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IAG.MC - Q3 2012 International Airlines Group Earnings & Capital Markets Day Presentation

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CORPORATE PARTICIPANTS

Antonio Vazquez *IAG - Chairman*

Enrique Dupuy *IAG - CFO*

Rafael Sanchez-Lozano *Iberia - CEO*

Willie Walsh *IAG - CEO*

Keith Williams *British Airways - CEO*

Nick Swift *British Airways - CFO*

Drew Crawley *British Airways - Director - Commercial*

Andrew Barker *IAG - Group Head of Investor Relations*

CONFERENCE CALL PARTICIPANTS

Edward Stanford *Oriel Securities - Analyst*

Steven Furlong *Davy Research - Analyst*

Donal O'Neill *Goodbody - Analyst*

Jarrod Castle *UBS - Analyst*

James Hollins *Investech - Analyst*

Tim Marshall *Redburn - Analyst*

Neil Glynn *Credit Suisse - Analyst*

Suzanne Todd *Morgan Stanley - Analyst*

Geof Collyer *Deutsche Bank - Analyst*

Sam Dobson *Macquarie - Analyst*

David Pitura *JPMorgan - Analyst*

Peter Hyde *Liberum Capital - Analyst*

Miguel Medina *JB Capital - Analyst*

Andrew Lobbenberg *HSBC - Analyst*

Alexia Dogani *Liberum Capital - Analyst*

Jose Manuel Aroyos *Santander - Analyst*

PRESENTATION

Andrew Barker *- IAG - Group Head of Investor Relations*

Thank you very much for coming. I just wanted to spend 30 seconds just to show you the agenda for the day, and then I'll hand over to the chairman for his opening remarks.

So it's a fairly packed agenda. We're going to be trying to close by around 1.30, and there will be a lunch offered outside, and you can stay around for pretty much as long as you like afterwards and chat to us. But in the meantime, we're going to be running through the Q3 results. We're then going to be talking you through our financial targets and an update from last year's inaugural Capital Markets Day.

We'll be telling you about our proposed acquisition of Vueling and the transformation plan for Iberia, which has been launched this morning. We'll then have a brief coffee break and be back for Keith Williams and his team to talk about British Airways' plan for 2015, how we're going to finance all of this, and then a lengthy Q&A, where you can ask Willie and the team anything you like, up until about 1.30.

So with that, I'll hand over to the chairman for his opening remarks.

Antonio Vazquez - *IAG - Chairman*

Good morning, ladies and gentlemen. It is a pleasure to welcome you to the second Capital Markets Day of IAG for London. Last year, we told you our commitment to give shareholder an attractive return. We set out our ambitious, but entirely achievable target for 2015. These targets are set at the level to deliver meaningful return to a shareholder whilst also enabling us to invest in more efficient aircraft, new product for our customer, and selected growth opportunities.

As we anticipated two years ago with the creation of IAG, the fragility of the global economic environment has driven forward the process of consolidation in our industry. Though still limited by a strict regulatory framework, this trend has been accelerating. And as we have seen, consolidation is occurring on both sides of the Atlantic. For the first time in the industry history, consolidation offers a real chance for airlines as a whole to make a decent, stable profit.

Other related industries -- logistics and rate of growth, for example -- have already successfully transitioned to stable profitability, helped by consolidation, and it is a complex process, but it is IAG's wish to be at the forefront of change of our industry.

We have already started to build a track record on this respect. In April this year, we acquired BMI, and this now fully integrated into British Airways. I think you will agree with me that the integration has been rapid, and British Airways is now aiming to reap the benefits, potentially over by a much larger network. Earlier this year, as you know, IAG rated its 2015 operating profit target by EUR100 million to reflect the benefit of BMI.

Continuing the consolidation theme, we announced yesterday our intention to acquire the remaining share capital of Vueling. Vueling is Europe's third-largest low-cost carrier and already an associate of our group. We will outline the detail afterwards of this acquisition.

And [regularly] we'll be providing you with an update to our financial target and our progress on synergies, as well as detailing to you for the first time our approach into our financing over the next three years. This financing is crucial to the transformation plan for British Airways profitability, which Keith Williams and his team will outline for us.

Having undergone extensive restructuring over the past few years, British Airways, as we described to you last year, is now fit for growth and is carrying out an extensive investment plan in new aircraft to replace old aircraft and undertake some line expansion of its capacity in London. Before the next Capital Market Day, it will have taken delivery of two completely new aircraft types -- the Airbus A380 and Boeing 787.

One of our main focuses today, however, will be the launch of our Iberia transformation plan. We outlined the elements of this last year with the unveiling of our Iberia Express concept. This has had early success in terms of costs and operational efficiency and customer feedback. However, the severe decline in Spanish economic conditions since last year has forced us to go much farther in our thinking. We must now take more comprehensive action to restore Iberia to the levels of profitability that its shareholders and staff deserve.

Our team in Madrid has been working very hard on developing these plans over the past few months, and it's now entering into a period of tough negotiation with our labor groups. We announced today a plan to give a very competitive and sustainable cost basis for the long term, and in the short term, this will lead to downsizing and redundancies, and we understand how difficult this will be for those directly affected.

However, we're putting this plan in place so that we can say we're returning -- we can save around 15.5 thousand posts across the airlines. And if our plans succeed, we will be returning Iberia to a growth path as a leader in an exciting and rapidly developing Latin America market.

On that positive note for the future, I would now like to hand over to Enrique Dupuy, who will now bring us up to speed with the present and take us through the latest quarter result. Thank you very much.

Enrique Dupuy - *IAG - CFO*

Good morning, ladies and gentlemen. I'm here again to go through the quarterly results. It's the third quarter this time.

I'm going to try to be brief and concrete and to focus on the important issues happening through this quarter, because we have a long day, we have a long session, and I think we should dedicate enough time to the rest of the subjects that we are going to be dealing with. But please interrupt me or ask me whatever I would say additional information you need to be able to get the right opinion of how has been the performance of this quarter.

So as you see on Q3 operating losses for IAG have reached -- operating results for this quarter have reached EUR301 million, and this is pre-BMI figures. If we take into account BMI losses for the summer season, the figure gets down to EUR270 million. And if we take into account about EUR7 million of exceptional restructuring costs, the latest figure would be EUR263 million.

So the reported passenger unit revenues has reached 9.1%. This is -- this is a high figure, okay? What we are going to see through the presentation is high figures, both in terms of revenue performance and cost performance.

And the main driver of this high-figure performance is about currency movement, both in terms of sterling and in terms of the dollar, those two currencies have affected, I would say, very intensively the gross figures that IAG Group has been obtaining for the quarter. So 9.1%, that's actual terms, current currency terms. But in terms of constant currency terms, passenger unit revenues have remained flat.

So revenue performance for the quarter has been impacted quite heavily by the Olympic Games, and that's something that we knew. That's something that we plan for. And that's something that we announced to the analyst community, the shareholder community, and everybody. We knew the Olympics were going to have a dilutive effect on revenues, on unit revenues. It's not about volumes. It's about the mix of traffic. And it's happened. We have certain evaluations, and we will show them to you.

On the other side, on the cost side, again, we announce you that first half was going to be tough in terms of fuel prices. Second half was going to be more friendly, and it's happening. So even if you see their 15.4% increase in fuel prices, if we strip out the currency effect -- in this case, the dollar effect -- we'll be getting this figure down in unit terms to only 1.6. And this is good news, because that will be changing the pattern of a cost performance in the second half. This is very important.

And other non-fuel unit costs, which were apparently up 8.5% on a like-for-like basis -- so stripping extraordinaries, stripping BMI, and using the same currencies as a base -- have been basically flat. So, again, that's another very, I would say, good message. And it aligns with what we have as targets for IAG for the year.

So BMI trading losses and restructuring costs have amounted about EUR40 million impact on the quarter, which is slightly below what we purchased it. So integration of BMI has been completed, 99%. And it has been done basically on the budget targets or slightly better.

Finalizing, there is this asymmetry that we have still, I would say, to mention about the performance of, on one side, British Airways, which as you know located in a powerful catching area, in a strong economic performance, London, and Iberia, which is suffering, I would say, very [frontly] the weakness of the Spanish economy and the reduction in demand that that is creating. So EUR300 million profit for BA. And just, I would say, break-even through the summer season for Iberia.

So very briefly, again, because we have been mentioning those figures already, EUR270 million pre-exceptional, and including BMI, so on a like-for-like basis, pre-BMI, EUR301 million. And we have to compare this EUR301 million with last year, 363 million. So there has been a reduction of these EUR62 million. And it is basically related to what I will mention as the Olympic revenue dilution, okay?

So in terms of the big numbers of the quarter, we've been growing 4.7%, mostly related to BMI. We've been improving slightly our seat factor, so it's not about demand. It's not about volume. We've been able to hold our volumes on the same pace as we have been performing capacity.

Cargo, yes, a message on cargo. Cargo remains weak. Clearly weaker than last year and slightly weaker than the former quarter. So now what we are feeling is about a certain stabilization in terms of volumes, so the supply-and-demand equation apparently is reaching a limit of stabilization, prices are weaker, and prices are weaker also because fuel surcharges are coming down.

So in terms of like-for-like costs and revenues, it's, again, important to mention that the cost per ASK like-for-like has only increased by 0.8%, and this is basically about fuel, because if we strip away the fuel, the final figure is just, I would say, 0.2%.

And this is how the revenue picture shows. So very interesting in terms of -- we mentioned this cargo weakness in respect of last year, minus 22. There is this volume effect, plus 90 million, which has to do with the organic growth plus BMI, especially BMI, you see, will be bringing EUR153 million to the revenues of the quarter. There is this big, important currency effect, which is 383.

You will see that comparing the cost developments and the revenue developments, there is quite a bit of a matching there, but it will show impressive, in terms of the revenue side, and also the cost side on a standalone.

And then we have this price mix deterioration. It's minus 36, which I was mentioning, and that in some way should have been offset by this revenue gap, plus 100, that in some way we lost because of the Olympic dilution effect. So aggregating this price mix and the revenue gap that we have evaluated, the trend in terms of unit revenues, the underlying trends in unit revenues, appears to be sustainable still.

Here we are showing both, I would say, passenger revenues and cargo. And as you remember, in this chart, we show the 12 prior months on a rolling basis, quarter by quarter. So the -- in terms of passengers, the positive pattern that we were achieving up to the end of quarter two has been in some way going through a bumpy ride because of the so-called Olympic dilution. What we feel is that through Q4 and next year, the pattern of that chart will resume, I would say, a growth type of shape.

In the case of cargo, the picture is probably more negative. There I will say the reduction in terms of underlying unit revenues is a clear one, is having to do with a cargo cycle, so maybe we are getting to the bottom of the cargo cycle. We don't know yet. We have reached certain equilibrium in terms of volumes, but the fact is there cargo unit revenues help by the -- I would say unwinding of the hedges and the reduction in market fuel prices is -- has been coming down.

And here is how revenue performance can be explained on the different regions. Let's first take a look at the long-haul markets. So, again, North America, one of the main strategic markets of the group, having positive unit revenue performance on top of a growth in terms of ASK of 5%.

So this is a good development, and it shows that our leadership position in that side of the world, in that very significant strategic axis, so London to New York, our leadership position there has been enabling us to increase both ASKs and slightly unit revenues.

In the case of Latin America, there has been a general adjustment in terms of the capacity. We were talking about this evolution in the last quarter, you know about -- and Iberia has been following and helping to that evolution, so a reduction in capacity of 3.6%.

And as you see, unit revenues even stripping away the currency effect, which would have brought them up to 10.7%, even after stripping that currency effect have been growing by 1.6%. So that's, again, a market that will -- we feel, after a certain capacity adjustment and equilibrium in terms of supply-demand equation, will have a positive performance in terms of unit revenues in the future.

And then Middle East and Asia and the Asia Pacific, there we are seeing much more discipline in terms of capacity than the one we saw in previous quarters, so everybody now is beginning to behave very rationally. And that's how at the end of the day you are getting these unit revenue improvements. So both in the Middle East and South Asia, up 5.2%. That's very impressive. Of course, it has to compare also with the troubled year 2011, you remember about it.

But even in terms of Asia Pacific -- so an increased after-currency effect of 2% is something that we recognize as positive. So in terms of the long-haul strategic market, of course, Olympic type of dilution, but underlying trends positive.

Domestic. Domestic is about Spain, basically, and a little bit of the U.K. So in Spain, we see huge capacity increase, but this is only about recovering in Iberia capacity that had been transferred to Vueling and Air Nostrum into Iberia Express.

So Iberia Express is recovering that capacity that was migrated last year, but you can see effectively a very weak Spanish domestic market there. So unit revenues on top of the currency impact have been reducing in a significant way, and the U.K. market has not helped at all. U.K. market, Olympics, weak.

And in Europe, also, similar -- I would say -- messaging. Olympics U.K. Europe has been weak. And weakness in Spain have been also helping to bring this figure down, not as intensively as in the domestic market.

So premium cabins versus non-premium cabins. So in premium cabins, we've been able to increase volumes, so basically the RPK figure, so number of passengers. We are mentioning here that's the blue line. We have been able to increase significantly and even, I would say, the performance in volumes has been better than last year.

In terms of unit revenues, there is a dilution effect. So these volume increases in some way has been done at the extent of some, I would say, easing in terms of fares, in terms of discounts, in terms of upgrades, okay? But as a whole, it shows powerful, because if you can add these about 6% improvement in volumes with a 3.3% increases in unit prices, the compound makes a good figure.

The non-premium is a different story. The non-premium has been suffering the most, I guess, by on one side the Olympics, so people in the U.K. have been staying at home. That is absolutely clear. So we see volumes coming down. People in Spain are worried, are having to deal with a troubled situation. They're also staying at home. So in the case of a non-premium, the coach side of the aircraft, it's a combination of low volumes and lower yields.

Capacity. So what you see here, in terms of the fourth quarter and the third quarter, is still, I would say, the BMI impact is showing that the blue bar, the BMI against last year, is representing 3% approximately of additional capacity. When we strip that away, Q3 has only been growing by 1.7%, and then our plans for Q4 are about reduction -- before BMI reduction in our level of capacity against the same period last year.

And this has very much to do with adjustments in capacity, that we -- that are already taking place in Iberia, and both in the long haul and in the short and medium haul. And in the long haul, Iberia will be discontinuing some routes from Barcelona to Sao Paulo to Miami, and also from Madrid to Johannesburg, to Cordoba.

So that's going to be done through the last quarter of the year, with the benefit of being able to adjust the size of our fleet in a very type of symmetric way. So in a way, we will be able to variablize the ownership costs in parallel. So that's the good news.

For next year, for next year we are planning a compound capacity reduction in the range of 1%, so there's asymmetry there, asymmetry, bigger asymmetry. Iberia will be reducing its capacity by 15%, and British Airways would be increasing capacity around 4%, and that's, again, mostly the tail of the BMI, okay?

So very quickly here, because I think we have transmitted already the main messages, so let's talk about the long haul. The premium side we feel stable, we feel we are going to recover the pattern of unit revenue improvements, and that's -- that's a good message. The long haul is competitive in prices, but still powerful in volumes, and that's basically having to do with the London catching area and the British Airways destinations, because on the Iberia side, it's not so bright, okay?

We have to mention, also, the weakness in cargo, that we have just, I would say, explained, and that maybe will be bottoming through the last quarter of this year. Remember, on a cargo basis, the last quarter of each year is one of the peak seasons, so we may be having a little bit of relief on the fourth quarter.

In terms of short haul, the non-premium is again reasonable in terms of volumes, is competitive in terms of prices. That's something that we are not going to be getting rid of, so that's going to stay there. And even on the premium side, we have a little bit more of additional softness, okay? So that's how it's showing.

Cost and cash flow trends, good. This is a little bit of a busy chart, but I will try to explain it to you, because the aim of this chart is only to have an idea of the underlying trends, the underlying unit cost trends which are very important for us to define if we are working in the right direction.

So as a total figure, including fuel, we have this underlying net figure of 0.8% on a like-for-like basis, stripping away the currency effects, and isolating, which is basically related to BMI over-costing, okay? So that's a figure, a total figure.

Let's go through fuel. Fuel has had an increase of 1.6%, and here it's basically having to do with market, because on this 1.6%, we are stripping away the currency effect, especially in this case, the dollar strength effect. So remember the cross-figure was 15%. If we strip out capacity and we strip out strong dollar, we get to the 1.6%, and this is a good news, because we feel it's going to stay or even slightly improve, and this means second half fuel cost headwind will be weak.

Employee. Employee, again, trying to make this like-for-like exercise. We are getting a high figure, 2.9%, and this is something that we need to explain. It has an underlying trend that we need to bend down, of course, and I will tell you the underlying bend is about 1.2%, 1.3%, and what is above the rest? Well, the rest is having to do with a different timing for bonus recognition between last year and this year.

So this happens, bonus recognition last year, for the third quarter was inexistent, was new. And for this year, bonus recognition has to do with our expectation of being able to achieve our sales and [have meant a certain figure].

So the combination of these two effects create a difference between the 1.2% and the 2.9%. This means the 1.2%, we are happy about it? No, we are not happy about it. It has also some Olympic overstaffing effect, okay? And we will try to bend it down through Q4 and effectively through year 2013.

Supplier zero, that's a good performance, taking into account there the inflationary pressures that we are all suffering, both in Spain, in Madrid, and in London, okay? So it's a good figure. It's a good achievement. I have to say, to be honest, it has a little bit of a help of a currency settlement impact, positive impact, which is a one-time, one-off impact, but the underlying trend also seems, I would say, quite safe and healthy.

Ownership. And here is where I was -- wanted to be a little bit more concrete. I was talking before that we are adjusting our capacity in a way we can variablize the ownership costs. And that's what we have been doing. We've been getting rid of 343-00s in Iberia and 320s in both Iberia and British Airways, so in a way, we have been able to reduce ownership cost. And in fact, the ownership cost per ASK on a like-for-like basis, it's minus 3.3%, and that's a very good achievement.

Of course, it is [dollar rental], so it is inflated because of exchange. But on a like-for-like underlying trend is 3.3. So all in all, like-for-like our unit costs are just very close to a flat performance.

This is fuel -- this is a boring, I would say, subject today, because fuel is performing as expected. So we have been telling since the beginning of the year 6.2. We are sticking to 6.2 for this year, okay? And the message for next year is maybe slightly below 6.1. We have about 53% of our airplane fuel consumption hedged at market level, so it's in the range of 1,000 or so. And for next quarter, for the fourth quarter, is 80%.

So in some way, these figures are getting more and more certain than year 2012, are getting more and more certain now. And the final 6.2, I think, is going to be very, very near the final full-year figure.

So this is the summary, the wrap-up of the operating results evolution, and comparing how we drive the figures out of Q3 year 2011 and into Q3 year 2012. So, first of all, this currency effect - okay, so all these figures had -- get inflated because of currency.

We have EUR383 million currency impact on the side of revenues, EUR375 million currency impact on the side of costs. So apart from that slightly positive net, that you can see, summer season we create margins. Those margins are in some way sterling margins are translated into euros. That creates a benefit, okay?

Apart from that, revenue has been increasing 30%, and that's the one that we feel is undervalued. It's impacted by our numbers. We should have been having there 130, okay? And that's something that we feel those revenues will have to come back.

Fuel costs, 49, so it's a small figure, taking into account, I would say, the [money tubes] that are involved. Other costs, 51 here, we are including some of the extraordinary costs that we have recognized as one-offs. So part of that will be probably, I would say, refined and gradually spread through the next quarters. And then we have the EUR31 million of BMI negative impact for the quarter.

Just one thing. September, BMI has been positive, net positive contributor for the group, and that's good news, because it's probably earlier than we expected.

And then we are plugging in this revenue gap of 100, so on a like-for-like basis, if we were to compare them the Q3 of '11 with the Q3 of '12, we should be comparing 363 with 401. So an increase in operating results in the range of 10%, I think that's above the underlying trend that we'll be able to get.

Just a snapshot on balance sheet. So some movement, again, I have to tell you, very much related to currency. So on the equity side, what we have is a closing, September closing, in which the parameters, the variables, the financial variables make our hedges valuable, more valuable. Why? Because I would say that the [strike closing] price of both the dollar and fuel make that our hedges are in the money, are making value. So that has created on our equity a positive improvement of 350.

We have these, I would say, cash loss of 170. And that's mostly related to investments that the group is doing in plane delivery of payments and also in negative cash flow for the first nine months on Iberia.

So the gross debt and the aircraft lease capital notional debt is two figures, so we have 190 and 211. These increases are mostly related [quasi-100% to currency effects. So both in terms of the operating leases, which are denominated in dollars bond, a notional equivalent debt value has been growing, because as we tell you, the underlying size of the contracts, of the lease contracts in constant currency terms has been reduced.

And the same with the gross debt. There is also a sterling and dollar, I would say, negative effect in terms of inflating the size of the debt when measured in euro terms.

So as a summary and outlook, as I've been repeating revenue trends in quarter three were impacted somewhat -- and quite a bit, I would say -- because of the London Olympics, and what we are observing, even slightly through September, and more evidently through October, is a certain recovery to the previous patterns in terms of the evolution of unit revenues, with the caveat of Sandy, hurricane, okay?

So we are measuring its impacts. We know about the spike. The spike is not a very material one. But it may be having a little bit of knock-on effects, which we still have to evaluate.

So what we are now expecting you to -- preliminary impacts of Hurricane Sandy and continues degradation -- continues weakness of the Spanish market is that we will be ending the year with a negative operating loss, and this is all-in. This is including BMI. This is including also exceptional. So all-in, let's be -- let's be very clear about it, of EUR million.

And this, of course, this figure is not recognizing any, I would say, exceptional costs that could eventually be arising around the Iberia restructure process. So thank you for your attention. It's about having you questions (inaudible).

Andrew Barker - *IAG - Group Head of Investor Relations*

(inaudible) we have about 5 minutes or 10 minutes for your questions, if you can confine them to Q2. All your longer-term strategic questions, we'll have plenty of time at the end of the session. Over to you. I'll get the mike to Peter here.

Peter Hyde - *Liberum Capital - Analyst*

Thanks. Peter Hyde from Liberum Capital. Could I just ask a couple of questions? Firstly, could you just take out the exceptionals for us and how much more, if any, do you think there will be for the BMI restructuring in Q4? So when you're giving guidance, what's the exceptional number that you're including?

Second point, on BMI, could you just talk a bit more about why it's performing better than you thought it was going to? I presume it's on the revenue side, but could you just flesh that out? And have you changed many of the slots? Or when do you intend to change some of the slots for long haul from short haul?

And then, finally, could you just tell us how much the negative cash outflow was for Iberia in the first nine months? Thanks.

Enrique Dupuy - *IAG - CFO*

Okay. So on the case of BMI, the projected figures of its impact on IAG accounts would be reaching EUR240 million for the full year, and this is about EUR150 million of negative operating profit that we are in some way digesting and about EUR90 million of one off, I would say, restructuring costs.

I think on sterling terms, we are going to be below those figures, maybe 10% below those figures. So the integration process is performing adequately and also on a timely basis. When we get to the euro type of translation -- in this case, we have to suffer the impact of the stronger sterling -- so we'll be getting to a euro-denominated figure, which would be very much aligned with the one that we budgeted and we explained to you some months ago, okay?

So what's going well, I think, from an operational stand, the integration is being absolutely impeccable. From the point of view of the management of the restructuring costs, it has also been very efficient. And revenues, although there has been a weak environment, on this, I would say, Q3, on this Olympic season, I think we are basically getting to our target. So integration process of BMI, in summary, will be achieved on a timely basis and on figures that will be at or better than we initially projected.

In terms of the cash drain in the case of Iberia, we are not disclosing that figure, I'm afraid. What we are saying is that the cash -- the operating loss of Iberia through the first nine months has been negative in around EUR260 million. So I guess with that figure you can make your own calculations.

Enrique Dupuy - *IAG - CFO*

So I think that, as we have a very busy agenda, we can go for the next -- so I'm sorry. It's again me.

So this is -- I think this is one you're going to like. This is a very interesting presentation, which tries to understand how we are dealing with our initial business plan targets, objectives, actions, through, I would say, the market that it's moving very dynamically or a very volatile scenario in terms of fewer prices and currency prices, as well, okay?

So we'll try to -- and it's not easy -- I will try to transmit to you how we are getting there, eh, how we are getting there through this, I would say, bumpy ride that we are going -- we're having to go through.

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So first message, we have been -- we were targeting the EUR0.5, in terms of share -- earnings per share -- diluted earnings per share by year 2015, and the first message is that we are sticking to that, okay? So we are dealing with a lot of challenges and troubles. We are sticking to that for year 2015.

And this means we are being honest, it's not just EUR1.5 billion. It's EUR1.5 billion plus the BMI impact. So it's EUR1.6 billion, in fact. And it's, again, 12% return on capital employed so that, I would say, quality ratio we are maintaining. It assumes organic growth. Last year, we were telling you about compounded 2.5%. And because of reality, we had brought down that figure to compounded 2%.

Synergies -- synergies are running ahead our projections, our initial projections and our latest estimates. So we are counting on having -- or being able to reach a figure in the range of EUR560 million by the end of year 2015 on a cruise speed type of model Okay. And that's good news.

Acquisitions, so we are not only counting on the organic growth development. It's about other ways to grow efficiently, other ways to improve our leadership in our main strategic market, because that's basically what we are trying to do, and it's easy to understand what we are doing with BMI, and it's easy to understand what we are trying to do. Have to be cautious with the wording, trying to do -- in the case of Vueling.

So this is how we explained our basic performance until year 2015, trying to understand the different tools that we were going to use, so it was about the synergy positive impact, synergies, EUR450 million. It was about the underlying profit improvement, having to do with a basic improvement projects, of which are the two airlines fleet, for example (inaudible) others. And we are also talking about organic growth of EUR150 million.

So this has changed. Especially what has changed is that we were based on a baseline, eh, initial baseline of EUR500 million by the end of year 2011, and we wanted to bring the final figure to 1.5, and now the baseline has been dropping, okay? So that's the first thing that we have to try to understand how and why.

So this is how the chart is being evolving. And this is the first, I would say, novelty. So we are bringing in additional operating profits for year 2015 having to do with BMI, and this is EUR100 million. We are committed to produce that one and this year. That's the blue bar.

And this is good and it's bad. So in some way, we are improving the projected level of synergies, but we are eating them already, okay? So we have eaten EUR235 million of both revenue and cost synergies through the first month, so there is still EUR450 million, you will see a little bit higher figure in the next charts.

So how now the challenges for year 2015 out of the year 2012 platform are showing, so growth will not be as high, because instead of 2.5%, we'll have 2.0%. The remaining synergies that we will be counting on will be EUR280 million. And this is the headwind that we have been going through year 2012.

And this headwind is mostly planned, so last year we knew about -- I would be calling it the fuel cliff, okay? So it's not the tax cliff. It is the fuel cliff. And the fuel cliff happens because prices have been going up from 80 to 110. And the industry is unable to digest that type of fuel cost increases in one year.

So the average is about 50%. This is the assumption that we have had for the last year. So we need to recover through the remaining years of the plan the rest, okay? So that's about the rest. That's the planned headwind that we knew we had to deal for year 2013, '14, and '15.

And it will have to do with improving our cost opportunities, in terms of savings, but also trying to transmit gradually this remaining cost fuel impact into additional revenues. That's something that the industry and British Airways and Iberia has been able to do in the past and we are confident will be able to do again.

Another planned headwind that we have discovered through year 2012 is BMI. okay? BMI, an additional headwind, from the non-exceptional basis, as I told you, is in the range of EUR150 million, so that's something that we planned, we prepared to tackle, because, remember, it creates EUR100 million of additional operating profit on a recurrent basis since year 2014, '15. So, happy with that one.

And the one that we didn't plan -- at least we didn't plan as tough as it has become -- is the additional weakness in the Spanish macro and the way it has affected our -- basically our Iberia operations. So this arrow shows the challenges, right, the challenges that have been crystallizing through year 2012 and that we will have to deal with through the next three years. And we are prepared to do so.

So what we thought we could be dealing with last year was about saving plans and revenue improvement plans that could be reaching a EUR700 million figure for the whole of the group. We are going to go through these figures a little bit more in detail in the following charts, okay?

So EUR700 million, already identified. We are happy with those plans. It's about fleet renewal for expand, it's about the gradual year-to-year benefits of British Airways mixed fleet, cabin attendants. It's about joint business [reaching cruise speeds], and being able to render full benefits for the next two or three years we know about, we are confident. It's about improving our Iberia hub operations. And it was -- and it is -- about Iberia Express playing a significant role on our strategy and our operations.

So we are committed to recover and no news. These fuel -- full tranche, full impact, no worries. It will be coming. And we are also clearly committed to recover the BMI first negative integration impact, and that's something that we are doing very efficiently. So new news. It is on our plans. It was on our plans, and we are basically tackling those.

What we need then to focus now very precisely, very intensively, because that's a novelty, and we have to create -- we have created plans to deal with it. This is extra, I would say, stretch required to deal with, I would say, the Iberia worsening situation.

So we are respecting the size of the challenge, and we are putting some labels behind now, okay? So coming from the blue side, and that's transforming London, it's transforming and improving British Airways operation, and, of course, it has embedded these BMI transformation model, as we'll render some clear benefits, as I've been telling you, is a joint business agreement, plus the synergies attached, as something that will be getting cruise speeds for the next couple of years.

It's that asset churn improvement that probably we are going to hear about afterwards in the British Airways presentation, along with the short haul strategic transformation in the case of British Airways, and a big effort that will be applied on cost discipline, because that is, again, and always the name of the game.

So that's about London. We will be sharing the benefits of the new fleet savings, so we have accounted for them -- for the group has been EUR250 million per year recurrent basis, and that will have a certain split between Iberia and British Airways, depending basically on the final size of the Iberia fleet. But it's something that we have already contracted and even partially paid for, so it will be coming.

The yellow bar has to do with the transformation plan in Spain. And you're going to have a lot of details on this issue that Rafael is going to bring to us. But as a whole, the transformation in Spain has to do with this figure, EUR450 million, labor cost competitiveness and new low-cost platform, and also with the help of the new fleet and also with the help partially of the remaining synergies to be untapped. So as a whole, we are talking on a figure that will exceed EUR600 million.

So for that purpose, we are applying investments on the London side, on the British Airways side. We are applying investments on the fleet saving exercise for the group. We will apply investments for the restructuring exercise. And we may be applying also -- that's our will -- funds for the Vueling acquisition.

So let's talk about synergies very briefly, because this is a well-known subject, EUR500 million was our last year type of reference. And this year, we can talk about EUR360 million with a cost -- attached cost impact of EUR35 million. So if we can get to a net profit and loss impact, we would be talking about EUR525 million.

So we have identified additional savings and improvement both within costs and revenues. In the case of revenues, are about co-chairing potential developments that we are working in and that will render improvements. And in the case -- in the case of costs is basically related to procurement and IT.

So this is a program that, as you know, we are very focused in, we are following very carefully. It's basically on track -- is improving healthily through, I would say, the different re-evaluations that we've produced.

Fleet. So this was a story last year. Remember, long-haul new generation fleet was going to substitute partially the long-haul convention old fleet and create a bit of growth. Remember that 2.5%? A bit of growth. And the short-haul fleet was going to remain practically constant.

So we're bringing back growth, and this has to do with the size reductions in Iberia that will be affecting the short haul and also the long haul. And basically, a part of that, we will be maintaining, we will be keeping the new gen and the new aircraft type of pattern of deliveries that we told you about last year, with some drifts, small drifts in terms of a final date that we will explain. So the aircraft, you know very well about, is the 380, is the 787s, is the 777s, is the 330s.

And this is how it showed. Last year, we were talking about 167 additional -- 167 total number of fleet in the long haul, which meant deliveries of 34 aircraft, between '12 and '15. And in the short haul, it was about 19 additional deliveries, spread between Iberia and British Airways on the same A320 family aircraft.

In the case of the long haul, just to remind you, the 330s for Iberia, substituting the 340-300s, very efficient aircraft on some destinations, in terms of cost and fuel consumption. It was about 777s as an incident fleet to be able to substitute partially and temporarily 747s, mainly. And it was about the 787, 16 aircraft, which would be coming through '13, '14, '15. We also have allocated 16 A380s that will be delivered through the period.

Okay, so these figures have been changing slightly, so in the case of Iberia, the deliveries, we recognize of new fleet are the same, but the final fleet long-haul figure will be coming down to 29. So this is, I would say, a big move, a big change, and it has been the one reflected in the chart.

In terms of the 777s, we are having a bit more aircraft. We are accelerating this fleet, entering into Iberia very efficiently as a transition fleet, and we will be delaying temporarily -- very temporarily, I would say -- some of the deliveries of the 787s, so the rest will be coming early 216.

And the rest will be basically maintaining the same, with the exception, again, on the long haul -- on the short haul step-down A320 family aircraft in the case of Iberia. So it's coming down from 77 aircraft to 52, again, showing this resizing of what we have to do in Iberia.

The CapEx plan. So this was basically the old plan, so the old plan was reaching for the full five years about EUR7.3 billion -- this is total CapEx -- out of which EUR1.1 billion was first year and the rest, maybe EUR6.2 billion, for the remaining four years. Okay, very important to say, out of this figure, it's about EUR5 billion, which is related to contractual CapEx, okay?

So contractual CapEx is basically fleet and dollar obligations in which we have already entered, and the rest is having to do with plans that are in the business case, but that we have not yet approved. So it may be happening or not, and it may be having a different timing or a different size.

So about the business plan figures, basically we are changing a little bit of the pattern. The final figure remains for the period slightly at the same level, so in the range of EUR6.1 billion, EUR6.2 billion. And there will be -- I would say -- a strong year 2013 and year 2014 and a weaker year 2015. The bulk, again, is related to fleet replacement.

So in terms of our basic parameters, references, goals, financial goals, this is basically what we told you about last year, this time of the year, net debt-to-EBITDA below three times, gross debt-to-EBITDA below four times, expected [gearing] below 50%, including the notional value of operating leases in the total capital, and on the debt side.

So we are keeping the ratios with the potential exception of the expected gearing, which could be moving in the 50% to 60% net debt to total capital employed. So the plan, even after I would say the restructuring, even after buying BMI, even after potentially acquiring Vueling, could be ending on a below 60% net debt to total capital employed leverage ratio.

And, by the way, some good news. British Airways has been upgraded by Standard & Poor's to BB, so we have just now a couple of notches to get it to BBB-minus. So we are on our way. We don't want to make the investment grade as a sacred targeting. It's not sacred. It's just a tool. So if we have the tool, we'll be able to do more things and better, but it's not something that we want to sacrifice.

So this is the one I think you're going to like, also. This is about how we are going to use our funds. And we are splitting on one side where we are going to use the capital and, on the other side, where the capital is going to come from. Okay, so this is the first message, which is important.

The Iberia restructuring exercise will be funded partially through partial divestments, totally through partial divestments, and basically framed in the -- I would say in Iberia itself. So we will not be using inter-company funds to fund that restructuring. It's going to be done exclusively out of Iberia funding. And it's not going to be calling on our cash flow, as you will see.

Second one is the CapEx, okay? So here we are referring to the committed CapEx, basically fleet and non-fleet contracts that we want and we need to honor. So in a case of fleet, it's about the 380s, 787s, 777s, and the 320 family.

So that, on top of the non-fleet, which is basically investing in product, in the brand, in systems -- this is very important, and it has to do a lot with synergies and in the infrastructure and facilities. All this, I would say, bulk of investments, committed investments would aggregate a figure in the range of EUR5 billion for the period '13-'15.

And where the money is going to be coming from? Financing. So that's what the banks are for, okay, and the financial markets, financing. So it's about financing new deliveries, new acquisitions, new materials, and refinancing repayments. So old fleet that we are paying mortgages, for example, and that we intend to refinance, because their economic life is still long enough, okay?

So the assumptions are quite conservative. We are counting on financing about 70% of the new fleet deliveries. I have to say that we are funding for a timing around 100 or even above. So 70% we can feel comfortable about.

It's about also refinancing or converting the convertible -- that's a big chunk -- or we convert it or bondholders convert it or we'll be thinking about extending refinancing. And it's about actively refinancing older assets. And I'll tell you about some ideas we are implementing for that purpose.

And that's the pension deficit reduction. This is also contractual, as you know. We are on this contribution program, so as you will see, as part of the contribution here, on the cash flow from operations, part of the money that goes to the fund is on that side of the equation. But the other one, the one that basically is repaying capital in some ways, is basically stated here on this, I would say, bar.

So as you see, the good news is that cash flow from operations that we are envisaging for this period is well above our requirements in terms of CapEx, plus the pension ones. This is good news, and it allows us, as you will see, with a significant buffer.

So that is another buffer, by the way. This is about what we call the cash buffer, so the surplus cash that we are holding, plus the revolving credit facilities that we have implemented and signed. So if we had to put a figure there, it would be in the range of EUR2 billion.

So how to square the whole picture? We have headroom, okay? That's the good news. We have headroom, not only to right the cycle, not only to deal with the volatility of our industry, but very probably to be able to return cash flow to shareholders and/or to reinvest in opportunities that we can envisage that can strengthen our leadership position in the industry.

So this is what we will be calling the financing strategy, and we have a specific presentation for that one by the end of the session. Hope it also interests you. And this is what we will be calling the corporate finance strategy. So it's how to deal with opportunities and how to deal with shareholder [revelation].

So some figures, not all of them, you can understand most of them are very sensitive. The CapEx plan, the contractual CapEx plan is about EUR5 billion. And we will get a little bit more on detail further on about how we deal with this financing exercise, which is going to be very interesting.

So Andrew, again me? Not to break?

Andrew Barker - *IAG - Group Head of Investor Relations*

Again, you.

Enrique Dupuy - *IAG - CFO*

Thank you. So proposed acquisition of Vueling, this is [a novelty]. I think it's a very promising and very, I would say, exciting opportunity. We have to be careful with how we express our ideas, because this transaction is subject to regulatory monitoring. And as you know, it's just a previous announcement of our intention, what we have made, and we'll have to go through the full, I would say, legal and regulatory process.

So just using what we have disclosed and public information, that it's available to you, we acquire -- we intend to acquire the remaining 54% which is floating in the market, public stake in Vueling. So these will work on top of the additional 46%, which Iberia already holds on their balance sheet. We are putting on top of the table a cash proposal of EUR113 million as a price of EUR7.00 per share, which means a 28% premium to the final pre-announcement price on the 7th of November. And it's conditional on stock market regulatory approval, which we hope to be getting by the end of November.

Under competition law, we have no problem, because when we merged particularly with Vueling, we obtained a competition ruling which effectively treated this company as being controlled by Iberia. So there's no change on the ownership type of change.

So some very important highlights. It will be giving IAG three things. On one side, it will be giving us growth potential, okay? So you know we are involved in some strategic markets, which are very important for us. Some of them are growing. Most of them are mature, so the growth potential is becoming, I would say, weaker. In some cases, the markets are reducing in size, okay? So growth opportunities, very important.

The second, it's about being able to diversify our position as a group. In terms of locations -- and I will bring some very interesting ideas here -- and also in terms of client segments, customer segments, and this is very important, because the customer segment that is growing in Europe since the beginning of the century is these low-cost point-to-point customer segments. So diversification, very important.

And finally, a very competitive and efficient cost base, and that's something extremely valuable for the group as IAG. It will be financed through internal resources, so nothing especially for the time being on the market.

So this is the description of how they are. They are related to A320 family fleet, 55 aircraft. So this is quite good, because there's a lot of commonality with the rest of IAG. But importantly, they hold 30% market share in Barcelona El Prat. That's a big figure. And if we compounded with the rest of the one world companies in El Prat, we are above 50%, slightly above 50%. So that means one will position in El Prat is going to be very relevant, and you will see about El Prat in the next slide.

So they have -- they are creating additional bases in Europe. So it's not only a Spanish exercise. It's about Amsterdam. It's about Rome. It's about something they are doing in Orly, as well. So currently they have 34% of capacity employed in Spanish domestic markets. And the rest is Europe.

Very competitive, low-cost base, as I told you. Non-fuel costs very much aligned, if not better than Easyjet. And very importantly, they are profitable. Now they will be profitable in year 2012, probably they will be the only Spanish company profitable in year 2012. And that's important.

Enrique Dupuy - *IAG - CFO*

With the exception of IAG. Pre-exceptional. So a little bit of flavor about where these guys are operating. So Barcelona Airport market share, 30%, growing from 22% to 30%, and that's basically because of the failure of Spanair. They were ready to occupy that position, and they did extremely efficiently. So they are first in terms of market share in Barcelona, 30%, first in market share in Bilbao, second in Seville, 27%, and third in Orly, okay? And third in Fiumicino.

So it's a good starting point. But if you look to the site of the airport involved, so IAG has the biggest leadership in the biggest airport in Europe, which is London Heathrow. Good news. The second one, not to mention. The third one is Madrid. And, again, we have leadership there. But the fourth one is Barcelona, above Frankfurt and Amsterdam, and we have leadership there. So that's, again, a good news.

So public figures again, okay? So per plane, Vueling against Easyjet, this is the red circle, because it's lower, but it's a green circle because of the potential, okay? So we feel Vueling has room for improvement in the way they manage their revenues, their unit revenues specifically on two issues ancillaries and load factors.

And this depreciation is worse. And, in fact, they have a more costly and probably older at the same time fleet than Easyjet. So, again, these are red, but I think there is also scope for improvement here. And that's the umbrella of IAG will be able to create better conditions to negotiation those leases.

And the one -- the one, it wasn't circled, which is the important one, is operating costs. Okay, thank you. The operating costs are well below per plane the Easyjet ones, okay? So this is something that, I don't know, Vueling will have to retain, because it's big value underlying behind the company. It's a very, very attractive figure.

So this is a little bit of how we chose. So we're having IAG, and we're having on the right-hand side British Airways, hub operator in Heathrow, North Atlantic leader, both in terms of brand, in terms of the joint business agreement, et cetera. And it's a preeminent global network airline, so very clear definition, very clear role in IAG.

And we have Iberia on the other side. And we know it's a hub operator in Madrid, very promising, I would say, under growth potential airport in Europe, one of the best. It's one of the biggest. And South Atlantic leader, so, again, a very significant role to be played in Iberia in our global strategy in the future.

I want to put that in red. No intention for the time being of integrating Iberia Express into Vueling, okay? So we don't need questions on that one, because the answer is there.

So Vueling. What is bringing Vueling to the party? A low-cost carrier cost structure among the best of those, with the exception with -- of Ryanair, which is a different animal, we don't want to compare with. Animal in the good sense, okay? We have wonderful animals.

So a hub operator in Barcelona, which is, as we learned, the fourth airport in Europe. So this is good value. And also, very interestingly, a track record of cooperation with network carriers, not only with Iberia, with other network carriers. And being able to agree on arrangements that basically have been for the benefit of all parties. So in summary, a very valuable tool.

And time for a rest. I'm going to pass it off to Rafael.

Rafael Sanchez-Lozano - *Iberia - CEO*

We'll be relieved it's not Enrique again. So my turn to talk about one of the topics that today's getting a lot of attention here and in Madrid, I can promise. Let me tell you about Iberia transformation plan.

Iberia transformation plan has two main goals. The first one is to stop the cash bleeding we're going through. We're losing a lot of money. We're losing a lot of cash. This is not sustainable. We cannot go on like that. So we need to stop it quickly.

How quickly we want to do that, as of I'm speaking here, we are engaging and we're having meetings with all unions today in Madrid to start the process, so it is already starting today after the board approved it yesterday. And we are starting it, and we're telling the unions that we need to finalize this by January the 31st. That's the deadline we've given ourselves.

We hope to reach an agreement. I think we all win by getting an agreed solution to this. But clearly, if there's not agreed solution, we will proceed on an un-agreed solution that we have thought about and clearly is more painful and is more deep cuts around it.

And the reason being, because we want to implement this for next summer season, which starts -- I can't remember if it's March the 31st or April the 1st, but around that date, and that is what we want to implement the new solutions -- and the new exercise, the new cuts that Iberia would have to go through to stop this cash bleed. We plan to be operating cash positive by mid-next year. That is our target, and that is what we are trying to do with this.

The second idea we are doing with the transformation plan that we have on the table is to give Iberia a future. I think that's the important message we are telling all our employees and the market and you. What we want is not about just surviving. We're not doing this just to get, Okay, you're done, and more or less, you can leave it. We want to be -- and it's our goal to be a leading airline, and we want to be a leading airline group at IAG, and that is what we want to do at Iberia. We want a future. We want to grow.

When you present a plan, when you say I'm cutting, saying you want to grow, somewhat challenging. The only way we can do that is to put our cost base to be competitive, as competitive as it needs to be in a very challenging environment, and that is what we are trying to do with the plan.

We have to, but we are committed to get it done. It's difficult, but clearly if we don't adjust to what our competitors are doing, we will not survive and the future will be difficult. That is what we're telling our unions. That is the message I would like to tell you today.

How big is the effort? The effort has to be done at 600 million, not today. It's not going to be 600 million next summer season. It's where we plan to be three years from now, for 2015. That is high and is a large figure. You've seen Enrique's presentations around it.

And it is as far as we need to go. And that is a figure not that we figured out ourselves, oh, it's a nice number to have. It is what we have done, and we have benchmarked ourselves against our most efficient competitors today, short haul, some of the most effective low-cost carriers in Europe, long haul, Latin American and US carriers, which have restructured, those are the companies we compete with, and that is the size of the gap we have to be able to be as efficient as they are, and that is where we want to be.

If we are there, I would say more when we are there, I think we will be able to compete with anybody we have today in any of the markets we are competing. That is why we're willing to go as far as that -- we need to go as far as that to get Iberia and give Iberia opportunity to grow and have a bright future.

Now, many years -- many times I go back and look at what I said, just in order I don't get the same question again, and I give a different answer. So last year, we said we have three challenges. Basically, we represented it graphically, and we did that way, long haul on the left, because our long-haul flying eastbound from Madrid and short haul on the right side, because both have short haul -- sorry, eastbound, what is -- what is long haul is westbound. And that is what we represented there.

And we said we had challenges in the three of them. We didn't have an easy life last year. We said we had challenges on the long haul. Our fleet is not efficient in the current long haul environment. Full long-haul four-engine fleet is not what you would like to have today. It gives you high operating costs, and also our product was becoming old. It was old already in some of the economy classes, and the business proposition we were making was becoming less and less competitive against our clients.

We also said we had a hub problem. Clearly, our service levels and quality and what we were doing at our hub was not competitive what other hubs were doing, and that has been reflected in our numbers and our performance. And clearly, our punctuality was well below where it had to be. We had tons of customer complaints around this.

Finally, the third big element that I told you last year we had to fix, the profitability of our short-haul routes, which we needed them to feed our long-haul activity. What I can say is we've taken attention and we've done a lot of it. For long-haul, we are introducing the new A330 as of January this year, with the new product, is best class of what you will see in economy and business in the new product we're going to be proposing and will be presented in the next few weeks and will be available starting from January next year.

It would take us three years to get the new planes -- all new plans that Enrique has mentioned before, the A330s, and convert the 340s that would remain in our fleet. It will take as long as three years to get it done, but the process is underway, and we are starting and you will see it hopefully full satisfaction in January.

We started a process that we name [Agura], if any times come to your mind or you've heard it written somewhere. That is a process about to improve the hub service and the efficiency of the hub. We've gone back to 80% punctuality. We're at 83 September-October. Last September, we beat the single-day most punctual activity in our history. We were at 94% for a single day in a company the size of our operation, so we are getting there. We are addressing our hub problems. And it will be noticed by our clients more and more often.

Short-haul, we started out with short- and medium-haul transformation. We announced last year we would create Iberia Express and that we would do it before the end of March, so March 25th we had it running. It has 94% [committed] punctuality, is a great success operationally and business-wise. And we think that the 14 -- we've already managed to deploy to 14 planes as of the end of this year, running 12 now and two more until it finalizes the year.

So the message I would like to do is, yes, we've taken seriously the things we said, and we are delivering. However, that is not enough. Our numbers don't look good. You've seen it today. Iberia has lost almost EUR900 million in the last four years, operating cash flow, which is a lot of money and cannot go on forward.

This year, despite our capacity cuts of 3%, despite keeping the revenues at the same level as last year, we still have 200 million more in costs, fuel costs, that we cannot pass to our clients. So the margins seriously deteriorate, and this is a situation we cannot sustain.

It's clear the market environment has got much worse than we thought it would last year, but I was speaking to most of you last year, we're thinking not just because -- we do not do our own studies, we were copying what the IMF, what the Oxford Economics what the studies were telling us. Spain this year would be growing, what, 1.4%. Well, the fact is going to be below that figure by three to four points, which is a big number in our revenue and our activity. We are a consumer good activity. We suffer from those situations.

But it's not just about Spain. Latin America is going to grow two points less than we thought it would, and all our markets where we are competing and we're living are performing worse. So our own problems are getting very much eroded by the current macro situation.

Let me tell you there's light out there. We in Spain and in Madrid is the best place in Europe by far to get a hub to fly between Europe and Latin America. And -- except for Brazil, if you were in Latin America, those are the only two places which make economic sense, where you have the point-to-point flows and where you have the capacity to create a powerful and sustainable hub.

And that is what we're trying to do with the transformation -- with the transformation plan, use this opportunity. We have a lot of advantages to do it. We are already there. We have large market share. And we're going to grasp that business opportunity.

How are we going to do this? First of all, we're going to focus on our core network. That is why we're cutting capacity by 15% for the next season. We want to keep what is core, what is more relevant, and get out of anything that would lose money. It doesn't matter what emotions that takes. That is the business case we need to deliver. We need to cut our losses.

The second point -- and I'll refer more in detail to all of this -- is a renewed commercial plan. We can do better, and we will do. We need to transform our short and medium haul. What we've done and we started last year is not enough, does more than needs to be done on that front. We have to get through deep labor restructuring. It's unpopular. It's unavoidable. We are non-competitive. With the current cost base, we cannot compete. That is our situation today.

And we need to rethink everything that is non-core. We do a lot of activities on things that are good to have if they make money. The activities that would not make money we would have to discontinue as in maintenance or in handling unless we are able through an agreed process to make them profitable.

To give you a sense of the numbers, what we have put here in terms of three and four short- and medium-haul transformation and the labor restructuring accounts for around two-thirds of all the P&L effort that this actions will bring.

Let me get you a little more flavor on what these actions represent, what it is that we're doing. In terms of network, we are using the strength we have and getting rid of whatever is superfluous, what are our strengths here? Well, long haul, what we need is to focus on the higher premium markets and our best routes.

We have -- we are losing money at this money in all routes, long haul, short -- not in all routes, in all type of routes, long haul and short haul. And it's something we need to change through getting rid of those places where we are flying and we are losing money, but we are thinking at this moment those are routes that collectively would be losing around EUR100 million a year around it. We will not continue flying those places.

We are also going to change our flying pattern. We're moving to seven -- once daily, twice daily route pattern, as much as we can. That is what is cost-effective long haul to fly. Whenever a crew gets to place, comes back the next day, and that is what we're doing. We are only supporting interim situations. There's no way you can start a route by flying daily. If we can make it profitable within a two-year framework, that is the benchmark we've given ourselves to be as cost-effective as we can be on all our long-haul routes.

And in the short haul, what we are doing is focusing a short-haul network to feed our long-haul network. The most cost-effective way of flying in short-haul is a point-to-point activity. We have short-haul, which needs to link Madrid and the hub to -- to the short-haul activities, to the rest of domestic, Northern Africa, European. That is what we're doing. So we are rescheduling a lot of our flights to maximize the connectivity with our long-haul flights. That is what we intend to do.

That means that we will be flying 50% less capacity as of next summer. We will announce in due course what is exactly -- which routes we're keeping, changing, is a big change in our schedule. Long-haul, we expect to fly five planes less. Short-haul, it would be 20 planes less. So all that would take us out of the EUR100 million of less profitable activity we're doing today.

We started this summer a renewed commercial plan, which we're going to deepen, deepen more. It has a lot of adjustment. It starts with dealing with what is a new network we're having, the big bubble above my head, I guess. Second thing we're doing, revenue management. We've done some consultancy work around it. Our revenue management practices are good, but we found ways of how to improve them.

We're going to change our distribution costs. We are promoting and developing and pushing a direct channel as our -- one of our main channels of distribution. We lack behind our competitors in how much we sell through our website, and we have a way to go there and to improve our costs of our distribution.

The long-haul product I had already referred to, you will see it January. I guess we'll present it next few weeks. And you'll see what is the outcome of that, is best-in-class at this moment. Doesn't matter -- whoever goes last has the best product. We will be there.

We're changing customer profile, focusing more on the higher end of the market, what is more attractive, more point-to-point activity, more premium markets, and focusing more on the direct channel and indirect channel for that. And we need to improve the ancillary revenues we have. We also lag behind our competitors on that front. So we are starting selling upgrades, change our baggage policies, adapted more to what our clients are demanding at this moment, and we'll sell dynamic packages so you make the experience of flying better experience for the clients.

There's a lot going on. It hasn't started. It will take time. It will take months to get it through. But we are already into it.

The short- and medium-haul transformation, what we are proposing to the unions is, if you adjust what is competitive to the type of costs that Vueling has that you've seen before, we would be ready to do it in-house. It's been a long dispute with our crews about possibility of doing it in-house, which we move after a long period, over 2 years of unsuccessful negotiations.

I think it's the right time for our people to decide whether they want to live, work in Iberia, be competitive, and then we will keep them and we will retain them. We want them. They are very good people we have there, but we need to be competitive. If they are, we will keep it within Iberia. That's what we're doing. Notwithstanding that, Iberia Express will live, has 14 planes, will remain, is one of the business successes I've seen in the airline aviation in the last few years, and we want to keep it.

And the third idea we want to give around it is that we're going to move to single product in the short-haul arena. Much more simplified and bundle tariffs, ways in which the client can choose what is what they want to pay for, and get a better service for it.

It's clear that we need to go through a comprehensive and deep labor restructuring exercise. We're going to have to lower salaries. We're going to have to lower our unit costs. We're going to have to increase our productivity. And unfortunately, the plan would entail that 4,500 people would need to leave the company. This is not good news for anybody, but it is absolutely necessary to put Iberia on a competitive situation, make it viable, and give a future for everybody. We are saving 15,500 jobs. That is what we are trying to do through this plan.

Not all of it are layoffs. There will be early retirements. We will need to accommodate and would be flexible to accommodate the best we can everybody's situation so that the plan goes as smoothly as possible. You will understand that I cannot be specific at this -- at this moment exactly on what are we going to do, exactly how much are those numbers, which you're eager to learn, because they're part of a negotiated process, and there's something we need to engage with the unions to finalize. There are severe adjustments, but we need to go as deep as that to be competitive.

And we're going to restructure, as I mentioned, the noncompetitive -- the non-core businesses. Clearly, we're going to discontinue parts of the maintenance business which are non-profitable, and we'll discontinue, as well, the powers of handling outside Madrid, outside our hub which are not profitable. Funny enough, we provide handling services in Spain in 37 airports. Some of them we don't even fly to.

So we're taking -- we're helping our customers fly there and getting that money and give it back to our employees. It doesn't make any sense. Either this is competitive, we can make a decent profit, or we will not keeping -- we will not keep on doing this activity. That is what we're trying to do.

Handling licenses in Spain would have to be reopened for bid next year. We believe the bid would commence some time at the end of this year, and probably be finalized by the summer season, so that is why it's a time to engage and decide what is that we are going to do with the handling businesses. Our proposal to the unions is we'll do it, we'll renew the licenses if it is profitable. If not, we won't.

And all this is needed because we have a very severe cash deterioration. And that is a big problem. Today, we can fund this plan. Today, we have the resources to do it. If we wait, we won't be able to do it. So that is why it is urgent that we try to do this as soon as possible, why we have a time pressure, not just management, but everybody in Iberia, to get this done.

This would require costs, basically, in two things, layoff costs and fleet costs. Fleet costs goes from the early retirement of some planes, will need to engage with the leasers how we can do that and what is the most cost-effective and most satisfactory for everybody. Layoff costs, clearly we're going to have to pay these [missiles] and accept charges from early retirement.

I won't give you a figure, because unions would tell exactly today how much I'm ready to pay. But you need to get that what we are proposing to the unions is what the new labor reform allows in Spain, which goes up to the maximum of one year. We would be ready to accommodate different issues, higher figure that would accommodate everybody, but we're going to stay as close as we can to this figure. That is a message for the unions and for investors.

Negotiations have started as we are speaking. As I mentioned today, there are unions sitting with the management team of Iberia, already understanding the details of the program and what we are requesting for them and the negotiation calendar and plan. As I mentioned, deadline is January 31st is a must for us, is a must that we need those two months before the starting of the summer season to implement all that we're trying to do.

If there's not agreement, we would need to move to a non-agreed scenario. Non-agreed scenario would imply clearly more deep cuts, severe losses, but we're fully committed to perform and to deliver what we told you -- no negative operating cash by the mid of next year. We cannot afford bleeding more.

So, in summary, what we're trying to do is transform the airline, transform the airline through reduction in capacity of 15%, salary, productivity, workforce adjustment of 4,500, but what we are trying to do is to give Iberia is a future. That is not just for the sake of cutting. That is not a business plan. Our business plan is to make a competitive Iberia to grow in the future once we have proved we are profitable. That is when we will grow.

We have the cash and the resources to fund it, but we have the cash to do it now. We need to deliver at this moment. We need to engage at this moment. We cannot delay this any further.

Final message I want to tell you is just, we can do it. The strong management support for this, it is a difficult program. It's taken us some time to fine-tune it and to make sure that everything we're doing made sense and was the right thing to do. It has full support from the board of Iberia and IAG. And we are fully committed as a management team to deliver this result I've already told you.

I don't know how I'm doing on time, because the clock stopped, but thank you very much.

Andrew Barker - *IAG - Group Head of Investor Relations*

Thank you very much, Rafael, and for the spending the time to come to talk to us today. You have actually done very well on time. I'm sure you have a lot of questions for Rafael and for other members of the team, if you could save them for the extended session at the end.

We'll now have, I propose, a 30-minute break. You'll be able to talk to people informally and ask questions during the break, of course. And we come back here at 10.45 for our session on British Airways with Keith Williams and the team. Thank you very much.

(BREAK)

PRESENTATION

Andrew Barker - *IAG - Group Head of Investor Relations*

Ladies and gentlemen, if you could take your seats again. On the theme of punctuality, we're still running ahead of schedule, so that gives us a bit of extra time to tell you about the British Airways story. And when you've all settled down, I'd like to invite Keith to come up and introduce the rest of the team, as well. Thank you very much.

Keith Williams - *British Airways - CEO*

Morning, everybody. I think the first slide is a reminder of what Enrique was showing you earlier. This is the British Airways target. And if I move to the British Airways targets, a few people have asked me in the break is, are we on track or are we not on track?

So I thought the easiest way to explain it was probably like this, is that -- I'm reminded of a story of a British Airways pilot flying into Geneva, and Geneva and the Swiss are known for their accuracy, as you know. Now, the other thing you need to know about this story, if you're not from the BA side, is that the call sign for British Airways is Speedbird, okay?

So the British Airways pilot is coming in. And he lands. And the air traffic controller comes across the panel and says, "Speedbird, that was a very good landing, but you were slightly to the left of the center line," to which the British Airways pilot replied, "Yes, I was slightly to the left and the co-pilot to the right."

And that's where I think the British Airways -- where we are, in terms of the finance plan, is the target that we set ourselves for 2012, in some ways, we're slightly to the left, in others, we're slightly to the right. But overall, we are slightly ahead of where we expected to be. So we've got some headwind in moving towards the 2015 targets, which Nick will talk to you about in a moment.

Now, last year, I spoke about the path and the work that British Airways had done to equip itself, ready for the future. And I also looked forward, and I looked forward at opportunities that British Airways had, opportunities that have been driven by IAG, in terms of the merger with Iberia, the joint business with American and Iberia, and the potential acquisition of bmi at that point in time.

There was also opportunities on our side from the work that we were doing in terms of the brand and the customer, and in terms of the operation -- the operational performance in 2011 was the best we'd ever achieved. And at that point in time, I viewed myself as having what I call five P's, or concentrating on five P's. And those five P's were positioning, places, product, people, and profitability. And what I'm just going to cover off is, where we are on each of those five P's.

So on the first P, which is positioning and the brand, if you look in terms of customer satisfaction, in both 2011 and 2012, customer satisfaction has improved by three to four points each year. So the customers are getting back to enjoying the British Airways experience.

And that is coming through with the brand. And we've been doing a lot of work in positioning of the brand through the Olympics and before, through some advertising. And at the end of 2011, we were voted the most improved company in all sectors in the consumer Superbrands survey. And by the summer of 2012, in a YouGov survey in the U.K., we'd moved ahead of all other airlines for U.K. consumers in terms of the brand that customers would most recommend. So the brand is getting back to where it ought to be.

Now, that improvement in customer satisfaction has not only been in British Airways. It's also come through from the bmi customers who are transferring to the British Airways. And what we've seen with the work we've been doing there is we're seeing between 4% and 8% of improvement in terms of customer satisfaction from our bmi customers.

Now, the bmi customers are obviously a key, because at Heathrow, it's the ability to grow some of our key traffic flows. And the bmi customers are a real part of that, and Drew and Nick will talk you through a little bit of the experience that we've seen to date there.

So that's brand and positioning. In terms of places, a network, bmi gives us a tremendous opportunity. This winter, we're flying the biggest ever program out of Heathrow. bmi gives BA about 15% more capacity over the winter, and at Heathrow, as you know, we've increased our share of the slots from 43% to over 50%. So a lot of change going on there. And bmi gives us 20 new destinations, which Nick will talk to in a moment.

Now, the plans for bmi -- bmi, as you know, is losing around GBP200 million operating losses each year in its mainline business, and our job was to turn that around. This year, we've made a huge amount of progress in terms of the costs, and Nick will talk you through that, and we can see ourselves getting the business to break even for the second half of next year. And that is an acceleration of where we thought we'd be.

That's positioning and places and networks. If I look at the product, the product I've split into two, is we've made a lot of what I call small changes that have made a big difference, whether that's the iPad, whether it's looking at the food onboard the aircraft. There's a lot of work doing there, and that is supporting the customer satisfaction.

Equally, there's a lot of work around the aircraft. And that started with the program for the 777-200, which is a (inaudible) aircraft, and they've been upgraded. There's 18 of those, and now 10 have been completed.

At the same time, we're upgrading the 767 -- some of the 767 aircraft, and three of those have been completed. Those programs will be completed into next year, and they're going well.

And then you've got the big deliveries of the aircraft. And we've got the A380 next year. We've got three A380s coming in, and we've got four 787s. So you're starting to see the aircraft program come through, which again will represent a major change and step forward for British Airways.

That's in terms of product. In terms of people, I'm a believer is that internal cultures and external cultures have to meet, and we're doing a lot of work with people internally within the airline to get those to come together so that the customers-facing activity is the way that we behave internally.

Now, I can make the progress in that area and ultimately get down to the colleagues in business and the way in which they relate to each other to work together as a team. But things have been going well. We've integrated 1,400 people from bmi, and that's gone exceedingly well. At the same time, around an equal number of people who were at bmi have left the business. And that has gone exceedingly well. And the integration overall, as Nick will talk to in a moment, has also gone well.

But it's not only within the bmi business that there's been a change. If you look at what we've been doing at the BA, we needed to make considerable change at Gatwick, and 500 colleagues at Gatwick have either been outsourced or are in the process of downsizing the operations at Gatwick, and that's going well.

And equally, if you look at the head office function within the company, there are people who've been leaving the business as their programs have come to an end, and that is a process that will continue going forward.

That's in terms of people. And, finally, my final P was profitability. And if I look at profitability, I said in my opening remarks, it's we are on track. We're slightly ahead of where we need to be for this year, so we've got a little bit of tailwind coming into next year and, you know, things that are going well there. There's still a lot of work to do, and I think Nick's now going to talk you through how we get to the 2015 target that we've set ourselves, and then Drew will look at some of the commercial activities, and I'll come back to summarize at the end. But over to Nick.

Nick Swift - *British Airways - CFO*

Good morning. It might seem quite brave to show what we're doing between now and 2016 in this industry, but what we wanted to do was convey the drive and determination of the BA team and show you the key components to get us to the sort of level of earnings that we need to meet the sort of returns you expect as shareholders.

But let me just describe this slide, and then we'll take you through the first three blocks. It starts with this year's guidance for operating profit before exceptionals. And that's net of around -- or just under GBP100 million for bmi. So ex-bmi (inaudible) that compares to GBP518 million for last year, and as Enrique has explained, half of that is the Olympic effect, and we've got about GBP50 million of FX in there, as well. So like-for-like, structurally, we're not so far off that sort of GBP500 million mark

At the other end of the scale, the GBP1.1 billion includes GBP100 million for bmi. Now, all up on bmi, we'll spend around about GBP450 million. That's (inaudible) of consideration, but losses and restructuring costs this year are just shy of GBP200 million, and then the losses for next year. But to get the sort of return on capital that you as shareholders expect, we would need about GBP100 million or so for what we're targeting by 20%.

The balance -- that GBP1 billion -- just to give you context on that -- that's about the same as what BA did in 2007, plus the synergies from IAG and the JBA. So we have been there before. It looks like quite a climb, but we have been there before, and we're determined to get there again.

So the box you'll see there, there's five blocks up the staircase. The first 3 are revenue, and Drew will take you through those 3 and then I'll finish off the rest. Okay.

Drew Crawley - *British Airways - Director - Commercial*

Good morning, ladies and gentlemen. When I updated you last year on our joint business with American Airlines and Iberia, I think I gave the guidance of around EUR150 million. So today what I'm going to be doing is giving you some concrete evidence, which will prove that we are well on track in delivering.

The first slide, which you'll see in your packs, is here I would start off with pointing out that this data is financial data, it's data from the three airlines, it's the JBA grossed up data, but the value is shared very effectively across all three airlines through the revenue share agreement that we've established.

The first point I'd like to make is capacity at 11%. It might seem like a rather high number, but put that against the context of very slow growth over the 10 years due to the delay, the regulatory delay that we suffered (inaudible) growing very strongly during that period. So it's catch-up capacity, really, but it's not capacity that we have been just throwing about. We've been very selective in where we've put that capacity, and that results in us driving profitable growth, as evidenced by the 10% unit revenue growth over the period, on the back of 23% improvement in revenue.

Within that, we haven't been focusing on market share, per se, but we have managed to grow our share, in particular in the premium sector, through increased load factors that we see 4 points up across the period, which is very pleasing, because that, of course, is where we make most of our profit.

If I add a little more color to these businesses, what I said last year was that BA is transforming its business from a single-hub operation, where previously we'd been very focused on driving yield with great point-to-point demand out of London, and we're transforming our business now into a seven-hub network, where the real focus is around how we can leverage the OMDs across all three carriers. It gave us the opportunity to diversify not just geographically, but in our customer base, as well.

Now, let me talk a little bit about that diversification. If you look at that 23% revenue growth, you may be surprised to hear that core Europe, the continental European part of our joint business, as a point of sale, grew by 45% of the contribution of that 23%; the U.K. contributed 25%.

And North America point-of-sale, including Canada and Mexico, was 17%, and even Spain, with the economic background that you've been made well aware of, already today, were up 16% across the period. But in terms of geographic diversity, I think the JBA is working is incredible well.

Let me give an example of market share. I've said it's not been our primary focus, but there have been areas where we have concentrated on growing share. So in some core European markets, we've selected 30 markets where we wanted to grow share. And over this period, we've grown share in 28 of them. And of the 10,000 city pairs on the joint business, we've managed to grow share in 65% of those, while decreasing share in 35%.

So it's not the overall approach. We are not market share junkies. We are profit junkies. At the same time, with that much capacity growing -- and we've been able to grow share by offering a compelling product that our customers want to buy.

Let me give you another bit of color for these numbers. We launched five new routes (inaudible) of our joint business. And I'll use San Diego as an example. San Diego is a route that BA had previously launched and haven't managed to make it success. We hadn't managed to drive a profit, because at the US end, we weren't able to drive the premium revenue demand as we had done in the U.K.

So when we launched San Diego, we were very comfortable that we'd be able to make it sustainable, because we knew that American Airlines' AAdvantage program had a core group of people who lived around the San Diego area and, indeed, putting the AA code and leveraging the AA distribution benefits out of the US market gave us confidence.

What I can tell you is that San Diego is now one of the top-performing routes in terms of code share. Our average code share across the joint business account or essentially project customers on each of our flights account for around 7% on average. San Diego, it's 10% (inaudible) being AA code. And that's given us the lift that we needed to make San Diego profitable.

In addition to that, of the five routes that we launched, three of them are operating at unit revenues which are above their peers' routes, so San Diego peer routes, our U.K.-US routes, and the unit revenues on San Diego operating above the average. So very pleasing, because generally when we launch new routes outside of a joint business environment, generally it takes a few months or years to get to steady-state maturity and enjoy good profits, but it happens much more quickly in the joint business environment.

The other area we've been focusing our attention over the last year is joint corporate deals. So as you can see, at the very outset of the joint business, back in October 2010, we made a relatively slow start over100 point-deals, that we've been focusing on that now, is a rather complex process, because there are effectively three companies with three different processes, three different cultures, three different ways of doing things. But we have to appear seamless to the customer.

We've managed to fine-tune those processes very significantly. And on the back of that, we're able to go to market and offer compelling offers to this customer base. But around about over 700 corporate deals in the marketplace, joint corporate deals, that is. That's not as many as some of our other alliances.

But what I haven't included in this number are the addenda that any of us could add onto our existing deals. These are big deals. These are deals that we have targeted to win or retain, and I'm happy to say that we're doing better than we'd planned to do in this space.

One example of customer diversity that the joint business gives us, again, is evidence in this segment. Previously, there was -- I'll give you an example of a pharmaceutical company who had a travel spend of over $100 million. In the past, pre-JB, we'd enjoyed around $9 million of that $100 million. With our new joint business, we won the business, and we've got commitments to do significant share from that company, and we're already seeing revenue growth of just under 100%. So good progress on the joint corporate deal side.

Of course, the JB also gave us opportunities from a diversity perspective to access the Fly America market, which is an enormous market in the US, where previously US employees of the government and contractors of the government would only be allowed to fly on US carriers. American Airlines' code opens up that opportunity up for both British Airways and to Iberia.

This next slide I'll spend some time on, because it's relatively complicated. First thing is, the good news is that the -- it's moving towards the right. I think there's a general trend there you can see which you should be comfortable with.

There are four broad levers that we look at when we're diagnosing our joint business, and these are they. The first one is code share. The benefits from code share, people putting their code on our metal, AA code on BA metal and IB code on BA metal, this is the device that leverages the distribution and the brand power of the other carriers in their home markets.

And you can see that's in yellow. So this is on BA metal. 8% of our customers in the top bar are generally AA code. There's some IB code there, generally American Airlines code. And that's grown from a base of zero, growing rather slowly.

Important to remember that number, because I'm going to give you some numbers updating on (inaudible) in a minute, which will show you how quickly that has proven to be a success. The small red bar is the part that we started our joint business, which was (inaudible) which affected the abilities of customers to mix and match theirs outside the code share environment, and that generates a small amount.

The other area of value that the joint business brings is our ability to cross-sell to our frequent flyer bases. American Airlines have the AAdvantage program, with 65 million members. There's Iberia Plus for the Iberia customers. And there's the Executive Club for us.

And the blue bars are the percentage of customers who are flying who are members of another airline's team. So in this case, it's British Airways metal. It's primarily American AAdvantage members flying on us. And the final bar, the brown bar, is -- or the mauve bar is the behind and beyond flows that we get to code from the connectivity that we've optimized across the joint business.

Now, we use this data every month, and we can compare and contrast how we're doing relative to how American are doing relative to how Iberia are doing. So an example of that is the equivalent chart for American shows that 20% of the customers on American metal are flying under the BA code, and that, of course, gives us the opportunity -- the first question we ask is, well, why is it 8% on American and 20% on BA? Why is it not 20% on American?

It's a BA brand out in the US, AA brand out of the US not as strong as we thought relative to the BA brand out of the U.K. But it's actually more complex than that. And we find that it's a different approach to revenue management and some of the technology hurdles, which we believe we can fix, that gives us confidence that there's upside in that particular space.

Again, the Executive Club or the frequent flyer lever, the blue bar in this case, you can see that it hasn't grown much. It's actually much bigger -- there are more AAdvantage members flying on BA than there are Executive Club members flying on AA. So there's an opportunity there for us to focus on ensuring that all of the members of each of our programs understand the benefits and the value of what each other airline has to offer.

So that's just a flavor of how we manage this joint business. And it's sort of the things we look at, I thought I'd put it in -- I thought I was going to regret it, but I don't now.

Now, there are -- are other joint businesses and synergies that we're working on, as well, that you'll be familiar with. With Iberia, we have -- as Enrique showed in his slide -- in producing good revenue synergies by working closely with Iberia, and there are more to come. Those are examples of areas where we think we could leverage each other even more than we have been already is leveraging the Iberia knowledge of the Latin America market.

We've recently outsourced our selling in Argentina, for example, to Iberia, and they've helped us in growing our business down in that part of the world, with the knowledge that -- the local knowledge that they have. In contrast, we can bring some best practice and revenue management in the area of premium over booking or trade-up in the premium cabin -- yield management in the premium cabin, which I think -- because we've been doing it for so long, we think we've got some tools that we can share with Iberia and leverage more synergies through that device.

So I think there's plenty to come, and there are more code shares, as Enrique has mentioned. The code shares are working -- been working very successfully. So that's an area where we see benefits.

The JAL joint business, which we launched in October, was very interesting, because both JAL and we have joint business with American Airlines already established. And what that meant was that the speed at which we were able to come to an agreement was significantly enhanced. We both understood the language. We both understood the model. And we launched it in October, and it appears to be having a significant effect already.

The benefit from us, of course, is the Japanese market has a rather complex distribution system, which JAL know incredibly well, and we've been managing relatively well for a company outside of the Japanese environment. They also have much, much greater access to Japanese corporate clients.

So if I tell you, within a month, the Narita-Heathrow service on BA already has 10% of customers who [are booked] under the JAL code, and 95% of whom are booking out of point-of-sale Japan, which is where the vast majority of business comes from there. So I'm very confident that that's a joint business that's going to work well.

The JAL team in particular are very open, very professional, and we've had some great conversations already, and that will allow us to look to expand our presence across that part of the world. JAL, of course, have the biggest frequent flyer program in Asia, as well, which we can use, as we've been doing the American AAdvantage program. So all good news there.

On Avios, they are part of the revenue synergies that we're going to get from the merger because of the creation of the single currency. Though, previously, if you remember, we had three currencies, BA miles, air miles, and Iberia points. Now we have a single currency, which drives ubiquity, which means that that the program is much more compelling across many more markets. The opportunities for multi-collection are hugely enhanced. And that makes the program more attractive for people who want to use the currency in their own loyalty schemes.

And I'm happy to say that, in this last year -- and you remember we launched Avios (inaudible) a preview of the television advertisement, in this last year, the sales of Avios to non-air partners -- so the supermarket chains and so forth -- is up by 22 million. The number of active members is up by 200,000. We've issued 11% more Avios points than the previous year. And we have redeemed or selected and redeemed 15% more this year than the previous. So that's a sign that we're getting good engagement with the new currency and that it's been accepted and is attractive to the programs that we have put it in.

Something that's not on this slide, but, of course, is one of the synergies is cargo. Enrique referred to it. And I think that the way I would describe the cargo performance is outperforming in an admittedly weak market, and that's due to the -- the integration that Steve Gunning and his team have been able to do, and that seems to be placing us well in albeit a very weak market.

So in summary, I think the joint business was a great device. They do take a lot more time than running a single airline business, but the value that you get back I hope is evident in that first slide I showed you. The new joint business with JAL we're very confident about. And the Iberia synergies or the merger synergies with Iberia and through Avios are on track to deliver. And we think there's probably a bit more upside on the Iberia revenue synergy.

Now, last year, Andrew was mentioning to me that the iPad demonstration that Keith showed was the most popular item of the day. I haven't got an iPad demonstration, I'm afraid, but what I've got is a bit of an insight into what has enabled us to be able to use iPads and the like. We spent some significant time over the last few years investing in our IT systems to create a single data warehouse with all of our customer data in it. That gives us what we call single customer view.

So we can look at a single customer and understand where they're flying to, what their forward bookings are, where they've been, what operational issues they may have had, what their status is in their frequent flyer program, if they're about to be upgraded in their frequent flyer program, if they've ever flown in a particular cabin before, and we're using that data to create the messages that the -- our (inaudible) colleagues been delivering on the aircraft.

Now that data actually has many, many more insights, and it's those insights which are proving incredibly useful and I think are going to be a source of us being able to drive significantly more revenue. And I've got a video next with a few of those insights just to give you the flavor of the sorts of things that we're able to look at now and able to tailor our products and services and marketing approach around.

Now, you can look at those insights in two ways. The first way is if you're in a performance management review and you could say that we're not doing very well. The other way of looking at them is by thinking what a huge opportunity there is.

And our baseline revenue performance takes all of that into account. And what we can see in these insights -- it's a huge opportunity to better market, better communicate, and better develop products and services for our customers, which is where we're going to drive significantly more revenue over the next two to three years.

We think that these insights -- and I've just shown you a small selection of them -- give us an opportunity to [step] change the way we understand our customers. 60 million e-mails of which 60% go unopened actually isn't bad from an industry perspective. 40% open rate is actually fairly effective.

But what we're sure of is that we can engage customers in more proactive ways and in more ways in which they want to be engaged with, and offer them better designed products.

Now, a lot of this work we'll be doing will be in the price product arena, what we call price products. A lot of it will be leveraged in the benefit of the Avios database and the Avios currency. But we're sure that this is going to be a very rich seam that we can go and mine to generate higher margin from our existing customers and go and find new customers. So understanding our customers, designing products that they want to buy, and then using our best practice retail and digital marketing.

In the past, what we've been doing is looking at our business, understanding when we need to go out and do mass market sales, getting the business in, and then continuing. We think we can be much more finessed in that approach.

We've got this concept called always on retail in digital marketing, which effectively takes those insights and does many thousands of mini-campaigns across the year, which at the end is a much more efficient way of communicating with your customers and also a more cost-effective way of doing it, as well.

The fourth point is important. We think that the capacity discipline of this last year and the discipline that we can see going forward will enable us to drive price increases and mix increases across our business to offset the increased cost of fuel and the inflationary costs that we see. It won't be possible in every single market, but in the round, we're very confident that we can offset those additional costs.

And the final point is, our revenue management system, we are implementing a new demand forecast system, which isn't a major IT change. It's a change to the algorithms that we use to help us in working out where our highest margin customers are going to come from. So they're the areas where we think we're going to improve asset turn, primarily by driving higher revenues.

We're going to move on now to my last slide, which is about short haul. Now, we know that short haul needs to be profitable in its own right. That's absolutely clear. But much of our focus on the last year has been on the cost side, on the cost base, and I'm happy to tell you that we now have a core cost base at Gatwick that is a match for the low-cost carriers.

Now, we clearly need to know -- we know that there's more to be done on aircraft utilization and seat density, but the basics at Gatwick, we have run a transformation program through the managing director at Gatwick, Silla Maizey, who has taken the cost down to low-cost carrier levels.

In addition to that, the bmi synergies that we have seen through Heathrow -- and Nick's going to talk a little bit more about those -- have taken some costs -- some significant cost out of the Heathrow base, as well. We know there's more to do there, and that's part of the plan.

But the key area we think that we can make a difference is by focusing on the revenue per flight, which we know isn't as competitive as it needs to be. So we're very good at filling our airplanes in the summer, and I think we can do even more to yield the summer flights and flights during the peak times. But I think our real challenge is how we fill our flights and generate more revenue per flights during the winter. And I think there are a number of areas which we should be confident about that we're going to be able to turn this business around.

The first is focus. I think that there is a focus now on British Airways on short haul that there hasn't been in the past. And I hope that we've managed to convince you that, when we focus on something, whether it's a joint business, whether it's bmi integration, whatever it might be, we get things done. So there's a huge amount of focus going onto this in British Airways at the moment.

The second thing is confidence. And I think Keith spoke about it in his opening remarks. Our brand, I think, is in a place now where we are a much more confident company, we can have more confident points of view, and customers like buying from confident companies. And I think in the short-haul space, there is definitely room for BA to making bigger, bolder statements, going out there and fighting more competitively, and, critically, being clearer in the value that you get for BA.

There's a huge amount that we can do there which we haven't done in the past, so we think there's a degree of confidence in the company now which allows us to go out, and customers would appreciate that confidence and will buy on the back of it. The Olympic game that my colleague, Frank van der Post, so successfully ran over the summer, I think, is evidence of that. It's saying customers want us to succeed. So that's the first point I'll make.

The second point I'll make is that we've got underutilized assets. The Avios database, for example, is a huge opportunity. We've been doing some work on the share of wallets in the short-haul market that we have amongst our frequent flyers. And I'll give you an example of a frequent flyer blue member who flies on short haul. We know that we get 32% of their business. We know that 20% of their business on short haul are destinations that we don't fly to.

So there's a huge opportunity where they're not choosing us today to leverage the Avios currency to someone who's already made the decision that that's something that appeals to them and turn their heads and ensure that they're flying on BA and that we're getting a much more significant share of wallet from them. So there are underutilized assets.

And the final thing is that we do have a better product than the competition. We just haven't gone out and told people. So telling people in a very simplistic way what we have to offer at British Airways, the fact that we have great prices, and, indeed, we are currently developing new price products that will make us even more competitive, packaging that up in a way that's confident, that's leveraging the assets that we have, we believe is going to drive the average revenue per flight into a much more competitive space, and we'll be able to update you on that over the coming months.

So on that note, I'm going to finish and hand over to Nick, who's going to talk to you about bmi. Thank you very much.

Nick Swift - *British Airways - CFO*

Right. So we have talked about the first three blocks, colored green. Each of those five are around about GBP150 million. That's just to give you a sense of where we're going. And the key assumptions behind those, we're assuming the industry benefits from capacity discipline, and we're assuming that the economic projections for second half growth next year start to come through.

So I'll now tackle the next couple of blocks, starting with bmi. This summarizes the integration, and we deliberately integrated first and then optimized second. And I think that the key reason why this was a success is, people got what we were trying to do. The bmi people got that they didn't have an independent future. The BA people got that we had to stop the cash bleed quickly and, therefore, integrate it quickly. And it has been a privilege to be part of, actually. It has gone really nicely.

This gives you a sense of scale. Enrique said we're 99% complete. We're maybe 90-ish% complete, but we are very nearly at the end now, and it will be done at the end of this calendar year.

As well as all the costs that we've taken out through that top bit, Lynne and her team in network planning have started to drive some revenue through schedules, and Drew started to drive revenue by plugging bmi into the BA machine.

And so we've already got some good feed on some of those transfer flows. We've given you an example here on one particular route. We're up on 37% because of the power of the BA selling machine. That's essentially mix and load. And we're getting some great flows through Heathrow from some of the 'Stans, for example, into the US, where now we've connected those places up, we've very quickly become market leader. So some really nice revenue progress starting to come through. And I'll give you some numbers in a second.

But -- so that's the integration. And now we're starting to move into the optimize phase, so we've got 20 new routes that have started. They've started a couple of weeks ago. There are some customers that are now using T1 instead of T5. I'm afraid that's inevitable, and we're trying to work with those customers. But generally, that's going pretty well.

We've also got some further cost efficiencies to come through the optimized process. At the moment, we're in three terminals at Heathrow. You really don't want to be in three terminals. We'll try and get to two from about 2014, assuming the new T2 is finished around then. So we're doing a lot of work on what the best options are there.

And as part of the deal, we agreed with the pilots there'd be ongoing benefits -- essentially, the increments or the slower [gradient] for new starters than they currently are for existing pilots. So those benefits will start to come through.

The integrated scheduler, as I say, started in winter '12, but there's more we can do for summer '13. We are assuming that the slot remedies are taken, all '12 remedies are taken for summer '13. And we'll find out a bit more about those over the next month or so.

And then in due course, as you know, one of the key benefits of bmi is it gives us that long-term growth. And we started with Seoul as the first long-term -- long-haul route, and we'll continue to develop moving short-haul to long-haul as we go over the next few years. So there's lots to do to optimize.

What does that all mean for the numbers? Well, the way to think about bmi, is if you assume we started with a business that was losing GBP200 million a year on a full-year rate, we picked it up on the 20th of April, so we've got about GBP150 million of those losses in the baseline.

And in the two areas that we're ahead of progress on, we've saved about GBP20 million of costs, and we didn't expect to do that in this year. And we've got about GBP40 million in revenue benefit that we see in the BA machine. So we're GBP60 million versus that GBP150. That's why we're coming at about GBP90 million of operating loss for the period.

The integration costs will be about GBP100 million. We figured we would be spending a little bit of that integration cost next year. We now think we'll do it all this year and finish it off, so that's on track. And then what we'll secure through that integration is net savings of about GBP80 million, run rate starting from next January, and GBP100 million through those cost optimization steps by 2015.

And so what all that means is we're now guiding around about a GBP50 million loss for the first half of next year and then breakeven for the second half. And that compares to previous guidance of about GBP100 million for next year, break-even 2014. As Enrique mentioned, we're about six months ahead of bmi.

It is getting harder and harder to separate as it gets integrated, so we'll stop reporting bmi separately from the 1st of Jan, and we do believe we're on track for that GBP100 million by the 2015 year. So that summarizes bmi.

The next block on that bridge was the fuel savings. So with the 27 new aircraft coming in by 2015, we reckon we're going to get about 150 million of annual fuel savings in 2015, so around about GBR6 million per aircraft. The 380s, partly because you've got a lot of seats on that aircraft, the 787s is a very fuel-efficient plane. So that's a big chunk off the 2015 targets. That assumes $110 per barrel, by the way.

And then in the medium term, we've got about 125 aircraft, 25-year life. That's about five aircraft per annum. At the moment, we're replacing at about eight per annum, if you think in medium term, somewhere between five and eight is a broad assumption for rate of aircraft replacement, and clearly this also brings customer benefits with it.

The other chunk at the other end is GBP100 million of growth. Lynne, I think, would say that we have never been more flexible in our growth options. With the new aircraft coming in and the bmi slots, I think last year you saw lots of flexibility on our growth options. We're assuming around 2% to 3% per annum, part of that bmi, part of that elsewhere. That gives you the GBP100 million or so of profit at the end of profit bridge, as you can see, the growth bias towards North America, Asia and at partner hubs.

So that completes three more blocks, as shown there. The trick clearly is to having climbed that mountain to the billion mark, not then to let that be reversed by cost inflation. So I'll now take you through that cost discipline chart that we're looking to secure to offset the inflation.

What we want to do is keep non-fuel unit costs flat between now and 2015. To define what that means, it's like-for-like, so this year versus last year, we've taken out bmi, and then it'll be flat from there on in. And it also excludes costs, for example, in BA holidays, where we want to grow BA holidays quickly. That will have non-ASK-related cost increases, so we take that out to get the like-for-like. Constant FX -- and, by the way, we're on track to do that this year versus last year. So we've shown over many years actually that we can do this.

Well, what's that equivalent to? Well, on a cost base of around GBP6.5 billion, excluding fuel, that's about 200 million per annum. So over three years, we're looking to save around about GBP600 million compounded by 2015.

And the way -- and that's net, by the way, of reinvestment in the customer and the commercial, the sort of thing Drew's talked about, the sort of thing that Frank's been able to do, to reinvigorate our brand. So we've got to not only reinvest there, but save enough to more than offset that and claim back inflation.

And there are three broad areas we're tackling this with. The first is to really make the most of all the structural change that we've already secured, and that's hugely significant. For example, this chart shows you the mixed fleet benefits that I think you've seen before. This is the benefit of the new cabin crew arrangements.

As the mixed fleet come in, they come in at better terms than the current crew. If we stick to the profile we've already said, that should give us an extra 30 million of cost savings between 2012 and 2015. And we're not in looking to deliver that, but we're looking at options to accelerate that change. So that's a big number.

And then the other thing you've got is the IAG synergies. There's GBP80 million of IAG synergies that we're targeting between now and 2015, an extra GBP80 million. And that's both looking at where we can buy the same thing from the same supplier more often, and there's lots to go for there, and we're also getting started on the GBS, as we're calling it, the global business solution, that really starts to work our back office together between the various group members of IAG.

So there's lots to go for by exploiting what we've already got in place. There's also opportunities for further structural change. Drew mentioned what we've done in Gatwick on the cost base. We've taken out around about GBP14 million of costs. And you'll see that come into next year's results. We've incurred the restructuring costs this year. We've got the benefits from the first of Jan next year. So that's a big help. So GBP12 million with benefit planning.

The other thing we're doing is looking at about a 10% reduction in the overheads of BA. There's a lot to go for there. So we're working through the detail of how we -- how we achieve that, but that's a -- that's a big chunky number.

And then you've heard about the bmi extra cost efficiencies in two terminals rather than three and some of the pilot improvements. And then, of course, as always, work on the productivity improvements to offset pay rises and increments. So there's a lot we can do on the structural change that we haven't yet done.

And then, finally, overall on procurement, we're putting a huge amount of effort into getting even more from the broad-based procurement program. And this is a lot of people going through end-to-end from specification to contract management and making sure we're really working that process hard. And there's around about GBP150 million or so that we're targeting by the end of 2015 from that program.

And then examples, for example, catering, where Frank's team has managed to save around about GBP10 million by better managing that in contracts and by better logistics, and security, where, frankly, we were overspeccing the security. We saved about GBP15 million on that contract.

And then on the strategic supplies, there's a huge amount of money here. You're probably aware airport dues are overall -- our flying dues are around about GBP1.5 billion a year. Andrew's team has done a huge amount to reduce that, things like maximum takeoff weight, really refining the decision we pay on that, that can save tens of millions.

And we're putting a lot of effort into the current discussions with Heathrow about the next regulatory period. That becomes effective from April 2014. There's a lot we think we can do with Heathrow to improve the terms of that airport.

And another big number is engineering. We're going to spend the better part of GBP1 billion on engineering. There's a lot we can with that to keep supplies there to improve the way we work together. So hopefully that gives you a sense of the amount of effort and focus we're putting in across the board on the cost base.

If we do all that, that will get us the sort of targets that you would expect. That will mean that we can provide a sensible return on capital. It will give us that investment-grade rating, as Enrique said, as best we can tell. Crucially, it'll mean that we earn what we spend and we get to that surplus-free cash flow position. And that will allow us to support dividend payments to shareholders.

So that's all the components of the finance plan. And back to Keith to summarize. Thank you.

Keith Williams - *British Airways - CEO*

Yes, thank you to Nick and thank you to Drew. And around the room, you'll see other of the BA leadership team. I mentioned Frank. I think Frank's in the room, if you want to talk to him at lunch time, and there's the chairman and some of the non-execs, as well. So I hope you'll engage with them over the lunch period.

So just to summarize where we are, I think we've made great progress with the brand and with the customer. Looking forward, we need to continue the work that we're doing on the product and the work that we're doing to move the customer forward. And Drew was outlining what we've called the Know Me program, in terms of knowing our customers, to get benefit from that over the future.

There's a lot of other things going on that we haven't discussed today. We've got projects to improve the airport experience, which we haven't touched on, and maybe we'll do that at some future period. But there's a lot of activity, but within that, we absolutely need to maintain our focus on cost. We went through a lot of structural change in 2008 and '09 and what we can't afford to do is to give that up going forward. And that will be a challenge when you look at some of the cost increases that are coming through.

So, you know, thanks very much for listening. I just wanted to add one post-script on bmi, one final post-script on bmi. bmi -- you should know, the name is gone. And the aircraft are basically converted to British Airways. However, I do have one final offer, if you want to take it. For those of you who haven't visited bmi, it operates from a castle at Castle Donington. We will take offers on that castle for anyone who'd like it. Thank you.

Andrew Barker - *IAG - Group Head of Investor Relations*

Thank you, Keith and team. And we're now heading back to Enrique to talk about financing strategy, and then we'll go straight into Willie's session.

Enrique Dupuy - *IAG - CFO*

So sorry, back again. It's Andrew to blame, by the way. And I'm afraid this is my favorite subject, so -- and I don't have a movie. So, Willie, the final guys will never have movies. We'll have to -- I'll be wanting a movie next year.

Okay. So this is coming back to the chart that we explained with detail on the last presentation. So it's about comparing the users of funds with the sources. And we wanted to make this a special chapter, this special focus on the financing, plus refinancing plan.

Again, just to remind you, we are targeting about 70% proceeds, financing proceeds on the new fleet that for disbursement. We're counting on converging the convertible or refinancing the convertible. It's something that we'll be doing through '13, '14. And we are also counting on actively refinancing something in the range of 50% of the repayments attached to older aircraft (inaudible) financings.

So this is a very standard chart that shows basically four areas of four potential sources of funds that we could be using for that purpose. So a typical one, traditional one is -- as a [back-door] market, so coming from less sophisticated mortgages to the more sophisticated financing leases, or, I would say, financial leases with the enhancement of tax benefits.

So what has happened in these markets over the last, I would say, three, four years, is gradual abandoning of the European markets, so the European markets were the ones creating these markets in the past, with Japanese ones and the Europeans, because of the restrictions, because of their capital restrictions, because of the way they have to rebuild their balance sheets, they will gradually be absent of this market.

On the other side of the balance, we're having the Japanese banks coming back and we're having also some very strong and powerful Chinese players which are wanting to play a significant role on these markets. So it's going to be selective. It's going to be only open for certain borrowers.

And we have the impression that we have all the cards, the best cards to become one of these selected borrowers, because of our large positions, because of the -- I would say -- knowledge that borrowers have about Iberia and about British Airways, about also because of the type of fleet that we are going to be wanting to finance, so on the last and the fruitful relations that we've maintained with Chinese and (inaudible), so this the market that we are going to tap, although it's going to be smaller, it's going to be more restricted.

And then the operating lease market, this is also very interesting, especially it's very interesting to deal with what we will be calling the interim fleets, right? So the fleets that will be making the bridge between the actual fleets that we are using and the new-generation ones. So in these cases, we would be happy using these aircraft, these interim aircraft for maybe 8, 10 years, but we don't want to deal -- to have to deal -- to be exposed to the residual value at that point in time, as we would like to have free hands to bring in the new-generation aircraft when available. And we are talking beginning of year 2020 or so.

So what's happening here is the lessors are not having, I would say, the big support of the healthy parents that they had in the past. They will have to compete on the capital markets with direct borrowers, as ourselves. But we find there will be a way to share risks and to share benefits with them. We will be good, and we'll be efficient in raising funds from the debt markets. They are good.

We know they are good in terms of playing with re-marketing those aircraft, playing with the residual value of those, so there will be, as there has been in the past, scope to join forces and to build up not only, I would say, regular vanilla type of operating leases, but also more sophisticated, as I call them, synthetic operating leases. And that's something that we will be really wanting to promote and to build.

This is how the operating lease market has been developing since, I would say, 30, 40 years ago. So in the last, I would say, 20 years -- in fact, I began dealing with these type of issues in 1992 or so -- the market has been growing explosively. They are playing more and more significant role in the way the aircraft were funded. And as I just referred, it's about trying to get the best of every player and to build up the more efficient transactions. And we know how to do them.

So what we have done in these respects -- this is something that I want to bring to your attention -- is to complete a very significant part of the Iberia interim fleet requirements, the financing of the interim fleet requirements. And we are talking basically on the A330 aircraft that will be joining Iberia through the next three years. We're talking about eight aircraft.

And we have been already closing a deal, a firm deal for these eight aircraft with Bank of China, taking into account the difficulties that Spain, Iberia, the airline market is suffering, so I think that it has a great merit. And we've done a second deal only couple of weeks ago on the smaller A320s, also for Iberia and also on operating lease basis.

So the summary is that, in the case of Iberia, the fleet requirements for this period of time are mostly already done.

So third source of potential funding, it's about manufacturers, Okay? So -- and European created agencies. So they earn the money that we pay them. They are successful, I would say, fantastic worldwide organizations. We grab just a little bit of the value when we can of the total value chain. They get a big piece. Let's at least ask them for a little bit of money.

So historically, it has been a source of potential, I would say, contingency source of funding for airlines that has been used selectively. It depended on the way you could be closing deals with manufacturers. It was one of the cards -- and it is one of the cards that you can be playing with.

In the past, it wasn't very efficient because, as a backstop, it really was not very cost competitive. What has happened in the last couple of years is that type of high-cost alternative has become a low-cost choice. That's unfortunately, I think, maybe putting our things more difficult for a manufacturer back to a financing in the future. By the way, the group has very interesting, I would say, agreements in this respect that we will be effectively using.

So this is an advantage that IAG has and that IAG will be using to diversify the sources of funding and is going to be cheap funding in relative terms.

And finally, the asset-backed bond market. So this capital market. Airlines have not been using capital markets very much, at least in Europe. On the contrary, in the US, there has been much more, I would say, use and development of capital market instruments, and this is the clear example.

It's the so-called EETC market. It has a strange name, a very long name. It has to do with bonds that in some way have the collateral of parts of an aircraft, Okay?

So it has become very sophisticated, very large, very deep. The way it works is that behind each aircraft there are several tranches of different bonds with different seniorities, in a way if something happens, there are the more senior guys who are going to be, I would say, recovering the money first, and the more junior positions with higher yields, of course, which will be more exposed to what happens with, I would say, the re-marketing of the aircraft at the disrupting point, okay?

So it is, I would say, a market that has been very much used by the US companies. You will see now on the chart. It is eager to receive newcomers. Why? Because the investors are stuck with risk of American airlines, not only American Airlines, which is one of the examples, but there's Delta, Continental, and the rest of the guys, okay?

So there is a lack of diversification, and the -- a certain hunger for new names. And the reality is that one of the best names in the marketplace, which is Emirates, has tapped that market very efficiently only some months ago and with an asset which is a problematic one, A380, Okay?

So they made a very successful deal. And it has been proven that, even with not-so-good type of collateral, if you have a good name, you can raise funds on a very efficient way. And British Airways is a very good name.

So it will open a clear opportunity to tap and source funding with British Airways' name, firstly, probably at some point in time again with Iberia. Iberia was there five years ago, and we made some very efficient transactions. British Airways is a name that could easily come in very efficiently. The other reason is, jurisdiction for repossession here in the U.K. is very favorable from the US point of view, so no problems there.

So this is the type of trends that we are using. I'm sorry, it's small wording, but you can see how yields, how coupons have been coming back from the heights of year 1999, it was, I think -- no, 2009 -- 2009 -- and back to levels in the range of 4% to 6%, so attractive funds in terms of even relative terms with banking funds. And the size of the transactions are huge. You can raise funds up to $1 billion, $1.5 billion without problems at all.

So this in some way complete the picture of how we'll be tapping and financing the new aircraft deliveries. Just a brief word on refinancing of older assets. So we will be using our core fleet through their useful life, through their economic life, so at some point in time, we will be exhausting the initial financing and having to address potential refinancings. And that's something that we are already doing and, by the way, successfully.

Even British Airways and Iberia have been doing this year these extensions, these refinancings of older financings with (inaudible) with Japanese operating leases and the equipment (inaudible) that's something that we are going to do, and that's something that's going to enable us to increase the life of the financings.

On top of that, we have been able to conclude a very powerful tool, which is going to be a revolving -- it is a revolving credit facility. It's based collateralized by old aircraft and old engines. So it represents a potential source of available funds up to more than $800 million, and we even have the ability to increase the size up to around $1 billion. So this is, again, a very powerful tool that will help us to buffer all this process of financing and refinancing.

Behind this transaction, we have been able to benefit of the support of the best names in town, Okay? In town and out of town, by the way. So we have there everybody, and in some way, it has represented a fantastic support -- explicit support coming from the financial community to British Airways and to IAG Group.

So just to finalize, we have there the markets that we could be using. We have the knowledge. We have the skills. We have the teams prepared to deal with these opportunities. And we will do the job. Thank you. Oh, this is the last slide. Andrew, you never end. This is a cartoon.

Okay, as a summary, operating leases for interim fleet, a combination of asset-backed loans and EETC market for our core fleets. ECA financing and manufacturer backstop for the fleet that may be having more difficult to get financing to the markets. Thank you.

Willie Walsh - *IAG - CEO*

Thanks, Enrique, disappointed that you had a cartoon. In fact, I didn't intend to have any slides, but I thought I'd put one up for you, because it might help to explain a few things. Some people who have dealt with me have said that I can be unreasonable. And I'm disappointed, actually, that it's only some people who say that.

I firmly believe that part of the problem with our industry has been that there have been far too many reasonable people within the industry who have accepted legacy thinking, legacy actions, legacy behavior, and have left it unchallenged. I'm pleased to say, I'm seeing less and less of that behavior within the industry, and I genuinely believe we're in an industry that's at a crossroads and facing a very exciting future.

We clearly have a lot of challenges. And you've seen some of the challenges outlined for you today. Now, I'm not going to go through too many of them again for you, but I do want to reinforce a couple of points. Rafael has given you an overview of the Iberia transformation plan. That plan has been developed by Rafael and his team, so it is an Iberia plan, but we have assisted him to IAG with research, challenge, and assessment of the plan so that I believe it's an extremely comprehensive plan that, when implemented, will address the challenges that Iberia faces today and is likely to face in the years ahead.

I will never say that when it's implemented the job will be done, because this is an industry where the job is never done. There will be more work to do, but this transformation plan will take Iberia from where it is today to where it needs to be.

I don't think anyone will doubt the determination on our parts to implement that plan. Within IAG, we have the expertise, we have the experience, and we have a successful track record in implementing significant change within the airline industry. We're absolutely determined to do what is necessary to take Iberia from where it is today, which is clearly unsustainable, to where it needs to be so that it can contribute to the targets that we have set for our company and deliver the sort of returns that we believe are necessary and which we believe are achievable for IAG.

So we recognize that it's going to be challenging, but I can assure you, hope you've seen this -- Rafael and his team are absolutely determined to deliver on that plan, and we're determined to support him at every stage through the implementation process.

British Airways' team, I think, has done an excellent job in integrated bmi into BA. That has been a significant achievement. It's gone much better than I think any of us could have expected and the team deserves great praise for that. And you've seen comments about 90% integration, 99% or complete integration. I think the best way I would describe it is the bits that have been targeted for integration into British Airways have been done.

There is still work to do with bmi, and in effect, that's to shut down the bits that we don't intend to integrate. So the integration part, I think, is complete. There is still work to close down the bits of bmi that we don't intend to bring into BA and to dispose of surplus assets, including that nice castle that some of you have expressed an interest in.

So I'm really pleased with the progress that BA has made and really pleased with the rate of integration within -- of bmi within to British Airways. I'm very excited about the prospects of unlocking value that exists there that previously was not delivered by the bmi team.

In relation to Vueling, we're excited about this proposed acquisition. Just want to make it clear -- you've seen it in the charts -- we believe Vueling is best left as a standalone entity within the IAG Group, retaining its brand, its operating license, capitalizing on the excellent work that it has done. We believe they've got a fantastic management team. They are experts in their fields. Alex Cruz has done a great job, and our intention is that that team will be left intact with Alex reporting directly to me, in the same way as Keith and Rafael report directly to me.

And we believe, actually, Alex can contribute to the IAG Group based on the experience he has in running a successful low-cost airline in a competitive and difficult environment. So we're looking forward to completing that acquisition, and you've seen the outline for that in the presentations today.

Now, a couple of issues that I didn't cover that I just want to mention briefly. The establishment of the Davies Commission to look at runway capacity in the southeast has received a lot of publicity. Personally, I'm not optimistic that anything will come of that. As I've said, if you go back and read the history of these commissions, we had a similar one in 1968, reported in 1971. That report is still on a shelf somewhere. It was never acted on. And quite honestly, I don't see that any political will exists within the U.K. to tackle this issue. And in the absence of cross-party consensus, I'm not sure that anything constructive can come of this commission.

We will consider how we engage with the commission. We will consider whether there are opportunities for us to influence some of the thinking. But just to put on record some of our thoughts at the moment, we do not support the introduction of mixed modes at Heathrow to deliver additional capacity. We do not believe that that will benefit Heathrow. In fact, our experience tells us that mixed mode, if it's used to add capacity, will be a negative.

We will be very closely -- and you heard Nick talk about it -- focused on how any development at Heathrow will translate into user charges. We've been very critical in the past of the economic regulation of Heathrow, where we believe the regulator has been too generous to the airports in allowing them excessive returns on the investments that they have made.

So our focus will be on understanding how any proposed change will translate into operating costs for us. And we will be pushing very hard to ensure that we and our customers and all airlines get value for any investment that would be made at Heathrow, and we will only support investment where we believe that that investment can make a return.

So it's going to be an interesting time watching what happens. Personally, as I said, I'm not optimistic that anything significant will come of the debate, but I think it does give us an opportunity to at least attempt to influence some of the thinking in relation to airport capacity and, more importantly, airport charges, because that's a critical issue that often gets left to one side.

You've heard us talk about a -- the relationship with American Airlines. And you've seen from Drew's presentation it's a very positive relationship. They're going through a difficult time. I think they're doing absolutely the right thing by restructuring in Chapter 11. I think Tom Horton is the right person to take them through that restructuring. We're fully supportive of Tom and his team and the actions that he is taking, and we believe that American will emerge from that process in a stronger position, and for us, a stronger partner has to be a positive.

We have commented publicly that we would consider in the right circumstances an investment in American. Let me just explain. I've explained this to some of you when we've met you what we mean by that. We understand that you can invest your money, and we're not here to invest your money for you. What we're here to do is to see, can we identify some additional value that can be achieved if we make that investment? So, therefore, we would only invest in a restructured American if we believe that there's some additional strategic financial value that can be achieved by us doing that.

We've not made a business case to do so. We're not at this stage seeking to do so. But we are open to the idea where we believe that -- that investment can add additional value.

So we will continue to focus on strengthening the relationship with American. We will continue to participate with them in the discussion and the debate around consolidation, which we believe will happen. What form of consolidation we'll see in the US is still open for debate, but we believe that consolidation -- further consolidation in the industry there is inevitable and that further consolidation will be positive.

So all of the options that we've looked at, in terms of consolidation within the US, appear positive to us. And therefore, as I said, we're strong supporters of what the American team is doing.

We're very pleased to see Qatar join the oneworld alliance. We think the Middle East carriers can add quite a lot of value to the alliance. We're particularly pleased that Qatar has agreed to join, because we believe, with Qatar in particular, there is value that can be generated both for British Airways and for Iberia and potentially other airlines within the IAG Group.

It has, as you know, been somewhat controversial to say Qatar joined the oneworld alliance at the same time as our partner, Qantas, has entered into a deep agreement with Emirates. We're completely relaxed about that. We think it's the right thing for Qantas to do. We're supportive of Alan

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Joyce's decision to do that. We don't believe -- in fact, we stated publicly -- that it has any negative impact on our business. And I think that probably highlights how less significant -- I'm not saying insignificant -- but less significant flying to Australia has become for us.

So the decision by Qantas to terminate the joint business with us was one that we were comfortable with. The decision for Qantas to enter into an agreement with Emirates over Dubai is one that we're comfortable with. And we're very pleased that Qatar is coming into oneworld. And we will -- we look forward to exploiting some new opportunities that will exist with that relationship.

The final point I want to make is that, you know, we have a lot on our plate. I think we're getting through the challenges and opportunities well. But it's important, I think, for you to hear directly from me that we are not looking to do anything else beyond what we have outlined. So we're not looking at any new targets. We did, as you know, take a close look at TAP and concluded that there was no value to us in pursuing that, and so we have ceased any activity in relation to that.

So there is nothing else on our agenda other than to exploit the opportunity that bmi gives us, restructure Iberia, and hopefully successfully complete the proposed acquisition of Vueling, at the same time as we do the day job of running all of the airlines within the business.

That's the only formal part. It's now, I think, open to everybody to ask questions. Enrique Dupuy is going to join me on the stage for this. We do have a number of IAG managers within the room. We also have some senior executives from British Airways. We're light on the ground in terms of Iberia people because of the work that is going on in Iberia at the moment. Rafael is here, so feel free to ask questions on the presentations that you've seen. Equally feel free to ask questions on any other issues that you want to talk about.

Andrew Barker - *IAG - Group Head of Investor Relations*

And just a word on timing. We have an hour and a quarter until we were planning to start lunch, but if questions finish early, if you understood everything already, we're bringing food up and drink up just in case you're getting hungry and thirsty. But, please, fire away. And I suggest, Willie and Enrique, you chair the question session and go from there.

Willie Walsh - *IAG - CEO*

Okay. Who would like to go first?

QUESTIONS AND ANSWERS

Edward Stanford - *Oriel Securities - Analyst*

(inaudible) from Oriel Securities. Could you amplify a little bit on Iberia Express? You've talked, obviously, it's not going to (inaudible) Vueling, but where are we with the arbitration process? And how does it fit within a restructured Iberia?

Willie Walsh - *IAG - CEO*

Yes, the arbitration process, the mandatory arbitration process completed and reported, and we then challenged the report. That challenge was heard in court in Madrid. And the court ruled that the arbitration report was null and void. It did go on to say some other things, as well, so the positive step in that was the arbitration report has been declared null and void, so that was a successful argument -- or successfully argued on our part.

So we're waiting to fully understand the result of the court, and we'll report on that in due course. But at this stage, we're pleased with the court ruling that the arbitration result is null and void.

Iberia Express has been a fantastic success. It launched on the 26th of March as scheduled. It got from decision to go to launching -- was about three months. It was profitable in its third month of operation, 94% on-time performance in Madrid, best on-time performance at the airport, excellent customer reaction to it, a cost base that has been better than we had targeted, and, you know, a really, really strong performance by the management team there.

So it has demonstrated that it can be done. It's proven to everybody what we had argued, that it is possible to operate in a difficult environment, in a profitable manner, with an efficient, cost-effective feed carrier. Its primary objective was -- and continues to be -- to feed the long-haul hub at Madrid. And that's important to point out. That was its primary objective. We set it up recognizing that some of its costs would be suboptimal because it was designed to feed the long-haul hub. And that remains the focus of Iberia Express.

So we believe it has a role to play. We're delighted with the performance. We're really pleased with the performance of the management team there. It has helped us to understand better some of the challenges that Iberia faced, because, you know, the scale of the operation was something that we could get our heads around very quickly, and we were actually able to better understand some of the issues as a result of the Iberia Express management team explaining to us some of the challenges that they had to overcome and some of the opportunities that they witnessed. And that's something that Rafael has found very useful, in terms of applying that to the restructuring that he intends to do with the Iberia mainline operation.

So it has a role to play. It will continue to have a role to play. As Enrique said in his presentation, we're not looking to integrate it into Vueling, which will be a standalone entity, which, you know, has a primary focus on Barcelona, you know, good presence in the Spanish market, and we believe has opportunities to develop beyond that.

But they are two different airlines, and we're not looking to integrate them, because, quite honestly, I would see that as being suboptimal, because we deliberately structured Iberia Express to feed the long-haul hub, and therefore it does have things like a business-class (inaudible) the aircraft configuration is different. The manner in which we interline is different to the way Vueling would operate in its traditional low-cost manner.

There a hand up over there somewhere.

Steven Furlong - *Davy Research - Analyst*

Thanks. Steven Furlong from Davy Research. Just a couple of quick ones. Two for Willie. How do you think, in terms of how the market has evolved or your thinking, where you're comfortable having a short-haul LCC and talking about Vueling in the overall product of -- predominantly a network long-haul carrier?

The second thing, maybe just might just give a bit of color on one of your objectives, a stronger Europe to Asia position in critical markets, and you might just talk about that a little bit, particularly Japan and other issues.

And just finally maybe just might talk a bit, just a quick update -- maybe Keith can -- on the pension. Is there any update there in terms of discount rates or accounting changes? That would be helpful. Thank you.

Willie Walsh - *IAG - CEO*

Okay. We'll get Keith -- I don't know if he's still miked up, but he can talk about the pension. We are limited in what we can say about Vueling because of the process that's ongoing. And, quite honestly, we're pretty much limited to what we've already said.

But we made clear from the very outset, when establishing IAG, that we did see the possibility of having a low-cost brand within the IAG Group. We think Vueling is an excellent low-cost airline. We think it's very efficient, excellent management team. It's profitable. It's going to be accretive to the IAG earnings. And it ticks all of the boxes for us. So I'm very pleased that we've had the opportunity. We think it fits with the strategic objectives that we set for IAG when we created the company.

The second question, Steven, was in relation to --

Steven Furlong - *Davy Research - Analyst*

(inaudible) Asia.

Willie Walsh - *IAG - CEO*

Asia, yeah. Well, Asia for us is an opportunity, particularly an opportunity now that we have slots at Heathrow through the acquisition of bmi. We're underserved in the market there. I've always said that we're not seeking to participate in the intra-Asian market, because quite honestly we don't have the expertise to do that. We believe that that would be very expensive and probably loss-making for us to try and do that, particularly when you see what's going on in that market at the moment.

So our focus has been on serving the growth from Asia into Europe and from Asia over Europe into North and South America. With the acquisition of the slots at Heathrow, you've seen we've announced the establishment of a route to Seoul, which will start soon, that will be the first of a number of new destinations that we plan to launch. As I said, our focus will be primarily on the growth markets in Asia. There are lots of airports that are keen to see a British Airways presence. And we think there's significant opportunity for us to grow our Asian presence in a profitable way. And that's clearly going to be the key for us.

The great thing about having the slots at Heathrow now is we can also look at further expansion into North America, which has always been an important market for us, always will be an important market for us, and continues to be a market where we believe there's growth opportunity. But Asia -- probably best thing I can say is, you know, watch this space. We are in dialogue with several airports, and there will be opportunities, policy with the delivery of the 787s.

Keith, on pensions.

Keith Williams - *British Airways - CEO*

(inaudible) first, I'm very pleased to say, after 12 years of dealing directly with pensions, I've left it to Nick this time around. The valuation is due to be completed by the end of June, as you probably know, and that's still under discussion with the trustees. So there's nothing much to report there.

The one point I would make is that, as you saw in Nick's slides, is BA by 2015 is getting itself in a position to be able to pay dividends. There is a dividend restriction in the pension agreement, which is due to fall away in June '13, as well. So that's due to fall away as part of this valuation.

So the valuation's ongoing. We expect that the level of contributions to be maintained in the agreed format that was agreed at the last valuation. I've nothing else to say.

Willie Walsh - *IAG - CEO*

Okay. Thanks.

Donal O'Neill - *Goodbody - Analyst*

Good afternoon. Donal O'Neill from Goodbody. Three questions, if I can. The first one just on financing. The slides you talked about, non-core divestments, can you expand on those? Secondly, with regard to financing, there would be some changes, I guess, in the last week or so on slot sales in Europe. Does that change your view in terms of trying to do another asset-backed bond based on those slots at Heathrow, if that's possible?

Second question is just, again, on the Vueling acquisition, does Vueling in your minds form part of the EUR600 million profitability improvements you're targeting with Iberia? And if not, what else do you think would -- you know, you could get out of Vueling on top of that?

And last question (inaudible) Vueling, just -- are there any regulatory hurdles, in terms of competition issues within Spain that you might face?

And just the last question on the oneworld alliance. Any views on what LATAM Airlines might be able to come into the alliance? Or, you know, where else are you targeting? What other airlines are you targeting within that?

Willie Walsh - *IAG - CEO*

Okay. I think you asked more than three questions, but --

Enrique Dupuy - *IAG - CFO*

You're going to have to remind me.

Willie Walsh - *IAG - CEO*

Yes, so -- financing -- yes.

Enrique Dupuy - *IAG - CFO*

As you know, because we announced this publicly, by the end of the month of July, we hedged in terms of its value the position of Iberia in Amadeus shares, so we have now a source of value that, by the way, have been -- so it's improving very significantly through the last 12 months with -- which returns for shareholders in the range of 50%.

And that could be easily now applied partially to this purpose. So I am not ready, and I don't want to talk about figures, but the sources of the divestments would be around this type of asset.

Willie Walsh - *IAG - CEO*

And that's an important point. As we said in the presentation, the restructuring of Iberia will be financed through the partial divestment of some non-core assets. So, you know, the -- we're not going to be looking for any additional funding. We can fund the restructured from within, and that's -- that point was made by Rafael, but just to reinforce that.

We're not proposing to do anything in relation to slots. And that was your second part of that question. We did look at that as -- you know, whether we could raise financing on slots. I think it was probably too novel an idea for the market to understand. I wouldn't say we've given up on it, but, you know, we did look at it. We thought it was an interesting opportunity. We do look for, you know, new and novel ways of financing, and I think there was some excellent work done behind that, which we may come back to in the future, but it's not part of our short- or medium-term plans.

Again, I can't say too much about Vueling other than what I've pretty much already said, but to reinforce that the Iberia restructuring plan did not at any time take into account Vueling. So Rafael's plan and his team's plan did not include any contribution beyond what already Vueling already does for Iberia. So there is co-chairing between Iberia and Vueling today, but we didn't consider Vueling as part of the plan that Rafael has discussed with you today.

In terms of oneworld -- sorry, did you want to add?

Enrique Dupuy - *IAG - CFO*

No, no, no, no. No, I was wondering the next question (inaudible)

Willie Walsh - *IAG - CEO*

oneworld, LATAM continues to assess the alliance decision for them. As you know, the regulator said they can be in the -- have to be in the same alliance or no alliance, so I think their original plan was to try and keep TAM in the Star Alliance and LAN in the oneworld alliance. That can't be done, so, as you know, TAM is not joining Star. LAN is still a very active member of oneworld. They're considering how best to utilize TAM.

They're doing what, in fact, they have a responsibility to do, as they pointed out to us. They have a fiduciary responsibility to their shareholders to ensure that they maximize the value of the merger in the context of any alliance relationship. Our strong belief remains that the best place for LATAM is the oneworld alliance, given the preeminent position that oneworld carriers have in hubs that are important to them, which would include Miami, Madrid, and, indeed, Heathrow. And we're continuing to have dialogue with them.

So the relationship with LAN has always been positive. We have a lot of respect for the Cuetos. I think they've done an excellent job developing LAN. And we're confident that they will look at oneworld as their option. But I've nothing new to report on that.

There are no new targets for oneworld. As you know, we've announced Qatar, Malaysian, Sri Lankan to come into the alliance. We're always looking at whether there are other potential airlines that would add value to the oneworld relationship, the oneworld governing body, and the CEOs of oneworld airlines meet on a regular basis. Our next meeting is scheduled in early December.

But I think the one area that we have continued to identify as a gap that we would all like to fill is China. We've a good relationship with Cathay and their affiliate company, subsidiary company in China. But, you know, there is certainly scope for us, either on a bilateral basis to work with some of the Chinese carriers outside of the oneworld alliance, or potentially for oneworld carriers to look for bilateral relationships with some of the Chinese carriers. So we're looking at China, but we've nothing new to add in relation to that at the moment.

(inaudible) one over here -- Okay, we'll take -- just behind you, yeah. Yes. I can't see any hands on this side of the room. Is there anybody on this side of the room? Okay, we'll stick on this side of the room for the moment.

Jarrod Castle - *UBS - Analyst*

Thank you. It's Jarrod Castle from UBS. I realize there's a sensitivity about the restructuring going on in Spain, but just based on things you've said today, if you could maybe expand on them. One, on 25 planes coming out, will any of these be sold or some scrapped? And potentially, you know, what would the cost be there, if you can say?

Two, if you had to (inaudible) you know, the 4,500 people at one year's salary, what would that cost? Is that EUR300 million or thereabouts? And then lastly, have there been any chats with the unions ahead of this, I guess? And actually, I'll -- just one related. Is there any impact on the balance sheet, in terms of maybe some intangible write-downs? I can't remember if there was goodwill raised on Iberia. Thanks.

Willie Walsh - *IAG - CEO*

Okay, thank you. I think Enrique can probably answer most of those. And, in fact, Rafael, if there's anything you want to add. But I think from memory, the payroll bill in Iberia is about 1.3 billion. And you've seen the headcount numbers. So we're not giving any specific numbers. Yes, clearly, as Rafael said, he wants to and needs to engage with the trade unions in the process of negotiation, and that has started today. So while Rafael has been here, his team has been meeting with the trade union groups in Madrid this morning.

Enrique Dupuy - *IAG - CFO*

I will add about the fleet, as you probably remember, the fleet ownership structure in Iberia is a very flexible one, so it's basically composed by operating leases that will expire at the time. So there is a reasonable scope of getting rid of a very significant part of the feed that we need to get rid of without suffering, I would say, very significant penalties.

And that's (inaudible) the long-haul fleet and the short-haul. So I would say what will be the final number behind the fleet restructuring exercise, I can tell you is not going to be a very (inaudible)

Willie Walsh - *IAG - CEO*

And I think you asked a question about intangibles, was it?

Jarrod Castle - *UBS - Analyst*

(inaudible)

Enrique Dupuy - *IAG - CFO*

Can you be more concrete? What intangibles you would be --

Jarrod Castle - *UBS - Analyst*

Just undertaking this acquisition, was there any goodwill raised when Iberia was brought into the IAG Group and whether or not there has to be an impairment given, you know, 15% reduction in capacity and all these changes?

Enrique Dupuy - *IAG - CFO*

I don't think that there's going to be anything special, apart from, as you know, we have to produce, I would say, every year [an impairment test] on our assets, so that's something that we'll be reviewing.

And under the light of the new plan, we will have to evaluate if we need to make any intangible, I would say, value readjustment or not, and that's going to depend on the course of the negotiations, Okay?

Willie Walsh - *IAG - CEO*

And that's something that we would normally do as routine in the fourth quarter.

Enrique Dupuy - *IAG - CFO*

Yes, every year.

Willie Walsh - *IAG - CEO*

Next?

James Hollins - *Investech - Analyst*

It's James Hollins from Investec. Three for me, please. The first one is on dynamic packaging. There's a small mention of BA holidays, and I was wondering if that's something you're already pushing now. And if it is, is that something that's going to really drive returns for the group? Or is it just about satisfying sort of consumer demand?

The second one is on the kangaroo route. You mentioned, obviously, post-Qantas, you really didn't make much money out of it. Is it something where you think you've got Australia covered or you need to re-address a lack of capacity down there, particularly as the likes of Qatar don't really have much down to Australia?

And the third on mixed mode. You've come out and said that it's not something you're keen on. Certainly, your competitors, Virgin, et cetera, said it's something they'd like. Perhaps give me a bit more detail on what you don't like about it.

Willie Walsh - *IAG - CEO*

Okay, dynamic packaging, Drew, do you want to comment on it?

Drew Crawley - *British Airways - Director - Commercial*

(inaudible) mike still on? Maybe not. Yes, it is.

Willie Walsh - *IAG - CEO*

Yes.

Drew Crawley - *British Airways - Director - Commercial*

Dynamic packaging, just for those of you less familiar with it, this is a project in BA that took around about five years to come to fruition, which effectively allows us to package hotel product dynamically and price it dynamically on our website and take dynamic inventory from the hotels, rather than the legacy (inaudible) which was in -- in lumps of rooms.

So it's a very attractive way of selling ancillaries in the hotel space and the [inaudible] space. It gives you much more competitive pricing. And it gives you much more choice than the previous legacy version. We've successfully started to leverage that in British Airways now and have a target to double our British Airways holidays revenues over the next year.

And part of the synergies that I mentioned earlier, Iberia is taking on some of the BA holidays functionality, which will effectively be packaged up as an Iberia version of that. So they'll be able to enjoy the same benefits that we're seeing being delivered at the moment.

Willie Walsh - *IAG - CEO*

On Australia, we think we have the right aircraft now on the Australia route. As you know, since the announcement of the termination of the joint business, we've announced a number of changes to our network, but one of those includes putting a 777-300ER on the route, which we think is the most efficient aircraft. That's not the aircraft that we did have. We had a mix of 747s and 777-200s, in combination with Qantas, who had primarily A380s, so we believe that the 777-300ER is the most efficient aircraft on that, and we continue to look at what else we can do.

So Qatar doesn't have a very strong presence in Australia, but it has clearly ambitions to expand its network and, in fact, you know, expands its network on a regular basis. So that's one of the opportunities that exists.

And I'm not wishing to be unfair to Qantas, because the relationship has been excellent, and hopefully will continue to be, but I think the fact that we had this joint business with Qantas discouraged a number of other potential partners from having discussions with us, because they saw us as being wedded to that relationship and, therefore, opportunities that we believe have existed weren't -- we weren't really able to pursue them, because we couldn't gain traction with some of the potential partners, so we think that this changes thing a bit, and we're looking forward to evaluating some new opportunities in relation to Australia.

But as I said, it's not a -- it's not a really big part of our network. Overall traffic from the U.K. to Australia has been in decline. So, you know, it hasn't been a very important -- financially important part of the network, but it does continue to be an important part of our, you know, global network, and we will look to serve that market in the most efficient way possible.

On mixed mode, yeah, mixed mode would -- it's estimated mixed mode could add activity, about 60,000 additional slots on an annual basis, so from 480,000 to 540,000 slots at Heathrow. The problem with Heathrow is, because it's maxed, there's no scope for recovery in periods of disruption. Mixed mode today, you know, it's not called mixed mode. You know, we call it various things like team or operational freedom, is used to recover from disruption.

And we think that's actually the most efficient thing, that there is some scope to recover from disruption, because, unfortunately, you know, it is inevitable that we will face disruption, be it from, you know, weather or aircraft issues, and therefore mixed mode or the capacity that can be generated from the dual operation of the runways, we think, is best used for recovery purposes, rather than for planning purposes. And that's why we're opposed to it.

If I'm honest, what do we want? Well, we've just acquired bmi, so we want to exploit the opportunity that bmi presents to us. And that gives us an opportunity to expand our network to growth markets that previously we wouldn't have been able to do. We've been very clear that that's one of the reasons why we acquired bmi. We intend to turn some of those bmi slots into long-haul slots. The utilization -- effective and efficient utilization of those slots will depend on the delivery of aircraft.

So from a BA-IAG point of view, we've secured our ability to grow at Heathrow, and the U.K. economy will benefit as a result of that, because as we said, we'll look to grow into markets that are not currently served. So, you know, we're going to watch with interest the debate.

Personally, I don't believe the third runway will ever be built at Heathrow. We campaigned for it. You know, we were criticized by those who were opposed to it. I publicly stated previously that I felt that we did too much of the heavy lifting, in terms of that campaigning. So we're not going to campaign for a third runway. We will look at how Heathrow can be made better and more efficient, more cost-effective, and we think there are opportunities to do that. And that will be our primary focus. You know, we don't want to see money being spent on glory projects that we have to fund.

So, you know, if somebody wants to build an airport in the estuary or anywhere else, let them at it, but we're not going to fund it, and we're not going to use it, because, you know, Heathrow is the best place for us. And so we're committed to Heathrow and, quite honestly, I said publicly I think, in 2050, we'll still be operating from a two-runway airport at Heathrow, and we'll have a very efficient operation at that two-runway airport at Heathrow.

Enrique Dupuy - *IAG - CFO*

And the combination of these new slots, ex-bmi, with a new-generation aircraft, will produce ability to grow in these, I would say, Far East markets, in which I would say having the appropriate equipment and reaching the appropriate cities will provide huge opportunities to increase relations for British Airways and also for the U.K. in general.

Willie Walsh - *IAG - CEO*

Okay. I think I saw Andrew's hand up there, so keep going back. Andrew, do you want to grab the microphone? And we do have another microphone over here, so if anybody on this side of the room is -- I think (inaudible) better move to the other side.

Andrew Lobbenberg - *HSBC - Analyst*

Hi, it's Andrew from HSBC. Can I ask about the Vueling acquisition? It's proposed that you're going to buy the incremental slots at the IAG level, rather than Iberia level. I wanted to know what the thinking was behind that and whether that has any, you know, industrial policy effects or consequences at Iberia.

Then, also on the arbitration, you (inaudible) focus particularly large amount on it. What are the consequences of the process restarting? Does it -- does it threaten any delay to the process? And on the other positive side, my understanding was, when the initial arbitration started, that it cut off, it curtailed industrial unrest. So as the thing proceeds now through a re-arbitration -- or heaven only knows what -- does that provide any cap on industrial action at this time?

And then a third question for good measure. You talked positively about Gatwick. Are you going to buy them some new toys?

Willie Walsh - *IAG - CEO*

We don't call them toys. We're not sentimental. We're -- you know, he doesn't even want to use videos, and I don't even want to use slides, so we're -- we fully respect and admire our marketing colleagues. But, you know, we will look at aircraft for Gatwick in the same cold, heartless way that we look at all assets in the group.

Yes, we see that the most effective way of using Vueling is as part of the IAG Group as a standalone entity. I've said it many times, and I'll say it again. I think it's a very good company. I think they've got an excellent management team, and we're going to let them get on doing what they do best, and we hope that we'll be able to make what they do even better and that they can help, you know, assist us in doing what we do in a better way.

So the most efficient, effective, long-term value creation can be achieved by Vueling as a standalone brand and operating company within the IAG Group, and that's why we've clearly stated that that's the way we intend to use it. It will have the opportunity to work with other airlines within the group, so it does have codeshareing with British Airways, and that's worked very well. And it has codeshareing with Iberia, and we will continue to look at, you know, if there's further opportunities.

And one of the real advantages of having that relationship is they've understood how to interact with the legacy carrier. And that actually has some real value, so I think there's quite a bit that we can teach others if we choose to around that. We see that as adding additional value to the IAG Group, in terms of the added value that we can offer to other partners.

So I think -- what was your other question? Oh, yeah, sorry, the arbitration. I'm not a lawyer, and we have excellent lawyers who are advising us on this. The good news, as I said, was that the court was very clear that the arbitration is null and void. They did mention about restarting the process. I think the lawyers are looking at that to see how that could be done, if at all.

And I think there is a view that, you know, while that continues to be debated, yes, there are restrictions on SEPLA engineering any industrial action, which to be honest with you, that's a layman's version of pages and pages of legal advice. So take that as just my opinion, rather than a strict legal interpretation.

We are, as I said, continuing to assess what the implications of that ruling is, but we're very pleased, because our primary objective was to have the arbitration result satisfied, and we're very pleased that that has been done. That was important for us, and I think the court was absolutely clear that the arbitration, because it interfered in the rights of Iberia Express, which hadn't been heard, understood, or even considered, should be set aside.

Tim Marshall - *Redburn - Analyst*

Hi, it's Tim Marshall from Redburn. Just a couple of questions. Firstly, Enrique maybe, how do you think about the longer-term CapEx program that you need? The number of aircraft that you have on order now is clearly not enough to replace all of the older -- and particularly thinking that the older British Airways long-haul fleet. And is the thought that over time you want to get to a period where CapEx is much more consistent on an annual year-to-year basis than going through these sort of peaks and troughs on CapEx?

And then, secondly, maybe a question for Willie. What's your real feeling on the targets for British Airways? Why should the previous peak be what we should be looking back towards? You know, I think back to 2007. We were still suffering the cost inflation, and not wanting to put too much [inaudible] you know, we're still suffering the cost inflation from oil. We're still strong in that year. It was, you know, pre-terminal five. There's been more consolidation now at Heathrow. You know, and we're sitting here in a period where, you know, capacity discipline is pretty -- pretty right.

So, you know, I guess, we had an 8% to 12% margin target in the past. You know, what's the sort of -- once we get to this target, the thoughts, you know, thereafter?

Willie Walsh - *IAG - CEO*

Okay.

Enrique Dupuy - *IAG - CFO*

Okay. Well, in the case of CapEx and fleet financing you've been seeing the charts, so basically we are initiating for the time being some transactions that will be covering the requirements, the needs of British Airways for the next couple of years.

In the case of Iberia, as I told you, we basically have completed the financing requirements for the next couple of years. We are opening then the EETC type of research, internal research, and we would like to be able to have a deal prepared by the first quarter of next year. And then we will try to compare the benefits of that potential capital market deal with another, I would say, bank sources of funds, and we'll be making, I would say, a decision on it.

But it's probable that we could be raising funds through a EETC for British Airways in the first half of the year. On 777s that will be coming, we probably are going to favor operating lease structures, both plain vanilla operating leases and, also we are having a look at these, I would say synthetic operating leases bringing some lessors for specific purposes behind the deal, basically, through re-marketing and assuming residual value risk. So these are the basic, I would say, lines that we will be developing through the next months.

Any detail that you would be needing on anything else?

Tim Marshall - *Redburn - Analyst*

(inaudible)

Enrique Dupuy - *IAG - CFO*

(inaudible)

Tim Marshall - *Redburn - Analyst*

Just in terms of -- the CapEx right now is very lumpy. You know, there was a period in the 2000s where, you know, BA pretty much didn't order any or take any new aircraft.

Enrique Dupuy - *IAG - CFO*

Yes. Yes.

Tim Marshall - *Redburn - Analyst*

So the average age of the fleet -- which started off as very young -- has gotten much, much older now.

Enrique Dupuy - *IAG - CFO*

Yes.

Tim Marshall - *Redburn - Analyst*

Particularly on the long-haul side of things. So is the thought that you're just going to have a sort of very --

Enrique Dupuy - *IAG - CFO*

Yes, you are right that at some point in time, through the last 10 years, British Airways have basically had a limit of a CapEx (inaudible) and this means that there will be some potential accumulation of retirement of old fleet in the next 10 years. And that's something that we are dealing with, and especially these 777 exercise intends to provide with a more gradual retirement scheme on basically (inaudible) fleet.

So that's something that we are working on, and we have some clear ideas of how to smoothen, I would say, [the passing] of retirement from now until the end of the '19, so (inaudible) 2020.

Willie Walsh - *IAG - CEO*

In relation to British Airways, you know, I think the performance of BA has been good in the environment in which it's been operating. I think some of the big changes between 2007, 2008 and today, it's important to remember them. One very big drag on our business in the U.K. is air passenger duty, which you remember doubled in 2007 and has increased since then and will continue to increase.

So if you look at that, you know, we're paying over GBP500 million to the exchequer through air passenger duty. For us to be competitive against other hubs, where they don't face this ridiculous tax, you know, it means that our underlying prices are impacted by that. And that is a significant issue, so it's not only making the U.K. uncompetitive, you know, overall, but it does force us to try and at least absorb some of that tax. Now, you as the customer, you know, you're paying it, but it is affecting, I think, the potential revenue development of British Airways.

Airport charges, you know, have continued to escalate, particularly at Heathrow, and our percentage of operation at Heathrow has increased. So, you know, we've gone from 42% of the slots at Heathrow to 52% of the slots at Heathrow. There's benefit in that. We've got to exploit the benefit. But there is some short-term impact on that.

And I think significantly, an event in 2008 with the collapse of Lehman's, there were structural impacts as a result of that, as well, primarily relating to short-haul travel. You know, we always argued -- and you will have heard me say this -- that I thought the short-haul premium travel was, you know, going to structurally decline. The 2008 recession through '09 accelerated that, so we had sort of a step in that, and it continues to structural, but I think it was accelerated and the decline in short-haul premium was accelerated as a result of that.

But I think, having said all of that, there -- that's the -- I'm now, you know, finished with the excuses. You know, we're going to be pushing British Airways to deliver the sort of returns that we think can be delivered in an environment where, you know, we have a very strong brand -- you heard what Drew said about it -- very strong brand, a very strong network, and I think the work that has been done in restructuring the cost base, you know, we're ready to fully exploit that.

So you'll see the benefit of that coming through in the periods of the plan. You'll see much more benefit coming through when the fleet issues can be addressed and we can, you know, greater exploit things like slots, with the aircraft that we will take delivery of, and the further work that BA will do, particularly in relation to restructuring at Gatwick, which remains both a challenge and an opportunity. Quite honestly, we believe it's a big opportunity for us. And that's something that isn't fully reflected in the positions there.

So while we said we have a plan for Gatwick, we think there's a more aggressive plan that can be developed for Gatwick, and that, you know, will be something that you'll see in coming years. So there's -- there are a number of issues. I think some of them are important to remember. But is there any reason why BA can't get back to those sort of returns that we targeted? Quite honestly, I don't believe there is.

You know, the BA guys are nodding in approvement -- or agreement. Or maybe something else. But -- but that's what we will be pushing for.

At the front here. Phillipa, did you want to -- I'll take the two questions here.

Neil Glynn - *Credit Suisse - Analyst*

Hi, there. Neil Glynn from Credit Suisse. If I could first ask a question on Iberia, obviously, you're making meaty cuts to short-haul. I'm interested in terms of how you think that impacts your long-haul business? How challenging is it to maintain the integrity or the quality of the long-haul business? Also, tying into that, clearly you are -- Iberia is a market leader on Europe to Lat Am. As you're cutting capacity, although theirs might be growing, how do you manage that?

And then, secondly, a more commercial-focused question for -- on the BA side, maybe, for Drew. We've obviously got A380s and 787s delivering next year. And with the increasing commercial focus, does that prompt an opportunity to experiment or innovate, whether it be cabin configuration or other items?

Willie Walsh - *IAG - CEO*

Okay. In relation to short haul, long haul, it's an excellent question. And in the more detailed plan, what you would have seen is, we stripped the business back to the core long-haul activity to understand what the size of that was. So our starting position with Iberia is, what is the long-haul market?

And Rafael showed you some of that in the presentation, where you can see that, you know, Madrid, Spain, is the number-one market to a lot of Latin American countries, number-three to Brazil, but a big Brazilian market behind, I think was Portugal number one, France number two, Spain number three. So our starting point was, you know, that's our natural strength. That's the natural traffic flow. Therefore, we serve that.

We then looked at, what short-haul network did we require to support and supplement that? So what we've done is we've cut out long-haul activity that we believe is unprofitable and will not be profitable even with the changes that were -- even with a much more efficient Iberia, it's just not a profitable market. So there are some long-haul destinations that's very low yielding, very low in terms of premium content, you know, small in terms of natural market, and therefore you have to suck in a lot of transfer traffic, so we said that's not going to be a sensible thing for us to do.

And the end result is a core long-haul network that we believe is sustainable and profitable. And as Rafael said, you know, the objective is to serve cities, where we serve it seven times a week or 14 times a week, so a daily flight or a double-daily flight or a destination that can be turned into a daily or a double-daily flight within a reasonable period.

So it's a -- it's a very comprehensive plan. We believe it actually protects and secures the natural strength of the Madrid long-haul hub into Latin America and has a short-haul network that is appropriate to serving that.

One of the things that, you know, Iberia did -- and a lot of legacy carriers have done -- is, you know, some of the short-haul network was feeding into the short-haul network. Now, we don't believe that that's a sensible or sustainable model. So some of the short-haul activity that we're cutting out actually didn't contribute anything or much of anything to the long-haul traffic flows.

So we have looked at all of the natural traffic flows. We've looked at how we can supplement all of the natural traffic flows with efficient feed from a short-haul network. We've examined all of the markets in great detail. And we believe we've come up with an excellent network for Iberia, short and long haul, that will be profitable and sustainable and will give us an opportunity in the right circumstances to expand with the right aircraft the right call space and in the right economic conditions.

So we're not in any way concerned that the short-term actions we will take to secure the viability of the survival of Iberia will in any way undermine the long-term value and the long-term opportunity that we see at Madrid.

Enrique Dupuy - *IAG - CFO*

And for the purpose of allowing that growth, that future growth in the long haul, it's inevitable to have an efficient short- and medium-haul feeding system. And that's basically one of the -- I would say the cornerstones of the plan.

Willie Walsh - *IAG - CEO*

Rafael, do you want to add anything to this?

Rafael Sanchez-Lozano - *Iberia - CEO*

I think you've explained it very well.

Willie Walsh - *IAG - CEO*

Thank you. Drew, I think there was a specific comment for you.

Drew Crawley - *British Airways - Director - Commercial*

(inaudible) A380 and 787. First of all, we haven't gone public on the config, nor the route that we're going to launch all of those airplanes on. But what I can tell you, that when new airplanes come into the fleet, like the 777-300, the customer satisfaction levels compared to the existing 777s have gone up around 10 points. So there's clearly feedback from customers, and that turns into revenue at some point.

And the other thing is that we have experience of operating A380s from a commercial perspective, because our joint businesses with Qantas saw the introduction of A380s onto our JSA joint business. So we do know, the customer reaction is very positive, and we do know that that can result in improved yields.

So all of that we are throwing into the melting pot and making our final decision about where we're going to fly the new airplanes next year, but nothing more than that (inaudible) at this stage, I think.

Neil Glynn - *Credit Suisse - Analyst*

Okay, thank you.

Suzanne Todd - *Morgan Stanley - Analyst*

Thank you. It's Suzanne Todd at Morgan Stanley. Three questions, please. First, on yield, I see from your fourth quarter slide or your outlook for the fourth quarter, you talk about a return to positive -- to positive trends for the unit revenue. Could you just detail on the yield a bit more as to what you're seeing there, versus the third quarter, particularly for the transatlantic?

And second question, just on Vueling and on the timing, as you do (inaudible) bid has been completely separate from the Iberia restructure, could you just detail the rationale for the bid now, whenever you could have made a big at any point over the last 18 months?

And maybe just following on from that -- and I appreciate there are sensitivities around the bid -- but could you just detail whether you would see further scope for any integration in the future with Iberia, as to whether there are any restrictions around that? You talk about an aggressive plan for Gatwick in the future. Would there be any potential for Vueling to be involved with BA on that? Thank you.

Willie Walsh - *IAG - CEO*

Okay.

Enrique Dupuy - *IAG - CFO*

On the (inaudible) side, on the type of forecast that we are elaborating and refreshing on the next two months, what we are seeing is an underlying trend in yields of improving. We got to a point in time where Sandy, where the hurricane is distorting all the figures.

So we are going to need a little bit of time to determine how much is the size of the distortion. But what we feel, for example, for December is revenues there are recovering a type of growth pattern again last year which makes us comfortable enough. Sandy, we are going to have to treat it with a little bit of care, and it could be a bit worse than we initially projected.

Willie Walsh - *IAG - CEO*

And the main reason for that is, you know, infrastructure in the New York area has been badly damaged, so I think it has been discouraging some people from traveling there. And I think people will want to see how that plays out in the coming weeks.

In relation to Vueling, you're quite right. You know, Vueling was on our list from day one, but we were very clear, and I think we expressed this at the time that, you know, there were lots of airlines that interested us, but we couldn't do them all at once. And, you know, some would have excluded other opportunities or precluded us from looking at other opportunities.

So we had a view as to, you know, what could add value to the group. bmi was clearly a prime target, had been from day one, and we had publicly expressed our desire to acquire bmi, so we saw that as our primary focus, because we believed an opportunity would present itself, given the poor financial performance at bmi and the drag that it was having on the Lufthansa business, that it was inevitable that they would look to sell that.

So, you know, we can't do everything together, so we had to prioritize things, and we took a view that the sequencing of events was better to prioritize bmi. So that's the justification for the timing. We've acquired bmi. We've completed the integration. It's gone very, very well. The team in BA have done an excellent job. We believe we have the capacity now to look at something else, so we're very mindful of the, you know, limitations in terms of our resources and our capacity to deal with issues. And that really is the main justification.

I see absolutely no potential or reason or prospect of integrating Vueling into Iberia. As I said, I think it's a standalone entity that has done very well. It's got a very strong, recognized brand in the low-cost market, primarily in Spain and in Barcelona. It's got an excellent management team. You know, so we think it adds value as is, and that value can be -- it can benefit from being part of the IAG Group, and that's the way we're going to do it.

So we made it very clear that where we saw value in the brand or the entity, operating independently, that the IAG structure allowed for this, we set it up deliberately that way, and where we didn't see value, such as bmi, we would integrate it. And the reason, you know, that's -- bmi was different is because bmi's primary -- or our interest, primary interest in bmi was the slots at Heathrow. Vueling is a completely different -- Enrique talked about animals, so this is another animal, and we think it's, you know, an excellent one that fits well within the group.

If we could stick to the front here, so, yeah, just behind. And -- sorry, and this one then. Yes.

Geof Collyer - *Deutsche Bank - Analyst*

Yes, Geof Collyer from Deutsche --

Willie Walsh - *IAG - CEO*

We'll take yours in a moment. We'll go back here first to --

Alexia Dogani - *Liberum Capital - Analyst*

Alexia Dogani from Liberum Capital. I just have a couple of questions on Spain, please. Just firstly, on Iberia Express, you've mentioned that you were very successful on the cost base. What about yields relative to Iberia (inaudible)

And then, secondly, Air Nostrum, how do they fit in with your restructuring plan for Iberia?

And then, thirdly, your bottom 13 routes that you talk about losing EUR100 million on an annualized basis, what type of routes are they? Are they same routes where sort of the cost base is an issue or are they competitive routes where you're competing for (inaudible) maybe local carriers?

And then, and this small, final one, in terms of Vueling, are you keen to continue sort of to roll out their model ex-Spain, so across Europe and what your thoughts are there? Thanks.

Willie Walsh - *IAG - CEO*

Okay. On Iberia Express, the yields -- the -- the way it happened was, if you like, Iberia Express got the worst performing Iberia short-haul routes. The yield was marginal differencein it so, you know, there is a difference in the yield, and that was part of our plan. So if you look at the overall performance of the group, the cost base was better than our expectation. The yield performance was slightly worse than our expectation. The overall performance --

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Enrique Dupuy - *IAG - CFO*

I guess, Willie, but what about -- not who should be flying those routes, but about if those routes should be flown at all.

Willie Walsh - *IAG - CEO*

Yes. But it also pointed out to us that some of this was the commercial practice within Iberia. So when I said we were able to learn things from the operation of Iberia Express, because we could get our, you know, hands around and understand all of the moving parts, because (inaudible) or we discovered was that there were some commercial practices that actually were just irrational, if you like, and shouldn't be done, and some of that involved, you know, feeding short-haul to short-haul in the face of direct competition from the low-cost carrier.

You're never going to win that one. You know, the only way you're going to attract somebody to connect over a short-haul hub onto another short-haul destination is if you're giving it away. So some of the performance and yield we think we practiced, which we're addressing, and that, as I said, we've been able to learn quite a lot from that.

In terms of Air Nostrum, it's a franchise partner. We're very clear that the relationship, you know, has worked for us. I think it has worked for Air Nostrum. There's no guarantee that it will work in the future.

I expressed a view several years ago in British Airways, where we had a number of franchise operators, that they're the sort of relationship that I think has a finite life, because ultimately you get into a position where one or other of the party decides that it's not working well enough for them. So if it works well for both, then it's fine, and, you know, and we're happy with the relationship with Air Nostrum.

But like all airlines operating in Spain, I think they've suffered as a result of the very weak economic environment in the Spanish market, and particularly the Spanish domestic market. But we see, having Air Nostrum feeding into the long-haul hub, has been effective for us, and that's the reason we have it. It's about, again, providing feed from primarily the Spanish domestic market into the Madrid hub to connect into our long-haul. And --

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Unidentified Company Representative

(inaudible)

Willie Walsh - *IAG - CEO*

Yes, as I said, you know, we can't too much other than we admire what they've done. And personally I see no reason to do anything to change what it is (inaudible) but these are things that we'll engage with the management team in due course.

You know, as I said, our focus now is on hopefully being successful with that bid, but, you know, clearly, we see opportunity to grow that model. That's, you know, what we said in the presentation. And we think they've got an excellent cost base and structure and they know what they're doing. So, you know, it will be more of the same with Vueling, and you shouldn't expect us to do anything different, because, quite honestly, I think they demonstrated, you know, that they know how to do it, they've done it very well.

And to be able to be profitable in a market that has clearly seen, you know, a lot of turmoil and, you know, very weak macroeconomic conditions, high fuel, and growing in that environment while being profitable I think is a great achievement. So (inaudible)

Geof Collyer - *Deutsche Bank - Analyst*

Hi, sorry, Geof Collyer from Deutsche. I had two questions, one slightly depressing. It looks like, according to Reuters, the union's rejected the plan in Spain, so how do you avoid a kind of winter of discontent as you progress through on the restructuring?

And, secondly, and slightly more optimistically, if US Airways and American Airlines finally get together, or get together, is that the kind of value creation opportunity that you would see worth investing behind? And would that involve, if that happened, the use of any of the bmi slots to increase your scope across the Atlantic?

Willie Walsh - *IAG - CEO*

A winter of discontent -- I'm sure there's a poem there somewhere, I think, but I'm not a poet -- so, you know, quite honestly, I'll take it, because, you know, it's going to be a difficult task. The problem is, people give up. You know, in the past, the reason our industry has not addressed the structural problems is because it's difficult. You know, we recognize that this is difficult, and that's why, you know, we're determined to see it through.

Now, there is no choice here. And people will realize that. Iberia changes or Iberia dies. And, you know, our belief is that following the winter comes spring, I think, and, you know, we'll have a bright future.

So, you know, we're completely pragmatic. We know that there are people who will oppose what it is we intend to do. We will continue to do what's right. We will take every responsible step to ensure that we protect the interests of our shareholders, of all of our stakeholders, our employees, the vast majority of the employees, they want to see a successful Iberia. This is about making changes that will be necessary to secure over 15,000 jobs in Spain in an environment that is brutal at the moment.

So, you know, we will not be deterred. We will see this through. And I think that came across very strongly in Rafael's presentation. You know, so we know what we're doing. We have a comprehensive plan. We know what all of our options are. And, you know, we will restructure Iberia so that it has a future as part of the IAG Group and can deliver the sort of returns that you expect from us.

In relation to consolidation, you know, I've probably been a bit too open for Tom Horton's liking in saying that I see opportunity in a US Airways-American merger. Tom's preference -- and I can understand his preference here -- is to exit Chapter 11 as standalone and then look at opportunities for consolidation, because, clearly, he sees that as strengthening his negotiation, his negotiating position with anybody.

So, you know, US Airways-American, we think there is potential in that. We've expressed that view publicly. But ultimately, it's going to be a decision for, you know, American and their shareholders, their creditors, and US Airways and their shareholders, but that is a combination that we think could be attractive and would add value to what -- the transatlantic as part of our joint business. So that option is an attractive one.

There are other options that we know American has considered, and the other options equally have value. And so, you know, we're confident that American will emerge either as an independent courier, stronger, better, more efficient, and a better partner, or emerge as a combination with another group better and as a better partner for us, or will pursue consolidation at some stage in the future.

All of the options that we've considered we believe are positive to IAG, and all of the options that we've considered we believe can unlock additional value and opportunity for us.

There are options that people have identified which we don't believe are possible from a regulatory point of view, but I'm not saying that, you know, every option on paper is attractive. But all the options that we believe are practical are attractive to us. Yes.

Jose Manuel Aroyos - *Santander - Analyst*

Jose Manuel Aroyos from Santander. And one question on Vueling, please. On your chances of the acquisition going ahead, what does the board of Vueling think of the offer? And is there a plan for them to recommend the offer to minority shareholders?

And my second question is, with the plan to restructure Iberia and the offer on Vueling, are there any changes to your Iberia Express targets for 2015 or the Madrid hub improvement targets for 2015? Thanks.

Willie Walsh - *IAG - CEO*

I think your first question is best directed to the board of Vueling. I've not seen anything. You know, this was an offer that was disclosed last yesterday, and so I think you'll have to ask them that question, but we believe it's -- it's an attractive offer, and, you know, we're going to -- as I said, we're hopeful that we would be able to complete the proposed acquisition.

The -- you know, Vueling and the restructuring of Iberia, two completely separate issues. It's just they happen to, from a timing point of view, come around at roughly the same time, but they're independent issues that we intend to deal with independently. So a Vueling proposed acquisition doesn't in any way impact on what we will propose to do with Iberia Express.

Rafael has not disclosed any full detail around his restructuring plan, because that's obviously something that he wants to engage with the trade unions to negotiate about, so I think we've got to respect that. But you will see more and more detail about the restructuring plan as it becomes more public in the weeks and months -- it'll be weeks, actually, because the deadline is the end of January, so it'll be in the weeks ahead. And then -- we'll take this question (inaudible)

Sam Dobson - *Macquarie - Analyst*

Hi, Sam Dobson from Macquarie. Just two questions, if I might. Can you just elaborate on the ECA funding with regard to short-haul aircraft mentioned on one of the slides, a question for you, Enrique, and sort of what options are open to you there?

And the second question is probably for Nick. You mentioned that BA is now -- now has a core cost base -- low-cost carrier levels at Gatwick (inaudible)

Willie Walsh - *IAG - CEO*

My fault.

Sam Dobson - *Macquarie - Analyst*

Okay. And just wondering -- you know, what read across there is for the rest of the network. Or to put it another way, what -- what are the impediments to you achieving those levels across the rest of the network?

Willie Walsh - *IAG - CEO*

Can you give the first question in relation to short-haul funding?

Sam Dobson - *Macquarie - Analyst*

Sure. It was just in relation to ECA funding. You mentioned that there's options for ECA funding.

Enrique Dupuy - *IAG - CFO*

Ah, ECA.

Sam Dobson - *Macquarie - Analyst*

Yes. So that's just in relation to what those options are.

Enrique Dupuy - *IAG - CFO*

Yes. Yes, as you know, the home country rule has been not abolished, at least modified. So now companies that are located in countries at that part of the EADS Group can be ineligible, and that's the good news. The bad news is that the conditions, the financial conditions for the ECA type of financing have been increasing in terms of margin. But there is a scope for the use of these type of guarantees [and the funds], and we're working, I would say, very closely with EADS and with the agencies on A380 financing, for example. And that's something that we could be using and that could be very valuable.

Willie Walsh - *IAG - CEO*

Nick?

Nick Swift - *British Airways - CFO*

(inaudible)

Willie Walsh - *IAG - CEO*

Yes.

Nick Swift - *British Airways - CFO*

On the Gatwick cost base, the way we went about it is go through every line in the Gatwick profit and loss account. You can tell pretty much what the market is for each of those, so we outsourced under the wing, for example. We renegotiated over the wing. Just went through line by line.

Probably the only area where we say we're for the core costs, the only area we're not competitive yet is on the fleet itself, and we're working through that as part of the fleet replacement program. So that's what we did at Gatwick.

At Heathrow, we're not bad, but bear in mind, at Heathrow, you've got the Heathrow cost base. So it will never compare to Gatwick until Heathrow charges the same at Gatwick, and I wouldn't hold your breath until that one.

Willie Walsh - *IAG - CEO*

Okay. Yes?

David Pitura - *JPMorgan - Analyst*

Hi, it's David Pitura from JPMorgan. Just on Iberia Express, are you committed to growing the fleet to 40 aircraft by 2015 still, and given the arbitration ruling?

And then just on the sources of Iberia's losses, you mentioned the short-haul to short-haul transfer. And I think the last two operational waves at Madrid basically are purely short-haul to short-haul. Is that where most of the losses are coming from at the moment? Or is it more evenly spread across the sort of short-haul -- short-haul point-to-point, long-haul transfer, long-haul point-to-point?

And then just the last one, on the business models, does the 787 allow you to run something like a point-to-point operation on long haul and more business orientated point-to-point operation at Gatwick, rather than just a leisure-focused long-haul operation?

Willie Walsh - *IAG - CEO*

On Iberia Express, you know, Rafael will look at all of his options in relation to what he does with that. The airline has 14 aircraft. The plan for 2015 was 14.9 aircraft. I think by the end of 2015, from memory -- I may be wrong -- so we're -- you know, that's something that Rafael can look at and determine what's best use of Iberia Express is available to him.

So we're not restricting what he chooses to do from an IAG point of view. That will be an option that is available to Rafael. What's clear is, Iberia Express has demonstrated through its performance in its first six, seven months of operation that the target that we've set for the Iberia short and medium-haul are clearly achievable. And so how we get there (inaudible) is open to Rafael and the team, but either way, I see Iberia Express continuing to form a central part of the Iberia operation going forward.

Unidentified Company Representative

It is an easy-to-fit piece in the puzzle, Okay, because it's very efficient and complementary.

Willie Walsh - *IAG - CEO*

Yes, Rafael?

Rafael Sanchez-Lozano - *Iberia - CEO*

(inaudible) will remain a valid tool throughout this process. So we will keep Iberia Express at least at the current size for all across the plan.

Willie Walsh - *IAG - CEO*

In relation to the short-haul -- or the routes that are unprofitable, the main losses that Iberia has encountered have been in the short-haul operation, but not exclusively short-haul, so there were some long-haul flights that were unprofitable. So not all of those that we identified were short-haul, but the majority of them were, and some of it related to having too many banks of short-haul flights to feed the long-haul, when, in fact, some of those short-haul flights were feeding into short-haul, rather than necessary for securing the long-haul operation.

So one of the features going forward will be ensuring that the network on short-haul is designed to support the long-haul network, and that will lead some markets where we will reduce frequencies, because the frequency of operation and -- isn't justified by the point-to-point market and isn't justified by the need to [feed the long-haul], so it will be a, you know, comprehensive restructuring of the Iberia network, designed to secure, as I said, the natural traffic flows on the long haul, where Madrid and Spain has a leadership position and a natural leadership position.

So you'll get more detail of this clearly as we disclose the plan, but it is comprehensive. It's taken all of the moving parts into account. And we're satisfied that it's -- you know, it is a very comprehensive and achievable plan. And I think you had one final question?

David Pitura - *JPMorgan - Analyst*

The business models. Is there an opportunity (inaudible) new aircraft, the 787 coming in, for example, using that as a point-to-point business -- long-haul business operation at Gatwick, not exclusively the more business-focused routes, rather than leisure-focused routes?

Willie Walsh - *IAG - CEO*

Yes. And the 787 is an extremely flexible aircraft. You know, the acquisition of the aircraft was designed to operate from the Heathrow hub, and that continues to be our focus, but clearly, it's -- as I said, it's -- we believe it's going to be a fantastic aircraft, and the range and capacity, 787-8, 787-9, potentially a bigger 787, fits very well with our plans.

So, yeah, of course, you could use it at Gatwick, but the aircraft that we've acquired and have in our plans are designed to add capacity and replacement at the Heathrow hub. So some of them are 767s replacement, and some of them will be for growing the long-haul network. And that's primarily into the growth markets that we've identified in the presentation.

So we're getting down to the last few minutes. So I can't see any questions. And I've ignored this side of the room for the moment, so -- there is one question at the very -- or hand up there at the very back, and we'll take here first, yeah, so with -- over --

Peter Hyde - *Liberum Capital - Analyst*

Yes, Peter Hyde from Liberum. Just two questions. Firstly, could you just kind of put into our minds what you see as the difference in the brands between Iberia Express and Iberia and what you think they might have in customer minds in terms of different perceptions?

And then, secondly -- and I don't know how far you're willing to go on this -- but if you did take an impairment charge for Iberia, would you change your return on capital employed targets?

Unidentified Company Representative

Sorry (inaudible)

Peter Hyde - *Liberum Capital - Analyst*

If you took an impairment charge for Iberia, would you change your return on capital employed targets?

Willie Walsh - *IAG - CEO*

Okay. So what's the difference between the Iberia Express and the Iberia brands? Rafael will tell you.

Rafael Sanchez-Lozano - *Iberia - CEO*

Do I need to do something? No, you get it. You'll be disappointed, but I'm not going to answer this question at this moment. There are some commercial tricks around it. On the positive side, some things we're doing that I don't want some competitors to know about, and in due course, we'll fine-tune the answer to that. But I don't want to do it today, especially at a time of a restructuring.

Enrique Dupuy - *IAG - CFO*

Okay. So -- on the impairment exercise, you know there are some clear rules that we'll be following, as every year, so there is a standard that really governs how we have to treat each asset, both tangible and intangible.

And the standard will have to refer to certain, I would say, certainties, and the certainties will have to do with how we will be closing the plan, in terms of using aircraft, for example, using certain rules and certain logs, all the -- the restructuring exercise would be agreed with the pilot and with the rest of the unions, will be not agreed yet. So it's still, I would say, very soon to know. We'll go through it, and we cannot anticipate for the time being anything as a conclusion.

Willie Walsh - *IAG - CEO*

But, clearly, we will come back after we see the results of that. And if there's reason to change the targets, well, then you should expect that that's something we will consider. This is going to have to be the final question, I'm afraid, because we are running out of time.

Miguel Medina - *JB Capital - Analyst*

Yes, thank you very much. Miguel Medina from JB Capital. Two hopefully very short questions. The first one, the BA team mentioned something in the lines of there is a lot that we can do in Heathrow. Just one clarification, whether that means that you're aiming to keep Heathrow costs flat over the period?

And then my second question is for the CFO. Are there any implications in the whole menu of financing options, especially for Iberia, of a new downgrade of the Spanish rating?

Enrique Dupuy - *IAG - CFO*

Sorry, of a new -- sorry?

Miguel Medina - *JB Capital - Analyst*

Of a downgrade in the Spanish rating.

Enrique Dupuy - *IAG - CFO*

Oh.

Miguel Medina - *JB Capital - Analyst*

The country for Spain.

Willie Walsh - *IAG - CEO*

No, not sure we understand that question.

Miguel Medina - *JB Capital - Analyst*

I mean, in -- you have -- you mentioned the different financial options available to the group. In the case of the financial arrangements that Iberia has in place at the moment, are there any implications of a downgrade of the Spanish rating to -- sovereign rating to junk?

Enrique Dupuy - *IAG - CFO*

(inaudible) that one first, because it's very clear the way we have negotiated and selected different financing proposals, in a way that financing provided is irrespective -- irrespective and not affected by materials (inaudible) change for changes in the sovereign rating. So that one is the one that we have clear.

Nick Swift - *British Airways - CFO*

(inaudible) the second. I think your question was, what is the sort of thing we're doing at Heathrow on the Q6 regulatory charges? At the moment, those charges (inaudible) plus a big number. Obviously, what we're trying to do is get that big number to a much smaller number or a negative number would be lovely. And we're going through just about all aspect of that, as well, with BAA and also with the regulators.

So how much is BA's cost base? What are the CapEx processes? What's the commercial revenue? What's the cost of capital? And that'll take another few months, the consultation. It's all effective from the first of April 2014. So there's a way to go yet, but lots we're doing.

Willie Walsh - *IAG - CEO*

Keith, did you want to add something?

Keith Williams - *British Airways - CEO*

(inaudible) savings at Heathrow. Is that right?

Miguel Medina - *JB Capital - Analyst*

Yes.

Keith Williams - *British Airways - CEO*

Yes. So one of the things that Nick was talking about is we run from three terminals at the moment as a result of the bmi acquisition. So we're in terminal five, terminal three, and terminal one. Clearly, there would be a benefit from running from a two-terminal operation rather than a three-terminal operation. So that's one of the things we'd obviously like as soon as possible.

Willie Walsh - *IAG - CEO*

Okay, I'm sorry we can't continue to take questions. We will be available. There will be a number of people available still over lunch. But we do have to stop at this stage. Can I thank you all for attending? Thank you for your questions.

We will clearly update you and provide you with further information, particularly in relation to the Iberia restructuring, as Rafael works through that plan implementation. And we look forward to seeing you at the next results announcement (inaudible)

Andrew Barker - *IAG - Group Head of Investor Relations*

Thank you very much, Willie. We have fairly open-ended timescale for lunch. And don't forget, we have chairmen, deputy chairmen, board members, senior BA team - Lynne Embleton, director of strategy, director of product Frank van der Post, and many senior IAG managers here, as well. So feel free to chat to them, ask them questions. If they give you any inside information, please let me know. Thank you.