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IAG.L - Full Year 2014 International Consolidated Airlines Group SA Earnings Call

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PRESENTATION

Antonio Vazquez - *International Consolidated Airlines Group SA - Chairman*

Good morning, ladies and gentlemen. It's a real pleasure this Friday morning, sunny day, good numbers. So it seems to have happened everything is fine today. Be very welcome and we're very happy that you have been kind enough to attend this results presentation.

We had a very long Board meeting yesterday and we were analyzing the different items of the results and formulating the accounts and so and so. And I want to share with you today the satisfaction from the side of the Board of Directors of the Company with the exceptional work done by the management. It's you who has to qualify, but we did quality already. And the exceptional work made by the management along 2014 and to come out with the numbers that we have in front of us today. We want to evaluate not only -- we wanted to evaluate yesterday and to share with you today not only the success of the numbers but the effort, the mood, the ability and the work put by the management along all this time.

The three operational entities working well. Cargo business doing well and the exceptional turnaround of Iberia, the splendid reality of British Airways today, the flexible growth of Vueling, I think it's giving us, enhancing us very much, to go ahead with the sense that we have a wonderful foundation today for this 2015, which is the target year.

So I leave you with the presentation. And thank you very much for coming.

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

Good morning, everybody. We are here today, another year, to present what we should be probably qualifying as a strong performance year, year 2014. Remember at the beginning of the year our basic messages were about we should be improving last year results at an operating profit level by EUR500m. We closed EUR770m, so we were signaling the market we were going to be around EUR1,270m. By the month of November and after a positive, strong result of the first three quarters of the year, we told you that we were going to increase slightly our expectations for full-year operating results. The bracket there when -- beginning of November was between EUR550m and EUR600m. So we're bringing today EUR1,390m, which is EUR620m better than last year. So, slightly above the top end of our recent expectations. And this is of course a matter of satisfaction for the management.

What are the keys behind this strong performance? So in a way IAG has been decoupling -- will be decoupling in the future more and more from some of our main competitors in terms of performance. Why? Why? So probably here, unit revenue performance. And that has been one of our big bets this year. We were telling the market from the beginning of the year we were going to be close to a flattish performance, and we have been able to make it. And we've been able to make it managing a significant capacity increase, which was a result of concentration of deliveries mostly in the case of British Airways and a big expansion, planned expansion in the case of Vueling. So it's about 9.3% in terms of base case for the whole Group and 5.3% if we carve out Vueling.

And with that level of growth we've been able to sustain our unit revenues on a flat type of performance. This is because of capacity management and leadership on our main strategic markets. So our companies are more and more leaders in the main strategic markets each year. It's very important, and that's a difference.

Second one, of course, is ex-fuel and fuel. Ex-fuel, manageable unit cost performance. Constant-currency basis, minus 4%. This is a very significant figure. Probably is one of the best figures that you can record in the whole industry for this year.

So it has to do a lot with Iberia, we know. The restructuring of Iberia has been achieving its goals, even improving its goals in terms of productivity, in terms of labor cost reduction, in terms of other suppliers' cost reduction. Very impressive.

For British Airways, again, we've been talking about the model of efficient growth through the new slots that we have available in Heathrow, through the new aircraft that we have been delivering and we're now in -- putting in operation. So that's another good story.

For Vueling it's about investing in their growth. And that's -- that has been the big challenge for year 2014. It will be again a big challenge for year 2015. And the merit is to be able to still have the best operating profit margin, as you will see for the Group, even through a 24% capacity increase for the year.

EBIT of Q4. Q4 again shows an operating profit which is positive, EUR260m. Remember, Q4 is not an exceptional season. It's again entering into a low-season period. And it has been EUR147m better than last year, which shows that the cruise speed of improvement for the Group has been maintained through Q4. And that's again because of very significant cost improvements, minus 4.1% constant ForEx terms. In this quarter the improvement coming from lower fuel oil is very significant. And the rest, the ex-fuel unit costs have also had a negative performance for the quarter, even on a lower growth season.

On the passenger unit revenue side, we've been driving back our growth and reallocating efficiently our capacity to be able to sustain still a near-to-flat unit revenue performance for the Group on what I would still be calling as a not-very-strong season in Q4.

And this is trying to understand where our improvements in the last quarter have been coming from. So we have been reporting these EUR147m. These EUR147m has tailwinds from one-offs, headwinds from ForEx, and we would correct these two impacts. The like-for-like improvement will be getting to EUR131m. And EUR131m is coming basically from strong performance in terms of passenger revenues, of course. The volume positive impact is absolutely very substantial, with a very small deterioration in price/mix, which is the unit revenue small reduction that I was mentioning in the previous page.

From the point of view of the cost, of course, very significant improvement of fuel cost, basically on the price element. Very significant. And of course, significant improvement in the price element of both employee cost and supplier cost, of course having to record the negative impact in cost, having to do with volume, having to do with more capacity.

But it's curious that just taking into account these two elements of price increase on manageable areas of our business and talk a little bit about the one-offs behind this negative performance in ownership cost, with these positive elements of improvements, manageable improvements, we've been able to offset the negative impact of slightly lower unit revenues.

Let's get a little bit further into the core performance for this fourth quarter of the year. So as you see, we report a negative 4.3%, and that's because of dollar strength. That's because pure FX negative impact. So if we carve out that negative FX impact, we get to the minus 0.8%.

And the minus 0.8% is basically around employee costs, which are flattish in British Airways. In fact, they are slightly negative. But we have included in this performance for the last quarter some restructuring costs in British Airways which we have considered not material enough to be jumping into the exceptional column. So they are basically a positive performance in the case of British Airways with this bit of restructuring cost there.

Iberia still, I would say, leading the way in terms of employee costs. And that's reaping the benefits of the additional productivity and lower salaries as we got on the mediation agreement. Remember, and that's something we are going to be talking afterwards, in I think it was July 2014, Iberia management was closing with the unions what we were calling the second wave of labor management improvements in Iberia. The so-called plan de futuro. That will be creating additional opportunities through year 2015, 2016 especially and 2017 in terms of productivity improvements and in terms of unit labor cost coming down again.

On the rest of the supplier side, we basically are seeing improvements in price, both in catering and landing fees, and also in terms of engineering, with some exceptions that we are going to be mentioning. So good supply side management in both handling contracts, third-party handling contracts, in catering, and that's having to do with how we manage now on a common IAG procurement effort these contracts. And also in airport fees, especially Vueling has reached some very interesting deals with AENA in terms of the new opening of new routes and new destinations.

So it's about all good news in this respect. And we have some one-offs in the case of engineering costs, which have to do with inventory impairment one-off costs having been done in the case of Iberia on old spare parts and the clean-up of inventories. So this is basically a one-off cost that will not be repeated into next year.

Other improvements have to do with other selling and marketing cost as well, and some reclassifications. And let's mention a little bit of the depreciation element. Of course, depreciation has a general increased trend, having to do with a new fleet that has been delivered in British Airways, Iberia and Vueling. And that's a regular pattern of increase that of course is more than offset through reductions in fuel costs.

But on top of that one, we've had, as we've been telling you in the last quarters, this year the negative impact of an acceleration of our 747 fleet depreciation schemes. And this is done through a reduction in the residual value that we are going to be considering for that fleet. So through the year we've been, on a quarterly basis, overcharging our depreciation costs by EUR20m. So for the full year we have an overcharge of EUR80m in terms of additional depreciation of 747 fleet. That's not going to be coming again through year 2015.

Finally, Vueling employee costs have a spike in Q4, and this is having to do, as we'll explain a little bit afterwards, because of the new bargaining contract been, I would say, concentrate its efforts in terms of costs in the last quarter of the year. So we will be returning to a more regular pattern in the year 2015 again.

Fuel. Fuel is a difficult matter for everybody to follow, monitor and predict. And that's why we are bringing you help in this respect, more data and more explanations. So how to understand this chart, this chart I'll show. These levels are the levels of jet fuel price after hedging we had last year, year 2014. And this is the level that we are going to be expecting to have this year after hedging at a spot price which, for this example, is more or less the actual one today, $600 per metric ton of kerosene. So in terms of dollars unit price, we'll be expecting significant reductions, 15%, 17%, 21%, 21%. So as an average on top of 18%, but that's the dollar account.

At the same time you acknowledge, we all know that the dollar has been, I would say, reevaluating itself against the sterling and the euro. And that has brought a negative impact in the fuel account as well because fuel is paid in dollars. So if we just introduce that dollar impact on these dollar savings, of course, in euro terms, the way the price is going to be evolving is much milder. So a minus 1% in the first quarter, even a plus 2% in the second quarter, and then minus 5% and minus 12%. So as a whole, around minus 4.3%. That's the price element combining fuel and dollar.

On top of this element of improvement, we have the operational one. And we have the one related to the new fleet that we are operating. That's been very significant, even through year 2014, again in year 2015. If we can mention a figure, it would be maybe around 2% of additional improvement, technical improvement, having to do with new fleet, new operations.

So capacity. Capacity I know has been a concern for everybody in the marketplace because we all know capacity is a source of potential risk for the business and we have to be very careful in managing capacity in a way it creates value for shareholders. And that's not evident always. So this year we're basically returning to patterns of capacity growth that are more usual in the industry and in British Airways, for example, in the past.

So of course we still have Vueling. Vueling is a growth tool for the Group. Vueling is a company that will be still expanding its operations. And we are expecting a global growth for the year of a little bit on top of 16%. For the first quarter it will be around 19%.

We're also having an exception on Iberia. And Iberia is about restoring and recapturing markets with a cost structure that now allows them to just come back into those markets on making profits. And that's basically the exercise that we will explain a little bit more is doing Iberia this year. It's restoring their presence in their main strategic markets and aiming to improve their operating profits and their operating margins both. So it's capacity increase, value creation and an operating margin improvement at the same time.

For British Airways, the figures are more a type of secular trend ones, 2.7%, 2.6% for the full year. And you have to put these growth figures in the context of the GDP growth that we are foreseeing on the main strategic markets that British Airways is operating. So 2.6% against a growth in the US, which could be more than 3%, maybe more than 3%. A growth in UK that could be more than 2.5% maybe, so makes a lot of sense.

How -- a little bit more flavor on how that growth is going to be implemented. So for British Airways, it's about new routes. And this time we are considering just new route, Austin. So the full-year impact of Austin is going to bring more capacity. It's about, of course, clean-up and discontinue some routes with some difficulties. You know about some Ebola routes that we have been discontinuing. These are very interesting combined moves and has very much to do with the new densification of short-haul aircraft for British Airways. So that's bringing more capacity in terms of seats per plane and it's also bringing a shorter stage length because the growth in the short haul is going to be bigger than the average.

Frequency. We are seeing also some frequency improvement increases in the case of British Airways. Basically Tokyo. Tokyo is making good money and very positive. And we are, I would say, taking the benefit of expanding our London to Sao Paolo operations as well. So that's the story for British Airways, probably the more of a boring story, but a positive boring story, I would say.

For Iberia, it's a restoration, as I was trying to explain. And the restoration has both impacts on the long-haul network of the Company and the feeding short haul. So in the long haul it's about, as we have been saying, Santo Domingo, Montevideo, Havana will be coming. That's for the long haul. And for the feeding short-haul network, it's going to be about coming back to old very well-known cities as Amsterdam or Stockholm or Istanbul. So that's the story of Iberia. And I reinforce that this growth will allow them to make more money and better margins.

For Vueling, it's about continuing with their strong growth, opening new routes, but basically around Rome again, about consolidating the Rome base for Vueling as one above the critical mass, and then frequency improvements, basically in the area of Paris, Barcelona and Madrid. So this is a little bit of the story about how we are going to be implementing the capacity expansion this year.

And this is about how the fourth quarter was showing in terms of capacity growth, unit revenue performance by the different markets. So again, a very good news around North Atlantic traffic again. So this is showing that the way we have been playing with our leadership tools, our JBA, our presence in the market, our brand is being extremely efficient, with a growth of 3.4%, we've been achieving an improvement in unit revenues of 3.1%. On a season, again that's not especially a type of booming one.

Second good news is about domestic markets. And here we have domestic market of England, domestic market of Spain, domestic market of Italy. And we have had also on those a strong performance. In the case of British Airways, it's a rebalancing of capacity on the market. In the case of Spain, it's a little bit more of happiness in the demand side. So we're beginning to note that the economy in Spain is turning around, is growing strongly. We're forecasting growth of between 2.5%, 2.8% this year, 2015. So good news again on the domestic.

Europe is good news again. So 11.5% growth consistent with a minus 3% in terms of unit revenues is good news. Why? Because there is a very significant mix effect in these unit revenues. Mix effect having to do with Vueling, a very type of efficient tool, lower unit revenue base, and also in terms of Iberia Express, our second very powerful tool on this low-cost arena. So again, Iberia Express, very efficient, lower unit revenue base. Those too have been dragging the mix down. But we are comfortable the way European traffic and demand are performing in the fourth quarter.

Asia Pacific, again significant growth and with a slightly lower performance in terms of unit revenues, minus 2.5%. It is again, if we compare it with these capacity increases, a very meritable figure. And we're still having a strong performance there in destinations as Tokyo, as I was mentioning.

A little bit more troubles around Africa/Middle East and South Asia. We have been cutting capacity there. You know basically the issue is around Ebola routes and oil routes. So that's where we are seeing more weakness, Ebola with Eastern Africa, some oil routes, typical oil routes, and raw material-related routes. This is Angola. It's Nigeria. It's South Africa. And basically that's why it's causing us a decrease in unit revenues. But as a whole we're managing efficiently capacity in a way we are minimizing these impacts.

Latin America. Latin America is strong growth and it's a weak performance in terms of revenues, we have to say. There is something that we need to mention. 40% of this negative unit revenue performance is Venezuela. So Venezuela last year had a very strong fourth quarter. It was an inflationary type of environment in terms of the price tickets for airlines. And of course, this year Iberia has been reallocating very significantly capacity out of Venezuela. So nearly half of this minus 6.4% has to do with a specific impact, negative impact in Venezuela that's going to be, in some way, diluted on the cruise speed of the next quarters.

So if we get to our products, I think this -- I was telling this is a very boring chart. So probably it had to be boring. But I think it's a little bit too boring, Andrew. So this is about long-haul premium/non-premium traffic being stable, being basically getting to their targets in terms of where we thought they were going to be.

British Airways short haul, again, as we expected, neutral or even slightly positive. Iberia. Iberia had here a negative impact coming from basically growth, growth, restoring growth. Probably the month of November was a little bit weak. There was a coming back to normality in the month of December. And Vueling, you see, had a strong quarter, a strong quarter in terms of unit revenues. So as a whole, it's a quite stable, peaceful management environment in the sense of how and where the revenues are going.

There is an exceptional one-off accounting issue. Well, it's not accounting. It's more of a business issue having to do with, again, how we record cargo revenues. Remember, we've been doing through the year, beginning of the second quarter, a drastic change in the way we drive our business, our cargo business. We have discontinued freighter. We have created new alliances, new agreements with Qatar. And in terms of balance of revenues, that has created a shortfall. In terms of contribution to the business, to our operating profit, it has been fabulous. It has been well above our expectations. Cargo contribution has been maybe EUR20m better than we thought.

So this is a little bit of flavor of how the three companies are showing their -- basically their operating margins and results. So for British Airways, GBP975m, GBP324m better than last year. The rate of improvement is huge, so it would be probably in the range of 80 or more. Operating margin climbing 2.6 percentage points up to, I would say, 8.3%. If we adjust it, it would be 8.5%. And then again, significant improvements in terms of CASK, CASK ex-fuel, and this is very important, employee cost per ASK. So that's again where we are showing that labor cost management in British Airways is being, I would say, very well-driven.

In the case of Iberia, again I would say the figures are absolutely impressive. So we are talking about EUR216m improvement against last year. Remember it was EUR166m negative, I think I remember, as the operating loss last year. And then coming back to the EUR50m positive. We were messaging the market. We were guiding the improvement in Iberia for this year to the better-than-breakeven level. So I think this is more than better than breakeven. This is a material operating profit improvement.

And of course, it has to do with these issues. So CASK, CASK ex-fuel, you see employee cost per ASK, it's just incredible. So this is again one of the sources, one of the key levers that we have been using to improve the profits of the Group.

So for Vueling, for Vueling it has been a year of growth. It has been a year of investment in the new routes. It has been a year of consolidating of labor relations through a new stable labor contract. So in terms of operating margin, they're still having the higher figure of operating margin of the whole Group. And this is probably very high figure, even if we compare it with the average of their competitors.

So what we are seeing here is this negative impact that will be getting diluted through time of the way the new bargaining agreement works. So the new bargaining agreement has a step up in terms of salary on the first year and then pure inflation for year two and year three. So in the first year we are recognizing in a way part of the global increases that are going to be affecting labor in the next three years. And that's why it's showing an abnormal figure, initial figure for the first 12 months. This is something that we are going to be seeing again in the first months of year 2015 as well.

There is also, behind these figures, the effort of the implementation of the expansion in basically Italy, a little bit of Brussels again. And that has meant, I would say, undertaking a very flexible approach. So Vueling is basically using pilots that are contracted in Spain for their Italian expansion. That provides huge flexibility in terms of reallocating those pilots in the future if we need to. But it's something that we'll be probably migrating to a more stable local contract in the future as soon as the bases are consolidated from the business point of view.

So exceptional items. Again, this is this year a very long and very intense set of figures. And we want to have a little bit more of time to explain you how we've been building up this column of exceptionals. Most of them have to do with the implementation of the Iberia restructuring exercise and then of the success that we're achieving in terms of the business plans that we'll be able to implement in the future and the demonstration that the value that we'll be creating in the future allows us to unwind some of the accounting type of charges that was in the past.

So, first one has to do with the new plan de futuro agreement that Iberia has been reaching, closed in July, allowing Iberia to reduce their workforce, improving productivity through 2016, 2017 in a very substantial way, EUR260m. So that's a good investment. Returns are probably be below two years.

Reversal of Iberia brand impairment. So we -- when the crisis of Iberia went through, remember, we took a conservative approach to the values that we had accounted for Iberia. And one of them was the brand. So the brand was written off. It was very drastic. So now we're making profits. We know we are creating value for the brand. We've been using the same tools of metrics of valuation. And instead of a zero value for Iberia brand, we have again an EUR80m value.

This is one that was announced. That was something that had to happen. And it's how we are addressing the value of the cash that we have trapped in Venezuela. Other companies in Spain and through world are doing the same exercises. We've been finding accounting difficulties because accounting standards do not regard this type of situation in a reasonable way. So we've been using, I would say, the references that the market and the Venezuela government has been provided to reduce the value of our trapped cash. So we have been charging the value, impairing the value of our cash trapped in Venezuela by EUR180m for the full year. And for our comfort and your comfort, the remaining value of the cash trapped in Venezuela is worth EUR19m.

So that gets to the EUR361m. What's happening below the operating line? So this is about the Amadeus capital gain at the IAG level, at the IAG account level, because at the Iberia account level is different. Iberia accounts at acquisition price and then the capital gain for Iberia has been EUR580m of cash. For the Group, as we account it at market rates at the time of integration, the capital gain is lower.

Final one is exceptional taxes. And this is again what we did through the crisis exercise in Iberia. Through the crisis exercises, we decided that until we had a consistent solid performance business plan in operation, we shouldn't be capitalizing losses from the point of view of tax shield. And that's something that we didn't do for two years. And now, now we are seeing that we need to capitalize those losses because we are going to recover them from the point of view of taxes. So we have made these exercises of recapitalizing the tax losses that we left behind through the crisis, and this is EUR413m.

So it's a very long, intense list of exceptionals. Most of them have to do with the Iberia crisis, and especially with what we call the Iberia recovery. And the net is a positive.

Balance sheet. So balance sheet, worth to mention two or three things. First one is how we've been financing our CapEx this year. So our CapEx this year is worth, maybe on a gross basis, EUR2.6b. Big figure. The net increase in adjusted net debt has been just EUR300m. That's miracle. Now it's not miracle. It has to do with the huge cash generation that the Group has been producing through 2014. And that has allowed us to just maintain our ratios in terms of adjusted gearing. We don't like this metric. I'm going to tell you why. We don't like it no more. And improve significantly our solvency and our leverage in terms of a more recently used metric. It's a metric that relates our gross margin/EBITDAR to the debt that we have to pay for.

So we were at 2.5 times adjusted net debt to EBITDAR. And we're just below 2. So just with two years of EBITDA, we could repay our full net debt. And this is going to be coming lower. So again, this is a figure that, and a metric and a ratio that we will be following because it follows also quite efficiently our ability to pay dividends. And that's now one of our obsessions.

So why we don't like this one? We don't like this one because you see when we entered our calculations, this cannot be. So we had a huge positive performance. We are financing our CapEx through basically generating -- in generally generating funds. Why the hell are we decreasing even marginally? And it has to do with accounting. So our reserves have been hit in the value by two issues, which are pure accounting. First one is the negative liquidation value of our hedges. We have to account as if we were going to sell our hedges to the market at a loss tomorrow. So the combination of those hedges creates a negative impact of EUR900m this year. And they are going to be disappearing because those hedges are going to be officially used in our profit-and-loss account next year and the following year. So it's accounting.

And the other one is pension fund negative impact, again because of interest rate productivity. So that's why we're going to keep this one, at least for a while. And we're going to be concentrating on this one, which I will feel is more having to do with reality.

So current trading, again, this is another boring one, but this one we need to keep because we like it being boring. So nothing exceptional. So we have been asked and we will be asked again, what about the weakness in the market? What about the weakness in fares? What about the weakness in demand? So no. We have ups and downs. We have markets which are performing better, others that are performing worse. That's business as usual. We have months that are performing better. The following month is performing -- that's the rollercoaster of our business. It's absolutely business as usual.

We can mention that Ebola markets, that oil-related markets are weakening. We can mention that other markets in North Atlantic are improving and are strong. So as a whole, we shouldn't be saying nothing special about trading conditions, especially as a warning.

And then guidance for the full year. And this is again a big challenge for this year. We're being ambitious again. So cross fingers. Operating profit for the year will be above EUR2.2b. And this will represent an improvement of EUR800m at least against last year's figures. So EUR620m this year. EUR800m next year. Big, ambitious on how we are going to be able to drive our operations for year 2015.

We are mentioning this figure because it's a critical piece of the puzzle and we know it's volatile. So we are mentioning that for these projections we're counting on fuel prices of $600 per metric ton. And the price of the dollar against the euro and against the sterling that we are having today, for example, or last week, the prevailing current ForEx ratios and quotes.

And we are counting on this 5.5% increase in terms of capacity. And you'll be probably asking us, this is a very type of obscure scenario because you are giving not a lot of reference about what you are going to do to improve. I will just give some flavor. You have to recognize -- we have to recognize we are at the beginning of the year. This is February. We have a full year ahead of us. We cannot be much more concrete.

What we can say is non-fuel operating cost will be reduced again, will be reduced in terms of labor, will be reduced in terms of suppliers, will be reduced or at least kept flat in terms of ownership cost at a constant currency basis. That's going to be a lever. It's going to be a source of improvement with 2015.

Fuel, you know we've been very precise on that one. So it's going to be bringing something in the range of 5% reduction on a unit basis. Another lever, another source of improvement.

Revenues. What we have to say about revenues, I just said it. We see nothing too special. Are you feeling pressures internally? We're not feeling pressures, for example. It's early in the year. What we can say is IAG Group is an exporter, a net exporter in euro basis. And in this sense we are going to have significant tailwind coming from our revenues denominated in dollars, which are very significant, and our revenues denominated in sterling. So that's a little bit of a broad picture of where we are and how we see this year.

Thank you.

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

Thank you very much. I've no slides for you, you'll be pleased to hear. So just to repeat what you've heard from the Chairman and Enrique, we see these as a strong set of results. We're very pleased with the performance of all parts of the business. We're confident about the targets that we have set for the business for 2015.

There are a lot of moving parts. And clearly considerable volatility continues to exist in relation to fuel and currency. But we have seen a little bit of stability in relation to the fuel price in recent weeks, in and around the $60 range, $600 per metric ton, and hence the guidance that we have provided with you today.

But the important message is, as Enrique has just given you, we will continue to drive down our ex-fuel unit cost through 2015. We have a clear path that will enable us to achieve that reduction in ex-fuel unit cost. So the improvement in performance in 2015 is not down to the oil price; it's down to all parts of the business continuing to do what they have achieved in 2014.

So it's not going to be a revenue story. As Enrique said, probably on a constant current basis our unit revenue may decline slightly in 2015, where our ex-fuel unit costs on constant currency basis will continue to show a very healthy improvement in performance, added to the improvement in the unit fuel cost performance.

So over to you for questions. And Andrew, if you're going to?

QUESTIONS AND ANSWERS

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

Just over 50 people on the conference call. So if you could say your name and affiliation. And go with the host, James?

James Hollins - *Nomura - Analyst*

Hi. Morning. It's James Hollins from Nomura. Three from me, please. The first one is on full-year 2016 capacity. I know it's very early to be talking about that, but in terms of the long-term trend, is it best to assume that Iberia goes back to normal levels of capacity, i.e. around about GDP, I guess Spanish GDP, Vueling stays above 10% and BA is in the 2% to 3% range. Any detail would be appreciated.

The second one is on the, excuse my Spanish, the plan de futuro and the timing of the completion, please, on the phase two. And when do we start to lap phase one? And if nothing else, perhaps the exceptions you'd expect in full year 2015 for doing that.

And then the final one is the guidance of an excess of EUR2.2b. You were kind enough to give us guidance for Iberia being in excess of breakeven. Perhaps any more detail on how that shapes out across the three businesses would be great.

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

Okay. In relation to capacity, I think your assessment is correct. We'll see Iberia gradually return to normal. It'll be slightly above normal in 2016 relative to where they were if they continue to recover some of the capacity that they gave away through the first stage of the restructuring. But the guidance we've previously given you was that we were looking at about 3% to 3.5% growth from a Group point of view. So it's BA returning to the normal capacity increases that you would have seen. Iberia gradually returning, probably beyond 2016. It'll be into 2017, maybe a little bit more. And of course we've got some A350s coming into Iberia, which will be in a more dense configuration to the aircraft that they are -- some of the aircraft that they are replacing. And then Vueling will continue at the mid-teen/low-teen rate of expansion that they've previously outlined.

In the plan de futuro, the first stage, which was the Mediation Agreement, is pretty much complete now. It's nearly all done, a little bit left to do. But the exits associated with that are clearly embedded in the business. So there's no question over that. And the second stage that was negotiated takes us through into 2017. So most of it will be completed by 2017. There will be no exceptional cost associated with that. We've taken it all in 2014 so you shouldn't expect to see any exceptional cost. There may be, as Enrique said, some, what we would call, normal restructuring in the business in BA, possibly in Iberia, but you won't see it as an exceptional charge. It'll just be routine cost of doing business.

And, sorry, we're not breaking it out, but what you should expect to see is improvement in all three of the operating companies. But clearly Iberia, given that the planned-for labor cost reduction continues and is agreed, that will come through more in 2016. And again we'll get -- and 2015, more in 2016 and a bit in 2017 as well.

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

You know the target for the Group and its operating units is ROIC in the range of 12% to 13%. So we still have a way through for all of the companies.

Andrew Light - *Citigroup - Analyst*

It's Andrew Light from Citigroup. Two questions. First of all, can you comment on the relationship with Qatar Airways? Does the equity stake, do you think, lead to further avenues for initiatives and alliance activity?

And then secondly, in terms of British Airways, how far are you down the road of converting the BMI short-haul slots to long-haul? I know you've got Kuala Lumpur coming up this year. Do you have plans for further long-haul routes this year and next? Thank you.

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

With regard to Qatar's -- Qatar Airways' investment in IAG, we're pleased to have them as a shareholder. We're very pleased with the work that we have with Qatar through the Oneworld Alliance and therefore the code-sharing we do. More importantly actually, the relationship we have with them on the cargo front, which has proven to be a very successful venture for us. So we've been able to remove loss-making directly operated freighter capacity and replace that with profitable capacity through the relationship we have with Qatar.

We have had some low-level engagement with them, and this was prior to the announcement that they made that they had invested in a low-level engagement with them on the procurement front. So our Head of Procurement had been in contact with their Head of Procurement and we looked at some, what I would call, just routine low-level procurement issues. We see an opportunity to expand that and potentially to expand that at a significant level, working more closely with Qatar, combining the strength of IAG and Qatar. And clearly one area that you would expect us to consider is the aircraft procurement, aircraft and engines and potentially maintenance as well.

So there are opportunities that we have been looking at. The investment gives us a further incentive, if you like, to work more closely, and then to continue to look at opportunities to code-share with Qatar and work with them, not just with British Airways but with Vueling and potentially with Iberia as well.

So we're delighted with all of our shareholders. We're not treating Qatar in a different way to everybody else. But there are opportunities clearly to work more closely and strategically with Qatar to benefit the Group, and that's what we expect to do. And that, I think, reflects what Akbar Al Baker has said as well.

In relation to BMI, we're not fully there yet. We will use Kuala Lumpur. So, Keith, we're probably about two-thirds of the way through, maybe even maybe less than that share, please.

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

If you take it in the round, we acquired 42 BMI slots, as you know. What we said is that over time we'd convert around 12 of those to long haul. What we've actually managed to do is to add the equivalent of long-haul flying actually through other methodologies. So we haven't actually used really the BMI slots for long haul. Kuala Lumpur is the start.

I think the secret is while we've got the aircraft in the future, we've now got nine of the A380s in service, eight at year end, nine now. So another three to come. And we've got a stream of 787s and then A350s. So we've got the capability to grow long haul. I think the secret to it is to continue on the cost line to make sure we've got the right unit costs in the areas that we want to expand into.

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

Yes. I think it's important to remember that before we acquired BMI, we actually bought some slots off them as well. So we had done a slot transaction six to nine months before that, was it, where we acquired a number of -- I think it was six slot pairs from them. So we had been acquiring slot pairs from other airlines prior to the BMI acquisition. I suppose it depends on how you then say which slots were allocated to the long-haul expansion that we have seen. But there's still scope within the slot portfolio that we have at British Airways to deal with all the planned long-haul expansion and capability to go beyond what we have planned to do if we see more exciting opportunities, which would then be dependent on the arrival of new long-haul aircraft.

Mark Simpson - *Goodbody - Analyst*

Mark Simpson from Goodbody. I just wanted to touch on a couple of geographical performances. Spain has been mentioned as an area of recovery. It's actually there in the text as well as during the presentation. So I wonder if you could talk about visibility and whether there's any change in terms of capacity thinking, be it long haul, domestic or regional.

Also Asia Pacific, clearly a performance which is outside the industry performance over the last year. I wonder if you could tell us how you've achieved that.

And then finally on the European mix in terms of yields, down 3%, but that was a reflection, as you say, of the mix. Ex the mix, what was that number?

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

So Spain, what we are seeing in Spain is GDP growth accelerating, last year it was around 1.4, this year maybe 2.5, 2.8. We are seeing still not so much employment growth employment. Growth is going to be coming through year 2015 and into 2016. So what we are seeing now is employed people are spending more because they are more confident in the future so instead of saving they are spending.

And the way that translates into our industry is we are seeing more demand-driven, I would say, strength on the seasons, on the type of very seasonal seasons. So we have seen it last April with Easter holidays it was booming, July was a very good month. We have seen it again December, remember, so December we have seen a very strong performance in Spain of Vueling and Iberia. So that's going to be still a little bit of the pattern and probably accelerating by the end of the year.

That of course justifies, when we are talking with the Spanish government, we are saying, look, okay, we think that when we have the right cost structure, the right productivity we will resume growth in

(Technical difficulty).

So that's a little bit of the story for Iberia, how they are driving this potential for improvement.

In the case of the rest of the European traffics what we are feeling is capacities not coming back hugely, so maybe in the future it will be different. The year 2014 neither 2015 we are seeing capacity coming back strongly. So on that type of capacity restricted scenario our unit revenues, our unit prices our pressure is not mounting. So we'll see. That's what we can say today, maybe tomorrow will be different.

In the Asian markets that's again about very selective growth and growth with the appropriate I would say tools. So how -- we are growing now with our 787s and A380s depending on the destination, depending on the opportunity of the different markets. And we are being very selective and very cautious and that's how we will still be. So on that frame of selection adequate equipment and right allocation of capacity we feel comfortable.

What else you -- I think those were the three areas.

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

And just to comment on Latin America, what you've got to remember is the Iberia cost base now is significantly lower than it was and significantly lower than most of our competitors. So some competitors who thought they had an opportunity to put capacity in did so at a loss and will struggle even more against the competition of the revitalized Iberia.

So we are very confident about our performance on Latin America because we can see what we've achieved and we can see where our major competitors are, and they are nowhere close to where they will need to be to survive in that market.

Now that's not to say they will do the sensible thing and either restructure or remove that capacity, but it's going to cost them a hell of a lot more even if we just stay where we are because our cost base is just so much better than theirs. And they are not making any progress in getting close to where they will need to be.

So the situation there and the outlook for Iberia is much more positive today than it has been not just because of the combination of what's happening in the Spanish economy but principally through what Iberia has managed to do through the restructuring of its cost base.

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

If we carve out the problems we had in Venezuela the combination of the whole Latin American Market for Iberia are quite neutral in unit revenue terms through this expansion process. So of course we have these weak spots Argentina, Venezuela we covered that, Brazil but we have some very strong performances in Central America, so Colombia, Peru, Ecuador, even Mexico. So the combination even through this growth exercise is quite flattish in terms of unit revenue performance.

Mark Simpson - *Goodbody - Analyst*

Finally was the European yield ex-the mix then.

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

Yes the European yield ex-the mix effect, for example, British Airways is neutral. And for Iberia Express and Vueling it's also neutral. The problem is when you bring the mix the mathematics brings for us the average down.

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

Very good, Damian?

Damian Brewer - *RBC Capital Markets - Analyst*

Damian Brewer, RBC. Two questions first, first of all just on the pension, could you just say a little bit more about the key points or way points you'd look for as a trigger to -- not sorry the pension the dividend, to restore the dividend within the company?

And then secondly, a question on optimization within the group, particularly as Iberia, remember the Iberia Investor Day there was a discussion about the new revenue management system, can you tell us a little bit more about how that's gone in?

And then secondly, for Heathrow if the remedy slots being flown by Little Red come back to BA and therefore IAG what is, if you like, the second phase or second iteration of optimization you could do with those? Thank you.

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

Yes, talk about it -

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

On the pension --.

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

(multiple speakers) the dividend.

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

The dividend, yes. It is related dividend and pension. So what we have made our numbers about is if we are dealing with the actual scenario in terms of contribution in terms of the restrictions that we still have in terms of managing our contributions and our payments. We are in a very comfortable headroom. So the message that we transmitted to the market early in November about being able to pay a 25% or a more than 25% of our distributable net income of the year is something that we feel, I would say, very, very solid about. Because our headroom, at that moment in time, was high, today it's even higher. So no dark clouds on that battle front.

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

Luis, do you want to talk about rev management?

Luis Gallego - *International Consolidated Airlines Group SA - CEO, Iberia*

During the last Investor Day we had in Madrid we explained that the turnaround of Iberia is not only an exercise of cost, we are doing better in cost but we are going to transform also the company in all the commercial aspects, so we on working in the revenue management side. We have now a new team. And we are attending all the procedures we have there. We are working also in the sales force effectiveness. We are working to improve the customer's satisfaction. We are still working with a new brand. And also we are still putting the new product in the long-haul aircraft. So we expect to complete at the end of this year the new -- all the aircraft with the new long-haul product.

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

Keith, do you want to talk about the --?

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

Yes. So Little Red, a little bit of history if you go back to March 2012 the remedy slots that were given up seven were allocated to Aberdeen and Edinburgh and the other five were Riyadh, Nice, Moscow and Cairo. So they are restricted in use.

The slots if they come back to IAG will come back around September time I think. Little Red has indicated it's going to leave the Edinburgh and Aberdeen routes in September. So we are planning on the basis that they might well come back to the Group, and we would utilize them accordingly.

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

The slots have to be made available to anybody else who wants to take them up, so that process will, I think, start from the end of this month. So the trustee who has responsibility for managing those slots if anybody is looking for them will make contact with the trustee to make the case that the slot should be made available to them.

And the five, so seven were earmarked for Aberdeen and Edinburgh but the other five can also be used on Edinburgh and Aberdeen. They can be used on the designated routes that Keith outlined or on Edinburgh and Aberdeen. And Virgin actually took up two of those five slots so in total we think nine net that had been taken off the slots to utilize on Edinburgh and Aberdeen. So three of those slots have always been with British Airways weren't taken up, so it's a return of nine slots that BA will get at the end of September unless somebody else comes in and indicates that they want to take those slots to operate on the designated routes.

Oliver Sleath - *Barclays - Analyst*

Hi, it's Oliver Sleath from Barclays. Three questions please, two on BA and one on Vueling. First of all BA, you've clearly put quite a chunk in short-haul increase in capacity through with the cabin reconfiguration. So I'm just interested to know how that's been absorbed so far in terms of the load factors that you're hitting and the yields.

Second question on BA productivity particularly on the legacy crew side, I recall there was a proposal to increase the productivity on the Eurofleet size last year that was met with opposition by the unions. So I just wondered if you'd give us an update on progress on BA legacy productivity. And do you see any risk that it gets harder to achieve labor savings at BA in a lower fuel environment?

And finally just on Vueling and Rome, maybe for Alex, there has clearly been a significant build-up in Rome not only by yourself but some of your low cost competitors as well. So again just interested to know how that growth has been absorbed. I see you've dropped a couple of routes, but obviously still expanding very fast and where next after that on the Southern Europe road map?

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

Okay, well, given that Keith and Alex are here I'll ask Keith to respond. But, Keith have you got a mike? But certainly the addition, the intensification of the short haul aircraft in BA is a very sensible move, we are very pleased with that. And of course it's not just a short-term issue which has had a very positive customer response but it's also long term in terms of ensuring that we maintain the balance between the short-haul capacity and the long-haul capacity in feeding the hub. So as we expand the long-haul fleet utilizing slots that are currently being used for short haul we need to be able to replace some of that capacity to ensure that we have the relevant mix and volume of feed that can come into the hub.

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

Yes, and just around what Willie said is that if you look at the customer satisfaction on the reconfigured aircraft, and we've now reconfigured 75 out of the 95 that were due to reconfigure, the customer satisfaction level is up about 12 percentage points so it's a significant increase. So load has not been impacted, it's a very popular product.

In terms of what that does to capacity it adds quite a lot of capacity year on year in the first half of this year, and then it moderates after that. So the capacity increase that you see is pretty significant at Gatwick in particular as those aircraft get changed with some increase at Heathrow.

In terms of negotiations with Eurofleet as you know over time we always intended to bring mixed fleet flying in, generally, and that is a steady stream of progress. Mixed fleet is progressing well. Eurofleet we had negotiations last year in terms of looking for about 15% productivity improvement. We still plan to achieve that. Eurofleet is voting at the moment on partway towards that improvement over time. And that is out at ballot at this point in time.

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

Alex, talk about --?

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

Yes, Alex Cruz from Vueling, good morning, thanks for the question. I think we are very satisfied with what's been going on in Rome this year sufficiently and with a degree of satisfaction that it has actually enabled the growth of this year. So two routes dropped but 20 added so to a total of 58 this summer. 14 aircraft serving Rome, nine based in Rome.

And as Enrique was mentioning before, committed to begin to start the new hire process for Italians, which will dramatically reduce our operating cost. We went for flexibility at the beginning, now we are committing to the workforce there. On open day in Rome yesterday 300 people came to a recruitment drive. So we are satisfied with the attention that Vueling is getting as a prospective employer and the government is supporting us on that. So the metrics have been good and we are very committed to this second year.

You asked about what will happen in the future and other areas. I think we've got quite a bit to do in Rome yet before we think about could be potential growth platforms. Barcelona has 50 airplanes based there, 149 destinations, 7.5m passengers. That seems to us like a pretty nice benchmark to look at and to look up to when we are building out Rome but it will take some time.

So the second phase is about consolidating, continue to add destinations international and domestic ones and continue this investment and begin to look at some serious commitment in terms of reduction of costs now that we are more relaxed and we don't need as much flexibility as we needed at the very beginning.

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

Alex, for the benefit of our Italian listeners do you want to say that in Italian?

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

Bon giorno.

Donal O'Neill - *Redburn Partners*

Hi, good morning, it's Donal O'Neill from Redburn. My first question is on connecting traffic. Can you give us a sense of how connecting traffic is performing at both hubs but I guess particularly in Madrid from the point of view of pricing and profitability, it's obviously a key element of that business.

The second question again on the revenue side in terms of point of sale ex-UK and Spain so US other markets around Europe for Vueling and indeed in Asia how is the point of sale Ex-Europe performing. Is there -- is the demand all coming from domestic markets?

And last question just in terms of all the fleet and CapEx some of your competitors have suggested they might look to moderately age their fleets in the current fuel price environment. Would you think in any way about moderating your CapEx expansion plans?

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

Okay, connecting traffic is performing well at not just Heathrow and Madrid but also at Barcelona and at Rome where Vueling have the unique proposition that they can offer connecting traffic. Critical issue at Madrid was to reconfigure the network to ensure that we were focused on short haul to long haul and vice-versa rather than short haul, the short haul which had been a feature of the Iberian model in the past and I'm sure as everybody here would know is not the most profitable way of operating.

So the network was reconfigured to eliminate a lot of unprofitable connecting traffic that was going from short haul to short haul, and the benefit of Iberia Express is that it cannot just serve the hub at Madrid but it can also do some of that point -- on a point-to-point basis in a much more efficient way because it has the cost base.

So the transfer of traffic, Keith, at Heathrow would say is good and we've had very good transfer both ex-US over Heathrow into Europe and ex-Europe over Heathrow into the US. But principally there's very strong traffic flow ex-US over Heathrow into Europe.

And as you know, one of the benefits of the BA model is they can flex that volume of transfer as they see fit, and particularly taking advantage of currency so you can make more capacity available in some of the transfer market. With the stronger dollar it clearly makes sense to look at -- and try to attract a bit more transfer traffic out of the US.

But I would classify it by saying that it's performing well, but particularly the restructuring that has been completed at the -- at Iberia with the focus on the network being efficient from a long-haul feed point of view rather than just feeding traffic from short haul to short haul.

At point of sale we haven't seen any change there actually, it's been strong out of the US, it's been pretty good everywhere. To be honest, we don't see anything has changed. Keith made the comment and Enrique made the comment that it's been an area where you would expect to see some weakness, Russia, in East Africa -- sorry, West Africa where you've seen an Ebola impact. And that's impacting to some degree on African total because there has been I think a reluctance particularly out of the US to travel into Africa.

And then destinations where there had been a strong oil business content. So one of the disadvantages of a fall in the oil price is that we see a reduction in travel from the oil companies, probably a better scenario for us, but where we've had traffic flows that have a strong oil content we've seen that, as you would expect, we've seen that weaken. But the overall performance of the network is pretty much as you -- as it has been.

So on a macro level it's a positive environment. There are micro issues, and the micro issues are exactly where you would expect them to be and the causes are the causes that are clearly obvious to everybody.

On fleet CapEx, actually, we've been looking at what others are doing. We are not seeing any change in behavior and that pleases us because I think the concern that had been expressed by some people is that this lower fuel environment, and don't forget it's still $60. So if you went back to 2008 when the price I think beginning 2008 was around $60 rising to, I think it hit about $147 through the peak of that and then it started collapsing after that. We witnessed behavior that I think was very rationale then. I think we are seeing behavior that is very rational now as well.

I don't know what the fuel price is going to be next year. I doubt that anybody in this room, because you wouldn't be here if you did know. So we are taking a view that there is nothing that we have seen that encourages us to change our plans. And the general environment that we see out there is that's pretty much what most if not all airlines. You will see some people who will -- who may do a little bit --.

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

(multiple speakers) might be some opportunity, for example, the 340-600 being operated by Iberia, that's an aircraft that's just, I would say, one year ago -- sorry. That's an aircraft that one year ago at $120 per barrel was a nightmare. Today at $60 per barrel and being able to -- because we are protected through asset value guarantees to sell and re-lease back at very efficient new ownership costs, it makes a lot of sense. So that's an opportunity that we will regard.

We have other opportunities in the short-haul fleet, so accelerating the NEO's, well, that's something that we are going to analyze on a case-by-case basis because it has to be clearly justifiable. So as Willie said the general pattern of our CapEx and fleet renewal is going to be the same, it's going to be sustained. And we'll look for specific opportunities where really we can take advantage of the situation.

Suzanne Todd - *Morgan Stanley - Analyst*

Suzanne Todd from Morgan Stanley. First of all, can you quantify the inventory impairment you had on the old Iberia parts in the fourth quarter?

Secondly, in terms of your CapEx commitment what is the currency hedging per dollar for 2015 to 2017?

And thirdly, for 2016 fuel, what's the hedging you have in place?

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

Yes, the first one was related to sorry?

Antonio Vazquez - *International Consolidated Airlines Group SA - Chairman*

The impairment.

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

Ah, the impairment, I think the figure is EUR28m, around EUR28m. On fuel hedging and CapEx we have two different approaches. So the long-haul business and the long-haul CapEx related business is a dollar-denominated business. So revenues in our main strategic markets are basically all dollar driven. So that's why we are comfortable in having CapEx and ownership costs that are related to the dollar. No problem there we have internal hedging. We have not specific program for hedging the deliveries of the aircraft.

A different thing is the short haul. The short haul is in our case a euro-based type of business. And we have a strong dollar-related cost base. So on one side we are not alone playing that game, and we have to regard very closely what others do. And that's why we are following closely the hedging programs of our main competitors. We don't want to have disadvantages there.

But we are worried about hedging the future deliveries of CapEx. And we are starting a program to regard that specific issue. We will still see how our competitors are tackling with that type of risk, because we don't want to make it a source of disalignment. But we are of course taking care of that specific area.

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

And in relation to our hedging policy, it hasn't really changed. We had discretion to go out, normally we go out 24 months, we had discretion to go out to 36 months but in the final 12 months at no more than about 20%. So we haven't changed, so the pattern than you have seen has remained the same. And I don't think we've actually gone out beyond 24 months at this stage. But the policy does allow us to extend it out 36 at about 20%. And we haven't changed our view on that.

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

We have time for one more and going to take Jarrod.

Jarrod Castle - *UBS - Analyst*

Thank you. It's Jarrod Castle from UBS. Maybe one kind of thematic question, clearly with your new guidance you're going into margin territory which I don't want to call you a flag carrier because you've got a whole -- you've got three different units, but flag carriers don't go into, in Europe frankly. Looking ahead, maybe not this cycle maybe not cycle, could you get into the margin territory of let's say the best-of-breed low cost? Or is -- I guess are the businesses so different that that's not an achievable target maybe five, 10 years out.

Secondly, let's ask the question about pension, so I'll let probably Keith answer which is you've got an actuarial review coming up in March any thoughts about how things should look this time around and potential for any changes in cash payments.

And then lastly anything you want to say in terms of the changes that you made to Avios how customers have responded? Thanks.

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

Okay, in margins terms well what we've clearly said is that we believe we can run the business at margins in excess of what have been traditional achievable and therefore we've given you a target, operating margin between 10% to 14%. And we don't see any reason why we can't achieve those margins.

Now is it different on a low cost strictly point-to-point basis? Obviously it is because there is some inherent inefficiency in the network model as you operate a short-haul network that feeds into the long haul and therefore asset utilization there won't be as great as it would be on a strict point-to-point basis.

We are trying to improve that as much as we can. And clearly Iberia has done some good work with both Iberia and Iberia Express in relation to that. But we don't see any reason why this business can't operate at margins well in excess of what has been traditionally achievable from a network point of view and if you like traditionally targeted by legacy carriers.

So, as you know, BA had a 10% operating margin in 2007, 2008 and for many that was seen as the ceiling. We don't see that. So we believe all parts of the group can operate within that margin range. And we are clearly on a path to that. We are not there yet. But if you look at the lease-adjusted margins that Enrique showed you with BA at 8.5%, it's clearly getting close to what was seen previously I think as a peak or as a ceiling. Vueling is operating in excess of that. Iberia has a way to go but is on track to achieve that.

Pensions, Keith is going to have the lovely job, him and his team, of sitting down over the next probably 18 months, Keith, or well, probably at least 12 maybe 16 months then talking about pensions to actuaries and to pension trustees. And I'm not for one minute going to suggest what he's going to encounter through that other than I'm sure he will enjoy it. So this time next year you'll still be asking that question and we'll be saying the review hopefully will be finalized in a while.

Avios, it's always difficult from a consumer point of view when you make changes because people will always focus on the negative of the change and ignore the fact that there have been significant positive changes made. But if I'm honest the customer consumer response has been more positive than I thought it would be. So I have probably received a handful of letters. Keith, I know would have received a little bit more. But I think people have recognized that these changes were inevitable. And the positives that we've made have been clearly welcomed by a lot of people.

But we are very comfortable with what we did. We think we've done the right thing for the long term. And we believe there is great value in the Avios program and great value not just to consumers but great value to the group as well. And we are pleased with where we are on that.

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

Willie, do you want to say a few final words?

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

Yes. Just to repeat thank you again. It's a strong performance I think in 2014 particularly the turnaround in Iberia that we've highlighted, not just in terms of its financial performance but its operational performance is outstanding. And really it has moved to a completely new level well beyond where I thought would be possible. And that's sustained as well, which is great news.

The customer experience has been significantly enhanced. The brand has been significantly enhanced. So the opportunity for Iberia is clearly very exciting. And a lot of potential, so we are only seeing the beginning of that, and I'm not putting pressure on Luis and his team when I say that, but there is a lot of potential.

We are delighted with the performance of Vueling. I think Alex has an incredibly flexible business model and is in a position now to start better exploiting that flexibility and looking at different ways of operating. So don't get distracted by some of the short-term issues; long term this is a great business with a great flexibility and great opportunity and we are very pleased.

And BA continues to make very strong progress. Still work to do there, but very strong progress. And the opportunity that we've always highlighted in terms of expanding the long-haul network at the right time with the right aircraft is something that we can look forward to as well.

So thank you. We look forward to talking to you at our next results. That will be on the line obviously not in person. And if there are any issues that you want to follow up, you all know how to contact Andrew and the team. So thank you.
