Capital Markets Day 2017

Friday, 3rd November 2017

Welcome

Andrew Light

Head of Investor Relations, IAG

Good morning everyone and welcome to our seventh capital markets day of IAG. My name is Andrew Light, I am Head of investor Relations. I have attended all of IAG's previous six Capital Markets Days and 13 British Airways before then. In fact, I remember being in this very room in 1998 shortly after the Waterside Building opened. So, this time I am very happy to be attending the Capital Markets Day as your host. It is good to see a lot of friends and colleagues in the room.

Like last year, we have an app for today's event about which we emailed you yesterday. In case you missed it or if you need help with logging in or a password, all you have to do is email investor.relations@iairgroup.com. There is plenty of information on the app about the day, about the speakers and about the Board members.

In terms of the outline for the day, the format is shown on this slide. After the introductions from the Chairman and the CEO, we will run through the IAG airlines. We will also have sessions from our latest creation LEVEL, and then sessions on IAG Cargo and IAG Digital. For lunch we have a special offer for you; it is the latest Club World catering offering that we introduced on the New York-JFK route at the beginning of September, and has had very good reviews from customers. And then after lunch, Enrique will wrap it up and bring it together in terms of the financial strategy, and then we will open it up for Q&A.

As we have done for the last two years, we have kept the blobs at the OpCo level. You will see it under margin drivers and growth drivers. To remind you, the blobs really portrays the average increase in EBITDAR by major driver that we expect, on average, over the next five years. And to remind you each blob represents roughly $0-75 million of incremental EBITDAR compared to this year.

Finally, I would ask you to use the app to provide feedback on all the presentations as we go through the day. We will be asking specific questions from lunchtime onwards. And as an incentive we are offering two BA Club World tickets for the lucky winner who will be drawn at random after today.

I will now hand you over to our Chairman, Antonio Vázquez, to give the opening remarks. Thank you.

Opening Remarks

Antonio Vázquez

Chairman, IAG

Thank you Andrew. Good morning everybody. Welcome to this Capital Market Day of IAG 2017. My colleagues at the Board here, Alberto Terol and Jim Lawrence are joining me today. And the management committee, they are extremely happy that you are here with us today.

Just a few remarks. From the macro point of view, we have seen an improved economic environment in IAG core markets in 2017. But we have experienced some sort of uncertainty in two of our key markets, like the United Kingdom and Spain; in the UK because of the Brexit and in Spain because of the Catalonian declaration of independence.

As far as Brexit is concerned, we are confident that at the end of the day a fully comprehensive air transport agreement is going to be achieved, among other reasons because it is not at all the default position from the side of the World Trade Organisation. So aviation is relying on agreement and we will have an agreement. It does not make any sense for 900 million travelling around Europe are going to be losing this liberal position of aviation in Europe. And we do firmly believe that both the market access situation and the control and ownership situation are going to be solved in a very favourable way. For the time being, we are fully confident that the structures that IAG has in place, as far as control and ownership is concerned, are very solid and they had been working for the last seven years. They will continue working properly. As well as the Catalonian issues are concerned, I am glad to say that I think, at the end of the day, the rule of law is prevailing and therefore it is back to normal in the region.

As far as shareholder returns is concerned, we did announce last week an interim dividend of €0.125 which represents a 14% increase as far as last year was concerned. Last year was €0.11; this year we are talking about €0.125. This demonstrates the confidence of the board in the performance of the company and the strategy of the company and the solid performance of the management.

In addition, within the share buyback programme of €500 million, we did achieve already €430 million. It will be accomplished by the end of the year. If we put together this €500 million, plus the regular dividend paid to the shareholder, that means that the cash return that we had been providing to the shareholder this year is going to represent, referred to today's share price, a 7% yield which is a pretty high yield. It is the highest in the FTSE 100 and the IBEX 35.

In terms of capital allocation, IAG will continue to push for accretive opportunities and expand our multi-brand's portfolio. And regarding the use of the surplus capital, the Board is and will be routinely evaluating potential acquisitions and growth opportunities versus the shareholder returns, both in terms of dividends and in terms of share buyback.

Last but not least, to tell you that you are not only investing in a company with financial returns, we are very proud to report that IAG has been recognised as a global leader for our action to combat climate change, in a recognition issued by the Carbon Disclosure Project, which is the most prestigious agency in terms of environmental performance. And we are the only commercial airline group in CDP's list of the top 5% of global companies. And we have also been awarded Most Improved Organisation in the UK in 2017.

These awards highlight our commitment to cut emissions, mitigate climate risk and develop a low carbon economy. Thank you.

[VIDEO]

CMD 2017 Key Messages

Willie Walsh

CEO, IAG

Thank you and good morning ladies and gentlemen. You are very welcome. I am delighted to see so many of you here today. Like Andrew, I have been at all six previous Capital Markets Day presentations. I thought they were all excellent and I have no doubt that today's will not disappoint.

You have seen from the presentation there that the IAG platform is effectively complete. We have done what we said we would do to create a platform that would allow us to exploit revenue and cost synergies that individual operating companies, or individual airlines, could not get at. And we have delivered significant value as a result of that.

We are very pleased to see that the consolidation in the industry is playing out pretty much as we said it would, with efficient airlines consolidating and acquiring opportunities and the inefficient going out of business. So, it is an exciting time for the industry and I think we are very well-positioned. We are financially strong. We intend, as you have seen from the presentation there, to pursue efficient, organic growth and also to keep a close eye on any inorganic opportunities that may present themselves.

Today's focus will be very much on the individual operating companies, rather than the IAG platform. And we will outline for you our plans for investments in our brands, our products, our customer service, and IT and digital. You will also see our presentation on organic growth, efficient organic growth, which is one of the key issues that we challenge ourselves on. And we will also talk about digital transformation.

I am not going to go through what the individual operating companies are going to tell you because I am sure you are looking forward to seeing that. But we are very pleased to have the senior management team of the operating companies with us today. And they will outline for you the work that they have been doing, and will be doing, in the near future to strengthen their position and strengthen the position of IAG.

Now at the first Capital Markets Day, which was on 11th November 2001, we said that we were aiming to transform our profitability by being disciplined on capacity and by retaining synergy benefits and profitability for the benefit of our shareholders. And we have done exactly that. And we will reinforce that message today. We set ourselves challenging targets, but targets that we believe are essential for the long-term health of our business, and indeed the long-term health of our industry. We are pleased that we are on track to record a record operating profit this year, with our guidance of €3 billion operating profit, 18% ahead of last year.

We have already achieved the 15% return on invested capital at the half-year point, and 16.3% for the 12 months ending the end of September. And those targets are very important to us because they guide what it is we do with the business going forward. They guide our decisions to pursue growth, either organic or inorganic. They guide our investments in products, they guide our investments in aircraft. They guide pretty much everything we do. And I am pleased that these are targets that, when we articulated them first, people thought were unachievable, but we have now demonstrated that we can achieve them.

And we are very focused on achieving them on a sustainable basis. So when we said a 15% return on invested capital on a sustainable basis, that is exactly what we aim to achieve. And you will see from the presentation today that we are confident that we can not only achieve that but exceed that over the five year period of our planning, taking us out to 2022.

So we are in a good position. We intend to strengthen our position and to continue to deliver value to our shareholders. It is going to be a busy day, so I am going to come back later on, with Enrique, after he has wrapped everything together and given you a financial outlook, to summarise what it is we have said to you today. And more importantly, to give you an opportunity to ask us questions and to challenge us about what it is we are doing and what it is we will deliver for you in the years ahead.

Thank you very much. I am now going to hand you over to Alex Cruz at British Airways. And Alex will take you through the presentation for what he has been doing and will be doing in the years ahead. Alex?

British Airways

Alex Cruz

Chairman & CEO, BA

Good morning everyone. Good to see you again. Not six years for me under BA, but certainly a number of years with other previous companies. Good to see you. The BA presentation will be divided into three sections to give you a bit of colour around a number of topics. First I will give you a bit of an introduction of where I think we are, where we think we are at the moment. Carolina, our latest addition to the British Airways management team, will come and tell us about our investment in the customer experience and how we plan to roll out a number of products and services over the coming years. And finally Steve will tell you about how we plan to continue becoming a more efficient airline over the coming years as well. Then we will wrap it up at the end.

So I came into this job last year in April of 2016. And a lot of things have happened since then. Definitely, when I came in, I found that British Airways had a series of fundamentals that were working.

We could talk about its position in the marketplace in London, across the North Atlantic, etc. We could talk about the strength of the British Airways brand. And we will talk more about the evolution of that brand over the next few minutes.

We could also talk about the dedication of the people. I found 45,000 extremely passionate professionals, with a tremendous amount of knowledge about the airline industry and how you actually get a number of technical things done in the industry, in the airline.

And finally, I found a company which is obviously financially fit. You have all the details about BA performance in the previous years.

We immediately set out to try to change some of the underlying operational metrics and we were able to achieve some of that. So CAA punctuality, which we began to report at the last couple of results presentations ago, shows that BA is in a position of leadership and it is going to continue to provide very good, punctual operation. But beyond just punctuality, the improvement on actual baggage performance. Short ship really means baggage that is not delivered on time at the right place, and we are making significant inroads through the investment in people, technology, new processes, mostly around Heathrow and some of the out stations.

And finally a significant increase on engineering performance. The aeroplanes are more ready to go today than they have been over a number of years. So a tremendous amount of emphasis on making sure that we have an operation that works and is delivering at the highest standards possible.

We also found that there are a number of threats that are coming along. I will not dwell on any of these; our Chairman has spoken about some of these. But mostly around competition. And long haul low cost is here to stay. Absolutely no doubt. We have sufficient overlapping capacity with some of these airlines flying on this space.

We also have geopolitical uncertainty; of course with all the favourite topics, plus the situation in Catalonia. And finally, probably, what will likely be one of the most hottest topics over the years to come, which is digital disruption. Already happening here and there in small parts of our overall experience, but working with IAG Digital to figure out how we actually address the speed, the agility, the business models that many of these companies bring in.

So we set out to do an internal transformation within the company. And it is mostly around people and how we work together within the company. So we have changed our leadership. I will show you these charts in a minute. And beyond the top leadership there are more changes that have occurred. We have leveraged a lot of the already existing expertise within the company and promoted people internally. We have been working to make sure that we create an optimised, lean structure of overhead managing the company. That is on-going and we should be finished probably by next year, as we go department by department in detail, improving all our different processes. I am going to talk about digital in a minute.

This is the new team and in it there is a combination of people. There are brand new people that have not been here. Klaus was COO in Air Canada before; Carolina was Director of Customer Experience in Iberia before. Sean, Adam, Maria have been in the company. And then Steve, who you know well, and Jason were at BA a long time ago and they have come back. In fact, Jason was an apprentice engineer and he has come back. He went to run engineering at BMI and TUI and now is back running engineering at British Airways.

[VIDEO]

So that was an example of Jason. He is here; you will be able to speak with him. Changed the engineering organisation entirely, and beginning to deliver new, better, increased performance across most of the metrics.

So we will continue to work on our head office, and this building here and the teams that are here to make sure that we create lean, effective teams. Already happening across a great deal of the organisation. We have changed the way in which we do reporting internally, always an interesting subject. We have eliminated a lot of reports. Focusing on what is important to the business. And that is a tremendous culture change in BA, just making sure that we are focused on what makes a difference in our results and our customer experience.

And finally a big push towards recruitment. We must be recruiting people that are aligned with this customer orientation, with this customer focus. And also ready to work in an environment which is extremely dynamic.

Which brings me to Digital. And digital is an incredibly important area for us because it enables a significant chunk of the passenger experience and the relationship we have with our passengers. So we have come up already with a nice setup, a nice platform approach towards how we are going to deliver that digital relationship. And it is probably divided into three different sections: basics, brilliance, and differentiation.

We are working on the basics in some of the areas; nearly finished. Some of them are very technical. Architecture. systems that run in the background and facilitate the implementation of other systems and other customer-facing features.

Brilliance. Slowly beginning to develop small pieces of functionality that will fundamentally change the way in which we interact with passengers. But we do not want to stop there; we believe that we have the right environment to go and offer significant differentiation. And that is our focus over the next number of months and years: to be able to come up with a truly differentiated customer experience, enabled by our digital overall platform.

Now there are some things that you can see and touch right now. In fact, if you came through the front of the building, hopefully you saw the Mototok which looks like a space vehicle. And we will show you more of it. I encourage you to take a look at it. I believe we also have the autonomous transport vehicle. We are going to talk a little bit about that. But also the softer side, the app and the website.

So talking about the app and the website we have invested and continue to invest a great deal of money on making sure that we modernise those platforms. So BA.com is being completely redone. You may have actually seen one of the latest versions. It has actually provided an uplift on actual value transactional value per transaction, as well as conversion. So we knew all along that small tweaks to the web would actually have an impact on sales, and it does. And we have been getting it right; it is going to go through farther transformations which we believe will have an impact on further sales.

And if there is a topic this week, which Robert Boyle will talk about as well in more detail later, is the new distribution capability. And that is our ability to engage in a completely different way with travel agencies. We have seen an incredible amount of work leading up to 1st November. We went live in New Zealand out of all the markets, as you can imagine, because of the time difference, over the night of the 31st to the 1st. And happy to report that all the systems are working well, all the connectivity is working very well. And thousands of bookings have already been made through partnerships that we have been negotiating with, with all these different parties. Again, we will provide an update later on more in detail.

All of this work is being done under our Plan4 plan that we created last year which has the four pillars, starting very much with customer, operations, efficiency and people. Many streams of work, all tracked on a weekly and monthly basis, with people responsible to deliver work around each and every one of these tracks and already beginning to deliver some very visible benefits.

I would like to hand it over to Carolina now, who has been in BA just under two months, and will tell us a little bit more in detail about what we are doing and the customer experience.

British Airways

Carolina Martinoli

Director of Brand and Customer Experience, BA

Hello, good morning. BA is a brand approaching the centenary, a brand that has evolved over the years to remain competitive and relevant. Today, our customers' needs and behaviours depend on travel motive, distance, who they are traveling with and other circumstances. So our value proposition has to be flexible and offer choice.

This was a challenging year for our brand. After changing our short haul proposition to buy-on-board in January, we faced the power outage and crew strikes. This unfortunate sequence of events made some people question what our brand stands for. So to avoid any possible confusion, BA is a premium brand, and it stands for quality, service, flying expertise, and Britishness.

Over the next five years we will dramatically improve our customer proposition with an unprecedented investment of £4.5 billion. Our ambition is to offer an excellent product, a great service, and show the world the best of British hospitality. The centenary is also a great opportunity to evoke the emotional link with the brand. BA have been a proud ambassador for this country and will continue to do so.

We have 72 new aircrafts on order, and 37 are for long haul. 100% of our long-haul aircraft will be new or refurbished in 2022. In 2019, around 90% of our fleet will be connected and we will start the roll out of our new Club World seat.

We will continue to improve our ground experience through automation and also through our front line staff, empowered by digital and training. On the premium side we have launched, in April this year, the First Wing for London Heathrow. Every day, over 1,800 customers use the First Wing and the feedback has been fantastic. This year, we opened new lounges at Gatwick and Boston, with an increasing satisfaction of over 20 points in both cases. And recently the First Wing at JFK.

In 2018, Aberdeen, Rome and JFK will follow and we will also enhance our catering proposition for key lounges.

We are completely transforming our food and beverage experience in our cabins. We have started this year with Club World service in the JFK route. We will roll it out to all routes in the next months. I will show you a video, and later, during lunch, you will have the opportunity to taste it.

[VIDEO]

So I am looking forward to having your feedback after lunch. World traveller will follow in the first quarter next year. Buy-on-board is performing very well. It is 47% above business case. Customers really like the Marks & Spencer product. They relate it to high quality and familiar. We are still adjusting the service to increase first choice availability and delivery speed.

Service is another big area of focus. We are revising basically everything. Service guidelines and policies. We are working on an omnichannel strategy to improve our service and consistency across the channels. And BA have a very rich database with about 60 million known customers. We are working on improving the way we use data and segmentation to increase sales and also to enhance service. I also mentioned that we will empower our frontline through digital. In the near future with connectivity, all the cabin crew will be connected with individual devices and able to recover service, sell ancillaries, and have detailed information on customers.

BA is a big brand and big brands create high expectations. From a customer perspective, the challenge we have today is the challenge we always have; to offer what customers need, evolve with the market, and deliver great service with the British style. So thank you, I now hand over to Steve.

British Airways

Steve Gunning

CFO, BA

Good morning. As you have already heard from Alex and Carolina, we have plans to invest and develop the business. In order to be able to afford that, we need to hit our financial targets and, in particular, focus on cost efficiency and capital efficiency. I just want, in the next few slides, to give you an overview of some of the things we are doing to achieve that cost and capital efficiency.

This is a repeat of the slide we put up in 2016, which said we were launching a restructuring programme in 2016 to drive ourselves towards competitive cost rates and competitive productivity, particularly on the employee costs. I took you through all the components on that last year in terms of operations, engineering, cabin crew, head office, etc.

And in a few moments I will take you through some of the progress we have achieved on those areas during the last 12 months. What I did not put up last year was what kind of impact we were expecting that to have on our cost base. And what you can see here is, in 2017, this programme will have delivered about £90 million of savings. Next year we would expect that to virtually double, as you get the full year effect flowing through. And also new initiatives coming on board as well.

So it is a very significant programme and it is a key part of us continuing our commitment to achieve a 1% non-fuel unit cost improvement over the course of the plan over the next five years.

So the next couple of slides I will give you a bit more of an update on this programme.

The first one is on Heathrow Operations. Rather than just hear it from me, we have a video from the Director of Heathrow on some of the things they have been doing over the last 12 months.

[VIDEO]

Okay, just to add some colour to what Raghbir and Tony were saying, if we just quickly run through these, in terms of check-in, we now have 24 self-service bag drops running at

Heathrow. We will have another 20 in May and we will have further in H2 of 2018 as well. We are finding those are having a real positive impact on customer experience. We are seeing customer satisfaction up five to six points on the gates where we are using them.

In terms of connections, this is probably one of the most congested areas in T5. This is where you are moving from one flight to another flight, and you need to go through a conformance check to make sure that you are going to make it to the next flight. We have about 20,000 people going through connections a day, and there were a lot of queues that were taking place as a consequence. We put in 18 automated gates; the queues are pretty much eradicated now. We also putting in extra technology which means that if you are not going to make it to your flight, you can get a new boarding pass and a new booking achieved automatically at a touchscreen just next to the boarding gate. So once again improving cost efficiency but also improving customer experience.

Alex has already referred to the Mototoks. We have six of those running. By the end of Q1 we would expect all 25 short-haul gates in T5A to have a dedicated Mototok machine, which is a real step forward. We are finding that pushback delays, which is one of the most significant delay codes for punctuality, is down 75% on those gates that are being served by a Mototok.

Exciting and interesting is the next step for us really is moving these to a long-haul version, not just a short-haul version. And we are working with Mototok on that at the moment. We are hoping to have a prototype on the ground by the end of Q1 for a long-haul aircraft, primarily 777s and 787s.

With regards to boarding, nine of our domestic boarding gates now have automated boarding gates. There are four of those. You get a much faster throughput on the boarding experience. It is cutting boarding times by about a third. That is interesting, but what is going to be more interesting is when we put that onto international gates. And we are hoping to commence that in 2019. So an awful lot going on at Heathrow. What I really like about this programme is not only is it driving productivity and cost efficiency – because it is basically eradicating a lot of manual tasks – at the same time it is really enhancing the customer experience as well. Which is good news.

But the restructuring programme was not just about Heathrow, so let me give you highlights on some of the other areas.

Engineering; you have already heard from Jason today, you saw the video. He is basically going through engineering like a dose of salts, quite frankly, and he has stripped out quite a lot of layers of management. He has really radically changed his team. At the same time, he has changed the engineering activities at Glasgow, at Cardiff, and at Gatwick. In addition to that, he has closed the subscale paint shop at Heathrow and we have just finished closing our component overhaul facility in Hayes, which was also subscale. And that initiative alone will have saved us about £10 million per annum as a consequence of it.

So an awful lot going on in engineering, all under the auspices of the IAG maintenance Strategy, which has been a very supportive structure in this. Engineering doing very, very well.

Alex has spoken to you about culture, lean processes, changing the back office. And as you can see by these stats, we have already taken out about 23% of our head office and back-office staff. And when I talk about head office and back office here I am basically talking about people on BA contracts here at Waterside. So a lot done there already; more to do.

And then finally on the sales team, we think our salespeople should be out there selling, not doing administrative tasks. So a number of things we have been doing to help them with that is a further roll out of Salesforce.com, which in shorthand is effectively a CRM for business-to-business sales management. We have also created a consolidated back office for administrative tasks in Bratislava. So other people are doing that sort of lower skilled, lower valued work at a cheaper rate. And then next year what we will also see, which will help them, is the roll out of the new corporate dealing tool.

So that gives you some flavour on the restructuring programme.

Another area where we think we are going to get efficiencies going forward, which is not part of this programme but is just another aspect of what we are doing, is what we are changing with regards to our fleet.

On the left hand of the slide we are talking about our short-haul fleet. And as you can see over the course of the business plan period, you will see us introducing A320 and A321-NEOs, and reducing particularly the number of A319s. This up-gauging of aircraft and some of the changes in cabin configuration will lead us to something in the region of a 7% unit cost benefit which is very welcome and very necessary.

A secondary benefit to this is, by up-gauging the short-haul aircraft, what we will also be doing is freeing up slots that we can convert to long-haul slots in order to expand our long-haul network. At the moment, the BMI slots that we originally took over through the acquisition, we are probably using about 22% of those for long-haul flights. Our plan during the course of this is to get it up to about 36%. So up-gauging will give us a unit cost benefit and also enable us to convert short-haul slots to long-haul slots.

On the right-hand side, we are talking about the long-haul fleet. What you can really see here is the growth of the new generation aircraft coming in over the next five years and also the reduction in the 747-400 fleet. And actually, we will be out of our last 744 by February 2024. And that will be the end of them. Clearly the new generation aircraft, far more fuel efficient and have other efficiencies as well, which will help our business.

Moving on, the next few slides are the standard sort of Investor Relations standard template slides. So I will limit myself to just a couple of comments on these. Firstly, clearly we are looking to bias our growth on the North Atlantic. That is where we achieve the highest returns. We will be looking to strengthen some of the capacity on some of our key hubs, and we will also continue to successfully roll out to some of the secondary cities. We have had real success with this with Austin, San Jose, California, more recently, New Orleans. And what we are finding amongst other things is we are getting to an acceptable level of profitability very, very quickly, which is very encouraging.

Rest of the world is lower margin but we are seeing an encouraging improvement in that lower margin so we will continue to seek opportunities to expand the network to LatAm and rest of world and short-haul as well.

In terms of margin drivers, once again I will limit myself to two comments. One on unit revenue. This time last year when I was presenting, unit revenue had three crosses by it. Now I am not sure you fully understand the crosses and the blobs; I am not sure I fully understand the crosses and the blobs. But three crosses to two blobs is a positive movement – even I can tell that – and what you have seen in 2017 is a radical turnaround in the RASK. We had three or four years of continued RASK decline. And in 2017, it has gone positive even at constant currency.

And that was a tough, a strong, bold call last year to call that in our planning. It has come through in 2017 and we expect a positive unit revenue trend going forward. We have a lot of things we are doing to drive that, over and above what the macroeconomic environment is. Alex has talked about the digital changes, improving our look-to-book ratios and our average order values by a more positive digital experience. There is a real ancillary benefit to going to NDC and the new distribution channels. The cabin reconfiguration programme that we took you through last year will generate more RASK, and some of the internal changes we are making to our revenue management procedures as well. All of these things will be supporting our RASK development over the next five years.

One last comment on this slide is with regard to employee costs. I have not mentioned, up to this point but I did reference last year, that we do need to address our pension challenges. And we kicked off the pension consultation in September of this year. Our proposal was to close the DB scheme, NAPS, to future accrual. NAPS has a £2.8 billion deficit as of March 2015. And also to close the DC scheme as well and replace those two with a new DC scheme. We are about halfway through that consultation; it is ongoing as we speak and it will probably be inappropriate to say any more than that at this time but I wanted to flag it to you today.

I am pleased to be able to stand here and turn around and look at the lease-adjusted operating margin up at 15%, which is up over two points from last year. I am pleased to say ROIC is up 3.5 points, up now to 16%. And I am pleased to say we are now meeting or beating the IAG targets for ourselves at 15% or 15+%.

And because of the plans that we have in place and because of the team that we have in place, we are confident of meeting and beating those targets going forward. I will now hand over to Alex to conclude.

British Airways

Alex Cruz

Chairman & CEO, BA

Thank you Steve. So just to summarise very quickly the presentation by all three of us, yes, we have some fundamentals which appear to be strong; but we have a changing environment with a number of challenges coming along. We do feel, as Steve was saying, confident that we do have and we are building the right platform to be able to have a sustainable, customer-focused airline. We will continue to invest in operational excellence. All the flights must be punctual; all the bags must be delivered; all the flights must be ready to go and clean, etc. We are going to continue investing in that. And of course, Carolina's explanations around the investment around customer and brand, particularly leading up to 2018, 2019, which will be a big year for British Airways as it celebrates its 100th birthday.

And finally not to forget, cost discipline. We will continue to make British Airways more efficient. So this is the summary of British Airways: we are going to continue working to create a sustainable, customer-focused airline.

This is the end of the BA presentation. I would like to invite Luis now to come and tell us about Iberia. Thank you.

Iberia

Luis Gallego

Chairman & CEO, Iberia

Good morning everyone. Over the last years, thanks to the Plan de Futuro, we have achieved a big transformation in Iberia. Right now, we have a new Iberia. A new Iberia first of all for our customers. In 2016, we became the most punctual airline in the world and also Iberia Express they became the most punctual low-cost airline also in the world, repeating this title that they had in the previous year.

Also we have invested in our new brand, in our new product, and because of that we have improved our NPS 29 percentage points since 2013 to 2017. This year we achieved also our four stars Skytrax. That for us is a recognition of the work we are doing with our customers.

Plan de Futuro also helped us with our revenues. We decreased the gap that we had with our competitors and we also work hard in the cost side. We reduce the CASK-ex fuel in Iberia by more than 13% in the period between 2013 and 2016. In this reduction also Iberia Express helped us because of the lower cost base that they have.

As a result of all that our financial results have improved. We move from minus €351 million in 2012 to €271 million in 2016, a jump of more than €600 million.

But last year we told you that we have much more competitive context, mainly because of two reasons. First of all, we had overcapacity in some of our main markets, especially Latin America. And also we have an unstable geopolitical and macroeconomic environment all over the world. For that, first what we did was to reduce the growth that we have expected, the growth that we told you in the Capital Markets Day of 2015. And also we launched what we call the Plan de Futuro Phase II. A new phase, more aggressive approach of the plan, because we needed to improve the situation, mainly in the RASK. We had a RASK that was declining. And in the revenue side we did a lot of things. First of all, we expanded our JB model to different markets. We also work in the launch of the NDC that Alex told before. We launched the NDC two days ago and it is working. Also, in the revenue management, through new technologies we moved from the rigid pricing structure that we had with limited booking fares and we moved to multiple pricing points. In the ancillary side, we offered our customers customised proposition and we used techniques that we were using in the revenue management in the fares to improve our ancillary revenues.

And finally, we keep investing in our brand to strengthen our brand in the markets that are important for us; Latin America, Europe, and in Spain.

And this year we are seeing the result of all that. The market is improving; mainly Latin America is working better. But also we see the results of the Plan de Futuro Phase II. As you can see, the RASK is improving; if we compare the first half of 2017 with the first half of 2016, the RASK has improved 3.4%. If we look specifically to LatAm, the improvement has been around 8%. The EBIT, we have moved from minus €6 million in the first half of 2016 to €84 million in the first half of this year; €90 million difference. And if we look at the ROIC of the last four quarters, measuring in the second quarter, we have achieved 12% ROIC, an improvement of 3.3% points.

And because of that, we are going to resume the growth that we have in the plan of Capital Markets Day in 2015. You can see here in this slide the growth that we showed you at that time. We expected to grow around 7% in ASKs CAGR in the period between 2015 and 2020. Last year, as I told you before, we reduced this growth because of the context to 4%. But now we want to come back to the growth of around 8% in the period between 2018 and 2022.

All this is subject to the Plan de Futuro Phase II, for sure. And also subject to a positive outcome of the collective bargaining agreement that we are going to start to negotiate right now.

We will support also this growth with our cost base but also with our customer proposition. First of all, with a product transformation.

Last year we replaced all of our A340-300 and replaced them with A330-200. Also, next year we are going to finalise the deployment of the premium economy in all our A330-300 fleet and in the A340-600. Our premium economy is working very well. All our customers are saying that the feedback is very positive, close to the feedback that we have in business cabin, with 37 inches pitch, 19 inches wide seats, 12 inches in-flight entertainment screen. And all those characteristics are giving us a good advantage in that cabin.

We will also retrofit the A320s with new slim seats, so we are going to have more room for our passengers. But in parallel, we are going to increase the number of seats from 171 to 180.

This year will be the year of the arrival of the new generation aircraft to Iberia. The first A350 will arrive; the first A350-900, with premium economy and also with higher speed in inflight connectivity. We will also have our first A320-NEO in the company. This new aircraft will allow us not only to give more comfort to our passengers, but also to reduce our fuel consumption and also to reduce our CO_2 emissions.

And we will work to implement the higher speed connectivity in our fleet. In the wide-body fleet in all the aircraft that they are going to continue with us, we will retrofit them with the high-speed connectivity and also we will speed up the process to retrofit the narrow-body fleet.

We will also work in the customer journey. We do not have time today to talk about all the touchpoints that we have with our customers but I am going to summarise three actions that we are doing, which are going to be key in this journey.

First of all, the new CRM. With this new CRM, we are going to know more than nine million passengers, instead of the one million passengers that we know right now. We expect that in a period of three or four years. With that knowledge, we will customise the proposal that we can do for our customers. In that sense, the new distribution model that I told you before will allow us to differentiate our content offering, dynamic CRM integration.

And we have also a project that we call Experiencia Redonda that is a new approach to the customer needs, and is also a new way to understand the relationship with them and a cultural change in the company. We are going to invest in employee awareness, in development and in training, to achieve a better communication with our customers.

And digital, for sure is going to be key in all this process. We want to be a digital connected airline. But before we go digital we need to be digital. Now, in digital, in Iberia we are transforming first of all the culture of the company. We have new workplaces; we have collaborative tools; we have now paperless cabins. And all this digital transformation is helping us to change the culture of the company.

Also, we are using digital in customer and operations. In customer, it is going to help us in the CRM, as I told you before. And in operations, we are using digital to improve our business lounges, also the experience in the airport of the people, the experience inflight, etc. And we are exploring with a group, through the Hangar 51 that we launched several weeks ago in Spain together with Vueling and Iberia Express, we are working with entrepreneurs and innovators to see what we can improve and how we can advance the future. We are working now on several processes about revenue management, dynamic email, new ways of payment, etc.

Our best-in-class cost base is going to allow us to grow in the different markets, as you can see in the slide. As I said before we are going to come back to the ASKs that we set two years ago. That is true that we are going to deploy them in a different way. We want to ensure that we put our best product in our key markets. And, for example, in North America we are going to enhance our competitive position in Mexico. And we are going to expand to daily operations in some of our more profitable destinations. We will launch the San Francisco route in summer of 2018.

In LatAm we will continue the expansion in some of our core markets, Colombia, Argentina and Chile. We will launch a new route to Managua. We also have a daily frequency to Guatemala. We will return to growth in Brazil as the market now is consolidating.

In the short-haul, we will use our level of Iberia Express to grow in the domestic market and also in the European cities. You know Iberia Express is a powerful tool that we have to compete with the point-to-point operators in Madrid but also to feed our hub. We will also develop the Madrid-Barcelona route. You know that last June we launched the new *Puente Aéreo* together with Vueling. The project is working well but we need to develop this new approach and we are sure good results will come.

And in the rest of the world, we are going to increase Tokyo from three frequencies per week to five frequencies per week. We will operate Tel Aviv with a wide-body aircraft. And we are thinking if we have opportunities in Africa with, for example, the A321 long range.

In regards to our margin drivers, growth will have an impact in our unit revenues, but we are going to mitigate this impact with Plan de Futuro Phase II initiatives. In the fuel efficiency, the new aircraft, the new generation aircraft, will help us. We will renew our wide-body fleet in 2022 by 91%. And also we will continue working from our operational department to reduce the consumption of fuel with best practices.

In employees' side, we have closed a new redundancy programme for 1,000 people. Right now, we are starting the process that is voluntary for both sides. That will help us to improve our productivity and decrease our employee CASK.

We also need to open, as I said before, the negotiation of the new collective bargaining agreement that we hope to conclude next year. And in the suppliers' side, the Plan de Futuro will help us to reduce this part and also we will leverage in the group projects that we have as GBS and IMS.

With all this, Iberia targets will be aligned with IAG targets. We can see here the lease-adjusted operating margin in the last 12 months, 10.6%. We want it to become something in the range between 10% to 14%. We will have a ROIC around 15%, as the Group has established. The ASK growth, as I said before, we move from 4% to 8%. And the fleet, in the last 12 months, we have an average fleet of 100 aircraft and we will move to an average fleet of 126 aircraft.

Now, before I put the video, this is a video that is important for us, because the man who is in the video is a basketball player. We know him in Spain because he is Spanish. And he has spent the last 17 years in the NBA. He won, I think, two or three rings of champion of NBA. And apart from the man, the message that we are sending in this video is that Iberia is a company that we are 90 years old; but we do not care about that. We do not care of everything we have done in this period, in this Plan de Futuro. What we are looking always is what we have in front of us. Every day for us is the first day; every day is a challenge to treat our customer as they deserve.

[VIDEO]

Maintenance, Repair and Overhaul

Luis Gallego

Chairman & CEO, Iberia

So now I continue, I change the cap, and I talk about maintenance, repair and overhaul.

Strategy for Maintenance to Close Market Gap

So you know that we have a project in the Group that we call IMS. Last year we presented the gap that we have identified for each maintenance activity with the market. As you can see here, we identified the gap for heavy maintenance, line maintenance, components and inventory, engines, and planning and engineering. We defined also specific strategies to ensure competitiveness of the business. We were thinking that first of all, we need to be best in class in the providers that we have inside the Group: namely Iberia and BA, although we have also some activities in Aer Lingus.

We were thinking also about this best-in-class approach to see if we have other opportunities of consolidation and/or externalisation of activities. In 2017, we have closed the gap by 50%, as you can see. In heavy maintenance, more than 50%. Line maintenance, we are half way.

We are starting with components and inventory. Engines, we are close also to the 50%. And we are starting to refine what has to be the planning and engineering of the Group.

We need to close this gap and we have the period from 2018-2021 to do it. We are analysing new opportunities that we can have and we need to take some decisions about consolidations that we are going to have next year. We launched a tender, for example, for components to see if we want to outsource that activity out of the Group. And also we will take a decision about heavy maintenance in the third quarter of 2018.

Only to give you some examples of what we have done this year, if we look at the best-in-class performance, we have reduced our headcount by 10%. We have done this through productivity gains, but also through consolidation and outsourcing. In BA and also Iberia we have implemented lean processes, and we have reduced our costs and we have improved our turnaround times. We have simplified also our structure in BA and also Iberia. And now we have more agile decision-making structure. All this has given us this reduction of 10%.

Talking about footprint reduction, as Steve said before, we have closed the BA paint hangar. We have stopped also that activity in Iberia. And we closed the repair activities of components in London. In Iberia, we returned two leased hangars that we had with Aena, and also we leased out two owned heavy maintenance hangars that we have to third parties. We moved the component shops to our own premises and we have leased out the space that we have before.

About line maintenance activities, we have outsourced 19 outstations in Europe. And we are in the process of consolidating the maintenance at a Group level in North America where BA will take care of that. In South America, Iberia will take care of the maintenance, and also we are implementing what we want to be the line maintenance in the hubs. In Madrid, Iberia will be the provider for the Group; in London, BA will be the provider for the Group; and in Dublin, Aer Lingus will be the provider for the Group.

We have also reduced the external supplier spend by 10%. We are reviewing and aligning the specification that is key to have savings in our negotiation. And also we are leveraging the volume that we have altogether. All this with the help of GBS.

So in summary, IMS is working. We are in the middle of the process as you see, but we have captured half of what we said we were going to capture. We are still working in them because, as you can understand, to transform business maintenance requires some time. But we are pretty sure that at the end of this process, the OpCos in this Group will have the price and the service that they could have in the market.

Thank you very much. I hand over to Javier, sorry.

Vueling

Javier Sánchez-Prieto

Chairman and CEO, Vueling

So good morning everyone. In the next 20 minutes I will outline for you how Vueling is performing. Last year we presented our plan and we will show you in a minute how Vueling is performing towards that plan. And also I will just outline what are the main pillars of our strategy going forward.

So last year, if you remember, we suffered some operational challenges in our operations. So we presented our plan, we call Vueling NEXT. What I can tell you today is that we have delivered towards that plan. We have restored operational and financial performance, and at the same time we have been able to rebuild customer trust. So in a quick year, we have been able to recover the Vueling operations and also performance.

The second point will be more around how we are fine-tuning our strategy. We have not change the strategy, but we are fine-tuning the strategy and some of the things that we told you last year. And we want to share that with you also.

And the last part will be that we are entering the new phase. So we told you also last year that we are facing two phases in the scenario where we are fixing the bases and then resuming growth. And we feel now that we believe that it is time to resume growth because we see that the company is in a much better shape.

During the last 12 months we have been just working on strengthening all the dimensions of the company, all the foundations. We will give you a little bit more colour on that, with the things that we have done and what are the things that we are doing; what is in the pipeline. And now we are jumping from here to there, as I was just mentioning.

To this slide may be too detailed, but again to give you a little bit of colour of what are the things that we are changing in Vueling. Along the lines of the four pillars in our Vueling NEXT plan.

In operations, what have we been doing? We have a new team. We have more resources. But we have re-engineered some of the processes. Very simple processes, like the turn time or the playbooks when we are facing a disruption. All those things we have changed and we have rewritten.

In the network, we come back to the network in a minute because I think that in the network is where we have made more fundamental changes. And we will share with you in a more detailed way later. But basically, just to fix an idea, is that at this time we are leveraging a little bit more depth versus breadth.

We have done a lot of things in customer. We have implemented new customer standard; new boarding processes. With playbooks for disruption management, as I told you. We are in the middle of a call-centre transformation so a lot of things in customer front and also a lot of things coming.

Also in the organisation we have launched an initiative we call, '*We love working together*,' because we see that this is crucial. This is massive to our model. If we want to offer and deliver a superior customer experience, it is not possible if we do not have the people engaged with employer and engaged with the brand. So we are working also a lot on that front.

And what are the results? What are the numbers?

So, as I told you, in operations we are 80% on time performance in the last 12 months, first in the three main bases we operate, in Paris, in Rome and also of course in Barcelona. Not without challenge because the environment continues being really tough. If we compare our results with last year it is pretty jump, but if we compare with 2015, maybe you can see it is only four points. But it is four points in a much worse environment. If you take the number of flights disrupted two years ago and now, this has more than doubled. So I would say it is a better result in a much worse environment.

We have recovered customer trust. That for us is crucial. And it is very good. We haven't been sharing today the details on NPS. But if we look at the NPS, last year we were in negative territory; this year we are double-digit positive. So it is a big swing and we are very proud that our customers are also perceiving that Vueling is changing.

What are the financial results? What is the money on the table? We have been able to invest money in the resilience of our operation and at the same time reduce cost. Second, by improving the NPS we have been able to increase revenue. So we see also there a big swing in the result. And we see that we have improved the EBIT by seven points in the last 12 months. And also we are close to our targets in terms of the ROIC, close to the 14 and reaching the 15.

This is a very busy slide. Just as I told you we are the first, we beat our competitors in the main markets we operate. And this in particular, we have Barcelona. And as you can see, in the last year from September, we have been the first and continually beating the competitors in a really challenging environment there in Barcelona.

And coming back to the strategy, this is the same strategy we shared with you last year. So the customer will continue to be at the centre of everything we do at Vueling; that has not changed. Our value proposition will continue being the same. What does our customer want? They want reliable experience, low prices, affordable prices. And they want good service. They want a seamless travel experience.

We are fine-tuning a little bit more what is our customer, and we see that in the next slide. We do not want to be everything to everybody. We need to be focused. We have to take business decisions based on what is the segment we want to be focused on. And also in the network, as I told you, we will see more details later.

Who is our customer? Our customer is a young customer, is a digital customer. They do not want problems. They want to take smart decisions. They want to be in control. They are digital. They want to spend their money smartly. And this is how our customer and this is the centre we will focus on.

Second thing is that we have some, let's call, business passengers flying with us. That is people flying for business purposes but not in the business cabin. And they want slightly different things. They want more flexibility. This is also something that we are trying to redefine within Vueling. And in fact, this is driving business decisions, as you can imagine. For instance, we are considering discontinuing our excellence proposition in the cabin because we want to be true to our strategy.

Why this segment? Well, this is the segment where Vueling is operating. But the good thing about this segment is it is a sizeable segment within Europe, so from €30-40 billion sized market. It is the fastest growing, so that is good for us in that sense.

Then the network. Well, in the network, as I told you, we are balancing depth versus breadth. And we are following some guidelines. I will go through the details later. The guidelines are that we are increasing the brand relevance in our core market. We have seen some growth opportunities close to our core. That is something we are seeing more and more. And also we are seeing some selective growth opportunities in some of the markets that we operate. You know that there are some developments done in Italy, here in the UK, also in Germany. So we see opportunities here and there. And we would like to tackle not all of those, but some of those opportunities.

We are building a more robust network. A more robust network is better in many senses. It is better because you can operate better. It is better because you can offer a better customer proposition. It is better because you could have better costs. And it is better because it could be more profitable.

So what have we been doing? So this is just an example for 2017. This year growth is 1.7%. This could sound familiar for you because it is the same way we are sharing that information when Enrique is presenting the results every quarter. This 1.7%, what are the main components? Well, some new routes. But basically we have discontinued some routes which were not profitable. Some changes in stage length and aircraft gauge, but not material; that has to do with the network decisions. But basically what we are increasing is frequencies.

And this will continue. We will show you later that our ambition is a 10% growth CAGR for the next years. And if we take this 10% CAGR for the next years and we look at this, we will have new routes like 2-3% increase; we will have some 1% discontinued routes [inaudible] going through the process; no major changes in sector length and network gauge; and frequency, 6-7% increase per year. That will be the lines of development of the network.

The second point in our strategy is digital. In digital we have all the stuff that is fixing the basics. I am not saying it is not important but it is just fixing the basics. We are working and investing all our money in a commonality. We are investing also in revamping the cabin interior, Wi-Fi, in-seat power, kiosk with a self-bag drop. This year, this has helped us a lot in Barcelona, together with data analytics, because we have been able to predict better the way our customer behaves in the airport. So we are able to predict better how many counters we need to open and how many kiosks we need. And we have realised we can save a lot of money, while at the same time offering a seamless travel experience to our customers.

So then what is the more digital piece of that? One thing to highlight here is that Vueling is a really digital, innovative company. We have not changed that. Alex did a great job on that and you see that. It is in the DNA. Maybe we are not announcing a game changer every year but you have hundreds of different developments every year in Vueling. And we have an organisation to run that and the organisation, we have created data and analytics team. And, as I told you, this is helping us in some important things like reduction of queues or sales management, better prediction of sales. But more importantly, we have the agile methodology so the company is able to offer and to release a couple of releases per week. Small releases here and there in the web, in the app.

And this drives things like we are growing a lot in mobile search and also sales, like 30-35% in the last 12 months. We are really used to collaborate with different companies and start-ups. Today, in fact, we have 11 companies working with us in two sites: some in

Barcelona, some in Zaragoza. 150 people working together with us on projects; specific projects; small projects; projects of the week; projects of five weeks. But that is the way we are working with that.

And what do we have ahead of us? Well, we will continue with Vueling NEXT. We have what we call phase 2. We are not very innovative in that. It is along the lines of our pillars.

In the first pillar, on operational excellence and cost discipline, we are going to be focused on cost. We have been focused in this first phase on ring-fencing our operations. Now that we feel that our operations are fixed, we need to be focused on cost. We are a low-cost carrier; we need to be focused on cost, is the soul of our business. So we will maintain our focus on that. I will see you later with our plans in terms of cost.

The network is as I have just described; we will continue working on that for the next five years.

In customer, three main things. The first is the combination of customer journey and customer touchpoints and digital; that is the first thing we want to be focused. The second thing is consistency. So a customer flying with Vueling has to enjoy the same experience Vueling from Barcelona to London, and from Amsterdam to Fiumicino. And also we want to deliver that with care. We need to work a lot with our people, with our partners, also, in the way we behave in front of our customers.

And that is the fourth point. We need to engage with people. We launched that programme called Vueling Academy. It is not training; it is more an on-the-job training and grading programme where we are going to train our people on the way we behave in front of our customers. And we do this with our partners, offering services in ground handling.

And this is the cost. This is our ambitions and this is our plan, to give you a little bit more colour. In front of us we have a reduction in costs in the next five years. This reduction in costs is on the back of employee cost contention and supplier cost reduction; we have seen today some initiatives and we will see more later. The one Luis has just described, IMS, is something that will help Vueling reduce our supplier costs. And also Ownership efficiency. Because one of the important things of this plan for Vueling going forward is that we will increase utilisation by 20%, 10% the first year. This is something which will drive a lot of efficiency into our operations.

And as I told you we are now in the inflexion point. Now we have to resume growth where I have just described. We see some opportunities in our core, we see opportunities in the domestic; but we see also opportunities in the flows between Europe and Spain. You can imagine opportunities in Germany, opportunities in Italy and opportunities in the UK, given the current developments. And we will selectively analyse other opportunities in some other markets.

And the margin drivers? We have the unit costs. The unit cost performance of the company has been quite good this year, as you can see. While growing, we have been able to improve slightly our unit revenue. And we will continue doing that. And we have three areas where we have room for improvement. First of all is utilisation, so it is more revenues per plane. The second is load factor. If you compare our load factor with some of our peers we have a lower load factor, so we think that we can put more passengers in each flight. And the third one is ancillaries. We can have more money out of each passenger flying with us.

In terms of the rest, the fuel efficiency, we have incorporated it in the A320-NEOs, so we will have some fuel efficiency gains in that. Contention of costs in employees and in suppliers, as I told you. GBS and IMS will help us a lot in reducing our supplier costs in the next years.

So these are our targets for the next years and the growth that we are embarking on in the next five years. I hope that you have a clear picture now of what we have done and also what we want to do at Vueling. We are excited about the future of Vueling. In the future we see plenty of excellent opportunities for Vueling. And what is our commitment? Our commitment is that we will deliver on our plans. We firmly believe that the best is yet to come for Vueling.

I leave you now with a short internal video that we produced for our people, to share with them how we see our customers and how we see the reason they are flying with us. What is important for them when flying with us.

[VIDEO]

Interim Remarks

Andrew Light

Head of Investor Relations, IAG

Thanks very much, Javier, and to all the speakers so far.

Steve and Alex from BA mentioned some technologies that they have. Unfortunately we cannot offer the autonomous aircraft just yet but we do have an autonomous shuttle bus outside; you may have seen it when you came in. That will be used to shuttle crews airside around Heathrow airport. And we also have a Mototok remotely controlled aircraft pushback device; that is outside as well. So if any of you would like to see that, if you have not seen it already, then Hannah Johnson will be able to escort you.

We also have an example outside, you have probably seen it as well, of a biometric self-boarding gate. If you have brought your passport along you can have a go.

Welcome Back

Andrew Light

Head of Investor Relations, IAG

Thanks everyone for coming back so promptly. We have a great diversity of people and talent at IAG from all over the world. Our next speaker is Alistair Hartley and he will talk to you about the next-generation low-cost long-haul airline that we've set up, called LEVEL. Alistair is Head of Group Strategy & Development and one of the brains behind LEVEL. He acquired his low-cost long-haul expertise while working at Jetstar in Australia for five years before joining IAG. And as I am sure many of you know, Jetstar is one of the best examples of long-haul low-cost success.

So with that I will hand over to Alistair.

LEVEL

Alistair Hartley

Head of Group Strategy and Development, IAG

Good morning everyone, it is a real pleasure to be here. This is my first opportunity to present to IAG's Capital Markets Day. And it is even more of a pleasure to talk to you today about a topic that is very close to my heart, which is the newest addition to IAG's brand portfolio, being LEVEL. I am going to stay true to theme this morning; I am going to introduce with a short video montage of LEVEL's launch and early days. And then I am going to walk you through, relatively briefly, a bit of our thinking around the LEVEL opportunity and where we see that opportunity taking us across the course of the next five years.

[VIDEO]

So it is really actually an interesting exercise to step back a little bit from the energy that has been created because the experience since announcing LEVEL in March of this year and then getting it launched in June of this year has been pretty phenomenal: the energy within IAG, the amount of people that have got involved from various part of the organisation to make this a reality. And you can get very caught up in that. But I thought, to begin with, what I would do is step back for a second and just talk to you about the long-haul low-cost opportunity.

This is something that we have been thinking about, as an IAG leadership team, for quite some time. And we were really clear, as a leadership team, that we did not want to mess this up and we wanted to make sure that we did not ignore what had happened in the short-haul space. If you can turn your minds back to the late 1990s, early 2000s, where in short-haul low-cost carriers were just getting set up. And I think it is fair to say that a lot of the incumbent carriers probably took their eye off the ball. They looked at this low-cost short-haul opportunity, these low-cost carriers and said, "Look, they are not going to dramatically change the marketplace." If you fast-forward to today, obviously, if you look at that short-haul marketplace, low-cost carriers have really transformed the space, transformed the markets. And what we can see is it is a value proposition that really resonates with the customers. So we have seen massive stimulation of demand through this low cost, and low fares that accompany that low cost, being introduced into the marketplace. And you can see the market share of those low-cost carriers now being really relevant and having changed the short-haul industry dramatically from where that was back in the late 1990s.

If you then think about that unbundled proposition with low cost and low fares stimulating demand and seeing that resonance, we have also seen examples of how this has translated into long haul. A lot of people have questioned whether or not, with the longer distances, are people prepared to have that unbundled experience with a denser configuration for a longer period. However, as a leadership team, we firmly believe there are some really good examples out there of proof points that long haul, low cost can also be incredibly successful; as successful as the short-haul businesses are experiencing with their low-cost carriers.

To that end it was earlier this year, as I say, where IAG leadership took the decision that we were going to really take a stance in this space. We believe it is an opportunity and a market space that is going to evolve and be significant in long haul going forward. We believe that customers can be stimulated and that businesses can be profitable and drive the sort of returns that our shareholders need through these business models. And we believe that IAG is uniquely positioned to play in this space. We have a portfolio of brands, we have low cost and full service in short haul. We know how to run that portfolio of brands to be successful and to work together.

So the leadership team really sat down at the beginning of this year and said, "This is a space that we are going to participate and we are going to move at pace." What you saw from the announcement in March through to the launch in June and the operations that we have had to date has been the story of LEVEL to date and we see huge opportunity in that going forward.

Just for a little second talking about that opportunity, I know lots of analysts out there have been out there talking about, "Does the model make sense? Will it make money?" We are very convinced, as a leadership team that this will work. And we now have proof points in terms of the business that we have set up and the operations that have launched from Barcelona to date. But really this is a cost and a revenue equation.

To keep it apples with apples, I am talking about costs per flight and revenue per flight – I do not want to mix per seat and all of those other different metrics. These figures that you see in front of you here are our internal understanding of the economics here. And this is versus what I would call a relatively efficient, incumbent full-service carrier. When we are talking about, on the cost side, 10–20% lower costs per flight that is against a relatively efficient incumbent. If you put that up against an inefficient incumbent, those figures would be even higher. Then, on the revenue side, 80–90% of the revenue generation per flight, equalising for the plane and the same route. So if you look at those equations, you can see that this is going to deliver the sort of profitability and the performance that our shareholders demand.

And this is a growing space; this is going to be a space that is going to be really important in the long haul evolution of the marketplace. It is a space where IAG is going to participate and we want to be a leader in that space. And LEVEL is one of the tools we are going to use to do that.

Under those costs, just briefly walking you through those, obviously getting the labour costs to greenfield levels, avoiding those potential legacy costs that can be associated with labour. Ensuring we have a really simplified commercial model; removing complexity, which implicitly means removing cost from that operation. And driving things, particularly on the commercial model, more direct than some of the incumbent full-service carriers. Making sure, as in the low-cost short-haul space, it is high aircraft utilisation, it is high crew utilisation within that. Making sure you have these assets in the air generating revenue for as much as they possibly can and making sure that you are earning on all the time that they are flying out there. And making sure you have a less complex product offering out there because, again, the complexity that you build into the full-service carriers to provide the range of offerings that are there adds cost to that operation. And we want to strip that out within this business model. So on the costs, 10–20% lower costs than relatively efficient full-service carriers.

On the revenues it is interesting; some people use this bucketing of the first three elements there together. It is demand stimulation: the short-haul carriers have shown that we can stimulate demand. And actually the long-haul experience that I pointed out on the slide before, really shows that this is also possible in long-haul operations. What we have seen through the Barcelona operations is tremendous amounts of demand being stimulated. These are new passengers; new people who have not travelled before coming to travel with us. We have the visibility of our frequent flyers from our other full-service carriers and we can really see that it is a completely different mix of passengers coming on these flights. And that is incredibly encouraging for us.

So it is demand stimulation done through fair discounting and that fair discounting is possible because it is a denser configuration on the aircraft. Sometimes people talk about density leading to lower cost per seat. But in a way, by having more seats on the aeroplane and equating this on a per-flight basis, those more seats allow you to sell more seats at a lower fare to generate the revenue. High-seat factors are obviously incredibly important in that as well. And coming up after me we will have Stephen Kavanagh talking about Aer Lingus. And that high-seat factor is an incredibly important component of this middle. Filling your planes, being load-factor driven and using an ancillary-led model behind that to generate the revenues that you need on these operations.

I mentioned customer-led ancillary product offerings. This is an unbundled offering; it is unbundled offering that gives customers choice: what do they want to pay for, when do they want to pay for it? The last element, which is in an important one where I think IAG is uniquely positioned, particularly in the European space, to be successful is connections without the complexity but connections will add value to this model. So having Vueling as our low-cost operator, and also with Iberia and BA and Aer Lingus, we have this opportunity to connect with other carriers. And in the long run we see that playing an important role in driving differentiation for LEVEL and for IAG.

However, overall, we have a big level of confidence and excitement about the opportunity ahead of us because we can understand the costs and we can understand the revenue generation. We actually have some runs on the board with LEVEL in its first year of operations out of Barcelona that are reinforcing this, in fact making us more confident that the opportunity ahead of us is really exciting.

The other bit that is really important in this is we were clear. Carolina from BA spoke earlier about the BA brand being a premium brand. And what is really important for us is having a low-cost long haul allows us to be very focused in what we do. And focus is really important, being able to deliver the customer proposition and being able to meet that customer proposition. So BA and Iberia are premium brands and they are focused on the premium segments of the market.

We have done a lot of work and I have given you some indicative sizes here of the long-haul European marketplace. This trade-down back cabin, or this more frugal-focused, price-sensitive back cabin represents about 30% of the long-haul opportunity out of Europe. The premium front end 30% and this trade-up, call it premium economy and trade-up basic economy in the back, represents about 40% in the middle.

Having a unique brand like LEVEL as part of IAG's portfolio allows us to go and execute a dual-brand strategy. It allows us to have brands that can top and tail that marketplace, but not dilute their proposition by trying to be everything to everyone. So IAG is uniquely positioned, we have the ability to have multiple brands and to have them work in cooperation, but be distinct business models.

So being the leader at LEVEL and being focused, having a maniacal focus on leadership in that space, on cost and on delivery of that unbundled product proposition, and having BA and Iberia at the other end of the spectrum focused on their premium brands and meeting what the customers are demanding allows us to have an incredibly strong position.

The size of those markets, we believe, is large and ample out there for us all to grow. This is not an opportunity taking away from Iberia and BA; this is additional opportunity for the Group. And actually allows us to be more focused in our strategy going forward so that we can have specific vehicles that can address opportunities and threats at both ends of this market. And not get diluted in terms of the proposition, or confusing the consumer in terms of that proposition, by trying to be more of everything to everyone.

I have spoken a little bit about why the leadership team believe IAG is uniquely positioned to do this. And we have a lot of things that make us very confident about LEVEL and excited about those opportunities going forward.

We have best-in-class costs. LEVEL has been set up and through all of our benchmarkings we are very confident that in the low-cost space, again leveraging the scale and the synergies and the platform that IAG has, that we have lower costs than our competitors out there on a

We have great commercial levers as well in terms of the ability for these passengers. We are very clear that, in a way, nobody owns a customer or a guest; nobody owns that person. They straddle lots of different airlines and opportunities depending on what their role of travel is. Actually, by being able to use Avios as a lever for burning and earning points for leisure, and being able to provide an opportunity for customers to go out there and use the loyalty scheme across all types of travel, whether it be a business trip or a family leisure trip, is actually a really attractive proposition that the IAG Group can provide and that Avios, in terms of its commercial lever, can help us execute.

Vueling, again, I mentioned earlier in terms of connections, it is really, really important that this will play a part in helping differentiating IAG's position in this market. So being able to connect LEVEL with Vueling and potentially others will add a point of differentiation, adds network breadth, adds ease, adds offering to the customers and is something that will really differentiate us in this position and in this market going forward.

Then, finally, that operating model, so it is a sort of virtuous circle in a way. Those costs that we are able to deliver are driven by being able to plug into that operating model. And that operating model that has been set up to work for low-cost carriers and full-service carriers within there and provide what they need at a level of scale and synergies that an underlying individual carrier could not do by itself. And to be able to move at speed. The speed at which we have moved to launch LEVEL and get it up and running from March to June, with a three-month lead time, and the success that we have done is built off the back of being able to tap into that platform and that operating model that IAG has.

A little bit about the performance to date: from a customer perspective, we have had incredibly strong resonance of the brand. All of the work that we have done surveying the customers who have flown on us to date have had really high engagement and really strong resonance of that brand and its position in the market.

About 75–80% of our passengers are purchasing the fully unbundled offering as part of that, which is really attractive to us as we continue to evolve our ancillary offerings behind that. And the demand has been phenomenal. I have put the first 24 hours; it is an impressive statistic from what we were able to sell in the first 24 hours. But in all honesty that has continued to beat our expectations and surprise us, going forward: how quickly we have seen the demand come in, how quickly we have seen the LEVEL opportunity be taken up by the market and the interest that they have shown.

On the financial side, we are looking at a 90% load factor, which again has exceeded our expectations for this first year of operation. It is profitable in its first year, excluding those one-off start-up costs for the operation. So that has beaten, again, our expectations in business planning but renewed our confidence in why this model will be successful and why we are interested in expanding this opportunity going forward. And these non-fuel unit costs we have actually been able to do ahead of target for that first year of operation. We are only at two aircraft at the moment. We have three more coming next year, so the scale needs to build, which will drive those unit costs down even further. But, I am impressed at the ability of the IAG platform and model to come together to allow us to deliver this at speed.

Organisationally – I know Willie has mentioned this a few times – we are setting up a standalone independent management team for LEVEL. And it will have its own AOC, which will be coming shortly. We are going to have this dedicated management team to renew that focus on the mission that LEVEL is going to have within the IAG portfolio and how it is going to work in tandem with the other brands that we have there to execute in the marketplace.

For IAG, LEVEL unlocks quite a few things. It is an ability to deliver a true dual-brand strategy on a pan-European scale, so we see LEVEL operating on a pan-European scale. It is an opportunity for us to become a leader in what is an emerging and what we believe will be a really important segment of the long-haul market. It actually opens up new network possibilities and opportunities for long haul, in a pan-European sense, for the Group. The cost performance that we are able to deliver through LEVEL will also be shared amongst the Group and drive better performance across that whole Group. So as we see more efficient ways of doing things within the LEVEL organisation, we can share those best practices and learnings and where appropriate, feed them back into the other organisations, the other airlines that operate across IAG. Its scale, as well, will help add to the overall scale benefits that IAG is able to deliver. So it is really, really exciting opportunities.

As I mentioned, it is two aircraft at the moment flying out of Barcelona. At the end of November, or early December, we will be announcing the summer flying schedule for next year and where the additional aircraft are going to be based for LEVEL. We will have five aircraft, five A330-200s operating next year. And we are really confident. Looking further out, 2022, we are talking about 15–30 aircraft – not just wide bodies. We see opportunities for the long-haul narrow bodies as well, the likes of the A321-NEO long range. But certainly this opportunity, at the moment, that we are seeing: 2022, in our five-year plan, 15–30 aircraft operated by LEVEL, operating in this long-haul low-cost space. And a really high level of confidence that we are going to be delivering that target that we have set ourselves, this 15% return on invested capital, that this entity will be able to do that. We have confidence that the economics stack up behind this on the cost and the revenue. And that this is going to be an exciting space for the Group to grow organically and establish itself as a leader in the pan-European space.

That is the end of what I wanted to talk to you today about LEVEL. Coming up next is Stephen Kavanagh, who is going to speak to you about Aer Lingus. Thank you.

Aer Lingus

Stephen Kavanagh

CEO, Aer Lingus

Good morning ladies and gentlemen, I have no video so please allow me to attempt to paint a picture for you over the next 20 minutes.

Since I last presented to you, the team at Aer Lingus have grown our business by 12.8%. We have retained very high levels of guest experience, delivering Net Promoter Score in excess of 40 across all four quarters. We have protected operating margin in a fiercely competitive environment through fundamental changes in our cost structure. And we have delivered a 22.9% return on invested capital for our shareholders. We have also created a more competitive and sustainable business with more opportunities for all stakeholders.

We have achieved this by being consistent and continuing to execute the strategy that we presented to you at the last Capital Markets Day. This effectively represents the Aer Lingus business model on a page. Our mission is to be the leading value carrier across the North Atlantic, enabled by a profitable and a sustainable short haul network. This will be supported by a guest-focused brand and digitally-enabled value proposition, delivering above-average returns on invested capital to all of our IAG shareholders.

For 2017 I believe we have delivered. We will continue to exploit the natural geographic advantage and leverage the position of Dublin as a hub and a gateway between North America and Europe. We will continue to manage our network partners and organisations to refine our commercial ability to extract maximum value in this context. We continue to work particularly with the Dublin Airport Authority to create a compelling connection proposition at Dublin. And we continue to see and seek new areas of growth and potential opportunity.

In short haul we are achieving a competitive market share position; we are very comfortable anywhere between 35–60% share in markets we compete. We are succeeding in driving CASK down with our LCC brethren. We are delivering competitive schedule depth which allows us to outperform in terms of RASK. And we continue to utilise the franchise model with customers that exploit the Aer Lingus brand, distribution capabilities and which, for Aer Lingus, bring improvements and increases in our network breadth.

Above all else, we are a demand-led value proposition, centred on cost to the consumer, cost of production, product that is fit for purpose and service that is consistently of a high level, with an operating model that is simple by design. As you have heard from Alistair, complexity is challenging, costly and adds little value in the context of the Aer Lingus business model.

One of the great strengths of IAG is its ability to sustain and grow different models within the portfolio, and Aer Lingus is different at this stage in its development. Our economic model has focused on cost reduction. That cost reduction, in turn, has created a growth opportunity. That opportunity we use, price while focused on maintaining margin, to deliver exceptional levels of ROIC. So that continues: as cost gets reinvested in growth, growth is exploited for further cost. And that gets reinvested in price-sustaining margin and exceptional levels of ROIC.

The model continues to perform. Above all else, as I have said, it is a demand-led model; the demand is our guests' demand. Consistently we deliver NPS in excess of 40, so we can have the confidence that we are indeed meeting and matching demand expectations. This has been at a time where we have leveraged membership of IAG to accelerate growth, so we have achieved consistent levels, high levels of service delivery, at a time where we have grown by 27%.

We are convinced we are creating shareholder value within this dynamic. I will draw your attention to the unit metrics trend where, demonstrably, we have been taking real structural cost, non-fuel unit cost, out of our business. We have been investing in price and returning some of that benefit to our guests. That has enabled strong levels of sustainable growth. But we have fundamentally been protecting margin and driving return on invested capital. That non-fuel unit cost performance is what is delivering a sustainable and a compelling business proposition.

Our operating profit has been transformed on the back of cost discipline and further leveraged by growth. You can see the operating profit at outturn on a rolling-12-month basis has been consistent and gives us the confidence that it is indeed sustainable and can continue to support a business with an ambition to grow. From a shareholder perspective, our ROIC, on a rolling-12 month basis, has been in excess of the 15% Group target since quarter two of 2016, and sustainably so.

We continue to see opportunity, particularly across the Atlantic, in terms of investment. We are more ambitious than we were in November 2016. We now have plans to increase the fleet across the Atlantic to 24 units: 12 narrow body, 12 wide body. We retain the flexibility within that plan to respond opportunistically to further growth, or to adverse movements in market conditions. The platforms are well known, the 330 is a compelling investment; the 321 LR, as you will see shortly, we are convinced will continue to drive new opportunities for Aer Lingus. And the venerable 757 has delivered and will continue to deliver on a tactical basis.

We are targeting long-haul ASK growth of circa 8% CAGR over the next five years. Those are lower levels that those which we delivered in the past five years, so we are very confident that we can deal with and manage successfully this level of challenge. We operated more than 100 weekly rotations during summer 2017, and new routes will continue to be added to improve both the schedule and network depth and breadth.

Let me introduce you again the 321-NEO LR from an Aer Lingus perspective. And, yes, the United States has turned green because I would like to point that particular and I will say unique advantage that Aer Lingus is well-positioned to exploit. What that there represents is the 11% of the US population that self-identify in the census as Irish-American. That is 35 million potential guests. You will see there is a concentration in the north-east of the US, in many disparate cities, which can be and will be connected in due course, effectively, by the A321 LR. So it will open up new markets. It creates value for Aer Lingus because once the aircraft arrives in Dublin, it is flexible and it can be dispatched into Europe, so we are confident we can get 18–19 hours of aircraft utilisation. And it also opens up crewing efficiencies because we can have internetwork crewing arrangements driving annualised productivity.

It is extremely flexible as a unit and it gives us product consistency. We will have at least a dozen gateways served to the Dublin hub. And with this aircraft we will have an ability to offer a consistent business cabin experience from end to end, wherever and whichever of the principal European cities is your destination.

This is part of a framework of an enhanced commercial offering. As Alistair said, we are focused on volume. We are yield-active close in but we are volume-active for the majority of the life of the flight and that allows us an opportunity to retail. We have strong ambition with regard to retail; we have consistently added €1 per guest, year on year, in terms of retail revenue. And that generally is margin, with very low levels of production cost associated.

We do this by having a direct relationship with our guests. It gives us the opportunity to retail but it is also cheaper. We are targeting 80% minimum direct. We are at 80% currently on short haul; we are at 55% on long haul. And as we begin to populate particularly the north-eastern markets of North America, we believe that the aerlingus.com brand and the direct channels will become more relevant. And we can increase that 55% and reduce our reliance on GDS and intermediaries.

We continue to focus on increasing North American point of sale. Our success in the US and Canada has created a natural FX hedge for our business. We are well-positioned to respond to any significant movements in dollar/euro exchange because of the dynamic of being 60% point of sale for our North American operations in the US.

We have worked hard to modernise and refresh the Aer Lingus brand. And it has been in response to both our commercial needs but also the market dynamic, where our principal competitor has been moving into the space where the customer actually matters. We have not only fought back but we have recovered. And in our home market we are clearly the preferred carrier, in terms of sentiment but also in terms of trust. That gives us the confidence to continue to expand and compete on a short haul.

Our brand, at its core, has value for money; it also empowers our guests. We allow choices, we have consistent processes and service delivery and, above all else, we attempt to under-promise and over-deliver.

In the US we are very well-positioned to exploit the opportunity because Aer Lingus is already recognised as a value brand. It is recognised as a low-cost way not just to get to Ireland but increasingly to travel onwards to the UK and Europe.

Our guest proposition must be digitally enabled. This is a must-have in terms of our business development because it is core to the three fundamental elements of our value-model proposition. It will enable us to reduce cost; it will enable us to transfer that cost to the consumer; it will improve product; it will allow guests to transact in a manner which they wish to; and ultimately, above all else, it is consistent. So we are on a journey to create an end-to-end digital experience for all our guests. We want to be best-of-breed in the value space. We will focus efforts on mobile web; we will focus efforts on personalisation and conversion because retail remains absolutely central to our short-haul model. And as we have rolled out an unbundled product offering now across the Atlantic, it also is becoming very relevant in terms of driving and maintaining unit revenue performance on our long haul.

So, growth drivers. It is a little bit embarrassing because the boxes are absent: too many crosses and too many dots. Our job is to maintain the current levels of ROIC performance, and grow the business and make sure that we exploit fully the opportunity without compromising on our unit cost trajectory.

On short haul we have plans for low-single-digit ASK growth. That will be delivered through more efficient aircraft utilisation. There will be some targeted investment in fleet and we will continue to capitalise on the profitable short-haul network and position ourselves in key markets to exploit not only the demand for point-to-point services, but increasingly the levels of flow traffic that will be traversing across our network. We expect that the A321 LR will be a significant addition to our short-haul fleet. In essence, it will allow us, and the aircraft will of itself feed itself, without compromising our production efficiency on the remainder of the network. We will continue to use ACMI to counter the seasonality that affects our network.

In North America, we build network breadth and depth. The simple fleet mix will allow us to ensure that we always have the right platform for the right mission. We will build on the strength of brand and the new unbundled saver fare which, unlike others, we want to sell and we want to sell in real volume because we believe that we can generate retail and additional incremental volume to more than justify the lead price reductions that are associated with these fares. We also will now, in the coming 18 months, have the significant opportunity, particularly from a network perspective, that membership of the Atlantic Joint Business will offer.

With regard to margin, unit revenue, as you have seen, is not secondary but our model will drive cost in principle, and we will manage revenue to maximise margin. We will invest significantly in our ability to manage revenue, in new point-of-sale systems, in new revenue management inventory controls, to manage the levels of flow we are now seeing across our network. We will continue to invest in retail to compensate for lead fare reductions and we will exploit Avios with the Aer Club loyalty programme.

Our capital efficiency, particularly in terms of fleet, is what is driving our ROIC. We have an opportunistic fleet strategy. We have a balance of owned versus leased, we have a balanced age profile, we have a balance of new versus pre-owned aircraft. That allows us to micromanage the 52 aircraft in operation and be comfortable that it is an extremely efficient deployment of capital, with a significant revenue turn on the back of it.

With regard to our employees, we continue to invest in building critical skillsets. Our business is 25% bigger than it was two years ago. It is obviously more complex in terms of the opportunities that we are going to exploit. And we need to invest in the talent and the capability to leverage that opportunity. We also see continued opportunity for efficient ASK growth and productivity improvements stemming from that growth.

With regard to suppliers, the IAG GBS platform has delivered real cost synergies, particularly across catering and ground handling. We have new engine deals coming to fruition which will sustain our model over the next decade. Airport user charges remain an absolute target area for Aer Lingus. If we are to be competitive, particularly in the low season, across the short haul network to and from Ireland, we need to be sure that we are being charged the same rates as the principal competitor across the car park. The airport charges at particular times of the year are absolutely core to the price proposition that is put in front of the consumer. And we need to make significant improvement and that, in turn, will drive more production opportunities, more efficiency and more growth.

So, in summary, the last 12 months have been very positive: lease-adjusted operating margin of 15%, sustainable ROIC through the cycle, 22.9%. We have grown 12.8% on a fleet of 52 aircraft. Our plans are absolutely aligned with IAG. We continue to target higher levels of operating margin. We believe we can sustain in excess of 15% return on capital. The growth is currently targeted at 5%; we have the flexibility and the ambition to push where we see real opportunity to protect margin and further drive growth. And by period-end the fleet, based on principally expansion across the North Atlantic, will have increased to 61.

So, hopefully, at the end of my allotted 20 minutes you have a picture of what is a sustainable and compelling investment opportunity. And thank you for your continued support. I will now hand over to Lynne Embleton, CEO of IAG Cargo.

IAG Cargo

Lynne Embleton

CEO, IAG Cargo

Good afternoon. Enough of this passenger airline stuff, I think it is time to talk about the really interesting part of the Group, which for me, particularly, is IAG Cargo. I find it fascinating, I find it full of potential, so I would like to spend a bit of time talking you through our plan, which really centres on three things. It is focusing on the customer, it is investing in growth and it is modernising the business.

So, one slide of context, at IAG cargo we care about what is in the box because we are moving life's essentials where they are needed around the world. So that is pharmaceuticals, it is food, it is fish, it is fashion – I guess getting less essential – and then sort of fidget spinners, which has been the important piece for this year, you must know if you have kids.

We deliver over €1 billion of revenue for the Group from the belly hold capacity of the OpCos. And we do this as a single IAG Cargo brand, a single commercial entity, operating the cargo operations across the Group.

This year, since the last Capital Markets Day, we have completed integrating Aer Lingus commercially into IAG Cargo. And we were, with Alistair, quick off the mark with LEVEL and in LEVEL's first few weeks it took some 5,000kg of seeds out of Punta Cana, which we could not have done without LEVEL, so thank you to them.

We are in an industry that I find fascinating because it is so connected to the global economy, it is dynamic and it is volatile. We are heading for our record-ever year, thanks in large part to the economy and the strength of Asia. What you will see from the chart on the left is there are fluctuations in demand in air cargo and this depends on the economy, it depends on exchange rates, it actually depends on weather and it does depend on fads. You will see, when one region has a good year, another region might be having a weak year. For me, this is where part of the strength of IAG Cargo comes in because we can use the breadth of network across the operating airlines to really drive value, this year taking freight from Asia on British Airways metal, taking it from London to Madrid and then putting it onto Iberia metal down to Latin America. Over the last few weeks we have seen handled volumes in Madrid higher than we have for the last three, four years and some record load factors on Iberia cargo.

It is also though an industry where capacity growth looks set to outstrip demand growth. This is driven by the passenger airlines, where aircraft are coming into the system. And the wide-bodied aircraft typically have more cargo capacity than the aircraft that they are replacing, as new-generation aircraft. So in this environment of demand and supply pressure it is how smart we, as IAG Cargo, are at filling the belly hold, how smart we are at pricing and how smart we are at finding efficiencies that is going to be the determinant of our success.

Our plan has really four strands around it. First is earning customer loyalty; second is focusing and prioritising premium; the third is unlocking volume; and the fourth one is embracing digital. And I will come to each of those.

Our customers are successful if they can move things quickly. And the things that go by air freight go by air because they are time-sensitive, because they are important. It could be perishables, it can be an important part for a production line, it can be equipment for a big event at the weekend, so reliability in operation really matters. So for me, fundamentally, it is about delivering a reliable, robust operation for our customers. And to that end we have introduced new leadership in the operation to make sure that we are top standard, delivering reliably and consistently in the operation.

We also need to be easy to do business with. Last year 2% of bookings were online. We have introduced a new website; it is faster, it is much easier to use and it has much more relevant functionality. While I say we want to earn customer loyalty, we are also not scared to reward customer loyalty; on this one I am particularly pleased by the results we have seen this year. A new loyalty scheme for small and medium-sized freight forwarders launched mid-year; we now have 1,000 freight forwarders signed up. What is interesting is if we look at the performance of the forwarders in the scheme, we have seen 24% growth in their revenue since the scheme was launched, against a general small-medium-sized freight forwarder performance half of that. So it is clearly bearing dividends.

What is really important for us in IAG Cargo is continuing the focus that we have had for several years on premium, and our business plan has some really interesting projects in this space. The most notable is the one on the top left. We are building a big facility at Heathrow; when it opens in, I expect, 12 months' time we will double our capacity for handling premium freight. And the diggers are in, the ground has been broken and we have started the process. It is hugely exciting for us.

What we are also doing is taking that expertise we have in pharmaceuticals and cool chain, taking the expertise from London and getting that into the Madrid operation. And we are developing new products for high-end customers.

20% of our tonnage is premium but 33% of our revenue is premium. Constant Climate had its best-ever week last week. And we have seen this year our premium freight revenues growing about 50% faster than our non-premium. So there is a lot in our business plan to make sure that IAG Cargo can stay ahead in this area.

I mentioned excess belly hold capacity. So, anything that we can do to get volume onto our aircraft can quite quickly drop down to bottom-line benefit for our shareholders. We still believe in capacity discipline. We do not have our own dedicated cargo freighters but we work very actively to find customers, partners and commercial agreements so that we can get feed from other carriers onto IAG OpCo metal. Last Monday we signed a new agreement with Air New Zealand. This takes freight on their metal to North America and then on ours, from North America into Europe, which is typically under-used belly space. It is therefore win-win for everybody.

In our plan we have quite targeted attacks on bottlenecks which are stopping us getting enough volume onto the aircraft in both the London hub and the Madrid hub.

The bit that I get really quite excited about is the opportunity of digital and technology. And if you wanted to come and spend a week with me in the general world of air freight, you might be forgiven for thinking, after a week, that technology in digital has just bypassed this end of the aviation space.

If I take pricing, for example, we have in IAG Cargo what we believe is one of the best pricing and revenue management capabilities versus our competitors. But it is still not best practice, if we look at other segments. We do not do dynamic pricing yet; we do not do upsell yet; we do not do predictive analytics yet. In our plan, we are absolutely going to be addressing that because we know we are not yet maximising revenue.

If I move to the operational piece, two interesting things from the last few months. We have been working with IAG Digital to introduce volumetric scanning in our hubs. That does not sound particularly exciting, but what the trial showed us was that 40% of the freight that arrives in London for export that we sampled does not meet the dimensions of the freight that was booked in our commercial system. So, within that, we have certainly a revenue opportunity; if it is too big we can go back and get more revenue from the customers. But it is also gives us an operational opportunity because if the freight is not the freight we are expecting, it makes it more difficult to carry.

We did a brief trial of volume visualisation and planning software on our busiest routes and that told us, on the short trial that we did, that on 14% of occasions we could have fitted more freight on our aircraft than we thought we could carry. On some occasions we planned more freight onto the aircraft than we could carry, so again a revenue opportunity and a cost opportunity.

If I come down here, we believe in IAG Cargo that we could and we should be the first taxi off the rank in terms of driverless vehicles. We have a cargo road which does not have other traffic and importantly does not get close to those very valuable, very fragile aeroplanes. So we are the best place to trial driverless vehicles. And after a great meeting yesterday with Heathrow Airport, I think we are close to getting a trial agreed this side of Christmas.

So the digital opportunities certainly are there to drive yields, drive asset utilisation and drive down costs but we think it goes much beyond that. By sheer coincidence today is really important for me, not because I am here, with all due respect to everybody in the room, but because today a parcel landed in London which had come from Chicago. This was our first shipment by Zenda. And Zenda is our new ecommerce, cross-border logistics platform.

It has been a big project, again with IAG Digital, to create a logistics entity which does warehouse in the US, to airport in the US, to airport in the UK, to home in the UK. So an e-commerce platform that has not existed. It has been a fascinating project, building web services, signing up logistics suppliers, testing that end-to-end logistics and finding those first e-retailers in the US to embrace the Zenda concept. So today we have reached base camp, and we are really excited now that there is a potential to expand and penetrate the e-retailers in the US. Then, once we have established that first geography, there are opportunities to extend Zenda beyond US/UK, across the IAG network and, indeed, potentially beyond the IAG network to use the Zenda platform more broadly.

So we see these digital opportunities in the business. Digital will change air freight. We have dedicated some of our best talent to make sure that we are looking at digital disruption and digital opportunities. And that talent will be growing Zenda and making sure we are also doing [inaudible].

In summary, it is a great business, it is dynamic business, it has huge potential. We are focusing on customer, we are focusing on investment for growth, we are focusing on modernising our business. I am building the team that can deliver on the business plan; building the team, the culture and the organisation. That business plan will deliver strong returns for IAG, and it will also deliver food, fashion, pharmaceuticals and life's essentials where they are needed around the world – and flowers.

That is for me. Given how much of what we do has been working with IAG Digital, I think it makes sense for me now to hand to Robert Boyle.

IAG Digital & IT Strategies

Robert Boyle

Director of Strategy, IAG

You may have noticed that digital is a really rather important component of all of the operating company's plans. And I make no apologies for coming back and talking a little bit more about it. I am going to talk to you about what we are doing in the Group Digital function, which is there to try and catalyse, assist and help the operating companies in their digital journey. But also to be out there scanning the horizon and looking for the next set of opportunities, the things that are going to be arriving in operating company plans when we come to talk to you next year. I am also going to talk to you about IT strategy, which is obviously an important enabler for making sure that we can deliver on that strategy.

This is a very big space. You have heard a lot of different examples of where we are applying digital technologies. To try to organise this presentation, we have divided it up into five broad areas; I am going to take you through each of those. They range from 'shop, order, pay', which is really about where we go next with NDC and the whole selling, ordering, down through to payment process; data and the exploitation of that; marketplaces, which is really where things like Zenda fit, opportunities to open up new revenue streams and new businesses; automation, you will have seen the Mototok out at the front of the building. We think there is a lot of opportunity in this area going forward. Finally, digital is not just about the technology, it is a lot about the mind-set; it is a lot about new innovation, ways of working. And that is our fifth theme.

Starting with Shop, Order, Pay, I am going to start with the problem statement to which Shop, Order, Pay is our strategy for solving. The airline business and the systems that surround it are really a subset of the whole travel ecosystem. This has been a global industry for a long time, and it has been a global industry from the days when real-time global transactions really were not feasible. So the infrastructure and the ways in which that system works really were designed around batch processing and handovers and physical paper documents. Although a lot of that has been turned into electronic means, there is a lot of embedded legacy within that system. So we have customer records which sit in different places; we have that lovely six alphanumeric digit PNR that you probably know that you probably should not need to know. By the way, if you take a photo of your boarding pass and put it on Instagram, you will get your account hacked because all you need to get into someone's booking is that six-digit number and the name. So this is clearly not state-of-the-art technology and we need to change all of this.

The legacy gives us complexity and cost that we do not need; it makes staff training harder; it gives us an antiquated offer management process. Fundamentally the big problems are that we cannot create and test new products as fast as we would like to, and that the focus of this system tends to drag you back to focusing on the order, rather than on the customer. We need to fix that.

We need to get rid of this triangle of doom, as we call it; the PNR with one set of data; the e-ticket with a different set of data that has to be reconciled to it; and PRA, which is passenger revenue accounting, who are the people who spend a lot of time, effort and processing trying to reconcile, after the event, all of these pieces of information, trying to work what actually was the price at which this ticket was sold. If you were working in a modern retailer, Amazon or something, you would sit there looking very confused, saying, "How the hell do you even survive with a system like that?" It is all very simple, you just have an order which moves through the process. All of the data for the price, which was offered to the customer, which they bought, moves through the system all the way through to tracking when it has been delivered and settled. So in a way it is a simple idea, we just need to implement best practice out there from the online retail space. But, obviously it is a big change for the industry. NDC is an important first part of that but there are a lot of other pieces of this which need to be unravelled. And that is what this whole 'shop, order, pay' process is about.

So, moving from a world where today it is very order-centric. In your app you often get prompted with a, 'Can you put your booking number in here?' in order to retrieve all the data down; that really should not be something we need to do. We should have all that data there and available in the system so it is customer-centric. You can then drill down into the orders, rather than the way around.

These figures here are based on a study that was done by IATA because Shop Order Pay is now an IATA initiative. We have been one of the primary drivers behind it, and we were heavily involved in the study to look at the benefits to the industry of fixing these issues. Here, we have applied some of the metrics that came out of that study to IAG's volumes, and that will give you a figure of around €100 million a year in cost savings, around €400 million a year in revenue benefits, and also will deliver that customer-centricity and NPS customer satisfaction score uplift.

Now, as I say, we were heavily involved in this project. We think these figures are very conservative, we think there is a lot of further potential. Clearly industry-level benefits will over time be passed through to the customer. So it is crucial, from our point of view, that we are one of the leaders in this area, we get the competitive advantage early. And that is what we intend to do.

So, as I have said, NDC is one of the first pieces of that. Just over five months ago, we announced that we would be introducing the distribution technology charge, to recover the higher costs of our high-cost distribution channels. That is a critical part for us of being able to really push forward in terms of moving the industry and our own business forward, in terms of adopting NDC. Customers and agents and companies who book with us, either directly through our websites or through NDC-enabled channels, do not have to pay the fee. And that is really just us passing on the benefits of the savings that we get when people use modern lower-cost technology.

There are many ways for people to connect with us through NDC. There are various aggregators and intermediaries who can offer that technology solution; the GDS companies are pushing forward with trying to implement NDC connections. But we also wanted to add a very easy-to-use mechanism for customers, for agents, for businesses, who wanted to avoid the fee and book directly with us through NDC. So we launched also, this week, booking portals. These are the equivalent of the dot-com sites that we have for our customer side; this is the B2B equivalent for that for travel agencies, businesses – small and medium, in particular, it is attractive for. We put these live this week, and we have had over 300 registrations already, and I am sure it has gone up since I last got that figure. So actually we have been very pleased with the response we have had to this.

Turning now to data, data is another big subject, and I am just going to give you a flavour of some of the things we have been doing in this space.

We have launched a new data platform – a data lake, for those of you that are interested in the space. We have branded it Nexus, because all good technology platforms should have a brand. And we have been started to invest significantly in building up a proper data science centre of excellence at the Group level, which will help implement the data strategy across the Group, and help support the data analytics teams that are embedded throughout the business.

We have something that I am sure you have probably heard of: the GDPR, the General Data Protection Regulation, which is coming in in Europe over the next few months. Obviously, we are going to be in a position to comply with this, but we are treating this as an opportunity for us to simplify, and tighten up, and make more efficient, and unify the way we handle data governance across the Group, which will really help us deliver on the strategy.

I picked out three areas here of use cases where we have been recently testing stuff out. The first one of these is around using the sensor data from all of the sensors on an aircraft. The fabulous black box, that you will have heard about when you have an air crash, that is actually orange, actually also has electronic data that you can pull of it. For a long time, we have used that data and done a lot of data analytics on it in the support of safety-related topics. But what we have been doing here is really to shift to putting all that data and making it accessible in our new data platform, and then deploying state-of-the-art data analytics, machine-learning and so forth, to be able to do predictive maintenance forecasting on it. And this is looking like a very promising opportunity to get some big cost savings.

The second example here is around real-time anomaly detection: again, machine-learning-type algorithms; looking real-time at booking data at a very granular level. Spotting anomalies where we have something that has broken out of the trend, which could be an unexpectedly low booking volume. Has something gone wrong? Has a connection dropped? Have we got a problem? Or a spike, which may be an opportunity to look at. Is there suddenly an event that has been announced that we may be able to capture a better yield from? Or this example here was a human error. Somebody filed a first-class fare. I will not call them out but let me say they got confused between commas and dots, and managed to file a first-class fare on quite a few of our transatlantic flights at completely the wrong fare. This was spotted at something like 03.15 in the morning, UK time, and a lucky revenue management colleague was woken up at home to remedy it. Now, before this, we would have found that hopefully the next day, by which time we would have lost a hell of a lot of money. So these examples have already saved us considerable figures.

Then the final example is all about what we can do to integrate our data. Alex talked a lot about the importance of improving baggage performance. This is an example here where we have used some of the new technologies to integrate data that was previously very hard to integrate, so we are combining telematics information, location of vehicles around the airport, with data from the baggage system. And then data from our job allocation system about which employees have been assigned to what task. And combining those together in a way that provides actionable insight for the people controlling the operation.

Marketplaces, I think in the interests of time – and I am conscious I am standing between you and lunch – I am not going to talk too much about this. Lynne has told you about Zenda; we have many other ideas in this space that will be coming to light shortly.

I will just say a word about the in-flight opportunity. As we roll out connectivity and Wi-Fi across our fleets, we have a lot of exciting things to roll out in terms of the opportunities, what we can do with people that are spending, in some cases, many hours on a flight. The opportunities that come with a touchscreen, seat-back video or integration with your own personal device, on an aeroplane that has Wi-Fi and connectivity to the internet. There are some real exciting opportunities there, and we have started rolling that out. We actually used LEVEL as a test bed there.

Alex gave you lots of examples of what is going on above the wing. I am going to focus more on some of the below-the-wing stuff. We think this is an area that we can get benefits both in cost, customer satisfaction, crucially, reductions in aircraft damage, which I will come back to, but also environmental benefits, and health and safety benefits. The digital team has been working with Raghbir and the team here at Heathrow to go through exhaustively all of the possible application areas, and we have identified 45 possible use cases. Not all of these will come to fruition, but just to give you an idea of the scale of the opportunities we see, whether that is in baggage, ramp operations, logistics, etc.

Hopefully, you have had a chance to go and see the self-driving vehicle that we have parked out the front. I used the example here of the staff shuttle service from Terminal Five out to what we call the Eastern Ancillary Area. This is a service where we have today two National Express coaches running 20 hours a day, every six minutes, and we think we can replace those with self-driving units at a fraction of the cost. Lynne talked to you about the opportunity in cargo, which I did not use because we had not had the meeting that she had yesterday.

Another exciting area is around automated jetties. I am sure you get just as frustrated as I do when you arrive at the airport, you park onto the stand and then you get that dreaded message, "We are just waiting for the jetty to be attached to the aircraft." The other problem we have with people and jetties is they do not always get it right. The little chart there shows you the track of a trial we did on automated jetty, where basically a robot was controlling the jetty, compared to the examples of human beings doing it, in blue. And frankly, as you would expect, we get a much more precise predictable track there. And the ability to eliminate the damage events that we get when human beings get it wrong, which have a huge cost to us and disrupt operations where we have to take the aircraft out of service.

So finally on the digital side, digital mind-set. We engage with participants in universities at an industry level. As I have said, some of the Shop Order Pay stuff, in particular, is very much an industry change-driving event, but also with the start-up initiative through our Hanger 51 initiative. I am very pleased with the developments in this area.

I would just call out the university collaboration point. The Alan Turing Institute, we are proud to recently agree to partner with them, to jointly explore opportunities about applying data science and machine-learning to the tricky problems around the revenue management and pricing area. The Alan Turing Institute, if you do not know, was founded by five of the top most prestigious universities here in the UK to act as a national centre of expertise and research, and engage with the industry on big data science problems that could transform industry in the future. In terms of driving industry transformation, there is Glenn Morgan, who is sitting over there, who leads our digital transformation team. This was him a couple of weeks ago, keynoting at the IATA passengers symposium around Shop Order Pay, and driving that forward.

All of these great ideas are nothing if we cannot actually deliver them from an IT infrastructure point of view. We have talked to you in earlier years about what we are doing to create the GBS platform from an IT perspective. That is in place. There is still stuff to do, making further progress around service effectiveness, transparent performance metrics, really honing the plug-and-play ability for new operating companies. And, as I will say in a second, another major thrust going forward is accelerating the shift to the cloud.

We have been very focused over the last three years, and we make no apologies for it, on really getting the costs of our IT down to the level that is competitive. I think we gave you a figure of €90 million savings that we were going to be able to achieve, and I am pleased to say we have actually exceeded that number and done it two years early. That is not to say there is not still more to do on the cost front. So going forward now cost remains a priority, and there is more to do. But we are adopting more of a balanced shift in terms of priorities going forward from here, putting an even stronger weight on supporting the revenue-generating initiatives that you have heard about throughout the day and, crucially also, putting a major focus on resilience.

So, what is this hybrid cloud that we referenced on the last chart? Today, throughout the IT stack, whether that is from the buildings, the servers, the discs, operating systems, databases through applications on on into networks and end-user – although this is a generalisation: we clearly do use the cloud and have a lot of partner relationships – fundamentally, in most of these areas, we are very heavily still a model which has IAG IT people directly managing the service. And we need to shift, and primarily host it in our own physical data centres, and we are going to change that over the next three years. There are some legacy IT, which will need to be run off over time, where the only major thing we are going to do is to be re-hosting it in a modern tier IV, co-located facility.

There is also a category of stuff – the dot-com and mobile would be a good example of this – where, frankly, we do not need to be doing the bottom layers. We do not need to be doing databases, operating systems, all that sort of stuff. We can sit on other people’s cloud infrastructure, get much more resiliency and better costs than we have today. Then finally, the other way we are going to shift to a different world is just by buying software as a service, where there is no competitive advantage and we can just buy software as a service from others. The common finance system would be a good example of that.

So, through a combination of these things, over the next three years we are going to make a big shift in terms of the way we approach the IT infrastructure. That is really going to enable a lot of the exciting innovative stuff that we have talked to you about today, so things like blockchain, edge computing really powering our shift towards a fully API-enabled IT, and all the other event-driven AI analytics and stuff you have heard about just now.

But IT is not just about the technology and the hardware, it is also about the ways of working and the people. Frankly, for a business like ours we cannot be fully agile, in the sense of a few people in a room creating code on the fly; we also need to run a 24/7 operation, which when it goes wrong goes wrong, as you know, very visibly. But equally we absolutely need to do those things as well. So, the strategy here is to try and get the best of both worlds, to have a set-up which can give us resiliency, can give us cost and basic operations but also move fast, have iterative changes, product-based teams developing new issues within the business, and an architecture based around micro services which enables that.

Now, I cannot stand up here and talk about IT without addressing the issue of cyber threats. Clearly, we are a high-profile target, as any big business is, and we take this very seriously. Over the last probably 18 months or so, we have had another hard look at this to try and ensure we were doing everything in best practice. And we have made sure we have proper cyber incident plans in place throughout the business. We have also moved the monitoring security stuff fully up to a complete fully resourced 24/7 setup. We are working with some of the best partners in the business in cyber security, and we deploy the latest technology in terms of robotics and penetration testing and intrusion detection scanning. As I mentioned before, PCI compliance and getting ourselves ready for the new GDPR data stuff is another key focus area. I think this picture here is one of Glenn's latest recruits, by the way.

So, just in summary, we have a big agenda going forward. We are excited about the potential. We are determined to take advantage and be a leader in this space in terms of the five areas of digital transformation. And we are making sure that the IT platform that we have is fit for purpose, that it is robust, strikes the right balance between cost and supporting those revenue initiatives, underpinned by resilience. And that we have a way of working that can deliver the 24/7 operation that we have whilst at the same time supporting agility and speed.

Financial Strategy

Enrique Dupuy

Chief Financial Officer, IAG

Thank you again for being today with us another year on this Capital Markets Day event. I think we have been hearing through the morning some very interesting and positive messages from the different speakers. I will try to modestly summarise a little bit what I feel are the main type of significant messages that I would like to share with you today, basically having to do with our next four or five years.

Basically, what we are trying on this new period is to improve the value that we will be creating, increasing margins and, at the same time, growth. This is something that may appear difficult, challenging. But, we are going to be having the tailwind of an improvement in the general economic environment on the strategic markets in which we are operating.

Remember last year, we were talking about post-Brexit situation and shock, and the ability to be positive about our economic and environment was limited. This year, we are seeing a much better economic development around our basic economic strategic markets. That is why we have both margin increase and growth.

Of course, on the very front of our minds is this aim of enhancing the value of our brands and improving our customer propositions. We have been hearing a lot about these ideas.

Leveraging the strong position that our basic operating companies have in their main strategic markets, which is proving to be, again, a huge asset of IAG Group.

Continuing the development and the use and the benefit that we are extracting out of our platform – I will go a little bit through the basic ideas on the following slide.

Finally, keeping a high level of financial strength and liquidity to enable improved shareholder returns and other capital allocation opportunities, so, keeping the financial optionality. That is something critical for us.

I am not going to bore you again with all these ideas that have been transmitted through the morning around our different platform units. I think basically, the main messages are around these units will be helping us in three areas. In one side, it is about catalysing and levering the cost reduction opportunities, the efficiency improvements that every other unit is trying to unveil, is trying to make happen.

As you can see that the basic efforts that we will be doing through MRO or GBS, but even also Digital, a lot of them will have to do with cost opportunities, efficiencies on the cost side. Also, most of these units will have a significant value in bringing unit revenue improvements. This is again the case of digital or IT and, of course, Avios.

On top of those two, it is about improving the value contribution to our profit and loss account to our EBITDAR generation. That is something that both Cargo and Avios are already doing, and with clear prospects of improving their contributions.

A short mention to Avios. New management in Avios have been recently landing in the company. They are analysing the opportunities of improving the business, of unlocking additional value, of giving a step forward to the Avios project. I think in a few months, we will be ready to tell you more about it and to assess what we are going to be able to do with Avios into the future.

Then, let us come back a little bit to basics. I am sorry for bringing you this chart because I think it about some things that you already know well. But, I think I bring it to be able to link how we are going to be using these levers and how these levers will be coordinated with our planning goals to be able to maximise the value that we are able to produce for our shareholders.

On the left-hand side of the chart, of course, one of our main targets, which is improving the total shareholder return for our shareholders, for our investors. Of course, it is a market metric and that is the market level. We can influence, but we cannot guarantee the final outcome because there are external drivers and influencing factors that we will also have to do in our total shareholder return.

We use relative total shareholder return to try to filter down some of these external influences. But, at the end of the day, the behaviour of the price of the shares in the market will be, in some way, independent.

What we can do, is on the right-hand side of the chart, is at the corporate level. We want to use our levers, our pieces of the puzzle, to align our actions better than we can with this global goal, which is improving the shareholder return.

What we can is basically improve our earnings per share. It is one of the basic metrics, the basic levers, the basic tools that we have at the corporate level to improve total shareholder return: earnings per share and earnings per share growth. Again, that is going to be one of the metrics that we are going to be using intensively and will be present in what we call our blue chart, so this type of goals planning summary.

Very much related with earnings per share and earnings per share growth is return on invested capital. The alignment, the level of coordination, correlation between the two is very significant. It is more significant when there is a consistent leverage alignment between the two.

We all know that earnings per share can be having an independent life if there is changes in leverage or different levers of share buybacks, etc. That is why we are always mentioning in our goals about our leverage type of investment grade zone, so where we want to be, where we feel we basically are compliant with our targets.

Earnings per share, return on invested capital, and then what is behind the ROIC figure? There is a numerator and there is a denominator. In the numerator, we are finding again metrics as EBITDAR/operating profit. Those are also explicitly considered on our type of goals chart, our goals type of map. Behind improvements in the numerator, of course, we have to mention margins and growth. We are going to talking about margins and growth.

On the denominator, which is also important for the equation, we are talking about the value of asset base that we are using, the capital that we are allocating behind that asset base. There, the critical elements are capex efficiencies and things as our asset utilisation. That is also a chapter that we are going to be dealing with through the next slides.

These are pieces of the puzzle that we really have very much present on our planning exercises. We follow, they fit and they should be producing a good alignment between what we do at a corporate level and what we get at the market level.

For example, let us talk about EBITDAR. We have recognised that EBITDAR is one of our type of main drivers for ROIC and then EPS, finally. This is how it shows the EBITDAR evolution since last year.

Here, at the left-hand side of the chart, we recognise the average €5.3 billion that we thought we were going to be achieving last year for the period 2016–2020. This year, things have changed. The markets have changed. Our opportunities are better than last year, as I told you.

For the same period, we are aiming to achieve an average EBITDAR figure of €5.5 billion, an improvement that is very much related to growth. When we analyse internally how we are going to be improving that period of time in our plans, it is very much about efficient growth. Efficient growth because of better economic environment. We will be able to keep unit revenues – unit cost basically – and achieve a positive balance between the way we manage our supplier costs and other non-passenger revenues.

We have also allocated a negative there. The negative has to do with fuel. What this negative says is that we were seeing fuel prices November 2016, last year, slightly different as we are seeing it today. Today, we are including a certain level of contingency for fuel price potential increase. We are bringing our figures up to more or less today's prices. That is for the period. Same period, improvements. They have to do basically with efficient growth.

For the whole plan, which accounts from 2018 to 2022, we have to recognise some significant changes. They have to do with rebasing the period. On the new period, 2018–2022, we are discarding the first two years, which are low EBITDAR years. We are including the last two years, 2021 and 2022, which are high EBITDAR years. This rebase effect will be creating the opportunity to bring our average for this new period, 2018–2022, up to €6.5 billion.

Behind the €6.5 billion type of target, on a non-scale basis – so please, do not get confused by the size of the squares, of the bars – we have to mention this type of improvement areas that we have been dealing through the rest of the session. Fuel will have to do the efficiency of the new fleets, a big effort in renewal that will be taking place through these years. Employee costs, employee productivity is going to be improved very significantly.

We have been hearing about British Airways plans, Plan4 initiatives. We have been hearing about Iberia plans, so Plan de Futuro II, about Vueling efforts, the NEXT project. In the case of Aer Lingus, it has not a name because it is so embedded in their genes, they do not need a name. They will be improving productivity in a very significant way, through efficient growth, as they have been doing it in the last five years.

Margins, efficiency in terms of margins, EBITDAR growth. This is how the growth differences will be split through the different companies. Again, we have made same exercise of trying to set a same period of comparison as last year, 2016–2020. Last year, we were saying 3%. This year, we are saying for the same period 4%, and for the same companies.

The big improvement on this same period, same companies relies on Iberia. Iberia is taking the benefits of a much better environment of the South Atlantic market. They are reacting very quickly and they are grabbing the first benefits of these improved situation already through 2017. We are seeing it in Brazil and we are seeing it in Argentina. We are seeing it in Chile and Columbia, etc. That is already coming in.

What happens on, I would say, the rest of period and also with LEVEL? You see, starting with LEVEL, LEVEL will be a very significant contributor on the new growth model of the Group. That is something that will be coming through 2018, 2019 and 2020.

After LEVEL, of course, the rest of the companies in these second period – again, these rebasing and exit scenario, which needs to adapt to the 2018–2022 new period. The companies growing on this type of second period of the plan are the ones coloured in this bar. It is Vueling, it is Aer Lingus, it is Iberia and, to a lesser extent, is British Airways.

We have been talking about margins. We have been talking about growth. Let us talk about the denominator. We have been explaining how our EBITDAR figures are going to be enhanced. Let us talk how we are going to be dealing with the asset base.

The first thing is about our fleet plans. Of course, fleet accounts for maybe more than 80% of the total asset base. What we are doing is basically going through a programme of fleet renewals.

In the long haul, you know well – and there, we will bring some more details – it is about substituting all the fleets – 340s, 767s, 747s, 777s, etc. – through the new generation fleets.

On the short haul, it is basically around the 320-NEO family, which will be substituting gradually the 320-CEO family. We have this huge benefit in the Group of using the same family of aircrafts for the four companies of the Group. That is a huge advantage because it gives us a lot of bargaining power, but also commonality and our ability to move, eventually, surplus planes from one side to the other.

There was a concern – there has been a concern that we have been, in some way, receiving and we have been feeding back. But, I want to take this opportunity to make it a little bit more public. Last year, we were talking about actions, measures, initiatives to improve the way we were using our assets.

Some of the measures were having to do with deferring the entry of new fleets. People could be a little bit worried about how you are really aging the life of your fleet in an appropriate way. Here, you have the answer. The answer is no. In reality, we are aiming to an average life of our life through 2018–2022 of 10.9 years, which is very much around our goals. It is very much an average figure for our industry. This is something that we want to make clear. We are going to have an average age of fleet which is absolutely appropriate and correspondent with other companies.

This is basically the differences in terms of the aircraft that we were intending to use, horizon 2020 last year and now this year, for the same horizon. We recognise there more 330-CEOs and they have to do with LEVEL first stage of growth. Also, one addition for Iberia.

We are seeing A340s. Those are the A340-600 of Iberia that we will be extending because they are really very appropriate aircraft for some of the high and hot destinations of Iberia. They are difficult to replace. Iberia has been able to buy them back at very efficient prices. That is a very interesting deal.

There is an acceleration of retirement of the 747. There is a little bit more on new generation aircraft, the ones that we have been able to accelerate a bit; two for British Airways and one for Iberia. There is a little bit of reduction in other fleets. On the long haul, it is basically, I would say, very similar on this scenario 2020.

On the short haul, basically, we are accelerating the new entries of A320-NEOs in respect of what we thought was going to be the picture last year, so 374 instead of 362. This is spread between British Airways, Iberia and Vueling.

This is how we are going to be managing these additional requirements of these additional growth that I was mentioning at the beginning.

This is the other side of the coin always. Additional aircraft growth, new commitments, at the same time, flexibility, flexibility, flexibility. This shows how we can adjust and bring down the size of our fleet, both in the short haul and in the long haul. You may easily recognise that we have a very high level of flexibility, especially in the short haul, but also in the long haul, if we were to retire on an anticipated basis the 747 fleet, which is our last powder. We still remain comfortable on this additional growth because of keeping a very high level of flexibility in our fleets.

This is a chart that we showed last year. I bring it back again because I think it is very visual. What it tries to reflect is how we are growing our asset base – in this specific case, our fleet base – through the growth of our ASKs, and then our capital efficiency decisions, actions and projects.

This is being done on a notional basis. The base is 100. The type of aircraft is a notional one, an average one, configured at maximum economy class. On a normal exercise of growth to achieve – that is what we said last year – to achieve this three-point-something percent of growth through a five-year period, you would be needing to get from 100 to 115, easy mathematics, clear.

We were able to do it, just get it to 105. That is the type of efficiency definition that we are using. I will try to explain you how – because we are improving the use. That was the story last year.

What is the story this year? The story this year is similar, but better because, of course, we are expanding the scope. For getting the 5.5% growth that we were imagining with this notional aircraft, we would be needing to climb between 100 to 127. The fact is that we will be doing it with just 113. This means that we are going to be continuing, improving the efficiency by which we fly and operate our aircraft.

This is behind those arrows. It shows the tools, the levers, that we are going to use, in comparison with last year. It has to do with utilisation improvements. Our fleets are going to be used more intensively than the average of our recent history. That is a very significant source of improvement.

We are replacing some three 777-200s through 777-300s. As you well know, 777-300 is a very much more efficient aircraft, in terms of asset utilisation. It is bigger. Its configuration is going to be better. Its density of seats is going to be improved. The relationship of those metrics with the value work significantly well.

We told last year about a negative effect that has other positive consequences, which is the expansion of J Class of the Business Class in some of our 747 aircraft. That means that we will be having less seats on those specifically dedicated aircraft. That is again the picture this year.

Other actions that we will be deploying will be working on the same direction. We have to mention short-haul densification. That is a metric and an action and a project in which we are very well-aligned now between the different companies of the Group. The 320 family is going to have a very, very homogeneous final configuration in the fleets of the different companies of the Group.

The big bar, that's a big type of important Group decision that we have undertaken, which is improving the seat configuration of our new fleets. That is basically going to be one of the main drivers of the new efficiency model, in terms of operating our aircraft.

This is a little bit of, again, how we chose. We were telling that our average CAPEX per year on this period 2016–2020 was going to be around €1.7 billion, with a maximum of €1.9 billion and minimum of 1.3 billion.

For the same period, we are recalculating these numbers and because of additional growth, we will have a little bit more of average CAPEX. Instead of €1.7 billion, €1.8 billion, with a maximum of €2.4 billion and a minimum of €1.4 billion. Then, extending the period to 2022, the average will be getting to €2.1 billion. This is basically how we will be adjusting the size of our fleet and the capital we allocate to these new growth targets that we are mentioning.

I think on this type of square there, we are probably summarising one of the important achievements of this plan. And it refers to growing 5%, in terms of ASKs., growing our invested capital, including non-fleet, and with new generation aircraft at 7%, and achieving an EBITDAR growth of 9%.

That is the magic of our plan – one of the magic. But, this is a very important magic because it really gets into the vein of ROIC improvement – this combination of EBITDAR growth and invested capital growth.

Again this is our money. This is where we are going to be getting our money and how we are going to be using our money, and the headrooms and the way we can become flexible, in terms of how we deploy.

On the sources of funds side, we had – this is the old plan – the famous €5.3 billion EBITDAR as an average year. We had a balanced financing/refinancing repayment model. We are not going to be altering significantly that balance. We have the uses. We had a very significant buffer because of our cash holdings and because of our credit lines. It was a powerful starting point last year.

How we are going to be using that one? Basically, attending our CAPEX requirements, attending our lease, interest and tax costs, and our pension and restructuring needs. But, the surplus was really the increased cash flow that we were going to be able to deploy.

As you see, comparing the two bars, we were able to deal with a very significant headroom year by year – not only in average, but also year by year for the comfort of our shareholders and for our own comfort in terms of how we use our funds.

This year, I think complaining with my people about the size of the red arrow because I always thought it should have been increasing much more evidently. But, I am afraid the size of the bar is limited. It is showing a modest increase when it is a very significant, real one because where we are now putting a €6.5 billion, we were putting before a €5.3 billion.

The headroom, the cash flow generation has been improving significantly from last year to this year, even having to pay more for the CAPEX that we are going to be using and for the leases, interest and taxes that we are going to have to attend.

We are getting to the final slides. This is our blue chart. This is our long-term planning goals and targets, a summary of them. As you can recognise, they fit very well the ones that we were describing on the first pages of this presentation.

We are talking about ROIC. We are talking about operating profit margin. We are talking about EPS growth. At the end of the day, the same usual suspects that we were recognising in the other type of integrated model. What we are saying here is these targets, the targets that we were mentioning last year, will be reconfirmed. We are reconfirming them. We are getting more comfortable about our ability to achieve.

Then, we have included a second sentence: surpass them. We recognise in our plan we have the actual circumstances and scope for upside, in terms of the targets that we are mentioning. But, the targets are driving behaviour. We do not think it is the appropriate moment to change our targets. Those targets are the appropriate ones for the level and type of decisions that we are going to be undertaking in this period.

Apart from this targeting and apart from this judgement on how we are going to be able to achieve or surpass these targets, we are recognising, again, keeping ourselves, keeping our gearing on the investment grade zone. That is going to be a must. That is going to be a driver of our decisions, for the good and the bad. We will be trying to keep our leverage at those type of levels.

The EBITDAR that we are forecasting to be able to achieve through these five years will be averaging €6.5 billion. The CAPEX, the €2.1 billion that we have already mentioned. The equity free cash flow, €2.5 billion, which is also better than the one we thought we were going to be achieving last year. The dividend cover on regular net earnings will be four times in the same way we explained last year.

I think the basic summary is we have a very strong plan. We have a strong plan that drives significant earnings per share improvement on a solid way through ROIC improvements, through growth and margin improvements.

This is how it shows in terms of shareholder returns, and shareholders returns compared with the ROIC that we have been and will be achieving. We were starting, in 2015, with a ROIC level achieved of 12.5%. We approved a dividend payment of €415 million. We again revaluated the situation in 2016. Our ROIC last year was getting to 13.6%.

We decided we could keep our dividend policy as a pay-out of 25%, getting to a higher level of regular dividend payments. But again, we thought we needed to adjust our leverage level. We had a surplus cash and a surplus of our ability to leverage the company. We decided, because of the price of the shares and because of our other alternatives at that moment in time, it was wise to approve a share buyback. The share buyback was worth €500 million. We are close to finalise it. We are above €420 million already. By the end of December, we will have a return to our shareholders, a figure that will be close to €1 billion.

How will this type of pattern of decision be flowing into the future? The first things is about the scope. What the chart there wants to show is not the potential outcomes of our free cash flow generation. No. It is just to show that because the pattern of fleet deliveries is a little bit of a rollercoaster, we will be getting different figures through the different years of the plan, up and down. The high level of figures will be close to €3.5 billion on certain years. The lower levels will be in the range of €1.5 billion. The average, as I mentioned in the previous page, will be around €2.5 billion.

Very significant room. Very significant room for improving shareholder returns; for consolidating our dividend policies; for analysing other, wise opportunities to allocate our capital and the funds that we will be generating. Huge room. Huge level of optionality. Basic summary, we are really going to be prepared to take the best decisions for the Group and for shareholders in the coming months. Thank you.

Conclusion

Willie Walsh

Chief Executive Officer, IAG

Thank you. There you have it. We have a great team providing strong and effective leadership. We work really well together. We push one another. We challenge one another. Critically, however, we support one another really well. You will have seen the evidence of that as we went through this year.

Javier talked about the support that he got from other parts of the Group as he restructured Vueling and re-established the operational performance, which has been stunning. We are supported by a really talented, extensive network of people right across the business. Some of them are here today and you have had the opportunity to meet with them.

The IAG Platform, it is established and it is integrated into all of the operating companies. You can see there is very clear and visible benefits as a result of that. We did what we said we would do. In 2011, I stood up in front of you and I said we are going to aim to transform our profitability by being disciplined with our capacity and by retaining the synergy benefits and the profit improvement for our shareholders. We have done that.

We have delivered in terms of a sustainable dividend policy. As Enrique has just said, the share buyback in 2016, into this year as well, returning about €1 billion to you, our shareholders. We are going to continue to do that because we have set ourselves challenging targets. Enrique has taken you through them. Again, operating margin, 12% to 15%. Return on invested capital on a sustainable basis of 15%. Earnings per share growth of 12+%. Investment grade credit rating. This plan has us achieving all of those indeed and exceeding many of those targets. Those targets drive our business decisions.

But, you can see we are not afraid to take decisions to launch new parts of IAG. I think the launch of LEVEL has been a great exercise for us. We are convinced that the business model works. We are convinced now we had business model that could, in time, return the targets that we had set for the business. We announced on 17th March. We launched on 1st June. We sold 50,000 seats in the first day. It has been a great success. We have learnt a lot.

It proves the agility of IAG. We are not a legacy carrier. Our financial metrics demonstrate we are not a legacy carrier. Our ability to move at pace demonstrates we are not a legacy carrier. Our operational performance demonstrates we are not a legacy carrier.

We have set ourselves apart from our competition and we are going to continue to do that through the period of this plan. Yes, there will be challenges. But, we are well capable of overcoming anything that gets thrown in our way, and we have demonstrated that as well.

You have seen what we are going to do now, having established the financial fundamentals that we set out to achieve. Investing in the business, investing in our product, supporting and strengthening our brands, investing in our customer service and the benefit that that will deliver for the Group as we go forward as well.

I hope you have a flavour from all of the CEOs as to what it is they are going to do in the years ahead. I hope you got a flavour of the transformation that has taken place. If you look at our operational performance, we have significantly improved. We will continue to do that because we have established change that is structural and fundamental and sustainable through all of the operating companies. You have seen Lynne's presentation on Cargo. There is opportunity for us to embrace digital, as there is in other parts of the business. A real opportunity to do things in a different way there as well.

We think we have a great Group that is uniquely structured to be able to take advantage of working together in a way that others cannot, to deliver benefit that individual airlines just cannot get at and, clearly, to put us in a position to continue to participate in the consolidation in the industry, if the right opportunity presents itself. As that slow, ticking clock, demonstrated, we are going to be patient.

I think we are well-positioned. We are excited about 2018. We are excited about what the next few years hold for us. I hope you have a flavour of our determination to continue to deliver as we promised we would.

It is now an opportunity for you to ask us questions. I am going to hand back to Andrew. You will note that all of our Head of Investor Relations, past and future, will be called Andrew. It makes it much easier for us. I am going to hand over to Andrew and he will moderate the Q&A session. Clearly, we have the CEOs of the operating companies are still here as well and if necessary, they can respond to your questions as well.

Q&A

Andrew Light: Thanks, Willie. Thanks, Enrique. Yes, we have about an hour for questions. Who wants to start?

Jarrod Castle (UBS): Thanks. I will limit it to two. Anything further to add on JVs with your partners and when can we expect Aer Lingus to join the North Atlantic JV?

Then, secondly, just looking at LEVEL, you spoke about entering some additional cities, I guess, in Europe. Where would these potentially be? Also, how does that link into OpenSkies in Paris? Thanks.

Willie Walsh: Okay. In terms of Aer Lingus, we have signed formal agreement with our AJB partners to bring in Aer Lingus. It now is subject to US regulatory approval. We are going through that process at the moment. But, we will move forward to bring Aer Lingus into the transatlantic joint business as soon as the regulatory approval has been granted. We are not anticipating any issues. But, obviously, it will be for the regulators to decide when that will happen.

In terms of other joint ventures, we continue to look at opportunities. Our Siberian joint venture with JAL is working very well. That is a partnership that has proven to be very effective. We have the joint venture with Qatar. We have a number of joint ventures in Latin America, already with LATAM. We are waiting for regulatory approval from the Chilean authorities in relation to that. The time scale for that, I cannot exactly determine, but it will probably be before the end of this calendar year. Again, we are just waiting on the regulatory approval to come through. Clearly, we look at opportunities to pursue other joint ventures if they present themselves.

One development that is clearly not a joint venture but we have talked about it previously, and that is in terms of working with Ryanair at Dublin. We are still pursuing that and we are still optimistic that we will be able to reach – I think we have the basis of a commercial agreement and an understanding as to what it is we would want to. It is just making the operation work from a technical point of view. I know Michael has talked about some of the technology hurdles there. But, we think with the right people working on both sides, we will get that in place. As I said, I would expect to see something operational by – or in place for summer of next year.

On LEVEL, we will announce the next development of LEVEL probably the end of this month. I think it is sometime at the end of this month or early December. I think we are pencilling in, at the moment, 28th November for an announcement. We will tell you at that stage where the three aircraft will go. What we have said publicly is that at least two of those aircraft will go to another European city – possibly three, but at least two. We will make that announcement. I would ask you to wait until then because you will get a much clearer picture as to what it is we intend to do, with regard to that at that stage.

Andrew Lobbenberg (HSBC): Hi. Can I ask about Vueling and the network plans? Because I thought I heard Javier say that the focus was going to be on to and from Spain. Yet, obviously, in the context of some of the restructurings or failures going on, though there would appear to be opportunities elsewhere. Then, more broadly, what are you, as IAG, doing to take advantage of this situations in Germany, in the UK and then Italy?

Willie Walsh: Okay. Well, Javier talked about strengthening their position in Spain. But, they are very much focussed on Italy and, in fact, have expanded their presence in Italy as Alitalia has continued to shrink and suffer that uncertainty. Italy and Spain are positive, and other markets as well.

We are looking in relation to the UK – I have publicly stated that we are interested in the Monarch slots. We are waiting for the court case, which I think is early next week, to determine whether the administrator, KPMG, has the right to sell those slots. If they do, we will look to see if we can acquire those slots. If not, and the slots go back into the slot pool, we will then – all of our airlines have applied for slots at Gatwick. Gatwick is a good market for us. We would like to strengthen our position there. We are actively interested in additional slots at Gatwick.

But, Javier, do you want to comment?

Javier Sánchez-Prieto: Yes. Well, we are facing like three types of opportunities there. The first is on our core markets. This has to do with the domestic. We see more opportunities in having a more robust network there in the domestic. Second piece is will be the flows from international back and forth from Spain. Clearly, we see also opportunities reinforcing our presence in some of the markets where there has been some developments, like Italy, Germany and the UK.

Then, we have also international opportunities, not touching Spain, not touching the Iberian Peninsula. We see clearly that opportunity in Italy with the developments of Alitalia, in particular, with having a strong year there. We see more opportunities. Clearly, we are reinforcing our presence there in the next year and the years to come.

Willie Walsh: Thanks, Javier. In relation to Germany, I have said publicly we did bid for Niki. Our bid was solely for Niki. We were not interested in other parts of the Air Berlin group. What we bid was less than Lufthansa bid for the bit that – so the total price, I think they bid €200 million for Niki plus a couple of other bids. We bid less than that, but our interest was solely on Niki. Obviously, we did not get it. It went to Lufthansa. As I said, publicly, we took the view it was probably going to go to Lufthansa no matter what we bid. But, we were interested in Niki. We did see that as a potential opportunity.

We will await the outcome of the regulatory review of Lufthansa's acquisition. I think there are competition issues there. We will see if there are any opportunities available to us. I think that will be principally, again, through Vueling. But, other airlines in the Group may have opportunities there as well.

Mark Simpson (Goodbody): Two questions. First off, I wonder if you could just explain why you do not think it is appropriate to change your ROIC targets. Your page 121 slide says

EBITDAR growth at 9% per annum; invested capital, 7% per annum, suggesting that actually, your implied 16.5% ROIC as an average. I am not quite sure why you think it is not appropriate to change.

Second question, Avios. Probably the worst sort of area of execution this year has been Aer Lingus coming on to that platform. We have seen a change of management there, a suggestion that maybe the Avios platform found it difficult to scale it up appropriately. I wondered if you could tell us what happened there and what remedial action you are taking on the Avios platform.

Willie Walsh: Yes. Obviously, a pointed question from somebody who is a member of the AerClub, I think?

Mark Simpson: You are right.

Willie Walsh: Yes. Well, there were technology issues. It is not an Avios issues, actually. The Avios platform is perfectly scalable. It was the interaction between what Aer Lingus had as a legacy system and Avios. We are not in any way concerned about that and it will be fixed. We do not see that as in any way reflecting on the ability of Avios to scale its business, and Avios will continue to do so.

ROIC is an interesting one because, as I said – and this is important – it drives business decisions. Now, when we said we wanted to achieve a sustainable 15% ROIC – and we are demonstrating that. You are quite right. You can do the math yourself. We hit 16.3% for the rolling 12 months to the end of September. Everything would suggest that we will be in excess of that. Aer Lingus is over 20%.

But, if we were to raise that and, say, we said a 20% ROIC target, that would influence future decisions and it may not be the right decision for the business. This is a clearly sustainable return that is well in excess of our cost of capital. As I said, these metrics will drive decisions. When we look at investment decisions, we look at all of these financial metrics. We challenge ourselves as to whether this investment can achieve the metrics that we have set. That is why we felt it was inappropriate, at this stage. We may, in the future, adjust it.

Enrique Dupuy: Yes. Exactly.

Willie Walsh: But, at this stage, we felt it was inappropriate because at 16.3% return on invested capital for the 12 months till the end of September, I think that is a good performance. Everything that you have seen today tells you that we can sustain and, indeed, exceed that. Our internal figures, which we are not going to disclose to you, support that.

But, the target is 15%. A target is there to be beaten and that is what we are doing. We are beating that 15% target. If, going forward, we think it is appropriate to raise that, then we will. We are not stopping at 15%. What we are saying is 15% is a hurdle. 15%, we think, is an appropriate hurdle. If you remember, we originally said a 12% return on invested capital target. We then increased it. Indeed, we refined the way in which we calculate it to make it more difficult for us. We will continue to look at that.

The same applies to the operating margin targets of 12-15%. We will look to see is that a correct target or should we increase that as well and get the balance of all of these metrics, making sure that we are making decisions that will drive the business in a profitable, sustainable way in the long term, not just in the short term. That is why we have left the

ROIC target as it is. We have debated it quite extensively within the Management Committee and with the Board. We believe that that is the right thing to do at this stage. We are clearly going to exceed, based on everything you can see. I think that is a great performance.

I do not know, Enrique, do you want to add to that or...?

Enrique Dupuy: No. Absolutely aligned with what Willie said. In the actual circumstances of the business that we are managing, 15% appears as really appropriate level to guide our decision-making process.

If, in the future, it appears as the business intrinsically, structurally can make more margin, can make more money – and that may come because things are moving in that direction because of the consolidation. If that is the case next year or the year after, we will revaluate where the appropriate level of target should be.

Damian Brewer (Royal Bank of Canada): Can I come back to LEVEL, please? I guess the question in short is, is your ambition for LEVEL big enough?

On that slide, I think it pointed out like about 30% of the market was addressable by LEVEL, sort of suggesting your core markets, if you have about 215 long-haul aircraft, LEVEL should be closer to 90%. That is before you start looking at things like Eastern Europe that has very little long haul or other markets.

Can you talk a little bit more maybe around about sort of the long-term ambition for LEVEL and whether, if LEVEL does go well, you reap the profitability or whether you would actually recycle that profitability back into even faster growth? Thank you.

Willie Walsh: Okay. It is an excellent question. I think two things influenced our decision. One, we do have a lot of flexibility. But, two, we are clearly not going to be the only player in that segment. The idea that we could own that 100%, we felt was probably a bit naive. Therefore, we took a view as to what part of that segment could we justifiably own. But, we have a lot of flexibility. We are not wedded to the A330, but we think the A330 is a great aircraft in the current environment.

As you know, we have an aircraft configured with 314 seats – 21 premium economy, 293 economy seats. It is not as fuel-efficient an aircraft as a 787. But, when we look at the fuel efficiency and fuel benefit, it is small, relative to the ownership cost benefit that we have of a 330-200 against a 787.

The 787, we think will be good in time. But, today, there are not many qualified 787 pilots there. Getting airborne quickly in an efficient way with a low ownership cost, the A330 was the right aircraft for us to do.

I have spoken publicly about this. On the first flight to Los Angeles from Barcelona, I got them to run a flight plan for a 787 in a Norwegian configuration of 293 seats, so it was similar conditions. The fuel burn difference on our flight was six tonnes. Six tonnes at what is the spot price today is $580, you can see that that is insignificant, relative to the ownership cost differential between the A330s that we have and the 787s that are in the market today.

We believe we have a lot of flexibility. We can scale this up quickly. We do not see a shortage of pilots. Aer Lingus has a recruitment programme in progress at the moment.

They have 3,000 applicants for 100 jobs. Not all of those are fully qualified type-qualified pilots, but a lot of them were type-qualified pilots. Our ability to scale is significant.

We have demonstrated we can move very quickly. From a business decision to launch, to an announcement to launch on 17th March, to getting airborne on 1st June, that is not the sort of thing you normally do in this industry – and to do it and be profitable, stripping out the one-off costs this year. The one-off costs are not significant. The total one-off costs that we are looking at for this year, which would include the cost that will be associated with setting up the second base, are less than €10 million. It is not a huge one-off cost associated with this.

The other good thing that we have seen about LEVEL, our original business case assumed that there would be some element of cannibalisation. We have not seen that at all. That has been a real surprise to us. We did factor in an assumption of cannibalisation of principally the Iberia network over Madrid. We have not seen it. These are new customers. All of the data we have reinforces the view that this is a market that can be significantly stimulated by the price. These are new customers flying with us, and that has really encouraged us.

I would agree with you. I think we have a plan that would take us to 30 aircraft. We could go faster and we could go higher than that. But, at the moment, this is probably the most efficiently run airline, given that it does not have a management team. You saw it. It was not in the video because we could not find anybody who would pay the £15 to include LEVEL in the video.

We will put a management team in place. We are going to have them in place by the end of the year. We thought, more appropriate, that we let that team then take it. We have built the foundation. We have presented a skeleton. We know what it can do. We are now going to put a dedicated team in place and let them take it from here.

I have no doubt that they will come to us in the same way as Stephen Kavanagh and his team come to us and say, "Guys, we can do more." You have approved eight A320s – well, actually, we had approved seven A321s. They came back a couple weeks later and said, "We want an eighth one." You saw his plan there. He wants another four. He came to us this week and said, "I think I have found a cheap A330. I can get it flying for next summer." You saw the last bullet point there – flexibility around – we have that flexibility. We can respond to that flexibility and we can move quickly.

Stephen Kavanagh: One week.

Willie Walsh: Yes.

Savi Syth (Raymond James): Hi. Just two questions. First, on Brexit, what gives you the confidence that the market access and ownership rules would not be an issue, and have you explored any contingencies on that?

Then, just looking at the portfolio of brands and regions you are serving, do you see any holes today that you would like to address, with either organic growth or acquisitions?

Willie Walsh: There is clearly a lot of noise around the issue of Brexit. We're more relaxed about it because we have had to deal with this concept of non-EU ownership since we created IAG. The idea of EU ownership and control is not recognised worldwide. Hence the reason we put the structure we did in place when we created IAG that is able to demonstrate British ownership and control of BA, Spanish ownership and control of Iberia. We did not do one for

Aer Lingus at the time but we could clearly replicate that structure for Aer Lingus to demonstrate Irish ownership and control.

That is because there are lots of countries that we have to fly to today and that we do fly to, that do not recognise this concept of EU ownership and control. We put it in place before the merger so that it was in place at the time of the merger, so you could argue we have already done our contingency work. That is what easyJet has gone out to do, to create a structure where – they already have a Swiss AOC and a British UK AOC; they have gone out and got an Austrian AOC.

I have said publicly I think Michael is right to shout the way he is about this. But he, I believe, is trying to avoid putting in contingency plans where he would have to acquire a UK AOC because to be honest, if you did not have to do it, you would not do it. It takes about six months, it adds complexity because you have to put a genuine structure around it. Each of our AOCs, you have to have a nominated post holder, you have to have an accountable manager, you have to have nominated post holders in key positions. You are recreating all of these mini structures in each AOC that you have. We had to do that when we created IAG. If you did not have to do that, you probably would not do it because it does add some complexity, and it does add cost. But, it deals with these more complex issues of ownership and control.

In terms of spaces we would like to operate, clearly with LEVEL, we see a lot of opportunity to expand our network and our presence using LEVEL in a way that our existing brands would not work. That is why we have said, initially, we are focused on what we believe are underserved key cities around Europe, to expand the LEVEL presence and the LEVEL network. The next stage will be probably Paris, Rome or a German city. These are the sort of areas we are looking at before we look at cities in the UK where we think there is a lot of opportunity as well. A lot of space that we could occupy with our existing brands and clearly a lot of space that we could occupy with the brands that we have created.

If there is an inorganic opportunity that is attractive to us, then I think we are very well-positioned. We have the capacity, the financial strength, the capability, and we have demonstrated that we can do this if the right opportunity comes along. We are not actively looking at anything at the moment, but we did bid for Niki, we have expressed an interest in the Monarch slots. We did not bid for Monarch although we did look at it, but we decided that Monarch would not have justified the investment needed; our interest there was more the slots than the business.

Enrique Dupuy: We believe the market is going to be evolving quickly and creating opportunities.

James Hollins (Exane B&P): A few for me, please: the first one is CAPEX, then pensions and then growth rates. On the CAPEX, perhaps you can give us some guidance on what you think full year 2018 will be. Then the €2.1 billion, four-year CAGR, I assume that is a net CAPEX. Just perhaps an update on where you are thinking on sale and leasebacks within that number.

The second one is on pensions. Clearly there is a date that everyone has in their diary of 2nd December for the classic of Brighton versus Liverpool. But, I was wondering before that date if you would give an update on if you think the pension deal, particularly the NAPS deal, will be completed by then, the chances of success, and maybe what it means for OPEX and the pension deficit.

Finally on growth rates, I was wondering how heated the debate was within the Iberia growth plan, whether it should be perhaps curtailed slightly so you still had a blob rather than an X on the unit revenue. Within that, clearly there is a message today that if you trim your costs, you will be given growth. Now clearly, BA is not growing much. Is there a little disappointment in the cost, or is it simply that it cannot grow much at Heathrow, as we all know?

Willie Walsh: Okay. Enrique, do you want to deal with the CAPEX?

Enrique Dupuy: Yes. CAPEX for Year 2018 is going to be at the high end of the range. Net CAPEX is going to be in the range of €2 billion or slightly above €2 billion. The next one is how we still envisage our operating lease versus ownership/financial lease balance into the future. We have a type of general guideline in this respect, but it is not a sacred one. We are saying as an average, 50% of the new deliveries will be operating leases, 50% financial leases. But, the real underlying analysis that we are doing on each case has to do with three things:

- It is about flexibility. We need flexibility in our different OpCos and on our different fleets;
- Residual vallue exposure. We need to deal differently with fleets that will be ageing more quickly than with fleets that will be having a more extended economic and technical life;
- Finally, the financials on the buy-or-lease exercise. What we are seeng lately is this final analysis is getting favourable to the lease decision. Why? The IRR that we are now getting on these buy-or-lease exercises of the actual lease rents, is 6-7%. That is not extremely appealing in terms of, 'Let us buy, jump into the buy.' Buy at 7%? We need to allocate our capital in a reasonable way.

In each case, it is a big decision about how to finance fleet deliveries. Through the next five years, we will be using this tripod of facts that will be defining the final solution.

Willie Walsh: On the pensions, to be honest, we cannot really say too much because of that consultation process; I do not think it would be helpful for me to comment. I do not think the consultation and our assessment of the consultation will be finished in time for that classic. But if it is, I will certainly tell you about it on the day.

In relation to growth, you can tell from the charts that we showed there that, again, we are looking at, in effect, flat unit revenue growth for the Group for the period of this plan at constant currency. The debate was significant in relation to Iberia. The unit revenue performance of Iberia is a negative, but I would describe it as an acceptable level. It does get to a positive unit revenue as we get to the latter end of the plan. We felt that, again consistent with our financial targets and metrics, this was growth that was justified because it will create a sustainable return in the medium term. Therefore, that was what swung it, and we support it. We think it is the right thing for the business to do. As you saw from Luis's chart, clearly it is subject to getting the right conditions to support that growth.

In relation to BA, Steve and Alex in their presentations, absolutely committed to that target. It is a target, a 1% CAGR, non-fuel, unit cost reduction. It clearly is easier to achieve it in some years than it is in others, but they are committed to that, and they are taking action to deliver on that. The growth is, to a large degree, a feature of the ability to grow at Heathrow. They may look at some additional growth outside of Heathrow, but in the scale of things, when you look at the size of their Heathrow operation, it is marginal when you convert that into total ASK growth. It is principally reflecting the fact that growth at Heathrow is not really possible.

Enrique Dupuy: Analysing this morning about our recent history, so 2012 to 2017, our non-fuel unit performance has been -1 with ups and downs, with positives and negative years. That will be again the case. We are going to have years where it is going to be much more difficult. This year is very difficult because of the low growth pattern, so achieving lower unit costs on a zero growth pattern, as this Q3, is extremely stressing. Next year, we are going to be entering into a higher growth pattern, and it will become easier to achieve our targets.

Gerald Khoo (Liberum): A couple of questions. I think this time last year, you talked about densification of the 777s at BA at Gatwick. I was wondering how that has gone, and how that informs you in terms of what might be needed with regard to a new Club World product when it comes in a couple of years' time.

And also thinking about fleets, can you talk a bit more about what your thoughts are on the A321 LR beyond Aer Lingus? Obviously, there is a commitment there. What scope is there to deploy that aircraft type elsewhere in IAG?

Also in a similar vein, what are your thoughts on middle-of-market aircraft that Boeing is potentially looking at?

Willie Walsh: I think there was an interesting comment in Luis's presentation where he talked about reconfiguring the A320s in the Iberia fleet, and we are going from 171 to 180. But, I do not know if you noticed that his comments that slim seats up-gauging from 171 to 180 in the A320 were a proven, positive impact on customer satisfaction. That is something that we tested because we did it on Iberia Express, and we did quite a bit of research with the seats and the reconfiguration. We saw a positive result when we reconfigured, and this is an important point. Changing the gauge of aircraft is not necessarily a negative from a customer point of view. In fact, as we have been able to clearly demonstrate – and we had good data in Iberia that we looked at – this led to a positive result from customer satisfaction.

Alex, do you want to comment on 777s and Gatwick?

Alex Cruz: The programme continues on the 777 configuration. The first set of flights will be from January of next year. At the moment, it will be using the current seats for Club Class. We have not made any determination in terms what a new potential seat would be like in Gatwick. We are going to stick to that configuration for those 777s to come. We believe that is the right configuration for Gatwick, and we will see how it performs.

Willie Walsh: The 321 LR is a great aircraft, particularly for Aer Lingus, and you have seen Stephen's presentation. You get very good unit cost performance with that operating from Ireland across the Transatlantic. It is an aircraft that can work well in LEVEL as well. We do not think it is necessarily a transatlantic aircraft, it is not a transatlantic aircraft that would work for Iberia out of Madrid. But, it is an aircraft that could open markets into Africa and potentially the Middle East, and the same for British Airways. It is an aircraft that is quite flexible. As we have talked about before, one of the great things about the Group is we have a common specification when it comes to aircraft. And that will facilitate the movement within the Group.

It is a very good aircraft for Aer Lingus, it will be a very good aircraft for LEVEL, we think it opens new opportunities for Iberia but not transatlantic, and we think it is an opportunistic aircraft for BA. Operating from London it would not be transatlantic, but it may give them opportunities to do things from other cities in the UK. We can see this aircraft operating in all parts of the Group. I think Vueling will operate the 321, but not the LR; it would not require it.

Neil Glynn (Credit Suisse): If I can ask, firstly, with respect to airport charges. Both BA and Aer Lingus mentioned plenty of opportunity with respect to those airport charges. Can you confirm what proportion of those charges across the Group do you feel currently reflect your increased scale and bargaining power?

The second question with respect to revenue management and how that ties in with distribution: how do you feel your booking engine is currently fit for purpose? Is it strong enough to innovate the way you might want with the new NDC environment, or should we expect changes there on the BA and the Iberia side?

Finally on Vueling, we obviously have a 10% capacity growth plan. There is a positive dot, or there is a dot on unit revenue segment within margin. I guess it is sometimes difficult to grow unit revenues while you are growing 10%. I am interested how set in stone is that 10% plan should there be any speed bumps with a difficult capacity environment at times?

Willie Walsh: Our approach to capacity is to identify a headline target for next year or over the period of the plan, and then look to change that. In most cases, we would see, is there an opportunity to take it down? But, also from time to time, as we have done recently, is there an opportunity to improve it? Our natural approach is to target a growth figure that is sustainable, based on the financial plans that we do, and then see, can you bring that down?

In Vueling's case, we think their growth and their unit revenue performance is absolutely achievable because it is reinforced by the work that they have been doing, and reinforced by the evidence of their change in the past 12 months. It is not a like-for-like scenario because the network that Vueling has created is very different to the legacy that they had.

Enrique Dupuy: Much more manageable.

Willie Walsh: I will ask Alex, because you were talking about ba.com and the booking engine in relation to NDC. Certainly, our initial experience has been positive, but do you want to talk about whether you see it as being fit for purpose?

Alex Cruz: Yes, it is fit for purpose right now. We are wondering about the future, and hence all this work that is going on with IG Digital and the concept of Shop Order Pay. Ultimately, the whole Group is going to be moving to other platforms; that is longer term, in the future. But at the moment, what BA has done and is in the process of doing is re-platforming its middleware architecture, which sounds really fancy. But it is just enabling more technology for us to interact with it from the top of the web, from the app and through APIs to NDC. Yes, at the moment we are holding on well. There is a long, long-term picture of being compatible with digital types of enablement, but that will come later on in the future.

Willie Walsh: On airport charges, our experience to date has been that the approach we have taken through the Group on airport charges has benefited BA and Iberia more than Aer Lingus and Vueling, as you might expect. We are challenging ourselves as to whether we need a different approach to it because we may be losing some opportunities for Vueling. But, it gives us a lot more negotiating power when we go to some airports, clearly not all. Our ability to negotiate with Heathrow is very limited, as you would expect.

Enrique Dupuy: Especially with new airports.

Willie Walsh: Yes, new airports are great, and we have that flexibility. We have taken decisions where we said we will put the capacity into one airport over another.

Enrique Dupuy: Exactly, we can decide.

Willie Walsh: It is great now, with airports knocking on our door. I gave the example of Austin. I can remember first being approached by Austin a number of years ago, saying they would love a service from Heathrow. I thought, 'Jesus Christ, we are never going to fly to Austin, but I don't want to insult them.' You say the usual things, "Yes, we would love to look at it," and I come back, laughing with the guys – Austin.

I was shocked a couple of years later when the team came and said, "Actually, we think there is a business case for Austin." Supported by the city and the state, the airport was very aggressive in saying, "We want a service." While we might not be able to do it at one end of the route, our ability to do it at the other end of the route is very significant.

We have also demonstrated that we are not afraid to start something and pull out of it, whereas traditionally that would not have been the approach. There would have been a commitment that was effectively long term, whether it was delivering or not; we do not do that now. We will try something. If it does not work, we will take the capacity out and we will put it somewhere else.

In terms of our achievement, we have exceeded what we expected to get for BA and Iberia, but we have not achieved what is available to us in terms of Vueling and Aer Lingus. We are doing it with LEVEL; that is the great thing about LEVEL – a lot of interest in LEVEL. But, there is more for us to do from a Group point of view.

Penelope Butcher (Morgan Stanley): Two questions from my side, one was to come back to the earlier question on the JVs and more international opportunities. You raised the partnerships you do have, which I guess includes JAL on the Asia side at the moment. But, many of your peers are talking about wider Asian partnerships, be it India or the rest of Asia and China in particular. Could you talk about what you are looking at in that region going forward?

Secondly, coming back to the key targets on the cash flow side and your commitments to the current structures of the capital returns. Certainly many key questions that came in this morning, was what perhaps is behind the reasoning not to give a sixth bullet in your presentation, updating for perhaps pay-out ratio or buyback targets going forward as well, just to understand how much of the free cash flow is earmarked on the shareholder side. Thanks.

Willie Walsh: Yes, we will do that at yearend. If you remember, that is what we did last year as well. We have it structured to have that debate with the Board for our year end. When we come to do our year end results, we will certainly be talking a lot more about the shareholder return.

On JVs, China is a weakness from a oneworld point of view. We do not have as strong a presence there as we have wanted. We are all the time looking at whether there is an opportunity there. From a strict IAG point of view, we do not see anything that is financially attractive to us at this stage. Therefore, we are approaching China with a view to strengthening our bilateral codeshare arrangements with a number of the carriers, but we are not looking at a JV. We see little evidence of any of the past or existing JVs being financially attractive. That will change obviously, but we have not seen anything there that would encourage us to change our approach to that.

On India, the landscape in India is going to change quite a bit, and we are looking at that. India will probably move faster than China in terms of becoming more attractive. We have had some discussions that clearly I cannot disclose here, not just with existing carriers but also with potential new entrants into the Indian market who have an interest in working with us. There may well be an opportunity for us to do something in India. We are more actively looking at India, but there is nothing concrete going on at the moment.

But China, as I said, our approach at the moment is strengthening the relationships we have through codesharing and working with Chinese carriers, rather than looking at a JV.

Anand Date (Deutsche Bank): I have two, please. If return on capital goes substantially above target, where would you stand on self-cannibalising that down? Or would you rather just sit on high return on capital and return that to shareholders?

Then secondly, if I could ask your opinion on the valuation of the business? Return on capital is good, operations are good. Where do you stand on the view that we need a recession to test the business's profitability, and is there anything you think about with regards to addressing that? Thank you.

Willie Walsh: Yes, I would not want a recession just to prove that we are right. But if you look at 2016, and you listed everything that hit us in 2016, 2016 was an awful year in terms of external events, and yet we had record profitability. We are on track to have a record profitability in 2017. We think our business is structurally sound. We think we can weather the downturn in the economic environment better than ever before because we know what we need to do. We have a proven track record of being able to do it. And we have flexibility and flexibility is the key. We have built flexibility into everything that we do so that we can respond quickly. I think we have more flexibility as a Group, and going forward that is something that we are going to work even harder on, particularly through the fleet.

But, I do not want a recession. I know we can do it. I go back to that day of the 11th of the 11th of 2011, when we stood up and we told people what we were going to achieve by 2015. There was laughter in the audience because they were saying, "Look at where you are and where you are aiming to be; you are not going to do it." We talked about margins at that stage. We are way in excess of those margins. We set ourselves targets back then: 12% return on invested capital, then we have stretched it to 15%. We are not just achieving that, but exceeding that.

Would we cannibalise that? It is a great question, and we have that debate, particularly in the context of Aer Lingus. Should Aer Lingus be growing even faster? What they have demonstrated is they can grow and grow even faster, but they are able to do it and maintain that high level of return. It is not going to be exactly as it is, but they have a model that is really efficient. We are not trying to, in any way, diminish our returns, just to grow. We want growth to be sustainable, growth to be able to achieve these targets on a sustainable basis. That is the key word. We talk about a 15% return on invested capital on a sustainable basis, not achieving it one year and then diluting it down to much lower than that in the next.

Enrique Dupuy: But, even being above allows us to regard these opportunities, even dilutive opportunity, with a lot of headroom. We will decide on each case if even being diluted, it makes sense strategically. While if we were just hitting our target level, that type of ability to judge more strategically would be curtailed. We feel absolutely comfortable in keeping our targets where they are. We will change them when we feel the industry deserves, and is able to achieve, consistently better margins.

Willie Walsh: We have proven that; we launched LEVEL. We launched it because we believed that in time, it could get there. In 2020, it will probably achieve its cost of capital; in 2022 on the plan that we have, it will reach the targets that we have set. That is the sort of timeframe we are looking at. We are prepared to invest, but only where we believe that there is a sustainable model that will contribute. We have that great flexibility, and we will continue to demonstrate that flexibility. I think we have proven that we are able to deliver. I have absolutely no doubt in my mind that we would be able to weather a downturn much better than we have ever done in the past, and that this is a business that is truly sustainable from a financial point of view.

Alex Paterson (Investec): Two questions, please, in fact both on LEVEL. You were talking about a 10% or 20% unit cost advantage there. Is that one where the advantage could increase as it scales up, or are all those benefits in there as it is part of a large group already?

Secondly, clearly you have anticipated a market share that that will take in the low-cost, long-haul market. How do you see that market looking in five years' time? Is a low-cost, long-haul carrier something that every long-haul operation should have? Do you expect short-haul, low-cost carriers to enter that market? What does it look like, do you think?

Willie Walsh: Yes, great question. We think it improves with scale, but the structural advantage is embedded there. I think the comment was made earlier you could probably say there is a market for 90 aircraft there today. Looking at it in a reasonable timeframe, the market is probably 120-130 aircraft. Should every airline do it? Absolutely not because if you do not have a cost base, you are going to lose a fortune. You are going to lose a fortune because if you are going to try and compete on price – and you have to, to stimulate the growth and to fill the aircraft – if you do not have a low cost base, you are not going to make money; you are going to lose a lot of money. This is not easy, and that is one of the unique features of IAG in that we can establish it with a completely new cost base, a new brand, and we can do it quickly.

Will the low cost people do it? I am sure some of them have an interest in doing it, but it is a very different way of operating than the short-haul model.

Enrique Dupuy: They have been thinking about it but…

Willie Walsh: If I was an investor in one of those airlines, and I saw them going long haul, would I be excited? Probably not. It would be a big distraction for them, and they would be better off sticking with what it is they are doing. I do think in due course, they will try and do it, but I do not think they have anything or any chance of doing it better than us, to be honest with you. We have a much better chance of doing it because we have experience in those markets that is very different to the normal, short-haul operating market. It is not impossible, but would I be afraid if they did it? Not at all, but I do not see it happening in the short term.

Enrique Dupuy: We will have 'group feed.' That is something that will probably differentiate us from other exercises that are not able to demonstrate that group feed into their bases. That is very important.

Jarrod Castle (UBS): On Heathrow, any updates in terms of your thinking on runways? Then related to automation – you have spoken quite a bit about it – but how does that benefit get shared between IAG and the airport companies so that they invest in automation? Thanks.

Willie Walsh: Yes, great question on automation, but let me address the third runway. We have had very constructive dialogue with Heathrow in recent months. They now get the message that we are serious when we say we will not support the expansion of Heathrow unless they can demonstrate to us, and commit to us, that this can be done without increasing passenger charges. We are at the stage now where there is an interesting debate around risk. For example, I think bridging the M25 is a very high risk approach. I do not need a runway that is that long. Our analysis of it is that you could have an efficient three-runway Heathrow without it going across the M25. They seem committed to it because that is what the Airports Commission said. My view is that is a risk I am not prepared to bear. If they want to build a runway that length, let them take the risk of running into cost overrun. I think there could potentially be big cost overrun in terms of how that is done.

But, the dialogue has been constructive, and I think that is helpful. I think it has been very helpful that both the CAA and the Secretary of State have been very clear, that their assessment of this programme depends on Heathrow being able to demonstrate that there has been constructive engagement with the airlines and a commitment to maintaining the cost. We get this interesting discussion about the Secretary of State. I think he said, "near the existing level," and I have interpreted that as being 'less than,' which I will accept. But I am not prepared to accept any increase on the existing level of charges.

Automation at the airport is a very interesting one because one of the things that you saw there was we had automated air bridges. Clearly, the evidence shows that the robot will drive it in a consistent manner, normally better than… It is not because humans are bad; it is just that you introduce the human interface with the machine, and things can go wrong. The investment would be an airport investment, and the benefit clearly would be an airline benefit. But this is a debate that we need to have. However, smart airports will recognise that this is an investment that is worth making. The airports that are more efficient will work better, and I think this is an area where we have had, again, good dialogue with Heathrow. I am sure we will have it with other airports as well, but so far we have been encouraged. I think they see the opportunity as well as we do.

Andrew Light: Thank you very much, Willie and Enrique, thank you to all the speakers today and thank you all for coming.

[END OF TRANSCRIPT]