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CORPORATE PARTICIPANTS

Willie Walsh *IAG Group - CEO*

Enrique Dupuy *IAG Group - CFO*

Luis Gallego *IAG Group - CEO Iberia*

Alex Cruz *IAG Group - CEO Vueling*

Andrew Barker *IAG Group - Head of IR*

Keith Williams *IAG Group - CEO British Airways*

CONFERENCE CALL PARTICIPANTS

Jarrod Castle *UBS - Analyst*

Penny Butcher *Morgan Stanley - Analyst*

Andrew Lobbenberg *HSBC - Analyst*

Andrew Evans *Nomura - Analyst*

Andrew Light *Citi - Analyst*

Oliver Sleath *Barclays - Analyst*

Geoff Collyer *Deutsche Bank - Analyst*

Tim Marshall *Redburn Partners - Analyst*

PRESENTATION

Willie Walsh - *IAG Group - CEO*

Good morning, everyone. Welcome to our Q2 presentation. Can I introduce with me today we have Enrique Dupuy, IAG CFO; Luis Gallego who is the CEO of Iberia; and Alex Cruz, the CEO of Vueling. And we've a slightly longer presentation for you today than normal but we thought it would be a good opportunity to introduce Luis to you and give him an opportunity to just talk a bit about the restructuring program in Iberia. And I know many of you will have met Alex before but we're delighted to have Vueling as part of the IAG Group and Alex will give you a short presentation on Vueling.

But first I'll hand over to Enrique who will take you through the Q2 results. Thank you.

Enrique Dupuy - *IAG Group - CFO*

So, good morning, good morning again all of you. Today we're bringing quite a bit of good news I guess; also changes, significant changes, I guess all of them facing to the right direction. They have to do with the implementation of the Iberia mediator plan by the new team that has taken charge of the management of the Company. I'm not going to build a protagonist of Luis; he has a lot of interesting messages to pass to you. They have to do with improvement that will be taking place through the next quarters and years and a very significant improvement. They are showing already today -- they will be showing on our second quarter results.

News also having to do with the integration of Vueling as a full IAG company, integrated on our corporate structures. Alex will be explaining how is Vueling and how Vueling is going to be contributing to the success of IAG very significantly.

We have also changes affecting our shareholder structure, I think also for the good because they will eliminate some uncertainties that we had and overhangs that we were maybe worried about in the past. So that's over and again it's good news.

We also will bring some news -- well, not such much news today -- about the financial exercises that we've been doing, we've been executing through the second half -- through the second quarter, sorry. And that also will be bringing a little bit more of confidence, both internally for us and to the market because in some way it has to be improving our ability to raise funds at IAG level through a very efficient convertible transaction that we have been able to place in the market, a huge oversubscription and very thin pricing. And also at the level of the operating company. So we've been able also to issue and place this EETC transaction. It's a very structured, sophisticated way to raise funds on a very deep market which is the US EETC market. It's the first time it has been done for a UK company. It has been done under UK laws and this proves how the UK laws are very efficient for the purpose of raising funds backed with aircraft for example.

We have been also using a very solid model which includes operating equity, Japanese equity funds. So this enabled us to complete 100% or more of the price of the aircraft when we do this financing. So good news all over the place.

So for getting more into the results -- operating results of the second quarter, the main highlight is this EUR245m before exceptionals which we compare with the EUR4m before exceptionals of last year. I'll try to make it as simple as I can through the comparisons that I'm going to bring to you against last year because it's becoming a very difficult exercise from time to time. We have currency. So we have a weak sterling which is in some way damping down both the revenues and the costs in euro terms. We have Vueling coming into the party which is a different company with a lower unit revenue base and also a lower unit cost base. We have the dollar also fiddling around. There is a little bit of cleaning up that we have to do before we go on an apples-to-apples comparison but I'll try to make it as simple as possible.

ForEx, for example, for the first quarter has been negatively impacting this EUR245m by EUR19m. It's not too much this time but in some way it represents a slight negative impact. Vueling since the statistics of April has been bringing to the operating profit party of the Group EUR27m. So that's good news. Good news. It's above our expectations. I think Vueling has done a very efficient quarter.

The basic headlines have to do with how we've been able to improve from minus EUR4m to plus EUR245m and the basic pillars that we've been using are simple. It's about Vueling, EUR27m. It's about unit revenue improvement and that's basically on the British Airways side; we'll see significant revenue improvement. It's about cost improvement, ex-fuel cost improvement. And that's probably more on the Iberia side as you will see. Implementation of mediator plan is bringing cost efficiency. It's also about fuel. Fuel has been -- for the first time in maybe the last quite a bit of quarters a positive contributor to savings and then to operating profitability.

So this how it shows the two companies on local currency. So British Airways, as you will see, significant improvement in terms of revenues, 5.3%, on a growth in terms of ASK of 0.1%. So you see unit revenues British Airways strong. Operating results GBP210m, so GBP132m against last year so it's more than doubling, very important. Capacity I would say approximately flat for the second quarter of the year. It will be gradually ramping up for the end of the year. I will talk about it afterwards. Seat factor increase of 1.6, that's also significant. As you see revenue per ASK is significantly up. Ex-fuel costs per ASK coming down, coming down materially since the first quarter and that's because of some of the issues that we were detecting in the first quarter related to the new fleet, related to pre-expenses that we were doing for the incorporation of new fleet by the end of the year are now being in some way diluted. Also because the BMI year-to-year comparison now is basically apples to apples. It's all there. It was all there last year; it's all there this year.

Iberia. Iberia is about remember capacity-cutting exercises and cost reduction. So in terms of the capacity, it has been reduced by 13.6%. Revenues not so much, 11.7%. So we are seeing a little bit of an improvement, not too bad, 2.4% is a little bit more than inflation in terms of unit revenues. It's interesting to note this significant reduction in load factor. That's a pursued target and it has to do with focus on yield, focus on protecting the high revenue passenger. And this has meant that load factors of course have been going down. But the combination of load factors and yields show a positive unit revenue development which is what we want. So again here ex-fuel cost per ASK significantly down from the first quarter when, if you remember, we had big capacity reduction but we didn't have the cost getting out of the structure of the Company. So now we are getting the costs out of the structure of the Company gradually. So as you have read probably, 1700 people have left now Iberia through the first seven months of the year. And we will be getting to 2400 by the end of the year. So that's good news. The plan is being implemented and it will be showing in terms of costs.

Vueling is not here this quarter. We will bring it probably next quarter with a little bit more detail.

So as a whole, the financial summary. Again, we have to focus it in the improvement in operating profit very significantly, EUR250m. When we get to analyzing these numbers, these ratios, we prefer to make it a little bit more detailed. For example we have eliminated Vueling but as I told you it brings lower unit revenues and lower unit costs mathematically. So, let's make an exercise before Vueling to understand the two underlying companies, how they are performing in relation to last year second quarter.

And also we would like to eliminate a little bit of the sterling weakness impact because it really confuses, dampening down both revenues and costs, when we translate into euros. So if we get to this level of homogeneity, what we are looking is to passenger revenue per ASK, unit passenger revenue growing 4.8%. I think that's a good figure. I think that's a good figure. We will explain it on the different networks a little bit afterwards but as a whole I think this figure is comparing ourselves very efficiently with some other of our competitors.

Cargo. I think we have a similar message in the respect is weak. Cargo is still weak. We are holding yields in cargo and losing load factor. That's the policy that we have been applying but at the end of the day we are not seeing a special upturn yet on this market.

Cost per ASK as a whole, apples with apples, minus 2.1%. Of course this has to do a lot with fuel. Fuel is a big help in this respect. But even without fuel, apples with apples, we are beginning to get where we need to get which is the number, this flat or better performance that we were targeting for the year. And we are sticking to our target. So first quarter has been tough, has been difficult. Second quarter is getting there and we hope to be able to maintain this pattern of flattish non-fuel unit cost through the remaining quarters.

A little bit more about revenues. So this is the chart that's the bridge that shows how revenues through the quarter have been evolving. And we've done it in a way it's a little bit easier to explain. So Vueling, which has meant 4.2% up in terms of capacity, is bringing EUR279m more revenue. Okay, so that's about growth, inorganic growth, bringing more capacity, more revenues. The two companies, underlying companies, they have had different patterns as you know in terms of capacity. So British Airways approximately flat but Iberia being brought down significantly in terms of reduction in size. So we are seeing this of course as a negative impact in terms of volume.

I've been also talking about the cargo. Cargo has had also a negative impact and I have to say also very much about volume because yields have been maintained. And currency, because of the weakness of sterling again, we show it as it is. It has had in actual terms a negative impact. I would say the good message is this one; we've been able to improve our passenger price plus mix in a significant way. So these are absolute figures. If we were to redo this chart on unit figures we would be coming back to this 4.8% that I was showing. This in unit terms is 4.8%.

This is the chart that we recurrently bring. Remember it's about our 12-month aggregate on a rolling over scheme. So it is unseasoned. So it's in terms of taking into consideration a full year with its four seasons. So the figures are comparable. In unit passenger levels what we are seeing is at constant ForEx levels we are still on an upward trend on a 12-month rolling basis. So the passenger trend is still improving. I have to say we see for the summer similar signs, similar pattern. Cargo. Cargo, remember we are focusing in yields. This chart is showing slight improvement here for the last quarter. It's a little bit of a make-up of the numbers. Well, not exactly that but what has happened this time is that on this four-quarter aggregate we are now dropping Q2 year 2012 which was weak. So it's a little bit of a jump just because of that elimination of the second quarter last year. The trend is flat.

This is about how it shows on our regional performance and these figures are actual figures in terms of they are not constant currency. When we come to constant currency ones they will show a little bit more of improvement, even there will be no negative. So this is just the, I would say, actual figures.

North America. North America is again showing a significant underlying solid. So we see we are still growing, growing modestly, 2.3%, and we have been able to accompany the growth with an increase in unit revenues. So this is good news. It's really not so much of a new because it's just following the trend of the last quarters very consistently.

Domestic. Domestic is dominated by Iberia's capacity cut and Iberia's weakness in terms of its domestic market. So basically it's a significant capacity cut. Also part of the ex-BMI domestic routes have been reallocated in British Airways bringing a little bit of additional capacity reduction on what we call the domestic of the two airlines. And unit revenues still weak.

But Europe, that's a little bit of a surprise. So it's not the first time we are seeing it but it's the first time we see it consolidating. So 8% is huge I have to say; 8% is a very (inaudible) figure. It is probably on the top of the range of what we are reading all over the place, even on the low costs. So that's about what has been expressed recurrently out of IAG which is discipline in capacity, high fuel prices, rational pricing should be bringing this type of behavior on some markets and that's the intra-European market. It's working.

Latin America. Latin America, also dominated by significant capacity reduction coming from Iberia. It's 10.4% for the Group. And unit revenues are holding. So there is a -- Latin America is not an area, it's just I would say a combination of different countries, different regions having different performance. So behind this Latin America we have stronger performance as Mexico for example. Also the north of the South American continent, what we call the central area, Colombia, Peru, they are performing strongly. And we have much more weakness on the south, on the south cone, both Argentina and Brazil are a little bit disappointing.

Middle East and South Asia. That's again dominated by weakness in the north of Africa. So the north of Africa, reductions in Iberia as well in terms of capacity. Unit revenue holding. So in constant terms it would be better; it would be clearly positive. It's about zero at constant currency.

Asia Pacific, that's good news. That's good news because on previous quarters we were seeing weaker numbers there. Hong Kong is performing efficiently. There has been an adjustment in capacity in Hong Kong and it's showing a combined positive effect. So we are confident on that region again.

So this is about the picture. I think the more relevant to be highlighted is this 8% of course.

About the different cabins. We have the premium here, the non-premium here. It's a little bit of a trick -- not a trick. It's about the timing of holidays here affecting Easter holidays and also affecting holidays by the end of May, the beginning of June. They're a bit different this year than the past year. So we see an increase in performance relative to the previous quarter in terms of premium. So we have been having more premium days this year than last year. And as a little bit of a consequence we have had less leisure days. So that explains a little bit of this asymmetry. But it's good to have this level of figures in the non-premium. This is showing again that not only the premium segment but in most of our markets non-premium, especially the out of London non-premium market, is strong.

In terms of RPK, so we are seeing passenger figures holding despite the capacity reduction in the premium segment. So load factors there significantly up. We are seeing RPK figures falling with capacity. If we were to draw capacity it would be very similar. This has to do more with the way Iberia is playing with pricing in the non-premium which is about targeting higher yields and accepting a certain, I would say, reduction in terms of load factor. So this is bringing this line down in terms of non-premium. As a whole we are extremely happy with this performance on the non-premium side because we know we are masters here.

Capacity. It's just about following what we have told to you in the prior quarters. Nothing new apart from of course what Vueling brings in which is very substantial in terms of capacity. So for the year it will represent 7.6%. In terms of the other companies of the Group, so we are seeing Q2 and Q3 at minus 3.5% and this is basically the effect of the Iberia restructuring, and a flat underlying British Airways growth. We are seeing a little bit of growth here on the British Airways side. That will have to do basically with the introduction of the new fleet. So it has basically to do with B787s and A380s of course. So there is going to be a bit more of capacity but it's going to be marginally very efficient because it's change of average size, it's change of gauge. So the unit -- marginal additional unit cost that we are going to be using is on the very low end. It's new generation aircraft and it gives us (inaudible). So we are confident to be able to produce an efficient growth exercise on the last part of the year.

This is a boring one so no change this time. We don't feel we need to change our basic guidelines. We remain with a weak cargo. And this is maybe the only one that appears a little bit fine-tuned. So the non-premium short haul, stable versus strong.

Okay, so this is one that I am very happy to bring in this occasion because it shows where we want to get. Again, it's a difficult one because there are so many different pieces that you have to align correctly to get to a homogenous comparison that it gets a little bit too busy. But in some way it shows these are the reported unit cost improvements, I have to say this year improvements, against last year. Okay? And they appear as you see very substantial. Of course there's a lot of reasons behind. First reasons have to do with again the weakness of sterling so let's bring it to constant currency in terms of ForEx. Again significant reduction. Of course the weakness of sterling has a relative importance but even after making currency comparable with last year we see some very substantial figures all over the place. Interesting.

Of course part of this reduction in constant currency terms is mathematical. So it has to do with the introduction of Vueling and Vueling has a lower cost base and a lower unit revenue base. So let's make it a little bit more real. So these blues are the ones that explain how Vueling is dragging down these figures. But then if we get to the reds, the reds are also looking quite efficient. Not as much as we would like but quite efficient. Of course fuel is helping. Employee costs should be lower than that but it's a big, big change against the first quarter. Supplier is on the negative and that's good news. Ownership is absolutely zero. And on a combined like-for-like we are slightly below zero, minus 0.2%. So this is a chart that we are following consistently because we want it really on the negative side or at least on the zero side.

Fuel. Fuel has been helping us on this second quarter. We have revised our projections for the full year. This is EUR5.7bn. I think including Vueling it would be taking us to EUR6bn. EUR5.7bn is slightly better than our last figure that we had on the previous quarter. We have done already these two first quarters and we hope the pattern is going to continue. And the way we have hedged the fuel for the rest of the year this is becoming very flat in terms of the vulnerability to increases in market prices. It is becoming lower and lower. So the 5.7% is becoming to be a quite trustable figure for the full year. The level of hedges that we have in terms of percentages shows that really we are now quite highly hedged. Even for next year it's getting to 70% for the full next 12 months. And the strike levels that we have been buying in the market are also -- the actual prices are in the range of $1000 today. So these prices are slightly below market prices. So the picture here appears to be comfortable enough, at least for the next I would say six to eight months.

So the operating result evolution. It's basically summarizing all these messages that I've been trying to translate to you, nothing new on this chart. But again to remind you about Vueling contribution, EUR27m. There is this net currency impact of EUR19m, basically related to sterling weakness. There is again this cargo revenue weakness in terms of revenues. It has to do basically with volume. Passenger volume also has been bringing down potential revenues for this quarter significantly. But then we have the push-ups that we have been experiencing. Quality of revenues significantly improved, fuel costs as a big tailwind, quality of costs also being improved.

On the balance sheet since December some movements having to do with the equity side. The equity side is basically suffering the losses of the first quarter and the losses of the first quarter are basically related to Iberia restructuring and Iberia losses. So we feel that beginning to be behind. In terms of gross debt, we've been maintaining the levels of the beginning of the year. Cash has been increased by EUR700m but we got EUR500m out of the EUR700m just bringing Vueling cash into our pot. But anyway it is EUR200m increase in cash through the year, through the first part of the year which you know is in most cases cash consuming because of seasonality is a good news.

On balance sheet net debt, basically very much reduced because what we are bringing from Vueling is cash and also operating leases. So operating leases are not there, they are off balance sheet. Of course when we make this exercise adjusted net debt here aircraft capitalization we include them. So in this figure the operating leases has their full impact for Vueling, for Iberia and for British Airways. So the adjusted gearing is slightly coming up from 51% to 54% and if we made the exercise of stripping away Vueling would be constantly at the 51% level. So basically it's following our plans, it's following the pattern that we had for leverage in the Company.

Outlook. As you know, we have to refer to the first paragraph again until we finish this exercise of bringing these investment proposals to our shareholder assembly. So we have to refrain about giving any guidance, any forecast at all. We can talk a little bit about current trading which I said already is in line with recent trends. We can talk a little bit about our growth pattern. Again we've said we expect to grow capacity by 5.2% including Vueling and the reduction of 2.4% excluding Vueling. And we want to say that we are going to stick to our non-fuel target in terms of non-fuel unit cost flat. And this is excluding Vueling because we know that Vueling would be an easy enabler to reach that target.

So thank you. We'll have afterwards your questions and now I'm passing the word to Luis.

Luis Gallego - *IAG Group - CEO Iberia*

Okay, good morning. I wanted to give an update today of the transformation plan that we are following now in Iberia and also the steps that we are following to build the Iberia of the future. As you know, in November of 2012 we launched the transformation plan with five key pillars. The short and medium haul transformation. We needed to reduce the CASK gap with the competition, mainly with the low-cost carriers. Also we had the commercial turnaround. We needed also to narrow the RASK gap with the competition. We needed to launch a comprehensive program of reducing the number of employees of the Company. We needed also to improve productivity in Iberia. The fourth pillar was the non-core business restructuring. As you know we have the business of the maintenance and the handling and we wanted to secure a correct price for the airline but also we wanted to think about the third party activities that we are performing. And the last one was the reduction of the capacity. What we did was to cut all the non-strategic routes and also all the non-profitable routes.

After that in March of 2013 we signed an agreement, the mediation agreement, with the unions. The main unions in ground and also the cabin crew unions, they signed the agreement. Some of them like SEPLA, they didn't sign the agreement. But according to the agreement Iberia is reducing now the number of employees in at least 3,141 employees. We did a salary cut of 14% for flight crew and 7% for ground staff. As we didn't reach an agreement after one month after signing the mediation agreement we did an additional cut of 4% and we hope when we reach an agreement with the unions we can give this 4% back. And also in the mediation agreement we have a salary and tenure freeze in the period 2013 and 2015.

So with these two plans, the Iberia transformation plan and the mediation agreement, we have now -- we have built the new transformation plan. And the new transformation plan, the main challenges are still the same. We have the same key pillars to change the Company. All measures that we are following now are stick to mediation and to the framework that we have but the mediation is not enough for us. We need to change the Company and we are now negotiating with the unions to have a structural agreement that will allow Iberia to have a further cost cut, to have further structural changes, to have a new generation fleet and to have a profitable growth. We have changed the management of the Company, the first two levels of the organization, and we are working now on the following levels.

The new transformation plan is a phased plan. As I said, first of all what we are doing now is we are launching turnaround programs. Mainly we are trying to capture all the opportunities that we have with the mediation agreement. And also we are launching commercial initiatives to reduce the RASK gap with the competition.

When we've finished this phase we will continue with the structural changes. We have started to negotiate with unions, not only on productivity measures; we are talking about the Iberia of the future. And when we finish these two phases and we reach the target that we had in the past we will be in the conditions to grow when we have our healthy costs and revenue base.

In parallel, what we are doing is changing the Iberia culture. We have changed the management team. We have changed also the way we are running the team, a lot of parallel processes, communication processes that we are implementing in the Company.

So if we look at the headcount we can see on the left-hand side that one -- if we compare this June 2013 with last June of 2012 we have a reduction of 1,865 people, 1,289 ground staff, 102 pilots and 474 cabin crew. If we look at the right-hand side we see that we have a small delay between May and September but at the end of the year we are going to have a higher figure in the number of people that will leave the Company. So we are going to have higher savings for 2014.

Also we are doing the commercial transformation and we have here the first main topics we are working on. Revenue management. We are redesigning the organization; we are redesigning all the processes, strengthening the revenue management team. We are upgrading the IT system that we use and also we are changing a lot of commercial policies. As Enrique said before, for example during this summer we are working -- we are having less load factor but we are improving the yield. So we are improving the revenues in general.

So we are working also in the sales force effectiveness. We are doing a complete reorganization of the sales team. We are also upgrading the IT systems. We are establishing new sales team objectives. They will have variable incentives also and we will track all with KPIs that we are establishing right now.

In the marketing side we are rebalancing the marketing. We are communicating the new products that we have right now and also we are finalizing the brand relaunch that we hope we can do very soon.

In the online channel, maybe you have seen that we have changed our website. We have simplified the purchase process. We have a new search engine, very focused on conversion and also we are improving the ancillaries that we sell through this channel and the idea is to improve the number of people that buy through the online channel because this is a channel that is cheaper and we can have better control of the people that they are buying there.

And also in the product and customer experience we have the new fleet, the new Airbus 330 with new seats, new in-flight entertainment system. We will have connectivity in the future and also we have started to retrofit the Airbus 340.

So we are changing Iberia. We know that we must transform the Company if we want a future but we are also investing in the future. So you have here on the left-hand side the turnover that we have for the fleet but also you see on the right-hand side the options that we have to change and grow the long haul fleet with new generation aircraft. We have up to 32 options for the Airbus 350, 12 options for the 787 and also we have the options with Airbus 330.

So the status of negotiation with unions. July 4 the Audiencia Nacional we have adjustment in favor of the mediation agreement saying that we can apply it to all the collectives of the Company even if they haven't signed the agreement. What we are doing right now, as I explained before, is trying to reach an agreement in the productivity measures and when we have that we will give the 4% back to the different collectives of the Company. But as I said also it's not enough and we are working in long-term agreements with the unions. We are working on that right now. We are optimistic. I think we can reach agreement very soon.

So in regard to the new Iberia culture, we have completed the management refresh. May 10 we launched the new management committee with 10 people; we have in the past 12 people. We have four new people coming outside from Iberia, two internal promotions, one still pending. And also in July we launched the new top management team and we have reduced the number of people from 71 to 35 people. It's important to say also that we have a dedicated project management office to follow the transformation plan. It's reporting to the CFO. He's coming also from outside. And we have individual manager tasks with specific transformation targets.

So the key message for today is we are focused on capturing all the transformation levers that we have. We have all the restructuring initiatives that we can capture from the mediation agreement and also the commercial enhancement that we are doing but we are fully committed to reach agreement with the unions because we need in order to have a stable and healthy cost base. And when we will have that then we will be in the position to design the future growth of the Company and we are not missing the train because we are investing some money to have the options that we require to have the fleet of the future.

So in bigger steps we are building the Iberia of the future.

Willie Walsh - *IAG Group - CEO*

(technical difficulty) has formally announced that we have acquired an additional 7.01% of Vueling and we therefore now control 97.52% of the company. Thank you, Alex.

Alex Cruz - *IAG Group - CEO Vueling*

Which reassures the next part of the conversation. Great. Good morning to everyone. Happy to see some of you before. As you know, we were quoted prior to the takeover. I've got seven slides to go through very quickly and I think some of these materials will be very familiar to some of you.

Now just a couple of things on Vueling itself. Where are we and what are we doing? This is a lovely picture of where we fly to, 105, 107 actually, different points across Europe over 220 -- nearly 220 routes now in the summertime, 70 aircraft currently flying and we are targeting in excess of 16m passengers today of which more than 50% of the traffic does not originate in Spain and certainly the focus of the last two or three years has been to go out and capture traffic that is not based in Spain because the traffic originating in Spain has been decreasing significantly, not just domestic but internationally.

We are the leader in Barcelona with about a third of the market share and hopefully increasing over the coming months and years. Significantly present in many European airports. We are number three in Paris Orly and Paris overall depending on the month after Air France and easyJet. And we are gaining market share movements in places like Rome, Amsterdam and we should be number one in Florence next year as well.

We are a double-digit growth airline. We have grown 20% in ASKs in the first semester of this year, also 20% last year and the previous year. This has been more or less what the story is.

Very, very quickly on the model of the airline. We are probably one of the very few around the world that combine two things that are nearly impossible, a very, very low cost base and a very high service for that low cost base. So you would expect us to have all these features of low-cost carriers. That is a single aircraft model type, a high fleet utilization -- our planes are flying between 13 and 14 hours now in the peak of the summer -- high punctuality, high crew productivity, short turnarounds, no crew night stops, ancillary revenues, all those sorts of things which you are used to hearing in low-cost carriers, having some of their properties that we -- those characteristics, we have them.

But we also have a number of other attributes because we are serving a fairly large business traveler market. Between 39% and 40% of our passengers during the business season are business travelers. And this is because we have many, many destination and routes with many frequencies a day, up to 13, 14 daily frequencies, for example, in some of our domestic flights.

We have a business class with VIP lounge, unlimited catering. We connect flights through connected service. You can fly to Paris, to Beirut with us, or from Reykjavik to Menorca, and a standard connecting service as BA would offer, Iberia would offer. We have flexible fares.

We operate at main terminals and main airports, not just Amsterdam but the premium terminal in Amsterdam. We don't want to be in the low-cost terminal of these terminals because we're serving the business market and we don't want to be in the less premium terminals. And once again, as I was mentioning to you, we have many routes with multiple frequencies, which gives us access to connectivity and also to provide very adequate business product.

So the numbers, in terms of the second quarter we've been able to achieve, as Enrique was mentioning before, a positive EBIT of EUR23.8m. This is nearly 100% increase versus the previous year Q2. Capacity during this quarter went up 25% in ASKs. This has been driven both by stage length, remember Ks of kilometers, because we're flying to farther away places in Scandinavia, in farther points in the Mediterranean, as well as seats, on the S, that's about 15 points of that increase.

Revenue per passenger increased 5% and load factor went up by 1.3 points. We're inching away every year with small gains and load factor. This is obviously now just because -- due to capacity discipline but because we have been able to capture a tremendous amount of new incoming international traffic into Spain.

Vueling has continued to reduce its cost base. Despite having a low cost base, we make tremendous efforts year on year to lower our cost base. We're very excited about being part of IAG because we believe that we're going to have access to volume discounts across many multiples. We'll see how it develops over the coming months. But our cost base was EUR0.0393 CASK ex-fuel, under EUR0.044, that's always the objective, non-fuel. And this is 3% lower than the same period last year.

So, EBITDAR, EUR64.8m. Margin of 18%, this is compared to the margin of 16% in Q2 of last year. Cash position, fairly strong, EUR549m as of end of period June 30.

In terms of the EBIT bridge from last year, very quick, on the left-hand side, last year's Q2 EBIT 12.1. Fuel, dollar and hedging, also CO2 included in there as well, small positive effect, EUR4.4m. Definitely a good performance on new routes and strengthening some of the existing routes, EUR15m contribution. Inflation and others, some of the costs associated with additional costs that go up every year due to inflation and some other issues such as the ATC strike that we have had to incur some additional costs, negative impact of EUR13.9m. But as usual, Vueling continues to drive through its cost reduction program additional cost reductions, in this case EUR6.2m additional cost reductions during the month or during this second quarter.

In terms of market and coming towards the end, you will see in these columns, the yellow column, you see it from far away, is Vueling's growth in all the different markets. And the gray column is what the market is -- how the market is actually growing. And basically the story is Vueling is growing well beyond what the market is growing, in some cases some of the markets such as the domestic market or the Italian to Spain market, they're decreasing, but we continue increasing.

We have been able to capture some of the traffic -- existing traffic that is there. We've been able to hedge big losses in demand on leisure by providing this adequate business product which has enabled us to sustain it through the harder lower leisure travel point, and where you can see that we have a significant growth is in Germany and Scandinavia, there's others as well such as Russia where we are now flying nearly seven, eight times a day from multiple points in Spain as well as from Barcelona, nearly five daily flights. So the trend during Q2 has been fairly positive for Vueling, more growth way beyond the position of the market itself.

Where does this leave us? This is a picture of Europe. And the little airplanes across the geography give you an idea of how much activity there is outside of Spain. Of course, the bulk of the airplanes are parked overnight in Spain, but we are having a tremendous amount of activity across many airports in Europe, so you'll see us having nearly four equivalent aircrafts in Paris, two in Rome, Amsterdam two, Copenhagen, Stockholm, Moscow -- Moscow increasing actually in terms of actual aircraft activity. So we have consolidated our leadership in some of the domestic airports like of course Barcelona and Bilbao, but we are beginning to really increase our presence in terms of traffic and aircraft across the whole of the European region.

Now over the last two, three years we've shown this slide. And this is the promise, commitment slide. Our goals on the left-hand side on growth, cost reduction, product, and partnerships. We've always shared our full-year target, and I'm going to give you very quickly the view on the second quarter.

So first on growth, we gave guidance this year for 10% to 15% ASK growth, 100 destinations from Barcelona, a new base in Florence. We've achieved that, 103 destinations in Barcelona, Florence we announced this morning more domestic Italian traffic from Florence. This is an area of growth for us. And overall, Q2-only growth was 25% in ASK, so objective met there.

On cost reduction, we set out ourselves this year with a target of reducing costs by EUR17m, maintaining our unit costs ex-fuel costs, Q2 results as I mentioned to you before, minus 3% on ex-fuel costs. And we've already captured EUR14m out of the EUR17m during the first semester. So, good track on further reducing, taking costs out of the business.

On product, we continue to look for ways to make Vueling a premium airline, as premium as our partners, and actually sharing quite a bit of ideas with them in terms of how to do that. And we continue working on our Wi-Fi project, on introducing iPads onboard. We're already on the seventh month of try-trials and certification in the case of the iPads for the cockpit.

We did launch a new business class in May which has more features, more catering, more personalized treatment, etc. It's a small business class, still one row, and very much fixed around that. We want to be very careful and very conservative on how we grow our premium product because we don't want to incur on the cost associated with this premium product, and we have to balance the way on how we are able to deliver that product which are incurring on the costs. We've launched that cockpit -- that project. And there's a number of other initiatives on track to continue delivering premiumness in the market that we serve.

And finally, we are generally interested on striking up on partnerships with other airlines, and we have a number of them under negotiation. This is not a huge emphasis or revenue contributor yet, we have a very nice hub in Barcelona, but it does provide us with experience on how to deal with traditional airlines of which we're learning a significant amount now as we come into IAG.

So we're delivering over the targets that we came up at the beginning of the year, and this is the second quarter view.

And I think that's it. Willie.

Willie Walsh - *IAG Group - CEO*

So you can see from the presentations, we're pleased with the second quarter results. They clearly demonstrate the turnaround that's taking place in Iberia. Luis has given you a flavor of what he's doing. Quite honestly, the amount of activity that's going on in Iberia is really significant, but it's being managed very professionally and we're delighted with the progress that the new management team has made there. And we're also very pleased to have Vueling as part of the Group, and you can see that it is contributing and will contribute profitable growth for IAG, very targeted market growth for the company, and very innovative ideas which our existing airlines can benefit from, and as Alex has said, Vueling can benefit from our experience.

So we're doing quite a lot, there's still a lot of work to do, but I think we're heading in the right direction, and the Q2 results firmly demonstrate that.

So over to you for questions. So I'm going to allow Andrew to manage this.

QUESTIONS AND ANSWERS

Andrew Barker - *IAG Group - Head of IR*

I'll do the honors with the microphone. Obviously we know who you are in the room, but for the benefit of the transcript, if you could say your name and company. I think Jarrod is first.

Jarrod Castle - *UBS - Analyst*

Thanks. Good morning, gentlemen. It's Jarrod Castle from UBS. I'll limit it to two questions. I'm just quite interested if there's been any deterioration in Iberia or Iberia Express kind of service levels, I guess not at Iberia Express, but just given all the change that's happened in Q2 from a customer point of view.

Just secondly, you haven't kind of highlighted anything on the merger targets related to Iberia-BA. Are these still on track given everything that's going on, on Iberia? Thanks.

Willie Walsh - *IAG Group - CEO*

Okay. Let me take the second one first. We're not active on any point in relation to any additional merger activity. We have a small team that keeps an eye outside of the Group. Internally we're performing very well in relation to our synergy targets, and we'll update you later on this year at the Capital Markets Day. But we're very pleased both on cost and revenue synergies in relation to our performance and they continue to be ahead of the target that we had previously announced. So, making good progress there.

On Iberia and Iberia Express, I think one of the things that Luis has succeeded in doing is significantly improving the operational performance of Iberia based on what he did with Iberia Express. We've now got on-time performance at record level, both within Iberia and Iberia Express. So I think the addition of Iberia Express has created quite a bit of a catalyst and that's improved the performance.

In terms of customer response, and I'll ask Luis to comment on this, but everything we have seen shows that customer satisfaction is actually improving, which clearly is a challenge when you're going through so much change, but it demonstrates what is being done.

Luis Gallego - *IAG Group - CEO Iberia*

Yes. Customer satisfaction is improving in Iberia, with the new aircraft, with the new 330s the net promoter score that we are filing is the best we've never had in the past. So -- and also I know because I was in Iberia Express, in Iberia Express the customer satisfaction is very good because they have a high level of punctuality and also the service onboard that they are providing is very good. So I think we are offering a good product with Iberia and also with Iberia Express.

Jarrod Castle - *UBS - Analyst*

Thank you.

Andrew Barker - *IAG Group - Head of IR*

Penny, next.

Penny Butcher - *Morgan Stanley - Analyst*

Penny Butcher from Morgan Stanley. Two questions from my side. Firstly, with regard to the geographic revenue development, one particular distinction between yourself and your peers does seem to be the Asia performance. Could you talk a bit about the different moves in the different countries? Is there a particular country that has been quite solid in performance?

Secondly, with regard to airports, both AENA and Heathrow are discussing options for charges increases in the coming 12, 18-month period. Could you talk about your inputs on these discussions if possible? Thanks.

Willie Walsh - *IAG Group - CEO*

Yes, we can certainly talk about our inputs, airport charge adjustments. We're very -- we're -- certainly in the case of Heathrow, the previous regulatory increases [forecast at 7.5%] were not justified, and we remain very focused on doing whatever we can to convince the CAA that the charges at Heathrow should be reduced. So that process is ongoing.

We've not changed our view. We believe that Heathrow can achieve the investment that is required and targeted by Heathrow at the same time that it's reducing the regulated charges by RPI minus 9.8%. So we're going to move off that [peak]. We were pleased that the CAA recognized that the RPI minus [x] should be held at minus, but we think it should go further than they have announced in their interim results.

In relation to Spain, clearly airport charges have increased there, which is most unwelcome. And I think it's a negative, although Spain have seen improving tourism figures recently, the overall number of passengers from Madrid declined in 2013 versus '12 and the same at Barcelona, and I think a significant factor in that has been the increase in charges. They have moderated the increases but there are still increased charges.

The structure of the charges at Madrid are probably more favorable to us than maybe they are to some of the other carriers. But we're clear that -- to see significant growth at these airports, airports need to keep control of their costs and ideally we'd like to see charges reduced.

Keith is here. I'm going to ask him to comment. Asia is solely a BA operation. But we have always targeted Asia as a growth opportunity going forward. We will launch Chengdu in September. The Seoul flight which we started in December of last year is performing well there. And we continue to see this as an opportunity for BA, particularly with the introduction of the 787. Keith?

Keith Williams - *IAG Group - CEO British Airways*

Yes. I think Willie has covered a lot of it there, but just to add another couple of things. If you look at, say, Australia, we've now got the right-size aircraft for Australia with the 777-300, and that's performing well. It's returning a positive return on sales. It's the first time in some considerable time. You've got mixed fleet crewing that route which has reduce the cost some routes. Obviously you've got the tie-up with JAL which is starting to show positive result. So Asia is performing well. As Willie said, you've got the new routes coming in, and obviously we've got the new aircraft going forward, and we are looking at where we'll point those aircraft over time.

Willie Walsh - *IAG Group - CEO*

We've also moved the Australian operation into T5 which has helped as well with customer traffic. So the 777 is clearly -- 777-300 is clearly a better aircraft and the T5 proposition, It's a better proposition than the poor location in T3 (technical difficulty).

Andrew Barker - *IAG Group - Head of IR*

(inaudible).

Andrew?

Andrew Lobbenberg - *HSBC - Analyst*

Hi. Andrew Lobbenberg from HSBC. A couple of questions around Vueling if you don't mind. I know when it was an independent company, it was about to buy a flock of airplanes, so I just wondered where that was going on the timing and whether there was any sense of delay.

And then in terms of the network planning of the philosophy around the business, as it came into IAG there was a clearly articulated view that it was going to become -- or evolve towards being a Pan-European business rather than a Spanish-focused business. So I'd be curious to see where are we going with that? What you can say at the moment. Then otherwise, perhaps more broadly looking to the future, if you do try and deploy it into other European countries, to what extent is Vueling being given a free hand to optimize its business or to what extent does it have to play a role within the broader Group?

Willie Walsh - *IAG Group - CEO*

Well, I'll answer and I'll Alex to add to anything that I say. In relation to aircraft, we were well aware of the plans within Vueling to start a fleet replacement program. Alex was quite open in relation to the progress that he had made, and that program remains on course. So you can expect at some stage to see an announcement. It's ongoing, so, no decision has been made, and I think it would be fair to say that it's one of the areas where Alex felt that Vueling could benefit as part of the IAG Group. So that's ongoing.

Alex, do you want to add anything in relation to that?

Well, let me say one thing and then, Alex, you can supplement it. What is clear is that the way Vueling has succeeded in growing and taking advantage of the collapse of Spanair has been at the expense of an ad hoc fleet that I'm sure had it been done in a more planned basis would have a slightly different fleet configuration, because you've got a lot of different aircraft types, manufacturers, seating, which adds additional cost. So there is a quite significant benefit to be achieved from addressing that issue, and that's one of the arguments that Alex has made forcefully and quite successfully to us. So we see fleet renewal as being a key to further improving the CASK in Vueling which is already performing very well.

Alex Cruz - *IAG Group - CEO Vueling*

No. And just for the sake of clarity, remember that Vueling operates about Airbus 220 only. It just so happens that we are so conscious on cost that to have two different kinds of engines for us it's a big deal. It's not a big deal for a larger airline which have different types of aircraft flying to different places.

But any case, I think that the plans that Vueling had set out and under the basis that IAG bought Vueling for continue. And the ambition, as you saw on the map before, to be a Pan-European airline, is very much on track. The amount of activity -- increased activity at existing bases and the search for new bases year on year continues. And I think that as we find opportunities to take on existing demand or stimulate new demand, I think that we're going to continue. And by the way, that's what I expect IAG, is expecting from us to do that, profitably of course. We'll do that -- continue to do that profitably.

So, Andrew, I don't think that there are any significant changes in terms of network development. I think that we're going to continue pressing on with the plan we've had all along.

Willie Walsh - *IAG Group - CEO*

And Alex has total free hand to compete aggressively with every one of our competitors. But clearly, we don't look at Vueling competing with British Airways and Iberia; that would not make sense. But as you've seen from what Vueling has achieved to date, there's plenty of scope there. And you can see from the targeted market growth, very much focused on where Alex has identified weak competitors. And we expect him to continue to do that, and we're not going to stand in his way of anything that he does and he's a big guy as you can see. He's -- I think one of the things is we have had changes at Iberia, and bringing in Alex as part of the IAG Group has certainly enhanced the contribution and the debate at the IAG management team level. So it's a very positive development for us, and as I said, we're delighted to have Vueling as part of the Group now.

Andrew Barker - *IAG Group - Head of IR*

I'll stick with another Andy.

Andrew Evans - *Nomura - Analyst*

Thank you. Andrew Evans from Nomura. A few questions on BA's capacity. Firstly, the 5.7% growth you've got for Q4, does that wash into 2014?

Secondly, where is that capacity growth going? Is it North Atlantic focused or elsewhere?

And then lastly, obviously I understand there's an upgrading aspect to this, but how consistent is this with the ongoing discipline story we're hearing from the industry?

Willie Walsh - *IAG Group - CEO*

Yes. In fact when you look at BA, there are a couple of factors in there. What might have been evident is that we did have some tactical capacity reductions in the fourth quarter of last year, so -- and Keith and the team are very much focused on that. So we continue to see tactical adjustments to capacity, which typically means tactical reductions in capacity where they believe there's an extra. So part of that 5.7% comes from the fact that we took slightly under 2% out in Q4 of last year on a tactical basis, you'll get about 1.72% as a result of the introduction of the new aircraft. So, that capacity goes into the routes that have been announced such as Hong Kong and Los Angeles and from the 787. And the rest of it is just changing the network so you've got longer sectors at Gatwick for example.

Our performance at Gatwick we're very pleased with. It's a significant improvement in seat factor being achieved. The hand-baggage only fare, which I have to be honest I was a bit cynical about myself, I figured, if you're going to charge for a baggage, you may as well say you're charging for baggage. But actually what they've done has been very successful and very well-received in the market. So offering this cheaper fare where it's hand-baggage-only has actually worked very well and has developed them to be much more competitive in terms of their pricing and commercial proposition. And we've seen a big, almost double-digit increase in seat factor as a result of that. So it's changing the network slightly.

So in terms of capacity discipline, I still believe the industry is demonstrating a lot of discipline. We're putting some capacity into the market. Hong Kong we're taking capacity out for example, when we reduce from [374s to 274s]. And with Los Angeles, strong growth. North America, trans-Atlantic has been growing and performing very well. So where we're putting capacity in is where strong demand is. And in fact I would argue, we're still growing at less than the market in relation to British Airways.

Iberia, reducing capacity. Vueling, where they're putting capacity in it's where a number of the traditional airlines are taking capacity out. So, you know, Alex's growth is very much targeted in markets where there is growth, but equally where we see weak competitors reducing capacity, and in all likelihood further reduce the capacity in the face of competition from the likes of Vueling. So I still believe the industry is actually demonstrating very good capacity discipline. And I think that's going to continue. Certainly the language that's being spoken more and more in the industry demonstrates that.

Keith Williams - *IAG Group - CEO British Airways*

when you look at it in terms of Heathrow, actually there's not much growth of capacity out of Heathrow, so some of that capacity is actually replacing other carriers at Heathrow.

Willie Walsh - *IAG Group - CEO*

Yes.

Andrew Barker - *IAG Group - Head of IR*

I think we'll stick with Andrew in the same room. Alphabetical order. Andrew Light from Citi.

Andrew Light - *Citi - Analyst*

Just a question for Luis on Iberia Express, what are the plans to expand that? I believe it's currently capped at the moment from the mediated agreement. I guess that ends at some point.

Luis Gallego - *IAG Group - CEO Iberia*

Pending, Iberia Express now it has 14 aircraft. As you know, we have Laudo. The Laudo is still valid until the end of 2014. But we are waiting for a decision of the Superior Court in Madrid, that we don't know when we are going to have it to know if the Laudo is valid or not, but for the time being we consider that it's valid, that it's going to finalize at the end of 2014. So we are going to continue with the same fleet that we have there because we need the structure of cost that we have in Iberia Express and we cannot put higher base of cost because otherwise we are going to lose all the advantage that we have with that company.

Andrew Barker - *IAG Group - Head of IR*

Next question.

Oliver Sleath - *Barclays - Analyst*

Hi, it's Oliver Sleath from Barclays. I just wondered if you've seen much pricing impacts on the UK domestic from the new Virgin operation there? And following on from that also, do you anticipate much impact with the Virgin-Delta tie-up on the North Atlantic coming in?

Willie Walsh - *IAG Group - CEO*

We haven't seen any real impact as a result of Virgin Red. It's very small in terms of capacity. I think originally they were targeting connecting traffic. I know the early performance is disappointing when they announced the connecting traffic they were getting from the routes that they were operating. So it's very small, I'd say almost insignificant part of the competitive landscape.

In relation to Virgin-Delta, on one level I'm pleased with it because it's very clear that the dominating force in that relationship will be Richard Anderson of Delta, and Richard is very clear that his focus is all about return on capital. So I think what you'll see is again a very rational approach to competition. Richard knows BA is never going to leave Heathrow and he's not going to try and do anything that's going to suggest that he could try and force us out. So I expect to see a very rational competitor but a stronger and better competitor. But is it going to change anything on balance? Actually it has been neutral, to be honest. So we're not concerned about that.

Had it been somebody else acquiring a stake in Virgin and doing something irrational I might say something different, but I think Richard Anderson and Delta are extremely rational and are leading the industry in the US in terms of setting goals on profitability, very much focused on return on capital, very much focused on paying dividend. And that's the sort of language we need to hear people speak. And that's a new development in the US and I think it's a very positive development. So on balance it's a neutral development there.

Andrew Barker - *IAG Group - Head of IR*

Question? Yes, Geoff at the back. I've seen you, Tim, so we'll be back.

Geoff Collyer - *Deutsche Bank - Analyst*

Yes, hi. Geoff Collyer at Deutsche. A couple of questions. Could you just give us the Q2 comp for the US, the North American performance after last year, because I think you gave the H1 numbers out last year rather than the Q2 numbers.

Secondly, when the American Airlines-US Airways merger completes sometime in the next few months, how quickly do you think the business will ramp up through your JV there?

And then thirdly, if you could just remind me whether you've now completed the sale of all the old BMI slots you have to trade-off when you (inaudible) the business last year? Thanks.

Willie Walsh - *IAG Group - CEO*

I'm not sure exactly what you're referring to in the first question, the -- is it on slide -- page eight?

Geoff Collyer - *Deutsche Bank - Analyst*

Yes. So last year you gave the half-year numbers, and I just wanted to know your Q2 number and whether there's any concern that last year when that -- when the unit revenue was up about 4.5%, whether you -- whether the move from 4.5 to 2.3 is mildly concerning given that the US economy is obviously better this time this year than last year.

Willie Walsh - *IAG Group - CEO*

Yes. No, we've been very pleased with the performance of the North America. We're not giving the half-year one. But North America continues to be a strong performing part of our network.

And with the addition of US Airways to American -- which we expect to move very quickly by the way. I've met Doug Parker on a number of occasions. I know Doug very well. He is number two at US Airways, who will lead the commercial side of the new American. Scott Kirby is somebody who we have a lot of [time for] and respect. And we know that they're keen to move quickly, so we'll engage with them very quickly.

There has been some early discussion which has been led by the American side because we have, as you know, ATI with American, so we have discussions with American, we can't have discussion with US Airways until we get clearance to do so. But we're looking forward to engaging with Doug and Scott. And we believe that, certainly from my knowledge of both sides, that our approach and philosophy and interests are very much aligned here. So again I see this as a positive.

I had earlier said that American and US I believe will be very focused on integrating the airlines quickly. And I figured that the joint business would further take second place to that, at least to say that at least they're going to try and do everything at a pace and do it together. So we're expecting early engagement with the new management team and if they get into position and then certainly we have clearance to talk then.

And that's going to enhance the US network for British Airways, giving us additional access over the US Airways -- the old US Airways hub airport which we believe is going to be quite attractive for BA. There is negotiation required because bringing the US Airways into the joint business would change things quite a bit, but there is a process of negotiation that we need to go through and we're very optimistic and positive that it represents an opportunity for both the new American and for IAG, and therefore it's going to be a positive. And we may see -- I had previously said we wouldn't see any benefit in 2014, I think we will see a benefit in 2014 now. That's probably going to be in the second half of 2014 rather than in the first half.

Geoff Collyer - *Deutsche Bank - Analyst*

Yes.

Keith Williams - *IAG Group - CEO British Airways*

In terms of BMI, if you look at the changes that we've made, we've cancelled around half the BMI flying and replaced that with additional flying from places like Zagreb, Rotterdam, Leeds. And obviously as we start to grow the long-haul network, as Willie mentioned earlier on, you'll see some of those slots going to long-haul.

In terms of performance we've seen very strong connectivity traffic on the old BMI routes that we've retained such as Beirut, is seeing double-digit increase in connecting traffic. If you look at the overall BMI performance, we said that we expected it to be breakeven in the second half of the year. What we've actually found is in the second quarter it's breakeven, since we burst sort of the EUR50m loss last year, it's breakeven at the end of Q2.

Geoff Collyer - *Deutsche Bank - Analyst*

Thank you.

Andrew Barker - *IAG Group - Head of IR*

Next question please. Tim.

Tim Marshall - *Redburn Partners - Analyst*

Hi. Tim Marshall from Redburn. When you did your guidance, it was EUR485m, and since then the fuel costs guidance has gone down EUR300m. So all of the things being equal, is there any to suggest your guidance wouldn't be more than EUR785m, and then you have the additional Vueling on top of that. So perhaps you can or maybe you can't make a comment on that.

Willie Walsh - *IAG Group - CEO*

Tim, let me (multiple speakers).

Tim Marshall - *Redburn Partners - Analyst*

Yes. The other questions I have is, firstly, Virgin is called Virgin Atlantic and I wonder if you'd make any comment as to what the Delta tie with Virgin might mean for the rest of the business that doesn't fly across the Atlantic and whether there's any change that you might expect to come in that part of the business.

And then, Luis, on the agreement for the productivity and the 4% on salaries, presumably that would either come with less capacity reduction which doesn't sound like it's going to happen, or with further redundancies, but can you talk through how that happens and whether that's realistic? Thank you.

Willie Walsh - *IAG Group - CEO*

Okay, thanks. Yes, good question in relation to Virgin, Virgin Atlantic. It may well -- certainly we know Delta is very keen to increase its presence into Asia and we've seen comments from Richard Anderson about Japan calling for an open skies and allowing greater access and wanting to get back into (inaudible). So I would imagine Delta will try and influence the route network of Virgin Atlantic to best get with what it is they're doing.

On balance they'll have the same number of slots, so it'll move pieces around. We've seen -- I think they canceled their (inaudible) so taking capacity out of that. So I think you'd see capacity being adjusted, but on balance, as I said before, we see this as being broadly neutral.

In terms of productivity, I think that one of the things that Luis is very clear on is the 4% will only be returned if there's real productivity. And that's the reason we're clear on that, that that 4% is available but it's only we're we get real productivity.

And the issue in relation to capacity is we're not going to put more capacity in this year. We're very clear that the capacity reduction that we're targeting for Iberia is appropriate. What we are looking at though now is the commercial performance on the network based on the new commercial focus that we have may well cause us to reevaluate some of the network going into 2014. But there's no additional capacity going into Iberia in 2013. The capacity target reductions that we've set have been implemented and will hold through this year. And we'll only add capacity where that capacity will be done on a profitable basis.

Luis Gallego - *IAG Group - CEO Iberia*

On the productivity measures, as you said, we're going to cut more redundancies in the company. And that when we will have that, we will have the healthy cost base that we need to really [time] the network of the company and to grow in the future. So, with growing, then we will have enough space to absorb all these people that we are generating with the agreement. But we need first to reach an agreement on the productivity measures to have the healthy cost base to grow.

Andrew Barker - *IAG Group - Head of IR*

Any more questions? I think that looks like it.

Willie Walsh - *IAG Group - CEO*

Thanks. Well, thank you very much and we look forward to seeing you at the Capital Markets Day, and Andrew will send the date for that out in due course. Thank you.
