IAG results presentation

Quarter Two 2011

29th July 2011

Return to profit in Q2

- Strong unit revenue and cost performance
- Revenue up 20.2% despite currency headwind, passenger unit revenues up 9.4%
- Performance driven by significant volume increases and yield improvements
- Premium demand continues to grow
- Continued focus on cost control - non-fuel unit costs down 5.8%
- Profitable quarter despite 32.0% increase in total fuel bill

Financial summary before exceptional items

€,m	**Q2 2011**	**Q2 2010**	*vly*
Revenue	4,137	3,442	*+20.2%*
Fuel costs	1,250	947	*+32.0%*
Non fuel costs	2,697	2,566	*+5.1%*
EBITDAR	531	267	*+€264m*
Operating profit	**190**	**(71)**	***+€261m***
Operating margin	4.6%	-2.1%	-
Pre-tax profit	142	(146)	*+ €288m*

Excluding exceptional charges of €56m relating to acquisition accounting for hedges

Acquisition accounting exceptional charge

- The Iberia H1 '11 accounts recognise €56 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 by €61 million and aircraft operating lease costs are reduced by €5 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 will be 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

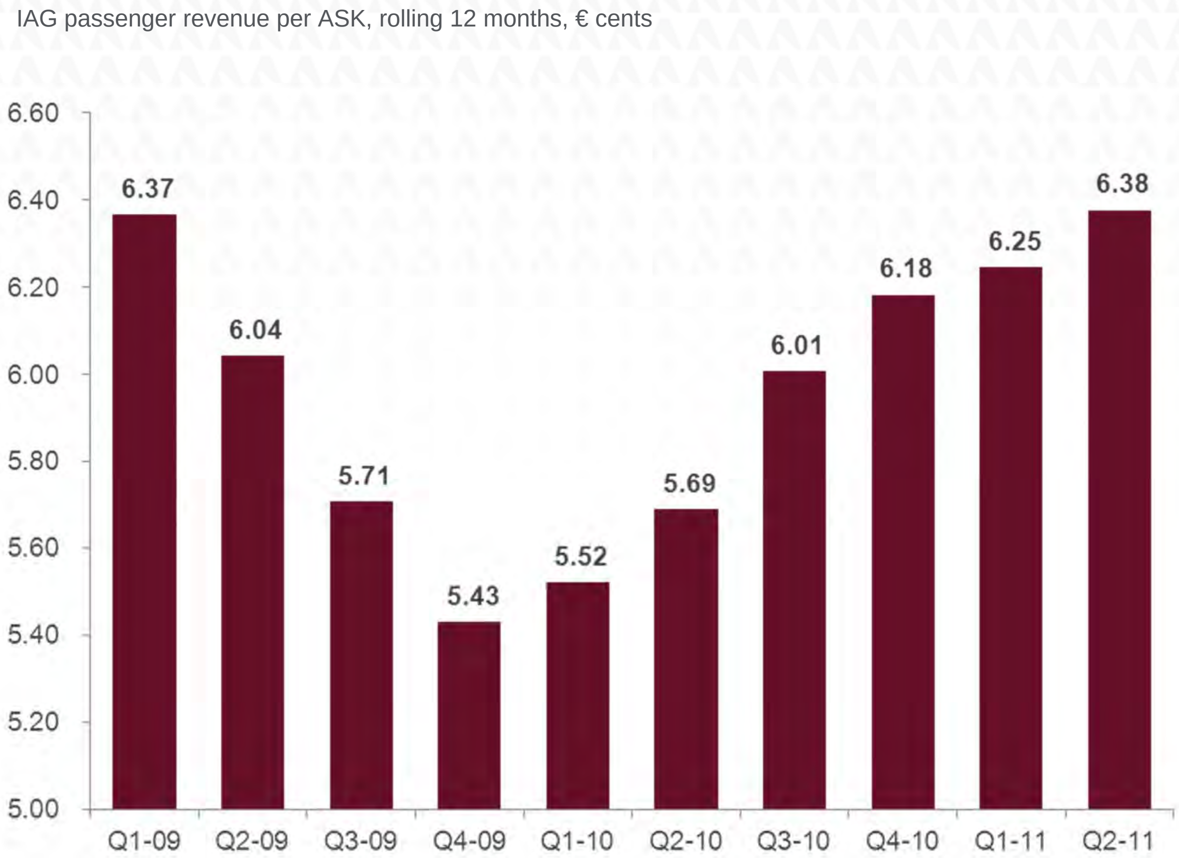
Revenue trends

Unit revenue summary

€ m	Q2 2011	Q2 2010	vly
Passenger	3,430	2,808	*22.2%*
Cargo	302	276	*9.4%*
Other	405	358	*13.1%*
TOTAL	**4,137**	**3,442**	***20.2%***
ASK (m)	53,425	47,841	*11.7%*
RPK (m)	42,635	36,865	*15.7%*
Seat factor (pts)	79.8	77.1	*+2.7pts*
Passenger Revenue per ASK	6.42	5.87	*+9.4%*
Revenue per RPK	8.05	7.62	*+5.6%*
Cargo Revenue per CTK	19.46	19.18	*+1.5%*

- Strong revenue performance against FX headwind, partly helped by bounceback from disruption last year
- Constant FX : pax unit revenues + 12.6%; pax yields + 8.7%
- Excluding bounceback, underlying improvement accounts for approx 70% of unit revenue gain

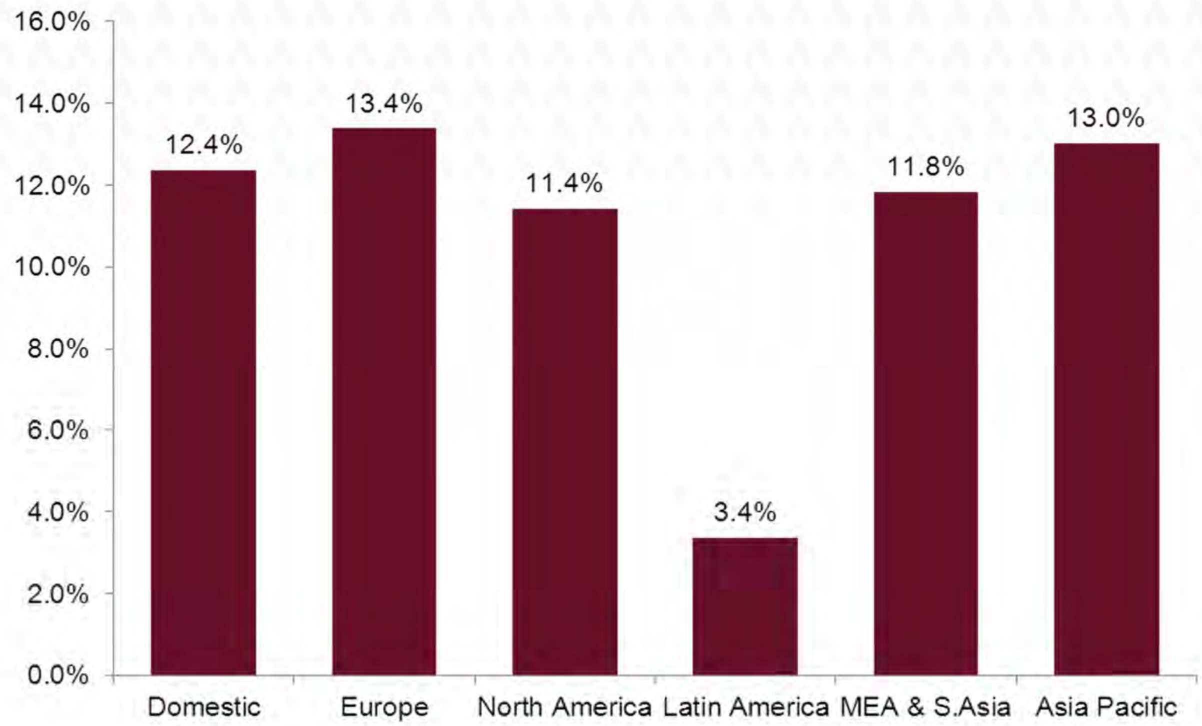
Improved passenger unit revenue momentum



- Now back to early ’09 levels, but…
- firmer demand outlook
- rolling 12 month spot fuel prices are approx. 25% higher than 2 years ago
- effective fuel cost will continue to rise gradually as hedges unwind
- This increases the challenge of recovery through revenue

Passenger revenue improvement in all regions

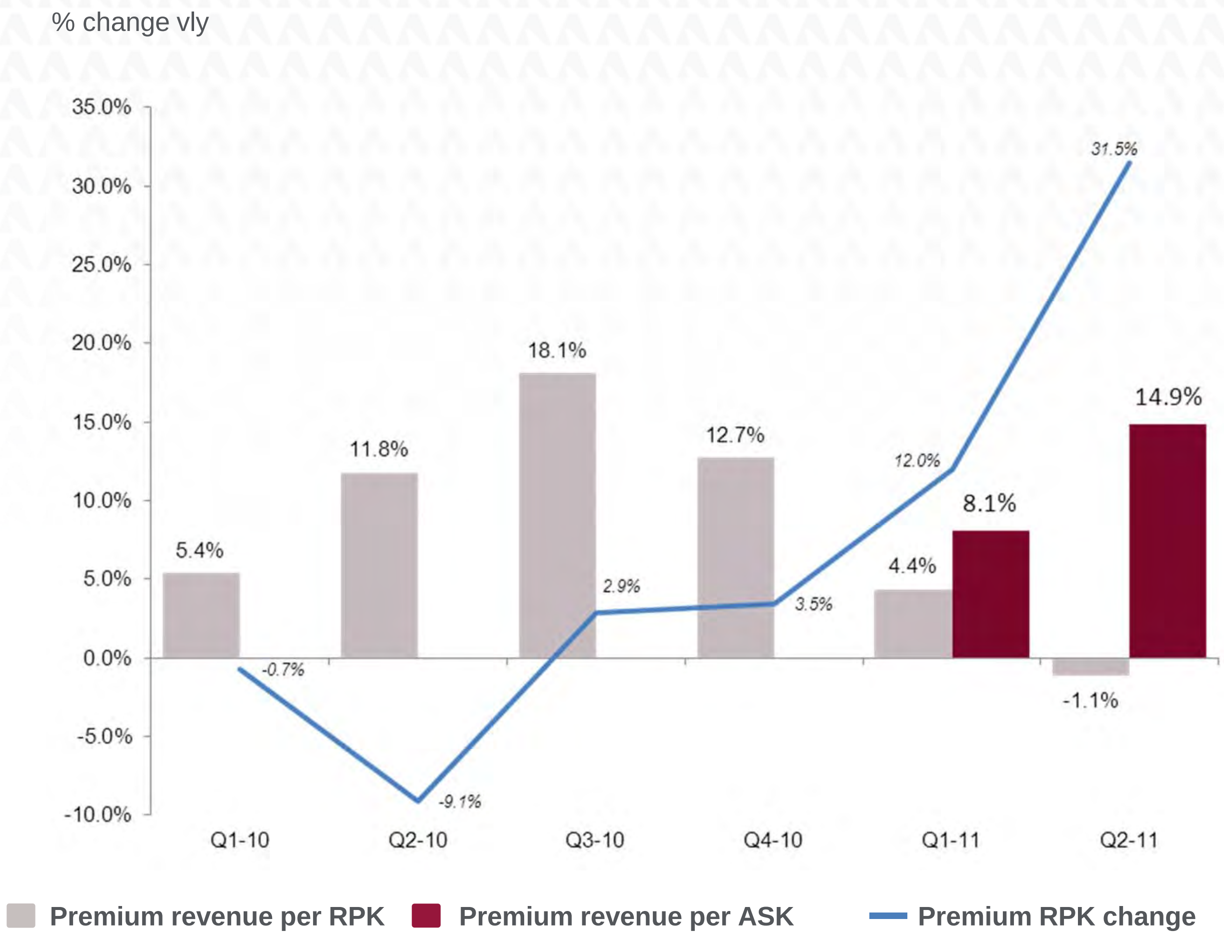
% change in IAG passenger revenue per ASK by region, Q2 '11 vs. Q2 '10



ASKs	*-14.0%*	*+8.1%*	*+17.2%*	*+18.4%*	*+2.7%*	*+16.7%*

- Transatlantic demand to and from London leading revenue recovery
- Corresponding improvement on London feeder routes, especially short haul
- Much slower improvement on Latam routes
- Japan recovering, disruption to North Africa & Middle East prevails
- Momentum to slow due to base effect

Volumes drive premium revenue growth

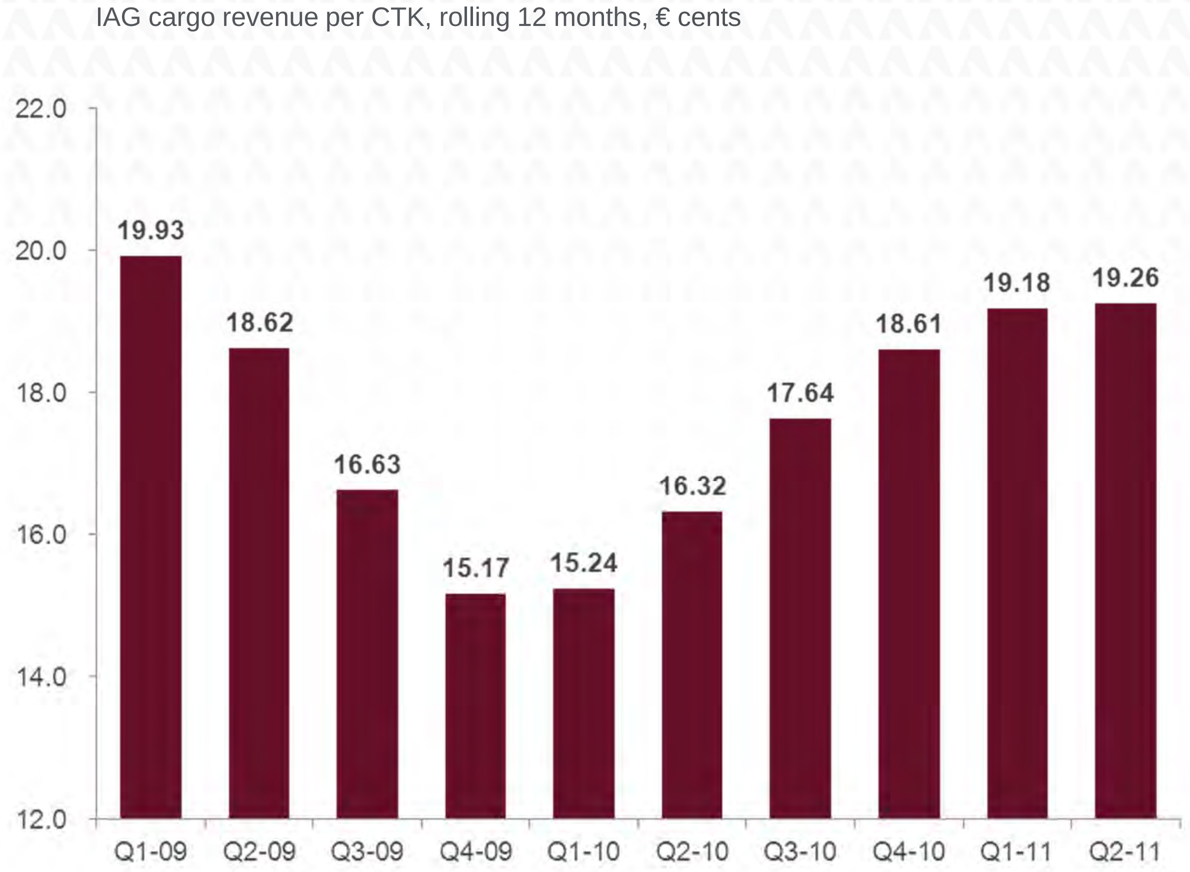


- Premium traffic growth rate outpacing non-premium in both hubs
- Particularly strong at Heathrow
- Non-premium unit revenues +4.4% and yields +2.6%
- Helped in part by bounceback from 2010 events
- Trends to flatten in H2 due to comparison with strong H2 2010 performance

Transatlantic Joint Business update

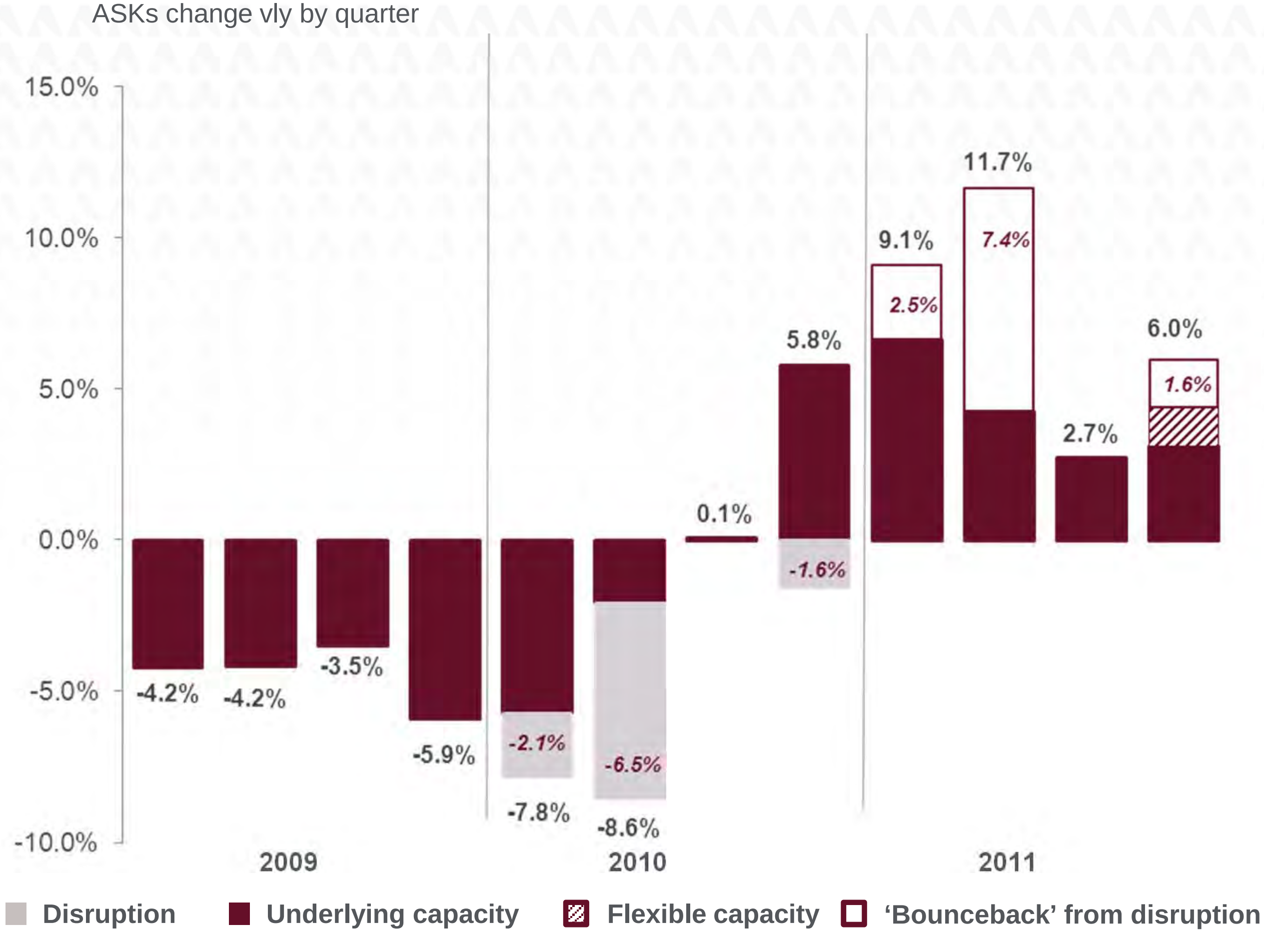
- Joint business is still in infancy, encouraging early signs of benefit
- Premium traffic strengthening on North Atlantic, particularly on London routes
- Continental Europe recovery softer than London, but non-premium performance good
- Joint capacity plans being finalised for winter season – potential frequency reductions in certain markets where overall demand appears softer

Cargo momentum has flattened



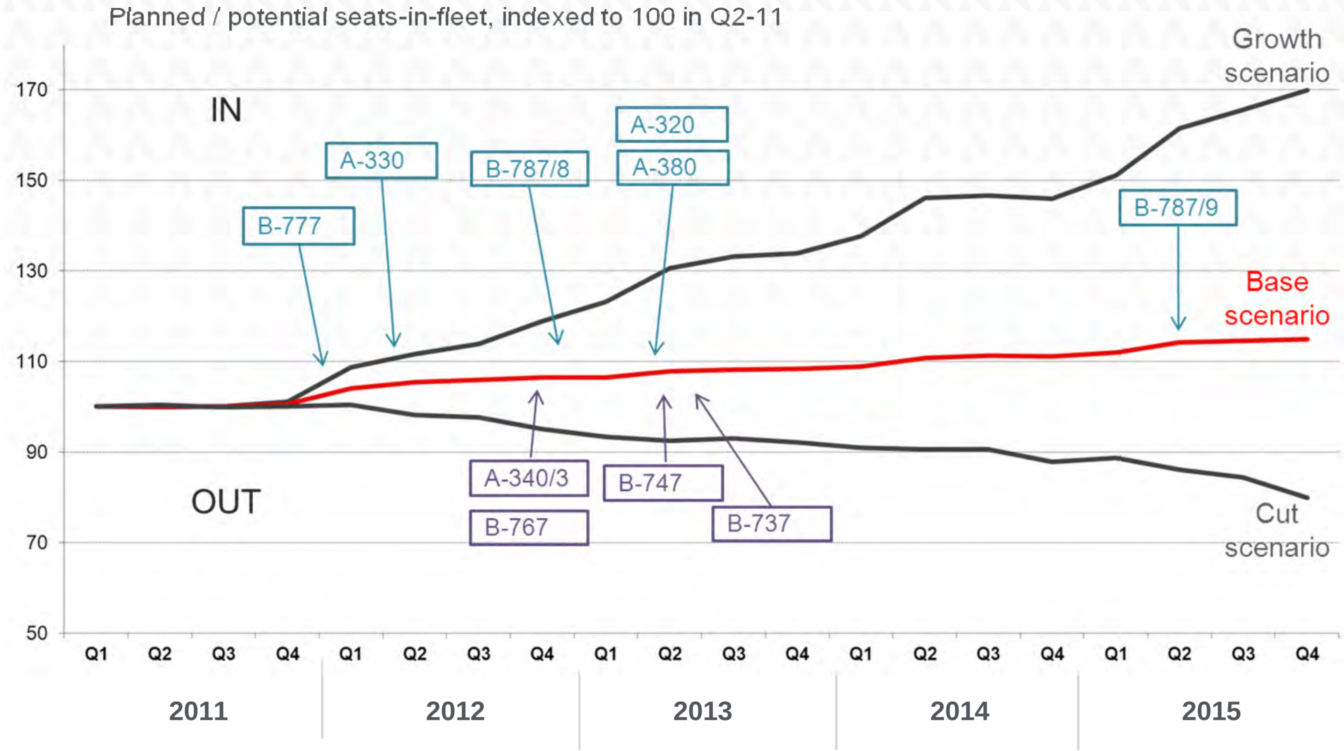
- Momentum slows due to comparison with strong Q2 ‘10 (Q1 ‘10 yield + 1.1%, Q2 ‘10 + 29.6%)
- Headline Q2 ‘11 yield +1.5%; constant FX +6.0%
- Mixed regional performance – some regions suffering overcapacity (India) and a demand softness (China), offset by strength in other areas (US)
- H2 ‘10 growth was very strong, H2 ‘11 on a plateau

Underlying capacity changes by quarter



- Q2 ASKs marginally lower than planned partly due to Latam airspace closure
- Headline growth for 2011 remains 7-8%
- Underlying 2011 growth to be 4-5%, planned capacity for 2011 similar to 2008 levels
- Some frequency reductions have been factored in for Q4; considering further slowing of capacity growth rate

IAG fleet plan – growth with flexibility



2011 Fleet		
In	H1	1x A340 2x E190 1 x B747 (stood up)
In	Due in H2	2 x B777-300ER 1 x B747 (stood up)
Out	H1	8x A320 2x A319
Out	Due in H2	1x A319 1x A340

Growth scenario based on lease extensions, deferred retirals and options exercise

Cut scenario based on lease returns, accelerated retirals, contractual postponement of new deliveries

Current unit revenue environment

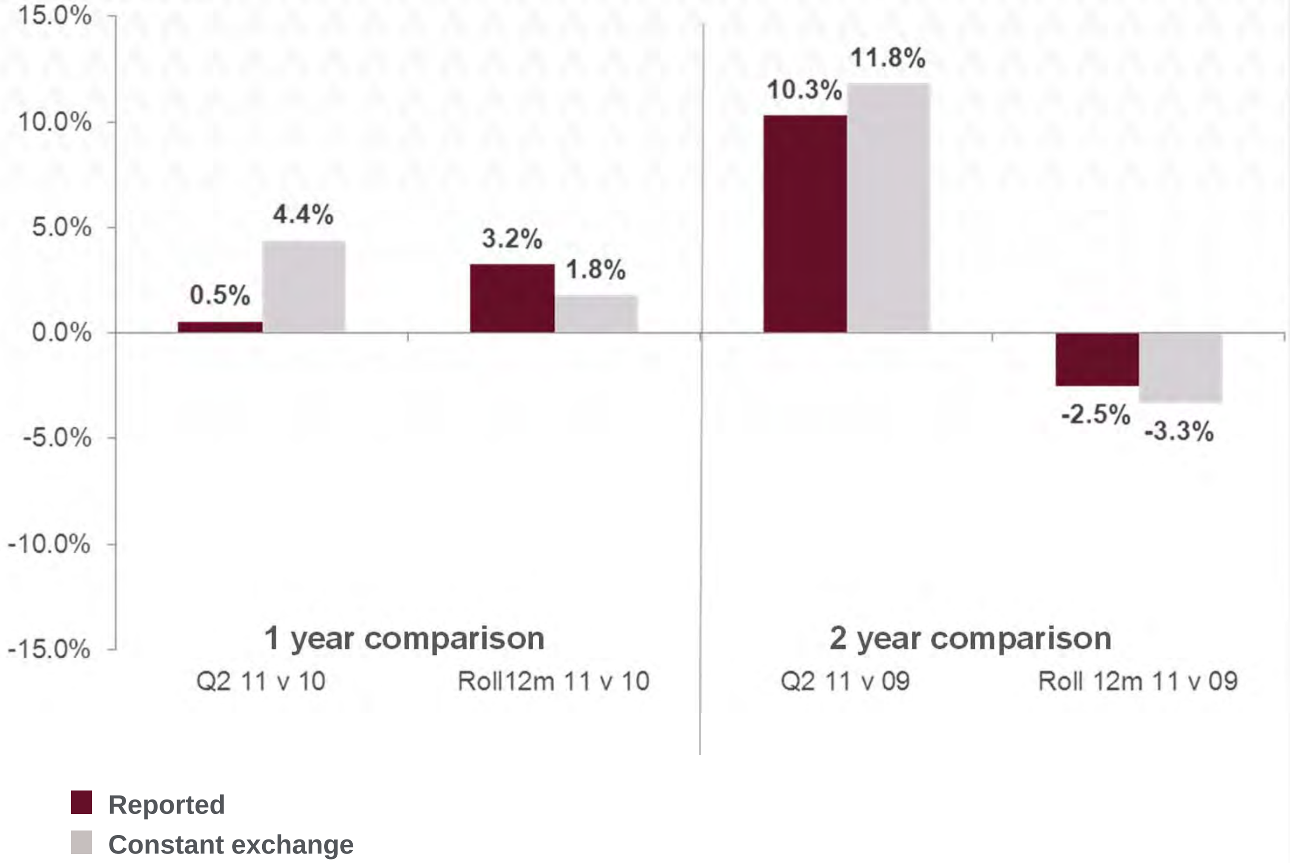
	direction	Short haul	direction	Long haul
non-premium		Competitive		Competitive
premium		Stable		Strong
cargo				Plateau

- Premium mix improvement expected to continue
- Latam unit revenue growth underperforming
- H2 momentum will taper due to comparisons with strong base last year

Cost and cash flow trends

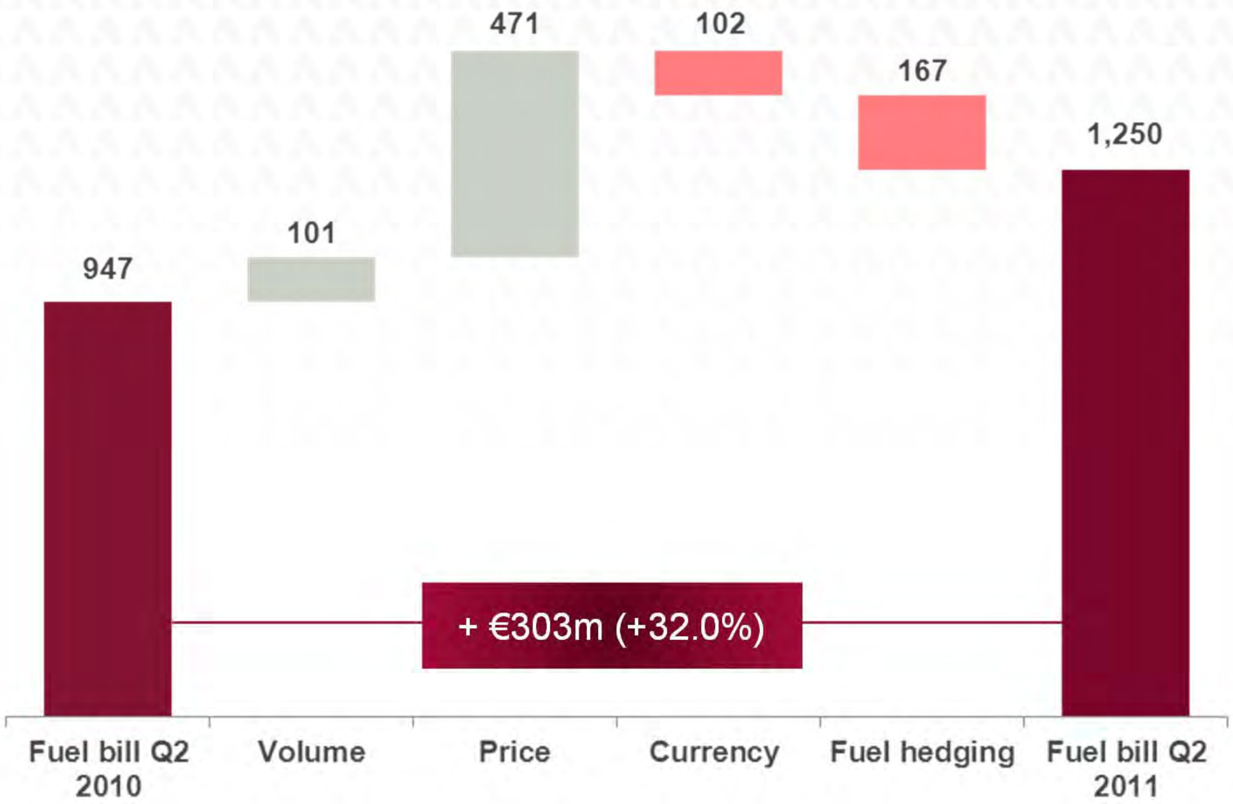
Overall unit operating cost growth

% change in IAG operating costs per ASK



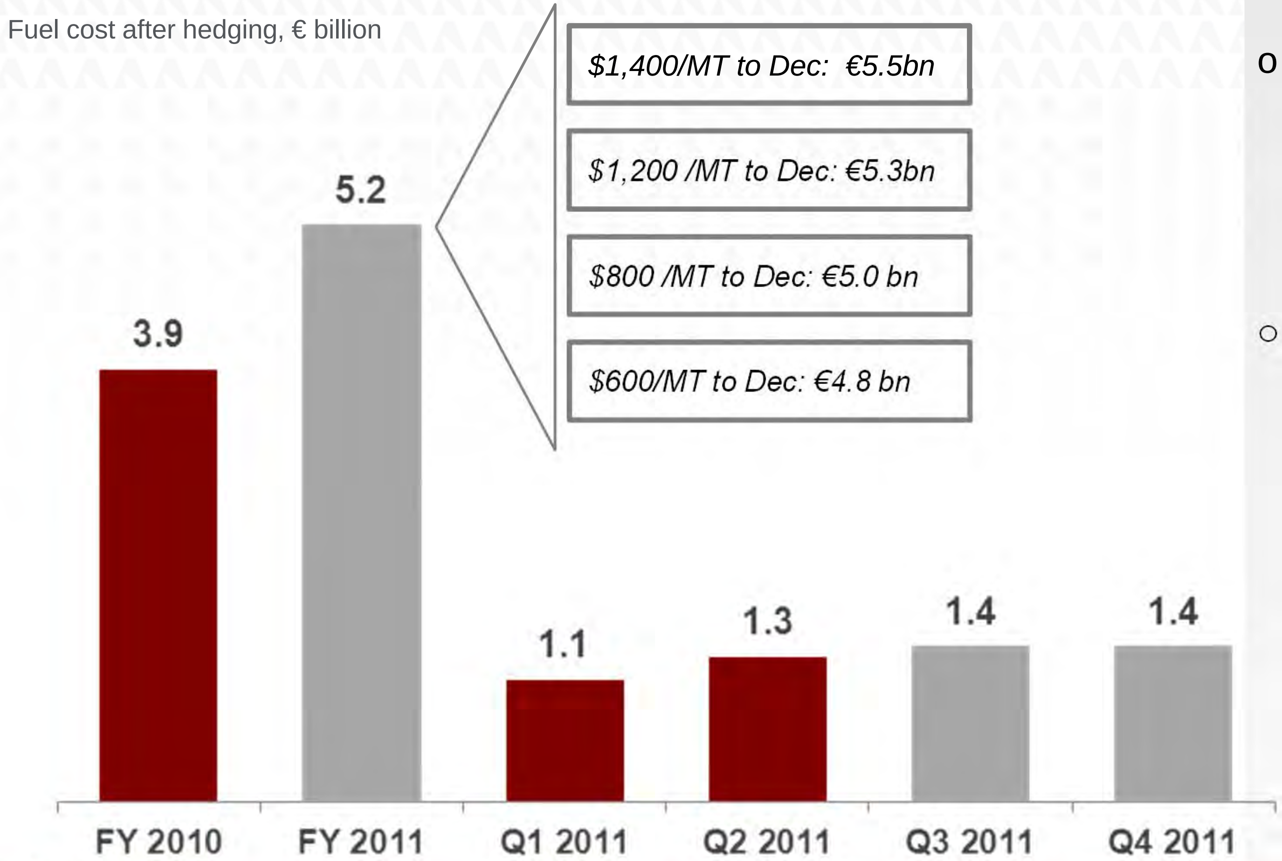
- Q2 unit cost rise due to fuel, offset by weaker US dollar
- Non-fuel unit costs down 5.8% for the quarter (down 4.5% at constant exchange)
- Comparisons vs 2 years ago heavily impacted by drop in fuel prices end ‘08 to early ‘09

Drivers of change in fuel cost



- 72% of consumption hedged in Q2
- Average fuel price paid in Q2 was $925/MT. Average spot rate $1070/MT

Fuel cost guidance at current prices / FX

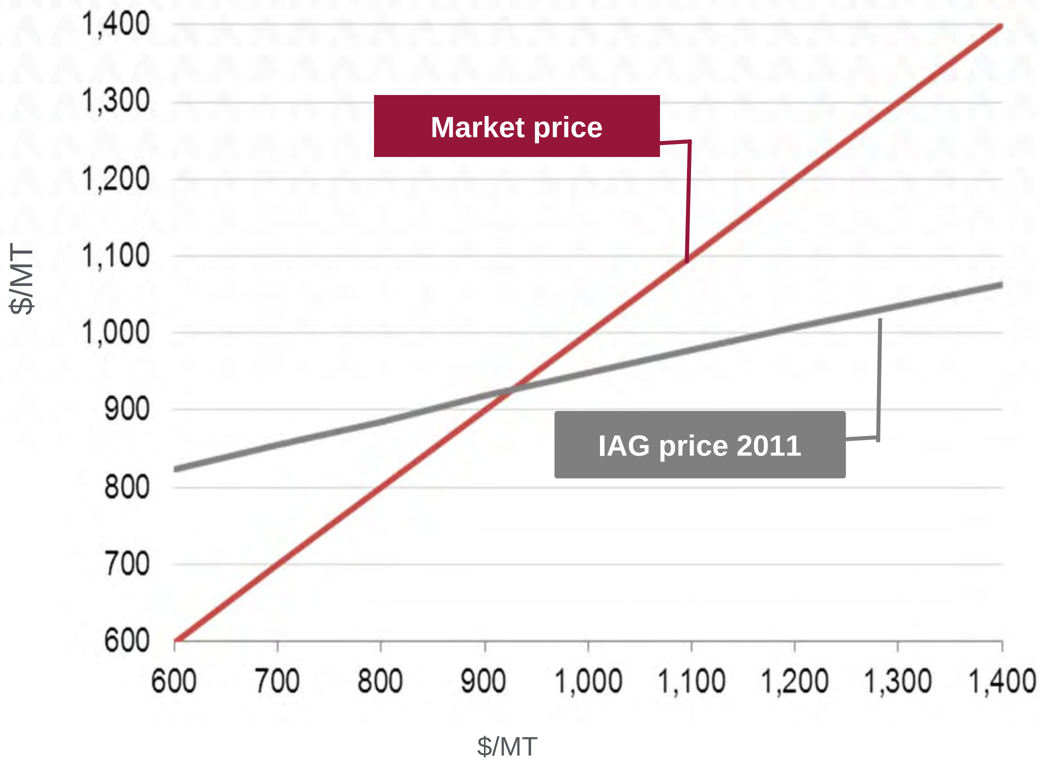


Market Price ($/MT)	FY 2010	FY 2011	Q1 2011	Q2 2011	Q3 2011	Q4 2011
	710	*1,005*	*890*	*1,070*	*1,070*	*1,070*

- At a spot rate of $1,070/MT, with current hedging cover, we would expect our 2011 fuel bill to be approximately €5.2 bn
- The estimated fuel bill in the chart is calculated from planned usage and a EUR USD rate of $1.43

Rest of 2011: fuel hedging impact

Jet fuel price



+/- $10/MT = +/- €8m cost approx

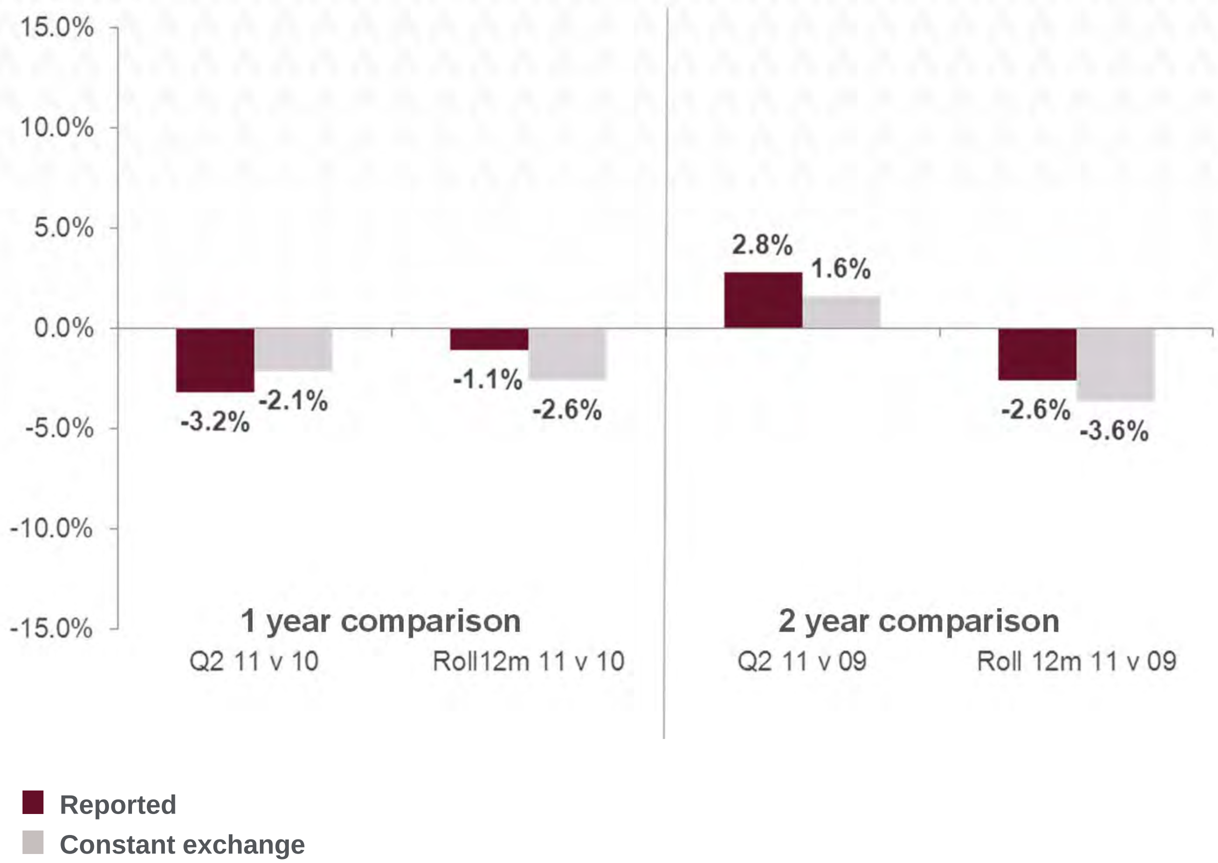
Hedging cover

Q3	Q4	H2 2011	Forward 12 mths
73%	61%	67%	50%

- 2011 fuel bill scenarios, based on IAG current hedging, expected maximum capacity growth

Continued labour productivity gains

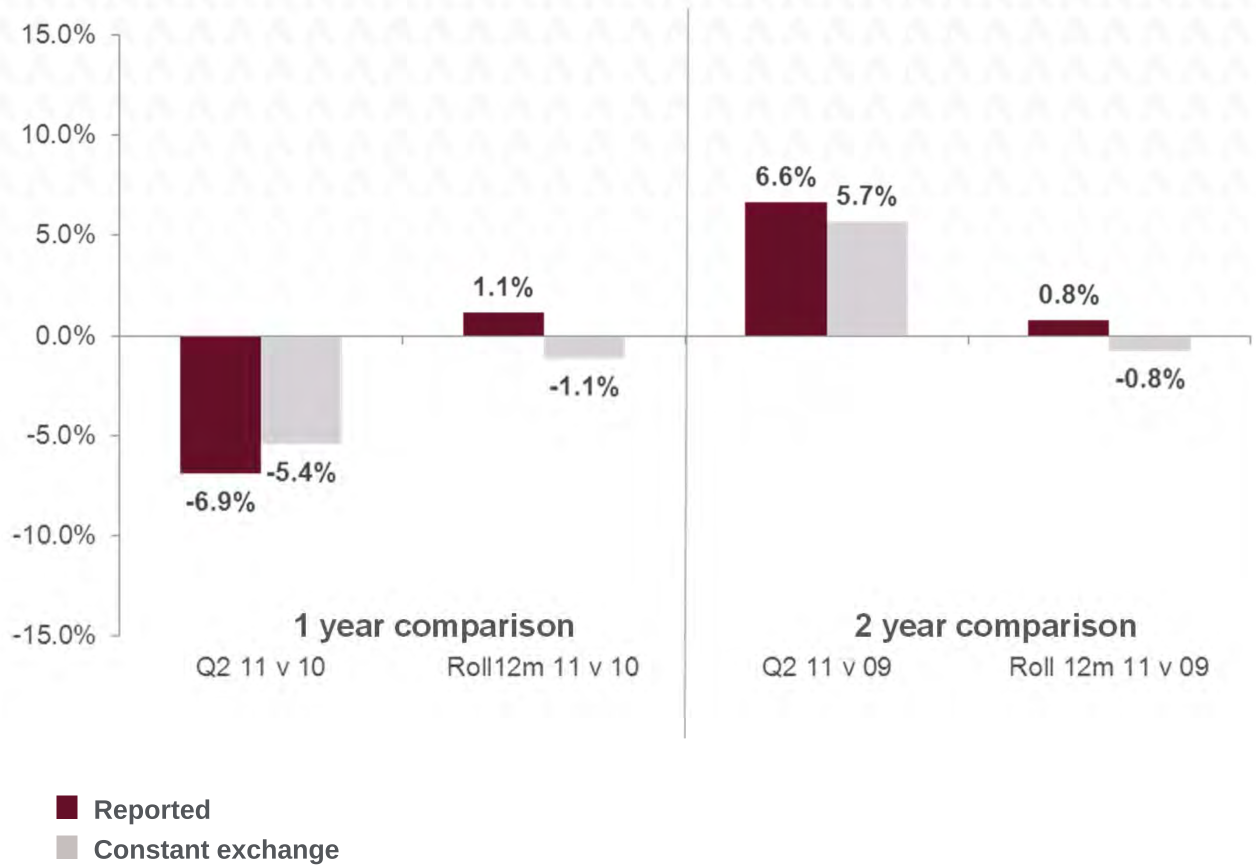
% change in IAG employee cost per ASK



- Underlying employee unit costs -4.7% excluding €16m restructuring provision in British Airways
- Productivity +11.7% due to average MPE flat versus Q2 2010
- MPE down 6.5% against Q2 2009

Continued focus on supplier cost

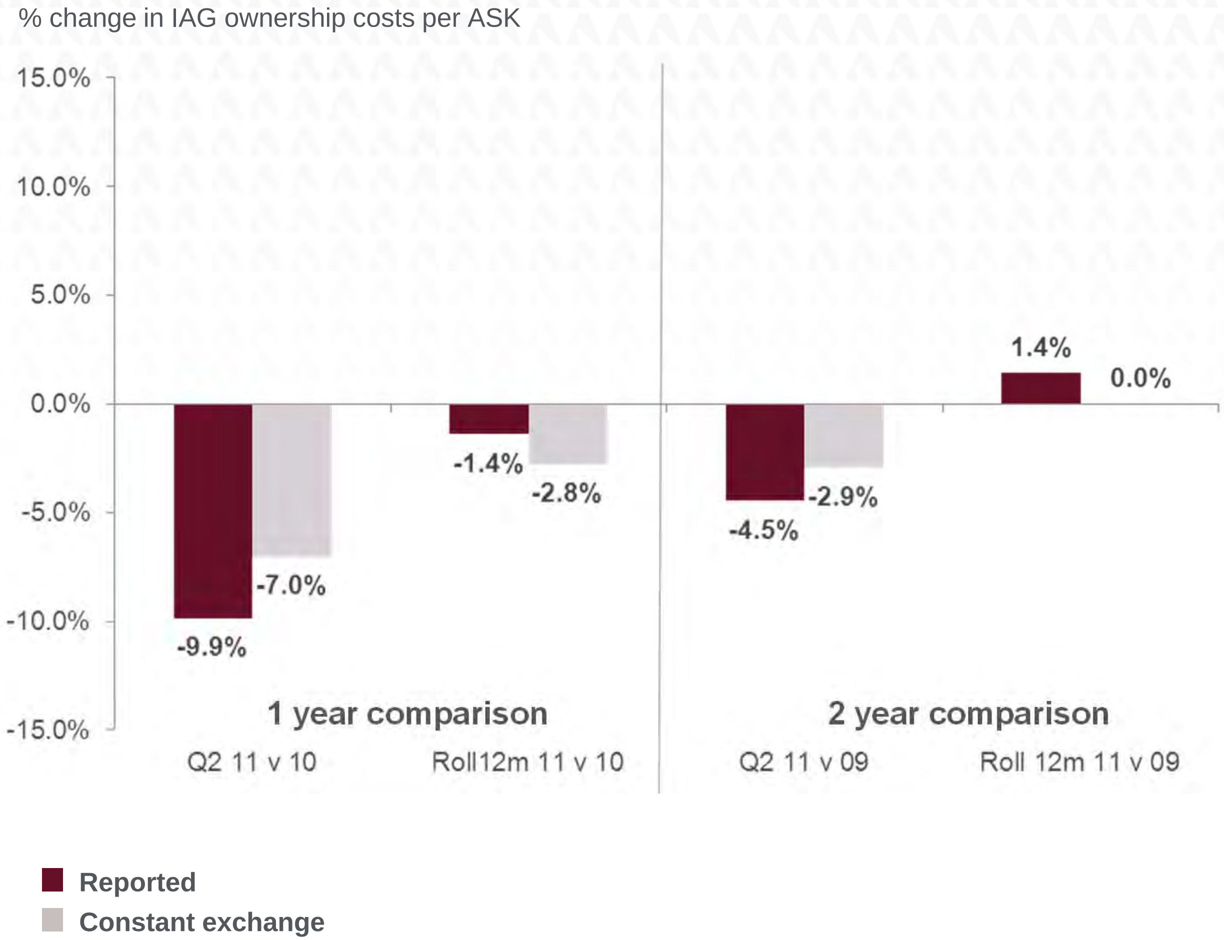
% change in IAG supplier costs per ASK



- Supplier cost momentum similar to Q1
- …in spite of RPI +X increase at Heathrow hub

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

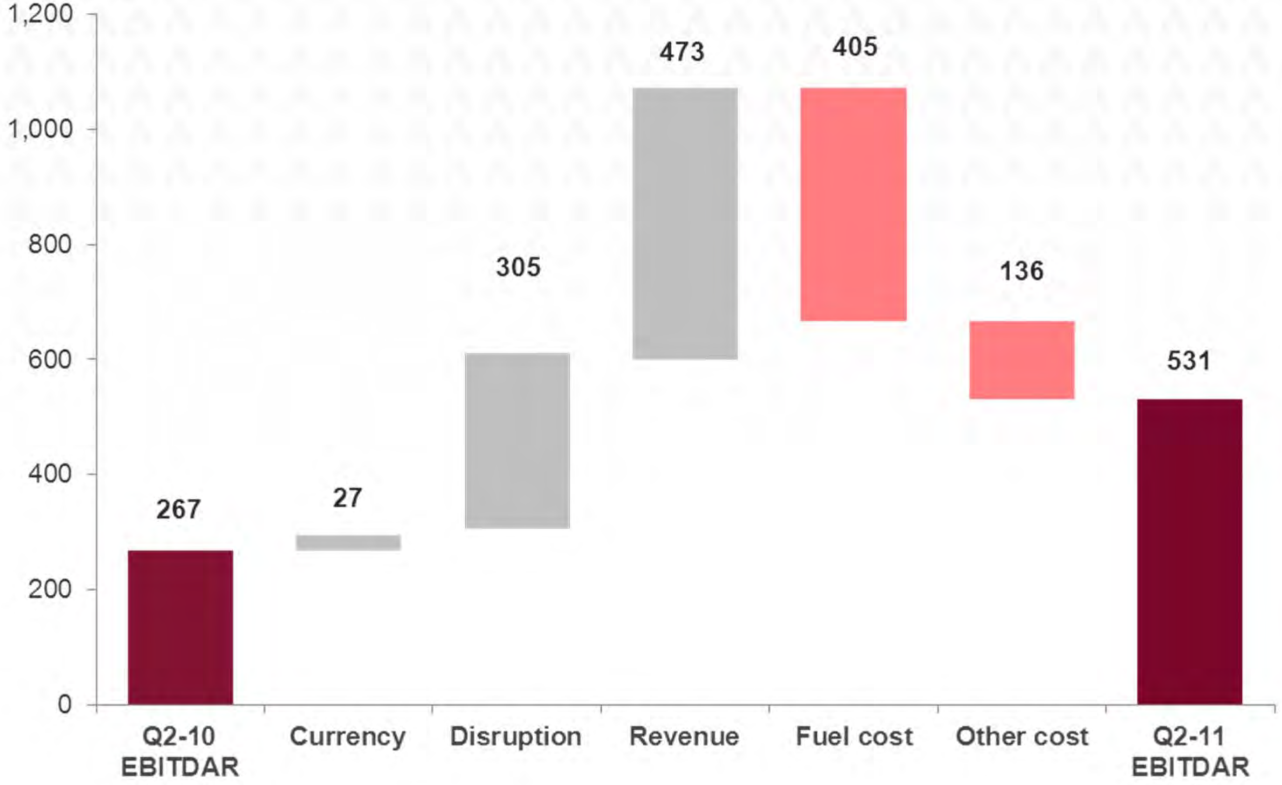
Ownership unit costs



- Ownership cost improvements continue to be driven by utilisation gains
- Benefits also driven from fleet retirals in 2010 (B757, B747)
- See also slide 12 (IAG fleet plan)

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

Profit bridge from Q2 2010



- Fuel handicap more than offset by underlying revenue gains
- Positive impact of fuel hedges will gradually unwind for the rest of the year, should spot prices stay at these levels
- Revenue momentum is already reaching a plateau in cargo business; is set to flatten in other areas due to comparison with strong H2 ‘10

Balance sheet summary, IAG combined

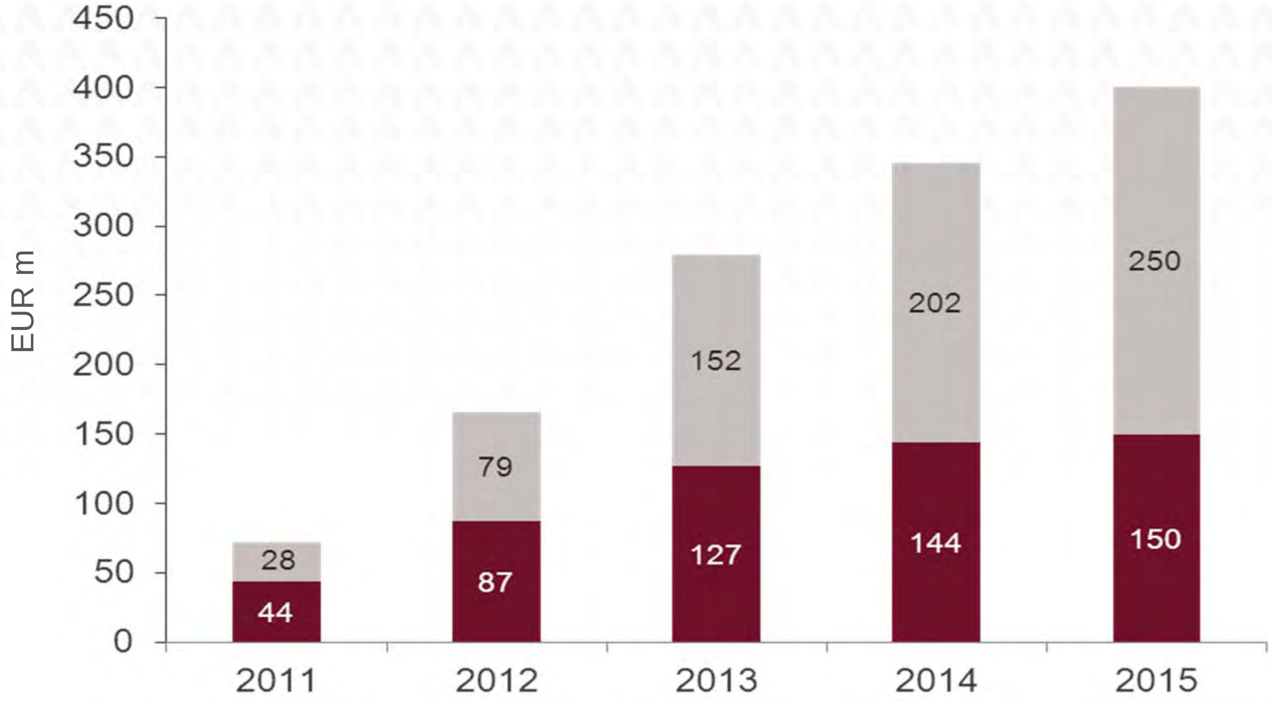
€, m	Jun 2011	Dec 2010	Change
Total assets	19,314	18,619	695
EQUITY	**5,194**	**4,670**	524
Cash & cash equivalents & other	4,191	4,352	(161)
Gross debt	4,671	5,247	(576)
On balance-sheet net debt	***480***	***895***	(415)
GEARING	**8%**	**16%**	
Aircraft lease cap (x8)	3,264	3,208	56
Adjusted net debt	***3,744***	***4,103***	(359)
ADJUSTED GEARING	**42%**	**47%**	
Working capital	**(3,647)**	**(3,421)**	

IAG balance sheet at 31 December 10 represents IAG combined figures from BA and IB
IAG balance sheet at 30 June 11 represents IAG consolidated figures

- Significant reduction in on-balance sheet debt
- Significant reduction in gearing since December 2010; similar level to March 2011
- Cash position impacted by competition fines paid (€168m) and payment to BA pension fund in excess of regular contributions (€157m)

Outlook

Synergy targets



Implementation costs €m	2011	2012	2013	2014	2015
	65	59	37	72	36

Revenue synergies   Cost improvements

Outlook summary

- Outlook unchanged, synergies on track
- Long haul business stable, with strong premium traffic
- Short haul business highly competitive, cargo has reached a plateau
- Comparison with strong H2 ’10, coupled with fuel hedge unwind, means greater revenue challenge in H2, on top of macro uncertainty, Japan / MENA disruption
- Considering some capacity reductions for winter season 2011/12, in the form of frequency cuts in softer markets

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.