International Airlines Group Capital Markets Day 2016

Friday, 4th November 2016

First Morning Session

Opening Speech

Antonio Vázquez

Chairman, IAG

Good morning, ladies and gentlemen. Welcome to the Capital Markets Day of IAG. Especially welcome because we are at home this year. I do not know whether it is going to be demolished or not, but I think we are happy now. It is a warmer meeting to be at home all together.

I want to give a special welcome to a Board member who are with us today, Marjorie Scardino, James Lawrence, Marc Bolland and Kieran Poynter. Jointly with all the management team, we are very happy to be with you today.

I mean, following Willie's instructions in the picture, I will jump straight to show you the money. 2016 has been the first year in which we had been delivering a dividend to you, so the full year of dividends. Last week, the Board did decide to increase by 10% the interim dividend to be paid with the intention to deliver at least matching amount by the end of next year.

This is happening in the light of a huge contrast year that we had ahead of us at 2016. On the negative, we had been living with a terrorist attack, a virus, civil wars, macro slowdown in Latin America, of course, the Brexit and sterling. On the positive, we have been enjoying and continuing the integration of Aer Lingus, the last member of our family. We did enjoy to carry 100 million passengers. The most important thing, we have continued to do what we told you last year that we were to do.

We have been changing, this year, a lot of approaches in a lot of things and a lot of areas in order to adapt ourselves to the new realities. However, the bottom line is our core target that we are going to talk about today in terms of return on capital, earnings growth and in cash generation, which remain the same. This is only possible because the Group is very, very strong today after the first six years of life, of the creation of the Group.

We intend to generate an equity cash flow between now and 2020 of €1.5 billion to €2.5 billion, which, in terms of coverage of the basic dividend, we present three to five times. In terms of yield, we presented 15% to 25% yield on equity cash flow, which in today's yields are not that high. It is up to you to consider whether they are interesting or not.

2016 has really tested the Group. However, we have to convince you today that the quality of our brands, the quality of core management, the unique structure of IAG are the key asset to manage these face-winds that we have in front of us. We are not afraid at all. We are more than excited.

I want to put special emphasis on the fact that the numbers we are going to be sharing with you today, they are not coming only from cost reductions. We are putting a lot of emphasis in investing more in product and in customer in such a way we are going to be able to reinforce the unique equity of our portfolio plans within the Group.

The presentations coming are going to convince you that we are in very good shape. Alex will talk about a plan built on investment on BA's, just to reinforce BA's brand equity, a focus on customers, redesign of operations or redesign things to make BA operations fitter, stronger, much more efficient, and taking advantage of the Brexit, which, at the end of the day, is putting BA in a very competitive exporter position.

Luis will talk about the new plan they put on Iberia and with new products and new routes in development, and with further efficiencies than the one big one already achieved.

Vueling. Javier Sanchez-Prieto will about the Vueling next approach building on Alex's good work in the past and taking Vueling to the next step of scalability.

Aer Lingus. Stephen will talk about how Aer Lingus has been positioned today in the slot of highest growth and highest profitability in the Group, which is really rewarding.

The rest of IAG people will talk about the new initiatives in digital, and nuts-and-bolts activities in such a way that you are going to have a taste of the development of the whole group.

I am going to hand over to Alex Cruz.

British Airways

Alex Cruz

Chairman and CEO, British Airways

Good morning. A pleasure to be here with you.

Today is a special day. It is seven months exactly since I started at BA on 4th April, not quite 1st April. In this time, I have met and I have seen a fantastic BA, full of extremely passionate, enthusiastic employees, extremely experienced employees and extremely passionate, not just about the brand but about BA's customers.

I have also found an organisation that is facing a new reality. We talk with you guys all the time about the new reality. Call it Brexit, fuel, exchange, capacity – all these things we have now acknowledged. We have acknowledged the need to adapt to them and we have created a business plan, which we want to tell you about today, around how we are going to deal with all of those uncertainties.

We have decided to put together a plan around four pillars of work, which we are going to be centring our conversation today. Customer is at the beginning of everything that we are going to do. We are going to talk a little bit about the investment around customer, as well as our approach towards network.

Operationally, as Antonio was mentioning before, we think that there are ways in which we can fine tune further the operation and actually do a step change in some of the major operational metrics like punctuality, etc. We are going to continue to look for ways to make the company more efficient in terms of cost, capital, etc. Finally, we need to be working with all the people that are going to make all this together.

On Monday, we will formally announce #Plan4. #Plan4 will be the development of this business plan that we are presenting to you today to the whole community of BA. We will be focusing around these four pillars of work. I will tell you a couple more things behind that later on.

Now, let's start by talking about customer. Customer is the first point where we are going to be focusing all of our efforts. We think customers specifically; we have been investing in a number of areas of product. You are familiar with many of these. Even just this week, we made the announcement, IAG fantastic procurement effort and design effort to try to bring Wi-Fi to the whole fleet of the IAG airlines as well, of course, British Airways short-haul and long-haul starting next year both in wide-body and narrow-body aircraft.

You are all familiar with the agreement that we reached with Marks & Spencer a few weeks ago when we presented short-haul catering, buy-onboard, with some very interesting features both in terms of quality, of choice, and ultimately, the way that you will pay for that, specifically using Avios and the app.

We are making investments in premium facilities. Heathrow, Gatwick Lounge, Boston, JFK – all of these lounges are either being significantly refurbished, or completely done, I guess, in the case of Gatwick where the new lounge will start on the third week of January finally in the South Terminal.

We started a long time ago a process of not just getting new aircraft but actually refurbishing those aircraft. We are about 52% of the way through. This is going to continue for the life of the business plan as we said last year we would.

There is new technology coming around. You have not just a new app but one that will give you much more control of your actual journey, upgrading changes before the flight and ultimately helping you if something goes wrong, particularly in times of disruption.

We have been implementing a new product on the 787. First product, and we will continue that rollout as well.

Specifically, we are going to be focusing on the premium class. In this case, Club World. We are going to dedicate £400 million to try to make this product much more aligned and much more competitive. We aspire to actually make it better than all of our competitors. We are going to transform the way in which we serve the food, the amount of food, the type of food, and the quality of the food that we will be presenting in Club class. This is a major investment and this will begin next year.

We are also going to do a step-change in service, not just for training but to a new service routine inside of the Club class experience on board. Of course, we will continue working closely with our colleagues to make sure that we are fulfilling all of those new standards.

We are going to be focusing around sleep. Not on every flight, but as you know, we have many routes which are sleep flights. We will be changing the actual service routine to maximise the amount of time in which people can sleep. Beyond that, we are actually going to provide new beddings and other amenities in Club class which will make it more attractive and will allow us to have a better sleeping experience.

Yes, we are looking at a new seat. No news, but we are definitely looking at what the next generation of seating is going to be – we hope to have some news at some point.

On the ground, I mentioned the best, the First Wing. First Wing is in terminal 5. It is not Club. However, many of you have Gold cards, and that will give you access to the First Wing. This is immediately right next to check in, a direct way into security and out into the lounge. That would be very exclusive, first time in London. Of course, I told you about the Gatwick lounge. We have Boston lounge as well. We are working on JFK lounge as well. There is a big push around the premium products specifically around Club class.

Are we not pushing the rest of the products? Yes, we are.

We are also taking a look at what we should be doing in First. The story with First class starts with right-sizing it. We need to make sure we have the right amount of First class seats or perhaps even First class in some of our flights. We are looking at how we are going to do that. We have the higher spec, 787-9. However, over the coming years, we will be adapting the cabin size of First to actually match the demand that exists for that product across the different markets.

In Club, as I was mentioning to you before, we are not just investing in Club World, as I was saying, but we are going to reintroduce Club in domestic flights. We believe that there is an opportunity to serve many of our customers which today are either point to point from Heathrow but also connecting on longer-haul flight. We will be reintroducing Club class in domestic flights next year.

Traveller Plus is an excellent class, mid-size between economy and Club. We are going to continue looking just about the size itself, potentially increasing the capacity on some of the configurations of aircraft, particularly on leisure routes. We are going to go through some enhancements around the food and the drinking experience of that particular class.

Finally, when we look at economy, we are looking at a commodity product, without a doubt. We are going to continue looking at some opportunities for unbundling to really provide a very cheap fare, a very cheap price, a very competitive price, as well as going through some densification which we are going to tell you about in a couple of minutes. Ultimately, BA has many tools for differentiating itself in economy as well. It is not just the brand. It is the loyalty programme. It is the service that we provide. It is all the add-ons that we have on the ground. We will continue to maintain those as well for economy passengers.

Now, I am going pass it on to Sean Doyle who is our Director of Network. He is going to tell us a little bit more about the product and how we are going to develop our network across London.

Sean Doyle

Head of Networks, British Airways

Good morning everybody. I have about four things I want to talk to you this morning about. The first is the Heathrow hub and, as Antonio mentioned, what the sterling means for our competitiveness and what kind of opportunity do we have on the back of Brexit. The second really is to have a look at what we are doing in short-haul. There is a lot of exciting things that we are developing and we will continue to develop going forward. I also want to talk about long-haul and our growth plans there. I will finish up by covering the operations, things that happened this summer and ways that we can improve our performance.

However, if I start with Heathrow, you may have seen this before but it's worth reminding you that we sit on the preeminent hub for transatlantic travel. 27% of all seats across the Atlantic are at Heathrow. It is a very deep hub. It is characterised by a lot of O&D traffic, a lot of premium traffic, and it gives us kind of opportunities that I think that competitors will relish. We are able to develop secondary cities like New Orleans on the back of the depth of our hub.

If you look at what sterling means for our business, we think sterling is going to help us compete there because 60% of our long-haul passengers originate outside the UK. I have on the left here a chart which looks at our currency mix. Probably the most valuable part of our network, which is the US route for the long-haul, and you can see about 60% of our revenue is denominated in overseas currency.

We think this gives us real opportunity, and we can exploit that opportunity in a number of ways. One, we can redeploy capacity onto routes that have more overseas currency opportunities. Two, we can look at how we optimise connecting flights. We can take connections from behind gateways in the US, we could take them from Europe and we can take them from domestic markets in the UK. We have ways of tweaking our connectivity to optimise revenue opportunities. The final thing we can do which is more revenue-management action. It is to open up inventory to sell more to those markets. In summary, we think a devaluation of sterling will really help us compete on long-haul.

If I look at short-haul, I have an example up here of something we have been doing for quite a while now, and that is do deliver a lot more dynamic scheduling into the way we run short-haul.

If you look at this graph here, it is a route in 2015, a couple of rotations that we flew into what we would call classic business or transfer destinations. This year, we put them on summer sun destinations. What you see is the load factor goes from about 43% to 86% and the profitability for rotation transforms in a similar way. We are doing a lot more of that. We are going to find that the schedule that you see in July and August is going to be very different to the one that you will see in May and September.

To give you an idea of the scale of this transition, in 2011, we flew to 40 summer sun destinations. Next summer, we are going to fly to 83. You are going to see a lot more variation in the schedule we fly over peak months and also a lot more variation in the schedule we fly by day of week.

A bit about long-haul – long-haul is the bedrock of our business and we will continue to grow long-haul as we have done over the last five years. We have got two ways we will do that.

The first is provide new destinations. If you look at what we have done in the last 12 months, we have added four new destinations to the map, Santiago, New Orleans. We have added Tehran in September, and we will continue to do that. The way we will do it is through the deployment of our 787 fleet.

Santiago is a great example because it is a range which very few aircraft can fly. We are putting a 787-9 in there with about 200 seats. It is a great way to build up our network presence in those super long-haul markets. We have 25 of that fleet to actually schedule into our network going forward.

New network developments will be a feature of our plan. It will be backboned by the 787 family of fleet that we have.

If you look at our bigger markets and the more mature markets, we also will grow our capacity in those markets but we will do it in a variety of ways. We will add frequency. But we also have gauge to play with. If you look at the A380, we now have the A380 on six of our North Atlantic gateways. If you look at JFK, we have a Super Hi-J 747-400 which really meets the premium capacity to the premium demand of that market. Our seat mix can allow us to up-gauge into the very mature markets and the very valuable markets.

The third pillar, I suppose, of our network development strategy is our partnerships. We have spoken before about JVs that are mature in our business, but we have three more JVs we'd like to highlight going forward.

The first, we announced a couple of weeks ago, which is the JV with Qatar. We now have a partner with a fantastic Asian hub as a gateway to a lot of emerging markets that we will not fly to in the near future, so it really allows us an opportunity to develop our presence and to connect people into those places in a way that we have never had the opportunity to do in the past.

The other big development this year was China. We now have a code share partner in China in the form of China Eastern and we are trying for a number of years to build our presence there. China Eastern is the start of what we think will be some exciting ventures in that market. It coincides with an expansion of frequency into Shanghai as well.

The other joint venture that we are fighting approval for is LatAm which, again, will give us some opportunities in the high growth market.

So, network development will be about growth. It will be about increasing our breadth through the 787 fleet. It will be about building depth in key markets through our bigger aircraft and partnerships that will allow to get a presence in places that we do not fly to yet but may well in the future.

I want to wrap up by talking a little bit about our operation. It is fair to say that we have had a challenging summer. A number of those things were issues that we were dealing with internally. However, a couple of the factors we were dealing with were external variables. ATC, air traffic control, delays was a big feature of the summer. However, we also were rolling out a significant system change across our operation. We will be replacing our departure control system with a system called Fly.

On this chart, I have a line at the bottom which shows the effect that that system migration had on our punctuality. The good news is Fly is in great shape now and is performing exactly like we wanted it to. As we roll Fly over next summer, we expect a big improvement to punctuality. However, I would remind you that we are the most punctual major short-haul airline in London. People do not perceive that a lot of the time but we love to remind people that we are more punctual than Ryanair and easyJet in the London market.

As well as kind of looking at what happened last year and thinking about whether it would repeat next year, we are also looking to plan a lot more resilience into our operation. Air traffic control and other external variables will continue to be a feature of what we have to deal with so we need to become more resilient. There is a couple of ways we will do that. One is we will plan to be more resilient. We will put more contingency into the way we turn aircraft, into the kind of block times we put on the schedule. We will also plan more resources into the bottlenecks that we have.

As well as putting a plan together which is more resilient, we are going to execute it better. We are going to have a much greater focus on turnarounds of flights. We are going to look at having contingency aircraft standby so that when we do not have aircraft available to operate that we can roll a standby in. We are going to focus in a big way on Technical Dispatch Reliability.

The other opportunity we have is baggage. When our baggage system is good, its as good as anybody's. We need to deliver a consistent performance. We have a number of things which will help us. We now have a single integrated system between T3 and T5 and we are able to connect our passenger baggage across our partners in a far more effective way.

We are also looking at unbottlenecking some of the key flights that have high baggage failure. Again, we are looking to basically improve all of our processes around the arrival of baggage and making sure that we become the most competitive baggage hub in Northern Europe.

That is pretty much it from me. I am now going to hand it over to Steve who is going to talk through the change agenda and the structural cost plan. Thank you.

Steve Gunning

CFO, British Airways

Good morning. My task this morning is to take you through pillar 3 of our business plan, which is on efficiency, cost efficiency and capital efficiency in particular. One of the ways we are going to become more cost-efficient particularly in non-operational concept is to invest in technology in the operations. I just wanted to give you a few examples of how we can use technology to drive efficiency and how we will be in 2017.

As Alex has already mentioned, we will be launching a new customer app in December of this year. That app will, in the periods of disruption, enable you to rebook on the next available flight. Your choice. You are in control as the passenger. You do not have to be queuing up. You can do this yourself over a cup of coffee while waiting for this disruption to abate. That is good for the customer. The customer is in control. It is also good for us as a business because we do not have to man up so many rebooking desks and we do not have such a volume at our call centres, a good way forward.

In 2017, we will be starting to launch self-service bag-drops. The first 26 will arrive at Heathrow in February of this year. When we move over for the south terminal at Gatwick at the end of January, we will also be exploiting self-service bag-drops there as well. There will be a second batch of self-service bag drops coming in to T5 later in the year.

Once again, good customer proposition because there will be more desks open. You go there, you scan your boarding pass, the bag tags are printed, you put them on your bag, you put them on the conveyor belt and you're straight off to security. A quicker customer experience and a more cost-efficient experience as well.

We have also been looking a lot and trialling different gate technologies. This is in the boarding area, the connection area or even lounge entry. One of the things we will be doing next year is redeveloping the flight connection area at T5. Sometimes it becomes a backlog by putting auto-connection gates in there. Once again, we will smooth the process through T5 and once again it will be more cost-efficient.

Most of the things I touched on there are above the wing, but we also are looking at things below the wing. One of the things we have done expensive trials on in 2016 is remote controlled push-back units. These are devices that can push back short-haul aircraft into the alley so they can then take off for departure. We think this represents a significant opportunity for us, not just from a cost perspective and productivity perspective but also from a punctuality perspective as well. That is an opportunity that we will be looking to develop in 2017.

In our drive to be cost-efficient, one of the key planks to that is going to be the restructuring programme that we commenced in Q3. So, if you looked at our Q3 results, you will have seen British Airways incurred a restructuring charge of €62 million in Q3. We will incur a similar charge in Q4 and we will incur a bigger level of cost in 2017.

I am not going to give you today the total cost of this programme. We have detailed plans. The payback on it will be 1.5 years. However, we do need to share our plans with our colleagues and our trade unions, and some elements of it will be subject to consultation.

This programme is driving cost efficiency and effectiveness throughout our employee cost base. It is really important to know that. This is touching every area of our business, not just one or two.

We are hoping to complete this programme by the end of 2018, so we will be full year effective in 2019. Let me give you a bit of an overview of some of the items in it. These are very detailed plans, so I am just giving you a flavour of some of the items that are there.

First, we will be driving efficiency on operations and I feel like I have already covered that when we talked about technology. Secondly, on engineering, we are a part of the IAG maintenance strategy, a fundamental part of that. We have detailed plans as to how we are going to drive significant savings in the engineering world over the next few years. However, it is not just about tomorrow, we are already making progress in the engineering area already. For example, we have just finished the consultation at our maintenance facility in Cardiff where we have agreed on a voluntary basis to reduce manpower by 10%.

Let me talk about cabin crew for a while. We commenced a voluntary redundancy campaign in quarter three, aimed at high cost legacy fleets. We had a very good take up on this, 550 crew decided to take us up on the offer that we made them. This means that by the time we get to the end of 2017, the amount of our crew that is in the lower cost fleet will have gone up from 35% to 42%, which is a good way forward for us as a business.

Head office is not immune. We are looking to streamline our head office. We are looking to streamline our processes. Once again, this will impact every department. Once again, we have already commenced that process. Several departments have already gone through this process, and as a consequence of that, our head office will be a few hundred lighter by the end of this year. There is certainly a lot more to do in 2017 and 2018.

With regards to sales force, we have looked at how we want to structure the sales force. Two things that I have pointed out today, firstly is we want our selling force selling. At the moment, a lot of them are very busy doing administrative tasks. We want to use technology to reduce the level of administrative task. I can see Glenn nodding on that one.

Secondly, we think there is a real opportunity in small and medium-sized corporates. We are developing a small inside sales team to really focus on that area so we can grow our share of that.

Lastly, contact centres or call centres. We have a number of call centres around the world, a number in the UK. We are reviewing at the moment what is the optimal structure for our contact centres. This would not just be a BA initiative, this will be an IAG-wide initiative, but it is an area where we think we are suboptimal at the moment.

These are some of the things we are doing through this restructuring programme. As I said, we have detailed plans. I am not going to share the total cost today because we need to share and go into consultation on some of these elements with our trade unions and our colleagues.

What I want to touch on now is another area we must address which is pensions. I came on board in January of this year and spent the last ten months in painstaking negotiation on the NAPS defined benefit deficit and recovery plan. I was very pleased that a week or so ago, we were able to say that we have reached agreement with the trustees after a long and arduous process. It is a good result for the company. The deficit has gone up by £100 million from £2.7 to £2.8 billion, reflecting the fact that interest rates are considerably lower. We have agreed to pay £300 million per annum over the next ten years to fund that deficit.

What I am particularly pleased about is we have retained the right to pay up to 35% profit after tax as a dividend up to IAG. That was one of the core principles we went into the negotiation with. We have also managed to cap the amount of top-up payments based on our level of cash that we would pay at the end of the year as well, which, once again, I think is a good outcome for the company.

However, really, that was just step one. Step two – if that is dealing with the past benefits, we need to think about future benefits. Step two is also waking up to and realising the reality of low interest rates mean costs are going to be higher for future service on defined benefit pensions. We are clear where we need to go with this, but clearly, we need to then go into consultation with our trade unions, our trustees and our colleagues. More to come there.

I have talked about cost. I just wanted to finish with my last slide which is on capital efficiency rather than cost efficiency. Clearly, in this new world of a weak pound, a strong dollar, being very constrained and very – not constrained but very disciplined on your capital is absolutely key.

I do not want to steal Enrique's thunder from later on because he will touch on the capex plans for the Group. However, I wanted to give you some examples of what we are doing to make sure we are sweating the capital that we employ in our business as best as possible.

On the top half of the screen, you will see the old 777 Three Class layout that we use at Gatwick to compete there and you will see the new configuration. What you will see if we have gone from a 9-abreast economy cabin to a 10-abreast economy cabin, which increases the number of seats considerably. It takes it actually from 216 to 252. We have doubled the size of the World Traveller Plus cabin, which is a particularly profitable cabin in the Gatwick market. We have gone from 24 to 48 seats there.

We have taken a very small reduction in the size of the Club World cabin which has gone from 46 to 32 seats. Overall, 52 seats greater than the old configuration. We think this is a much more competitive configuration to compete with against the likes of Norwegian these aircraft will be coming into service in early 2018. Just one example of how we are trying to make sure we have the right aircraft with the right configuration in the right market. We actually think that will give us a unit cost advantage over Norwegian out of Gatwick, which is absolutely key to competing there.

Other things we are doing on long-haul will also be taking our 777-200ER to a ten-abreast rather than nine-abreast on the economy cabin. On short-haul, we are going to reduce our A319 fleets from 44 to 26 aircraft. The A319 gives you a unit cost disadvantage if it is viable to run an A320 or an A321, there is much better advantage on the unit cost perspective. Hence, why we are looking to reduce.

Even on the A320 and the A321, we will be looking to densify those aircraft from a seat perspective, once again, given as a unit cost improvement.

I want you to be rest assured that we are doing a lot to make sure we are sweating the capital that we have in the business. I want you to be confident that we are doing a lot with regards to our cost performance through the restructuring programme through using technology and also addressing the pension challenge that faces all companies at this time.

Thank you. That is it from me. I am now going to hand back to Alex, who is going to finish with pillar 4 and to conclude.

Alex Cruz

Chairman & CEO, British Airways

Thank you, Steve.

Now before I go on, I am going to back and put one slide in because there is something very important that Andrew Barker has reminded me to tell you. Andrew asked you to please fill out a survey when we finish the session today and there will be a price. The price will be two club tickets anywhere in the BA network. I am putting this up because this is what you should be experiencing when you get those tickets if you win. Please do not forget to fill out the survey. It is very important with a great prize.

All right, now let's finalise the presentation by talking about the last pillar very quickly and wrapping up with the drivers.

This is the framework that we have created to communicate with people internally and to drive this change and this adapting to a new reality that I was mentioning before. We are going to be driving this starting on Monday.

Behind each one of these pillars, there is multiple initiatives and behind each one of the initiatives, there are literally hundreds of projects that we will be tracking to make sure that we actually commit and do this project plan.

Perhaps not talked about a great deal, we are going to talk about it later. However, this word, little word, at the bottom, digital, it is incredibly important. Digital, data and technology will be really underpinning, as Steve has mentioned earlier, a tremendous amount of all the efforts that we do. We believe that we can actually provide a better service to customers and we will be able to become more efficient by continuing to invest both in digital, data and technology.

All right. These slides that come from the Barker School of Management using the latest blob technology. I am not going to go through each of these boxes. I know that you will read them carefully. They do provide with additional evidence in relation – or data with relation to the network and as well as to some of the margin drivers around unit revenues, fuel efficiency, employees and suppliers. I will not go into detail of this, and yes, some of you have already spoken to me about the number of blobs that exist. I am sure that you have some questions around that.

To finalise, these are the actual metrics that we will be working on, and there is one underlying message behind it. That is, despite this uncertainty, despite this industry situation that we are in, the forex, the fuel, the competitive environment, we are maintaining the objectives that we set out last year. You can see the figures on the blue column on the rolling 12 months up to Quarter 3 of this year, you are very familiar with those results and our goal for 2016 to 2020 which are similar. They are, in fact, the same, a small change in capacity, but not huge. We will talk about more later on. We are maintaining the objectives. In order to achieve these numbers, again, we will be focusing on these four pillars of work. Really, we started earlier in Q2 but we will developing these over the next two years.

That is the presentation on British Airways. Thank you very much.

Iberia

Luis Gallego

Chairman and CEO, Iberia

Good morning, everyone. In 2014 and after the restructuring plan that we launched in November 2012 to deal with a very difficult situation that we have in front of us in Iberia, we launched what we called the Plan de Futuro of the company, a plan that was aimed to radically change the company, and a plan that, at that moment, we told you that we were going to comply with some objectives.

First of all, we said that the Plan de Futuro will allow Iberia to reach positive results in 2014 after six years of losses. In 2014, we have an EBIT of €50 million. In 2015, we arrived to €247 million. If we look from the starting point in 2012, when we were reaching minus €351 million, the transformation gave us approximately €600 million in four years.

We also said that the Plan de Futuro will provide Iberia with attractive strategic positioning in core markets, mainly in the routes to LatAm market. Two years later, we are leading in the market and we are leading the traffic between the two regions. It is a strong market position, could not be possible without all the efforts with it in the revenue side arena but also, our plan has allowed us to reach a reduced CASK-ex fuel level. And we have reduced 13%, the CASK between 2012 and 2016.

The Iberia transformation has gone beyond the airlines business. We have also transformed the maintenance and handling business. Now, we are facing a much more promising future for these non-core businesses in our Group. Also, Iberia Express has been consolidated as an instrument to complete the transformation of the company to compete in Madrid in the short and medium-haul environment that is very difficult in Spain and in Europe.

Finally, the transformation has not been only about financial performance. In the last three years, the NPS has boosted by 22%. One of the key drivers for this improvement in the NPS has been punctuality. We will talk later about it.

Finally, we said that the Plan de Futuro will set the basis for profitability and long-term growth. Today, we can say that the company is in the right path. We are planning to reach IAG targets in a timeframe that we said. Also, we are forecasting a steady but moderate annual average growth of 4%. We have been able to generate around €200 million cash in the past two years.

As you can see, the plan is achieving a complete transformation of the company. However, we are building the new Iberia and we are in the middle of the process. We are in a much more competitive environment and we know that we need and we must be more ambitious in our plan.

Low fuel prices have led to over capacity in core markets, a macroeconomic situation, especially in LatAm, and the geopolitical instability has led to pressure on yields. We are adjusting to this new market environment through capacity discipline, fleet optimisation and intensification of transformation plans.

We have launched what we call the second phase of the Plan de Futuro, a plan that will give us €400 million of EBIT at the end of the period. In this new phase, we have put emphasis in four areas. First of all, we want to optimise the RASK of the company through disruptive commercial initiatives with new revenue management model, CRM, new ancillaries, new distribution model. We are also going to work in the joint business expansion that we are going to have in the following years.

We want also to achieve the best-in-class CASK ex-fuel base. For that, we are going to work mainly in supplier cost and labour cost.

Supplier cost, we are going to have the help of the GBS project in the group and we are going to leverage on that. As an example, in the IT arena, we are going to launch a programme that is called a zero-base approach [inaudible] in order to start from the beginning and to look for simplicity, flexibility and scalability.

The third area of the Plan de Futuro phase is also to take our non-core businesses to the profitability, and to try to develop the businesses further to the situation that we have right now.

The fourth and final area of focus is the improvement of our capital efficiency. We are going to leverage and optimise our fleet model through densification and through a better mix. We will see later how we are going to do this.

This new phase of the Plan de Futuro will allow us to maintain the same commitment to reach the target that we set.

We also know that capacity discipline is key in this environment. We are adjusting our growth to this new market situation. In 2016, we reduced our capacity in some markets, for example, Brazil. We also stopped flying to Istanbul, Lagos, Agra.

We deployed part of this capacity in the new markets of the Asian market. We have started flying to Shanghai last June, and we have started also Tokyo route last October.

In 2017, what we expect is the full-year impact of these new routes, San Juan de Puerto Rico, Johannesburg, Shanghai and Tokyo. Beyond 2017, we have reduced our annual growth, focusing mainly in our core markets. As a result of all these measure, as you can see, at the end of 2015, we told you that the average growth that we are going to have was going to be 7%. Now, our plan is going to be around 4%. This reduction in capacity will be, for example, in 2020, around 14% if we compare what we have told you in 2015.

In any case, we are flexible and if, we see any opportunity upwards or if we need to go downwards, should the market situation change, we will go in that way.

Employee CASK savings have been and will be the key in the success of this plan. Thanks to the agreement we reached in 2015 with a capacity similar to the capacity that we have had in 2012, we achieved a reduction in employee CASK of minus 22%. This has allowed us to open new routes and it has allowed to reach to the profitability levels that we have right now.

If we look at the trend, the trend is even better than the trend that we told you before because with the reduction of capacity that we are forecasting, as an example, in 2018, with a capacity reduction of 9%, we are going to have a reduction in employee CASK of 29%.

One of the key pillars of the Plan de Futuro is our full transformation of Iberia's customer proposition, putting the customer in the centre of all our activities.

We want to continue providing one of the best punctuality in the airline industry. In 2015, Iberia was the most punctual airline in Europe and the second most punctual in the world. Iberia Express was the most punctual low-cost carrier in the world, as they were also in 2014. This can only be done with the full commitment of all the organisation. I want to thank you, all of them, all the colleagues that we have in the company to arrive where we are.

However, also, we want to offer our customer the right product. Last 1st November, our last A340-300 flew in Iberia with the old product. During the Q1, we did a retrofit of all the A340-600 and now we are replacing the 300 with a new A330-200. All customers can enjoy with the new product in all the fleet of wide-body.

We will also launch in 2017 the premium economy. Eight A330-300s and 13 A340-600s will be retrofitted. The new product will target economy customers who are willing to pay more for an improved product. More comfort with our 37 inches' pitch and 19 inches wide seat, and also 12-inch in-flight entertainment screen. We will also upgrade the meal service and we will give amenities as part of the proposal that we are going to give to the customer. We are going to be the only operator with direct flight between Spain and Latin America with this product.

We are also planning to install new slim seats in our narrow body fleet. The new seat will create more space for the passengers and will improve the customer satisfaction. We did a trial in Iberia Express and we know that the slim seats have improved significantly the NPS there.

Customers are reacting very positively to all these changes. As a result of that, we had an NPS increase of 7.2 percentage points in the period January and September of 2016 versus the same period in 2015. We are very happy with this response and we will continue in that direction.

As you know, increasing capital efficiency is a cornerstone of IAG financial objective. In Iberia, we are fully committed to that. In short-haul, we are going to retrofit the 320 fleet. We are going to increase from 171 seats to 180 seats. Also, with a new technology of seats that I told you before, with the slim seats. Some of the savings will come also from the premium economy.

Last year we were talking about programme that we have had inside the group to harmonise the 320 fleet, the new aircraft that will arrive. This year, we have been working with a group with BA to optimise the configuration that we are going to have in the 350 aircraft, that in the case of Iberia, it will arrive in the first quarter of 2018.

We are going to work also to optimise the fleet size. We are adjusting our fleet to this new environment, and the capacity I explained before. We are working also to improve aircraft utilisation. We are flying the same commercial programme with less aircraft.

Finally, we are going to have more fleet flexibility. We want to, as I said before, be ready to adapt to upwards and downwards of the market and also, the harmonisation that I told you in the case of 350s or in the case of the 320s, it is going to give the group the flexibility to move aircraft between the different operators.

While our growth is slower, our strategy remains the same. We want to strengthen our position as leader between Europe and Latin America. We want to develop new long-haul markets, leveraging our Madrid hub. We want also to cement our leadership short-haul position in Madrid.

I am not going through all of the presentation. However, mainly in North America, we will consolidate the San Juan route that was launched in May 2016. We will grow in profitable markets with the use also of the joint business agreement that we have there. We will put the new premium economy product in this market.

In LatAm, we are going to follow our capacity discipline due to the macro conditions that we have there. We are going to do selective growth in markets, where we see that we can develop the business, and we will launch the premium economy also there.

In short and medium-haul, and due to the situation and the very competitive environment that we have, we are going to moderate the growth in order to sustain the yields. In Spain, we are going to focus development mainly in the islands. We have a very good tool; it is Iberia Express. We will work also in the optimisation of routes also operated by other operators, in the case, for example, of *puente aéreo* with Vueling. In the rest of the world, we are going to consolidate the new route to Johannesburg. Also, we will continue with our Shanghai and Tokyo route.

Talking about margin drivers, in unit revenue, as we said before, with this new market environment, with all the new actions identified in the Plan de Futuro, we will try to offset the situation that we are going to have of lower yield in this environment.

In fuel efficiency, we are going to change our fleet in 2020. We expect to have 81% of the fleet in the long-haul, new fleet. In short and medium-haul, we will renew 20% of the fleet by 2020. We will continue implementing and improving additional operational measures with full collaborations that we are having with our crews.

Talking about employees, during this year, we have anticipated a plan. We are, right now, negotiating a new redundancy programme, voluntary redundancy programme, to have 1,000 more people leaving the company in the following years. We are going to continue working to improve the productivity of all our workforce.

In the supplier's cost side, as I said before is going to be one of the big contributors of the EBIT. We are reviewing all of our contract portfolio and we have the help from GBS.

As a result of all this, we maintain the same commitment that we shared with you last year. Iberia targets will be aligned with the group targets. In the period 2016 to 2020, lease-adjusted operating margin will be between 8% and 13%, RoIC will be targeting the 15%.

ASK growth per annum will be 4%. At the end of the period, we will have a fleet of 106 aircraft.

In summary, the first phase of the Plan de Futuro has allowed us to deliver the three objectives that we told you two years ago: return to profitability, a strong competitive positioning, an improvement in customer satisfaction and to have a profitable and cash-generative growth.

However, we know that we are halfway. We know that this new market environment is tough. For that, we have launched the second phase of the Plan de Futuro. As I told you before, we are going to be focused in the revenue and customer proposition, in cost to become one of the best companies in the industry, to have a sustainable profitability of non-core businesses, and to improve capital efficiency and flexibility to adapt to market changes.

This transformation that we are going to have in Iberia with this new Plan de Futuro Phase 2 is the perfect setting to achieve the IAG targets. It is our goal and it is our commitment of all Iberia team to arrive to the numbers that we have presented today. Thank you very much.

Vueling

Javier Sanchez-Prieto

Chairman & CEO, Vueling

Hello, good morning everyone. I am Javier. I will try to outline in the next 20 minutes, what are the key strategic themes for Vueling for the future. I am going to talk about customer and the increasing importance of customer. I am going to talk about operations excellence and cost. I am going to talk also about financial performance, how the company can continue being flexible, how we can develop the company further, and at the same time, being profitable.

As you all know, we have some challenging times in the beginning of the summer. I can share with you that all of those problems that we have were addressed by the Vueling team, and now, operations are back to normal. We have here some indicators, punctuality. In punctuality, we have improved our punctuality by more than 20 points in the last three months. We have also regularity, and as you can see, in August, September and October, our regularity has been very good, 99.9, 99.8. We are back to normal. Our operations are now back to normal.

We all know that at that time we were suffering, as Alex and the team were also highlighting, a very, very bad ATC regulations, some very bad environment in that regard. As you can see, we were suffering also 14 strikes in 15 weeks, so very, very tough environment. We needed to take some actions. We brought some ACMI's. We increased the number of people very suddenly to recover that. Now we have taken some other actions just to have this up and running. As you can see, it is the way we are today.

Well, let's start with the future. I thought it could be a good idea just to have a little bit of a history of Vueling and to frame what are we trying to do now in this time and horizon. Vueling started operation back in 2004, and then Clickair. Those two companies decided to merge in 2009. You have here Alex and Luis, they were there. I think it was a very successful merger, where they leverage the best of each company. The best commercial and market abilities of Vueling and also the operational skills of Clickair.

Then the company started a new phase, a new phase with trying to have some commercial opportunities that were in the market and commercial opportunities like, when Spanair went bankrupt, the international expansion. The company has been running very, very nicely in these years. Where we are today is a start in a different and a new phase, a new phase where we will need to strengthen all the dimensions of the company and to fit that with the current size of the company. We need to remove some complexity created by these commercial opportunities taken individually. When you put all of them together, that brings some complexity to the operations. This year, this is the transformation we are embarking on.

To do that, we have defined a vision. In Vueling, we know that, in this tenth chapter of Vueling development, a customer is going to be at the centre of everything we do. We will have to recognise the increasing importance of the customer. More and more, the customer can choose, and this is an increase in importance that we have all to recognise. What does the customer want? What the customer wants is very simple. I mean, they want good prices. They want reliability, reliability meaning punctuality and regularity. They want that the way of doing business with us is simple. That is what we are trying to bring, in which later, we have a plan to develop it.

We have also to recognise that we have – we are serving different segments. 40% of our customers are travelling for business. We are serving different business with different segments and we need to adapt a little bit our value proposition to those segments. Of course, this cannot be a tailor-made offer because then, it is too complex and we cannot have the cost that we would like to have, to offer to our customer the prices they are requesting from us. However, we need to adapt a little bit our segmentation to the different customers.

Where are we competing? Well, our core market will be, and it still is, domestic. I mean, we have a very nice brand recognition in Spain and our main core business will be domestic. We will try to develop – we are not there yet, but we will try to develop the leadership in the traffic between Europe and Spain. I mean, this is a very, very big market and we are already playing there and we would like to develop it further. Of course, we have an aspiration to develop an international footprint. We have already started with our market in Italy and in France, and this will continue.

For this vision, we have a plan. We have four pillars. Maybe it is not a surprise; we have four pillars for this plan. The first pillar is operational excellence and cost discipline. I mean, in this new phase, we need to reinforce the foundations of the company. We need to put in place more systems, more processes, and we need to do this in this, again, this new phase.

We would like to revisit our network. We have to have a network that is sustainable and that is profitable. As I told you before, we would like to keep focused on some of the market and we will be very disciplined in terms of profitability. I mean, we will start new routes, we will try, and if not, we will discontinue for the next. We have to put in place a reliable customer proposition. This has to be basically with punctuality and also we need to ease the way of doing business with us for our customer. This will be digital. This will be basically mobile.

We need to put in place an organisation. I am going to talk in the next couple of minutes about the organisation. It is very important for us to have a committed team in all our organisation, in everything we do, in everything that has to be in contract with our customers.

We have a vision. We have a plan. To me, what is important is we need a team. We need a team to deliver. My experience is that this really matters. I mean, you need a team to deliver the plan. Well, everybody has a plan. You have to deliver the plan.

We have the team. We have some guidelines here. In designing this, we take into consideration some guidelines. Well, the first is, in this new phase, we need people with the proper background. Proper background in terms of the company size, also with maybe more international exposure and experience.

The second is we have to recognize the importance of the customers. We are bringing into our leadership team, I will tell you in a minute, people to look after the customer, to have the voice of the customer in our discussion and also to deliver on that.

The third is efficiency and being focused. To me, I'm referring to that as increase the surface contact. We have to be hands-on, we have to be close to our operations in everything we do.

Then we have the team. The team is a mix of the Vueling DNA and also new blood. We have, just an example, Mike Delehant is over here. He is joining us from Southwest, so he has more experience in big companies. He will be looking after a strategy and also he will be leading our NEXT project. We're calling NEXT this transformation project.

As I told you, we are recognising the importance of the customer. Calum Laming is joining us from Etihad. He has a very nice experience in customer in Etihad, Air New Zealand, Virgin and also Procter & Gamble.

We are recognising also the importance of people and communications, and we have that also in the leadership team now. Also, the ones I presented four or five months ago, Valentín Lago, joining the team from Iberia Express, as Luis said, Iberia Express is a very efficient company. It is the most punctual low-cost carrier in the world. We are bringing also that experience into Vueling with Valentín.

We have also Jorge Saco joining from Iberia Express as Cheif Financial Officer and David, who was here as Chief Commercial Officer and also with rich experience in different markets and in different airlines.

How will things start moving? Well, the first thing is, we will be focus on the customer. We talked about innovation. We have been talking about innovation and then customers. We will be bringing, as announced yesterday, Wi-Fi on board, USB ports, fleet interiors, configuration. This is good for the customer but this is also good for us because we are having a higher densification, we will talk in a couple of minutes about capital efficiency, and we are also bringing less weight. So, it is also good in terms of cost.

We need to maintain a continuous improvement in operation. Nothing new but continuous improvement. Operations, control centre, new tools and new processes, crew scheduling new tools and also electronic flight bag for the cockpit. Nothing really new but continuous improvement in this very competitive environment.

Then in innovation, I would like to just highlight that Vueling is very good in innovation and very good in digital. We are very fast. We can recognise and we can identify the needs of our customers who can very quickly develop something and we can test in the market. It is something we would do – we are doing recovery. I mean, maybe all those examples are not really material. However, what I would like to highlight is that this is a running wheel and I have seen that, in Vueling, we can be proud of this very, very quickly. The time to market is impressive.

Then capital efficiency. Well, it is really important. It is really important for industry, just to state the obvious, it is really important for a company like Vueling and we have to maintain the flexibility. We think we have a very, very good flexibility in fleet. I mean, this is a mix of new planes and also extended leases. We have this flexibility to adapt our fleet plan, upwards or downwards, depending on the market conditions and the opportunities that we can see in the marketplace. We have the flexibility with all the agreements that the group has signed for the fleet. As Luis was saying, we have this order with a very, very good commonality for the A320 NEOs so we can be playing with that plane also. Also, utilisation. Utilisation is we need and we will be increasing the utilisation of the plane. That will mean better cost and better use of our assets.

Well, coming back to my previous reflection on the places where we would like to compete and how do we want to compete. Well, we need to strengthen our positioning in the domestic market. Again, our brand is very well-recognised in Spain. It is also very well-known, where brand awareness is very nice also in Italy and in France. We have the challenge to develop it further. We are making an analysis on how to develop this further in the European marketplace.

The second market will be Spain and Europe. I mean, Spain and Europe, there are some markets that are very, very, very competitive markets but the volumes are very, very good in those markets and the flows are very good. This is a great opportunity for us in the flows of Spain and Europe. Then we need to develop this further and we are maintaining our presence in Europe and we will see what are the opportunities in that market.

We are trying to do this in two different phases. I mean, we are now focused in reinforcing the pillars of the company, the foundations of the company. That will be focused in the next 12 to 18 months and then we will resume growth when are we better prepared and we will resume that growth in a stronger position.

Here, as I said before, we have to maintain this balance between being disciplined in the profitability because we can start and in which we can grow. We have to be profitable and stick to our financial targets, so we have to profitable. We have to maintain this balance between this and also our humble aspiration of continuing to be a key player in the European marketplace.

What are the main drivers for the improvement of the company? Well, in unit revenues, we are not banking on unit revenues. We are having, let me put it that way, a conservative view on the unit revenue's evolution in the next coming months and years, very competitive environment, so we are not banking on that.

Fuel efficiency, here, yes, I mean, we have to recognise that the lower cost of the A321s. We will be having like 15 A321s by the end of the year, so with a lower cost per seat. Also, the new NEOs, starting in 2018, we are having like 30 something. We are receiving 30-something planes with a lower fuel consumption.

In employees, I think we are very competitive in employee cost. Our challenge is to maintain this because it is a – if you compare and I'm pretty sure you do, our positioning with the rest of the companies and our competitors, we are very competitive and we need to maintain that.

In the suppliers, I mean, we will rely upon the GBS, procurement initiatives. I mean, this is already – we are already having very nice outburst out of those negotiations with fuel and planes in ground handling and more to come in the next coming years.

Okay, this is my final slide. We continue to speak to that to our targets in the medium-term and in the long-term, 15% lease adjustment operating margin also 15% RoIC. We are presenting here a lower growth than originally planned. However, I would like to come back to my previous comment that we will maintain the flexibility. If we see opportunities in the marketplace, we can go further and the other way around. I mean, if we see that we need to adapt to the market conditions, we can do it also.

I think that is probably all. I would just like to stress the point that Vueling is a great company. I mean, we have suffered some tough moments in the summer. That is part of our work but that is part of our life in this industry. All those things have been already addressed. We will maintain this flexibility. We will maintain our commitment to those results and we will do it

Aer Lingus

Stephen Kavanagh

Chief Executive Officer, Aer Lingus

Good morning, ladies and gentlemen. I'm standing between you and coffee so I will attempt to be concise. However, I should remind you that it is just one year since I had the opportunity to introduce Aer Lingus to you in the context of IAG. In that year, I think, our performance had been resounding endorsements of the investment decision taken by the board and management of IAG.

It's been a year of success for Aer Lingus. A year where we have certainly begun to deliver on the opportunity we have identified. We have delivered over the last four quarters very solid operating profit performance. An industry-leading peak season margin of 30% and we have exceeded our RoIC targets in year one. All of this has been enabled by our membership of IAG with our additional capacity accelerated by investment decisions supported at board and management level.

We have increased our capacity by 8%, increased our RPK by 9% in one of the most highly competed marketplaces, not just in Europe but globally. We have reduced ex-fuel unit cost through productivity, not singularly through ASK growth but productivity that delivered seat cost advantages as well as ASK cost advantages. We have continued to build on our North Atlantic network in terms of scope and depth. We have added three new gateways and we have added frequency.

The illustration on the right really is testament for what we continue to build at Aer Lingus. Building Dublin as a gateway between Europe and North America and continuing to exploit the point-to-point opportunity between Ireland and Europe.

We improved our short-haul load factor. However, we also grew our net promoter score with products and OTP initiatives. We have industry leading net promoter score metrics and we have improved OTP by four points year on year

In a tough environment without compromising utilisation, we are and have been, every month of this year, the most punctual airline in Dublin. That is key to maintaining and sustaining our industry leading net promoter scores.

During the year, we have achieved Ireland's first Skytrax 4-star rating, a testament to the work and service delivered by the Aer Lingus team day in and day out. I believe we have demonstrated to you that we are using growth to create shareholder value. We are driving CASK down through very efficient capital utilisation.

We are also improving our guest value proposition and the combination is driving margin. We are building a bigger, stronger, and a better business in terms of RoIC generation.

We believe our success is built on strong and simple fundamentals. We do have a clear and ambitious strategy to be the leading value carrier across the North Atlantic in terms of financial performance. That will be enabled by a profitable and sustainable short-haul network supported by a guest-focused brand and digitally-enabled value proposition, value as perceived by our customers.

We will deliver above average returns in invested capital to you, our IAG shareholders. We are at our heart, a demand-led value proposition, centred on delivering on the cost, product and service expectations of our guest. We do it in an operating model that is simple by design.

We have some key fundamentals. We have a strong brand and a dedicated team committed to service. A brand that is supported by 80 years of heritage, the value carrier proposition focused on cost, product and service.

We have the gateway opportunity at Dublin where the geographic, cost and product advantages can be leveraged and are being leveraged successfully. We have consistently, over the last five years, been the fastest growing carrier on the North Atlantic in terms of year-on-year ASK growth. We have fund that while operating margin and increasing our RoIC contribution.

At the heart of our business are our customers and we use our voice of guest surveys to drive our business. We base investment decisions on guest feedback.

Two examples I can give you which show the virtual circle of involving the guest in the design of our business. We repositioned and restructured our boarding process. Feedback from guest was – it was inconsistent and it was complicated. We simplified it, we improved on time performance, we improved consistency, we improved our net promoter scores and at the same time we generated a new retail proposition because we now have an ability to buy priority boarding within the booking flow.

We have also introduced the largest suite of self-service auto bag-drop machines at Dublin. 32 units went in in Summer '16 to address capacity issues and unacceptable queue times. What we have done is increased the capacity of the facility by 200%, reduced the transaction cost by 50% and reduced queuing time from ten minutes to two minutes.

Those are examples of how listening to the guest with appropriate investment have enabled us to drive not just high net promoter scores but also operating margin. All of which received external validation when we were accredited with Skytrax 4-star rating. We also were nominated as one of the three most improved airlines globally. That is a testament to the people in Aer Lingus to the service training they have received but also to the investment in hard product which we have made in recent years, particularly in our business cabin across the Atlantic and in lounge and support facilities at our main bases.

We have and we retain clear principles as to how we compete. In our North Atlantic business, we are explicitly load active. We build base load with a compelling value proposition and that allows us to yield and be more active in a revenue per seat context closer to the time of departure. We take great care to the demand pipeline and the access to new opportunities within IAG and potentially within oneworld will be another powerful tool in building more potential demand than we have supply.

We have RASK by cabin which is benchmarked with North Atlantic legacy peer group. However, we do retain cost leadership. Cost leadership because of geography but also cost leadership because of the way we actively manage cost within our business. We continue to leverage the retail opportunity on long-haul.

On short-haul, in a fiercely competitive market place, we are profitable and sustainably so. We have a load active revenue per seat bias. We have remaining latent load factor potential on our short-haul business. We are not yet at peer group levels of occupancy.

We continue to leverage our retail opportunity. It will remain a focus. We meet guest expectations; we create new guest expectations. We insist because we deliver a better product that we command a reasonable fare premium. That will remain under pressure and we will invest in service and product and cost to retain that opportunity. Maintaining cost proximity to the lowest cost producers in the marketplace is absolutely fundamental to our proposition.

The cost proximity, as relevant from a guest, is ultimately the ticket price. Unless we have competitive pricing in the marketplace, we do not have a business that sustainable. That is a lesson we have learned over 30 years competing successfully head-to-head with Ryanair.

Lastly, but importantly, there is no cross-subsidisation within our business. Our short-haul and our North Atlantic businesses compete for capital. They do not resource and do not cross-subsidise. However, they are managed to extract maximum benefit from both.

Our strategy will be aligned with priority projects. People will continue to be at the heart of our business. We are a growing business. We will continue to invest in people but we will also continue to invest in productivity. Growth is a wonderful enabler for cost performance. We will contain particularly support and back office as we grow our business.

We have a direct distribution model. We have ambitions that 80% of our trade will be conducted via aerlingus.com. We will continue to invest in NDC technologies and evolve codeshares and other partnerships to align to our target achievement of greater than 80% in the coming years.

We are maturing as a network carrier and we need to build the capability to manage network. We do not have point of sale controls and we will introduce point of sale controls but not with a view to maximising RASK or flow, but with a view to enabling flow and maximising point-to-point volume potential. We do not want to cannibalise our opportunity, by becoming experts in flow, rather we want to maximise the opportunity by harnessing that potential and exploiting our competitive position in the point-to-point market places.

We continue to be leaders in retail. We have set ourselves the ambition to add €1 per passenger spend every year for the duration of the five-year plan.

We refreshed our fare family offering yesterday. As I said earlier, we are introducing a priority boarding product into our booking flow and we are and have refreshed our baggage which has one of the highest attachment rates, voluntarily, one of the highest attachment rates in the European sector.

We continue to use and exploit the opportunity of technology to improve cost, product and service. However, we will be fast adaptors. Not initiators but fast adaptors.

In terms of growth, we continue to grow short-haul, but growth in terms of RPKs. Not in terms of the physical units because we still believe we have some latent load factor potential to exploit before we can justify capital investment in more aircraft. We will use ACMI to cater for peak season demand where it is identified.

We continue to build on the success of the Ireland–London Corridor, particularly which such strong brands and strong market positions at both ends within the group. We are rolling out and exploiting the Avios programme with a re-launch and then energising of our loyalty programme AerClub.

On the North Atlantic, we will continue to deliver double-digit growth, utilising the A330 platform. The A330-300 delivers significant CASK improvement opportunity to Aer Lingus. We believe we have the volume to utilise the aircraft efficiently. The two aircraft that joined in Q3 will be joined by further two aircraft in 2017.

We will expand and continue to expand our partner corporation and we will improve our network revenue management but it will fundamentally be CASK-effective growth. CASK is our entry card; CASK will enable us to compete and CASK will sustain our above average RoIC.

In the longer term, our expansion will be enabled by new technology single-aisle aircraft. We currently operate four 757s profitably across the Atlantic. We see the application of narrow gauge, single aisle, particularly from a Dublin hub. We have an RFP in the marketplace for A321 LR NEOs. We would see those not just complementing the 757s but opening new route opportunities and further developing the network and flow potential at Dublin.

In terms of margin, we are not relying on unit revenue improvements. However, we will fight to sustain RASK and we will retain price fare competitiveness by exploiting the retail opportunities that are available to us.

We are driving fuel efficiency. We have migrated all A319s from our operation, we are a high density A320, A321 operator on short-haul and a high density A330 and 757 operator on long-haul. Future aircraft deliveries will improve further that position.

In terms of employees, efficient ASK growth and asset utilisation will continue to be developed and the initiatives that have been successfully implemented in 2016 will flow through not just 2017 but through the duration of the plan and will be built upon as our business grows and the confidence in our ability to deliver compelling financial performance grows. Finally, and importantly from a supplier perspective, we have been enabled as part of IAG to exploit scale opportunities.

Key to our future success on short-haul, in particular, is to take the lesson that has been learned by the low-cost producers in terms of their bargaining and their supplier power with airports. Our cost disadvantages at the moment, primarily flow from differential pricing from suppliers, not because of anything implicit in our production model. As a target, that way as Aer Lingus will lead in terms of the group and it is a key focus for us in the coming months.

All of which hopefully will give you confidence that we can sustain not just the last 12 months of performance, where we have lease-adjusted margin in excess of 13% and a RoIC target 5% above IAG target.

We have an ambitious growth programme but it is frontloaded. It is on the North Atlantic. It is not high risk from our perspective. We have proven over the recent years that we can deliver and we are confident based on our experience to date and our visibility of 2017 that our ambitions can be realised. ASK growth per annum of 8%, as I said frontloaded on primarily on the North Atlantic, efficient ASK growth on short-haul leveraged by latent capacity in the production model, ultimately consistently delivered to you in excess of the 15% target.

Thank you for your attention this morning. Before I set you free, Andrew has just asked me to make one more introduction. If I may, the video can be run now. Thank you for your time.

Andrew Barker: Okay, we think you will be interested in that sometime next year. Just to let you know, we have actually experimented a few weeks ago upstairs in the IAG office with making Guinness come out of the coffee machine. That was on the occasion of a certain person's birthday. However, we have not done that for you this time, save the Guinness for Dublin. Refreshments are now served outside and we are running pretty much to time so just after 11:00, we will call you back in for the IAG session. Thank you very much.

Second Morning Session

Andrew Barker

Head of Investor Relations, IAG

Just to let you know, I am monitoring the leader board. The top investor is now in number four position and we have three internal people in one, two and three. I think we need proper people to be top of the leader board, so please give your feedback and submit photos and everything like that.

With that, I would like to hand over to Gavin Halliday, who runs Avios, to start the discussion on the IAG platform. Thank you very much.

Avios

Gavin Halliday

Chief Executive Officer, Avios

Well, good morning, everybody. It is nice to see so many of you that I recognise from our workshop that we held earlier in the year, in November, where we were able to share with you all a great deal of detail. It was actually almost like a forensic analysis of how Avios works. We went into the accounting methodologies; we went into the business plan of a lot of the strategic projects that we are running.

What I propose to do today is to use some of those same templates that we have now updated with the performance of the business so far this year. Those of you that were not there, I apologise, and I will spend a little bit more time on those, explaining to you what they reflect.

I am going to start by restating the role that Avios plays within the IAG Group. Our vision for the Avios business is to deliver leadership in travel rewards. That is totally complementary to the IAG vision and for the airlines within it as well. The way that we do that is by looking at three core activities that drive value. They are loyalty, customer engagement; the sales of our points to partners, be they air or non-air; and data, the assets that we can use from all of the information that we amass, deploying it within our organisation with our products and with our services to ensure that it is as relevant as it can possibly be.

What I am looking here at this slide is showing how we put front and centre the focus of the business on our customers, the people that collect our points; and our partners, the people that pay for them, and as I said, air or non-air. If you look at the business through the lens of the architecture, you can actually see three significant layers. One being the loyalty platforms, then the currency products that we offer to our customers, then the channels that we offer the products through to both our customers and our partners. All of this is wrapped up by our data. The importance of our data in terms of the interconnectedness within our business is paramount. The role that data plays, both now and going forward, will define whether or not we achieve leadership or whether we just play in this space.

We launched a project with the support of IAG, obviously, earlier this year to transform the Avios business and to work through all of the processes that we have, all of the platforms that we have to ensure that we are fit for purpose. That requires us in many instances to change some of our tech platforms, to change many of our processes and to really work hard at making sure that everything we are doing is focussed on driving relevance for our product and our proposition and driving, therefore, ultimately, customer engagement.

If I dig into the first of those layers, the loyalty platform, we have actually kicked off now a project that we are implementing that will deliver us a single bank. The single bank will manage the customer accounts. It sounds quite trivial but it is actually quite an enormous undertaking because it is all of the transactions into and out of our customers' accounts, these are the debits and the credits of the transactions that they are undertaking. Equally, this single bank can do recognition, the important tier point status that people have, who are in the recognition structures where the airlines have those schemes.

The single bank for us will transform our business because today, we work on multiple banks, where it is very difficult to navigate new products, it is very difficult to deliver any innovation and it is now impossible for us to be able to grow our business and grow at any scale. Our new bank gives us scale for growth as well as capability for the evolution of our products.

Very importantly for a bank and for a currency, the platform also provides us superior controls. It will enable us to provide cyber security in one place. It will enable us to provide fraud protection in one single place with one group of people accountable for it.

Obviously, moving from multiple banks to a single bank will also enable us to realise cost synergies. However, that is not the real focus. The real focus here is providing our customers with a single balance. Ensuring and enabling our customers to use their points where they want to use them, not forcing them to use them where they earned them. I think that is going to make one of the single greatest differences to the Avios currency as we move forward.

Through the year, through 2016 and 2017, we will start with those airlines that are in the Avios Travel Rewards Programme. Then we will follow it very quickly, upgrading the Iberia scheme, the Iberia Plus scheme into our single bank. That will then be followed by BA. We are currently in conversations with Meridiana to navigate how and when we put their programme into the single bank as well.

Now, it is very, very important that we continue to recognise how focus needs to be on ensuring customers got products that enable them to spend their points. I say and repeat time and time again, people do not join loyalty currencies for the pleasure of collecting the currencies; they join loyalty programmes with the objective of finding and getting a reward. Therefore, unashamedly, we will start with our spend products.

The classic redemption that we have was where you give up a number of points that you have earned for a full seat to a given destination. Last year, British Airways and Iberia put in place an off-peak and a peak product which has gone down quite well. The off-peak product offered a 35% discount on the peak product, and that has led to a shift towards the off-peak products, which we would have expected perhaps, but is quite noticeable, that now 60% of classic redemptions are in the off-peak, which is clearly beneficial to the airlines as well as appealing to the customers.

However, the real celebration story in terms of our spend product is what is called Pay with Avios. The Pay with Avios product, where you undertake a normal commercial purchase and then are able to offset some of the monetary price with and in exchange for points, has gone particularly well. In the last year, that business and that business product has grown by over 35%. Only last month, we extended that product to Flybe who have also seen a very big pick-up from their customers of the proposition, is clearly something that is popular in all these airline channels. That is very, very important to us because it has given us presence as an Avios brand in the UK regions and that complements the presence that we have clearly got in the Southeast of England.

The top three routes in the first month that were using the Pay with Avios product under Flybe were from Newquay to Gatwick, from Birmingham to Edinburgh and from Manchester to Aberdeen. A really strong representation for the brand going forward in the UK regions, which I think will be further enhanced when Aer Lingus joins the currency in the coming weeks and months. Our presence in the UK region is, I think, developing significantly from that.

Looking at our collection products, we introduced in the first half of the year a new platform for what we call the eStore. The eStore basically gives people the opportunity to earn points on everyday spend. This is particularly important because it enables people to top up their balances and to be able to also fund balances simply from what they would have ordinarily spent anyway.

This has gone very, very well indeed. We have got almost exponential growth at the moment on our eStore. In the Avios eStore, the run rate is currently an 85% growth, with the last two months increasing very significantly as we get closer towards Christmas, of about 300% to 400% over last year. There are 1,000 high street brands featuring in this eStore. The earn rates are phenomenal as the merchants offer the commissions that we then turn into Avios points and hand them back to the customers.

I think the key thing about eStore is its accessibility and the fact that it is appealing to people who are going to undertake these transactions anyway. The fact that we have now put this into the app, the Avios app, means that this is featuring in mobile devices as well. We have got both the product and the distribution through something that is easy and accessible.

The Purchase Avios product is one where we allow people to buy Avios points from us directly to top up their balance if they have got a special redemption that they are chasing after. What we have done here is to align the proposition across all of the airlines that have this product. We have lifted the ceiling that we had in place on a number of points that could be bought. That has led to a 50% increase in the amount of points that are bought by customers in this last year.

Lastly, I am going to come and talk about this in a minute in a bit more detail with some imagery, we have recently, I think only two weeks ago, put in a loyalty wallet that basically makes the collection of points a little bit more seamless and a little bit more invisible. The difficulty factor of presenting loyalty cards at point of sale is really rather an arse these days. People do not want to be bothering with it. What this does is it allows you to store your loyalty propositions next to your payment propositions in a handheld mobile device. Therefore, you do not have to present these types of things at point of sale, it just all happens in the back, using the technology to do the work. I think that is going to make a big impression on our performance in the years of ahead of collecting Avios easily.

Now, the key thing, as I said at the very beginning, behind all of the products and all of the platforms, all of the content that we have is our data. The thing about data in the Avios world is that it is kind of continuously improving. The fact that we have got a versatile digital currency, to use a better descriptor, means that it is almost continuous improvement as data starts to improve about our customers and the way that they are using our Avios points and our products. It happens at the same pace across all of the different levels of the Avios proposition. It improves the existing products that we have in place, enables us to innovate and launch new services, whilst also giving us the opportunity to deliver disruptive services as well.

However, rather than me talk about it, let me show you a video that shows how it has really been brought to life in the Avios environment.

Moving now into the performance of the business and looking at the progress that we have made in the last six, seven months, this is a summary of a very complex slide that we put together to show how the lifecycle of an Avios works. Can you imagine anything so dry?

What we have done here is to show, on the left-hand side, how customers get their Avios points by purchasing products and services from IAG airlines from non-air partners and from partner airlines that are not part of IAG. Those points are then paid for by those businesses and we hold the points in the Avios balance for those customers, until such point as they want to buy, on the right-hand side, one of the products and services that are offered by those businesses on the right-hand side.

Now, this graph has been drawn to scale and it reflects the revenue flows that are invested on the left-hand side and that are received as revenue on the right-hand side. You can see very clearly that the IAG airlines are benefiting from the cash flows within the ecosystem of the Avios business. The red dots that you can see around the partner airlines piece on the right-hand side denotes those revenues that are pertaining to joint businesses, particularly the Atlantic joint business where many of the IAG airlines participate as well.

If we look at the evolving and expanding ecosystem of our air partners, you can see how we have got a graduation towards the established airlines on the far right, from our pipeline on the left. Now, we are currently talking to a number of airlines that are interested in joining the Avios ecosystem, but I am not allowed to put them up here. Basically, I can only reference those that have got a documented intent signed which is, in this respect, Royal Air Maroc. However, we are very, very excited to comment as was mentioned earlier that in the next few weeks and months, Aer Lingus and Vueling will be joining the Avios ecosystem.

From where we were at this time last year, it is a major development for the business. The fact that we have moved Flybe forward with the introduction and implementation of the Pay with Avios product on their network, and we will very shortly be putting a Pay with Avios product into kulula in South Africa, moving them from growth more towards the established side of our portfolio. In the established side, clearly, the maturity of British Airways and Iberia enable us to look for ways to refine the use of Avios, looking for ways to further evolve our products and propositions.

In terms of our performance, it is necessary to recognise that the loyalty business, too, has its own headwinds. This year, the conclusion of what EU interchange regulation represents for the loyalty sector has been profound. However, in spite of that, the business in the UK has performed robustly. I think the fact that we are drawing out the Avios proposition into new segments such as the Avios eStore, and the fact that we are moving the proposition and the brand into new regions of the UK, position us in a good place to continue to perform well in the UK.

In Spain, we have done particularly well in terms of our non-air partner revenues. The gross billings from non-air partners in Spain are up significantly on the year previous. Very importantly, the pipeline of brands that we will be bringing into the partnership programme in Spain are very favourable. We have got some premier brands coming into both established retail categories and some new retail categories that we did not have previously.

As Javier mentioned earlier, the presence of Vueling in Spain will significantly build again our presence in that important market. However, not limited to Spain, also the fact that we will be able to expand our presence in France and Italy through 2017 will allow us to see our fortunes improve there. We have very positively been encouraged by some of the responses from non-air partners in both France and Italy to work with us as programme partners in those markets.

We have been unashamedly attracted to the appreciating dollar and we have run a number of tactical campaigns through the second half of 2016 with Royal Bank of Canada, with Chase Bank and with American Express Membership Rewards, which has given us lots of benefits in terms of foreign exchange by selling in the US. That is going to continue in 2017 when we bring in new products with Chase, not least with Iberia and Aer Lingus which I think will be very relevant brands for the US market.

In Latin America, building on the success we have had of working alongside Banco de Chile. We are going to continue to pursue some pipeline leads that we have got from air partners in Argentina and Mexico. The importance of Mexico being that we have got a very, very positive performing, well-performing codeshare in place with Iberia and a local regional carrier called Interjet which will give us more presence and purchase there.

In other markets, I have talked about the fact that we expect improvements in South Africa, but the rest of the world, we will just take opportunities as they arise, in conjunction with our oneworld partners and our global non-air partners.

In conclusion, I think we can see that very definitely the Avios business is delivering and the transformation project that we are now about halfway through, is clearly elevating the Avios business in the company to the next level of performance, both in terms of its capability and in terms of its scale enabling it to grow.

This is not just limited to the technology platforms, it also includes the organisational structure, the capabilities within it and the mindsets of the people who work at Avios, our colleagues, my colleagues and the teams there.

There is a real momentum now behind our products and services and the channels that we are now opening ourselves up to I think are going to give us the opportunity to continue to expand our business and improve our performance.

The imminent launch of our Aer Lingus and Vueling with their brand presence in a number of different markets, different segments, different geographies will be very important to us and the customer bases that they bring with them will enable Avios to improve further the metrics that you see here on this slide.

I think they positioned us into a place where we will confidently be able to deliver our stretch targets towards 2018, enabling us again to realise the full potential of this currency business. Thank you very much.

Global Business Services

Bill Francis

Head of Group IT

Good morning, everybody. I am Bill Francis. I am Head of Group IT and I am going to be talking to you today about GBS, Global Business Services. If there are three messages that I really want to get across to you today, the first one is this has been about a transformational change. This has not been an evolution. You will see a fundamental change in the models that we use and I want to talk you through those.

The other one is that we are fundamentally supporting all of the business plans that you are seeing from the airlines and we are going to continue to do that. The last one for me is to make sure that we have delivered on the promises that myself and my colleagues talked to you at last year's capital market's day, I want to show some of those figures too.

Without further ado, the first one here is just saying, well, where are we in GBS today? What is GBS? This is the combination of a centralised group IT function, a centralised procurement function and a centralised financial services function, and they all form part of the IAG platform along with colleagues like Avios as we talked about.

This is about a plug and play, scalable, flexible model that we scale up and scale down. It is also about simplification. Within that is also simplifying the businesses that we are working with in the business processes. We are discovering very much you can only really achieve that when you have actually got some new people as well, so we are looking at new people and embracing new cultures and new modern practices and ways of working, but above all else, the very last line on here is around quality.

We have got to make sure, this is not just about doing things as good as they have been. This is about improving things with a better quality. There are two circles on here, because that is quite an internal view. The two circles on here, I think, just to pick up one, higher returns to our shareholders if we get this right, service and value to our customers. That is what this is really all about.

I am talking about a new model. What is the new model that we put in place? Originally, we had our hubs there with Dublin, London, Barcelona and Madrid, and the majority of our services were taking place there. However, I am pleased to say we have now really established Kraków as a centre for our financial services and procurement. Within there, the very first employee came along in January 2015. I'll talk to you a little bit about the numbers there. They are a captive audience, they are on a new GBS contract, our people there.

That is also serviced – procurement and finance are also serviced by an outsourcing option. You can see some of those at the bottom, Accenture and Capita are examples of third party BPOs that we are using also to support those services.

From an IT point of view, we go straight to offshore. Again, we have centres, whether it is Delhi, Chennai, Mumbai, Pune. You are seeing we have reduced the number of suppliers that we used to deal with from 20 down to 4 primarily. They are up here, IBM, NIIT, TCS – Tata and Tech Mahindra.

The circles on the top right, really important to us. This is about being market competitive. How do we do that? We tender everything. We go out to the market and make sure that we are getting the most competitive price. This is about being flexible and scalable. We have got to scale up and scale down depending on what the demands are with the right future skill set.

The last one of course is challenging, being fast and agile. We are starting to see fast buy come through within our procurement and we are also looking to see more innovation pipelines come through to make sure that we can deliver in an agile way.

Let's have a quick focus on Kraków, what does it actually look like? I do not know whether you are aware, but Kraków now is the Eastern European hub for global business services. There are over 80 GBSs in total in Kraków, there is about 46,000 people working there. The opportunity to bring on new skill sets is because there are 48,000 graduates with the relevant qualifications that we can draw on. That is just from the Kraków area and that is every year, which is significant.

Now, our own Kraków base, as I said, our first employee came along in January 2015, we now have actually – we are over 250, we are heading towards 280 colleagues. 80% of them are Millennials. I think that means their average is about 29 for where we are. It is about 50-50 split on gender. The majority of them speak more than two languages. Fortunate for us as well, we have a quarter of them who speak Spanish.

I am going to focus now just on the three functions to give us a slightly deeper dive. We talked about IT first of all, my area. We set some targets which were we wanted to halve the number of applications, halve the number of suppliers. With our suppliers, we want them to be offshore in a 90-10 ratio. We said to you that we will deliver €90 million benefits per annum by the end of 2018.

How are we doing against that? Well, we are about halfway there. We are just over halfway to be honest and we made great progress over the last 12 months, 18 months. Some of the things that I committed to you, if you look here along, there is a sort of a bit of a timeline. We have got Tower 1 which is in our operation end user computing. We outsourced that, primarily outsourced it about an 80-20 ratio. The saving that we got there I promised you was 38% and that has been delivered.

The second tower got confirmed in August of this year. The saving there was 21%. Then Tower 3, service operations, we have managed a 52% saving. It is great work by procurement, but this is also a change in the model in the way that we are working. Again, there is a sort of internal numbers.

To go with that, on the far right-hand side, we had a major change in the internal footprint of our people. We did have 1,406 people in group IT. By Christmas this year, that number will be 710. That gives you an idea of the scale that we are going through.

Along the bottom is us enabling the business plans. This just gives them a couple of highlights. Avios, which Gavin just talked through, is very much part of our plan. We are working with them to deliver that loyalty platform. Along here, you can see the Cargo Optima system going in, which is really helping them with their revenue management. The travel programme has been talked about. This is the 213 locations where we changed the check in process. We have seen much better stability from July onwards and particularly over the half term zero issues coming up over the recent peak period of the half term.

IB.com has had a complete re-architecture and check in in the mobile app is starting to bear fruit. On the right-hand side, if you went to BA.com today, there is a beta element there which you can try out around the much better personalised home page and workflow for our customers. It is a combination of changing ourselves and really enabling the business plans for our customers.

Procurement, probably even better on the numbers. If we talked about what Raghbir Pattar has done within the team here, Raghbir managed to complete the transformation of procurement and model terms by the tail-end of December 2015. That has meant moving from 100% of people who are in procurement at our hubs to 80% of our resources now being based in Kraków.

Raghbir is saving hundreds of millions of euros which you are starting to see come through in all of the business plans that you have just seen. How are we actually doing that? There are a couple of key areas. We have got new partnerships with fewer suppliers. Very much, it is about make versus buy. How much of this can we take vanilla products from the market, how much of this can we buy rather than customise ourselves?

Specification challenge is key, right the way across the airline in all categories. Raghbir has a very strong team looking at how can we simplify the specification that we are asking for rather than customising it around the group ending up with many multiples of one product.

Leveraging scale is fairly obvious and demand management is about trying not to buy things if we do not need to and also strong governance to make sure that the CFOs in the room are making sure that they know exactly what they are spending the money on. Finally, harmonisation, any chances of consolidating and having a group solution, why would we not try and take that.

After December 2015, two more points on the right. Aer Lingus procurement, we have been working very closely with. That is throughout the year. Now, with Javier we are beginning to take a close look at Vueling and how, again, we can get more savings and synergies across the group.

My last one around the functions was around the financial services or the factories, we call it here. The big savings headline here is mainly labour arbitrage. We had about a 30% to 35% labour arbitrage by moving staff both to our captive near shore in Kraków and offshore with Accenture in Chennai.

So far, we are about 75% complete from the original scope that we had. We hope to complete that by the end of Q1 in 2017. Then the additional scope that we are beginning to work with around Aer Lingus.

Now, sort of areas that we have in here. Financial planning analysis and reporting. Global transactions, what do I mean by that? That is procure to pay, order to cash. Those sorts of global processes that we now have in place. Tax compliance around VAT returns and some of the treasury operations include debt management and cash management.

How do we make sure that we are market competitive? What we are doing is building into GBS, an ongoing relationship where we have benchmarking as part of our DNA. We are just from the first one, this is from Hackett. You can see here that already procurement and finance who are further through their transformation are already starting to hit around world class and certainly comparing with their peers. This has been taken from the basket of retailers, airlines and so on, so right across the piece.

On IT under operations, the ones we have transformed already were again facing world class and we have got a way to go as we transform the rest of IT to then try and be that benchmark, but we are well underway.

This is my final slide. It really just tells a little bit about the journey we have been on. On the left-hand side, this was all about centralising, bringing together those functions and a particular focus on Iberia and British Airways at the time. We began to offshore finance and we are talking about simplification and scale.

In the middle piece, we then created Kraków. We completed procurements model and we are well underway to completing finance and we began to offshore the IT operational towers as I pointed out the first three. Then we started looking on what about onboarding new OpCos. We started to bring on Aer Lingus and then we begin to look at Vueling and we have just completed yesterday actually Avios in full. On the right-hand side is really where we are going to.

Now, moving to the cloud, you all know what the cloud is, but this is about simplification about a digital innovation platform and it is about moving from a fixed asset base to a variable, scalable base that you can dial up and dial down on a pay as you go basis.

Zero-based architecture, I was pleased to hear Luis mention that. This is about jumping to the end state, to the IT that the companies want. Not evolving from what we have got. We are turning off applications. We are investing 80% of the portfolio in the strategic projects and making sure we make that leap and to go hand in hand with that is business simplification of their own processes.

We have to optimise Kraków and Kraków will become an intermediary as we move more and more offshore.

Then other support systems is you’re saying, you have heard from all of the business plans today, there are many other processes there that we can begin to look at as we complete some of the existing three functions that we have. We need to pace ourselves on that.

Then the last few there, ultimately what is this really all about? Yes, this is a transformation of our own back office, but equally this is about enabling the business plans for each of the operating companies to delivery to our customers. It gives us the plug and play platform that we are talking about.

I am going to finish by coming back to those first three points again. This has been an absolutely transformational journey that we have been on. This is about making sure that we have fresh people with a fresh culture who can deliver things for our business. It is about delivering on the commitment that we said to you. Ultimately, this is about delivering to the business plans that we have for all of those airlines that you have seen earlier on today so making sure GBS can support.

Okay, thanks very much. I am going to hand over now to Luis who is going to talk us through maintenance. Thank you.

Maintenance, Repair and Overhaul

Luis Gallego

Chairman & CEO, Iberia

Good morning again. We are going to talk now about maintenance. In the presentation, we have a lot of information but we are not going through all of it. However, I want to give you an update of what is happening the group in the maintenance side. What we are doing, what we are finding and what are the future for the maintenance in the group.

If we look at the expenditure that we had in 2015, maintenance was around 12% of group total operating cost. If we split the €2.4 billion that we had spent in 2015 in the different activities, we see that the heavy maintenance, we have spent €0.3 billion. Heavy maintenance are the activities that we perform when we remove an aircraft from operation and we do some checks, some checks that can be from one week to several months depending on the type of check or structural checks, etc.

We have spent €0.5 billion in line maintenance. Line maintenance are the activities that we do in the aircraft that we do usually during transit and during the night. It is something that you do not require to stop the aircraft and you can do within the normal operation.

We have spent €0.6 billion in components and inventory. Here, we have all the activities related first of all with inventory of all the parts that we will have to maintain the aircraft, but also with the repair of the s that we remove from the aircraft, we send to a workshop and after that we install again on the aircraft.

We have spent €1.1 billion in engines. As you can imagine, engines are the most expensive part in the aircraft, so we need to remove the engines. We have scheduled visits when you have some life-limited parts arrive to the limit. We have also unscheduled visits when you have a bird strike, etc. In engines, we have spent almost half of the amount of money that we had spent in maintenance.

In technical and engineering, we have spent €0.1 billion. Technical engineering are the activities that we do in order to warranty the air worthiness of the aircraft.

If we look at this slide, what we see is a very, very complex design and where we have in the group maintenance facilities.

Of all the maintenance that we perform on our aircraft in the group, part of the activities we outsource, because we do not have the capability inside the group. Even we have some operators that do not have maintenance capabilities. For example, Vueling have everything outsourced. However, in the case of Iberia, they have four streams that we saw before. We have heavy, we have line, we have engines and we have component workshops.

However, I ensure that if we will start a company right now to provide the maintenance to the different operators of the group, we wouldn't have seven places performing heavy maintenance for our aircraft. I am sure that we will be thinking about where is the right place to do the maintenance, what cost, what average salaries are we going to have there, what productivity we can achieve and we are going to have a specialised centre to perform, imagine the maintenance for the narrow body.

If we talk about the line maintenance, it does not make any sense to have the line maintenance activities in all destinations where we fly. Even more in some of the destinations where we fly, we have different providers inside the group, so it does not make any sense.

If we talk about components, if we launch something new, we will be thinking about having a common inventory to manage that, to reduce the amount of stock. It does not make a lot of sense to have same part numbers, same components that you are repairing in different places in Europe.

About the engine shop, we only have an engines shop in Iberia and we perform the overhaul and repair of some of the engines that we have in the group. However, it does not make any sense that if we have an engine workshop, we are not competitive enough to provide a service to the rest of the operators of the group that have engines that we can repair.

Last year, we told you that because of this, in the group, we had first a phase of synergies. However, after the phase of synergies, we have started to think what we are going to do with all this mess that you have seen before.

We created what we called the IMS, IAG Maintenance Strategy Group. The objectives were mainly that the OpCos must have the best maintenance market price with the quality and the service level that we are having right now. Also, MROs should only focus on those activities that can achieve IAG target profitability levels.

For that, we are going to review the five work streams that we saw in the first slide. What we are doing is to review everything. We are looking at the scenarios, first of all, what we can do in the MROs that we have right now, what the maximum competitiveness that we can have there. Even if we arrive to scenarios where we are competitive enough, does it make sense to have consolidation scenarios. If not, if we do not arrive to a place where we are competitive, are we ready to outsource those activities like we have other activities right now, outsourced.

What has happened since last year's Capital Markets Day? First of all, we created a team and in the team, we have people from the group and we have people from the different operators and the two MROs, mainly that we have some capacities also in Aer Lingus, but mainly, we have the big MROs are Iberia and BA.

We created a team and they reviewed all the activities that we do in the group. First thing we needed to do was to try to compare apples to apples because it is very difficult, when you look at the accounts, it is very difficult to compare. We needed an overhaul of the accounts in the different MROs. Why? Because for example, you have one MRO that is including the IT cost as part of the MRO or somebody is including overhead or somebody is including the cost of activities in one way, another in other way. In order to be consistent with our recommendation, we wanted to compare apples to apples and we designed a model.

After that, what we did was to look at the market. As a group, and as I have said before, we have a lot of activities that we do in the market. We have the reference in the market for a lot of activities and we have also tenders that we did in the past in Aer Lingus, in Vueling, in Iberia, in BA, that we have used as a reference of the price that we can find in the market.

We also launched several RFPs for several small projects that we launched. One thing that we did also is to ask to MROs how far can you reach. The MROs, they have designed new business plans, more aggressive business plans and even they have replaced the top management in both organisations. Now, we have new people that they are committed to change the business and they are committed also to this project, the IMS project. That, as you can imagine, is one of the most important projects that we have right now in the group to reduce our cost.

Finally, what we did was also to classify the activities in core and non-core activities. We have some non-core activities that we are not going to arrive to our competitiveness enough. We are going to stop, but we have some other activities that we consider. They are key for our business that we want to continue, but we need, for sure, to be competitive enough.

We have identified gap with the market for each activity and we have defined a specific strategy to ensure competitiveness. You can see in the left-hand side, we see the five work streams they got with best market levels. We see that we are out of the market in everything. If today, we need to make a recommendation, the recommendation for today is we cannot have our business like this. We need to outsource everything.

The thing is, what we have said to our MROs is the maximum that you can have in your business to eliminate this difference with the market. That is the first column. Because what we are doing, for example, is in heavy maintenance, heavy maintenance and line maintenance are activities that are very labour-intensive, so at the end, you need productivity and you need salaries. You can improve also the processes but, at the end, you need to improve the productivity. We are doing it now with the unions in order to see where we can arrive in order to protect the business and to give a future.

However, for example, in components and inventory, what we are analysing is, if we have some savings, if we put all the components in one place and we manage as with only one thing, and after that, we need to decide where we will repair. Do we repair in only one facility, do we repair in several facilities, do we specialise in facilities by part number?

In the case of engines, again, we need some improvement in productivity. However, in the case of engines, engines and components are activities where the expenditure comes mainly from material and repairs. Here, we need the help of GBS because a lot of the savings that we are going to have come from the procurement side.

Technical and engineering, what we are analysing is does it make sense that we have different technical and engineering organisations in the different OpCos. It does not make sense to have only one. In the same way that we are analysing that, we said before the commonality of the fleet, why do we not have a common maintenance programme? We follow different maintenance programme in the different companies. We comply with our regulations. However, after that, you can have a different status for the companies. You can be in one status of a part number, you can be in the following. We have engineering recommendations that are different in the different operators.

What we are going to do is to check if we can arrive to be best in class with these MROs. When we arrive, if we arrive there, we are going to analyse consolidation scenarios. If at some moment we realise that we are not scheduled to arrive there, we will go to the third column, to outsource those activities.

This is the last slide, all the things that we have identified until now. We are almost finalising the strategy phase. Now, we start with the execution phase that, as Javier said before, execution is the key in all these plans. To identify things is easier. The difficult thing is to do it.

However, to achieve the objectives that we have put here, we rely in the MROs and we rely also in GBS. They are going to be, together with IMS, responsible for the execution of this plan. With all the initiatives that we have identified, we will have a reduction of 11% in the cost if we compare with the cost that we have in 2015, that are included, this is important, in our business plan that we have presented today.

As I have said before, this is an iterative process. We are going to continue with analysis and we are going to see if the business plan of MRO complies with the aims that we have put. Also, we are going to evaluate the overall activities that we did not do before.

The important thing is that we have captured 11%. However, the most important thing is that we are sure that there a lot more to come. Thank you very much.

Digital Business Transformation

Glenn Morgan

Head of Digital Business Transformation, IAG

Good afternoon, everybody. I have Stephen Scott, or Scotty as he is nicknamed for us, who is going to kick off our proceedings this morning.

Hangar 51

Stephen Scott

Head of Global Innovation, IAG

Good morning, everyone. Today is a bit of a monumental day for me for two reasons. The first one is it is the first time in two years I have been able to wear a tie, so thank you for that. I hope you like it. With start-ups, it is a bit frowned upon, so I do not get to do it very often. However, secondly and probably most importantly, it is my privilege to make our official announcement to investors about Hangar 51.

Hangar 51 is a global airline accelerator programme. It has been opened to start-ups now since 4th October. You might have seen it in the market already. The applications are coming in thick and fast. We are very excited about it. I am going to play you a quick video that just gives you a bit more information about what Hangar 51 is and who is involved.

We have been inundated and overwhelmed by the response from the start-up community with Hangar 51. It is really an exciting project. A few dates and deadlines for you, but start-up applications are still coming in thick and fast, as I have said before. The closing date for that is this Sunday, 6th November. We will then shortlist the start-ups and they will come in to this theatre on the 6th December for a pitch day with the category sponsors. We will then choose who joins the programme. The programme is a ten-week exercise and it starts on 9th January 2017. The start-ups will be in this building on their own floor plate very near to here where you are today.

Acceleration and the accelerator programme that's Hangar 51 is part of a journey that we take for start-ups. It is the first exploration that allows us to explore how we work with them, what the fit is with the team, the types of things they are good at, the types of things we can bring to them. It helps us work together and collaborate on some really interesting products and services.

However, there is a deeper relationship with start-ups that we have at IAG and we have had for a long time and that involves moving into incubation. Incubation, for us, is a longer-term engagement. It allows us to tackle the really complex problems that are industry-wide as well as within our own group. We are working with start-ups right now in some of the industry-wide transformations that Glenn will talk to you about in a moment.

Lastly, there is invest. Willie said to you last year that we would invest carefully in this area, where we felt appropriate and there are opportunities. Hangar 51 is our first exploration into investing in the digital community. If we find strategic alignment with start-ups, we will be doing that.

As I have said, it is a great global airline accelerator programme. I am going to hand over to Glenn now who is going to talk you through a little bit more about wider digital transformation plans for IAG.

Digital Transformation Plans

Glenn Morgan

Head of Digital Business Transformation, IAG

I should say, 'Scotty, I need more power.' Hangar 51 is going to deliver that clearly and for the geeks out there, you will know who they are. I heard a few laughs already.

We have a long history of innovating. It is over 20 years since we introduced .com, our first online selling capability. We then created a thing called calendar-led selling. Actually, calendar-led selling now is the industry norm. It is across every travel site globally. When you go there, you see a calendar-led selling flow and that was introduced by British Airways way back.

We were also first to spot mobile. We had the first app in the app store. Then, more recently, we have introduced sort of technology to help our staff increase our customer experience on board the aircraft and with thousands of smart new mobile devices putting the data and the information in front of our crew and our people's hands so that they can service our customers.

Another area, and you may have not heard of this, but there are open APIs or application programming interfaces. We spotted this a number of years ago. We have opened up our data to allow third parties to rapidly integrate with us. I think Gavin's presentation today showed the excellence of that throughout the process.

However, what is happening today? Well, we are at the forefront of distribution. We are leading with the NDC capability, and as you see, and I am very pleased that the growth that we are seeing to date with the likes of Skyscanner and KAYAK on our platform has been tremendous. There is a huge amount more to come, so watch this space.

Personalisation is a really, really key factor. It is amazing how just something as nice as a little thank you message, welcoming you back home, how that can encourage you to buy another trip or another holiday or collect some more Avios, or a happy birthday campaign that allows you or recognises you personally, saying, 'Here, I have got a deal just for you to recognise your birthday.' We have experimented with this immensely and it has delivered over €190 million of value to date. What we have done now is we are actually scaling this across the rest of our group companies. You will see that within the operating plans of the company.

Ancillaries is another huge area. To date, 6% growth that we've had VLY and we are driving ancillaries across the group, then they have the ability to cross-sell and up-sell and really look forward to double-digit growth over the period of this plan.

Moving on to the airport, I mean I think that there is tremendous effort and what Aer Lingus coming into the group has given us, the ability to actually test, fast in different OpCos that can do it. The example here that I would put is the airport processes. Stephen mentioned how we have put the automated bag drops into Dublin, and the improvement that that has had both on NPS but also on 75% queue reductions.

I mean we are seeing that through the delivery into Heathrow as well with the new bag drops, the automated bag drops coming in to Heathrow and #Plan4 and also automated boarding gates. We are digitising all aspects of our customer journey.

I was really pleased that we managed to get out the announcement this week to introduce the Wi-Fi connectivity. We now have our entire short-haul and our long-haul fleet covered with connectivity. It was the gap in the customer journey experience for digital.

We had a very good lead in at the front and the social and the mobile and the .com world. We had been doing work in the airports and then we had this channel called Fly that we were very weakened. We have addressed that over the last year. We are aiming for 90% connectivity across all of our fleet by 2019.

As I said, I am not going to repeat Gavin's slides, but a tremendous transformation of what we have seen in Avios. The digital capabilities that have gone there has been phenomenal. Just alone this year, they have introduced 54 new APIs since we stood up here last time and said that we were going to do this plan.

How do people look at measuring digital maturity? Well, we have four pillars. I think that is a thing for today, but the four pillars are underpinned by data. If I talk through those pillars, the first pillar is ensuring that we digitise existing business models, right? We look at how those business models are and we create exciting new business models, and I would watch this space because we are working on them now.

Product. How can we deliver product? Bring it to market at speed, at pace, with velocity and adjust and test to make sure it is fit for purpose, make sure our customers are willing to do that.

Processes. How are we looking at enabling rapid change across processes, how do they have agility built in.

Recruitment. Are we recruiting and retaining the right digital mindset of talent? Of course, every decision that we make will be fundamentally underpinned by data to make better decisions going forward.

Looking forward to tomorrow, what are we actually working on? Well, there are a number of areas that we have highlighted in today alone, but we are also looking at these digital selling platforms and things like a dynamic pricing capability that we will be able to introduce. Ticketless or one order, it is a complex problem. However, 47 years of history, there are technologies called PNRs, e-tickets, EMDs, SSRs, PRA, all legacy systems, proprietary to full service carriers.

The fact that we have got this young, dynamic, low service and high value customers with us, and things like what we have learned from Aer Lingus and Vueling, we are going to address that and take all that complexity out of our business. Over a long period of time, we will be addressing to move the full-service carriers to a ticketless model. I was very pleased last week, the industry, IATA announced the resolution of one order, which was released and this will really enable both British Airways and Iberia to transform their underlying complexity.

We are using technology and data to transform ancillary products that I have talked about and ancillary expansion. We are also introducing products that we have based on technology such as artificial intelligence. There is a lot being talked about out there but there are huge opportunities for us to actually use data and automate our systems and processes, and blockchain technologies.

Every business process needs to be digitised across the entire group that's everything that we do. That is not about putting the system in, it is making sure that the process is fit for purpose, making sure that it is creating velocity and it is creating agility within our business. That is really a fundamental key pillar. However, probably the ultimate key pillar here is people. We have taken a top-down, bottom-up approach to making sure that all our people have the right digital mindset and we are attracting and retaining the right talent across the group.

As I said before, data is a key enabler of digital transformation. It is right at the heart of our digital transformation. I think that every decision that we can make can be informed by data from – you have seen it today in fuel efficiencies, to flying, to online selling, through personalisation, all of those areas are key.

I would just like to finish up with a summary saying there is a report out very recently that stated that nine out of ten businesses saw that digital business transformation is a competitive advantage. However, what they also admitted is that nine out of ten of those businesses, they did not have the skills to compete in this new world. Well, I am here to say that at IAG, we have the skills to compete, we are up for it, and we are leading the digital transformation side of it.

Thank you very much.

IAG Financial Strategy

Enrique Dupuy

Chief Financial Officer, IAG

Thanks, Glenn. I was convinced by Andrew that this was the best slot in the morning, so you can summarise everything. I was a little bit naïve, I am afraid. Everybody is tired, everybody is hungry. A lot of information that we all need to digest, so one promise – I am going to try to be short. Not as short as Andrew was suggesting, but short. I will bring very few figures, important ones and some very interesting ideas.

How IAG will be creating value for our shareholders into the future, on a challenging scenario which is about lower growth than we expected, also lower inflation, maybe with the exception of the sterling camp where we still do not know what is going to happen, but in general terms, it is going to be also low inflation across our main strategic markets. At the end of the day, it is about three basic ideas that we have been transmitting to you in the past, sometimes on a very bilateral basis.

It is about leadership, it is about cost efficiency, it is about reactivity, capacity to adjust ourselves, to reinvent ourselves. When we talk about leadership, we come back to a lot of messages that we have been hearing through the morning. It is about brand, strong brands. It is about customer proposition, it is about presence in the markets, it is about quality execution of what we promised to our customers. We have seen a lot of that and we are going to be still investing heavily on these areas, on these ideas.

It is also about growth. We are not, I would say, dismissing growth. Growth is going to be an intrinsic party of the IAG model but it is going to be a selective growth. There is going to be growth wherever growth is possible efficiently and with the appropriate tools in each case.

Cost efficiency is not cost cutting, as we have said. It is about redefining how we do things. We have been hearing Luis – blank sheet of paper, how we can do this better from a leaner perspective. There are lots of ideas to improve our efficiency and our cost performance in this respect.

Reactivity, I am going to expand a little bit on that one because there are some very interesting ideas on how we have been able to adjust our model to a lower growth pattern in a very efficient way. I am not going to be expanding on the quality and the intrinsic value of our brands. We have been saying a lot about it.

This is the message that we have been passing and I would reinforce it again because it has to do with risk diversification. IAG has the image of being a very business concentrated business in terms of our clients. The fact is, it’s not so much, it has been evolving very significantly in the future. For example, you see in the chart that our dependency on financial markets on corporate deals is just 3%, and the other smaller corporates represent 3.4%. We are a quite diversified group already in terms of the mix of clients that we are attaining. That is enabling us to be more comfortable on situations where maybe corporate business is going to be suffering.

Another one that I would like to share with you is about our geographic distribution in terms of sales. Here we bring the revenue but we can show also the cost. In the case of the UK point of sale, it is about 35% of our revenue base. If you go to IAG, if you go to the cost side, we will be finding a very similar figure, so very compensated, flows for UK – for the sterling.

In terms of euros, we have basically modest surplus of euros. We are regarding here maybe somewhere in the range of 32%, cost will be below that figure. In the case of dollars, basically North America and all the dollar-denominated sales we have had historically not for so long but the recent years, high fuel prices and a short position. That is coming down significantly. Probably in the year 2017 we will have just a 5% short position in dollars.

Payments in dollars has been greater than revenues, so cash received in dollars by just 5% of that as you can imagine the position that we have managed I would say through hedging on a very close way.

This is the British Airways picture which is the one that I want to spend a couple of minutes on it. It shows, of course, a development from year 2016 to year 2017 where the UK point of sale has been diminishing from 47 to 43 and the North America point of sale has been increasing 17 to 24 at the expense maybe of the Asia Pacific and Far East market.

When we talk about British Airways, cost base, we will be finding on this bar, the UK denominated cost, a very similar figure again. It is going to be somewhere around 50%. What are we telling you there? From the point of view of the flows where we are today, we have a modest short position in the sterling and a modest long position basically in euro term. The dollar is basically a key breaker to get into this 5% difference.

There is a mathematical opportunity on the sterling base to improve margins just because our revenues our slightly higher than our cost – sorry, our revenue are slightly lower than our cost. Especially there is an opportunity, that as Sean was mentioning this morning, to shift a part of this UK revenues, a part of this sterling denominated sales into UK or Central European denominated sales.

That is a very attractive potential opportunity for British Airways to develop their what we would be calling their net exporter position and their improved competitive position competing with others in the international and global market where prices are basic to success in dollars or in euros or maybe up to some extent in yen.

This is something that I wanted to share with you because it is one of the hidden opportunities behind the IAG business.

Not to expand too much on this chart, this is the last year rate of progress in our platforms and this is how we have been improving this year. When we say Cargo is 95% complete, we are just, I would say, staying still because Cargo is engaged in some very interesting strategic ideas. When we say Avios is 100% integrated, it means that it is the starting point for Avios. It is not the end game; it is the starting point to develop a fantastic set of new opportunities.

GBS in the case of procurement and F&A is 90% complete and 50% complete in IT. MRO and Fleet is 60% defined and yet I would say at still low level of execution and maybe digital could be considered to be 30% complete. We are progressing and also we are entering into new opportunities once the integration on these different platforms is fully done.

This is how we showed the areas of progress in terms of RoIC and improved operating profit margins last year. We are talking about Spain, maturity of Plan de Futuro, we are talking about London benefits of bmi, reallocation of the slots into the long-haul, hub efficiencies. We are talking just very preliminarily on Ireland and the potential that we already were envisaging other possibilities to expand the network in the North Atlantic. We are talking about higher levels of growth and also about platforms, IAG platforms that we need to progress and enhance.
I think the messages are similar. There is a couple of differences, so Spain for Iberia is entering into a concrete Plan de Futuro phase II. We have been talking about it with a lot of extent. Vueling is developing their NEXT programme. We see Spain growing slower than we thought in the past. In the case of London, it is a little bit the same. We see more compression; we see roll out of #Plan4 and we see again probably a lower level of growth but a lot of potential cost improvement as well.

We see Ireland growing in terms of its relative potential for the group. This has to do with what we have discovered, a very efficient tool to complete our presence in the North Atlantic market – Europe to North America. We see IAG platform being a more mature set of tools that we are going to be using more efficiently. We see a reduced level of organic growth and still, as we have been saying before, tracking and following closely potential inorganic growth opportunities.

This is basically how we are transiting between what we were saying last year in terms of the gross margin, the EBITDAR margin and what we are seeing this year, some interesting I would say messages behind. Of course, there is adjustment in terms of growth which reduces the EBITDAR average base. There is a revenue fall, and that is something that we need to recognise, it has to do with the worse pace in year 2016 that we were thinking about. 2016 has been tough and challenging. It has to do with Brexit, of course.

Then there is the – I would say the recovery and the counter battle that we are setting. It is important in terms of employee improvement, in terms of productivity and efficiency. It is also significant in terms of technical fuel saving. We are not changing the price of the fuel for the plan. We are including here the benefits coming from the new fleet. The supplier looks disappointing but if you have to put it into context, so a very significant part of the employee big effort will be translated into outsourcing opportunities.

It has a lot of merit in their supplier unit cost being more or less constant, taking into account the amount of outsourcing exercises that we are going to be doing through the plan. It has to do with IT, it has to do with maintenance, it has to do with all the GBS type of supporting activities and all that will come.

So, we are proud of these stagnant supplier type of level and Aer Lingus – Aer Lingus was not in the plan last year. Big surprise, profitable surprise and allowing us to come back to 5.3 which is nearly 8% below last year's figures after everything that has happened.

This is a chart that we have been using in the past. It has to do with the renewal and growth of our fleet. Basic message here is remember the industry $120 per barrel. Everybody rushing for acceleration of the renewal of old fleet, introduction of new generation aircraft; that is over.

It may be coming back. Today, it is not a huge priority. Of course, we will continue substituting our fleet because it is part of the way we want to bring – I would say average lives of fleet – to comfortable level but we do not have a rush. In fact, we are basically changing the last year plan in terms of expected deliveries for 2020.

We are going to have less sizable fleet in 2020. It will have to do basically with a smaller short and medium-haul fleet which will be doing very, I would say smoothly, through the non-renewal of operating leases mostly. That is very smooth transition and we will have to renegotiate – we are already renegotiating these delivery patterns of long new generation fleet and that is something that is under review. It is under negotiations but we are very confident in being able to reach the appropriate agreement. It is about delays; it is about deferrals. It is not about cancellations and I am sure that we are going to be getting to our targets in a way we can basically agree with our main manufacturers.

This is part of the ability to adjust models that I was mentioning in the first place. In the short-haul, we are bringing a different way to show it which is very, very visual. It shows every year, taking the appropriate decisions how you can bend down the size of your fleet into the future.

You see this short and medium-haul fleet, our ability to bend down. If we wanted to, every year, the size of our fleet is absolutely extraordinary and that explains why we are being ambitious in terms of adjusting the size of our short-haul fleet. We can do it easily.

In the long-haul, fleet is not as flexible and that is why we are going to be incentivising the integration of operating leases into the future to recreate flexibility but we have found – and of course what we have is the ability to retire very highly depreciated older fleets in the case of British Airways, for example, the 747 fleet in the case of Iberia, the 340 fleet. A lot of flexibility that we are already using.

And then we are going to be talking about the capex. The capex is one of the type of cornerstones, critical pieces of this new business plan. Basically, this is what we were saying last year. Last year, remember we were worried because of the dollar. Everybody was worried about the dollar so we need to do something to curb, I would say, the potential negative impact of the dollar uprising in our capex.

Dollars so we initiated these type of initiatives, these types of thoughts so basically favouring 330 old generation aircraft before 350s and 787s, new generation, much more expensive aircraft by the way. It was using 777-200 or extending its life for a longer period. It was thinking about 747 life extension as well. It was also using better our metal in the sense of densification of our aircraft both 777-200 and the 787s, using second hand aircraft both in the short-haul and the long-haul and improving our fleet organisations.

Those were the messages that we drew last year. Together with those messages, we were thinking about changing gradually the mix of our owned versus leased aircraft heading into a 40% lease, 60% owned through a 50%-50% approach on new deliveries.

This is where we are today. We have done a lot of things. First thing is just to compare same as last year with figures this year. There is a maximum capex that it is year 2018. It was and it is but not here it is going to be 2.5 and this year 1.9. Big difference, big smoothening exercise.

The second figure which is the average so the average we are saving €200 million per year and the minimum is going to be staying the same. In the chart, we show how this works because this is after digesting €400 million of Aer Lingus capex, that I remind you were not in the plan last year.

At the end of the day, it is about the former plan plus 5.4 minus 1.4 billion in terms of aircraft deferrals and other non-fleet adjustments, and the non-fleet adjustments, we have non-fleet type of reductions and non-fleet increases and those are some of them having to do with the improvement in our customer proposition in the way we approach our customer, etc, etc.

Not very significant shift to leases and FX changes, dollar is practically the same as last year so we will get into the 1 billion net reduction and that is the low figure because the comparable apples to apples figure is a much greater one and it shows what is the underlying pattern of improvements that we are applying.

Look at this. This is about ASKs but I am going to be making it also compared for example to number of aircraft. Metal with similar configuration and similar mix so the plan as for today was driving us from 100 to 125 through these five years and it is slightly above the 4% type of ASK ratio that we have been mentioning. Slightly above there and this is the base case.

However, when we revaluated the demand growth, we decided we had to bring the figures down. We brought it down by 8%, again, the second line is same metal mix, same configuration. If it was number of aircraft, 117 of the same type and kind as the base versus 125.

This is the other novelties so we need to bring Aer Lingus. We need to bring Aer Lingus, yeah? Aer Lingus has not only I would say jumped in 2016 but also a higher pattern of growth. Slightly higher than the average so with Aer Lingus inclusion, the 8% had turned around into a 12% increase so we need to do something about that. Something serious. We need to see how our plans are going to be settling with this 120 – with this nearly 30% increase in money because behind the metal is money and this is what we are doing.

Basically, what we are doing is to set a number of actions that I am going to be describing in the following slide that will actually bring down the amount of equivalent metals to 118 so in terms of metal, the growth that we are proposing in the plan would not require additions, which is I think a very, very ambitious goal.

How are we doing that – how we are saving at 10% in terms of apples to apples comparable metal? This is about utilisation improvements. We have been hearing some ideas about utilisation improvement in the case of British Airways. In the case of Vueling, there are also plans for improving their utilisation. This is basically flying more hours, more block hours, your fleet base. This is something that does not require buying additional aircraft; it is about flying it more.

Second one is the 777-200 reconfiguration plan. That is basically Gatwick but also Heathrow. This is about moving into a configuration with which we can compete on a type of even playing field with the people that are competing with us both in Heathrow, but specially in Gatwick.

Type of very similar configuration or even better configuration we have been hearing about than Norwegian. However, it is not everything about putting more seats in the aircraft. In the case of the 747 and special market which is in North Atlantic, we are doing the contrary. We are establishing this high J configuration which allows more business seats in the aircraft. That is the market that deserves it, but then lower level of total seats per aircraft so we are adjusting.

For the long-haul has to do basically with Iberia, long-haul seats that are also are being densified with the same type of purpose, competing better with Air Europa, Norwegian and others. Short-haul densification: that is a 320 fleet and we are bringing homogenously the 320 fleet to a set of 180-seaters approximately, because that is the standard of the industry. Especially the standards of the low costs which are setting the standards of the industry. We are also getting there.

Finally, we have made some top decisions in terms of changes of configuration of the new generation aircraft that the will be arriving. It is not the traditional Iberia pattern. It is not going to be the traditional British Airways pattern. It is going to be a better one in terms of more efficient one.

This is the secret that allow us to save 10% in terms of capex requirements for the period. This is also a preferred chart. We have been showing in the past and I think now we are very familiar with it. It is about sources of cash, sources of money, applications of cash, applications of money.

This is how we were telling the story last year. EBITDAR average, 5.6. Then financing plus refinancing, that is a buffer that we were adjusting. Basically, keeping that on the similar level. That is another source. Then we have the buffer of cash and our credit lines to be used if required. Those were the weapons that would be enabling us to fight with the obligation, and the obligations were about dealing with the pension, mass restructuring commitments.

It was the capex. It was, as you will see, bigger than this year. It was lease, interest and taxes. That would be allowing us to pay for a regular dividend and the arrow shows the coverage of the regularity. It is a type of prudent coverage because using the buffer we could get to any ten times. That coverage was set somewhere in the range of 3.5 to 4.

This year shows very similar so it is about 5.3 instead of 5.6. The finance and refinancing exercises will be getting into more or less a net type of consequence. Capex has been reduced as well. Pension and restructuring is a similar figure the same as leases, interests and taxes so it shows the message, the same picture. We will be facing a regular dividend policy with very significant headroom.

I am finalising so this is our sacred blue dashboard with colour. It condensed our financial targets and it is around profitability, growth, balance sheet and cash flows. In terms of profitability, we will say in 15%, operating margin, up to 15, ASK is 3% to 4%. It was more in a range of 4 over point something. Average EPS, above 12%. capex was higher so less than 2.5. EBITDAR, it was higher at 5.6, so where are we? We just have changed these three.

Growth is 3%, EBITDAR is 5.3, capex is 1.7, equity free cash flow is kept – it’s maintained, earnings per share kept, it’s maintained. Coverage of ordinary dividend is maintained.

This is the end. We have been talking, I think it is nice if – it is interesting to explain that we really as a management team feel and are convinced of the need to show the money, okay? We have been talking about showing the money.

I think this time it is about giving the money. Show to give. We have started giving money year 2015. We are approving – have approved initial interim dividend, 10% increase for 2016 and we envisage to have a full dividend which was improving last year. The free cash flow that we are going to generate in that band is in the same frame as we explained last year.

What is the message here? We have been going through a difficult year 2016, a very challenging – it is about lower demand growth, lower unit revenues, not everybody expected. It is about disruption in our operations. Very significant, above the normal disruptions in operations. It has to do with Brexit. Brexit has been a surprise. A big surprise for us as well so – but after all that, we are keeping our projections of generation of equity free cash flow.

More than that, I think that we can tick that box, number one. Number two, how are we going to have a lower coverage of our projected dividend? I cannot say no both in terms of cash or net earnings. No, I am going to tick that second box as well. The third one is we have a strong balance sheet already and we are going to have a stronger financial position in the following year and it is going to be comfortable with what were – have been calling as investment grade. In fact, if we were not an airline, we will clearly already an investment grade credit, but because we are an airline, these guys, they have special seats for us. They are nice.

We do not feel the need of further deleveraging. We are not going – it is not going to be creating value for us or for investors. What I can say is the group is very well-prepared to continue developing an attractive shareholder return model and that is my conclusion for today.

Break for Lunch

Andrew Barker

Head of Investor Relations, IAG

A round of applause for Enrique. Thank you very much for that and thank you for your submissions online. Some interesting ones, three clear leaders in the leader board. You can see who they are. A lot of people liking my lunch menu update from last night, so clearly people getting more and more hungry as we have gone through.

How to get there, you will be chaperoned on the way there, but if you go out to what we call the street, the grey brick road, turn right, go down to the end of the street. Lunch will be there, Fidelma's waiting to show you the way on that side. We have plenty of time after lunch so we will take just under an hour over lunch. Relax and enjoy yourselves, and we will be back here at around 13.45 for Willie's session and then the full Q&A. Thank you very much.

Afternoon Session

Andrew Barker

Head of Investor Relations, IAG

A big thanks first of all to Hannah and Fidelma who have organised the logistics for today and also organised fantastic food tasting for themselves and me. We had to do 13 different potential main courses, and I hope you agree with our choice, but mine was chicken curry. I have just had three of them and it was very nice.

The survey, the feedback is now online live in the app. It basically asked you to rank which presentations you found most and least useful in terms of the way you think about IAG as an investment. We will be live during the session with Willie and the Q&A. We will close it at the end of the day and then we will do a drawing of the prize on Monday, and we will video it so you see it is all genuine and kosher.

And with that, I would like to hand over to Willie.

CEO's Presentation

Willie Walsh

Chief Executive Officer, IAG

Good afternoon, everyone. I am down as a speaker but you will be pleased to know that I do not have a speech and I do not have a presentation. Like other years, we want to use this time to give you the maximum opportunity to ask us some questions.

However, just allow me to make a couple of comments. Last year, I used some language that I have to say I apologise for. My Spanish colleagues have taken me up on this and have made sure that I will not use such inappropriate language again. If you find me saying 'fuck' or anything like that, I can assure you it is my fault, and it is not that I was encouraged to do so by anybody in the audience.

Oscar Wilde said consistency is the refuge of the unimaginative. Now, I normally like quoting him, but if that is true, then I have to say we are probably the most unimaginative bunch you have ever met, because what you have seen today should be absolutely consistent with what you heard last year. What we are demonstrating to you is the progress that we have made since then. I hope it comes through to you because I can honestly tell you, it is real. This is a group of people running this business who love what they are doing, absolutely committed to delivering the targets that we set, and these are challenging targets. However, we are absolutely committed to it.

When you see a presentation from any of the CEOs, that is a personal commitment that that CEO is making to deliver, and it is a collective commitment as part of the management committee who have participated in building that plan, that, working together, we will deliver. I think it is one of the key strengths of IAG.

What you saw today were four principal airline brands, all strong in their own fields. We are going to invest in those brands. We are going to invest in those brands where that investment make sense and makes money. We are going to invest in those brands because our customers are telling us where we should invest. Not like in the past where airlines have decided that they know better than their customers and will invest in areas that they think the customer likes best.

We are doing much more research into what our customers want, and you can see that coming through. We have great conversations around the management committee. You can imagine what it is like at an IAG management committee with a group of CEOs, some CFOs, some former CFOs, and we start debating things like brand and net promoter score. You could see we challenged Enrique, we said, 'Come on, Enrique. Put a slide up on brands and let's see how long you can talk to that slide.' He went through it in two-and-a-half seconds. I was timing him, two-and-a-half seconds. In practice, it took him ten seconds.

However, I can assure you, we understand the value of the brands that we have and we recognise where our brands are strong, and we recognise where our brands actually are not as strong as they should be. We know the limitation of our brands and we do not try and stretch the brand to a point where we are going to break it. We do not try and force the brand to do something that is not consistent with the brand values that have been developed.

I think it is a key success of IAG that we are able to recognise these brand values, create a structure that enabled us to retain the brands, to utilise those brands effectively in different segments of the markets and to build on that. However, more importantly, IAG is then built on a very solid platform that I think is unique to us, and you have seen some of that. You have seen the presentation on Avios, on GBS, on what we can do together on maintenance strategy, the IMS plan, and there is more of this behind the scenes.

This is something that we can allow the brands, the operating companies, to access, that, on their own, they would not be able to do. They certainly would not be able to do as easily. In most cases, actually, I do not think they would be able to do it at all. We have a unique structure that has proven to work, we have very strong brands and we are going to invest in those brands.

However, more importantly, we are not afraid to say that we are proud to be cutting costs. Because for us, we are not cutting costs to make us more profitable, we are cutting costs to make us more efficient. We are able to identify inefficiency across our airlines, across our operating companies and work together to improve the efficiency. Through that improvement in efficiency, we are operating with a lower cost base.

IAG is delivering. We are pleased to have introduced the dividend, we are pleased to demonstrate that that is a dividend that will be sustained, and we are pleased to recognise and acknowledge that, despite the external challenges that we face, we are sticking to the commitment that we gave last year. We are sticking to the commitments in terms of what we can do, the money that we can generate, the cash that this business can generate. It is hard work, but I can assure you, we love doing it and we love working together and we love challenging one another to do all of this.

We have made, I think, good progress during 2016 so far. Going into 2017, we recognise there will be some challenges, but actually a lot of opportunities for us and we are capitalising on those opportunities to further improve the efficiency of the business.

2016, I think, has been a good year. 2017, I believe, is going to be a better year. We said last year, the best is yet to come, and quite honestly, the best is yet to come. There is still more that we can do. There are still improvements that we can make. There are still efficiencies that can be delivered and you have got a flavour of some of that today.

I am going to ask Enrique to join me on the stage and give you an opportunity to ask some questions.

We also have a microphone for all of the other presenters that were up here earlier, so if you have any questions that you prefer to direct to them, please feel free to do so. Andrew is going to direct the proceedings and I will hand over to him to take the first question.

Q&A

Andrew: I think we will go to Oliver first.

Oliver Sleath (Barclays): Thanks. It is Oliver Sleath from Barclays. Three questions please, one on IAG and two on the wider industry. On IAG, Enrique has talked about giving the money. You are planning to generate a lot more cash than is required for the ordinary dividend and you are happy with your balance sheet, so where is the cash going to go? Is there M&A on the horizon or do you intend to move towards higher shareholder returns into next year?

Then two on the industry: first of all, you published some great, clear targets on margins, returns and cash flow but you are the only airline in Europe to do so. For instance, yesterday, Air France announced a strategy that looks more about growing to appease unions and the only target Lufthansa has ever given on Eurowings, their LCC, is about market share. Do you think this industry has really changed in how much it cares about financial performance?

Finally, on consolidation, a lot of talk about consolidation in Europe and there have been plenty of airline groups buying other airlines recently. However, that rarely seems to have involved capacity actually coming out of the market, as we have seen with US airline mergers. IAG has clearly done a very good job extracting cost synergies from a diverse airline portfolio. However, would you agree it may always be politically impossible in Europe to see the kind of hub closures and real capacity reductions to fully drive the revenue synergies that US consolidation has delivered?

Willie Walsh: Okay. Thank you. Well, you have heard what Enrique said. We have got a strong balance sheet and we see no case to further deleverage. We are very clear that the balance sheet can continue to support everything we want to do and I think that is evident from all the work that we have done historically and what we have shown you today.

We are committed to the targets that we have given you on equity free cash flow. This is a business that is generating good levels of cash and will continue to deliver good levels of cash. We are also, again, going back to being unimaginative, completely consistent on what we have said. The cash flow we hold is shareholder’s cash and we have always said that if we cannot find a good use for that cash, well then that cash goes back to the shareholder. The form in which the shareholder will receive that has yet to be decided. However, the board has been absolutely clear – and there is a very good debate around this issue at the board table – and you should expect that the board, when it meets in February to review our full year results, will look at the prospect of further cash returns to shareholders.

The business is in good shape, the balance sheet is very strong, we are not going to deleverage, we are going to generate a lot of cash. If we are not using that cash efficiently, well then, that cash will be delivered to shareholders.

In terms of the targets and change, somebody asked me yesterday about what Air France has announced in, that it is going to create a lower cost long-haul airline, and I looked to my good friend, Oscar Wilde, to find a good quote for this one. And what he says, the world is divided into two classes: those who believe the incredible and those who do the improbable. Air France does not do the improbable and we certainly do not believe the incredible. They are not going to succeed.

I think the industry is improving. I think there is clear evidence that the industry is a better industry today than it was ten years ago, better industry than it was five years ago. It can be better still; it is still fragmented in Europe. However, I strongly believe and we believe that there will be consolidation this year. We have seen a number of airlines come close to exit and I would not be surprised if some of those airlines that are being stressed today will be further stressed in 2017.

We will see consolidation through exits, without question; that will happen over this winter period, and I think we will see consolidation in the form of M&A. All of that leads to a capacity environment that is better than exists today. However, the capacity growth that we are seeing, I think, is capacity that can be justified by the underlying demand. Clearly, we are in an industry where we can generate demand and that has been demonstrated very clearly by some airlines that at the right price you can certainly generate demand.

The challenge for the industry is generating the demand at a price that is acceptable and profitable, and I think we are doing that. We are doing that much better than we have done. Do I believe the industry is changing? Absolutely. Do I believe it will get better? Without question. I think there is plenty of evidence from where we see industry and based on the issues that we consider and that we look at, that would tell us that this is a better industry today and will be a better industry tomorrow.

Enrique, do you want to…?

Enrique Dupuy: Yes. I think we are trying to demonstrate that one. Of course, year 2016, of course, Brexit, of course, disruption, of course our vulnerability to things that are out of our control create a difficult environment to manage the business on a firm set of financial targets. However, it can be done. It can be done. It has to do with how to react, how to adjust, how to reinvent. If we had just decided to keep our growth pattern and our capex pattern as we imagined last year, I am sure the targets, the achievements, the goals that you have seen today would not have appeared on the screen today.

It can be done. You have to have the will and you have to have the culture of being able to transform your business every day. That is something that I know is difficult and I know for legacy carriers, for legacy companies, in general terms, it is very tough. However, that is the culture that we are trying to invest.

Willie Walsh: I think we do it well. I think others looking at what it is we do can take some comfort out of the fact that it is possible. It is hard. I would have to give credit to Carsten Spohr. I think he is better than most because he is sticking to the task at Lufthansa. I do not believe that Air France will ever be able to restructure. I do not believe there is any determination, any commitment, any desire. There is nothing there that would suggest that Air France will be able to address the challenges that they face. Even if they do, the pace at which they do it would be so slow that the world will have moved on so far from where they are today, that they will still have a huge gap to close.

I think Lufthansa has challenges and they are going to face even more of those challenges now that Ryanair appears to be more determined to grow its position in Germany than previously. However, I still think the industry is getting better.

Andrew Lobbenberg (HSBC): Hi. Let’s go with the fashionable three. Alex spoke about the back of the aircraft being a commodity, a lot of focus on driving densification, and yet, at the same time, a lot of importance on the brand and obviously, you are taking different product decisions with the front and the back, but how do you ensure you draw the line at the right place so that your densification and cost efforts do not damage the brand?

Second question on the relationship with American. Obviously, Aer Lingus is growing very, very aggressively on the North Atlantic, and yet the merit of the joint businesses it that they provide a moderate capacity environment. How do you reconcile your ownership of that and keep your relationship with American, and on what time might Lingus come into the group?

Then the third question on the third runway, obviously, there is great uncertainty as to when, whether, or how it progresses, but how do you prioritise how you manage the business, how you lobby, and how you plan the fleet and plan the strategy for the future in what is great uncertainty now?

Willie Walsh: I think on the first issue, and I will let Alex comment on this, but one of the things that BA has done extremely well in recent times, and you have heard about this before as the Know Me project. We know our customers better than we have ever known them before. That has enabled us to understand what those customers want better than we have ever understood before. It is very clear that through that, we can understand where we can stretch the brand and where the breaking points are. I think one of the successes that BA has is that it can operate an aircraft with four different products on board a single aircraft and provide the right product to the people in the right place at the right time.

Now, it is certainly difficult but without question, we understand what is driving customer demand in different cabins on the aircraft. Through that knowledge that we have attained through the Know Me project, which is now real in real-life, we have been able to understand it in a way that enables us to make these changes without putting the brand at risk.

Alex, do you want to…?

Alex Cruz: I would just add to that that there are a number of big brand airlines like Etihad, American, etc., who also are committed to or have committed to the ten-abreast on the 777. We are not the only one thinking about it and actually moving ahead with it.

As Willie was saying, we have a lot of data from customers. We know by class, by tier, by point of sale, by a number of factors, what are the reasons why people buy tickets in the different classes and at what stage, because sometimes we buy it for business, for leisure, etc. Everything indicates that the number one criteria over and over and over again, beyond flight schedule and availability of the destination, of course, for buying economy tickets, certainly in short-haul – no doubt about it – and increasingly in long-haul, is price.

We must be able to have a price proposition. Now from there, it is a build-up and we already have it. We are convinced, as Ryanair and easyJet have been building up a premium product over the last few years, copying another great airline in the group. We would expect any others that are coming into this place to continue building up the premium-ness. We are there already. It is an option. You have access to it. Being able to segment and unbundle the product in a way in which you have options, that is what our customers are telling us they are looking after. This project is about that, answering that particular question.

Willie Walsh: In relation to Aer Lingus, everybody now understands the value that Aer Lingus creates. I think our colleagues in American Airlines probably did not fully appreciate just what a difference Aer Lingus is in terms of its ability to compete on the transatlantic and the model it uses, which is different to what the traditional legacy carriers on the transatlantic have been doing.

When you see an airline like Aer Lingus growing at the rate that it is on the transatlantic and growing profitability, and actually with a better revenue per equivalent seat kilometre, you have to stand back and say, 'Well, hang on a second. If they can do it, surely there are lessons in this for us.' It is in nobody's interest to, in any way, suppress what Aer Lingus has been able to do. In fact, what everybody is trying to do now is understand better what Aer Lingus has done, learn from that and apply that to their own models.

American is actually, I think, in a unique position in that they can learn from the investment that we made to acquire Aer Lingus. British Airways is learning from what Aer Lingus is doing. We can all learn from what they have done on the transatlantic. We have got a new model that did not fit with the traditional joint business on the transatlantic and we are in discussions with American to fully exploit that. Nobody wants to damage that. Nobody within the joint business wants to damage that.

Aer Lingus will come in to the joint business at the right time and under the right conditions. That is what is clear to everybody at this stage. When it comes in to the joint business, it will add additional value to the joint business but will not be inhibited by some of the rules that may have been relevant to a joint business that was signed back in 2010 that had been, if you like, negotiated during a period where there had already been consolidation in other parts of the market. It is applying a new way of thinking and a new way of operating to the joint business.

It is a real opportunity for the joint business. I can tell you that it is not easy to do this but we are going to take the appropriate time to negotiate the right deal to bring Aer Lingus into the joint business.

In relation to the third runway, I think this is an opportunity for IAG. I am actually really pleased with the way the government has listened to what it is we have said because we took a view that the politics of this is going to be extremely difficult. We also took the view that Heathrow would do anything, anything to get the permission to build the third runway. It would promise everything and anything and it would give away everybody else's money to do so. We were not going to allow that to happen.

We have been absolutely clear that, if a runway is to be built, it must be built in an efficient manner. If the economy is to benefit, and that is the principle case for this third runway, it is the economy that has to benefit and not the shareholders of Heathrow. We will not fund an inefficient, expensive piece of infrastructure. If you listen to what the Secretary of State said on 25th October, that is exactly the message she gave. More importantly, it is the message that the CAA gave. They have been directed by the Secretary of State to do this.

I will just read one section of this because I think this is very important. The CAA, Andrew Haines, wrote to John Holland-Kaye, copied to us and he said, 'As a first step, we would like you to develop and present to the airlines and the CAA a set of proposals for how you will secure productive engagement over the next year. We expect you to take into account the reasonable needs of airlines with regard to the design and phasing of the project, in addition to being clear about your strategic ambition with regard to the evolution of airport charges.' This is a massive change in attitude.

What we have said is we believe you can believe a third runway, phase the construction, phase the development of the airport in a way that airport charges do not need to increase. We have done the work to demonstrate that that can be done. In this constructive engagement with Heathrow, monitored by the CAA, we will be demonstrating how this can be done. The engagement will be done by a small team at IAG, and we will be very focused on the development of efficient, cost-effective, ready to use, fit for purpose infrastructure, and not a massive glory project at any price that the shareholders of Heathrow would have supported principally because, under the economic regulatory model, the more they spent and could convince the regulator to put into the RAB, the more returns they would make. That is not going to happen this time around.

I think this is a once in a lifetime opportunity for us to shape the development of Heathrow and to get from that development a better hub airport that would work better for British Airways, a principal hub carrier, but more importantly give IAG opportunities with other airlines in the group to exploit the position of Heathrow very much to our advantage.

This will be a key focus but it will be done by a small team of people at IAG. The operating companies and principally British Airways will get on and do what they are supposed to do. They will not be distracted by the engagement because they will not be involved. We will utilise the expertise in British Airways where required, but the engagement will be done through a team at IAG. You can imagine how clear and focused we are going to be on that.

Jarrod Castle (UBS): Thanks. Good afternoon. Three as well. Today and in the past, you have highlighted second-hand purchases of fleet. Within the €1.7 billion of base case capex, how much scope is there to reduce that through second-hand purchases rather than new fleet purchases?

Secondly, just on British Airways, a lot of what has been said today is partly dependent on a weak pound. We have seen a lot of global shocks during the course of this year, so what happens if the pound strengthens in terms of strategy?

Just lastly, on marketplace for travel, you have been doing quite well in your holiday segment, so how much further can you really push in expanding the website to look more and more like a travel website and really take on OTAs, metasearch and tour operators? Thanks.

Enrique Dupuy: On the fleet, so basically, three areas. On one slide, showed the medium-haul. As you saw, we have this A320 group fleet, which is very biased towards operating leases, so we have huge flexibility there to extend the leases, substitute them for other maybe more convenient market leases, or accelerate at some point in time the entry of additional A320 NEOs. That is something that we have the option to and we will use the options whenever we feel it is the right moment in time. It has to do, of course, with fuel prices, but it has to do also with potential negotiations with manufacturers.

Then we have basically another clear case on the 340 Iberia fleet, which we are basically repurchasing because we have the asset value guarantees at very, very low prices. We will extend the life of those second-hand aircraft as well.

We are not forgetting something that we have still aside, but as an option, understanding that we will also deal with at the appropriate moment in time, which is 777-300 second-hand. That fleet is going to be increasingly present in the marketplace as second-hand fleet. Why? Because the new generation aircraft that are being delivered to very significant clients will release a lot of these aircraft, and the fact is you would be getting very convenient conditions.

I am pointing out three examples of how and why and when these second-hand options would be exercised.

Willie Walsh: In relation to the sterling, and I will ask Sean to comment on this, but you heard his presentation where he talked about being able to switch. We can switch one way or the other. We have talked about this previously. We have got a number of levers that we can pull and we can move them actually quite quickly. We have done this in the past where we have taken advantage of the strength of the euro against the pound a number of years ago. Clearly, there is an opportunity for us to take advantage of the sterling position today.

We always debate this issue. What is the ideal rate of exchange for us? It is a very difficult one to answer because quite honestly, we can make any rate of exchange work for us. We have the short-term issue, because we are reporting our accounts in euro, the translation impact which I think is evident to everybody in this room. That is something that you understand very well. However, we have been able to exploit movements in points of sale and transfer of traffic and I think we are getting better at that.

Sean, do you want to comment?

Sean Doyle: Yes. I think the other thing I would comment on is the effect of the exchange rates on demand, so if you look this morning, Travelzoo were talking about a surge in interest to the UK from the US. Automatically, we would actually participate in that increase in demand out of US point of sale. If you do get a recovery in sterling, I think you do get more opportunity to sell out of the UK. I think with our distribution of revenue, we are well-positioned to actually capitalise on whatever way exchange rates move and the effect that will have in underlying passenger demand.

I think also, as I said earlier, we can capitalise on these opportunities. We can put more presence in the UK. We can put more connection presence into the US or we can take more traffic out of Europe. I think responsiveness is the way I describe our ability when it comes to exchange rates.

Willie Walsh: In relation to holidays, BA Holidays is working extremely well. We are very pleased with that. I think, to give you a flavour for how we believe we can further exploit that, if you look at what we have done with Avios or what the Avios team has done, and the Avios eStore, who would have thought that you could go to an airline frequent flyer, like a loyalty programme to buy goods through an eStore? We have an opportunity through technology to exploit our position in a fantastic way. I think there is a lot of work that we can do and that is one of the focuses that the digital transformation team, Scotty and Glenn have, and you can imagine it will be one of the things we would be looking at as we go through this accelerator programme, Hangar 51.

I think there is a big opportunity. We focused on areas where we believe the maximum benefit can be accrued in the short term. There are some longer-term projects, BA Holidays is one of those. It is performing extremely well and we get a lot of valuable insight from consumer demand from the BA Holidays team as well. That has been very helpful to us in understanding what is happening to UK consumer, outside of just the direct booking of flights, booking of holidays. We also get a great feel from Avios. That is one of the advantages that we have as a group, understanding all of these different points of information, capturing that data in a way that is of value to us.

I think BA Holidays will be a theme for a future Capital Markets Day presentation. I talked about that last year. I think we have debated whether we could do it, but we certainly put that on the agenda. It will not be at the Dublin event. I am going to go to the Dublin event, by the way. Now that you can Guinness out of the coffee tap. Yes, I think a lot to exploit there.

James Hollins (Exane BNP Paribas): Hi. Three for me, please. First on your GDS strategy, I was wondering if you could give us an update on whether you are potentially considering a surcharge route or perhaps we could see lower rates coming if Iberia were to move to the Altea system, and maybe just a quick update on the timing of BA contract talks with Amadeus.

The second one is on a very dry question, accounting. Did the midterm accounting changes in operating leases, does that sort of stir up a hornet's nest for you in terms of the way that it might impact your current or future leverage or your fleet strategy? I know you touched on fleet.

The final one is on Vueling. A stark lack of margin driver blobs on slide 47. Clearly we are still in growth mode. Is there not a bit more we could do on cost there?

Willie Walsh: Okay. In relation to GDS, I suppose there was a glaring miss, if you like, in terms of what we covered in this, and that was deliberate. There is not too much I want to say about our GDS strategy because this is being webcast. One of the things we have discovered with the GDS is that they listen very carefully to everything that is said. We have a plan for GDS. I believe there is a role for the GDS. We have used them. We will, I think, continue to use them where they are relevant to our business. If they are not relevant to our business, and some of their pricing models suggest that they are not relevant to our business, then we will look at alternatives.

However, the plan that we will put in place will be a plan that is appropriate to IAG. We are not going to model this on what anyone else has done because we are not the same as

Lufthansa, for example. What they have done, may have worked for Lufthansa. It is not necessarily what will work for us. However, our determination here is twofold. One, we believe that we can lower our distribution costs over the medium to long term. To do that, there is a plan in place.

However, also, we believe that we can better exploit our customer base and our brands if we have more control over our distribution. That is something that I think the industry has not done pretty well in the past. There is a long way to go on this and this time next year, we will definitely be able to give you full details. In fact, you will hear about it because we will be issuing updates as we go through the year.

What we have done is we have aligned all of our GDS contracts. The negotiation is a IAG negotiation. You will see evidence of those negotiations I think pretty soon. You should expect to see statements being made by us and potentially being made by GDS in the near future. However, our intention is to engage constructively with the GDS as to try and reach an acceptable agreement that works for them and works for us in a very changed environment, and longer term ensure that where we are working with the GDS is we are working with them because they are relevant. They are adding value to our business rather than adding cost. There has not been equilibrium there, so it is something that needs to be adjusted.

Enrique Dupuy: On the leases, you know, we use, as a notional type of equivalent of debt, eight times the yearly rents. That is something that is slightly higher that the seven times that, in general terms, the rating agencies are using. There is the second approach. It will become compulsory in some years' time, which is to reconsider the real accounting value as a net present value of the committed rental payments through the life of the lease. What we have done as quick numbers is showing us that, in terms of fleet, and depending on the length of the lease contracts, will be probably slightly below the eight times. We are quite comfortable on the lease side.

What we need to go through with very, very much detail is the non-aircraft thing. It refers also to supplier contracts, medium/long-term supply contracts with exclusive content. The wording is ambiguous and there is going to be a lot of discussion and debate about what is exclusive, what is shared use, and how you would be considering one type of contract and the other one. There is a team in IAG which is drilling in maybe 2,000 contracts to understand if they are going to be eligible for balance sheet consideration. That is something that we will informing you. The big one is T5 Heathrow. We are still understanding, trying to understand what will be the accounting consideration for them.

Willie Walsh: In relation to Vueling, yeah, I think there is a lot more that can be done. I think we have to give the team an opportunity. You have seen that Javier has built a new team to run the business. It is a team with significant expertise in the low-cost environment. That culture of low cost is in the Vueling DNA and will always be there. We believe that there is a lot more it can do. I am rarely fair to the people that report to me but I made an exception with Javier. So, we are going to give him a chance to sort out the problem because it needs to be fixed.

The thing about Vueling is it is a fantastic airline with an extremely strong brand in Spain and a very strong position in its core markets. It can build on that. I think for Vueling to fully exploit the opportunity that exists, it needs to fix some of these things that have become evident through this year. I think most of that has been fixed but there is still a little bit of work to do. That will be done through the winter, and certainly going into next summer, we expect very strong performance from Vueling.

Javier, do you want to comment? Am I being too kind to you, or…?

Javier Sanchez-Prieto: No. As you said, Willie, I think that Vueling is an already very competitive airline. The company has demonstrated in the past that we can grow and we can generate profit at the same time. We suffered this problem this summer but I do not see any issue in the future that we could maintain our really competitive positioning in terms of cost and continue growing and being profitable. I do not see that in our case it is an exercise of cost cutting, like if we were a different kind of airline. If you look up our cost base and you compare with our competitor, we are quite competitive with them.

Willie Walsh: But there is more that you could do?

Javier Sanchez-Prieto: Yes, we could do more. Is that what you want to hear? Yes, we can do more.

Willie Walsh: And you are going to do more. Yes.

Javier Sanchez-Prieto: We are going to do more. That is for sure.

Willie Walsh: Yes, okay, so we will just increase the target. Put another blob on that chart.

Alexia Dogani (Goldman Sachs): Thank you. I also had three questions. Just firstly, I am interested in the comments Alex made about their investment in Club in the domestic BA network. I remember a couple of years ago, I think Willie you said that you felt that there was a bit of structural change in the premium cabin in Europe. Do you still feel the same?

Secondly, just on the capex adjustments and the aircraft deferrals, which year would be the first year that you will see the adjustment coming through? Consequently, in terms of capacity growth for 2017, should we still expect a bit higher than the medium-term average of 3% growth?

Finally, a quick one on the short-haul aircraft adjustment you have made. I think 34 A320s, about half is the Vueling growth. The other half is it just extending asset life for the existing fleet or where is that coming from? Thank you.

Willie Walsh: Okay. It is like premium short-haul. It was funny. Again, I was looking at the slide there is that we are going to extend Club Europe to UK Domestic. I thought that is funny we have a note to leave Europe and we are going to take the UK Domestic market Club Europe. We are going to call it Club Brexit or something like that.

I do not think I was wrong. The levels of demand for the premium product in short-haul are structurally lower than it was historically. I do not whether it has bottomed out. It has probably recovered a little from where it went to. You got to remember though that there is a big difference in the yield we are getting to what we historically got. It is not just the combination. It is the combination of the demand and the yield. There is still definitely a case which is what I have always felt for BA to retain that product. That has been proven. We have said that overtime. I think with Aer Lingus when I was there, it was not a decision that I took when I was at Aer Lingus to remove the premium short-haul product. It was clear that the trends in Ireland were very different and that the demand was going to disappear.

I don't know, Stephen, whether you want to comment on that from an Aer Lingus point of view. I think BA, because of the market of which it operates at Heathrow, there will always be sufficient demand to justify the product. The volumes that we have seen, they are much more price sensitive than it would have been historically. Therefore, it is not something that there is going to be huge investment in.

Stephen Kavanagh: Just to confirm that, we do not have that level of absolute demand that justified the reinstatement of a cabin, but what we are looking is something that Vueling has done with the seat free in the first number of rows. It is a proxy for a cabin but without for us the complexity or the cost, and the yield expectations are moderate in that regards. I think it is a case of cutting one's cloth. What is appropriate for BA is obviously a different demand environment in the London market. I can see, obviously, with flow onto long-haul services, consistency in business product, is of real value. That is just not appropriate for the Aer Lingus market. We are looking to differentiate and segment just in different ways.

Enrique Dupuy: In terms of our fleet adjustments, it is a little bit of a roller coaster. I do not know if you remember but 2017 was a good year. We were fortunate because of course doing things for 2017 is difficult because of timing. The bad year was 2018. 2018 was the peak of getting to 2.5. We were worried and we have now trimmed the peak. So very, very significant, the plan is trimming down the peak down to somewhere in the range of 1.9, so 400 million, so big, big figure. That is how it is going to be flowing.

The other question was about the short-haul fleet for the group. Yeah, all over the place. Vueling of course is going to be stagnating for a while its fleet size. The rest of the company is going to be very much the same. Why? Because, again, it's seats. Because what we are doing is densification. The ASK growth that we are envisaging for the plan which is not going to be great on the short and medium-haul is going to be done sufficiently through densification.

Neil Glynn (Credit Suisse): Thank you. Three questions. First one, the wide-body fleet plan seems quite heavily influenced by the low fuel price extending useful economic life, etc. I am just wondering if somehow the fuel price rises reasonably significantly, what is your reaction? Do you run with a lower fleet? Do you lease more aircraft?

The second question, a couple of years ago I think BA's plan to break even or sorry to cover its cost of capital on short-haul with a very key focus. We have not really heard much on that in some time. I am just wondering where we are on that and what does Alex as the prior CEO of a very profitable short-haul operator bring to that plan?

Then the third question, obviously, better data gives you better business intelligence. It certainly has seemed to me Aer Lingus has not been broadcasting Dublin as a transatlantic hub for that long in the great scheme of things. I am just wondering in terms of where you feel broader market awareness of Dublin as a viable and good option in terms of pre-clearance is across Europe?

Enrique Dupuy: Okay. True, you cannot imagine the number of options we have on new generation aircraft that are ready to be used. Our contracts are also very flexible in this respect. We could start biasing our fleets more into the old generation, second hand. But we could very be quickly biased again into the new generation because we have options that can be exercised with 18-month, so we have protection.

Willie Walsh: What I also say is an option that is available to us that we have talked about is the second hand 777-300ER which is a fantastic aircraft. It is not new generation but in terms of fuel efficiency relative to some of the aircraft in the fleet. When we looked at the original BA 787 and A380 order, Robert will probably be able to correct me, but I think it was done at a base fuel price of $60 with a stretch case of $80. When we analysed that then even at $60, $70, $80, the 747-400 in the fleet, were still an efficient aircraft to retain in the fleet.

When you get to a $120, then obviously, there is a greater incentive but an option to replace 747 with 777-300. Particularly, with the densification that we are doing and how we could do two things at one time is clearly a real opportunity for us. We got a lot of flexibility and that is one of the comforts that we get.

In fact, from Enrique's presentation, you will see that we are talking about getting more flexibility in our long-haul, more to protect us on the down side if we wanted to take some additional capacity out. We have got a bit of flexibility there today. We are confident that in any environment that we look at going forward, particularly with the strength of our balance sheet that we have a lot of flexibility to adjust.

In the second one, on cost of capital. They have made excellent progress. Maybe Alex can talk about this. London City is exceeding its cost of capital. Gatwick has exceeded its cost of capital.

The transformation of Gatwick has been fantastic. There is more work to be done there but it has done the job. It has done the first phase of the job. You will have seen we talked about putting 320s into Gatwick. Again, this is part of the plan to enable us to compete more effectively at Gatwick.

Then Heathrow has made good progress. Alex?

Alex Cruz: I think you touched exactly what the right levers are. City is doing quite well. And Gatwick, not only has it developed a fantastic overall opening platform and cost base, but it is actually providing and giving a lot of ideas and making us at Heathrow look at what has been done in Gatwick and what is it that we can take from Gatwick to Heathrow. There is a lot to be done yet.

Heathrow has been evolving a lot over the last couple of years. More work to be done. We are extremely, acutely aware of the overall competitive environment, densification, learning form Gatwick, this is going to continue across. By the way, it touches all cost items. Sometimes we get focused on one or two. When we talk about short-haul, everything goes. Everything is under the radar.

Willie Walsh: Again, it is one of the advantages we have. We can share the experience of Aer Lingus and what they have done, because clearly with the Aer Lingus performance, they are getting those results solely based on their long-haul. It is a combination of the long-haul. You have heard what Stephen said, it does not allow the short-haul to be subsidised by the long-haul. They got to be independently sustainable. Then, you get the added advantage of feeding one to the other. That's the basis at which Aer Lingus approachs the business is short-haul has got to earn its own crust. If it does not do that, then it is competing for capital with the investment that we can make in the long-haul.

Going to your third question, there is clearly a lot of opportunities in Dublin. I think the opportunity is restricted in the short term by the infrastructure at Dublin airport. Stephen talked about the cooperation between the Dublin DAA, the Irish Aviation Authority because air traffic control is a big factor and the airline to ensure that there is appropriate infrastructure in place to enable them to exploit the Dublin hub.

There is a challenge in relation to wide-body parking stands. You will have seen at Dublin some of the – I think Etihad are moving out of terminal 2. Are Emirates moving, Steven?

Etihad, so you are seeing some moves out of terminal 2 into terminal 1, to free up gates for the transatlantic to take advantage of the customs and border pre-clearance. In the short term, there are some capacity constraints, not the runway. It is principally an issue because of taxi ways and parking stands. There are some temporary short-term arrangements put in place to facilitate the growth in 2017.

In fact, the growth of the airport is being artificially restricted by those parts of the infrastructure. I think it can be relatively, not easily, but relatively easily adjusted before you then need to look at the second runway of an airport.

You heard Stephen talk about narrow body, 321ER is a fantastic opportunity for Aer Lingus. It just would strengthen the hub and because it is a narrow body aircraft, you do not run into the complication of wide body parking stands as well. I think there is a lot to come at Dublin airport. In the short term, I think we got the right focus on growth and exploiting the opportunities there.

Enrique Dupuy: Also, it provides a low-risk tool to open new routes and to reach new destinations where density of traffic is still to be proven. It is a very, very good fit for Aer Lingus.

Willie Walsh: Stephen, do you want to comment on the new routes that you have launched?

Stephen Kavanagh: This year, we have launched, LA, Newark, and most latterly Hartford in Connecticut. We have the only transatlantic connection from Connecticut. That is the power of the network and hub that is being built up at Dublin. That is really the first time explicitly has a route been using Dublin as a hub as opposed to joining hubs in North America. The quality of the network, the quality of the guest experience on arrival and the CBP and full customs clearance on departure are key attributes. We have to be balanced in terms of the amount of investment in getting the message out. The cost of sales and cost of acquisition is key to our business. What we are seeing is that those that had experience the product liked it. We carry 1.7 million across the Atlantic this year. Half a million of those guests will be connecting at Dublin. We have invested in the UK regions. We have significant critical mass in North America. The United States is 60% of our business and it is much easier for Aer Lingus to market to the metropolitan areas on the east coast than it is to 40 or 50 metropolitan areas in Europe.

And increasingly our message are getting across. We are one of the largest international carriers at Boston. Aer Lingus as a brand has an affinity with Massachusetts as well as many other metropolitan areas in the US so we find we can market, we can communicate very cost effectively in those major markets and the experience and the word of mouth is building, so we are very confident that just as those three routes that I have mentioned have been a success from day one that we have scope to continue to build out, not just new routes but also to build on frequency which in turn will improve the connecting options at Dublin.

Mark Simpson (Goodbody): Thank you. A couple of questions as usual. Just on the fleet BA, opportunities for some lease backs just to improve that flexibility. On the digital progress, obviously, it is something that all airlines talk about. Maybe if you can just give us a bit more detail with regards to the potential to reduce revenue leakage. There is obviously the other side the assumption that dynamic pricing should lift yields, but I just wonder if you have a view of how much that revenue in terms of wins might be, could be competed away in terms of pricing, which is often the dynamic in the industry?

Then finally, just on the base case, can you tell us what your UK GDP assumptions are for 2017, just so we can flex that going…? Yes.

Enrique Dupuy: British Airways, new deliveries, sale and lease back opportunities, operating lease back opportunities on 787s and 350s. Those are going to be our targeted fleets. Okay?

GDP, it is a crystal ball. We have been hearing everything. I think our basic assumption is close to zero. That is our basic assumption. I think the country is going to be able to avoid recession but it is going to be low growth.

Willie Walsh: On digital, without question, we think we can use digital much more effectively. I do not know, Glenn or Robert, one of them – one of the things we have noticed is that there is an opportunity to put in a new, more dynamic pricing structure that moves away from our traditional legacy pricing structure which was restricted by letters in the alphabet. That may have been relevant a long time ago when we first developed these systems. It is clearly not relevant today. We have done a lot of research in this. In fact, it is one of the key learnings from the Digital team. Robert, are you there?

Robert: Yes, I will let Glenn talk about it as well but the first thing I would say is, the revenue opportunities from things like dynamic pricing. The first and most clear opportunity is raising load factors. You have seen the likes of Ryanair that we thought had capped out on load factor have pushed it up even higher. We start from an even lower base generally across the group, it varies, but there is a huge opportunity to get much more out of the capacity that we have. That is obviously something that does not get competed way but actually is putting more pressure on our competitors in terms of gaining share and obviously, the other thing that comes with load factor is extra ancillary opportunity with the right digital products and so forth. You can leverage that as well so it is not really – in the first instance about raising yield, it is about raising revenue per seat and generating ancillary and other profit streams.

Willie Walsh: That is the language you will have seen Stephen used, revenue per seat, cost per seat. It is clearly something that represents an opportunity. Glenn, are you going to…?

Glenn Morgan: Yes. Clearly, the big key thing here is the data capabilities and automating our revenue management capabilities and making sure that we can be consistent in taking that through. So, looking at areas where we can spot revenue leakage or anything along those lines. As we are using data, we are able to scale cheap data very quickly into the cloud and actually use machine learning across that to see where those opportunities are.

Penny Butcher (Morgan Stanley): Keep it to three questions as well. Just to come back on a technicality of last year's guidance, you did have a sentence that was after the margin goals that said you would reduce unit costs every year, is that still a valid piece of guidance and how should we think about the trajectory?

The second is, would you consider alternative short-haul feed to your hubs, i.e., different airlines outside the group?

Finally, with the Wi-Fi launch and the new catering offering, would you consider some more US style ancillaries like charging for first bags?

Willie Walsh: Okay. Unit cost absolutely. We talk about it all the time but we continue to hold that long-term view that we can continue to look out at a minus 1%-unit cost, non-fuel unit cost performance, so that is an inherent goal. That is something we talked about all the time. We challenge one another so we believe there is an opportunity to do that and – but that is baked into the plan going forward as well so absolutely committed to that.

Penny Butcher: Can I just clarify that earlier today you said on the BA presentation there was going to be more costs of the redundancy packages in 2017, so is that exclusive or inclusive of that?

Willie Walsh: That one would be an exceptional cost.

Penny Butcher: Okay.

Willie Walsh: In relation to alternative short-haul feed, yes, we have said publicly we are happy to feed if consumers are happy to travel on alternative airlines to feed or connect into our long-haul network. We do not have an issue with that. We continue to have dialogue with Ryanair at Dublin. I have said, personally, I see no reason why we cannot reach a sensible commercial agreement with Ryanair. I still believe that to be the case. So if it makes sense? Absolutely.

We do not see that we will have an opportunity to do that at Heathrow for example, because I just do not see anybody coming in to feed Heathrow. It is one of the reasons why we believe the whole argument about the growth of Heathrow and the third runway is a nonsense based on the idea that you will attract low-cost carriers. If the charges actually go up, you are not going to attract anybody. The average passenger charge at Gatwick is £7, the average passenger charge at Heathrow is £20. You are not going to convince somebody to move from Gatwick at £7, to Heathrow at £20 unless there is some revenue opportunity, yield opportunity, but that is where easyJet say they will come to Heathrow. Of course, they will, if they get a deal. I will grow at Heathrow if I get a deal but there is no way I am going to stand by and allow Heathrow to give a deal to my competitor. Those days are over so we are even more aggressive.

I think it is good. You should actually take great comfort about the fact that the people shouting most about the cost of Heathrow is IAG. We are the ones driving the initiative in relation to Heathrow charges.

You would not see statements from the CAA and the government if it were not for the fact that we were out there saying this runway can only be built if charges – in fact, what I said was charges have to go down, and we accepted that a starting position would be that we maintain the charges flat.

If they cannot do that, get somebody else to run the airport or allow somebody else to build a third runway or allow somebody else to build a new terminal because we believe we could do it. They are the experts on this. The problem is Heathrow has never had an incentive to do anything on a commercial basis because it is incentivised under the regulatory system to spend money. That is not a sustainable model going forward.

On Wi-Fi and catering, yes, absolutely, we think there are opportunities for further revenue opportunities and we will be doing that. We are going to be targeting additional ancillary or commercial or what is the term you used, Stephen? Retail, there you go. His guests are retail customers and we are gradually learning the language from Stephen so, yes, without question there is opportunity there, and we do have a target in the plan to increase our average retail revenue per passenger across the group.

Gerald Khoo (Liberum): Sorry, a few slightly random questions. In terms of recent long-haul routes out of Gatwick, there does seem to be a bit of a pattern in terms of where you are going in terms of overlapping with Norwegian. Does that imply you see them being successful and they are getting traction or alternatively why are you apparently going after them?

You hinted a bit about long-haul fleet harmonisation that certainly sounds more challenging than short-haul. Could you elaborate on what the challenges are? Presumably that is a seating issue and standardisation of product.

I am not sure whether I am right about this. With a flat and potentially slower long-haul fleet growth depending on what you re-negotiate on the 787 and A350s, what should we read into that? Is there a balancing item if you defer the 787 and A350s? And also, where are you in terms of converting the former bmi slots?

Willie Walsh: Okay. I think you broke the mould and asked more than three questions. On Gatwick, you saw the presentation, we are responding to consumer demand and we are responding to the market and the market says that there is demand for that sort of product and we can refigure our 777s as you have seen, significantly increase the density, increase the number of seats, lower the average cost per seat, enable us to charge a lower price and stimulate demand. That is what is happening at Gatwick. The reason we are doing it is because we are profitable.

I do not mind admitting that we looked at some things Norwegian did, and I said this publicly and I said, 'Wow, that is interesting.' They have actually demonstrated that consumers will accept some things that people questioned whether they would work on long-haul. Having proven this, we have let's adopt it and we are doing that. It is not that we are trying to respond to them as a competitor. We have learned from them as a competitor and we are responding to a market opportunity. It was a very short and interesting discussion in British Airways in relation to whether we should reconfigure those aircraft, and it was absolutely easy for us to determine that we should. That is why we are doing this and we look for further opportunities to grow our position.

On harmonising long-haul, we believe there is opportunity to significantly harmonise the long-haul fleet. The cabin configuration will be different. Yes, there is less opportunity on long-haul than on short-haul because we believe the brands do justify a difference in cabin configuration and in density so that is a price that we believe is appropriate to pay. But in terms with the basic spec of the aircraft, it is absolutely the same. We will have the same equipment, the same standard equipment in the cockpit and in the cabin. You could have potentially different premium seats. We do not see a reason why you should have different economy seats. So, we will, if you like, have a common spec where the common spec works and we will allow for differentiation where the brands justify it and that is exactly what we have been saying. Even the CFO recognises that you could do that.

On the 787 and A350, I would not read anything into the fact that we can – actually I will give credit to Airbus here. I think Airbus have been much more capable of engaging with us on what is appropriate for us in the current environment, and they have demonstrated flexibility in terms of meeting our current demands and adjusting than maybe Boeing has. So, I think Airbus have been particularly good at working with us and we have good evidence that that is valuable. Having a relationship with the OEM where they understand that flexibility is required is a nice place to be. I think we have to work a little bit on the Boeing relationship and we will be doing that in the weeks ahead. But what I would say so far is there is good recognition from the OEMs that the environment we are in today is different to the environment we were hoping to be in when we made some of these orders, five, six, seven, or in the case of the 787 almost eight years ago.

On bmi, we continue to use the bmi slots to expand the long-haul network at British Airways. We still have slots in the portfolio that are being utilised for short-haul flying that can be used for long-haul. I said at that time of the acquisition of bmi, which was in 2012, we had sufficient slots in the portfolio to deal with all of our long-haul ambition probably through until 2021, 2022 which is beyond the period of this particular plan that we are talking to. So, we still have scope and what will drive that is a combination of external market conditions and the aircraft that we are taking delivery of, but we do have slots in the portfolio that can be used. We have reasonable flexibility in the portfolio that we have and we have been able to work that how to move flights from T3 into T5 to maximise the revenue opportunities from connecting traffic as well. We change that from year to year as well where it is appropriate, so still scope to improve the balance of the long-haul and short-haul network at Heathrow.

Andrew Barker: Okay. I think we better close it there. I would like to thank the speakers for all their hard work and especially people that are behind you, at the back there, senior managers of IAG who have all – looking at all of them – each one of them contributed hugely to this. Particularly thank you to David, Irene, Ben and Tim for all their hard work. But as a thank you to you all for coming, we have some nice champagne on offer outside. If you do not want champagne, the buses will start to leave in about five minutes and are regular after that but feel free to stick around and enjoy things.

Willie Walsh: Do you have a prize to give out or is that later on?

Andrew Barker: We will be informing the prize winner on Monday of their survey prize but we will keep that open in case you want to rethink your survey over the weekend but champagne is now served. Thank you very much.

Willie Walsh: Okay. Thank you.

[END OF TRANSCRIPT]