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IAG.L - Full Year 2013 International Consolidated Airlines Group SA Earnings Conference Call

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PRESENTATION

Operator

Good day and welcome to the full year 2013 results International Consolidated Airlines Group SA earnings conference call. The first speaker will be Willie Walsh, Chief Executive. You will hear background noise until the call starts. For your information, this call will be recorded and is a listen-only call.

Antonio Vasquez Romero - *International Consolidated Airlines Group SA - Chairman*

Morning ladies and gentlemen. Thank you for coming. Thank you for joining us today. I think we have nice things to comment with you and I just want to welcome you and to tell you that our Board meeting yesterday was very satisfactory, taking into consideration the performance of every single line of the Company and the good shape in which the management are managing the full thing. So I think we're going to have quite an interesting meeting today and quite an interesting presentation. Thank you.

Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

Ladies and gentlemen, welcome to this event. We are presenting today this morning the full-year financial results for IAG Group 2013. We are trying to summarize in this page what we would be qualifying as a solid performance, a solid set of results to last year. And the basic figures that we are including in this chart should bring the argument why we are qualifying this performance as solid.

So basically what we are saying today is the operating profit for the IAG Group last year was EUR770m. That's slightly above the EUR740m that we signaled in November last year at our Capital Markets Day. It is EUR800m above the result, the operating result of last year. This is a very significant swing, positive swing, in our opinion.

And what's behind this big swing? So of course lots of things. If we need to summarize it very simplistically, it's about a very strong performance in terms of unit revenues and a very tight control of our costs, of our unit costs, especially what we call the manageable ones, the non-fuel unit costs.

And there's a lot of disturbances that are hiding the underlying trends that we are getting both in revenues and in costs and that's why we have tried to explain these figures in a way it's easier to recognize what's happening. First thing is very significant impact on foreign currency, so weakness in the sterling, weakness in the dollar, have been dampening down the passenger figures, the revenue figures. At the same time they have been reducing our costs so as an improvement, an additional improvement.

The second one is Vueling. So Vueling is a different animal with a different revenue structure, with a different cost structure. And in principle unit revenues in Vueling are below the average so when we will bring Vueling consolidated into the figures of the Group, they will be dragging down revenues and dragging down costs more than revenues.

Then we have some one-offs on the fourth quarter that have been a little bit of a variation year on year and that we will try to explain them afterwards.

So for the last quarter what we are seeing is again an important improvement on last year's figures. So reported change is EUR153m. We are getting to EUR113m in this last quarter of the year which, as you know, is not especially a strong one. So the EUR113m figure is a positive one and the improvement on last year is substantial.

And then again when we want to bring about a very synthetic review of what's behind there, we are seeing on a like-for-like basis a strong performance again on the passenger side, unit passenger revenues growing 2.7%, again masked by this foreign exchange type of weakness and by this Vueling averaging down the figures. And then you have on the ex-fuel, the manageable cost base, ex-fuel unit cost coming down significantly, 2.7%. So if you recall this gap, which is opening the margins of the Group, you will come to the conclusion that the last quarter of the year has not been a demerit for the whole year.

So let's drill a little more on the operating profit figure for the fourth quarter and the improvement against last year. The first thing that we have to say is on a like-for-like exercise, the real improvement that we are producing in the fourth quarter is EUR177m, which is greater than EUR153m, and we're trying to explain here the main reasons why there is this discrepancy in the figures.

First is the foreign exchange impact in the quarter, which is, by the way, this time small. We have Vueling there, which we have tried to strip off to make comparable the figures with last year. And finally, a negative impact that we have had in Q4 2014 against Q4 2013 -- sorry 2013 against 2012, and that had represented EUR30m of negative impact.

So let's go through the breakdown of this EUR177m. First of all, ASK net impact has been very small because, as you have seen, the net capacity increase for the whole Group has been very, very slight, very, very aligned with zero. So the capacity net improvement for this fourth quarter is basically negligible. We have to rely on again passenger revenues in unit terms and it's there we have been making a significant improvement against this last quarter. Remember each step on this grade is worth around 4%. So this means that this EUR98m in unit terms represents about a 4% increase on last year's figures for the Group.

Second one of course is fuel and non-fuel cost. Fuel costs have been this quarter a tailwind, so accounting for nearly EUR30m out of EUR177m. It's about the price element after hedge and also the currency element has been helpful.

Ex-fuel costs, we have had three wins. One is employees that have improved our cost base on the quarter by EUR43m and this is basically Iberia. These are absolute figures and absolute figures have been reduced in Iberia, which is something quite special and that's more to come in the respect for year 2014. Supplier figures and ownership costs have also helped us to increase our margins in the quarter.

Let's drill a little bit more on the cost side. On the costs side, which is crucial, has been crucial and will be crucial to the year 2014 to get to our target, we have been achieving a like-for-like reduction in unit costs of 2.7%. And this is how it shows. So basically we are reporting minus 11.8%. As I told you, this is because of quite a bit of exceptional issues that we prefer to strip off to get to the underlying trend.

So ForEx exchange on costs have been a help of around 3 percentage points. Vueling has been a second help of about 3 percentage points, and the reasons I've already told you about; the average cost base of Vueling is lower than the average of the Group. And then we have some one-off exceptionals that we'll tell you about a little further on that have to do basically with our costs that we have to account for on the last quarter of year 2012.

So if we get to the different components of this cost performance, minus 2.7%, and the different companies involved, we have on the employee side both wins in the case of British Airways and in the case of Iberia.

So in the case of British Airways, they are related to what we are calling efficient growth pattern. So the growth that we are producing in British Airways is very efficient in labor cost terms and I will tell you afterwards why. In Iberia it's not a novelty; it's the implementation of the mediator agreement that is producing a significant improvement in terms of labor costs per ASK, both in terms of salary costs, as you know, and also in terms of the redundancies that we are producing.

And then on the supplier side, on the supplier side we have these two areas which are changing structurally. So both handling/catering and landing fees are changing the structure because of stage length and increase in the size, the average size, of our aircraft. We are getting to longer average stage length, longer routes, with bigger aircraft. So this means that the cost per sector will be improving, but at the same time I would say the unit cost of handling a bigger aircraft is higher than the one of handling a smaller aircraft, and the same for flying fees on longer distances.

So we are having there a combination of a different stage length scheme and some inflation on some of our bases that have increased our costs in these two items. As a whole, this combination is about flat performance on a unit cost basis.

Where we are getting some significant improvement is in engineering and selling costs. Engineering has to do a lot with the very significant effort that we have done in British Airways last year to prepare the organization for the delivery of the new 787s and the new A380s. That special effort is now over and we have been able to bring down these engineering costs to a new cruise speed, lower cruise speed. And that will be helped because the new aircraft are going to have lower unit maintenance costs, especially on the first part of their lives. So this is going to be probably a pattern that we'll be able to repeat.

Selling. Selling is a little bit the same. We were over, I would say, expending last year on selling, marketing and branding costs, especially in British Airways, because of the Olympic campaign. That was again a very special effort which has rendered some very important fruits in terms of brand recognition and appreciation. Now it's over and now we're getting again to cruise speed.

Finally, we have other costs not related to ASKs, which have a small deterioration. And again improvements in terms of depreciation and lease costs, and this is again basically running over the finalization of the integration of BMI. That has been very important because in 2012 we had still ownership costs related to BMI that have disappeared.

So as a whole, this figure, you will see, is a strong one, absolute and in relative terms when we compare ourselves with our peers.

This is fuel and this is fuel for next year. How to read the chart? We have at the top of the column last year's price, well, last year's effective cost after hedge. This red bar is more or less today's prices, last week's price, expressed in dollars per tonne of kerosene. And the bottom of the bars will represent where we would be the end of these quarters if prices stayed at this level. So this is just a simple exercise to show that there is a little bit of a tailwind if prices remain where they are. And the tailwind may be in the range of 2% for the full year and may be a little bit bigger for the first quarter in comparison with a little higher year 2013 initial prices.

This is the percentage of coverage that we have for the different quarters and as a whole we have about 65% covered for year 2014.

This is capacity. This is capacity and this chart is a little bit complicated; I'm not exactly totally comfortable with it, but I'll try to go through it.

So it shows the contribution to growth and decreased capacity by the different elements of the Group and due to different types of circumstances. For example, what happened last year is the combination of Iberia decreasing and British Airways growing on a like-for-like basis, was the minus

0.3 that we were mentioning at the beginning of the presentation. But then if we add Vueling but we don't consider the first quarter of Vueling, which was before consolidation, we get to the final net 1.5 after Vueling that we could report as a relevant figure for this year.

So let's go to the end of year 2014. What we are acknowledging is a type of net capacity increase of 8.1%, which is 10.2% including Vueling full year. But as Vueling was not full year on the base, the net gets to 8.1%. The contribution of the three companies to the 8.1% is about a little more than 50%, 4.9 percentage points for British Airways, 0.4 percentage points for Iberia and a similar proportion for Vueling.

On their type of specific growth patterns, we are seeing Vueling growing at around 30%, Iberia growing about 2% and British Airways growing about 7%, rough figures. So applying this same methodology to the different quarters is how we get these growth contributions and the net figures of growth that we will be having for the different quarters for the Group.

I like this one much more because this shows how and where we are going to grow. And it will probably explain a little bit more some myths around growth and how we are trying to make our growth be as efficient as possible.

So for Iberia growth is going to be small, modest. It's going to be a reduction, minus 2%. Basically the reduction will come because of the discontinued routes that we had last year and that will be basically counting on the first quarter. So first quarter this year against first quarter last year still will be showing for Iberia a significant capacity reduction. After that the rest of the capacity moves for Iberia are small ones and the only relevant ones will be basically the 3.8% of recovery of routes and frequencies that suffered strikes in last year. So this is basically following a similar program as last year but flying the routes that were affected by the strike.

In the case of British Airways, we have identified basically two sources of capacity changes. One is about network, and here what we see is that the new routes and the discontinued routes will compensate each other. So the net figure will be roughly zero.

And the basic growth is coming from sector length increases. So what we are doing is basically opening new routes and/or increasing frequencies in a way the average length of the routes we fly will be increasing by nearly 6%. But this means that this sector length increase in terms of growth will be done on a very efficient cost exercise because we will be having aircraft, pilots and crews flying longer. So the impact that this is going to have on our cost base is going to be limited.

In the same way unit revenues that we will be achieving on longer stage routes will be lower than the average. But there is going to be a positive contribution through this exercise of flying longer and increasing our stage length. There is a little bit of growth related to bigger aircraft as an average than last year and this is basically the A380. And the rest is basically staying as it is.

So the summary is in the case of Iberia it's going to be a limited decrease of capacity and the growth element is going to be coming just on the completion of the program that we hadn't been able to produce to implement because of strikes last year. And in the case of British Airways it's about a very controlled and selective exercise of growth focused in longer stage length and bigger aircraft.

And this is how it's going to be showing in terms of capacity figures. Just remind you the summer season this year and this summer season was showing what was happening before the deliveries of the new aircraft, A380s and 787s, that came through that season and early autumn. So basically we were talking about the Iberia impact in terms of capacity reductions in Latin America, capacity reductions in Europe and the domestic network, and just a small Asia Pacific increase basically related to some new routes that we were opening, for example (inaudible). So this was the pattern of capacity through the summer season.

And this is the capacity that we have displayed in the fourth quarter and this basically represents growth on our long haul, North America, Asia Pacific, Asia Middle East, at the expense of a reduction in capacity in Europe. And that is exactly what we told you we were going to do. So remember the message is, why we are buying BMI? We are buying BMI to reconvert it and reconvert their slots out of the short and medium haul and into the long haul. And that's exactly what this chart is showing.

So how the capacity movement will be fitting with our unit revenue development, so again bringing back this plus 2.7%. This is again the third quarter of the year. The third quarter of the year was rolling over the Olympic season year 2012 and showing some bit of explosive movement in terms of unit revenues. It was capacity constrained and rolling over a very depressed season year 2012 because of leisure traveling and not business traveling through the Olympics. So what we saw was extraordinary high unit revenue increases for the whole network.

And this is what we are showing now in the last quarter of the year, so significant unit revenue increases both Asia Pacific and Latin America, as you will see. Here they will be following capacity restrictions and here it's about a market that we are performing especially brightly, I would say. Unit revenue improvements in North America and Europe, and again a lot of weakness in domestic markets, especially in the Spanish domestic market.

And here is where we compare fourth quarter capacity adjustments with unit revenue consequences. So again, for you to see, Latin America adjustments showing a rebound in unit revenues. We see North America growth that has been able to follow or be followed by those more positive unit revenue improvements, and that's a very good sign. We have seen Europe capacity adjustments that have resulted in better unit revenue improvements.

There has been this win-win, a combination in Asia Pacific of some strong capacity growth -- this is new routes especially -- with a very healthy performance in unit revenues. And finally, Africa, Middle East increasing growth, increasing capacity and also having a net unit revenue positive consequence.

So as a whole, apart from passenger unit revenues, we have total unit revenues that have a similar type of scale in terms of ForEx implications which have been depressing the reported figures, one-offs and Vueling averaging down the figures.

So what we can see here is for the fourth quarter long haul has been positive, both in premium and non-premium for the Group, and this scale remember is from zero to 4%, so materially positive. It's been more or less neutral for British Airways in the short haul and positive for Iberia, and that's basically the area in which Iberia is having a stronger performance. And then it has been slightly negative in non-passenger, and that's basically related to cargo weakness.

This is a very brief snapshot of the performance of the different companies, of the three companies, through this fourth quarter, and what we would like to highlight is operating margin improvements against last year and the reason what is behind, so a very cost performance.

So operating profit for Iberia and Vueling has been improving very significantly against last year's figures, 8% -- 8 percentage points, 9 percentage points. And again the reasons behind are about RASK and employee costs. So employee cost per ASK both in Iberia and Vueling have been reduced in a very substantial way. For British Airways has been the combination of lower unit costs and potentially flat unit revenues. This is just negative because of the depression impact of the dollar.

As a whole this has opened a margin, an additional margin, that has been resulting in a higher operating margin on revenues for Iberia as well. So the challenge for British Airways has been in terms of being able to produce these capacity increases and at the same time improve the margins, their operating margins, by nearly 2 percentage points.

So we have been talking about one-offs and one-offs as a whole have represented a difference between the two years for the fourth quarter of EUR30m. This is the figure we have mentioned at the beginning of the presentation. This year has been about reducing the revenue base and the revenue base has been reduced on a one-off basis because of adjustment on the breakage ratios of our frequent-flyer programs in an effort of homogenization that we are doing for the programs and in terms of future incorporation of partners and alignment with the market. So this has represented about EUR70m for the Group.

Last year we mentioned we had things happening in probably a little bit of a diametric way. So we had an extraordinary release of additional revenues of about EUR70m and that was about again I would say releasing some revenues that were trapped on the outdated ticket recognition, so tickets that were not going to be used and that we hadn't recognized as additional revenues. We did by the end of the year.

On the cost side, we had some employee cost restructuring, about EUR30m. Also another labor cost, having to do with holiday pay provision that was affected by a European rule, directive, law and that we had to provide for. And another one-time, one-off EU compensation related to cargo fines.

So this is how it shows the EUR30m. In terms of importance or materiality of these figures on the revenue figure, I have to say very small, but in terms of, for example, the revenue swing, it is quite sizeable.

This is the exceptional items that we have recognized for this year in relation with last year. So I bring back to you, Iberia we had to do a very deep restructuring exercise in terms of provisioning and also to impair their assets because of the loss of value of their business model. So that was basically about the highest stake of the big figure of exceptional items we had to account for. There was also a little bit of BMI restructuring left and some of the rights issues.

This year we have had to complete the restructuring provision for Iberia because of a mediator plan which was different from the assumptions that we had by the end of year 2012. We have finalized the restructuring with some additional delivery, extraordinary delivery costs for the capacity reduction that we have applied in Iberia.

We have also considered the date in which we assign revenues on our Avios programs. In the past it was the booking date because we didn't have enough information so as to track the flight dates of each passenger. So now we are moving, the whole Group, Iberia and also British Airways, to recognize the Avios revenues when the flights -- the passengers are effectively flying and not booking. And that just has an accounting effect in terms of pushing forward revenues that we had before.

So this is a non-cash effect that we'll be having for this year and that is going to be more than offset by another one-off which is a US pension benefit revision for our people abroad in the US and is aligning the benefits with the rest of the industry and then releasing some excess provisions that we have for that purpose.

So the exceptional item figure, as you see, is much, much smaller and we hope that it will be getting reduced to zero in the next years.

And this is financial charges. What we are having then is again a significant difference between last year and this year. Basically the net finance costs and the net finance pension costs have been growing since year 2012 and year 2013 on a gradual basis and this is having to do with basically two effects. One is of course new fleet, new financing, new financial charges, one side, and the other one is the reduction in the interest rates that we are able to get out of our deposit and cash. So this has been quite substantial one year after the other and has created an additional financial charge cost for this year.

And the rest of the charges and benefits are less significant. Basically here last year we had some benefit from the BMI final consolidation and having to do with the final purchase price of BMI. And this year we have just I would say the loss of Vueling as an associate in the Group because of becoming a consolidated company.

So as a whole we are getting to a difference in the tax element that was positive last year because of no profit and a change in the tax rate that released some of our tax provisions, to a slight negative which has to do with we are paying profit because we are making money.

So on a balance sheet basis, and I think this is probably one of the strong positive messages that we wanted to bring with you, we've been able to grow, to fund our CapEx requirements for this year, to buy the remaining piece of Vueling, and at the same time to improve our gearing and our cash. So this shows how we've been implementing a very rational and well-thought financing program to deal with our financial challenges this year and keeping our gearing levels where we told you we wanted them.

Outlook. Very briefly, this is becoming a little bit of a boring chart. We are keeping on saying very similar things and that's really what we want to do, keeping messaging you a very type of sustainable situation from the point of view of trading conditions. And this is because, even through capacity increases that we and the rest of the market are producing, the demand is following, load factors are not falling, unit revenues are not falling. So that's why we say these markets are performing/behaving for us on a stable way.

Maybe the only exception is cargo because in cargo still we feel there is an imbalance between the capacity and the space the marketplace and the demand that is basically growing well behind the capacity. And that's creating weakness in terms of yield and weakness in terms of volumes. Probably through this year we are going to still see weakness in terms of yield and maybe some volume recovery, and that will maybe signal the end of the trough for the cargo cycle, but still it's early to ring any bells.

And these are the messages for the Group for the whole year. This year we are foreseeing unit revenue flat evolution on our basic strategic markets. On the other side, we are seeing ex-fuel manageable unit costs coming down, coming down in the line of the trends that we have been explaining to you. So the margin creation and the operating profit production, additional production that we will be able to do this year, is going to be basically related to this efficient growth exercise that we are implementing.

Fuel bill will remain more or less flat or will represent a small tailwind in terms of unit costs if prices remain where they are today, both in terms of fuel and dollar. And the growth that we'll be implementing for the Group on a pro forma basis like-for-like exercise will be slightly above 8%. Thank you.

Luis Gallego - *International Consolidated Airlines Group SA - Chairman and Chief Executive, Iberia*

So I wanted to give an update of the two agreements that we recently closed. So, as you know, after long, a long period of negotiations we have closed an agreement with the pilots and also with the cabin crew. And this first slide is to show you a little of context of what we had before the agreement.

As you know, Iberia had structural issues, mainly low productivity and uncompetitive salary levels in all the collectives of the Company. For that reason, Iberia launched Iberia Express for the short haul. As you know, we have a Laudo and the Laudo established a limit in the growth of Iberia Express so the project couldn't go as well as we wanted. And for that reason, and also because of the weakness of the demand in Spain in general economic environment, we launched the transformation plan in November of 2012.

After launching the transformation plan we had strikes and we had the mediation agreement in March 2013. The mediation agreement was not enough for us so we had two alternatives. First one no agreement and the other one was to have a structural agreement with all the collectives of the Company. The preferred one was the second one because this is the one that can save Iberia and can give a future for the Company.

So this slide is to show you where we are in the reduction of the headcount in 2013. As you can see, in all the collectives on average we have a 12% reduction and in total we have a reduction of 2,507 people. And if we look after the mediation, we have saved EUR200m, half of them because of the headcount reduction and half of them because of the salary reduction. And as you can see, the implementation is ahead of the initial plan.

So this is to give you a summary of the agreement that we have with the pilots with SEPLA. In the agreement we have productivity improvement. We are going to have in the short haul and also in the long haul flying hours to compete with all the competitors that currently are flying our same routes. We are going to have also changes in the crew composition. So, as you know, previous to this agreement we have some flights where we were flying for example with three pilots and we are going to do it now with two pilots. That is going to be a lot of savings for us.

We have also changes in the salary conditions for the people that we have in the Company. We are going to have a 14% reduction in all the concepts and as soon as we can sign the collective bargaining agreement they will have back the 4% additional that we took when we didn't reach an agreement in the productivity measures after mediation.

Salaries and allowances will remain frozen until 2015 and after that increases will be subject to the profitability of the Company to the ratio EBIT over revenues. You can see that the maximum quantity that you can have will be 3.5% in the case the Company is earning more than 7% of the ratio EBIT over revenues, and only 1% will be retained in the base for the salary. So that means that in the future if in something in the Company doesn't go well, that we don't expect things don't go well, we will not have increase in the salary of our people.

We are going to have new pay scales. We have new entry levels, starting with a salary of around EUR35,000 considering 850 hours per year for crew. But one important thing is that we have established caps in seniority scales. So I think it's good, if we move to this slide, in this slide you see this is a typical pilot career that we are going to have in Iberia now. Considering that one pilot is going to be four years in the short haul as a first officer, another four years in the long haul as a first officer, until the year 22 captain of short haul and from the year 22 and until 35, we wrote here, captain of the long haul.

And you can see that this is the plan that is going to be right now with the new salary levels. The gray line is what we have in the past and the yellow one is what we are going to have for the people right now in the Company. These three lines here are very important because they are the limits that we are going to have for the short haul first officer, for the long haul first officer and for the short haul captain.

So the limit that we are going to have in the short haul first officer is going to be the entry level of the past. And in the long haul, the first officer, this is the cap that we are going to have, around EUR100,000, and the captain of the short haul is going to be slightly below EUR150,000. So in the case this Company doesn't grow we are going to have a cap that we don't have right now and right now everybody can arrive to the top of the scale.

Coming back to this slide, in Iberia Express we remain in Iberia Express an independent company with its own pay scale, independent AOC, hiring, training, everything. But what we are going to have is to put conditions for Iberia pilots to go there to cover some of the vacancies of captains that we will have there. They will work with the Iberia Express conditions; they will receive a compensation payment, a single payment, once they go there.

And what we have in the agreement is the possibility to grow Iberia Express until 25 aircraft at the end of 2017. That is enough because of the demand we are expecting in the short and medium haul in Spain.

What we have established also is a parallel growth between Iberia mainline and Iberia Express. Once we have the salaries that you have seen in Iberia, it makes sense that we can grow in parallel between both companies.

And we have also redundancy potential. We have a new agreement we're going to have in order to have more people leaving the company on a voluntary plan. You know that we have 258 pilots in the mediation, but we are going to put some measures to have more people leaving the Company.

If we move to the cabin crew, in the cabin crew the agreement is similar we have considered the issue of Iberia Express. So we have also a productivity improvement. They are going to fly around 850 hours per year. They are going to do some practices that we didn't do in the past in line with other competitors and other low-cost carriers.

Salary conditions. We are going to retain the 14% for the people that we have in the Company. We will give back the 4%. Salaries and allowances will remain frozen until 2015. And after that we have the same, the 3.5%, the maximum in the case the Company is doing very well. And we have new pay scales and the salary at entry level will be around EUR20,000. And we also have the caps that we have with the pilots so we are going to avoid the same problem that you have people that join the Company and after a period of time they arrive into the top of the scale.

We have the mediation agreement to have 627 cabin crew leaving the Company, but we are also, we are going to put a new plan to have more people leaving the Company on a voluntary basis.

And to talk about the ground staff, we are still negotiating with them. As you know, we have handling and maintenance and we are now in the middle of negotiations. We are positive that we can reach an agreement, but for the time being things are still working so I cannot provide you much more information.

And this is last slide. If you remember in the last presentation we had two paths, the one to follow where we are. And this is the way of the restructure, the other alternative, the one what we wanted and is the one that we have started. So if you remember we have also the dotted line that is the growth rate in each scenario but depending on the market conditions. So we are happy to tell today that we are in the right path. We hope to close our agreement with the unions, the ground unions soon, and then we can have the future that we want for Iberia. Thank you.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

Luis. We're obviously delighted with the progress that Luis and his team have made at Iberia. I think the impact that they've had in the short time they've been running the business has been truly phenomenal. And you can see that the progress is reflected in the financial performance, but it's really now about the opportunity that will be provided to us going forward once we reach formal agreement with the trade unions on the restructuring of the business. And that clearly will be a theme for a future presentation to you.

It's far too early for us to talk about what we might do in Iberia. We still don't have the formal agreement signed, but I think Luis has demonstrated the benefit that we've achieved to date through the restructuring and the potential for the future.

Just going to comment on a couple of issues. We're delighted with the introduction and to service of both the A380 and the 787. They are performing, if I'm honest, slightly better than we had expected. Technical reliability on the A380 is ahead of where we thought it would be. Its introduction into service has been very smooth. Customer reaction is fantastic. And you can see the financial impact of it as we would have expected, increased trip cost but with the additional seats significant reduction in the seat costs of the A380 versus the 747.

And just to give you an idea going forward, the advantage we have with the A380 is what we can do on a route like Los Angeles, where we're flying generally three mid-J 747s during the summer period. We can switch that now to two A380s, providing us with a slight increase in premium capacity with a better premium product and a slight reduction in non-premium capacity. And clearly this also frees up for us a slot at Heathrow, a valuable slot at Heathrow that can be used to facilitate additional British Airways growth at an airport that has no additional capacity.

So it's working well for us. Hong Kong would be similar, where we've changed from two 747s to a 777 and an A380 providing similar capacity but with significant reduction in cost. So the A380 and the 787 have entered into service and are performing in line with, if not slightly better than we would have expected.

Now a lot of talk about capacity and a lot of interest about capacity, and we couldn't leave you without giving you a chart that you can stare at over the weekend and try and figure out what we're saying. This is just a snapshot, and we look at capacity on a global basis and we look at routes. We're all the time looking at it. My general comment would be we're still very, very comfortable, very comfortable with the capacity development that we're seeing both within IAG and also within the industry.

But just to explain this chart for you, this is a snapshot of May 2014 against May 2013. The red is the Madrid hub, the blue is the Heathrow hub. The dashed line is the overall hub operation in both Heathrow and Madrid. And what this tells you is, you look at on the vertical axis total seat growth, as you would expect, total seat growth at Heathrow is increasing at a lower pace than at Madrid, about 2% total seat growth at Heathrow, about 4% total seat growth at Madrid. Above the line shows that we're gaining share; we're adding more seats than our competitors. Below the line our competitors are adding more than us. Exactly as you would have expected. We have the opportunity at Heathrow in a constrained environment to add capacity in a sensible manner.

And at Madrid some of our competitors have put in capacity, taking advantage of what they, well, what they think is an advantage of the withdrawal of services that Iberia has done. We believe, particularly in the area of -- the long haul arena in Madrid, that is unprofitable growth by our competitors. And it will be unprofitable in the future because we have a lower cost base or will have a lower cost base than our competitors at Madrid. So the restructuring that we are doing at Madrid is going to be really valuable to us in terms of the future development of the Madrid hub.

And you can see then, just we've split it out, the solid dots actually represent both our seats and where we have a joint business, our joint business partner. So in the case of Asia Pacific here, that includes JAL. And so what we're seeing there is obviously we're adding seats through the routes like Chengdu, which is a new route for us. In Madrid this includes for example both Iberia and our joint business partner, American Airlines.

So when we look at these development, we're seeing a trend that we actually were hoping to see. We're strengthening our position in the premium international airport Heathrow. We're tactically adjusting our capacity in Madrid, a tactical retreat to allow us to restructure. And if and when we believe we can add capacity in a profitable way, then that's something that we will look at in the future.

Now Enrique mentioned cargo. Just to say a couple of things on cargo. The traditional lead indicator that cargo provided is completely gone. There is no now connection between what we're seeing in terms of cargo market and passenger market. They have dislocated and we believe that's a permanent feature.

What we're seeing in cargo today is increased capacity, principally from belly hold. So as passenger traffic is growing and people are adding passenger capacity, it's adding a lot of wide-body cargo capacity in the belly hold. The advantage that we have is we do not have any freighters. So we had a wet lease freighter operation within IAG Cargo which we have terminated. It will terminate at the end of April. And that means we have been able to reduce significantly the amount of cargo capacity that we have in the market.

Volume is absolutely no measure of success in the cargo market. So we see competitors chasing volume that we know is unprofitable. So we are not looking at our volumes as a measure of success. We continue to look at our profitability in terms of the cargo market. So don't be concerned if you see our cargo volumes decline. Don't be concerned if you see our competitors increasing their cargo volume.

We are very focused on the value of our cargo business. We're very focused on the profitable segment of the cargo business. And we will withdraw capacity from markets where we believe that capacity will be unprofitable. And we're fortunate to have the flexibility that many of our competitors don't have, because we don't have any dedicated freighters in our fleet today. But we have been able to secure capacity through a very good agreement with Qatar Airways, and that has given us a lot of flexibility and clearly gives Qatar flexibility working with us as well.

What I suggested to Andrew and Andrew's agreed, is that we, for those of you who are interested in cargo, specifically interested in cargo, we will provide you with a separate presentation at some stage in the next couple of months where we'll get Steve Gunning, the CEO of IAG Cargo, to give you an overview of the industry and what it is we're doing in it. And if you have an interest in cargo, I would encourage you to come along. We don't have a date for it yet, but Andrew will organize that and will invite you to attend that.

But cargo and passenger are two completely different businesses now and we're fortunate to be able to strategically adapt our position for the opportunities in the passenger business while withdrawing from markets in the cargo business that we think are unprofitable and structurally unprofitable in the future.

I think that is the end of our slides so it's now an opportunity for you to ask us some questions. And Andrew's going to moderate and Enrique is going to join me.

QUESTIONS AND ANSWERS

Andrew Barker - *International Consolidated Airlines Group SA - Head of IR*

Okay. Thank you very much Willie. Same system as before. We know who you are in the room, but for the conference call, there's about 50 people on the line, and for the transcript if you could identify your name and affiliation. So I think Damian caught my eye first.

Damian Brewer - *RBC Capital Markets - Analyst*

Damian Brewer of RBC. Two questions please. First of all, you've made a lot of progress with Iberia. Vueling's very efficient. Are you now comfortable with the level of productivity and cost of productivity at mainline BA Heathrow? And, if not, how much more is there to go?

And then the second question, you have successful JVs into Japan and Asia and on the North Atlantic. Is there room to expand that to other geographies as oneworld has expanded?

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

Yes, I think to be fair to British Airways, they have been making good progress on their cost base. We're seeing the benefit to the structural reduction in cabin crew costs through the introduction and growth of mixed fleet, and that's working much better than we had expected. So the mixed fleet performance and cost base is well ahead of where we thought it would be and will benefit us going forward.

There's always more that they can do, always more that they can do. And the advantage of having Vueling in the Group and the restructured Iberia cost base is we can look at where the opportunities for improving costs performance in British Airways with the rating. We've got a great management team there and Keith is committed to ensuring that he delivers and isn't embarrassed by the performance of his colleagues around the table.

So there will be continuing focus in British Airways on their unit cost performance, but I'm pleased with the performance of the business to date. I think their benefit-getting from the structural changes that they introduced and will continue to do so going forward.

In terms of joint business, I think there is more opportunity. And we do have some discussions, I would describe them as informal, with some of our oneworld partners at the moment to see if there's an appetite for entering into joint businesses. It's clearly an issue that needs regulatory approval and therefore isn't an option in all of our markets, but it is potentially an option for us in some of the markets that we're operating in.

We see the benefit of these joint businesses. We've got a good track record. They're all different and there's no guarantee of success. And the best example of that is clearly the joint business we had with Qantas. We terminated that. People thought that was the end of the world for us in Australia. It clearly hasn't been; it's quite the opposite. Australia continues to perform extremely well for us. It's ahead of expectation. And unfortunately Qantas, as you all know, are continuing to face difficulties in their market. So where we see some long-term benefit of a joint business we are encouraging some of our partners to consider, but there's nothing additional planned at this stage.

Donal O'Neill - *Goodbody Stockbrokers - Analyst*

Good morning. It's Donal O'Neill from Goodbody. Three questions please, one for each airline. And first for Keith. With T2 opening up in June I think this year, can you give us a sense of what impact there might be on traffic flows through Heathrow Airport, particularly connecting traffic I guess for both yourselves and what impact could the Star Alliance grouping might have on that?

Second question in terms of Iberia. I know it's in the middle of negotiations with the ground staff and handling guys, but what might be the stumbling blocks to any kind of a deal there at the moment?

And last question just for Alex on Vueling. A lot of capacity changes I guess in the short-haul market this year and some key markets. What impact do you think the competitive forces might have on the pricing environment in some of your new markets for Vueling?

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

Keith hasn't got a microphone so we'll put that over. But one thing I would say before Keith answers is, with the establishment of the alliances, and particularly the attitude of Star, we see very little in terms of transfer traffic between Star carriers and British Airways and vice versa, other than where we have provided access under the remedies that we had to introduce with the acquisition of BMI and previously with the approval of the joint business with American on the transatlantic.

Keith Williams - *International Consolidated Airlines Group SA - Executive Chairman, British Airways*

(Inaudible -- microphone inaccessible) British Airways because at the moment we're in T3, T5 and with BMI we were in T1. What you'll start to see is the consolidation of our operation from T1 into T3. And that's opportunity in two ways. Actually one is it allows us to improve the connections, but the other, it gives us an opportunity again to make a step change in terms of productivity in coming out of one terminal at T1 and consolidating in T3. So the two together, it's an opportunity.

In terms of what we're seeing with -- and clearly Virgin and Little Red established itself as a competitor on domestic. I'm very pleased actually with our performance against Little Red. What we're seeing actually is no loss of market share to BA. You've seen that we've increased our flying from Scotland into London and that's going particularly well. So in terms of retaining our connecting traffic through Heathrow, it's still the same as it was.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

I know Luis is going to say that he's not going to comment on ongoing negotiations so I don't need to hand Luis the microphone. But I think the fact that we have agreement in principle with pilots and cabin crew is a very significant move forward. We are clearly optimistic that we can reach agreement with the ground unions representing ground handling and maintenance. But if I was to classify them in terms of significance, I would say it's the pilots and the cabin crew are significantly more important in terms of the reaching agreement because it does enable us to do certain things.

But we're working with the trade unions. I think Luis is spending far too much time in negotiating rooms at the moment, but we'll see how we progress in relation to that.

And Alex, do you want to comment on how you see your segment?

Alex Cruz - *International Consolidated Airlines Group SA - CEO, Vueling*

Sure, very quickly. Good morning all. The concept of domestic for us is going to evolve significantly, particularly since we're going to be flying heavily domestically in another domestic market. So we'll have to settle down in terms of reporting on how we actually tell the story.

This past year we've been adjusting, as we have over the last three, four years, to small changes in the overall demand in domestic Spain and we will continue to make those small changes in the coming year, but not very significant. It's really about frequencies here and there, certainly for the week. We're able to do that. We have the flexibility to do that so we'll continue doing that.

The big push this year will continue to be twofold. One big part of it, probably 80% of it, is our big push internationally and now we will need to be domestic market in Italy as well the international market from Italy, not touching Spain. And then we will continue to grow on all the international market coming into Spain, opening in excess of 50 additional routes from Northern Europe and Russia into Spain, Balearics etc.

So those are the two big pushes, certainly the one that has the biggest capacity adds are in Italy and, yes, lots of competitive responses. We still believe that we have a number of weapons at our disposal. We're particularly pleased with the evolution of the domestic to international connecting traffic in Rome. We are creating a small connecting hub in Rome and we're very pleased on how the bookings are going on that. Perhaps something that other of our competitors wouldn't be able to offer.

That, together with the frequent-flyer programs, with the business products, with the distribution mechanisms, we think that will put us in a reasonable competitive position as we look at this big reach in Rome this year, in Italy this year

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Donal O'Neill - *Goodbody Stockbrokers - Analyst*

Thank you.

Unidentified Audience Member

Three questions please. Two on Iberia and one on BA. First with Iberia, clearly very good news of the pilot and cabin crew productivity agreements. How quickly do you think it would actually take Iberia to get to that level of productivity, such as the 850 hours on short-haul? Clearly it won't happen overnight. Is it something you'd think by the end of maybe 2015, 2016?

The second question is about Iberia unit revenue, which clearly has picked up very nicely towards the back end of the year. I guess that was partly just a consequence of the 15% capacity cut, but how do you see that looking into 2014? And maybe Enrique could speak to his thoughts on the Spanish demand environment.

And then the final question is just on BA at Heathrow with the CAA charges, clearly has swung towards the airline's favor with the final ruling. Do you expect the operators to appeal and how do you feel about that ruling?

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

Okay. I'll ask Keith to comment on the charges at Heathrow. I'll give you my view. I don't think they will appeal. If I were in their position I wouldn't appeal because I believe that the airlines have a much stronger case to justify further reduction in the real cost at Heathrow. But that's a personal view. Keith can comment on that in a moment.

Iberia, there is a lot of variables that we need to consider and it is far too early for us to comment in terms of how we can get there. What we have now is the opportunity, subject to the agreement being formally signed, and that will happen in, hopefully in a few weeks' time. We will then assess what the opportunities are.

We clearly need to understand what the underlying demand environment in Spain is like. We still believe there's room for further economic recovery before we'd be encouraged to commit any additional capacity to the market. But I think it's going in the right direction and clearly that will be an opportunity for Iberia. And significantly those opportunities will be much more attractive to us than to any of our competitors.

So what we're looking at now is to further improve the efficiency of the business within the mediator's report because there's still more work that we need to do there. We then have to look at implementing the new agreements, which will clearly take time and effort, and then fully assessing all of the opportunities that are available to us.

But when I look at where we are with Iberia today and where we were 24 months ago or even 12 months ago, the landscape is completely different. We will bring Iberia into profit. It's not going to be a level of profitability that's acceptable this year, but it's going in the right direction. Significant turnaround in the financial performance. Significant improvement in the brand positioning of Iberia and equality of Iberia in the Spanish market and in the markets it's operating in. So there's a lot of improvements that are in train and will start benefiting Iberia going forward, but there's still a lot of work that we need to do.

Luis Gallego - *International Consolidated Airlines Group SA - Chairman and Chief Executive, Iberia*

I would corroborate what Willie was saying in terms of the general message that we're sending you in terms of where the additional margins or (inaudible) are going to come for the Group are again valid for Iberia. So unit revenues will maybe recover slightly through the summer season. It's not going to be a big rebound. A big improvement is going to be coming from cost reduction.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

I think the one thing -- I know, Luis, you can comment if you wish here -- while pleased with the unit revenue performance, we believe there's more that we can do. So within revenue management opportunities we believe that there's opportunities still for Iberia, but it requires some additional changes that Luis is carefully looking at, at the moment.

Keith, do you want to comment on Heathrow?

Keith Williams - *International Consolidated Airlines Group SA - Executive Chairman, British Airways*

A couple of comments and firstly, in terms of process, as you know, the clock's now ticking until the end of March for appeal. So the window's still open to both sides. I agree with Willie that from maybe HAL's side I think they'd be foolish to appeal. From our side, however, I think it's much more finely balanced for a couple of reasons really. One is, as you know, when we went into the process we were promoting a much bigger reduction than the one that we potentially have received. So we still feel that there is actually some way to go in terms of a potential settlement.

What we need to do is to weigh that up against actually an efficient Heathrow and an efficient Heathrow working by HAL. One of the conditions of the settlement is that Heathrow should spend GBP3b over the next Q in terms of the operation. And from my side is I'm keen to see Heathrow work as efficiently as possible and the last thing I want to do is to see HAL not deliver an efficient Heathrow. So on balance it's a finely balanced decision that we have to make.

Andrew Barker - *International Consolidated Airlines Group SA - Head of IR*

Yes, do you want to --

Alex Cruz - *International Consolidated Airlines Group SA - CEO, Vueling*

What you said, what we -- we have a plan to increase all the revenues of the Company. It's the revenue management, it's an area where we are working. Previous year we have improved not only because of the reduction of the capacity. And we have also plans, as you know. We have a new (inaudible). We have a new web page. We have developed a (inaudible) channel. So we are doing a lot of things that are improving the RASK of the Company. And we have more room to improve, but I think the improvement is not only related to the reduction of the capacity.

Andrew Barker - *International Consolidated Airlines Group SA - Head of IR*

It's Jarrod next.

Jarrod Castle - *UBS - Analyst*

Good morning. It's Jarrod from UBS. Two or three, if I may. Willie, you alluded to Qantas and JVAs. You've been a shareholder in the past. Qantas is trying to loosen up the ownership rules. You obviously used to have the JVA. I take it -- I think I know the answer, but it wouldn't be something you would commit capital to? Okay, just wanted to ask.

Just on cash then, maybe just two. One is how much cash is in Venezuela, just given the issues of getting it out?

And two, what cash is yet to be paid out relating to exceptionals, if any, in terms of the provisions that were made last year?

And then just maybe just some color on the financing market and some thoughts.

Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

Yes. About Venezuela, the amount of cash that we have there tending to be repatriated and signed and certified by the Venezuela authorities is slightly above EUR180m. We've been told just as lately as last week that we may be getting January 13 through the following days. Remains to be seen. What we have done is to implement a model so as to not increase our exposure and we are being very disciplined in this respect of not increasing that exposure. And in fact we'll have to translate that program into one that really effectively reduces exposure through time.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

That could involve withdrawing from that market. Other issues on cash?

Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

Perhaps you want to do, no?

Jarrod Castle - *UBS - Analyst*

Finance department and exceptionals.

Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

No, the exceptionals with the accounting changes that they have been looking at are mostly non-cash related. So remember even the heavy restructuring that will be taking place in Iberia has a very long pattern of outflows having to do with early retirement payments to beneficiaries. So the strain on the Iberia cash position is going to be mild enough. And remember on the other side Iberia, on top of their cash positions, they have these financial deal related to Amadeus holding that could improve their cash position by more than EUR500m.

So we are comfortable in terms of both the cash position for the whole of the Group and the cash position of the different companies, even we'll have to revise the cash position for the whole of the Group taking into account our future plans, because we'll have to reach a type of an efficient frontier of the cash holdings that we need to maintain through the future.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

The financing environment is actually quite positive at the moment.

Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

Absolutely.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

We're pleased. There's a strong appetite for deals, primarily with British Airways. Very strong appetite for the EETC that we launched in 2013 and a lot of people who participated and who expressed an interest that time are keen to see us go back into the market. So the general financing environment for us I would describe as very attractive today.

Enrique Dupuy - *International Consolidated Airlines Group SA - CFO*

Even the A380s, that has been a model a little bit more difficult to get into the financial marketplaces, is improving very much in terms of what we have been saying. So people are recognizing that it's a very valuable tool on its own merits and issues, and in this respect financiers are becoming more and more interested. By the way, we have already committed financings for all of the A380 deliveries for British Airways in this year, already done it.

Andrew Barker - *International Consolidated Airlines Group SA - Head of IR*

We'll go to Penny now.

Penny Butcher - *Morgan Stanley - Analyst*

Thanks. Penny Butcher from Morgan Stanley. Three questions from my side. One quick one on BA was to just comment on the new business plan essentially announced by American US Airways and what the possibilities are to maybe extend that relationship more, and how it's structurally helping you in things such as the corporate market. I guess now they have the best map of the US, is that helping you in renegotiations in corporate in particular?

Two questions on Iberia. One is just coming back to the financing question. In the release today you did mention that there are 16 A320s that you're going to buy out during 2014. But you do mention there might be a shortfall in the financing requirement. What exactly do you mean by that, just to follow up?

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

Can we have the last one?

Penny Butcher - *Morgan Stanley - Analyst*

And the last one is, it's related to actually airports in Spain. There was some chatter late last year that AENA might reconsider its charging mechanism at Madrid and Barcelona. Could you comment on what the status of that is?

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

On the joint business -- I'll ask Alex and Luis to comment on the Spanish airports. On the joint business it will come as no surprise to you that the new American is very much focused on their merger, first and foremost. I think we would do exactly the same if we were in their position. We are in negotiations and they are formal negotiations to take the US airways capacity into the joint business. And that is ongoing so we will continue to engage with the new American team in relation to that.

I think the joint business has definitely worked in line with what we would have expected. Probably it has been more beneficial to American than maybe to us because I think our standing in the corporate market was very strong in both the US and in Europe. But without question there has been benefit to all of the parties involved in the joint business. But if I was to stand back from it, I'd say from an American point of view they'd probably benefit more than we do.

And that's the nature of these joint businesses. It's not about equal benefit. I think part of the problem in the past was we didn't do things because we almost insisted it had to be 50/50. And we walked away from deals that we should have got involved in, simply because it didn't benefit us to -- the same amount as our potential partners. But it's performing in line with our expectations and we're looking forward to working with the new American team.

On the Iberia --

Luis Gallego - *International Consolidated Airlines Group SA - Chairman and Chief Executive, Iberia*

Yes, there is this number of aircraft, 16 or so, which on Iberia plans are meant to be maintained, used. So it's coming to a moment where we have to decide what to do with them. If to buy them, to extend the leases, and at what rate we would be extending the leases. So it's going to be a trade-off between the amount of money that we can get out of the market and the rentals that we will be wanting to pay. Depending on that trade-off there will maybe be a gap about, I would say, the amount we have to pay for the aircraft and the sales-lease transaction that we'll be implementing.

What we are getting now on the final proposals is a gap that is much narrower than the one that we're defining in this statement with old proposals. So I guess that's a gap today, could be more in the range of [EUR30m].

Penny Butcher - *Morgan Stanley - Analyst*

(Inaudible -- microphone inaccessible).

Luis Gallego - *International Consolidated Airlines Group SA - Chairman and Chief Executive, Iberia*

Exactly. Exactly. You have defined it perfectly.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

And on AENA charges, Madrid and Barcelona, they did introduce some changes to their original proposal, particularly to facilitate some transfer traffic as well. I'm not aware that any further changes have been made. Luis?

Luis Gallego - *International Consolidated Airlines Group SA - Chairman and Chief Executive, Iberia*

No, there are no further changes. We have the agreement that we closed with them. As far as we know the agreement is going to be in place for the following year so we don't have any information about any change.

Andrew Barker - *International Consolidated Airlines Group SA - Head of IR*

Okay. Tim.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

This efficiency will help you.

Tim Marshall - *Redburn Partners - Analyst*

Tim Marshall from Redburn. I'm interested in the 7% margin target now at Iberia. That would be almost EUR300m profit on the revenues just reported for the employees to get their bonus. Vueling's just done EUR170m and the target of British Airways is in the region of EUR1.55b. So I was interested in the timing of the 7% at Iberia and whether you were tempted with the agreement with pilots and cabin crew to think differently about the EUR1.8b target for 2015?

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

It's too early, Tim, because, first and foremost, the agreement hasn't been signed. So I think what we need to do is to take this in various stages. There's a lot of work going on, but first thing we have to do, as we're negotiating with the trade unions, is we've got to implement the mediator's report. And we've seen the benefit we're getting from that. So that has to be completed and we don't want to be distracted from doing that because we get an immediate cost benefit from introducing those changes.

We have to then reach formal agreement with all of the trade unions and we're working towards that. We then have to start looking at implementing all of those new agreements. And then, and maybe when we get to Capital Markets Day, say in November or whenever this year, we'll have a much better picture, clearer picture of what that will enable us to do. But clearly the opportunity is significantly greater for us. Is that a 2015 opportunity or 2016, I honestly can't answer you at this stage.

And I'm not focused on that because what we're focused on today is get everything we said we would implement implemented in terms of the mediator's report. Get the agreement signed. Make sure that those agreements are implemented where and when they can be so that we get the immediate benefit or any immediate benefit that can come from that. And only then are we going to start looking at now what does this mean for the future and how will this enable us to change our plans for Iberia? So a lot of work to do yet, but we'll clearly give you an update on that later on.

Andrew Barker - *International Consolidated Airlines Group SA - Head of IR*

I think we've probably got time for one, two more questions. Tim, if you could pass to Edward in front of you.

Edward Stanford - *Lazarus Partnership - Analyst*

Edward Stanford of Lazarus. Just a quick question. Now you have permission, if that's the right word, for Iberia Express to grow and Iberia in parallel, I'm just interested in whether that creates any brand confusion and how you're going to plan and handle that growth?

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

I don't believe it does create any brand confusion. I actually think it gives us opportunity. We can do things with Iberia Express that we might not want to do with Iberia. So I think it represents a unique opportunity to have within the Iberia network and company a second very efficient brand that has received excellent consumer acceptance. The consumer scores have been very positive there. So we haven't seen any evidence of confusion with the brand. But we believe that this is an opportunity for us and I think strategically very important for us to be able to secure the ongoing independence of Iberia Express as we develop the plans for Iberia as well.

Luis Gallego - *International Consolidated Airlines Group SA - Chairman and Chief Executive, Iberia*

And by the way, Iberia Express is generating operating profits on the parts of the Iberia network which are more challenged. So it's being able to use a tool that not only on the labor cost but on the total cost and the operational procedures and the client perception is a very powerful one.

Andrew Barker - *International Consolidated Airlines Group SA - Head of IR*

Edward, do you mind passing back to Andrew here?

Andrew Lobbenberg - *HSBC - Analyst*

Hi. It's Andrew Lobbenberg, HSBC. Three quick ones. On AENA in Spain, there's press reports about potential privatization moves. What's your attitude about that, threat, opportunity?

At Vueling, Alex, you just keep doing it, putting in fabulous quarters. How did you do it? What did you improve? The slide shows that your employee costs went down, but it wasn't obvious that you were overpaying people before so how did you deliver that so well?

And then just what are we saying, what are we thinking about dividend for the Group in total?

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

I think the privatization of AENA represents an opportunity rather than a threat. Clearly it's for the Spanish government and for the AENA management team to do that. I've met and I know Alex and Luis regularly meet with the senior management team at AENA. I've met with them. I've been impressed. I've been impressed with their view and their vision of the future. So I don't see privatization representing a threat to us at all.

Clearly a privatized environment generally needs a healthy regulatory environment to ensure that it works properly. I think the airline industry has evidence of where regulators are good and regulators are bad. I would say the CAA's job as a regulator, I would probably mark them at about 5 or 6 out of 10 at the moment, but that's better than the 1 out of 10 I would have given them previously. So it's an improvement, but it's an improvement off a terrible performance.

Alex, do you want to -- don't give the secrets away because that's what we pay you for.

Alex Cruz - *International Consolidated Airlines Group SA - CEO, Vueling*

Andrew, it's such an inconcrete question so I cannot give you a very concrete answer in a way. The numbers are the numbers; you have the numbers.

You can see how we continued to lower costs on an ongoing basis and that continues to be an obsession of ours, and we believe that we still have a number of areas where we can continue to work on lowering cost. We will cement our number two position in Europe as having the lowest operating costs and we want to bridge -- we want to make that gap with the first operator smaller. We see that as the number one priority and as the number one tool that we have to be able to enable the growth that IAG expects from us. So that is probably the biggest contributor.

Now that has not been enough for us. So I'm repeating some of the things I've said to you in the past. We are pursuing the premium passenger and the premium market, and we continue to take initiatives to offer a better product and reach out to the corporate customer. And it's working. It's working particularly in the big cities where there is a lot of traffic, where we have six daily frequencies or more.

So we're going to continue doing both, but first the first one and we will not do the second one unless we're able to do the first one. So we won't add new features unless we're able to do it in a way that is cost-effectively.

There's no more secrets other than that. Barcelona is working well as a market, inbound, particularly internationally. And in the meantime we just continue inching away and being flexible in the way that we readjust our capacity to react to small changes in the marketplace on a month-by-month basis. I'm afraid there is no big, dark secret. There's just getting on with it and sticking to those basics, which are the big ones.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

Thanks. We have great fun with Alex at the management committee meetings. But on the dividend, my Chairman and Deputy Chairman are sitting in front of me so they can stand up and interject if I say the wrong thing, but let me give you a view from management and I'll speak on behalf of the Board.

Everything we do as the management team is designed to get this business to a position whereby we can reintroduce and sustain a dividend payment. The Board has stated that it is the intention of the Board to pay a dividend when the time is right. The Board has reaffirmed that on a number of occasions. The Board decided that a dividend payment wasn't appropriate this year, but we have had positive discussions around this.

I think that total alignment, the issue we need to consider, and Andrew is doing this, is the views of our shareholders. And Andrew has been talking to a number of shareholders and will consult over the coming months. And I think when the time is right we'll be ready to celebrate the reintroduction of a dividend payment because we see that as one of the key objectives and the key goals that we have, as I say, management team and the business. And my Chairman and Deputy Chairman are nodding, and I take that as formal approval of the state of play.

Andrew Barker - *International Consolidated Airlines Group SA - Head of IR*

I think that's it.

Willie Walsh - *International Consolidated Airlines Group SA - CEO*

Okay. Can I thank you all for attending? As I said, we'll try and get a date for you to give you a what I'm calling a cargo master-class because I think it is fascinating what's happening in the cargo business. And we've learnt some very interesting things from the work that we've done in the strategic review that we've had of our cargo business.

One thing surprised me, for example, that it would appear that a lot of our competitors don't factor in the incremental fuel burn associated with the carriage of cargo, which to me is -- I couldn't believe that when I saw that. But if that is true I think there are a lot of airlines out there fooling themselves in terms of the contribution that cargo is making to their financial performance.

But we'll get some dates and get out to you as soon as we can. And I can assure you you'll enjoy it. Cargo's a fascinating part of the business. We probably don't give it as much coverage as maybe we should, but we look forward to doing that for you as well.

So thank you again and look forward to talking to you at our next briefing.

Operator

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