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IAG.L - Q1 2012 International Consolidated Airlines Group SA Earnings Conference Call

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PRESENTATION

Operator

Good day and welcome to the Q1 results conference call. Today's conference is being recorded. At the end of the presentation, we will have a question and answer session.

At this time, I would like to turn the conference over to Mr. Willie Walsh, CEO. Please go ahead, sir.

Willie Walsh - *International Consolidated Airlines Group - CEO*

Thank you. Good morning, everybody. Thank you for joining us. We have actually two presentations for you this morning. The first presentation on the Q1 results will be given by Enrique Dupuy and the second presentation on the acquisition of BMI will be given by Keith Williams, the BA CEO. We will then take questions once we finished both of the presentations. So I'll now hand over to Enrique now. Thank you.

Enrique Dupuy - *International Consolidated Airlines Group - CFO*

Good morning, ladies and gentlemen. As we had anticipated, Q1 has been a difficult quarter for the main European network carriers and also for IAG. Fuel cost increases have been significantly aligned with firstly, the unwinding of our hedges, the high fuel international prices and the impact of emission costs through the quarter. Our performance has also been hindered by the strike actions of Iberia pilots costing an estimated EUR25m together, with a weak economic performance of Spanish markets. All this resulting in Iberia operating losses of EUR170m in this quarter.

The other side of the coin has been related to a strong performance in London related markets and especially on the Transatlantic axis where we have and still are benefiting from significant improvements year on year on premium and non-premium traffic and the long-haul revenues.

So, the financial summary reflects this strong revenue performance reflecting a 7.8% increase against last year on a very modest 0.6% capacity growth. Fuel cost increase reflecting 24.9% in absolute terms and about 24% in unit terms has been also affected by a stronger US dollar against the euro in relation with Q1 year 2011.

Non-fuel cost increases have reached 5.7% or 5.1% in unit terms and as we will explain through the presentation, also been affected by the strong US dollar and sterling, the impact of the strikes and some other one-offs and accounting issues that we will comment with detail.

The exceptional items are mainly related to a release of provisions for competition fines that have been finally settled. So after taking into account this exceptional recovery, the operating loss for the period gets reduced to EUR212m.

So let's dive a little bit into the main revenue line. Capacity has been quasi-flat against a planned increase of around 2.2% and this is mainly because of a 1.6% reduction due to the strikes in Iberia. Passenger revenues have grown a healthy 9% in absolute terms or 8.5% in unit terms, supported by a strong load factor performance and both US dollar and sterling strength. At constant ForEx terms, the unit revenue growth would have been a still powerful 7.3%.

Cargo revenues, despite of overcapacity and softer market, have increased a modest 0.3% but a positive 2.6% in unit terms. Total revenues have increased 7.8% on a very modest capacity growth, as I mentioned, and weak Spanish environment showing the very healthy development of traffic out of the London market behaving much better than, as we know, the rest of the UK.

So now, the previous high watermark we had reached in Q1 2009 has been clearly surpassed on a global economic growth environment, which is now clearly a very powerful one, especially in the European space.

We have implemented further fuel surcharge increases in Q1 and these have largely been stuck. Capacity discipline at both sides of the Atlantic has probably very much to do with this improvement in pricing power and our ability to offset a significant part of our fuel cost increases

The positive behavior in unit revenue performance has occurred in most of our different networks. Worth to mention, very healthy increases, about 10.7% and 9.9% in North America and Asia Pacific, with a merit of on the first case, of a significant capacity increase at the same time.

Also, significant increases in LatAm and the recovery on Middle East and Africa and South Asia against last year helped partially by the consolidation of British Airways with Qantas joint venture in the region. Also significant, the achievement in the short and medium haul networks, although on a basis of capacity reductions, especially in the domestic market against, especially, Spain. Low cost carriers' capacity reductions have helped to reduce the overcapacity in these segments.

Q2 will be comparing with a stronger spring quarter in year 2011. But we are not noting major changes in the trends that I have just mentioned. This quarter reflects the stronger quarterly growth in premium unit revenues since Q2 2011 with a very positive performance through the month of March. The absence of strikes in Iberia in this month has improved the aggregate.

As you can see, on the chart, the improvements in Q2 against a very strong last year will probably be tougher, although as you have seen in our traffic stats, April has also been a positive month in this respect.

Cargo continues to experience yield growth but this is offset by lower demand and lower [end-load] taxes. We're largely a belly-hold operator as you know, and our growth plans in this area are modest and related to passenger growth paths.

Actions being taken by other operators to reduce excess flight capacity in the market are key to stabilizing the cargo revenue environment. Consumer demand in the West remains soft, impacting exports out of Asia, India, Middle East and Latin America. The strike of Iberia pilots has affected the IAG cargo offering and we shall redouble efforts to regain the loyalty of our affected customers through the following months.

The chart shows growth pattern excluding BMI. Since we last reported, the schedule plans have been optimized particularly through the second half of the year. This resulting in a planned growth before strike impact of 2% for year 2012. Taking into account the strikes having happened through the first part of the year, the reported growth actual is estimated to be 1.4%.

By maintaining a modest level of growth, we have been able to drive the improved load factors without yield compromise. As we have said in previous occasion, we monitor closely the performance of our different networks to detect signs of weakness in demand which would recommend us to adjust our capacity further on.

Through Q1, we have been able to increase our load factors by more than 2 percentage points and improve our yields on a significant way at the same time. Our stage length has increased through the quarter due to the reduction of the size of our domestic and medium-haul networks relative to the longer ones that have been expanded. This has also created a negative impact on the average unit revenue but at the same time, will be positive on the cost side.

As reported last time, there are no new aircraft introduced in the summer season which show us still keeping the 747 grounded that we had intended to operate. Iberia is seeing a further two A340-300 aircraft leaving the fleet in May-June, as well as the one that left the fleet in late December. Compared with last summer, that is a total of thee A340-300 leaving the fleet since the last summer. Iberia would then have 16 A340-300 and 17 A340-600.

Last week, British Airways announced that it will be launching services to Seoul, South Korea in December this year.

This chart, in which we try to show the main recent trends in the unit revenue performance of our main networks and passengers segment, is not showing in this occasion, major changes. Mainly, it's worth to mention that our main cargo markets, although soft, are not showing further signs of additional weakness because of adjustments of capacity that we have already taken place and we mentioned. Also, it's important to mention that our long-haul non-premium markets especially in the Transatlantic although competitive, are showing a reasonable strength in terms of demand and also volume.

So on the cost side, year-on-year cost comparisons in this quarter are adversely affected by fuel cost increases which also remained significant through the rest of Q2 and receding probably further on through H2. The strength of the sterling and the US dollar have also impacted negatively, I would say by around 1.4%, the cost increase of the period.

Finally, a series of one-offs and accounting changes that we will explain through the following slides, have contributed to an apparent increase in non-fuel unit cost that will show significantly lower on a like-for-like basis.

This quarter, the fuel cost rise has been exacerbated by emission trading cost, stronger US dollar and hedges being exercised at similar levels to market price right now. The fuel bill for the quarter has been very much aligned to our anticipated figure of EUR1.4b. The recent reduction in international fuel prices related to higher inventory levels in the world and a reduced geopolitical tension may result if they consolidate, in a reduction of the fuel bill, although partially compensated by a stronger US dollar against the euro.

So this is the chart that we usually are using to reflect the sensitivity, that quarterly forecast of our fuel bill. We are maintaining as a base case, an estimate of $1,080 per ton of kerosene and $1.30 per euro for the rest of the year but showing at the same time, the sensitivity to the different assumptions that we could be making on fuel performance and the dollar rate.

We continue to execute our hedging policy and our aim is not to speculate our fuel prices or ForEx levels. We are currently 71% hedged for the remainder of the year and 55% hedged for the next 12 months. The graph shows the sensitivity to changes in the market price of kerosene which would result in plus or minus EUR17m for each $10 per metric ton of change in the price of kerosene at constant US dollar terms.

So as I mentioned, this quarter, we have also experienced growth in non-fuel unit cost of 5.1%. This is driven by a number of factors set out on the page we are showing.

So first of all, the strikes, the strikes have estimated to have an impact in unit cost of 1.3% due to the limited scope for reducing some of our fixed costs through these events.

Second issue is bonus. In addition, we have a base effect on the provisioning that British Airways undertakes for its all-employee bonus scheme. So last year, there was no provision in this respect through Q1 but instead, two quarters' worth fell into the following Q2. So as this year, we have recognized the first accrual in Q1, this year-on-year effect will then smooth over the first half of the year.

Also significant the Avios new accounting, we have begun different accounting for our treatment of flat fees collected in lieu of taxes, fees and charges under the Avios program. This increased non-fuel unit cost by 0.5% and over time, is expected to be netted through additional revenues.

ForEx finally -- our costs have been impacted by exchange rates both because of the strength of the US dollar and the sterling against the euro.

So taking all of this into account, our like-for-like comparable non-fuel unit cost increase is estimated to be this quarter in the range of 1.3%. And we are still targeting a more or less flat unit cost underlying performance for the full year against a headwind of a 2% or 3% underlying inflation rate.

So let's talk a little bit about our employee costs. Performance on employee costs have been affected as I mentioned before, by strikes accounting for almost 2% of the unit cost increase. And again, bonus provisions in British Airways for a further 1.7%. So underlying employee cost increases around 3.3% would be 2.8% at constant ForEx terms against a background of 2% or 3% inflation as I mentioned. On a two-year comparison, we are still showing the benefits of recent productivity and cost improvement which will also keep on helping us on this respect in the near future.

Supplier costs also impacted by strike and accounting changes. So it would be about 1% and 0.8% respectively. Like for like the increases would have been 3.8% or 2.2% again, at constant ForEx rates. So the roll 12-month calculation ending March would still be on the negative territory.

Underlying ownership unit costs have been benefiting from A340-300 exits and non repetition of some termination payments on leases. So what we are expecting them is to be flat for the full year.

Finally, this is a very interesting chart, we think. We are trying to reflect at an EBITDA level, the ways and intensity in which we have been offsetting the cost increases of the quarter especially paying attention on the fuel cost increases. As you can see, a very strong unit revenue recovery. Under this summary, we have been able to offset up to around 73% of the cumulative price impact in both fuel and other costs through price increases and mix improvements, representing a very high proportion on a weak, seasonable demand period for a year.

Just a quick review to the balance sheet of the group through Q1, shows small differences in respect of December. So just a modest cash reduction due mainly to regular debt repayments which will be offset from April on with new 777 financings that have been just completed and funded. Slight improvements in the net debt and leverage position because of a reduction in adjusted net debt, fundamentally operating leases.

So the outlook for year 2012 is still subject, of course, it's early in the year, to a number of uncertainties. Demand in London remains strong with a continuation of the encouraging trends we saw in the latter half of year 2011 in our long haul premium cabins and also non-premium, particularly on the North Atlantic routes.

The Spanish and the wider Eurozone macroeconomic background deteriorated in Q1 and this is reflected in a worsening commercial performance from our Madrid hub that will probably remain through the year.

At the current oil price and euro/US dollar exchange rates, we'll face a fuel cost increase this year of over EUR1b, although as we mentioned several times, this year-over-year impact should be less severe in H2 and maybe, will be benefiting from, if it happens, a consolidation of reductions on the fuel international pricing.

We remain focused on maximizing profit through efficiency improvements and then the recent launching of Iberia Express is a major step in this direction. Pilots' strike actions associated with our pursuit of the strategy which continued through the second quarter basically, in April, have now been called off but then the speed of revenue recovery from the strike and the performance of the Spanish markets are still unclear at this stage.

The year one operating profit dilution from the acquisition and integration of BMI completed recently during Q2 is expected to be in the order of EUR240m and we are presenting more details on these figures and the way the integration is going to take place and this includes non-recurring restructuring costs to be booked this year of approximately EUR90m.

So the above factors mean that IAG expects its operating results to be around the breakeven level for the full year and this after exceptional items in which we are including the non-recurring BMI structural costs as well.

Thank you.

Willie Walsh - *International Consolidated Airlines Group - CEO*

Thank you, Enrique. I will now hand over to Keith Williams, BA CEO to take you through the presentation on the integration of BMI.

Keith Williams - *International Consolidated Airlines Group - BA CEO*

Yes, good morning, everybody. I think there is a Chinese proverb which says when opportunity knocks, a man still has to get off his feet and open the door. This presentation is about the opportunity and the early progress that we are making towards the acquisition and integration of BMI.

With regards to the opportunity, we have always seen BMI as being a chance to transform Heathrow for IAG and for British Airways. BMI has a slot portfolio of 56 slot pairs at Heathrow which are fairly evenly spread throughout the day and that gives us a number of possibilities in terms of maximizing our schedule. With the acquisition, we have around 50% of the slots in total.

Financially, however, BMI has been significantly loss making but we can see ourselves as transforming the business to making it earnings accretive by 2014 and adding a further EUR100m EBIT to our target numbers for 2015 and increasing beyond that.

The total consideration being paid is EUR172.5m, that is for the total business because BMI consisted of BMI mainline, BMI regional and BMI Baby. The interest in British Airways and IAG as we have always said, has been BMI mainline. Regional as you know, has now been sold subject to CAA approval and work on Baby is ongoing.

If I now look to the baseline financials, BMI had been making double-digit loss margins post the Lufthansa acquisition back in July 2019 (sic). Now within that, part of it was Baby, a small amount to Regional, but the vast elements of that loss was within the BMI mainline business.

Unit revenues had been low and particularly for a Heathrow-based carrier and equally, load factors were low and the issue has been exacerbated by a high oil price and the Middle Eastern and North African crisis which covered a number of the routes where BMI flies.

So in 2011 base, we see an operating loss of EUR200m. If I look to 2012, you can see that headwinds that affect the Group and carriers generally in terms of fuel or headwind, we have seen some small negative drift because of the uncertainties around the business offsetting that as we bring through the progress on integration, we can see some improvement in the costs.

So if you take that overall, what we see -- the current run rate with post-April 19, 2012 acquisition, you ought to expect an operating loss of something in the region of EUR150m.

As Enrique has already said, there are significant restructuring costs, most of which will be incurred this year, EUR90m incurred this year of around EUR115m that we expected in total. Most of that relates to redundancies in terms of the cost this year, there are some additional marketing costs as we contact the BMI customer base.

In terms of the benefit, we see around EUR300m of turnaround benefits and that is split around three buckets. It's around revenue benefit, network contribution, and cost improvement. Looking at cost improvements, first of all, we'd expect something like half of that to come from employment costs and the balance from IT systems and marketing.

Now, on the revenue side, we see the ability to achieve some improvements on BMI routes and improvement from the increased breadth and depth of our existing short haul network. We also see significant contribution improvement coming from long-haul flights and connectivity and I will come back to that in a moment.

With regard to turning the business around, if we look at -- I have given you the overview; let's look in a bit more detail. Given the scale of the losses, the first step that we've had is to integrate the business into British Airways as quickly as possible. The second phase is to optimize the combined schedule and align the procurement activities and finally, based around fleet changes and long-term productivity to transform the business.

Now, to some degree, those steps overlap each other. For example, we have already announced flying to Seoul and that is made possible by freeing up BMI aircraft and rejigging our schedule which allows us to set up a new route to Seoul which Enrique was talking about earlier.

In terms of the integration, early steps have been to get hold of the pricing of inventory and ensure clear communication with our customers and we -- you might have seen, we have already done some advertising; we have already contacted our customers and assured them around the summer 2012 schedule. Flights have moved on to ba.com and that happened immediately.

The next big step is the move to BA inventory which starts on May 23, with a second tranche of activity in the middle of June. Now, this ensures that contracts are between the customer and British Airways which allow us to gain commercial control on our systems and helps such things as revenue management going forward. Next one.

If I look at the transfer to BA operations, BMI Mainline today has 27 Airbus aircraft. They are compatible with the BA fleet except for two A330s and we have already said that we are not interested in flying those A330s long term. And our existing aircraft plus future deliveries will allow us to absorb the BMI schedule.

Work is already underway to put the aircraft into the BA livery and the first aircraft will be out of the shed this month. The schedule will move on to BA AOC with all the aircraft transferring by Christmas 2012.

In terms of employee integration, employees consultation is already underway with the BMI workgroups and that started pre-acquisition. BMI is represented by BALPA, the GMB, and Unite, the main unions at BA, as well as some Prospect members within engineering. Consultations are ongoing and are going well.

Okay, in terms of our customers, we see real opportunity for the better network optimized across London and we see better scheduling with the BMI slots that we acquired being spread across the day and some of this, you have already seen.

As Enrique said, we've already announced Seoul and that is made possible by the utilization of an A321 BMI move and a 767 move within British Airways which frees up a 777 for Seoul. We've announced the London City-Aberdeen 15 flights a week, which again, is part of the move there. And you will see a transfer of the Marseille service from Gatwick into Heathrow so you can see us already starting to optimize the schedule that we have.

If you look at it overall, in the Winter 2012, following the IATA Slot Conference, what we expect to see is 18 new routes for British Airways London Heathrow and you can see there, that split between UK&I short haul, mid haul and long haul. We've already announced today, as you have seen the commencement of routes at Bradford Leeds, Rotterdam and Zagreb.

In ASK terms, BMI adds around 3% to our network. Now, some of that is obviously not growth because it's the replacement of capacity that BMI had at Heathrow but 3% to the BA schedule but not necessarily growth out of Heathrow.

Finally, our long-term prize is to grow the long haul network. On a rule of thumb, we would expect around two-thirds of the slots to stay short haul and one-third to move into long haul over time. That process has already started, as I say, with Seoul. It's made possible by the arrival of the 787s and the A380s, the 24 787s and the 12 A380s and we've still got flexibility around our 747 fleet and our 767 fleet which enables us to grow as we see the market capability to growth.

And very finally, I think there is a huge positive for IAG and for British Airways. But it's also a positive for Heathrow. Talks are ongoing at the moment about the next quinquennial Q6 review. Initially, BA will have to operate from three terminals, Terminal 5, Terminal 3, and the BMI operation in Terminal 1. BMI was due to go into Terminal 2 and we'll evaluate the options there as to what the best position is for the airport and for British Airways long term in terms of our operations at Heathrow.

Willie Walsh - *International Consolidated Airlines Group - CEO*

Okay, thank you, Keith. And so that concludes the two presentations that we have. We are now happy to take questions on any of the issues that we have highlighted to you this morning or indeed, any other issues you might wish to ask us about.

Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). And we will take our first question from Jarrod Castle of UBS. Please go ahead.

Jarrod Castle - *UBS - Analyst*

Good morning, gentlemen. Two questions if I may. There are some parts to the questions. Just firstly, just dealing with Iberia Express, I just wanted to get a bit of color in terms of your thinking why potentially, you didn't go the route of buying the remaining stake in Vueling and obviously, it's more Barcelona I guess than Madrid. But you've obviously had to deal with a number of strikes so just some thinking on that.

And then secondly, partly related to that, you're under arbitration proceedings, how long would those last before potentially you could see some unrest, if you don't reach an agreement?

And then secondly, I guess this one is more for Keith. Just on BMI, you have given very clear guidance in terms of the numbers, in terms of the operating losses in 2011, what -- related to Mainline, Regional, and Baby, you know, clearly, most of it seems to be Mainline. Can you just give an idea in terms of the revenue, the April to December 2011, what amount would have been Baby and the Regional business?

And then lastly, you've said, BMI will add about 3% to BA's capacity, what is that roughly in terms of IAG's reported capacity number now for 2012?

Thanks.

Willie Walsh - *International Consolidated Airlines Group - CEO*

Okay, thank you. In relation to Vueling and Iberia Express, I'm pleased that you have asked the question because it helps actually that we give you the -- we are given the opportunity to clarify this.

The main reason that we didn't look at utilizing Vueling either in its current form or as you suggested, maybe acquiring the outstanding shares in Vueling is that the labor agreements with pilots, which was entered into a number of years ago following the merger of Clickair with Vueling, restricts the use of Vueling in the Madrid hub.

And so therefore, we could not, under the contract with pilots, utilize Vueling in the way we would want to to feed the hub at Madrid. The labor agreement did not prevent us from creating a new entity, so what we have done is to operate within the legal framework, the employee legal framework in Spain to create a new wholly-owned subsidiary of Iberia, Iberia Express, which has no restrictions under the labor contract in terms of what we can do with it.

So it reflects the nature of the restrictive labor agreements that existed and the labor law in Spain with regard to changing labor agreements which require agreements from both parties before you can move forward.

The arbitration is binding. It is expected to conclude within the next two weeks. The arbitrator requested an extension of 10 days to conclude the work so that would suggest that it will be finished sometime towards the end of the next fortnight and it will therefore, take the form of, in effect, a new collective labor agreement and given that it is binding on both parties, should remove the grounds under which the pilots have been striking or opposing the restructuring work within Iberia. So we believe that it will bring to an end the current dispute.

I don't have any insight into the thinking of the arbitrator at this stage so I can't comment on what we are likely to see from that but we expect to get the finding within the next two weeks, probably towards the end of the next fortnight.

So Iberia Express is an important development for us. It is in effect a restructured lower cost Iberia doing everything that the Iberia short and medium haul does at Madrid hub today and we've utilized that vehicle because there was no restrictions under the contract that we had with pilots in terms of what we could do.

In relation to BMI, I'll hand back over to Keith to --

Keith Williams - *International Consolidated Airlines Group - BA CEO*

Jarrod, if you look at the EUR200m for 2011, around 80% of that loss relates to BMI mainline. As I said, if you move into 2012 to the early part of the year given our acquisition's at the end of April, the early part of the year you've got an increase in the fuel bill coming through and you've got some revenue hit because of the uncertainties around the business. And clearly that's what we're looking to turn around in the short term.

Jarrod Castle - *UBS - Analyst*

Thanks, Keith. And then what in terms of revenues, what percent would be mainline in that EUR735m number you've shown April to December '11?

Keith Williams - *International Consolidated Airlines Group - BA CEO*

It's about the same ratio actually.

Jarrod Castle - *UBS - Analyst*

Right, okay. Thanks. And then just --

Willie Walsh - *International Consolidated Airlines Group - CEO*

And just a rough rule of thumb, BA accounts for about 70% of IAG's ASKs. So the current mix is about 70/30 BA. So that 3% (technical difficulty) 2%, a little over 2% of IAG's ASKs.

Jarrod Castle - *UBS - Analyst*

Thank you very much. Very clear.

Willie Walsh - *International Consolidated Airlines Group - CEO*

Okay.

Operator

And we will take our next question from Tim Marshall of Redburn. Please go ahead.

Tim Marshall - *Redburn Partners - Analyst*

Morning, everybody. I have questions on the targets at BMI really. If I think about the EUR90m of restructuring cost you're taking this year, presumably that's taking a lot of the overhead cost out, and then I look at the revenue trend that I guess yourselves but also easyJet are looking at in short haul and then compare the North Africa and Middle East situation last year to this year, I still struggle to see why the losses should be higher in 2012 than they were last year. Is there something that I'm missing within that?

Willie Walsh - *International Consolidated Airlines Group - CEO*

The main issue in relation to restructuring is that we don't get the benefit of the restructuring until the end of this year so we will see significant benefit rolling into next year. And that's because we've had to start this consultation process which as you know is a 90-day consultation process.

We also have the issue of the penalty, if you like the slots that we have to give up. We fully expect that those slots will be taken up by new entrants in full but we believe it's unlikely that they will be utilized during the coming winter season and that it's more likely that the slots will be taken up by new entrants for the -- starting with the summer season of next year.

So in effect we end up operating slots through this winter that we won't have for the summer or future winter schedules which imposes some degree of dyssynergy in the short term and therefore it doesn't allow us to fully extract the benefits of the restructuring until we move into next year.

As Keith mentioned, part of the problem on the revenue side with BMI is the performance of revenue has been deteriorating given the uncertainty around the ownership of BMI. We've tried to provide as much clarity as possible and you've seen what we said in relation to BMI Baby where we're ceasing a number of routes from June 11 and indicated that we're likely to suspend all flying from the end of September of this year. So we're trying to rebuild or rebuild the customer base in BMI which had deteriorated quite rapidly through 2011 and the early part of 2012.

So the revenue performance was very poor and if you look reflected in some of the seat factors, which I think there was disclosure publicly around seat factors for the BMI operation in Heathrow up to a point, but we're seeing seat factors in the 50%. For Heathrow that's appalling. And it's a bit of a job to start building that up again.

So I think we're being realistic. We clearly will be pushing to improve on that performance and I think there is some upside in relation to the forecast that we have. But we're starting from a very weak base in BMI and it'll take us a little bit of time to get some clarity around the overall customer and revenue expectation. But we'll certainly give you an update on that at the half-year stage.

Tim Marshall - *Redburn Partners - Analyst*

Okay, great. And then I just have one more question about the 2015 target. I guess if those slots are taken by new entrants, although personally I struggle to see who they might be so maybe you could elaborate on that a little bit as well, but if you increase the size of BA at Heathrow by at least 15% if not 20% then that EUR100m target is a bit conservative as well given that I'd expect BA out of the EUR1.5b to be making I don't know EUR1.1b, EUR1.2b of that total number and all of that presumably or the bulk of that comes at Heathrow. Is that fair?

Willie Walsh - *International Consolidated Airlines Group - CEO*

Well we're very clear in terms of the benefit of BMI we've shown as EUR100m to the EUR1.5b that we've targeted for 2015. We'll always seek to improve on that performance. But it's important to point out that as Keith mentioned in his presentation about two-thirds of the slots will be utilized on short haul, one-third on long haul. I think there was an expectation early on that there would be a significant change in the long haul/short haul mix.

And Keith, do you want to --?

Keith Williams - *International Consolidated Airlines Group - BA CEO*

Yes, I'd just add one thing, Tim, is that you're looking at the average across the whole of the business in terms of returns and you shouldn't expect that BMI coming in in the early phase is going to be in the average.

Willie Walsh - *International Consolidated Airlines Group - CEO*

In relation to new entrants, well, of course, Richard Branson has stated that he will be flying to Scotland so we're all looking forward to him losing more money when he starts operating those exciting services to Aberdeen and Edinburgh. But no, we fully expect there to be interest in utilizing the slots and our expectation is that the slots, the 12 or 14 slots, will be fully taken up by competitors starting from the summer season of 2013. As I said, our expectation is that we won't see interest in utilizing them through this winter.

We don't have any visibility. There is a slot trustee, a company called RX Competition who will facilitate that process but our expectation is the slots will be taken up in full.

Tim Marshall - *Redburn Partners - Analyst*

Great. Thanks for answering my questions.

Operator

And we will take our next question from Neil Glynn of Credit Suisse. Please go ahead. Hello, we will take our next question from Edward Stanford of Oriel Securities. Please go ahead.

Edward Stanford - *Oriel Securities - Analyst*

Good morning. Two questions please if I could. The first is I wonder if you could comment on how you propose to cope with the proposed increases in Madrid airport charges and is there anything you can do to mitigate that and does it mean that you will be looking to cut capacity further?

Secondly, you've not mentioned the price mitigation you've received from Lufthansa and perhaps you don't want to disclose it but would it be a reasonable assumption to assume that the exceptional costs associated with restructuring BMI might be broadly equivalent to the price concession you've received from Lufthansa? Thank you.

Willie Walsh - *International Consolidated Airlines Group - CEO*

Thank you for your questions. In relation to Spain and particularly Madrid, the government, as you know, has indicated that they're likely to increase the charges. We will and are actively campaigning against that as are a number of other airlines and I think if the government goes ahead I believe it will have an impact on the capacity plans and growth plans for all carriers at Madrid. So I would not be surprised to see a reduction in capacity at Madrid, not just from within the IAG activity but all of the carriers operating at Madrid if those new charges come into effect.

Quite honestly, I think it would be very foolish of the Spanish government to increase charges at a time like this when Spain is so heavily dependent on tourism and particularly dependent on that price-sensitive end of the market. So we will, along with other carriers, push to have these charges -- increases set aside.

Your second question in relation to restructuring costs, yes, we have not given any detail. I think there's likely to be some disclosure at the half-year stage, I suspect within the Lufthansa accounts and our own, but I think your suggestion is not far from the mark.

Keith Williams - *International Consolidated Airlines Group - BA CEO*

Yes just to clarify one point though is that clearly BMI Baby came with BMI mainline so when you talk about the restructuring costs, the restructuring costs that we have are relating to mainline and we still need to deal with (technical difficulty). Baby itself will be shown as a discontinued operation so it's not part of the normal BA operations or IAG operations.

Edward Stanford - *Oriel Securities - Analyst*

Thanks very much.

Operator

And we will take our next question from Andrew Light of Citigroup. Please go ahead.

Andrew Light - *Citigroup - Analyst*

Hi, good morning. A couple of color questions. First of all on BMI, you say you'll convert one-third of the slots to long haul. Is that because the other two-thirds really are only suitable for short haul or is there -- could you dip into those in the long run for long haul?

And then secondly about the outlook, you're saying breakeven for the year before the restructuring items and excluding BMI so just by broad calculations it seems like you expect basically a flat outlook for both -- for the original BA and Iberia for the full year yet you're already EUR147m down in the first quarter. Can you just give some color as your thinking as to why it would be flat and also how that's split between BA and Iberia? Thank you.

Willie Walsh - *International Consolidated Airlines Group - CEO*

Thank you, Andrew. The slots switch between long haul and short haul reflects the fact that not all slots can be used for long haul but it broadly reflects the ratio of long haul to short haul mix within our network at the moment. And we've always pointed out that to sustain an effective long haul network, and indeed to grow the long haul network, we have to have an effective short haul network. The same applies at Madrid and it's the reason why we've been pushing so hard to restructure the costs of operation of short haul.

So we could utilize more of the slots that we have for long haul, so we have scope within the slot portfolio, particularly the combined slot portfolio now, to grow long haul beyond that but we do have to maintain a reasonable balance between the short haul network feeding traffic into the long haul network. And we believe that the optimum mix based on the slots that we've acquired and the slots that we currently have. But as I said we could use more of the existing slots for further long haul expansion if necessary. But I think, as you know, new long haul routes tend to require higher volumes of transfer traffic and that therefore suggests that there isn't unlimited scope to develop the long haul network.

In relation to the outlook, I'll let (multiple speakers)

Enrique Dupuy - *International Consolidated Airlines Group - CFO*

Yes, to clarify the issue of the way we've been calculating this estimate means that before the BMI impact, both BMI regular loss plus the restructuring costs, so before that we would be on the range of positive plus EUR240m. And this is of course compared with an initial loss of EUR212m because here we're including also the exceptional OFT settlement.

The pattern is very much having to do with the regular pattern on our industry. First quarter you know is heavy lossing and in this case it has been exacerbated by the additional cost of the strikes. So what we are seeing is a positive pattern for the rest of the year that will more than offset the losses that we have been achieving in the first quarter.

We are not providing at this stage I would say estimates independently in Iberia and British Airways.

Andrew Light - *Citigroup - Analyst*

Okay, thanks. Can I just ask a quick question on this growing immigration issue at Heathrow? Do you see a roadmap to that being solved and if so how long it should take?

Willie Walsh - *International Consolidated Airlines Group - CEO*

Sorry I missed your question. Can you say it again?

Andrew Light - *Citigroup - Analyst*

The topic that's hitting the headlines at the moment, the immigration issues that are causing a lot of congestion at Heathrow. Do you see a plan, a roadmap to the resolution of that?

Willie Walsh - *International Consolidated Airlines Group - CEO*

Oh yes. Yes, we do. I think it's been well recognized that this is an issue the government needs to get under control. I think they were embarrassed by their performance and quite honestly they should be ashamed of their performance trying -- particularly trying to convince people that the problem wasn't as bad as it was. So we've seen a very significant improvement in the performance of immigration at Heathrow and that needs to continue. So the program for the Olympics is pretty robust. Our concern was that a lot of effort goes in during the period of the Olympics and then we face increasing problems after that. So I'm pretty confident that the government will get control of this. The fact that the Prime Minister has got personally involved gives us a bit more comfort than if it was left to Damian Green to sort out. So the latest figures are a significant improvement on what they had been.

Andrew Light - *Citigroup - Analyst*

Okay. Thank you very much.

Operator

And we will take our next question from Andrew Lobbenberg of HSBC. Please go ahead.

Andrew Lobbenberg - *HSBC - Analyst*

Oh, hi there. Can I just come back on the customs issue and the immigration chaos? Do you think you've successfully headed off the threat that they're going to raise taxes on you and make you pay for them sorting it out? Obviously you don't pay very much in APD so the government need more money.

Since we've got the benefit of Keith on the call can you just remind me, since I've been lying in a garden, on the pension and what's happening with the BA pension at the moment?

And then just as a final question, could you update us on your views looking across to American and the lively debates around US Airways or independence for American?

Willie Walsh - *International Consolidated Airlines Group - CEO*

Thank you, Andrew, and welcome back. I hope you had a nice [garden] break. I'll let Keith talk about his favorite subject on the pension. I don't expect airlines to face any increase in costs as a result of immigration. There's a lot of detail available on the Home Office website about the performance of the border force. I see no reason why airlines should have to incur any additional costs over what the Home Office is already bearing.

The average cost of processing somebody through the border according to the Home Office website is GBP3.25 and they have I believe sufficient resources available to do that within the existing cost base if they utilize the manpower that's available to them in a more effective manner, targeting the resources to the known flows of traffic.

So I don't expect any additional cost to be borne by the industry or any costs. What we've indicated is we have no problem -- in the same way as you have with security queues we have no problem paying for additional services where those services are premium and above the normal for the benefit of our premium customers. We do that at Heathrow with regard to security and certainly we would have no problem if that facility was available. And we've indicated that previously.

I'll let Keith address pensions and then I'll come back to you on the American issue.

Keith Williams - *International Consolidated Airlines Group - BA CEO*

Yes, hi, Andrew. Yes, it looks like I'd have to move Company to avoid pensions questions. In terms of the pension fund, if I cover the actuarial valuation and then the accounting briefly, in terms of the actuarial valuation, the next valuation has started as of March 31. As you know, that needs to be concluded by next June. What I've said while you've been away is that the pension plan is in line with its recovery plan so one shouldn't expect any major changes to the contributions that have been set.

So that's the actuarial valuation. In terms of the accounts, I think the one thing to note between this year and last year is because of the change in gilt rates in the accounts you're seeing a charge this year whereas last year you were seeing a credit. So that's accounting.

Andrew Lobbenberg - *HSBC - Analyst*

Okay, thanks, Keith. Good luck against Blackpool.

Willie Walsh - *International Consolidated Airlines Group - CEO*

And on American, as you know, the relationship we have with American is important to us and very solid. I remain in close contact with Tom Horton who updates me on a regular basis on the progress that they're making. They're currently going through the 1113 procedure in the courts to see if they can have their labor contracts set aside. The expectation is the judge will rule on that by the middle of June.

As we had indicated to some of you, we appointed advisors at a company, a New York-based company called Centerview Partners who have expertise in the bankruptcy restructuring, to provide us with advice. And we're monitoring the situation closely.

The AA team has indicated that they would like to share more detailed information with us. We have signed a non-disclosure agreement with American so that they can share a more comprehensive set of data with us on their plans for restructuring. And as we've said, we're going to remain largely passive, watch with interest, but we are ready to move quickly if there are any developments.

As you know, under the Chapter 11 process the American management team have the sole right to produce a business plan at this stage. So the US Airways team under Doug Parker I think have actually done a very effective job getting their message out into the market. But at this stage American appear to be very focused on completing the restructuring task that they had set for themselves.

So we watch with interest and we see opportunity to be honest with you in relation to this. Whatever way it plays out I think it represents a potential positive development for BA Iberia, IAG.

Andrew Lobbenberg - *HSBC - Analyst*

Okay. Thanks very much.

Willie Walsh - *International Consolidated Airlines Group - CEO*

Okay. Thanks, Andrew.

Operator

And we will take our next question from Peter Hyde of Liberum Capital. Please go ahead.

Peter Hyde - *Liberum Capital - Analyst*

Hi, yes. Could I just ask three questions if that's okay. Firstly, a procedural one on BMI, the leasing out of slots and timetable, is there any kind of formal timetable in which people who want to bid in for the slots do, when the process will happen and when they get allocated these slots?

Secondly, could you just talk a bit more about Iberia Express and I don't know if you're willing to disclose this but I'd be interested in what kind of production costs are i.e. costs per seat?

And then thirdly, a bit more conceptually, Willie, given the fuel price is quite high, airlines are having capacity discipline, I was sort of interested in your view about rate of change of the industry in consolidation and things like that. I'm particularly thinking about TAP Air Portugal, etc., etc., but I'm also interested I suppose in whether you think the industry is thinking it really has to change and whether the seeds of change are accelerating and I suppose coming all the way back to IAG that comes back to whether or not you'll be taking other brands into your Group Company structure?

Willie Walsh - *International Consolidated Airlines Group - CEO*

Okay. Maybe I'll start with the last one and I'll let Keith talk about BMI. I've argued for some time that we're at a very interesting crossroads. I personally believe the future is going to be much brighter for the airline industry. I think we will see quite a lot of change this year, I think the high oil prices and the impact that that is having on profitability will drive weaker airlines out of business. A lot of airlines have had to sell assets over the last few years to offset the impact of the economic downturn and the high oil price so I don't think there's an awful lot that some of these weaker airlines have left. And I fully expect a lot of the weaker smaller peripheral carriers to disappear.

I think that's going to be very positive for the industry. I believe that a number of airlines that may have appeared attractive some years ago are becoming less and less attractive because of the way the industry is changing. And I would include TAP in that. As we have said, our interest in TAP largely related to the network that it had in Brazil. But things are developing, the merger of LAN and TAM. Our acquisition of slots through the acquisition of BMI at Heathrow gives us opportunities that look more interesting to us. So our interest in TAP is significantly less today than it would have been 12 months ago.

And I suspect the same applies to most of the other airlines that had been associated with it. I can't see Air France, KLM doing anything in relation to TAP. I can't see Lufthansa doing anything. And quite honestly I can't see LAN or TAM, LATAM doing anything. So I think the interest in TAP will be very weak and that you should include us in that list.

So it's going to be an interesting year. I think we will see quite a lot of change. I think the fact that the industry has demonstrated so much discipline in relation to capacity tells you that it is different today than we've seen before and that to me points to a much more rational future and a future whereby the industry can generate the sort of profits that you would expect from us.

In relation to Iberia Express, what we've done is we clearly have a lot of information on the costs of low cost carriers through our participation in Vueling. We recognize that Iberia Express, because it's been structured to feed the hub at Madrid, does have some inherent cost inefficiency. Utilization will be lower than you would expect from a true low cost no frills airline because they don't feed into the major long haul departure waves.

But if you were to strip out the cost of having the aircraft feed into the hub we believe we'd have a lower cost base to the low cost carriers and that's the benefit of a greenfield cost base. So it has some additional costs associated with the nature of the operation and as we said this is in effect a full service carrier. It has a two-class product, it feeds passengers and bags into Madrid hub, it has access -- customers have access to the facilities that they would expect from the full service Iberia product but the staff costs are lower than the existing low cost carrier model, benefiting from start-up benefits there. And we're excited about the impact that this will have on the profitability of Iberia over the long term.

Keith, BMI?

Keith Williams - *International Consolidated Airlines Group - BA CEO*

Yes, on the slots, there's two points I'd note really. The first is the trustee is adhering to a certain set of rules whereby the slot availability is limited for seven of the slots to London-Aberdeen and London-Edinburgh and then five for European flying. And they need to be spread throughout the day. And in terms of slot allocation itself, your question on procedure, the slot conference is in November and that takes place for allocation of slots for summer 2013 and finishes shortly after that November start date.

Peter Hyde - *Liberum Capital - Analyst*

Can I just come back on the Iberia Express in the sense that if you're not going to give us the actual cost per seat would you say in rough terms is it 20% more than say Vueling?

Willie Walsh - *International Consolidated Airlines Group - CEO*

No. No, it would be -- the differential would be lower than that versus Vueling.

Peter Hyde - *Liberum Capital - Analyst*

Okay. All right. Thanks.

Operator

And we will take our next question from Donal O'Neill of Goodbody. Please go ahead.

Donal O'Neill - *Goodbody - Analyst*

Hi, good morning, guys. Just two quick ones from me. First of all could you give us an indication what the summer bookings are looking like across the network?

Secondly maybe kind of connected to that, we've seen very tight capacity on the North Atlantic recently. How long can that realistically last in terms of competition? And I guess I'm referring to US Airways announced a [bunch of] new routes in the last few days into Europe?

Thirdly, just could you give any kind of indication of what the load factors are like in the front of the cabin versus the rear of the cabin?

And maybe lastly, ex the changes happening around BMI what else is happening on the BA short haul network into the next 12 months? Thanks.

Willie Walsh - *International Consolidated Airlines Group - CEO*

Okay. Forward bookings remain healthy. We're pleased with the performance, particularly at Heathrow. As I said although the UK economy is in recession we're not seeing any evidence of that at our Heathrow hub and the forward bookings in all segments continue to be what I would describe as being healthy for this time of the year. There is some distortion in relation to the Olympics but I think we're getting more visibility around that and it's probably not as significant as we maybe feared at the earlier stages.

The -- we don't normally disclose seat factors in the premium versus non-premium but our seat factors in premium are pretty good to be honest with you, particularly in long haul where we have fixed cabins. In short haul as you know we can vary the size of the cabin so seat factor isn't really a relevant measure there. But in long haul seat factors in premium cabins have been over 70% which is historically a pretty good figure.

In relation to capacity, I see nothing that would cause me any concern around capacity across the network to be honest with you. I think where capacity is going in it appears to be justified by the demand that exists and we are seeing growth as you know in a number of key markets. But the Transatlantic capacity increases I think are benign. I have no concerns over any of the plans that we have seen and I think increase in capacity is --

which as I said is benign is justified by the demand that we're seeing in the market. So we have no concerns whatsoever about capacity increases on the Transatlantic or indeed on any other parts of the network that we're operating.

Keith Williams - *International Consolidated Airlines Group - BA CEO*

And your question on short haul flying, I think that the BMI acquisition gives us tremendous opportunity right across London to maximize the flying between Gatwick, London City and Heathrow. And it's all about step by step maximizing those opportunities. There's nothing specific in the pipeline.

Donal O'Neill - *Goodbody - Analyst*

Okay, that's great. Thanks very much, guys.

Willie Walsh - *International Consolidated Airlines Group - CEO*

Thank you.

Operator

(Operator Instructions). We will take our next question from David Fintzen of Barclays. Please go ahead.

David Fintzen - *Barclays Capital - Analyst*

Hi, thanks, morning, everyone. Just a quick one for Enrique. On the -- you mentioned the 75% fuel offset which you saw in the first quarter. Just a little curious how you see that evolving going forward. I think historically at least on the BA side 75% was kind of about as good as it got. I'm just curious if with capacity discipline you're seeing something better than that or we should be thinking about something better?

Then I just wanted to follow up on the Gatwick optimization point. Just as you look out over the medium to long term, how do you see Gatwick fitting in to both the BA network I guess for Keith but also the IAG approach to the short haul for Willie? And is there an opportunity -- an earnings opportunity on the Gatwick side that's maybe not in the EUR1.5b 2015 target or the EUR100m BMI contribution that we should be thinking about?

Enrique Dupuy - *International Consolidated Airlines Group - CFO*

Okay, on the revenue offsetting of fuel and other non-fuel costs, price increases, we recognize that the 75% is a very high figure and we feel that probably for the next quarters it will be trending again to an average and the average maybe is in the range of 50% or 40% to 60% maybe to be a little bit more open.

So that's basically how we're seeing it and it has to do also with the revenue trends and the booking trends that we are regarding for the next quarters.

Willie Walsh - *International Consolidated Airlines Group - CEO*

On Gatwick. Gatwick I believe is an opportunity for both BA and IAG. We're pleased with the restructuring that we're doing there and I believe that there's a growth opportunity for IAG within the Gatwick market. The new owner has brought a more ambitious focus for Gatwick which I think will help marketing Gatwick, particularly long haul will provide us with some additional opportunities going forward.

So we're convinced that Gatwick will continue to play an important part of both the BA and the IAG strategy going forward. And I believe that there is more to exploit from our presence in Gatwick. Our long haul operation there has been very successful for us. It does get some traffic feed from short haul but it's typically quite low. But I think having the ability to utilize some of the Heathrow slots to as Keith said optimize the short haul network for Heathrow will give us some opportunities for a renewed focus on Gatwick as well.

So we're absolutely committed to Gatwick. We've reduced the scale of our operation there over the last few years but we don't see any reason why we should reduce our presence there and in fact we believe that there may well be opportunities for us to grow our presence there through IAG developments and through BA developments.

I'm not going to go into any more detail than that other than that we believe there is opportunity at Gatwick. And we've factored in some of that in the EUR1.5b but there's probably more to be achieved beyond what we've already priced into the -- or put into the EUR1.5b 2015 target.

David Fintzen - *Barclays Capital - Analyst*

Great, that's very helpful, I appreciate it.

Operator

And we will take our next question from David Pitura of JP Morgan. Please go ahead.

David Pitura - *JP Morgan - Analyst*

Hi, good morning, all. Just a quick question on the BMI slots, obviously you have to give up slots for use on specified routes only. In the case, I know you said it's probably unlikely, but in the case that nobody wants to come in and operate those routes do you then have to use the routes yourself to operate to those -- sorry, do you have to use the slots to operate yourself to those specific routes or could you use them for other destinations?

Willie Walsh - *International Consolidated Airlines Group - CEO*

No, if another carrier or other carriers don't take up the slots we can utilize the slots wherever we like. They form part of the overall slot portfolio and we're not restricted in how those slots can be used. The restrictions only apply to carriers coming in to utilize the slots. So in the short term they're specifically earmarked for routes that have been identified. Longer term they're specifically earmarked for short haul flying. They cannot be used for long haul flying; they have to be used for European -- in effect European short haul flying. But there's no restrictions on what we can do with the slots if other carriers don't want them.

David Pitura - *JP Morgan - Analyst*

Okay, that's perfect. Many thanks.

Operator

And we will take our next question from Neil Glynn of Credit Suisse. Please go ahead.

THOMSON REUTERS

Neil Glynn - *Credit Suisse - Analyst*

Oh good morning, second time lucky I guess. If I could start with a question following back on BMI. I guess from the date of completion the taps have been kind of turned off in terms of competition between BA and BMI. Could you help us think about how that might be impacting maybe more to the point BA demand on competing routes?

Willie Walsh - *International Consolidated Airlines Group - CEO*

It's a good question, Neil, but if I'm honest I think the taps were turned off long before completion because BMI's performance at Heathrow as I said was pretty appalling with seat factors in the 50s. I think they had become a weak competitor to BA with very little in terms of direct overlap. So I think we've probably seen some benefit to BA historically as a result of the weak nature of BMI as a competitor.

The opportunity for us is clearly to attract more people into Heathrow that may well have been using other London airports on the network that we will have now. And I think that's an exciting opportunity. So as Keith said, the slots are one thing, the customer base is another so the traditional BMI customer base who have participated in the Star Alliance frequent flyer program I think will be attracted to the BA oneworld frequent flyer program and that gives us opportunities to grow our customer base which will benefit the flying but also benefit Avios.

So as I said the revenue performance of BMI was weak and weakening. We have probably seen some marginal benefit as a result of that but I suspect given the overall level of passengers at Heathrow people had abandoned BMI and were going to other London airports and we've an opportunity to attract those back now.

Neil Glynn - *Credit Suisse - Analyst*

Understood. Just a question on transfer traffic. Clearly the euro has weakened further against sterling over recent weeks and months. Has that had any impact on westbound traffic from Europe that you're trying to attract through Heathrow?

Willie Walsh - *International Consolidated Airlines Group - CEO*

No, no, we haven't seen any signs of that. We've got strong O&D activity out of Heathrow as I said. Heathrow has performed very well both in terms of the direct traffic demand but also the performance of Heathrow as a hub. You may have seen T5 was recently voted as the best airport terminal in the world. So it's being recognized as an efficient hub for direct traffic but also for transfer. Heathrow had moved up to number 11 in the world in the recent Skytrax survey which demonstrates the benefit of the work that Colin Matthews has been doing.

Clearly some of that will be offset by the recent immigration queues nonsense that we've witnessed but I think Heathrow as a hub is much more efficient today. And we're not seeing any change in behavior. As you know, we can direct the emphasis on transfer traffic or direct traffic whichever we think is better for the performance -- financial performance of BA and IAG and we're very pleased with the performance of Heathrow from a direct traffic point of view and from a transfer traffic point of view and I don't see anything that's changing in that.

Neil Glynn - *Credit Suisse - Analyst*

Great. And one final one for Keith if I could. Just with regard to the pilot savings BA had negotiated with BALPA on the move for BMI. Can you tell us when they actually start to kick in and what magnitude we should be thinking of?

Keith Williams - *International Consolidated Airlines Group - BA CEO*

(multiple speakers), yes, no, they've already started to kick in. And if you -- they're based around productivity and they're worth around EUR15m.

Neil Glynn - *Credit Suisse - Analyst*

Great. Thank you, Keith.

Willie Walsh - *International Consolidated Airlines Group - CEO*

I think we have time -- I'm sorry to do this, we don't normally do it but we have time for just one more question and then I'm afraid we're going to have to bring the call to a close. So can we take the final question now?

Operator

And we will take our next question from Manuel Lorente of N+1. Please go ahead.

Manuel Lorente - *N+1 - Analyst*

A couple of questions if I may. The first one is on the overall operating profit target, nearly breakeven for this year including extraordinary expenses. And I was wondering apart from the BMI deal should we think of any other extraordinary expenses? I'm thinking for example the reverse provision we've seen in Q1. That's my first question.

My second question is on the underlying trend of the cost, the unit cost per ASK. We have seen a huge difference between the underlying trend and the reported trend. That should be the best guess for the remainder of the year? Thank you.

Willie Walsh - *International Consolidated Airlines Group - CEO*

^ Just on the exceptionals, we're not expecting any other exceptionals. The main exceptional was the -- in the Q1 was the release of the provision for the OFT charge which was settled at a lower figure than had been expected. The only other exceptional charges, the restructuring one associated with BMI. There is a small I think EUR2m exceptional that relates to -- we disclosed this last year in relation to hedges. But I think it was -- I think it's EUR2m in the first quarter but we're not (technical difficulty) we've highlighted to you.

Enrique Dupuy - *International Consolidated Airlines Group - CFO*

And then to clarify that these exceptionals that we have been mentioning are included in the outlook that we have just estimated on the breakeven basis so they will be forming part of that breakeven targeted level. So on the impact and developments on non-fuel unit costs, we may be following the chart. So we have the strike impact we suffered in the first quarter, it basically would be getting [below] to zero through the rest of the year. And the same will happen with the bonus provision that has been also impacting employee costs in the first quarter.

The Avios accounting new model will remain through the year but will be compensated by additional revenues. And the currency impact is going to depend on how the currency will be moving. We are expecting to probably be maintained both in terms of the strength of the dollar and sterling. But as I have also mentioned, this currency impacts in the cost side have their own offset on the revenue side on a similar type of intensity so they will be having a quasi net effect.

So at the end of the day it's important to recognize and to follow the final like-for-like figure that we are just mentioning. Maybe it will be moving in the range of between zero and plus 1% for the full year.

Willie Walsh - *International Consolidated Airlines Group - CEO*

And just for information that bonus provision was about EUR13m which clearly didn't appear in Q1 last year but in -- half-year results last year we had two quarters of provision so that may have been something that a number of you would not have been aware of. So that's why we've highlighted the significance of that in the first quarter of this year. We did not make any provision in the first quarter of last year.

Now I'm sorry to bring the call to a close but we appreciate very much you joining us and look forward to talking to you at the half-year stage. Thank you very much everyone.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen, you may now disconnect.
