

# FINAL TRANSCRIPT

**Thomson StreetEvents<sup>SM</sup>**

## **BAIRY.PK - British Airways - BA and Iberia Merger Analysts' Presentation**

**Event Date/Time: Nov. 13. 2009 / 10:00AM GMT**



Nov. 13. 2009 / 10:00AM, BAIRY.PK - British Airways - BA and Iberia Merger Analysts' Presentation

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*British Airways - CEO*

## CONFERENCE CALL PARTICIPANTS

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**Samantha Gleave**

*Bank of America Merrill Lynch - Analyst*

**Jarrod Castle**

*UBS - Analyst*

**Douglas McNeill**

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**Andrew Evans**

*Nomura - Analyst*

**Hugo Scott-Gall**

*Goldman Sachs - Analyst*

**Alan Lyons**

*- Analyst*

**James Dickerson**

*- Analyst*

## PRESENTATION

**Operator**

Good morning, good afternoon, and thank you for standing by. Thank you for joining the British Airways analysts' call. At this time, all participants are in a listen-only mode. After the presentation, we will conduct a question and answer session. (Operator Instructions). Today's conference is being recorded. If you have any objections, you may disconnect at this time.

I will now hand to today's meeting over to Mr. Keith Williams. Please go ahead, sir, your line is now open.

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**Keith Williams** - *British Airways - CFO*

Good morning, everyone. I'm joined this morning by Martin Broughton and Willie Walsh.

As you know, yesterday evening, we announced our merger with -- our proposed merger with Iberia. Under that merger, a new TopCo will be created, which will hold the existing shares in BA and Iberia. The TopCo hasn't yet been named. The key important point is that BA and Iberia will both retain their brands.

The new TopCo is expected to be listed on the UK Stock Exchange, but its financial headquarters will be based in London.

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The merger ratio which we've seen yesterday is a headline ratio of 55% British Airways, 45% Iberia. As part of the merger, the cross holdings of each company in the other will be eliminated, and as a consequence, the shareholding will be 56% to 44%.

British Airways shareholders accordingly will receive one new share in the TopCo for their existing share in British Airways, and Iberia shareholders will receive 1.0205 shares in TopCo for their existing shares in Iberia.

I'm now going to pass you over to Willie, who's going to take you through a slide presentation of the proposed merger.

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**Willie Walsh** - *British Airways - CEO*

Thank you, Keith, and good morning, everyone. I hope you've had an opportunity to look at the presentation. We placed it on our website last night to give you the opportunity to see it in advance of today's presentation, so I will take you through it quickly, and then give you an opportunity to ask questions.

I'm delighted that we've been able to reach the position where the Boards of British Airways and Iberia have agreed a binding MoU to create a leading European airline group. We see significant consumer benefit as a result of an enhanced network offering.

We believe that this positions British Airways and Iberia better strategically, and it has been an important issue for us to pursue consolidation; but as we've said before, not to pursue it for the sake of size, but to pursue it to ensure that the new entity was a better entity; and I believe we achieve that with Iberia and BA coming together, and we have identified significant synergy potential.

The governance that has been agreed is effective and will deliver the joint business and synergy plans, while retaining the separate brands, as Keith has said, and separate airline operations.

We expect to sign a merger agreement in February of next year, 2010, and to complete in the fourth quarter, about this time next year.

Now the key terms, as Keith has mentioned, British Airways and Iberia shareholders will own 55% and 45% respectively. After the cross shareholding is cancelled, British Airways shareholders will have 56%, Iberia 44%.

The new Holding Company TopCo will be incorporated in Spain. We will have the headquarters, a single headquarters, based here in the UK, and we will be listed in the UK and expected to be included in the FTSE UK index.

We've provided you with a chart showing the combined network. It gives a significantly larger destination network, with 48 destinations served by British Airways and Iberia, 59 new destinations for British Airways customers, 98 new destinations for Iberia customers.

We also see potential for development of our cargo network, and not only benefits, therefore, for airline passengers, but also for our cargo customers. And we have identified potential for future growth by optimizing the hubs at Heathrow and Madrid. It's well recognized that Heathrow is full, but Madrid does have excess capacity, and we see that as an opportunity for the combined Group.

Our strategic positioning network fit, I've always argued that this is one of the key benefits of this; we have complementary transatlantic networks. British Airways very strong, indeed leading, long haul North Atlantic carrier, while Iberia is the leading long haul South Atlantic carrier. So the combination of the two networks gives us a very strong position playing to the strength of the brands, Iberia in South Latin America, and BA in North America.



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And you can see from the chart on the strategic positioning, the scale of this combined operation gives us the ability to compete globally with the other major airlines and alliances, because it will strengthen the oneworld proposition, and we see that as important, as competition between alliances becomes an increasing factor in competition generally.

And we also believe that this merger creates a combined business that can participate in future industry consolidation. So we don't see this as the end of consolidation, but we see this as positioning the new entity to compete and participate in further consolidation.

The synergies that we have identified are significant. We have EUR400 million approximately, a year five run rate, and you can see the breakdown of the synergies. Approximately one third of the synergies coming from revenue through network and fleet; two thirds of the synergies coming from cost; and we're confident that these synergies can be delivered through the structures that we have put in place.

There will be detailed work done on the synergies as we develop the joint business plan between the two airlines, so you should expect to get further and more detailed information in relation to the synergies, the timing of delivery, and the scale of that as we develop that plan.

The overall structure, we've looked at the structures that Air France-KLM, Lufthansa/Swiss have applied. So this structure enables, which is important, the maintenance of national air traffic rights, while maximizing the synergies of the combined entity.

So we've put a structure in place that will ensure that the air traffic rights of British Airways and Iberia are protected, but governance and structure to ensure that the synergies and joint business plan can be delivered.

As Keith has mentioned, the TopCo will be incorporated in Spain, but we will have our primary listing in the UK, and expect it to be in the FTSE UK index. We will, if possible, look at a secondary listing in Spain.

The headquarters will be in London. We will have a registered office in Madrid, and the implementation plans are well advanced, and they will be finalized before we sign the merger agreement, which is expected to be in February.

The new TopCo Board will comprise of 14 members; British Airways nominating five, Iberia five, with four new independent directors, two to be appointed by BA and two to be appointed by Iberia.

The Chairman will be Antonia Vazquez, who is the current Chairman and CEO of Iberia. He will be replaced as the CEO of Iberia by Rafael Sanchez-Lozano. I will move to the position of Group CEO and be replaced as BA CEO by Keith Williams. And Martin Broughton will be the Group Deputy Chairman and continue to Chair the British Airways OpCo.

So we believe that this is a sensible structure which identifies clearly that this is a merger between the two of us, and the TopCo governance will be in compliance with the combined code.

The Group management structure initially will form a combined team from BA and Iberia, with me as the Group CEO. It will include Keith Williams as the BA Operating Company CEO, Rafael Sanchez as the Iberian Operating CEO, Enrique Dupuy as the Group CFO. Robert Boyle will take on the role of Revenue Synergies Officer; that's the title we've give it at the moment. Clearly, these titles will change over time; and Robert will have a significant role in the strategic development of the combined entity. And Jose Maria Fariza will take on the role of Core Synergies.

I'm delighted with the team. I think it's a very strong management team with significant experience in the airline industry and, indeed, in other industries. So I think it's particularly strong and will be responsible for the direction and strategy coordination, but critically, absolutely aligned to deliver the synergies that we've identified.

We will develop a joint business plan and, clearly, identify a plan for implementation.

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P&L accountability will remain within the operating companies, and the air operators' certificate and day-to-day operational management will be the responsibility of the OpCo management.

Decisions within the OpCo will be at a Board level by simple majority, except where assurances are to be addressed. We think that will require the approval of seven directors, and you can see the structure of the OpCo Boards.

Martin Broughton will Chair the BA OpCo Board; Antonio Vasquez Chair the Iberia OpCo Board.

The OpCo CEOs will sit on the Board of both companies, so Keith on BA and Iberia, and Rafael the same. Enrique Dupuy, as the Group CFO, will also sit on both of the Operating Company Boards.

So this is designed to ensure that there is alignment in terms of delivery of the joint business plan and the implementation, and to ensure that we've close coordination between the two operating companies where we can identify additional opportunities and learn and benefit from the successes in the individual operating companies.

Similar to Air France-KLM, we have jointly agreed some assurances. It's agreed that BA and Iberia will keep their bases in the UK and Spain. We'll have own licenses, certificates, codes and brands. We see that as being absolutely the right way forward. BA's got a very strong brand, Iberia a very strong brand, and we want to play to the strengths of those brands.

We have put a structure in place to ensure that slots and destinations are protected for the benefit of the Group, and we will work to ensure that the networks are coordinated, and that will be one of the responsibilities that Robert will have to ensure that we've got maximum potential synergies being delivered, and also identify any new opportunities for network development.

And given that we're not looking to create a single airline, labor relations will be managed locally within the Operating Company.

Now the MoU was signed last night. It's a binding MoU. We expect to finalize financial and legal due diligence in the first quarter to develop the detailed synergy plan and joint business plan, and to sign the merger agreement, as I said, in February.

We're expecting shareholders meetings in the summer. I don't have a specific date at this stage, but it will be in Q3, and then to close the deal in Q4.

Now there are some preconditions. Clearly, a precondition is confirmation from both the UK and the Spanish CAA in relation to the structure, and also, we need approval of the transaction, the actual transaction structure from the CNMV.

We also in terms of conditions require regulatory approval, antitrust approval, and we don't anticipate any issues there, but we will go through the formal process. Approval from our respective shareholders; a condition of this is that TopCo shares be included in the UK listing and, clearly, as has been covered in some detail in the press, a satisfactory outcome of the pensions review. And that process will be ongoing, and we can talk about that during the Q&A, but we have agreed a break fee of EUR20 million, which is payable in certain circumstances.

So to summarize, I think this is a really positive development. I believe it's an exciting step for us and a new phase in our long history of cooperation between British Airways and Iberia. We're now creating what I believe will be a leading European and potentially world airline group.

The new structure will deliver enhanced consumer benefit, and we expect to build on the developments that we've had to ensure that we can develop the network to deliver additional synergies and additional consumer benefit.

We'll have a strong global strategic position, playing to the strengths of the combined entity, but also to the respective strengths of the brand, and the synergies are significant. But critically, the governance structure and the management team that we've agreed will ensure that those synergies are delivered and delivered in full.



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So I'm happy now to open to you for some questions, and as Keith says, we're joined by Martin Broughton as well, so Martin is here and available to answer your questions as well.

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## QUESTIONS AND ANSWERS

### Operator

Thank you, sir. We will now begin the question and answer session. (Operator Instructions). Your name is required to introduce your question. One moment please for the first question.

Our first question comes from Edward Stanford. Please go ahead, sir. Your line is now open.

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### Edward Stanford - Cazenove - Analyst

Good morning, everybody. Kicking off the questions about the Pension Fund, is there a specific threshold that it would be seen to be not acceptable by Iberia? Could you perhaps give us some flesh on the bones of the conditionality on that?

And presumably, the agreement on the pension deficit is a precondition of signing the MoU, and if there's any delay, that too will be delayed. Is that right?

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### Willie Walsh - British Airways - CEO

No, the MoU has been signed.

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### Edward Stanford - Cazenove - Analyst

Sorry, not the MoU, the merger agreement.

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### Willie Walsh - British Airways - CEO

No, it's not a precondition. We expect to sign the merger agreement in February of next year, so that will probably be ahead of the finalization of the recovery plan with the trustees.

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### Keith Williams - British Airways - CFO

Yes, so where we are on pensions, and we discussed this to some degree at the half year results is, as you know, we're in conversations at the moment with the trustees on agreement to the size of the pension deficit as at March 31, 2009. That is ongoing, and the statutory deadline for agreement of that deficit is June 30 of next year.

Iberia themselves have been looking at the BA deficit through the eyes of their own actuaries. So BA has some actuaries, the trustees have some actuaries and Iberia similarly have been looking through the eyes of their actuaries, so they've had quite a look at the BA pension scheme.

Yes, and then on the question of a specific threshold, there is no specific threshold on pensions.

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**Edward Stanford** - *Cazenove - Analyst*

Thank you.

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**Operator**

Thank you, sir. Our next question comes from Samantha Gleave. Please go ahead, madam. Your line is now open.

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**Samantha Gleave** - *Bank of America Merrill Lynch - Analyst*

Good morning. Three questions, please; firstly, just thinking about the rationale for this merger. You mentioned future growth by optimizing the hubs of London and Madrid. Can you maybe provide a bit more detail on what that could entail; a bit more detail maybe on these potential growth opportunities? That's the first question.

Secondly, if you could just maybe clarify the position of the convertible bond, I think the terms in the bond prospectus implied that the debt obligation remains with British Airways. Can you confirm if that's right and just how that might work?

And, finally, third, just on slide 14, you mention decisions by simple majority, except in relation to assurances. Can you just give us a bit more color on what those assurances mean? Thank you very much.

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**Willie Walsh** - *British Airways - CEO*

Okay, with regard to the hubs, I think it's well recognized that Heathrow is full, and the opportunity to acquire additional slots, while not impossible, is difficult.

When we look at future growth, let's look at this in the context of BA in isolation. What we've identified is that as economic conditions recover, we've identified growth potential in North America, so we've 19 destinations in the US at the moment, but we believe there are at least three, possibly four additional destinations that we could serve.

We've identified growth in Asia, which we think is very important that we participate in that. And, clearly, we see Latin America as being a growth area for the future.

Now given the restrictive nature of the slot positions at Heathrow, for BA to try and participate in those growth markets, it's going to be difficult. So what we believe we can do by combining these networks is that in effect, you can address the Latin American market by creating the primary European hub at Madrid that will address Latin America, so BA and Iberia to serve Latin American over Madrid.

We currently have a very limited presence in South America, with services to San Paulo, Rio de Janeiro and Buenos Aires, but we believe that there is scope for significant growth.

We currently feed that market typically by flying people into Miami, which is sub-optimal from a customer point of view, so we believe that serving it over Madrid is much better for the customer. So what we will do is focus the growth into Latin America over Madrid, which would then give an opportunity to focus on North America and Asia from Heathrow.

So we can generate additional long haul slots by using some of our existing short haul stops. We're pretty confident we'll be able to pick up some additional slots at Heathrow, but this way, we can ensure that the combined entity will have a strong presence in where we believe there will be significant growth going forward, and that's particularly true of Latin America and Asia, but also building on the strong position we have in North America.

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I'll ask Keith to talk about the convertible.

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**Keith Williams** - *British Airways - CFO*

Yes, on the third question of the convertible, as you know, we launched the convertible in August, a GBP350 million convertible. We had an eye to the deal with Iberia at that point in time, and it includes specific language to cover the Iberian merger.

Now under that is the convertible remains a debt obligation of British Airways, but would be a conversion into equity of TopCo.

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**Willie Walsh** - *British Airways - CEO*

And on the assurances, Samantha, the assurances are the ones listed on page 15. In effect, they relate to protection of the brands, so in other words, that the combined Company will retain two brands, Iberia and British Airways; and in relation to the traffic rights, we know that the traffic rights are not put at risk; and finally, in relation to the maintenance of the hub airports of Madrid and Heathrow.

So it's the issues that you can see listed on chart 15 under the assurances. These are similar to assurances that were given in the Air France-KLM merger, so it's designed to protect those, but particularly to protect the traffic rights. But as we've given a commitment, both companies, that we will retain two brands, it's also to ensure that the brands are retained.

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**Samantha Gleave** - *Bank of America Merrill Lynch - Analyst*

Okay, that's clear. Thank you.

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**Operator**

Thank you, madam. Our next question comes from Jarrod Castle. Please go ahead, sir. Your line is now open.

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**Jarrod Castle** - *UBS - Analyst*

Good morning, gentlemen. It's Jarrod Castle from UBS. Also three questions, if I may. Can you say anything in terms of Vueling Clickair, once you've signed the merger agreement, if that means you will have to maybe buy the remaining interest?

Secondly, can you also just comment on what will happen to the voting rights of the national control structure after five years?

And then lastly, has there been any feedback from employees within the Group, the unions in terms of support for this transaction?

And maybe if I can be a bit cheeky, any comments about bmi; if this now means that you would not look in detail at bmi seeing that you've agreed this MoU?

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**Willie Walsh** - *British Airways - CEO*

Okay, I'll take it in reverse order, if you're okay with that. No, it doesn't mean that we've changed our view in relation to bmi. We've been very open in expressing an interest in bmi. We believe that that would enhance the position of British Airways and enhance the position of British Airways within the Group, so therefore be in the interests of the single economic entities.



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So our position remains the same. If Lufthansa are looking to dispose of bmi, well, then we're definitely interested in looking to acquire it.

The response or the reaction from employees has been generally positive. It's been no secret that we've been in these discussions with Iberia for some time. I think our employees in the past have expressed concern that we were being left behind in terms of the consolidation game and that we were beginning to look small relative to what has been our traditional big competitors in Europe.

So general reaction has been very positive. I think people are quite genuinely pleased to see us move forward, and I think, in fact, some of the trade union representatives have also come out and made positive statements, although I haven't seen all of those myself.

In terms of the national control, they're largely there to ensure that the traffic rights are protected, and we believe that, over time, the traffic rights, the situation regarding bilateral air service agreements will change.

We've already seen the EU negotiate traffic rights on behalf of the European entity, so clearly, it's important for us to have a structure in place that doesn't put any of the traffic rights that we have at risk. So you've seen a similar structure with Air France-KLM and, indeed, I think with Lufthansa/Swiss and Lufthansa/bmi. So if we require a structure in place to continue to secure traffic rights, we will clearly do that.

And finally on Vueling, no, we don't believe that this triggers anything in relation to Vueling Clickair.

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**Jarrod Castle** - UBS - Analyst

Thank you.

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**Operator**

Thank you, sir. Our next question comes from Douglas McNeill. Please go ahead. Your line is now open.

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**Douglas McNeill** - Astaire Securities - Analyst

Good morning, gentlemen. I wonder if I could ask about the reference to the protection of slots and destinations? Is that getting at the issue of traffic rights, or does it go beyond that? It seems to suggest a certain ossification of the networks, and I wonder if you could just explain what it means in practice.

And then, secondly, if I may, your interest in the growth potential offered by Madrid and the dual hub strategy, should we read that as an acknowledgement that a third runway at Heathrow is unlikely to happen?

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**Willie Walsh** - British Airways - CEO

In relation to slots and destinations, it's primarily slots, but we also recognize that the airlines and respective shareholders have a particular interest in the networks operated from the respective hubs, but the agreement recognizes that it's not about maintaining destinations that are not viable or not profitable.

So all decisions will be taken in the interests of the single economic entity, but it's clear, given the importance of slots, that we have to have a structure in place that would not put any of our slots at risk.

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So it's primarily to ensure that slots are not jeopardized, but also to ensure that any decisions in relation to change in the network are, if you like, fully debated before decisions are taken. But there's no question that decisions will be taken on a commercial basis, and this was recognized by both parties that the single economic entity will only benefit from strong operating companies. So that's what those assurances relate to.

I don't see this as acknowledgement that a third runway won't be built, but it's clearly an important hedge, if you like, for us. We've always made the point that if a third runway is not provided at Heathrow, that we would pursue growth in other areas, and this clearly gives the combined business an opportunity to participate in growth over another key European hub, and one that has a particularly strong network into an area that we believe will represent growth opportunities for the future.

So it gives us growth opportunities if a third runway isn't built, but we also would like to see the third runway built, because we'd like to pursue growth opportunities at Heathrow as well. But it clearly is a better position for us to be in.

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**Douglas McNeill** - *Astaire Securities - Analyst*

Thank you very much.

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**Operator**

Thank you, sir. Our next question comes from Andrew Lobbenberg. Please go ahead. Your line is now open.

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**Andrew Lobbenberg** - *RBS Equities Research - Analyst*

Oh hi. It's Andrew from RBS. Three questions, if I may. One simple clarification; I think I heard Keith say that the deadline on the pension was June 10 to declare the deficit. I thought it was to close a deficit recovery plan.

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**Keith Williams** - *British Airways - CFO*

You're right.

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**Willie Walsh** - *British Airways - CEO*

You're correct. It's to finalize the recovery plan.

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**Andrew Lobbenberg** - *RBS Equities Research - Analyst*

Okay, cool; thought so. And then two other questions; what could you say to the potential concern from investors that you, and indeed the Iberia colleagues, are embarked on very challenging cost reduction efforts and very challenging industrial relation situations, and that the merger and executing the merger could distract you from pushing through on those? Could you talk about that?

And then otherwise, and I think I know your answer, but what's the greatest threat to the deal going ahead? Because, obviously, you're sounding confident on national ownership, and as well, you're sounding confident on competition; you're sounding confident on CAA. So where's the greatest risk to the deal actually going through?

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**Willie Walsh** - British Airways - CEO

Thanks, Andrew. I have to say I've absolutely no concerns about our ability to execute this merger while at the same time pursuing the agenda of restructuring within British Airways. And I can tell you from the dealings that we've had with the Iberia management team over the last few months that they are in exactly the same position.

And I think we've demonstrated that. We've been involved in these discussions for the best part of 18 months. If you look at what we've been doing in terms of restructuring BA as we've gone through that process, we've clearly demonstrated that we can do both.

Now I recognize that the workload changes as we move towards finalizing the joint business plan, and then the work needs to be done to combine the two entities, but I'm satisfied that we have plenty of management capacity within BA and within Iberia to allow us to do both.

And I assure you, we would not proceed if we felt that we couldn't do that, because you'll have heard me say publicly, I believe consolidation is part of the solution, but it is not the solution. If you push me, I'd say that 80% of the solution comes from internal restructuring within the operating airline. The merger is 20% of the solution.

So we're very clear in terms of the need to continue to progress the plans we have to restructure BA and build on the progress we've made over the last 12 months, and the same applies in Iberia.

So I have no concerns about that. I believe we've got the right structure in place. I believe we've got the talent within both companies to ensure that we can do that, and we'll keep this carefully project managed as we move forward once the merger agreement is signed and as we start working to put the two businesses together.

In terms of the greatest threat, I have to say, I'm personally pretty relaxed. I think the pension deficit will get a lot of media attention, but that's no great surprise in that it gets a lot of media attention anyway, but I think we've identified that it's an issue that has got to be addressed.

As Keith has said, there is a plan in place to do that. It was always clear to us that that was going to have to be done; that a merger was never going to absolve us or remove the need to address that. So it's identified, I think, in the popular press as being a challenge, but I'm confident that we'll be able to agree a sensible recovery plan with our trustees, and one that Iberia will recognize as being a sensible way forward.

So we've got great commitment on the part of Iberia and British Airways towards doing this deal. I think we've developed a very good working relationship with the new management team at Iberia.

Antonio Vazquez has brought a lot of energy and enthusiasm towards this deal, and I think we've made more progress in the last two/three months than we had in the previous 12 months, and I think that's a real positive indication as to how we can proceed from here.

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**Andrew Lobbenberg** - RBS Equities Research - Analyst

Thanks very much.

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**Operator**

Thank you very much, sir. Our next question comes from Andrew Evans. Please go ahead. Your line is now open.

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**Andrew Evans** - Nomura - Analyst

Morning, three questions from me; just starting on the timeframe for this. So obviously, you've been negotiating for a fair period, 15 to 18 months. What dictates that you need another year to actually close the deal?

Secondly, in terms of fleet going forward, does this impact at all what you're thinking in terms of fleet planning and the fleet renewal program?

And then lastly, just coming back to convertibles. If any of the convertibles in BA are converted before the merger, what sort of impact will that have on the merger ratio?

That's it, thank you.

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**Willie Walsh** - British Airways - CEO

Let me briefly talk about the timeframe. Clearly, we would like to try and progress this more quickly, but we do have to go through various stages of regulatory approval.

As Keith has said, we also have to conclude the discussions with the pension trustees, and that will happen by June of next year. We need to get shareholder approval.

So when we've looked at this, we believe that realistic, the most realistic timeframe for completion of this deal is the one that we've set out. If it was possible to do it quicker than, clearly, we will seek to do it in a quicker timeframe. But we felt we needed to be realistic and set out what we believe is likely to be the timeframe involved.

But, as I said, if any of it can be accelerated, well, then we will certainly do so.

In terms of fleet, it doesn't change any of the immediate plans so I would say fleet commitments over the next three to five years are unlikely to change. However, we do see opportunity in terms of fleet coordination for the benefit of the combined business.

So that will be one of the areas that Robert Boyle will focus on. Robert has a lot of expertise in this area, and I'm pleased that he's taking on the role of revenue synergy, because I think he'd be able to make a significant contribution in that.

So fleet is definitely one of the areas where we've identified some synergies, but I believe that there will be further synergies available beyond the five year timeframe that we've identified in the presentation today. And some of that will come through fleet but it's -- as I said, it's after the five year period. And the --

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**Keith Williams** - British Airways - CFO

And on the question of the convertible again, Andrew, the conversion date has a long stop date of 2014 and conversions in the meantime have no impact on the merger ratio.

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**Andrew Evans** - Nomura - Analyst

Okay. Perfect. Thanks very much.

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**Operator**

Thank you, sir. Our next question comes from Hugo Scott-Gall. Please go ahead. Your line is now open.

**Hugo Scott-Gall** - *Goldman Sachs - Analyst*

Yes, I've got two questions. One is how -- in terms of delivering the synergies, how many people have any or part of their compensation related to delivery of synergies?

And the second part of that is, how will you show the synergies? There's always a bit of a question mark over Air France-KLM's claimed synergies and where they actually appear on the P&L.

And the second question's just on tax. Is there anything you can do to be creative on using the tax losses within both BA and Iberia through the TopCo?

**Willie Walsh** - *British Airways - CEO*

Hugo, in terms of remuneration and incentivization in relation to synergies, that's clearly something that we will look at. It will be an issue for the new Board, the Board of TopCo, to consider in terms of remuneration policy.

But what I can tell you is the two people that we've identified, the two specific individuals given responsibility for synergies, are two very experienced people in this area. And I think we've got a fantastic team there; so Robert and Jose Maria very strong track records.

But in terms of how we look at incentivization, it's something that we recognize we need to work on, but we've acknowledged that it's work that will have to be approved by the TopCo Board.

We have done some work on it within British Airways. Our reward people have started to do a bit of work on that. They have developed some ideas, but the finalization of that will be the responsibility of the new remuneration committee of the TopCo Board.

**Keith Williams** - *British Airways - CFO*

Hugo, and in relation to taxation, as you know, airlines essentially pay tax based on their nationality. So BA would continue to pay tax on its worldwide profits in the UK and, similarly, Iberia would pay tax on its worldwide profits in Spain.

The creation of the TopCo structure itself doesn't change that. I don't want to downplay the creativity of tax experts, but there's no automatic right of offset of tax losses between the two entities.

**Hugo Scott-Gall** - *Goldman Sachs - Analyst*

Thank you.

**Operator**

Thank you, sir. Our final question comes from Alan Lyons. Please go ahead. Your line is now open.

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**Alan Lyons** - - Analyst

Yes, good morning. This question's already been asked in a couple of other ways, but I just wanted to make sure I understood it correctly.

Should we be assuming the gating item with respect to the timeline that you've laid out here is concluding the -- I don't know whether you call it the reparation plan or the payment plan for the pension with your trustees, and that you're conservatively working to the basis that that will run right to the end of its maximum time, which is June, and that's the presumption that you make.

And would it be fair to say that if, in fact, it's possible to include that earlier, then the rest of the timetable presumably could also move earlier?

Thank you.

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**Willie Walsh** - British Airways - CEO

I think it's fair to say it is one of the issues, but I don't believe it is the sole issue. We clearly have got to go through a number of steps in terms of regulatory approval, and that includes the CNMV. So we've taken advice from our Spanish lawyers in relation to that process.

And, as I said, I think we've identified a timescale that is realistic. I think it covers all of the potential processes that we would need to go through. But clearly, if there is an opportunity to accelerate it, we will do so.

But it's important to point out that not all of it is within our direct control. So where we can control the timeframe, we will work to do that as quickly as possible. But we need to acknowledge that much of this is actually outside of our control and, therefore, the timeframe that we've identified is one that the legal experts have identified for us based on their past experience and their expectation of the issues being dealt with by the various regulators.

So it's important to go through all of the steps and to do so properly, but if we can do it in a faster timeframe then, clearly, we will do so. We will also look to see if, as we get closer, can we accelerate some of the delivery of synergies? So that's work to be done.

So I think we've given you what I would describe as a very realistic timeframe. It's not by any means optimistic. I don't think it's pessimistic either, but we will be looking to accelerate on the process if we can.

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**Alan Lyons** - - Analyst

And why does that process that you've indicated here, why does that run so much longer than, for example, how long it took in Air France-KLM?

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**Willie Walsh** - British Airways - CEO

I'm not sure that it does but, clearly, we've got to do a number of steps in stages. So going to shareholder approval can only take place after other issues have been addressed. So when we map it all out, I think we've concluded that the timeframe that we've identified is likely to be the timeframe that we will follow. But, as I said, if we can do it any faster than that, we certainly will.

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**Alan Lyons** - - Analyst

Okay. Then lastly, I think on -- you were interviewed earlier, you made a remark about the actuarial part of the pension review in terms of actual size of deficit hopefully being concluded or announced in the next few weeks. Could you make a remark about how the process or the timeframe with respect to the conversation that goes from there to concluding the reparation plan looks?

**Keith Williams** - British Airways - CFO

Yes. In terms of the timing, what I said a couple of weeks ago is that we'd like to see the actuarial deficit announced this side of Christmas, because although from our side is we're keen to put out something, it's equally dependent on the trustees' agreement. So that's the timing on that.

And then following those discussions there will then be discussions with the trustees in terms of the length of the repayment period and the amount of the annual deficit contribution that British Airways will make on an ongoing basis, and that will take a few months.

**Alan Lyons** - - Analyst

A few months, okay. Thank you.

**Operator**

Thank you, sir. We have a few more further questions. The next question comes from James Dickerson. Please go ahead. Your line is now open.

**James Dickerson** - - Analyst

Thanks very much. I've got two questions, please; the first one on the pension.

Since Iberia has got this ring fencing agreement, why is that they need this precondition as well regarding the settlement with the trustees?

**Willie Walsh** - British Airways - CEO

It's very simple. I think the issue that Iberia is looking at is the cash contribution that British Airways makes to the Pension Fund. So they clearly want to understand what that cash contribution will be, because that would ultimately impact on the results of the single economic entity. So we've given a very clear view as to what we believe will happen there.

So one is to ensure that they're not required to put any of their cash in, but the other is to fully understand what the recovery plan is going to be and what the cash contribution's going to be.

**Keith Williams** - British Airways - CFO

Just I would comment on the ring fencing which is, of course, trustees themselves ring fence pension funds because they are primarily a responsibility of the employer, and in the case of British Airways, the employer is British Airways Plc.

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**James Dickerson** -- Analyst

Okay, and after this five year period, is it envisaged then that the OpCo's structure, if you like, is collapsed and it just becomes one?

**Willie Walsh** - British Airways - CEO

No, no. Well, let me look at it. In terms of operating entities, we believe that the sensible way is to continue to have two operating airlines. We're not going to seek to merge the two operating airlines into a single airline.

So the structure of OpCo in terms of the Board structure is there to ensure that the -- primarily that the traffic rights are protected, but also to protect the assurances. So we'll have a structure that will always protect the traffic rights, but we're not going to seek to put the two airlines together. We don't believe that there's any benefit to be achieved by, we'd says merging pilots into a single seniority list, or anything like that.

So this is a structure that makes sense, and it's a structure that is scalable. So you could see over time additional operating companies, additional operating airlines and brands added to that. So it's not going to ever develop into a single brand.

**James Dickerson** -- Analyst

But as things stand then, if there's no change, then after five years, Iberia, it will be exposed to the --

**Willie Walsh** - British Airways - CEO

No, no.

**James Dickerson** -- Analyst

-- use of the pension credit facilities for the pension.

**Willie Walsh** - British Airways - CEO

No, no. No.

**James Dickerson** -- Analyst

No.

**Willie Walsh** - British Airways - CEO

That shouldn't change, no.

**Keith Williams** - British Airways - CFO

Wouldn't change.



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**James Dickerson** -- Analyst

It doesn't state in here that that assurance only lasts for five years.

**Willie Walsh** - British Airways - CEO

No, but it doesn't matter. That's not an exposure that Iberia would take on, because it's important to point out, as Keith says, the responsibility for the deficit rests with the employer. The employer is British Airways, and that doesn't change in any way.

**James Dickerson** -- Analyst

Okay. So from here on -- sorry, from the completion of the merger onwards, will all profits and cash flows and so on in the TopCo be just split 45%/55% or 50%/50% or something between the two OpCos?

**Keith Williams** - British Airways - CFO

For dividend purposes, the dividends would go 55% to British Airways existing shareholders and 45% to Iberia.

**James Dickerson** -- Analyst

And for the cash flow at the OpCo level to repay the pension, how is that calculated?

**Keith Williams** - British Airways - CFO

Well, the cash flow to repay the pension deficit would be recourse to British Airways plc; generated within British Airways.

**James Dickerson** -- Analyst

Within British Airways; within the OpCo?

**Keith Williams** - British Airways - CFO

Yes, within the OpCo. There's no change.

**James Dickerson** -- Analyst

Okay. Okay, thanks. The other question was regarding the cost slide, number nine -- sorry, the synergy slide. On the network and fleet there, could you just describe what sort of measures there are to achieve these synergies?

**Willie Walsh** - British Airways - CEO

Well, we will develop that with the joint business plan, but we've looked at what Air France-KLM have achieved through better integration of their networks, and we believe that the synergies that we've identified there are very realistic. In fact, the external view that we had in relation to this was that we weren't being aggressive enough in the context of potential revenue synergies.



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But there's no question that by looking at the networks and better combination of the networks, and looking at fleet and fleet deployment, that we can generate revenues on the scale that we've identified there.

And I think the success of Air France-KLM and Lufthansa/Swiss would be a good model to look at for those revenue synergies. But you'll see further development of that as we create the joint business plan.

And a lot of this will come from serving the Latin American market over the Madrid hub and serving Asia and North America over the Heathrow hub.

And we don't actually feed as much traffic as you might believe to Iberia today, particularly traffic into Latin America. The main reason we don't do that is because Iberia as a standalone entity would benefit more than we would.

So given that this would be a single economic entity, it would clearly make much more sense for us to flow a lot more traffic over the Madrid hub into Latin America than we currently do.

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**James Dickerson** - - Analyst

So in this network and fleet synergies pie here, that's pretty much all revenue synergies. There's nothing in there for cost synergies, of optimizing the network?

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**Willie Walsh** - British Airways - CEO

No. Yes, that's pretty much revenue. We've identified the costs synergies associated with that in the cost buckets. So there's some in sales and marketing and, clearly, we would love to co-locate where co-location makes sense. So single sales teams, single airport teams where that makes sense; utilize one another's assets and resources, but any of the costs part of that is in the costs part of the chart.

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**James Dickerson** - - Analyst

Okay. Thank you very much.

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**Operator**

Thank you, sir. Our next question comes from Edward Stanford. Please go ahead. Your line is now open.

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**Edward Stanford** - Cazenove - Analyst

Just a couple of follow-up questions, please. I appreciate these are officially entirely separate issues, but is there a -- if you get antitrust immunity, as you hope, does that complicate the merger process, or can they run in parallel?

And just to confirm also that the merger ratio is now fixed; there are no scenarios under which that could be changed.

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**Willie Walsh** - British Airways - CEO

Yes, I can confirm that the merger ratio is fixed, and that doesn't change.

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And in relation to ATI, we see them as separate issues, and there's no complications. We've been very public throughout the process, so people have been aware of the fact that we were pursuing merger discussions at the same time as pursuing the trilateral ATI application. So there's no complication or additional issues that would need to be considered as a result of the announcements yesterday and today.

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**Edward Stanford** - *Cazenove - Analyst*

Thank you.

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**Operator**

Thank you, sir. We have no questions showing at this time. I would like to hand the meeting back to Mr. Walsh.

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**Willie Walsh** - *British Airways - CEO*

Okay. Thank you very much for joining us. As I say, I'm genuinely pleased that we've been able to reach this point.

We're excited about the prospect for this merger, and really pleased that the concerns that we had expressed previously in relation to governance and structure have been addressed to our satisfaction.

We believe that this is a good deal for BA and our shareholders, and a good deal for Iberia and their shareholders. And we're confident that the various hurdles that we need to clear going forward will be cleared, and that this merger will go ahead.

We'll clearly keep you advised of developments as we develop the program, and look forward to speaking to you at our next conference.

Thank you very much, everyone.

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**Operator**

Thank you for participating in today's conference call. All lines will now be disconnected.

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