

THREE MONTHS RESULTS ANNOUNCEMENT

International Consolidated Airlines Group (IAG) today (May 7, 2020) presented Group consolidated results for the three months to March 31, 2020.

The results for the quarter were significantly impacted by the outbreak of COVID-19, which has had a devastating impact on the global airline and travel sectors, with the spread of the virus worldwide, resulting in lockdowns and travel restrictions and advisories, particularly from late February 2020 onwards.

COVID-19 situation and management actions:

- Passenger capacity has been reduced by 94 per cent from late March with most aircraft grounded and those retained for operating limited passenger, repatriation and cargo-only flights being appropriately-sized and new-generation, where practical
- Going into the crisis, IAG had a strong balance sheet and liquidity, with cash and undrawn facilities at 31st March of €9.5 billion and at 30th April increasing to €10.0 billion
- Actions have been taken to boost liquidity, such as accessing the UK's Coronavirus Corporate Finance Facility (CCFF) and Spain's *Instituto de Crédito Oficial* ('ICO') facility and extending British Airways' Revolving Credit Facility
- For April and May the normal run-rate cash operating costs have been reduced from €440 million per week to €200 million per week
- Capital spending for 2020 has been reduced by €1.2 billion, with most of the remaining €3.0 billion covered by committed and agreed financing
- IAG is planning a meaningful return to service in July with a planning scenario that could see an overall reduction in passenger capacity of c.50 per cent in 2020, but these plans are highly uncertain and subject to the easing of lockdowns and travel restrictions
- IAG expects that its second quarter will be significantly worse than the first quarter
- IAG does not expect the level of passenger demand in 2019 to recover before 2023, making further Group-wide restructuring measures essential; as a result IAG expects to defer deliveries of 68 aircraft
- As previously announced, and required by UK labour legislation, British Airways has formally notified its trade unions about a proposed restructuring and redundancy programme which is subject to consultation

IAG period highlights on results:

- Capacity operated in the quarter down 10.5 per cent on 2019
- First quarter operating loss before exceptional items €535 million (2019: €135 million operating profit)
- Net foreign exchange operating result impact for the quarter adverse €68 million
- Exceptional charge in the quarter of €1,325 million on derecognition of fuel and foreign exchange hedges for 2020
- Loss after tax before exceptional items for the quarter €556 million (2020 statutory loss after tax and exceptional items: €1,683 million, 2019 profit: €70 million)
- Cash of €6,945 million at March 31, 2020 was up €262 million on December 31, 2019

Performance summary:

Highlights € million	Three months to March 31		
	2020	2019 ¹	Higher / (lower)
Passenger revenue	3,953	4,623	(14.5)%
Total revenue	4,585	5,295	(13.4)%
Operating (loss)/profit before exceptional items	(535)	135	nm
Exceptional items	(1,325)	-	nm
Operating (loss)/profit after exceptional items	(1,860)	135	nm
Available seat kilometres (ASK million)	67,522	75,423	(10.5)%
Passenger revenue per ASK (€ cents)	5.85	6.13	(4.5)%
Non-fuel costs per ASK (€ cents)	5.79	5.03	15.1%

Alternative performance measures	Higher / (lower)		
	2020	2019	(lower)
(Loss)/profit after tax before exceptional items (€ million)	(556)	70	nm
Adjusted (loss)/earnings per share (€ cents)	(28.0)	3.7	nm
Net debt (€ million) ²	7,508	7,571	(0.8)%
Net debt to EBITDA ²	1.6	1.4	0.2x

Statutory results € million	Higher / (lower)		
	2020	2019	(lower)
(Loss)/profit after tax and exceptional items	(1,683)	70	nm
Basic (loss)/earnings per share (€ cents)	(84.8)	3.7	nm
Cash and interest-bearing deposits ²	6,945	6,683	3.9%
Interest-bearing long-term borrowings ²	14,453	14,254	1.4%

For definitions refer to the IAG Annual report and accounts 2019.

¹ March 31, 2019 comparatives are the Group's restated statutory results as reported. The 2019 results have been restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. There is no change in operating profit. The amount reclassified for the period to March 31, 2019 was €23 million. Further information is given in the IAG Annual report and accounts 2019.

² The prior year comparative is December 31, 2019

Willie Walsh, IAG Chief Executive Officer, said:

“In quarter 1 we’re reporting a substantial operating loss of €535 million before exceptional items compared to an operating profit of €135 million last year. Total operating losses including exceptional items relating to fuel and foreign currency hedges came to €1,860 million.

“The operating result up to the end of February was in line with a year ago. However, March’s performance was severely affected by government travel restrictions due to the rapid spread of COVID-19 which significantly impacted demand. Most of the loss in the quarter occurred in the last two weeks of March.

“We had a strong balance sheet and liquidity position coming into this crisis. We are taking all appropriate actions to preserve cash, reduce and defer both capital spending and operating costs and secure additional financing in order to strengthen and maintain our liquidity. At the end of April our liquidity stood at €10.0 billion.

“We are planning for a meaningful return to service in July 2020 at the earliest, depending on the easing of lockdowns and travel restrictions around the world. We will adapt our operating procedures to ensure our customers and our people are properly protected in this new environment. We are working with the various regulatory bodies and are confident that changes in regulations will enable a safe and organised return to service. The industry will adapt to new requirements in the same way that it has adapted to developments in security requirements in the past.

“However, we do not expect passenger demand to recover to the level of 2019 before 2023 at the earliest. This means Group-wide restructuring is essential in order to get through the crisis and preserve an adequate level of liquidity. We intend to come out of the crisis as a stronger Group.”

Trading outlook

As announced on February 28, 2020, given the uncertainty on the impact and duration of COVID-19, IAG is not currently providing profit guidance for 2020. However, as announced on 28th April, the Group expects its operating loss before exceptional items in the second quarter to be significantly worse than in the first quarter, given the substantial decline in passenger capacity and traffic and despite some relief on employee costs from government wage support schemes and various management actions.

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This announcement contains inside information and is disclosed in accordance with the Company’s obligations under the Market Abuse Regulation (EU) No 596/2014.

Steve Gunning, Chief Financial Officer

Forward-looking statements:

Certain statements included in this announcement are forward-looking. These statements can be identified by the fact that they do not relate only to historical or current facts. By their nature, they involve risk and uncertainties because they relate to events and depend on circumstances that will occur in the future. Actual results could differ materially from those expressed or implied by such forward-looking statements.

Forward-looking statements often use words such as “expects”, “may”, “will”, “could”, “should”, “intends”, “plans”, “predicts”, “envisages” or “anticipates” or other words of similar meaning. They include, without limitation, any and all projections relating to the 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 expenditure and divestments relating to the Group and discussions of the Group’s business plan. All forward-looking statements in this announcement are based upon information known to the Group on the date of this announcement and speak as of the date of this announcement. Other than in accordance with its legal or regulatory obligations, the Group does not undertake to update or revise any forward-looking statement to reflect any changes in events, conditions or circumstances on which any such statement is based.

Actual results may differ from those expressed or implied in the forward-looking statements in this announcement as a result of any number of known and unknown risks, uncertainties and other factors, many of which are difficult to predict and are generally beyond the control of the Group, and it is not reasonably possible to itemise each item. Accordingly, readers of this announcement are cautioned against relying on forward-looking statements. Further information on the primary risks of the business and the Group’s risk management process is set out in the Risk management and principal risk factors section in the Annual Report and Accounts 2019; these documents are available on www.iairgroup.com. All forward-looking statements made on or after the date of this announcement and attributable to IAG are expressly qualified in their entirety by the primary risks set out in that section.

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CONSOLIDATED INCOME STATEMENT

€ million	Three months to March 31				
	Before exceptional items 2020	Exceptional items	Total 2020	Total 2019 ¹	Higher/(lower)
Passenger revenue	3,953		3,953	4,623	(14.5)%
Cargo revenue	246		246	275	(10.5)%
Other revenue	386		386	397	(2.8)%
Total revenue	4,585		4,585	5,295	(13.4)%
Employee costs	1,234		1,234	1,204	2.5%
Fuel, oil costs and emissions charges	1,209	1,325	2,534	1,366	(11.5)%
Handling, catering and other operating costs	652		652	664	(1.8)%
Landing fees and en-route charges	451		451	485	(7.0)%
Engineering and other aircraft costs	504		504	485	3.9%
Property, IT and other costs	225		225	169	33.1%
Selling costs	211		211	281	(24.9)%
Depreciation, amortisation and impairment	570		570	515	10.7%
Currency differences	64		64	(9)	nm
Total expenditure on operations	5,120	1,325	6,445	5,160	(0.8)%
Operating (loss)/profit	(535)	(1,325)	(1,860)	135	nm
Finance costs	(151)		(151)	(137)	10.2%
Finance income	11		11	10	10.0%
Net financing credit relating to pensions	1		1	6	(83.3)%
Net currency retranslation credits	77		77	70	10.0%
Other non-operating credits	40		40	2	nm
Total net non-operating costs	(22)		(22)	(49)	(55.1)%
(Loss)/profit before tax	(557)	(1,325)	(1,882)	86	nm
Tax	1	198	199	(16)	nm
(Loss)/profit after tax for the period	(556)	(1,127)	(1,683)	70	nm

Operating figures	2020	2019	Higher/(lower)
Available seat kilometres (ASK million)	67,522	75,423	(10.5)%
Revenue passenger kilometres (RPK million)	51,617	60,878	(15.2)%
Seat factor (per cent)	76.4	80.7	(4.3)pts
Passenger numbers (thousands)	19,877	24,382	(18.5)%
Cargo tonne kilometres (CTK million)	1,173	1,391	(15.7)%
Sold cargo tonnes (thousands)	148	174	(14.9)%
Sectors	143,969	169,010	(14.8)%
Block hours (hours)	434,244	501,362	(13.4)%
Average manpower equivalent	64,365	63,751	1.0%
Aircraft in service	595	582	2.2%
Passenger revenue per RPK (€ cents)	7.66	7.59	0.8%
Passenger revenue per ASK (€ cents)	5.85	6.13	(4.5)%
Cargo revenue per CTK (€ cents)	20.97	19.77	6.1%
Fuel cost per ASK (€ cents)	1.79	1.81	(1.1)%
Non-fuel costs per ASK (€ cents)	5.79	5.03	15.1%
Total cost per ASK (€ cents)	7.58	6.84	10.8%

¹ March 31, 2019 comparatives are the Group's restated statutory results as reported. The 2019 results have been restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. There is no change in operating profit. The amount reclassified for the period to March 31, 2019 was €23 million. Further information is given in the IAG Annual report and accounts 2019.

FINANCIAL REVIEW

COVID-19 Summary - Quarter 1

The results for the quarter were significantly impacted by the outbreak and escalation of COVID-19, particularly in March. In January and most of February the direct impact was mainly in the Asia and Pacific region, with suspension of services to China at the end of January and other capacity reductions in the Asia Pacific region. From late February, as the virus spread across the globe, many governments placed significant restrictions on the movement of people and on travel across international borders. This led to the cancellation of all flights to, from and within Italy and extensive reductions across the whole network.

The Group has taken action to preserve cash and boost liquidity. Some of the actions, such as employee furlough schemes, supported by national governments and trades unions, have only applied from April and consequently the costs saved in March were mainly those which are directly variable with capacity in the very short-term.

Commodity prices for jet fuel have more than halved since the start of the year, leading to significant losses on fuel hedging derivatives, which would normally be offset against lower costs for purchasing jet fuel. The Group announced on April 2 that capacity plans for April and May would be approximately 90 per cent lower than in 2019, and therefore in 2020 the Group expects capacity to be significantly lower than that anticipated when its fuel hedging derivatives were put in place. The reduced capacity forecast has led to an exceptional charge of €1,325 million relating to overhedging, being the losses on fuel hedging derivatives maturing in 2020 for which there will be no matching volume of fuel purchased, calculated using the forward fuel curve and exchange rates at March 31, 2020.

Strategic overview - other developments

On January 17, IAG announced that the cap on non-EU shareholders buying IAG shares, put in place in February 2019, had been lifted. Under EU regulations, IAG's airlines must be majority owned and controlled by EU shareholders. The Group reached a 47.5 per cent non-EU shareholding in February 2019 so took action to limit non-EU shareholders buying shares. On January 17, this figure had dropped to 39.5 per cent and therefore the cap was removed. The IAG Board continues to monitor the relevant non-EU persons ownership level, and the Board is authorised to re-impose the Permitted Maximum at any time if necessary.

In January, British Airways began offsetting carbon emissions on all its flights within the UK. The airline will be investing in high quality, verified and certified carbon reduction projects around the world.

On March 16, IAG announced that in light of the exceptional circumstances facing the aviation industry due to COVID-19, and in particular the developing situation in Spain, it has been decided that Luis Gallego will continue in his role as Iberia Chief Executive for the next few months to lead the response in Spain. In the meantime, Willie Walsh will continue to act as Group Chief Executive and Javier Sánchez-Prieto will remain in place as Vueling Chief Executive.

On March 30, IAG announced that British Airways has extended its US dollar secured revolving credit facility for one year from June 23, 2020 to June 23, 2021. The amount available under the facility is \$1.38 billion.

Basis of preparation

The 2019 results have been restated to reclassify the costs the Group incurs in relation to compensation for flight delays and cancellations as a deduction from revenue as opposed to an operating expense. There is no change in operating profit. The amount reclassified for the three months to March 31, 2019 was €23 million. For further information see note 33 of IAG's 2019 Annual Report and Accounts.

Principal risks and uncertainties

The Group has continued to maintain and operate its structure and processes to identify, assess and manage risks. The principal risks and uncertainties affecting the Group, detailed on pages 62 to 69 of the 2019 Annual Report and Accounts, remain relevant and have been subject to re-evaluation in light of COVID-19. The principal risks include the risk of pandemic within "Event causing significant network disruption". The Board has been assessing and monitoring the evolution of the pandemic, regulatory and governmental responses and mitigation actions on a regular basis.

Operating and market environment

Average commodity fuel prices for the quarter were slightly lower than in the first quarter of 2019, although prices fell sharply during March and spot prices at the end of the month are less than half of the price a year ago. Foreign exchange rates for the euro were weaker than the same period last year, with the euro down around five per cent against sterling and three per cent against the US dollar.

IAG's results are impacted by exchange rates used for the translation of British Airways' and IAG Loyalty's financial results from sterling to the Group's reporting currency of euro. For the three months, the net impact of translation was €11 million adverse.

From a transactional perspective, the Group's financial performance is impacted by fluctuations in exchange rates, primarily from the US dollar, euro and pound sterling. The Group generates a surplus in most currencies in which it does business, except for the US dollar, as capital expenditure, debt repayments and fuel purchases typically create a deficit. The Group hedges a portion of its transaction exposures. The net transaction impact on operating profit was adverse by €57 million for the period, increasing revenues by €14 million and costs by €71 million.

The net impact of translation and transaction exchange for the Group was €68 million adverse.

FINANCIAL REVIEW

Capacity

In the first three months of 2020, IAG capacity, measured in available seat kilometres (ASKs), was lower by 10.5 per cent, with reductions across all regions. Increases in capacity of 1.4 per cent and 2.9 per cent for January and February respectively were offset by significant reductions due to COVID-19 in March reducing capacity by 33.5 per cent versus March 2019. Capacity reductions were first seen in the Asia Pacific region in January and February, with extensive reductions from late February, as the pandemic spread to Italy, the rest of Europe and then to many countries across the globe.

Aer Lingus capacity was broadly flat for January and February with increases in North Atlantic routes, from the route to Minneapolis launched in July 2019, and increased frequencies to Boston and San Francisco, offset by reductions in shorthaul capacity. British Airways capacity was flat for January and February, with increases from new destinations including Dammam, Islamabad and Pittsburg, offset by COVID-19 related cancellations to destinations in Asia Pacific. LEVEL longhaul capacity growth reflected the annualisation of new routes launched in 2019 to Santiago de Chile and New York JFK and additional frequencies on routes to the French Caribbean. All LEVEL longhaul operations were grounded in March due to COVID-19. Iberia increased its capacity in January and February primarily on its Latin American routes with a new route to Guayaquil, Ecuador and additional frequencies on routes to Colombia, Peru and Brazil. Vueling reduced its capacity in January and February primarily in Italy as it continued to focus on its core markets, prior to the spread of COVID-19.

Revenue

Passenger revenue fell 14.5 per cent from the previous year. Passenger unit revenue (passenger revenue per ASK) decreased 7.7 per cent at constant currency ('ccy'), due primarily to lower yields (passenger revenue per revenue passenger kilometre) and lower passenger load factors in March, associated with the impact of COVID-19.

Cargo revenue was 10.5 per cent lower than in 2019 and 11.6 per cent down at constant currency, also significantly impacted by COVID-19, particularly given the impact across the quarter in Asia Pacific. Cargo carried, measured in cargo tonne kilometres (CTKs), fell by 15.7 per cent, due to the reduction in passenger schedules. Yields at ccy were up 4.8 per cent on 2019 reflecting an increase in our premium mix particularly in March as available market capacity decreased.

Other revenue fell by 2.8 per cent and by 7.3 per cent at ccy, as the growth of the Group's non-airline businesses was also impacted by COVID-19 impact in March.

Costs

Employee costs increased 2.5 per cent compared to last year, mainly as a result of inflation-linked pay awards and resourcing to match the anticipated increase in capacity for the first half of the year. The average number of employees was 1.0 per cent higher than 2019, reflecting the anticipated growth in capacity. The sudden drop in capacity in March led to an increase in unit employee costs at ccy of 11.4 per cent. Various furlough and salary reduction measures were put in place in response, although these schemes were applied mainly from the start of April. Productivity, measured as ASKs per average manpower equivalent, down 11.3 per cent for the Group.

Fuel costs (excluding the exceptional charge for overhedging) reduced by 11.5 per cent, reflecting the reduced capacity. Fuel unit costs at ccy were down 3.9 per cent on 2019, linked to continued efficiencies and the net impact of commodity prices across the quarter and hedging losses versus the previous year.

Supplier costs increased by 1.5 per cent, and on a unit basis at ccy were 5.9 per cent higher than last year.

Ownership costs increased 10.7 per cent on the previous year, in line with the fleet replacement programme. The number of aircraft in service decreased from 598 in December 2019 to 595 at the end of March 2020. Ownership costs on a unit basis and at ccy were up 19.9 per cent on 2019, as the grounded aircraft continue to have depreciated charged.

Overall airline non-fuel unit costs at ccy were up 10.2 per cent versus a year ago, linked to the sudden capacity reduction.

Operating loss before exceptional items

The Group's operating loss before exceptional items for the period was €535 million (2019: operating profit of €135 million), representing a decrease of €670 million versus 2019.

Exceptional items

The Group has a strategy of hedging both the price risk and foreign currency risk of future fuel purchases up to three years in advance. Hedging volumes are based on hedging a percentage of the anticipated capacity to be operated in future periods. As a result of the impact of COVID-19, the capacity to be operated in 2020 will be significantly lower than that on which the hedging programme was based and hence certain hedging instruments no longer correspond to future purchases of jet fuel or foreign currency purchases. As such, hedge accounting for these derivatives has been discontinued and the associated loss on these instruments of €1,325 million, split between a loss of €1,350 million on fuel price hedges and a gain of €25 million on the foreign currency hedges, has been charged to the Income statement in the first quarter as an exceptional operating cost. There is an associated tax credit of €198 million. There were no exceptional items in the first quarter of 2019.

FINANCIAL REVIEW

Net non-operating costs, taxation and profit after tax

The Group's net non-operating costs for the quarter were €22 million in 2020, compared with €49 million in 2019, mainly due to minor gains on derivatives not qualifying for hedge accounting.

The tax credit for the period (2019: charge) was €1 million before exceptional items, with an effective tax rate for the Group of 0 per cent (2019: 19 per cent). The effective tax rate in the period was different to the expected rate of 20 per cent due to the cancellation of the UK rate reduction and its impact on UK deferred tax balances, and due to not recognising tax credits in respect of certain current period losses.

The loss after tax and exceptional items for the quarter was €1,683 million (2019: profit after tax €70 million), driven by the impact of COVID-19 on operating profit and the exceptional item relating to the overhedged position on fuel.

Cash and leverage

The Group's cash position of €6,945 million was €262 million higher than December 31, 2019, despite adverse translation impacts on sterling balances of €329 million since the end of 2019. Net debt at the end of the quarter, including the debt associated with right of use assets, was €7,508 million and net debt to EBITDA, based on the 12 months to March 31, 2020, was 1.6 times.

Other recent developments

On April 2, as a result of the impact of the situation created by COVID-19, the Board resolved to withdraw the proposal to the next Annual Shareholders' Meeting to pay a dividend of 17 € cents per share.

At the same time, the Board resolved to delay the date of the Annual Shareholders' Meeting 2020, originally scheduled for June, until the end of September 2020.

On April 28, IAG announced that in light of the impact of COVID-19 on current operations and the expectation that the recovery of passenger demand to 2019 levels would take several years, British Airways was to formally notify its trade unions about a proposed restructuring and redundancy programme. The proposals remain subject to consultation but it is likely that they will affect most of British Airways' employees and may result in the redundancy of up to 12,000 of them.

On May 1, 2020 Iberia and Vueling signed syndicated financing agreements for €750 million and €260 million respectively. The loans to be drawn from these agreements are conditional on the *Instituto de Crédito Oficial* ('ICO') in Spain granting guarantees for 70 per cent of the value of loans. The loans will have a five-year term, amortising from April 30, 2023, repayable at any time on notice from Iberia or Vueling respectively. The loans contain a number of non-financial covenants to protect the position of the banks involved, including restrictions on the upstreaming of cash to the rest of the IAG companies.