

International Airlines Group

Inaugural Capital Markets Day

11th November 2011



Agenda

Introduction	Antonio Vazquez <i>Chairman, IAG</i>
Finance and Targets	Enrique Dupuy <i>Chief Financial Officer, IAG</i>
Cost synergies Global Services Platform	Ignacio de Torres <i>Director of Global Services, IAG</i> Nigel Underwood <i>Group Chief Information Officer, IAG</i>
Revenue synergies Strategy, Commercial	Robert Boyle <i>Director of Strategy, IAG</i> Drew Crawley <i>Commercial Director, British Airways</i>
BA – Fit for growth	Keith Williams <i>Chief Executive Officer, British Airways</i>
IB – Renewal under way	Rafael Sanchez-Lozano <i>Chief Executive Officer, Iberia</i>
Close and Q&A	Willie Walsh <i>Chief Executive Officer, IAG</i>

International Airlines Group

Inaugural Capital Markets Day – Introduction

Antonio Vazquez
Chairman



IAG

Inaugural Capital Markets Day



Finance

Enrique Dupuy

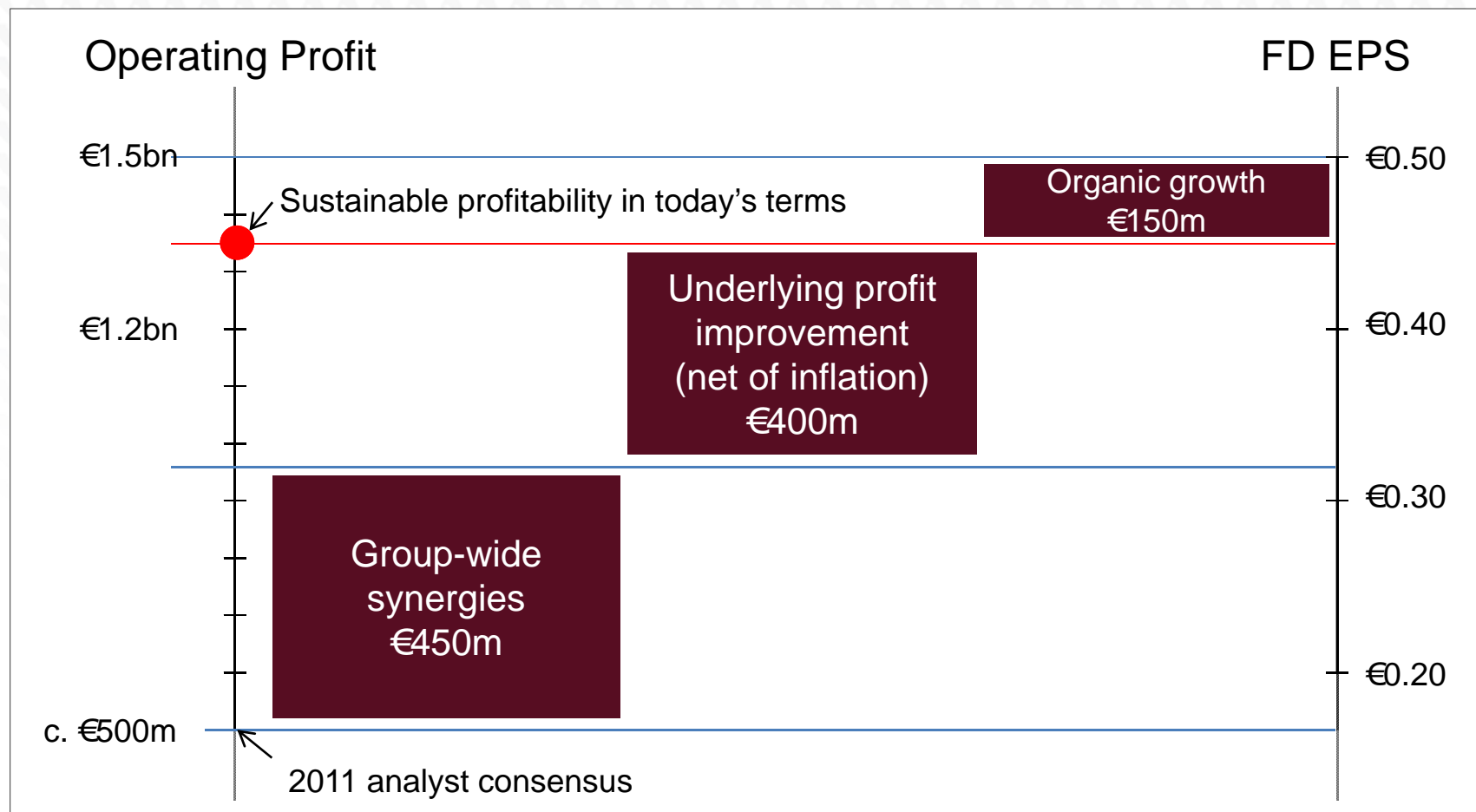
Group Chief Financial Officer



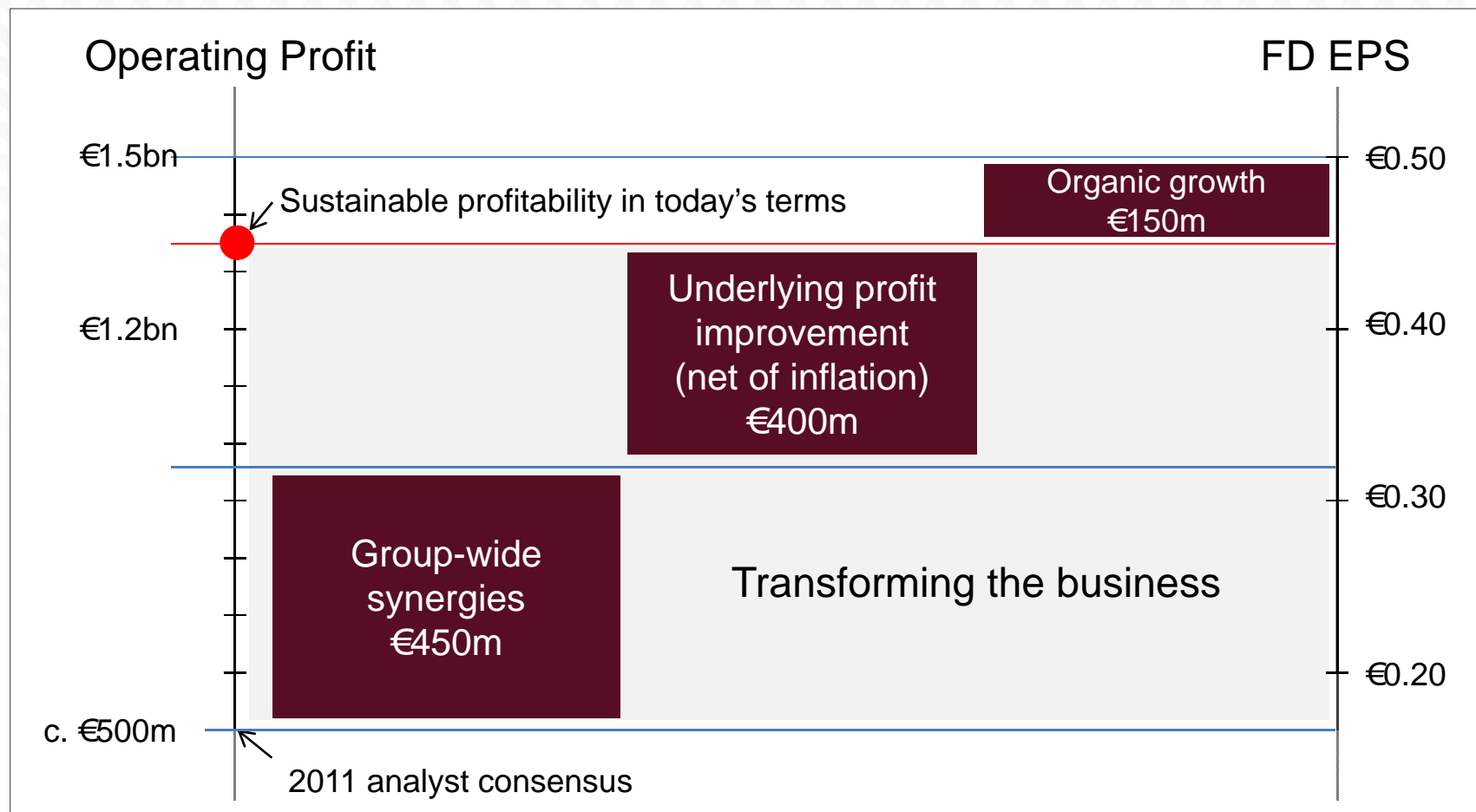
2015 financial targets – headlines

- ***Targeting €0.50 fully-diluted EPS by 2015***
- Equates to approx. €1.5bn operating profit, 12% RoCE
- Assumes organic growth rate on average of +2.5% ASK per annum
- Improvement in underlying profitability to come approximately half from synergy retention, and half from structural profit improvements – *sustainable through the cycle*
- Inorganic opportunities will be judged on their ability to enhance these targets, and only if they also fit with our network strategy

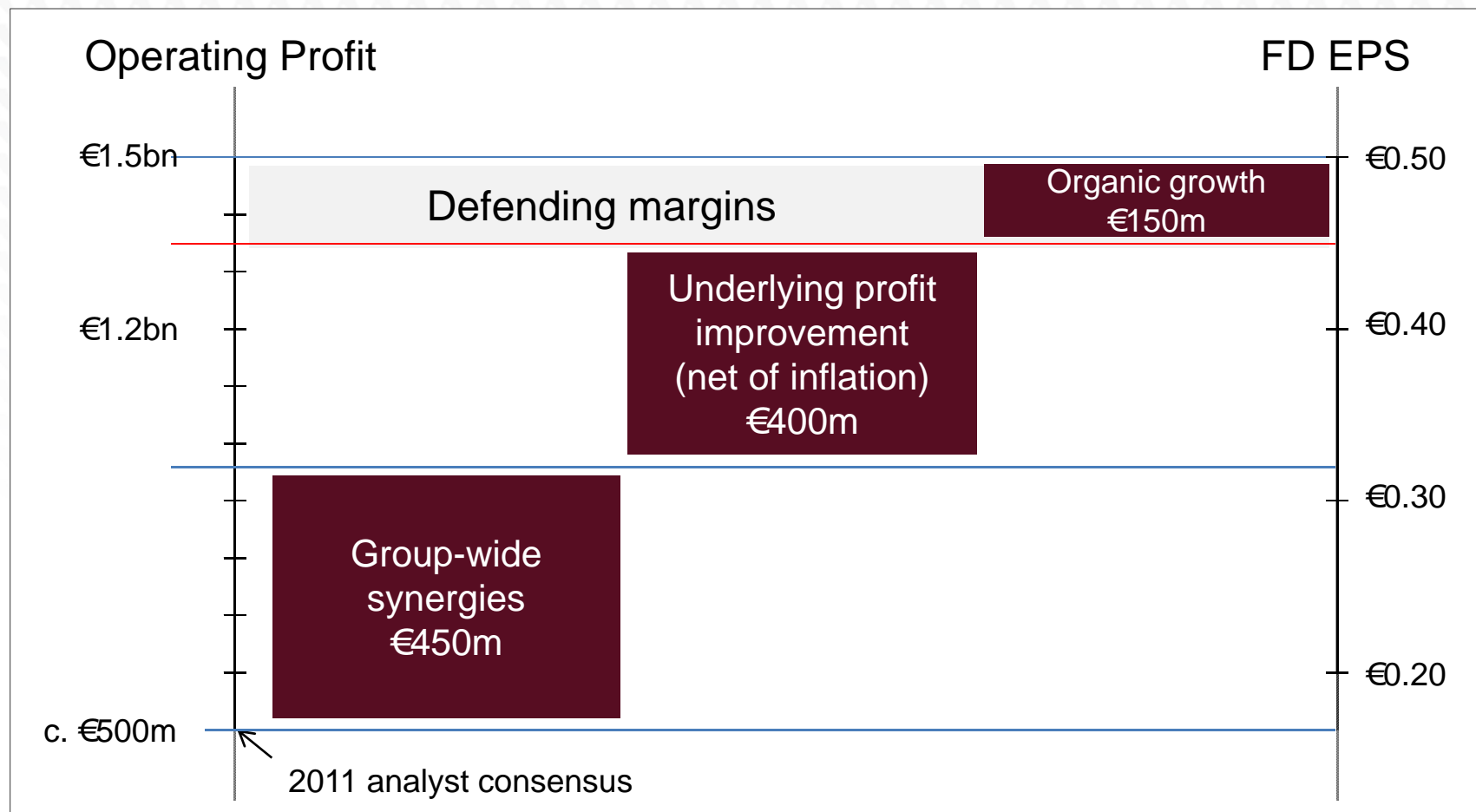
2015 financial targets – framework



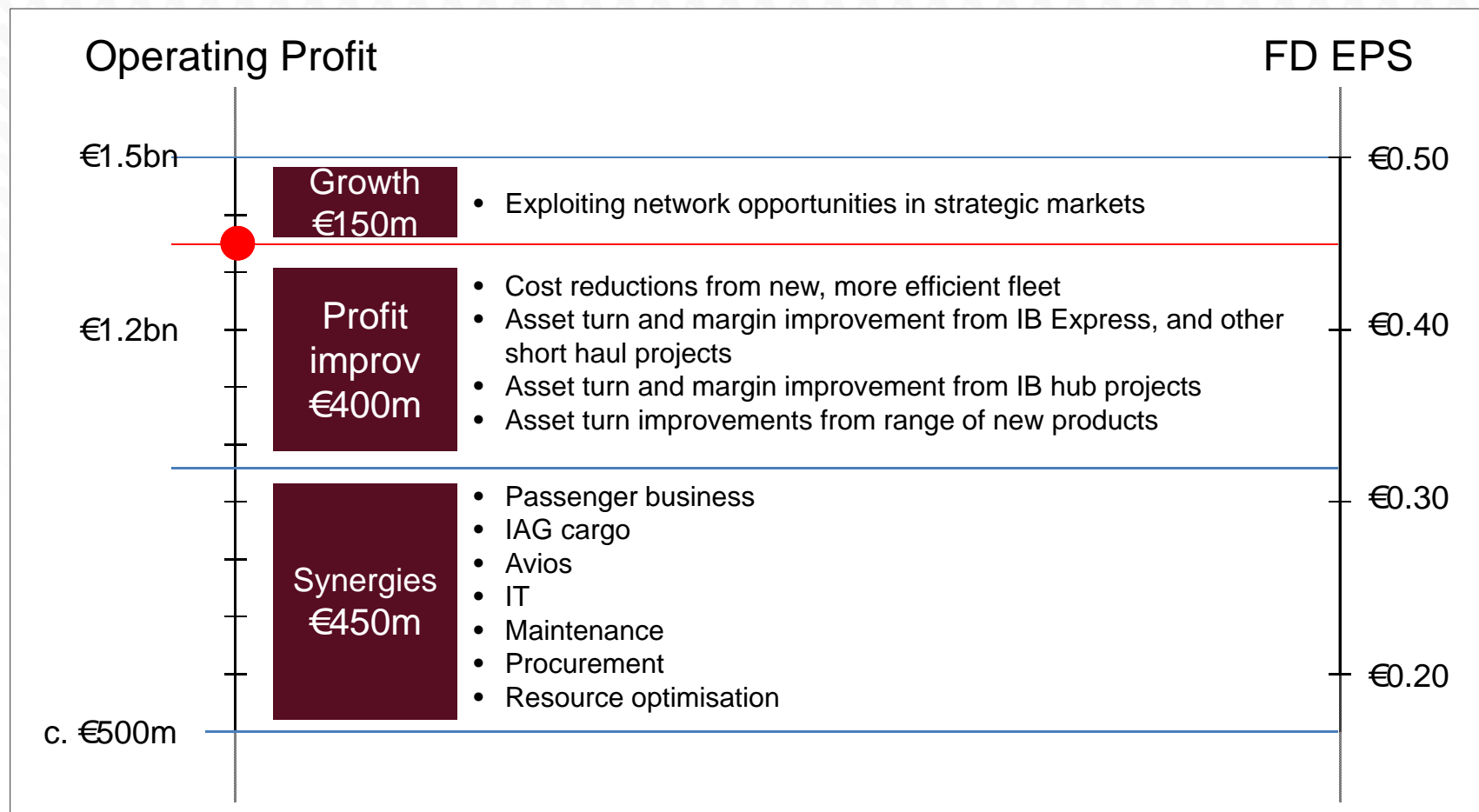
2015 financial targets – framework



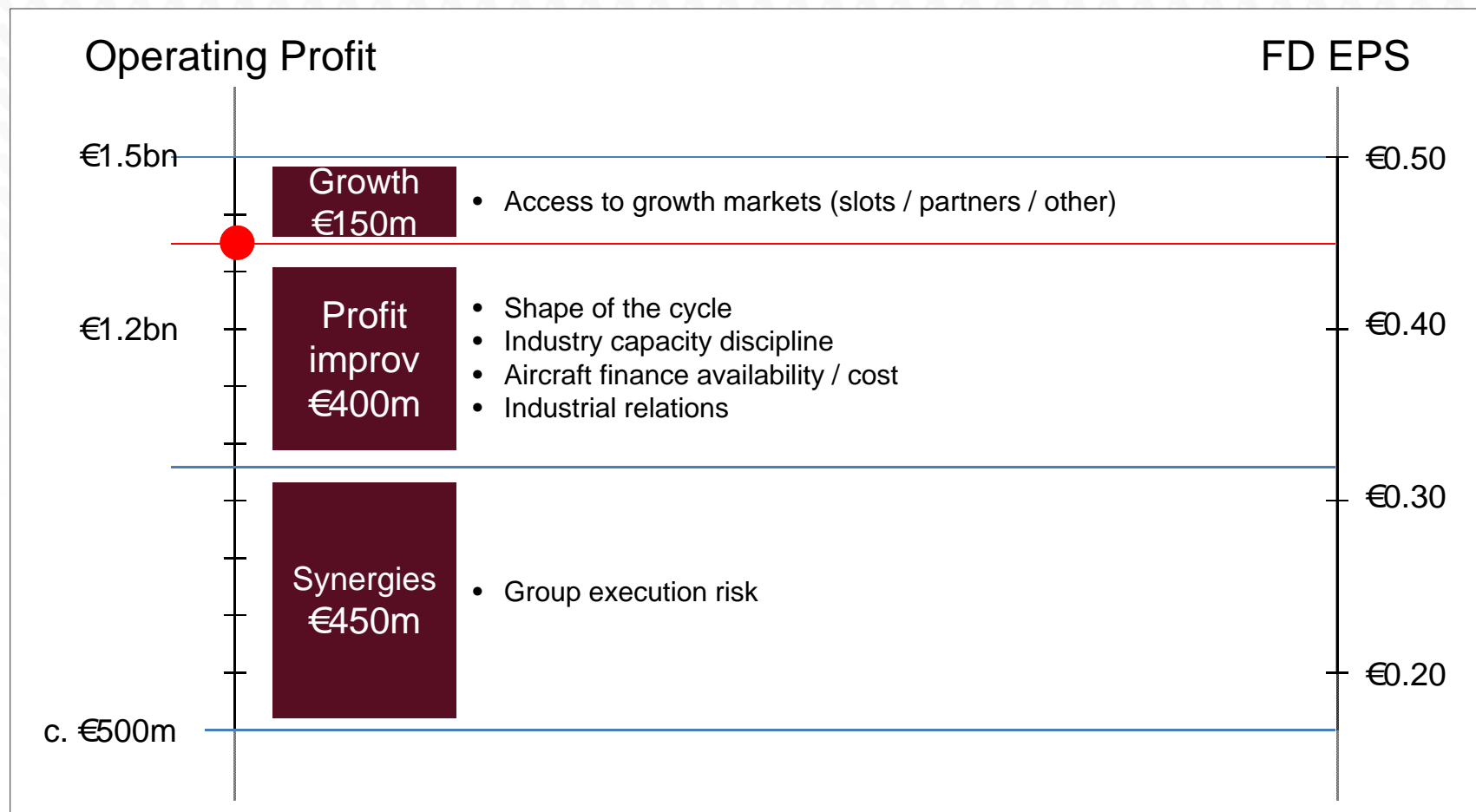
2015 financial targets – framework



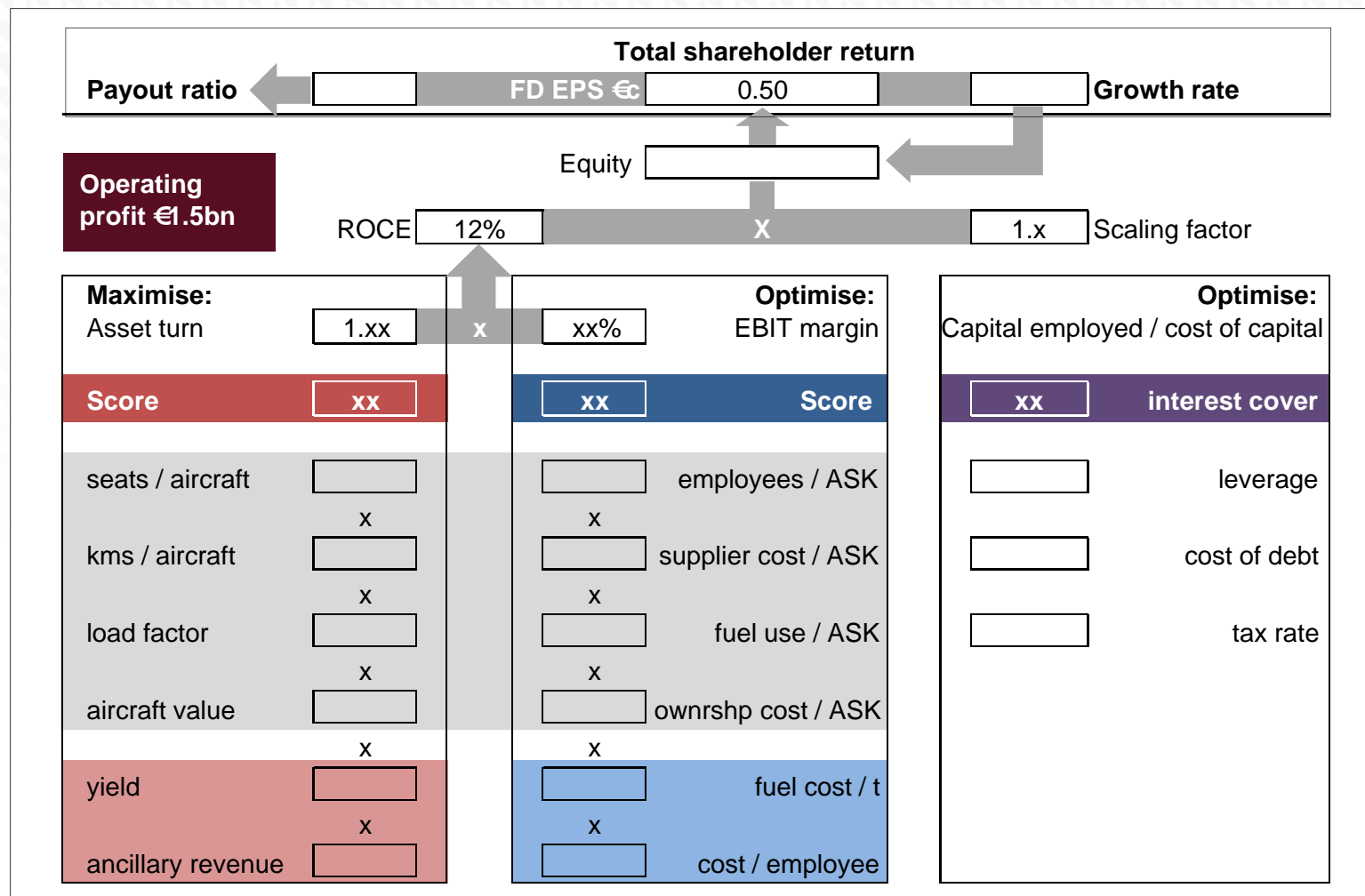
2015 financial targets – delivery



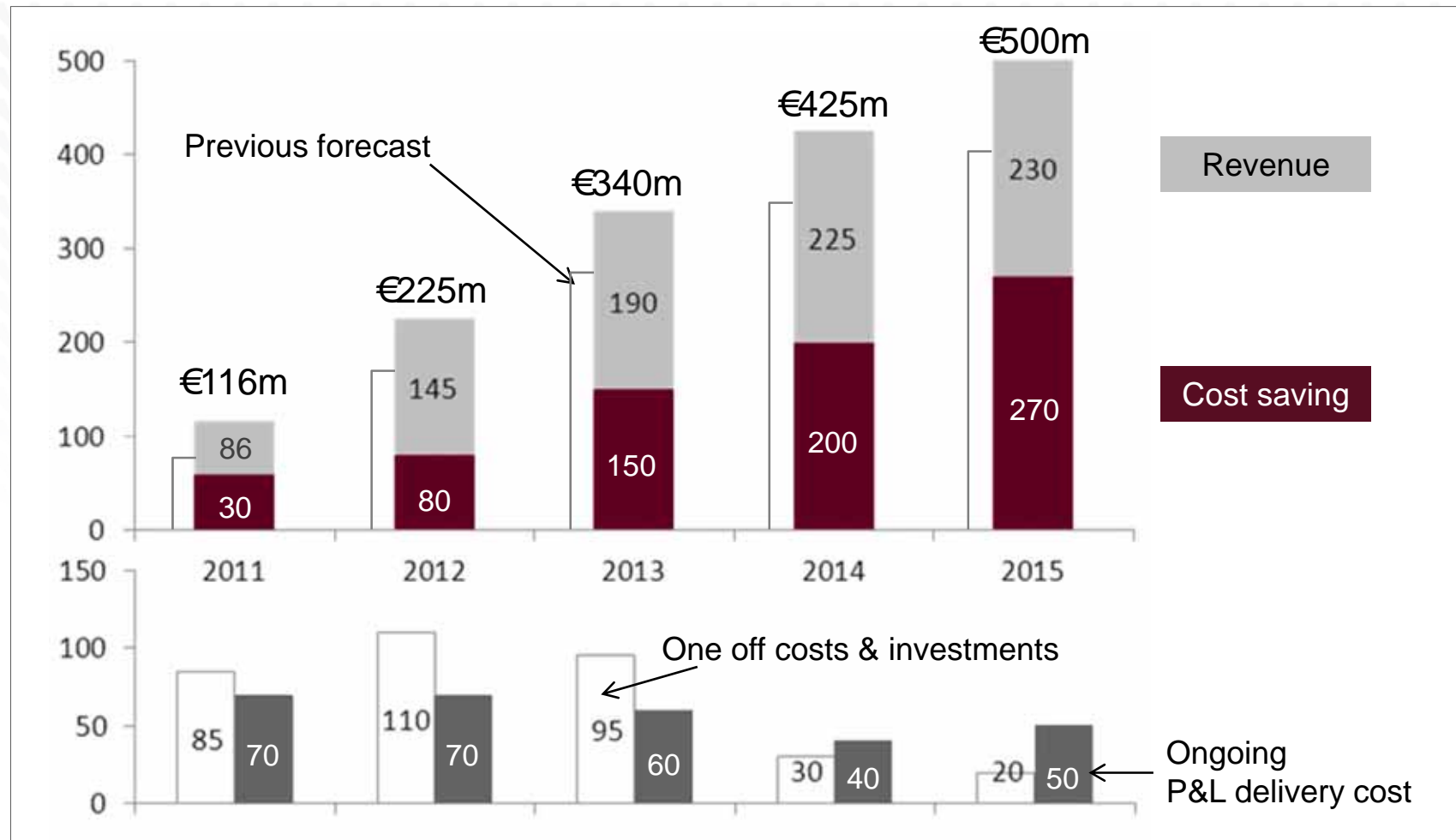
2015 financial targets – risks



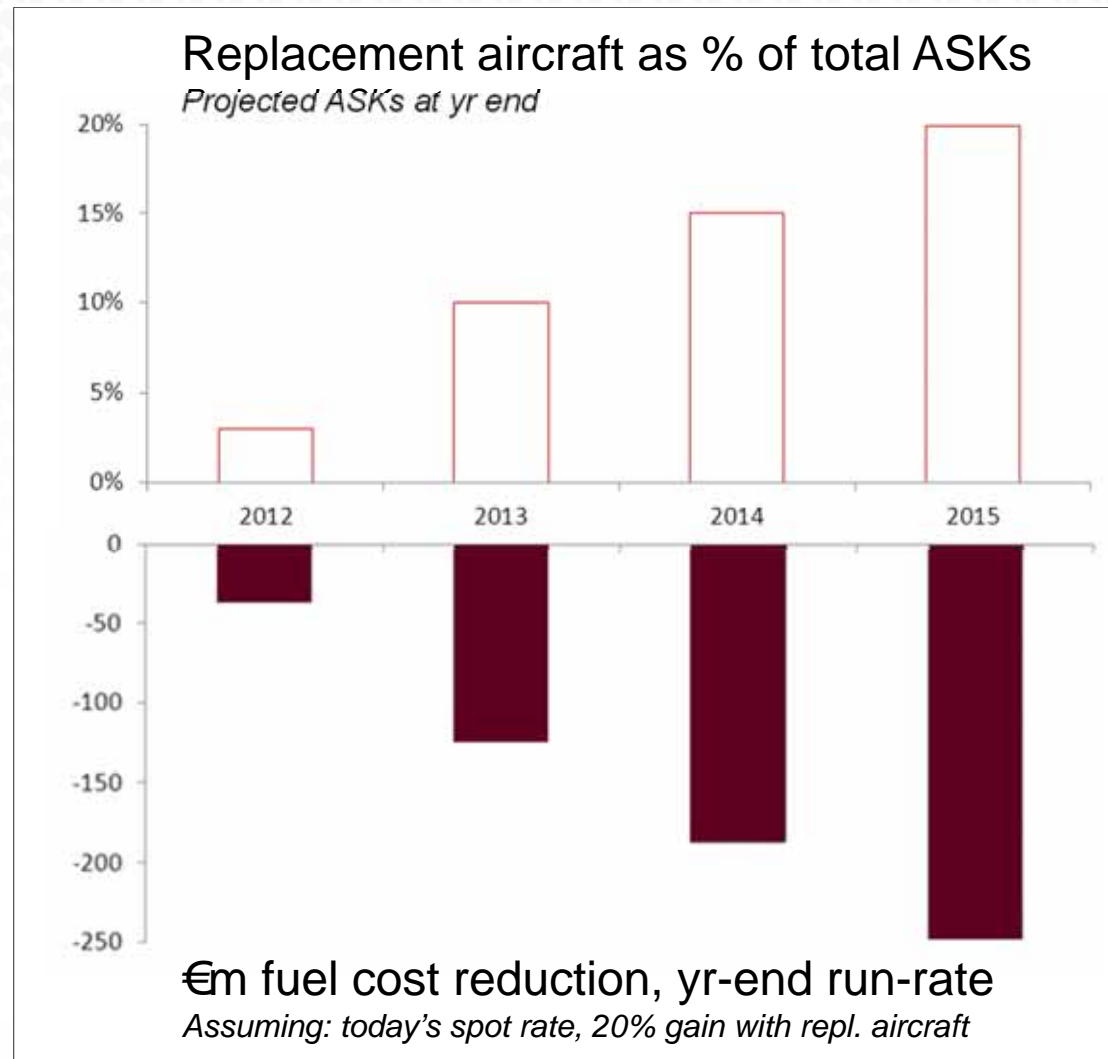
How IAG calibrates OpCo business plans



Synergies: new target €450m net EBIT impact



OpCo profit improvement – fleet replacement

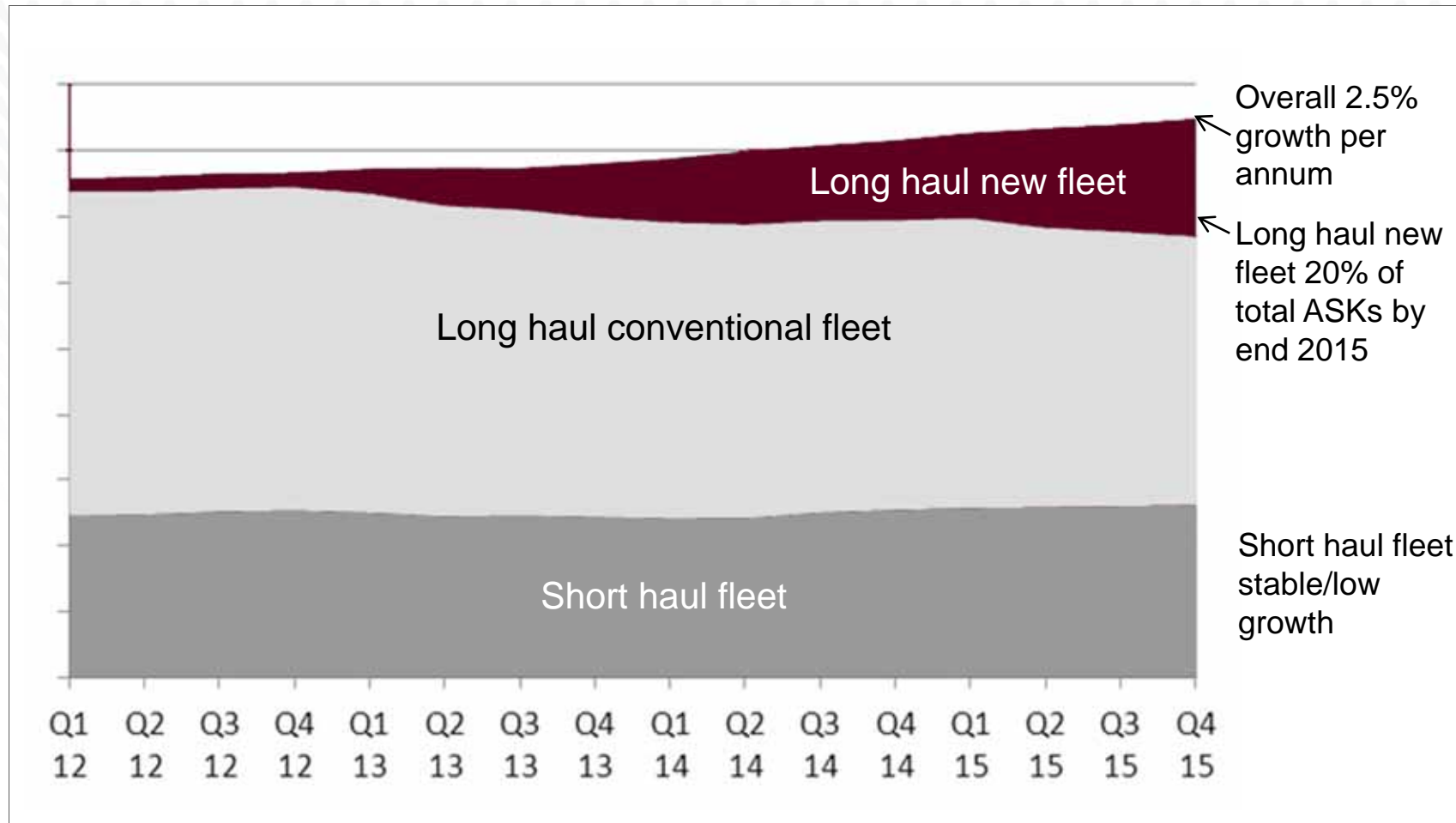


OpCo profit improvement – other initiatives

Initiative	Impact by 2015	Asset turn	Margin
IB Express	>€100m	+	++
Short haul projects		++	++
IB product and brand		+	
IB hub improvement	>€100m	++	++
BA “mixed fleet” crew	>€30m		++
BA product and brand		+	
North Atlantic JBA *	>€150m	++	+
Other joint businesses		++	+

** Improvement on 2010 base*

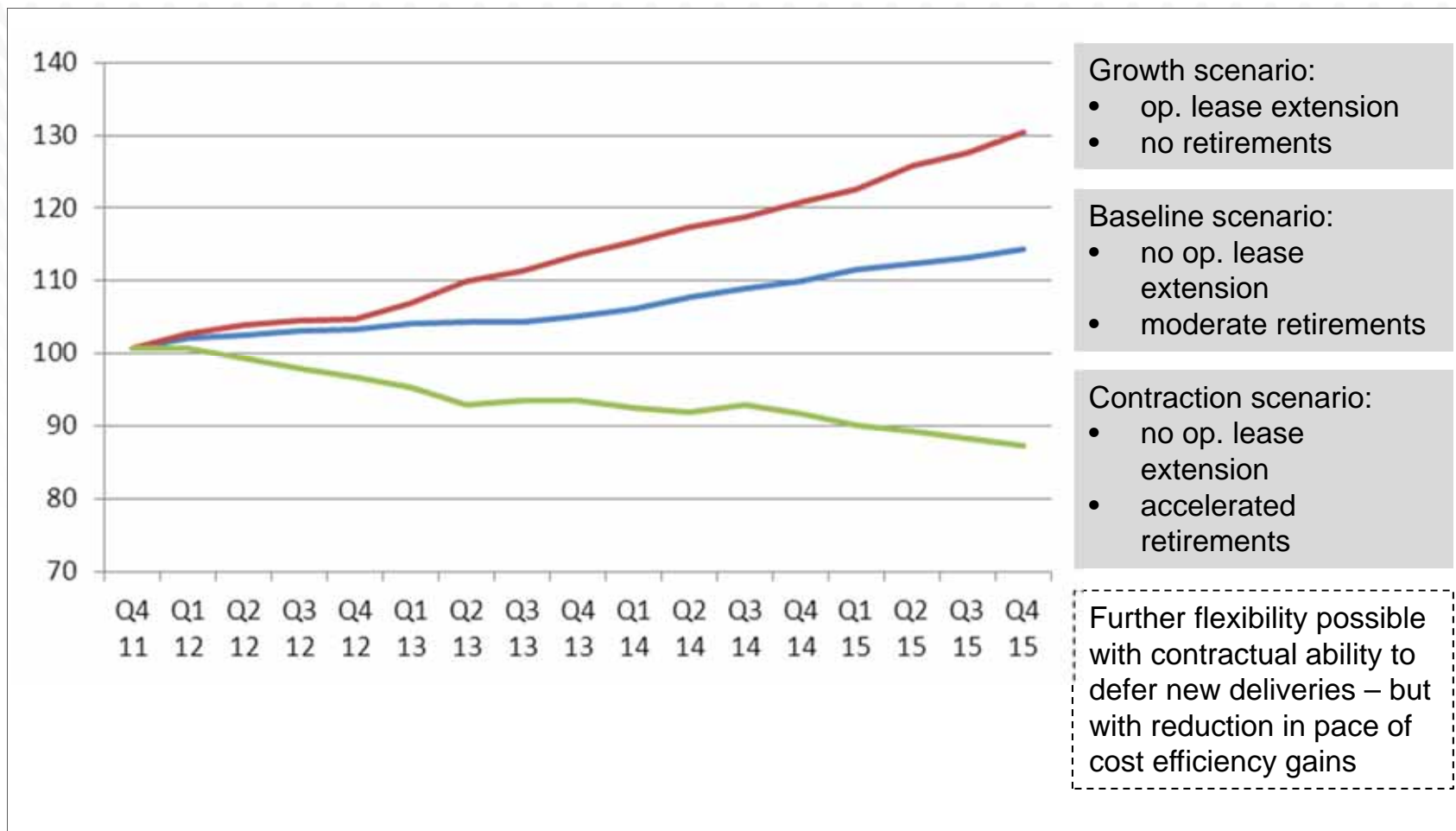
Fleet plan overview: ASK progression 2012-15



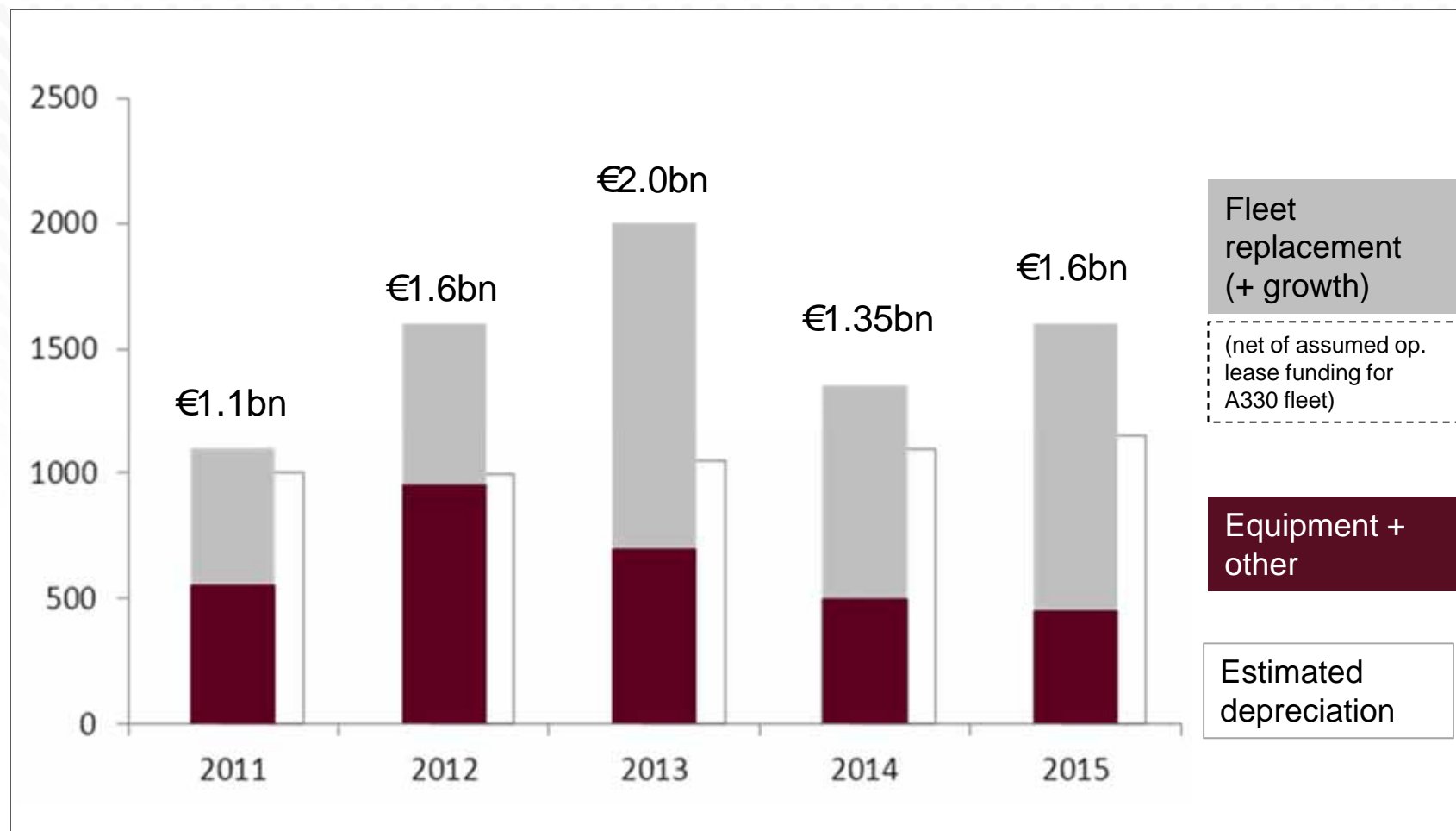
Fleet plan - detail

	Aircraft	2011	2015	Deliveries before end 2015	Outstanding orders post 2015	Further options
IB	A330 / 340	36	40	16*Includes 8 options		
BA	B747	52	45	Flexible lease extension/retirement		
	B767	14	1			
	B777	49	54	5		
	B787		16	16	8	28
	A380		9	9	3	7
	A318	2	2			
Total long haul		153	167	34	11	35
IB	A320 family	68	76	9	12	
BA	A320 family	84	95	10		
	Other	39	34			16
Total short haul		191	205	19	12	16
Total fleet		344	372	53	23	51

Fleet plan – baseline growth and flexibility



Capex plan



Financing plan - overview

Area	Item	Source of funds
Fleet (1)	Interim aircraft	Synthetic + pure operating leases
Fleet (2)	Newgen - core	Diversified approach encompassing: syndicated term facilities / tax-based leasing / secured debt capital markets / pure operating leases
Fleet (3)	Newgen - flex	Backstop financing + flexible operating leases
Non-fleet	New aircraft intro cost BA new products IB new long-haul IB brand relaunch Synergy investment	Internal cash flow + structured financings

Financing plan - principles

Securing implementation of business plan / limit impact of shocks / allowing transformational opportunities

- Maintain liquidity facilities to build resilience and to equip the business to absorb shocks and minimise disruption risks
- Fleet financing will be tailored to match fleet operational requirements
- Diversification of financing sources to adapt to fast-changing financing markets and to mitigate market volatility
- Residual value risks on interim and existing fleet will be actively managed
- Investments in product and brand to be funded mostly through internal cashflow

Balance sheet parameters, 2015 horizon

- Net debt/EBITDA: <3.0x
- Gross debt/EBITDA: <4.0
- Gearing: limit as determined by above parameters
- Expected <50% net debt (incl. leases) to total capital

Targeting investment grade

Targeting free cash generation - in aggregate 2012-2015

Financial risk management strategy

Integrated policy to manage Group fuel and foreign exchange exposures

- Board manages exposure parameters on quarterly basis
 - confirms target hedging profile
 - confirms level of discretion delegated to the IAG Hedging Committee (typically +/- 10%)
- IAG Hedging Committee establishes monthly mandate for execution of trades
- Main exposures
 - Fuel burn of 7.5 million MT per annum
 - US \$ short of \$3.5 billion (varying with fuel price)
 - Carbon emissions of 23 MT per annum → net ETS exposure of c. €90m (varying with carbon credit price)

Financial risk management strategy

- Target hedging profile determined by a combination of:
 - Gross exposures
 - Internal ability to hedge through revenue management
 - Competitor exposure and behaviour
- Fuel risk and foreign exchange risk managed using similar hedging profiles

Current Hedging Position				
	Q4-11	Q1-12	12 mths	FY12
Fuel cover	78%	68%	63%	53%
US\$ cover	78%	71%	59%	44%

2011 outlook summary

- We expect Q4 operating profit to be an improvement on Q4 2010, taking into account one-offs in last year's base
- Forward bookings for premium cabins currently broadly in line with 2010 levels
- Non premium markets weaker than 2010, particularly in Spanish market
- We expect to deliver a 2011 full-year operating profit of around double that of 2010
- We remain ready to adjust capacity downward in response to any sustained downturn in demand

View into 2012

- Fuel unit cost: +14% (based on spot rate of \$1030/mt)
- Unit cost ex-fuel: flat
- Capacity: +2.5% starting assumption, managed to optimise unit revenue

Conclusion

- We are focused internally on generating synergies and improving our competitiveness
- We will allocate a prudent level of growth to markets where we either want to cement an existing leadership position, or develop a leadership opportunity
- We will actively manage our network portfolio to react quickly to underlying demand and shield the Group from shocks
- We will reduce exposure to markets where we believe there to be structural or irrational overcapacity

We aim to transform our profitability by being disciplined with our capacity, and retaining the synergy benefits and profit improvements for our shareholders

Global Services Platform

Ignacio de Torres
Director of Global Services



2011: A year of achievements

✓ **GOOD START!!**

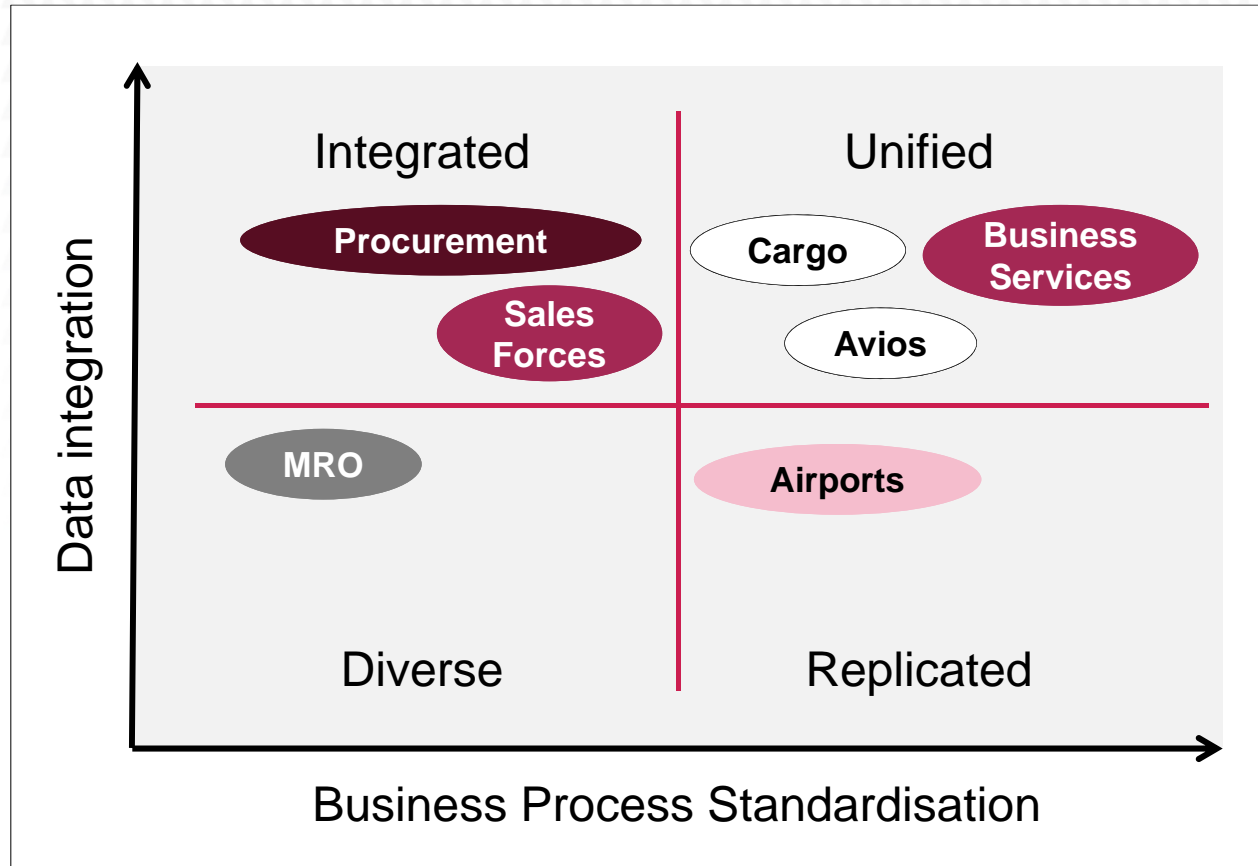
- Year 1 cost synergies expected to exceed targets (€ 30m vs. € 26m)
- Positive outlook for Year 2 synergy targets, with initiatives on track

✓ Good progress in defining new operating models for the main integrated areas:

- Global Services Platform (GSP)
- Finance
- Procurement
- Airports
- Sales
- IT

✓ Year 5 synergies beyond original targets

Cost synergies present across the board



Procurement

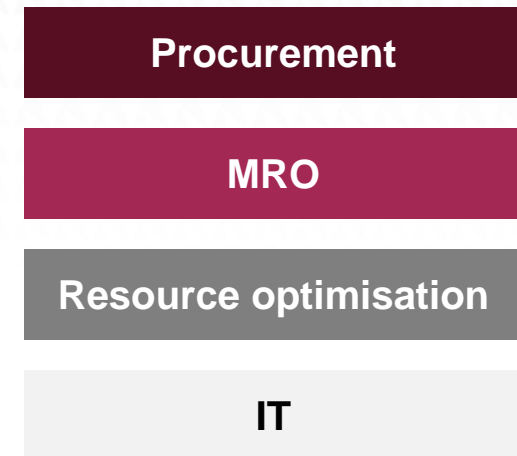
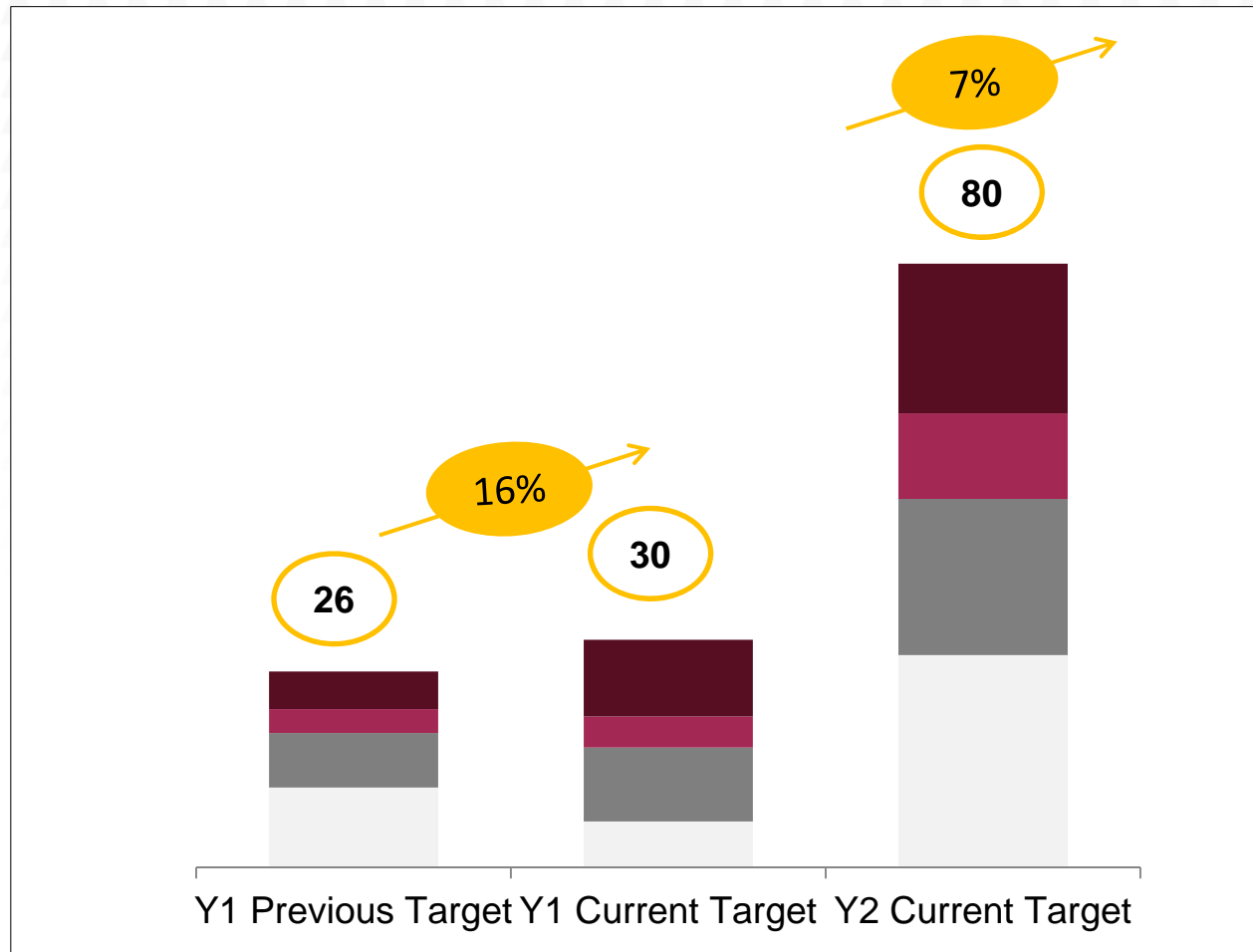
Resource Optimisation

MRO

IT

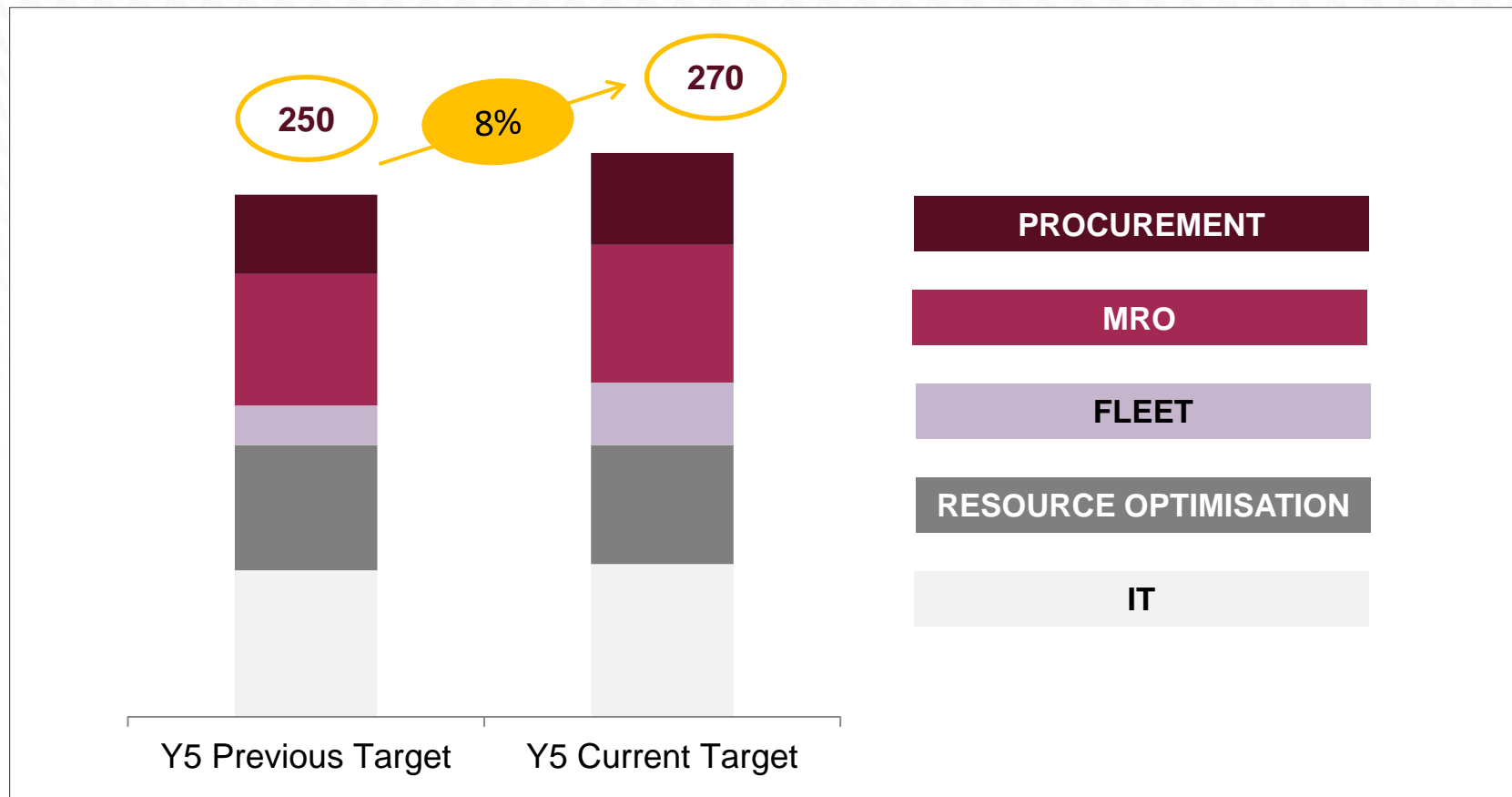
Revenue Initiatives

Year 1 and Year 2 already ahead of targets



2015: Delivering beyond initial targets

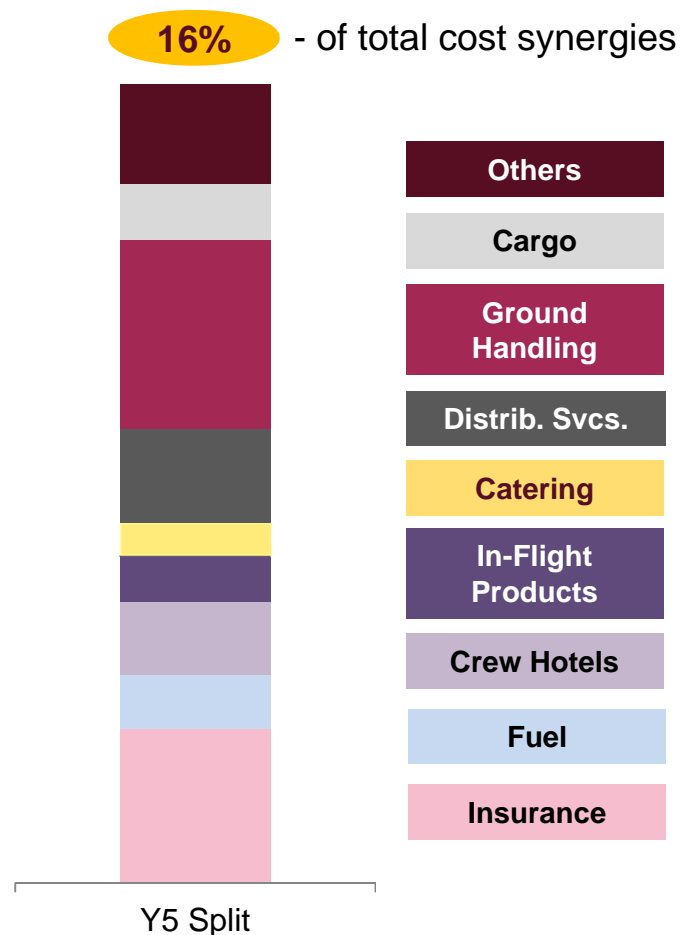
- Most initiatives identified and targeted



Detailed breakdown



Procurement: gains from centre-led model



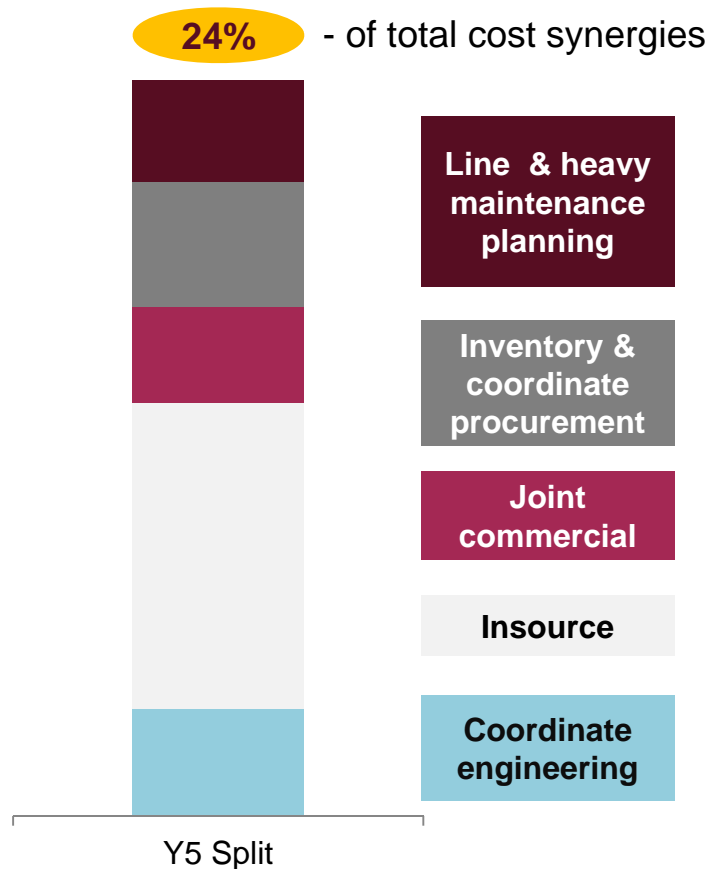
Progress so far

- ✓ **Insurance:** Joint placement of a/c policies
- ✓ **Jet Fuel:** Joint tendering across the network
- ✓ **Crew Hotels:** Joint crew hotel accommodation and night stop reductions in hubs
- ✓ **Cargo Procurement:** EU trucking tender
- ✓ **Airports Ground Handling:** Joint contracts at home bases and key premium airports

What we are working on

- **Centre-led Model:** Leverage and underpin initiatives for Y5 in order to exceed the targets, while being scalable to other airlines
- **Distribution Services:** Alignment of technology contracts and suppliers to commercial strategy

MRO: insourcing and joint initiatives



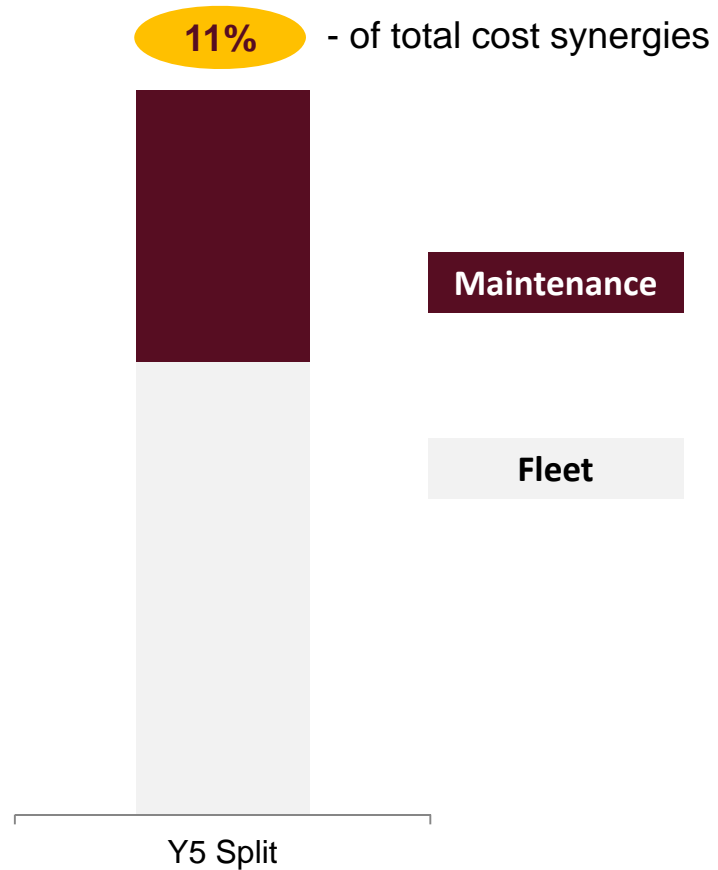
Progress so far

- ✓ **Line Maintenance & inventory:** Single business and operations merger (ORY, BRU, CVA, ATH, BOS, LAX)-inventory jointly managed and common portal in place
- ✓ **Engineering & procurement:** Common approach
- ✓ **Insource works:** BA CFM56/5B engine overhaul contract with IB; BA Engine lease with third parties through IB
- ✓ **Joint team & strategy for commercial:** Thomas Cook and Cygnus contracts

What we are working on

- **Line maintenance:** Global single approach
- **Inventory:** Single inventory for the Group
- **Insourcing business:** Insource business with high profit margins

Fleet: exceeding previous target



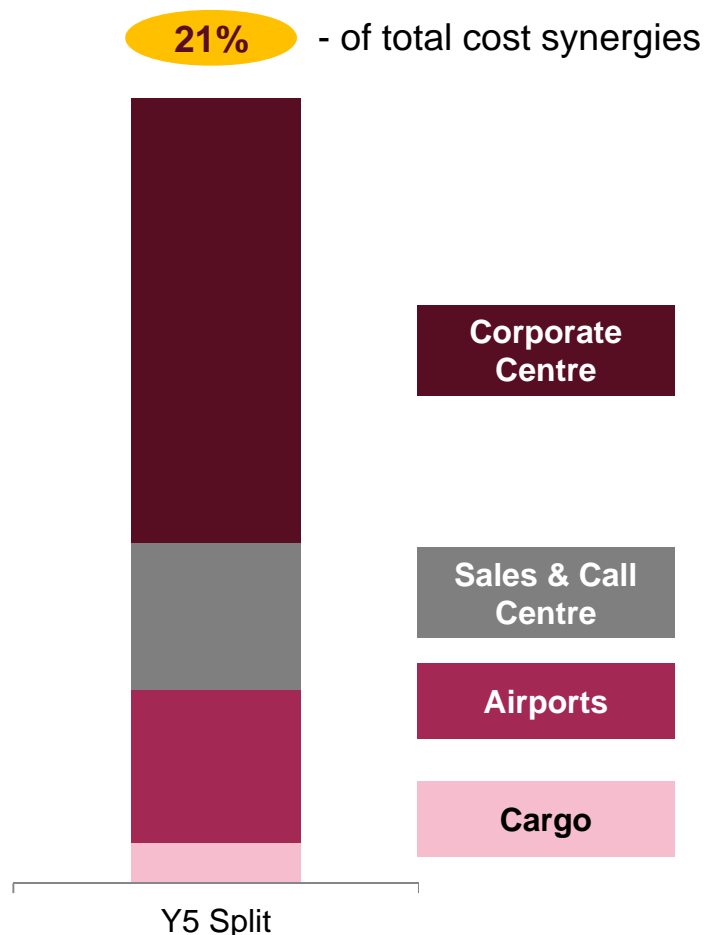
Progress so far

- ✓ **A-330:** Improvement vs. 2008 Iberia RFP
- ✓ **A-320:** Applying the final application for A320 options within IAG
- ✓ **Maintenance:** Total care agreements

What we are working on

- Future joint Group-led aircraft deals

Resource Optimisation: potential for more



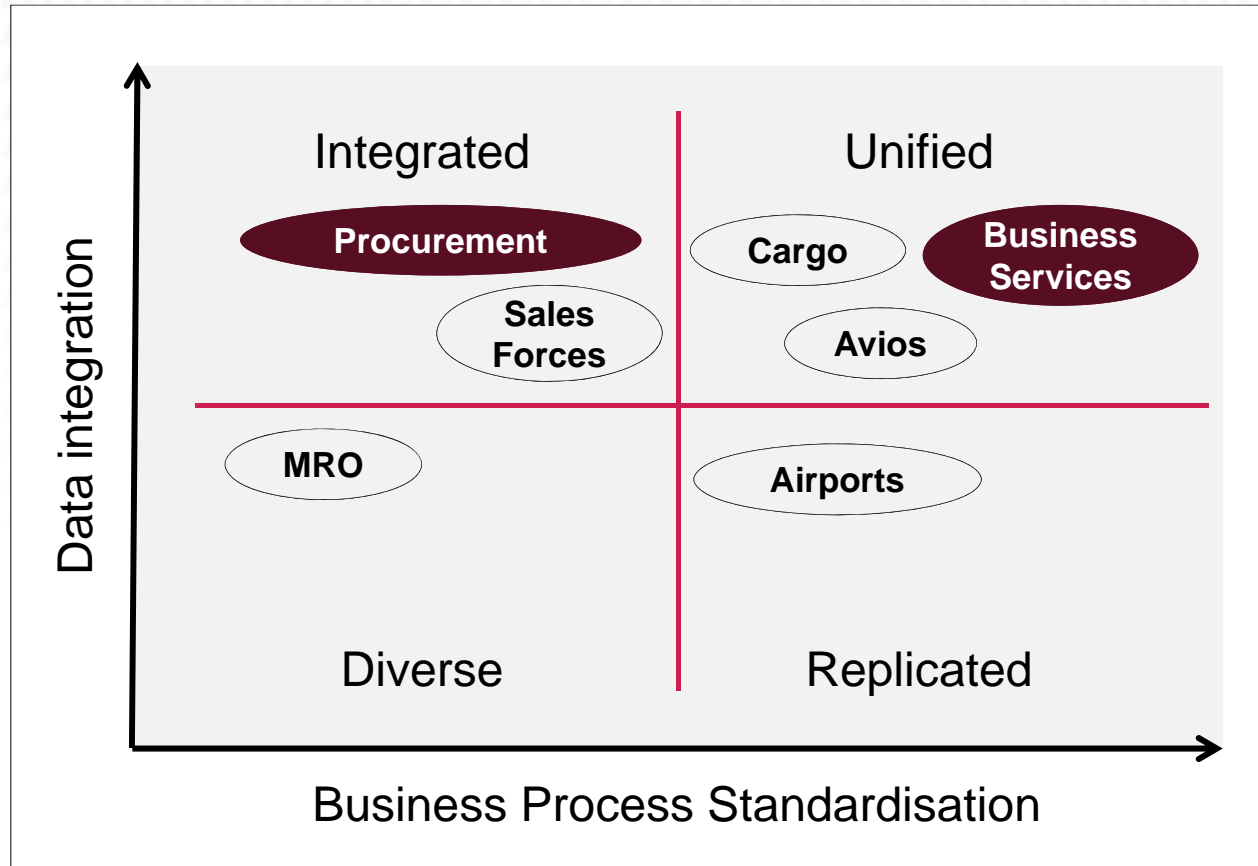
Progress so far

- ✓ **Sales Force:** Successfully integrated UK, Spain, N. America, S. Africa, Nigeria, Egypt, Russia, Chile, Switzerland
- ✓ **Airports:** Successfully integrated ticket desk, offices or supervision at LHR, JFK, BRU, TXL, FRA, ORY, LAX, AMS and LAD
- ✓ **Cargo:** GSA rationalisation & Sales team integration
- ✓ **Corporate centre:** Initial steps on Finance, HR, Procurement Legal and Communications

What we are working on

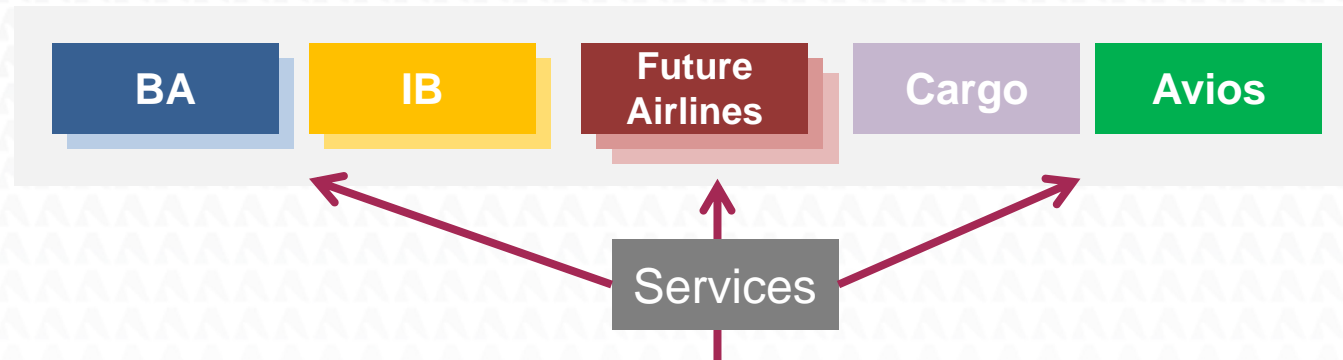
- **Corporate centre:** Working through specification of a scalable back office platform for the group – “Global Services Platform”

Global Services Platform

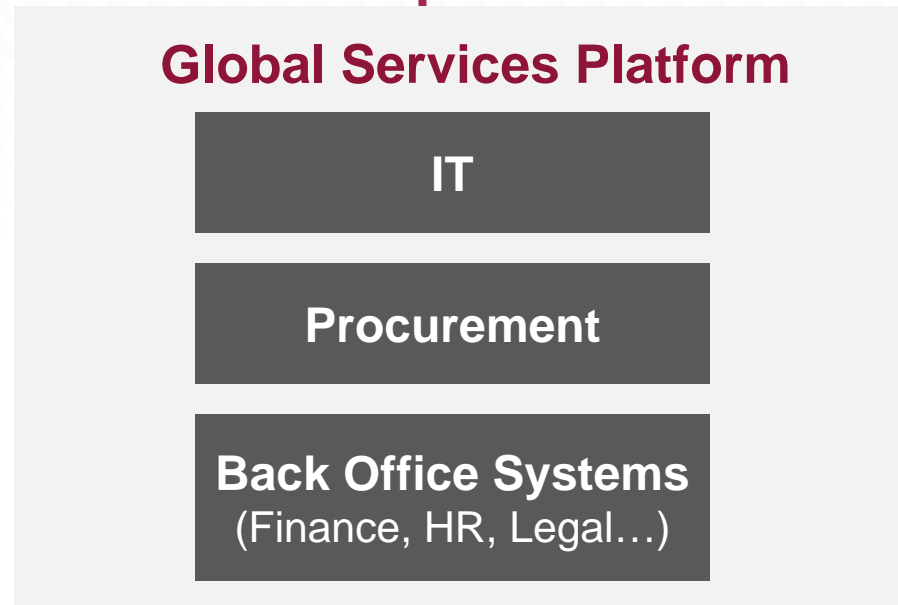


**Global
Services
Platform**

The Global Services Platform architecture



- Common Systems & Information Processes
- Scalable Platform (Plug & Play)
- Simple (Reduce Complexity)



IT – base platform for rest of businesses

OBJECTIVES & STRATEGY

Enable Value ...

1. From BA/Iberia Merger
2. Supporting new business model & developing IAG Platform
3. Parallel focus on diverse needs at Operating Company level

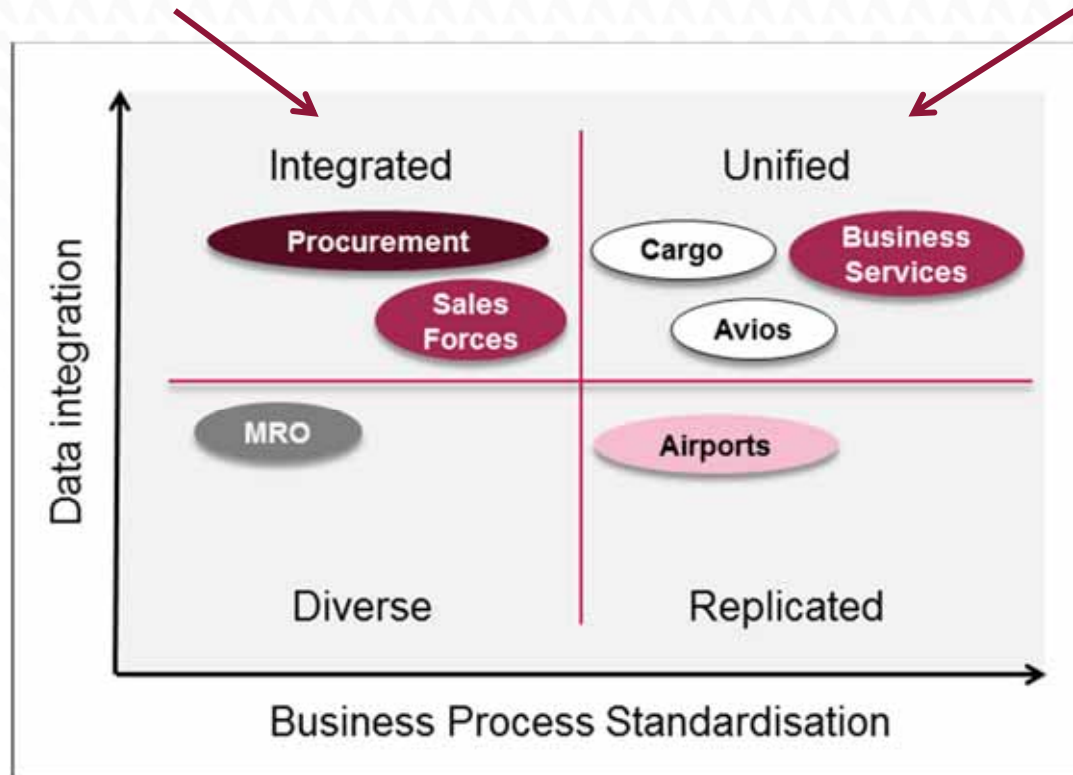


IT – what we are working on initially

Focus on Priority Business Areas (Must Do's & Quick Wins)

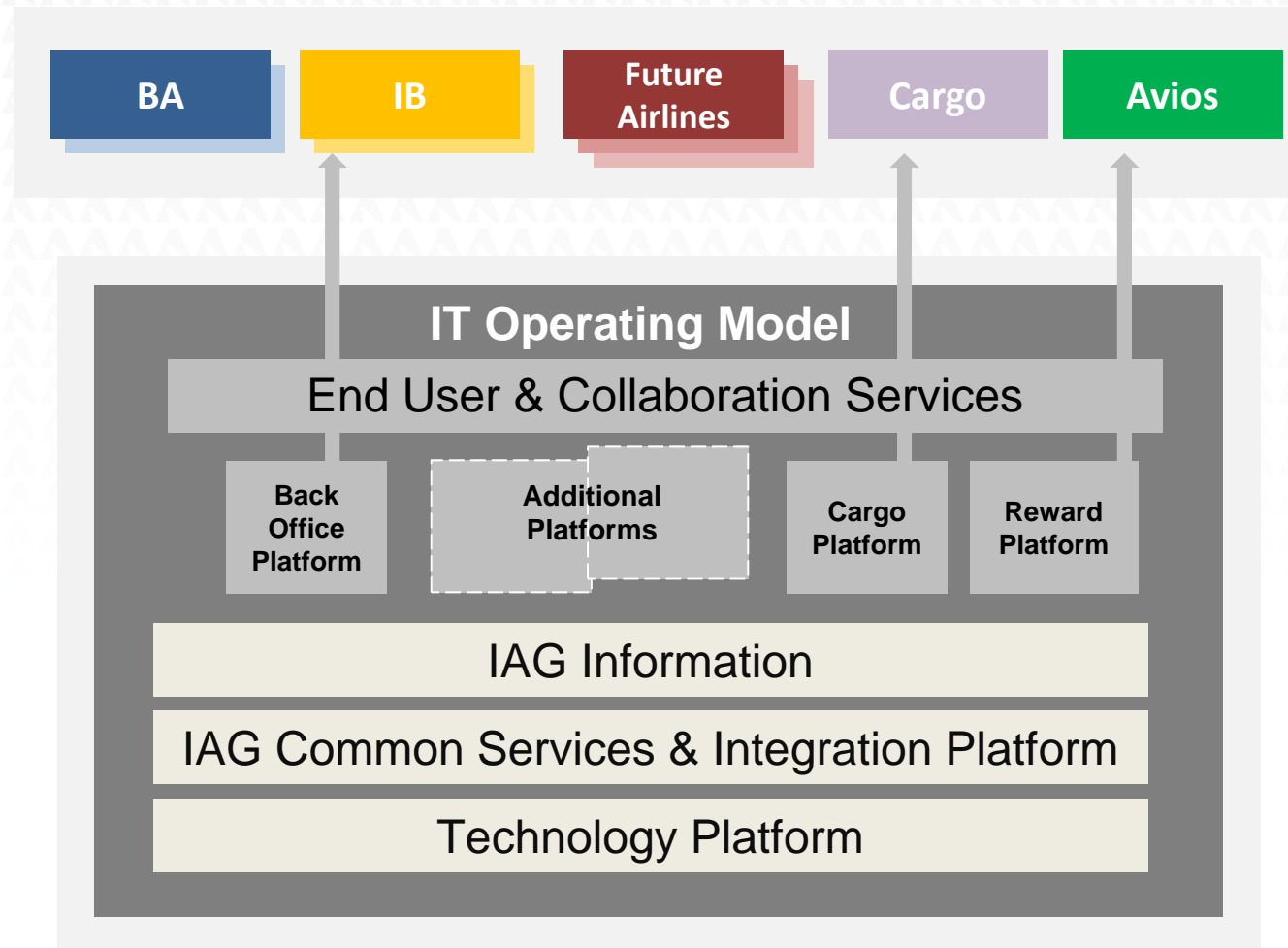
Enable Short Term Business Synergies
(Infrastructure & Information Provision)

Develop Longer Term strategies



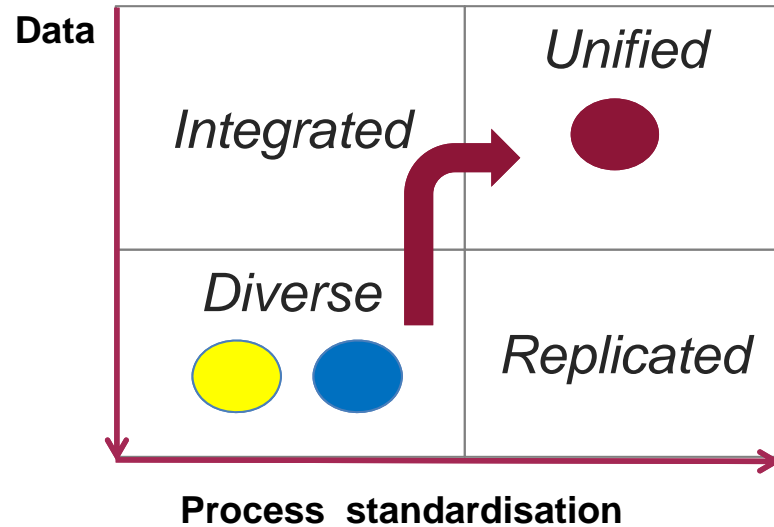
IT Infrastructure

IT – common IAG model being defined



IT – underpinning IAG single currency: Avios

- Initial Focus:
 - Integration of information
 - IT team of approx. 300 people across BA, IB & Avios with 20 sub-projects
 - Underpinning Avios launch later this month

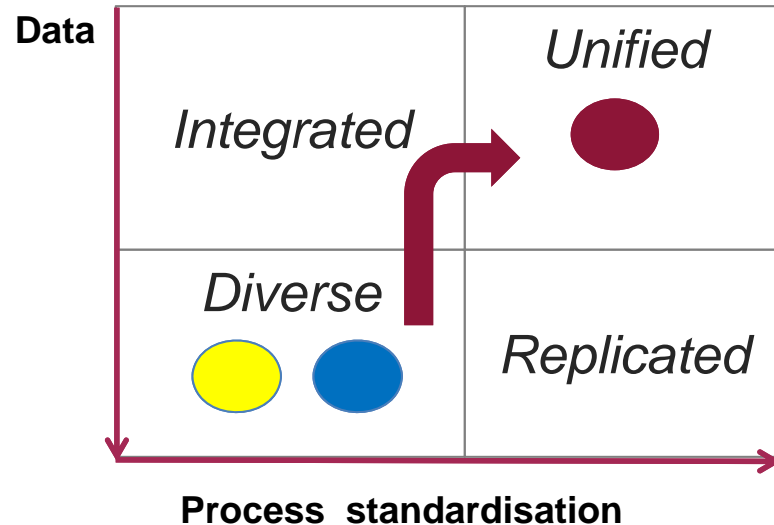


Avios Synergy Levers

- Single Currency
- Balance Transfer Tool
- Common Zone Maps
- Redemption Platform

IT – underpinning IAG Cargo

- Initial Focus:
 - Leverage “best of both”
 - Phase 1 underway to deliver quick wins & underpin revenue growth in 2012
 - Business case for Phase 2 platform under development

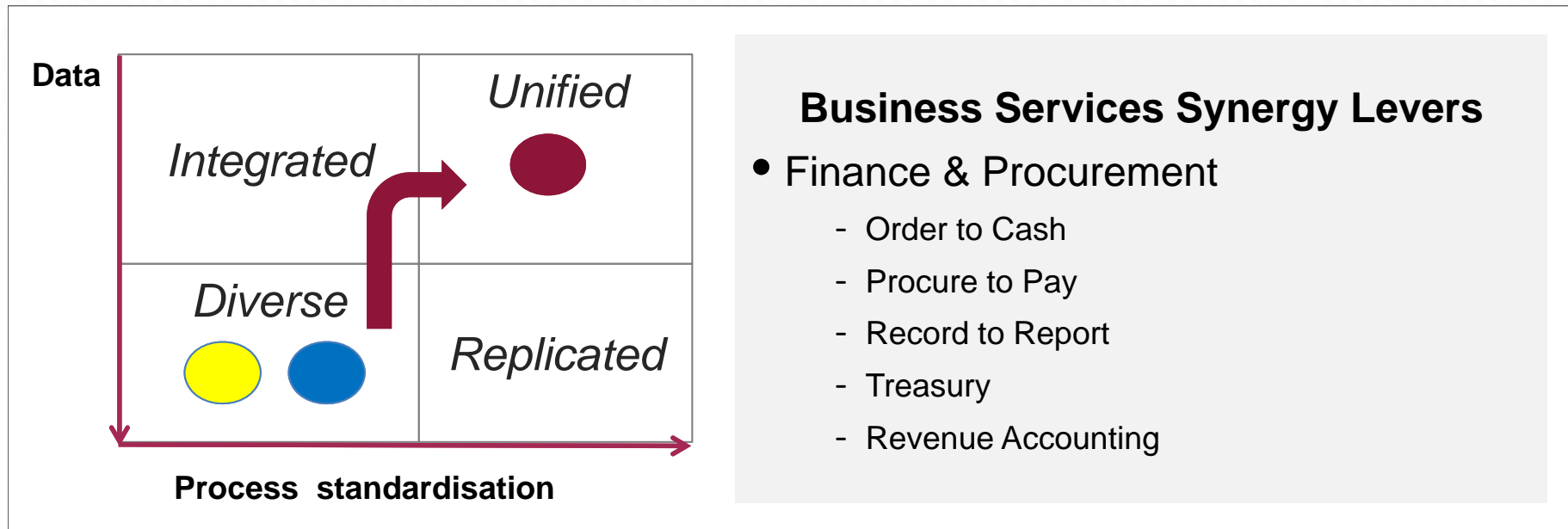


Cargo Synergy Levers

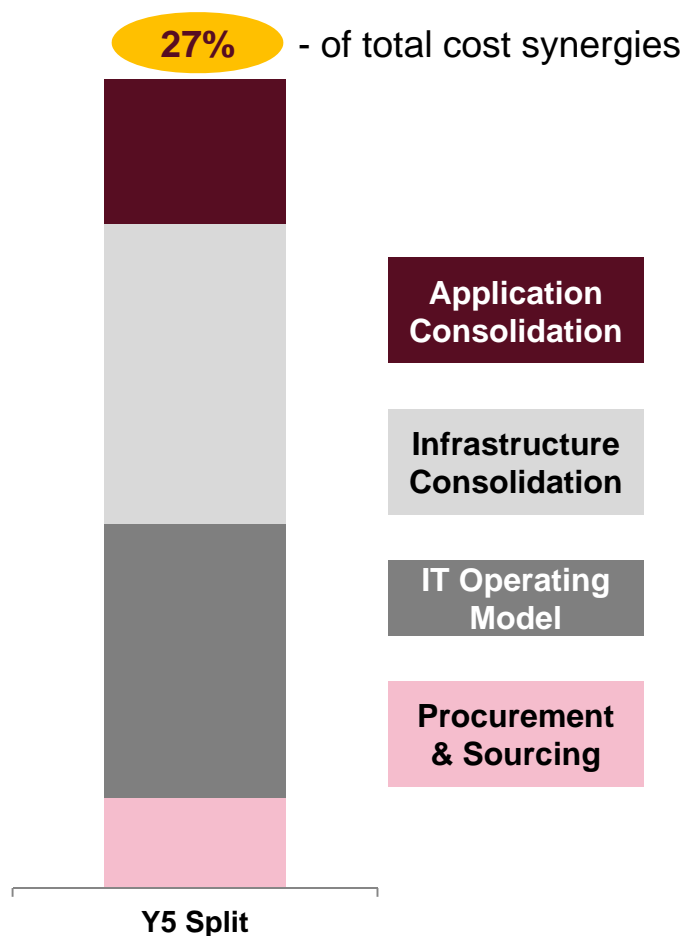
- One revenue management solution
- Single customer programme
- Joint deals with large customers
- One on-line portal
- Electronic AirWay Bills

IT – underpinning IAG Back Office

- Initial Focus:
 - Process & Information needs



IT – target of 27% of cost synergies by 2015



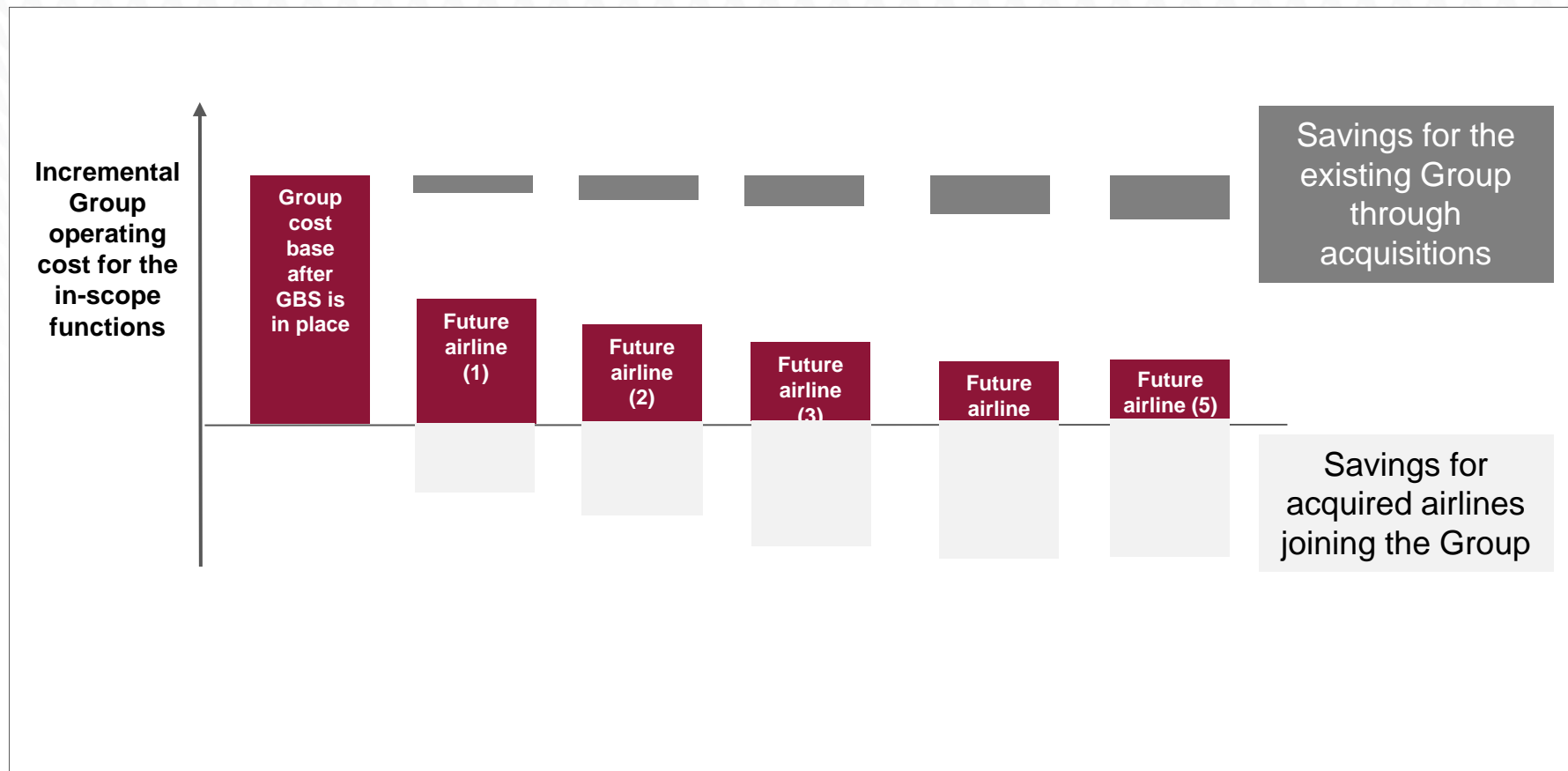
Progress so far

- ✓ **Infrastructure Consolidation:** Initial IT strategies and standards aligned across OpCos by Service Tower (Servers, Desktop, Telecoms, Service Desk, Security)
- ✓ **Application Architecture:** IAG Business & Systems Capability Models developed
- ✓ **IT Operating Model**
 - ✓ Restructuring of BA, Iberia IT teams
- ✓ **Procurement & Sourcing:** Joint RFP's & contracts negotiated against draft sourcing strategy

What we are working on

- **IT Organisation:** Business Case underway to put in place new IT capabilities & Data Centre Strategy
- **Application Plans:** Business Governance groups established in all priority areas

New airlines would increase synergies through GSP scalability



Strategy and commercial

Robert Boyle

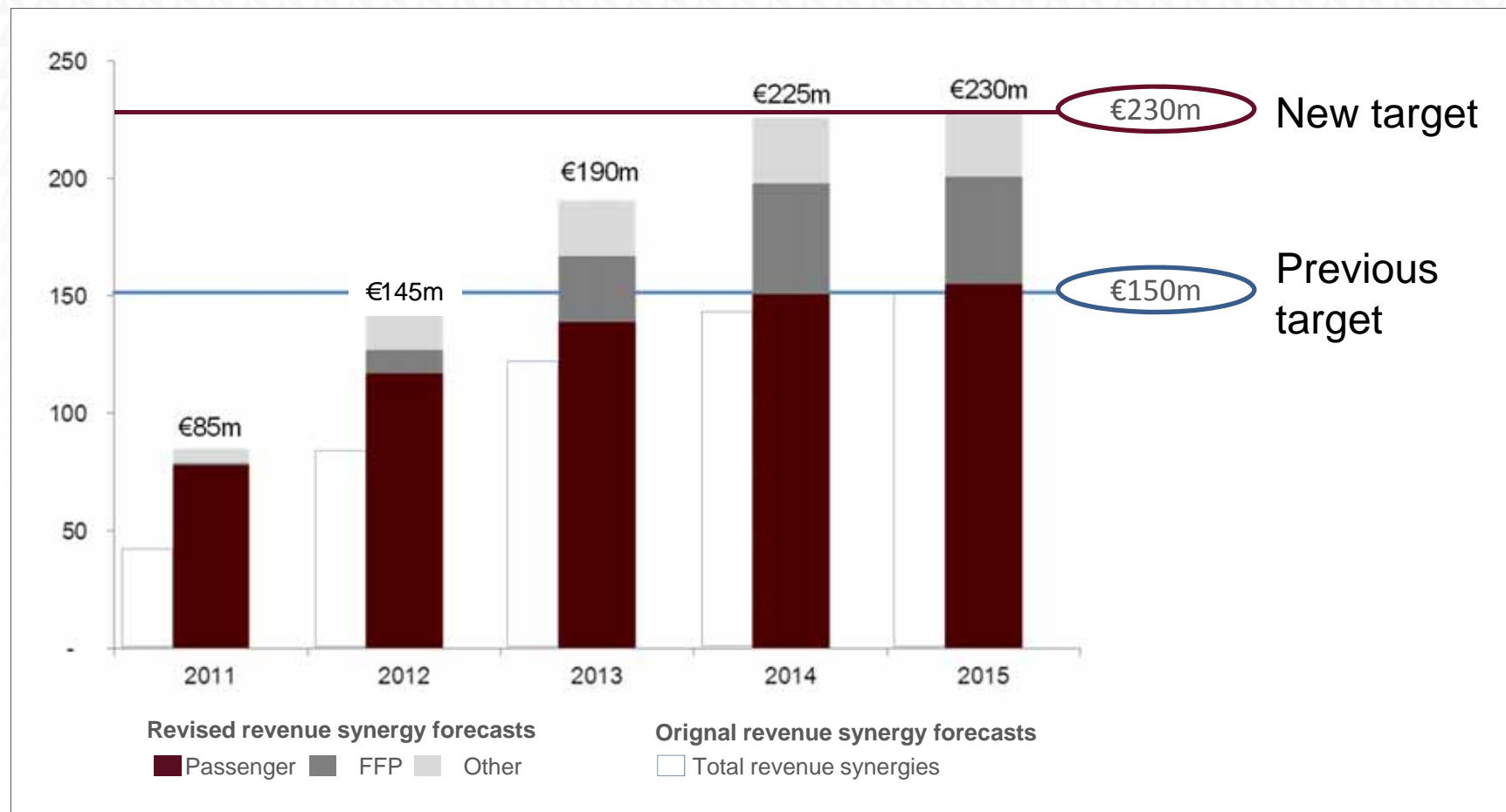
Director of Strategy, IAG

Drew Crawley

Commercial Director, British Airways



Revenue synergies summary

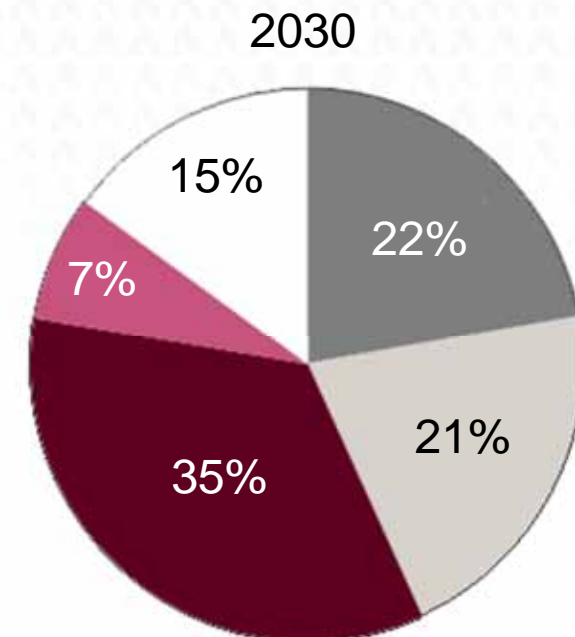
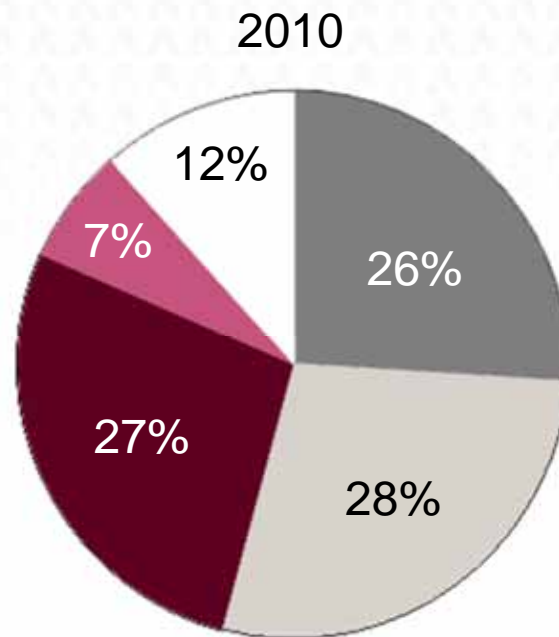


Industry Context



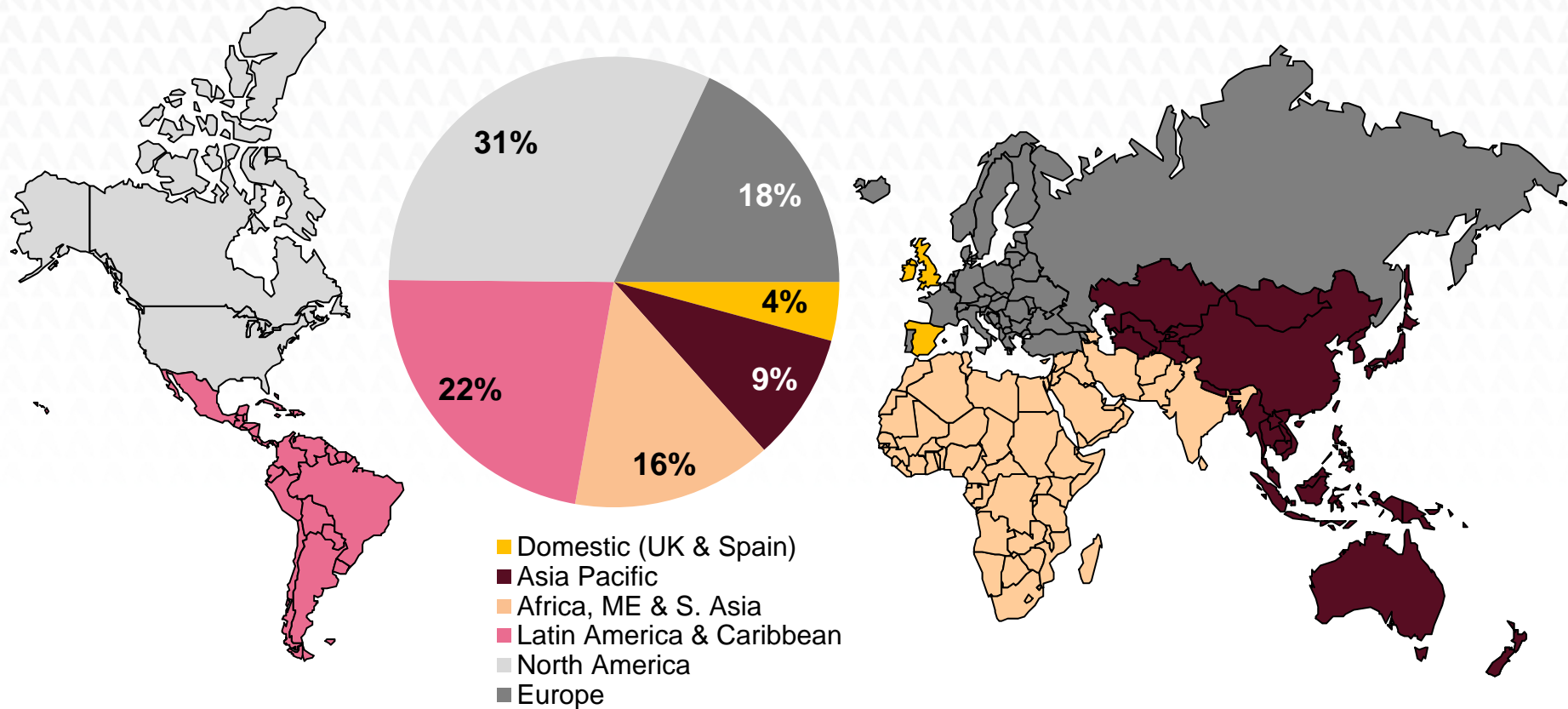
Shifting geographic balance

World RPK distribution



Source: Airbus 2011 Global Market Forecast data
IAG analysis

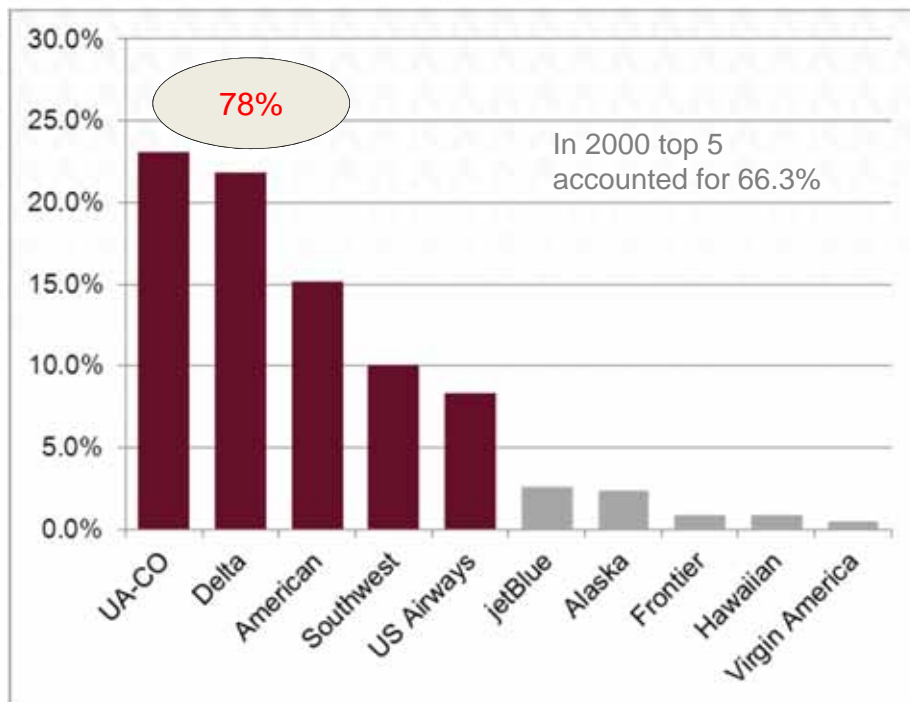
IAG global capacity exposure



Geographic breakdown of IAG ASKs, Year to Oct 2011

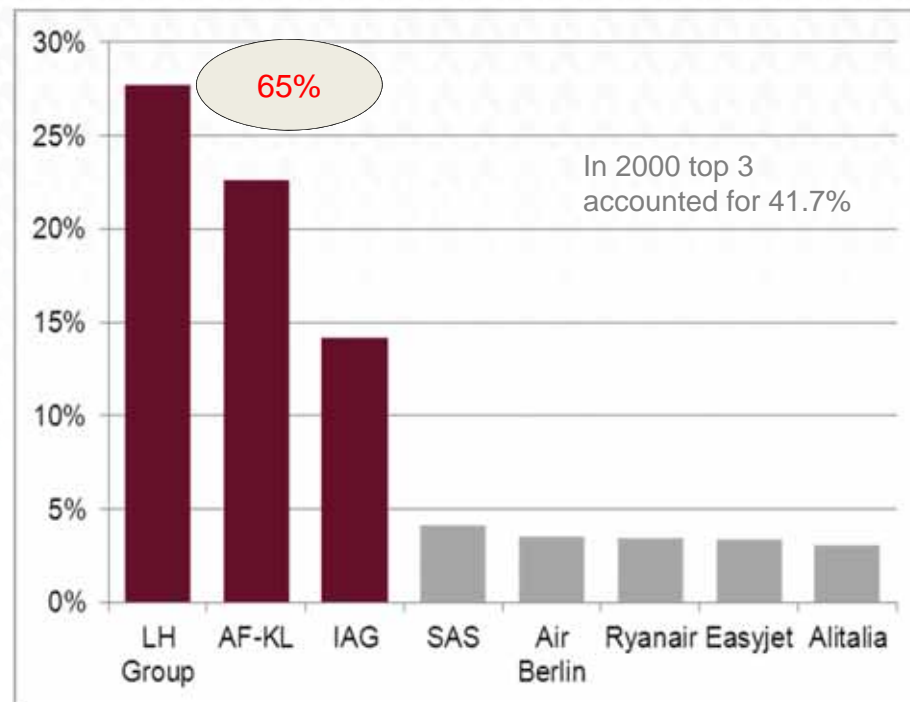
Industry is consolidating

Airlines: US – 2010 Revenues



Source: Form 41 data

Airlines: Europe – 2010 Revenues



Source: IATA and company reports

Our oneworld partners



IAG Strategic Objectives



IAG

Global Hubs: Madrid & Heathrow



Geographically well placed hubs

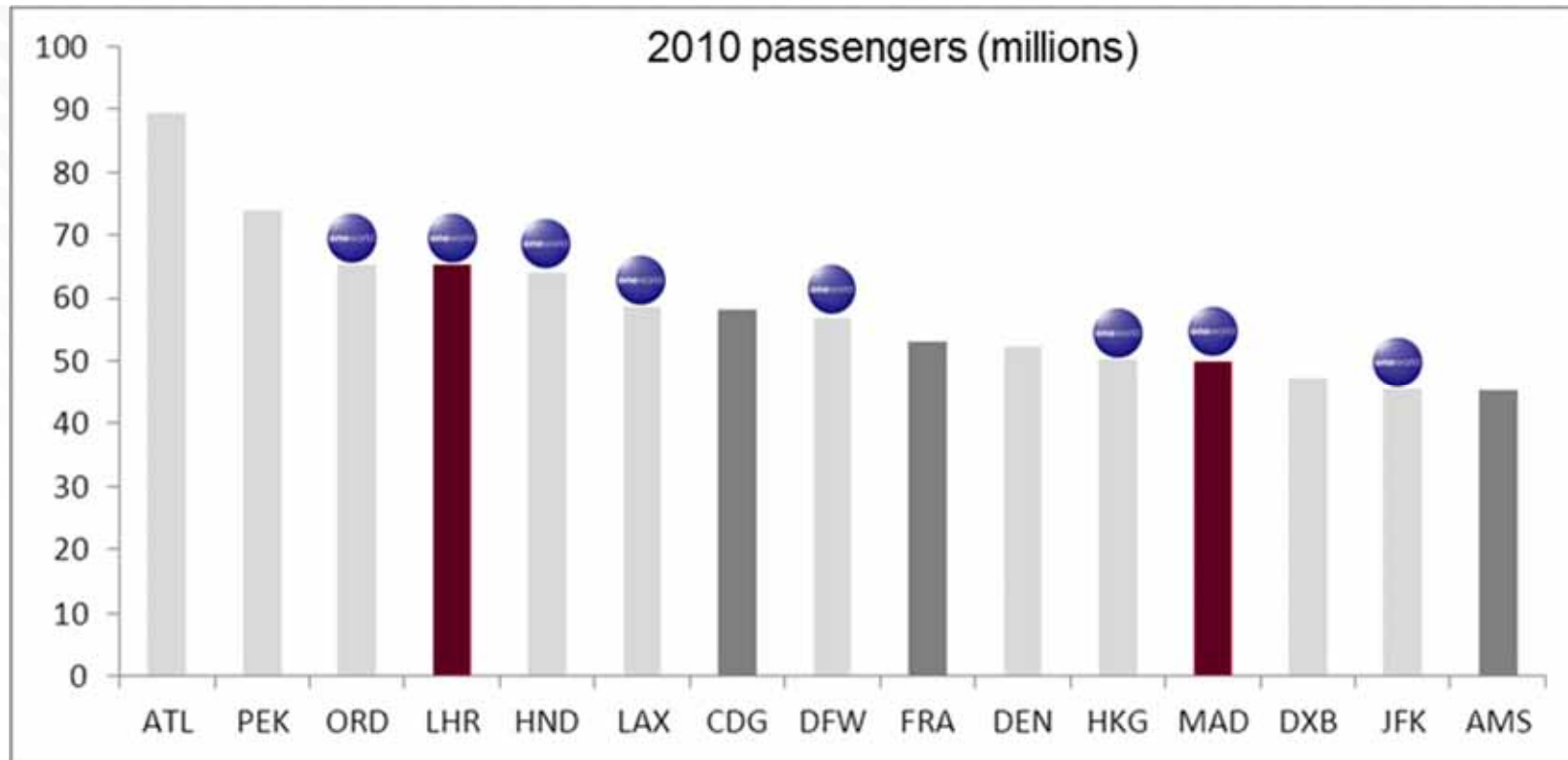
Madrid Barajas



London Heathrow

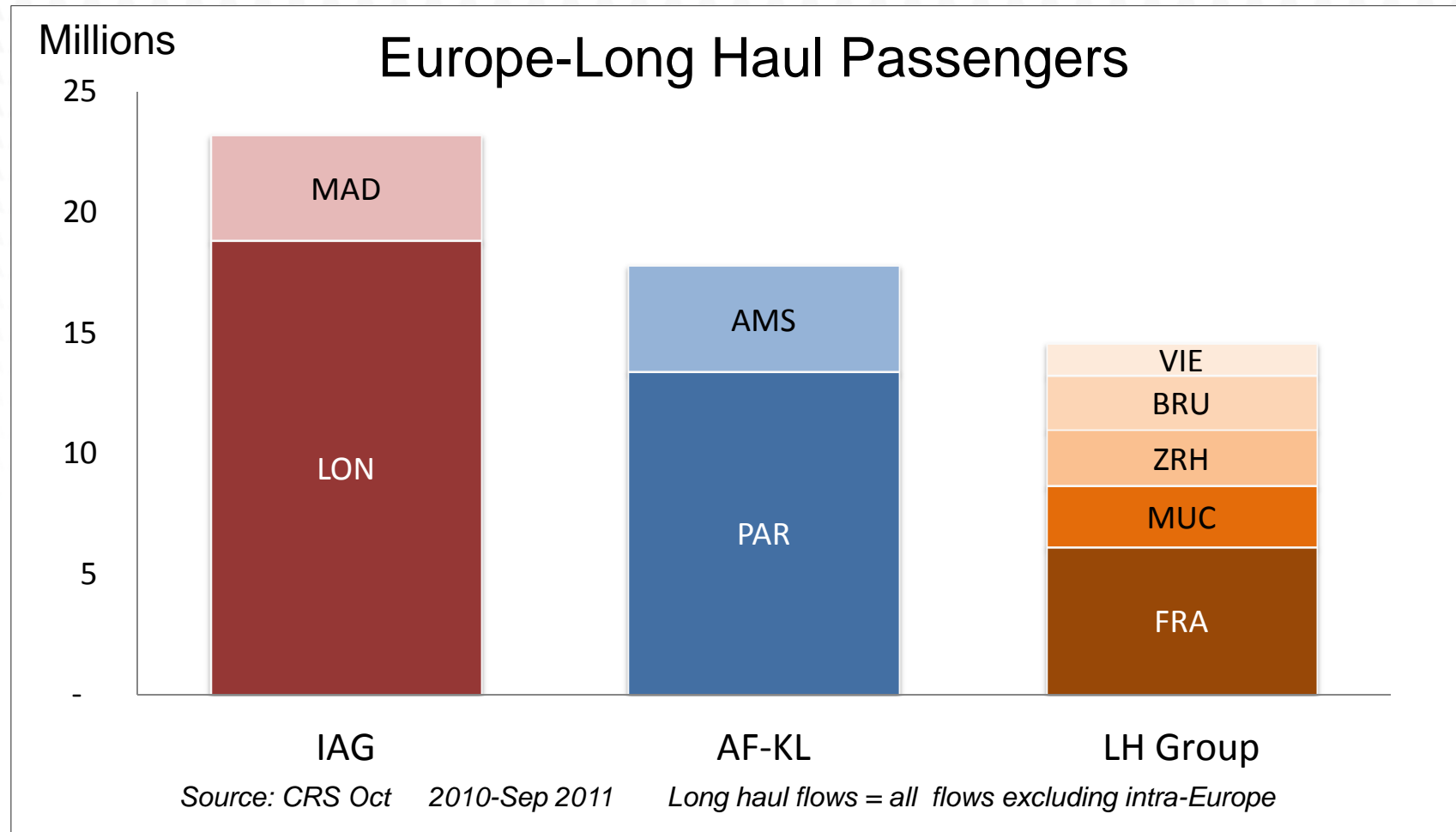


Heathrow and Barajas – global hubs

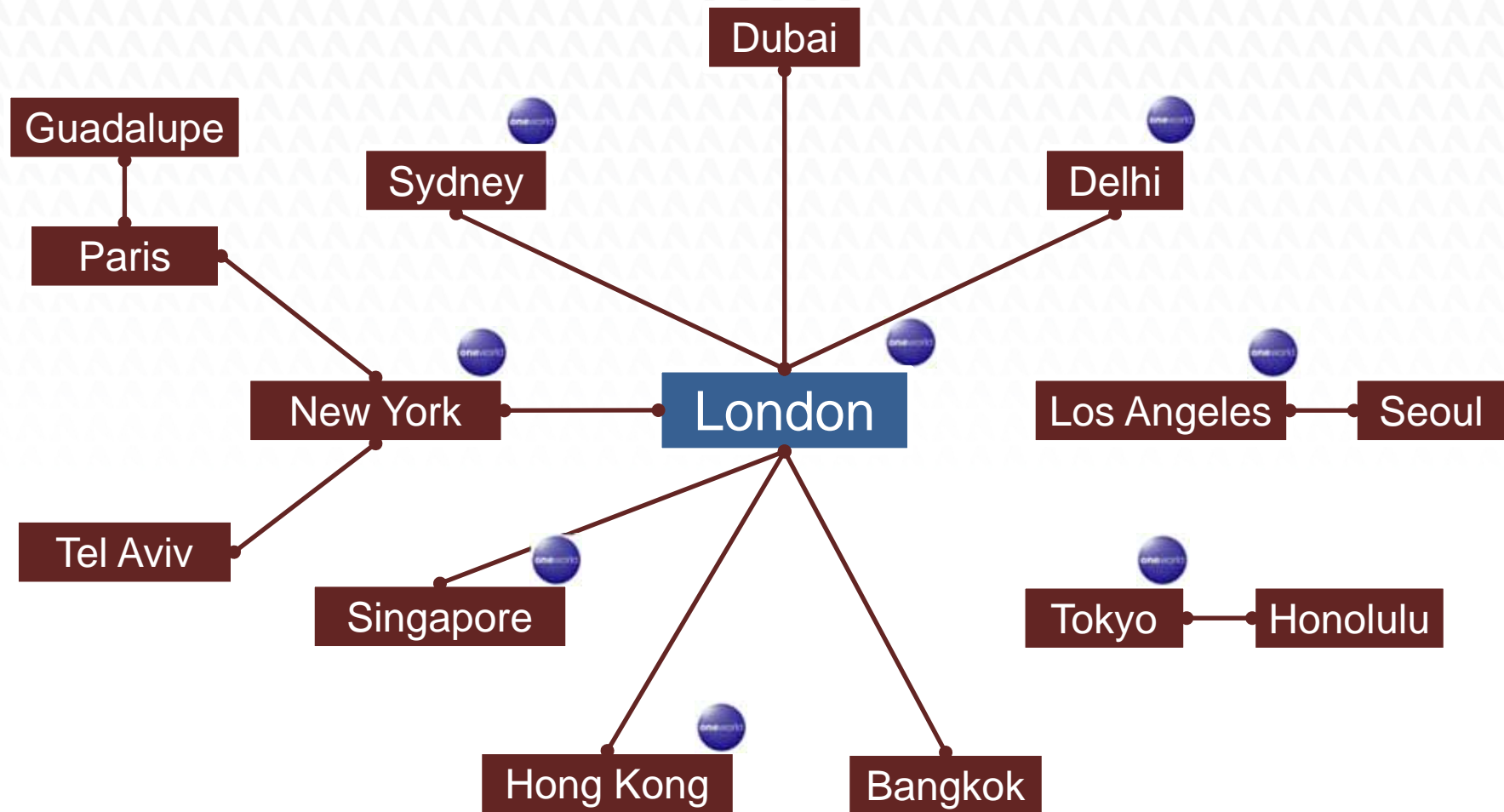


Source: Airports Council International

Well placed to serve largest longhaul O&D

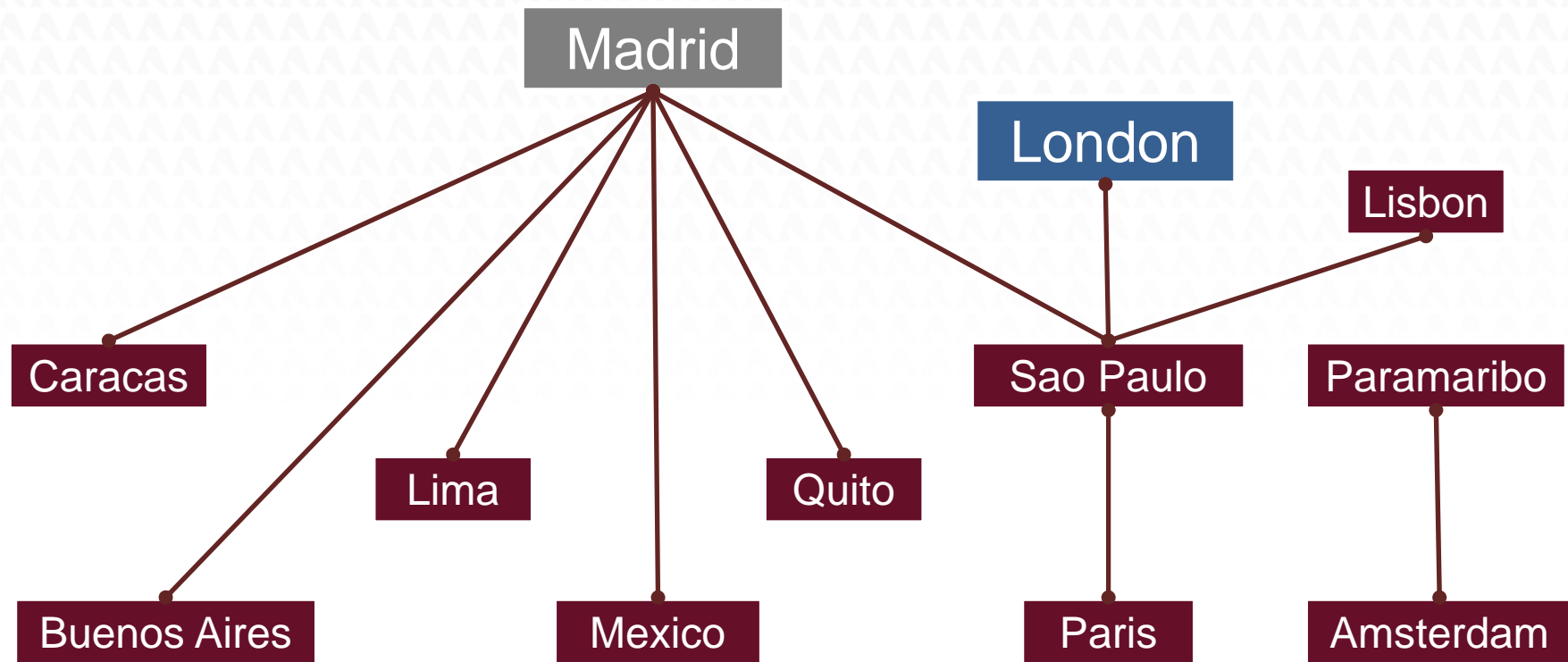


World's top 10 long haul O&D markets



Source: October 2010-September 2011 CRS Data.
Sectors over 3,000 miles

Latam-Europe top 10 long haul O&D markets



Source: October 2010-September 2011 CRS Data Excludes Caribbean

Well positioned hubs



Key Asia-Latam markets:

- Beijing to Sao Paulo via Madrid is 5 kilometres longer than direct
- Beijing to Sao Paulo via London is 33 kilometres longer than direct

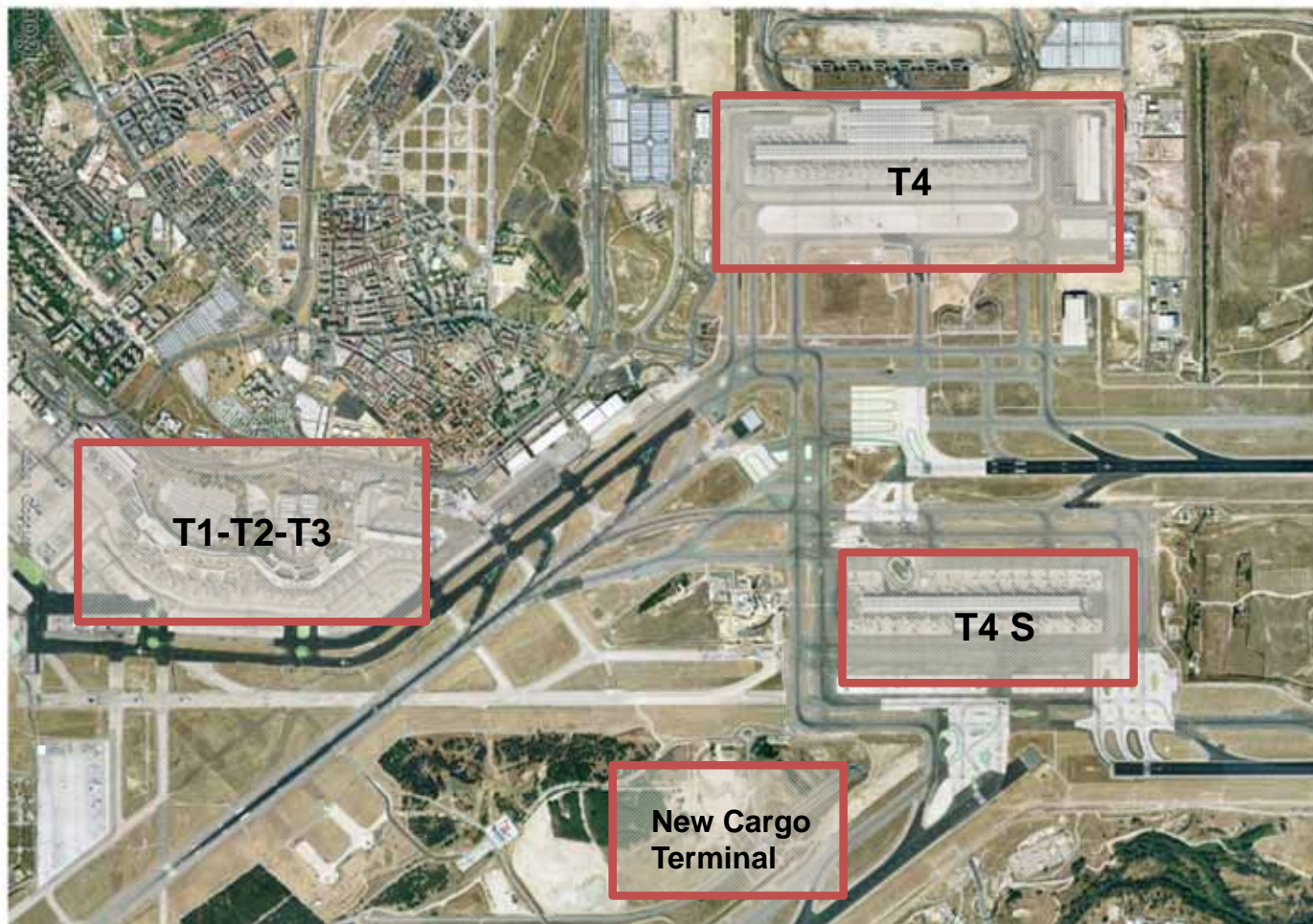
Great passenger terminals



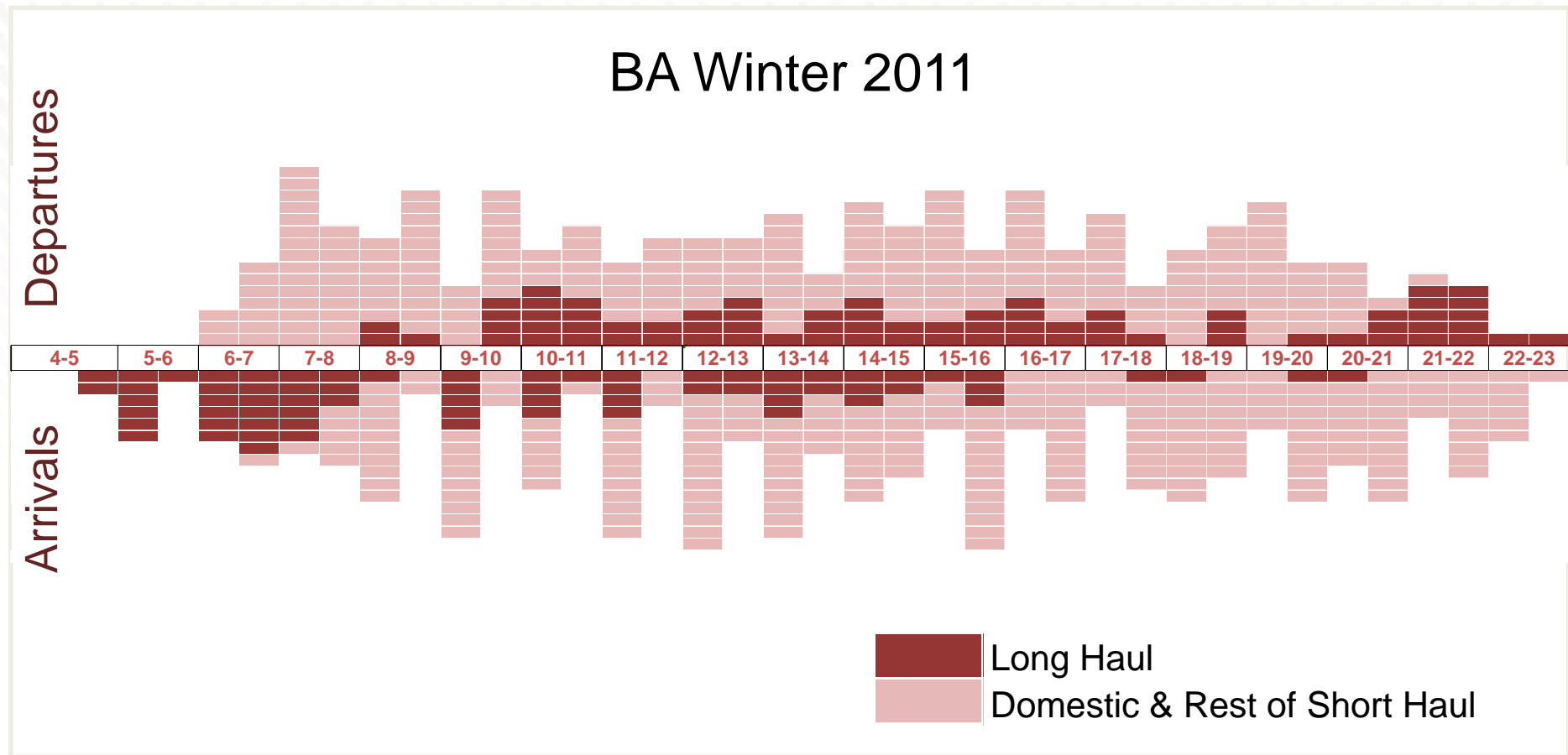
Heathrow 2011



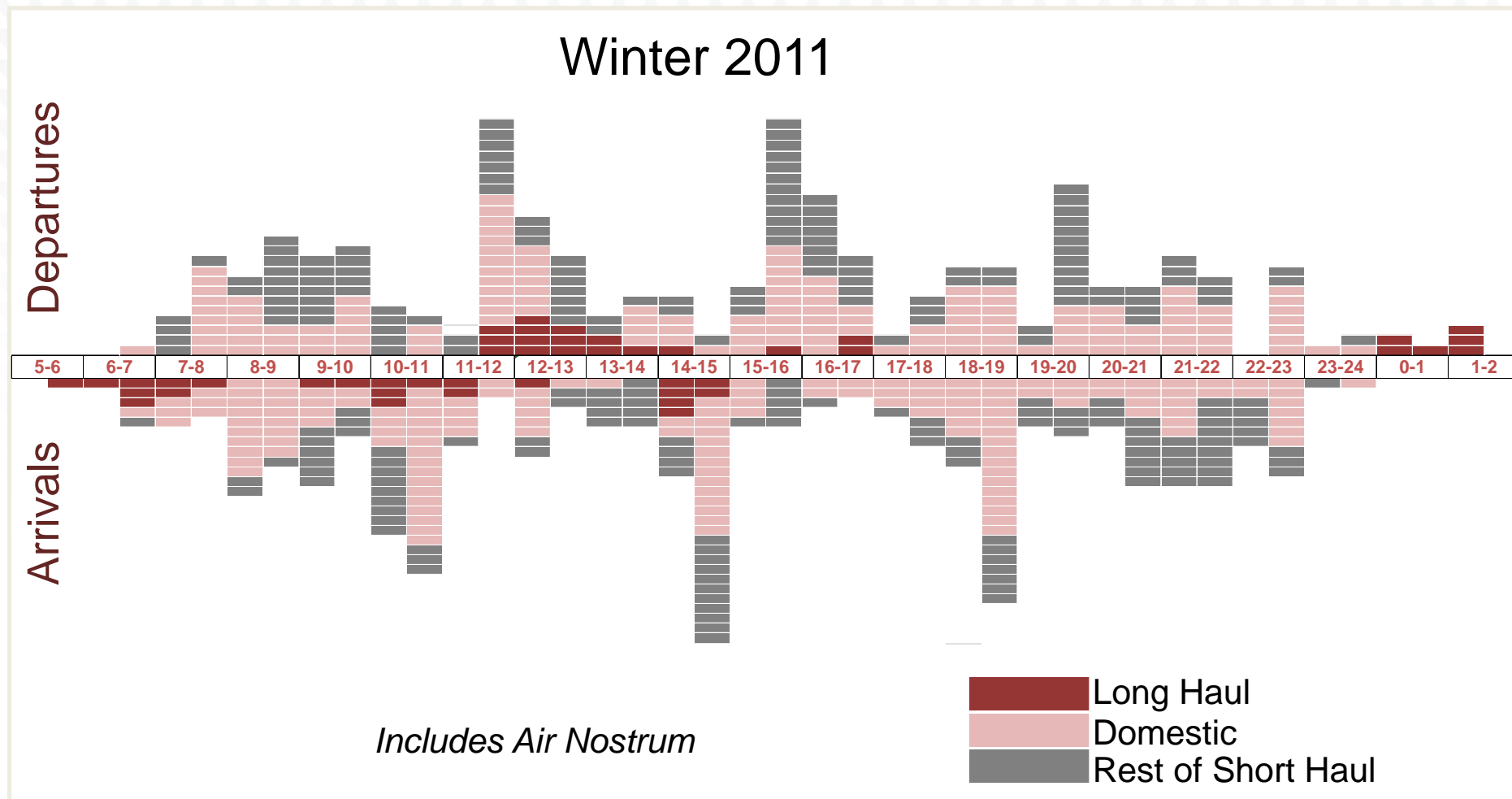
Barajas infrastructure



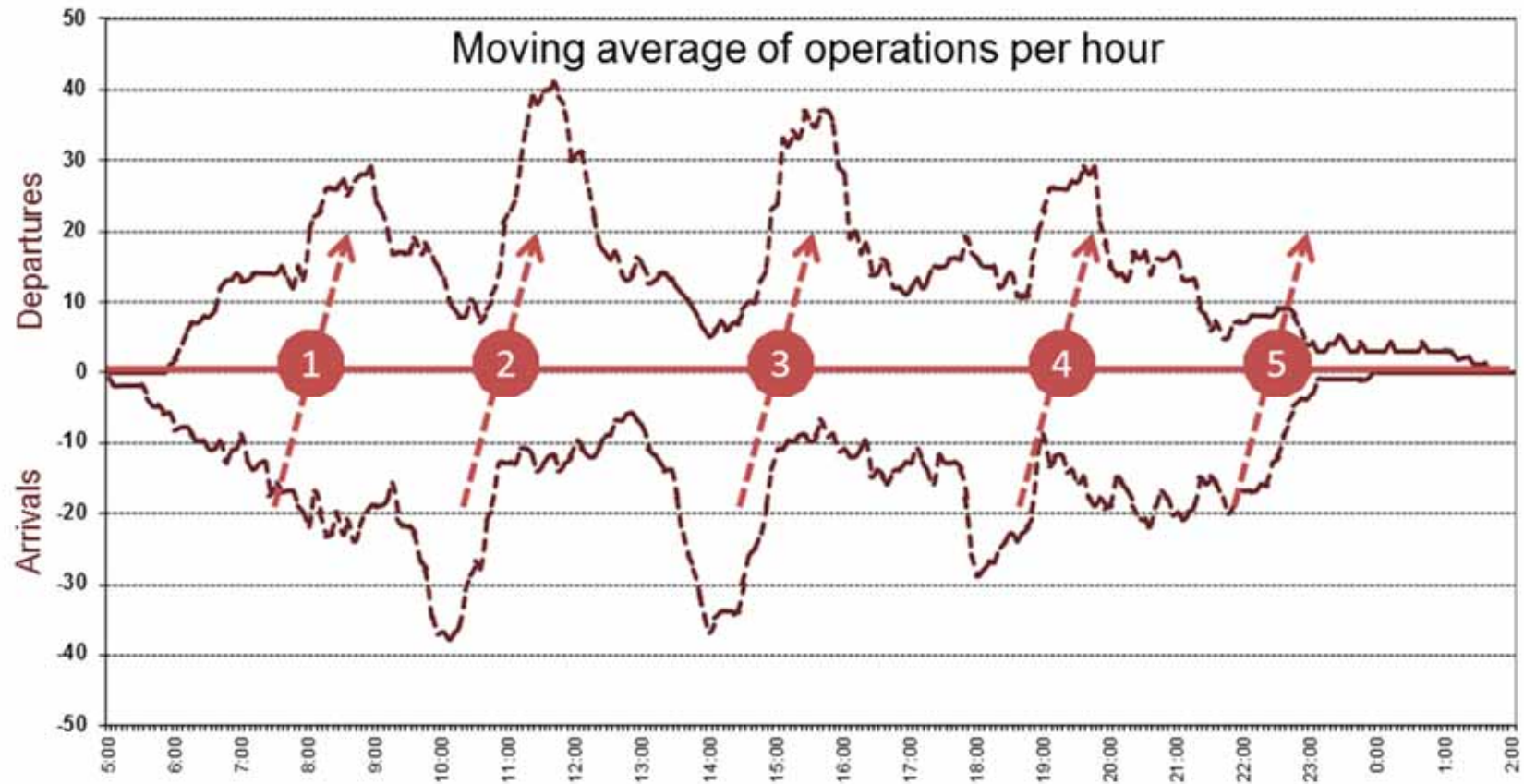
BA Heathrow hub detail



Iberia Madrid hub detail



IB Madrid hub overview



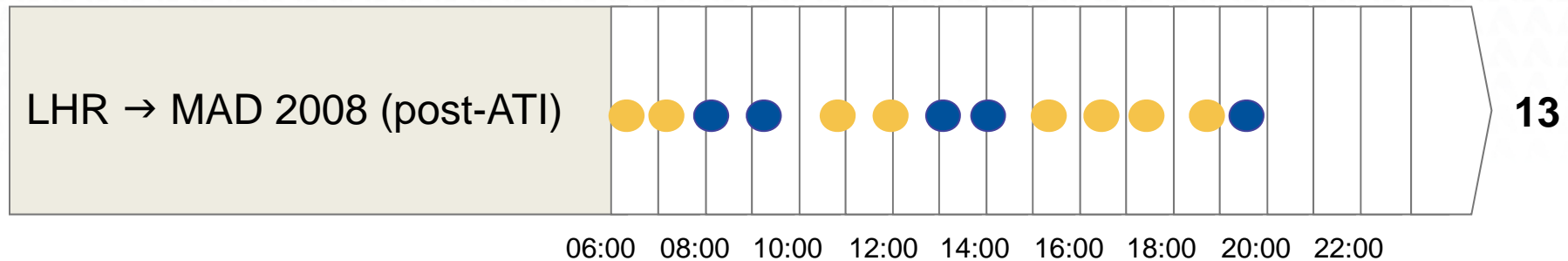
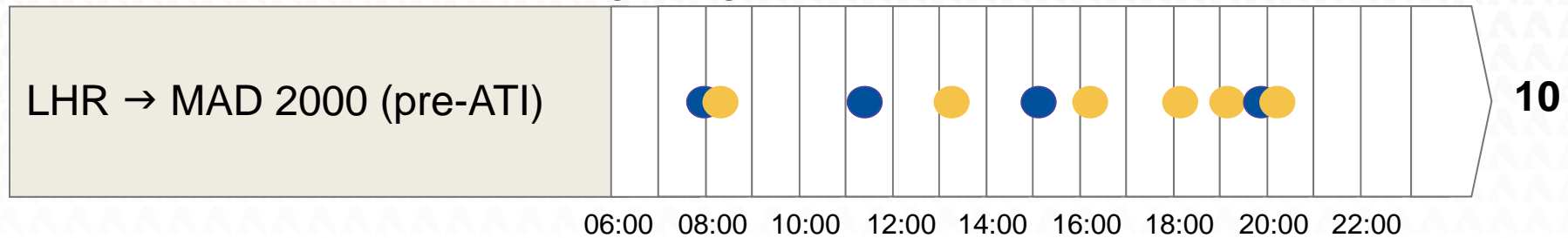
Increased capacity between hubs after merger

LHR-MAD

Timing of flight departures



Flights



LHR → MAD 2011 (Merger)

Air bridge cargo capacity - IB Airbus 340,
BA Boeing 767
Night stops removed

13

Dual hub opportunities



Improved routes for some flows:

- Stockholm to New York **11%** shorter via London than Madrid
- Tel Aviv to Buenos Aires **8%** shorter via Madrid than London

IAG Strategic Objectives

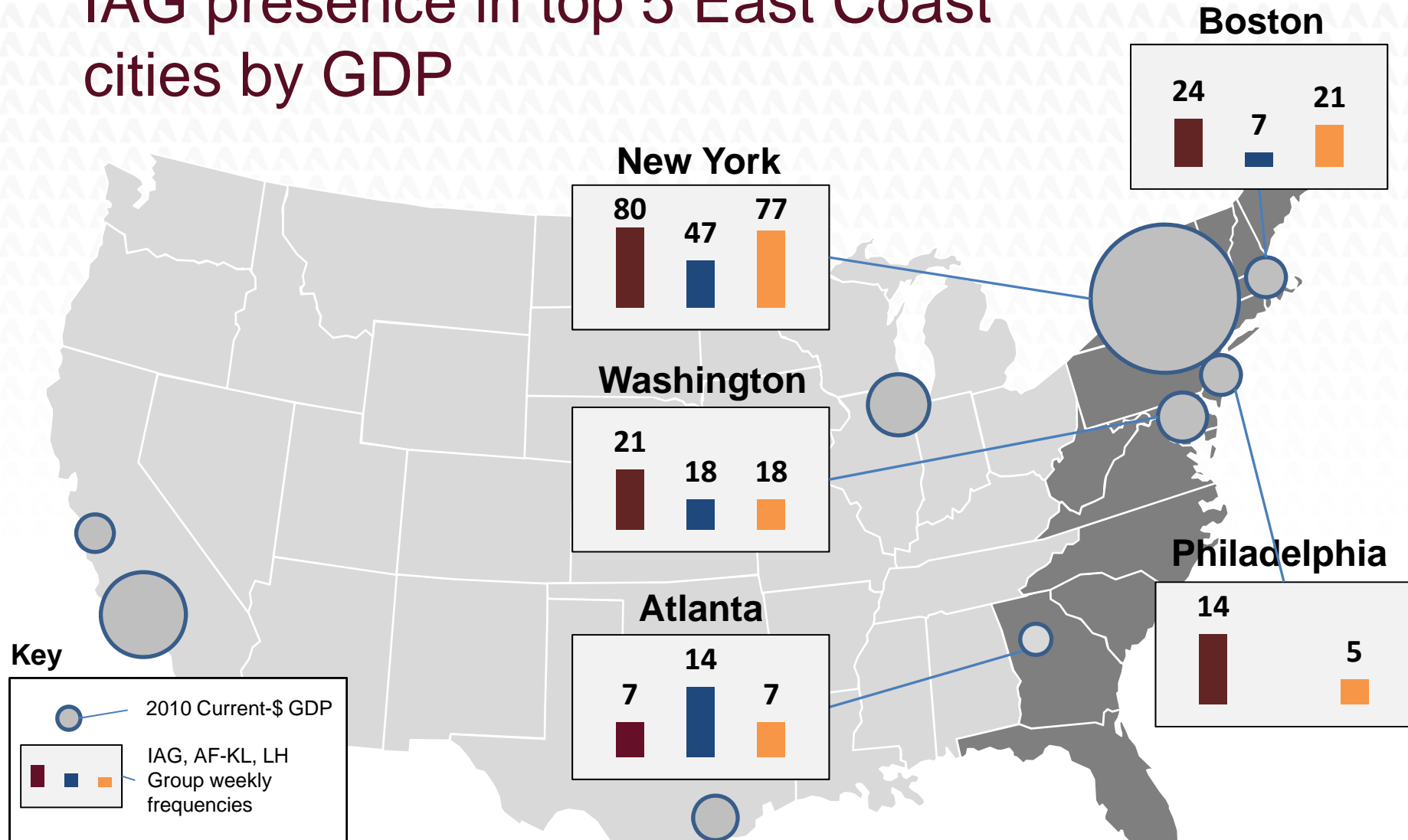


IAG

Key Flows



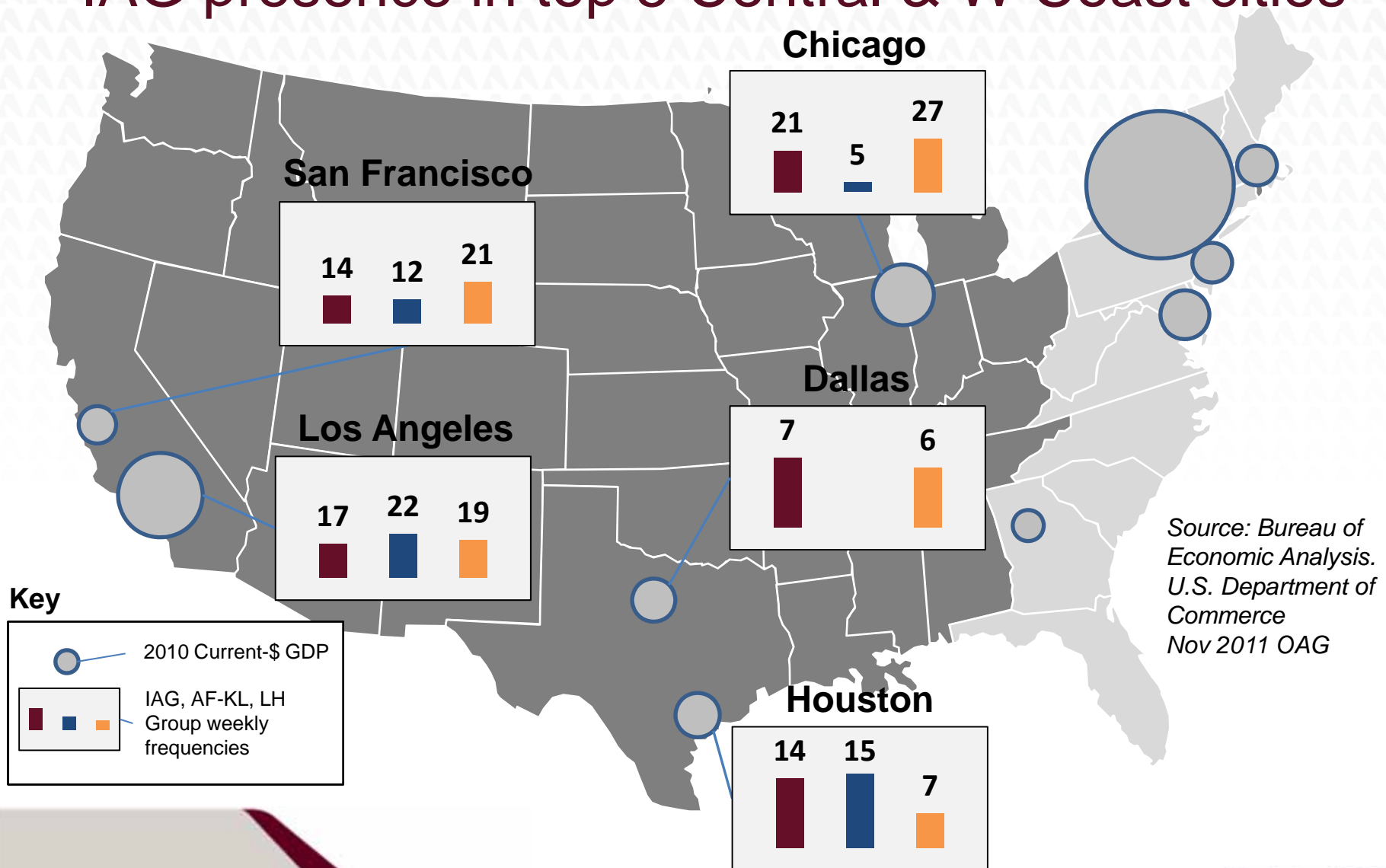
IAG presence in top 5 East Coast cities by GDP



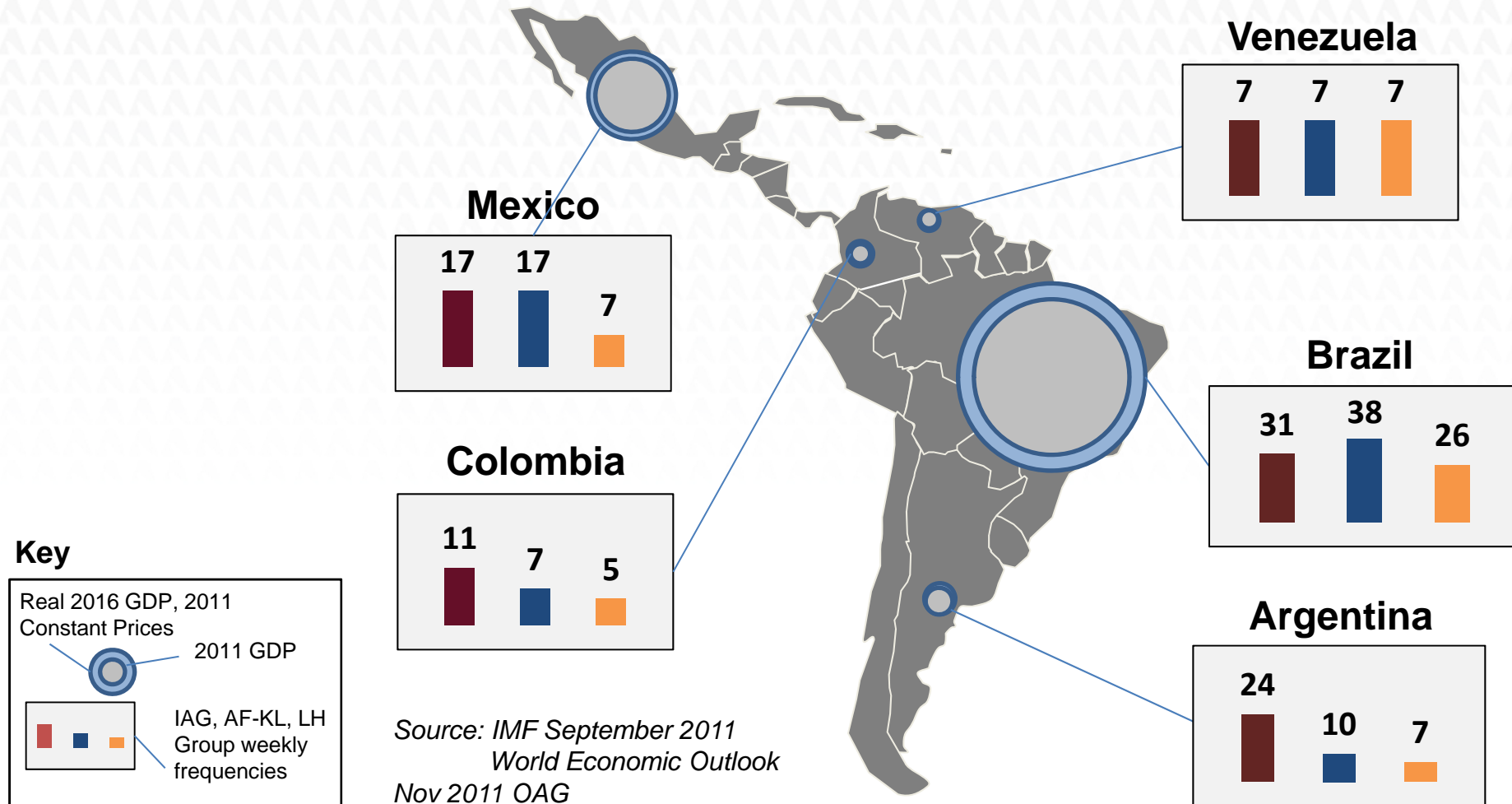
Source: Bureau of Economic Analysis. U.S. Department of Commerce
Nov 2011 OAG



IAG presence in top 5 Central & W Coast cities

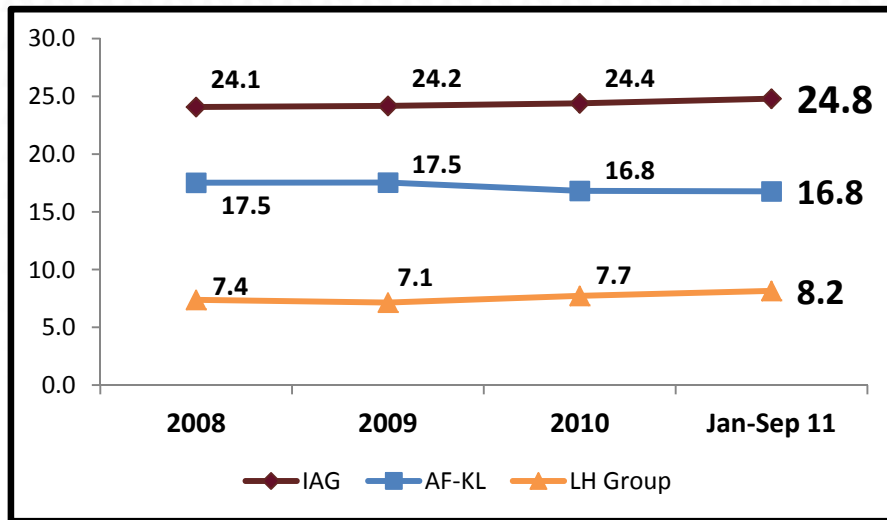


IAG presence in top 5 Latin American countries

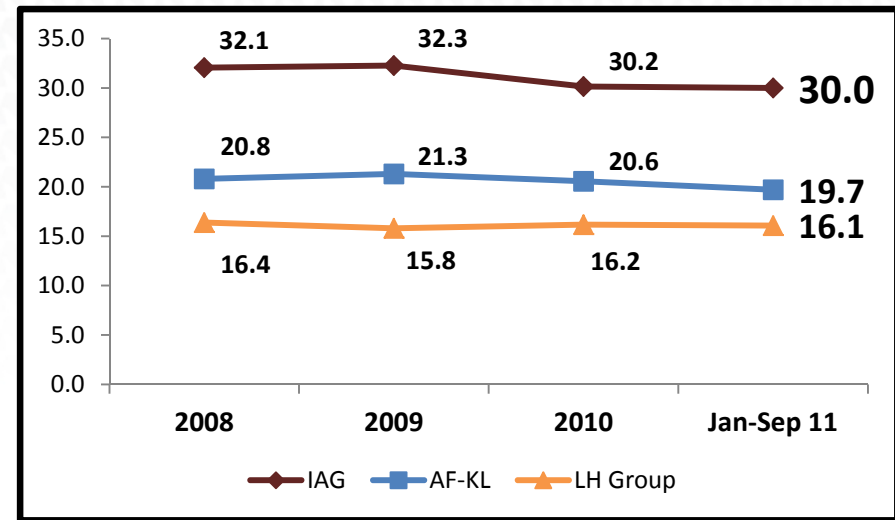


Leadership in Latin America

Economy Market Share



Premium Market Share



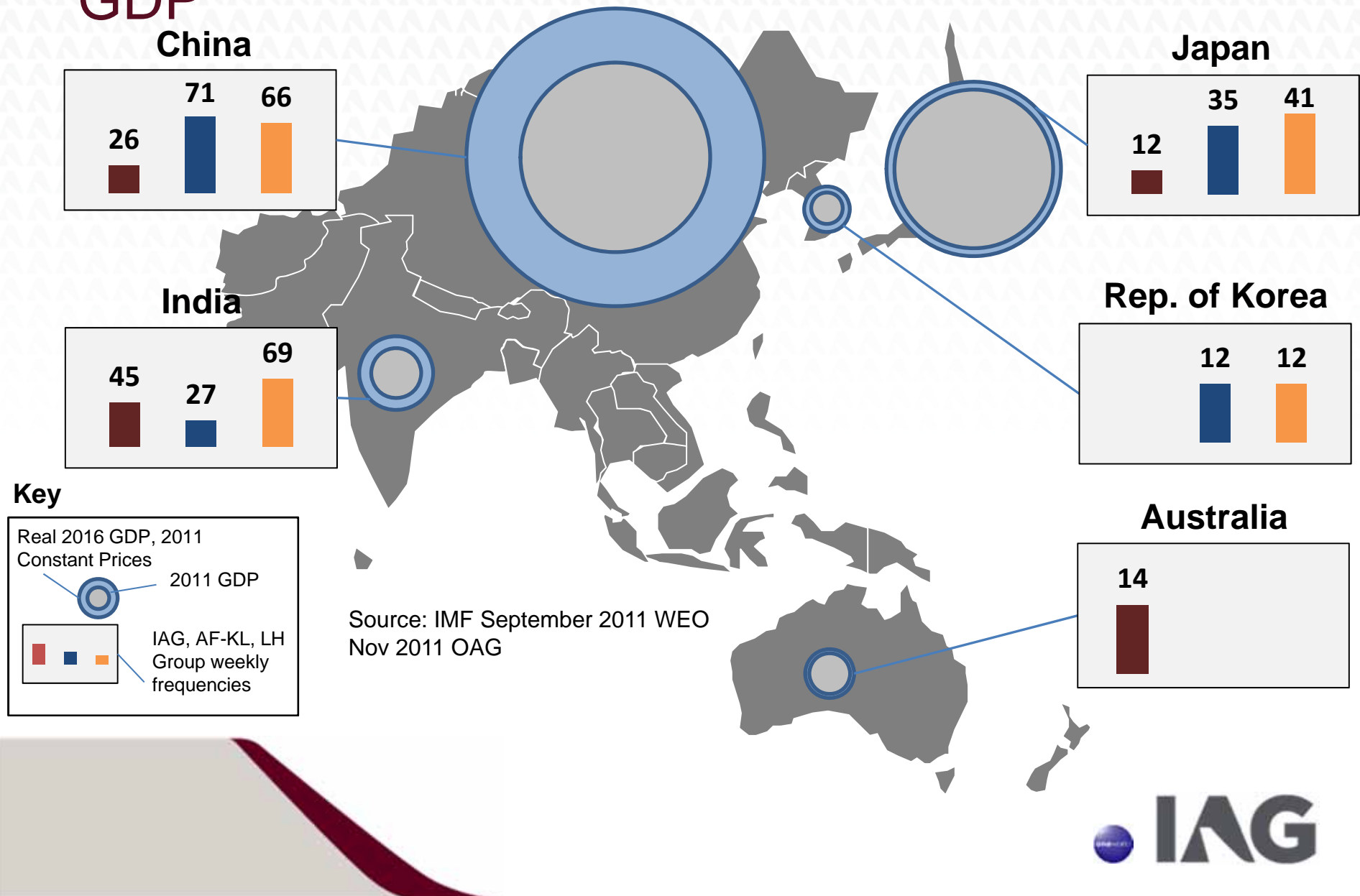
Source: CRS data

IAG Strategic Objectives



IAG

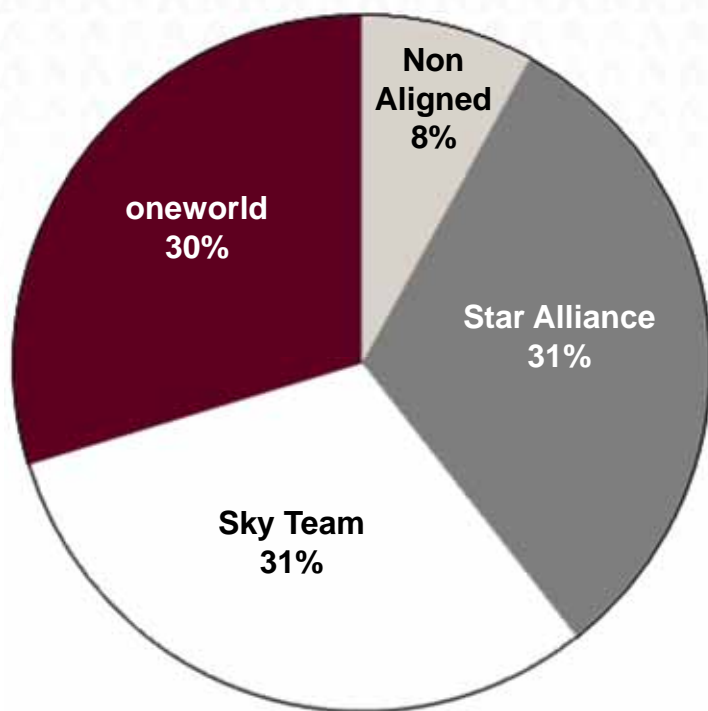
IAG presence in top 5 Asia Pacific countries by GDP



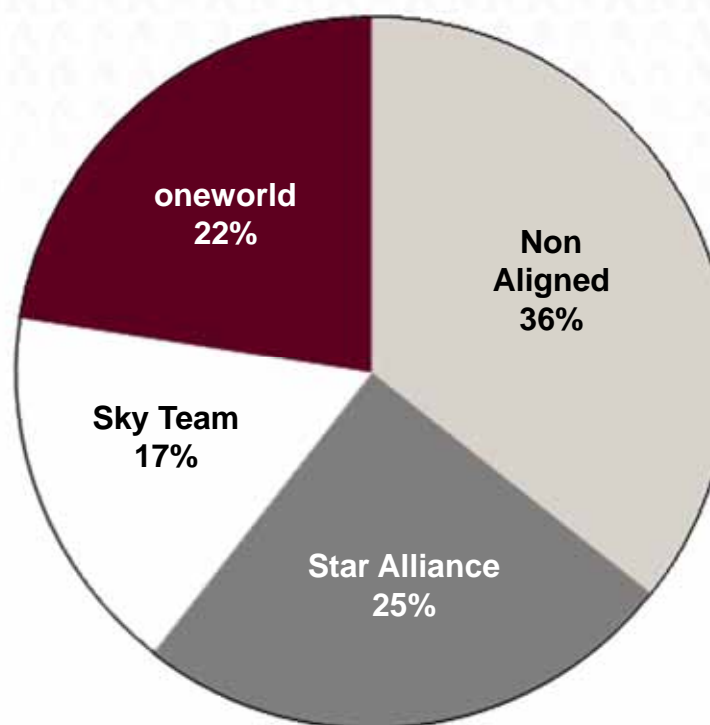
Stronger Europe-to-Asia in critical markets

Presence in critical markets through alliances

China

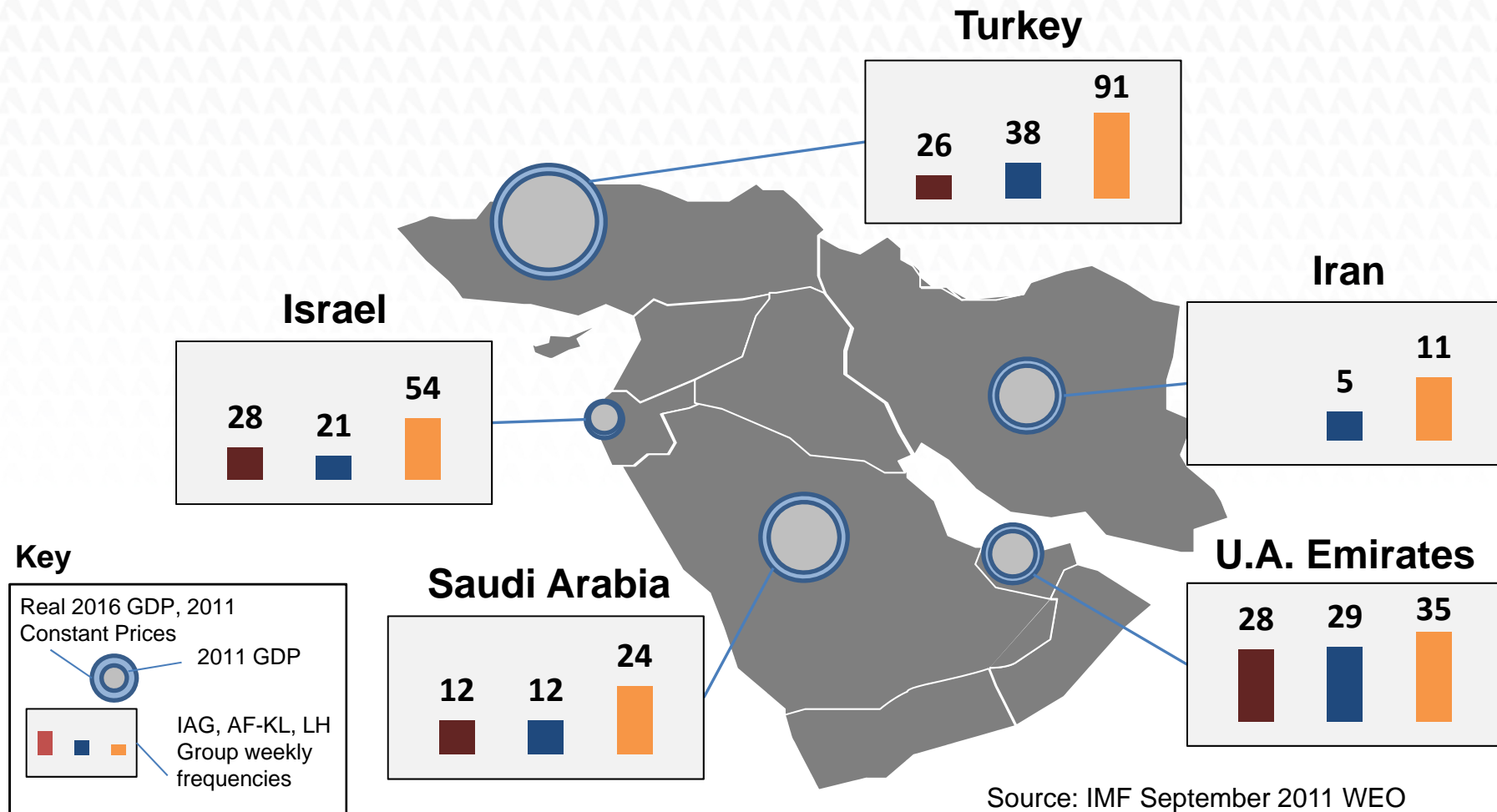


India



Source: Nov 11 OAG, ASK

IAG presence in top 5 Middle East countries



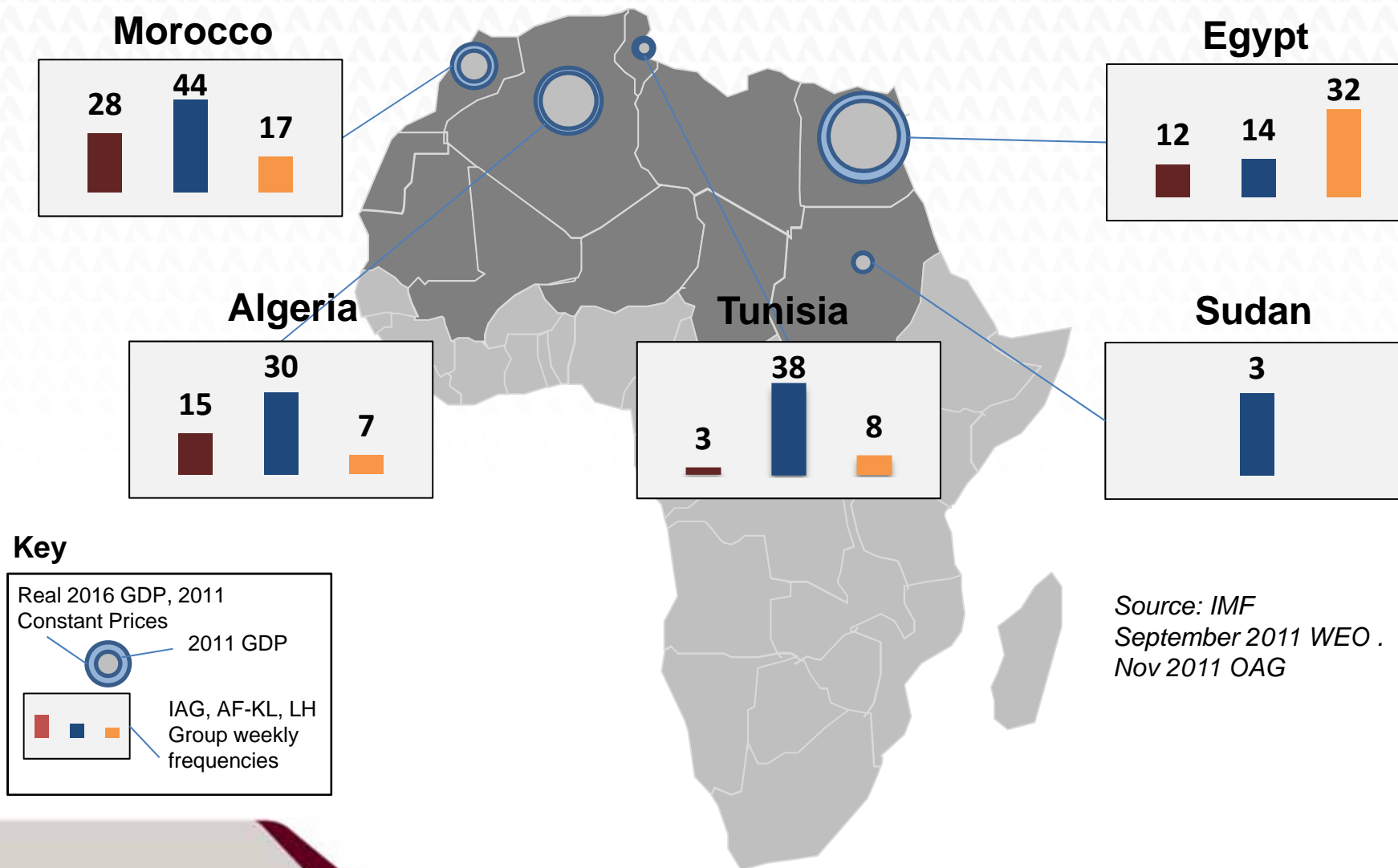
Source: IMF September 2011 WEO
Nov 2011 OAG

IAG Strategic Objectives



IAG

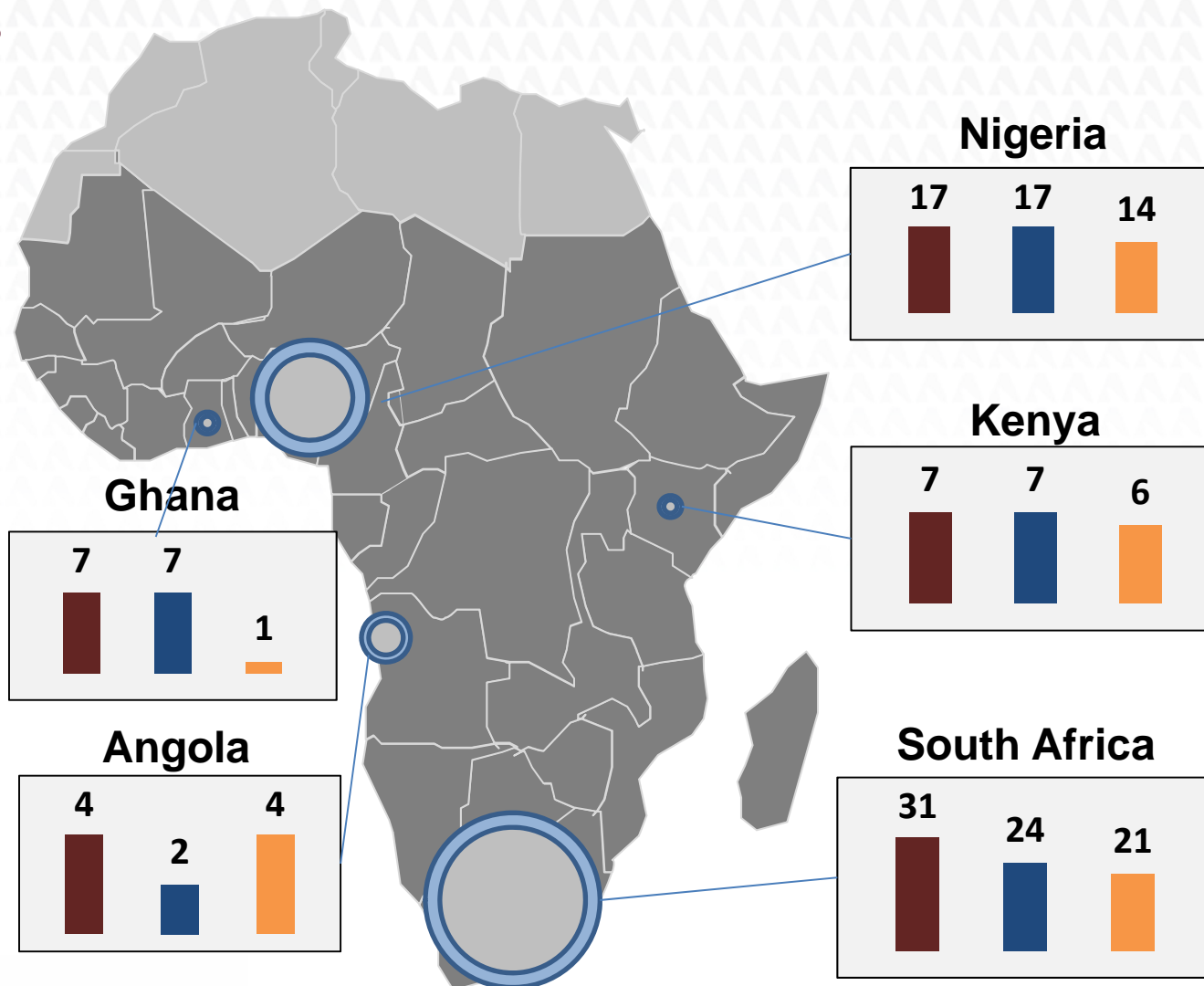
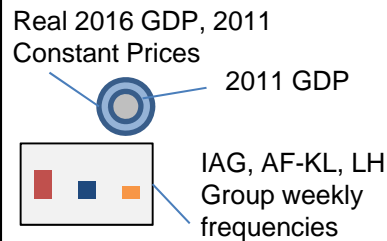
IAG presence in top 5 North African countries



IAG presence in top 5 Sub Saharan African countries

Source: IMF
September 2011 WEO .
Nov 2011 OAG

Key

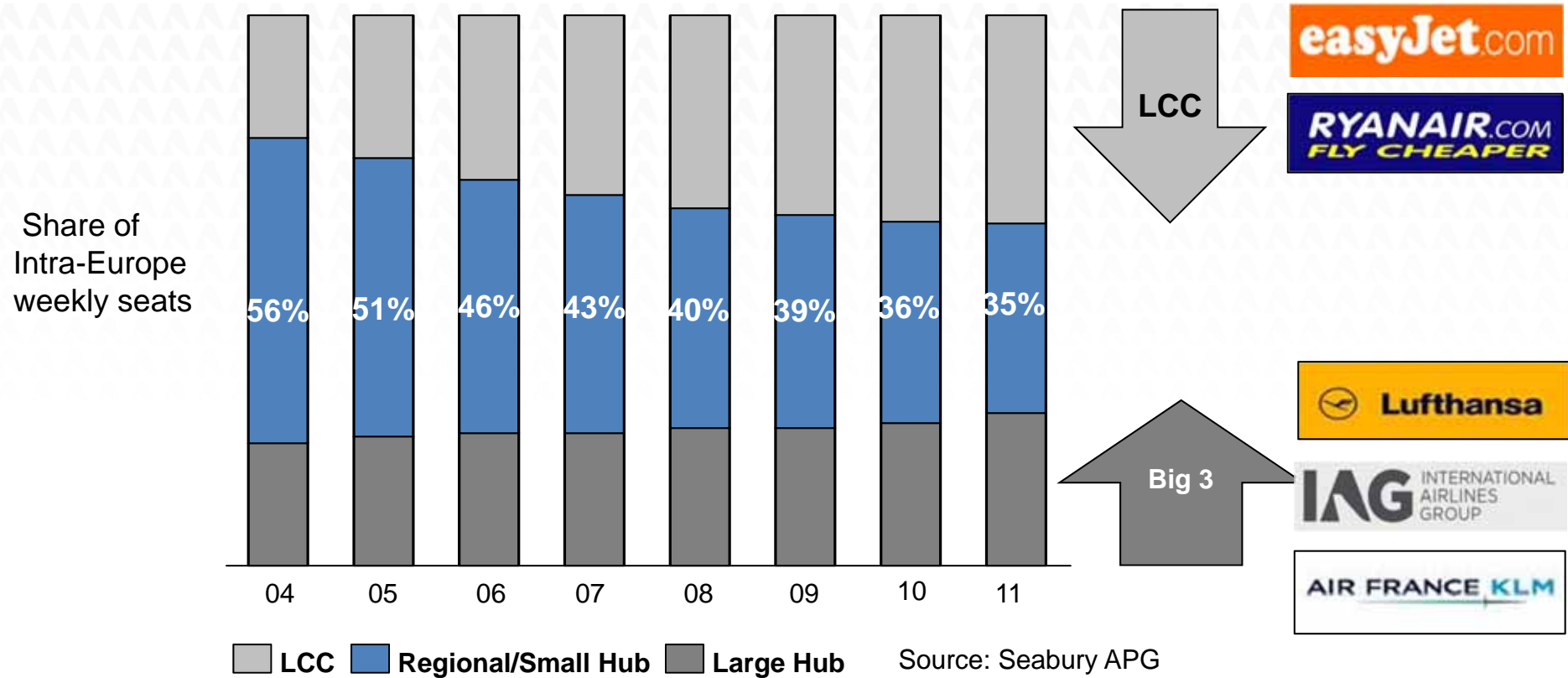


IAG Strategic Objectives



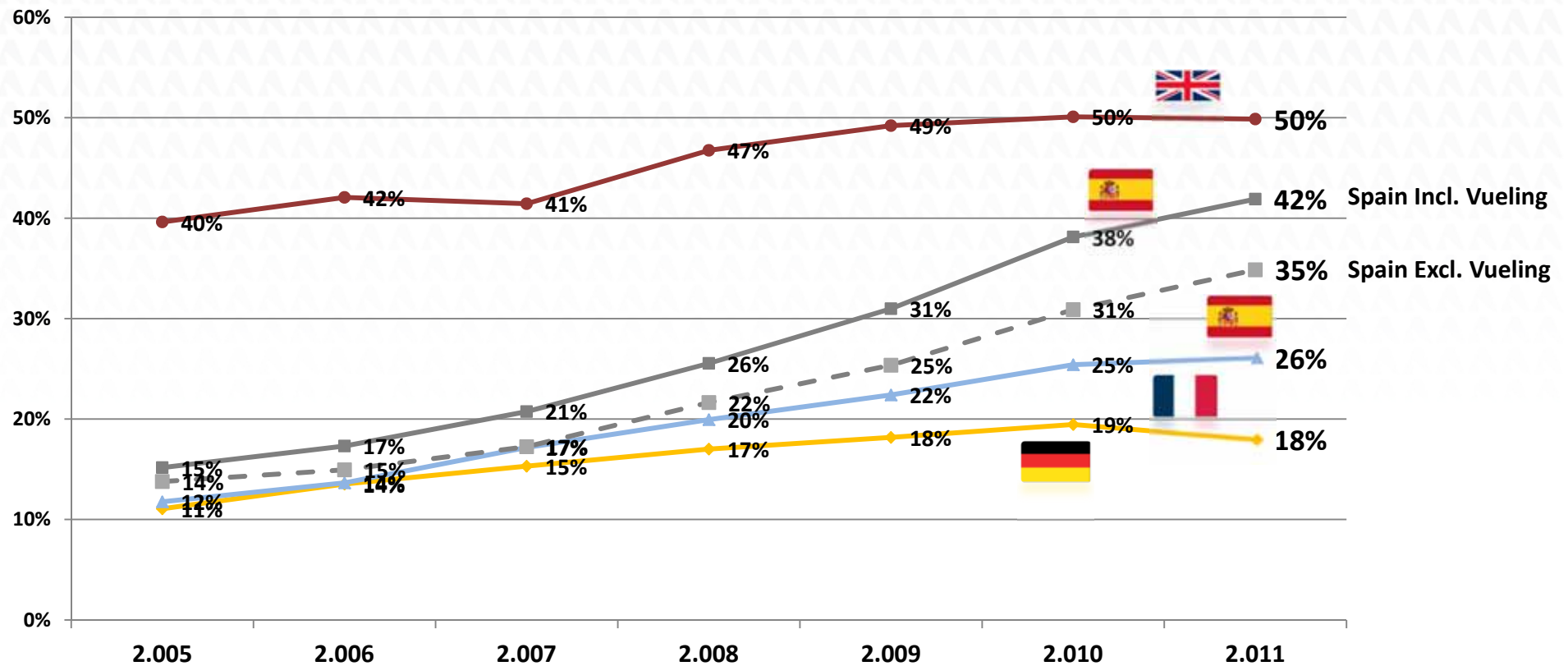
IAG

Intra-Europe



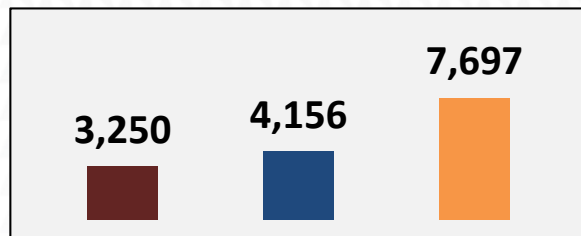
IAG

Low cost carrier penetration by country



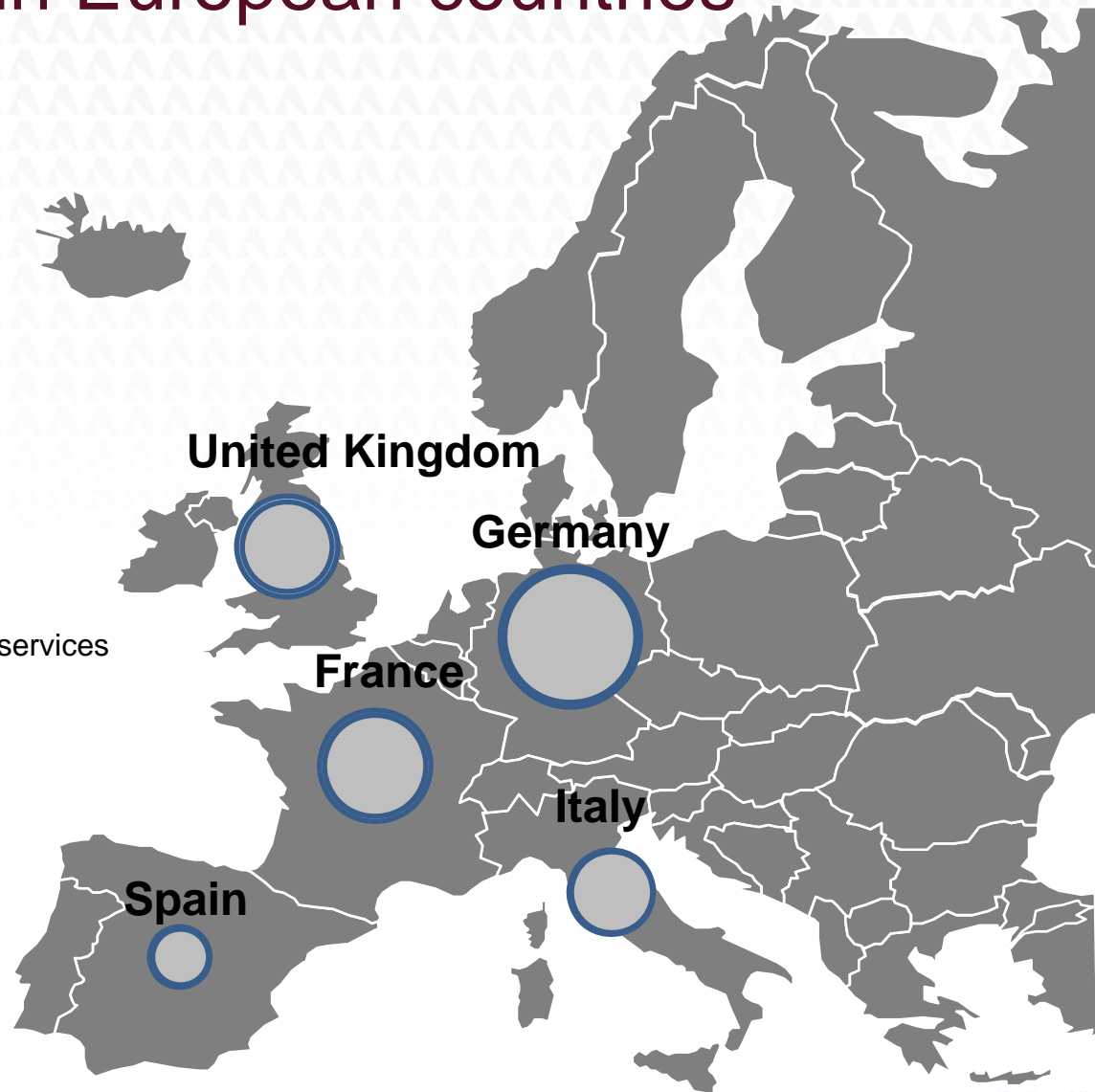
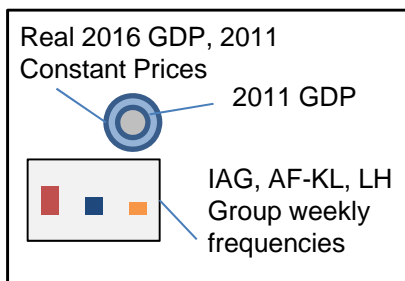
IAG presence in European countries

Intra-Europe frequencies



Source: IMF September 2011 WEO.
OAG November 2011. Excluding domestic services

Key



IAG

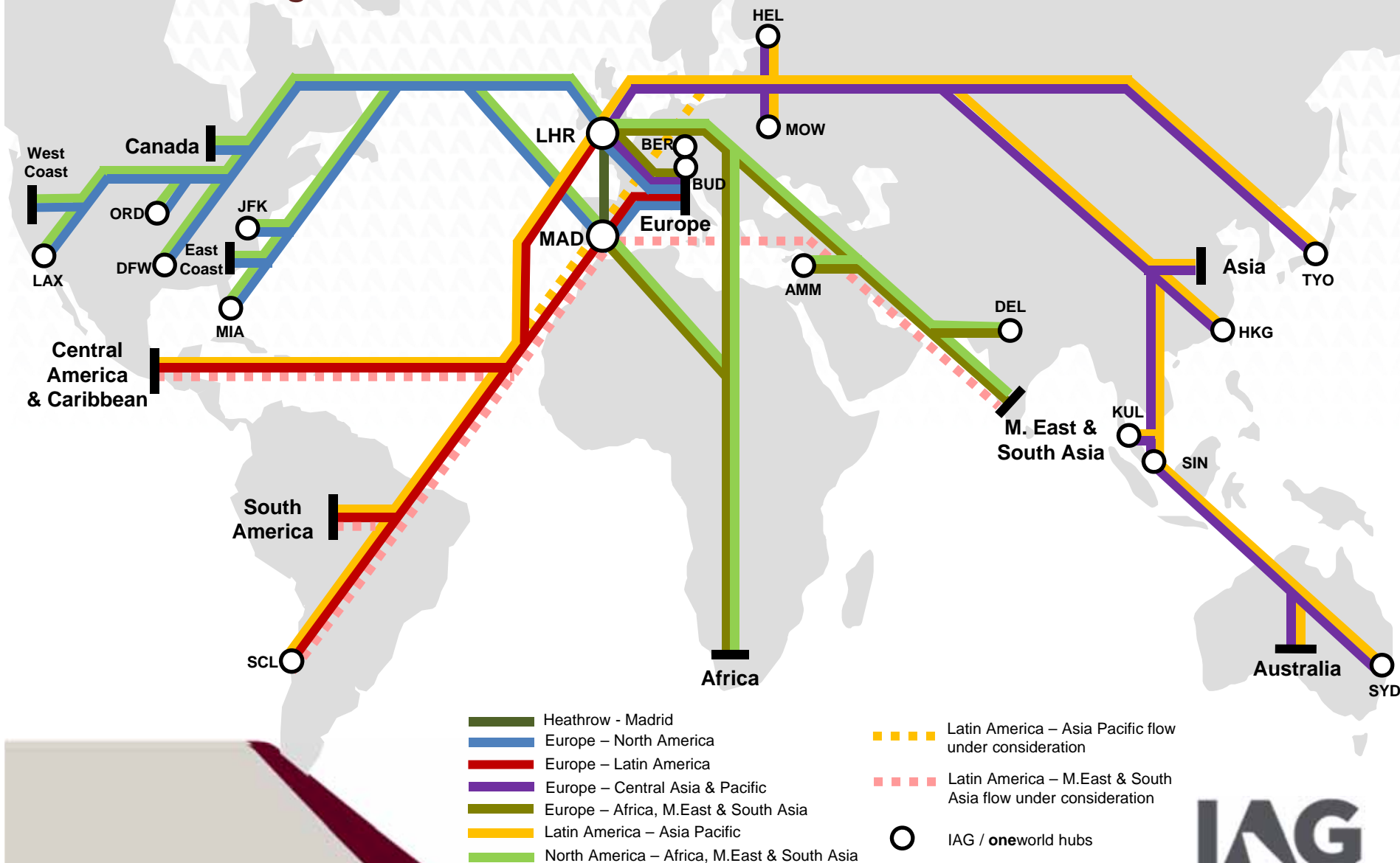
IAG Strategic Objectives



IAG

IAG network and flows

Connecting the world via the IAG hubs

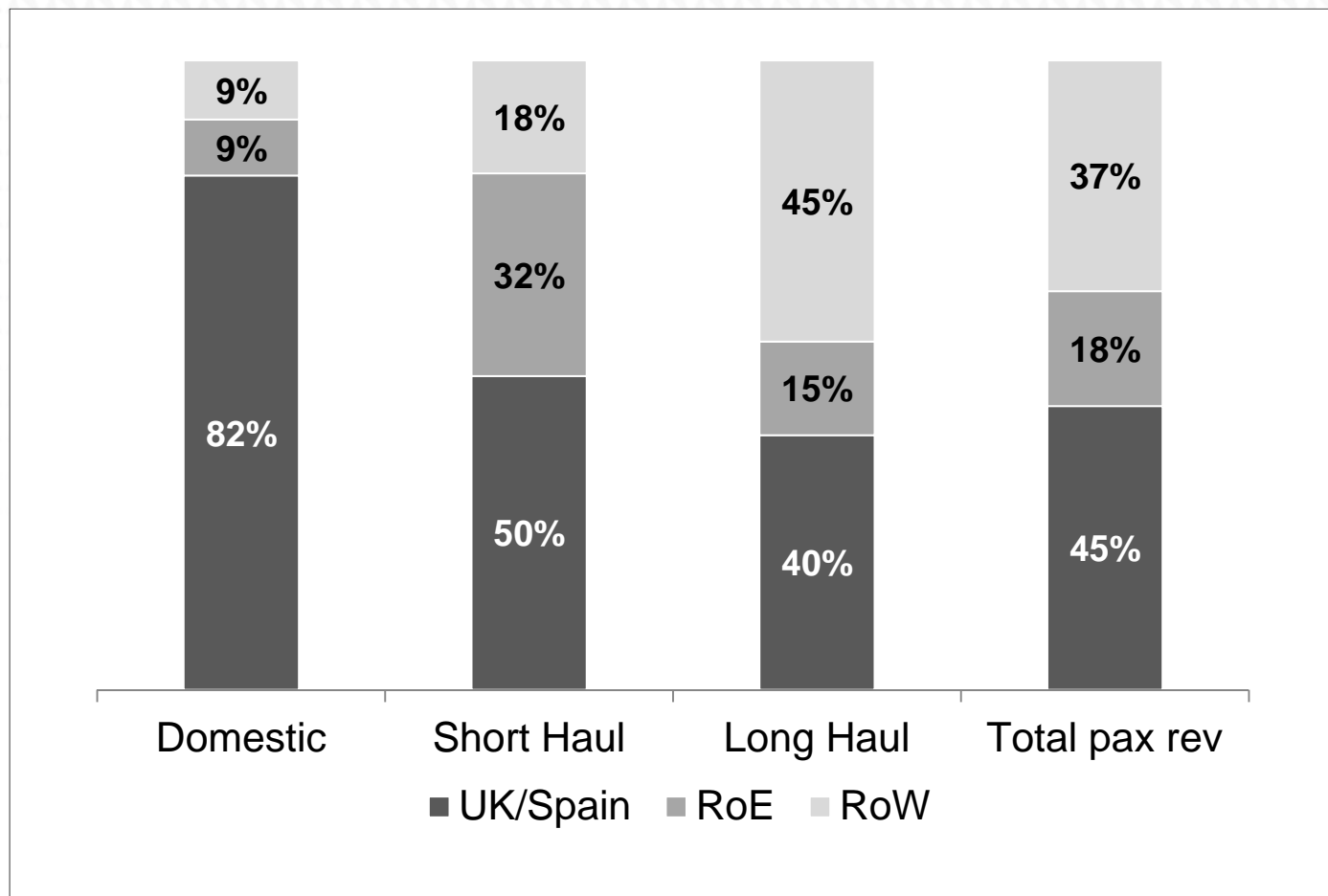


IAG

Customer base and current trading



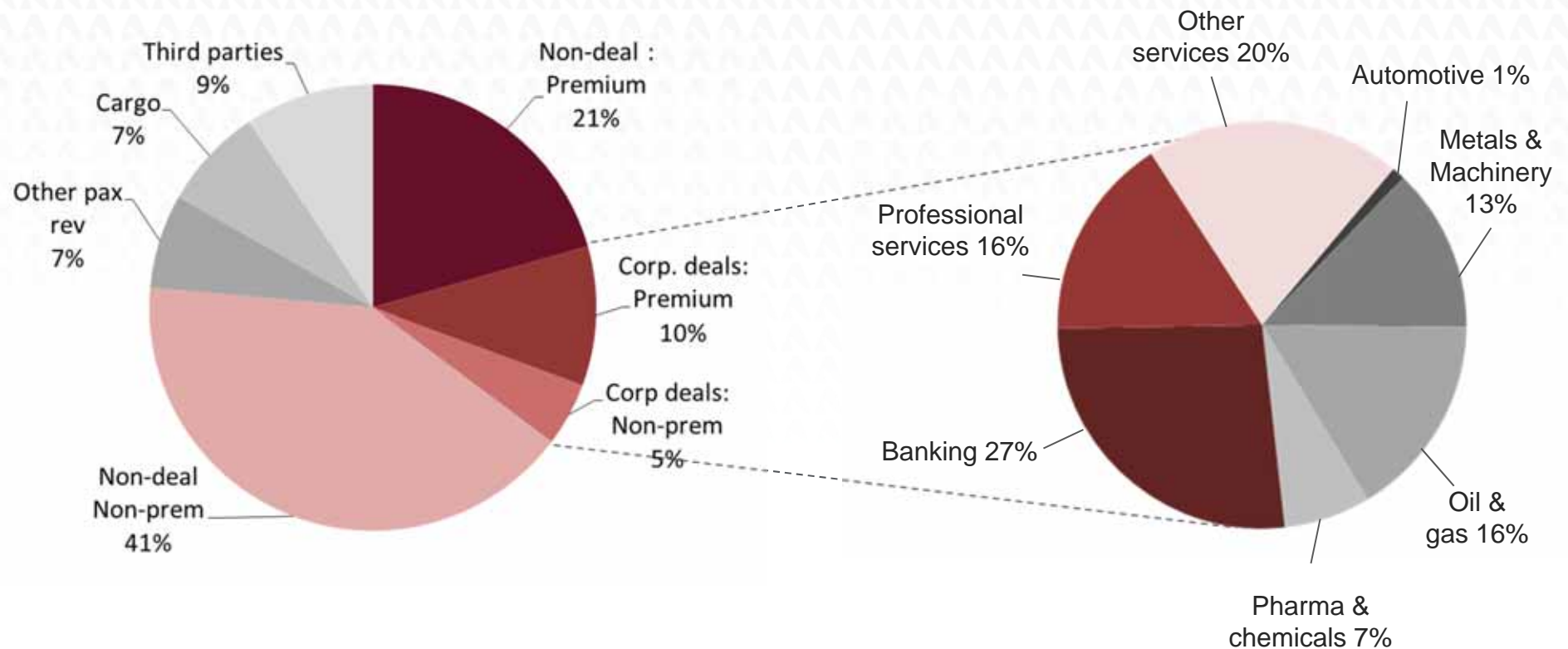
IAG revenue by point of sale yr to date 2011



Evolution of POS exposure, 2011 ytd v 2010

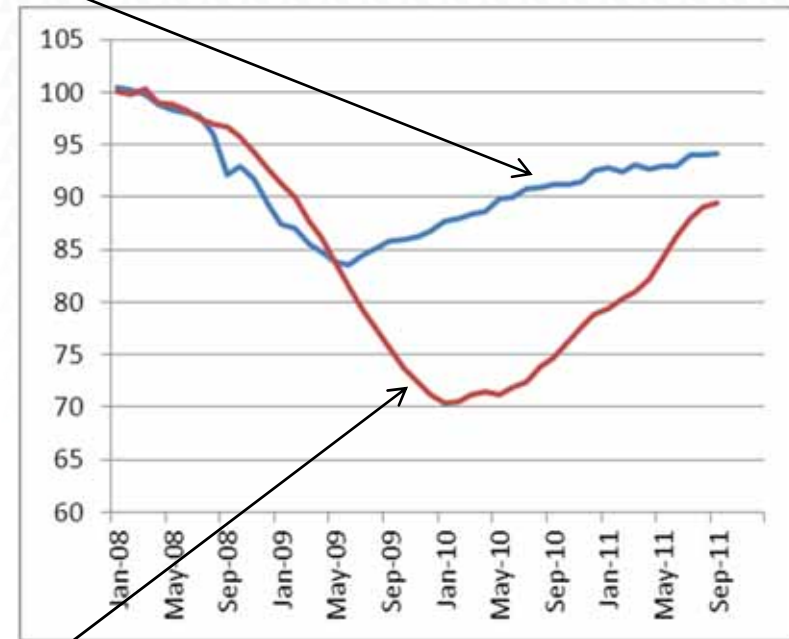
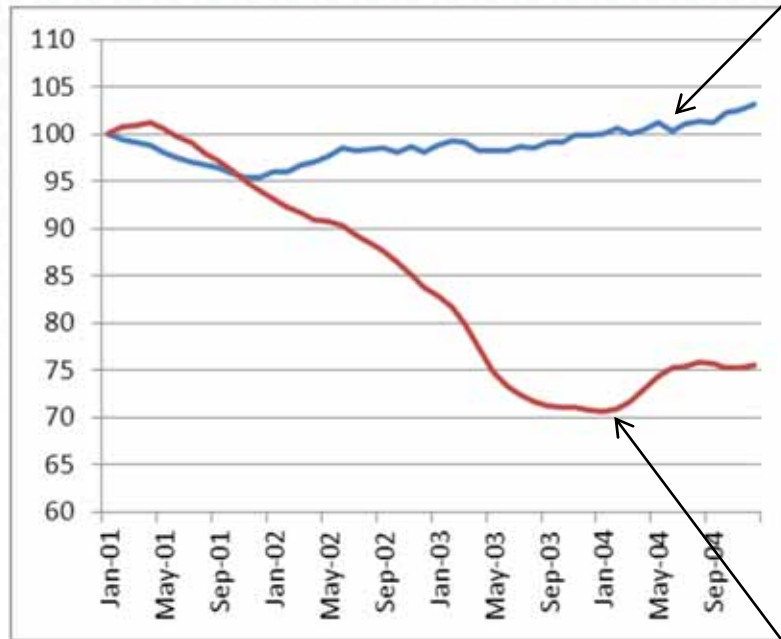
	Domestic	Short Haul	Long Haul	TOTAL
UK/Spain	0.0%	0.9%	-2.0%	-1.9%
RoE	-1.0%	-0.7%	0.9%	0.5%
RoW	1.0%	-0.2%	1.1%	1.4%

IAG revenue by product and industry



Comparison with previous recession

US industrial production

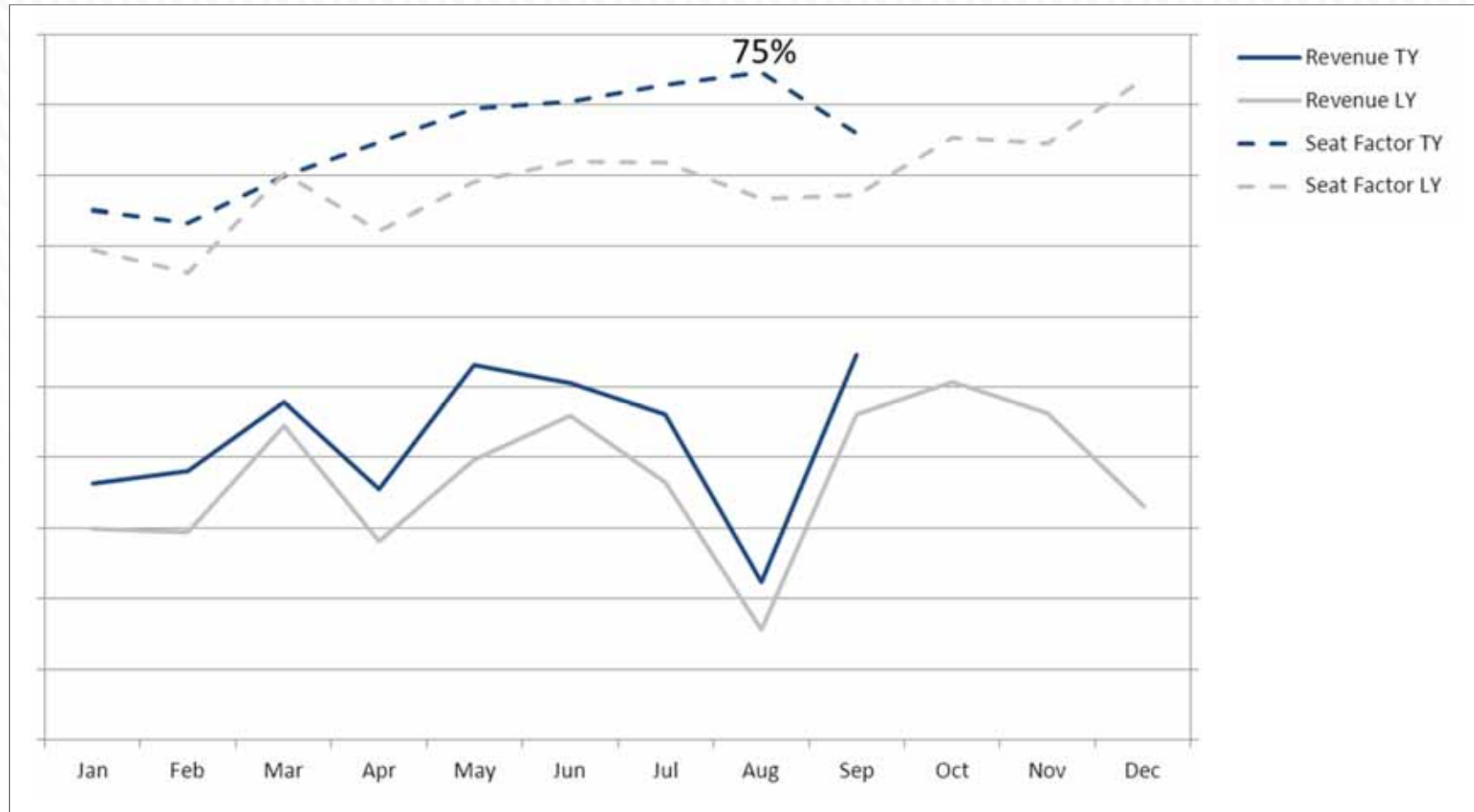


IAG long haul premium revenue
Rolling 12 months

British Airways: current market experience

- High yield bookings are above last year
- Long haul premium: price rises are still driving revenue increases
- Long haul non-premium: price rises are being offset by mix deterioration
- Corporate travel policy changes:
 - small moves from Club Europe to Euro Traveller, not widespread
 - Limited long haul change

LCYJFK: barometer of business activity



We are not standing still

The logo for British Airways, featuring the text "ba.com" in blue lowercase letters, followed by a stylized red and blue wing graphic.

Everyone can choose a seat **FREE** of charge at check-in, from 24 hours before departure.

You can also choose your seat as soon as you've made your booking. Use our guide to find out if it's free for you or if there's a charge.

Need a Travel Visa?

Citizenship

United Kingdom

Select

☐ Tourist ☐ Business

Destination

Select Destination

FIND OUT NOW

VisaCentral

The logo for IAG (International Air Transport Association), featuring a blue globe icon with the letters "IAG" in a bold, dark grey sans-serif font.

> Home

Booking Reference: **YIQIQZ** Departs: **Heathrow (London), Fri 1 Oct 2010, 10:35**



Online Check-in is open

Get the best choice of seats, and speed through the airport. Check in online and print your boarding pass now.

Check in now

Your services

My booking

Before my flight

At the airport

On board

My destination

Your details



Speed your way through the airport, and keep up to date with information important to your booking.

> **Travelling to the USA**

A US Travel Authorisation is required for all non US passport holders travelling on the Visa Waiver Programme.

> **Change Passport / ID card Information**

If your passport / id card has changed please adjust your information here.

> **Add frequent flyer number**

Receive all of your benefits by adding your frequent flyer number.

Your journey



Make sure you get the most out of flying by tailoring your booking to suit you.

> **Insurance**

Travel around the world with complete peace of mind

> **Request special meals**

> **View / change seats**

> **High Life Shop! online**

> **View on board entertainment**

> **View destination guides**

Your departure



Speed your departure, and get the best seats by getting up to date with check-in and baggage information.

> **Online Check-in is open**

Get the best choice of seats, check in and print your boarding pass now.

> **Change your baggage allowance**

Save money and purchase excess baggage online. Also refunds.

> **Print / view 'Your Itinerary'**

All your information in our customer friendly, up-to-date itinerary.

> **Baggage tips**

BRITISH AIRWAYS



Buy travel

> Home

1 Dates

2 Flights

3 Price

4 Passengers

5 Payment

6 Confirmation

Choose your flights



Outbound

London - Hong Kong - Wednesday 30 November 2011

i Lowest single adult price including [taxes, fees, charges and surcharges](#)

- Please note that carriers other than British Airways may offer differing levels of service. Click the flight number for more information.
 - If you change your outbound flight the inbound prices may change.
 - These prices shown are valid only when purchased as a return journey.
 - The price is quoted in GB Pounds (GBP, £).
- > [Currency calculator](#)

Key: lowest price

< Previous day

Sort by:

Departure time ▼

Change outbound class:

Economy ▼

Next day >

Price	Depart	Arrive	From	To	Flight Operating airline	Class of travel
£255 	18:40 30 Nov	14:20 1 Dec	Heathrow (London)	Hong Kong	BA0025 British Airways	World Traveller
£255 	21:00 30 Nov	16:40 1 Dec	Heathrow (London)	Hong Kong	BA0027 British Airways	World Traveller

IAG

Dates & flights
[Price](#)
[Passengers](#)
[Payment](#)
[Confirmation](#)


Outbound Flight

Heathrow (London) - Hong Kong

Friday 25 Nov 2011



All our flight classes include a complimentary checked baggage allowance

! These are the lowest single adult prices **including** taxes, fees, charges and surcharges.

[< Previous Week](#)
☒ [Also change my inbound dates](#)
[Next Day >](#)

Tue 22 Nov	Wed 23 Nov	Thu 24 Nov	Fri 25 Nov	Sat 26 Nov	Sun 27 Nov	Mon 28 Nov
from £255	from £255	from £255	from £255	from £255	from £940	from £940

Departs LHR	Arrives HKG	Flight Operator
18:40 25 Nov	14:20 26 Nov	British Airways BA0025
21:00 25 Nov	16:40 26 Nov	British Airways BA0027

About Economy

- 23kg checked baggage allowance
- Food and bar service
- 31" legroom

[More Details >](#)

About Premium Economy

- Separate, smaller cabin
- 2 x 23kg checked baggage allowance
- Three-course meal and bar service
- 38" legroom

[More Details >](#)

About Business

- Access to British Airways lounges
- Dedicated check-in area
- 3 x 32kg checked baggage allowance
- Four-course dining including fine wines and champagne
- Seat that converts into a 6ft fully flat bed

[More Details >](#)

Economy

£255

Premium Economy

£699

Only 4 seat(s) left at this price

£426

Only 1 seat(s) left at this price

Business

£3280

£3280



North Atlantic Joint Business update



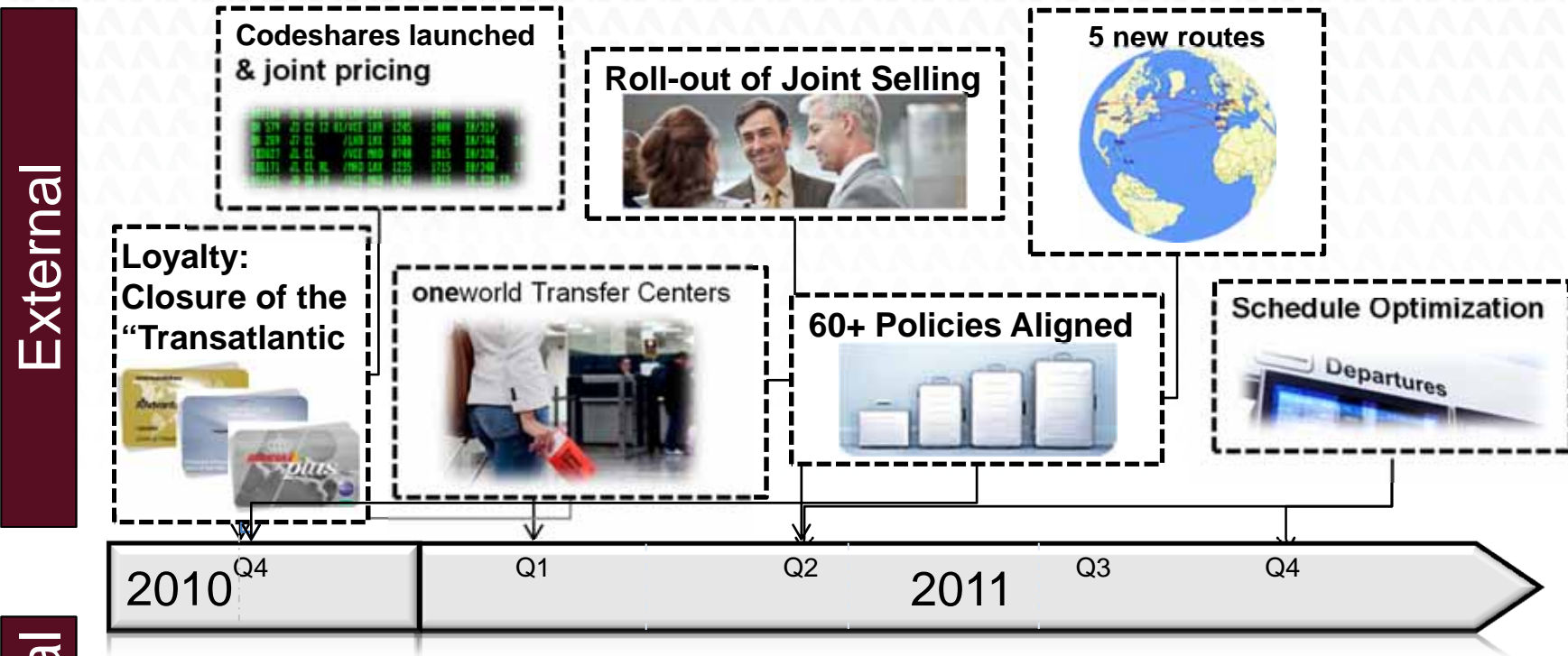
IAG

The Joint Business is big business

- **\$7.9 bn** revenue
- **24%** of IAG (37% of BA's revenue & 13% of IB)
- **20%** share of Europe – US market
- **96** transatlantic daily flights built around **7 Hubs**
- **70m** frequent flyer programme members
- **12 million** passengers expected this year

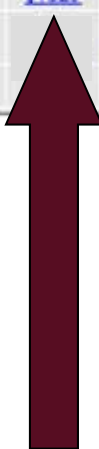


We've made good progress in our first year



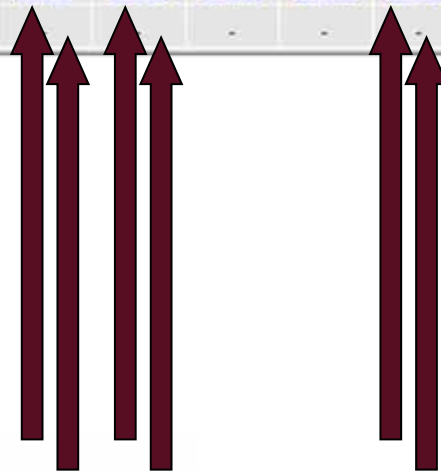
Before the JB and IAG, for a citypair BA effectively had one price in a cabin on offer – eg LHR LAX...

Airlines		Flight times																		
Options from \$1199	Air Canada	Three airlines or more	Continental Airlines	United Airlines	American Airlines	British Airways	bmi	Delta Air Lines	Iberia Airlines	Brussels Airlines	Air New Zealand	Virgin Atlantic	US Airways	Air France	Lufthansa	SAS	Icelandair	Alitalia	KLM	
																				
	Nonstop	-	-	From \$1425	From \$1425	From \$1583	From \$1629	From \$1490	-	-	-	From \$1551	From \$1551	-	-	-	-	-	-	-
	One stop	From \$1199	From \$1250	From \$1256	From \$1275	From \$1278	-	From \$1326	From \$1370	From \$1510	-	-	From \$2175	From \$1562	From \$1690	From \$1899	-	-	From \$2504	From \$3065
Two stops	-	-	-	-	-	-	-	-	-	From \$1529	-	-	-	-	-	From \$2058	From \$2248	-	-	

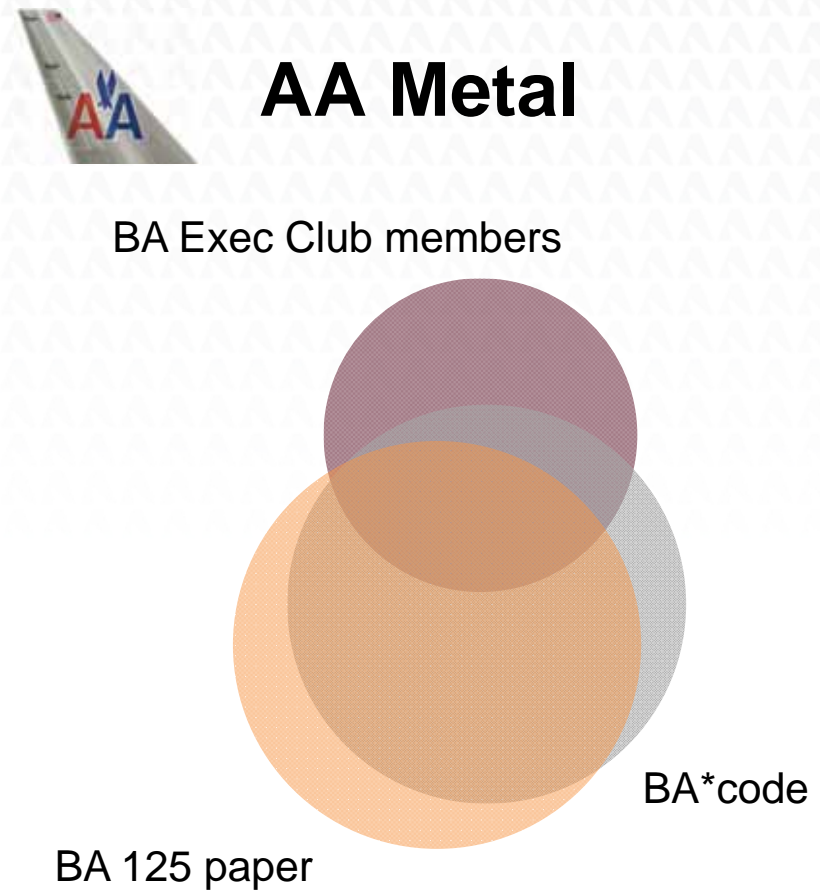
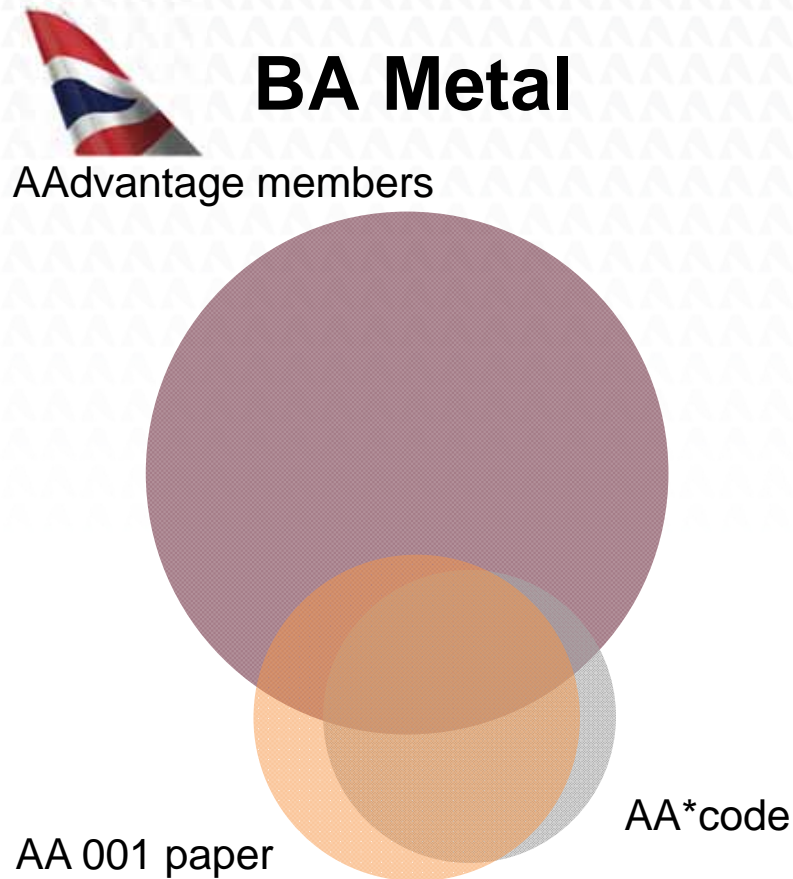


Now we have 6 or more price points in our distribution channels...

Airlines		Flight times																		
Options from \$1199	Air Canada	Three airlines or more	Continental Airlines	United Airlines	American Airlines	British Airways	bmi	Delta Air Lines	Iberia Airlines	Brussels Airlines	Air New Zealand	Virgin Atlantic	US Airways	Air France	Lufthansa	SAS	Icelandair	Alitalia	KLM	
																				
	Nonstop	-	-	From \$1425	From \$1425	From \$1583	From \$1629	From \$1490	-	-	-	From \$1551	From \$1551	-	-	-	-	-	-	-
	One stop	From \$1199	From \$1250	From \$1256	From \$1275	From \$1278	From \$1310	From \$1326	From \$1370	From \$1510	-	-	From \$2175	From \$1562	From \$1690	From \$1899	-	-	From \$2504	From \$3065
Two stops	-	-	-	-	-	-	-	-	-	From \$1529	-	-	-	-	-	From \$2058	From \$2248	-	-	

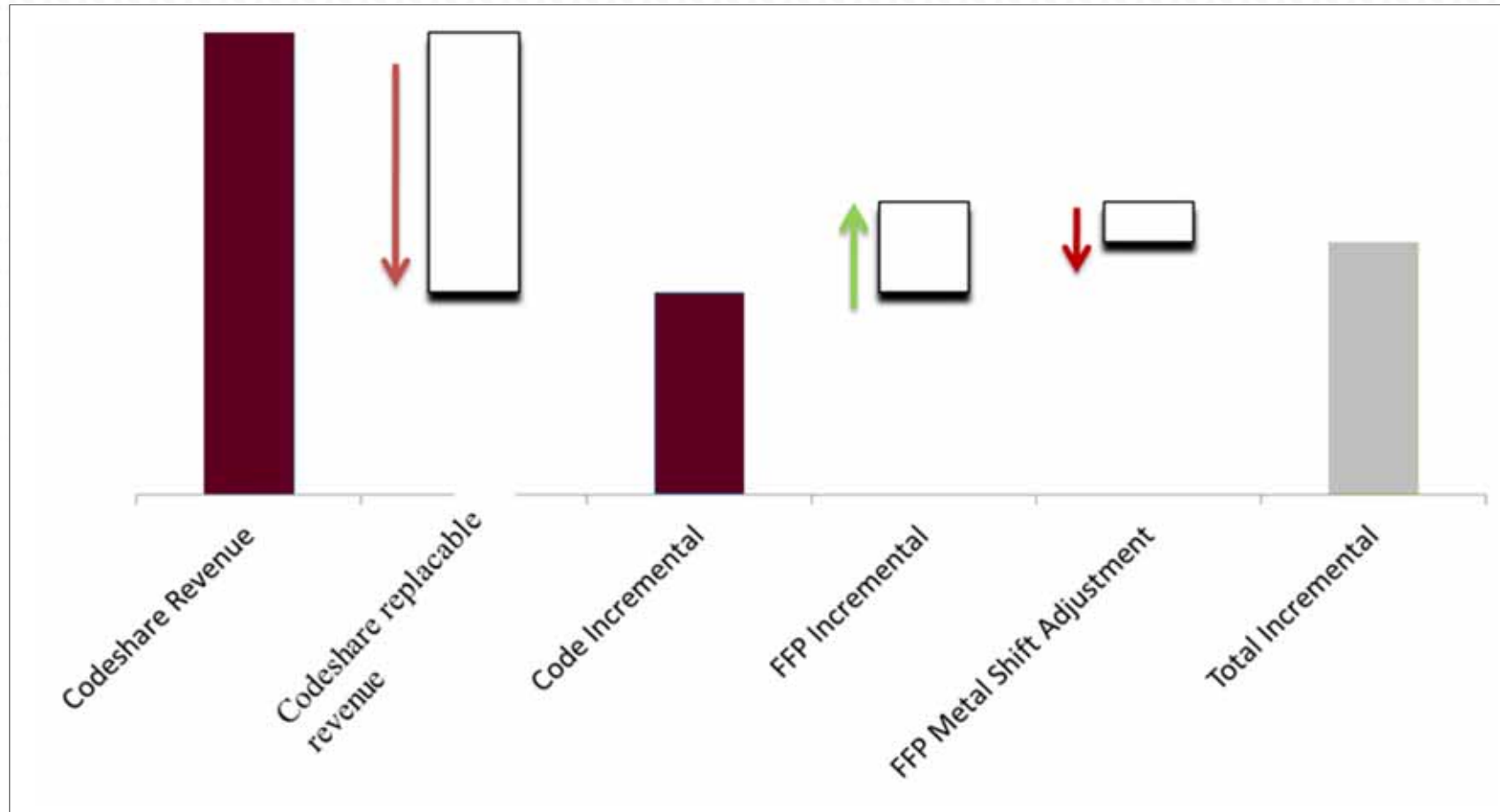


Different sources of incremental revenue







Note : Size of circles proportional to revenue

How we validate our incremental revenues



At least €150m annual benefits for IAG by 2015

Estimate of market share gains to date for the joint business

	Market Share	Capacity share
Premium	+0.9pts to 25.8% 	+0.1pt 
Non Premium	+0.1 pts to 19.5% 	-0.1pt 

The Year Ahead

- Further optimise our joint network and schedules to grow our share of the transatlantic market
- Exploit multi-brand portfolio selling to enhance customer choice and increase our distribution reach
- Embed joint agency dealing and drive the corporate dealing pipeline
- Drive a seamless transfer experience for our customers across our 7 hubs
- Harmonise our tri-lateral data and management information
- Greater integration of our commercial processes
- Deepen secondment program across the business to share talent

IAG Cargo

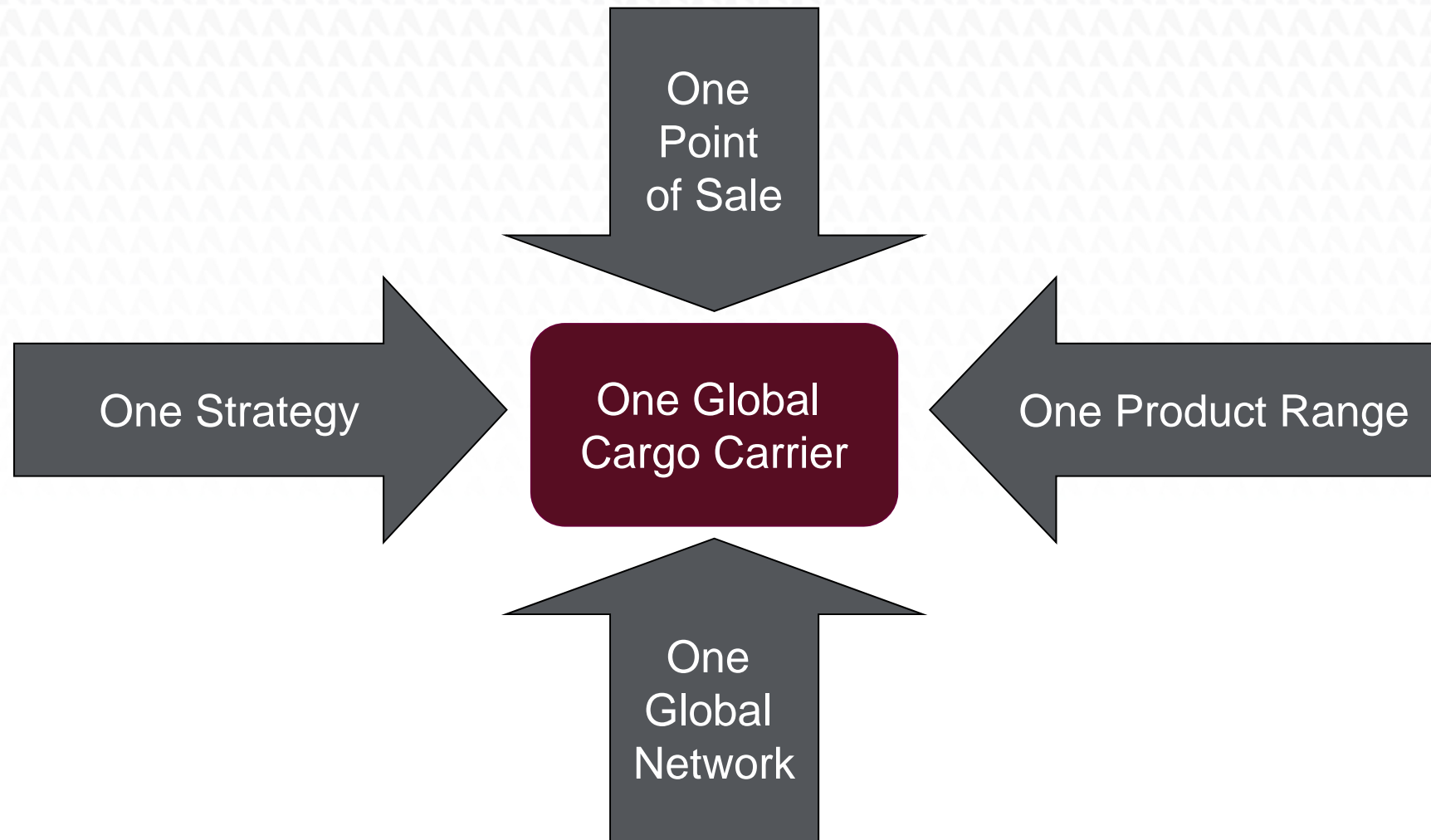


BRITISH AIRWAYS
WORLD CARGO

CARGO
IBERIA

IAG Cargo

Unlocking commercial value



BRITISH AIRWAYS
WORLD CARGO

CARGO
IBERIA

IAG Cargo

Unlocking significant revenue opportunities

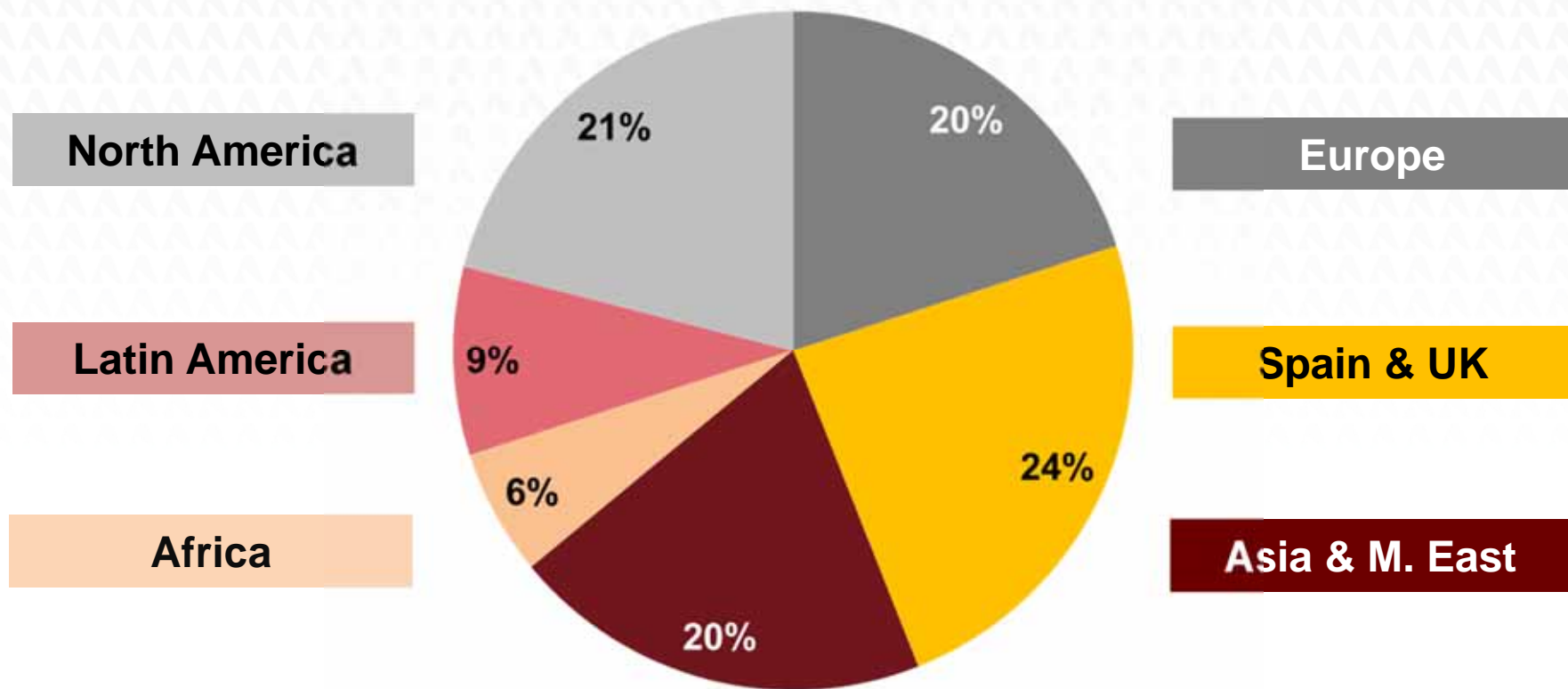


BRITISH AIRWAYS
WORLD CARGO

CARGO
IBERIA

IAG Cargo

Balanced regional exposure

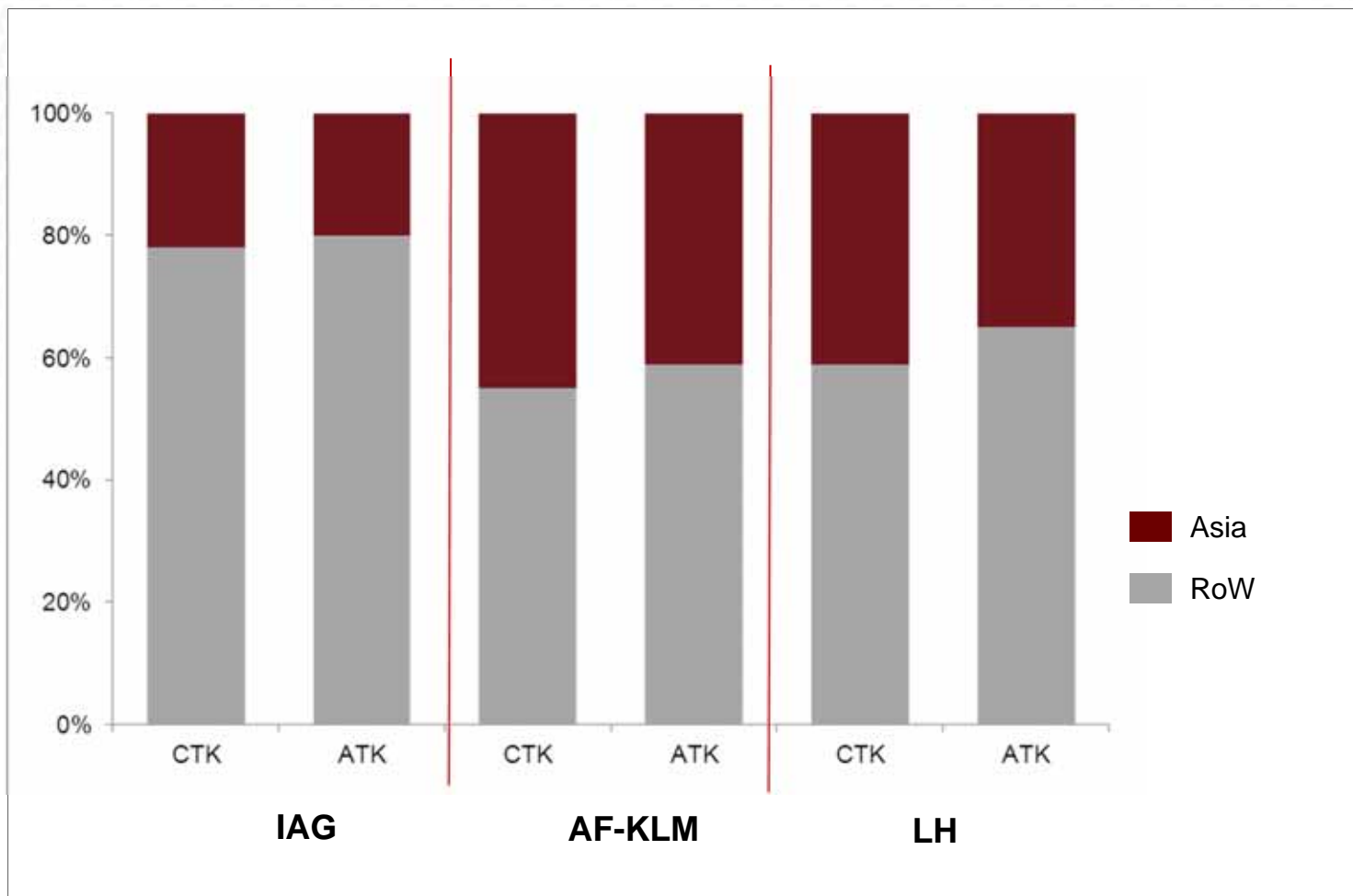


BRITISH AIRWAYS
WORLD CARGO

CARGO
IBERIA

IAGCargo

Exposure to Asia



IAG Cargo is delivering synergy benefits

Joint customer incentive deals

New freighter routing



BRITISH AIRWAYS
WORLD CARGO

CARGO
IBERIA

IAG Cargo

Youngest large freighter fleet of any carrier



BRITISH AIRWAYS
WORLD CARGO

CARGO
IBERIA

IAG Cargo

Avios



Avios: one currency, many programmes



To be the global leaders in travel rewards

To create a new scalable currency and platform
for multiple airlines

To generate increased profits and valuable group asset

One multinational loyalty rewards currency available to
British Airways, Iberia and future IAG owned airlines
for frequent and non-frequent flyers



Avios: single reward currency for IAG



- 20 million members
- 5.5 million active members
- 40% of flown revenue
- 3rd largest airline currency database
- mix of frequent flyers and leisure customers

Ubiquitous reward currency

- Retain separate frequent flyer loyalty brands
- Marketing efficiencies
- Improved customer intelligence
- Relationship management
- Loyalty scheme brand equity

Avios: single reward currency for customers



More ways to collect

- Collect Avios on flights outside of loyalty programme
- Consolidate Avios balances
- 'one mile flown equals one Avios earned'
- Common partners across programmes

More ways to redeem

- Industry leading promise
- Short haul redemption flights = fixed taxes, fees and charges of €27/£27
- Great value redemptions on hotels and cars
- Option to pay with 'Avios and money' - all programmes

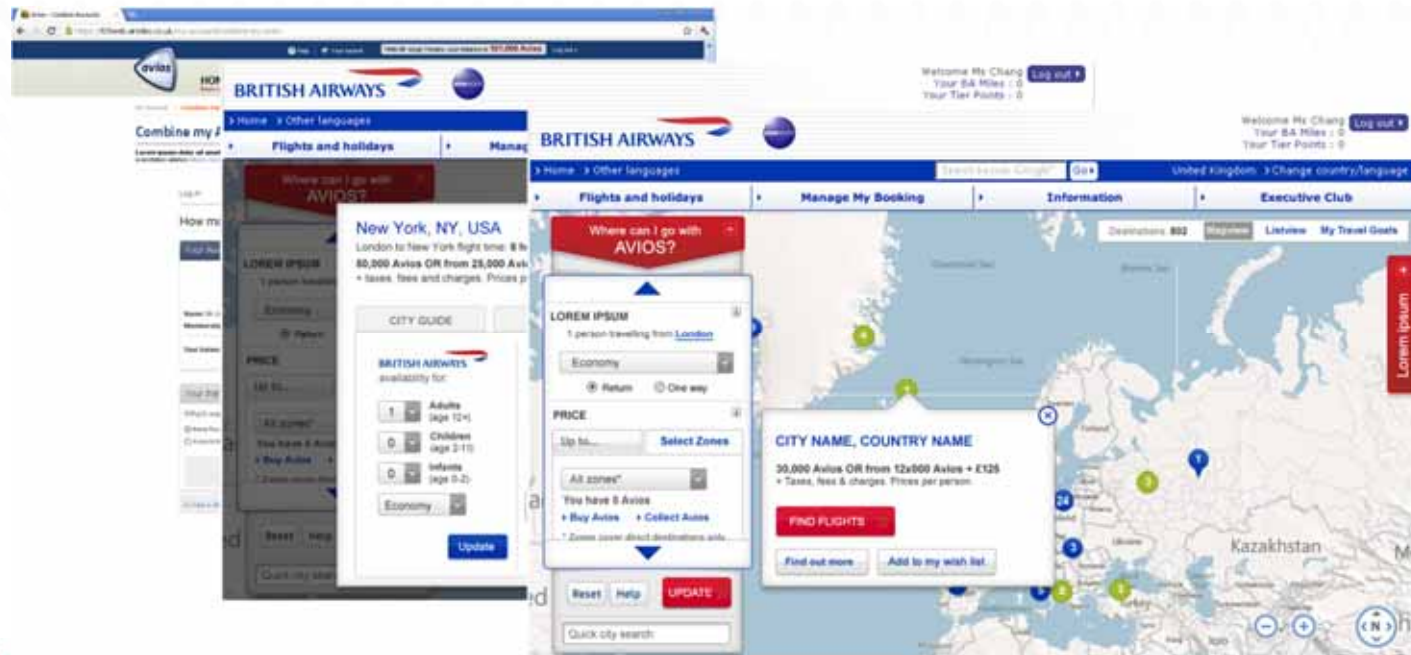
Avios: advertising and promotion

- UK based marketing campaign to promote the change to the Avios currency to commence next week
- Each programme will be communicating the changes to its members



Avios: new functionality

- Ability to combine Avios across schemes
- New zone maps will improve the flight availability search function





Fit For Growth

Keith Williams
Chief Executive Officer



A rapidly changing world





The world has changed *mobility*



Customer knows more about us



Where are we today?

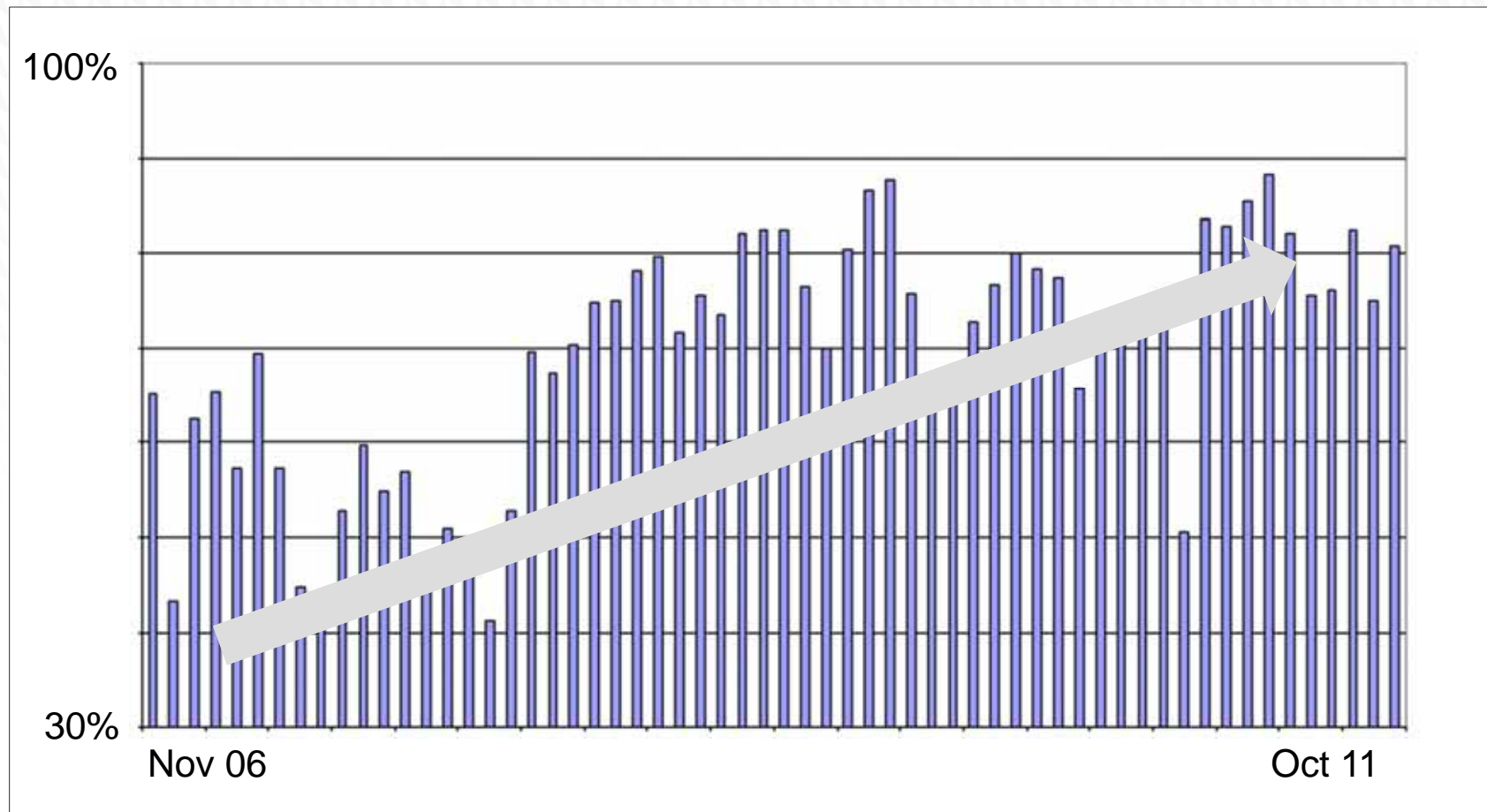


Our Heathrow is world class

- Leading punctuality
- World class baggage performance
- Strong customer feedback



Heathrow punctuality

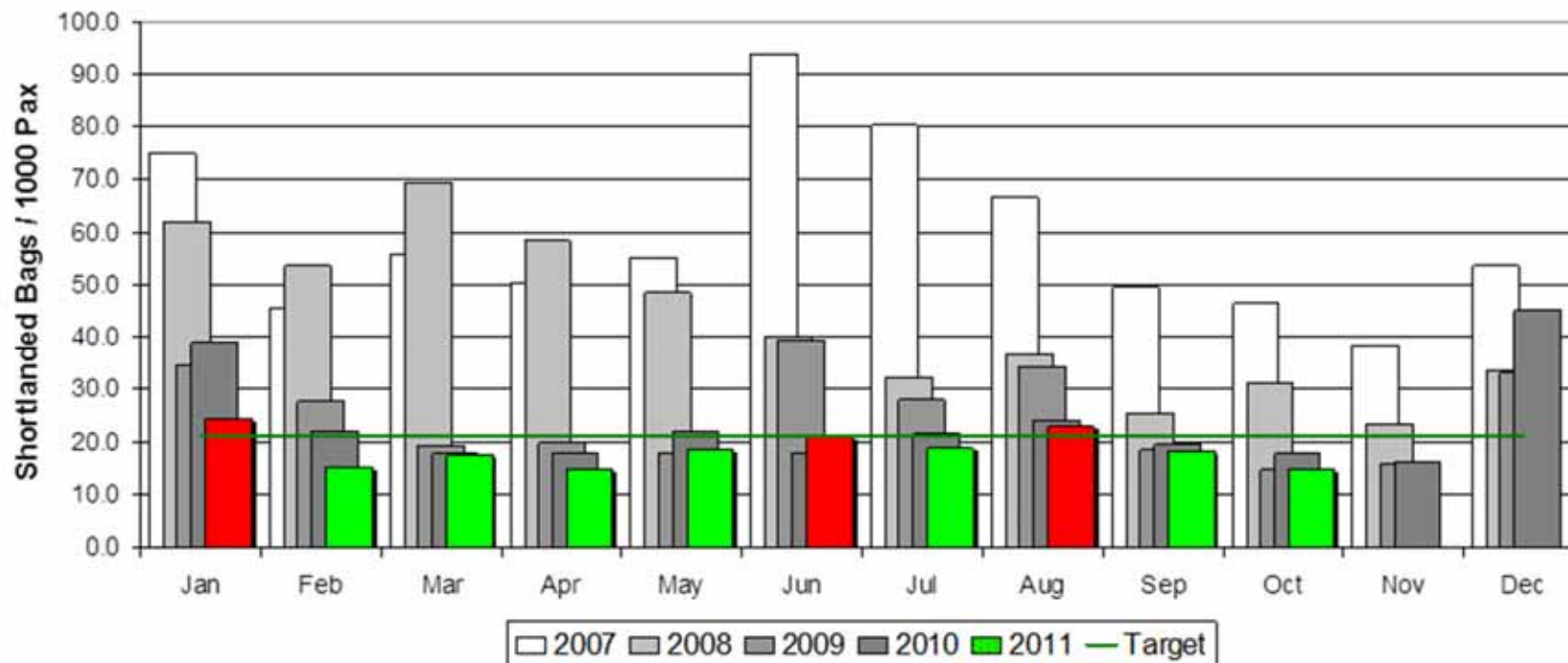


BRITISH AIRWAYS

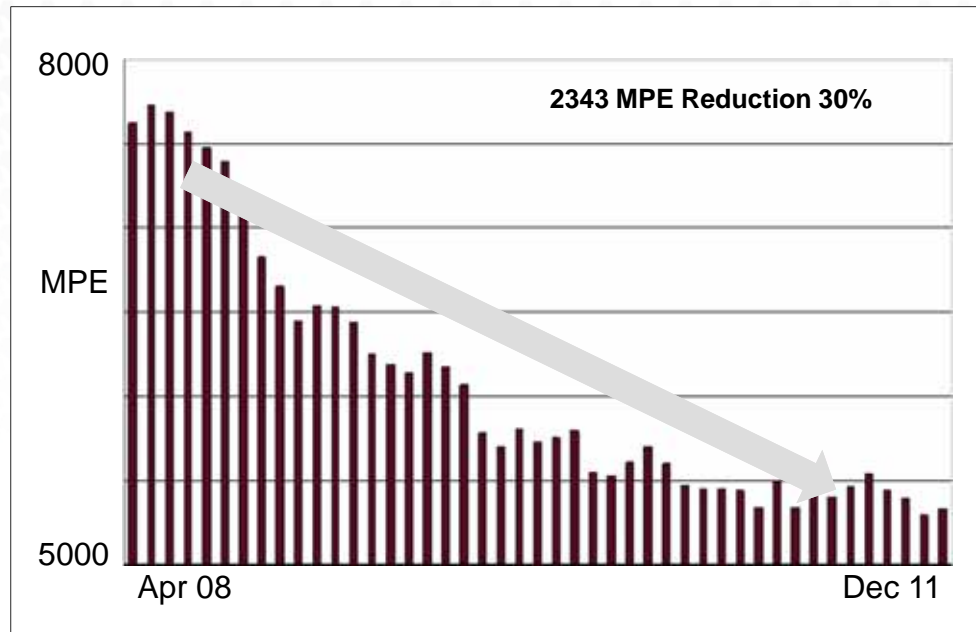


LAG

Heathrow baggage



Heathrow airport manpower and operations



- Single terminal process
- Greater manpower flexibility from reduced demarcation
- Customer conformance
- Flexible departure
- Concourse layout



T5 provided a step change in performance

Recommend
BA
+5pts

Overall
Satisfaction
+6pts

Travel again
+5pts

Departure
Process
+10pts

Arrival
Process
+5pts

BRITISH AIRWAYS



IAAG



Not just T5



BRITISH AIRWAYS   IAG

The introduction of iPads a success



Improving satisfaction versus last month

Overall	+30pts
Film Choice	+20pts
TV/Short Programmes	+19pts
Audio	+19pts
Reliability	+34pts
Picture/Sound Quality	+26pts

“iPad is a huge improvement for entertainment; video better than the system in the upgraded 777 First - keep it as an offering.”

First, London Heathrow – Philadelphia

Premium coaching increases satisfaction at T3



+11pts in
satisfaction
with ease of
getting off aircraft



**“Most satisfied with punctuality and
discerned debarkation for business
class passengers. It should be always
like this.”**

Club Europe, Barcelona - London

More wine choice has improved satisfaction



Improving satisfaction
versus last year

Flights out of Heathrow

12pt increase
in satisfaction

BRITISH AIRWAYS



IAG

New First Class is pushing up satisfaction



Value
for
money
+11pts

Cabin
environment
+15pts



In-flight
entertainment
+20pts

BRITISH AIRWAYS

LAG

Performance across the business is up

Overall
Satisfaction
68%
+3pts

Travel again
72%
+3pts

Awards



**Telegraph Ultra Awards
May 2011**

Best First
Best Business Class



**Conde Nast Traveller
August 2011**

Best Business Class
Favourite leisure airline
– Shorthaul



**Conde Nast Traveller
September 2011**

Best Airline worldwide
Best Longhaul airline

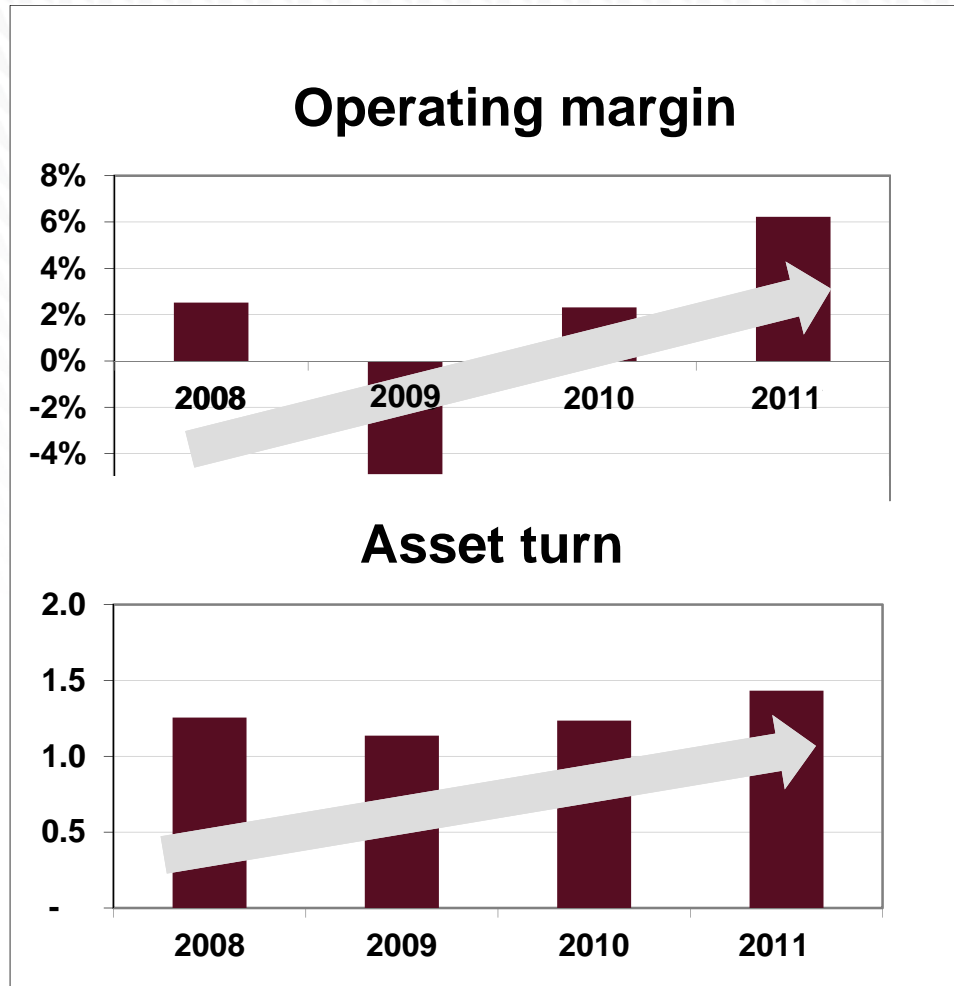
BRITISH AIRWAYS

IAIG

We have created a platform for growth



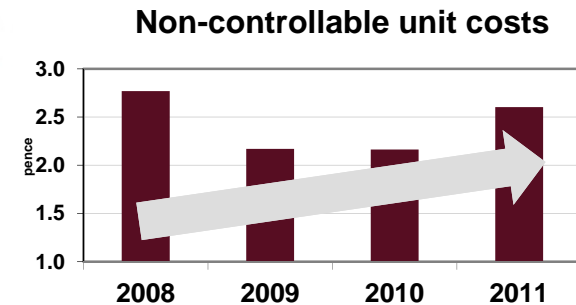
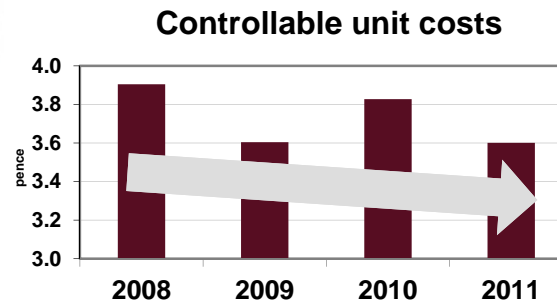
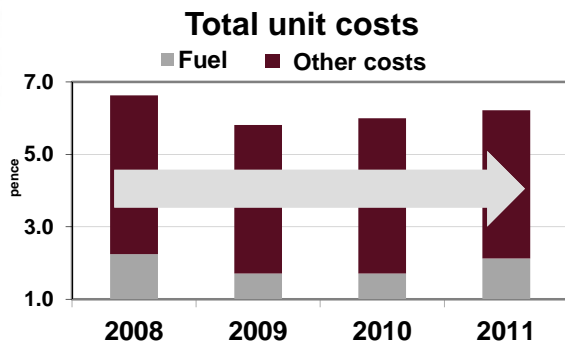
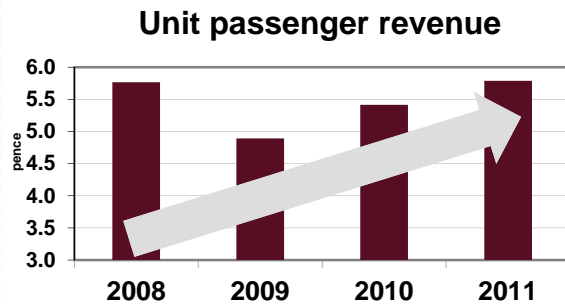
We have driven margin and asset turns



- Economic challenges
- Structural change

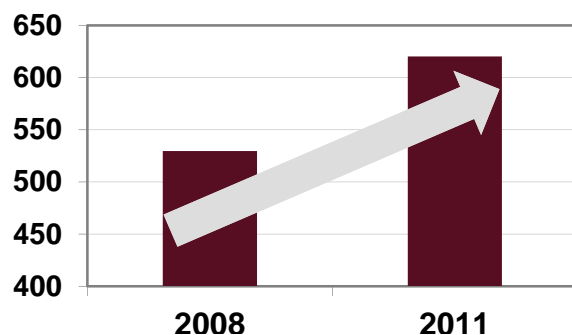
Yield up costs managed

- Control of costs
- Yield improvement
- Capacity increase

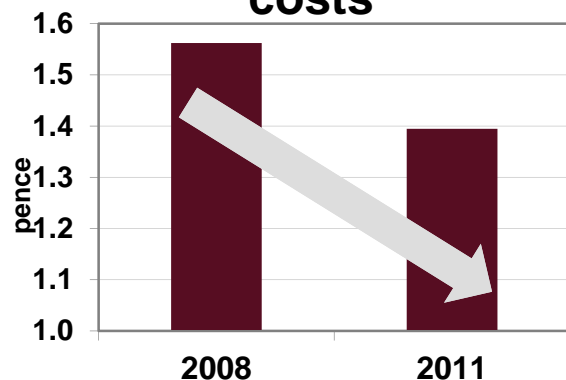


Productivity up - Unit labour cost down

**Productivity
(ATKs per MPE)**



**Unit employee
costs**



- Cabin crew 2013
- Flight crew 2013
- Engineers 2013
- Ground staff 2013
- Admin staff 2013

The journey continues

- Drive revenue
- Focus on controllable costs
- Synergy benefits
- Cabin crew – mixed fleet
- New fleet



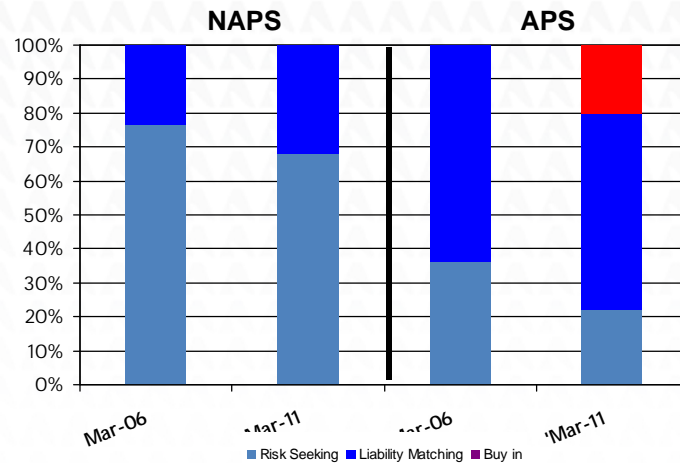
BRITISH AIRWAYS



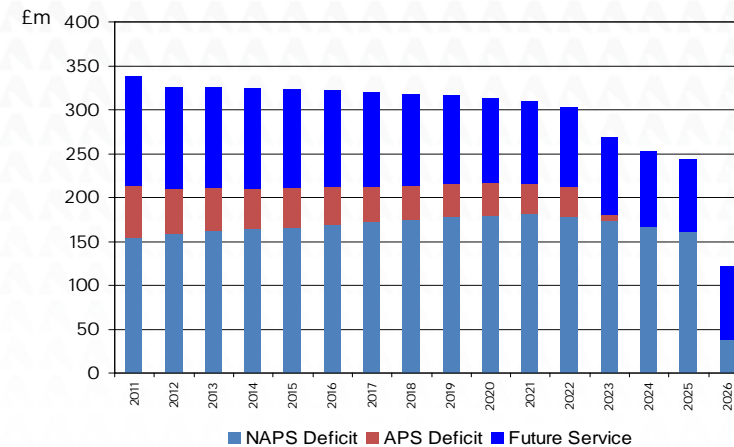
IAAG

Pensions risk and cost falling

De-risking underway....

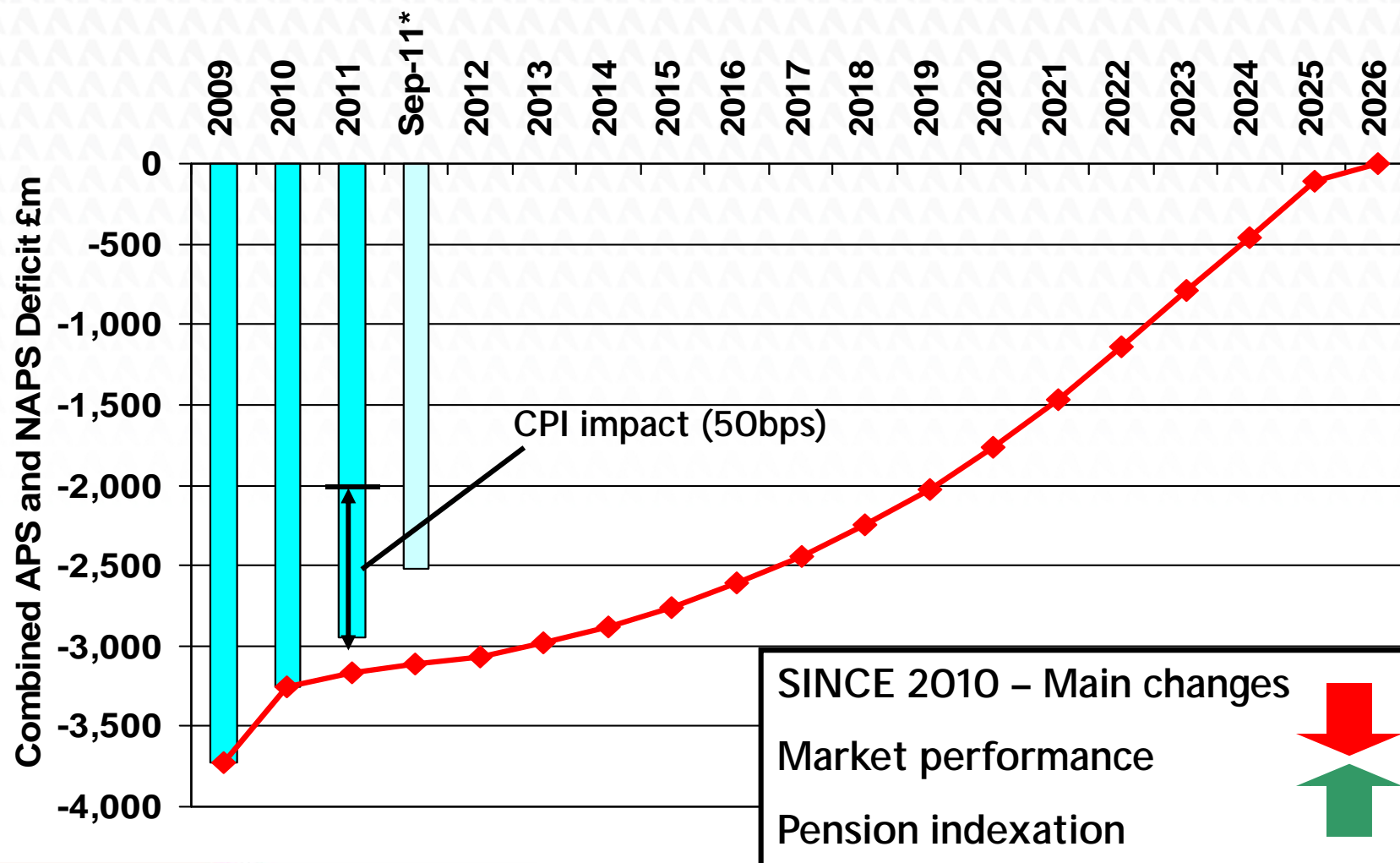


Contributions agreed flat in real terms



- DC Scheme since 2003
- Successful consultation with staff and TU's
- Normal Retirement Age from 55/60 to 65
- Standard Accrual Rate from 1/52, 1/56 to 1/75

Recovery plan on track



We have a platform for growth

A profitable business valued
by its customers



Convenience

- Seeking simplicity and speed in response



Individualism

- Greater levels of personalisation

Customer Trends



- Increasingly connected across multiple touchpoints

Connectivity



- Raised expectations and desire for authenticity

Experiential

BRITISH AIRWAYS



IAG

Putting the customer at the heart of our business creating a distinctive brand promise

▪ British Style

Understated, quality, contemporary



▪ Thoughtful Service

Professional, intuitive, intelligent, experience



▪ Flying Know How

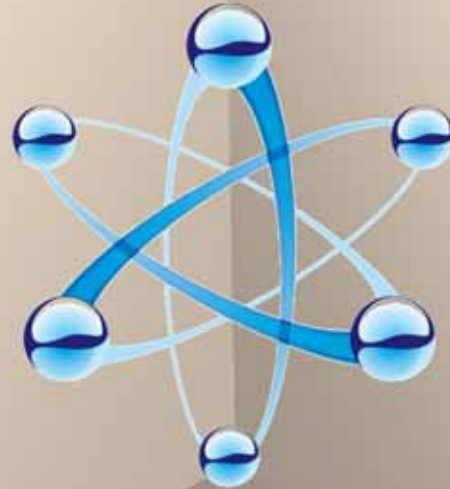
Heritage, scale, standards, reliability, safety & security



BRITISH AIRWAYS



Product



Service



Technology



The start of the journey



Before you leave

At the airport

Onboard

On arrival



Achieve a competitive cost base



Grow revenue through airline partnerships and commercial innovation



Secure the right aircraft, technology and infrastructure

Invest selectively in the product

Create the culture and capabilities for success

Win through outstanding service and customer insight



Re-ignite passion and belief in the BA brand

Set the standard for responsible aviation

Enhancing ba.com to increase revenue and improve service

- Advanced selling
- Personalisation
- Social media

Before you leave

At the airport

Onboard

On arrival



**Driving the sales
of ancillaries products
anywhere**

- New products
- New payment
- New locations

Achieve a
competitive
cost base



Grow revenue through
airline partnerships and
commercial innovation



Secure the right aircraft,
technology and
infrastructure

Invest
selectively
in the product

Create the culture
and capabilities
for success

Win through outstanding
service and customer
insight

Re-ignite passion
and belief
in the BA brand

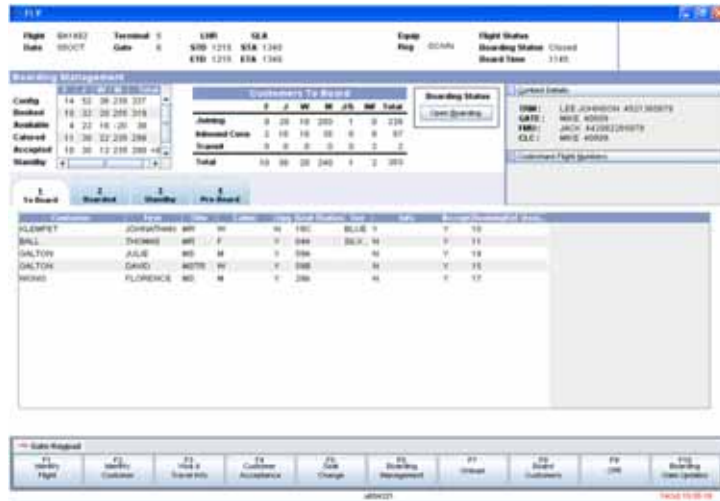
Set the
standard for
responsible aviation

Before you leave

At the airport

Onboard

On arrival



Achieve a competitive cost base

Grow revenue through airline partnerships and commercial innovation

Secure the right aircraft, technology and infrastructure



Invest selectively in the product

Create the culture and capabilities for success

Win through outstanding service and customer insight

Re-ignite passion and belief in the BA brand

Set the standard for responsible aviation

Replacing legacy airport technologies

- New passenger and aircraft “check in” systems

Before you leave

At the airport

Onboard

On arrival

BRITISH AIRWAYS 



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Rolling out today's future airport

▪ **Gatwick Zone A**

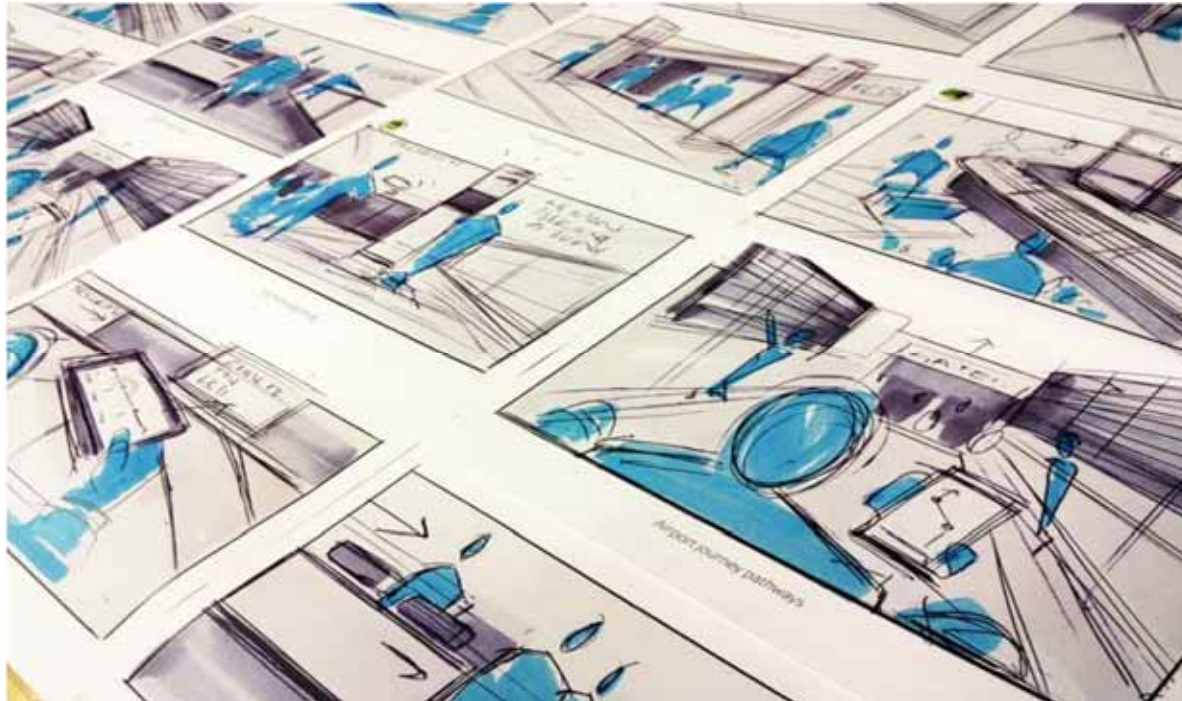
Before you leave

At the airport

Onboard

On arrival

BRITISH AIRWAYS 



**Designing and
delivering our
“airport of the future”**

- Improved end-to-end experience

Achieve a competitive cost base

Grow revenue through airline partnerships and commercial innovation

Secure the right aircraft, technology and infrastructure



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Before you leave

At the airport

Onboard

On arrival



**Delivering an
outstanding
experience for all**

- Seats
- Service
- Feedback

Achieve a competitive cost base

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Secure the right aircraft, technology and infrastructure

Invest selectively in the product



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Before you leave

At the airport

Onboard

On arrival



Delivering an exceptional experience in our premium cabins

- Seats
- IFE
- Food and drink

Achieve a competitive cost base

Grow revenue through airline partnerships and commercial innovation

Secure the right aircraft, technology and infrastructure

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Before you leave

At the airport

Onboard

On arrival



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Invest selectively in the product



Create the culture and capabilities for success

Win through outstanding service and customer insight



Re-ignite passion and belief in the BA brand



Set the standard for responsible aviation

Continuing the customer conversation

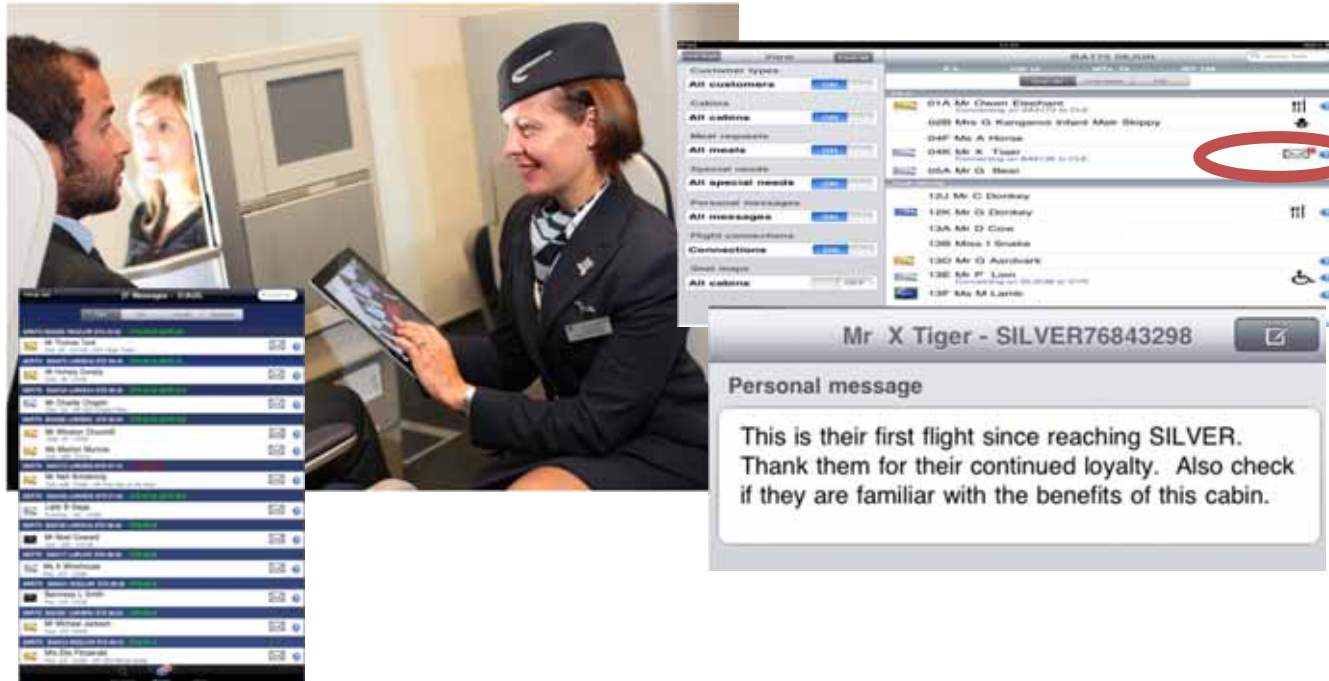
- Facebook
- Twitter
- YouTube

Before you leave

At the airport

Onboard

On arrival



Providing our colleagues with the tools to do their jobs

- Mobile devices on board and on the ground

Achieve a competitive cost base

Grow revenue through airline partnerships and commercial innovation

Secure the right aircraft, technology and infrastructure

Invest selectively in the product

Create the culture and capabilities for success



Win through outstanding service and customer insight

Re-ignite passion and belief in the BA brand

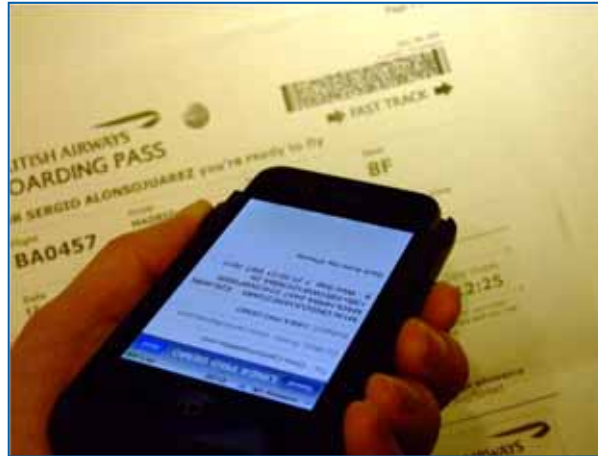
Set the standard for responsible aviation

Before you leave

At the airport

Onboard

On arrival



**Leveraging
superior
customer insights**

▪ **Single
Customer View**

Achieve a
competitive
cost base

Grow revenue through
airline partnerships and
commercial innovation

Secure the right aircraft,
technology and
infrastructure

Invest
selectively
in the product

Create the culture
and capabilities
for success

Win through outstanding
service and customer
insight



Re-ignite passion
and belief
in the BA brand

Set the
standard for
responsible aviation

iPad



BRITISH AIRWAYS

IAAG

Brand engagement



Investing in our brand and building communication

- Re-ignite passion in the brand
- Engage our colleagues
- Engage our customer

Achieve a competitive cost base

Grow revenue through airline partnerships and commercial innovation

Secure the right aircraft, technology and infrastructure

Invest selectively in the product

Create the culture and capabilities for success

Win through outstanding service and customer insight

Re-ignite passion and belief in the BA brand



Set the standard for responsible aviation



Olympic opportunity



Building pride through support of key global events

- **Building loyalty and pride to be part of it**

Achieve a competitive cost base	
Grow revenue through airline partnerships and commercial innovation	
Secure the right aircraft, technology and infrastructure	
Invest selectively in the product	
Create the culture and capabilities for success	
Win through outstanding service and customer insight	
Re-ignite passion and belief in the BA brand	
Set the standard for responsible aviation	

Setting the standard for responsible aviation

Strategies

- Reduce BA's environmental impact
- Advocate a responsible regulatory approach to the industry
- Continuously improve BA's safety and security culture



Key initiatives

- EU ETS – reduce the risk of retaliation and non-compliance
- Accelerate the implementation of biofuels into the aviation industry
- Deliver the Fuel Efficiency Programme
- Reduce the impact on air quality and noise due to our operations
- Community investment including flagship programme, Flying Start
- Deliver improvements to BA's safety risk management capabilities



- One Destination
- Biofuel
- Community

Achieve a competitive cost base

Grow revenue through airline partnerships and commercial innovation

Secure the right aircraft, technology and infrastructure

Invest selectively in the product

Create the culture and capabilities for success

Win through outstanding service and customer insight

Re-ignite passion and belief in the BA brand

Set the standard for responsible aviation



We must deliver our business plan



Selectively invest in product to stay competitive

- Onboard (food, seats)
- Airport (check-in, lounges)

Re-ignite passion and belief in the BA brand among customers and colleagues

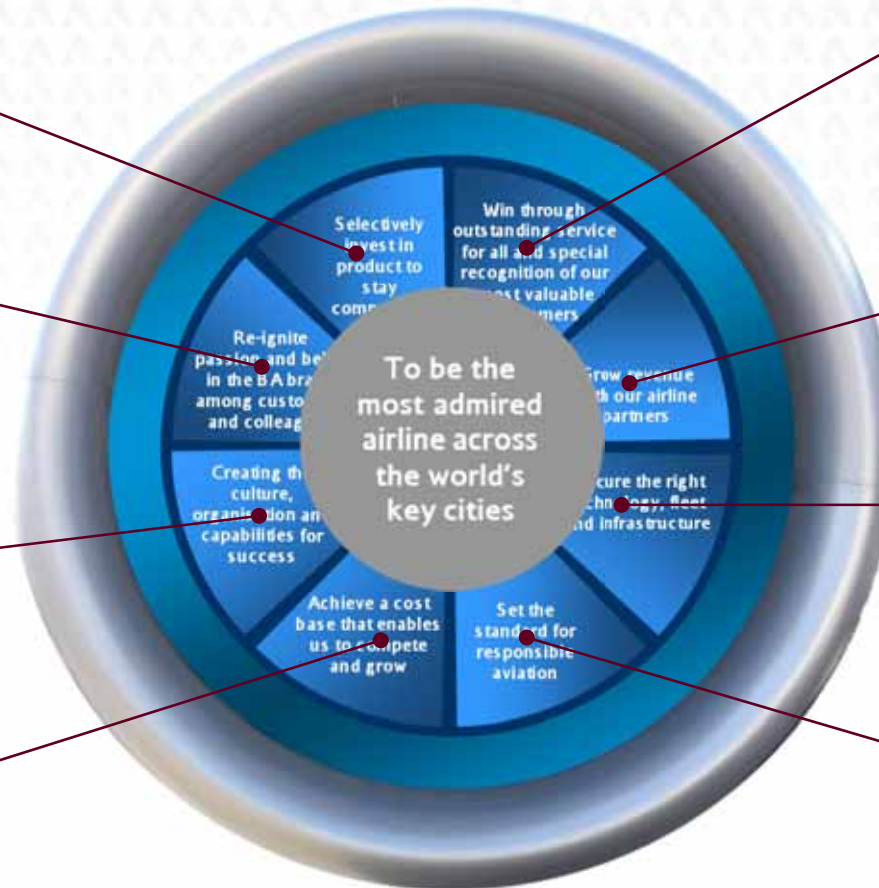
- "To Fly. To Serve."
- Olympics – London 2012
- "Flying Start"

Creating the culture, organisation and capabilities for success

- "To Fly. To Serve."
- iPad Improvements

Achieve a cost base that enables us to compete and grow

- IAG Synergies
- Continuous Improvement



Win through outstanding service for all and special recognition of our most valuable customers

- Colleague Empowerment
- "Single Customer View"

Grow revenue with our airline partners

- Joint Business Agreement
- ba.com and Mobile innovation

Secure the right technology, fleet and infrastructure

- New Aircraft (777/787/380)
- New Technologies

Set the standard for responsible aviation

- One Destination
- Biofuel



Fit for Growth

Fit for Profit



BRITISH AIRWAYS 

 **IAG**



Renewal Underway

Rafael Sánchez-Lozano
Chief Executive Officer, Iberia



Overview

Iberia faces several challenges:



- A340 fleet costs
- Need to update product

- Service levels and quality
- Punctuality

- Non competitive costs vs. low cost carriers

Overview

Our strategy to deal with these challenges



- Investing in long haul fleet and product
 - Develop Madrid as a world-class hub
 - Transforming the short & medium haul model
- ✓ The target in 2015 is to be a profitable and renewed Iberia, leader in its markets

Iberia's business model: long haul

**Most favourable
location to connect
Europe and Latin
America**

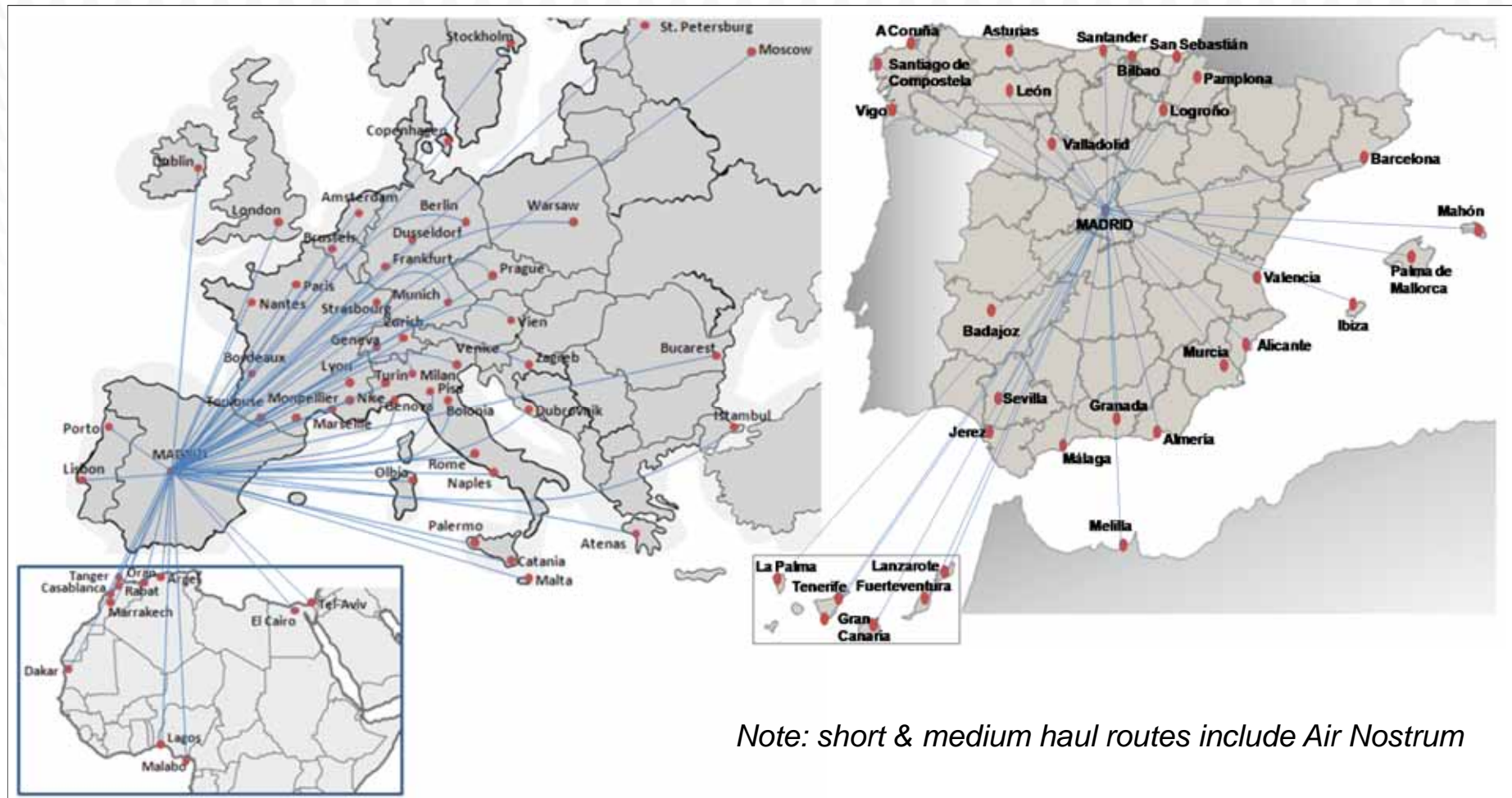


IBERIA

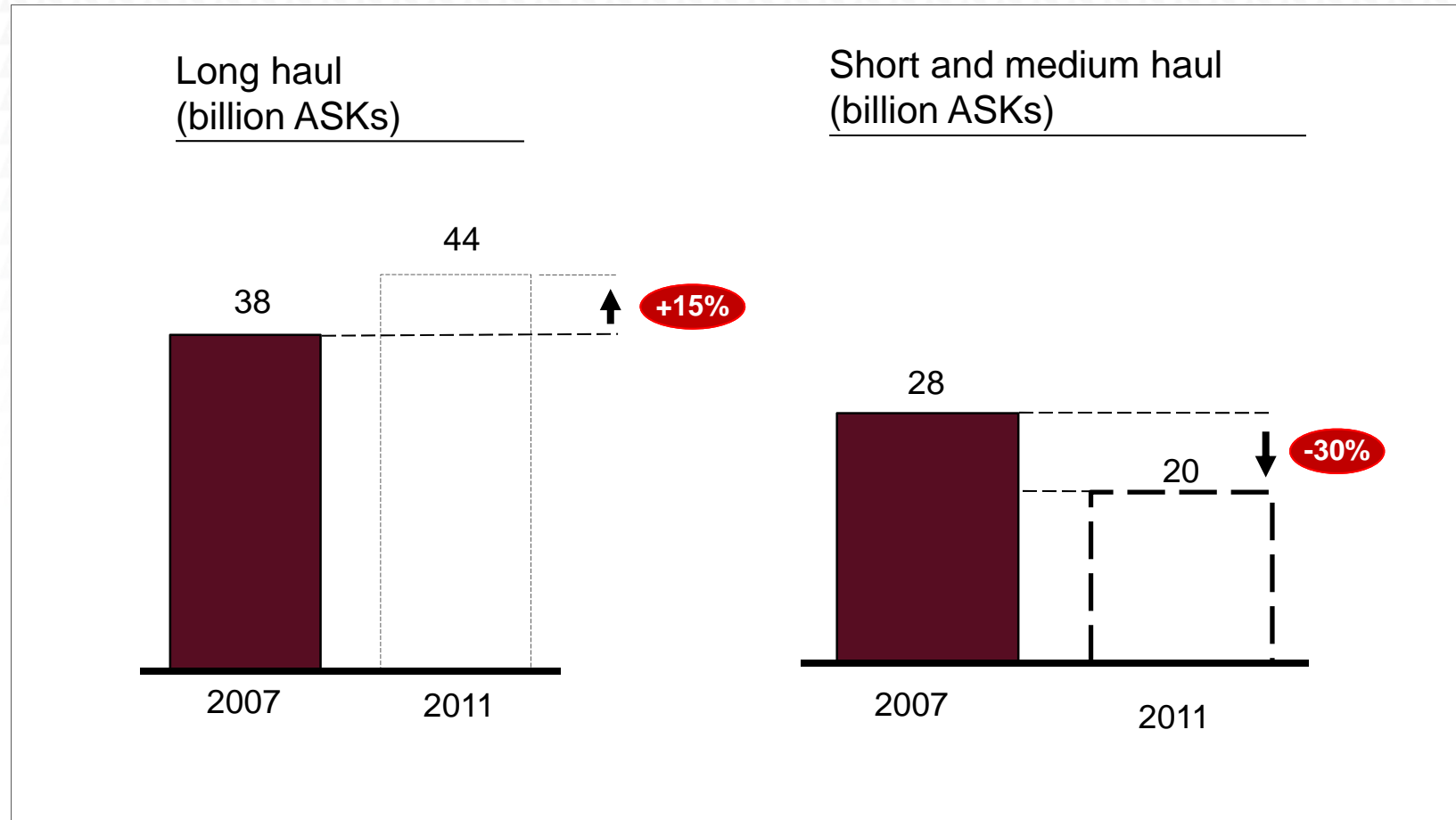


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Iberia's business model: short & medium haul



Network restructuring, last four years



Long haul fleet renewal



Long haul fleet renewal

- Interim fleet of A330 will replace A340-300 until new generation aircraft becomes available

	Capacity (seats)	A330-300 savings versus A340-300		
		Fuel cost/ASK	Maintenance cost/ASK	Total costs/ASK*
A330-300	36/242	-16%	-52%	-14%
A340-300	36/218			

* Including cost of capital

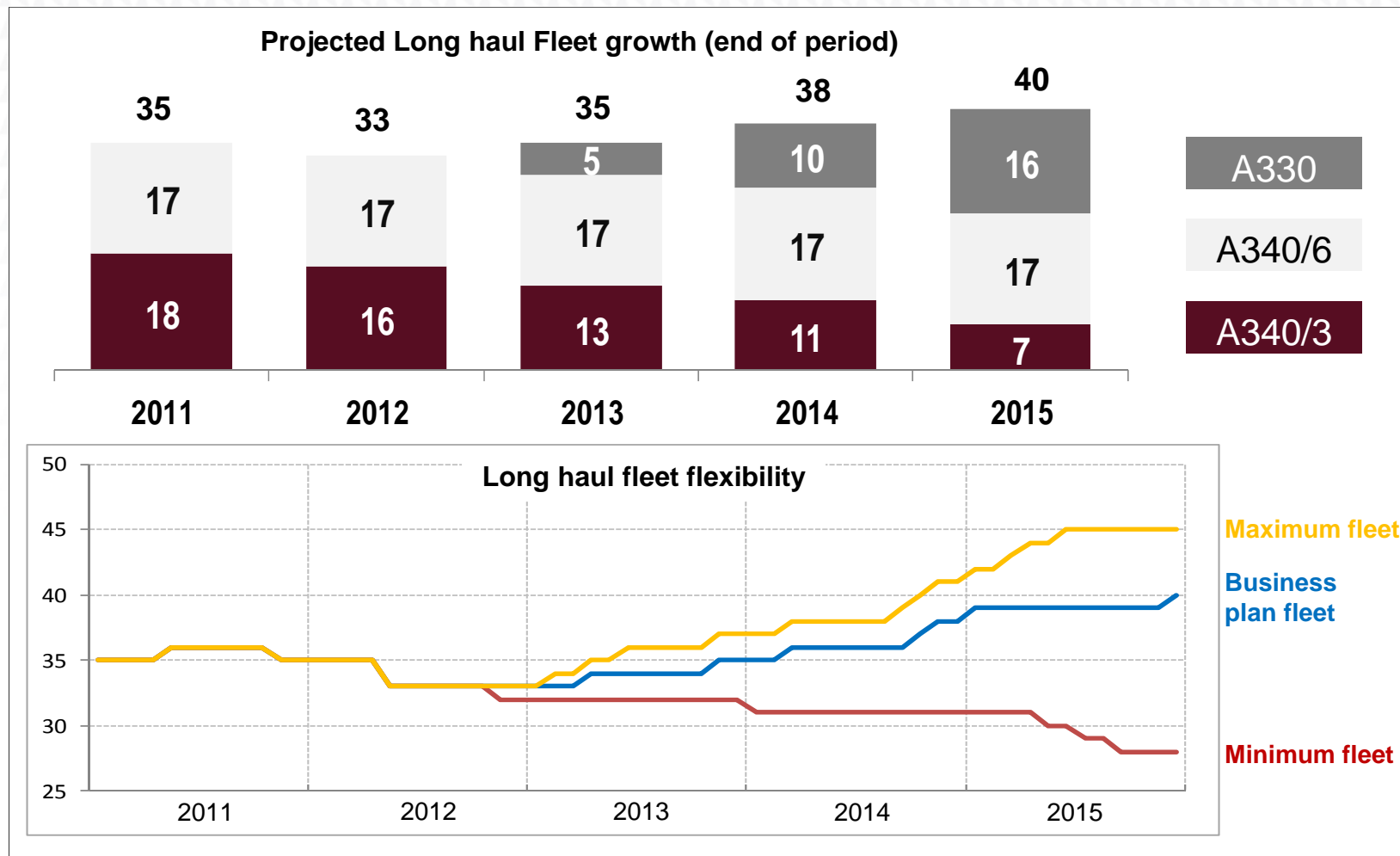


Long haul fleet renewal

- Combination of A340-600 and A330-300 will optimise requirements of the whole range of destinations within IB network



Long haul fleet evolution and flexibility



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Improving long haul business products



- Greater **comfort** in bed, more **bed length**
- Access to **aisle** from all seats
- More **privacy**
- Personal storage **space**
- Increased **in-flight entertainment** options
- More seats in A340-600: 42 to 46

Improving long haul economy products



- **Personal in-flight entertainment**
- **More leg** room
- **More reclining** seat
- Personal **storage** space
- **Adjustable** headrest
- **Connectivity**



Develop Madrid as a world-class hub



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Project to develop Madrid as a world-class hub

Objective:

Making Madrid Hub a benchmark of excellence and quality to service Iberia and its customers



On time performance

A15 85%

Customer experience

*NCP +0,8**

Efficiency, MCT & turnaround times
-10'

* NCP: Level of Perceived Quality, measured in a scale of 10 points



A project to overcome Iberia's hub weaknesses

Measure	Explanation	Asset turn	Margin
Minimum connection time	-10 min. in T4-T4S and T4-T4 connections	++	++
Turnaround time	-10 min. in A320 fleet	++	+
Level of perceived quality	Reduce gap and align to best EU practices	+	++
Punctuality		++	+++
Disruption		++	++
Connections		++	+
Boarding		+	+

Transform Madrid into a world-class hub



18 programs embedded in the project

Iberia plan five pillars

- 1 Achieve excellence in punctuality
- 2 Simplify, speed up and improve customer experience
- 3 Continuous improvement of hub efficiency
- 4 Transmit passion for excellence
- 5 Generate good reputation making the change visible

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Significant returns with limited investment



Economic Impacts of >€100M by 2015

- Higher revenues 56%
- Cost reduction 44%

Barajas project: new office building



- Modular design, open plan, focused on more up-to-date ways of working
- 60% reduction of current recurring location costs (rent, maintenance, consumption): savings of €13m a year
- Ready to move at the end of 2014

Barajas project: new cargo terminal

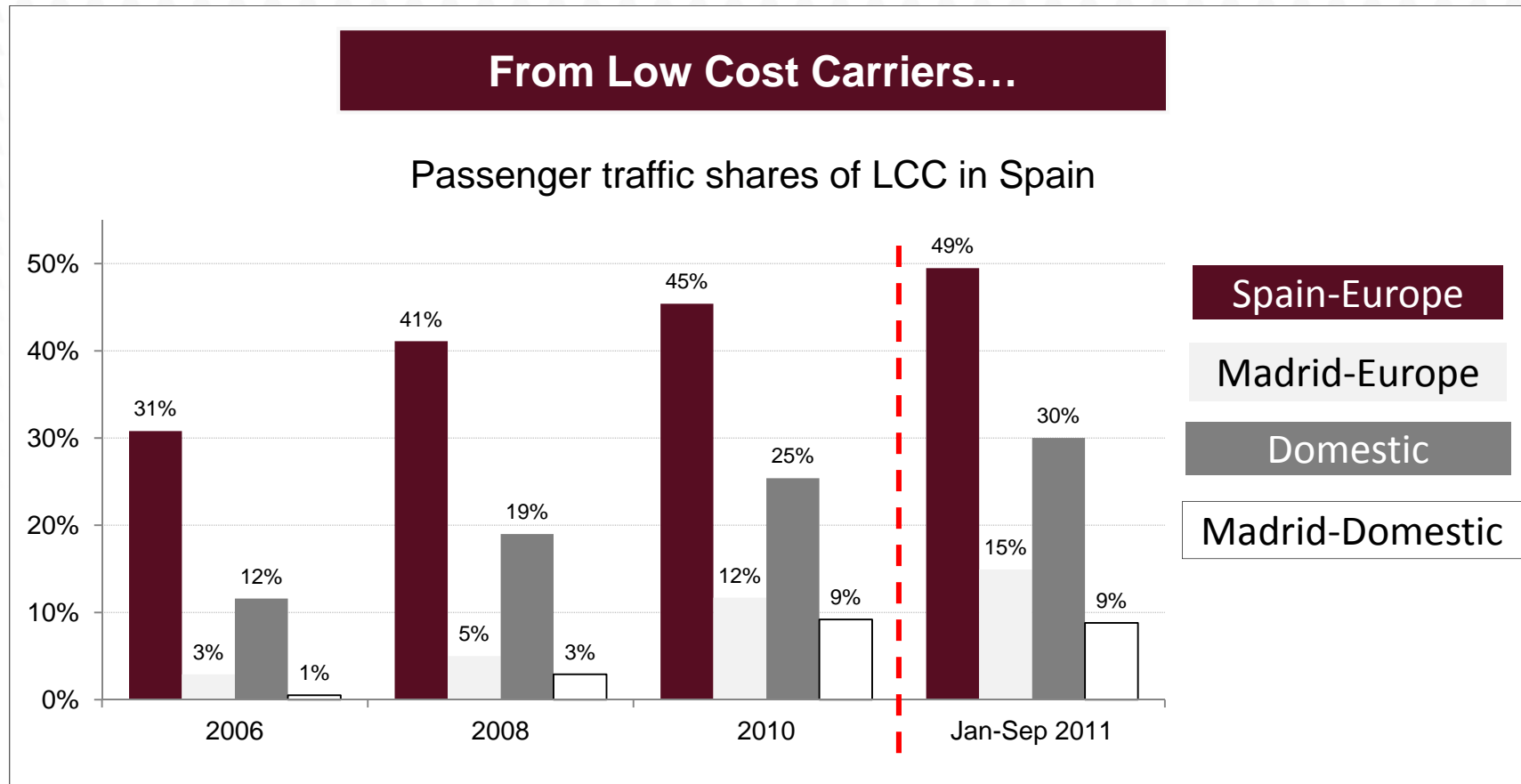


- Distance to T4 from cargo terminal: from ~10 km. to ~3 Km.
- Facilities from only 22,000 sq.m to 39,000 sq.m
- Savings of €7,5m a year
- Ready at the beginning of 2015

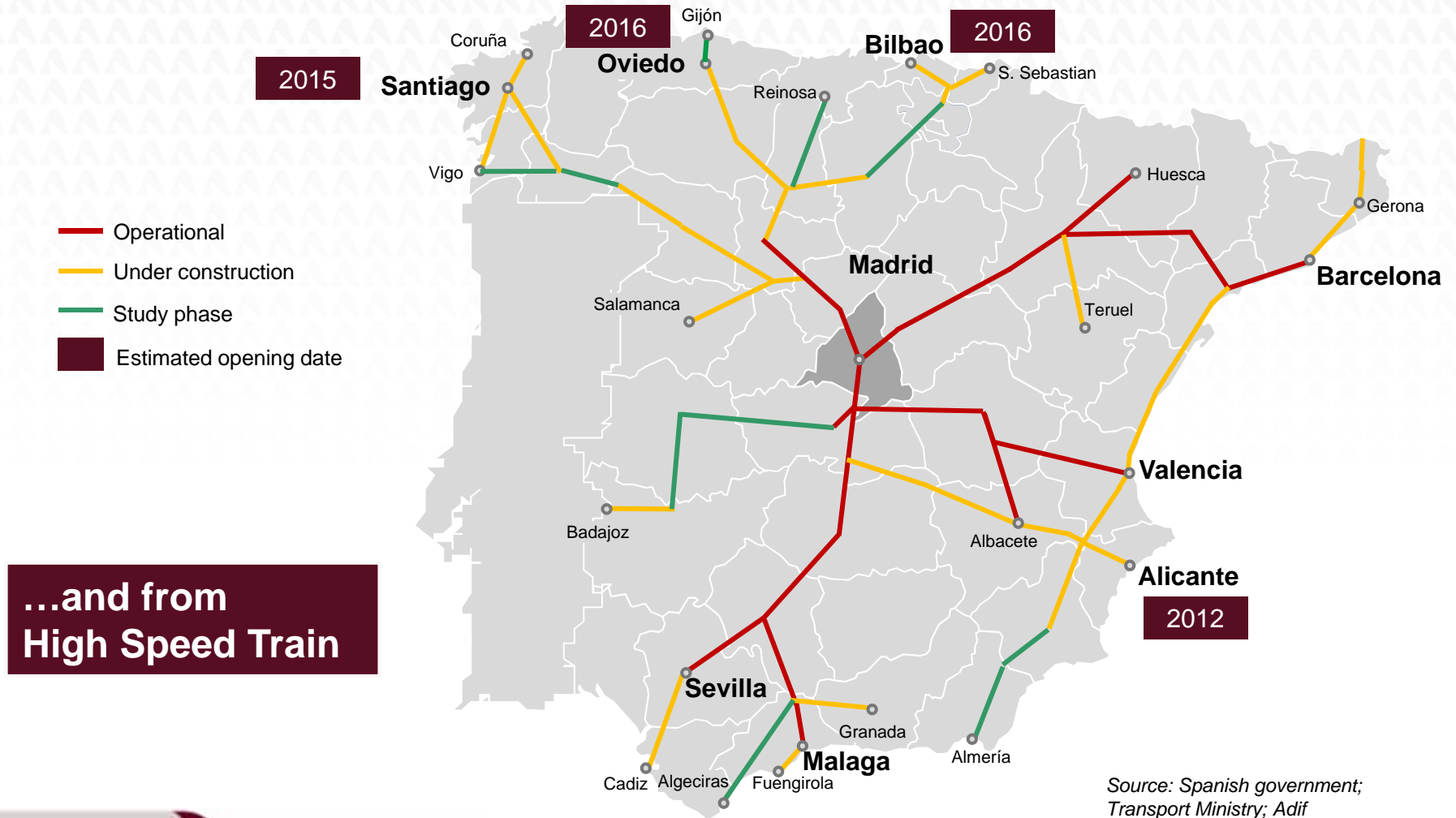
Restructuring the short & medium haul model



Competition in short & medium haul is intense



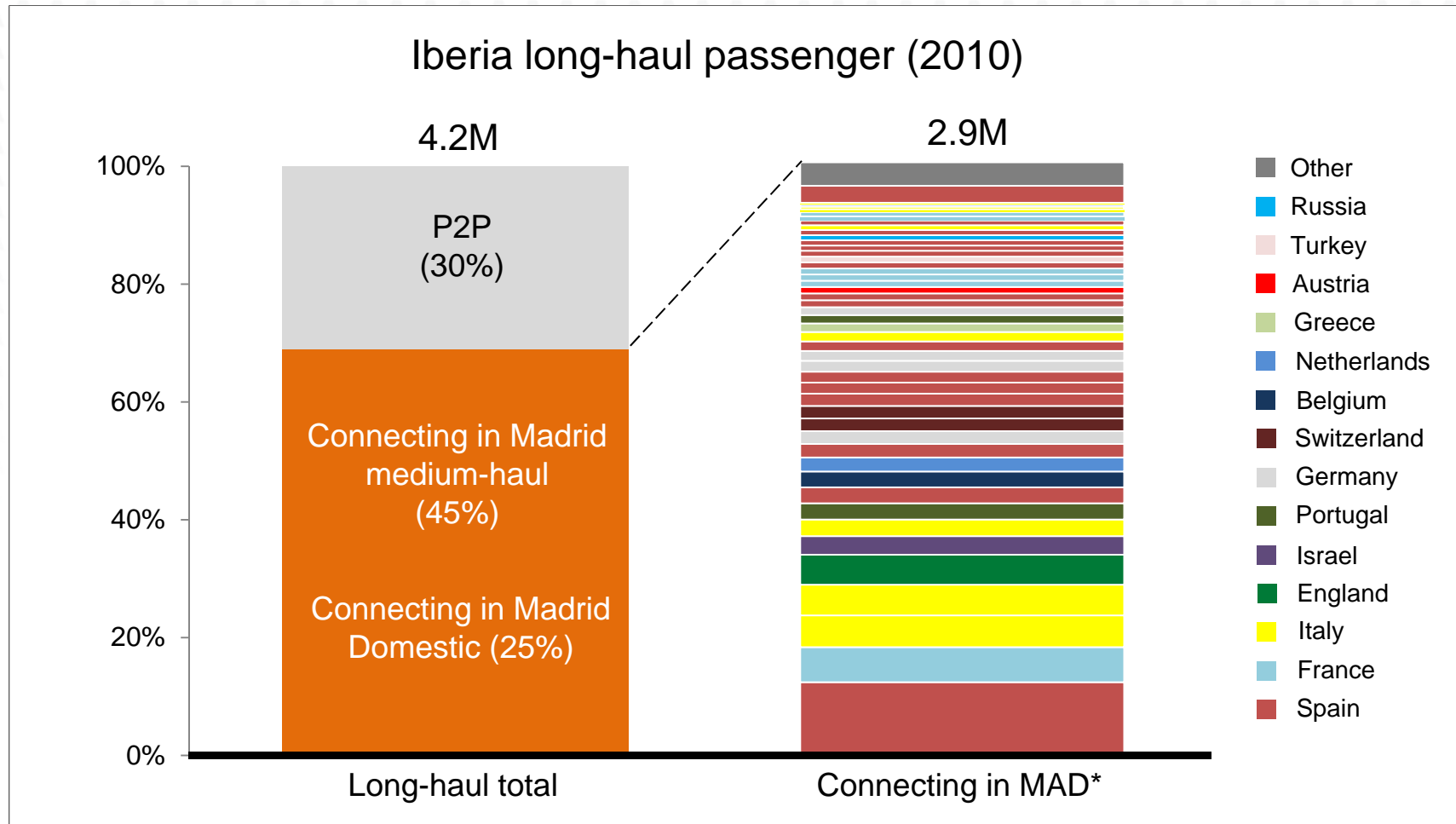
Competition in short & medium haul is intense



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S&M haul is essential to feed the long haul



* Split origin/destinations connecting at Madrid hub, database 2010

Note: Includes Air Nostrum; Medium-haul includes flights to Europe, Northern Africa and Middle East; Domestic includes Canary Islands

S&M haul network comparisons

DOMESTIC DESTINATIONS	Iberia	Air France/KLM		Lufthansa	
	Madrid	Paris	Schiphol	Frankfurt	Munich
# Windows	5	6	-	6	5
# Destinations	29	24	-	14	15
Total daily frequencies	145	199	-	89	96
Daily freq./# destinations	5,0	8,3	-	6,4	6,4

- Equivalent number of domestic destinations, though with less frequencies

EUROPEAN DESTINATIONS	Iberia	Air France/KLM		Lufthansa	
	Madrid	Paris	Schiphol	Frankfurt	Munich
# Windows	5	6	6	6	5
# Destinations	38	59	64	81	83
Total daily frequencies	117	239	253	255	229
Daily freq./# destinations	3,1	4,1	4,0	3,1	2,8

- Reasonable European connectivity

* Data includes regional airlines and franchisees

April 2011

Basic features of Iberia Express

- Staff: 500 employees initially (2012)
- 100% owned by Iberia
- Managed independently from Iberia
- Fleet: initially A320 fleet from Iberia
- Start in summer 2012 with four aircraft and develop to 13 aircraft at the end of 2012
- Maintenance and handling services initially provided by Iberia at market costs



Iberia Express: S&M haul transformation

Management and control

- New airline 100% owned by Iberia
- Managed independently from Iberia, strong governance
- Independent operational planning, but coordinated with Iberia

Iberia Express: S&M haul transformation

Product

- Iberia Express will offer business and economy products
- Adjusted business product connected to the Madrid hub
- Higher seat density



Iberia Express: S&M haul transformation

Network

- Origin/destination routes connected with Iberia
- Commercial planning coordinated with Iberia
- Priority to meet Iberia's network needs and requirements
- Potential for growth following restructuring



Iberia Express: S&M haul transformation

Distribution

- Distribution through own website
- Distribution in other channels through IB code
- All Iberia Express flights in code-share with Iberia
- Revenue management coordinated with Iberia
- Independent image and branding but close to Iberia's



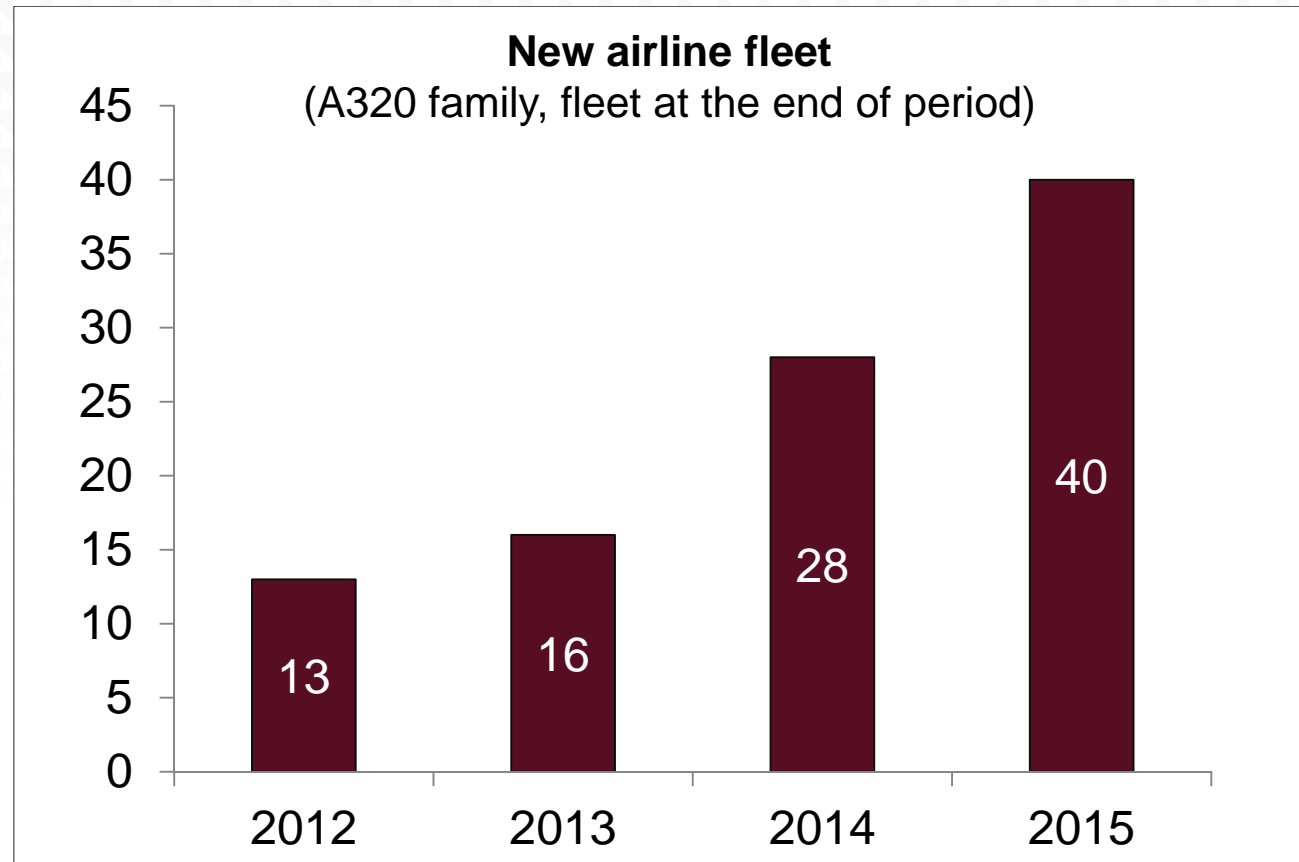
Iberia Express: S&M haul transformation

Operating costs

- Single-fleet of A320s
- Flight crew hired at market costs and productivity
- Maintenance and handling initially provided by Iberia, at market prices



Iberia Express will start in summer 2012



Positive impact of Iberia Express of >€100M

- 45% of the difference in operating profit to come from the crew
- 25% of handling services and other operational areas to come from the adaptation
- 25% of savings to come from savings in overheads and general costs
- 5% to come from increased asset turn



Air Nostrum & Vueling relationship will continue

A successful relationship with Vueling and Air Nostrum also plays a role in Iberia's short & medium haul strategy:

- Air Nostrum will continue as a feeder to the Madrid hub on regional and low density routes
- Vueling in Madrid will continue to be a valuable partner in helping us improve our short haul competitiveness



Cross initiatives



Rejuvenating Iberia's brand image

Iberia has not rebranded, using the same aircraft branding since 1970

However, the **competition** *has* gradually changed

1970



2010

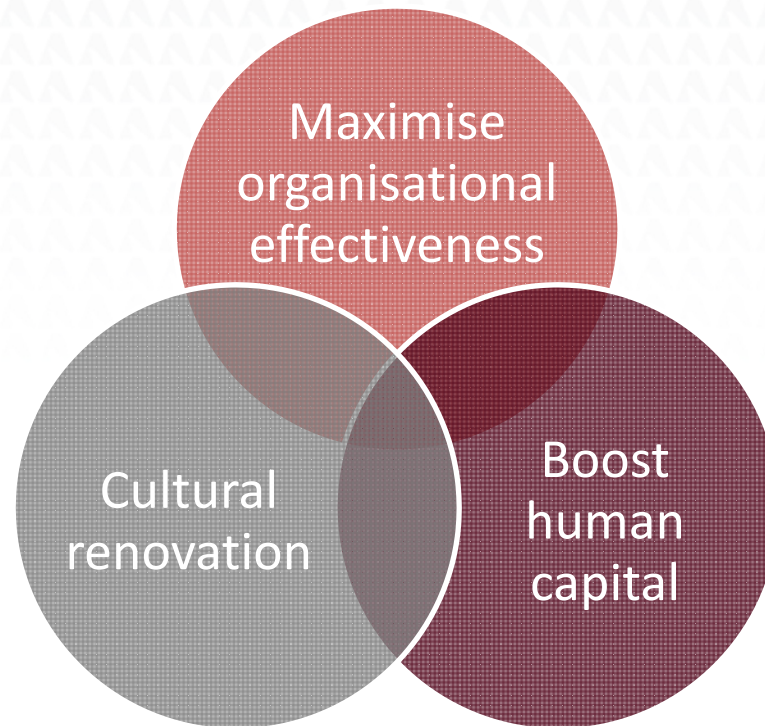


Brand revamp as a catalyst of change



Modernising Iberia's organisation

More efficient, dynamic and flexible and with a winning workforce



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An environmentally and socially responsible organisation

Building brand and reputation among customers and stakeholders



Development and testing of bio-fuels



CO₂ offset scheme

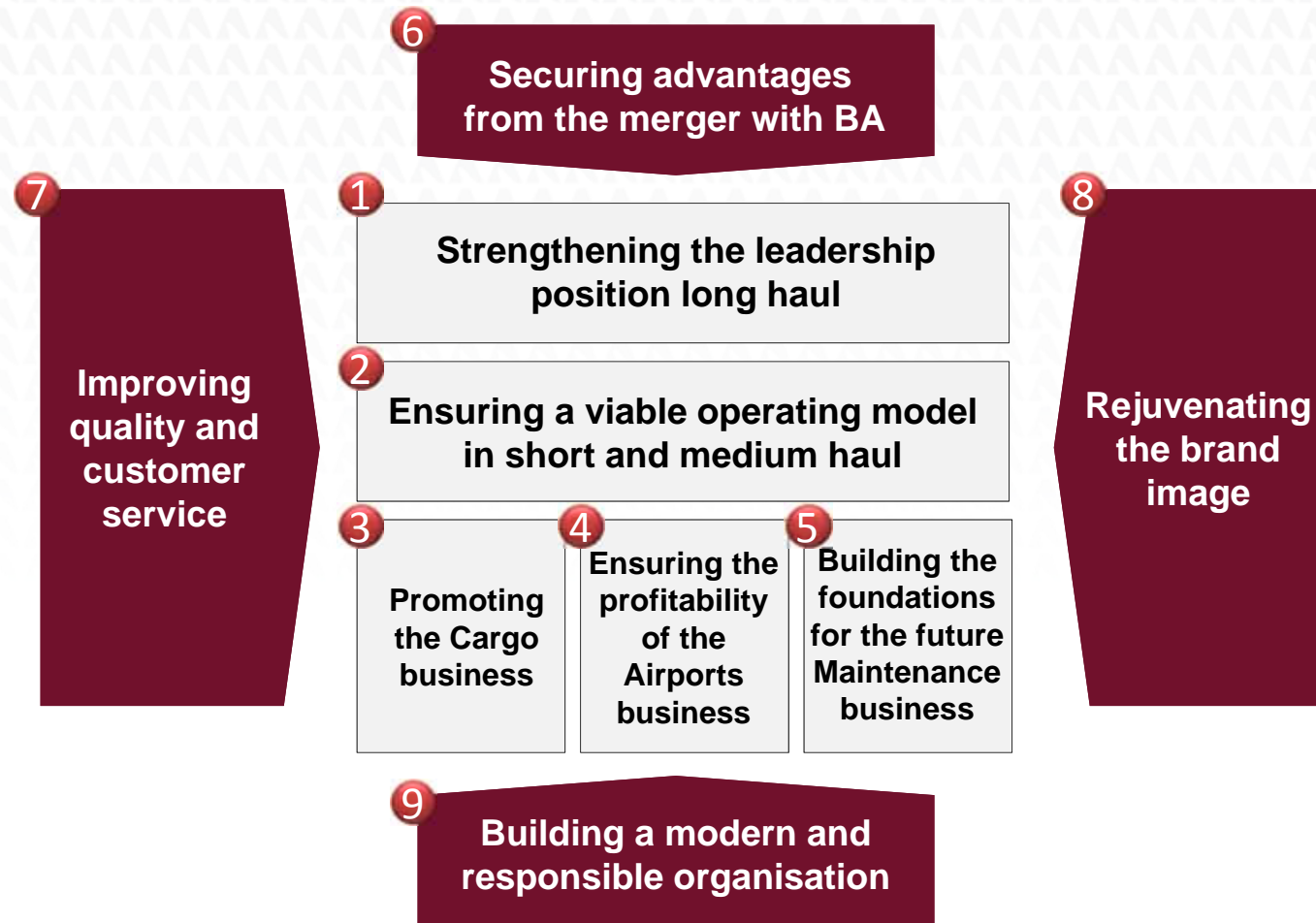


Cooperation with research initiatives



Technical and ops measures

Business plan based on nine pillars



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Summary



Industrial relations

There are 3 collective bargaining groups in Iberia:

Ground staff

- ✓ Signed on April 2010, valid until December 2012
- ✓ Applies to all ground staff, including corporate, commercial, maintenance, ground handling*, IT, etc. 16,400 employees

Cabin crew

- ✓ Signed on December 2010, valid until December 2012
- ✓ 4,000 employees

Pilots

- ✓ Signed on April 2009 with SEPLA (Pilots' Union), expired on 31 December 2009 (Legal automatic extension)
- ✓ In negotiation since November 2009
- ✓ 1,600 employees

*A specific sectoral agreement applies also to ground handling staff



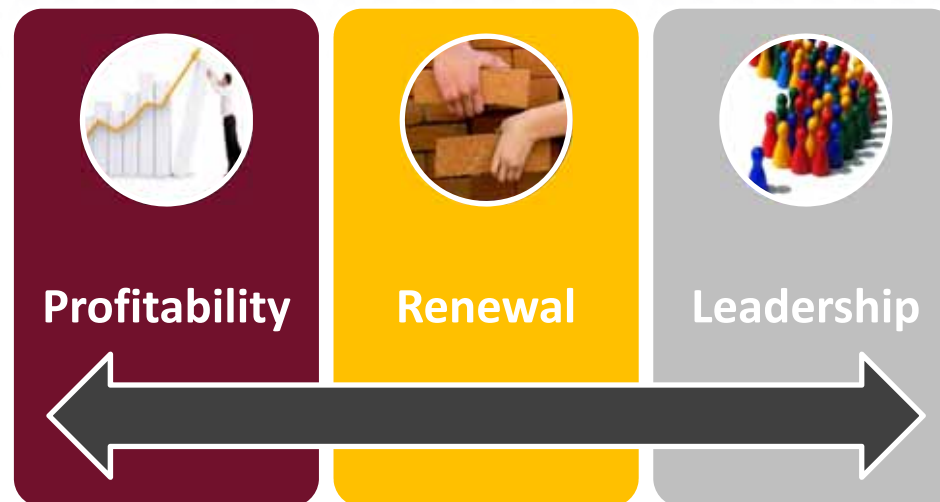
Roadmap to 2012 (short term actions)

1. Launch Iberia Express in summer 2012
2. Reshape the long haul network
3. Integral project to improve Madrid hub's efficiency
4. Modernise the Iberia brand
5. Continue obtaining/harvesting synergies



Summary

- 3 leverages, in addition to synergies, to generate value:
 - Interim fleet and new long haul product >€100M
 - Madrid hub project, facilitator of >€100M
 - Iberia Express, saving >€100M
- By 2015, Iberia will be a profitable and renewed airline, leader in its markets



International Airlines Group

Inaugural Capital Markets Day – Round up

Willie Walsh

Group Chief Executive Officer



IAG

Inaugural Capital Markets Day

