

NINE MONTHS RESULTS ANNOUNCEMENT

International Consolidated Airlines Group (IAG) today (October 28, 2016) presented Group consolidated results for the nine months to September 30, 2016.

IAG period highlights on results:

- Third quarter operating profit €1,205 million before exceptional items (2015: operating profit of €1,250 million)
- Net foreign exchange operating profit impact for the quarter adverse €162 million
- Passenger unit revenue for the quarter down 13.7 per cent and at constant currency down 5.9 per cent
- Non-fuel unit costs before exceptional items for the quarter down 6.9 per cent and at constant currency up 1.4 per cent
- Fuel unit costs before exceptional items for the quarter down 25.8 per cent, down 22.7 per cent at constant currency
- Operating profit before exceptional items for the period of nine months to September 30, 2016 €1,915 million (2015: €1,805 million), up 6.1 per cent. Net foreign exchange operating profit impact adverse €372 million
- Cash of €6,190 million at September 30, 2016 was up €334 million on 2015 year end
- Adjusted net debt to EBITDAR improved 0.1 to 1.8 times
- Diluted earnings per share up 18.3 per cent before exceptional items (23.8 per cent after exceptional items)

Performance summary:

Financial data € million	Nine months to September 30		Higher / (lower)
	2016	2015	
Passenger revenue	15,345	15,285	0.4 %
Total revenue	17,272	17,119	0.9 %
Operating profit before exceptional items	1,915	1,805	6.1 %
Exceptional items	27	(38)	171.1%
Operating profit after exceptional items	1,942	1,767	9.9 %
Profit after tax	1,484	1,180	25.8 %
Diluted earnings per share (€ cents)	67.7	54.7	23.8 %
Operating figures	September 30,		Higher / (lower)
	2016	December 31, 2015	
Available seat kilometres (ASK million)	226,356	203,381	11.3 %
Seat factor (per cent)	82.1	81.7	0.4pts
Passenger unit revenue per ASK (€ cents)	6.78	7.52	(9.8)%
Non-fuel unit costs per ASK (€ cents)	5.11	5.24	(2.4)%
	September 30,		Higher / (lower)
	2016	December 31, 2015	
Cash and interest-bearing deposits	6,190	5,856	5.7 %
Adjusted net debt ⁽¹⁾	8,037	8,510	(5.6)%
Adjusted net debt to EBITDAR	1.8	1.9	(0.1)

⁽¹⁾Adjusted net debt is net debt plus capitalised rolling four quarter aircraft operating lease costs.

Willie Walsh, IAG Chief Executive Officer, said:

“We’re reporting a strong quarter 3 operating profit before exceptional items of €1,205 million.

“While strong, these results were affected by a tough operating environment with a very significant negative currency impact of €162 million, primarily due to sterling weakness, and continued disruption due to air traffic control strikes.

“Despite this, our unit revenue performance was better than in quarter 2 and our quarterly profit after tax was €970 million before exceptional items, an improvement of 9.9 per cent on last year.

“In the nine months, we made an operating profit before exceptional items of €1,915 million, up 6.1 per cent versus last year.

“We’re pleased to announce an interim dividend payment of 11 euro cents per share, a 10 per cent increase on last year. As in 2015, we expect the interim dividend to be around half the full year dividend.”

Trading outlook

At current fuel prices and exchange rates, IAG expects its operating profit for 2016 to be around €2.5 billion, and has seen no significant change in its short-term trading conditions.

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

Enrique Dupuy, Chief Financial Officer, (responsible for arranging the release of this announcement).

Forward-looking statements:

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.

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CONSOLIDATED INCOME STATEMENT

Nine months to September 30							
€ million	Before exceptional items 2016	Exceptional items	Total 2016	Before exceptional items 2015 ⁽¹⁾	Exceptional items	Total 2015	Higher/ (lower)
Passenger revenue	15,345		15,345	15,285		15,285	0.4 %
Cargo revenue	743		743	798		798	(6.9)%
Other revenue	1,184		1,184	1,036		1,036	14.3 %
Total revenue	17,272		17,272	17,119		17,119	0.9 %
Employee costs	3,656	11	3,667	3,599		3,599	1.6 %
Fuel, oil costs and emissions charges	3,782	(38)	3,744	4,653	(24)	4,629	(18.7)%
Handling, catering and other operating costs	2,011		2,011	1,870		1,870	7.5 %
Landing fees and en-route charges	1,663		1,663	1,387		1,387	19.9 %
Engineering and other aircraft costs	1,258		1,258	1,089		1,089	15.5 %
Property, IT and other costs	672		672	556	62	618	20.9 %
Selling costs	711		711	696		696	2.2 %
Depreciation, amortisation and impairment	971		971	937		937	3.6 %
Aircraft operating lease costs	537		537	481		481	11.6 %
Currency differences	96		96	46		46	108.7 %
Total expenditure on operations	15,357	(27)	15,330	15,314	38	15,352	0.3 %
Operating profit	1,915	27	1,942	1,805	(38)	1,767	6.1 %
Net non-operating costs	(134)		(134)	(249)		(249)	(46.2)%
Profit before tax	1,781	27	1,808	1,556	(38)	1,518	14.5 %
Tax	(322)	(2)	(324)	(341)	3	(338)	(5.6)%
Profit after tax for the period	1,459	25	1,484	1,215	(35)	1,180	20.1 %

Operating figures	2016 ⁽²⁾	2015	Higher/ (lower)
Available seat kilometres (ASK million)	226,356	203,381	11.3 %
Revenue passenger kilometres (RPK million)	185,726	166,147	11.8 %
Passenger load factor (per cent)	82.1	81.7	0.4pts
Cargo tonne kilometres (CTK million)	3,986	3,871	3.0 %
Passenger numbers (thousands)	77,525	66,202	17.1 %
Tonnes of cargo carried (thousands)	543	639	(15.0)%
Sectors	544,711	493,737	10.3 %
Block hours (hours)	1,576,692	1,395,281	13.0 %
Average manpower equivalent	63,690	60,097	6.0 %
Aircraft in service	548	525	4.4 %
Passenger revenue per RPK (€ cents)	8.26	9.20	(10.2)%
Passenger unit revenue per ASK (€ cents)	6.78	7.52	(9.8)%
Cargo revenue per CTK (€ cents)	18.64	20.61	(9.6)%
Fuel cost per ASK (€ cents)	1.67	2.29	(27.0)%
Non-fuel unit costs per ASK (€ cents)	5.11	5.24	(2.4)%
Total cost per ASK (€ cents)	6.78	7.53	(9.9)%

⁽¹⁾The prior year consolidated Income statement includes reclassifications to conform to the current year presentation. Refer to Financial Review for further details.

⁽²⁾Financial ratios are before exceptional items.

CONSOLIDATED INCOME STATEMENT

Three months to September 30							
€ million	Before exceptional items 2016	Exceptional items	Total 2016	Before exceptional items 2015 ⁽¹⁾	Exceptional items	Total 2015	Higher/ (lower)
Passenger revenue	5,806		5,806	6,136		6,136	(5.4)%
Cargo revenue	240		240	258		258	(7.0)%
Other revenue	440		440	362		362	21.5 %
Total revenue	6,486		6,486	6,756		6,756	(4.0)%
Employee costs	1,189	62	1,251	1,271		1,271	(6.5)%
Fuel, oil costs and emissions charges	1,317	(10)	1,307	1,620	(24)	1,596	(18.7)%
Handling, catering and other operating costs	714		714	709		709	0.7 %
Landing fees and en-route charges	619		619	560		560	10.5 %
Engineering and other aircraft costs	447		447	389		389	14.9 %
Property, IT and other costs	230		230	190	62	252	21.1 %
Selling costs	222		222	237		237	(6.3)%
Depreciation, amortisation and impairment	313		313	317		317	(1.3)%
Aircraft operating lease costs	200		200	176		176	13.6 %
Currency differences	30		30	37		37	(18.9)%
Total expenditure on operations	5,281	52	5,333	5,506	38	5,544	(4.1)%
Operating profit	1,205	(52)	1,153	1,250	(38)	1,212	(3.6)%
Net non-operating costs	(33)		(33)	(106)		(106)	(68.9)%
Profit before tax	1,172	(52)	1,120	1,144	(38)	1,106	2.4 %
Tax	(202)	12	(190)	(261)	3	(258)	(22.6)%
Profit after tax for the period	970	(40)	930	883	(35)	848	9.9 %

Operating figures	2016 ⁽²⁾	2015	Higher/ (lower)
Available seat kilometres (ASK million)	83,441	76,138	9.6 %
Revenue passenger kilometres (RPK million)	71,431	65,272	9.4 %
Passenger load factor (per cent)	85.6	85.7	(0.1pts)
Cargo tonne kilometres (CTK million)	1,332	1,264	5.4 %
Passenger numbers (thousands)	30,849	27,564	11.9 %
Tonnes of cargo carried (thousands)	168	207	(18.8)%
Sectors	205,907	192,790	6.8 %
Block hours (hours)	589,778	534,842	10.3 %
Average manpower equivalent	65,445	62,387	4.9 %
Passenger revenue per RPK (€ cents)	8.13	9.40	(13.5)%
Passenger unit revenue per ASK (€ cents)	6.96	8.06	(13.7)%
Cargo revenue per CTK (€ cents)	18.02	20.41	(11.7)%
Fuel cost per ASK (€ cents)	1.58	2.13	(25.8)%
Non-fuel unit costs per ASK (€ cents)	4.75	5.10	(6.9)%
Total cost per ASK (€ cents)	6.33	7.23	(12.5)%

⁽¹⁾The prior year consolidated Income statement includes reclassifications to conform to the current year presentation.

⁽²⁾Financial ratios are before exceptional items.

FINANCIAL REVIEW

Operating and market environment

In the nine months to September 30, 2016, the Group performance was negatively impacted by terrorist attacks, the UK referendum vote to exit the EU, operational disruption including air traffic control industrial action and adverse exchange rates, partially offset by lower fuel prices.

IAG remains sensitive to economic conditions in the markets in which it operates. Deterioration in either a domestic market or the global economy may have a material impact on our financial position, while foreign exchange and interest rate movements create volatility.

The UK referendum vote to exit the EU resulted in economic uncertainty throughout the second and third quarters of 2016. The Group experienced weak trading conditions in June leading up to and following the vote, with an emphasis in premium cabins. The vote to exit also created volatility in the foreign exchange markets. Weakening of the pound sterling impacted the translation of the Group's sterling subsidiaries and reduced the Group's profits, net assets and other reserves. The reduction in interest rates increased British Airways' employee pension accounting obligation and decreased other reserves at June 30, 2016, as disclosed in the Interim Management Report for six months to June 30, 2016.

Following the UK's vote to exit the EU, there has been no immediate regulatory impact on the Group's ability to operate its business effectively or on its regulatory structure. The terms of the UK withdrawal from the other EU member states has not yet been negotiated.

Throughout the period, the Group has suffered network disruption. Although management has plans to mitigate these risks to the extent feasible, there has been an impact on our short term profitability.

Principal risks and uncertainties

We have continued to maintain and operate our structure and processes to identify, assess and manage risks. The impact of the UK referendum has been considered as part of the Group's overall risk assessment, and the effects are set out earlier in this report. The principal risks and uncertainties affecting us, detailed on pages 47 to 54 of the December 31, 2015 Annual Report and Accounts, are relevant for the remaining three months of the year.

Basis of presentation

The Group's performance for the nine month period to September 30, 2016 includes Aer Lingus' operations. The 2015 nine month comparative information include the results of Aer Lingus from August 18, the acquisition date.

In 2016 the Group reviewed and amended the reporting of individual line items in the consolidated Income statement to better reflect the nature of underlying transactions and improve comparability between reporting periods. As a result, for the nine months to September 30, 2015, revenue of €80 million previously reported as Other revenue has been reclassified to Passenger revenue (€25 million) and Cargo revenue (€55 million). Expenditure of €155 million in respect of certain subcontracted services, previously allocated to Property, IT and other costs, has been reclassified to Handling, catering and other operating costs. These reclassifications have not affected reported total revenue, expenditure or operating profit for the nine months to September 30, 2015.

Capacity

IAG increased capacity (available seat kilometres or ASKs) by 11.3 per cent in the first nine months of the year and traffic volumes rose 11.8 per cent, increasing passenger load factor to 82.1 per cent. Excluding Aer Lingus, capacity was increased by 4.1 per cent. Iberia and Vueling continued to grow but at a slower pace. British Airways' capacity increase reflects changes to its network and aircraft.

Revenue

Passenger revenue increased 0.4 per cent compared to the prior period, and excluding Aer Lingus and currency, passenger revenue was down 2.3 per cent. Passenger unit revenue (passenger revenue per ASK) was down 5.7 per cent at constant currency ('ccy') from lower yields (passenger revenue/revenue passenger kilometre) partially offset by higher volumes. Yields decreased at British Airways and Iberia with continued fare pressure on oil related routes and lower demand from economic uncertainty related to the UK referendum vote leading up to and following the vote, weakening of currencies throughout Latin America, Africa and Middle East and the compounding impact of terrorist attacks. Overall, quarter 3 revenue performance has been trending in line with the first half of 2016. Vueling's passenger revenue performance was adversely impacted by the terrorist attacks and operational disruption including air traffic control industrial action. Aer Lingus revenue performance has been strong since acquisition, in particular across the North Atlantic. The Group has maintained its volumes in the first nine months of 2016 with passenger load factor rising 0.4 points.

Cargo revenue for the period decreased by 6.9 per cent, excluding Aer Lingus and currency down 9.4 per cent. Challenging market conditions continue to pressure yields impacted by a market capacity imbalance. Cargo volumes were up by 3.0 per cent with Aer Lingus contributing 1.9 points.

Other revenue was up 14.3 per cent, excluding currency benefits and Aer Lingus up 19.7 per cent. The Group's revenues increased from Iberia's third party maintenance and handling businesses and from BA Holidays. Avios revenues rose over the period, impacted by timing and from increased activity.

Costs

Employee costs increased 1.6 per cent, excluding Aer Lingus and currency up 1.2 per cent. On a unit basis the improvement was 3.9 per cent at ccy with savings from manpower initiatives and lower variable pay, partially offset by salary awards and crew training. Productivity increased 3.5 per cent (5.0 per cent including Aer Lingus), with improvements at British Airways, Iberia and Aer Lingus.

FINANCIAL REVIEW

Fuel costs decreased 18.7 per cent, with fuel unit costs at ccy down 27.3 per cent. Fuel benefited from lower average fuel prices net of hedging and efficiencies from the introduction of new fleet and improved operational procedures.

Handling, catering and other operating costs rose 7.5 per cent, excluding currency and Aer Lingus up 10.0 per cent. The increase reflects additional compensation fees and baggage claims related to operational disruption, partially due to air traffic control industrial action in France. The Group's costs also rose from an increase in Iberia's third party handling and BA Holidays' sales.

Landing fees and en-route charges rose 19.9 per cent, excluding currency and Aer Lingus up 7.1 per cent. The increase reflects higher overflying charges and additional volume, with ASKs and sectors flown up 4.1 and 5.0 per cent respectively. In addition, the prior period benefited from one time recoveries.

Engineering and other aircraft costs increased 15.5 per cent, excluding currency and Aer Lingus up 8.6 per cent. Increases are driven by additional third party maintenance activity at Iberia, higher flying hours and rates, partially offset by management saving initiatives including the renegotiation of engine manufacturer contracts in 2015.

Property, IT and other costs increased 20.9 per cent and on an underlying basis up around 7 per cent. Property lease costs rose following a new agreement for terminal 7 at JFK airport and the loss of sub-leased revenues.

Selling costs increased 2.2 per cent, excluding Aer Lingus and currency impacts, decreased 1.9 per cent. Volume increases were offset by price savings and through other management initiatives.

Ownership costs rose 6.3 per cent, excluding Aer Lingus and currency impacts down 2.5 per cent. Depreciation costs increased from the accelerated depreciation of Iberia's Airbus A340-300s and from higher IT charges as renewal of technology replaced fully depreciated assets, including British Airways' new check in and departure control system. Operating lease costs rose at Vueling and British Airways with 26 additional aircraft compared to the same period last year offset by a €30 million provision release following a tax court ruling in Iberia.

At constant currency non-fuel unit costs increased 1.0 per cent, excluding Aer Lingus and adjusted for BA Holidays up 0.7 per cent. Improvements were made at all carriers with the exception of Vueling. Vueling non-fuel unit costs were adverse due to additional compensation costs related to disruption, higher employee costs and a maintenance provision release in the base.

Exceptional items

Due to their size and incidence the Group has recognised the following exceptional items during the period:

Employee costs

In 2016, the Group recognised an initial employee restructuring charge of €62 million (with a related tax credit of €13 million) related to initiatives developed to improve British Airways' overall efficiency and effectiveness.

The Group also made changes to the US PRMB (Post-Retirement Medical Benefits) at British Airways during the period to bring the level of benefits in line with national trends in the US. These changes resulted in recognition of a one-off gain in employee costs of €51 million and a related tax charge of €10 million.

Fuel

Under the Business combination standard, gains or losses on cash flow hedges acquired should not be recycled to the income statement but recognised in equity on the acquisition date. Following the acquisition of Aer Lingus, IAG unwound the cash flow fuel hedges acquired in the before exceptional items column in both 2016 and 2015. A credit was recognised in the exceptional items column reversing the impact of unwinding the cash flow hedges to reach the total Fuel, oil costs and emissions charges.

In the prior period, transaction costs related to the acquisition of Aer Lingus and a litigation provision for a settled claim against British Airways were also recognised as exceptional in Property, IT and Other costs.

Non-operating items and taxation

The net non-operating cost for the period reduced by €115 million to €134 million compared to the same period last year. Derivatives not qualifying for hedge accounting improved €55 million from a €26 million loss. The net financing for pensions also improved by €19 million from a €9 million loss. The remaining reduction reflects a €30 million gain on sale and lease back of 12 Airbus A319's in this period compared to a €13 million loss on disposal of the Boeing 737s last year.

The tax charge for the nine months to September 30, 2016 is €324 million after exceptional items (2015: €338 million) with an effective tax rate of 18.1 per cent (2015: 21.9 per cent).

Profit after tax and exceptional items

The profit after tax for the nine month period to September 30 was €1,484 million (2015: €1,180 million).

Dividends

An interim dividend of 11 euro cents per share was proposed and approved by the Board of Directors on October 27, 2016. It is payable from December 5, 2016 to shareholders who are on the register at December 2, 2016. This interim dividend, amounting to €233 million (calculated based on the current treasury shares position), has not been recognised as a liability in these summary condensed consolidated interim financial statements. It will be recognised in shareholders' equity in the year to December 31, 2016.

FINANCIAL REVIEW

Foreign exchange, derivatives and hedging

For the nine months to September 30, 2016, the average pound sterling exchange rate weakened against both the US dollar and the euro, while the euro weakened against the US dollar, resulting in a net negative impact on the operating profit for the Group of €372 million.

Transaction exchange impact

From a transaction 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, with the exception of the US dollar, as capital expenditure, debt repayments and fuel purchases paid in US dollars typically create a deficit. The Group hedges its transaction exposures; note 26 of IAG's 2015 Annual Report and Accounts outlines the Group's approach to financial risk management.

For the nine months to September 30, 2016, the transactional exchange rate impact for the Group was favourable €320 million on revenues, adverse €524 million on costs, including a €22 million charge for the devaluation of the naira. The net adverse impact on transactions was €204 million, impacted by the weakening of the pound sterling.

At September 30, 2016, the Group's net US dollar exposure to cash flows (excluding capital expenditure) was around \$1.1 billion for the remainder of the year, of which 72 per cent was hedged; and around \$2.8 billion and 60 per cent for the twelve months to December 31, 2017.

The Group's euro functional subsidiaries' (Aer Lingus, Iberia, and Vueling) remaining exposure to the pound sterling was less than £14 million, and British Airways' net euro surplus was approximately €47 million.

Translation exchange impact

IAG's results are also impacted by exchange rates used for the translation of British Airways' and Avios' financial results from sterling to the Group's reporting currency of euro. In the nine months to September 30, 2016, the Group earned 77 per cent (2015: 79 per cent) of its operating profit in pound sterling. For the full year 2015, 82 per cent of the Group's operating profit was in pound sterling.

For the nine months, the net impact of translation exchange on operating profit was €168 million adverse, with a decrease in revenues of €1,082 million and decrease in costs of €914 million.

Fuel

During the period, oil prices maintained an upward trend, but were down significantly versus last year. At September 30, 2016, the Group's hedged fuel price position was 77 per cent on average for the remainder of the year, and 51 per cent on average for the twelve months to December 31, 2017.

Cash and leverage

The Group's cash position was €6,190 million up €334 million from December 31, 2015 with adverse foreign exchange of €475 million.

Compared to December 31, 2015 the Group's adjusted net debt decreased by 5.6 per cent to €8,037 million and adjusted net debt to EBITDAR reduced 0.1 to 1.8 times.