FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning, good afternoon and thank you for standing by. At this time all participants are in listen-only mode line. After the presentation we will conduct a question and answer session. (Operator Instructions). Today's conference is being recorded. If you have any objections, you may disconnect at this time. Now I will turn the meeting over to Mr. Willie Walsh. Please go ahead, sir, your line is open.

Willie Walsh - *International Consolidated Airlines Group - CEO*

Thank you very much. Good morning, everyone. Thank you for joining us for our results presentation. I'm going to hand over to Enrique Dupuy, Chief Financial Officer of International Airlines Group, who will take you through a presentation on the results. Enrique?

Enrique Dupuy - *International Consolidated Airlines Group - CFO*

Thank you, Willie. Good morning, ladies and gentlemen. We have delivered another profitable quarter despite the increasing challenge of high fuel costs and prices. Our revenue performance is largely, this quarter, volume driven and we are seeing relatively good underlying performance, especially on the premium segments.

Exchange plays, in this quarter, a big part in the results, in particular, the sterling to euro exchange rate is markedly weaker, around 7% weaker in Q3 year 2011 than Q3 year 2010. This is driving to weaker revenues and lower costs when we translate them to euro terms. Through the presentation we will contrast the reported performance with a like-for-like comparison at constant exchange rates.

Note, this presentation will be dealing with IAG quarter-three pre-exceptional items. I will remind you on this exceptional item concept on the next slide.

In the chart we see revenues up 2.2%, although it will be 8.6% at constant currency, which could be seen as a relatively strong performance. On the cost side, just to highlight you again, the significant impact of fuel cost increases does imply EUR263m more impact of fuel on our cost bill, and also the relation of this figure, with a revenue increase of EUR98m.

Also worth to mention is a flat performance on the non-fuel cost side in reference with a capacity increase of 3.1% for the period and the significant mounting inflationary pressures on some of our cost lines.

You will recall we noted this item at the half-year and outlined the impact for the full year. This quarter has, as we have stated before, a smaller impact in line with our half-year announcement. The merger accounting inflates the fuel reported cost, in this case, in this quarter by EUR15m and deflates at the same time the aircraft operating lease cost by EUR3m. There's no change to the already-advised full-year impact and, therefore, in quarter four you can expected reported fuel costs to be inflated by EUR13m and operating lease costs to be reduced by EUR3m.

As a reminder, we have to tell you that this does not affect the underlying profitability of the Group or the cash position and the hedges in place that we have been executing have been effectively reducing the net fuel bill for the year.

Revenues continue to grow, although exchange effect leaves us with a flat Passenger unit revenue appearance at a reported level. When we look on like-for-like currency exchange basis we see Passenger unit revenues growing at 6.3%, Passenger yield increases at 6% and Cargo yield increases at 6.4%. On an underlying basis we see a continued growth in Passenger revenues, albeit at a slower rate than earlier this year, and, this, remembering Q3 year 2010 was particularly strong, whilst Cargo has continued the demand plateau we had begun to experience last year and that we have been mentioning in our last disclosures.

We have kept a cautious approach to capacity growth through the quarter, basically, focused in the long-haul network, which has allowed us to maintain our high-load factor levels.

We've continued to maintain some momentum with Passenger unit revenues, although the task becomes more difficult as demand has gradually weakened. It is important to note that even at reported exchange rates we are still above the last high point, which was on the 12-month rolling leading up to Q1 year 2009. We still face the continuing increasing fuel prices factored against a higher inflationary environment. We will push to keep momentum on revenues and this will become increasingly challenging, although our leadership position in our main strategic markets will represent, for us, a clear advantage.

In order to show a more clear picture of regional revenue activity, let's look at the year-on-year growth at a constant reporting exchange rate. So the gray bars show on the chart this constant reporting exchange rate. And, this, to remove the distortion created by translation from sterling into euro that we have previously mentioned.

We have had a strong growth in short-haul unit revenues and our long-haul routes are buoyed by premium demand. We still experience localized weakness impact in the Middle East and North Africa, whilst Japanese routes are recovering. So, having said that, you see that the levels of growth are lower than those we were experiencing in Q2. Of course, remember Q2 affected by very significant disruption in the base and this is basically related to these more, I would say, challenging comparators in Q3.

Premium revenues are still showing strength in this quarter. The improvement in our mix accounted for about one-third of the underlying total improvement. Yields at like-for-like exchange rose by 6.1%, so a strong figure, coupled with premium volumes improving by 9.6%. Clearly, there has been coverage of corporate travel policy changes and we monitor these closely, but we have not yet seen sustained evidence of this impacting, materially, forward bookings in the long-haul premium cabins.

As you will have seen in the traffic stats release our premium volumes in October grew again, although at a rate of 1.9%. Overall our premium forward bookings are in line with last-year levels for the rest of the year, although we are seeing some slowdown in short-haul premium segments.

Q3 Cargo unit revenues are strongly affected by large impact from foreign exchange movements relative to the weakness of the sterling and, of course, of the dollar. In constant ForEx terms Cargo unit revenues would have increased by 6.4%. Q4 will reflect improvements on last-year figures due to disruption effects on last-year quarter, although the underlying trends remain weak in the context of the industry weakness.

Our capacity plans for the remainder of the year have been reduced by 0.5% since we last reported. This is part, of course, of a steady trimming and monitoring of our schedules and our demand patterns. At an underlying level for Q4 we will grow at 4.1%. Remember that due to disruption effect from last year we will see a reported growth of around 5.7% on this last quarter.

Q4 will also see British Airways operating some of the additional slots acquired in the recent slot purchase with BMI. Two of the acquired slots are operated from December, while the others will begin to be operated in the new-year 2012. So when we look at 2012 we have limited our growth across the Group to a level of 2.5% and this includes these six slots from BMI. Without those, the growth rate would have just been 2.2%.

The route networks for the winter season will not be changing dramatically and are largely a continuation of the winter and recent summer season. We are, however, making significant frequency reductions, many of which are part of the commercial agreements in place with Vueling and, Air Nostrum, in the case of the Spanish network. We remain ready to adapt to demand conditions and will flex frequencies if -- of course, and if we need fleet reductions should there be a sustained downturn. As already highlighted, we do not see clear evidence of this weakness at this stage. We're not introducing substantial differences in this chart with previous occasions.

On the revenue environment we have tempered our view on long-haul premium and it would appear now as stable, rather than strong. As highlighted earlier, our overall premium forward bookings are in line with last-year levels and figures. We are, however, experiencing a softening in short-haul premium and, again to mention, the Cargo plateau remains and the environment will inevitably get tougher in this segment.

Let's switch now to the costs side. Overall our unit costs have increased, mainly due to fuel-cost impact, but non-fuel costs continue to improve. As we said previously, we are implementing our business plans within the Group and a key part is to drive efficiency gains within both operating companies and across the Group. The high-fuel and high-inflation environment puts this particularly in focus. Although the quarter-to-quarter comparisons show the impact of fuel and other inflationary pressures, the rolling 12-month comparisons are signaling a more benign average underlying trend.

As you can see, this chart shows the change in fuel costs versus Q3 last year. You will note that we had some tailwind from currency compared with Q2. However, you can also see that the hedging unwinding and the fact that hedges represent a smaller offset than we have achieved in the previous quarters.

Taking into account current spot rates, dollar exchange rate and our hedge book for the remainder of the year, we expect that fuel -- the full-year fuel bill to be around EUR5.1b. This is lowered from our previous guidance of around EUR5.2b due to a weaker fuel market environment in these last months. But actual spot prices further hedge unwind will imply fuel cost increases of 14% from actual year 2011 effective after-hedging rates.

So we continue to operate our standing hedging policy. Our hedge cover for the rest of the year, because we are very advanced, is 79%. For year 2012 we are already 53% hedged and based on a hedge breakeven of $995 per barrel in kerosene terms -- per tonne, sorry, dollars per tonne, $995. For every $10 per metric tonne variance to this, our estimate is a change to fuel cost of around plus or minus EUR33m.

As you can see from this slide on the employee cost side, we have decreased unit employee costs and over the last 12 months we have reduced these by 3.7%, or, if you prefer, 3.2% at constant FX terms. For a two-year comparison we have also been able to maintain a similar level of reductions in respect of the basis for year 2009.

This quarter we have experienced a rise in unit costs for supplier items other than fuel. This was, in part, due to planned expenditure to re-launch the British Airways brand and the launching of a single currency mileage scheme that you know will be called the Avios. As covered last quarter, we are also experiencing above-inflationary rises at some of our airports, in Heathrow airport in particular. We're still focused on ensuring controllable costs are managed and will continue to drive efficiency gains and productivity in these areas through the implementation of our cost synergies' measures and projects.

On the lines of ownership costs we have mentioned the significant unit cost reductions achieved in ownership costs, both in current and constant foreign exchange terms, and driven from old fleet retirements in the year 2010 and also on fleet utilization gains.

The following chart shows underlying revenues and cost changes through the third quarter. As shown earlier in the fuel chart, we have not had as much benefit from hedging this quarter as in Q2 and you see here that the fuel costs were not totally offset by revenue this quarter. But both through unit revenue and volume increases we have been able to limit the adverse impact on Q3 margins. Q4 will show an easier comparative base in a similar chart.

Nothing really significant worth to mention on the balance sheet evolution since June, so we maintain the healthy balance sheet position with the same gearing on an adjusted basis as the June balance sheet, and a continued strong cash position through this year.

So, as an outlook summary, we are expecting Q4 operating profit to be an improvement on Q4 2010 and, this, taking into account one-offs in last-year base. So we can mention our forward bookings for premium cabins are currently broadly in line with year 2010 levels.

Non-premium markets, as we have also mentioned, are weaker than year 2010 and, of course, particularly in the Spanish market. We expect to deliver a year 2011 full-year operating profit of around double than the one that we have achieved last year, 2010. And of course we remain ready to adjust capacity downwards in response to any sustained downturn in demand.

Thank you very much for your attention.

Willie Walsh - *International Consolidated Airlines Group - CEO*

Thank you, Enrique. So we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question and answer session. (Operator Instructions). Okay, our first question comes from the line of Andrew Light. Please go ahead, your line is open.

Andrew Light - *Citigroup - Analyst*

Hi, good morning, a couple of questions. My first one is, on the guidance you're saying doubling operating profit relative to last year. Can you just say what was the number last year, because I think there were a number of one-off items and accounting adjustments and so forth?

And then, second, can you give us a brief update on your thinking on the pension deficit of British Airways? There've been, obviously, a number of different -- a number of changes in terms of asset returns, yet discount rates have gone down and there's been the RPI/CPI switch? Thanks.

Willie Walsh - *International Consolidated Airlines Group - CEO*

Okay, thank you. We have Keith Williams here, so I'll ask him to address the pension issue in a moment.

Enrique Dupuy - *International Consolidated Airlines Group - CFO*

Andrew, on your first question, we are referring to an operating profit last year of EUR225m.

Andrew Light - *Citigroup - Analyst*

So it will be a flat fourth quarter, then, given you've made EUR450m already?

Enrique Dupuy - *International Consolidated Airlines Group - CFO*

Well, it will have probably a slight improvement over last-year figures.

Andrew Light - *Citigroup - Analyst*

Okay.

Enrique Dupuy - *International Consolidated Airlines Group - CFO*

But I would say we are still having to bear a high level of uncertainty in most of the variables.

Willie Walsh - *International Consolidated Airlines Group - CEO*

We are saying around double.

Andrew Light - *Citigroup - Analyst*

Okay.

Willie Walsh - *International Consolidated Airlines Group - CEO*

And, Keith, do you want to mention the pension?

Keith Williams - *British Airways - CEO*

Yes. So in terms of the changes in the pension, as you know, we renegotiated the pension recovery plan in 2009. The major changes that have happened since then is asset values have not increased recently because of the exposure to equities and discount rates have changed. However, the major change has been in terms of RPI to CPI for pensions in payment, and that makes an offset to the valuation from equities and discount rate. So broadly the recovery plan is in line with where it was anticipated to be.

Andrew Light - *Citigroup - Analyst*

Okay, thank you very much.

Operator

Our next question comes from the line of Tim Marshall. Please go ahead, your line is open.

Tim Marshall - *Redburn Partners - Analyst*

Morning, everybody. I wondered if you could tell us what the BA margin was in the quarter and then what the Iberia margin was, as you did at the half-year results?

Willie Walsh - *International Consolidated Airlines Group - CEO*

No, we're not going to split it out at the quarter, Tim.

Tim Marshall - *Redburn Partners - Analyst*

Okay. And then, on the premium traffic, in terms of the numbers for the month just gone, could you give us an idea of how much the long-haul premium is and then what the short-haul premium is, just to get a sense of the difference between the two, which, obviously, you've alluded to, but just to get a bit more granularity on that?

Willie Walsh - *International Consolidated Airlines Group - CEO*

I'm not going to give you exact details, but just to say long-haul premium is by far the more significant part of the premium segment that we operate in. It is both in terms of -- well, particularly in terms of revenue.

And what we said this time round is consistent really with what BA has been saying for some time, that the short-haul premium is seeing some structural decline and, clearly, that has continued. We've seen some tightening of corporate policies, particularly as we've come into the fourth quarter. So the growth of 1.9% is driven by long-haul premium. Clearly, has been offset by a reduction in the short-haul premium demand.

Tim Marshall - *Redburn Partners - Analyst*

Okay, great. And then, sorry, if I can just ask one more question. I'm sure you have lots on BMI generally. But when I think about BMI and I think about the value of the slots at Heathrow, the ongoing losses of the business, and then the pension, is that really the three key issues around which the negotiations are going to be set?

And then, following on from that, BMI Baby and BMI Regional, Lufthansa is saying they're going to sell 100% of it, but those are two businesses which clearly don't fit with your strategy. So I'm not sure how much you can say, but if you could help me think a little bit more as to where I am on my thinking and then just generally where you are?

Willie Walsh - *International Consolidated Airlines Group - CEO*

Well, there's not a lot more that I can say, other than to comment on maybe what Lufthansa has already said. They have said that they are in discussions with a buyer for the regional business and that they expect that to complete. They've also said this morning that -- in relation to the BMI pension deficit that they did not expect that to become an issue and I would agree with that statement.

And clearly the way we look at BMI is as a very positive development for IAG and BA, in that it will give us an opportunity to expand our network. We're particularly focused on expansion of our long-haul network and looking at the emerging markets in Asia as an area where we see great opportunity. So, clearly, the BMI of the future will look very different to the BMI of today.

Tim Marshall - *Redburn Partners - Analyst*

Great. Thanks a lot, see you next week.

Willie Walsh - *International Consolidated Airlines Group - CEO*

Okay.

Operator

Our next question comes from the line of Stephen Furlong. Please go ahead, your line is now open.

Stephen Furlong - *Davy Stockbrokers - Analyst*

Morning, gentlemen. I know you talked about forward bookings currently broadly in line with last year. Maybe you could just talk briefly about where you see visibility on those bookings? Presumably -- is it similar? Are people booking later? Does it differ by product; short haul, long haul, premium, non-premium?

And maybe just some color in terms of what you're seeing in terms of corporate contracts. Are they just coming up for renewal in the normal procedure, as happens every year? Thank you.

Willie Walsh - *International Consolidated Airlines Group - CEO*

Yes, corporate contracts just happen on a normal regular basis. There's no change in behavior. We continue to do well from a sales point of view. We're particularly pleased with the performance of our joint business on the transatlantic. So we haven't seen any change in behavior when it comes to corporate contracts. The bit that we have seen that we commented on is some change in behavior for corporate travel policies for short-haul travel as we've come into the fourth quarter, which hasn't surprised us, to be honest with you.

So, looking at the current booking trends, they're very, very similar to what we've witnessed this time last year. We haven't seen any real change in booking patterns in terms of timing. Long-haul premium was positive in October. We expect it to be positive in November and December. Last year BA reported premium travel in November up by a little over 4%. If you remember, there was a lot of disruption in the December figures because of the snow closure of Heathrow, so December clearly had a distortion because of that. So I would say that the general pattern of bookings and the general behavior is at this stage in line with our expectations.

Stephen Furlong - *Davy Stockbrokers - Analyst*

That's great, Willie, thank you.

Operator

Our next question comes from the line of Peter Hyde. Please go ahead, your line is now open.

Peter Hyde - *Liberum Capital - Analyst*

Yes, hi. Could I just come back to a couple of things on costs? Firstly, as you bring back your capacity, could you make a couple of general comments about what you think unit costs might do in 2012 versus 2011, ex fuel?

And then on the fuel side of things could you just give us a bit of a rough feel about this 53% hedging that you've got and how that rolls through the quarters of 2012? Thanks.

Willie Walsh - *International Consolidated Airlines Group - CEO*

Okay, thanks. I'll get Enrique to address that. But just to remind you we're looking at very low-capacity growth in 2012, about 2.5%. And, as Enrique pointed out, it would have been lower than that, but for the successful acquisition of six slot pairs from

BMI. So our growth plans for 2012 I would describe as very moderate and conservative. And, clearly, one important point to stress, and we say it all the time, is we have considerable flexibility, should we need to use it, to adjust that capacity in line with the demand that we will witness through the year.

Enrique Dupuy - *International Consolidated Airlines Group - CFO*

Yes. Well, what we're seeing on costs for next year has to do with significant inflationary pressures in most of our cost lines on one side; on the other side we're regarding this 2.5% capacity increases that will help, marginally, to dilute some of our fixed costs; and on the third side the positive impact of cost synergies being implemented through next year.

So I guess that these pressures and tailwinds may be, I would say, offsetting each other, trying to aim to a constant unit cost non-fuel for year 2012, although we have to recognize that at this point in time, with underlying inflation above 4%, it's a challenging type of target.

In respect of our fuel hedging pattern for next year as a whole, as an average we're holding about 53% and this is basically biased on the front end. So on first quarter and second quarter would be more on the line of 60% to 70% and on the third and fourth quarter would be more on line with a 40% to 70% type of coverage ratio. The levels -- the hedging levels that we have for next year are very much in line with today's spot prices.

Peter Hyde - *Liberum Capital - Analyst*

Okay, thanks. And could I just ask one final question, which is really specifically to do with Latin America? Capacity seems to be up quite strongly and yields are up quite strongly. Could you give us a bit of a feel as to why the strength is so strong there and whether you actually feel that things are still accelerating, or whether they're coming off a bit? Thanks.

Willie Walsh - *International Consolidated Airlines Group - CEO*

It's been a positive market. Clearly, the Latin American economies have been quite strong. You've seen a lot of capacity go in there in recent times, so it's -- I think it's a healthy environment and will show some growth. But I suspect the growth going forward will be at lower rates than we have seen through 2010 and 2011.

Peter Hyde - *Liberum Capital - Analyst*

Okay, thanks.

Operator

Thank you. Our next question comes from the line of Geoff van Klaveren. Please go ahead, your line is open.

Geoff van Klaveren - *Deutsche Bank - Analyst*

Good morning. First question, actually, is back to the pension. I just wanted to check that your feeling, then, is that the BA cash contribution is unlikely to rise at the next triennial valuation.

And the second question is on Iberia Express. It sounds like from the statement you'll have 20% of the Iberia narrow-body fleet converted over by the end of next year. Can you give us an idea of maybe what saving that might make? And, also, I guess you'll end up with a surplus of staff from the mainline unit, so how you'll deal with that?

Willie Walsh - *International Consolidated Airlines Group - CEO*

Okay. Keith will address the pension issue.

Keith Williams - *British Airways - CEO*

Yes, on the pensions, clearly, that's going to be an item of discussion at the next valuation, which starts next March. If I look at the last valuation put in place, cash contributions to recover the deficit for NAPS, I think, it was over 14 years and those contributions were flat in real terms. And I say the pension recovery plan at the moment is on track, so, to deliver the repayment over that period.

Willie Walsh - *International Consolidated Airlines Group - CEO*

I have Rafael Sanchez Lozano here with us this morning as well, CEO of Iberia, and I'll ask him to take your IB Express questions.

Rafael Sanchez Lozano - *Iberia - CEO*

Yes, IB Express, we expect it to end up in -- with 13 planes, which is roughly 20% of our short-haul fleet. But on average over the next year the average number of planes will be much lower figures, since this will start in April with four planes. So the materiality of the impact of Iberia Express next year would not be significant for the Group.

Geoff van Klaveren - *Deutsche Bank - Analyst*

Okay, thanks. And just how will you deal with the surplus of staff in mainline, please?

Willie Walsh - *International Consolidated Airlines Group - CEO*

Well, there won't be a surplus of staff in mainline because we have a natural attrition, so the normal retirement profile will look after any surplus of staff that would have been generated. So it's not an issue for us.

Geoff van Klaveren - *Deutsche Bank - Analyst*

Okay, thank you very much.

Operator

Thank you. Our next question comes from the line of Edward Stanford. Please go ahead, your line is open.

Edward Stanford - *Oriel Securities - Analyst*

How do you intend to put the recently-acquired slots from BMI to use.

Secondly, just going back to the forward bookings on premium, do you think that you're benefiting from any market share gains here? Or is that a reflection, do you think, of the underlying state of market demand?

And finally, on BMI, do you have -- presumably you have had preliminary conversations with the regulatory authorities. Can you give us a flavor of how that's likely to pan out? Thank you.

Willie Walsh - *International Consolidated Airlines Group - CEO*

Keith, do you want to talk about the BMI slots?

Keith Williams - *British Airways - CEO*

Yes. As Enrique said, the slots come on stream in December and January and it's planned for a mix of domestic and European flying. You'll have seen from the slides where we are in terms of yields on domestic and European.

Willie Walsh - *International Consolidated Airlines Group - CEO*

In terms of premium, I believe we are gaining some market share, certainly. It's always difficult to assess full market share data for premium. Most of it is done through the GDSs, so you can track it that way. But clearly there is some that goes through the internal booking systems of the airlines. But our assessment of our market share position is that, yes, we are gaining premium market share on long haul.

And, in relation to BMI, it's too early for us to make any comments other than what we have said. But clearly we will be engaging fully with the competition authorities. And we would not have progressed this, and I'm sure Lufthansa would not have spent time progressing it with us, if it wasn't for the fact that we're confident that this is a deal that can get regulatory approval. So there is work for us to do on that and that has started. But, other than to say that we were -- that we are confident that we can gain approval, I've nothing else to add at this stage.

Edward Stanford - *Oriel Securities - Analyst*

Thank you.

Operator

Thank you. Our next question comes from the line of Robin Byde from HSBC Bank. Please go ahead, your line is open.

Robin Byde - *HSBC Bank - Analyst*

Right, morning, guys. Just two questions from me, please. Firstly, on Cargo you talked about demand plateauing. Can you just say a little bit about current trading and the early peak season and perhaps comment on any regional variations you're seeing?

And then, secondly, just on fleet flexibility, particularly for Iberia, could you just remind us how many aircraft leases you could potentially retire next year if markets turn down? Thank you.

Willie Walsh - *International Consolidated Airlines Group - CEO*

On Cargo it is very early still to talk about peak. In fact, it's probably too early for us to comment in relation to the peak and that it's normally only around today, so we'll get some more information for you at Investor Day.

I think there have been some regional variations. I should point out, by the way, because it's not clear in the traffic stats, the BA figures were impacted by a system failure that we had in the Cargo system at Heathrow for -- I think it lasted about 36 hours. So the figures that we've reported are lower than we would have expected as a result of that system failure. So it doesn't fully reflect the underlying trends that we're seeing at the moment.

But what we have been seeing is very consistent with what the industry is reporting; traffic out of Asia, China, India has slowed down. It has been compensated to some degree by an improving -- or an improved performance relative to what we'd normally expect to see out of Europe and out of the US. So at this stage it has plateaued. It hasn't declined. So, as we said, the figures that we've reported have been impacted by a system issue rather than a demand issue. And it's too early for us to say anything about the peak. But we will get you some data for that when we get together at the Investor Day.

Enrique Dupuy - *International Consolidated Airlines Group - CFO*

Okay. On the fleet flexibility, on Iberia long haul, we have to say that that we will effectively reduce the size of the fleet by three A340-300 aircraft through the year. That will represent an 8% from the peak to the trough. And we could maybe decide on one additional aircraft reduction if we thought it was required.

Robin Byde - *HSBC Bank - Analyst*

Yes. Okay. Thanks, guys.

Operator

Thank you. Our next question comes from the line of Andrew Lobbenberg. Please go ahead, your line is open.

Andrew Lobbenberg - *RBS - Analyst*

Hi, there. Could we have a little bit more color on Iberia Express, please, and just get an update on what the labor relation situation is and how SEPLA are behaving?

And then, back at British Airways, could you give us a bit of color on what's going on in Nigeria, where I think the authorities are trying to halve your operations?

Willie Walsh - *International Consolidated Airlines Group - CEO*

Iberia Express, the color will be yellow.

Andrew Lobbenberg - *RBS - Analyst*

No orange?

Willie Walsh - *International Consolidated Airlines Group - CEO*

You'll see a nice color scheme on the Iberia Express. It's an important step by us, because it's no secret that we're determined to tackle our cost structure and efficiency on the short-haul, medium-haul network in Iberia.

I think it's important to flag, as many of you will know, that the labor law or labor regulations in Spain are quite restrictive. I think it's one of the issues that is hampering the economic situation in Spain and the employment situation in Spain. So we've been very careful to assess all potential opportunities and options available to us.

We have clearly identified that the best option for us, by far, is to create this new subsidiary company, Iberia Express, which we have full confidence in making a success. I think one of the benefits we have is we've a lot of experience in this internally and we've got quite a lot of learning from others who've tried to do it. And we believe we've actually come up with a structure, processes, governance, that will make this a financial and commercial success.

In relation to SEPLA, SEPLA have clearly made a number of public comments. What we've said to them is their -- if they believe that we're acting illegally, well, then they should go to the courts. They haven't done that. So we will continue to move ahead at the planned pace in relation to the development of this and we're not going to be side-tracked or set-backed by anything SEPLA says or does.

In relation to Nigeria, it is in the hands of government officials at this stage. That's probably the best thing I can say. And we will wait to see what the politicians and government officials do in relation to this, but we're not making any changes to our plans at this stage.

Andrew Lobbenberg - *RBS - Analyst*

Okay, thanks. See you next week.

Willie Walsh - *International Consolidated Airlines Group - CEO*

Okay. Thanks, Andrew.

Operator

Thank you. Our next question comes from the line of Jarrod Castle. Please go ahead, your line is open.

Jarrod Castle - *UBS - Analyst*

Good morning, gentlemen. Two or three questions, if I may, please. I realize your hands are slightly tied on BMI. But, if the deal does complete, could you give an indication of how long potentially it would take to turn the airline around, assuming the current environment stays where it is, which, obviously, is a big assumption as well?

Secondly, just on acquisitions. Again, if you complete on BMI, does this mean certain other potential acquisitions might -- you'd be reluctant to undertake them? Or would you still be potentially willing to undertake them? Potentially TAP or Aer Lingus that gets mentioned, what would the timeframe be?

And then, just lastly, other revenues, these were flat for the quarter. Any comments as to why, please?

Willie Walsh - *International Consolidated Airlines Group - CEO*

Okay. It's clearly far too early for me to say anything in relation to the timing of turning around BMI, other than to say we're very confident that we can make significant progress in a very quick fashion with the actions that BA in particular can take in relation to the commercial and revenue performance of BMI. And we will give further information on this at the appropriate time. It is far too early for us to do so at this stage.

We've always made it clear that BMI was one of the potential acquisitions that was very attractive to us. The only other airline that we have commented on is TAP and that's simply because the Portuguese government had indicated that they were going to start a process. That process has not started. It's unclear as to when it will start, but it's unlikely to start any time soon and, therefore, we're not doing anything in relation to TAP. And I can assure you at this stage that we're not doing anything in relation to any other airline.

So, while we're confident that we have the capacity to deal with the right opportunity, if the right opportunity presented itself, we're not active at any level other than on BMI at this stage.

On other revenues?

Enrique Dupuy - *International Consolidated Airlines Group - CFO*

On other revenues, basically, we could be talking about, I would say, handling that we produce for third parties and also maintenance. They have small, I would say, positive developments through year 2011, but they've been dampened down by the weakness of the dollar and, in the case of the other revenues line, by the weakness of the sterling. So the flat performance has very much to do with the currency impact.

Jarrod Castle - *UBS - Analyst*

Okay. Thank you very much, gentlemen.

Operator

Thank you. Our next question comes from the line of David Fintzen. Please go ahead, your line is now open.

David Fintzen - *Barclays Capital - Analyst*

Hi, thanks. Good morning, everyone, just a couple of quick questions from me. First, on Japan and the Middle East, can you just give us a bit of an update on what you're seeing in terms of normalization there?

And then the second question. In terms of the booking trends, could you provide any color on how your finance-related traffic is doing versus the non-finance related traffic in London?

Willie Walsh - *International Consolidated Airlines Group - CEO*

Certainly. On Japan it continues to recover. I think the recovery has been better than we had originally expected, although there is still some impact in relation to the Middle East. There are some destinations that have clearly been hit as a result of it. We used to fly to Tripoli, which, clearly, we're not doing, but we are again looking at the opportunity of starting our services to Libya again. That's always been an attractive market to us and we suspect it will be attractive going forward.

So the disruption that we're seeing has clearly eased as a result of developments in the region and there's potentially some opportunity for us in the next year.

On the financial side, I'd say it's actually performing quite well. It's held up well through the year. And one of the things we've commented generally is that the London market appears to be different and much more resilient than the overall UK market. And the trends that we've seen in relation to corporate activity and, particularly, corporate activity in financial services, have remained pretty good.

David Fintzen - *Barclays Capital - Analyst*

Okay, great. Thanks, appreciate it.

Operator

Thank you. Our next question comes from the line of Jennifer Lachlan. Please go ahead, your line is open.

Jennifer Lachlan - *- Analyst*

Yes, sorry, my question has been asked. I tried to take the question back, so thank you very much. You can go on to the next caller.

Willie Walsh - *International Consolidated Airlines Group - CEO*

Fine. Thank you.

Operator

Thank you. Our next question comes from the line of Neil Glynn. Please go ahead, your line is open.

Neil Glynn - *Credit Suisse - Analyst*

Good morning, everybody. Three from me, please, the first in relation to labor costs. The cost per average employee was down about 4% year on year in the third quarter. Just interested in how we should think about that trend developing through the winter and, indeed, into next year.

Second of all, with relation to net debt, it rose from ERU480m to EUR602m quarter on quarter. What is the key driver there? Could you maybe wrap in some CapEx guidance for 2011 and 2012 with that?

Then, finally, you've obviously had your first summer operating under the Transatlantic JBA with American. Interested in your thoughts as to what you have learned from that, what benefits have accrued so far and, indeed, what's left to do, please?

Willie Walsh - *International Consolidated Airlines Group - CEO*

Okay. I'll let Enrique talk about the employee costs and the net debt.

In relation to the 2012 CapEx, we'll give you some visibility on that at the Investor Day presentation.

On the JBA, we're pleased with the performance of the JBA. It has been an interesting learning exercise for us. We've been used to bilateral joint ventures and, although BA and Iberia have merged, it's a trilateral discussion because there's three operating entities involved in it. So it's been a bit more complex than I think any of us had experienced in the past but, having said that, it's performed better than I had expected at this stage.

We think there's still quite a lot to be gained from the JBA. The relationship is very strong and has improved. So the working relationship between the key commercial people, which I think will be the key success factor in relation to the JBA, has developed very strongly through the year. And my early assessment of the first year of operation, we just celebrated the first anniversary, is that it's been better than we thought it would be and more exciting in terms of the future outlook than we had expected.

On employee costs, Enrique?

Enrique Dupuy - *International Consolidated Airlines Group - CFO*

Yes. Labor costs, well, we -- we'll have to monitor closely, I would say, productivity and mix fleet improvements that we'll be getting through the following years. Of course, that's going to be a gradual process. It's also going to be affected by our growth plans. Remember 2.5; that's not going to require huge number of employee increases. And the inflation, and that's the one that bothers us the most. So we are going to have headwind pressures coming from inflation at the levels that we are seeing them today.

Of course, we will have also the benefits coming from our synergy projects that will simplify our working process and our labor structure. So as a whole we feel comfortable in being able to maintain labor costs through the following years well under control.

In terms of net debt, what you've seen in the quarter is very much related to a reduction in cash more in line to a reduction in gross debt and, of course, having to do with the pension adjustments.

Neil Glynn - *Credit Suisse - Analyst*

Great, thank you. If I could just round back on the transatlantic JBA, the load factor year to date on North America is broadly flat. Does that suggest that the benefits from the JBA come on the yield side and, perhaps, more mix than underlying price? Is that a decent way to think about it?

Willie Walsh - *International Consolidated Airlines Group - CEO*

I think there's a number of factors. Mix and premium market share is clearly one of them. We have put capacity into North America. So in what I think was perceived by many to be a weak market and, indeed, a number of our competitors commented on it being weak, if you look at the capacity we've put in, to maintain a flat load factor, is I think a positive development. So it is -- as I said, it is early days. There's a lot of learning to be done. You should expect to see some changes in our schedule as we go through 2012. But we are pleased with the performance of the JBA so far.

Neil Glynn - *Credit Suisse - Analyst*

That's great, thank you.

Operator

Thank you. Our next question comes from the line of Andrew Evans. Please go ahead, your line is now open.

Andrew Evans - *Nomura - Analyst*

Morning, everyone. I think most of mine have been answered, but two very quick ones. On the pension side, can you give us an idea of the timing on the actuarial review?

And then, on Iberia synergies, could you give us the number which comes through for the nine months, please. Thanks.

Willie Walsh - *International Consolidated Airlines Group - CEO*

On the pension, it's due to be complete by June 2012. It's the deadline date for completion of the triennial review.

Enrique Dupuy - *International Consolidated Airlines Group - CFO*

On the synergies, maybe I will ask you for some patience, because we'll be disclosing on the Investor Day a full set of information on our progress through the year.

Andrew Evans - *Nomura - Analyst*

Perfect. Okay, look forward to it.

Willie Walsh - *International Consolidated Airlines Group - CEO*

Thank you.

Operator

Thank you. Our next question comes from the line of Gerald Khoo. Please go ahead, your line is now open.

Gerald Khoo - *Espirito Santo - Analyst*

Morning, all. Just coming back to BMI, assuming the deal happens, you talked about using that to expand the long-haul network. I was just wondering what sort of flexibility will both opportunities have within the fleets and also in terms of terminal capacity at Heathrow in terminal five and terminal three.

Willie Walsh - *International Consolidated Airlines Group - CEO*

Yes. We'll show you details in terms of fleet flexibility at the Investor Day presentation. But just to say we do have flexibility within the existing long-haul fleet, so we could quickly move to expand the long-haul network.

In relation to Heathrow, this is going to be a pleasant headache, I think is the way I'd describe it, for both IAG and Heathrow airport. Current capacity in T5 would not allow us to move any activities in there. We are making some changes to the actual flights that operate from T5, so Iberia Spanish flights will move into T5 at the end of this winter season, March. BA transferred their Spanish flights at the end of October. So there's very little, if any, excess capacity in T5.

T3 is in a similar position. But as Heathrow East, the new central terminal, rebuilt T2, starts to come online, that will change the landscape in Heathrow. So this is a bit of a headache, but it's -- as I said, it's probably the most pleasant headache that I could look forward to.

Gerald Khoo - *Espirito Santo - Analyst*

When is Heathrow East supposed to open?

Willie Walsh - *International Consolidated Airlines Group - CEO*

2013. It was 2012 originally, but it's 2013.

Gerald Khoo - *Espirito Santo - Analyst*

Thanks.

Operator

Thank you. Our next question comes from the line of Gerard Moore. Please go ahead, your line is now open.

Gerard Moore - - *Analyst*

Hi, good morning. I've just got one quick question, please. Can you tell us how many slots in total does BA and British Midlands have at Heathrow airport?

Willie Walsh - *International Consolidated Airlines Group - CEO*

Combined, it would give us about 53% of the slots at Heathrow.

Gerard Moore - - *Analyst*

Okay, thanks.

Operator

Thank you. The next question comes from the line of Douglas McNeil. Please go ahead, your line is now open.

Douglas McNeil - - *Analyst*

Good morning. I just wondered whether you could comment on American's battles with the global distribution systems. Is that holding back the JBA at all? And do you think American are doing the right thing here?

Willie Walsh - *International Consolidated Airlines Group - CEO*

It's an excellent question. I think American are doing the right thing and we fully support them. It has had some impact on the performance of the JBA, nothing that I would classify as being significant. But we are fully supportive of the moves that American are taking. I think the whole industry would be supportive of the move that American is taking in relation to distribution, so we watch it with great interest.

Douglas McNeil - - *Analyst*

Thank you very much.

Operator

Thank you. Our next question comes from the line of Andrew Light. Please go ahead, your line is now open.

Andrew Light - *Citigroup - Analyst*

Yes. Hi, there again, just a couple of quick follow-up questions. Were there any significant merger, integration or restructuring costs in the third quarter?

And, secondly, forgive me if you've covered this, but what was the net impact of the FX translation on the operating profit? Because it seems to have -- the sterling weakness would appear to have probably reduced the revenue more than the cost.

Willie Walsh - *International Consolidated Airlines Group - CEO*

There were no costs, Andrew, in the quarter. I'm just trying to think, just to make sure. No, there were no transaction costs in Q3.

And in relation to the translation, Enrique?

Enrique Dupuy - *International Consolidated Airlines Group - CFO*

Yes. In relation with the translation, basically, we are recording around EUR21m having to do directly with just translation effects --

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Andrew Light - *Citigroup - Analyst*

Negative EUR21m?

Enrique Dupuy - *International Consolidated Airlines Group - CFO*

At operating profit level.

Andrew Light - *Citigroup - Analyst*

Was that negative EUR21m or positive?

Enrique Dupuy - *International Consolidated Airlines Group - CFO*

It's positive.

Andrew Light - *Citigroup - Analyst*

Okay, thank you.

Operator

Thank you. Our last question now comes from the line of Mark Manduca. Please go ahead, your line is now open.

Mark Manduca - *Merrill Lynch - Analyst*

Hi, there, thanks very much for taking the question. Mark Manduca from Merrill Lynch. Just one sensitivity analysis question, because a lot of my questions have already been answered.

Taking a think about the new business and, obviously, none of us have seen IAG function in a downturn properly. In regard to ASKs and fuel, at what point is -- on an ASK basis, on what point are you going to be able to start cutting capacity with the new entity?

And how flexible -- I guess this more of a hypothetical question. How flexible is the new network combined with BA and Iberia from a ASK standpoint? I'm just trying to imagine a world whereby yields are down next year significantly and we have a slightly awkward scenario whereby yields are down and fuel is up.

Willie Walsh - *International Consolidated Airlines Group - CEO*

I think yields are down and fuel is up is an environment we've witnessed previously, 2008, and I think the industry learned quite a lot from that. And certainly our learning in terms of quick capacity reduction in Q4 '08 into '09, Q1 '09, will stand as well, because it was a very interesting learning exercise. If we were to go back and do it again I think we would be able to manage it in a better way. So both organizations separately have learned from capacity reductions on an ad-hoc and a planned basis.

I think together we've actually got more flexibility than we had separately. One of the things I've always said about consolidation is consolidation puts the decision-making in relation to capacity in the hands of fewer people and, therefore, you're more likely to get more rational decisions. So in relation to any future significant change in demand IAG will be deciding on capacity in BA and Iberia working together with the two operating companies. But it clearly puts us in a position to respond, we believe, better to any demand-reduction environment.

And the issue that I think everybody is seeing is, with fuel, typically, representing now about 32% of the industry's cost base it makes capacity reduction a more easy decision to make, because it's a true variable cost. So in a high-fuel environment you get a switch from high fixed costs into high variable costs and that typically leads to better capacity discipline. So I think we've learned a lot. I think we'll be able to respond better. And I think, by virtue of the fact that we've merged the two companies, even better still in relation to any (multiple speakers).

Mark Manduca - *Merrill Lynch - Analyst*

Willie, just on a second point, just in regard to the BMI purchase, how does IAG intend to finance any intended purchase, so regardless of an actual price agreed? So what's the proportion of cash potentially?

Willie Walsh - *International Consolidated Airlines Group - CEO*

Yes, I'm not going to go into any details of that, but we will clearly address that. But it's not an issue.

Mark Manduca - *Merrill Lynch - Analyst*

Have to wait, right. Thank you very much.

Operator

At this time we're showing no further questions from the audience. I'd like to hand back for any closing remarks you may have.

Willie Walsh - *International Consolidated Airlines Group - CEO*

Okay, well, thank you very much, everyone, for joining us. We look forward to seeing you all, or as many of you as possible, at our Investor Day in Madrid. And we look forward to updating you on some of the issues, some of the questions that you've asked us today.

So I appreciate that we haven't answered all of your questions, but that's mainly because some of the questions asked today will be addressed in detail at our presentations at the Investor Day in Madrid. So thank you very much for your patience and thank you very much for joining us.

Operator

Thank you for participating in today's conference call. You may now disconnect.