INTERNATIONAL AIRLINES GROUP

CAPITAL MARKETS DAY

Friday, 11 November 2011

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Antonio Vazquez
(Chairman, AIG)

Good morning, ladies and gentlemen. It is an amazing day – 11.11.11 – so I guess that this wonderful number will bring good luck to all of us. Let me welcome all of you to the first Capital Markets Day for IAG. It is absolutely amazing to think that a year ago, we did not exist formally speaking, and it is less than a year when our shareholders gave their final approval to the merger between British Airways and Iberia. I guess it was on 24 January when the lights were switched on in the offices in London, although it took a little more time to switch on the lights in the Board offices in Madrid. However, in less than one year here we are and here we are with the wonderful reality, which is the integration between these two great airlines that, for the time being, are shaping up IAG.

After this short space of time, we have been able to put together a presentation for you today where we are raising our synergy target for the Group, which is good news for all of us. We aim to match those synergy targets with additional structure profit improvement at both the Iberia and British Airways level. Above all, we shall set out today an ambitious but, we believe, entirely achievable target for the coming year. It is an achievable target which we believe is not a big profit in a peak season – we are not really in a peak season, by the way – but we are going to put in front of you our expectations of an average profitability for the coming four years. This will enable us to invest in more efficient aircraft, new products for our customers and selected growth opportunities.

It is our firm intention to work to give our shareholders an attractive return, as we made public in the prospectus when we put together the merger of the two companies: we said it is the intention of IAG to distribute regular dividends to our shareholders in the medium and long term in an amount appropriate to market conditions. My remark today is that the company has a vocation of remunerating properly the shareholders whenever it is feasible.

As you will know, our company structure is quite unique. The airline industry is quite a unique industry, and the structure we have been able to put together as a result of all the negotiations to achieve the merger is quite unique. We have put in place a system of governance which has been working very well and is sophisticated because we needed to combine, at the same time, flexibility for managing the company properly with compliance with two different sets of regulators, as we have a lot of regulators in this industry. We are completely happy with the way the Boards of the three companies – Iberia, British Airways and IAG – have been working and interfacing properly with a lot of flexibility to be able to put together a lovely business model.

From the existing operating companies, a couple of remarks. Keith will make a presentation today about what is the outcome for British Airways. British Airways has had five tough years putting together a significant reduction in the cost base such that the way in which the company is focused on the future is much more brilliant for the time being. At the Iberia level, we are in exactly the same position and we are taking the right decisions, as Rafael will share with you, to pave the way for sustainable profitability in the future.

I want to thank you all very much for coming today, I understand that the shaky environment under which the capital markets are moving does not help you sometimes to leave your offices, so thank you for doing so and for being with us today. Be sure that this shaky environment in the markets is not taking away the focus of our companies. The operational entities in IAG are going to be working properly, creating a good success story for all of our investors. I now hand over to Andrew to start off the journey.

FINANCE & TARGETS

Enrique Dupuy
Chief Financial Officer IAG

Good morning, ladies and gentlemen. Welcome to Madrid and to our inaugural Capital Markets Day. This is the first business plan that has been developed on a joint basis by the new IAG management team. We have established a new set of targets for the Group with a double aim: first, to address the objectives of our shareholder base while, at the same time, to help us to orient and mobilise our organisations in a convergent and clear direction, which is profitability.

Targets will be looking both to the outside and to the inside of our organisations. We shall focus on earnings per share as an investor-friendly reference, together with return on capital employed. Drilling down, we shall be referring to growth targets, to EBIT and EBITDA margins, to return on assets as a basket of more operational targets.

As a brief summary, we shall get an increasing profit out of two sources: 50% out of structural synergy improvements and another 50% out of structural operational improvements and adjustments of our business models, with the basic aim of making these improvements sustainable through the cycle.

We shall, of course, be open regarding inorganic growth opportunities but these would have to help us enhance our strengths and they will have to fit clearly into our network strategy.

This slide shows how we shall achieve the goals to which I have just referred. Synergies will improve margins at the EBIT level by around €450 million, underlying profit improvements on our business models, plus recovery of the headwind that we shall have to deal with in terms of inflation and some intrinsic risks that are very much related to our business. The second area of improvement will render in the range of €400 million of additional improvements. The third area is referred to as inorganic growth which, as I just said, we shall use in a selective way. As a whole, it is about transforming the business through synergies, defending our margins through transformation of our business models and a big effort on renewal, also using selective opportunities for profitable growth.

I shall not substitute Ignacio or Robert by explaining our synergies, as we shall have a couple of deep sessions on those. However, we shall be doing a great deal around these areas that we mention on this slide. As I said, we believe there is still scope for future improvement in the target figures we are showing, and we are working on these additional targets.

Both companies will be taking steps on fleet renewals: Iberia, as you probably know because it has been announced, will be undertaking a partial renewal of the A340-300 fleet through A330s; British Airways will be getting the delivery of the new 787s, A380s and some 777-300 aircraft through the period. Therefore, that will be a very important source of margin improvement for the period.

Iberia will also be improving asset turn and margins using a more efficient feeding model, through Iberia Express, and Rafael will expand on these concepts. It is about improving the operational efficiency of the feeding short and medium-haul network into Barajas. There will also be a significant effort in improving operationally the performance of Barajas hub, as that is a crucial area in which we have to maximise the passenger satisfaction and the best connectivity procedures. Therefore, both Iberia and British Airways will enhance the value of their brands and products and, as a Group, we shall focus on these short and medium-haul solutions that will improve our competitiveness in these challenging ends of the market.

We must refer also to the risks attached to our goals and targets. In the case of synergies, we are now beyond the project definition and into the implementation phases. We are comfortable – we cannot say we are totally satisfied – with our targets, although we recognise that in some areas we shall have to deal with execution challenges, especially if and when we are going to get into highly integrated solutions for the Group.

We are convinced that we have to produce change in productivity and on our working models, so we shall probably have to deal with industrial relation tensions. We are determined, however, to implement these changes and this is an attitude which we shall maintain through the difficulties.

Turning to capacity discipline, this is something we recognise with overall markets changing. Even in the short-haul segment, we are seeing some clear changes in the patterns of behaviour of the industry towards a much more encouraging trend. These are helping us to recover and to react to the cost shocks and demand weakness that we may be facing.

The potential symmetry between regional economic weaknesses or strengths, and the fuel prices developments, is probably one of the threats and challenges that we shall have to deal with. We shall have to produce even more selective capacity tactics and reactions.

This is how we shall integrate the external financial targets with the internal operational ones, as we have shown on this slide. Earnings per share returns will create the ability to fund growth and allow future dividend payments. It will sustain the total return to our shareholders. Downstream, earnings per share will be related to EBIT and return on capital employed through the capital structure and gearing, and we shall return to this concept later on.

The earnings part of the equation will be followed through EBIT and EBITDA margins on one side, and asset turn ratios on the other side. These two levers are, as you well know, interrelated, and we shall have to maximise on the one side asset turn, which will be related to revenue improvements and to get a better utilisation of our asset base, while, at the same time, we shall have to optimise the EBIT and EBITDA margins. These will have to do with the cost-cutting measures and the efficiency programmes that will be undertaken. All these metrics will have to be monitored and closely regarded, because they represent a full set of external and internal targets, measures and goals that we shall be following. These will be the X-rays we shall be using to evaluate our decision-making process, our opportunities and our performance.

After re-evaluating our synergy projects through these first nine months of joint management, we have decided to increase our gross target to €500 million, we are talking of 2015 figures, and to establish a new net EBIT target of €450 million. Projects have been accelerated and investments have been advanced. We shall be achieving improvements in both cost and revenue previous targets. We are working now on new opportunities and further integration models and platforms, and these figures will probably not represent the end of the story, although it is still too early to signal different targets.

Let us talk about fleet opportunities. We are undertaking a long-haul fleet renewal plan in both Iberia and British Airways, as you well know. Although we are having some deliveries through the years 2011 and 2012, and it is about 777s, the Big Bang year will be 2013, which is when we the new A330s, 787s and A380s will be arriving. We shall be getting to 20% of total ASKs operated through efficient new generation fleet and even old generation but twin-engine aircraft. The impact then on fuel savings will be in excess of €200 million per year depending on market fuel prices, but they will be in that range.

As far as other opportunities, we shall talk about most of these initiatives throughout the session. Let me just give you a brief snapshot. Iberia Express, about which Rafael will give you more detail, is about the new feeder into Madrid Barajas hub that will generate savings in excess of €100 million per year, which is again the year 2015 horizon. Other short-haul projects are envisaged to improve our overall profitability and leadership in this difficult area of our business through IAG growth perspectives. There will be product and brand significant investments in both companies to enhance our leadership in our main strategic markets, and to improve the quality of our revenues.

The Madrid Barajas hub efficiency programme will lead us to enhance the connectivity and customer satisfaction at this critical point on our network. It is also worth mentioning the JBA that we shall be addressing in a special presentation this morning.

It is not about an exhaustive list and we shall be getting gross improvements above the figures that we mentioned in some of the previous slides, but we shall need to get more to recover from the headwind and the erosion of our margins that are to do with inflation and other business risks that we shall be facing.

On this slide, we can follow the capacity growth and fleet renewal that we shall be implementing. On short and medium-haul, we are seeing small growth of a stable size of our fleet and the new deliveries and the growth will be concentrated on the long-haul. We are regarding 34 new aircraft on 153 long-haul pre-existing, which is about 20%, and 14 out of these 34 aircraft will represent the net growth for the period. Therefore, it will be 9% on the 153 figure that I have just mentioned.

This is a more detailed description of the fleet structure and of the new delivery programmes. As you can see, the growth will be focused around the 777-300 fleet, the 787, the A380 and the A330. You can also acknowledge that flexibility will be levered on the A340 lease extension mechanism and options that we have, and on the 747 and, to some extent, the 767 retirement programme that we can address depending on demand requirements.

This is a little more about the same, again on a very visual chart. You can see how we shall maintain flexibility to face alternative scenarios, so an alternative high growth scenario or even an alternative contraction scenario. Therefore, growth will be dealt with through operating lease extensions, through non-retirements and perhaps through option accelerations.

In the case of the contraction alternative, this will be dealt with through non-lease extensions, through accelerated retirements and perhaps through contractual negotiation with manufacturers for delivery postponements if required, although this is the least preferred option because we want to get the benefit of the new fleet through fuel and maintenance costs savings.

This slide shows the global gross capex figures for the period that we shall be reaching on a cumulative basis: €7.65 billion. At the same time, we are showing the cumulative depreciation pattern which will be accumulating for the five years at €5.5 billion. As you can see, the gap is a manageable one and retained earnings will easily cover the gap without needing net debt increases. The fact is that we intend to raise new financings that will cover at least 50% of the capex requirements. This programme, as you will see, will allow us to increase our cash position and reduce our leverage through the five-year period.

The drivers of the new financings will have very much to do with the nature of the underlying assets. Fleet requirements will be divided between what we used to call interim aircraft, which are pre-new generation aircraft, which will be mostly, or even 100%, financed through operating leases. That is because we expect to get new generation aircraft when these leases expire. The so-called core fleets, which are new generation aircraft, will be financed predominantly through ownership structures, diversified funding schemes, with a small proportion of operating leases to be able to adjust the size of our core fleets through a cycle.

There is third category which we call new generation flex, which will be financed by backstop financing schemes, plus flexible operating leases, which is because we want to maintain a high level of focus on the residual values of these aircraft.

On a different category, non-fleet assets will be financed by internally-generated cash flow and, in some cases, by structured financing that would address the specific projects that will underlie these assets.

Inorganic growth acquisitions will be looked at on a case-by-case basis.

What will be our financing principles? The targets which we shall pursue through the plan will be about securing the implementation of our business plan, which especially has to do with the fleet delivery programme. Secondly, to limit the impact of external shocks, the so-called Black Swans, with which we are infested in our industry, so we have to deal carefully with their potential impact. Thirdly, to allow us to undertake the transformational opportunities that will be happening or appearing through time.

Ultimately, it will be a balance of high level liquidity through the period, tailored financing schemes addressing fleet-specific requirements, as I have mentioned, diversification of sources, and we shall probably be tapping capital markets as well as banking lending markets, with a strong focus on residual value risks and management. As you know, that is something about which we have always been obsessed. Then using the free cash flow for the rest of the capex requirements.

On this slide, we show some references and technical targets that we are and will be using to frame our capital structure and flows throughout the business plan. Let me make some brief comments. They are the usual ones that are followed by the rating agencies, both Standard & Poor's and Moody's, and they will focus on levels that would allow IAG to enter into investment grade territory through the plan. They will target below 50% gearing post fleet renewal, allowing at the same time projected growth and, eventually, dividend payments if that were the case.

They are also targeting free cash flow generation through the period, so our internal numbers show that the cash flow position of the Group would be improving through the period.

We have established and are maintaining an integrated policy regarding fuel and exchange exposures, involving at the top level the Board, so dealing with and managing the strategic guidelines and the policies, the level of risk undertaking, confirming targets and monitoring performance on a quarterly basis. On a monthly basis, we have the IAG Hedging Committee, establishing what will be the monthly target for execution and monitoring the performance.

The size of the exposures with which we are dealing is shown on the slides and include a short position in US dollars, which may vary over time with the price of fuel, because our greater source of short position is dollar fuel payments.

It is also worth mentioning that the translation impact is about accounting but it creates difficulties to follow the real underlying performance, because of the translation effect of British Airways sterling accounts into euros. This will create distortion of figures when annualised through the different periods in euro terms.

The patterns of our hedging policy models are about sliding windows what we shall be looking at over the six to eight following quarters. It becomes front-loaded and then gradually comes down following the rest of the quarters. It would cover 50-60% of the needs or exposures of the following next quarters and gradually coming down for the remaining ones.

Our aim is not to speculate with fuel prices or forex levels. Our aim is to establish targets regarding our gross exposures, also to follow our ability to hedge internally these gross exposures, at least partially, through our internal revenue management, and to mirror closely our competitor exposures and their expected behaviour. The slide shows our actual hedging profiles both in terms of fuel and dollars, and the strike levels are quite aligned with today's spot levels.

Let me make a brief comment on how we are seeing Q4. Q4 2011 will be improving over the same quarter of last year, even with a fuel price increase post-hedging which will be significant, perhaps around 28% on unit terms against the same quarter of last year. This is because of the significant disturbance and disruption in the figures of the fourth quarter of last year. That was to do with the snow impact in December and ATC disruption which you probably remember.

Bookings on premium classes are in line with 2010 figures for this time of the year, and we are not seeing any substantial deterioration in the following months yet. Non-premium is weaker in some markets and we mention Spain again in this case.

The full year operating profit, as we announced in the Q3 results disclosure opportunity, will be around 450 with perhaps some scope for upside depending on potential disruptions, which in our industry are frequent at this time of year.

Let me say a little about the year 2012. At today's fuel price and forex levels, fuel unit costs will increase by 14%. The planned growth that we have mentioned as a highlight will represent 2.5% additional ASKs for the Group, mainly allocated to British Airways long-haul routes.

Non-fuel costs will remain flat against challenges to do with inflation headwinds of around 4-5%, which takes into account the synergies, other cost-cutting measures and productivity improvements that we are implementing. We have to say this is on a constant forex basis.

Unit revenues is the one difficult area to forecast at this stage, as usual, but we can say that we shall retain a management focus and monitor this very closely, and we shall optimise through capacity adjustments, if required, on this planned growth.

In conclusion, the management guidelines for this new period will be about, first, developing our synergies and pushing forward our targets, trying to make them structural and sustainable. It is about addressing and adjusting our business models to cope with the incoming challenges to do with fuel, new competitors, taxes and regulations and the ones we do not know about, which I am sure will be threatening. It will also be about proactive management, aiming to anticipate these changes that enable us to react to these unplanned scenarios. We shall maintain a constant focus on our strengths, avoiding distracting initiatives when and if they do not create clear network enhancements.

We know that we shall not be able to change or avoid the cyclicality of our sector and business but we shall be better prepared to manage it and to reduce its negative implications, which will be for the benefit of our shareholders. Thank you.

COST SYNERGIES
GLOBAL SERVICES PLATFORM
Ignacio de Torres
Director of Global Services, IAG

Good morning to everybody. It is a pleasure for me to talk to you today, I see many familiar faces from my job in Iberia. I was in charge of finance and it is a pleasure to talk to you from this new viewpoint.

As far as synergies, we are doing well, we have had a good start as Enrique mentioned already. In year one, we shall make more synergies than the number we targeted in the initial plan: €30 million versus €26 million. These are still small numbers but it indicates that the trend is good. We also have a positive outlook for year two, which is important because it means there is continuity in the synergies. Year two is almost done which does not mean that we are going to stop – we shall have to find more synergies.

We have also made good progress with the integration of different operating models, as Enrique mentioned, and in the end we need to have some level of integration in order to give cohesion to the synergies, and to have them on a stable basis. More and more the synergies become more difficult as we advance on our journey.

Finally, for year five we are signalling a higher level of synergies, which is good because it means that we shall certainly do the one we promised and probably achieve even more.

This graph sometimes takes out my dreams, because we are just trying to make this happen. This is about change which is about transforming the way in which we do things. Here I have put some examples of different models we are going to integrate. You can see here, without entering into the theory, that there is work in order to standardise and make the processes common, while, on the other hand, we have a process in order to integrate the information. In order to be successful, we need to manage the information on a joint basis and to arrive at a certain level of commonality.

You can see here that we are always starting in a diverse way, because we are still two different companies – Iberia and BA – and the objective is to move through the integration to a unified world as much as possible, looking at the risk side as well. The MRO, for example, will always be, for the time being, some sort of diverse model, because we do not intend to create an integrated MRO platform. Nonetheless, we count on doing a lot of synergies there as well through coordinating and some actions that I shall explain later on.

There are other areas such as procurement and salesforces where we are achieving a high level of integration. Why? Because we get more value and more synergies. Of course, there is the unified universe which is probably the optimal in terms of your ideal, and we have businesses that are already there, which is a good achievement: cargo, the business service which is a global platform in order to give services to all the operating companies, all the airlines both present and future that we shall have in the Group. Finally, there is this kind of replicated model which in some models, such as airports or at least hub airports, probably will have some degree of commonality with the two systems of the airport but they will work with a different integration, because we are not going to merge them. We are absolutely two different companies and there are many differences in the way they operate in the airport.

This gives you an idea of what we are doing and this is an element which is very important which is the IT. IT is great, it is everything, it is kind of the general source because it underpins everything, which is why it is so crucial to have the IT right. It will not only enable the cost synergies of IT but the revenue synergies as well. Nigel Underwood, the new CIO, will explain in a few moments what his plans are for IT but, as you can see, IT will be a strong support and enabler for reaching our targets.

We are not doing badly but I prefer the two-year figure as it situates us in the correct flow. It is still 7% higher which you might say is not much but we shall probably get more as we progress. We are also quite conservative so we can probably do better. You can see here that IT is the one that is a little behind schedule, because we started later. Nigel came in the month of May so we have started a little later, it takes more time, it is more difficult and more transformational than the others.

For year five, we are at 270 but at least that indicates that we are moving in a different area – we are aiming towards the 300 target. Of course, there are a few key projects that will ultimately determine whether we can get there.

On the breakdown, I do not want to enter into too much detail but this is to give you a view of what we are doing in IAG at Heathrow all day. First, procurement: this is a good example of a Group that has had a very successful start through joint initiatives, mostly through joint tenders. This is what it is about in procurement in the first phase, just to be able to scale up, to have more leverage with the providers in insurance, in crew hotels, we were able to reallocate the crews in cheaper hotels.

In cargo we are doing well and an important area is the airport ground handling, where you can see a lot of synergies in year five. Here we are creating a new model in order to be able to capture synergies, although the airport models of the two companies are different and probably will remain different in some ways.

In procurement, we have more ambition, we want to create a sense of procurement function-wide, because, in the end, we shall need to have further integration, new intelligence and new strategy to get to a higher level of savings and synergy. It is not just about making synergies, but it is also about attracting other clients and to have a procurement function that is the best in the market.

MRO is a good story as well. First, we have two very different MROs in the two companies, different vocation, different culture, but they are very complementary. One of the big sources of saving is in-sourcing. Iberia has an engine maintenance which is very good and BA can bring some of its engines, and we have started with a few examples. We shall expand this kind of in-sourcing work within the Group.

There is one area, line maintenance, where we are already combining the capabilities and capacity of line maintenance outside our hubs which is working quite well. That means that when one airline is present in an airport, the other one can liquidate, can finish the contract of out-sourcing they have with the provider of line maintenance. What has surprised us is that we are doing quite well in commercial, and both companies are starting to develop a joint presence in the commercial markets, trying to commercialise with both capabilities: the network of BA is very important, also the capacity of Iberia as far as being able to provide a full service contract. We have had some early successes but we shall be insistent in that as well.

All in all, a 24% synergy is a high number. It is good that through coordination and working together, we are able to reach this high level of synergies.

Fleet is a good story: there has been outstandingly good management by the fleets responsible for the two companies and IAG. Through only two contracts, which is the election of the A320 options within the portfolio of the two companies and through the new contract for Iberia for 16 A330s, we have already obtained 11% of the synergies, before it was 6%, although they will not start to occur until 2013 but they are already done. That means we are not counting here possible future savings by doing joint procurement of Iberia and BA. It is a very conservative approach but very good numbers as well, and you can see that the figures start to be important.

Resource optimisation is one of the most important areas and probably is the most important project we are thinking of now, which is to create a kind of scalable platform, back office platform, services platform. Why? Because we need to avoid duplication between the two airlines and we need to make it scalable so that we can apply it as well to future airlines.

This is a difficult project because it is about people, it is about function, it changes everything a little but it is a long-term project and there is probably no other way to create the synergies, to make them real if you do not try to establish joint procedures and to manage them under a single umbrella. If not, we shall always live with the dichotomy of the two airlines, the two models, the two cultures – this is my way and this is your way. Therefore, this is very important, we can see this is in the corporate centre, so we believe that an important part of the 21% resource optimisation is linked to these projects. Carlos is working there, as I said it is a long-term project but we are already finishing the business plan, so that probably before Christmas we can have something material.

This is an area that I want to mention because the progress has been outstanding. I could not believe that two airlines could integrate as quickly, for example, the salesforces but we were able to do that in all the countries that you can see here. These countries are probably the easy ones, because they are the ones where one or the other is dominant, so it is relatively easy to take the highest company there, although by mixing the teams you do not want to lose the knowledge and the expertise.

On airports we are doing something similar although it is a little more tricky. You need to have a greater commonality of procedures and service level agreements (SLAs) but we are already managing an integrated ticket desk in different airports. We also have a solid plan that will be presented in the next month.

Finally, as far as other corporate centres, we are starting to take steps in finance, in HR, in procurement and in communication and there is some optimisation of resources in these areas. This is working well and, while it is difficult, it is taking shape.

Just one slide to remind us of the important of this Global Service Platform (GSP) which is something like that. What is important here is the concept of service to the two airlines, future airlines and independent businesses, or businesses that will start to become managed on a standalone basis, or which will become companies or profit centres. We have a platform in order to provide these services and the art is how to make this work. We have IT, as Nigel will explain, we have procurement which has these hybrid characteristics. Part of the procurement services can be given from a global platform, and part of them will be more strategic but it is something that we can combine there and optimise.

Finally, the back offices where we are talking of finance and all these complex areas that airlines have such as revenue accounting, treasury, HR and even legal. Therefore, we are working on this concept and it is probably worth reminding ourselves that commonality is very important. The concept of plug-and-play, if it is scalable, if it is common, it will be relatively easy to plug in the new airlines that will come to the Group. It has to be simple, we are a complex industry, everything is so difficult in terms of processes and the way we work, so we need to try to maintain simplicity as much as possible.

I shall hand over now to Nigel and come back for the last slide.

Nigel Underwood (Group Chief Information Officer, IAG): As Ignacio indicated, I have been in IAG for a few months now having joined from outside the industry. It has been a fairly steep learning curve and I have not reached cruise altitude as yet and, while I probably should not say this, have not even worn the seatbelt through most of the last few months either!

However, with the grey hair does come some experience in helping other business in other sectors integrate and change. By way of introduction, for the last 20-odd years I have been doing global roles of helping brands like Coca-Cola, Cadbury-Schweppes, Mars in the 1990s, into hospitality with Hilton trying to unify the Hilton alliance globally, which gave me exposure to the likes of distribution channels, e-commerce, the power of loyalty brands. For the last 10 years or so, in probably one of the more complex areas of logistics and global supply chain management, I joined briefly after Excel became a FTSE100 company, and we then went on an acquisition trail of 15 organisations over the following five years. In that process, we built global platforms to meet the needs of different industries. At the end of that, we were acquired and had quite a complex integration of Excel into Deutsche Post World Net to become DHL Supply Chain and DHL Global Forwarding. I hope that some of that experience has applicability for this industry as well.

Let me start with what is IT today in IAG. It is always worthwhile knowing where you are and it has been part of the learning curve. We spend around €400 million a year across BA and Iberia, which is just under 3.5% of our revenue. We have around 1,700 IT people plus probably an incremental 1,000 whom we use from outside as well, and we have an asset base of around 50,000 devices, which, progressively, is becoming more mobile as you can well imagine. That is where we are today.

Work in progress but what I have tried to describe here is the evolving strategy. I am a fundamental believer that IT is about not just taking cost out of IT and making IT more efficient, but enabling value. In the sense of IAG, I have tried to tease out three sources of new potential value. One is value from the BA-Iberia merger: taking cost out of IT and making it more efficient is one of those opportunities that we have. Also underpinning some of the things that Enrique and Ignacio were talking about of how we take cost out of the business and how we grow the top line through the BA-Iberia merger is a key source of IT underpinning that.

Secondly, it is not just about looking to integrate but to build that platform and, if we are clever, we can do the two things at the same time I feel, but that is the strategic value which is the appeal for me of what the IAG vision really is all about.

The third and most important issue is that we do not crush the butterfly that is BA and Iberia, that is doing some very good things on the innovation front and the core IT processing, delivering value at the operating company level. Therefore, it is how do we build on the pride of the two brands and add new value through the integration, and then through developing a new business model and the platform that Ignacio has talked to.

I do not profess to know what the next five years look like from an IT perspective, but we have tried to break that into a number of waves of activity. During this year, we have to do things to make sure we get the low-hanging fruit and there are certain must-dos of getting core processes and governance in place. As Enrique said, we have brought forward some of the potential planned investment, which is where we shall look to make some strategic moves in building the platform and trying to mature our way of working during that time.

Given the pace of change, particularly consumerisation, mobile computing and the advent of the Cloud in a technology sense, many things are happening in the market as well. I do not claim to project where the future is but, in my view, we have to create that future which really is about not just waiting until 2014 to be innovative, and you will probably hear about and see something of that later on today, but about recreating the industry in a way that perhaps has not been done before.

I want to build on a couple of things to which Ignacio has spoken. What have we really done during the course of the last few months since IAG was formed? In simple terms, IT has tried to help that salesforce integration. It is not elegant and, in many senses, it is giving an individual two systems that they can have access to, it is putting two desktops in certain areas but it is making the business and driving through some of those synergies. In the area of procurement, it is bringing up information in a sense that allows us to look across our supplier base and potentially renegotiate contracts and so on, so there is some quite low-hanging fruit in that top left-hand area. Without getting into the theory of this grid, it is quite an important area for me, because as soon as we move from businesses that are largely here up into there, we need some kind of translation capability to say we are talking the same language – English and Spanish – we are talking the same vocabulary in terms of different currencies, different chart of accounts and so on. Therefore, it is quite a complex area where we need to invest time and effort to get it right but we have done the low-hanging fruit there.

Again, as Ignacio referred to, in the top right-hand quadrant, we have started to look at some of the more strategic quick wins, and I shall talk through each of those three areas in a little more detail to give you some real evidence of how we have made some element of progress there.

This is probably the most technical chart that I shall show you, as I am not a deep technologist. I want to give you a sense that under the covers, in the basements of the buildings, we need to make sure in this industry that we deliver that 100% resilient up-time service. These are some of the basic IT services that will underpin some of the platforms for the business level to which we are referring. We have a number of initiatives looking at our Group-wide standards, starting to take not just costs out but to define the strategy and the future in some of these areas, so they are becoming more common.

That area of integration I referred to, how do we plug-and-play that needs IT capability to assemble the building blocks and then to build them up into something that is fit for purpose to meet the needs of different types of airlines or different types of businesses.

Information is the lifeblood of any business and putting the customer at the heart of our business and making sure we take the data from each of those customer touch-points, we start by designing that process outside-in, and populating a business-wide view of information is absolutely key. Then we start to plug in the various application services as we work with the business of where are the strategic prizes, whether they are in revenue growth or whether they are in taking cost out. You will see here that with some of the early platforms, the intent is to build a catalogue so that we can start to assemble depending on the needs of the specific airlines.

At the very top level, not just from an internal end-user service, but more and more as we break down the barriers between what is internal, what is our partner's and what is happening in the outside world with our customers, we see that the advent of social media, tools like Facebook and LinkedIn, are becoming far more important as an opportunity in certain parts of the business and as a communication forum with our customers. There is then the boring piece of making sure all of that works in a common methodology and to a high level. That is the underpinning IT on which we have been focusing.

Let me give a couple of examples. I have tried to give you an example where we are close to delivering something that is real, that has quite a lot of effort going in, one that is work in progress and one for which we are at the early stages. If I take the Avios which you will have seen around and dig underneath the surface of that, we have had at peak around

300 IT people developing the linkage between the BA, the Iberia and the mileage company applications in around 39 projects we have had going on in parallel. There has been a tremendous effort by the team and I was amazed at the amount of collaboration and real good value that has come out. It has been a really tough call, particularly when the business is not always clear at times as to what it is looking for, so we have had some very last minute design sign-offs and testing. Later this month when the Avios launch takes place, that is a good example of early deliverables there.

There are some things at the market level like the single currency. There are some things that are assets available for the next airline, so we need to translate between the different currencies of Iberia, Plus Points, Airmiles and so on. As the next airline comes, it gives us that reusable asset which we can use to bring and translate the balances over. It allows us to build, as we have done, things like common zone maps as we start to harmonise the business rules, so we do it once rather than having to do it many times. Therefore, over time it gives us an IT synergy in addition to a business capability synergy.

If I move on to cargo, given my background in air freight, sea freight and logistics in general, this is probably close to my heart from history. We have done a lot of work as far as analysing what BA and Iberia have done to date. We have crudely said what is world-class, we have looked at whether we should adopt the BA process as the Iberia process, do we take the best from both and try to get something that is even better than either had before, or do we start with a blank sheet of paper if the start point is not good enough.

In the area of revenue management, which has really been our focus area, we took the approach of leveraging the best of both, we have Phase One under way which is in design and development, and should deliver early 2012. We are already planning Phase Two for that, so there is an example of where there are a number of good synergy levers and we are making that happen.

This is an area that Ignacio talked about that is strategic and bold, working through the detail, and we are very much at the stage of focusing on what the end-to-end business processes are and what the information needs are. Clearly, there are large opportunities in finance and procurement as we start to look at commonality in some of the core operations of the procure-to-pay and order-to-cash type processes.

From my perspective, I do not believe that Mr Walsh and the others would be pleased if we did not deliver the IT synergy target, so I had better make reference to that as well. We also have to make IT more effective so out of that €400 million or so of IT costs, we are expected to find €72 million of that. As Ignacio indicated, we made a slow start, we have put a revised blueprint in and we are now slightly ahead of that target for this year. By the end of next year, we should get ahead of the original target and I am confident that we shall deliver against the target number. Most of the early wins have been in the lower-hanging fruit of procurement and sourcing, there was some work on restructuring that has largely been completed, and looking at where IT can do things by consolidating its standards.

The area of slowest burn from an IT delivery standpoint is we are then dependent on working with the business to make sure that we consolidate in two or three applications, four or five when we take more airlines on, to become a single platform. That will go at the pace that the business can sustain the change for, so the area at the top of the slide is the one that is most dependent on the pace of change.

I have put down a couple of challenge areas. We are also looking at what new capabilities we need where we need some investment in IT for IT, so we are preparing those. We believe this is not about trying to move forward on all fronts in parallel, so we need focus, and we are progressively putting in the right business governance groups to make sure that we have a clear steer from an IT perspective of what the priorities are and what we need to deliver against.

Ignacio will now wrap up the session.

Ignacio de Torres: I just want to talk about two ideas. First, this concept of scalability, because when we talk about synergies, we talk about two airlines – Iberia and BA. As we progress and project them in the future, we have to consider the potential improvements that this same work will have by adding other airlines. This is shown on this graph – no numbers, just the concept. This is very important and will have to show as we make acquisitions or we have new businesses in the Group.

The last thing I want to say is that you may wonder how we can do these things, because in IAG we are in London, we are a hybrid team of Spanish and English people and we are working with two different airlines that are historically very important and have strong roots in their habits and methodologies. There has been a huge effort by the teams. The approach is not common in every group. To try to get the straight and easy way in order to get results and synergies, it is sometimes tough and you struggle but it is part of the map of change. It is more about a group of professionals who are leading the change and who are making change happen. We believe that by gathering this experience, we shall be able to replicate these efforts in order to make the Group grow, so in any event it is an investment for the future.

REVENUE SYNERGIES,
STRATEGY and COMMERCIAL

Robert Boyle
Director of Strategy, IAG

Good morning, everybody. I hope you are all now freshly caffeinated and ready for the next session. Drew and I will share this next slot and talk about where we are on the revenue synergies, the overall IAG strategy and you will hear from Drew some more about the latest from the front line from BA's business. In particular, he will also cover the all important update on the JBA.

Ignacio has taken you through the cost synergies and has given you the good news that we are both ahead in the short term and increasing the targets in the long term. I am pleased to say that the same is true on the revenue side where we are about 80% ahead of where we expected to be for 2011. We have good visibility also on the second year. Together with more ambitious targets now that we have got into it on the frequent flier side and on what is labelled here as 'other' but which is mainly cargo revenue synergies, this gives us the confidence to increase the long-term targets from the original £150 million up to £230 million. I will touch more on each of these topics as we go through the rest of the presentation.

Before we go into the strategy section, let me give you a little context on the industry. The first theme, which will be no surprise to anyone here in this room, is really the shift that is taking place in the world economy, but with an impact on the airline industry. It is shifting from today's world, where North America and Europe make up more than half of the global capacity, or in fact this is RPK traffic, to a world where Asia Pacific really becomes the dominant driving force of the industry.

How is IAG exposed to that geographical mix? We are a very strong Atlantic carrier and 31% of our capacity is on the North Atlantic and 22% South Atlantic, so more than half our capacity is Atlantic-based. That is one of our core strengths as a group. Where we are relatively less exposed, which is something that we would like to address over time, is in our exposure to Asia Pacific, at 9%, and Africa, Middle East and South Asia – those are the two segments which are the fast-growing Asia story. We have a small – in capacity terms although rather more significant in activity and number of flights – business domestically, and into Europe, with 18% capacity in Europe. This, again, has a significance greater than that number suggests, due to the role that the flights into Europe and domestic play in feeding the hubs.

The industry is also consolidating. In 2000, the top five airlines in the US accounted for 66% of the revenues and in 2010 that has now moved up to 78%. There is the same story, not quite so far progressed, in Europe where in 2000, 42% of revenues were in the 'big three', whereas now that figure is 65%. Once again, if you look at this on metrics such as passenger numbers, you would see a different ranking of the airlines but, in terms of overall size in revenue terms, you have the big three network carrier groups beginning to stretch out their lead over the other airlines.

The other key theme, as well as that of consolidation, is the alliance game. Increasingly, this is a huge part of what any airline does. There are the joint ventures and alliance relationships that it has across the world. We still have Mexicana on here, despite the fact that they ceased operating some time ago and we are waiting for the right moment when the lawyers tell us we should delete this logo. Obviously, there are many key alliance developments coming up in Latin America, with the LATAM merger, which is obviously a key area of focus for us – a very important partner today.

Many of the recent developments of the **one**world alliance have really been reflecting that shift towards Asia, trying to strengthen **one**world, which has traditionally been strong on the Atlantic but really to add extra scope and scale in Asia. Kingfisher are due to join very soon now, and we added S7 last year; there is Air Berlin, which is obviously a European-based airline but which also shifts the centre of gravity of the Alliance in Europe further towards the East and, most recently, there has been the news that Malaysian are scheduled to join the Alliance.

Turning back to our key strategic objectives, I have colour-coded the six objectives here into three pairs. The first, in the maroon bubble, is all about playing to our strengths, in the areas where we have existing very strong market positions, strength, and what is our strategy to maintain that and build on it? That is indicated in those first two bubbles.

In the green circles, you can see the areas where we need to strengthen our position or where we think there is an opportunity to do so in terms of Africa. Then in grey, the final pairing is really about where we are placing less focus on the market position than on the cost side and getting a profitability improvement, a margin improvement, which is really the story for our intra-European business and generally across the whole group in terms of the cost agenda.

In the first bubble [*on slide*] there are the hubs. We have two hubs which are well positioned for their markets. First of all, Madrid is extremely well positioned for connecting Europe into South America, but also for certain markets into North America, and it is also well positioned for serving the African market. We will talk more about that in a moment.

From Heathrow, you can fly pretty much anywhere in the world non-stop and you do not have to use extremely long-range aeroplanes to do that. Australia is really the only market that you cannot reach non-stop from London. They are also big hubs in a global scale: hubs are great and bigger is generally better where is a hub is concerned because that gives many economies of scale, where one plus one equals three when you build. Every flight that you add connects and provides yet more connections to the ones that are there. London Heathrow is obviously one of the world's biggest hubs from a passenger number point of view and you may also be surprised at quite how significant Madrid is. On this metric, it is actually bigger than Dubai today and of a similar size to Hong Kong. In terms of these key hubs, many of them are home hubs – places of our **one**world partners, or places where we have a strong position as an alliance.

The other great thing you need for a hub is a local market, ideally. Both in terms of London and Madrid, we have a hub positioned on one of the largest O&D (Origin and Destination) markets. If you are building a hub at Vienna or Munich, you are very much reliant on the connecting passengers because they are a very important part of the hub dynamics, but we have a stronger base of local traffic on which to build the hub, which is good for resilience and profitability.

Another way of looking at the same topic is to look at the world's top ten long haul markets. This is rather a trick slide because if you count up the number of lines on here you will actually find that there are 12. The two which do not strictly deserve to be on this slide, according to the title, are Singapore and Sydney but, obviously, we serve the Sydney market, the Australian, through the joint hub in Singapore with Qantas. We have cheated a little but, if you add those two together, that is really the flow that we are serving out of London, and that is the market that you would get together on this list. Leaving aside that little trick, however, you can see that London sits at one end of many of the world's largest long haul markets and, indeed, some of these others are very specific – either leisure markets, or overseas colonies such as Paris doing Guadeloupe.

In terms of Europe to Latin America, once again you can see the strength that Madrid has as one end of the route of most of the largest Latin America/Europe flows. Outside of Madrid, the other European points you see on here are London, Paris and Amsterdam. Once again, it is a slightly strange market there, a very specific Dutch market. Obviously, there is also Lisbon, which explains one of the reasons why we have been taking an interest in the planned privatization process in Portugal.

One of the emerging markets, from an aviation point of view, is connecting Asia to Latin America. Many people are trying to do this and there are many different ways to get from Asia to Latin America, whether that is via the European way around the world or the other way around the world via the Pacific. I just wanted to point out that Madrid sits pretty much exactly on the straight line between the two and so, in terms of the cost of providing the flight end-to-end, and the time taken by the flight, Madrid and indeed London are well placed. By comparison, if you go via the Middle East – which is obviously a flow that they are trying to build up – that is quite some additional distance to travel and I think this flight here [*on slide*] takes 15 hours, which is pretty much the limit of what they can get to in South America. We see this as an area of opportunity.

We have drawn some speculative lines on here in terms of Madrid to Asia. In the near term we are not likely to be doing that but, from a strategic point of view, together with partners, we would be looking to build some linkages into Asia from Madrid.

We have great infrastructure. Those of you who flew over yesterday probably experienced both parts of this. Terminal 5 is a fantastic facility and Keith will talk later about what that has done for efficiency and customers. Likewise here at Madrid, we have a fantastic facility with the added benefit of lots of spare capacity for growth. I like to observe the fact that these two terminals were actually designed by the same architects, but with a different local flavour and colour scheme. Perhaps that is a good thought for what is IAG: a single architect and two different colours, two different personalities.

Let me say a little more about the layout on the ground, just to help educate you about what is going on at the two airports. At Heathrow, we have Terminal 5 here, now with the full second satellite open. We are in the process of moving the Spanish flights from Terminal 3, where they have been for a few years, over into Terminal 5. We have the BA side in from the start of this winter season and Iberia will be joining at the end of the season. Terminal 5 was designed in a very specific way, with quite specific processes, and it has taken a little longer to get all of that sorted out to allow Iberia to move in, but that will be happening in the spring.

We also have the realignment of the airport by Alliance. This is not quite finished, but we have Star due to move into the new terminal that is being built at Terminal 2. The BAA are probably feeling a little frustrated that, by the time they have finished their programme of aligning all the alliances, people will have moved around in terms of the alliances. Obviously, the future of BMI is one of those that will have to be re-evaluated, depending on where they end up.

In terms of where we go next in the development of the airport, we are obviously keen to ensure that after a period of major investment on the East side of the airport, that we have some proper attention for better linking up of 5 and 3, and this Western side of the campus. We also have the cargo facilities, with our main cargo shed down there on the South side of the airport.

Here at Barajas, you have an organisation which is already much more arranged by Alliance. We have Iberia and BA and in fact all of the other **one**world airlines located in Terminal 4. The main building, Schengen, with a satellite for non-Schengen traffic: everyone else is in the legacy terminal complex. We have a new cargo terminal being built and Rafael will tell you more about that later.

We thought we would give you a little more data on how the hubs work and perhaps compare and contrast the two. If any of you have ever looked at these charts before, you have the number of flights, with the arrivals shown below the line and the departures above the line. If you look at one of these layouts for most hubs, and you will see it on the Madrid plot, you have these very pronounced waves, where you arrange incoming flights to connect on to outgoing flights.

At Heathrow, we suffer from the infrastructure constraints, both in terms of just the sheer number of movements with only two runways, but also the operating restrictions which mean that we can only use one runway for landings at any one time, and one runway for take-offs. We really are not able to do a classic 'waved' hub. However, it works surprisingly well, really due to the sheer density of flights that exist at Heathrow. Shown here, we have a very high frequency long-haul schedule that we operate from Heathrow. We obviously have the early morning arrivals from the Atlantic, Asia, the Middle East but then, when you get into the second, third, fourth or – in the case of New York, seventh or eighth – flights, you spread through the day. A number of the key growth markets like China and so forth operate at times that come in later in the day.

This is the layout of the Heathrow hub. We have always taken advantage of opportunities where they arise to buy slots if we can do on a cost-effective basis. Adding volume to this system, particularly given the absence of a wave structure, really helps to drive further efficiency of the hub in terms of connectivity.

Here is Madrid – a proper hub. There are basically banks of flights, again with long hauls in different banks, and waves of short haul. I have split out here the domestic flying because Madrid is particularly strong as a domestic market. This also adds some challenges in terms of the competitive environment out there, and obviously the economic situation at the moment. Rafael will say more about that later. Here, you can see a different way of looking at the same thing, with these waves where the incoming bank connects on to the outgoing bank and Madrid essentially has a five-wave structure.

One of the things we have done is that we worked together pre-merger with anti-trust immunity on UK/Spain. We aligned the schedules and added capacity to create a much better schedule between the two hubs. Since the merger, we have made basically two changes to that. One is to substitute some of those flights with wide-body capacity, so BA-767 and Iberia A340. We have done that partly for capacity reasons with many of the synergies that I have been talking about, which manifest themselves in terms of interactions between the networks. Many of those passengers therefore need to travel on the hub-to-hub flight and crucially, also, we have done it for cargo reasons. Again, I will talk later about the cargo synergies, but being able to link the hubs is also crucially important from that point of view, so that we can trans-ship quickly and easily between the hubs, using the much greater cargo capacity that those aircraft has. If anyone is lucky enough to travel in the flatbed Iberia A340, it is one of the more enjoyable European trips that you can take.

We showed this slide last year when we were talking about where we saw the benefits from the merger. There is the ability to use both hubs, either to try to arrange the geographical flows better for customers but also the ability to do 'out one way, back the other' types of trips. This is an area that has significantly out-performed our expectations and it is probably the biggest single reason why, in the near term, we are over our revenue synergies: we are able to make available to customers the ability to combine half a discounted return fare, or a return fare, from one airline, with half the other way from the other airline. This significantly adds to our ability to put attractive schedules and prices in front of customers. That has been a real success story for us.

That was about the hubs and building on our strengths, always looking for opportunities to strengthen the hubs and build on that key asset. The second area I would like to talk about is the Atlantic, where we believe we have leadership although we obviously want to maintain and build on that. I will go through the key geographical flows, starting with the Atlantic.

This is first of all the US and we have split this into two pieces because, in a sense, our position differs between the two sides. We are particularly strong on the East coast and this shows the number of weekly frequencies that IAG operates into those cities. The size of this bubble on this slide is the GDP of that city, and this is obviously led by New York. There, as IAG, we are the leader with the Lufthansa group shown in yellow at No. 2, and Air France/KLM shown in blue.

This is part of the story. This is what we can do by ourselves and this is what the other European groups do by themselves but clearly, nowadays, the competition is also played out in terms of the immunised joint ventures. Drew will talk you through this from a

JBA perspective. With the exception of perhaps Atlanta, which is the key Delta hub, in terms of the big East coast markets, we have a very strong position.

As you move into the centre and the West Coast, and obviously these mid-West hubs very often serve the West Coast markets on a one-stop basis, our position is still good but not quite so strong. Once again, this is where having American adding their strength and their hubs here makes a big difference to our overall position.

In Latin America, as you can see, we are generally at No. 1 in these largest markets. The one exception where we are not quite as strong, at No. 2, is Brazil. When you look at the size of the bubble and the growth that is expected, with the ring around the side showing how that bubble will grow over the next few years, if you had to pick one place to be No. 1, this is where you would like it to be. Again, there is the importance of the LATAM alliance decision but also reinforcing why we have taken an interest in the TAP situation, because TAP is the No. 1 airline from Europe into Brazil.

Here are some statistics related to the overall market share terms. We have a pretty clear leadership position relative to the other European groups, both in terms of economy traffic and premium. Again, we outperform at the premium end of the market. This is a fairly stable market share position. In terms of these groups, there is a slight downward trend here, not just for us but across the other European groups, and this is really the Latin America carriers who have generally been under-represented in this market, really getting their act together and really aggressively growing into the market. The main share beneficiary during that period was TAM, as they built up quite high growth rates: obviously, looking at their results recently, they are not perhaps quite so good on the profit outcome of that but nevertheless, from a market position point of view, we have a strong leadership position and intend to maintain it. So that is the Atlantic story, playing to our strengths in the first two bubbles.

The next two green bubbles on this slide are the areas where we recognise that we need to do more to strengthen our position, or where we have an opportunity to do so in the case of Africa. In Asia Pacific, there is a much less positive story. Starting with the biggest economy on here, China, and also the huge expected growth during that period, we are a somewhat distant No. 3 today, and that is despite including Hong Kong within the definition of China here. That is probably the main Chinese market where, through BA, IAG has a strong position. Likewise, Japan is much more slowly growing and has obviously been very troubled for some time as an economy but, again, we are No. 3 there. The main area where we are stronger is in India, and there are historical linkages between the UK and India: that has always been a very important market and it is BA's second largest long-haul market after the US. We are still a little behind in terms of numbers of frequencies and, if you looked at overall capacity, it would be closer to Lufthansa. That is because they fly to India from so many of the multiple hubs that they have across Europe.

Australia is a market where we have worked for many years with Qantas and, between the two of us, we would be as strong as anybody is who does not sit at a hub in the middle. The Middle Eastern carriers have obviously made Australia a key target market over their Middle Eastern hubs and this is a real testament to the strength of the partnership that we have had over many years with Qantas that we are the only people still hanging in there in terms of making a success of serving the Europe to Australia market together. That is the sort of success we want to replicate with other Asian partners, many of whom are facing the same competitive challenge from the Middle Eastern guys. With a strong position at either end of the route, working together, you are much better able to succeed in the face of that competition from people with hubs in the middle.

When you look at the story from an Alliance perspective, you can see that it looks much better for us, together with more partners. In terms of China, all three alliances are in a similar place. Obviously, our strength is much more biased towards the Hong Kong part of it. In India, with Kingfisher joining, **one**world will move into a pretty good position there, although not as good as we would like and, as we build on that relationship, we hope to be able to strengthen that position.

I will just touch on the Middle East. Obviously, they are most significant as competitors in the Asia market, which is why I have put them in this section of the presentation. It is an increasingly important market in its own right and they have succeeded in many cases in actually building a real, local market. In fact, we are fairly well position in terms of what we do into the Middle East and the important point, which Willie mentioned recently, is that where we compete head-to-head with these guys, we actually do well in terms of the share of the premium traffic that we take and, indeed, we make money on these routes.

That is Asia, recognising that we need to do more to strengthen it, and the Alliance and partnership side of that is a key part of what we need to do to achieve that.

The next opportunity area is Africa. With the historical links from the UK to Africa, and indeed Spain to different parts of Africa, and the geographical position of the hubs, we think we are well placed to succeed in Africa. We have split it into two parts: the first chart covers the North African countries and you can see here, in terms of the position of the different groups, a little coming through of the history of which colonies were associated with which European countries. This is an area where we definitely feel that we can and we want to grow our combined position.

In sub-Saharan Africa there is probably a stronger story, particularly in South Africa where we have a franchise, Comair, which operates a successful local network down there which is, by some margin, the biggest economy. Also, the sizes of these bubbles is driven largely by the oil revenues of these markets: Nigeria, a very large economy, and is a very important market for both BA and Iberia, and a market where we have had a great deal of success. We have combined the sales forces there and we are now working well together.

In South Africa, we think this is an area where we have a good foundation but we can grow our position.

The last part is the area where we have the profitability challenges and where the agenda is more about trying to ensure that we have the right cost base on which to both compete and sustain our position and indeed make money.

On Europe, our objective is to improve the margins. This chart shows what has been happening over the last decade or so in terms of the squeeze of the middle. This is a feature in many markets where you can either be the low-cost guy or the premium, full service guy with scale and market access. If you are not, but if you are in that middle 'killing ground' you tend to be squeezed over time. You can see that that is exactly what is happening, with the big three network carriers at one end. That is pretty stable, but probably growing share marginally. The low cost carriers are obviously continuing to grow, albeit with a little flattening off in the shape of that curve, but the people in the middle are the ones who are really being squeezed in this economic and fuel price environment.

Although it is nice to say that it is those middle guys who are being squeezed, clearly that growth is creating margin pressure for everybody in the industry, including us. Our home markets, the UK and Spain, have had the greatest penetration of all of the three European groups. The UK was probably the birthplace of low cost in Europe and quite interestingly, in the last couple of years, the penetration of low cost carriers has really flattened off. You can speculate as to exactly why that is. There is APD (Air Passenger Duty) in the UK which is taxing travel at a very high level and this obviously puts the squeeze on the kind of discretionary travel that the low cost carriers stimulate and do extremely well in. Recent trends – and I think we will see the same if we look forward – have generally been for extremely modest capacity growth of the low cost carriers into the UK market.

Sadly, there is a very different story in Spain, with huge growth in the low cost there. We have put the two charts on here because obviously part of that growth has been effectively the strategic decision that Iberia took to transition its business in Barcelona to a low cost model in the shape of originally Clickair and then Vueling, so you can see that quite a bit of this low cost thing is actually in an airline that is 46% owned by the group. That was an extremely successful transition from a loss-making legacy model in a city which was not going to be the hub that Madrid is, into a model which can make money and grow.

There has been much lower penetration into the markets of France and Germany. With the German line here on this slide, we have not included Air Berlin in the definition of low cost. They describe themselves as a hybrid carrier and the line would obviously be somewhat higher but the slope of it would probably be similar, so there is a lower level of penetration into those markets. Again, you can see some flattening off there but it is hard to know whether this is the barriers that have existed from these guys being as successful in those markets as they have been in the UK and Spain, and whether that will change at any point, or whether it is a permanent difference between the level of competitive intensity we have in the short haul market. What it means is that we have more experience for longer of co-existing an adapting our business to deal with this. Rafael will tell you about what Iberia is doing in the face of this.

I just have one slide on the size of the economy. Clearly, a number of these bubbles showing the GDP and the growth rate just have a rather thick circumference, with not a great deal of growth in Europe. This has probably already been going down by the day. What I would point out is that, because we have been faced with adapting our businesses to the low cost threat for longer than others, we have already essentially focused our capacity onto our hubs, where we have both the strength and the strategic driver to be in the European business. Overall, we are much smaller in terms of our footprint in flying short haul aircraft around Europe. Given the challenges in terms of the economy and the competitive environment, in a sense our weakness here is also a strength in terms of our relative lack of exposure. Lufthansa group, on the other hand, with multiple hubs and still a good deal of non-hub related flying, has much more at risk if the low cost carriers ever get inroads into their markets. That is the intra-Europe profitability.

In the last bubble, on the competitive cost positions across our business, I will not talk further about that. You have heard about the cost synergies and you will hear much more about what the operating companies are doing in terms of local initiatives. I will hand over to Drew now, to give you some more detail from the front line from British Airways.

We had some fun putting together the combined networks in the shape of a London tube map, showing our hubs and some of the key **one**world hubs we link up to.

COMMERCIAL

Drew Crawley

Commercial Director, British Airways

Good morning, everybody. For those of you who know me, you might not recognise me quite as well as normal because I do not normally wear this moustache. There is a charitable event called Movember: some of you may know that Lord Marshall, our ex-CEO and Chairman, is suffering quite badly from prostate cancer and so when Martin Broughton suggested that the BA leadership team grew moustaches in support and to create better awareness around the disease, we did not hesitate. We have a great deal of respect for Lord Marshall and we wish him well, but I do not normally look as though I have walked off the set of *Downton Abbey.*

I will talk about four things today:

- I will say a little about our customer base, to demonstrate that we have a relatively diverse customer base which will head us nicely through difficult times;
- I will talk about my perspective on how I see the market at the moment and give you a few more data points to help you make your own minds up;
- I will talk about some of the initiatives that we are undertaking at BA to continue to grow the top line revenue, and finally
- I will give an update on the joint business.

This is my first slide and, if I am invited back next year, I will not use grey as the colour because this is not a particularly exciting slide to start with. Nevertheless, it demonstrates that we are pretty well hedged across our products – domestic, short-haul and long-haul – and also, importantly, within those segments, we are well hedged across point of sales.

Let me take for example this long-haul bar here [*on slide*]. This says that 40% of our long-haul business is sold in our home markets; 15% is sold in continental Europe outside our home markets, and 45% is effectively sold at the other end of the route. That gives us a great deal of flexibility and indeed our revenue management systems are very dynamic and use that flexibility with inputs from the market to change the shape of our business as market demand goes up and down variously. We also have currency inputs into our revenue management system and so when there are large currency fluctuations we adapt the shape of our business accordingly too.

On this slide you can see how that has changed, year on year. We are looking at 2011, and this is 2011 versus 2010, year-to-date. You can see that in long-haul, UK and Spain are down a bit and we have back-filled using the rest of Europe and the rest of the World. Robert mentioned that IAG is fortunate to have two great hubs in Madrid and Heathrow and I cannot fail to mention the fact that our baggage performance at Heathrow, year-to-date, compared with our other major European carriers at their hubs, puts us in the No. 1 spot. We can do this with a huge amount more confidence than we used to when we had the T1/T4 set up and flex our business accordingly.

If you look at this from a channel and customer-based industry type perspective, we are pretty well hedged. Let me just explain this chart on the left of the slide, which you may be able to see more clearly in your booklets. We have corporate deals and non-deal. We have other passenger revenue, which is excess baggage, change fees and so forth. Cargo revenue is self-explanatory, and third parties such as engineering and handling. 'Non-deal' does not necessarily mean that we have no relationship with this revenue, either here in non-premium or here in premium. Clearly, we have a relationship with our corporate accounts through this dealing mechanism, but here and here (*on slide*) we generate relationships with our customers using either our frequent flyer programme or, both in Iberia and BA, we have SME loyalty programmes. That represents quite a significant part of our business and we have both been growing that part during the recession. For example, the BA SME loyalty programme is called On Business and it has over £0.5 billion of revenue going through it. This mainly comes through these segments (*on slide*) and it is growing at around 25%, year-on-year. It has 25,000 members in 45 markets. That will give you a flavour of how else we go to market outside this smaller segment of corporate dealing, so you should have comfort that not all of our business is within corporate deals, but for the business that is not in those corporate deals we have relationships through other devices.

If we look at the corporate deals and drill down another level and see the industry types that we are exposed to, once again we are less exposed to banking than you might think: 27% of our corporate dealt business is in the banking sector. Clearly, the professional services - the lawyers and accountants and so forth – have some relationship with banking but overall it is 27% in banking, professional services 16%. Other services include things like retail, telco, FMCG – where we have a good exposure with 20%, and pharma, oil and gas, metals and machinery. Broadly speaking, we have a relatively diverse customer base, which gives us a degree of protection, and this is not all dependent on corporate dealing. If you look at banking as a proportion of our total revenue, it is 27% of 15%, so it is about 6% of our business that is exposed to that segment.

This chart shows the US industrial production line, with which you will all be familiar, but a good proxy for the business cycle that we use is the long-haul premium revenue. On the left hand side of this slide you can see the last recession, which started with the internet bubble. The two lines diverged quite uncomfortably. We had SARS, we had 9/11, as well as the recession, all coming at once, and that created the huge gap. Here on the right hand side, you can see that the lines are coming back together again – it was the financial services recession with which you will all be very familiar with. What we are seeing this time is a greater degree of discipline in capacity terms and also the fuel price pressure has given us a little more pricing power in the market as an industry.

I thought I would talk about some of the observations I have seen in the market place, just to give you a flavour of what is going on in what is probably one of the more volatile periods that we have been in. This is British Airways data only and everything else that I have just spoken about is IAG data.

As one of the barometers, we look at our high-yielding booking classes. In first class and in Club World, we look at the top selling classes that the fully flexible tickets are put into – the FAJCD, we call them. Those high-yielding bookings are trending above last year's levels and last year was already a pretty good year. In terms of price, we have been putting price increases in fairly rigorously across the year in both premium and non-premium. In premium, we are seeing that not only do we capture a large proportion of the price increases that we put in place but, in addition to that, we are still able to achieve trade-up within the price ladder. We are thus getting yield increases on the back of the price increases and the mix change.

Volume also seems to be going in the right direction and the FAJCD is testament to that. In our premium long-haul performances, we will see slightly better load factors, and slightly higher yield because the prices seem to be sticking much better. In long-haul premium, especially more recently, the price increases that we have been putting in have effectively been diluted back out through our inability to trade up. The competitive nature of the long-haul non-premium segment, relative to long-haul premium, are both competitive but the non-premium particularly so, and that is making it hard for us to get positive price increases. We are staying about stable, but you can see it happen that we just do not get any trade-up, especially in the off-peak period, and that is what is prevailing at the moment.

If you look at the corporate travel policy changes, we have a log which we look at every week. BA has round about 900 corporate deals, 400 of which are in the UK and 500 outside the UK. If we look at how many corporate travel policy changes are being made at the moment, we use this log, on which there are 12 companies at the moment.

Proportionately, there is not much activity in travel policy changes and with those that are on the list, the changes in travel policy are generally around the short-haul premium area - a small amount, trading down from short-haul premium to short-haul non-premium. However, the evidence to date shows that when they trade down, they do so into the higher fares in economy and so the revenue impact is not hugely significant at this point.

Talking about short-haul premium for a moment, that is another good barometer. We were trending above last year until a few months ago and then we are starting to catch up with the improvement that we saw come in at the end of last year. So this is flat on last year, which is how I have described the short-haul premium, and some of that is due to this down-trading. There is very limited long-haul change at all in any of those travel policy changes. When we talk to accounts, what we are seeing is that within accounts there are certain departments with specific end-of-year type of belt-tightening, and that happens in a normal year anyway. There is a little of that going on for the financial year ending in December but nothing more than that at this point in time.

There are a few other pieces of background. I was chatting to one of the big GDS a couple of days ago, who were having a big conference in Barcelona. The mood was buoyant. Their volumes are trending upwards. The one area of concern – or 'slight softening' was the term that this gentleman used – was in the online travel agency segment. That is clearly very price-dependent, very commoditised and very competitive and that was the feedback we got from the GDS. The GTMC (Guild of Travel Management Companies) in the UK does a quarterly survey which, for the last three quarters, has shown growth within the TMC (Travel Management Companies) – business travel agents, effectively – of about 6% per quarter in booking volumes. All these indicators feel slightly odd if you read the newspapers or watch the news but that is exactly what is happening at the moment. There is a great deal of volatility and a reticence by anyone to make any comment about anything further out than about a month at the moment.

Another barometer that we look at is the performance of our London City/JFK service. This is a 32-seat business class only product, right from the heart of the financial centre in the City airport, into New York. This is a pretty good barometer of that segment of the market. This slide shows performance, with the bottom couple of lines denoting revenue – and this shows that revenue is about 22% up on last year, year-to-date. In April and August, in case you are wondering, we take capacity out in those months for the holiday period, because this is a very business-specific product, and that explains those dips there. The load factor has been around 10 points above the previous year and we take a degree of comfort from that. In October, and the figures are not on here, the lines both flattened out towards last year. I am less concerned about that because October is a month which is something of an outlier from trend, and we have also been hearing that that is the case in the industry. For some reason, the first two weeks of October last year were staggering in terms of load factor and no one could quite work out why, but November, as we see it developing, is back on trend above this year. So that is London City/JFK.

With all this volatility, we have to keep growing our top line and we have to keep devising new ways of doing so. One of the areas I want to share with you today is what we are doing in this segment, our direct channels – our BA.com and call centres. I believe that we need to change our mindset around how we treat these two channels. BA.com has 162 million customer visits every year and the call centres take 7 million calls. With those sorts of volumes of customer interaction that a retailer would die for, we think we need to change our mindset and get ourselves into the head of a retailer and treat this as a proper retail channel. BA.com has won many awards but if I am honest, and being mildly critical, if you go onto the home page of BA.com, it looks a little as though every single department in BA has a little bit of it. We want to change that mindset and leverage that retail real estate to get much more out of it, and be much more scientific about it. We will be behaving like a retailer.

If you go into a supermarket, the first thing you generally pass is the fruit and vegetables. The reason for this is because there are data to prove that that creates a better shopping experience and people spend more. The equivalent that we have is when people come to BA.com, what is the fruit and veg for BA.com? That is the question we are trying to answer here. If you look at the aisle ends of the nappy section in a supermarket, you will sometimes see special offers for beer – and you can all work out the reason why that might be, can't you? Sales of beer go up on a Friday night – that is what happens.

The point behind those two comments is that what retailers are doing is to take customer insights that they have. They have huge amounts of customer data, as do we, and they are using that to leverage the offering to their customer. They are doing that in a very scientific way: they are looking at the space that they give to each of those products and the margin that they will create, and they are also looking at customer behaviour. They then blend all of that together to create an experience which gives customers the best experience but also the most profitable outcome for the company. So that is the way we will start thinking about BA.com and our call centres.

We have made a good start. We have more products than we used to have to sell. We have our JBA products and we also have Qantas. We will have further joint business partners who will go into this pot. We have holidays to sell and this part of the business is growing really nicely at the moment. Our dynamic packaging system, which meshes flight and hotel packages together to create a new price, is proving very popular, up over 50% this year. We also have these products that give customers peace of mind, such as pre-paid excess baggage and pre-paid seating, visas and so forth. All of those things give us the opportunity to start thinking differently.

Let me show a couple of examples of what we have been doing over the summer. Over the summer we have been trialling new ideas about how we can take the data that we have on customers and transform the experience when they come to BA.com and make more money as a result.

Potentially, if you have checked in online, you will be familiar with the 'manage my booking' section. You have made a booking already and you are coming back to check in. This is the current layout and the only text that we can change is in the red box. We have been using that to date to put operational messages in there, and everything else underneath that is static. It is interesting enough, it is good information, but we are not using this space effectively enough. When a customer comes to us we should aim to do something special for them, be it either servicing or selling.

I am afraid you cannot read the detail on here but this is the new 'manage my booking' page that we have been testing over the summer. At the top, it still has some of the servicing details that we want to give customers because, if we give the details there, it creates a smoother product when they get to the airport. They complete all the details they need to and the customers flow through very efficiently.

On the right hand side of this slide, we are taking data from the booking and we are contextualising what we throw up here. This is a booking for a customer going to New York. Instead of just putting 'Do you want to buy a hotel?', or 'Do you want to buy a car hire?', we will put 'Do you want to buy this hotel?' – and it all makes perfect sense if you think about it – and we will contextualise what we offer here. So hotels in New York, tours to New York, and so on and so forth. The results that we have seen from that are quite formidable. It is only a trial but, during the trial over the summer, car hire went up by 30% and city tours that we sell through there went up 130%. We think this is a huge area where we can continue to grow our top line, if we focus hard on this and leverage the data we have.

We are also learning a little more about our customers. We are learning that customers who are booked as two people in a booking in World Traveller Plus are more likely than anybody else to buy the paid-for seating product, so that goes on to this when we have a booking of that nature. There is a brain behind the scenes which is doing all of this stuff automatically, which learns and learns and learns, and creates better, more contextualised offerings as you go through.

Happily, not everything is tediously rational. Pricing, and the way people behave around prices, is interesting and it is an area that we have been looking at. ‘Purchasing psychology’ sounds rather grand but that is what I am calling it today. If you make a booking on BA.com, in the past you would have seen a sort of calendar-led selling, which is what we called it. It was very sensible and very innovative at the time, taking the information available in the systems and packaging it up in a customer-friendly way, to give customers choice of the price at which they might want to buy. Psychological research has been done, however, about how customers behave with prices when they are contextualised by other prices. If you are in a supermarket – once again, I am afraid - and you have three beers on offer in front of you, the beer in the middle will sell much more because it has two beers, one on either side, in terms of price point, than it would if it was just there as the highest price point with a cheaper beer next to it. We believe that contextualising how we offer prices to our customers offers a huge opportunity to get them to buy more from us.

This is what we have been doing on our booking page. It is cleaner, for a start. It still has some of the calendarisation that we had previously but, importantly, it has options. On either of these flights – you can fly in economy, and this is what you get in economy. We put the product attributes up there so that customers can be really clear about what they are buying, and these are the reasons why they might want to up-trade – either to World Traveller Plus, premium economy, or to business. If you can read this, £255 is the economy price and £699 is premium economy for all this extra product, and then £3,280. Not many people buy the latter but simply by having that column there makes people trade up more to here. We think there is a large opportunity in this space and we believe that this trial can generate tens of millions over a full year.

This is how we will run our website from now on. It is a new mindset. I have changed the organisation so that we have a retail trading part to our organisation, which has BA.com, the call centres, digital marketing and BA Holidays in it. It is all bundled in the same place and it is an area where we can really innovate: just simply changing a button can make us several million more pounds.

Now, the joint business. I love the joint business, which is great news because it is my life. My life now, compared to about a year ago, is so different that it is unbelievable, but it is so much more exciting. Previously, I had a single product, the British Airways product, and we learned to market, sell, price and so forth for that product in a way which made us good money generally. Now, however, I have a portfolio of brands that I can take to market. Why is that more exciting? It is more exciting because I can address different customers segments much more optimally than I did before. I can mix and match products from across that range and create offerings for customers that previously we were not able to do.

Let me give you an example of what I'm talking about. In a corporate customer, such as a bank, for example: banks have different groups of people within the company who are allowed to travel in different cabins. Generally, the poor old IT people are allowed to travel only in Economy or Economy Plus while the investment bankers get to travel in Business and First Class. Now, I can go with a portfolio of prices and craft a proposition which says, 'If you really don't want your IT folk to travel in Economy, we've got an Economy Plus product in BA. We have a flat bed that's not horizontal, that's flat bed on American Airlines which is priced slightly different from the flat bed. You can go out one way on AA, come back one way on BA and create multiple more price points that we used to have previously.'

In addition to having that portfolio benefit, we get the benefit of the distribution. Having code-share on each other broadens our distribution and having separate brands in addition to that also gives us shelf space. Back to my supermarket analogy: you go into the supermarket and look at the shampoo shelf, there are lots of different brands, probably all owned by two or three companies, lots of different prices, segmented and priced according to the customer need. They are the benefits and that is why it is so exciting and why I love it so much.

Let's look at some of the stats on the joint business. It is a big business in itself, $8 billion of revenue or just under. It is 24% of our overall revenue at IAG, importantly, 37% of BA's – this is why it is my life. I have to give credit to my AA and Iberia colleagues, who are investing huge amounts of time to make this work, disproportionate to the value of the revenue that is a percentage of their overall. But it is really important at the outset that we get together and engender trust across the three parties because, at the end of the day, that is what makes this work. We have 20% of share between Europe and the US, 96 daily flights, seven hubs. That is a very different business that we are managing from that of BA on its own, where it is single hub, a huge amount of point to point demand. We have a mindset of yielding and basically, point to point with the capability to top up on transfer when demand on the point to point changes. American Airlines have five hubs that they manage; they know a lot about how to do this and we are learning a huge amount from them in that respect. Iberia as well have probably a little more transfer traffic compared with BA so we have some things to learn from Iberia as well. It is a veritable melting pot of ideas. This is staggering: 70 million frequent flyers – that is a massive marketing opportunity. I will come on later to look at the impact of that – and 12 million customers every year.

This is rather a busy slide but we have been rather busy. The first two initiatives we undertook when the joint business was signed and started in October was the closure of the transatlantic gap. Previously, BA Exec Club members could not earn points and miles when they were flying on AA, and vice versa. In the context of **one**world, we did that to protect both of our frequent flyer bases, because we did not have a device which would share the economic transfer, should any have taken place. Now we do, so we closed the gap and we enriched the scheme as well and now we have the capability for each of our members to fly on each other's metal, earning as they would have done on their own carrier.

Code shares and joint pricing: we put 5000 code shares in to the market and have probably created tens of thousands of new prices. The biggest driver of those new prices was this combinability effect that Robert Boyle spoke to. You can go out on British Airways on a discount fare and come back on AA. Previously, you would not have been able to combine those and what it does is create an exponential number of price points in the market which we did not have before – a big opportunity for leveraging the distribution.

Our **one**world transfer centres: Nigel spoke to this and it is basically us all bringing our own PCs into a single room in our operational hubs, looking at flows of customers who are going across the **one**world carriers and ensuring that, if there are tight destinations or if one flight is delayed or late, we get those customers transferring smoothly between the carriers. We do it in these seven hubs and there are plans to do it in three more **one**world hubs. Results today are quite interesting. We have connected about a quarter of a million customers and we have saved about 40,000 room nights as a result and of course, there is a massive customer benefit – customers love it.

Joint selling: we were relatively late. Q2 is when we started joint selling in anger. Joint selling means two things. It is how you go to market with the distribution, how you construct travel agency deals as a joint entity rather than single entities. That is done annually so we put some joint deals in at the outset – Q1 here, we have about 300 – and our intent is from January 2012 to put some real effort behind getting joint deals everywhere for the travel agency community. Corporate deals are not done around the year end, they are flown across the year so we have a certain number of corporate deals coming up every month. We have developed a corporate pipeline which allows the three carriers to get together and discuss the objectives that we want to get out when a corporate deal comes up for renewal several months in advance, so that we know what we want to take to that corporate in time for the RFP. We have aligned 60 policies – frequent flyer, baggage and so forth. We have launched five new routes which we are able to do partly because some of the consolidation of flying. So the Heathrow/San Diego service was the BA route that we launched, the Iberia routes to Madrid – Barcelona and Miami and Madrid/Los Angeles. Those were the five new routes and schedule optimisation on some of our bigger routes, where we created a cleaner schedule. So we have done all of that. Importantly, underneath, internally, we have been meeting each other a lot . When three business models come together, on top of three cultures, it takes time and effort to work your way through and a huge amount of effort and time has gone in here, from all of our teams.

When I spoke about how code share and having separate brands maximises our distribution efforts, this is how that comes into effect in real life. This is a snapshot from a price and availability system called ICA. This is how we would have sold Heathrow/Los Angeles before the JB and before IAG. We had one price and you can see, if you think of this as the electronic shelf, we were present just there. This is what happens when we do a joint business: we get presence in six places where previously, we had one. You have the one stop prices underneath and the non stop along the top. The prices are not the same – we did not do that deliberately, there are different taxes, different transfer pricing through airports and so forth – but the intention is not necessarily to have the same price. Again, if you are managing a portfolio of brands, using price as a lever to differentiate is no bad idea. It allows you to occupy more space and also allows you to face off against a number of competitors.

What we are doing by market is looking and saying, 'Which role is each of the brands going to play in any of these markets?' So you might take a market like Israel – Robert showed the Tel Aviv opportunities, Tel Aviv to New York either over Madrid or Heathrow or indeed, New York – how do you price that? Do you price them the same? Do you price them differently? What is the quality of the schedule, relatively? And so on. Who is your competitive set? All of those things are going to be thrown into the pot and we will create plans by market in order to ensure that we really take this multi-brand opportunity to the limit.

Here is where the value is coming in. I will take you through this BA side and the same will apply to the AA side. On BA metal, where are we seeing the up-tick in revenue, the benefit to the business? There is an equivalent one for IB but I wanted to keep the illustration clean. On BA metal, this big bubble are AA's Advantage members, flying on us. Here they happen to be flying on AA code on us as well. This grey bubble that you can just about see here is the AA code that is flying on us; this lot out here are not Advantage members. And this is paper. So this is that combinability effect, where people will be going out on AA New York to London and coming back on BA and this is the BA revenue. So paper, Code and Frequent Flyer and you can see the Advantage programme which has about 60 million of those 70 million Frequent Flyers is of huge benefit to us. On the other side, for AA, Exec Club we could probably do more, and BA Code seems to be the predominant force in driving the value there. AA Code we are going to make improvements on as well. This is driven largely from some of the revenue management technical challenges that we have and that will improve.

So that is how we evaluate how this business is working and how much value we are getting from it. You might say, 'That's easy. How do you know it's all incremental? It's easy to claim incremental revenue because it's hard to identify it.' But we do go through quite a rigorous process and this is what we do. We take the Code share revenue and put it through a spill model – the Boeing spill model, if you are familiar with that – which takes off the business that we would have got anyway. It looks at flights which would have been full anyway and discounts those; you discount that off and get the Code incremental. On top of that, we look at the Frequent Flyer incremental, so all cross sold Frequent Flying is put into a pot and we take down that which is done on parallel routes. This effectively means that we are seeing the benefit – San Francisco/London is a good example of that – of having a large customer base of AA Advantage members living in San Francisco, who previously would not have flow on BA but have gone via one of AA's hubs, who now fly on our direct service. That gives you the total incremental.

You have already seen the number. We reckon that we can get at least 150 million out of this by2015 and I am very confident about this number from the data I have seen to date on our performance. The way we have staged some of the implementations there are full year effects that we are going to see the benefits of next year, as well as finding more ways of working with each other that we are probably not even aware of today. We have grown our share of premiums just under a point, broadly flat in non-premium, and I am very pleased with the progress so far.

Next year we are going to do a bit more work on network and schedules, to optimise those. Multi-brand portfolio selling: I hope you have the concept, which I have spoken about quite a bit today. Drive the sales, the joint selling initiatives, harder than we have done today. I have spoken about transfer experience. Data is critically important. We all use different data and we have spent this year creating a dashboard of an agreed dataset to which each of the airlines send data in every week now. I have a dashboard which gives me JB forward bookings, every week. That is one part of the data that we need. There are many other bits that we need to knit together as well, so that will be a huge focus. Speed to market in our commercial process is another focus for next year. Doing things by committee is harder. We try not to let that affect our speed to market but that is a critical point here. Get people transferring across companies: this thing works because you end up trusting each other. If you don't trust each other, it won't work. To get greater degrees of trust, we need to put people in AA and Iberia and vice versa, to understand how those companies work and to bring that knowledge back into our company.

I will hand back over to Robert now. Thank you very much.

Robert Boyle: Thanks, Drew. The last lap before lunch and I am going to talk about two others of those non-passenger revenue type income streams which were on one of Drew's first charts and what we are doing from an IAG cargo point of view.

This is an area of the business where we have gone further in terms of integrating the management of the business and we have put in place a single management team, managing the combined cargo businesses of BA and Iberia. We are doing that to ensure that we get the advantages of the scale effects of being a more significant player in the cargo business. Obviously the brand sensitivity issues in the cargo business are much lower than they are in the passenger business, so we feel that the balance of benefit of taking the more integrated approach rather than a portfolio of brands approach, which we have done on the passenger side, is the right solution. So one strategy, one point of sale for the customer – they go to a single person in one place – a single product range so that for example when you want an express cargo product from British Airways, we are aligning the definition of exactly what that product looks like with what you get from an express cargo product from Iberia. Really, that is all about making sure that we can offer a single, enlarged network to our customers.

This is one of the areas where we have significantly increased our revenue synergy estimates because, as we have got into the detail of this we have found that there is quite a lot more opportunity than we had thought originally. Firstly then, looking at the North Atlantic, BA was a very big cargo operator on the North Atlantic, essentially on the back of all that passenger belly hold capacity; Iberia less so. This is a difficult market from a cargo point of view because there is so much passenger capacity that brings along with it cargo capacity. Therefore the supply/demand imbalance in terms of exports and so forth from Europe to America, this tends to be a market that has structural surplus capacity. The key here is really about having the right customer relationships, being able to offer the total network so that other markets, such as Asia, Latin America, which are much more the other way around in terms of the supply/demand balance. Having parts of the network that the big customers are looking for enables you to secure a disproportionate share of the business in some of the areas where the supply/demand balance is not as strong. This is one of the areas, therefore, where we have seen a big benefit, basically by bringing British Airways' scale in some of those big cargo accounts, including leveraging that to drive business on to Iberia's North Atlantic capacity.

The other thing we have talked about in terms of this arrow in the middle here – the air bridge, the wide body capacity between Heathrow and Madrid – you would not probably as a passenger fly from Asia into Heathrow, take a connection to Madrid and then fly on to Latin America. Some people do but you would probably not do so as a customer, whereas boxes do not mind what route they take between A and B as long as there are the operational processes in place to make sure that it does in fact make all those flights. There is a lot of work going on to link the two hubs and combine the very powerful South America network that Iberia has – a very valuable commodity in the cargo world – with what BA can bring to that in terms of Asia, which is the other key cargo market. That is giving the BA cargo flights out to Asia extra feed and enables us also to link up the BRIC economies in a way that not many others can do.

I will talk a bit about the regional exposure of the cargo business, which is different from the passenger business, essentially because it is obviously much more of a long haul game – you don’t put much cargo on a narrow body, short haul aircraft – and also because we operate dedicated freighters in the BA business. The geographic exposure is a bit different. We are more Asia focused; this segment here, Asia and the Middle East is about 20% of the business on the cargo side. The home markets, Spain and UK only 24%; that number was much higher on the passenger side. Europe is another key market. A lot of it does not necessarily fly into the hubs but is trucked in or indeed we pick it up with one of our freighters from another point in Europe such as Frankfurt or Zaragoza. Then Africa is a relatively small market but a good one – a lot of perishable, high yield stuff; likewise Latin America – a lot of the fish that you might eat in a Madrid restaurant has actually arrived on an Iberia plane the previous night up from Latin America. Then North America is a difficult market but one where certainly working together we are much stronger in terms of capturing the business.

You might like to see how that Asia exposure compares to the other two, our main European competitors. Although we are more Asia-oriented on the cargo side than we are on the passenger side, we are still relatively low compared to Air France, KLM and Lufthansa, who not only have more of their passenger network in Asia but also much bigger freighter fleets which are largely Asia bound capacity. The reason it is worth bearing this in mind is that it helps you to understand some of our cargo traffic stats when we put those out. We tend to be much less volatile than the Air France and Lufthansa numbers and where you have either the booms or the busts in the cargo business, they tend to manifest themselves a lot in the Asia part of the business. In terms of the recent trends, the recent weakness in the cargo market which I am sure you will all have been paying close attention to as a lead indicator, our numbers, whilst we have had weakness, have not been as weak as the overall industry statistics. Partly, we think we are getting benefits in terms of synergies but also a big driver of it is that our exposure to the most volatile market of Asia is less than the other guys.

We have talked about some of the synergy benefits already. Another one is joint deals. Drew talked about that from the passenger side, for the JBA. The same issue applies to the cargo side, with probably an even more powerful effect because in the big global freight forwarders there is much greater concentration of the business in the hands of a handful of big customers. Our ability to face off against those customers as a single entity is paying dividends and these are just some examples of customers where we have joint deals in place.

I mentioned the freighters that BA flies and we have put in some new routings, routing aircraft through Germany, through Spain and down into South Africa, adjusting to the weakness of some key Asian markets, like the Hong Kong market. We have taken some capacity out of there and added it in a way that both offsets that weakness but also helps us to drive the synergies across the group.

We have very recently become one of the first to take delivery of the new 747-8 freighter. We had three 747-400 freighters, which are operated in a joint venture with Atlas and they have been talking quite a lot about this partnership in some of their investor briefings and talk about it as a great success. We would echo that absolutely; it is a very good business model for us, giving us tremendous flexibility without having to commit to a large owned freighter fleet – great flexibility whilst allowing us to piggy-back on some of their skills in operating freighters. For the first time, as we are replacing those 747-400s with 747-8s, which are more fuel efficient and bring about 20% more capacity, we have taken the decision to brand the aeroplanes in the BA World Cargo colours. Up to this point, these flew around as nondescript; you would not know it was a BA freighter. We have decided that the time is right to change that. This is a picture of one of those 747-8s, a sort of stretched version of the 747-400 – not quite as stretched as this picture makes it look – but whilst taking extra capacity at this moment, that is not ideal. On the plus side, we have a pretty small footprint to start with, so our ability to accommodate that, particularly with synergies, is there. But it is absolutely critical to get the fuel efficiency benefits. If you are going to be in this market in the current environment having the most fuel efficient solution is clearly key.

That is Cargo. The last area I want to talk about is Avios. This is the brand name for the single reward currency that we put in place that will, from next week, be the currency that you collect when you travel on IAG either with the Executive Club or Iberia Plus. We have taken the approach of saying, ‘single currency but separate programmes’. Obviously, single currencies are not getting a very good name at the moment! We do have the benefit of having a single economic interest, so our ability to manage it properly as a single currency is rather better than perhaps the euro area. We thought long and hard about whether we should create a single Frequent Flyer scheme – so get rid of Executive Club and Iberia Plus and create Executive Plus or whatever, which is the approach that Air France/KLM did with Flying Blue. We feel that that is the wrong solution. Our approach with IAG is to have a portfolio, a brand, retain the loyalty and the relationships and combining that with a single reward currency which is the area where there is real benefit to having scale, both on the operational side but also from a customer point of view, is the right approach. Avios will also be the brand name for our non-Frequent Flyer programmes across the world, so replacing airmiles in the UK for those of you who are familiar with that product.

Across the two we have about 20 million members, five and a half active members – we take a pretty strict definition of what an 'active' member is, so these are people who have done activity in the very recent past, earning or redeeming. It is clearly crucial from the point of view of driving passenger revenue, so about 40% of the passenger revenue in the group is associated with a member of Executive Club or Iberia Plus. On top of that, it obviously drives a lot of third party income, which is the numbers that we have in our synergy chart. That is not capturing the passenger revenue effect of Frequent Flyer, it is the revenue that we get essentially from selling miles to third parties. Banks and credit card companies are obviously a large part of that.

What does this mean for customers? You have more ways to collect. You can collect your Avios on flights outside of your core loyalty programme. Nigel talked about the took we have built to consolidate your balances, so I am sure there are people in the room here who have miles in one place, some in another place, points in another. From next week, you will have the ability to consolidate all of those into one place. Coming up with a single design for the currency, we have gone with the industry standard approach of one mile travelled earning you one point. We are not calling these Avios miles but Avios points – one mile does not work particularly well in Spain so it is a more scaleable solution – and we also have to be careful around some of the trademark issues associated with airmiles, which we could not use as a name outside of the US because it is owned by a different group.

There are lots of ways to redeem and as part of this we are implementing effectively a subsidisation of the taxes, fees and charges on short haul. Over the years, the taxes on flying, government taxes, airport related fees and so forth, have gone up and up. We have reached the point where we recognise that redeeming your points on short haul travel, relative to the alternative of just buying a cheap ticket which is commercially available, had become a not very good value proposition for customers. With this design, we are moving to a standard rate of 27 euros or pounds for the taxes, fees and charges element of a redemption. In some markets, this may be similar to what we have today, in the high tax environments this is a significant customer benefit. We have done that really because we believe absolutely in the value of these schemes and you need to invest in making sure that they remain relevant to customers and valuable to customers . Also, crucially, the short haul network is the part of our business where we have the most structural spare capacity to fill, so improving the value for people to redeem their points on short haul is much better over economics from our point of view. We are rolling out a lot of the best of each of the three schemes to all members. On all the programmes you will in future have the ability to combine points with cash, if you do not have enough points – much more flexibility to mix and match.

This all launches essentially next week and we have a bunch of advertising campaigns to go with it. This is a new brand, obviously. We need to spend quite a bit of money communicating that change to customers, which we will be doing. You have seen upstairs some examples of the print media and at the end of this section I will leave you with a sneak preview of our new TV ad, which is not quite finished but we felt is close enough to the final article to share with you today. This is not public. You are getting an advance preview, so no iPhone filming, please!

Before I do that, just to touch again on some of the technology changes that we have made: as Nigel said, this has been an enormous programme, to take three highly complex schemes and put them into a single platform, the balance transfer tool and, which Nigel talked about, the zone maps, which is the example here. There has been a great deal of IT work behind the scenes to make something which should be a really compelling proposition for customers.

I seem to be running ahead of schedule, so we will leave you with a sneak preview of the Avios TV ad. Thank you.

[*Video shown*]

BA – Fit for Growth

Keith Williams
Chief Executive, British Airways

Thank you. I am very pleased to see that Drew showed you the London City - New York load factor this morning before the fog. Those are just some of the events that have impacted British Airways over the past few years - we have made a number of transformational changes to the business, brought about firstly by the deep financial recession and then the need for structural change to enable us to compete successfully in our key markets. The state of our business today, the merger with Iberia, our anti-trust immunity with American Airlines and further opportunities for partnerships give us a potential for growth. Of course we are going to need some help from the economy. We will retain flexibility in our plan to react to the pace of economic recovery, but remain ready to grow once conditions are right. The high price of oil means that we need to continue our focus on controllable costs.

Put simply, the opportunity at British Airways is to grow our business, to grow our revenue without losing that existing focus on costs. To grow we will need to engage our customers and to bring in new ones. The British Airways business plan and my theme today is straightforward. It is all about retaining the benefits of structural change, rising to the challenge of higher oil prices, reigniting passion in the British Airways brand and building closer relations with our customers through service, through products and through technology.

Technology in particular has changed the way we all live our lives, from the way we all interact with people, to the way we shop for products and services. The pace of change is accelerating rapidly and in some markets the rate of change had been and will continue to be phenomenal. Here are just a few examples: China will soon be the biggest English speaking country in the world. The top 10 jobs in demand in 2010 didn't even exist in 2004. It took 38 years for the radio to a reach a market audience of 50 million; television took 13 years, the iPod three years and Facebook two years. There are technologies today which will come into being in the next three to five years that don't exist today and what is clear is that that technology has both consequences and opportunities for our business and I want to start my presentation today by looking at some of them.

I will show you some of the more exciting opportunities later on, but let me start with just one mundane example; it relates to the back office. We have now moved to 100% electronic or e-ticket and have not accepted any paper for issue since January. That may not sound much like a change, but taking away paper transactions saves us £7 million a year in costs, while at the same time has enabled online selling, a number of airport changes and improved our ability to handle customer disruption.

Others have also been excited by the speed of change. I was always taken by a comment from Sir Martin Sorrell, who said back in 2008 that the 21st Century is "Not a place for tidy minds". He was referring to the growth of new media. New media, powered by digital technology allows huge increases in the amount of communication, at speeds that we have never seen before. I will come back to what new media has meant in terms of our advertising campaign later, but today's consumers have the ability to connect to information, not only at any time of day, but also wherever they may be through a staggering array of networks and information.

Smartphones, tablets, e-readers and GPS systems have all gone mainstream and the ever advancing technology that fuels them is always with us. It is our cars, in our backpacks and in our jacket pockets. This technology provides new and exciting opportunities for those of us engaged in transportation. We can communicate to customers while they are on the move and it improves the services that we can provide to them. At the same time it gives consumers greater control over their travel needs and customers are looking today for better mobile travel solutions from the palm of their hands. We are seeing that at British Airways.

Today at Terminal 5, 83% of customers are using self-service check-in and 40% use self-service kiosks. 43% of our customers globally now check in on-line and this week we surpassed a number of 1 million passengers who have used mobile boarding passes and 4% of our customers now regularly use check-in using their mobile phones and that number is growing quickly. Mobile boarding passes are now accepted on 80% of our flights.

The mobile BA application has now been downloaded by more than 1.1 million customers. The ability to communicate with our customers opens up many opportunities for us to build loyalty with them and I am going to show you some examples later. However, equally, new computing architectures and cloud technology gives consumers the capability to communicate with each other and to form social networks through their mobile devices. This has important implications allowing customers to talk to each other through their social networks about how we are performing as well as allowing us to contact them.

Here are just a few examples of the impact of social networks. Using existing applications consumers can judge the punctuality of airlines by looking where aircraft are positioned across the globe and that is the FlightCaster application there. They can feed back to each other on airlines performance against key criteria and they can compare one airline's performance against another. We are a premium brand, so meeting customer expectation through the quality of our products and strong operation performance is absolutely fundamental.

How are we performing? I am going to break the answer into four parts: firstly let's look at the performance at Terminal 5, at our Heathrow hub, then look at how those operational efficiencies have generated financial savings, then let's look at some of the changes we have made recently to improve our products and services where we have received negative customer feedback and finally let's look at what it has meant to our customer satisfaction scores.

We moved into Terminal 5 almost four years ago and have since then delivered consistent improvements in our performance at Heathrow. It is a testimony to the focus which Willie and the BA leadership team had over that period in improving the operational performance to get to where we are today. We are more punctual today out of Heathrow than the major carriers in Europe out of their hubs, despite all the constraints of operating at the world's busiest airport. Our baggage performance, as Drew mentioned earlier, in terms of missed bag rates per thousand passengers is now world-class and ahead of our major competitors. The trend in satisfied and highly satisfied customers has improved, particularly in terms of long haul performance. All of this has been achieved with lower manpower and greater productivity across the whole organisation and particularly at Heathrow.

Let's back this up with some data. This slide is just showing what has happened to regularity over the course of the last five years, looking at on-time departures. Monthly data is impacted by seasonality, for example, performance dips in the summer peak because of the constraints at Heathrow and also by events, for example, snow had a big impact at the end of last year. From the trend line you can see we are showing solid improvement. Our average overall punctuality this year, combining arrivals and departure performance has been well over 80%. I said earlier this compares favourably with our competitors at their hubs.

Across the network our baggage performance has improved and again we compare favourably with our main competitors. You can see how much, from this chart, we have improved over the years, and how we have also become much more efficient in the course of a year, impacted again only if we get major disruption events, such as the snow last December.

The next step change will come from the completion of the baggage tunnel between our two terminals at Heathrow – Terminal 3 and Terminal 5. This tunnel will complete next year, which will give us additional benefits in relation to transfer traffic, particularly with our One World partners.

I mentioned that the improved operational performance had been achieved at the same time as seeing greater productivity. The productivity improvements at Terminal 5 have been absolutely terrific since the move. I remember back in 2008 when I was CFO saying that our intention was to make the introduction of Terminal 5 NPV neutral over a 10 year period, principally from the productivity gains that would reduce the workforce to around 5,500.

As you can see from this chart we are ahead of that target. We used the opportunity of the move to modernise many of the working practices at the airport. In particular we introduced new systems and processes which allocate jobs across the Terminal. We have also reduced demarcation which gives us greater efficiency while creating greater job satisfaction. Not only has it reduced manpower, it has also allowed operational benefits from giving us greater flexibility in stand usage: aircraft can be allocated to stands at much shorter notice as they become free.

The Terminal was also transformed by greater use of technology before the customer gets to the airport and when they arrive there. For example, the self-service kiosks I mentioned earlier and the ability to check-in using BA.com or mobile devices has transformed the customer experience while, at the same time, reducing the manpower requirement. At the same time we have also introduced better customer conformance, which has assisted the smooth flow through the airport.

This chart shows you how it all translates in terms of satisfaction from a customer standpoint. This chart looks at from when we went from Terminal 4 and Terminal 1 into Terminal 5.

It is not all about Terminal 5. There are further improvements on the ground and in the air as we listen to customer feedback. I am just going to show you a few examples of those now. We have an old in-flight entertainment system which you might have experienced on 18 of our 777-200 aircraft and this was the single, largest area of customer complaint. To bring an immediate improvement we introduced iPads onto the aircraft in August this year and this has brought about a significant increase in customer satisfaction, as you can see from the chart here.

This is an immediate improvement from some of our customers reacting to an area of dissatisfaction. As a longer-term solution we are just about to start the work on the re-fit of all these aircraft with new seating and our most recent IFE system, the Talis system and this programme is due to complete by early 2013.

We have also listened to the problems which exist because of the large amount of coaching at Terminal 3. In particular this became a product for premium customers so we have now introduced dedicated premium coaching. This has been funded from the change in coaching requirement at Terminal 5, following the availability of more stand capacity at Terminal 5C. The amount of coaching is now just over 5% at Heathrow for BA, down from around 20% previously.

Similarly we have been listening to the feedback on some of the wines, particularly in our club cabins and improved things there. You can see what has happened to customer satisfaction.

Finally, the introduction of a complete new interior on our First Class product has transformed customer satisfaction in the aircraft embodied with our new First Class product. We now have 47 out of 73 aircraft which we intend to fit out with that First Class product and it is operating Transatlantic flying to and from New York all the time. Again, the increase in customer feedback is significant.

All of this taken together has led to improved overall customer satisfaction and this slide shows you our recent year-to-date performance up to September 2011 and the increase since 2010.

Our performance across the business has improved, but there is still a lot more to be achieved and I will give you a glimpse of some of the more exciting things we are developing at the present time in a moment. We are touching more people with these products as well: passenger numbers in the first nine months of this year are up around 13% over the previous year.

Our current operational performance and customer satisfaction scores in themselves create a platform to allow us to consider growth in our key markets. There are further plans in progress and we will look at some of those in a moment. However, the real conditions for growth have been made from the transformation which Willie and the leadership team have made over the last few years to the fundamentals of the business.

The changes in industrial practices, cost structures and transformation across all parts of the business have given us a real platform for growth. Here is an update on the data together with some comments on the further scope for change.

I joined BA in 1998 and in that year I recall that the operating profit was just less than 6% and that it was in decline. Some years on, by 2007, as a result of the combination of the work we had made in reshaping the business and the pre-Lehman boom, we took the operating profit to more than 8% on a calendar year basis and delivered the then British Airways target operating margin of 10% on a fiscal year basis.

We then faced the economic downturn in 2008/9 onwards. At that time I recall both Willie and I maintained that it would take several years for the business to recover post-Lehman and we further stated that we believed in some areas the changes to our business were structural. In order to recover the business we needed to accelerate the progress on transformation across all areas of the business. This meant working practice changes across all our front line groups and a 20% reduction in our back office functions. Much of that has been achieved today, but there is always more to do.

As a result of the work today, in the first nine months of this year we are looking at an operating margin of some 6%, against a sluggish UK economy and world economic backdrop. As you have seen earlier the recovery in premium traffic has to date been solid, if not spectacular. Yield performance has been mid-single digit and higher on a constant exchange basis. This has resulted in high double-digit percentage growth in passenger revenues and will be close to achieving about a £10 billion revenue for the first time this year.

Improved revenue performance has increased our asset utilisation, as you can see on the chart, which puts us in good shape ahead of our fleet replacement programme and any growth in the fleet.

In terms of capacity growth at BA we have always focussed the business on profitable flying and overall growth has been less than our major competitors. We continue to believe that the business must be fit for growth before it grows.

Again if I look back to when I joined BA, capacity today is almost exactly flat from when I started at BA 13 years ago; there will be a small amount of underlying capacity increase in 2011, around five%, which will bring us back in capacity terms to where we were in 1998.

Interestingly enough we achieved more than 12% revenue growth in the same period, representing a solid yield improvement. Against disciplined capacity management, unit revenues have improved and as you can see from the chart there we have now recovered to levels last seen at the peak in 2008. We have been able to recover some of the recent fuel price increase in yields and have been able to hold back unit cost increases through a continued focus on controllable costs. Despite high inflation most cost lines have been held, with the majority of the cost increases stemming from fuel and monopoly or regulated suppliers in areas such as landing fees. We are also tied into some long-term engineering contracts where price increases tend to be linked to RPI or CPI fees.

Looking forward, inflationary pressures obviously remain high in the UK and, as you saw earlier from Ignacio's presentation, there still remains significant synergy opportunities with IAG and we remain focussed on achieving those.

I mentioned that capacity was roughly flat from 13 years ago. The impact of structural change to the business is very apparent from our employment costs. Employee numbers have fallen from 61,000 when I joined, to less than 37,000 over the same period and productivity per employee has increased by almost 60%. While some of this improvement has been achieved from greater outsourcing, much has been achieved through process improvement and from the greater use of technology. The focus on lean process is a continuous programme that we follow at BA and one which will continue for some time yet.

I showed you earlier an example of improved productivity, for instance, achieved through the move to Terminal 5. We are benefitting also from the introduction from new pay scales for cabin crew and now have more than 14,000 cabin crew on new terms and conditions. When Enrique was showing you the chart earlier what he was showing you was the scale of increases or reductions, or savings in terms of cabin crew cost as we recruit more cabin crew on the new pay rates. What the slide didn't show of course, if you remember we also changed the crew compliments and that has been worth about £62 million on the introduction of those new complement scales.

In terms of labour agreements, we have concluded our talks with all our major unionised employment groups to 2013. We are now recruiting pilots ready for the arrival of the new aircraft, the 787 and the A380 and have some cabin crew joining in relation to the growth plans. These should be offset by reductions elsewhere in the business. For the next year we should see further reductions in unit costs.

As Enrique said, as a group we at IAG are committed to driving operating profit and return on capital employed. Looking at the things that we need to do within our business plans, firstly we need to build on the revenue increase that we have seen this year. Our plan is to deliver between 2% and 3% revenue growth out to 2015 on capacity, up by similar amounts.

On the cost side we have to work to offset the cost pressures created by our non-controllable suppliers, the largest of them obviously being fuel, but we also see examples, for instance, in landing costs where our charges at Heathrow with the BAA have been increasing by RPI plus 7.5%.

The IAG synergy benefits, including shared services, are important factors to achieving additional improvements. Equally the efficiency of new aircraft will continue to contribute to increased margins. Our customer initiatives combined with the revenue and cost synergies with IAG will deliver and improve our asset turns.

Finally in this section I just wanted to cover off where we were with pensions, because I know this has been seen as a major balance sheet impact for British Airways and has been one of the investor focusses ahead of the new valuation which starts in March next year. There have been many changes over the last few years to pensions; in particular new employees joining from 2003 are employed in a defined contribution scheme. Around 20% of the workforce are now in that scheme. For those in the defined benefit schemes there have been significant reductions in pension benefits in 2007 and again in 2010. These changes have increased the normal retirement age by anything up to 10 years and increased the accrual rates, as you can see on the chart here.

The effect of those changes is to leave the service cost for employees within the schemes almost exactly in line with the costs of the defined contribution scheme. We are at much more realistic levels of company contributions going forward. That leaves the major issue in relation to pensions today as being the recovery plan to pay off past liabilities, or deficits and management of those liabilities. The recovery plan which was agreed with the trustees in 2010 pays past liabilities on a fixed pre-payment schedule, which is flat in real terms. In terms of management of the liabilities there is an agreed outline plan to reduce the exposure to equities over time and certain trigger points are reached. As you can see from the chart here, some of those triggers have already been reached and a certain amount of de-risking has already taken place.

Where are we on the recovery plan today against that journey plan you can see from the chart here. This is showing you the estimated actuarial position as at the end of September. These estimated as the next formal valuations due to take place next March and the valuation then will depend on assumptions made in terms of future terms and life expectancy, but this is giving you an estimate as at September 2011, which you might find useful. Markets have been volatile and equities have generally performed poorly with bonds and property assets performing better. Any underperformance has been more than offset by the change adopted for it to pay pensions and payment from RPI to CPI indexation and this has been assumed is giving rise to a half a per cent reduction in pension inflation.

All of this leaves the plans ahead of the repayment plan, as you can see, and we would not anticipate any major changes to the levels of contributions at the next valuation which starts next March.

You have seen the current state of our business and we have improved profitability and that has led to improved financial position. However, to achieve future growth we need to enhance our relationship with our customers. Earlier you saw some of the changes were already making changes in our products and services to improve that customer experience – that, however, is only part of the story. The new digital technologies we saw earlier allow us to build a relationship with consumers which was not previously possible and to offer products and services which makes life simpler for them and for us.

Firstly let us briefly take a look at changes in consumer trends that we need to respond to. Our lives are busier than ever. We have less time and we want to make sure we make the most of that time. As a result we see products and services that will make our lives easier, that minimise inefficiency and help us focus on the things that matter to us. We are becoming more demanding; we don’t want just standard products. We now expect experiences that go beyond the norm and enrich our lives.

Whilst we want to be individuals and stand out in our own right, we still want to be connected. The need for a sense of belonging is still strong and new technologies are bringing close together with friends, families and colleagues.

All of this is seen in attitudes to air travel. As air travel has become more accessible consumers increasingly see it as mundane and process driven. At British Airways we are striving to create a special brand and a special brand that is focussed on building experiences that leave our customers feeling like special individuals. This recognises the fundamentals of our brand: British style, built around a sense of quiet confidence; thoughtful service, ensuring service is delivered in a warm, friendly, intuitive way that feels tailored towards the individual; and finally flying knowhow - the level of knowledge that sits behind what we offer and that is reassuring, credible and a reason to choose British Airways. Our rich heritage and scale provide this reassurance, as do our uncompromising standards on safety and security.

We believe that to reignite the passion for the brand we need to do that through a fusion of product, service and technology. To do this we need to work towards what our customers want. We must work hard to understand what products our customers are looking for, how they want to experience them and how we can use technology to engage with them at the most convenient time and touch points. Our recent iPad trial, which you will see in a moment, will give you an early view of this. There is a lot more to do, but the iPad will give you an early view. With the iPad you will see how our cabin crew are engaging our customers in conversation.

Let us firstly look at a typical customer journey and look at the touch points with the customer through that journey and look at the areas that we are planning to invest in the coming years. We are aiming to differentiate ourselves here across all of the touch points with the customer to maintain their attention and their loyalty to BA.

Research shows that customers today spend hours online both booking and shopping and Drew earlier showed you some of the examples of what they are doing to BA.com. To meet this opportunity we are transforming our in-flight selling processes to provide a best-in-class retail experience. Drew already showed you some of that: the adapting of BA.com to display personal offers and promote relevant extras, such as reserved seating or allow customers to compare our product across different cabins.

Over the last few years we have also developed a range of ancillaries. We have a good base, including seating, baggage, upselling, hotels, parking and cars. It started from a low base, but it is improving all the time. We have largely offered those through BA.com. By way of example revenue from hotel sales rose 46% last year and conversion on upselling was up 20%. Off a low base we are making considerable improvement. What we are also doing is to enhance the availability of those ancillaries. Some of the things we are looking at are the extension of our seating product with our JBA partners and that is already in place, door to door baggage products, visa services, travel books and guides, just to name a few. There is a lot of development going on and it is opening up the possibilities of mobile payment for most products and the introduction of booking travel on your PDA or mobile. There are a lot of things going in that area to drive ancillaries.

What we also recognise, however, is that if you look at the airports, we have a number of legacy systems. These have held us back to some degree in making those connections with our customers. We are in the process of replacing those legacy systems and some of the work is already complete. Over the next three years we will be making an investment in new technology solutions and that will deliver a required infrastructure to operate and grow our business.

Some of our core systems have already been migrated into the new systems and what it enables us to do is to give us that competitive edge in terms of leading edge technology. We are now able to link our older systems together in a far more flexible way, rapidly increasing the speed of our development. The iPad – again which I will show you in a second – is just one example of this. In only a few months we were able to integrate core systems and data to provide a fantastic enabling device to all of our colleagues on board our aircraft.

We are also making changes in front of house. If you have been to Gatwick recently you will have seen we opened Zone A at Gatwick, which demonstrates our commitment to delivering a future airport and customer experience. Highlights at Gatwick include the ability to print off your self-bag tags at kiosks, bag drop podiums, automatic document checks and proactive flight rebooking. Since the opening of Gatwick the new terminal, which is less than a month old, we have issued 50,000 self-service bag tags.

Based on our efforts we were the first airline to win in the UK to achieve an IATA Gold Fast Travel award, so a lot of use of technology there. There are lots of things in progress to develop our future airport experience. We have really gone back to the drawing board on all of this; we are talking to our customers – what do they want? What helps us? The two come together in terms of delivering a superior customer experience.

That is at the airport. If we now look, briefly, in the air. In the air we are continuing to improve the dining experiencing in First and Club World and looking at our World Traveller Plus cabin. We have a look at the World Traveller Plus cabin, which includes a video touch screen that is 60% larger than the current screen, an even greater choice of movies, television and music, two USB ports and an RCA port, enabling you to use your own personal electronic devices with the inflight entertainment system and an in seat power socket to power your devices throughout the flight. At the same time on the 777-200 fleet you saw we are about to update that and we are in the process of refurbishing 14 of our 21 767 aircraft with new interiors.

I spoke earlier about our new First Class product, our flagship product and amongst other things we have here are seats that are 60% wider at the shoulder, your own wardrobe when you are on board, the first electronic blinds on board a commercial aircraft that spans two windows, a distinct lighting system which is designed to create subtlety of natural light throughout the day to help you feel more relaxed; a number of changes on the First Class product and you saw the results of the implementation of that earlier.

I talked earlier about the development of social media and the opportunities that gives for greater customer engagement. To give you an example, our recent ad has received more than 1.5 million views on YouTube and almost half a million Facebook and Twitter comments. Today we have over 170,000 followers on Twitter and 300,000 likes on Facebook; that may not include people in this room, but there is a generation there that are very keen to see social media. You can see how much it is growing within the airline.

Finally we have been trialling iPads and we have trialled it with 200 CSDs at the moment – Cabin Service Directors, and we are progressively going to be rolling it out to about 2,000 cabin crew. This allows quick and easy identification of passengers, executive club members and you will see everything, hopefully in a second, but we do recognise that the tools that you develop are only as good as the information that they carry and the use of that information for the customer. We therefore continue to have teams to develop new versions of the application; we are going to show you the latest version in a minute. This captures customer data for our cabin crew and allows them a much greater interaction with you, the customer. Hopefully we are going to show you here how it all works.

I am going to call on stage Warren Reeves, who is one of our CSDs. Warren I will let you introduce yourself and just talk about your experience.

[Ipad demo from Cabin Service Director]

You can see from Warren some of the passion that exists for providing our customers with great customer service. I believe that the internal culture of a company is integral to the way in which we approach our customers externally.

To that end we are engaging with our colleagues, with people like Warren to make sure we have a dialogue and what we need to do for our customers. It all comes together under our promise to fly, to serve. It is not a slogan, it is a promise. We are committed to that promise and we will continue to build on it going forward, with a certainty that we will face our future with the same certainty that we have had in the past. We have had the ad and a number of you will have seen the ad. I brought in Frank van der Post as Head of Customer Service and he is doing a fantastic job at British Airways and the ad, he was telling me, has been listed for a couple of major awards: it has been listed for the ITV Ad of the Year, one of them. The ad has gone down well and you saw some of the numbers earlier of how many people it has touched.

We will continue with future advertising and then we get into the Olympics. Our commitment to the London 2012 Games goes far beyond transport. We want to help create a legacy for the UK by supporting the regeneration of London, investing in the communities in Britain and supporting British talent. We are very proud to be the official airline partner of the London 2012 Olympic and Paralympic Games.

We are also supporting our athletes throughout the run-up to the Olympics. We are providing staff training, management and families with flights to help them on their way to London 2012, but it is not just about sports. We have also launched a programme which we call “Great Britains”, which is to support home grown talent in celebration of London 2012. This consists of a number of flight bursaries open to anyone who has a talent or a passion in a field that could be enhanced by having the opportunity to travel.

Finally, I wanted to mention social responsibility and being responsible for what we do. What does setting the standard for responsible aviation mean? It falls into three parts: safety and security, which will always lies at the heart of what we do in British Airways, reducing our environmental footprint, whether that is through emissions or through noise and working with the rest of the industry and the regulators of the industry to establish responsible regulation for the industry.

Finally here are the key elements of the British Airways business plan which the leadership team put together some months ago for a discussion and agreement with IAG. I have a team in place to build on the benefits that we have achieved over the last few years, whilst continuing to deliver improvements in the quality of the products and services which we provide. We believe that by building customer loyalty this will pay off in terms of profitability. That is the BA business plan.

I am now going to pass over to my great friend, Rafael, to talk about Iberia.

IB – Renewal under way

Rafael Sanchez-Lozano
(Chief Executive Officer, Iberia)

Thank you. Since I am one of the few native borns in this city, welcome to my city! It is my turn to talk about Iberia. I know you guys are tired, but be patient, this is the last long presentation we are going to make, so I hope it is worth it. I hope also that I don't bore you too much. As they say in Hollywood, boredom is the only thing that cannot be forgiven. I am going to talk about Iberia now.

What I want to talk about is what we are doing in Iberia to transform Iberia into a profitable carrier. I tend to say internally in my group that we want to be one of the most efficient network operators in Europe. That is what we deserve being and that is what we are going to be. That is the plan we have and that is what we are trying to do through the steps I am going to guide you through and try to explain to you how this is going to work.

Honestly we are not short of challenges. We are quite long, if I may say; I don't know if that is English, but that is the feeling you have as a manager. I would like to highlight three main challenges that we are trying to address and I will tell you how through the presentation today.

The first one you see on the left is the competitiveness of our long haul fleet and our long haul product. Our current product, if you get the business product it dates back to 2004, so it is still in the late stages of its life, our economy product dates back to 1999; I don't think there is any airline flying a product as old as we do on the long haul economy product. We need to fix all that. We solely fly with four engine planes long haul, which in the current high fuel environment is not the greatest idea that we can be doing here. That is the thing we need to fix in the long haul; I'll tell you why in a minute.

Our hub used to be pretty good, probably before the conflict – we weren't probably the best quality airline, but it wasn't bad – average there, willing to improve, but we could see a few guys from below there which gave us a lot of optimism that we could be doing better. It hasn't gone great thereafter: it isn't the best hub in connecting times, in not losing your luggage, in all the issues we operate in a hub and we are trying to fix and need to fix, especially in terms of functionality and service levels to our customers.

On the short and medium haul the big challenge we have is just that it isn't profitable and I believe the industry has transformed in Europe on how short haul is flied and we need to adjust and do a complete change to what we do.

Those are the challenges we are facing here. What are we trying to do to address those challenges?

I will explain it very simply: the long haul we are going to invest; in the hub we are going to fix and in the short haul we want to transform. That is what we are trying to do. Long haul we want to invest in fleet and product. We already took the decision to buy A330s back last spring. We are remodelling our long haul product – I will tell you in a minute – we are going to have the Premier shown in public of how it is going to look, so it is something new. That is what we are trying to do to address our long haul issues there which I will get into in a little more detail further.

In the hub we are trying to fix it. Not just to go back where we were, it is to be better than what we were there before all these issues around Madrid happened. In short haul, when we say “transform” is get a new model; plainly that is what we are trying to do. It is Iberia Express; you have heard about it. I know it is a trending topic of today and I am going to try to explain to you how that is going to work and what are we going to do there.

We are going to develop these three and we believe that the outcome of fixing this thing and addressing the three issues we are presenting here eventually is going to provide us a profitable, renewed, more modern and lead in our market. That is what we want to do in Iberia.

Not all of you are familiar with Iberia; there are quite a large amount of analysts, investor bases that are probably tracking BA quite thoroughly, but not as much as Iberia. This is basic – for those of you who know Iberia, say “I know this is tough”, but for those of you that don’t know it, it might give you a lot of insight of why those solutions we are taking and what we are trying to do.

Our long haul hub – what we call it, we call it a 90 degree hub. We only fly long haul in one direction; a little bit to the South as well, but really we just go to America and that has to do with our geography, that has to do with our cultural ties, that has to do with our experience, but all the advantages we have to go Westbound are disadvantages we have to go on the other side. As Robert has mentioned earlier today, trying to find ways to fix, and there are opportunities out there, but clearly the reality today is long haul is long haul Madrid to America. That is mostly what we do.

We do a little bit of Africa you have seen, we have our flights in Mexico, Puerto Rico and the States included as part of the JBA with American and British Airways; the rest we have six destinations in Central America, 13 in South America, out of which two are in joint business and one co-chair with LAN, which is our partner in that part of the world, so overall we have 21 destinations in Latin America; nobody does it better. Nobody does more in

Europe and we are the great hub connecting Europe to Latin America. That is our strength long haul. Why? Because we have the location – we are the closest to them, the shortest trip if you want to go to America from most places in Europe. We have the traffic flows – Madrid is the best destination in terms of direct traffic on most countries and most big cities in Latin America. There is only one exception – if you are in Brazil you would rather go to Lisbon: language and cultural ties explain that. All the rest, the first destination they come to in Europe in terms of flows, where they want to go, is Madrid. We have the culture and we speak the language, so it is pretty clear and it is pretty easy to understand why we are a very strong hub going to Latin America.

The disadvantage from this traffic is that we have low flows, and that we have to overpass any other carrier from any other European competitors. So, for London, we divert. We go to central Europe, but really almost through London as well, and that is why our long-haul traffic just goes in one direction. A big opportunity for us, which we are not addressing in the short-term, but which we are starting to think seriously about, is we have a unique opportunity to channel those flows of Latin American flows through Madrid to Asia, and there is a strong demand growing there. As Robert was mentioning today, you really just cannot do it from many destinations from the Middle East except for very few spot locations. The technology of our current planes does not allow you to fly further than that. You need to do it through Europe, and we have, at least on one leg, the highest traffic and the more established presence, so it is something that, for the future, I think would help.

Exactly the opposite situation is when we look at short-haul because we are in one corner of Europe. We only fly short-haul in one direction, and Northern Africa as well. We have also quite a strong presence out there. We have a strong presence in Spain, as you can see, and that includes the islands, which, in Spain, allow for a great deal of traffic from the Canaries and the Balearics. They are quite popular tourist destinations, and that allows for much traffic there. The farthest we go to is places like Moscow, Tel Aviv, Istanbul, Lagos, Equatorial Guinea and south – around five hour flights. On an A320, which are the type of planes we have, we are stretched to the limit to deliver this type of activity. Overall, it is 80 short-haul destinations that we cover. So, graphically, when I was telling you about the challenges we have it is very graphic. We put a ball on the left saying long-haul, and on the right, short-haul, and Madrid is in the middle. That is how we explain the type of business we do and how we do it.

In the past we have been restructuring and networking. If you take the last four years, we are more long-haul. We have increased our long-haul capabilities by 15% in the last four years. We are less short-haul. We have cut our short-haul traffic by 30%, and we have really balanced the airline towards what looks more like other large network carrier operators in Europe, like Air France and Lufthansa. We now look much more alike. Before, we were too biased over the short-haul. Now we are a more balanced type of company.

I mentioned the fleet change because when you do the analysis of our numbers you will find that the change in the stage length that all this has provided to us sometimes makes it difficult to understand how revenues and costs are evolving because that effects the numbers. Let me try to explain to you the three big projects we are going through, and how we are going to address those. Let me start with long-haul fleet and the product change.

Efficiency in the type of long-haul fleet we have is burdening our results, and we figured that out some time ago, even before the merger, and we tried to address that quickly. That is why we took the decision last spring to buy the A330s, what we call interim fleet. It is part of what Enrique was presenting this morning. It is interim fleet because we had an urgency to put things through pretty quickly, and those planes would start flowing to us in the first quarter of 2013, and it would take us something like 18 months or two years to deploy the whole amount of planes we have bought. We have bought eight. We have another eight options, but if we exercise it all, it would take around two years to do. We just could not wait five/six/seven years to get on board a new generation fleet to try to address these types of issues. Why? – because the difference in operating cost in a high fuel environment – as you can see, an example of what we are flying is the A340-300s – Airbus announced yesterday that they are not going to produce any more 340s because they have not had an order for the last two years. That tells you that this plane is not the right plane for this type of environment. We all dream about having the perfect fleet. You never get it. As the manager of an airline, you have at the most half of it that you like. That is about the balance we are trying to achieve. We are trying to address that very quickly. Let's have half that we like and we can live with.

If you look at the operating performance of the company and look at it just on operating profit, our operating profit this year would be over 100 million above what it is today if we were just having this fleet. That is the difference that the right fleet position enables you to have here, so we are trying to address it. It is already underway, and it is not just our fleet. This fleet suits us.

If you look at the yellow line, this is the range that the A330-300s, which are the ones we have bought and the ones we intend to use, would give us. Robert was mentioning this morning that we are more or less in the centre of the world from London, and Madrid is not that far away, to cover almost all parts of the world. Unfortunately, the most efficient, as far as you can get through, does not have that good a range. We have a few options that we can make our minds up on in the future, but still we have all the four engine fleet, and we will have it for many years, which would allow us to reach almost any destination, and our network, because we have the Atlantic there, needs to go quite far away. So we can address all our destinations with a new balance of fleet. We want to do it. It covers all our potential needs and it is going to be a very well balanced fleet for the type of work we need to do.

You saw this morning a lot of fleet flexibilities overall in IAG. Let me focus for a second just on Iberia. What we plan to do is use the flexibility. That is what flexibility is for. Why do you have it if you are not going to use it? What we are doing is taking the opportunity – this yellow block which, as you can see, is going to have three less planes, could eventually even be red if we need to make it that. We are going to retire the 340s as soon as it is feasible, and that is what we are doing. We are taking the opportunity of contracts expiring to get out of fleet that we do not need now and that does not fit well with our needs, especially at a time when the markets are not booming. It is not the best of times.

So that is what we are using flexibility for, but going forwards, which I wanted to show here, is once we have the 330s in place, we will grow. We would have flexibility to increase. We plan to increase fleet. As you can see, we will probably be five planes above what we are today in four years, and we will wait until we have a new interim fleet, the new A330s in place, to go and execute that growth because that is the only way we can do it profitably, and we clearly focus on the P&L and the bottom line. It is a must for us and a must for the group. That is what we trying to do. We would still keep flexibility to get even more planes if we wanted to, through extension of some of the contracts we have or through retiring more contracts and not exercising the options if we don't want to do it. That is the idea I wanted to communicate to you.

I told you you would see for the first time in public what our long-haul business product and our economy business product looked like. When you have the opportunity – and you do that around every eight to 10 years whenever you can afford to change your product – you go for state-of-the-art, and this is what we are doing. We call it commercially – and it is a commercial thing – Business Plus. I think today it is just Business, but I think we are moving again to Business Plus as it was a few years ago.

We are going to see this product with the new A330s coming in, as I told you, in the first quarter of 2013, and we are going to refurbish all our A340-600s, the largest ones, with the new product, which would take something like a two-year rollout to achieve it. What we are going to do is we have 10% more A340-600s, which that in itself adds to our business capacity by 10% in that we have exactly the same plane and with the same space – it is a magic trick how you can get those things fixed whenever you do it from scratch – we have, today, a longer bed. All seats would have aisle access. Privacy are something we do not value too much in Spain, but a lot of our European clients do like having some privacy and not having the guy sitting by them talking to them, which they have now, but we have some of those places also for the Spaniards who want to chat with their neighbour, so you will have both things! Personal storage, whatever you can think of, is going to be state-of-the-art, the best product available, and you will see it in around a year. So we are moving back again to something like a real business, and what is more important, which is probably much bigger in terms of the product we have in the long-haul, is Economy. I cannot call it Economy Plus because there is much confusion over what is this and how the tariff works, but the in same way I am explaining that we move Business to Business Plus, we are moving Economy to probably the best Economy you can fly long-haul from the day we put it there. That means that you will have personal in-flight entertainment with the flattest screen. The screen will look like an iPad, from what I have seen, in terms of quality. It is superb quality. You will have a better seat, more comfortable, more reclining, some personal storage capacity, very convenient seats, but also connectivity. You will have your own plug socket – bring your iPod, bring everything and we will plug you in and you will enjoy your own entertainment, if you do not like ours, which is going to be pretty good by the way. So that is really what we are going to try to do there, and see how it goes.

The second topic I wanted to talk to you about is developing Madrid as a world-class hub. We call it the hub project. We still do not have an official name. We have a working name, so I will not name it yet. There is hot competition in Europe, and Madrid currently is the fourth airport in Europe, so we have a hub which, as you have seen, has great infrastructure. You have gone through it today, all of you. Unless you ran very fast or did something weird, you have all gone through it, and it is a superb airport. So we need to convert it to a superb hub, which we have not been able to do lately, and that is what we are trying to do as part of the project. So we need service quality. As I told you, it is not bad but it is not the best. This project and the project to develop Madrid as a world-class hub really has three main goals in the next four years, and you will not have to wait four years to receive some of these benefits, which I will explain to you in a minute.

We want to be at arrival punctuality of 85%. We are going to focus more and more on how you do that, which is key to high performance. Punctuality gives you the virtuous circle. If you are on time, everything works fine. You do not lose your luggage. You have the right results. You do everything right, and that is key to have the hub flowing the right way. We are going to have reduced minimum connecting times by 10 minutes, which looks silly, but it is only a 20% improvement from what we today, so it is not that minor a figure.

We want to improve our customer experience. I don't know what basis Keith was using. We use customer satisfaction scales, 0-10, in our own internal metrics. That 0.8 means a 12% improvement, and we are high enough to say that is really difficult.

So when you look at those numbers, it might not tell you very much. Those are, according to the numbers we have and how we compare, the performance that the best operators in any hub network in Europe have today. That is where we want to be in four years. I do not know what the standards will be in four years, but if we achieve it all in four years, we will clearly be, if not the best hub in Europe, at least one of the best, and that is what we are trying to do here.

This has a great deal of impact. As you can see there, the highest impact has to do with asset turn. As I was telling you, punctuality and turnaround times are key to have less resources attached to what you are doing. You reduce connecting time. You reduce interruptions and you achieve more benefit. It is quite easy. The business is not that difficult to run. It is difficult to do it, but the way to understand it is not very difficult, and then you have a great deal of margin improvement as part of this. You will have more revenue as it attracts more clients. If you are a good connecting airport, many business people like to go through you, and you sense that, and also you save a great deal of cost in disruptions, in the luggage that you don't lose, in all the problems that inefficiency creates, which are quite significant. So punctuality is key and also disruption and the minimum connecting times. That is the virtuous circle we want to engage in.

The plan, the way we look at it today, has five pillars. It is more than five pillars. It is 18 programmes and 150 initiatives that need to take place within that time horizon. The main pillar that you see there is punctuality. That is key. If we do not improve that, very few other things work. We are going to improve the customer experience as part of that, probably not as detailed or as first-class as Keith has explained to us, but clearly you will sense that experience as part of the process and our offering. We are going to optimise the use of the hub resources as part of the project. 'Passion for excellence' – I love that. We are really going to transmit change to the mentality and attitude of the people working in the hub to make it happen. That is really a major change. It is one of the things that is going to take longest, to be able to finalise it and get it through. Then we are aiming at having a visible change so that you and the guys that go through the terminal will sense that this has changed. It is part of what we are trying to do – making the hub work.

We have done a great deal of analysis around it, and getting the hub fixed is a facilitator for over 100 million of P&L for this company. That is what we intend to do in the four year horizon. We have talked about how a little more than half of it has to do with the higher revenues that channel through your hub, and the other 45% has to do with the cost you save as part of not having disruptions as part of it. Approximately 70% of all the benefits of the project would be done by the end of 2013. We don't need to wait for years to see the benefits. Much of it should be flowing within the next two years. As we said previously, it should be visible to you. That is what we are trying to do there.

Two other things, related to Madrid Airport, which affect us; one of them has to do with obtaining new offices for Iberia. We are scattered all around. That is a complexity and it is costly for us, and we finally decided that we are going to put everybody together in one site, close to the airport, which we intend to do probably by the end of 2014. As you know, when you try to do these projects you target a quarter, and probably we will skip one or two quarters because real estate is never on time. It is even worse than airlines, but that is really the target we are looking at. We will have it done by 2014. That means we will save 13 million a year from what we are spending today just by doing this project. It will also have an additional effect of changing the working environment and the interaction between the people. I have told some of my colleagues in sales, I spend an hour and a half on the road every day going from one site to another. That is a saving that you can make by bringing all that together.

Another project, which Robert also briefly mentioned, and which started in Iberia and now will be run as part of the global cargo group, is we are building a new cargo terminal, and that is on its way. I am not sure how clear that is. You can see that currently the old cargo terminal, which is a place around here, is saturated. We cannot operate. We need to move to the new satellite. Currently we have to move the cargo pallet at least 10 km and move it across the roads in the airport to bring it to the plane. We are going to change those 10 km to three. We are going to almost double the current capacity we have in Madrid, which is already saturated, and which we hope is going to be a great success, building on the cargo capacity Robert was mentioning before in terms of the link London-Madrid and the capacity to do it. We need that in order to make sure that we can exploit all the cargo opportunities we have. With centralising the offices and the cargo terminal, we will complete and secure Madrid as the airport, the hub that allows us to do all the things we want to do long-term here.

Andrew told me all this is very expensive with a great deal of expectations. I hope I am not deceiving you in any way. What we are trying to do in Iberia Express is a short-haul model and the rationale behind it is that Madrid has excellent facilities, as you saw before. As an airport, it is not saturated. There is no alternative airport in Madrid. There is no airport within a two-hour drive from it. This is the only one. So really we are all there. Don't tell me what is going on with Ryan Air, easyJet – I know them all. I talk to them. They are in the same airport, and we compete face-to-face with them. We know all the tricks and we know how they behave, and they know ours as well. We are not that easy people to compete with. We are doing this also in a large market.

So what has happened is that LCC, as part of that, have entered strongly. As we saw before, this is one of the markets which has highest penetration and clearly at a pace which is the highest at this moment in Europe for low-cost carriers. So what we cannot do is ignore this competition and we cannot compete against it with our previous arms. We are really not competitive to fight it, but that is not the only problem we have.

We have a high-speed train being developed in Spain and, for us, the challenge is that it is being developed with a centre in Madrid. So we are just in the centre of the network of the high-speed train. With current financial difficulties of all the governments, including ours, I am not sure what the pace of development of that is, but the high-speed train will come sooner or later, and whenever you have a high-speed train on the route – and we have much experience dating back to 1992, I believe, when the Madrid-Seville high-speed network railway was put in place – what happens is that people prefer to go on a train. They do not care that when you land you are going at a lesser speed than the speed of the train. They just feel more comfortable about it. They think it is safer. I don't know if that is true or not but, clearly, it is a psychological effect. So whenever you have a high-speed train on the route, they really eat your route. That is what happens, and we are going to see this increasing development over our network. So what we are trying to do is join them to beat them, and that is the big effort we are making to try and go there. Why don't we take the high-speed train to Terminal 4? I don't think we will see that on the horizon over the next few years, but we are working hard. We believe it makes sense to get that moving, and that is also something we are trying to pursue.

One of the things we have, as we saw at the beginning with the places, we need short-haul. Madrid is a 70% connecting airport. If you take all the long-haul people who come here, 70% go somewhere else; domestically or abroad. They don't stay in Madrid, so there is a need for short-haul. We cannot just cut it as we have done in the past, and to make things worse, they fly to many places. It is not concentrated. It is not that we can get four or five routes, and 70% of it fixed, and we can live with it. We need to fly to quite a few places. So that is why we thought there is no way to escape that. We need a short-haul model.

We also looked at how our hub compares to the hubs of Air France-KLM or Lufthansa in Munich, and if you can go through the analysis and you have all the numbers there, if you compare those hubs, we have a reasonable domestic operation. We operate in five windows, as you saw earlier today, against five/six depending on which airport. We also have, on the domestic side, some good destinations; the islands. Normally we have quite a few places to go to. We are slightly lower on frequencies, but it is not bad for the domestic arena we are playing in. On the European side what we have is a little short on what other hubs have, which has to do also with our geographic position. If you are in the centre, you have to fly everywhere. If you are in one corner, there are places you do not have to go to. So if you take that we have similar frequencies now. We probably have 50% of the destinations that other central European hubs have too. So there is no way can cut further our short-haul. If we could, then we would be competitive. We would even have to increase it a little bit.

This is what we said when we did the press release about Iberia Express. This is the model. This is what we are thing to do. We said it is going to be 100% subsidiary of Iberia. It will have its own management, single fleet, initially provided from Iberia, starting with the summer season – that means, I believe, 25 March, but correct me if I am wrong – with four planes moving to 13 by the end of the year. Five hundred people are needed by the end of the next year, and initial MRO handling provided by Iberia. This is what we have said. A little more?

We are going to have an external CEO who is not within the current Iberia management. That is what we are trying to hire in the market today. We have identified candidates and we are in the process of trying to recruit some. We want to move fast because 25 March comes very quickly, so we need someone in place quickly to get the team and get everything moving. In the meantime, Iberia is developing the project and getting it through. Just today we asked the Spanish authorities officially for an AOC. We have experience in Iberia. We created Clickair four years ago, so people have not forgotten how you set up a new airline or how you go through the process. We are taking the lead so we do not need to wait until the management is sorted, but we hope that we have a manager who can take over from us as soon as feasible.

The manager of the company will be responsible for his P&L, his revenues and his expenses with very few conditions, as you will see. He would have to manage both sides of the situation. We are trying to get limited interference from Iberia, but very coordinated with them, and it would ensure that the governance is first class and would allow them to properly run the company, as has been the case in IAG and all its subsidiaries. This is not going to be an exception. So we have not finished there yet, but we will have a strong governance to make sure we comply with this.

It is not low cost, we would say. What are the two features that are really different? Clearly, it will have Business Class. We want to keep it. We have a curtain, which is quite new for low cost. It will have a product defined for the Business side and for Economy. It will be different from what we offer today in Business Class. It will be different from what we offer today in Economy Class because we are learning from what our competitors are doing in the low-cost area. We have the opportunity of designing this from scratch, and we are taking the opportunity from all that we know about it to come up with the most efficient carrier operating in Spain that we can make, but it is a carrier that is going to link its network to Iberia with the sole base in Madrid. Iberia will ask for destinations and windows the airline needs to fly and the company will feed Iberia group connectivity requirements. It would have to come within the window horizon so that we ensure the connectivity is done, but the operational planning will depend on the company which would aim at optimising its cost base, and they could even do more with the planes if they find a way to do it.

Clearly, the goal for creating this is to ensure the connectivity and that we are efficient in that connectivity. They will have the freedom to operate farther if they wish to. It will sell its products through its own website; point-to-point destinations. Iberia will coach with them and will offer different origin destinations for long-haul availability in the short-haul. That is how we intend to overlap both things. Iberia will deal with all the revenue management. The company will do its own point-to-point revenue management dealing with its own revenue needs. It will be a coordinated revenue management with Iberia. It will have its own brand. We need it to be close to Iberia and, as you have heard today, it is called Iberia Express. We still have time to change it, and we are doing some tests. I doubt we would change it at this moment, but that could even be changed in the future if we need to. There will be just one fleet – hopefully one configuration if we can do it. It will hire its own crews at market rate. What is market rate? Market rate is what can be done in Spain for short-haul. It is as simple as that. So there are many pilots willing to join. The first day we announced this, that same evening I had three phone calls from pilots asking to move there, so there is really a fair amount of excitement locally about getting into the company.

The first maintenance and handling contract will performed by Iberia at market prices. We will make sure, and that is part of the governance, we are not passing on any inefficiencies Iberia might have to the company. That is key to ensure that this is profitable and this remains as lean as it should in the future, and that is really our aim and the relevance of it. It is not going to be a small airline. We have said it would be 13 planes at the end of the first year, and roughly it is going to be 40 in four years' time. That is about the space; roughly ten planes a year, not every year, it depends on the needs and the situation, but that is how fast they can replace existing Iberia routes in the future. That does not mean that we do not rule out that they might do other routes we are not doing. They might have other resources, but so far, we are trying to do what we do today in a much more efficient way.

Why are we taking on this project? This implies for us more than €100 million a year. That is why we are going through all the hassle of creating a new airline here, and if you look at where that saving comes from, almost 50% of it has to do with it hiring crews at current rates, not just hiring crews, but hiring crews in the working environment that allows the flexibility of operation that would lead you round the company much more efficiently. We also have a great deal of potential savings in terms of defining the product and simplifying the handling and simplifying the maintenance of this company, and we will certainly have savings from overheads, and some revenues in terms of ancillaries and some products we can save through it. So it is not just about cost. We also believe there is some revenue potential.

I have been asked this question many times so I will address it before we come to it. We will keep the relationship with both Air Nostrum and Vueling. Air Nostrum flies mostly low density routes. It is difficult to get an A320, not even an A319, on many of the routes Air Nostrum does, so we need them, and we like to keep a relationship with them. That is most of what they do for us, and we believe there is a role for them to play in that. In terms of Vueling, Vueling is a Barcelona-based low-cost. We do not want to change the model. They are very efficient and are doing very well. They are making money, which is quite unique these days in this industry in short-haul, and we believe that we do not want to change what they do and keep on doing. They are opening now a base in Orly, I believe, and they keep on growing, and they will grow and they will develop. Now they are good friends of ours, not just because we have an ownership relationship with them but, operationally, we learn a great deal from each other, and we will keep doing that in the future.

Other projects for the year; what is happening. We will update our brand in the next year. We have not announced what it is going to be like, but it something that will take place next year. There are two reasons we are doing this. Firstly, this is the longest standing brand in Europe which has not been changed since 1970. It is becoming a vintage classic so I am wondering if we should change it, but it is also a little old, if I may say so, and we need to update that. It is a little out-dated in spite of the nostalgic defenders of it. I want to use it as a catalyst for change. It is not just for the sake of changing. Updating the brand is an expensive exercise, but I think at some stage we are going to tell the market and we are going to tell our employees and they are going to commit that it is a real change we are going through and that we are going to do it, and it is going to be a different Iberia. It is going to be a modern Iberia, and that is why we want to take the opportunity. It is a real commitment from the employees and to the public that we are new, and that we have changed, and it is coming. That is how we want to use this process, not just for the sake of changing.

Within this passion for excellence you saw in the hub project, we are changing Iberia to a much more modern organisation, which is also linked to the brand change I was telling you about before. We are going to do that through three pillars; organisation effectiveness. We are benchmarking our organisation. In the last two years we have reduced our management ranks and costs by 20%, so we want to be efficient. We want to be as efficient and we benchmark ourselves against the best practices in the industry. This all has a great deal to do with human capital. We want to attract, retain and develop the best possible people. We need them. Somehow there is a generation change in Iberia. All of us are getting slightly old, so we need a new generation to come and take office and do the new things with the new Iberia which are going to take place in the future, a few years from now. As I said, the modern organisation within the new offices and revamped brand with a strong energy, I believe, would give us a high dose of self-esteem, which is what we want. That is what we are trying to do with the exercise of creating the modern organisation.

I cannot avoid talking about the fact that we want to be a socially responsible organisation. Keith managed before about safety. We have put here a few environmental issues we are going through. The industry is firmly committed to improve its environmental effectiveness, and we are certainly going to be part of that. As I said at the beginning, we have always been, and we will try to be, a responsible organisation. So the plan for the next few years is that we build that proper fan that Keith mentioned for BA. We put it in a much less exciting way. We don't run the i-pad presentations, so it is much less exciting, but this is really our equivalent to what they have done – these blocks, and you can see the yellow blocks are grey here now. It was yellow on my original page. The grey ones are to do with the business; the long-haul, the short-haul, what we need to do with the cargo to improve the maintenance contribution and the handling contribution, and across that, there is some cross-section we are doing, which I have referred to briefly. I have not referred to it, but the one up there, we put at the bottom of it on purpose 'deliver the synergies'. We are strongly committed to that, but also with getting the new brand on the right, it is improving quality and customer service for the hub changes and building a more modern organisation. That is how we wrap it all and how we do it.

So the end is near; a little patience. I am almost done. Where do we stand on industrial relations? That is another question you are going to ask, so let me try to ward the question off if I may. Ground staff have signed the same agreement as the cabin crew back in 2010, which is valid until December 2012, so we already have a collective bargaining agreement that will get us through the rest of the year and next year. As part of that, we had already anticipated the possibility that we could create Iberia Express, as we have done. So life is pretty settled there. It works and I do not expect major problems in that part. We signed an agreement with the pilots back in 2009. It ended in December 2009. It has been under what we call legal extension of the contract, and that is how it is moving. We had very lengthy negotiations with the pilots for a long time and, clearly, at some stage we decided that we could wait no longer and that we would create Iberia Express as a separate entity. In the meantime, they have expressed publicly they are not happy with the idea despite, as we have said, there are no job losses, no payroll cuts, no change in labour conditions. They have so far told us that they might sue us, but have not done so yet. They have told us that they might start a legal strike, but have not done it yet, and it is clear that they are not in the best mood of cooperating in our day-to-day activities, but so far that is all I can tell you because we have a project we are moving forwards on. We are trying to renegotiate to get a labour agreement signed. It is clear that any new agreement would have been to be done on the basis that Iberia Express is being launched in March next year. That is the current situation for labour relations.

So when you look at themes which are going to happen around Iberia next year, you will hear about us launching Iberia Express, as I have said, for the summer season. We will be reshaping the long-haul network a little bit with another three planes we have decided that we are going to cut back. We are adjusting that a little, and decreasing capacity in the long-haul, which we intend to do. You will hear about the hub project and how that is developing. I believe it has started this week. We will modernise the brand some time, I hope, next year, and we will deliver the synergies. That is what you can expect from Iberia. So what I have told you now today as part of this, and ideas I want you to focus on is that we have three projects and any one of those can create above 100 million of P&L for us. It is not going to be done in one year, but eventually we are going to deliver those three projects. The fleet renewal and the new product should help us; 100 million, the hub project, Iberia Express and the synergies on top of that, which we have talked about. So in the medium-term we aim at being a profitable, a modern and renewed organisation leading in our markets. I will now pass on to Willie to make the final comments. Thank you.

Close and Q&A

Willie Walsh
Chief Executive, IAG

Thanks, Rafael. Good afternoon, everybody. Those of you who started reading the book from the back will realise I don't have any slides, so the formal presentation is over. I am just going to repeat one slide that you saw earlier today, and that was the first slide that Enrique showed you when he stood up to give you the financial targets for 2015, so if we can put that slide up again, please. What Enrique said was we are going to use earnings per share as an investor friendly primary metric to measure the performance of the business. We want to make sure that everybody working in IAG and in the operating companies are focused on delivering an efficient operation for the benefit of everybody, but particularly for the benefit of our shareholders. That earnings per share fully diluted EPS 2015 at 50 cent implies an operating profit of €1.5 billion, 12% return on capital employed. What he didn't say was that is based on a fuel cost of $120 per barrel. So what we are saying here is that we believe this is a business that can deliver proper returns at a structural shift in the oil price relative to previous peaks that we talked about to $120 per barrel.

In the presentations, we were pleased to announce that we are improving and raising the synergy target for the business up to €500 million. Ignacio's presentation focused on cost. He very cleverly used the word 'probably' on a number of observations. In my dictionary that means 'definitely', so we are saying from 250 to 270. We believe that there is more to be achieved. We believe that if we can get the IT part of the business structured correctly, there is a great opportunity for us. We are pleased we delayed the IT programme while we were recruiting Nigel. I think it is important to have in the business somebody who has gone through this before, who knows what needs to be done to integrate businesses and drive towards a single platform that is genuinely scalable and that can be used for future acquisitions to derive even greater benefits. Nigel has done one thing that I thought was impossible, he has united the IT teams in both BA and Iberia. At the moment that is united against him, but it is clear that he is doing something that is right for the business, and that is what we wanted. We wanted someone who came from outside of the airline business who could challenge us in a sensible way to look at different ways of using technology to derive even greater benefits for the business.

On the revenue side, we have increased our targets, and Robert took you through what we are hoping to do there, and in the presentation that Drew gave you he also showed how we are confident that these are real synergies so the model we use to test whether this is genuine synergy-driven revenues, and we are clear that that is the case. We are pleased with the initial progress that we have made. In Robert's presentation he gave you a good insight into the strengths and opportunities of the IAG network. It is clear that we have some key strengths, which we intend to build on, and it is equally true that there are gaps in our global network that we see as an opportunity, and that is an opportunity that we will focus on. We felt it was useful for you to get a greater insight from Drew specifically into the running of BA but, clearly, a great deal of the issues that BA witness today are similar to the issues that Rafael and his team are seeing in Iberia, but particularly to give some comfort around the exposure we have to various segments in the premium market, to give you a better feel for how much revenue derives from premium travel and from corporate deals because I think there was a feeling in the market, which we had picked up, that we had a significant element of our revenue within the corporate sector. So I think when you look at the presentations you should today have a better feel for the strengths, the opportunities, the exposures we have, and particularly the strengths, and opportunities and exposure relative to our two big European comparators, Lufthansa and Air France-KLM.

We are absolutely clear that the future of this business is dependent on us delivering the synergies that we have promised and looking for opportunities to deliver even greater synergies but, importantly, to continue the work that has been going on in both of the operating companies to date to deliver improvement in their efficiency. This is not just about getting improvements through synergies. It is about the combination in improving performance within BA and improving performance within Iberia combined with the real revenue synergies, core synergies that we have as a group. We are confident that by delivering all of that together we can overcome the challenge of a significant oil price, and we can drive this business to deliver sensible returns for the benefit of all of our shareholders.

We are slightly overrunning in terms of time, so I am going to invite Enrique to the stage with me and move into the Q&A session because I know many of you have questions. I would say at the outset there is not a great deal that I can say in relation to BMI. I am happy to address any general questions you may have in relation to BMI but, clearly, because of where we are in the process, I need to be sensitive to a number of issues, so I may not be able to answer all of the questions you might have in relation to BMI, but we are ready to take any of your questions. We have two microphones. If you could, if you wouldn't mind, just introduce yourself and the organisation you are from, and if you can wait for the microphone so everyone can hear you.

Questions and Answers

Geoff van Klaveren (Deutsche Bank): Good morning. Two questions please. First of all, you mentioned growing in Asia, do you feel the need to set up a jet style type subsidiary in order to compete effectively if you were to grow into that market, and the second question is in terms of fixing the Madrid hub, how much were the issues to do with air traffic control issues and what can you do about those?

Willie Walsh: In relation to Asia, we look at Asia and see a market that is growing at a very significant rate. Our primary focus is on tapping into the growth that exists from Asia into Europe and from Asia over Europe into North and South America primarily, and we believe that there is plenty of growth and opportunity there for us to focus on rather than looking at the need of trying to do something at this stage within Asia. We think it is very early days there. We are watching very carefully what others are doing. We are watching to see whether they can make a success of that. We are talking closely to our alliance partners to understand what opportunities they see within Asia but, at this stage, we do not believe it would be appropriate for us to look at tapping into the intra-Asian growth. We are better focused in trying to tap into the huge growth that is going to exist from Asia into Europe and from Asia over Europe into North and South America. That is why we believe that there is a great opportunity for us there. We do not have a significant profile in those markets today, but we believe we can access that and we can do so in a profitable way.

In relation to Madrid, yes, air traffic control is a part of that. I think it is fair to say that the ATC environment is improving. It is still not where it needs to be, but it has improved in recent months and we are convinced, again, that that is a problem that can be fixed over time, and will help to transform the overall operation of the Madrid hub, but as you have seen from what we have been able to do at Heathrow, Heathrow has genuinely been transformed from a poor transfer project in particular, but a poor hub operation into one of the better hub operations, not just in Europe, but certainly globally as well. So we believe Madrid can be fixed. It requires a combination of internal and external fixing. On balance, at this stage, there is probably more for us to do internally than there is externally. We are going to be focused very clearly on the issues and initiatives that Rafael highlighted to you.

Jarrod Castle (UBS): Just on the EPS target, could you just give a bit of colour between rough split, if you can, between British Airways and Iberia, indeed, on Iberia, and obviously speaking about profitability by 2015, is there any kind of potential margin target you could flesh out at this stage? Thirdly, the dividend policy, clearly you have quite a big capex programme ahead. Do you have any thoughts in terms of potential pay-off ratios assuming profitability continues post 2015?

Enrique Dupuy: In terms of earnings per share, what we have to tell you is we are only going to have a group of shares that is going to be listed in the market, which are going to be the IAG shares. So that is a target. We will basically be focused on IAG shares.

In terms of return on capital employed, of course, that is a target that can be more easily split on the different business units, and what I will tell you is that there is a high level of convergence in the targets that we have set for both operational companies, so the two of them are very much in the range of the 12% that we have mentioned.

Willie Walsh: On the dividend, the Chairman mentioned what we had put in the registration document this morning. I think in the short term we are clear that BA, certainly under the agreement that was reached with the trustees of the pension scheme, will not pay a dividend until after the next triennial review. As Keith says, that starts next year, but has to be complete by the middle of 2013, but the determination of the group is to get to a position whereby we can pay a dividend, and a dividend that will be appropriate. I think that is work that the Board will be doing in due course. We have not spent much time discussing it. That is not because we are not focused on it. We are, but it is clear that under the arrangements we put in place with the pension trustees in BA, that the BA side of the business would not be paying a dividend, and whilst there is no restriction on the Iberia side of the business, we felt in the short-term it would possibly be seen as an overly sensitive issue; one side of the business was and the other side wasn't, so we do keep it under review. It is something the Board will discuss, but I think the Chairman in his opening remarks made it clear that the objective is to reach a position to pay a dividend, and one that is appropriate to the circumstances that the industry is in, but we are driving it towards a healthy level of returns, I would describe it, in a challenging environment, and we will update people when appropriate in relation to dividend policy.

Penelope Butcher (Morgan Stanley): I have two questions. The first, coming back to the financial targets, is in terms of the 1.5 billion target at EBIT, could you give an idea of what expectation you would have then for cash flow in that year or, in the five-year period, what kind of generation of free cash flow you are expecting from those targets? The second question is coming back to the alliance groups, I guess there is a bit of a perception out there that **one**world has some financially unhealthy members at the moment. Kingfisher was in the news today speculating its future. Are you concerned that some of the key members in key countries are perhaps not where they should be in financial terms, and is there anything that IAG can do to improve that situation?

Willie Walsh: I will address the second one, and Enrique can talk about the cash flow. We used to highlight **one**world as being the only alliance that was profitable and without any members in Chapter 11, we stopped doing that, but when are trying to set ourselves apart from the other alliances, that was one of the issues that did set us apart. The reality of it was that the weak financial position of the member carriers of the other two alliances did not do anything to inhibit their progress, did not do anything to hold them back, and what we have realised is that whilst that is clearly an important goal for us as individual carriers, and one that we were always proud of, we do not see it as being a major hurdle for the alliance. Alliance membership is important to us. We get good traffic flows from our alliance partners. In fact, the way the world has developed in recent years, I would not say it is exclusive flow from alliance partner to alliance partner, but it is largely the case that your transfer customers come from your alliance partners, if not from within your own organisation, so being part of the alliance will always be important to us, but we are not in any way concerned about the situation that a number of our partners find themselves in. In many cases, it can be temporary. In other cases we have seen people go through significant restructuring, and operate in a perfectly normal fashion while they have done that, but looking at the experience of the other alliances, it has not in any way inhibited them, so we are not concerned at this stage.

Enrique Dupuy: We did not want to be so explicit. Sorry for that. What we can say is the range of the operating cash flow generated by the group in the year 2015 will be between €2 and 3 billion.

Peter Hyde (Liberum Capital): Firstly, just back to financials again; do you think you can get asset turn up with the existing fleet on the kind of existing network or is it much more to do with the fleet replacement programme and therefore going to roll out over, let’s say, three to four years or can you actually get your asset utilisation up now? Second question, I will be interested in any comments you have on LATAM and what might happen there, why you might make an attractive alliance partner for them, and then finally, just to explore return on capital employed, short-haul versus long-haul, parts of the network versus other parts of the network, are you very keen to see the whole business as – can I call it one network – or do you think you will be looking more at different parts of the network and challenging them to get the 12% return on capital?

Enrique Dupuy: Of course, beginning with the last one, we record the business network as a single network. So the efforts that we may make internally to allocate revenues and losses to different parts of our network are only artificial, so we really follow the profitability and the returns on capital employed on the whole of our network.

In terms of the asset turn improvement, of course it is a huge effort to achieve the very ambitious target in improving the revenues on the value of the assets that we will be using. As we have shown in the chart, the levels are very different. They have to do with, of course, the use of the fleet. They have to do with daily utilisation of those aircraft. They have to do with densification of the aircraft. They have to do with load factors. It has to do with yield, and the way we play with direct flights, direct passengers and connecting passengers. It has to do even with ancillary revenues, so it is a complex and complete combination of factors that should enable through time, of course, to achieve these asset turn improvements that we are looking to.

Willie Walsh: And I think one of the advantages of IAG is that the operating companies are targeted with improving asset turn, but equally then we are able to look at what both are doing, challenge them to see whether there is opportunity to improve it so another pair of eyes looking at the problem or the opportunity, I think is one of the key strengths that we have at the moment, so asset turn is one of the issues that BA individually looked at within a small group of people, but it is something that, from an IAG point of view, we are spending a great deal more time trying to understand the differences between our achievements and our competitors, what it is we can do better, where it is we are leading and constantly looking to improve the performance of the business that way.

In terms of LATAM, we are not taking anything for granted. We believe that from a LAN point of view, they understand the significant benefits that they receive from the **one**world alliance. We believe that the Miami hub and the Madrid hub are both important to LAN and, clearly, Miami is a **one**world hub; a good service from BA, Iberia and American Airlines, and Madrid is a **one**world hub with Iberia, BA and American Airlines present there, but it is primarily the strength of Iberia in Madrid. We believe that anything that TAM can achieve through the Star Alliance can be replicated by the **one**world alliance, so we are convinced that we can make a very strong argument to retain LAN and attract TAM, the LATAM group, into the **one**world alliance. So it is fair to say that they will be looking at opportunities to see can they extract greater value out of **one**world. Equally, we will be looking to see what additional value we can extract from a LATAM combination in **one**world, and I believe it would be an attractive proposition for both the existing **one**world members, but also for LATAM so we will continue to focus on this. I think the ruling of the competition regulator in Chile was helpful in that it has forced them to focus on one alliance after the other rather than as some people felt, that they might keep the carriers separated, one in **one**world, one in Star for a while. So, as I said, we are not taking anything for granted, but we have a very good relationship with LAN. Their relationship with American Airlines is also very important, and a combination of those relationships make us feel confident that LATAM can be a very successful carrier within **one**world.

Dave Fintzen (Barclays Capital): Two questions from me. First, on your 2.5% growth outlook, any sense of how that might sit relative to the rest of the industry, and how much comfort do you have that the industry might try to take advantage of that level of growth? Secondly, just on Iberia and the labour relations. I am thinking a little big beyond just the pilots. How is the IAG structure changed the relationship there and the fact that you don't get a quarterly result, does that take some of the urgency out of maybe employees embracing some of this change?

Willie Walsh: I will allow Rafael to comment on that. My own view is that it doesn't really. The quarterly performance of IAG is reported. It is clear that at this stage, BA is performing stronger than Iberia. As the Chairman said at the beginning, they are at different stages in the transformation having coming through the challenges of 2008 and 2009, but Rafael might want to say something specific here.

Rafael Sanchez-Lozano: The fact that we had published quarterly results makes no real change on the focus of the unions within Iberia. We have monthly P&L, and we had it before, and we talk to them on a lot of day-to-day issues which have to do with that, and more strategic ones, which are the same ones. It doesn't matter if we were recorded on our own, that we are part of IAG. I don't think it makes any change. We talk about the same things before and after the merger – honestly!

Willie Walsh: In relation to capacity – and Enrique can comment on this as well – I think we have set ourselves a fairly modest capacity target growth for the period. We have been much more realistic in terms of capacity-planning than many of our competitors. You can gauge that from the number of adjustments that some of our major competitors have made in recent months as they have scaled back their growth plans quite significantly. We are very targeted in terms of where we are focusing capacity. We are focusing capacity where we believe there is a real opportunity for profitable growth for us. We are not looking to spread ourselves across the world. We are not trying to be the biggest group in the world. We are very careful in focusing on key cities where we believe there is long-term sustainable growth, and that is the way we are going to look at capacity.

One of the key benefits we have is flexibility. We have demonstrated that. As Rafael said, what is the point of having flexibility if you don't use it. The reduction in the Iberia long-haul fleet is a great example of how we will utilise the flexibility that we have to adjust our capacity to suit the conditions that we see in the market, and the 2.5% that we are targeting for 2012, that can be adjusted very, very quickly. More than any other carrier or combination, we learnt how to adjust capacity, how to do it, when to do it, what is the best way in terms of revenue outcome, profitability outcome versus capacity management, and that was one of the things we learned in 2008, and particularly the actions we took in the fourth quarter of 2008, where we managed capacity very well, but probably gave away a bit of revenue. In fact, based on what we have seen since there, we potentially gave away quite a bit of revenue, so this time around, capacity adjustments will not just be around matching the perceived capacity to the demand. It will also take into account how we can maximise our revenue in doing that.

I think we have learned some really valuable lessons, lessons that we can put into effect if we need to adjust capacity. The good news is, as we have demonstrated previously, that we can adjust capacity very quickly. We are very comfortable at this stage, we don't think that we are creating any competitive advantage or disadvantage relative to our major competitors other than we believe we can respond more quickly and probably more sensibly to maximise the revenue than some of our competitors, because I don't think they have had the same experience as us back in 2008/2009.

Mudi Sota (Mitsubishi UFJ Trust): My question has to do with the financing and the fleet plans that you mentioned. At IAG level, you have clearly specified all the guidelines and what the strategy is, which I understand. My question really has to do with the practicality of it at IAG level. Obviously these things have been said, the operating companies operate obviously independently, have separate financial profiles, which will attract different types of financing and independently, how that will tie into what IAG are doing. Likewise on the fleet side: Airbus and Boeing, I am sure, have confidential agreements with the independent airlines, and how that at an IAG level will be in terms of the practicality of resolving that so that there aren't any clashes or issues with that.

I just wanted to understand how that will practically be harmonised.

Enrique Dupuy: As you know, investment plans, fleet plans in the case of Iberia, will be very much related to the A330 internal fleet, as we call them. Basically, that is going to require a financial solution that will be very much related to asset value guarantees, to essentially corporate leases, to financial solutions that we have applied in the past, and probably will apply again this time. That is a clear path, and a clear way and I would say a solution in the case of Iberia.

In the case of British Airways, you know that for the time being, British Airways has in place a very powerful financial tool, which is the so-called MOF, which British Airways has used in the past, and will continue using for the next deliveries probably until the end of the year 2013. Then we will be using other financial tools that we are now working on, and that probably will be supported on the British Airways balance sheet. That is how we are facing these financial challenges today. We will basically maintain flexibility, depending on how the financial markets evolve from now for the next couple of years. We may be using again capital markets liabilities type of transactions as we have done in the past, or banking markets, more typical Japanese operating leases and financial leases.

We have a broad scope of opportunities and alternatives that we are now analysing, and that we will be using to optimise the whole scheme.

Willie Walsh: In addition to the manufacturers' airframe engine, I think the combination has been a real positive for us. A couple of simple things. There is no question that both Boeing and Airbus were very keen to win the interim order for Iberia because they saw that as the first IAG decision, so we had great engagement from Boeing and Airbus. More importantly, we had great engagement from the engine manufacturers. It is probably no secret, BA has sometimes struggled to engage with GE on engines, because I think there was a perception within GE that BA was automatically a Rolls Royce customer. We have a lot of Rolls engines, but we have GE engines as well, so we have been able to overcome any of these perceived barriers to doing business with the different manufacturers, so we had excellent engagement right across the board from engine and airframe manufacturers, and I would expect that to be the case going forward. It is very clear to us that the combination and creation of IAG has improved our negotiating position with the manufacturers, and that is something that was very evident to us as we went through the order for the engines for Iberia.

I think it is good news for the Group. There is clearly an opportunity for others joining the Group. We think this is where scale makes a difference, and we are looking forward to engaging with all the relevant manufacturers for the next stage of long haul fleet replacement, potential fleet growth, which we will be doing in the very near future.

Douglas McNeill (Charles Stanley): Willie, just thinking about the future at Heathrow where your room to grow is pretty limited, would you expect locally originating demand in that market to grow more quickly than the capacity growth you can offer. If it does, then presumably, over time, you would expect a higher proportion of your traffic there to be locally originating, a lower balance would be connecting? If that's right, would that be a good thing or a bad thing? Are there any levers you can pull to manage it?

Willie Walsh: It's a great question. One of the strengths we have had at Heathrow from the BA point of view was to be able to turn the dial in favour of O&D or transfer, depending on your currency, for example. We very successfully did that in 2009 where we were able to take advantage of a stronger euro and be competitive in the European market, transferring over Heathrow, but the switch into what would normally have been perceived to be a weaker yield market was a positive development for the group. Heathrow, as you have seen, has very strong O&D demand and is growing.

Our experience over the last year tells us that London is a different economy to the rest of the UK. London continues to do well where there is a concern about the overall performance of the UK and that is evidenced by the performance of BA and in particular by the performance of our Premium traffic. We don't give you a split, but you saw on the chart that 31% of our reviews come through Premium, a combination of delta, corporate and non-corporate. It is no secret that in OPK terms, the most significant part of that is the BA operation. It would be in excess of 75% of the premium OPKs.

At the moment, London is performing very strongly. The concerns that people have expressed about the UK do not appear, at this stage certainly, to relate to London. London continues to do well. London performed well through 2009. I think the downturn was significant globally, but our experience of 2009 was that London probably performed better than most key global cities. That has to be an advantage to us.

Going forward, the growth of the O&D market is beneficial to us, other than the concerns that I have expressed publicly about longer term, the UK, missing out on growth because the capacity will be not be available in London or the south east and that is something that the government is going to have to address at some stage, whether it's this government or a future government. Something is going to have to be done about capacity in London, and capacity in the south east.

Andrew Light (Citi): On the chart you mentioned the revenue by-product and industry. You have given the breakdown for the corporate deal which would imply banking is 27% and only 5% of the total revenue. Do you have a similar breakdown for the non-deal for the sector, or was it mirrored similarly?

Willie Walsh: I thought we were really generous giving you that breakdown! It just goes to show we can never satisfy people! That's all I am prepared to give at this stage. The reason we did that was, from comments we had heard, we had picked up concerns about corporate deals and it was to demonstrate that corporate dealing is not the majority of our business. I would think it would surprise people at how small it was in terms of our overall revenue. The pattern of premium revenue clearly has changed as a result of the combination of BA and Iberia. In the past, we have highlighted the fact that BA has a very high proportion of its revenue, less than half, but a high percentage of its revenue from the Premium market, but the combination of BA and Iberia has changed the profile somewhat.

I think it has changed it for the better, to be honest with you. That is one of the strengths that we see long term in the creation of IAG, that we have a much greater balance across the various markets that we are operating in and the various segments that we are operating in.

Andrew Light: Can I just ask another question? On Iberia Express, what is the overall Iberia short haul capacity growth to be with the ramp up of Iberia Express, or are the aircraft ramp-ups there being matched by a corresponding reduction in the mainline fleet, and when would you expect Iberia Express to break even?

Enrique Dupuy: Through the plan, the aggregate growth of short and medium haul in Iberia is modest. It's positive but it's modest. It is happening, that there is a transfer of short and medium haul operations out of the Iberia network, and into the new feature, the Iberia Express network, and that would enable Iberia at the same time to use those resources into the long haul and to leverage the growth of their long haul network once it becomes a profitable exercise which we feel it will be soon.

Willie Walsh: The density of the Iberia Express aircraft is higher than the Iberia aircraft and the utilisation will give capacity growth that way. Although we have a similar number of aircraft we will get additional capacity in ASK terms because of the configuration and operation of the Iberia Express climb.

Andrew Lobbenberg (RBS): In talking about the growth to Asia, Robert flagged that alliances are meant to be an important part of it, but then building on Penny's remark earlier, we have Kingfisher which does not look financially particularly stable; you are not yet doing any with Malaysian and the role of Kuala Lumpur in your network is not clear; and the commitment of Cathay to **one**world is not evident. How can you reassure us that your Alliance positioning for Asia is in good shape?

Willie Walsh: The important thing about India is there is a difference between the IAG focus on India and the **one**world focus on India. IAG is very comfortable with our position in India because we have a strong BA network from London into five key Indian cities, and a brand that has strong positioning in India and an ability to grow into other Indian cities if that is what is necessary. We don't need a strong Alliance partner in the Indian domestic market because, as most of you will know, we have high seat factors on our Heathrow-India flights anyway. We see Kingfisher strengthening **one**world within India. It is nice from a BA point of view to have a partner in India, but it was more a **one**world issue than an IAG or BA issue, so we are very comfortable with India.

I think the position of Cathay remains strong within **one**world. We have and continue to have meetings with a number of Chinese carriers. It is clear that the absence of a Chinese domestic carrier in **one**world is probably the only real weakness that I would see in the **one**world alliance today. The good thing about China is that it is growing rapidly, and it is growing in a different way than we have seen traditionally. I have been to China several times in the last year, visiting a number of different Chinese carriers. We remain confident that we can get domestic partners in China for the benefit of **one**world.

At this point, from an IAG point of view, we are very relaxed about the Asian position. From **one**world point of view, it is fair to say that the other **one**world carriers don't have as strong a position in those markets as BA has in particular, and may be the opportunities that we talked about longer term for Iberia. You have to differentiate between what's good for **one**world and what's important for IAG. IAG has a strong position in the markets we currently serve and we believe good opportunity over time to expand our services into Asia. We don't fly to Korea, Vietnam, Indonesia. They are clear opportunities for us and areas that you should expect us to look at in the near future.

That is how I would look at it, Andrew. I am not trying in any way to downplay the importance of **one**world. **one**world is important to us. As I said, we get good traffic flows but it is probably not as significant an issue for IAG as it is for some of the other **one**world carriers.

Jonathan Wober (Societé Génèrale): The first question relates to Iberia Express. In a way, you have tried this before with Clickair and then the merger of Clickair with Vueling. I guess the question is what is different now, and why didn't you get it right before and wasn't the time to get it right several years ago, given the increased market share that has been taken by the low-cost carriers.

The second question relates to your profit targets. I am first of all interested that you know what 2015 is going to look like, but you don't know what 2012 is going to look like! On the 2012 guidance that you have given today on unit costs and capacity, is it fair to say that without fairly heroic unit revenue improvements, you are going to see a big fall in operating profit relative to 2011

Willie Walsh: On Clickair and what was different then, Clickair was created for a very specific reason, and that was to allow Iberia to exit the Barcelona market where it wasn't a hub operation. The creation of Iberia Express is again very focused. It is about creating an efficient hub feeder to give us feed in a cost-effective, profitable way from short haul into long haul, to underpin the existing long haul network that we have, but equally to support long haul growth.

We are very clear in what the focus is here. The presentation that Robert gave you demonstrated the key strategic objectives of IAG. We are not trying to be the biggest short haul player intra-Europe. We recognise where the low cost carriers have made ground and where they are successfully competing with themselves and with the traditional carriers. What we are very clear on is that we have to have an efficient short haul network to compete in a point-to-point short haul way, but equally to have a feeder operation into our long haul hubs to support the long haul networks that we have. We have put in place a structure within Iberia Express and governance within Iberia Express that makes us confident that we can do this in a successful way.

When people say to me 'It's never been done before', I think that is irrelevant, because nobody has done it the way we're doing it. I don't think others have the experience that we've had. We have learned from some of the mistakes that others have made, we have learned from some of the mistakes we've made, but we are confident that Iberia Express can be an efficient, profitable, short haul feed network into our long haul hub at Madrid Barajas, and that will not just transform the profitability of the short and medium haul, but also support the long haul development.

In relation to 2012?

Enrique Dupuy: I think we have been giving you a lot of clues and data through the session today. I am not going to be able to give you a figure, but I will give you a few more clues!

You know about the fuel costs, we have been very explicit there. You know the other non-fuel costs, again, very explicit. You know about the growth, again, very explicit. Unit revenues, that is of course a key issue.

I am going to mention a couple of things. First, future charges, how future charges may compare with a hurdle that we will have to overcome in terms of additional fuel costs. What we can tell you is that the hurdle, the 14% is consistently lower compared with last year. This year has been pretty much in line with 25%.

The second issue: these processes will probably benefit from the inertia of other measures that we have been undertaking through 2011. The period of maturity of these revenue measures and improvements that we have been undertaking through 2011 will be gradually taking place, some of them through 2012.

Thirdly, we have already mentioned capacity and pricing discipline in the industry as a novelty, something that we recognise is happening, maybe for the first time in many years. We have also heard about some very recent data on how some of our competitors are improving their unit revenues in the short and medium haul. It is significant data.

Of course, on the other side, we recognise economic weakness, specifically in some of our main strategic markets – I am talking about the Spanish markets. With all this data, all this input, we are having to do our own focus. I am sure you will also be very capable of doing yours, and I am sure we are going to be very much converging.

Jonathan Wober: Just coming back on Iberia Express, I wonder if you could give us some sort of indication of what kind of unit cost, let's say relative to Vueling, that you would expect from that business?

Willie Walsh: We are not going to give you specifics, but for two things, one, the fact that it will operate with a Premium product, and secondly, the fact that it will be operationally focused on feeding the hub, both of those are going to be cost-disadvantaged relative to Vueling, but we believe that there are other aspects at the cost base that can be better than Vueling. We recognise that, because it needs to feed the hub, and because at this stage we believe it needs a Premium product, both of those add costs that Vueling would not incur, but equally, Vueling has some legacy costs associated with the merger with Clickair that we believe we can avoid.

There will be some swings and roundabouts, but we have very carefully looked at the Vueling cost base. That gives us confidence in knowing what the market rate is for many of the costs that we are looking at, but we recognise that there are some cost disadvantages because of the nature of the operation that we want Iberia Express to focus on.

Tim Marshall (Redburn Partners): Willie, looking at the board behind you, there is plenty of room for other airlines to join IAG!

I was thinking about how you approach that. Do you go to them? Do you wait for them to come to you, and also in terms of the timing, is it important that you get to the 2015 target first before you can address that from a position of strength?

Willie Walsh: If we can look at Slide 56 please? We are very clear that consolidation is going to be a feature of our industry. I have believed for a long time that consolidation was going to benefit the industry. It wasn't a solution but it was part of the solution to the unprofitable nature of our industry, and therefore was something that we would be keen to pursue. I think we have demonstrated that we are very patient, that we are not in any way rushing to consolidate further, and we will only do so when we believe it achieves something to benefit one or more of these. Will it add to our leadership and our key hopes? BMI clearly ticks that box. Does it do something to strengthen our position on the Atlantic? TAP does something there because of its position on the south Atlantic. TAP also has a very interesting network into Africa, so it ticks that box. There are aspects of it that could help the competitive cost base.

Does it strengthen our position, Europe to Asia? Very few carriers that we have seen actually do anything to help us there, but there are some.

We look at it in simple terms. We look at it against this simple chart, and we ask ourselves, does it help doing anything, and with a lot of airlines – you guys will be able to identify them – it didn't do anything to any of these, and therefore we're not interested.

We have been approached by airlines who were keen, as I have said publicly. They are typically the sort of airlines you wouldn't want in the Group, and therefore we're not interested. We will talk to people, because we will want to better understand what it is they have, or what it is they could contribute, but this is a simple way of looking at consolidation. When we look at somebody that comes into play, we just take out this chart and ask ourselves, what does it do, or does it do anything here, and we can very quickly eliminate a lot of carriers that are in play or likely to come into play.

The simple decision in terms of TAP is driven by their position in Brazil across the Atlantic, their position in Africa which we see as a growth market as well, and those two boxes say 'we should have a look'. You should not take that to mean we will definitely therefore try to acquire TAP. We would only do so if we believed that it enhances the position of the Group.

In terms of timing, you don't always get to choose your timing. We felt BMI would come into play at some stage. It has probably happened sooner than we had expect. We knew TAP was going to come into play. It has delayed a bit beyond where we had expected it to be. Other than those two carriers, we are not looking at anything at this stage because we don't see anything that's there that would enhance our position in any of these key areas, but that's not to say that something would come up and it would at least make sense for us to have a look at it.

We are going to be very patient, we believe in consolidation, we think consolidation will benefit the industry. It benefits the industry in a number of ways. In the most simple way it puts the decision in relation to capacity management in the hands of fewer people, and you are more likely to get more sensible capacity planning as a result of that, but unless it can do something to enhance our position on that chart, we are not going to be interested.

We have done well to stay pretty much on track for most of the day. We have a few minutes to go, but as I don't see any other questions, unless somebody wants to make one last effort to say anything, can I just thank you then. It has been very important for us to get as many of you as possible into better understand what IAG is all about. It has been hopefully a valuable exercise for you. It was great for us to have the opportunity to put in front of you some of the members of the team, and to give you an opportunity to see us, but most important, I think it has been an opportunity for us to give you a better feel for what IAG is all about.

Many of you were familiar with BA or with Iberia. I think the combination of the two we believe is absolutely fantastic. We are pleased with the progress that we have made, we are pleased that we can confidently say that we will exceed the original synergy targets that we have set for ourselves, and that we believe – certainly Enrique and I believe – that there is more to be achieved, particularly in the area of cost synergies, and we will continue to drive that.

We believe that we have a model that can deliver sustainable profit through the cycle. We believe that the levels of profitability are sufficient to reward our shareholders as we haven't done properly in the past, and we are determined to do so. We have a lot of flexibility in the short term, and you should expect us to respond quickly, decisively, to any changes in the external market, and you should expect us to remain available to all of you if you have questions or comments that you would like to make to us. Andrew is well known to all of you. Any of you who want to have specific requests to meet with us, you can channel those through Andrew.

We look forward to talking to you at our next results presentation and look forward to meeting as many of you as possible face-to-face over the months ahead. Thank you very much for joining us.