

# Capital Markets Day

8 November 2019



# Agenda

08.30	30 mins	<i>Registration and Breakfast</i>		
09.00	10 mins	Opening remarks	Antonio Vázquez	IAG Chairman
09.10	30 mins	Strategic investment case	Willie Walsh/ Alistair Hartley	IAG CEO/ IAG Director of Strategy
09.40	30 mins	Sustainability	Willie Walsh	IAG CEO
10.10	30 mins	IAGTech	John Gibbs	IAG CIO
10.40	30 mins	IAG Loyalty	Drew Crawley	Avios CEO
11.10	20 mins	<i>Coffee</i>		
11.30	45 mins	Financial investment case	Steve Gunning	IAG CFO
12:15	15 mins	Air Europa	Luis Gallego	Iberia CEO
12.30	1 hour	Conclusion and Q&A	Willie Walsh	IAG CEO
13.30		<i>Lunch</i>		

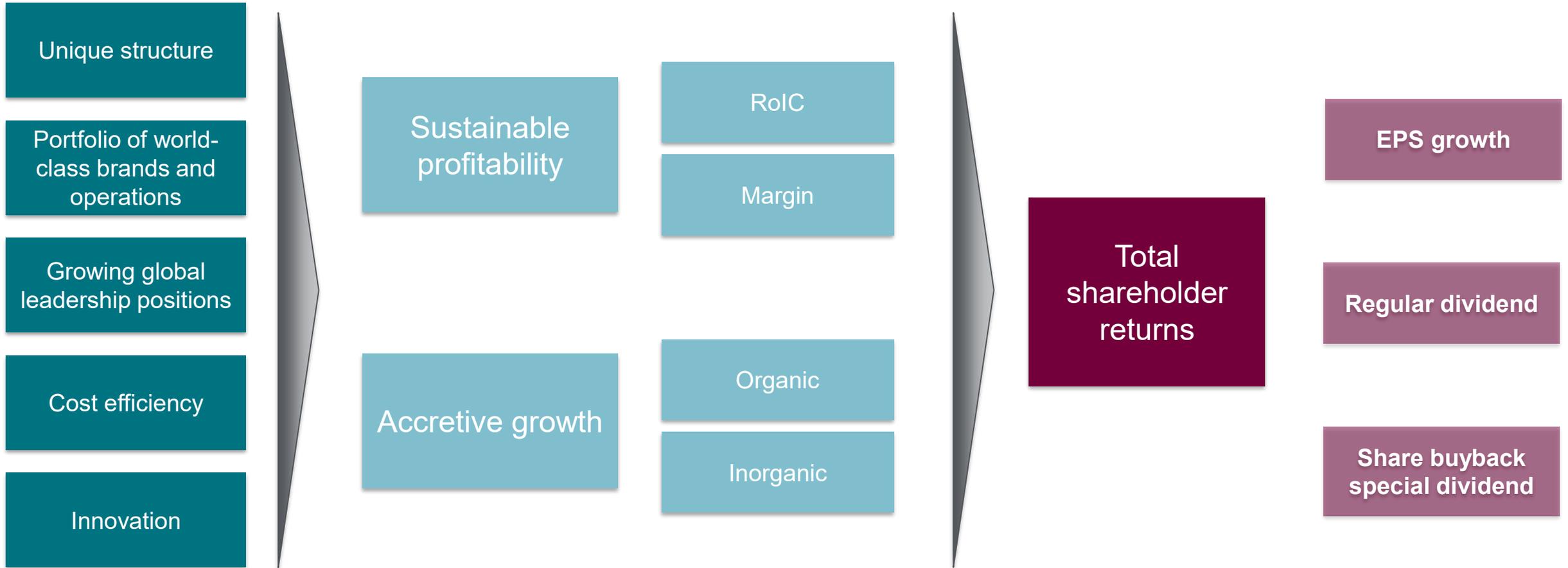
# Strategic Investment Case

**Willie Walsh – IAG CEO**

**Alistair Hartley – IAG Director of Strategy**

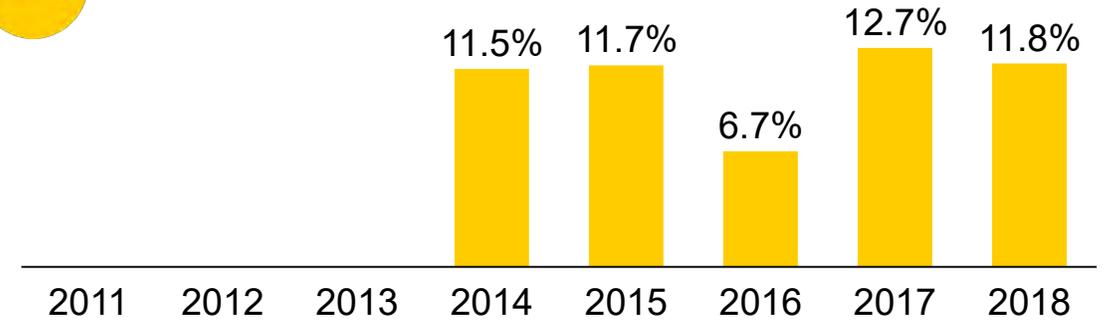
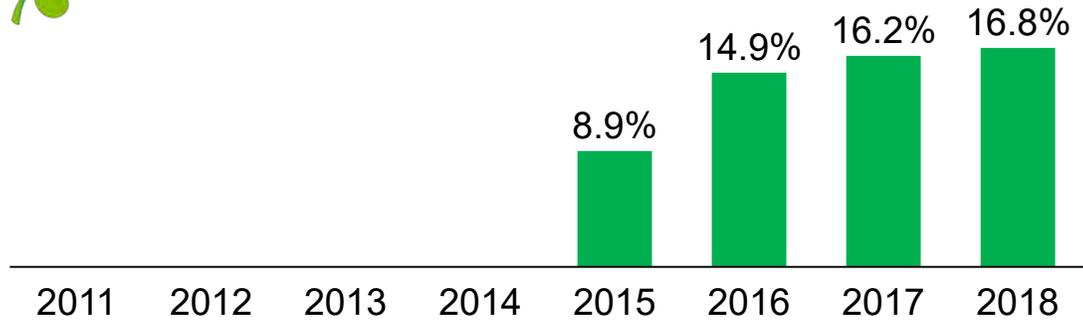
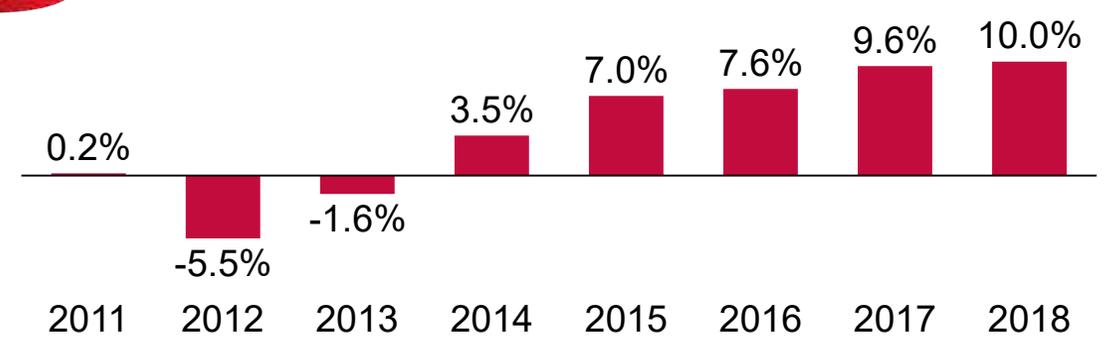
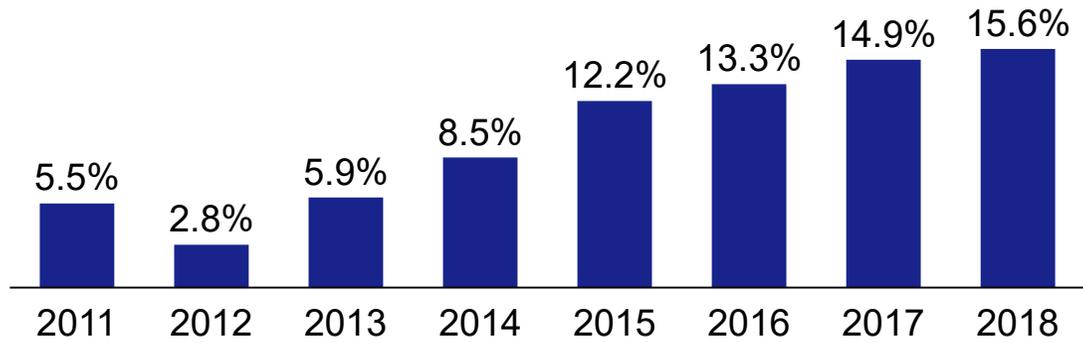
# The IAG investment case

A unique structure that drives growth and innovation to generate superior shareholder returns



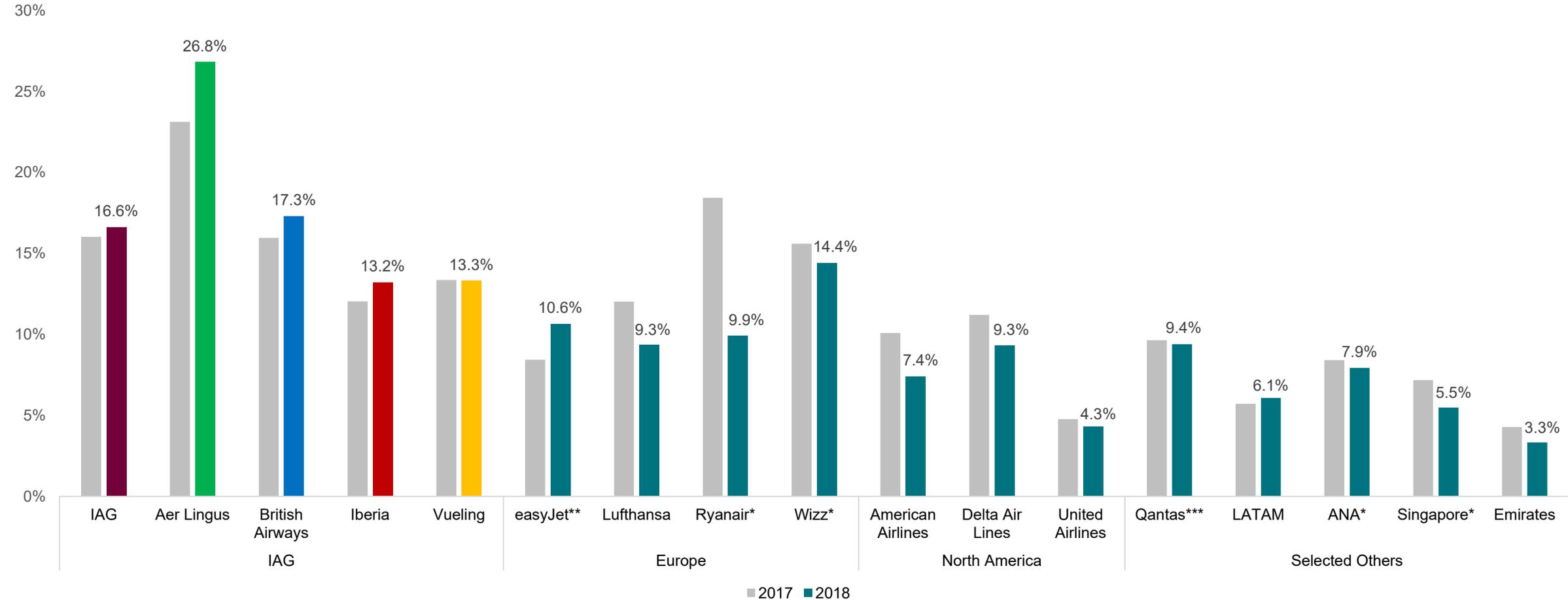
# Our unique model has supported business transformation...

## FY Lease Adjusted Operating Margin\* (%) by IAG airline OpCo



# ...and enabled market leading returns...

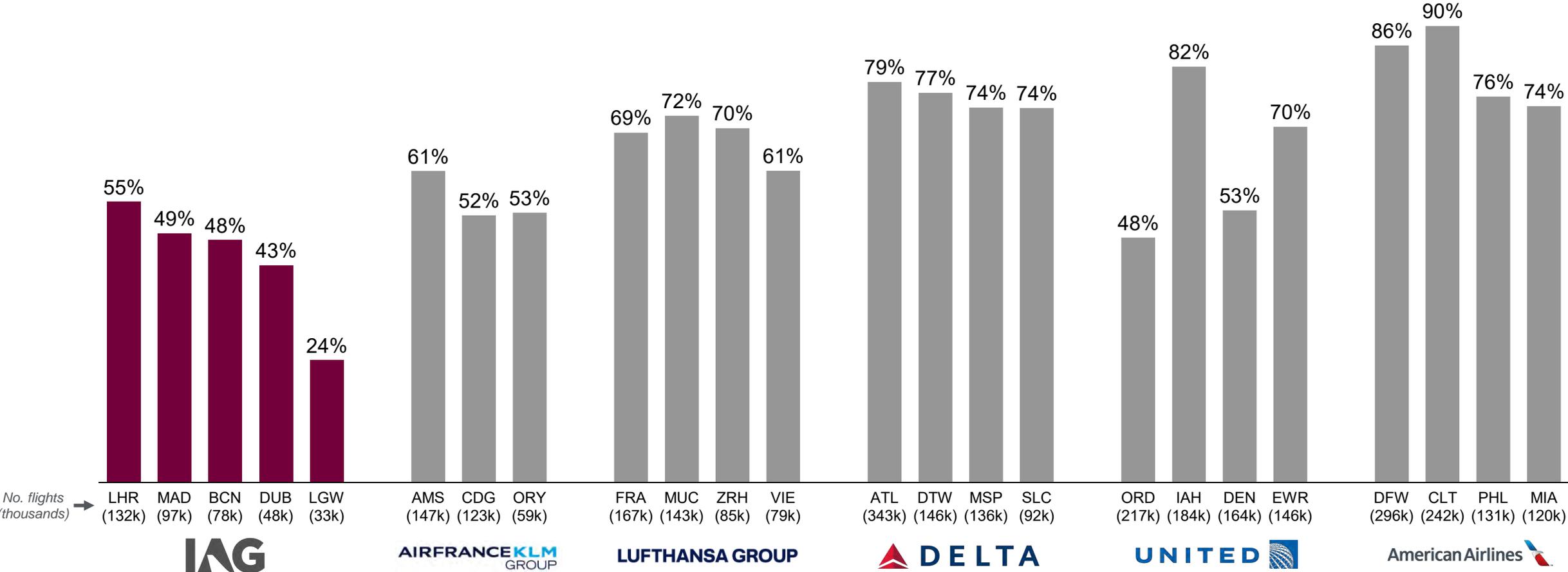
Return on Invested Capital^ (RoIC %) for IAG and OpCos compared to selected peers – 2018



**IAG** Source: Latest Annual Accounts. \* Year ending 31 March 2019 \*\* Year ending 30 September 2018 \*\*\* Year ending 30 June 2019  
 ^ Calculated using the formula laid out in IAG's Annual Report 2018

# ...in highly competitive markets

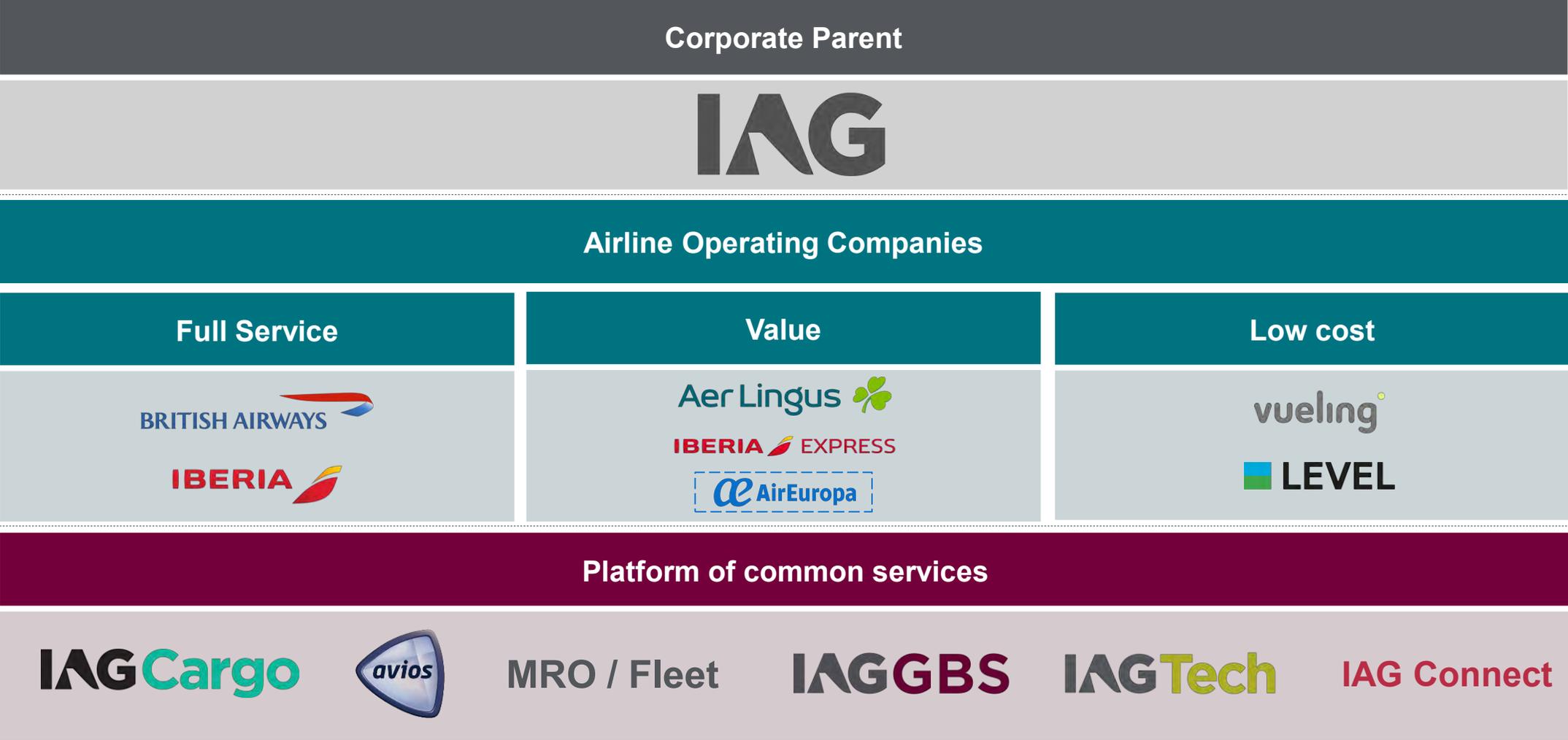
## Share of flights to / from major hubs – 2019



# Unique Structure



# IAG's unique operating model



# Clear areas of focus

## Corporate Parent

- Sets the long term vision for the Group
- Defines portfolio attractiveness and makes capital allocation decisions
- Exerts vertical and horizontal influence across the Group

VS

## Airline Operating Company

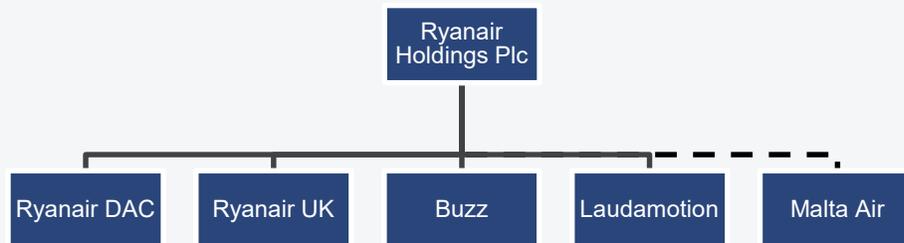
- Deep and real-time understanding of customer and competitive environment
- Define product strategy for target customer segments
- Standalone profit centres and independent credit identities
- Individual brand, cultural identity and management teams

# Major competitors are now seeking to adopt the IAG operating model



*Ryanair recently said the holding company will “focus upon efficient capital allocation cost reductions, aircraft acquisitions and small scale M&A opportunities”*

## Group structure:



- Lufthansa currently has no central holding company, with the airline itself being the parent and largest OpCo in the Group
- German newspaper Handelsblatt recently reported Lufthansa is considering adopting a corporate holding structure, citing unnamed sources
- Lufthansa publicly stated that ‘it reviewed its group structure at regular intervals’

# IAG believe there are opportunities to unlock next level synergies with an evolution of the model

Core activities	Major areas of responsibility	OpCo distinct	Hybrid	Group Platform
<b>Customer and product</b>	1. Service design and delivery	●	○	
	2. Hard product design	●	○	
	3. Brand and marketing	●	○	
<b>Commercial</b>	1. Pricing and revenue management	●		○
	2. Sales and distribution		●	○
	3. Loyalty	●		○
<b>Network and strategy</b>	1. Network development	●	○	
	2. Fleet planning and procurement		●	○
	3. Strategy		●	
<b>Operations</b>	1. Safety and operational standards	●		
	2. Engineering and maintenance		●	
	3. Flight and cabin crew	●		
<b>Corporate</b>	1. Treasury			●
	2. Finance		●	
	3. HR	●		
	4. Talent		●	○
	5. IT		●	

**Legend**

Today (●) → Tomorrow (○)

**OpCo distinct:**  
Individual OpCo systems, processes and decision making

**Hybrid:**  
Central group direction but enacted by the OpCos

**Group Platform:**  
Co-ordinated and consistent across the Group

Illustrative diagram, not an exhaustive list of all current / future activities and their control.

# IAG's refreshed Management Committee



Comprised of the airline and platform CEOs and IAG's senior management (CFO, CIO, Chief of Staff, Director of Strategy and General Counsel)

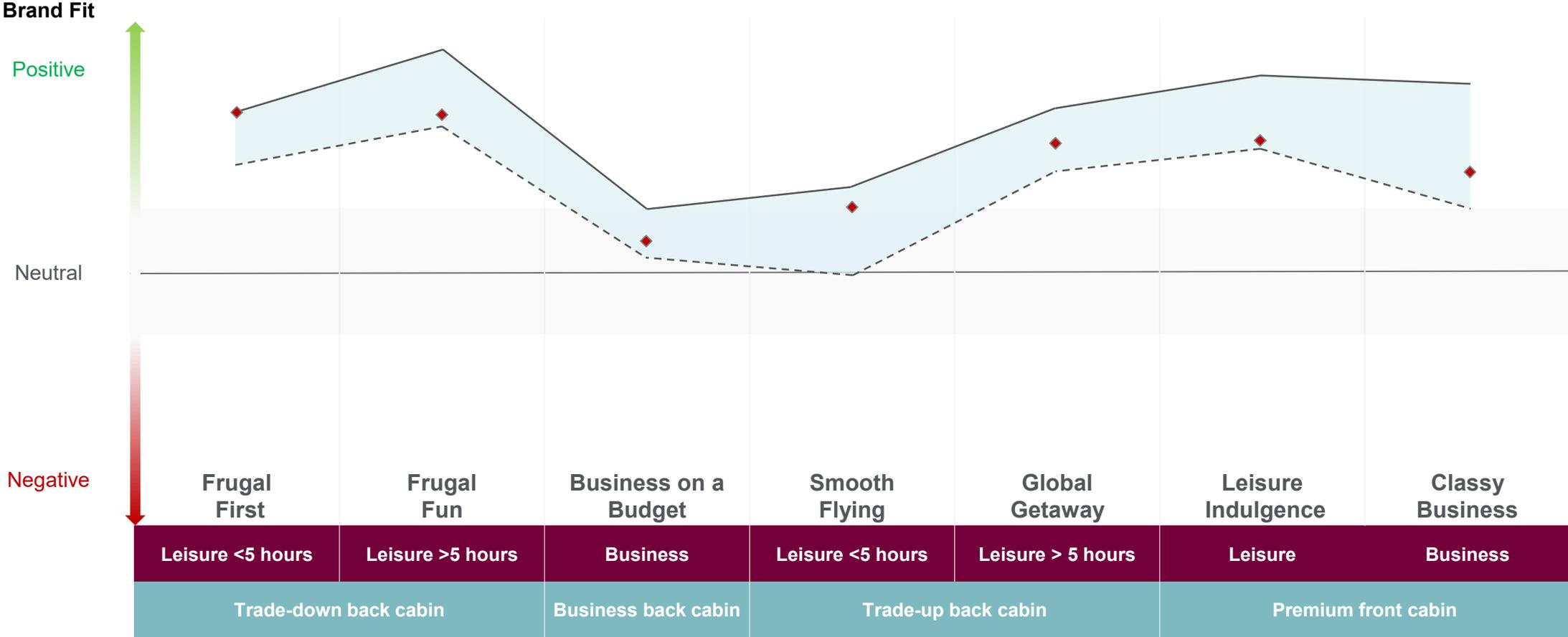
# Portfolio of world-class brands



# IAG's portfolio approach enables our brands to focus on meeting the specific needs of target customers



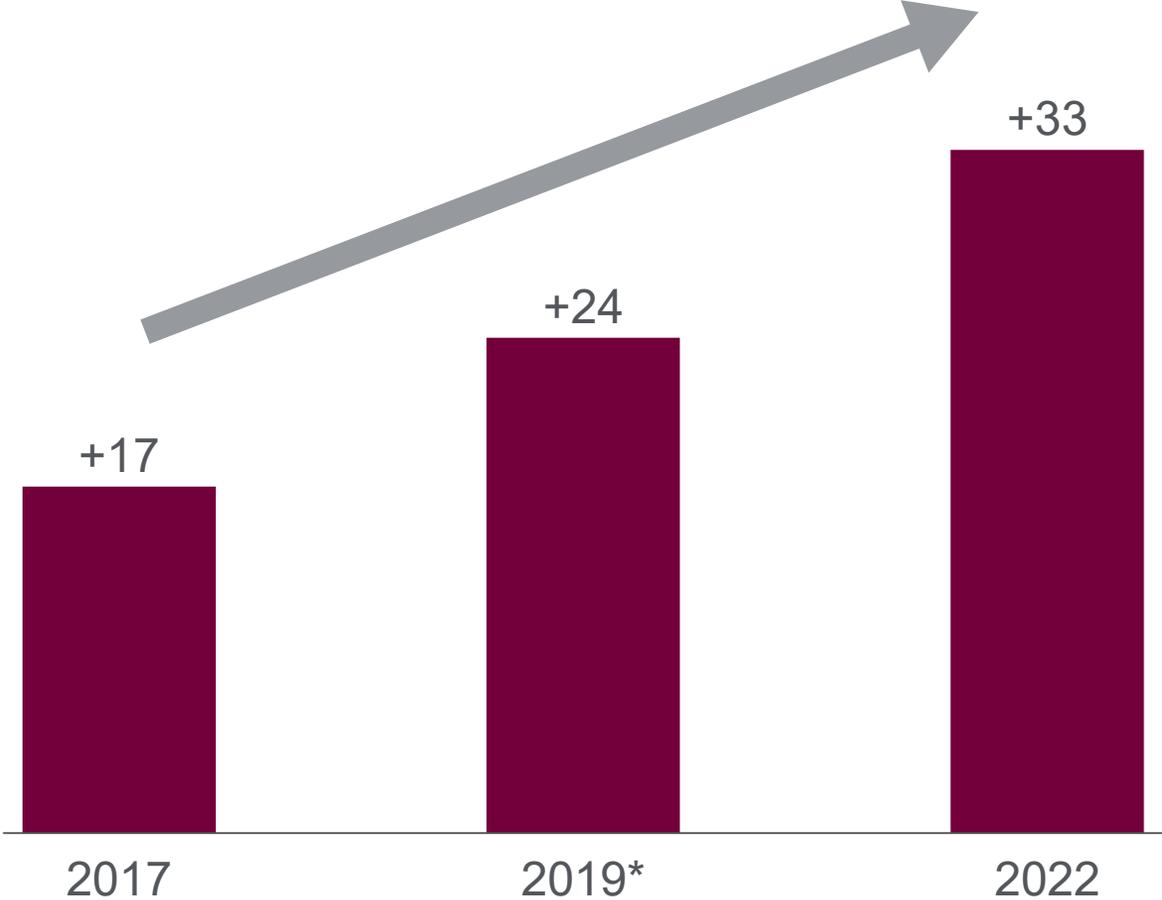
# We are targeting leadership in each demand space, and recognise where we need to improve



**Legend:**  
 ◆ Leading competitor    -- IAG brands today    — IAG brands 5-10 years

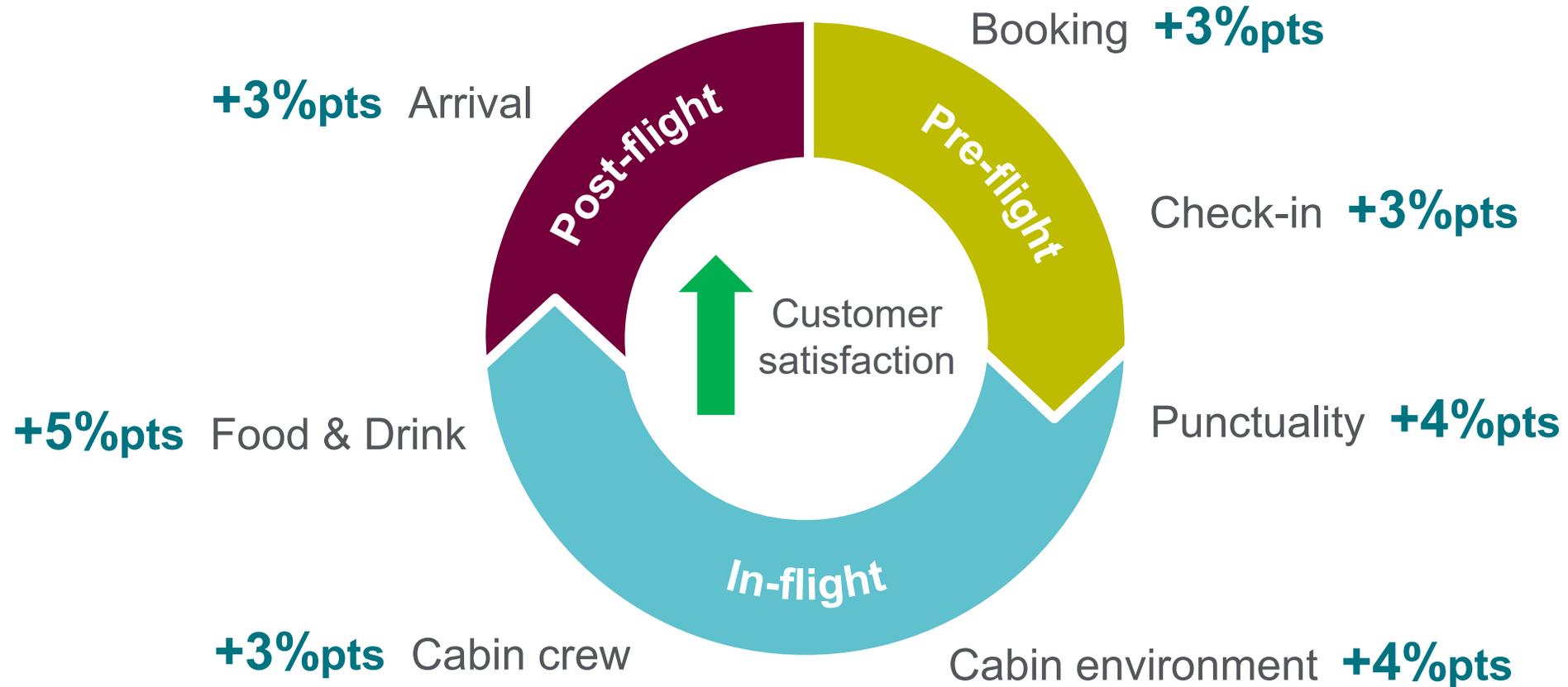
# NPS has improved, and more is to come as we invest in our product

IAG Net Promoter Score (NPS)



# Customer satisfaction is already improving across the customer journey

## IAG customer satisfaction improvements\* - 2019 vs 2018



# British Airways investing £6.5bn to improve customer satisfaction...

## Lounges



Refurbished lounges at ABZ, FCO, JFK & SFO

**+12%pts** ↑

Lounge experience

## Aircraft refurbishment



LGW 777s with updated WT/WTP and selected 747s with updated IFE

**+23%pts** ↑

Cabin environment

## Catering & soft product



Refreshed menus across all cabins

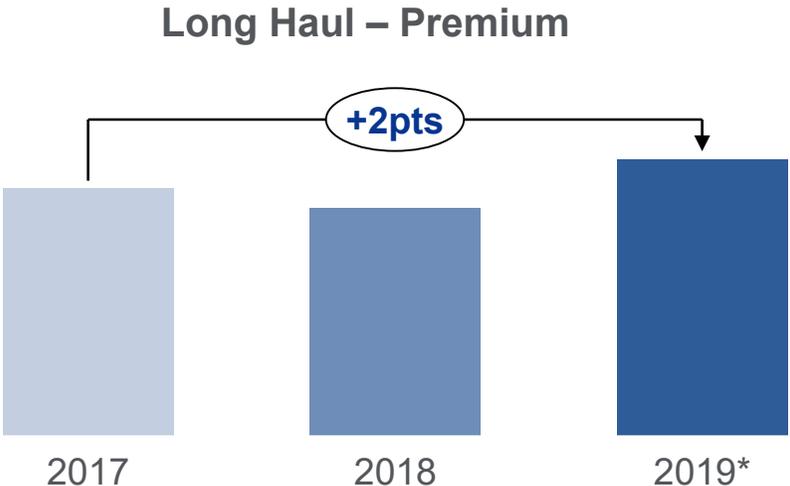
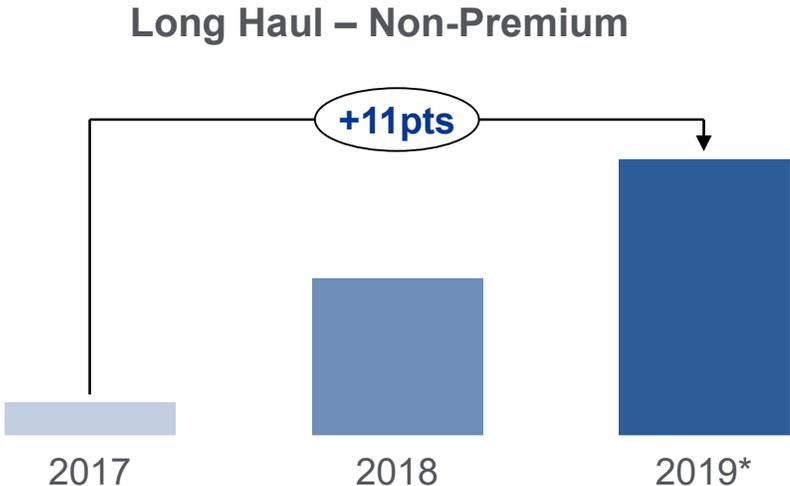
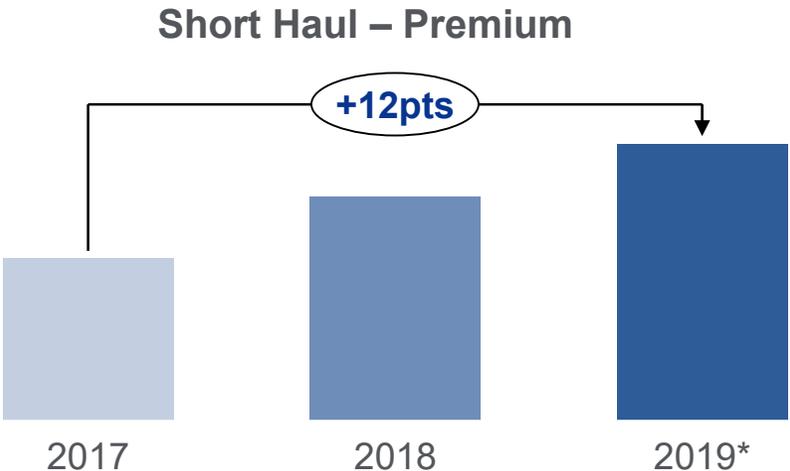
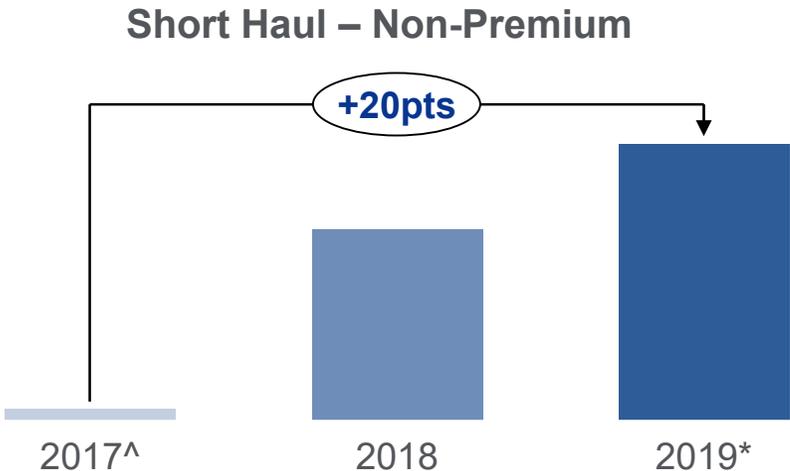
**+12%pts** ↑

Food & drink

Significant recent investments as part of current BP period

Related customer satisfaction improvement\*

# ...with positive NPS growth seen across all cabins...



# ...and new aircraft and the Club Suite receiving excellent reviews



“Great new hard product that can finally compete, excellent food and a lovely crew.”

**The Points Guy**

“This is an excellent seat ... It offers direct aisle access to every passenger, has privacy – unlike the current one you don’t have to make eye contact with anyone, and it is comfortable for sitting, working and sleeping.”

**Business Traveller**

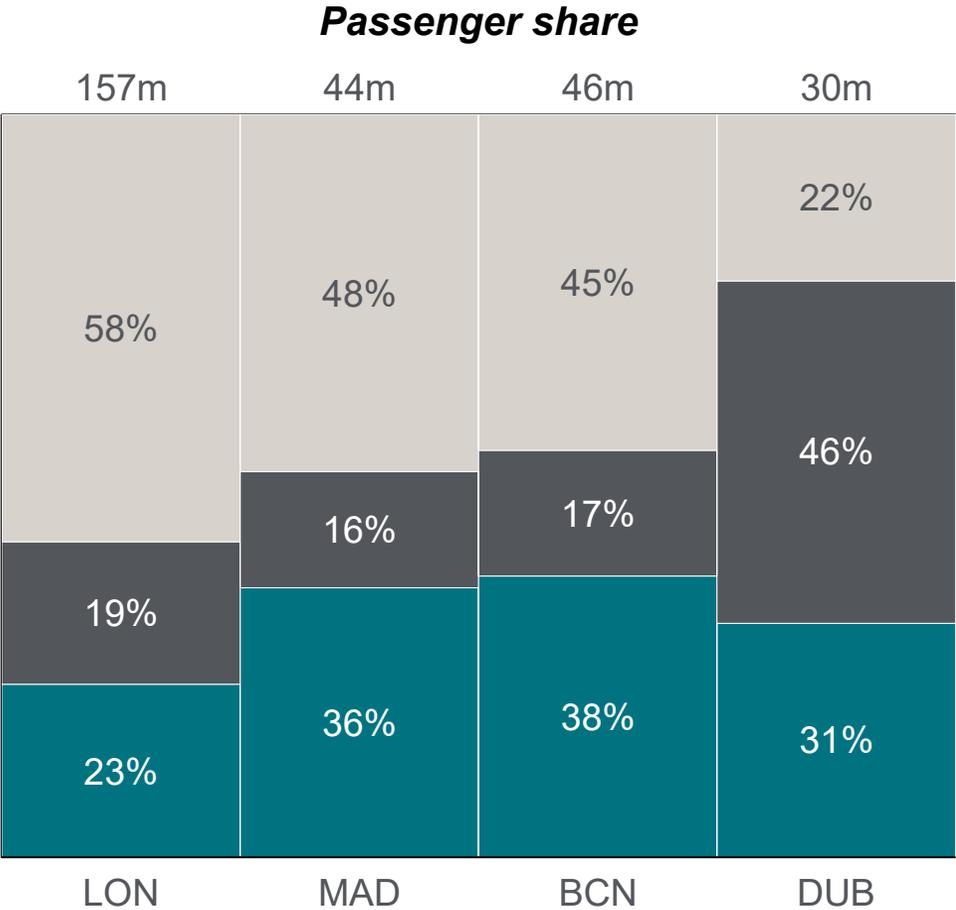
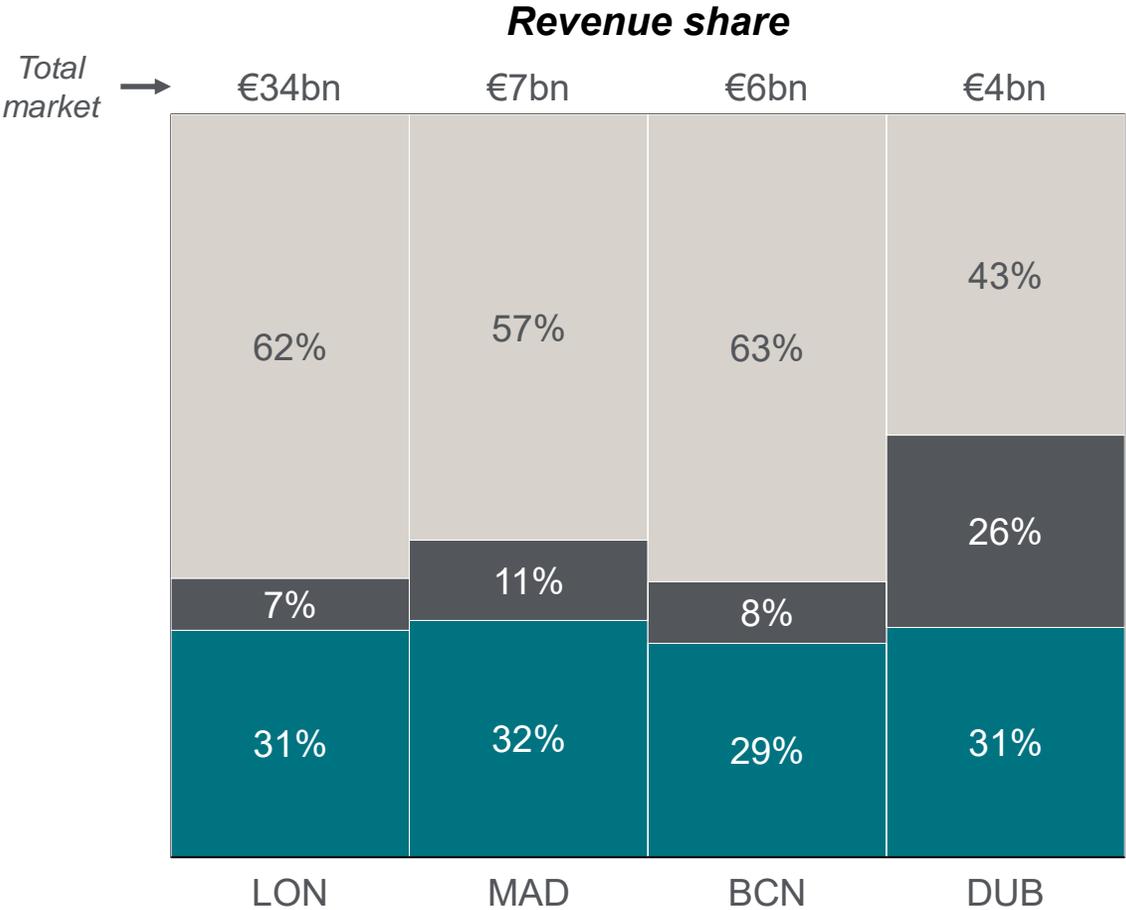
# Growing global leadership positions



# IAG holds attractive leadership positions in each of its home markets

Top carriers from IAG home markets - TTM to August 2019

Other carriers    Next competitor    IAG

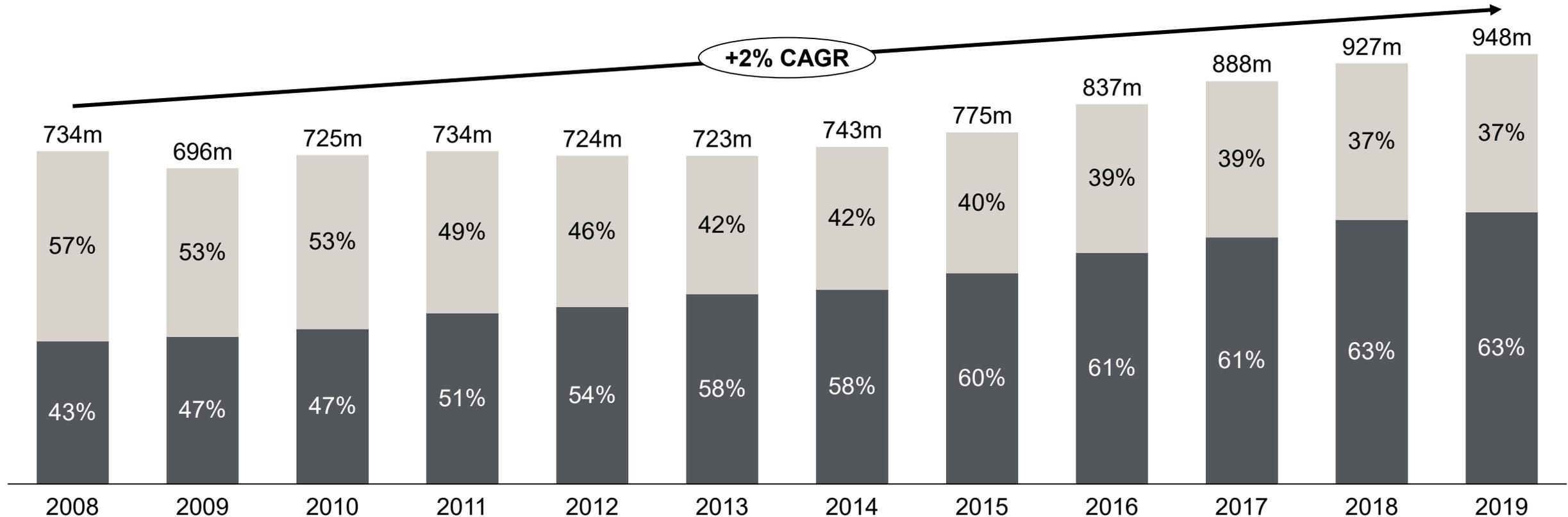


# The market has already seen significant consolidation

63% of the European short-haul market is represented by 5 airline groups - a c.20ppt increase since 2008

## Intra-Europe available seats, today's 5 largest airline groups

Other Lufthansa, Ryanair, IAG, easyJet, AF/KLM



# Changing dynamics will make continued operation harder for weaker players...

## Reports of credit card companies withholding airline payments

THE  TIMES

### Credit firms put squeeze on Flybe

**Bloomberg Opinion**

### Norwegian Air Hopes You Won't Pay by Credit Card

Dealing with card processors has made life difficult for the company, which remains in a tight spot.

 Simple Flying

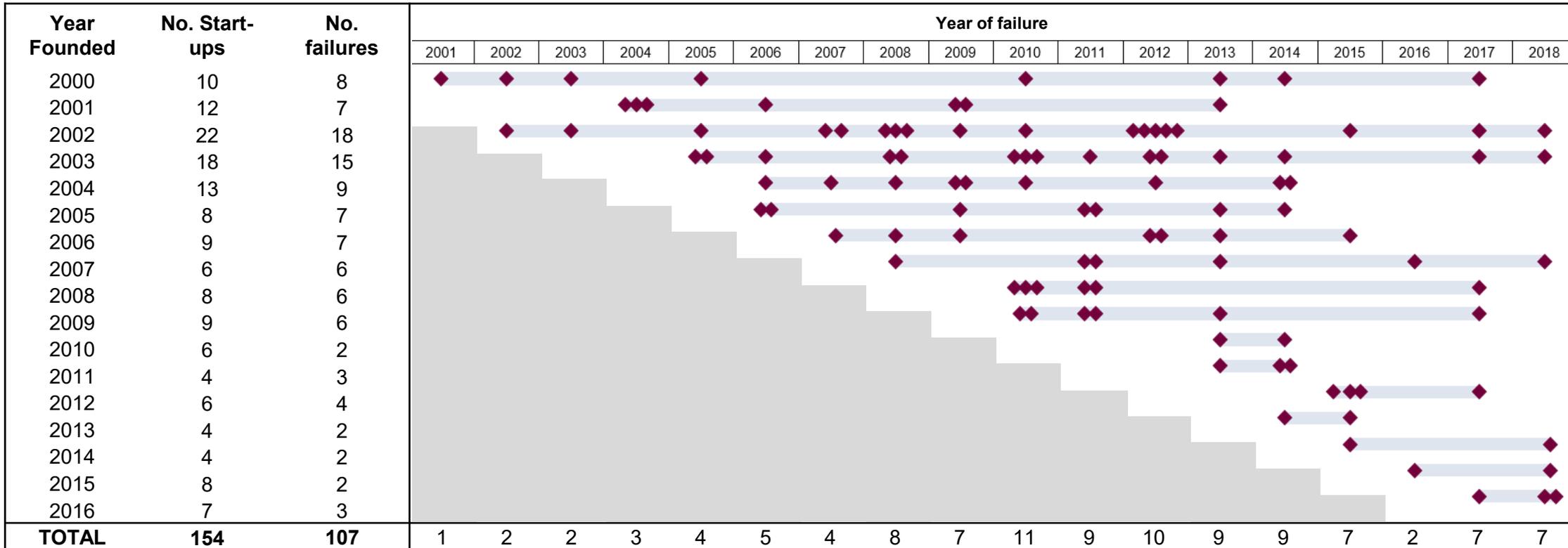
### Credit Card Companies Looking To Withhold Thomas Cook Payments

- Significant reduction in working capital for airlines when customer payments are withheld before departure
- IAG estimates advanced sales from credit cards could be up to €10m per long haul aircraft
- These changes make it harder for airlines to navigate typical industry seasonality

# ...in a market which is increasingly difficult for new entrants...

European Short Haul airlines founded between 2000 and 2016 last an average of 6 years...at a failure rate of c.70%

## Start-up airline failures in Europe\*



# ...and has recently seen significant failures, for both new and established airlines



Founded: 1967  
Failed: 2017



Founded: 1978  
Failed: 2019



Founded: 2009  
Failed: 2018



Founded: 2000\*  
Failed: 2019



Founded: 1995  
Failed: 2019



Founded: 2011  
Failed: 2019



Founded: 1946  
Failed: 2019



Founded: 1979  
Failed: 2017



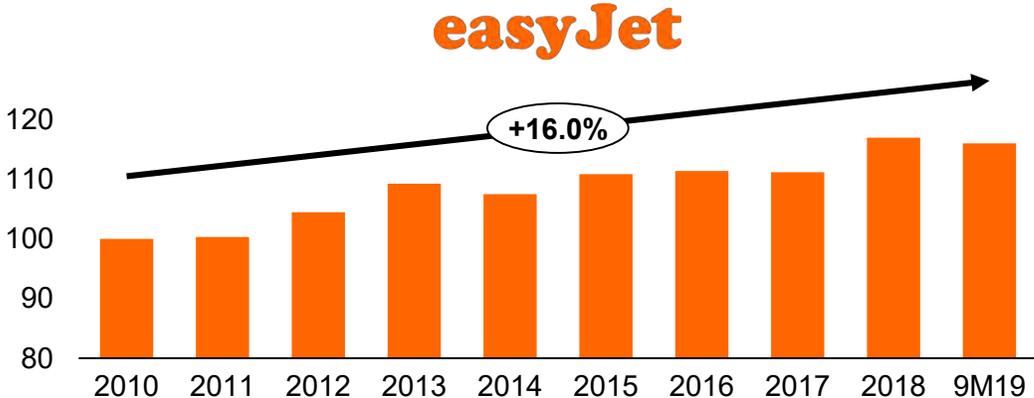
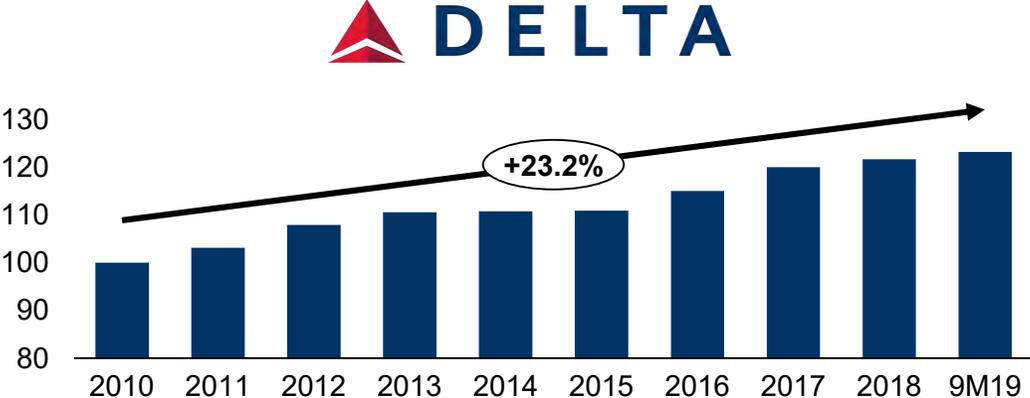
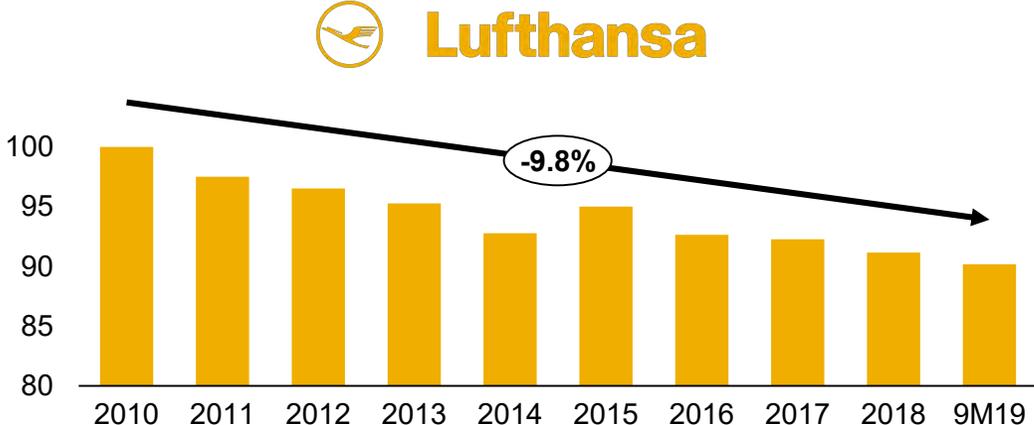
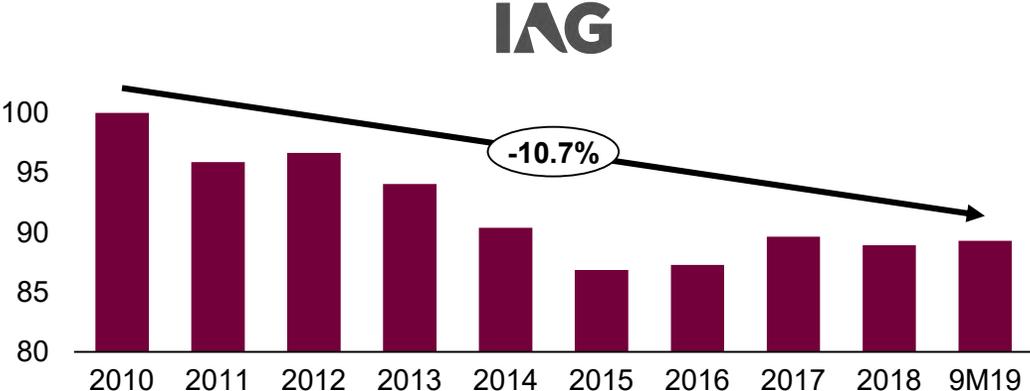
Founded: 2016  
Failed: 2018

# Cost efficiency & innovation



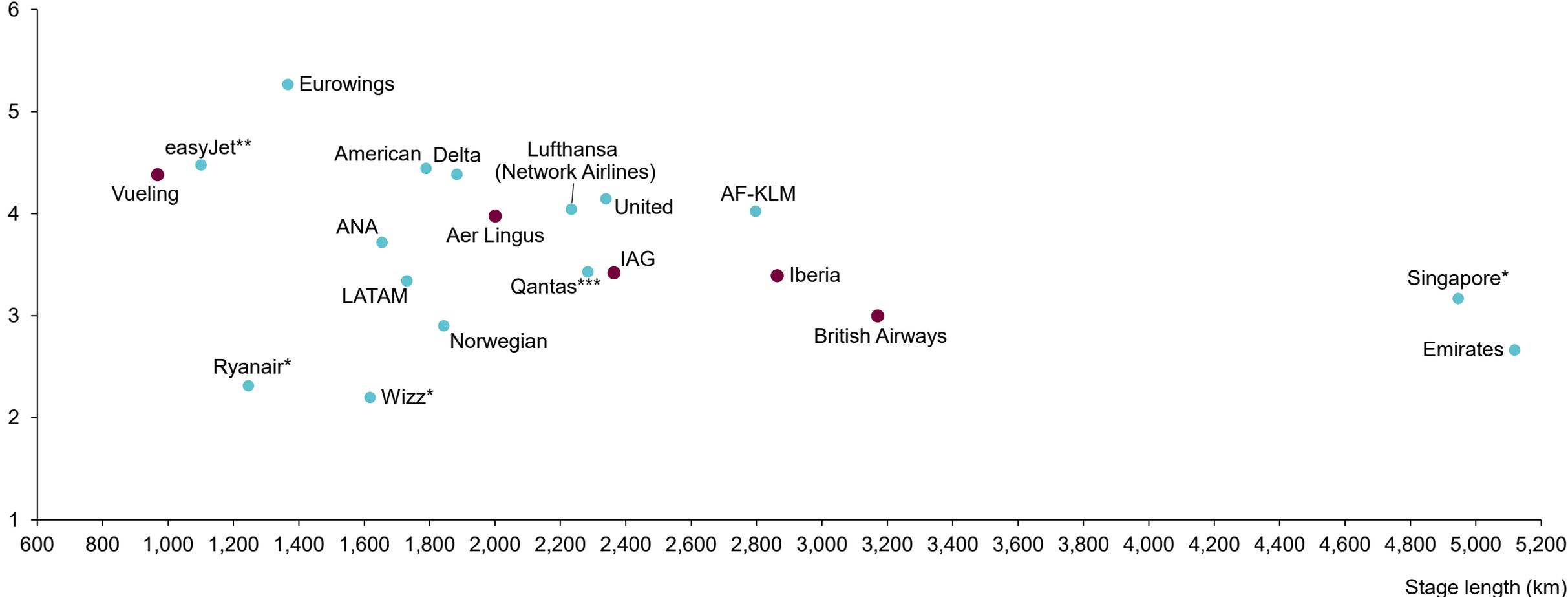
# IAG are leaders in driving cost efficiency...

## Non-fuel unit cost performance 2010-YTD



# ...with each of our OpCos positioned competitively against their peers

2018 non-fuel cost per ESK^ (€ cents)

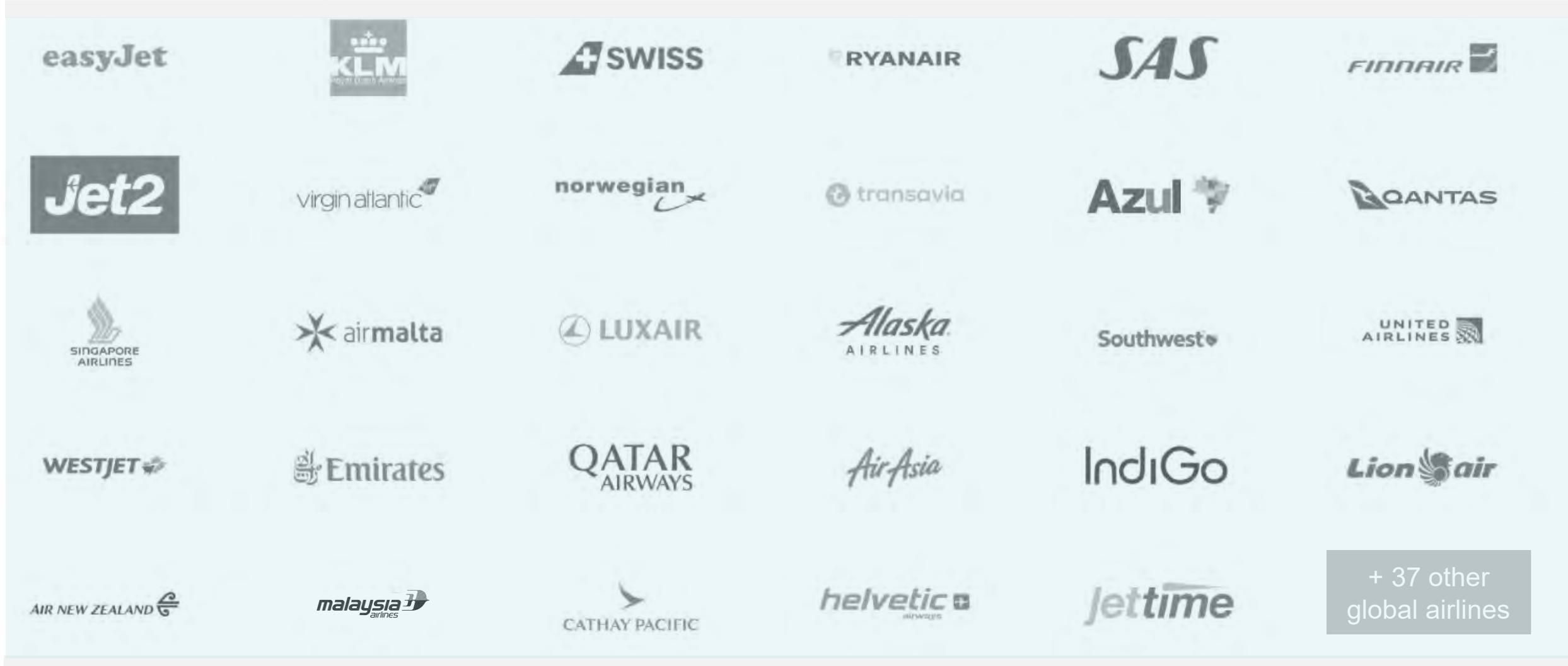


Source: Internal analysis and latest Annual Accounts. \* Year ending 31 March 2019 \*\* Year ending 30 September 2018 \*\*\* Year ending 30 June 2019  
 ^ Where appropriate, airline only related costs have been used. ESK = Equivalent Seat Kilometre, used to align cost bases across different configurations

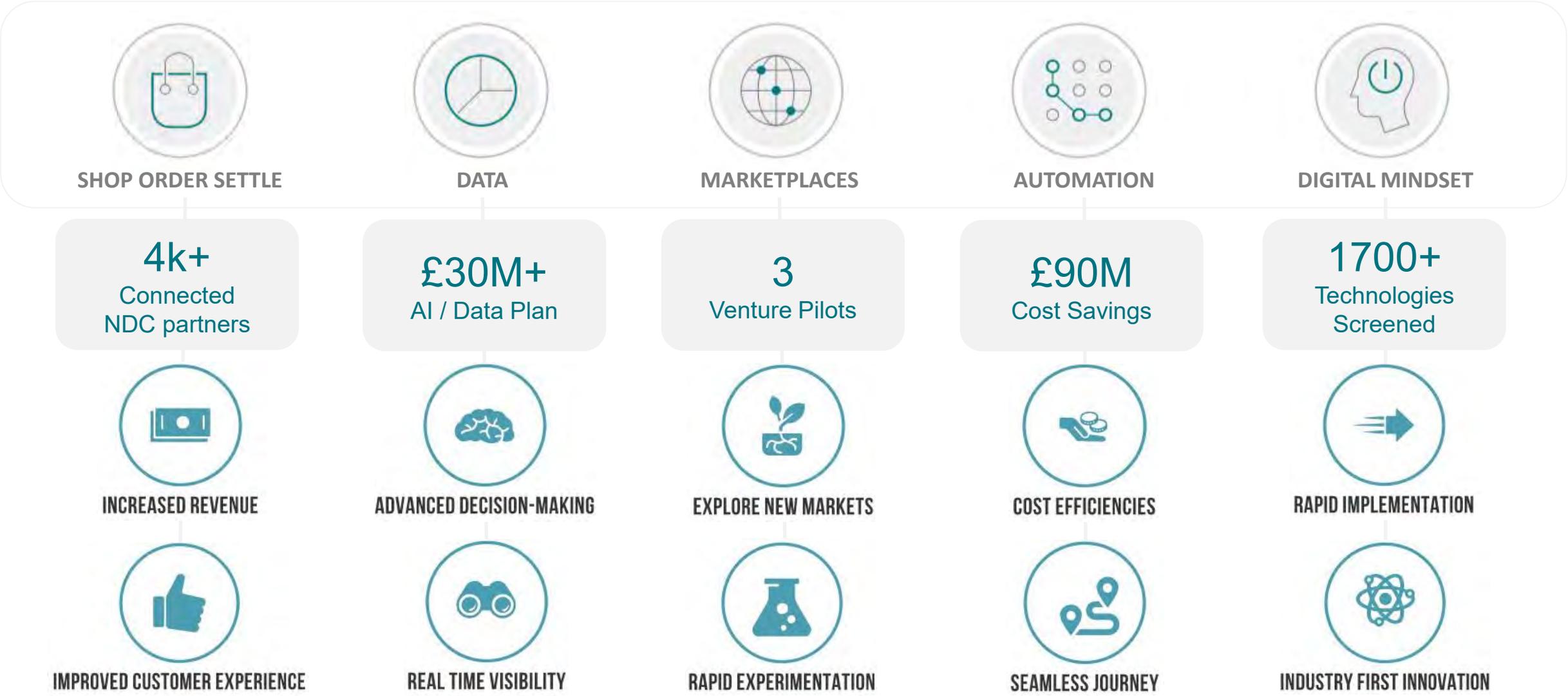
# IAG ranked #1 for Digital Transformation



Frost & Sullivan Global Airline Digital Transformation report benchmarked IAG alongside 65 other global airlines and airline groups including:

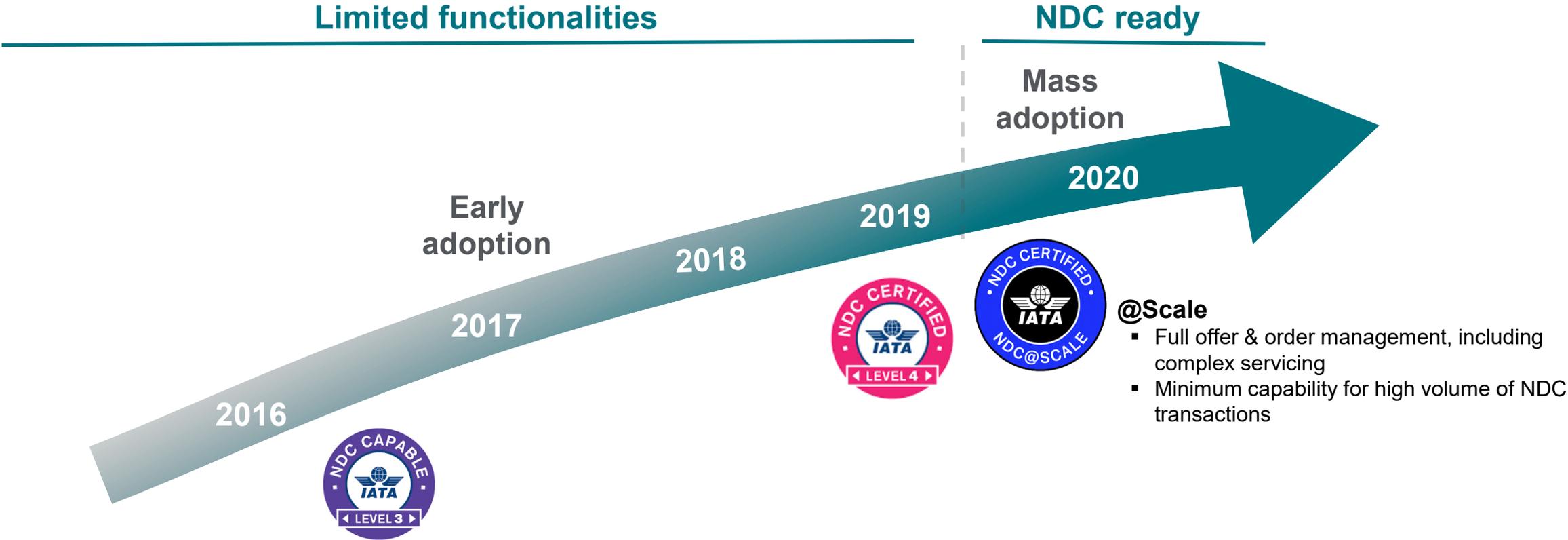


# Digital Transformation's unlocking significant early value



# Comprehensive NDC solution in place for British Airways and Iberia...

IATA @Scale certification planned in Q4/19



BA, IB, AA, LHG and QF are at the forefront, with highest IATA NDC certification in Q4/19

# ...impressive growth in 2019 and forecast to exceed IATA 2020 target\*



## Accelerating deployment of unique content via Digital channels<sup>^</sup>

### Already available

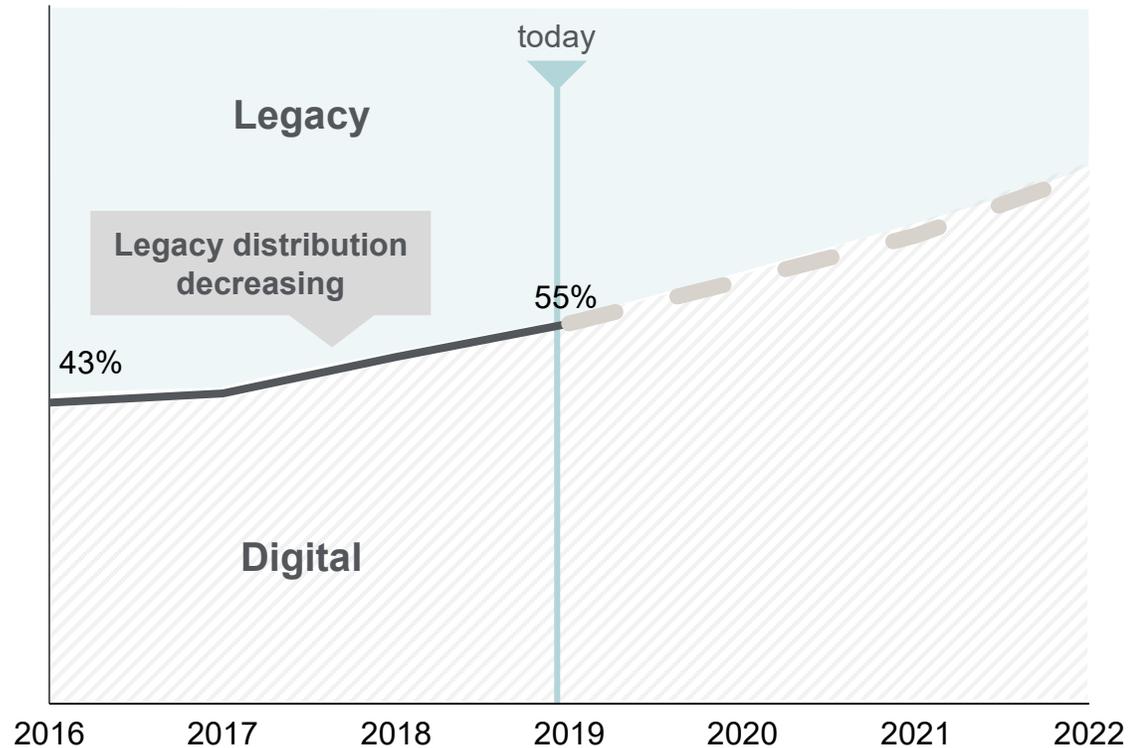
- Exclusive ancillaries
- Exclusive tactical campaigns
- No Distribution Technology Charge applied
- Additional price points on Short Haul (SH) and selected Long Haul (LH) markets

### Coming in Q4 2019 / Q1 2020

- 3 times more price points on long haul (including North Atlantic)
- Exclusive hand baggage only fares

# On a fast track path towards efficient and modern digital distribution

End Year Volume Share\* (%)



## Long Term Objectives

- **Increased revenue** from enhanced retailing capability
- **Meeting customer expectations** with more choice, an omni-channel seamless customer experience and lower consumer prices
- **Lower net cost of distribution** through efficient digital distribution





# IAG

## Sustainability

# IAG is committed to being leaders in sustainability

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## What do we mean by sustainability?

- Committed to being the leading airline group on sustainability
- Environmental considerations integrated into business strategy
- Using our influence to drive progress across the industry
- Climate change is our main sustainability focus
- Other material issues include noise and waste management, supply chain, governance and workforce
  
- IAG has a track record of leadership on environmental issues over the past 20 years:
  - First airline to report its carbon footprint (BA, 1992)
  - The first airline to set a fuel efficiency target (BA, 1999)
  - The first airline to participate in (UK) emissions trading (BA, 2002)
  - Early pioneer in exploring sustainable aviation fuels (2010)



# IAG integrates sustainability into business strategy

## OpCo business planning

- Integrate sustainability into business plans
- Carbon prices factored in fleet purchasing decisions
- Climate-related risks integrated into Enterprise Risk Management process
- In 2018 undertook detailed scenario planning of the potential impacts of climate change on our business in 2030

## Business incentives and disclosures

- Considering business incentives aligned to climate targets
- Regular and robust external non-financial disclosures with third party verification
- Detailed carbon disclosures through the CDP (Carbon Disclosure Project)

## Governance

- IAG Board review and approve:
  - sustainability strategy
  - annual disclosures
  - major climate-related investments
  - Group risk management and control policy
- IAG Management Committee assesses, challenges and sets the strategic direction
- Sustainability programmes coordinated at Group level

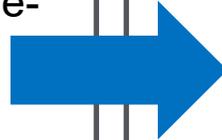
# **Climate change – the big picture**

# 1.5°C warming and net zero emissions now the new focus

## Global agreements on Climate Change

### Paris Accord 2015: 2°C warming limit

- Atmospheric CO<sub>2</sub> concentration is now 415 parts per million (ppm) versus 270ppm in pre-industrial period
- Global average temperature is now 1.1°C above the pre-industrial period
- A concentration of 450 ppm will mean warming of 2°C
- Scientists and policy-makers agreed need to limit warming: **Paris Accord (2015) in which 195 countries agreed to limit warming to 2°C**



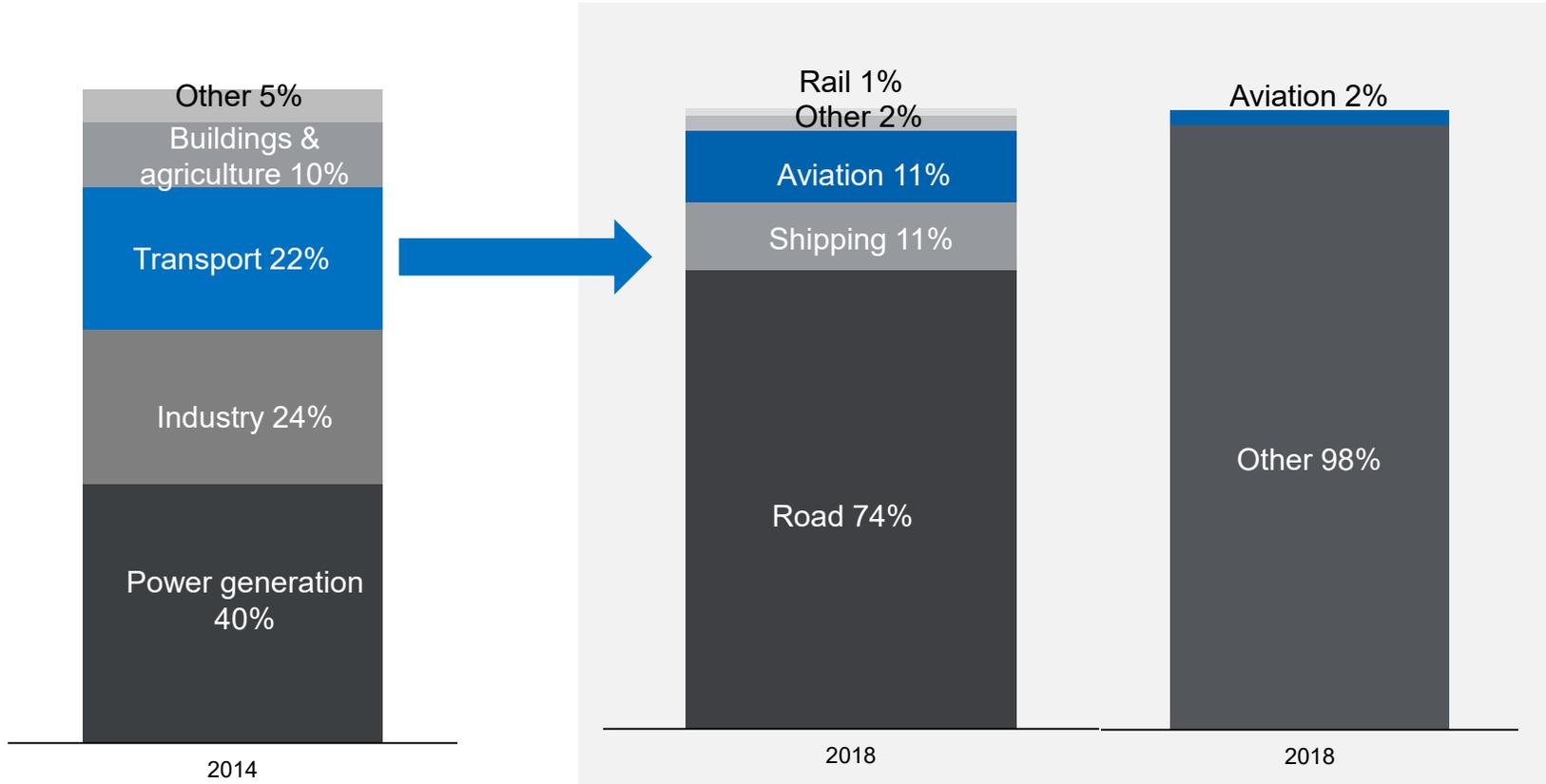
### IPCC Report 2018: 1.5°C warming limit

- Paris Accord included aspiration for 1.5°C warming limit
- 2018, UN Intergovernmental Panel on Climate Change (IPCC) reported on 1.5°C warming:
  - To remain below 1.5°C, global emissions must:
    1. Reduce 55% from 2018 to 2030 (vs by 2050 for a 2°C target)
    2. Be “net zero” emissions globally by 2050
- “Net zero” means any CO<sub>2</sub> emitted in a year is balanced out by CO<sub>2</sub> absorbed in that year
- Over 70 countries and 85 companies are now committed to net zero by 2050 or sooner
- Some countries have committed to this in law including UK and France

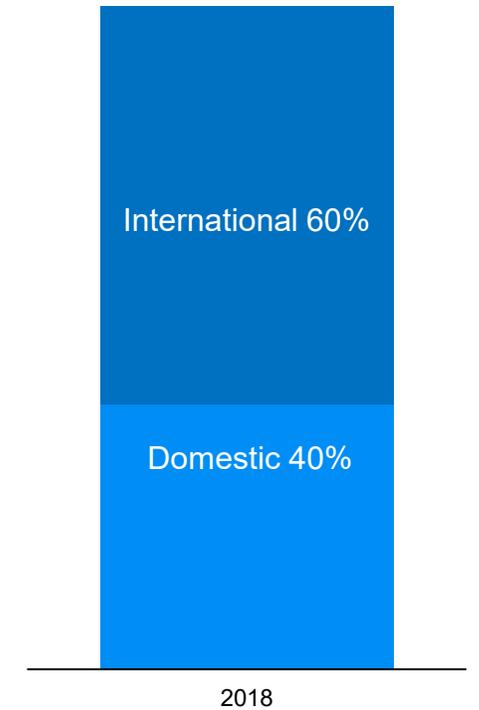
# Aviation contributes 2.4% to global CO<sub>2</sub> emissions

>85% of aviation emissions are from journeys of over 1,500km where there is no viable alternative

Global CO<sub>2</sub> emissions by industry



Aviation CO<sub>2</sub> emissions

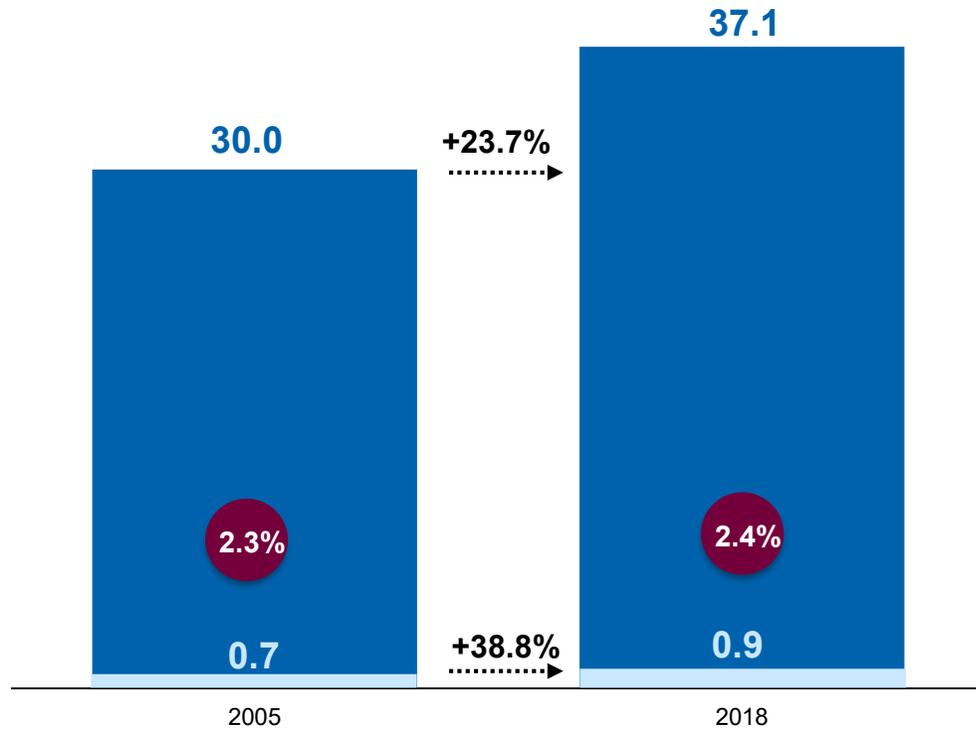


# To secure its future, aviation has to commit to Net Zero

Without action, aviation emissions could double while global emissions stabilise

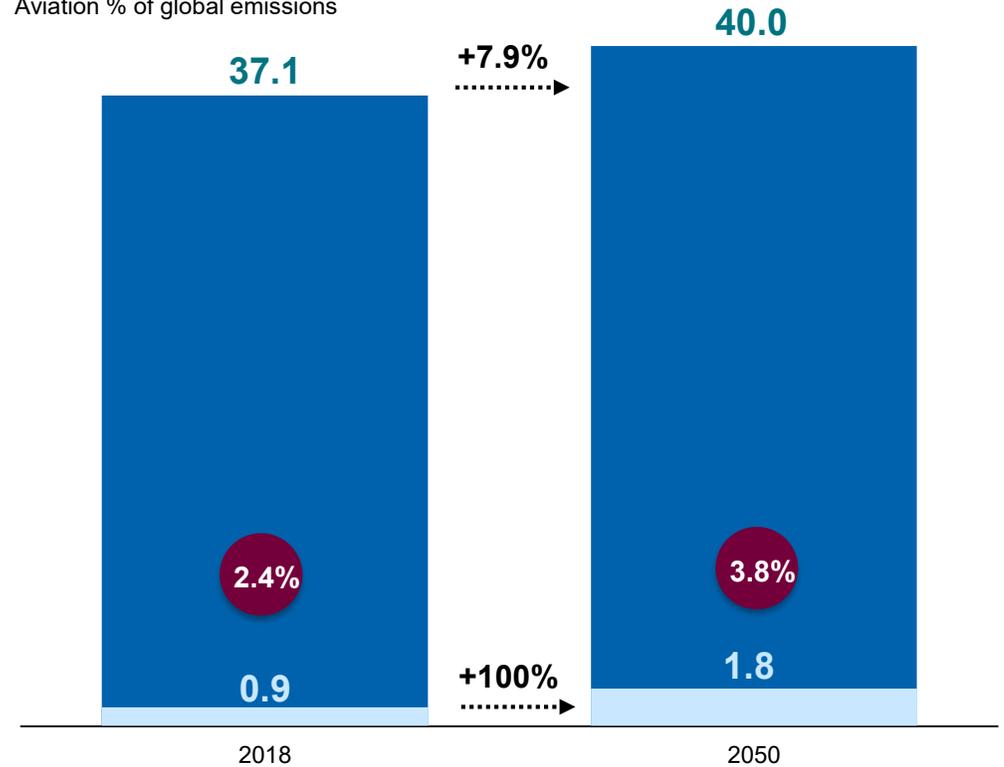
Global and aviation CO<sub>2</sub> emissions: 2005 – 2018

- Global emissions
- Aviation emissions
- Aviation % of global emissions



Global and aviation CO<sub>2</sub> emissions: 2018 – 2050 (no further action)

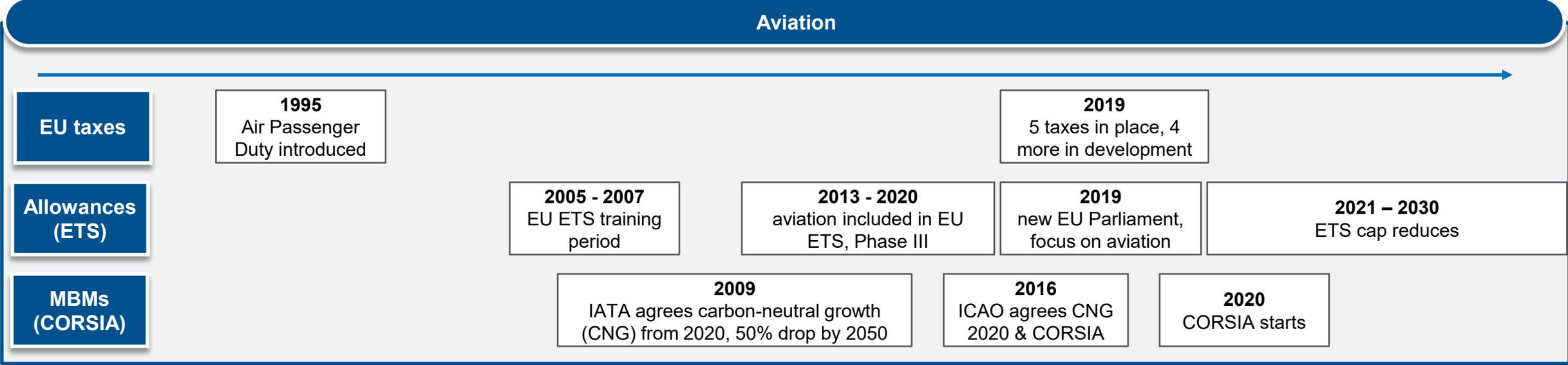
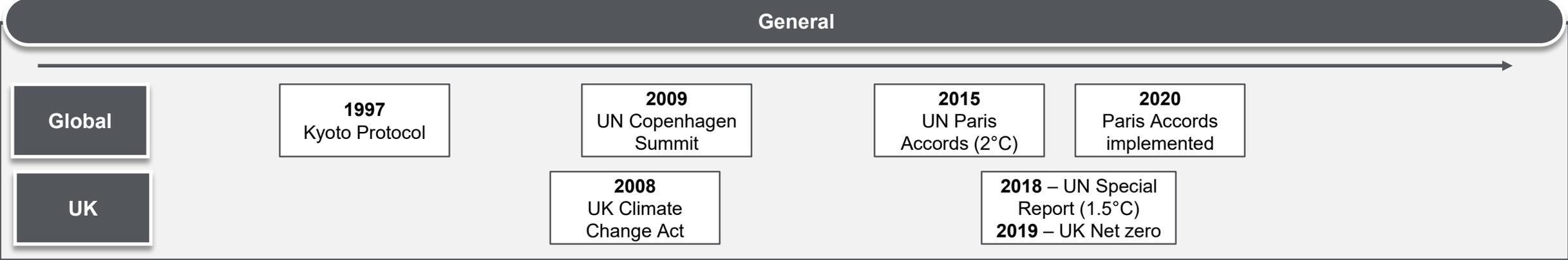
- Global emissions
- Aviation emissions
- Aviation % of global emissions



# **Aviation industry action plan**

# Overlapping measures and regulations: ETS/CORSIA

## Global regulatory framework



# Taxes do nothing to tackle climate impact

## Europe's "green" taxes on aviation

### Tax framework

**1995**  
UK Airline  
Passenger  
Duty (APD)

**1999**  
France  
civil  
aviation  
tax

**2004**  
Italy  
departing  
tax

**2011**  
Germany  
departing  
tax

**2012**  
Austria  
departing  
tax

**2015**  
first  
publication of  
Payments to  
Governments  
Report  
(covering  
2015)  
includes  
payments per  
country

**2016**  
Norway  
departing  
tax

**2018**  
• Sweden  
departing  
tax  
  
• Shift from  
voluntary  
to  
mandatory  
reporting in  
line with  
EU  
regulations

**2020**  
France  
eco-tax

**2021**  
Netherlands  
departing  
tax

- The UK has the highest aviation tax in the world
- Rates have increased by 700% since 1994
- In 2018 IAG airlines paid €885 million in APD

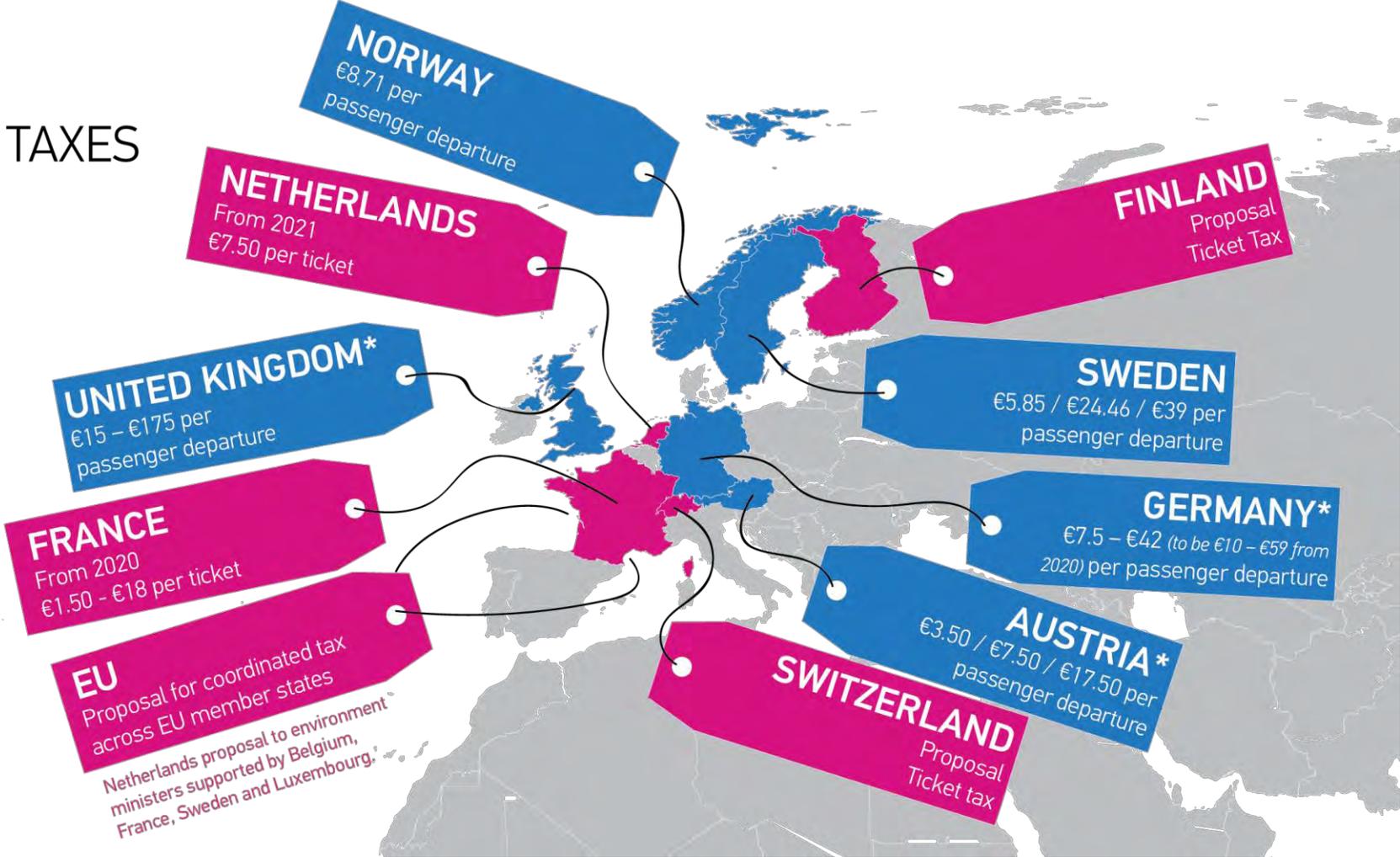
Amount paid in taxes would offset IAG's emissions 10x over

# Emerging layering of aviation 'eco taxes' in Europe

Taxes do nothing to tackle climate impacts

## EUROPE'S "GREEN" TAXES ON AVIATION

Currently in place  
Proposed



\*Originally implemented for environmental reasons, but since re-coded

# EU ETS is a robust intra European scheme

## Climate action mechanisms: allowances

### EU Emissions Trading System (EU ETS)

#### Scheme

- EU ETS is world's largest "cap-and-trade" scheme
- Managed by the European Commission (EC)
- Covers around 45% of EU greenhouse gas emissions
- Includes 11,000 manufacturing plants and power stations in the 28 EU Member States and European Economic Area

#### How it works

- Cap placed on overall emissions from all carbon intensive industries and then reduced each year
- Companies buy annual allowances (EUAs) equal to the cap:
  - can sell allowances if they reduce emissions below their cap
  - can buy extra allowances if their emissions are above their cap
- This 'cap-and-trade' approach means companies either cut their own emissions or fund emissions reductions elsewhere, driven by what is most cost-effective
- The cost of allowances rises as supply of permits shrinks, driving reductions

#### Aviation sector

- Aviation intra-EEA flights included since 2012
- Aviation's inclusion has led to over 17 million tonnes of CO<sub>2</sub> being reduced per year in other sectors
- We expect intra-EEA flights to remain in the EU ETS

#### Next steps

- EC plans to review ETS and aviation under 2019 Green New Deal plan
- Continued industry lobbying of EU for CORSIA to replace EU ETS as the instrument for addressing aviation's carbon emissions



# Market based measures more efficient than taxes

## Climate action mechanisms: smart carbon pricing

### Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)

#### Scheme

- CORSIA is the only example of a global industry mechanism to reduce CO<sub>2</sub>
- Requires airlines to purchase carbon offsets for flights between CORSIA-eligible countries, above 2020 baseline
- This is the mechanism to deliver industry goal of carbon-neutral growth from 2020 and 50% net reduction by 2050
- In 2016, the member states of ICAO (191) agreed to implement CORSIA
- Baseline emissions monitoring started 2019

#### How it works

- Between 2021-2026, 75%+ of global international aviation emissions will be covered
- From 2027 onwards, 90%+ of emissions will be covered
- Global aviation industry expects to offset 2.5 billion tonnes of CO<sub>2</sub> between 2020-2035

#### Next steps

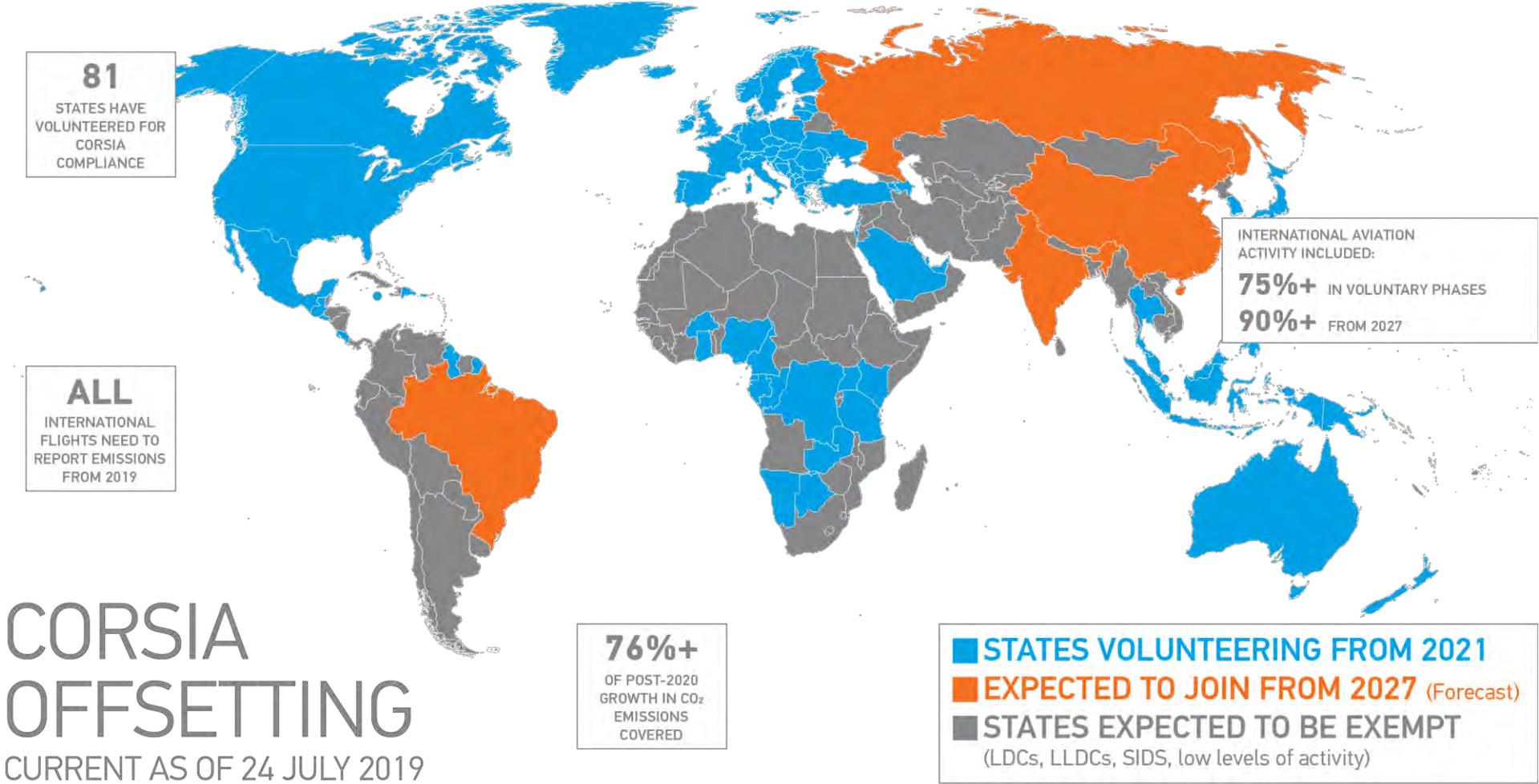
- 2019/2020 - Monitoring, reporting and verification is underway to set baseline
- 2021 - 2026 - Voluntary phase (81 states participating) this means it is voluntary for countries but once countries have signed up it is mandatory for airlines to participate
- 2027 - 2035 - Mandatory phase for all countries to participate

After 2020, c.80% of the growth in international aviation CO<sub>2</sub> will be offset

CO<sub>2</sub>

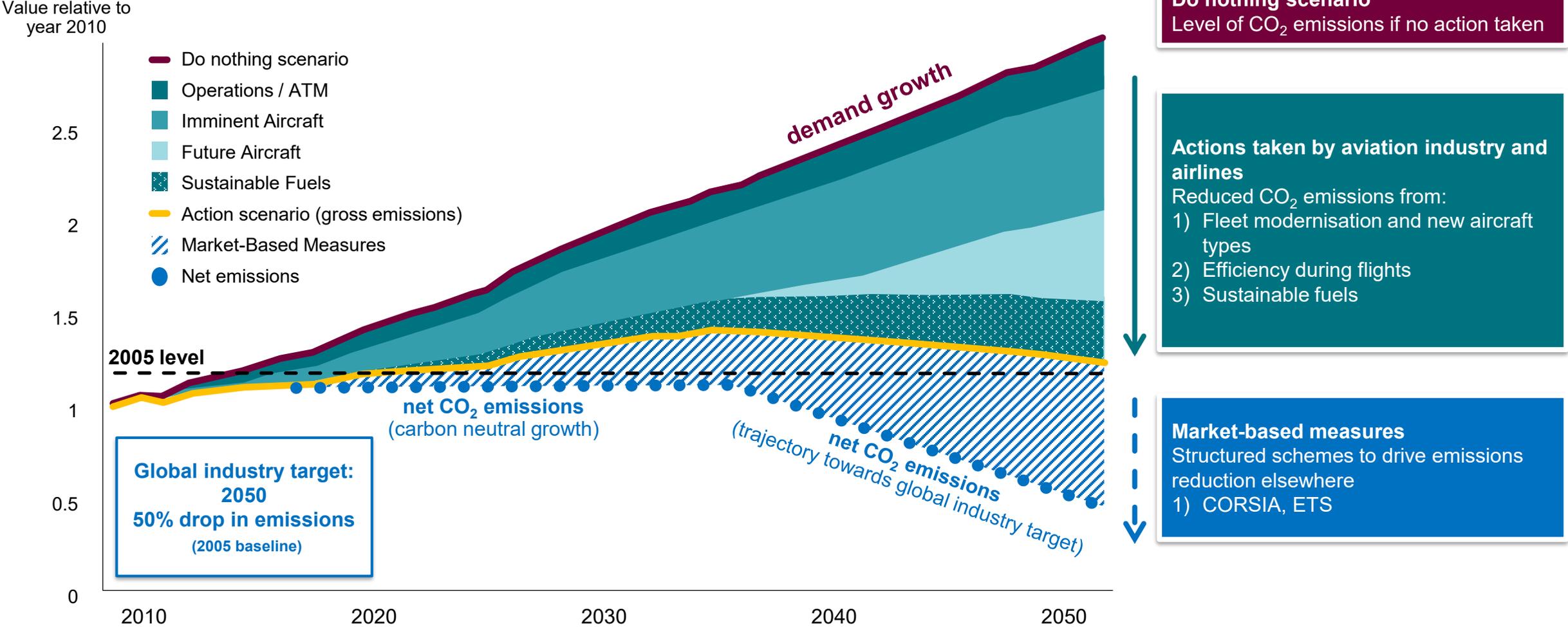
# From 2020 76%+ of the growth in air traffic CO<sub>2</sub> will be offset

Climate action mechanisms: smart carbon pricing



# UK aviation has a pathway to meet industry target

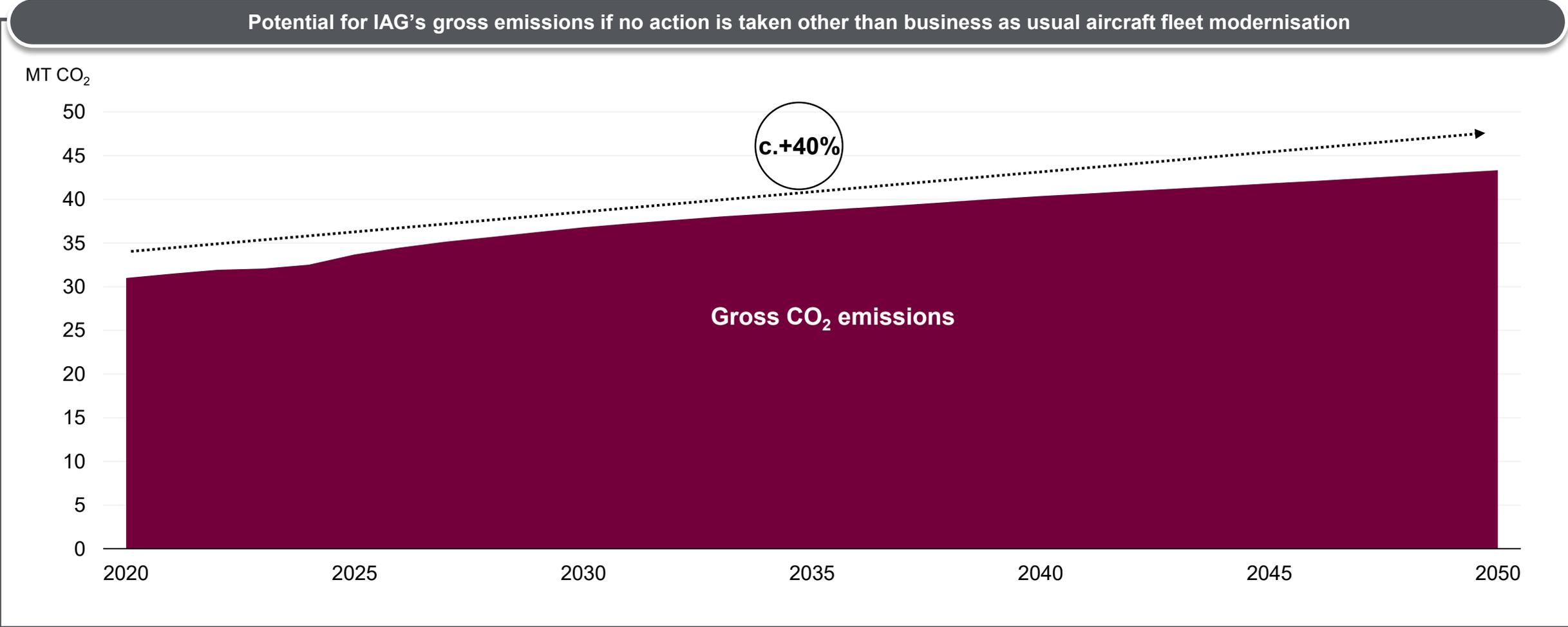
## UK Sustainable Aviation pathway to meet 50% reduction by 2050



# IAG action plan

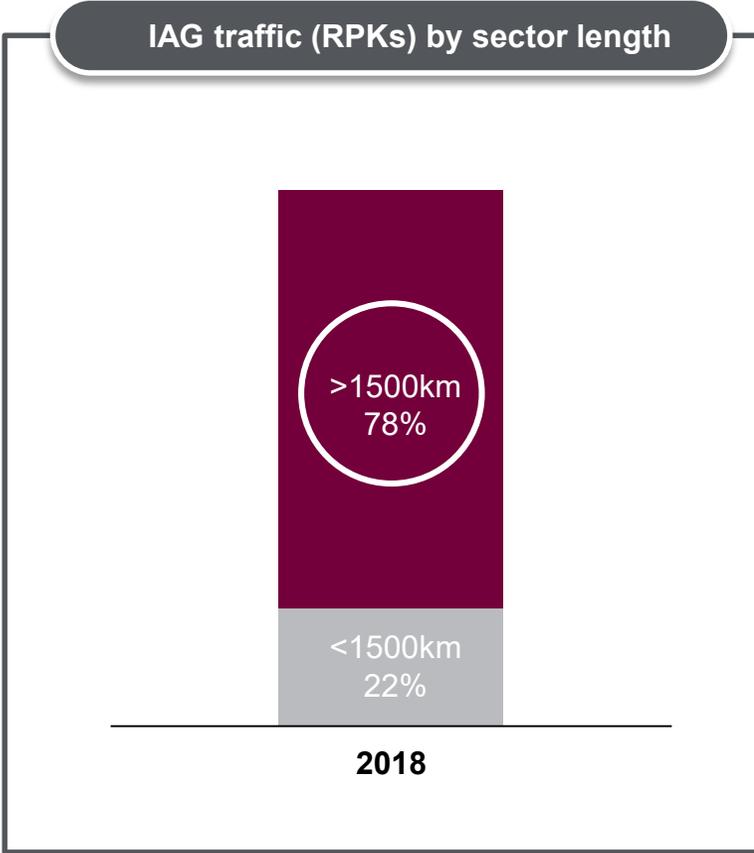
# IAG's gross emissions could increase by c.40% if no action is taken

Potential scenario for IAG's gross emissions if no action is taken



# c.80% of IAG's traffic has no reasonable transport alternatives

Most IAG traffic is on sectors over 1500km where there are no reasonable alternatives to air travel



# IAG net zero plan in context of industry targets

## Aviation industry CO<sub>2</sub> targets



## IAG climate targets

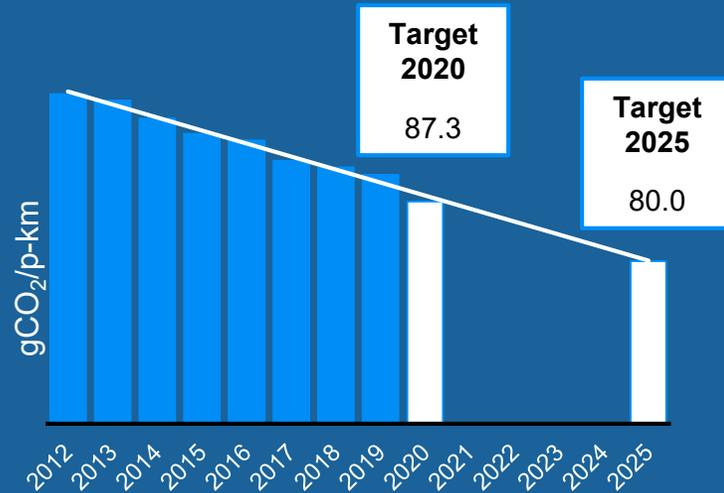


# Target 1: Industry-leading improvements in efficiency

## Rationale

- Investing in fleet modernisation
- 143 aircraft to be delivered by 2022
- Fleet age dropping from 11.4 to 10.2 years by 2022
- Efficiency targets integrated into business planning and carbon reduction targets embedded across IAG
- Over 50 initiatives across the Group to improve efficiency

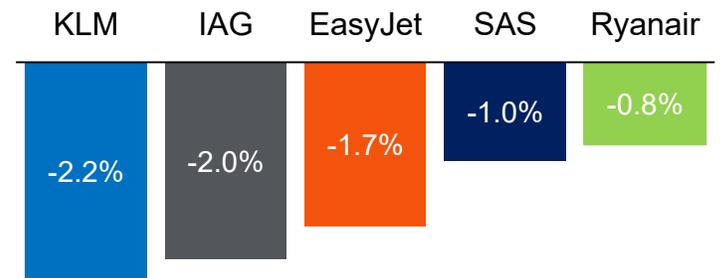
**10% improvement in efficiency by 2025**



## Competitors

- IAG – 10% gross drop 2020-25 (5yrs)
- easyJet – 10% gross drop 2016-22 (6yrs)
- Ryanair – 10% gross drop 2018-30 (12yrs)
- KLM – 20% gross drop 2011-20 (9yrs)
- SAS – 25% gross drop 2005-30 (25yrs)

### Average efficiency improvement p.a.



## Rationale

Reductions will be achieved by:

- Fleet and operations: c.40%
- Market-based schemes: c.60%
- Sustainable Aviation Fuels: c.5%

Working with regulators and partners to ensure successful implementation of CORSIA

**20% drop in net CO<sub>2</sub> emissions by 2030**

**27MT**



**22MT**



## Competitors

- **IAG – 20% improvement in net CO<sub>2</sub> 2020-30**
- KLM – 15% improvement in net CO<sub>2</sub> 2005-30
- SAS – 25% improvement in net CO<sub>2</sub> 2005-30
- Delta – net CO<sub>2</sub> has been flat since 2012

## Target 3: The first airline to commit to Net Zero CO<sub>2</sub>

### Rationale

- The next ten years are crucial for industry and governments to secure a cost-effective pathway
- We believe this should be through the UN smart carbon pricing scheme for aviation: CORSIA
- IAG will deliver Net Zero - even if a global approach stalls we will still focus on an industry approach but at a regional level
- We support ICAO's work to agree a long term target by the next General Assembly in 2022
- We are working with regulators and other stakeholders to develop smart carbon pricing mechanisms to enable us to achieve net zero CO<sub>2</sub> by 2050

100% drop in  
net CO<sub>2</sub>  
emissions  
2020 - 2050

27 MT



0 MT



### Competitors



IAG is the first airline group in the world to commit to Net Zero

- Only small regional airlines have committed:

**HarbourAir**  
all electric  
seaplanes in the  
2020s



**BRA**  
offsetting all  
flights from 2019



# IAG action plan has four main areas of focus

## 1 Fleet and operations

- 142 new aircraft by 2023 including A320neo and A350, up to 25 to 40% more efficient than aircraft they replace
- Continuing to incorporate carbon prices into fleet planning decisions
- Investment in industry leading fuel efficiency software

## 3 Disruptive innovation

- Hangar 51 accelerator programme new sustainability category
- Supporting Carbon Capture & Storage development (working with Mosaic Materials)
- Supporting development of low carbon aircraft and propulsion



## 2

## Sustainable Aviation fuels

- \$400 million investment in sustainable aviation fuels over 20 years
- Velocys project will produce fuel from waste that would otherwise go to landfill with 70% less CO<sub>2</sub> than fossil jet
- Applied for planning permission, first fuel expected 2024, 400kt/yr by 2030

## 4

## Carbon offsets and removals

- CORSIA implementation
- Carbon neutral UK flights from 2020
- All Group duty travel offset
- Customer voluntary offset schemes

# IAG's action plan examples

1

## Fleet and operations: examples

IAG ↓ 9 MT  
(2012-2018)

			
<b>2018</b>	<b>2018</b>	<b>2018</b>	<b>2018</b>
Retracting landing lights	Retrofitting lighter seats	Adjusting onboard water use	Flightpath changes
↓ 570 t CO <sub>2</sub>	↓ 1,000 t CO <sub>2</sub>	↓ 200 t CO <sub>2</sub>	↓ 7,000 t CO <sub>2</sub>

Over 150,000 tonnes of CO<sub>2</sub> savings to be delivered through more than 50 fuel efficiency projects in the next two years

3

## Disruptive innovation: Mosaic

- Mosaic Materials succeeded in Hangar 51 selection. They are an early-stage carbon capture and storage (CCS) start-up
- IPCC identified CCS as vital in every pathway to reach 1.5° global warming limit
- CCS works by using special materials to absorb carbon from the atmosphere or from industrial processes
- This CO<sub>2</sub> is then transported to a location where it can be stored permanently
- Opportunity to combine CCS technology with our Sustainable Aviation Fuel plants to create net negative emissions jet fuel



2

## Sustainable Aviation fuels: Velocys

- IAG has a partnership with Velocys established 2018
- We are developing Europe's first waste-to-jet-fuel plant, in South Humberside
- First fuel by 2024 and by 2030, 40 million litres of sustainable jet fuel are expected to be produced as part of this project
- In 2050, 30% of IAG fuel to be produced from SAF



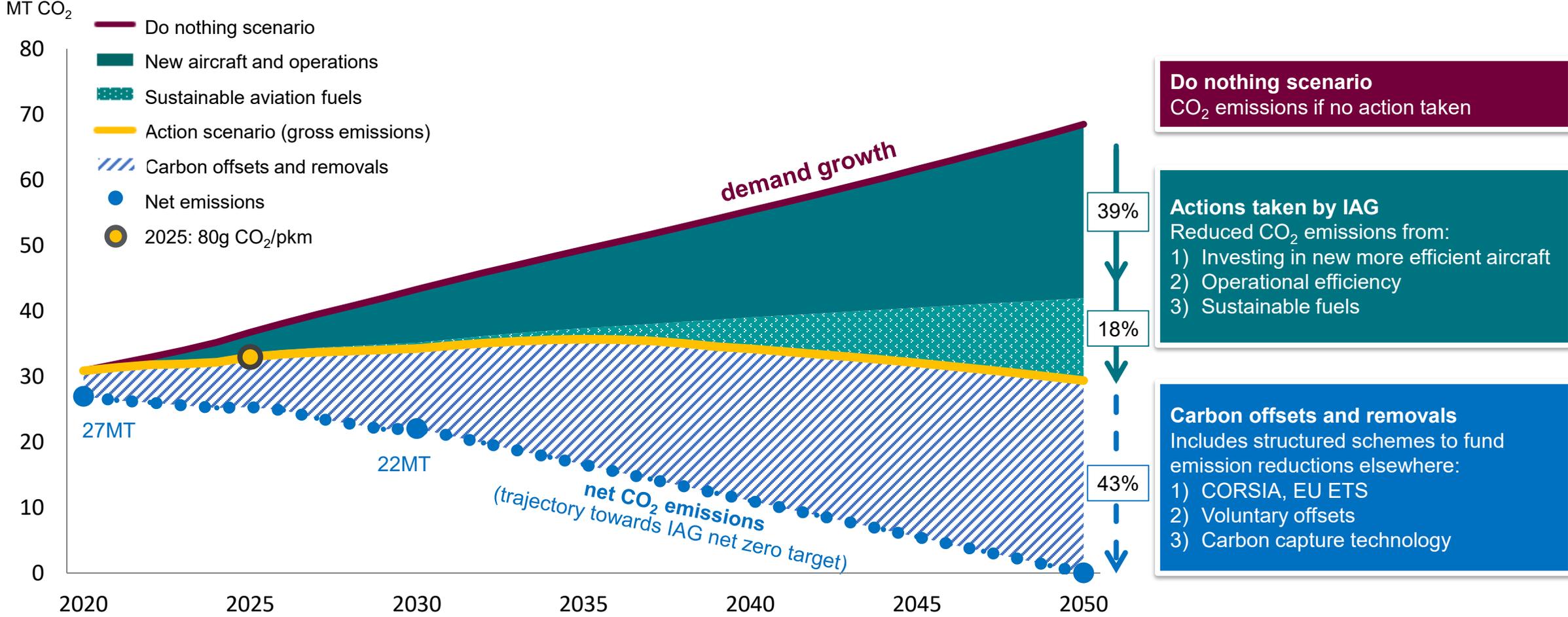
4

## Carbon offsets and removals

- BA is offsetting all domestic UK flights from 2020
- Around 400,000 tonnes of CO<sub>2</sub> will be offset from January 2020
- We will be investing in a broad range of high quality verified carbon reduction projects including natural climate solutions

# IAG pathway to net zero CO<sub>2</sub> by 2050 after actions taken

We will proactively work with partners to ensure successful delivery our 2050 goal



# Capital Markets Day

8 November 2019



# IAG committed to tackling a range of environmental issues

## Noise

- On track to reduce noise per flight by 10% between 2015-2020
- BA and Aer Lingus rank in the top 5 airlines in Heathrow’s “Fly Quiet and Green league” in 2019 (out of 50 airlines)

## Waste and single use plastics

Saving c.100 tonnes of single use plastic per year and there’s more to come.



**BRITISH AIRWAYS**



IAG and British Airways head office catering changes have saved over 1.5 million **single-use plastic cups, bowls and cutlery**.




replaced **plastic cups** on short haul routes with **biodegradable** alternatives.




Leading European LIFE+ zero cabin waste project



500K Replaced plastic wrap on blankets and earphones saving **500,000** plastic bags



Over **1M** **1 million cans** and 200,000 plastic containers saved in Iberia lounges.



**LEVEL**

Using an app to avoid water waste and no plastic bags given for on board duty free



## Supply chain

- A requirement for environmental standards included in IAG Supplier Code of Conduct
- Screening suppliers to assess risks including environmental risks
- Shifting UK transport of jet fuel from road to rail saved around 5,000 tonnes of CO<sub>2</sub> in 2018

# Leading the airline industry on tackling climate change

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Our industry must follow our lead to earn its licence to grow and be truly sustainable



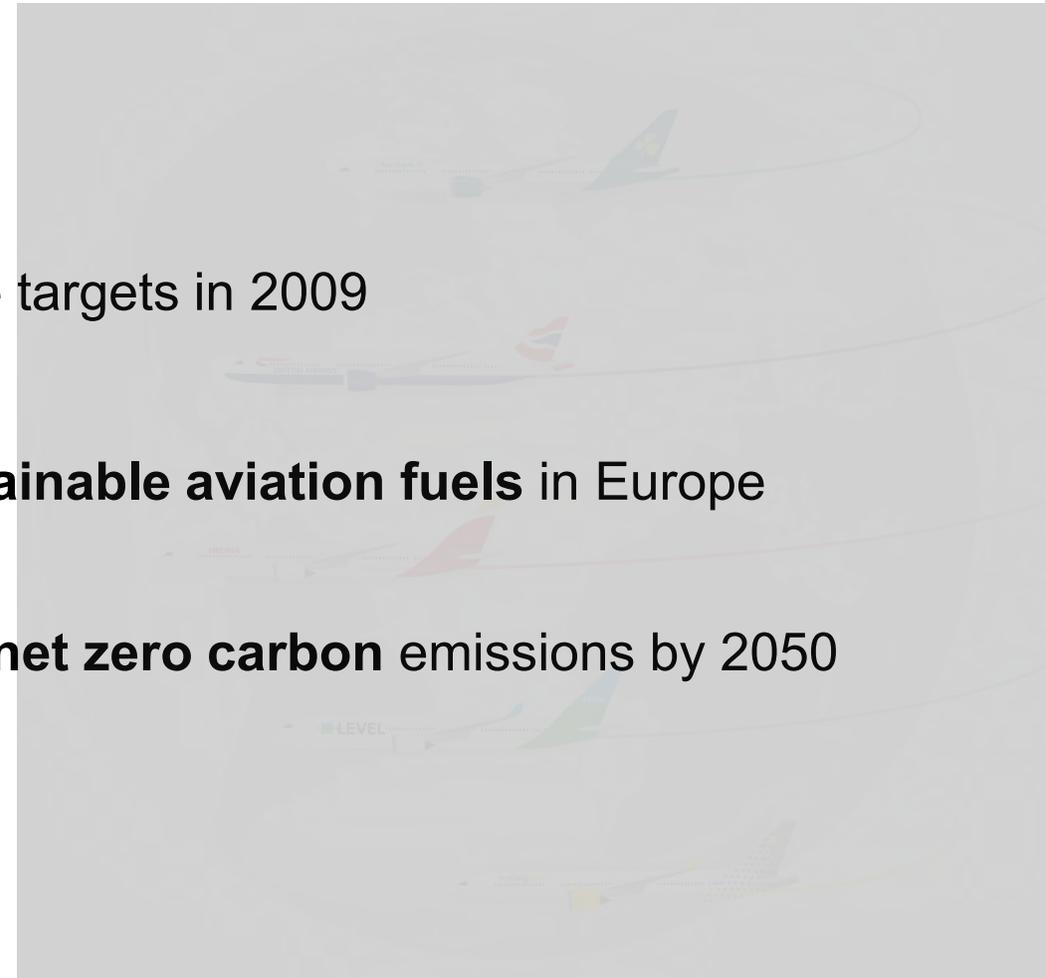
We led the industry to commit to **climate change** targets in 2009



We are the first airline to invest in **waste-to-sustainable aviation fuels** in Europe



1<sup>st</sup> airline group worldwide to commit to achieve **net zero carbon** emissions by 2050



# IAGTech

John Gibbs – IAG Chief Information Officer

# My initial observations, thoughts and actions

## Pre 2<sup>nd</sup> Sept 2019

- ✓ Recognised recent Digital and IT issues
- ✓ Understood the challenges
- ✓ Immediate actions taken
  
- ✓ Continued focus on stability and cyber
- ✓ Strategic foundation projects launched
- ✓ Operational stability changes being made

## First 49 days (since 2<sup>nd</sup> Sept 2019)

- ✓ CIO role on IAG Management Committee
- ✓ Merged Digital and IT teams across Group
- ✓ Great support from Operating Companies, Management Committee and the Board
- ✓ Right levels of resource and investment
  
- ✓ Completed 80% of discovery activities
- ✓ Reenergised programmes of work
- ✓ IAGTech - new identity for Digital and IT
- ✓ New vision, purpose and values
- ✓ New IT structure with clearer accountabilities
- ✓ Upskilling leadership team
- ✓ Revised governance structure

## Next 3 Months

- IT Strategy – 3 year vision and roadmaps
- Current and future Enterprise Architecture
- Confirm the investment portfolio
  
- Refresh IT operating model
- Greater transparency – plans and progress
  
- Accelerate programmes

# Leveraging the combined power of our Digital and IT teams



(Over 1,000 experts and a world class IT supply chain)



Focused on delivering.....

*“Technology Excellence”*

# A simple vision but what does it mean?

## “Technology Excellence”

*External perspective*



*Internal perspective*



### We will be industry leaders in the use of technology...

- Challenging the norm through the **creative use of technology**
- Focused on **delivering great service throughout the customer journey**
- Enabling the business to **operate in the most efficient and effective manner**
- **Empowering our employees**
- **Trusted** by our stakeholders

### We will be the best at what we do...

- **Excellent relationships and partnerships**, and extremely responsive
- We are **highly innovative, technology leaders**
- A **clear vision, strategy and enterprise architecture** that drives investments
- We **consistently deliver products and projects** to time, cost and quality
- Our **services always meet service level agreements**
- A **secure, compliant environment**
- **IT operating model**
- **Our people are fully empowered**, with the **right skills and tools**
- The **exemplar** for the Groups culture and behaviours
- Continually **strive to improve**

# To deliver the vision we've refocussed around a common purpose

**“To increase shareholder value, accelerate business performance, delight customers, enable employees, and protect our business through the innovative and agile use of technology and data.”**

We do this by:

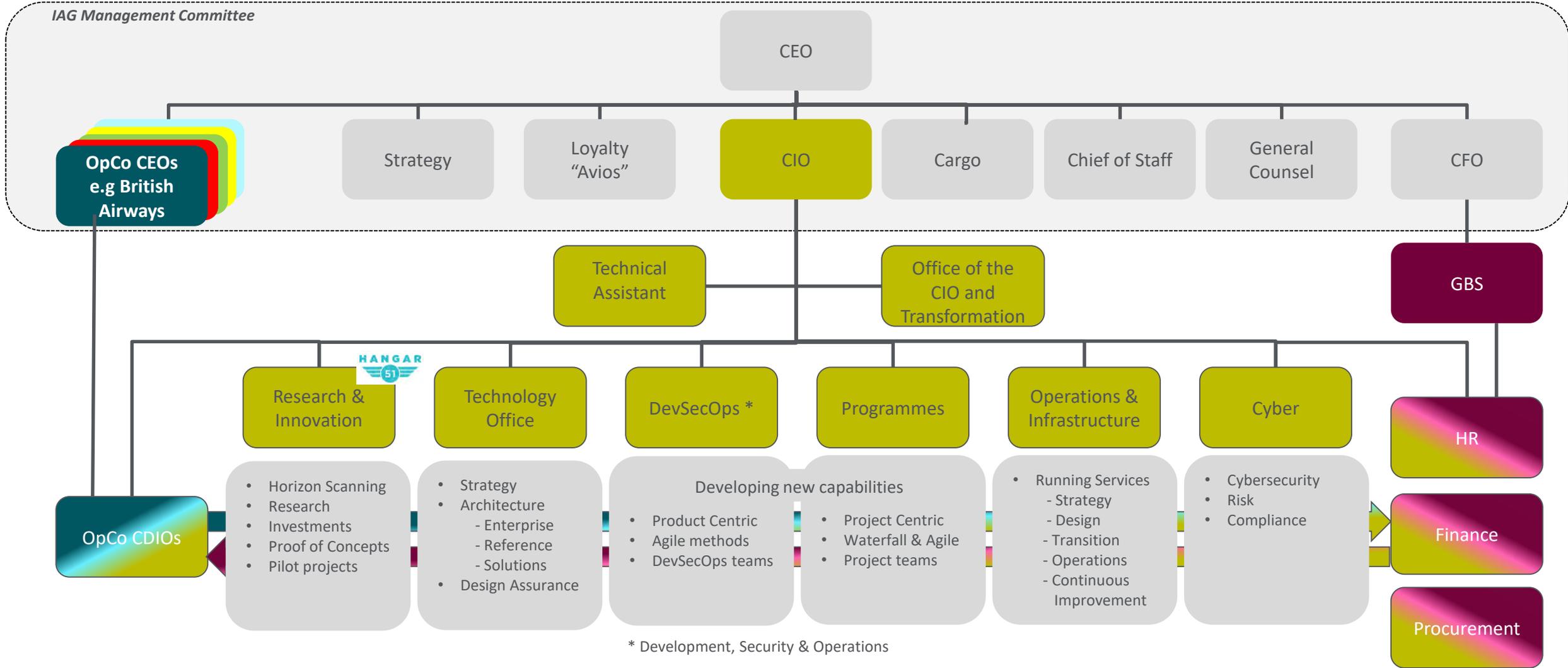
- Researching and piloting **innovative** use of technology across all our value streams
- Developing a new **technology vision, strategy and enterprise architecture**
- Delivering **new business and technology capabilities** in an efficient and effective manner
- Providing **resilient services** that deliver required levels of availability and performance
- Protect the business from **cyber threats and risks**, and ensure our **compliance**
- Running a professional function, delivering **great value** and **developing our capabilities**
- **Partnering** with the individual businesses to understand and exceed their expectations
- Leveraging the power of our capabilities for the **benefit of the community and environment**
- Providing world class, **trusted technology leadership and partnerships**



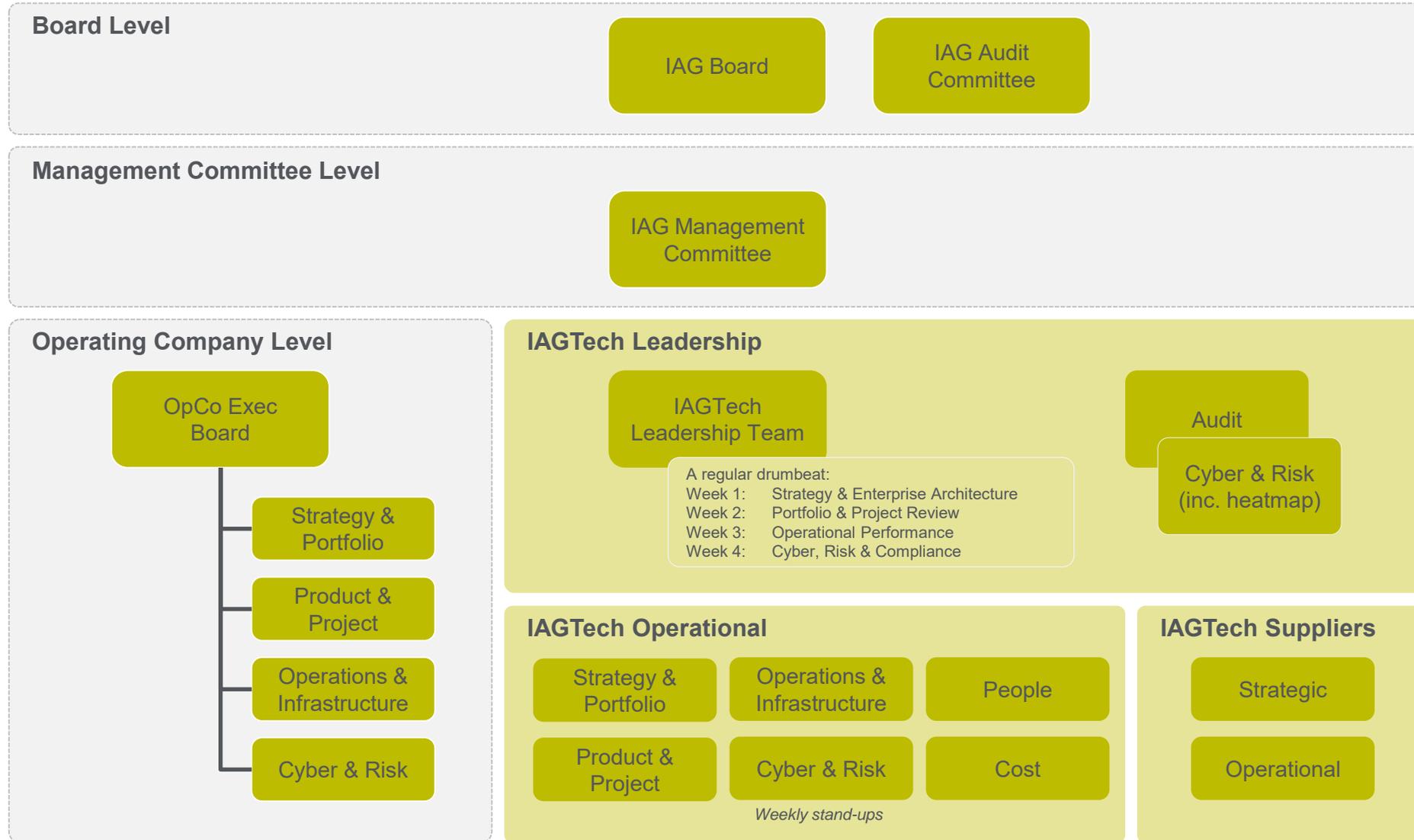
*Leveraging all of this across the IAG Group to maximise the opportunities*



# ..and a new IT operating model with clearer structure and accountabilities



# ..with more transparency via a new governance structure



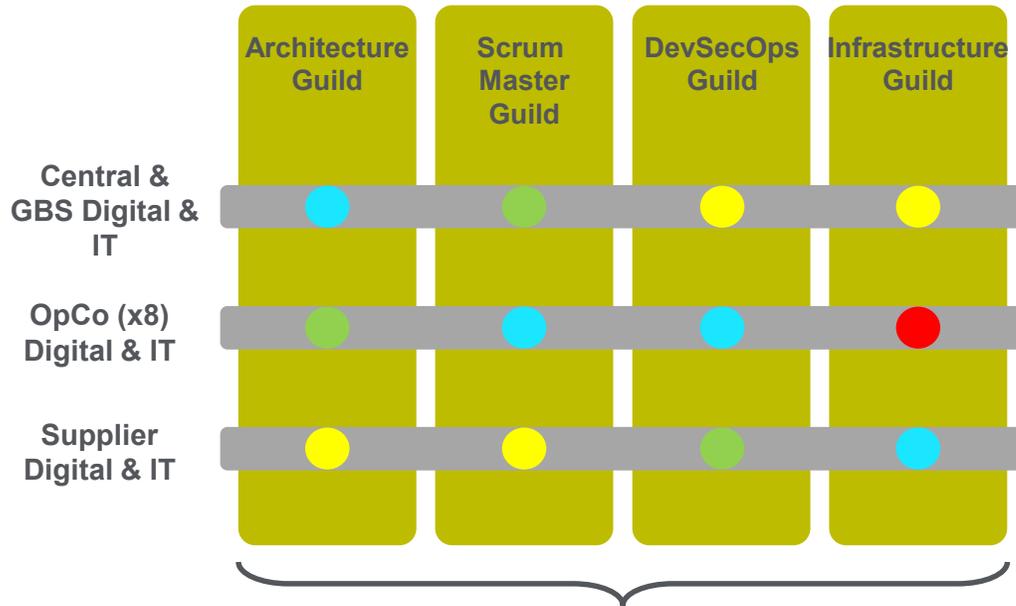
**NOTE:**

These are the primary governance meetings but others do exist alongside process governance – such as quality gates.

The aim at the operational level is to have as light a touch as possible, empowering our teams to do things in an agile manner, whilst not losing control or quality.

# ..and a “new” approach to developing our talent

## Launch of **Guilds** across IAG Tech



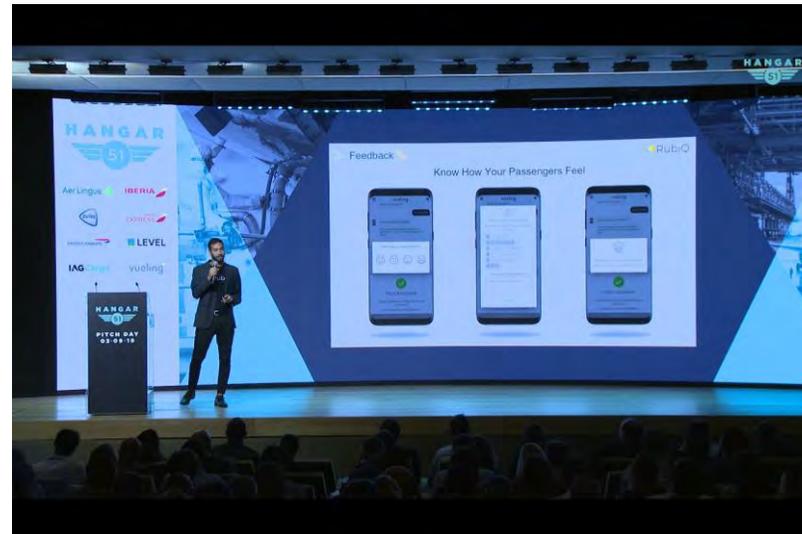
Guilds are communities that share and co-develop best practice in specific areas, e.g. Architecture. They define the standards to be used, e.g. TOGAF, and the processes, tools and skills needed. They promote increasing levels of professionalism across the organisation as well as continually driving for increased efficiency and effectiveness. A guild can be led ● from the centre, one of the operating companies or even a supplier. We can also then track the level of maturity across the business using a RAG ● status. The RAG status on the chart are examples and not reflective of actual maturity which will be determined in Q1, 2020 as the guilds are launched.

- Refresh of **Professional Development Framework** linked to professional membership organisations such as the British Computer Society
- Launch of a **new IAGTech Apprentice & Graduate scheme** linked to the already successful Operating Company schemes such as that in British Airways
- Rollout of the **Academy** approach in Vueling but expanded to include driving Digital skills across the wider Group not just the IAGTech teams
- Targeted **Coaching and Mentoring** to lift our professionalism and capabilities in key roles throughout the organisation
- **Manpower plan** with clear **Rotation strategy** to develop leadership at all levels with breadth as well as depth
- Create an **exciting place to work** that includes **contributing to the community**, e.g. through STEM, charity, etc

# Exploring the vision: Creative use of technology

## Proven track record

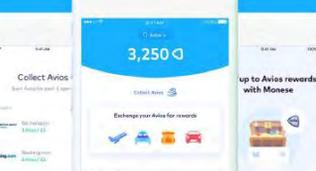
- Launched in 2016
- Targets business challenges
- Delivers real world outcomes (pilots)
- Four annual events now held
- 21 finalists in first three years
- Proof of concepts include:
  - Autonomous Dolly for baggage movement
  - Robotic handling of baggage
  - Drone for foreign object damage detection
  - Foreign objects on ramp detection
  - Mindsay Artificial Intelligence WhatsApp
  - Remote controlled tug for aircraft push



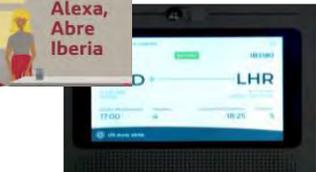
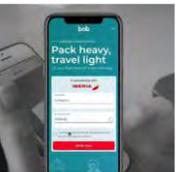
## This year

- 7 categories:
  - Airport operations
  - Future Cargo Logistics
  - New Products & Services
  - Disruption Management
  - Future Customer Interaction
  - Sustainability
  - Wildcard
- 474 applicants from 52 countries
- 3<sup>rd</sup> September – Pitch Day
- 11 finalists
- 10 week collaboration process
- Final demonstrations – Jan 2020

# Exploring the vision: delivering great service throughout customer journey

<p><b>Big Data / AI / ML</b></p>  <p>Dynamic pricing models, e.g. for ancillaries, offers customer choice and maximises revenue</p>	<p><b>Augmented Reality</b></p>  <p>Mobile app "Baggage Sizer" allows customers to check the size of their luggage at home or on the move</p>	<p><b>Self Check-in</b></p>  <p>Self Check-In and Bag Drop speeds up the check-in process</p>	<p><b>Digital Media</b></p>  <p>Digital newspapers replace printed press saving weight and helping the environment</p>	<p><b>Onboard Wi-Fi</b></p>  <p>.air service launched introducing the most advanced connectivity service</p>	<p><b>RFID</b></p>  <p>Digital bag tags provide enhanced tracking of baggage and reduces lost / miss directed bags</p>	<p><b>Banking</b></p>  <p>Monese current account linked to Avios loyalty so customers can earn Avios points whilst spending</p>
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<p><b>Voice</b></p>  <p>Alexa and Google Assistant voice based services such as departure information and boarding pass activation</p>	<p><b>Smart TV</b></p>  <p>Living App available on Smart TVs providing real time customer information and services before customers start travel</p>	<p><b>Bag on Board</b></p>  <p>Service to pick up bags from start location, check them in, and then deliver to the destination for hassle free baggage</p>	<p><b>Biometrics</b></p>  <p>Facial recognition technology employed across the passenger journey (check-in, bag-drop, security, boarding)</p>	<p><b>eCommerce onboard</b></p>  <p>Pair and Pay allows access to wi-fi services onboard the plane</p>	<p><b>ibot / Chat</b></p>  <p>Using Mindsay conversational AI we have launched industry leading WhatsApp channel for general information</p>
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# Exploring the vision: operating in the most efficient and effective manner

**Connected Operations**



Simple, seamless human centric approach to support scalable real-time connected operations across functions

**Robotics**



Robotics being used to automatically load baggage to protect handlers

**Artificial Intelligence**



AI technology being used to spot foreign objects on the ramp to protect the aircraft

**Paperless Workflows**



Paperless departures is being used to speed up aircraft turn-around and improve on-time departures

**Machine Vision**



Machine Vision and AI to detect the events of an aircraft turnaround giving better visibility for real time decision-making

**Drone Technology**



Accelerating aircraft inspection for damage



**Blockchain**



Sharing reliable real-time information between the airline and the fuel suppliers

**Remote Control**



Remote controlled tugs for pushing back aircraft from the jetty

**Auto-Dolly**



Autonomous dollies being trialled to move bags from sortation to the aircraft

**Auto-Jetty**



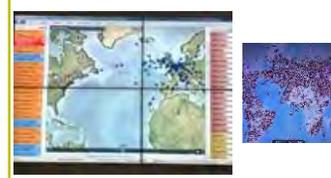
Autonomous jetties speed up boarding and disembarking whilst also reducing accidental damage to aircraft

**Airport Ops**



Realtime monitoring and control of all planes at the airport from stand, to taxiing, to take-off

**Flight Ops**



Inflight monitoring of all aircraft during flight inc. identifying any issues and readying maintenance

**Predictive Analytics**



Advanced analytics helping to predict issues and then perform preventative maintenance to increase availability

# Exploring the vision: empowering our employees

## Customer Contact



Customer Relationship Management (CRM) solutions being deployed

## Operational Planning



Launched projects to replace the separate aircraft, pilots and cabin crew scheduling system with one solution

## Crew Devices



Insights into the customers to enable bespoke personalised service to be delivered onboard

## Business Intelligence



Fact based decision making based on real-time data analysis

Brand & Customer Experience Teams

Commercial Teams

Operations Teams

Engineering Teams

Pilots & Cabin Crew Teams

Back Office & Support Teams

Management Teams

## Advanced Analytics



Route planning to maximise efficiency and operational effectiveness

## Engineering



Launched projects to replace different Maintenance, Repair and Overhaul systems with one strategic product

## Finance & HR



SAP Financials deployed and SAP Success Factors projects launched

# Exploring the vision: empowering our employees – a brief dive into data

## Using Vueling as a case study...

Data has an Hub&Spoke model fully aligned with the needs of Business Areas

- Network Optimizer
- Network Simulator
- Network KPIs & Operational Specs
- Network Prescriptive Recommendations

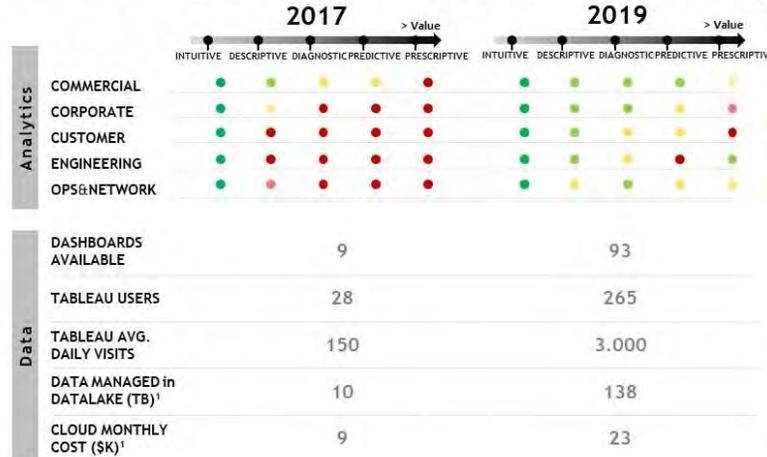


- Sales Forecast Models
- Dynamic Pricing Ancillaries
- Sales Anomaly Detection
- Revenue Segmentation Models
- Real demand predictions
- Automatize Revenue System with AI

- Dynamic Allocation
- AOGs Monitoring
- Crew DataMart: KPIs, Crew Risk, Stand-by recommendations
- Real Time Operations Info
- ATC Regulations
- Predictive Maintenance
- Fuel Analytics
- Prescriptive Recommendations (MRO, iOCC)

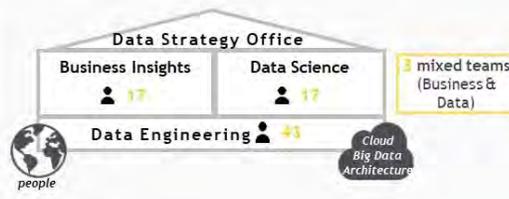
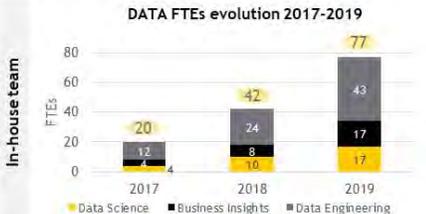
- Admin Analytics
- Revenue Accounting Data Quality
- Fleet analytics
- Fraud&Payments Data Consolidation
- Financial Planning 2.0

Towards a data-driven Vueling: from MS Excel to Artificial Intelligence



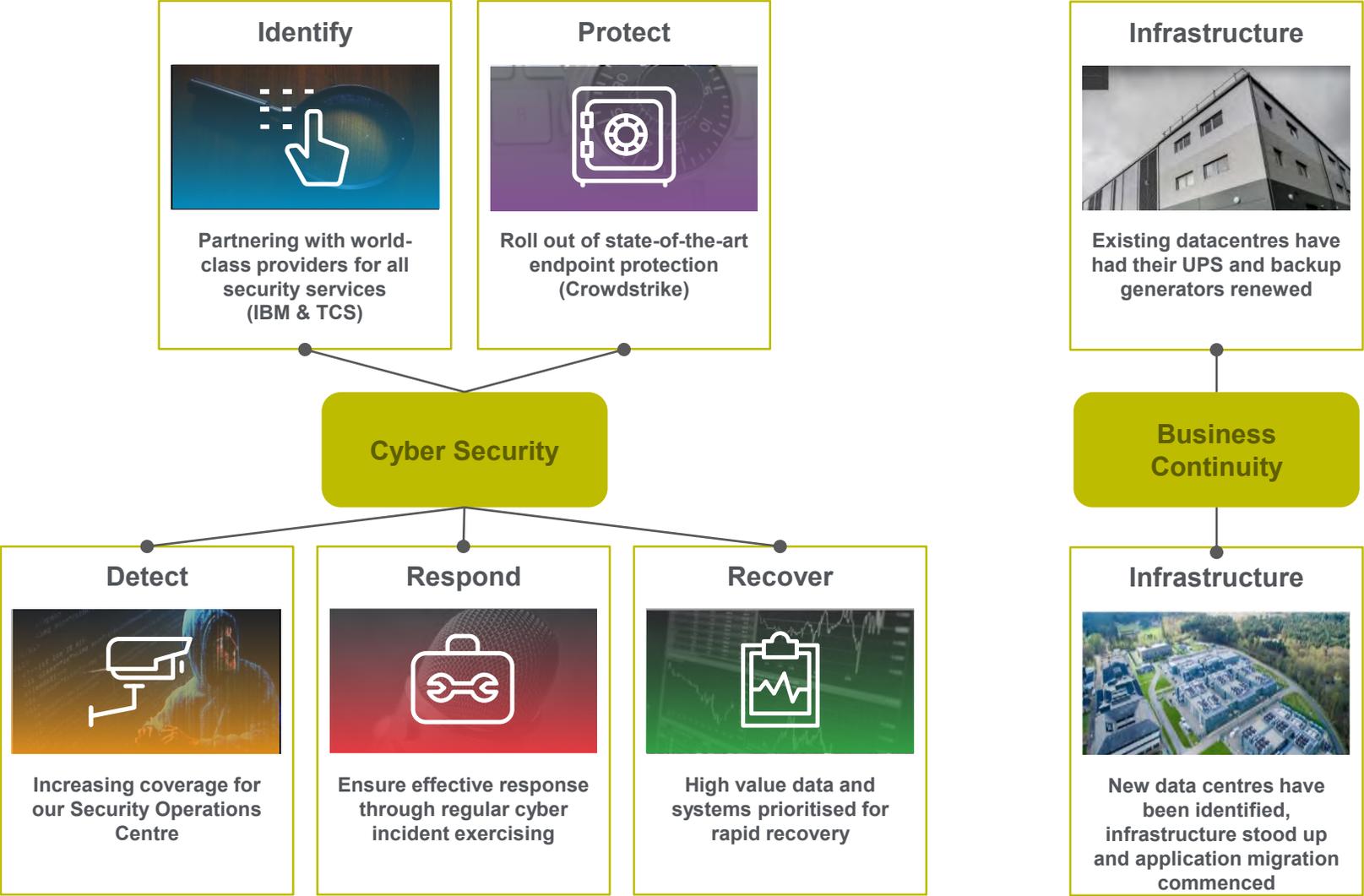
- Other key facts (2019)**
- 40 data science projects
  - 150 daily automated reports
  - 190 self-service dashboards created by business users
  - 17 data sources in Tableau to business use
  - 30 databases in cloud accessible to business user
  - 6 Tableau trainings to business areas
  - Weekly 'Data Doctor' sessions

Analytical skills development thanks to strong in-house team growth with external collaborations



- Benefits**
- ✓ Single version of truth by breaking silos
  - ✓ Support to business strategic decisions & enabler of data-driven decisions
  - ✓ Real time information (OCC, MRO, Revenue, Governance, Operations)
  - ✓ Machine Learning & Automation helps improving current business models
  - ✓ Modern Cloud Big Data Architecture

# Exploring the vision: trusted by our stakeholders



# Exploring the vision: we will be the very best at what we do



# Exploring the vision: there is even more....

## VISION & ENTERPRISE ARCHITECTURE

We will be developing a new vision and enterprise architecture in Q1, 2020

## DIGITAL & IT EXPLOITATION

There are 1000's of areas where Digital and IT can be exploited to increase shareholder value, accelerate business performance, delight customers, enable employees, and protect our business.

A robust portfolio management process will be used to prioritise these and maximise the benefits from our investments.

## ACCELERATING OUR PLANS

- New Distribution Capability / New Distribution Model – further deliveries
- Global Loyalty Platform roll-out
- Group HR Platform roll-out
- Revenue Management investment
- Windows10 roll-out

# In Summary....

- ✓ Recognised the recent Digital and IT issues
- ✓ Understood the challenges and taken immediate actions
- ✓ Recognising the importance of Digital and IT, we have appointed a new CIO on the Management Committee
- ✓ We have a clear journey.....
  - ✓ We have allocated sufficient funding and resources
  - ✓ We've created IAGTech with a renewed vision, purpose, values, and structure
  - ✓ We're investing in the foundations, the correct strategic solutions and innovative ideas
- ✓ There has never been a more exciting time to be part of IAGTech

# IAG Loyalty

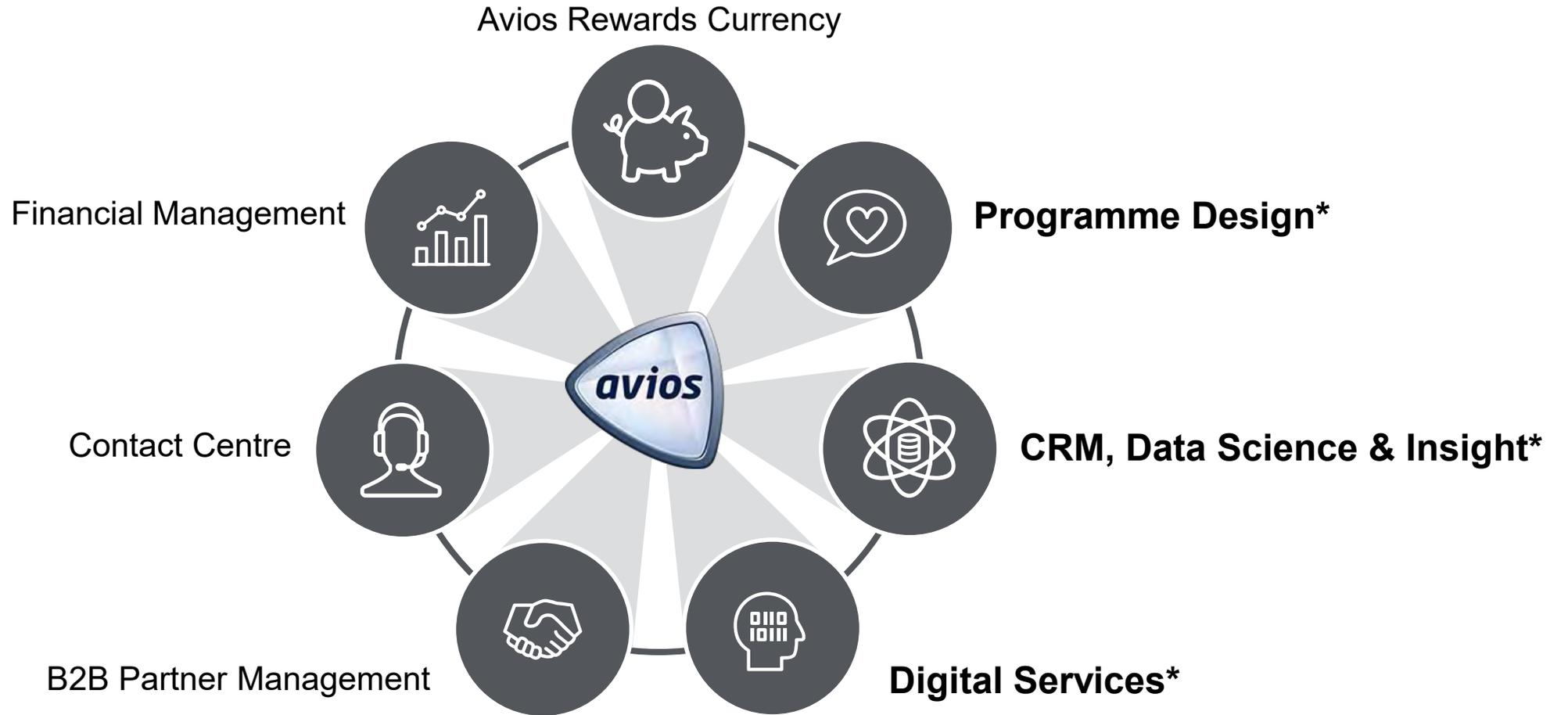
Drew Crawley - Avios CEO

# Transforming Our Approach to Loyalty

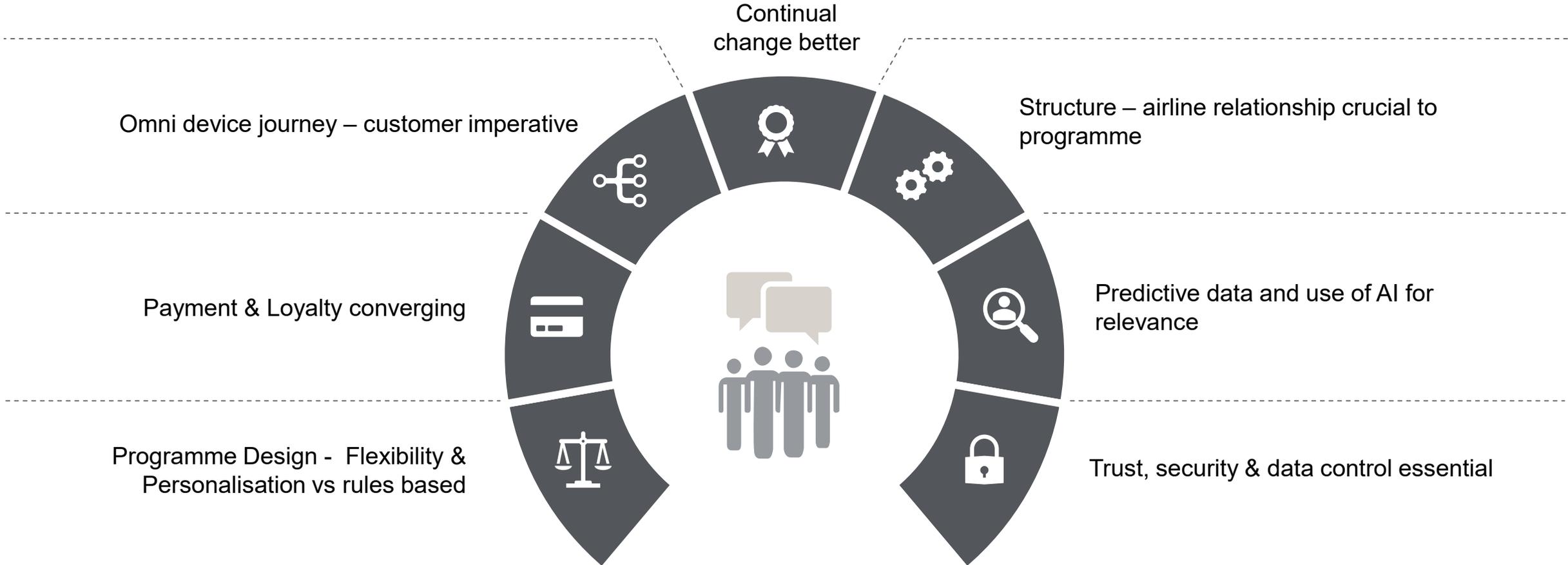
- Change in operating model of Avios Group Ltd within IAG – transition to **IAG Loyalty**, recognising the integral nature of loyalty across multiple business units
- Significant investment undertaken in **loyalty technology platforms** – first phase now delivered, allowing faster growth of our business, and customer & partner enhancements
- Constantly **improving** our customer loyalty programmes, with major enhancements to come
- Currency to be of greater **utility and ubiquity** with more ways to collect and use Avios
- Diversifying and **growing our partnerships**
- Invested in **new capabilities** and management team

# We've created The Centre of Excellence for loyalty across IAG

Increased scope, and upweight in capabilities



# Loyalty market trends – our perspective



# Our programmes and Avios network

# Avios is the currency used across all IAG loyalty programmes, complementing airline status and customer recognition benefits



## Our Customer Programmes



## Core Programme Features



Collect & Redeem on Flights



Collect & Redeem on Car Hire, Hotels & Experiences



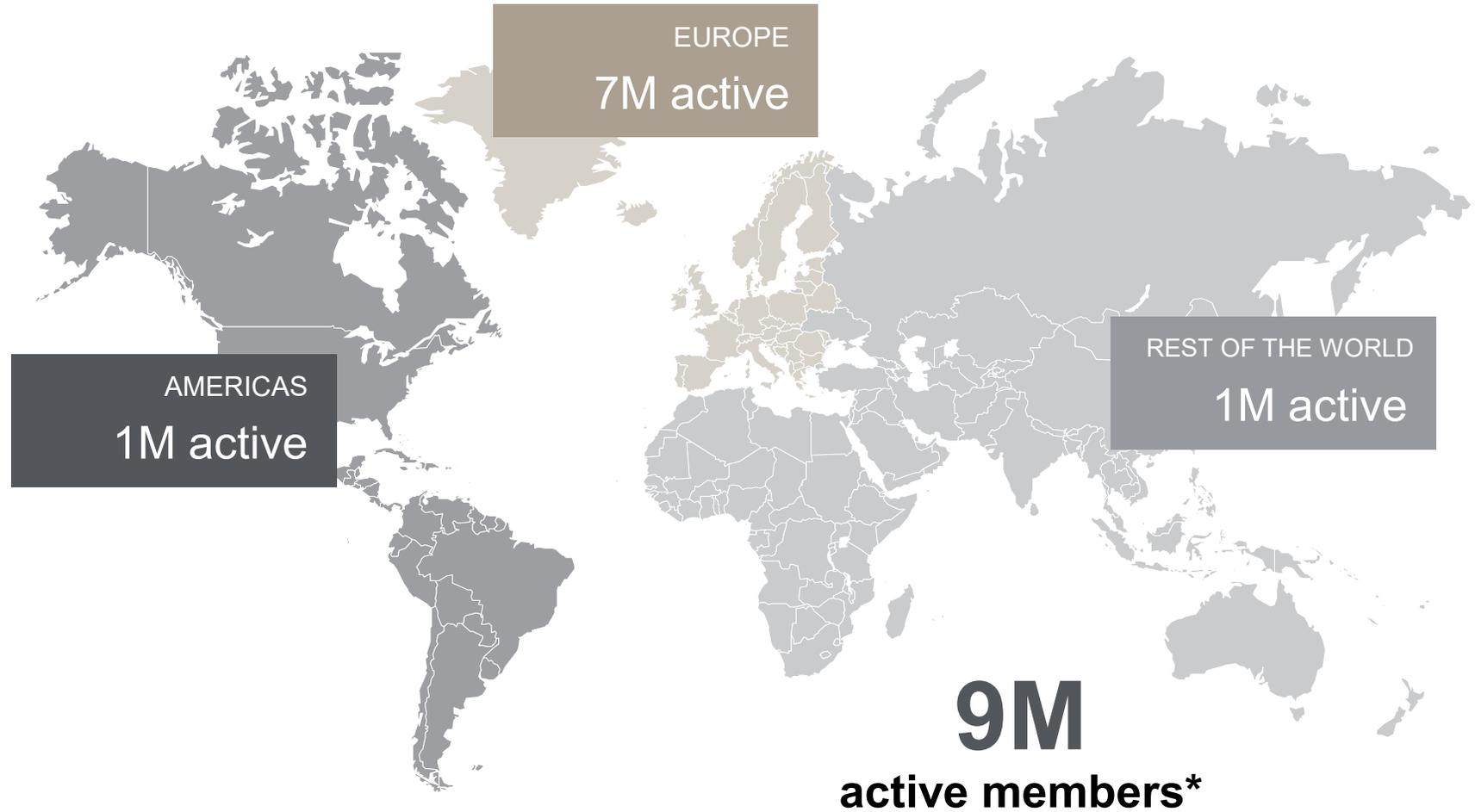
Status & Tier Benefits

# Our loyalty programmes are of significant scale

Active member numbers are increasing



**34M**  
members  
globally  
enrolled in our  
programmes



# Our programmes are enhanced by our oneworld membership, creating value to our customers, and partners

 <p>1,100 destinations</p>	             	 
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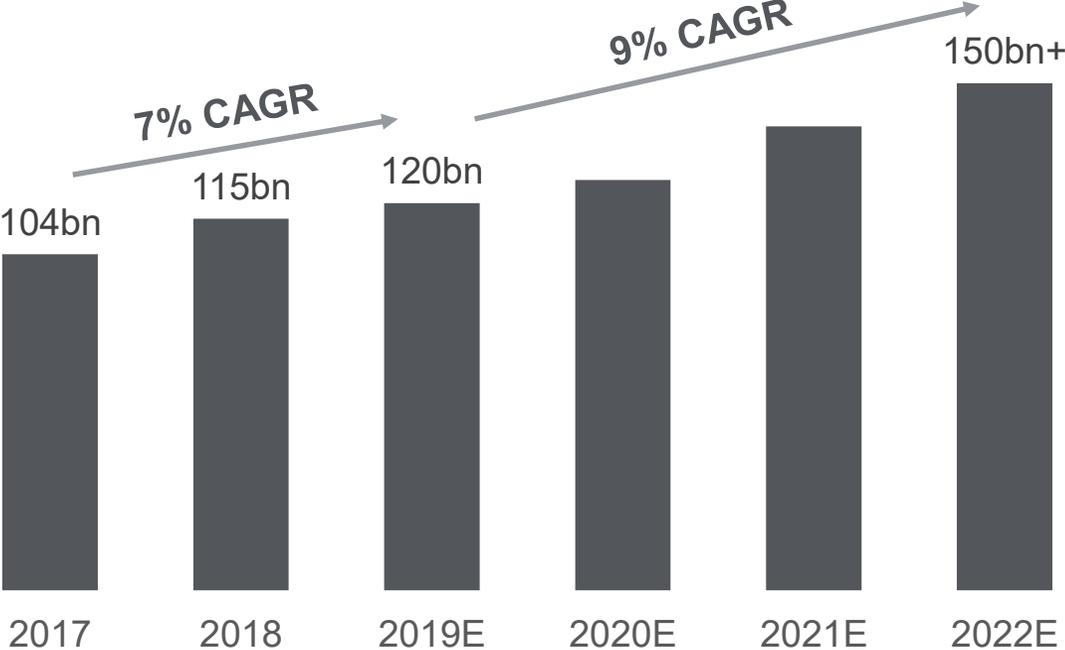
<p>Partners</p>	                
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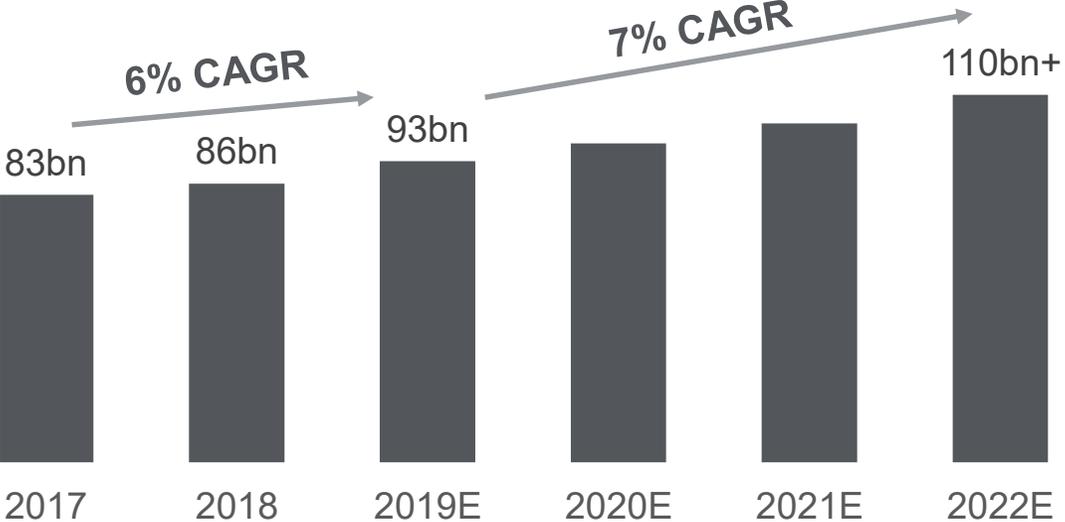
# Why loyalty matters to IAG

# Accelerating growth in key metrics

## Avios issued



## Avios redeemed



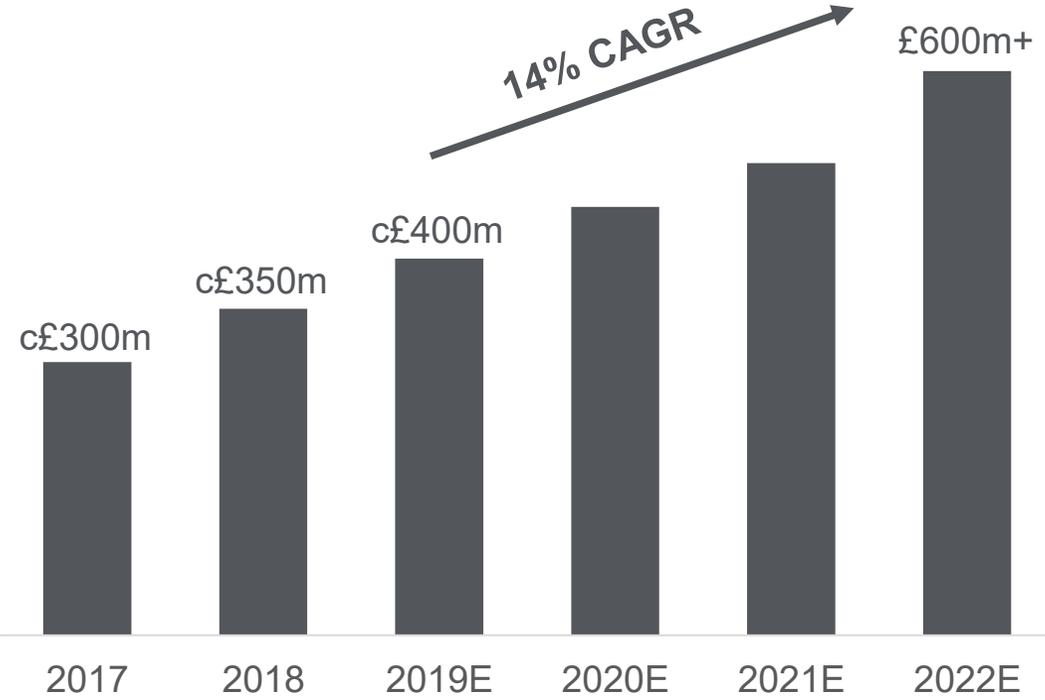
# Driving strong profitability, and cash into the Group

Net Cash generated from Avios growing from c£400m in 2019 to over £600m by 2022

## AGL Operating Profit (2018)



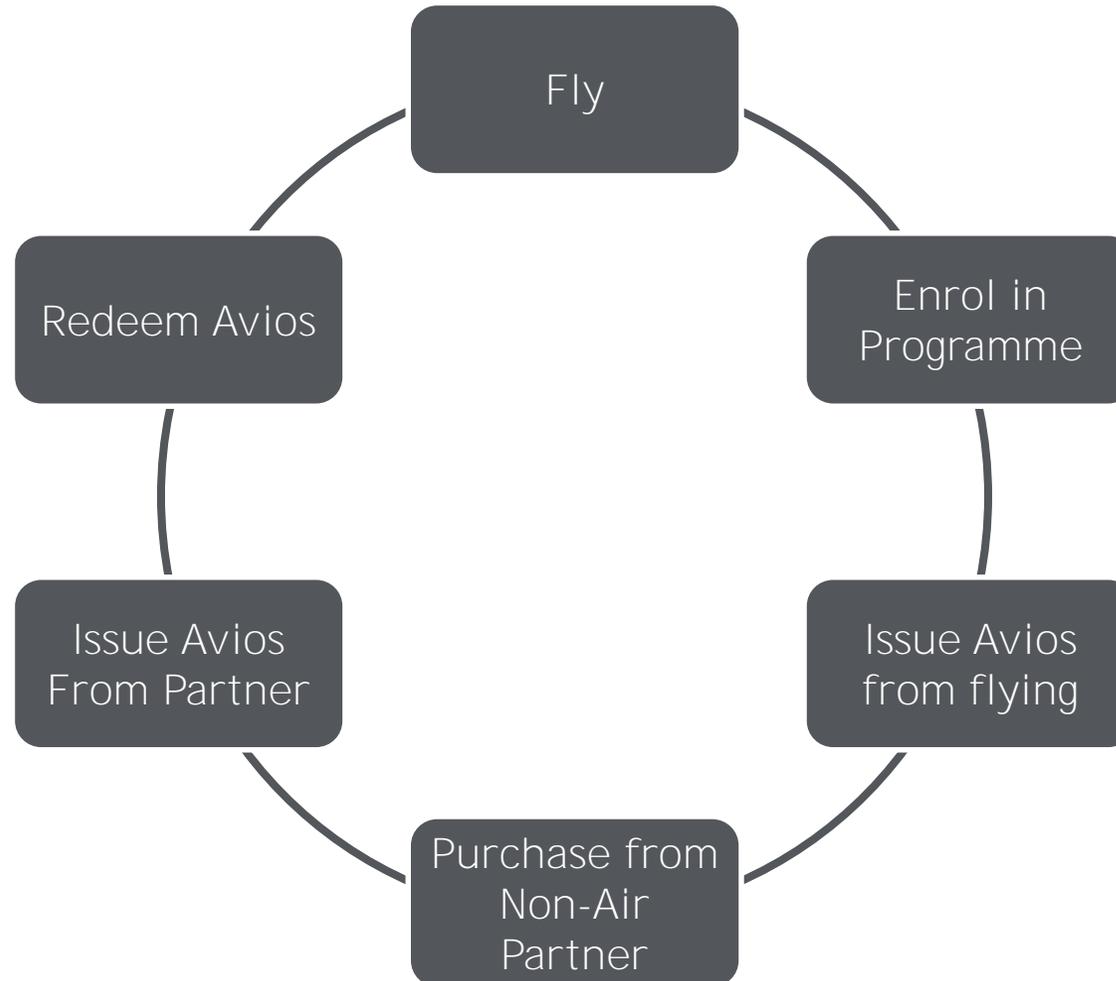
## Net Cash Generated into IAG



• Net cash generated included cash generated from the sale of Avios to 3rd party partners, net of cost of redemption to 3rd party partners and net of external AGL overhead costs.

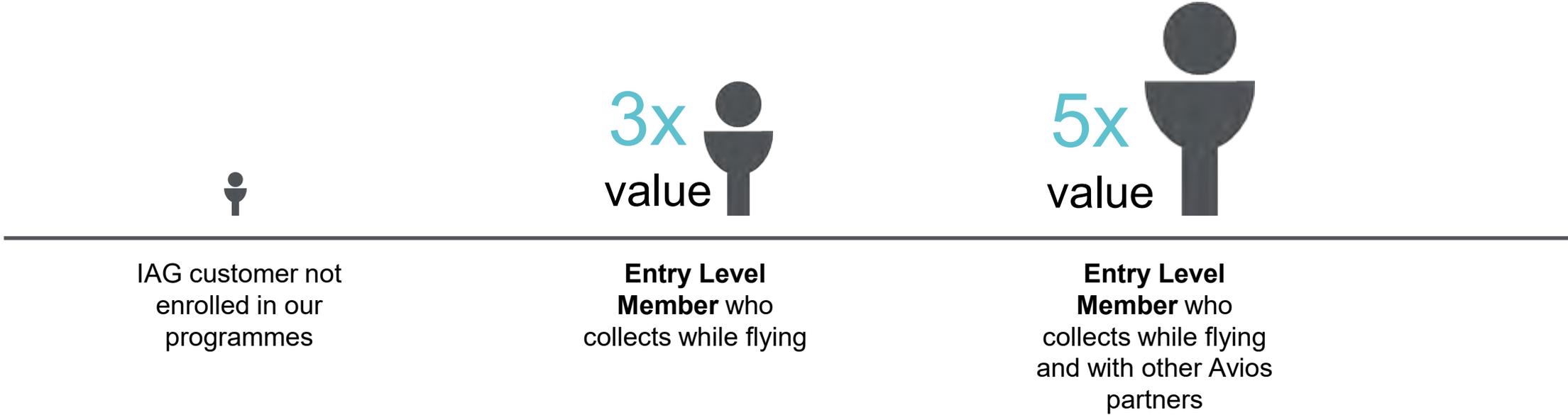
# The loyalty engagement cycle

Powered by compelling programmes, data, and attractive partners



# Loyalty programme membership drives behavioural change

Even newest members grow in IAG value after joining



- Multiples calculated by comparing UK-based BA Executive Club Blue tier customers to BA customers not enrolled in any Airline Loyalty Program
- Data based on January 2018 to December 2018 results
- Value is defined as group margin from combined company profit and loss statements

# Loyalty drives significant value to IAG, with headroom for growth

A growing proportion of the IAG business comes from loyalty programme members



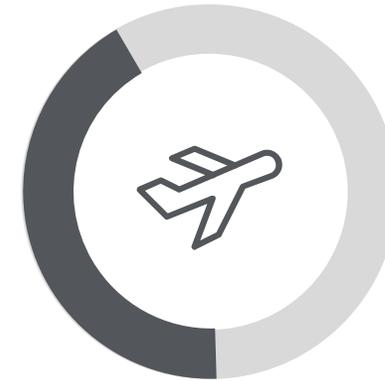
**33%**

of passenger journeys are made by programme members



**38%**

of passenger journeys on top routes are made by programme members



**44%**

of flight revenue comes from programme members

# More Avios are issued from 'everyday spending' than flying...

Our collection partners add breadth to our programmes, and bring cash into the group



**51%**

Avios collected is through everyday spending – not through flying\*



**930+**

130 Direct Partners and 800+ Affiliate Partners through eStore/Reward App



**£40bn**

Spent collecting Avios each year



**220k**

Avios collected per minute

# ...returning this value back to IAG through spend on travel rewards

Reward flight growth is driven by usage of the Pay with Avios product on all airlines



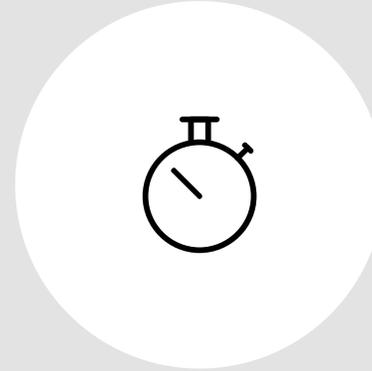
**89bn**

Avios spent on travel and experiences each year



**8m**

Reward flights taken each year



**16**

Redemption transactions every minute



**900**

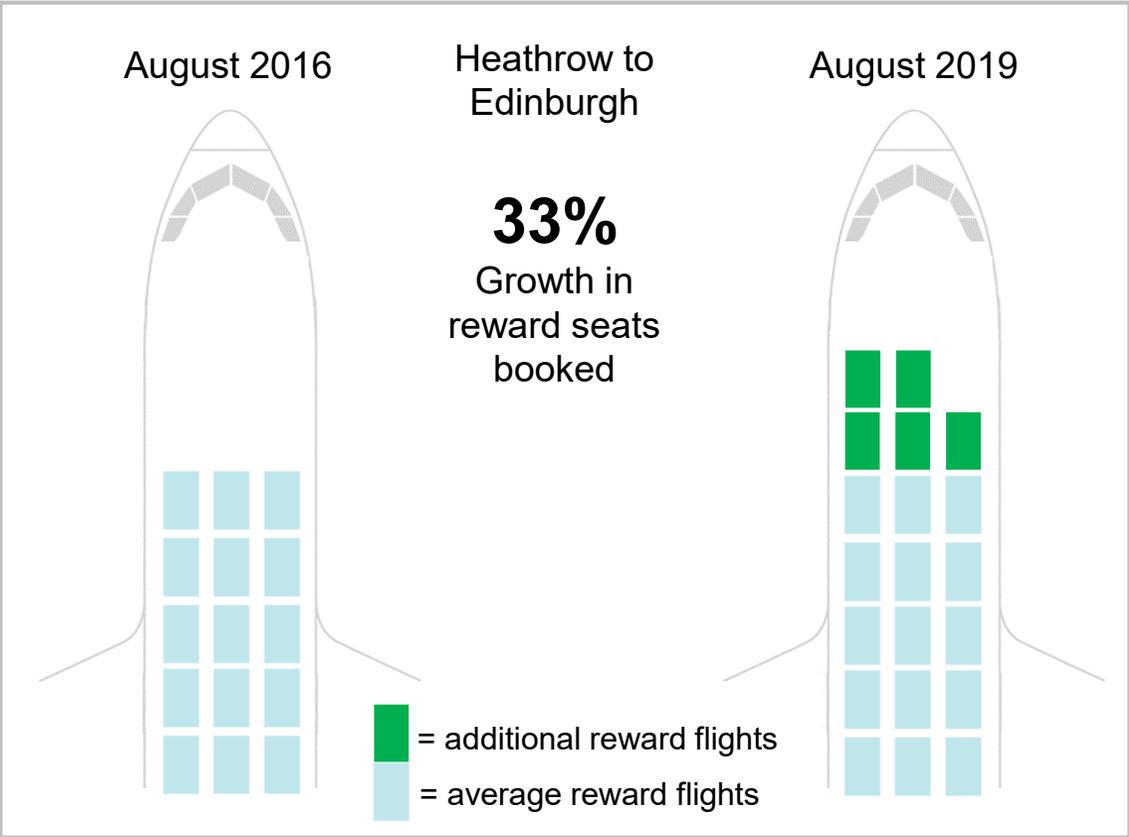
Reward seats booked per hour

# Case study – Unconstrained redemption opportunities

## Growth in Reward Flights (BA)



## ... and on key routes



# Transforming our loyalty offer

# We have modernised our core loyalty technology

Significant improvements to speed of partner integration and customer changes

## Online Collection Platform

live on Aer Lingus  
and British Airways

## Rewards App Platform

live on British Airways  
launching soon on Vueling

## Developer Platform

live for all existing and  
prospective partners

Products built on top of the platform enable faster customer change

★ *Gone from 70 changes a year to several per day*

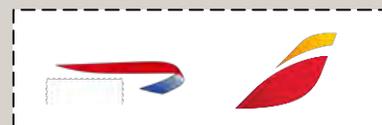
## Open APIs

Our APIs enable faster integration of our products for partners

★ *Monese integrated in 6 weeks vs previous examples at 6 months*

## Group Loyalty Platform

Aer Lingus  vueling



## Group Redemption Service

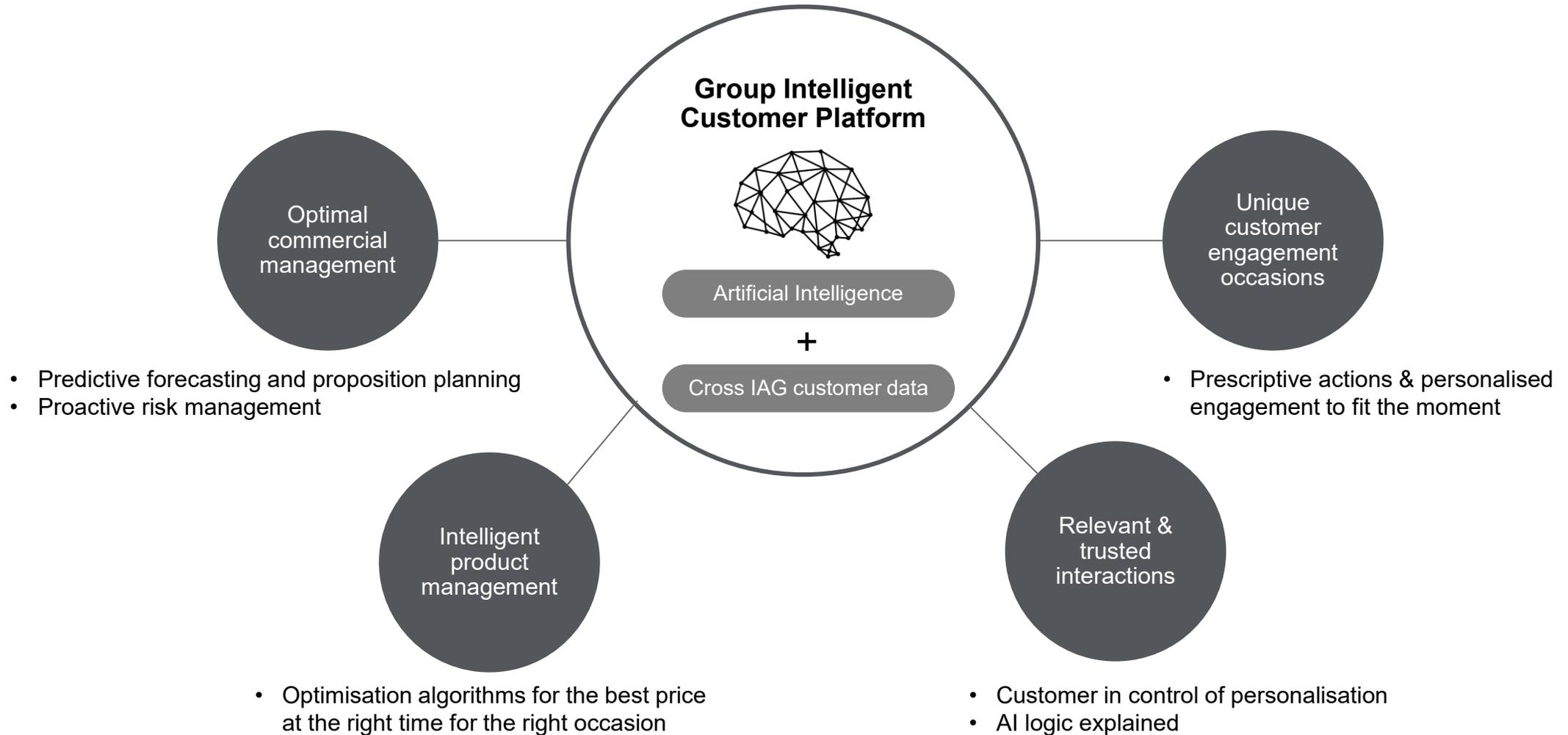
launching soon on  
British Airways

Our new platforms remove duplicated group systems

★ *GLP transforms 3 loyalty banks into 1*

# We've made a step change in our data capabilities

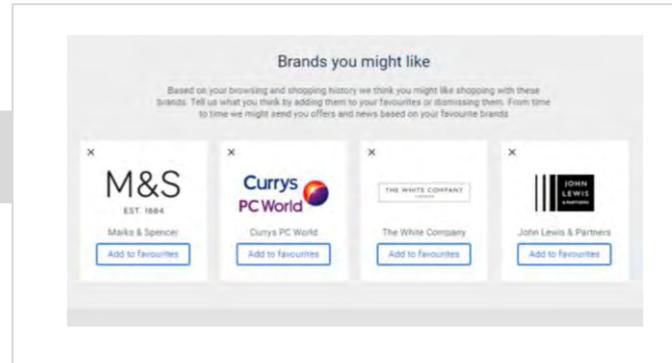
Creating customer engagement, anticipating commercial opportunity & managing risk



# Case study: applying advanced recommendation algorithms across channels to personalise customer engagement



## Personalised eStore recommendations



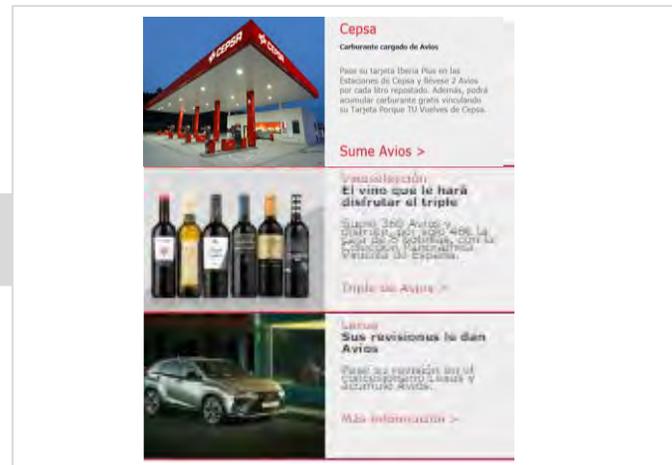
Recommendation algorithm predicts the brands each customer is most likely to find appealing with

**92% accuracy**

in matching customers to brands

(constructed on the base recommendation algorithm used by Netflix)

## Personalised email newsletters



Machine Learning determines the best partner offers to communicate to each customer at the right time with

**31% improvement**

in customer engagement

# We've been improving our customer programmes with more to come

Delivering continual change weekly, across multiple products and channels

Improved ways to spend Avios on flying



vueling



Upgrades



Seats



Baggage

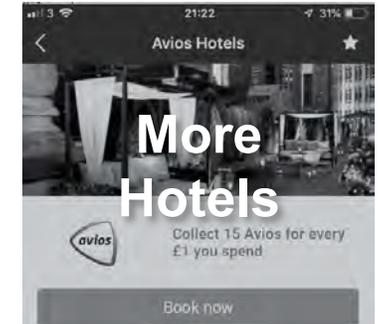
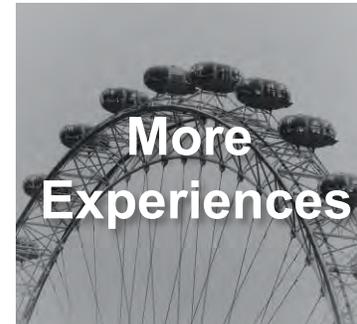


Pay with Avios



Flights

Added more ways to collect & spend outside of flying



# Case study – improvements to Short-Haul Reward Flights with BA

**Customer Feedback:  
Prefer lower cash  
element on Reward  
Flights**

**Previously**

**£35** return  
+ **8,000**  
Avios

**Now**

**£1** return +  
**15,000**  
Avios

**Scale**

**100+**  
destinations  
from London

**Strong results and  
increased customer  
satisfaction**

**+17%**  
increase in  
bookings

**> 250,000**  
seats booked at  
new price  
levels

**65%**  
of customers  
choosing  
lower fares

# Our unique price propositions offer superb value

BRITISH AIRWAYS

Fly to Europe from  
7,500  +50 pence

Choose your seat	1,225 
Baggage (23kg)	Included
Meal Deal	1,015 
Taxes/Fees/Charges	Included

Total cost 9,740  +50 pence

Based on one way, economy flights, from London. Taxes, fees and charges are included in the Avios price as shown, there will be no additional cost.

# ...especially for families

13:00 15:20  **OFF-PEAK**   
14 May 14 May [British Airways – BA0438](#)  
[LHR](#)  [AMS](#) 1h, 20m, Non-stop

---

	Avios per person	Price per person	
<b>2 Adult</b>	7500	£ 0.50	
<b>2 Child</b>	7500	£ 0.50	

---

<b>4 Seats</b>	4,900 Avios (total)	~	
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<b>Total</b>	34,900		
<b>Total</b>	<b>34,900 Avios plus £2.00</b>		

**Basket £325.88**

[Price breakdown >](#)

## London Gatwick to Amsterdam

EZY8875 

Departure 12:55 Thu 14th May

Arrival 15:20

### Your fares

Adult 2 x £60.99

Child 2 x £47.99

### Your flight options

Standard seat 14A £5.99

Standard seat 14B £5.99

Standard seat 14C £5.99

Standard seat 14D £5.99

### Hold items

23kg hold bag 4 x £20.99

Combined weight 92kg

# Growing our collection partnerships

# Strategically growing our commercial Avios collection partnerships

New partners have joined across our 3 vertical sectors

## Finance



## Retail



## Travel



Building, developing and maintaining successful commercial relationships with key partners in Financial Services, Travel and Retail verticals. Growing breadth and range, with new brands driven by customer shopping data

# Financial Services sector is very dynamic – we see lots of opportunities

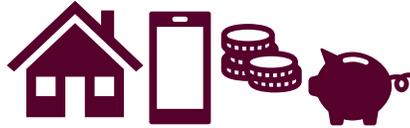
## Consumer credit card market remains a core Avios proposition

CHASE 



- Over 25+ co-brands worldwide
- New Chase deal in USA with improved proposition
- Headroom for growth

## Exploring “Whole of Bank” opportunities



- Rewarding loyalty in Bank
- Extends multi collection
- A real reason to switch

## New segments offer further growth



- New Amex SME Launched Sept
- Avios & OnBusiness currency play

## Open banking delivers new areas of interest



- Learning inside a fintech
- Market keen to drive loyalty
- New forms of payment will open new opportunities
- Pre paid offering

# Looking forward

# Future developments



Continuous improvements to all aspects of our customer programmes



Further develop our digital and data capabilities



Continued roll out of our Global Loyalty Platform technology



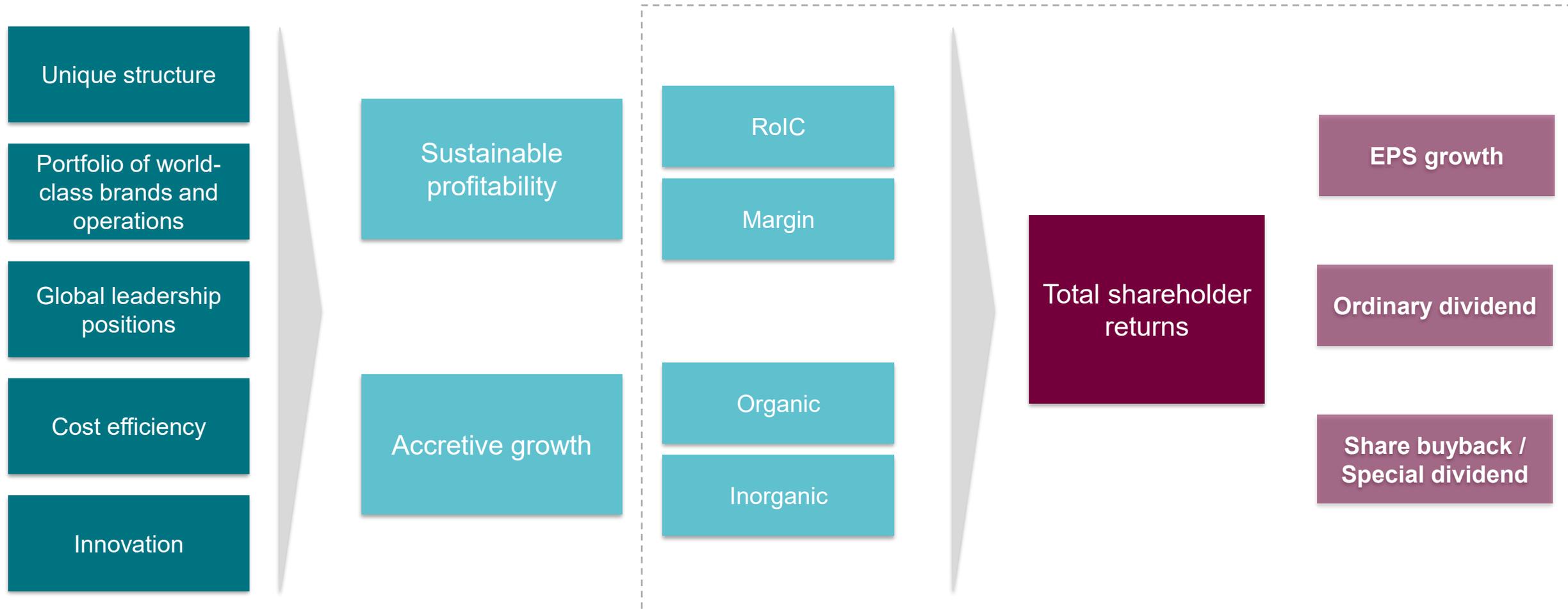
Diversification and growth of our commercial partnerships

# Financial investment case

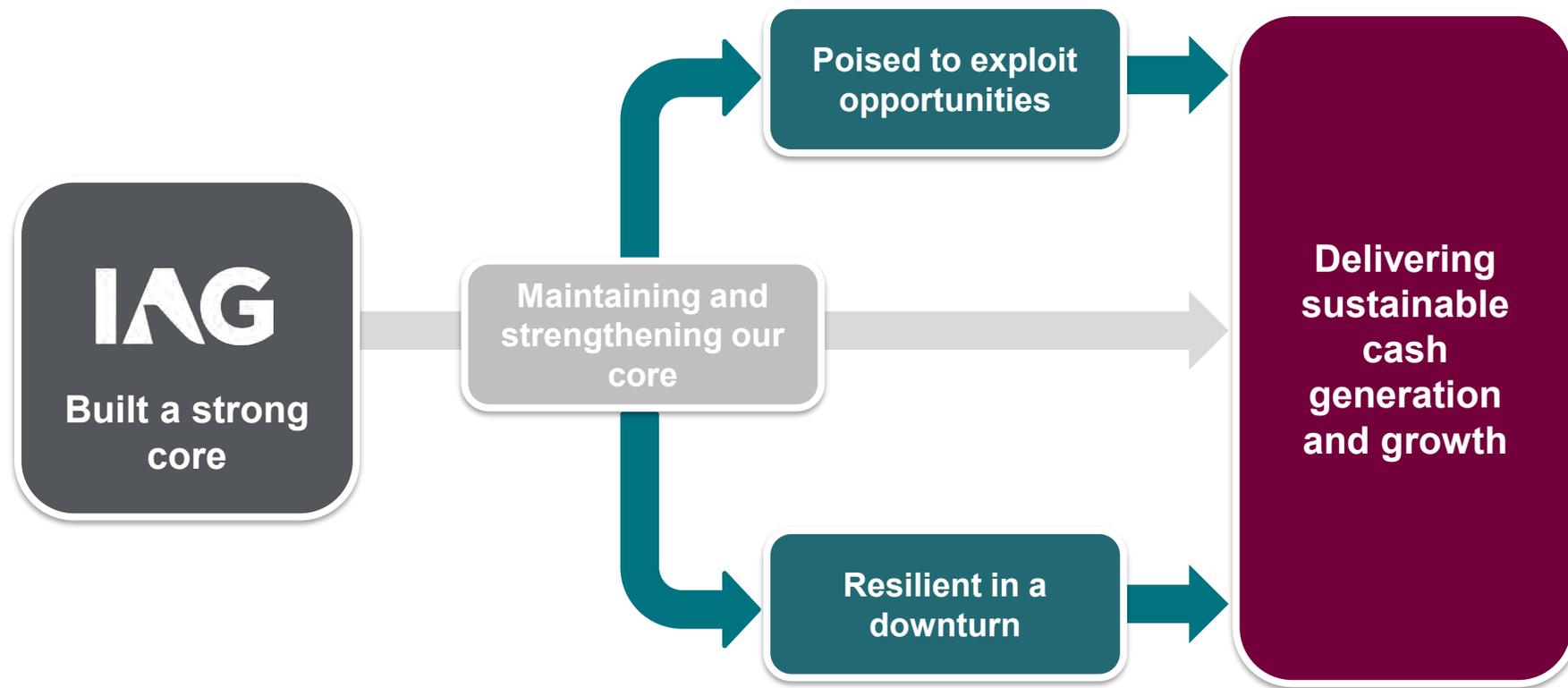
Steve Gunning – IAG CFO

# The IAG investment case

A unique structure that drives growth and innovation to generate superior shareholder returns

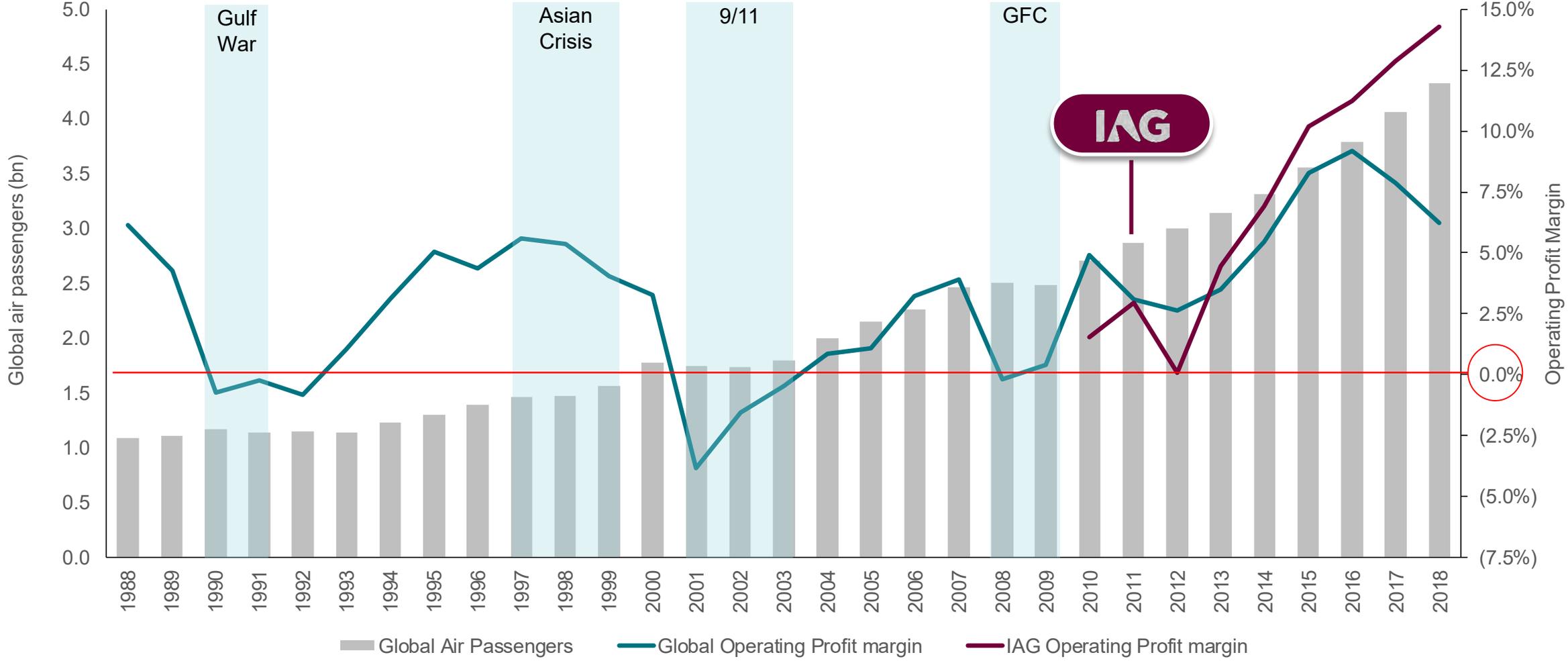


# IAG has a strong, resilient core and is poised to exploit opportunities



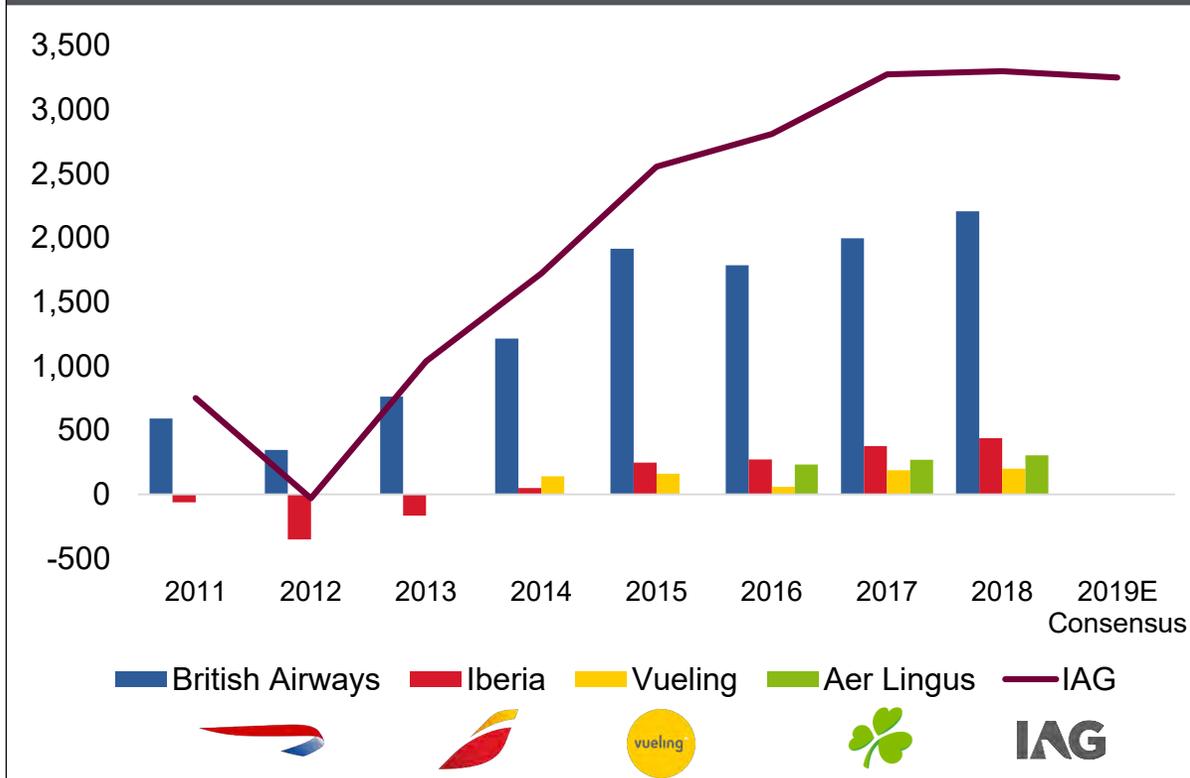
# Strong core

# IAG's performance ahead of global peers driven by structural change

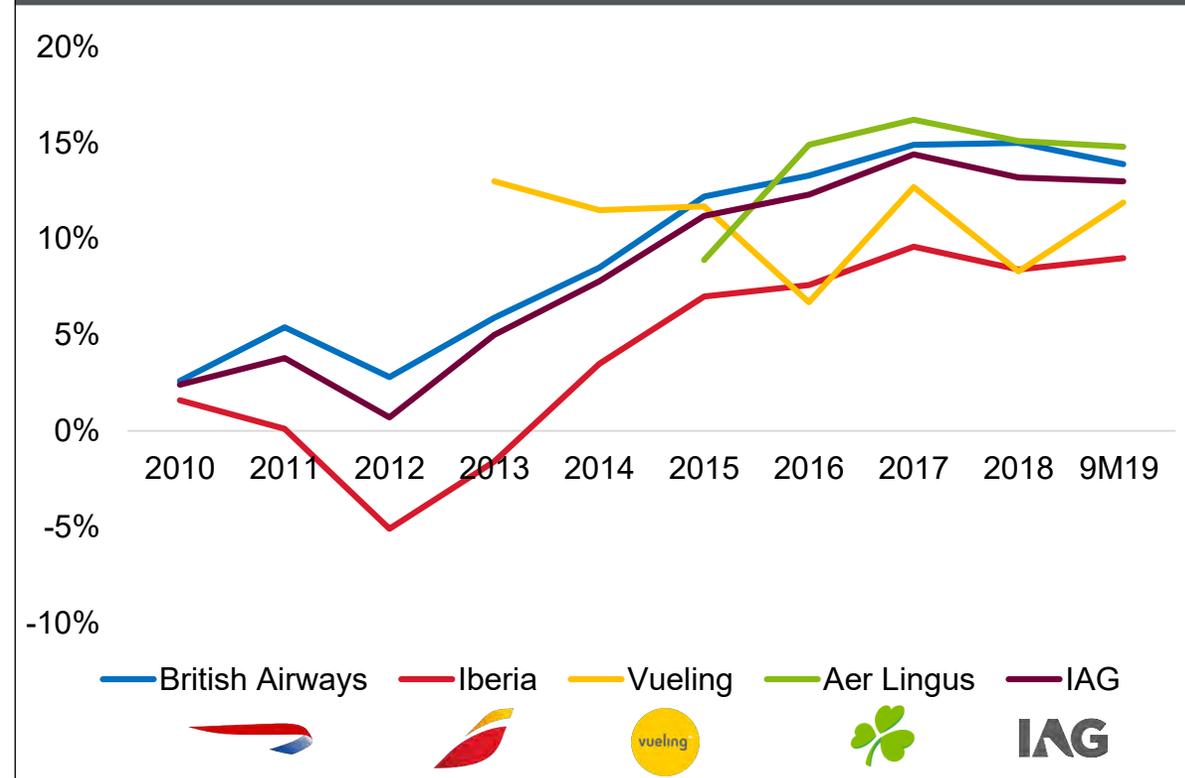


# We have among the best margins in the industry...

Operating profit 2011 to 2019E (€m)

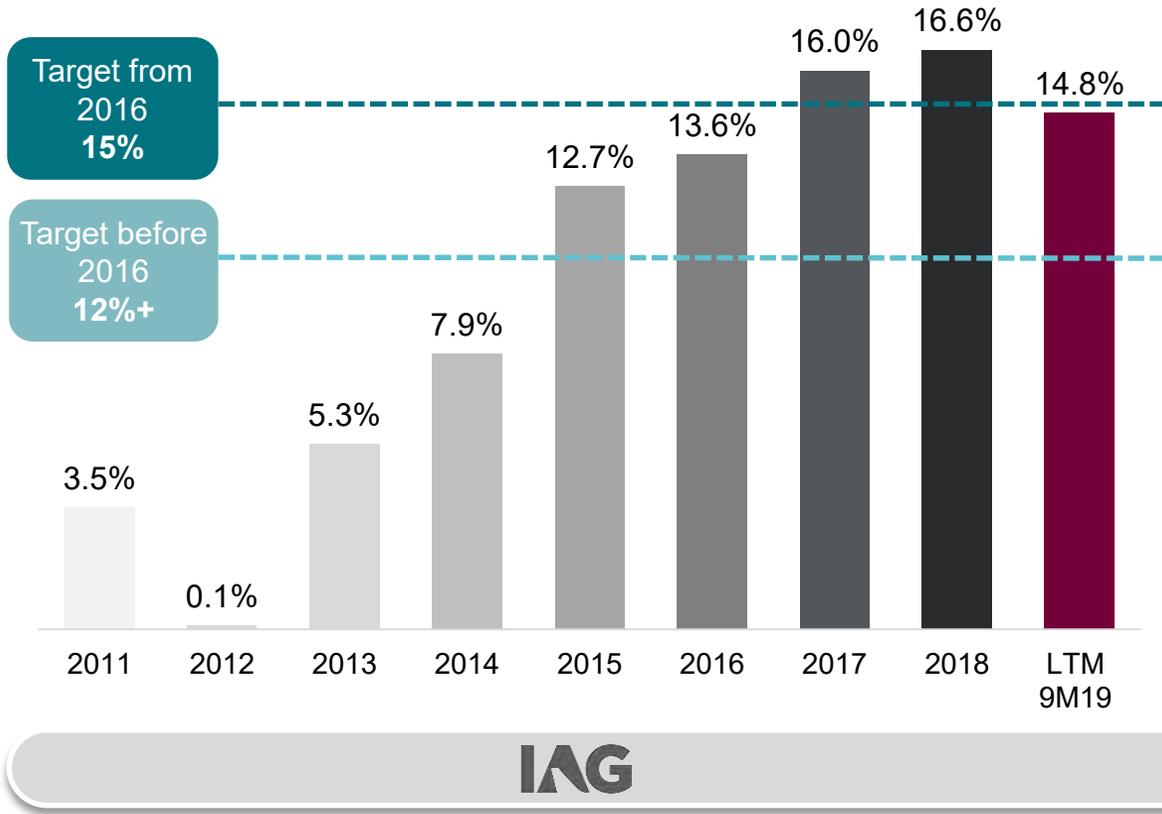


Operating margin\* by OpCo 2011 to 9M19 (%)



# ... and among the best returns on capital in the industry

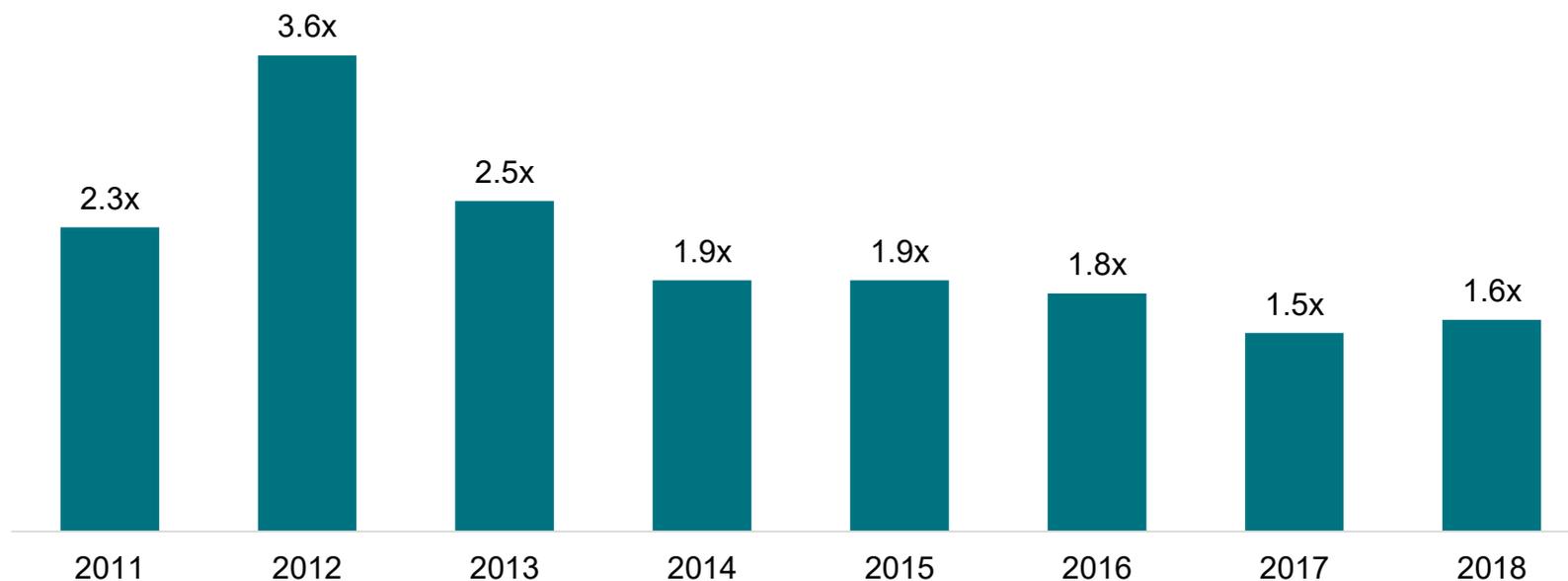
## Return on Invested Capital (RoIC)



RoIC (%)	2011	2012	2013	2014	2015	2016	2017	2018	LTM Sept 19
	n.a	n.a	n.a	n.a	13.2%	13.5%	16.0%	17.3%	14.7%
	n.a	n.a	n.a	n.a	10.0%	9.0%	12.2%	13.2%	13.9%
	n.a	n.a	n.a	n.a	13.7%	7.3%	13.4%	13.3%	14.4%
	n.a	n.a	n.a	n.a	12.0%	23.1%	23.1%	26.8%	22.6%
<b>IAG</b>	3.5%	0.1%	5.3%	7.9%	12.7%	13.6%	16.0%	16.6%	14.8%

# We have strengthened our Balance Sheet

Historical leverage (Adjusted net debt / EBITDAR)



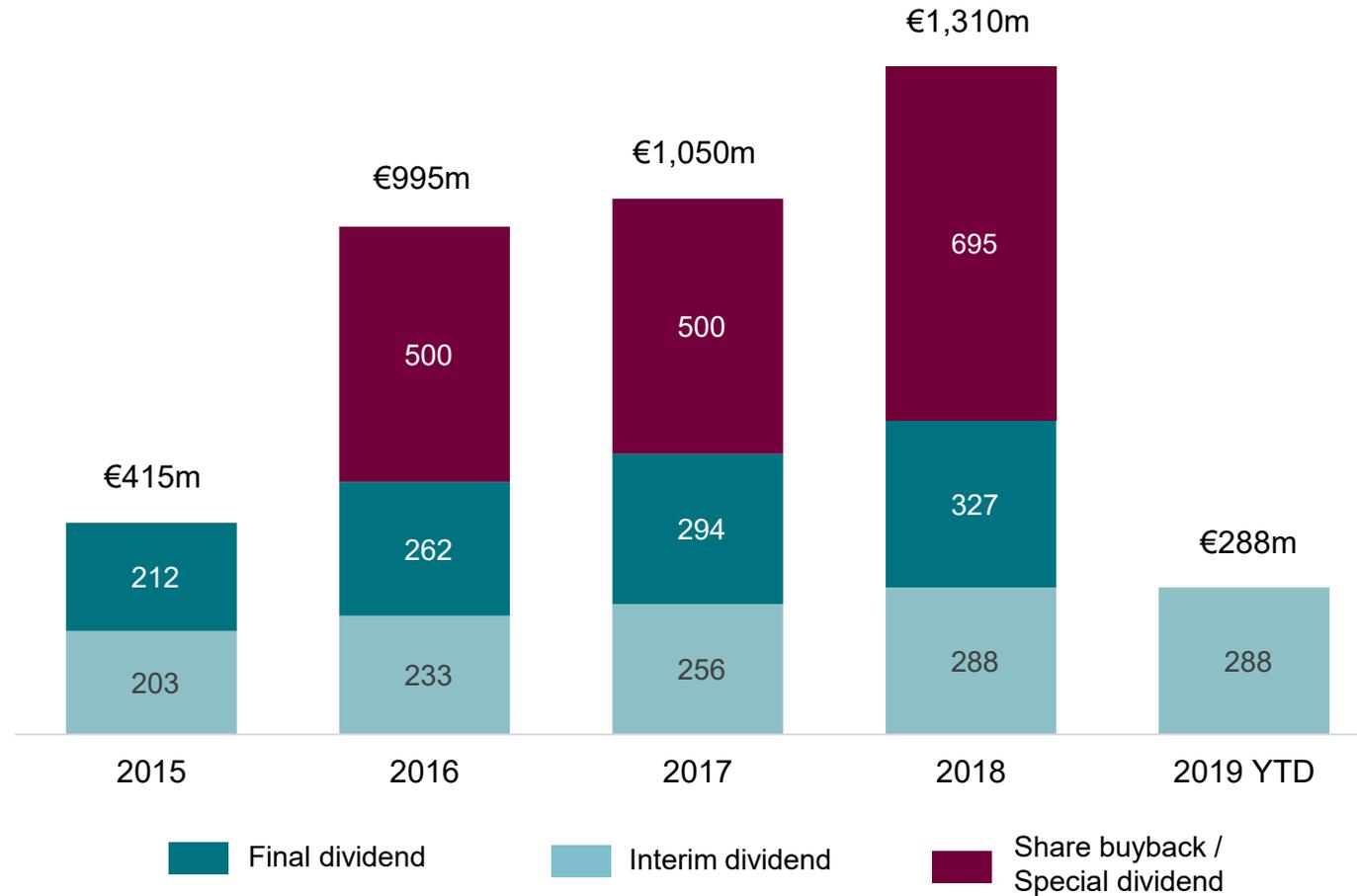
€m	2011	2012	2013	2014	2015	2016	2017	2018
EBITDAR	1,867	1,480	2,258	3,137	4,301	4,581	5,087	5,374
Net debt	1,148	1,889	1,489	1,673	2,774	2,087	655	1,235
Adjusted net debt*	4,372	5,345	5,701	6,081	8,510	8,159	7,759	8,355

**IAG** Note: Based on the Group's statutory results (not adjusted for IFRS 16).

\*Calculated as long-term borrowings plus capitalised operating lease costs less current interest bearing deposits and cash and cash equivalents

# We have a proven track record of significant cash returns to shareholders

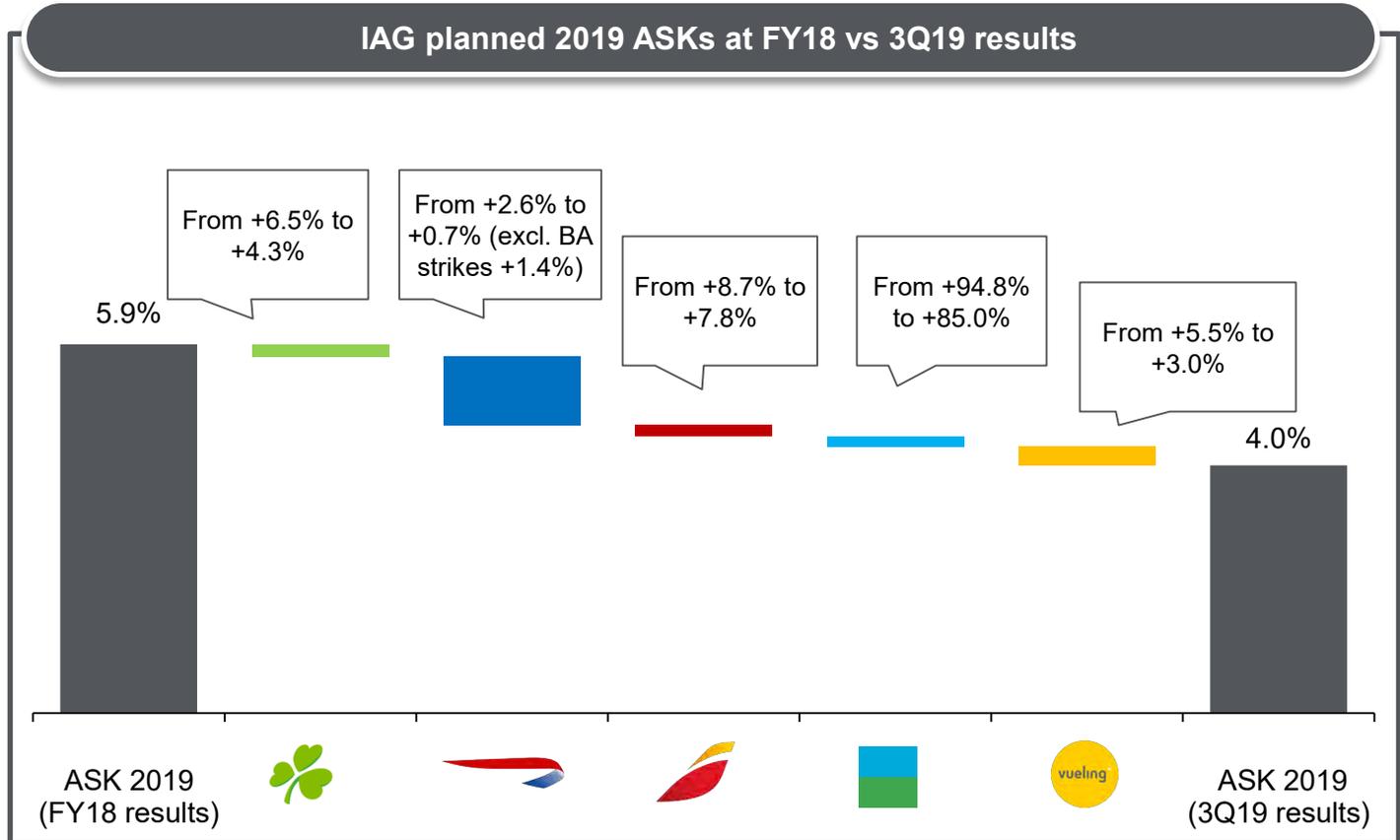
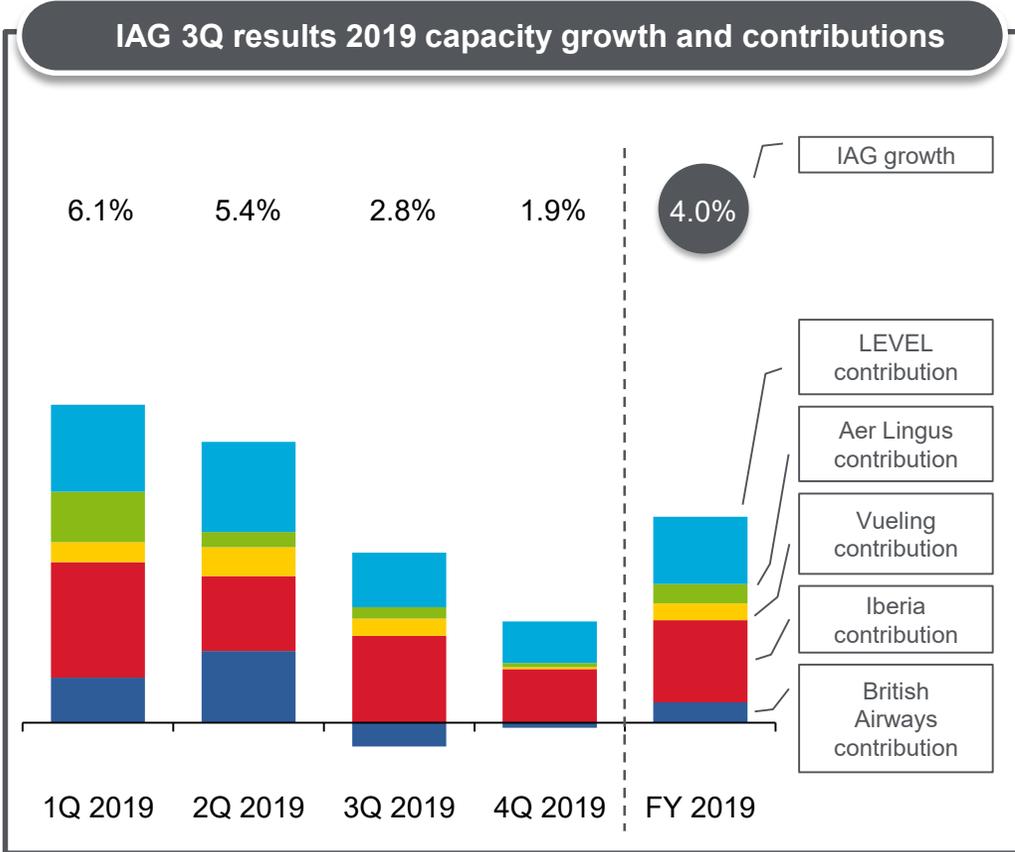
€4.1bn returned to shareholders since 2015



# Maintaining and strengthening our core

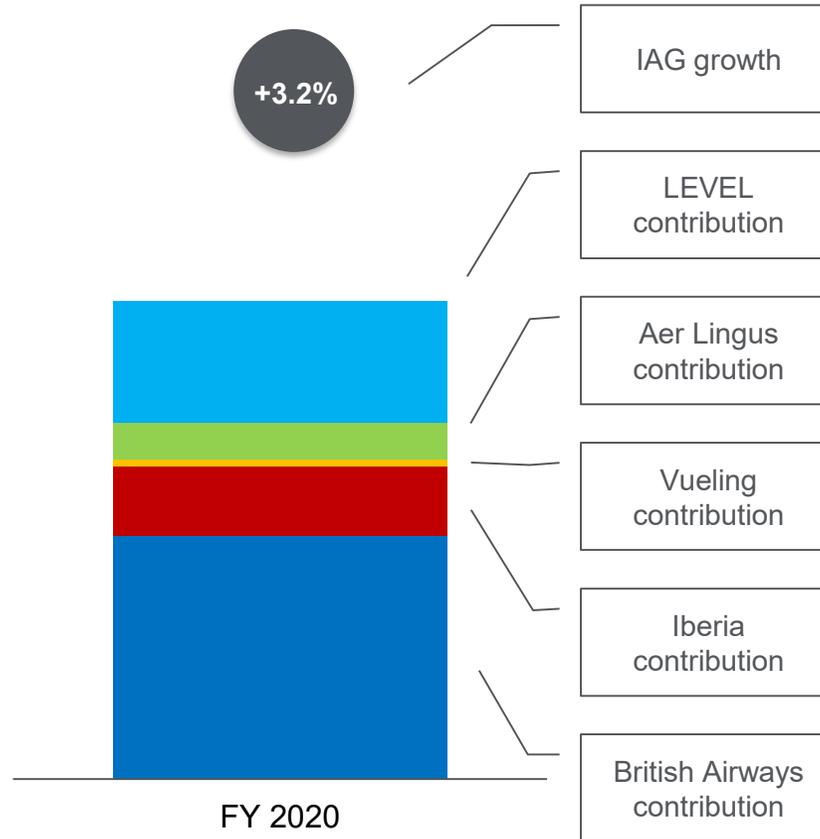
# 2019 ASK growth lower than originally planned

2019 planned ASK capacity at the beginning of the year vs current plan



# Capacity growth decelerating into 2020

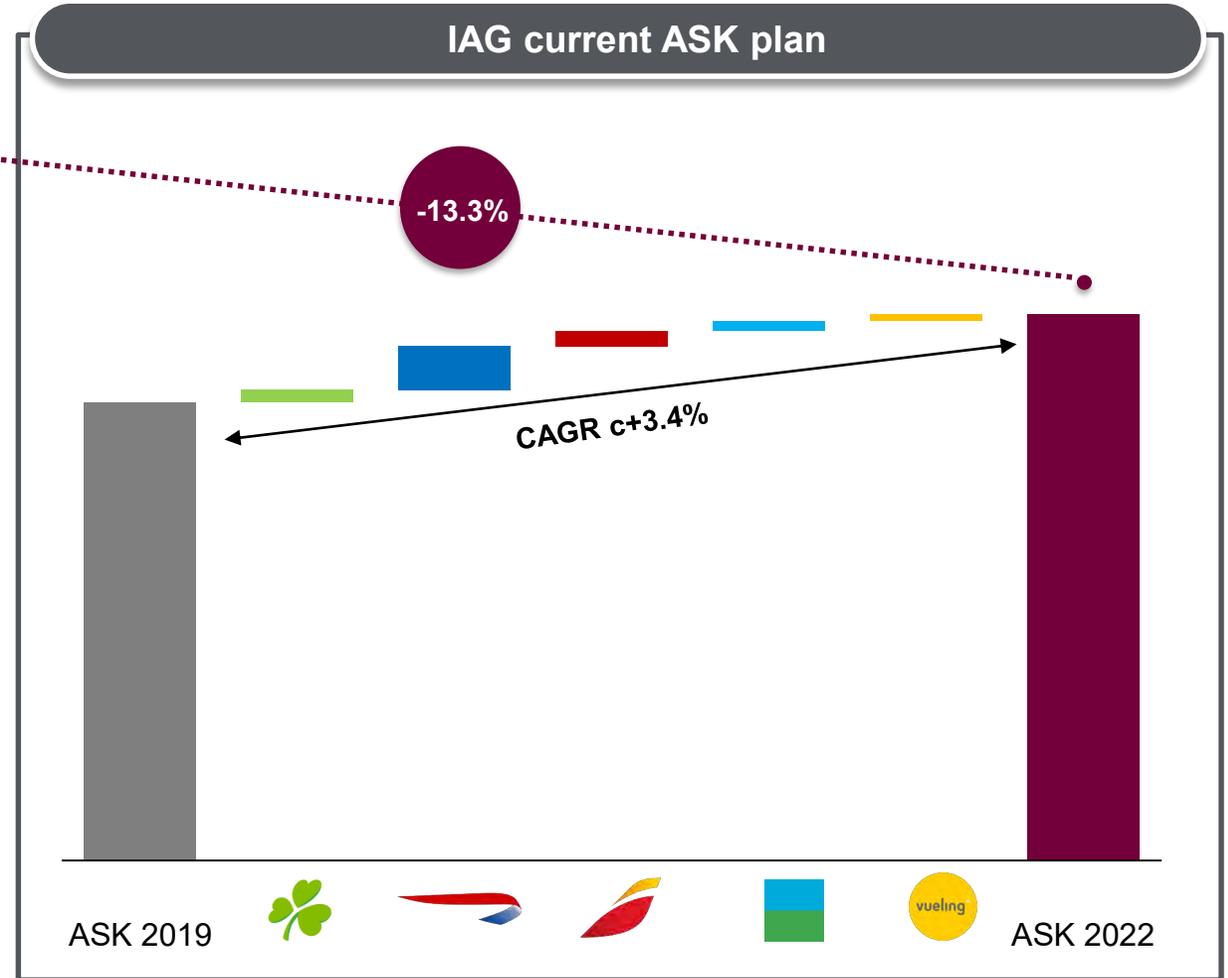
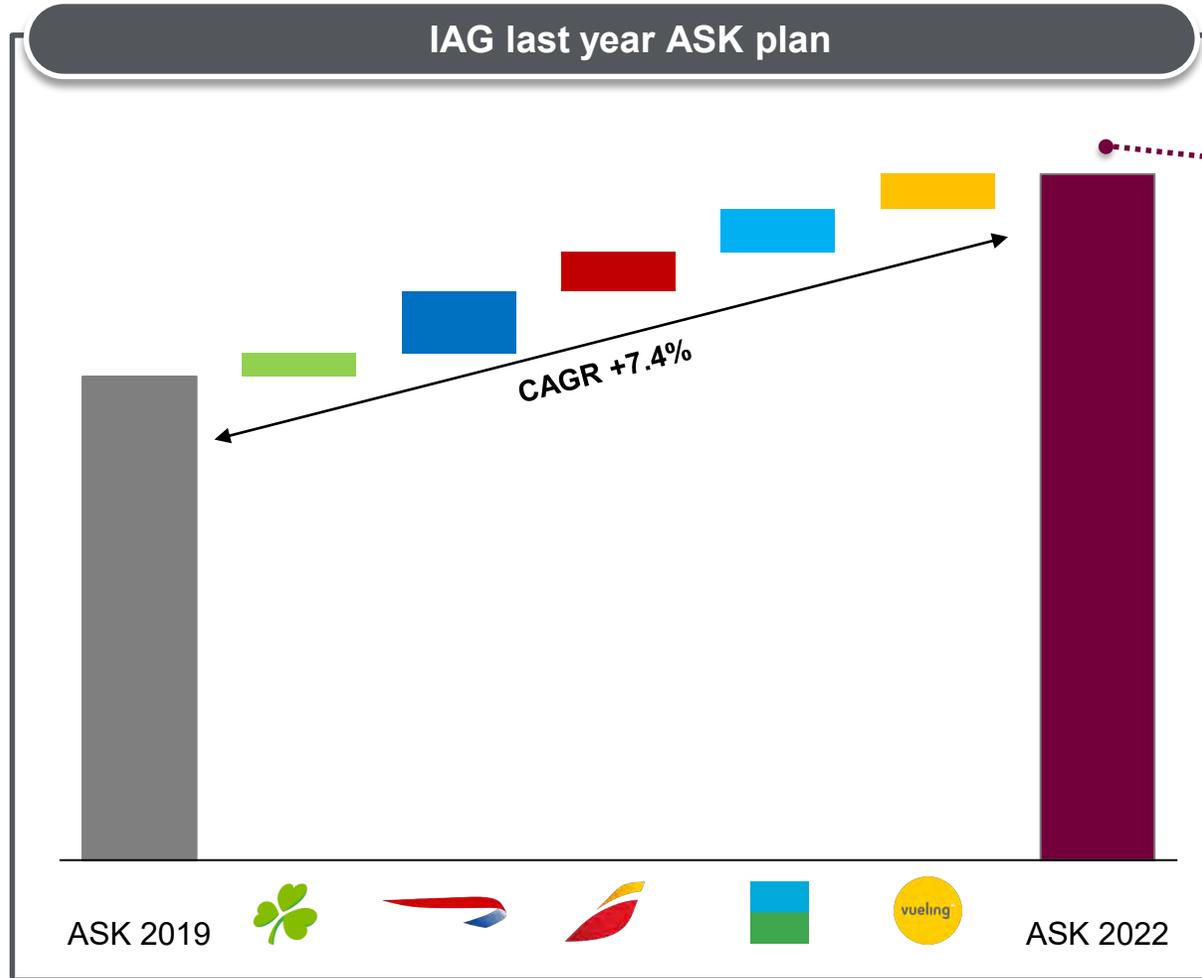
2020 planned ASK capacity growth



FY 2020	
	+30% VLY
	+3% VLY
	+2% VLY
	+0% VLY
	+3% VLY

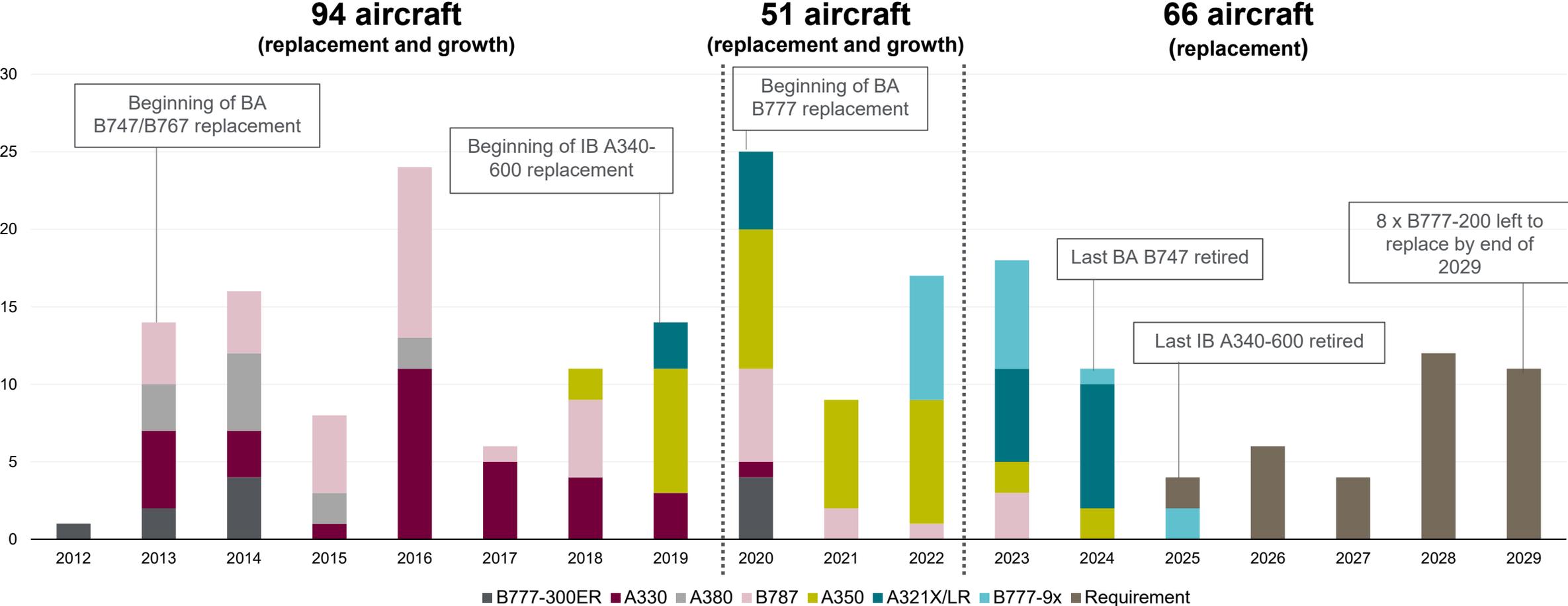
# ASK growth over the next 3 years lower than previously planned

2020-22 planned ASK capacity, current business plan vs. previous plan



# No future aircraft replacement spike

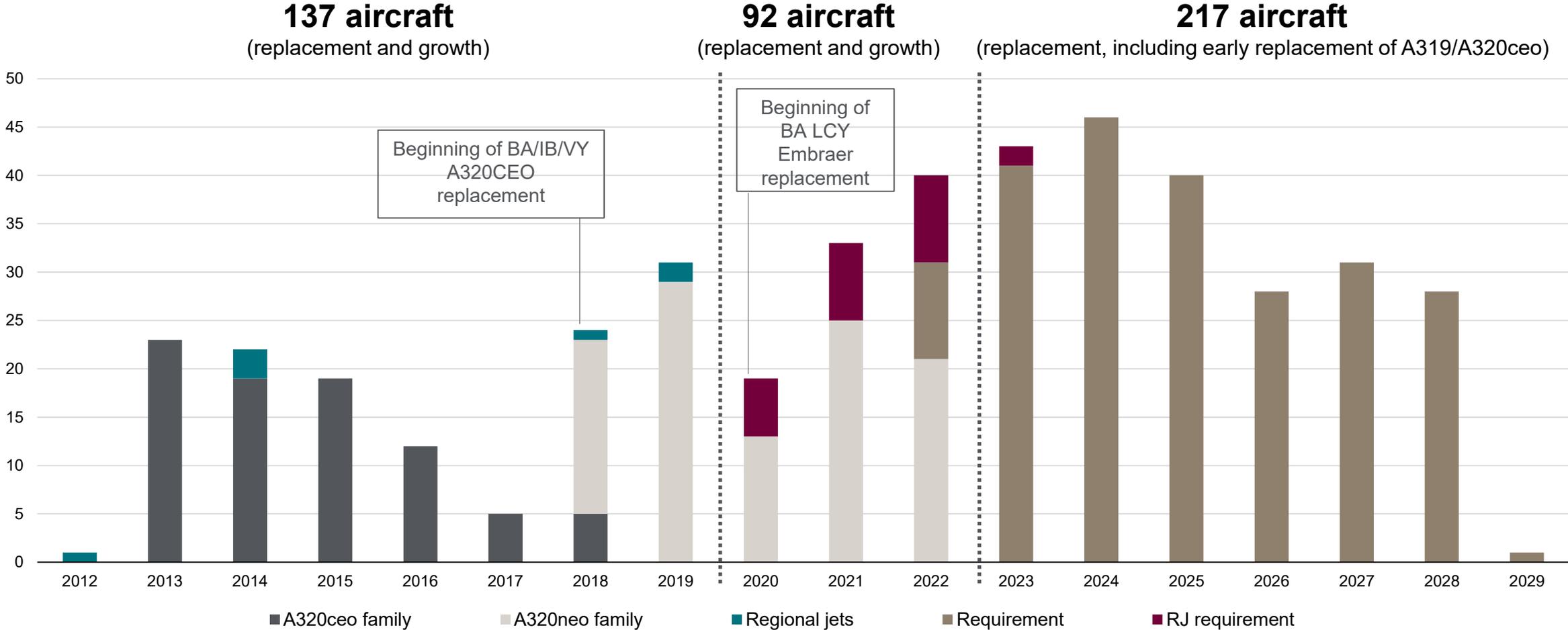
## Long-haul deliveries and replacement requirements



Each long-haul aircraft equates to c.0.3% additional IAG ASK growth

# Smooth transition to next generation aircraft

## Short-haul deliveries and replacement requirements



# IAG's fleet plan

## IAG fleet plan 2020-2022

### Short-haul fleet

	2019	2020	2021	2022
A319	58	50	41	26
A320	219	207	196	182
A321	47	47	47	44
A320 NEO	38	45	61	79
A321 NEO	9	15	24	37
E170/E190	24	25	30	28
Other	3	2	2	2
<b>Total short-haul</b>	<b>398</b>	<b>391</b>	<b>401</b>	<b>398</b>

### Long-haul fleet

	2019	2020	2021	2022
A318	1	1	1	1
A321	4	4	4	4
A321 NEO LR	3	8	8	8
A330	41	40	40	41
A340	16	10	9	5
A350	10	19	26	34
A380	12	12	12	12
B744	32	25	20	12
B757/B767	2	-	-	-
B772	46	43	43	43
B773	12	16	16	16
B779	-	-	-	8
B787	30	36	38	39
<b>Total long-haul</b>	<b>209</b>	<b>214</b>	<b>217</b>	<b>223</b>

# IAG Letter of Intent (LOI) for 200 Boeing 737 MAX aircraft

## Summary

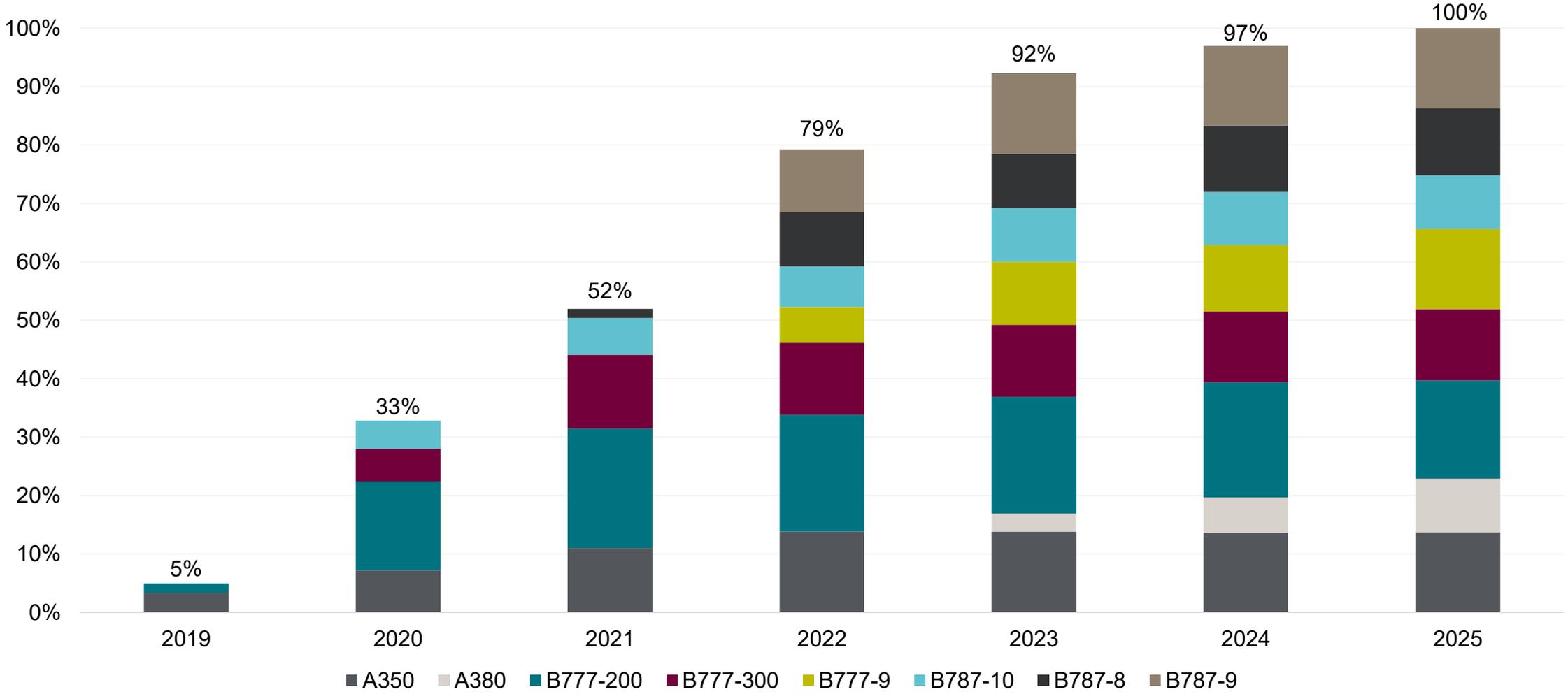
- LOI signed in June 2019 to order 200 B737MAX aircraft
- Order predominantly to replace existing short-haul aircraft
- Aircraft to be initially placed at BA LGW and Vueling to a harmonised group specification
- Flexibility to place the aircraft elsewhere in the Group
- Mixture of B737-8 and B737-10 variants, with the flexibility to up and down gauge as required
- Deliveries requested between 2023 and 2027

## Strategic rationale

- Transition to a dual source Airbus / Boeing fleet for narrow-body aircraft will introduce competition to IAG narrow-body fleet campaigns
- Diversifies the narrow-body fleet to help IAG to mitigate the impact of delivery delays and operational issues

# Significant customer investments

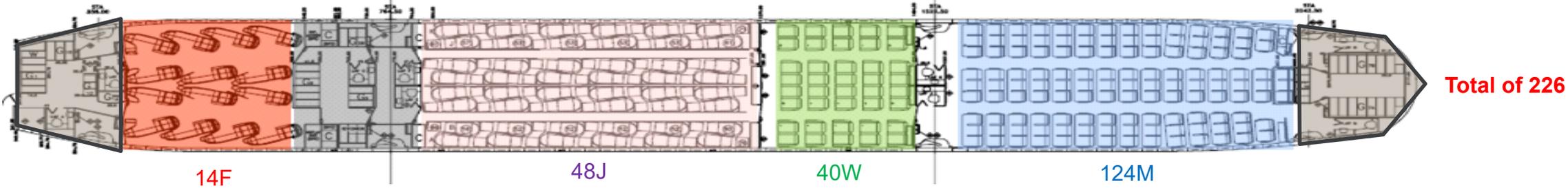
BA LHR Club World Suite rollout by aircraft type by year, 2019-2025



# No density lost for some aircraft types from new Club World Suite

Heathrow B777-200 configuration before and after Club World

Current Heathrow 4-class B777-200 IGW



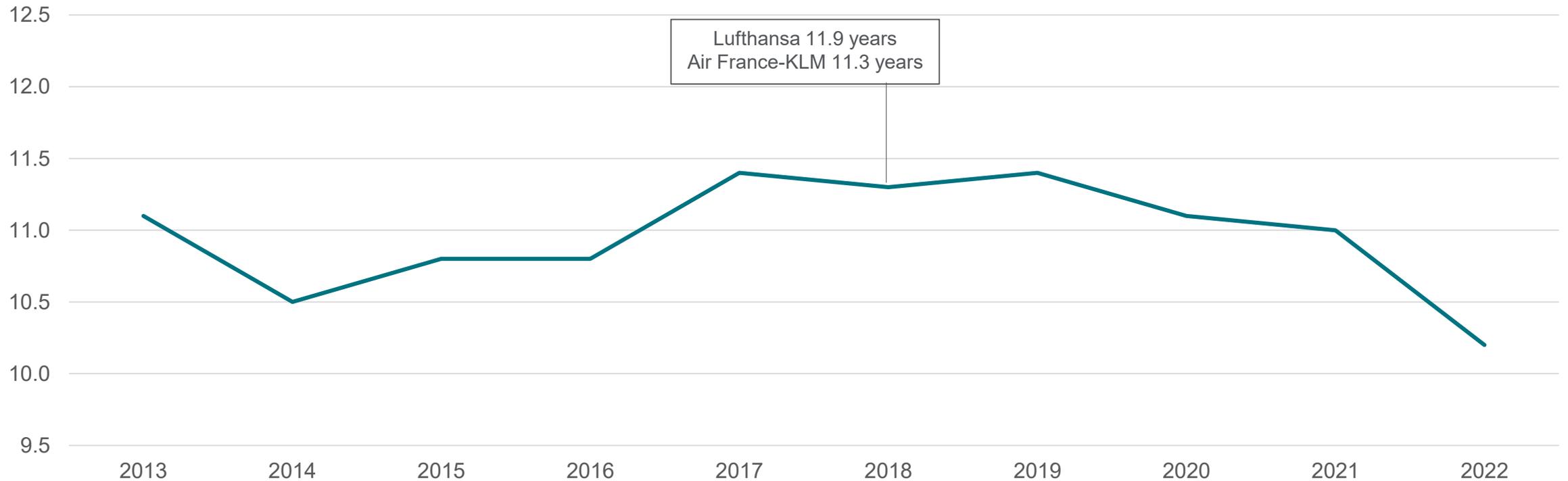
Configuration with Club World Suite



# Average aircraft age set to decline

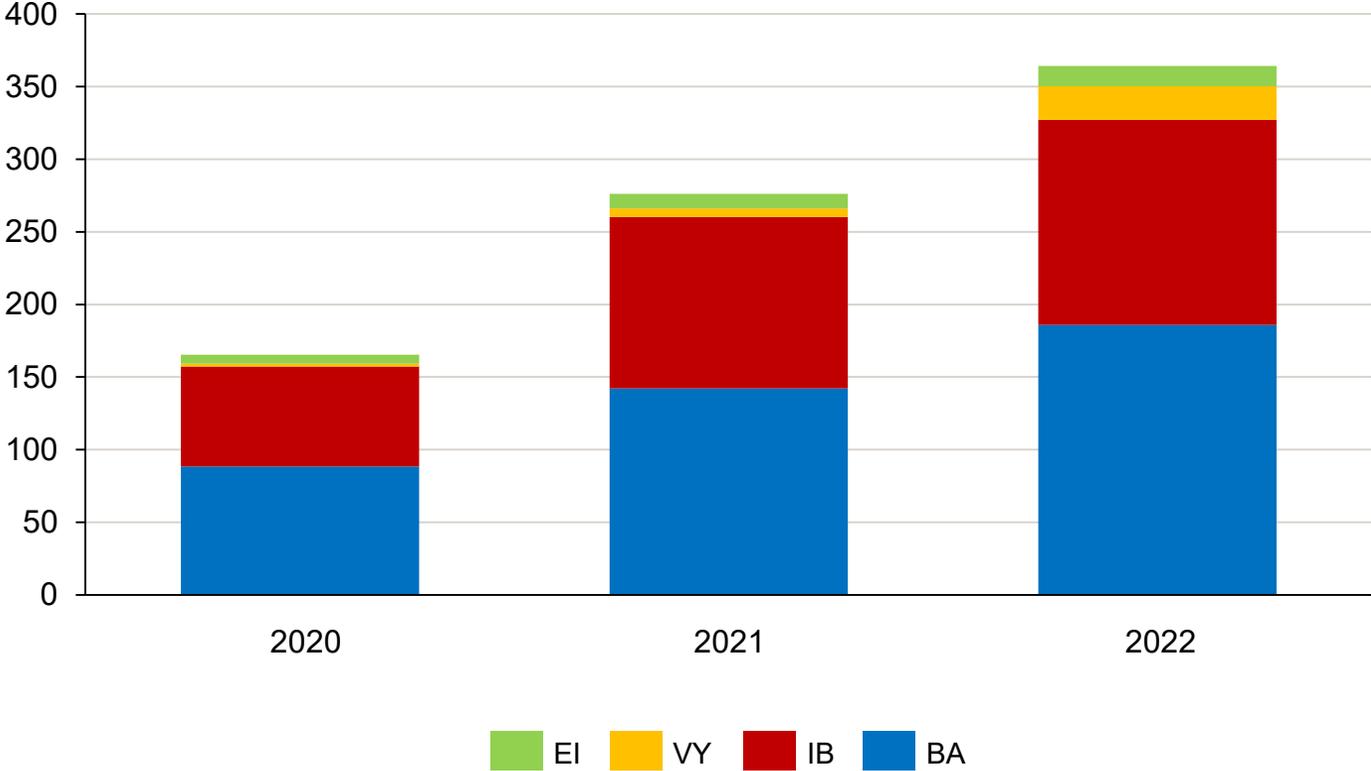
Average aircraft age projection, 2013-2022

IAG average aircraft age 2013 to 2022 (unweighted)



# New fleet investment releases significant fuel efficiencies

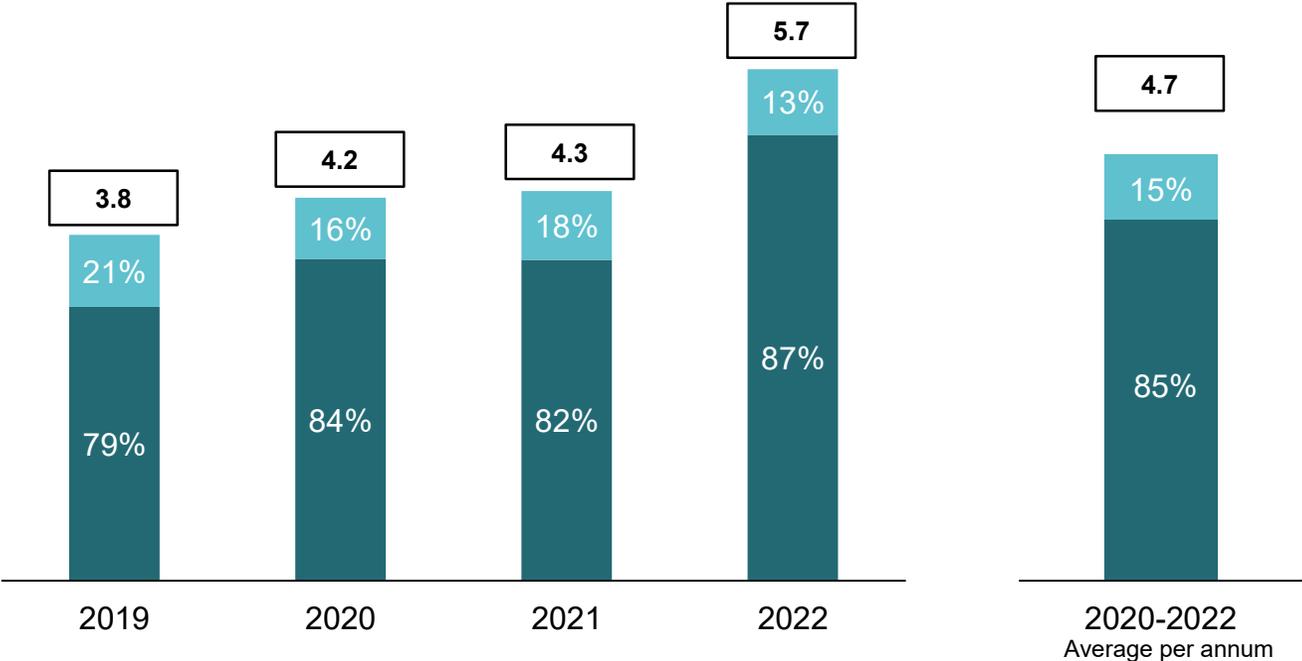
Fuel efficiencies vs. 2019, €m



# From now on, we will guide to gross capex rather than net capex

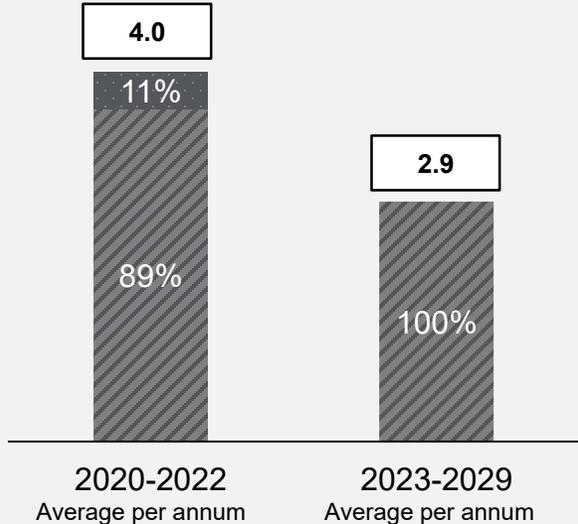
Gross Capex (€ bn) – Fleet vs non-fleet (%)

■ Fleet  
■ Non-fleet



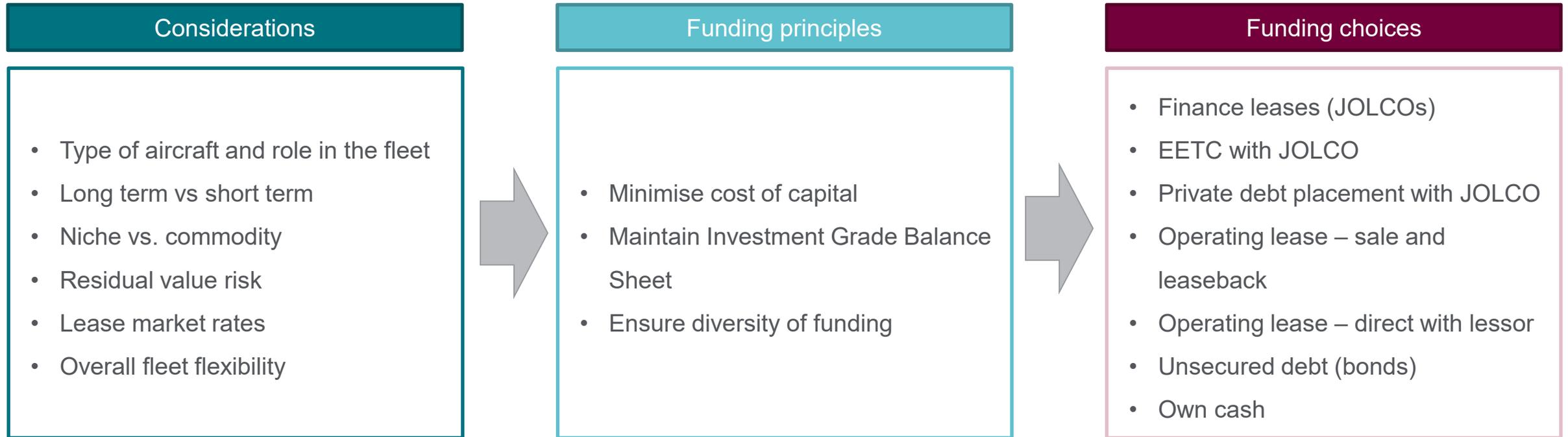
Fleet Capex (€ bn) – Growth vs replacement (%)

■ Growth  
■ Replacement



# We evaluate each financing on its merits, in line with our overall approach

## Fleet ownership decision making process



# Cost reduction is part of our DNA

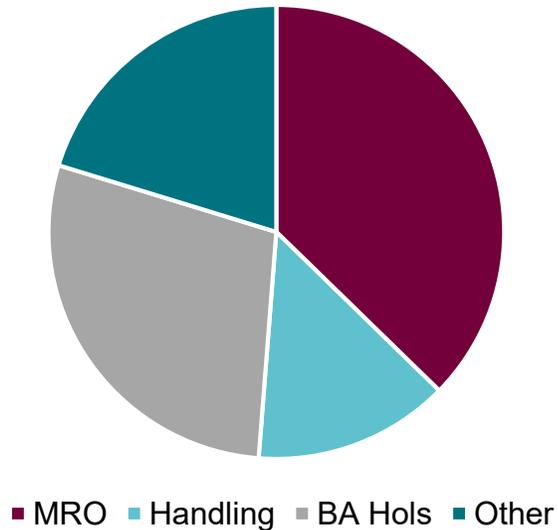
Long-term target to reduce airline non-fuel costs by 1% CAGR over 5 years

Cost Category	Unit cost change 2019 vs 2010 (reported)	2020-2022 Indicative Trend*	Key drivers and actions
Fuel and carbon	-9%		Investment in new, fuel-efficient fleet more than offsetting incremental costs of carbon (ETS+CORSIA), together with fuel-supply initiatives
Ownership	-9% (excl. IFRS 16)		Fleet and product investment driving higher depreciation
Supplier	Flat		<ul style="list-style-type: none"> <li>• Ongoing Group Procurement plans leveraging scale of the Group, including programme to reduce ground handling and airport charges, using Group-wide data analytics</li> <li>• Further Engineering contract renegotiations</li> <li>• Harnessing data analytics for predictive maintenance efficiencies</li> <li>• Investment in resilience and recovery technology to reduce disruption and compensation costs</li> <li>• Reduced selling costs through digital, NDC and direct channels</li> <li>• Leveraging technology and data to enhance supplier management</li> </ul>
Employee	-23%		<p>Efficiency plans in all operating companies to offset wage inflation, including:</p> <ul style="list-style-type: none"> <li>• Delivering productivity improvements through multi-skilled roles and efficient rostering</li> <li>• Back-office simplification and automation, using GBS platform</li> <li>• Transformation of airport processes through technology (e.g. further rollout of e-gates and pushback devices, next generation kiosks and self bag-drop)</li> <li>• Increasing seasonal flexibility and new contracts</li> </ul>

# Calculating airline non-fuel costs

- The non-ASK businesses are reported as part of “Other Revenue”
- The main items are the Engineering (MRO) and Handling activities undertaken for third parties by Iberia and British Airways and the British Airways Holidays product costs
- Other includes Avios non-airline partner revenues and other non-flying related revenue streams across the Group

IAG split of Other Revenue

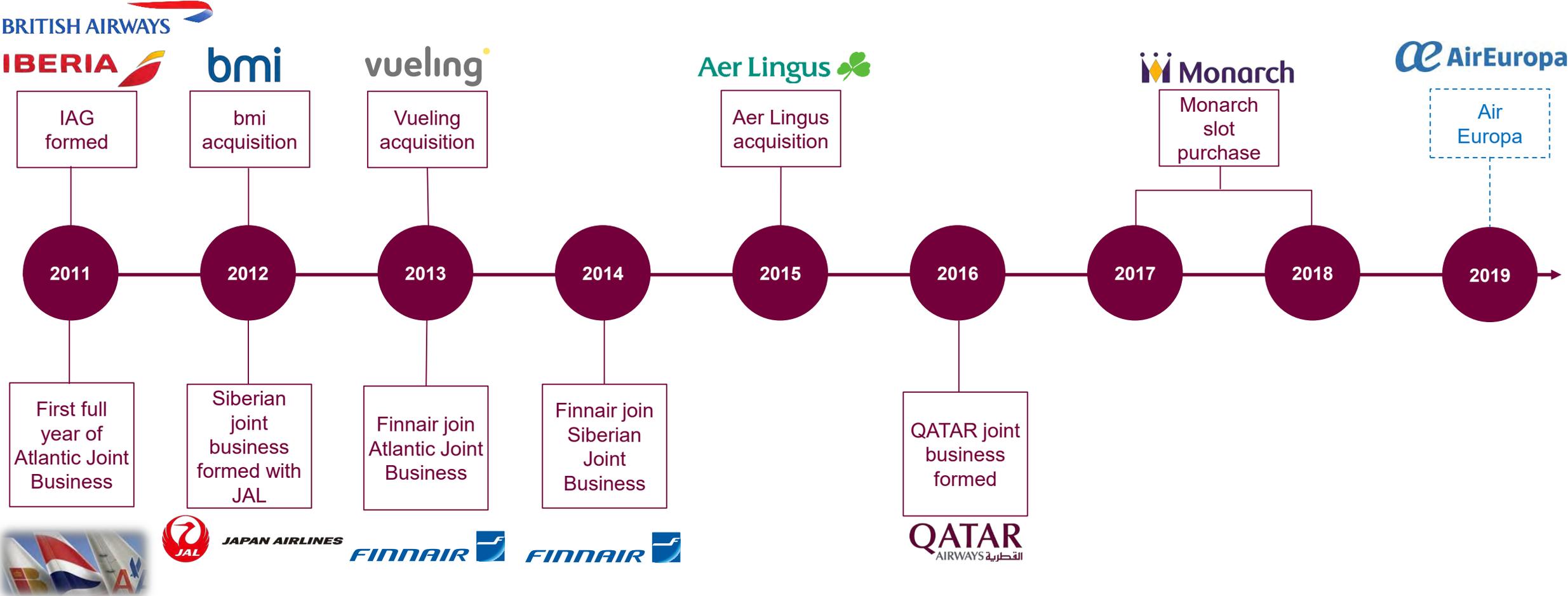


- We will deduct the costs relating to non-airline activities (those reported in “other revenue”) at constant currency
- The calculation will be part of our “Alternative Performance Measures” and set down in the annual report and interim management report. Example of detailed calculation provided in the appendix
- Previously, as a proxy, we have deducted the movement in other revenue year-on-year at constant currency
- The updated methodology results in a lower adjustment between reported and airline non-fuel unit costs (c0.5 pts)

# Poised to exploit opportunities

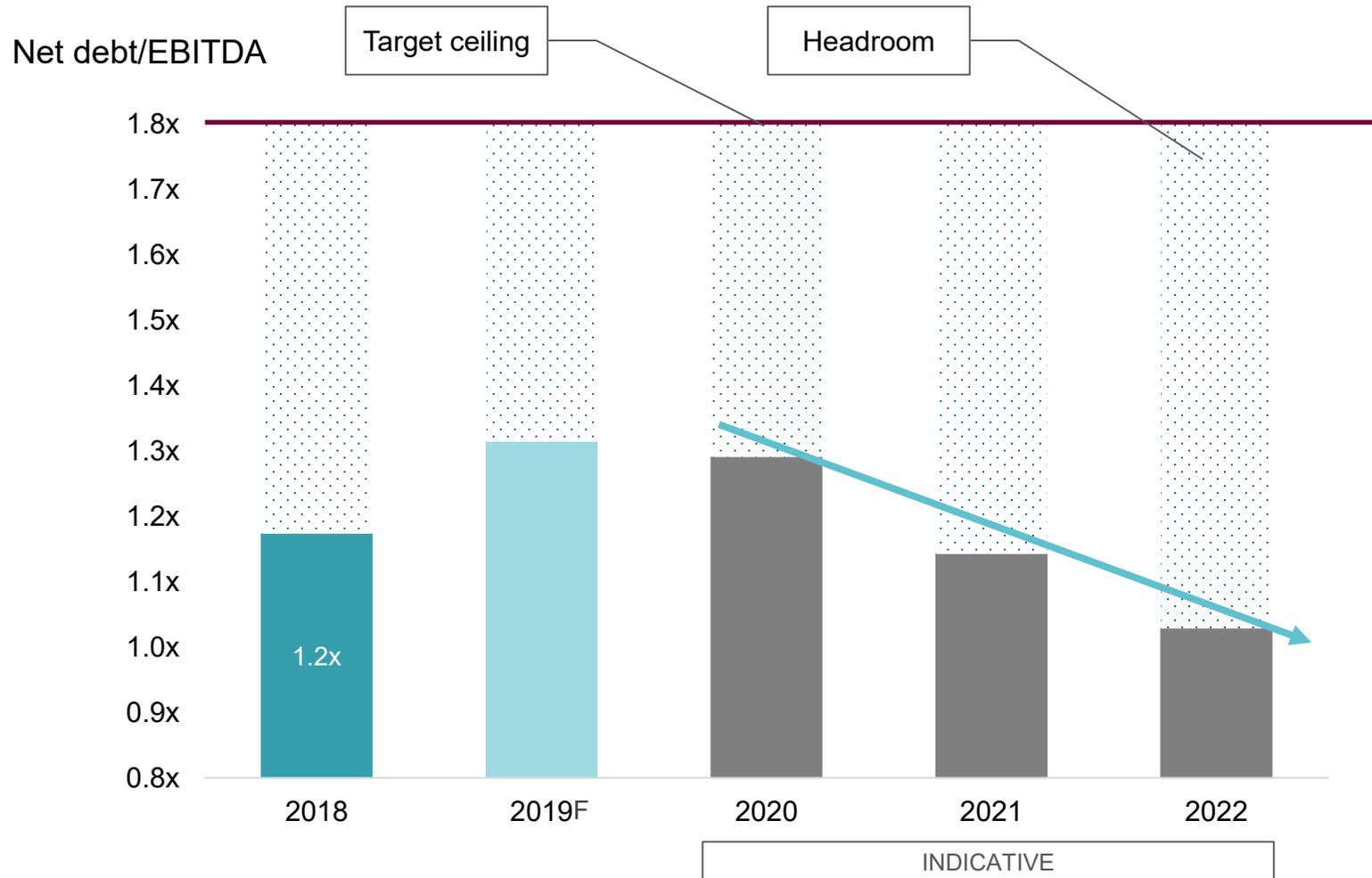
# IAG was created to be a vehicle for airline consolidation

## IAG acquisitions and joint businesses



# IAG's balance sheet remains strong to exploit opportunities

Net debt / EBITDA (on the basis of a 25% dividend payout ratio)



**MOODY'S**  
**Baa3**  
*Stable*

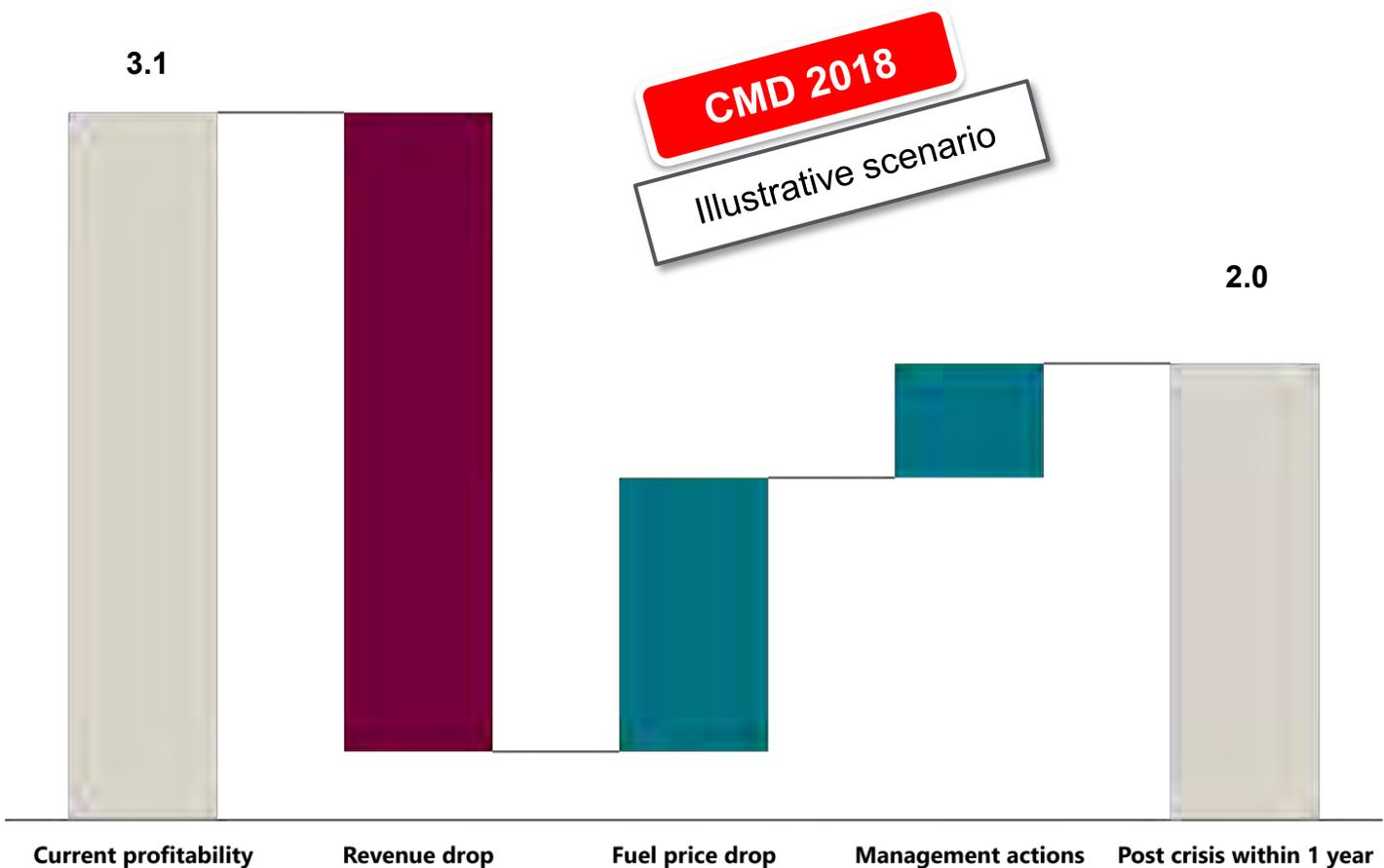
**S&P Global**  
**BBB**  
*Stable*

- Group targets Net Debt to EBITDA below **1.8x** through the cycle maintaining investment grade rating
- The strength of the balance sheet supports greater flexibility, protection against downturn scenarios and access to lower-cost financing

# Resilient in a downturn

# We showed before that top down we can be profitable even in a global downturn

Operating profit in a 2008-09 global financial crisis scenario (€ billion) – based on metrics, fuel prices and actions in year post-Lehman bankruptcy



Revenue drop
RASK -10.5%
BA -12.5%
Iberia -12.0%
Vueling +0.5%
Aer Lingus -5.0%
Premium traffic - 13.0%, Cargo CTKs - 15%

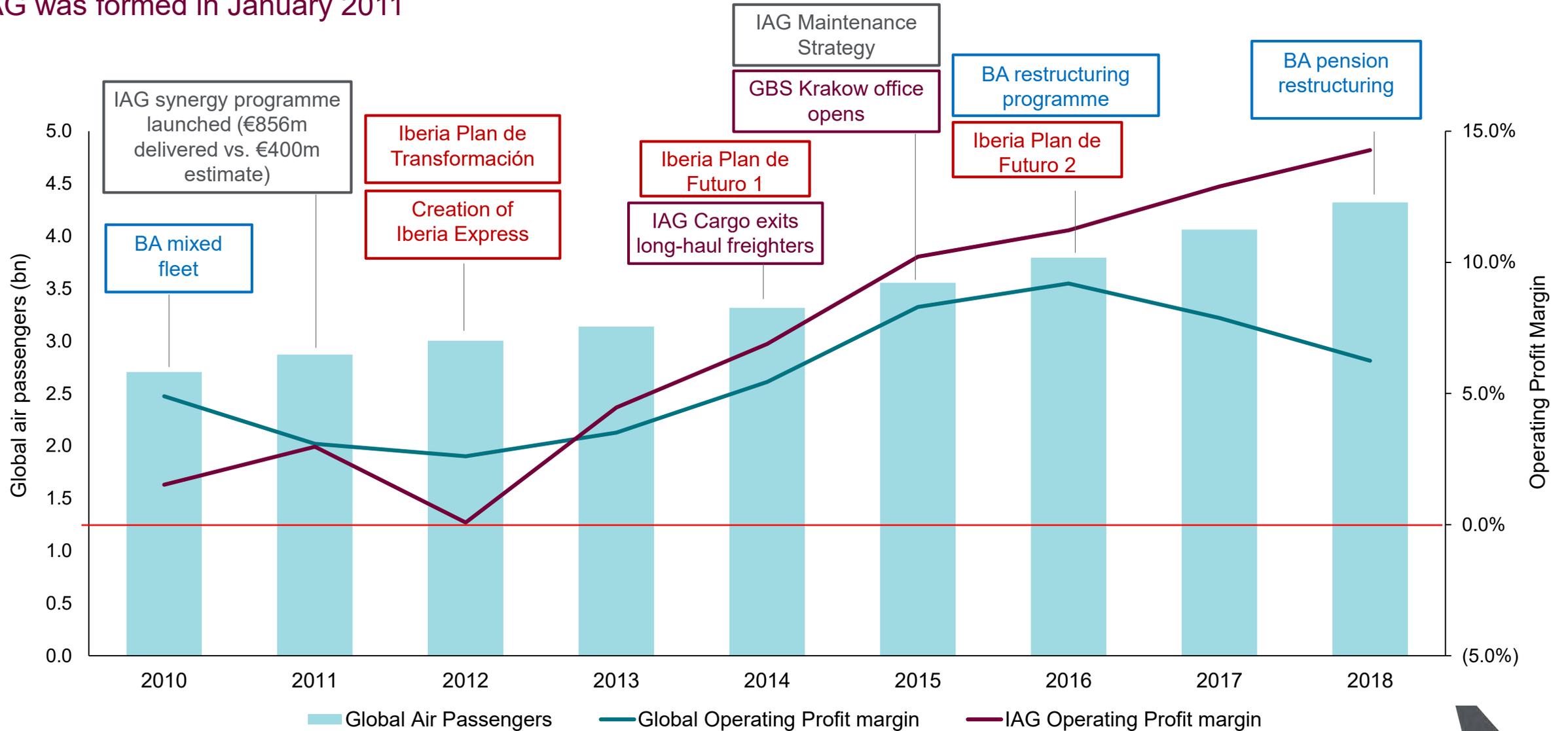
Fuel price drop
From c.\$750/tonne
To \$500/tonne
c.60% hedged

Typical management actions
Capacity from +6% to zero
RASK improvement from -10.5% to -8.5%
Maintain CASK ex-fuel saving of -1%
Gross capex reduced by 20%
Operating lease rentals reduced by 5%

Financial metric	Current	Post crisis scenario
Operating profit (€bn) – consensus 2018	3.1	2.0
Diluted EPS (€) – Bloomberg 2018	1.155	0.75
DPS @ 25% payout (€)	0.29	0.19
RoIC	16.1%	c. 10%
Adjusted net debt/EBITDAR	1.4	1.8

# We have made structural changes

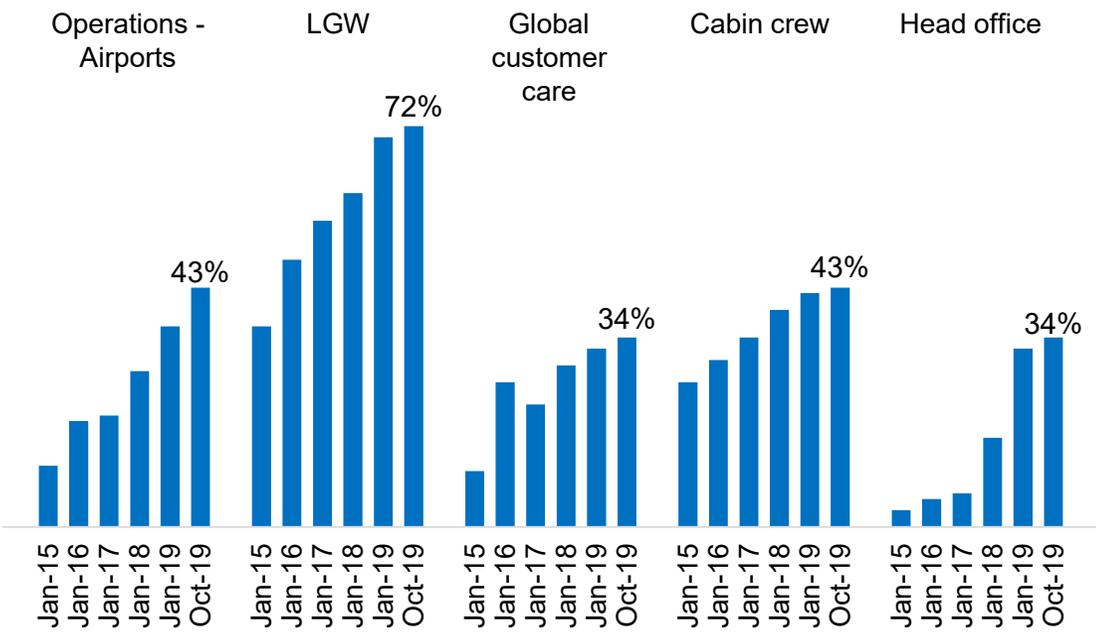
IAG was formed in January 2011



# Employee related improvements

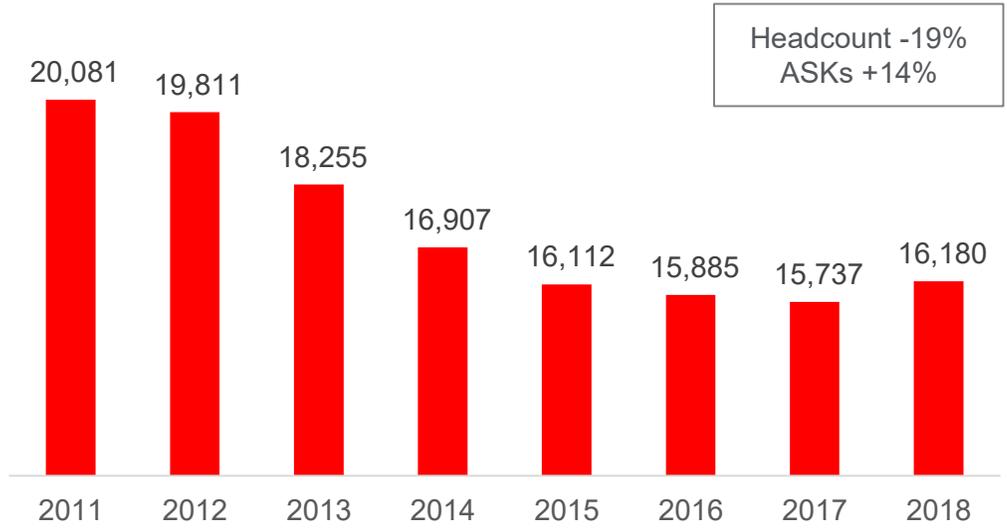
## Examples of structural changes

### British Airways new contract mix



- Mix % of employees on new contracts will increase

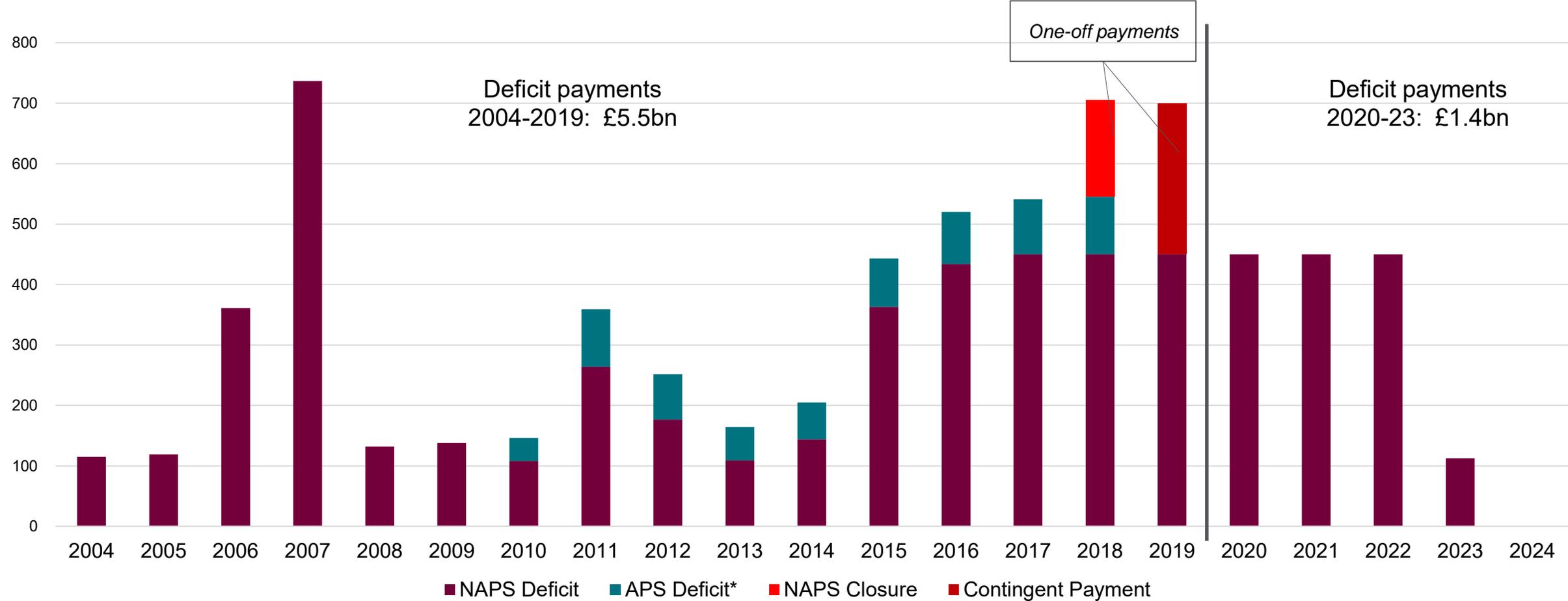
### Iberia employee numbers



- Since 2011 Iberia has reduced its average headcount by 19%, while increasing capacity by 14% over the same time period
- Iberia transformation plans introduced new contracts, increased flying hours, more flexibility, with salary caps/freezes and new entry pay levels

# Pension cashflows will reduce significantly in 2020

British Airways pension contributions, since start of NAPS deficit payments, £m



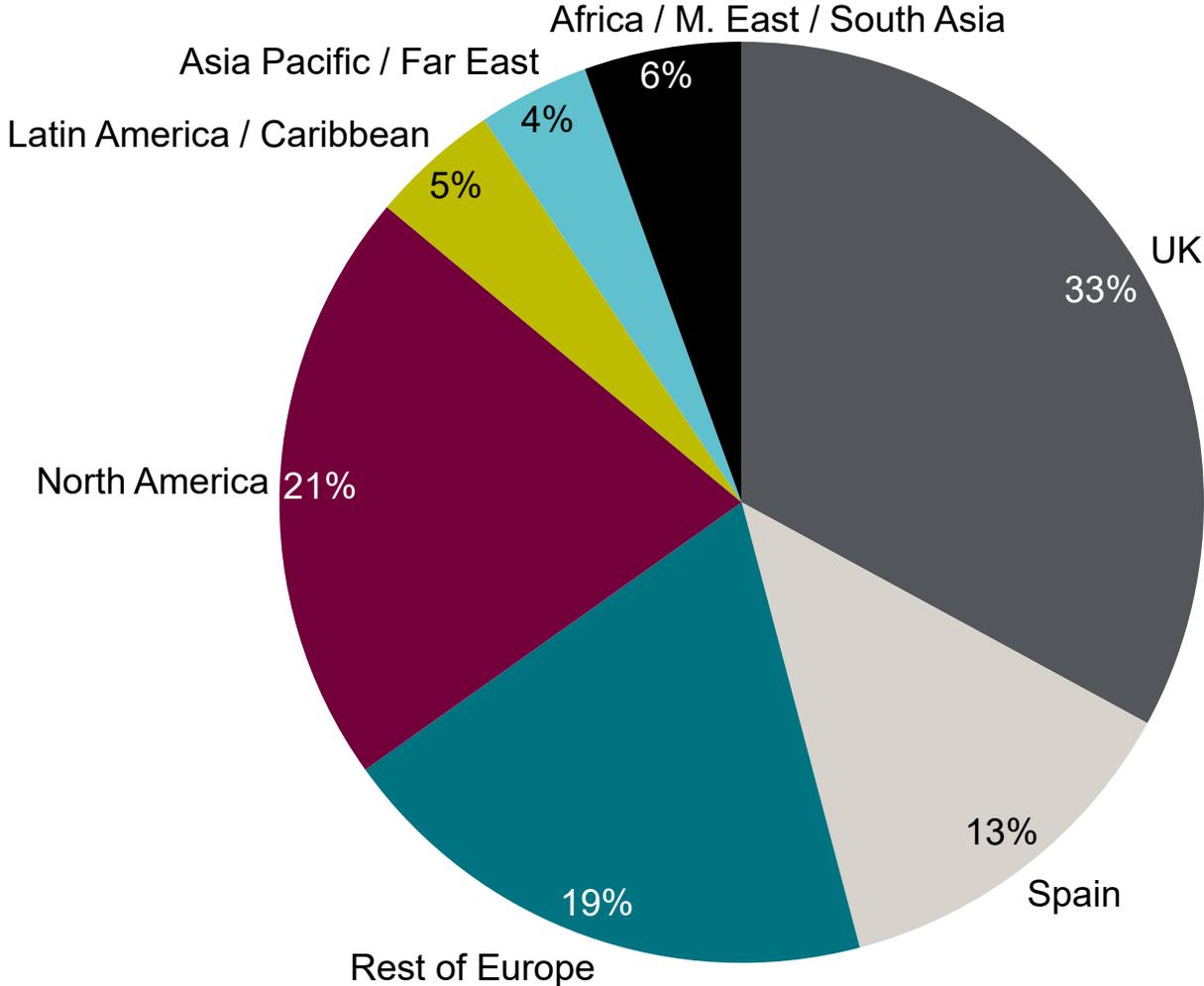
IAG Note: \*APS deficit contributions suspended since 1 January 2019 pending court approval of settlement

# IAG's airline networks and customers are diversified

					
Qualitative characteristics	Leading European FSC operating from main hubs in London	Spain's flag carrier operating from hub in Madrid	Ireland's flag carrier key hub in Dublin	Start-up with bases in Barcelona, Paris, Vienna and Amsterdam	European LCC based in Barcelona
Target customers	Trade up and premium spaces	Trade up and premium spaces	Trade down	Trade down	Trade down
Focus geography	Worldwide from London, with focus on TATL flows	Spain and Latin America	Connecting Ireland and Europe to the US	Large European leisure markets	European P2P
Fleet size 2018 (year-end)	293	104	56	9	117

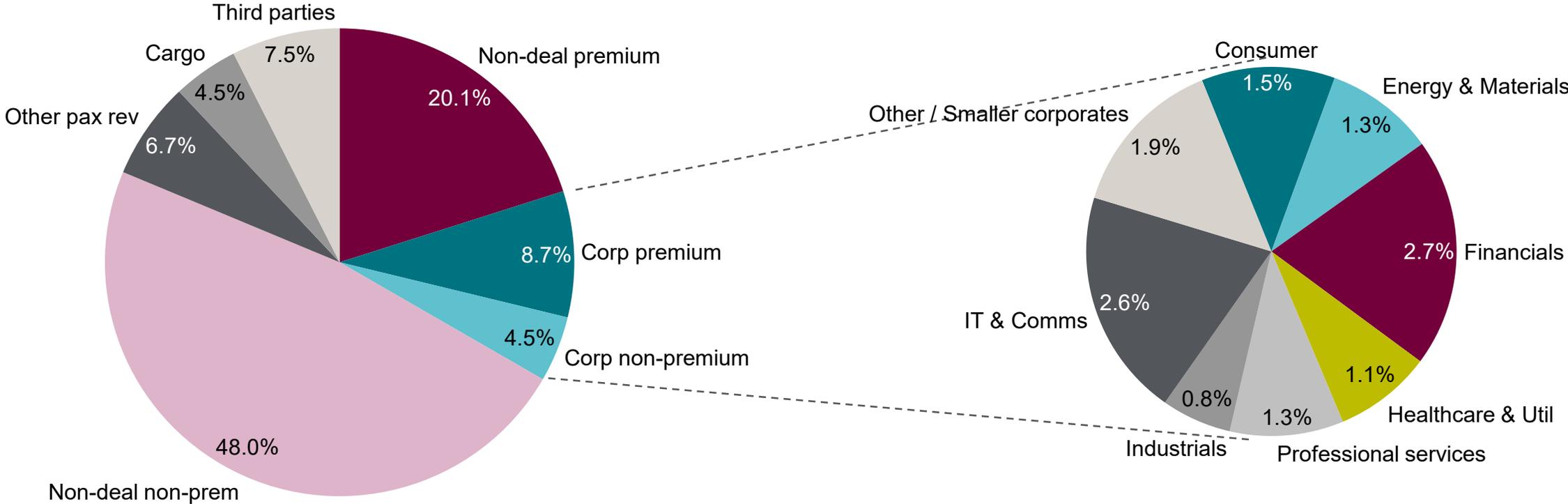
# IAG's customer base is diversified geographically

IAG passenger revenue by point-of-sale (12 months to Sept 2019)



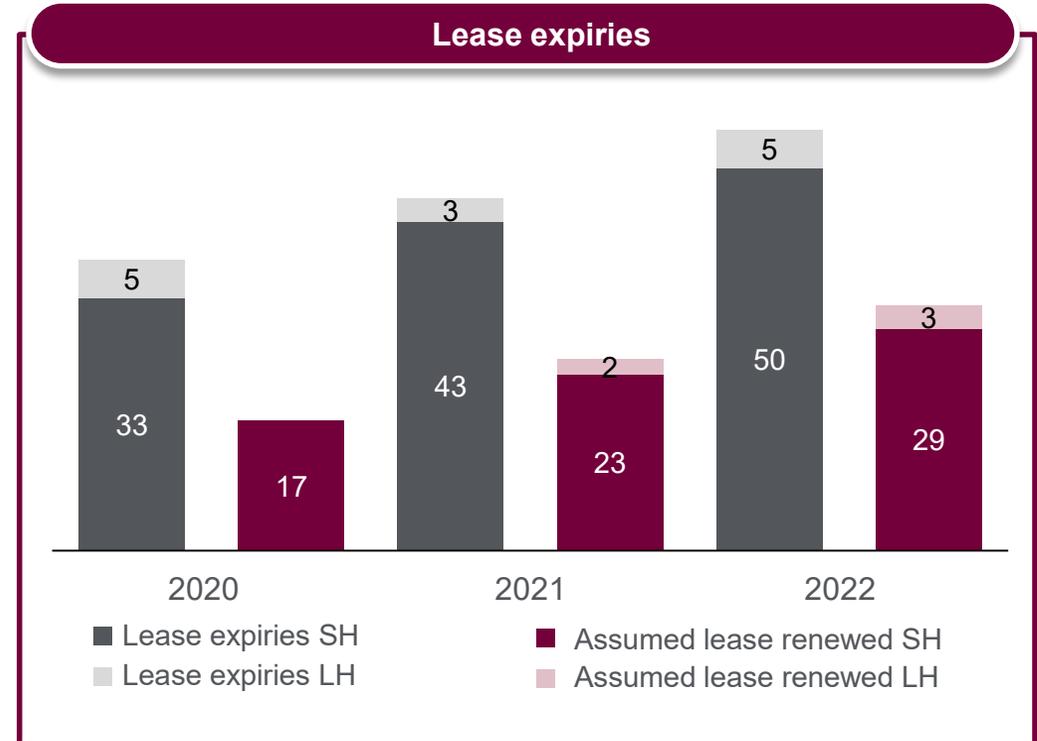
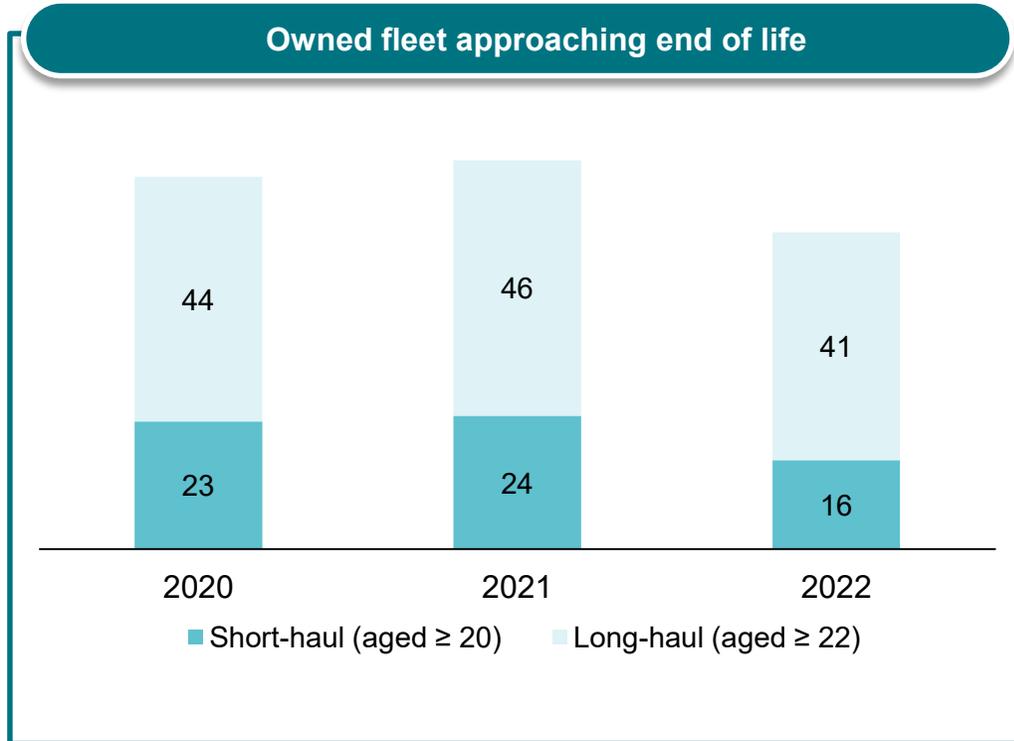
# IAG's revenue sources are also diversified by industry sector

IAG revenue by product and industry (12 months to Sept 2019)



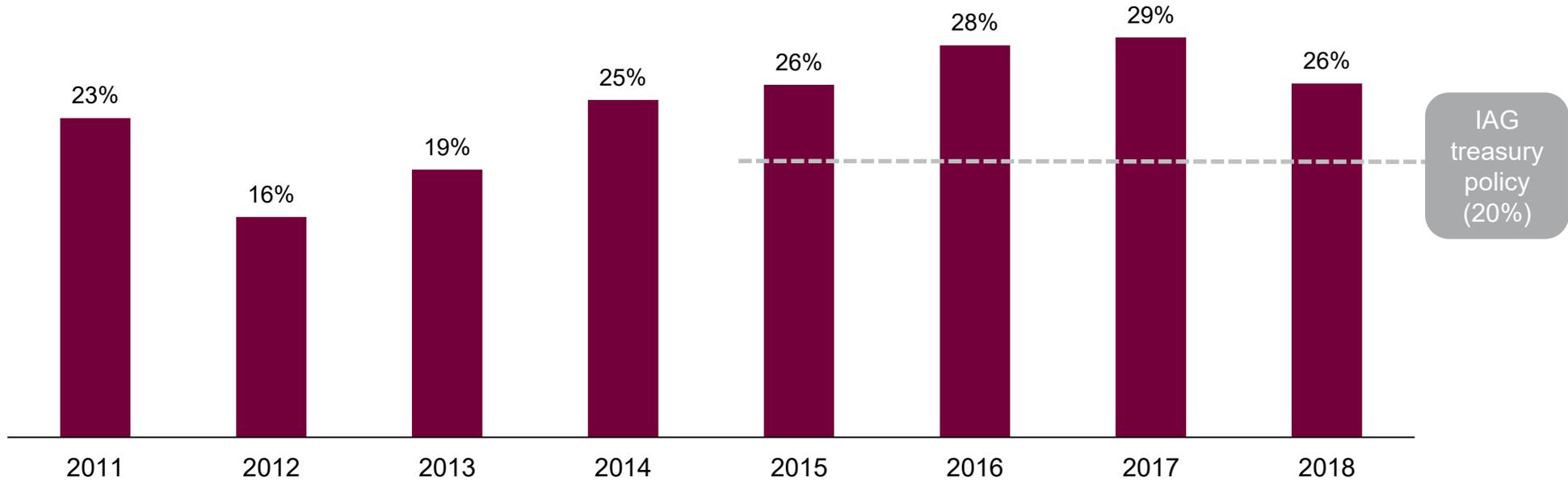
# Significant fleet flexibility

Fleet flexibility, 2020-2022 (number of aircraft)



# Liquidity remains strong

Cash / Revenue (%)

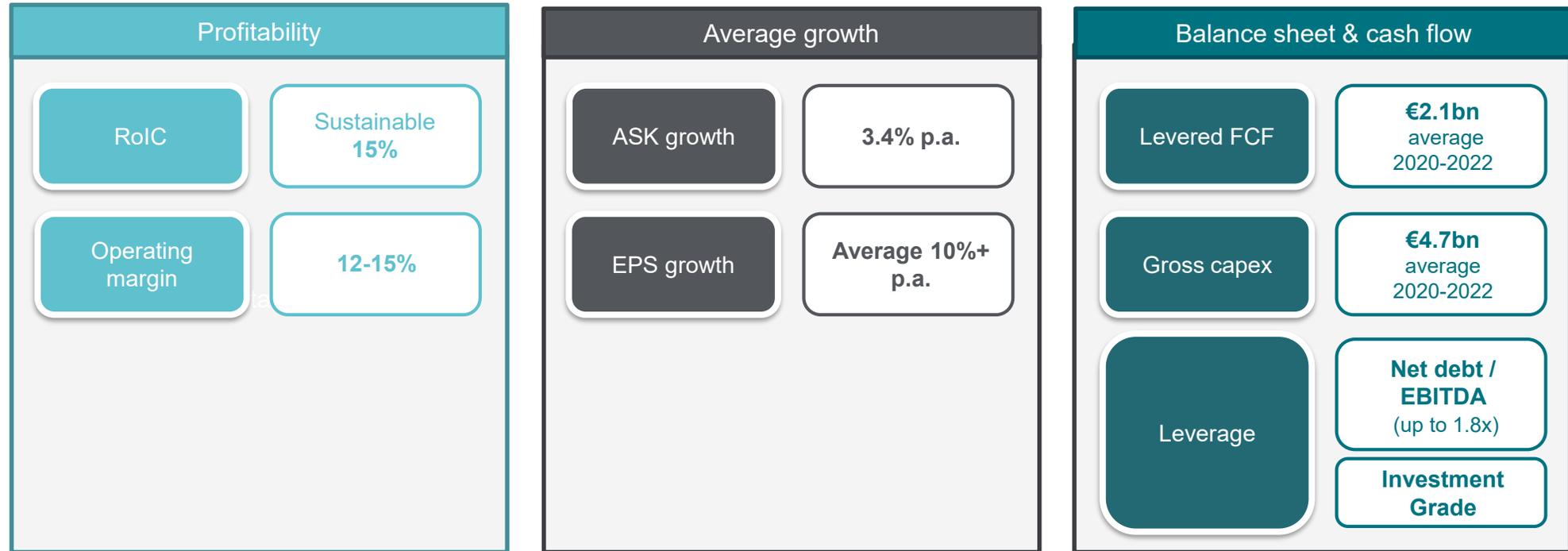


	2011	2012	2013	2014	2015	2016	2017	2018
<b>Cash</b>	3,735	2,909	3,633	4,944	5,856	6,428	6,676	6,274
<b>Revenue</b>	16,103	18,177	18,675	20,170	22,858	22,567	22,972	24,406

# Financial targets and metrics 2020-2022

# IAG updated metrics and targets

IAG metrics and targets for 2020 - 2022



## Cash return to shareholders

### Cash priorities

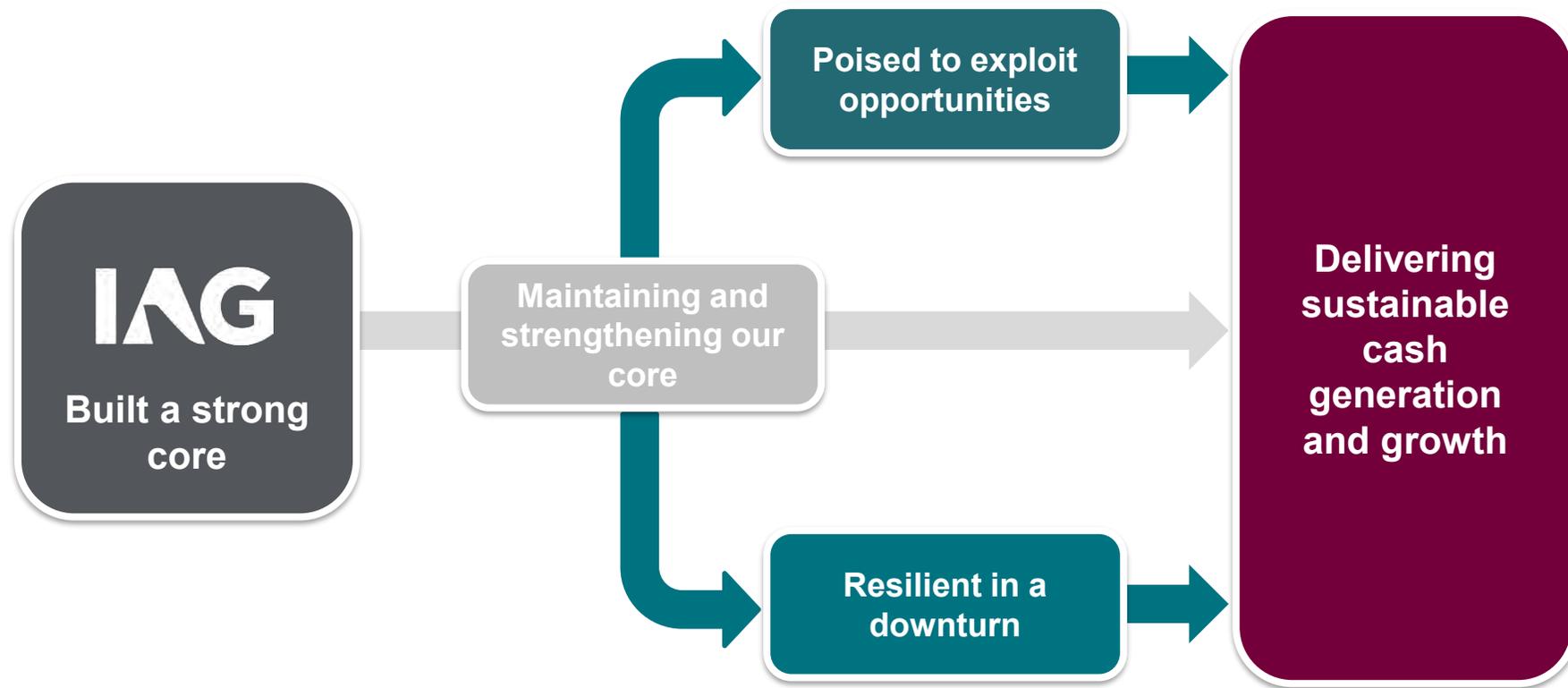
- Reinvest in the business through accretive organic growth
- Commitment to a sustainable dividend
- Surplus cash returned to shareholders if no inorganic opportunities exist

# Airline targets

Medium term planning goals 2020-2022 (3 years)

	Aer Lingus	British Airways	Iberia	Vueling
Operating margin (%)	12%+	15%+	12%	12%
RoIC	15%+	15%+	15%	15%
ASK growth p.a	c5%	c3%	c3%	c2%
Fleet year end 2022	60	316	112	128

# IAG has a strong, resilient core and is poised to exploit opportunities



# Conclusions

- IAG's current business plan demonstrates the Group's flexibility and resilience
- A softer global economic environment sees the Group reducing the rate of capacity growth over the three year plan period to 3.4% per annum
- Despite lower growth, IAG will continue to see strong profit and cash flow generation
- Levered Free Cash Flow is expected to average €2.1bn p.a., and IAG reiterates its existing financial targets:
  - RoIC 15%
  - Operating Margin 12% to 15%
  - Investment Grade leverage
- IAG current business plan will allow the Group to preserve its investment and focus on its strategic priorities, whilst maintaining returns to shareholder and its agility to take advantage of future opportunities

# Appendices

# Definitions of IAG targets

Current metric	Definition
<b>RoIC</b>	Return on Invested Capital is defined as EBITDA, less the fleet depreciation charge adjusted for inflation (including right of use assets), the depreciation charge for other property, plant and equipment and software amortisation, divided by invested capital. Invested capital is the fleet net book value at the balance sheet date (including right of use assets), excluding progress payments for aircraft not yet delivered and adjusted for inflation plus the net book value of remaining property, plant and equipment and software intangible assets. Invested capital is averaged between the opening and closing positions for the year.
<b>Operating margin</b>	Operating profit / (loss) before exceptional items as a percentage of total revenue.
<b>ASK growth</b>	The growth in capacity measured as the change in Available Seat Kilometres (ASKs), being the number of seats available for sale multiplied by the distance flown in kilometres.
<b>EPS growth</b>	Earnings per Share (EPS) growth is calculated based on the change in profit after tax and before exceptional items and adjusted for earnings attributable to equity holders and interest on convertible bonds, divided by the weighted average number of ordinary shares, adjusted for the dilutive impact of the assumed conversion of convertible bonds and employee share schemes outstanding.
<b>Levered Free Cash Flow</b>	Levered Free Cash Flow (LFCF) is defined as cash generated in the period, excluding returns to shareholders (i.e. dividends, special dividends and share buybacks).
<b>Gross capex</b>	Gross capital expenditure is the total investment in fleet, customer product, IT and infrastructure before any proceeds from sale of property, plant and equipment as shown in the cash flow statement ("Acquisition of property, plant and equipment and intangible assets").
<b>Leverage (Net Debt to EBITDA)</b>	Leverage is measured as Net Debt divided by EBITDA. Net debt is calculated as long-term borrowings including ROU liabilities per IFRS 16, less cash and cash equivalents and other current interest-bearing deposits. This is divided by EBITDA, which is calculated as operating profit before exceptional items, depreciation, amortisation and impairment.

# Levered Free Cash Flow replaces Equity Free Cash Flow

Levered Free Cash Flow (LFCF) is the cash generated by the business before shareholder returns

€m (Pro-forma)	2018
<b>Cash generated operating activities</b>	
Operating profit / (loss) before exceptional	3,485
Depreciation, amortisation and impairment	1,996
Pension	(843)
Payment related to restructuring	(219)
Movement in working capital	(64)
Other operating movements	(453)
<b>Net cash flows from operating activities</b>	<b>3,901</b>
<b>Cash generated from investing activities</b>	
<b>Total Gross CAPEX</b>	<b>(2,802)</b>
Sale of PPE and intangible assets	574
Other investing movements	61
<b>Net cash flows from investing activities</b>	<b>(2,166)</b>
<b>Cash generated from financing activities</b>	
Proceeds from long-term borrowings	577
Distributions made to holders of perpetual securities	(312)
Repayments of borrowings	(1,766)
<b>Net cash flows from financing activities before shareholder returns</b>	<b>(1,001)</b>
<b>Levered Free Cash flows for the year</b>	<b>734</b>

- LFCF includes all elements of operating, investing and financing cashflows – i.e. including pensions, restructuring, working capital and any changes in debt
- LFCF will remove the different treatment of operating leases and finance leases when assessing cashflow
- Financing decisions will continue to be made according to the relevant criteria on a case-by-case basis
- Levered Free Cash Flow will be used in conjunction with leverage (Net Debt to EBITDA)

# Airline non-fuel unit costs – worked example (illustrative)

Metric	Definition (new approach)
<b>Airline non-fuel costs</b>	Total non-fuel costs at constant currency, less non-fuel costs at constant currency of non-airline businesses (those reported within “other revenue”) divided by the number of ASKs for the period.

	Current: deduct other revenue gain			New: deduct costs linked to other revenue		
	2017	2018	vly	2017	2018	vly
ASKs	306,185	324,808	+6.1%	306,185	324,808	+6.1%
Total Non-fuel costs at ccy (€m)	15,320	16,119	+5.2%	15,320	16,119	+5.2%
Adjustment to Non-fuel costs at ccy (€m)	-	-267	-	-1,330	-1,573	-
Adjusted Non-fuel costs at ccy (€m)	15,320	15,852	+3.5%	13,990	14,546	+4.0%
<b>Airline Non-fuel CASK at ccy (€c)</b>	<b>5.00</b>	<b>4.88</b>	<b>-2.5%</b>	<b>4.57</b>	<b>4.48</b>	<b>-2.0%</b>
<b>Reported Non-fuel CASK at ccy (€c)</b>	<b>5.00</b>	<b>4.96</b>	<b>-0.8%</b>	<b>5.00</b>	<b>4.96</b>	<b>-0.8%</b>

# Air Europa

Luis Gallego - Iberia CEO

# Transaction overview

- IB OPCO Holding S.L., parent company of Iberia, to acquire 100% of Air Division of Globalia, parent company of Air Europa
- Purchase price of €1 billion
- Bolt-on acquisition initially with Air Europa brand retained
- Increases Iberia's size by 50% and IAG's by 10% in terms of traffic revenue
- Cost and revenue synergies in line with previous IAG transactions
- EPS accretive from year one
- Accretive to IAG's return on invested capital by year four
- Funding of the acquisition with external debt
- Closing expected by H2 2020 subject to regulatory clearance

# About Air Europa – third largest Spanish airline



**Annual Passengers**

**11.8 million**

**Capacity (ASKs)**

**33.8 billion**

**Aircraft**

**66 aircraft**

**Annual Revenue**

**€2.1 billion**

**EBITDAR**

**€392 million**

**Operating Profit**

**€100 million**

**Earnings Before Tax**

**€67 million**

*~ Value carrier  
operating model*

*~ Full member of  
SkyTeam since 2010*

# Transitioning to a modern Boeing fleet

## Current Air Europa Aircraft Fleet Plan

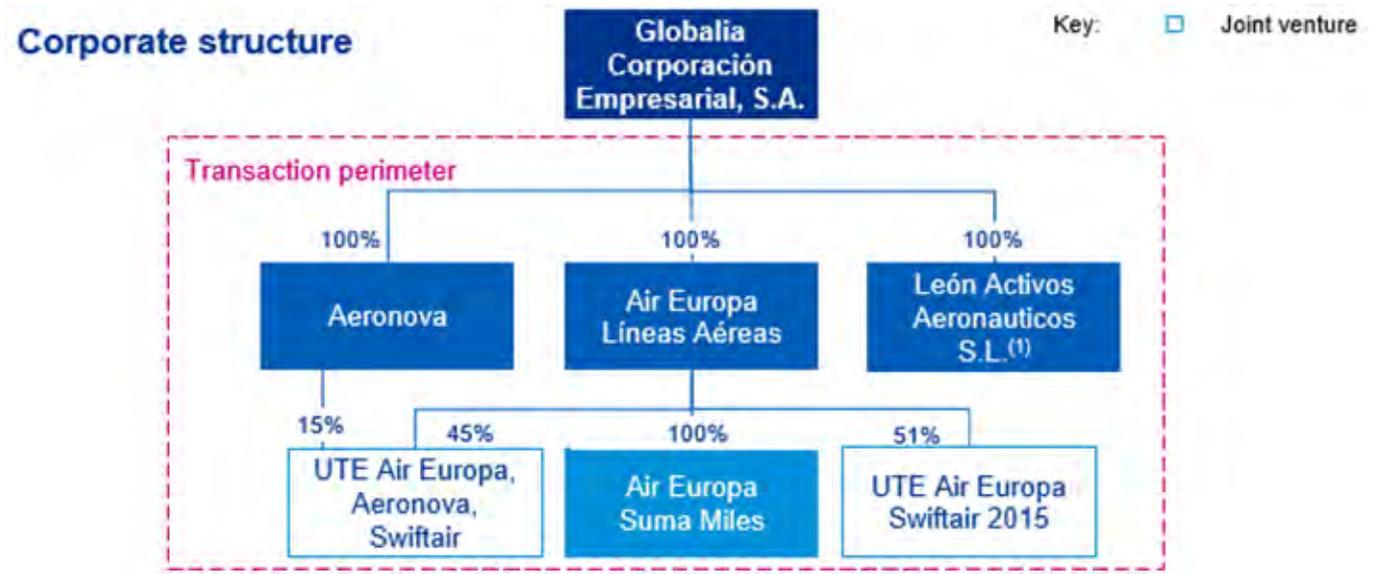
	Fleet type	2017	2018	2019	2020	2021	2022	2023	2024	2025
Wide body	A330-200	10	10	10	3	2	-	-	-	-
	A330-300	2	2	2	-	-	-	-	-	-
	B787-8	8	8	8	8	8	8	8	8	8
	B787-9	-	2	6	16	18	21	21	21	21
Narrow body	B737-800	21	21	20	19	16	16	16	13	9
	B737MAX	-	-	-	3	11	15	19	21	25
	E195	11	11	11	11	7	3	-	-	-
	ATR 72	8	12	11	7	7	7	7	7	7
<b>TOTALS</b>		<b>60</b>	<b>66</b>	<b>68</b>	<b>67</b>	<b>69</b>	<b>70</b>	<b>71</b>	<b>70</b>	<b>70</b>

# About Globalia – a leading leisure and tourism group in Spain



- Founded in 1971 by Mr Juan José Hidalgo, the Chairman of the Group
- Leading leisure and tourism group in Spain with annual turnover of €3.9 billion
- Six business units spanning hotels, handling companies and high street travel agencies
- Air Europa was Spain's first privately owned company to operate domestic scheduled flights in Spain – Globalia acquired a majority stake in Air Europa in 1991

## Transaction Perimeter



**Note:** Both UTEs are active but have no revenues. Aeronova is the Air Operator Certificate (AOC) acquired to create Air Europa Express. Leon is a financial vehicle with 1 x737. Globalia Air Division contains other entities that are not included in the Transaction perimeter (e.g. Globalia Mantenimiento, S.L.U and Globalia Broker Services, S.A.U.).

# Great for Spain and positive for customers

Strengthens Madrid hub



Sustainable investment



Broaden network choice and schedule flexibility for customers



Job security and creation

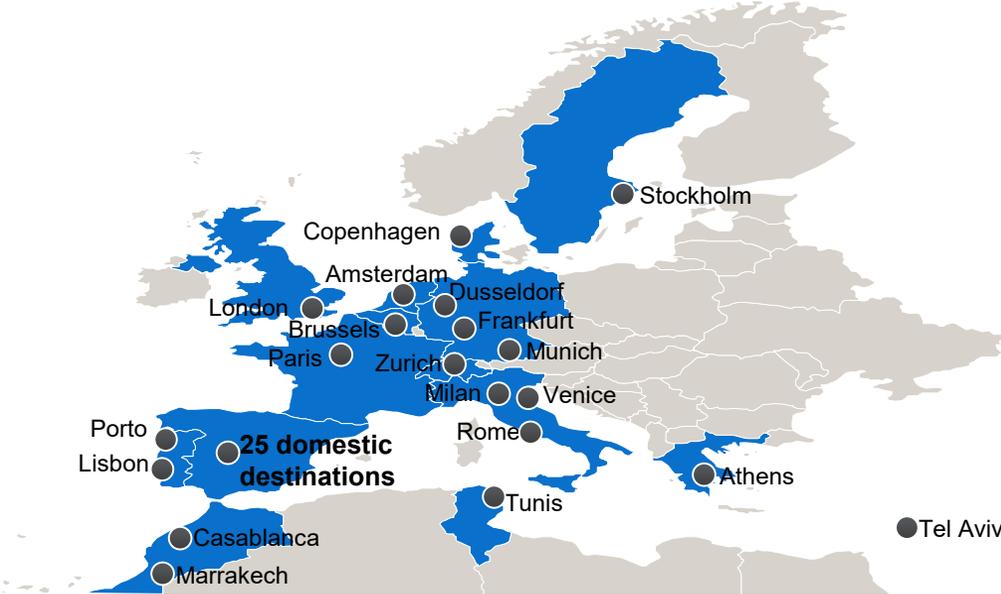


# Complementary network to Iberia

## AIR EUROPA PRESENCE IN THE AMERICAS



## AIR EUROPA PRESENCE IN EMEA



**Note:** Total 69 destinations – 24 in the Americas, 16 in Europe, 25 domestic Spain and 4 Middle East North Africa.

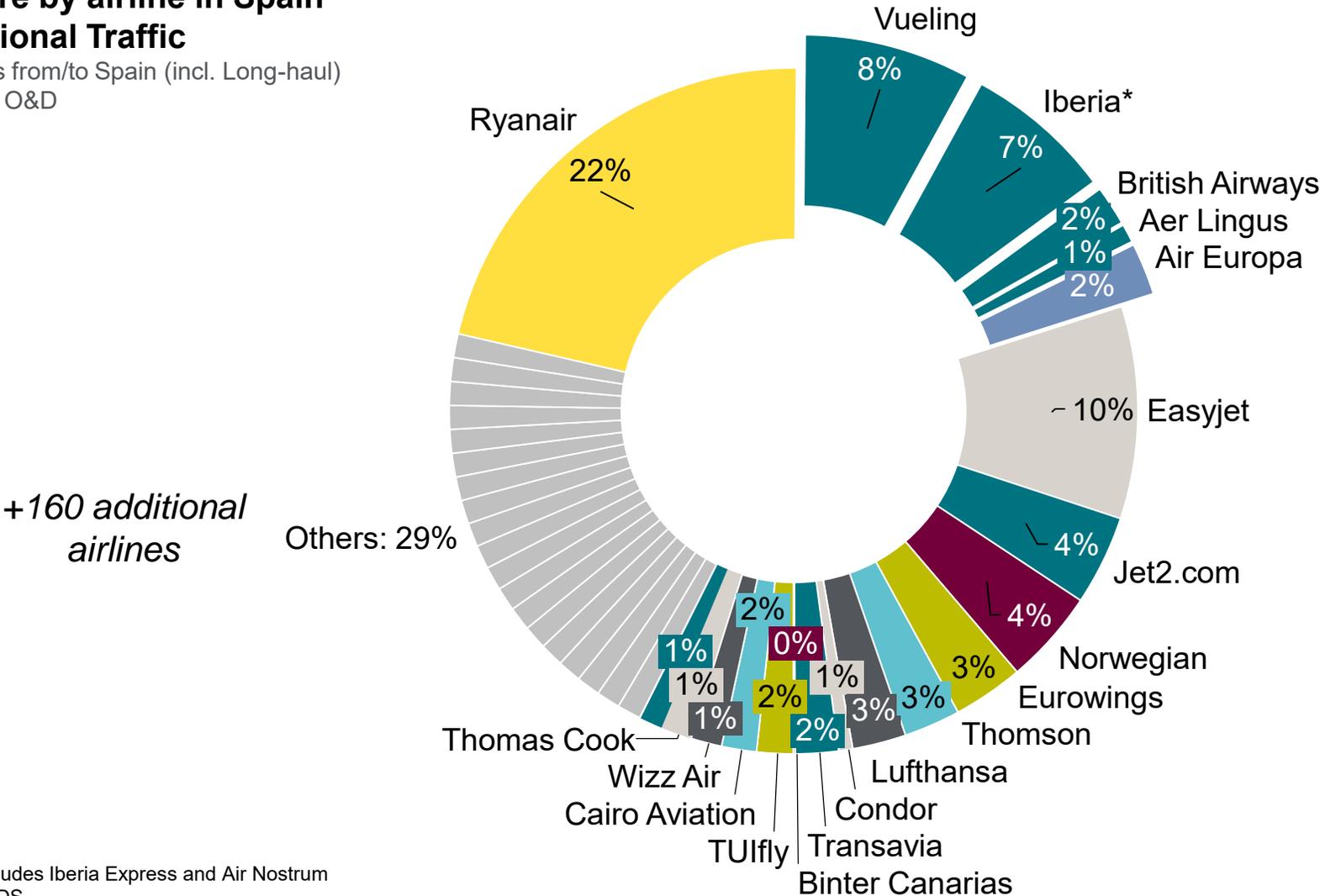


# Spanish international air transport market remains highly competed

## Market share by airline in Spain for International Traffic

% of passengers from/to Spain (incl. Long-haul)  
Sept'18-Aug'19, O&D

**IAG: 17%**  
**IAG & UX: 19%**

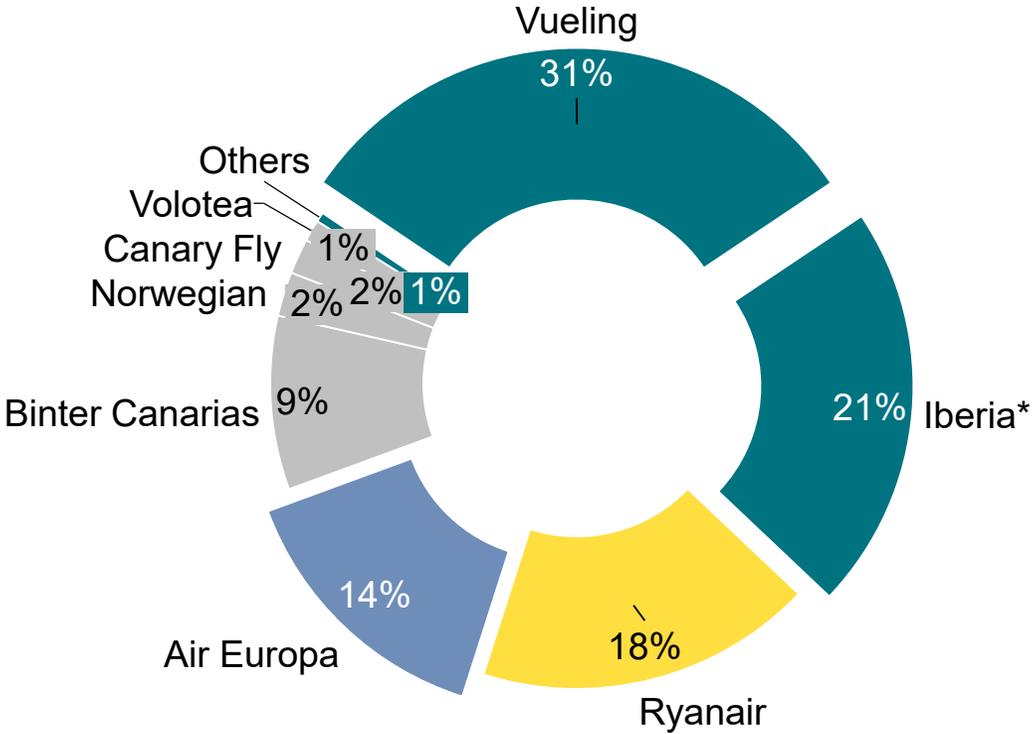


# In domestic market to/from Madrid, High Speed train (AVE) is the largest mode of transport

## Domestic market share by airline in Spain

% of passengers within Spain including islands  
Sept'18-Aug'19, O&D

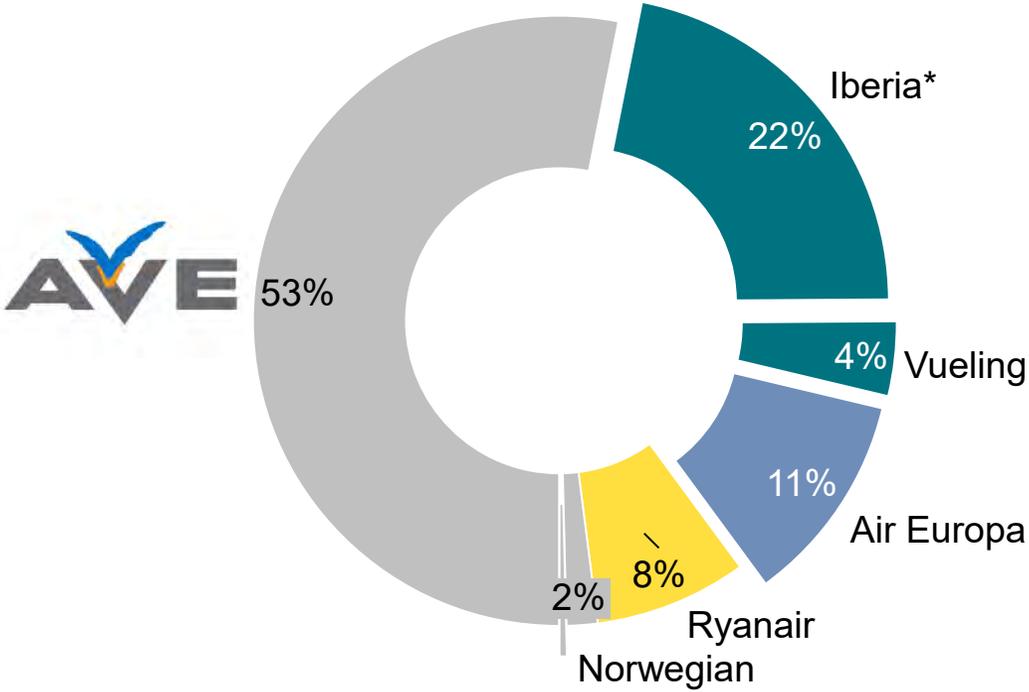
**IAG: 52%**  
**IAG & UX: 66%**



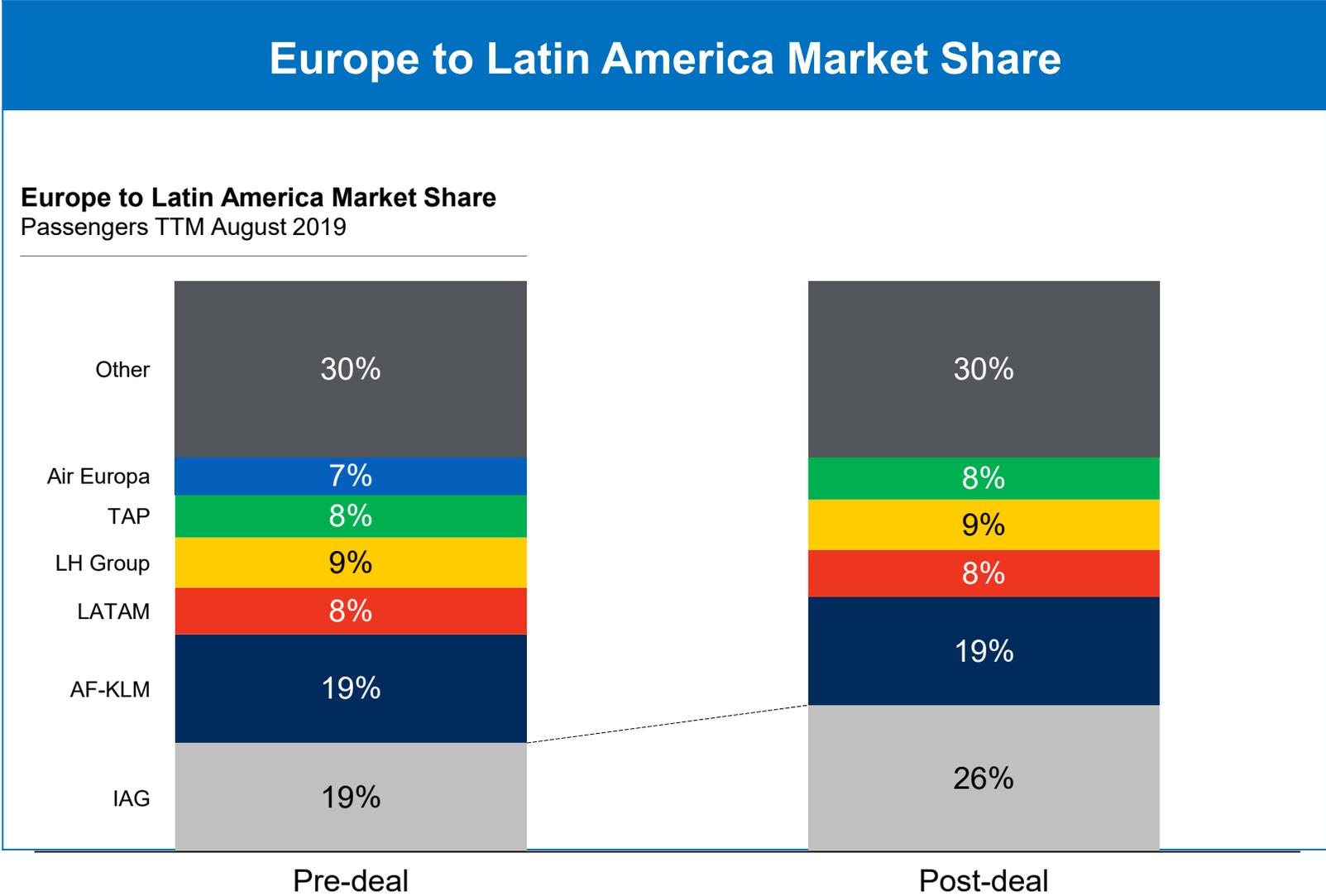
## Domestic market share to/from MAD including AVE

% of passengers from/to MAD to Spain  
Jan'19-Aug'19, O&D

**IAG: 26%**  
**IAG & UX: 37%**



# Improved IAG position in the Europe to Latin America market



**Note:** Europe including Russia and Turkey. Latin America includes South and Central America excluding the Caribbean.  
**Source:** DDS

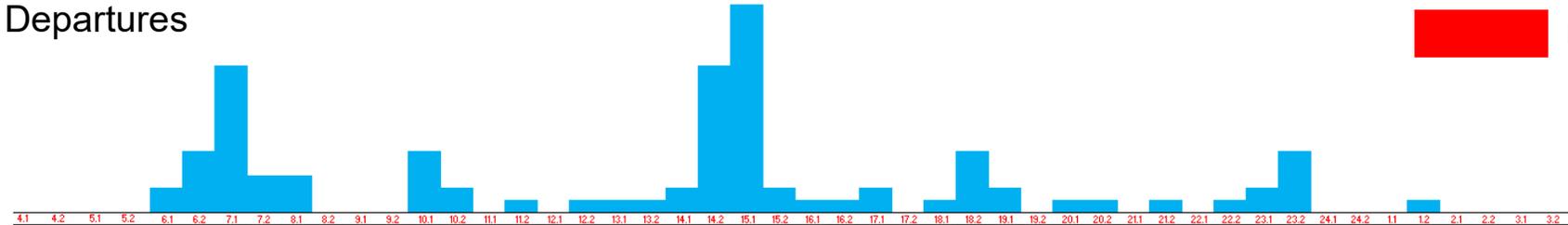
# Enhanced effectiveness of the Madrid hub

## Hub and Wave Assessment of the Madrid Hub Pre Network Optimisation

Legend:



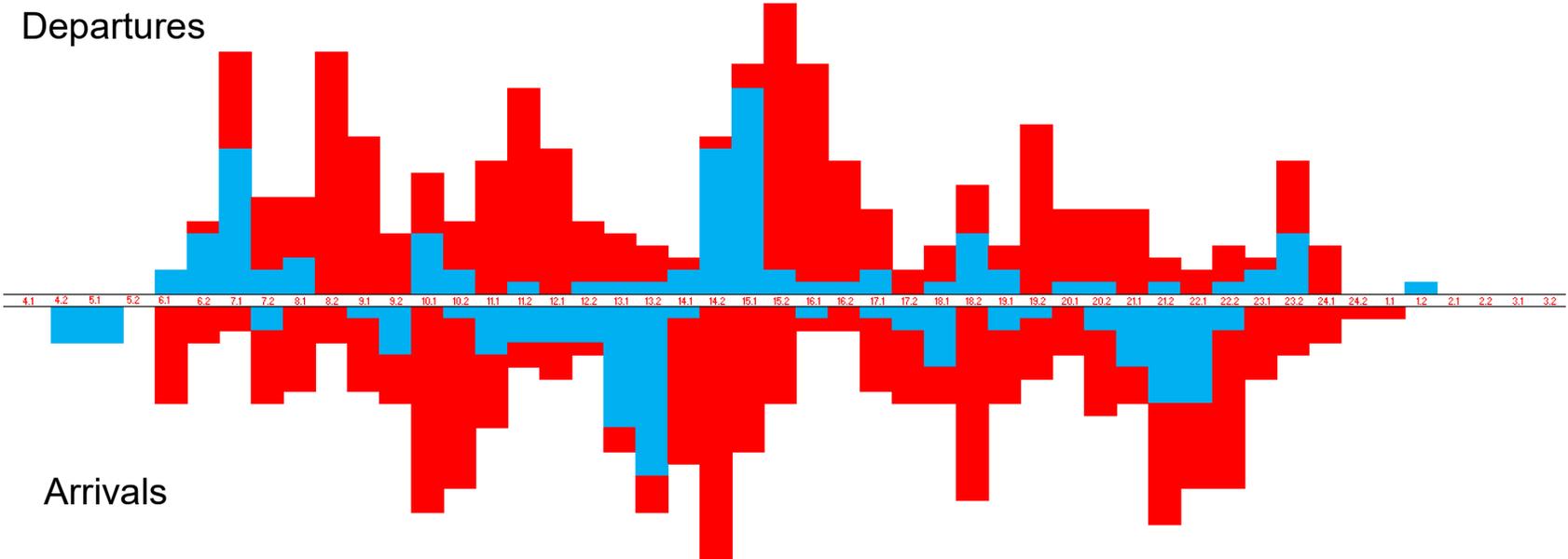
*Pre-deal*



Arrivals

Departures

*Post-deal*



# Targeting significant synergies within 5 years

Type of synergy	Annual pre-tax steady state synergies	Sources of synergies
Cost synergies	Comparable to precedent IAG acquisitions	<ul style="list-style-type: none"><li>▪ Sales &amp; distribution</li><li>▪ Procurement</li><li>▪ Handling</li><li>▪ S,G&amp;A</li></ul>
Revenue synergies	Comparable to other airline consolidations as a proportion of combined revenue	<ul style="list-style-type: none"><li>▪ Increased connectivity</li><li>▪ Network growth</li><li>▪ Loyalty</li></ul>

**Implementation costs phased over 5 years**

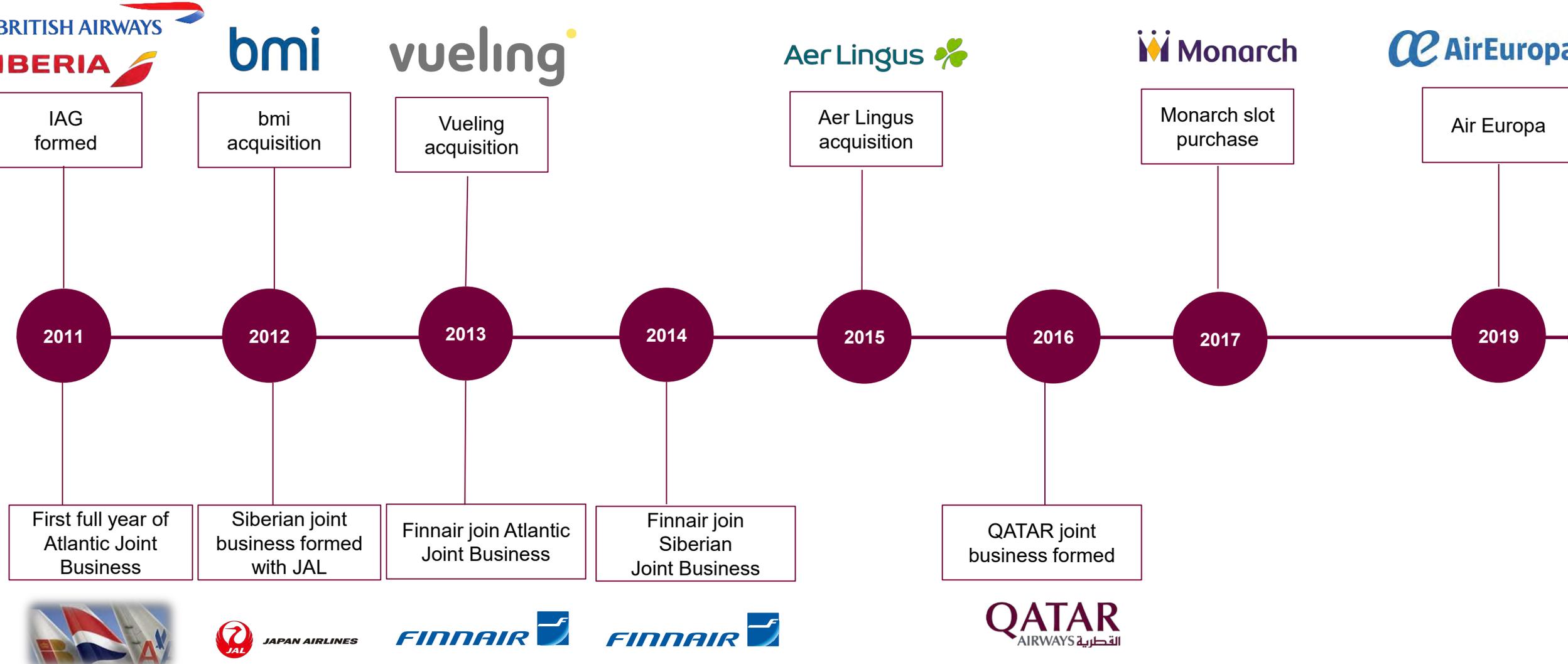
# Earnings enhancing with modest temporary increase in leverage

- EPS accretive from the first year after completion
- Additional cost and revenue synergies
- Transaction is expected to be accretive to IAG's return on invested capital within four years
- Net debt/EBITDA to increase by 0.3x temporarily compared to 1.2x for IAG last reported at end Q3 2019
- Post completion of the acquisition, IAG expects to retain its investment grade credit rating
- Funding of the acquisition with external debt

# Good fit with IAG's platform and portfolio



# Strong track record of generating synergies from acquisitions and joint businesses



# Integration plan

## Integration Plans

- Bolt-on acquisition within Iberia corporate structure
- Retention initially of the Air Europa brand
- Integration to be managed by Iberia and IAG
- Air Europa to leave SkyTeam

## Core Value Levers

#1	Integrating Air Europa onto the IAG platform of common services
#2	Creating commercial links between Air Europa and other IAG operating companies in addition to inclusion into the IAG joint businesses
#3	Integrating Air Europa flying into the existing Iberia hub structure at Madrid Barajas

# Expected timing and next steps

- Transaction does not require IAG shareholder approval
- Subject to relevant competition approvals
- Closure expected in H2 2020

# Disclaimer

## Forward-looking statements:

Certain statements included in this announcement are forward-looking. These statements can be identified by the fact that they do not relate only to historical or current facts. By their nature, they involve risk and uncertainties because they relate to events and depend on circumstances that will occur in the future. Actual results could differ materially from those expressed or implied by such forward-looking statements.

Forward-looking statements can typically be identified by the use of words such as “expects”, “may”, “will”, “could”, “should”, “intends”, “plans”, “predicts”, “envisages” or “anticipates” or other words of similar meaning. They include, without limitation, any and all projections relating to the results of operations and financial conditions of International Consolidated Airlines Group S.A. and its subsidiary undertakings from time to time (the ‘Group’), as well as plans and objectives for future operations, expected future revenues, financing plans, expected expenditure and divestments relating to the Group and discussions of the Group’s business plan. All forward-looking statements in this announcement are based upon information known to the Group on the date of this announcement and speak as of the date of this announcement. Other than in accordance with its legal or regulatory obligations, the Group does not undertake to update or revise any forward-looking statement to reflect any changes in events, conditions or circumstances on which any such statement is based.

It is not reasonably possible to itemise all of the many factors and specific events that could the forward-looking statements in this announcement to be incorrect or could otherwise have a material adverse effect on the future operations or results of an airline operating in the global economy. Further information on the primary risks of the business and the Group’s risk management process is set out in the ‘Risk management and principal risk factors’ section in the Annual Report and Accounts 2018; these documents are available on [www.iairgroup.com](http://www.iairgroup.com). All forward-looking statements made on or after the date of this document and attributable to IAG are expressly qualified in their entirety by the primary risks set out in that section.