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IAG.L - Q1 2015 International Consolidated Airlines Group SA Earnings Call

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PRESENTATION

Operator

Good day and welcome to the Q1 2015 earnings presentation. At this time I would like to turn the conference over to Willie Walsh, Group Chief Executive Officer. Please go ahead, sir.

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

Thank you and good morning, everyone. Thank you for joining us for the call. I'm going to hand you straight to Enrique Dupuy who will take you through the presentation. Enrique.

Enrique Dupuy - *International Consolidated Airlines Group SA - Chief Financial Officer*

Thank you, Willie. Good morning, ladies and gentlemen. We are bringing today to your attention what we believe is again a strong set of results of IAG for this first quarter of the year.

In fact, we are getting a positive operating profit for Q1 EUR25m for the Group which is a first time that we achieved as positive operating profit in the first quarter on the whole life of our Group. And it brings EUR175m of improvement against the result -- the legacy result of EUR160m on year 2014.

The basis for this improvement that we are mentioning are still the same ones, the same ones that we have been mentioning the previous quarters. So it is about a regular performance -- positive performance in unit revenues which are reducing just by 0.8% at the passenger unit revenue level. And, again, a very strong performance at the level of ex-fuel unit costs, minus 2.7% at constant ForEx churns.

This has been helped with the tailwind this first quarter of the year of an improvement in constant currency terms in terms of our fuel bill, in unit terms, of 4.5%. So the combination of this strong performance in ex-fuel unit costs and fuel unit costs has resulted in total unit costs for the Group being reduced by minus 5.3% in constant ForEx terms.

And this has been framed on a growth for the Group of 5% in terms of ASKs, which is basically focused in, as we have been saying, and we will be detailing in the following pages, significant growth in Vueling in the range of 18%, a strong recovery in the case of Iberia in terms of resuming routes that they have been leaving temporary through the restructuring exercise, and the milder growth pattern coming to normalized levels of British Airways.

So if we go to the second page, here is where we are showing a little bit more of details on how we have been achieving this significant operating profit improvement.

In real constant currency terms, it gets a little bit greater. It gets to EUR183m because we have had a net negative balance of ForEx for this first quarter of EUR8m. This is a very reduced figure and that will be getting positive through Q2 until Q3 when we increase the level of revenues in strong currencies.

So, getting to the chart that you know well, it has to do, of course, this the EUR183m improvement, with growth in terms of ASKs and passenger revenues. That has had just a negative price mix of just EUR26m, positive non-passenger of EUR1m, and on the cost side, again, managing the very strong tailwind of fuel cost in terms of price and also in terms of efficiency in the way our fleet has been consuming this fuel.

On the non-fuel, on the ex-fuel costs, we are seeing again significant improvement having to do with employer costs and supplier costs. We will be mentioning more in detail these improvements. In the case of the employee cost, as you will probably guess, it has to do again with Iberia restructuring positive impact through time. And also with improvements at the lower level being achieved in British Airways and also in the case of Vueling in terms of productivity.

Finally, ownership costs have been basically remaining flat at constant ForEx levels which is again what we think is a significant achievement taking into account how fast we are now renewing our fleet into the new generation aircraft.

Coming maybe to the next slide, here, we are giving more details on how we are getting this 2.7% of improvement on a unit basis on our ex-fuel unit costs.

On categories, as I was mentioning, employee costs have been again, reduced very significantly in Iberia and this is a combination of the end of the restructuring exercise on the mediator plan taking place. As you know, for the next years, we are going to still be achieving the benefits from the new plane de futuro. But these ones are the sales of the mediator plan agreement and on top of that, what we are calling an efficient growth that is based basically on new productivity levels, freeze or reduce salaries and the significant growth attributed to Iberia express.

For British Airways and Vueling. For British Airways, is basically flattish exercise in terms of constant currency terms. For Vueling, it is still rolling on this new bargain agreement which we explained has had some one step costs to the last month that will be getting diluted through the life of the agreement. That, as we told you, is three years.

So talking a little bit now more about the fuel then. So fuel, as we told you, had a positive tailwind for the Group in unit terms and constant currency, which was 11% and then having to -- including the revaluation of the dollar, it has been a positive of 4.5.

So what we see for the second quarter, and that's something that we are going to insist a little bit through the presentation, is the way market prices and hedges have been flowing through Q2 next year and now Q2 this year is creating a little bit of a bump. So we are going to have a slight increase in unit fuel prices, not in dollar terms, but in euro terms for the second quarter. It is expected to be in the range of 4.6% unit terms euros and then will be again through Q3 and Q4, resuming and getting again positive savings and improvements on our unit cost for the rest of the year.

So what we are forecasting now is, in euro terms, that global fuel bill for the year will be in the range of EUR6b on a capacity increase of 5.5%.

We are now hedged for the remainder of the year somewhere slightly above 70%. And we are basically forecasting fuel prices to remain in the range around what we have seen in the last weeks.

Talking now a little bit about capacity growth. In this chart you will see our capacity in this first quarter has been an increase of 5%. We are foreseeing the second quarter to become an increase of 5.9%.

So, the split of those increases in the three companies as we have been advancing is still a strong growth pattern for Vueling which will be 17.5% (sic - see presentation page 8 "17.6%") for the second quarter coming to slightly above 15% for the full year.

We are having Iberia again with this plan of route recovery, that will be getting for the second quarter to a growth increase of 11.5% and that's the combination of long-haul and short-haul. And for the full year, the figure will be 10.4%.

For British Airways, as we told you, it is about coming back again to a type of structural growth pattern that we are seeing for this year at a level of 2.4%.

So just being a little bit more of a detail on how we are going to be allocating and produce these growth levels at the different company levels. We get to this next chart where we are showing basically British Airways increasing their capacity through new routes by 1.7%. And this basically has to do with Kuala Lumpur full year impact.

In terms of other capacity increases, as you see in the right-hand side of the chart, has to do basically with aircraft additional average size and frequency and other increases and other varying types of reasons.

So, basically, the increase in average size and the seating has to do in the long-haul with the A380 deliveries and its full year impact on year 2015 and also with the certification of the short-haul fleet in the case of Gatwick and Heathrow. That will also have an impact in reducing the average sector length of British Airways for this year.

For Iberia, it is, as we were explaining you, a story related to restoring routes that Iberia was operating profitably in the past and again will be able to operate profitably because of the consequences of the mediator plan and the improvement in productivity and costs in the Company.

So we are getting restored long-haul routes, in the case of Iberia, for Santo Domingo, Larnaca. Basically full year impact of Montevideo as well. And we are getting also additional origins of feed-in traffic for the routes and new destinations for the rest of the network -- long-haul network opening again, Amsterdam, Istanbul and Berlin.

So, the rest of the movements in Iberia are a minor movement and basically, some additional frequencies in the case of Mexico, Panama, Tel Aviv and Tenerife.

For Vueling, basically the story is about significant growth on new routes. That's basically Italy and some other European destinations. And the rest of the growth will be attributed to increased frequency all over the network. So 60% of existing routes will be achieving frequency increases to the year.

So, maybe now, a little bit about capacity movement and unit revenues in our basic strategic markets. Again, as this is very important for us, we want to emphasize the strength of the North American market. So growth in North America, basically through British Airways and Iberia, as you know, has been reduced to a level of 0.5% for this quarter. And the way we have been able to manage unit revenues has been very successful with a constant ForEx unit revenue improvement of 5% in that area of our business.

We also have more positive news on Latin America. We are still growing there. The pattern of growth is basically attributable to Iberia and Iberia is achieving very positive results also in terms of unit revenues with a better than flattish performance. British Airways also had this quarter strong growth in Latin America based in -- basically Caribbean and the routes of Sao Paulo. This growth will be getting milder in the case of British Airways for the remainder of the year.

And then on the short-haul, we would like to mention domestic. Domestic has a couple of mixed results. On one side, the Madrid and Barcelona domestic. So, Vueling and Iberia domestic has been performing strongly. And it has been weaker for British Airways in the UK domestic. But, as you know well, this is now a small part in terms of capacity of the whole of British Airways business. And it has been also weak in the case of Vueling in their Italian bases and that is basically related to those routes needing to mature over the following months.

Europe has been strong growth and this strong growth is basically related to the three companies. So with both Vueling in the return of pattern and Iberia and also British Airways, Gatwick and also Heathrow through the April 20 seat certification program.

So if we take into account this level of growth, the unit revenue response has been quite acceptable. More positive in the case of British Airways and Vueling, and a little bit weaker in the case of Iberia. And this is because of this effort of reopening new routes to feed the long-haul expansion.

As you will see, this growth exercise in the case of Iberia has had a very positive net impact in their operating profits for the quarter.

So Asia Pacific still strong growth and very positive results in the case of Japan where Haneda increasing capacity. It is having very significant positive results. It has been slightly weaker in the case of Hong Kong, Singapore, and Seoul. But, as a whole, we are also comfortable with the capacity growth unit revenue equation.

So maybe the more difficult area of our network pattern is again, this time, Africa, Middle East, and South Asia and this is basically related again to troubled markets and old routes. We are going to talk again about the north part of Africa and then Nigeria because of political issues and old routes as Rwanda and others.

So, we are reducing capacity and we are reducing the size of the aircraft in the case of British Airways to India, and that is having a significant positive impact in terms of slowing the reduction of unit revenues in that area

Getting to the next page, this is probably one that does not need additional explanation. It shows in the long-haul, premium traffic performance is flattish on this significant growth pattern that we have had in some areas and a very strong performance on our North Atlantic routes. We have had some positive unit revenue developments on the non-premium. That's probably having to do also with the way Easter holidays has been positively impacting the revenues and the results of this first quarter of the year.

So on the short-haul we already talked about, we have a Vueling flattish performance and this is very good news on a very significant growth expansion. We have British Airways mildly negative and we have Iberia a little bit more negative with the explanations that we have been already giving about their overall profitability.

In the case of non-passenger revenues, this is basically technical. It's not the first time we explained it is negative. It has to do basically with rolling on top of a quarter last year where we still had freighters and the revenues attached to these cargo freighters. So it's more of a technical issue affecting revenues and costs and what we will be explaining you is cargo contribution is looking better, not only for the quarter, but also for the whole of year 2015.

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So coming to this new chart. This is something that I will try to explain you briefly. But it is showing you basically how we would want to focus and emphasize our performance in terms of returns, in terms of returns on the capital that we employ and that we allocate on the different segments and companies of our business.

So the pie -- the following page, basically related to the percentage that we allocate of our total investment in the three companies. So it is 71% for British Airways, 20% for Iberia, and 9% for Vueling.

So the metrics that we are going to be using is in the low left corner is on one side, operating margin, and that is not needing any additional explanation. So, as you see our operating margin for Q1 IAG Group have been 1.5% and that is because of it is just the lowest quarter in the whole year as you know.

The second one is what we are calling normalized margin and it has to do with the construction of our ROIC calculations. That is something that if you remember, we were very precise about in our last Capital Markets Day. So we want to make it appropriate in terms of inflation adjusted and reflecting the value -- the real value of our asset base.

So the same adjustments in terms of real value of our depreciation we are making in the numerator of the equation, of the fraction.

So that is why we are calling this the normalized margin and then we are referring to the last four quarters. To a full year ending on the first quarter and then we are saying that for IAG as a whole, it has been 4.1%. So 4.1% better than last year. So when we talk about an absolute figure in terms of normalized margin, it is 7.8% for the four last quarters.

And then coming through ROIC calculation, what we have acknowledged for the Group and for these last four quarters is an achievement of 8.4%. As you know, our basic target for the plan for the next five years is getting on top of 12%. So still below but achieving some significant improvement on the previous quarters and the previous year.

If we talk about the different companies, the message for Vueling looks encouraging, we will say. Operating margins for the first quarter, you know, Vueling has a very acute seasonality through Q4 and Q1, is still negative. It is minus 5.1%. When we talk about the four last quarters, it gets to an improvement of 3% and a normalized margin of 12.1%. And when we divide this 12.1% in terms of ROIC, into the investment that we allocate for Vueling, we get to a very promising figure of 13.1%. So in some ways, what we are saying is Vueling is above the targets for the next years for the Group. It is showing us the way and the challenge for them will be to be able to sustain this very high level of growth in terms of capacity, keeping this very encouraging level of return on invested capital.

For Iberia, the figures show still negative for the quarter minus 4.8%, again seasonality. The improvement trend is very substantial. It is 4.7%. That is very, I would say, encouraging trends again. The normalized margin for the last four quarters is still low. It is still 4.8% and so that is where they are going to have to improve. And the ROIC for the last four quarter is still 5.5%. So the challenge for Iberia will be about the execution of the transformation plan and then the plan de futuro. And we will be seeing again in the following quarters and half year results how these ROIC figures and these normalized margins is going to be improving.

For the British Airways, the operating profit margin for the first quarter is 3.6%. So it is encouraging. British Airways is now on positive operating profit in the first quarter. The margin trend improvement has been 3.5 percentage points for them. The normalized margin for the last year has been 8% and the ROIC for the last four quarters is 8.5%. So again, some way to go in terms of improving these figures and getting to the range of plus 12%.

So talking briefly about the structure of our balance sheet on a summarized basis and our cash position. As you see, our adjusted equity has been improving for the first quarter up to EUR6.1b. Gross debt and cash positions has also been improving and also our level of capitalized leases. So, the adjusted net debt has been coming down from EUR6b at the end of last year to EUR5.8b at the end of the first quarter.

This has very much to do with a very positive generation of free cash flow in this first quarter and also very significantly improvement in the level of cash by the end of March. And this improvement of the level of cash has some very specific reasons behind. Probably the most important them of all has to do with a revaluation of the sterling. So sterling revaluation against the euro has had impacts both in the debt side and also, of course, especially in the cash side.

There is also a technical reason, having to do with seasonality. So by the end of December we have less bookings and less paid tickets than by the end of March and this has to do with the positive spring and summer season ahead.

There is also an additional reason having to do with where CapEx last year was having a heavier impact in the first quarter than this year. This year it will be more spread through the remaining quarters of the year. So cash is improving. There are some technical reasons. The pace of improvement will be probably slower for the remainder of the year.

So how we feel about our basic strategic market? When we bring this chart to you every time, this is -- this is our own picture. So we are not trying to extrapolate how the world markets are evolving. But more precisely, how they are evolving for us taking to account our leadership position in them and also our growth plans which are asymmetrical. Okay?

So what we can say about the non-premium traffic, both on the short- and the long-haul, is about stability. So it is about what we thought it was going to be in the different debt sectors and again, mention again, the strength of the North Atlantic premium.

In the case of non-premium, it is also about stability on the different segments. I think Easter holidays has been a tailwind for the sector both in the long-haul and in the short-haul in terms of non-premium markets. So that has been helping us to keep this stability in terms of our capacity plans, demand, and unit revenues in these different networks.

Cargo. This is also an interesting development because maybe it is difficult to say that the global cargo market is on a net basis, improvement -- improving. It is asymmetrical. What we can say is that on our specific case, because of our strength in the North Atlantic market, and our very fruitful agreement with Qatar, we are benefiting a lot from the size of the market that is clearly improving which is outbound flights from out of Asia and into the US. And we are very well positioned to deliver significant improvement in this specific area of the cargo market and it will be improving the contribution of cargo through our business in this full year over year 2015.

So finally, as a whole, we are talking about again, insisting an operating profit for the year which will be exceeding EUR2.2b.

We are seeing a fuel bill scenario with a combination of fuel prices, hedges, and dollar that it is going to keep being volatile. Our best projection for this time of the year is our fuel bill will be getting in the range around EUR6b as a whole.

And our growth pattern, the ones that we see for the different companies and for the full year, will be producing an increase of 5.5%.

So just a brief reminder on some technical issues affecting the second quarter, especially fuel prices, fuel hedges, and the way they compare one quarter with a quarter of the previous years. And that it will be creating a little bit of an increase in fuel costs for the second quarter. And also remind you about Easter holidays favoring as a tailwind, the first quarter against the second quarter.

So the pattern of improvement that we have seen for the second quarter, even being substantial and very encouraging, will not be same as the one that we have experienced in the first quarter. And then we will be seeing again, Q3 and Q4 resuming a very significant improvement in terms of how our operating profit for those quarters are going to be.

So thank you and I think now, it is the time for the questions -- for your questions.

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

Thank you, Enrique. I will hand back to the operator to manage the questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions).

Stephen Furlong, Davy Research.

Stephen Furlong - *Davy Research - Analyst*

Hi, guys. I might just talk about just a couple of things. Vueling, I just was wondering when the labor cost agreement normalizes and we will see that in the operating margin? Maybe just talk about the competitive dynamics there because obviously, flattish unit revenue on the capacity growth is very good. And I was just wondering as well on the -- in the Atlantic. Do you see any change either north or south in the competitive dynamics of those markets.

And just finally, maybe, just Willie could just make some comment about liberalization. I mean there seems to be a divergence between airlines around the world on that topic. That would be great. Thank you.

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

Okay on Vueling we see it next year or so, and going beyond that as well. So it was a front-loaded agreement which sort of had a ratchet up. But the benefit of that agreement if you like, in terms of our -- what we get out of it, we will start seeing from next year.

On the Atlantic, Atlantic continues to be good for us. We are not witnessing any change in competitive behavior. Certainly it is exactly as we thought it would be. Capacity is very much in line. Maybe slightly less than we thought we would see and our performance north and south is in line with what we have expected. So our view on the Atlantic remains very positive. Our performance on the North Atlantic remains very encouraging, particularly North Atlantic premium which has been a strong performer for us and we expect that to continue on a full year basis.

And on liberalization, I think you are seeing a divergence because it probably reflects more the financial performance of a number of our competitors. Those that are performing strongly want to try and lock in merchants, keep competitors out and those that are performing badly want to lock in that and keep competitors out and we see this as an opportunity to improve our performance.

So I think there is a lot of noise going on. Quite honestly, I don't expect there to be too much in terms of change other than the pace of liberalization has certainly slowed down. But I don't expect to see things go backwards into a more restrictive environment. Although there are certainly competitors out there who would like to see that, I don't believe it is going to happen.

Stephen Furlong - *Davy Research - Analyst*

Thanks, Willie.

Operator

James Hollins, Nomura International.

James Hollins - *Nomura International - Analyst*

Good morning. Three questions if I may. The first one is on your fuel guidance. Is now at EUR6b for the year. It was EUR5.9b. Just looking at the unchanged 2.2 -- the excess of 2.2, is that effectively a promotion to the underlying number, or is it just a rounding issue?

The second one, hopefully a quick one. Looking for the Easter impact in terms of quantifying that in the quarter.

And then the final one is just on your -- on your brands. If I look at the brands across the Group, clearly, the British Airways brand is regarded as very strong these days. Vueling brand is clearly associated with the sort of yellow sunny Spanish feel. I was just wondering, obviously with the Iberia rebrand, how that has succeeded? Whether it is attracting a wider market share or is Iberia really just a proxy for Spanish macro in terms of its overall performance? Thank you.

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

Thank you. Our outlook for the full year at 2.2 plus has -- you know, I think does reflect a slight improvement, but there is an element of rounding in that, so I wouldn't get too carried away. So we are not relegating our outlook. We are not really promoting it. But like Liverpool, we are pretty much staying where we are in the league at the moment.

Enrique Dupuy - *International Consolidated Airlines Group SA - Chief Financial Officer*

It's also a combination of a lot of external factors that really apply to those two figures. It has to do also with the strength of the dollar, the strength of the sterling. So the combination of those external variables and our basic performance is what is allowing us to keep the 2.2 plus message, even having to admit that the fuel bill maybe getting slightly above the former figure.

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

Easter, it's not a big impact, so we are not going to split it out. All we are saying is that it certainly benefited March more than it benefited April, and so there was a little bit of upside in our Q1 results and there will be a little bit of downside. So the point we are making there is that the rate of performance in Q1 was ahead of where we expected it to be and we put that down to a stronger March performance which will be offset by the April performance. But the important point about Q2 is that it will be impacted more by the oil price that Enrique has highlighted for you.

And in terms of brand, the Vueling brand is certainly doing very well. Very strong in Spain and Italy, in France, and we see opportunity to continue to promote that Vueling brand.

We feel a little bit sorry for Iberia. We show their figures in red all the time. We probably should find a different color for them. Maybe a mix of the red and yellow. But the Iberia brand and the rebranding exercise in Iberia has been fantastic.

So it's at the strongest it's ever been. It's one of the strongest brands in Spain. And we're really pleased with the performance of Iberia. And I think our confidence in Iberia is growing by the day. The financial performance is very strong. The management of the business is the best we've ever seen it. And with the recovery in the Spanish economy, I think the outlook for Iberia is certainly looking very positive. And that's giving us the confidence to accelerate the growth in Iberia and the recovery of some of the network more than we had planned to do.

James Hollins - *Nomura International - Analyst*

Very useful. Thanks very much.

Operator

Oliver Sleath, Barclays Capital.

Oliver Sleath - *Barclays Capital - Analyst*

Yes, good morning everybody. Three questions, please. Firstly, on the US and Gulf carrier debate, just following on from the earlier question, I'm interested to know Willie, do you think it's really about fifth freedoms on the North Atlantic that the US carriers are worried about? And if so, do you think there's any chance that there's a more restrictive approach there? I'm interested to know what the UK/US bilateral allowance in terms of fifth freedoms?

The second point is on currencies. Clearly, there have been significant moves in currencies recently. I wondered if you could talk about whether you see any notable shifts in the point of sale demand, driven, I guess, both by dollar and then I guess euro, from BA's perspective?

And is there any impact on currency within the JV in terms of how you sell, how you coordinate between yourselves and America and even how you deploy your capacity there? Because I notice a couple of the US carriers have been talking about reducing capacity into the winter on the Atlantic on the back of currencies.

And finally, a quick question on BA Premium. Obviously it sounds like the premium demand on the North Atlantic remaining very strong. I know you've mentioned that you've got high-density business cabins on some of the 747 fleet. I wonder if there's any update on those plans? Thank you.

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

Okay, I'll take them in reverse order. Yes, the high-density 747s, we're going ahead with that. It'll have no real impact in terms of capacity in this year because it comes in late this year. And we'll see a bit more of it next year. But certainly the performance of our premium, and particularly on the transatlantic -- and we have reviewed this just to satisfy ourselves that reconfiguring the aircraft makes sense. But the performance of premium certainly justifies the reconfiguration of those aircraft.

I'll ask Keith -- Keith is here. I'll ask him to talk about the JV. But the JV is a dollar-denominated joint business. But I'll get Keith to comment on that and also to comment on the point of sale.

On the US gulf carriers, yes, I think the fifth freedom is an element of it. And probably the Emirates, Milan, New York fifth freedom was the one that flagged up the presence of the Gulf carriers to the US carriers probably more than anything else.

The UK/US bilateral is now an EU/US bilateral, if you remember, going back to the agreement that was reached in 2008. There are a number of carriers that have fifth freedom rights out of the UK. Some of them exercise them. Like Air New Zealand has rights. Singapore has rights, doesn't use them. Air India has rights and there are one or two other carriers. But the fifth freedoms, we don't see as being a particular issue for us. A number of the Gulf carriers I think have fifth freedom rights that they're not using. And it may be -- your question I think is well-founded that may be that the US carriers looking at those rights now realize that the Gulf carriers could be more of a direct competitive -- it could have more of a direct competitive impact.

And I think those fifth freedom rights are not solely EU/US. They are rights that are from US to other parts of the world as well. And that may be what it is they're looking at. But we'll wait and see. But I don't expect there to be any significant change in the current arrangements. As I said, I don't believe we'll see any of the existing rights being rolled back. But we're unlikely to see an acceleration in any deregulation and liberalization in the industry, which I think is disappointing. Certainly from our point of view, we see that as disappointing.

Keith, do you want to comment on the JV and on the quality impact on point of sale?

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

So JV going really well from both American -- you've seen in the American data and you've seen the IAG data. Strong performance out of UK point of sale.

In terms of the US, that actually we're seeing some significant improvement now in US point of sale as well and that looks encouraging for us into the summer.

So I'd say the US certainly taking advantage of currency into the UK and into Europe and you'll see a strong summer ahead.

Oliver Sleath - *Barclays Capital - Analyst*

Great. Thank you very much.

Operator

Jarrod Castle, UBS.

Jarrod Castle - *UBS - Analyst*

Thank you. Good morning. Just following up in terms of currency, I guess. Have you seen a better booking profile going into the summer? I.e. are US travelers, Asian travelers pre-booking a little bit ahead for their summer holidays?

And I'm just trying to also get an idea. In terms of the outbound traffic, how much does a weakening euro play into the thinking, do you think, for your leisure customers in terms of going to holiday somewhere else over the summer period?

Just secondly, just in terms of surcharges or airline-induced surcharges, can you maybe just talk a little bit about what's going on there? Have you been reducing the surcharges? Have you been recycling it into the base fare? Indeed, does it matter at all?

And then just lastly, just trying to get a bit of a view in terms of how you see the market for second-hand airlines -- aircraft, sorry, not airlines. Thanks.

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

Yes, the -- I think a weak euro definitely benefits Iberia, Vueling. They're seeing strong inbound into Spain, as you would expect, into Italy. And clearly from a BA point of view, the strength of the dollar is a positive, as Keith has indicated. So the net effect of currency in the first quarter was a negative EUR8m. So for us you can see it does have a benefit on revenues and it clearly has a negative impact on cost, but the net effect of it was pretty marginal in the quarter.

Enrique Dupuy - *International Consolidated Airlines Group SA - Chief Financial Officer*

Yes, although we foresee it will be improving through Q2 and especially Q3 where our revenue base related to foreign currencies increase. So both in sterling terms and especially in dollar terms.

The way these revenues are going to be translated into euros will show this significant positive impact.

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

On surcharges, we don't go into too much detail in relation to surcharges any more. But suffice to say we don't have the surcharge on our short-haul flying. So we've moved away from the fuel surcharge on short-haul. We retained fuel surcharges on long-haul. And for some markets it's regulated, in other markets it's not.

So Japan for example, the surcharge is a regulated environment and we follow the direction of the regulator there. But in the main, we try to simplify our pricing structures and move away from the fuel surcharge on short-haul.

And on our cargo business, with effect from the beginning of the second quarter, we've moved to an all-in pricing structure. So we've removed the surcharge on cargo as well.

On second-hand aircraft, we see the market actually is quite good. So we're leasing aircraft. We're in the market looking at opportunities to lease and we're not adverse to buying second-hand aircraft. But we think it's a positive environment for us.

Certainly that's reflected in some of the negotiations we've had recently on lease rentals for second-hand aircraft. We have some 737s that we're taking out of service. There is some demand for those for cargo conversion as well, which is interesting.

So, in general I would say at the moment the market is a positive market for us. I'm not sure for all airlines, but certainly we're encouraged by what we're seeing and we are seeing some benefit, particularly in relation to leasing of second-hand aircraft.

Jarrod Castle - *UBS - Analyst*

Thank you.

Operator

Mark Irvine-Fortescue, Jefferies.

Mark Irvine-Fortescue - *Jefferies - Analyst*

Hi. Good morning. Just one question on the North Atlantic, please. You've talked about the capacity environment. If you could touch on the demand side, perhaps pull out one or two of the relative highlights and lowlights there? I'm specifically wondering how you're seeing the market in oil land, given the upheaval in that industry. Thinking about the Houston routes etc. That would be helpful.

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

Yes, Houston is the only one that we're highlighting to be honest with you. The rest of the market is performing very well. But Houston has been impacted and we're dealing with that by changing the aircraft. So we've adjusted capacity on Houston. We're taking capacity down to reflect the underlying fall on demand as a result of the weakening oil price.

The rest of the network is very good. We're increasing capacity in some parts of the network. So A380 is going into San Francisco, increasing some capacity into the likes of Denver.

But in general, I would say that the transatlantic market is a very good performing part of our network. And the only exception that we can see is Houston. And as I said, we've adjusted our capacity to reflect that.

Mark Irvine-Fortescue - *Jefferies - Analyst*

Thanks. Can you give any sort of help, any idea of the scale of change and how big the impact is in those oil markets like Houston?

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

It's -- in terms of unit revenue, it's certainly -- we saw a double digit decline in unit revenue. So if you look at our transatlantic performance where we've reported a very strong performance, it really is on the edges that Houston is having an impact. But the rest of the network is very strong.

Mark Irvine-Fortescue - *Jefferies - Analyst*

That's helpful. Thank you.

Operator

Donal O'Neill, Redburn Partners.

Donal O'Neill - *Redburn Partners - Analyst*

Hi guys. Good morning. Three questions again. First one is on -- you made a point in the statement about -- sorry, in the call there about BA and Vueling's improvement in productivity. I wonder could you just flesh that out a little bit.

Secondly on funding costs. Some of your, let's say, less robust competitors have been tapping the markets for liquidity and for debt. Have you thought about doing something similar yourself just given the unique environment we're in at the moment?

And lastly, there's a lot of noise around about the dual-till charging system. I'm wondering could you give your view on what impact that might have, if any, on Iberia and Vueling? Thanks.

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

Okay, on BA and Vueling, part of the improving productivity that you will continue to see will be the development of our GBS, our back office centralization which we've talked about previously. So that will be an ongoing feature of our business as we move forward. We'll see some benefit this year, but actually most of the benefit will be evident next year and beyond as we build up the activity that we're doing in our centralized unit which is located in Krakow in Poland.

So if you want to look specifically at BA, we saw strong growth in capacity last year but manpower was down by about 1%. So you've seen good front line improvement in productivity reflecting agreements that we've reached in recent years. But more and more the benefit of the back office rationalization will become evident.

And the same applies in Vueling. Vueling is a pretty efficient airline. It can always be a little bit more efficient and certainly Alex is always looking for opportunities there.

So I think going forward you will see improving productivity figures in all three of the airlines. But in BA, most of it will come from the back office rationalization that we're doing.

Funding costs --

Enrique Dupuy - *International Consolidated Airlines Group SA - Chief Financial Officer*

Yes, in Iberia, just to finish, of course you have to realize that we haven't -- they haven't started yet to implement the new --

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

All of the agreements.

Enrique Dupuy - *International Consolidated Airlines Group SA - Chief Financial Officer*

-- measures of the new plan de futuro. And those provide the Company, the management with the ability to increase productivity again on a very substantial way and keeping the level of juniorship of the crew base at a very low level through growth. So that's again going to be coming quarter after quarter in the next couple of years.

So talking about funding costs, we've been achieving and acknowledging improvements all over the place. So, of course, British Airways is improving the way they can access the markets, very substantially. They have been getting an improvement in their rating metrics by Moody's very recently and there will be more to come. So in this respect, margins for British Airways will be coming gradually down through the next couple of years.

For Vueling and Iberia it has been also a very significant improvement. In fact, Iberia is now thinking very seriously in raising funds, long-term funds maybe in the range of 7 to 12 years, on an unsecured basis. So without any collateral at all, at very, very efficient prices fixed rates in euros. You will probably get to know something about that in the next weeks.

And Vueling, again good news because Vueling has been a company which has been basing their funding on operating leases and now they are switching to a more efficient approach. They will be basically favoring balance sheet transactions. So basically financial leases. They are going to be doing the first one with the support of European credit agencies. But what we are acknowledging now even for Vueling is that the combined cost of the ECA financing will probably be at the same level or even slightly higher than the pure commercial terms that they can achieve. So again, very good news and a source of significant reduction in ownership costs for Vueling in the following years.

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

And in relation to dual till, single till, clearly a single till environment is one that we prefer. And the opportunity to see airport charges reduce, and certainly the focus on Spain is quite significant at the moment. So there's always a strong debate between airlines and airports around the dual till, single till argument. We've strongly argued in favor of single till and most regulators see that as the appropriate way to move forward. So that will continue to be our position. And there is probably some opportunity to see a slight decrease in airport charges as a result.

Donal O'Neill - *Redburn Partners - Analyst*

That's great. Thank you very much.

Operator

Damian Brewer, RBC Capital Markets.

Damian Brewer - *RBC Capital Markets - Analyst*

Hello. Good morning, everybody. A couple of various questions from me. First of all, on the BA side, particularly on flight deck and cabin crew, could you tell us where you are in your flight deck crew agreements both for the European fleets where I think there's been a recent agreement with [Balpa] and also how much longer is left on the long-haul fleet?

And on the cabin crew, I think at the time of the full-year results you mentioned plans to maybe revamp and improve the voluntary departure scheme on the European fleet. Could you give us an update on how that's gone and whether there's any acceleration of the mix fleet cabin crewing as a consequence?

And then the second question, just the Spanish economy obviously doing very well. Q1 GDP up 0.9% quarter on quarter. The new revenue management system coming into swing in Q1. Could you give us a better feel for what, in particular, the premium or business cabin travel did within Iberia in Q1? Thank you.

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

I'll ask Keith to comment. There's nothing of any significance developing in relation to crewing in British Airways, either on the pilot or on the cabin crew side at this stage. We did have a targeted voluntary severance program for the higher-grade, higher-paid cabin crew. But it was -- last year. It was very specific. It was small in numbers. I think, from memory Keith, less than 200 or around --

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

Yes, about 150 have taken it up.

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

150 people, so it was only on the edges. But the growth in cabin crew numbers continues to be on the more efficient new contract which will continue to benefit as we go forwards.

In terms of Iberia, one of the benefits that Iberia is seeing is recovery in its premium cabins, both for long- and short-haul. So we saw a good performance in 2014.

I think that reflected a number of things. The improvement of the brand positioning, the improvement of the product. And clearly a more targeted approach by Iberia. And the long-haul seat factors in Q1 were up by a couple of points.

I think one of the things you need to understand though, which is important from an Iberia point of view, historically, I think the seat factors in business class, premium cabins, were artificially high because there was widespread access to redemption in the premium cabin. So we've clearly taken a more aggressive approach to that and we're seeing good seat factors. But more importantly, we've seen an improvement in the premium yields, which is, for us, the area where we would expect to see greater benefit.

Enrique Dupuy - *International Consolidated Airlines Group SA - Chief Financial Officer*

I guess another contributor to the improvement in premium performance for Iberia has been the very significant improvement in punctuality. So as you probably know, Iberia has become one of the more punctual companies in the whole world and that's having a clear benefit in terms of how customers are viewing the reliability of that customer proposition.

On top of that, they have been improving their seats in the business class, especially on the new A330 plane. So the net score that they are receiving from their customers has been improving in a very, very substantial way through the last, I would say, six months.

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

And we are looking at the introduction of a premium economy cabin in the Iberia aircraft. So the Iberia long-haul aircraft today have a two cabin configuration, but we believe there's a strong case for a third cabin and that's something that we will be looking at, both in terms of retrofitting some of our existing aircraft, but fitting new aircraft with a third cabin or premium economy cabin.

Damian Brewer - *RBC Capital Markets - Analyst*

Okay. Thank you. That's a very interesting indication of yield gradings, I guess. Thank you.

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

Yes.

Operator

Penelope Butcher, Morgan Stanley.

Penelope Butcher - *Morgan Stanley - Analyst*

Great. Thank you. Good morning, everyone. Two questions from my side. The first is just to come back on Vueling. I think there's been a few mixed comments from Enrique and Willie with respect to the effects Easter is having on the numbers between 1Q and 2Q with -- I believe the bulk of the benefit is described to have been achieved largely in the 1Q, in March. Could you perhaps explain why we haven't seen a reasonable delta on the Vueling side for the timing of Easter? It certainly would be a perception that the leisure part of that business should have benefited and should also be benefiting from the Spanish market recovery. I appreciate there are these issues around the cost inflation. But I guess it would have been our expectation to see a bit more revenue impact. Could you just comment on Easter in particular?

And the second question is in relation to the disclosures you gave for the Q1 revenue base. You do mention that there's a EUR30m benefit from timing effects in the Avios scheme. Could you just explain that what involves and should we expect any more tailwind from that over the course of 2015? Thanks.

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

Okay, I don't think there was any disagreement between what Enrique said and what I said. In fact, Vueling, if you look at it, we saw a 3 point improvement in the lease adjusted margin in the quarter for Vueling. So we had significant capacity growth, 18.3% capacity. So the story in Vueling is -- as we highlighted. It's a cost issue that will be digested as we go through this year and we see benefit of that as we go into next year.

And the Vueling performance, particularly in the Spanish market, continues to be very strong. What Vueling sees in terms of route development is a very strong performance on the maturing routes. So that's the nature of their business.

As they develop routes and they mature, the financial performance improves significantly and that model has been consistent. We haven't seen any chance in that and that's why we're comfortable with the level of growth that they're embarking on.

As Enrique said in his presentation, a lot of the capacity growth comes through increased frequencies on existing routes. And we see that as a very effective model for Vueling.

So we're not -- in fact we're very cognitive about the evolution of Vueling, particularly positive about the flexibility that it has to try new routes and to withdraw very quickly if they don't believe it's going to work. But the network, where it's maturing, is performing very well.

Enrique Dupuy - *International Consolidated Airlines Group SA - Chief Financial Officer*

Yes, on the Avios performance, yes, the first quarter has been a transition quarter. So full accounting transition probably has had some one-off impacts that will not be repeated in the following quarters.

At the same time, what we can say is the underlying performance of the Avios business is improving very substantially. And this is as well coming from partners, third-party acquirers. And that underlying performance is going to be improving through Q2 and Q3. And the same for the additional margins coming from the behavior of our customers and the way they redeem points and they obtain points.

So apart from the pure accounting transition in the Q1, we see substantial structural improvements that will make Avios performance for year 2015 to be consistently above what we thought for them for this year.

Operator

Neil Glynn, Credit Suisse.

Neil Glynn - *Credit Suisse - Analyst*

Good morning. If I could ask two questions please. The first one with respect to Iberia and LatAm specifically. I'm conscious Air France/KLM for example continues to print very weak LatAm RASK, albeit its revenue is also declining on flattish capacity, in the first quarter at least. It makes me think about whether Euro or even LatAm competitors are reacting to Iberia trying to recovery share which might mean you won't have it all your own way over the next X amount of quarters. So interested on any perspectives on what's going on there?

And then the second quarter, or second question with respect to British Airways. You've mentioned new routes as part of the capacity plans this year. So thinking about KL, Chengdu, I think Seoul was flagged as being weak in this call, to what extent does BA's brand and the attractions of London allow you to switch on demand for these new routes versus taking longer to get going than growth in frequency across the network?

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

Okay, Neil, on LatAm, I -- Air France just can't. Look at their performance in their first quarter. That's an airline that will struggle to compete with Iberia. So anything they try to do to compete with Iberia on the South Atlantic with Iberia's new product, with the cost base that they have, is going to be a disaster for Air France.

Plus the standing of the Iberia brand and the Iberia brand is a naturally stronger brand in the LatAm end of routes. So never mind in the Spanish side of the business or the European side of the business.

So we're very, very comfortable with what we're seeing. And we're not seeing any irrational behavior on the part of carriers based in Latin America.

Enrique Dupuy - *International Consolidated Airlines Group SA - Chief Financial Officer*

Actually the improvement in the unit revenue base for Iberia on these Latin American routes has been basically on the Spanish point of sale. And that's something that is very much linked to the improvement of the economic environment in Spain for Iberia and that probably will not have a symmetric picture in the case of Air France in their own hubs.

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

And on new routes, Kuala Lumpur is fantastic, is the way I would describe the early performance in Kuala Lumpur. I don't think you should interpret the comments on Seoul as being weak. It's if you look at the performance, it's slightly lower than the other parts of the network there.

Actually Chengdu is improving well. Very good cargo performance on Chengdu and the passenger performance is certainly improving there. But if I look at the new routes, Kuala Lumpur in particular is outstanding in terms of its performance.

So we have excellent forward bookings on that. We don't start operating until May 27. And going forward, looking at the withdrawal of Virgin from other parts of the network, they have come off Cape Town I think today, or earlier this week I think it was. They pulled off Tokyo in February and Mumbai in February and we're seeing benefit clearly where the capacity has been reduced on those markets. So I think our view on the route development and network development of BA remains very positive.

Chengdu was slower to develop than we had expected. I think that's principally we identify as a visa issue trying to make it convenient for Chinese -- the China end of the route point of sale, to get to the UK. But we're seeing a steady improvement in that.

So overall, I'd say we're very pleased with the development of the BA brand in Asia and the network there and there's further opportunity for us.

And clearly, as we start taking delivery of more 787s in the latter part of this year, going into next year we'll be looking at further opportunities to expand our network in that region.

Neil Glynn - *Credit Suisse - Analyst*

Thank you.

Operator

Andrew Light, Citi.

Andrew Light - *Citi - Analyst*

Yes, Andrew Light. Well the first question is related to your last point, Willie. You've been operating the 787 and the A380 for I think the last 18 months. I'm just wondering how satisfied you are with the revenue performance of those aircraft? And I'm thinking specifically, would you have an appetite for more A380s beyond the 12 you're committed to at the moment?

And secondly, how many more cities in the US or North America do you think you could serve directly, like you started to do with Austin, beyond what you serve at the moment?

And then secondly, has your negative view on the third runway at Heathrow changed in any way given there seems to be some growing support and maybe some imminent recommendations, decisions coming up? Thank you.

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

On the A380 and 787, both from a customer and revenue point of view, very positive, so we're pleased with that. The A380 has performed exceptionally well in the BA network. We've very pleased with it. But as we highlight, I think the benefit that we get is unique to our network and Heathrow. And there are a limited number of cities where we see that that would work. So at this stage, we're not convinced that there are further opportunities for the A380. We're not ruling it out, but I think it's unlikely that we would look to increase the fleet beyond the 12 aircraft that we have ordered.

But it has exceeded, certainly, the expectations we had in terms of its performance in the BA network.

The US, we've highlighted before that we think there are probably three, maybe a couple more, but certainly three cities in the US that we think could be served profitably from Heathrow. And that's something that we will work on with American, our joint venture partner. So it's a strong part of the network.

I think the key issue for us is to continue to be disciplined in terms of our capacity. So while we see opportunities there, we believe that our approach to capacity discipline on the North Atlantic is a very positive environment. And as I said, we're pleased with the overall performance of the market. We think competitive behavior is rational and we intend to continue to act in a rational and responsible manner.

But there's -- longer term, there are further growth opportunities for us in the US given the strength of our brand, the strength of the joint business, the strength of trade between the UK and the US.

On the third runway, I don't really see anything has changed. I still believe it's a political issue. And I don't know what your view on the outcome of the election is going to be, but I'm not sure that any of the potential coalition options will lead to a more favorable political environment as regards the third runway.

And in particular, I think you need not just a government position on it, you need consensus across the political parties. And I just don't see that that consensus exists because what the airport would, and I'm sure would be concerned about, is what happens after the following election. Do you get a reversal of a decision as we witnessed back in 2009/2010? So it's not just what political parties say this time round. It's what all of the political parties say in relation to it and we're not saying any significant change in that. But we'll wait and see. As I said, I think Davis will produce a fantastic report. I'm looking forward to reading it. But I'm not sure that anything will change.

And even if it does, it's going to be a long, long, long, long, long time before we'll see anything happen regardless of what the decision is going to be.

Andrew Light - *Citi - Analyst*

Okay. Thank you very much.

Operator

Kishore Samanuri, Societe Generale.

Kishore Samanuri - *Societe Generale - Analyst*

Hi guys. Thanks a lot for taking my questions. I think most of my questions have been answered, but I just have two quick questions.

One is, if you can give us some sort of insight in terms of short-haul performance in the coming quarters from a pricing perspective? How it is going to be at Gatwick and Heathrow?

And the second question is I think Virgin Atlantic is putting -- adding a little bit more capacity on the North Atlantic route. I think your capacity growth in that route is pretty much flattish, but I think that they are somewhere around 5%. So can you give us some sort of guidance in terms of if there's going to be a pricing pressure on that route because of that? Thanks.

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

Okay, yes, on the transatlantic, Delta's capacity growth is what we'd expected it to be. It's absolutely in line with everything we'd expected. And as we said, the transatlantic market growth is very healthy. We have very little if any -- in fact we're flattish in terms of capacity. There's a little bit of change in some of the destinations. So it's playing out exactly as we thought. We don't see anything changing in that. And as we've highlighted, any effort by Delta to increase capacity on the transatlantic comes at the expense of capacity coming out of places like Cape Town, Mumbai, which will have positive benefit for BA on the network.

And in general terms, I would say short-haul is good. Gatwick are -- Gatwick short-haul network is performing very well. So we've seen a big improvement in our Gatwick positioning. And I think the outlook for Gatwick and Heathrow, but Gatwick in particular in the short-haul, is somewhere -- is very encouraging. So at this point, yes, we're very pleased with the way that's working.

Kishore Samanuri - *Societe Generale - Analyst*

Yes, thanks. Thanks a lot.

Operator

Robin Byde, Cantor Fitzgerald.

Robin Byde - *Cantor Fitzgerald - Analyst*

Hi guys. Just two from me, please. Firstly on cargo and the transition to [all belly], partnering with Qatar, revenues were down around 11% in the quarter, I think. So when will that process start to annualize? So when will we start to get a true read on underlying trading in cargo?

And then secondly, just on Aer Lingus, the statement was silent on progress. So could you just give us a quick update on the next milestones, please? Thanks.

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

Okay, on cargo, next quarter you'll see the freighters won't -- the freighters went in the end of the first quarter of last year. So next quarter will be clean. But it's performing well.

As Enrique said, our cargo network and cargo contribution is improving. The relationship with Qatar in cargo has been very, very encouraging. And we are having some discussions with them to see if there's further opportunity to develop that relationship.

So I think our decision to exit the freighters was absolutely the right one. And I think it was perfect in terms of timing. And we're pleased to have been able to exit. And also very pleased to have been able to use that exit as an opportunity to strengthen the relationship with Qatar. So overall, I would say it was very good.

And so you had a second question?

Robin Byde - *Cantor Fitzgerald - Analyst*

Yes, just on Aer Lingus. I didn't see any comment in the statement on progress there. So could you just update us on the next milestones, if that's possible?

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

Yes. We're very relaxed about it. It's not taking up any of our time. We've a very small team working on the project from this point of view. We continue to engage with the Irish government and I would say the discussions we've had, have been consistently constructive, to be honest. We've gone through the issues with them in a constructive way and we've been pleased with the interactions we've had there.

So, our view from the beginning was that we would become patient and allow others to come to their decision in an appropriate fashion. So, the dialog with the government will continue. But I've listened to statements being made from sources in Ireland which suggest that they want to see this conclude within the coming weeks. And I expect that that should be the case. But from our point of view if it extends beyond that, that's not going to be a problem for us.

Robin Byde - *Cantor Fitzgerald - Analyst*

Great. Thanks very much.

Operator

Andrew Lobbenberg, HSBC.

Andrew Lobbenberg - *HSBC - Analyst*

Morning guys. Could I ask on the election, is it going to have any impact on demand for business or leisure travel in the UK? Does it affect anything?

Could I ask about product? Obviously, the BA business product is excellent obviously, but it is quite aged and US and Gulf competitors have got fancier things in the market. What's the time line for thinking of a new product there?

And then earlier on in the call you were asked first about used aircraft and your appetite for more 380s. So as a piece of genius let's put those questions together, and do you think you could have an appetite for used 380s that might be coming to the market?

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

Thanks Andrew. Election, we've looked at that. We don't see it having any impact and we've looked back at previous elections. I suppose the difference this time round is the debate seems to be going on much longer given that we all knew when the election was going to be held in the UK. But we haven't seen any real change in behavior.

The concerns that are being expressed by people about various outcomes, they are all pretty benign from our point of view. So at this point we would say that we are not expecting to see any impact on our business as a result of that.

But we did take the opportunity to have a look at it. And, as I said, we've concluded that based on everything we've seen so far and all the trends that we are witnessing it's not having an impact. Elections do have impacts in certain countries. So Nigeria, for example, is one where we are seeing an impact there but we had flagged that one to you previously.

In relation to the fantastic British Airways product, we measure the success of that product in financial terms obviously, and in financial terms that product is doing extremely well. And we don't see any reason to make any changes.

However, with the arrival of the 787-10 and the A350 1000 there is both a need in terms of the 350 1000 and an opportunity with the 10 to look at a new version of the existing product. So we are working on that. You should expect to see BA continue to innovate the product. But I'd describe it more as refreshing the existing product rather than a radical change. We don't see any reason to change the basic structure of the product that we have on board the aircraft, which, as you know, is extremely efficient in terms of space utilization. It is the most efficient. And from that point of view gives by far the best financial result for us.

And in relation to second-hand aircraft, yes, I have been interested to hear some comments in relation to the likely arrival of some second-hand A380s. We are always open to looking at something that would be of value to us. But I think it's still a few years away.

Enrique Dupuy - *International Consolidated Airlines Group SA - Chief Financial Officer*

Is it suggestive about you knowing someone ready to sell?

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

I think Enrique is being a bit facetious here. But the A380 has been very good for us and we are pleased with the performance of that aircraft and our intention will be to continue to operate that aircraft for its full economic life.

But we are always open to looking at offers. I've told Airbus if they want to give us a couple of A380s for nothing I'd be very happy to take them. So we are always willing to consider any option that makes sense for us.

And I think the beauty of our network and our structure and the airlines within the Group is we can be much more flexible with fleet than pretty much anybody else. And that's something that we see as a competitive advantage that we want to retain.

Andrew Lobbenberg - *HSBC - Analyst*

All right. Thanks.

Operator

Anand Date, Deutsche Bank.

Anand Date - *Deutsche Bank - Analyst*

Hi everyone. Sorry I know you've been on for a while. It's a quick one. I'm just looking at the ROIC data on slide 13. You said previously the target is 12% plus by OpCo. I just wanted to check if that's a peak or through the cycle number?

And then subject to that as well, you said in the past that getting there, so we shouldn't have quite a lapse. So in the path of getting there is part productivity, part flexible growth, excellent savings, fleet renewal. For BA and for Iberia in particular could you say in terms of how we get there how much of the progress is fixed, so kind of the renewing the fleet, and how much is variable so productivity, flexible growth that kind of thing. And then is it still right to think that any underlying unit revenue growth in your markets is just -- is upside or are we subject to what the markets do?

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

Okay. It's 12% through the cycle is what we are targeting. We remain confident that we can achieve that and we remain confident that all of the operating companies within the Group will be capable of achieving that position.

How we achieve it will be different in the different operating companies, clearly and they are in different positions at the moment and that will continue to be the case. So I don't think I can give you a simple answer to the question you've asked, but maybe we'll focus a little bit more on that as we go through.

But one of the things we do intend to do, because it's such an important metric for us now is to highlight the development of the ROIC improvement and the trends that you will see there. But it's clearly an area that has us very, very focused at the moment both in terms of the underlying performance of the business but also how we allocate capital not just as a Group but within the airlines in the group.

And we have a similar view when we look at our engineering businesses and what might be considered non-airline related. So it's not just focusing on the capital associated with the aircraft. It's looking at all of the capital that's tied up in the business.

Enrique Dupuy - *International Consolidated Airlines Group SA - Chief Financial Officer*

I think in general terms for Iberia, it will be a story related to productivity improvements, growth, efficiency in their operations. So that's basically implementing what they already have in terms of flexibility and their productivity potential in the labor agreements plus the new fleet.

For British Airways it's going to be more about a London story, about leadership in the main strategic markets and the transatlantic. And also, I would say, continuous improvements in the non-fuel unit cost bases. That will have to do with all these areas that Willie was mentioning. So it's GBS, it's improvement in maintenance and it's other things that will be coming in the following years.

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

And our outlook in terms of unit revenue, we take the view that long-term we're working on the basis of flat unit revenue evolution and anything above that, as you put it, would be a bonus. But I think we are being very conservative in terms of how we see the unit revenue developing. And I think we are benefiting from taking that outlook. That unit revenue performance would be flat, and therefore focusing significantly on our cost performance. And I think that's what sets us aside from others.

So we see further opportunities, as Enrique just said, to continue to improve our underlying non-fuel unit cost performance and to drive margin growth through that while taking a realistic, you could say -- some people said maybe a pessimistic view in terms of unit revenue being flat. But in all of the business cases we evaluate, we typically look at either a flat unit revenue environment, or a mildly negative unit revenue environment to see does the business case stand up. Where I think some others make some business cases assuming that they are going to see growth in the unit revenue, we take quite a realistic view as to how unit revenue will develop through the long-term.

Anand Date - *Deutsche Bank - Analyst*

Sorry, could I just ask a really, well it's not a quick follow-up maybe it's for another time, but from that answer do you think the big structural cost mechanisms have gone through already? So we are now kind of tinkering at the edges and that gets us to 12% or above. Or at BA do we need to do a big -- is there some big initiative that still needs to come through?

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

There's always more to do. I think big initiative tends to be associated with labor and I think highlighting those issues is a wrong way to look at it. Yes, labor is a significant part of our cost base, but we believe that there is a lot that can be done, and probably more that can be done on the supplier side of the business than on the internal labor. So, there are some big initiatives. We are not going to put big labels to them so that we highlight them. But you can expect us to continue to look at significant improvements in our ex-fuel unit costs with a particular focus on the relationship we have with suppliers and the value that we get from suppliers and leveraging the strength of the Group and the centralizing of the procurement function. And we are seeing benefit from that already.

So we highlighted the benefit of common specification as regard to aircraft at the last Capital Markets Day. We see that that's an area that we can continue to focus on. And where we look to a common spec, that delivers more value than just looking to the common procurement. So common specification first and then followed by common procurement is the way to get real value and benefit in the non-fuel unit cost. So, it's going to be a lot more work on the cost base but it's all aspects of the cost base.

Anand Date - *Deutsche Bank - Analyst*

Okay. That's great. Thank you.

Operator

Edward Standford, Lazarus.

Edward Standford - *The Lazarus Partnership - Analyst*

Good morning. Just two questions please. One, a point of clarification on the revenue per available seat kilometer in Latin America. I think, Enrique, you said Iberia was flat, but actually the reported number was negative. Could you perhaps just give some clarification on what the situation is and whether it varies between Iberia and the rest of the group?

And secondly, on Rome. Vueling obviously making a big push in that city along with many other competitors and there's quite a lot of head-to-head competition as I understand it. How do you see that panning out? Are you seeing anyone blink yet in terms of the competitive landscape? Perhaps you could give some more flavor with that. Thank you.

Enrique Dupuy - *International Consolidated Airlines Group SA - Chief Financial Officer*

Iberia was, yes, flattish on the first quarter in Latin America with some ups and downs. So basically the best performers of their network was Central America, Mexico and Columbia. The worst performers were basically Venezuela, Argentina and Brazil.

British Airways was negative and that was basically related to a very significant acceleration of their expansion on some places at Brazil, Sao Paulo specifically. And that's going to have a temporary effect because British Airways will be cutting gradually capacity down into the summer season taking into account what's happening on the Brazilian market, which is not, I would say, very positive. So that's about the limit of the blend that we have been seeing.

Strength still on Central America, Mexico and Columbia. Still a little bit of weakness in what they call the South Coast. So Brazil, Argentina and also specifically on Venezuela, although Venezuela is getting smaller and smaller. We are keeping there our presence to preserve slots but our operations, as probably we told you before, are done in a way we just sell what we can extend in Venezuela.

Edward Standford - *The Lazarus Partnership - Analyst*

And Rome?

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

Yes, Rome is competitive. But the Vueling position there remains, I think, very encouraging. So the evolution of their network in Rome they would describe as being very much in line with what they had expected to see and in line with the evolution of the network, the traditional networks.

I'll go back to what I said earlier. Where Vueling establishes a presence and then sees maturity in the routes, the financial performance of that is very positive. And that's the reason why most of the growth that Enrique pointed out about 60% of the routes where they are operating will see an increase in capacity -- an increase in frequency and that's what's behind a lot of the capacity growth that Vueling has.

And that is -- that's a very structured way that they go about doing it. They are taking exactly the same view in relation to Rome. So at this stage we would say that it's maturing and developing in line with their expectations. But it is very competitive, as you would expect.

Edward Standford - *The Lazarus Partnership - Analyst*

Thank you.

Operator

That will conclude today's Q1 2015 earnings presentation. Thank you for your participation ladies and gentlemen.

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

Okay. Thank you very much everyone.

Enrique Dupuy - *International Consolidated Airlines Group SA - Chief Financial Officer*

Thank you.
