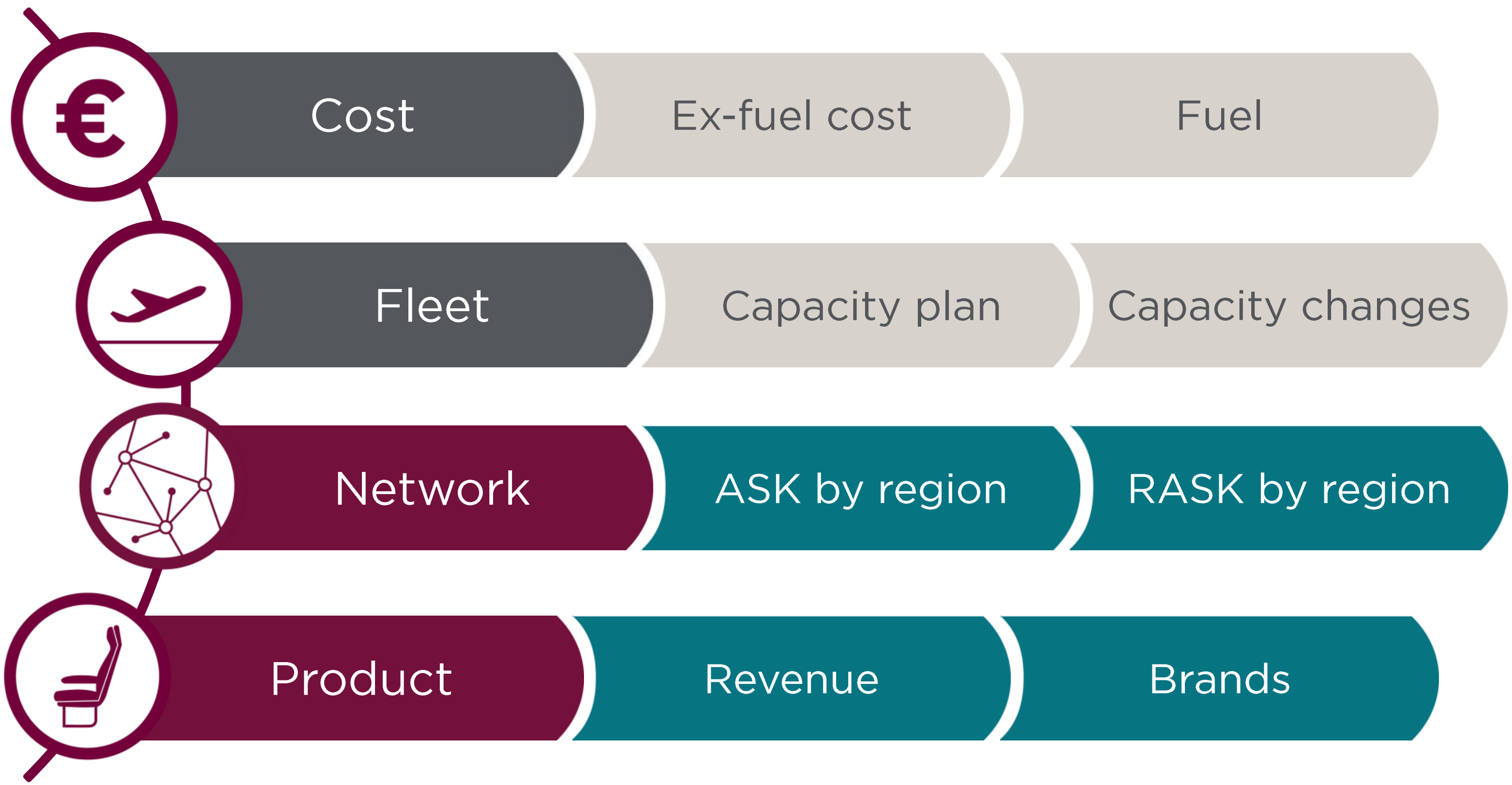


Q1-14 changes: BA growth driven by sector length

- New long-haul routes for BA include Austin, Chengdu & Colombo.
- New short-haul routes for BA include LHR leisure destinations & new CityFlyer routes.
- Cancelled routes driven by Iberia route changes & for BA Dar es Salaam & Lusaka.
- Increasing frequency of BA existing long-haul routes driving sector length change.
- Frequency change for IB driven by strike recovery.



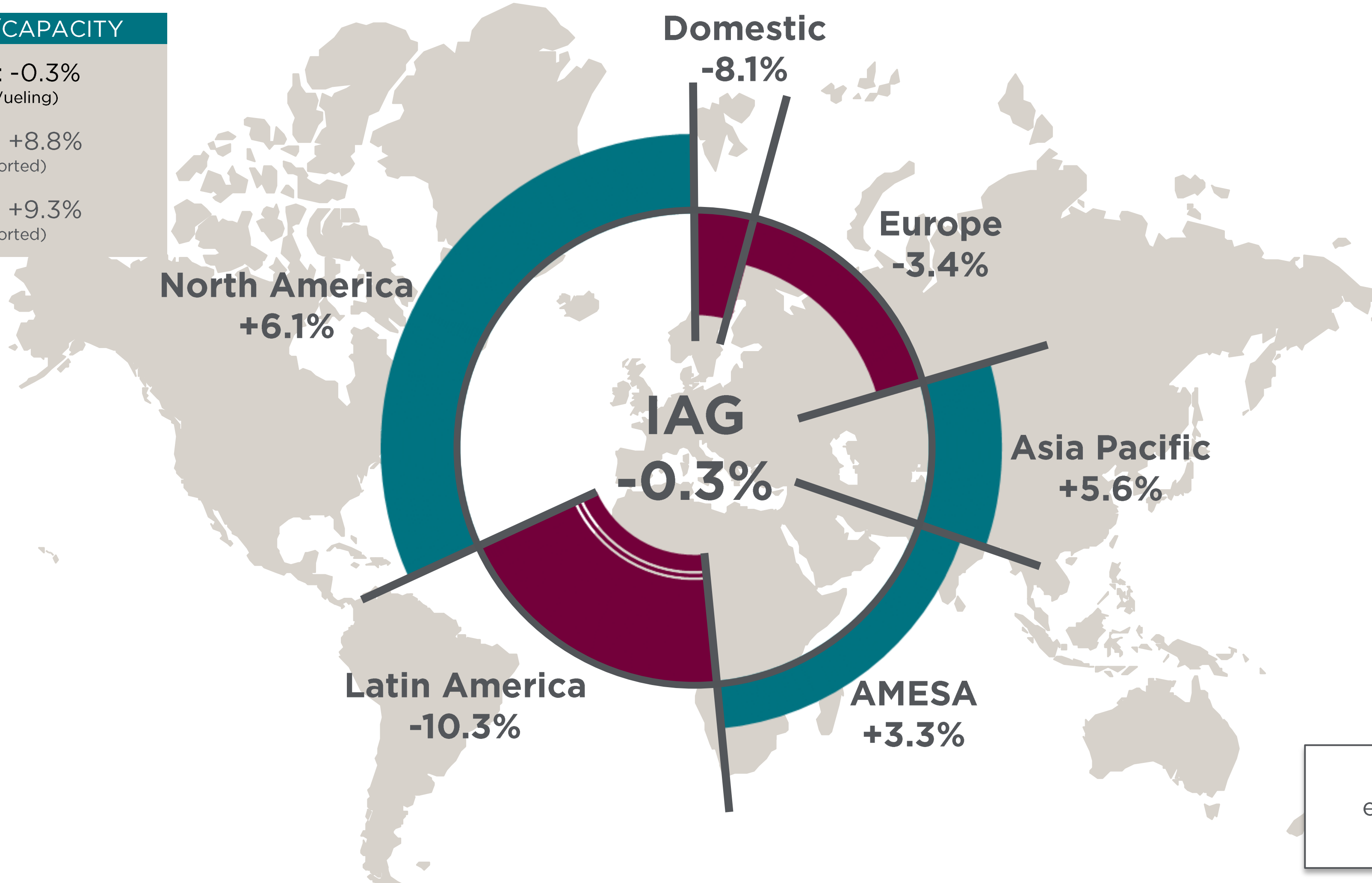
Q4 results



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

Q4 ASK change: BA long-haul expansion

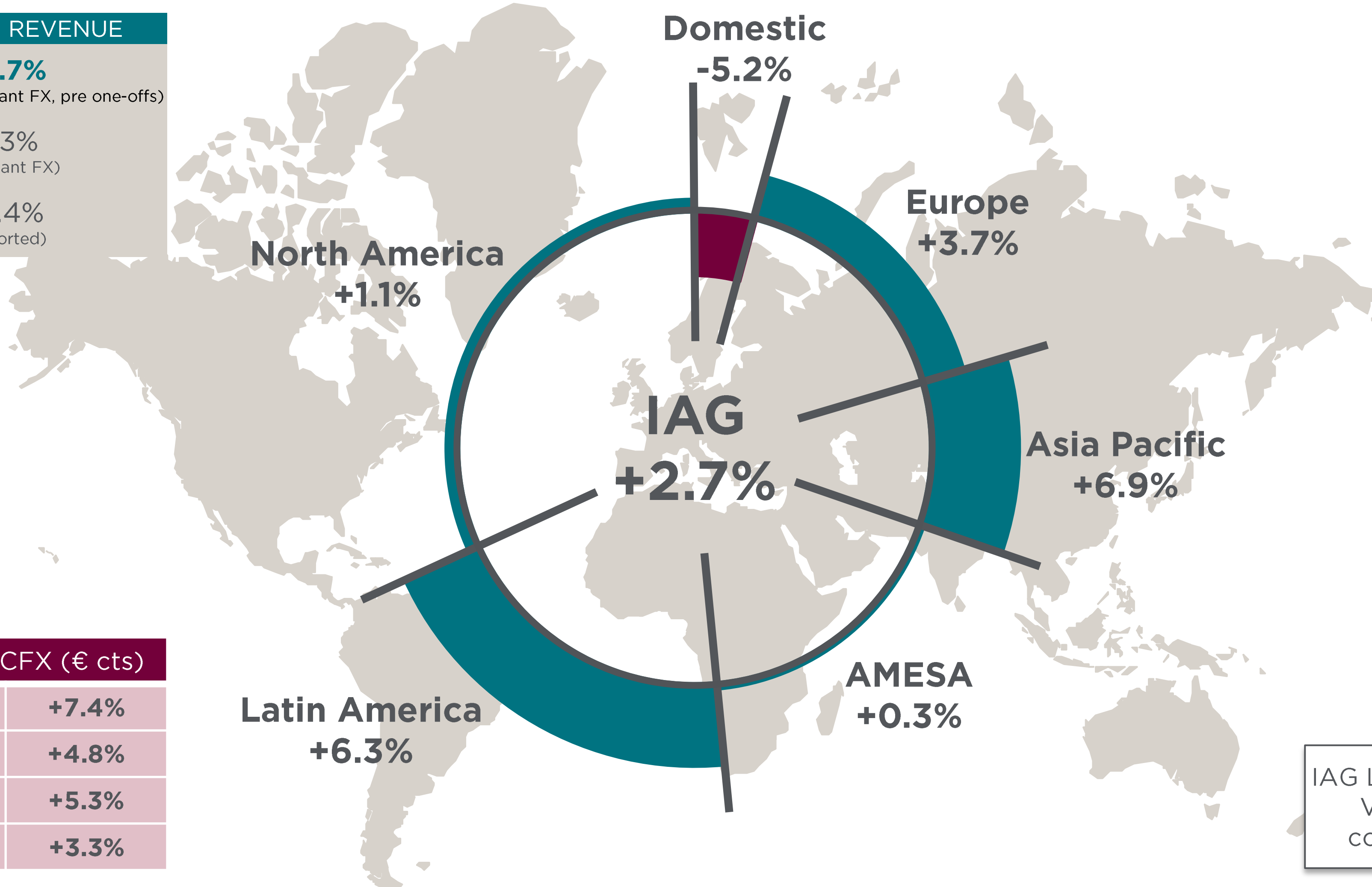
TRAFFIC/CAPACITY
ASKs: -0.3% (pre-Vueling)
ASKs: +8.8% (reported)
RPKs: +9.3% (reported)



IAG LfL excluding Vueling

Q4 pax RASK: stable North America despite growth

PAX UNIT REVENUE
+2.7% (pre-Vueling, constant FX, pre one-offs)
-1.3% (constant FX)
-4.4% (reported)

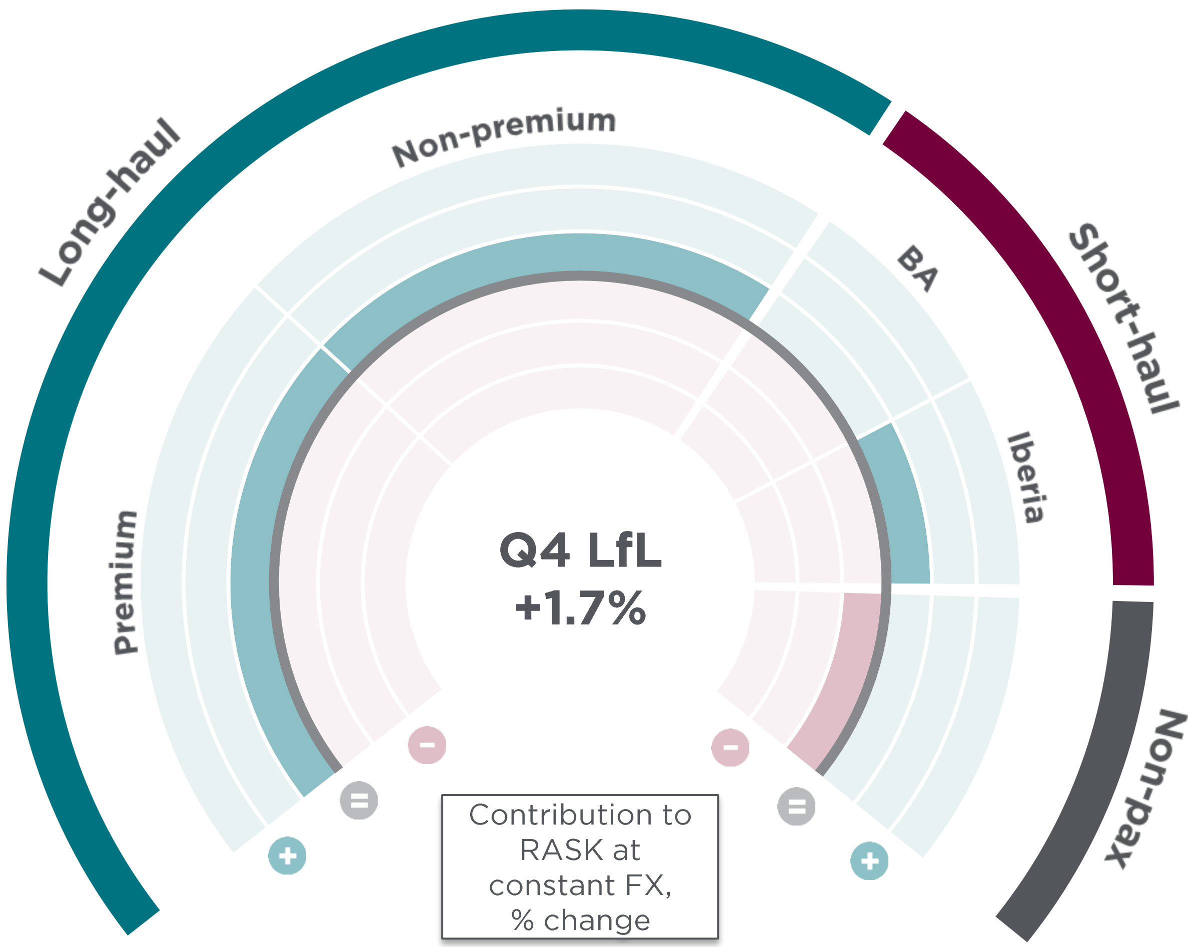


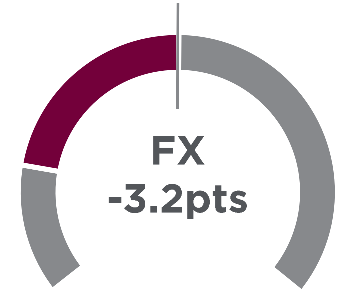
Pax RASK CFX (€ cts)	
Q3-13	+7.4%
Q2-13	+4.8%
Q1-13	+5.3%
Q4-12	+3.3%

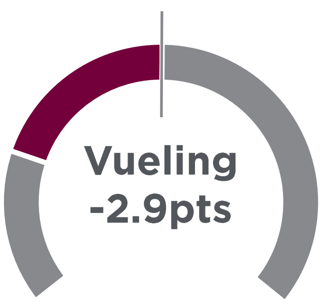
IAG LfL excluding Vueling at constant FX

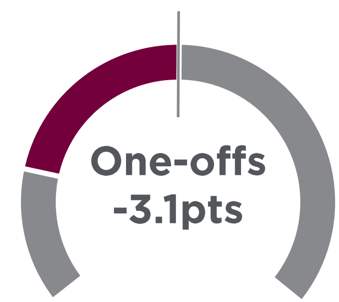
Q4 products: stable everywhere

TOTAL UNIT REVENUE
+1.7% (pre-Vueling, constant FX, pre one-offs)
-4.3% (constant FX)
-7.5% (reported, €156m FX drag)









Financial performance by brand

	British Airways Q4 2013 (£m)	British Airways vly	Iberia Q4 2013 (€m)	Iberia vly	Vueling Q4 2013 (€m)	Vueling vly
Revenue	2,767	+2.0%	1,035	-11.1%	294	+32.6%
Costs	2,675	+0.1%	1,040	-18.1%	292	+21.2%
Operating result	92	+51	-5	+101	2	+21
Operating margin	3.3%	+1.8pts	-0.5%	+8.5pts	0.7%	+9.3pts
ASK (m)	40,856	+5.3%	12,606	-14.9%	4,877	+24.9%
RPK (m)	32,512	+5.9%	9,773	-14.7%	3,799	+27.4%
Sector length (kms)	3,371	+1.6%	2,971	+0.1%	990	+5.1%
RASK	6.90	-0.1%	8.26	+8.0%	6.03	+6.2%
CASK	6.55	-1.7%	8.25	-3.7%	5.99	-3.1%
CASK ex-fuel	4.27	-2.3%	6.00	-1.3%	4.14	-3.9%
Employee cost per ASK	1.50	-3.2%	2.14	-4.9%	0.57	-10.9%

Pre one-offs

Below the line and one-offs

2013 and 2012 one-offs effect on operating profit

Q4 2012	€m
Outdated ticket recognition (revenue)	+69
Employee restructuring	-29
Holiday pay provision	-52
EU compensation	-25
Total	-37

Q4 2013	€m
Avios accounting change (revenue)	-67
Total	-67

Net year on year change -30

Exceptional items

FY 2012	€m
Op. result	-23
Iberia employee restructure	-202
Iberia impairment	-343
bmi restructure	-87
Settlement of competition investigation	+35
Other	+7
Exceptional items	-590
Op. result post exceptional items	-613

FY 2013	€m
Op. result	+770
Iberia employee restructure	-268
Iberia aircraft restructure	-44
Avios redemption recognition	-106
US pension benefits revision	+170
Other	+5
Exceptional items	-243
Op. result post exceptional items	+527

Non-operating items

	FY 2012	FY 2013
Op. result post exceptional items	-613	+527
Net finance cost	-211	-270
Net pensions non-cash charge	-43	-53
Share in associates	+17	-8
Other	+76	+31
Result before tax	-774	+227
Tax	+116	-76
Result after tax	-658	+151

FY2012 restated IAS 19

Balance sheet

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Balance sheet: RoIC up, gearing marginally down,

- Excludes IAS 19 amendments.
- Adjusted equity includes conversion £350m BA bond.
- Cash: BA £1.9bn (Dec 12: £1.2bn), Iberia €0.7bn (Dec 12: €0.8bn), Vueling €0.5bn.
- Increase in cash also reflects the proceeds from €390m IAG convertible bond.
- Aircraft lease increase is mainly driven by the inclusion of Vueling.
- RoIC methodology in appendix.

€m	Dec 2012	Dec 2013
Adjusted equity	5,055	5,772
Gross debt	4,798	5,122
Cash, cash equivalents & interest bearing deposits	2,909	3,633
On balance sheet net debt	1,889	1,489
Gearing	27%	21%
Aircraft lease cap (x8)	3,456	4,212
Adjusted net debt	5,345	5,701
Adjusted gearing	51%	50%
RoIC	-0.2%	5.6%

Outlook

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Current trading: no underlying change

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

Guidance for 2014 including Vueling

Operating profit pre-exceptional	Steady progress towards 2015 target	
Unit revenue	flat	
Ex-fuel unit cost	down	
Fuel bill scenario	€6.1bn ($1,000/MT and 1.35$/€)	
ASKs	+10.2% (reported)	+8.1% (pro-forma)

Unit revenue and unit cost trends at constant currency

Strategic update

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IB agreement context setting: two possible scenarios

IB's structural issues

- Low productivity
- Uncompetitive salary levels

Short-haul

- Creation of Iberia Express

Short-haul + Long-haul

- Transformation Plan

Laudo (arbitration)

(May'12)

Mediation Agreement

(Mar'13)

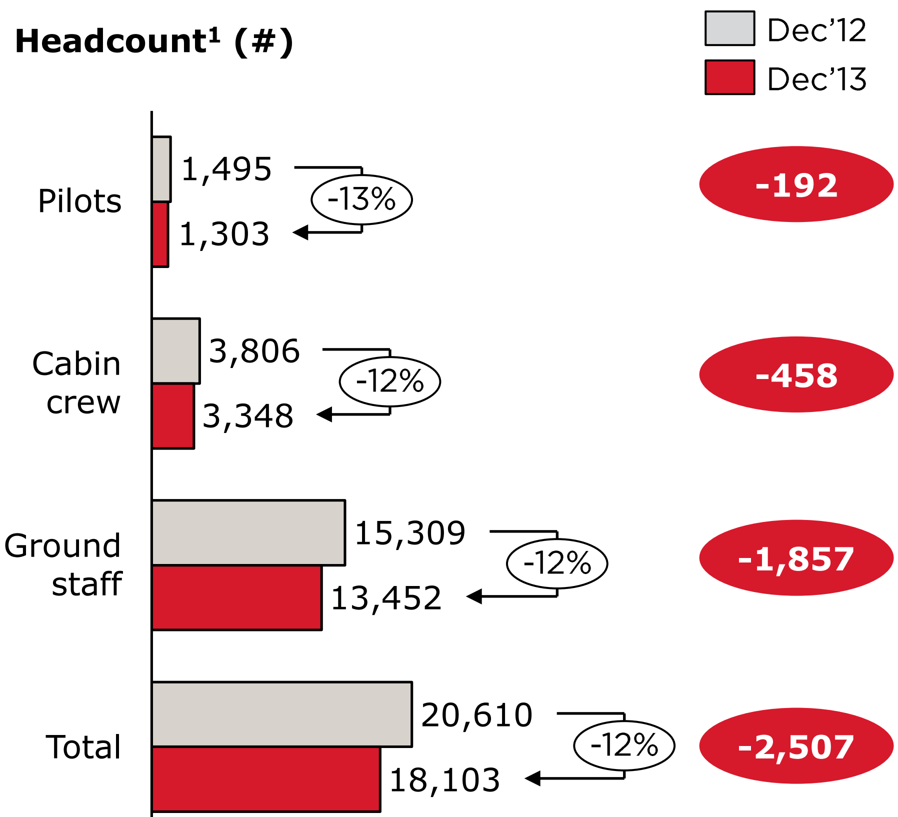
No agreement

Structural agreement

Mediation Agreement: 2013 savings of c. €200m

Significant total headcount reduction in 2013…

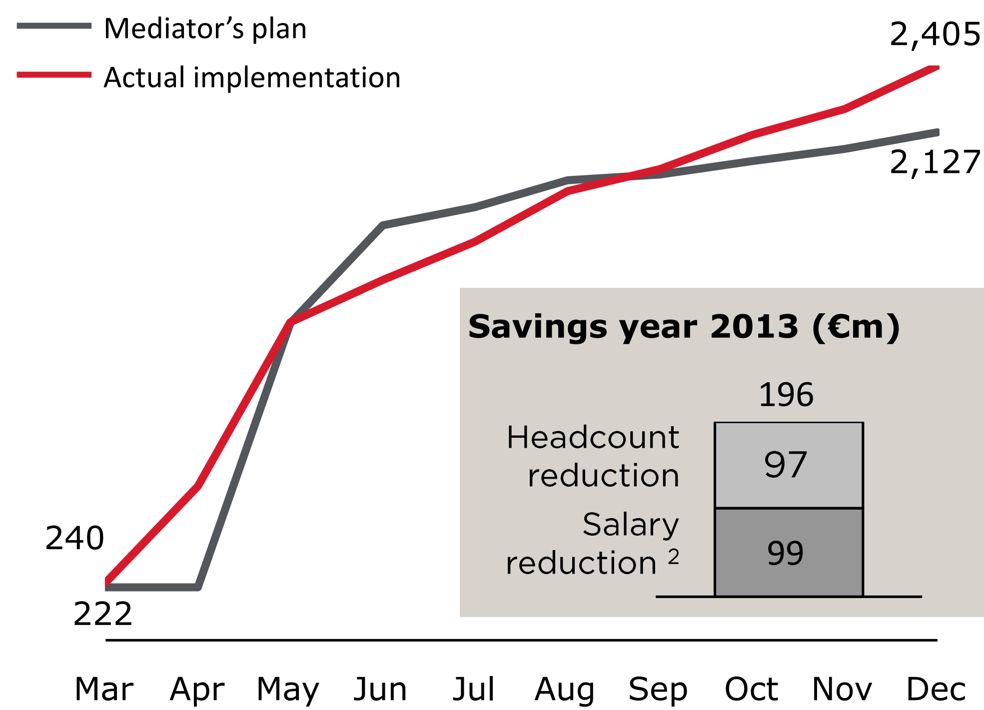
Headcount[1] (#)



1 Not including Iberia Express

… achieved with an implementation of the Mediation Agreement ahead of initial plan

Headcount reduction (#)



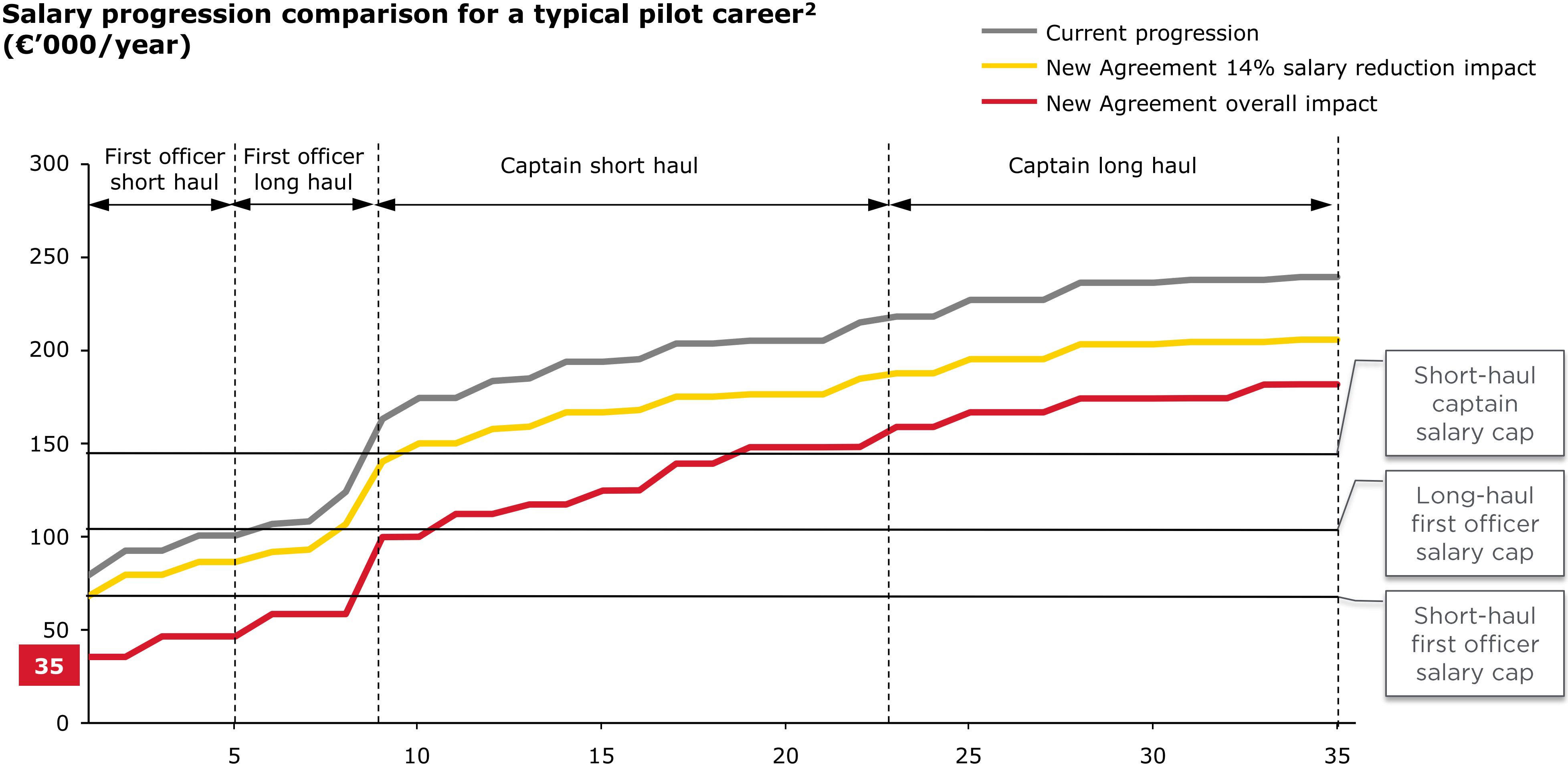
2 Salary reduction of 14% for pilots and cabin crew and 7% for ground staff. Additional 4% salary reduction until productivity measures are agreed

Key features of the SEPLA agreement

- **Productivity improvements**
  - Short-haul and long-haul flying hours over time in line with Iberia's most efficient competitors
  - Changes in crew complement
- **Salary conditions**
  - Salary reduction of 14% maintained, in line with the Mediation Agreement - additional 4% will be returned
  - Salaries and allowances will remain frozen until 2015. After that date, increases will be subject to Iberia's profitability up to a maximum of 3.5% (out of which up to 1% retained in the base for the following year)
- **New pay scales**
  - New entry levels starting with annual salary of around €35k in short haul
  - Establishment of caps in seniority scales, reducing long-term seniority-driven wage inflation
- **Iberia Express**
  - Will remain an independent company, with its own pay scale
  - Facility for pilots to transfer to / from IB mainline, without changing IB Express distinct pay / conditions (IB mainline pilots transferring to IB Express to receive one-off compensation payment)
  - Facilitates the growth of Iberia Express up to 25 aircraft by 2017
  - Parallel growth between Iberia mainline short-haul and Iberia Express
- **Redundancy potential**
  - Existing Mediation Agreement: 258 pilots
  - New Agreement: possible extension of voluntary plan

New Pilot Agreement provides a competitive entry salary of €35k and overall savings above 40%[1] for a typical pilot career

Salary progression comparison for a typical pilot career[2] (€'000/year)



1 Calculated in NPV terms
2 First officer short-haul: years 1-4; First officer long-haul: years 5-8; Captain short-haul: years 9-22; Captain long-haul: years 23-35

Cabin crew and other union situation

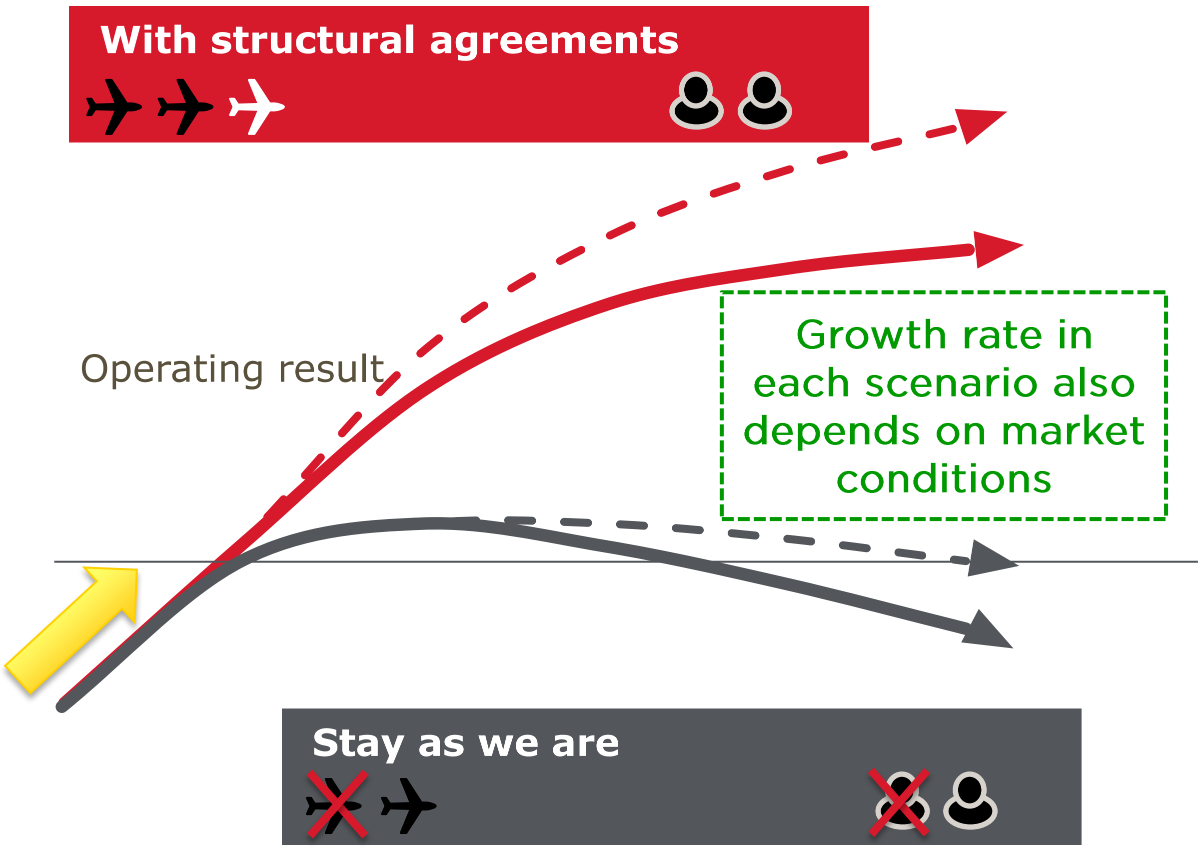
Cabin crew

- **Productivity improvements**
  - Flying hours in line with Iberia's most efficient competitors
  - Increase in the number of duty days and flying hours
  - New working practices for short-haul, in line with market practices
- **Salary conditions**
  - Salary reduction of 14% maintained, in line with the Mediation Agreement - additional 4% will be returned
  - Salaries and allowances will remain frozen until 2015. After that date, increases will be subject to Iberia's profitability up to a maximum of 3.5% (out of which up to 1% retained in the base for the following year)
- **New pay scales**
  - Starting salaries to be set at market levels, around €20k.
  - Technical changes in calculating seniority and promotion levels depending on fleet and duties, reducing long-term seniority-driven wage inflation
- **Redundancy potential**
  - Existing Mediation Agreement: 627 cabin crew
  - New Agreement: possible extension of voluntary plan

Ground staff

- Negotiations are still taking place
- Handling tenders are subject to a productivity agreement being reached

Looking forward, Iberia faces two potential paths



- Structural agreement with labour unions
- Freedom to develop short and medium-haul with competitive cost (Iberia/Iberia Express)
- Closing of commercial gap
- Reduction of complexity and cost base

- Unsustainable company
- No growth and even further reduction in capacity
- Potential downscale of non-core business
- Significant financial difficulties

New aircraft performing well

Example: Q4 2013 A380 flight vs. B747-400 flight LHRLAX

Cost per seat gain:
Total -17.7%
Fuel -18.4%

Seats +61% (469 vs. avg. 317)
Trip cost +22%

BA's schedule will change to accommodate the extra capacity of the A380

LAX Summer 2013 daily schedule

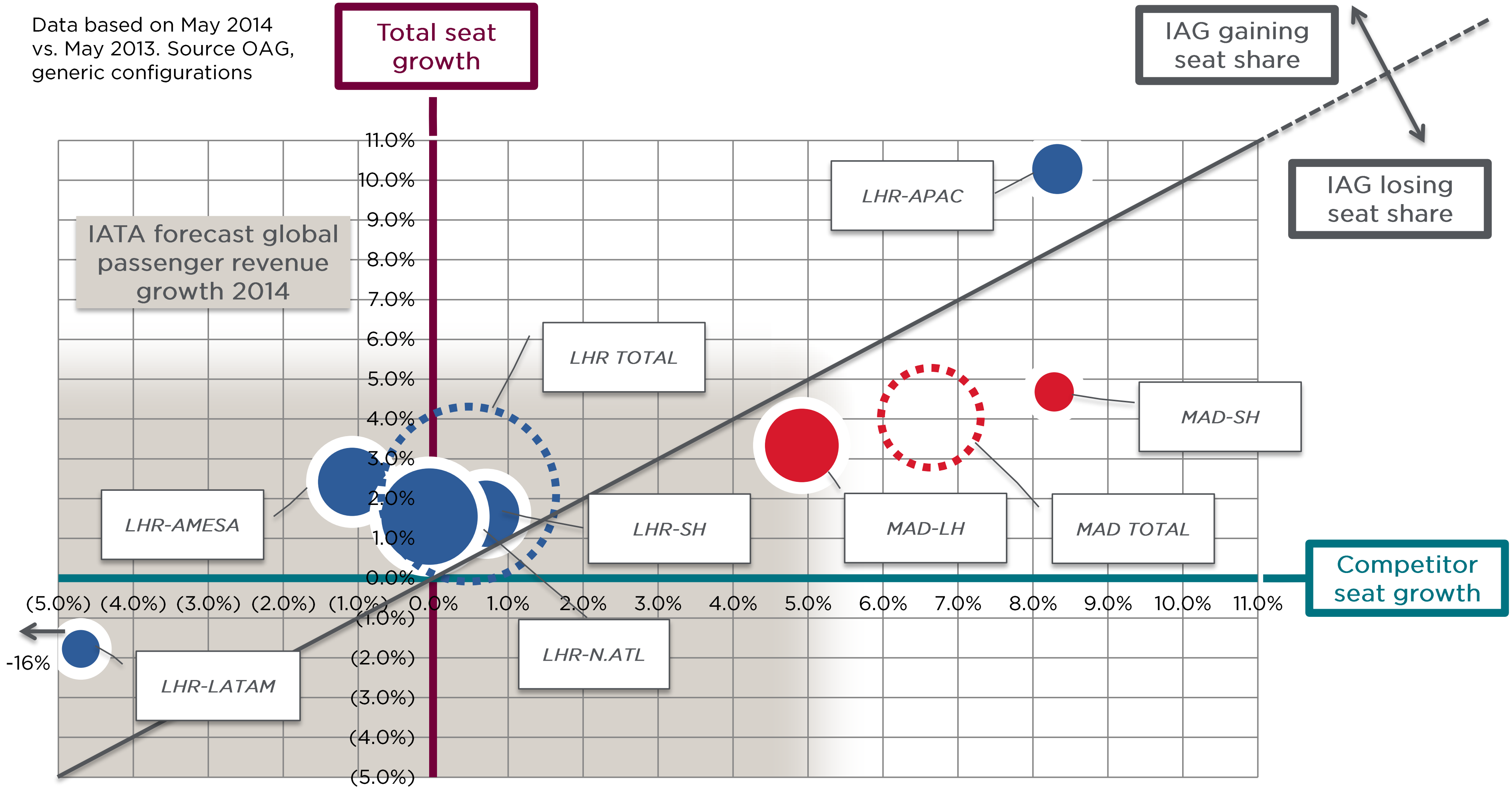
Configuration:
+5% premium
-7% non-premium

LAX Summer 2014 daily schedule

Total seats per day -1% (richer mix)
Total trip cost per day -19%

Capacity map: summer 2014 IAG point-to-point markets

Data based on May 2014 vs. May 2013. Source OAG, generic configurations



Appendix

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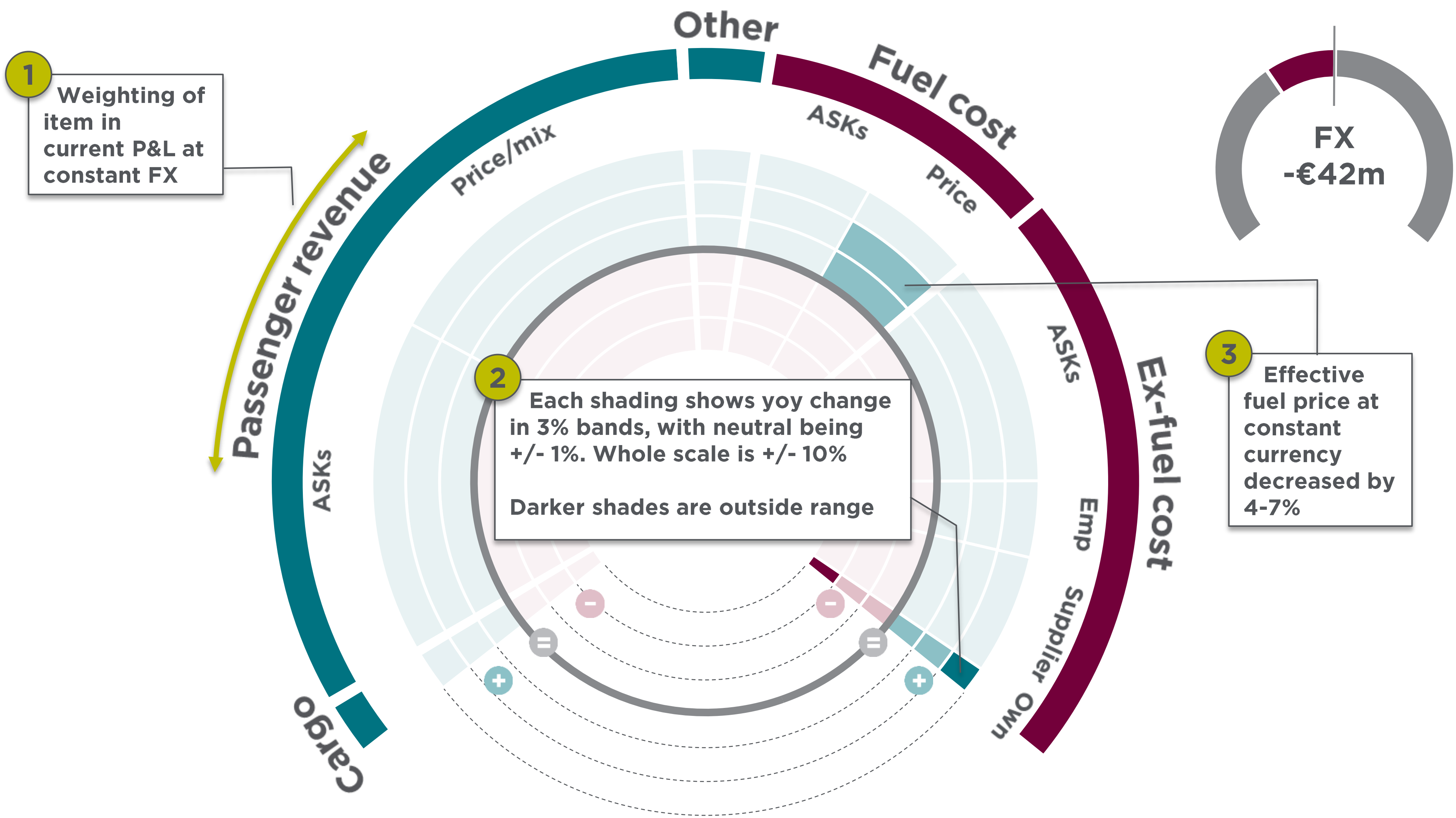
Contribution heat map – how it works



RoIC methodology

Calibrating profit: reference IAG cost of capital

Cost of debt	Cost of equity
c. 5%	c. 15% pre-tax

Target gearing

50%	50%

WACC: ~10% pre-tax

Calibrating profit: reference IAG invested capital

Tangible fixed assets net book value, 12/2012	€10bn	Historic cost measure: unsuitable for comparison with forward-looking WACC, as does not account for inflation in long-life assets

A better denominator for operating profit:

Tangible fixed assets gross bk value, 12/2012	€21bn	Simple calculation of financial age of assets = latest annual depreciation(€1.1bn) / accumulated depreciation (€11bn) = 10 years
Notional current cost	€27bn	Simple inflation adjustment: assumed inflation rate of eg 2.5% gives inflator of 1.28
Inflation adjusted TFA, 12/2012	€13.5bn	"Half-life" of notional current cost: profits have to be calibrated against what assets cost today, rather than what they cost 20-25 years ago, otherwise IAG cannot replace / grow assets

Calibrating profit: RoIC and capex implications

Inflation adjusted TFA, 12/2012	€13.5bn	
2013 required EBIT @ 12% RoIC	€1.6bn	What we would have to generate today if we were earning above WACC returns
2015 required EBIT @ 12% RoIC	€1.8bn	Allows for growth, addition of Vueling
Implied typical annual capex	€2bn - €2.2bn	€27bn notional replacement cost 4.5% replacement rate = approx. €1.2bn replacement capex 3% growth = approx. €800m growth capex

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 International Consolidated Airlines Group S.A. (the ‘Group’) plans and objectives for future operations, including, without limitation, discussions of the Group’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 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 Group’s forward-looking statements 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 2012; this document is available on www.iagshares.com.