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PRESENTATION

Antonio Vazquez - *International Consolidated Airlines AG - Chairman*

Hi. Good morning, everybody. It's a pleasure for us to have all of you here, the first day of August, which deserves a sort of credit. In Continental Europe, first day of August in a result presentation is quite unusual, so it's a question of the UK, so thank you for coming.

And we're very glad that we're going to share with you results which at the end of the day are showing that the model is working, the management is on track and the whole thing is going ahead.

And I want to make a special mention today of Maria Fernanda Mejia, who is here with us. She's President of Kellogg in Latin America but she became part of our Board of IAG, and we're very glad and very honored for Maria Fernanda being with us and sharing this result presentation.

So I hope you will have a good time right now, and we're ready to share our numbers with you.

Enrique Dupuy - *International Consolidated Airlines AG - CFO*

Good morning, ladies and gentlemen. So, on a very brief summary, I would be describing the figures that we are bringing to you today as a positive set of results for the second quarter, which keep us on track to be able to deliver our target for the full year.

As you see, we are reporting operating profit of EUR380m, so this represents an improvement of EUR135m on top of last year. When we make the like-for-like exercise, so taking into account ForEx and the Vueling type of contribution, this figure gets to EUR148m. We will explain how and the split of -- the breakdown of the EUR148m.

As we said, this year this is going to be achieved; the improvement in profits are going to be achieved basically supported on growth. So growth at a reported level will be 11% for the second quarter. On a pre-Vueling like-for-like exercise, it's 6.3%. Demand is responding to this high level of growth with an RPK increase of 10%.

So these figures relate to these ones, passenger unit revenues. We've been keeping them on a like-for-like pre-Vueling exercise positive, and that's another message that we were very clear about. So it's growth, it's keeping our unit revenues flat and it's reducing our ex-fuel, and by the way also our fuel costs.

So, ex-fuel unit costs have been coming down on a like-for-like again by 2.5%. There is a couple of effects that are blurring a little bit how we understand the figures, and I want to go through them first.

So it's the ForEx. So we have the combination of weak dollar and strong sterling. As a whole, on a net basis, they are bringing down the figures of revenues and unit revenues, and then again bringing down our figures of costs and unit costs.

The other one is Vueling. Vueling again has a lower structural unit revenue base and a lower structural unit cost base. So when we bring Vueling to the blend, it brings down unit revenues for the Group and unit costs for the Group.

So this is the split of the EUR148m, which is EUR135m on a like-for-like basis, so splitting apart the ForEx impact and the Vueling impact. Again, you can see a significant positive impact on the revenues side in terms of volumes, so EUR246m; a very flattish pattern in terms of unit revenues related to passengers, so just plus EUR3m; and a non-passenger revenue contribution which, as you know, has to do with third party handling revenues, third party maintenance revenues, cargo revenues.

So those are not so much related to the ASKs, and that's why there is a limit of the decoupling between passenger unit revenues and total unit revenues, because total unit revenues include these costs that are not strictly related to ASKs.

Again, the other big news for the quarter and still for the year has to do with fuel and non-fuel efficiencies. In the case of fuel, we're seeing of course a negative volume effect, but the price plus efficiency, very positive effect in the second quarter.

So we have kerosene prices being low, even lower than we expected. Kerosene has still been lower than we expected. But we have something in the range of 2% or even slightly more than 2% of lower fuel costs related to efficiency, so this is new fleet and new procedures, especially in Iberia. So, good news on fuel and also good news in other non-fuel costs.

So we'll go through them. Employee costs are being brought down very significantly and the same with the supplier costs, and of course the negative impact of growth on the base. We will go through these employee and supplier costs later on, but they are both very encouraging positive improvements.

Of course, ownership, ownership has been climbing, and that has to do with the new fleet, a new fleet which is much more efficient in terms of fuel and maintenance, but also it's more expensive in terms of ownership costs.

So let's try to drill a little bit more on the cost elements, and especially first of all in the ex-fuel cost element. So, first of all we see the reported figure is minus 4.4%, but this is including both Vueling and the positive effect on the cost side of a weaker dollar. So if we try to make a like-for-like exercise, the minus 4.4% comes to minus 2.5%, which is again very much in line with what we have been messaging and with what we have been targeting on this area.

Again, it's easy to recognize the significant positive improvements that we have been doing on the different cost categories, employee costs. So, again, Iberia rocketing up to the 10% level of improvement, or near 10% level of improvement, and this is of course due to the execution of their transformation plan. And there is more to come here. There is more to come, 2015 and beyond.

And British Airways, British Airways has to do a lot with what we call the efficient growth pattern. So it's about more ASKs with not necessarily more people. It's about our aircraft, the aircraft that British Airways is using being, I would say, bigger and so more efficient in terms of unit employee cost. The A380s have a significant contribution here. And also growth in terms of diluting overheads as fixed costs.

So, on the supplier side, in general terms very good news. So I would say a greater stage length means that handling costs per stage length on a unit basis, landing fees per stage length on a unit basis, have been coming down structurally. So that's really what happens when you increase stage length.

We have a little bit of negative here on the handling side, but they are mostly one-offs. So on one side there is part of these negative bars attached to additional costs on British Airways Holidays, and that's a business that is not strictly related to ASKs. So those are extra costs that have extra revenues in a different chart and that they create a positive value contribution, so not very much to worry about.

And then there is a one-off having to do with extra costs that British Airways has suffered related to luggage disruption, end of June. Remember that one? So that has had an extra cost impact in the month of June of around GBP10m.

The other negative one, it has to do with depreciation, and then again easy to explain. So new fleet, efficient fleet, but of course a significant investment that we need to depreciate.

Good news here on the lease side, and this is basically because of two improvements. One has to do with rolling over old, expensive BMI leases that we have now left behind. That's good news.

The other one is something that I just advised to you some minutes before. It's the discontinuation of the freighter activity on our cargo business and concentration on belly activity. So this means, imagine, we are getting less revenues, less freighter related revenues, but less freighter costs. The less freighter costs are here.

So, good improvement, minus 2.5% like for like, and very much aligned with our targets.

Fuel; fuel is also a source of good news, and not only because of the kerosene prices. So this chart, sometimes I find it difficult to explain and then I come back and say okay. So this, for example, is the average price after hedge that we had last year. Okay? And this is the improvement that we will have into this year, third quarter, if the market spot prices were to stay at $965, kerosene, so dollars per tonne.

So this means, look, we are quite aligned with the actual spot prices because of our hedge pattern, but if something we are a little bit better. So this means that if prices stay where we are saying they could stay, we will be having some tailwind. The level of hedging that we have on the rest of the year now is really very high. So the scope for surprises is becoming thinner and thinner.

The other good news behind fuel is operational improvements. As I told you, they are not in this chart. They are on top of this potential, I would say price saving, and they have to do with new fleet. So it's A380s, 787s, it's 330s in the case of Iberia, and operational procedures in taxiing and approaching that will be benefiting Iberia.

So this is the capacity growth pattern. So, basically, the message that we are bringing today is capacity will be peaking through Q2 and then Q3 and coming back through Q4 and into the New Year. So this figure for Q4 was around 3% above in the latest statement that we shared with you.

So we are already trimming capacity for the fourth quarter, and presumably into the first quarter next year, by 3%. This is being done on a type of frequency reduction type of scenario. So we're not canceling routes. We're not stopping destinations. It's just trimming gradually our capacity through frequency type of adjustments on a type of spread basis.

So there may be some overcapacity in some markets, and I will go through more of explanations in a couple of slides from now, but what we feel is that that overcapacity will be narrowed, will be reduced in the coming quarters. That's for us, and hopefully for the rest of the market.

This is a little bit more of details about -- and the big message -- a little bit more of details about where and how we are increasing capacity. So for British Airways, we have a little bit of new routes and basically in this case it's Austin; Austin is performing brightly, by the way.

Significant one around stage length. So if we say we're growing 6.8%, look at that 3.3 just, I would say, because we are flying longer. It's not more seats; it's we are flying longer. Okay? So it's a sense of really how we are managing capacity and what type of knowledge we are having on what's happening.

And also the A380s. So this is again not doing extraordinary things. It's taking the benefit of substituting old fleet with more efficient in terms of size aircraft as well.

In the case of Iberia, it's about restoring routes. So it's routes that we know, that we have been operating in the past, that we have a name, that we have a knowledge. It's about in the long haul Montevideo and Santo Domingo. So they are going to be having short maturity type of patterns, which is the drag, as you know, when you open new routes.

It's a little bit about stage lengths. The 330s are in general terms a little bit smaller than the 340s that they substitute, so this is going to bring a little bit of better unit revenues, probably. So, a very cautious approach.

In the case of Iberia you have this concentration on these couple of routes in the long haul and some more feeder routes, European feeder routes for the hub in Madrid, and that's basically all. This figure will be coming down again through Q4.

This is a very interesting chart. I think this is one that you were wanting to know about, and especially in this relation. So, yes, our North Atlantic business is performing very efficiently. That's what I have to say.

So we are basically growing 5.1%, which is type of a rational level of growth on mature markets. We are benefiting from strong economies at both sides of the equation. Maybe that makes a difference with other alliances. So both in the US and the UK catchment area economic growth is very significant, very powerful.

And our position in that specific axis is of great leadership. That's maybe how we are making this 4.2%. Some of the routes that we are operating and some of the routes that we have been opening, Austin is performing fantastically. A380s on Los Angeles; and I'm sorry, Willie, because that's your data and I'm just grabbing it from you. June is above 95% load factors.

Willie Walsh - *International Consolidated Airlines AG - CEO*

99%.

Enrique Dupuy - *International Consolidated Airlines AG - CFO*

I was embarrassed about the 99%. So look, yes, this market is still, I would say, a very important backbone for the business of the whole Group.

So, some other things. Domestic keeps on being smaller and smaller, and it's not very exciting. Europe, there is a little bit of overcapacity, 7.7%, and a small reduction in unit revenues. That's across the board, probably. That's something that other competitors could be telling you as well.

Latin America is not as bad. So Latin America there is LACAR, so it's Caribbean and other markets that are performing I would say better, much better, maybe Mexico or Colombia or Peru, Caribbean of course. And then it's the South Cone, and the South Cone is where the difficulties are. And that's affecting more Iberia than British Airways.

So it's about Brazil, it's Argentina and it's Venezuela, basically. Those are the weak ones. And those are the weaker ones through the football cup, so we have had a little bit of problems here, more on the side of Iberia.

The other one is this one, Asia Pacific, and this is where we're finding a little more of difficulties in terms of unit revenues. Very significant growth, very significant growth in some places where we're doing well, for example Japan. So growth in Tokyo, both Haneda and Narita, is in excess of 20%. Unit revenues are flat, so that's quite impressive.

Others are not being so bright. So China in general terms is a little more difficult, and especially it's Chengdu. So Chengdu is a new route and it's a route that will need maturity. And the starting of Chengdu has been dragging down this figure. Other places, like Bangkok, maybe are also a little bit troubling.

But this combination, 12% and minus 3%, is quite efficient as well. We don't like the minus 3% and we are going to be getting rid of it, but the combination looks quite efficient, nevertheless.

Africa Middle East, so 9% and just 1% of reduction in unit revenue. So the whole pattern shows a very controlled and quite efficient scenario of capacity and unit revenues.

And this is about what we call our basket of products, and it's in this specific case very easy to explain. So it's on a like-for-like a 0.2% reduction in unit revenues. Of course, it shows initially as a 3.7% and this is because of ForEx. It gets into a 2.3% and this is because of Vueling. And it gets into a just flattish performance when we make this like-for-like exercise.

And then it's premium weak. The two sources of weakness on the premium side this quarter are on one side the holidays, Easter holidays in April. So April is a good business month in general terms, with the only exception is when Easter holidays jump into April, which was the case this year. So April was weak in premium for both British Airways and Iberia.

And then the other one is June World Cup was difficult for Iberia, especially, because Iberia is much more concentrated on the areas where I would say the World Football Cup was focused. So, a little bit of that impact.

Non-premium is the other way round. Again Easter; no surprises. So in April we didn't have the business travelers, but we had the leisure travelers. So this was in some way offsetting this weakness for British Airways. Iberia, Iberia has been a little bit weaker. British Airways has been neutral on the short haul; Iberia has been a little bit weaker.

And this non-passenger weakness is confusing. It's again about basically the cargo discontinuation. So we had, last year, cargo revenues here on freighters, and this year we have not them.

Okay. Just a little bit of more time here, because this one is expressing a lot of interesting ideas. Let's begin with Vueling. Vueling is this ASK increase, 24%. 24% is a high figure. You know it has to do with the expansion that Vueling is producing in some areas as Italy, so Italy domestic, Italy to Europe. It's Brussels area. It's also Spain to Europe and a little bit of Spain domestic. So big growth there.

So big growth, 24%, and keeping the operating margin flat. So that's, in our understanding, a very successful result. So growing 25% -- 24% without losing operating margin in terms of percentage, we feel it's a good achievement, and it has to do with this one. So unit revenues growing 24%, flat, slightly positive. So, again, I think it's a matter of satisfaction.

A little bit of costs here and those are basically related to the opening of new markets, so marketing and also the introduction of additional fleets which have a little bit of mess and turmoil until you get them there. So we feel these are two temporary effects that are well compensated at this level.

So let's go into Iberia. This one is very positive, of course. And this is a meagre type of 1.5%, but remember in Iberia the accounting difference has to do with most of their aircraft are financed on an operating lease basis. So what happens is there is a lot of financial costs that are above the line; big figure there. So I was making a calculation, short calculation, this should be jumping on a homogenous basis, full owned aircraft, to around 5%.

So very good improvement here, and this is the astonishing one. So employee per ASK minus 10%, minus 10.5%. So some of you were worried in terms of we are now bringing back this 4%, your savings are going to be destroyed. No. No.

This one is a little bit more worrying, minus 3.5% in terms of RASK. This is not constant currency terms. In constant currency terms, this is between 1.5% and 2%, so not good enough but manageable.

British Airways; this is again a good improvement. Operating margin 9% on the second quarter is very good because, as you know, on the peak we were having around 10% on a full-year basis, and the full year has a lot to do with Q3, as you know. So for the second quarter, this 9% is very good.

So, again, efficient growth, minus 4.1% in terms of employee cost per ASK. And this one shows very ugly on a current ForEx basis. When we get to constant currency, it's flat. So of course, what's happening here is weak dollar and weaker other currencies are bringing down this figure, but also bringing down this figure. And the result is this one, which is a significant success.

So this is how it shows and this fits with our message. The three companies are improving and they are on the right track. So this is how it shows in terms of how the balance sheet has been improving for the first half. This is seasonally affected.

So I was trying to explain, look, this increase in cash that you see more or less here is having to do with two things, on one side positive results and some equity and reserve movement that have improved the equity, the adjusted equity base for this first half, but of course it has to do also with sales in advance for the summer holidays. So, positive working capital moves that have made us increase the available cash by the beginning of the summer in a very significant EUR1.3b figure.

I think the good message here is it's not only British Airways; it's the three companies that have been improving their cash position. So this is becoming a solid ground base case for future developments that we'll be talking in the future. So, again, I would say very satisfied by our gearing coming clearly below the 50% level.

And that's all. I think I'm going to pass the word now to Willie.

Willie Walsh - *International Consolidated Airlines AG - CEO*

You were going to talk about the outlook, but since you've given it to me I'll talk about the outlook.

We were trying to figure out do we change the cargo one, so we've managed to move the arrow to show that it is stabilizing. So we've introduced a new feature in the outlook weather chart that we've shown you before. But that's the only thing that has changed and I think has changed for the positive.

We have Steve Gunning, our CEO of IAG Cargo, with us today. So if anybody has any cargo specific questions, I'm sure Steve will be pleased to address those later on. And as we said, the guidance -- we're sticking to the guidance that we have given you before.

The key issue, and this goes back to what we had said. If you turn the clock back to Capital Markets Day when we announced our capacity plans for 2014, we made the point that don't get too carried away by the headline capacity growth, because we would at any opportunity through the year reduce capacity where we saw the opportunity to reduce capacity, and that's what we've been doing. We've been trimming capacity as we've gone through the year, and we announced today we're going to further trim capacity.

And the beauty of the business today is we have the flexibility to do that. That's something that when you turn back to 10, 15 years ago, we were always afraid as an industry to take the capacity out because we couldn't take the costs out. But in Vueling we've a very flexible vehicle where we can adjust capacity really quickly and remove the costs associated with that capacity.

We're better now at doing that in both British Airways and Iberia. And that gives us that opportunity to target growth where we believe it will exist, but to moderate that growth where we see the actual situation being different to what we had expected to see.

And I think that puts us more in control of our business than some of our competitors. So if you wanted to ask me what's the difference between our outlook of the world and some of our competitors' outlook of the world, it's not that we're seeing the world differently; it's that we're more confident about our ability to control the situation for ourselves than maybe they are. And that I think is the positive development that we have made.

Now, looking specifically at capacity, I would point out that this chart -- what we've tried to do is give you a feel for what's happening as we go into the second half of the year, and what you can see is that generally growth is moderating. Growth will be -- capacity growth will be adjusted. This does not reflect the changes that we have announced today.

So you will see further reduction in the plan here. This is November; OAG we use as the source here. This will be reduced further, both for British Airways and Iberia, on the Transatlantic. And it's principally through taking some frequencies out. We're not canceling any routes.

As Enrique said, Austin performing very well. Seat factor in June on Austin was 90%. That's well ahead of where we expected it to be. So that's a new route performing very well.

As Enrique pointed out, Chengdu not so well. Average seat factor is about 56%. We've definitely been hampered by the British policy on visas for Chinese tourists. That is holding back the development of that route, and certainly that's something that we will look at in the context of future Chinese route opportunities.

Interestingly, we are being compensated to some degree by very strong cargo out of Chengdu. We've seen a much stronger cargo position out of Chengdu than we had expected, but the passenger situation on Chengdu has definitely been impacted by visa policies in the UK.

So the general environment on capacity, we remain very relaxed about it. We think some of our competitors will need to adjust capacity, because they're creating their own problem. It's problems generally. That is not impacting on our business. We feel very much in control of what it is we're doing. Enrique said I think it reflects strong economy in the US and a growing economy and a better alliance partner than some of our competitors.

We're really now seeing the benefit of new aircraft, but what's important to point out is we're not just seeing benefit from new aircraft in terms of our fuel efficiency. The program -- fuel saving programs that British Airways has, and indeed Iberia has, and I'll show you an Iberia chart in a moment highlighting a different issue, these initiatives are paying off as well, simple initiatives.

We're looking at single engine taxi on twin engine aircraft. So we're taxiing out with one engine, starting the second engine closer to take-off. Particularly at Heathrow, where we tend to have long taxi times, that makes a difference. Taking weight out of the aircraft; any weight that we can remove from the aircraft makes a difference.

So you can see the underlying fuel initiative benefits and then the benefit that we're getting from new aircraft. And remember, at the end of Q2 we only had six A380s and six 787s. So as we expand the new aircraft fleet, we will see further and further improvement here.

We're just reviewing the forecast here to take into account the actual capacity, bearing in mind that we are making some adjustments, but I would actually expect that to improve beyond what we're seeing there. So, real benefit on fuel coming through initiatives that we're taking and through aircraft.

There's been a lot of discussion about Vueling. We're really, really pleased with the performance of Vueling, and Enrique has highlighted the financial performance. Well, we thought we'd give you a better feel for what the airline is doing in terms of growth and to highlight some I think important issues. You saw Q2 ASK growth 23.6%, very high, but RPK growth in excess of that, so really good performance.

To give you an idea of where this growth comes from, new routes accounted for -- 92 new routes, but accounted for 7% of our capacity in Q2. And if you look at where these new routes are, you can see Italy and Benelux is about half of that. So some people had expressed concerns about overlap with other low-cost carriers and whether this was going to be a difficult environment.

A lot of the growth is actually growth on mature routes where we're seeing strong demand. So we're adding frequencies on existing mature routes. We're adding frequencies to new routes that we had established over the last year or two, and we're growing new routes.

So I think this will give you a much better feel for what Vueling is doing. But I think a very strong performance for the Company in the second quarter, and their ability to adjust to reflect the external environment is fantastic. So if they see weakness in any markets, they can quickly take aircraft out. You won't even notice it. You will see they have announced routes and actually stopped before they even started the route, and you probably haven't noticed it. We were going to put in a few cities there to see if you did notice that they had announced that they were flying there. But it's got a very, very flexible business model and that clearly works very well.

A lot of progress in Iberia, and great credit to Luis and his team and everybody at Iberia because this has been a fantastic journey over the past 12, 18 months. We thought we'd help you by just setting out some of the change here in the chart, so you can remember.

There have been three, if you like, key benchmark decisions. We had the mediation agreement that we accepted back in March 2013. That was important because it enabled us to take costs out of the business immediately, and if you remember what we were saying, we were very focused on taking costs out. We said we would get around to looking at the revenue environment at a later stage. So we've taken a lot of cost out.

We then had the follow-on agreement, where we have cemented all of this change into the business. This enables us to have great confidence about the future of Iberia, and more importantly, we've now agreed a new voluntary redundancy scheme for up to 1,427 people in the business, to reflect the fact that this gives us more efficiency and that more efficiency would lead to a surplus of people. So we now have a vehicle to address the surplus of people.

And when you think of years and years of effort within Iberia to make progress, the progress that has been made in the past two years, 18 months really has been incredible. So we're now confident that Iberia is on the right track; we're confident that it will deliver on appropriate levels of profitability. And to demonstrate that, we've announced the new aircraft decision. But the introduction of A350s and A330s will start improving their operational performance through lower fuel costs.

Some people asked us this morning, why are you ordering A330-200s when the A330neo has been announced and when A350s are available? It's simply because we want to get our hands on those aircraft as soon as possible. So these 330s will be available to us by the end of 2015. If we were to wait for the Neo, we're probably looking at 2019, 2020. The A350s we can start taking delivery from the end of 2018 or during 2018.

So it really is to access the fuel benefit that we get, while maintaining flexibility within the fleet to be able to change those aircraft for more efficient aircraft when we can access them. So this is all about trying to get more cost benefit into the business as quickly as possible.

And what do all of these agreements do? Well, just highlighting one aspect of the cost base, we show you here the employee cost per ASK. And we've mapped it out based on our business plan, which we've not given you sight of yet, but out to 2020. So there is an element of ASK growth in that.

But this gives you an idea of the reduction in employee cost per ASK that we're looking at in Iberia. So it's not just about 2015 and 2016, where some people have been focused. We've always said that a lot of this benefit actually comes beyond that period, and you can see the expected progression.

Now, this is based on what I would describe as a modest conservative growth scenario for Iberia. If we see a change in that, we have flexibility with the fleet within Iberia to look at some additional growth, but it will only be done where we believe that growth will be profitable. But this clearly gives us the opportunity to be much more confident about growing the Iberia business.

And if you look at their operational performance, it has been stunning. Iberia typically had a reputation, as Madrid did, for an airport that had bad punctuality, and just look at what has happened. According to some sources, it's the most punctual international airline in the world. The change has been incredible.

And it's not just reflected in improved on-time performance; it's also been seen in our fuel performance as well. So we're seeing secondary benefit from this improved operational performance, and we continue to expect to see more benefit. So just like BA is seeing improvement in fuel costs through improved operational performance, Iberia is seeing the same. And Iberia will also now see the benefit of lower fuel costs through new aircraft.

So, an excellent performance by everybody in the operation in Iberia. A really, really strong on-time performance, and the same for Iberia Express, which is truly incredible for a new company that has been able to establish itself, establish its reputation, its operational performance, its customer standards and performance and its profitability in such a short period of time.

Now, cargo. If Steve wasn't here I'd make reference to the headline, but we gave Steve the choice of headline. He is here, so I'm going to drop him in it anyway. So this is either glass half empty or glass half full, and Steve is a glass half empty individual. So this is negative momentum is slowing. You could say positive momentum is growing, but glass half empty is it.

But you can see here the yield is -- this is at constant exchange. So you can see the yield is beginning to move back up. So yield has been a challenge. There has been overcapacity in the market. Again, we moved ahead of the market to get out of the cargo business. As we have said publically, that was margin negative; that was a loss-making business.

But it enabled us to access important contracts, global contracts. We've been able to secure those through the arrangement with Qatar Airways, which is really working very well for us and gives us great confidence about working with Qatar going forward. And we're beginning to see some CTK growth.

So I think, to be fair, it is too early to call that cargo has started to improve, and that's why in the earlier chart we showed the cargo performance is stabilized.

And finally, the 2014 target is very visible and we remain confident that we will deliver on what we have said, and we're equally confident that we will deliver on 2015. We'll do it in a different way. We are seeing the benefit now of our ability to transform Spain, as we call it here. We are seeing opportunity in British Airways, so we've got better visibility around what we can do there. Synergies are delivering, and we're confident again that we can improve on the targets that we've set there.

We're looking at lower growth, but actually that's not necessarily going to have a big impact on the margin. Some of that could have been -- as we talked about Chengdu, growth that would be unprofitable in its early stages because it takes a bit of time to mature.

But we are looking at the overall scenario and being very confident that while the environment is not easy, it's an environment which we believe we can manage because of the flexibility that we have within the business, and because we're prepared to move quickly to adapt our business to what we see as either threats or opportunities, in a way, that maybe some others are taking a bit longer.

So I think we're making steady progress through this year, and we'll continue to make that steady progress through 2015.

I thought Enrique had an interesting comment when he was talking about the cash position. I think he said that will be a debate for -- a future debate for the future of -- anyway, he was talking about dividends, in case you didn't get it. So we have said we're not paying a dividend at half year.

But the debate around dividend is a debate that is taking place within the Board. I know Andrew has consulted with some of you around dividend policy, and that's something that is maturing within the business. And the Chairman has indicated that that's an issue he would like to address at Capital Markets Day in November, when we talk to you.

So that's it. I think we've got some time now for questions and answers, and Andrew is going to moderate.

QUESTIONS AND ANSWERS

Andrew Barker - *International Consolidated Airlines AG - Head of IR*

Thank you very much, Willie and Enrique. As usual, if you could state your name and affiliation for the webcast, for the record, and I think Damian had his hand -- caught my eye first. I'll get you the mic.

Damian Brewer - *RBC - Analyst*

Damian Brewer from RBC. First of all, coming back, I guess also dividend related, you have some sizeable tax losses from Iberia you're not recognizing. What is the condition needed to recognize those, because obviously those could amplify at least the net cash generation as you get the tax shield and come into the dividend debate? So that's the first question.

Secondly, seems like you're accelerating quad replacement with twins at Iberia. Given we've heard other airlines talk about typically $15m to $20m per route benefit, is there scope to do a little bit more on the BA side as well, in terms of accelerating deliveries and getting rid of the 747s earlier?

And then, very finally, we've seen other parts of Oneworld hint at and make changes to their frequent flyer schemes, one would assume to potentially reduce the long-dated balance sheet liability and move them more towards a revenue based model. Is there any discussion underway at IAG or its airlines to look at something similar?

Enrique Dupuy - *International Consolidated Airlines AG - CFO*

Yes. We're giving a deep view to our tax losses and at the same time, in parallel, we're completing Iberia and the Group in general terms business plans for the next five years. What it's showing is the business plans will allow us, very probably, to recover some of the tax losses that we have not capitalized in the last couple of years.

That's how it looks like and it will be the decision, sorry, that I will be taking when we approve our business plans by October, probably. And then we will probably be able to announce them to you on our Capital Markets Day.

Willie Walsh - *International Consolidated Airlines AG - CEO*

In terms of fleet replacement for British Airways, the key issue there is access to the right aircraft. And you've seen we have ordered A350-1000s for BA because we see that as an excellent 747 replacement. Now, you could take the option of 777-300s today, but the problem is that aircraft is going to be rapidly overtaken by either the A350-1000 or the 777X.

So while there might be some short-term benefits, we've assessed that actually, while not the most efficient way of doing it in the short term, it is the most efficient thing to do in the long term, to wait for the right aircraft, and the right aircraft will be the 350-1000 or the 777X. So that's why we're sticking to the fleet plans that we have.

And in relation to frequent flyer program, yes, we've got an Avios program, as you know, a single brand that we use for our loyalty schemes. It's working very well. We're managing that with a new management team and a real key focus.

And I think the simple message there is there is a lot that we can do to manage our liability, while at the same time ensuring that we have a product that is attractive to our frequent flyers and attractive to partners who want to work with us. And we do have some excellent partners there and we see that we can expand that, which generates additional revenues for the Group.

So I think there's some opportunity for us and we are focused on that, and we might be able to talk a bit more about that at Capital Markets Day as well.

Andrew Barker - *International Consolidated Airlines AG - Head of IR*

I think we'll go to Jarrod next.

Jarrod Castle - *UBS - Analyst*

Good morning. It's Jarrod Castle from UBS. Just a little bit on the labor front, first of all. Has there been any take-up in terms of the Iberia 1,400 people, in terms of are people putting up their hands saying I'll take the package? And then also, any kind of indication in terms of what the cost will be for that program?

Secondly, is there any BA labor agreements which we need to, I guess, watch out for in the next two years?

And then, just lastly, given the reduction I guess in headcount in Iberia, how would you see capacity in 2015? Any views in terms of the magnitude of the change we could see? Thanks.

Willie Walsh - *International Consolidated Airlines AG - CEO*

Keith is here, so I'll ask him to talk about BA. We have a microphone there. I think the simple message in relation to the new agreement is the unions wouldn't have been seen to reach agreement with us if there wasn't an appetite. So there is an appetite for it. And Luis is confident that we can facilitate.

It is voluntary on both sides, but I think Luis and the team will be making every effort to facilitate those who do wish to take advantage of it. But we do believe that there is a strong appetite for this new voluntary redundancy scheme within Iberia.

Enrique Dupuy - *International Consolidated Airlines AG - CFO*

The costs, I think we -- it's not easy to make up (inaudible) because it's voluntary for both parties. So at the end of the day, there's going to be a fine tuning in terms of who is eligible, and the eligible people are going to be wanting to. Some very rough figures for the time being, it could have a cap in the range of EUR250m, and we're looking at paybacks which should be below the two-year type of trigger level.

Willie Walsh - *International Consolidated Airlines AG - CEO*

And the cash costs would be spread over a number of years. So this would be through to 2017. So you're looking at it spread over that period. And payback, as Enrique says, on average, somewhere in that two-year period. So we think this is an appropriate scheme for Iberia and allows us to access the improved productivity agreements that we've negotiated with the trade unions.

Enrique Dupuy - *International Consolidated Airlines AG - CFO*

Remember, most of it will be again early retirements, and those work out of Iberia balance sheet and on a very gradual basis. For example, for someone being eligible to retire, early retire at 58, there will be seven years of gradual payments. So that means these schemes will be friendly from a cash flow point of view.

Andrew Barker - *International Consolidated Airlines AG - Head of IR*

Keith?

Keith Williams - *International Consolidated Airlines AG - Executive Chairman of British Airways*

In terms of pay agreements, you said two years. Ironically, we're about 85% of the way through pay agreements for BA, which take us through to the end of 2015. So 85% of it is -- about 85% is agreed. We're just awaiting the outcome of remaining groups. So that's going well.

I think the challenge for BA, as you can see from the previous slides, is we've got ASK growth, and actually it's to make sure that we don't add labor at the same time as achieving that ASK growth. And that's very much in the forefront of our minds.

Last issue I would say is we're really pleased with the way that synergies are developing with IAG. And I think that gives scope for huge opportunity for British Airways to reduce its overhead costs over the next few years in terms of maximizing those Group synergies, and that will be a focus as well.

Willie Walsh - *International Consolidated Airlines AG - CEO*

We will outline the growth -- you asked a question about Iberia growth. We'll outline that at the Capital Markets, but there is -- our current business plan does have some ASK growth in 2015. But it's clear, based on the restructured cost base, that we can recover some flying that we had abandoned because we've got a much more efficient business. And moving beyond 2015, we'll also have a much more efficient fleet, which will enable us to look again.

So all of this we're looking at, and we'll disclose further detail of that. But I think there is clear growth opportunities for Iberia, and those growth opportunities will be enhanced by the new aircraft that we'll take delivery of in the years ahead.

Oliver Sleath - *Barclays Capital - Analyst*

Hi. It's Oliver Sleath from Barclays. Three questions, please. Firstly, on British Airways and the North Atlantic joint venture, could you talk about any opportunities there to maybe work more closely with the new American management team? And thinking about your capacity plans for this winter, is there a change there in how you're approaching that joint venture and the way that business is being run?

The second question, just with regard to the capacity cuts, does that provide any opportunity, particularly at BA, to slightly accelerate retirement plans, or is it simply a case of aircraft being on the ground for longer over the winter, given the timing?

And the final question, just about Iberia, obviously there's still a lot of momentum going through the costs with the -- with continuing benefits from the mediator agreement. At what point does that all roll off, the phase one benefits, and we then need to see the second round of headcount reductions? Thank you.

Willie Walsh - *International Consolidated Airlines AG - CEO*

I think the new management team at American, very, very closely aligned with our thinking and very keen to respond quickly to opportunities. So they made their announcement ahead of us, and they released their results last week and said that there would be adjustments to their capacity on the Transatlantic. I think they said they expected their joint venture partners to match that. But they knew exactly what we were thinking of.

So we've got a very good working relationship with the team, and I think our approach to capacity is very aligned. And you've seen excellent capacity discipline in the United States, and I think the industry there gets credit for it. We're demonstrating, I would say, equal if not better capacity discipline within IAG. And the opportunity for us is to ensure that we're trimming capacity in a coordinated way as we look at the demand going beyond the period that we're talking about today, 2014 into 2015. So, any opportunity that we see to trim capacity, we'll take that, and we'll take that in conjunction with our partners on the Transatlantic.

In terms of fleet, Keith, do you want to comment on your fleet retirement plan?

Keith Williams - *International Consolidated Airlines AG - Executive Chairman of British Airways*

Yes. As Willie said, if you look at most of the reductions over the winter, it's mainly tactical, so it's not route cancellation. We have cancelled routes where it's made no sense, particularly into Africa, in the past. But over the winter it's mainly tactical rather than route cancellation, so it doesn't directly lead to changes in the aircraft.

If you look at the 747, I think the great thing about the 747s at this point, and I think it's behind some of the questions today, is it gives us flexibility in terms of managing capacity. And I think that's a real bonus for us over the coming 12 months, two years and beyond, in the sense that we can grow. We're currently getting to a hiatus in terms of the fleet replacement. We've reached the end of the 777-300 program. We've still got a few A380s to come, and we're getting the last of the 787-8s.

So we've got a little bit of a hiatus in terms of aircraft coming in on the long haul. On the short haul, we've still got a steady flow-through of replacement A320s. But I think what the 747 gives us is that huge flexibility to manage capacity going forward.

Willie Walsh - *International Consolidated Airlines AG - CEO*

Thanks. And in relation to Iberia, Luis, I don't know if you want to comment, but what's clear is we got very immediate benefit from implementing the mediator's plan because we were able to reduce salaries. And the focus, I would say probably up to the end of the first quarter of this year, has been on getting costs out, ensuring that that mediator's plan was implemented, because it enabled to reduce, structurally, our cost base.

We also know that there are some revenue opportunities for us. Enrique pointed to the RASK development in Iberia in the second quarter, minus 3.5%, impacted by foreign exchange. But Luis has brought in a new team to look at his revenue management. They're in place, Luis, about a month now, I suppose?

Luis Gallego Martin - *International Consolidated Airlines AG - Chairman and CEO, Iberia*

Yes.

Willie Walsh - *International Consolidated Airlines AG - CEO*

If you've got a microphone, maybe you can -- so there's a lot of work going on in Iberia, all of it initially focused on costs, because clearly that was where we got the best benefit.

But there's equal focus now on revenue. But accessing the opportunity that the new agreements give us does require us to be able to facilitate people to leave the business, because that productivity just generates a surplus of people that won't be utilized to grow the business. So that's why it was important that we reached that agreement with the trade unions on the new voluntary redundancy scheme.

Luis Gallego Martin - *International Consolidated Airlines AG - Chairman and CEO, Iberia*

Yes. As Willie has said, we are working in the cost side, but also we are developing, in the future plan of Iberia, a lot of initiatives to improve the RASK of the Company. So one month ago, we have changed the structure of the management team. We are developing a new plan in order to achieve all the advantages that we have in the future plan. So I think very soon we will see an improvement in the RASK because of all these type of things we are doing right now.

Willie Walsh - *International Consolidated Airlines AG - CEO*

Alexia.

Alexia Dogani - *Goldman Sachs - Analyst*

Thanks. It's Alexia Dogani from Goldman Sachs. I just have two questions, please. Just firstly, can you talk a bit more about European capacity growth over the quarter and whether it was BA or Iberia driven, and subsequent to that, whether you are planning to adjust capacity in that market during the winter schedule?

And then just my second question is, Willie, you talked about flexibility within the model that differentiates you versus competition and versus a decade ago. What do you think are the main key components of that additional flexibility? Thanks.

Willie Walsh - *International Consolidated Airlines AG - CEO*

Okay. It's important to point out, in terms of the European capacity, a lot of it was Vueling as well. So it wasn't just a BA and Iberia issue.

I think when we look at the environment, it would be wrong if you came away from here today and said, God, IAG thinks it's a really nice and easy environment out there. It's not. It's a good environment. It's better than it was. It's not as good as maybe everybody expected it to be at this stage, and I think that's reflected in the fact that a number of our competitors have been somewhat down about the environment in which they're operating.

I think our view going into the year was that we would see some economic growth and that would improve the environment and therefore planned capacity based on that, but we said right from the beginning that if it didn't develop the way we felt it would we would be flexible about reducing -- and the word we used, we said reducing capacity all the time. We didn't say adjusting capacity, which would sort of indicate that you might put it up as well. Our view was it was always likely to be a reduction in capacity.

And therefore, we wanted to ensure that any capacity that we're putting in or planning to put in, we had the flexibility to take it out. That relates to fleet. So you've heard Keith talk about the fleet flexibility that he has within British Airways. Well, we're all the time looking at our short-haul fleet in particular, where we have operating leased aircraft and some owned aircraft, all the time looking at it from a Group point of view to ensure that we can remove aircraft from the operating fleets quickly if we need to do that. And that's, I think, one of the key advantages we have.

Going forward, for example, we have now agreed a common specification for our A320 aircraft. So we've looked at -- those of you who are familiar with buying aircraft, you don't go in and just buy a single model. The manufacturer makes a lot of money by trying to convince you to modify the basic products. And when we looked at our aircraft specification, it was very different in BA to Iberia, to Vueling, and we challenged every different specification.

And what we were able to do actually was remove a lot of stuff that we had had on our aircraft, simply because we always had it there. So we started with can we remove it, is it necessary; simple things that you may not see. Jumps seats in the cockpit, you can have one or two. Typically, the people sitting in those seats don't pay. So we now only have one jump seat in the cockpit. That's all you need. That removes cost and it removes weight, and the reduction in weight leads to improved fuel efficiency.

So we're all the time looking at this flexibility and looking to ensure that we have flexibility across the Group, where it might make sense to move aircraft from one to the other. It then comes down to labor flexibility, and we've been working to ensure that we have a good mix of work that's done internally and externally. And you'll see further development of that, which we'll talk about in November.

So it is designed to enable us to quickly respond with reductions in capacity where it makes sense. So it's flexible labor agreements or more flexible labor agreements than we've had, flexibility around the fleet, flexibility around the contracts that we have with suppliers. And more importantly, I think it's the speed to react and the willingness to react. So we don't get hung up about starting something and then saying it didn't work and stopping it. And it's having that attitude within the business is important as well.

Enrique Dupuy - *International Consolidated Airlines AG - CFO*

Yes, exactly. So it's this ability to react and this willingness to react which probably would be making the difference. For example, in the case of Vueling, we are authorizing a new aircraft for Vueling, but the basis is they can get rid of these additional aircraft and their crews in a 12-month period if required. So that's the type of messaging that we are passing through.

When Keith was talking about our ability to adjust, I would say, the operations through the 747s, the 747 is the perfect example because the amount of variable costs that we have behind them and the reduced, I would say, fixed costs because they are fully depreciated, not fully but 90% depreciated, allows us to play them in a very, very efficient way. For Iberia, the fleet are on an operating lease basis.

So the way those aircraft are going to be expiring through the next 24 months allow us huge ability, huge possibilities to react and to adjust and to increase or reduce on a very type of aggressive and quick way. I think that's going to be making the difference.

Willie Walsh - *International Consolidated Airlines AG - CEO*

That's what gives us confidence about the change in the business going forward into the future, that we will have greater flexibility and greater flexibility will lead to greater discipline around capacity. And I think we've watched carefully what others have done, and we're very clear that that flexibility is going to be one of the key success factors and we want to secure as much of that as possible.

So, short term, we're exercising it. Longer term, we're making sure, structurally, we have greater opportunity to exercise that.

Andrew Barker - *International Consolidated Airlines AG - Head of IR*

To Neil here.

Neil Glynn - *Credit Suisse - Analyst*

Neil Glynn from Credit Suisse. If I could first ask a question really with respect to British Airways, we've obviously heard from Lufthansa and Air France-KLM, who are very transfer oriented models. What has the BA experience of transfer traffic been, given competition and I guess also the weak euro? How volatile has it been?

The second question, with respect to the next 18 months, you've clearly protected pricing, as you said you would, through the summer on a high-capacity growth rate. But the capacity growth rate moderates for you as well as I guess hopefully the industry next year. You've still got a fuel bill tailwind. Do you get emboldened in terms of how you can grow the margin next year, given your experience this year?

And then one final question on Vueling. You mentioned the surgical approach to capacity management, which clearly is very rational. But certainly my thought about Vueling is there's some work to do to improve its brand across Europe, the broader customer awareness. You may or may not agree. But does that impact Vueling's ability to actually build its brand, particularly in the summer, if you're cutting capacity at reasonably short notice?

Willie Walsh - *International Consolidated Airlines AG - CEO*

I'll deal with the Vueling. It's a pity Alex isn't here. He's going to hate the comments I make in relation to this. I think Keith can comment on this, but I've looked at the transfer -- percentage of transfer traffic in BA. It hasn't changed much. So it is one of the advantages that British Airways has over some of our competitors, in that it is not as heavily dependent on transfer traffic.

And we talked about it before. We can turn it on or turn it off, and we're very conscious of the yield associated with that. In the past, we switched on transfer to take advantage of a strong euro, but clearly you would expect us not to be fishing in that pool at this time because it wouldn't be sensible for us to do.

So it remains -- there's no structural change to it, Keith, and BA continues to approach it in that way. It will -- it does need transfer traffic, and some of that is transferring traffic from our own business to our own business, but we also get transfers from some of our competitors as well.

I'm not emboldened about next year. I think the message I would give you is we believe that we've taken the right measures to ensure that we hit the targets that we set for this year, in an environment that is different to what we expected to see. Next year, we believe we will hit the target that we set in an environment that is different, and we'll hit it in ways that are different than we had mapped out.

So the growth is not going to be as strong, but we'll adjust other issues to ensure that we still get the same margin that we had and the same operating profit that we had set out to get. And we're all the time doing that. And great credit to the guys running the airlines, that they've ensured that we have that flexibility.

So the cost performance to date I think has been very good. So, as I said earlier, the external environment is no better for us than it is for anybody else. I think where we're slightly different is that we're a bit more optimistic, because of our experience and because of what we've achieved. And because of what we believe we can do going forward, we're more optimistic that we can hit the targets based on adjusting our capacity and adjusting our cost.

In relation to Vueling, I've said from the very beginning to Alex that I don't think the Vueling brand -- the fact that most people don't know how to pronounce it. But I'm not a branding expert and so I'm the wrong person. We do, fortunately, have branding experts who restrain me when it comes to this debate, because Alex will tell you that it is an excellent brand in a lot of markets.

Now, it may not have the brand recognition in Ireland, where it doesn't fly. And I've done some interviews on Irish radio where the poor reporters can't pronounce the name, therefore are embarrassed to ask me questions about it. But that in itself I suppose gives me an opportunity to raise some awareness.

So Alex would be very strong, that this is a strong pan-European brand and is not in any way inhibiting him. And it's particularly a strong brand in Italy, where we have the advantage, as I said before, that Alex speaks Italian. So Michael is now soft and cuddly. We've got an even softer and cuddlier guy who can get the message across in their language as well.

So we'll continue to work on it. But if Alex was here, he would defend that brand very strongly. And I think, to be fair to him, the results do speak out. He continues to deliver and he continues to resist any effort on the part of us heathens that don't understand branding to (multiple speakers).

Enrique Dupuy - *International Consolidated Airlines AG - CFO*

Any of the efforts that we regularly do.

Andrew Barker - *International Consolidated Airlines AG - Head of IR*

Go to the back, to Andrew.

Andrew Light - *Citigroup - Analyst*

Thanks. Andrew Light, Citigroup. Yes, I particularly like the International Consolidated Airlines Group branding. First of all, are you seeing any market share impacts from the revival of Virgin and Delta on the North Atlantic? And if not, who do you think they're taking market share from, because they seem quite upbeat?

And secondly, on premium traffic, it feels like it's running at a rate around 4%, 5%. Do you think that rate's sustainable, because it does feel also like certainly BA long haul is probably at a peak or at an all-time high at the moment?

Willie Walsh - *International Consolidated Airlines AG - CEO*

To be honest, we're not seeing any change in the market share to Virgin or Delta. It is an improved competitor, as we've said all along. I think the loser in the battle is United, who we've identified previously.

If you look at the standing of the US carriers, United is the one that appears to be struggling to get the message across and deliver on the merger benefits that the market expected. So I think the American brand and the Delta brand are definitely stronger brands in the US and stronger brands internationally, and that's why we mentioned that we benefit from having a strong partner on the Transatlantic joint business.

So we're all the time competing, but I listened to what Richard Anderson said. He talked about being the most disciplined in relation to capacity, and I think he mentioned disciplined capacity 190, what was it, 40 times?

Andrew Barker - *International Consolidated Airlines AG - Head of IR*

38 times.

Willie Walsh - *International Consolidated Airlines AG - CEO*

There you go. So I expect, given that he's mentioned it probably more often than I have, that they're going to continue to demonstrate good discipline, as they have been demonstrating good discipline on the Transatlantic. So it's a stronger competitor, a better competitor, and we have to raise our game to recognize that they are stronger and better. But I think we're leaving United in our wake, to be honest.

And I don't know, Keith, do you want to add anything to that?

Keith Williams - *International Consolidated Airlines AG - Executive Chairman of British Airways*

No. I think the only thing I'd add is really pleased with Transatlantic performance, because as you know, we added quite a lot of capacity for the summer and we're not losing market share, so I think we're in a really strong position there.

Willie Walsh - *International Consolidated Airlines AG - CEO*

On premium traffic, one of the things that has surprised us has been we've seen some growth on the short-haul premium. Now, I still think, structurally, it's never going to be where it is, but it has been a little bit better than we had expected. So, there might well be some potential upside there. I think it's small and it's not going to make a real difference to any of the margins that we've talked about.

But we are looking at potentially reconfiguring some of our aircraft to add additional premium capacity. So we've done this before, as you know, when we modified a number of our 747s from what we called a low-J configuration, 38 seats to 52 seats. So today, we have 747s with 70 business class seats or 52 seats.

We are considering whether we can add capacity on some of those -- premium capacity, premium seating on some of those 747s, which is relatively easy for us to do. And that would enable us to ensure that we've got sufficient capacity to take advantage of growth in some markets where there continues to be good premium growth.

Keith Williams - *International Consolidated Airlines AG - Executive Chairman of British Airways*

Yes. The only thing I'd add is it's actually a pretty good cost way of doing it, because as you retire the older 747s, obviously you've got the seats coming off the older 747s that you can actually pick certain routes that will demand more premium traffic and add more premium seats, effectively at little or no cost.

Willie Walsh - *International Consolidated Airlines AG - CEO*

Yes. So the -- and it goes to that flexibility that we have again. So we think there is a case actually to maybe add some premium capacity where we're topping out on capacity on some routes. It's not even across the globe, but there are definitely some areas, and principally on the Transatlantic, where the demand continues to be good.

Andrew Barker - *International Consolidated Airlines AG - Head of IR*

I think we've got time for one or two more, but who'd like to go?

Wenchang Ma - *JPMorgan - Analyst*

Hi. Good morning. It's Wenchang Ma from JPMorgan. Three questions, please, very quick ones. First of all, a follow-up on Virgin and Delta, could you share with us some thoughts on how you see the potential development of the fundamentals at Heathrow, given the wake of Delta now having more influence over there?

And the second question, on potential of used aircraft, so looking at the planned retirement in the next several years, we're probably likely going to see a surge of the 10 to 12 year old A320s. And given that all three entities are quite familiar with that aircraft type, do you view that as a potential opportunity to further increase your return on invested capital?

And the last question is on insurance cost. So given that it's a difficult year for the insurers due to the significant number of global losses, do you think there is any exposure to this regard, or shall we not take too much of a consideration on that line? Thank you.

Willie Walsh - *International Consolidated Airlines AG - CEO*

Do you want to talk about it?

Enrique Dupuy - *International Consolidated Airlines AG - CFO*

Yes. Used aircraft versus new aircraft, that's opportunities that we are regarding every day. So, very recently we have been going through these type of decisions for British Airways and Iberia. We have on one side the new Group based NEO contract on the A320 family aircraft, but that will be coming beyond, I would say, year 2018.

We have a CEO, new NEO contract, also very efficient, basically based on Vueling, but they have options for the Group as well. So that establishes the second reference that we are using, so old generation but new aircraft. And we are also extending aircraft leases that we have been using.

So we have the three references and we have a curve of efficiency that we are using every time. So we really try to get the best length, the best type of opportunities in each of the three markets, and we will keep on being present in the three of them. So we know, and you are very right about it, there's going to be significant opportunities for short-term leases of old CEO's and we are going to have opportunities to jump on them.

On the insurance, it's a little bit too early to say. So we have received some messages that of course these extra losses will have to be settled through additional premiums, although I suppose today the significance of the War on Terrorism premiums on our total insurance policy is very low. So even if it gets to a big jump, I think it's not exactly the time to get very worried about it, but we'll see in two or three months.

Willie Walsh - *International Consolidated Airlines AG - CEO*

And on Virgin-Delta, I really don't see any change beyond what we've already witnessed and talked about. I still don't believe that there will be any new slots created at Heathrow. I hold the view that we won't see runway expansion at Heathrow, despite all of the debate that's going on at the moment. And given that there are no new slots being created, there is a limit to what can be done.

What we have seen is Delta taking capacity out of -- sorry, Virgin taking capacity out of some other parts of their network and putting that on the Transatlantic, driven by the decision of Richard Anderson at Delta. But what we get there is some increased competition on the Transatlantic, where there's good growth, but reduced competition in other parts of the network.

So, overall, we don't see the environment changing in any significant way. I still hold the view that Delta, as an owner of Virgin, is probably the best owner you could imagine for that because Delta's a very, very rational company who want to make money and are quite open about their desire to do that, and we see very rational behavior from them. So a strong competitor, and we'll keep competing with them and we'll keep raising our game to ensure that we've got a customer proposition that is better than theirs.

Keith Williams - *International Consolidated Airlines AG - Executive Chairman of British Airways*

Beating them.

Willie Walsh - *International Consolidated Airlines AG - CEO*

Yes. And that's where we are today. The Virgin short-haul operation is as red as it always was. They've got their seat factor up to 47%, and congratulations to them for that. But those slots can't be used for long-haul growth, so they're earmarked for the specific routes. And even longer term, they're earmarked for short-haul flying only. That's what the remedy said. So there are no easy opportunities for Delta-Virgin to change the landscape at Heathrow.

Andrew Barker - *International Consolidated Airlines AG - Head of IR*

Just one very quick final question from Anand, if you could keep it quick. Thanks.

Anand Date - *Deutsche Bank - Analyst*

Luckily it's quite a quick one. It's just on the JVs. I was just wondering, what are the hurdles or why wouldn't you, particularly on a Transatlantic one, look to reconcile at the EBIT level, like the SkyTeam JV?

And I've just -- just for Lufthansa as well, they're getting a bit closer to China. Are there any other agreements or any other conversations you're having that you can talk about?

Willie Walsh - *International Consolidated Airlines AG - CEO*

On the JV, we've had experience of having various different types of JVs. With Qantas, we tried everything; profit share, revenue share, adjusted revenue, adjusted profit. The issue here is that the cost structures are different, and we believe it's better that the individual airlines manage their costs and don't try and get confused by trying to manage somebody else's costs.

So the structure of our joint venture I believe works for us. That's not to say we wouldn't be prepared to change it, if we saw opportunity to change it and if there was equal desire on the part of the partners in the joint venture. But we've gone through probably every type of JV you could have with Qantas, and at the end of the day there is no simple answer to it. And it changes from time to time.

In relation to --

Enrique Dupuy - *International Consolidated Airlines AG - CFO*

Yes. But simplicity brings some values that in this case they have been, I would say, very, very significant. So getting into more complex structures, it begins bringing so much complexity that at the end of the day you cannot be sure that you're taking the right decisions.

Willie Walsh - *International Consolidated Airlines AG - CEO*

In relation to other joint ventures, we haven't got any specific proposals at this stage. We're pleased with the ones that we have. The one with JAL is working very well. As Enrique mentioned, we've put a lot of capacity into Tokyo, principally into Haneda, which is actually performing really well for us now. We've been able to change our slot times there, which has made a big difference.

I think there may well be potential for some JVs on the cargo side, and that's something that Steve looks at, Steve Gunning is looking at. We haven't probably investigated opportunities on the cargo side of the business as much as we have on the passenger side of the business. But we've taken great confidence out of the early days of operation with Qatar on the cargo arrangement we have there. So that might be something that we will look at, but otherwise there's nothing of any significance that we're working on.

Andrew Barker - *International Consolidated Airlines AG - Head of IR*

Okay. I think we'd better finish it there. Thank you very much for coming and thanks for your questions. Thank you.
