IAG results presentation 2010

25th February 2011

December quarter highlights

- Profitable quarter, led by strong recovery in yields
- Recovery offset partially by extra costs in the quarter from merger, aircraft disposals, restructuring
- Good progress on controllable costs
- Strong cash generation, reduction in gearing
- Underlying capacity stable – ASK growth produced by increase in average sector length, rather than growth in fleet
- Revenue environment stable – non-premium cabins remain challenging, and cargo and premium cabins remain firm

December quarter headlines

	British Airways £ m	vly	Iberia € m	vly	IAG € m	vly
Turnover	2,236	9.7 %	1,206	7.5 %	3,812	13.4 %
Fuel costs	612	4.6%	273	(7.3) %	989	5.2%
Non fuel costs	1,343	9.6 %	852	1.0 %	2,447	11.9 %
EBITDAR	281	23.2 %	80	n.m.	376	60.2 %
Operating profit	44	76.0 %	(46)	n.m.	6	n.m.
Operating margin	2.0 %		(3.8)%		0.2 %	
Pre-tax profit	(1)	n.m.	31	n.m.	21	n.m.

Underlying IAG operating profit of €196m before non-recurring items
Operating profit positively impacted by €7m Euro reporting translation

One-off items in Q4 (IAG combined)

€ m	Q4 2009	Q4 2010
Snow / Spanish ATC - revenue & cost shortfall		71
Restructuring costs	66	42
Impairment of fleet		37
Merger costs		26
Other costs	4	14
Total non-recurring costs	70	190

Revenue trends

Revenue and stats breakdown

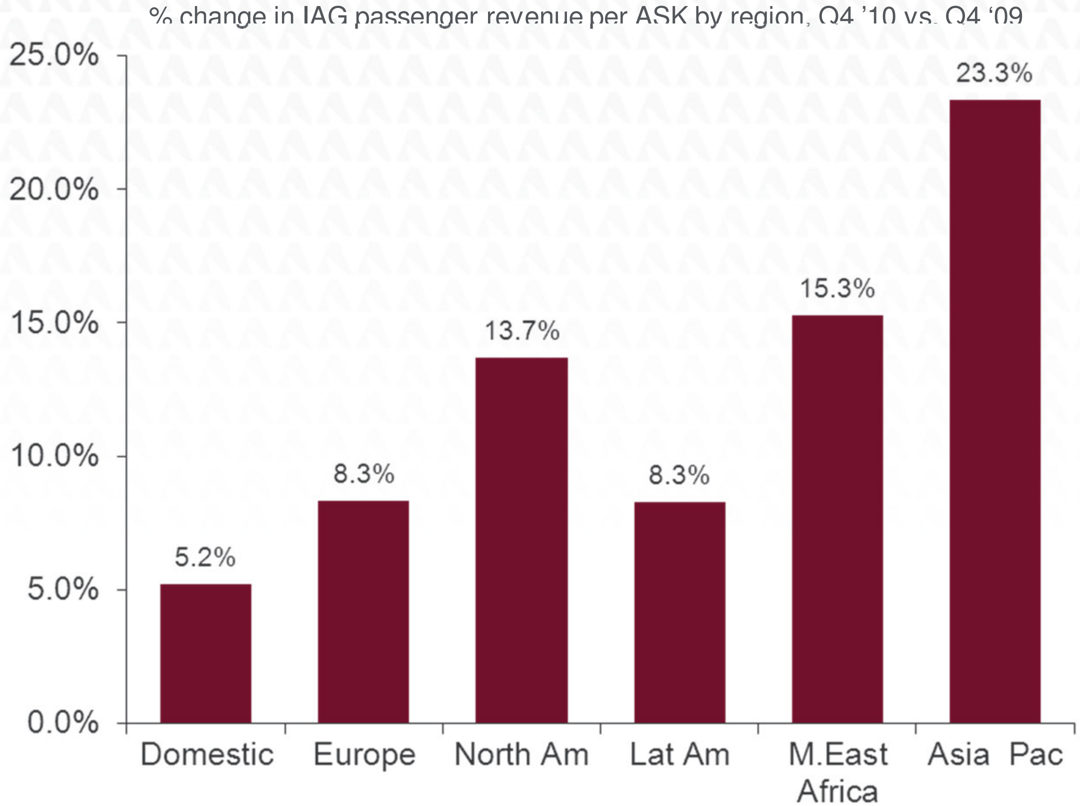
€ m	3 months to Dec 10	vly	12 months to Dec 10	vly
Passenger	3,179	15.6 %	12,318	10.0 %
Cargo	300	28.2 %	1,096	31.4 %
Other	333	(11.7)%	1,384	(2.5)%
TOTAL	3,812	13.4%	14,798	10.0 %
ASK (m)	50,417	2.7 %	199,228	(3.4)%
RPK (m)	39,305	2.2 %	157,380	(2.9)%
Passenger				
Load factor (pts)	78.0	(0.3)pts	79.0	0.4 pts
Revenue per RPK	8.1	13.1 %	7.8	13.3 %
Revenue per ASK	6.3	12.6 %	6.2	13.9 %
Cargo				
Revenue per CTK	19.0	24.2 %	18.6	22.4%

- Capacity has been carefully managed through the year to navigate economic conditions and one-off events
- Disruption in H1 pushed load factors above normal levels, while somewhat diluting the strongly positive impact on yields from the economic recovery
- Cargo revenues driven by improved premium mix and strengthened yield

Passenger unit revenue on recovery path

- Steady recovery from Q4 '09 low
- Active capacity control helped mitigate the worst recession in 50 years
- Market in long haul and cargo currently providing firm underpinning for further revenue progress

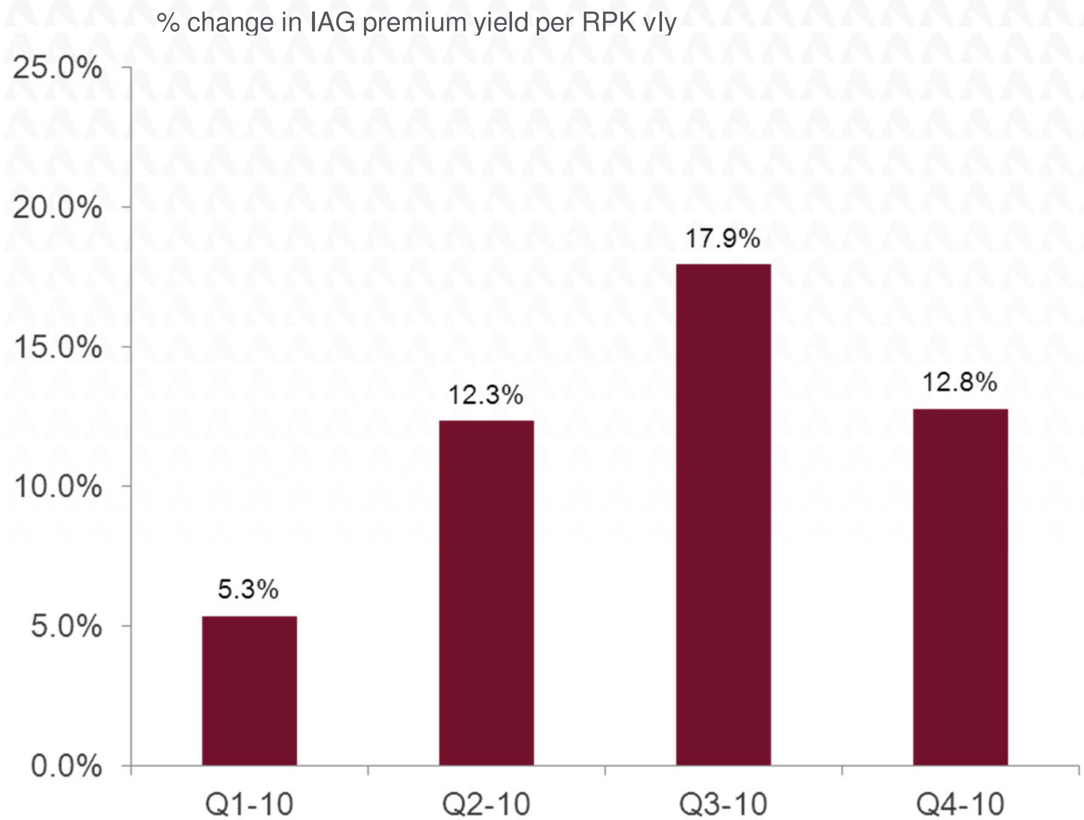
Long haul strong, domestic weak in Q4



ASKs	-8%	-2%	+3%	+13%	-4%	+2%

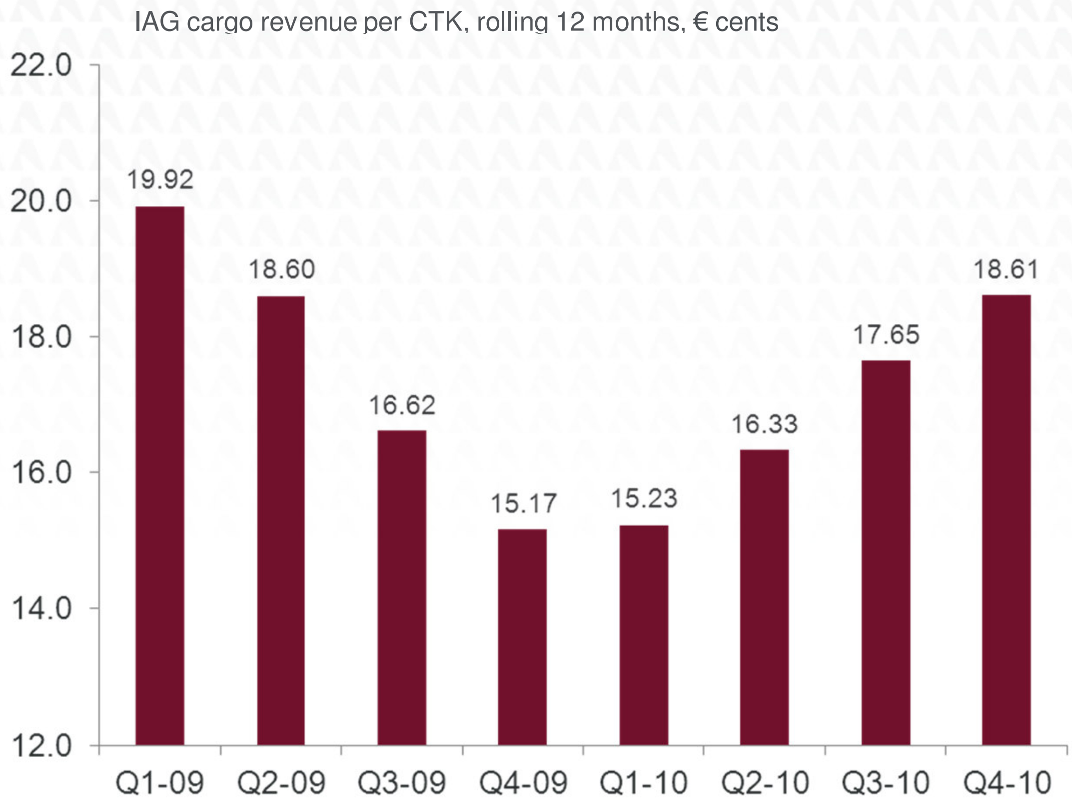
- Spanish domestic market impacted by weak economic background, and remains highly competitive, despite capacity cuts
- Unit revenue growth on Latam, despite strong capacity increase
- N. American unit revenue boosted by strong demand in premium cabins
- Asia Pacific region strong

Premium traffic leading the economic recovery



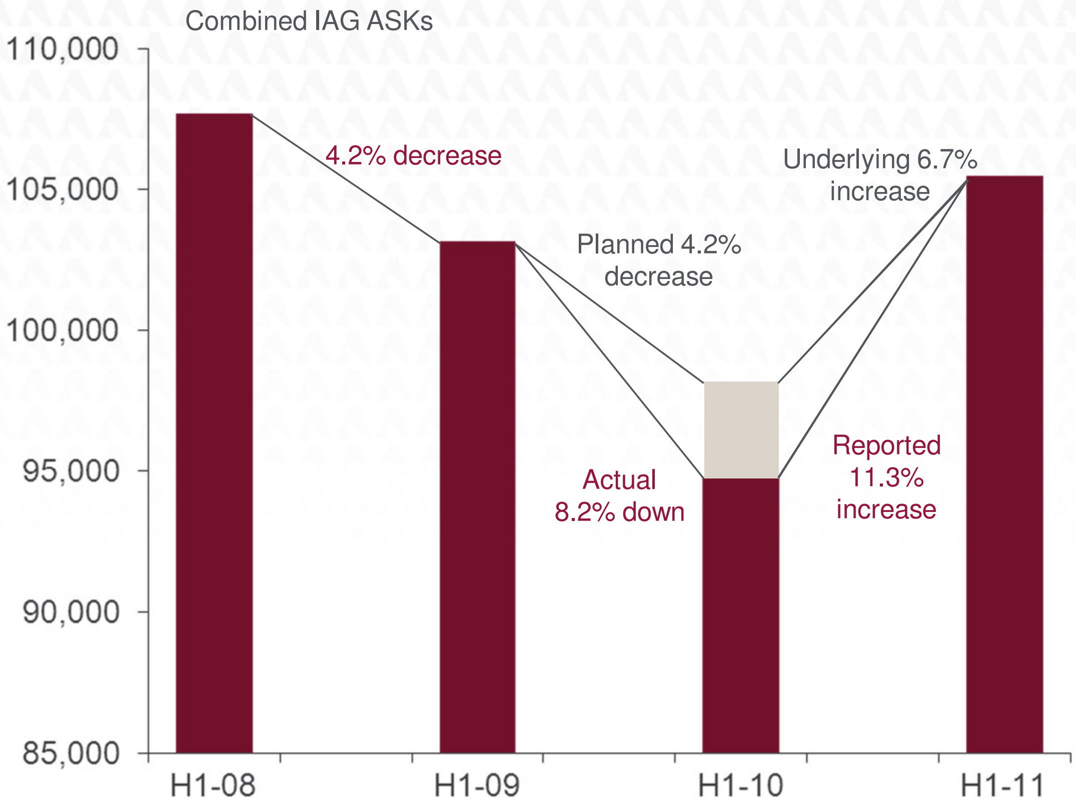
- Recovery led by long haul routes
- All quarters except Q3 impacted by disruption
- Strength continuing into Q1 '11

Cargo yields still on strong recovery path



- Steady recovery mirrors that of passenger unit revenues, but larger drop means bounce back still under way
- Yield strength driven by improved premium mix
- Load factors increasing

Capacity outlook



- Significant base effects in H1 11
- Growth in seats-in-fleet <1%
- Underlying growth from increased sector length & change in network mix: ongoing shift to long haul
- Underlying capacity growth for full year to be low to mid single digit %, reported growth to be mid to high single digit %
- H2 capacity growth flexible, depending on market conditions

Capacity adjustments 2011

	Routes
Start	Madrid to Los Angeles, Recife, Fortaleza Barcelona to Miami, Sao Paulo London to Haneda, San Juan, San Diego, Marrakech Frequency increases on 2 routes
Stop	13 short haul route withdrawals 1 long haul route withdrawal Frequency reductions on 15 routes

	Fleet
In	2x B777-300ER 1x B747 (flexible, from park) 2x A340 (flexible) 2x E190
Out	5x A320 6x A319

Network mix shift towards long haul / core markets – no change in strategy, consistent with current market conditions but with significant flexibility

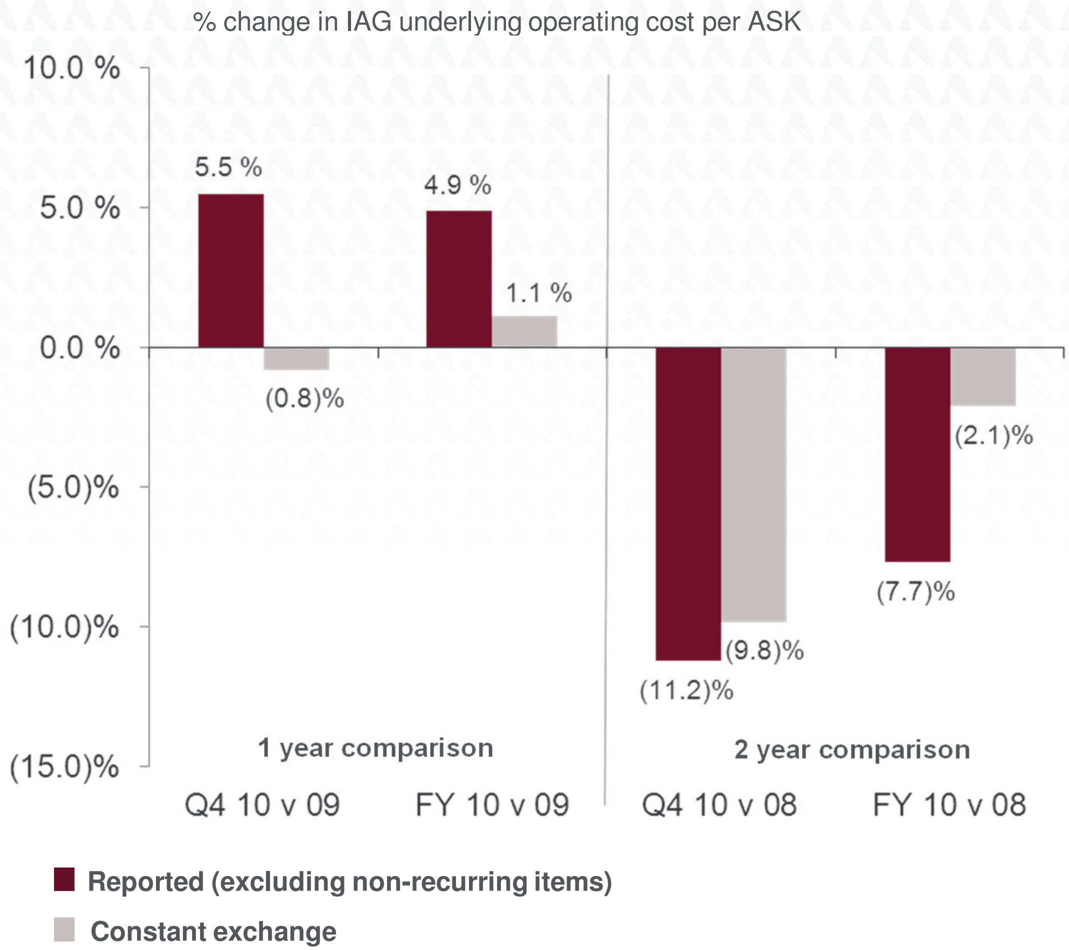
Current unit revenue environment

	direction	Short haul	direction	Long haul
non-premium	↘	Competitive	↘	Competitive
premium	→	Stable	↑	Strong
cargo			→	Stable

- Unit revenues firm on average, led by strength in London - in particular long haul premium
- Growth in premium markets, combined with normalisation from disruption in H1 '10, means ongoing reductions in load factor in non-premium cabins, offset by yield growth

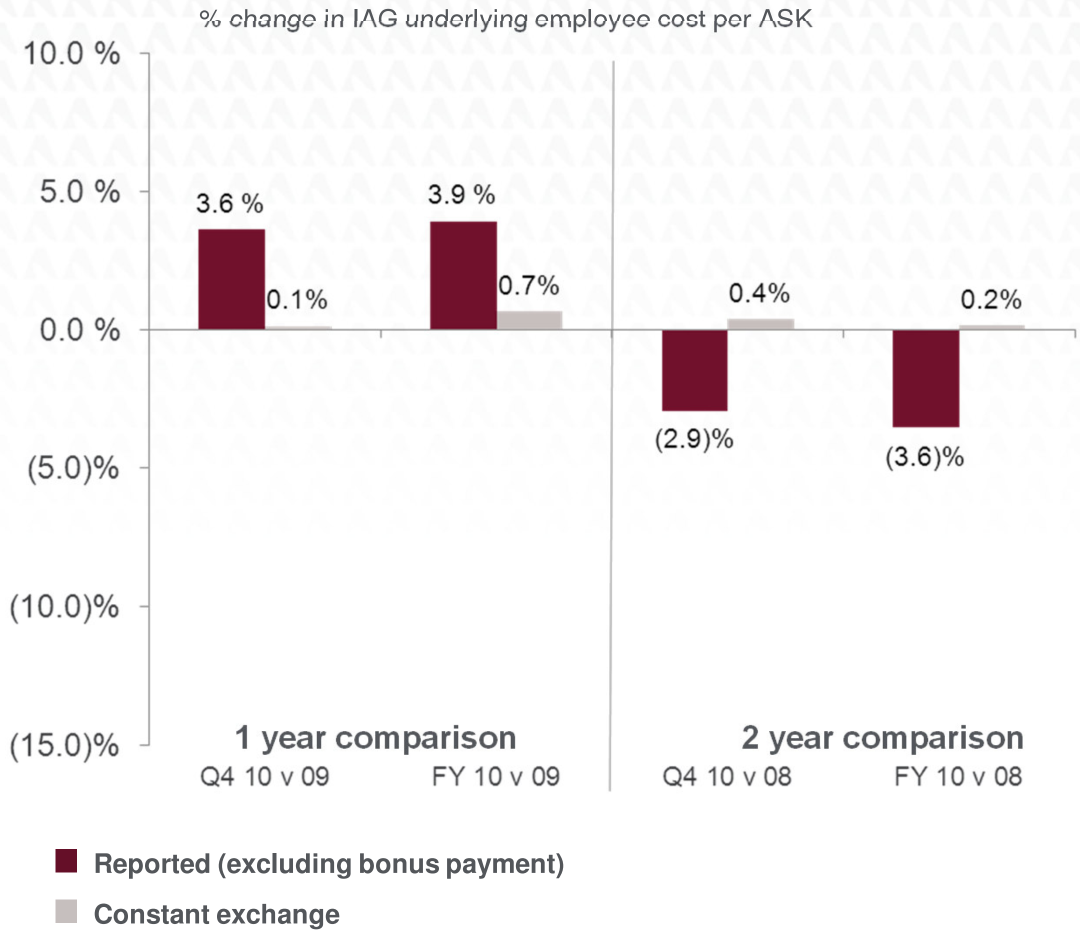
Cost and cash flow trends

Unit operating costs under control



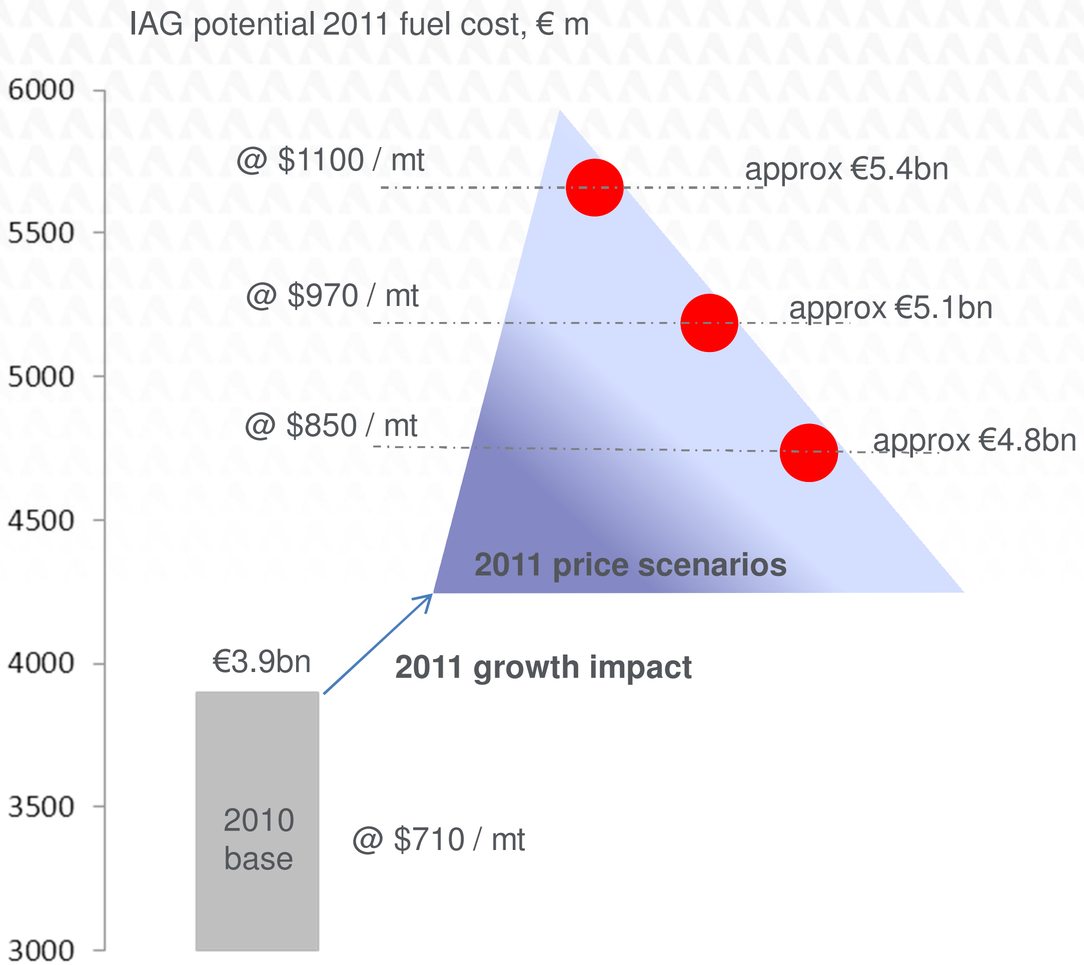
- Employee unit costs up in 2010, but only because of unplanned capacity reductions
- Fuel unit costs flat in 2010, but prices now rising sharply
- Other unit operating costs flat, but only because of unplanned capacity reductions: unit costs should fall this year

Employee unit cost progression



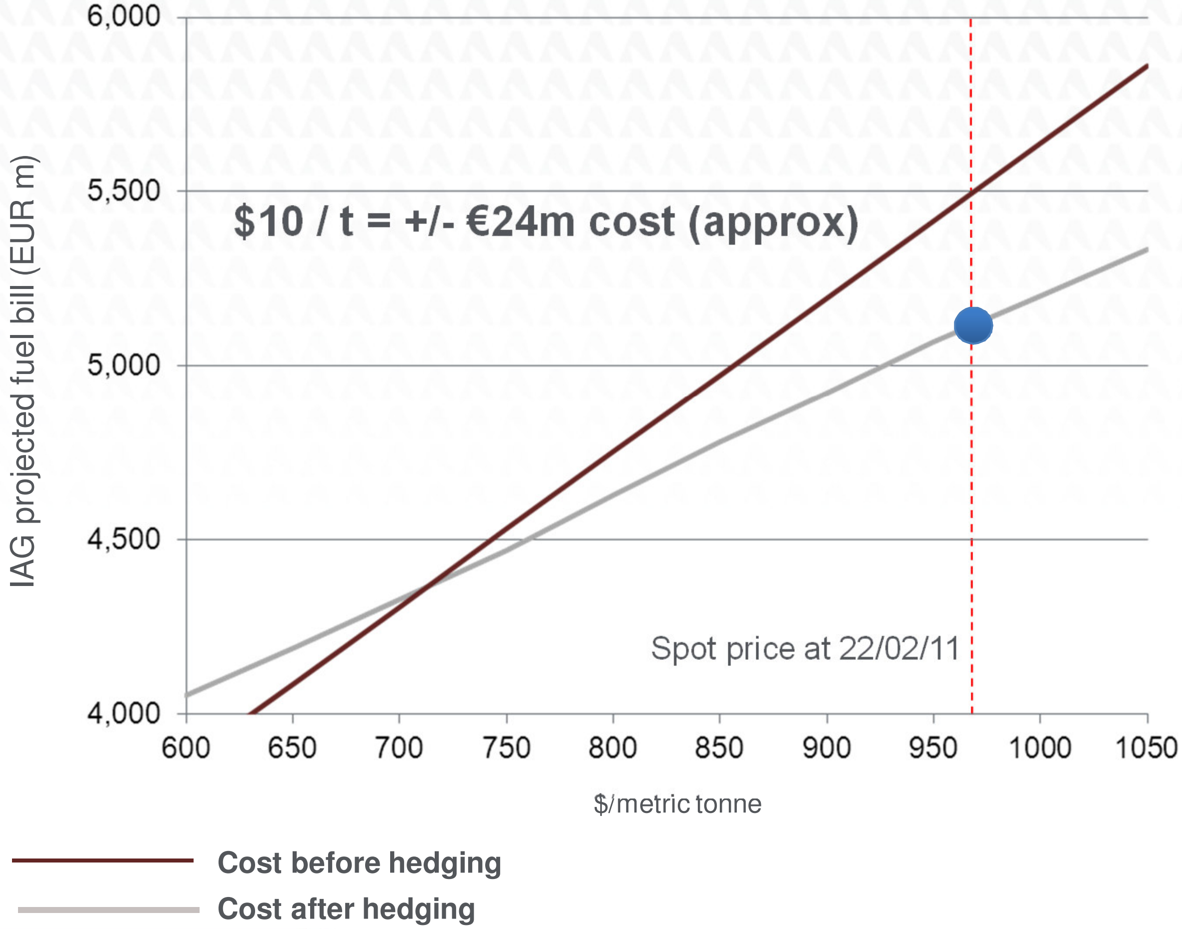
- Costs in 2010 were slightly above last year in nominal terms, but stable at constant FX
- 2010 unit costs were impacted by significant unplanned capacity cuts (see slide 10): using planned capacity, unit costs would have fallen by 1.2% in FY ‘10 vs ‘09 in constant FX, and by 1.7% vs. FY ‘08.

Fuel price exposure – 2011 cost scenarios



- A range of scenarios for the 2011 fuel bill is illustrated here, based on IAG current hedging position, expected maximum capacity growth, and EUR USD rate of $1.36
- The spot price of jet fuel as at 22/2/11 was approx. $970 / mt

Fuel hedge position

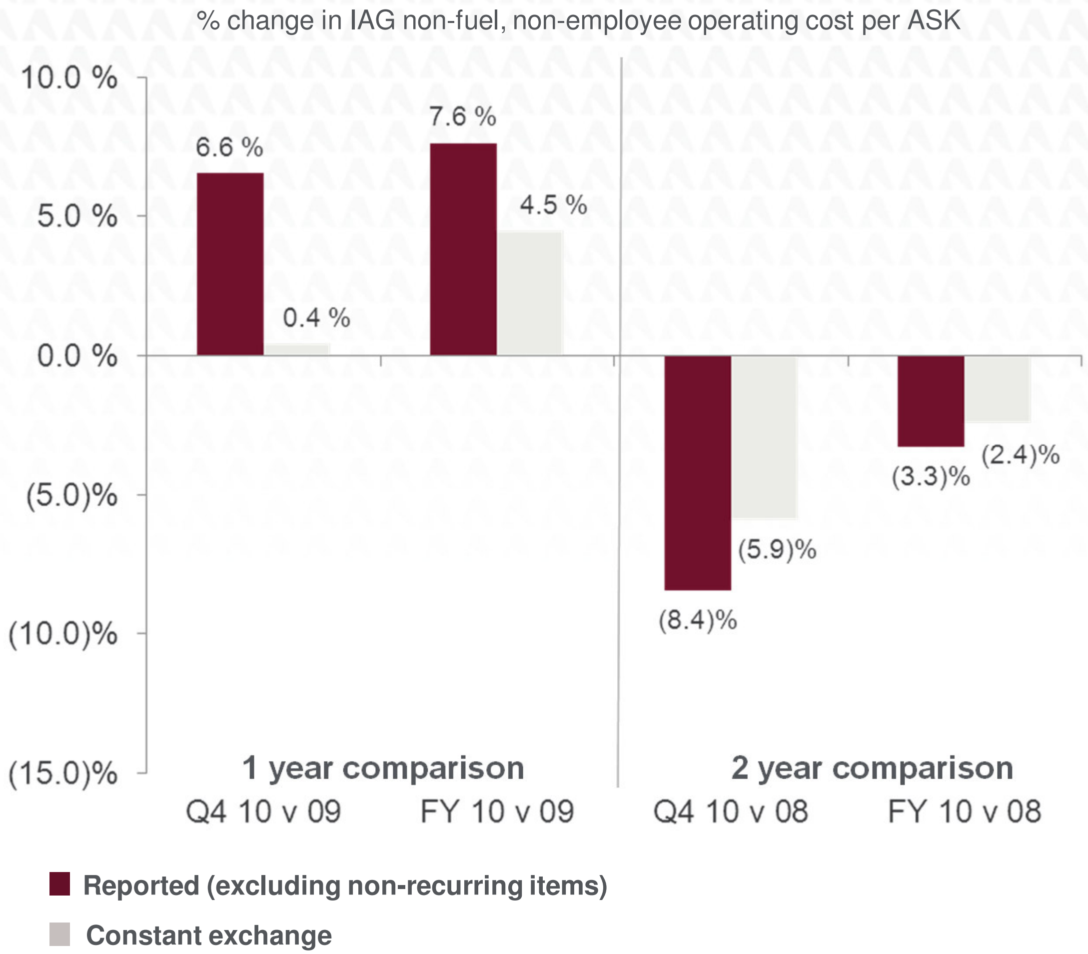


2011 Cover

Q1	Q2	Q3	Q4	2011
76%	62%	41%	35%	53%

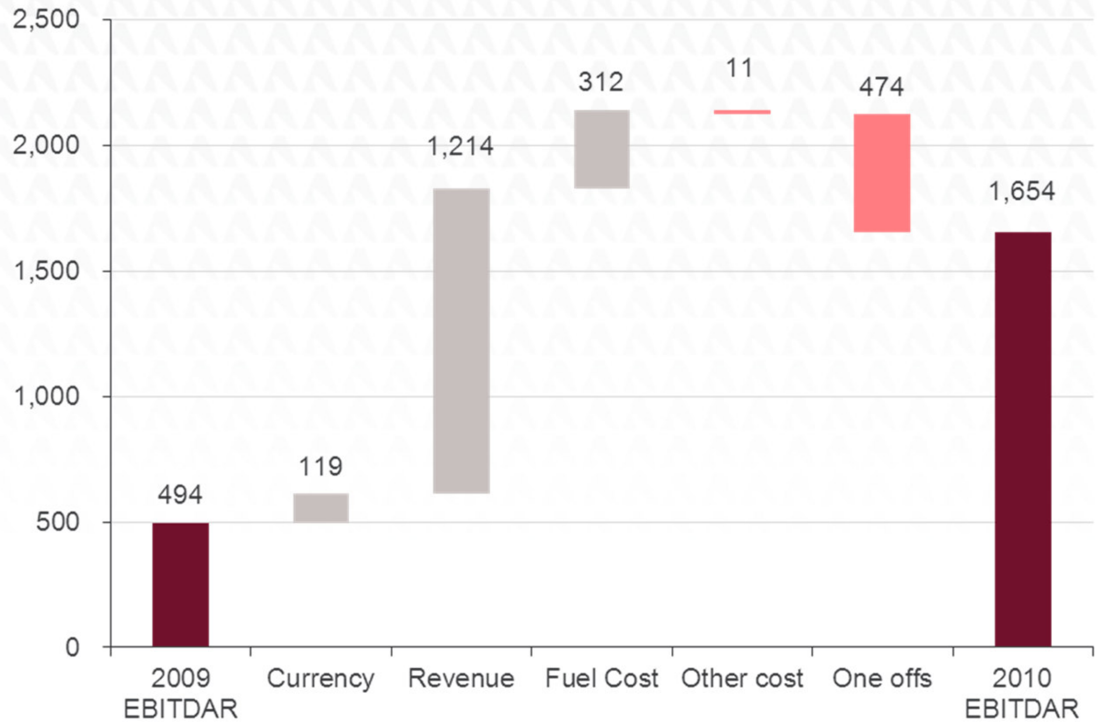
- Levels of cover are very similar to January last year
- At a spot rate of $970 / mt and with our current hedging cover, we would expect our fuel bill for 2011 to be approximately €5.1bn
- The estimated fuel bill in the chart is calculated from planned usage (see slide 10), and a EUR USD rate of $1.36 (see slide 21)

Non-fuel, non-employee unit costs moving down



- Strong reductions on a 2-year view, in spite of capacity cuts, and step change inflation in a number of areas eg Heathrow landing charges
- 2010 vs. 2009 comparisons distorted by FX translation, and disruption in H1
- Capacity restoration this year with minimal growth in fleet will offer potential for unit cost reduction before synergy benefits

Profit bridge



- Revenue gains in spite of capacity decreases, thanks to load factor and yield improvements

One offs:

- Strike & ash **€361m**
- Snow **€58m**
- ATC **€16m**
- Other **€39m**

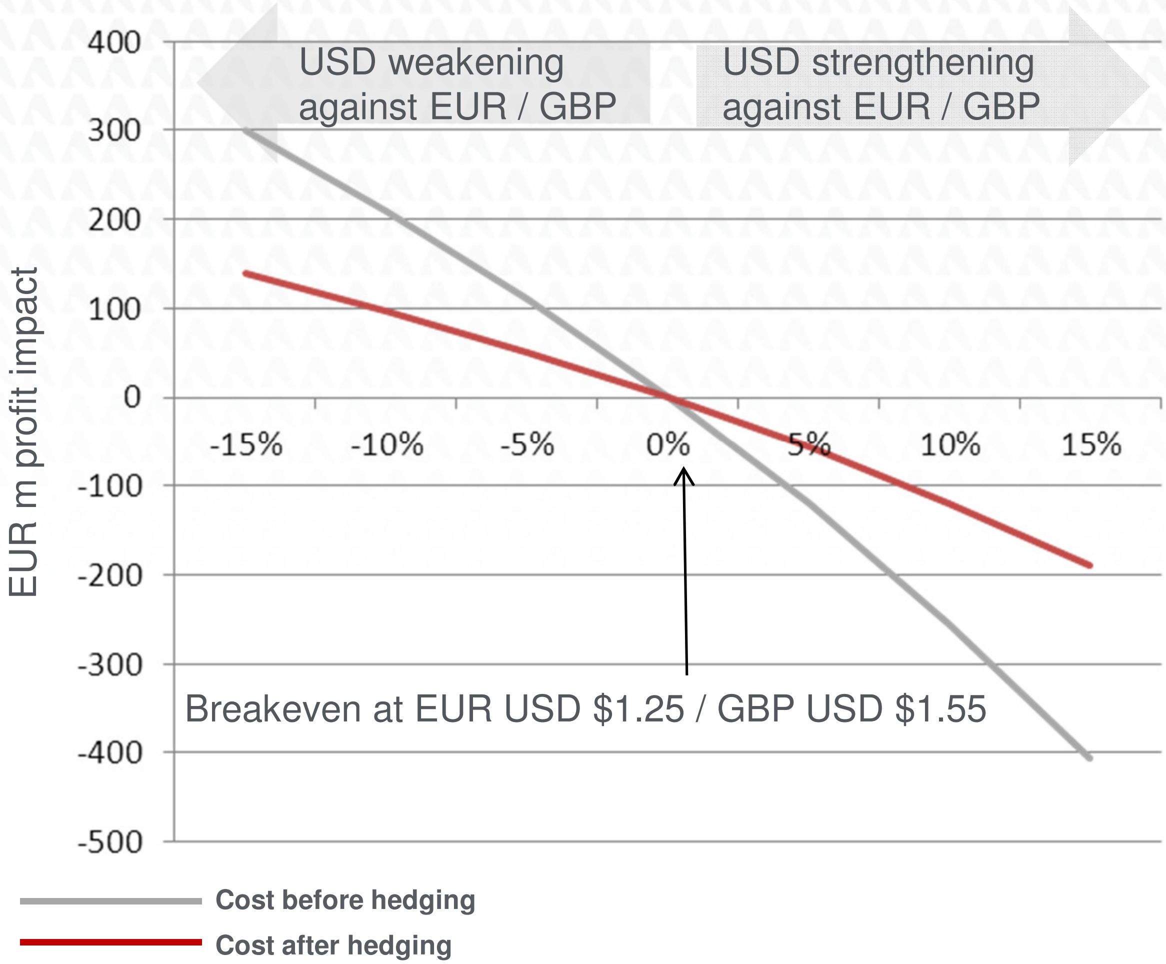
Balance sheet summary, IAG combined

€,m	Dec 2010	Dec 2009	Change
Property, plant and equipment	9,224	8,832	392
Employee benefit assets	677	36	641
Cash	4,352	3,541	811
Other assets	4,366	3,964	402
Total assets	18,619	16,373	2,247
Gross debt	5,247	4,866	381
Employee benefit obligations	258	228	30
Other liabilities	8,445	7,406	1,039
Total equity	4,670	3,873	797
Total equity and liabilities	18,619	16,373	2,247

Net Debt	895	1,325	(430)
Gearing	16%	25%	
Aircraft rentals	401	427	(26)
Capitalised rentals	3,212	3,419	(207)
Adjusted gearing	47%	55%	

- Strong cash generation from operations, and Amadeus sale
- Gearing has improved, and will improve still further after full consolidation effects
- Net BA pension liabilities have reduced by €1.5bn, mainly due to a lower pension inflation assumption

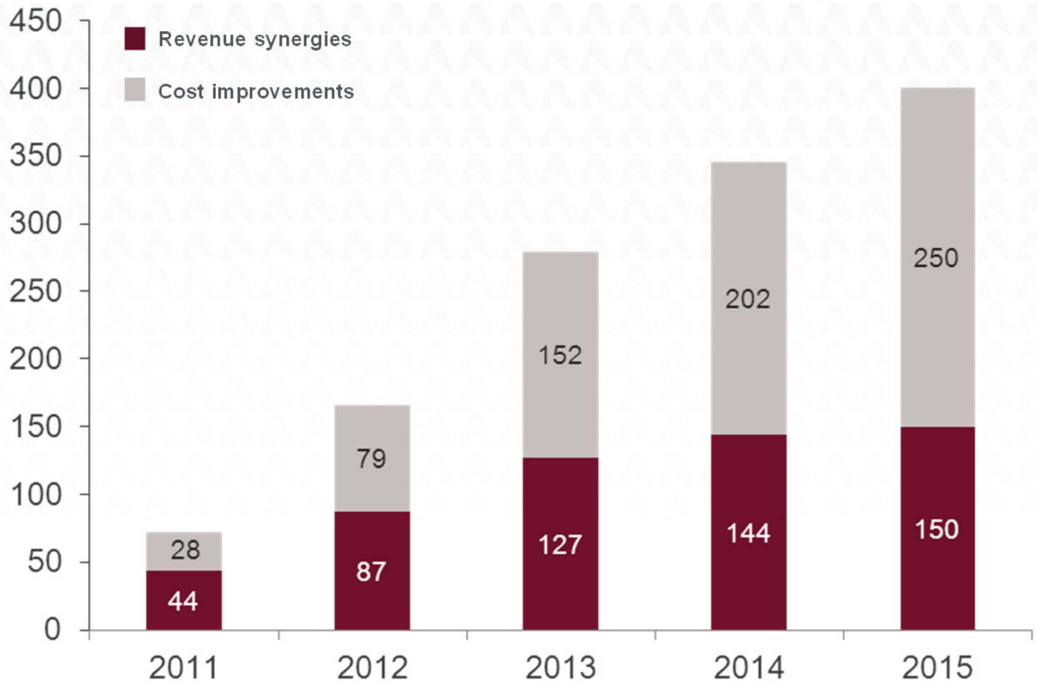
Currency hedge position



- IAG hedges its natural cash short position in USD vs. GBP and EUR – USD fuel and other costs outweigh USD revenues
- In addition, in accounting terms, reported profits can be impacted by movements in GBP vs. EUR, given the scale of BA within the Group
- In 2010, 68% of Group revenues, and 67% of Group costs were denominated in GBP: the average translation rate was **€** 1.169

Key issues

BA / IB merger update – progress so far



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

- Long haul cross selling on each others' websites now functional
- Passengers now able to start combining BA and IB routes in a single itinerary
- Joint insurance programme initiated
- Fleet management policies co-ordinated
- Joint procurement (fuel and IT)
- Co-location of personnel in home airports and alignment of handling contracts

Transatlantic joint business, major milestones

- Went live on 1st October 2010
- Internal processes now up and running (joint revenue management systems, pricing and governance structures), and training now complete
- Sales teams commenced global negotiations on joint travel agency / corporate deals and training of travel agents on 3rd January
- First joint agency and corporate deals will commence around the world on 1st April

Guidance

- **Capacity:** strong base effects in H1, low to mid single digit underlying growth for the year, based on shift in network mix towards long haul and increased utilisation, with very little growth in fleet
- **Costs ex-fuel:** absolute costs up, unit costs down
- **Revenue background:** Strong underlying growth continues, concentrated in the premium segment, with non-recurrence of 2010 one-off revenue hits helping the comparison with last year
- **Fuel costs:** substantial price pressure to be offset by fuel surcharges on top of strong revenue bounce back
- If price elasticities change, we remain prepared to reduce capacity

Q&A