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IAG.L - Full Year 2016 International Consolidated Airlines Group SA Earnings Call

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PRESENTATION

Antonio Vazquez Romero *- International Consolidated Airlines Group SA - Chairman*

Good morning, ladies and gentlemen. Welcome to our 2016 full-year results presentation. I'm happy to be here with my colleagues from the Board of Directors; Patrick Cescau Senior Independent Director; Jim Lawrence, with all the management committee -- the management team, and they're welcoming you.

2016 has been everything but quiet, and we had a lot of political turmoil, economic turmoil, and innovation. We had a horrible terrorist attack in a main city airport in Europe. But beside all these circumstances, we have been able to manage and to generate a 26% increase in the earnings per share this year, which has placed us in another record year, if we compare to 2015 which already was a record year. So we're glad to share it with you today.

But it is not only the fact that the performance in 2016 has been good enough, but the fact that since 2011, we have been consistently improving our results and making much stronger our Company.

I want to share with you just a few numbers which has to do with the period 2011-2016 and put it in context to our growth compared with our competitor growth.

So if we refer to the passenger numbers, growth of Lufthansa Group has been 9%, easyJet at 34%, Ryanair 54%, Air France Group 23%, while IAG has doubled the number of passengers, so that means 100%.

As far as the operating profit is concerned, this six-year period has been even more spectacular. Lufthansa Group has 2 times, according with the consensus, 2 times improvement in the profit. easyJet is 1.9 times; Ryanair 2.5 times, according with consensus as well. Air France has been swinging from loss to profit. And IAG has multiplied by 5 the result that we had in 2011.

So that gives us the foundation to assess that we have been by far the fast growers -- the fastest-growing airline group since 2011 in Europe, both in passengers and in profit.

Of course, part of it has been due to acquisitions, very accretive acquisitions, by the way, and putting together the organic and inorganic growth.

This has put us in a position on top of the results to give a substantial cash return to our shareholders. The figures are very round and very simple this year. And we announced today a 500 million worth of shares buyback program. If we put it together with the regular dividend program, we're talking about EUR1 billion, which is -- almost EUR1 billion, which is a lovely number to be sharing with you, cash return to our shareholders. And the most important thing and the best is yet to come.

So I'm handing over to Enrique, who is our CFO, to make his presentation.

Thank you.

Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

So good morning, all of you. Here again to present our full-year results and again what we are calling and what we are assuming ourselves as a good result for this year. As Antonio said, it has been a very challenging year.

Of course, everybody knows about Brexit; pre-Brexit/post-Brexit impacting currency, especially in the sterling value; and, of course, we have a big proportion of our business that is denominated in sterling so that has been one of the challenges for us in the year. But there has been more.

So we have gone through all these terrorist attacks and the consequences in aviation and the consequences in our main markets. There has been significant disruption in ATC, air control in Europe; above normal levels, especially June and in the summer. And that has had also a significant impact in the quality of our operations through these months and the numbers. So -- and also, some of our infrastructures, Barcelona, has been under significant bottlenecks through the summer season. So it has not been easy.

And then when we get to the numbers, we see we've been making EUR2,535 million, which is EUR200 million above last year, and we are proud of it. But if we take into account that the currency impacts that I have been talking about comes at EUR460 million while the underlying improvement in our performance has been much, much better than the one we are showing.

In terms of capacity, we started the year thinking on somewhere in the range of 4.5%. We've been modulating our growth and adjusting it to the performance of the demand in our main strategic markets, and also to circumstances affecting Vueling and other companies. So finally, we've been ending below 4%. And this pattern of reduction, gradual reduction, gradual adjustment, is something we're going to be keeping into 2017.

Passenger unit revenue is another of the iconic figures that of course we follow, you follow; minus 5.4% average for the year, affected positively by the performance in the last quarter. So last quarter, we'll jump very soon; it has been better than the average. And it shows some interesting, encouraging trends in 2017.

Something that we are going to be talking through the presentation is total unit revenues have had a better performance than the passenger unit revenues. It has to do, of course, with the increase in other non-recurrent, non-ASK revenues of the Group. Basically, we are going to mention through this presentation a couple of them, significant.

British Airways Holidays, as you know, have been improving the revenues on a significant way. Maintenance for third parties' activities in Iberia; that's the second one that has been increasing in a very significant way. Cargo has been dropping slightly.

So when it comes to the costs, of course, ex-fuel unit costs going [0.5%] (corrected by company after the call) up. And that -- we haven't changed that one but we need to explain it. This is above the figures that we've been sharing with you, but this is not the underlying trend. The underlying performance in terms of non-fuel unit cost that has to do with our operations is negative, and that's something that we will talk again afterwards.

So let's jump into Q4. Probably it's more relevant for you.

So operating profit EUR620 million, and that represents an improvement against last year's figure of EUR90 million. And if we add to this EUR90 million the negative net ForEx impact, which is EUR88 million, we get to EUR178 million. So apples to apples plus EUR178 million, one quarter against 2015 quarter.

And this is a good improvement. This is the level of improvement that we were expecting for the year pre-Brexit. So it shows something is recovering into the late part of the year, some other signs, because you'll probably ask. Vueling results fourth quarter were better 2016 than 2015.

Okay. So ASKs at the level of 4%. Passenger unit revenues fourth quarter minus 4.3%. I was telling you some maybe three/four months ago that we had this feeling, this expectation, about unit revenue trends were bottoming in terms of on the negative and were starting to improve. The trend, not the figure; the figure is still negative. And that's happening. That's something that we are going to be talking about more.

Again, the same pattern, so we have a -- if we switch to total unit revenues, minus 3.1%, and this again means the other revenue piece is growing in excess of the regular pattern. And then again, it's British Airways Holidays; again it's Iberia, third-party maintenance, revenues.

So on the cost side, we came back to a negative in ex-fuel. That's where we want to be. That's where we need to be. In reality, the underlying trend in ex-fuel unit cost for this period is negative in excess to 3%. Okay? But it's masked from this phenomenon that I was talking to you about.

So let's get to our steering wheel. So again, we are adding here the EUR90 million and the EUR88 million, the EUR178 million, and we get this pattern of passenger revenues where it has been quite equilibrated. So 4% increase in ASKs, minus 4% unit revenue trends.

We have this non-passenger revenue increase, which is what I've been talking to you about. It's mostly again British Airways Holidays increase in revenues, and the same for Iberia MRO.

There has been this improvement in fuel costs, so we have been getting to the figures that you know about because we have been showing them quarter by quarter. This has practically no deviation to the figures that you've been shown in our charts.

And then in terms of ex-fuel costs, we have had a significant improvement in employee costs, and that has -- we'll get to it later on -- has to do basically with our restructuring improvement; it has to do mainly -- still there's much more to come -- with Plan 4 in British Airways; it has to do with Plan de Futuro; it has to do with a very efficient growth model in Aer Lingus growing more than 10% with the same number of employees. So very efficient growth model in Aer Lingus. It has to do, as we were saying, with Vueling coming back to normality in Q4; very encouraging.

And then on the supplier side, we are going to be getting into much more intensity in the following page.

I would like to mention the ownership cost, because as you know, we are engaged in this renewal of the fleet, which is a very significant part of our strategy, and so we are getting more expensive new aircraft into our operations. And the combination of depreciation and lease costs in unit terms is getting to a flattish performance, so that's something that we are proud about. It's working really efficiently.

This is basically having to do with my last explanations, again, showing our employee costs, how they have been performing very strongly in the case of Vueling, in the case of British Airways. There is a piece there having to do with variable awards which we have been reducing, because even if we have had record profits, we haven't reached our target. We had the more ambitious target. So we're reducing the variables tranches of our awards. So that's basically making our costs flexible on a challenging situation, which is very important. Iberia continuing on the steady Plan de Futuro improvement case; very important.

So in terms of the rest of the suppliers, we have handling and catering with small unit cost mix increases and it's there where we're allocating British Airways Holiday costs behind. Okay? So they are in this chapter and they are responsible of most of the red you are seeing in the price mix element.

We are seeing landing fees with a basic equilibrium between stage length improvements and a little bit of inflation in the base.

And then we see engineering, we see this huge red there, and that's where I want to drive you to. The huge red has to do with the supplies we need to perform maintenance revisions for third-party contracts. Okay? So for third-party MRO activity. Very, very, I would say, significant proportion of this increase has to do with that specific subject.

There is also something having to do with the transition between one type of contract to a different one. So you know about time and materials. That's type of contracts that British Airways was using, for example, for their 747 fleet; and we are getting into the pay-per-block hour model. So one is cash-based; the other one is accrual-based. And there are jumps between one and the other one. This will be getting smoother through the next years while we go through this transition.

Significant improvement in selling costs, and this is because of new contracts being agreed and renegotiations with travel agencies, and also adjustments of our marketing expense. So good news again.

IT and other. We've been talking about this one. It's a negative, but it's a negative which is based on a single issue, basically, which is we had some sub-lease revenues on our JFK facilities. Basically, United was paying us. United has gone. We are in the process of substituting United by other companies. So that's another one of a bumpy that probably will get resolved through next year once we complete the space that we are using in our terminal.

Depreciation and leases. This has to be regarded on a combined basis. So on one side, depreciation charges are improving. Why? Because we are grounding older aircraft which were owned aircraft, and so we are basically finalizing these depreciation charges on own fleet being substituted.

The other one is, for example, the A340-300 fleet in Iberia. That's something that we decided to accelerate, and in the same way we accelerated the depreciation charges on that specific fleet. That's over now. That's finishing.

On the lease side, there is a compensation of the new aircraft being delivered on a high proportion on sale and leaseback transactions. So these leases are basically behind these new aircraft on sale and leaseback; and also some withholding tax credits or releases that we received last year, and that made the base of 2015 even more difficult when we compare with the reality in 2016.

But as a whole, depreciation plus leases has been growing below 1%, taking into account the number of new aircraft that we are bringing into our fleet. So that's a significant achievement.

So big message here, the minus 0.8% is not where we want to be. We want to be probably lower than that. It's basically having to do with some one-offs that are -- and some non-related to our normal operations activities.

This is fuel, and this is the same chart as we have been showing the last years. So the good news is we still are showing for most of next year at today's level of fuel prices and dollar reductions, reductions in unit cost in euros against 2016. That's something that we are seeing for next year.

They will come in the range of minus 7%, and don't take that one as carved in the stone because it has to do with the dollar and it has to do with the price of fuel, and you know those are regular nightmares. But at today's prices, we see this minus 7%/minus 8%, so that's good news. That's going to be a little bit of a tailwind for 2017.

We are showing here as a little bit of a reference that our bill could be coming down to EUR4.7 billion out of somewhere in the range of EUR4.9 billion in this year; so in terms of euros maybe EUR200 million.

So this is basically the growth patterns through 2017. First one is how we have finished this year. So 4% in terms of quarter; 3.9% in terms of full-year average. And this is how we intend to grow in quarters through 2017, getting to a 2.5%. So 4%, 3.9% to 2.5%. And out of the 2.5%, there's lots of different stories.

So there's a growth story, a very important growth story behind Aer Lingus, and that has to do with Aer Lingus being today probably our most profitable tool, unit, in terms of ROIC. So we need and we want to exploit it. We need to get them to their efficiency limits. And they have a lot of opportunities and we want to exploit them. So Aer Lingus is going to be growing intensively.

Vueling, that's a different story. So we have a very boring 1.7% for Vueling, but it has to do with fitting and fixing. So most of the fitting and fixing is already underway, and in some cases being finalized, but what we don't what is to get into the summer period with the same type of exposures as the ones that we assumed last year.

And that's why, look, in Q3, we are getting to a negative in the Vueling case. We are de-peaking the profile of growth of Vueling through 2017. Now that's a safer approach; and also, because at the end of the day, probably we'll be able to utilize our resources in Vueling on a more efficient way. That's a task for the Vueling management; to use the resources on a more efficient way through the year.

And then it's Iberia and British Airways. So Iberia coming down to 2.5%, and that's probably a way to align their growth to what's going to happen in Latin American markets and Europe.

So -- and that's not a bad news. It's more of a slightly good news. We think that we are bottoming in some of our strategic markets; Brazil maybe one of the examples. We are not thinking Brazil is going to be booming in 2017, not at all. But we feel the growth reduction that we've been achieving in the last years is going to be ending.

There are other signals in the South Cone coming in the right direction in terms of improvement. Not all over the place, but in some places.

So -- and then it's British Airways, and British Airways is 1.5%. And again, basically adjusting the growth profile to what we are seeing in the different markets.

So that's how basically we are getting to a 2.5%, which we feel is not only a type of a rational approach, but it will also allow us to grab the opportunities of changing the trends in unit revs, and that's a must for us; and that's a must for this year. 2017, IAG will have to change the trend in unit revenue performance. And that's something that we are already starting to see.

So growth is going to be very much related, as you see here, with opening of new routes. So some exciting opportunities for Aer Lingus: Los Angeles and some new places in the US East Coast; and then some additional appearing from the long haul -- sorry, the short haul.

British Airways; again, a little bit of new fleet, and this is basically driven by Tehran as a new type of destination; some additional direct flights to Muscat or to Doha; and full effect of the new operations into San Jose that we started last year.

For Iberia, basically, it's going to be about reduction in Sao Paulo and Rio de Janeiro, and the full impact of new, recently -- 2016 -- opened routes to the East and to Jo'burg again.

So that's basically what we will be bringing as novelties and growth opportunities for this year.

And this is a chart that we regularly use to show our capacity -- this is Q4 -- and our RASK type of developments in the last quarter. So if we compare these RASK developments against the same regions last quarter, what we are seeing is, with one single exception, in every market we are improving, we have been improving RASK, by somewhere between 1% and 1.5%.

So that's valid for North America. It's more than valid for domestic. Europe has been improving its performance significantly; it was at minus 6% or so. Asia Pacific was at minus 9%. And the exception is AMESA. And that's basically because of the new route to Tehran and these new routes we are opening, direct routes to -- more frequencies to Muscat and to Doha. So that's a singular case that we will be smoothing into the future.

Latin America has improved also by 1.4% or so in terms of RASK, and that's another one that we are following very closely because it's encouraging.

So basically, we're adjusting capacity on a market-by-market case. We are achieving significant improvements in unit revenue performance. And that's something that we are also noting into the first weeks, maybe months already, of year 2017. So January figures are showing improvements on those figures, gradual improvements. Again, that's an encouraging signal.

We have to take into account -- so this is not about ringing the bells. We have to take into account that this first quarter 2017 has a different Easter holiday timing than last year's, and that for three out of our four companies is going to represent a challenge. Now it's a little bit of a headwind because of the leisure-oriented network. So there's going to be less leisure travelers in March 2017 against March 2016. So we'll have to regard March plus April on a compounded basis because we see March slightly weaker, April stronger. So that's an exercise that we are following very closely.

Products, not very much to say; basically, weakness still on unit revenues on the passenger side. A little bit more on premium. It's marginal. It appears as a full bar. In terms of figures is marginal. It has to do with the extra capacity that we have deployed on the business cabins on some of our fleets, especially flying to JFK.

In the short haul, better performance for Iberia and Aer Lingus, and still a little bit of a weaker performance for British Airways and Vueling. And then again here the significance of the non-passenger revenues, which as I have been saying repeatedly, it's a little bit softer in cargo and it's very explosive in Iberia MRO business and British Airways Holidays.

So this one is really very interesting. Some of the figures are difficult to understand because they are not constant currency adjusted. Okay? So this is how they show. So when it comes to British Airways, we see CASK increase of 5.58. Now that's sterling. So sterling plus the dollar impact on a devaluated sterling creates this type of thing. You wouldn't recognize neither I would say the RASK in the case of British Airways because it's lower than that.

So if we get to comparable figures which maybe have to do more with margins, so margin in Aer Lingus 14.3%, up 5.8 percentage points. I've been talking about that. So that's a very powerful tool.

British Airways, 2 percentage points of operating margin improvement, and that's also very encouraging, and that's something that we are going to be gradually seeing improving through time.

Iberia, 1.2 percentage points on a very difficult Latin American environment. So we're also very encouraged of being able to improve those margins and those figures in the coming years.

And Vueling is an exception; Vueling affected by these, I would say, interim problems through their operations in summer.

So different level of very interesting messages; employee cost per ASK. So this is how we are basically tracking this restructuring of our businesses that we're engaged in. Very significant in the case of Aer Lingus.

So the growth of Aer Lingus, I have been saying that it's absolutely efficient from the point of view of productivity. But the same in the case of British Airways or Iberia. And Vueling, which has an average negative -- sorry, positive increase figure for the year, is already in negative territory in Q4, so good news.

This is the return tracker. So as you know, we define ROIC metrics and we follow them on a four-quarter rolling exercise. And this is our last finding for the last four quarters, 13.6%, which shows an improvement of 0.9 percentage points against last year.

So again, remember, we are still -- I wouldn't say far, but there's still a gap to go to the 15%, but it's getting closer. 15%, everybody said, ah, you'll never make it. Well, we'll see. We're getting closer.

And company by company, we have Aer Lingus on a very extraordinary 23%, which has to do with all the things that we've been mentioning. And also especially with a very, very lean asset base, with -- has been purchased on very efficient conditions and has been basically amortized on a very rational way. So a very cheap, efficient asset base.

And then we have British Airways, 13.5%. That's basically very near our cruise speed trend.

Iberia 9%, which is getting there. Vueling down, it's the exception; 7.3% because of what we have been mentioning.

Below the line; so what can we tell you about what's happening below the line? So some good things. So we have operating profit improving EUR200 million, and then we have net financial income/expense which has been improving. It has been improving and we have been increasing our assets. So where's the magic? There's a little bit of sterling depreciation there and also interest rates coming down.

Other, this is a very significant shift, and this is on the accounts that have higher unmanageable volatility, I would say. And they are basically having to do with the revaluation of what we call the non-effective, accounting effective -- because they are very effective, by the way -- but from the accounting point of view, they're not effective hedges. So depending on the variables of the market by the year end, we will getting positive or negative figures. Last year was a negative; this year is a positive.

There has been also some swinging differences in the capital gains of our -- in divestment activities. So last year we had some losses in divesting; some 737 aircraft of Boeing, of British Airways. This year, we have had some profits having to do with the same concept. So divesting for example, sale and lease backs of 319 fleet, and also 787 fleet.

The tax element has been very much in line with last year in percentage terms; slightly improving. We had somewhere around 15% effective type of rate last year, and this year has been around 18%.

So we get then to an improvement in profit after tax which is close to EUR400 million. It's in excess of EUR400 million, close to EUR500 million. We are getting very close to EUR2 billion. That means fully diluted earnings per share of EUR0.902, and as you have been reading, full-year dividend per share on a diluted basis climbing from EUR0.20 to EUR0.235. So I think very, very encouraging figures in terms of how our profit after tax and our earnings per share have been evolving against last year.

And on a frame of increasing/improving our financial strength, so again here quite good news. So gross debt has been basically stagnant, although reduced margin through the year. We have been increasing our cash and cash equivalent deposits up to EUR6.4 billion so our balance sheet net debt is falling to EUR2 billion.

If we add aircraft lease capitalizations, multiplied by 8, we get to an adjusted net debt of EUR8.1 billion, which is EUR400 million below last year. And adjusted net debt to EBITDAR figure ratio of 1.8, which is below the beginning of the year, which was 1.9.

So again, these are arguments that support not only our regular dividend policy, but also very specially our decision of our buyback.

This is the last argument. So it's not only a static financial structure and strength, it's also a dynamic one. So the dynamic generation of cash through the year has been improving at EBITDA terms to EUR100 million, which is the same as operating profit. But then at equity free cash flow terms, it has been improving by EUR500 million. And that has to do with this EUR200 million of additional margins, but again, on top of that one, with a EUR400 million saving on our net balance sheet CapEx investments.

So we are basically being able to generate EUR2 billion, and last year was EUR1.5 billion. And this, I have to say, it matches very finely with our messages four months ago at the Capital Markets Day; this double type of effort in improving our basic margins and deploying efficiently our CapEx and extracting as much as we can out of our asset base. These double type of column strategy is the one that will enable us not only to reconfirm and improve our regular dividend payment model, but also to dedicate EUR500 million of additional cash, extra cash, for the purpose of share buyback program.

And this we have already been reading. At this stage it's early in the year, but we've been reviewing our financial plan; we've been framing it in the financial and commodity price variables, and we can still say at current fuel prices and exchange rates IAG expects to improve its operating profit on year 2016 figures.

Thank you.

QUESTIONS AND ANSWERS

Andrew Barker - *International Consolidated Airlines Group SA - Head of Group Finance Development and Investor Relations*

Thank you very much, Enrique. We'll now go to Q&A.

Jarrod Castle - *UBS - Analyst*

Jarrod Castle, UBS. Three, if I may. Firstly, any comments on British Airways regarding the employee relationship and strikes?

Secondly, just on MRO, can you give any indication of the kind of third-party revenue growth we're seeing and the contribution and/or to revenues and profits there? Thanks.

And then just be interested to get your thoughts on how, I guess, the pay as you go is going on British Airways short-haul flights; what the customer response has been so far to that.

Thanks.

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

I'll take the -- strikes are having no impact. They're, I believe, on strike today. We're not canceling anything. Performance is good. So we're very clear. We have a fair offer available to the employees. That's not going to change. And the strike is being supported by a small percentage of the people who were balloted. So the pay offer is available to these people. It's not going to change.

MRO, we're only going to participate in MRO where it's profitable and where it meets the margin targets for the business. It's principally an activity within Iberia that is being managed by Luis. He's very clear that we will focus on areas where we can make a sustainable return. We will disengage in terms of our activity unless we're certain that it can be sustainable in the long term.

But there's been a significant turnaround. I think credit to Iberia, credit to the management and the employees there that they've recognized that for that business to be part of IAG going forward it needs to be profitable and meet the targets for investment that we would have, because clearly, there is investment required in the medium to long term, and it is doing so. So it contributes to revenue and it contributes to profitability.

And pay as you go, it's improving. It's ahead of budget. So the customer reaction to it has been more positive than anticipated. It is very much work in progress, I think it's fair to say. And Alex can comment if he wants to make a specific comment, but they managed their projected uptake based on the experience of Vueling, Aer Lingus and Iberia. The BA activity hasn't quite matched that.

So they're gathering the data now and adjusting in accordance with the data that they're getting, but it's running significantly ahead of where they expected it to be in terms of take-up by our customers and the revenue contribution that it's been making. So a long way to go yet in relation to that.

As you know, Iberia changed several years ago; 2008 from memory. Aer Lingus changed even before that. And Vueling, that was the model when they started. So BA is adjusting to this model later than the other airlines in the Group and it will be a permanent feature of the short-haul business.

Damian Brewer - *RBC Capital Markets - Analyst*

Damian Brewer, Royal Bank of Canada. Three questions again, please.

At the Capital Markets Day, you mentioned that there were elements of the wide-body fleet order that were under review. Is there any further update on that, and if so, can you share it with us?

Secondly, comments about launching a long-haul, low-cost carrier, could you elaborate a little bit more on what the plans are and whether they're just Barcelona-based or whether you'd look at other locations? Manchester seems to stand out as a big long-haul leisure destination, and how that shapes your thinking on that.

And then very finally third question. Could you give us an update or details on both where the British Airways and Iberia passenger Net Promoter Scores are in December 2016 versus December 2015?

Thank you.

Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

On the fleet negotiations that we were intending to hold with both Airbus and Boeing, I think it has been full success. So it was not about cancellations; it's not a cancellation thing. It's about moving the pattern of deliveries for both the A350s and the 787-10s, and there we have achieved our goals.

We are now confident in the numbers, the figures, and the timing that we're considering by the month of -- early November are the ones that we will be achieving. So good news.

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

On the long-haul, low-cost, we will launch in Barcelona. We'll make an announcement in the next few weeks. The intention is to be flying June or July, probably June. We're aiming for June. So we will go on sale shortly.

The initial focus will be on Barcelona, but we believe we have a model that can be replicated. We're not looking at any additional cities at this point, but clearly, we have a clear view that this is a profitable part of IAG going forward. It will meet all of the financial targets that we've set. So it's not going to be looked at as a different stream of revenue or profitability. We believe it can achieve all of the targets, financial targets that we have set for the Group, and we wouldn't do it if we didn't think it could do that.

So we'll start, as I say, in Barcelona, and we will look to extend the model beyond there in due course, but the focus initially is on Barcelona.

And in relation to BA and Iberia Net Promoter Scores, I'll let the guys comment. Important point to make here is in 2016, we measured NPS in a different basis across the four principal airlines within the Group. We measured them in five, actually, because we have Iberia Express as well. In 2017, we're measuring it on a consistent basis. So we've moved to a single supplier and we will be measuring it in the same way.

So the concept of NPS is applied in all parts of the business, but to enable us to better compare scores in one with the other, we intend from -- or we have started in 2017 to measure it on a consistent basis, and it will form part of the management bonus scheme. So NPS is included in the management bonus schemes for all of the senior IAG people and for the senior people in the operating companies.

Alex, do you want to comment first; and then Luis?

Alex Cruz - *International Consolidated Airlines Group - Executive Chairman of British Airways*

So very quickly, fourth-quarter-to-fourth-quarter comparison of NPS is not bad in terms of actual performance. 2015 to 2016 there's been a small decline. That's the bad news. The good news is it's very centered around three subjects, of which we spoke to you at Capital Markets Day what they were.

So Club product investment, and then catering in the economy class, it's some world travel class, I would say, is some of the areas we're working on at the moment. So a very well-defined set of areas that are driving a small decline in NPS throughout the whole year, but quarter to quarter, actually, our performance in comparison is okay.

Luis Gallego Martin - *International Consolidated Airlines Group SA - Chairman & CEO of Iberia*

In the case of Iberia, we have improved 6 percentage points. We compare with 2015. And there are a lot of reasons, but one of the key points has been also the punctuality that the Company has achieved. And that's something that our customers value especially very much.

Damian Brewer - *RBC Capital Markets - Analyst*

Thanks.

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

Just a comment. NPS has improved in Vueling and in Aer Lingus as well.

James Hollins - *Exane BNP Paribas - Analyst*

James Hollins, Exane. Three questions.

The first is on your unit cost ex-fuel figure 2017. I was wondering if you could give a feel for the guidance in terms of what you expect, or maybe just in detail on the key moving parts what will drive it.

Secondly is on Vueling. As we sit here today, what would be your best estimate of the capacity CAGR given the fleet planning, etc., for 2018 to 2020; and also the key parts of the -- I think it's called Vueling NEXT cost program -- what the key focus is?

And finally, on CityFlyer, just as a strategic question, I see you dropped City-Madrid. You're switching into some of the UK regions, Bristol, Birmingham, but you've stopped short of Liverpool. I was just wondering what the strategy behind that was and what the trends are within CityFlyer success.

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

Yes. We'll go into Liverpool when we win the league. Do you want to comment on unit costs?

Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

Yes. On the non-fuel unit costs for 2017, as we've been telling you, the medium and long-term goals are still to reduce non-fuel unit costs on a gradual and permanent type of trend in the minus 1% level.

But still in 2017 we are going to have some noise that we'll have to explain you, and it has to do with costs being dragged up by revenue. So the net will be the right one, positive, but the appearance of some of these non-fuel costs increases are going to be as we see as this fourth quarter.

We will explain. We are comfortable that what we are doing is creating the adequate improvement in margins.

Javier Sanchez-Prieto - *International Consolidated Airlines Group SA - Chairman and CEO of Vueling*

On capacity growth, what we said at Capital Markets Day is that we're facing now a new phase with two different phases, I would say. Is the first; we will be very focused on reshaping the Company, and strengthen the bases. This phase will take the next 12 to 18 months, and the average is for next year, as Enrique has said, is 1.7%. Once we are ready we will resume growth, and what we said is, and it's our objective, is that average growth will be 7% for all those years.

And the second question regarding where are we focusing Vueling NEXT in terms of cost has to do also with this. We're very focused on efficiency, and efficiency by reducing seasonality and increasing utilization of the asset. That is -- as you can imagine is twofold. It is good for the capital efficiency but it's also good for operations and good for the costs.

And in terms of costs, we're looking at all the different costs in the Company. In particular in supplier, we have now more leverage on the Group, on the GBS and the Group procurement development. So we are really focused and we have very challenging targets in all those areas.

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

It's important to point out that the Vueling improvement has already started so they had a couple of points of margin improvement in the fourth quarter of 2016 versus 2015. And we're very confident. In fact, Javier and the team have done a very detailed, clinical analysis of the Vueling network identifying the strengths and weaknesses of their network. And I think the growth that we're targeting in 2017 is absolutely right and then it will facilitate further expansion of the airline. So it's actually, I'll be honest, I think in a much better shape today than we could have hoped for. Great credit to the team there.

CityFlyer; as you know, some of this expansion, it's all about maximizing the benefit of the airline and the assets that we have there. Particularly when the London City Airport is closed, traditionally we wouldn't have utilized those aircraft, but we've found -- we have a model that can be very efficient in utilizing the aircraft outside of London City at the weekend. And it also has given us an opportunity to test some of the other airports with a view to potential growth in those markets going forward with a different part of the Group if necessary.

So the performance of CityFlyer is very encouraging. It is exceeding its cost of capital. It's doing very well. But we're very clear to -- we'll focus on London City where the costs at London City are (inaudible). If London City Airport charges were to increase, we now know we have an alternative with that airline. And that's been important for us to test that, and it's important for the airport to realize that when we say we will reduce capacity at London City if they try and put their charges up, that's exactly what we will do.

Andrew Light - *Citi - Analyst*

Andrew Light, Citi. Two questions, first of all, on the North Atlantic. Some US airlines have been complaining about poor trading conditions, potential overcapacity. I just want to see how you see it, particularly as it's, I guess, more expensive for UK travelers to go there.

And then, secondly, I suppose on that, Willie, in July, you were quite bullish about premium leisure on long haul. Is that still the case, particularly given the currency weakness?

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

Yes. We're still -- premium leisure is still not just an important segment but a growing segment for us. And you'll see as we configure aircraft going forward, it's going to be a greater area of focus for the business, particularly at British Airways, but also at Iberia. Aer Lingus obviously does it all the time.

So you'll see the focus that we've had previously on the premium economy, which is a very profitable part of our business, but we're seeing good growth in premium leisure, and no change in that.

On the transatlantic generally, we've seen what you would expect to see in terms of trends; so the strengthening dollar; US point of sale has increased. Point of sale is increasing on both sides of the Atlantic, but it's increasing at a significantly greater rate out of the United States.

So we remain very optimistic and positive about the transatlantic business. We're not seeing anything that would --

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Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

No. On the contrary. We are seeing it early and we have to be humble about that. There are some early signs of corporate traveling improvement. So we will reconfirm you May.

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

But there's nothing there -- we're not seeing anything there that would cause us to be cautious or anything but optimistic on the trends that we've witnessed so far. It is early in the year and the dollar appreciation does take a bit of time to flow through into customer behavior, but we are seeing evidence of it now.

Andrew Lobbenberg - *HSBC Global Research - Analyst*

Andrew Lobbenberg, HSBC.

Can I ask on MRO? Clearly, you've got some strong revenues coming out of Iberia and some accompanying costs, but what's the status of the program reviewing the Group-wide MRO platform and that sort of thing?

Can I ask on fleet? Historically, we've had discussions about buying used wide bodies, and there's also been some stuff in the press about you looking at the C Series. So can you tell us what's going on there?

And then in terms -- I guess it's the obvious one for Stephen, for Lingus, how we're reacting to the Norwegian invasion.

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

MRO, that project is ongoing, and it's a multiyear program. As you know, it's a very detailed consideration of all maintenance, repair and overhaul activities within the Group. We have identified areas where we know we're not competitive internally. We've already taken the decision to shut down some activities and to outsource those activities.

An obvious one is painting, aircraft painting. We had paint facilities in Madrid and in London. We didn't have a competitive internal price, so we've exited that activity.

But this is -- every aspect of maintenance, repair and overhaul is being considered and we will continue to review that. We know that there are things that we can do to improve our internal performance, and where that's possible, we will encourage our people to engage in that. That's exactly what Iberia has done. That's the reason why we say we are enthusiastic about the maintenance activity in Iberia because we've improved our cost performance and we are meeting the financial targets.

So if you like, the -- it's being done in stages where we know we're not competitive with the market. We'll see if we can make ourselves competitive with the market. If we can do that, well, then we'll retain activity internally. If we can't do that, then we'll outsource that activity.

On fleet, we look at opportunities to acquire. We lease, and have done so, second-hand aircraft on short haul. We're not against second-hand aircraft on long haul. In fact, we have actively looked at a number of opportunities.

Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

And we will continue.

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

Yes. So there are some good opportunities for us there. The rate of expansion of our long-haul fleet doesn't support us doing anything right now. We did look at some leased A330s versus new. The factor that convinced us to go with new, was the higher weight, the 242 tonne, which gave us the range and flexibility to use a new aircraft versus what was available on the lease market. So that was the only reason.

Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

We had good prices.

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

We had good -- yes. We always have good prices (laughter). But that was the deciding factor, if you like. We needed that range, flexibility, and we couldn't get it on the lease market.

C Series, you'll know when journalists phone us we tend to go we don't comment on rumors, and then our excellent people in the press office say things like, but if I were you, I wouldn't write that story because it's a load of -- there's no truth to it.

So, yes. C Series is a good aircraft. We have looked at it. I'm not ruling out that we would never operate a C Series aircraft, but rumors that we're about to sign orders are wild and inaccurate, and absolutely no basis, none whatsoever. If they want to phone us up, I'm sure we'll take their call, but we're not looking for C Series.

And I haven't -- I didn't know they were invading you, Stephen, but --

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Stephen Kavanagh - *International Consolidated Airlines Group SA - CEO of Aer Lingus*

Back in 1016, I think, Battle of Clontarf was the last time they were repelled (laughter).

Yes. We note that the era of EUR69 travel across the Atlantic lasted all of five hours. EUR69 is now today EUR119 for a fully unbundled product. So the Aer Lingus value proposition compares very well and I think the consumer is very well educated, particularly the Irish consumer given we've been competing successfully with the lowest-cost producer for the last 30 years.

There are some learnings from Norwegian. We are interested in the on the margin -- the unbundling opportunities to drive incremental load. And, obviously, the technology is something that we have long been interested in, particularly for us the 321LR. We would plan to deploy that technology in a different way. Obviously, we have the objective of sustaining the levels of operating profit and ROIC.

So we do see both the positives of potential for further unbundling from an Aer Lingus product perspective, and also the opportunities that the narrow body across the Atlantic offers us from Dublin.

Oliver Sleath - *Barclays - Analyst*

Oliver Sleath, Barclays. Three questions, please, firstly, on the Heathway runway. Interested to know. Has Heathrow been engaging seriously with the airline since we last heard from you on the runway? I guess, not just on the cost but also the timing, do we expect a runway and a terminal in 2025, or do we get a runway and the other infrastructure comes later?

Second question on Iberia. I believe the Iberia union agreements are up for renegotiation this year. I just wondered if maybe Luis could give us an update on any progress there. And in particular, with the long-haul growth at Barcelona, can you -- do you pack that up at all with the growth opportunities as part of that discussion?

And finally, I just noticed that a lot of your competitors, especially some US airlines and Lufthansa have been putting through some pretty large wage increases for pilots recently. I just wondered if that gives you any additional opportunities to leverage the low IAG cost base and the Sterling advantages.

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

We have constructively engaged with Heathrow directly. We have participated in their general consultation process, but we have direct engagement with them as well. So I've had two meetings with John Holland-Kaye and his team, with my team in recent weeks, and we have scheduled meetings in the weeks ahead. We're looking at all aspects of the Heathrow proposals: the runway, the terminals phasing, costs, technology.

So every aspect of the proposal is being debated and considered. We're very clear and I've been very vocal about while there is a case to support the expansion of Heathrow, we would only do so if the costs of that expansion are managed and result in no increase in passenger charges. We don't believe there's any case whatsoever to justify increase in passenger charges.

So if it can be achieved with that primary -- you could say it's not the sole objective but primary objective, then we will support it. If it can't be done in that way, well, then I think they have a problem, because both the government and the CAA have made that a key part of their support for the expansion.

We believe it can be done. It needs to be thought in a completely different way to the traditional thinking by the airport. And we've been very clear in terms of what we believe they should be looking at. And we will work with them to try and explain to them and demonstrate to them how it can be done and how it should be done.

So I would describe the consultation so far as being constructive and positive, but there is clearly a long way to go.

Luis, do you want to comment on --?

Luis Gallego Martin - *International Consolidated Airlines Group SA - Chairman & CEO of Iberia*

Yes. As you know, at the end of the year, the collective bargaining agreements expire. And then we need to start negotiation at some point. But during 2016, what we have done is to reach an agreement in the maintenance area. With this agreement --after a long negotiation, we are going to improve the productivity in the maintenance area around 300 hours per employee.

Also, we have closed an agreement in order to provide good conditions in the case that the Group decides that Iberia can produce the operation for the long-haul, low-cost. So we have closed an agreement with the unions with the best conditions that Iberia can provide. But it is the Group who has to decide.

And now, we are going to start the negotiation for the redundancy program. That, as you know, is going to affect around 1,000 employees. And after that, the idea is to start negotiations with the unions for the collective agreements.

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

In relation to pilots, all of our airlines are recruiting pilots. We've seen no difficulty in terms of getting good quality recruits into all of the airlines. So there's still, I think, a healthy supply of pilots in the market, and clearly, most would see ourselves as an attractive employer. So we don't see it as being an issue for us. We continue to monitor that, but we have had no problem in any of the recruitment programs that we've run in Ireland, UK and Spain, and we have recruited significant numbers in recent years.

So our assessment of the market is that there's still plenty of supply in the market and we don't see any shortage. And certainly, the quality of the supply that we've witnessed in recent years has been very good.

Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

At the same time, there may be opening a gap between the conditions. The US pilots are paid in dollar terms. Under same conditions, pilots are paid here in sterling; or even in France in euros. There's building up a gap there, but that will probably have consequences in the future.

Neil Glynn - *Credit Suisse - Analyst*

Neil Glynn, Credit Suisse. If I could also ask three questions, the first one, a follow up on the ex-fuel unit cost picture.

With ex-fuel unit costs not falling in 2017, should that be compensated by an increase in non-scheduled revenue, stuff like engineering and maintenance or BA Holidays? Or should we also see an improvement in scheduled revenue as a result of those costs?

Second question with respect to unit revenue negative mix effect from long-haul extra space in Club World on Heathrow-JFK was mentioned. Is there anything structural to that, or should you expect unit revenue, that mix effect to mean revert over time?

And then the third question. You've obviously given EBIT guidance for 2017, and your free cash flow in 2016 was around midpoint of the range that you're targeting to 2020. With lower CapEx in 2017, does that mean free cash flow may end up seeing the higher end of your targeted range this year?

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

Just on the ex-fuel unit cost, it's important to point out that because we report cost per ASK but we've got significant, as Enrique said, parts of the business that are not ASK-related, and we -- we're all the time wondering how do we demonstrate that in a clearer way for you. So I think that's something we'll work on to give you better visibility on what the underlying ASK-related unit costs are, which will be down in 2017.

And I know Enrique says that every time he stands up here, and we say to him every time he does that, why don't you show it in a different way. But we're trying to understand how we can do that so as to give you greater clarity around what is directly-related, capacity-driven unit costs in the business.

Do you want to comment on --?

Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

Yes. What appears to be the pattern for 2017 is we are going to be continually improving our basic margin. So EBITDA will be helping us on the free cash flow calculation, and the CapEx pattern for 2017 is going to be also a mild one. So the combination of the two could be allowing us to improve our equity free cash flow for this year again. Yes. Good news.

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

And we will see revenue growth in the non-passenger related. So MRO, BA Holidays, all those non-passenger-related, or direct passenger-related activities will see revenue growth in 2017.

Cargo is still an area where it is clearly important to us, but the structural imbalance that we've talked about between supply and demand continues, and we don't see that changing in 2017. Q4 2016 was stronger than we had expected. There's some one-off issues there, but the long-term trend in cargo is pretty much as we've outlined.

So we're very comfortable with the decisions we have taken historically in relation to exiting the freighters, and we're very comfortable with the contribution that cargo has made and will continue to make, but it is an element of the business that we see structurally imbalanced, and that isn't going to change.

So for airlines that are exposed to their direct cargo business and have invested in freighters, I think most of them are going to struggle. Some of them, I think, where they're pursuing aggressive growth and building up their cargo activities, like Qatar, I believe will have significant opportunity. It will be at the expense of some other airlines, but not at our expense.

Did we address everything?

Unidentified Audience Member

(Inaudible - microphone inaccessible).

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

Yes. I think it's very much 2016. It will be adjusted. So we are looking at the premium configuration of our aircraft. We will show you some further information on that at Capital Markets Day. But I think going forward, you should expect to see a change in configuration and a change in mix on new wide-bodied aircrafts because we see some areas of the market, particularly First. We will continue with the first-class product, but not with the same number of the seats in the market in the future as we have today. So you're going to see an adjustment, but we'll talk in a lot of detail about that at the Capital Markets Day later on this year.

Anand Date - *Deutsche Bank Research - Analyst*

Anand, Deutsche Bank. I've just got two, actually.

On UK outbound, could you perhaps comment what's in your plans? And in your past experience, what should we expect? It's been very resilient so far, but should we be a little bit concerned?

And then secondly, just on Avios, could you just comment a little bit on the monetization of it as an asset within the Group; how well that's going?

Thanks.

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

UK outbound remains resilient. We're seeing some -- the trends we're seeing are what we would have expected to see given the currency changes that we've witnessed. So we're still talking to our BA Holidays colleagues. There are areas of activity that were dollar-related that have taken a hit; families in particular in Florida. But other areas of dollar-related, Vegas for example, which tend to be short-term, no change in that.

What we are seeing is people are still flying to these destinations but staying for a shorter period of time. So it's not impacting on us in the same way as it's maybe impacting on other elements like hotels, but so far, UK outbound has remained --

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Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

On our UK to peninsula and island, Spanish island flows, we haven't seen, we have detected any material reduction due to, I would say, the harder currency that the UK traveler has had to pay for.

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

And Avios, we're clear that the benefit of Avios for us is what Avios can do for the Group. So we've said this time and time before. We'll say it time and time again. We're not structuring Avios with a view to disposing of it because we believe it is of significant value. And the best value that can be extracted from Avios for our shareholders is that Avios is part of IAG. And we believe there's further opportunities to exploit Avios within IAG, and we'll talk about that in due course. But it's performing very well.

Anand Date - *Deutsche Bank Research - Analyst*

When I said monetization, I didn't mean IPO or anything like that.

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

I know, but I could see a number of people go, oh! (laughter).

Anand Date - *Deutsche Bank Research - Analyst*

So just to be clear, what I meant was could you maybe outline the three most important ways you actually can use Avios to increase load? Or how are you monetizing it within the Group? Sorry. I wasn't clear earlier.

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

No. It's very clear that the areas for growth for us are the non-airline-related partners which has been very successful. It's using Avios as a currency for airlines within the Group. So when we look at the long-haul, low-cost, we see Avios playing a key role in that; targeting long-haul leisure passengers who can use Avios that they have collected to spend on that activity.

So Avios has potential to further increase the revenue streams through non-airline-related activities, but also to be a significant contributor to our airlines through redeeming Avios on IAG airlines and then working with partner airlines as well.

So all of the activities that we've spoken about previously are ahead of our plans. Avios is contributing ahead of budget. The contribution in 2016 was slightly ahead of where we had expected it to be. And we've increased the targets for 2017. So I think it's a very strong performing part of the business.

Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

Absolutely and very promising.

On top that typical legacy activities, the database of Avios is one of the broadest and more interesting among the ones that we have in the Group. So exploiting that database is going to be a source of additional contribution for the Group; a very interesting source. So it's very, very strategic.

Andrew Barker - *International Consolidated Airlines Group SA - Head of Group Finance Development and Investor Relations*

Okay. I think we're out of time. Thank you very much for coming to our results and we look forward to seeing you at the interims.

Thank you.

Operator

Ladies and gentlemen, that will conclude today's conference call. Thank you for your participation. You may now disconnect.
