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PRESENTATION

Antonio Vazquez - *International Airlines Group - Chairman*

Good morning, ladies and gentlemen. As you know, every year, this is the occasion where we describe to you our long-term plans, targets and aspirations.

As our first Capital Market Day taking place in Madrid in 2011 just a few months after the merger between Iberia and British Airways, we were bluntly talking with you about two bold steps and we took the commitment to go with it.

But firstly, we decided to set the target for operating profit for 2015 and we targeted at that point in time EUR1.5 billion. This was not an aspiration. It was a precise target. And that many people felt that we were thinking a little bit too much because few months on the road and a lot of challenges in front of us, it was too risk to take such a great target for 2015.

But we felt that we needed, at that point in time, to make it firm to make it in front of you about what we would do. We did -- we did believe that we could achieve with our business.

As we approach today the target we report in 2014, we expect already to generate between EUR1.32 billion and EUR1.37 billion in operating profit before exceptional items. As we stand here now, we're very confident that we will meet our target of EUR1.8 billion in 2015 and let's not forget the target implied delivering eight times more profit than the combination of BA and Iberia in 2010 which, by the way, was one of the best years of the industry following one of the worst years of the industry in 2009.

Now is not the time certainly to say congratulation, there's still a lot of hard work in the year ahead. After all, we still have to deliver our increase in profit compared with 2014 guidance of at least 30% for next year and there are, of course, all the usual ways involved in our airlines.

But it is worth remembering the tough times and hard work in both in getting this far. Since the merger, we have made two further acquisitions, bmi and Vueling. These two acquisitions I have transformed in our market positioning competitiveness globally, given us greater chance of being at the top and expanding our reach into many new European and long haul market.

We have also started a new airline from scratch, Iberia Express, which is today growing rapidly and profitably. And most importantly, we have completely transformed Iberia. This involves major dispute with all unions, lot of pain on both sides, but we now have a set of new union agreement which have allowed us to completely transform the competitiveness of the company and to have a great future for Iberia. Certainly, today, Iberia stands as one of the most efficient airlines for the long haul and the short haul in Europe.

I said it earlier that we took two bold steps at the first capital market in 2011. The other one was to declare our commitment at that point in time to return sustainable dividend payment. The 2015 operating profit target was along intended as a minimum we needed to achieve to make sustainable dividend possible in the longer term.

We're not there yet. But given our confidence about next year profit target with today aligned with the kind of cash return our shareholder should expect should we deliver the right performance next year. This follows consultation with you, our shareholders, which we announced at the Capital Market Day last year.

I have to say that this is just part one of IAG story. I fully expect part two vision 2015 be far more exciting. My colleagues today will give you full flavor of our reality and our expectation.

One of my main concern as a chairman given the last whole year has been to secure and to be build the strongest possible work as your representative and help guide the company with the decision. I have to say that we have a board today shaped by 13 man that four of them has been coming after the merger in 2011 as for years and two of them has been arriving in the -- since the last Capital Market Day so I take advantage to welcome to the board Dame Marjorie Scardino and Maria Fernanda Mejia in the last year. Alberto came the year before and that they have been making strong contribution to the board since the very beginning of their work as a board member.

And a for all board member choosing best their time and effort in IAG rather than taking over opportunities because they see the huge potential of foreign company that we always be aware of challenges ahead of us but after we have already started to face the first set of challenges in the full year that we have been working along right now and we are more excited about the future than we have ever been.

So thank you very much for coming and I hand over to Enrique to continue with the presentation.

Enrique Dupuy - *International Airlines Group - CFO*

Good morning to all of you. Thank you for being here with us in our fourth Capital Market Day. We are bringing today what we feel is a bunch of good news over our performance and optimistic view of how we see our future coming.

This page basically summarizes the main messages that we are going to be trying to translate to you through the day. Starting from the news that we released a week ago, we've been raising our 2014 operating profit estimate which as you remember was set at EUR500 million above last year, EUR770 million, and this EUR500 million we've been raising now that we are confident on how we are going to be finalizing the year on the bracket of EUR550 million to EUR600 million.

So this is a good news and we can be satisfied by the way we've been managing other challenges and the opportunities in this year, 2014. We'll talk more about it, more in detail.

Second one about year 2015 target and there is an statement there that shows we remain confident to achieve our year 2015 operating profit target which, as you know, we've been telling you recurrently to these Capital Market Day is set now at EUR1.8 billion.

Improvements that we are seeing for year 2015 in relation as to where we are today have to do with additional new fleet savings and of course we are going to be talking about today very interesting technical savings plus new procedures, productivity improvement and, of course, this has a lot to do with Iberia flagship in terms of productivity improvements will bring some figures there, again. Completion of our 2011-15 synergy target which we are raising the game this time so that has been one of our basic for success for this whole period of four years and that will be, again, next year.

And the obsession to produce growth in a profitable way. And that's, again, a matter that we are going to be debating thoroughly through the session today.

Of course, we have been experiencing since the last, I would say, four to six weeks maybe, a significant drop in fuel prices. Remember, I think July was $115 a barrel. Today, it's about $82. So there has been a very significant swing. Our business, our planning exercise has been made at $950 per metric ton figure. So we see with fuel prices and ForEx ratios remain where they are, see potential of improving our figures next year for the year.

Beyond year 2015 so that the world is not ending by the end of year 2015 and we have started thinking on how to redefine our futures group and we have a lot of ideas and some of them, we are bringing them today all that will be coming through the following years.

Basically, they have to do with -- as we will explain afterwards -- following, achieving, improving these ROIC target. This ROIC new target is very important for us because in some way, it brings -- joining together the returns, the margins, the operating margins that we are creating with the asset base that we are using and that's critical in order to be able to produce sustainable level on dividends along the future as we will see.

So it has to do with productivity and other ex-fuel savings. And for that purpose, we are using both operating company initiatives on their capital scope and also IAG-driven initiative taken in to account the level of perspective and the level of common platform used that we will be setting for the following five years.

Of course, the fleet renewal plan will be providing us with additional savings, basically fuel savings. And, again, one of our main obsession is to follow these patent of profitable growth and for that purpose, flexibility is something that we are going to need to use and we are going to need to follow and preserve and that will show we have embedded on our fleet trend and our decisions a very high level of productivity.

Finally, and that's something that we will obtain by the end of this presentation, we anticipate in the year 2015 to declare a sustainable dividend payout and that's something that we are going to be explaining also further on.

So this is how these chart which shows how we are going to be improving look like last year. I think we are going to have to invent something a little bit different than before next year as we consider what is getting a little bit boring. But it's easy to follow. Okay.

So on one side, our efforts were to improve the transformation of our Spanish business. Of course, London was the second one. Our synergy program was a big lever and it still is though we have, also, reserve a limit of improvement or room for improvement on our growth patterns. The ladder, the scale of the improvement that we were showing last year was huge. So the starting point was EUR0.77 billion in terms of operation profit and story was 1.8. So I guess, I would say, best shareholders and analysts could be looking at this chart, at this scale, at this ladder with a little bit of skepticism.

And this is basically how we've been managing through the year 2014. The Spanish side, Iberia, that's been a very significant protagonist of what we have been able to improve of the Spanish time. So basically, it's about the execution of the Iberia mediation plan which we agreed by the April, year 2013. So huge improvement coming from the Iberia mediation plan and having to do with redundancies with efficiency procedures with productivity gain.

And this is about British Airways. So British Airways, again, significant, I would say, challenge in terms of the size of their improvement but also they have the tools there. So I would say, getting the optimization of the bmi slots for British Airways is something that is behind these creation of value, this improvement in their performance that will be following and continuing through '15 and the rest of the years on the plan.

Again, fuel efficiency gains coming from the new fleet. It has been incredible. The figures that we are showing in terms of the fuel cost through the year are showing that on top of the pure technical improvements, we are improving also our procedures and that's happening a lot in Spain in terms of being able to get to better approximation procedures, better taxing procedures to be able to save additional fuel.

And these are the synergies that we're being able to achieve through year 2014 on a marginal basis. So comparison in 2013 through year 2014. So as to really capture what's the difference between the two years.

So it has been about revenue synergies nearly EUR77 million, cost synergies in the range of 63. So then the gross synergies that we have been capturing for the year, 140, that's a very good figure. It's a very big figure. So when you try to understand how our cost performance has been probably brighter others through the year 2014, a lot has to do with these synergy exercise.

And then growth and in terms of growth, we have been basically levering Vueling type of growth capabilities. As you know, Vueling has been making the business more international through the year 2014, creating new bases, increasing in operations in place as Brussels or Paris, having special attention to the Italian market. So Vueling has been a year of very challenging growth exercise and we are very satisfied on how it's been going through.

Of course, opening new routes, new bases means the maturing of those, it will be taking its time. At the same time, there are other routes as Vueling is exploiting that are getting to maturity level. So that's the typical pattern of different degrees of maturity and profitability that the routes of every company will be having through time.

In the case of Iberia, very interestingly, this is about restoring some routes that Iberia had to just abandon, three, two years ago, just because they weren't profitable and they weren't profitable basically because Iberia not having the adequate cost base to exploit them in the past. And now they have because the cost base of Iberia has been improving dramatically. So their ability to make money in routes such as Montevideo and for example Santo Domingo has been increasing fantastic.

For British Airways we've been going through in time and time through the year. It's about a combination of longer routes, so we have been opening and exploiting longer routes as Chengdu, as Austin as Seoul, sorry, and this is creating, I would say, a longer stage length for the routes of British Airways in this year, 2014. It's also about the combination of these new aircraft that we've provided best customer service so A380s and 787s as a combination to substitute the 747 fleet and the 767 fleet.

So a lot of things happening as you see. Most of them, I think with very positive outcomes. So let's look like this chart is changing and (inaudible).

And again, the scale appears as being very challenging but it's above the scale because as seen as we've shown, we have just maybe EUR500 million to create in terms of additional value -- additional operating profit for the year 2015. And again, this year, will represent a combination of our plan.

In terms of the transformation in Spain, it's about finishing the transformation plan and starting the ideas and ways to get into the new agreement at Iberia just reached with its union in last July.

We call it the Plan de Futuro of Iberia and Luis is going to explain it very much in detail. So it's about finalizing the transformation plan and talking to launch the new Plan de Futuro. So, very, very promising.

For British Airways is it's going to have to do with coming down with long haul growth plan which is more in line with a sustainable growth than of our long haul routes. It's more in the range of 3% to 4%. And as you know, that spike that we had in year 2014 was very much related to delivery dates of aircraft that have been getting compressed through the year 2014 because of several reasons.

So coming back to normalize level of growth in the long haul. I think the short haul, we are doing the special effort in improving what we call the attention in terms of getting more revenues per flight, getting more revenues out of the assets that we are making, both in Gatwick, very important challenge, and in Heathrow as well.

And in the chase of 2015 synergies, we have increased the total accumulated ones to 700. So the base which was 10 against the year 2015 level, it will create a gap of EUR700 million gross synergies which basically is showing the progress that we are going to be doing in, again, revenue synergy areas, probably most important next year in cost changes having to do with common procurement so it's, again, about perspective as common specs, et cetera, et cetera.

It's about IT centralization and rationalization, that's a very significant area that we are going to bring into consideration and exploiting to the future. It's about, also, some of the areas of improvement around our cargo business and around our Avios business, et cetera, et cetera. We will be going through them this morning as well.

So in terms of growth, in terms of growth, well, it will be following these exercise of internationalization, opening new rules and getting maturity of older ones, the levels of growth in absolute terms that we'll be seeing in year 2015, even being high, are going to be coming down to the probably the lower double digit level.

So in the case of Iberia, it's, again, following the exercise of restoring old routes and getting, in some way, the full year impact of what we have been doing last year. So not so many as you have seen in terms of the number of aircraft being exposed by it. No many -- not many additional routes but basically the rolling over of the routes that we have opened, reopened this year.

For Iberia -- or British Airways, the long haul routes are going to be just probably Kuala Lumpur. And again, the growth is going to be the rolling over of what we've been doing last year.

So year 2015, as a whole, appears as the promising year with a lot of things that we have to be completing a lot of opportunities that we need to exploit and this is something that we have to mention to you as we did in the first page. So our plan, especially as you will see our medium long term plan is is being based on price of fuel which is $950 per metric ton of kerosene and at $1.35 -- and this is the cost we have been working with these references for the last six months on our plan.

So what has happened in the last four weeks can be something that would remain structural. Maybe, there are some reasons to feel, to understand that those moves will become structural on the next two or three years. Okay. We prefer to test it. We prefer to test it whether what we've been doing is sensitivity analysis on these new actual references, the outcome of this analysis as you can understand is positive.

We have 65% of cover on our fuel bill, hedging cover on our fuel bill for the year 2015. So we'll be getting gradually the benefits of lower fuel and even with the combination of lower fuel and stronger dollar which appears to be the name of the game. So first half part, especially the second half.

And this is -- again, moving on its own. Yes. Here it is. And so this is the new plan, the new plan that we are basically have presented to the board for their initial approval and with regards to what's going to be happening through the group from the year 2016 into year 2020.

So Spain will again be a matter of positive news. We are comfortable about it. It has to do with these maturity of Plan de Futuro that Luis is going to be mentioning in detail afterwards and a significant improvement, again, in terms of Iberia cost base, Iberia productivity, that's something that still remains an obsession, both for Luis and for IAG.

In the case of London, so in the case of British Airways is about reaping and optimizing the long-term benefits of BMI transformation exercise. So, of course, we've been opening new long haul routes. We need to improve the feeding out of, I would say, the long and the short haul feeding network for these new routes and will be completing the transformation of bmi's slots into a combination of long haul slots which will be opening through the next five years and short haul feeding.

There's a lot that will have to do on the improvement of the hub operation. Hub Heathrow for British Airways is critical. It's the presence of the group in Heathrow is significant. We exercise leadership role there and we are basically achieving some big benefit out of it. But that's something that we need to optimize on a year-by-year basis.

Well, other initiatives that we are bringing in, basically will be led by IAG, will be centrally led and they have to do with Avios launching of the new tool, the new group tools that's something that probably will be happening later this year or early next year. it's about common purchasing and we have a very ambitious program there of common specification, best practice and simplification and that's going to be behind our efforts in the next four or five years. It's about launching the new global business services and the new centrally driven IT model. So a lot of stuff, part of it, we are going to be hearing from our colleagues this morning.

And then, in terms of growth, what we want to say is the growth is going to be coming down to a 3% to 4% ASK CAGR rate and we have to bear in mind we will be wanting to keep a high level of flexibility and we are going to be showing in the following chart.

So a different way to explain the same figures, the same ambition is talking about net capacity addition. Again, this 3% to 4% CAGR average through the next years and this is including higher growth for Vueling, of course. This is something that we have needed to refine a little to understand how we break down the improvement. This is the impact of lower, more efficient cost base of Vueling growing faster than the other two.

So the average is improving and this improvement on the average in terms of our unit cost base is shown here. So it's very important addition.

Fuel efficiency. Okay. So the good thing about this fuel efficiency is it's enabling IAG group to catch up with our competitors. So this difference in terms of fleet renewal progress that we have had in the past with our main, I would say, European competitors especially even in the U.S., in some cases. We are closing that gap through the new generation fleets that we are receiving and this is going to happen both in British airways, Iberia and Vueling and the fuel efficiency figures there are in the pocket are basically technical ones and we have been achieving more in the past, in the recent past than our technical forecast. So we are very confident of being able to reach our target there.

Employee unit cost reduction and this is again something that we are very comfortable about because it has to do with things that Iberia has already signed with their unions, agreed about the implementation and we know Iberia knows how to implement this, I would say, efficiency program. It's also about the long -- medium and long term investment of mixed fleets in British Airways as well.

And the dilution of fixed cost in the case of Vueling through growth. So that's another one that we think we can be very comfortable being able to achieve.

Supplier unit cost, this is one of the areas that we really is going to be grabbing our attention, the IAG group attention, and the operational company's attention in the next four or five years and we are launching a lot of initiatives to understand how we can bring these supplier unit cost down because we have a very ambitious target in respect for the following year.

So this is, again, something that makes us comfortable about how we are driving our plans, unit revenue plan for the next four or five years is an important assumption because one would just say, look, if you take into account what's happening in your main strategic market, you should be quite comfortable.

So Spain recovery is there. Spain is going to be growing more than 2% next year and the top end of the range of the European countries, that's something that's something that appears now more as a fact and we can see that progress coming through the following years as well.

The U.K. another very significant strategic market. What we're seeing about U.K., especially what they call the London country type of area is it's very optimistic because what we are seeing, the levels of growth that we are seeing on that area and our specific client segments is very encouraging okay.

The U.S. and the North Atlantic, actually, another example of where we think we could feel a little bit more optimistic than this flat assumption. Even Latin America is having some difficulties especially places as Brazil, Argentina as well others, not all over the place. There are other areas in which growth is sustainable and strong and things are improving, Colombia, Ecuador, Mexico, et cetera.

So we are seeing also a quite positive picture into the future for our main strategic markets. So unit revenue potential is there to be exploited.

So let's change subject and now let's try to understand again how we are creating value for our shareholders. The basics behind how we are creating value is we are able to return on our asset base more money than the basic cost that we have on liability side. So that's a no-brainer. It's simple to say, it's difficult to achieve.

Our liability side and that's something that we've been talking about last year, and in the past, we are still keeping a WACC of 10% and this is getting very conservative. We have to make a fine tuning exercise through crisis in Spain and Europe a couple of years ago about what were our real cost of capital and we increased the figure to this 10% level.

But I think the assumptions are now behind, are beginning to get a little bit older so the 5% cost of debt may be coming a little older, 15% pretax cost of equity it appears to having a big, big premium there. Maybe those figure could be brought down slightly so 10%, we are keeping it there as a reference. We may be having to change it through '15 and beyond. But we can make money with 10%.

And this is how we see the asset side of the equitation. So how we return money out of our asset base and this is an exercise that we will need to do on a very realistic way. So we're escaping out of accounting, our balance sheet is not going to be the only source of data to understand what the value of the asset base that we are using.

So we are very interested in bringing reality to that figure and that's why basically what we're doing is adjusting our depreciation figures and replicating out of the depreciation the real value of our asset base. So the accounted depreciation figure is EUR960 million but what we adjusted, because of inflation, and because of the intensity in the way we use our assets, it get into 1.3 to 1.4.

So the real depreciation that we need to produce, we need to carve out from our margin in the future to preserve our profitability would be more in the range of 1.37, Okay? So, that's a piece of the equation.

And the second piece of the equation is how long we need to depreciate the assets that we are using? So out of an asset life of 22 years which is basically the pro rata of the asset life of the different asset that we're using, out of that 22 years, it would take into account the rate of the recent depreciation on a unit basis that we are making and the accumulated one, it shows that we have already depreciated 11 years so we need to follow depreciating another 11.

So the way it looks like is if we multiply these required depreciation with the remaining life of 11 years, we are getting by the end of the year 2013 to a value of the asset, the real value that we need to focus of our assets the year 15.2 and we make the same exercise through the plan taking into account what we are investing in growth. It gets to an average of 16.5. So the issues we have to create returns on 16.5 in a way we can more than match our cost of capital with cost of capital on 10%.

We are going to come back on these ideas because I think they are very interesting ones.

In terms of how we are increasing our asset base through these next years, it has to do, of course, about the long-haul fleet and in this case, it's growth plus renewals through new generation aircraft. And that's why it's showing this red area on top of the chart which is eating through the beige area which is the conventional older fleets.

In the case off the short haul, it is happening the same and light blue just regards to the introduction of the NEO, A320 NEO aircraft that will be coming from year 2017.

Interim bridge fleet, we are considering and we are basically going to be operating 330, 330s given their fuels, is a very interesting fleet for the group especially for Iberia. It's a common fleet to the A340 family fleet. So transition is easy. It's easy. It's smooth. It's effective.

The other one is the A320s on the short-haul fleet. We're using old generation, we call them CEO's A320s just to bridge the introduction of the NEO's that will be coming into, you know, 2017 and beyond. And this is because it's, again, a very interesting contract that we are exploiting and it gives basically Vueling the ability to simplify the operation of the old operating leases that they are using today.

Vueling, as you well know, basically have expansion plans and they have been having to deal with market aircraft on a type of year to year basis to compete on an operating lease scheme their fleet requirements. That's going to be changing for the better and it's going to improve the ownership cost, not only the ownership cost but the whole performance cost of Vueling in the next years.

Flexibility, again this is going to be a magic word. We need to keep embedded on our fleet structures a very high level of flexibility because the way we want to grow is optimizing our growth and unit revenues. It's not a question of market share or at least not only a question of market share. It's a question, that's going to be driven by ROIC in the future.

So for us, being able to optimize the size of our fleet is absolutely critical. And we can do it. Look at the short-haul fleet. The pattern of improvement of increase is significant. Vueling has high level of responsibility.

But at the same time, our ability to bring down that blue line closer to the red one is huge and really very rapid, very quickly. On a year-to-year basis, we can decide how to discontinue operating leases in a way to bring down the net average growth in a very significant way and Vueling will have also the ability to reduce its other cost base in a similar pattern. So we feel very comfortable about that flexibility scheme for our short-haul fleet.

In the long-haul, we have, again, the blue like which is central case. We have the yellow one which expresses how we could grow, if we have the opportunities too depending on demand of course and the economic environment so we can grow faster than the blue line. There is also a way, different ways to grow lower than that figure.

So one side, this contractually not exercising options and leaving aircraft, not renewing leases on their expiry, that's the full red one. If we were to need more than that in terms of adjustment, we'd go to that dotted line because that dotted line is considering early retirement of British Airways 747 fleet and that's something that because of the depreciation schemes that we have, we could easily do in the following three years if we needed to adjust.

So this coming to fleet families and more concrete figures. So as you see, this is how we are playing -- in the case of Iberia 330/340, 31 through 32 versus end of the year, behind that one, there's a significant substitution of A340s maybe in the range of four through A330s coming in, not only in 2014 but ending also a program in year 2015. And there are more to come -- eight more to come beyond '15. So this is this interim substitution that we are producing before the A350s will be coming in year 2018.

And that's the second exercise. The A350 fleet, we don't have them today. we are not going to have any by the end of year 2015 but we'll be having beyond, and through the plan, 26 and we have 42 more options.

And then it gets to the combination of new generation fleet for British Airways, A380s and 767. So you're seeing for example last year. Two A380s and it's about five 787. So seven new generation aircraft substituting the 747. So it's about four 747, and again, it's about three 767s, older. So, seven plus seven.

So that's the cautious approach to growth and substitution that we are going through and you see that at the end of the day, we are getting rid of seven old aircraft in British Airways and bringing seven new aircraft with a little bit of average size to that's going to be creating the additional ASK basically and that is a very efficient model.

Similar things happening in the short-haul fleet. So this is about getting into the NEO's, 68 new aircraft coming beyond year 2015 and we have 168 more options. So that will become the renewal of our short-haul fleet through NEO's and basically getting rid of older fleets as we are beginning to do 767s that are dedicated to short-haul and 737.

So a lot of stuff there. And how it's showing in our business. This is the figures that we were bringing to you last year, '14, '15, '16, '18. So now you'll see the plan is getting up to the year 2020. So figures are changing slightly.

What's happening in year 2015, we are getting to 1.8 billion and this is because we are accelerating A380s that we were initially going to receive in year 2016 and bringing back to '15. And that's an interesting exercise because we're bringing closer, the benefits and we avoid escalation of the aircraft. So it's an exercise that makes a lot of sense.

On top of this A380, we didn't consider because we didn't have the contract last year of the new A350s. So that is early PDP payments that we are having to do next year related to the A350 fleet that we have committed to.

So this is how we chose and the EUR2.5 billion will be contemplating both the investment and we are going to do the year 2015 in the substitution and renewal of our existing fleet but also the needs that we have for this 3% to 4% growth that we are projecting.

So coming back and just trying to be comfortable about how all these figures are fitting, coming back to the base that we are going to have through year 2016 through '20 on a previous 16.5, you remember that was the average that we were mentioning and that's the average replacement middle-age fleet, Okay? So as we get the fleet that we need to buy on new plane type of metrics, you remember that it is - it's a half year flight, 11 to 22, we'll be talking about having to follow to depreciate for a figure which is EUR33 billion on brand new prices, Okay?

So EUR33 million of fleet that we need to depreciate about is creating a normal replacement ratio of EUR2.5 billion, Okay? So it's just on a EUR33 billion base if you apply the 4.6 depreciation ratio as we mention. So that's explaining the first 1.5 billion of CapEx that we are going to be needing on a yearly basis just to replace. The 3% growth will be creating the additional 1 billion to get to this 2.5 billion.

And this is how it shows in terms of how we are going to be obtaining the funds and using the funds, you know, to meet our obligations and our commitments. EBITDAR is going to be basically the big, big source of new funds coming into the group. And the average that we have been figuring out or this new period, '16 to '20 is about EUR5 billion per year. So that's big figure. It's an improvement on our latest figures and it shows confidence in being able to make our achievement at profits level sustainable for the next cycle.

So this EUR5 billion will be combined with funds we get out of the market place, basically through the refinancing of old fleet through the obtaining new financing for new deliveries, basically, again, the efforts that we have to do to fund our contributions to the pension fund deficit and our working capital differences. So the whole of this financial-driven figures and plans will be helping us to finance our needs.

The second big figure that we have and now on the left-hand side has to do with our needs and our needs as we showed are basically around our CapEx figures. It shows half the EBITDAR we are going to be dedicating to our CapEx. And the other half, the other half, the refinancing and financing net proceed will be using for two purposes.

First, of course, the contractual ones and this is basically attending our lease payments, our interest charges and our tax. The headroom is the one that we are going to be able to use basically to produce these dividend payments.

We are not giving all the figures. You probably will be able to complete your models without the information that we are giving to you. That proportion show the probability to cover adequately our dividend commitment. It's showing very high.

So this is basically how we are going to be able to fund our requirements for the next four or five years and it shows the level of headroom that were to be eventually being able to produce not only to pay our dividends but also to generate opportunities for inorganic growth, for example. Because the growth, the organic growth is embedded in the CapEx figures that we are showing there.

And here, we basically try to condense all the different messages that we have been throwing to you in this last minute. A lot of information, a lot of figures, that we are trying to wrap up in this condensed chart.

So figures around profitability of our business, very big driver on ROIC metrics. You have to do with on our business, on our investment decisions being able to achieve a plus 12% ROIC expressing real replacement.

In terms of operating margins, it translates in operating margin, operating profit margin growing from 10% to 14% along the period. We'll be closing year 2015 very close, if not, on top of the 10% figure if we adjust both Vueling and Iberia metrics to more regular operating profit calculations and this is, as we have been telling you in the past very frequently, because of the level of operating leases that they are using.

So a part of the operating lease rents and payments is just interest payment. Should go below the line. So our figures, when we talk about IAG operating profits are always a little bit diminished because of this factor.

And then it's about growth and we're mentioning this growth between 3% to 4% per annum at a sustainable level of growth taking it above the market than we are operating in. And that will be producing earnings per share growth in the range of 10% per annum which is, again, a very attractive proposition.

On the balance sheet/cash flow area, it's again focusing on a gearing on a leveraging position, exercise that could allow us to enter into investment grade zone. We are not obsessed in investment grade zone but we are doing things that will inevitably lead us to that area, probably going to come in the year 2016.

EBITDAR as an average for the period will be around 5 billion per year and this is again one very important figure and very important focus of our attention. CapEx, as we have explained will be between EUR2 billion and EUR3 billion per year and we'll be coming again to the EUR2.5bn average but it has to do with delivery date. So there'll be some, I would say, ups and downs on our pattern through the following year.

And then these ups and down in capital will create little ups and downs in free cash flow for equity which will be flowing from $1 billion to $1.5 billion per annum. With these metrics, with these wrapped up type of metrics in terms of profitability and financials, we will be able to cover the projected dividend payment that we are going to be announcing in terms of retained earnings by four times.

In the case of cash coverage, the figure will be close between three and four times through these periods of time. So, again, we're very happy to tell you how we have reached the conclusion in terms of dividend approach talking about these, I would say, coverage ratios.

So this is the statement that we are going to be doing. We have done this morning, officially. As you know, the first paragraph has to do with what we have been telling you since the merger exercise, since the first, I would say, prospectus of the merger. Our intention, both IAG management and IAG board was, is, to produce a sustainable flow of business for our shareholders when we capable to do so and in the manner that we are comfortable to produce this sustainability.

So we have to recognize we have been making some significant progress through the year 2014. And again, we are confident to be able to reach our targets in year '15.

These '15 targets achievements is going to be basically the trigger to release, to launch business and policy through next year and how we see it today achieving that level of operating profit is to be able to sustain initially a 25% of dividend payment on our profit asset tax base. So this is how we are explaining our dividend policy and the way we are going to be driving it to different teams through today and the following year.

So this is basically, sorry about being long and too numerical, maybe. This is how we are going to be driving the session today. We are going to be talking about IAG initiatives. Remember, I have been mentioning some things about it. Cargo, Avios, fleet and purchasing. There are others that will be coming and we'll be happy to bring them to you as soon as they get their appropriate shape. It's about our new IAG business services and the centralized IT model and other major initiatives that we keep quiet about now but we'll be explaining to you further in the next month.

It's then completing this IAG initiatives through operating company initiatives. And, of course, we have three sessions for both British Airways, Iberia, and Vueling. Finalizing with more details about how we are establishing this growth pattern in terms of our organic growth and the whys and the whens of this growth happening through next year.

So handling back to Andrew.

Andrew Barker - *International Airlines Group - Head - Group IR*

Thank you very much.

Enrique Dupuy - *International Airlines Group - CFO*

Thank you.

Andrew Barker - *International Airlines Group - Head - Group IR*

So as Enrique said, this is our planning agenda but also the agenda for the rest of the day. We're going to have three talks now on IAG initiatives and I'll come back to those in a second but that will take, we think, about an hour, about 20 minutes each.

We're running couple of minutes ahead of time but we'll probably be finishing this at around 9.30, sorry, around 10.30. We'll then have a coffee break, come back in here at 11.

We'll go in to talk about the operating companies with the three CEOs. We expect that will take about an hour and a half and then Willie will round up with a view on the longer term strategy of the group, how we approach growth, capacity discipline and we'll break at about 1 o'clock for lunch.

The lunch will be served out there. What I ask you to do and remind you later is come back in to the hall, eat your lunch, and then around -- and then probably about 1.30, we'll start with all the Q&A. And as usual, as we've done in all previous meetings, it will be a free form session where you can ask any question you'd like and we'll see whether we decide to answer them or not.

One other thing to mention before I introduce the speakers, this is not only the agenda that we're planning towards in IAG, the agenda for this day, but it's the investor relations agenda for the next 12 months as well. So rather than overburden you with enormous information every year as we have done for the last four years of this day, we'd like to take you over the next 12 months step by step into each of these with some smaller investment seminar in London or Madrid or maybe elsewhere, Barcelona I think if Alex is in the room is going to be a favorite venue, but we're kicking off with an Iberia investor event in December which the investors buy side and sell side in the room have been invited to. And the next one is, in fact, next week for IAG Cargo an investor seminar next Friday.

And with that, just a brief introduction of the speakers. We kick off with Steve who's the CEO of IAG Cargo. Then Gavin who is the managing director of Avios and finish with Geoffrey who's the head of group strategy for IAG.

Gavin and Steve have both worked at BA for many years. I won't say how many years but Steve in Cargo and then he wanted me to remind you that he may look and sound like a cargo guy but he's a finance person at heart.

So, Gavin, I guess, started off in the operation but have spent most of his career in BA in commercial, running large chunks of the world, reporting to Drew and previous commercial directors, Latin America and Europe. And actually Gavin, you were the interim commercial director for Iberia for a few months as well during the management transition.

And Geoffrey, like me, comes from outside the original founders of IAG and spent many years in Latin America, Middle East and other parts of the world working in and with airlines. So you have enormous numbers of years of airline experience here all around the world and in all parts of the group.

But first off, Steve. Thank you.

Steve Gunning - *International Airlines Group - Cargo CEO*

Good morning. Thank you for that introduction, Andrew. I think -- I'm glad to say Andrew haven't done any of my slides and I think he's walked off with the clicker as well. Thank you.

It's great to be here this morning to talk to you about IAG cargo and I'm going to give you an overview of the journey that we've been on over the last three and a half years. and basically, I want to get four key points across to you today.

And firstly, that we are a new business. We're not a collaboration of BA Cargo and Iberia Cargo. We are a new single business. And that's absolutely key.

And in creating that single business, we've put in place an innovative operating model which I think sets us up well to compete going forward. In the midst of doing that, because we've moving at pace over the last three and a half years, we have been at the forefront of integration within the group and we've had some interesting learning experiences and I thought I'd share some of those with you.

And then finally, it's probably been the most turbulent five years in the air cargo industry. And in that context, we've got very clear strategic priorities of how we think we can win and beat our competitors in that environment.

So those are the four messages I want to get across today in this presentation. But first of all, let me give you an introduction to IAG cargo.

It was in April of 2011 that we announced we're going to make a single cargo business. By combining the 13th and the 33rd largest air cargo carrier, we created a top 10 carrier and we enjoy now about 4% global market share.

By putting those two great networks together of BA and Iberia, we have a great cargo network and we serve 250 global destinations. But far more importantly, for me, of the top 120 cargo destinations in the world, we serve wide-bodied lift to more of those than all of our competitors bar one.

And on top of that, we're the only top 10 player who doesn't have a freight fleet. There are 95% of the capacity we have is on line-haul, on the passenger aircraft. That's good. That's a strength for us. We're flexible, we have a lower cost base and I think it gives us an economic advantage.

So let me turn to few of the financial and commercial dimensions. Our annual turnover's about 1 billion and we are very much a B2B business. Our top 10 customers represent 36% of our turnover and these are customers like DHL, Kuehne + Nagel, Panalpina, Expeditors.

And the last box on this slide is in 2015, we will hope to achieve over EUR50 million annualized synergies in our business, about 20 to 25 million of those on the cost side and the rest on the revenue side.

So if that's a bit of an introduction to IAG Cargo, why did we create it? What was the proposition? What was the rationale behind it?

And at the heart of this, it was about having network scale and connectivity. By putting the two businesses together, we have a great network. And if you want to be in the top tier of a preferred carrier program for big global forwarder, you need network scale and relevance and that's what combining the two businesses gave us.

But as Andrew was quick to remind us earlier, I do have some finance pedigree as well as cargo pedigree and we are very bottom line drive business. And we could see that there was real opportunity to optimize our financial returns, not just through synergies, not just through the better network but also avoiding duplicated investment costs such as IT systems and things like that. The ability to make tough decisions on freighters which I'll come back to more in a minute.

The third pillar of the rationale for us, for creating IAG Cargo was getting set up for growth. In two ways, one, by creating a single commercial platform that we can leverage off. I think that makes us more attractive for partners to work with us, either partners coming in to the group or partners outside of the group.

And on top of that, because we were on the forefront of integration, I think, there's also been the ability for us to provide learnings for the group on true integration. So that was the rationale, how are we doing?

On this slide, there a lot of proof points but I would say we're about 80% to 90% complete on integrating this business. Let me highlight a couple of the proof points that I think are important.

First of all, we wanted to be one brand. We think it's very important that we are single business, we present ourselves to the industry and to our customers as one business. I would compare us, if I may, to Air France, KLM, Martinair Cargo. That does not give the impression of one business.

We truly are one business. We have one management team, one sales force. We're all incentivized. The one key metric which is the bottom line target.

Another thing that's key to our business is having one network. And to join the two networks of BA and Iberia, it was absolutely essential that we have wide-bodied lift joining the two hubs, Madrid and Heathrow. And the passenger business has been very supportive in flying wide-bodied passenger aircraft in between those two hubs for us.

If that's one network in the air, another way we need to be one network is we need to optimize that network commercially. And so, for the last two and a half years, we've been putting in a single revenue management system that allows us to have pricing and inventory controls across our entire network.

One last proof point I'll just highlight here is with regards to the operation. There are aprx 35 to 40 stations worldwide where there's both Iberia and British Airways flights going into that single station. If you are a customer of IAG Cargo, you're don't have to worry about whether it's a BA flight or Iberia flight because we have one cargo operation at these stations. You just turn up with your freight and we'll worry about getting it on the right flight.

So that's the integration. But as I touched on earlier, we have also what I think is a very innovative operating model. And first of all, it would be clear to say there is not one standard operating model in this industry. But one end of the spectrum you'll have the fully standalone cargo business, that purchases the cargo capacity off the passenger business and does it's best to maximize its own return.

At the other end of the spectrum, you probably have under formed cargo businesses where the commercial and the handling operations sit under the respective passengers businesses, so cargo commercial sits under passenger commercial and cargo operations sit under passenger operations. Doesn't really reflect the different business that they're in or the different customers that they have.

We've now gone for either of those models. I'll take you through what we have got. So pre merger, within both Iberia and BA, there were two cargo divisions which had central functions, commercial functions and operational functions.

What we chose to do was move the central and commercial functions into a newly formed subsidiary to create one single commercial platform so we could make a world-class platform and present that to our customer base.

What we chose not to do was to carve out the hub operations from the operating companies. We retained management control of them but we didn't try to carve them out. We can see no value generation opportunity for carving them out as long as we had control.

And so this was the model that we adopted. The other thing that we did with this was we structured it in such a way that all of the contribution we generate as IAG Cargo goes back into the operating companies. We think that's really clever because it means the operating companies want us to do well and we want to do well.

It also means that you get very rational fleet and network decisions. Because if I make a network decision that's adverse to cargo, then there needs to be a requisite passenger upside, so it also means that you're optimizing group return which is the right way forward.

The last thing I particularly like about our model is I think it's a light model. So if there are new airlines that come into the group which have cargo capacity, you can pull this cargo capacity over this commercial platform fairly quickly and you can quickly assimilate that business into IAG Cargo.

There's not one standard operating model and unfortunately, there's not one standard profit measure either for cargo businesses. I've put up here models A and B. I think these are live models that some of our competitors run.

Model A is what I would call an under formed cargo business, it doesn't really know it's full cost base, probably is what we'd call volume hero, sells a lot but doesn't probably make a lot of money. Model B is the other end of the spectrum whereby it's really out to optimize its own return rather than the group return.

What we've done is something in between. Clearly, we take all of the revenues and responsible for those. But then we take all of the directly attributable costs whether those are overheads, whether those are external costs, whether those are staff costs.

So if I crudely oversimplify, if the cargo business disappears, ultimately, these costs disappear. These are the ones we should suffer and take.

There's one particular cost in there that I'm very evangelical that make sure we do get charged for which is the incremental fuel burn on the passenger aircraft due to the weight of the cargo. When we've looked at other people's models, we think we're one of the few cargo businesses in the industry that take that cost.

We think it's important since you can't make rational commercial decisions unless you do consider all of your marginal costs. And we've seen this year, particularly out of the West Coast -- sorry, the East Coast of America, some really crazy pricing taking place which doesn't even cover the incremental fuel burn. And this is not a minor cost. This is about 25% of our overall cost base.

The other thing I just wanted to point out that is different from some of the other models is we chose not to take a capacity charge. We chose not to purchase the capacity off of the passenger businesses and then try and make our own return. One, because you'll spend all year arguing on the trend that the price should be which doesn't add any value to the group, whatsoever. And two, if you do get it wrong, you'll make suboptimal returns to the group. We're very comfortable being targeted with a high-strong contribution number and achieving that and moving towards it.

So I've told you a lot about IAG Cargo. Let's talk about the industry for a little while. As I said earlier, it's been a very turbulent five years. In '08 and '09, were the first ever years of successive air freight decline. Then in 2011 and 2012, it happened again.

So in the backdrop of all this integration we've been doing, we've been living in very turbulent times. It is our view and I think we've got this -- we've got to this early, probably in summer of last year, it's our view that there's been structural change in this market. There's a cocktail of factors hitting demand which I think has brought down the demand expectation for the future and there are one or two factors that are really making supply grow very quickly.

As a consequence of this, we think this market is oversupplied. Now, we've looked out into the future and we think the market can recover equilibrium in most trade lines but it's going to take time and it's going to take, to be quite frank, freighter capacity to be taken out. I think the passenger business will continue to do what the passenger business needs to do. The only part of the capacity model that the cargo industry is in control of is the freighter fleet.

So I think equilibrium can be restored but I think it's going to take time and I think freighters are going to need to come out which is a lovely segway into my next slide, I thought it would be interesting to share with you a few of the challenges we've faced over the last few years.

And one of them was to make the decision to come out of our freighter fleets. We've run three and four 747 freighters for probably 10 or 12 years and we have the opportunity because of the way we wet leased the freighters to come out in April of come out of them in April of this year and we made that decision.

Three things helped us make that decision. One, as I have explained in the previous slide, we could see the writing was on the wall. We know where the market's going and we're not going to recover and start making money on those freighters for a while. It's interesting seeing some of our competitors now going through the same turmoil and same decision making.

So one we could see where things were going. Secondly, we now, as IAG Cargo have sufficient scale to ride out that reduction of capacity and it was 13% of our capacity we were taking out. We're able to write that out because we have such a bigger network than we have previous to the merger.

And lastly and the other reason that helped us get through this decision was the crown jewel route on our freighter program was Hong Kong to London and we were able actually to replace that with a capacity purchase program with Qatar which had a seamless transition. We came off of the GSS freighters and went straight on to the Qatar program. Our customers never felt a thing which was absolutely key.

So a big decision for us, absolutely the right thing, 24% of our cost base is out and certainly makes us more flexible for the future.

That's an external challenge. What about internal challenges? Well, probably our biggest internal challenge has been putting in the single revenue management system over the last two and a half years.

It's akin to open heart surgery and I'll be brutally honest, it's been painful. It's been painful and have there've been complications. We've had two functionality drops this year, one in January, one in September. These are the two major ones. We're 90% through the project now.

And particularly, the January one went badly. Our customers never felt it. We managed to have sufficient contingency plans inside. But, really, there are an awful lot of learnings on the IT side for us.

We were working with three different IT departments, three different locations and with three different sets of technical standards. A lot of learnings have come through that. But I'm glad to say we've come out the other side of it and we're starting to see benefits generated from this IT system.

So how are we performing? We are performing well but you'd be forgiven for not knowing that because we don't give you a great deal of information about cargo. Q2 and Q3, our traffic stats showed us that our volumes were down 5% year on year.

The capacity, that is on a headline level, was also down, sort of 6% and 7% in those quarters as well. But really, that doesn't tell the story. Because of this key long-haul freighter decision, there's a lot of fog as to what's really happening.

So if you strip out the part of the freighter program that we permanently left from the prior year base, and use a like to like adjustment, what you really see is there's been significant capacity increase on the line-haul particularly on the BA side and we've actually done exceedingly well filling it. In fact, our load factors have improved four points in both quarters.

It's one thing to fill aircraft effectively but it's all a question of at what rate. So what has yield been doing? Well, in the market conditions, I've explained to you unsurprisingly, yield has been under pressure. But more and more, we seem to be getting to grips with that and more and more, we're using our premium products to offset some of the underlying price erosion and I'll talk more about premium products in a little while.

And what about on the cost side? Well, our unit cost performance this year has been very strong indeed. Unit cost are down 10%, all three quarters and that does not include the benefit of getting out of the long-haul freighters.

How we manage that? A third of it's on fuel but two-thirds of it has been holding our cost base down as we've grown the volumes. So performance has been good.

And that's performance looking back, let's talk about looking forward. And as I was touching on earlier, there are three key issues I see in our market, in our industry. One is commoditization. Another is excess market capacity, putting pressure on yields. And two, more divergent markets and more volatile markets than we've seen in the past.

So we as as business have three very clear strategic priorities that we're rallying around. Firstly, one is differentiation and that really means driving our premium product mix. Premium product is what the business class of cargo, its the temperate sensitive products, it's is the high speed product like courier. And we've set ourselves a target of getting to 20% of all of our volumes need to be premium products by 2018.

This way, you differentiate, you move away from commoditization and you increase your yield because the yields and the contribution for these products is far higher than for the general freight products. So driving premium products, very much the spearhead of our strategy.

On top of that, we will continue to drive cost efficiency and cost volume variability and I think you can see on the previous slide, we've made some good progress on that.

And then lastly, divergent markets. We see more and more the outlook for different regions and trade lanes diverging. And so, to win in those markets, we think we need to have more differentiated strategies. How we will win in Asia is by network scale and connectivity with partners, how we'll live across -- how we'll win across the North Atlantic will be to drive premium product mix to differentiate, be far more aggressive on cost and go after the e-commerce volumes. Different strategies for different regions.

So, those are our three strategic priorities. And this brings me back to the original slide. I think we're well set up for the future. Despite the difficult industry, I think we're well set up because we have the right operating model and we have clear priorities and we have a team that has a history of delivering.

That's IAG Cargo. Thank you for that. I'm now going to hand over to Gavin Halliday to talk to you about Avios.

Gavin Halliday - *International Airlines Group - Avios Managing Director*

Okay. Thank you.

Avios is a business that talks about customer loyalty and this maybe one of the first opportunities I've had to talk to an audience like this about the subject. So I do hope that you enjoy it.

I'm going to plunge straight into a slide that gives us some context to talk about Avios and this is our history of where we come from, some of the major milestones. Clearly, we're able to in 2011 bring together the two currencies of Iberia Plus and British Airways Executive Club where we launched then the Avios currency. In 2011, we used this meeting to unveil the ad that we used as part of the communication plan to launch Avios.

Since then, we had some major milestones. The first one in 2013 was taking Avios currency into South Africa where we launched a frequent flyer program and then in 2014, we've been able to bring two airlines into the Avios program who have chosen to adopt Avios as their currency, their loyalty currency and interestingly, both of these carriers have been outside of the IAG Group.

So customer loyalty, what does it mean? Let's look into what that actually means. Now perhaps surprisingly for a customer loyalty currency, we don't use the word loyalty in our vision.

Our vision is simply to be leaders in travel rewards. Now the reason we don't use the word loyalty is because we've disaggregated the word loyalty into what do we think it means to our customers and it means two things.

Loyalty is a function of relevance and engagement and those are defined by and defined terms by the customer. So we want to be leaders in relevance that's determined by our customers and engagement that's defined by our customers.

And the reason we stay with travel rewards is to give the brand, Avios, a very distinct identity around what it actually does to the customer and travel is motivating and inspiring. We don't want Avios to be used generally without an identity. So travel rewards is what it does and that's what our vision is.

So what are the credentials of the group? Well, the credentials I think are very, very strong. This is essentially about relationships and partnerships. And so at the top left for me, right to you, you can see the quality of the air partners that we have in the group.

These companies have great reach into great destinations, that's very important. But very importantly as well is they have great customer equity. British Airways, Iberia, Meridiana, these have equity with customers and that's really, really important.

Similarly and unsurprisingly perhaps given the quality of the portfolio of air partners we have, we've got some extraordinary brands as non air partners and this is what they expect in terms of managing partnerships of this nature. So that's what it means to the customers. So we buy reward products from our air partners and we sell the Avios currency to our non-air partners to issue it.

Equally important to the Avios business is the fact that it's underpinned by the opportunity to grow globally. We currently have members and we currently sell the currency in over 220 countries globally.

So there's clearly scope for us with those footholds in those markets to grow the business in destinations outside of our current home market. And the way that we do that, the ingredients we use is we set up ecosystems, we call it ecosystems because they involve customers and they involve behavior.

And the brands that we have in the bottom box on your left-hand side are an ecosystem that demonstrates how we put together relevant brands that appeal to different segments of the market. And the important point about this particular panel is that the Avios currency is the thing that is common and connects the airlines. It's what the customer uses to connect the airlines with either a redemption or an earn activity.

Let's look at what I'm actually talking about. What is an Avios? Well, to do that, you have to kind of do that in the context of what does it means to the customer because that's the person we're appealing to.

So the profile about customers is that they generally a little bit more affluent than average and whether they like or not on business, they travel but certainly in leisure that has a high propensity to travel and they want to travel.

Equally, these people have a propensity and preparedness to save for the reward. They save for the reward, because the reward has got a high perceived value and that's a really important characteristic for these people because they're looking for a reward.

No one joins a loyalty scheme for the activity of collecting the points or the miles or whatever. People join loyalty schemes to get a reward. That's what it's all about.

So travel as a motivator to join a loyalty scheme is particularly appropriate. It gives you a reason to go to a different store, retail, in a high street. It gives you a reason to use a particular financial services or credit cards. It gives you a reason and it's motivating and people will change their behavior to win a reward and to collect Avios points.

But the reward themselves are really important and we've recently diversified the reward options that we offer to our customers away from just a full redemption, i..e., you'll exchange a bunch of points for a seat to a destination. We introduced part payment using Avios.

And this has been quite interesting development because what it has done is allowed us to appeal to a much broad audience, an audience that people who may have smaller balances and they're able to get a discount on the tickets that they're buying.

And equally, for people who have got large balances, rather than have to only find a reward or redemption when there's a reward space or redemption space on the aircraft, it's applicable to any fare all of the time and that's improved the utility of the currency very, very, significantly.

And the importance of that to our business is that every time somebody redeems, they are then five times more likely to go and seek out other opportunities, to earn currency from other sources other than airlines. That's a really important expansion of the utility of the currency.

And we've also got a reward option for what we called ancillary and what that means in actual fact is car and hotel experiences so people can find rewards and redemptions in that space as well. We also include wine in that category. I'm not sure why wine qualifies as a travel reward but no one is complaining about it and so I haven't taken it out and we left it.

What does this means to the currency? Well, importantly, and I think this is the stroke of genius around Avios, is it's not aligned to a particular airline an establishment or geography.

Avios is an ingredient brand and it can work alongside other brands, very, very comfortably as a sub-brand and that's enabled us to have it operating across multiple frequent flyer programs. Equally, it can underpin a frequent flyer program and that flexibility and versatility is very, very important to the IAG Group because it gives us the scope and scale to grow.

Why would an airline then choose to sign up to and use, adopt the Avios currency? Well, principally, it's got a versatile model, it avails itself to almost any interpretation of a loyalty currency that the airline might desire.

If it's a recognition focus that people want, i.e. they want to, airlines want to maintain a frequent flyer program then Avios can support that as we got illustrations up here. The Iberia Plus program has a huge affinity and following from its customers, it has an identity that people want to stick with.

The Avios currency doesn't disrupt that. It actually acts as an integrator for it. And around the recognition focus, we can use the currency to attract say a financial card that could be co-branded like the British Airways co-brand card and that provides more and more data into that customer base to provide more and more opportunity to provide recognition to customers in that program.

But equally important is that there are airlines who don't want to have a frequent flyer program or haven't got a frequent flyer program and there we were able to offer the Avios travel rewards program where they want to be a part of the rewards program but don't want to have a frequent flyer program. So the versatility of the business model that we can avail ourselves to is something quite special.

So how does it work in terms of the specific cash flows? Where is the money generated? Well, we've been able to explain how it can work with a number of different frequent flyer programs and the different hierarchies and tiers the airlines may have in their frequent flyer programs. They can very flexibly do that as illustrated in the cards and the hierarchy there.

But a very traditional view of frequent flyer programs would look something like this. We have fewer members towards the top of the hierarchy and the tier groups and more members at the bottom. And then the inverse pyramid would reflect the value and size of the money that's earned from those customers.

Now as I said, this is a very, very traditional view of the way that frequent flyers are perceived. Within the IAG Group, the way we see it and the way we interpret it with an Avios lens provides us with a totally complementary business that can monetize those frequent flyer bases.

And the very, very important point about this is that where Avios focuses is in extracting revenues from the opposite parts of the pyramids to the airlines. So we will focus on generating most of our revenue from the lower tiers of the frequent flyer programs.

And the reason for that, what that actually means in reality is that people towards the lower tiers wants to fly but are struggling to fly regularly because that's not the nature of their lifestyles or their jobs. So they will look for earning opportunities with non-air partners, with retailers, with online platforms, with financial services cards, for example.

And at the top of that pyramid, what we will be doing, working in conjunction with the frequent flyer program is providing us, I gave you the illustration earlier, with program cards. So this is the totally complementary revenue stream complementing the airlines and complementing the frequent flyer program as well.

So how does this business actually work within IAG and where do the benefits come from? Well, clearly, relative to my colleagues in the airlines and with all respect to the work that we do in the airlines, this is a relatively high margin business model.

It got very, very low capital requirements by comparison with airlines. It generates positive cash flow. New revenues are coming into the group from third parties that are not airlines and therefore, to some extent, the airline group is mitigated from some of the volatility in that.

It's got high growth potential in two components. One, where new airlines can come into IAG, we got an opportunity to bring the Avios currency to those airlines. But as we demonstrated already in 2014, Avios can be adopted by airlines outside of the group perfectly readily.

Customer loyalty within the group is enhanced and it will continue to be enhanced by the work that we do in Avios and very importantly, we can acquire customers into the frequent flyer program through the non-air partner customer databases as well.

So how does it create reach and how does it create relevance for our customers? Well, firstly, we start with customers because that's whom were trying to appeal to in terms of relevance and who we're trying to appeal to in terms of engagement.

By setting up more broad portfolios of airlines, we have the opportunity to provide complementary airline relationships. So in the examples I've got here and I've got colors to depict airlines, let's say blue is British Airways and let's say purple is Flybe.

For somebody who leaves in Birmingham who wants to fly to Shanghai, flying with British Airways is probably one of the best options via Heathrow. However, if they want to go to Perpignan possibly flying on Flybe from Birmingham direct as a regional carrier is far more relevant and appropriate for that customer.

So we have complementary opportunities and the key thing to this is that Avios is the one thing that connects them. So we have a very positive reinforcement of relevance and engagement.

That same theme then works for non-air partners. So when you see financial services, you see hoteliers, you see car hire, then this sort of virtuous model that is sustainable continues to set up a flow of offer between the air and the non-air partner. The non-air partners are very willing to offer Avios as a currency to motivate their customers to be loyal to them because they also want to qualify the rewards in travel.

So as we run down this and bring you to some kind of conclusion. We've got very, very compelling reward propositions. We've got great airlines that promote great destination that people are inspired by, people are inspired to change their retail behavior buy. They're prepared to go the extra mile to earn the Avios currency and the currency is not just used for flight redemptions. Increasingly, as the versatilities we talked about to apply itself to other redemption types. It could be that Avios provides content and service purchase options inside the aircraft.

It can be that we can use the Avios currency to upgrade customers through different cabins inside the aircraft. And the great job that our colleagues in the airlines do in terms of making the destination one thing but also the travel experience in flight more compelling, Avios could well be placed to leverage that.

We've talked about having relevant partners both global partners and local partners to allow us to grow into different markets globally and we've demonstrated the ability to do that.

So the next frontier and where we're investing a lot of money now is to create relevance in terms of the easiness with which people can earn and find out where to earn Avios points and where they can burn and redeem Avios points. And the digital platforms and apps that we're working on now will provide that relevance in that space. So making it just much easier to earn and burn the currency.

So how have people responded? I'll give you some numbers here. Two to three years ago, 100% of our redemptions would have been on what we call full flight redemptions. Since the introduction of part payments between 12% and 15% given that this is only a year, 18 months old, supported by British Airways, the part payment component of our overall redemptions is now 12% to 15% of the total and our ancillaries now account for between 5% and 7% of our total.

So customers are responding to the proposition changes we're making in redemption and I think that's continuing to drive the relevance of the Avios proposition.

So in terms of engagement, what are we doing with regard to engagement, well, the investments that we're making in the very, very rich data that we've got about our customers and what they do with our currency will enable us and is enabling us to start to work through with customer insight and analytic tools to work through how we can deliver personalized messaging and personalized offers.

If we combine that with the intuitive mechanics that are available through apps that we can then present on mobiles phones, on tablets and then engage those with things like beacons that can trigger relevance in terms of where people are geographically where they are in a journey experience. We think we could have extraordinarily compelling proposition and it's underpinned throughout the proposition by the foundation of very, very high quality complimentary partners for both collection and redemption exercises.

Now, where did that take us? Well, ultimately, this asset that we have in IAG is something that can drive not just the top line and bottom line of Avios. It can also, and does, play a significant role in driving improved loyalty and loyalty from very, very important customers within the frequent flyer programs of the airlines in IAG. This asset is a virtual currency in a digital world.

(Video playing)

Gavin Halliday - *International Airlines Group - Avios Managing Director*

Now I have the good fortune of talking to you about concepts and capabilities in regard to a virtual country and that film clip was probably taken in east London or somewhere with fluffy white clouds and blue skies.

I'm now going to hand over to Geoffrey to take us back into the nuts and bolts of the airline industry. Geoffrey?

Geoffrey Weston - *International Airlines Group - IAG Head of Group Strategy*

Thank you. Hello. Good morning.

So I'd like to build on a theme of flexibility and enabling expansion and growth which you heard both from Enrique and from Steve and Gavin. There are three things that we've been aiming for in the process of harmonizing fleets and I'd like to talk to you about the work we've done in the last year since the last capital market day.

Responding to the challenge by Robert Boyle, Director of Strategy, which was how could we get our capex into a shape that as we receive it, we can flex it across the OpCo. This is the different from the flexibility how many aircraft you have in your fleet, it's the flexibility of how you move them around.

Why is this important? Well, our narrow-body fleet is one of the biggest in the world. It's a lot of airplanes and it's airplanes that we'd like to be able to move around.

This hasn't been done before so it's all quite exciting and it's not been been very easy, but all the OpCos have participated and it's being led by IAG. So what are we talking about, it's a lot more mundane than some of the more glamorous things we've seen from Gavin.

Let's walk into the airplane and in a couple of places that we think we've all used, we've all experienced in the A320. That's the forward toilet, that's the forward galley.

And what we've been doing is stripping out a lot of items and harmonizing others and please don't make the mistake of thinking that what you see in an airplane costs about the same as the similar item that you have at home.

These are industrial parts. These have to be certified. These are regulators. These have very small volume runs and they are very expensive and they have to be maintained and they have to be checked. So if I use the technical term of stuff, the more stuff you put in there in airplane, the more your ongoing maintenance cost will be going forward, the more time it takes to maintain.

Here are just a few items in the door 1 area that you look at a config chart, you'll see a map that looks like this and this is just a sample of the items in this area that we had to work on. We thought the list was quite boring, Andrew said that's very boring, put some photos so let's go onboard.

As you walk onboard just to right ahead, you'll see the G2A galley. In some of our OpCos, this is wet. What that means is that that this area has links to water, electricity, ventilations but there are no more G2A wet galleys. -Some of the OpCo don't even have a G2A galley.

Let's just look to your left, at the bottom here, you may not know but sometimes when you're served a nice cool drink, it's because it's being cooled. So we have cooling in some of our brands but not in all of our brands and key in this process was to make sure that we didn't forced brands to do what they weren't happy. So we challenged rigorously to make sure those extra stuff you put on has a revenue stream associated and in the room today we have Frank van der Post, the managing director, brands and customer service of BA, Marco Sansavini, Chief Commercial Officer of Iberia. If you talk to them about their brand, they are very passionate about their brand. This is a classic legacy airline trait.

Everything matters. Everything you touch, everything you look at is associated with the brand and has been analyzed to death. So the challenge is, well, how can we respect your brand but take some of the stuff off and have similar stuff?

Take a step back, lets just look at the galley, there are several suppliers for all the galley stuff. These are now the same suppliers and the basic config is the same. One thing I find very difficult on an airplane and that I usually get wrong and I usually look like a complete fool is when I try to open the toilet door because sometimes you pull and sometimes you push and it differs from plane to plane, from door to door, all right?

Let's just go inside. Of course, the first thing we should do is wash our hands. We've harmonized the taps and the water systems that sit behind that, Okay? Different airlines have different taps for different brand experiences. We've been able to work through that.

And as we look around, I'm sorry, I'm not allowed to show you because it's commercially sensitive what our new bathroom will look like but I'll just pointed out a few of the places where you have different choices and to bring this to life if you'd like to afterwards, you might want to have a cup of coffee and use the hotel bathrooms. We've got here some of the different choices that you have in bathrooms. So we have the surfaces, we have the levers, we have the floors and so just, please come and have a look afterwards. All right?

Lots of choices and airlines fell very strongly about what their bathrooms look like, really strongly. So actually this was possibly the most difficult area of the entire airplane to harmonize.

Okay. I think we spent long enough in the toilet. Let's step back outside, the floor, look down on the floor, non-textile floors, incredibly hard wearing these floors have to last for nine to 10 years. These are changed at hard checks. I've got some samples as well.

Cabin attendant seat, not something that you would experienced but very small number of parts, they're very expensive. We've harmonized all of this as well. Some of our brands have a closet. I know you're not allowed to travel in business class anymore but if you remember the good old days when you were, someone might have asked you for jacket in some of the brands and they would hang it up some of these closets.

We've kept the closets onboard. Now what we can do is we can take them on and off. So if Alex wants some more seats on a Vueling airplane, we can this off and put seats.

Safety equipment. It's not always kept in the same place, will be kept in the same place, the signage is the same. It's going to make training cabin crews a lot more easy and harmonized. And I thought I'd use a little example of a luxury item, you don't have to have one of this. We have it in an airline and we convinced them not to take it.

These things are really expensive. I put a few numbers in here, we're not allowed to put too many. Okay. So let's step back, what we're looking at? We were looking at several hundred choices. We've looked at a few in here. I showed you a couple over here.

I'm not going to drag you through avionics and systems, but today, between all of our fleets, there's only 45% to 55% commonality in avionics and systems. So these 150 items came from one opco to another, about 70 to 80 of the items are the same, that's going to be over 90% now.

So moving is going to be remarkably easy. Two final examples, spot the difference, three identical airplanes, those windows are completely different and airlines has good reasons to make those choices they might have had slightly different specs, but we've now harmonized those and there's a very big gap in weight. I'm sure when you look at those windows, you don't -- the first think you think is not about the weight but as you can see, there are several thousand euros of fuel burn savings across different aircrafts depending on the windows.

If you go through the windows in to the cockpit you'll see that in some of our opcos, we have a 4th occupancy seat, in some of them we don't. So we're taking them off the airlines to do but some of this work we're starting before we get the new order stream of aircrafts. Quite a lot of this simplification can actually happen on the active fleet.

Well, what's it all worth? The answer is quite a lot. Between half and a million euros per plane. Where did that come from? Well, the avionics and systems, some items that we removed. There's some items that we removed from the cabin.

But as you harmonize items and you increase volume, then what that allows us to do is then involve IAG group procurement, our Group Chief Procurement Officer Raghbir Singh Pattar is in the back, so you can ask him about how he managed that and that took another 30% off.

So it's really deploying all of IAG to consolidate the fleet, share more parts and then you can control them much better. And then an interesting quirk is that we've had to reinvest a bit, this 1% in red, about EUR5,000 to EUR10,000 per airplane of provisions that we put in, so that cooling example that I gave you, so spend a little bit more money to be able to then flex back to the other one.

If you don't put the provisions in then it is very expensive. It takes a lot more time to make the switch. In fact, sometimes if you don't put the provisions, you simply can't do it. So these are small technical items.

I've mentioned way too few times an obsession with weight is something that really came to the group with the introducing of Vueling and it's always good in a meeting because there's always someone from Vueling saying, I'm sorry, how much does this thing weigh? And this is something that we now are very obsessive about.

So there's approximately 100 kilos that's come off on average from removed items and also, of course, there's moving to lightest and best-in-class seats. There are very big numbers. This is a quarter to half a ton of weight on every single airplane. It means we have fewer emissions, save EUR20,000 to EUR50,000.

Okay. That's enough about specs. Andrew told me that some of you really obsess about technical stuff. So we do have some things, I'm not going to talk about them. If you want to come up afterwards, we can talk about them. My colleague, Henri Ozarovsky will be up here with me.

We can tell you about what things like this are. I would like to say thank you to British Airways maintenance base for allowing us to take a couple of these off. Most parts you can't take off because then they're not certified and they're very expensive. This costs much more than your cars, even the nicest cars.

So afterwards if you have time, if you have interest, the big box has a very cool thing in it, the little box has a very expensive thing in it. Please, come and ask.

Okay. Let's zoom out. Strategically, what are the two major axes we're looking at, we're looking at density and actually we have pretty dense fleet already. We have two of our brands, Iberia Express and Vueling already at maximum density and that's where they're going to stay.

We have Iberia higher density and BA. Both of them are becoming more dense but they have a lot of deep experience and they have of the right markets and business models to take a slightly lower density and drive a lot more revenue out of it.

So this is absolutely what you'd want to see. Mild densification that's keeping its customer base into account. On the X axis, we have the harmonization percentage. These are actual numbers, I didn't put the scale, I think that's confidential.

But at the moment we're in the world of dedicated aircraft where we just can't move things around or it's incredibly hard to. In the future, all four brands will be in the zone where we'll be able to move things around. It's going to be easy.

How easy? Well, a few days, a week. Of course, you got to paint them and for cargo flexibility, there might be some containerization things to put in or to come out. Leaving those things to one side, if we go from Iberia, Iberia Express and Vueling to BA or back, it's going to be just over a week. And to go within the Iberia Express, Iberia or Vueling gang, it's going to be under a week to have identical airplanes.

We're not talking about we'll engine an airplane where you can sort of see the stuff happen to those and there's some blue and there's some orange. No, no, exactly the same airplane, the same experience for the passenger, the same experience for the cabin crew, flight crew, everything is exactly the same.

So that's what we've done so far. Let's talk a little bit about the long haul experience that we've just wrapped up and the future. So long haul is a different gig, it's a lot more bespoke, there's a lot more stuff on the long haul aircraft and the stuff is really expensive on the long haul aircraft.

So we recently configured the Iberia A330-200. We did this in a record short time and we involved British Airways. Why was British Airways involved? Because looking forward, we have A350 on both OpCos and, of course, 787-10.

Now a lot of decisions that on these aircrafts will materially going to impact the 350's and the 787 because, of course, the technology of the aircraft isn't always lined up with the technology of some of the stuff you put into the aircraft. So we had to take some decisions to make sure we have harmony across these things

The philosophical change has been to start with the low cost long haul base. It actually starts with a zero base. We have to justify everything that goes into your airplane. Everything has to be justified. Everything costs - everything has maintenance cost and everything has weight. So this has been a real challenge for the group and we worked through it and we did it very quickly so I'm very excited as we look forward.

So I think that's as much time as I've got. Please come and look at the boxes if you are curios and I have (inaudible). Andrew?

Andrew Barker - *International Airlines Group - Head - Group IR*

Thank you very much, Geoffrey and I did specifically ask Geoffrey to take you down into detail because there are many of you in the room and you know who you are who send me photos of little bits of aircraft cabins and say, why is this the case?

So I have to ask the experts. I did ask Geoffrey if he could bring a black box in a black box and then he managed to do that. But if anyone wants to find out what's in the box, please come up.

But the idea of this was to show you a taster menu. We're going to talk a lot more about this kind of thing and more over the next 12 months. But to show you that IAG is not just airlines stapled together. It's not just a portfolio that you can replicate yourself.

There's a huge amount of work that goes on and it's going to increase in the center to add value to the airlines in our group and any new airlines that join.

But I think we're slightly ahead of time, what I'd like to do is now break the coffee and come back here by 11. And we'll now go into the core businesses British Airways and Iberia and Vueling to give a lengthy update about their plans as well. Thank you very much.

Thank you very much, ladies and gentlemen and it's the three gentlemen here who need no introduction whatsoever. They run our core businesses and first off is Keith Williams, British Airways Chief Executive Officer. Thank you very much, Keith.

Keith Williams - *International Airlines Group - British Airways Executive Chairman*

Thank you, Andrew. Good morning, everybody.

Yes, last year at the capital markets day, the BA team showed you that pathway to the GBP1.3 billion by the end of March 2015 and that was based in part on the acquisition of BMI and the opportunities that that gave us.

What I'm going to cover today is really what happened at British Airways at Heathrow. Now that's not to take away the progress that we're making and need to make at Gatwick and London City but I'll want to concentrate on Heathrow just to give you a more in depth look about the things that we've been doing.

Now Heathrow, if you look at the passenger revenue, Heathrow is about 90% of the passenger revenue of British Airways out of London and Gatwick is 8% and London City is about 2%. So what I'm going to do is I'm going to focus on British Airways out of Heathrow but there will be times when I give you a little bit more information about what's happening at Gatwick and what's happening at London City.

Now, the first slide here is showing what happened at Heathrow over the last decade or so. We don't, these days in the traffic stat, show you whats happened to passenger numbers.

What I really want to focus on initially is what has happened to the passenger numbers at Heathrow and you can see it on a couple of charts here and the first chart is showing you just how [inaudible] Heathrow has been over the period.

If you look at the period 2002 through 2010 and growth at Heathrow has been pretty limited. And if you look at British Airways growth within that, you will see it's also being limited. We reflected what's being happening at the airport.

The same is true to some degree at Gatwick. Gatwick, again, limitations there and the real growth has been at the smallest airport of all London City. And I think what happened at London City for British Airways, this is just a good example of how success can be made on the point-to-point network with the right aircraft and the right brand.

Back in 2002, we virtually didn't exist at London City, we had 120,000 passengers a year. If you look at this year, we will have more than 1.5 million passengers out of London City and we're about 44% of the market share and that's being achieved with the right brand and the right aircraft. It's not being through acquisitions, it's being organic growth growing through London City.

If you look at Gatwick and the story is different at Gatwick, totally different at Gatwick. You go back to 2002, I think we have something like 7.3 million passengers a year at Gatwick. Today, it's about 5.2 million.

But what we've done is two things, is that we've started to grow our market share in long haul again, our market share at Gatwick has grown from 17% to 23% over the last few years and we've stabilized short haul, our short haul market share has stabilized at 14%. But there's still work to do at Gatwick but we're starting to make progress and overall at Gatwick, we've got about a 17% market share.

Now that leaves us with Heathrow. Today at Heathrow, we have around 48% of the market share at Heathrow. So that's not growth that existed between 2002 and 2010 and what this bottom slide shows you is what has happened in the period subsequent to 2010.

Now you might think that that is down to BMI and it's true to say, part of it is down to BMI. But if you look at the overall numbers at Heathrow, Heathrow has grown from 65.8 million passengers a year to the end of 2013, 73.2 million and is growing into 2014.

You will see that BA has grown more than the market and BA and oneworld has certainly grown more than the market. And so the growth since 2010 has been British Airways and we've been growing at about 7% compound growth for the full year in an airport that's been growing about 3.2% a year.

So we have outstripped the market in growth at Heathrow. If you look at the other alliances, SkyTeam has being flat and Star Alliance is down in part again because of the BMI effect.

But what I'm trying to demonstrate here is that BA growth at Heathrow is not being entirely down to BMI. BMI has helped and what I will show you later on is what's been happening with this slot growth at Heathrow and you will see that we haven't yet maximized the slot opportunities we've got for long haul which was part of the BMI acquisition.

So that slide gives you a flavor of what's been happening in terms of traffic. One last piece that Willie reminded me the other day as Willie looks at the stats as you know that this year, year-to-date, we have taken 25.8 million passengers through Terminal 5 which just shows you what had happened and how T5 has transformed British Airways over that period, the customer experience of going through Terminal 5 and I want to come back to that scene later on.

So that's where we are today and history has always worked against us at Heathrow right until the opening of T5 and it's worked against us in two respects. One is the infrastructure and the other is our own position at the airport, our own agreements, and other issues that were affecting BA at the airport.

If you look at Heathrow pre-T5, just as a reminder, is we operated out of T4 and out of the central area and T4 was built in 1986 and we'd outstripped T4 and needed to move. T1 was built in 1968 I think and T3 actually predates T1, it was the oceanic terminal which was built in 1961.

And although there's been some improvements at the airport, there's not been a rapid change and real change in infrastructure right until the opening of T5. Now that affected us in two ways. It affected the operation and it affected our baggage performance in particular.

If you look at our operational performance, our punctuality had been in decline and in 2007, it was down at 63% at the 15-minute level. Unacceptable level of performance and that has changed with the introduction of T5.

Since the opening of T5, we've operated between 76% and 83% punctuality between years since the opening of the terminal. Now I want to look at where we need to get to later on but nevertheless we did get that step change on the opening of T5.

The other was the baggage performance which was really working against us in terms of transfers in particular. If you look at the baggage performance prior to the opening of T5, our lost bag rate at Heathrow was 58 per thousand and that is been transformed at Heathrow with the opening of T5 and now it's below 19 per thousand.

If you look at our performance there and our performance worldwide across the network, you see huge improvements in worldwide performance from 27 down to 11. So you see significant improvement in baggage performance as a result of what's been happening at Heathrow over the period and that's allowed us to grow again at our home base.

The other thing working against us is the industrial agreements. We we're hampered by industrial agreements going into the last decade and I'll show you later on what we've done to reform those industrial agreements not only around the time with the opening of T5 but subsequently and more recently.

Now that operation performance affected our financial performance and if you look at our financial performance in the first five years starting 2000, you'll see that in one year, we made a loss and the operating results fluctuated between GBP300 million and GBP500 million profit.

The margins have not reached the level that we needed to do. And at the same time, we have a growing pensions issue and I'll come back to that in a minute.

So we cut back on our capital spending and this is looking at the capital spend profile throughout the period. Now I saw Enrique earlier on show you our order profile for IAG going forward.

I remember at BA at the 31st of March 2005, we had seven aircraft on order and it was seven A320 aircraft at that point in time. We virtually got nothing on order because we needed to solve a lot of issues before we make any further orders at the airline.

And the consequence of that is we faced an aging fleet because when you take the time from order to delivery, we were facing an aging fleet. And if you look at the long haul fleet, the long haul fleet got out to an age of 14.5 years.

Even if we started to renew the fleet and that was started to accelerate today, the long haul fleets got an average age of 13.5 years. It's come down a year but it will come down further as we take new orders.

On the short haul aircrafts, the average age has got to date just over 11 years and it's still been increasing at the end of this chart and in 2011, it was 10.4 years. It's been slightly increasing still because we still got a lot of short haul aircraft deliveries to take in to the future.

So we've under invested over that period. We couldn't really invest in that period. We didn't have the operation performance. We didn't have the financial performance and we still had a pensions issue to resolve.

Now what had happened since? The first thing note is that what happened at the infrastructure at the airport. I would say that we and the customer have paid quite a price for that because in the Quinquennial Review Q5, the pricing at Heathrow which started at price per passenger I remember at GBP10.96 increased over the quinquennial at a compound rate of RPI plus 7.5%.

Significant increases in the passenger charges at Heathrow but we did get some degree of payback for it. We got Terminal 5 and if you look at the operational performance, the punctuality performance at T5 following -BA following the opening of T5, it was transformed.

The second is it also gave us an opportunity to transform our industrial agreements and that covered a number of areas. The first area was the industrial agreements of the workforce which had been working across multiple terminals and got consolidated largely into Terminal 5.

Our Heathrow manpower peaked at around 7,600 and was able to decline as we really embedded ourselves in the airport and it came down by March 2010 to around 5,600, a significant improvement in manpower.

Now clearly as you saw earlier, the scale of our passenger number has increased at Heathrow since that March 2010 date. Today, if I'm right, is that the number of manpower at Heathrow today is 5,762. It's increased 160 since 2010 despite the volumes going through the airport. So we managed to keep the volume of Heathrow manpower relatively stable.

We also as you know, we made significant change with cabin crew both in terms of crew compliments and in terms of new starter rates. And we expected over time and have seen over time as mixed fleet has come in the impact that that has had on our labor cost for the crew.

But it doesn't stop there, at the same time, we restructured the management within the airline. There was a pay freeze during the financial crisis and we had a completely new modernized agreement for engineering. And what I'll show you later on is the impact of that modernization in the engineering agreements and the impact it has had around Heathrow and at the airport generally.

Now the other thing that changed over that period was pensions because we had an operational problem, we had a financial problem and we had other pensions problem. And to give you a sort of update on pensions, well, the first thing to note is that we had closed the defined benefits scheme to new entrance back in 2003.

And since then, the membership has been a new scheme called BARP which is a defined contribution scheme and obviously that removes the risks from the company, from people joining the company.

Now if you look at the growth of the population at BA since 2003, today almost half of our existing workforce is in that defined contribution scheme. And if you look over the next two to three years, the balance will change is that the workforce will be mainly in the new scheme, the defined contribution scheme and that removes the risk to some degree from the defined benefits scheme that we had previously.

Now issue around the defined benefits scheme therefore is really around what I call the legacy risk of running two schemes APS and NAPS right up until 1984 in terms of APS and 2003 in terms of NAPS.

If you look at the deficit, what had happened is a couple of things. We closed the scheme to new entrance and then we've had two major changes in the benefit structure within that in 2007 and again in 2010.

In 2007, we moved the retirement age up to 65 and when we had a number of the workforce that were in the retirement age of 55, that was a substantial change. Retirement age of 65 which is what some of, you know, the other legacy carriers are still struggling with, but we moved the retirement age to 65.

The other thing is we've changed the accrual rate. The accrual rate went up initially to 1/60th and then in 2010, moved out to 1/75th. So a substantial reduction in future pension benefits and that had an impact on the deficit.

The company has also continued to make contributions into the scheme and the asset performance within the scheme particularly NAPS is being relatively good because it's invested in equities.

So if you look at what's happened in the deficit from this slide here at the last valuation back in March 2012, the deficit was a combined deficit of APS and NAPS which is 3.3 billion. Today, our actuaries are telling us that that deficit is about 1.8 billion. So it's a substantial improvement from where it's been.

And if you look at the accounting side of it, it's actually slightly odd because you've got that size of deficits on what's called the technical provision which is the actuarial deficit. In the accounts, in the last set of accounts, I think you'll find APS in surplus, it's an asset on the books, NAPS is in deficit but the two of them, between them are in deficit I think about GBP17 million to GBP20 million. But, you know, in the books it's been sort of a relatively neutral position. This is the technical provision on the actual deficits on that basis.

So that was pension's reform. The date that sticks out in my mind is 27th of September 2007, because that's the date we announced new aircraft orders and that was after being through the changes on the pension scheme.

And that brought in initially the 12 A380, 8 of which we've got today and Enrique showed you earlier on in the featured profile of deliveries for the A380. And the 24 - the first trench of 787 aircraft, the 24 that we ordered there.

Back in 27th of 2007, we made the aircraft orders that we've subsequently taken delivery of and they had two benefits. They had operational efficiency through fuel efficiency and other means and it also, I'll show you later on, has an impact on that slot position at Heathrow.

Because the ability to combine multiple aircraft into less flying of routes, has freed up routes for long haul growth and that has an impact which I'll show you in a second.

So this is what happened to BA in terms of slots at Heathrow. Even when we're going through the reduced CapEx in the last decade, Willie and I always have a rule that we'd always look at slots that became available.

We wouldn't pay crazy prices that might exist for slots but we would look at the slots that were available and we've increased our slot portfolio at Heathrow from around 40% going upwards. And then, of course, we had BMI in April 2012 which added an additional 42 slots after the remedies there and that made a substantial difference in terms of opportunity.

But what I want to say today is that opportunity still exists. By other means, we have been able to grow our long haul flying by the equivalent of about eight new routes.

In case you're wondering where these new routes are, it isn't eight new routes it's actually 55 changes in flying program but it's the equivalent of eight new routes with six slots that are either being freed up or be bought otherwise.

So when we said to you a couple of years ago, the 42 slots that existed from the BMI purchase over time, you should expect around a third or 12 to become long haul flying. Most of that opportunity still exists today. So we still got a lot of opportunity.

But to maximize that opportunity, we have to have efficiency and we need ongoing efficiency. This is where ROIC comes in is that we will be determined to grow but only if we can see it as profitable growth. If we can't achieve profitable growth then we shouldn't grow.

Now we do have opportunity and we have opportunities to the east, the west, and the south and we'll start by looking at the east. And here, you see benefits that have already been achieved in part by through our partners, in part by the aircraft that we've acquired and in part by industrial agreement within BA and then in part by the withdraw of other carriers from travelling east.

So what you see here is a couple of examples is that Hyderabad was rescheduled to 787 aircraft from the beginning of this summer season and that has made a substantial difference in performances, the right aircraft size to the right route.

Chennai, we've just changed for the winter season. I'm sure that that will deliver the same results. If you look at Japan, again, we entered into the joint business with Japan Airlines back in October 2012 I think and working there, we've managed to take advantage of the slot opportunities at Haneda and retiming our aircraft at Haneda which had a pretty poor timing initially and get a better timing and that produced the much better result.

Finnair is more recent, still looking at the opportunities there. And we got the opportunity from the withdrawal of Virgin from Tokyo, from Mumbai next February and then looking south from Cape Town into the summer.

Now visa's, the visa comment there, just to add something on that one. It's says visa restrictions easing. I'd say that that was probably a little bit of an exaggeration.

and Willie might be pleased that a Chinese visitor to Ireland can get into the UK but, you know, the visa restrictions that have been eased have not been substantial. You can get through Heathrow with the transit visa but its limited to certain destinations and they're running a trial in terms of the shengen visa and its application to the UK.

So although the visa regime is easing, it's got a substantial way to go and BA's opportunity would be enhanced if the visa regime for China was improved more quickly than it is today and the other, of course, would be APD, reform of APD would also enhance our position to grow to the east.

Now all of that is dependent on returns on investment and to get that investment, we needed further reform and improvement in the cost base at British Airways. Now a lot of the efforts being focused on Iberia and the restructuring of Iberia and we've been getting on with what I call evolution at BA in terms of further industrial reform and improving agreements and improving productivity.

The productivity per ATK, this looks at ASK, but the productivity for ATK over the last four years has been about 4% per annum - 4.4% compound per annum and that's being brought about the acquisition of the BMI, that gave us opportunity, it gave us scale effects.

The single modern engineering agreement is meant much more flexibility around the engineering workforce and at the moment, we're in process of releasing by voluntary severance about 250 engineers by Christmas as we brought new engineers in and achieve scale benefits through more efficient working.

We've also reached agreements on productivity with pilots partly as a result of the BMI acquisition and partly as a result of changes to the bidding system that we've been working with with pilots over the last few years.

And we've got new starter rates for pilots, for customer service, ramp workers and contact centers. So a whole series of new starter rates which will deliver benefits over time of the work profile of the work force changes.

The other one I mention is IAG and the synergies that we have in costs with IAG. You know, simple example would be we're looking a few seconds ago about visas and APD. That is an area we've been centralizing into IAG rightly so because it's now a group issue rather than BA issue.

So moving work that should be with the group from BA. It's something that we've been doing and we need to continue over time and that will happen and is happening. So still lots of opportunity in terms of back office driven essentially by the synergies with IAG.

Looking east, the -- looking at the U.S., the AJB, the joint business with American has been a huge success since it came in and it has grown more in terms of revenue than in capacity year on year. So it's delivering great results.

And if you look today, we are number one out of the five top premium markets across the Atlantic as a joint business. So we are very well positioned across the transatlantic.

With increased our network from 50 routes initially to 88 routes today, U.S. Air made a huge step change within that. U.S. Air has brought an additional 28 routes and together with its connections and has brought us two new hubs.

So today, we've got the four U.S. Air hubs, Phoenix, Charlotte, Washington, and Philadelphia, all of which give us opportunity to maximize the returns to joint business and I'm particularly pleased to see us going back into Charlotte, as I remember taking us out of Charlotte a few years ago.

So real opportunity there. With our oneworld partners, we still got opportunity with Qatar and Steve Gunning showed you earlier on the opportunities that we have in cargo, and over time there will be opportunities on the passenger business and that will develop.

China, China's an interesting one because, China, the ASA, you may be aware changed in July this year. And that change means that we can code share on domestic routes in China provided that those routes, those destinations are designated as international routes and this opens up more opportunity in China where previously we've been restricted by the number of routes that we can touch, the six routes that we can touch. So still opportunity in China.

Comair in South Africa is an airline that we - that carries the BA brand. It's a BA franchise. It's a successful airline in South Africa. And we've got further opportunity in South Africa that was helped obviously by the withdraw from Virgin.

So lots of opportunity in South Africa and the west of Africa generally. We got great network to the west of Africa and we continue to see improvement there.

So all out long haul work needs short haul feed particularly at Heathrow. Now that feed can grow in a number of ways. It can grow partly through gauge and as you know, we've got the big gauge change program on the short haul fleet that's ongoing at the moment.

We've done 50 of the 51 A320 aircraft changes and the last one I think is rolled out next Wednesday. We've just started the A321 process, the 11 A321, so I think that will be completed by Christmas.

And then we've got the A319's to change and that will be finished by next summer. And then at the same time, we'll be changing Gatwick, so a lot of aircraft going through gauge change and that give us a seat density increase of about 6% which obviously gives us more seats.

The customer reaction to the changes that we've been made has been fantastic as you can see from the data there. You know, not only have we increased the seat density, we've increased the satisfaction of our customers at the same time and that's in line with what we're expecting so great improvement there.

Second element is by the next terminal move as you know we're coming out to Terminal 1 and going to Terminal 3 and we'll operate in Terminal 3 and Terminal 5. By looking at the network, it gives an opportunity to free up a couple of hulls so to reduce a short haul aircraft footprint by a couple of hulls and that obviously increases the asset turn so lots of improvement there as well.

So lots going on on short haul which is really the link into long haul. So what you'll see over the next year, you'll see some short haul growth but again, you should anticipate that to fall over time as we bring in the conversion to the long-haul flying provided we can make the returns on those long haul routes.

Now I wanted to cover off a couple of misapprehensions really or misunderstandings in terms of short haul and this slide looks at three things really. And the first thing it's looking at is leadership to business destinations out of London which is the top slide there.

I think what you see is that from London, we're number one on 19 of the top 30 routes from London, we're number two on 7 and number three on the third most important routes. So you can see we've got substantial presence on the business routes from London, that's an important position for us to maintain.

The second is punctuality. I've got to say that we've got a punctuality drive and I think that that's absolutely right because punctuality itself is one of the biggest drivers of customer satisfaction on short haul and equally, getting punctuality right is a great cost saving for the airline as well.

Now this data looks at year to date. I know one of our competitors has been comparing BA and their performance looking at 69 specific routes I think and using a white rabbit as part of the advertising.

Now for those of you who have ever seen Tim Burton's version of Alice in Wonderland, you'll see that the white rabbit in Tim Burton's Alice in Wonderland was known for the manipulation of his timing.

This looks that the CAA data on short haul performance out of the London airports year to date. I'll say it's not where we want to be totally in particular you will have seen at Gatwick over the summer because of issues with Swiss port. We didn't achieve what we wanted to achieve.

I think we can get better at Heathrow, at London City today we're leading, we're 88%. So not quite where we wanted to be and I think Luis will show you in a few moments where Iberia has got to which is substantially better that this. But, you know, we are on the right track but it's something that we need to concentrate on further.

The last is leisure flying and, you know, we see routes that you might view as leisure, it's giving us feed. We also see opportunities in the summer to change the network to take advantage of routes that will be successful on leisure flying in the summer and you see the example there on the chart.

Now assuming we make those returns, we get the business in good shape, we'll get the aircraft and that will give us fuel efficiency and as Enrique showed you earlier on, huge opportunity for British Airways not only in the next two years but beyond to take advantage of fuel efficiency of modern fleets.

But the 787 and A380 are both delivering to expectation and we've got further opportunities going forward with the A350. If we get the A350s and on short haul if we get the NEO's. But, you know, all of that is dependent really on getting the right level of returns but the opportunity exits.

It also gives us an opportunity to refresh cabins at the same time and we've been doing a lot of work on cabins and aircraft appearance. To give you one small example, we're cleaning and polishing the aircraft today. We've done about 68 out of 267, not only to improve the appearance but to also improve the fuel efficiency of those aircraft as well. So that's an ongoing program there.

In cabin, you've got new cabins but you've also got the opportunity from retaking old aircraft, taking product out of old aircraft and putting it into the fleet and you see that with the plans around the super high J aircraft where we've taken out seats and putting into existing aircraft.

And similarly on first, we've taken the opportunities from retired 747s to take three of the first aircrafts that we've put on the ground to take those seats out to refresh first at the same time. So, you know, opportunity there.

Moving on, looking at Heathrow, you know, we are becoming more efficient at Heathrow. I got to say that the Q6 settlement, it was Q5 I spoke about earlier and that was our RPI plus 7.5%.

Q6 is somewhat better, somewhat better. It's RPI minus 1.5%. And the airport has agreed that, you know, or the community has agreed that we'll spend about 3 billion - GBP3.2 billion on asset improvement at the airport.

And one of the reasons that we agreed to the settlement was really to get on with those improvements that are necessary at the airport. Now I showed you early on the volumes of passengers that we put through the airport, you know, that depends really on having an efficient and modern infrastructure within the airport that is Heathrow.

Now of the GBP3 billion spend, about half of it that you see in this quinquennial is being spent on resilience, and baggage in particular. You might have seen over the summer, we had a couple of baggage issues, baggage outages at Heathrow and we need T5 baggage to work efficiently.

We also need the link between T3 and T5 baggage to be onboard and work efficiently. And equally at T5, we need improvements to the passenger screening because that needs to be improved as we get the volumes of the passengers through.

We also need to see improvements at T3, the infrastructure at T3 as we move out of operation down to T1 into Terminal 3. So lots of things going on there.

In terms of cost, you know, this is never-ending journey. I spoke earlier on about new starter rates and we've got new starter rates across -- almost across the board now but we still need productivity improvement and we've been successful with some of our working groups in terms of productivity improvement.

We need to be successful throughout and continue to improve as I said to get us in the position to take the long haul program forward and the short haul program forward.

And lastly, you know, work that we can do to improve the customer experience at the airport. You know, if you go through Heathrow, if you go through Terminal 5 today, very conscious of the fact that it's a very busy terminal. One of the things we're working on is change for the future around improving the customer experience not only day to day but also in disruption.

Disruption does happen at the airport and when you're dealing with 120,000 or 130,000 people going through each day, you know, getting things right in disruption, being able to contact customers during disruption is equally important to give them a better experience and that's something that we're also working on at BA.

So just to sum up, you know, if you look at the last three or four years, I think that the growth at Heathrow has improved. It accelerated and that is been down to British Airways and British Airways and its partners and other airlines have been shrinking. You know, passenger numbers are up and continuing to increase.

I hope that I've shown you that we still have huge opportunity for long-haul growth but to make that long-haul growth happen, we got to have an efficient cost base and that's something that we continue to work on.

We still need to work on short haul. We're making progress on short haul but there's still way to go not only on making point to point work. And as we've seen at London City that can work but also our transfer position work better to return our cost of capital in short haul as long as long haul.

There a lot of work to do, you know, making good progress to the 1.3 billion targets for next year but there's still work to do. Thank you very much and I'll pass on to Luis.

Luis Gallego - *International Airlines Group Iberia - Chairman and CEO*

Good morning, as Andrew said before, we'll be having our Iberia investor's day in Madrid on December 12th. So for all sell side and buy side guests, we will have a more detailed information in that session. But today, we want to give you the keypoints that will happen, Okay?

So two years ago, Iberia presented our restructuring plan to deal with a difficult situation that we have in front of us. The plan has three main objectives. First, to stop Iberia's operating cash burn. Second, to give Iberia a competitive cost base for long-term growth. And for that, we made a reduction of 15% of the capacity of the company and 4,500 workforce reduction. And third, to fund the transformation entirely through Iberia's own resources.

Today, we can say that we are delivering what we told you then. And we have in place what we called the Plan de Futuro, a comprehensive plan -- a comprehensive plan aimed to change radically Iberia. A plan with 30 initiatives across all the key areas of the company that is shaping Iberia of the future.

A new Iberia that will get positive results starting this year, starting 2014. And I want to thank all the Iberia employees for their hard work and commitment which has allowed us to be where we are today.

Iberia with an attractive strategic positioning to strengthen our leadership to Latin American routes but also to develop a new market. And with that, the basis for the profitability and long-term growth. Margins in the target that the group requires, a strong growth prospects and free cash generation from 2014.

Today, we will tell you how the new Iberia will reform its leadership in the Europe-Latin America market with the -- while Latin America is our natural market and the four key levers that will allow Iberia to continue -- to continue being the leader in this market.

These four levers are leadership in Madrid hub and Spain, simple and cost-effecitve operations and efficient short and medium haul, not only to feed the hub but also for P2P operations and a competitive product with the customer in the center of all our thoughts. And all that supported for sure by our Plan de Futuro and for the opportunity that gives to Iberia to belong to a group as IAG.

And starting with the centerpiece, why Latin -- why Latin America? Latin America is the natural market for Iberia for cultural reasons and also for commercial links. Spain is the country with a highest number of LatAm foreign residents, four times greater than the second EU country that is Italy. But not only that, an increasing numbers of Spaniards are developing their professional career in a continuously developing regions as Latin America.

And we talked about commercial relationship, Spain is the second largest investor in Latin America, only behind USA. Approximately 25% of the turnover of the IBEX35 companies is made in LatAm.

And for this really (inaudible) reasons, Spain is Europe's largest market with Latin America that provides to Iberia with a competitive advantage in Madrid hub. As we can see assessing the market between Brazil and Europe, Spain is the leader in the other markets. Every day, more than 11,000 passengers fly between Spain and Latin America.

Therefore, Iberia has sustained leadership on routes to Latin America and the new Iberia wants to leverage on it. If we look at the market share of the main airlines between Europe and Latin America, Iberia is the leading company with a share of 17.6% and if we look at a group level, IAG is the leading group.

It is also interesting to observe the percentage of traffic that every operator capture from its home market and also from Europe; 57% of Iberia passengers come from its own market, allowing Iberia to leverage the strength of its brand in Spain. In a market like Latin America, Iberia aspires to become the reference player in the process of rationalization.

And once we know why Latin America, let's see how we are going to reinforce our leadership position there. And the first lever on which we will be positioning is the leadership in Madrid hub and Spain.

As you can see, Latin America is a very attractive market for us but there are other opportunities to be captured. The new Iberia with its new cost structure and the leadership position will have new opportunities in regions with high growth potential like Africa or Asia. And Adolfo Suarez Madrid Barajas Airport is a best in class airport and it's our home, is the fifth largest airport in Europe with high potential to grow and was declared in 2013 as the third best terminal in the world.

And in our home, Iberia is the largest operator with 13 million of passengers per year and 110 destinations compared with 5 million passengers and the 45 destinations of the second carrier.

Iberia, jointly with AENA has developed a plan of continuous improvement that for example, has allowed to reduce the minimum connecting time in 10 minutes generating more than 1,200 additional connections. In short, we have the right vehicle in the right place.

The second pillar to strengthen our leadership in Latin America is an efficient model for the short and medium haul that not only to feed the hub but also to develop point-to-point operations.

The new collective agreement with new entry levels into the company and it limits to the progression and significant improvement in productivity gives Iberia a much more efficient cost structure. But not only that, the agreement have allowed Iberia to have the employees and the company aligned in the same direction to have a sustainable and profitable company which is customer centered. We will have access not only of Iberia but also of all the employees of the company.

And one proof for the customer approach is the punctuality. In the case on the short and medium haul is above 90% versus 62% that we have in 2011. Furthermore, Iberia have the strength of its brand in its home market. Being, by far, the most recognized airlines among all the Spain regions.

And for the short and medium haul, we have another exceptional tool, Iberia Express. A company with a cost structure that can compete with the best low-cost carrier in Europe and is a key part of Iberia strategy to enhance the leadership of Iberia in Madrid and the Spain market.

Iberia Express has been consistently being the most punctual operator in Europe and has all the power that Iberia provides in our home market. It has also a stable working environment, a recently signed collective agreement with the pilots valid until 2020 with the pilots onboard of the company that warranty its cost base and productivity for the future.

And this is very important. Iberia Express achieved all that with a hybrid model. They have business and economy class which has special attributes not specific to local carriers that every model is recognized by the customers. They perceive Iberia Express with the best attributes of the legacy carriers but also the best attributes of the low cost carriers. As an example, Iberia express is highly valued in terms of reliability, confidence and service but also in innovation and value for money proposition.

The third lever on which we will support, the leadership in Latin America is our simple and efficient operations. The Iberia new fleet will generate significant savings in fuel consumptions and will be better adapted to our network. In addition to the eight new 330-300 that we already have in our fleet, we will incorporate starting late next year eight new 330-200 and eight new generation aircraft, 350-900.

In the future, Iberia will have primarily a long haul fleet consisting of Airbus 330 and Airbus 350-900 is as still pending to determine where some of our hot and high destinations could be operated with an A350-900 or should we consider other alternatives. In any case, additional to these firm orders, there are other aircraft options in the group to support the development of Iberia.

And among the 13 initiatives of our Plan de Futuro, a big part of them are oriented to achieve a more simple and flexible company. We talked about the airline, we'll have leaner operations. We'll reduce fuel consumption, improve crew rostering, reduce connecting times, et cetera.

In regards to maintenance, we will improve our productivity. Thanks to the new collective agreement and in order to have a sustainable, profitable business over time regarding handling business, the new productivity improvements and cost reduction in all the airports of our network have allowed us to bid for the old and new AENA licenses. The objective is doing all of them but always maintaining a profitable business with margins within IAG target range.

And finally, we need to organize the structure that gives support to these three businesses. At a group level, we are in the process of centralized some of the back office but we are also adjusting our size to the fleet that we currently have and we will reduce also our non-staff expenses by 25%.

This simple and cost effective operations are leading Iberia to be among the world leaders in punctuality. In this graph, we can see the evolution since 2011. In the month of June of 2014, we were the leader among the international airlines and we were in the second position in the month of July. Overall, during the first half of 2014, we were in position number one. This operational excellence is only possible when crews, maintenance, handling and the rest of the ground staff are doing an extraordinary job.

And we continue with our reduction of our workforce and we are simplifying our processes. By year end, we will have reduced 70% of the workforce reaching 3,800 exits. We agreed a new collective dismissal procedure voluntary for both parties and we have said that when we finish this process, we will have a reduction in workforce of around 5,500 employees. That means a 25% reduction in personnel from a starting point of more than 20,000 employees in 2012.

The overall impact of this workforce reduction, will improve our CASK by 35% in 2020. It's important to note that when we recover the capacity that we have before the reduction of the transformation plan in 2012, our CASK -- employee CASK will be 25% lower.

And our last pillar are not precisely in order of importance is the customer. Iberia is implementing new products and services with high impact in the customer satisfaction. We launched our new long haul products in business class with full flat seats, more privacy, latest generation in flight entertainment. In economy class, individual IFE, seat comfort and in both classes, on board Wi-Fi and connectivity. We also developed the new brand for a new Iberia with new look and feel, new music on board, new livery and new ways to communicate.

We changed the customer experience with a new digital approach. Our committed staff with new service standards, new menus, new arrivals lounge in Madrid, et cetera. And finally, we are in the forefront of innovation and mobility. New way of -- new ways of selling, integrated mobile application and new ways to connect with our customers. And all the changes with a cost-effective mindset.

This improvement, along with our improved punctuality has allowed Iberia to have a maximum in the net promoter score. As you can see here, we have a steady upward trend in obtaining customer satisfaction moving from negative level to 70% net promoter score last month leading a total increase of 25% percentage points.

This improvement is increasing the spend and the loyalty of our customers. As a way to illustrate this, 21% of Iberia promoters travel at least half of the time with us versus only 2% of our detractor customers. In addition, our customers is spontaneously recommend us four times as a neutral customer.

And as I've said before, the implementation of the Plan de Futuro will lead Iberia to a new competitive stance in the Europe-LatAm market. And I think this is a very important graph to see because we can see in a matrix the companies that they have on advantage in CASK, in cost and the ones that have an advantage in RASK.

Iberia was in the land of nobody. Definitely, we were in the wrong place. And now, with initiatives of the Plan de Futuro, Iberia is moving to the right direction in cost and also diminishing the revenue gap against the main competitors. This will allow Iberia to compete face-to-face with airlines that until now was impossible.

And we have the support of a great group. IAG gave significant opportunities to Iberia in order to reach our ambitious objectives. IAG provides to Iberia financial strength, fleet renewal opportunities and has enhanced strategic relevance and revenue and cost synergy benefits. But also, Iberia adds to the group solid leadership in LatAm and unique upside potential, a strong contributor to generate cash starting this year and sharing of cost optimization best practices.

In summary, Iberia is best positioned to continue being the leader in the Europe Latin America market and we can confirm that the Plan de Futuro is delivering now and setting the basis for Iberia of the future. Positive results, attractive for strategic positioning and profitable and long-term growth. Definitely, Iberia is taking off. Get on board.

(Video playing)

Thank you. I'll hand it over to Alex.

Alex Cruz - *International Airlines Group - Vueling Chairman and CEO*

Good morning, everyone. Tough act to follow, I have to admit. But we'll move on to a different story all together.

So a quick word on Vueling over the next probably 15 or 20 minutes. First, I must set the stage and setting up the stage has been very realistic about what's coming in this tough, dirty low-cost business that we're in.

And the -- what's coming up is -- are the projected plans by our competitors in terms of new capacity coming -- over the coming years. We put on the graph from 2015 to 2020, it's a lot of capacity which we are all aware that is coming intra European and European market.

From there, if you look at the actual European short haul seat capacity taking into account everything and when we do have a bit more analysis, you'll see it's also increasing significantly.

So we have a scenario, it's the difficult scenario where there are a lot of seats coming into our market. Not only that, but we find ourselves that those carriers that we compete the most with are becoming better.

They have started a journey. Some of them, they started a journey a couple of years ago, some very recently but they're beginning to add more and more thrills and they're beginning to add more products and more services. More in that in a minute.

Now, what do we do at Vueling on this? There are probably three axis of response. Nothing new. It's a continuation of what we've been doing for some time that's geared around three main topics.

Number 1 and always number 1 and always present, cost and cost control. Number 2, premium, and addressing the needs of passengers that are willing to pay just a little bit more. And finally, flexibility, which is also one of the key aspects that describe Vueling particularly as we move to the future as Enrique mentioned earlier today.

Now, in terms of cost and specifically on cost, the starting point is not bad though not where it needs to be. We have a good position with regards to some of the competitors but we still have other operators, used to be one, there are others in Europe that have a lower cost base than we do, and they are the ones that we're going to try to beat -- or we're going to try to get close to.

In terms of actual trend, if you look at the last years, we have been able to contain, and in some cases, lower costs. Some of our competitors are finding it a little bit harder but we're still very much focused on driving our cost base -- cost base down.

Now, we have seen a program, an initiative, a platform really which we call Darwin internally. It's been running now for nearly five years. And this is a group of people who are driving additional cost savings on a yearly basis.

We get together every month. Twice a year, we come up with new initiatives to try to drive cost out of the business. We identified this initiative. We drive them through implementation. We track them, we measure them and, of course, we incentivize the whole company behind the achievement of targets beyond these targets for the year, the Darwin targets of cost reduction.

Every year, we're able to take money out of our business. And if you look at the last three years, you know, we have just in excess of EUR100 million that we've taken out of the business, and this is something that we're going to continue doing.

It gets harder with time -- with time because we've been able to remove the large items particularly after we merged in 2009 between Clickair and Vueling. But every year, we're still able to find new ways and new sources for cost reduction. This continues and Darwin will drive this.

We have some areas in which we're definitely going to be working on more over the coming months and years. There is obviously the maintenance part of it and we've been working with our current provider and also with others and looking at how we can improve the overall maintenance service provision, and there is definitely some opportunities there.

We have been working on the fleet side with IAG if there was one particular transaction that had a tremendous amount of value to Vueling, once we actually came onboard with IAG, that was the acquisition of aircraft, a mutual -- an operation of mutual benefit and together with IAG finance, it's going to give us some advantages in terms of fleet cost and we're very much looking forward to that.

On the handling side, as Luis was mentioning before, the new environment of ground licenses by AENA is going to offer some opportunities for lower cost. And we continue working together with IAG and working with BA and Iberia, we're beginning to buy many services together, not just handling but many other aspects as Geoffrey was making reference to before, and that is actually driving cost down even further. So there is work to be done but there's clearly a direction on where the major ticket items are.

Now, in terms of premium service, why not start with a little video to give you a thought of what we're thinking about. There should be a little bit of sound somewhere. I will be the sound in this case.

The video starts by saying that a standard premium experience, the one you come to expect, it has a number of expectations in terms of products -- priority treatment, you may have a premium cabin service, you may have newspapers or, of course, friendly service and you may have some specific attributes that premium customers may be looking for which may be important and sometimes may not be important in others but there are certainly an expectation of what that premium experience should be.

And, of course, their response there with some lovely music in the background and not sounding, is that indeed, Vueling today is able to offer all of these attributes we've been building over time. For the last five years, we've been talking about the virtues of having a premium service, always, always, always respecting and looking for ways to implement it without adding cost. More on that in a minute.

So this class divider this hot towel, which you find on your table in front of you which we put enough to the break, this is the hot towel that we will be giving in our premium class -- excellence class end that we call it. And, of course, it will be a zero-cost to Vueling as well as some of the other features. I'll come back to that in a minute.

So Vueling is coming in and it's adding a lot of additional services slowly, it's been a long curve for us, we started five years ago, in order to be able to make a competitive -- offering a competitive product for those that willing to pay a little bit more.

Beyond that obviously, we're providing other features like connectivity coming up. We also have power sockets which are coming up, again, free for Vueling. We will -- we wouldn't do it otherwise.

We've got connecting flights with other airlines and not just Iberia and BA. We signed the agreement with a Qatar Airways and we are also transporting today passengers in American airlines, et cetera, and the actual list of features goes on and on.

You know, this premiumization is not new. We did talk about the end of low-cost fundamentalism as early as 2011 in conferences. We even wrote it a paper with our local business tool IESE which talked about how it was not going to be sufficient just to have a very competitive cost base which we'll continue working on absolutely.

But there was going to be a need to be able to address the passengers, the higher yield passengers. We've been talking about this for a long time. And we began to really measure and track how we were doing against all this.

And the curve on the left-had side, you see the time progression of added service. We created a new statistic, a new index we call it the premium product index. And we go through every single little feature that our competitor airlines have and we measure it against us and we try to come up with an idea of where are we.

And we've been having about a five-year gap with our competitors. Now, that gap is narrowing down, but we still have a number of other features which we believe we're going to be able to continue adding to our services.

Now, I'm going to go into detail into the sort of cabin that we're building but just to illustrate to you how important it is for us to actually do this. We have already announced that we have signed a deal with Telefonica, a live TV, to provide Wi-Fi, 20-meg speed Wi-Fi to the airplanes.

And we're going to be testing it with -- together with Telefonica over the coming months. It's just a limited number of aircraft. You can be assured that if it doesn't pay itself, we will take it out.

We are only interested on adding premium features if actually we're able to sustain through its own revenue channel. Similarly, the power socket, we thought we were going to be able to announce it today but we are about to sign a deal with somebody who will actually pay for them, the installations, the actual power sockets for the first four rows.

So we're going to continue to look for ways but it's only and only if we are able to maintain or even drive our cost base down. That's number 1, it will always be number one.

Now, beyond that, we have other features that I have talked about before. The partnerships with other airlines, we do have a frequent flyer program which is something that other airlines don't have. And for the last five years, Vueling passengers have been actually earning Iberia Plus points that have become Avios points in their accounts.

We have a lot of people based in Barcelona and we are finding that there are new customers coming on into that community because they want to accumulate points that they can use with other airlines afterwards and that's a fantastic feature that other airlines and competitors do not have.

Finally, to make it brief, flexibility is a very important feature for us. And flexibility has represented a number of items. One that Enrique was mentioning very clearly before which is fleet.

Every year, we have the ability to revise our fleet plan. We could say that in this case having today 100% leased aircraft fleet gives us a lot of flexibility over the coming years because every year, we've got a number of retirements or lease expiries, I should say, that we can actually cancel, and affect and control our fleet size. This is tremendously important.

Similarly and beyond, actually, fleets are components in terms of long-term basis, we have an issue with seasonality. We have the problems that any airline in the Northern hemisphere has. So we are working on things and have been for the last few years to be able to offset the lower side and the winter side of capacity requirement and the summer side when we really want a lot of capacity flying.

Over the last year, we take on several aircrafts over a period of three months to be able to cover peak routes without actually compromising to the whole year worth of fleet that's given us some interesting flexibility last summer to start up new routes.

And at the same time, we have been placing our own aircraft in the wintertime in other geographies in order to serve other airlines that have that need during that period of time, so fleet seasonality and the flexibility around it is extremely important.

Of course, we work with our maintenance provider, our main provider, to make sure that we schedule all the maintenance in the winter months when we have more availability of the aircrafts.

And probably something that is less noticed by consumers ultimately and by the analyst community and it is the fact that we do flight schedule planning down to the day, not just for the week, not just for the month or the season, and we make small adjustments based on holidays, based on special events which are known in advance and that gives us a lot of flexibility to be able to maximize the productivity of those assets during special time.

Beyond that, we also have been working on our pilot and crew flexibility. As of last Monday, we have finally signed and ratified the second Vueling pilot agreement. This pilot agreement allows us to have a little bit more flexibility that we had on the past in terms of the temporary workforce that will help us tackle -- tackle the seasonality effect that we have.

We also have the ability to continue working on high productivity and this will give us stable environment in Vueling over the next four years, this year and the next three years, so it's a four-year agreement.

To conclude, Vueling has been operating in a challenging environment. Lots of things had happened over the last five years. Even -- you could argue, over the last three years, we have been having a lot of LCC peers, a lot of low cost carriers coming in to our home base -- our home bases where we have been growing at the same time.

We've not only maintained market share but we've been able to profitably increase it. And at the same time, we have maintained our profitability status, different degrees of profitability last year. Our numbers previously, year 2013, very good.

Ultimately, what is absolutely clear is that Vueling is IAG's high growth profitable tool. And here, it is very important to take a look at all the components. We've got the growth component with the flexibility to be able to exercise it when and if we want to.

We've got deficiency component. And here, IAG is making a huge contribution. We're able to gain a lot of not just expertise but volume at the time of purchasing helping our cost. In turn, we're also helping and working with IAG to try to bring some of our ethos and some of our way of thinking into IAG and hopefully also improve some of the operations of the other OpCos and IAG itself.

We're going to continue to look for ways to address and capture a larger share of the premium customer, again, only if we can do it without increasing our cost. And we're going to continue working on flexibility.

These are the main pillars of Vueling and these are what it's going to make and continue confirming at Vueling at the high growth profitable vehicle of IAG. Thank you very much.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

(inaudible). Good afternoon, everybody. I don't intend to delay you too long but I think it is important just to go back over a couple of issues that you've heard this morning and to re-enforce some of the messages you have heard.

Now, the chairman in his opening comments highlighted the achievements of IAG since we were created just under four years ago. And I think we have actually made really significant progress, and I stand here today confident in delivering on the targets that we communicated to you a number of years ago, confident that we can achieve, if not exceed, the EUR1.8 billion operating profit target that we have for 2015, and confident that we can introduce and sustain a dividend payment.

I think they are very significant achievements for our company that four years ago was facing some very challenging issue. And we've done that through some of the most simple and basic issues.

And I think one of the greatest achievements that we have had is actually the creation of IAG, the structure and the concept because it is unique to us, and it's that uniqueness that's enabled us to be confident about our position in this industry, and it's that uniqueness that means we are moving ahead of our peers, and it's the uniqueness of IAG that enables us to be more confident that we can widen the gap between where we are today and where our peers are struggling to get to.

So IAG was a simple idea. It wasn't going to be about the merger of BA and Iberia. We didn't fall into the trap of calling the company BA-IB or IB-BA and all the versions of that. We recognize that to succeed in this industry and to address some of the historical failings of the industry, we needed to have a structure that enables us to drive the business in different directions depending on the opportunities of the individual OpCo, and we've demonstrated that we can do that.

I think 2013 showed how successful the structure is and how unique it was. We had three operating companies facing very different challenges and different opportunities. And all three of those were able to make significant progress.

Had we done the traditional thing and created a merged entity with the operating companies, without question, British Airways would have gotten themselves into the crisis that Iberia face. Without question, we would still be in crisis ourselves today.

We were able during that period to integrate Vueling into the group and enabled it to pursue its strategy of profitable growth.

So we have a structure that works and a structure that we believe continues to give us opportunities for growth going forward.

But growth will only be pursued and I know you heard it from all three of the OpCo CEOs, growth will only be pursued if it is profitable. We will only go after profitable growth, and that framework that you saw today is a key to what will guide the future strategy of IAG.

We recognize that this is an industry that has destroyed value in the pursuit of growth that was not profitable but exciting. We're not into excitement. We're the most boring people you will find.

I thought Alex was going to sing there for a while. Denise told me that I should start growing my hair, you know, that it would look better now I am a bit older than I used to be. I don't mind having hair like. I don't care about my image. We care about the image of our companies, we care about our brand, we care about our customers.

What I care about and what Enrique cares about and what the rest of us at IAG cares about is what we're delivering, the profitability that we deliver, because we're in this business to make a return. We're in this business to exceed our cost of capital.

And we're in this business to make sure that we can remunerate our shareholders. And the only way we will do that is that we stick to the discipline that we have demonstrated and the discipline that has shown to be effective.

And we've got a great team. And it was George Bernard Shaw who said, you know, "If history repeats itself, and the unexpected always happens, how crazy is man that it can't learn from this experience?"

We have a lot of experience between us. But importantly, we're not all from the airline industry. Some people have experienced things outside of the industry. I mean not all from either BA or Iberia.

So the one thing you wouldn't hear in IAG is we do it because we've always done it that way. I've never heard this. Because we have so many different ways to do it and when we introduce Alex into the mix, we then found there were more ways of doing things and more exciting ways of doing things.

And I hope that came through in some of the presentations you saw. You know, Geoffrey was showing you the stuff onboard our aircraft, this is really expensive stuff. And we're disciplined about how we spend your money to buy and maintain that stuff.

And these are the two keys to our future success, continuing to demonstrate capacity discipline. That doesn't mean we wouldn't grow. What it means is we will only grow when that growth is profitable, where we can be absolutely sure of our ability to grow and grow profitably, and if we find the growth that's not delivering on the results that we had expected, to get out of that.

Key to that flexibility, so that we will always have flexibility within the business, to pursue the growth but that isn't delivering on the targets that we have set, to get out of that and get out of that quickly.

The key to our success will also come from capital discipline and it's not just big ticket capital items like the aircrafts. You know, we are extremely aggressive when it comes to negotiating with the airframe and engine manufacturers.

I would argue, we're probably one of the most aggressive out there and we will become even more aggressive in how we negotiate with suppliers. But it's down to even the small items. It's down to the -- you know, the stuff that Geoffrey showed you on the aircraft.

Individually, they don't look important, but when you look at the amount of money we spend on some of the smaller items on board our aircrafts, they make no real difference to the customer experience.

That acquires ongoing expense to maintain them. That's a real opportunity for us. And we don't mind standing up here and showing you the charts that tells us -- tells you we're going to save 20 grand here and 20 grand there.

Those 20 grands are important to us and that's the way we think. We don't just think about 100s of million. We think about every single penny that we're spending and we're going to continue to do that.

So this sets out the framework. It's all about return on invested capital. It's all about operating profitability. It's all about exceeding our cost of capital. We will grow the business where we can grow the business profitably.

And we will generate sufficient returns through disciplined growth and disciplined CapEx to be able to pay a dividend and to sustain that dividend going forward. And we wouldn't have communicated today our intention to start doing that if we weren't absolutely convinced and absolutely confident that we can continue to pay a dividend through the cycle.

This is an industry where the unexpected always happen. And without question, the unexpected will continue to happen. But this is an industry that has learned from some of those experiences and this is definitely a company that has learned from those experiences.

So we know what we need to do in the event of the unexpected. We have the flexibility to respond to the unexpected quicker than we used to. We have the determination to respond to the unexpected quicker than most of our competitors. And that combination gives us the confidence that we can deliver on the figures that we've shown you.

We have opportunities to pursue inorganic growth as well. And without a doubt, those opportunities will present themselves in the near and hopefully medium term.

We're clear in terms of what those opportunities would need to do for us and the framework set by (inaudible) clearly as well. You know, we're not into growing this business by acquiring other airlines just to be bigger.

We're clear that any acquisition we would make, as we demonstrated through the acquisition of BMI and the acquisition of Vueling, have to contribute to the financial targets that we've set for the business.

Now, I think we have confidence based on our experience that we can do that and we have the capability within the business, we have the depth of talents within the business, we have the capacity within the business to do that as the right opportunity came along.

So we are structured to enable us to do that if we see the right opportunity. And we are always looking for those opportunities. And without a question, those opportunities will present themselves, and when they do, we look forward to convincing you that it was the right thing for us to do.

But we will only do it, we will only do it if it delivers on the targets that we have set there. We will only pursue inorganic growth if it delivers in the same way as we believe our organic growth opportunities will deliver.

So I think we're in good shape today. I think we've overcome a lot of challenges. I think we've got good reasons to be confident, not optimistic but confident about our ability to deliver. We've learned a lot.

We've not done everything as well as I would have hoped. There are areas where we can improve in our performance, and that is further opportunity for us. So we haven't emptied the tank, there is more that we can do, but that is something that we will focus on.

As Enrique said in his presentation, some exciting new initiatives for IAG that we will start working on. But the progress that we have made to-date gives us the confidence.

And one of the issues that I know a lot of people focus on is succession planning and we've just done a very detailed exercise on succession planning within IAG. And one of the things I'm pleased to be able to tell you is that through that, we've recognized we have a lot of talent within our three airlines, within our cargo business, within Avios, within our holidays business and within IAG to support all of the succession plans we need.

So we're very well-positioned to deal with any issues of our succession planning. But we're also very clear as -- I think it was Andrew who made the point that he came from outside of BA and Iberia, that there is value to us in looking outside.

So in our succession plans, we've identified people who can step in to fill any role that exists within the business, but we've also identified a number of roles where we will actively look to recruit from outside, and we're doing that.

We're recruiting people who have worked in the low cost environment. We're recruiting people who have worked in the full service environment. And we're recruiting people who haven't worked in the airline industry at all because all of that helps to ensure that we keep our attitude, focus our attitude fresh and prevent us from falling into the mistakes of, we always do it this way because it's always been this way to do it.

So you should rest assured that the work that we've done demonstrates that we've got good plans in place but we also got great talent within the business. And that talent is what's delivering on the results today and that's the talent that will deliver on the results going forward.

So on -- you know, I should have probably put up a really colorful and musical video on how to ease you into your lunch but Enrique wouldn't pay for it. So I am going to take a break at this stage. I think the plan is that we will enable you to go out and get some food and then to bring it back in here but Andrew will give you the details.

And then while we're doing lunch or after lunch, we'll come back and take your questions and somebody said, hopefully, we'll be able in position to answer all of those questions as well. Andrew?

Andrew Barker - *International Airlines Group - Head - Group IR*

Thank you very much, Willie. We're running a little bit ahead of time, but we've got a lot of ground and you can have the opportunity now to talk to people from the IAG group in the room.

I think we should plan maybe to be back in here about 40 minutes at about 1:15. One objective there is to get quickly into questions. The other objective is I believe we're opening up a bar at the end of the day. And I've sitting thinking about beers the last 10 minutes or so.

Apology for the sound -- to you for the sound on the Vueling video and apologies to Alex in particular, I was hoping you would sing it. But to play you out as you go into lunch, we have rescued that and I hope fingers crossed, it's going to work now. So I'm hoping we can have it on the screen and then feel free to watch it and then go out to lunch.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

Well, it's over to you for questions. I should start by saying that Enrique has a bit of a head cold. Those of you listening in last Friday would have heard him coughing so he has apologized if he doesn't hear your question and has asked me to translate it for him.

But the real reason is that he's a Madrid supporter and I'm a Liverpool supporter. So we're staying well away from one another.

(Multiple Speakers)

QUESTIONS AND ANSWERS

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

Okay. We have two microphones one on either side of the room. So if you'd like to put up your hands, introduce yourselves for the benefit of people who are listening in. And we start over -- on the left-hand side.

Edward Stanford - *Lazarus Partnership - Analyst*

Hello. It's Edward Stanford from Lazarus. Can I ask two slightly long-term question? First of all, in the unlikely event, the politicians make up their mind how does IAG react should they decide upon a new runway at Gatwick and how do they prepare?

And secondly, -allied to that, some of the arguments you're in favor of Gatwick runway as been along the lines of the new generation of aircrafts reduce the need for hub flying and how do you see the world evolving?

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

Okay. I still strongly believe that the politicians wouldn't actually be able to reach any sort of political consensus on runway expansion in London. And it will be interesting to watch as we approach the election, the positions adopted not just by the parties but by individual politicians as well.

And I still believe that the work that the commission is doing is top class. I know Howard Davis is speaking at an event next Tuesday where he is expected to outline his latest thinking and I will be very interested in what he has to say.

Our position in Gatwick is quite simple and, you know, there is capacity available at Gatwick. We're not aware of any airline that is struggling to get access to Gatwick. We're not aware of any airline that is, you know, demanding additional capacity at Gatwick because they want to grow their position there.

So while I have sympathy for the argument that the Gatwick's management team makes that they have a case for expansion, I'm not prepared to pay anything to support it if it means that we have to pay a single penny towards that.

So if, as they have said, that it can be funded, the way they have described it through private sourcing and that normally means the airlines' rather than someone's pockets. But if they can fund this without recourse to us then by all means, let them go ahead -- they do get the go ahead to build the second one.

But I don't think the economic argument for a second runway at Gatwick was anywhere near as strong as the economic argument for Heathrow.

Our position on Heathrow is equally clear. You know, we're not prepared to fund the building of the second -- or a third runway as Heathrow. Our view is that Heathrow charges us too high. Keith talked about the Q5 and the Q6 review. So I think they can understand that our position is to continue to put pressure on Heathrow to reduce their charges rather than increase their charges.

But to us, it's a political issue and we can't see how it's going to change between now and the election.

In relation to the 787, a lot has been made about the 787 and it's being a hub buster. I think when you look at the aircraft, the aircraft has been ordered mainly by -- hub carriers. So the vast majority of the orders today, so I think there's over 1,000 -- so I think the last time I looked, about 1,054 orders.

Almost 800 of those were from airlines that I would describe as hub carriers here, so traditional network carriers, if you like. And that's excluding the leasing companies who have ordered the aircrafts who would provide aircraft to a range of different carriers.

So the aircraft is a successful aircraft because it is a fantastic aircraft in terms of its fuel performance, its range, its passenger comfort, and will be ordered by airlines for that reason.

I don't think there are many who will look at it and say, this allows me to completely change the model that exist today. And even where people have highlighted carriers like Norwegian as breaking the hub mode, if you listen to Bjorn when he speak about his business model, he talks about connecting traffic. So he is connecting from his own network into his long haul network.

And in fact, in a recent interview, I saw it on Bloomberg, he talked about getting connecting traffic from easyJet to feed into his Transatlantic operation. So even he is saying that, you know, to make his model work, he requires connecting traffic which is the hub concept.

So I don't see it radically changing things. You know, we're very pleased with the 787s that we have ordered. You saw Keith talked about the opportunity it gives us into places like India where the operating cost of the aircraft are fantastic and the size of the aircraft is perfect for us.

So it will release -- or reduce the reliance that we have on transfer of traffic, and as you know, our model at Heathrow is based on about -- you know, somewhere between 30% and 40% transfer and we can flex this up and down depending on the condition.

But the aircraft works extremely well for us at Heathrow at our hub and I think will, you know, work for other traditional hub operators as well.

So there over there.

Jarrod Castle - *UBS - Analyst*

Good morning. This is Jarrod Castle from UBS. Two from me. It's never enough from analysts and probably for investors.

So just coming to the dividend, 25% payout ratio, that sounds like potential to go up. Can you just maybe talk a little bit about the potential for special dividends if you would do it that way rather than an ordinary dividend policy?

Then secondly, just kind of last week, again, EC261, you spent a lot of time kind of highlighting the punctuality across the network. But how do you see the impact of delays in terms of cost coming through and your ability to improve punctuality? Thanks.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

I'll take the second question first. EC261 in 2004 clearly does have a cost impact on the business. It's not as significant for us as it is for Jet2 who have made -- I think had indicated that they have set aside 17 million as a result of the Supreme Court hearing. And that's principally because we weren't withholding payments for a lot of those, so, you know, we don't disclose how much it cost us but I think in terms of claims, that if you like, we're being held back waiting for the outcome of that Supreme Court and the potential cost for us was somewhere in the order of GBP1 million to GBP2 million. And so it's not a significant issue for us.

But it clearly is a cost that has been borne by the business and therefore anything that we can do to ensure that we're not exposed to those costs makes a difference to us. And we are, for that reason, very clearly focused on our punctuality and our regularity ensuring -- flights that not just operate on time but the flight operates as well.

And we're seeing a big benefit from the figures you have seen Luis presented in Iberia which clearly would mean that we will avoid a lot of potential expense.

So we are using the change in the interpretation, if you like, of 261 to re-enforce the need to improve both the regularity of our business and the on-time performance of our business. But it is not at this point having a significant financial impact on anything that we are doing, as I said, a likely cost to BA of the recent Supreme Court ruling is somewhere -- less than 2 million is our estimate.

In relation to the dividend, I'll just read again what it says. It talks about the initial dividend would be based on a payout ratio of 25% of our underlying profit after-tax. So, you know, it clearly does leave open the prospect of future dividends being different to that. So I think we're clear that we have set this at a rate that is appropriate given the financial performance of the business.

And we have debated what to do in the event of, if you like, the special dividend or buyback. Our view, although we've not got a firm decision on this, is that we're not really big fans of the share buyback and we think you're probably better positioned to judge that than maybe we are. Not in all cases. There might be reason why we would be in a better position to judge this.

But in general, it's a decision that you should be making rather than us and therefore, we would probably be more inclined to look at special dividend if that opportunity presented.

Enrique Dupuy Yes, basically, this is the 5% that we have suggested that initial pay out. It has the ability to keep us on the gearing levels that we want to be in terms of investment grade and to face the level of uncertainties in terms of our business and then a cash repercussion that we would have to deal with.

And that's going to be evolving through time. So once we get to investment grade permanent statue and once we drive our uncertainties to a narrower type of span, we will have to revise it. We will need to decide again what the appropriate percentage.

Stephen Furlong - *Davy Stockbrokers - Analyst*

Yes, Stephen Furlong with Davy. So two questions. Given your positive experience at JVs particularly on the Transatlantic, do you see that as some tool you can use more going forward particularly in Asia? And I know you have Japan, and then -- or can you -- your -- and your position in Asia, you grow more, like to grow more organically or even inorganically.

And second question just on the cargo, do you not have a situation, I understand what you're doing with the freighters and taking them out from the supply perspective. But forwarders sometimes pay more for an airline that also has that kind of dedicated freighter capability but that being handicapped in any way where you just offer the value on the kind of more commodity perspective? Thank you.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

And I'll invite Steve to comment if I don't address all the issues on cargo. But let me just take the second question first.

I think we generally agree with you that having a dedicated freighter is to some degree important because it gives you access to high volumes on trunk routes that the passenger belly hold doesn't give you.

But as Steve pointed out in his presentation, we were able to secure those volumes and access through the deal that we did with Qatar on the Hong Kong which is a key trunk route for us. So on balance, the Qatar arrangements gave us all the reason we needed, if we needed more reason to remove the freighters.

Steve, do you want to...

Steve Gunning - *International Airlines Group - Cargo CEO*

Yes, there has always been the view that there has been some sort of halo effect with the freighters. When we worked through the freighter decision, we didn't feel that it justified the losses we're even making on the freighters firstly. And yes, sometimes you can't get a yield differential on the freighters but once, it wouldn't wipe out the freighter losses.

Interestingly enough, when we made the announcement, we didn't have a single forwarder that come up to us and say, "Well, that's a bad decision. What on earth have you done." They were all very supportive and could see the writing on the wall.

So it hadn't hurt us whatsoever actually. I think actually, it's improved our credibility in the industry because everybody can see the way it needs to go and we were principally the first mover.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

Thank, Steve. On Asia, and we do have a JV as you pointed out with Jal which is working well for us. We don't see any reason or any opportunity at this point to consider any other JV.

I think JVs where we've got a lot of experience based originally on our arrangement with Qantas, we had the JV with Iberia before we did the merger. Iberia has a JV with Lan on certain markets. We've got the JV on the Atlantic. So we do have a lot of experience there.

And they can be quite complex, you know, and in general, they do work reasonably well. But it requires a lot of work. And what makes them work best is where you have alignment and thinking and alignment in terms of action and that's not been always the case with what we see happening in Asia and what we believe the industry should be doing.

So we don't at this stage believe that there is an opportunity for us to pursue a JV there. Our view in Asia is that the opportunity for us is principally through British Airways to grow organically and add further destinations to the network.

And, you know, as Keith mentioned, we do have the slot ear-marked for future growth there, and in due course, I think an opportunity for Iberia as well. You know, there is a market from Asia into Spain.

Iberia doesn't serve that market today. It didn't serve it because it couldn't do it profitably and it certainly couldn't do it with the aircraft that Iberia had but with the aircraft that Iberia have on order, that is an opportunity certainly for Iberia.

So something we're looking at but it's more -- you know, I would say at this stage, it's definitely organic opportunity for us rather than inorganic or JV.

James Hollins - *Nomura International - Analyst*

Hi. It's James Hollins, Nomura. The first one is on Italy specifically. I mean you talked through your presentation about profitable growth. You also told us you're paying special attention to Italy. And by that and then looking into the industry, I've seen there's quite a bit of capacity growing in there from Vueling with the new bases as well. Should I expect that margin delivery in -- particularly out of Italy, it's sort of under pressure short-term and when you think that could get sort of a less tricky or am I reading that wrong?

And the second one is just on the full-year '15 no change to guidance. Clearly, if I use different assumptions, it looks like jet at $810, euro-dollar 125. I think I should perhaps get higher.

Are you perhaps keeping something back to -- to give a bit back to customers because of the low fuel environment? Are there any sort of higher OpEx you might push through in a lower fuel environment that I actually perhaps should be thinking about? Thanks.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

I'll let Alex speak directly to the issues but let me address the fuel. You know, what we're saying is that if we look at the fuel price then up until the 9th of September, Brent was trading above $100. At the end of September, Brent was still over $97. It traded between the 9th and the 29th of September between $97 and $99.

It's only since then -- so October and , you know, early November, so a period of about five weeks that we've seen the price fall below $100.

So I'll just say, at this stage, what we're thinking of is let's keep an eye on this because clearly, if it goes back to, you know, where we've seen on September, well then the business plan is probably the relevant figure to look at. There is some currency effect which I think is more, you know, stable, if you like, at this stage and negative for us.

But that's what we showed in the chart that Enrique presented that, you know, if -- if fuel continues at the price, well then, clearly, there is some potential opportunity in that.

The reason we're not presenting that as a guarantee today, you know, you heard me earlier talked about confidence. I'm just not as confident around what the fuel price is going to do at this point. So we want to watch that over the next weeks and months.

And certainly, when it comes to presenting our full-year '14 results which will be in I think early February and we'll -- we'll give you a more informed view on the impact of fuel price on our 2015.

But we felt it was just a bit too volatile in the short term to sort of pin our -- the 2015 targets on an oil price that may well change. I think the view we take is that if you look at the fundamentals, you could argue, it shouldn't be at $82, it should -- you know, there's nothing really radical to this change.

But then, you know, you can make any arguments you like around the oil price and I'm no expert at it. I think I've told you this story before, the best presentation I ever got on fuel hedging was when I was at Aer Lingus and it was a fantastic presentation by a guy who went into all the micro and macro issues and I listened to this.

And for the first time, I said I now understand this, I get this, and I think it's very clear to me we definitely shouldn't hedge. We should take the advantage of the spot.

And he said, "Oh, no, no." He said, "No. Most definitely not. My recommendation to you is that you should hedge." And I said, "Why, everything you told me tells me we shouldn't. And he said yes" I might be wrong.

So we'll just watch it for a little while and as I said, we'll update you. But we're not trying to hide this. You know, we're saying it clearly is, there is just an opportunity and it's something that we'll update you on.

Alex, do you to talk about this?

Alex Cruz - *International Airlines Group - Vueling Chairman and CEO*

Yes, very quickly. IAG is absolutely clear demanding from Vueling that we deliver profitable numbers with the growth -- with this growth , there is no doubt about it.

Now, how do we get to the profitability levels that IAG demands? That has a bit of logic behind it. So yes, it would be crazy to consider that we would have a very profitable operation on a set of brand new routes on the first few months. Absolutely, that's not the case and never has been the case presumably with any airline except in very, very small route and very small location.

The point is Vueling does have the tools to continue working to maturity. The matured and the maturity of its routes in order to be able to get to the right balance and to be able to prove to IAG that we can continue investing in that growth so that the final picture is that we meet those profitable objectives, the objectives of profitability that we've been given.

So the first year, of course, challenging as usual. As I mentioned to some of you before, international routes this summer went really well. Domestic traffic, as expected. So ultimately, the picture that we wanted for this year I think we're meeting it. But then again, the full picture of Vueling that's important, the profitability target for the whole of Vueling, not just the Italian operation.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

Thank you. We'd send to the side for a moment.

Neil Glynn - *Credit Suisse - Analyst*

Neil Glynn -- sorry, Neil Glynn from Credit Suisse. If I can ask two questions, I guess one sub-theme through the presentation seemed to be digital. It seems most large airlines are at least trying to do things better digitally. But I wonder as to what extent that will become a cost to doing business rather than a revenue lever with the real benefit being if you can lower costs through digital efforts?

And then a second question on Iberia. It's just a pulse check on how Iberia competes on Europe to LatAm. I think Iberia is always at a discount pretty aggressively on transfer traffic between Europe and LatAm particularly Northern Europe. With the improved punctuality and the commercial initiatives, is that discounting easing at all or any progress there?

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

Yes, to digital, we see digital as an opportunity. We've been doing a lot of work within all three of the airline operating companies on digital and to some degree on cargo as well.

And to try and capture the best of that, we've created a digital and innovation unit within IAG. And, you know, this is to really identify how we can exploit some of the smarter things that are going on there and not just, you know, develop within the individual operating companies.

So we're looking at capturing work that's being done in one for the benefit of all three if it makes sense and equally capturing work that's being done outside of the business for the benefits of our business.

So at this stage, I would say we definitely see this as an opportunity. We are going to be spending money on digital development and innovation in a way that maybe we haven't done before.

So we try to create an opportunity to look at some investment in this area outside of the normal operating company investment profiles. It will be small but we're investing in this because we see it as a cost opportunity and that's why we're doing it centrally within IAG.

I'll let Luis talk about Iberian transfer. But one of the things that was clear to us is that previously, I think in Iberia, there was a driving -- absolutely driving focus around market share which was not driven by a focus on the bottom line. That has changed. We're absolutely clear now in terms of, you know, what the priority is.

And Luis has been, you know, restructuring the network to ensure that we can get feed from markets where it makes sense for us to take feed, you know, where there is a natural flow into the Madrid hub, and not just out there discounting left, right and center to, you know, fill the aircraft and pretend that we were doing well with high seat -- high seat factors when in fact, we can do a hell of a lot better financially with a lower seat factor count, you know, with better unit revenue.

Luis, do you want to...

Luis Gallego - *International Airlines Group Iberia - Chairman and CEO*

Yes.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

Yes.

Luis Gallego - *International Airlines Group Iberia - Chairman and CEO*

When we don't see the transformation on the plan two years ago, we decided to cut the ASKs in 15%. So we removed the 20 aircrafts of the short and medium haul and five aircrafts in the long haul. So some of the routes that we have within the hub were removed.

Now, what we are doing is to try to recover some of the routes that are profitable and that contribute to the hub in Madrid that we are still, even without these routes, number 1 in the routes between Europe and Latin America.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

So we're not going to get into disruptive discounting just to fill our aircraft. You know, we know how expensive that can be, so that's definitely not what we're doing. We're very focused on the unit revenue performance to ensure that everything we do is going to deliver to the profitability targets that Iberia has set which are in the same -- you know, we're talking about all of the operating companies operating in the same margin band and we believe that Iberia can do that.

And clearly, you know, we get great confidence from their third quarter results. That's an indication that they can actually do that but there's obviously a lot of work still to do but I think great credit to Luis, the team there and everybody in Iberia too, and, you know, when you see the transformation that is taking place.

Oliver Sleath - *Barclays Capital - Analyst*

Hi. It's Oliver Sleath from Barclays. Three questions, please. Firstly, on the Atlantic, you said in the past that there's more to come from the Atlantic joint business and I think Keith's presentation shows some of the network opportunities with U.S. Airways joining American.

Do you see potential for further ancillary revenue generation on the Atlantic? I'm thinking things like increased baggage fees in economy for instance, if you compare that market with the kind of revenue generation that's being achieved in the U.S. domestic these days.

The second question perhaps for Keith, you talked a lot about BA and Heathrow but clearly, there are developments at Gatwick too. So with the new leased Airbus fleet coming in, the different routes that you're launching, does that present some more opportunities on cost and revenue there?

And the final longer term question, with the Etihad equity alliance, now they've got Alitalia onboard as well, they do seem to have some substantial market share within Europe. Do you see that as a good thing for consolidation and capacity discipline or does it perhaps raise questions about Middle East carrier European ambitions and in terms of their long haul markets, maybe starting to look West bound as well as East bound? Thanks.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

Okay. On baggage, something clearly we take care -- some optimism from, if you like, to see what has happened in the U.S. And there may well be opportunities. We're not looking to do anything at this stage.

I think where there is an opportunity for ancillary revenue growth on the Transatlantic, I mentioned this in the third quarter call, I said we'd give you some details at some later presentation is on BA Holidays where we have seen very, very strong performance and strong growth particularly on Transatlantic markets and there may well be opportunity to drive some additional revenues in that way.

But I think the U.S. market has certainly become accustomed to paying for baggage and it may well be that the consumer is ready to look at that in a different way but I don't think it's ready today so we're not going to drive that one but we are watching it very closely.

Keith, do you want to comment in Gatwick?

Keith Williams - *International Airlines Group - British Airways Executive Chairman*

Yes, a couple of things really. First, just picking-up back up on digital and BA Holidays. And as Willie said last week is that BA Holidays has been a great success but it also would be the success because it links straight into Gatwick.

You know, I showed you earlier on or mentioned earlier on our long haul market share, Gatwick has grown from 17% to 23%. That in part is down to the success of BA Holidays which has led to bookings out to Gatwick. So long haul going really well.

Short haul is profitable today and it's a long time since we've been able to say that's about Gatwick. But it's not at a sustainable level of profit, not to meet the reinvestment targets that we would set either as BA or IAG.

In terms of progress, we've made progress particularly on the cost side. There's more to do. You know, big change there was bringing in Swissport to do the ramp but that had its teething issues particularly in terms of punctuality. But that's now getting better. But there still work to do on the costs.

And on the revenue side is the seat configuration benefits start to come through next year. So that will help. But there is still more work to do with Gatwick to bring it back to, you know, the sustainable level of profitability enough for the group to reinvest. So I'd call it work in progress.

Thanks.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

On Etihad, what was clear to us what Alitalia was not going to disappear. There would be another Italian solution to the Italian problem as we've seen before. So on balance, I think it's probably a good thing to see Etihad to take control of Alitalia.

I think if you look at what has happened with Etihad control of Air Berlin. I'm not trying to be controversial when I say control my belief is that they do control it and it doesn't bother me. I know ownership and control regulations exist, and technically they shouldn't. But my view is those ownership control regulation should be thrown out. I don't think there's any reason to continue to have restrictions of who can own and control.

But if you look at what has been happening with Air Berlin what we've seen is continuing restructuring and retrenchment as you would expect from an airline that is not generating a return. And I think some people probably felt that Air Berlin would not do that, and everything we see tells us that they're seeking to run those airlines in a rationale way and, therefore, on balance. I would say it's probably a positive thing.

I believe consolidation is important for the industry. I think it does benefit the industry longer-term. This may not be the most rational form of consolidation, but it's probably better than what was there beforehand.

Yes?

Penny Butcher - *Morgan Stanley - Analyst*

Penny Butcher from Morgan Stanley. Three questions from my side please.

The first, in most of these presentations, I think for the last couple of years there's been at least a section on premium and corporate travel. Would you mind sort of updating given all of the cost-oriented initiatives, the standardization of products, et cetera, that you are still, I guess, pursuing the premium segments and its benefits from a yield mix perspective?

The second question is on the Avios presentation, I guess, several of the competitors, Quantas, for example, but certainly in Latin America have made some success of highlighting the profitability of such frequent flyer regimes and, in some cases, bidding them off. What are the kind of medium-term intentions with regard to Avios on that front?

And finally, just to follow-up with a question perhaps for Alex on Vueling, with regard to the 3Q numbers and also what we've seen from the peer group in the low cost segments, recently, I guess, the observation that we would make is it would seem this growth that is happening is coming at quite high cost, at least in startup terms. Could you give us some confidence about how that profile should evolve on a 12-, 24-month period to, I guess, actually return the margins that the group is talking about? Thank you.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

Premium continues to be performing very well and it's growing. And so if you look at our traffic statistics, I'm trying to remember off-hand what we said for October. I think it was around 6% or just over 6% growth in premium, against 7.2% growth in RPKs overall. But we're seeing positive premium traffic, and it's been in both long-haul and short-haul.

So the short-haul one has surprised us. It has been stronger than we had expected it to be for sometime now and continues to be and reinforces our view that we should continue to maintain a premium product on our short-haul where it makes sense. That's more a BA issue than it is an Iberia issue in terms of the way we do it. But you heard Alex talk about the value of premium for Vueling as well, so it's definitely something that makes sense for us and definitely something that continues to return superior returns for the three airlines. And the outlook for that remains quite good as well based on everything that we can see. So we don't see any reason to change our view in relation to that.

(Inaudible) talk about a -- we are structuring Avios to be very efficient for the benefit of the group. We're not structuring it to be very efficient so that we can sell it. So the view that we have strongly within the airlines within IAG and indeed within Avios is that it should be retained within the business and not sold off. And we've looked at where people have sold it off. Air Canada is probably the best...

Enrique Dupuy - *International Airlines Group - CFO*

(Inaudible).

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

Yes.

Enrique Dupuy - *International Airlines Group - CFO*

But what we would be using this probably is as a way to create additional synergies with maybe additional partners. That catalyzes off further exercises of consolidation on loyalty programs. That's probably something that we'd be interested in analyzing certainly.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

So we think there's further potential, and you heard Gavin's comments in relation to that that this is the start of something new for us. And the way he is developing that business, we believe that that is best retained for the benefits of IAG shareholders. And clearly we'll keep that under review, but at this stage we think it's the right thing to do.

Alex, some questions for you?

Alex Cruz - *International Airlines Group - Vueling Chairman and CEO*

Yes, with regards to the startup of Fiumiciono operations, so the revamp from Fiumiciono operations. I'm happy to report that the actual startup costs are not that high. We haven't hired tens of people. In fact, 2.5 people on temporary contracts, and there isn't a tremendous amount of additional infrastructure. We outsource our handling and maintenance et cetera.

Thereto, there is a lightly higher ex-fuel CASL than we would have expected in the summer time. And the reason behind that has been some problems that we have had on aircraft and aircraft operations because we still, this year 2014, we have received secondary market aircrafts. And unfortunately, they took a little bit longer than we have been agreed that it would take in order to actually make themselves available. And that required us to incur some extra costs, one of the costs obviously that in order to have aircraft available to fly the committed flight schedules that we have.

I'm not particularly worried about cost associated with Rome itself. It's a standard base opening. There are aren't any special people or infrastructure that we have invested. It's not our style. We have never done it.

Well, we used to have three people that didn't work in Barcelona, now it's five that work outside of our headquarters, so we continue to have their mindset. But yes, we do acknowledge that slightly higher cost. We do believe there would be one-off given the nature of most the aircraft we took this year were coming from the secondary market and there were some delays on that.

Enrique Dupuy - *International Airlines Group - CFO*

Yes, some people have asked us about if we are going to be going for the NEOs, for the A320 Family NEOs, what are you ordering some additional classics, CEO's, A320's? And one of the big reasons is to try to smooth them, the rolling over operating leases that every year Vueling has to produce, which is disruptive for the operations and creates quite inevitably some extra cost of, for example, in this summer have had a lot to do with the increases and wield increases in cost in Vueling.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

And that was one of the things in Geoffrey's presentation where he talked about the -- ensuring that we have a common specification because you then can move aircraft within the group without incurring significant downtime and expense. And it's both. It's the downtime, so if you're leasing an aircraft and you're not flying it for a month you're still paying the lease rentals on that and the expense of reconfiguring it.

And then also you have to change it back into the original configuration to return the aircraft to the lessor. So not only do we look at having a simple and common specification so that we can move aircraft within the group, but this is an area where Alex has incurred a lot of additional costs that you would normally see because of the growth rates that you have seen taking the aircraft from the market, configuring them into a Vueling configuration, and ensuring that they can get approval from the regulatory authority as we put into service. So that's one of the key advantages that we'll have going forward, have a greater flexibility within the group to move assets around.

And I think Alex will be one of the main beneficiaries of that.

Donal O'Neill - *Redburn Partners - Analyst*

Hi, good afternoon. It's Donal O'Neill from Redburn. If I can ask three questions and the first one is around CapEx. And I just wonder if you thought about some of your American counterparts have the argument of buying older aircraft instead of new aircraft. And I guess, it's particularly pertinent in the context of lower fuel prices if this is sustained. It might make a lot more sense to buy very cheap upfront cost aircrafts. What they might mean for the CapEx if that was the case.

Second question for Alex again, on the Qatar JV or partnership, what kind of benefit do you expect that to bring to Vueling and where we stand today in terms of total share of passengers that are coming from your code share partners, and what might that go to?

And the last question, I guess, a very sort of general holistic kind of question for the business, and, Willie, you talked about the preparedness to deal with shocks. And it's probably not unreasonable to expect one in the next 10 years and they're pretty big. Beyond the fleet flexibility, be it leased or buying, taking that new aircraft, what other operational flexibility are you trying to build into the business to manage that?

Enrique Dupuy - *International Airlines Group - CFO*

Yes, it's a very interesting point and we have a similar approach. And that's why when we went through the -- for example, on the short-haul fleet, the level of flexibility that we have to decide on in the coming years about how many operating leases in the marketplace we are going to have to renew or extend. That shows that we are going to be actively looking for bargains. We are going to be actively looking for opportunities to get secondhand, cheap aircrafts in the marketplace because we recognize that with the appearance of the NEOs, the second hand rentals and prices of some of these A320 family aircraft, traditional ones, is going to become extremely attractive.

We don't discard at all going to the marketplace for a significant tranche of those requirements.

In the long-haul it's exactly the same. And probably you'll remember when we were facing the A330 decision by summertime this year, we left open exactly the two options that you are suggesting.

On one side, to go for new A330 aircraft with a very attractive proposal coming from Airbus and against going for secondhand A330s that we knew were available in the marketplace. And that has been a fabulous experience because we have really got to the bottom in terms of where a new aircraft should be coming down in terms of price to beat a temporary operating lease on a secondhand aircraft.

And the decision in that case was we got the right package from Airbus. And that's something that we are going to be testing and testing every time. It's how we are going to be managing it. But we have a lot of flexibility to optimize.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

I was just looking at Delta's average fleet age is 16.9 years. We heard Keith talk about the age of the BA fleet was, the long haul fleet was at about 15. It's now down about 14. And a lot of the Delta average is driven by the MD-88's, they have a 178 MD-88's24 years old. So Enrique said we're looking for the best deal possible, and if it makes sense to buy a secondhand aircraft then we will.

We're well able to do that. We've got experience of operating aircrafts that are older than average, so we know what is involved, we know the maintenance issues involved in that.

Keith mentioned the 27th of September 2007, and said he remembers it. I remember it for two reasons not just because we ordered the aircraft, but it was also six months to the date of the opening of T5. And it was the day in which everything in T5 was supposed to have been finished, and we are supposed to spend the following six months practicing, which we didn't do.

But the opportunity for us is to look at the total cost. And when we looked at those aircrafts back in 2007 from memory, Keith, the breakeven fuel price was $60. We believe that's taking everything into account. If fuel was above $60, it made sense for us to buy the new aircraft.

Now I haven't done that exercise again in a while, but for us, ownership cost certainly in relation to some of the aircrafts that we've looked at recently would probably change that breakeven. But we do look at it very carefully, and it's something that we monitor closely as well.

Enrique Dupuy - *International Airlines Group - CFO*

(Inaudible) with the A340-600 that Luis was mentioning, we are going to have to be using for hot and high until maybe a new generation of aircraft that (inaudible) that can compete effectively.

We have bought back some of our aircrafts, which we have protected through asset value guarantees in the case of Iberia at extremely low prices. So at the end of the day the total cost of operation of these 340-600's is going to be plummeting down. So yes, it is something that we are going to be doing every time.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

I'll answer the second question on Alex's behalf and he can correct me if I'm wrong. But in relation to interline it's very small, it's very new, so this is our new arrangement with Qatar. We do some interlining with BA, it's a small -- every bit helps and, therefore, contributes, but it's not going to be a major feature.

And as we've said many times Alex and Vueling will only do it where it makes sense, so he's not under any pressure to automatically interline with oneworld partners. It's only where it will make a positive contribution to the Vueling performance.

And in relation to shocks, so you said within the next 10 years, I think of shocks in the next 10 days, 10 weeks, 10 months, our industry will definitely face something. We know that. And what we've been doing is ensuring that fleet clearly is something that we have a lot of flexibility, but labor has to be an area where we have flexibility to align with the fleet flexibility and, hence, the value of the agreement that Alex has reached with his pilots where he can have much greater flexibility in terms of his crewing. He already have this with cabin crew, the work that Luis has been doing to ensure that we have much lower labor costs and the ability to move things around, very same in BA.

The key to responding to a shock is speed. It's responding immediately.

If you think back to 9/11 and I think everybody can probably remember, we all were in shock as to what has happened. And I can remember, I was in Aer Lingus, I had just took over as CEO in a few days after that event. I can remember being advised by the wise heads that had seen it all before, and they were telling me -- son, just relax. It will all come back, just take it easy. Don't worry.

And that was a problem with our industry. We didn't respond. And what we've demonstrated actually is when we do respond, we can make a huge difference. We can take a lot of capacity out. We can let you take quite a bit of cost out. We're much quicker doing that, and that's the key. It's responding immediately to the shock so that you are reducing the cost of any shock that hits the business.

And we're ready to do that. We know exactly what we would do if we were faced with another shock. We know how we can take capacity out, where we can take capacity out. We developed the ability to respond much more quickly. And more importantly, everything we do structurally within the business is designed to enable us to take even more of that cost out quickly.

So as I said it's all about having flexibility. Fleet is clearly an important part of the flexibility. Labor flexibility is very important. But the real key is responding quickly to it and responding sensibly to it. And I think we can do that better than most.

Andrew Barker - *International Airlines Group - Head - Group IR*

If you could stick your hand up again, I think I saw Alexia.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

We do -- yes, Alexia Dogani.

Alexia Dogani - *Goldman Sachs - Analyst*

Thanks. Hi, it's Alexia Dogani from Goldman Sachs. I have three questions as well please.

Just firstly, clearly you're doing very well relative to your peers, and do you think there is any risk of sort of competitive forces disrupting this or do you believe your network is sufficiently well-protected to essentially give you confidence to continue to deliver ahead of them over the medium-term?

Then secondly, on the fleet harmonization initiative, my understanding is that the A320 order is the one that you have the common spec applied. Is there any potential to apply this to your long-haul orders or your options going forward, and how much time do you think that kind of process will take to fully fit through?

And then just finally on Vueling and Alex's comments about premiumisation, and do you think driving premium sort of product positioning can enable you to deliver sustainably higher yields versus the other low-cost competitors or is it more of a method of growing your market share relative to them? Thanks.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

Okay. Yes, I think we are better positioned than our peers in Europe. And if you look at what they are trying to do they're actually trying to do what we've done, and we're trying to move ahead of where we are today. So I don't want to be sound like I'm being critical of them because I think to give them credit they are trying to address some structural challenges that we'd faced up to earlier. And I hope they do overcome them. I think it will be better for all of us if they do.

But we're not going to wait around to see do they succeed. We're going to use the advantage we have to move ahead of them and to continue moving ahead of them.

And while they're busy or distracted, and I know what it's like when you're in the middle of that focusing on these industrial relations issues. We're getting on with focusing on other things where we can see opportunities to improve our cost performance, principally our cost performance. And a lot of that will come through a much more aggressive focus on our procurement where we're already seeing some really interesting results early on, and that's an area where we think there's a big opportunity.

And there's a few other big ticket items in the pipeline that we'll talk about later on. But we have the opportunity now to get on with other business and we're taking advantage of this time to focus on those issues.

In terms of fleet, not only are we looking on common specification of the aircraft that we've ordered, it's actually bigger than that. We're now looking to see can we reconfigure some of our existing aircrafts, principally where we can take things off the aircraft that are not relevant and therefore save -- you heard Geoffrey talk about weight. So take items that are not required on the aircraft, take them off, and save the weight of carrying those items around and also save the cost of maintaining those items and looking where we can going forward of further reconfiguration, but on a sort of a planned basis so that we're not taking aircraft out of service.

We're also controlling the aircraft once we have them because there's one thing to specify them and to have a common specification. It's very important then to ensure that we can align the maintenance programs and that we ensure that any modifications being made are controlled centrally. So this is an area where I think we have made really good progress.

And Geoffrey said this, I don't think there's anybody else doing that. You talk about and you hear about people looking at common procurement. The real advantage that we believe you'd get from procurement is where you have common specification as well. So it's one thing to go out there and buy aircraft, its another thing completely to go out there and buy exactly, exactly the same aircraft to be used in all three parts of group and can be used if we scale the business beyond where we are today.

In terms of Vueling, I think premiumisation (inaudible) is definitely a yield advantage and say Alex can comment on it, but I've heard Michael talk about what he is trying to do with his business product. And what he said it's all about converting some of his existing -- what he describes as business customers into higher yielding business customers. So I think that is one of the advantages that we have there, but also without question we are more attractive from a customer point of view.

But, Alex, do you want to...

Alex Cruz - *International Airlines Group - Vueling Chairman and CEO*

Yes, sure. The first thing is with regards to premium and Vueling, Alexia, is that we will only do it as I spoke with some of your colleagues if we're able to do it without increasing our cost given some details with some of your colleagues earlier.

At the end, it's about market share, but today we're flying some big business trunk routes, Barcelona, Paris or Fiumicino, Paros et cetera. And it just happens to be Skyteam territory, but we have an increasingly better business travel proposition not just in terms of frequency, but in terms of all the perks that come with fares and very reasonable fares. So the intent is if we can continue to increase the premiumness of the product without affecting the cost base, we're going to do it and that's what we've been doing over the last five, six years.

And having access to more traditional travelers and offering them at least the same, if not more of the perks for a smaller share, we believe it's a pretty reasonable tool to be able to increase the market share of business travelers and hopefully drive the yields up.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

Yes, Andrew?

Andrew Lobbenberg - *HSBC - Analyst*

Hi, it's Andrew Lobbenberg from HSBC. Can I ask on Iberia for a clarification, talk about being in profit for '14? Are we talking about EBIT or are we talking about down the net level?

Can I ask over back on Alex with Vueling? We've had quite a lot of chat about Rome, and I know Brussels was just a toe dipped into the water really, but how does that go and perhaps more generally how rapidly do you want to put your flag down somewhere else because as we've got the plethora of low-cost carriers all trying to stake claims to those markets which are perhaps open now, how much of a rush is there to -- I don't know, put your towel down on a sunbed and make somewhere yours.

And then as a final question, Willie, as you sent us out to lunch you said that you've made lots of progress since IAG was founded, but there were some areas of disappointment where things haven't gone as well. Do you want to give us a bit of a feel for some of the areas where perhaps it haven't been as sweet as you would have hoped and perhaps why or what you're going to do about them?

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

On Iberia, when we talked about them being profitable, we have been talking on an EBIT level, but you can wait and see whether that translates into something even more exciting. But based on their third quarter results you can see that they are clearly making excellent progress there.

Alex, do you want to talk about...

Alex Cruz - *International Airlines Group - Vueling Chairman and CEO*

We love the amount of attention we're getting on a one aircraft base. We have had so many one aircraft bases for such a long time with zero attention, so that's previously from one of our competitors, of course.

Nothing special about Brussels, brand new base. We've been operating in Brussels for the last nine years. And the only thing that we did is we added some holiday travel from Brussels, which has gone quite well. Thank you very much.

For the moment we're going to continue flying from Brussels as we have been continuing to fly from our base in Amsterdam for the last four years or from Florence over the last two years. So I wouldn't give a tremendous amount of attention to Brussels itself.

With regards to other potential areas of development, I think it's early days and our focus continues to be Rome -- will continue to be Rome and Italian market at large. And we always forget about Paris, which is a very important market for us where we're limited on growth based on the capacity of Orly airport, but where we have an extremely well-developed and known brand (inaudible) with tremendous amount of investment was done a number of years ago. And we'll continue to develop in the traffic there, particularly if the government relaxes a tiny bit some of the times of operation of the airport.

So Brussels going Okay, it's a single aircraft base, and we'll continue to study how we develop it, but the focus continues to be Rome and after that probably Paris.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

And the two areas that I would highlight were -- we've not done as well as I think we could have are in terms of IT. And we will hit the 2015 synergy targets that we set, but I would have hoped that we would have been able to exceed that. So the pace of which we have been moving there was not as fast as I would have liked to have seen. That pace is accelerating significantly. And as I said we're very confident that we will achieve the '15 targets. What we're doing now is looking what we'll do beyond that, and that's an area where there is work in progress and therefore, further opportunity for us.

The other area is in our synergies relating to maintenance. I think again we will hit the targets that we set, but instinctively we felt that there was more to be achieved there. So there are two areas that we will come back to to give a bit more attention to in the months ahead because we firmly believe there's more opportunity for us in those two areas. It's just a question of getting access to the opportunities that we believe exist there.

Anand Date - *Deutsche Bank - Analyst*

Hi, it's Anand Date from Deutsche Bank. I have two questions. With regards to the harmonization, do you guys think internally as to whether that's also stick for the different operating companies that different metal can be converted very quickly, so if you don't perform we can move it around.

And then just on the inorganic growth, would you let that push back the targets that you've given to us today? And also what operating environment would you require for that to be attractive? I mean, would you need supportive government? Would it have to be self-funding? Would labor laws need to be reformed, that kind of thing?

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

In terms of harmonization, I think one of the key things we said is flexibility and flexibility is about moving aircraft within the group so that if we have one area of the business that isn't performing strongly and if we can take the aircraft and put it into another part of the business. And you've heard Keith talk about that he is making progress in some areas and making good progress, but more needs to be done.

If we believe that that work isn't being done or isn't being done fast enough, then we have the opportunity of moving these assets. But clearly it's something that is of great advantage to us.

What traditionally stops you doing that is there's often been a big cost associated with moving the asset out of one company and into the other so we can avoid that cost and that's why we're going to this common specification.

You can make the business case to move it a lot sooner than maybe you would otherwise, so that's why we're keen to develop that as much as we can.

And by the way, one of the things we're not averse to working with other airlines outside of the group in terms of common specification, so this may be an area where we could work with others so that not only would you have that flexibility within the group, but flexibility outside as well. So an area that Alex has talked about is getting counter-seasonal arrangements to smoothen out the peak and trough that's clear in the European environment.

It makes them much easier if you can do that on a counter-seasonal basis where there is common specification. But it's an opportunity potentially for us to look at, and that's something that we are considering doing whether we could successfully engage with some other airlines outside of the group to look at these issues.

In terms of inorganic there's a lot of issues that we need to address when it comes to inorganic. I think the two examples that we have within the group of BMI and Vueling were very different. And the benefits were very different.

But the one thing that is clear and we know how to extract synergies and we know how -- where to extract the synergies quickly, and that's something that obviously comes with the experience of doing that, but we would examine every opportunity on its own individual merits. I don't think there's a single-script that we could use. And as I said, we'll be ready to move if the right opportunity came on.

There's one over here.

Douglas McNeill - *Charles Stanley - Analyst*

Douglas McNeill from Charles Stanley. Keith talked about how the non-one world carriers at Heathrow have tended to shrink a little in recent years. Is that a trend that you would expect to see continuing?

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

Keith, you can comment on this, but my view is where you're seeing growth new at Heathrow is principally to upgauging. And not every airline that's operating at Heathrow has the opportunity to do that. There are some -- but in fact, when you look at the aircraft orders and the size of the aircrafts there's been orders, a lot of aircraft coming in to Heathrow will probably get smaller, some will get bigger. So you see A380s coming in, so Qatar are now operating with a daily A380, Etihad will operate with the A380. So pretty much anybody who has an A380 will fly it into Heathrow because it makes sense to do so.

But generally 787s are smaller than the aircraft that they replaced, so we see very little change in the pattern. I know Heathrow was sort of saying that A380s would give them growth in traffic. That's principally actually coming from us again because the A380s are principally replacing 747s, so 469 seats replacing 300 seater aircraft. So we don't see a big change in the opportunity for other airlines to grow their position.

If anything, you'll see a bit of down gauging for some of them and slight up gauging for others.

John Strickland - *JLS Consulting - Analyst*

Hi, John Strickland, JLS Consulting. We heard earlier about the punctuality initiatives and particularly thinking now British Airways at Heathrow. We saw the short-haul figures, which looked in themselves respectable compared to the peer group including those using white rabbits in their campaigns. Can you give a bit more detail about long-haul punctuality? Because I know last year there was a bit of an indigestion with the arrival of A380s and 787s in a more compacted time than planned, but I've seen circumstantially recently that the 747 fleet, which is still substantial is going to be so for the year's ahead seems to be encountering more operational problems which affects in a very key premium traffic.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

We haven't really seen any operational problems with this 747 fleet. Certainly the trends have not changed. If we look at technical reliability and just technical dispatch reliability across the fleet, there hasn't been any noticeable change in the trends. You'll always get individual issues that happen.

But when we look at our long-haul performance we're better than most long-haul operators at Heathrow. And the reason Keith highlighted the short-haul was because of -- what was rabbit you were talking about, that white rabbit, just to put us into context. But generally, the performance -- it's not where we wanted to be, and there are things that we can do to improve that. And yes, we did have some issues with the A380 in terms of getting it boarded and getting away as punctually as we would like, but it is improving. And as you would expect, we're getting better at doing it than we have been.

Heathrow is not the easiest airport in the world to operate, but we know based on what Iberia has succeeded in doing, and don't forget everybody thought Madrid was a very difficult airport to operate. We can do it an awful lot better, and it's an area that I know Keith and the team are very much focused on.

But in terms of technical dispatch we're not seeing any real change in the trends, and that applies right across the fleets.

Keith?

Keith Williams - *International Airlines Group - British Airways Executive Chairman*

I monitor technical dispatch reliability, it was 98.8; last year it was about 99.3 heading to 99.5 this year.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

That makes better.

Vishal Bhatia - *JO Hambro Capital - Analyst*

Hi, Vishal Bhatia from JO Hambro Capital. Three questions please. Apologies for the macro question.

But if the Euro/dollar were to structurally weaken from here on, could you please discuss the tools at the disposal of the company so we don't lose out from the benefits of the weaker oil price to the weaker Euro?

Second question on the Vueling and Iberia Express CASKs, they do remain structurally higher than Ryanair. How much of that cap could be actually bridged with economies of scale?

And finally on the operation gearing, given the experience of the company last decade, what would be the optimum level across cycle if you include the pension deficit as a debt? Thank you.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

Okay, forgive me I didn't quite hear, but your first question was in relation to the oil price and the euro...

Vishal Bhatia - *JO Hambro Capital - Analyst*

On the euro, because the business has spent a lot for fuel efficiencies and the benefit should come to the next cycle if they only were to stay low.

If the euro against the dollar were to weaken even structurally from here on are there tools at the disposal of the company to offset those pressures. Thank you.

Unidentified Company Representative

Thank you. Okay, yes.

Enrique Dupuy - *International Airlines Group - CFO*

So euro and fuel, the two big references that have been moving strongly for the last weeks maybe -- maybe months, weeks. We have two types of companies in Europe moving around, companies that would be having a net surplus of dollars and companies that won't have it, Okay?

So for the companies that would have a net surplus of dollars, what's happening is -- and depending on the hedging profile -- they are getting to a reduction in the fuel bill, but the reduction is not as high if they were to account in dollars, of course. So, for example, in our case, the reduction on the fuel price market prices it's been around 12%, and the strengthening of the dollar has been around 8%, so the gap there -- the gap that we can (say is about 4%, 5% in euro terms because we report in euro terms.

The advantage that we have because, as a group, we have excess dollars, we carve out the dollars we need to pay the fuel bill is that we will have a positive net result coming from the surplus of dollars that's going to be reevaluated. That's going to be affecting in that way basically to the legacy carriers and not so much to the low cost carriers because they don't have this surplus in dollars to be reevaluated. So that's how it's going to be showing through the next months and into 2015.

In our case, we have on our fuel bill basically a hedging profile of around 65% of year 2015 consumption levels. So we can see some very specific advantages are following on that 35% that it is unhedged and on the surplus dollars that we have because of our long revenue position in dollars.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

On the unit cost for Iberia Express and Ryanair, I think I'd be lying to you if I said I thought we could get to the Ryanair unit cost levels. We can't. They have a significant scale advantage and the nature of their operation where they continue to operate into a lot of airports that are, on average, significantly cheaper than the range of destinations that we would serve.

So you've heard Michael O'Leary talk about there are being some costs associated with operating to primary airports that will increase his charges there, but he will continue to have a blended unit cost that is low because you'll still have significant operations into the lower cost areas. So I think the issue for us is to ensure that where we're operating between the same airports that we have a cost that is in line with there, and that is the case. We know that's our labor cost and labor performance in Iberia Express will be as good as theirs.

We know in Iberia Express and going forward in Iberia, our overhead cost will decline, but we're not going to get the scale advantage or, if you like, the cost advantage where he's operating to low-cost airports because our focus will continue to be on operating to primary airports or pretty much the whole of the Iberia Express operation.

And in relation to -- I didn't quite get the last question, it was in -- if we are looking at operating -- was it operating margins for the...

Vishal Bhatia - *JO Hambro Capital - Analyst*

Sorry, I was talking about the optimum gearing if you were to include the pension deficit of that. What will be the optimum gearing of the company?

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

The optimum gearing, including pension deficits...

Vishal Bhatia - *JO Hambro Capital - Analyst*

For the next cycle and including your inorganic, your plans. Thank you.

Luis Gallego - *International Airlines Group Iberia - Chairman and CEO*

We are on an old accounting, so we don't readjust the leverage because of the new accounting of the pension funds so you know we are at about 46% and coming down to the 40's level, so we had to take into account the pension fund deficit.

We would need to figure out which deficit, the actuarial deficit, the new accounting deficit, something in between. I will be getting the range of 52%, 55%.

Johannes Braun - *Commerzbank - Analyst*

Johannes Braun, Commerzbank. Just one on HR actually. If you take a look at the likes of Lufthansa and Air France, what do you think that you do better in terms of labor relations or in other words, why is it that Lufthansa, Air France faces labour unrest in times of profit decline and you actually continue to enjoy labor peace in times of non-profit increase or even dividends increase. Do you expect that labor peace to continue?

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

Yes. I actually made a mistake at giving advice to somebody previously who actually took the advice and did a bloody good job. And I wish I haven't given them advice. So to be honest, labor issues are difficult everywhere and the circumstances are different everywhere.

I think our experience is you've got to be clear in terms of what you're trying to achieve and you've got to be determined to see it and see it through. And to give credit to Carsten Spohr I think that's what he's doing. I think he recognizes that the only he is going to make the changes that was needed to be made will be through long-term determination to see the job done.

And I think Air France is in a very different position. I think Alexandre de Juniac is an excellent manager, but I think he's operating in an incredibly difficult environment where lots of people believe they have a view on how the airline should be run. And we face that problem before, but we're able to sort of close off that noise and to ignore it to a large degree and just move forward and do what we believe is right.

But, you know, the advantage we have that we've faced up to these, and often you get -- if you're the first to face up to them it's easier to do it. And I'm pleased we have some of these problems behind us. We still have a lot of problems ahead of us. This isn't a job that is done. We still got a lot of work to do, but I think we're well ahead of where they are. And I think based on what I've seen happen in recent months it's going to take some time for both Air France and Lufthansa to overcome the challenges that they face. But certainly in the case of Lufthansa, I'm seeing a very clear determination on the part of the management team there to see the job done.

I think as I said, the job in Air France is significantly more difficult. But as I said, I'm not going to give accurate advice in case they do listen to me.

Johannes Braun - *Commerzbank - Analyst*

Just one follow-on. You do not expect that the mindset of your staff at the moment changes with -- as you grow profits and grow dividends.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

I don't think so, and I think an example you'd have to look at is look at Iberia and look at what Luis has talked about that the pride in that company now today because of their performance, the culture, the attitude, it's so much better.

People want to be involved with success. And I think the people in Iberia deserve great credit. They went through a very difficult time. Change is never something that is openly welcomed by people; it's normally resisted.

But having gone through it and people see the benefit of it, so I don't think it's going to change. But that will be done to the determination of management. That's our job. We've got to manage expectations and we've got to manage the business whether those circumstances are positive or negative. And I think we've got a good track record in terms of doing that.

Gerald Khoo - *Liberum - Analyst*

Gerald Khoo from Liberum. Three questions if I can. Firstly, you talked a lot about flexibility and responding to shocks and other changes of circumstance. How robust do you expect the financial performance of IAG to be over the 2016-2020 period in the face of another downturn?

Clearly, we'd expect cyclicality to remain. But do you believe that you can deliver above cost of capital returns in a downturn?

Secondly, you touched upon the performance of BA at Gatwick and it being below where it needs to be. How much more time are you going to give that business to deliver the right returns?

And finally a question on the BMI remedy slots, obviously, we know that Little Red is pulling out. If another airline takes up those slots, how long does that other airline have to operate them before those slots go to their ownership and they can use them wherever they like.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

Okay, in reverse order the remedy slots have to be made available to another airline. So Virgin Little Red will continue to operate until September of next year and then the slots come back to us, so we will utilize those slots because we have to utilize them to keep them and make them available.

If somebody else takes them up and stand to be corrected on this, but my memory is that it's a three-year period, so it's six seasons. They then get grandfather rights. But the slots can't be used anywhere. The slots can only be used for short-haul flying, so they cannot be used for long-haul flying. And that's where I think somebody in another company made a mistake where they thought that they could be used for long-haul flight. So the grandfather rights apply after six seasons, and the restriction however continues into the future on the operation of the slots. And we will continue. If somebody does take up those slots, we would continue to monitor very closely how those slots are used.

On Gatwick, we will give Gatwick time for as long as it's making steady progress in line with the plan that we have, and it's actually ahead of the plan that we have. If they fall behind the plan, we'll then will step in. But we have mapped out -- we have agreed a plan that was presented by BA in terms of where Gatwick was and where it needs to get to.

We monitor that very carefully. That plan is ahead of schedule and we have confidence in what we're seeing with the forward outlook we have that we'll continue to make progress towards the goal. But if it slips behind and we don't see remedial action that can be taken together back on the ground well then that will be the time. But it's ahead of where it should be and we're patient with it at this stage, and flexibility...

Enrique Dupuy - *International Airlines Group - CFO*

Yes. We made a very interesting exercise internally to test to prove the resilience of our business plan. And this was basically oriented to someway test us how solid these dividend payment proposal could be through time through the life of the business plan up to 2020. So we analyze what have happened since year 2000 and into 2014 in terms of worst-case.

So we decided a regular business related worst-case could be about a reduction in unit revenues in a single year of about nearly 5% -- between 4% and 5%. And then we tested the path and we discovered that only two occasions had had a worst outcome that are the ones that I've just described. It was the one affecting September 11 and the one affecting the Lehman Brothers collapse.

So with that assumption, we tested our figures and we discovered that we could continue paying the dividend proposed with our free cash flow to equity in 100% of the cases. And even with our, using our cash reserve, we could have gone through Lehman Brothers and continue paying dividend without affecting the solidness of our financial situation. So we feel comfortable.

We have said several times today. We feel we have a robust business plan. We feel that our dividend proposal is a sustainable one, and we have made other internal type of testing exercise to become comfortable about what we are saying.

Olfa Taamallah - *Oddo Securities - Analyst*

Hello, Olfa Taamallah from Oddo Securities. Would you please remind us the capacity growth profile over the next year and the breakdown between airlines and maybe a view on the yield development going forward? Thank you.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

We haven't broken it down, but what we have given you is that the likely growth profiles going through the period that we've outlined up to 2020 is going to average around 3.5% to 4%. Next year it will be slightly higher than that, so I won't give you the exact figures, but what you'll see is BA growth will start declining back to normal or maybe below what you would expect as normal growth of BA.

Iberia will be slightly above that figure and then will revert to normal. And clearly, Vueling, as Alex has said, will be higher growth. But the blended growth that we're looking at through the periods of the plan out to 2020 is somewhere in the order of 3.5% to 4% ASK growth per annum. And that's frontloaded so to be more in 2015 and it will decline as we go through the remaining period.

So the growth, as Keith had outlined, some of that comes from the reconfiguration of the short-haul aircraft which is designed to get the short-haul capacity rights when we start taking short-haul slots away to fund long-haul growth. And then in the latter period of the plan, the growth comes from the addition of new long-haul destinations. So 2015 it's a combination of some short-haul through reconfiguration, and then the addition of the Kuala Lumpur route, in Iberia it's the flow-through from some of the capacity that we've added late this year to Montevideo and Santo Domingo which will flow through and the recovery of some of the short-haul capacity plus some growth in Iberia Express. And then Alex's plan is broadly in line with what we have previously outlined.

It's slightly down on where we had previously given you guidance. So as I said, average over the period after 2020 that's 3.5% to 4% growth, which we think actually is modest, is conservative, shows the discipline that we are displaying, and we will continue to review that. But the growth will only appear if that growth is profitable. And given that we're talking about growing the operating margin through the period of the plan, you can understand that we're going to be very focused on that.

And sorry, in terms of unit revenue we did give a figure out that we're talking about unit revenue flat. Enrique showed that one slide that we did (inaudible) through the periods of time we're looking a flat unit revenue.

Jarrod Castle - *UBS - Analyst*

Thank you. It's Jarrod Castle from UBS. Just quickly two. Willie, you spoke a bit about succession planning, clearly internal, external. I mean, frankly, yourself, Enrique, Luis, Alex, Keith, they're going to see some of the 2016 to 2020 plan through or is this something to be a little bit concerned about?

And then just secondly, just on the financial targets, have you adjusted the senior management kind of LTIPS or reward scheme to incorporate some or all of them? Thanks.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

Yes, I'm not aware of anybody going anywhere, but I'm not going to anywhere. So if you see me growing my hair long it may be a sign that I've changed my mind, but I intend to stay where I am for as long as the board believe I'm performing. And I think the same applies to everybody else.

But what we did do this time around because I know it's an area that a lot of companies have been focused on and there appears to be greater attention on this given some recent events. We've done a comprehensive analysis of where we are.

And I think we've done these exercises before. It just happen (inaudible). But we've gone into quite a bit of detail, and that gives us good confidence that we are well-prepared should anything happen that isn't planned for any of us. But yes, I certainly look forward to seeing it through the periods of this plan.

We have made a recommendation to our remuneration committee that we adjust the long-term incentive performance share plan to reflect a third measure. So today it's a 50-50 split between TSR -- which we use the transportation index. And we have EPS. What we're saying is we believe that it would be appropriate to add ROIC as a third measure with a equal split between the three given everything we've said in terms of our focus on financial performance in the business. We think the combination of those three measures is appropriate.

The remuneration committee has considered that and has agreed to look at that. We've got to go back with the specific targets, and then there will be a period of consultation with shareholders in relation to that. But we think introducing ROIC and having three rather than two, in effect, financial targets that are very much aligned to everything we talked about today is the right way forward.

I think that's about it. So I'm going to use this opportunity given that nobody have their hand up to say we'll bring things to a close. But can I thank all of you for attending. I hope you've enjoyed the presentation. I hope we've given you a better insight into what it is we're planning to do for 2015.

The simple message I would give you is that we've made good progress. We're confident about our ability to deliver. We're confident about the introduction of a dividend that is sustainable through the cycle, and we believe that's very important, that it is sustainable and as Enrique said we've tested that quite a lot.

We're not complacent in any way. We know there's going to be challenges facing us, but we stand here today telling you that based on our performance to date, based on everything that we see we have great confidence in our ability to deliver for 2015 and beyond. And we believe the targets that we've set for the business and the targets that we've shown you are deliverable.

The margins that we're talking about 10% to 14%, ROIC in excess of 12%, these are targets that we believe this business can deliver. And we're confident as a management team that we're able to deliver on that and we'll be very focused and very determined to deliver on those targets. So thank you for your support and thank you for attending today.

As was mentioned earlier, we do have a number of plans, presentations, including the cargo one and the Iberia one. And Andrew, I'm sure, will put together a program of other presentations for you. But otherwise, we look forward to seeing you when we release the 2014 full-year results, and that will be in early February.

Andrew Barker - *International Airlines Group - Head - Group IR*

Yes.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

Thank you.

Andrew Barker - *International Airlines Group - Head - Group IR*

Thank you.

Willie Walsh - *International Consolidated Airlines Group - Group CEO*

I'm sorry, Andrew, is there anything that you want to add?

Andrew Barker - *International Airlines Group - Head - Group IR*

I was just going to say the drinks are served outside. Once the trays are empty, there are other bars in the hotel. We may find some of us later, but you'd be welcome to join us if you find us. Thanks very much.

Unidentified Company Representative

Thank you.