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IAG.L - Q1 2013 International Consolidated Airlines Group SA Earnings Conference Call

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CORPORATE PARTICIPANTS

Willie Walsh *International Consolidated Airlines Group SA - CEO*

Enrique Dupuy *International Consolidated Airlines Group SA - CFO*

Keith Williams *British Airways - CEO*

CONFERENCE CALL PARTICIPANTS

Jamie Baker *JP Morgan - Analyst*

Tim Marshall *Redburn Partners - Analyst*

Juan Ros *BBVA - Analyst*

Jarrod Castle *UBS - Analyst*

Damian Brewer *RBC Capital Markets - Analyst*

Edward Stanford *Oriel Securities - Analyst*

Andrew Light *Citigroup - Analyst*

Peter Hyde *Liberum Capital - Analyst*

Andrew Lobbenberg *HSBC - Analyst*

David Fintzen *Barclays - Analyst*

Neil Glynn *Credit Suisse - Analyst*

Jose Aroyos *Santander - Analyst*

Anand Date *Deutsche Bank - Analyst*

Donal O'Neill *Goodbody - Analyst*

PRESENTATION

Operator

Good day, and welcome to the IAG Q1 results conference call. (Operator Instructions).

At this time, I would like to turn the conference over to Mr. Willie Walsh, CEO. Please go ahead.

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

Thank you very much, and good morning, everybody. Thank you for joining us for our Q1 results presentation. I'll hand over to Enrique Dupuy, who will take you through the presentation. And in addition to the standard quarterly results, he will also comment on a number of strategic developments in the Group in the recent months. Enrique, over to you.

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

Good morning, ladies and gentlemen. I'm going to try to summarize the highlights of the operating results of this first quarter for IAG. So the figure for the operating losses this first quarter of the year has been EUR278m, which is worse than last year, which was EUR249m, but we have to consider as a main impact that have affected this first quarter of the year the adverse currency effects of both a weak sterling and a stronger dollar and that are accounting for EUR67m of adverse impact.

The capacity of the Group has been decreased by 2.1%, of which 0.6% has been directly related to Iberia strikes, 10 days of strikes that have cost us, in terms of estimated net impact, EUR29m.

The reported passenger unit revenues have been showing strong positive figures in relation with last year, with a growth of 3.9%, which is 5.3%, if we recalculate it at constant currency.

Reported fuel unit costs has been down by 1.5%, or 1.1% at constant dollar terms, and this is something that probably is going to be showing through the remainder of the year some positive impacts if market prices stay at actual levels. The reported nonfuel unit costs have been up 5.8%. The underlying figure at constant ForEx exchange has been 4.9%, and we have to mention some short and one-time net negative impacts that have increased the figure for the quarter.

One of the main ones, of course, has to do with the Iberia transformation plan settled, so we have been reducing capacity by 13% and the real reduction in labor costs is beginning on the month of April, both in terms of number of employees and in terms of salary reductions. In the case of British Airways, there has been a significant impact in labor costs, as well, because of increased headcount to prepare the organization for the delivery of the new aircraft types through the second quarter and the second half of the year.

We have to mention also some special seasonable promotional activity related to our Avios program and also, especially, to the British Airways Holidays program. This, on top of underlying inflation, is behind this nonfuel unit cost increase that I have mentioned.

So coming to the second page, page number three, we summarize in this one the main figures that explain the performance of the quarter, so you are seeing capacity decrease by 2.1%. This is compounded at minus 13% for Iberia and a plus 1.7% for British Airways.

Passenger transport, RPKs, have been coming down by 0.5%, so as a result, there has been a significant increase in seat factors, 1.3 percentage points for the quarter in relation with last year. Cargo figures have continued weak. In the case of the Group, we have basically preferred to maintain cargo yields, which have not fallen, so they are up 0.8%, and 1.2% in constant ForEx terms.

Volumes have been dropping. Volumes have been dropping by 8%, so the weak market -- the cargo market is still weak in this part of the year. The rest is about things that we have already highlighted, so passenger revenues per ASK again, 5.3% up in constant terms, ex-fuel cost per ASK, also up by 4.9% in constant FX terms.

Coming to the next page, we are basically explaining in absolute figures the performance of the revenues through the quarter. So there is, initially to comment, a reduction in volume that is consistent with the RPK decrease of 0.5% negative for the quarter. There is the significant negative currency impact because of the weak sterling and the fluctuating dollar, and there has been also to mention the cargo weakness in the same period last year.

On the positives, a very strong performance, both in terms of price and mix on the revenue side. So, as a whole, a 0.5% increase in absolute terms for our revenue figures through the quarter.

Next page is where we explain unit revenue performance at constant ForEx through the last quarters. So we see that counting on this weakness we have to go through on the Olympics period through Q3 2012, the underlying trend in passenger revenues looks still on a growth factor, and we have no signals that growth underlying percent is going to change in the next future.

On the cargo side, we have been seeing weakness in terms of cargo yields until Q3 year 2012, and since then, basically because we have planned so, we have been achieving cargo yields improvement, both Q4 '12, and now in the first quarter of year 2013.

So taking a short overlook to the different regions in which we operate, some good news, as you see, on the North Atlantic. So, very impressive unit revenue performance, up 7.3%, on capacity discipline, so minus 4%. We are not losing market share. We are maybe more on the contrary, so significant discipline in this area of the market, rendering unit revenue improvements -- substantial ones.

On the Latin American side, we have to note the very special negative impact in capacity of the Iberia transformation plan and the Iberia strikes, and these have also created certain weakness on the side of unit revenues, which we have been able to maintain flat under this heavy disruption on our Iberia operations.

In the domestic, it's about, again, weakness in Spain, significant weakness, and we have to say, the strikes in Spain have basically affected the domestic market, because passengers have alternatives as a plane. In the case of the UK, bmi has also created some specific weakness, so the growth in ASK is basically related to bmi UK, and unit revenue has to do with I would say the poor revenues that we have inherited.

It's different in the case of Europe, and here we are bringing maybe some good news, because on one side, we are seeing low-cost carriers' capacity discipline and pricing discipline. On the other side, bmi is also providing the Group, especially British Airways, with connecting alternatives that we haven't in the past, and that's enabled us to gain some corporate contracts. And, finally, Spain has been also positive in terms of demand, especially in terms of unit revenues. The hub to main Europe activity has been positive in terms of unit revenues for the quarter.

Another positive is Middle East and South Asia. This is a win-win, because on top of increased capacity by 2%, we have been able to increase unit revenues by 4.7%, and this is about our basic markets, South Asia and North Africa, Middle East, in which we are particularly strong.

Asia-Pacific is different. Asia-Pacific is a market that has been affected -- we are talking about North Asia in this case -- by the weakness of the yen and also the opening of new routes at Seoul that of course have a learning period with low returns to go through.

Let's come then to the next page, in which we are showing premium and non-premium unit revenue developments. So, what we see is a positive at lower growth in premium unit revenues in this first quarter. This has two basic arguments behind. The first one is Easter impact. So, as you know, Easter is favorable for leisure traveling and unfavorable for business traveling, so that creates a significant shift, because that's been falling in March against last year, and also in terms of premium to non-premium performance.

The other argument for the premium lower performance is the base. The base Q1 '12 was up 11%, so it's difficult to make more money on that very strong base. But as you will see in the same chart, we have some weaker quarter through Q2, especially Q3, that will allow us -- and those, remember, are about the Olympics -- which will allow us to increase unit revenue performance on the figures in the following quarters.

The non-premium is showing a different pattern, so, as I told you, it's about a very strong performance, both in the UK and in Spain. It's about a little bit easier comparables. In this case, it's about the Easter helping the month of March in terms of leisure traveling. But what we can say on what we are seeing for April, May and June is that this trend is being maintained.

So coming to the next page, here, we are explaining our capacity plans, so it's going to be about minus 1.8% for the full year. Of course, this quarter one, quarter two, quarter three, and this is because of the transformation plan implementation in Iberia is strongly negative, so you will see minus 3% and minus 3% again Q2 and Q3.

By the end of the year, we'll get new aircraft deliveries, especially on British Airways, and then A380s, which will allow the Group to increase capacity at marginal costs, at much cheaper costs, because of the bigger aircraft and more efficient aircraft. So that will allow us to increase capacity on the final quarter of the year. The figures for Iberia and British Airways will be, full year, Iberia minus 14% and British Airways plus 2.8%.

Coming then to the next page, basically, this is the chart that we try to follow as homogeneously and consistently as possible quarter on quarter, so that the big thing that we have to say this time is this mentioning of the non-premium short haul, which we have labeled as maybe not just stable but, in some ways, leaping into the strong area. And we cross fingers, believing that it's going to be maintained. We have to reiterate that, at least for the first half of the year, the cargo market will remain weak.

So a little bit more explanations on cost. Unit cost growth, as we told you about, has been 2.8% up in constant ForEx terms. This has been affected by the Iberia transformation plan significantly, and I will say especially significantly on the labor cost area. So I would say maybe more -- maybe around 50% of increase on last year has to do with the unit cost increase on Iberia caused by reduction in capacity not followed yet on this quarter by reduction in the workforce.

This has had also an indirect impact in supplier costs, which is much more difficult to identify, but it is there, as well. So the other couple of issues that we would like to highlight on the supplier cost is the special expenses investment, maybe, that we are dedicating to our Avios programs, mileage programs, and also to the British Airways Holiday project that we are pushing hard through this first quarter of the year.

So, coming to fuel, some probable good news on this front. We were saying at the beginning -- we were saying last year we were closing at 6.1. What we can estimate at this point of the year for full-year 2013 is something in the range of 5.8, so this would probably create a scope for improvement, savings, in the range of EUR300m for the full year.

We have a high level of hedge position, especially Q2 and Q3, in the range of 80%, so we have actual prices protected at very high levels. Q4 and Q1 2014, hedge level comes down to 65% and 45%. The level of hedging is slightly below actual market prices -- close, but slightly below. So if market prices stay at the actual levels, we are confident in being able to provide you with good prices for the full year in this area.

As a whole, coming to the next page, the first quarter has been evolving since 12 first quarter, with the mentioning of this negative currency impact of EUR67m, which is both in terms of revenues and is because, basically, sterling weakness, and also because of costs. And this is basically because of dollar price spikes through the quarter.

On the other side of the coin, we have been able to achieve revenue improvements of EUR66m on top of fuel cost savings of EUR45m. This level of cost savings will probably be increased through Q2 and Q3. On the negative side, again, nonfuel costs are down by EUR73m, out of which EUR30m is very tightly related to the Iberia lag on their transformation plan. And we are going to be showing you through Q2, Q3, much more positive figures on this battle front.

So maybe some comments on the exceptional charges that we are showing in our accounts and that are basically at this time related to the Iberia transformation plan. So I can remind you that the provisioning that we were making by the end of last year on the restructuring costs, labor restructuring costs, of the transformation plans, were EUR270m, out of which the additional tranche that was basically affecting Q4 results was EUR202m. That was the additional provisioning that we have to do by the end of last year, and that was basically based on our assumptions on how this ERE, this redundancy process in Spain, was going to be looking like.

Through the quarter, through the first quarter, we have been engaging in different negotiations with the intervention of this mediator that was appointed by the government. Finally, there was an agreement, a general agreement, around this mediator proposal, and it has the effect of forcing us to provide EUR265m additional, and this is because of the new format of the redundancy program that will be relying much more -- basically, 100% -- on early retirements for the employees.

So, on top of that one, after fine-tuning the program of reduction of capacity and fleet, we have been able to evaluate the costs related to fleet redeliveries by EUR47m. So that's how we get to the EUR311m that we had to provide as additional restructuring costs on the accounts of the first quarter.

There is also a change in pension accounting due to the implementation of IAS 19. Basically, three aspects, on one side of the balance sheet is where the big negative impact is going to be getting, going to be coming, and this is because of different recognitions of the value of the liabilities under the plan, mainly, and the abolishment of the corridor rule. So the net impact on our balance sheet in terms of equity would be a reduction of EUR2.077b net of tax effect.

On the income statement, it will be no impact at the operating level. The full-year '12 original charge of EUR266m will now decrease to just EUR26m. For details, we have provided a very deep explanation on our annual report on page 98.

In terms of cash flow, as you know, IAS 19 does not result in a change of our cash contributions in relation of the funding of the deficit. And we are repeating here the yearly cash contributions that we have agreed with the pension fund trustees for the time being.

Coming then back to the balance sheet, and here these figures exclude yet the IAS 19 amendments, what we see is basically the reduction in equity, in reserves, due to the losses, both operating losses and exceptional losses after tax, of course, that we have accounted for through the first quarter of the year.

The gross debt has been gradually diminished. The cash balances and interest-bearing deposit balances have been maintained quasi at the same levels as the end of the year, so gearing has been just I would say marginally increased. And the fact is that the adjusted net debt, taking all in, including operating leases, has been reduced by EUR600m. This is a significant figure there are two basic reasons behind. One is about regular repayments of the debt and not so many additions in terms of new fleet. The other one is because of the translation into euros of a weaker sterling on British Airways' balance sheet.

So the outlook for year 2013 is basically not an outlook. I have to be precise in the respect, in light of the requirement for the Group to seek shareholder approval for its previously announced British Airways fleet replacement orders -- this is the first time that happens to us -- and the consequent requirements to report on any outstanding profit forecast as part of this special process, IAG is no longer giving guidance at the operating profit level for year 2013. However, we will provide the following statement on the outlook, so we are going to talk about trends.

Current trading is in line with our expectations, and for year 2013, excluding Vueling, we expect to reduce Group capacity by 1.8%, and we are keen in keeping our nonfuel unit cost guidance flat for the full year versus the full last year.

Through the quarter, we have been also through some significant strategic milestones that we would like to share with you. You know about all of them because of our announcement, but they are concentrated in these bullet points.

So British Airways triennial negotiation with pension fund trustees is ongoing. We have, as IAG Group, taken control of Vueling. We are signing in -- we did sign in Iberia a significant labor agreement with all the unions with the exception of the pilot unions, following the so-called mediator proposals. We have appointed a new Iberia CEO, and we will talk about it further on. And we have engaged into a large fleet order for a long-term replacement of British Airways 747s and potential new-generation aircraft for Iberia, too, if there is a case for it.

So, first of all, British Airways pension update. Of course, as you know, the aim remains to reach agreement by June 30 on our triennial exercise of valuation, and we have made some progress in this sense, although we are still negotiating with pension fund trustees about some significant issues. One of them is the actuarial valuation, in which we have to agree, referred to the 31, year 2012. In our belief, we have to highlight and share with you that the plan -- contribution plan -- is on track.

Second one is about the ability for British Airways to move out of a dividend restriction pattern and into a normal level of dividend payments over time, and once, of course, profitability is sustainably improved and the financial situation and the solvency and gearing ratios are adequate.

We will be retaining the cash sweep for this triennial period to allow, if it is the case and it makes sense, acceleration of our recovery plan contributions. So, as I said, the discussions up to date have been constructive, but we have to make it clear, at this stage, we cannot have certainty of the final outcome.

As you know, because it's the regular process, if we don't reach an agreement by June 30, discussions will continue, but then with the engagement and the involvement of the pension fund regulator.

Just a reminder of Vueling and how we have decided Vueling to fit into our Group structure, so Vueling will become -- has already become -- an affiliate directly reporting into IAG and separated and different to Iberia Express, which will remain reporting directly to Iberia. So nothing changed, and we are following the schemes and the messages that we were transmitting to you on the Investor Day.

Vueling has a huge value on our interpretation and valuations, a huge value on its own strengths on a standalone project, but, of course, we'll see how we can enhance this value through the collaboration with the different parts of our Group.

A summary of Vueling roundup. IAG offer for Vueling stock was completed on April 25. We have now then 90.51% of Vueling's stock between Iberia Holdings and IAG direct holdings. Vueling then is going to be consolidated in IAG accounts since May 2013, and we will have the benefit of being able to get the contribution of the positive operating profit we are expecting on the remaining three quarters of the year. But this is not yet included in our IAG guidance.

On the Iberia transformation plan, so as a reminder, again, just I would like to mention the mediator agreement on March 30, which basically allowed Iberia management to undertake a workforce reduction of up to -- in this case, down to 3,300 people, which is 17% of the Iberia workforce. On top of that was agreed an average salary cut of 11%, which was higher for the crews and pilots and lower for the ground people, followed by a further 4% potential additional salary decrease if certain productivity targets, productivity agreements, were not to be reached. And we have to say that has been the fact, and we will be applying since the month of May this additional 4% salary reductions to 100% of our workforce.

So, as initial savings, we are counting on 3% unit labor cost reduction for this year for the case of Iberia. We will get some fuel tailwinds, as I was explaining before, so we will be seeing for year 2013 a substantial material reduction in the level of Iberia losses in comparison of last year's results. And we are also counting on targeting that the cash flow, operating cash flow, for the second half of the year would be at least neutral.

For the full transformation plan, basically, operating results turnaround of EUR450m improvement in margins will be expected between year 2012 and year 2015.

Just a brief mention then to changes in the management that we have undertaken, a new CEO has been nominated for Iberia. He is Luis Gallego. You will be familiar with him very soon, because we intend to have for him a presentation through the month of June.

He has formerly been CEO of Iberia Express and done a fantastic job there on a very short timeframe. He was before that CEO of Vueling, so he has a lot of experience on low-cost carriers and on a lean approach to our business. So we are really confident to be able to have him as the leader and the catalyzer of a turnaround in Iberia.

Finally, mentioning on fleet additions, big fleet additions that we have been able to undertake by the end of the first quarter. They affect both British Airways and Iberia. In the case of British Airways, it's basically replacement additions and growth potential that we want to secure through contracts with both Boeing and Airbus.

In the case of Boeing, it has been about firming options, firming orders that we had on 787s. In the case of Airbus, it's been a new contract, a new order, I would say a very efficient one in all of its terms, both financially and in terms of discounts. So it will secure us at least 18 early deliveries of 350 family, especially 350-1000 aircraft. That will begin being delivered since the end of '17 and '18.

So for Iberia, what we have done is to secure a package of very flexible options. The exercise of these options will have certain windows of opportunity through the next couple of years and will be basically dependent on the progression of the productivity agreements and the turnaround exercise for Iberia and our ability to invest in Iberia in the future getting enough certainty of reaching adequate returns.

So this is basically all about the Q1, and we are ready to get your questions, and we'll try to answer them.

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

Okay, thank you, Enrique. There was a lot in that presentation, so over to you now for questions.

QUESTION AND ANSWER

Operator

(Operator Instructions). We'll now take our first question from Jamie Baker from JP Morgan. Please go ahead.

Jamie Baker - ***JP Morgan - Analyst***

Good morning, everybody. A question on the North American unit revenue trends, I assume that the American JV is fairly mature and contributing to the 7.3% improvement you saw in Q1. Post-merger for American, is there likely to be another step up in terms of this metric? I remember what the estimates initially were when the AA BA joint venture was finally blessed by regulators. Just trying to assess where we are today relative to those early estimates and the degree to which adding the USAir network might improve that. Then I'll have a follow up.

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

Okay. Well, we never gave any estimates, so I'm not sure exactly what you're referring to, but just to say that we see the merger of American and US being a very positive development on a number of levels. It reinforces our view that consolidation is positive for the industry, and there's very strong evidence to support that, when you look at the US domestic market.

We should point out that US is a big domestic carrier, but not a big international carrier. It does have a presence on the transatlantic, but it's not a significant presence. But the addition of US Airways to our joint business is a positive development, but you need to reflect the fact that its transatlantic operations are significantly smaller than American or British Airways. But overall, we see this as a positive development, and it particularly gives BA an opportunity at hubs like Phoenix and Charlotte to strengthen our position in terms of feeding traffic into the joint business on the transatlantic. So, yes, it is a positive.

Jamie Baker - ***JP Morgan - Analyst***

Excellent. My second and last question, earlier this week, Delta Airlines announced a plan to return capital to shareholders. By my standards, by US standards, that was a fairly unprecedented event. We'll obviously have to see if the competition follows over time.

But in IAG's case, and you're not alone in this regard, capital instead is being allocated to Boeing and Airbus, and I realize there are reasons for that, but I'm just wondering how we reconcile this difference in capital philosophy. Could you give a bit more color around your longer-term capital thoughts, particularly those profitability or leverage targets that you might hope to achieve before you can at least consider rebalancing that capital pendulum between manufacturers and shareholders?

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

Yes, it's an excellent question. Again, I see the development at Delta being a very positive development and reinforcing the statements made by Richard Anderson that he's in business to make money for his shareholders, and, as you know Richard, to make money for himself, as well. And that's the sort of language that you're hearing in the US, which is very different to what we've traditionally heard and, in our view, just adds to our belief that the industry is becoming much more rational. And you should expect to see that rational behavior followed by others in the US industry.

And I think it is flowing across the Atlantic and is influencing the approach of managers, airlines, CEOs around the world. So, as I said, it strongly reinforces our view that the industry is becoming a much more rational industry. We're clear in our ultimate objective of rewarding our shareholders in the same way. It is the stated intention of IAG to, when the time is right, implement a dividend policy.

The Board has not had any formal discussion around the nature of the dividend policy, but has indicated that it will do when the time is right. And, clearly, one of the things we will do is also consult with our major shareholders to get their input into that.

We believe a dividend is appropriate as part of our business model, and we have factored in payment of the dividend in all of the long-term -- medium and long-term planning that we do with the financial targets that we have set for the business.

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

Just to complement that with what -- our aim is to make compatible both allocations of capital. So on one side, we need to return to shareholders in a way our investment appeal is attractive enough. On the other side, with fuel prices above 100, the allocation of capital we are doing today for that surplus will mean additional return for shareholders in the future.

Jamie Baker - ***JP Morgan - Analyst***

Excellent. Thank you both.

Operator

We'll now take our next question from Tim Marshall from Redburn. Please go ahead.

Tim Marshall - ***Redburn Partners - Analyst***

Thank you. Good morning, everybody. I've just got a few questions. Firstly, at what point, Willie, do you think it's relevant to think about putting more capacity onto the Atlantic, given the strength of unit revenue there?

Secondly, is there any relevance to the pilots' not having signed the mediator's plan?

And then finally, compared to the outlook that you gave at the fourth quarter, has there been any change in the revenue outlook? Thank you.

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

Thanks, Tim. We don't see any need to adjust capacity. I think capacity discipline on the transatlantic has been one of the most positive features that we've witnessed in, clearly, probably the last 24 months, and we believe we have appropriate capacity. We will look to deal with that -- one of the things that will impact on our capacity is the A380 going onto LA later on this year.

As you know, we've announced the first two destinations for the A380 is Los Angeles and Hong Kong, so, at the moment, we're very comfortable with the capacity that we have. We keep it under review, but we think it's having, as you've seen, a positive effect on unit revenue, and we think that's the right approach. And we believe that's the approach that's being adopted by pretty much all of the airlines operating in that market today.

The effect of the pilots' not signing the mediator's report, there is a difference of opinion amongst the lawyers in Spain, which is not unusual. We have been advised strongly that the fact that they did not sign it is not relevant. That's what the mediator said, as well, that this was a collective discussion, because it was a mediation under a collective redundancy policy, and therefore would be carried by the majority rather than everybody having to sign up.

We do know that the pilots take the view that they're not participants to this, but we have reduced pilots' salaries and, in fact, as Enrique has said, we've gone further now to reduce them by an additional 4% because no agreement has been reached on productivity measures. And we are retiring pilots under the scheme, and pilots have left Iberia under the mediator's scheme. And we will continue to retire pilots under the scheme and continue with the salary reduction.

While we're doing that, Luis Gallego has had significant dialogue with SEPLA and will continue to have dialogue with SEPLA with a view to reaching agreements or to stated objectives to reach agreement with the pilots, and he will continue to do that. But, as we said before, there are other options available to us. This mediator's report, if you think back to what we said, is a good first step, but more work needs to be done.

It is a more generous redundancy arrangement for Iberia employees. It's positive to us in terms of the cash effect and the cash flow effect, but, if we found ourselves in a situation where, legally, it had to be unwound for pilots, well, then we retain the option of applying restructuring under the new labor laws, and that clearly is an option that we would follow if we had to.

I can't add anything to the statement that we've given you, Tim, on the outlook. As Enrique said, probably the best thing we can do is just refer you to the statement that we have issued.

But the message about Q1 I think is that it was impacted by FX issues and significantly impacted in terms of non-fuel unit costs caused by the fact that we took the capacity out of Iberia and we are now taking the employees, so there is that lag there which shows -- had a big impact on the non-fuel unit costs in Iberia.

And BA, as you know, had crewed up in the expectation that we would get 787s and 838s a little bit earlier. And unfortunately once you start the training with pilots in particular they are committed to that aircraft type. So we have pilots trained to fly those aircraft that can't at this stage fly other aircraft. And that clearly is impacting on the BA non-fuel unit costs in the quarter.

These issues will correct themselves as we go through the year. And with the introduction of the A380 will have a positive effect on BA non-fuel unit costs particularly in the fourth quarter.

Tim Marshall - ***Redburn Partners - Analyst***

Yes, because thinking out loud if the EUR485m was the number back in the fourth quarter and the revenue hasn't change so much then the EUR200m reduction on fuel would then lend itself to EUR685m. But look forward to getting an outlook later on in the year when you can. Thank you.

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

Yes, well, you can say that. I can't.

Tim Marshall - ***Redburn Partners - Analyst***

Absolutely. Okay, thanks a lot, very much.

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

Thank you.

Operator

We'll now take our next question from Juan Ros from BBVA. Please go ahead.

Juan Ros - ***BBVA - Analyst***

Hello, good morning. I have a couple of questions if I may. First one is regarding the arbitration process. Can we expect any (inaudible) in the short run or can you just provide an update on your challenge in the Supreme Court to the arbitration process?

And second regarding capital, do you expect any kind of side effect maybe in terms of higher cost or as you have now a lower layer of capital. Thank you.

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

Okay, in relation to the laudo I've no new information on that. But we are clear in all the messages that we give within Spain in that Iberia Express has been a fantastic success and demonstrates what can and should be done in the short and medium-haul market. And in the absence of being able to expand Iberia Express there will be no expansion of the Iberia short and medium-haul and quite the opposite there will be reduction in activity in the Iberia short and medium-haul as we've demonstrated.

So we will wait to see how we get on in our appeal to overturn the restrictions that exist in the laudo. Those restrictions end at the end of 2014, so you could and should see it as a temporary restriction on what we can do with Iberia Express.

In relation to capital, Enrique.

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

Yes. Well, if you're referring to IAS19 impact, as you know, it is a pure accounting impact, so it has no relevance in terms of our cash flows or our solvency. So basically what we are is involved in transactions with the aim of financing aircraft. And those will be coming through the following months and that will get the appropriate level of publicity.

But if you are talking around some news from the papers this morning probably it is the wrong message. As you know, in Spanish companies in the general shareholder assemblies, 90% of the companies take this opportunity of establishing a limit, a limit for the issuance of new capital. And that in general terms is renewed on a year-on-year basis. So that's just what we have done this year this formal renewal of our limit and nothing else.

Juan Ros *- BBVA - Analyst*

All right, thank you.

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

Thank you.

Operator

Next question is from Jarrod Castle from UBS. Please go ahead.

Jarrod Castle *- UBS - Analyst*

Good morning, gentlemen. Just a follow-on question I guess just with regards to capital, you've got the EUR350m convertible in British Airways. Would you be able to convert that now just given the strength of the share price? I think there was a -- you would be allowed to if it traded above a certain level for 20 days. Would that be a consideration I guess?

Secondly, can you just give a bit of color in terms of the remaining stockholders in Vueling? Would there be the opportunity to clean up and get the remaining 9.5%?

And then just in broad terms, I think it has been mentioned in the past nothing on the agenda in terms of further acquisitions. But medium-term are there still any gaps which you think might need to be filled within the Group? Thanks.

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

Thanks. On the BA convertible it's the volume-weighted-average price of EUR2 -- sorry, GBP2.84 for a 20 dealing day period in any 30 consecutive days. So that's the point at which we could convert. So we are fairly close to that, but we haven't been at that as yet.

In relation to Vueling I can't really say anything in relation to Vueling at this stage. We are looking at our options but there is nothing to add.

And on acquisitions we don't see any gaps to be honest with you, or more correctly probably we don't see any opportunities. It's clear there are a lot of airlines in play as we expected. Most of these are peripheral airlines that we can't see adding value to the IAG Group or in all honesty adding any value to pretty much anybody. So we don't have any proposals to do anything. And I don't see that that's going to change in the short to medium term.

Jarrod Castle - ***UBS - Analyst***

Okay, thanks very much, very clear.

Operator

We'll now take our next question from Damian Brewer from RBC. Please go ahead.

Damian Brewer - ***RBC Capital Markets - Analyst***

Yes, good morning. Two questions please. First of all just one on the BA side of the business, could you give us a feel of how the mixed fleet a Heathrow has developed year on year, Q1 versus Q1 and whether that trend has speeded up at all with the new aircraft fleet and obviously attrition from the existing fleet as people retire.

And secondly, I just wanted to touch on the Asia Pacific. If my math is right it feels like about a third of the revenue per ASK weakness there was probably yen related, and maybe something similar due to the Seoul and [Chung] route.

We've already seen, I think, overnight Lufthansa announce it's going to cut back from A383s to smaller gauge aircraft to some destinations. As you think of better balancing supply demand on that, we've seen changes to Bangkok announced already, will there be other tweaks to the system that could bring capacity back in and therefore improve the revenue per ASK outlook?

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

Well, we are fortunate Keith Williams has joined us so I'll ask him to respond to the mixed fleet issue, and he can probably also comment on the Asia Pacific as it is a BA issue. But just to say that I think what Lufthansa and Air France are seeing is different to what we've been seeing. Our -- yes, we have added Seoul which is a new destination for us, and as you would expect that has a period of time where we need to build up our presence. But we are very pleased to be back in there. The yen is impacting everybody who is operating in that market.

I suspect that Lufthansa and maybe Air France have been more impacted by Middle East carriers than we would because we have significantly less in terms of transfer traffic and the higher volume of point to point than they would have. So the performance clearly has had or the strength, the weakness of the yen has had a big impact and the addition of Seoul has had an impact. But we are not looking at any significant changes.

But I'll ask Keith to comment on that, and also, Keith, would you comment on the mixed fleet?

Keith Williams - ***British Airways - CEO***

Yes. I'll take the mixed fleet first of all, obviously the growth of mixed fleet is linked to the growth in capacity because new crew coming in mixed fleet, as you've seen the capacity growth in the first quarter was fairly limited and speeds up towards the end of the year, plus the fact that we've brought in the cabin crew from BMI.

What we have done to accelerate the growth of mixed fleet is a redundancy program for cabin service directors and pursers of the old fleet. And about 400 people are leaving BA as old fleet and being replaced by mixed fleet, which is obviously a much cheaper fleet to operate.

In terms of Japan certainly as you can see from the analysis is that the revenue is weaker, really because of the depreciation of the yen. We've reduced the flying program a little bit. We've now got the joint business with JAL which is performing very well. And the other factor is that we have a hedge program that hedges yen revenues with yen debt payments. So to some degree as you see the weakness in the yen performance of the route, it's offset by better yen debt payments.

Damian Brewer *- RBC Capital Markets - Analyst*

Okay, understood. And just in terms of tweaking capacity and I guess coming back to the very first question about capital allocation, obviously the sort of -- today's capital cost of a new A380 or even 777-300 is far greater than historical capital carrying costs of a 747. How are you thinking about that versus if you like new aircraft capacity allocation to where it's going to earn the best return?

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

Well, we look at it exactly as Enrique said. His comments about Iberia apply to British Airways as well. So capital allocation into fleet is done on the basis that we can get a return on that capital. And the rules apply right across our network. It's one of the, I think, disciplines that IAG brings to both of the operating companies in that we have choices as to where we use the capital and we are very careful about that.

What we have in terms of BA is the opportunity to tweak capacity by just changing the gauge of aircraft. So as you've mentioned Bangkok where we've now put a 3-class 777 on the route we did have 4-class 747s and that we believe is more appropriate. We've also used the 777-300ER on the Australia route which we think is a much better aircraft.

So where we need to adjust capacity, we can do that pretty easily within BA by just changing the aircraft gauge and utilizing aircraft where they are best suited in terms of the demand that we are seeing. But you should expect all future investment in fleet is on the basis that we are going to make returns that will exceed the cost of capital associated with that investment.

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

Yes. On top of that maybe to fine tune your explanations on capital cost for the time being, we are living through a period on which interest rates are getting historical lows, both for short-term rates and long-term rates. So the cost of the funding that we are planning this year for both British Airways and Iberia is probably in absolute terms one of the lowest of the last, I would say, 10 years.

Damian Brewer *- RBC Capital Markets - Analyst*

Okay, understood. Thank you very much.

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

Thank you.

Operator

Our next question is from Edward Stanford from Oriel Securities. Please go ahead.

Edward Stanford *- Oriel Securities - Analyst*

Good morning. Two questions if I may please. First, you have been unable to agree a productivity agreement with staff in Iberia, is there any scope for an agreement to be reached or have you reached the limits of what's possible there?

And secondly, there has been obviously some budget cuts going on in the US. Has that impacted at all your demand for flying from government bodies at all?

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

In relation to Iberia, I think one of the very positive things that the mediator did was to say that productivity had to be agreed I think it was one month or 30 days. And if productivity wasn't, an agreement wasn't reached then salaries could be reduced by a further 4%. So we have reduced salaries by 4%. And we continue to have dialogue with the trade unions about the productivity.

So this is a very positive development. It's very rare that you get a situation whereby you can actually take the salary away while you're having the negotiations. In these situations in the past, negotiations tend to drag on forever with little incentive on the part of the trade union to reach agreement. There is a big incentive for the trade unions to reach agreement in that they can recover the 4% of salary that we've taken away from them.

So the negotiations continue. Luis Gallego and his team are in regular contact and dialogue with all of the trade unions. As we've indicated Luis will be making changes to the management team in Iberia, which he intends to announce in Madrid this afternoon. And he is determined to reach agreement where agreement is possible. But if we can't reach agreement we have the benefit of salary reduction.

In relation to the US we are not seeing any impact as a result of the sequestration and budget cuts. As you know, there was a significant impact being felt, particularly in the US domestic market as a result of cut backs in air traffic control which have now been reversed. So that was probably the bit that concerned us the most because of the impact that it would have on our flights into and out of the US. But we are not seeing any evidence of the budget cuts impacting on our business into or out of the US. In fact, transatlantic remains a strong part of the business.

Edward Stanford - ***Oriel Securities - Analyst***

Thank you.

Operator

Next question is from Andrew Light from Citigroup.

Andrew Light - ***Citigroup - Analyst***

Hi, good morning. A couple of questions. First of all, did you disclose the operating profit or losses of BA and Iberia like you did last year? Apologies if I've missed that somewhere.

And secondly, when fuel was rising the rule of thumb seemed to be that you could pass on about 50% of the increased fuel cost. Would you say that rule would apply on the way down, particularly there are signs of some revenue weakness around the world which could suggest that the lower fuel cost and revenue are kind of being driven by the same factor. Thanks.

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

Well, we keep the issue of fuel surcharges under review. The fuel price remains volatile, although it's in the lower range of what we thought we would be applicable in the current environment, so we keep that under review. But we see no reason to adjust anything at this stage. And we remain firm in our views in relation to being able to improve unit revenue. And that's particularly true in relation to Iberia.

But there is -- if you've seen in the Group traffic sets we have very if you like a Group policy to look at unit revenue improvement over load factor. And that's a change as I said particularly in the case of Iberia and their commercial approach to the business. And we see no reason to adjust that.

We didn't give a breakdown but I can give it to you. The British Airways loss was GBP58m, so that's sterling and the Iberia loss was EUR202m, EUR202m. We estimated that the BMI effect -- we are not tracking the BMI performance because we are just looking at it to give a rough estimate as to what it was, but we estimate that had about GBP35m impact on BA results in the quarter.

Andrew Light - ***Citigroup - Analyst***

Thank you very much.

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

And was there an impact, did you answer?

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

Yes. I think this answers both of your questions, Andrew, has it? Hello?

Operator

His question has been removed.

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

Okay, thank you.

Operator

We'll now move onto our next question from Peter Hyde from Liberum Capital. Please go ahead.

Peter Hyde - ***Liberum Capital - Analyst***

Hi, morning. I just wonder if you could give a couple of questions firstly now that you've got over 90% of Vueling I just wondered if you could talk about whether you've got any thoughts about entering say the Gatwick market or what your strategy is to Gatwick.

Point number two was I think you mentioned that on the North Atlantic you thought you'd taken some market share. Can you just flesh that out a bit more, and do you think you are continuing to take market share and how much more market share do you think you might get?

And then the final question was really you've just mentioned, I think, Willie, about the fact that Iberia is taking a different commercial approach to its revenue management. Could you just talk a bit more about that? Thanks.

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

Okay, well, regarding Gatwick as you know significant presence with British Airways. We remain committed. In fact, I would say that the performance of BA and Gatwick has significantly improved. We have seen very good appetite for the new fare structure that BA has put in place at Gatwick.

And Vueling do have a presence there. And we'll clearly look to increase that and if it's appropriate for them. Vueling have opportunities to grow their business right across business. And Gatwick and the UK market will be one of those markets. But it's by no means going to be the only market. So as I said the plan that Vueling have we believe is robust and strong and we see no reason to try and redirect their growth plans at this stage.

In relation to market share in the transatlantic, we have gained market share, particularly premium market share. I think that reflects the strength of our joint business, reflects the strength of our product. It also probably reflects the investment that American is making in its transatlantic product with the new cabin and new aircraft.

Whether we can continue to do that we certainly will try, but only where it makes sense. In other words, we are not going to chase market share and try and disrupt the profitability or the unit revenue. This is just a good performance for us. And the addition of US Airways into the joint business as I said earlier today will be a positive for us.

And Iberia's commercial, we've changed the commercial leadership in Iberia. And they are much more focused on revenue where it's profitable rather than market share. So I think in the past, Iberia, I don't want to say a fixation around market share without necessarily understanding or recognizing the impact of chasing market share was having on the profitability of the business.

We are very clear that Iberia has a natural advantage in a number of markets and should concentrate on the market where it is strong and has that natural advantage. But that there is significant opportunity to improve its unit revenue performance by ignoring some of the very low, very low yields traffic that it had been chasing.

So we are happy to take a hit on seat factor within Iberia because we believe there is much better revenue and bottom-line performance to be achieved through a clearer focus on the quality of the revenue and therefore looking at the improvement in yield and unit revenue rather than seat factor. And that's something you need to think about when we release traffic statistics, particularly the traffic stats for Iberia.

As I said, British Airways is doing similar work, but this is a very big change in direction within Iberia which we believe will be positive through the year. And clearly you'll see the real benefit of this as we go into 2014 and 2015.

Peter Hyde *- Liberum Capital - Analyst*

And sorry just to come back on that, I think you said that, just to confirm you said or Enrique said that yields in Iberia would be up, because obviously it's very hard for us from the outside to see a 15% capacity cut and think about long-haul versus short-haul mix versus low-yielding routes. Your view is that overall in 2013 the Iberia yield will be up, is that right?

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

Yes. And that's the point that he was making in relation to -- when you look at the figures for Europe and the unit revenue performance in the quarter where the non-premium unit revenue was positive in the quarter and Europe was positive.

So I know it's difficult for you to get it, but the reason we are highlighting it is naturally with a reduction in capacity of 14% or 15% announced, which is I supposed you aren't aware we started the capacity reduction early. So we took some capacity out in the fourth quarter of 2012 so our stated 15% capacity is correct but it would actually translate into about 14% reduction. Most of that is in the short and medium-haul.

And with that sort of capacity reduction and the discipline that you are witnessing in the market you would naturally expect to be able to improve your unit revenue. And what Iberia is doing is focusing much more on unit revenue than they have done in the past, and we believe we'll see a positive benefit as a result of that.

Peter Hyde *- Liberum Capital - Analyst*

Okay, thanks.

Operator

We'll now take our next question from Andrew Lobbenberg from HSBC. Please go ahead.

Andrew Lobbenberg *- HSBC - Analyst*

Morning, guys. I appreciate at Iberia that things are still moving and that Luis hasn't been there very long, but what can you offer us in terms of guidance in terms of as it looks at the moment the total cost of restructuring and the time of payback for that flex and minus EUR300m to plus EUR300m.

A second question and a very simple one with your fuel guidance what forward curve are we looking at there is it that end of March or the end of April because that obviously makes a big difference?

And then just a third question on the Asia Pac revenues, you didn't mention and I appreciate it's not very large, but you didn't talk about the Ozzie routes. Are we seeing any impact from the deflection of Qantas of Dubai or is that just tickling along alright?

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

In relation to Iberia, I'll ask Enrique to comment on that. I think -- what I should say about Luis is Luis inherited the mediators report. So his initial focus is to implement that and to extract as much value from that. You should not take it that that's all he is going to do he is clearly looking at other opportunities. And one of the first things he will do is make changes to the leadership team at Iberia. He is very focused on the commercial activity of Iberia.

What we would intend to do is give Luis an opportunity to address you, certainly at year end but we'll try and do it at the half year, so that you can get an opportunity to hear directly from him and question him about what he is doing in Iberia.

In relation to, if you like, the payback for the current restructuring that we are doing, Enrique.

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

Yes, Andrew, if you follow the paper that we have been presenting the additional restructuring costs that we are accounting for were EUR202m end of last year, EUR265m labor this first quarter, EUR47m related to fleet restructuring and early deliveries. So this accounts for EUR514m.

We are counting on a cruise speed labor cost savings somewhere in the region of EUR300m to EUR350m. And they will basically be fine tuned to a combination of final salary cuts and productivity that we are negotiating. So it's about less than two years.

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

In relation to fuel, the guidance we've given you is based on $1,000, Andrew. And on Asia Pacific, no, we are not seeing any impacts. As you know, you've heard me say this before, Australia is a small market. It probably has some strategic importance in that we are a global carrier and we can't ignore all parts of the -- the Australians might get upset if we didn't fly there. But the utilization of the 777-300 with mixed fleet and the move of the Australia flights into T5 are all positive and therefore in isolation these are significantly greater benefit than the value of the relationship we had with Qantas, joint business with Qantas to Australia.

So it's still early days but we have confidence in our performance on that route. And as I said before, we fully understand why Qantas made the move that they did and we think it was the right decision for Qantas. The relationship with Qantas remains very positive. And if there's opportunities for us to work with them we certainly will do that, and we will do some code-sharing with them.

But obviously this gives us an opportunity to look at alternative options in terms of serving the Australia market outside of Sidney. And we've already made some moves with Cathay Pacific over Hong Kong, and we will be looking to complement that with other code-share partnership arrangements with other airlines as well. So we are more than pleased with where it is. It is early stages, but the 777-300 mixed fleet and T5 are all positive in terms of the performance of the route.

Andrew Lobbenberg *- HSBC - Analyst*

That all makes sense. Thank you. Can I just quickly come back on the Iberia thing? Enrique spoke of labor savings of EUR300m to EUR350m. I think you alluded in the presentation to revenue closing the gap between the EUR300m or EUR350m and your EUR450m transformation target. Are you in a place to talk about that or are we going to have to wait for the half year on how we close that gap?

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

I think you should wait for the half year. I think what we are pointing to you is that there is a gap. That cost will be, and as I've described before, cost changes will be a step in the right direction but there is a gap. But a gap that can be addressed through revenue and particularly can be addressed through the focus that we have on unit revenue improvements versus what was in our original plan, which was effectively flat unit revenue through the period.

So we think flat unit revenue was very conservative but reflected a -- the former commercial approach within Iberia. Under the new commercial approach, you should expect unit revenue growth to continue. So wait until half year and we'll give you an update on that.

Andrew Lobbenberg - ***HSBC - Analyst***

Good stuff. Thank you.

Operator

We'll now take our next question from David Fintzen from Barclays. Please go ahead.

David Fintzen - ***Barclays - Analyst***

Hi, guys. Good morning, everyone. Just to come back to the Iberia yield gains a little bit. One of the things the US carriers have seen in capacity cuts is that the vast majority if not all the revenue in some cases is retained. And obviously, I understand there are some revenue management changes. But how much do you think some of the yield performance is about revenue retention and how much of that revenue do you think you're holding versus the real change in the underlying revenue management philosophy?

And then just a quick one on the lag on the unit cost, the lag on the Iberia cost savings on the labor side can you give a little bit of color on some of the progression through the year and how backend loaded is it when you have the 380 sitting in London versus a more sort of steady progress through the year.

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

Yes, it is backend loaded. We expect to have about 1,400 people out of Iberia by the end of May and have 80% of the targeted people out by the year end. But in both -- so I suppose the real benefit is -- will become apparent in the second half of both Iberia and British Airways as BA adds the A380 into its virtual operations to LA and Hong Kong. So that's the correct way to look at it.

Enrique, do you want to comment on this?

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

Yes. On a full-year estimate for Iberia plan on a very early stage yet because all these issues have to be fine tuned, there is still conversations around productivity and pay etc., etc., is on a unit labor cost reduction average for the year of around 3%.

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

And --.

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

And that will mathematically be increased because of full-year impact through year 2014.

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

And on the unit revenue, yes, I think looking at what happened -- what has happened in the US is a good model for people to consider when understanding the value of consolidation, capacity discipline, focus on revenue. And I think you are seeing all of those things applied in Europe, but pretty much, not everybody but by pretty much everybody.

And that's what we've seen. We've seen very good capacity disciplined being exercised. So if you look at the Spanish market for example both Ryanair and easyJet have cut back capacity significantly and we have cut back capacity.

So you are not seeing anybody try to fill the capacity reduction that's taken place there. People, I think, are much more focused on unit revenue and yield than capacity and market share than they have been. So from memory traffic Madrid Marajas fell by 9% in 2012 versus 2011. We were only a part of that. And even if you factor in the disruption caused by industrial action in Iberia we were still only a part of that. It also reflects capacity reduction by the other major players in the Spanish market.

If you look at Barcelona the interesting thing about Barcelona is traffic there grew by 2.2% which reflects how efficient Vueling is because Spanair collapsed at the end of January 2012. So it shows how quickly Spanair was able to move to capture demands that existed, and there was real demand in Barcelona.

And it's one of the strengths of Vueling that their [fleet of fortune] can respond to market opportunities very quickly and can shift capacity from market to market much more quickly than the traditional airlines.

So I think you are seeing a lot of behavior that analysts would like to see. I think it's being displayed by pretty much everybody in the market. And that is having a positive and certainly will have a positive impact on underlying performance in the industry as we go through '13 and '14.

David Fintzen - ***Barclays - Analyst***

Okay, great appreciate the color.

Operator

We'll now take our next question from Neil Glynn from Credit Suisse. Please go ahead.

Neil Glynn - ***Credit Suisse - Analyst***

Good morning, everybody. I'll keep it very brief, the first one just a question on Iberia. Given the recent management changes and uncertainty in the market given the labor situation, how does Iberia ensure it gets its fair share of the summer leisure market? That's the first one.

The second question, I acknowledge that it's very early stages but are you seeing anything on the BA side with Little Red launching back last month?

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

Yes, Little Red I think will be Big Red. No, we are not seeing any effects whatsoever. And I don't know how they are performing. I've heard anecdotally and to be honest it's insignificant to the overall scale of things. So it's not in any way causing us to change our views or approach to the market.

In relation to Iberia, as we mentioned, the disruption in Iberia has certainly had an effect beyond the actual strikes, and we are seeing some of that effect in April and in May. But beyond that we are comfortable with the commercial performance of Iberia.

And I just reiterate we are not focused on load factor as much as we were. We are much more focused on the quality of the revenue that we are getting. But in terms of the booking profile that Iberia is seeing, the effects of the industrial action appear to have washed out as we go through May.

Neil Glynn - ***Credit Suisse - Analyst***

That's great, many thanks, Willie.

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

Sure.

Operator

Our next question is from Jose Aroyos from Santander. Please go ahead.

Jose Aroyos - ***Santander - Analyst***

Yes, good morning gentlemen. Two questions please. The first one is just a point of clarification on slide 15 on the amount of the Iberia restructuring provision. The amount at Q4 was EUR270m but was only EUR55m in Q1. What explains this delta? And given that you are saying in the presentation that labor savings at Iberia are lagging capacity, have there been any redundancies or restructuring payments in Q1 against Iberia cash balance?

The second question is on Vueling, now that Vueling acquisition is behind us, is it still your view that the synergies from the acquisition for IAG are limited? Thank you.

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

Well, the existing provision appliance or reallocation to the plan is just a matter affecting pilots and cabin attendants. So those are ones that have already some provisions that were applied historically for the retirement period or pre-retirement period. So it is just, I would say, a small figure that reflects the changes that the mediator agreement have had in the sense of the model of redundancies to be applied.

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

In relation to Vueling as I said, going forward, I have no doubt that there will be potential for additional synergies in the area of fleet. But that's a future issue. We are clear that and what we've said to Vueling is they are free to look at extracting any synergies that they believe we can offer them at this stage.

But what I should say is we have been doing work with Vueling, so we've already prior to completing the bid, we had done some joint purchasing with Vueling. A good example of that is Orly where BA and Iberia and Vueling were all present. So even though we hadn't got control of Vueling, we joined with them to do a joint bid for ground handling provision at Orly. So we have been working with them where we've seen some opportunity to extract some synergies on the basis that even though that didn't benefit IAG Group fully it made sense to do so. And we'll continue to do that.

But as I said I think that the real strength of Vueling is to allow them to continue to do what they've done so well. And to ensure that we continue to provided them with the flexibility that they've had and need going forward, while giving them additional security and strength through being part of the IAG Group.

And where we can identify areas to work together we certainly will do that. But as I said our initial assessment is they are very lean, they are very well managed in terms of cost control. And while there might be some synergy benefits it wasn't a factor in our decision to acquire the business.

Operator

We'll now take our next question from Anand Date from Deutsche Bank. Please go ahead.

Anand Date - ***Deutsche Bank - Analyst***

Yes, morning, everyone. Sorry, just a couple from me. Could I ask just quickly first what's the timing for your -- or have you got an idea when you want to do your aircraft AGM? And is it right to assume we shouldn't get an official outlook before then.

Secondly, just looking a bit further out, I'm just kind of weighing up -- I know you can't comment explicitly but I'm weighing up where I think revisions could go. And it feels like industrial disruption should be minimal from now on. North America yields look very good. You've potentially got upside from US and AMR merging. Vueling will add something to the EUR1.6b I guess. And if you are saying easyJet and Ryanair are focusing on yields presumably that's got to be positive for Iberia. So I know you can't comment explicitly but is there anything I'm missing that kind of weighs how I should be thinking about the full-year '15 target?

And then just lastly, I know it's been raised before but at what point or what would it take for capacity to come back on transatlantic? If one of the other JVs decided that they were aggressively going for market shares is that something you'd defend or would you be happy to let that go for yields? Thanks.

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

Thanks. We don't have a definite date but it's likely the AGM will be September for the fleet decision. And you've outlined a number of issues that we've been pointing people to. I think that behavior in the market is much more rational.

I quite honestly don't see anybody doing anything silly in relation to the transatlantic, quite the opposite. I am very pleased with the language being used by people like Richard Anderson who is very clear that this is about profitability in the industry. He has talked about exceeding his cost of capital. All the sort of language we've been using. And I think the language that the industry needs to focus on. And it's more and more the case that airlines are talking in that way.

So we've always said we would defend strategic markets and I think everybody knows that, but we are not just chasing market share for the sake of market share. And I think where people recognize that we are going to defend our strategic markets and where we recognize that others are going to defend their strategic markets any rational person would say don't do anything silly. And that's I think what you are seeing in the industry today.

So in relation to our 2015 targets what I can say is we are sticking to the targets that we've given you. If we've reason to update those targets at some stage in the future we'll certainly do that. But what I can at this stage say is we are sticking to our 2015 targets.

Anand Date - ***Deutsche Bank - Analyst***

Okay, great. Thank you.

Operator

We'll now take our next question from Donal O'Neill from Goodbody. Please go ahead.

Donal O'Neill - ***Goodbody - Analyst***

Hi guys, good morning. Most of my questions have been answered but I've got two short ones. Firstly, in terms of the CAA decision on airport charges in London, would you have any optimism in terms of a more favorable outcome to that come the decision, I think, later on this year?

Second question on Heathrow slots, there has been some speculation that you might look to take a slot pair off Aer Lingus. Is that a possibility? And are there any other slots potentially available for you guys to take? Thanks.

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

Yes, in terms of CAA, yes, I do believe there is a better outcome achievable. I particularly believe that's the case if the airport challenges the CAA report because I think there is clear evidence in the report that the CAA has been generous to Heathrow both in terms of the WACC and the operating costs. So we made a case that charges should be reduced in real terms, we think the reduction should go beyond the 1.3% that has been announced by the CAA. So we'll -- we are looking at this one very carefully.

I suppose the positive is the regulator has clearly seen that the RPI 7.5% that Harry Bush allowed Heathrow in Q5 was outrageous. We think there needs to be a correction to that greater than has been identified. And we are analyzing very carefully the report by the CAA.

I have to be honest, I've read something about a Heathrow slot from Aer Lingus. I don't know what that's about. I'll check it out. But we are -- there is nothing -- we are not doing anything specific that I am aware of. We do have some slot arrangements with Aer Lingus that go back over a number of years, and that may be what that relates to. I'd need to check it out. But there is nothing unusual going on there.

We are always interested in airlines selling slots at Heathrow. And as I said before we typically will bid but we don't bid for -- we typically bid for everything but we don't win everything because we'll only bid what we believe represents value to BA and the IAG Group.

Donal O'Neill *- Goodbody - Analyst*

That's great, thank you very much.

Operator

That will conclude today's Q&A session. I would now like to turn the call back over to your host for any additional or closing remarks.

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

Well, thank you very much, everybody. We apologize in relation to the guidance, but I appreciate your understanding of that. And we'll look forward to speaking to you and giving you, particularly in relation to Iberia, giving you an opportunity to meet with Luis and hear what he is doing at Iberia and what his plans for Iberia are in the short to medium term. So I'll look forward to talking to you at half year. Thank you.

Operator

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