

IAG event recording

TRANSCRIPTION

Time-codes**Dialogue**

Video start*****

Opening Film

00:00:02:15

Voice Over

Whether it brings friends and families together, breaking down cultural barriers, supporting businesses, flying precious cargo or bringing people home to their loved ones. We have the privilege of being a force for good in the world. With a network of 250 destinations across 90 countries, our airlines connect the globe. And those connections are what connects us too. Together

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we are united by our passion to deliver for our customers. Which is why we are prioritising what we know matters to the most, and rewarding them for their loyalty. We are investing in new, more sustainable aircraft. Upgrades to our lounges and cabins, and specialised cargo facilities for the businesses that need our services, working with digital tools and new technologies, that

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help make our businesses more efficient. We were the first airline group to commit to net zero and have a road map to get there, so that we continue to do what we love and what our customers rely on us for. IAG, connecting people, businesses and countries.

Video end*****

00:01:28:39

Stuart Morgan

Good morning everybody and welcome to the IAG Capital Markets Days 2023. I'll be very brief. Usual safety briefing. Emergency exits. I'm not very good at this, I'm not well trained but there, there and there. There's no scheduled fire alarm drill today so if you do hear the fire alarm, please make your way out as quickly as possible. We've got an app for today. Hopefully,

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everybody's been sent the the app. If you haven't, there's a QR code on your table. There's a function on there that will allow you to put Q&A through the day into that and we'll come to it at the end. We've got one long Q&A session at the end. So, as I say, if you want to put your questions in there, we'll make sure we come to all of those as we get along with things. Our agenda for

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today: We're gonna talk about the leading positions we have in highly attractive

growth markets; we're gonna talk about our world-class brands that all operate in those markets; we're gonna talk about the loyalty programme that IAG has and the opportunity we have in that business; we're gonna talk about how we're transforming everything across the business, delivering a

00:02:40:37 step change in what we do; leadership and sustainability is a key thing we need to do as an airline, as an industry and we'll show you how IAG is a leader in that in the industry; and then, finally, our discipline capital allocation will lead to our intention to maximise shareholder returns. Just very quickly on the timetable, this is the running order. There'll be a coffee break at around

00:03:08:44 ten 30. Adam will give you the details on that later. Please go and chat to some of our colleagues who are at the back there during those meetings, during those breaks, they're all very experienced and know an awful lot about what they do. So, I think a key part of today is during the coffee break and during the lunch break, is is talking to those people. So, without further ado,

00:03:34:41 I will introduce you to Luis Gallego, our CEO.

00:03:42:02 **Luis Gallego**

Thank you very much, Stuart, and good morning everyone. To this Capital Markets Day, the first one since 2019. At that time, we talked to you about our unique business model and our resilience in case of a downturn. We didn't expect a pandemic after that, to to be honest. But we have successfully proved that what we told you was true. We are proud to tell you that we are

00:04:27:10 coming back to a strong profits and recently we recovered both in IAG and in British Airways our investment grade ratings. So, our strategy delivered what we thought. However, last year, we decided to review our strategy in the context of the post-Covid environment and the conclusion of the exercise was that we only needed a slight update in what we call our strategic imperatives.

00:05:02:21 So, let's talk about our strategy. First, we want to strengthen our core. We want to strengthen our positioning in our core markets. In particular, we have a big focus on America Latina. We are strengthening, also, our portfolio of world-class brands and operations. This means that we are investing in the customer proposition and we have a significant opportunity mainly in British

00:05:35:00 Airways. And we also think that there are opportunities to what light, capital light growth through partnerships and alliances. The second pillar of our strategy is to

drive earnings through our capital light businesses and, in particular, IAG loyalty. This is a high growth, high margin and cash generative business that also provides a lot of value to our airlines. And the third pillar is

00:06:09:03 that we want to ensure that IAG is a financially and operationally sustainable business. We'll continue to ensure that our balance sheet is strong, that we are disciplined with our capital allocation and we are going to continue leading the industry through the net zero emissions by 2050. And transformation is what underpins everything. We are creating a step-change in the way we do

00:06:39:23 the things across the organisation. We are using our proven structure and the business model in order to help the different airlines to reach their full potential. We are investing in the network, we are investing in our customers and in the operations. We are also driving efficiency and investing in innovation, IT, artificial intelligence and data. And last, but not least, we are

00:07:08:32 doing this with a team that has unrivalled experience in leading and transforming businesses. This strategy will deliver sustainable growth, world-class margins, sustainable free cash flow generation, increasingly a strong balance sheet and this means that we are committed to maximise shareholder returns through dividends and, when the conditions allow,

00:07:40:25 additional returns. We have four near term strategic priorities. I have already talked about transformation which now is centrally driven by IAG. The aim is very simple: all our businesses must reach what we call their full potential. The approach is not only focused on cost, we attack all the angles of the companies: revenues, efficiency, innovation, etc. And we have a successful

00:08:15:31 track record of transformation in this group. We are going to leverage these transformations that we did in Spain, delivering over 1.5 billion euros in operating profit from our Spanish businesses. This is going to provide a more balanced group and a bigger diversification of profits across the IAG portfolio. We will continue investing in British Airways. We are going to invest in order

00:08:46:14 to deliver higher customer satisfaction, that is going to lead to higher higher profits and margins. And lastly, IAG Loyalty is not going to be any more an IAG platform company, they are going to be more important in some way for the group. We are going to develop IAG Loyalty as a priority for us. As I said before, they are delivering high margins and is a capital light growth

00:09:18:31 and they will deliver sustainable cash flows. And one thing that I think is important

also for them is the least seasonal of our businesses. Underpinning all this, we are going to have a priority that these to have a very strong balance sheet in the core of everything we do. IAG will have a proven business model. You know that we are an active portfolio manager. We have

00:09:48:04 excellent airlines attending different market segments and customer segments but the model that we have is not similar to the model that others have so from the group we find corporate portfolio, we allocate capital and we also do what we call the performance management. The concept of capital allocation is critical for this group. We are independent when we make capital

00:10:19:07 decisions. For me, this is what we call the secret sauce of IAG. We are going to drive also value through M&A partnerships and joint businesses. We are going to drive top talent manager-- management, sorry. We are going to ensure that we have the right people in the right place. We will continue driving the sustainability agenda, facilitating also capturing more synergies

00:10:50:29 at group level and we will drive innovation. And in the operating companies, they will continue having accountability of the P&L, commercial and operational independence. They will manager customer proposition and they will look locally the management of the people and labour relations. And all this is underpinned with our group platforms that you know are centres of

00:11:21:10 excellence that bring a specific expertise or drive the benefits of the scale. And you can see here the management committee. You can see it's a very experienced and diverse group. Some of the members, they can within the group, with our track record of delivering transformation in the different airlines they were before. And some of them, they come from outside and

00:11:52:21 they are bringing different perspectives and different experiences. I think what is critical in this group is that they are a very collaborative team. Teamwork is in the DNA of our leaders. We share knowledge and we share best practices in order to help all the airlines to reach their full potential. Every week, we have a meeting together and we have the opportunity to have an internal

00:12:21:38 benchmark. That's very important for the group. And it's worth noting that all the CEOs in the different airlines, they come from other parts of the group. So, for example, Sean Doyle, he was the former CEO of Aer Lingus. Fernando Candela, he was the former CEO of Iberia Express, Iberia and he launched the transformation area that I talked before in 2020. Lynne

00:12:50:02 Embleton now is the CEO of Aer Lingus, before she was the CEO of Cargo and she was Managing Director of BA Gatwick. Marco Sansavini, he was the Chief Commercial Officer of Iberia in the time where we did the big transformation of the company. So, you can see in the following slide that a strong historical performance of the different companies in the group. And this

00:13:19:06 has been done for these people. So, the right strategy implemented by an experienced management team working together has made possible that IAG is coming back to our leadership position in financial performance but also our balance sheet is stronger and we are generating higher margins than our peers. And I think a relevant question is why invest in aviation? We have two

00:13:56:08 slides to remind you that this is, this, this sector has been always a long term secular growth sector. This industry has been always a growth industry. Even a global pandemic has changed the long term growth trajectory of the industry, as you can see in this slide. And on the right hand side, you can see some of the drivers of that growth. Travel is an increasingly priority for the

00:14:30:45 younger generation but travel is a priority for everyone, mainly after Covid. So, in the aviation sector, low barriers to entry and also the rational deployment of capacity has historically been the two key headwinds that we had in order to generate returns above our cost of capital. I think all this changed after the global financial crisis and since then industry has been

00:15:03:35 much more rational. It's hard to see now irrational behaviours but I think additional to this we are going to see a period of time where we are going to have even more constraints to enter in this sector. So, we have, for example, a shortfall in aircraft deliveries. During the pandemic, aircraft manufacturers, they had to stop their production and they are still trying to building back the

00:15:35:14 production to the levels that they had before. Second, you know that there are some issues with some types of aircraft and engines and there is a lack of maintenance capacity to absolve all these challenges. For example, I'm sure we will talk later about the problem with Pratt engines, the GTF and the impact that can have in the [UNSURE OF WORD] operation. And you can

00:15:59:47 see from the right chart, the right hand chart, sorry, that the current orders for the European network are barely enough to cover the retirements that we are going to have in the following years. And why invest in us? The total market to and from Europe is worth around 180 billion euros per annum in revenue terms. Around

85% of our passenger traffic is in the three attractive markets that you can see on the left hand side of the slide. Thirty-one percent of our traffic is en route to North America. Nineteen percent en route to Latin America and Caribbean, what we call LACAR, and it's a territory where I told you before that we have an opportunity to grow in order to generate the 1.5 billion euros from that sector in the world. Over a third of our passengers are in the European so-called market. And the remaining 15% is in the rest of the world, mainly dedicated to point-to-point operations. We are also based in some of the largest European hubs. London Heathrow is clearly the leader in Europe but Madrid is the fifth largest and Barcelona is the eighth largest hub in Europe and both of them, they have capacity to grow. The size and the positioning of our hubs in the western side of Europe also gives us a, a major competitive advantage in our core north and south Atlantic markets. This geographic position is ideal for passengers that they want to connect from Europe to the Americas. Likewise, our home countries have the biggest point-to-point flows to the most part of the America countries and this is very important in order to strengthen our hubs. And in this slide, you can see the framework that we use to allocate capital as a neutral parent between the different markets. The framework is based on the concept of profit pools and we look at these through different lens: regions, hubs and business unit. Our core markets of of US, London and Spain domestic should be of no surprise to you. Near-core market, markets are smaller but like our core markets also where we hold number one or number two market share position. Other markets, like India, are markets where maybe we are not the leader but where we have a competitive advantage and we have the potential to grow this profit pool. And we will select to grow in these market either organically, inorganically or through capital light alternatives. The North Atlantic is our biggest market and profit pool. We have a a leadership position with the largest network operating around 150 daily flights from all of our hubs and carrying 44 million passenger a year. Latin America is an attractive and fast-growing market where we have a very strong market share and where we are increasing our network. The transformation that we did in Iberia is allowing us to generate world-class margins and also to invest in the region. We are going to have more opportunities with the deliveries of the new 350s and also the 321 Xtra

Long Range is going to be an opportunity to develop new market that we couldn't attend in the past. And Brazil remains a market to develop for us.

00:20:26:37 So, Air Europa is an important step to deliver our strategy in the profit pool of Latin America. Air Europa can give Iberia the scale that is needed in order to compete with our competitors in Europe. It will provide great greater connectivity for our customers. We will add more [UNSURE OF WORD] and destinations to our network. And also the Madrid hub will increase competition

00:20:54:16 within the different hubs in Europe. This is going to be very good for our, for the customers in general. Also to have a bigger hub in Madrid is going to be better to compete with the big carriers all over the world and in the different regions. It's an opportunity also to have Madrid and to develop Madrid as a 360 degrees hub. Usually Madrid, we fly to the west but we have an

00:21:23:10 opportunity to fly to the east. And it's good to say that IAG, we have a very strong track record in acquisitions. So, in 2013, we acquired Vueling and we increased the number of passengers in 2013 by 43%, 70% in 2014 and 15% in 2015. In 2015, we acquired Aer Lingus and since since then we have incorporated new long haul aircraft, 40 new long haul aircraft and

00:21:57:48 transatlantic level now they have 19 routes in operation. The deal of Air Europa also will provide a more sustainable company, both financially and environmentally. Outside of our core markets, mainly flying to the east, we will fly to the main point-to-point markets. We talked before about India where we have strong cultural ties and we are going to have growth opportunities there.

00:22:36:45 We are considering organic growth and also leverage our partnerships in order to deliver incremental profits in a capital light way. In this slide, you can see the different colours which countries that area included in the different joint businesses. The largest of these is the joint business with Qatar Airways, that is the one that covers the major number of countries and Julio are going

00:23:03:09 to talk later-- is going to talk later about this. So, our group structure provides opportunity to grow in multiple ways. Organic growth, partnerships, or inorganic growth. You can see here everything we have done in the last year but at this point I want to talk about LEVEL. Before Covid, we had an AOC in France to operate from Paris, we had an AOC in Austria to operate

00:23:36:38 shareholder operations, and we were operating also long haul from Barcelona. During Covid, we cancelled the operations from Paris and Austria but we decided

to maintain our operations from Barcelona and, as you saw before, Barcelona is the eighth airport in Europe and has a huge potential. And now we are going to revamp the company, developing the aircraft

00:24:07:04 operating certificate, what we call the AOC, to operate long haul flights in the way we announced when we launched the company. This will allow us to be more efficient and will open new opportunities to develop the company. In regards to the short haul operations of LEVEL, we are considering to relaunch short haul operations with a new AOC but we are going to wait until we have

00:24:36:12 more clarity about the Air Europa operation before taking the final decision. Moving to our portfolio of world-class brands. Every brand is very strong in its own markets and focused on particular customer segments and you can see in the slide. So, growing our brands and customer proposition is essential to our network strategy. A reminder, day to day operations are responsibility for

00:25:11:10 the different up-costs. So, each one of them, they determine where to invest in order to differentiate their company from their key competitors and to deliver to the customer what they value most. We'll talk later about the different brands and investment we are making them. British Airways, I told you before, is an area of strategic focus. We are investing a

00:25:44:46 significant amount in transforming our IT, our commercial platforms, our customer proposition and our operations. Particularly, we have a big focus in Heathrow. So, delivering this, we will delivery higher customer satisfaction, higher profits and higher margins for the long term. And we have the best Europe's Loyalty programme. So, IAG, IAG Loyalty has become an

00:26:23:35 increasingly attractive part of IAG and they are generating external revenue of over one billion pounds and profit growth of ten percent per annum. This business is generating a strong cash flows, high profit margins and deliver capital light returns. We have over 40 million members and this provides the opportunity to build relationships with our customers and gain gain a lot of

00:26:53:23 insights. And, as I said before, it's the least seasonal of our businesses. IAG is another key component of the group that is going to help to improve our margins, generate cash flow and achieve our return objectives. And IAG, we're having always the leaders in the path to net zero emissions. We were the first group worldwide to commit to net zero emissions by 2050 and we

00:27:25:44 remain committed to this target. We have a clear pathway to arrive there and we

investing in new aircraft, sustainable aviation fuel, carbon removals etc. We are doing everything that's in our hand to comply with this target but it's true that we remain still dependent on government policy, particularly incentives to develop the production of SAF, SAF. Our people, our people is

00:28:01:41 key in all this. In order to be successful, people is a clear differentiator. We are investing in our people, giving giving them the skills that they need in order to improve the customer experience. We are closing multi-year agreements with the different collectives of the company and this is going to give us stability in order to develop an efficient growth. So, this is my

00:28:34:15 last slide before the team, they are going to explain in more detail what I told you before. So, we will focus on deliveries, sustainable growth through distributing investment in our core markets. We are going to invest in our brands, our customers and our operations. We are investing in our capital light businesses and in particular IAG Loyalty to deliver high growth,

00:29:05:05 high margins and higher cash generation. And all this is supported by our transformation programme that now is embedded in the group and across all our businesses. And this means that our financial targets for the medium-term remain the same. Margins between 12 and 15%, return on invested capital between 13 and 16%, ASK growth will be at 2-3% percent

00:29:37:31 once we have reached a steady state and, as I told you before, we remain committed to have a very strong balance sheet. So, for our shareholders, our commitment is to have an earning per share growth, return to paying an ordinary dividend and the opportunity for farther shareholder returns. And now I'm going to hand over to Sean, Lynne, Marco and Fernando to talk about our

00:30:13:32 global leadership positions.

00:30:28:42 **Sean Doyle**

Thank you, Luis. We're going to do a run through a number of slides and we'll expand on suppose the framework that Luis presented earlier which is about the discipline of capital allocation that we have in IAG. And we have core profit pools which underpin the cash generation and the sustainable returns in the business and we'll go deep on the US today and highlight the

00:30:49:26 characteristics of that market and the competitive advantages we do have. We'll also talk about the emerging business and the exciting opportunities in southern

Atlantic and we'll talk about domestic and into Europe which Marco will take us through. But this is our framework and what you see here is okay. What's very important to maintain share and grow and

00:31:10:10 prioritise. Well, the US is critical. You know, we're very well positioned to capitalise on our hubs, our geographic advantage, our language advantage and our partnerships. So, North Atlantic will continue to be a bedrock of our investment strategy and we're very confident about the returns that we'll generate there. We also, you know, serve that market out of a number of

00:31:33:01 hubs. So, all of our hubs, we serve the North Atlantic and it's also supported by the value we generate in our business units. So, loyalty, a critically important part of our customer penetration and, of course, the profit of the operating companies. Now that doesn't rule out investment we will make in other opportunities. So, markets like West Africa, South Africa are very

00:31:54:25 important to the BA franchise and also we have opportunities in potential future profit pools that we are very excited about, namely India. But this is kind of, I suppose, the prioritisation of where we channel our investment and we'll talk through some of the opportunities and characteristics of that. If we look at the Europe market to the US, it's the biggest single market. About 29%

00:32:19:44 of all revenues are generated from this segment. This is rolling 12 months into quarter two. I spoke about the fact that Dublin, Heathrow, Madrid and Barcelona are very well positioned to flow traffic into southern and northern Europe. Now, we also have opportunities to flow traffic into rest of the world markets like Africa and the Middle East and, of course, our cultural links and

00:32:41:35 our language is again a very powerful lever that we do have. We also have developed with Finnair and American the largest joint business across the North Atlantic. A number of gateways that we can serve over the US, fantastic loyalty, reciprocity and that's been a very very strong lever for growing this business over the last 12 years or so. And because of our hub presence in

00:33:06:35 places like Heathrow, Dublin and Madrid, we also have an opportunity in terms of penetration of high value premium markets. So, large profit pool and a very, very important lever for cash generation. To kind of illustrate the importance of the profitability of the North Atlantic, these are our top ten routes and I guess people can guess number one. But the point we're making

00:33:31:41 here is seven of our top ten are across the US market. And if you look at the

colour coding, that is the absolute profit generated by operating company. It's not just all about British Airways here, you can see Aer Lingus and Iberia have very, very important profit pools which overlap with profit pools that BA will have. So, at a root level, again, you can see the diversified portfolio by

00:33:57:01 hub and brand. We have, when you add it all up this is again a very, very important part of our portfolio. And, sorry, final slide from me. I mentioned premium. You can see here the US IAG penetration at a premium market outweighs anything we see in the US industry and is much, much bigger than we see in the rest of world industry. So, that is underpinned by things we will

00:34:24:36 talk about later in more detail but a strong ground experience, making sure that we have lounges, check-in, premium, curation, all of the things we're investing in to make sure that we are very competitive and relevant to that segment. And secondly, making sure that we have leading products in the air. So, BA has first-class which is becoming a USP across the North Atlantic and

00:34:47:09 of course we have got privacy suites in Iberia in British Airways. American have been putting huge investment into their product and as both IAG and a partnership, we're very committed to making sure that we can compete effectively for this very, very important premium segment. Lynne.

00:35:07:30 **Lynne Embleton**

So, US is the biggest long haul market from Europe. It's a market that matters across IAG and a market where we have a natural advantage. And Sean talked about the the premium nature of that market and, of course, that's not equal across all of the European cities, but with IAG's portfolio of airlines, we can adapt to the different market characteristics that we see. So, if you take

00:35:31:15 London and UK, it's a phenomenally premium market and BA can design its airline around those market characteristics. So, Sean mentioned the first-class cabin but what we also see is the way in which the aircraft are deployed and the seat configuration means that they can tailor to that premium market. So, more than one in five of the seats on the BA North Atlantic is premium.

00:35:56:15 Now on the Spanish and the Irish markets, it's not as premium and so what you see is that's reflected in the Iberia fleet and the Aer Lingus fleet where roughly one in ten of the seats there are premium. And it's important to know that for for the business cabins, we're targeting the business traveller but we're also

targeting the premium leisure traveller and it's that dual purpose in
00:36:19:43 those premium cabins that allow us to have high seat factors all year round. The other important thing on this slide, key point to note, is how the fleet is changing across the Atlantic. It has changed and it is changing. So, those fuel-thirsty 747s, the fuel-thirsty A340s and the 757s that we had, have all exited and as we transition to a modern fleet, we get all of the customer
00:36:46:15 benefits, the fuel efficiency benefits and, of course, the environmental benefits that go with that. Now, IAG is fortunate to sit on some of the biggest markets from Europe to the US and that, of course, is helped by that historical connections, particularly Ireland and the UK, and when we take UK and Ireland and Spain together, we account for a third of the US Europe revenues.
00:37:16:39 And on the right here you can see that the market has consolidated around three large joint businesses. Now, we don't think this reduces competition but we do believe it makes the market more rational. And our joint business that we established some 13 years ago, it's deepened and it's strengthened over that time and our joint business is the leader in that market. So, with strong
00:37:42:21 home markets in point-to-point demand, with a great partner and with a geographical advantage of our hubs on the west of Europe, we are ideally placed to win in this market. And you can, you can see that in our network. We've got more destinations in the US than either the Sky or the Star joint businesses. And if you look at the map, the paler dots, if you can see them
00:38:04:40 there, they're the destinations and the routes that we had before the joint business and the darker colours are the ones that we've developed since. So, you can see an incredible growth in our network across the Atlantic and this includes markets that we've already announced for next year, LEVEL for, Miami for LEVEL and Denver for Aer Lingus. And the important thing is,
00:38:24:41 across the airlines, we all see plenty of profitable opportunities and growth in this market. And we can get at that growth, helped by a new tool in the tool kit come next year as we welcome the A321 XLRs into the fleet. This is for Aer Lingus and it's for Iberia and these aircraft are narrow-bodied Xtra Long Range. And we really like these aeroplanes. We like them for three reasons.
00:38:51:45 We like them because they are smaller, which makes it ideal for entering into secondary cities or smaller markets that aren't over-served by other carriers. With them being small, they're also great for adding frequency without doubling

- capacity in the market; and they're really useful for Iberia to as they can match the seasonality between North and South Atlantic. So, we like
- 00:39:12:47 them because of their size, we like them because of their costs. Unsurprisingly, they are significantly more cost-efficient than the older generation 757s you can see on the slide that they replaced. But, importantly, they're also cost-competitive against the larger wide bodied aircraft that we deploy across the Atlantic. So, that gives profitable economic growth for us.
- 00:39:36:16 And we also like them because of their range. So, these are getting into more cities than we're able to do with our existing 321 LR aircraft. And it's important that the-- to emphasise that, that advantage of geography is much more important for us at IAG, being on the west of Europe, than it is for other airlines where this aircraft simply doesn't get into as many markets in the US.
- 00:40:02:12 So, to close the US profit pool, it's important, we have a leadership position, it always have been a key key market for IAG, it is today and we're very confident it will be in the future. So, to hand to Fernando to talk about South Atlantic and Latin.
- 00:40:21:01 **Fernando Candela**
- So, moving into Latin America market. This market is increasingly attractive. It's smaller in terms of size, in terms of contribution to the total profit but growing really, really fast. And it's a major component of the 1.5 billion that Luis mentioned before which is the target operating profit for the Spanish business this year between Iberia, Vueling and LEVEL.
- 00:40:42:21 So, like the US, our hubs are geographically well positioned to to Latin America and also Spain has a strong cultural link with the Latin America region. Madrid, as you can see in the right hand side of the slide, is the most important hub to Latin America. It's more or less, it's more than twice the next biggest hub in Europe to Latin America which is Paris Charles de Gaulle and
- 00:41:03:38 in conclusion, this advantage allows us to give us the ability to have a leadership position in the Latin America market. We are servicing a Latin America market with three, with three brands. We are operating from Madrid with with Iberia, it accounts around 43% of our total revenues and it's an important part of the, of the total profit of Iberia. Also, from Barcelona, we're
- 00:41:26:28 operating with with LEVEL in collaborations and it's 45%. It's 50-50, more or less,

Latin America, North Atlantic from Barcelona and it's a strong opportunity to to growth, as Luis mentioned also before. And British Airways is less, is less important. It's, it's small relative weight but also it's a key contribution to this profit pool serving the largest point-to-point

00:41:47:00 destination from London to Latin America. We do believe that Iberia's improvement is structural. Let me, let me explain with these three, three aspects why we do believe that really this structural change in profit is something that that will remain. First, of the enablers, one of the key enablers is the [UNSURE OF WORD]. The new Airbus 350s are not only more

00:42:10:27 efficient and faster, are also more [UNSURE OF WORD]. So, it means that we have pre-Covid capacity, pre-Covid capacity with less planes, increasing utilisation and increas-- and improving our unit, our unit cost. So, Iberia has taken a conscious decision, as you see in the second, in the second part. We have the largest, the largest network from Europe to Latin America and we

00:42:31:30 took the conscious decision to recover capacity, weaker than our competitors, increasing our relative market share and now having a much more strong position than we had pre-- pre-Covid due to-- And you can see here in the, in the red points, we have increased capacity, we have increased frequencies, the best capacity we have in 2019. And third one, it's about the demand side.

00:42:53:17 We have a significant, a more Latin America citizens living in, in, in Madrid in Spain. Not only significant, 50% in the last five years. That's increased. And also the profile of the citizens is completely different. As you see below, Bloomberg has stated that Madrid is like the new Miami and it means that returning a significant increase in the demand in the premium leisure demand

00:43:14:35 in travel, in hotels and also the real estate investment, for example, in Madrid. It's driving why are achieving these sustainable high guarantees and high growth revenues. And also one area of Latin America that Luis mentioned before is is Brazil, it's an opportunity that is untapped. Another growth opportunity, we will want to take full advantages, is LEVEL in Barcelona, the

00:43:36:29 whole growth in in Barcelona. As a reminder, we have started this operation in 2017. At that moment, some long haul low cost projects were launched in in Europe, pioneered by by [UNSURE OF WORD]. They have some examples of airlines that lends this this model but they are attempting to operate with this model but most of them has been unsuccessful. However, the same

- 00:43:57:02 cannot be said about about LEVEL. LEVEL is [UNSURE OF WORD] a double digit profit margin and there are some keys behind the the success of this, of this operation. Not only the competitive cost base, also the huge transformation programme that the team has run during those years. But also one of the group advantages, IAG's extensive presence in Barcelona, the
- 00:44:14:24 Vueling network we had in Barcelona that allows us to, to fly around 20% of our long haul passengers coming from a Vueling short haul flight to Barcelona. Currently, LEVEL has five aircraft. The next phase of LEVEL growth is to have around eight planes by 2026. And also we're excited with this new growth and also with the opportunity to develop this operation with a new AOC and new
- 00:44:35:16 aircraft operating certificate that will be launching in Barcelona for long haul operations. As we mentioned before, not only the structural benefits of the 350s and as Lynne introduced, the arrival of the 321 XLR Xtra Long Range will bring a huge opportunity also for the operation from from Madrid and the next phase of growth in Latin America. The Xtra Long Range not only allow to
- 00:45:01:45 be frequencies, allow us to open new destinations and to allocate capacity, more capacity to Latin America without additional, additional [UNSURE OF WORD]. The map on this slide show you the number of growth opportunities we have in Latin American, enhancing our network with secondary cities and also increasing frequencies in the current destinations.
- 00:45:21:22 Growth here will be a combination of organic growth, organic growth through partnerships and also, in addition, the organic growth through the acquisition of Air Europa that is is now subject to regulatory approvals. So, I hand over to to Marco to cover the European part.
- 00:45:45:16 **Marco Sansavini**
- Thank you, Fernando. So, after having heard from Lynne and Sean about our global, global leadership position in North America and now from Fernando about the leadership position we hold on Latin America, here we are with the other two regions, Europe on one side and the rest of the world. And as Luis mentioned at the beginning, in Europe, we have the third core profit pool that
- 00:45:56:46 we have as a group, represented by Spain Domestic but also we have a number of near core markets, such as London Gatwick, or profit potential pools for the future and equally in the rest of the world. So, if we start from the European flows,

you can see from this chart a representation of the different markets. And, as Luis mentioned at the beginning, the total Intra-European market represents 180-- Sorry, the total European market represents 180 billion euros of which the Intra-European one is a third, around 66 billion. You can see it here represented in this chart, through the international flows and the domestic markets. And you can see in red the ones that touch one of our home markets. And you can see that the largest single international market in Europe is the one between Spain and UK. You can see the nine out of the 11 largest international markets are touching our home markets and you can see that the single largest domestic market is Spain. And no surprise, therefore, that Spain domestic is one of our core profit pools. You can see from this chart, they entered very graphically. In blue, what is our leadership position or relative position in the main Spanish airports, and you can see in grey what is our relative position in the international flows. And you can see that we hold an absolute leadership in all the domestic traffic throughout Spain and we have a very strong position in the international flows and outcomes. It comes thanks to the fact that we have a unique combination of, at the same time, a leading network carrier and two very efficient and competitive low-cost carriers being Iberia Express and Vueling which provide, at the same time, a platform to compete very effectively with low-cost carriers point-to-point traffic and connecting traffic to the hubs in Madrid and Barcelona. And they combine it with an absolute operational excellence. Iberia Express and Vueling have been repeatedly the first and the second top performing low-cost carriers in punctuality throughout, well, in in in the current year, for instance, and with a more than ten points advantage versus our low-cost carrier's competitors. And that is very instrumental to our cost competitiveness because that allows us to have a higher utilisation, less backup resources and, of course, lower EU261 costs and, next to that, of of course combined with a very very strong brand recognition. So, no surprise about our core profit pool in Spain domestic but what about the rest? Now, if we look at our total footprint as a group in short haul Europe, you can see that almost 50% of the fleet is deployed in fact on low-cost carrier operations. We have 400 aircraft of which 197 are deployed to feed our network carriers so these are the short and medium haul operations of Aer Lingus, of British Airways, or Iberia, but next to that we

have 190 aircraft dedicated to not only the Spanish low-cost carriers, but also the growing initiatives that we have in the rest of the network. In particular, you might know about the launch of EuroFlyer two years ago that

00:49:04:20 established the low-cost operation in London Gatwick where BA conceded that the best vehicle to compete and grow in London Gatwick was a low-cost carrier operation. Therefore, the total portfolio that we have of low-cost carriers in Europe allows us to look at growth opportunity with a lot of confidence. Even though, at a different stage, Iberia Express is ready to grow

00:49:24:29 in Madrid, in Spain, Vueling has a big potential to grow but at the moment, it requires, in order to unlock these growth opportunities, to achieve sustainable collective [UNSURE OF WORD] agreement with all our labour groups and we have significant opportunities of growth, as I said, both with EuroFlyer in London Gatwick but also with CityFlyer in London City, that, as you know, is

00:49:47:13 the point-to-point core operator market that CityFlyer helps to address. So, that gives you a sense of our core current profit pool and the potential future profit pools that we have in Europe. What about the rest of the world? Now rest of the world, as Luis was also indicating at the beginning of the presentation, is an area that encompasses Africa, Asia, Middle East. So,

00:50:12:01 highly attractive markets where our way to grow is primarily through asset light joint businesses that allow us to have a very, very broad depth without having to invest too much capital to reach it. You can see here, the three joint businesses that help doing that: the cooperation with Qatar Airways in the Qatar joint business, the cooperation with Finnair in Japan Airlines in the

00:50:34:02 Siberian joint business and with China Southern in the China joint business. And you can see the, the, the depth that that allows through the the map that we have in front of you. Now, I'd like to focus one second a bit more deeply on the Qatar joint business because it's pretty unique in the industry. In fact, in the Qatar joint business, next to the traditional network synergies for

00:50:56:36 consumer benefits that are managed through the joint business, you can see that we have also a unique partnership in terms of establishing a global loyalty currency in, in the sense that Qatar Airways adopted Avios and Adam will elaborate more on that as their global currency also for their loyalty programme as well as additional areas of cooperation in Cargo and in

00:51:22:47 maintenance activities and in procurement activities that allow us to develop more

opportunities to generate synergies. All in all, also we look at Qatar not only to expand our footprint all over in the Far East part but as Sean was mentioning, one of the we believe potential future profit pool is India and the cooperation with Qatar is pretty much instrumental to enhance our footprint

00:51:50:15 over there. So, in summary, what we've been presenting to you in this section of the global leadership position is referring to what Luis was mentioning at the beginning. Not only are we emerging from Covid with world-class marginal returns but also with a mix, with a portfolio, that is more balanced and more resilient for the future. What you can see from this chart is basically our

00:52:19:12 distribution of potential future profits by region and by hub and you can see that while, of course, North Atlantic remains the backbone of our profitability, you can see that the highest growing profit pools are the ones related to LatAm and domestic Spain or to the, what we call, adjacencies, so the additional business asset lights like, in deed, the loyalty programme that

00:52:41:09 Adam will elaborate on. And you can see it also by hub. So, you can see by hub that our reliance upon only northern European hubs is relatively reducing thanks to the increase of the contribution of the southern European hubs. And that's the reference of the 1.5 billion that the Spanish businesses contribute-- will contribute in future to to the group. In essence, therefore, not only

00:53:03:38 stronger in terms of marginal returns but also more balanced and more resilient. And now let me give the word to Julio to elaborate on our world-class brands with the rest of these markets. Thank you.

00:53:24:34 **Julio Rodriguez**

Thank you, Marco. Good morning. I'm going to talk to you about our world-class brands and lay out our plans to invest in the customer experience we deliver. Just move on. IAG have several world-class brands, globally recognised and trusted. Each brand has a unique identity, customer proposition and strategy. Our airline brands are anchored around IAG,

00:54:00:04 leveraging the scale, our efficient platforms, such as Cargo, GBS or Hanger 51, and benefiting from world-class expertise across the group. Our customers live and breath the airline brand and Avios, our global loyalty currency that connect the brands. Following extensive research, we have found that customers can be classified into seven distinct demand spaces,

00:54:35:23 which you see here on the top. Our airline brands are well-positioned across those seven demand spaces. British Airways and Iberia are premium brands, each in their, in their respective geographies, targeting demand spaces in the premium front cabin and the trade up back cabin. Aer Lingus is a value carrier, primarily targeting smooth flying, global getaway and leisure

00:55:02:28 indulgence demand spaces. And Vueling and LEVEL focus on frugal demand spaces as well as some demand spaces in the trade up back cabin. Now what do our customers tell us, how do they perceive our brands and why do they choose us? Our customers choose British Airways, Iberia and Aer Lingus primarily for their extensive network and schedule offering, because they trust

00:55:34:26 the brands and, for BA specifically, they like the premium-- they like the fact that it is a premium brand. For Iberia, they like the outstanding customer service with the human touch. And Aer Lingus passengers and customers tell us that they they are proud to fly with Aer Lingus. Similarly, Vueling customers, they like the extensive network and schedule, low fares and

00:56:08:34 promotions and an enhanced travel experience which clearly distinguishes them from other low cost carriers. LEVEL is our most recent brand. Customers choose LEVEL for their inspiring long haul destinations, low fares and promotions and because the brand is digital, fun and modern. We are going to invest 2.5 billion euros over the next three years in enhancing the

00:56:38:43 customer experience. That is twice the amount we were investing pre-pandemic. We are going to invest these-- this amount across or in customer product, service and in digitalising the the the customer journey. On the next slide, I'm going to show you for each brand who are customers are and where exactly we're investing this money. Let me start with British Airways. British

00:57:11:20 Airways customers are global travellers. BA is one of the, of the few brands, of the few airlines operating to five continents. Our customers are affluent, are willing to pay for a premium experience, and our customer base is becoming more leisure focused. Seventy-five percent of BA's customers are travelling for leisure purposes. On this slide, we're showing you on the, on the top,

00:57:44:12 where BA differentiates themselves from their competitors and on the bottom where we are, where we're making significant investments. BA excels in a premium check-in and lounge experience, a best in class on board experience, and a personalised service. Significant investments-- We're making significant

investments, particularly in improving our lounge experience, in the cabin, product and service, and in enhancing customer care. And Sean and Jose Antonio will be talking in more detail about these areas. Moving onto Iberia, as Fernando laid out, Iberia connects Europe with Latin America. Madrid is the largest European gateway and our customers are increasingly choosing our premium cabins, recognising

00:58:11:28

00:58:42:15 Iberia-- recognising Iberia for constantly innovating to improve the customer experience. Iberia is investing in digitalising the entire customer journey, particular-- with a particular focus on the early phases, so the dreaming, the planning and the booking phase. For example, through a new personal area where customers can review their past flights in a very, in a very entertaining

00:59:11:46 and and inspiring way. Iberia is also making improvements to all baggage-related processes. From communication of the baggage carousel to creating automatically a report when the bag hasn't travelled and proactively helping the customer throughout the process of the delivery of the bag. So, customers won't have to queue at the airports and won't have to call our call centres.

00:59:46:39 Iberia started rolling out the award-winning A350 next cabin, a suite style business class which they are employing across the South Atlantic. And the, the [FOREIGN DIALOGUE] everything starts with me programme delivers customer-centric, warm customer-centric service, service. Around 5,000 employees, both from the headquarter and from customer-facing teams, have

01:00:24:00 attended this programme over the last year. At Aer Lingus, we have a unique customer base. A proud Irish heritage and a large Irish diaspora in North America. Aer Lingus customers benefit from a US customs and border protection pre-clearance in Dublin and anybody that that is, I have recently waited for more than three hours at customs and border control in the US

01:00:54:38 will really appreciate this. Aer Lingus customers are-- have a high affinity with the brand and prefer direct bookings and communication channels. As Lynne mentioned earlier today, Aer Lingus will be the lounge customer for the A321 XLR from Q4 2024. In addition, we are refurbishing our short haul, short haul fleet with new seats and we are refreshing the the cabin interior across

01:01:33:32 the short haul and long haul-- and long haul fleet over the next few years. Aer Lingus are investing in digital self-service and disruption management capabilities throughout the customer journey utilising a mobile first approach and

employees live and breathe Aer Lingus and a special training for employees ensures continuity for this very much Aer Lingus specific touch in communicating with customers. Moving onto Vueling. Vueling customers are tech-savvy explorers who seek an elevated low-cost travel experience. Already to date, 40% of Vueling customers use the Vueling app to manage their trips and that number is constantly increasing. Vueling is investing in digitalising all touch points, providing an end-to-end travel-- end-to-end digital and fully self-managed experience. This is particularly, this is particularly valuable when customers' journeys get disrupted and we know that giving our customers this control really enhances their experience in particular compared to Vueling's competitors. Compared to other LCCs, as I said, Vueling wants to, want to or aims at providing an enhanced customer experience and therefore we invest in technology tools and a customer-centric team highly engaged at at in in Barcelona. LEVEL is our most recent brand and it is already now the number one long haul airline in Barcelona. We are very excited about today's announcement to create an AOC which will allow us to grow the airline and offer many, many more destinations for our customers. So, in conclusion, IAG has a portfolio of world-class brands. Each brand has a distinct brand positioning. We believe, we believe long term sustainable returns require exceeding your customers' expectations and are investing 2.5 billion euros in enhancing the customer experience of the next three years. Thank you. Next is loyalty. I'm gonna hand over to Adam.

01:04:13:00

Adam Daniels

Thank you, Julio. Good morning, everyone. Julio's talked to you about the airline customer plans, now let's talk about what Loyalty's doing. As, as Luis has highlighted, it's a central part of our strategy. What are we doing to engage with customers and drive loyalty with them and how is the loyalty business performing? Well, our strategy is to invest in our customers to drive higher returns. And Luis highlighted this slide at the start of his presentation and let me go through it 'cause there's quite a bit here. This circle in the middle is what we term the loyalty fly wheel and what we're trying to do is to get this fly wheel to spin as fast as possible. So, on the right hand side, we're investing to drive deeper customer engagement and if we do that then we're

-
- 01:05:21:34 delivering higher financial returns on the left. How do we invest to drive deeper customer engagement?
- 01:05:23:12 Well the answer is we do that through many things that Louis and Julio have talked about. We invest in lounges, we invest in the product, we invest in service but, critically, we also invest in Avios, the currency, because we give Avios to customers when they fly and also we invest when those customers
- 01:05:53:09 use those Avios to go on inspirational rewards and we believe, if we get that right, then what happens is we get Avios earning, customers earn Avios beyond flying with our partners, like American Express, Barclays etc; financial services, retail and travel and, obviously, we have a relationship with them and there's money coming in from that activity. Also, we believe we can
- 01:06:21:26 launch new ventures on the back of that, on the back of the currency and on the back of customer database and we launched our first new venture about 12 months ago, the wine business which you may have heard of and then, critically, and often forgotten, is if you get that right then you get more loyalty to the airlines themselves and so you get a greater share of wallet and you
- 01:06:47:35 get more revenue to them. So, the theory of this is that you invest in the customer, you get better higher returns for the loyalty business and the airlines and you can see the strategy is working. The IAG loyalty profit is up 65% versus 2019, year to date. Avios collection. So, the Avios being collected is 20% higher than it's ever been before. Spending points is actually 25%
- 01:07:16:46 higher than it's ever been before. So, you can see there's a great deal of activity in this space. As Louis talked about, membership in our loyalty programs continues to grow. We've got over 40 million members in all the IAG programs and it's growing at its fastest rate. Over two million customers have already joined the IAG programs this year. that's the highest rate we've had
- 01:07:47:19 and the age group maybe slightly different from what you might have imagined, with over 40% of customers under the age of 45. But what do customers want from a loyalty program? Well we asked them and we got back three main areas. First of all they want a program that they can understand, that's simple, that recognises them, great collection opportunities
- 01:08:15:26 for the currency and aspirational rewards. So, let's take each of these in turn. So, first of all, making it simple. This isn't probably the simplest of slides but what it's

trying to demonstrate here is that all the IAG programs have moved to the same approach when issuing Avios for flying. We've moved to something called spend based earn and, quite simply, how much you spend

01:08:48:32 is how many Avios you earn and so we got an example here. If you got a 1000 Euro fare and you are flying on Iberia, so Iberia's the top line here, and you're a member of Clásica, 1000 Euro fare, times by five, 5000 Avios. If you're a Platino member eight is the multiplier, eight times 1000, 8000 Avios. So, simple; customers can understand it and we've seen a very smooth

01:09:19:01 implementation so far. We plan further simplification and recognition for our customers. So, one of the things we're gonna implement is a single Avios balance across the airlines. So, instead of having a balance in British Airways Executive Club, a balance in Iberia Plus, a balance in Air Club, we're gonna have one virtual balance which we're gonna roll out individually in the airlines.

01:09:46:31 We're gonna improve benefits to the program, making some of those benefits more relevant to the individual customer. We're gonna deliver more cross airline recognition. So, if you're a gold card customer flying on Iberia, gold card British Airways customer, you'll be recognised and consistent elite tiers too. So, what we're trying to do here is, yes, increase the loyalty for an

01:10:12:15 individual airline but also increasing the loyalty across the group. Our partnerships, so let's move now from recognition to great collection opportunities. Our partnerships are making it easier to collect. We've launched more [markee] partners in the last four years than we have in the previous ten and you can see some of them here today. Some of

01:10:38:32 them are existing partners we've had for quite some time, but are growing fast. Uber is probably one I would highlight. Uber's launched with British Airways Executive Club. You link the two accounts and you can earn Avios when you take an Uber. We've launched this 12 months ago. Nearly 400,000 passengers, sorry, customers, have linked their accounts already and if any

01:11:04:45 of you, I know a lot of you are BA Exec Club members, if any of you are unsure about how to do this, because sometimes it's our best kept secret, in the break there's a few of us up that can help you make sure you're linking. In addition to that we've announced new currency partnerships. This is lightly different. This is when an airline or another partner takes the Avios currency,

01:11:29:49 adopts it as their currency for their scheme. So, this is what happened with Qatar

Airways about 18 months ago. So, Qatar Airways keeps their Privilege Club but the currency they use is Avios and so you can transfer Avios between Qatar Airways Privilege Club and British Airways exec-- Executive Club and soon to be Iberia Plus too and you can redeem your points across

01:11:55:04 those and we've seen significant engagement on the back of that change and Finnair is also gonna be the next airline to come board. They will adopt the Avios program, sorry, the Avios currency I should say, in Q1 2024 and customers are collecting Avios in record numbers. As I said before, collection is 20% higher than it's ever been. Over 60% of all the collection is outside of

01:12:27:46 flying and chief amongst that is financial services, where we have co-brands and relationships across the world with a number of our airlines. Our UK card portfolio is the strongest and if you bring our UK card spend, so customer spend on the card, it accounts for over 1% of UK GDP and we believe there's an opportunity to grow further in this space. I can tell you today that the

01:13:03:06 majority of the BA Exec Club members do not have a co-brand. So, it's an opportunity to grow materially further from where we are. But it's all very well getting people to collect points, you've got to make sure customers can actually use them and we have been focussed on making sure customers can use their points and it's no surprise to see that the spending of points is

01:13:28:45 growing at a faster rate. We've delivered more guaranteed seats, over five million guaranteed seats across British Airways and Iberia. So, every single aircraft, when it takes off from British Airways, has four business class seats available and eight economy seats that you can book on pure redemption. We've implemented something called reward flight saver, low cash options in

01:13:55:17 British Airways. So, you can fly across Europe for £1 and a certain amount of Avios to the East Coast of the USA for £100 and a certain amount of Avios and, surprise, surprise, 80% of our customers are choosing those low cash options. We've implemented the ability to get a discount on, on your holiday with BA Holidays using Avios and now 20% of all British Airways Holidays'

01:14:24:22 customers are taking that opportunity and getting a discount on their holiday and, lastly, we've implemented something called Avios Only Flights. These are flights you can't get on if you've got cash. You can only get on if you're a member of the programs and you've got the currency and we've implemented them at peak times, deliberately, as a thank you back to our customers.

- 01:14:50:16 Geneva, at half term in February, Corfu in August and I lost my bet because I thought that the Corfu flight would sell out before the Geneva flight and it was the other way round. So, that's one of the reasons why, why, by the use of points, spending of points, is up 25% and there's more to come in 2024. Improve 'Pay With Avios' on British Airways. Now this is the ability to get a
- 01:15:19:14 discount on a commercial fare. For the majority of fares you'll be able to discount the entire commercial ticket down to £1. We're gonna deliver more Avios only flights. We're delighted with the customer reaction to that. We're gonna do more of them. Iberia are gonna join British Airways in adopting Reward Flight Saver; the ability to fly across Europe for
- 01:15:41:15 one euro and we're gonna improve the hotel and car redemption opportunity using points for that, working very closely with BA Holidays because we see lots of customers looking to use their points in this way. So, in summary, what we're trying to do is to invest to drive deeper customer engagement. If we get that right then we extract higher financial returns. A couple more bits of
- 01:16:12:06 information for you. I think, as highlighted, as Louis highlighted, we've now got over a billion pounds worth of revenue coming in externally from the group, for people buying the, the currency, partners buying the currency. Our, our profit margin is very healthy, over 20%, with a very efficient conversion of revenue to profit and our plan is to grow this business double digit, profit growth of
- 01:16:42:40 more than 10% every year. so, focusing on investing to drive deeper customer engagement, extracting financial returns and making Avios a global currency. Thanks very much. The good news is I'm not handing over to somebody else, I'm handing over to the break. So, there's now a break, 25 minutes. I'm not quite exact sure exactly what time it is but 25 minutes from now the doors will
- 01:17:14:47 open and you can get a cup of tea or a coffee. Thank you very much.
- 01:17:24:28 **Fernando Candela**
- Good morning again. Welcome back. Today, now I would like to talk to you about IAG's transformation plans. I'm here with, with Sean and with José Antonio that they will, they will go later in more detail about BA transformation. So, I would like to, to share with you how we implemented the group transformation. As Louis mentioned earlier today, sorry, transformation
- 01:17:47:29 is in our DNA, it's in the DNA of the group and, however, when Louis asked me to

lead transformation after he was appointed CEO of the group in 2020, we decided to implement the approach in which we believe. This approach is not just the traditional cost cutting, it's an approach based on efficiency, people, culture, innovation, targeted investment and very discipline and

01:18:10:49 granular performance management. Our main objective, at that time, was to ensure that we reach the full potential of all of our businesses and [INAUDIBLE] transformation in the DNA of our airlines and we drive, for to drive that change we created a small team at group level, group transformation office, to coordinate the program and also we built

01:18:30:14 teams across the different top cost to ensure that we were delivering transformation, to ensure that we made things happening with the business areas. This transformation is already happening and is delivering a value and is creating better business, more resilience and more profitable. The key message on, on this slide is just to show you that we are in defining

01:18:50:22 opportunities in all of our businesses. Our businesses have done a lot during covid and, in some way, 2023 results are due in part of the transformation initiatives the teams delivered during this period. But there is still a lot to do more in the future and initiatives are identifier, quantifier, plans are on track. We are touching every single area of the business, every single

01:19:14:46 work streams, including IT, supplies, people, operations, fleet, customer and commercial. Some of the initiatives you have heard before when Adam presented the commercial opportunity, the customer opportunity we have in front of us in loyalty and some of them you will, you will hear later, particular, for example, commercial [replatform] for British Airways, which

01:19:34:33 we expect to deliver a lot of value in the coming years. IT and operations are also a key focus for us and, of course, people and culture. We have included these charts just to show you how granular we are and we look at every area in every business in forensic detail, to support the delivery of world class margins in our, in our profit growth. On the revenue side, we have some

01:19:58:40 initiatives to deliver in the coming years, normally new or improved commercial platforms. For example, boosting the Vueling's [UNSURE OF WORD] products, increasing ancillary revenues, but also, from the very big IT developments to the very small initiatives. For example, we are always improving the, the payment, payment improvements to

- 01:20:17:40 improve the conversation in our web finance, in all of our web finance. On the cost sides we will continue developing NDC strategy, particular in BA and, and in Aer Lingus and also, for example, Vueling has implemented a new line maintenance model, to improve efficiency, reliability and also better cost. This slide is an example of one of our
- 01:20:41:18 transformation initiatives, supported in the concept we call Best Practice, which relates to fuel savings. I find this slide particularly interesting for two reasons. The first reason is that it shows how fuel is so important for us. We manage it with a lot of granularity. Every tonnes count and, and we are looking for new ways to save fuel, to reduce fuel consumption and then to reduce
- 01:21:03:08 spend and then to reduce CO2 emissions. But, most important, and I like this slide because it shows the power of this group, the power of IAG, how we are continue learning each other and how are we adding value, sharing best practices between the different airlines. Even 12 years after creating this group, we continue find opportunities for improvement and learning each
- 01:21:20:35 other. We are building on strong foundations, with the support of previous experience and execution. We have done this before and, as you probably know, Iberia transformation has been a unique case in the industry. This transformation was led by Louis but also delivered by, by his team. Marco was, at that time, Chief Commercial Officer and now is leading Vueling.
- 01:21:42:24 José Antonio was, at that time, Chief Financial Officer and now he's Chief Financial in BA. So, they are helping to transform other businesses in, in our group. Iberia transformed from an unprofitable and uncompetitive airline in 2012 to a profitable airline, resilient, vibrant and customer oriented and the story of Iberia transformation has a clear, a very clear path. First, operations
- 01:22:03:05 were in the centre. But to drive excellent operations you need engaged people, you need to transform the culture and then customer satisfy and then NPS improve and then you need, course, [UNSURE OF WORD] and then high gear revenue comes and you can achieve your profitability targets.
- 01:22:23:23 **Fernando Candela**
- I think some of you, some of you were, were there when Iberia launched Plan de Transformación in 2012 to [UNSURE OF WORD]. Then in 20... in 2014 they launched Plan de Futuro, to reach sustainable and grow in profits and then the

team delivered what they committed. The Iberia transformation helped the company to deliver six years of increasing profit until covid arrives. But the strong foundations has proven

01:22:48:07 its resilience and allowed Iberia to recover capacity earlier and to recover quicker from the shock and that's not only the work of the last months or for the last years, it's the work of ten years of deep transformation.

01:23:03:13 **Fernando Candela**

As a conclusion, we fal... we follow our forensic analysis, our forensic and granular analysis of all the transformation initiatives. We see lots of opportunities to create a step, step changes in our businesses, will ensure more resilience and profit business in the future and will drive sustainable earnings for the group. So, I hand over to, to Sean, and he will talk more in

01:23:23:14 detail about BA transformation.

01:23:25:15 **Sean Doyle**

Thanks Fernando. José Antonio, our new CFO, is going to co-present with me. But what I wanted to do first of all is talk about transformation that's underway in BA and talk about maybe the support we get from the centre and the group because it's fair to say that an awful lot of what we're trying to do we're drawing from the transformation and experience that we have seen

01:23:43:33 Iberia drive and Vueling drive over the last five years. So, we get great benchmarking, we get great support and we also get robust challenge about the execution and the things that we are prioritising. But what I wanted to do is give you a framing as to what we navigate through in terms of what's very important to BA, what are our strategic imperatives as we look to invest in

01:24:05:43 transformation and we spoke earlier about global leadership positions and our leadership position is critical that we maintain that in London. That's about the depth of our network, it's also about the breadth of our network. One example is the North Atlantic. We offer 31 cities out of London and the North Atlantic. The nearest European rival is about 22. We added Cincinnati this year. we

01:24:30:13 wanna keep on building out the breadth so we have the best offering in the marketplace for travellers but also make sure the big markets we increase the depth. So, leadership is very important; lead at Heathrow, lead at City and

reinforce our leadership position in London with the developments that we have at Gatwick. Premium proposition. We spoke about the size of the

01:24:51:28 premium market in Europe and the overweight exposure IAG has to that sector. A lot of that is concentrated in London where, historically, it's been about two and a half times more trade up or premium passengers that you see in any other European gateway. This has always been the DNA of the brand. We need to commit to execute it and execute it consistently and we

01:25:12:11 have to drive a step change in our net promoter scores. Now, if you wanna be a premium customer centric business you're not gonna get there unless all of your people are aligned and behind what you're trying to achieve. So, colleagues will be, and I don't wanna use a cliché, at the heart of what we're doing. We're putting a huge amount of effort into recruiting, training, building

01:25:32:30 capability, providing support, making sure people have the tools to do the job on the [INAUDIBLE]

01:25:40:29 **Sean Doyle**

Colleagues in British Airways are gonna get behind our plan and we're making great progress and engagement. Now efficient execution. You know, two core elements to this. One is, we've got to drive our on time performance up to above industry standards, and that's been challenging as we look at the rebuild we've had over the last couple of years and, secondly, we'll have to

01:26:02:38 be very focused on making sure we have the right cost base for the business model that we have chosen. We have inflationary headwinds. Our business isn't as high growth as other businesses, so I think innovating on cost control is going to be a very, very important lever and discipline that we carry on embedding and, finally, we talk about sustainability and Jonathan will talk

01:26:22:42 about sustainability later, from a group perspective and this is lead by group. But the point here is British Airways, as a brand, is a great platform to showcase and lobby and demonstrate some of the things that we are doing to drive our businesses towards net zero. So, you know, if we execute all of our transformations we're very confident about strong margins and strong returns

01:26:46:43 and strong margins to staying true to cycle. Now, you know, what are we doing then in terms of a bit more granularity? Well we have over seven billion of investment planned, a chunk of that is fleet renewal and fleet replacement but

we're also investing in our customer experience. As well as taking new planes with the Club Suite and new products like Panasonic IFE and better
01:27:09:02 seats in all cabins, we're also retrofitting all of our aircraft. [INAUDIBLE] product is a step change in terms of experience at NPS. We've also got WiFi rolled out across nearly all of our fleet at the minute and that gives us both service opportunities but also some innovations in terms of what we do with our crews that we're gonna explore as well in a couple of slides. Commercial.

01:27:32:22 you know, people will say to me fix the operation, fix the app. We're gonna fix the app. We've a team in this building working on a revolution at BA.com and our digital experience. We will start dropping elements of that next year but in the next two years we will rebuild, from the ground up, our digital experience and not maybe catch up some of our competition but leapfrog our
01:27:54:11 competition. The IT estate. We need to put in good foundations. We are in the middle of a cloud migration. By the time we get into the [INAUDIBLE] all of our critical applications will be out of the data centres and in the cloud and we're using that opportunity to modernise our applications as well and, of course, a foundation layer for any airline that strives to be excellent is operational
01:28:18:40 resilience and technical resilience and I'll talk in a lot of detail about both of these levers when we get into the deck. But to talk through the customer and commercial elements of it I'm gonna hand over to José Antonio.

01:28:33:01 **José Antonio Barrionuevo**

So, thank you Sean. So, customers is a top priority for British Airways and we're working really, really hard to offer them a world class experience throughout the whole customer journey. For example, you can see here, on the brand dimension, 2023 was a year where we, in which we launch our new uniforms, designed by a prestigious creator, Ozwald Boateng, alongside with
01:28:56:04 some of the Iberia, some of the BA colleagues. Currently we have over 30,000 BA colleagues proudly wearing this uniform in client facing activities. So, pilots, cabin crew, airports, operational ground teams. We're getting terrific feedback from both our employees and the customers and also it's worth noting that over 90% of the garments have been produced with sustainable
01:29:22:21 fabrics. So, therefore further supporting British Airways' commitment for a sustainable operation. In terms of ground experience, the focus is the

enhancement of our lounges and our check-in areas. Last year we opened three new lounges at JFK when we moved with American Airlines to Terminal 8. This year we have approved a budget of over £200 million to invest over

01:29:49:40 the next years, to completely upgrade our lounges around the world and that includes a full scale refurbishment of the London Heathrow lounges. We also have invested this year in a refresh of the premium check-in, the club check-in area in Heathrow. We have moved it to the north side of the terminal, to a very place, more, more, with more space, more premium, close also to public

01:30:14:19 transportation and with better accessibility to the north fast-track security facilities. In terms of on-- on-board experience, we continue renovating our fleet and we are investing strongly on the roll out of a new Club Suite in our planes in London Heathrow long haul planes. Right now we have around 60 of those planes already with this Club Suite embodied in there and they will

01:30:40:02 have 75% of those planes next year and close to 100% by the end of 2025. The feedback we're getting from our customers is fantastic. Is 20, there's 23 points of additional customer satisfaction of those customers that use this Club Suite versus the ones that use the previous product. We also know that premium service is very important for our customers at British Airways and

01:31:06:24 we're investing a lot improving that jointly with our cabin crew team. We have recruited additional 4000 cabin crew members since the start of 2022. We're investing in detail tools for them, to be able to provide better service to our customers. We have consolidated all our London Heathrow teams into one single team, to be able to capture efficiencies and flexibility in rostering and

01:31:32:26 also we are launching additional training courses, both for the first class cabin crew teams but also for our premium cabin crew teams and then, lastly, on the customer care dimension, we have changed completely our telephony system, going into a much, you know, call centres, to a much more modern system that incorporates automation, incorporates robotics, to be able to

01:31:56:07 minimise the manual processes and we're also starting to test some artificial intelligence features, such in in speech analytics. Final point on this light; we have launched a proactive customer care team that offers solutions to our customers while they're still on-board, on the planes. For example, in a situation where there's a likely missed connection, there will be this air to

01:32:20:21 ground system that will allow our team to rebook our customer in a different flight.

So, the moment he or she lands into an intermediate destination the problem will be solved at that time. So, as you can see, a lot of things going on in the customer space, small, medium and large, but a lot of dedication, a lot of focus and a lot of investment in this area. If you go into the commercial capabilities, our transformation plan is also fully transforming the commercial way of doing things in, in British Airways. Starting from the right hand side of the slide, you will see in 2024, we will launch a new platform for payments. We are going to replace the old one. It's been around for a few years now and this new system should allow us to access the new ways of paying. The Google Pays, the Apple pays. It should also provide a lot of opportunities to our customers to use Avios as a currency to book their flights, further enhancing the attractiveness of a loyalty program and, obviously, the retiring of the old platform will allow us to, to have some cost savings by retiring that platform that's been around for too many years now. In 2024, we'll also launch a, a new revenue management system; state of the art, very modern with new capabilities on dynamic pricing and also allowing us to forecast in a much more accurate way the demand. This should allow us to maximise, even further, our flight and ancillary revenues and then, on the left hand side of the slide, the most exciting project that we have on the table now, which is the full, on the detail side of our commercial activity, we're working currently on the re-platforming of our webpage, BA.com, and the relaunch of our app. This is the biggest single large investment that BA has ever done in, in all its history, outside of fleet purchases. Once we complete this project we'll have state of the art app and webpage that will give us full retailing capabilities, including deeper personalisation. It will also give us 100% online self servicing, which will mean our customers can, will be able to manage the whole trip by themselves, without any interaction with agents, with call centres, and will also allow us to have a much shorter product development cycle, meaning that we'll be able to enhance the application and enhance the webpage in a very efficient manner, reacting very quickly to changes in technology, in the market or in customer needs. We are developing this, delivering this project through agile methodology. We had the first drop a few weeks ago, the 31st October, with the launch of the homepage and the first flight booking and during '24, 2024 and 2025 we are going to ramp up our capabilities and we'll,

- 01:35:28:21 we'll roll out the rest of the, the app and the web into the other routes of British Airways. We are extremely excited about this project and, as Sean mentioned, once it's finished, it should place British Airways as one of the leading airlines in the world, in terms of digital commercial interaction with our clients. So, as you can see, both on customer and on commercial, a lot going on with focus,
- 01:35:55:02 with dedication and with significant investment on the transformation of British Airways. So, I'm going to hand over now to Sean, to cover what we're doing in the IT dimension and also on the operational dimension.
- 01:36:09:03 **Sean Doyle**
- Thanks, José Antonio. I mentioned about the IT infrastructure and I said we are, at the minute, building a lot of resilience into our operations. So, as well as migrating our applications to the cloud, we're also building up better BCPs. So, half of the desks at Heathrow now can work on what we call a common platform. If our network isn't working we can still use those desks and check
- 01:36:30:28 people in. We can still board people on flights and we have back door access to a number of our critical systems that we wouldn't have had this time last year. we've also got an autonomous telephony system in the UK call centre and we have a capability with Amadeus to fall back on if our core system doesn't work. So, as well as making sure that we deal with route calls, in
- 01:36:52:00 terms of getting out of our data centres, we're also increasing the level of BCP resilience that we do have and, as I said earlier, about 95% of our systems will be migrated to the cloud as we get into 2024. You know, the investment is about 10% of our total capital budget. We mentioned seven billion circa of investment, about 700, 750 million is going into digital capability and into IT.
- 01:37:18:10 Now, I think Fernando spoke about the Iberia transformation and how online performance was an absolute cornerstone. I think we've put, you know, that at the centre of what we need to do as well. If we look at this virtual circle we wanna tap into. One, transform our operation. Two, it drives customer experience more than any other lever. Three, our colleagues love working in
- 01:37:41:20 an operation that's running well. It has a huge halo on NP... on colleague NPS. Four, financial performance. I think one, you know, getting our customers to support us and come back to us, two, taking a lot of those disruption and non performance costs out of the business and, finally, it's a very, very efficient way to

run your business from a carbon perspective. Now, you know, the
01:38:05:27 backdrop, the starting position, is more challenging than it has been historically. We have airspace challenges. We've 20% less airspace in Europe than we did and we see events like Sunday and events like we saw in October that we are vulnerable to variables that are outside of our control. In BA we have taken about 11,000 people into the business since 2021. So, one
01:38:27:04 and two people at Heathrow are new in their jobs. So, we have a challenge to make sure that we are training and equipping and giving people the right tools to fulfil a great operation for us and supply chain, again, is challenged as we come out of the geopolitical stresses and the rebuild of China. You know, that is what it is. We're gonna have to navigate around it. We're gonna have to
01:38:51:31 work smarter and really be agile in the way we deal with some of these external variables because, you know, what's at stake here is make sure we get our operation right, get our NPS up, get our employees in a much better place and supporting our operation and drive the financial metrics by really turning this flywheel much more quickly. What I've got up here is a bit of an
01:39:14:42 articulation about the causes of delays and on the left is kind of the gap that we're looking to close. So, we wanna improve our OTP in double digits. On the right is a breakout of all of the reasons why we don't hit those targets today. In red we have put in the internal variables that we have control over. In blue there's the external variables that I spoke about earlier. The good news
01:39:42:23 is over two thirds of what we can influence is within our control. That's a much better ground operation at Heathrow, you know, much sharper on boarding processes and disembarkation processes and dealing with excess baggage at gates and just making sure that we're on it in terms of getting those doors closed. Making sure as well that we roster better resilience into our pilot and
01:40:05:28 cabin crews, to make sure the report times are working, you know, make sure that our stand planning at Heathrow, which is a congested environment, is world class and also making sure that our technical performance and our supply chains are delivering far more for us than they are today. So, we're gonna have to address every single one of them. This is a law of incremental
01:40:25:40 gains. There isn't a silver bullet. If it were, we probably would have found it by now. And if I summarise kind of, okay, what are our four top things that we're investing in to drive this? One is, we're gonna put a big investment into Heathrow

and I'll talk about that in a bit more detail. Heathrow is a fantastic opportunity. We've a great terminal. We need to really make sure that the

01:40:47:46 operation gets to world class and has a step change from where it is today. Secondly, we need to design a better operation. We are doing much better integrated planning, you know, upstream planning of our fleet, our schedule, our block times, all of the kind of sophisticated variables that make an airline work. We are challenging them, redefining them, with a view to driving on

01:41:10:05 time performance. Thirdly, we need to drive technical reliability to a better place. We're making very, very good progress as we head into the winter. The external environment is more challenging but we will be investing in our engineering and technical resilience and, finally, we have a huge opportunity to modernise the way we run our operation, by pulling all of the data in our

01:41:33:12 systems, putting it into a data platform and having much quicker and much more AI machine learning driven decisions to deal with all of the various scenarios that we have to encounter. So, Heathrow, what are we gonna do? Well, first of all, we're going to invest in the right level of resource and we'll put more resource in trade more resource into Heathrow this winter. We are

01:41:55:35 going to go back to what we call team based zonal working and part of what we will do there is split up say Terminal 5 into seven areas. We've a team manning a certain subset of the terminal and they will basically man and run all of the stands and all of the baggage flows across those zones as one team and that's a step change from where we have today, where we have mass

01:42:17:27 allocation of big resource pools. We've bench marked this with other airlines and our view is this is probably the right way to really drive a step change in our, what we call below [UNSURE OF WORD] performance. Now part of what we need to do as well, to shore up I think this new model, is invest in tighter spans of control and we will invest in management, which will manage those

01:42:37:04 teams at a ratio of about one to 30 and that's a step change compared to what we have today and we think, you know, that team based working, that competition between teams, that better management oversight would really be critical to driving an on time culture. We're also going to invest in resources and equipment. Make sure that the small and the big things that people

01:42:57:46 need, like tugs, like RDTs, you know, like PCs, like chip and pin devices, that that is all working and we have much more robust processes to audit all of our kit at

the airport which we run on a weekly basis and using performance data and dashboards with our colleagues to flag areas where we can collectively improve, and I spoke about, you know, resilience, and, you know, Heathrow is

01:43:23:13 the busiest airport in the world for two runways. It's within 50 miles of two other busy airports. When things go wrong we need to get better at recovering. We will have much better automated re-accommodation capability next summer. We'll also have much better ticketing and re-accommodation capability in our connection centre and we're also moving a lot of functions

01:43:43:28 that were centralised in back office, back out to be on the front line, so that we have much greater management integration of things like task allocation, shift management and the way we deal with scenarios when things are not going according to plan. So, we have a big program led by Tom Moran and Rene at Heathrow, that's underway, it's getting traction and our view is to have the

01:44:06:22 vast majority of this launched by next summer. I spoke as well about what we can do in terms of design and we're getting a lot better with what we call dynamic planning of block times. Block time is the amount of time you allocate for a plane when the engines turn to when it lands at the other end and what we've found, of course, is blocks vary, you know, they can be longer in

01:44:28:16 summer, they can be longer on Saturdays when you got airspace issues and stacking. They can be shorter in winter when you got tail winds. But we haven't been dynamic enough in managing this variable. So, we're doing a lot of work into putting more intelligence into dealing with this variable. We've also gone through every single process that we have in terms of what it

01:44:47:12 takes to turn an aircraft around and we've recalibrated all of those tasks and we've rolled out what we call new standard turn assumptions into Heathrow as we moved into the winter schedule and that is actually driving an immediate impact on performance. We've also got some rules [INAUDIBLE] build a schedule. You know, we can't have more than four A380s depart in

01:45:08:01 an hour. It causes too much concentration of resources in one place. We don't want to have more than four long haul departures rolling ever 20 minutes and those rules are now being imbedded in the operation with minor schedule changes and, again, are driving much greater resilience and connections that are repeatedly failing, we know what they are. Again, we're redesigning those

01:45:30:26 connections to make sure that when people book a connection, with a tight

connection over Heathrow, that the chances are you're gonna make it more often than you're not. I spoke about engineering and this, again, is a foundation layer. You know, the operation sometimes has to cope with issues that emerge in the hangar. But we got to fix the basics, which is get our

01:45:51:30 technical dispatcher liability up to above industry. Make sure we're fixing cabin defects. Make sure that we're recruiting and attracting top talent. Make sure we got a world class supply chain which is delivering quality and cost and, again, we've a very big transformation program underway in this space. But also we've opportunity to future proof this business and what we're doing

01:46:13:02 today is we're putting all of our maintenance records onto eLog. We don't have paper maintenance records anymore, it's all electronic. Now that's creating a big data pool of electronic intelligence relating to our engineering operation. What that gives us is the ability to diagnose defects a lot quicker than we would have done. You know, a defect on a paper report could take

01:46:32:41 two days to figure out what you do. We can do this now in hours and then, thirdly, what we can do with all of that data, is use diagnostic analysis to make sure we're doing predictive maintenance, not wait for, you know, a spare to be changed when the manual says it will, but figure out when things are actually occurring, in terms of faults, and get out there ahead of it and avoid having to

01:46:54:02 make an intervention re-actively. So, you know, the right is very, very exciting in terms of the future we're creating in our technical organisation and we're doing the same in our operations. We're modernising our applications, we're pulling data out of those applications into what we call a data layer and we're building digital tools then to make sure we make operational decisions much

01:47:16:27 more intelligently and much more quickly and I got to show a little video, which brings it life here, from some of the people at British Airways, as to, to what we're doing in this space.

Video start*****

Transformation film

01:47:28:49 **Voice Over**

At British Airways, we're transforming our operation using the very latest technology and data, empowering our colleagues to make better decisions and improve the service we offer our customers. We're harnessing the masses of data

-
- we create every day, using state of the art solutions, including machine learning and AI and rapidly analysing it to make better decisions that
- 01:47:49:23 impact and benefit our entire network. Our mission control system gives us access to masses of real time operational data at Heathrow. We can instantly see information about our aircraft, our customers onward travel plans, or whether they require assistance and we can also check when baggage loading teams or caterers arrive at the aircraft side.
- 01:48:09:35 **Lisa Samways**
- Mission Control uses real time data to provide us a live view of all our aircraft and vehicles on the ground at Heathrow. It allows us to proactively manage the stand plan and benefit our connecting customers and our baggage proposition to deliver the best service that we can for our customers.
- 01:48:27:18 **Voice Over**
- Pathfinder analyses real time weather, air traffic control, aircraft capacity and customer connections data. It predicts the likelihood of flight delays so we can take pre-emptive action to minimise the impact on our customers and our schedule. eLog is one of the tools we're using to help us digitise our maintenance records. Pilots and cabin crew input information in the air that is
- 01:48:50:13 instantly delivered to our engineers on the ground.
- 01:48:53:01 **Melanie Southall**
- The data will automatically appear in our ground system within seconds. So, we're not longer waiting two to three days to be able to order parts and to plan maintenance activities.
- 01:49:01:20 **Voice Over**
- The digital data from across our aircraft fleet enables us to see patterns of problems, so we can predict when they're likely to arise and plan our maintenance program.
- 01:49:10:24 **Terry Lee**
- Aviatar gives passengers a seamless experience because it allows us to fix faults

before it even happens on the aircraft, so it doesn't cause a delay.

01:49:17:29 **Voice Over**

These tools will revolutionise how we work, replacing time consuming manual processes with tech based solutions to ensure the right information is in the right place at the right time. We're embracing these changes to build a more resilient operation that quickly recovers from disruption, a more efficient operation that optimises our resources and an on-time operation that

01:49:38:47 minimises delays across our network.

Video end *****

01:49:44:49 **Sean Doyle**

Okay, a final slide from me. This isn't all about just what's happening in the future. I wanted to showcase that we are seeing improvements right now. We've had a 20 point improvement between November and September in OTP. A lot of those design changes that I spoke about in the winter schedule became live on the 1st of November and we have seen an immediate

01:50:04:00 improvement. Now you might say we should expect an improvement as you go into winter 'cause it's less busy, and that's fair, but we're also seeing the gap to 2019 performance narrow quite dramatically as we look at the last six weeks. I was speaking to Rene in the lobby earlier and Heathrow's performance this morning is at 90% at the minute and the first 50 flights all

01:50:23:26 left bang on time. So, we are seeing the benefits of a lot of this focus and transformation right now. But there's a hell of a lot more that we expect to, to drive as we head into the winter and into next summer, and look, some-- the sub-KPIs are also [INAUDIBLE] in the right direction. We've an 80% reduction in checked bag delays. We've had a 90% reduction in hand baggage delays

01:50:43:42 and a 35% improvement in delayed baggage. So to, to kind of wrap up, the operation is gonna be at the heart of our transformation. We've a very exciting investment programme planned. Our people are very excited about driving this with us and we're-- the early signs are very encouraging that we are turning a corner, and finally, just to recap, you know, that will underpin the

01:51:06:37 world class customer experience. We can do all of the great things on-board that we want, but we simply have to get the fundamentals of on time performance,

baggage and the airport experience right. We've got some really exciting plans in terms of our commercial platform. I would call it not just a commercial platform, it's gonna be a customer platform. We wanna win the

01:51:24:46 battle for digital convenience, not just catch up with some players who are maybe better than us, but leapfrog. We're modernising the foundation layer of our IT estate and, as I said, huge focus on operational and technical excellence. So, with that, I'm gonna hand over to Jonathan to talk about sustainability.

01:51:49:48 **Jonathon Counsell**

Good morning. Thank you, Sean. Thank you, Juan Antonio and, yeah. So, I'm Jonathon Counsell, Group Head of Sustainability at the International Airlines Group. So, what I'm gonna do, I'm gonna give you an overview of our sustainability strategy, but I'm gonna focus on our priority issue, which is reducing our carbon emissions and I'm gonna particularly focus on

01:52:11:24 sustainable aviation fuels. But first of all, let me set some context. So, Luis showed this slide. I just wanna talk through it because it really helps set the scene in terms of the approach that we take towards sustainability. Now it's clear to all of us that climate change is a critical issue for aviation. We are a difficult to decarbonise industry. We have a limited set of solutions, so our

01:52:38:32 strong view is this is most effectively addressed at a collective industry level. IAG - At IAG, and with our airlines, we have a long track record in sustainability and we think, because of that, we're in a strong position to support that sector-wide approach and that all starts with setting the right commitments and the question we all get asked is, what is the right target on

01:53:04:15 climate change? The fundamental principle there, is you need to follow the science. Climate change is not about what you can do, it's what you have to do, as led by the science and the leading authority on this is The United Nations. So, back in 2018, The United Nations released their latest major report, basically determining from all the evidence that was available, what

01:53:29:18 do we need to do to avoid the worst effects of climate change? And that's when the target of net zero emissions by 2050, first appeared. So, based on that evidence, the following year, we as IAG, we also committed to that same target and we were the first airline group to do so. But for us, that was a start point. Our plan was always, how do we get the rest of the industry to commit

01:53:56:37 to this target? And we used our influence, with our industry partners, and particularly our alliance partners. So, you can see in this chart, the first step for us was to persuade our One World Alliance partners, which in total represent about 20% of the industry. They have airlines all over the world and that, once we got One World to commit at the ICAO Stocktake in 2020

01:54:19:49 it was relatively straightforward then to get the, the complete industry commitment through the IR to AGM in 2021 and then, finally, all the governments to agree just at last year's ICAO General Assembly. It's worth noting, we are the only industry that has committed to net zero omissions by 2050 at both an industry and global level. But commitments are great. Now

01:54:44:24 we've got to think about delivery and, in recognition of the importance of sustainable aviation fuels, and I'll talk quite a bit about that, we set a target of 10% SAF by 2030. It's worth bearing in mind, the total global supply in 2021 was about 100,000 tonnes. So, as a company, we were committing to ten times the global supply. But we felt that was achievable-- achievable because

01:55:09:29 of all the momentum we'd seen with Government policy. But in a sim-- similar fashion, it wasn't about IAG. We went through the same process. We persuaded our, our One World Alliance and, encouraged to say that now half a dozen governments have also committed to 10% SAF by 2030, including the UK and the US and, in addition, 50 airlines around the world representing

01:55:33:20 just over 40% of global capacity. So, it's fair to say, we have a commitment across the industry, but now we really do need to focus on delivering on those commitments. So, what I'm gonna do now is just talk you through our carbon road maps. I love carbon road maps, which is just as well 'cause I spend half my life working with them. But they are the best way to depict how you're

01:55:55:00 gonna reduce your carbon emissions over the next 25 years or so. So, this is IAG's latest, latest plan. We talk about the four pillars, so I'll quickly talk through those. The first pillar is operational efficiencies. The second pillar is new aircraft and engine technology. We have combined those in that dark blue wedge, as you can see, delivering, an important 42% of our emissions'

01:56:18:08 reduction by 2050. But the one I'm gonna focus particularly today is on sustainable aviation fuel. So, that's the green wedge. 41% of our emissions' reduction in 20-- 70% of our fuel in 2050, we believe, can be on sustainable aviation fuels. If you saw this chart five years ago, that level would have been half

of that. So, that's a reflection of the momentum we've seen in the last five years. But we recognise, both at an industry level and at IAG, we are not gonna be able to get to absolute zero emissions by 2050. We are going to need to invest in reductions outside of our sector. So, what does that mean? At the moment that means investing through emissions trading schemes and offsets, our global offset scheme, the Carbon Offsetting and Reduction Scheme, for international aviation. But as this chart shows, when they become available, we will start to migrate those investments into carbon removals because we believe they are a more robust way for reducing our emissions. So, let me just go through some of these, these pillars in a bit more detail. So, starting from the top with the new aircraft. So, you can see

2023, in the next five years we talk about old generation and new generation aircraft. New generation are essentially best in class in terms of carbon efficiency. So, we're gonna increase the proportion of those new generation aircraft from 31% to 58%, more than a doubling, and that is through delivery of 179 aircraft; 146 short haul aircraft and 33 long haul aircraft, and, as you can

see on the right there, the new narrow body aircraft are 20% more efficient than the aircraft they replace. Wide bodies, from 15 to 40% more efficient than the aircraft they replace, and before I go into more detail on sustainable aviation fuels, I just wanna talk a little bit about some of the innovative partners that we're working with to help some of those other activities. So,

operational efficiency. So, we've been working with i6. They're a, a, nav..., sorry, they're a, well actually, they're a fuel management services company, based here in the UK, and what they've helped us to, they've helped to digitise our fuel management processes and also optimise the amount of fuel that we load onto the aircraft. The biggest variable weight on an aircraft is

actually the fuel it carries. So, if you can minimise the amount of fuel you can carry within safety boundaries, that's gonna save you a lot of Co2. So, last year through... and, and Fernando gave a great chart showing all of the fuel efficiency initiatives that we're following, we saved over 100,000 tonnes of Co2 and this, this organisation significantly helped us with that. I mentioned

carbon capture. We're talking to half a dozen companies to help develop them. This one, very excitingly based in California. They use mineral absorption technology. They basically take calcium carbonate, they heat it up. It becomes

calcium oxide and then they lay it out in a series of towers and it absorbs Co₂ and then you take that Co₂ from the, the calcium carbonate and

01:59:27:44 then you, you sequester it. They launched their first commercial site last week, last Thursday. Relatively small scale, but it's quite exciting to see that these technologies are happening now. One of our priorities is to make sure, to help this market, is to make sure these carbon, credits are eligible within our primary carbon pricing instruments, particularly the UK and the EU

01:59:51:20 Emissions Trading Scheme and then on the right, hydrogen. So, we believe hydrogen has a role to play, mainly in short haul flying. ZeroAvia, the world's leading hydrogen fuel cell company, based here in the UK. This is their Dornier 228, 19-seater. This year it's just completed a successful test program and there's Luis in the picture there, when we visited. We, we

02:00:16:03 declined the offer to go on that flight but maybe in the future, and they also working on a 76-seater, so a Dash 8. So, that's been retrofitted in California. Both of these aircraft types, we expect to be in service before the end of this decade. So, hydrogen is happening, now certainly, for very short haul aircraft. Now, so that's just talked around some of the other pillars, but let me focus on

02:00:43:02 sustainable aviation fuels and this chart really explains why SAF is so important. There are two dimensions on this one. So, this is the range of flights and this the timing. SAF is the only technology that has enabled, that is available today to help us reduce our carbon emissions in any form of scale. But probably more importantly, there's a consensus across the industry, it is

02:01:06:30 really the only viable solution for long haul travel and, as you can see, that represents 70% of our emissions. So, it is absolutely critical for aviation as a whole, in terms of its de-carbonisation strategy. You can see here the view on where we are with hydrogen and electric powered aircraft. So, first narrow body, as opposed to commuter and regional, we expect to be in service in the

02:01:30:13 mid 2030s. But we don't expect them to reach commercial scale til the mid 2040s. Our general view is by 2050, they could help reduce our emissions by up to 10%. So, they will play a role, but it is relatively small. So, where are we in terms of that 10% SAF target? The first thing is we've now built a dedicated team of SAF experts that are enabling us to source SAF in the US, the UK,

02:01:58:32 Europe and rest of the world. We have secured 25% of that 10%. So, 10% , a million tonnes, 250,000 tonnes. That represents a financial commitment of \$865

million. Our strategy is diversification and we do that on pathways. Currently there are eight pathways that are approved up to a 50% blend, with another six coming along in the next few years. So, we diversify on pathways,

02:02:25:29 on different feed stocks, but also on geography, which enables us to manage our SAF risk. But equally importantly, maximise how we exploit the policy incentives and I'll talk about that in a second 'cause that is absolutely key to any SAF strategy. These are the four plants that we have contractual supply with, that's delivering us that 250,000 tonnes. You can see a lot of the

02:02:50:43 activity is in three of those, are in the US because that's where we have the most strong policy support. LanzaJet is probably the leading SAF company in the world. Just on Friday, they were successfully awarded a £9 million grant from the UK Government, to help with their early development funding, development work and between those two plants we'll be looking at 100,000

02:03:16:19 tonnes of SAF a year, and then through One World, we have off-take agreements with a company called Gevo, and also a company called Aemetis, and you can see. So, we've got company, geography and pathway diversification. We are talking to at least a dozen other SAF companies across other pathways. The one that is particularly exciting, you may have

02:03:39:19 heard of, is called power-to-liquids, or eSAF. This is essentially where you take carbon dioxide from the atmosphere, you mix it with green hydrogen, to create a truly 100% sustainable fuel. Now this will be some years away because you do need a lot of renewable electricity, electricity to make that happen. But we believe by 2050, up to 50% of our fuels could be these

02:04:04:24 power-to-liquids, these eSAF. So, where next? Overall, one of our key metrics is grams of Co2 per passenger kilometre. So, this measures the efficiency with which we're running our business, in terms of climate change. So, it's a culmination of all that fleet renewal, those operational efficiencies, but also, your deployment of SAF. So 2025, we are on track to deliver our long term

02:04:32:11 target of 80 grams of Co2 per passenger kilometre. It's work in progress today, but from what, from our current plans, we can deliver another 12% improvement by 2030, getting us down to 70 grams of Co2 per passenger kilometre, which is a very competitive number relative to our peer group, and it's worth saying, that across IAG, 7,400 of our managers are directly

02:05:01:21 incentivised to improve this number through our bonus structure.

02:05:08:36 **Jonathon Counsell**

Let me talk about policy. So, how do we, so the question is, how do we make SAF happen faster? And it's policy. Spend a lot of time with politicians and, and this is why. Without policy, you are not gonna be able to get that investment to build those SAF plants. We, we believe just to hit the current mandate levels across the UK and Europe, we're gonna need upwards of 50

02:05:34:00 plants by 2030. Now, as I said earlier, the US, by far are in the lead here. We have very strong statewide incentives. If you look at California, Washington, Oregon and Illinois, and just recently, on top of that, you have the Inflation Reduction Act and the beauty of policy in the US, it cumulates, so you get all of those, all of those incentives. So, it's no wonder that by far the majority of

02:06:01:39 any investment in SAF capacity is taking place in The States. So, US in the lead. Good progress in the EU. We have the Emissions Trading Scheme, which covers most of our intra-European allowances emissions and the mandate is now in legislation. So, the EU SAF mandate, 6% by 2030, escalating to 20% by 2035 and then 70% by 2050. So, that is creating a very

02:06:33:18 strong demand signal. In addition, they have formed some incentives. They've provided, for example, 20 million SAF allowances. So, this is an incentive for airlines to close that gap between the current SAF price and jet fuel. Here in the UK, we are behind. We have gone through the second SAF mandate consultation. We wait for that to be, details for that to be announced, which

02:06:58:03 should happen before the end of the year. But they still have to put that in legislation. As we've always said, a mandate on its own doesn't drive investment. We need, further policy incentives. The UK Government, they have committed, through the Energy Bill that they'll look at that. But we don't like the current timing. They're talking about two years before we'll get that

02:07:18:26 legislation in place and, therefore, you know, we have a target here in the UK of five plants in construction by 2025. That looks quite difficult if you're not gonna get that policy incentive to 2026. So, work in progress and more to do in the UK. So, overall, in conclusion, you know, we have a comprehensive strategy across all of those pillars, through fleet investment, SAF, carbon

02:07:43:39 removals. We will continue to be a market leader, primarily by supporting deployment and investment in SAF production capacity. But reinforcing the

- message, this has to be done in partnership across the whole industry. We need suppliers, we need manufacturers, we need airlines, we need energy companies and, of course, we need regulators. So, the key to all of this is
- 02:08:05:27 policy. You only get investment where you get policy. But with that, I am absolutely fully convinced that we, at IAG, and the industry can get on track to deliver our net zero emissions ambitions. Thank you. Back to [INAUDIBLE] total shareholder returns.
- 02:08:27:31 **Nicholas Cadbury**
- Thank you very much, Jonathon. This is the last section and I'm going to be focusing on maximising total shareholder returns. Luis has already taken you through this slide but, hopefully, this really pulls out the key points of the day. The key success of our strategy will be delivering total shareholder return, which are underpinned by sustainable profitability and also creative growth.
- 02:08:57:05 You've seen we are focusing on strengthening our core leadership positions in North and South Atlantic and Europe from our major hubs and strong partnerships are giving us real cu... our customers real global reach right across the world. We're strengthening our portfolio of brands, enhancing our revenue, through upgrading our customers' experience and we're also helping
- 02:09:20:40 offset inflation through forensic process analysis, procurement scale and the use of technology and really transforming ourselves. Our loyalty business is an asset-like way of encouraging our customers to stay within our environment, and also provide great cash generation at strong margins. This strategy, together with strong asset allocation and balance sheet framework,
- 02:09:46:43 provides sustainable, more resilient free cashflow and profits and careful and creative growth. I will come back and just summarise our key medium term ambitions at the end of this presentation.
- 02:09:55:22 This slide just shows our revenues. We have a high quality and increasingly diverse revenue stream, which hopefully you've seen today. You've heard today that our Spanish business is significant and growing in relevance. On this slide you can see that both Iberia and Vueling in the middle here have grown over 20%
- 02:10:21:44 since 2019 and Spain now accounts for over a third of our total revenue. I'd also just like to highlight that IAG loyalty has doubled in revenue contribution since

2019 as well. Our customer revenue is also diverse. We have a high percentage of premium customers and a good split between business corporate travel and leisure and direct channels and within the business

02:10:52:07 channel revenue, you can see on the right, is also spread across many different sectors and this diversity of revenue gives us both resilience as well as the ability to derive premium yields across the business as well. There's a lot on this slide, so you'll have to takeaway to read it but the team is showing you that transformation is across all of our operations and is encompassing

02:11:18:09 across revenue and also with out cost base as well and this slide summarises on the left that transformation touches every line of our business to deliver our revenue and margin goals. We're transforming our customer experience to drive high yields over the long term and we're transforming our cost base and operations, leveraging scale, reducing disruption and re-engineering process.

02:11:43:13 On the right, I've just set out the approach of our airline unit cost categories. On ownership, cost per unit do go up as we bring in new aircraft but this is offset by the new fleet, helping to drive fuel efficiency and operational performances. In supplier costs, have seen significant inflation over the last few years and we do expect to see this moderate in the near term and we

02:12:15:24 expect to also, to offset the majority of this inflation going forwards through the work that Sean's just talked you through in improving resilience, in optimising our selling channels and also leveraging procurement scale and the technology investments that we're making. On employment unit costs, we are investing in our teams in 2023 and 2024, especially in BA to drive that

02:12:42:43 long term operational efficiency so that it'll pay back. We've agreed multi year agreements with the majority of our teams across the group and this provides stability to develop an efficiency platform and we're starting to get greater links between salary and performance. We've also got team efficiency programs in all of our business, transforming our airport processes and

02:13:06:49 increasingly, seasonal flexibility across our different businesses as well. So, overall, at an airline unit cost level, and just to be clear that's excluding BA holidays, loyalty and MRO, with the investments we're making, I would expect a small overall increase in non-unit costs next year and then the investments to offset a significant part of the inflation thereafter. This will of course depend

02:13:34:04 on the global inflation environment. Just turning to capital allocation. IAG has

always had a really robust and disciplined approach to allocating capital but there's nothing like the last three years to really help focus the mind on this. We will continue to operate within a capital framework of net debt leverage of less than 1.8 times. We believe this positions IAG well to achieve a good

02:14:06:16 cost of debt and get access to diverse sources of funding. It also provides us with a confidence and a resilience to both invest in our business organically and selected inorganic M and A if and when they arise and to pay a sustainable dividend to our shareholders. There maybe short periods of time where we want to go either side of this leverage metric to make more of the

02:14:32:03 opportunities in front of us or to protect ourselves at certain times but this is principally what our goal will be. When we think of allocating capital, we do think about all of our stakeholders and we see investing in our customers, our employees and sustainability as a real virtuous circle to ensure that we can in turn return capital back to our investors. So, how do we prioritise our capital

02:15:01:11 spend? Our priorities are spread across these five categories. Firstly, as just mentioned, we want to secure our balance sheet and you'll see we've deleveraged significantly but within a certain external macro and geopolitical world, that I'm sure you all read about, ahead of us in 2024, we want to make sure that this is really secure. Secondly, we want to invest in strengthening

02:15:24:04 our key hubs and growth markets by carefully rebuilding our fleet. And thirdly, we'll invest in improving our customer service products and sustainability. And last but definitely not least, we're committed to delivering a sustainable dividend and returning excess cash if no attractive inorganic opportunities arise. So, I'm just gonna step through those. This slide here on the top left

02:15:49:41 shows our EBITDA debt and leverage ratios and it shows we're rebuilding our balance sheet strength. We've reduced net debt by over three billion euros since the peak and our leverage is in a good place. The sustainability of our leverage profile long term has resulted in S&P upgrading us to investment grade just this September. With a strong performance we have had this year,

02:16:19:01 we've repaid a significant part of our variable debt. This slide's the maturity of our debt over the next few years and you can see with our variable debt, we've repaid two billion of the UKEF back debt in British Airways and we've recently just in October repaid eight hundred million euros of the ICO debt in Iberia. This leaves us with about 83% of our gross debt now just relating to

02:16:46:08 aircraft financing and the remaining Nun aircraft debt spread, you know, over six years and you can see actually in 2024 we've got very little to repay in the very near term. We've also had a step change in our pension position at the bottom of this graph as well for British Airways. At the bottom of the page you can see that every year we used to pay 500 to £700 million into the pension

02:17:09:42 fund. The fund is now in technical surplus and we do not anticipate to pay any further contributions in the near term. So, this is really quite a turn round to our cash generation. This slide shows the headroom we have on our balance sheet framework and liquidity. At the end of September, our net debt was 1.4 times, which gives us 0.4 headroom versus our target of less than 1.8. But

02:17:35:35 with working capital seasonality, we would expect this headroom to reduce to about point two to point three by the time we get to our year end. On the right, you can see our liquidity of over 13 billion, of which nine billion is in cash and about four billion in facilities and this gives us flexibility if necessary to withstand a possible economic downturn, continue to pursue our strategic

02:17:59:29 ambitions and of course, execute Air Europa. Just turning to our second slide, rebuilding our fleet. This slide here shows the total average capital spend we're planning over the next three years and you can see that just over half the spend is spent on our new fleet and the majority of this spend is replacing the fleet back to its 2019 levels to strengthen our hub and key growth

02:18:30:06 markets. The fleet related spend covers maintenance and improving our customer experience on board and IT increases as we accelerate replacing legacy IT, step change BA commercial platform that Antonio talked about and invest in our customer's digital journey. The other spend includes upgrading the lounges and ETS also steps us as EU and UK credits are phased out.

02:19:00:01 So, this slide shows on the top left that we are building back our fleet to 2019 levels. So, this is the number of aircraft that we'll have at the end of each year. on the short-haul in red, we have fewer aircraft but are increasing utilisation, especially in British Airways, Aer Lingus and Vueling. We are also increasing gauge as we retire the Airbus 319s and replace them with Airbus

02:19:26:19 320s and 321s. On long-haul in blue in 2022, you can see the impact of the retirement of the 747s and the postponement and the deferrals of deliveries in the last few years during the pandemic years. Across 2023 and 2024, we have 26 long-haul aircraft deliveries, most of which are those deferred aircraft now coming

in, with about half of these going into BA to rebuild their capacity. And we're bringing three aircrafts already in the fleet that we stored back into service. On the bottom left, you can see the mix of committed aircraft we're bringing in including the new 737 MAX starting delivery in 2025, the long-haul XLRs that Lynne talked about which start to be delivered in late 2024, early 2025 and the introduction of the triple seven nines, which come in right at the back end of 2026. You can see on the right that we are really modernising our fleet mix to new generation aircraft that are more cost and carbon efficient. This slide shows our expected ASK growth that those deliveries will give us. From 2019 to 2023 the decline is in line with the retirement aircraft that we've just shown you. We then have a step up next year to around six to eight percent increase in ASKs with both short-haul and long-haul up around the same levels. Short-haul driven by small increases in fleet count and gauge and utilisation, and long-haul are growing primarily due to the deferred planes being delivered this year and next. From thereon, we expect ASKs to grow on average by four to five percent per year with long-haul growing ahead of short-haul with line our deliveries and with our ambitions to strengthen our core profit pools and selective growth markets. This slide just sets out the thinking on our fleet financing and ownership. On the left you can see there are many things that we take into account when we're considering what sort of finance we're gonna do for our ownership, but most of all, we make sure we're optimising our funding principles based on kind of minimising our cost of capital, maintaining investment grades, balance sheet and ensuring we have a kind of a diversity of funds. We try and finance all of our aircraft and when we do, when we show the funding choices on the right, which demonstrates that we have a wide pool of supply and flexibility.

The fleet is currently around about 55% operating lease and about 45% owned and financed leased but rather than have a set percentage target for each of these, we balance them case by case based on optimising these real funding principles overall. Turning to the third priority, at the beginning of this session I mentioned it's important to invest in all of our stake holds to get that virtuous circle going. Over the next three years, we'll be investing 1.7 billion on IT making us more resilient and in our customer's digital experience we're investing 1.5 billion on our products to again improve customer experience in the airports

and on board, which we've already taken you through. We've also allocated investment in sustainability, particularly SAF that Jonathan's has

02:22:53:00 just taken you through, to enable achieving our industry leading target of ten percent by 2030. Returning cash to shareholders, an integral part of our total shareholder returns. In the five years leading up to the pandemic, we actually returned 4.1 billion euros to our shareholders. We're absolutely committed to generating sufficient free cashflow to enable us to return to paying a dividend

02:23:21:40 in the very near term. We want this to be sustainable so we will review our exact timings regularly over the next year or so and will return as soon as possible once we've ensured two things, we can invest in our strategy with total confidence including the acquisition of Air Europa and that our balance sheet continues to be secure. Just touching on Air Europa, in February we

02:23:46:18 announced the acquisition that anticipate the completion to be towards the back end of 2024. On this page, I've reminded you of the deal terms and we're working with the European Commission to complete this as fast as possible. The purchase price was fixed at 400 million euros a year ago for the remaining 80% and we expect this transition to have a limited impact on our

02:24:15:19 balance sheet overall. So, to summarise our financial ambitions over the medium term. On a balance sheet framework with our focus on free cashflow and disciplined capital allocation, we'll manage our net debt leverage to less than 1.8 times. With a rigorous approach to capital discipline, we're prioritising where we spend our capital across the fleet, customers and infrastructure

02:24:41:19 and we have plans to spend about 4.5 billion euros per year. On returns, with the investment in our network and customers supporting our yields and the forensic analysis of costs and processes, we believe the margins of 12 to 15% and returns of 13 to 16% across the cycle, are realistic and achievable in the medium term. In the near term, we do want to ensure that we can secure

02:25:07:03 our balance sheet and invest in our business with confidence and once we have this confidence, the focus on cash flow and world class margins allows us to be committed to dividends and returning excess cash to shareholders. So, in conclusion, I hope you've taken away today that we're really focusing on really three kind of key things overall. One, overall transforming our

02:25:30:25 business but really leveraging the Spanish platform and really becoming a much more balanced business as a result of it. We're investing in British Airways to get

back to really strong returns but also good operating as well and we've got a really growth platform, a great growth platform in loyalty overall. So, those things together with our disciplined approach to capital