

Capital Markets Day

7th November 2014

IAG INTERNATIONAL
AIRLINES
GROUP



Agenda

0830	Opening Speech	Antonio Vázquez	<i>IAG Chairman</i>
0845	IAG Plans and Targets	Enrique Dupuy	<i>IAG Chief Financial Officer</i>
0930	Cargo Avios Fleet standardisation	Steve Gunning Gavin Halliday Geoffrey Weston	<i>Cargo Chief Executive Officer Avios Managing Director IAG Head of Group Strategy</i>
1030	Break		
1100	British Airways Iberia Vueling	Keith Williams Luis Gallego Alex Cruz	<i>BA Executive Chairman Iberia Chairman & CEO Vueling Chairman & CEO</i>
1230	Investment strategy	Willie Walsh	<i>IAG Chief Executive Officer</i>
1300	Get lunch		
1330	Conclusion and Q&A	Willie Walsh	<i>IAG Chief Executive Officer</i>
1500	Close		

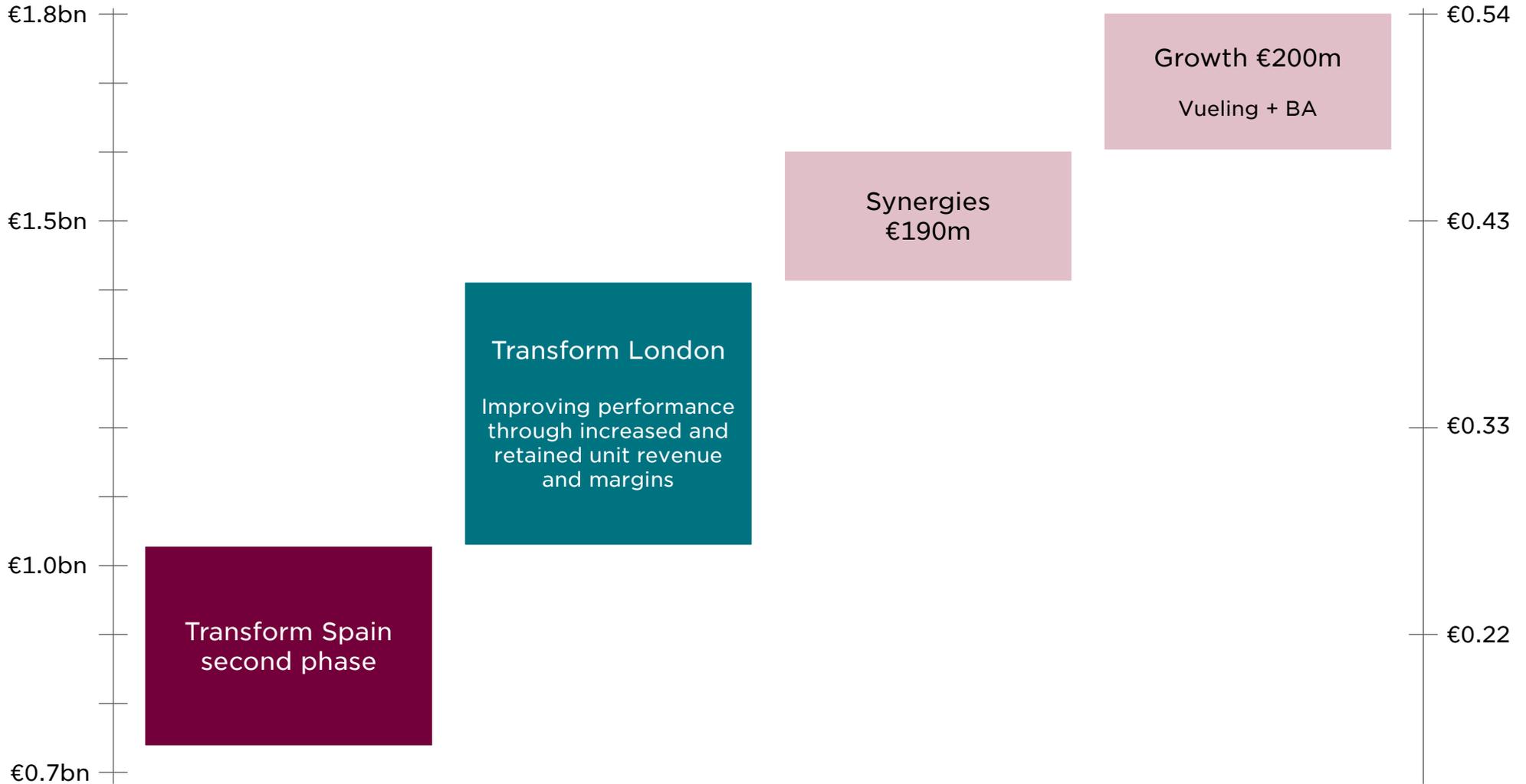
IAG Plans and Targets

Financial targets - headlines 2014

- We have raised our 2014 guidance to an improvement in operating profit before exceptional items in the range of €550m to €600m from a base of €770m in 2013
- We remain confident in meeting our 2015 operating profit target of €1.8bn
- Improvements for 2015 are based on:
 - New fleet net savings
 - Productivity improvements
 - Completion of our 2011-15 synergies program
 - Profitable growth
- Current market rates for fuel and FX could have a potentially positive impact on our results
- Beyond 2015 we will be aiming for a 12%+ RoIC for the Group and for each OpCo, through:
 - Productivity and other ex-fuel savings under IAG and OpCo initiatives
 - Fleet renewal net savings
 - Flexible growth
- We anticipate in 2015 a declaration of a sustainable dividend payout

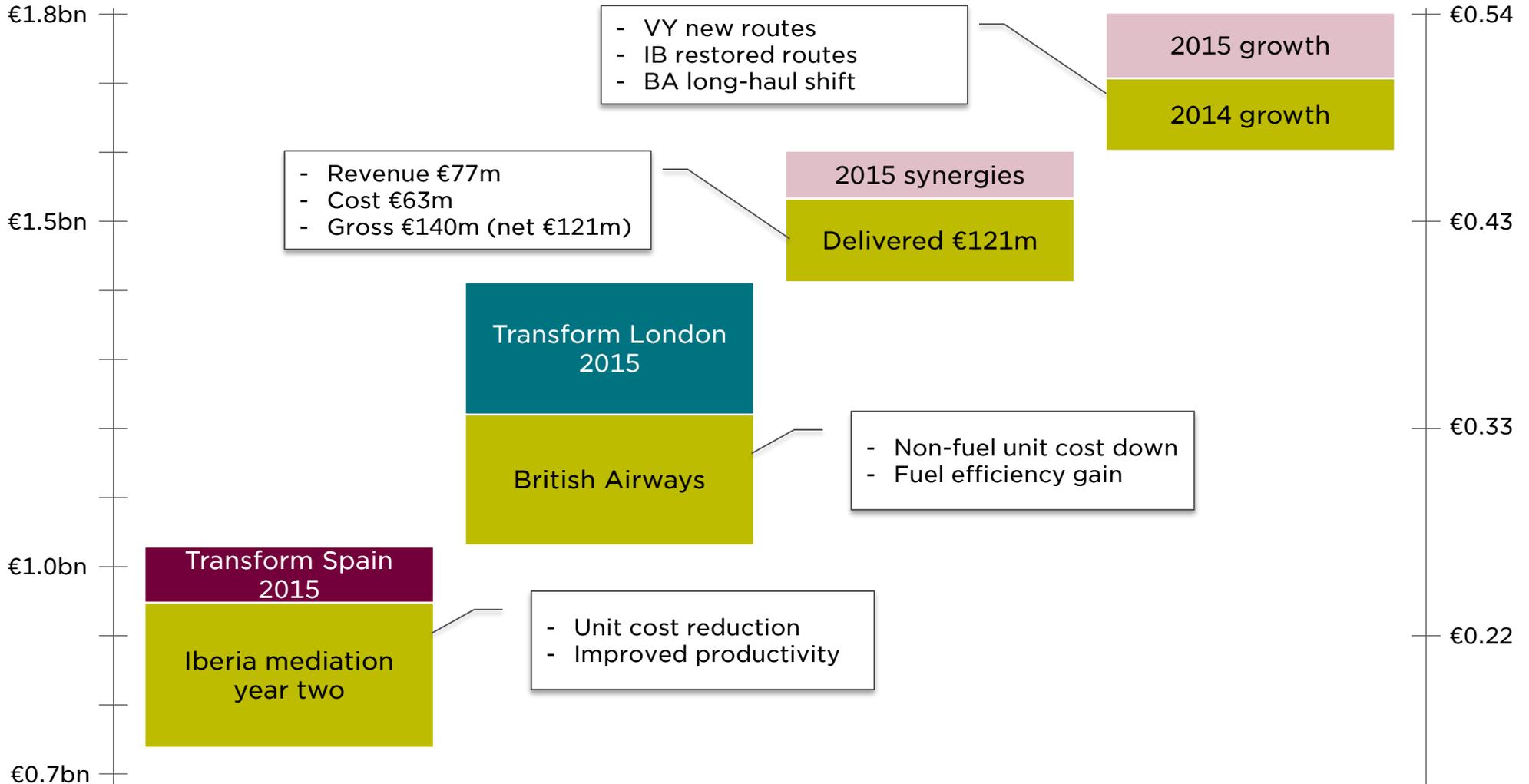
2015 financial targets - CMD 2013

Operating profit



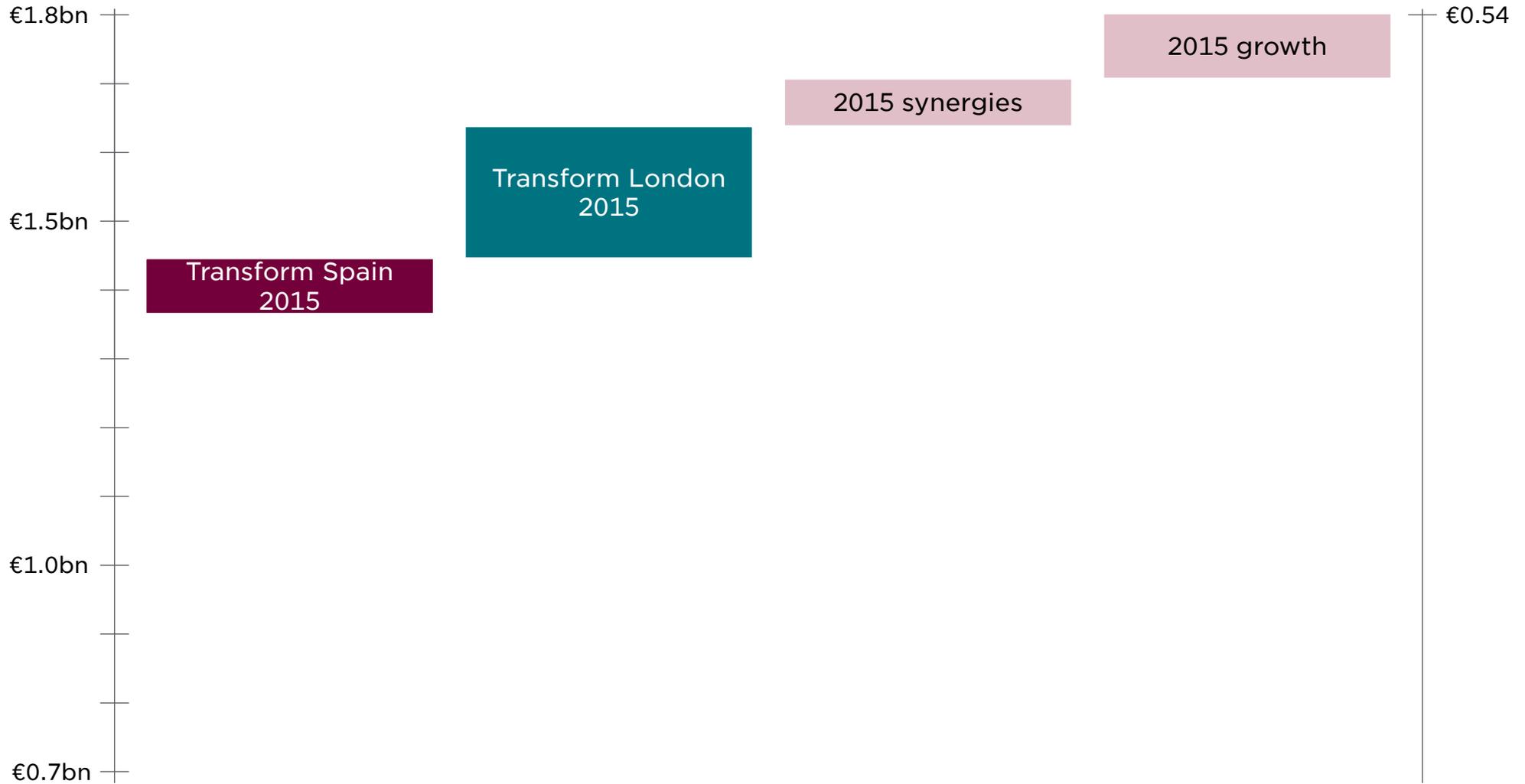
2015 financial targets - delivered 2014

Operating profit



2015 financial targets

Operating profit



2015 financial targets

Operating profit

€1.8bn

FD EPS

€0.54

- VY new routes and annualisation of last year route launches
- IB restoring routes profitably and annualisation of restored routes in 2014
- BA low growth in long-haul

2015 growth

- Target raised to gross €700m on good passenger revenue performance

2015 synergies

Transform London 2015

- Improving short-haul asset turn whilst retaining margin
- Reducing background ex-fuel unit cost

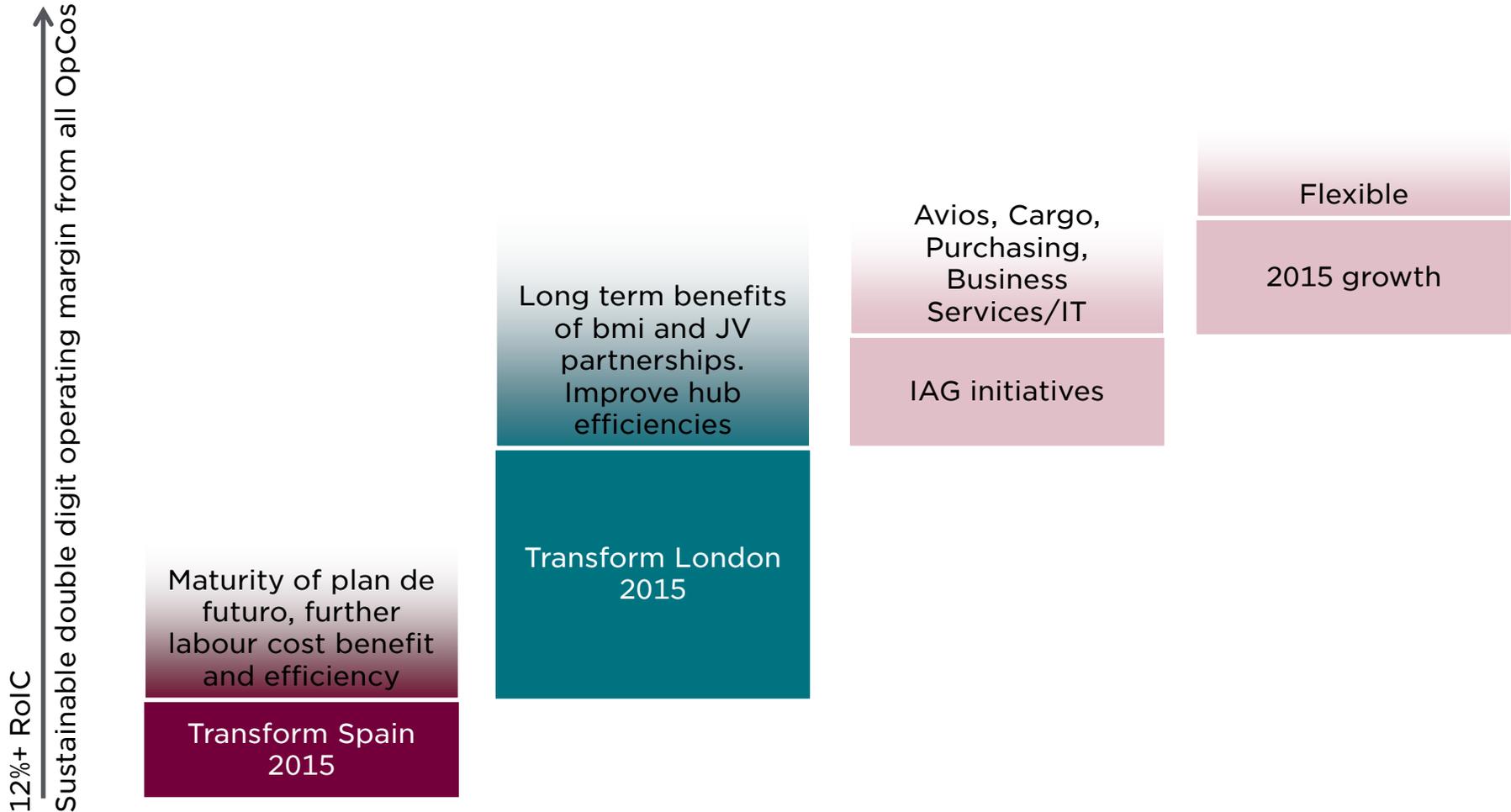
Transform Spain 2015

- Continuing with transformation plan

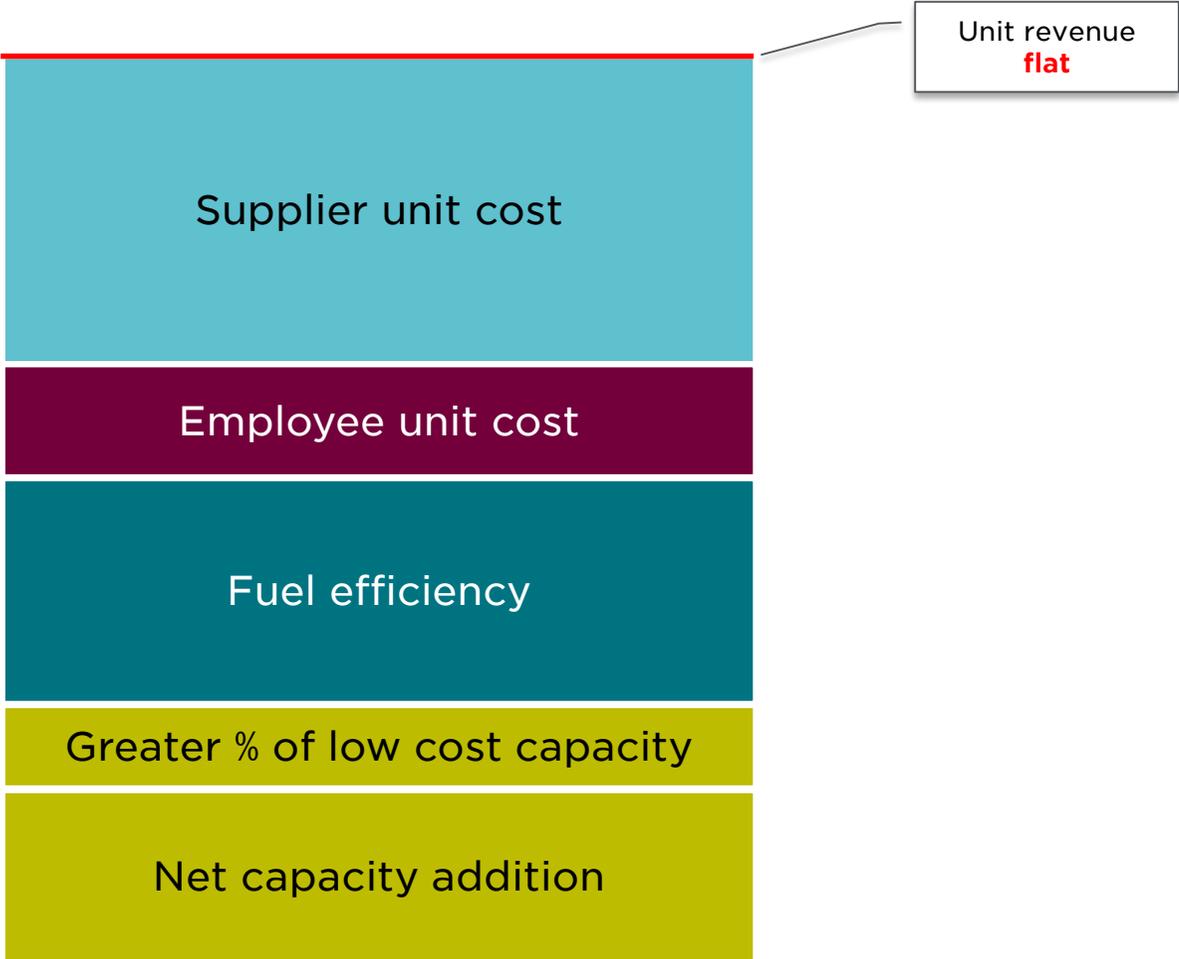
Plan based on fuel spot price \$950/MT and €/\$ 1.35

€1.3bn

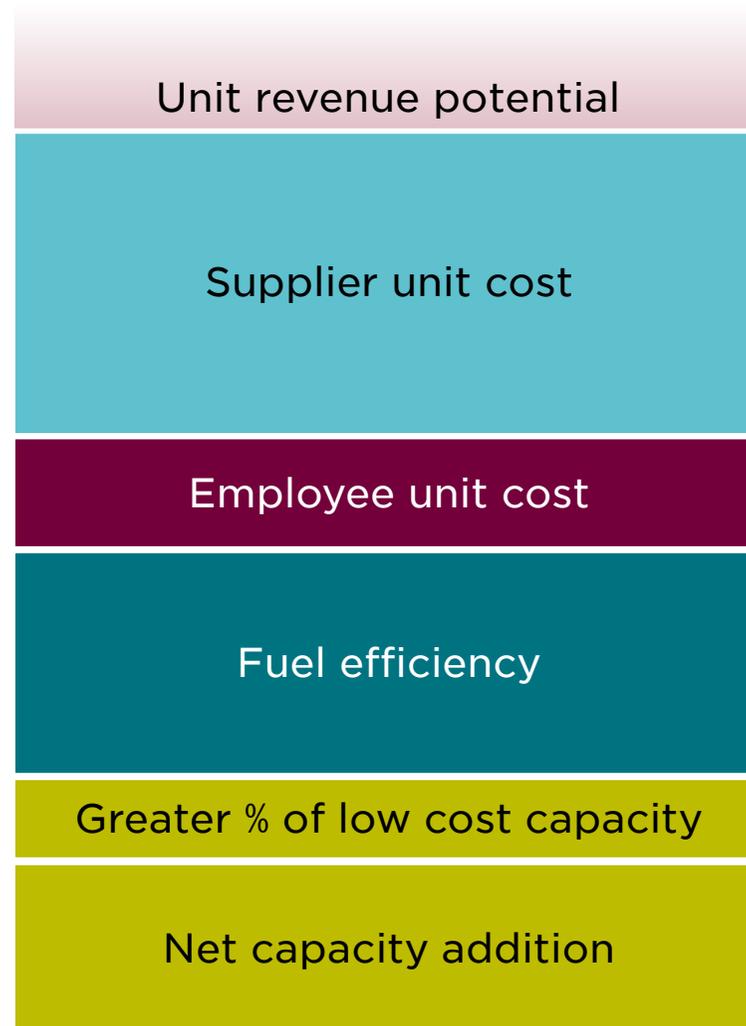
2016 - 2020 planning framework



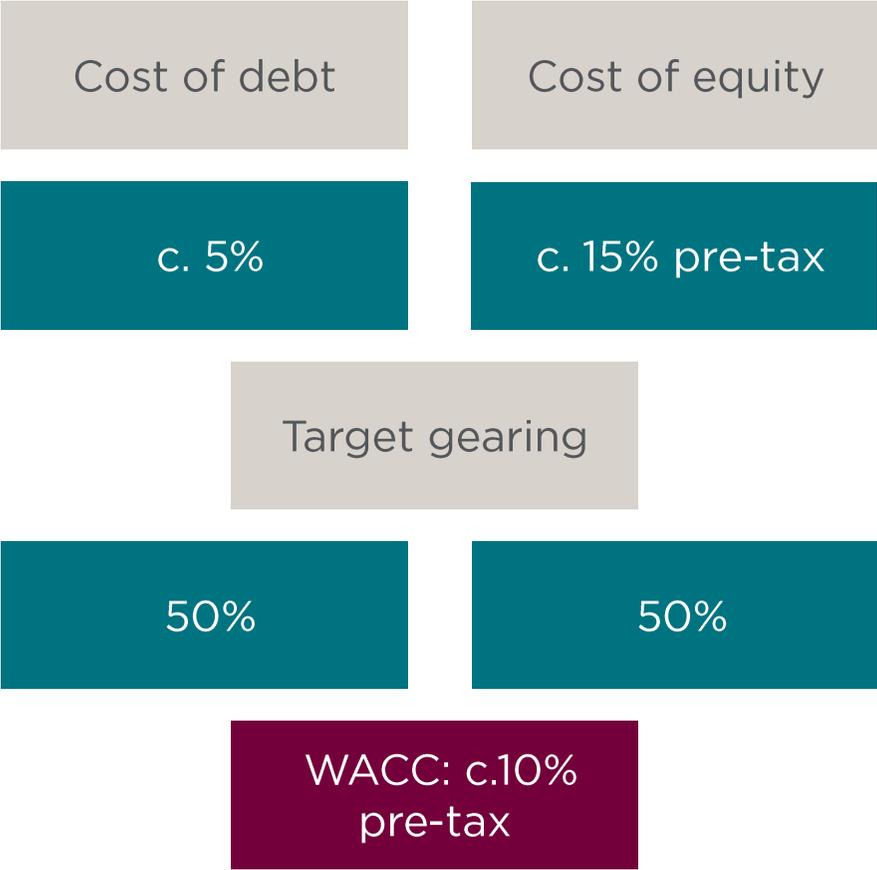
2016-2020 profit growth drivers



2016-2020 profit growth drivers



Reminder: our WACC calculation (CMD 2013)



Invested Capital example calculation - IAG 2013

Real returns, applicable to all airlines (simplified version of last year with lease adjustment), working from public information

$$\text{adjusted depreciation} \times \text{remaining asset life} = \text{Invested Capital}$$

$$€1,377\text{m} \times 11 = €15.2\text{bn}$$

reported
depreciation
€963m

X

Inflator
1.1

Inflation offset by past and expected future efficiencies (IAG planning assumption)

+

lease
adjustment
€318m

*aircraft rentals x 0.67
Standard rating agency
adjustment*

asset life
22 years

*1 / 4.6% (depreciation rate)
Asset GBV = €21,102m*

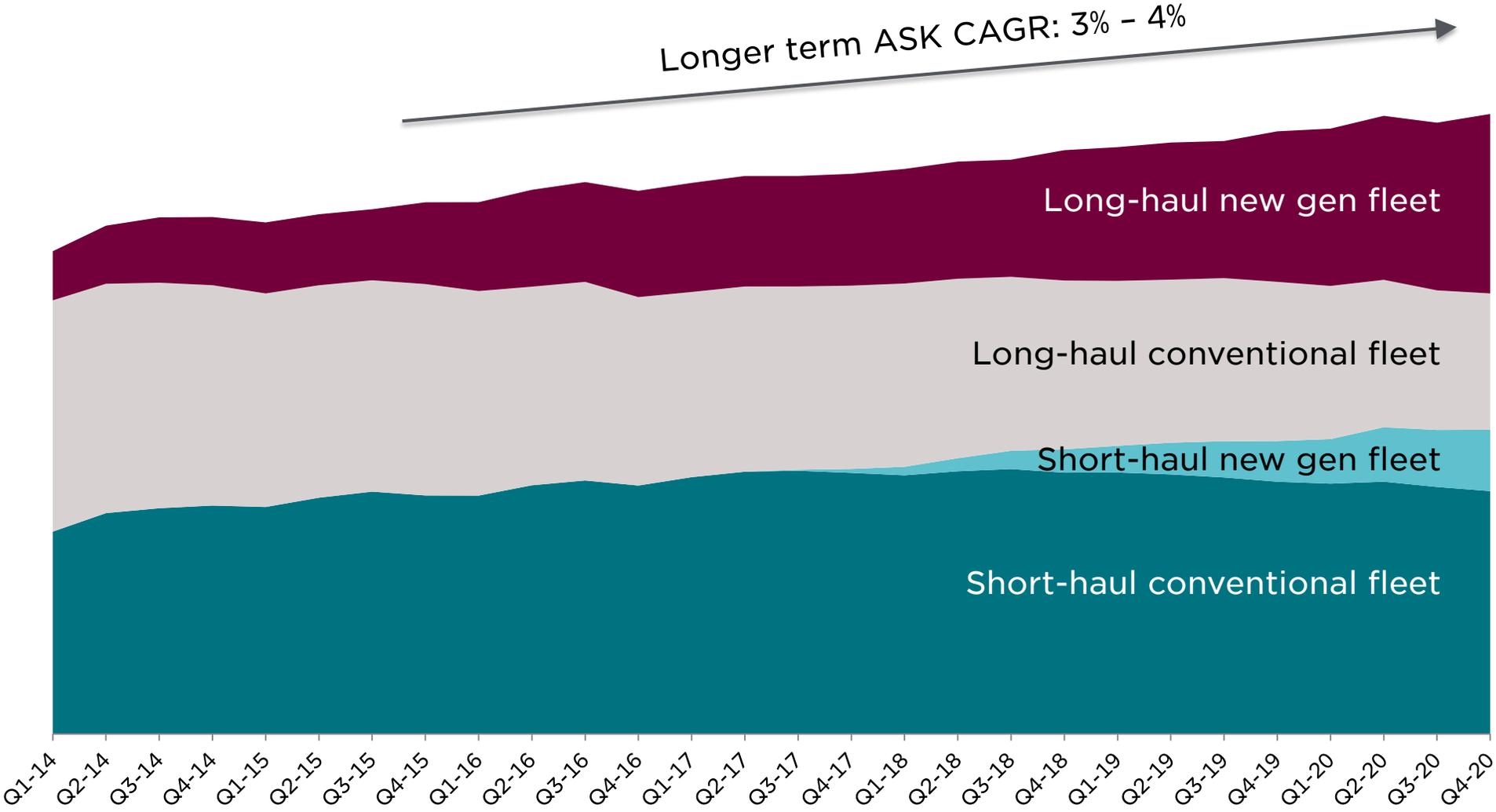
-

asset age
11 years

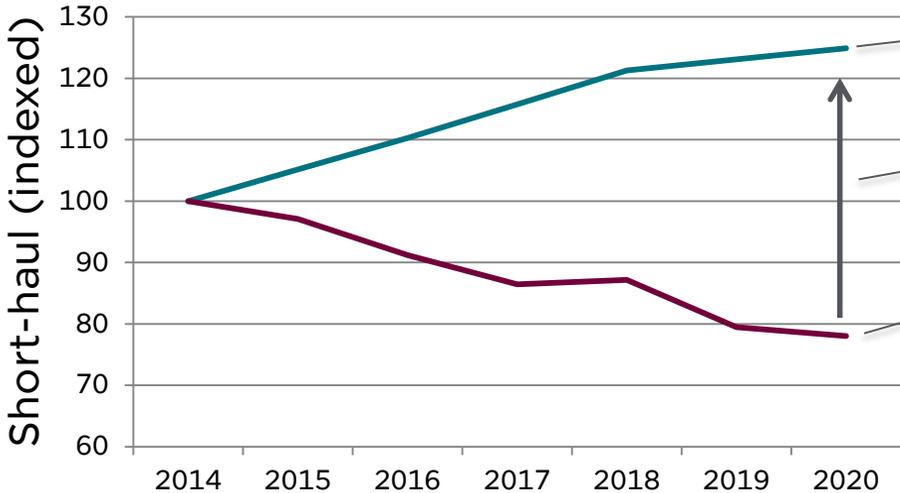
*accum. depn / latest depn.
Accumulated depreciation =
€10,874m*

2016-2020 plan
average Invested
Capital €16.5bn

Fleet plan 2016 - 2020 ASKs



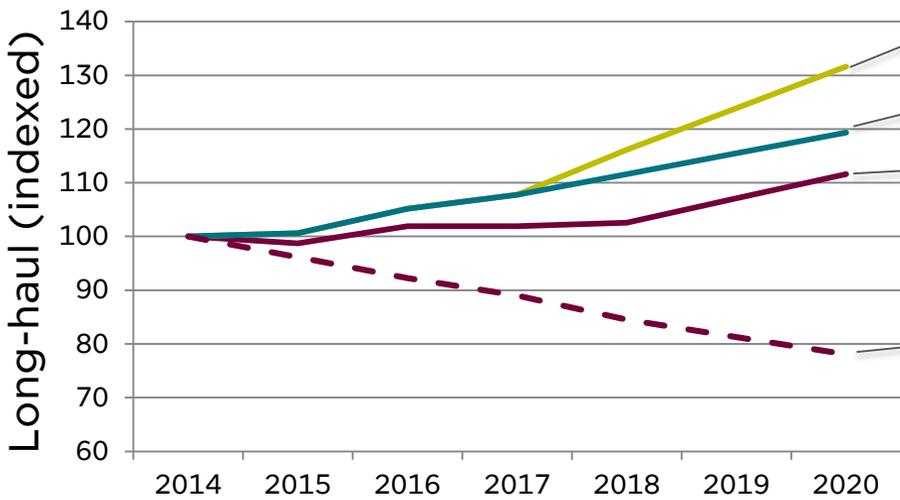
Fleet plan flexibility - aircraft in fleet



Planned short-haul aircraft (CAGR **+3.5%**)

Gap closable by leasing/second hand/later retirement/option exercise

Minimum short-haul aircraft commitments (CAGR **-4.0%**)
(Firm orders minus retirements)



Long-haul aircraft with all options (CAGR +4.5%)

Planned long-haul aircraft (CAGR **+3.0%**)

Minimum long-haul aircraft commitments (CAGR +1.5%)
(Firm orders minus retirements)

Flexible long-haul downside scenario (CAGR **-4.0%**)
(Firm orders minus accelerate B747 retirements)

Fleet plan detail

Aircraft	2014 year end	2015 year end	Outstanding orders post 2015	Current further options
A330/340	31	32	8	-
A350	-	-	26	42
A380	8	10	2	7
B747	43	39	-	-
B767	7	4	-	-
B777	58	58	-	-
B787	8	13	29	18
A318	2	2	-	-
Total long-haul	157	158	65	55
A320 family	266	287	68	178
Other	35	27	-	15
Total short-haul	301	314	68	193
Total fleet	458	472	133	248

8 options converted to IB firm orders
A350-900 and A350-1000 deliveries from 2018

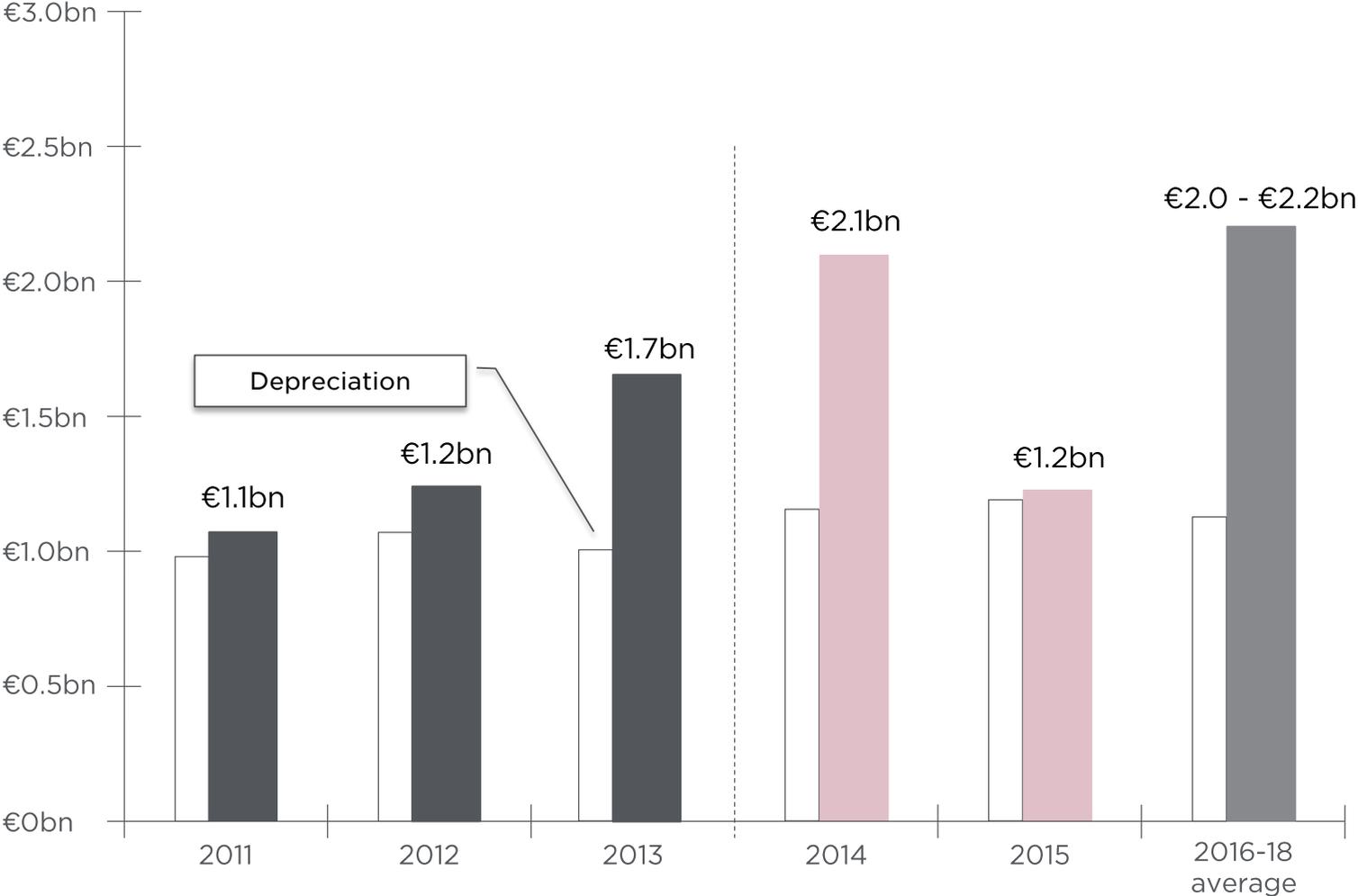
A380 delivery moved from Q1-16 to Q4-15

B767 long-haul retired by 2016, replaced by B787

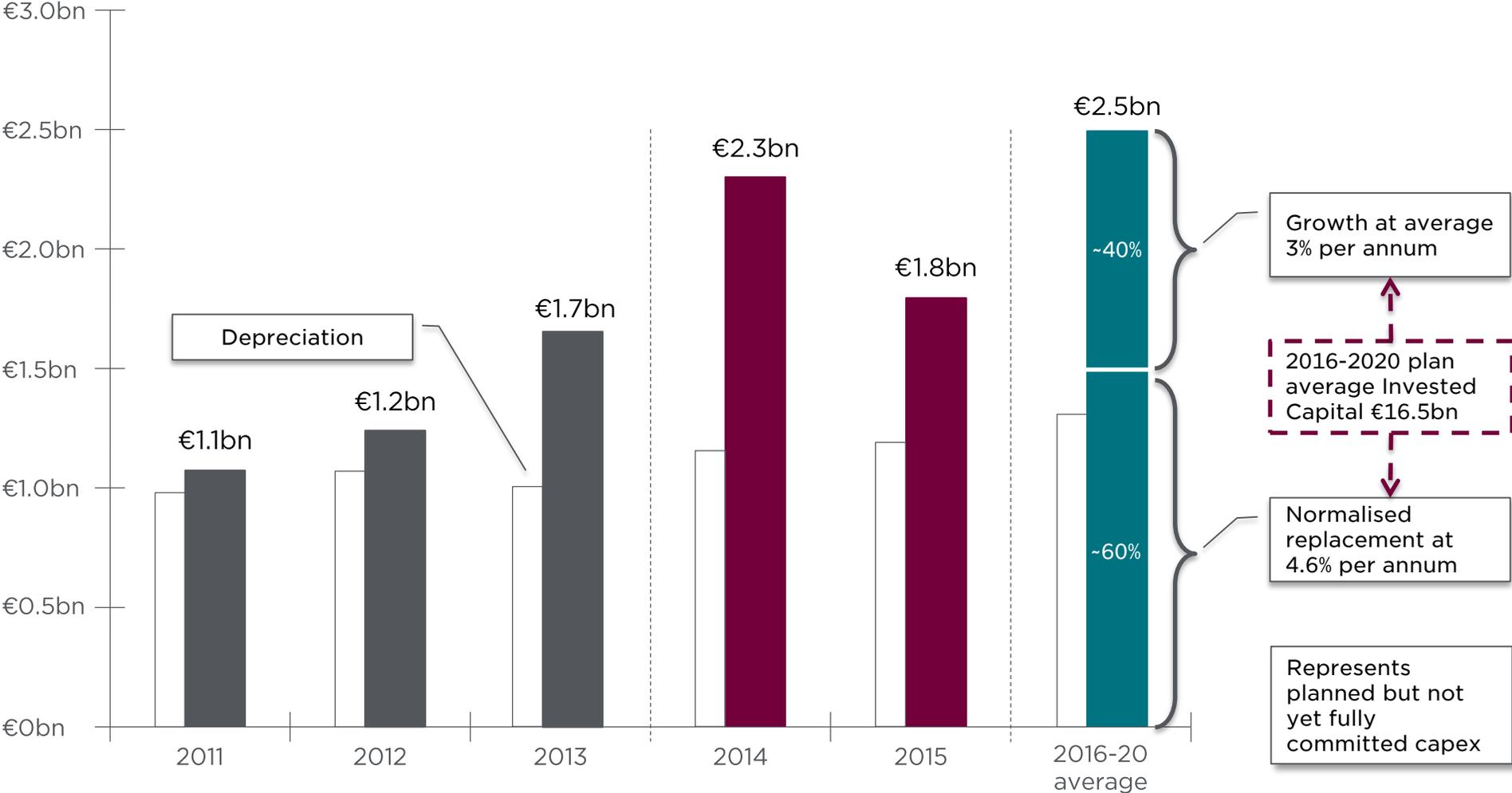
B787-9 deliveries from 2015
B787-10 deliveries from 2019

B737 retired by 2015
B767 short-haul retired by 2018, replaced by A320 family

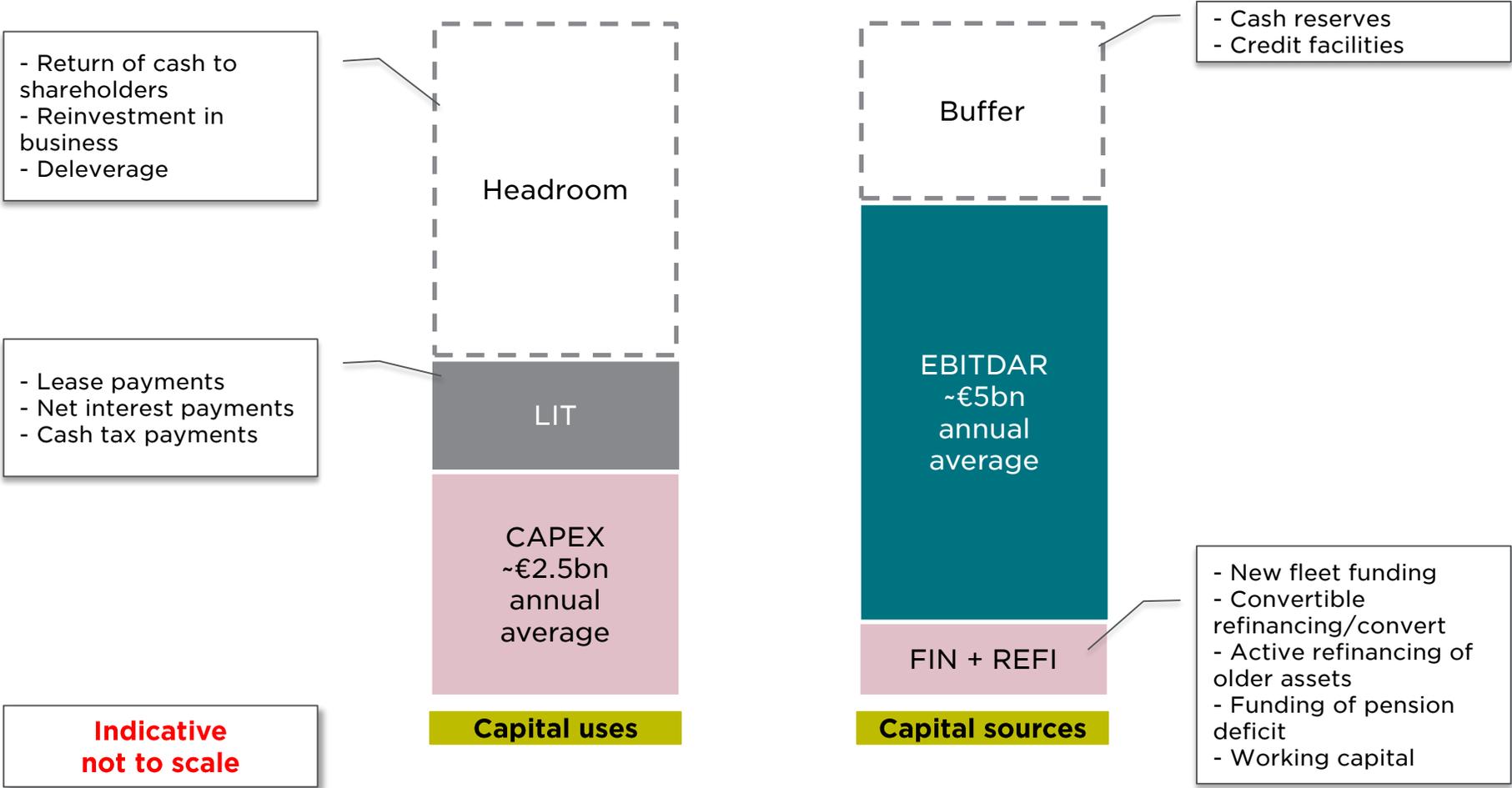
Capex plan - CMD 2013



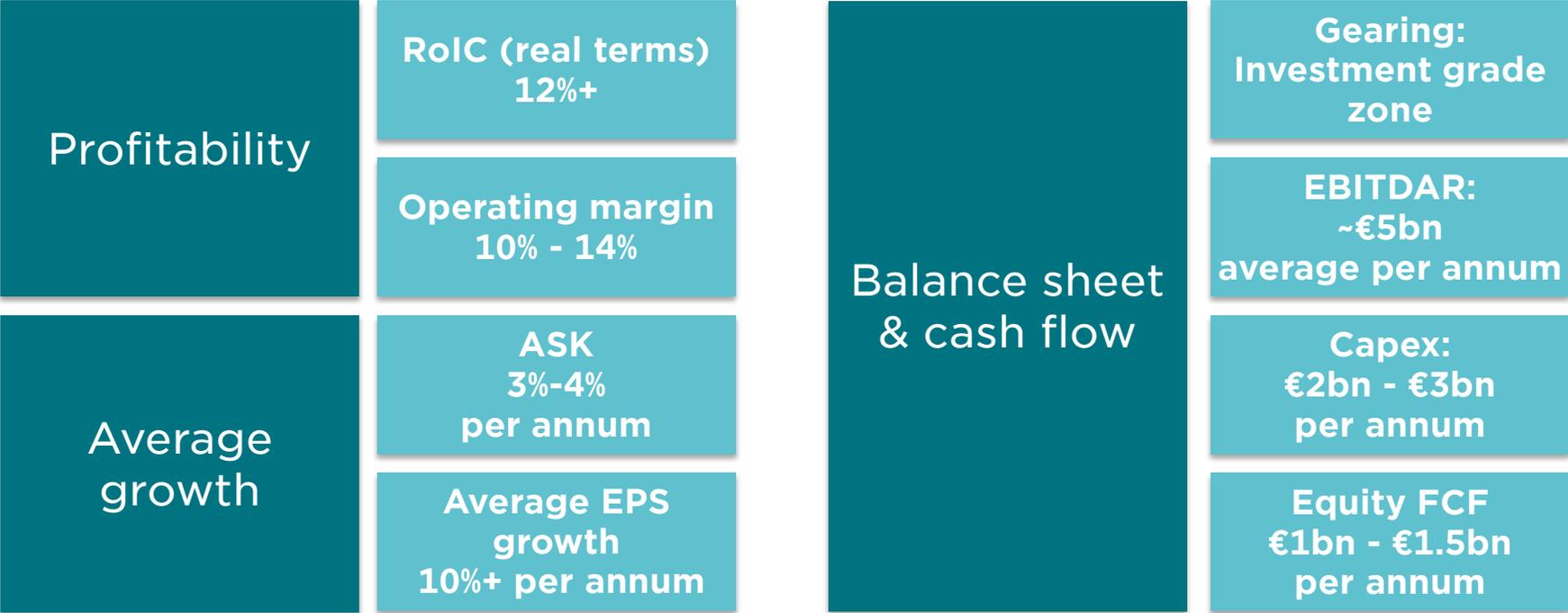
Capex plan



IAG corporate finance strategy 2016-2020



Long term planning goals 2016 - 2020



Cash return to shareholders Sustainable ordinary dividend initially 4x covered by underlying after-tax profit

Dividend policy statement

It has been the stated intention of IAG to distribute regular dividends to our shareholders in the medium and long term, in an amount appropriate to market conditions, depending on a number of factors, including but not limited to, the earnings of the company, financial conditions, cash requirements and prospects and legal requirements.

The Company has made significant progress during 2014 and we remain confident in meeting our 2015 financial targets which we see as the trigger to introducing a dividend.

We therefore anticipate making a declaration in 2015 as the first step in our plan to introduce a sustainable dividend payment.

The initial dividend would be based on a payout ratio of 25% of our underlying profit after tax.

IAG 2016-2020 planning agenda

IAG initiatives		
IAG Cargo	In progress	Update later
Avios	In progress	Update later
IAG Fleet & Purchasing	In progress	Update later
IAG Business Services/IT	In process of launch	Update TBD
[Other major initiatives]	In planning	Update TBD
OpCo initiatives		
British Airways	In progress	Transform London and long-haul network growth
Iberia	In progress	Transform Spain and route restoration, maturity 2020
Vueling	In progress	P2P European LCC growth
Growth		
Organic growth	In progress	Flexible targeted growth maintaining 12%+ average RoIC

Cargo

Transformation of the Cargo business

Optimising return for IAG



A NEW BUSINESS



INNOVATIVE OPERATING MODEL



PIONEERING INTEGRATION WITHIN IAG



CLEAR STRATEGIC PRIORITIES

An introduction



2011
IAGC announced



250
Global destinations



€1bn
Annual turnover

Top 10
Air freight carrier

Top 2
Wide-bodied reach

36%
From 10 customers

3.8%
Global market share

95%
Lift from pax aircft

>€50m
Merger synergies

The rationale



Customer proposition

- Improved network scale and connectivity
- Enhanced product and commercial offerings



Optimising financial return

- Strong merger synergies
- Maximising return on IAG capital e.g. focus on passenger aircraft utilisation



Set up for growth

- Commercial platform attractive to new partners
- Key lessons from Cargo integration are being used for wider group projects

Integration 80% complete

ONE NAME, ONE BRAND

IAG Cargo

ONE CARGO OPERATION

For all joint IB/BA stations



ONE MANAGEMENT TEAM



Incentivised to optimise group result

ONE PRODUCT PORTFOLIO

e.g. market leading pharma product utilised cross network



ONE SALES FORCE



ONE SET OF DISTRIBUTION CHANNELS

iagcargo.com

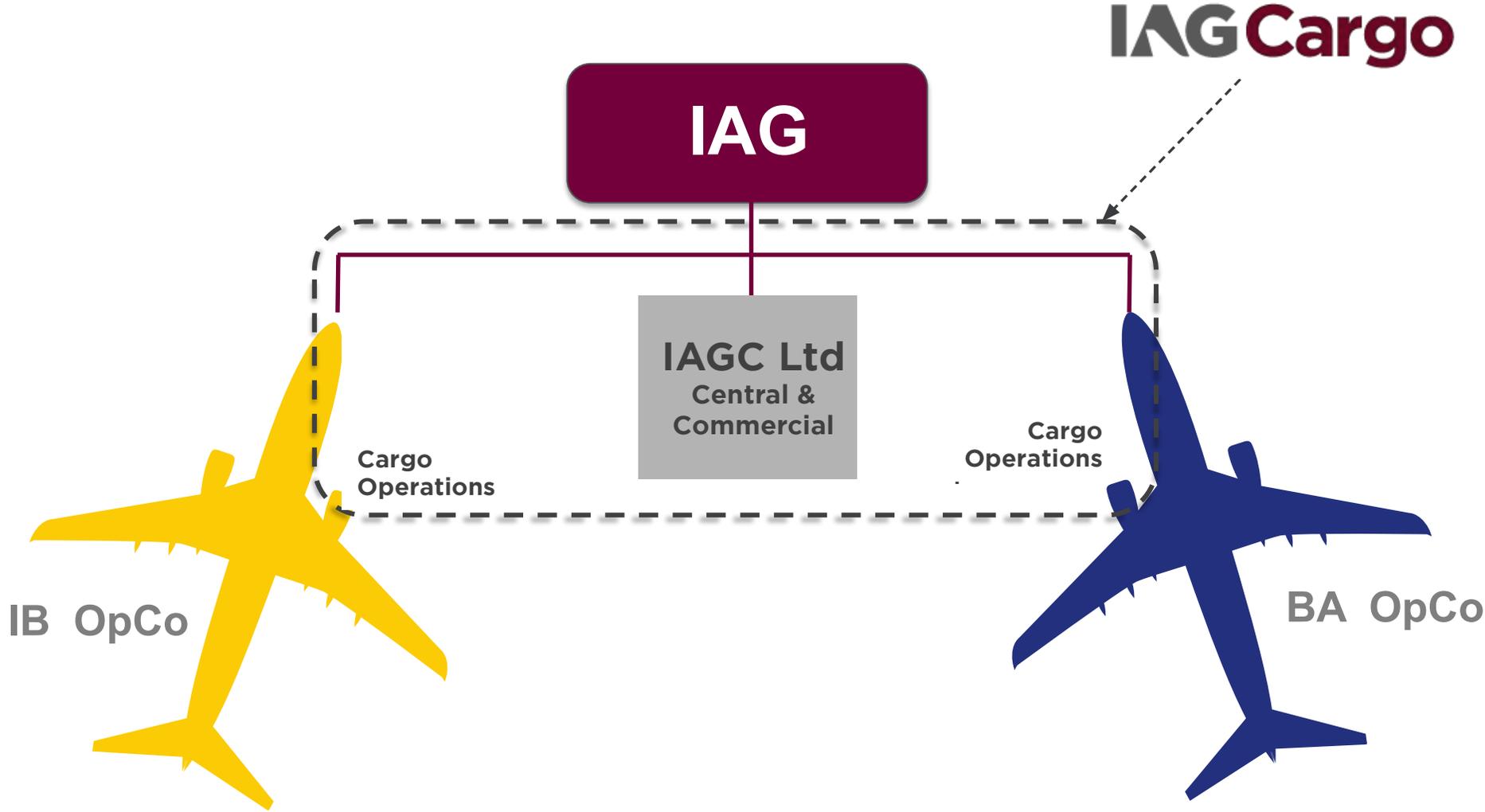


ONE NETWORK

*Linked via a wide bodied air bridge
Single revenue management system
optimising for the group*



Operating model



Focus on value generation

PROFIT AND LOSS APPROACH

CARGO REVENUES
DIRECTLY ATTRIBUTABLE COSTS
STAFF COSTS
SUPPLIER COSTS
OVERHEADS e.g. Property Leases, IT
FUEL BURN ON PASSENGER AIRCRAFT
NON ATTRIBUTABLE COST ALLOCATION
OVERHEADS (unrelated to Cargo)
CAPACITY CHARGE FOR OPERATING COSTS AND CAPITAL OF PASSENGER AIRCRAFT

MODEL A

YES
PARTIAL
PARTIAL
PARTIAL
NO
NO
NO
NO

MODEL B

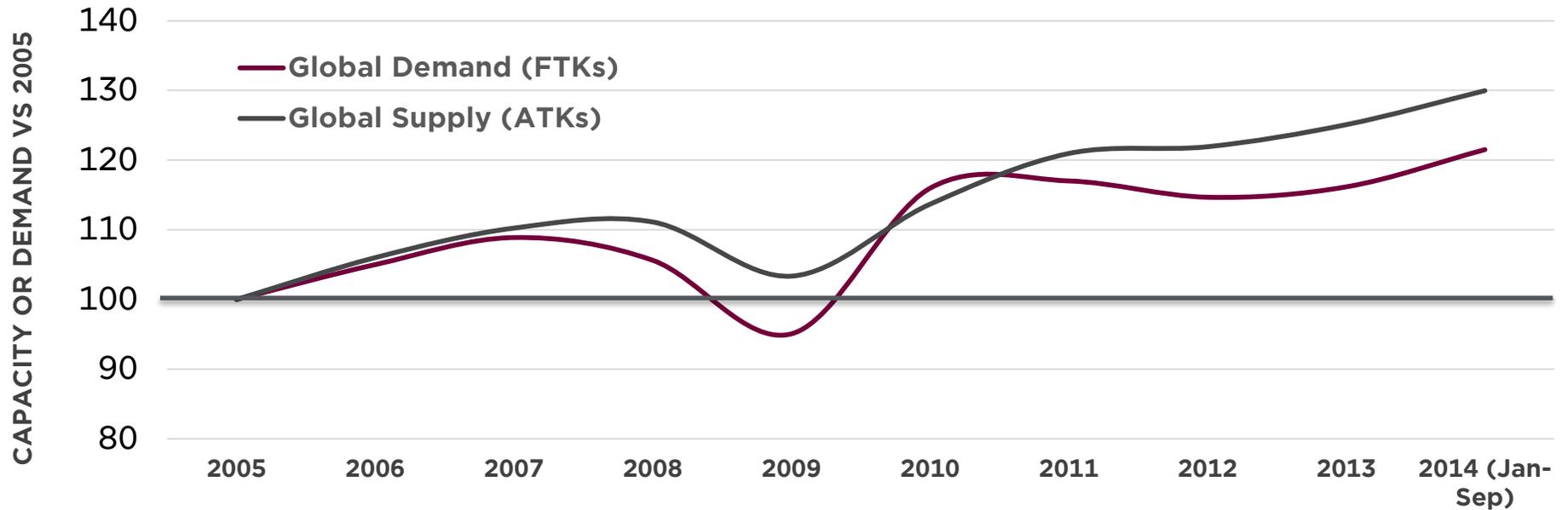
YES
YES
YES
YES
NO
YES
YES
YES

IAG CARGO

YES
NO
NO

Structural change in the market

Demand and supply growth are not in line



Source : IATA International Airfreight statistics

Challenges faced

EXTERNAL

LONGHAUL FREIGHTERS DECISION

- 2002** • Three 747-8Fs **wetleased** from GSS
 - 13% of capacity and 24% of total IAG Cargo cost base
- 2014** • Exited programme in April 2014
 - Preserved Hong Kong to London lane via capacity programme with Qatar in May 2014
 - Smaller programme more **flexible and lower unit cost** - results are good



INTERNAL

CROSS GROUP IT IMPLEMENTATION

- Key to integration has been moving to a single set of **commercial IT systems**

OPTIMA

- At the centre of the new single business is a single revenue management system - 'OPTIMA'. The system **enhances return** through price and inventory controls across **entire network**
- Optima is an €11m programme to deliver on-going annual **benefits of €12m**
- Programme is now **90% complete**. Two large system upgrades this year

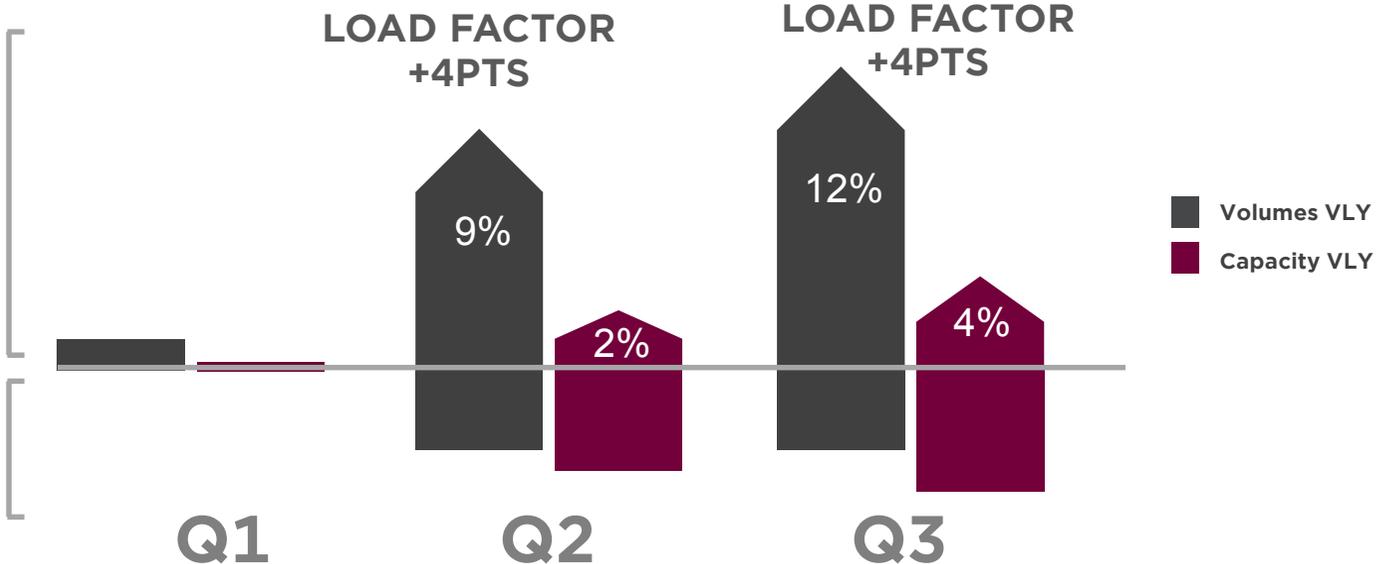
- First large scale cross-group IT programme - significant **lessons** generated for the Group

Recent performance

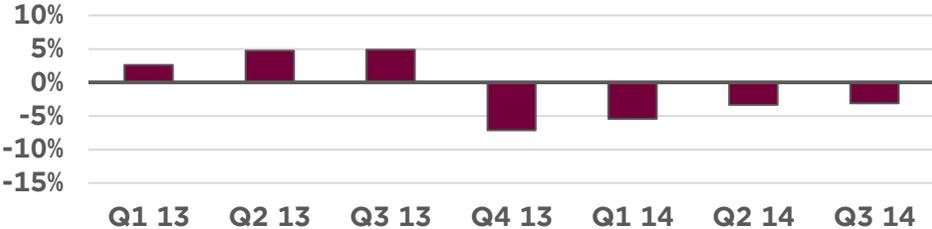
TRAFFIC STATISTICS YoY%

“LIKE FOR LIKE” STRIPS OUT THE LH FREIGHTER IMPACT YOY

MATERIAL CHANGE DUE LH FREIGHTERS FROM MAY

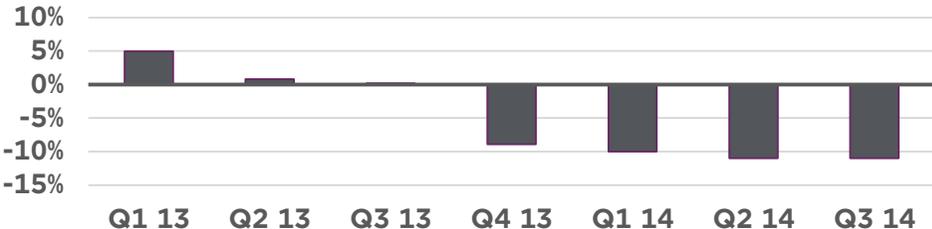


Underlying Yield per CTK at constant FX



MARKET YIELD UNDER PRESSURE DUE TO EXCESS CAPACITY

Underlying Unit Cost per CTK at constant FX



COSTS WELL CONTROLLED - ABSOLUTE COSTS FLAT DESPITE VOLUME GROWTH

Underlying = excluding long-haul freighter impacts

Strategic priorities

ISSUE

COMMODITISATION

EXCESS MARKET CAPACITY

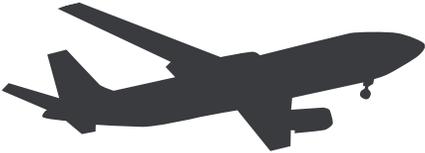
DIVERGENT MARKETS

STRATEGIC PRIORITIES

DIFFERENTIATION VIA PREMIUM PRODUCTS

COST EFFICIENCY & VARIABILITY

FLEXIBLE REGIONAL STRATEGIES & PARTNERSHIPS



Optimising return for IAG



A NEW BUSINESS



INNOVATIVE OPERATING MODEL



PIONEERING INTEGRATION WITHIN IAG



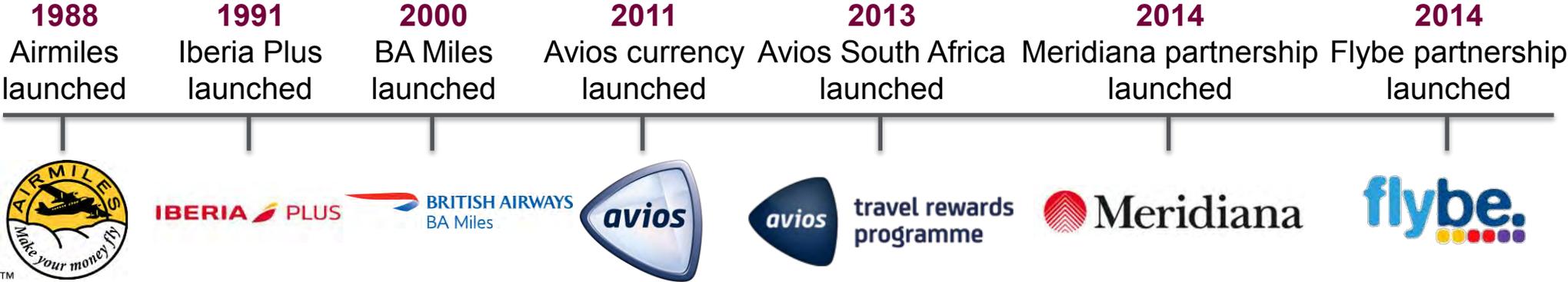
CLEAR STRATEGIC PRIORITIES

Avios

Our take on loyalty

IAG INTERNATIONAL
AIRLINES
GROUP

Our journey



Customer loyalty

Our vision...

Leaders in
travel rewards



Avios Group Limited

25 years loyalty experience



Quality partners to enhance the airline brand



Millions of active members across 221 countries



A growing, relevant ecosystem



What is the Avios currency

Customer Profile

- High affluence and propensity to travel for business and leisure
- Preference to save for an aspirational reward of greater value

Breadth of Reward

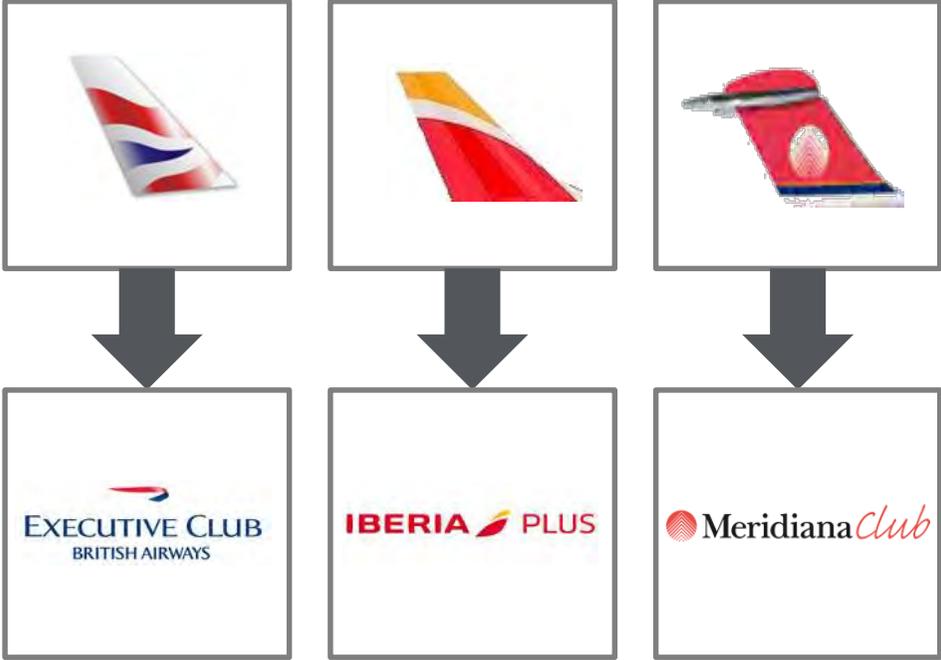
- Travel is an aspirational reward that can change behaviour
- High value full fare flight redemptions and part payment flight redemptions
- A broad range of non-flight travel rewards

Flexible Currency

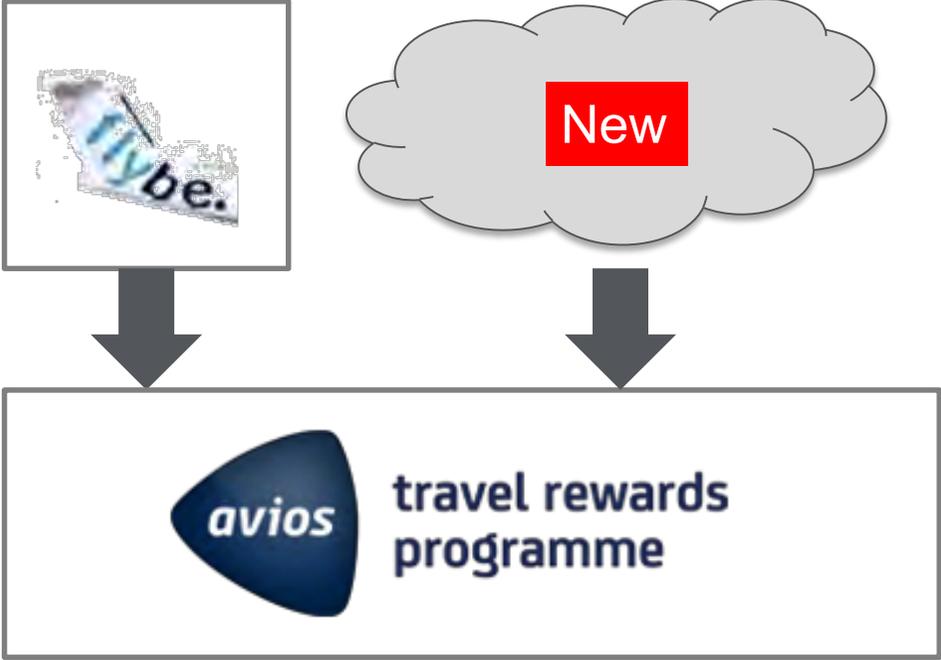
- Operates across four airline FFP's: BA Executive Club, Iberia Plus, Meridiana Club and Flybe
- Operates within two frequent buyer programmes in the UK and SA

Flexible business model for air partners

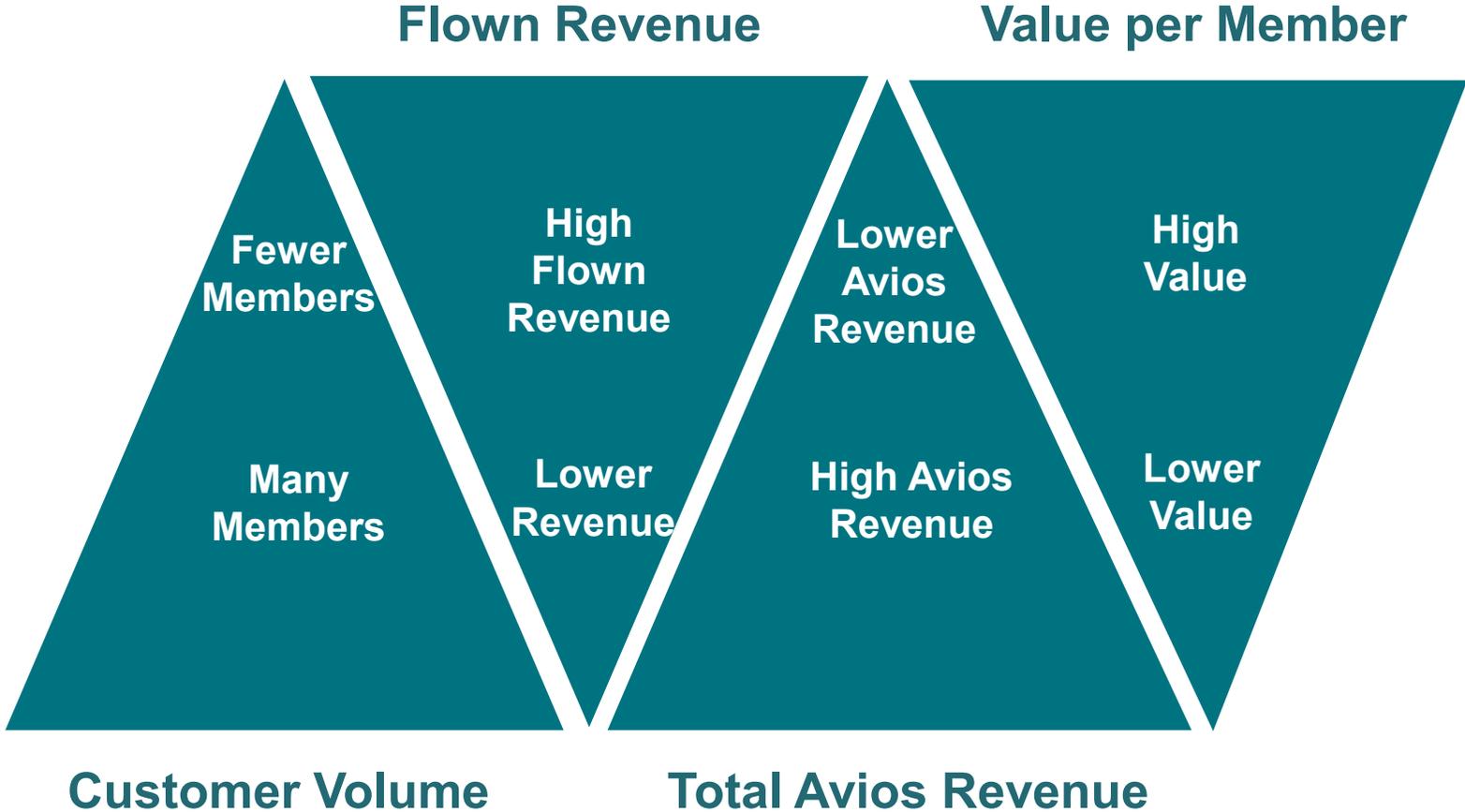
Recognition focus



Reward focus



Customer opportunity



IAG Opportunity

How Avios is beneficial to IAG and it's airlines

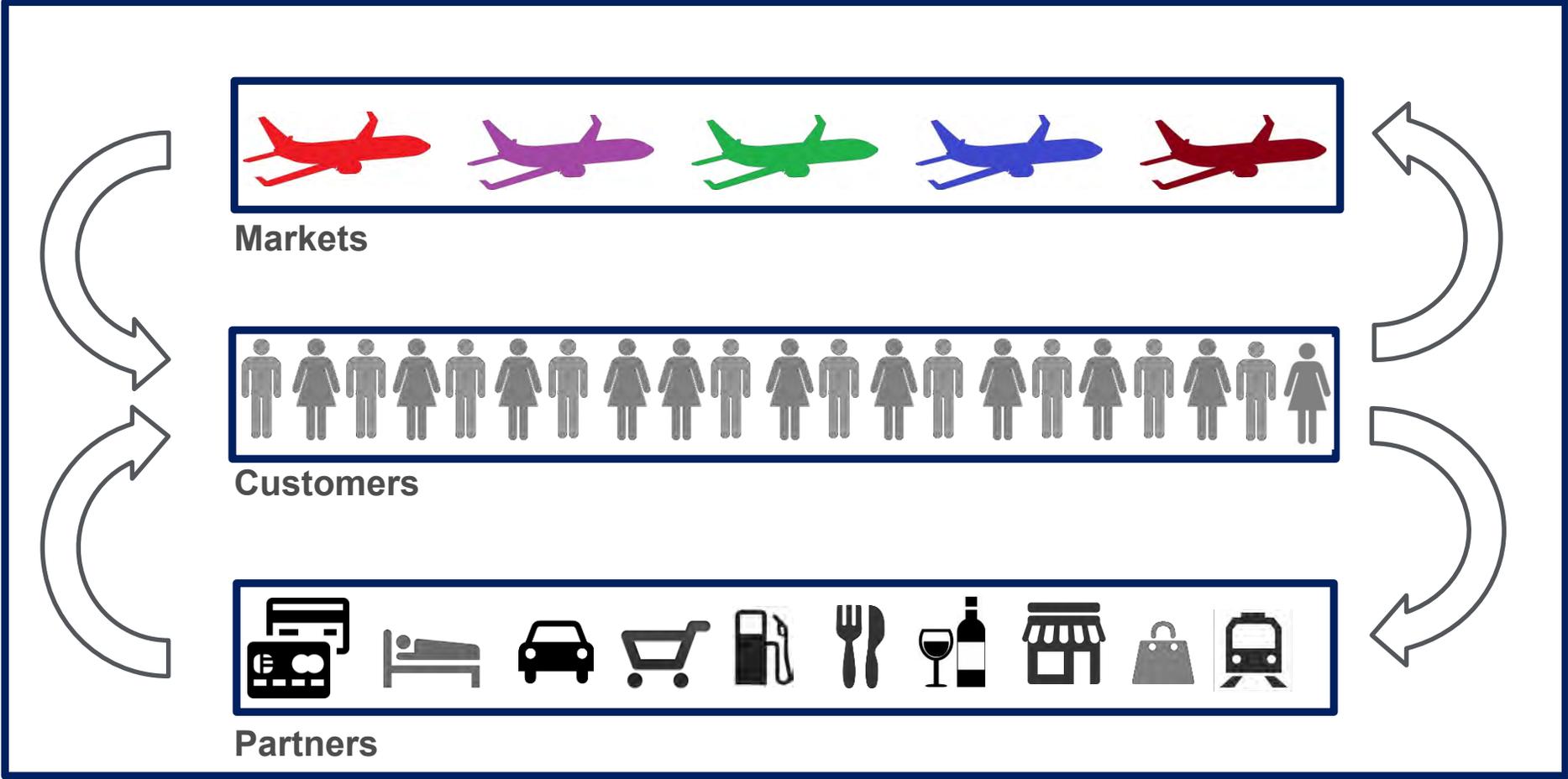
- **High margin** business model
- **Low capital** operations
- Generates a **positive cash flow**
- Generates **new revenues** and cash flows from third parties
- **High growth potential** from future IAG airline acquisitions and non-IAG airline partners
- Greater **customer loyalty** towards IAG airlines
- High opportunity for **customer acquisition**

IAG

Avios

IAG benefits

Creates relevance and reach



Building customer relevance

Achieved through a blend of...

Compelling travel propositions



Digital innovation



Locally relevant partners



How do members use their Avios

Avios has revolutionised redemption through...

More redemption airlines and journey improvement



Introduced Pay with Avios



Introduced Ancillary redemption



Delivering customer engagement



Fleet

Fleet harmonisation:
low operating cost, lean and flexible capex

Our fleet goals: low capex, flexible allocation



LOWEST COST

Lowest purchase cost

Lowest operating cost



REDUCED CAPITAL INTENSITY

Lower long term maintenance cost

Lower future modification cost

Whilst leaving OpCo brand freedom



GREATEST FLEXIBILITY

Ability to shift capital allocation between

OpCos within minimum time and expense

IAG's A320 fleet: one of the largest in Europe



Non-harmonised specifications lead to higher purchase cost, higher maintenance cost and make intra-fleet transfers almost impossible

Door 1 Area: unremarkable at first

Forward toilet



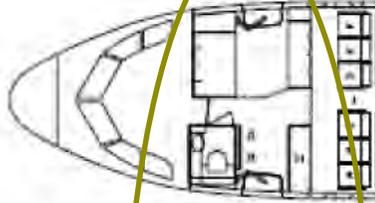
Forward galley



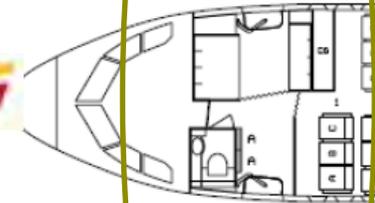
Door 1 Area: items harmonised/made interoperable

Sample of items from Door One Area

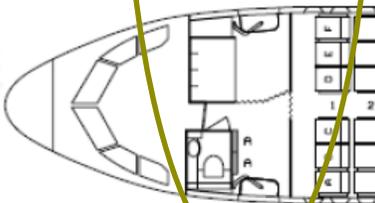
BRITISH
AIRWAYS



IBERIA



IBERIA EXPRESS
vueling



- G2A galley
- G1 cooling
- Galley structures
- Toilet doors
- Toilet water/tap systems
- Toilets options (materials, mirrors, vases, colours)
- Flooring
- Cabin attendant seats coverings
- Closet/storage configurations
- Varied locations of emergency equipment
- Different emergency exit signage
- Water quantity pre-selection system

G2A: no longer wet or no longer present



G1 Cooling: provisions installed in two OpCos



Galley structures: config. & suppliers harmonised



Toilet doors: harmonised



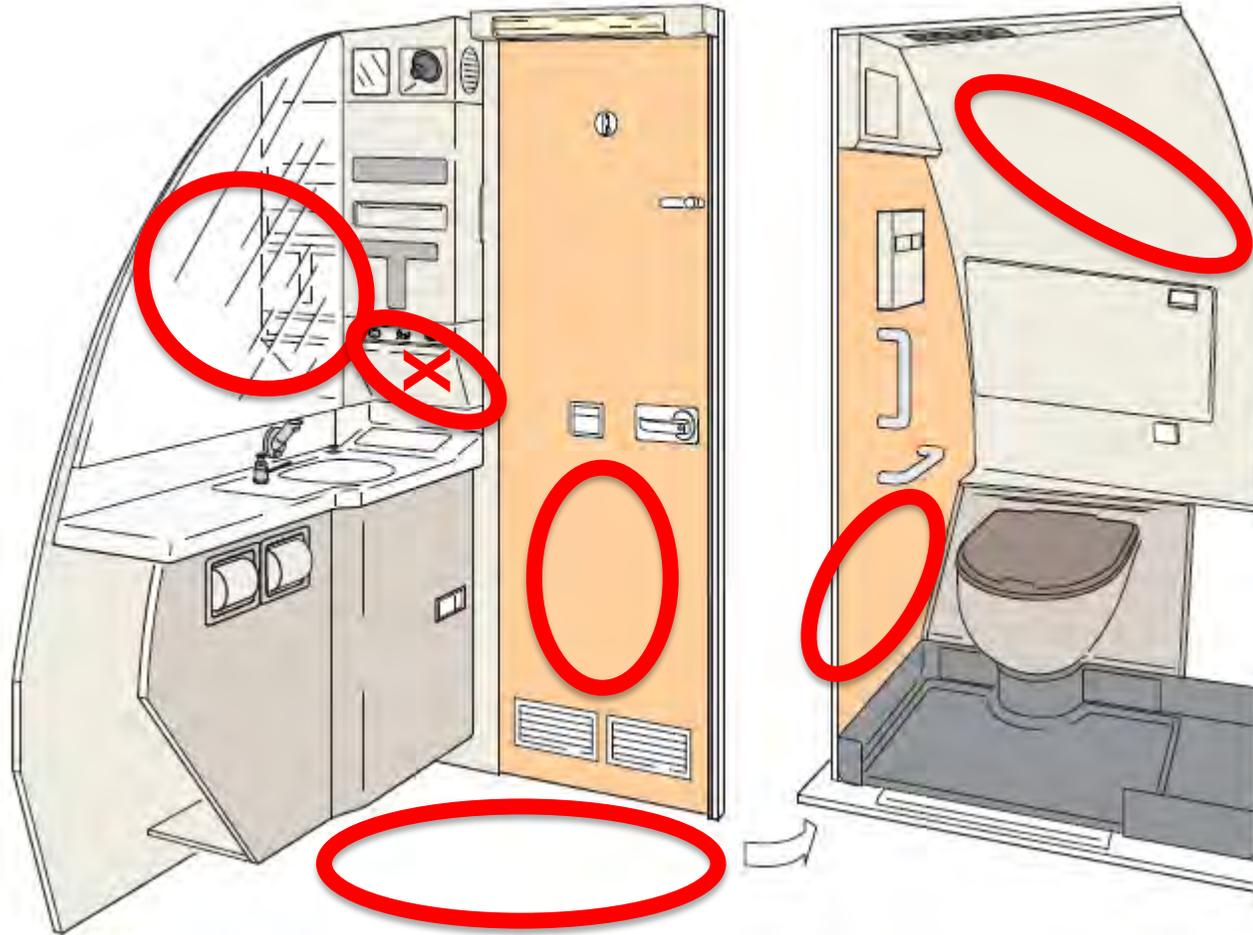
VS.



Toilet tap: harmonised



Toilet materials, mirrors, vases, colours: harmonised



Floors: harmonised



Cabin attendant seat coverings: harmonised



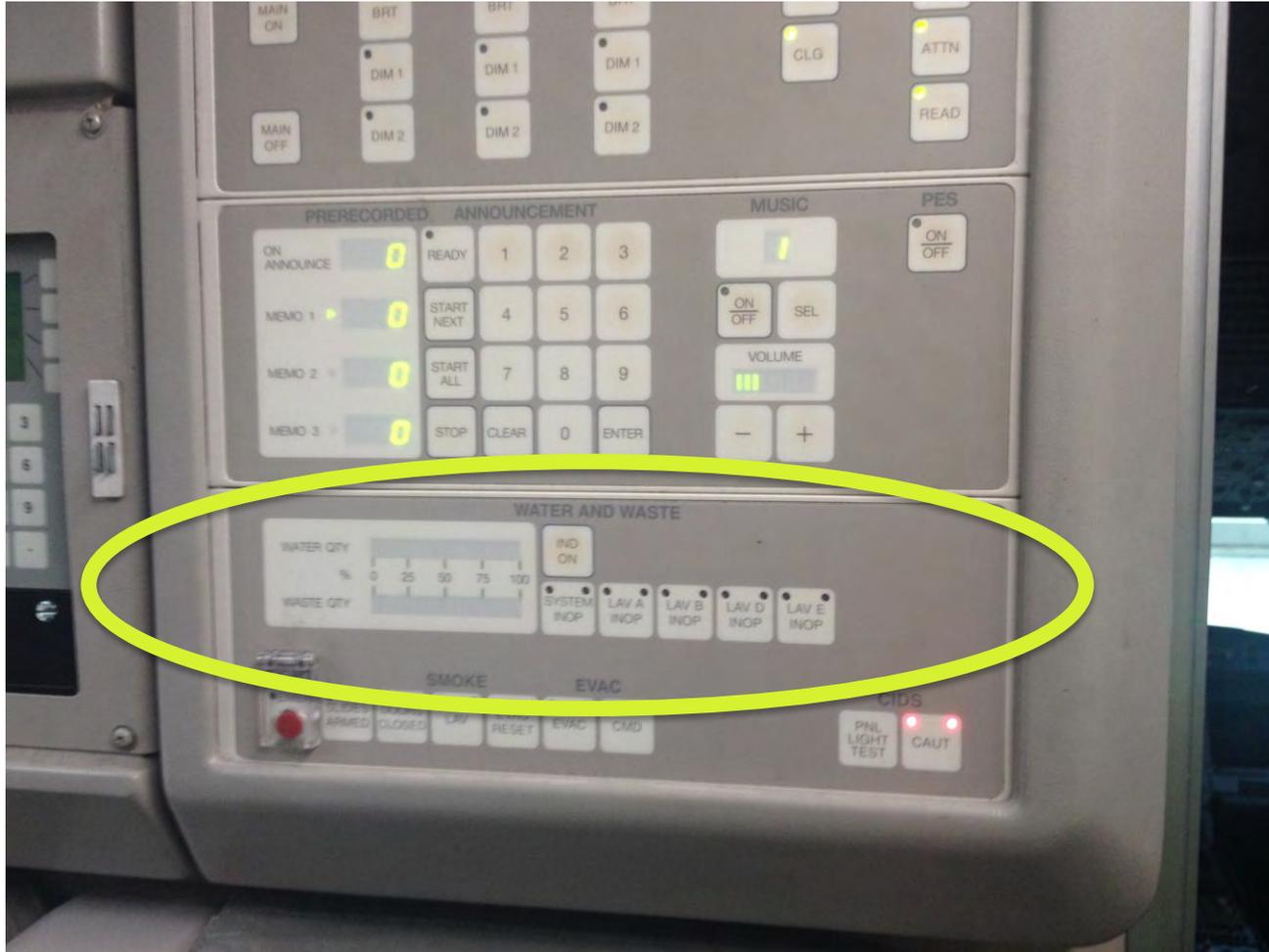
Storage configuration: harmonised or interoperable



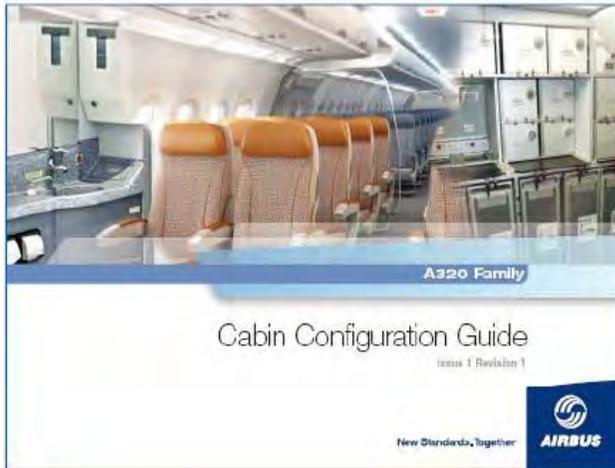
Emergency equipment: locations & signage harmonised



Water quantity pre-selection system: removed

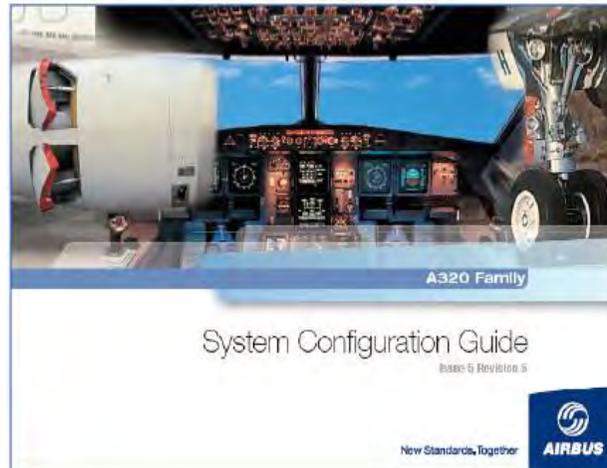


In total, approx. 400 choices across 250 categories



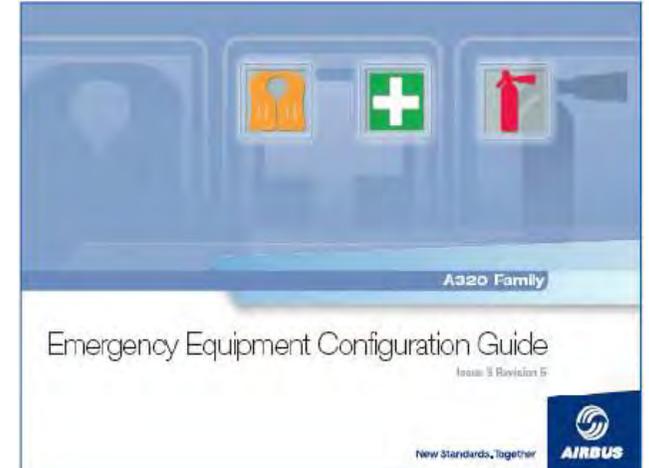
Cabin Configuration

- ~ 220 items across 170 categories



Avionics & Systems

- ~ 150 items across 108 categories



Emergency equipment

- ~ 40 categories

Cockpit windows: 3 airlines & 3 suppliers



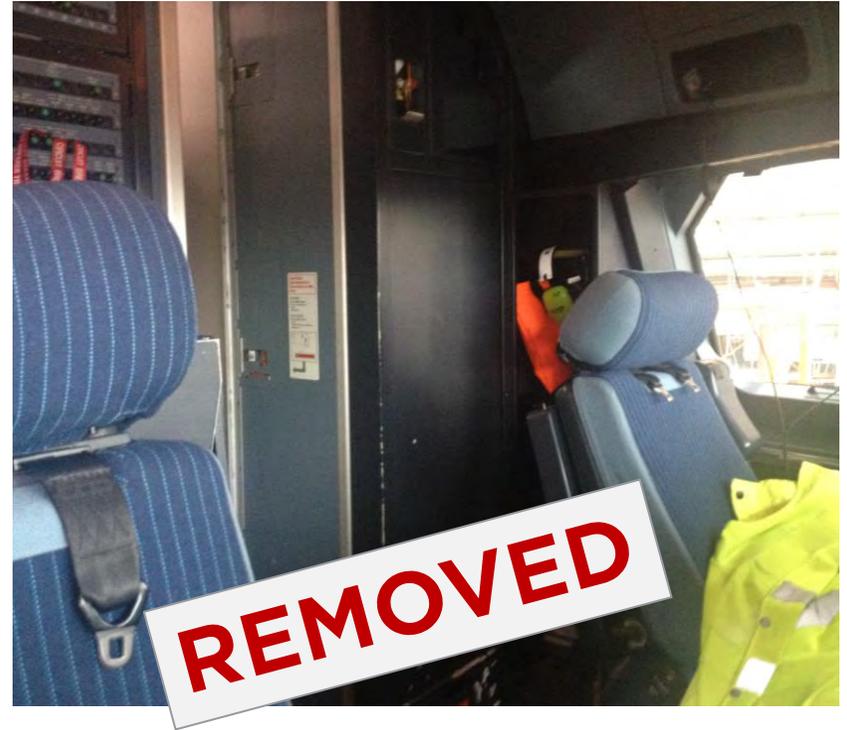
Experience with all suppliers: we can select the most reliable
30kg difference per aircraft between lightest and heaviest
(representing €2,800 fuel burn saving per aircraft per year)

IAG

Fleet
Harmonisation

Cockpit

4th occupancy seat in cockpit: present in 2 OpCos



Second jump seat in cabin weighs 12kg, cost ~€50,000
and creates a stream of maintenance checks/cost

Cost reductions per aircraft vs. current OpCo specs

Total cost saving (per a/c) **€500K - €1M**

Avionics/Systems - removed items approx. 40% of the saving

Cabin definition - removed items 30%

Group joint procurement savings 30%

Cabin provisions to allow for inter-brand flexibility (1%)



Beyond these, on-going savings from avoided modifications and downstream maintenance are enormous

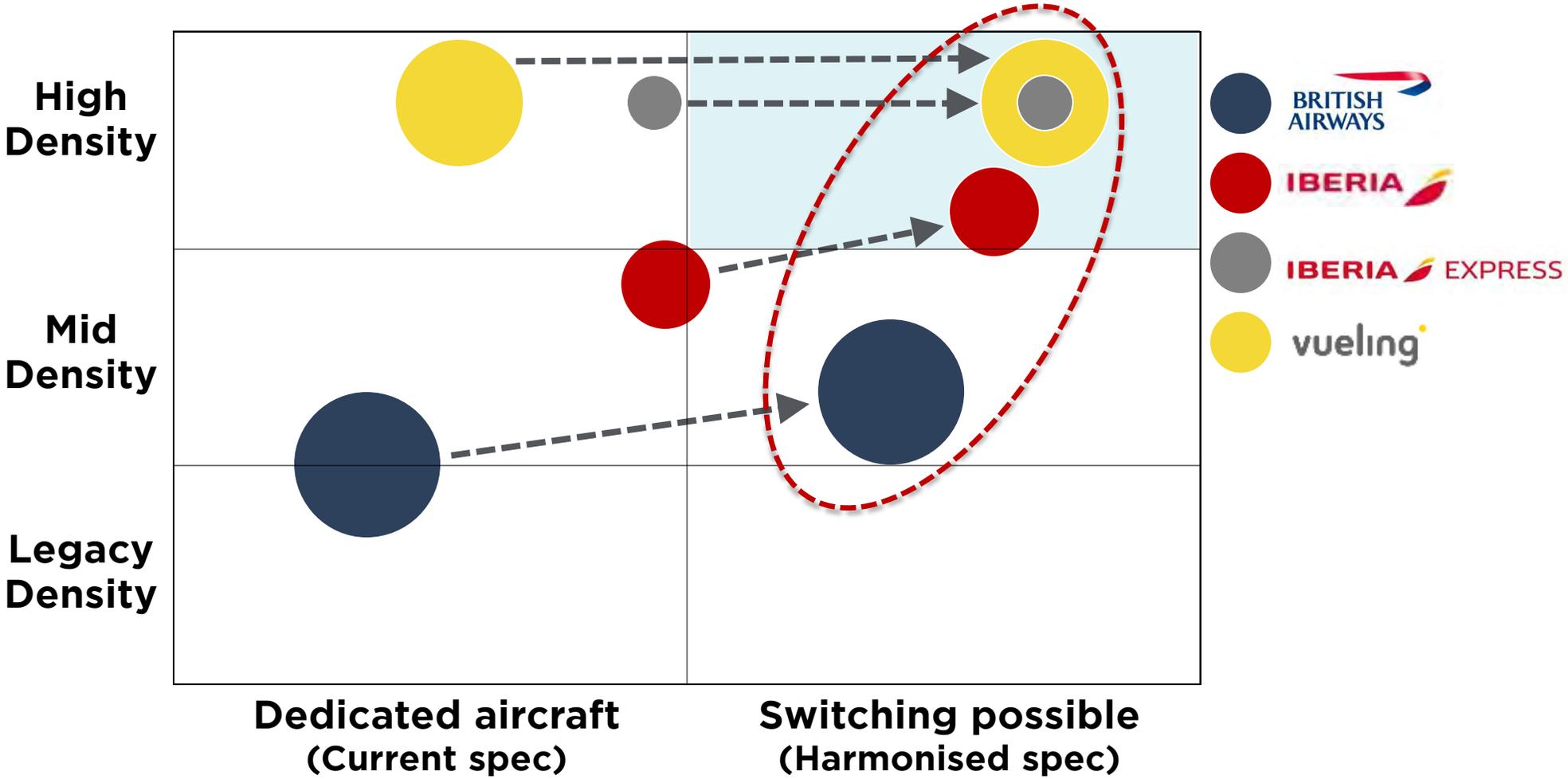
Weight reductions per aircraft vs. current specs

Removed items	80kg - 120 kg
Seats: moving to lightest/best-in-class	100kg - 380 kg
Total weight reduction (per a/c)	220kg - 470kg



Produces savings of between €20,000 and €45,000 per aircraft per year in reduced fuel burn, and reduces emissions

A harmonised fleet will be able to flex across brands



Harmonised aircraft will be transferable in-service

	To From	
From To		  
British Airways		Around 1 week
Iberia Express Iberia Vueling	Around 1 week	Less than 1 week

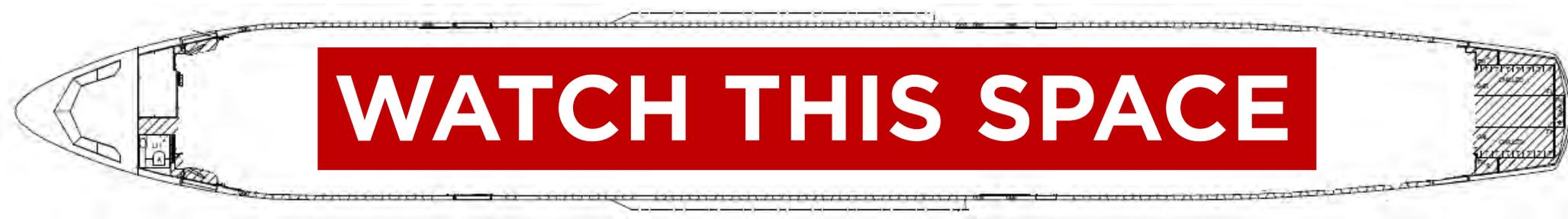
And:

- Easier to divert before delivery
- Allows for maintenance in multiple sites

The recent Iberia A330-200 configuration process

- IB has confirmed 8 A330-200s for delivery starting December 2015
- A330 specification process took 2 months. Historically this took 6-18 months
 - British Airways also involved in the process
- Spec philosophy has changed – we now start with a zero-base design
 - Starting with assumption of maximum density & minimum weight and deviate only when there is strong revenue case
 - Network-wide deployment trumps sub-fleet optimisation
 - Implications for future wide body fleets for all OpCos considered
- The A330-200 base specification weighs 750 Kg less than the A330-300
 - We continue to explore opportunities to reduce cost and weight

Iberia's forthcoming cabin configuration...



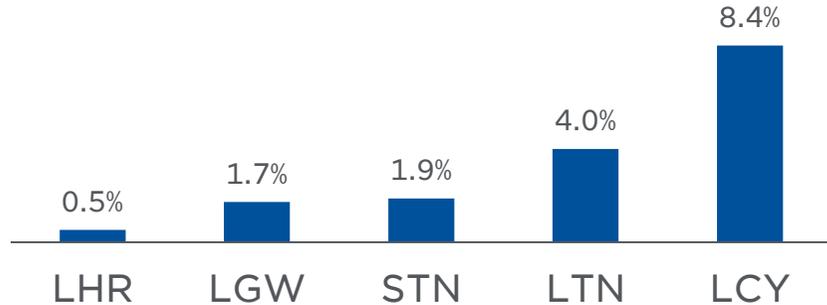
British Airways

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Lack of slots and infrastructure hindered growth historically...

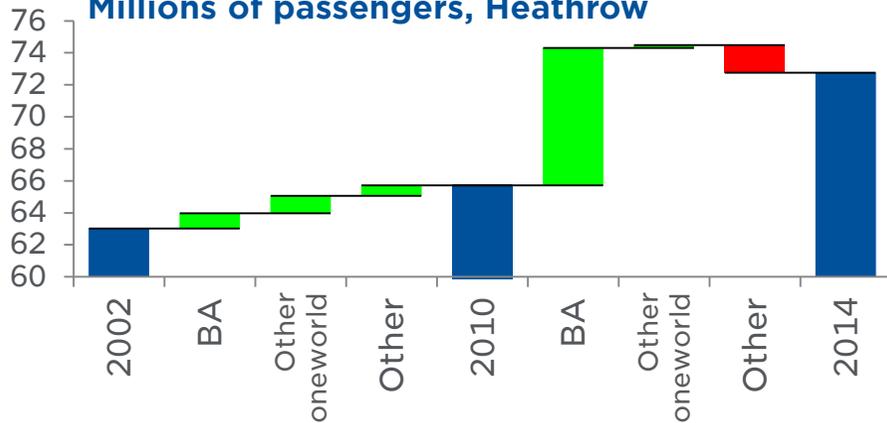
Heathrow growth subdued

Annual passenger growth rates 2002-2010



But most of the growth is from BA and partners

Millions of passengers, Heathrow



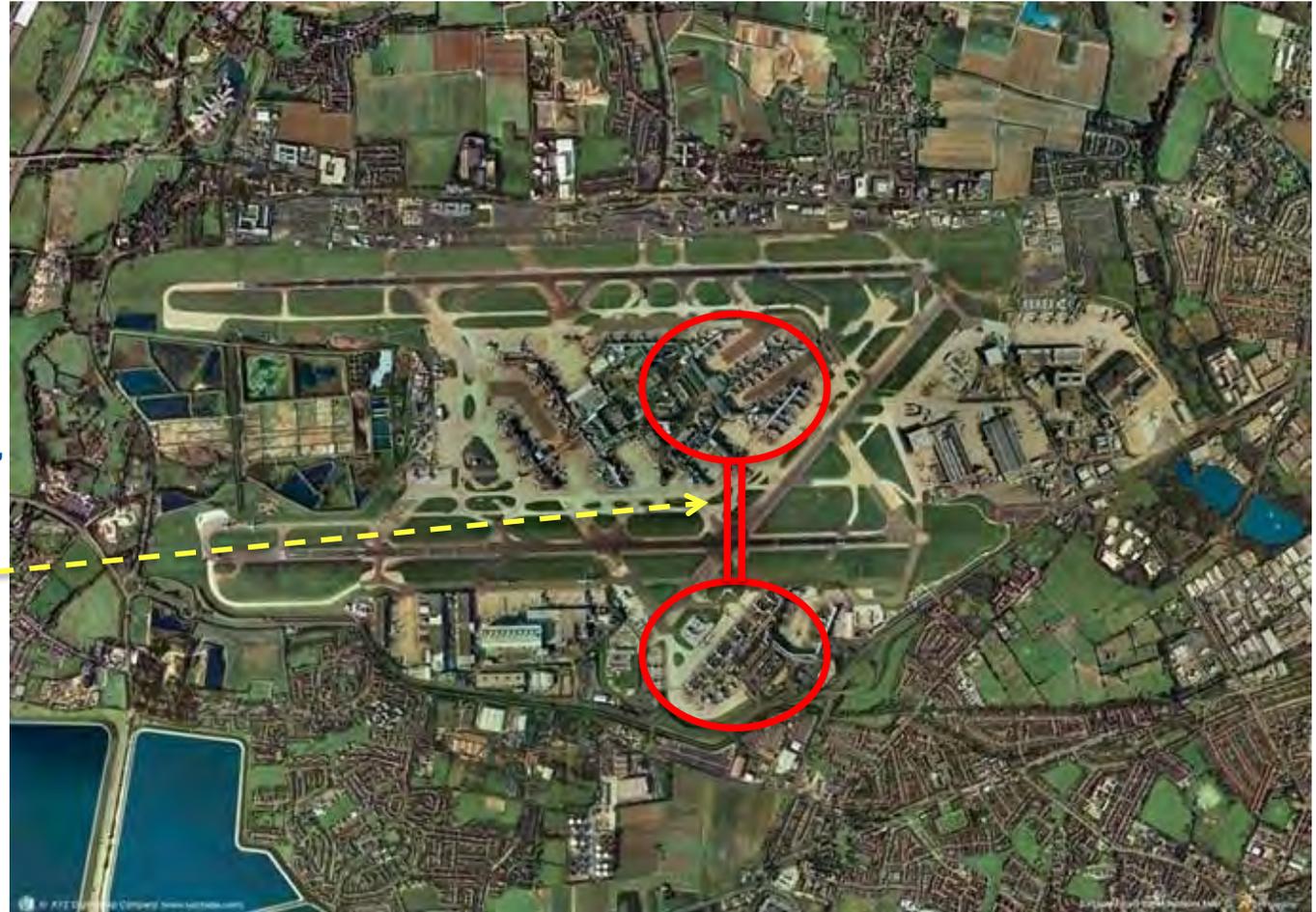
Source: CAA passenger numbers

- In 2002 BA had 40% of Heathrow slots
 - Limited scale to operate efficient hub
 - Cannibalisation of short-haul to fund long-haul growth
- Although growth at Heathrow has been constrained, BA and its partners have gained share at the airport particularly since 2010 - not only from bmi

...and in past our facilities at Heathrow were poor

Heathrow circa 2000:

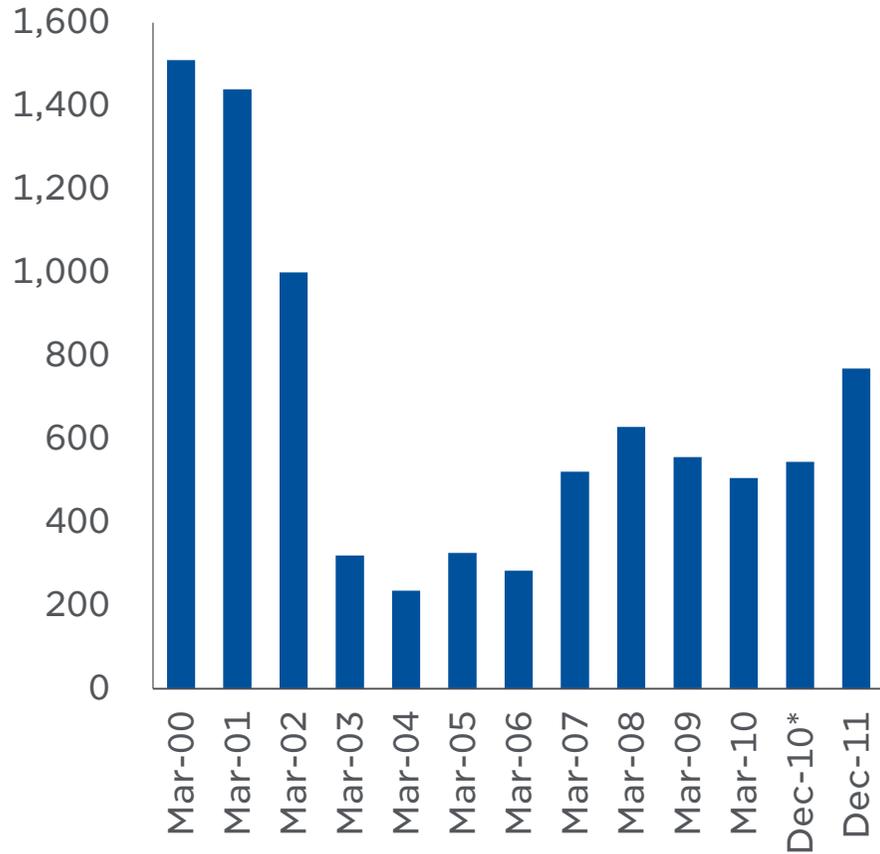
- Split between two terminals, with a live runway in between
- Inefficient labour deployment
- Archaic industrial agreements
- Poor customer experience, particularly for transfer and baggage
- Severe capacity restrictions in baggage tunnel



...and performance led to a capex holiday

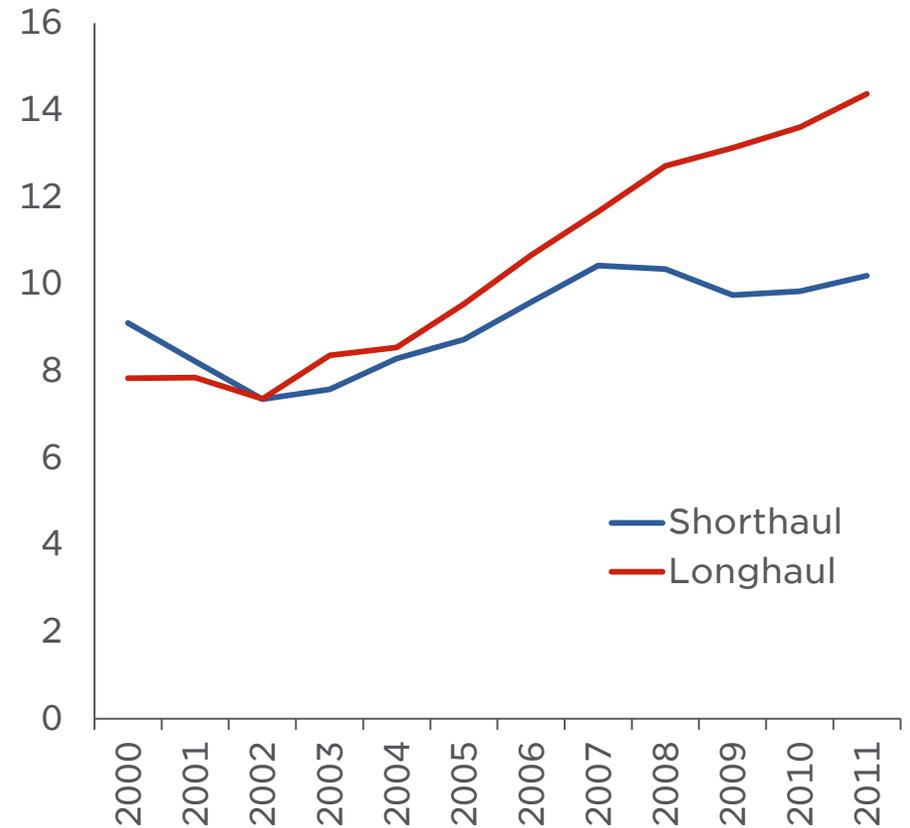
Reduced capital expenditure

Capex (£m)



Fleet age increased

Average fleet age (years)



*9 months

IAG

British Airways

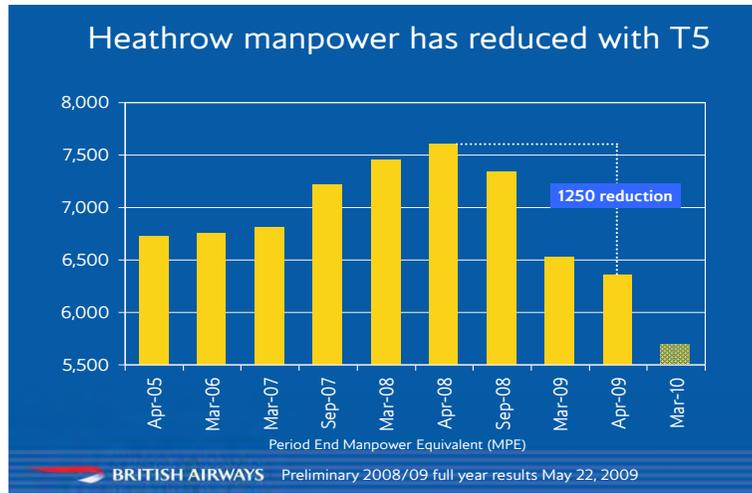
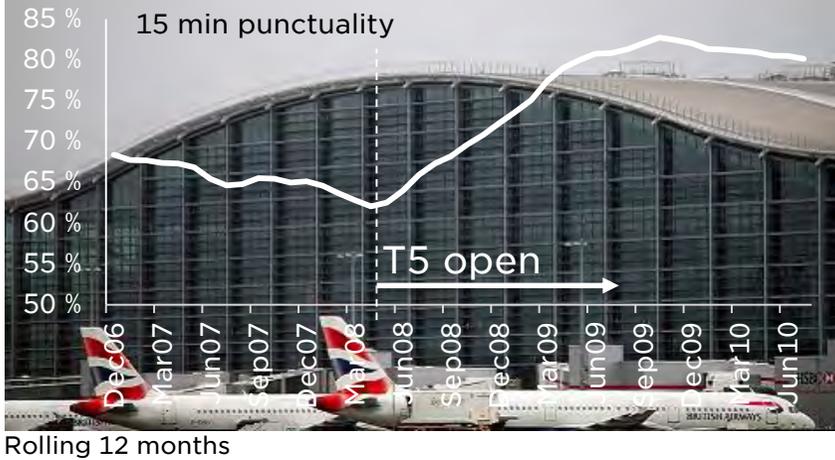
The past

BRITISH AIRWAYS

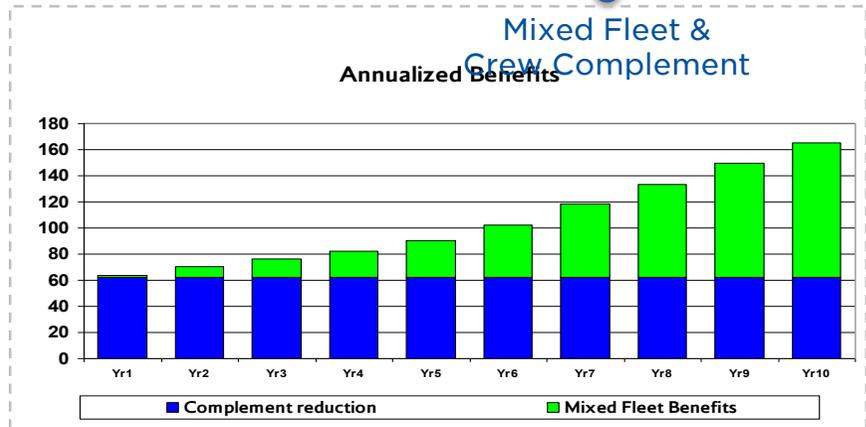
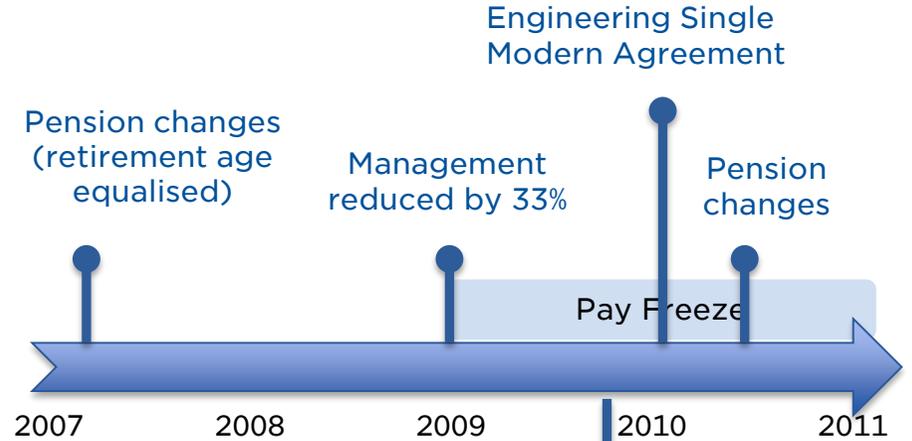


We pushed through infrastructure / industrial change 2007-10...

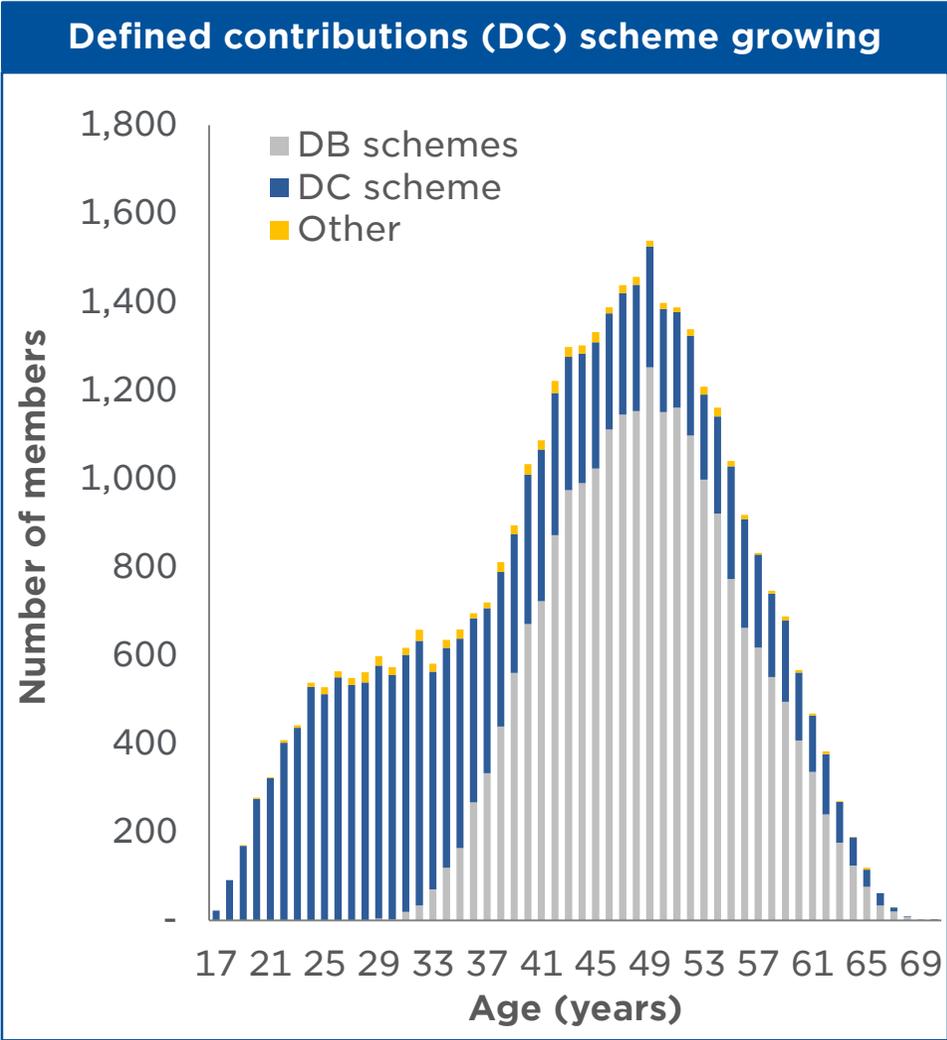
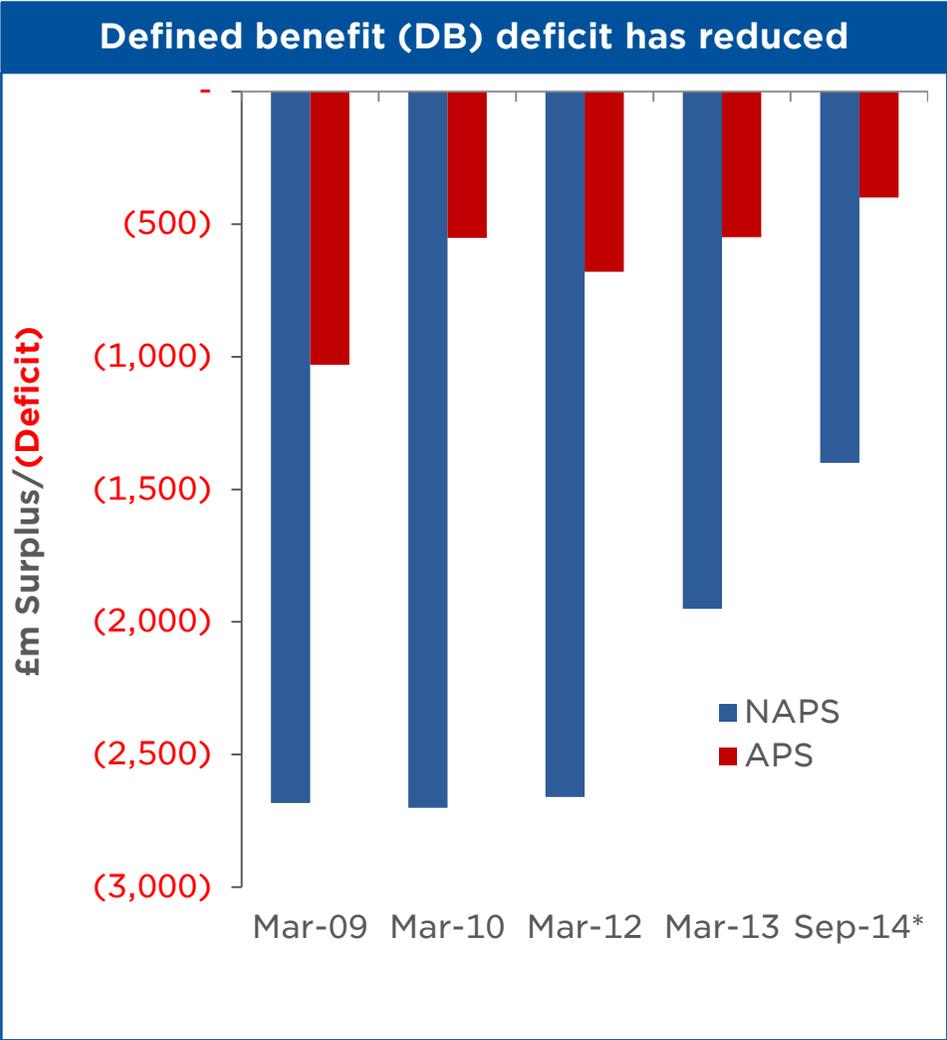
Better operational performance and efficiency



Industrial agreements



...with pensions reform...



* BA estimate

...allowing us to place major orders for new-gen aircraft

Example: 9 months to Q3 2014 A380 flight vs. B747-400 flight LHRLAX



Cost per ASK change

Total	-20%
Fuel	-19%



Seats **+61%** (469 vs. avg. 317)
Trip cost **+20%**

BA's schedule has changed to accommodate the extra capacity of the A380

LAX Summer 2013 daily schedule



ASKs
+5% premium
-7% non-premium

LAX Summer 2014 daily schedule



Total seats per day **-1%** (richer mix)
Total trip cost per day **-20%**

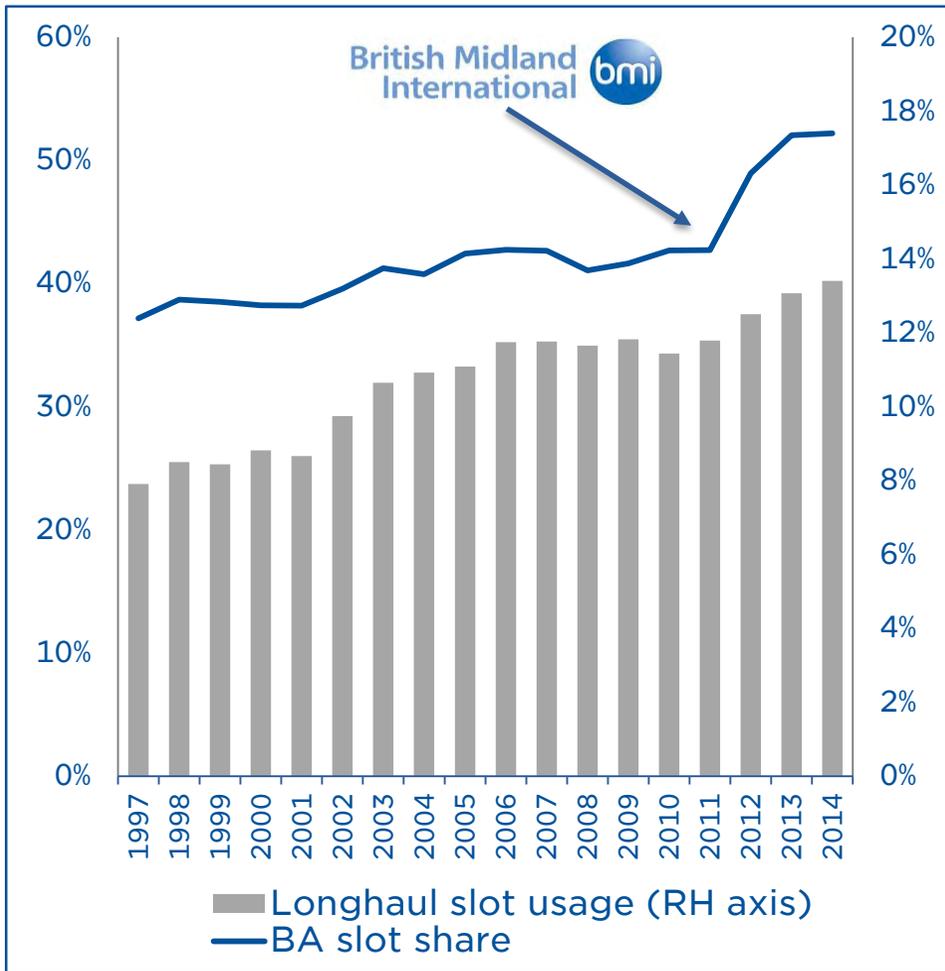
IAG

British Airways

Future opportunity

BRITISH AIRWAYS

...and acquire slots offering future opportunity...



- bmi provided 42 slots (after maximum remedies) of which approximately a third were earmarked for future long-haul growth
 - By summer 2015, eight longhaul services will have been added to the schedule
 - **In the summer season, we have also permanently acquired another six slot pairs outside of the bmi slot portfolio**
- Majority of the bmi slots still available for longhaul growth subject to:
 - Strict RoIC criteria
 - Further progress on reducing APD

We currently have 52% of LHR slots

Source: OAG summer season slots

IAG

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Future opportunity

BRITISH AIRWAYS 

...to develop our eastbound long-haul network...

New aircraft to better match supply to demand

- India - Hyderabad and Chennai down-gauged to 787
- 787 on developing routes

Visa restrictions easing

- Single UK / Europe application for Chinese visitors
- Schengen visa now valid for connections to Europe through Heathrow

More competitive schedules

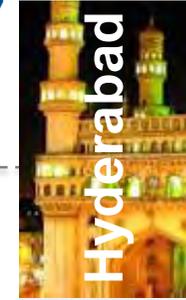
- Haneda flight timings improved
- Hyderabad and Chennai frequency increases

Partner support

- JAL and Finnair joint business maturing

Opportunities to grow subject to ROIC criteria

- Seoul launched December 2012
- Chengdu launched September 2013
- BA to return to Kuala Lumpur in summer 2015



Daily freq. and 787
Return on sale improvement

13%_{pts}



Retimed flight
Return on sale improvement

23%_{pts}



Maturing route
Return on sale improvement

2%_{pts}

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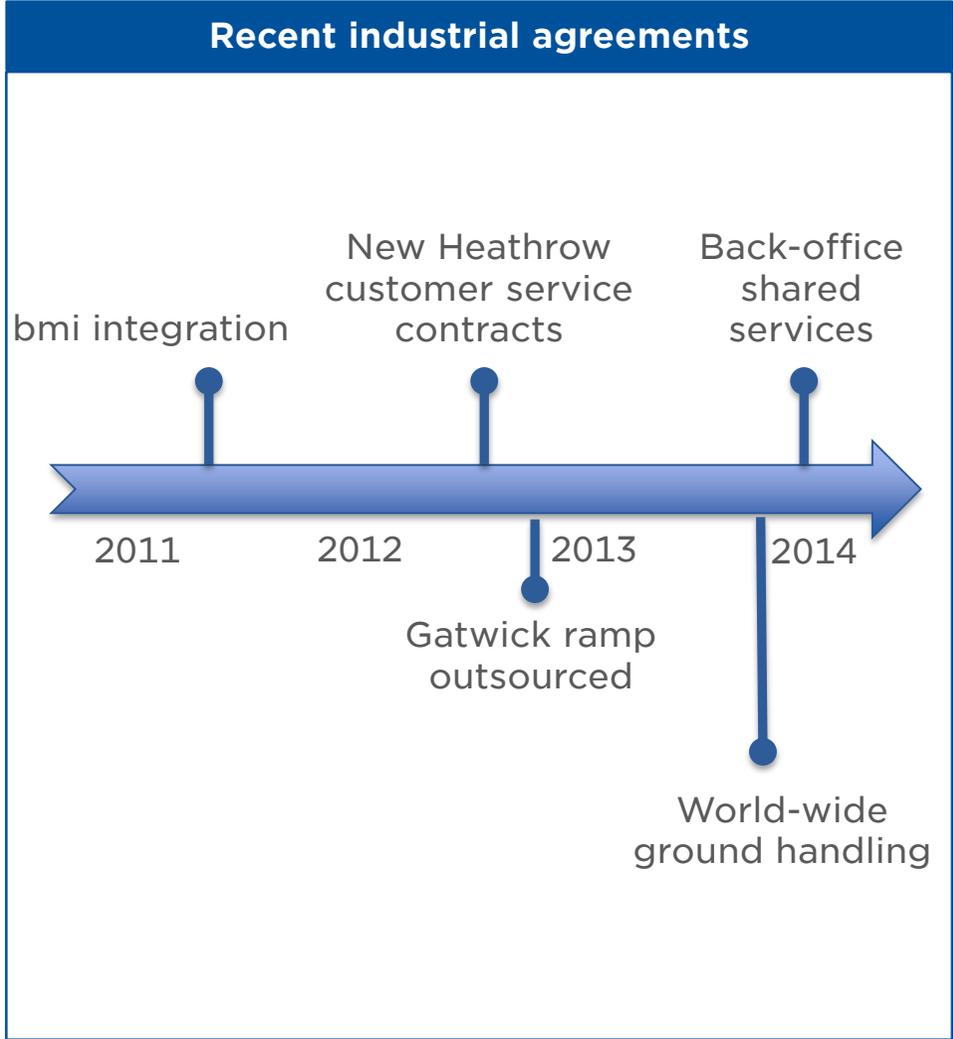
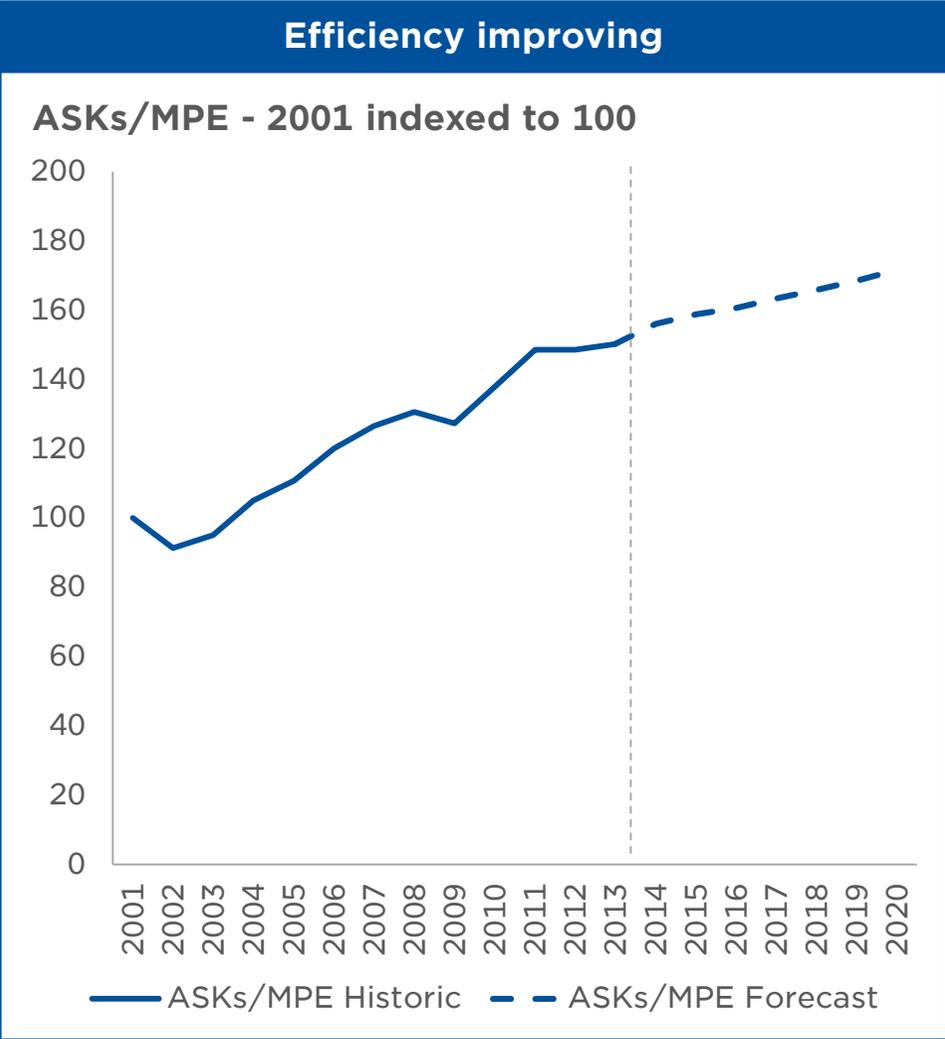
British Airways

Future opportunity

BRITISH AIRWAYS



...subject to a “never ending” industrial modernisation agenda



We also have further potential to leverage our partners

US Airways main hubs



Atlantic Joint Business

- New American adds 2 East Coast hubs and 62 new US domestic destinations
- AA extra frequency to PHL from S15
- AA 2nd Charlotte flight to LHR from Sept 14

Rest of World

- Qatar opportunity
- China codeshare rights
- Comair franchise renewed

IAG

British Airways

Future opportunity

BRITISH AIRWAYS 

We will improve our short-haul asset turn

**Seat density increase
by 6%**

New seat satisfaction

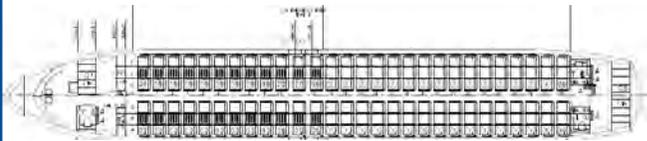
Interior	Space	Seat
+16%	+3%	+12%
pts	pts	pts

Refurb vs. non-refurb A320

- Allows BA to continue using slots for long-haul growth
- New seats popular with customers
- Further opportunity for density increase with NEO aircraft

**Growth in 2015 setting
solid foundations**

Improving seat density



- Growth in 2015 through:
 - Airbus seat density increases
 - LGW slot return (10 pairs) from Aer Lingus
 - LGW sector length increase

**Improving aircraft
utilisation**



- Terminal consolidation and improved scheduling remove two aircraft for summer 2015 on a like-for-like schedule

IAG

British Airways

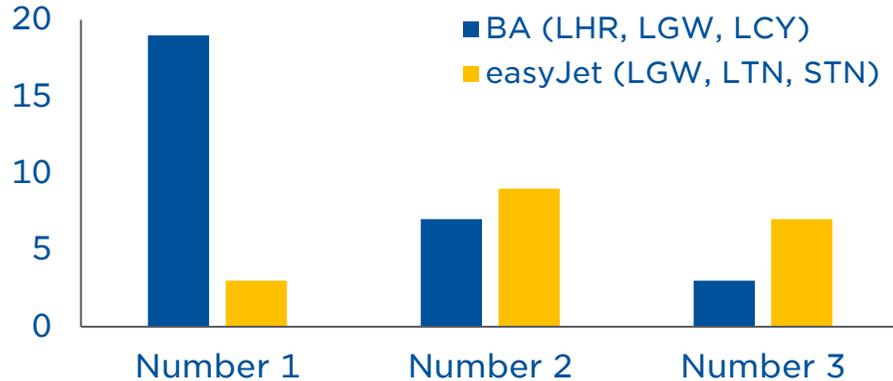
Future opportunity

BRITISH AIRWAYS 

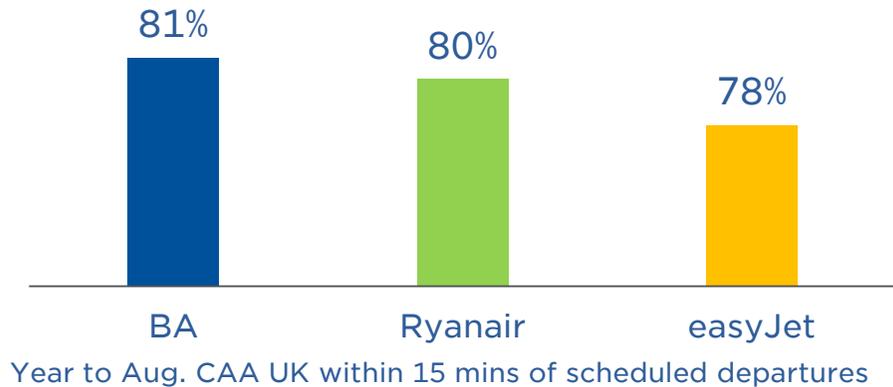
...and work on maximising short-haul slot usage

BA is the clear leader for business

Frequency position on top 30 London business routes



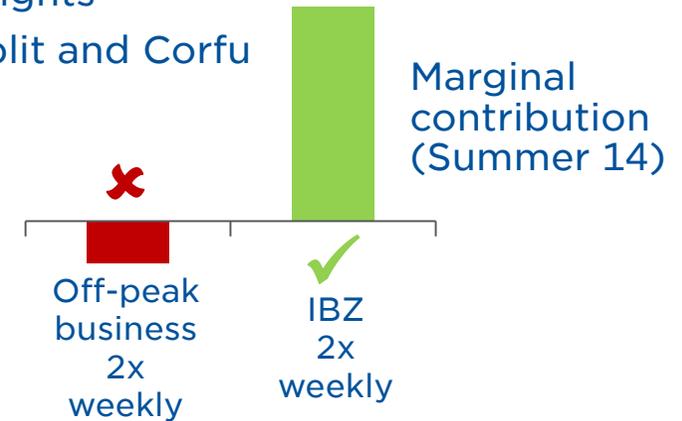
London short-haul punctuality Aug YTD



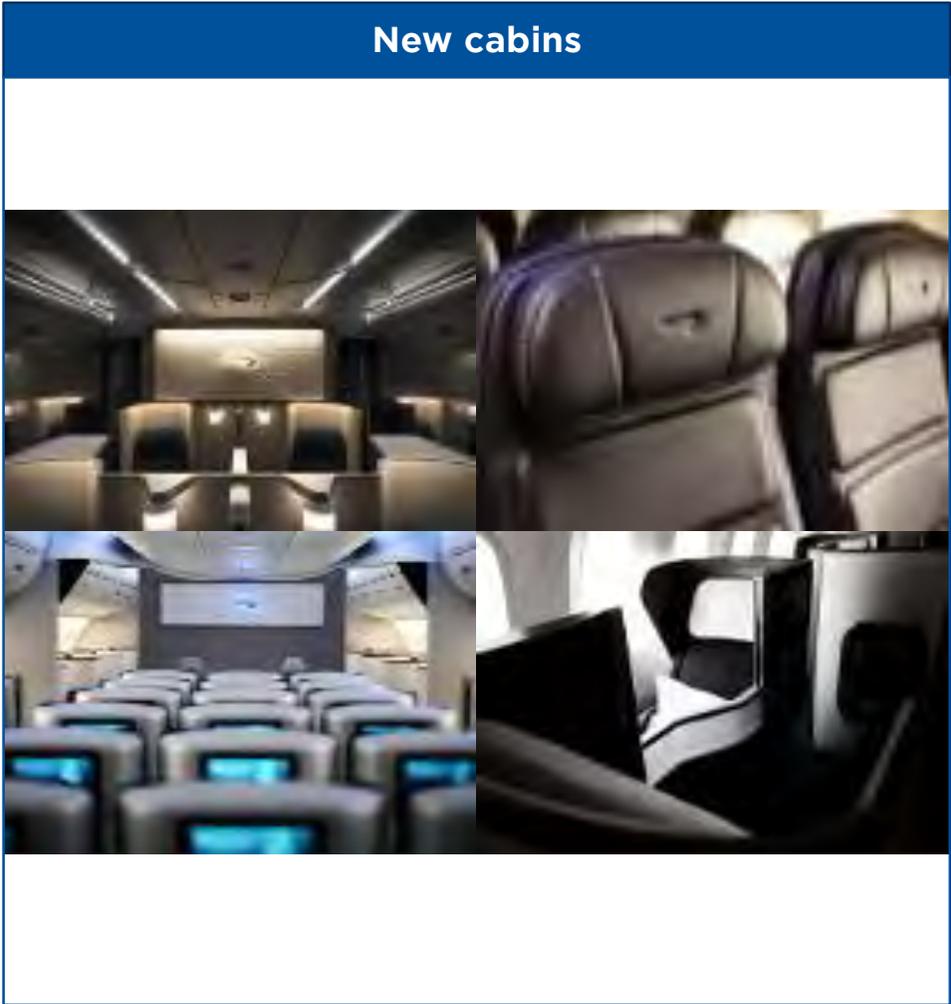
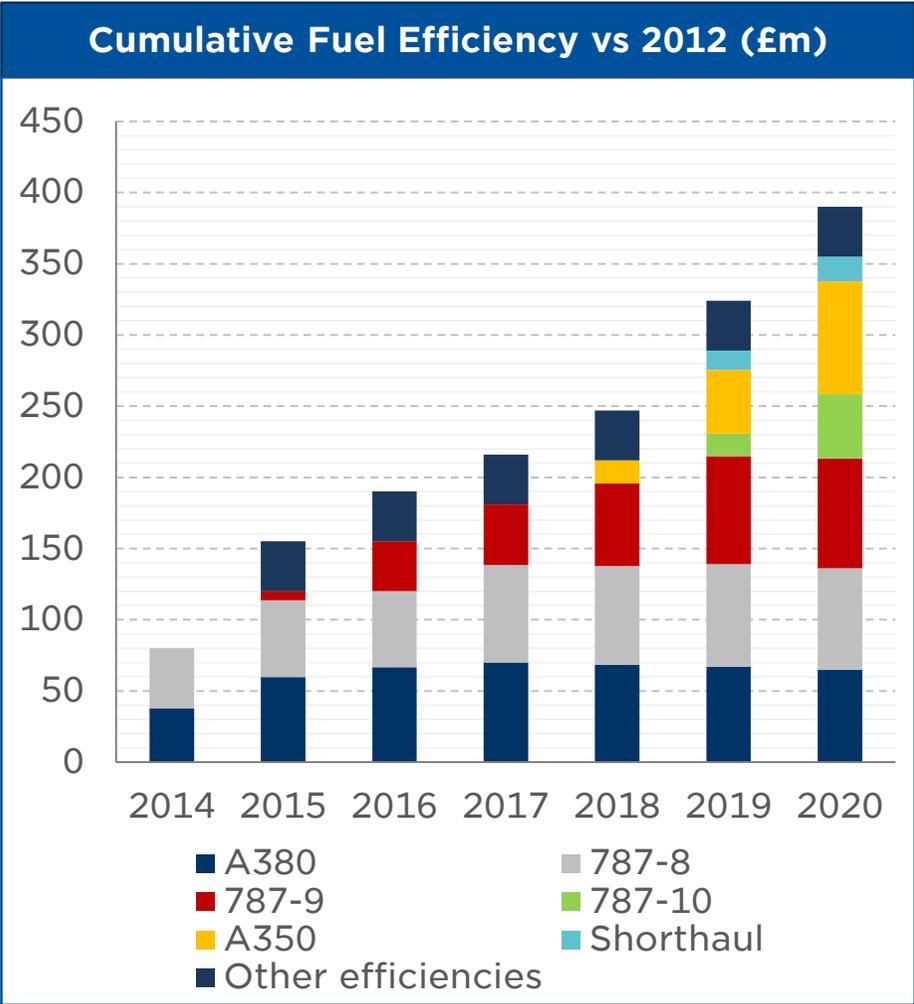
Targeted leisure will further optimise the network

- Short-haul priority is to develop the business network and feed longhaul flights
- Targeted leisure added during off-peak to increase network optimisation
 - Example: **Ibiza** introduced to replace an off-peak business frequency improving network
- New leisure for S15 to replace weaker business flights

- Kos, Split and Corfu



Fleet re-generation has only just begun



We are becoming more efficient at Heathrow

T3/T5 Terminal consolidation	<ul style="list-style-type: none">• Ground handling and crew efficiencies• T3-T5 baggage system complete end 2015• Increased aircraft utilisation
Reduced coaching	<ul style="list-style-type: none">• 95% T5 on-pier since T5C• T3 services now on-pier• Reduced cost & complexity, higher customer satisfaction
Space rationalisation	<ul style="list-style-type: none">• Reduced lounge footprint after T1 exit• Reduced office, storage and restroom space
Digital	<ul style="list-style-type: none">• Customer contact details up from 32% to 82% resulting in 75% fewer passengers to a desk during disruption• Targeting “100% ready to fly” driving efficiencies at check-in



...and we continue to cut our cost base across the board

Ground handling

- New LHR customer services contract 60% of legacy cost with more flexible T&Cs
- Goal of 66% new contract by 2020 through voluntary redundancy

Engineering

- 2.5% MPE reduction 2016-19 due to mobile maintenance and Lean projects
- Pay in line with market rate by 2020

Suppliers

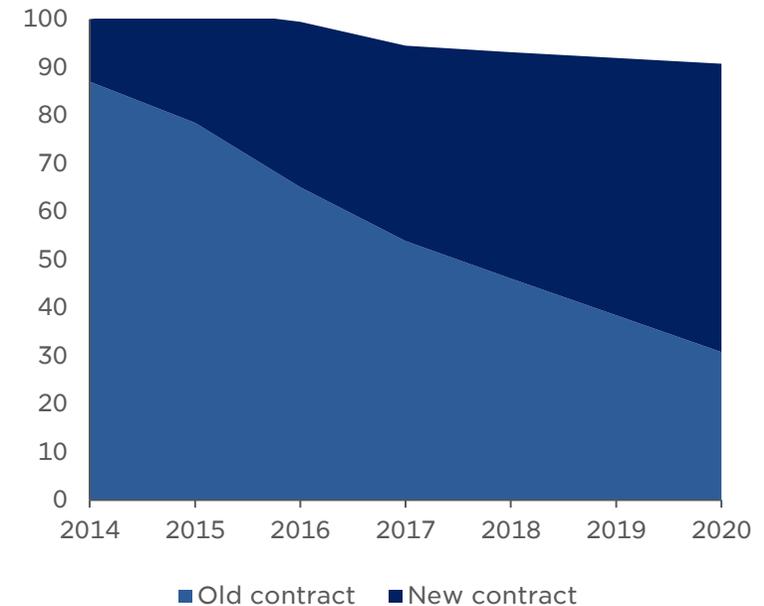
- Q6 settlement
- Removing G4S at Domestic gates

Pilots

- Scheduling changes will improve operational robustness, overtime reduction
- Changes in Jan 15 are last step to make pilot productivity market competitive
- New starter scales & ab-initio recruitment provides foundations for the future

Heathrow customer services MPE

Indexed to 100 in 2014



We will also transform the airport experience

100% customer arrive at airport ready to fly

- 80% of customers' data identified through Know Me
- Auto check-in for P2P domestics
- Pre-flight notifications

Customer enabled journey with 100% able to self serve

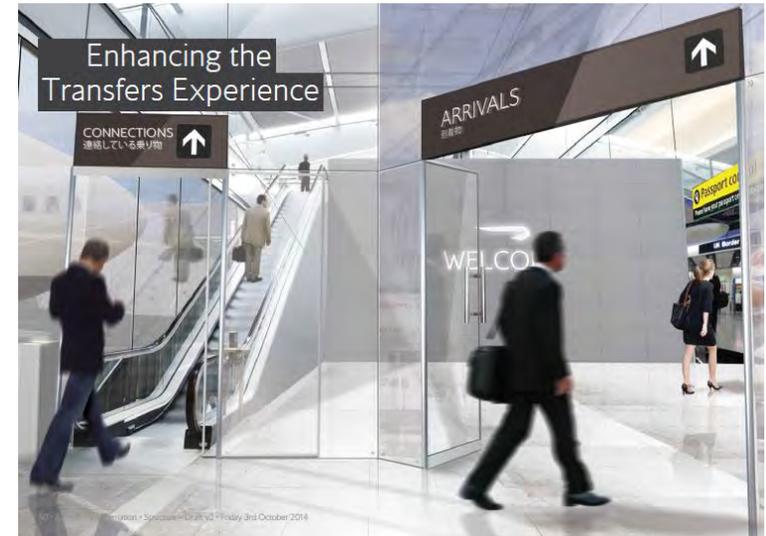
- Next generation bag-drop
- Self boarding gates
- Digital customer journey

Greater personalisation for our premium customers

- Personalised message delivery
- Next gen premium experience

Smoother connections

- New T3 connection centre
- Gate info pushed to mobile device
- Satellite to satellite transfers



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British Airways

Future opportunity

BRITISH AIRWAYS

Summary

- Heathrow's recent growth has been due to BA and its partners
- Opportunities for disciplined long-haul growth
- Continuing improvements in operating cost
- Improved operational and customer performance

2015 operating profit target of £1.3bn reiterated (~10% margin)

**IAG long-term planning goal 2016-2020: 10% to 14% operating profit margin
12%+ sustainable RoIC**

Iberia

IAG INTERNATIONAL
AIRLINES
GROUP

We have delivered on what we told you two years ago

2012 CMD objectives achieved

- ✓ **To stop** Iberia's **operating cash burn** by mid-2013
- ✓ To give Iberia a **competitive cost base** for long-term growth (15% capacity and 4,500 workforce reduction)
- ✓ **To fund** the transformation entirely **through** Iberia's **own resources**

Plan de Futuro...

- Comprehensive plan aimed to **radically change** the company
- **30 initiatives** across all key areas of the company
- Continuous monitoring by **top management**
- Full **commitment to delivery**

... is shaping the Iberia of the future

- Plan de Futuro will allow Iberia to reach **positive results in 2014** after 6 years of losses...
- ... provides Iberia with an **attractive strategic positioning** in core markets (specially Europe-LatAm)
- ...sets the basis for **profitability and long-term growth**
 - Margins in IAG target range from 2017 onwards
 - Strong growth prospects
 - Free cash generation from 2014

Leadership in Europe-LatAm. How?



- Supported by the **on-going transformation (Plan de Futuro)** ...
- ... and further underpinned by the operating, financial and strategic **benefits of being part of IAG**

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Iberia

Introduction

IBERIA 

Leadership in Europe-LatAm. How?



- Supported by the **on-going transformation (Plan de Futuro)** ...
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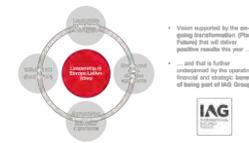
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Leadership in Europe-LatAm

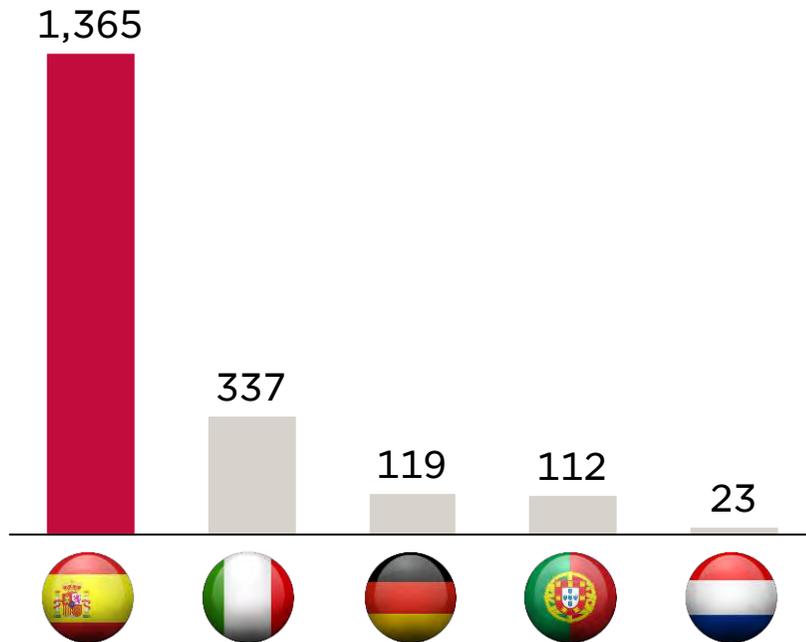
IBERIA 

LatAm is Iberia's natural market due to our cultural and commercial links



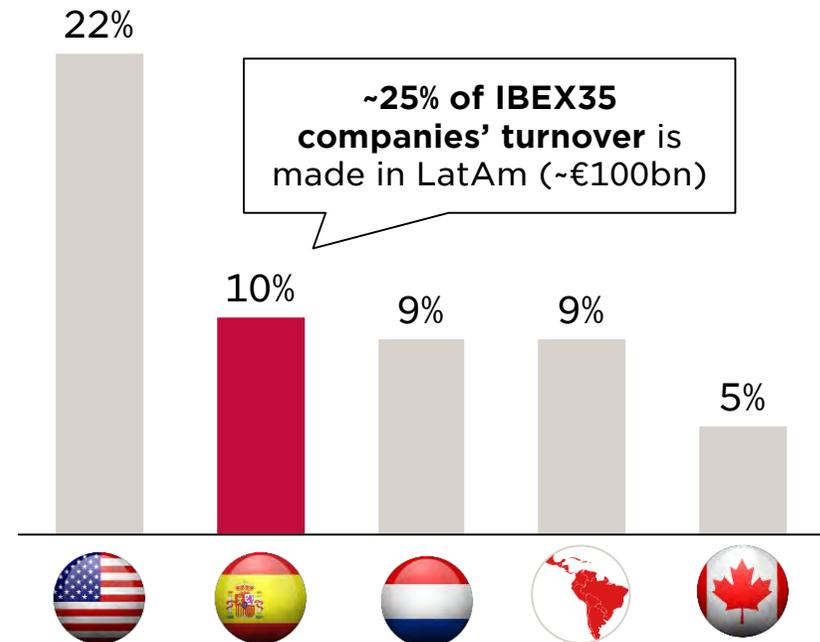
Spain is the EU country with the largest number of Latin American foreign residents...

Top-5 EU countries by number of LatAm foreign residents, 2013 ('000)



...and the 2nd largest foreign direct investor in the region after the USA

Top-5 FDI in LatAm (%)



Source: Eurostats; Economic Commission for Latin American and the Caribbean; Expansión newspaper based on Spanish Ministry of Economy and Competitiveness

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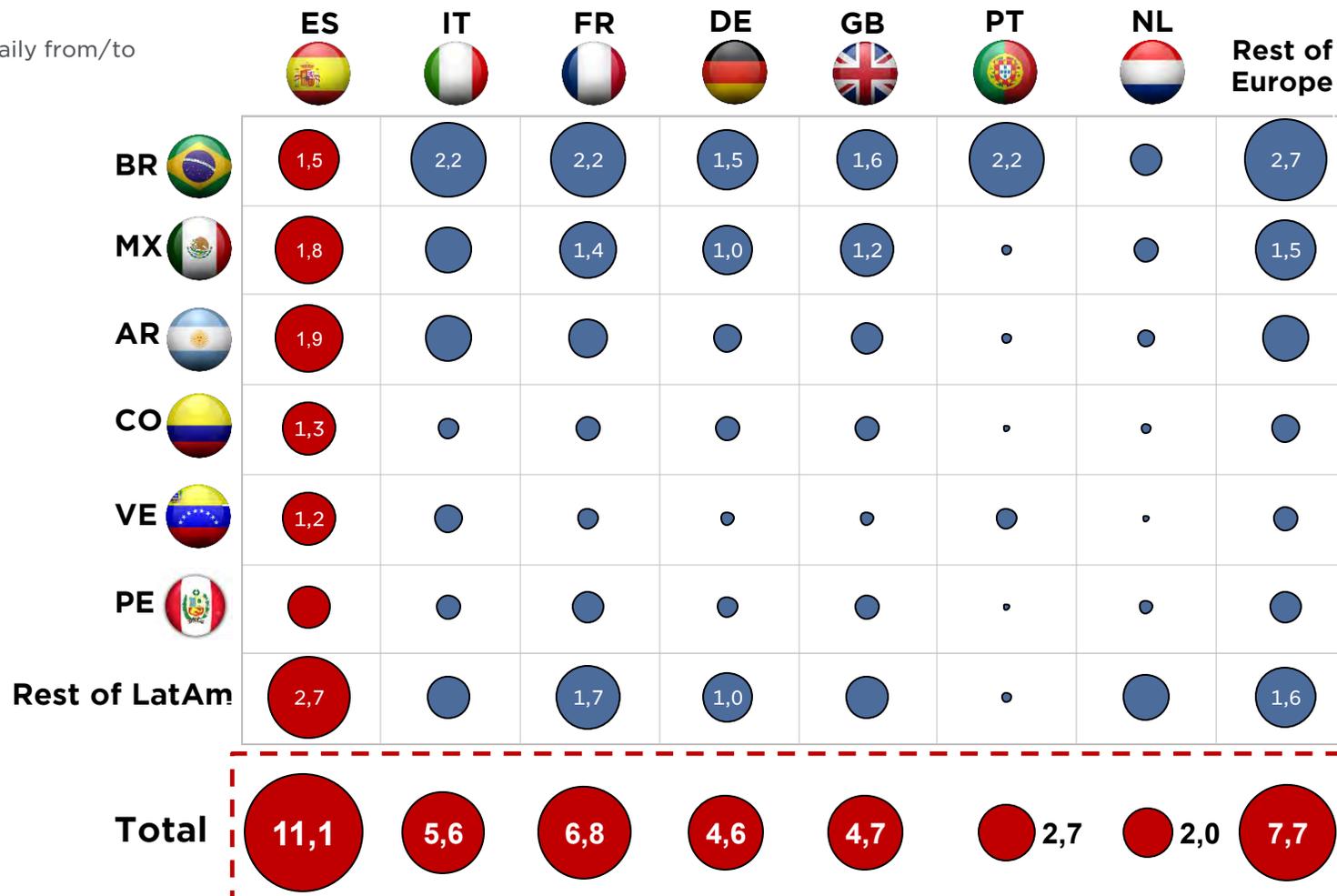
Leadership in Europe-LatAm

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Spain is the largest market with LatAm which gives Iberia a competitive advantage in its MAD hub



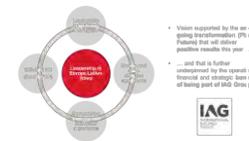
Passengers Daily from/to EU-LatAM ('000)



Source: Internal analysis, LatAm excludes Caribbean



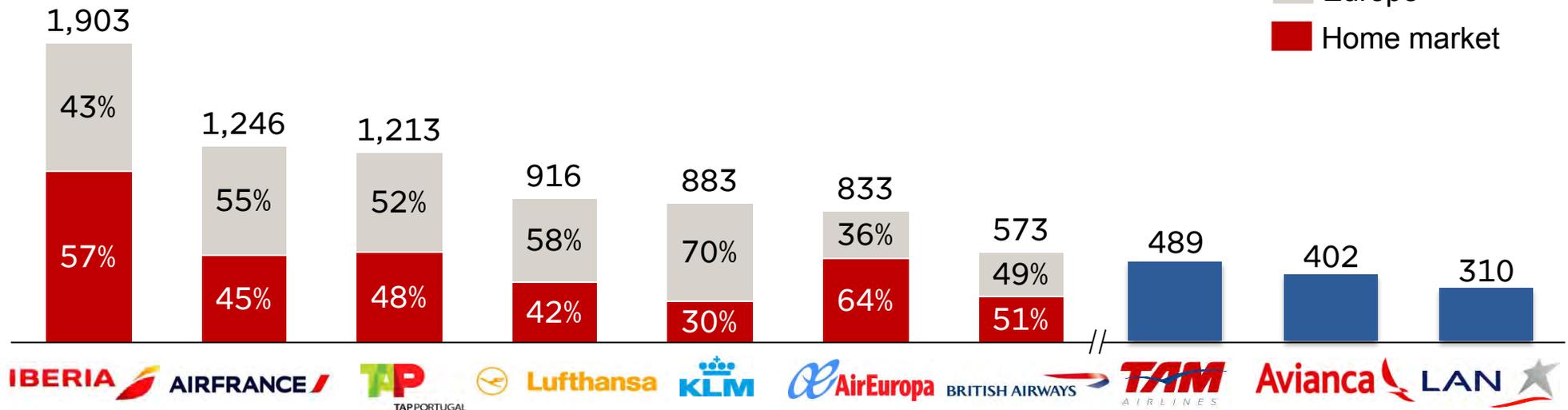
The Iberia of the future should leverage on its historic leadership to Latin America



Europe - Latin America market share % Oct'13 - Sep'14



Europe - Latin America traffic Total bookings Oct'13 - Sep'14 ('000)



Source: CRS (Latin America excluding Caribbean)



Leadership in Europe-LatAm. How?



- Supported by the on-going transformation (Plan de Futuro) ...
- ... and further underpinned by the operating, financial and strategic benefits of being part of IAG

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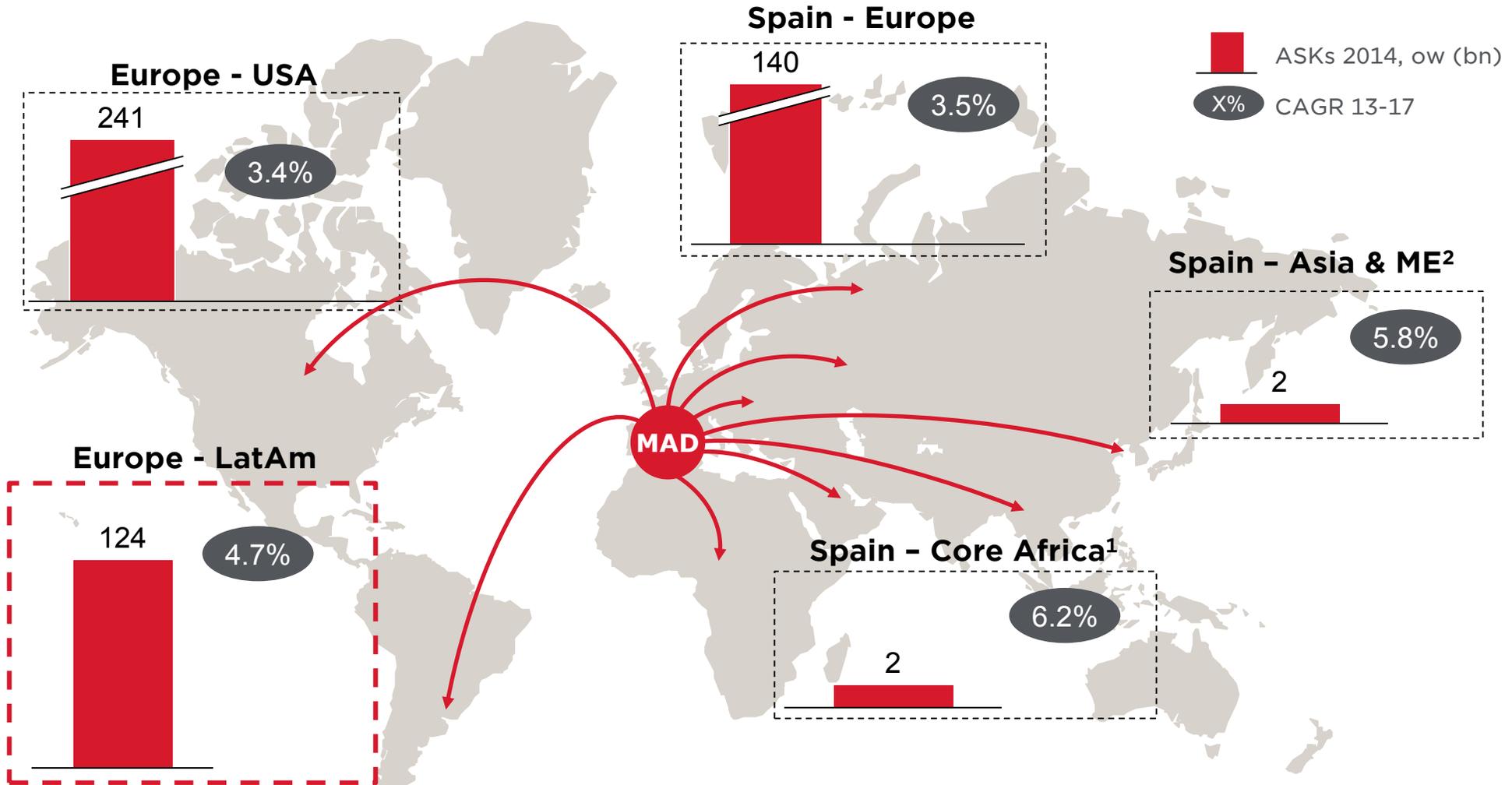
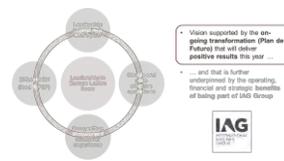
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Leadership in MAD hub and Spain

IBERIA 

LatAm is a very attractive market, but there are other opportunities to be captured



Source: OAG 2014; IATA pax forecast CAGR 13/17

¹ Core Africa: North/Central/Western Africa excl. Libya & Egypt; ² Middle-East



Iberia

Leadership in MAD hub and Spain



Barajas is a best-in-class hub and Iberia's home, the leading airline in the airport

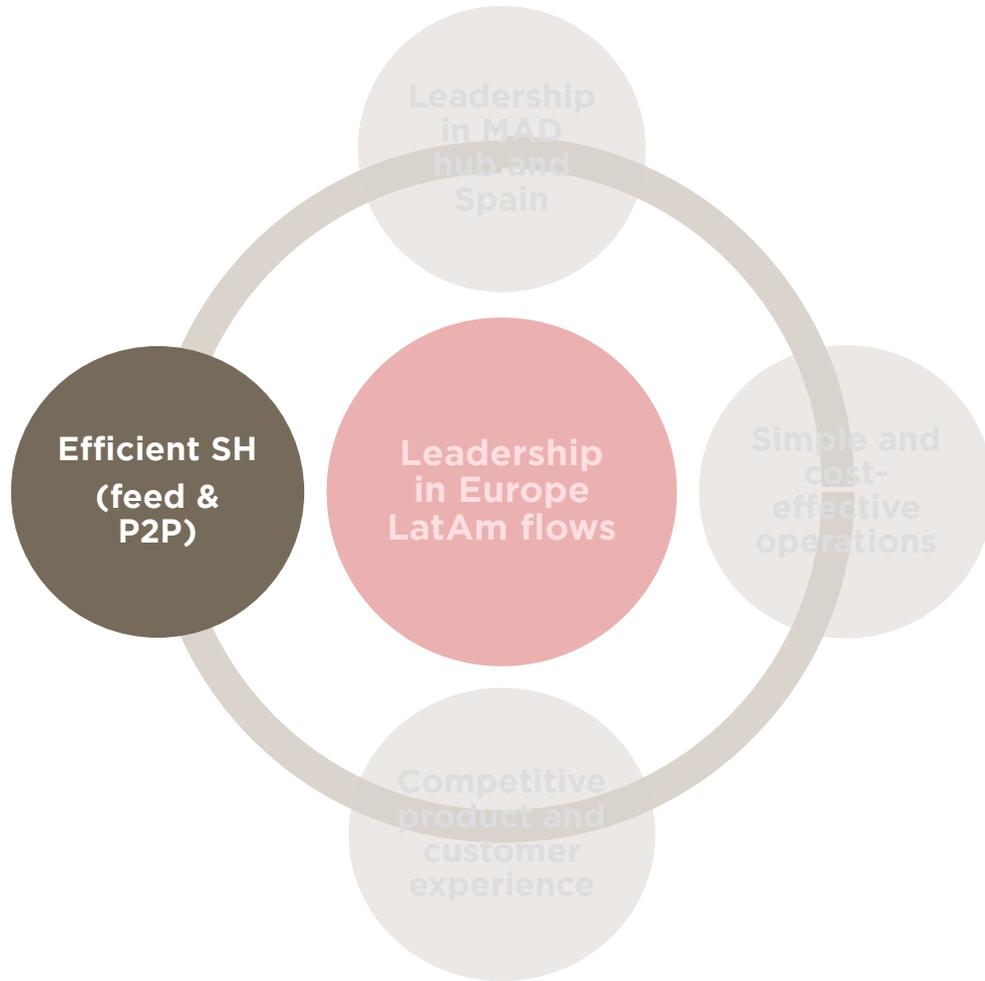


- State-of-the-art infrastructure **with ample capacity to accommodate traffic growth**
- **5th largest airport in Europe** (4 runways with capacity for 120 operations per hour)
- T4 “**3rd best terminal worldwide**” (Skytrax, 2013) and **Fast Travel Gold Award** (IATA, 2012)

- Iberia as the **#1 carrier**
 - 13m passengers (vs. 5m of next carrier)
 - 110 destinations (vs. 45 of next carrier)
- **Continuous Iberia/AENA operational improvements** (10min reduction in MCT with 1,200 additional connections)



Leadership in Europe-LatAm. How?



- Supported by the **on-going transformation (Plan de Futuro)** ...
- ... and further underpinned by the operating, financial and strategic **benefits of being part of IAG**

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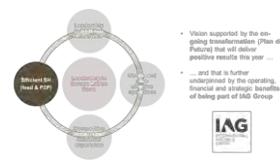
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Efficient SH (feed & P2P)

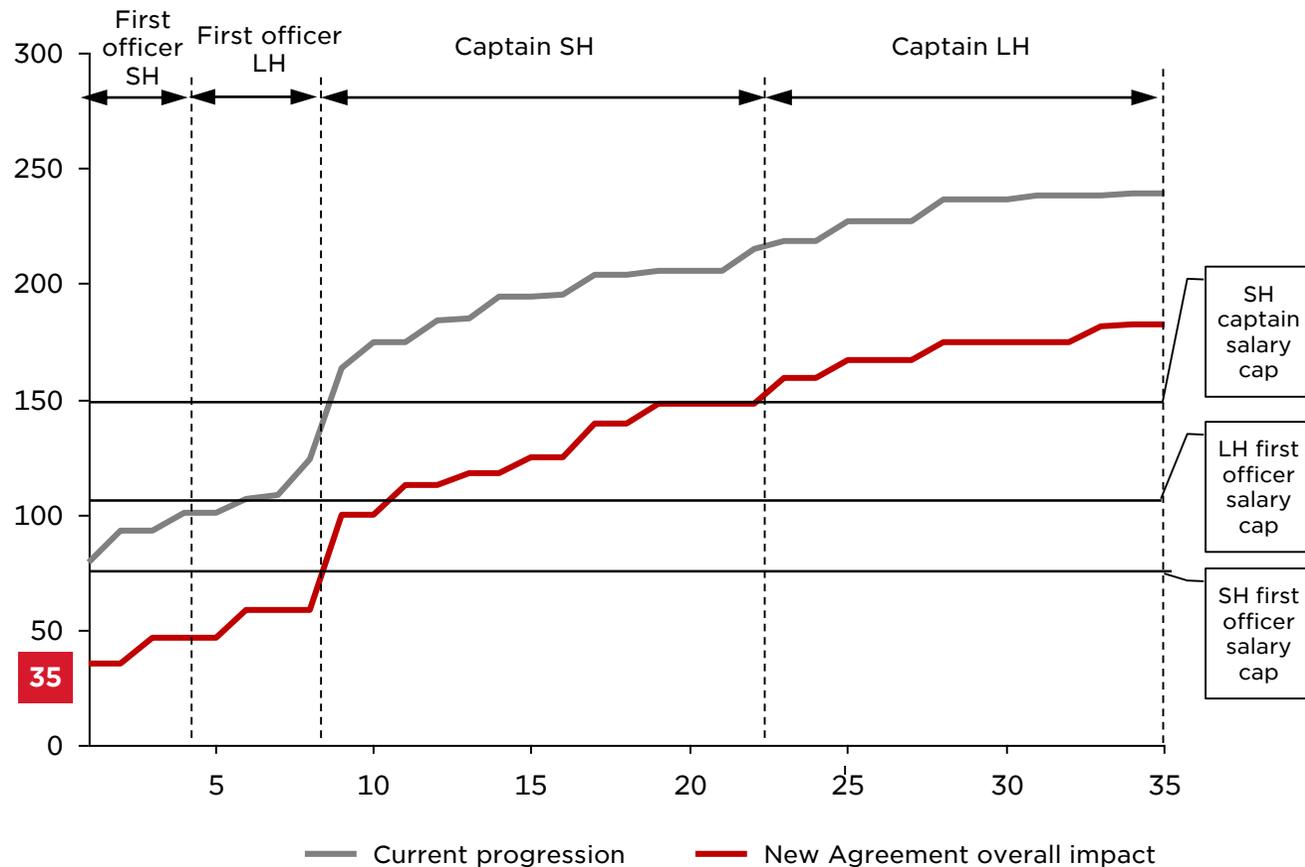
IBERIA 

Iberia is well-positioned to have a competitive and efficient SH feeding



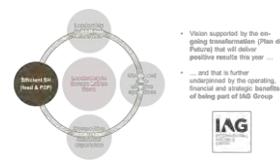
- **More efficient cost structure** on the back of salary reductions and new entry levels
- **Significant productivity improvements:** flying hours in line with competitors and increased flexibility in shifts and schedules
- **Operational excellence:** ~90% on-time performance 2014YTD vs. ~62% in 2011
- **Strong Iberia brand in home market:** by far the most widely known airline across all regions of Spain

Typical Flight Crew¹ salary progression (€'000/year)

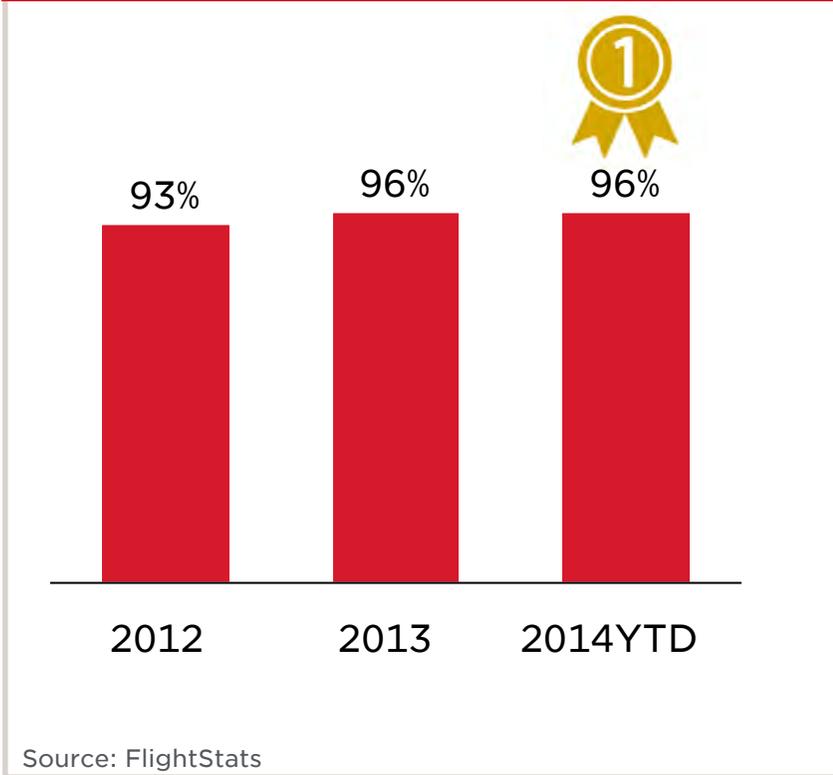


¹ First officer short-haul: years 1-4; First officer long-haul: years 5-8; Captain short-haul: years 9-22; Captain long-haul: years 23-35

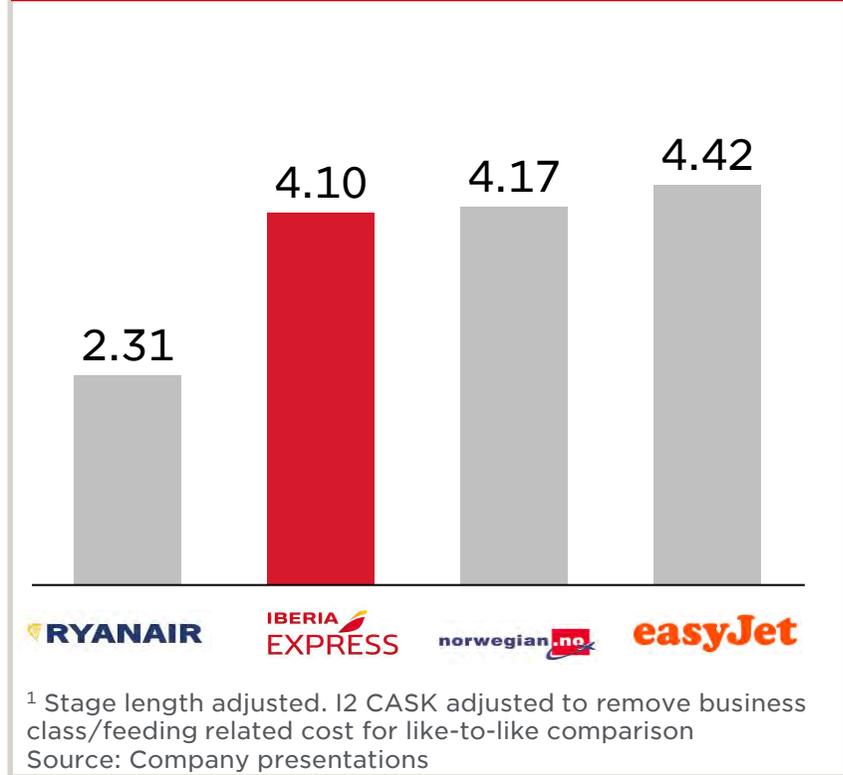
Iberia Express is a successful model able to compete against LCCs and a cornerstone in the strategy of Iberia



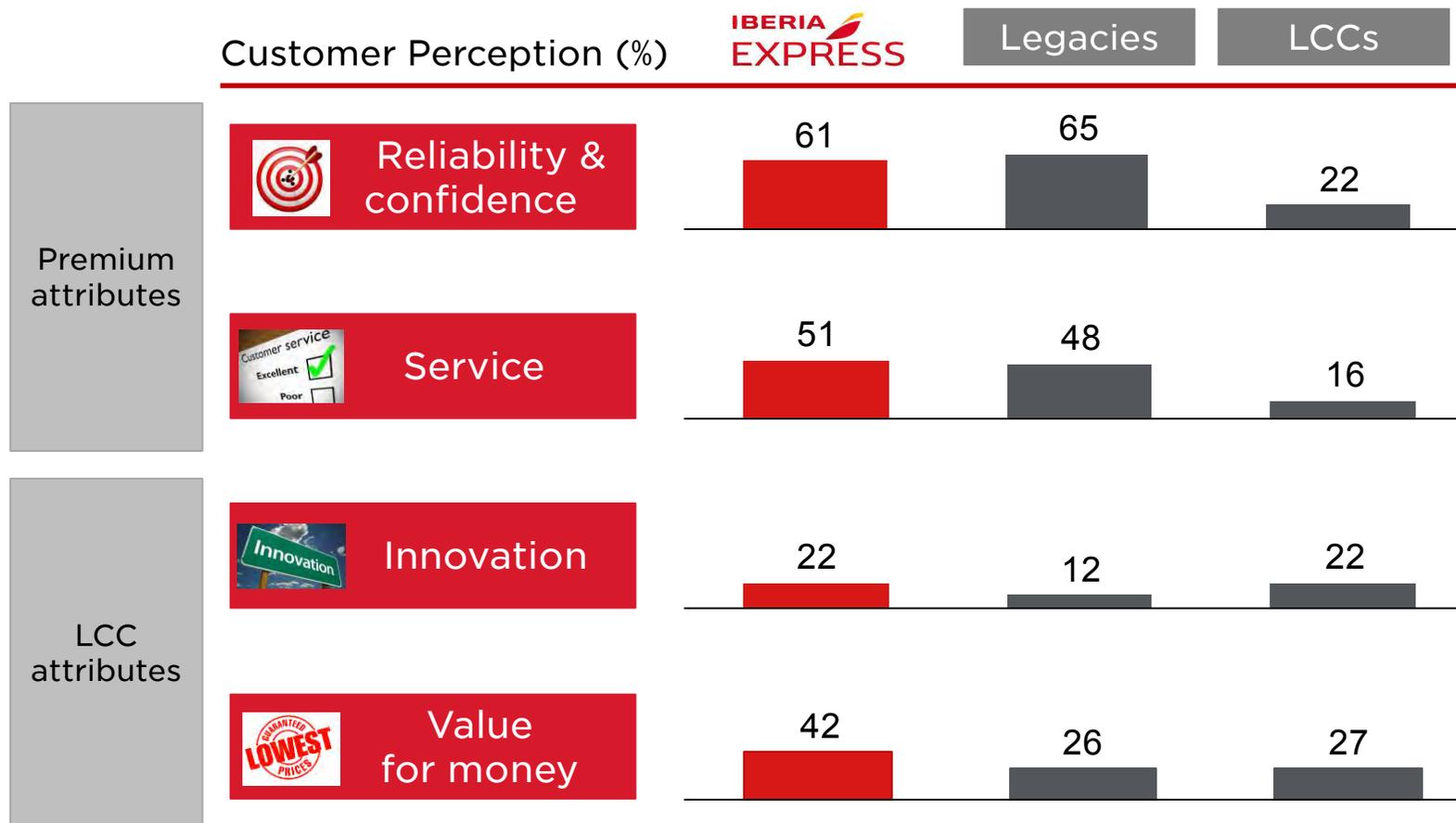
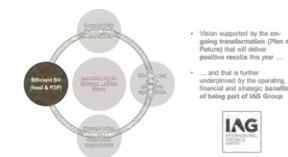
I2 on-time performance
2012-YTD14, %



CASK¹ ex-fuel
H1 2014, €cent



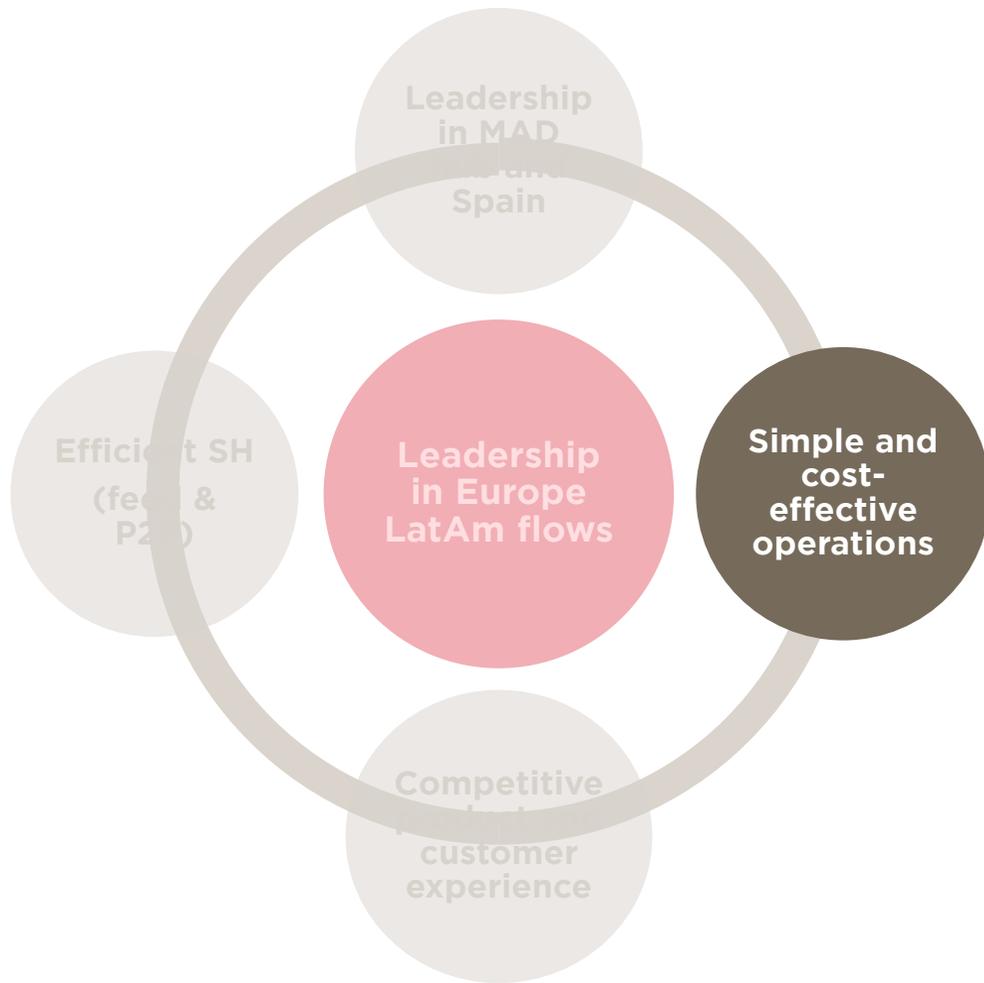
Iberia Express model: the best of a LCC with the attributes of a traditional carrier



Source: MilwardBrown; Response to the question: Which one of these airlines do you believe that are...?



Leadership in Europe-LatAm. How?



- Supported by the **on-going transformation (Plan de Futuro)** ...
- ... and further underpinned by the operating, financial and strategic **benefits of being part of IAG**

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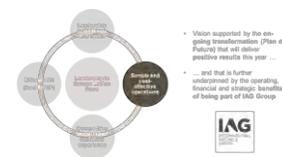
IAG

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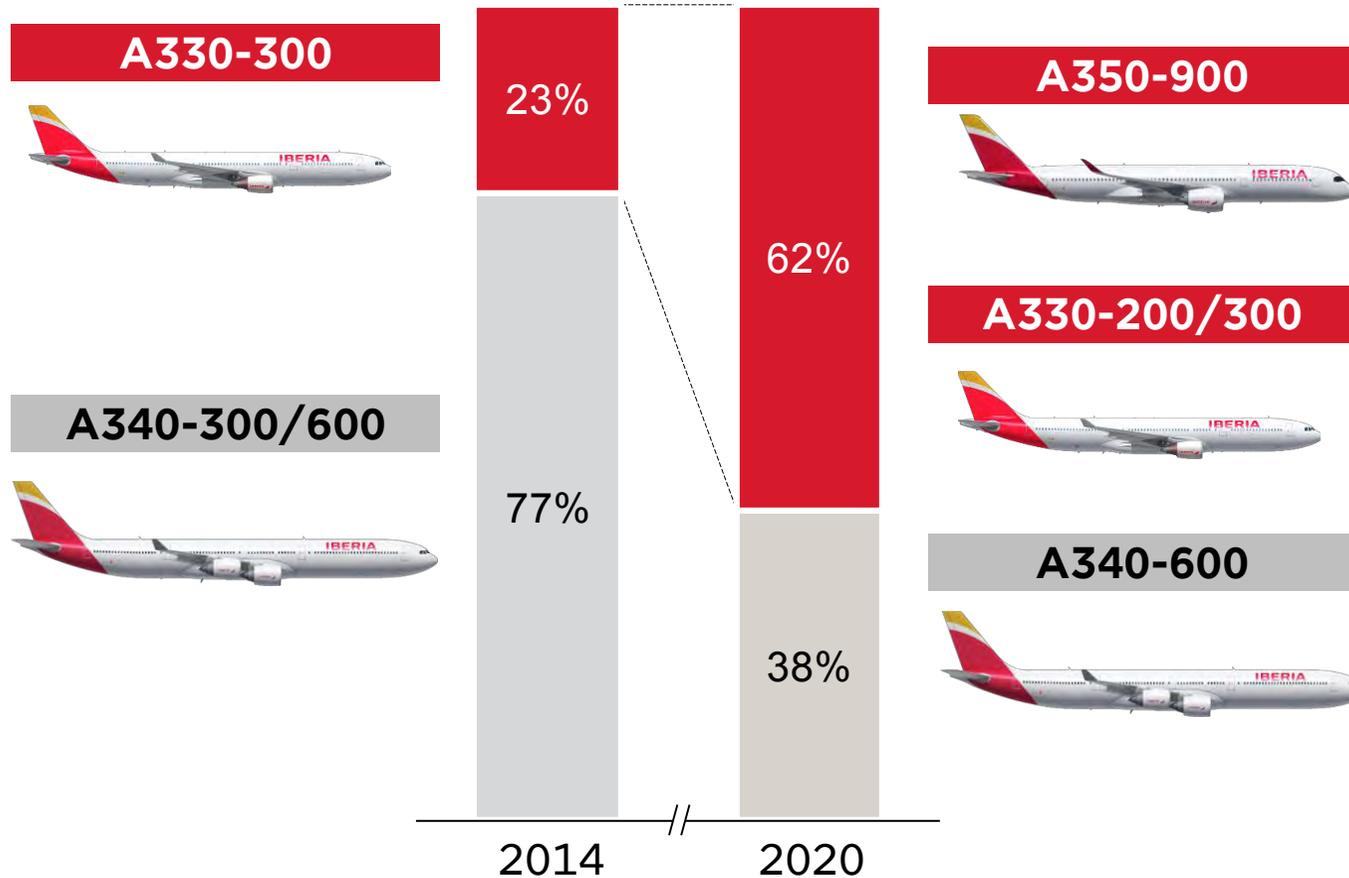
Simple and cost-effective operations

IBERIA

We are enhancing our LH fleet, consistent with our network strategy, ensuring flexibility and significant fuel savings



(% of seats)



Old generation
 New/current generation

- 10% fuel savings by 2020 (>€100m)
- Additional fuel savings ~10% expected in the long-term

Plan de Futuro initiatives are leading to a simpler and more flexible company



Lean airline operations



Overhead optimisation



Profitable MRO



Profitable HDL



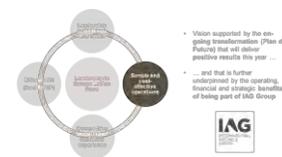
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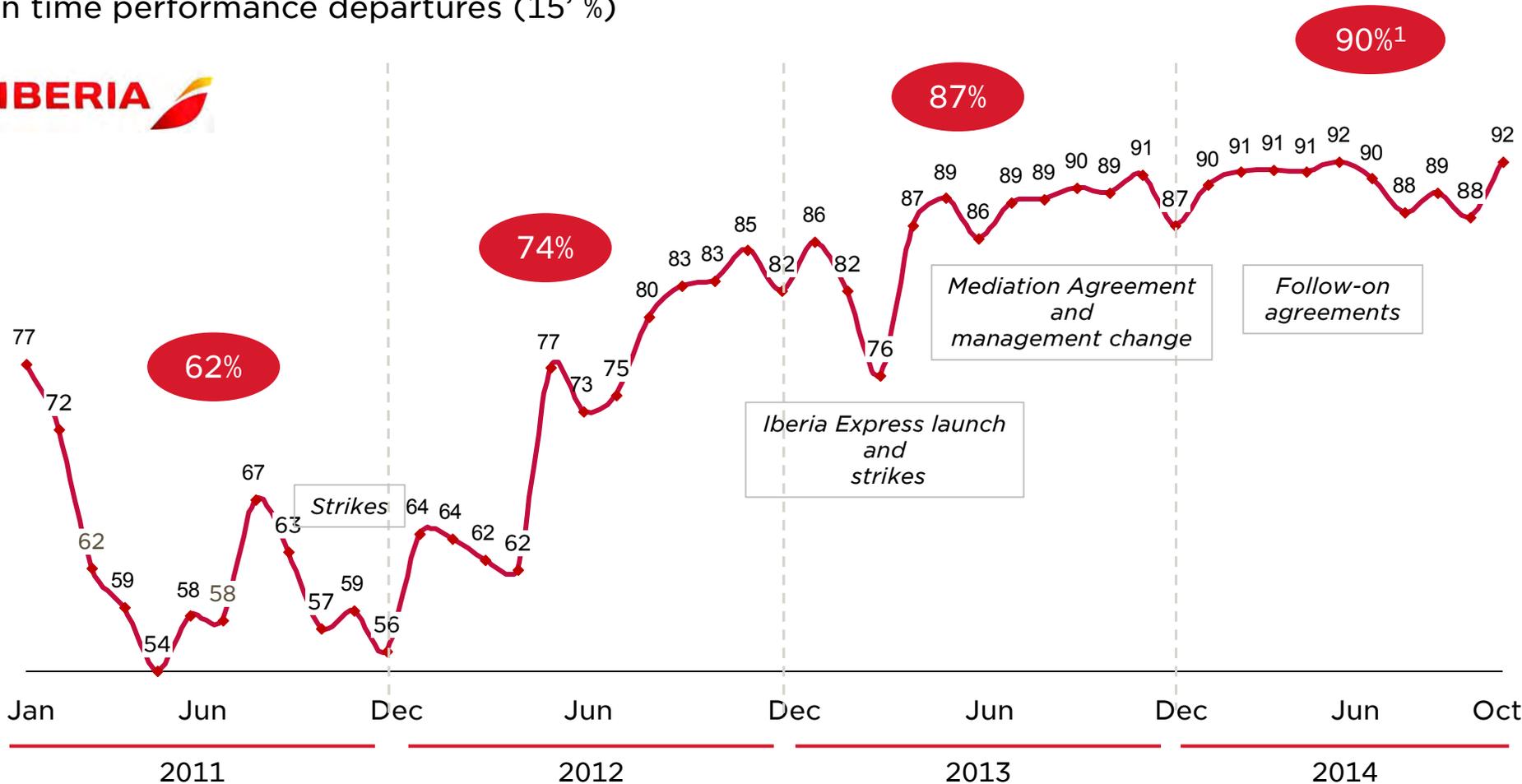
Simple and cost-effective operations



Significant operational improvements are leading Iberia to a world-class punctuality



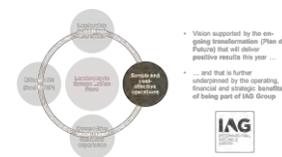
On time performance departures (15' %)



¹ January-October 2014



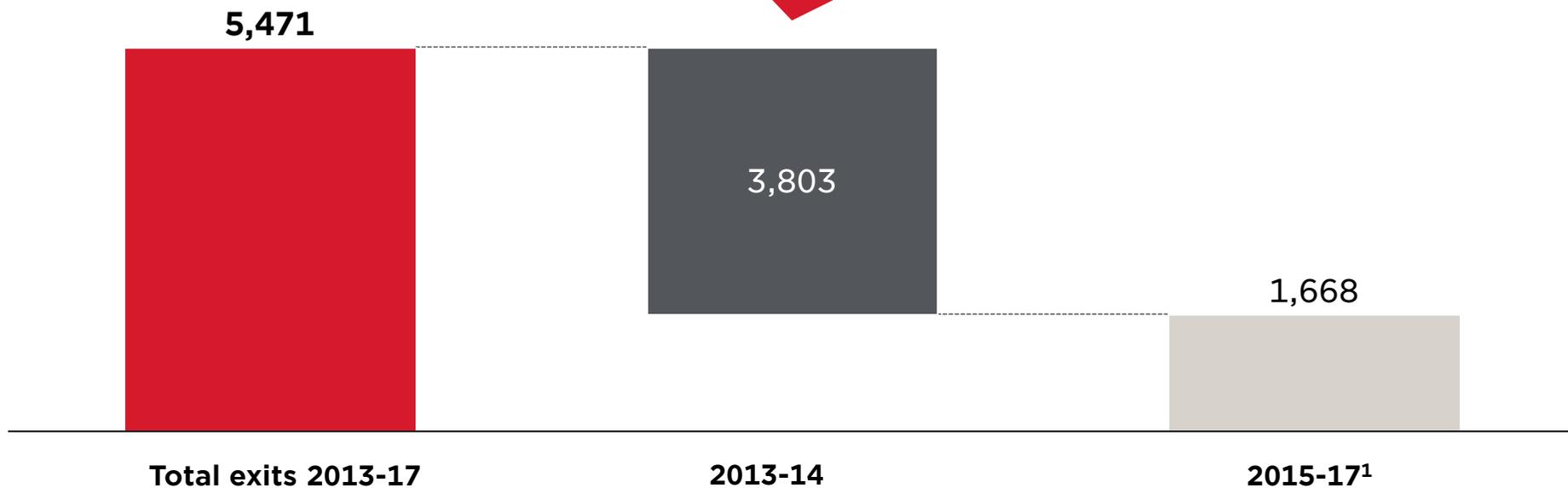
By year-end we should have completed 70% of the labour restructuring program, reaching ~3,800 exits...



Total personnel exits (# headcounts)

- ~25% personnel reduction from a starting point of 20,600 in 2012
- 5,471 expected exits vs. 4,500 initially targeted in 2012

70% of labour restructuring already completed by end of 2014

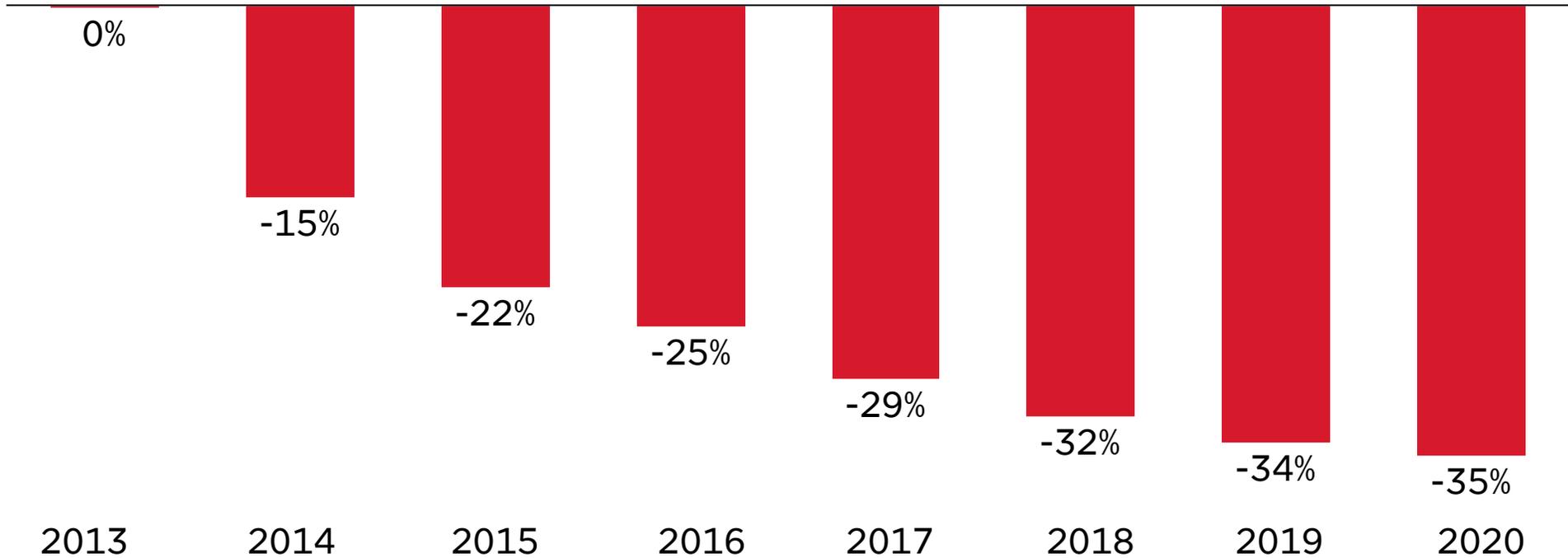


¹ Maximum number of exits; final figure will depend on actual number of employees that apply for (voluntary basis)

... and the overall impact is expected to reduce employee CASK by ~35% in 2020



Expected employee CASK savings versus 2012 (%)



-25% employee CASK in with similar capacity than in 2012

-35% employee CASK in 2020 vs. 2012



Leadership in Europe-LatAm. How?



- Supported by the **on-going transformation (Plan de Futuro)** ...
- ... and further underpinned by the operating, financial and strategic **benefits of being part of IAG**

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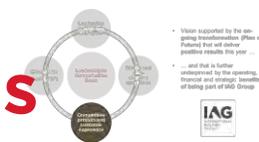
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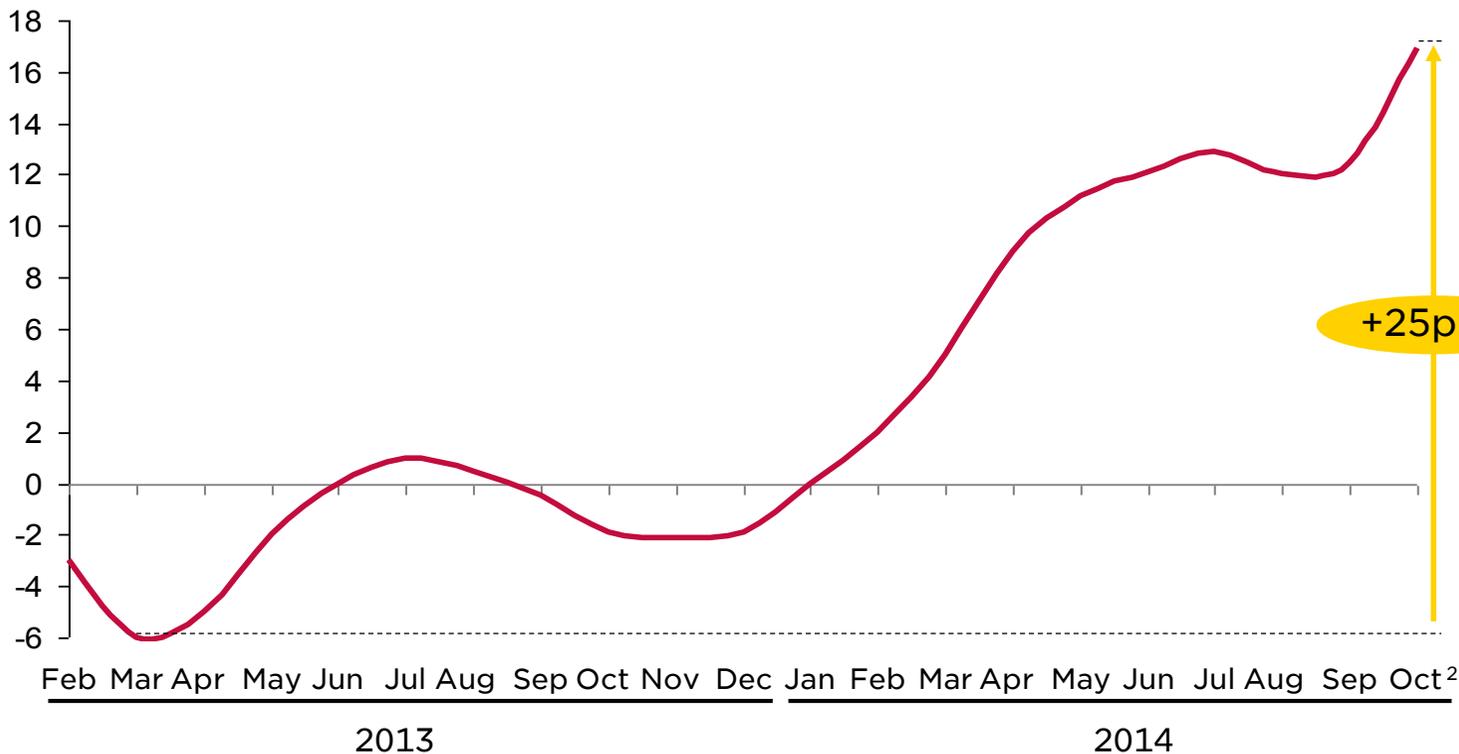
Competitive product and customer experience

IBERIA

...which has already showed very positive results in customer satisfaction, eventually improving Iberia's revenues



Iberia Net Promoter Score¹ Feb'13-Oct'14 (%)



Spend & loyalty

21% make >50% travel with Iberia (vs. 2% of unsatisfied)

Recommendation

X4 recommendation propensity (vs "neutral" customer)

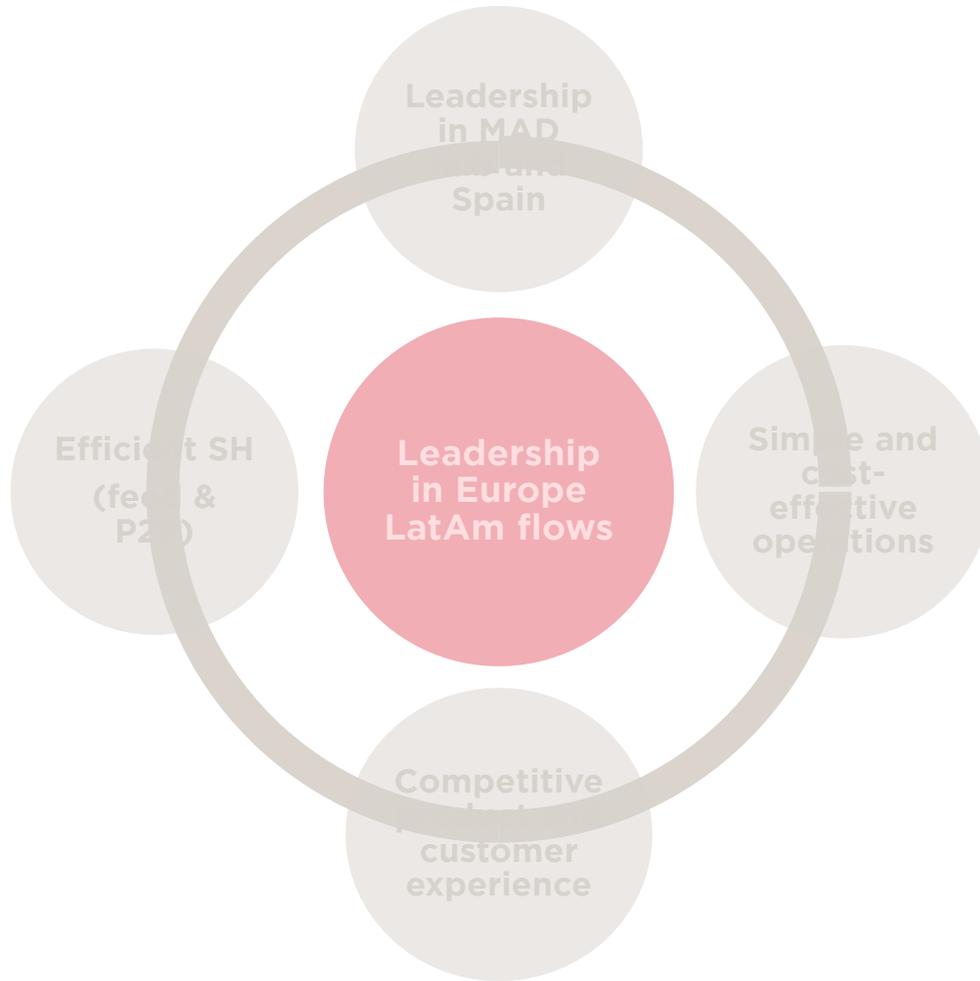
¹ Net Promoter Scores measures difference between promoters (9-10 grade) and detractors (0-6 grade)

² Last four weeks average (21/10 - 11/11)

Source: IB CX; BCG market survey to Spanish consumers)



Leadership in Europe-LatAm. How?



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IAG INTERNATIONAL AIRLINES GROUP

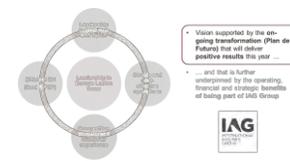
IAG

Iberia

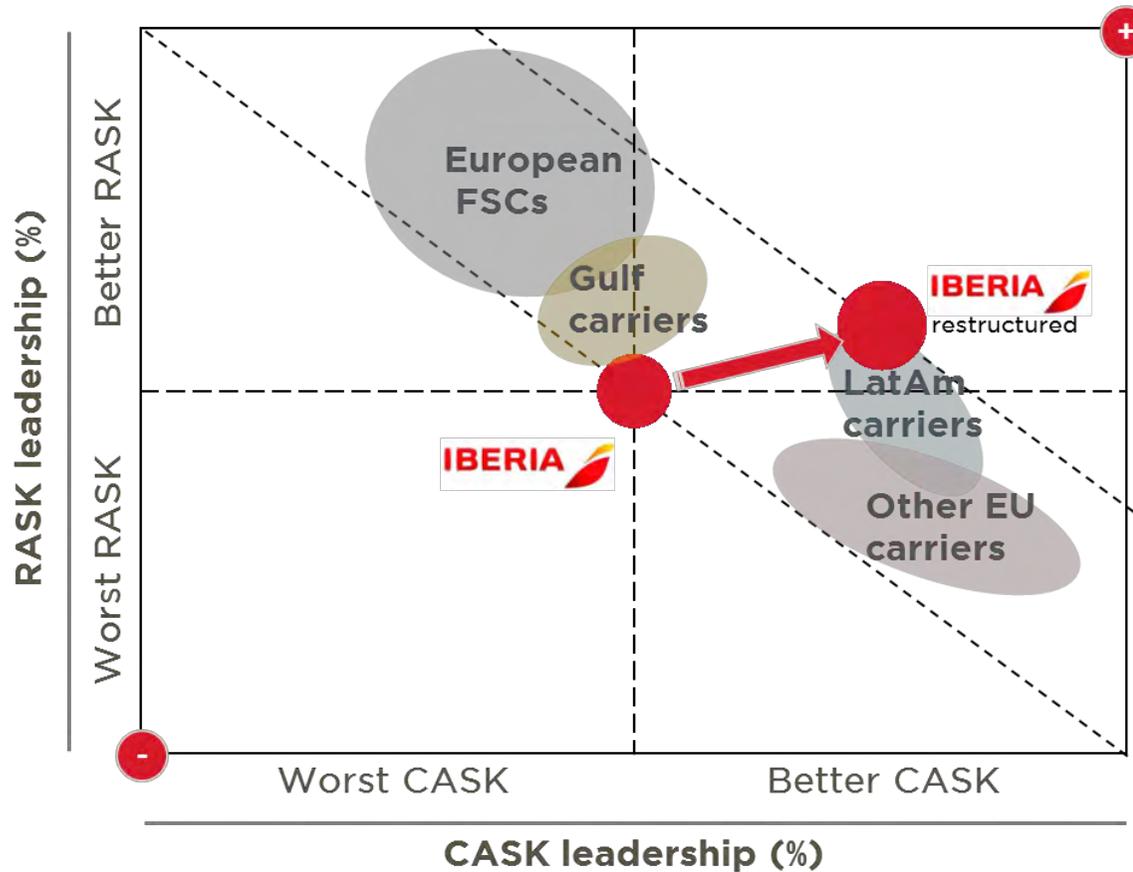
Plan de Futuro

IBERIA 

The implementation of Plan de Futuro should provide Iberia with an attractive competitive stance in EU-LatAm market



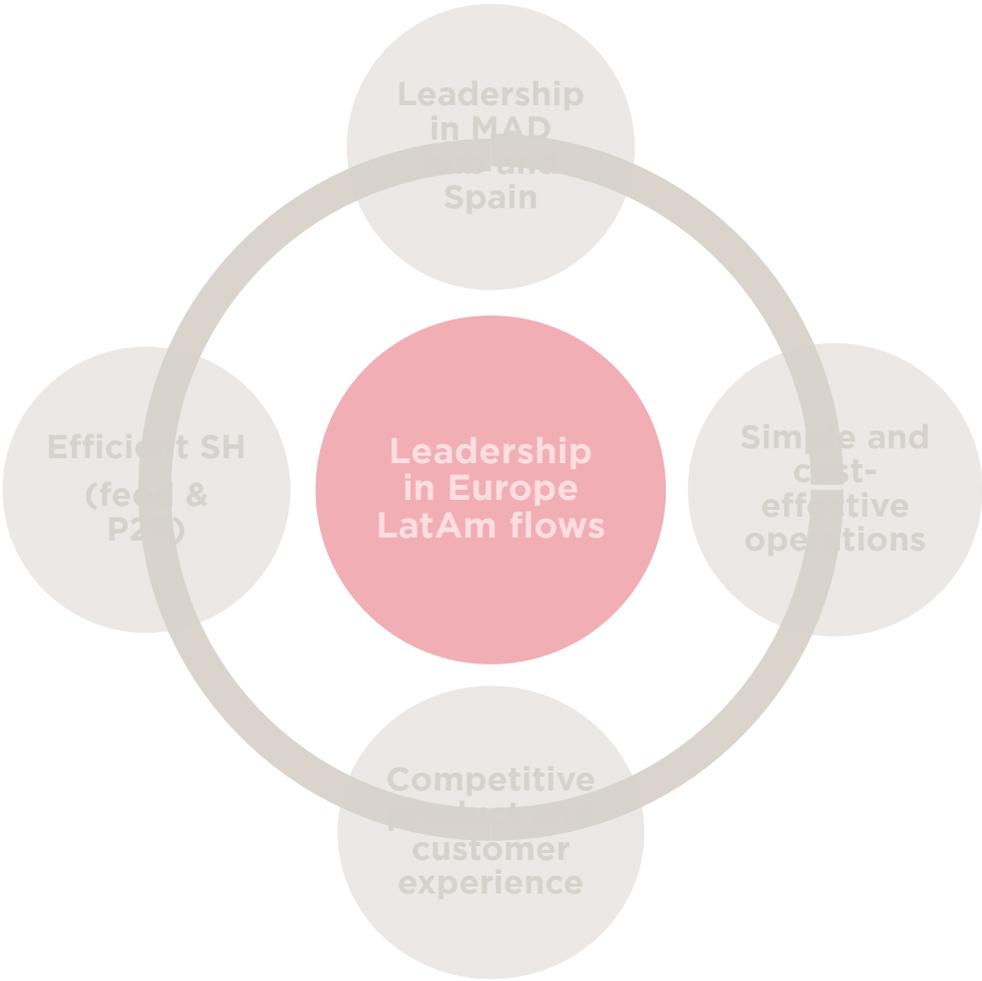
Total CASK and RASK relative to Iberia (incl. SH and LH)



¹ From investor reports and airlines annual presentations

Source: AEA 2012 for European carriers and 2013 annual reports for rest of carriers. Stage length adjusted

Leadership in Europe-LatAm. How?



- Supported by the on-going transformation (Plan de Futuro) ...

- ... and further underpinned by the operating, financial and strategic **benefits of being part of IAG**



There are significant opportunities that the IAG offers in order to reach Iberia's strategic ambitious objectives

What does IAG add to Iberia?

Financial strength



Fleet renewal opportunities



Enhanced strategic relevance



Revenue and cost synergy benefits



Significant cooperation opportunities



What does Iberia add to IAG?

Solid leadership in the South Atlantic



Unique upside potential



Strong cash contributor to IAG



Sharing of cost optimisation best-practices



In summary, Iberia is best-positioned to continue being the leader in the Europe-LatAm market



- Supported by the **on-going transformation (Plan de Futuro)** ...
- ... and further underpinned by the operating, financial and strategic **benefits of being part of IAG**

IAG INTERNATIONAL AIRLINES GROUP

IAG

Iberia

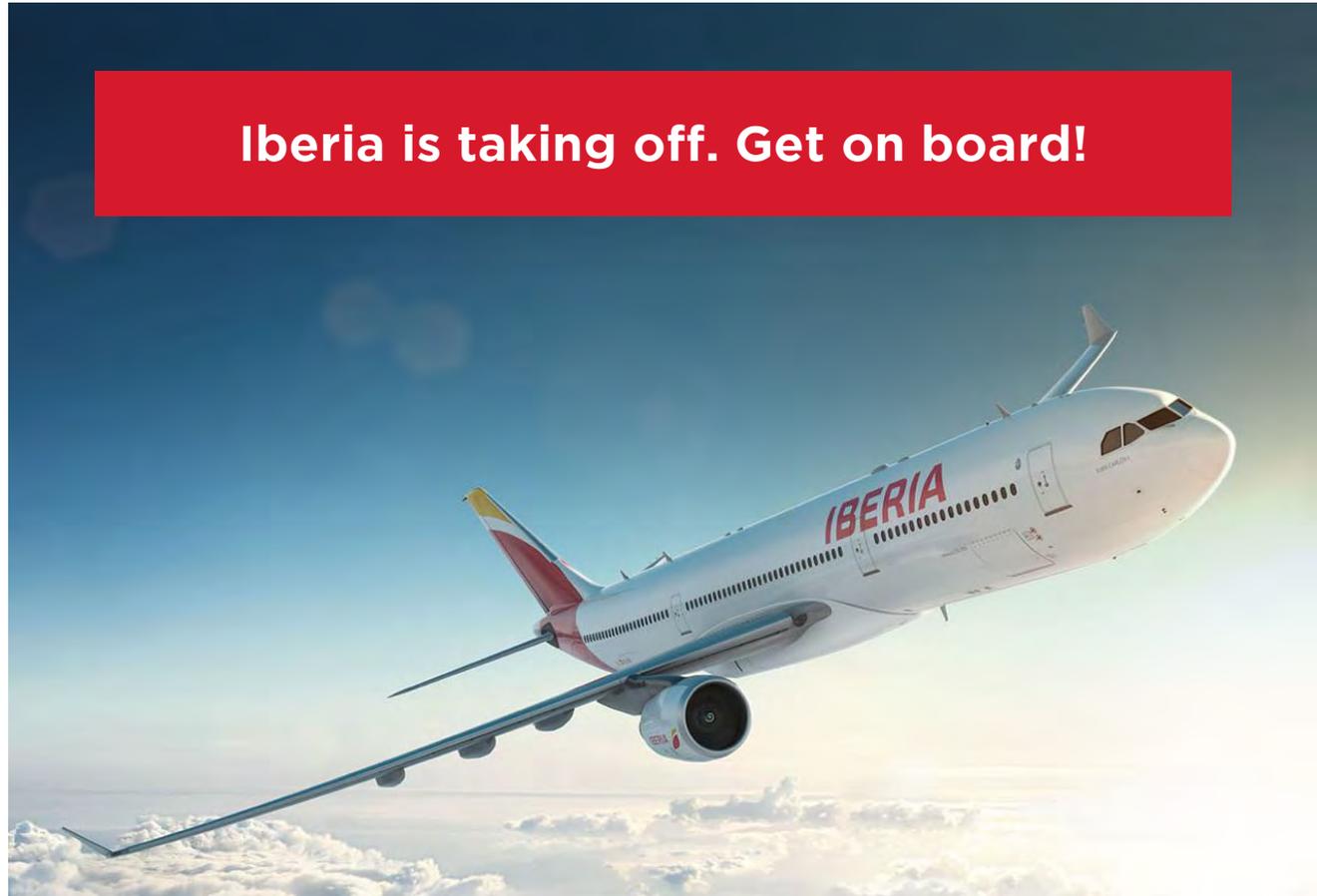
Summary

IBERIA 

Plan de Futuro is delivering now and setting the basis of the Iberia of the future

- Plan de Futuro will allow Iberia to reach **positive results in 2014** after 6 years of losses...
- ... provides Iberia with an **attractive strategic positioning** in core markets (specially Europe-LatAm)
- ...sets the basis for **profitability and long-term growth**
 - Margins in IAG target range from 2017 onwards
 - Strong growth prospects
 - Free cash generation from 2014

Iberia is taking off. Get on board!

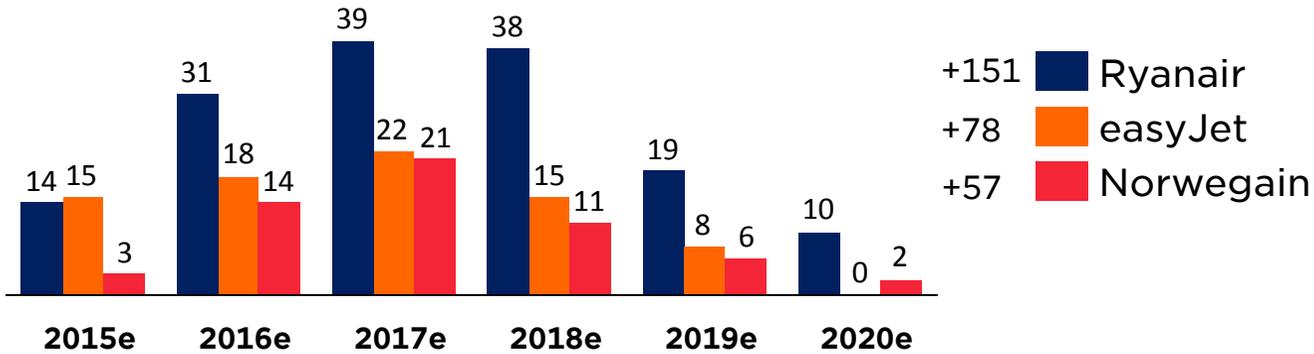


Vueling

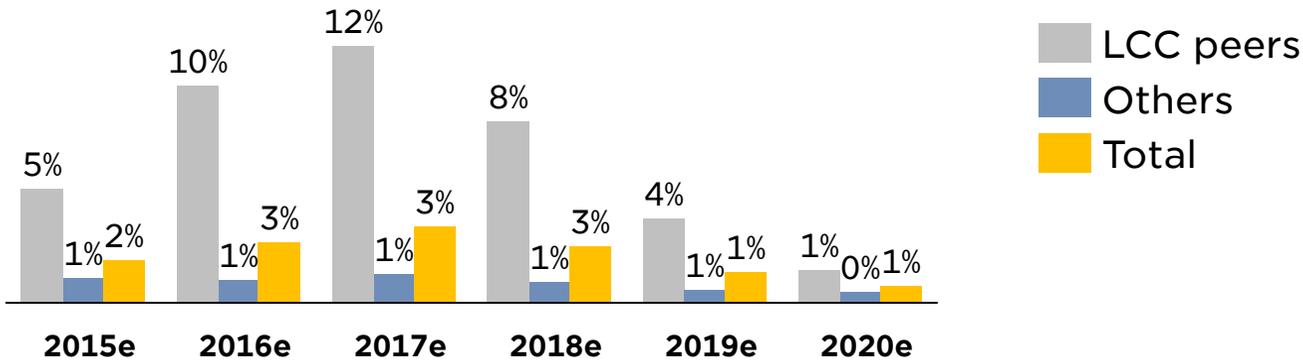
IAG INTERNATIONAL
AIRLINES
GROUP

Capacity outlook European market

Expected net change in aircraft LCC peers



Expected total European short haul seat capacity increase



- LCC peers growth ramps up from 2015
- A more competitive scenario is expected from 2016 to 2018
- Total market capacity expected to grow above GDP estimates in the short term

Source: Vueling estimates and companies results presentations

Competitors are becoming more “sophisticated”

RYANAIR

- Allocated seating
- GDS distribution
- Business fare
- 2nd small handbag
- New website

easyJet

- Allocated seating
- New GDS agreements
- Flexible fares
- Easy Jet Plus cards
- Corporate Accounts
- Business oriented network

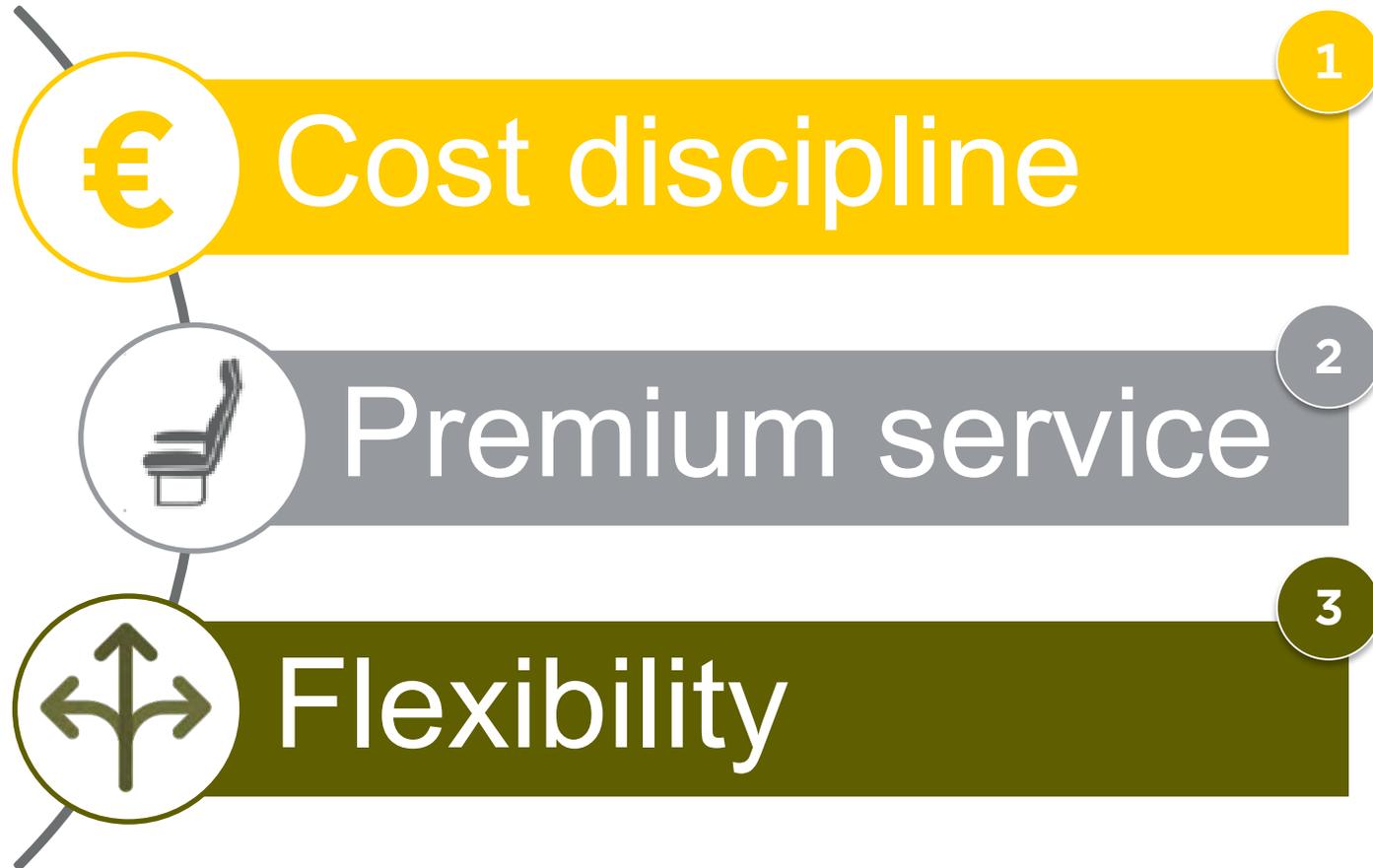
norwegian.no

- GDS
- Flexible fares
- Fast track
- Business class
- Frequent flyer program
- Wi-Fi on Board
- Long haul flights

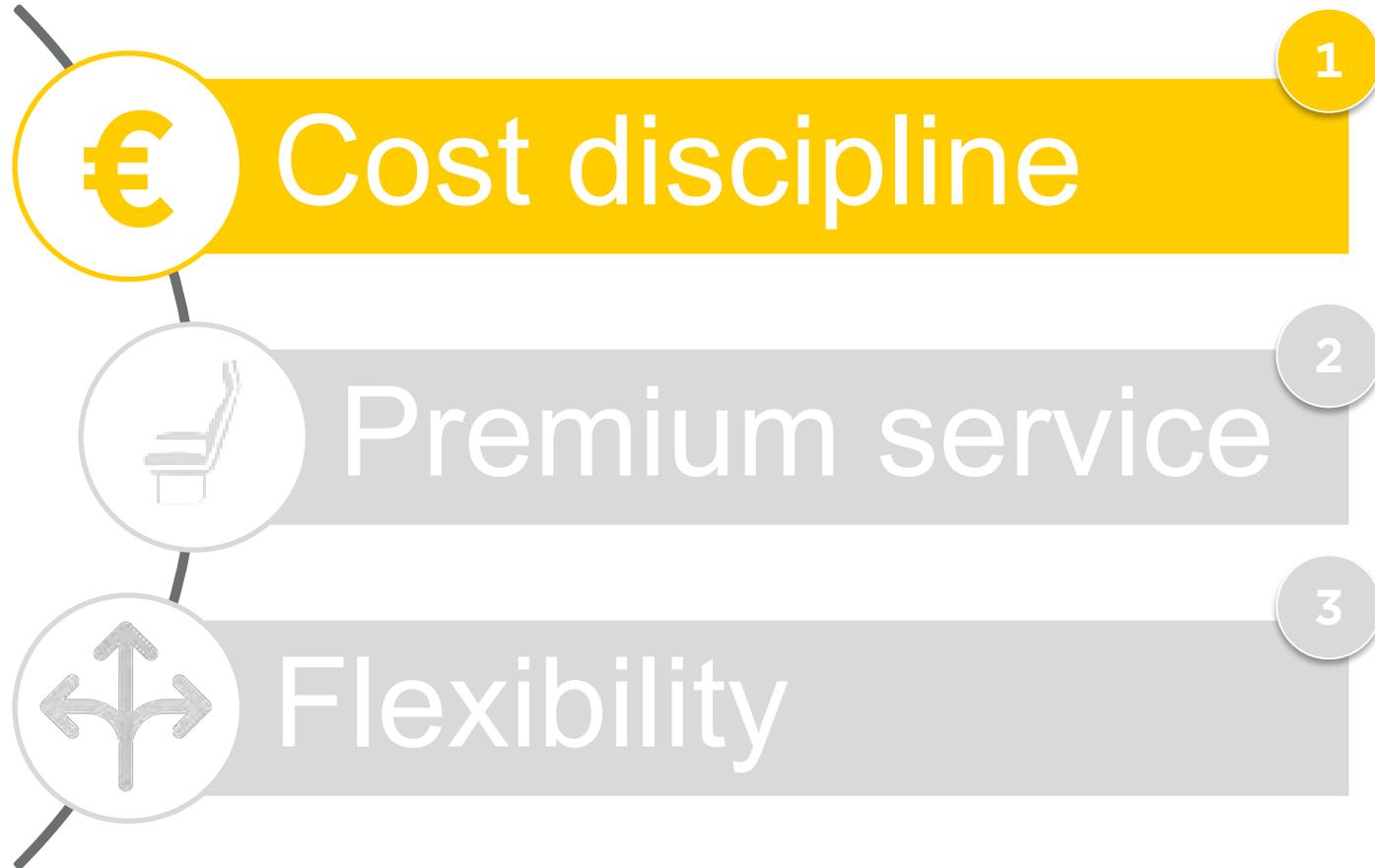
Premium product



Three pillars of attack and defence

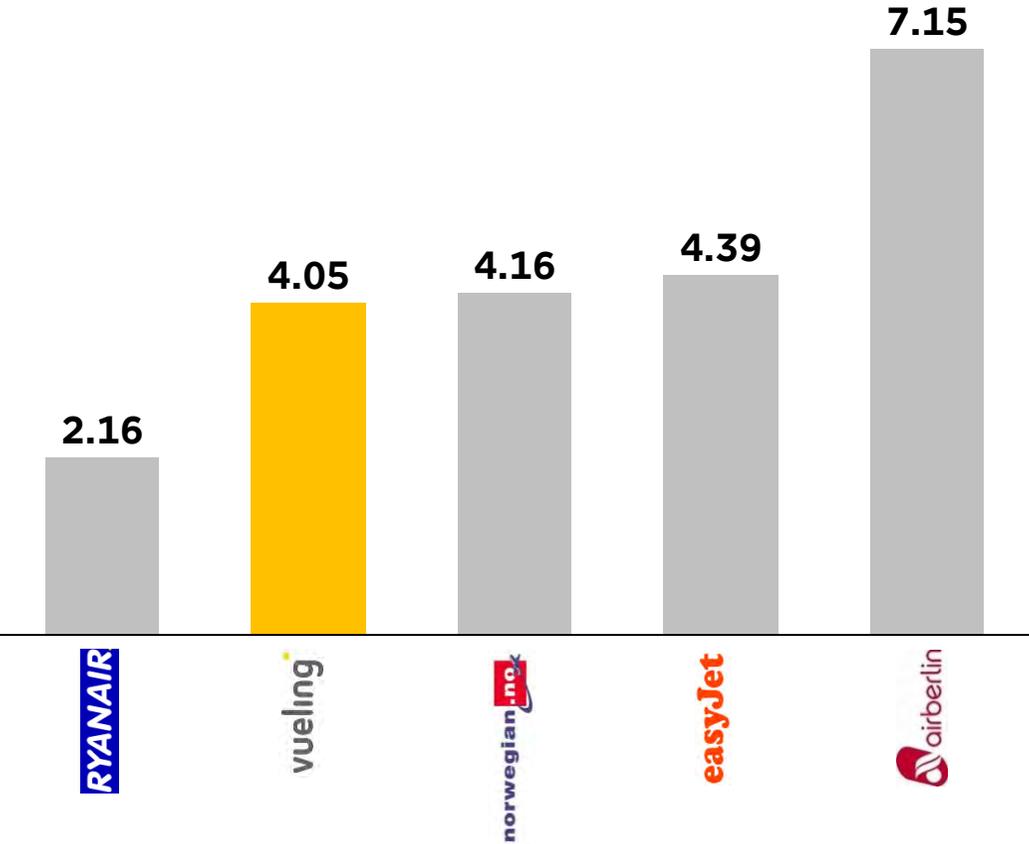


Three pillars of attack and defence



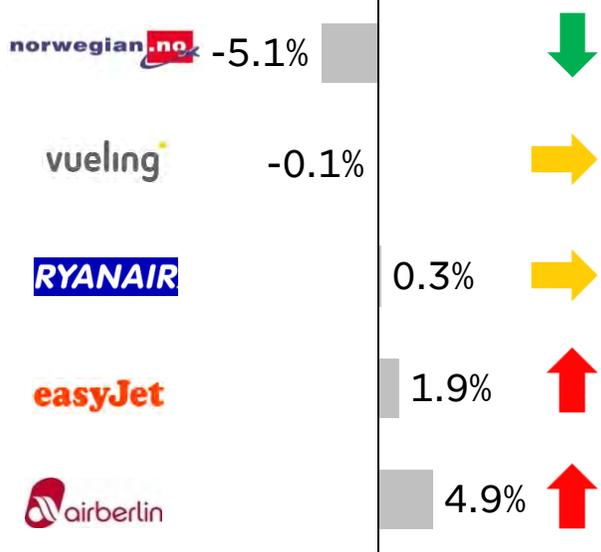
Cost discipline: Vueling maintains a cost advantage

CASK ex-fuel 2013* (€ cent.)



CASK ex-fuel trends

CAGR 2010-2013



Source: Annual accounts. * Adjusted to Vueling stage length 2013

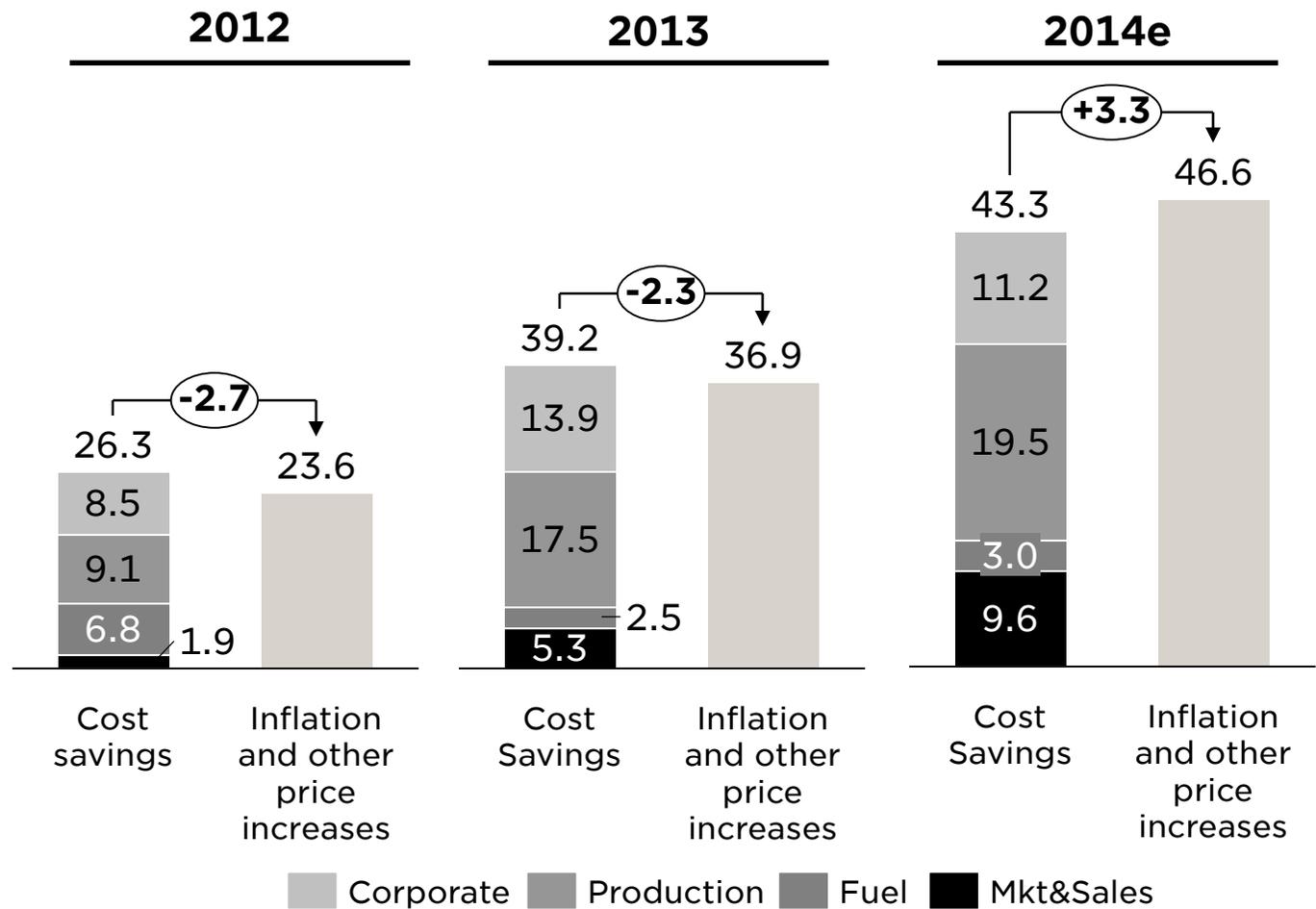
Cost discipline: Darwin cost saving platform

1 Define goals	<ul style="list-style-type: none">• Goals are defined on an annual basis• Goals set for each area of the company
2 Identify initiatives	<ul style="list-style-type: none">• Initiatives defined to meet annual targets• Define priorities, areas of focus
3 Implementation	<ul style="list-style-type: none">• A leader is defined for each initiative• A dedicated team tracks progress
4 Monitor savings	<ul style="list-style-type: none">• Finance and control team monitors the results of all initiatives• Action plans implemented to cut deviations



Cost discipline: Darwin cost saving results

Cost savings Darwin program (€ million)



- Darwin platform is expected to achieve more than €108M in savings between 2012-2014
- Darwin program allows to offset inflation and other price increases
- In 2014 Darwin will almost compensate the price effect, including new airport levies, and non-recurring costs on the international expansion

Cost discipline: additional savings yet to be realized

1 Maintenance



Opportunity to lower costs

Help IAG airlines to reach the best MRO service scenario

Joint IAG purchasing

Vueling's experience already supporting IAG purchasing

2 Purchasing



2 Fleet



IAG size significantly enhanced Vueling's airplane deal

AENA ground handling license renewals

Help IAG airlines to reach the best handling service scenario

New order will reduce fleet costs

4 Handling



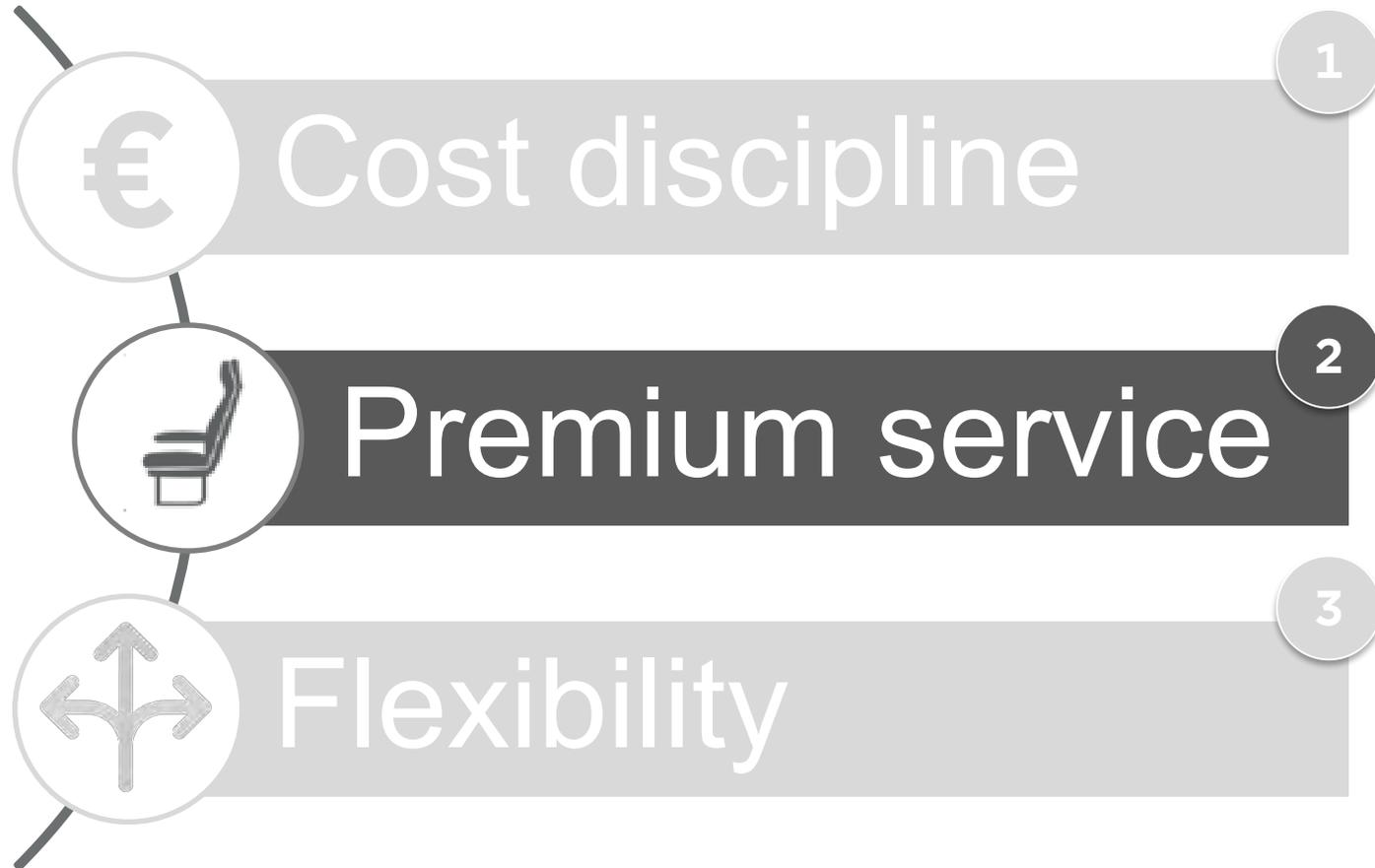
- Integration in IAG offers new cost saving opportunities to Vueling
- *Cross-Fertilisation* among Group Companies: cost and efficiency culture

IAG

Vueling

Cost

Three pillars of attack and defence



Low cost fundamentalism: we predicted its end a while ago!

Jun'11, European Aviation Club conference

What does it mean? Why is this good?

THE LAST PHASE

Traditional airlines

- Disappearance of full business class product in all but premium routes
- Connect and revenue share models with LCCs

Low cost airlines

- Become more sophisticated
- Evolve in product:
 - Business passenger
 - Connections
- Access to higher fares

Oct'11, World Low Cost Conference, London

What are the signs that we may be in this last phase?

PHASE

Traditional airlines

- Lufthansa**
 - Germanwings: Cooperation
- AIR FRANCE KLM**
 - Re-distribution of bases...
 - Access to Transavia
- IBERIA**
 - Clickair, then Vueling, best case in Europe
- BRITISH AIRWAYS**
 - LGW, a lower cost alternative
- Welcoming Air Berlin?**

Low cost airlines

- RYANAIR**
 - Assigned seat trial
 - Acknowledged currently "bad customer service" (17-5-11, FT Deutschland)
- easyJet**
 - Biz passenger focus
 - Flexi fares
- norwegian.no**
 - GDS distribution
 - Inflight WIFI
 - Long haul

vueling

- Seat assignment
- Blocked middle seat
- Multi-frequency
- Main airports
- Oneworld FFP
- Connections / interline
- GDS sales
- Flexible fares
- Very high punctuality

flying hoy means vueling

to LCC giants and their networks ...

The blue Irish:

- Won't grow until 2015
- Will likely shift capacity to main airports searching higher yields
- Will chase some business traffic

The orange English:

- Won't grow for a while either
- Starting to commit to business traffic
- Will stick to main airports
- Will exit some tertiary airports

flying hoy means vueling

We even did a business school case!!!



The End of Low Cost Fundamentalism

M-1267-E
October 2011

History

Vueling Airlines dates back to late 2002, when Carlos Muñoz and Lázaro Ros I development company that funded market and financial feasibility studies needed airline launch project. For the next 12 months, they proceeded to draft the business develop branding and corporate image. At the same time they sought strategic pa consolidate the project from industrial, business and financial standpoints, and a team for the company.

"We wanted an airline with competitive prices, low costs and based out of south Europe. But we also had to offer more than the low-cost airlines. A 'new ge airline.'"

Vueling's attributes were summed up as "simple, attractive and with competitive From that point on, the management team focused all its efforts on getting the A airline operating certificate - to officially become an airline. During that period, the moved into its first "headquarters," an office in Barcelona with just a few comp chairs which "had to be shared by way too many people!" Vueling began selling on 2004 with a campaign offering flights for 10 euros (selling over 50,000 tickets in 15 destinations such as Paris, Brussels, Palma and Ibiza.

The first commercial flight (Barcelona-Ibiza) took place on July 1, 2004. The orig consisted of two new Airbus A320 aircraft. Daily routes offered flights from Barc "We offered new single-class A-320 aircraft, major airports, one-on-one treatm no minimum stay, excellent in-flight service, online check-in and pre-allocation All this starting at 20 euros one-way. The 'no problem' airline."

This case was prepared by Silvia Rodriguez, Research Assistant, under the supervision of Professor José Luis Nuño, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. October 2011.

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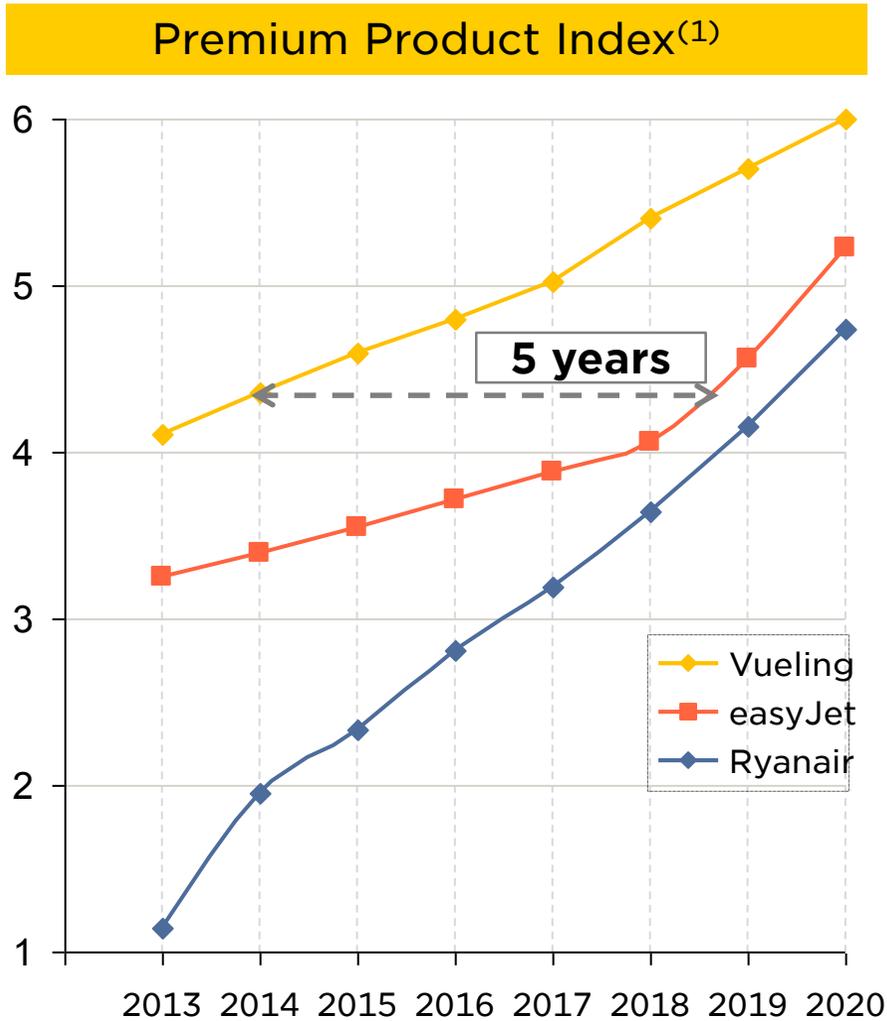
IESE business case, October 2011

IAG

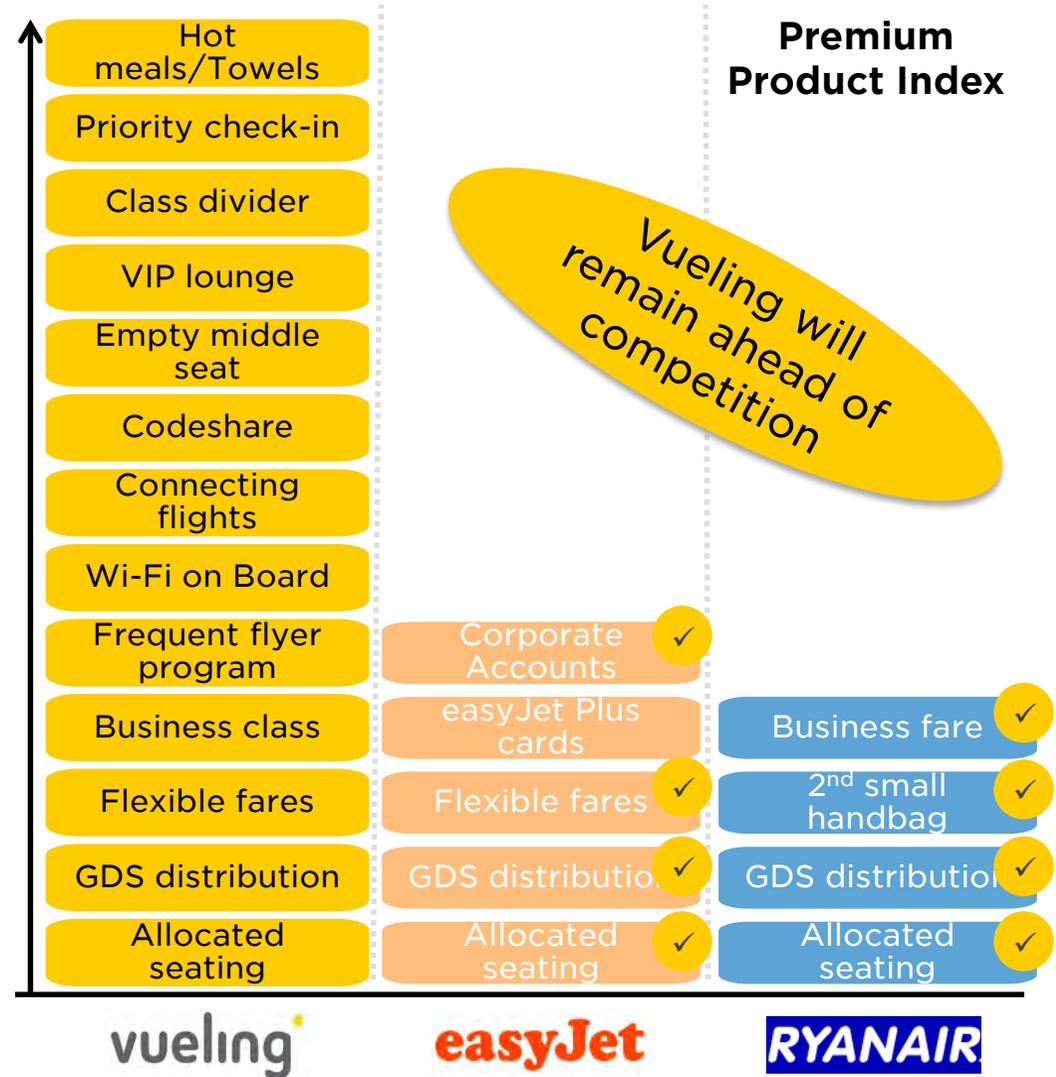
Vueling

Premium

Premium service: Vueling continues holding an advantage



¹ Vueling 's own methodology and estimates.



Vueling Business class - Vueling's premium product

PREMIUM AREA

- Rows 1-4
- Priority boarding
- 1st to disembark
- More legroom
- Class divider
- Mood lighting
- Power outlets



Towelette



Special cutlery



Power outlets

Vueling offers a differentiated premium service



Transfer passengers

- Since 2010 in Barcelona
- From 2014 in Rome Fiumicino
- 6M transfer pax since 2010



Codeshare

- Codeshare agreements give access to business passengers
- Codeshare agreement with BA signed in 2014



Frequent flyer program

- Vueling Frequent Flyer Program: Punto (more than 800k users)
- Iberia Plus: collect Avios from Vueling flights



Excellence class

- Business class
- Premium services: empty middle seat, VIP lounge, exclusive check in counter, catering...



Interline agreements

- Interline agreement with Qatar Airways signed in 2014
- More agreements to come



Onboard Wi-Fi

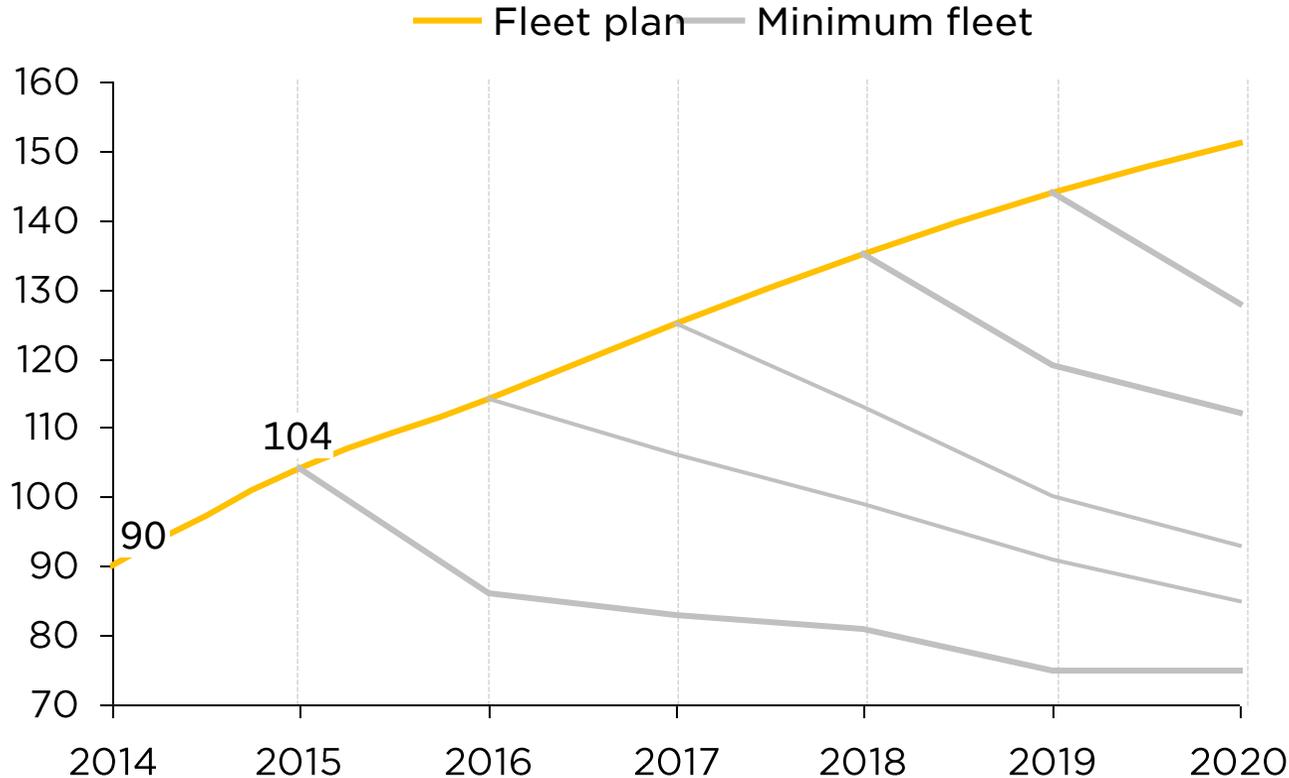
- Onboard Wi-Fi improves customer experience
- Pilot project on progress. Roll out 2015

Three pillars of attack and defence



Fleet plan is designed to allow for flexibility

Average aircraft in peak season

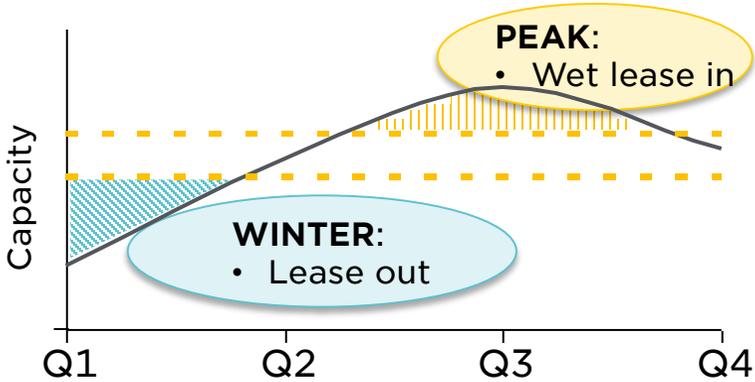


- Vueling’s fleet plan has a target of 104 aircraft in 2015 peak Summer
- The fleet plan is designed to allow for flexibility and efficiency

Flexibility to manage seasonality

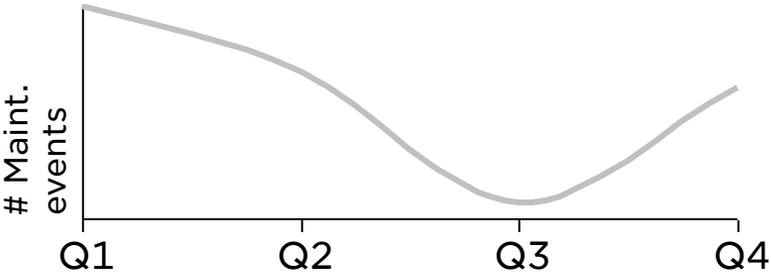
Fleet seasonality

- Summer: wet lease in
- Winter: lease out



Maintenance events

- Maintenance planning
- Heavy maintenance events performed in winter



Special flight schedules

- 5 different flight schedules along winter season + local bank holidays
- Increased utilisation

	2014		2015
	Nov	Dec	Jan
Christmas			
Bank holiday			
Winter			

New pilot agreement increases flexibility

Crew: new pilot agreement



Increase in flexibility

Temporary work force increased from 20% to 35%

Ensures high productivity

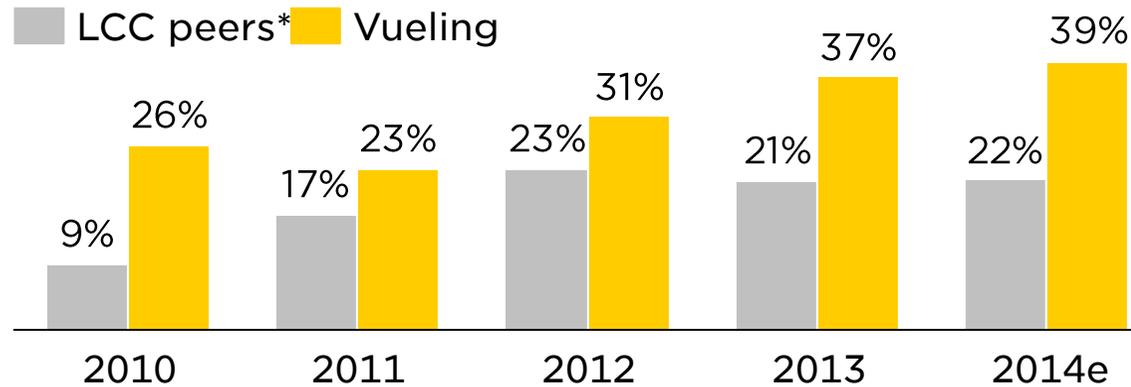
Maintains high productivity from previous agreement

Stable labour relations

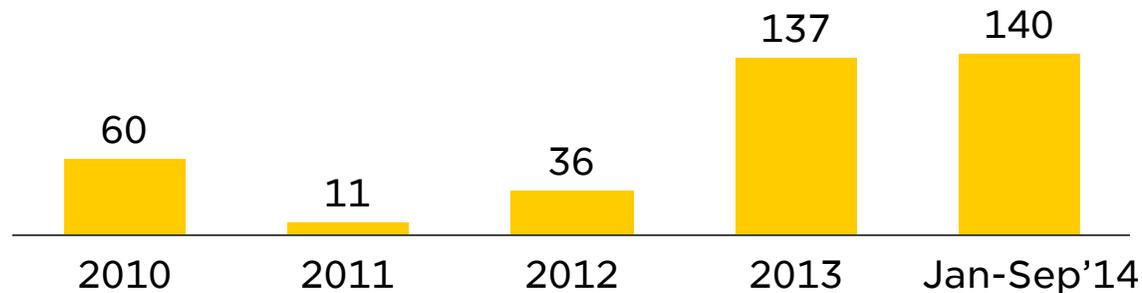
4 years term agreement (until 2018)

Vueling has operated in a challenging environment

Seat market share at Barcelona airport



Vueling EBIT (€M)

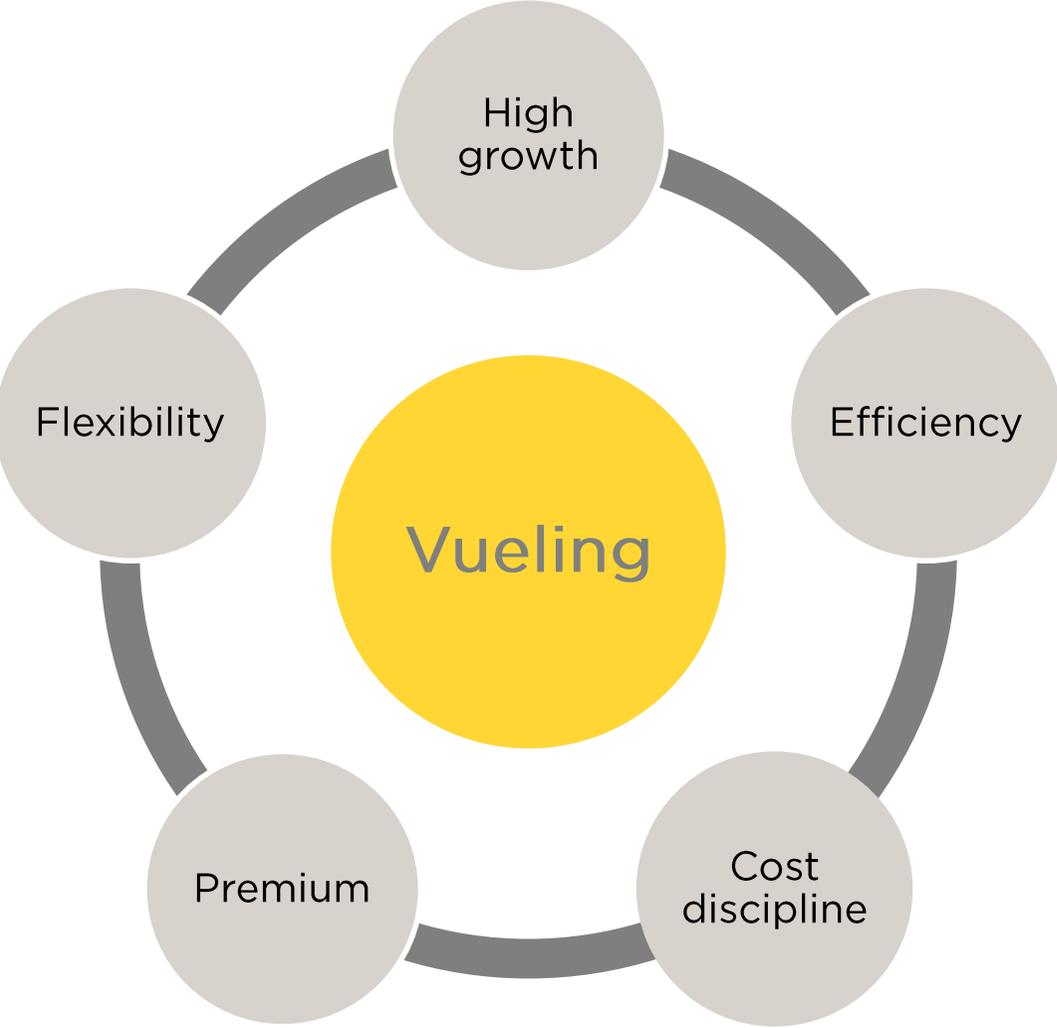


Fuel price \$724 \$1015 \$1016\$ \$981 \$968

Source: SRS * LCC peers: Ryanair, Norwegian and easyJet

- European LCCs have already been expanding in Vueling markets
- Vueling has proven its ability to cope with an increase of capacity of competitors
- Vueling managed to report a positive EBIT result during the period 2010-2014

Vueling, IAG's high growth profitable tool whilst increasing efficiency across the Group



High growth

Significant profitable opportunities for organic growth

Efficiency

Vueling contributes to improve efficiency across IAG

Cost discipline

Focused on cost control

Premium

More premium product than peers

Flexibility

High operational flexibility to respond to market conditions





vueling

LOVE THE WAY YOU FLY



IAG

Appendix

Preferred measure of Return on Capital

- Capital employed calculated using the financing method (book equity plus net debt) has the following drawbacks:
 - Large accounting distortions (prior year losses, pension and other write-offs)
 - No investor consensus on treatment of cash / working capital
 - Backward-looking, based on historic values for aircraft / financing, therefore not capable of benchmarking forward-looking shareholder returns
 - Peer comparison very difficult
- Our **preferred calculation** uses the current-cost asset method (book value of assets, adjusted for leasing and inflation):
 - Fewest accounting distortions / assumptions
 - Easy to calibrate against publicly-available aircraft values, and capex
 - Similar to established regulatory approaches for industries with long-life assets
 - Easy to relate to future shareholder returns / free cash generation
 - Peer comparison straightforward
- We described this approach at the 2013 Capital Markets Day

Standard Invested Capital and RoIC calculation

Real returns, applicable to all airlines (simplified version of last year with lease adjustment), working from public information

$$\text{adjusted depreciation} \times \text{remaining asset life} = \text{Invested Capital}$$

reported
depreciation

X

inflator

$(1 + \text{asset inflation})^{\text{asset age}}$
Inflation offset by past and expected future efficiencies

+

lease
adjustment

$\text{aircraft rentals} \times 0.67$
Standard rating agency adjustment

asset life

$1 / \text{depreciation rate}$
Accounting shortcut (depreciation rate = reported depn / asset GBV)

-

asset age

$\text{accum. depn} / \text{latest depn.}$
Accounting shortcut for financial age of the asset base

$$(\text{EBITDAR} - \text{adjusted depreciation}) / \text{Invested Capital} = \text{RoIC}$$

Invested Capital and capex

Invested capital based on the replacement cost of assets, rather than historic cost, can then be used to make sense of capex

- **Adjusted depreciation** = **replacement capex** (€1.4bn in 2013)
- **Adjusted depreciation** x **asset life** = **asset replacement cost** (€30.3bn in 2013)
- **Asset replacement cost** x **average long-term growth rate** = **growth capex** (€0.9bn in 2013 assuming 3% long-term average asset growth)
- **Replacement capex** + **growth capex** = **expected average capex** (€2.3bn in 2013, or 60% replacement capex vs 40% growth capex)
- *Actual capex in each year depends on variations in retirement / new delivery schedules from year to year, and level of operating lease financing*

Disclaimer

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 2013; these documents are available on www.iagshares.com.