IAG results presentation

Quarter Four 2011

29th February 2012

Agenda

1. Full year highlights
2. Quarter Four financials
3. Developments in IAG
4. Trading outlook

Strong year: 2011 profit more than doubles

- Full year operating profit of €485 million; net profit of €527 million
- Strong year despite fuel cost of €5.1 billion – up 29.7%
- 2011 passenger revenue grew 11.0% against a reported capacity rise of 7.1%
- Unit passenger revenue up 3.6%; overall unit revenue up 3.1%.
- Good premium traffic growth with premium unit revenues up 5.7%
- Strong cost performance: non fuel unit costs down 5.6% ; constant FX down 4.1%

Continued profit growth in Q4

- Q4 operating profit of €34 million; net profit of €200 million
- Moderating unit revenue growth and good cost performance
- Total revenue up 6.9%, passenger revenue up 7.3%. Continued growth in premium volume and unit revenue, especially long haul
- Continued focus on cost control, offset by increasing fuel cost – constant FX non-fuel unit costs down 6.6%, down 8.2% on reported basis
- Profitable quarter despite a severe increase of 33.3% in total fuel bill as hedging impact reduces

Financial summary before exceptional items

€,m	Q4 2011	vly	FY 2011	vly
Revenue	4,076	*6.9%*	16,339	*10.4%*
Fuel costs	1,317	*33.3%*	5,068	*29.7%*
Non fuel costs	2,725	*-3.3%*	10,786	*1.1%*
EBITDAR	383	*-7.0%*	1,867	*10.3%*
Operating profit	**34**	***+28m***	**485**	***+260m***
Operating margin	0.8%	*+0.7pts*	3.0%	*+1.5pts*
Pre-tax profit	154		498	
Net profit	200		527	

Excludes exceptional charges relating to acquisition accounting. FY 2011 includes 21 days pre merger.

Repeat of exceptional charge

- The Iberia twelve month accounts recognise €78 million of gains from cash flow hedges that existed at 21st Jan 2011; under IFRS3, these gains are deemed pre-acquisition benefits

- The IAG consolidated accounts can only recognise post-acquisition benefits; therefore fuel cost is inflated this quarter by €13 million and aircraft operating lease costs are reduced by €3 million

- The Iberia accounts fully reflect impact of hedges, and the cash benefit of hedges are fully reflected in IAG consolidated balance sheet

- Full-year 2011 impact is a non-cash increase in fuel cost of €89 million and a non-cash decrease in aircraft operating lease costs of €11 million

Underlying profitability of group and cash position unaffected

Revenue trends

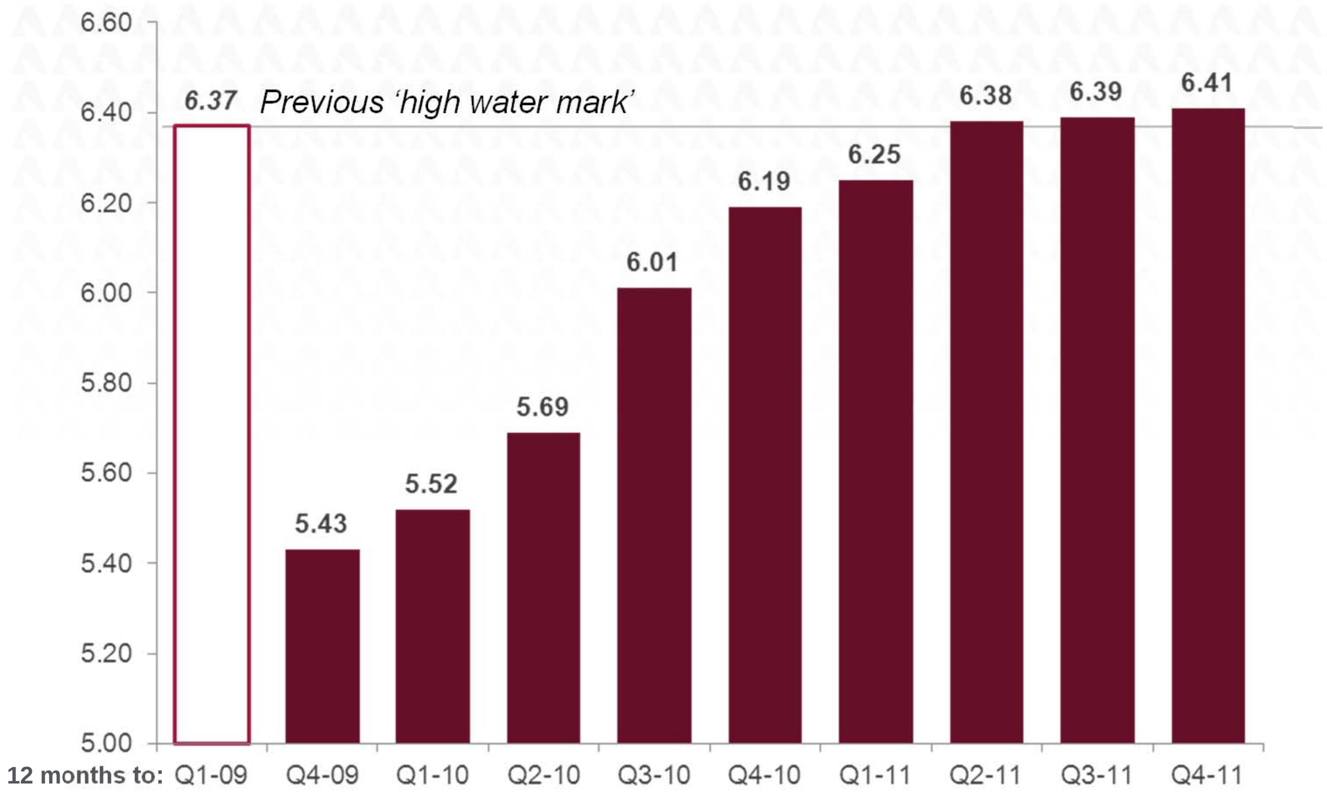
Unit revenue summary

€,m	Q4 2011	Q4 2010	vly
Passenger	3,414	3,183	+7.3%
Cargo	310	300	+3.3%
Other	352	329	+7.0%
TOTAL	**4,076**	**3,812**	**+6.9%**
ASK (m)	52,989	50,332	+5.3%
RPK (m)	41,192	39,205	+5.1%
Seat factor (pts)	77.7	77.9	-0.2pts
Passenger Revenue per ASK	6.44	6.32	+1.9%
Revenue per RPK	8.29	8.12	+2.1%
Cargo Revenue per CTK	19.42	19.01	+2.2%

- Similar underlying trends to Q3
- Moderation of unit revenue in comparison to a very strong base: Q410 yield +13.1%; unit revenue +12.6%
- Constant FX : pax unit revenue +3.2%; pax yield +3.3%
- Cargo: yield growth offset by muted volumes

Rolling 12-month passenger unit revenue

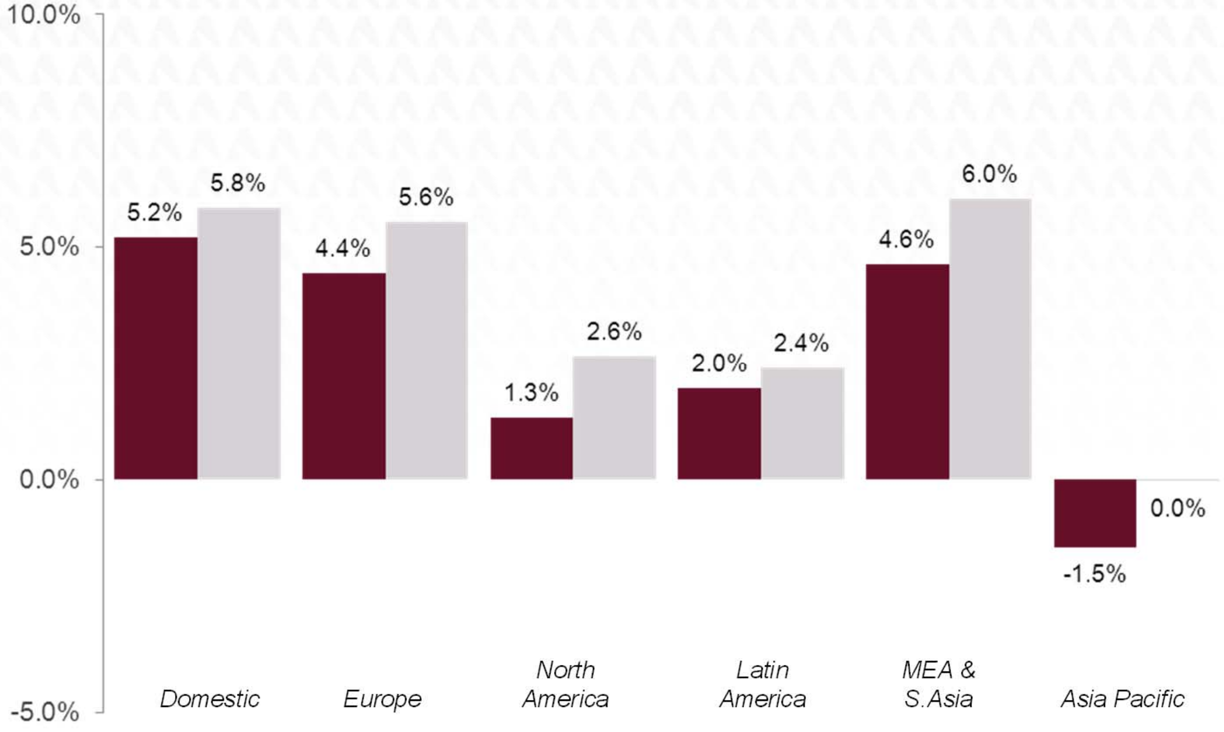
IAG passenger revenue per ASK, rolling 12 months, € cents



- Unit revenue level remains above previous high water mark
- 2012 unit revenue challenge against headwinds from a forecast 20% fuel unit cost increase at current spot and strengthening USD

Unit revenue growth in most regions

% change in IAG passenger revenue per ASK by region, Q4 '11 vs. Q4 '10.

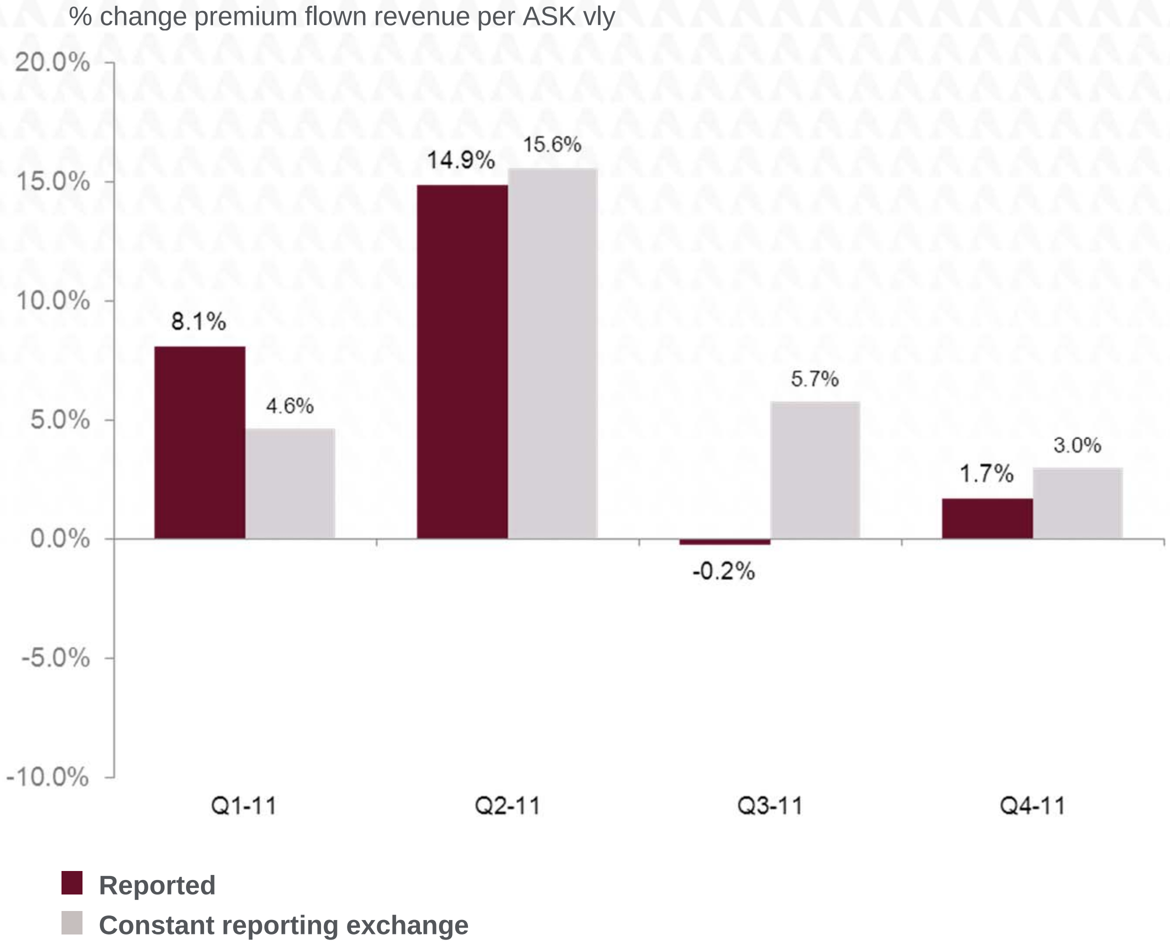


ASKs	-13.8%	0.0%	+12.8%	+6.9%	0.6%	+7.0%

■ Reported ■ Constant reporting exchange

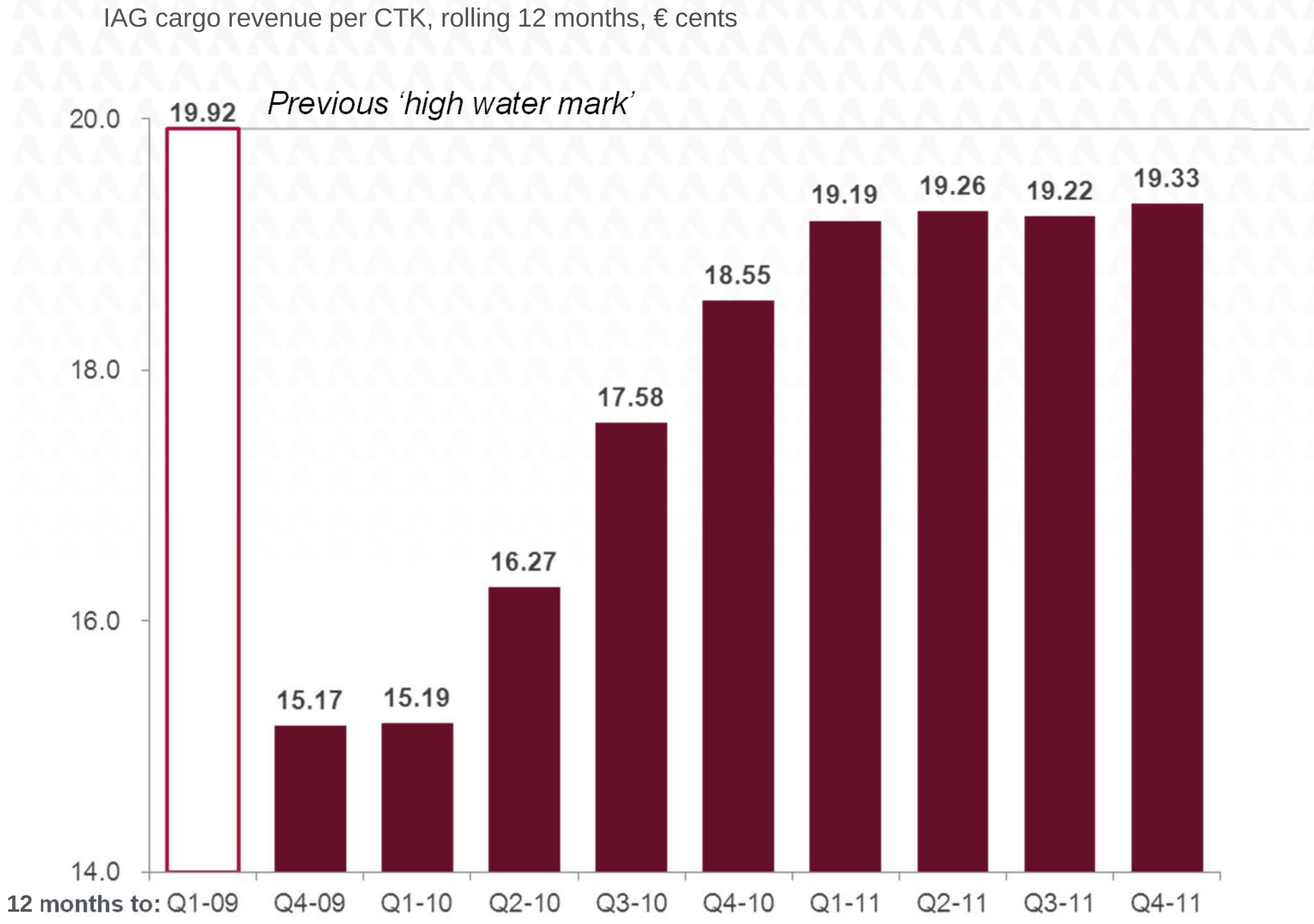
- Flat unit revenues on domestic and short haul from Madrid: weak local market in Madrid as evidenced by premium short haul decline
- Changes in BA:Qantas joint business from Summer 12 to help Asia Pac performance
- Madrid hub generated Latin America growth

Premium growth against a strong base



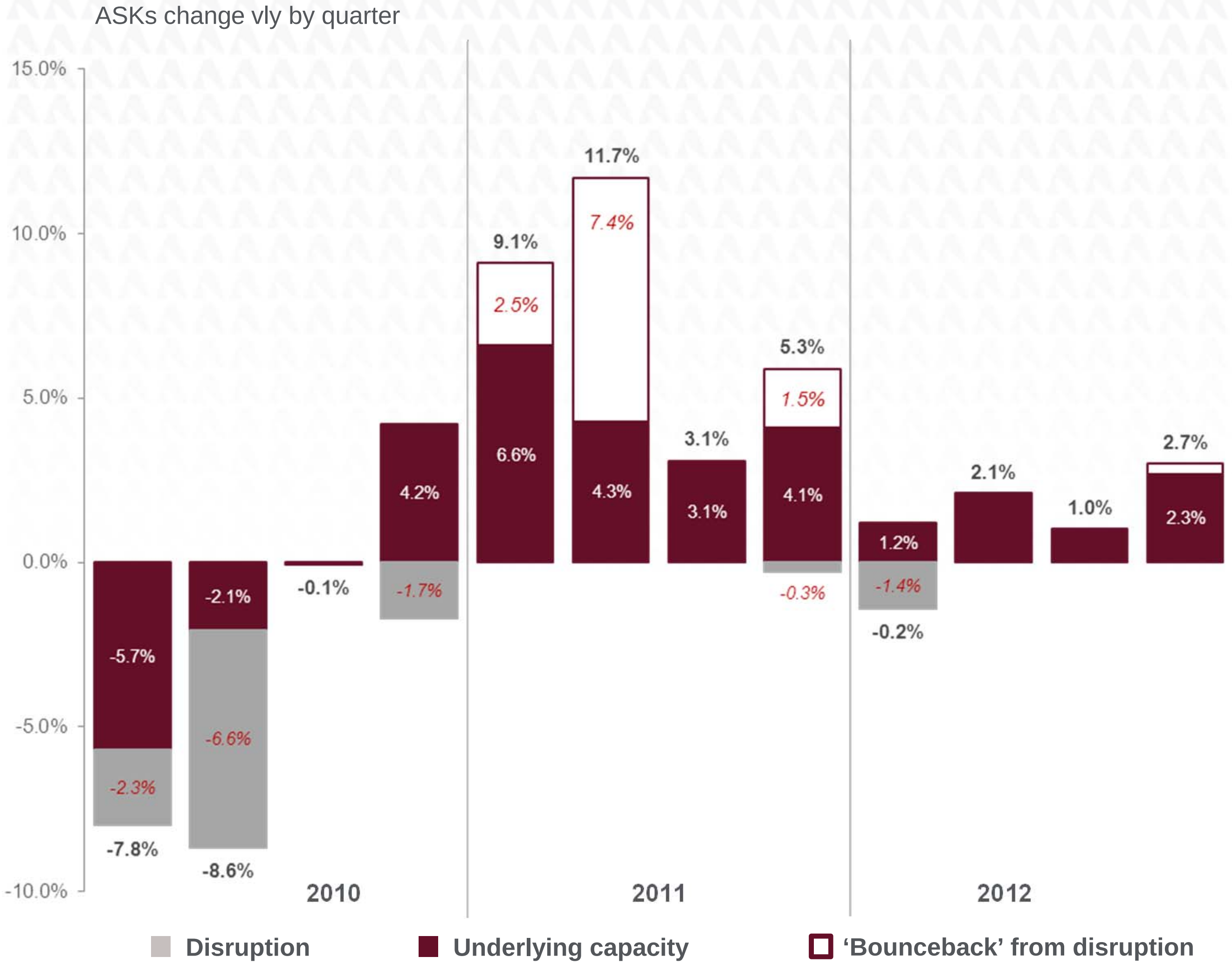
- Premium volumes up 6.2% outgrowing non-premium
- Non-premium unit revenues up 1.7%; constant FX +3.5%; volumes up 4.6%
- Premium yields flat; in comparison to a strong base: Q4-10 +12.6%

Cargo revenue at a plateau



- Traditional Q4 demand peak subdued
- Q4 cargo yield +2.2%; constant FX +3.5%.
- Mixed regional performance, with apparent weakness in European consumer demand
- Ongoing overcapacity in the market: competitors reducing freighter activity, demand also softening and net unit revenues weakening
- Ongoing synergy benefits from IAG Cargo

Underlying capacity changes by quarter



- Headline growth for 2011 7.1%, underlying +4.5%
- Overall 2012 planned growth reduced from 2.5% to 1.7%
- ASK level similar to 2008: greater utilisation; higher long haul mix
- Q1 operated ASKs to be negatively impacted by 1.4% from Iberia industrial action in Jan and Feb
- Forecasts exclude the impact of the bmi acquisition

Planned fleet changes

	Winter 11/12	Summer 12
In	3x B777-300ER ~~1 x B747~~ Kept grounded Reduced outsourcing to Air Nostrum and Vueling versus S11	~~1 x B747~~ Kept grounded Outsourcing to Air Nostrum and Vueling further reduced; ramp up of Iberia Express capacity
Out	1x A340-300 1x A319	2x A340-300

IAG

Current unit revenue environment

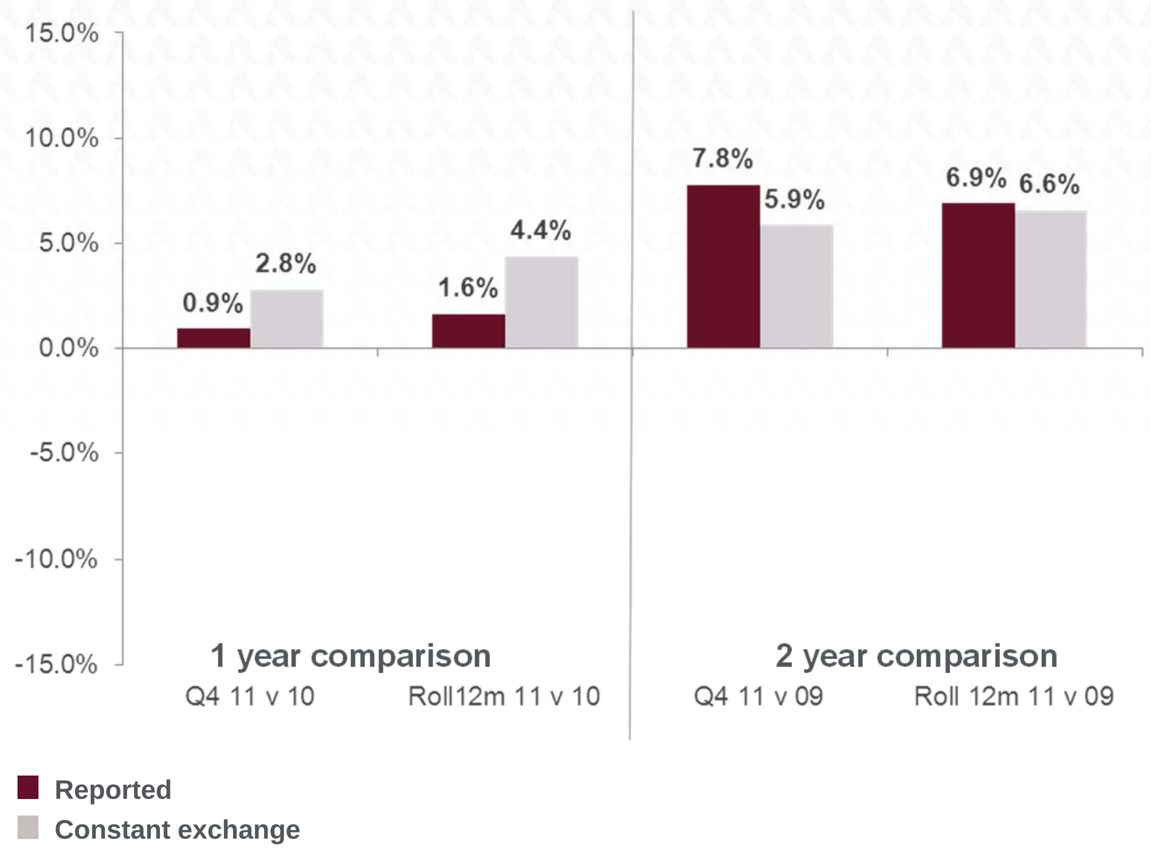
	direction	Short haul	direction	Long haul
non-premium	↘	Competitive	↘	Competitive
premium	↘	Softening	→	Stable
cargo			↘	Over-capacity

- Q1 forward bookings currently broadly in line with last year
- Non-premium markets continue comparative weakness, particularly in Spanish market
- London 2012 to distort booking patterns and mix
- Strikes to distort unit revenue comparisons
- Weakening cargo price environment

Cost and cash flow trends

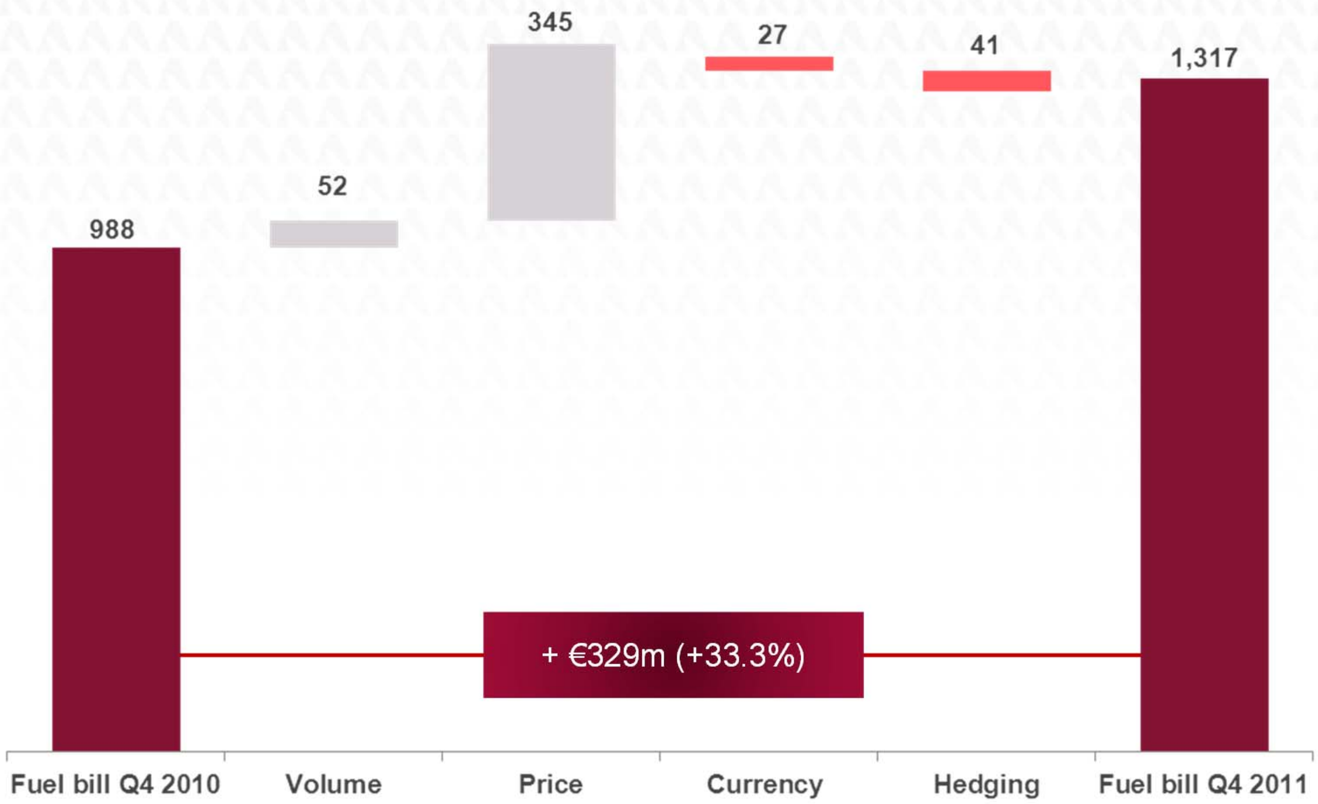
Overall unit operating cost growth

% change in IAG operating costs per ASK



- Q4 unit cost rise mainly due to fuel
- Non-fuel unit costs down 8.2% for the quarter and down 6.6% at constant exchange

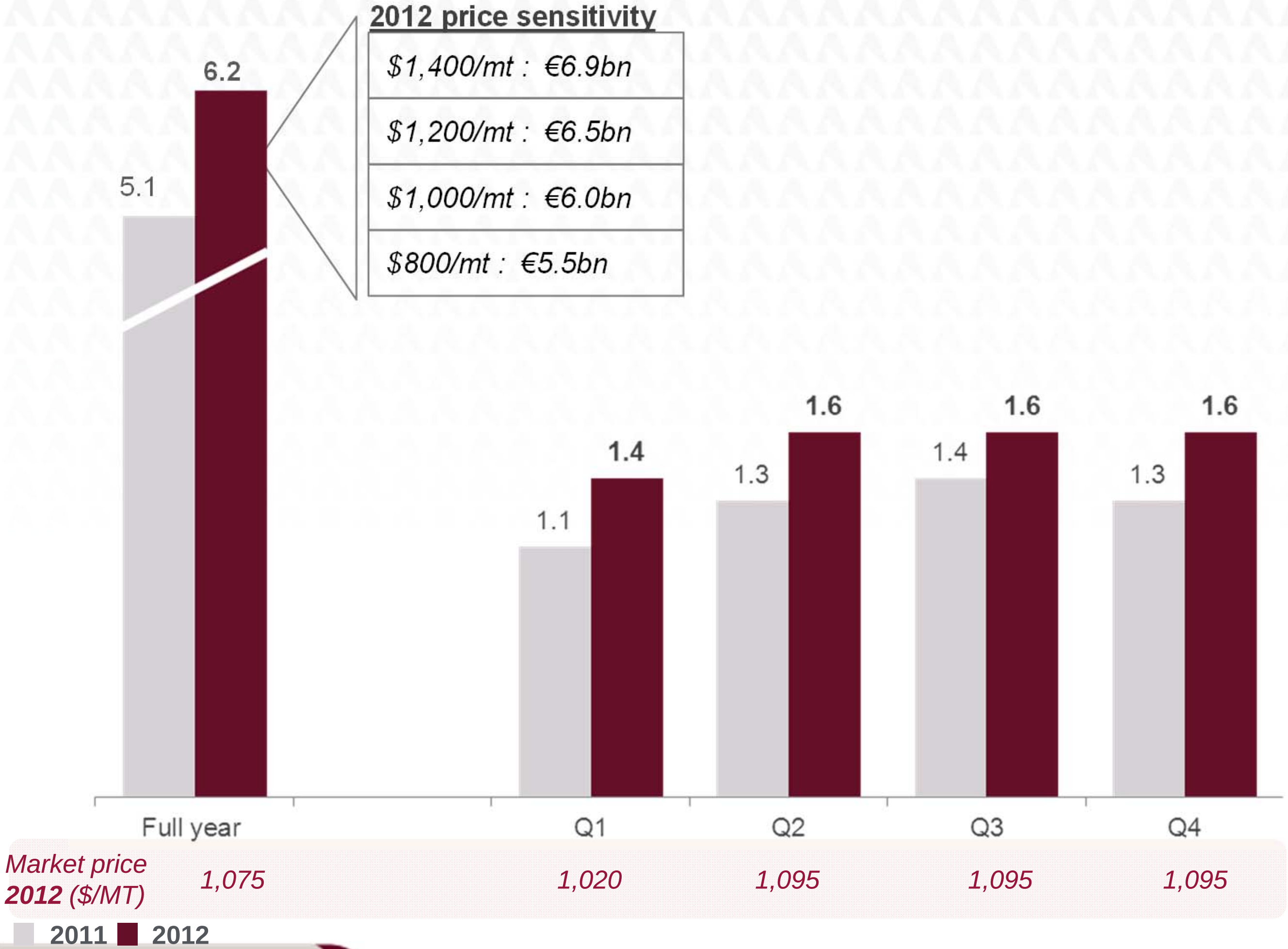
Drivers of change in fuel cost



- 67% of consumption hedged in Q4 and average spot rate of $1,015/mt
- Q4 average fuel price paid was $995/mt
- Total fuel consumption in 2011 was 7.4m mt

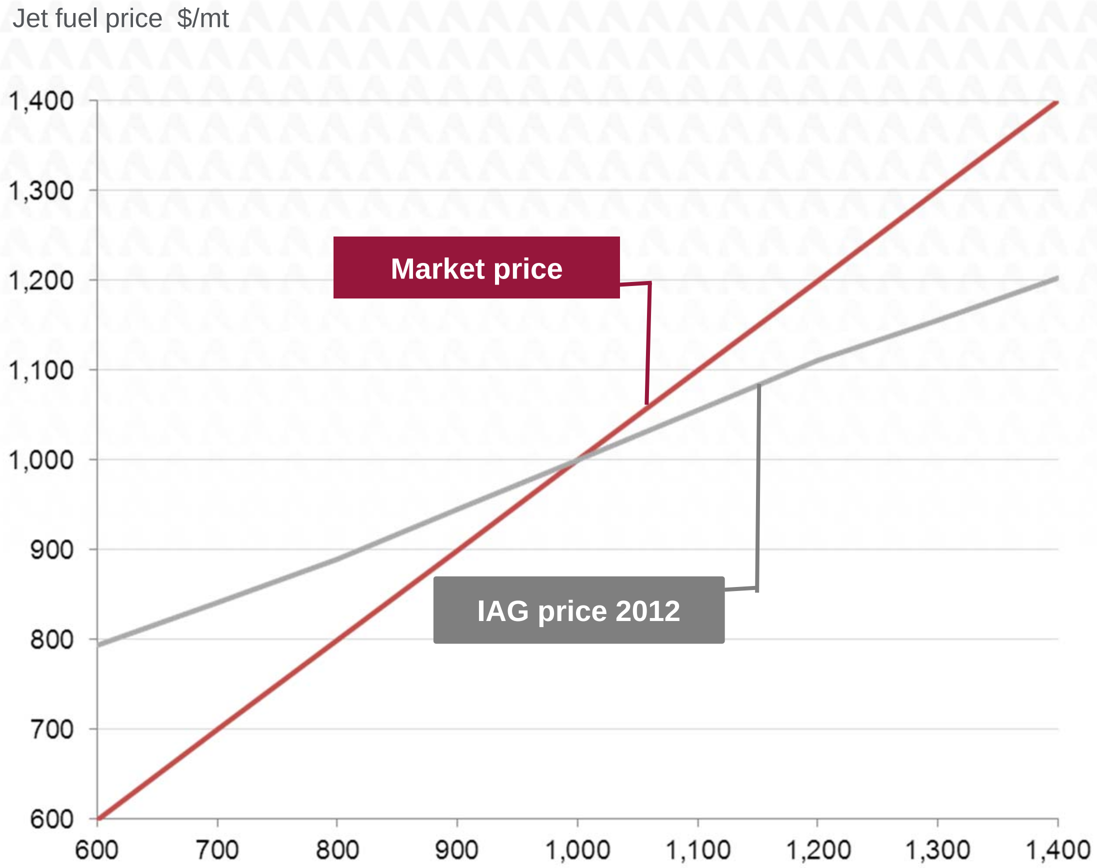
Fuel cost guidance at current prices / FX

Fuel cost after hedging and pre exceptional items, € billion



- At a spot rate of $1,095/mt and the current hedging cover this implies a 2012 fuel bill to be approx. €6.2 bn
- The estimated fuel bill in the chart is calculated from planned usage and a EUR USD rate of $1.30
- A strengthening of EUR USD rate to $1.34 would reduce the fuel bill by around €140m
- At a spot rate of $1,095/mt and current hedging, the fuel bill would increase:
  - H1: +25%
  - H2: +16%

2012 fuel hedging impact



+/- $10/MT = +/- €24m cost approx

Hedging cover

Q1-12	Q2-12	Q3-12	FY 2012
82%	80%	58%	65%

- 2012 hedging breakeven at $1,000/mt
- Q1 fuel bill expected to be €1.4bn at EUR USD rate of $1.30

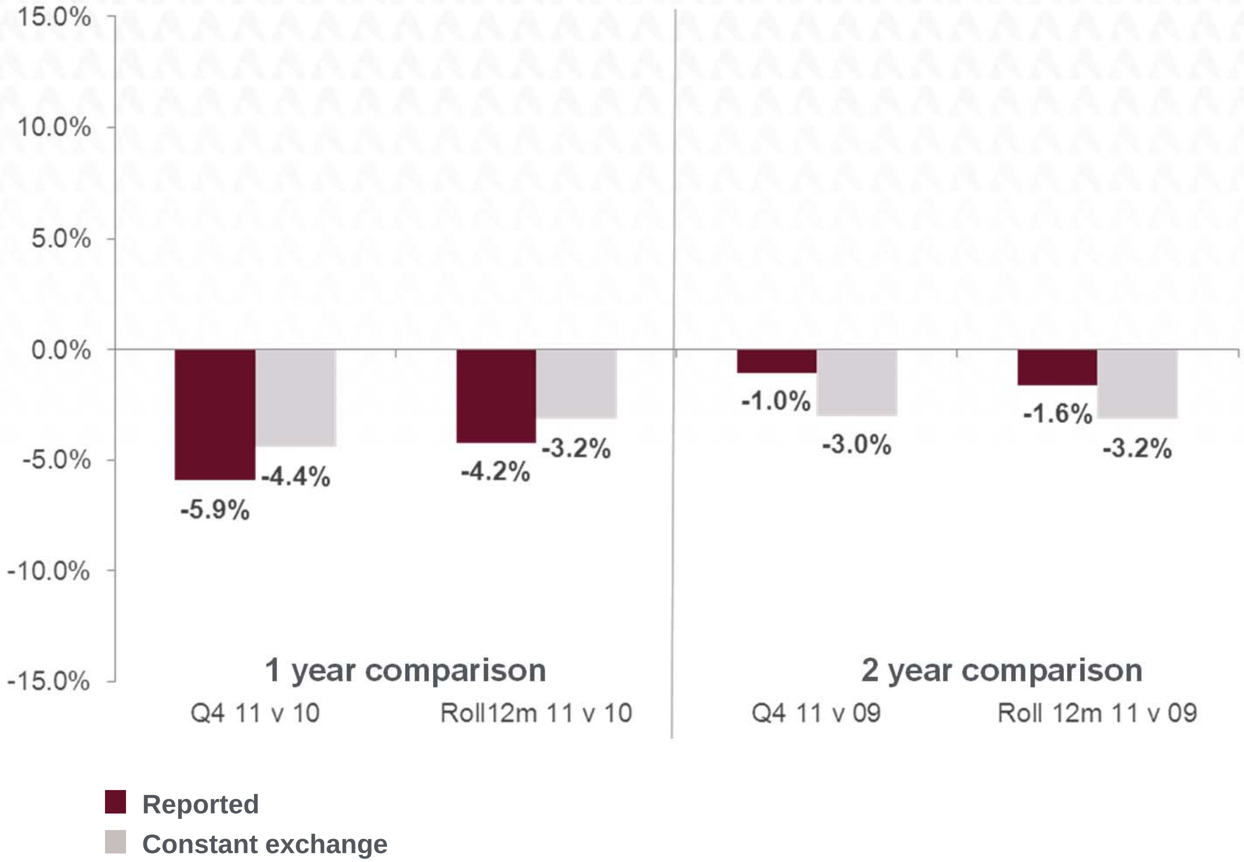
ETS 2012 impact

- The aviation industry has become part of the EU ETS from 1 January 2012
- Airlines operators flying to, from and within Europe, have to surrender one EUA (EU Emission Allowance) per tonne of CO_2 emitted
- Non-EU carriers have made strong objections (including US, China and India)
- Emissions trading scheme could lead to a competitive disadvantage against airlines that are not participating

2012 net exposure will be around €70m, based on an average carbon price of €9 and ASKs growth of 1.7%

Employee cost improvement

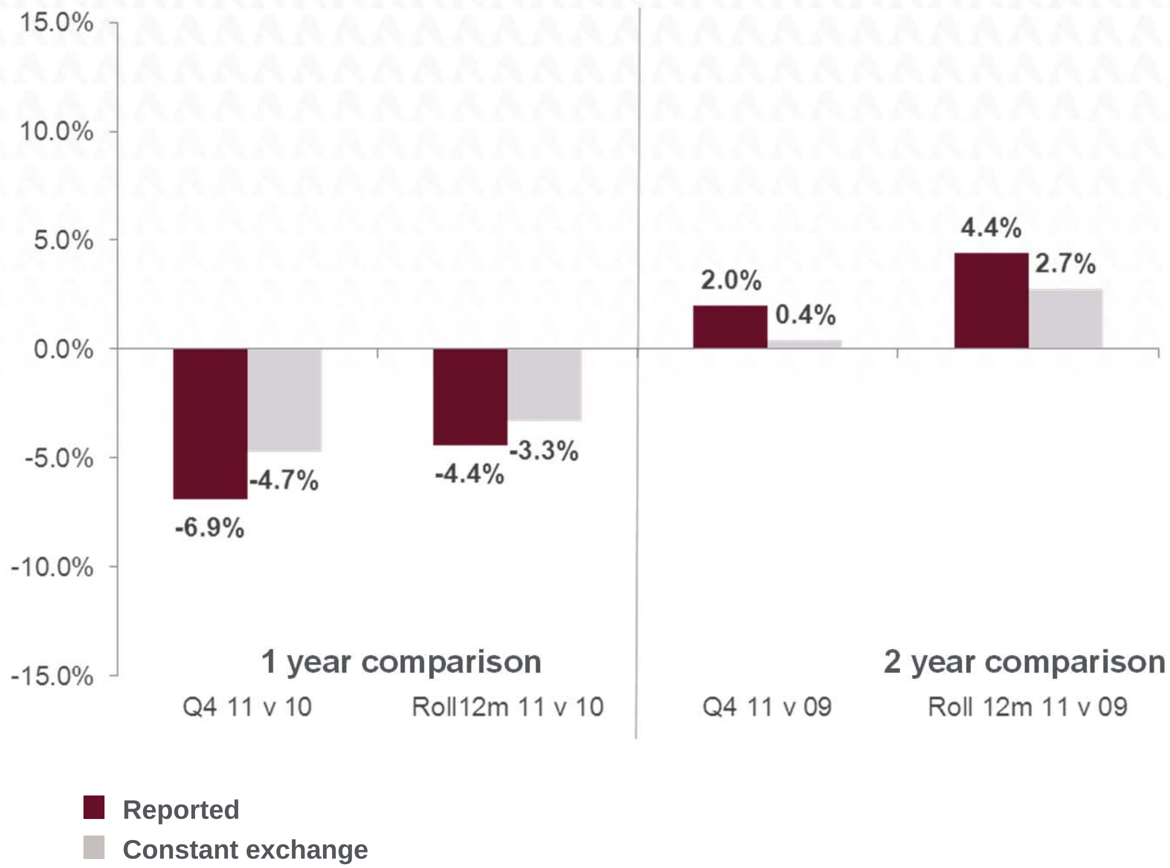
% change in IAG employee cost per ASK



- MPE up 1.0% against Q4 2010 and down 1.4% against Q4 2009
- Q4 vly comparisons flattered by non-repeat of restructure costs and disruption: underlying trend relatively flat

Supplier cost improvements despite headwinds

% change in IAG supplier costs per ASK

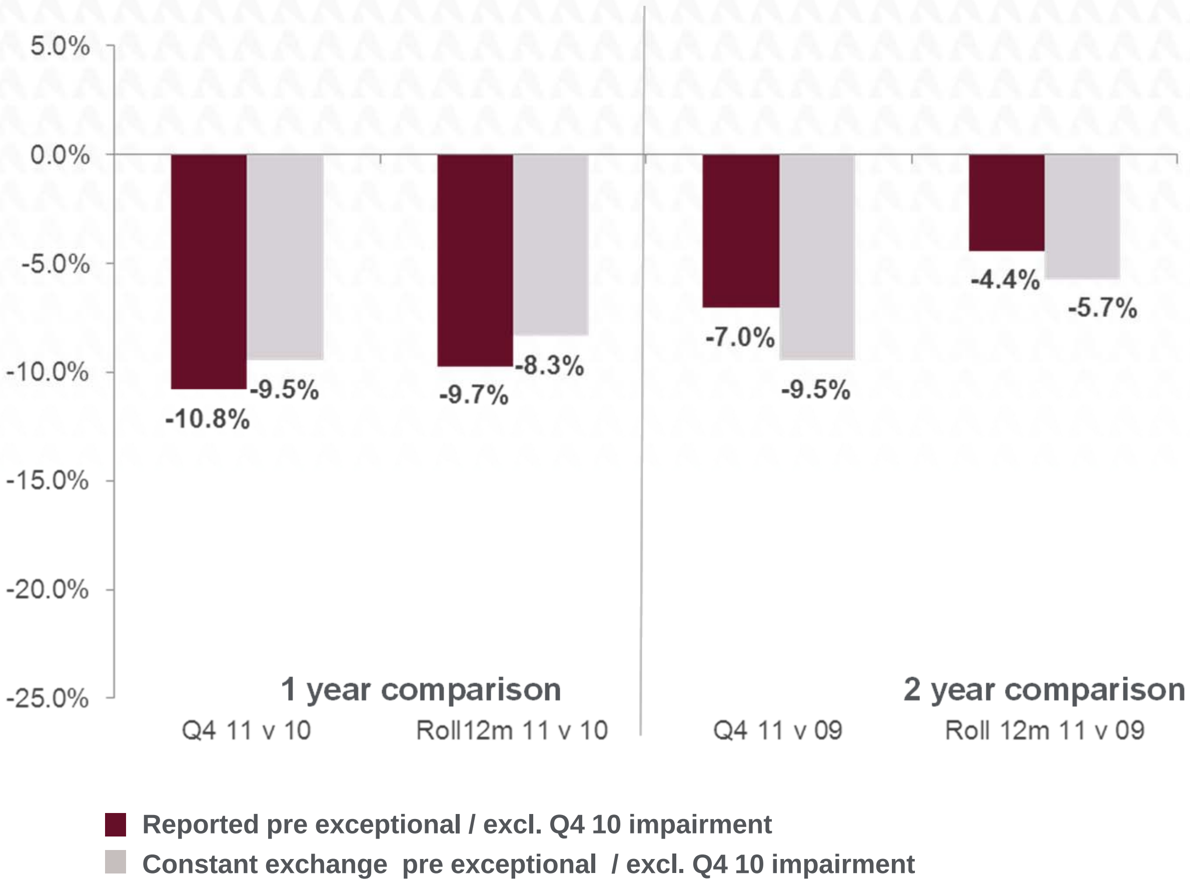


- Above inflation LHR charges continue to impact supplier costs
- Brand marketing at BA continued in Q4 increasing supplier costs
- Supplier unit costs, excluding Q4 2010 merger transaction costs down 5.5%; constant FX down 3.3%

Supplier cost items: Engineering, landing fees, handling, selling , other

Underlying ownership unit costs

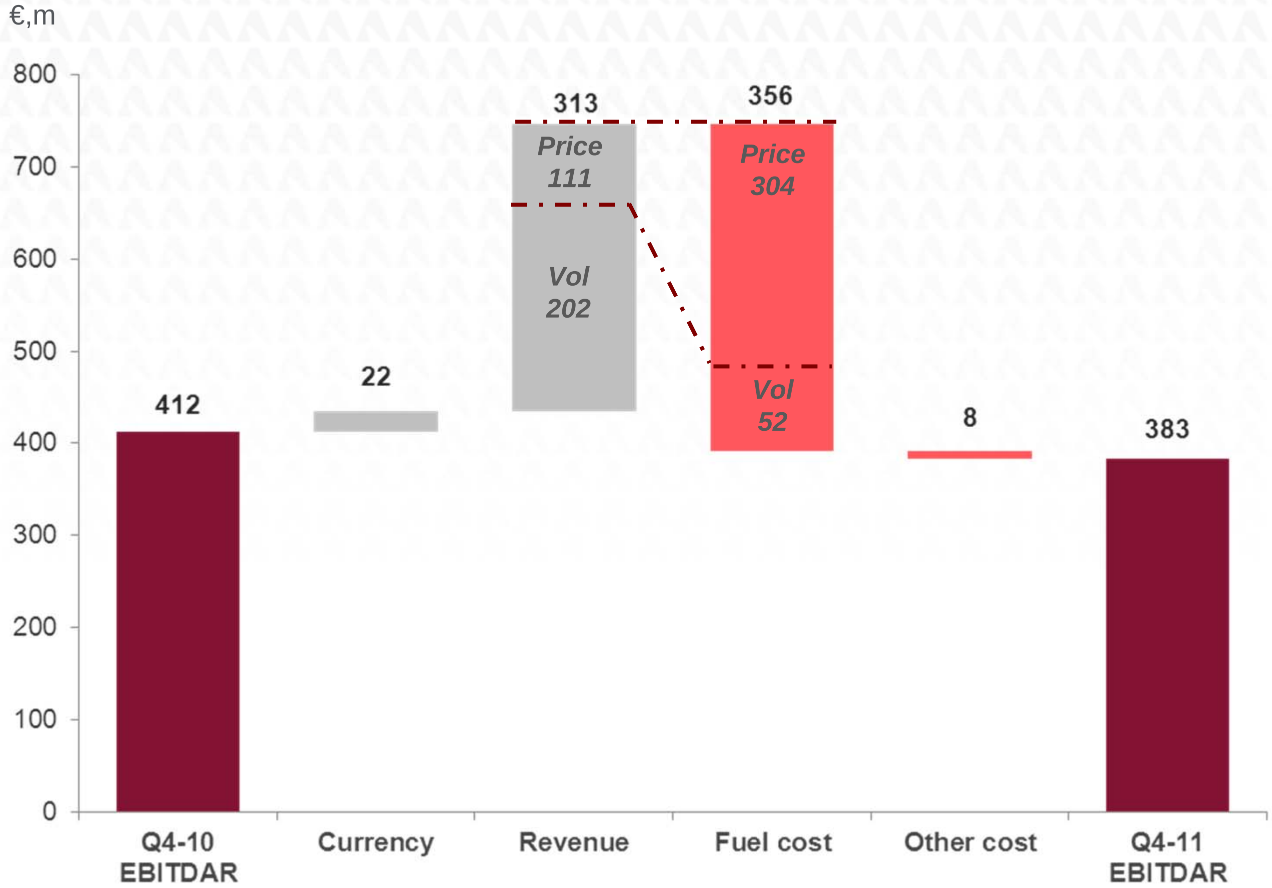
% change in IAG ownership costs per ASK



- Ownership cost improvements continue to be driven by utilisation gains, following disruption in Q4 2010
- Ownership unit costs, reported down 18.5%; constant FX down 17.3% - impact of impairment charges in 2010 base

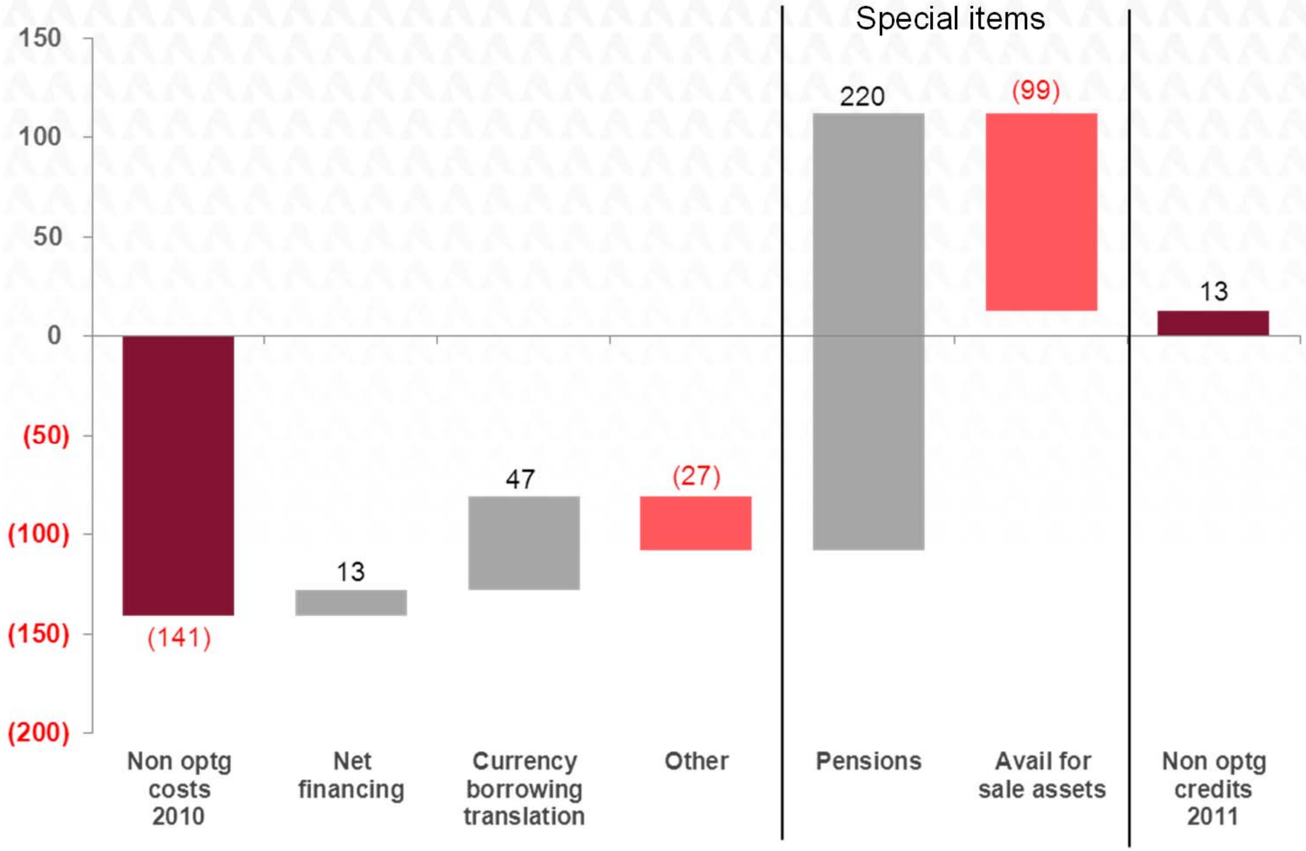
Ownership cost items:
Aircraft operating lease, depreciation, amortisation & impairment

Profit bridge from Q4 2010



- Further shortfall of revenue against fuel increase
- Approximately 40% revenue cover of the fuel price increase
- 2012: Q1 and Q2 to be particularly severe , but should moderate significantly in H2 if prices remain stable

Movement in non-operating items



- Increase in non-operating items €154m
- BA pensions: reflects lower interest costs on liabilities, higher than expected returns on assets and effect of the asset ceiling
- Movement in ‘available for sale assets’ mainly relates to 2010 disposal of 1.5% Amadeus stake for €90m

Balance sheet summary, IAG combined

€,m	Dec 2011	Dec 2010	*Change*
Equity	**5,686**	**4,670**	**1,016**
Cash, cash equivalents and interest bearing deposits	3,735	4,352	(617)
Gross debt	4,883	5,247	(364)
On balance-sheet net debt	1,148	895	253
Gearing	**17%**	**16%**	
Aircraft lease cap (x8)	3,224	3,224	0
Adjusted net debt	4,372	4,119	253
Adjusted gearing	**44%**	**47%**	

IAG balance sheet at 31 December 10 represents IAG combined figures from BA and IB
IAG balance sheet at 31 December 11 represents IAG consolidated figures

- Cash position impacted by competition fines paid (€168m); payment to BA pension fund in excess of regular contributions (€157m) and cash funding of aircraft purchases

IAG Developments

IAG in 2012

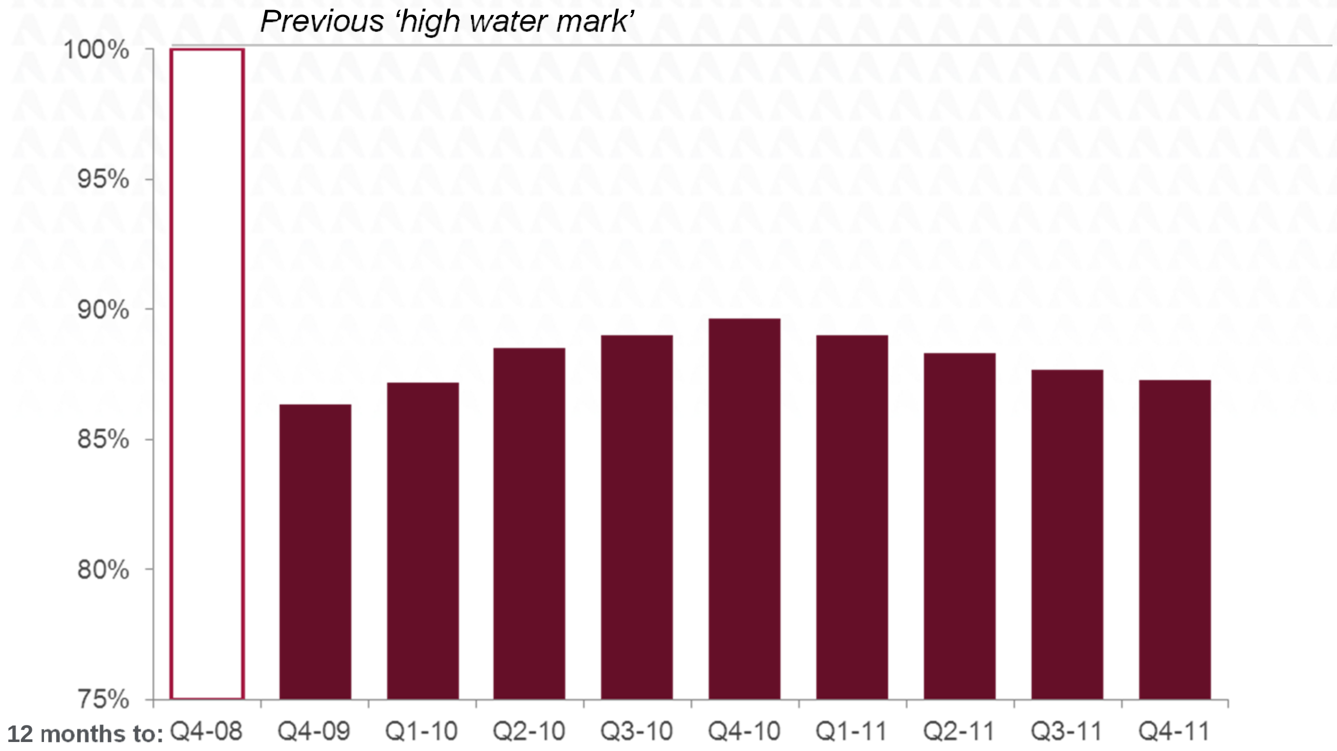
- Focus on driving profitability in the operating companies - structural revenue and cost issues must be addressed:
  - Structural reform at Iberia is most immediate challenge
- Deliver the merger benefits: year one targets beaten, continued focus to deliver full benefits
- Industry consolidation:
  - Background of mergers, airline failures, capacity discipline
  - IAG focus on bmi integration, development of joint ventures, participation in effective consolidation

Airline performance in 2011

	BRITISH AIRWAYS FY 2011 (£m)	vly	IBERIA FY 2011 (€m)	vly
Revenue	9,987	*+17.0%*	4,872	*+1.4%*
Costs	9,469	*+13.5%*	4,970	*+2.8%*
OPERATING PROFIT	**518**	***+321m***	**-98**	***-70m***
ASK (m)	150,152	*+9.8%*	63,042	*+1.2%*
RPK (m)	117,348	*+10.6%*	51,268	*+0.1%*
Seat factor (pts)	78.2	*+0.6 pts*	81.3	*-0.9pts*
Sector length (kms)	3,440	*-0.9%*	2,917	*+14.0%*
<u>Revenue</u> Revenue per ASK	6.65	*+6.6%*	7.73	*+0.3%*
<u>Costs</u> Cost per ASK	6.31	*+3.4%*	7.88	*+1.5%*
Ex-fuel costs per ASK	4.14	*-4.2%*	5.77	*-4.5%*

Iberia short haul unit revenue: rolling 12-month

Iberia short haul revenue per ASK, rolling 12 months, € cents

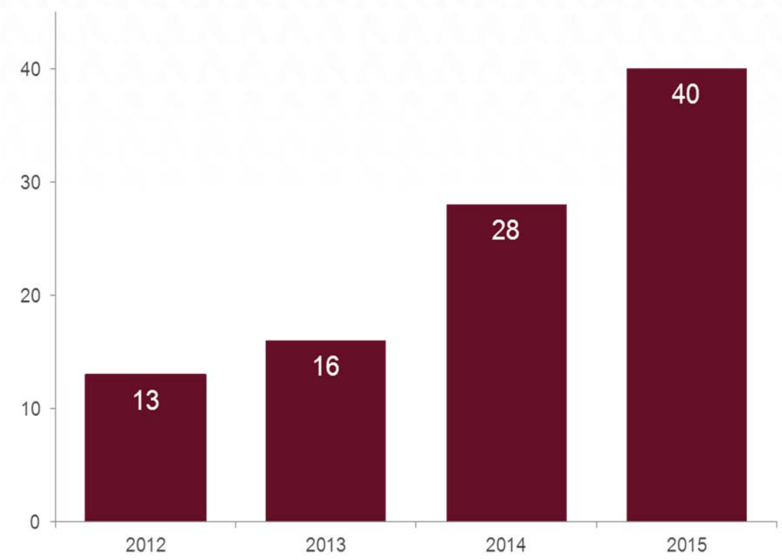


- Iberia short haul unit revenues far below 2008 levels
- Exacerbated by rising fuel cost

Iberia Express will start in summer 2012

- Staff: 500 employees initially (2012)
- 100% owned by Iberia
- Managed independently from Iberia
- Fleet: initially A320 fleet from Iberia
- Start in summer 2012 with four aircraft and develop to 13 aircraft at the end of 2012
- Maintenance and handling services initially provided by Iberia at market costs

Number of A320 family aircraft at year end



Positive impact of Iberia Express of >€100M

- 45% of difference in operating profit to come from the crew
- 25% of handling services and other operational areas to come from the adaptation
- 25% of savings to come from savings in overheads and general costs
- 5% to come from increased asset turn

Iberia – pilots' strike

DECEMEBER 2011						
Mo	Tu	We	Th	Fr	Sa	Su
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

JANUARY 2012						
Mo	Tu	We	Th	Fr	Sa	Su
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	31					

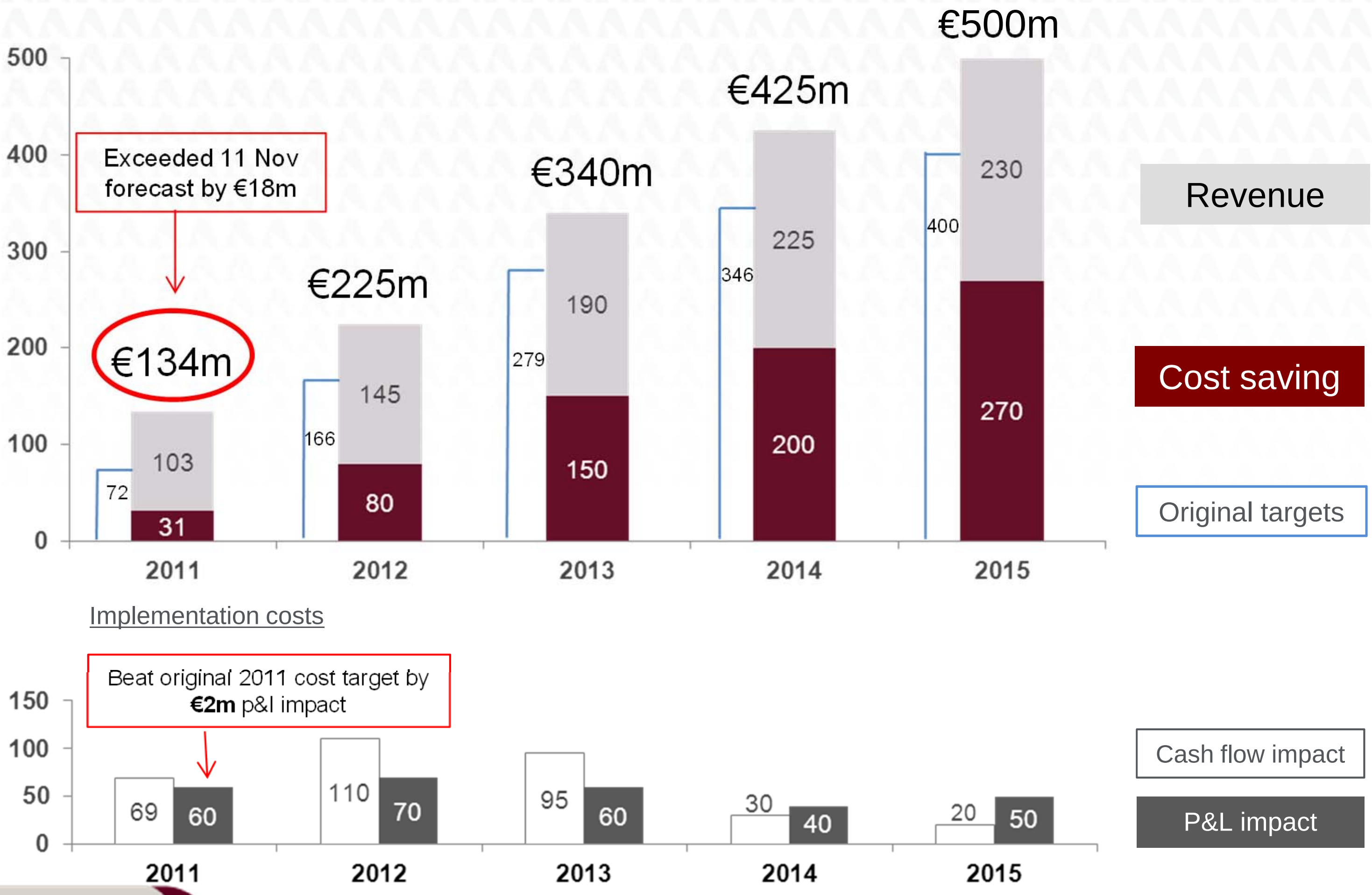
FEBRUARY 2012						
Mo	Tu	We	Th	Fr	Sa	Su
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17	18	19
20	21	22	23	24	25	26
27	28	29				

Strike day

- ASKs impact on Iberia:
  - Dec-11: approx. 3.2%
  - Jan-12: approx. 7.4%
  - Feb-12: approx. 7.5%

- Flights operated by Iberia during the strikes days:
  - Dec-11: 68% and 64%, respectively
  - Jan-12: around 65%
  - Feb-12: around 64%

Synergies: year 1 target beaten by €64m



bmi acquisition

Regulatory

- Filing: EU notification made on 10 Feb 2012
- Earliest decision 16 March 2012

Integration

- BA short haul pilot productivity improvements agreed
- bmi mainline to be integrated into BA
- Integration plans being developed
- Restructure costs around £100 million, spread over three years, although majority will be in year one

Joint ventures

Outlook

Outlook for 2012

- The outlook for 2012 is subject to a number of uncertainties:
  - Demand in London remains strong, with the encouraging trends we saw in H2 2011 in our long haul premium cabins, particularly on North Atlantic routes, continuing.
  - Ongoing developments in the Eurozone will be a major factor in our underlying demand growth, especially for our Spanish network.
  - At the current oil price and Euro / US Dollar exchange rates, we would face a fuel cost increase this year of over €1bn. The year-over-year impact would be particularly severe in Q1 and Q2, but less severe in H2.

continues…

…outlook for 2012

- We remain focused on maximising profits through efficiency improvements, and the launch of Iberia Express is a significant step in that direction. As a result, we are facing continuing industrial action from Iberia's pilots, with a negative impact of around €3m per strike day. We are fully committed to the project, and believe its benefits will far outweigh the costs.

- British Airways traffic this summer may be impacted by the Olympic games. While the Olympics will be positive for the long-term position of London as a global destination, past experience in other host cities suggests that demand could be dampened during the games.

• Higher fuel costs, weaker European markets and labour unrest will imply, for the first part of the year, a reduction in operating results when compared with the first half of last year. We expect the year-over-year cost pressures to reduce as we move through the second half of the year.

IAG

Q&A

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 the Company's plans and objectives for future operations, including, without limitation, discussions of the Company'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 Company on the date of this report. All subsequent oral or written forward-looking statements attributable to IAG or any of its members, directors, officers, employees or any persons acting on its behalf are expressly qualified in their entirety by the cautionary statement above. The Company 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 Company'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 some of the most important risks in this regard is given in the shareholder documentation in respect of the merger issued on October 26, 2010 and in the Securities Note and Summary issued on January 10, 2011; these documents are available on www.iagshares.com.

IAG