

# Capital Markets Day

6<sup>th</sup> November 2015

**IAG** INTERNATIONAL  
AIRLINES  
GROUP



# Agenda

0830	Opening Speech	Antonio Vázquez	<i>IAG Chairman</i>
0845	Financial Overview & Targets	Enrique Dupuy	<i>IAG CFO</i>
0930	Cargo Avios GBS Group IT MRO Fleet Digital	Steve Gunning Gavin Halliday Laurence Turnbull Bill Francis Luis Gallego Henri-Charles Ozarovsky Glenn Morgan	<i>IAG Cargo CEO</i> <i>Avios Managing Director</i> <i>Head of Group Finance Services</i> <i>Head of Group IT</i> <i>Iberia Chairman &amp; CEO</i> <i>Senior Manager Group Strategy</i> <i>Head of Digital Business Transformation</i>
1045	Break		
1115	British Airways Iberia Vueling Aer Lingus	Keith Williams Luis Gallego Alex Cruz Stephen Kavanagh	<i>BA Executive Chairman</i> <i>Iberia Chairman &amp; CEO</i> <i>Vueling Chairman &amp; CEO</i> <i>Aer Lingus CEO</i>
1215	CEO Speech	Willie Walsh	<i>IAG CEO</i>
1245	Lunch		
1330	Conclusion and Q&A	Willie Walsh	<i>IAG CEO</i>
1500	Drinks Reception		

# IAG Plans and Targets

# Financial targets - headlines 2015

- We are today announcing a considerable upgrade to our long term return and equity cash flow objectives
- We are banking very little fuel benefit at this stage
  - Total fuel benefit >€2bn at current fuel and fx over next 3 years as hedges roll off
  - We are focussed on retaining as much as possible
  - We are currently banking only 15% to 20% of that in our targets
- Why are we therefore more confident than last year?
  - Significant progress on "next generation synergies" - the IAG platform
  - Continued progress at OpCo level in efficiency programmes with particular future focus on potential for British Airways
- First dividend announced - now aim to generate much more cash for shareholders

IAG Financial targets before Aer Lingus integration

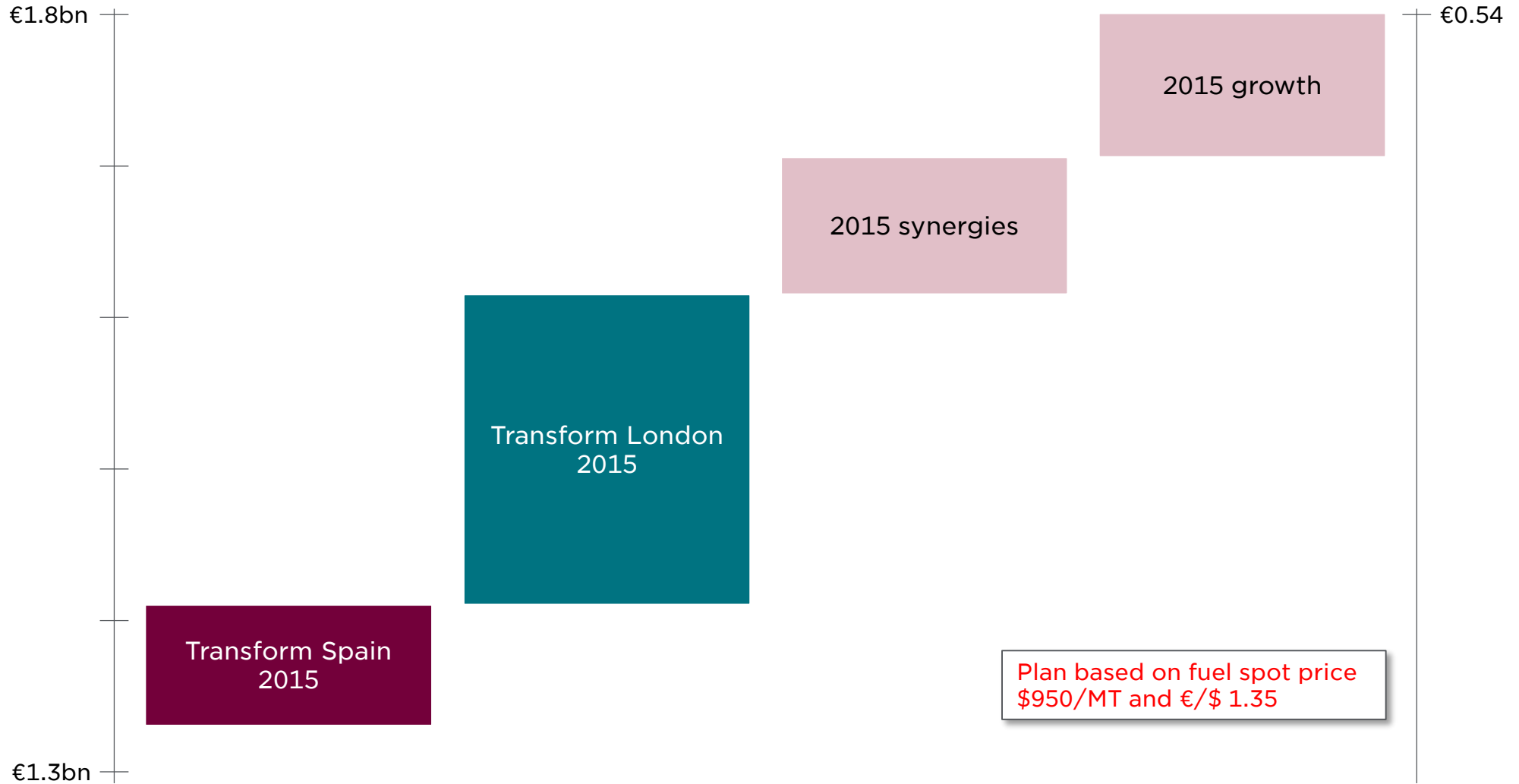
**IAG**

Financial targets

Headlines

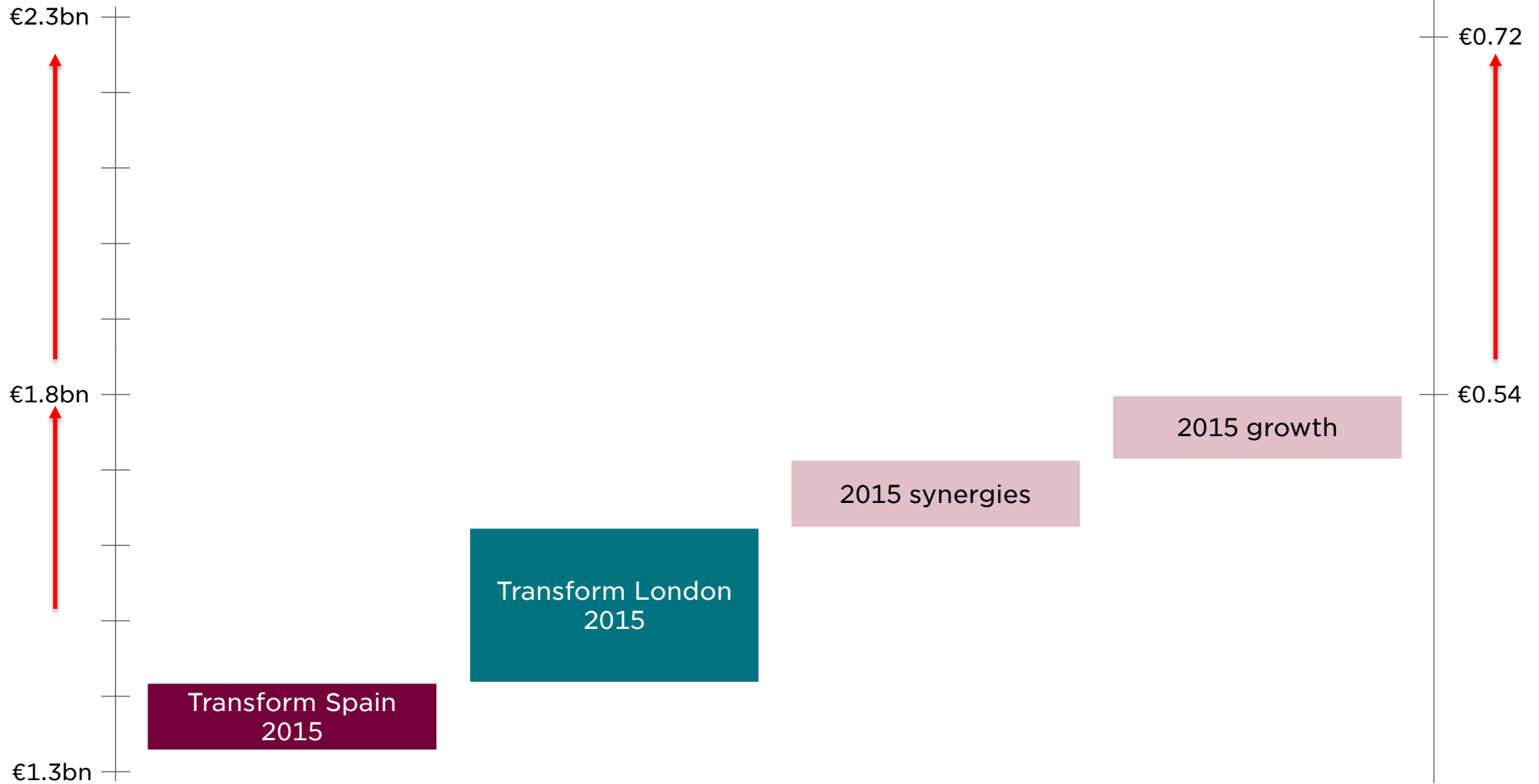
# 2015 financial targets - CMD 2014

Operating profit



# 2015 financial targets

Operating profit



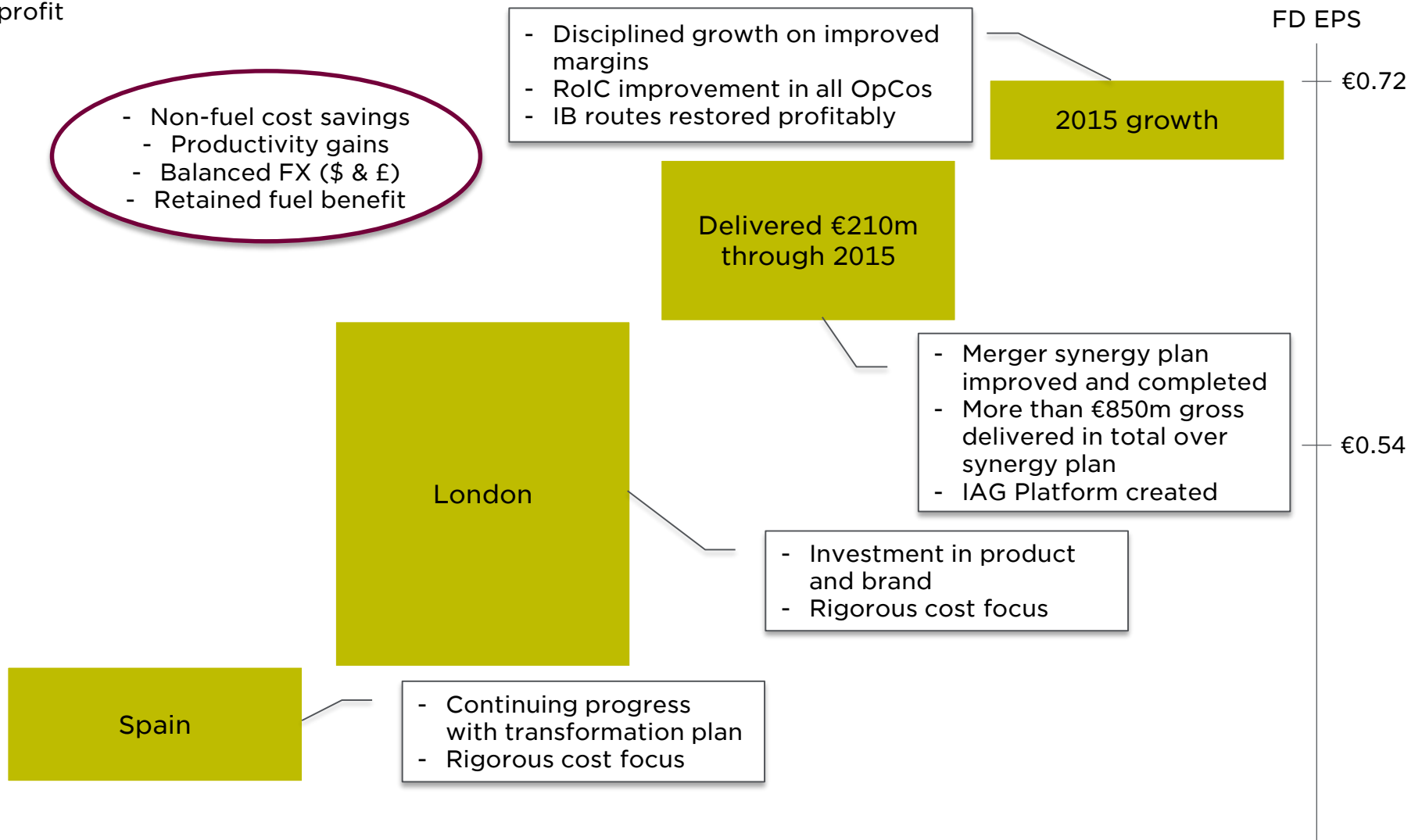
# 2015 financial targets - execution

Operating profit

€2.3bn

€1.8bn

€1.3bn



# Synergy outperformance in 2015

Exceeded 2015 delivery plan by €120m – reaching c€800m net in total

## Passenger Revenue

Revenue Management shared best practice, O&D pricing, common approach to business

exceeded by €35m

## Avios Frequent Flyer

Improved access to capacity, governance restructured, increased volumes, new deals with Amex and Chase

exceeded by €20m

## Passenger Revenue

Expanded codeshare on existing and new routes, LATAM, HAV, KUL and UK-Spain

exceeded by €15m

## IAG Cargo

New IT systems for Revenue Management & Sales, expanded partner network

exceeded by €10m

## Information Technology

Reduced application portfolio and facilities, consolidated suppliers and outsourcing

exceeded by €10m

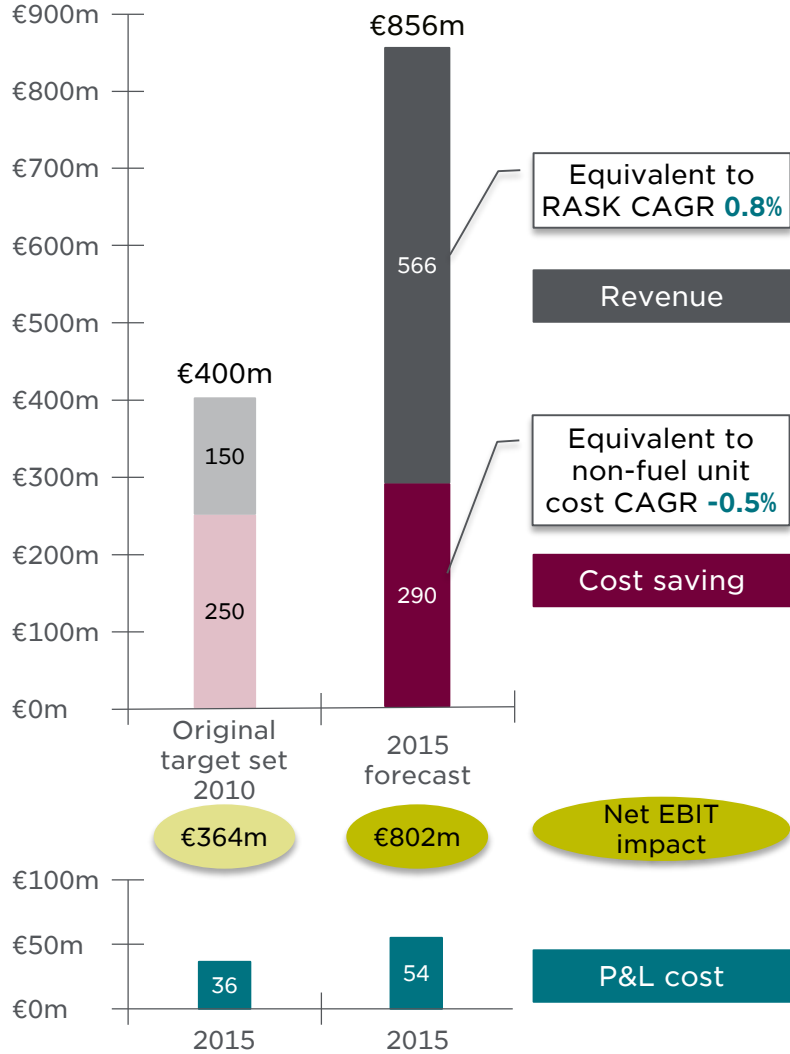
## Maintenance

Engine business, insourced activity and group solutions and deals

exceeded by €10m



# Merger synergy program complete, target exceeded



Increased synergy value driven by:

- Revenue

- Combined fare structure
- Codeshare, cross selling, ancillaries
- Revenue Management best practice
- Sales force and **distribution cost savings**
- Launch of **Avios** single group currency
- Single integrated **cargo** network

- Costs

- **Fleet** common specification and volume
- Global Business Services (**GBS**)
- Joint **MRO** planning and shared inventory
- **Procurement** single group solution and volume
- **IT** standardisation
- Outsource transactional activity

# Beyond synergies

Creation of a new IAG integrated platform

OpCo plug and play for efficiency and higher quality systems



BRITISH AIRWAYS



IAG margin expansion

95% complete

Cargo

45% complete

Avios

40% complete

GBS  
(Procurement + F&A)

25% complete

GBS  
(IT)

5% complete

MRO / Fleet

5% complete

Digital



Growth opportunities

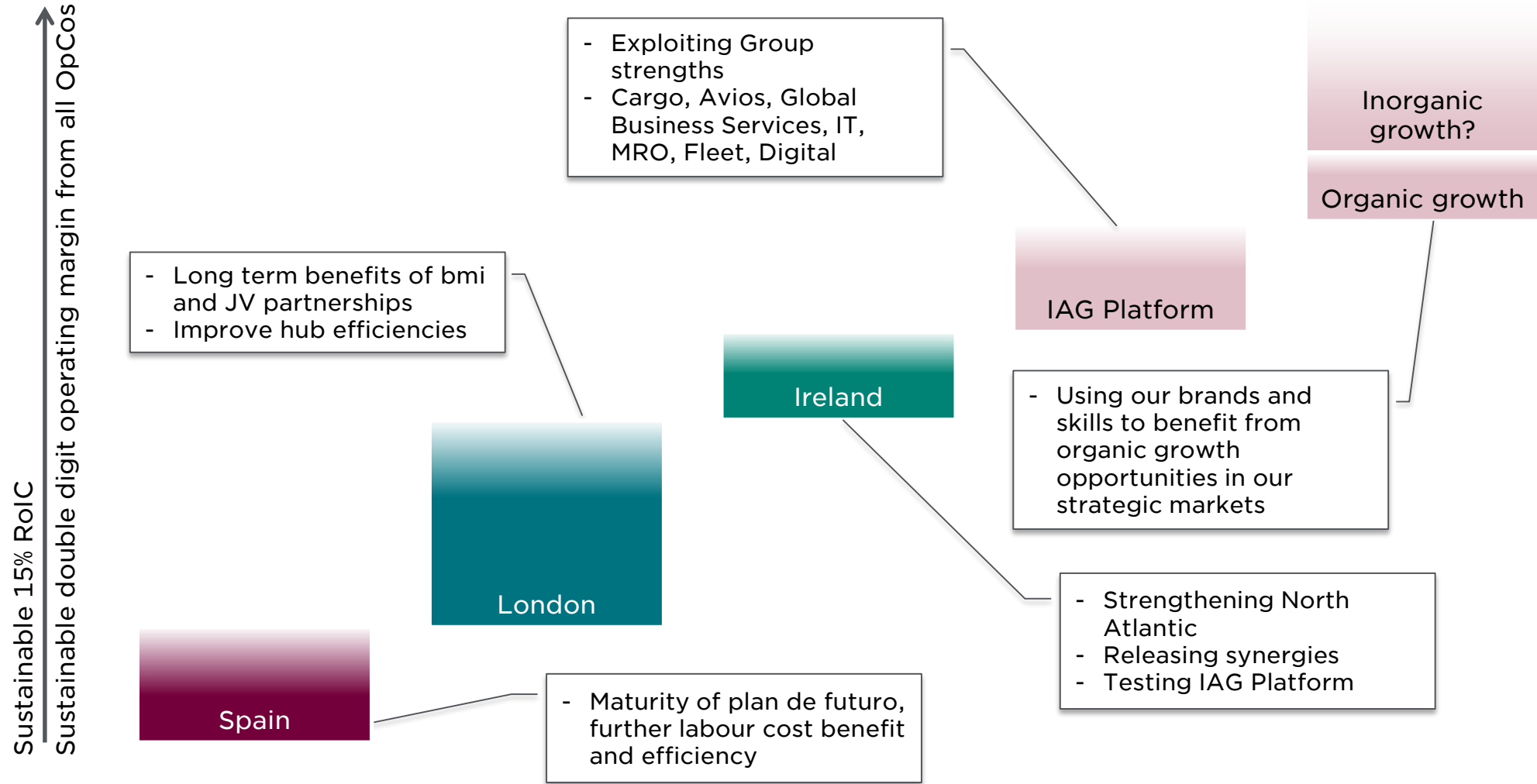
Attracting partners for future growth

IAG

Financial targets

IAG Platform

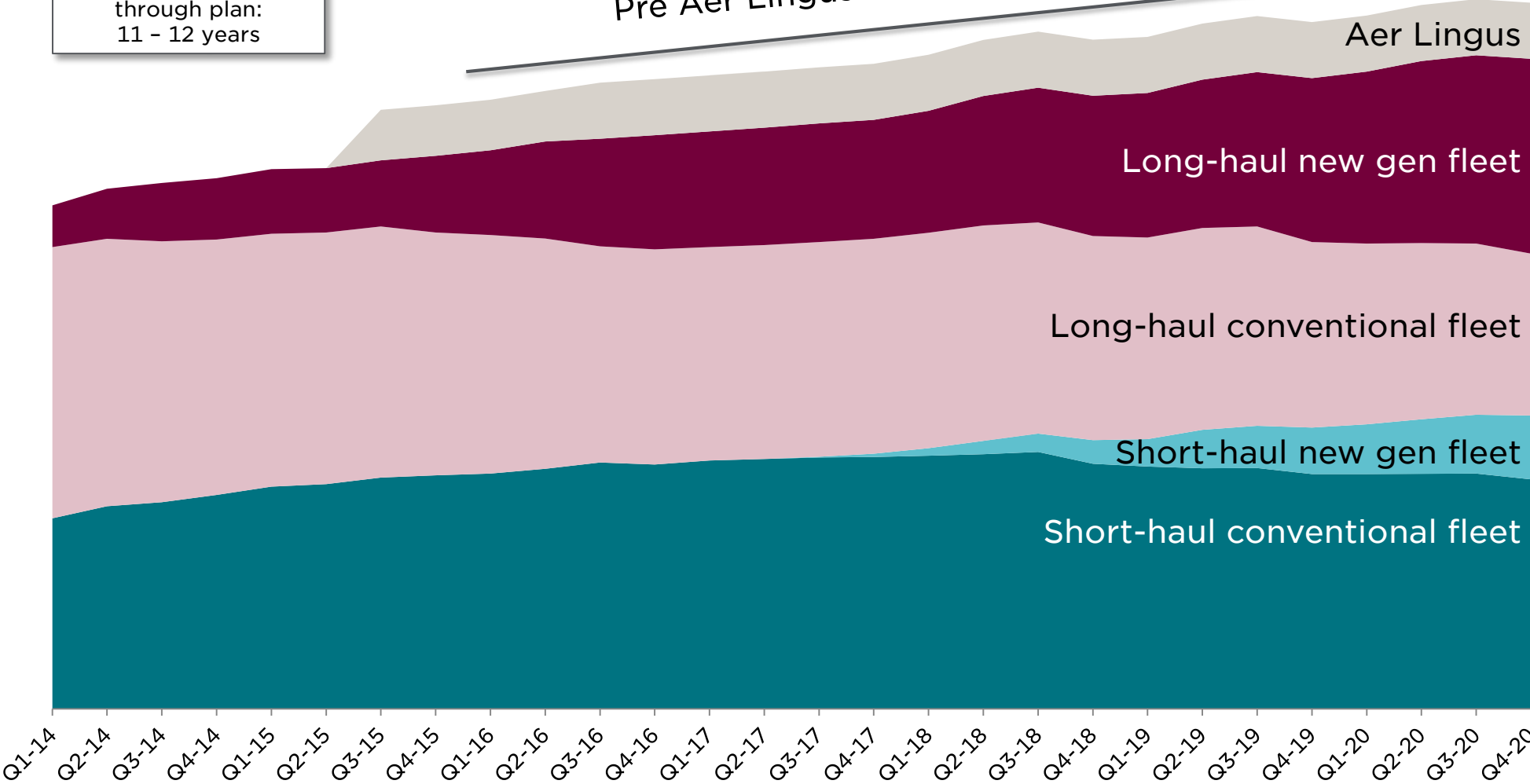
# 2016 - 2020 planning framework: key IAG projects



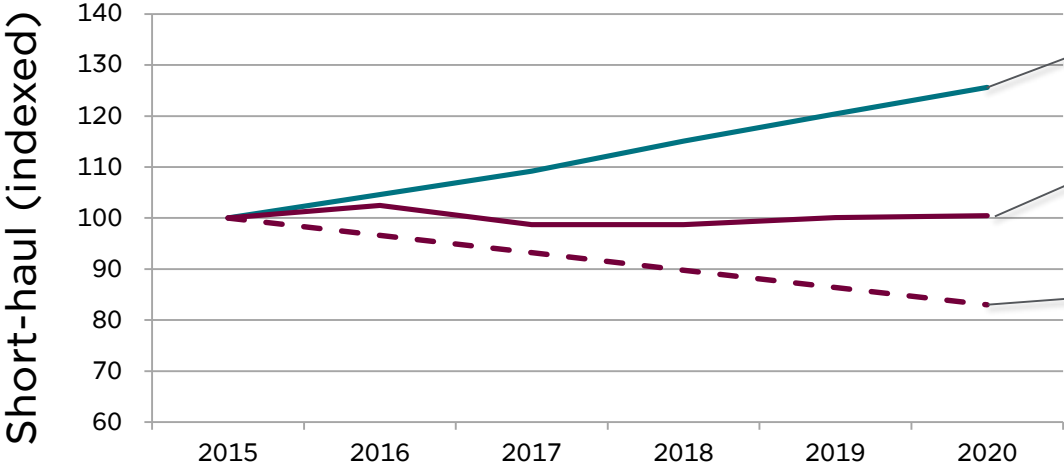
# Fleet plan 2016 - 2020 ASKs

Average age range through plan:  
11 - 12 years

Pre Aer Lingus longer term ASK CAGR: 3% - 4%



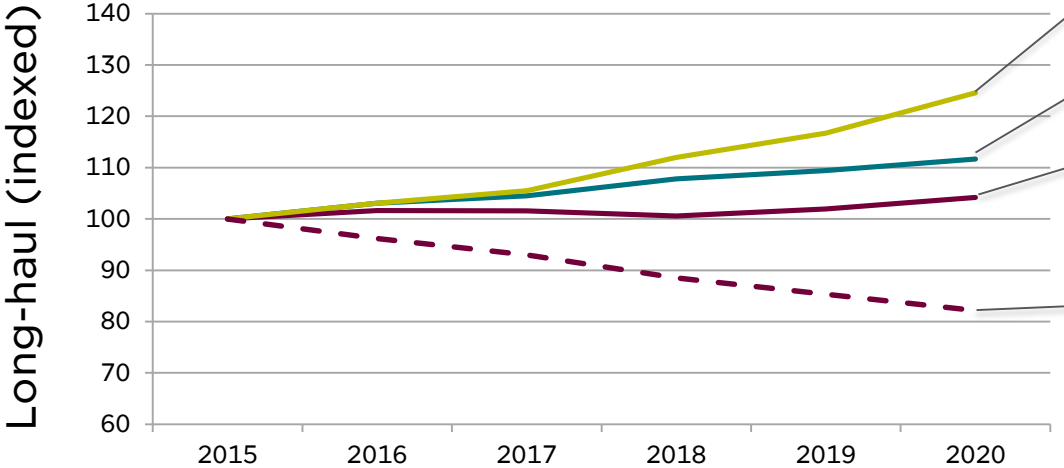
# Fleet plan flexibility - seats in fleet



Planned short-haul seats

Minimum short-haul seat commitments  
(Firm orders minus retirements)

Flexible short-haul downside scenario  
(Firm orders minus accelerated retirements and grounding)



Long-haul seats with all options

Planned long-haul seats

Minimum long-haul seat commitments  
(Firm orders minus retirements)

Flexible long-haul downside scenario  
(Firm orders minus accelerated retirements and grounding)

Aer Lingus not yet included in fleet plan

# Fleet plan detail

Aircraft	2015 year end	2016 year end	2020 year end scenario	Outstanding orders post 2020	Current further + rolling options	
A330	9	18	21		3 + 4	A330 replacing A340
A340	23	18	11			A350 replacing B747 and A340
A350	-	-	24	10	34 + 18	A380 replacing B747
A380	10	12	12		7 + 0	
B747	39	36	19			B747 and B767 retiring
B767	5	-	-			
B777	58	58	58			
B787	13	24	39	3	18 + 0	B787 replacing B747 and B767
Other	12	10	10			
<b>Total long-haul</b>	<b>169</b>	<b>176</b>	<b>194</b>	<b>13</b>	<b>62 + 22</b>	A320 replacement and growth
A320 family	287	298	359	12	61 + 82	
Other	27	28	25			
<b>Total short-haul</b>	<b>314</b>	<b>326</b>	<b>384</b>	<b>12</b>	<b>61 + 82</b>	
<b>Total fleet</b>	<b>483</b>	<b>502</b>	<b>578</b>	<b>25</b>	<b>123 + 104</b>	Plenty of flexibility embedded

Options exercised, but no new orders since CMD 2014

A330 replacing A340

A350 replacing B747 and A340

A380 replacing B747

B747 and B767 retiring

B787 replacing B747 and B767

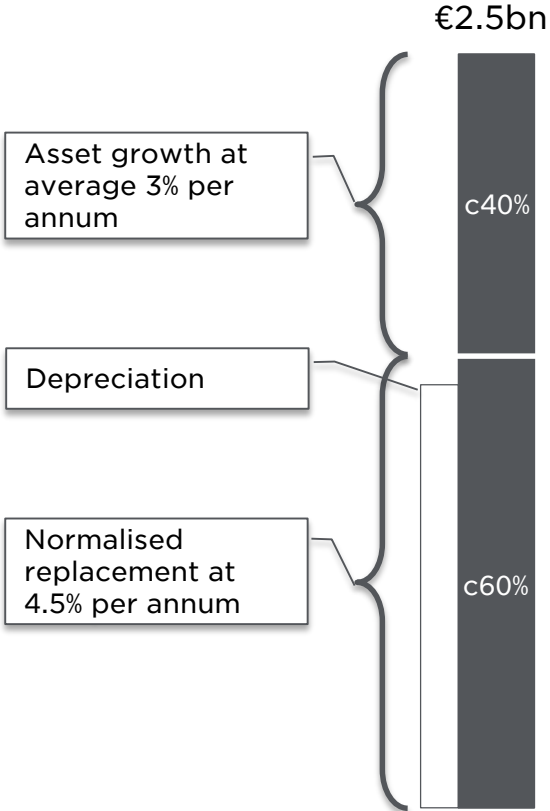
A320 replacement and growth

Plenty of flexibility embedded

Aer Lingus not yet included in fleet plan

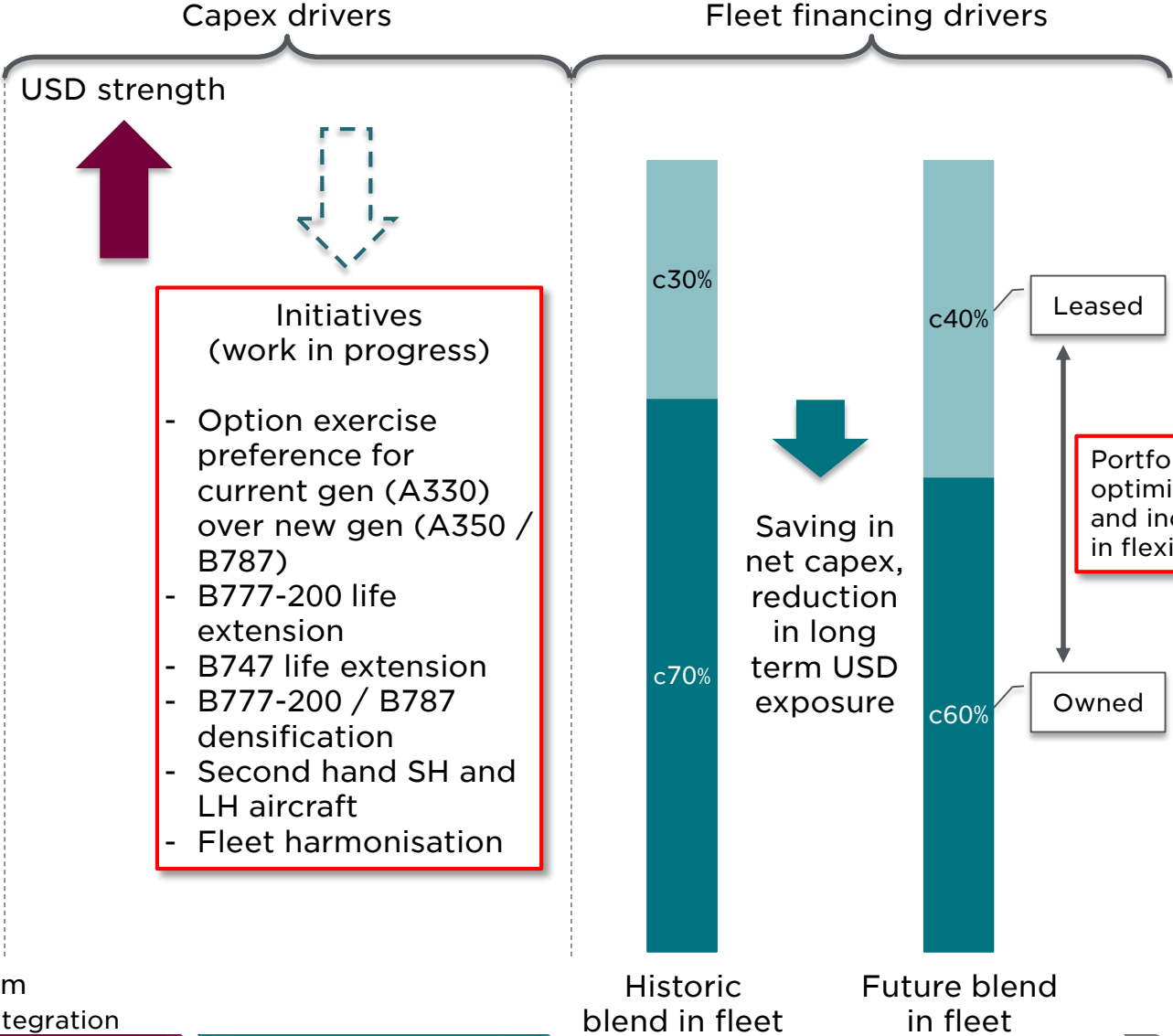
# Capex plan 2016 - 2020

Annual capex to be less than €2.5bn, of which c80% will be fleet-related

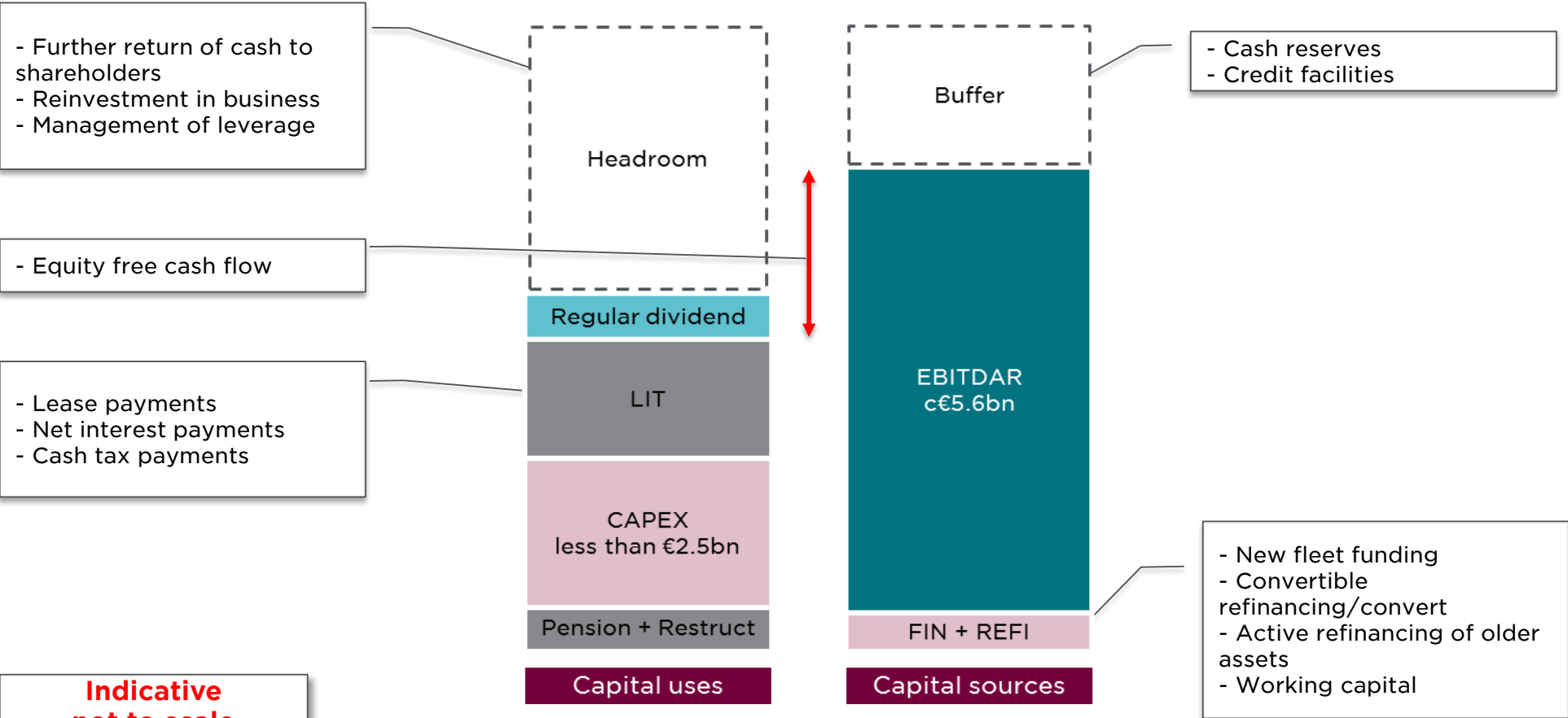


2016-20 annual maximum

IAG Financial targets before Aer Lingus integration



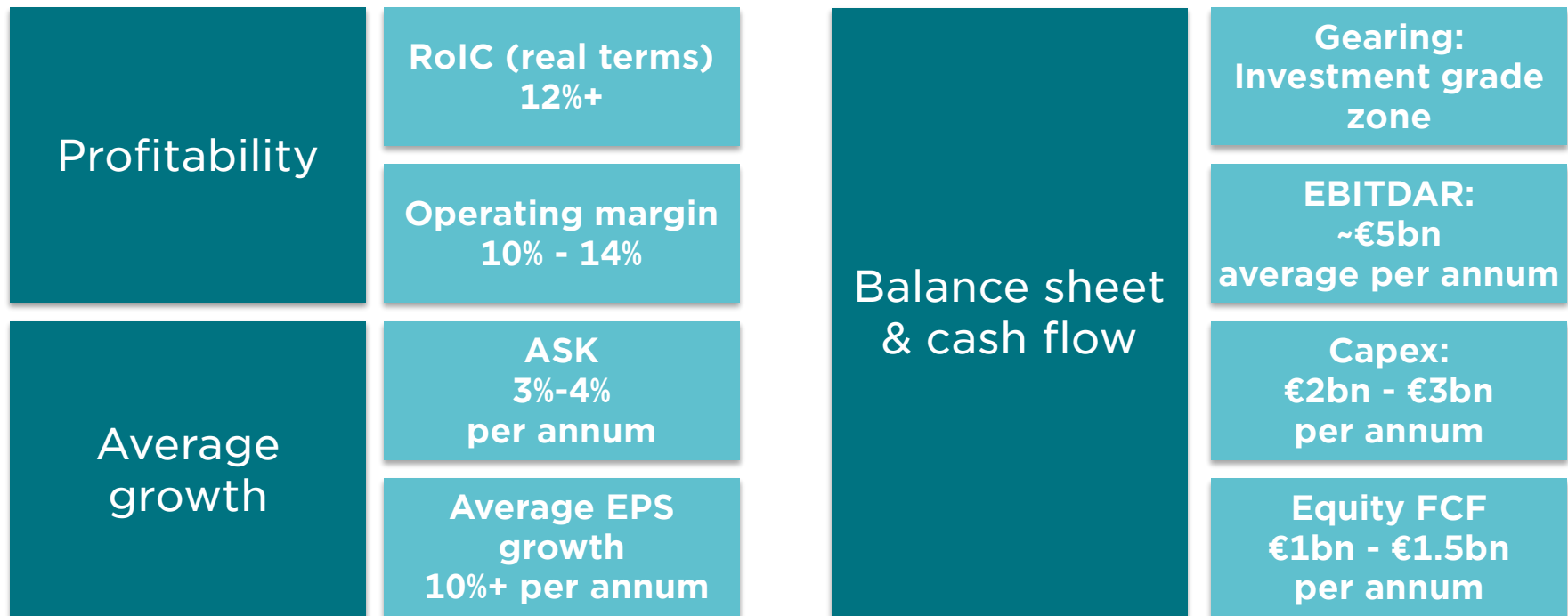
# IAG corporate finance strategy 2016-2020



IAG Financial targets before Aer Lingus integration



# Long term planning goals 2016 - 2020 - CMD 2014

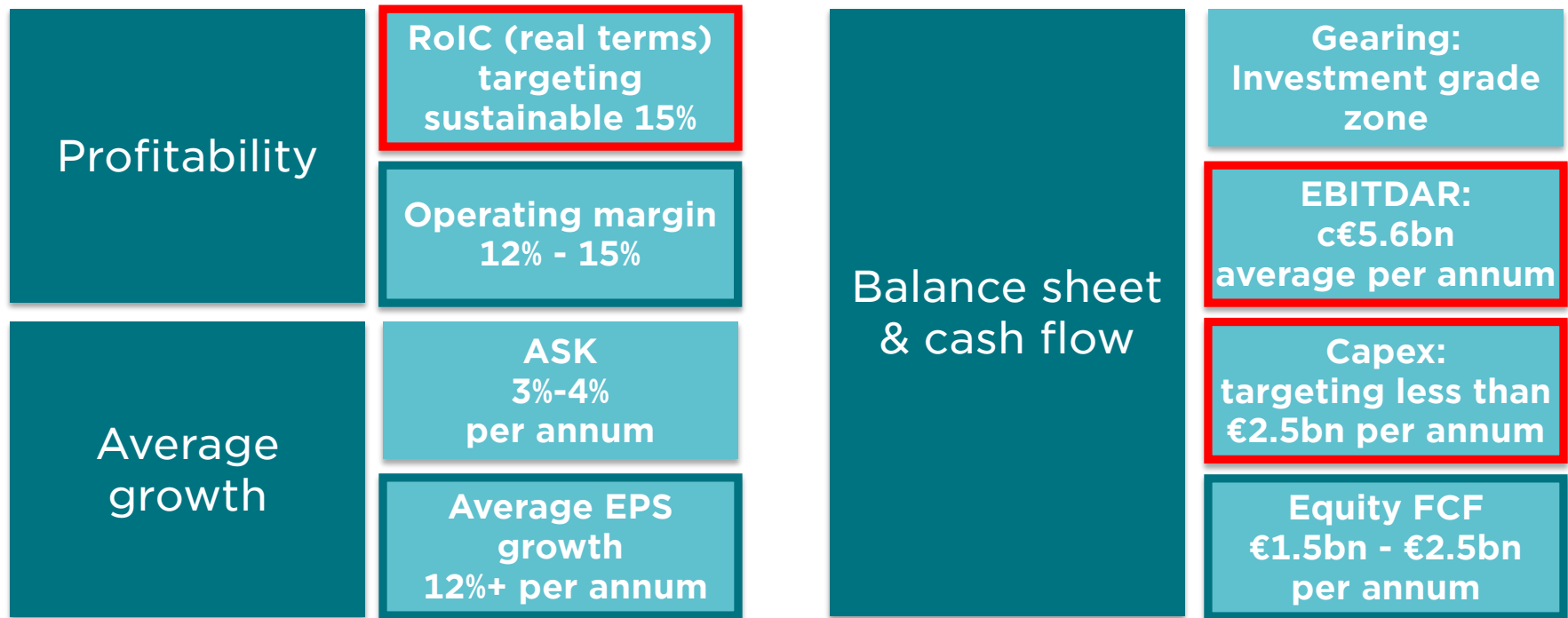


Cash return to shareholders

Sustainable ordinary dividend initially 4x covered by underlying after-tax profit

# Long term planning goals 2016 - 2020

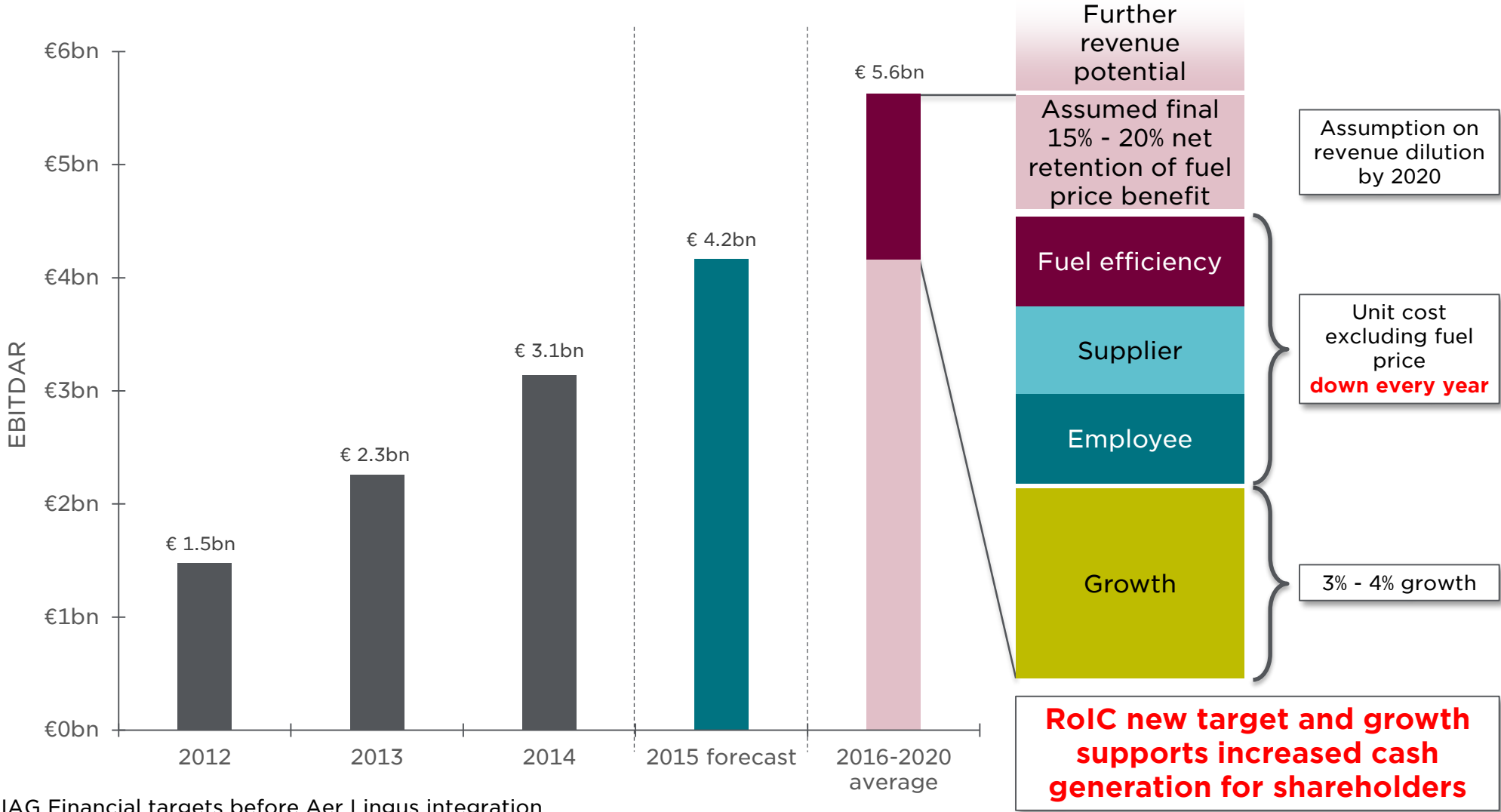
IAG Financial targets before Aer Lingus integration



Cash return to shareholders

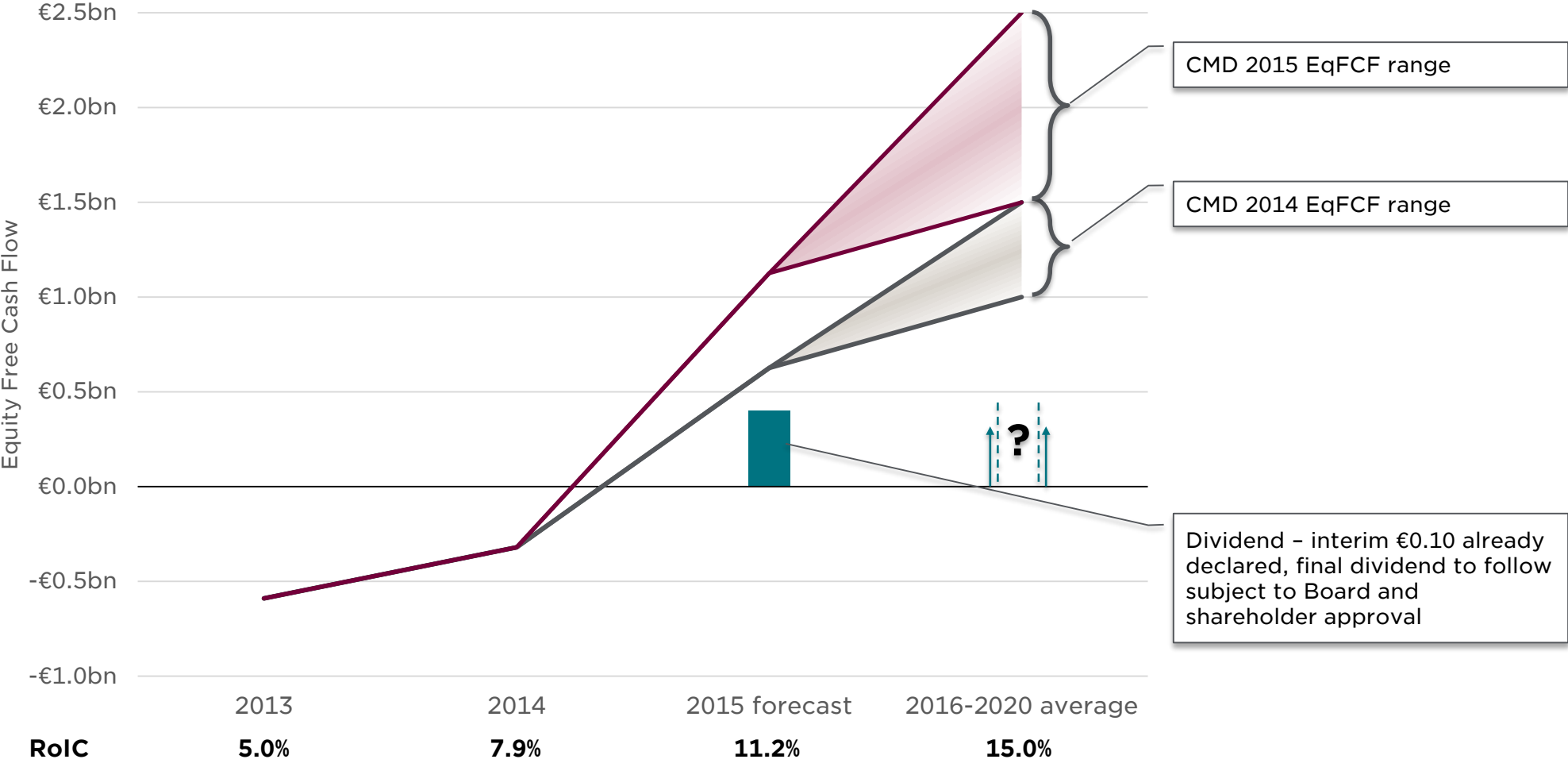
Sustainable ordinary dividend initially 4x covered by underlying after-tax profit

# The best is yet to come



IAG Financial targets before Aer Lingus integration

# Significantly increased shareholder cash potential



# Cargo

# Optimising return for IAG



**MARKET IMBALANCE PERSISTS**



**FOCUS ON YIELD AND COST**



**PLATFORM SUBSTANTIALLY COMPLETE**



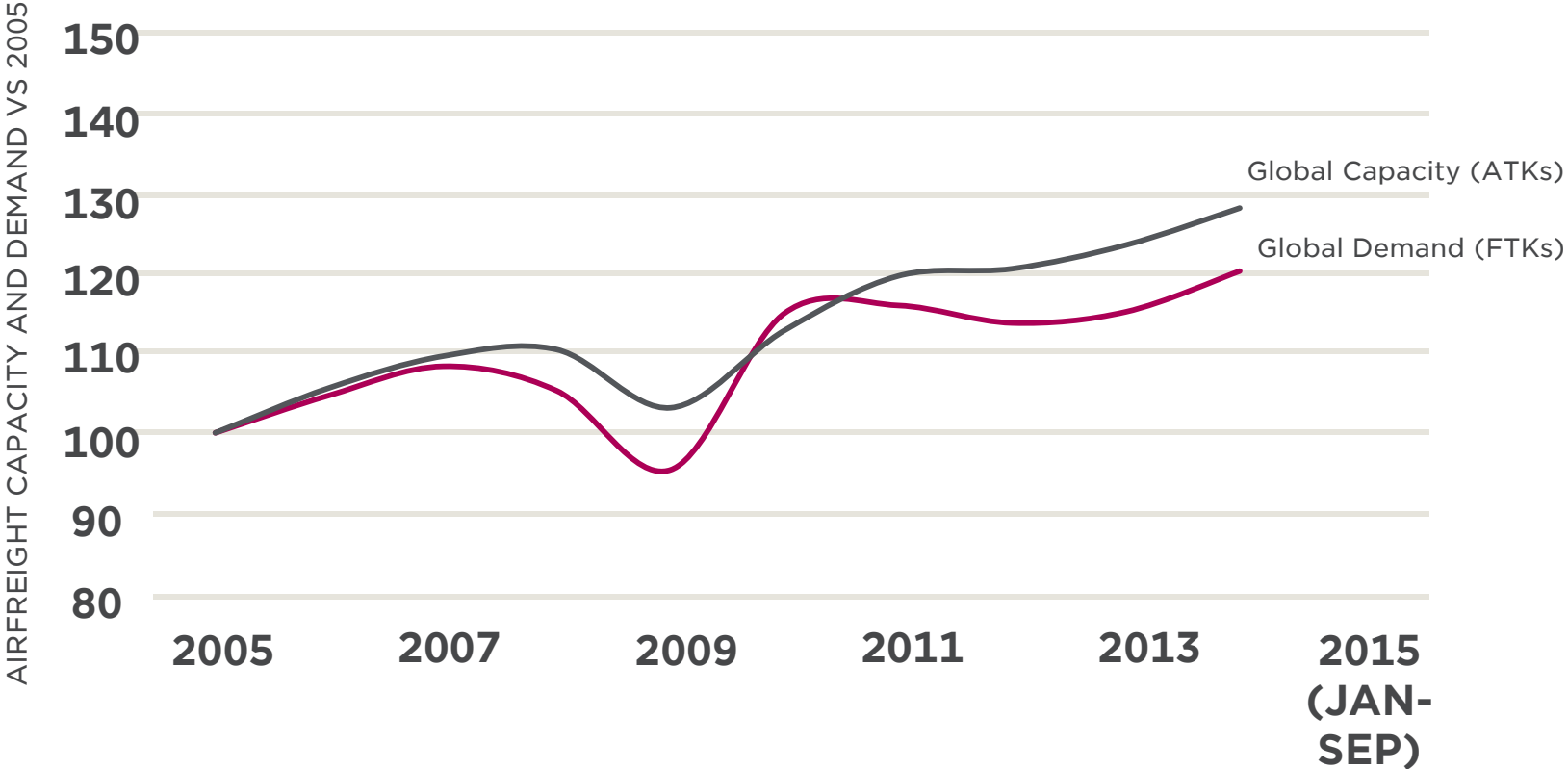
**PROGRESS ON STRATEGIC PRIORITIES**

**IAG**

Cargo

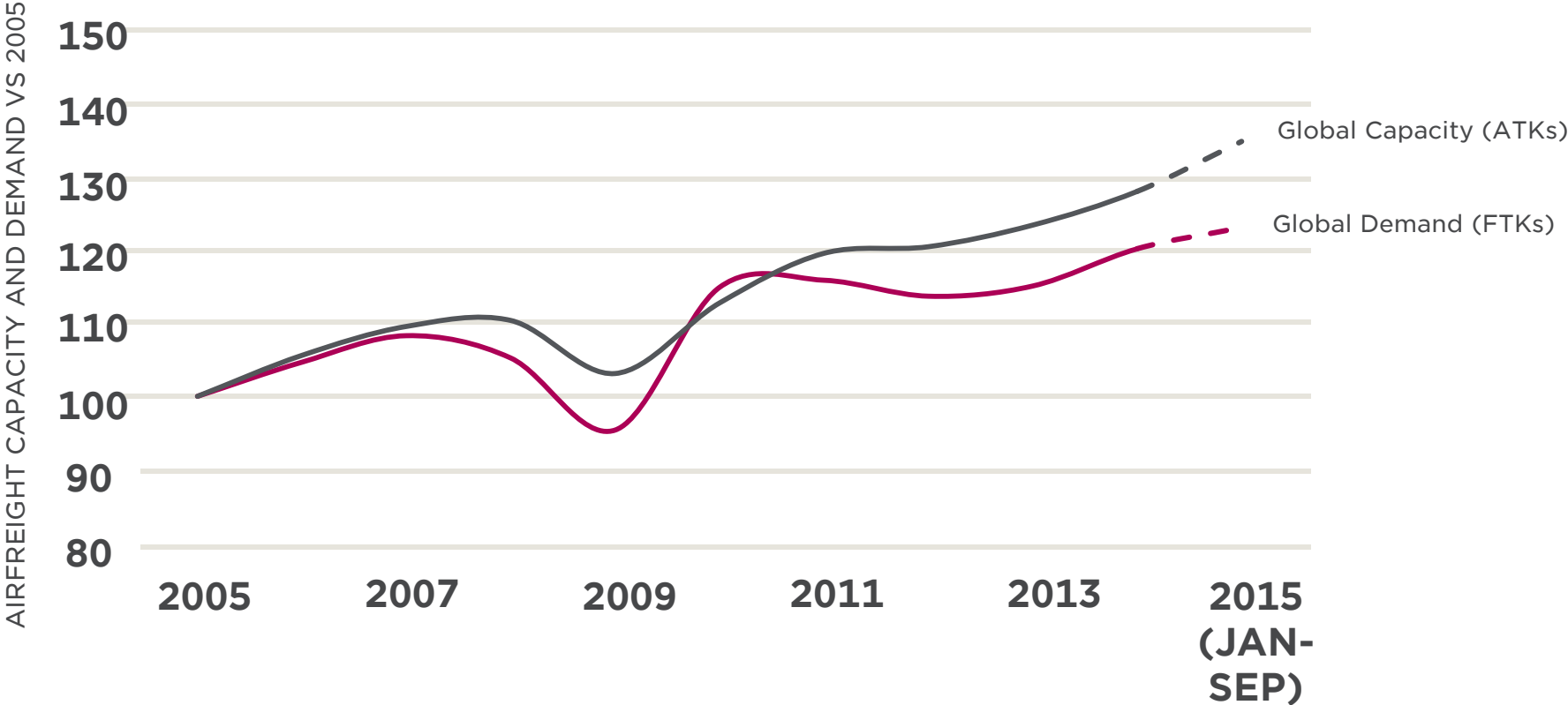
Introduction

# Structural change in the market



Source: IATA International Airfreight Statistics

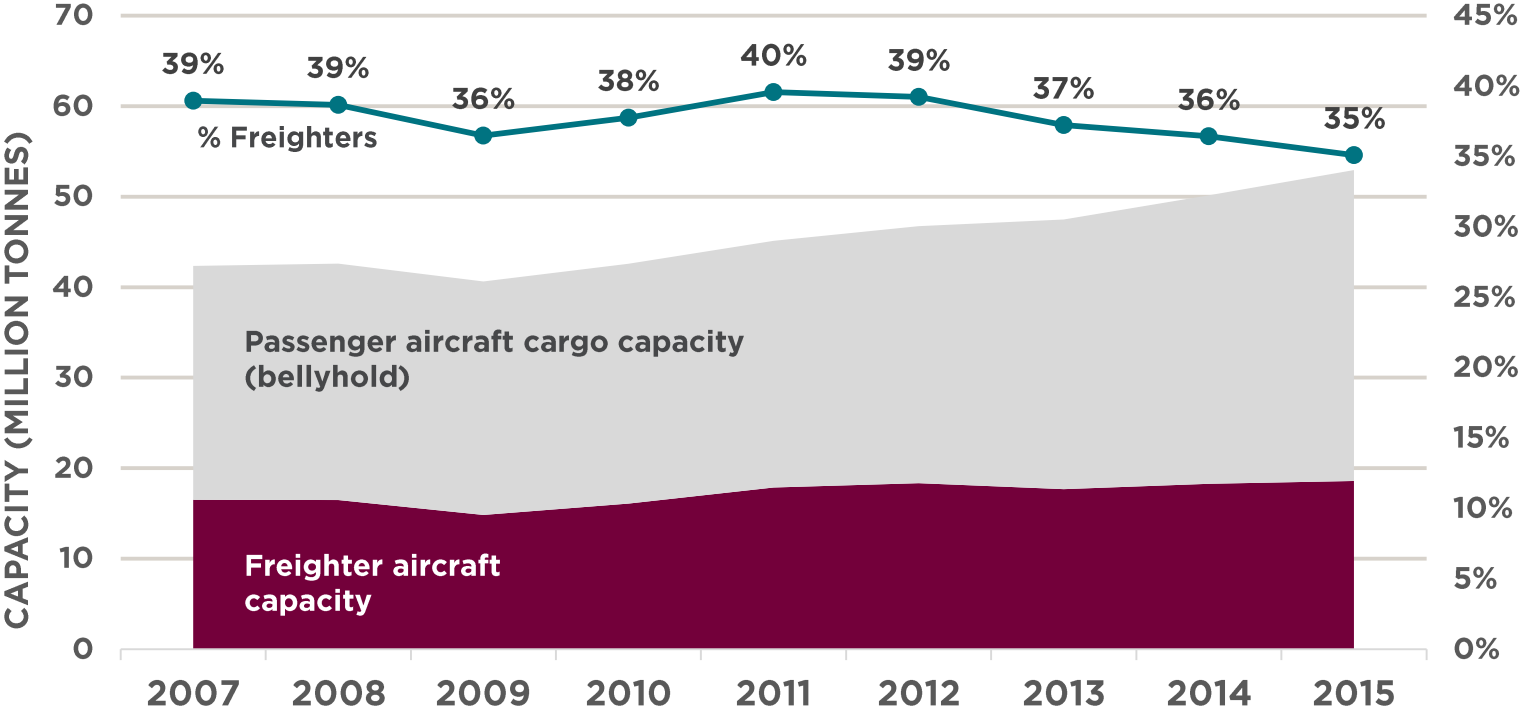
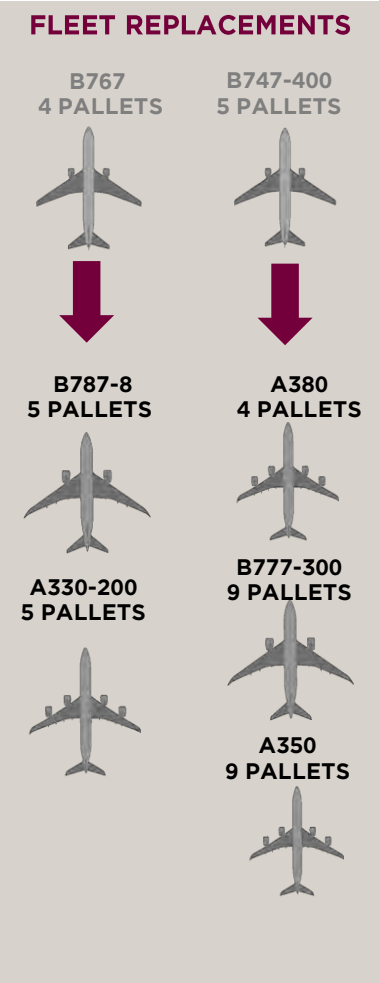
# Structural change in the market



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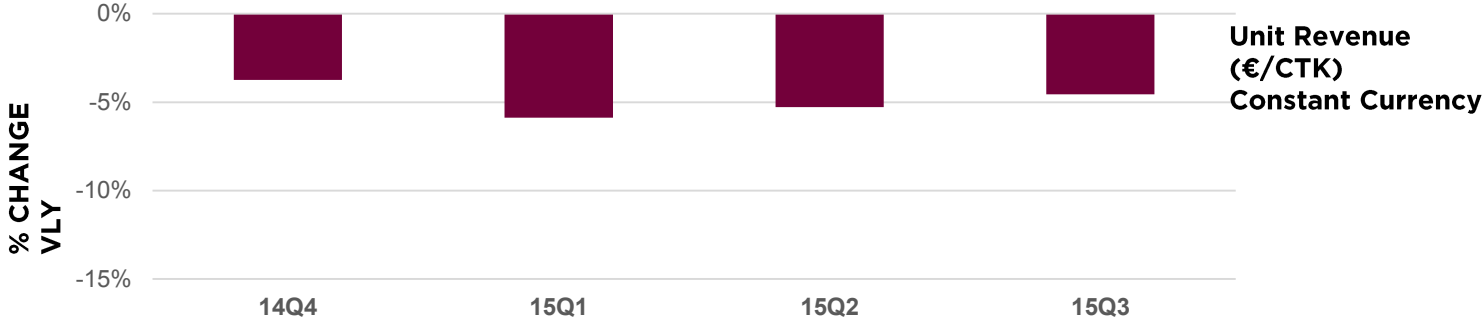


# Bellyhold capacity driving industry growth

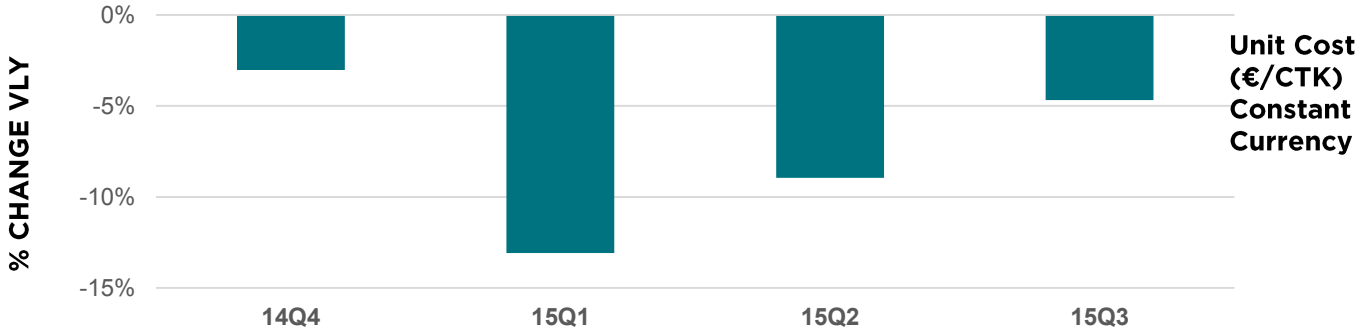


# Focus on cost and yield

- Year to date unit revenue €/CTK up 5% vly at outturn
- Year to date unit costs (€/CTK) up 3% vly at outturn



- Unit cost control due to:
- management action, e.g. supplier renegotiations and productivity improvements
  - low fuel cost net of hedge loss



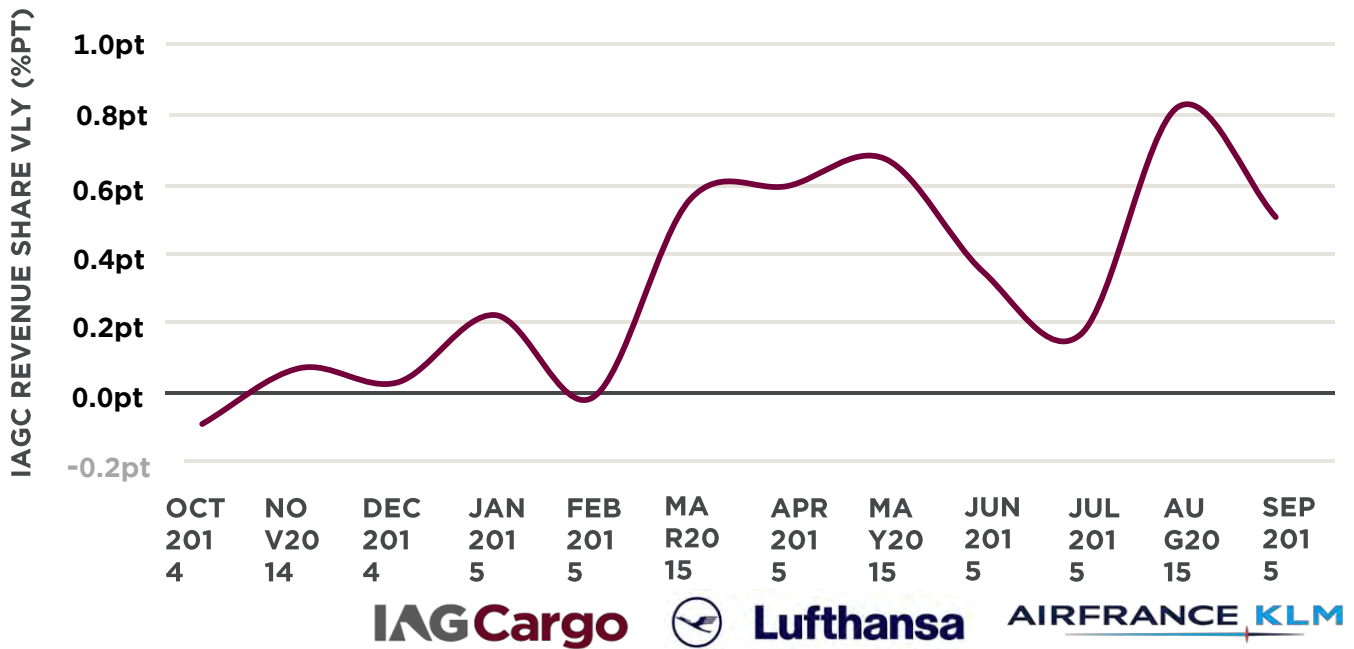
Revenues and costs shown at constant FX and excluding long-haul freighters prior to exit in May 2014

# IAG Cargo growing revenue share

Revenue share up vLY with latest position at 7% of addressable market

Revenue share helped by IAGC yields vs market:

- Growth in premium product mix
- Strong revenue management controls aided by new system

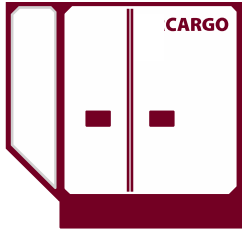


	<b>IAGCargo</b>	<b>Lufthansa</b>	<b>AIRFRANCE KLM</b>
Revenue/CTK Year to date vLY	5%	1%	2%
Revenue/CTK Q3 vLY	5%	(2%)	(4%)

Source: IATA CASS. Graph shows IAG Cargo’s revenue share vLY. Share relates to addressable global market which overlaps IAG Cargo’s global network. IAG Cargo data shows like for like performance vLY and excludes long-haul freighters prior to May 2014.

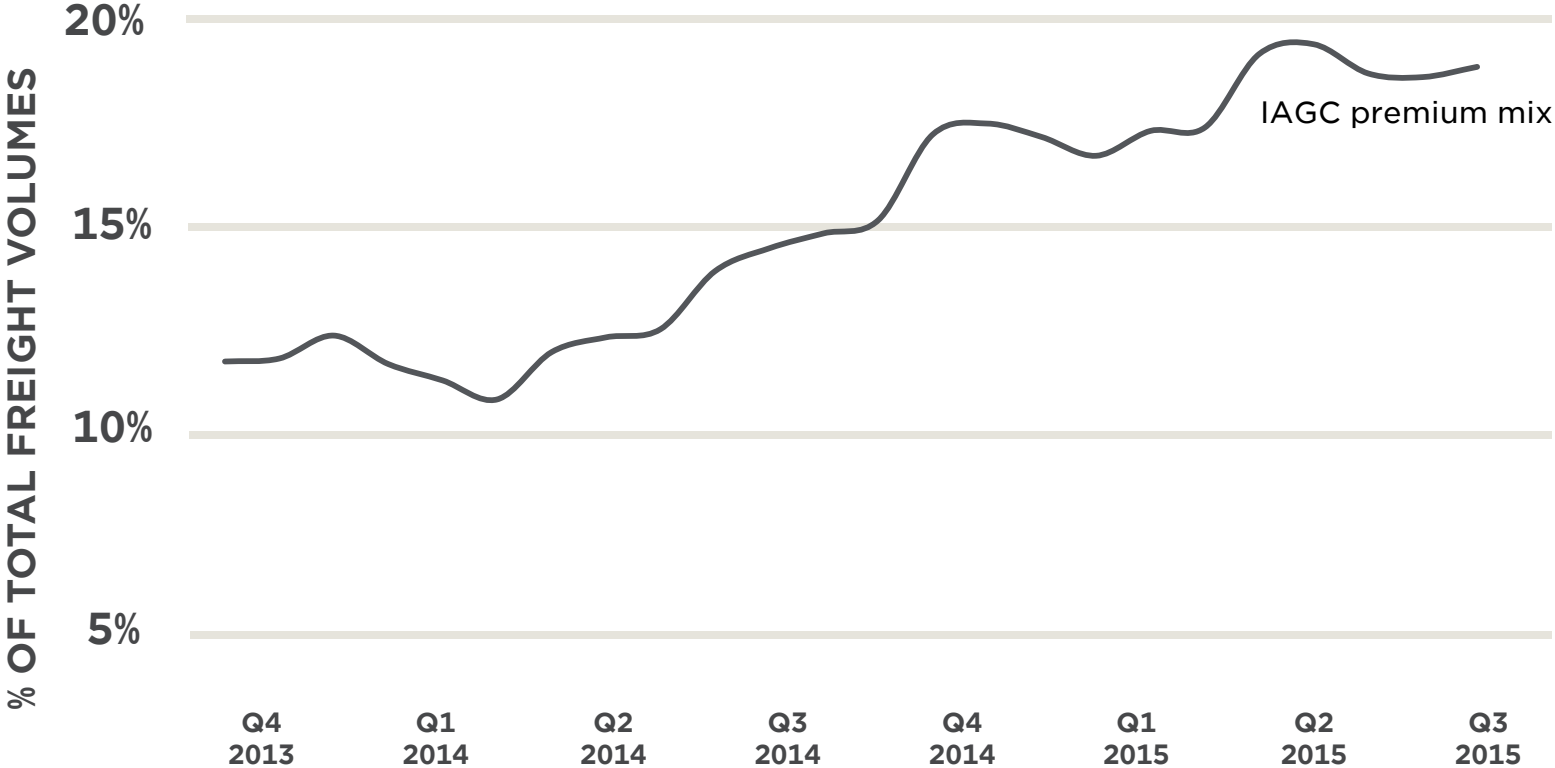
# Strategic priorities

<b>ISSUE</b>	COMMODITISATION	EXCESS MARKET CAPACITY	DIVERGENT MARKETS
<b>STRATEGIC PRIORITIES</b>	DIFFERENTIATION VIA PREMIUM PRODUCTS	COST EFFICIENCY & VOLUME VARIABILITY	FLEXIBLE REGIONAL STRATEGIES & PARTNERSHIPS



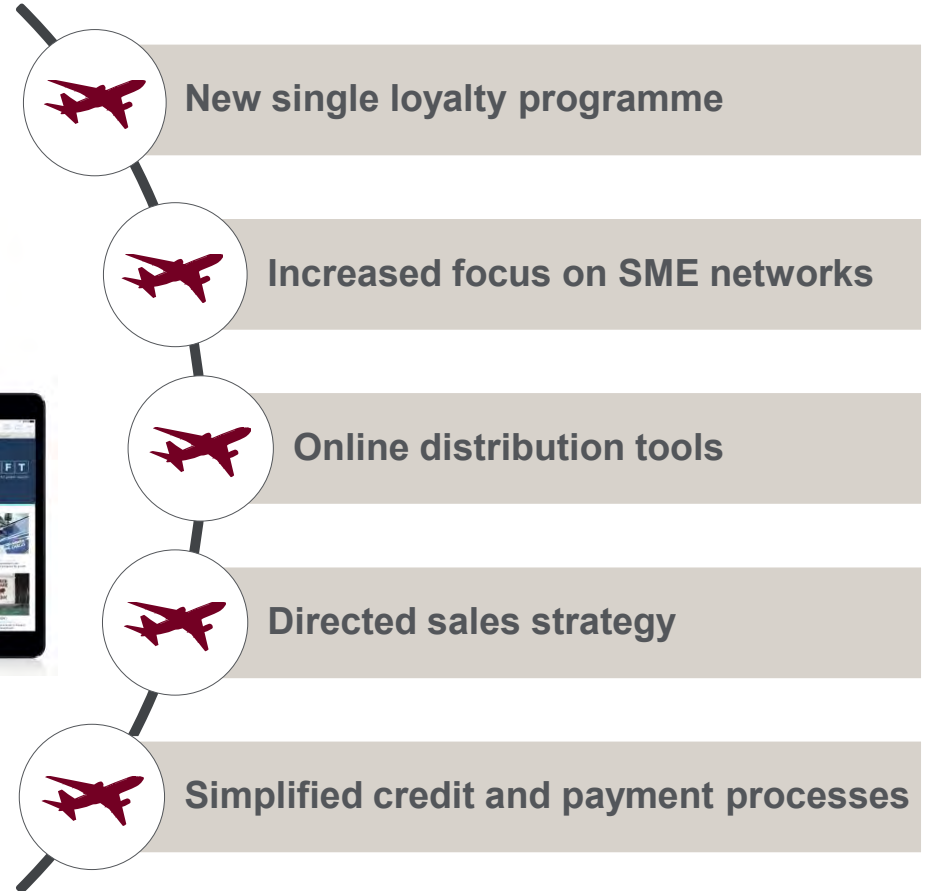
# Premium product mix reaches 19%

- Premium mix currently at 19% (3pts ahead of 2015 target)
- Constant Climate (pharma) volumes up 48% in 2015
- Prioritise (express) volumes up 41% in 2015



# Small and medium-sized forwarders (SME)

- Lower share currently of SME segment than global forwarder market
- SMEs higher yielding than global forwarder
- Market size broadly equally split between SMEs and global forwarders\*

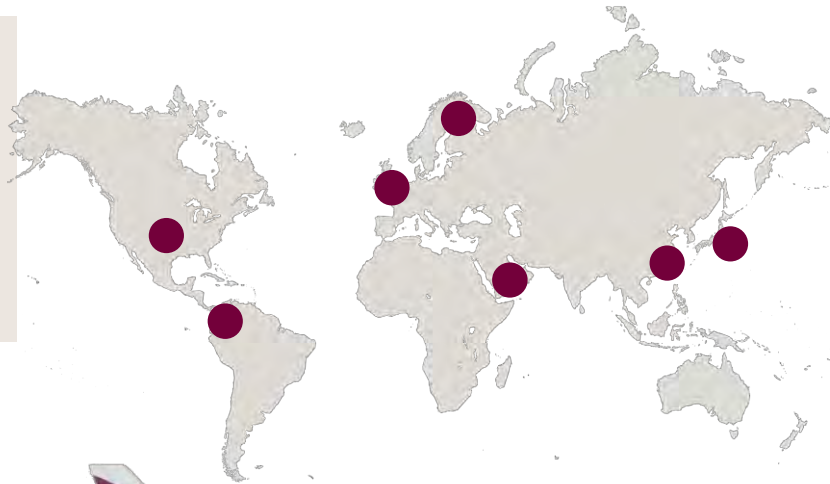


\*Top 20 forwarders compared to rest of market

# Asset light network growth



**American Airlines  
Cargo**  
*Partner Plus  
member*



**Aer Lingus Cargo**  
*New Partner Plus  
member*  
*New Group member*



**Finnair Cargo**  
*New Partner Plus  
member. Also  
launched a shared  
freighter between  
Helsinki & London*



**Avianca Cargo**  
*Partner Plus  
member*



**Qatar Airways Cargo**  
*Partner Plus member*

*Extended & expanded our partnership:*

- *Shared Hong Kong to UK freighter extended two years to 2018*
- *Expanded use of Qatar's network, feeding Doha & UK*



**China Southern  
Cargo**  
*New Partner  
Plus member*



**JAL Cargo**  
*Partner Plus  
member*

# Optimising return for IAG



**MARKET IMBALANCE PERSISTS**



**FOCUS ON YIELD AND COST**



**PLATFORM SUBSTANTIALLY COMPLETE**



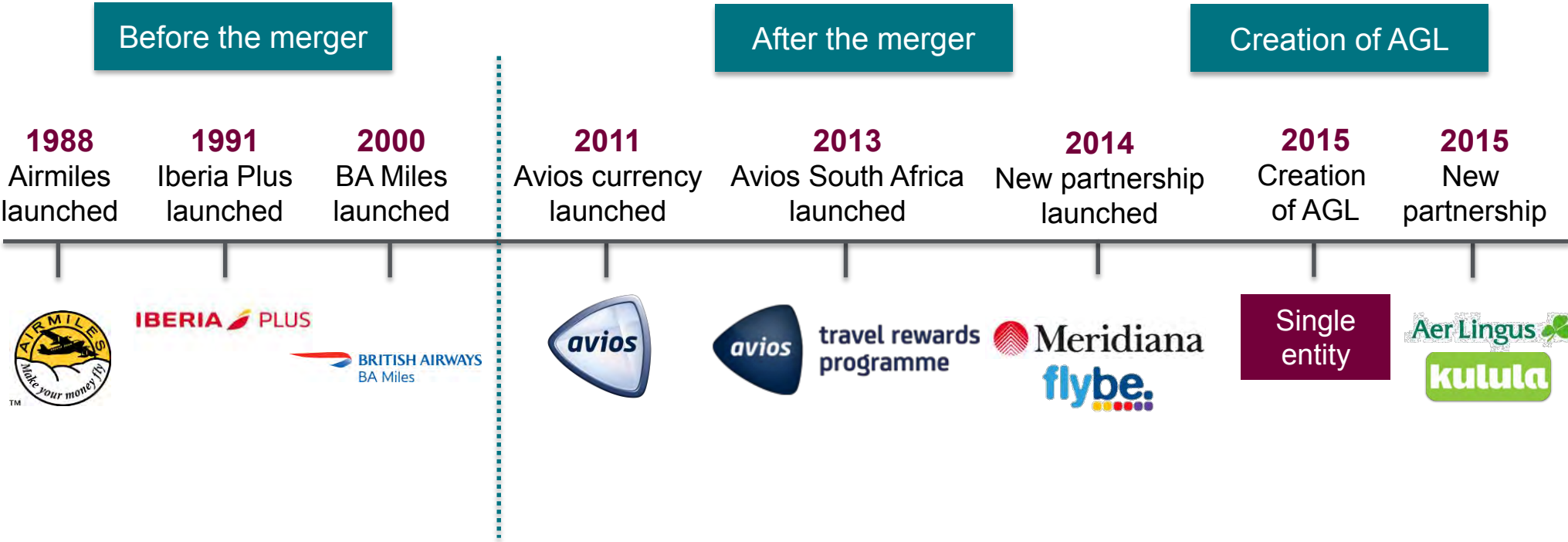
**PROGRESS ON STRATEGIC PRIORITIES**



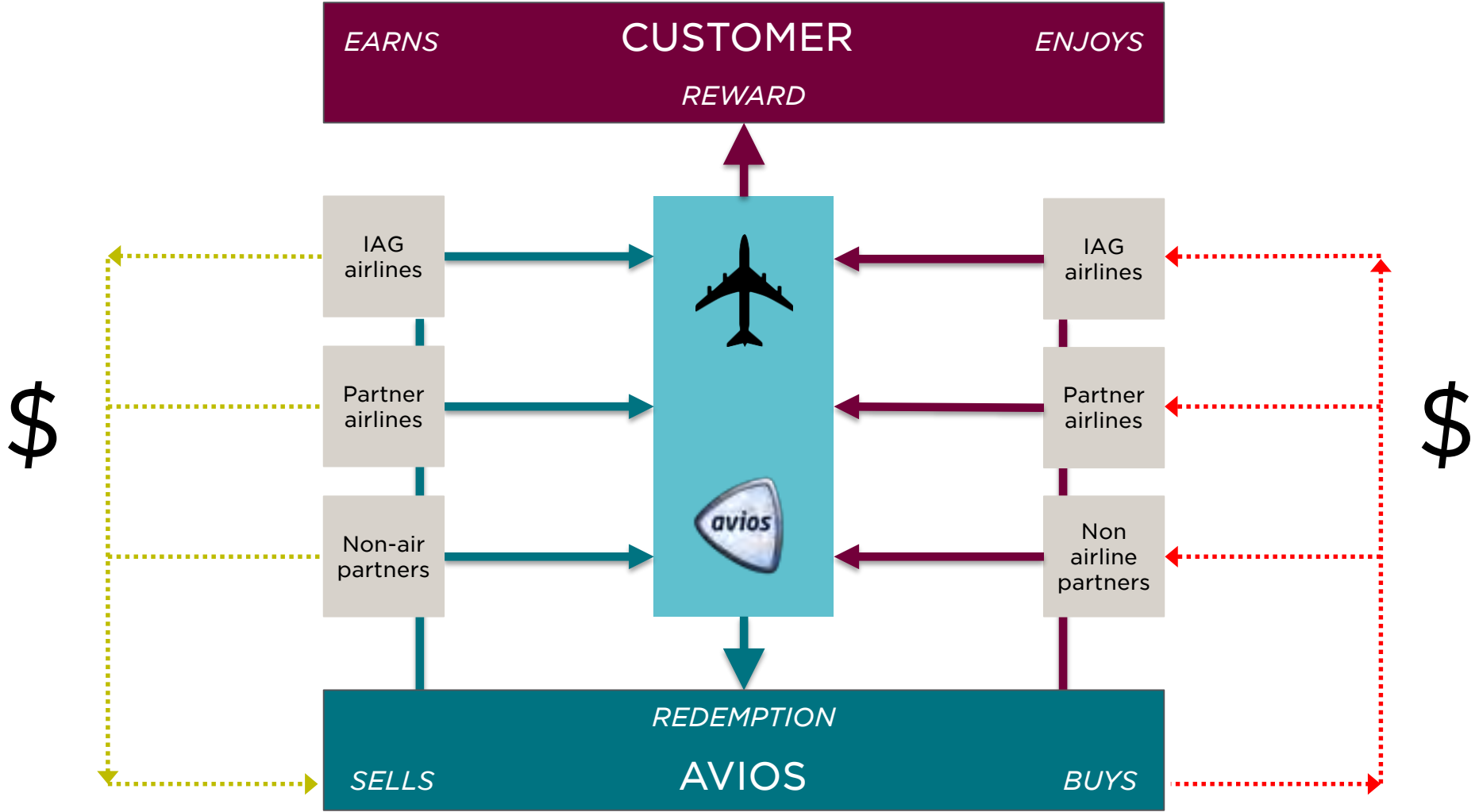
# Avios

**IAG** INTERNATIONAL  
AIRLINES  
GROUP

# Avios Group Limited (AGL)



# Avios business model



# Key profit drivers

## Revenue drivers

Growth in member activity and customer engagement

## Growth drivers

New partner pipeline, new markets, increasing points issued

## Cost drivers

Any new investment will be offset by increased efficiency to result in costs flat over the life of the plan

## Liability management

Industry leading processes and systems created to manage Balance Sheet values over €1bn

# Revenue drivers – measuring customer engagement

ACE (Avios Customer Engagement Index) verifies growth in both relevance and engagement

ACE = Avios Customer Engagement Index

Solicited responses from customers – Perception

Likelihood to recommend (NPS)

Observed customer behaviour – Proprietary data analytics

% accounts multi-collection in 6 months

% of accounts collecting in 6 months

% of accounts redeeming in 6 months

Speed of collection (>4500) in 6 months

# Growth drivers - leveraging airlines network

**Every 5 minutes**  
Over **6 IAG** aircraft depart and  
AGL issues over **1 million Avios**

Our global currency  
is constantly  
connecting our  
customers with our  
partners and IAG  
assets



## Regional members

- Greater connectivity and choice prompts more IAG relevance across the UK regions
- 50% of UK collectors now come from the regions
- Aer Lingus will improve this further by adding 18 regional airports

**IAG**

Avios

Leveraging on IAG  
network

# Growth drivers - markets and partners




Reinforced by innovation




# Revenue drivers – innovation and engagement


## Avios's approach to innovation



**Simplify customer experience**



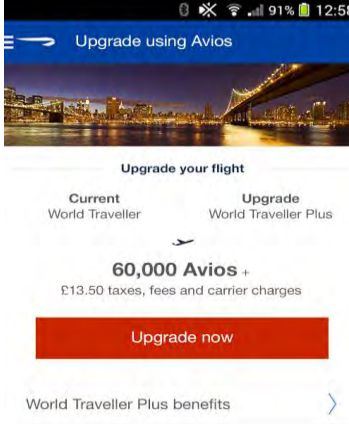
**Build experiences for our users**



**Develop digital channels**



**Collaborate with our partners**



Upgrade using Avios

Upgrade your flight

Current World Traveller Upgrade World Traveller Plus

60,000 Avios +  
£13.50 taxes, fees and carrier charges

Upgrade now

World Traveller Plus benefits



£10 off = 1,500 avios

£30 off = 4,500 avios

£50 off = 7,500 avios



Select Dates

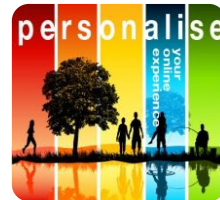
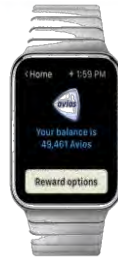
From London To Madrid

Total Avios per adult: 50,000

Depart October 2013

Return October 2013

CONTINUE



Avios UK @AviosUK - Oct 23  
Quick! There's 222 seats left from Heathrow to Madrid on 4 March  
[tinyurl.com/o6u9pcv](https://tinyurl.com/o6u9pcv) @British\_Airways @Iberia\_en



18 26

IAG

Avios

Innovation



# Targets focused on business fundamentals

## Revenue targets

Significant improvement in customer engagement using proprietary ACE targeting model

## Growth targets

Grow the active customer base, from 7m today to over 12m by 2020

## Cost targets

Funding investment through efficiency gains

## Liability management targets

Manage the sustainability of the currency

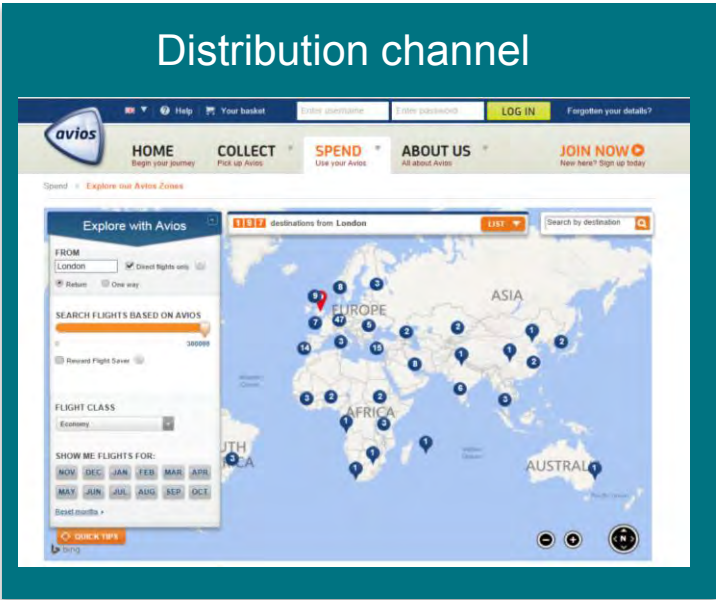
Investor seminar in January to explain business fundamentals, future targets and Group accounting

# IAG opportunity

Facilitating OpCo revenue growth – passenger and ancillary



Distribution channel



Data analytics and insight

View statement

Search transactions by:  Recent Transactions  Date Range

Recent Transactions: Last 10 Transactions

Select a transaction type: 

- All Transactions
- Flights
- Redemptions
- Car Hire
- Hotels
- Financial Cards
- Promotion Bonus
- Telecommunications
- Miscellaneous

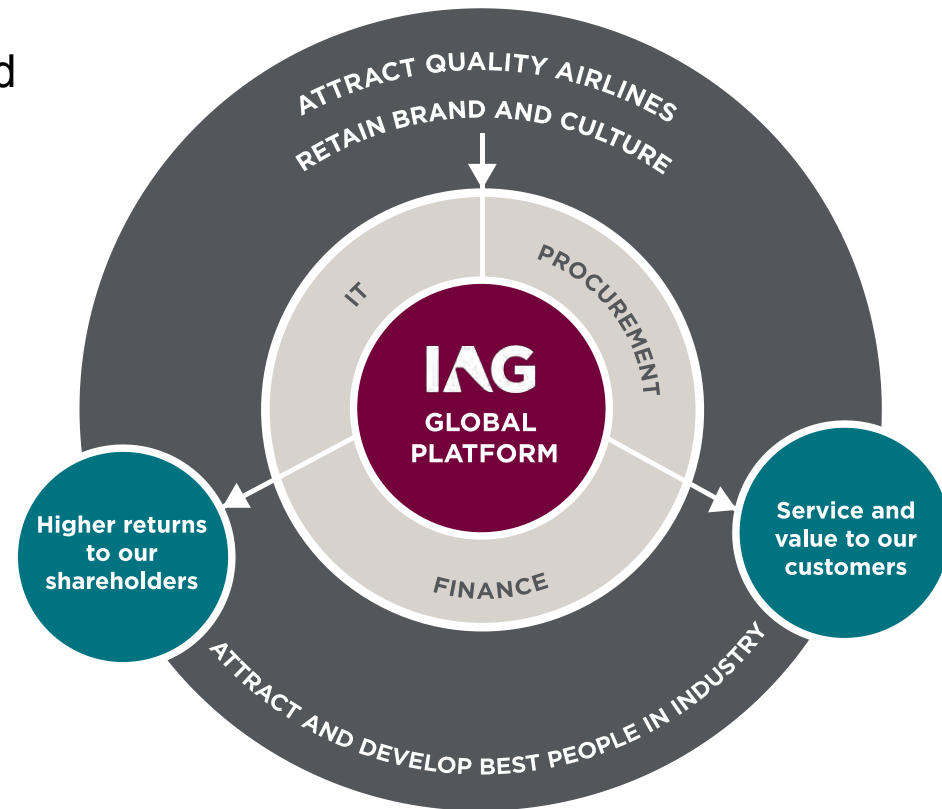
Please Note: British Airways transactions may take longer to appear. Our partners' transactions may take longer to appear.

Transaction date	Posted date	Description	Tier Points	Avios
31-Aug-15	02-Sep-15	NICE - LONDON HEATHROW (M/J) BA357(Booking ref: 8KUI4R)	40	645

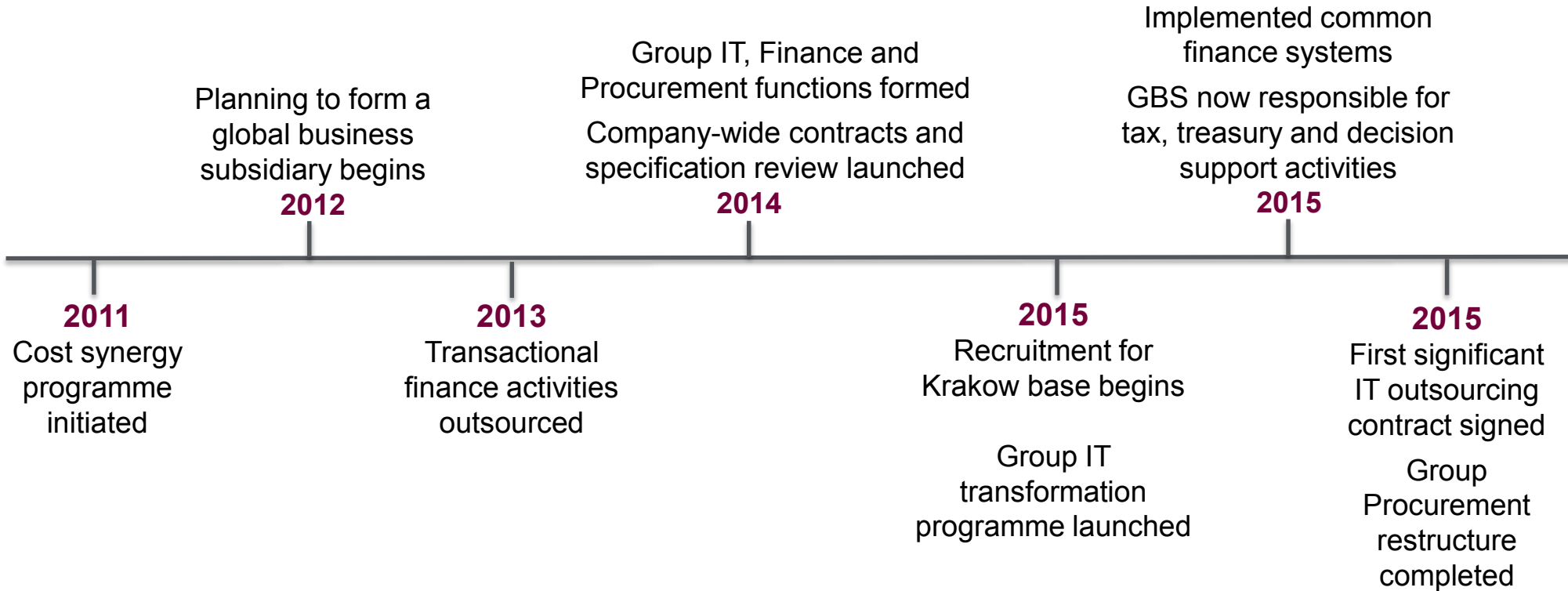
# Global Business Services

# Global Business Services (GBS): IAG's back office platform

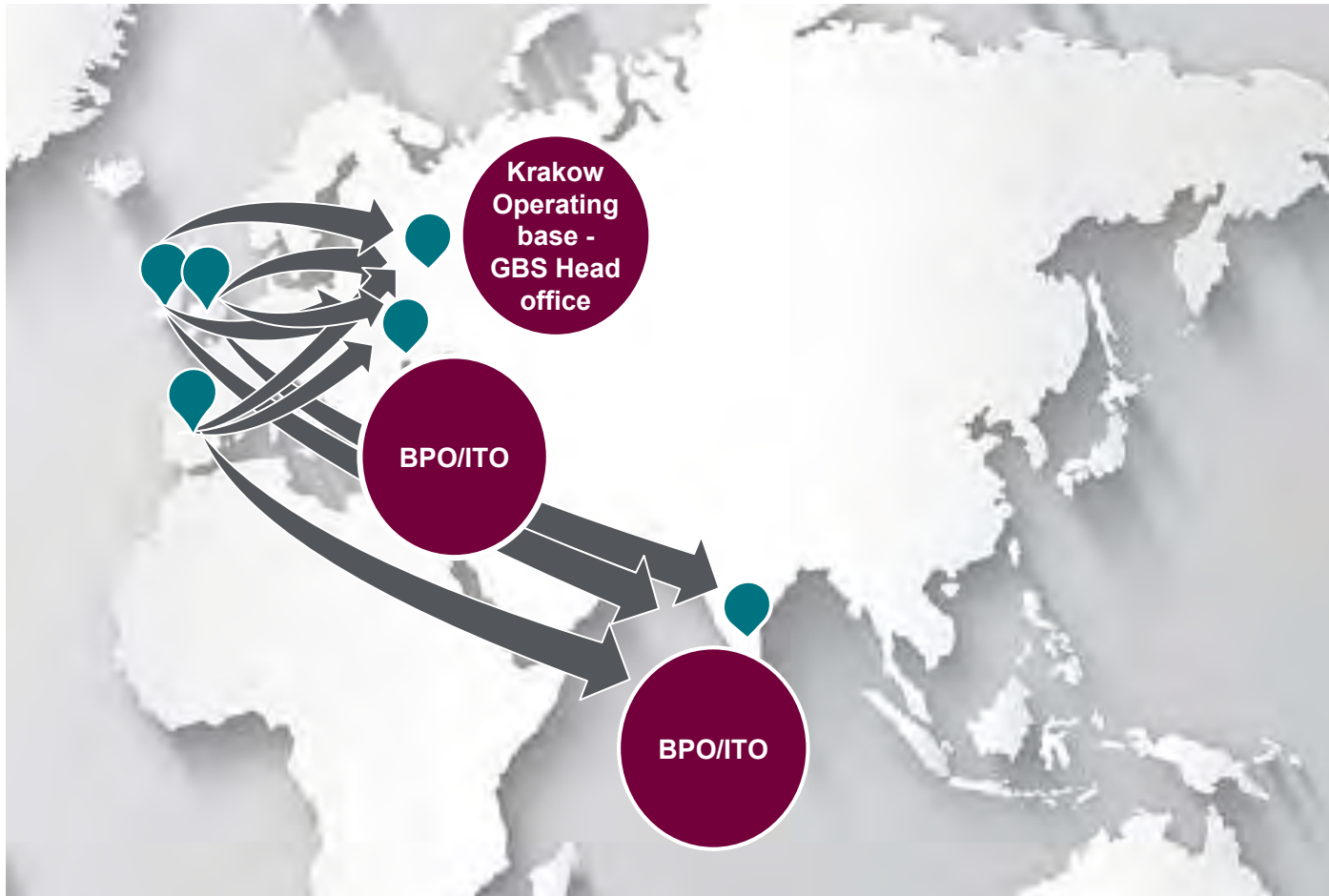
- GBS is the Group's common IT, Procurement, and Finance function
- GBS is creating a cost effective "plug & play" platform for the Group that is scalable for growth
- GBS is driving standardisation and simplification across the Group
- GBS is significantly enhancing OpCo efficiency
- **GBS is embedding modern working practices and delivering a higher quality of service**



# The GBS journey so far



# Multiple sites: flexibility, cost efficiency, and scalability



- Enables resources to be easily increased or decreased in line with business requirements
- Work is transferred to the operation that can deliver the right quality and right price
- Facilitates moving labour to the most cost effective location, that has the required skilled levels
- Multiple sites drives healthy competitive tension: captive vs. outsourced BPO and ITO suppliers

\*BPO/ITO – Business Process Outsourcing Centre / I.T. Outsource Centre. Proposal: Subject to Consultation

# Modern working practices and higher service quality



*New culture*



*26k Graduates/year ensures a strong talent pipeline*



*Large talent pool to recruit from*



*Modern working practices*

# Cost savings achieved so far

## Employee

Realised significant reduction in airline operating company headcount of Group Finance, Group IT and Group Procurement activities







**Head count reduction**  
544 – BA  
417 – IB

## Supplier

### How:

- Through demand management
- Specification challenge and management
- Concentration of volume and harmonisation of commercial terms
- Better tendering and negotiation – up weighting our side by bringing in industry / sector specialists for specific projects
- Extension of credible supplier set, improved market management

### Major Group deals delivered:

 AIRPORTS	 ENGINES
 BPO/ITO	 FUEL
 CREDIT CARDS	 MARKETING & ADVERTISING

### Attitude to cost:

- Watching every purchase requisition no matter what the value - and challenging our suppliers where we find cheaper prices
- This is driving a culture change in our attitude to cost

Renegotiating contracts and negotiating new contracts with suppliers = **€100s of millions of savings** over the various contractual terms



# Legacy removed in Group Finance functions

**Legacy state**

- Different ways of working by each OpCo
- Unaligned KPIs and definitions: what's the number?
- Complex systems landscape
- Large independent finance teams
- High running costs

**Post transformation**

- Krakow based** Common global processes, centrally managed across all OpCos centralise common expertise, leverage outsourcing
- Single source of the truth** Aligned data sets: what's the issue?
- Common global systems** Simplified systems operating on single platform for processes and information
- Leaner teams** Smaller connected teams focussed on business partnering

Optimal costs, more controllable

**28% saving in people costs**

# Global Business Services (GBS): IAG's platform for growth

- Delivering back office processes at a lower cost and higher quality
- Enabling OpCos to run more efficiently
- GBS is an enabler of future growth
- There is significantly more to come:
  - Transferring additional finance work to Krakow
  - Integrate Aer Lingus, Avios, Iberia Express and Vueling processes into GBS
  - Deliver the next phase of the IT transformation programme

# Group IT

# Where we've come from

## Positives

- High availability of systems (99%+)
- Ability to make change happen at any point
- Agile application development providing speed to market
- A flexible integration platform sitting above our legacy systems
- Strong aviation and technical knowledge of existing systems

## Negatives

- Complex systems (2,346 applications)
- Over 748 individual suppliers
- Fixed cost base with duplication across OpCos within the Group
- Heavily customised applications with limited ability to change
- Dependency on management consultants and single points of failure
- Too many contractors on-shore (35%)
- Decentralised project portfolios within each OpCo
- Risk of losing control of design and direction

# How we're changing

## Reducing unit costs

Reduce our unit cost base creating a flexible model

## Simplifying systems

Simplify systems, removing duplication and improving capability

## Shared solutions

Enable scalable, shared solutions across IAG

# Reducing our commodity costs

## Reducing unit costs

IT Operations	Tower 1 End user computing <i>(Desktop, laptops, printers)</i>	Tower 2 Networks <i>(Internet, LANs, network security, WiFi, mobile)</i>	Tower 3 Service operations <i>(24x7 Service Desk, Ops Monitoring Bridge)</i>
<b>Action taken</b>	OUTSOURCE*	OUTSOURCE*	OUTSOURCE*
<b>Cost savings</b>	<p><b>38%</b> Annual run rate saving of €4.4m</p>	<p><b>21%</b> Annual run rate saving of €8.4m</p>	<p><b>52%</b> Annual run rate saving of €8.3m</p>
<b>Manpower savings</b>	<p>Manpower reduction from 91 to 15</p>	<p>Manpower reduction from 59 to 12</p>	<p>Manpower reduction from 152 to 24</p>

\*Proposals subject to legal and local consultation

# Consolidating systems, increasing capability

Building a new operations system for Iberia

Simplifying systems



# Building a platform for future growth

## Shared solutions



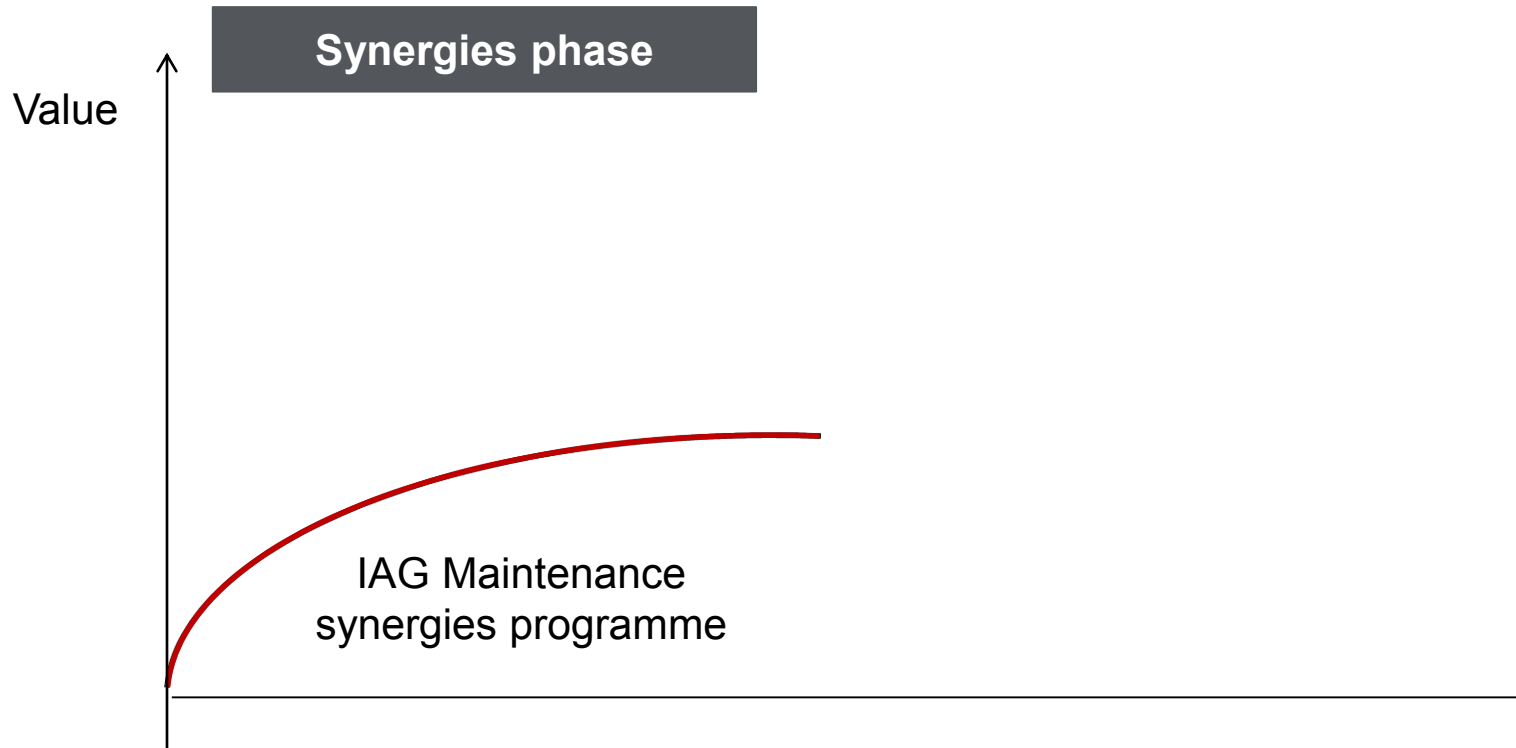


# Releasing the business to operate more efficiently

- A third of the way towards cost saving target of €90m by 2018
- Removal of commodity costs taking advantage of scale benefits from specialist providers
- Reducing IT complexity delivers a better quality of service and simplifies business processes
- New IAG IT approach embedding efficiency – based on Vueling's approach
- IT is a key building block of the IAG global platform

# Maintenance

# IAG has achieved so far significant cost synergies...



# ... driven by a combination of initiatives and actions

## 1 Insourcing

- Leveraging and developing internal capabilities
  - License to repair in house V2500 engines at IB MRO
  - Airbus components repair brought in-house
  - Aircraft checks performed in-house

## 2 Procurement

- Performing joint purchasing of material and benefit from joint negotiations and economies of scale
  - Group new contract with Messier to repair and overhaul landing gears

## 3 Commercial

- Joint commercial activity bringing new customers to Group MROs
  - Sri Lankan (engines), Thomas Cook (components)

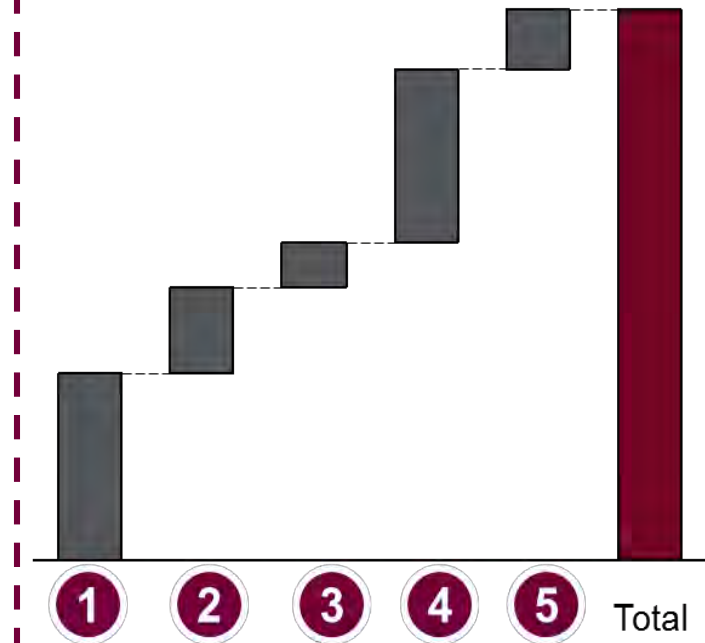
## 4 Continuous Improvement

- All maintenance areas knowledge and best practice sharing
  - Intra-group best practices
  - Group projects to align with external benchmarks

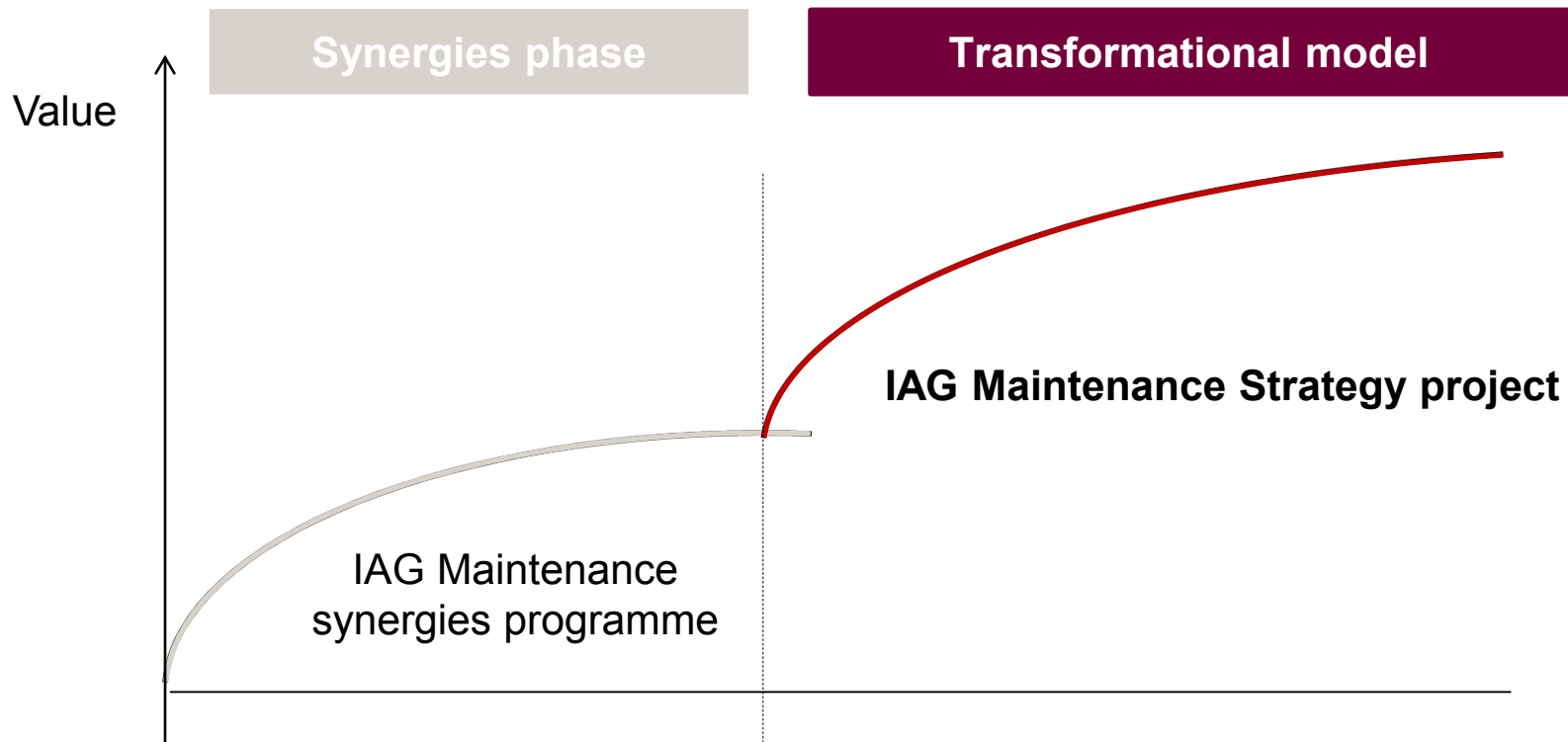
## 5 Other synergies

- Savings in several business areas and one-off initiatives
  - Inventory and warranty recovery
  - Line maintenance

2015 cumulative maintenance cost synergies breakdown



# IAG's new transformation model goes beyond synergies



# IAG's maintenance activities mainly performed in-house

**Aer Lingus** 

2 WB &  
5 NB

## DUB

- 283 staff (+30 apprentices)
- Line maintenance, A checks, OPI (out of phase inspections)

7 hangar bays  
(100% leased)

24 hangar bays  
(100% leased)

3 WB

## South Wales (BAMC, BAAE, BAIE)

- 1,290 staff
- C/D chk for widebody aircraft
- Components: avionics, safety equipment and cabin interiors

**BRITISH AIRWAYS  
ENGINEERING** 

2 NB

## GLA

- 300 staff
- C/D chk for A320 family

8 WB &  
8 NB

## LHR

- 3,150 staff (+100 apprentices)
- Line maintenance
- Base maintenance (up to B chk)
- Paint hangar
- Composites
- Components: mechanical

1 WB &  
2 NB

## LGW

- 310 staff
- Line maintenance
- Base maintenance (up to B chk)

**IBERIA**   
MAINTENANCE

2 WB  
or 4 NB

## BCN

- 310 staff
- Line maintenance
- Base maintenance (up to C chk – A320 family only)

22 hangar bays  
(50% leased)

7 WB  
& 11 NB

## MAD

- 2,380 staff
- Line maintenance
- Base maintenance (up to D chk)
- Components
- Engine overhaul
- Paint hangar

**IAG**

Maintenance

Group activities

WB – Wide Body NB – Narrow Body

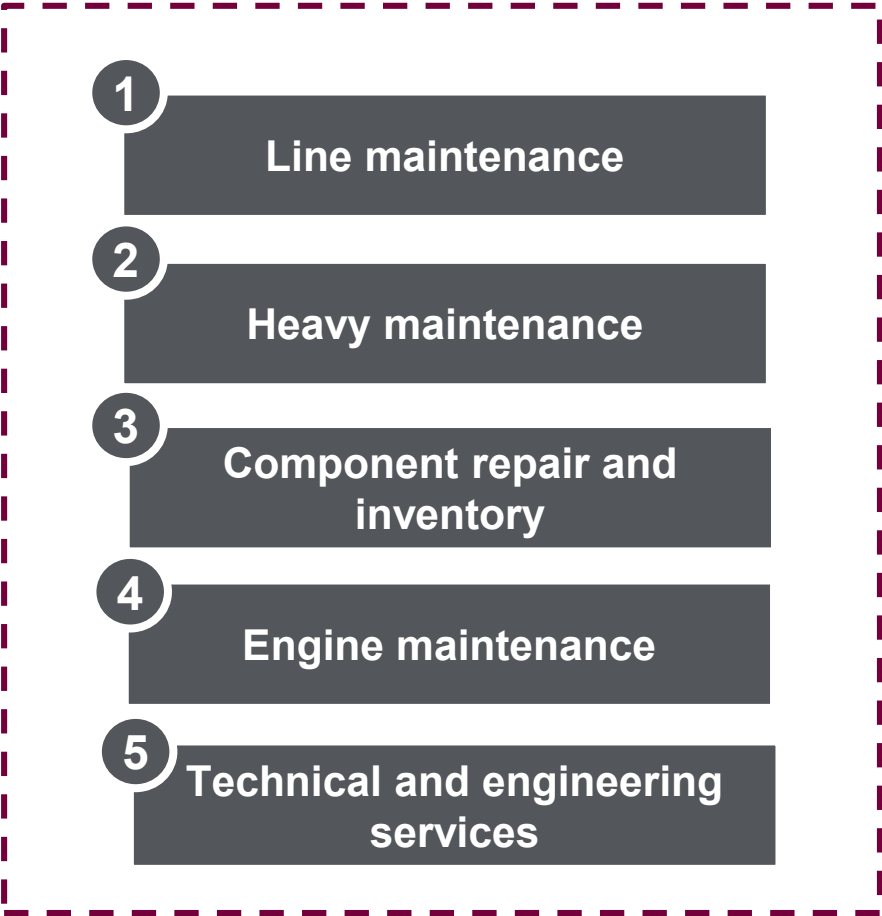
BA – additional 500 outstation staff

IB – additional 170 outstation staff

EI – additional 39 outstation staff

# IAG's scope and objectives for maintenance

## Scope



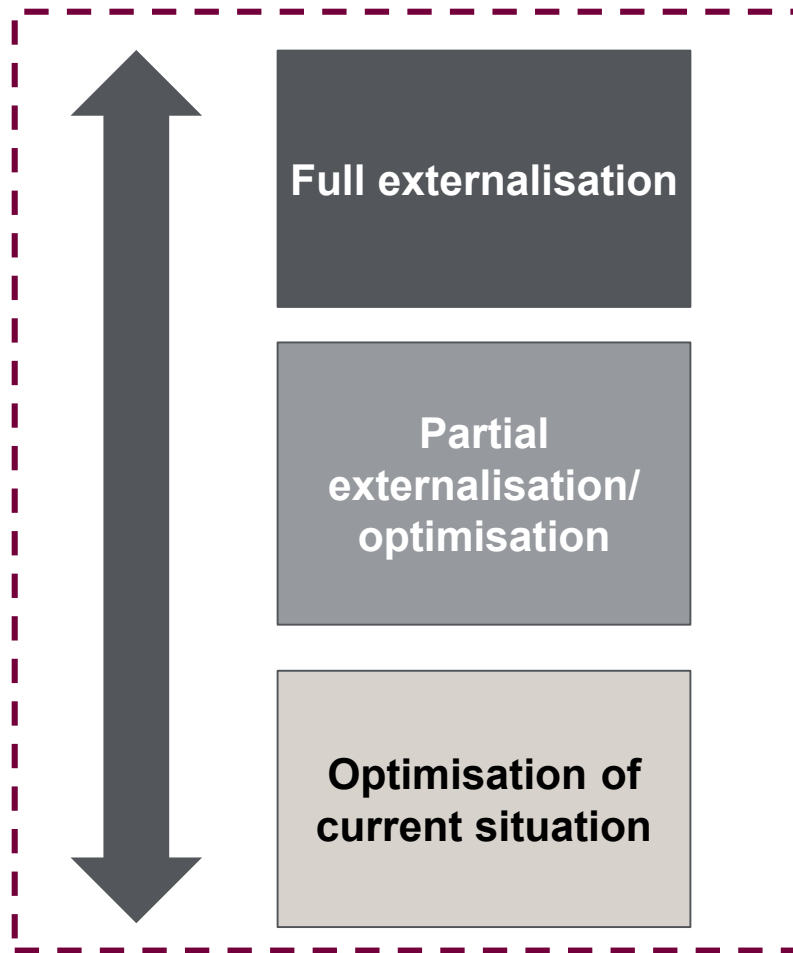
## Objectives<sup>1</sup>



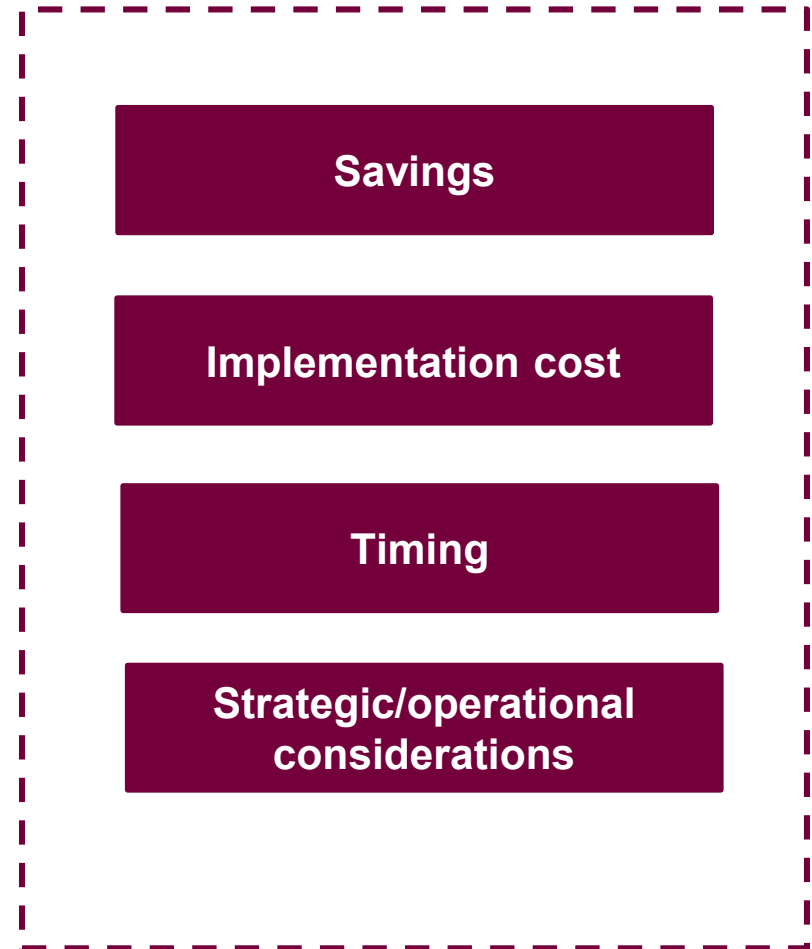
<sup>1</sup> Proposals subject to legal and local consultation

# All options evaluated to ensure maximised Group returns

Options<sup>1</sup> to be evaluated...



... to maximise Group returns



<sup>1</sup> Proposals subject to legal and local consultation



# Status and next steps

- Strategic assessment already **underway**, with initial focus on **line and heavy** maintenance businesses
- Implementation of **quick-wins for line maintenance** business (non-hub European outstations) targeted for **H1 2016**
- Completion of strategic assessment (**components and engines**) and estimation of **total Group savings during H1 2016**

# Fleet

Fleet harmonisation: extending common spec approach to all future fleets

# Our fleet goals: low capex, flexible allocation



## **LOWEST COST**

Lowest purchase cost

Lowest operating cost



## **REDUCED CAPITAL INTENSITY**

Lower long term maintenance cost

Lower future modification cost

Whilst leaving OpCo brand freedom



## **GREATEST FLEXIBILITY**

Ability to shift assets between

OpCos within minimum time and expense

# A320 - standardisation

## Cabin configuration

- Door 1 entrance area
- Door 1 lavatory
- Passenger Service Units



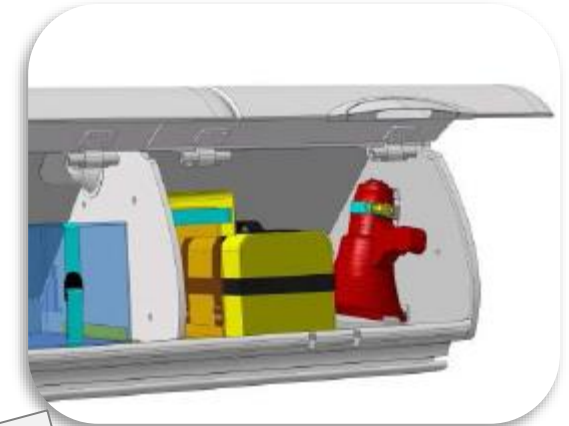
## Avionics & systems

- Cockpit window
- Cockpit avionics (e.g. weather radar)



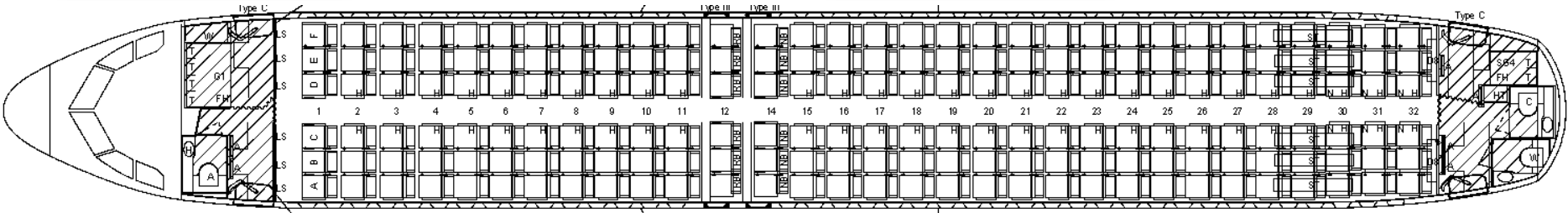
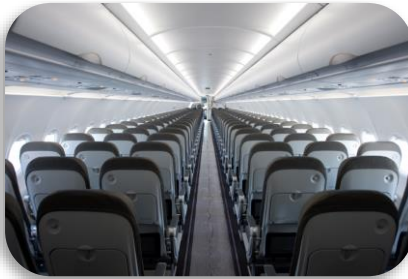
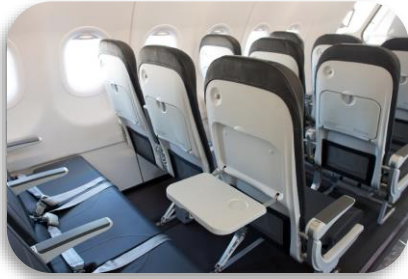
## Emergency equipment

- Emergency Locator Transmitter selection
- Signage (pictograms)



**HARMONISED**

# A320 - configuration



**Up to 186 seats**



All can be interchanged in around 1 week



Fleet harmonisation

A320 configuration

# A320 - scope and impact

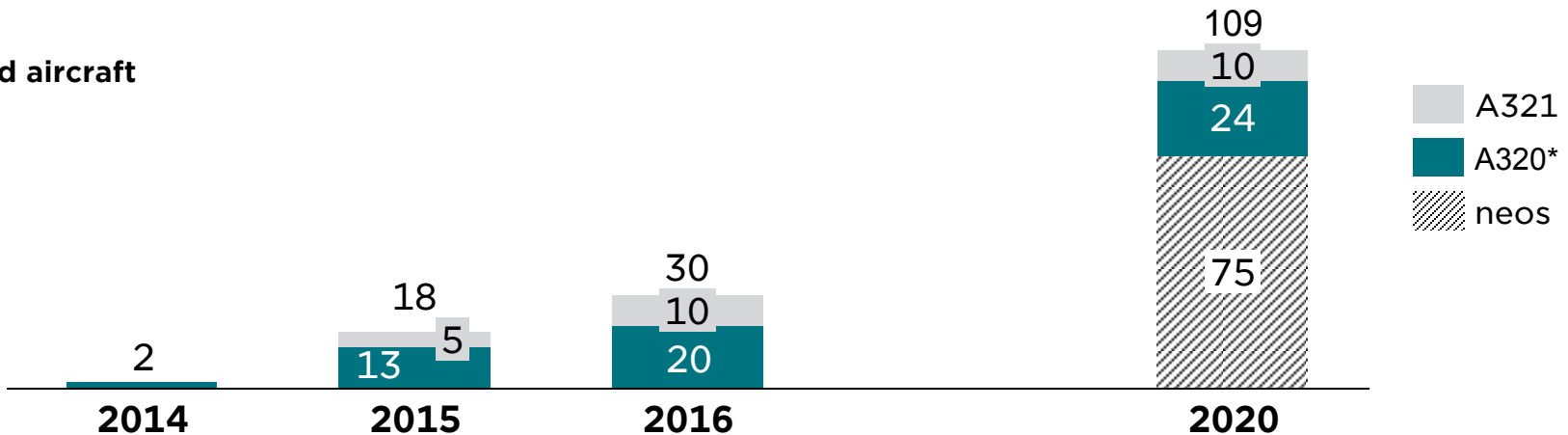
## Cost savings

<b>Total cost saving (per a/c)</b>	<b>€500K - €1M</b>
Avionics/Systems - removed items	~40%
Cabin definition - removed items	~30%
Group joint procurement savings	~30%
Cabin provisions to allow for inter-brand flexibility	(1%)

## Weight savings

Removed items	80kg - 120 kg
Seats: moving to lightest/best-in-class	100kg - 380 kg
<b>Total weight reduction (per a/c)</b>	<b>220kg - 470kg</b>

## # harmonised aircraft (year-end)



# A330 - standardisation

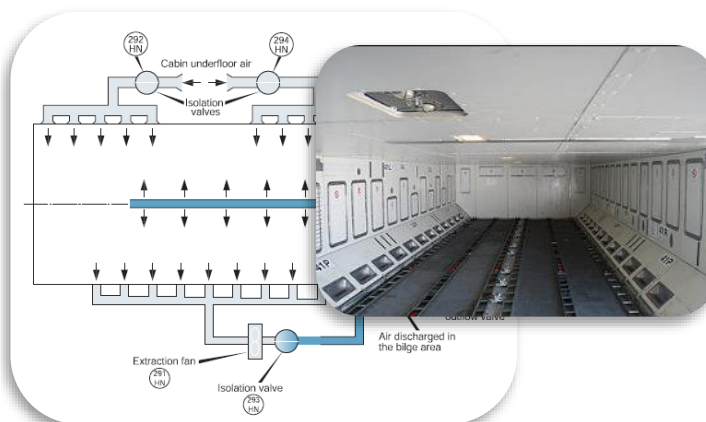
## Cabin configuration

- Economy seats
- Galley supplier
- IFE

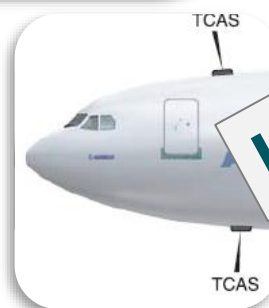
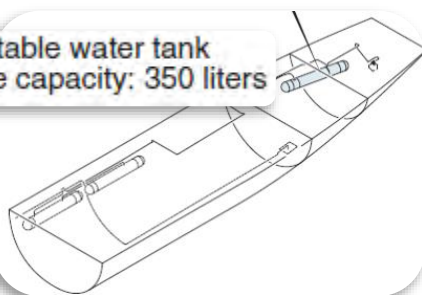


## Avionics & systems

- Rear cargo ventilation off
- 3<sup>rd</sup> water tank out
- TCAS selection



Potable water tank  
useable capacity: 350 liters



## Emergency equipment

- Placard pictograms
- Aligning emergency equipment list

EMERGENCY EQUIPMENT LIST

PLACARD PICTOGRAMS



**HARMONISED** ✓

Aer Lingus

IBERIA

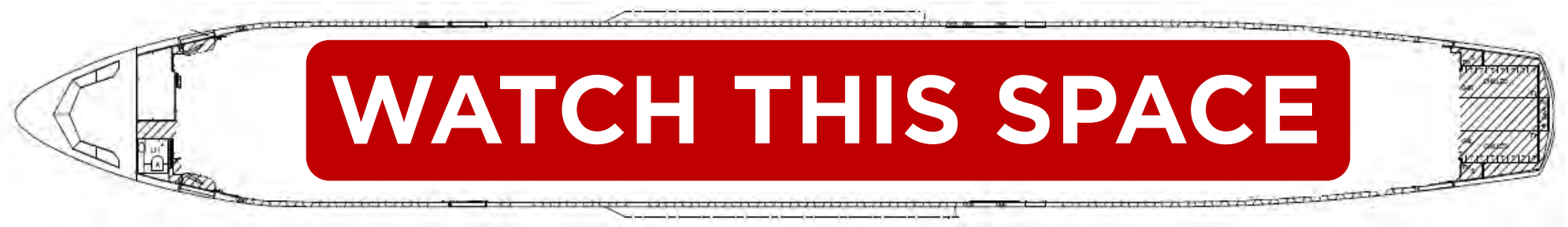
IAG

Fleet  
harmonisation

A330  
standardisation

Last year the Iberia A330-200 spec was concealed

Reminder: Capital Markets Day November 2014



IAG

Fleet  
harmonisation

A330  
configuration

IBERIA 



# A330 common spec: IB's first delivery Dec 2015



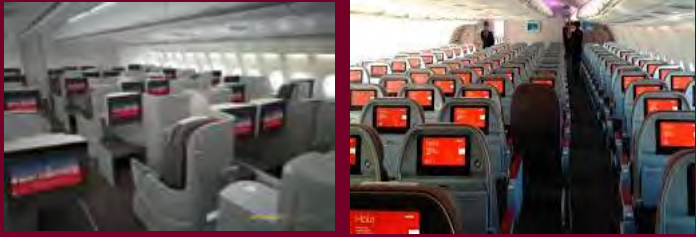
IAG

Fleet  
harmonisation

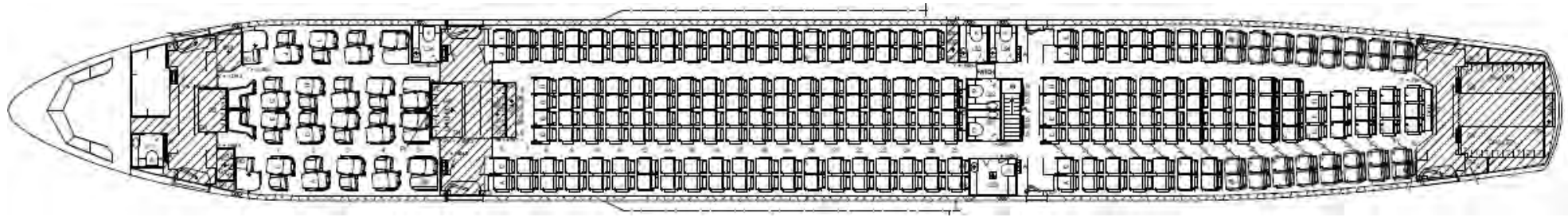
A330 delivery

# A330 - configuration

Number and size of cabin classes



Toilets, stowage and cabin attendant seats



**288 seats 19 J + 269 Y**

Galley space



**IAG**

Fleet  
harmonisation

A330  
configuration

**IBERIA**

# A330 - scope and impact

## Cost savings\*

<b>Total cost saving versus budget (per a/c)</b>	<b>~€3M</b>
Avionics/systems - removed items	~20%
Cabin definition - removed items	~37%
Group joint procurement savings	~43%
Cabin provisions to allow for inter-brand flexibility	Negl.

## Weight savings\*

Removed items (vs. A330-300 spec list)	~540 kg
Seats: moving to lightest/best-in-class	~520 kg
<b>Total weight reduction (per a/c)</b>	<b>~1,060kg</b>

## # harmonised aircraft (year-end)



# A350 - standardisation

## Cabin configuration

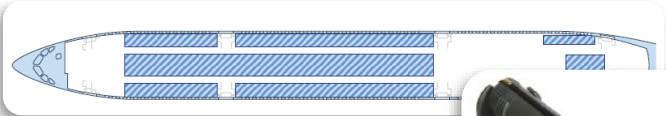
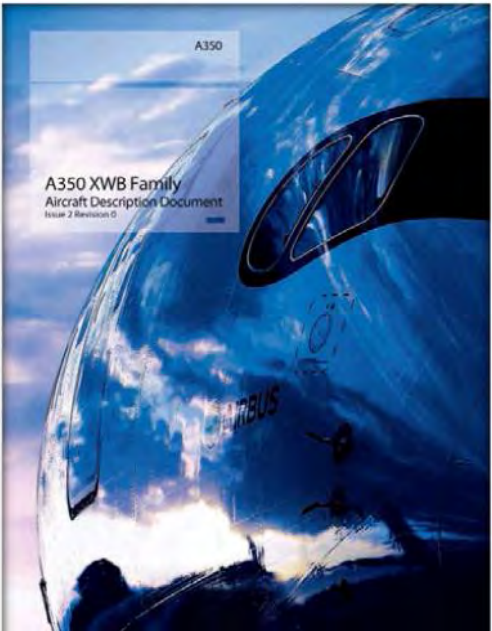
- Economy & economy+ seats
- Toilets
- IFE & connectivity

## Avionics & systems

- Navigation and communication equipment
- Wheels, brakes & tyres

## Emergency equipment

- Aligning emergency equipment list & locations
- Placards and markings
- Emergency Locators (ELT)



	Galley	Lavatories	Doghouses	Stowage
Emergency life raft				
Brief				
Injury, egress, extinguisher				
Crash Axe				
Overstowed items				
Emergency locator transmitter (ELT)				
Fire extinguisher				
First Aid Kit (FAK)				
Flammable objects				
Emergency Medical Kit (EMK)				
Firefighting				
Life vest				
Tools, safety, oxygen				
Mandatory induction food				

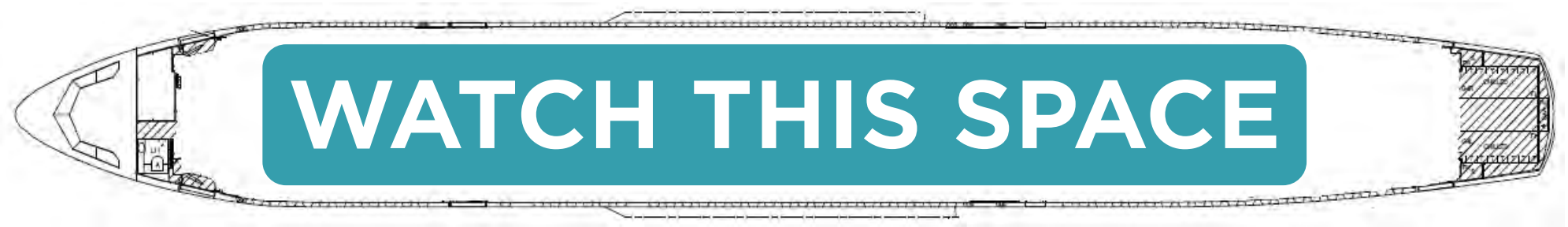


Fleet harmonisation

A350 standardisation

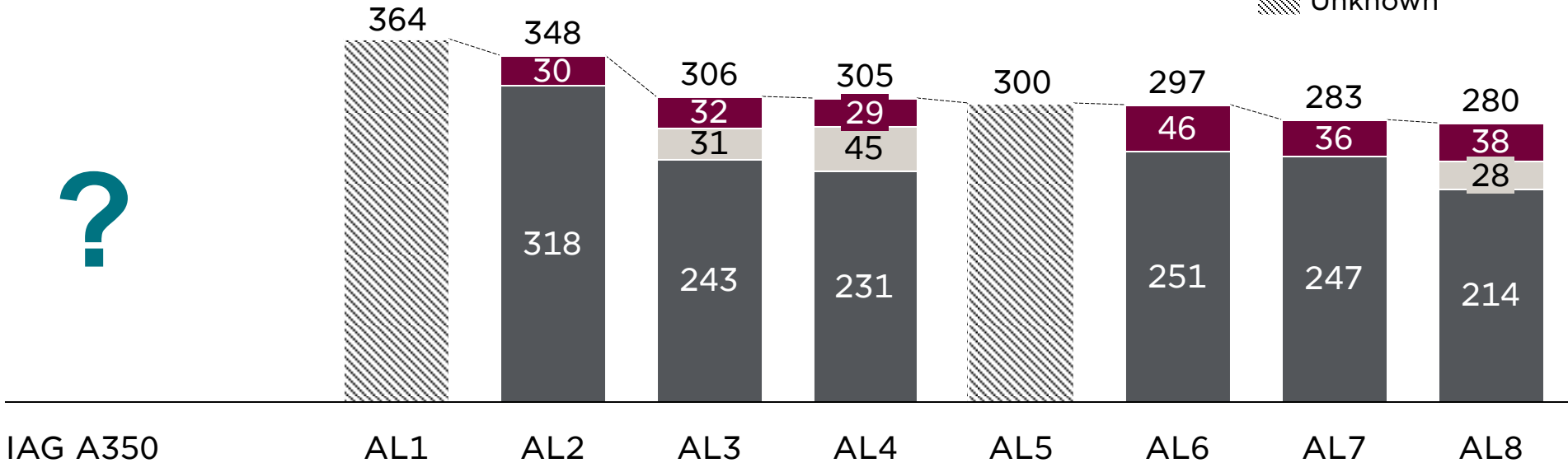
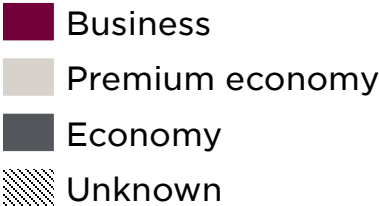


# A350 - configuration



# A350 - configuration

A350-900 seat configuration benchmark\*  
(actual seats)



Current config looks one of the best-in-class versus known competitors

\*based on market research, delivered or announced A350-900 seat configurations

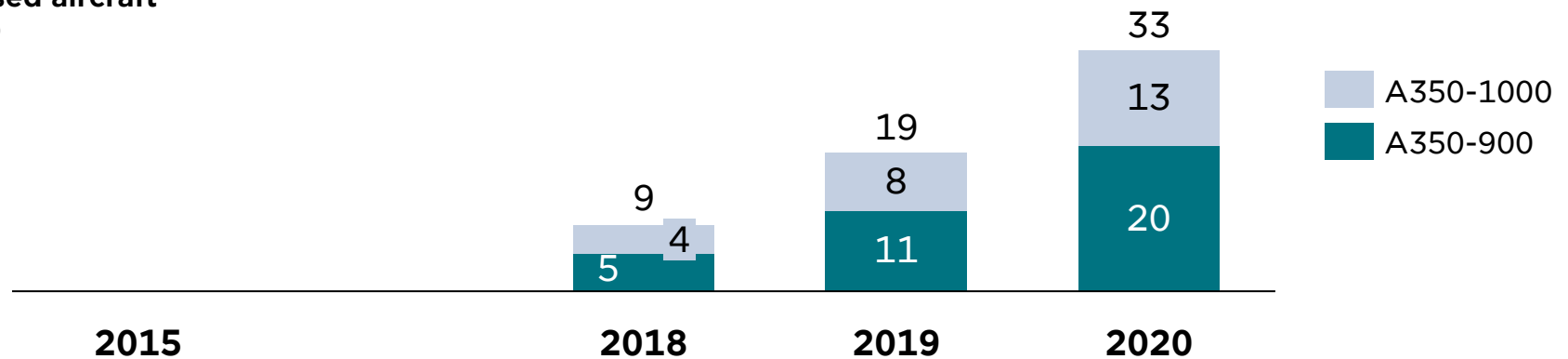
# A350 - scope and impact

Cost savings

Weight savings

- Spec configuration process managed similarly to A320 and A330
- First joint configuration of long haul aircraft and with more cabins
- Same focus: a) simplification b) harmonisation c) space efficiency d) weight savings
- Systems configuration has far fewer options and supplier selections

# harmonised aircraft  
(year-end)



IAG

Fleet  
harmonisation

A350  
scope and impact

# Group onboard Wi-Fi connectivity – current state

Aer Lingus 



BRITISH  
AIRWAYS 



IBERIA  IBERIA  
EXPRESS 



vueling 



- IAG is developing a connectivity strategy by exploiting OpCo learnings
  - OpCos have trialled connectivity on aircraft since 2010
  - Today 35 Group aircraft are fitted with connectivity
  - Another nine are fitted with onboard streaming
- Up to 60 new long-haul aircraft will be delivered with connectivity (A330s, A350s, B787-10)



Only satellite connectivity offers coverage across the  
Group's extensive long-haul network

IAG

Fleet  
harmonisation

Connectivity



# Group onboard Wi-Fi connectivity - future plans

Aer Lingus 

BRITISH  
AIRWAYS 

IBERIA  IBERIA  
EXPRESS 

vueling 

- IAG currently evaluating onboard connectivity needs across the Group
  - Long-haul - evaluating wi-fi retrofit for over 100 existing aircraft
  - Short-haul - extending Inmarsat's Air-to-Ground (AtG) offer to over 300 aircraft
- On short-haul, faster AtG network speeds and less weight & drag is attractive
- IAG is setting aggressive targets
  - Long-haul - 90% fleet fitted by early 2019
  - Short-haul - first in-service AtG aircraft planned for 2017



Group's connectivity strategy & equipment selections are  
being harmonised across all OpCos

IAG

Fleet  
harmonisation

Connectivity

# Digital

# British Airways

**IAG** INTERNATIONAL  
AIRLINES  
GROUP

# Stronger brand, strengthened market position...

Slot position at key airports

	2011		2015
Heathrow	42%	↑	51%
Gatwick	17%	~	16%
City	30%	↑	41%



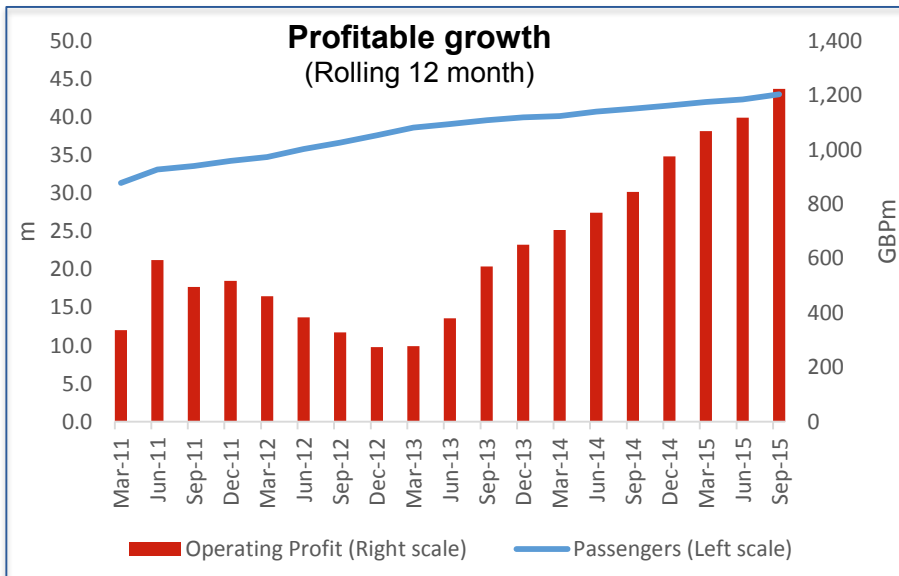
## Structural cost change...

- ✓ bmi integration
- ✓ New LHR customer service contracts
- ✓ Gatwick ramp outsourced
- ✓ Worldwide handling outsourced
- ✓ Shared back office (IAG GBS)
- ✓ Consolidation into two terminals at Heathrow

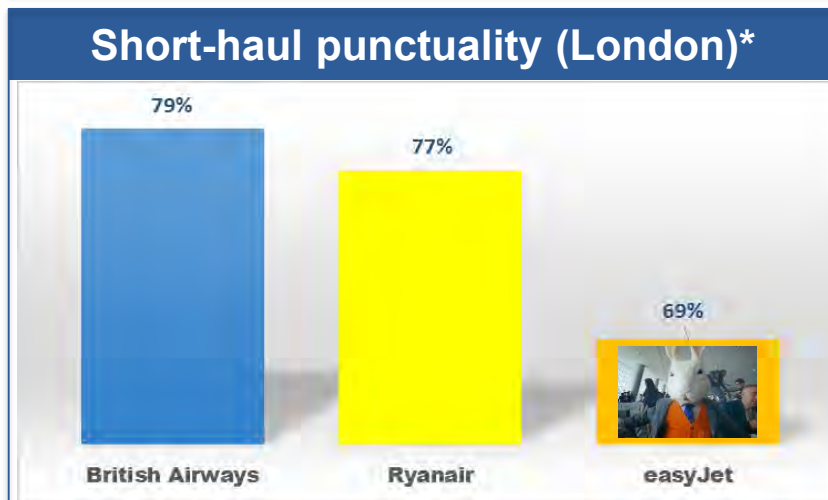
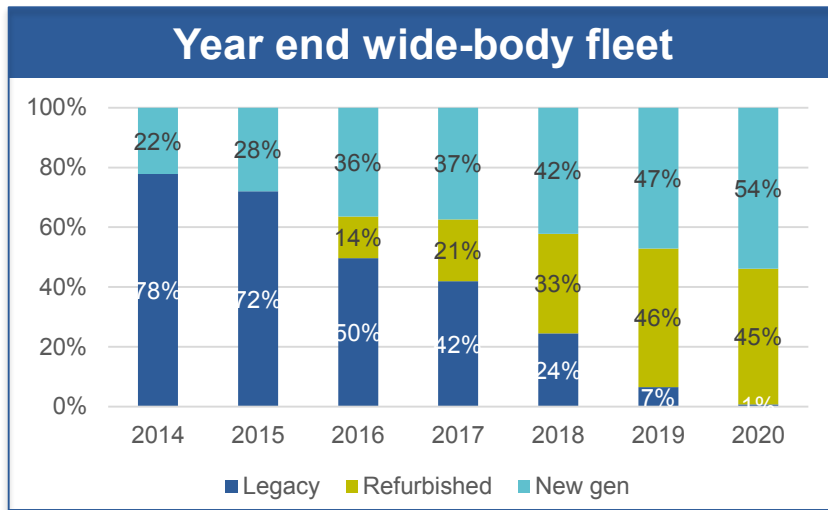
## ...and delivery of key commercial goals...

- ✓ Short-haul returned to profitability
- ✓ AJB premium share gap (to STAR) closed to 2.8pts compared to 12.7pts gap at launch (Oct 2011)
- ✓ Greater personalisation – 39m ‘known’ customers compared to 10m in 2013
- ✓ Superbrands award in 2014 and 2015

## ...have set a strong foundation for future growth



# Substantial investment in customer product & service



\*Departures within 15mins, rolling 12 months to August 2015, CAA data

## Great service, every time

- Additional crew service training planned for 2016
- New technology will enable more joined up personalisation of the customer experience – 50m ‘known’ customers by end 2016

## World class service recovery

- New programme to improve service recovery and lower the cost of operational disruption
- Robust customer relations, first contact resolution, online servicing, clear communications

## Get the basics right

- New hand baggage and boarding procedures, review of block times and improved turnaround effectiveness
- Working with Heathrow Airport to reduce occurrences of baggage system failure
- ‘Time Based Separation’ ATC at Heathrow has reduced cancellations during high winds

# Increasing capital efficiency

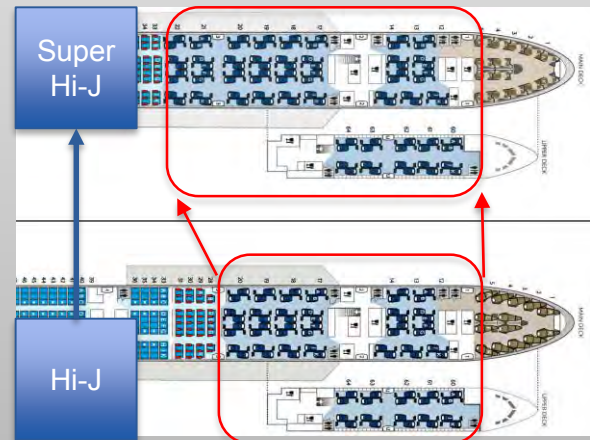
## Short-haul fleet densification and up-gauging

- Airbus densification nearly complete
  - Increase of c.1.8m seats p.a. equivalent to 7 aircraft
- NEO aircraft unlocks opportunity for further densification
- Aircraft gauge to increase:

LHR&LGW	2015	2020	%
737	4	-	-
A319	44	28	(38%)
A320	62	83	+34%
A321	11	23	+109%
767	7	-	-
<b>Total</b>	<b>121</b>	<b>134</b>	<b>+11%</b>

## Boeing 747 reconfiguration

- 18 B747 aircraft to be converted to 'super Hi-J' configuration to serve high premium demand markets
- Conversion will increase business class capacity on these aircraft by 23%



## Boeing 777 reconfiguration

- Driving higher revenue per aircraft by re-configuring cabins to serve markets which have lower premium demand
- Gatwick B777-200s to be re-configured with 10% more seats (smaller Club cabin) better suited for leisure markets
- Heathrow B777-200ERs to be converted from 4-class to 3-class with 25% more seats
- B777 life extended to 30 years

# Growth drivers

		Growth contribution
North America	<ul style="list-style-type: none"> <li>• Targeting No.1 AJB premium market share</li> <li>• Strengthen key markets – A380 on Washington, San Francisco, Miami and Vancouver; Super Hi-J 747 on New York and Chicago. Gatwick-JFK launch</li> <li>• Growth to secondary cities – San Jose, California</li> </ul>	
LatAm	<ul style="list-style-type: none"> <li>• Strong long-haul leisure growth at Gatwick – Costa Rica, Peru</li> <li>• Right sizing capacity to Brazil (in reaction to slowing GDP)</li> <li>• B787-9s create opportunity to open up new Latin American markets</li> </ul>	
Short-haul	<ul style="list-style-type: none"> <li>• Well positioned to hold business share and grow leisure</li> <li>• Capacity from seat densification becomes annualised in 2016</li> <li>• 9 Heathrow bmi remedy slot pairs returned to BA providing growth</li> </ul>	
Rest of World	<ul style="list-style-type: none"> <li>• B787-9s deployed to Delhi, Seoul, Kuala Lumpur, Shanghai</li> <li>• China 2020 strategy: Develop airline partnerships, up-gauge commercial presence, tailor customer proposition and reduce visa restrictions</li> <li>• A380 enables strategic growth at slot constrained airports (e.g. HKG, SIN)</li> </ul>	

# Margin drivers

		€ margin contribution
Net fuel price benefit* (exc. efficiency)	<ul style="list-style-type: none"> <li>• Current assumption: banking 25% of the fuel price benefit by 2020</li> <li>• Majority of demand impacts on oil routes will annualise in 2016</li> <li>• Competitive markets, but relatively benign capacity outlook at this stage</li> </ul>	● ● ●
Fuel efficiency	<ul style="list-style-type: none"> <li>• 54% of long-haul fleet 'new generation' by 2020 (A380, A350, B787, B777-300)</li> <li>• 11 B787-9 aircraft delivered in 2016 - total B787 fleet of 24 aircraft by Dec-16</li> <li>• 2 A380 deliveries in 2016 bringing fleet to 12</li> </ul>	● ●
Employees	<ul style="list-style-type: none"> <li>• Ongoing, widespread productivity improvements c15% (technology / process)</li> <li>• Continued narrowing of pay "gap to market"</li> <li>• Back-office (IAG Platform) and engineering transformation</li> </ul>	● ●
Suppliers	<ul style="list-style-type: none"> <li>• Opportunities to consolidate and use Group leverage</li> <li>• Engineering transformation</li> <li>• IAG Platform: Specification optimisation across IAG (e.g. Aircraft, seats, ground handling)</li> </ul>	● ●

\*Net of revenue dilution





# BA targets aligned with IAG targets

	Rolling 12m*	2016-2020
Lease adjusted operating margin (%)	11.0%	12-15%
Sustainable through the cycle RoIC (real terms)	11.4%	Targeting 15%+
ASK growth per annum	2.5%	2-3%
Fleet (period end)	287	310

\*Rolling 12-months up to Q3 2015



# Iberia

**IAG** INTERNATIONAL  
AIRLINES  
GROUP

# Transforming Iberia's customer proposition

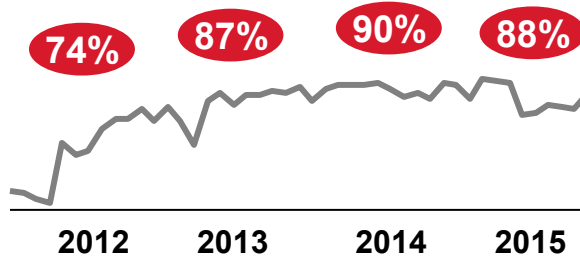
## Enhanced customer experience



- “Hoy tú”: more than 8,000 employees trained for front-line service quality & consistency
- Customer journey improvement: review of all client touch-points
- New LH product flight experience

**100% LH fleet offering new product in 2016**

## World-class leading punctuality



- Ground / flight process optimisation
- Constant monitoring of KPIs to spot deviations and opportunities
- Full commitment of all Iberia employees with punctuality targets

**3<sup>rd</sup> most punctual in the world<sup>1</sup>**

## Consolidation of new brand



- A new image for a new Iberia
- Consolidated brand leadership in Spain
- New brand roll-out in Brazil (May'15), Peru (Oct'15) and Mexico (Nov'15)

**Brazil: +12 ppt brand consideration<sup>2</sup>**

**+16 ppt of NPS increase (3Q13 – 3Q15)**

<sup>1</sup> Source: Flightstats On-time performance awards 2014

<sup>2</sup> 2014-15 increase of suggested awareness in Brazil from 41 to 60%

**IAG**

Iberia

Customer  
experience

**IBERIA**

# Increasing capital efficiency

## IAG harmonisation

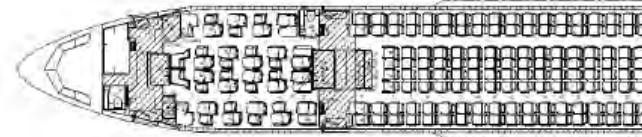
- A320 neo family **will be delivered completely harmonised**
- **A330 harmonisation** to reduce purchase and MRO costs
- A350-900: working with Airbus on making **the most efficient configuration in the market**



## Long haul configuration & space optimisation

- A330-200: **configuration optimised**, with no compromise on pax comfort: 19J + 269Y = 288 seats
- A330-300: J cabin reduced by 7 seats (from 36 to 29) and **new Premium Economy** cabin will offer 21 seats (+5%). Weight reduction approx. 700 kg
- A340-600: J cabin reduced by 10 seats (from 46 to 36) and **Premium Economy cabin** with +23 seats (+4%). Weight reduction 850 kg aprox.

A330-200



## Aircraft life extension

- Used A320 CEOs from the market **and lease extensions to be used** to meet needs until NEOs from IAG order arrive
- **Exploring options to retain**, at reduced ownership costs, some of the A340-600 due for redelivery in the next three years



# Growth drivers

		Growth contribution
North America	<ul style="list-style-type: none"> <li>• Leverage strength of Joint Business to consolidate existing routes</li> <li>• Develop new markets currently underserved from Madrid ...</li> <li>• ... which are feasible with lower cost base and introduction of A330-200</li> </ul>	●
LatAm	<ul style="list-style-type: none"> <li>• Consolidate existing routes leveraging lower cost base and LH fleet renewal</li> <li>• Tactical capacity adjustments as macroeconomic environment evolves</li> <li>• Selective growth in new secondary markets utilising strength of the Madrid hub (i.e. Paraguay, Central America and the Caribbean)</li> </ul>	● ●
Short-haul	<ul style="list-style-type: none"> <li>• Growth into key Spanish destinations, including further growth in island markets</li> <li>• Disciplined growth in Europe to right-size long-haul connectivity</li> <li>• Continued development of Iberia Express in new point-to-point markets including Manchester, Birmingham and Reykjavik</li> </ul>	
Rest of World	<ul style="list-style-type: none"> <li>• Explore new markets in Asia (Japan and China) and the Middle East</li> <li>• Develop a sustainable model for North Africa market</li> <li>• Other Africa markets under study including potential re-launch of Johannesburg</li> </ul>	●

# Margin drivers

		€ margin contribution
Net fuel price benefit* (exc. efficiency)	<ul style="list-style-type: none"> <li>Commercial plan on track, minimizing impact of LatAm slowdown</li> <li>Plan worked on the assumption that markets will remain intensively competitive and therefore we have not yet banked any significant fuel benefit</li> </ul>	●
Fuel efficiency	<ul style="list-style-type: none"> <li>70% renewed LH fleet (A330 and A350) by 2020</li> <li>13 A330s delivered 2015-2018 (to a total of 21); 11 out of 16 A350-900 delivered between 2018-2020</li> <li>Consolidation of operating best practices (e.g. single engine taxi)</li> </ul>	●
Employees	<ul style="list-style-type: none"> <li>Onwards headcount reduction in line with plan</li> <li>Productivity improvements and new entries at market labour cost</li> <li><b>IAG platform:</b> IAG-led projects to further reduce unit costs (e.g. GBS and IT)</li> </ul>	● ●
Suppliers	<ul style="list-style-type: none"> <li>Steady implementation of Plan de Futuro measures: operating cost reduction (e.g. selling costs due to channel shift) and G&amp;A optimisation</li> <li>Improved fleet utilisation (optimised commercial planning and MRO program)</li> <li><b>IAG platform:</b> Other IAG projects fostering cost reductions (e.g. Procurement)</li> </ul>	● ●

\*Net of revenue dilution

# Iberia targets aligned with IAG targets

	Rolling 12m*	2016-2020
Lease adjusted operating margin (%)	5.9%	8-14%
Sustainable through the cycle RoIC (real terms)	7.5%	Targeting 15%
ASK growth per annum	9.8%	7%
Fleet (period end)	96	122

\* Rolling 12 months up to Q3 2015



# Vueling

**IAG** INTERNATIONAL  
AIRLINES  
GROUP

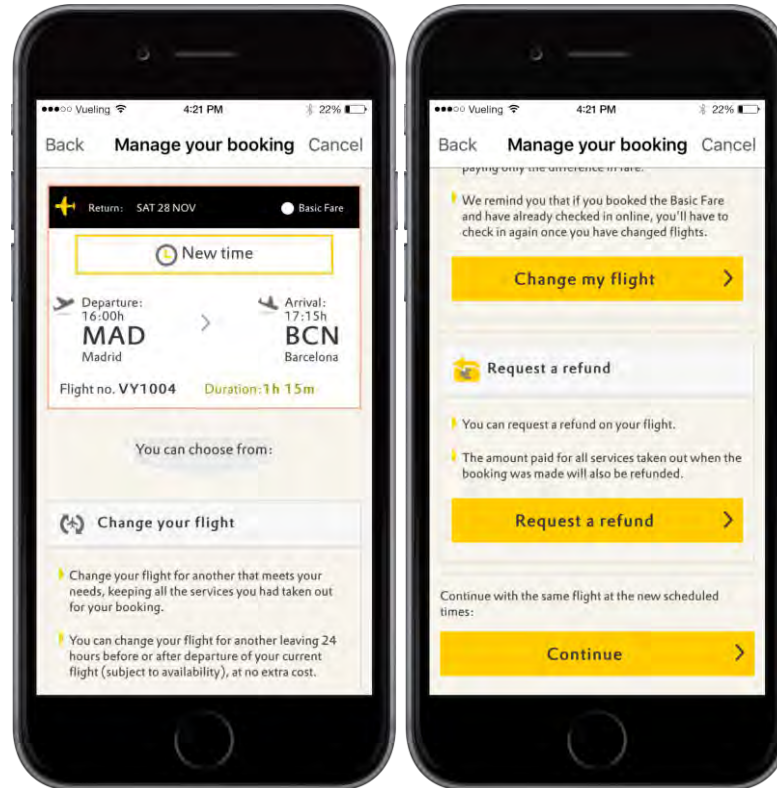


# Vueling: Mobile first

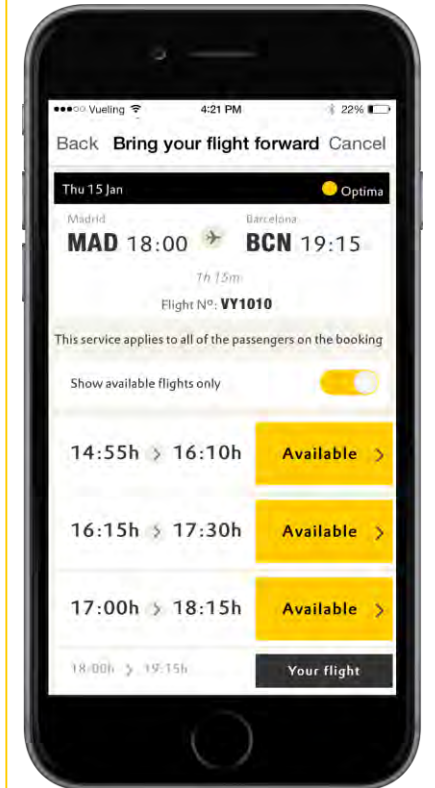
## Personalisation



## Disruption self management



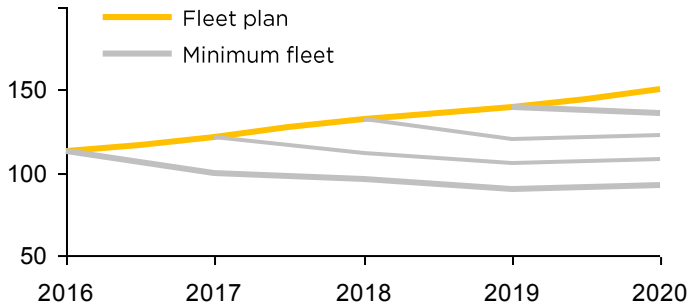
## Only mobile products



# Increasing capital efficiency

## Flexibility

- Flexibility to adjust the fleet size to market conditions
- Fleet flexibility includes lease extensions, short term leases and CEO from the market
- Mix of A320 and A321



## Gauge

- A321 with 220 seats
- 10 A321s in the fleet by the end of 2016
- A321 unit cost improvement (-6%)



## Harmonisation

- Business cabin harmonisation: more legroom rows 1 to 4, class divider, power outlets, mood lighting
- Introduction of light weight seats
- Cost savings and improved customer perception



# Growth drivers

		Growth contribution
Spain	<ul style="list-style-type: none"><li>• Barcelona: continue growing BCN as Europe's largest short haul airport</li><li>• Consolidate new bases and maintain leadership at main bases</li><li>• Growth driven by Spain-Europe routes and Canary Islands</li></ul>	●
Non-Spain	<ul style="list-style-type: none"><li>• Consolidate domestic and international hub at Rome FCO</li><li>• Selective growth from Florence</li><li>• Connecting Italian regions from other Vueling European bases</li><li>• Consolidate presence in Paris, new base at Paris CDG</li><li>• Grow international routes from Paris Orly</li><li>• Connecting French regions from other Vueling European bases</li><li>• Consolidate presence in mature markets (Germany and Belgium)</li><li>• Increase presence in Amsterdam base</li><li>• Growth in UK market under IAG umbrella</li></ul>	● ●

# Margin drivers

		€ margin contribution
Net fuel price benefit* (exc. efficiency)	<ul style="list-style-type: none"> <li>Operating market to remain highly competitive</li> <li>Current assumption: banking 20% of the fuel price benefit by 2020</li> </ul>	●
Fuel efficiency	<ul style="list-style-type: none"> <li>New A320 and A321 from IAG order will reduce fuel unit cost</li> <li>Fleet harmonisation and light seats</li> <li>More efficient aircraft: A320-NEO</li> </ul>	●
Employees	<ul style="list-style-type: none"> <li>Crew local hiring in international bases to optimize productivity</li> <li>Further optimisation of costs via selected outsourcing</li> <li>New technology aimed to increase efficiency and reduce cost (ex: new rostering system)</li> </ul>	
Suppliers	<ul style="list-style-type: none"> <li>Darwin saving program will mitigate most of the cost inflationary increases</li> <li>Initiatives include handling and airport negotiations, MTOW optimisation, etc.</li> <li><b>IAG platform:</b> Joint tender processes (ex: procurement)</li> </ul>	

\*Net of revenue dilution

# Vueling targets aligned with IAG targets

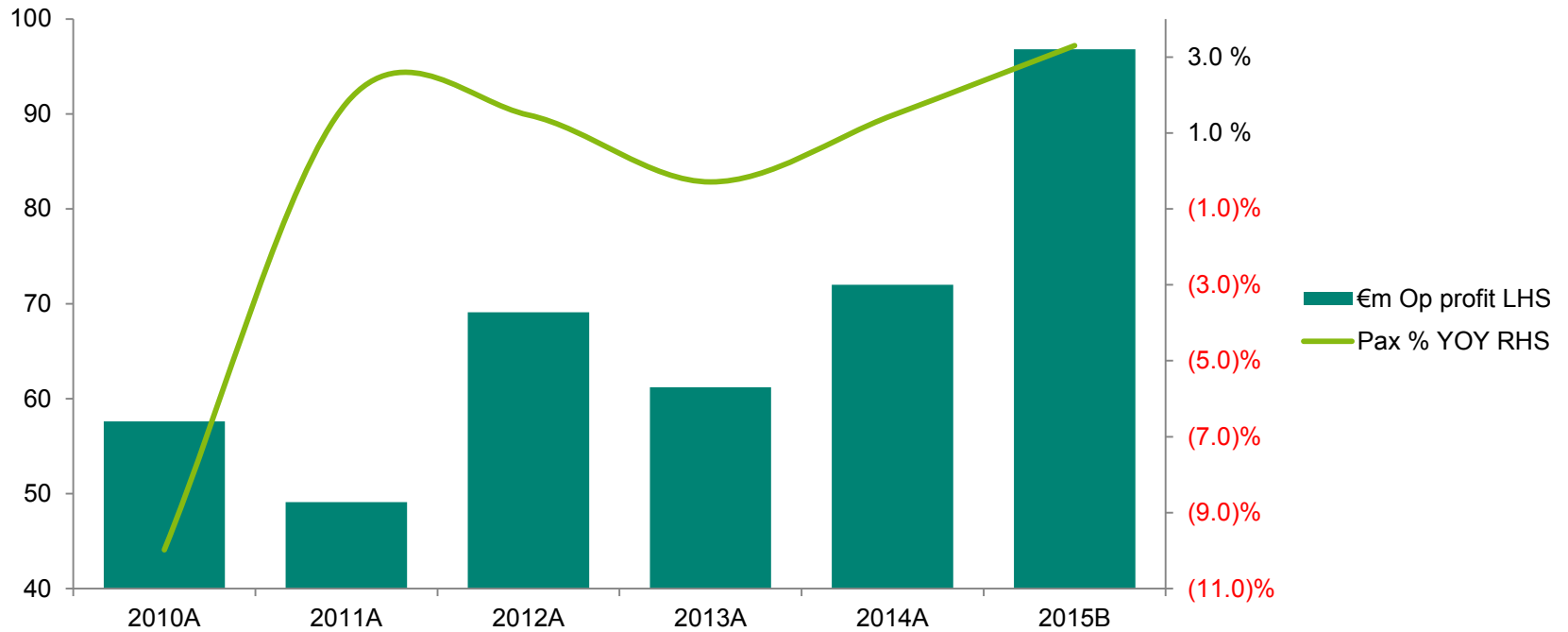
	Rolling 12m*	2016-2020
Lease adjusted operating margin (%)	12.6%	12-15%
Sustainable through the cycle RoIC (real terms)	13.6%	Targeting 15%
ASK growth per annum	15.5%	10%
Fleet (period end)	101	147

\* Rolling 12 months up to Q3 2015



# Aer Lingus

# A record of profitable growth



	2011 Act	2012 Act	2013 Act	2014 Act	2015 Bud	CAGR
SH RPS* €	5.5%	3.9%	(1.2%)	2.5%	1.7%	1.7%
TA RPS* €	4.0%	16.6%	(0.2%)	7.2%	2.9%	3.4%

\* RPS = Passenger revenue per seat flown

# Positive Q3 performance



ASKs

RPKs

RASK

CASK

+8.9%

+11.7%

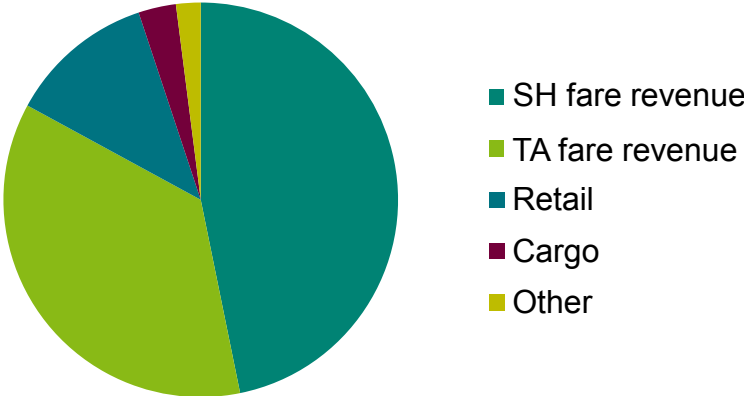
+3.7%

+0.1%

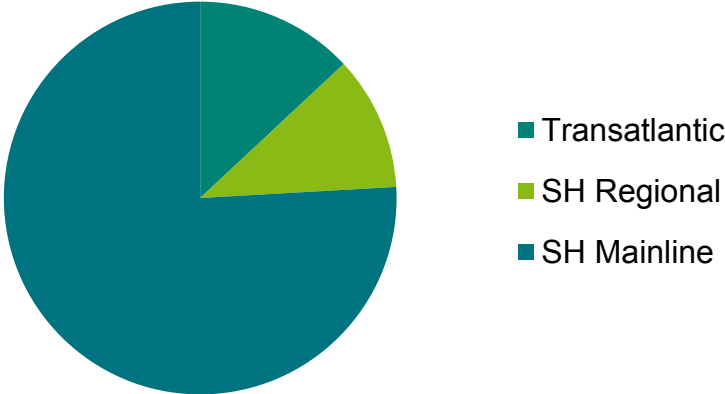


# Commercial overview

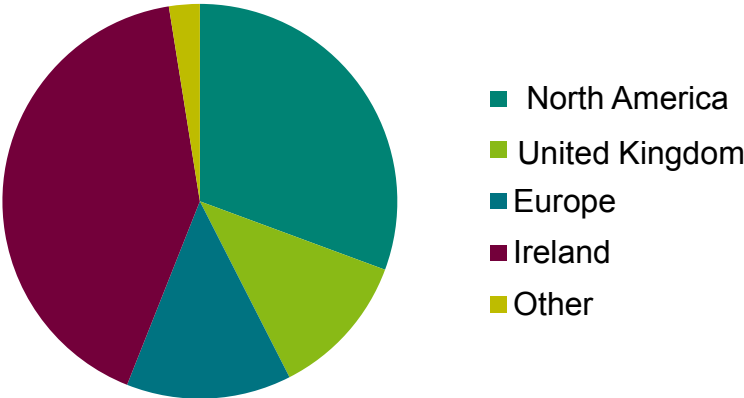
Revenue by segment



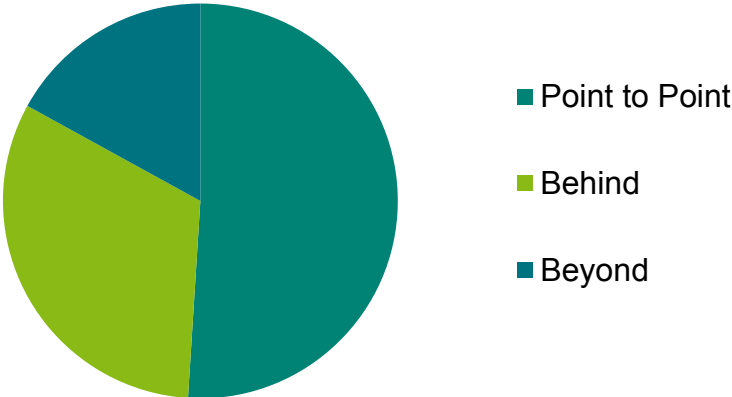
Passengers by network



Fare revenue by sales region

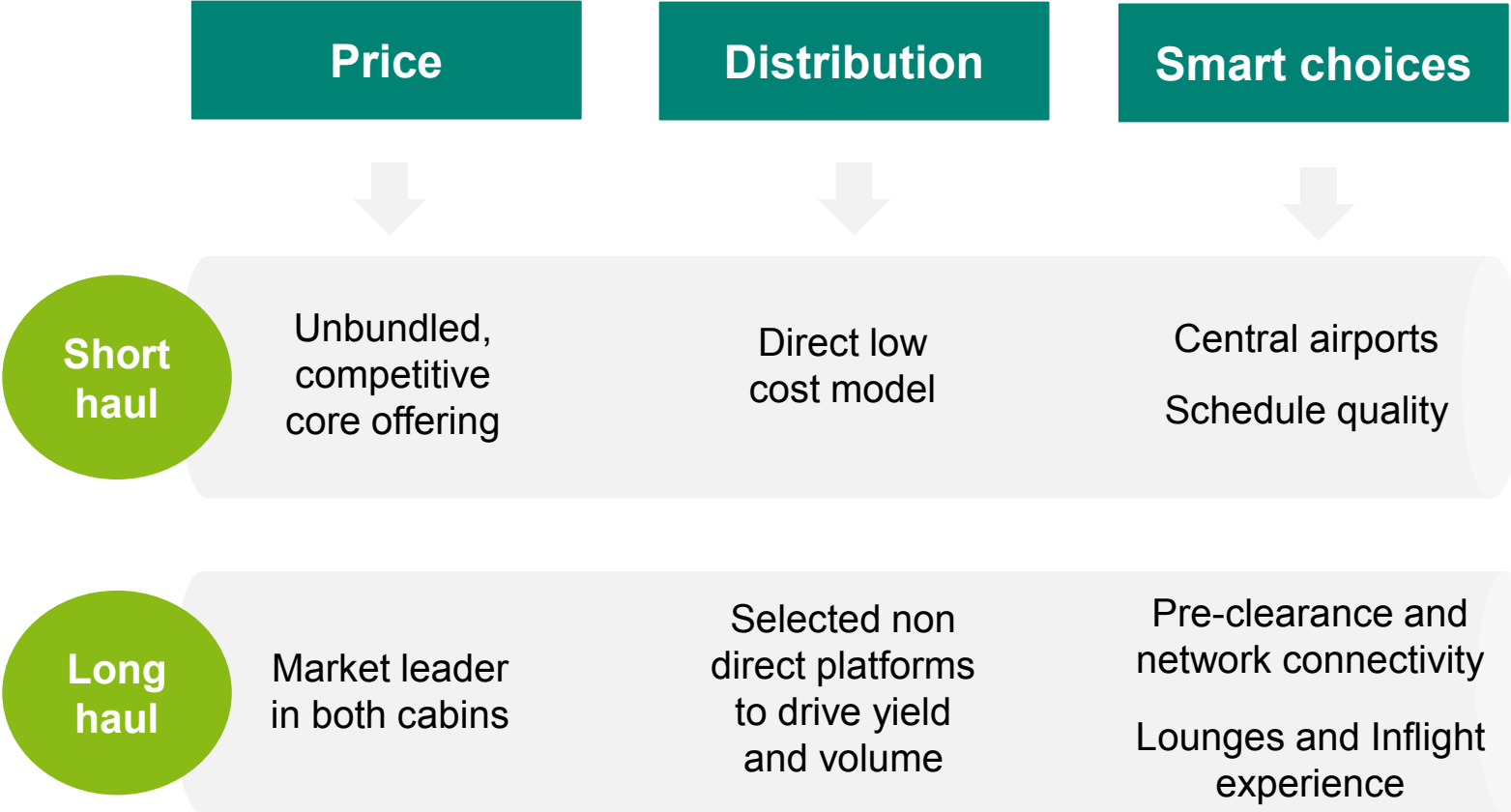


Transatlantic network flow



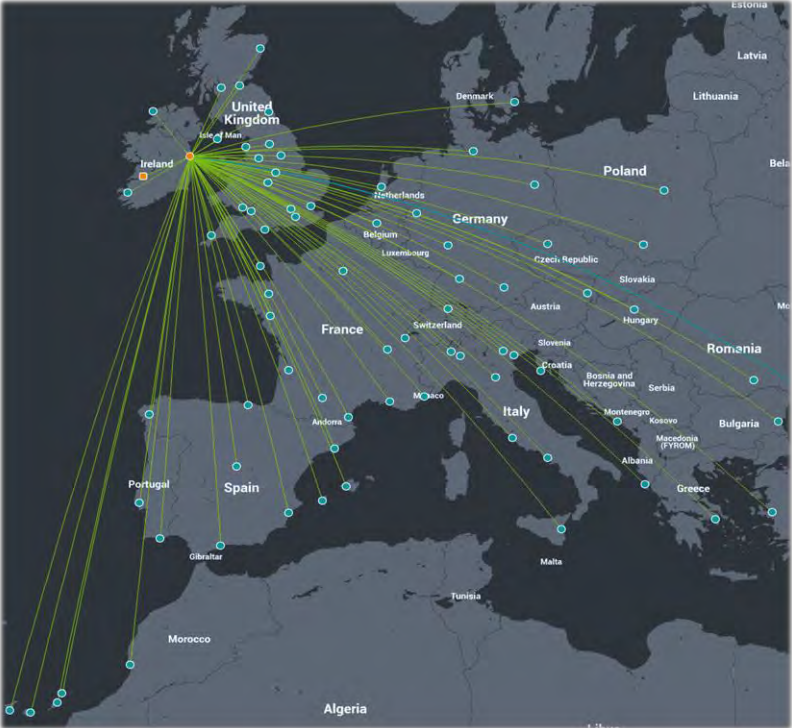
\* Data is rolling 12 months to Q3 2015

# Positioned as a value carrier

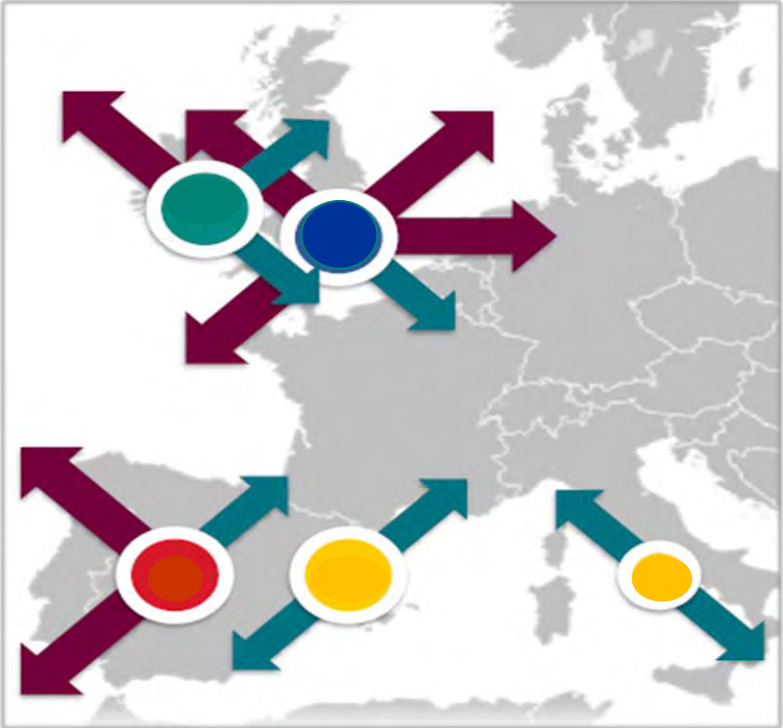


# Home market strength

Competitive in scale and scope



Hub to hub coordination will drive additional connecting flows



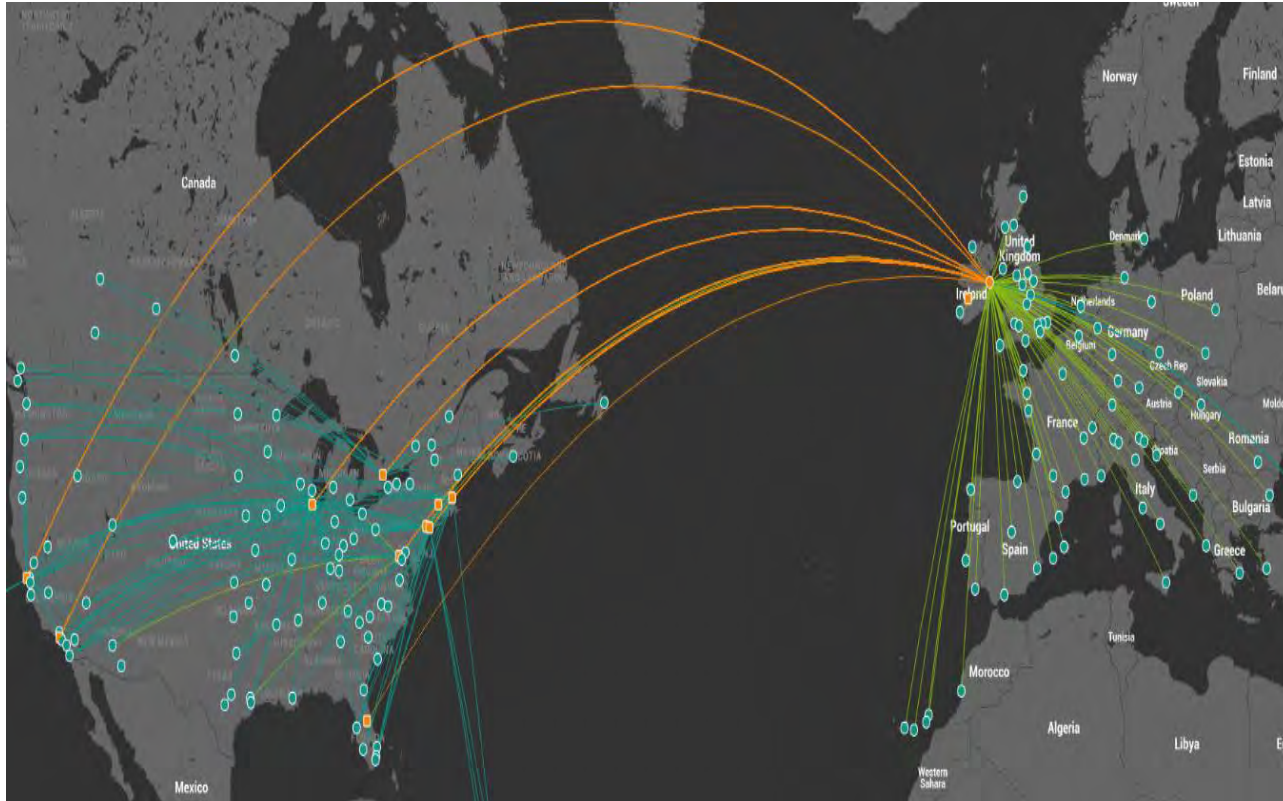
# European fleet

		Units	Density	2016 Change
Mainline	A319	4	144	-4
	A320	30	174	+4
	A321	3	212	-
Regional	ATR	11	48-72	-

- Commonality with fellow IAG Operating Companies
- Single cabin high density configuration (96% of maximum)
- 53% owned / 47% operating lease with flexibility to respond to opportunities
- Average age 9.6 years
- Regional capacity provided via Franchise Agreement with Stobart Air

# A compelling gateway

Powered by geography, cost and opportunity



.... leveraged by IAG

- Enabling accelerated growth
- Network expansion through code and AJB
- Yield opportunity through Avios and expanded Corporate relationships




IAG

Aer Lingus

Geographical reach

Aer Lingus 

# Efficient Transatlantic production

	Density		2015 Fleet	2016 Fleet
	Business	Economy		
 <p><b>A330-300</b></p>	30	287	4	+2
 <p><b>A330-200</b></p>	23	247	4	-
 <p><b>B757</b></p>	12	165	3	+1

- Two cabin high density configuration (79% of max)
- A330 88% owned / 12% operating lease
- Procurement synergies have already been delivered in first transaction
- Flexible B757 solution with capacity damp-leased from Air Contractors Ltd.

# Our priorities

RoIC

Efficient growth and appropriate investment strategy will drive improved RoIC

Gateway

Exploit the potential of the Dublin gateway between Europe and North America

Home market

Improve margin per seat by driving load factor supported by per passenger retail revenue and enabling technology

Cost reduction

Benchmarked to market with delivery critical to success

# Cost reduction

## Context

- Continued short-haul price point and cost pressure from competition
- Narrowing points of differentiation
- Cost relevance is market relevance

## Opportunities

- Airports and ground handling
- Fleet
- Maintenance
- Procurement
- Overheads
- Labour productivity

## Deliverables

- Pre-integration €7 cost per seat target
- Efficient growth
- Reduced complexity
- Improved operational performance



# Aer Lingus and IAG

## What we gain

## What we deliver

RoIC

Accelerated growth under Group ownership

Immediate return on investment and flexible platform for growth

Gateway

Increased selling power and O&D coverage

Strengthened leadership position on North Atlantic

Home market

Increased feed opportunities between major Group hubs

Coordinated hub to hub flying to optimise flows and home market position

Cost reduction

Access to scale and shared services increases potential savings

Further scale provided by a cost efficient network carrier added to Group

IAG

Aer Lingus

IAG opportunities

Aer Lingus 

# Aer Lingus targets aligned with IAG targets

	Rolling 12m*	2016-2020
Lease adjusted operating margin (%)	10.9%	10%+
Sustainable through the cycle RoIC (real terms)	7.7%	Targeting 15%
ASK growth per annum	4.6%	7.7%
Fleet (period end)	49	58

\* Rolling 12 months up to Q3 2015

IAG

Aer Lingus

Targets

Aer Lingus 

# Appendix

# Definitions

## Equity Free Cash Flow:

EqFCF = EBITDA - cash interest - cash tax - CAPEX

## RoIC:

Numerator: EBITDAR - inflation adjusted depreciation - (leases x 0.67)

Denominator: fleet tangible fixed assets (inflation adjusted) + non-fleet tangible fixed assets + (8 x leases)

# Disclaimer

Certain statements included in this report are forward-looking and involve risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such forward-looking statements.

Forward-looking statements can typically be identified by the use of forward-looking terminology, such as “expects”, “may”, “will”, “could”, “should”, “intends”, “plans”, “predicts”, “envisages” or “anticipates” and include, without limitation, any projections relating to results of operations and financial conditions of International Consolidated Airlines Group S.A. and its subsidiary undertakings from time to time (the ‘Group’), as well as plans and objectives for future operations, expected future revenues, financing plans, expected expenditures and divestments relating to the Group and discussions of the Group’s Business plan. All forward-looking statements in this report are based upon information known to the Group on the date of this report. The Group undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

It is not reasonably possible to itemise all of the many factors and specific events that could cause the forward-looking statements in this report to be incorrect or that could otherwise have a material adverse effect on the future operations or results of an airline operating in the global economy. Further information on the primary risks of the business and the risk management process of the Group is given in the Annual Report and Accounts 2014; these documents are available on [www.iagshares.com](http://www.iagshares.com).