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# EDITED TRANSCRIPT

IAG.L - International Consolidated Airlines Group SA Cash Offer for  
Aer Lingus Group plc Call

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**Douglas McNeill** *Macquarie - Analyst*

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## PRESENTATION

### Operator

Good morning, ladies and gentlemen, and welcome to the International Airlines Group conference call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Willie Walsh. Please go ahead.

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

Thank you and good morning. Thank you for joining us. I'm in Dublin with Andrew Barker. I'll take you through a brief presentation which should be available on our website. Indeed, it is available on our website, [iagshares.com](http://iagshares.com). I'll just make some comments and then give you an opportunity to ask some questions.

Last night, we announced our formal intention to launch an offer to acquire 100% of Aer Lingus Group plc. It's a cash offer of approximately EUR1.4 billion with a cash payment of EUR2.50 per share, and payment of a dividend of EUR0.05 which is payable on May 29, 2015, for shareholders on the Aer Lingus register on May 1, 2015.

The consideration constitutes a premium of approximately 40% of the closing price on December 17, 2014, and the acquisition is expected to deliver earnings accretion in the first financial year post acquisition.

Aer Lingus is expected to meet or exceed IAG's operating margin target and return on invested capital target over the life of the current business plan; and the acquisition will be financed through a syndicated acquisition facility.

Just moving to page 3 of the presentation. I think the rationale for this acquisition is quite clear. The deal will provide IAG with an additional transatlantic hub, strengthening our position on the transatlantic. It will also enhance IAG's position in the UK regions, allow us increased share of the Europe to North America connecting traffic, natural revenue synergies and cost synergies through Aer Lingus joining the IAG platform. And we believe this is a compelling case for IAG shareholders.



On page 4, for those of you not familiar with Aer Lingus, it is a value carrier. It operates transatlantic services from both Dublin and Shannon airports; has a fleet of 46 aircraft which are consistent with other airlines in the IAG Group.

In 2014, it directly carried 9.8 million passengers. A total of 11 million passengers were carried if you include the franchise operations by Aer Lingus regional. And it has 17 destinations in the UK, including the Aer Lingus regional franchise operation.

On page 5, you can see that Aer Lingus benefits from a very attractive transatlantic hub in Dublin. Aer Lingus operates from the new Terminal 2 at Dublin Airport, which is an excellent terminal and it has capacity to expand.

And uniquely, Ireland has both at Dublin and Shannon US customs and border protection pre-clearance which provides passengers with a very smooth entry into the United States, arriving there as domestic passengers.

Aer Lingus and IAG will have a strong position at Dublin Airport, and the airport charges are regulated and the current regulation results in a CPI of minus 4.2% between 2015 and 2019.

On page 6, you'll see the Aer Lingus fleet. As I mentioned earlier, it's consistent with the fleet operated by IAG Airlines. We've got a short-haul fleet of A320 family aircraft; a long-haul fleet primarily of A330 family aircraft, with some leased-in 757s. The fleets are in configurations that would be similar to other airlines in the Group; the A320 with 174 seats, similar to the configuration that British Airways has with its A320 aircraft at Gatwick.

On page 7, you'll see the network served by Aer Lingus in the UK regions; very, very strong network which feeds traffic into the Aer Lingus transatlantic hub at Dublin Airport. And this will give IAG a much stronger presence in the region connecting airports in the UK to a transatlantic hub that can't be connected to Heathrow due to the slot constraints at Heathrow Airport.

On page 8, you can see the benefit of this acquisition for both Aer Lingus and IAG. The transatlantic is a strong part of our network and we intend to bring Aer Lingus into the oneworld alliance and into our transatlantic joint business with American Airlines and Finnair.

Aer Lingus will be able to capture a larger share of the Europe to North America connecting passengers and will benefit from the sales presence of the joint business partners, particularly American Airlines at the US end of route.

We'll also benefit from enhanced connectivity to Asia, Africa and the Middle East over Heathrow, and significantly growing opportunities for connections over the Iberian Madrid hub. Aer Lingus will also join the IAG Avios program, and this will represent a significant opportunity and benefit to Aer Lingus customers.

And on page 9, you can see the position of Dublin as a transatlantic hub. It's number 6 in Europe; Heathrow being number 1, Madrid being number 5. So it very much complements the existing IAG transatlantic hubs and has seen significant growth in recent years, benefiting particularly from the transfer feed that Aer Lingus gets from the UK and from Continental Europe over the Dublin hub, which as I said earlier, benefits from pre-clearance facilities.

On page 10, you will have seen this chart before, a representation of the IAG hubs at Heathrow, Madrid, Barcelona, Rome. And added to that, you will now see the Dublin hub, and also the Shannon transatlantic operation. So we believe that this is a complementary network and hub structure to the existing IAG structures.

On page 11, this represents I think the unique feature of the IAG structure in that Aer Lingus will continue to operate as a separate business with its own brands, management and operations. And that provides focus for Aer Lingus and clearly represents the value that we see in the Aer Lingus brand.

And part of IAG, Aer Lingus will also join Avios, which is Europe's leading airline reward program. It will have extended range and reach through our cargo operations and will benefit from the common purchasing and sales force synergies that IAG has already developed. Aer Lingus will easily plug into our global business services and centrally-driven IT model.



On page 12, you will see the financial performance of Aer Lingus compared to IAG. This is consistent with the way we display our financial performance in terms of return on invested capital and lease-adjusted operating margin. And we're confident that Aer Lingus will meet or exceed the long-term goals set by IAG of a 12%-plus return on invested capital and operating margins in the range of 10% to 14%.

The airline has a significant place in Ireland, and on page 13, you will see the commitments that IAG has offered to the Irish Government. Connectivity is a critical issue for the Irish Government and for the economy of Ireland, and Heathrow connectivity has been a particularly important focus of the negotiations that we've had with the Irish Government.

So we have committed, in effect, to replicate the restrictions on the disposal of Aer Lingus slots at London Heathrow that exist under Article 10 of the Aer Lingus Articles. Aer Lingus will commit during the first seven years following the acquisition to in effect continue to operate the existing winter and summer frequencies between London Heathrow and Dublin, Cork and Shannon.

We have put in some protection for year 6 and year 7 in relation to airport charges and service standards. We've also committed to maintain the Aer Lingus brand and the Aer Lingus name, and to maintain the Aer Lingus head office and place of incorporation in the Republic of Ireland.

It's important to state that one of the key reasons we are attracted to Aer Lingus is because of the services that they operate from Ireland into London Heathrow. This provides excellent traffic feed into the British Airways network at Heathrow, and we believe that that can not only be maintained, but enhanced as a result of this acquisition.

On page 14, we briefly set out the benefits for Ireland. This is a growth story and we expect that up to 635 new jobs can be created in Aer Lingus by 2020. Ireland will obviously benefit from the indirect effect of the enhanced Aer Lingus network and growth on the Aer Lingus network.

Tourism is an important part of the Irish economy and this will provide additional opportunities for tourism growth with increased presence on North America and Europe.

And customers will have significant additional benefits by Aer Lingus joining the oneworld alliance providing access to over 1,000 destinations in more than 150 countries; and also, as I said earlier, benefit from the Avios reward program.

So the deal has benefits for IAG, for Aer Lingus, for Ireland, for the stakeholders involved with this.

On page 15, we set out the expected timing and next steps. The timetable will be governed by the Irish Takeover Rules. A formal offer document will be issued within 28 days of our 2.5 announcement.

So we're very pleased to have reached this position. Clearly, there is still a long way to go. But getting the agreement of the Irish Government is seen as a significant first step in this process.

I'm now happy to hand over to you for questions. I would remind you, I'm sure you're aware of this, that we are operating under the Irish Takeover Panel Rules, and that does place some restrictions on what I can say. I may not be in a position to answer fully the questions that you have to ask.

So back to the operator now who will manage the Q&A. Thank you.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). James Hollins.

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**James Hollins** - *Nomura - Analyst*

A few from me, please. The first one is I was wondering if you had the green light on the deal from the unions and the pension trustees, and whether you'd expect any -- whether you'd expect approval from the competition authorities.

The second one: Is there much room for further negotiation with the Irish Government, or is it now pretty black and white in terms of what you can and can't do with the slots? And related to that, can you actually adjust the UK, Ireland BMI slots you acquired a while ago?

And then the final one: I think Aer Lingus has about 4% of Gatwick. I think it would take IAG's market share at Gatwick over 25%, I believe. Now there's no mention of maintaining the Gatwick slots, so is there further scope there to take on our friends in [orange] at Gatwick, or is it not a really key airport for consideration?

Thanks.

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

Okay. Thank you. In relation to the pension trustees, as you're aware, Aer Lingus reached agreement to resolve the issues in relation to the deficit in their pension scheme, and we have committed to honor the agreement that was approved by Aer Lingus' shareholders. We have had some dialog with the pension trustees in relation to that and they're pleased with the commitment that we have given.

The discussions with the Irish Government are complete and we intend to honor the commitments that we have given. As I said, it is important to understand that it has always been our view that the greatest value that can be generated from the Aer Lingus Heathrow slots is by the operation of those slots between Ireland and Heathrow.

It is a profitable operation and provides excellent traffic feeds to the British Airways network. That traffic feeds, transfer traffic, has been growing in recent years, and we believe Ireland represents a very attractive market not just on a point-to-point basis and direct with the Aer Lingus network, but also as an opportunity to feed traffic over Heathrow into British Airways network and over Madrid into the Iberia network providing better connections between Ireland and Latin America. And that is consistent with the discussions that we have had with the Irish Government.

So there's no conflict or disagreement. The negotiations have been tough but fair. And having had these negotiations over an extended period, we're satisfied that it represents the best position for Aer Lingus and for IAG.

In relation to the BMI operations, yes, we're free to adjust that. We have, in fact, been growing our direct services between London and Dublin. We've joined the London City Dublin market in September of last year, and we've increased the frequency of services that British Airways operates between Heathrow and Dublin beyond what BMI used to do.

And Gatwick remains an important feature of the IAG network. We don't display it as a hub because we don't really see it as a hub operation, but it will continue to be an important feature for IAG, both from a British Airways point of view, an Aer Lingus point of view. And, indeed, Iberia and Vueling are always serving the Gatwick market and we intend to continue to do that.

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**James Hollins** - *Nomura - Analyst*

Thanks very much.

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**Operator**

Jarrold Castle, UBS.



**Jarrold Castle** - UBS - Analyst

Three questions, please. I guess you're not putting a number to the synergies, but if possible, can you give some possible percentage color in terms of cost versus revenue opportunities when you look at that pie?

And then also, can you just provide us how that evolved with the Iberia/British Airways merger? Obviously, completely different scale.

Secondly, just in terms of Aer Lingus, you've mentioned, obviously, the JBA opportunity, etc., but anything in terms of considerations when it comes to potential to join oneworld and how that would fit in with Aer Lingus' more partnership approach when it's come to thinking about alliances?

And then just a little bit -- you mentioned in the offer that the Aer Lingus Board will resign -- I think it's 15 days once it's accepted it. Anything in terms of impact on the IAG Board in terms of if anyone would join from the Aer Lingus current board?

Thanks.

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

Okay. Thank you, Jarrod. Unfortunately, I can't give you any specifics in relation to synergies. What I would say is that when we created IAG, we targeted EUR400 million of synergies in year 5. We've since upped that to EUR650 million of synergies on a gross basis.

So what has been clear to us as we've gone through the creation and development of IAG is that the opportunity for revenue synergies was well in excess of what we believed possible when we first created IAG. And I think it's fair to say that with Aer Lingus joining IAG, we see significant opportunity for the generation of revenue synergies.

Aer Lingus is a pretty efficient airline. It will, however, be able to benefit from cost synergies through the areas I've identified. And as I said earlier, we expect this to be earnings accretive in the first year of operation after the deal has -- after the acquisition has been completed.

From a oneworld point of view, the benefit of oneworld versus other alliances, oneworld takes a very pragmatic approach to relationships outside the alliance. You will know that many of the oneworld carriers, BA included and indeed Iberia, have relationships with carriers outside of the oneworld alliance. And that is a feature that will continue going forward.

So Aer Lingus has a number of relationships that benefit their business, and we would like to see some, if not all of those relationships continue, as they represent value to Aer Lingus.

So again, we take a very pragmatic approach to this. We're not going to restrict Aer Lingus to only dealing with partners within the oneworld alliance. That's a fundamental principle of oneworld which differs from the operation of Star and Skyteam and provides significant flexibility to airlines within the alliance.

And the IAG Board will not change as a result of this. So it's not intended to bring anybody who formerly represented Aer Lingus, or was on the Aer Lingus board, onto the IAG Board.

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**Jarrold Castle** - UBS - Analyst

Thanks very much.

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**Operator**

Oliver Sleath, Barclays.

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**Oliver Sleath - Barclays - Analyst**

Two questions, please, firstly, with regard to the competition regulator. I just wondered if you were envisaging any particular competition remedies needed, any particular areas or cities where you might have to dispose of some slots. I think that's something that Ryanair mentioned recently.

And my second question just regarding the dual Dublin-Heathrow/North Atlantic hub structure that you'll end up with. How can you see that working in terms of whether you route connecting passengers through Heathrow or through Dublin? Could we see over time BA gradually handing over some connecting streams to Aer Lingus to make way for higher-value point-to-point customers out of London?

Thank you.

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

Thanks, Oliver. I'm not going to comment on the specifics of the competition because, clearly, that's something we will engage with the regulators on. I would, however, point out that if you look at the city-pair overlap, there isn't any significant overlap between Aer Lingus and IAG Airlines. There is some, but it's not on a significant scale. But we will be engaging with the competition regulators to progress that issue.

I think the beauty of this dual hub, Dublin-Heathrow, is that it gives us opportunities that we don't have today. We're particularly attracted to it because, as I mentioned in the presentation, there are significant number of regional airports in the UK that are not connected to Heathrow, and unfortunately won't be connected to Heathrow, but are connected to Dublin. And that provides IAG, and indeed if you want to bring it down to BA, it gives them a stronger presence in the UK region.

So we have a lot of frequent fliers who will use Heathrow for long-haul flying into Asia, Africa, the Middle East, but find it more convenient to fly with other airlines on the transatlantic because we don't have that connectivity over Heathrow. And this will give us the opportunity to serve those customers. These are members of our frequent flyer programs and executive programs, and that's why we see this as being significantly beneficial to existing customers, not just Aer Lingus customers, but also other IAG customers.

And clearly, we can play around with the traffic flows in a way that is convenient for the customer. Ultimately, the customers will decide, but it gives us opportunities going forward that we don't have today, and we find that particularly attractive.

And hence the reason that we see opportunities to expand the Aer Lingus network on the transatlantic taking advantage of its geographic position and, importantly, taking advantage of the customs and border patrol pre-clearance at Dublin and Shannon, which has very significant customer benefits, particularly at the moment given the queues that can develop when you arrive in the US. So this is an attractive part of this acquisition.

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**Oliver Sleath - Barclays - Analyst**

Great. Thanks very much.

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**Operator**

Damian Brewer, Royal Bank of Canada.

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**Damian Brewer** - *RBC Capital Markets - Analyst*

Three questions, if I can, please, first of all just coming back to the very first question about Heathrow slots. Obviously, it appears there's the restriction for the seven years, but just looking at London-Dublin, both BA and Aer Lingus, both out of Heathrow and City, appear to fly something like 26 departures a day of which only 13 are on Aer Lingus. When you thought about this deal, has any consideration been given of the opportunity cost or the opportunity of moving those BA slots onto something else?

Secondly, and again just pricing, it looks like restricted premium cabin pricing out of Dublin is something like half the level of that being out of Heathrow. For example, on the West Coast, it looks like American sells co-share seats on BA for something like GBP1,500 return in business cabins. Again, as Aer Lingus comes into oneworld alliance, have you given any consideration to the revenue opportunity that could come from Dublin seeing more normalized pricing, or is this again something that will go above and beyond that?

And very finally, CBP, a big deal. Would there be any opportunity to look at taking that into Heathrow or Madrid as well?

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

Thank you. In relation to Heathrow-Dublin and Heathrow-Ireland, it's important to point out that Heathrow-Dublin, is the second busiest international -- or London-Dublin is the second busiest international route in the world. There is very strong traffic demand between the two cities, very close economic links between the two cities, and we expect that to continue.

So if you look at the IAG slot portfolio at Heathrow, we have more than enough slots within our existing portfolio to deal with all of our planned long-haul growth at Heathrow. And that was facilitated primarily through the acquisition of BMI when we acquired 42 net additional Heathrow slots.

So looking at our long-term plans for BA, long-haul growth out of Heathrow, we have more than enough slots available to us. So the attraction of Aer Lingus, as I said earlier, is the operation of those slots between Ireland and Heathrow because of the point-to-point demand that exists, but also the significant transfer traffic flows.

And for those of you familiar with Dublin, both Etihad and Emirates operate from Dublin. I think Emirates is now double daily from Dublin to Dubai, and Etihad daily to Abu Dhabi. But even with the arrival of both Emirates and Etihad into Dublin, British Airways has seen an increase in traffic flows from Ireland over the Heathrow network. I think that demonstrates the underlying demand that exists from Ireland into the destinations served by British Airways. And with the Irish economy improving, we see that as opportunities.

In relation to pricing, you should expect pricing to continue to be competitive. Aer Lingus operates in a competitive environment in Dublin, and we expect that to continue.

So we don't see any change in the pricing profile that you would see at Dublin today. I think it will provide customers with a lot of additional choice. We see this as a consumer-friendly acquisition which will enhance competition on the transatlantic.

And Aer Lingus will benefit from the American Airlines sales presence in the US. It's got a very strong brand, particularly on the east coast of the United States. But with the planned expansion of that network, it will benefit from having the American Airlines presence there.

I would argue that Aer Lingus would probably struggle as an independent carrier to grow the transatlantic network beyond what it does today without having a strong partner in the US. So you should not expect to see any change to the pricing dynamic that you witness on the transatlantic today.

And in relation to customs, I think in the long term, you may see other European points get pre-clearance. I think it's highly unlikely that you will see it at Heathrow because of the infrastructure constraints.



The benefit of Terminal 2 at Dublin is Terminal 2 was built with US pre-clearance in mind. At Dublin, prior to the T2 development, the pre-clearance facility was, if you like, ad hoc. But Heathrow could not be restructured without a massive investment to provide for a pre-clearance facility.

There has been some discussion as to whether it could happen at Madrid given the structure of T4 at Madrid. It may be possible in the medium to long term, but pre-clearance does require significant infrastructure changes so that customers having gone through the pre-clearance can be segregated from other customers.

So as I said, I think it's highly unlikely that we'll ever see it in London. Possible some stage in the future that you might see it at Madrid or a couple of other European destinations. But Dublin Airport Terminal 2 was built with pre-clearance in mind and that's why it represents a -- I believe a sustainable competitive advantage for Aer Lingus, and going forward, for IAG.

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**Damian Brewer** - *RBC Capital Markets - Analyst*

Okay. Thank you and good luck.

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**Operator**

Gerald Khoo, Liberum.

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**Gerald Khoo** - *Liberum - Analyst*

A few questions from me, firstly on antitrust. Who do you expect to be the competition authority? Is this going to be the European Commission or someone else? And who else will have a say on this?

What are your thoughts on the timing of antitrust clearance?

What can you tell us about potential integration costs? I think integrating Aer Lingus into oneworld from an IT point of view might be an area of concern.

And finally, regarding Shannon, what commitments have you made, or what restrictions are there regarding long-haul services there?

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

Thank you. It will be the EU Commission, but obviously, the US will have a position in it as we move to bring Aer Lingus into the joint business on the transatlantic.

We're confident that we can deal with the competition authorities in an efficient manner. As I said, the city-pair overlap is not significant. So based on previous deals, we would expect this to be done in a reasonably -- I think efficient manner is probably the best thing I could say.

In relation to integration, I would point out that one of the reasons why Aer Lingus left oneworld was because of IT integration costs as new carriers joined. Oneworld recognized that this was an impediment from a oneworld point of view, and needed to look at IT integration in a more efficient manner. That has been done.

So the cost associated with IT integration for Aer Lingus is not as significant as it would have been in the past. There will be some costs associated with that, but it's not significant in the overall scale of things.



And in relation to Shannon, Shannon has very strong demand, particularly from the US, into the West of Ireland. There is very strong natural traffic flows, particularly during the peak summer. And this is enhanced by Tourism Ireland's focus on the Wild Atlantic Way. So we're seeing increased tourism demand from the United States into the West of Ireland, and Shannon provides that.

So there is a very strong natural market there that Aer Lingus will continue to serve, and we believe, in fact, that that can be enhanced, particularly with the benefit of Aer Lingus in the joint business with American Airlines which will help to promote Ireland, and the West of Ireland in particular as a tourism destination.

So we're pleased to be operating into Shannon Airport. As I said, it has a very strong natural traffic flow, particularly during the peak summer period in Ireland, and we will continue to serve that market.

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**Gerald Khoo** - *Liberum - Analyst*

Okay. Thanks.

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**Operator**

Johannes Braun, Commerzbank.

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**Johannes Braun** - *Commerzbank Corporates & Mkts - Analyst*

Just one from me, just on Ryanair. When do you think you will start talking to Ryanair about their 30% stake in Aer Lingus? And how difficult, or indeed easy will the talks be? Or are you just relying on Ryanair being forced to sell down their stake anyway, forced by the authorities?

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

No. I'm not relying on Ryanair being forced to sell. We're clearly conscious of the actions going on between Ryanair and the Competition Authority in relation to that.

What I can say is that Ryanair have been consistent in the communication in relation to this, both directly to us and to the public, where it says that it will consider the offer, if and when an offer is made, that that offer will be considered by the Ryanair Board.

So we expect Ryanair and the Ryanair Board to consider this offer on its merits, which is what they've said publicly, and we believe that they will do that. And we're hopeful that Ryanair will see this as an attractive offer for their stake in Aer Lingus. And we will wait to see what Ryanair and the Ryanair Board says in response to this, and I'm sure Ryanair shareholders will have the opportunity to ask the Ryanair management team of their position in relation to that.

But I think to be fair to Michael O'Leary and his team, they've been absolutely consistent throughout in stating that the Board of Ryanair would consider any offer, if and when the offer was made. And obviously, they, I'm sure, will wait to see the formal offer documentation and give that documentation very careful consideration.

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**Johannes Braun** - *Commerzbank Corporates & Mkts - Analyst*

Okay. Thank you.

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**Operator**

Andrew Lobbenberg, HSBC.

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**Andrew Lobbenberg** - HSBC Global Research - Analyst

I was wondering to what extent do you see opportunities for fleet optimization or fleet harmonization, looking at the order book of Lingus and the 350s and the other aircrafts available within the Group.

And then otherwise, I was keen to come back to the Competition Authority analysis. So I appreciate you're constrained. Are you optimistic that you can get a similar settlement to what you had when you put BA and Iberia together?

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

Thank you, Andrew. Yes. The fleet is something that is particularly attractive. As you can see from the charts, the fleet was consistent with the aircraft operated by the other airlines, and we see opportunity to extract synergies through that.

As you know, IAG has a significant number of options available to [technical difficulty].

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

And Aer Lingus will be in a position to benefit from those options, not just in terms of potential purchase options, but also through the relationships that we have with lessors, given the scale of our operation within IAG. So fleet will be an opportunity for IAG and for Aer Lingus.

And in relation to competition issues, as I said, I'm optimistic that this will be dealt with consistent with prior acquisitions of this scale and nature. And city-pair overlap, as I said, is not significant. But we will wait to see what the Competition Authority say. We have engaged with them and will be working with them closely to try and deal with this in as timely and efficient a manner as possible.

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**Operator**

Douglas McNeill, Macquarie.

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**Douglas McNeill** - Macquarie - Analyst

Can I ask? Would you consider waiving the 90% acceptance condition if Ryanair proved unwilling to accept the offer in respect of its shareholders?

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

You will see from the documentation that this is conditional on the Irish Government agreeing to sell their shares in Aer Lingus and Ryanair agreeing to see their shares in Aer Lingus. And that's our stated position. That has been the stated position since we started this process, and that continues to be our position today.

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**Douglas McNeill** - Macquarie - Analyst

Okay. Understood. Thanks.



**Operator**

Anand Date, Deutsche Bank.

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**Anand Date** - *Deutsche Bank Research - Analyst*

I just had two questions really. Just looking at IAG's existing plane order, do you think that's something you will look to increase, maybe firm up the options? Or if not, should we think that between the four OpCos the competition for new planes will be harder; i.e., getting a new plane will require a higher return on capital hurdle? So growth will be more profitable under four OpCos rather than three?

And also, do you think there's a -- I just don't know. Do you think there's any threat from fifth freedom rights out of Dublin or even Shannon?

Thanks.

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

I think what I would say is that in the presentation I made reference to the fact that we believe Aer Lingus can meet or exceed the targets that IAG has set in terms of return on invested capital in excess of 12% and operating margins in the range of 10% to 14%.

So Aer Lingus is attractive to us because it's an efficient airline with opportunity to improve that efficiency, particularly as part of IAG, where it can benefit from the scale of our operation and the cost synergies that you would expect to stand to get as they plug into us.

The fleet, our approach is that we'll only grow where that growth is efficient and generates long-term return consistent with the targets that we've set. And those rules, if you like, will apply to Aer Lingus equally in the way that they apply to Vueling, Iberia, Iberia Express, British Airways. We're not changing that and we see no reason to change that, and we see that as being a positive aspect of this particular acquisition.

In relation to fifth freedoms, the Irish Government has had a progressive approach to air transport services, but we don't see this as being a particular issue, particularly given the strength of the Aer Lingus brand in Ireland and the network that it has.

And it's important to recognize that there are slot constraints at Dublin Airport and, indeed, infrastructure constraints at Dublin Airport. Shannon has the opportunity, but I haven't seen any strong demand for fifth freedom activities out of there.

The market is well served from both ends of the routes. It's a competitive market. It's served by US carriers and by Aer Lingus. It has been open to other European carriers to serve on the transatlantic. We haven't seen that happen. So I would expect this market to be competitive going forwards and I don't see any significant change in the dynamics of the nature of that competition going forward.

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**Anand Date** - *Deutsche Bank Research - Analyst*

Okay. Thank you.

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**Operator**

Jarrold Castle, UBS.

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**Jarrold Castle** - UBS - Analyst

Just two more. Just first of all, just debt facility, the syndicate facility, can you tell us anything about the terms of that facility and whether or not it will be refinanced at some stage once the transaction completes if you get over that hurdle line?

And then just secondly, in terms of the IAG umbrella, it seems like when you look at the brands which have been added, it's either been fortifying Europe or to some extent the Atlantic side, North and South Atlantic in terms of strengthening those areas. And I'm just wondering, A, in terms of why was Aer Lingus slotted in as this is the first opportunity I guess since Vueling that you've got involved in, rather than maybe saying there's something to be done in Asia in terms of reinforcing your European/Asia routes where your footprint is relatively light compared to a Lufthansa or an Air France.

Thanks.

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

Thanks. There will be more information in relation to the debt financing in the offer document. So I think we'll have to wait until that offer document is published.

We see Asia as being an attractive market, but we believe that that's going to be best served by us through organic growth, principally by British Airways as it extends its network into Asia.

We're clear that the opportunities for consolidation are stronger within Europe. We make no apologies for the fact that this will strengthen our position on the North Atlantic. And you're quite right. Our strategic objectives have been to lead on the North Atlantic and lead on the South Atlantic, and we do that today and we will continue to do that.

And we do that because they are two very attractive markets that represent opportunities for healthy returns for IAG. And our position there is strong today and we continue to see opportunities to grow in those markets through additional gateways in North America, both from a British Airways point of view and an Aer Lingus point of view, and indeed potentially in Iberia point of view, and to grow our presence in Latin America.

So we will naturally focus on those two while looking to grow our footprint in Asia through organic growth, principally, as I said, through the British Airways network. But we also see opportunities for Iberia to grow into Asia on a smaller scale than BA given the restructuring and competitive cost base that Iberia has and the growing trade between Asia and Spain that will be an opportunity.

Asia itself, intra-Asia will be a very competitive market, and it's a market that is going through significant challenges at the moment. We don't believe it's an area that we should focus on in terms of M&A activity at this stage. We can't see opportunities to generate any value for our shareholders and we won't go near it until we see clear opportunities to do that.

So for us, Asia will be about organic growth. We'll leave the consolidation in Asia to others who might know that market better, or who are a bit braver than we are. But we're clear that the opportunities for earnings growth are much better in Europe today than they are outside of Europe, and that's why we've focused on Aer Lingus.

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**Jarrold Castle** - UBS - Analyst

Okay. Thanks very much.

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**Operator**

Thank you. As there are no further questions in the queue, I'll hand the call back over to your host for any additional or closing remarks.



Thank you.

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

Thank you very much for joining us. I apologize for the short notice but I'm sure that's something you all understand. And we look forward to talking to you.

As I said, you will get more information when the offer document is published and we will update you if there are reasons to update you as we go through this process.

Thank you and look forward to talking to you in due course.

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**Operator**

Thank you. That will conclude today's conference call. Thank you for your participation. You may now disconnect.

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