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IAG.L - Half Year 2016 International Consolidated Airlines Group SA Earnings Call

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PRESENTATION

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

Okay, everyone. Thank you for coming. If you could all take your seats now, we're ready to start on time. And thank you very much for Bank of America Merrill Lynch for hosting us this morning. And over to our Chairman, Antonio Vazquez.

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

Hi, good (technical difficulty) presentation. From the macro and the political environment, we have a lot of volatility and at the same time, we have been facing quite significant operational challenges for the airlines in Europe over the past six months.

However, the business model that we have been able to develop in the last six years, 5.5 years with IAG, is proving to be very efficient and very solid and top-quality brands and quite a strict cost control and track record in terms of growing profit jointly with the diversification that globally we have reached in the Company are providing a quite solid foundation to face this type of situation.

And the first-half results are record, which is in front of quite a difficult environment and the aim of our double-digit percentage of profit growth for the end of the year is our target.

And last year, we came back with dividends and we were able to give a retribution to shareholder of EUR415 million and in our outlook statement today, we're saying that we would generate that EUR1.5 billion equity free cash flow in this year, which is giving us a lot of confidence that we will continue our dividend policy.

So I'm just handing over to the management for the presentation. Thank you.

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

Good morning, ladies and gentlemen. Here again presenting what we believe is again, a positive set of results for second-quarter 2016. And by the way, I was just counting, it's the 13th quarter where we are bringing an increase in our performance, operating profit level, over the same quarter last year; 13 quarters in a row. I think it's a good record.

This time it has been challenging, of course, and it has been challenging because we have been facing several number of, I would say, headwinds. Some of them, you know about them. Most of them, you know about them.

Of course, they have to do with terrorism disrupting the behavior of our customers; they have to do with Brexit in terms of pre-vote concerns on traveling, especially on corporate traveling and then post-vote reaction in terms of, again, refraining traveling behavior, So that has been a significant impact in our account this quarter; on top of, of course, the major one, which is the accounting impact on a depreciated/devaluated sterling.

Remember last year, this time of the year or end of the quarter, we were more in the range of EUR1.37. End of the quarter 2 has been EUR1.20, so significant depreciation of the currency.

That, for us, is very important, basically, in terms of translation, basically because a very significant part of our operating profit and revenues are related to British Airways and are stated in sterling.

When we translate them back into euros, we get a significant negative impact in this occasion. So that's why we are seeing impact in terms of very different figures between constant-currency ones, both in costs and in revenues, and outturn type of rate.

Another set of challenges and headwinds that we have been dealing with through this quarter have to do with operational disruptions and operational disruptions have been all over the place.

22 air traffic controller strikes on a quarter. So really heavy disruption. On top of weather, on top of airports in which we operate not being able to cope with the type of challenges that they have to cope.

So that was a bit of a difficult combination of factors that have made, especially our short-haul operations, more difficult this year, more difficult this quarter. And this, as we have been saying publicly, has been affecting mostly, I would say, Vueling, also British Airways, up to some extent. So all these external circumstances are behind the figures that you are going to be seeing.

But having said that, we believe the underlying improvement in our business is a solid one and we believe the contribution of Aer Lingus to our results since the beginning of the year, and you've seen very neatly on this quarter 2, is very impressive, very valuable. And we'll see it for the remainder of the year.

So let's get a little more into detail. So the apparent improvement that we are showing against last year's figures is just EUR25 million. When we begin what's behind a little bit more and we evaluate the negative impact of Brexit in terms of currency, we get to a like-for-like improvement which is more in the range of EUR104 million.

And if we add Aer Lingus, which is of course, that's why we bought Aer Lingus, to bring additional contributions, so if we add this EUR70 million here as well for Aer Lingus, we get to a year-on-year improvement, carving out the ForEx type of issue, of around EUR175 million. And this is a figure we've seen constantly (inaudible).

Of course, on the passenger revenue side, we had, on a comparative basis, a drop of 6.5% we are saying. And this, of course, has to do with these type of negative impacts that I've been telling you about.

It's about terrorism and Brexit presence. It's also about, very especially in June, the outcome of the vote. So June was a disappointing month for us. We were expecting a rebound. We were expecting a remain vote. We were expecting corporate traveling coming back. It didn't happen. And that is loading the minus 6.5%.

If we get to the costs side, and we are going to be getting into more details on the costs side in the next page, we see basically some type of light and some shade.

And the light has very much to do with areas as employee cost. Employee cost is something that we are managing on a very efficient way as you will see, productivity for the Group through Q1. And again, Q2 has been improving by 5%. And that's mainly structural. And that's part of the improvement in cost and efficiency that we are retaining into the future.

Ownership costs are also going to be showing improvement. And again, this shows a very significant focus that the Group now is deploying in managing CapEx and managing ownership costs. And that's going to be a must. It has been a must in recent months. It's going to be must on our new business plan that we will bring to you by the Capital Markets Day.

So again, CapEx, ownership cost and free cash flow, equity free cash flow, is basically one of our priorities that we are going to be keeping.

On the supply side, we have had less positive outcomes through the quarters. But there is something that we want to be very clear about. Quarter 2 last year, we achieved a reduction in non-fuel unit costs of 6.9%. This quarter, following year, we are getting to a plus 1.3% or plus 8% if you include Aer Lingus.

So the real message is we are retaining most of the huge improvement in cost that we produced last year, and especially, we are talking about the second quarter.

This is a little bit of the closer type of focused picture on costs. And again, I have to emphasize the improvement in employee cost and this is all over the place, with one exception.

It's British Airways because of their improvement in productivity.

It's Iberia because of their Plan de Futuro. And it will be coming back again with the extension of their Plan de Futuro. A new Plan de Futuro is coming and will be improving productivity a little for us into the next quarters as well.

It's, of course, Aer Lingus. We have it out of the chart; it's a pity. But improvement in productivity and labor cost in Aer Lingus have been very substantial.

So it's the results for Vueling and Vueling has been very much affected by disruptions by air traffic control, by types of growth issues that they are now dealing with. So that has been (inaudible) the second quarter.

When we talk about the supplier costs, basically handling and catering, having some increased costs, new improvement in British Airways' products, on especially business long-haul, it has been also rolling over some specific very good performance last year.

It is also including there some costs that were difficult to allocate that really don't have to do so much with ASK. When we bring them to the ASK ratio, it brings some distortion.

I'm talking, for example, about handling that we provide to third parties, Iberia, or we'll see again in the case of maintenance; or British Airways Holidays costs. So those are not really part of our ASK-related, directly-related costs. It brings a little bit of disruption there.

Landing fees, basically flat in terms of inflation, so prices suffering a little bit of the average because of stage-length changes, nothing to worry about; engineering, a little bit of the same, so flat engineering costs.

And that is going to be one of the big sources of cost improvement for the Group in the following years, so that's something that we will again tell you with more details at our Capital Markets Day. And we believe it's a source of very significant cost improvement coming on the engineering side.

Selling has been improving basically because of better prices within some of our suppliers and rationalization of expenditure. We have these red and has to do basically with other costs and especially, very much related to JFK facilities that British has in Terminal 7.

And the loss of a significant client, that was United, which was compensating the cost for us. We're looking for substitutes. And we are confident we'll be able to recover part of this net negative that we have suffered in Q2.

Again, I would say a very healthy performance in terms of ownership costs with flat depreciation and improvement in lease cost and that going through the renewal of the fees that we are undertaking and going through a more expensive dollar base. So I think it has quite a bit of merit.

Fees, of course, a big contributor this quarter, while not being very transparent about it. This quarter in unit fuel cost, constant currency for IAG Group, have been dropping by 29%. And that's something that is very much in line with what we told you, because this chart is so well constructed, Andrew's type of research that really leaves little room for surprises. And what it shows, again, is that we will be seeing more of these fuel-cost reductions in the next quarters and clearly, again coming into year 2017.

The unknown here, there's a couple of unknowns here in the chart, as you well know is market price and the dollar price. We've been making this exercise, this is an exercise as you can reproduce it in your models with different spot prices, at $420. Today, I think the market price is $390 or $395. Okay, so it is rational and even a little bit conservative I would say.

But it shows, well, somebody that we are going to be benefiting from these tailwinds, unless something extraordinary happens in the fuel markets, which I don't believe.

This is capacity. Again, that's another message that we have been very insistent in transmitting to you. We have very close monitoring and grip on capacity growth.

Of course, we have units in our Group which are basically created to be able to generate growth and profitable growth. And they are growing, and they will be in growing.

We have embedded in our cost structure and in our fleet structures mechanisms that we can use on short timeframe and very efficiently to change the patterns of growth we are using them. We are using them basically for Vueling; we are using them also for Iberia.

As you see, by the end of the year, the structural growth rate in the case of British Airways will be in the range of 2.7%, maybe still lower than that. We are thinking over. We'll give you more details by November, maybe lower than that, but that's getting to the type of underlying secular trend of capacity growth and demand growth on these British Airways catchment areas. So we will be getting comfortable there.

In the case of Iberia, we are rethinking part of this growth. It has to do, as you well know, with weakness in Latin America, especially in some areas of Latin America, and we will be reacting quite quickly to those weakening types of economies, adjusting capacity models.

In the case of Vueling, we have already decided to make some capacity adjustments. They will be affecting of course not Q3, Q3 is in the season, but Q4, and they represent a reduction in the growth rate of 4 percentage points, so that's a type of quick reaction that we'll be undertaking.

We are keeping Aer Lingus as of plan and programs for growth because we feel that Aer Lingus could become one of the beneficiaries, one of the opportunities that we have in the Group to be able to deal with this prospective new environment.

So the figure of absolute growth that you see, 4.5%, now is our best estimate; it was initially 5.5%, it was coming down to 4.9%, and now, our best estimate is around 4.5%. It could be slightly lower than that.

This is how we are deploying our capacity, and I'll give you some interesting ideas because, as you see, a very significant part of the increase has to do with what we call new and/or restored routes for the companies of the Group. Most of these new and/or restored routes are long haul. So we have there a double dilutive impact in terms of unit revenue.

So part of the minus 6.5%, we attributed to this concept of having significant growth on long-haul new routes in maturity and they are long haul, so mathematically, as you well know, their unit value is lower than the average.

In the case of Aer Lingus, it's Los Angeles. In the case of British Airways, this is a couple of San Jose's, California and Central America. In the case of Iberia, it's both Johannesburg, Shanghai. So we have quite a bit of these long-haul new routes that are part of the explanation of our growth.

This again shows our capacity movements, our capacity changes for the second quarter against last year, and our RASK changes in the same regions of our network.

So basically, the two significant changes in respect of former quarters have to do, on one side, with Europe. Europe, the minus 6.5% is slightly worse than last quarter, the first quarter of the year, and again, I have to come back to these main type of negative impacts, of disruptions, of ATC, of weather and strikes, okay, that have been causing a non-optimal performance and management of our short- and medium-haul networks, especially for Vueling and for British Airways.

What we see is Asia Pacific suffering in terms of unit values, and that's basically related to Kuala Lumpur's new route, and it's basically related also to Tokyo's underperformance and this Tokyo underperformance we think is very much related to Brexit. So Brexit for Japan has meant also a little bit of a deterrent for corporate travel.

Remember the US Government was advising us, advising US citizens and the world that it was not so advisable to fly to Europe until the end of June. We don't know why until the end of June. But, in effect, we think it has a negative impact in, of course, the North Atlantic, but also, in some Asian routes.

We have Asia and the Middle East which are troubled areas; you know they're troubled areas because of conflict and especially, because of fuel impact on these economies.

We are cutting capacity. It's not the first time we show these red. We are cutting capacity, but still, we are getting unit revenue negative performance.

And we're having also issues in Latin America, that's Iberia, but it's also British Airways network, and it's Air France. We went through their numbers very recently and they are very similar to ours, if not worse. So that's an area of our network that is suffering.

It has to do with Brazil and contamination. Brazil is apparently contaminating other economies in the region. So that's one of the areas in which we are vigilant and monitoring the type of best optimal capacity deployment that we need to do, bearing in mind that Latin America for the Group, for IAG is an asset, and we'll have to invest there. Even in countries which are going through trouble, as Brazil, we want to keep a very strong long-term presence.

So this is about what has happened in terms of our different segments of clients and networks. And as you see, the revenue weakness that I have been mentioning is basically across the board; in the long haul, premium traffic and also non-premium. I think these figures should look a little bit different before the end of June. So June was a very negative month for this side of the picture.

In the short haul, again, repeating a little bit of the explanations that I gave you, British Airways, as you see, and Vueling most affected; Iberia, having a much better performance, so low-single digit negative; and Aer Lingus, the same, it doesn't show in the chart, but exactly the same.

And this is basically half-year figures for the different companies. We have another group of companies, including Avios, which is out of the chart, so these basically are airlines. And it's in local currency.

So we see significant improvement in Aer Lingus, I'm a little tired of repeating, sorry, but it's about operating results improving dramatically in the quarter against their last year; operating margin, the same virtually as lease adjusted margin; employee per cost falling by 5%. So Aer Lingus is probably the star in this quarter. It's performing strongly and they are getting the benefit of that position in the North Atlantic and their very loyal base of client.

British Airways, also improving in the first half. So again, we have 2.8, 2.9 percentage points operating margin improvement against last year, in sterling. So here is where we see the difference between the sterling-related figures and the euro translated related figures. British Airways appears as having a healthy improvement in their margin against last year. Even employee costs are coming down significantly.

Iberia is more or less on the same level of margin as last year for the first half. Again, Latin America is a little bit of a burden in their performance. But, again, as you see, the very significant efforts that the management and the company as a whole is doing on the cost side. So CASK ex-fuel, fallen by 2.1%; employee cost per ASK, fallen by 3.3%. That's something that we are going to be seeing again and again in the next quarter because the company is now looking at the next stage of improvement.

And then Vueling, as I told you, is a little bit of the exception. Vueling has been very heavily hit by all these disruptions, all these heightened ATCs, all these weather things, all the Barcelona Airport type of difficult management and finally, about their own growth problems because they are now going beyond their 110 number of aircraft in their fleet and that is creating new threats, new challenges. And the company is really now fighting, and convinced that they are going to be able to resolve.

So this is the ROIC type of metric. And again, we bring it here quarter after quarter because it's a little bit of our, let's say, the night book. So we really follow, monitor and keep our decisions driven by this type of concept. So ROIC has been improving for the Group.

Here in this chart, we calculate that on the rolling four last quarters, and this has been improving by a couple of decimals, against last quarter figures. So, again, healthy figures, 13.9%; I think it shows how important it is for us and where we are getting in terms of improvement.

What I would be saying is Aer Lingus is, again, the star here. It's a very significant contributor to the ROIC improvement. I would say British Airways and Iberia are on similar rates as the ones we showed last year. And we see some drops in the case now of Vueling.

Below the line. Below the line, I'm talking about page 1. And this is again the message that we want to bring to you, to reinforce that we are on the right track, even with these difficulties that we are going through because, as you see, the operating profit for the first six months has been improving by EUR155 million.

But then profit before tax has been improving by nearly EUR200 million; profit after tax, similar figure. And these increases are in the range of 47%. So the one we have for EPS is a 46% or 47% increase (inaudible) against last year's figures. It shows that the underlying profitability for our shareholders has been improving dramatically.

Here is our balance sheet. So one would say, what the hell is happening to your balance sheet after Brexit because all these huge movements in FX could be having some type of consequences on our financial structure. So I wouldn't say business as usual, but quite business as usual.

Of course, when it gets to some figures, we show the impact of the dollar increase and the sterling depreciation. These are euro figures, so sterling depreciation means that, for British Airways, net assets will be translated into euros, so they will be shrinking in some way.

And we'll be seeing some other type of adjustment having to do with the notional value of our aircraft leases. But as a whole, as you see, the adjusted net debt has been falling, from EUR8.2 billion to EUR7.9 billion, through the last quarter.

Our adjusted gearing has been improved by 1 percentage point, and which is more important because it's the metric that we really follow. Our adjusted net debt to EBITDAR has been improving from the 1.8 to 1.7 times. And British Airways is already investment grade, so no reference to Brexit on these investment-grade assets.

So we are, again, comfortable in being able to manage and to keep on track the financial strength of the IAG Group.

You have read the guidance because it has been published early in the morning. It's a long one. It's a long one but we thought it was a moment in time where we need to provide a little bit of a longer type of explanations of what has happened.

Both of the two first chapters, I'm not going to read them because they are a repetition of what I've been just telling you. Maybe a reference to the disruption costs for the Group; so we are talking about a significant figure, EUR80 million, around.

It's difficult, as you can imagine, to budget at this moment in time because there are events that we don't know how they are going to be finally ended.

A significant part of these EUR80 million disruption costs will be affecting Vueling. We are not disclosing, but you will see through the next couple of quarters.

The third paragraph is a repetition of our obsession and our obsessions are around being able to manage our non-fuel unit costs because that's what will be differentiating us in the long run. And we believe it's part of our -- has to be part of our genes.

We have been mentioning also what we see about Q3 and a little bit about Q4. So what we see in Q3 is part of our support argument (inaudible) revenue development. It's part of our supporting argument about why we finally say that we are confident to be able to improve our operating profit on the type of low end of a double-digit growth against last year's figures and finally, bringing back the cash, okay.

So we can talk about operating profit but cash is king and we really believe in it. So our cash metric in terms of free cash flow for equity will be staying on this range, as you know about because we published it last year, EUR1.5 billion to EUR2.5 billion.

Of course, year 2015 is one of our first years in our business plan. So you should be expecting to perform probably in the low end of that range. But that creates a headroom for dividend payments, which is very comfortable. Our last figure is around 3.4 times I think cash to dividend commitment.

So, again, I think as a summary, we have gone through rough times. There's nothing in our business model that is going to be affected radically. We believe we are going to be able to achieve in the levels of profitability and return for our shareholders in the medium and long term.

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

I'm sure you noticed Enrique was blaming the fall in Tokyo traffic to Brexit. It was actually the terrorist events in Europe and that's absolutely consistent with what we have seen previously. Japan tends to react very bad and very deep to those events and that passionate behavior hasn't changed.

I just have a couple of slides to show you. We thought it would be useful to give you insight into the breakdown of our revenue. If you remember back at our first Capital Markets Day, we presented to you this chart.

We've slightly updated it to give you the sectors there in a way that would be familiar with you. So you can see energy and minerals; healthcare; industrials; IT and telco. Professional services tend to be non-listed companies: accountant fees, consultant fee, legal. And you can see there that back in 2010, which was basically obviously BA and Iberia, the breakdown of our revenue in terms of our premium, divided between our non-deal and our corporate deal, non-premium between corporate and non-corporate, and then other passenger revenue, cargo and third parties.

So this was a chart that I think people found very interesting at the time. And a number of people have asked us to update that. We were intending to do that at Capital Markets Day, but we felt it would be useful to give you sight of this today.

And just to remind you, the emphasis at the time was on the proportion of our revenue that was covered by corporate deals as a 14.7% and then the breakdown of that.

An area that everybody has focused on in recent times has been, so what percentage of your total revenue comes from the financials, banking in particular. And you can see there, back in 2010, it was 3.4%.

Now, we look at that today, what you can see there is a very significant change in the breakdown of our revenues, which reflects the expansion of the Group to include Vueling and Aer Lingus. And you can see the change in the corporate activity as well. Financials now represent 3% of our total revenue base.

What's interesting, and I'll show you in a couple of charts, an area that has been significantly strong and growing is what we call our premium leisure. Now, you will have heard me talk about this previously. It's principally, a fare class that we have on offer in British Airways and more so in Iberia.

This is an I-class fare which has restrictions around it, so it's non-refundable, non-changeable. It's targeted at the leisure market and we've seen that element of our business grow.

A good balance at point of sale; in BA, it's almost 50/50 UK point of sale and non-UK point of sale, so we've got improved diversification of our revenue base. We're not reliant on any one particular sector.

You can see energy and minerals sector, the oil- and gas-related travel has significantly declined since 2010, as we've commented on. So materials have actually increased their travel, but overall, as a sector, that has reduced.

And if we look then at the revenue evolution 2010 to 2015, this shouldn't come as a surprise to you. Again, it reflects the changing shape of IAG with more revenues being generated in our non-premium, reflecting, as I said, Aer Lingus and Vueling.

And just to clarify, how do we come up with these figures, we analyzed the top 200 corporates in each of our operating companies, so this is a very detailed analysis of our revenue base and particularly, a very detailed analysis of our corporate revenue base to give us an insight into the structure of our revenue.

Cargo, again, stands out there in terms of the decline and that's something that we have highlighted over the years. It's also something that we had anticipated and reflects the changing focus that we have in our cargo business, where we've moved away from operating dedicated freighters and moved to a stronger relationship with Qatar where we have a very good facility with Qatar where they provide us with dedicated freighter access and that's enabled us to get out of what was a loss-making part of our business.

In relation to third parties, it reflects our focus on profitability of third-party work. So we've exited unprofitable or low-margin third-party activity. And so we set our third-party businesses the same financial targets as we would our airlines, to ensure that they have focus on profitability and focus on return on invested capital.

And then just giving you an idea of the compound annual growth, again, it should come as no surprise that the strongest area has been in our non-deal premium.

As I said, this reflects a very strong performance, particularly in this area of premium leisure, which we've seen as being very robust through the cycle. In fact, this was an area that has consistently grown and we see it almost immune from external events, external shocks and the external cycle.

We've also seen good growth in our corporate deals and our non-deal, non-premium as well. And as we said there, cargo is an area of the business where we have been adjusting our approach to cargo, given what we see is a structural imbalance between supply and demand in the cargo business.

So I hope that's useful for you. We've been asked a number of questions by people so we felt it was appropriate to give you an update at this stage.

I'm now going to hand over to Andrew, who will facilitate the Q&A.

QUESTIONS AND ANSWERS

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

First question; first hand raised was Damian.

Damian Brewer - *RBC Capital Markets - Analyst*

Damian Brewer, Royal Bank of Canada. Could I start off by asking just could you give us an idea of what the June unit revenue environment did look like? And on the 74% of Q3 that is booked, is that closer to the June average or is that closer to what you were seeing on average across all of Q2?

And then the second question, I guess, as it ties into fleet and free cash flow. Given the changes you've seen in the market and the change in the UK outlook, how are you thinking about taking out capacity, so could accelerate some of the changes you've talked about with the BA 777 fleet or the Iberia long-haul fleet in the last sets of results?

And then, secondly, in terms of the aircraft order book. We've seen others, like American, defer fleets. Would you consider that and look at maybe more secondhand long haul, again, very big bang for the buck in terms of return on capital? Thank you.

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

I'm afraid on the first part of the question, we are not going to be explicit. We are not disclosing our views on unit revenues in Q3 and Q4.

What we are saying is what we are seeing, what we have in hand, allow us to be comfortable when we are saying that our operating result could be increasing at such a rate.

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

I think we've taken the conservative view. There's certainly nothing bullish. We're not factoring in any bounce back. As Enrique mentioned, had the vote gone the other way, we believe we would have seen a bounce back. Or our view, based on the trends that we've witnessed since the vote at the end of June, is that we've not seen any change in the pattern.

We think that it will recover; UK corporate point of sale will recover. The question for us is when but we've not factored in a recovery in the second half of this year.

In relation to the Q3 sales of 74%, that's broadly similar to what we would have seen last year. So, again, some slight changes in booking behaviors across the Group, but nothing of any great significance at this stage.

Vueling has seen more late bookings than maybe they would have seen but it's marginal. So I think the general pattern is similar to the pattern that we would have witnessed previously.

And the order book, we've got a lot of flexibility with Airbus.

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

Remember when we were talking last year about how we were going to try to improve CapEx and then our basic ratio of ROIC? We have basically three type of different areas in which we are working. On one side is extracting more value out of our asset base, and that means trying to get more revenues per metal. And that means we are reviewing the optimal configuration of our different fleets for the different segments of clients, even the different networks and, of course, the different companies.

And that's an exercise that keeps on going and we are getting some very interesting type of feedback analysis out of it. We'll talk about them on November again, some significant sorts of improvement in the way we use our assets.

Secondly, it's about the speed of our fleet renewal and that's something that we are going to be coming back to because with the fuel prices at $42 today, $43, the type of acceleration of fleet renewal into the new generation, doesn't appear to become an urgency. So that's the second one; second tool that we are going to be using.

And the third one is the proportion of leased aircraft and the owned, in balance sheet owned aircraft that we are going to maintain. And we feel we should be shifting this proportion gradually more towards a 50/50 scheme, and we are accelerating that one.

So the combination of these three areas of action will be more than offsetting the increase in the price of the dollar and improving our ROIC in terms of diminishing our denominator. So that's basically what we are thinking about it.

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

And our delivery profile for 2017 is actually quite low, so we've got good time and we do have flexibility within our contracts. So I think we're very well positioned. We've focused a lot over the past few years on ensuring that we have flexibility, retain and actually increase the flexibility within the fleet.

That gives us a lot of comfort when we look at our ability to adjust capacity up and down, and quickly adjust capacity. In terms of aircraft, we're in a very strong position.

But as you've heard me say, we see opportunities in the secondhand markets, particularly in the area of 777-300ERs. They're good quality, good value, aircraft available and aircraft that we like, that's working very well in the BA fleet today, and an aircraft that we will continue to look at in terms of opportunities going forward.

Julia Winarso - *Berenberg - Analyst*

Julia Winarso, Berenberg. Two questions, first one on Vueling. Now, you mentioned that obviously beyond the ATC strikes. Vueling has experienced some growing pains. Can you actually give some more color on what the management, and I appreciate they're not here today, is actually doing?

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

Javier is here.

Julia Winarso - *Berenberg - Analyst*

I haven't met them yet (laughter). I've met the old management. What they are actually doing to tackle the issues there?

And secondly, Willie, you've talked about premium leisure being fairly immune to external shocks, and that's quite surprising really. Are you actually saying that you're not seeing any issues from the recent terrorist attacks impacting your premium leisure bookings?

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

Yes, absolutely. It's remarkably robust. I'm not just talking about recent. If you look back, this scenario that we've focused on in British Airways for many years, you will have heard me talk about it when I was at BA back in 2008, 2009. It was remarkably resilient through the period of the global economic turndown following the collapse of Lehman's through 2009, 2010, 2011, so it's an area that we find is robust.

They tend to be people traveling in that cabin who are I won't say completely immune, but certainly, not impacted by the external economic shocks. And their destinations I will say have been -- in fact, don't tend -- or haven't been impacted by any of the external events. So it's a remarkably robust, solid and growing part of our business.

And the I-class fare, what we had talked about previously, typically, it's a good match for a corporate deal in terms of yield. So it's a good quality revenue base for us.

In terms of Vueling, I'll let Javier comment in a second, but just to say this was something that we had anticipated coming into this year and it was one of the things that Javier made clear to us when he joined.

The compound effect of very high levels of air traffic control disruption, levels I've never seen, and I've been around in this business for a long time. I've never seen ATC restrictions at the same level that we're seeing today, both in terms of the overall number of restrictions, and the average delays associated with those restrictions.

But this year has been, I would describe it as extreme actually, relative to what we have seen before. We always anticipate an element of external ATC restrictions, and it's not just restrictions impacting on Vueling.

But Vueling is more impacted because a lot of these problems obviously have been French ATC, and it's the Barcelona FIR as well, but because of Vueling's principal base of activity at Barcelona, it gets hit more than other parts of the Group, but all parts of the Group have been hit and have seen similar patterns.

But I'll ask Javier if he wants to just comment on some of the things, his early observations and the measures that have been taken.

Javier Sanchez-Prieto - *International Consolidated Airlines Group SA - CEO of Vueling*

Well, as Willie has just said, we are all suffering a lot on the ATC; an incredible increase on the ATC restrictions. And somehow in Barcelona, we are a little bit worse than the average because we are currently in a place where we have 70-something-% of our flights, where we fly in France, and we are also the sector of Barcelona in Spain that is among the worst. So, in that regard, we are a little bit worse than the average.

The thing is we have this short-lived disruption beginning of last days of June and beginning of July. What I can say now is that we are back to normal in our operations and we are operating the vast majority of our flights normally.

So that's what I can say, and of course, we've taken some measures because we need to adapt ourselves. We have a lot of passengers to be carried. So we need to adapt ourselves to the new circumstances that, as Willie has said, are not normal.

We can say this is public information you can look for in Eurocontrol and other places, and the number of flights and their minutes regulated in Europe as a whole and they produce it in the previous years.

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

Yes, we're very confident this is a one-off issue, and that it is being corrected and will be corrected. And I think great credit to Javier and the team there. They're obviously working hard. But they've taken the appropriate measures in the short term, and we've strong confidence in the long-term measures that have been taken.

So this is a robust business model that has suffered I would describe it as a one-off, which is significant, but will be corrected going forward.

Oliver Sleath - *Barclays - Analyst*

Oliver Sleath, Barclays. Three questions please, two on BA and one on Iberia. Firstly, with BA, have you been able to play around at all with traffic flows given the depreciation in the sterling?

I think that's something you mentioned in the past. Can you be a bit more aggressive on the transfer and the inbound flows to compensate for the outbound weakness, now that BA is more competitive in foreign markets?

Second question on BA, I just wondered if Alex today was able to give some initial high-level thoughts three months into the job. It seems to be a bit of a baptism of fire, but anything he might be able to say.

And thirdly, on Iberia. I just wondered, how much of Iberia's further productivity savings require the long-haul growth. And if you were to take the growth rate down, could you keep up the pace of the cost savings? Thanks.

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

Yes, I'll let Luis comment on Iberia, but just to say that we, at this stage, are looking forward at what Iberia's likely to do. I think we will take long-haul growth down. So we're confident actually that that's a lever that's available to us that is appropriate to act on and the plans are not -- our plans have never been based on growing. Clearly, we do get an advantage with a --

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

Well, especially this new wave of these increases are not so much related to crew, are more related to, and correct me, Luis, if I'm wrong, ground people, maintenance, ground handling officers, etc., but Luis will be --

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

There is a microphone there. On BA, I think there is some medium-term and longer-term opportunity for change. The reaction of sterling to the vote to leave was anticipated. In fact, that was the scenario that we had looked as the evaluator to the outcome, or anticipated the outcome, which we thought would be a vote to remain, but we did look at what would happen if the vote was to leave. It was very clear to us that everything indicated to a fall in the value of sterling.

In the short term, we don't have a lot of flexibility to adjust traffic flow. I think that will happen in the medium term.

If you look at Q3, as we said, 74%, and that's across the Group. BA would have a different booking profile to that, which you would expect, and is higher than the average.

So I think there is very limited actions that we could take; not no actions and the team in BA with Alex is taking appropriate action. One of the changes we have introduced is pricing, so with a weak sterling, we've actually increased our sterling price, but then which you would expect us to do. So we have increased some prices in sterling, particularly on the transatlantic, and given that the US carriers work with a dollar-denominated base, would want to see that as well, we felt that that was an appropriate measure.

So we do have opportunities to adjust traffic flows, adjust point of sale, and that's something that Alex and the team will do, but maybe I'll ask Luis, do you just want to comment briefly on the future restructure without -- we're not able to give specifics, obviously, but just the general.

Luis Gallego Martin - *International Consolidated Airlines Group SA - CEO of Iberia*

Yes, good morning. So we have just finished a redundancy program that we have in place in Iberia, and the idea is to start the negotiation of another redundancy program.

We haven't started right now, so Iberia is going to assess around 1,000 people and, as Enrique said before, mainly we are going to work in the maintenance and the headquarters area.

The idea is that the new redundancy program is going to affect all the quality of the Company, but the major issue we have right now is the restructuring of the maintenance, and also we still have an excess of people in the headquarters, so are the main topics that we are going to have.

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

Alex, do you want to give some observations? All the happy times you're having in BA (laughter).

Alex Cruz - *International Consolidated Airlines Group SA - CEO of British Airways*

Great and happy times. Hi, everyone. It's been an excellent three months, thanks, Oliver, for bringing up the question. Excellent three months; nearly coming up to four.

Observations right away, fantastic being extremely experienced. There's an answer and there's knowledge about every single aspect of running an airline, and that's tremendously comforting from my perspective.

I think that what we're working through is understanding what are some of the new issues are coming through the business and how we're going to be tackling them in the future.

So a lot of work working also with the rest of the IAG team, and probably preparing some plans to begin to execute a bit more seriously as we lead into Investors Day.

But I think a very good experience and, again, very rewarding in terms of the colleague days. Lots of work to be done over the summertime to prepare for more action over the coming months and year.

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

Alex, do you want to comment on the check-in IT issues?

Alex Cruz - *International Consolidated Airlines Group SA - CEO of British Airways*

Yes. We've been implementing a new check-in system which affects check-in and the gate operations when you board. There are some staggering statistics in terms of the passengers that have been processed, already over 15 million, and all airports installed.

And every once in a while, as this system begins to take in more and more and more volume of passengers, we find some glitches around messages and such. And now they're being solved very, very quickly.

In fact, most of the problems that occur, they are found out at 3:00 AM in the morning, fixed by 4:30 AM, nobody notices, and they're part of installing a new system.

If you go back and look around the industry, there are way too many examples of people implementing systems like these and going through a tough period during the first few weeks. I think it's affected us as well.

Tremendous amount of commitment by staff to make it work. It is frustrating at times when it affects you when you do have passengers in front of you trying to manage the queues, but all in all, I think that we're going in the right direction and disruption is really at a minimum. We are running now for nine days quite really, really, really perfectly.

But I think this summer will prove that the system is working and is actually helping us to do the kinds of things that we couldn't do before. And that's why we put a new system in.

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

Thanks, Alex. Just to say it's an issue that, obviously, we keep a very close eye on at an IAG level, because of the interaction of IAG, IT, the BA operations, but I'm just saying very close cooperation, good working relationship, the teams are working very well together and we've got a clear command and control structure in place that we believe is appropriate and very effective. So I'm pleased with the progress that we're making there.

Jarrod Castle - *UBS - Analyst*

Jarrod Castle, UBS. Three as well. Just on the pension, it's obviously, from an accounting perspective, gone from about EUR100 million surplus to EUR800 million deficit, but I think obviously probably more of a focus is on the actual review. So if you could just give some color. I realize it's sensitive, but what are the sticking points, possibly when we'll get some resolution there?

Secondly, you've maintained your free cash flow guidance. I think it's probably fair to say consensus was probably looking for EUR1 billion of higher EBIT. It's now looking for probably what will be a few hundred million, so still a good performance. But clearly, you've maintained that guidance.

Have you tweaked anything on CapEx thinking, anything like that, or working capital to still get within the EUR1.5 billion to EUR2.5 billion?

And then just lastly, very usefully you've been spelling out Avios, and it seems to be a great performer. Any color in terms of how it's performing this year to your plan, please? Thanks.

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

Okay. On the pension, you're absolutely right; our focus is on the actuarial valuation. I don't wish to say anything bad about accountants or accounting rules, but the pension accounting rules have been commented on many times by us.

So the negotiations are making progress. I think we do have to acknowledge, and you may have heard me say this, I was keen that we didn't commence the negotiations until Steve Gunning as the new CFO was in place, because I thought it would be unhelpful to start the process and then change the key person on our side.

So the negotiations were started a little bit later than normal. There was also a change on the other side with the Chair of the Trustees changed as well.

But I think we're making good progress. I think the negotiations to date have been constructive and that's, I think, what both parties to the negotiations have said.

It is a sensitive issue, so clearly, I'm not going go into any additional detail on that other than we're confident that an appropriate arrangement will be agreed and that's something that will be done in due course.

On the equity free cash flow; in relation to CapEx, we actually say in the statement, you may have seen it, that our 2016 CapEx has taken place already; most, if not all of our CapEx actually was spent in the first half of this year.

So we're always looking to adjust CapEx, although we haven't made any new changes to 2016 because it's already been spent. But clearly going forward --

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

There's a collateral positive coming from sterling weakness, because a significant part of CapEx of British Airways is sterling and that would be helping us keep the euro figure lower.

And as Willie was saying, all the measures that we have been undertaking since a couple of years ago, they are now rendering benefits. But there's going to be more. And those additional ones, we'll tell you about and you'll have to be counting that they will be impacting positively in 17, but especially 18.

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

And on Avios, yes Avios is performing very well. Avios, again, the results of Avios, they'll be translated into euro, because of the sterling profit is impacted, but the two sterling, revenue and profit activities within the Group, are British Airways and Avios, so obviously, they've been impacted by the translation effect.

But the underlying business model at Avios is robust. They were very pleased with the performance and there's nothing unusual that we've seen so far. So it's very much trading in line with the plans that we had for the business, and didn't show any impact as a result of Brexit or other external impacts.

Andrew Light - *Citi - Analyst*

Andrew Light, Citigroup. Two questions. Actually, firstly on the subject of Avios and other revenue, do you think there's any opportunities, like the US airlines have done, to renegotiate or extend credit card agreements like Amex did with Citi and Barclaycard recently? And do you think Avios is also part of the reason why premium leisure is quite resilient?

And then second question on Aer Lingus. You've ordered a couple more wide bodies for next year. Could you just update us on your plans and so forth with the merger synergies over the next year or two?

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

So we have been renegotiating with the main players there. In the case of Visa, MasterCard type of world, the interchange rate has been falling dramatically. And that's affecting most of our European and local type of activities.

And we've been able to renegotiate a big new deal with American Express as well. So, yes, we have already achieved some savings and we'll be rolling on top of those savings and deepen them in the next quarters.

It's a new development for American Express, as you know, basically in the European frame, which is they're not going to be able to use their famous non-proprietary model, their franchise model. And that's something that's going to be something also a new opportunity in terms of driving that business into something that will be more alike of the, I would say, nice Visa/MasterCard type of cheap rates of interchange.

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

And the Aer Lingus transatlantic performance continues to do very well. Very pleased with the performance in forward bookings on the new routes and that's encouraging. We are looking at some additional destinations in the United States. We obviously will announce those at the appropriate time. But there are opportunities for Aer Lingus to expand the network.

And we'll spend a bit more time on this at Capital Markets Day. But obviously, one area that we're looking at as well, you may have heard us talk about this, is the A321-LR, which we believe represents a fantastic opportunity for Aer Lingus. So that's something that we'll be actively considering. And, as I said, we'll give you some flavor of that later on this year.

But transatlantic performance is doing well, very encouraging; traffic numbers are very good. Aer Lingus is long dollar, which for a European airline is a great position to be in with the way things are at the moment.

James Hollins - *Exane BNP Paribas - Analyst*

James Hollins, Exane. Three from me, please. The first is, as it stands today, what we should expect your 2017 capacity plan, in terms of a hard figure. And perhaps more importantly, what a realistic range of where that might be, given the flexibility you have.

Secondly, just following Julia's question, you seemed to be hinting at perhaps some growth pains in Vueling and then went straight back to blaming the ATC, etc., which is fine. I'm just wondering if there was a slight mismanagement in the growth or whether it's just chronology of a lot of new aircraft coming in.

And the third one, a similar sort of question, it looks like IT and other costs were a significant negative in the quarter. I'm just wondering how United's activities at T7 would impact the cost base there and whether anything else had slight underperformance. Because I know that certainly IT outsourcing was a big source of potential cost savings. Thank you.

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

The 2017 capacity we'll not state. But I think it would be reasonable for you to expect that our longer-term growth plans have come down. Based on what we've seen in 2016, our anticipated impact of some of the macro issues that have become evident in recent months and obviously we'll update that.

But as we've always said, when we give you a headline growth figure, our approach tends to be to look then for opportunities to trim that back. And that's exactly what we've been doing as we've gone through this year.

We like to take early action. As we've seen from events in the past, the earlier we do it, the better it is from a revenue management point of view. But certainly, looking into 2017, at this stage, you should expect us to moderate our growth --

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

Now that will be using would be, basically, operating lease discontinuation one side and early retirement of fully depreciated aircraft on the other side.

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

And in relation to Vueling, we're not trying to hide the fact that there is internal as well as external. I think the internal issues were compounded significantly by a worsening external event.

I think there has been a lot of learning. It's clear that the schedule that Vueling has put together needs to be adjusted. Some obvious issues that we've identified: we have a number of flights that are planned to arrive at airports that have night jet times very close to the closure of the airport. And these are hard closures, so it's not like you might get a financial penalty if you land after the closure. These are airports where you cannot land.

The problem with that is you're almost building in failure as it were, particularly in an environment where you're going to hit ATC. And the impact of that is the aircraft ends up diverting. So you now have the aircraft and the crew at the wrong airport, which means you have the knock-on effect the following day and you can never recover. So your ability to get out of that is almost non-existent.

I think that was a clear mistake that has been recognized and will be corrected. And I think that's something that you can say was a calculated risk that went wrong. I think it was probably too great a risk, and particularly in the current environment.

So they might have got away with it had the ATC environment been maybe the same as last year; there's no way you were ever going to get away with it in an environment where air traffic controllers (inaudible) increasing.

So that's just one obvious area where I think you could argue that the growth of the change could have been managed in a different way. But it's been identified, it's being corrected and obviously, it's something that will be avoided for next year.

And IT and other, yes, great. The benefit of IT cost reduction, and it will be significant, will be 2017/2018 (inaudible). And you're right, the costs in T7, with the loss of the United revenue increased our net costs at Terminal 7, JFK. We will look to replace that.

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

Yes, we are looking actively to replace that.

Neil Glynn - *Credit Suisse - Analyst*

Neil Glynn, Credit Suisse. If I could ask three also. It might be a stark reference point, but looking back to the crisis over 2008/2010 with BA's long-haul revenues, the premium revenues fell by about 30%.

I'm just interested, as you get beyond peak season, into September/October, I guess it'll be a bigger test for long-haul premium cabins. Can you give us some insight in terms of what you're hearing from your corporate customers now versus the situation a few years back, if there's any interesting change or parallel?

Two other quick ones, just firstly, does Brexit give BA an opportunity to reassess labor costs?

And then thirdly, you mentioned A321-LR opportunities for Aer Lingus. JetBlue have obviously just ordered. So Delta talked about a bit of a pinch from low-cost carriers on the transatlantic this summer.

So could you give us a bit more color or some color as to whether you are feeling any negative impact from Norwegian, etc., currently?

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

Okay, on premium, what we're seeing now is completely different. And we have looked back, obviously, and we've tried to see if there is anything that we found as similar.

So, if I go back to 2008, September 15, 2008, collapse of Lehman's, the behavior then was one of very high levels of cancelation. And we had the combination then going forward of corporates where they had flexibility with the fare, canceling the fare and not booking.

It's completely different this time round. What we have witnessed lately, through June coming up to the vote, was a slowdown in booking. And it's obviously much easier for us to recognize that when we look back at the trends and we can correlate the change in behavior with the increasing concern that the vote would go to leave.

What we've seen since then, we didn't see any change in the passenger cancelation, none whatsoever. In fact, there has been I would say no change in behavior there. So we're not seeing corporates canceling; what we saw was corporates not booking and these are principally UK-based corporates.

I think the anecdotal -- what we were picking up anecdotally was this would have come back, and most corporates are still, I think, assessing what this means.

What they're telling us is everybody's now looking at the opportunity, so all the people who have talked about doom and gloom beforehand, they're now saying, well there must be some opportunity in this, and are now looking for that.

So we expect things to recover, but it's a completely different pattern of behavior, so we're not expecting to see anything in September different to what we would have seen before.

All of the indications show that this was a poll that people tried to assess what Brexit meant, and now, we're seeing some evidence of people saying, okay time to get going. But our view is we're not factoring in any of that in the second half of this year, and we principally see it as an issue for 2017.

Brexit. Well Brexit, actually a weak pound gives BA a competitive advantage because of the sterling labor cost. So, clearly, that's something that we believe we need to be not just aware of, of course we are, but to exploit where there are opportunities to exploit that, and that's something that --

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

We're going to be testing on a very type of structural way.

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

And on the transatlantic weakness, the 321-LR is a perfect aircraft for Aer Lingus and the difference between Aer Lingus and JetBlue is Aer Lingus has been doing this for years and knows how to do it, and knows what the transatlantic market is like.

The general environment on the transatlantic we would say is generally okay; there are areas where more capacity has gone in, particularly into Europe.

UK, I think the general demand environment remains good, but we're seeing a lot of capacity come in from the likes of -- or growth in Norwegian, it's in WestJet, it's in Rouge and so principally into Gatwick, very little in terms of additional capacity coming into Heathrow.

We anticipated this. We looked at Norwegian for several years now in terms of understanding what the impact of Norwegian's plans might be on this and our ability to compete, and we're very comfortable that that's a business --

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

And it's in our radar. So we are really following closely and we are reacting and we will react.

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

Yes and we have opportunities. We believe that this is a market where there are opportunities for IAG, and perhaps something that we will talk more about.

Some of it we'll talk about at Capital Markets Day in November, but we have other plans developed and developing behind the scenes which we will discuss in due course.

Douglas McNeill - *Macquarie Research - Analyst*

Douglas McNeill, Macquarie. On Brexit, you're very confident that in terms of Brexit, it won't have any impact on the structure of the Group; you've repeated that in your statement today.

Could you just remind us of the reasons for that confidence, given that in terms of ownership at least, you seem to be in danger of being passed as a non-EU Group?

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

I've heard some people, some of our competitors talk about this. I think they're trying to mask the big problem that they face themselves.

In the first place, we are a -- IAG is European. We put a structure in place at the time of the merger to ensure ownership and control was tested from a bilateral air service agreement point of view, where it would have to demonstrate either British ownership and control of British Airways, or Spanish ownership and control of Iberia.

That structure was put in place at the time of the merger. That structure has been tested in several jurisdictions. That structure has stood up to the test.

We know what the environment is like. Clearly, the environment is changing, but based on conversations and discussions and negotiations that we've had with relevant authorities, we're not concerned.

We believe that any of the issues that may present themselves are issues that we can deal with, and we have knowledge of dealing with them because we've had to when we created IAG in the first place.

So what arrangements will be in place for the UK once it leaves the EU, there are a number of options there, but all of the options we've looked at, we believe allow us to continue to operate.

We recognize that some of our competitors have more challenging issues that they need to deal with and they may need to start looking at structures similar to what we have done.

So we're confident that this is not a threat to our business. We've been very clear about that and we're very comfortable with the position we're in today.

And based on all of our experience, the discussions, negotiations, formal agreements that we've had over the past five or six years, where we've anticipated these issues and had to deal with these issues, we know that we can navigate our way through anything that will come up.

Andrew Lobbenberg - *HSBC Global Research - Analyst*

Andrew Lobbenberg, HSBC. Can I ask about Aer Lingus? Clearly, it's done a superb response in the first half. How do you see its role developing in the post-Brexit world with weaker sterling given that it carries quite a lot of traffic ex-provincial UK? So you're clearly pouring capacity there. What's it going to fly like?

Second question on industrial relations. I think you have a well-deserved reputation for managing change with the organized labor, but there's been quite a lot of noise with the IT outsourcing and there's a little bit of noise coming from the cabin crew here.

As we look to drive further change at BA and indeed, at Iberia, how confident do you feel that you can continue to deliver your success, albeit with airlines that are driving much higher margins than they were when previous changes were made?

And a third question being greedy, what's your view on the likely outcome of the third runway debate in the new political environment with the Prime Minister for Maidenhead?

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

On Aer Lingus and Enrique can correct me on this, I think the net long position that Aer Lingus has for the rest of this year is at GBP7 million. It's not that significant, Andrew.

Yes there is -- they do have a long sterling position, but it's not as significant as you might think, and I think in the second half of this year from memory it's about GBP7 million, so it's very manageable.

So we're not overly concerned about that, and we see actually opportunities for Aer Lingus continuing to build traffic over the Dublin hub into the transatlantic.

On industrial relations, well, you said it yourself; I think we have the track record. I think that track record is something that has stood the test of many years and many different events, and we remain very confident that we can deal with all of the issues.

I'm not worried about the noise. We don't in any way be influenced by what the papers say or might direct. We're clearly focused on these issues. We engage very constructively with all of our trade unions and directly with our employees to explain the need for change.

I think in a business where we have managed change and continue to manage change, and make the point that change is a feature of the business, that separates us from a number of airlines in Europe, and embark on the change program and tell everybody it's all done and we can relax, and then a couple of years later, try and embark on a new change program.

We're into managing change every day of the week, every week of the year, and that's why I think we've been successful where others have struggled to get momentum going.

So do I anticipate any issues? Obviously, there could be, but we're very confident that we will manage these issues. And I think we've got a very strong track record of managing those issues.

And on the third runway, I think there's some evidence that this government is determined to reach some form of decision in relation to airport expansion in the South East; whether that's a third runway at Heathrow or Gatwick is unclear at this stage. I think the former government would have supported the third runway at Gatwick had the vote gone the other way.

All the signals that we were picking up, without having any direct insight, but all the signals seemed to point to favoring the third runway at Heathrow.

I think it's a little bit more difficult for this cabinet given the constituency of a number of the key cabinet members, but we'll wait and see.

I think Theresa May as Prime Minister doesn't appear to be shy, and appears to be capable of making tough decisions. So I think that's a change, because I don't think Cameron was in that mode, just a personal observation, and I think he shied away from making tough decisions.

But I don't see her doing that, so who knows. It's probably more likely that we'll reach a decision, (laughter) whether it's the right decision or not, I don't know, but I think the days of trying to delay decision making in relation to this are coming to an end, which I think is a positive.

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

I think we'd better close off the questions there. We've let it go on for longer than usual because of everything that needs to be discussed, but maybe a last word from Willie before we go.

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

Yes we're very pleased with the performance in the second quarter, a lot of moving parts, many of them outside of our control.

I think the issues that are within our control, I think we're dealing with well. I'm confident about our ability to continue to deliver in the second half of this year.

Particularly confident around our focus on generating cash and equity free cash flow, and the coverage that will give us in terms of the dividend policy that we've articulated, and we're very conscious of the need to do that.

We've got a lot of levers available to us in 2017 and 2018 to continue to manage volatility if it exists, and it'll be business is in good shape. We'll be in better shape as we manage some of the internal issues that we've encountered through this year.

But everything that we see at this stage gives us reason to be confident about our performance, and confident about the future.

And thank you for attending today, and we look forward to seeing you at third quarter, our Capital Markets Day, but hearing from you (inaudible), so thank you very much.
